Cytonn H1’2020 Markets Review

Real Estate

According to the KNBS Quarterly GDP Report Q1'2020, the real estate sector grew by 4.3% in Q1’2020, 0.5% points lower than Q1’2019, attributable to a decline in activity amidst a tough financial environment. The value of buildings approved in the first two months of the year according to KNBS Leading Economic Indicators May 2020 was Kshs 96.9 bn, an increase of 174.4% compared to the same period last year, which in our view was from the clearing of the backlog created in 2019 due to delays with the Nairobi City County technical planning committee. Going forward, we expect the following challenges to persist (i) constrained financing to developers as financiers such as banks aim to limit exposure amidst increasing loan deferrals and defaults, (ii) supply chain constraints as the import of supplies required by builders and developers are interrupted, and (iii) reduced revenue due to slow market uptake and downward pressure on prices and rents.

Despite the above limitations, we expect the growing need for low-cost housing, increased infrastructural improvements and the scaling down in new supply, to continue boosting the sector’s performance beyond the ongoing crisis. Over the long term, real estate will remain an attractive asset class as it continues to offer good risk-adjusted returns that are less correlated to other asset classes.

Sectorial Market Performance:

I. Residential Sector

The residential market continued to hold up fairly well despite the ongoing crisis with the detached units’ market recording an average annual price appreciation of 0.3%. This is in comparison to the apartment market’s average of (0.2%) and attributable to less supply of standalone units coupled with growing demand by homebuyers. The apartment market has continued to expand in supply, which is largely due to the high land costs, especially in Nairobi County.

Residential Performance Summary H1’2020

Segment	Average Rental Yield H1'2020	Average Y/Y Price Appreciation H1'2020	Average Total Returns H1'2020	Average Rental Yield FY'19	Average Y/Y Price Appreciation FY'19	Average Total Returns FY'19	Change in Rental Yield (% Points)	Change in Price Appreciation (% Points)	Change in Total Returns (% Points)
Detached Units									
High End	4.2%	0.0%	4.2%	3.7%	0.1%	3.8%	0.5%	(0.1%)	0.4%
Upper Mid-End	4.9%	1.4%	6.2%	4.1%	0.1%	4.2%	0.8%	1.3%	2.0%
Satellite Towns	4.8%	(0.4%)	4.4%	3.9%	0.4%	4.3%	0.9%	(0.8%)	0.1%
Average	**4.6%**	**0.3%**	**5.0%**	**3.9%**	**0.2%**	**4.1%**	**0.7%**	**0.1%**	**0.9%**
Apartments									
Upper Mid-End	5.4%	(0.7%)	4.6%	5.0%	0.4%	5.3%	0.4%	(1.1%)	(0.7%)
Lower Mid-End: Suburbs	5.7%	0.3%	6.1%	4.8%	0.4%	5.3%	0.9%	(0.1%)	0.8%
Lower Mid-End: Satellite Towns	5.4%	(0.1%)	5.3%	4.5%	0.6%	5.1%	0.9%	(0.7%)	0.2%

Residential Performance Summary H1’2020

Segment	Average Rental Yield H1'2020	Average Y/Y Price Appreciation H1'2020	Average Total Returns H1'2020	Average Rental Yield FY'19	Average Y/Y Price Appreciation FY'19	Average Total Returns FY'19	Change in Rental Yield (% Points)	Change in Price Appreciation (% Points)	Change in Total Returns (% Points)
Average	**5.5%**	**(0.2%)**	**5.3%**	**4.8%**	**0.5%**	**5.2%**	**0.7%**	**(0.6%)**	**0.1%**

- *In H1’2020, the residential sector remained relatively stable with select sectors softening in performance, albeit marginally. The apartment market recorded declines in price appreciation across all segments while the upper mid-end market for detached units recorded a positive change of 1.3% as asking prices continued to increase in markets such as Lavington and Ridgeways, due to their appeal to the growing middle class*
- *On average, total returns came in at 5.0% and 5.3% for detached units and apartments, respectively, an increase of 0.9% and 0.1% from FY’2019. This was a result of growth in rental yields which grew by 0.7% on average*

Source: Cytonn Research

a) .Detached Units

The detached units market showed resilience as annual price appreciation averaged at 0.3%. The market, however, recorded a slight drop in uptake and average occupancy rates which came in at 84.7% and 18.0%, respectively compared to 85.0% and 18.8% in Q1’2020. Asking price per SQM for detached units dropped by 1.1% in the second quarter averaging at Kshs 135,042 from Kshs 136,599 in Q1’2020. Ridgeways and Lavington recorded the highest price growth at 3.0% and 1.6%, respectively attributable to the areas’ appeal to the growing middle-class pre-COVID. The lower mid-end and upper mid-end markets recorded average rental yields of 4.8% and 4.9%, respectively compared to high-end markets’ average of 4.2% as they continued to record relatively higher occupancy rates.

