Cytonn 2025 Markets Outlook Note - Real Estate

Executive Summary:

Residential sector: 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 200,000 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. For detached units, investment opportunity lies in areas such as Kitengela, Ngong, and, South B&C, while for apartments, investment opportunity lies in Kahawa West, westlands and Dagorreti, due to their remarkable returns driven by relatively high returns to investors.

Commercial Office Sector: Our overall outlook for the Nairobi Metropolitan Area commercial office sector is **POSITIVE.** We expect the sector to remain stable with a slight improvement by 0.2% in rental yields recorded in FY'2025, attributable to an expected increase in overall rental rates by 3.0% in FY'2025.The improved performance may be supported by; i) the increasing presence of multinational companies in Kenya is likely to drive up occupancy levels, ii) co-working spaces are gaining in popularity in the region iii) the gradual return to "working from office" after the Covid-19 pandemic, iv) more start-ups are expected to drive demand for commercial spaces, and v) a considerable uptake of prevailing commercial office spaces. However, the sector continues to face challenges due to a significant oversupply of office space, currently standing at 5.8 mn SQFT. Despite these challenges, there are attractive investment opportunities in areas such as Gigiri, Westlands, and Kilimani, which offer rental yields of 8.8%,8.5% and 8.3%, compared to the market average of 7.8%;

Retail Sector: We maintain a **NEUTRAL** outlook on the retail sector's performance for 2025, influenced by several factors; i) continued expansion by local and international retailers, driven by evolving consumer preferences and market trends, ii) infrastructure improvements, including ongoing road and railway projects, are set to increase accessibility to key retail zones, unlocking further investment opportunities, and iii) favorable demographic trends, such as a growing urban population, will sustain demand for retail goods and services. However, growth could face challenges from: i) oversupply issues, with around 3.6 n SQFT of retail space available in Nairobi and an additional 1.9 mn SQFT countrywide, leading to low occupancy rates and rental yields, ii) e-commerce adoption, increasingly shifting retail demand online, pushing brick-and-mortar outlets to adapt, and iii) limited financing options for retail developments, along with high costs, are likely to hinder investment, especially for small and medium-sized enterprises (SMEs) that need to adopt technology to stay competitive

Hospitality Sector: We maintain a **POSITIVE** outlook for the hospitality sector, supported by several key drivers: i) aggressive marketing campaigns promoting Kenya's tourism, expected to boost tourist arrivals and improve occupancy rates at hospitality venues, ii) continued international recognition of Kenya's tourism industry, enhancing its status as a leading tourist destination and drawing more global visitors, iii) strategic partnerships within the tourism sector, fostering innovation and collaboration to capitalize on new opportunities, iv) events and initiatives aimed at increasing tourism activity and improving guest experiences. However, while the sector demonstrated resilience in its overall performance in 2024, the outlook remains cautiously optimistic due to i) Kenya continues to face significant competition from neighboring markets, such as Rwanda, which employs aggressive promotional strategies, alongside Zanzibar, Tanzania, and South Africa, these regions actively position themselves as attractive alternatives, challenging Kenya's market share in the region, ii) difficulty in accessing finance as lenders demand more collateral to cushion themselves owing to elevated credit risk, and iii) occasional release of cautionary statements by governments like China and United States to their citizens advising them against travelling to Kenya due to threats like terrorism and elevated crime rates;

Land Sector: We retain a **POSITIVE** outlook for the land sector in the Nairobi Metropolitan Area (NMA), considering it a dependable investment opportunity that has shown improving performance year on year. Going forward, we anticipate that land in the NMA will continue on upward trajectory to coming in at a sector average price of Kshs 131.2mn in FY'2025 a 3.0% increase, from Kshs 130.9 mn recorded in FY'2024**.** We expect the sector's performance to be driven by several factors: i) government efforts to streamline land transactions through innovative solutions such as [Ardhi Sasa](), ii) continued activities by players on both the demand and supply sides, iii) growing demand for land driven by positive demographics, iv) the launch of infrastructure development projects opening up satellite towns for investment opportunities, and v) the continued rollout of the Affordable Housing Program (AHP) by the government, driving further demand for land. The investment opportunity lies in Juja, Limuru and Utawala for unserviced land, which recorded annualized capital appreciations of 6.3%, 5.7% and 4.8% respectively compared to market average of 4.5%. For serviced land, Rongai and Athiriver recorded the highest annualized capital appreciations of 7.1% and 3.3%, respectively against the serviced average of 3.2%;

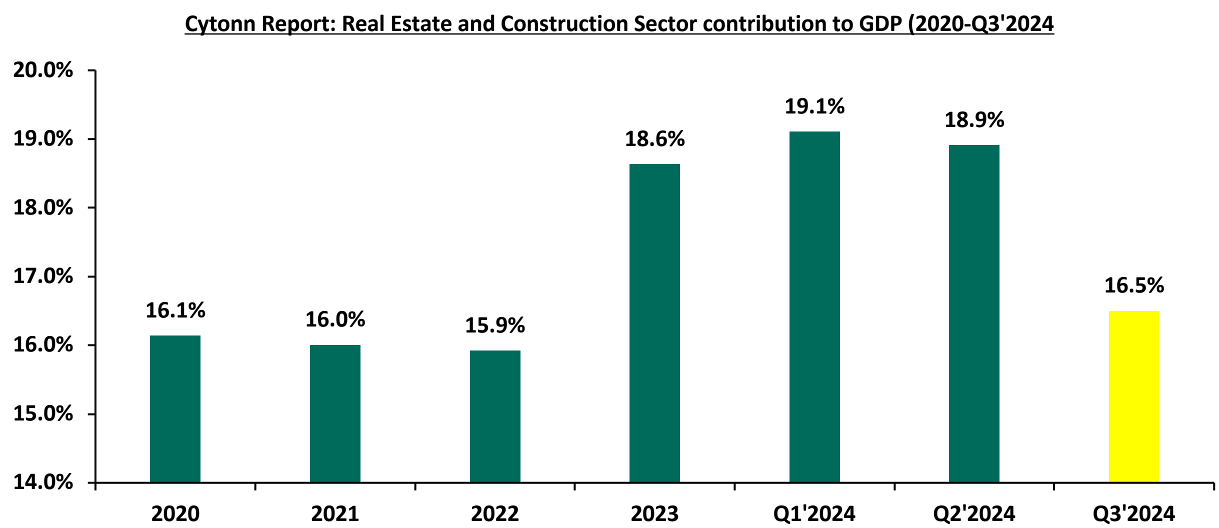
Infrastructure Sector: We maintain a **NEUTRAL** outlook in the infrastructural sector.We anticipate the government will continue with its aggressive efforts to; i) construct and rehabilitate roads, bridges, railways, airports, and affordable housing units, among others, ii) increase its diplomacy and 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. However, this efforts may be slowed down by the reduction in allocation to state department of roads by 7.6% in the supplementary budget FY'2024/25, to ksh 178.7 bn from the ksh 193.4 bn set in the FY'2024/25 budget. Consequently, going forward to 2025 we anticipate there will be a decline in the number of infrastructure projects completed, while the number of stalled infrastructure projects across the country is expected to continue rising due financial constraints. Although the government acknowledges the importance of Public-Private Partnerships (PPPs) in tackling financing challenges, we believe that prioritizing PPPs is fundamental in addressing funding shortfalls. By leveraging the resources and expertise of the private sector, PPPs can support sustainable infrastructure development and stimulate economic growth.

Industrial Sector: We maintain a **NEUTRAL** outlook on the industrial sector's performance. We expect slight growth in the sector as investors continue to respond to the growing demand for industrial spaces both in Nairobi and around the country. Data centres, cold rooms, growth in e-commerce, and rising demand for fast-moving consumer goods will continue to foster growth in the industrial sector. In 2025, we expect a slight increase in development activities in the industrial sector through government support in line with its Bottom Up Economic Transformation Agenda (BETA) which aims to tap into the manufacturing sector to create wealth, employment and reduce poverty levels among Kenyan citizens. However, optimal performance in this sector may be weighed down by factors like high development costs for industrial facilities, low technological adoption and inadequate infrastructure to support operation of these facilities. Going forward, we expect the sector to continue on an upward trajectory driven by: i) the rising demand for data centers in the country, ii) an increasing demand for cold rooms, especially in the Nairobi Metropolitan Area, iii) demand for quality warehouses due to the growing e-commerce business in the country, iv) support from the government, as evidenced by the establishment of Special Economic Zones (SEZ) and Export Processing Zones (EPZ), v) increased development activities by industry players such as ALP Africa Logistics & Devki steel mills, vi) Kenya's continued recognition as a regional hub, hence attracting international investors, and, vii) efforts by the government to support agricultural and horticultural products in the international market Viii) 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).

Real Estate Investment Trusts : We maintain **NEUTRAL** outlook for the REITs sector and we expect Kenya's Real Estate sector to remain on a growth trend, supported by: i) demand for housing sustained by positive demographics, such as urbanization and population growth rates of 3.8% p.a and 2.0% p.a, respectively, against the global average of 1.7% p.a and 0.9% p.a, respectively, as at 2023, ii) activities by the government under the Affordable Housing Program (AHP) iii) heightened activities by private players in the residential sector. However, challenges such as rising construction costs, strain on infrastructure development (including drainage systems), high capital requirements for REITs, and existing oversupply in select Real Estate sectors will continue to hinder the sector's optimal performance by limiting developments and investments.

