



Research Note: Westlands Investment Opportunity

In Q1'2018, we released a research note on Westlands, titled the [Westlands Investment Opportunity](#). According to the research note, Westlands presented an attractive investment opportunity recording an average rental yield of 6.7%, with residential and serviced apartments real estate themes recording average rental yields of 6.1%, and 7.3%, respectively. In line with this performance, we are at the design stage and intending to launch, before the end of 2018, a serviced apartments development consisting of studio, 1 and 2-bedroom units in Westlands. Being a key focus area, we conducted a supplementary research in Westlands in July 2018 to reaffirm the market's performance and update the Q1'2018 research note consisting of 2017 market data. We aim to establish 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 and serviced apartments real estate themes. We will start with an overview of Westlands, then cover the market performance before concluding with a summary of the investment opportunities in the area.

1. Overview of Westlands

Westlands is located approximately 3.5 km North-west of Nairobi CBD and is accessible via Chiromo Road. The area is surrounded by upper middle-income neighbourhoods such as Parklands, Riverside, Kileleshwa and Spring Valley. Westlands was initially a residential area, but overtime with the relaxation of zoning regulations to Zone 4, allowing for high-density development of both residential and commercial properties, it has grown to be one of the key commercial nodes in Nairobi.

Westlands is well endowed with both infrastructure and amenities such as;

- **Roads:** The Chiromo Road connects Westlands to the CBD and to the Waiyaki Way, while Parklands and Masari Roads, connect it to Parklands. Other access roads and lanes in Westlands are tarmacked and in a good state of repair
- **Water and Sewer:** The area has mains sewer system and gets water supply from the Nairobi Water and Sewerage Company Ltd
- **Hospitals:** These include MP Shah Hospital, Westlands Cottage and the Mater Misericordiae Hospital - Westlands Medical Centre
- **Education Institutions:** There are several educational institutions including Consolata School, Nairobi School and White Cottage Primary School
- **Shopping Malls:** These include malls such as Sarit Centre, Westgate Mall and The Mall

The key drivers of the real estate sector in Westlands are;

- i. **It's positioning as a key commercial node** – Westlands has transformed over time to a major commercial office node in Nairobi hosting high quality Grade A office space, and with a market share of 17.5% of the total office stock in Nairobi making it the third largest commercial office node after Nairobi CBD and Upperhill with 18.0% and 17.9% market shares, respectively. The office space supply has attracted multinationals such as Avic International, Google Africa and PricewaterhouseCoopers and fuelled demand for retail space, residential units, serviced apartments and hotel accommodation from the users and their liaisons,



- ii. **Proximity to CBD and other Business Nodes** – Westlands is located 3.5 Km from the CBD, 2.7 Km from Riverside and 5.0 Km from Kilimani making it accessible from these nodes and their environs hence attracting people working in these nodes, translating to demand for residential units, shopping malls, hotels and serviced apartments,
- iii. **Good Infrastructure** –The area is connected to mains sewer, mains water and mains power, thus making it attractive to investors as they are able to save on costs of construction on infrastructure and allow for higher densities,
- iv. **International Organisations:** Attracted by accessibility, social amenities and security, many multinationals have chosen Westlands as their headquarters. These include firms such as Atelier International Architects, PricewaterhouseCoopers and Techno Brain Group. In addition, it is classified as one of the areas within the UN Blue Zone making it among the areas expatriates prefer to stay. This has boosted development of commercial offices, residential units, serviced apartments and Hotels in Westlands as developers seek to satisfy the demand for these units by the staff and expatriates working in these multinationals,
- v. **High Returns** – Real estate in Westlands has relatively high returns with average rental yields of 6.5% with residential apartments and serviced apartments recording average rental yields of 6.3% and 6.6%, respectively, and a capital appreciation that has averaged 21.1% p.a over the last 6 years resulting in a total return of 27.6%. It is thus an ideal place for investors seeking high returns in real estate. We have thus witnessed the establishment of developments such as Le'Mac Towers by Mark Properties Ltd, The Avic Towers by Avic International Corporation and One Africa by Palazzo Limited.