(All Values in Kshs Unless Stated Otherwise)

Detached Units Performance H1’2020

Area	Average Price per SQM	Average Rent per SQM	Average Occupancy	Average Annual Uptake	Average Rental Yield	Average Annual Price Appreciation	Annual Total Returns
			High-End				
Runda	206,185	836	89.1%	17.6%	4.3%	0.7%	5.0%
Rosslyn	172,556	830	85.7%	14.0%	4.7%	(0.1%)	4.7%
Karen	192,070	756	83.7%	17.2%	4.1%	0.3%	4.4%
Kitisuru	213,247	751	85.4%	18.2%	4.4%	0.0%	4.4%
Lower Kabete	140,159	508	67.3%	15.6%	3.7%	(1.2%)	2.5%
Average	**184,843**	**736**	**82.3%**	**16.5%**	**4.2%**	**0.0%**	**4.2%**
Upper Mid-End							
Ridgeways	143,915	682	90.0%	17.8%	5.5%	3.0%	8.5%
South B/C	120,061	556	94.9%	18.6%	5.2%	0.6%	5.8%
Langata	144,991	659	87.4%	17.8%	4.9%	0.9%	5.8%
Lavington	179,656	720	80.2%	18.8%	4.0%	1.6%	5.6%
Runda Mumwe	153,811	716	85.5%	24.1%	4.8%	0.7%	5.5%
Average	**148,487**	**667**	**87.6%**	**19.4%**	**4.9%**	**1.4%**	**6.2%**
Lower Mid-End							
Ruiru	86,159.8	392	67.3%	20.6%	5.5%	0.3%	5.8%
Kitengela	67,719.5	318	88.3%	17.7%	5.2%	0.0%	5.2%
Juja	52,155.5	248	90.1%	17.1%	3.8%	0.0%	3.8%
Syokimau	70,826.5	276	79.8%	16.7%	4.8%	(1.1%)	3.7%
Athi River	82,117.8	334	94.5%	18.2%	4.7%	(1.2%)	3.5%
Average	**71,796**	**313**	**84.0%**	**18.1%**	**4.8%**	**(0.4%)**	**4.4%**

Source: Cytonn Research

b). Apartments

The apartment market performance was characterized by a marginal drop in annual price appreciation averaging (0.2%). This was attributable to price discounts offered by various developers in a bid to sell off old stock. Average price per SQM came in at Kshs 96,543 in comparison to Kshs 98,352 in Q1'2020. However, the apartment rental market remained relatively strong with rental yields averaging 5.5% compared to 4.9% in H1'2019, attributable to an increase in occupancy rates which averaged at 86.7% compared to 84.3% in the same period in 2019.

The upper mid-end markets recorded a negative price appreciation of (0.7%) attributable to decline in asking prices in markets such as Kileleshwa and Kilimani which are experiencing a price correction whereas Westlands' annual price appreciation averaged 1.6% attributable to growing investor demand due to the growing market for short-stay luxury apartments boosted by the area's appeal to expatriates due to good location in relation to other commercial nodes, presence of amenities as well as infrastructure.

In the lower mid-end market, markets such as Dagoretti and Thindigua recorded a price appreciation of 3.1% and 1.2%, respectively, driven by demand from Nairobi's working populations.

Overall, rental yields in the apartment market remained attractive averaging 5.5% compared to detached markets average of 4.6%.

(All Values in Kshs Unless Stated Otherwise)

Apartments Performance H1'2020

Area	Average Price Per SQM	Average Rent per SQM	Average Occupancy	Average Annual Uptake	Average Rental Yield	Average Annual Price Appreciation	Annual Total Returns
			Upper Mid-End				
Westlands	129,667	688	89.6%	23.9%	5.2%	1.6%	6.8%
Parklands	114,031	611	95.7%	17.1%	5.8%	0.3%	6.1%
Loresho	113,336	550	90.8%	13.9%	5.2%	0.0%	5.2%
Kilimani	112,523	623	88.3%	20.0%	5.8%	(2.7%)	3.1%
Kileleshwa	110,909	578	75.3%	17.6%	5.0%	(3.0%)	2.0%
Average	**116,093**	**610**	**87.9%**	**18.5%**	**5.4%**	**(0.7%)**	**6.0%**
Lower Mid-End: Suburbs							
Dagoretti	101,335	500	85.0%	21.9%	5.8%	3.1%	8.8%
South C	110,644	589	96.9%	22.7%	6.0%	0.1%	6.1%
Langata	98,863	515	94.5%	21.3%	5.6%	0.5%	6.1%
Ngong Road	96,546	568	76.2%	18.0%	5.3%	(0.6%)	4.7%
Kahawa West	69,885	403	85.6%	13.3%	5.9%	(1.4%)	4.5%
Average	**95,454**	**515**	**87.7%**	**19.4%**	**5.7%**	**0.3%**	**6.1%**
Lower Mid-End: Satellite Towns							
Thindigua	111,444	555	88.2%	22.0%	5.9%	1.2%	7.1%
Athi River	58,444	332	87.4%	16.6%	6.1%	0.0%	6.1%
Ruaka	101,279	520	89.5%	22.6%	5.5%	0.1%	5.6%

Apartments Performance H1’2020

Area	Average Price Per SQM	Average Rent per SQM	Average Occupancy	Average Annual Uptake	Average Rental Yield	Average Annual Price Appreciation	Annual Total Returns
Kikuyu	82,376	400	83.3%	18.2%	5.0%	(1.7%)	3.3%
Ruiru	88,674	475	74.5%	19.7%	4.6%	0.0%	4.6%
Average	**88,444**	**456**	**84.6%**	**19.8%**	**5.4%**	**0.1%**	**5.5%**

Source: Cytonn Research

The following are the key highlights during Q2’2020 (See the Q1’2020 highlights):

