

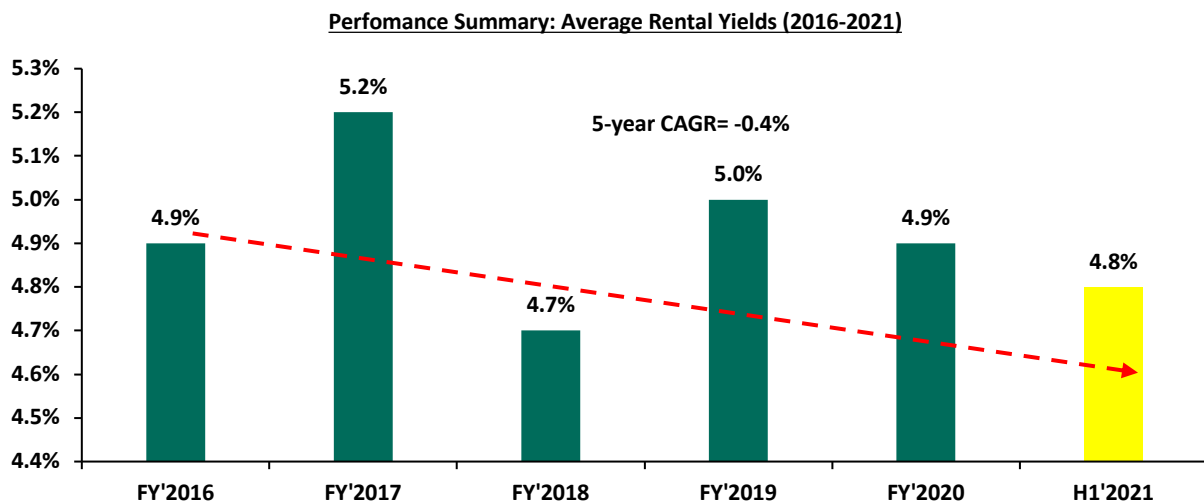
Residential Sector H1'2021 Markets Review Note

Ruiru, Syokimau, Redhill and Kitisuru top markets for detached units; and for apartments, the top markets were Waiyaki Way, Parklands and Ruaka.

During H1'2021, the residential sector recorded increased activities supported by; i) governments continued focus on affordable housing through a Kshs 8.2 bn budgetary allocation to the same, ii) accessibility of relatively affordable mortgage finance through Kenya Mortgage Refinance Company (KMRC), and select financial institutions, iii) continued activities in the student housing sector, and, iv) increased transaction volumes among buyers evidenced by general improvement in rents and prices.

In terms of performance, the sector recorded improved performance with average total returns registering a 0.8% points half-yearly increase to 5.5%, from 4.7% recorded in FY'2020. The average y/y price appreciation in the residential market came in at 0.6%, with prices in all segments registering appreciation apart from apartments in satellite towns which recorded a price correction of 0.8%, since more people opted to rent than to buy. The average rental yield registered a 0.2% points q/q increase to 4.8% in H1'2021 from 4.7% recorded in Q1'2021 attributable to economic improvement which saw asking rents record an uptick.

The graph below shows the performance summary of average rental yields in the last five years;



Source: Cytonn Research

A. Detached Units Performance

Detached units recorded an improvement in performance in H1'2021 compared to Q1'2021 with average total returns registering a 0.6% points q/q increase to 5.4% in H1'2021 from 4.8% recorded in Q1'2021, and a 1.2% points half-yearly increase from 4.2% recorded in FY'2020. Rental yields for detached units came in at an average of 4.2%, average y/y price appreciation at 1.1%, representing a 0.1% and 0.4% points q/q increase from 4.1% and 0.7% recorded in Q1'2021. The general improved performance of house prices and rents is attributable increased transactional volumes among buyers after holding on to cash following tough uncertain economic times at the onset of the pandemic.

Segment	Average of Rental Yield H1'2021	Average of Price Appreciation H1'2021	Average Total Returns H1'2021	Average of Rental Yield Q1'2021	Average of Price Appreciation Q1'2021	Average of Total Returns Q1'2021	q/q change in Rental Yield (% Points)	q/q change in Price Appreciation (% Points)	q/q change in Total Returns
---------	---------------------------------	---------------------------------------	-------------------------------	---------------------------------	---------------------------------------	----------------------------------	--	---	-----------------------------

									(% Points)
Detached Units									
High End	3.7%	1.1%	4.8%	3.6%	1.0%	4.6%	0.1%	0.1%	0.2%
Upper Mid-End	4.6%	1.2%	5.8%	4.5%	0.5%	5.0%	0.1%	0.7%	0.8%
Lower Mid-End	4.3%	1.1%	5.5%	4.1%	0.7%	4.8%	0.2%	0.4%	0.7%
Average	4.2%	1.1%	5.4%	4.1%	0.7%	4.8%	0.1%	0.4%	0.6%

Source: Cytonn Research 2021

The upper mid-end segment was the best performing segment with an average total return of 5.8% compared to the high-end and lower mid-end segments whose average total returns came in at 4.8% and 5.4%, respectively. Performance of the upper mid-end segment is attributed to the high rental yield of 4.6% and 1.2% y/y price appreciation. Overall, the best performing node was Ruiru with an average total return of 6.6% while Syokimau, Redhill and Kitisuru followed in closely with total returns all averaging at 6.5%. The performance of Ruiru is attributed to the relatively high rental yield of 5.0% compared to the detached market average of 4.2%. Runda recorded the lowest average total returns at 2.1% attributed to a 1.6% price correction.

