



## **RIDGEWAYS INVESTMENT OPPORTUNITY**

In our [Cytonn Weekly #15/ 2017](#) we covered buying real estate off plan in terms of process, pros and cons and how to vet a real estate developer before purchasing property from one off-plan. Among other factors, we noted that the developer should have a track record and periodically provide updates on the progress of the development and research guiding the project. In line with that, this week we release research notes for the various suburbs in which we have our developments that is Kilimani, Karen, Ruaka and Ridgeways. Next week we will cover the other areas that is Westlands, Ruiru and Athi River. In this note, we will focus on Ridgeways where our comprehensive mixed use development, [The Ridge](#) is located. We will start with a brief introduction of Ridgeways, the factors making it attractive for real estate development, the challenges facing real estate development, the performance of residential units in the area before concluding with an investment recommendation.

### **Ridgeways Market Research**

#### **Overview**

Ridgeways is an upper middle income estate located along Kiambu Road, on the outskirts of Nairobi, 10.8km from the CBD. Ridgeways neighbors Runda, Muthaiga, Garden Estate and Thindigua. The area has a serene environment with beautiful views as it is surrounded by the Karura Forest. Ridgeways is primarily a low-density residential area, however due to relaxation of the zoning regulations apartments are being developed in some areas especially along the Northern Bypass near Thindigua.

The area houses Diplomats, Government Ministers, MPs, heads of parastatals and corporate directors, mainly due to its proximity to Gigiri, an area that hosts the United States Embassy and the UN Complex.

It is served by Kiambu Road and the Northern Bypass that links it to Limuru Road and the Thika Superhighway. Water in Ridgeways is supplied by Runda Water and Sewerage Company as well as from the Nairobi Water and Sewerage Company. The Residents mainly rely on septic tanks to take care of their waste and waste water. Mains electricity and mobile phone service are readily available in the area.

#### **Amenities:**

- i. **Hospitals:** Ridgeways is served by the Aga Khan hospital located in the heart of the area
- ii. **Schools:** Ridgeways is home to the Ridgeways Academy, next to Paa Ya Paa Arts center, the Nairobi Pentecostal Bible College and Braeburn College, which is closer to Garden Estate
- iii. **Recreational Amenities:** Ridgeways is home to a number of recreational facilities including: The Windsor Golf and Country Clubs, the Walkabout Pub, Ridgeville, The Amazon Hotel and the Paa ya Paa arts center for art lovers. Shopping malls in the area include Ciata City, Ridgeways Mall and Milestone Business Centre.
- iv. **Places of Worship:** Though there are no mosques and temples in sight, there are a few churches in Ridgeways like the Ridgeways Baptist Church located on Church Lane off Ridgeways/Windsor Hotel Rd

#### **Factors boosting real estate development in Ridgeways:**

- i. **High Security:** The area is serviced by the Muthaiga Police Station. There are also barriers on major road entrances into the area's estates which are in fenced and gated homes. The area is certified by the United Nations as a Blue Zone
- ii. **Proximity to the Nairobi CBD:** Ridgeways is located approximately 10.8km from the Nairobi CBD hence easily accessible

- iii. **Planning and Zoning Regulations:** Despite Ridgeways area being primarily a low-density residential area, apartments are coming up in areas past the Northern Bypass near Thindigua where zoning regulations have been relaxed

### **Challenges**

- i. Traffic congestion along the Kiambu Road, Ridgeways is accessible via the Kiambu Road that links the area to Muthaiga. The area, from time to time suffers traffic congestion thus crippling transport in the area. Plans are however underway by government to dual Kiambu Road to ease up traffic flow.
- ii. High land prices- The area has relatively high land prices at an average of Kshs 78,000,000 mn per acre. This thus makes land relatively expensive to develop

### **Market Performance**

In evaluating Ridgeways Market performance, we will look at the following key metrics:

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 the products in the market over a given time period and allow us to demonstrate capital appreciation
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 rental yield they can gain from buying apartments in Ridgeways
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 or her gauge on whether it is profitable to invest in a given area.

The findings were as follows:

(all values in Kshs unless stated otherwise)

2 Bedroom Units Ridgeways Performance Summary												
Samples	Unit Plinth Area (SQM)	Initial Price	Price 2017	Price per SQM (2017)	Rent 2017	No of Units	Sales Achieved	Annual Sales (%)	Annual Units Sold	Rental Yield	Price Appreciation	Total Return
Greenview Apartments-NORMAL	78	6.0m	6.0m	76,923	40,000	20				8.0%	0.0%	8.0%
Serene Court Apartments	102	7.7m	7.8m	76,471	40,000	40	25.0%			6.2%	1.3%	7.5%
Runda Royal Apartments	90	9.0m	9.5m	105,556	60,000	60	70.0%	28.0%	17.0	7.6%	5.6%	13.1%
Classix @ Fourways	56	5.9m	6.5m	115,893	40,000	42	54.8%	54.8%	23.0	7.4%	10.0%	17.4%
Classix @ Fourways	68	7.2m	7.9m	116,471	40,000	42	61.9%	61.9%	26.0	6.1%	10.0%	16.1%
Fourways Junction Phase2- Daisy	73	9.9m	10.9m	149,178	50,000	40	100.0%	20.0%	8.0	5.5%	10.0%	15.5%
Fourways Junction Phase2- Daisy	80	11.4m	12.5m	156,750	50,000	104	83.0%	17.0%	18.0	4.8%	10.0%	14.8%
Greenview Apartments-DUPLEX	85				35,000	4	96.0%	48.0%	2.0			
<b>Average</b>	<b>79</b>	<b>8.2m</b>	<b>8.7m</b>	<b>113,892</b>	<b>44,375</b>		<b>70.1%</b>	<b>38.3%</b>	<b>16.0</b>	<b>6.5%</b>	<b>6.7%</b>	<b>13.2%</b>
<b>High</b>	<b>102</b>	<b>11.4m</b>	<b>12.5m</b>	<b>156,750</b>	<b>60,000</b>		<b>100.0%</b>	<b>61.9%</b>		<b>8.0%</b>	<b>10.0%</b>	<b>17.4%</b>