?. Ever Forgarden Company Limited, a local developer, announced plans to develop 900 apartments hosted within four 15-storey blocks along Kindaruma Road in Kilimani, Nairobi. For more, see Cytonn Weekly #26/2020,

i. Unity Homes, a local residential developer, rolled out its first batch of low-cost residential housing apartments in Tatu City, comprising of 48 two-bedroom apartments each with a plinth area of 58 SQM and selling at Kshs 4.25mn, which translates to Kshs 73,310 per SQM. For more, see Cytonn Weekly #25/2020,

ii. Six lending institutions, namely, Equity Bank, Kenya Commercial Bank (KCB), NCBA, Stanbic Bank, Absa, and, Housing Finance, committed Kshs 335 bn in mortgages to fund the Affordable Housing Programme. According to the Ministry of Housing Principal Secretary, Charles Hinga, the banks will finance potential homeowners to purchase both government-built houses and units delivered by private developers registered on the Boma Yangu portal. For more, see Cytonn Weekly #24/2020,

iii. In the FY’2020/21 Budget, the affordable housing sector was allocated Kshs 6.9 bn, a 34.3% reduction from the Kshs 10.5 bn allocated in 2019/2020. For more, see Cytonn Weekly #24/2020, and

iv. The Kitui County Government rolled out an affordable housing program aimed at developing approximately 1,980 modern houses for its residents. For more, seeCytonn Weekly #20/2020.

A more cautious lending environment, record unemployment rates, and financial market volatility are likely to lead to a continued decline in sales activity and the sector’s overall performance in the near term. However, the growing demand for affordable housing and rapid population growth are expected to continue sustaining the sector in the long-run.

II.Commercial Office Sector

The commercial office sector recorded a 0.2% and 0.3% points decline in average rental yields and occupancy rates, to 7.3% and 80.0% in H1’2020, from 7.5% and 80.3%, respectively in FY’2019, attributable to the ongoing COVID-19 pandemic which has led to reduced demand for office spaces as firms have put on hold expansion plans as they adopt a wait and see approach while others opt to scale down operations amidst declining revenues. Asking rents decreased by 0.8% to an average of Kshs 95.3 per SQFT in H1’2020, from Kshs 96.0 per SQFT in FY’2019, while asking prices also decreased by 1.0% to Kshs 12,516 in H1’2020 from Kshs 12,638 in FY’2019, due to a surplus of office space that stood at 5.6 mn SQFT as at 2019, which has created a bargaining chip for tenants forcing developers to reduce or maintain prices and rents in order to remain competitive and attract occupants to their office spaces.

The table below highlights the performance of the Nairobi Metropolitan Area (NMA) Commercial Office sector over time:

(All values in Kshs unless stated otherwise)

Nairobi Metropolitan Area (NMA) Commercial Office Returns Over Time

Year	Q1' 2019	H1' 2019	Q3' 2019	FY' 2019	H1' 2020	Δ FY'2019/ Q1'2020
Occupancy %	82.4%	81.0%	80.5%	80.3%	**80.0%**	**(0.3%)**
Asking Rents (Kshs/SQFT)	100.3	96.6	96.0	96.0	**95.1**	**(0.9%)**
Average Prices (Kshs/SQFT)	12,574	12,637	12,638	12,638	**12,516**	**(1.0%)**
Average Rental Yields (%)	8.0%	7.8%	7.7%	7.5%	**7.3%**	**(0.2% points)**

- ***All metrics recorded declines mainly attributed to reduced demand, as most firms grapple with reduced revenues due to the economic downturn caused by the ongoing COVID-19 pandemic, this has also been compounded by the current glut in office supply that stood at 5.6 mn SQFT as at 2019***

Source: Cytonn Research 2020

Gigiri, Karen and Westlands were the best performing submarkets in Q1'2020 recording rental yields of 8.9%, 8.3%, and, 8.2%, respectively due to their superior locations and availability of top-quality offices, enabling them to charge a premium on rentals.

Whereas most nodes recorded declines in occupancy rates, Gigiri recorded a 4.5% increase of the same, buoyed by the current undersupply of office space in the area which ensured sustained uptake of office space even as the market faces reduced demand.

Mombasa Road recorded a 1.4% increase in asking rents to Kshs 74.0 from Kshs 73.0 in FY'2019, an indication of the previous bottoming out of rental prices in the area which had seen the average rent in the area fall 24.0% below the market average, recording Kshs 73 against a market average of Kshs 96 in FY'2019.

Areas affected by traffic snarl-ups, low-quality office space and are not necessarily primary business nodes such as Mombasa Rd, Thika Rd and Nairobi CBD had the lowest returns with average rental yields of 4.7%, 6.2%, and, 6.8%, respectively. Nairobi CBD has the highest percentage of its offices being Grade B at 84.6% and no Grade A office space, while Mombasa Road has the highest percentage of its offices being Grade C at 50% according to our Nairobi Metropolitan Area Commercial Office Report 2019.