(All Values in Kshs unless stated otherwise)

Detached Units Performance H1'2021								
Area	Average of Price per SQM H1'2021	Average of Rent per SQM H1'2021	Average of Occupancy H1'2021	Average of Uptake H1'2021	Average of Annual Uptake H1'2021	Average of Rental Yield H1'2021	Average of Price Appreciation H1'2021	Average Total Returns H1'2021
High-End								
Kitisuru	203,113	615	92.5%	90.3%	15.0%	3.8%	2.7%	6.5%
Rossllyn	179,040	744	85.9%	95.2%	12.1%	4.4%	1.1%	5.5%
Lower Kabete	154,600	434	81.3%	84.5%	16.0%	2.8%	2.5%	5.2%
Karen	190,730	730	82.8%	89.3%	14.4%	3.8%	0.8%	4.5%
Runda	237,567	756	90.5%	94.2%	10.4%	3.7%	(1.6%)	2.1%
Average	193,010	656	86.6%	90.7%	13.6%	3.7%	1.1%	4.8%
Upper Mid-End								
Redhill & Sigona	97,843	446	90.9%	90.9%	15.4%	5.2%	1.3%	6.5%
Ridgeways	152,100	775	84.5%	86.2%	13.4%	5.2%	1.2%	6.3%
Runda Mumwe	152,949	635	85.2%	80.1%	14.1%	4.3%	2.0%	6.3%
Loresho	148,543	673	87.8%	82.0%	10.7%	4.8%	1.5%	6.3%
South B/C	127,298	537	94.4%	88.7%	14.0%	4.8%	1.2%	6.0%
Langata	163,120	555	85.9%	92.9%	10.0%	3.9%	0.8%	4.8%
Lavington	158,686	647	86.1%	82.5%	12.9%	4.4%	0.3%	4.7%
Average	142,934	610	87.8%	86.2%	12.9%	4.6%	1.2%	5.8%
Lower Mid-End								
Ruiru	79,138	332	83.9%	83.5%	24.9%	5.0%	1.6%	6.6%

Syokimau/Mlolongo	75,406	367	75.7%	85.1%	16.8%	4.4%	2.1%	6.5%
Juja	64,500	328	79.6%	88.4%	14.9%	4.6%	1.0%	5.6%
Rongai	86,541	233	83.1%	75.9%	13.4%	2.9%	2.2%	5.1%
Kitengela	68,730	301	92.0%	88.6%	15.5%	4.7%	0.4%	5.1%
Ngong	58,982	283	84.5%	86.5%	12.7%	5.0%	(0.2%)	4.9%
Athi River	83,321	313	83.4%	94.1%	15.7%	3.8%	0.7%	4.4%
Average	73,803	308	83.2%	86.0%	16.3%	4.3%	1.1%	5.5%

Source: Cytonn Research 2021

B. Apartments Performance

Performance of apartments recorded improvement with total returns registering a 0.4% points half-yearly increase, coming in at 5.6% in H1'2021 from 5.2% in FY'2020 and a 0.3% points q/q increase from the 5.3% recorded in Q1'2021, with the average price appreciation and rental yield coming in at 0.1% and 5.4%, respectively. Compared to Q1'2021, apartments recorded a 0.2% points q/q increase in rental yields coming in at 5.4% in H1'2021 while price appreciation remained flat at 0.1% in the same period.

Segment	Average of Rental Yield H1'2021	Average of Y/Y Price Appreciation H1'2021	Total Returns H1'2021	Average of Rental Yield Q1'2021	Average of Y/Y Price Appreciation Q1'2021	Average of Total Returns Q1'2021	q/q change in Rental Yields (% Points)	q/q change in Price Appreciation (% Points)	q/q change in Total Returns (% Points)
Upper Mid-End	5.3%	0.3%	5.7%	5.2%	0.1%	5.3%	0.1%	0.2%	0.4%
Lower Mid-End	5.3%	0.9%	6.2%	5.0%	0.2%	5.2%	0.3%	0.7%	1.0%
Satellite Towns	5.6%	(0.8%)	4.8%	5.4%	0.1%	5.5%	0.2%	(0.9%)	(0.7%)
Average	5.4%	0.1%	5.6%	5.2%	0.1%	5.3%	0.2%	0.0%	0.2%

Source: Cytonn Research 2021

Apartments in the lower mid-end suburbs registered the highest average total return at 6.2% compared to upper mid-end and lower mid-end satellite towns with average total returns coming in at 5.7% and 4.8%, respectively. The lower mid-end suburbs performance is attributable to a high demand for rental units hence a relatively high rental yield of 5.3%, and a 0.9% y/y price appreciation compared to apartments market average of 0.1% as investors sought to capitalize on the residential space demand in these areas by the growing middle class. Waiyaki Way was the best performing node, registering the highest returns at 8.1% attributable to continued demand evidenced by the relatively high average rental yield which came in at 5.6% and y/y price appreciation at 2.5%. Parklands and Ruaka followed in second and third positions respectively, with average total returns of 7.6% and 7.5%, respectively. The least performing node was Rongai with an average total return of 2.4% attributed to a price correction of 3.9% following reduced demand from buyers forcing sellers to revise their prices downwards.