2. Westlands Real Estate 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 buyers' 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 Westlands,
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;

A. Residential Sector

Residential sector in Westlands is dominated by high rise apartments due its zoning as zone 4 allowing for high rise developments. The residential sector is mainly driven by good infrastructure attracting investors, social amenities in the area and entry of international organisations hence attracting expatriates who prefer Westlands area as it is secure and hosts high to mid end income earners. The sector has average total returns of 8.5% with average rental yields of 6.3% and price appreciation averaging at 2.2% p.a at an average annual uptake of 26.2% p.a.

The research findings were as follows;

All values in Kshs, unless stated otherwise

Performance Summary -Westlands Apartments - H1'2018																
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	Rent 2017	Rent per SQM 2017	Rental Yield 2017	H1' 2018 Change in Rental Yield	
1 Bed	82	10.8	127,702	65,000	771	28.4%	6.7%									
2 Bed	150	22.0	148,117	134,000	858	25.3%	6.7%	1.9%	8.6%	21.9	147,166	134,000	858	6.1%	0.6%	
3 Bed	211	29.4	143,713	145,455	686	27.1%	6.2%	3.2%	9.4%	28.5	139,213	150,000	705	6.3%	(0.1%)	
4 Bed	267	37.8	141,482	168,000	639	24.2%	5.4%	1.5%	6.9%	37.3	139,442	185,714	699	6.0%	(0.6%)	
Average			140,253		738	26.2%	6.3%	2.2%	8.3%		141,940		754	6.1%	0.0%	
Average without 1 bedroom							6.1%	2.2%	8.3%		141,940		754	6.1%	0.0%	
<ul style="list-style-type: none"> With an average price per sqm of Kshs 140,253 and average rent per sqm of Kshs 738, apartments in Westlands have an average rental yield of 6.3%, an average annual price appreciation of 2.2%, resulting in an average total return of 8.5% p. a at 26.2% annual uptake The performance of apartments in Westlands remained relatively flat attributable to a 2.1% decline in rental charges from Kshs 754 per SQM in 2017 to Kshs 738 per SQM in H1'2018 and a low-price appreciation of 2.2% compared to the Nairobi market average of 2.8% attributable to high prices at Kshs 140,253 per SQM compared to estates such as Kilimani and Riverside where prices per SQM stood at Kshs 131,594 and 121,295, respectively in H1'2018 3 bedroom units recorded the highest total returns of 9.4% due to higher price appreciation at 3.2% compared to the Westlands market average of 2.2%, attributable to high uptake at 27.1% p.a by mid-income urban families, while 4 bedrooms recorded the lowest returns at 6.9% due to low price appreciation at 1.5% attributable to price stability as a result of relatively lower annual uptake at 24.2% compared to the market average at 26.2% 																

Source: Cytonn Research July 2018

B. Serviced Apartments Sector

Westlands has witnessed increased supply in serviced apartments, accounting for 40.3% of the total Nairobi market share. The increased supply is mainly driven by;

- i. **Entry of multinational organisations:** Many multinationals such as Atelier International Architects, PricewaterhouseCoopers and Techno Brain Group have chosen Westlands as their headquarters hence creating demand for housing units. This has therefore, boosted development of serviced apartments as developers seek to satisfy the demand for these units by the staff and expatriates working in these multinationals,



- ii. **Security:** Westlands is classified as one of the areas within the UN Blue Zone making it among the areas expatriates prefer to stay, hence increased demand for serviced apartments,
- iii. **It's positioning as a High-end residential node:** Westlands is one of the high ends residential nodes in Nairobi and has vast supply of social amenities such as neighbourhood malls and good infrastructure hence attracting expatriates working in neighbourhood nodes such as Nairobi CBD and parklands, thus translating to increased demand for serviced apartments.

In terms of performance, serviced apartments in Westlands recorded 0.8% points decline in average rental yields to 6.6% at an occupancy rate of 77.1% from 7.3% rental yield and 78.1% occupancy rate in 2017.