Two bedroom units in Ridgeways have an average size of 79 SQM and an average price of Kshs 8.7mn. There is high demand for two bedroom units evidenced by the high annualized uptake of 38.3%. Two bedroom units also have high returns with average rental yields of 6.5% against a market average of 5.6% and a total return of 13.2%. In 2017, the price in the market appreciated by 6.7% higher than the market average of 3.8%.

Source: Cytonn Research 2017

(all values in Kshs unless stated otherwise)

3 Bedroom Units Ridgeways Performance Summary													
Samples	Unit Plinth Area (SM)	Initial Price	Price 2017	Price per SM (2017)	Rent		No. of Units Achieved	Sales	Annual Sales (%)	Annual Units Sold	Rental Yield	Price Appreciation	Total Return
					Rent 2017	per SM (2017)							
Thindigua Heights Phase 2	120		9.4m	78,333	60,000	500	34	88.0%	44.0%	15.0	7.7%	5.2%	12.8%
Serene court apartments	120	9.0m	9.8m	81,667	50,000	417	24	54.2%			6.1%	9.5%	15.6%
Classix @ Fourways-Master Ensuite	84	8.6m	9.4m	111,964	60,000	714	68	57.4%	57.4%	39.0	7.7%	9.9%	17.6%
Fourways Junction Phase2- Tulip	108	13.0m	14.3m	132,407	60,000	556	31	100.0%	20.0%	6.0	5.0%	10.0%	15.0%
Fourways Junction Phase2- Tulip	120	14.6m	16.1m	133,833	65,000	542	60	95.0%	19.0%	11.0	4.9%	10.0%	14.9%
Fourways Junction Phase2- Tulip	148	16.0m	17.6m	118,919	90,000	608	38	87.0%	17.4%	7.0	6.1%	10.0%	16.1%
<b>Average</b>	<b>117</b>	<b>12.2m</b>	<b>12.8m</b>	<b>109,521</b>	<b>64,167</b>	<b>556</b>		<b>80.3%</b>	<b>31.6%</b>	<b>16.0</b>	<b>6.3%</b>	<b>9.1%</b>	<b>15.3%</b>
<b>High</b>	<b>148</b>	<b>16.0m</b>	<b>17.6m</b>	<b>133,833</b>	<b>90,000</b>	<b>714</b>		<b>100.0%</b>	<b>57.4%</b>	<b>39.0</b>	<b>7.7%</b>	<b>10.0%</b>	<b>17.6%</b>

The current selling price of a 3-bedroom apartment ranges from Kshs 9.0mn to Kshs 17.6 mn with an average of price of Kshs 12.8mn. The rental yield for a 3-bedroom apartment is 6.3% with rents averaging at Kshs 64,167 per month. Three bedroom units outperform two bedroom units generating total returns to investor of 15.3% compared to 13.2% for three bedroom units. This can be attributed to the fact that the area attracts mostly families and is an upper middle income neighborhood and thus the clients prefer bigger houses. Investors can achieve high returns with rental yields of 7.7%, price appreciation of 10.0% p.a and a total annual return of 17.6%

Source: Cytonn Research 2017

### Performance Summary Ridgeways

(all values in Kshs unless stated otherwise)

Performance Summary Ridgeways 2017								
Typology	Unit Plinth (SQM)	Price 2017	Rent 2017	Price per SQM 2017	Annualized Sales	Rental Yield	Price Appreciation	Total Return
2 Bedroom	79	8.7m	44,375	113,892	38.3%	6.5%	6.7%	<b>13.2%</b>
3 Bedroom	117	12.8m	64,167	109,521	31.6%	6.3%	9.1%	<b>15.3%</b>
<b>Average</b>				<b>111,707</b>	<b>35.0%</b>	<b>6.4%</b>	<b>7.9%</b>	<b>14.3%</b>
<b>High</b>				<b>156,750</b>	<b>61.9%</b>	<b>8.0%</b>	<b>10.0%</b>	<b>17.6%</b>
<i>Ridgeways outperforms the market in both rental yields and price appreciation recording average rental yields of 6.4% against a market average of 5.6% and price appreciation of 7.9% against a market average of 3.8% in 2017. This is attributable to high demand due to its prime location close to Runda and Muthaiga areas. The area attracts ex-patriates working at the UN and other agencies in Gigiri and Runda. It still has few developments compared to markets such as Kilimani and Westlands hence less competition between developers</i>								

**Source: Cytonn Research 2017**

### Recommendation:

Ridgeways still offers attractive returns in the real estate sector out performing both the market and other upper middle income suburbs such as Westlands and Kilimani. This is attributable largely to the low supply of units in the area given that it was largely a low density residential area until recently. The market also has high demand as a result of its proximity to high end neighborhoods such as Gigiri and Runda the former which hosts the UN and the American Embassy further fueling demand for residential units in the area. Both 3 and 2 bedroom apartments are viable investments in this market as both attract high returns with rental yields of more than 6.0% and a total possible annual return of 17.6%. The units are in high demand evidenced by the more than 30% annualized sales uptake in both typologies with developments recording upto 61.9% annual sales uptake. For more on our development in Ridgeways see the link [The Ridge](#).