



## **RIDGEWAYS REAL ESTATE INVESTMENT OPPORTUNITY 2017/2018**

In May 2017, we broke ground on [The Ridge](#), a comprehensive mixed use development comprising of 1 Bed, 2 Bed, 3 Bed apartment units and penthouses, sitting on a 10 acre land parcel in Ridgeways along Kiambu Road. In line with good market practice, we update the research biannually to gauge performance, and advise our investors on the performance and the investment opportunity in the area. To this end, in January 2018, we released the [Ridgeways Investments Opportunity](#), in which we highlighted the performance of the real estate market in Ridgeways in H1' 2017. According to the research note, Ridgeways offered investors an attractive investment opportunity, with average rental yields of 6.4%, capital appreciation of 7.9% and a total return of 14.3%. This week, we update the note with findings from research conducted in the first half of 2018. We will begin with an overview of Ridgeways, the factors making it attractive for real estate development, the performance of the real estate market in Ridgeways in the first half of 2018 compared it to performance in H1' 2017, and conclude with an outlook and an investment recommendation for the area.

### **Ridgeways Market Research**

#### **Overview**

Ridgeways is located along Kiambu Road, on the outskirts of Nairobi, approximately 10.8 km from CBD. The area is accessible through Kiambu Road off Thika Superhighway and The Northern Bypass, and enjoys availability of water, main sewer connections and electricity. Ridgeways has a serene environment with beautiful views and neighbors; Muthaiga, Thindigua, Rosslyn and Runda. Ridgeways is predominantly an upper middle-income estate and a low density residential area but given the relaxation of zoning regulations, apartments are being constructed along the Northern Bypass. Moreover, Ridgeway has close proximity to Gigiri, which harbors UN offices, hence the area hosts diplomats, heads of parastatals and corporate directors.

#### **Amenities:**

Some of the amenities found in the area include;

- i. **Hospitals:** Ridgeways is served by the Aga Khan Hospital located in the heart of the area,
- ii. **Schools:** In terms of education the area houses Ridgeways Academy and the Nairobi Pentecostal Bible College,
- iii. **Recreational Amenities:** With facilities such as The Windsor Golf and Country Club, the Walkabout Pub, Ridgeville, The Amazon Hotel and the Paa ya Paa Arts Center for art lovers, Ridgeways has created an ideal environment for residents seeking luxury, convenience and exclusivity.

#### **Factors Boosting Real Estate Development in Ridgeways:**

Some of the factors that have made Ridgeways an attractive zone for real estate development include:

- i. **High Security:** The area is certified by United Nations as a Blue Zone and is serviced by Runda and Gigiri Police station approximately 2 km and 9 km away, respectively,
- ii. **Proximity to the Nairobi CBD:** Ridgeways is located approximately 10.8 km from the Nairobi CBD, and is easily accessible through Kiambu Road hence attracting potential home buyers to the area,



- iii. **Planning and Zoning Regulations:** Despite Ridgeways being a predominantly low- density residential area, apartments are being constructed following the relaxation of zoning regulations past the Northern Bypass near Thindigua.

### **Challenges**

Some of the challenges facing real estate investments in Ridgeways include:

- I. **High Land Prices-** Ridgeways has relatively high land prices of on average Kshs 68mn per acre compared to other high end areas such as Karen with an average price per acre of Kshs 52mn, according to [Cytonn Metropolitan Land Report 2018](#) making it more expensive to develop in the area ,
- II. **Traffic Congestion:** The area is accessible through Kiambu Road which is known for traffic congestion during rush hours hence making unattractive to potential home buyers in the area, however, plans by the government to expand the road are underway.

### **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 to 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 houses 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,
- 5. **Rental Yield:** is a metric that indicates what an investor will generate annually if he rented the unit. A high rental yield shows that the investor will recoup his money faster,
- 6. **Capital Appreciation:** This is a metric that indicates the rate at which prices are increasing in the development or market. A high price appreciation shows that the prices of the development/ market are increasing quickly,
- 7. **Total Returns:** This is basically what the percentage of investment investor stands to gain from renting and selling the development. It is usually a summation of the rental yield and price appreciation.

The findings were as follows:

### **Real Estate Performance in Ridgeways H1’ 2018**

In H1’ 2018, Ridgeways had an average rental yield of 5.4%, an average price appreciation of 2.6% and a total return of 8.4%. This is a 3.3% points decline in total return y/y, from the 11.8% total return recorded in 2017. The decline is attributable to the extended electioneering period in 2017, with the effects spilling over into the first half of 2018 which led to a decrease in purchases as investors adopted a wait and see attitude. Apartments performed better than detached units, recording a total return of 9.4%, 2.9% points higher than the 6.5% of



detached units. This is attributed to the low price per SQM of Kshs. 130,617, 13.2% lower than the Kshs 312,500 per SQM for detached units making the apartments affordable and attractive for the market in the area. 3 bed apartments on the other hand, were the best performing typology with a total return of 9.8%, attributable to the fact that the area attracts mostly families that prefer bigger houses, hence the preference for 3 bed apartments over two bed apartments, but the consumers are price conscious hence prefer the more affordable 3 bed apartments over the 4 bed detached units which are 10.0% more expensive on per SQM basis. 4 Bed detached units were the worst performing typology with average total returns of 6.5%, attributable to the encroachment of apartments in and around the area, leading to decline in value for low rise houses as the area lost its appeal to high end buyers.