The research findings were as follows;

All values in Kshs, unless stated otherwise

Performance Summary -Westlands Serviced Apartments - H1'2018															
Unit Typology	Size in SQM 2018	Daily Charge 2018	Weekly Charge 2018	Monthly Charge 2018	Monthly per SQM 2018	Devt Cost per SQM	Rental Yield at 40% Operation 2018	Daily Charge 2017	Weekly Charge 2017	Monthly Charge 2017	Monthly per SQM 2017	Devt Cost per SQM	Rental Yield at 40% Operation 2017	H1'2018 Change in Rental Yield	
Studio	31	9,857	65,000	135,375	4,336	209,092	14.9%	9,400	75,000	155,005	4,965	209,092	17.1%	(2.2%)	
1 Bed	78	13,708	102,667	160,813	2,052	209,092	7.1%	13,108	97,525	174,742	2,229	209,092	7.7%	(0.6%)	
2 Bed	110	18,909	122,500	212,857	1,928	209,092	6.6%	18,972	136,362	217,323	1,969	209,092	6.8%	(0.1%)	
3 Bed	191	25,000	220,000	305,833	1,604	209,092	5.5%	22,136	191,229	345,250	1,811	209,092	6.2%	(0.7%)	
Average					2,480		8.5%				2,743		9.4%	(0.9%)	
Occupancy							77.1%						77.8%		
Rental Yield @ Occupancy							6.6%						7.3%	(0.8%)	
<ul style="list-style-type: none"> • The average sizes in Square Metres are 31, 78, 110 and 191 for studios, 1-bed, 2-bed and 3-bed units, respectively • Serviced apartments in Westlands recorded an average rental yield of 8.5% in H1'2018, which is 0.9% points decline from 9.4% in 2017, assuming 100% occupancy rates. This is attributable to 9.5% decline in monthly charges as a result of currency appreciation, with Kenyan Shilling gaining 2.7% year to date against the dollar • Serviced apartments in Westlands recorded an average occupancy rate of 77.1% in H1'2018, which is 0.7% points decline from 77.8% in 2017 indicating the market is still recovering from the prolonged 2017 electioneering period impact. This thus translates to 0.8% decline in rental yields at respective occupancy rates to 6.6% in H1'2018 from 7.3% in 2017 															
<i>*Rental charges are mainly quoted in dollars</i>															



Source: Cytonn Research July 2018

C. Market performance summary

All Values in Kshs, Unless Stated Otherwise

Westlands Performance Summary – H1'2018								
Themes	Occupancy 2018	Annual Uptake 2018	Price Appreciation 2018	Rental Yield 2018	Occupancy 2017	Annual Uptake 2017	Rental Yield 2017	H1'2018 Change in Rental Yield
Residential Apartments		27.5%	2.2%	6.3%		25.3%	6.1%	0.2%
Serviced Apartments	77.1%			6.6%	77.8%		7.3%	(0.7%)
Average	77.1%	27.5%	2.2%	6.5%	77.8%	25.3%	6.7%	(0.3%)
<ul style="list-style-type: none"> Westlands recorded an average rental yield of 6.5% in H1'2018, with serviced apartments outperforming the residential apartments at a rental yield of 6.6%. Overall, the market had a 0.3% decline in rental yield mainly attributable to the 0.7% decline in serviced apartments rental yield as a result of declined occupancy rates and monthly charges due to the Kenya Shillings' appreciation against dollar 								

Source: Cytonn Research July 2018

3. Conclusion

The Westlands market performance softened in H1'2018 recording 0.3% points decline in rental yield from 6.7% to 6.5%. The decrease was as a result of the 0.7% points decline in rental yields in the serviced apartments sector. Despite the drop, the rental yields in Westlands are still attractive, averaging at 6.3% for residential units, and 6.6% for serviced apartments attributable to continued demand for investment property from multinational corporations and the growing middle class. Over the last 6 years, land prices in Westlands have grown with a CAGR of 21.1%, the average rental yield in the market is 6.5% translating to a total return of 27.6%. Westlands is thus an attractive investment location with the opportunity for investment being in 1 and 2-bedroom units for residential, and studio serviced apartments, which have attractive returns with average rental yields of 6.7%, 6.7% and 14.9%, respectively, compared to market averages of 6.3% and 8.5% for residential and serviced apartments themes in Westlands, respectively. For details on our Real estate developments check our website Cytonn Real Estate