The table below shows the Nairobi Metropolitan Area (NMA) sub-market performance:

Nairobi Commercial Office Submarket Performance H1'2020

Location	Price Kshs/ SQFT H1'2020	Rent Kshs/SQFT H1'2020	Occupancy H1'2020(%)	Rental Yield (%) H1'2020	Price Kshs/ SQFT FY 2019	Rent Kshs/SQFT FY 2019	Occupancy FY 2019(%)	Rental Yield (%) FY 2019	Δ in Rent	Δ in Occupancy (% points)	Δ in Rental Yields (% points)
Gigiri	13,500	117.6	84.9%	**8.9%**	13,833	117.0	80.4%	**9.2%**	0.5%	4.5%	**(0.3%)**
Karen	13,688	111.0	85.9%	**8.3%**	13,665	111.0	85.3%	**8.3%**	0.0%	0.6%	**0.0%**
Westlands	12,328	105.4	79.7%	**8.2%**	12,370	104.0	80.3%	**8.3%**	1.3%	(0.6%)	**(0.1%)**
Parklands	11,808	94.4	82.7%	**7.9%**	12,369	97.0	83.1%	**8.2%**	(2.8%)	(0.4%)	**(0.3%)**
UpperHill	12,625	97.4	78.8%	**7.4%**	12,397	98.0	80.0%	**7.5%**	(0.6%)	(1.2%)	**(0.1%)**
Kilimani	12,521	91.0	79.6%	**7.0%**	12,680	91.0	80.9%	**7.1%**	0.0%	(1.3%)	**(0.1%)**
Nairobi CBD	12,273	83.1	84.2%	**6.8%**	12,425	89.0	85.6%	**7.1%**	(7.1%)	(1.4%)	**(0.3%)**
Thika Road	12,529	82.1	77.9%	**6.2%**	12,600	84.0	80.4%	**6.3%**	(2.3%)	(2.5%)	**(0.1%)**

Nairobi Commercial Office Submarket Performance H1'2020

Location	Price Kshs/ SQFT H1'2020	Rent Kshs/SQFT H1'2020	Occupancy H1'2020(%)	Rental Yield (%) H1'2020	Price Kshs/ SQFT FY 2019	Rent Kshs/SQFT FY 2019	Occupancy FY 2019(%)	Rental Yield (%) FY 2019	∆ in Rent	∆ in Occupancy (% points)	∆ in Rental Yields (% points)
Msa Road	11,375	74.0	65.9%	4.7%	11,400	73.0	66.5%	5.5%	1.4%	(0.6%)	(0.8%)
Average	**12,516**	**95.1**	**80.0%**	**7.3%**	**12,638**	**96.0**	**80.3%**	**7.5%**	**(0.9%)**	**(0.3%)**	**(0.2%)**

Source: Cytonn Research 2020

Notable highlights during half 1 include;

?. Fusion Capital, a local real estate developer, announced that it would offer a 3-month 30.0% rent relief to tenants in its Flamingo Towers development in Upper-Hill in the wake of the Coronavirus pandemic.

We retain a negative outlook for the commercial office sector with rental prices expected to decline over the short term. Landlords will continue to adopt various strategies to attract and retain tenants such as the downwards revision of rents. In the long term, we expect to see a slight reduction in demand with some firms having downsized due to financial constraints resulting from the current pandemic as several others experience working from home and may make it a permanent measure. However, we expect the sector's performance to gradually recover once the economy picks up.

III.Retail Sector

The retail sector performance softened recording a 0.4% points decline in rental yield to 7.4% in H1' 2020 from 7.8% in FY' 2019. Average occupancies dropped by 1.8% points from 75.9% in FY' 2019 to 74.0% in H1' 2020 and average monthly rents declined by 3.4% to Kshs 170.3 per SQFT from Kshs 175.6 per SQFT in FY'2019. The decline in the overall performance of the sector is mainly attributable to;

?. Declining occupancy rates in major retail centres as most retailers are shutting down their operations to cushion themselves against the impact of the Coronavirus pandemic,

i. Constrained spending power among consumers resulting from a tough financial environment, and,

ii. An oversupply of retail space in certain locations which has resulted in pressure on landlords to provide concessions and other incentives to attract new clientele or retain existing tenants.

The performance of the retail sector in Nairobi over time is as shown below:

(All values in Kshs unless stated otherwise)

Summary of Retail Sector Performance Over Time

Item	Q1' 2019	H1' 2019	Q3' 2019	FY' 2019	H1' 2020	∆ Y/Y	∆ H1'2020
Average Asking Rents (Kshs/SQFT)	174.3	170.0	167.0	175.6	**170.3**	(0.2%)	**(3.1%)**
Average Occupancy (%)	76.8%	75.6%	74.5%	75.9%	**74.0%**	(1.6%) points	**(1.8%) points**
Average Rental Yields	8.5%	8.2%	8.0%	7.8%	**7.4%**	(0.8%) points	**(0.4%) points**

· The retail sector performance softened recording a decline in average rents of 3.1% to Kshs 170.3 per SQFT in H1'2020 from Kshs 175.6 per SQFT in FY'2019
· Average occupancy rates decreased by 1.8% points to 74.0% from 75.9% recorded in FY'2019

Source: Cytonn Research 2020

Westlands and Karen were the best performing retail nodes with average rental yields of 9.8% and 9.2%. This is attributed to the premiums charged on rents in these nodes, as they are affluent neighbourhoods hosting middle to high-end income earners with high consumer purchasing power.

Satellite towns recorded the lowest rental yields at 5.4%. The poor performance is attributable to low rental charges of Kshs 127.5 per SQFT as a result of competition from informal retail space in Satellite towns.

