



Kilimani Real Estate Investment Opportunity 2017/2018

In 2017, we released a research note on Kilimani, the [Kilimani Investment Opportunity](#). According to the research note, Kilimani was an attractive area for real estate investment recording an average rental yields of 8.9%, with residential, offices and retail real estate themes recording average rental yields of 6.0%, 10.2%, and 10.5%, respectively. In line with this performance, on 28th September 2017, we launched [Cytonn Towers](#), an iconic Mixed-Use Development on a 4-acre land parcel in Kilimani, which will be built to embody world class standards in destination real estate and is expected to be Nairobi's premier business, retail, entertainment, hospitality and residential address when complete. Kilimani thus being a key focus area, we conducted a supplementary research in June 2018 to reaffirm market's performance and update the 2017 research note. We aim to identify any changes in the market from the time of our previous research, and to provide an actionable investment recommendation. In this research note we will focus on residential, commercial office and retail real estate themes. We will start with an overview of Kilimani, then cover the market performance before concluding with an overview of the investment opportunities in the area.

1. Overview of Kilimani

Kilimani is a prime residential and commercial area located approximately 4 Km West of Nairobi CBD. It prides itself in a rich mix of culture with residents of both local and foreign descent. This has made the area a home to a host of international schools such as the French, Japanese and Swedish Schools. In terms of real estate, Kilimani offers a unique blend of upper-mid income maisonettes, modern apartments and office blocks, which mainly house NGO's, embassies, both local and foreign Small and Medium Enterprises (SMEs), and is accentuated by major shopping centres like Yaya Centre, Prestige Plaza and Adams Arcade. Kilimani is well endowed with both infrastructure and amenities given its proximity to the CBD and is a high-density upper middle-income neighbourhood. The water supply and sewerage are from Nairobi Water and Sewerage Company (NAWASCO). The area is served by a number of main roads including: Argwings Kodhek Road, dual carriage Ngong Road, Ring Road Kilimani, Dennis Pritt Road and Lenana Road.

The main factors driving real estate investment in Kilimani are:

- 1. Proximity to CBD and other Business Nodes** – Kilimani is located just 4 Km from the CBD, 3 Km from Upperhill and 5 Km from Westlands making it accessible from these nodes and their environs hence attracting people working in these nodes, translating to demand for residential units and shopping malls. The proximity of Kilimani to the Nairobi CBD and Upperhill make it attractive to companies relocating from congestion in these nodes and thus increase demand for office space in Kilimani,
- 2. Good Infrastructure** –The area is connected to mains sewer, mains water and mains power, thus making it attractive to investors due to decreased cost of construction on infrastructure and allow for higher densities,
- 3. International Organisations** - The presence of the international organisations, NGO's and foreign embassies, such as International Committee of the Red Cross (ICRC), Care International, Plan International Kenya, among others, attracts foreigners who create a market for office space, shopping malls and hospitality sector, that is serviced apartments and hotels,
- 4. High Returns** – Real estate in Kilimani has relatively high returns recording an average rental yields of 9.1%, with residential apartments, office space and retail sector recording average rental yields of 5.8%, 9.6% and 11.9%, respectively, and a capital appreciation that has averaged 22.5% p.a over the last 6 years resulting in a total return of 31.5%. The high returns have made Kilimani an ideal place for investors seeking high returns on the real estate market.

2. Kilimani Market Performance

In June 2018, our market research focussed on;

1. **Plinth Area** - Research on the size of the units found in the market allows us to gauge the current offering, and put into consideration the home buyer's preferences for sizes of houses,
2. **Prices** - Research on prices will be used in comparison of our products against the market prices,
3. **Rental Rates** - Research on rental income allows us to inform potential investors on the current rental rates in other developments and also inform the investors on the prospective rental yield they can gain from investing in Kilimani,
4. **Annual Uptake** - This allows the investor to appreciate the rate at which available homes are sold over a specific period of time. This helps him/her gauge on whether it is profitable to invest in a given area.

The key themes covered are;

1. Residential Sector

Residential sector in Kilimani has recorded increased developments, mainly apartments, attributable to i) its zoning as zone 4 allowing for developments of high rise developments, relaxation of zoning regulations allowing for densification, ii) good infrastructure attracting investors, and iii) entry of international organisations hence attracting expatriates who prefer Kilimani area as it is secure and hosts high to mid end income earners. The sector has total returns of on average 11.2% with average rental yields of 5.8% and price appreciation of on average 5.4% p.a at an average annual uptake of 30.5% p.a.