Real Estate

In 2024, the general Real Estate sector continued to witness 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 5.5 % to Kshs 283.8 bn in Q3'2024, from Kshs 268.9 bn recorded during the same period in 2023. In addition, the sector contributed 10.8% to the country's GDP, 0.3% points increase from 10.5% recorded in Q3'2023. Cumulatively, the Real Estate and construction sectors contributed 16.5% to GDP, 0.2% points decrease from 16.7% in Q3'2023, contributable to decline in construction contribution to GDP by 0.4% points, to 5.7% in Q3'2024, from 6.1% recorded in Q3'2023. The graph below highlights the Real Estate and Construction sectors' contribution to GDP from 2020 to Q3'2024;



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 5.4%, 7.8%, 8.4%, 7.3%, and 7.5%, respectively in FY'2024. This resulted to an overall rental yield of 7.2%, 0.1% points lower than the 7.3 % recorded in FY'2023. The table below is a summary of thematic performance of average rental yields in FY'2024 compared to FY'2023;

Cytonn Report: Real Estate Rental Yields in FY'2023 – FY'2024			
Theme	**Rental Yield FY'2023**	**Rental Yield FY'2024**	**y/y Change**
Residential	5.5%	**5.4%**	(0.1%)

Commercial Office	7.7%	**7.8%**	**0.1%**
Retail	8.3%	**8.4%**	**0.1%**
Hospitality	6.8%	**7.3%**	**0.5%**
Mixed-use Developments (MUDs)	8.4%	**7.5%**	(0.9%)
Grand Average	**7.3%**	**7.2%**	**(0.1%)**

Source: Cytonn Research

We retain a NEUTRAL outlook for the overall Kenyan Real Estate sector whose market performance is expected to be supported by; 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 is expected to hinder the optimum performance of the sector. For a detailed review of the sector's performance during 2024, see our Cytonn Annual Markets Review – 2024.

In 2025, 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 730,062 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 2024. In addition, the government is developing a pool of resources geared towards the provision of affordable housing through the affordable housing levy, which the Affordable Housing Bill 2023 which was accented into law and took effect in 2024

i. **Infrastructural Development:** In general, Continuous improvements in infrastructure, such as new roads, bridges, and utilities, have opened up previously inaccessible areas for real estate development. This has led to increased property value and demand in urban and peri-urban areas. 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 delivered in 2024 include phase two of the Dongo Kundu bypass project,

ii. **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. Recently, KMRC, broadened its refinancing services to include non-shareholders, such as SACCOs and microfinance institutions. This is a strategic move to improve access to affordable mortgages, particularly for low and middle-income earners, a key target of Kenya's affordable housing agenda.

iii. **Aggressive Expansion pursued by Retailers:** The retail landscape has seen a surge in growth, with both domestic and international retailers like Naivas, QuickMart, China Square, and Carrefour aggressively expanding their market presence. These retailers are capitalizing on the opportunities created by the exit of distressed chains like Choppies, Nakumatt, Tuskys, and Uchumi. Furthermore, the influx of global brands such as Adidas, Puma, Aldo, and Michael Kors is poised to further fuel the sector's growth and development,

iv. **Kenya's Recognition 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 the development of new projects, increased property values, and job creation in the construction sector**,**

v. **Positive Demographics:** With relatively high urbanization and population growth rates of 3.8% p.a and 2.0% p.a, respectively, against the global average of 1.7% p.a and 0.9% p.a, respectively, as at 2023, there is a sustained demand for more housing units in the country,

vi. **Increasing Investor Confidence:** Increase in investor confidence has greatly influenced hospitality sector and this is evident through mergers, acquisitions and expansions of hotels. Furthermore, the number of international arrivals into the country registered a 7.2% year-to-year (y/y) increase to 144,996 persons as of September 2024 from 135,248 arrivals recorded in September 2023. Notably, the Hotel Chain Development Pipelines in Africa 2024 Report ranked Nairobi at 7th position by planned number of hotels and rooms with 31 hotels and 4,268 rooms in the pipeline, and,

vii. **Special Built Developments:** There has been an increased popularity of purpose-built properties to host Student housing, medical centers, Diplomatic residentials, data centers which offer potential for growth to the Real Estate sector through alternative markets. Due to these assets classes, the industry remains resilient despite the rapidly changing technological and economic environments.

viii. **Easing Construction Costs**: Construction costs decreased by 6.8% in 2024 to an average of Kshs 66,375 per SQM from an average of Kshs 71,200 per SQM recorded in 2023. The decrease is primarily due to the Kenyan Shilling appreciation against the US dollar and low inflation rates, however, the improvement in construction cost remains subdued due to the increase in building materials such as cement which increased by 10.7% in 2024 to Kshs 830 from Kshs 750 recorded in 2023. Land prices increased as well, adding to the high construction costs.

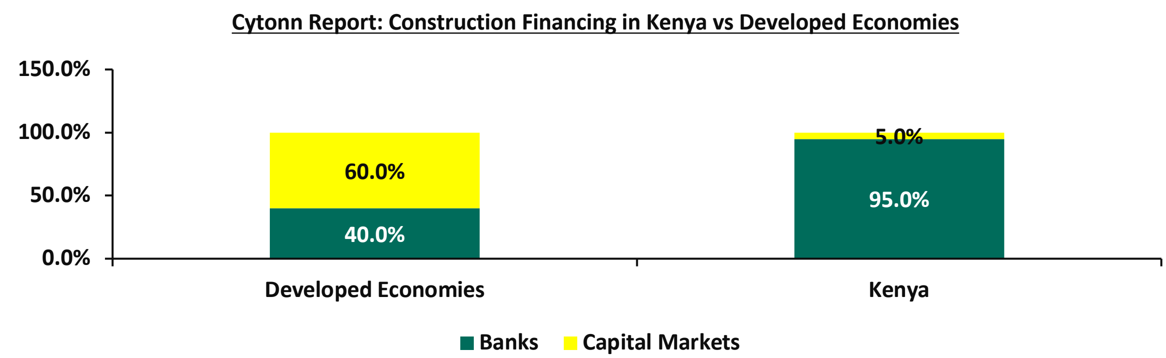
Despite the above drivers, the sector's optimal performance is expected to be hampered by the following factors in 2025:

i. **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,

ii. **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 compared to Kshs. 10 mn for pension fund Trustees, which limits the role to banks, prolonged approval process for REITs, only a few legal entities capable of incorporating REITs, high minimum subscription amounts or offer parcels set at Kshs 0.1 mn for D-REITs and 5.0 mn for restricted I-REITs and lack of adequate knowledge of the financial asset class by investors,

iii. **Constrained financing to developers:** Constrained financing to developers as 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 an increase in gross non-performing loans in the building and construction sector which increased by 18.0% on a y/y to Kshs 43.8 bn in H1’2024 from Kshs 35.9 bn in H1’2023, and,

iv. **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	**2024 Performance**	**2025 Outlook**	**Effect**
Residential Sector	• During FY’2024, the NMA residential sector recorded a slight downtrend in performance, with the average total returns to investors coming in at 5.8%, a 0.3%-point decline from 6.1% recorded in FY’2023. The performance was attributed to a decrease in the residential average y/y price appreciation which came in at 0.4% in FY’2024, 0.2%-points lower than the 0.6% appreciation recorded in FY’2023, driven by slowed property transactions during the year. • On the other hand, the average rental yield came in at 5.4% in FY’2024, recording a 0.1%-points decline from the 5.5% rental yield recorded in FY’2023. This was driven by a decline in the average rent per SQM by 5.3 % to Kshs 567, from Kshs 599 recorded in FY’2023.	• The demand for housing is anticipated to remain strong in 2025, fueled by favorable population demographics. The government's increased focus on executing its affordable housing agenda is likely to stimulate further growth in the sector. Moreover, the expansion and development of infrastructure projects are expected to boost the sector, along with government initiatives to provide low-cost loans to Kenyans through the Kenya Mortgage Refinance Company (KMRC), which aims to improve homeownership opportunities. • Conversely, we expect the sector to be weighed down by the prevailing tough economic environment such as the low penetration of mortgages, soaring cost of building materials and land prices affecting construction cost in the long run • For detached units, investment opportunity lies in areas such as Kitengela, Ngong, and, South B&C, while for apartments, investment opportunity lies in Kahawa West, westlands and Dagorreti, due to their remarkable returns driven by relatively high returns to investors	**Neutral**
Commercial Office Sector	• In FY’2024, the average rental yields showed resilience with 0.1%-points increase, coming at 7.8% in FY’2024 from 7.7% in FY’2023. This is attributable to an increase in asking rents by 1.7% to Ksh 105 in FY’2024 from Ksh 103 in FY’2023.	• We expect the sector to remain stable with a slight improvement by 0.2% in rental yields recorded in FY’2025, attributable to an expected increase in overall rental rates by 3.0% in FY’2025.The improved performance may be supported by; i) the increasing	**Positive**

