



## Research Note: Westlands Investment Opportunity

Cytonn investments has 10 investment ready projects and in line with our spirit of transparency we update our investors on the performance of the submarkets in which the projects are located on a biannual basis. Over the last six months, we have released research notes for [Karen](#), [Ruaka](#), [Kilimani](#), [Ruiru](#), [Ridgeways](#) and [Athi River](#) for projects [Amara Ridge](#) and [Situ Village](#) in Karen, [The Alma](#) and [Taraji Heights](#) in Ruaka, [Cytonn Towers](#) in Kilimani, [Riverrun Estates](#) in Ruiru, The [Ridge](#) in Ridgeways and [Newtown](#) in Athi River. This week we turn our focus to Westlands, where we are developing serviced apartments, consisting of studio, 1 and 2 bedrooms currently at design stage.

The research note focuses on residential and serviced apartments real estate themes. We will evaluate the performance of the market based on rental yields, price appreciation, total returns and annualized uptake. We will start with overview of Westlands, market performance and conclude by identifying the investment opportunity in the area.

### Overview of Westlands

Westlands is located approximately 5.9 km North-western 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, 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 the Waiyaki Way, with Parklands and Masari Roads, connecting it to Parklands
- **Water and Sewer:** The area is sewered 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:** Educational institutions like Consolata School, Nairobi School and White Cottage Primary School
- **Shopping Malls:** These include malls such as Sarit Centre, Westgate Mall and Ukay Centre

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

1. **Relaxation of Zoning Regulations** – Relaxation of zoning regulations has allowed for higher density developments to come up in the area. Availability of development land has also enabled development of high quality Grade A office space that has attracted multinationals such as Avic International, Google Africa and PricewaterhouseCoopers. Westlands has therefore transformed over time to a major commercial office node in Nairobi with a market share of 17.5% of the total office stock in Nairobi making it the third largest commercial office node. The office space supply has fuelled demand for both retail and residential units from the users,
2. **Proximity to CBD and Improved Infrastructure** - This makes Westlands easily accessible from CBD and other key nodes such as Lavington, Kilimani and their environs. The area is also connected to mains sewer, mains water and mains power. The above factors have thus opened up the area attracting key developers such as Avic international, both local and international companies have



established headquarter in Westlands including; Stanbic bank Kenya, Standard chartered bank and General Electric Africa

3. **International Organisations:** Attracted by accessibility, prime amenities and security, many multinationals have chosen Westlands as their headquarters. These include; such as Atelier International Architects, PricewaterhouseCoopers and Techno Brain Group. This has in turn 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,
4. **High Returns** – Real estate in Westlands has high returns with average rental yields of 7.6% and capital appreciation of 16.3% p.a, leading to a total return of 23.9% in 2017, against a market average of 14.5%. It is thus an ideal place for investors seeking high returns in real estate. We have thus witnessed developments such as Le’Mac Towers by Mark Properties Ltd, The Avic Towers by Avic International Corporation and One Africa by Palazzo Limited.

### Westlands Real Estate Market Performance

In January 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;

#### **1. Residential Sector**

The residential sector in Westlands is dominated by high rise apartments due to relaxation of zoning regulations and scarcity of development land, hence developers are maximising on space and returns. The residential sector is mainly driven by improved infrastructure, security, prime amenities in the area and the demand from the middle – high end income earners and expatriates in the area. The residential sector records average rental yields of 6.5% and a price appreciation of 3.4% p.a.

The research findings were as follows;

<i>All values in Kshs, unless stated otherwise</i>								
Westlands 2- Bedroom Units Performance Summary								
Development	Unit Plinth (SQM)	Current Price (Mn)	Price per (SQM)	Rent per Month	Annualize d Uptake	Price App.	Rental Yield	Total Return
One West Park	191	25.1	131,414	140,000	31.9%	3.7%	6.7%	10.4%
Skyview Garden	179	20.3	113,128	105,000	18.8%	4.0%	6.2%	10.2%
Brookside Terraces	158	28.0	177,215	110,000	25.0%	2.9%	4.7%	7.6%