The table below shows the submarket performance in the Nairobi Metropolitan Area (NMA):

(All values in Kshs unless stated otherwise)

Nairobi Retail Submarket Performance H1'2020

Location	Rent Kshs/SQFT H1' 2020	Occupancy H1' 2020	Rental Yield H1' 2020	Rent Kshs/SQFT FY' 2019	Occupancy FY' 2019	Rental Yield FY' 2019	H1' 2020 Δ in Rental Rates	H1' 2020 Δ in Occupancy (% points)	H1' 2020 Δ in Rental Yield (% points)
Westlands	206.7	81.2%	**9.8%**	215.0	82.8%	**10.3%**	(4.0%)	(1.7%)	**(0.5%)**
Karen	218.5	75.0%	**9.2%**	222.0	80.0%	**9.5%**	(1.6%)	(5.0%)	**(0.3%)**
Kilimani	172.5	83.1%	**8.7%**	167.0	87.4%	**8.8%**	3.2%	(4.3%)	**(0.1%)**
Ngong Road	182.5	80.1%	**8.3%**	181.0	80.5%	**8.3%**	0.8%	(0.4%)	**0.0%**
Kiambu Road	174.6	67.1%	**6.9%**	180.0	67.6%	**7.2%**	(3.1%)	(0.5%)	**(0.3%)**
Thika road	163.8	69.3%	**6.5%**	173.0	72.8%	**7.1%**	(5.6%)	(3.5%)	**(0.6%)**
Mombasa Road	143.7	69.6%	**6.0%**	156.0	66.8%	**6.3%**	(8.6%)	2.8%	**(0.3%)**
Eastlands	142.8	69.6%	**5.9%**	150.0	71.7%	**6.8%**	(5.1%)	(2.1%)	**(0.9%)**
Satellite Towns	127.5	71.4%	**5.4%**	136.0	73.3%	**5.9%**	(6.7%)	(1.9%)	**(0.5%)**
Average	**170.3**	**74.0%**	**7.4%**	**175.6**	**75.9%**	**7.8%**	**(3.4%)**	**(1.8%)**	**(0.4%)**

Source: Cytonn Research 2020

Notable highlights during H1'2020 included:

?. Crossroads Limited and Karen Waterfront Phase Two Limited, owners of The Waterfront Mall in Karen, went to court to demand the payment of Kshs 520 mn in anticipated lost rent from the South African-based Shoprite Holdings, after the retailer terminated its 10-year lease contract at the Waterfront Mall in April 2020, barely six months after having started operations in September 2019. The retailer cited strained revenues due to reduced footfall as people follow the government's stay at home directive coupled with constrained spending power among consumers as well as competition from Game Supermarket, another continental retailer located in the same mall. The move leaves the retailer, whose strategy was to open seven stores locally, with three branches, two in Nairobi and one in Mombasa. The premature termination of the lease by Shoprite Holdings allegedly makes the obligations under the lease agreement immediately due and owing, thereby exposing them to accelerated payments, and a legal suit by the landlord seeking to recover damages for breach of the agreement. However, the retailer has been reviewing its business operations in the East African market, having exited Tanzania in 2014. The move follows the recent exit by Botswana-based Choppies, Tuskys closure of three of its branches and the closure of Nakumatt's remaining branch in Highridge, an indicator of the struggles facing the Kenyan retail sector, which are largely due to (i) fierce competition among retailers trying to gain market share, (ii) increased mall oversupply especially in Nairobi, and (iii) competition from the dominant informal retail sector. The challenges have also been aggravated by the ongoing COVID-19 pandemic which has seen footfall and revenues fall drastically across retail developments,

i. Tuskys announced the temporary closure of three of its branches in Nairobi, Kitale, and Mombasa. The affected branches include Tuskys Tom Mboya branch, Tuskys Kitale Mega Branch, and Tuskys Digo Branch. For more information, see Cytonn Weekly #17/2020,
ii. Quickmart Supermarket, a local retailer, opened its first store in Nairobi's Central Business District (CBD), along Tom Mboya Street, taking up space previously occupied by Botswana-based Choppies. The retailer also opened an outlet in Kilimani, along Kilimani Road, For more information, see Cytonn Weekly #20/2020 and Cytonn Weekly #26/2020, and,
iii. Carrefour Supermarket, an international retailer, opened a new store along Uhuru Highway in Nairobi, taking up 40,000 SQFT of space previously occupied by Nakumatt Mega. For more, see Cytonn Weekly #24/2020.

We expect occupancy rates of major retail centres to drop during this period as most retailers are shutting down their operations to cushion themselves against the impact of the Coronavirus pandemic. However, we expect the sector to be cushioned by the continued expansion of local and international retailers such as Carrefour and Quickmart.

IV. Hospitality Sector

In H1' 2020, 2 industry reports related to the hospitality sector were released. The take-outs were as stated below:

Report	Key Take-outs
Economic Survey 2020 Report	· International visitor arrivals increased slightly by 0.4 per cent from 2.03 mn in 2018 to 2.04 mn in 2019 supported by; heightened security, recognition of Kenya as a regional hub, relaxation of travel advisories by governments of key tourism markets and political stability that prevailed in the country · For 2020, we note that the number of tourist arrivals during the first half of the year has been significantly affected by the current COVID-19 pandemic which has led to the cancelling of meetings, conferences and events, the banning of all international flights and reduced local direct flights. For more information, see Cytonn Monthly April 2020
Hotel Chain Development Pipelines in Africa 2020 Report,	· W Hospitality Group, an African tourism investment advisor, ranked Kenya 7th in Africa with 3,588 rooms in the pipeline, within 23 hotels under brands such as; Radisson Hotel Group, Accor Hotels, Swiss International, and, Marriott International · The report affirms the attractiveness of Kenya's hospitality sector to investors and this we attribute to; (i) Nairobi's recognition as East and Central Africa's leading business and investment hub leading to an increase in conference tourism, and, (ii) increased foreign investor confidence in the Kenyan hospitality industry supported by an existing demand for hospitality facilities and services. For more information, see Cytonn Weekly#26/2020.