The research findings were as follows;

All values in Kshs, unless stated otherwise

Performance Summary -Kilimani Apartments 2017/2018															
Unit	Unit Plinth Area (SM)	Price 2018 (mn)	Price Per SQM 2018	Rent 2018	Rent per SQM 2018	Annual Uptake	Rental Yield 2018	Annual Price App.	Total Return 2018	Price 2017 (mn)	Price per SQM 2017	Monthly Rent 2017	Rent per SQM (2017)	Rental Yield 2017	Y/Y Change in Rental Yield
1 Bed	82	10.9	134,798	46,667	590	35.5%	5.1%	5.9%	11.0%	11.3	133,220	50,000	593	5.5%	(0.4) %
2 Bed	115	15.6	134,946	77,778	681	29.5%	6.2%	5.3%	11.5%	15.4	131,735	80,714	702	6.5%	(0.3) %
3 Bed	199	23.7	119,555	118,941	604	26.6%	6.1%	5.0%	11.1%	23.7	118,069	116,429	578	6.0%	0.1%
Average			129,766		625	30.5%	5.8%	5.4%	11.2%		127,675		624	6.0%	(0.2) %
<ul style="list-style-type: none"> • With an average price per sqm of Kshs 129,766 and average rent per sqm of Kshs 625, apartments in Kilimani have an average rental yield of 5.8%, an average annual price appreciation of 5.4%, resulting in on average a total return of 11.2% p. a at 30.5% annual uptake • Apartments in Kilimani recorded 0.2% points decline in rental yields attributable to a faster increase in prices which grew by 1.6% Y/Y from Kshs 127,675 per SQM to Kshs 129,766 per SQM compared to a 0.1% Y/Y increase in rents which increased from Kshs 624 per SQM to 625 per SQM in H1'2018 • 2 bedrooms recorded the highest total returns of 11.5% due to higher rental charges of 681 per SQM which is 9.0% above market average, while 3 bedrooms recorded the least at 11.0% due to low price appreciation attributable to 3-bedroom price stability due to increased supply of 3-bedroom typology • 1-bedroom records lower rental yield compared to 2 and 3 bedrooms at 6.2% and 6.1% respectively, attributable to lower rental charges of Kshs 590 per SQM compared to 2 and 3 bedrooms at Kshs 681 and Kshs 604 per SQM respectively. The 1 bedroom attract lower rents due to low demand of the same as Kilimani area attract urban families looking for 2 to 3-bedroom apartments 															

Source: Cytonn Research June 2018

2. Commercial Properties

i. Commercial office sector

Kilimani is increasingly replacing Upperhill and Westlands as the business address of choice boosted by its proximity to CBD and an upper middle-income neighbourhood, improved infrastructure, lower land prices, relaxed zoning regulations and sufficient accommodation. In terms of performance, the area recorded a 0.5% points Y/Y decline in rental yields to 9.6% in H'1 2018 from 10.2% in H'1 2017. Going forward, we expect returns in the market to soften as result of the increase in supply with a notable building in the pipeline being Cytonn Tower.

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Kilimani Commercial Office Space Analysis 2017/2018									
Office Grade	Price per SQFT (Kshs) 2018	Rent per SQFT per Month (Kshs) 2018	Occupancy rate 2018	Rental Yield 2018	Rent Per SQFT Per Month (Kshs) 2017	Occupancy rate 2017	Rental Yields 2017	Y/Y Change in Occupancy	Y/Y Change in Rental Yield
Grade A	13,000	110	86.5%	10.2%	115	95.0%	11.4%	(8.5)%	(1.2)%
Grade B	12,764	97	89.1%	9.2%	97	89.1%	9.0%	0.0%	0.2%
Grade C	11,750	93	100.0%	9.4%					
Average	12,505	100	91.9%	9.6%	106	92.1%	10.2%	(4.3)%	(0.5)%
<ul style="list-style-type: none"> Commercial offices in Kilimani market recorded on average a rental yield of 9.6% at an average occupancy of 91.9% and rental charges of Kshs 100 per SQFT The commercial offices in Kilimani recorded 0.5% points Y/Y decline in rental yields, attributable to 4.3% decline in occupancy rates as a result of increase in office space supply in the market Grade A offices recorded the highest rental yields at 10.2% attributable to higher rental charges due to premium charged for amenities provided such as high-speed elevators and high parking ratios at 3: 1000 SQFT, compared to lack of inadequate parking slots, in other office classes 									

Source: Cytonn Research June 2018

ii. Retail sector

In H1' 2018, the retail sector in Kilimani recorded an average rental yield of 11.9%, which is a 1.4% points Y/Y increase from the 10.5% recorded in H1' 2017. The increase in rental yields is attributable to a 14.7% points Y/Y increase in occupancy rates. The increase in occupancy rates is mainly due to prudent methods employed by developers to attract clientele and enhance footfall. The retail sector generally outperformed other real estate sectors in Kilimani recording average rental yields of 11.9% as compared to office space and residential sectors which had average rental yields of 5.8% and 9.6%, respectively. The performance is attributable to the adoption of formal retail in the area, hence increased occupancy rates.