Tree top Apartment	150	21.5	143,333	170,000	15.4%		9.5%	
Donyo Park	150	18.7	124,667	130,000	21.2%		8.3%	
<b>Average</b>	<b>166</b>	<b>22.7</b>	<b>137,951</b>	<b>131,000</b>	<b>22.4%</b>	<b>3.5%</b>	<b>7.1%</b>	<b>9.4%</b>
<b>High</b>	<b>191</b>	<b>28.0</b>	<b>177,215</b>	<b>170,000</b>	<b>31.9%</b>	<b>4.0%</b>	<b>9.5%</b>	<b>10.0%</b>
<b>Low</b>	<b>150</b>	<b>18.7</b>	<b>113,128</b>	<b>105,000</b>	<b>15.4%</b>	<b>2.9%</b>	<b>4.7%</b>	<b>7.6%</b>
<ul style="list-style-type: none"> <li>With an average price of Kshs 22.7mn and average rent of Kshs 131,000, 2-bedroom apartments generate an average total rental yield of 7.1% and price appreciation of 3.5%. However, an investor can achieve up to 9.5% rental yields and 4.0% price appreciation if the development is differentiated by providing ample amenities and quality interior finishes</li> <li>The 2-bedroom apartments record rental yield of 7.1% higher than estates such as Upper hill and Parklands at 5.8% and 5.6% respectively. This is mainly driven by provision of modern amenities, accessibility, security and improved infrastructure in the area compared to Upper hill that suffer from heavy traffic and parklands lacking key malls hence relying on Westlands market</li> <li>Brookside Terraces records the least rental yield as it rental charges are in line with market, however it charges higher selling price per SQM as they charge a premium for amenities provided such as a gym, swimming pool and quality interior finishes such as granite countertops among others</li> </ul>								

Source: Cytonn Research January 2018

*All values in Kshs, unless stated otherwise*

Westlands 3- Bedroom Units Performance Summary								
Development	Unit		Price Per (SQM)	Rent Per Month	Annualized Uptake	Price App.	Rental Yield	Total Return
	Plinth (SQM)	Current Price (Mn)						
Skyview Garden	215	26.3	122,093	135,000	21.9%	4.5%	6.2%	10.7%
One West Park	218	30.5	139,908	170,000	30.4%	3.5%	6.7%	10.2%
Lady in White	190	28.0	147,368	160,000	20.8%	2.9%	6.9%	9.7%
Victoria Heights	242	30.5	126,033	150,000	25.0%	3.1%	5.9%	9.0%
Capital M.	181	40.0	220,994	155,000	20.0%	4.0%	4.7%	8.6%
Brookside Terraces	232	30.0	129,310	130,000	25.0%	2.2%	5.2%	7.4%
Donyo Park	210	25.0	119,048	170,000	21.8%		8.2%	
Tree top Apartment	280	30.7	109,643	220,000	57.1%		8.6%	
<b>Average</b>	<b>222</b>	<b>30.8</b>	<b>141,213</b>	<b>161,667</b>	<b>27.3%</b>	<b>3.5%</b>	<b>6.4%</b>	<b>9.3%</b>
<b>High</b>	<b>242</b>	<b>40.0</b>	<b>220,994</b>	<b>220,000</b>	<b>57.1%</b>	<b>4.5%</b>	<b>8.6%</b>	<b>10.7%</b>
<b>Low</b>	<b>181</b>	<b>25.0</b>	<b>119,048</b>	<b>130,000</b>	<b>20.0%</b>	<b>2.2%</b>	<b>5.2%</b>	<b>7.4%</b>
<ul style="list-style-type: none"> <li>With an average price of Kshs. 30.8Mn and average rent of Kshs 161,667, 3-bedroom apartments generate an average rental yield of 6.4% and price appreciation of 3.5% p.a. However, an investor can achieve up to 8.6% rental yields and 4.5% price appreciation if the development is differentiated by providing quality finishes, amenities and in secure and accessible location</li> </ul>								

- Apartments in easily accessible areas and with prime amenities such as One West Park in Mpaka Road and Skyview Gardens in Church Road record higher returns with average total returns of 10.2% and 10.7% respectively, against Westlands market averages for residential units of 9.3%

Source: Cytonn Research January 2018

*All values in Kshs, Unless Stated Otherwise*

Westlands 4- Bedroom Units Performance Summary								
Development	Unit Plinth (SQM)	Current Price (Mn)	Price Per (SQM)	Rent Per Month	Annualized Uptake	Price App.	Rental Yield	Total Return
One West Park	256	35.4	138,281	190,000	33.3%	3.4%	6.4%	9.9%
Lady in White	253	33.0	130,435	190,000	18.8%	2.4%	6.9%	9.3%
Brookside Terraces	268	35.0	130,597	150,000	25.0%	3.9%	5.1%	9.1%
White Oak Apartments	325	45.0	138,462	200,000	15.0%	3.5%	5.3%	8.8%
Tree Top Apartments	260	50.0	192,308	250,000	39.3%		6.0%	
<b>Average</b>	<b>272</b>	<b>39.7</b>	<b>146,016</b>	<b>196,000</b>	<b>26.3%</b>	<b>3.3%</b>	<b>6.0%</b>	<b>9.3%</b>
<b>High</b>	<b>325</b>	<b>50.0</b>	<b>192,308</b>	<b>250,000</b>	<b>39.3%</b>	<b>3.9%</b>	<b>6.9%</b>	<b>9.9%</b>
<b>Low</b>	<b>253</b>	<b>33.0</b>	<b>130,435</b>	<b>150,000</b>	<b>15.0%</b>	<b>2.4%</b>	<b>5.1%</b>	<b>8.8%</b>