In terms of key development activities during the period under review, see the Q1'2020 highlights, and;

i. Chaudhary Group, a Nepalese multinational conglomerate acquired majority ownership of The Fairmont the Norfolk and Fairmont Mara Safari Club from Kingdom Hotel Investment, an international hotel and resort real estate investment company that is focused on emerging markets. Despite the negative effects of Coronavirus on the hospitality sector, this affirms Kenya's attractiveness particularly to high-net-worth global investors keen on tapping into the vibrant sector of top-notch hospitality facilities. For more information, see Cytonn Weekly #23/2020.

In addition to the above developments, during the first half of the year, the hospitality sector recorded a slowdown in operations following the COVID-19 pandemic, with several adjustments being made by the government and key players in the sector to contain the spread of the virus. These include;

?. The government implemented a ban on all international flights effective Wednesday 25th March 2020, except for cargo flights,

i. Temporary closure of some major hotels in Kenya, such as Tribe Hotel and Ole Sereni in Nairobi County; Grand Royal Swiss and Sovereign Hotel in Kisumu County; the Maasai Mara Game Reserve in Narok County; Sarova Hotels' four local hotels and lodges, and Villa Rosa Kempinski Hotel limited its business to room service only in March; and Fairmont Hotels and Resorts announced the closure of its local hotels in May. For more analysis, see our Cytonn Monthly May 2020, and
ii. The Kenyan Government implemented a ban on movement in and out of the Nairobi Metropolitan Area effective Monday 6thApril 2020, with an exception of cargo and in line with this, local airline carriers, Jambojet and Safarilink announced a temporary suspension of their local flight. For more analysis, see Cytonn Weekly #15/2020.

Despite the adverse effects of the pandemic on the sector, several strategies have since been adopted to aid its gradual recovery;

?. In April, the Ministry of Health Cabinet Secretary, Mutahi Kagwe, announced that hotels and restaurants in major towns would be allowed to resume operations albeit under strict terms. For more information, see Cytonn Monthly April 2020,
i. In June, top tier hotels such as Villa Rosa Kempinski, Sarova Stanley, Ole Sereni, Hemingways Watamu, Radisson Blu Arboretum and Trademark Hotel, resumed their restaurant activities including dine-in and deliveries. For more information, see Cytonn Weekly #23/2020,
ii. In June, through the 2020/2021 budget statement, funds were allocated to the tourism sector under the 8-point stimulus programme. The funds amounting to Kshs 8.3 bn will be used to support the post-COVID-19 tourism marketing and providing support for hotel refurbishment through soft loans. For more information, see Cytonn Weekly#24/2020,
iii. Tourism Finance Corporation(TFC), a financial institution with the mandate of facilitating and providing affordable development funding and advisory services to the Kenyan tourism industry, restructured Kshs 634 mn loans to hospitality facilities affected by the Covid-19 pandemic. For more information, see Cytonn Weekly #24/2020,
iv. In June, Swiss-owned Plan Hotel Hospitality Group announced that it was offering holiday bonds, where prospective guests would be required to pay half the cost to reserve a room, for two years for its three properties in Malindi. For more, see Cytonn Weekly #26/2020, and The hospitality sector has been the hardest hit by the COVID-19 pandemic due to its reliance on tourism, and this is evidenced by the cessation of operations by key hospitality facilities due to reduced demand for the same. Nevertheless, the sector has in the short term witnessed the reopening of some the facilities, and we, therefore, expect the sector's recovery to commence in the near term on the back of government policies aimed at cushioning the sector such as the government's directive to re-open hotels and restaurants in major towns, the Ministry of Tourism's post-corona recovery strategy funds, the government's stimulus package which, among others, seeks to offer soft loans to hotels and related establishments through the TFC thus stimulating the hospitality sector, and, the tourism sector's plan to repackage their products to appeal to a wider scope of domestic tourists.

V. Land Sector

During H1'2020, the land sector recorded an overall annualized capital appreciation of 1.4%, with asking land prices in low rise residential areas recording a 3.8% annualized capital appreciation, attributed to people's preference of living in these areas, as land is relatively affordable at Kshs 84.2 mn per acre as compared to the high-rise areas, selling at Kshs 115.6 mn per acre on average. Additionally, people are attracted to these areas as they are sparsely populated, thus offering exclusivity and privacy. Un-serviced land in satellite towns such as Ruaka and Ngong recording an annualized capital appreciation at 3.4%, attributable to the growing demand for land in these areas fueled by the affordability with an asking price of approximately Kshs 25.1 mn per acre compared to suburbs with relatively high asking prices of up to Kshs 419.2 mn per acre.