*The performance is as summarized below;*

*(All Values in Kshs Unless Stated Otherwise)*

Ridgeways Market Performance Summary H1' 2018															
Unit Type	Plinth Area (SM)	Price per SQM (2018) Kshs	Rent 2018 Kshs	Annual Sales 2018	Rental Yield 2018	Price App 2018	Total Return 2018	Price Per SQM 2017	Rent 2017	Rental Yield 2017	Price App 2017	Total Return 2017	Y/Y Δ Rental Yield	Y/Y Δ Price APP	Y/Y Δ Total Returns
2 BR - APTS	80	125,912	46,667	33.3%	5.3%	2.7%	8.9%	113,892	44,375	6.5%	6.7%	13.2%	(1.2%)	(4.0%)	(4.3%)
3 BR - APTS	120	135,322	66,250	27.6%	5.6%	3.9%	9.8%	109,521	64,167	6.3%	9.1%	15.3%	(0.7%)	(5.2%)	(5.5%)
<b>AVG - APTS</b>	<b>100</b>	<b>130,617</b>	<b>56,458</b>	<b>30.5%</b>	<b>5.4%</b>	<b>3.3%</b>	<b>9.4%</b>	<b>111,707</b>	<b>54,271</b>	<b>6.4%</b>	<b>7.9%</b>	<b>14.3%</b>	<b>(1.0%)</b>	<b>(4.6%)</b>	<b>(4.9%)</b>
4 BR - DET	382	150,422	312,500	20.8%	5.4%	1.1%	6.5%	187,084	325,000	5.1%	1.3%	6.8%	0.4%	(0.2%)	(0.3%)
<b>General Market Performance</b>															
<b>Grand AVG</b>	<b>194</b>	<b>137,219</b>	<b>141,806</b>	<b>27.3%</b>	<b>5.4%</b>	<b>2.6%</b>	<b>8.4%</b>	<b>136,832</b>	<b>144,514</b>	<b>6.0%</b>	<b>5.7%</b>	<b>11.8%</b>	<b>(0.5%)</b>	<b>(3.1%)</b>	<b>(3.3%)</b>
<ul style="list-style-type: none"> <li>• Apartments in Ridgeways have an average annual price appreciation of 3.3%, an average annual rental yield of 5.4%, resulting in on average a total return of 9.4% p. a. This is 2.9% points higher than the 6.5% of detached units. This is attributed to the low price per SQM of Kshs. 130,617, 13.2% lower than the Kshs 312,500 per SQM for detached units making the apartments affordable and attractive for the market in the area</li> <li>• 3 - Bedroom apartments, were the best performing typology in Ridgeways, with average rental yields of 5.6%, average price appreciation of 3.9% and a total return of 9.8% total return in H1' 2018. This is due to the fact that the area attracts mostly families that prefer bigger houses</li> <li>• 4 – Bedroom detached units were the worst performing typology with average rental yields of 5.4%, average price appreciation of 1.1%, and total returns of 6.5%. This is attributable to the encroachment of apartments in and around the area, leading to decline in value for low rise houses as the area lost its appeal to high end buyers</li> <li>• 2 - Bedroom Apartment units in Ridgeways attained the highest annual sales of 33.3% rental yield, price appreciation and total returns of 5.3%, 2.7% and 8.9% respectively attributable to their low price per SQM of Kshs. 125,912 which is 8.2% lower than the average price per SQM of the market at Kshs 137,219</li> </ul>															

Source: Cytonn Research 2018

## **Conclusion**

The market performance softened in H1' 2018, with total returns coming in at 8.4% in 2018 compared to 11.8% in H1' 2017, an overall decrease of 3.3% points. This is mainly attributed to the 3.1%-point decrease in price appreciation from 5.7% in H1' 2017 to 2.6% in H1' 2018 due to the decrease in purchases as investors adopted a wait and see attitude during the 2017 electioneering period that extended to first half of 2018. Apartment units offer the highest returns of 9.4% on average as opposed to detached units which have on average total returns of 6.5%. The opportunity in the market therefore lies in 2 - bedroom and 3-bedroom apartment units which exhibited attractive returns of on average as 10.8% and 11.1%, respectively. We expect the market to



record improved performance during this year, driven by; i) return of political calm, ii) economic recovery with the GDP coming in at 5.7% compared to 4.8% in 2017, and iii) sustained infrastructural development. For details of our project in Ridgeways, see the link [The Ridge](#).