- With an average price of Kshs. 39.7mn and average rent of Kshs 196,000, 4-bedroom apartments generate an average rental yield of 6.0% and price appreciation of 3.3% p.a. However, an investor can achieve up to 6.9% rental yields and 3.9% price appreciation if the development is differentiated by providing quality finishes, amenities and in secure and accessible location
- The 4 bedrooms generally record a lower rental yield of 6.0% lower than the 2 and 3 bed typologies at 7.1% and 6.4%, respectively, attributable to low demand for rental units in the market leading to lower rental charges of 721 per SQM as compared to Westlands market average at 746 per SQM

Source: Cytonn Research January 2018

### Summary of Residential Analysis

*All Values in Kshs, Unless Stated Otherwise*

Residential Apartments in Westlands Performance Summary									
Unit	Plinth Area (SQM)	Average Price(Mn)	Monthly Rent Kshs	Price Per (SQM)	Rent Per (SQM)	Annual Uptake	Price App.	Rental Yield	Total Return
2 Bed	166	22.7	131,000	137,951	789	22.4%	3.5%	7.1%	9.4%
3 Bed	222	30.8	161,667	141,213	728	27.3%	3.5%	6.4%	9.3%
4 Bed	272	39.7	196,000	146,016	721	26.3%	3.3%	6.0%	9.3%
<b>Average</b>				<b>141,727</b>	<b>746</b>	<b>25.3%</b>	<b>3.4%</b>	<b>6.5%</b>	<b>9.3%</b>

- With an average price per SQM of Kshs. 141,727 and average rent per SQM of Kshs. 746, apartments in Westlands generate an average rental yield of 6.5% higher than the average rental yield in Nairobi at 5.6% attributable to prime location, amenities on offer, upper middle to high end clientele in the area. Developers are thus able to charge prime rents and consequently the high returns

Source: Cytonn Research January 2018

## 2. 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;

- Lower operating expenses as compared to hotels** – this is as serviced apartments have lower staff requirements and lower ancillary costs for foodstuff and amenities hence cheaper to run
- Relatively longer tenancy compared to hotels** – the clientele for serviced apartment prefer long stays (over 3 months) as opposed to those who book hotels rooms thus have more stable incomes
- Convertibility-** it is easy to convert serviced apartments to normal unserviced apartments in the case where the former is not performing well
- Product offering-** It is possible to offer 2 different products depending on the needs of the client i.e furnished apartments only or furnished and serviced apartments

The research findings were as follows;

All Values in Kshs, Unless Stated Otherwise								
Westlands Serviced Apartments Performance Summary								
Unit Type	% In Devt	Size (SQM)	Daily Charge	Weekly Charge	Monthly Charge	Monthly Per (SQM)	Devt Cost Per (SQM)	Rental Yield At 40% Operations
Studio	39.7%	33	9,400	75,000	137,210	4,173	209,092	14.4%
1 Bed	33.6%	85	13,108	97,525	174,742	2,063	209,092	7.1%
2 Bed	66.9%	115	18,972	136,361	217,323	1,892	209,092	6.5%
3 Bed	8.7%	177	22,136	191,229	345,250	1,947	209,092	6.7%
<b>Average Yield</b>						<b>2,519</b>		<b>8.7%</b>
<ul style="list-style-type: none"> <li>• The average sizes in Square Metres are 33, 85, 115 and 177 for studios, 1-bed, 2-bed and 3-bed units, respectively</li> <li>• 2-bed units are the highest in supply with an average of 66.9% share of units in each sample development with 2 bedrooms</li> <li>• The serviced apartments in Westlands records an average rental yield of 8.7% at occupancy rate of 84.6%</li> <li>• Studio apartments have the highest yield at 14.4% as they have a higher profit margin</li> </ul>								

Source: Cytonn Research January 2018

## Market performance summary

All Values in Kshs, Unless Stated Otherwise

Westlands Performance Summary				
Themes	Rental Yield	Price Appreciation	Occupancy	Annual Uptake
Residential Apartments	6.5%	3.4%		25.3%
Serviced Apartments	8.7%		84.6%	
<b>Average</b>	<b>7.6%</b>	<b>3.4%</b>	<b>84.6%</b>	<b>25.3%</b>
<ul style="list-style-type: none"> <li>Westlands records an average rental yield of 7.6%, with serviced apartments outperforming the residential apartments at a rental yield of 8.7%</li> </ul>				

Source: Cytonn Research January 2018

**Conclusion**

Westlands offers attractive returns, with rental yields of 6.5% in residential, 8.7% in serviced apartments and a capital appreciation of 16.3% hence a total potential return of 23.9%. Serviced apartments outperform other themes at a yield of 8.7% hence the recommended investment in the Westlands. For details on our Real estate develops see [Cytonn Real Estate](#)