The table below shows the performance of the sector during the quarter:

(All values in Kshs unless stated otherwise)

Nairobi Metropolitan Area(NMA) Land Performance H1'2020			
Node	**Price per Acre H1'2019**	**Price per Acre H1'2020**	**Annualized Capital Appreciation H1'2020**
Low Rise Residential Areas	80.9m	84.2m	3.8%
Satellite Towns- Un-serviced Land	24.1m	25.1m	3.4%
Satellite Towns- Site and service schemes	15.0m	15.2m	0.4%
High Rise Residential Areas	116.7m	115.6m	0.0%
Commercial Zones	463.3m	419.2m	(0.7%)
Average			**1.4%**

· *The land sector recorded an overall annualized capital appreciation of 1.4%, with land in low rise residential areas recording a 3.8% annualized capital appreciation, attributed to people's preference of living in these areas, as land is relatively affordable at Kshs 84.2 mn per acre as compared to the high-rise node, selling at Kshs 115.6 mn per acre on average, in addition to offering privacy for family units.*

Source: Cytonn Research

The performance per node:

a. Low Rise Residential Areas

(All values in Kshs unless stated otherwise)

Low Rise Residential Areas			
Location	**Price per Acre H1'2019**	**Price per Acre H1'2020**	**Annualized Capital Appreciation H1'2020**
Karen	53.4m	56.4m	5.6%
Spring Valley	148.1m	156.1m	5.4%
Runda	67.9m	70.2m	3.3%
Kitisuru	70.5m	72.7m	3.0%

Low Rise Residential Areas

Location	Price per Acre H1'2019	Price per Acre H1'2020	Annualized Capital Appreciation H1'2020
Ridgeways	64.7m	65.9m	1.8%
Average	**80.9m**	**84.2m**	**3.8%**

- **Low-rise residential areas such as Karen and Runda recorded an average annualized capital appreciation of 3.8%. This is attributed to people's preference of living in these areas, as land is relatively affordable at approximately Kshs 84.2mn per acre as compared to the high-rise node, selling at Kshs 115.6 mn per acre on average. Additionally, people are attracted to these areas as they are sparsely populated, thus offering exclusivity and privacy**
- ***Karen was the best performing sub-market with a capital appreciation of 5.6%, due to the relatively low asking land prices at Kshs 56.4 mn as compared to the market average of 84.2 mn per acre, while in Ridgeways, asking land prices recorded a marginal appreciation of 1.8%, attributed to a slowdown in demand given the ongoing densification of sections of the submarket with relaxed of zoning regulations***

Source: Cytonn Research

b. Satellite Towns: Un-serviced Land

(All values in Kshs unless stated otherwise)

Satellite Towns

Location	Price per Acre H1'2019	Price per Acre H1'2020	Annualized Capital Appreciation H1'2020
Ruaka	80.3m	84.4m	5.2%
Utawala	11.6m	12.0m	4.1%
Juja	9.7m	10.0m	3.4%
Athi River	4.2m	4.3m	3.4%
Limuru	20.4m	21.0m	2.9%
Ongata Rongai	18.3m	18.6m	1.6%
Average	**24.1m**	**25.1m**	**3.4%**

- **Asking land prices of un-serviced land in satellite towns such as Limuru and Utawala, recorded an annualized capital appreciation of 3.4%, supported by the high demand for development land fuelled by; i) affordability in comparison to Nairobi's suburbs, and ii) improving infrastructure such as sewerage systems and roads in areas such as Ruaka**
- ***Ruaka area recorded the highest annualized capital appreciation at 5.2%, attributed to the growing demand for land within the area as it acts as a key dormitory for Nairobi's working population, supported by proximity to amenities and improving infrastructure i.e. the incoming Western By-Pass which on completion will link Ruaka to the Nairobi-Nakuru Highway at Gitaru***
- ***Land asking prices in Ongata Rongai recorded the lowest appreciation at 1.6%, attributed to the reduced demand as developers focus shift to towns such as Ruaka and Utawala which are undergoing increased real estate and infrastructural development***

Source: Cytonn Research

c. Satellite Towns- Site and Service Schemes

(All values in Kshs unless stated otherwise)

Satellite Towns-Site and Service Schemes

Location	Price per Acre H1'2019	Price per Acre H1'2020	Annualized Capital Appreciation H1'2020
Ruiru	22.7m	24.0m	5.8%
Athi River	12.0m	12.4m	3.5%
Ruai	13.8m	14.0m	1.0%
Thika	10.1m	10.1m	(0.3%)
Ongata Rongai	19.2m	18.4m	(3.8%)
Syokimau-Mlolongo	12.5m	12.0m	(3.8%)
Average	**15.0m**	**15.2m**	**0.4%**

- **Site and service schemes recorded a 0.4% annualized capital appreciation, 1.0% points lower than the market average of 1.4%, and 3.0% points lower than un-serviced land in the same location. This capital appreciation is attributed to increased demand due to the relatively affordable land at approximately Kshs 15.2 mn asking land price per acre and provision of infrastructure by the developers. Compared to un-serviced land, the asking price of serviced land recorded a slower appreciation *due to decreased demand as buyers are not willing to pay a premium for the services provided, thus opt for un-serviced land***
- **Ruiru recorded the highest appreciation rate at 5.8% attributable to the increased demand for land in the area from developers looking to cater for the mid-income and student population housing as a result of the push for individuals to move to satellite towns where housing is relatively affordable, in addition to the mushrooming tertiary institutions**
- **Ongata Rongai and Syokimau recorded a 3.8% price correction each attributable to decreased demand as investors focus on areas witnessing more real estate activities**