	• 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 prime areas that are have ease of access to the capital.	presence of multinational companies in Kenya is likely to drive up occupancy levels, ii) co-working spaces are gaining in popularity in the region iii) the gradual return to "working from office" after the Covid-19 pandemic, iv) more start-ups are expected to drive demand for commercial spaces, and v) a considerable uptake of prevailing commercial office spaces. However, the sector continues to face challenges due to a significant oversupply of office space, currently standing at 5.8 mn SQFT as at FY'2023. • Investment opportunity lies in areas such as Gigiri, Westlands, and Kilimani, which offer rental yields of 8.8%,8.5% and 8.3%, compared to the market average of 7.8%;	
Retail Sector	• The sector recorded 3.6% points to 82.2% in FY'2024, from 78.7% recorded in FY'2023. Average rents and occupancies also increased by 1.2% and 3.6% points to Kshs 184 per SQFT and 82.2%, respectively • The improved performance was due to; i) aggressive growth strategies implemented by both domestic and international retailers such as Naivas, QuickMart and Carrefour,and, ii) continuous demand for consumer goods and services supported by positive demographics, encouraging further expansions from current retailers,	• We expect a slight increase in rental yields by 0.3% points as a result of; i) continued expansion by local and international retailers, driven by evolving consumer preferences and market trends, ii) infrastructure improvements, including ongoing road and railway projects, are set to increase accessibility to key retail zones, unlocking further investment opportunities, and iii) favorable demographic trends, such as a growing urban population, will sustain demand for retail goods and services. However, oversupply of physical space, increased adoption of e-commerce, and limited financing options for retail 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 2024, serviced apartments' year-on-year (y/y) performance improved, with the occupancy rates coming in at 72.2% in 2024, a 5.8%-points increase from the 66.4% recorded in 2023. The average monthly charges for 2024 increased by 4% to Kshs 3155 per SQM from 3,044 recorded in 2023. Consequently, the average rental yield increased to 7.3% in 2024, a 0.5%- points increase from the 6.8% recorded in 2023. • The sector's overall performance improved attributable to increasing number of visitor arrivals in the country by 8.5% to 489,831 visitors in Q3' 2024 from 451,441 visitors recorded in Q3' 2023 Which increased the 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 supported by; : i) aggressive marketing campaigns promoting Kenya's tourism, expected to boost tourist arrivals and improve occupancy rates at hospitality venues, ii) continued international recognition of Kenya's tourism industry, enhancing its status as a leading tourist destination and drawing more global visitors, iii) strategic partnerships within the tourism sector, fostering innovation and collaboration to capitalize on new opportunities, iv) events and initiatives aimed at increasing tourism activity and improving guest experiences. • However, while the sector demonstrated resilience in its overall performance in 2024, the outlook remains cautiously optimistic due to i) Kenya continues to face significant competition from neighboring markets, such as Rwanda, which employs aggressive promotional strategies, alongside Zanzibar, Tanzania, and South Africa, these regions actively position themselves as attractive alternatives, challenging Kenya's market share in the region, ii) difficulty in accessing finance as lenders demand more collateral to cushion themselves owing to elevated credit risk, and iii) occasional release of cautionary statements by governments like China and United States to their citizens	**Positive**

		advising them against travelling to Kenya due to threats like terrorism and elevated crime rates; • Prime investment prospects lie in Westlands, Limuru Road, and Kilimani, where average rental yields stood at 11.0%, 9.1%, and 8.8%, 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 2.7% in FY'2024 to Kshs 130.9 mn from Kshs 128.9 mn recorded in FY'2023. • The overall asking prices for unserviced land in the satellite towns and High-rise residential areas in Nairobi recorded the highest average capital appreciations of 4.5% and 3.5%, higher than the overall sector appreciation of 2.7%. • This was mainly attributed to increased demand for land in satellite towns to their relative affordability at an average of 16.1mn compared to the market average of Kshs 130.9 in the NMA and the potential for capital appreciation for land around high rise residential areas. 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.	• We retain a **POSITIVE** outlook for the land sector in the Nairobi Metropolitan Area (NMA), considering it a dependable investment opportunity that has shown improving performance year on year. Going forward, we anticipate that land in the NMA will continue on upward trajectory to coming in at a sector average price of Kshs 131.2mn in FY'2025 a 3.0% increase, from Kshs 130.9 mn recorded in FY'2024. We expect the sector's performance to be driven by several factors: i) government efforts to streamline land transactions through innovative solutions such as Ardhi Sasa, ii) continued activities by players on both the demand and supply sides, iii) growing demand for land driven by positive demographics, iv) the launch of infrastructure development projects opening up satellite towns for investment opportunities, and v) the continued rollout of the Affordable Housing Program (AHP) by the government, driving further demand for land. • The investment opportunity lies in Juja, Limuru and Utawala for unserviced land, which recorded annualized capital appreciations of 6.3%, 5.7% and 4.8% respectively compared to market average of 4.5%. For serviced land, Rongai and Athiriver recorded the highest annualized capital appreciations of 7.1% and 3.3%, respectively against the serviced average of 3.2%;	**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'2024/25, the total budget allocation for infrastructure, energy and ICT stood at a substantial Kshs 477.2bn, recording a 1.9% increase from the Kshs 468.2 bn recorded for the preceding FY'2023/24. • Some of the key projects implemented in 2024; launching the tarmacking of the 25-kilometre Rukuriri-Kathageri-Kanyaumbora road in Embu County, ground breaking for the tarmacking of 65.0-Kilometre-long link roads in Sombogo, Kitutu Chache and opening of the Dongo Kundu Bypass to the public among other several notable projects.	• In 2025, We anticipate the government will continue with its aggressive efforts 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. • However, this efforts may be slowed down by the reduction in allocation to state department of roads by 7.6% in the supplementary budget FY'2024/25, to ksh 178.7 bn from the ksh 193.4 bn set in the FY'2024/25 budget. Consequently, going forward to 2025 we anticipate there will be a decline in the number of infrastructure projects completed, while the number of stalled infrastructure projects across the country is expected to continue rising due financial constraints. Although the government acknowledges the importance of Public-Private Partnerships (PPPs) in tackling financing challenges, we believe that prioritizing PPPs is fundamental in addressing funding shortfalls. By leveraging the resources and expertise of the private sector, PPPs can support sustainable infrastructure development and stimulate economic growth. •	**Neutral**

Industrial Sector	• In 2024, Kenya's industrial sector continued to demonstrate slight improvement in performance through government support, including the establishment of Special Economic Zones (SEZs) and Export Processing Zones (EPZs) to attract investments. In terms of performance, the Nairobi Metropolitan Area has been on the front line and a major contributor to the Industrial Real Estate Sector accounting for approximately 90.0% of the country's industrial space known for its high concentration of industrial projects in areas like Nairobi, Kiambu, Machakos and Kajiado; with Nairobi County holding the largest share at 66.0%, largely due to its status as the capital city.	• In 2025, we expect a slight increase in development activities in the industrial sector through government support in line with its Bottom Up Economic Transformation Agenda (BETA) which aims to tap into the manufacturing sector to create wealth, employment and reduce poverty levels among Kenyan citizens. However, optimal performance in this sector may be weighed down by factors like high development costs for industrial facilities, low technological adoption and inadequate infrastructure to support operation of these facilities. • Going forward, we expect the sector to continue on an upward trajectory driven by: i) the rising demand for data centers in the country, ii) an increasing demand for cold rooms, especially in the Nairobi Metropolitan Area, iii) demand for quality warehouses due to the growing e-commerce business in the country, iv) support from the government, as evidenced by the establishment of Special Economic Zones (SEZ) and Export Processing Zones (EPZ), v) increased development activities by industry players such as ALP Africa Logistics & Devki steel mills, vi) Kenya's continued recognition as a regional hub, hence attracting international investors, and, vii) efforts by the government to support agricultural and horticultural products in the international market Viii) 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).	**Neutral**
Listed Real Estate	• The underperformance of the Kenyan REIT sector is attributable to various factors such as; i) Insufficient understanding of the investment instrument among investors leading to a slower uptake of REIT products, ii) Lengthy approval processes for REIT creation, iii) High minimum capital requirements of Kshs 100.0 mn for REIT trustees compared to Kshs 10.0 mn for pension funds Trustees, essentially limiting the licensed REIT Trustee to banks only, iv) The rigidity of choice between either a D-REIT or and I-REIT forces managers to form two REITs, rather than having one Hybrid REIT that can allocate between development and income earning properties, v) Limiting the type of legal entity that can form a REIT to only a trust company, as opposed to allowing other entities such as partnerships, and companies, vi) We need to give time before REITS are required to list – they would be allowed to stay private for a few years before the requirement to list given that not all companies maybe comfortable with listing on day one, and, vii) Minimum subscription amounts or offer parcels set at Kshs 0.1 mn for D-REITs and Kshs 5.0 mn for restricted I-REITs. The significant capital requirements still make REITs relatively inaccessible to smaller retail investors compared to other investment vehicles like unit trusts or government bonds, all of which continue to limit the performance of Kenyan REITs. • On the Unquoted Securities Platform, Acorn D-REIT and I-REIT traded at Kshs 25.4 and Kshs 22.2 per unit, respectively, as per the last updated data on 31st October 2024. The performance represented a 27.0% and 11.0% gain for the D-REIT and I-REIT, respectively, from the Kshs s	In 2025 we expect REITS to gain popularity as developers such as Future construkt being licenced as REIT managers by the Capital Market Authority. Centum Real Estate are looking forward to launch a dollar based Income REIT and we expect that the dollar based I-REIT will: i) increase foreign investments by boosting investors' confidence against local currency uncertainties, ,ii) dollar-denominated REITs provide an alternative for investors seeking more liquid and globally recognized investment options, iii) the dollar based move is likely to set a precedent for other players in the market, encouraging the development of more innovative and investor-centric financial products, and, iv) the fund could force policy regulatory framework improvement to ensure transparency and investments protection. • 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 Kshs 100.0 mn for REIT trustees compared to Kshs 10.0 mn for pension funds Trustees, essentially limiting the licensed REIT Trustee to banks only,, and, iv) steep minimum subscription amounts or offer parcels set at Kshs 0.1 mn for D-REITs and Kshs 5.0 mn for restricted I-REITs. • However, 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	**Neutral**

	20.0 inception price. The volumes traded for the D-REIT and I-REIT came in at Kshs s 12.3 mn and Kshs 31.6 mn shares, respectively, with a turnover of Kshs 311.5 mn and Kshs 702.7 mn, respectively, since inception in February 2021. Additionally, ILAM Fahari I-REIT traded at Kshs 11.0 per share as of 31st October 2024, representing a 45.0% loss from the Kshs 20.0 inception price. The volume traded to date came in at 138,600 shares for the I-REIT, with a turnover of Kshs 1.5 mn since inception in November 2015.	also set standards in promoting environmental sustainability such as execution of green bonds by Acorn holding.	