<i>(All values in Kshs unless stated otherwise)</i>								
Apartments Performance H1'2021								
Area	Average of Price Per SQM H1'2021	Average of Rent per SQM H1'2021	Average of Occupancy H1'2021	Average of Uptake H1'2021	Average of Annual Uptake H1'2021	Average of Rental Yield H1'2021	Average of Y/Y Price Appreciation H1'2021	Total Returns H1'2021
Upper Mid-End								

Parklands	117,472	689	84.8%	83.2%	14.7%	5.6%	2.0%	7.6%
Westlands	144,289	757	80.6%	77.3%	17.7%	4.9%	2.0%	6.9%
Kilimani	103,745	577	87.6%	90.0%	23.0%	5.9%	(0.2%)	5.7%
Upperhill	139,414	883	80.3%	79.0%	10.1%	5.3%	0.4%	5.7%
Kileleshwa	121,559	646	86.4%	83.9%	16.3%	5.4%	(0.6%)	4.7%
Loresho	120,877	552	89.4%	85.3%	10.0%	4.9%	(1.6%)	3.3%
Average	124,559	684	84.9%	83.1%	15.3%	5.3%	0.3%	5.7%
Lower Mid-End: Suburbs								
Waiyaki Way	87,563	520	78.8%	77.9%	21.7%	5.6%	2.5%	8.1%
Dagoretti	87,565	514	86.7%	89.7%	17.4%	6.3%	1.1%	7.4%
South C	113,751	598	86.3%	64.1%	14.1%	5.9%	1.2%	7.1%
Kahawa West	74,871	350	78.2%	87.0%	10.6%	5.0%	1.7%	6.7%
Donholm & Komarock	80,520	399	85.2%	87.8%	13.3%	5.3%	1.1%	6.4%
South B	104,973	445	74.3%	84.9%	17.5%	4.0%	2.3%	6.3%
Race Course/Lenana	102,973	622	79.3%	82.3%	22.0%	5.8%	(0.3%)	5.5%
Imara Daima	83,040	406	83.9%	83.1%	13.0%	5.2%	(0.1%)	5.0%
Langata	125,241	545	88.2%	82.2%	14.2%	4.7%	(1.3%)	3.4%
Average	95,611	489	82.3%	82.1%	16.0%	5.3%	0.9%	6.2%
Lower Mid-End: Satellite Towns								
Ruaka	105,633	514	63.7%	76.0%	19.0%	5.5%	2.0%	7.5%
Kikuyu	80,766	529	79.6%	79.4%	17.6%	6.4%	0.3%	6.7%
Thindigua	108,551	537	79.3%	79.4%	12.8%	4.9%	1.2%	6.0%
Syokimau	67,967	345	79.0%	77.6%	12.0%	5.2%	(2.2%)	6.0%
Ngong	58,015	306	81.4%	72.3%	11.8%	5.3%	0.7%	5.9%
Kitengela	59,488	284	90.0%	82.8%	10.0%	5.1%	(2.8%)	5.5%
Athi River	59,145	290	97.2%	96.9%	12.6%	5.7%	(1.2%)	4.5%
Ruiru	86,904	528	86.4%	85.8%	23.8%	6.1%	(1.8%)	4.3%
Rongai	68,982	363	87.3%	94.2%	28.6%	6.3%	(3.9%)	2.4%
Average	77,272	411	82.7%	82.7%	16.5%	5.6%	(0.9%)	4.7%

Source: Cytonn Research 2021

Our outlook for the residential sector remains **NEUTRAL** as we expect the sector to record increased activities following focus on affordable housing, efforts by the government to avail relatively cheaper mortgage facilities to encourage home ownership, and anticipated increase in the number of building approvals complemented by the Kshs 30.0 mn Nairobi County e-Development Permit System upgrade expected to be done by June 2022, aiming to offer faster and efficient construction approvals in Nairobi. However, the sector's performance continues to be weighed down by factors such as i) low mortgage uptake, ii) sluggishness in the delivery of government affordable houses, and, iii) reduced disposable income amongst Kenyans in the midst of tough economic times. Investment opportunity lies for detached units' lies in Ruiru followed closely by Syokimau, Redhill and Kitisuru and for apartments, the top markets were Waiyaki Way, Parklands and Ruaka which posted highest returns.

For more information, see our [Cytonn H1'2021 Markets Review](#).