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Kilimani Commercial Retail Space Analysis 2017/2018									
Mall Classification	Mall Size (SQFT)	Rent per SQFT per Month (Kshs) 2018	Occupancy Rate 2018	Rental Yield June 2018	Rent Per SQFT Per Month (Kshs) 2017	Occupancy Rates 2017	Rental Yields 2017	Y/Y Change in Occupancy	Y/Y Change in Rental Yield

Community Mall	>125,001	206	99.2%	12.3%	195	86.7%	11.0%	12.5%	1.3%
Neighbourhood Mall	<125,000	197	95.9%	11.4%	190	79.0%	9.9%	16.9%	1.5%
Average		202	97.6%	11.9%	192	82.9%	10.5%	14.7%	1.4%
<ul style="list-style-type: none"> • With an average rent of Kshs 202 per SQFT per month, commercial malls in Kilimani record on average a rental yield of 11.9% at 97.6% occupancy rates • The retail sector in Kilimani recorded 1.4% points Y/Y increase in rental yield attributable to 14.7% points Y/Y increase in occupancy rates. The increase in occupancy rates is mainly due to prudent methods employed by developers to attract clientele and enhance footfall • Community malls outperform neighbourhood malls, recording a 12.3% rental yield, attributable to the higher rental charges due to a premium charged for amenities provided and higher footfall in the malls as a result of presence of international retailers mainly as the anchor tenants 									

Source: Cytonn Research June 2018

3. Research Summary

Based on the above analysis, Kilimani presents investment opportunities across the residential, office and retail space sector as shown below;

Kilimani Market Opportunity 2017/2018			
Theme	Market Performance	Investment Opportunity	Outlook
Residential Sector	Apartments in Kilimani recorded on average a rental yield of 5.8% in 2018, 0.2% lower than 6.0% in 2017 and a price appreciation of 5.4% at 30.5% annual uptake	Investment opportunity in the sector is mainly in 2-bedroom apartments, recording 11.5% total returns which is 0.3% points above market average at 11.2%	Positive
Commercial Office Sector	The commercial office theme in Kilimani recorded 0.5% points Y/Y decline in rental yields, from 10.2% in 2017 to 9.6% in 2018 attributable to a 4.3% decline in occupancy rates as a result of increase in office space supply in the market	Investment opportunity in the sector is in Grade A offices, recording an average rental yield of 10.2% above the market average at 9.6%	Neutral
Retail Space Sector	The retail sector in Kilimani recorded 1.4% points increase in rental yield y/y from 10.5% in 2017 to 11.9% in 2018, attributable to 14.7% points increase in occupancy rates y/y. The increase in occupancy rates is mainly due to prudent methods employed by developers to attract clientele and enhance footfall	Investment opportunity in the sector is in community malls, recording on average rental yields of 12.3% above the market average at 11.9%	Positive

Source: Cytonn Research June 2018

4. Conclusion

The Kilimani market performance remained relatively stable recording 0.2% points increase in rental yields from 8.9% to 9.1%. The increase was as a result of 1.4% points increase in rental yields in the retail sector, despite rental yields declines of 0.2% points and 0.5% points recording in apartments and commercial office



space. Despite the declines, the rental yields in Kilimani are still attractive, averaging at 5.8% for residential units, 9.6% for commercial office and 11.9% for retail. The attractive returns are attributable to continued demand for investment property from multinational corporations and the growing middle class. Over the last 6 years, land prices in Kilimani have grown with a CAGR of 22.5%, the average rental yield in the market is 9.1% translating to a total return of 31.5%. Kilimani is thus an attractive investment location with the opportunity for investment being in 2-bedroom units for residential, Grade A offices for commercial offices and community malls in the retail sector, which have attractive returns with average rental yields of 6.2%, 10.2% and 12.3% for 2 bed apartments, Grade A Offices and Community Malls, respectively, compared to market averages of 5.8%, 9.6% and 11.9% for residential, office and retail themes in Kilimani, respectively. For details on our project in Kilimani, see the link [Cytonn Towers](#)