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'2024, there was a slight decrease in average investor total returns by 0.3% to come in at 5.8%, from 6.1% realized in FY'2023. The residential average y/y price appreciation came in at 0.4% in FY'2024, 0.2%-points lower than the 0.6% appreciation recorded in FY'2023, driven by slowed property transactions during the year. This was attributable to increased costs of construction materials due to the high taxes imposed by the government. In 2025, we expect the sector to remain stable, and the performance to improve in 2025 due to improving economic conditions. The inflation rates reduced by 3.2% points to 4.5% in 2024 from 7.7% recorded in 2023 and the Kenyan shilling appreciated against the US dollar by 17.4% to close at Kshs 129.3 in 2024, compared to Kshs 156.5 at the end of 2023, a contrast to the 26.8% depreciation recorded in 2023. As such, as the business environment continues to improve, we expect a potential increase in selling prices as property owners adapt to improving economic conditions and improving 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 high cost of financing which may affect uptake and occupancy in several nodes, ultimately affecting rental yields and property prices.

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

Cytonn Report: Residential Demand Outlook		
Metric	**2025 Outlook**	**Effect**

Demographics	• According to World Bank Kenya has relatively high urbanization and population growth rates averaging 3.8% and 2.0% respectively, compared to the global averages of 1.7% and 0.9%, respectively, as of 2023. 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 Makupa Bridge, Nairobi Expressway, Nairobi Western and Eastern Bypasses and various satellite areas improvement programs. Nairobi-Addis Ababa Railway project is slated to begin this year as part of LAPSSET corridor	**Neutral**
Investor Returns	• Residential sector in 2024 recorded a slight decrease in average total returns to 5.8%, from 6.1% in 2023. This is linked to the decrease in price appreciation at 0.4% in FY'2024, 0.2%-points lower than the 0.6 % appreciation recorded in FY'2023. Investors also increased their asking rents in order to hedge themselves against the tough economic conditions • We expect more investments in the lower mid-end Suburbs towns with average total returns of 5.5% performing better than detached units average of 5.2%. Apartments in Kahawa west, Dagorreti and Westlands recorded the highest returns at 12.0%, 11.5%, and 10.6% respectively, higher than the market average of 6.4%	**Neutral**
Purchasing Power	• As the tough macro-economic environment persists evidenced by the high taxes, 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 Q2'2024 the Non-Performing loans advanced to the real estate sector stood at Kshs 114.3 bn compared to Kshs 117.1 bn in Q2'2023, which is a 2.4% decrease, and the developers are still struggling to payback their loans	**Neutral**

Supply Side

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. The table below summarizes the various factors that will influence the **supply side** of residential Real Estate in 2024.

Cytonn Report: Residential Supply Outlook		
Metric	**2024 Outlook**	**Effect**
Developer Returns	• In 2024, residential sector recorded a slight downtrend in performance, with the average total returns to investors coming in at 5.8%, a 0.3%-point decline from 6.1% recorded in FY'2023. The performance was attributed to a decrease in the residential average y/y price appreciation which came in at 0.4% in FY'2024, 0.2%-points lower than the 0.6% appreciation recorded in FY'2023, driven by slowed property transactions during the year. On the other hand, the average rental yield came in at 5.4% in FY'2024, recording a 0.1%-points decline from the 5.5% rental yield recorded in FY'2023. This was driven by a decline in the average rent per SQM by 5.3 % to Kshs 567, from Kshs 599 recorded in FY'2023. • Going forward, we expect developers will eye on lower-middle segment offering an average total return of 5.5% for detached and Upper Mid-End offering a return of 7.2% for the apartment units. This is attributable to relatively higher average price appreciation of 0.6% and 1.2% respectively, 0.2 % and 0.8% points, for detached and apartments respectively, higher than the detached market average appreciation of 0.4% • Conversely, developers' activities are expected to be hit by the soaring cost of constructions amid a rise in the prices of key construction materials despite eased inflation and currency appreciation	**Neutral**

Access to Financing	• Accessing funding remains a hurdle for developers in Kenya due to the underdeveloped capital markets. 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. Due to the increase in loan defaulting, the banks require high securitization blocking off developers from accessing financing • In 2025, 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 be high	**Neutral**
Development Costs	• In 2025, developers will be hit by the rising cost of major construction materials such as cement and steel which registered a 10.0% increase in FY' 2024, majorly driven by high taxes which has continued to act as hindrance in Real Estate investment	**Negative**
Infrastructure	• The rejection of the Finance Bill 2024 introduces potential challenges. The bill's withdrawal may lead to a significant shortfall in projected revenue for the financial year 2024/2025, which could impact funding for essential services, including infrastructure development. Despite this, the Kenya's infrastructure development outlook for 2025 is poised for growth as the government has expressed a commitment to robust infrastructure development in 2025, indicating that the government plans to focus on implementing key projects to stimulate economic growth, but securing alternative funding sources will be crucial to achieving these objectives. • 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; Nairobi-Naivasha SGR phase 2, affordable housing projects, expansion of major roads in the urban areas to ease congestion.	**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 200,000 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. For detached units, investment opportunity lies in areas such as Kitengela, Ngong, and, South B&C, while for apartments, investment opportunity lies in Kahawa West, westlands and Dagorreti, due to their remarkable returns driven by relatively high returns to investors

II. Commercial Office Sector

In FY'2024, the Nairobi Metropolitan Area (NMA) commercial office sector, average yields remained stable with a slight 0.1% increase to 7.8% from 7.7% recorded in FY'2023 due to improved occupancy and rental rates of 0.4% and 1.7% respectively. In 2025, we expect the overall rental yields for the commercial office sector to improve slightly by 0.2% points to 8.0% in FY'2025 from 7.8% recorded in FY'2024. The average rent, selling prices and occupancies are projected to be Kshs 108 per SQFT, Kshs 12,696 per SQFT and 79.8%, respectivelyin FY'2025, from Kshs 105 per SQFT, Kshs 12,614 per SQFT and 80.7% average rent, selling prices and occupancy levels recorded in 2024 respectively. The table below summarizes the commercial office performance from 2017 to 2024 and our forecast for 2025;

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	FY'24	Forecasted Annualized Change	2025F	Reason for Focus	Outlook
Occupancy (%)	82.6%	83.3%	80.2%	77.7%	77.6%	79.4%	80.3%	80.7%	(0.9%)	79.8%	We expect 0.9% points decrease in occupancy rates which may be attributable to an incoming supply of new offices 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 supported by an anticipated entry of new renters such as entry of multinationals and start-ups into the country	**Negative**
Asking Rents (Kshs/Sqft)	101	101	96	93	94	96	103	105	3.0%	108	In FY'2025, we expect a 3.0% increase in asking rents which may be attributed to an increased supply of prime offices fetching higher rents such as the Highway Heights, The Atrium, Purple Tower, and Mandrake in Westlands.	**Positive**
Average Prices (Kshs/Sqft)	12,649	12,573	12,638	12,280	12,106	12,223	12,673	12,614	0.7%	12,696	Asking prices are expected to realize a 0.7% increase in FY'2025 as construction prices continue to soar and also an increase in demand for co-working spaces by multinationals and startups in the country.	**Positive**
Average Rental Yields (%)	7.9%	8.1%	7.5%	7.0%	7.3%	7.6%	7.7%	7.8%	0.2%	8.0%	We expect the yields to realize a slight improvement of 0.2% points attributed to	**Positive**

											the expected improvements in the overall rental rates. However, we expect the projected decline in occupancies to weigh down the sector's optimal performance	

Source: Cytonn Research

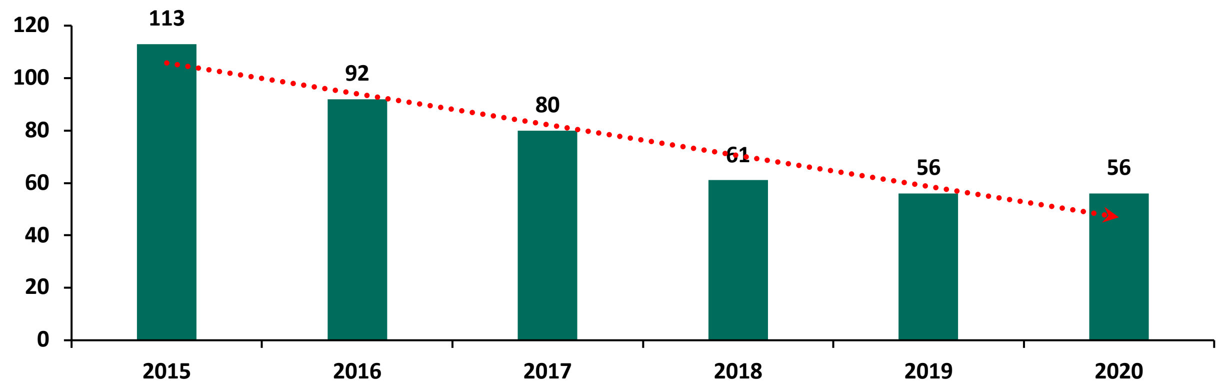
From the above, our overall outlook for the Nairobi Metropolitan Area commercial office sector is POSITIVE. We expect the sector to remain stable with a slight improvement attributable to i) the increasing presence of multinational companies in Kenya is likely to drive up occupancy levels, ii) co-working spaces are gaining in popularity in the region iii) the gradual return to "working from office" after the Covid-19 pandemic, iv) more start-ups are expected to drive demand for commercial spaces, and v) a considerable take-up of prevailing commercial office spaces after developers adopted a 'wait-and-see' approach to avoid vacancies in newly built spaces, However, the sector continues to face challenges due to a significant oversupply of office space, currently standing at 5.8 mn SQFT. Despite these challenges, there are attractive investment opportunities in areas such as Westlands, Gigiri, and Kilimani, which offer returns that exceed the market average.

III. Retail Sector

The retail Real Estate sector in the Nairobi Metropolitan Area (NMA) exhibited positive performance improvements in FY'2024, witnessing an increase in average rental yields to 8.4%, marking a 0.1%-point increase compared to the 8.3% recorded in FY'2023. This improvement can be attributed to a notable 3.6%-point increase in average occupancy rates, to 82.2%, up from the 78.7% recorded in FY'2023. Additionally, average asking rents, rose by 0.1% to Kshs 184 in FY'2024 from Kshs 182 in FY'2023. 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, BBS Mall in Eastleigh and Mwanzi market.

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. Retailers including Naivas, QuickMart, Panda Mart, China Square, and Carrefour have been aggressively expanding to occupy new and previously vacated spaces left by struggling chains like Uchumi, The Game, Tuskys, and Nakumatt. This expansion is happening as Kenya's formal retail penetration remains relatively low, at around 35.0% as at 2021, according to the Oxford Business Group
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. The demand for goods and services has been steadily rising due to Kenya's relatively high urbanization and population growth rates of 3.8% p.a and 2.0% p.a, respectively, against the global average of 1.7% p.a and 0.9% p.a, respectively as at 2023, and,
iv. The ease of doing business in Kenya has significantly improved, leading to enhanced investor confidence. According to the World Bank, Kenya's ranking in terms of ease of doing business was 56 in 2020 with a 2.2% improvement in score to 73.2 in 2020 from 71.0 in 2019, a notable improvement compared to its position at 113 six years prior. The graph below shows Kenya's ranking performance between 2015 and 2020;



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 3.6 mn SQFT. In the broader Kenyan retail market, there is an additional oversupply of approximately 1.9 mn SQFT. This surplus has caused slowed uptake of retail spaces in the sector, and thereby leading developers to halt their plans awaiting the absorption of the existing spaces.
iii. The consistently increasing costs associated with construction, reaching an average of Kshs 66,375 per SQM in 2024. The escalation in costs is predominantly attributed to inflationary pressures, posing a restrain to the sector's optimal development activities, and,
iv. Shoppers in Kenya are experiencing a diminishing purchasing power due to a tough economic period, despite the easing of some indicators such as inflation and a consistent drop in fuel costs. Many Kenyans are struggling with increased taxation, particularly those who are formally employed, and persistently high levels of unemployment,

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 2018 to 2024 and our forecast for 2025;

Cytonn Report: Nairobi Metropolitan Area (NMA) Retail Sector Performance 2018-2025F										
Item	**FY' 18**	**FY'19**	**FY'20**	**FY'21**	**FY'22**	**FY'23**	**FY'24**	**Forecasted Annualized Change**	**2025F**	**Reason for Forecast**	**Outlook**
Asking Rents	178	176	169	170	174	182	**184**	**2.2%**	**188**	We expect asking rents to increase by 2.2% mainly driven by enhanced business confidence among investors, influencing	**Positive**

(Kshs/SQFT)										demand for available retail spaces and consequently leading to higher rental rates. This is expected to coincide with the ongoing economic recovery from the shilling depreciation against the dollar and easing of inflationary pressures. In addition, there are various upcoming retail developments in the pipeline such as the Cove and Kilimani Retail Mall.	
Supply in Nairobi (mn SQFT)	6.5	7.3	7.3	7.3	8.2	8.3	**8.5**	**3.9%**	**8.8**	We expect retail space supply to increase to 8.8 mn per SQFT in 2025 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. During the year, we expect the Kilimani Retail Centre to be delivered to the market, providing approximately 50,000 SQFT of gross area. The project targets the middle class in the area as it neighbors a relatively populated residential zone. Other notable developments expected in NMA include the Kenya Mall “The Beacon” in Upper Hill, and the Cove, which will deliver 1,137 SQM of gross space and will be located in Lavington.	**Positive**
Occupancy (%)	79.8%	75.9%	75.2%	76.8%	77.6%	79.3%	**82.2%**	**1.8% points**	**84.0 %**	The current oversupply of 3.6 mn SQFT, coupled with escalating rental charges on retail properties, a challenging economic environment marked by tax hikes on goods and businesses, may lead businesses to consider reducing their operational spaces or taking a more cautious approach to expansion. This is likely to put pressure on the occupancy rates of physical spaces in the formal retail sector. Nevertheless, there is a positive outlook, driven by the expectation of ongoing expansion and the entry of new local and international retailers. This optimism is fueled by the expansion of operations and the discovery of opportunities in underexplored areas, which is positively impacting occupier demand.	**Neutral**
Average Rental Yields	9.0%	7.8%	7.5%	7.8%	7.9%	8.3%	**8.4%**	**0.3% Points**	**8.7%**	We expect a slight increase in rental yields by 0.3% points due to rising rental costs for retail spaces and the aggressive expansion of retailers into new and previously occupied areas. Additionally, infrastructure developments that open up new investment opportunities, along with favorable demographics, are expected to bolster sector performance.	**Neutral**

										However, challenges such as oversupply, the growing adoption of e-commerce, a challenging economic environment for businesses, and the presence of informal retail spaces are likely to undermine the sector's performance, ultimately impacting rental yields.	

source: Cytonn Research

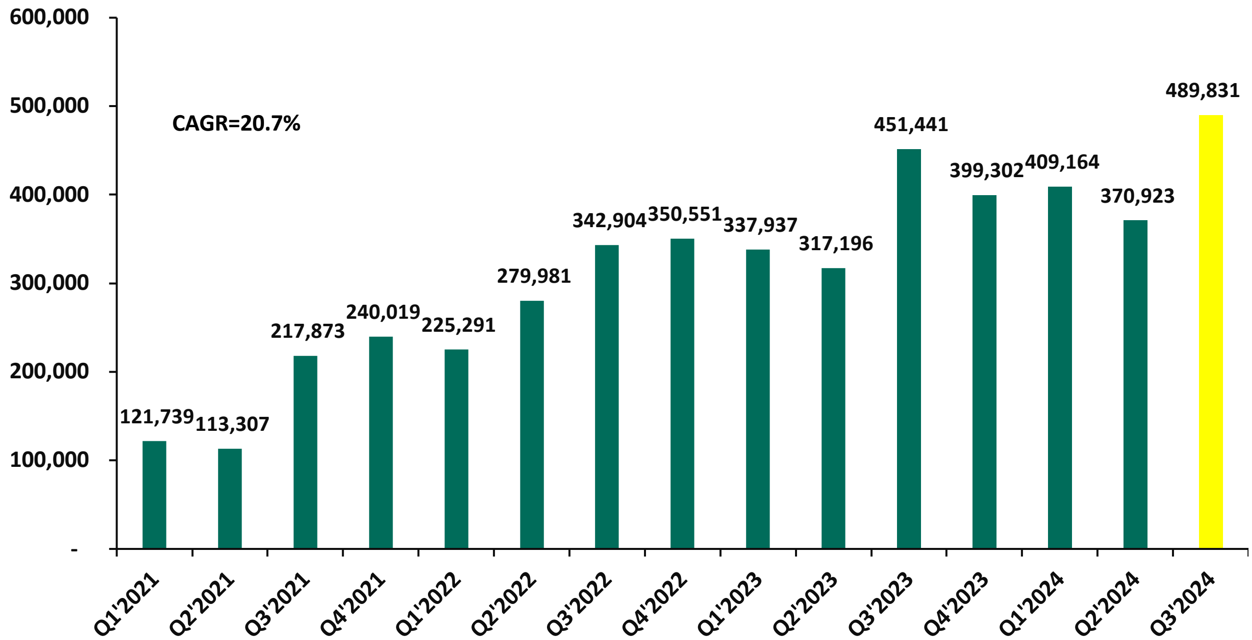
We maintain a NEUTRAL outlook on the retail sector's performance for 2025, influenced by several factors; i) continued expansion by local and international retailers, driven by evolving consumer preferences and market trends, ii) infrastructure improvements, including ongoing road and railway projects, are set to increase accessibility to key retail zones, unlocking further investment opportunities, and iii) favorable demographic trends, such as a growing urban population, will sustain demand for retail goods and services. However, growth could face challenges from: i) oversupply issues, with around 3.6 n SQFT of retail space available in Nairobi and an additional 1.9 mn SQFT countrywide, leading to low occupancy rates and rental yields, ii) e-commerce adoption, increasingly shifting retail demand online, pushing brick-and-mortar outlets to adapt, and iii) limited financing options for retail developments, along with high costs, are likely to hinder investment, especially for small and medium-sized enterprises (SMEs) that need to adopt technology to stay competitive

IV. Hospitality Sector

In 2024, Kenya's hospitality sector continued to display resilience in performance post the COVID-19 pandemic. The performance was significantly supported by Nairobi's emergence as a regional business hub, attracting multinational companies to set up offices and hosting major international conferences. Additionally, Kenya's status as a leading tourist destination has further driven recovery and growth in the sector.

The hospitality sector achieved notable advancements, as indicated by the Kenya National Bureau of Statistics' Leading Economic Indicators – September 2024 report which highlighted that arrivals through Jomo Kenyatta International Airport (JKIA) and Moi International Airport (MIA) registered an increase of 8.5% to 489,831 visitors in Q3' 2024 from 451,441 visitors recorded in Q3' 2023.The increasing arrivals signify an expansion in hotel operations, increased bed occupancies and elevation in hotel and serviced apartment bookings. Additionally, during the year, our Nairobi Metropolitan Area Serviced Apartments Report 2024 highlighted that the overall performance of serviced apartments improved on y/y, with the occupancy rates coming in at 72.2% in 2024, a 5.8%-points increase from the 66.4% recorded in 2023. The average monthly charges for 2024 increased by 4% to Kshs 3155 per SQM from 3,044 recorded in 2023. Consequently, the average rental yield increased to 7.3% in 2024, a 0.5%- points increase from the 6.8% recorded in 2023.The graph below shows the number of international arrivals in Kenya between Q1'2021 and Q3' 2024;

Cytonn Report: Total Number of Arrivals via JKIA and MIA



Source: Kenya National Bureau of Statistics (KNBS)

Going forward to 2025, several factors are expected to influence the sector's trajectory including;

i. **Active Promotion of Kenya as a Prime Tourist destination:** The government in collaboration with the Kenya Tourism Board (KTB) continues to market the country and present it as an appealing tourist destination in global markets. Leveraging initiatives such as Magical Kenya Travel Expo, Ziara campaign and strategic partnership with airlines such as Air Asia X have been instrumental in attracting a broad range of visitors by showcasing a diverse range of experiences, emphasizing wildlife, culture, and adventure activities thus attracting more leisure visitors in the country.

ii. **Global Recognition of Kenya's Excellence in Hospitality Sector**: The hospitality sector in Kenya has earned notable recognition on the global stage, enhancing its reputation as a premier destination for leisure and business travel. Accolades in 2024 included Nairobi city being awarded Africa's leading business travel destinations at the 2024 World Travel Awards. Also the country received honor at the Germany's Annual Citizen's Festival 2024 showcasing its culture and investment opportunities to over 130,000 attendees. The consistent awards highlight the nation as an appealing tourism hub, increasing confidence in hospitality market investments and contributing to a rise in international visitor arrivals in the country,

iii. **Diverse tourist attractions:** The country boasts of rich variety of attractions—including its iconic wildlife reserves, cultural landmarks, and stunning landscapes—continues to draw global attention. Key sites such as the Lake Turkana National Parks, Lake Nakuru national park, Mount Kenya National Park, Lamu Old Town, and Fort Jesus remain popular due to ongoing conservation efforts and innovative tourism experiences that offer travelers authentic and immersive adventures.

iv. **Hosting Global Sports Events:** Kenya has continued to host various events such as the World Rally Championship (WRC) held in March-2024. Starting the 1st of February Kenya, Tanzania and Uganda are set to host the much-anticipated Total Energies CAF African Nations Championship (CHAN), a competition which will bring together 19 African Nations. These sports events will continue to boost visitor arrivals, hotel bookings and the general performance of the hospitality industry,

v. **Expansion of Key Hospitality Players:** Kenya's hospitality sector has witnessed notable growth, with both local and international investors demonstrating confidence in the market. In 2024, JW Marriott an International luxury hotel brand opened JW Marriott Nairobi at GTC building Westlands and Pullman Hotels & Resorts a subsidiary by Accor opened in Nairobi's Upper Hill Area. The preceding year, 2023, witnessed notable expansions by international hotel chains and renowned hospitality brands, including Pan Pacific Hotels Group, and Miftah Concierge, venturing into the Kenyan market. The momentum continues with a promising development pipeline, featuring 31 new hotels throughout 2024 to 2025, as highlighted by the Hotel Chain Development Pipeline Africa 2024. These hotel expansion initiatives are expected to support the sector's improved performance and its growth prospects.

We maintain a positive outlook for the hospitality sector, supported by several key drivers: i) aggressive marketing campaigns promoting Kenya's tourism, expected to boost tourist arrivals and improve occupancy rates at hospitality venues, ii) continued international recognition of Kenya's tourism industry, enhancing its status as a leading tourist destination and drawing more global visitors, iii) strategic partnerships within the tourism sector, fostering innovation and collaboration to capitalize on new opportunities, iv) events and initiatives aimed at increasing tourism activity and improving guest experiences. However, while the sector demonstrated resilience in its overall performance in 2024, the outlook remains cautiously optimistic due to i) Kenya continues to face significant competition from neighboring markets, such as Rwanda, which employs aggressive promotional strategies, alongside Zanzibar, Tanzania, and South Africa, these regions actively position themselves as attractive alternatives, challenging Kenya's market share in the region, ii) difficulty in accessing finance as lenders demand more collateral to cushion themselves owing to elevated credit risk, and iii) occasional release of cautionary statements by governments like China and United States to their citizens advising them against travelling to Kenya due to threats like terrorism and elevated crime rates.

V. Land Sector

The Nairobi Metropolitan Area (NMA) land sector recorded an average annualized capital appreciation of 2.7% in FY'2024 to Kshs 130.9 mn from Kshs 128.9 mn recorded in FY'2023. This performance was supported by; i) growing demand for land in the Nairobi Metropolitan Area (NMA) is driven by a rising population, as individuals from various regions of the country migrate annually in search of employment, education, and other opportunities, ii) the fixed supply of land has intensified demand, particularly for residential and commercial purposes, leading to an increase in land prices, iii) an expanding middle class in the NMA with disposable income, willing to invest in land as a savings and investment option, iv) government's ongoing focus on infrastructural development projects, such as roads, sewers, railways, and water connections, opening up more satellite towns, subsequently driving land prices upward, v) the widely held belief among the middle class that land represents a secure form of wealth has prompted many families to save specifically for land acquisition, and, vi) increased construction activities particularly in the residential sector fuelled by the government's affordable housing agenda boosting demand for land upwards,

In 2025, we expect the performance of the sector to remain positive, with an expected annual capital appreciation of 2.9% to Kshs 131.2mn from Kshs 130.9mn fueled by anticipated high prices in satellite towns for both serviced and un-serviced land. We expect the positive performance will be supported by;

i. **Government's Continued Investment in Infrastructural Developments**: The Kenyan government has persistently continued to launch and implement various infrastructure projects to boost economic performance and position the country as a preferred regional hub. This has in turn supported the growth of the Real Estate Sector through opening up areas e.g. satellite towns for Real Estate investment. Some of the key notable projects include Makupa Bridge, Nairobi Expressway, Nairobi Western, southern and expansion of the Eastern Bypass among others. These projects enhance connectivity, driving demand for land, particularly in satellite towns e.g. Athi River and making these areas attractive to investors which contributes to rising property prices,

ii. **Government Efforts to Streamline Land Transactions:** The government continues to display efforts to improve land transactions, evidenced 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. **Positive Demographics:** Kenya continues to record positive demographics shown by high urbanization and population growth rates of 3.7% p.a and 2.0% p.a, respectively, against the global average of 1.7% p.a and 0.9% p.a, respectively, as at 2023. Given this, the demand for residential and commercial spaces continues to soar, which in turn boosts demand for development land,

iv. **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 16.1 mn for un-serviced land and 19.3mn for serviced compared to the market average of Kshs 130.9 in FY'2024,

v. **Government Affordable Housing Initiatives:** The Kenyan government in line with its affordable housing agenda has continued to support and launch several projects in an attempt to reduce the housing deficit in the country and subsequently offer job opportunities to the youth. This has increased demand for development land in areas earmarked for development. Some noteworthy projects include; Moke Gardens Athi River, Kings Boma Estate Ruiru, Pangani affordable housing project, and Kings Orchid Thika, and,

vi. **Limited Supply of Land Particularly in Urban Centers**: As Nairobi continues to face high rates of urbanization, the demand for housing and commercial spaces increases, and the fixed supply of land becomes increasingly scarce. This scarcity, coupled with factors like population growth and infrastructure improvements leads to an appreciation in land prices.

Going forward we anticipate that land in the NMA will continue on an upward trajectory to come in at Kshs 131.2mn in FY'2025 a 3.0% increase, from Kshs 130.9 mn recorded in FY'2024. This may be attributable to increasing demand for land in satellite towns, positive demographics, and government focus on infrastructural development opening up satellite towns for investment. The summary of the previous performance of the theme and 2025 outlook is as outlined below;

All Prices in Kshs (mn) Unless Stated Otherwise										
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**	**Price in 2024**	**2025F**	**Annual Capital Appreciation 2025 F**
Unserviced land- Satellite Towns	20.4	22.7	24.9	12.7	13.5	15.1	15.4	16.1	17.0	**5.8%**
Serviced land- Satellite Towns	14.4	14.3	14.3	14.8	16.4	17.8	18.7	19.3	20.6	**6.6%**

Nairobi High End Suburbs- Low- and High-Rise Residential Areas	120.4	124.7	127.2	126.8	130.3	137.4	135.7	137.3	140.0	**2.0%**
Nairobi Middle End Suburbs- High Rise Residential Areas	77.6	77.8	81.7	83.6	83.0	80.9	82.3	85.3	85.7	**0.5%**
Nairobi Suburbs - Commercial Areas	429.8	447.3	428.5	413	410.8	403.4	392.6	396.4	392.4	**-0.1%**
Average	**132.5**	**137.4**	**135.3**	**130.2**	**130.8**	**131.0**	**128.9**	**130.9**	**131.2**	**3.0%**

Source: Cytonn Research

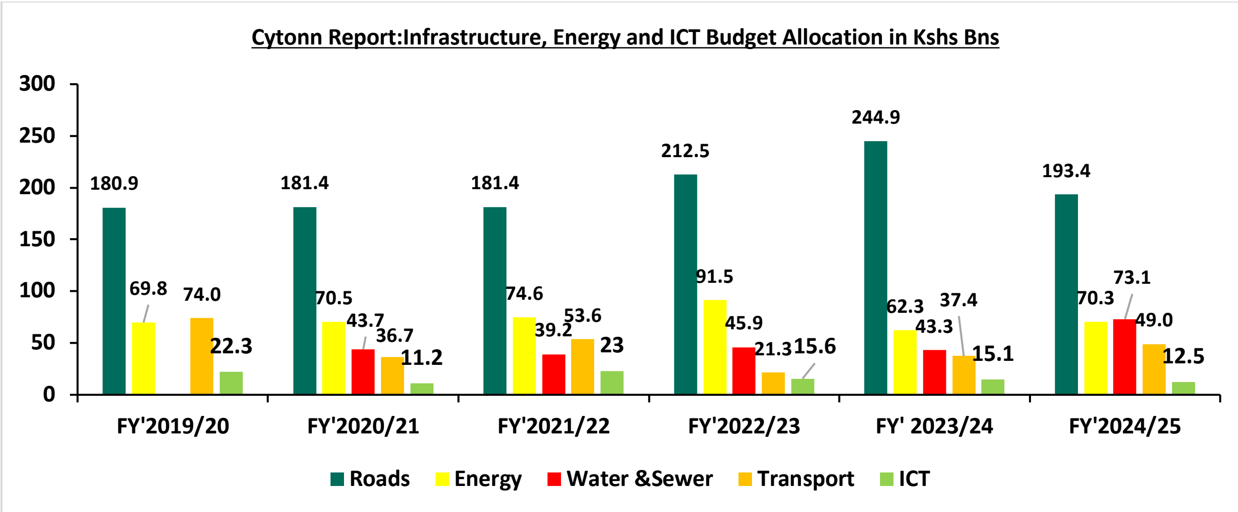
The investment opportunity lies in Juja, Limuru and Utawala for unserviced land, which recorded annualized capital appreciations of 6.3%, 5.7% and 4.8% respectively compared to market average of 4.5%. For serviced land, Rongai, Athi-river and Ruai recorded the highest annualized capital appreciations of 7.1%, 3.3% and 3.2% against an average of 3.2%.

We maintain a POSITIVE outlook for the land sector in the Nairobi Metropolitan Area (NMA), considering it a dependable investment opportunity that has shown improving performance year on year. Going forward,we anticipate that land in the NMA will continue on upward trajectory to come in at Kshs 131.2mn in FY'2025 a 3.0% increase, from Kshs 130.9 mn recorded in FY'2024. we expect the sector's performance to be driven by several factors: i) government efforts to streamline land transactions through innovative solutions such as Ardhi Sasa, ii) continued activities by players on both the demand and supply sides, iii) growing demand for land driven by positive demographics, iv) the launch of infrastructure development projects opening up satellite towns for investment opportunities, and v) the continued rollout of the Affordable Housing Program (AHP) by the government, driving further demand for land.

VI. Infrastructure Sector

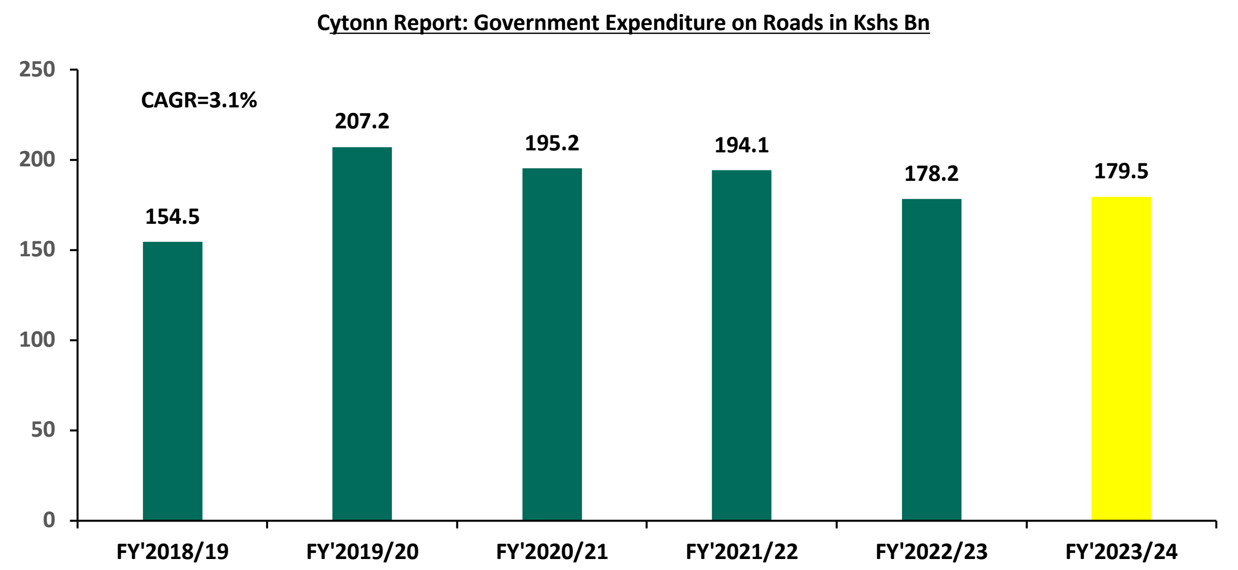
The Kenyan government continues to demonstrate commitment to improve infrastructure around the country by launching and progressing several key projects across the nation, with a special focus on road networks during the year. These road projects continue to enhance connectivity that supports trading activities, draws investments in various sectors and promotes economic growth.

In the FY'2024/25, the total budget allocation for infrastructure, energy and ICT stood at a substantial Kshs 477.2bn, recording a 1.9% increase from the Kshs 468.2 bn recorded for the preceding FY'2023/24. This highlights 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 chart below illustrates the growth in budgetary allocations for infrastructure, energy and ICT over the last five fiscal years:



Source: National Treasury of Kenya

On road network, the Kenya National Highways Authority (KeNHA) 2023-2027 Strategic Plan highlights that the Authority targets to construct 2,349 km of roads, comprising 1,183 km new road construction, capacity enhancement of 674 km and rehabilitation of 492 km. Additionally, the authority aims to cumulatively maintain 75,891 km of the national trunk road network and design 5,575 km of the road network during this period. The implementation of the Strategic Plan requires Kshs 708.7 Bn of which Ksh 99.3 Bn will be funded through PPPs, Kshs. 1.7 Bn through climate funding, and Kshs 8.2 Bn through own source revenue. Due to the governments continued efforts to improve infrastructure it is estimated that currently the road network in the country stands at 246,757 Kms out of which 162,055 Kms are classified as one of the country's largest investment. The graph below shows the Kenyan government's expenditure on roads during the last five years according to the KNBS Economic Survey 2024.



Source: Kenya National Bureau Statistics (KNBS)

Other initiatives in infrastructural development include housing construction, urban development projects, the expansion of digital infrastructure, and last mile connectivity initiatives. Once completed, these designated projects are expected to open up new areas for real estate investment across various sub-sectors, creating new opportunities for employment and driving demand for properties, goods, and services. However, the government is currently facing significant financial challenges in fulfilling its expenditure budget, which makes funding these capital-intensive projects both costly and risky. Due to this, recent developments relating to the expenditure as revealed by the National Treasury, highlight a shift in government spending priorities, indicating a reduced expenditure in FY'2024/25, as result of budgetary cuts. According to the supplementary budget FY'2024/25, allocation to the state department of roads was cut by 7.6% to ksh 178.7 bn from the ksh 193.4 bn set in the FY'2024/25 budget.in response to pressure from anti-finance bill 2024 protests compelling the government to cut spending. Consequently, the government has been exploring diverse funding sources to meet its infrastructure budget, including;

i) **Public-Private Partnerships:** The Kenyan government continues to actively pursue Public-Private Partnerships (PPPs) to improve infrastructure development in the country. Notable projects being the Mombasa-Nairobi Expressway, which entails a USD 3.6bn investment agreement with Everstrong Capital and the upgrading to Bitumen standards and maintenance of the 90.0km Kiambu-Raini, Junction, KaspatRoad, Nduota-Gathanga-Kiguaro, and other roads funded by the Chinese African Development Bank. These significant partnerships highlight the government's strategy to utilize substantial private capital for major infrastructure projects, aiming to enhance connectivity, stimulate economic growth, and ensure sustainable development. Partnerships between the public sector and private entities facilitates improved efficiency, drives innovation, and provides the necessary funding for project delivery, and,

ii) **Issuing of Infrastructure bonds**: Issuing of infrastructure bonds has emerged as an important financial strategy for the government in a bid to raise additional resources for infrastructure projects beyond the limits of annual budgets. In September 2024, the Central Bank of Kenya has released the auction results for the IFB1/2023/017 tap sale with a tenor to maturity of 15.7 years. The bond was oversubscribed with the overall subscription rate coming in at 234.6%, receiving bids worth Kshs 35.2 bn against the offered Kshs 15.0 bn. The government accepted bids worth Kshs 32.0 bn, translating to an acceptance rate of 91.0%. The weighted average rate of accepted Bids was 17.7%. The growing interest from investors in these bonds is largely driven by their tax-exempt coupon feature, which enhances their appeal and offers an effective option for portfolio diversification. These infrastructure bonds serve as both a dependable financing mechanism and a testament to investors' trust in the government's dedication to infrastructure advancement. The capital raised through these bonds plays a crucial role in supporting ongoing and future infrastructure projects, thereby promoting economic growth and development.

iii) **Credits and Grants from development partners**: The government of Kenya continues to rely on credits and grants from international development partners as a crucial funding source for its infrastructure initiatives. These collaborations provide not only financial support but also technical expertise and knowledge sharing. Key contributors include the World Bank, which, through programs like the Kenya Urban Support Program (KUSP), has played a significant role in advancing urban infrastructure development. Other notable financiers include the African Development Bank (AfDB), the European Union (EU) with special focus on energy, roads and water, and bilateral partners such as China, Japan, and the United States. The government's ability to negotiate favorable financing terms with these partners facilitates the implementation of projects that might otherwise be cost-prohibitive.

We anticipate the government continued efforts to improve infrastructure in the country more so in road and transport sector in line with its Bottom-up Economic Transformation Agenda (BETA) and economic stimulation goal. However, this efforts may be slowed down by the reduction in allocation to state

department of roads by 7.6% in the supplementary budget FY'2024/25, to ksh 178.7 bn from the ksh 193.4 bn set in the FY'2024/25 budget. Consequently, we maintain a NEUTRAL outlook, going forward to 2025 we anticipate there will be a decline in the number of infrastructure projects completed, while the number of stalled infrastructure projects across the country is expected to continue rising due financial constraints. Although the government acknowledges the importance of Public-Private Partnerships (PPPs) in tackling financing challenges, we believe that prioritizing PPPs is fundamental in addressing funding shortfalls. By leveraging the resources and expertise of the private sector, PPPs can support sustainable infrastructure development and stimulate economic growth.

VII. Industrial Sector

Kenya's industrial sector continued to demonstrate slight improvement in performance through government support, including the establishment of Special Economic Zones (SEZs) and Export Processing Zones (EPZs) to attract investments in 2024. In terms of performance, the Nairobi Metropolitan Area has been on the front line and a major contributor to the Industrial Real Estate Sector accounting for approximately 90.0% of the country's industrial space known for its high concentration of industrial projects in areas like Nairobi, Kiambu, Machakos and Kajiado; with Nairobi County holding the largest share at 66.0%, largely due to its status as the capital city. Kiambu follows, housing key industrial investments such as Tatu City, Nairobi Gate Industrial Park (NGIP), Tilisi, and Northlands City. Some notable activities that took place during FY' 2024 include Devki Group was officially handed a 500-acre parcel of land in Voi to construct a Kshs 11.0 bn steel plant. Additionally, President William Ruto launched the 2,000-acre Vipingo Free Trade Zone (VFTZ) in Kilifi County, a transformative project expected to create over 50,000 jobs over the next decade and is to be developed in partnership with Arise Integrated Industrial Platforms, the VFTZ will accommodate over 200 industries spanning across agriculture processing, logistics manufacturing and pharmaceuticals, among other sectors. Finally, Centum Investment Company Plc was granted a permit to operate a Special Economic Zone (SEZ) in Vipingo, Kilifi County covering 637.3 Ha of land and positions Kilifi as a leading hub for SEZs, with 10 out of the 39 approved nationwide located in the coastal region.

Data centers and cold rooms have also been the key drivers in the industrial sector in Kenya, especially around Nairobi. This is attributable to increase in business activities are around Nairobi creating a demand for these facilities. 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 2025, We maintain a NEUTRAL outlook for the industrial sector. Going forward, we expect the sector to continue on an upward trajectory driven by: i) the rising demand for data centers in the country, ii) an increasing demand for cold rooms, especially in the Nairobi Metropolitan Area, iii) demand for quality warehouses due to the growing e-commerce business in the country, iv) support from the government, as evidenced by the establishment of Special Economic Zones (SEZ) and Export Processing Zones (EPZ), v) increased development activities by industry players such as ALP Africa Logistics, vi) Kenya's continued recognition as a regional hub, hence attracting international investors, and, vii) efforts by the government to support agricultural and horticultural products in the international market. viii) 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. Real Estate Investments Trusts

a. REITS performamnce

On the Unquoted Securities Platform, Acorn D-REIT and I-REIT traded at Kshs 25.4 and Kshs 22.2 per unit, respectively, as per the last updated data on 31st October 2024. The performance represented a 27.0% and 11.0% gain for the D-REIT and I-REIT, respectively, from the Kshs s 20.0 inception price. The volumes traded for the D-REIT and I-REIT came in at Kshs s 12.3 mn and Kshs 31.6 mn shares, respectively, with a turnover of Kshs 311.5 mn and Kshs 702.7 mn, respectively, since inception in February 2021. Additionally, ILAM Fahari I-REIT traded at Kshs 11.0 per share as of 31st October 2024, representing a 45.0% loss from the Kshs 20.0 inception price. The volume traded to date came in at 138,600 shares for the I-REIT, with a turnover of Kshs 1.5 mn since inception in November 2015.

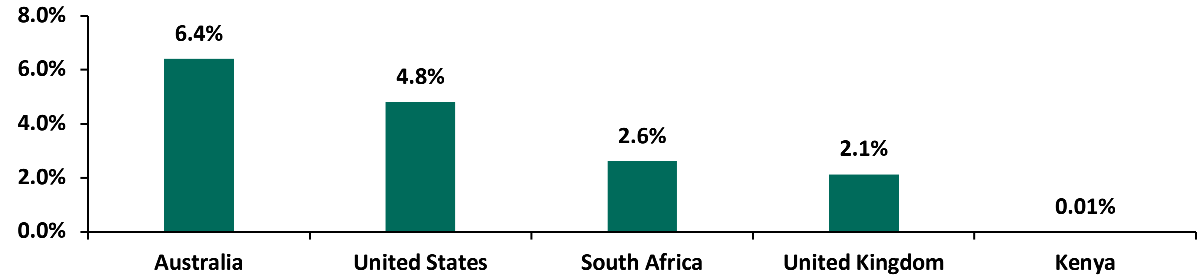
In 2025 we expect REITS to gain popularity as developers such as Future construkt being licenced as REIT managers by the Capital Market Authority. Centum Real Estate are looking forward to launch a dollar based Income REIT and we expect that the dollar based I-REIT will: i) increase foreign investments by boosting investors' confidence against local currency uncertainties, ,ii) dollar-denominated REITs provide an alternative for investors seeking more liquid and globally recognized investment options, iii) the dollar based move is likely to set a precedent for other players in the market, encouraging the development of more innovative and investor-centric financial products, and, iv) the fund could force policy regulatory framework improvement to ensure transparency and investments protection.

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 Kshs 100.0 mn for REIT trustees compared to Kshs 10.0 mn for pension funds Trustees, essentially limiting the licensed REIT Trustee to banks only,, and, iv) steep minimum subscription amounts or offer parcels set at Kshs 0.1 mn for D-REITs and Kshs 5.0 mn for restricted I-REITs.

However, 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. While there are supportive factors for the growth of REITs in Kenya, such as urbanization and government infrastructure projects, challenges like high interest rates and regulatory constraints may tamper performance. Stakeholders in the REIT sector are advised to monitor these dynamics closely and engage in strategic planning to navigate the evolving market landscape effectively.

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 2.6%, as shown below;

Cytonn Report: REIT Market Capitalization to GDP as at June 2024



Source: Cytonn Research

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 H1'2024 report.

We maintain Neutral outlook for the REITs sector and we expect Kenya's Real Estate sector to remain on a growth trend, supported by: i) demand for housing sustained by positive demographics, such as urbanization and population growth rates of 3.8% p.a and 2.0% p.a, respectively, against the global average of 1.7% p.a and 0.9% p.a, respectively, as at 2023, ii) activities by the government under the Affordable Housing Program (AHP) iii) heightened activities by private players in the residential sector. However, challenges such as rising construction costs, strain on infrastructure development (including drainage systems), high capital requirements for REITs, and existing oversupply in select Real Estate sectors will continue to hinder the sector's optimal performance by limiting developments and investments.

THE KEY AREAS OF OPPORTUNITIES BY THEME IN REAL ESTATE SECTOR

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

Cytonn Report: The Key Areas of Opportunities by Theme in Real Estate Sector			
Sector	**Themes**	**Locations**	**FY'2024 Performance**
Residential	**High End (Detached)**	**Lower Kabete and Rosslyn**	Relatively high annual returns averaging 6.0%, and 5.2%, respectively, compared to the high-end market's average of 4.9%, while the average rental yields stood at 4.9% and 5.2%, respectively, compared to the market average of 4.8% and price appreciations averaging 1.1% and 0.0%, respectively
	Upper Middle (Detached)	**South B/c and Loresho**	Relatively high annual returns averaging 6.3% for South B/C and 5.7% for Loresho, compared to the Upper-Middle market's average of 5.3%, with price appreciations of (0.1%) and 0.1%, respectively, compared to the market average capital appreciation of 0.3%
	Lower Middle (Detached)	**Kitengela and Ngong**	Relatively high annual returns for Kitengela and Ngong at 6.7% and 6.4% respectively, compared to the Lower-Middle market's average of 5.5% total returns to investors

	Upper Mid-End (Apartments)	**Westlands and Parklands**	Relatively high annual returns averaging 10.6% and 7.7%, respectively in comparison to the Upper Mid-End market's average of 7.1 % with relatively high rental yields averaging 6.3% and 6.2%, respectively, while price appreciation came in at 4.4% and 1.5%, respectively
	Lower Mid-End (Suburb Apartments)	**Kahawa west and Gagoretti**	Relatively high annual returns averaging 12.0% and 11.5%, respectively, compared to the market's average of 6.5% with relatively rental yields averaging 3.6% and 9.6%, respectively, while price appreciation came in at 8.3% and 1.9%, respectively
	Lower Mid-End (Satellite Apartments	**Ngong and Ruaka**	Relatively high annual returns averaging 9.3% and 8.3% respectively, compared to the Lower Mid-End market's average of 5.7% with relatively high rental yields averaging 6.2% and 5.1%, respectively, while price appreciation came in at 3.1% and 3.2% respectively
Commercial Office Sector	**Grade A Offices**	**Gigiri, Westlands and Kilimani**	They offered rental yields of 8.8%, 8.5% and 8.3%, compared to the market average of 7.8% 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**	**Karen, Kilimani and, Westlands**	Relatively higher returns of 10.0%, 9.8%, and 9.1% respectively, compared to the market average of 8.4%, 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**	The areas recorded average rental yields of 11.0%, 9.1%, and 8.8%, respectively, surpassing the market average of 7.3% in 2024. 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
Land Sector	**Unserviced Land**	**Juja, Utawala, Limuru**	The areas recorded annualized capital appreciations of 6.3%, 5.7% and 4.8% respectively compared to market average of 4.5%.
	Serviced Land	**Rongai,Athi-river and Ruai**	The areas recorded the highest annualized capital appreciations of 7.1%, 3.3% and 3.2% against an average of 3.2%.

Source: Cytonn Research