Source: Cytonn Research

d. Nairobi Suburbs- High Rise Residential Areas

(All values in Kshs unless stated otherwise)

Nairobi Suburbs-High Rise Residential Areas

Location	Price per Acre H1'2019	Price per Acre H1'2020	Annualized Capital Appreciation H1'2020
Kasarani	61.4m	64.8m	5.7%
Dagoretti	100.3m	102.8m	2.5%
Githurai	45.1m	44.4m	(1.4%)
Kileleshwa	311.1m	303.1m	(2.6%)
Embakasi	65.7m	62.8m	(4.4%)
Average	**116.7m**	**115.6m**	**0.0%**

- **Asking land prices in high-rise residential areas stagnated, attributed to reduced demand for development land given the reduced development activities given the relatively high land prices averaging at approximately Kshs 115.6 mn per acre, compared to low rise areas and satellite towns average of Kshs 84.2 mn and Kshs 25.1 mn, respectively, in the wake of an economic slowdown in addition to the existing oversupply of residential units in the high-end market segment**
- **Nevertheless, Kasarani recorded an annualized capital appreciation at 5.7%, attributed to increased demand for land fuelled by affordability with the asking land prices averaging at Kshs 64.8 mn compared to the node's average of Kshs 115.6 mn, in addition to developers looking to cater for the expanding middle-income population. Embakasi recorded a correction of 4.4%, attributable to reduced demand for land given the high densification of the area making it unattractive to investors**

Source: Cytonn Research

e. Nairobi Suburbs- Commercial Zones

(All values in Kshs unless stated otherwise)

Nairobi Suburbs- Commercial Zones

Location	Price per Acre H1'2019	Price per Acre H1'2020	Annualized Capital Appreciation H1'2020
Upper Hill	487.8m	506.1m	3.8%
Kilimani	403.3m	398.5m	(1.2%)
Westlands	429.6m	421.3m	(1.9%)
Riverside	363.0m	350.9m	(3.3%)
Average	**420.9m**	**419.2m**	**(0.7%)**

- **Commercial zones recorded a 0.7% correction in asking land prices. We attribute this to the decreased demand for development land in the sub-markets given the relatively high asking land prices of Kshs 419.2 mn per acre on average thus developers are not able to achieve favourable returns from the investments, in addition to the existing oversupply of commercial office and retail spaces which stand at 5.2 mn SQFT and 2.8 mn SQFT, respectively, as at 2019**
- **Despite the overall correction in asking land prices, Upperhill recorded a 3.8% annualized capital appreciation with an average asking land price of Kshs 506.1 mn per acre, attributed the continued demand for land in the area by developers looking to venture into differentiated concepts such as serviced apartments and offices, which thrive in the area given that it hosts expatriates, coupled by the ease of accessibility in and out of the area**
- **Riverside recorded a price correction of 3.3% attributed to reduced demand for development land due to the reduced development activities on the commercial space front**

Source: Cytonn Research

The investment opportunity in the land sector lies in sub-markets such as Karen, Spring Valley and Kasarani which recorded relatively high annualized capital appreciation of 5.6%, 5.4% and 5.7%, respectively, and satellite towns such as Ruaka for un-serviced land, and Ruiru for site and service schemes which were the best performing sub-markets with average annualized capital appreciation of 5.2%, and 5.8%, respectively.

Despite the current slowdown in real estate development activities due to the COVID-19 pandemic, we expect the performance of the land sector to be cushioned by; (i) the growing demand for development land especially in the satellite towns as developers strive to drive the government's Big Four government agenda on the provision of affordable housing, (ii) improving infrastructure, and (iii) increased demand for development land by the growing middle-income population.

VI. Infrastructure

During the period,

?. Transport Secretary, James Macharia, announced that Kenya was set to open its first annuity road this year under the Annuity programme where contractors design, finance, construct and maintain roads based on agreed periodical payments by the government. The 91km road project in Kajiado County comprises of a 48km section through Ngong, Kiserian and Isinya townships, and will join the 43km Kajiado-Imaroro road. For more, see Cytonn Weekly #25/2020,

i. The FY'2020/21 Budget was read by CS National Treasury, Ukur Yatani, where infrastructure sector was allocated Kshs 172.4 bn, 60.4% lower than the 435.1 bn allocated in the 2019/2020 budget, the lowest allocation in the last 10 financial years. The reduced allocation towards infrastructure is attributed to the constrained budgetary room that the government finds itself in as it grapples with economic effects of the COVID-19 pandemic. For more, see Cytonn Weekly

#24/2020,

ii. State Department of Infrastructure revealed plans to put up a 0.6km bridge at the Likoni Channel in Mombasa, For more see, Cytonn Weekly #23/2020.
iii. Water and sanitation Cabinet Secretary, Sicily Kariuki unveiled a Kshs 1.3 bn Kiambu-Ruaka water supply and sewerage project. The project will be implemented by the Athi Water Works Development Agency through funding by the African Development Bank (AfDB). We expect this to enhance the appeal of areas such as Ruaka and Kiambu, subsequently supporting the areas' continued real estate growth and performance. For more, see Cytonn Weekly #21/2020.

Despite the slowdown in infrastructure expenditure, infrastructural development remains a top priority and we expect the Kenyan government to remain committed in infrastructure improvements and completing ongoing projects.

VII. Statutory Review

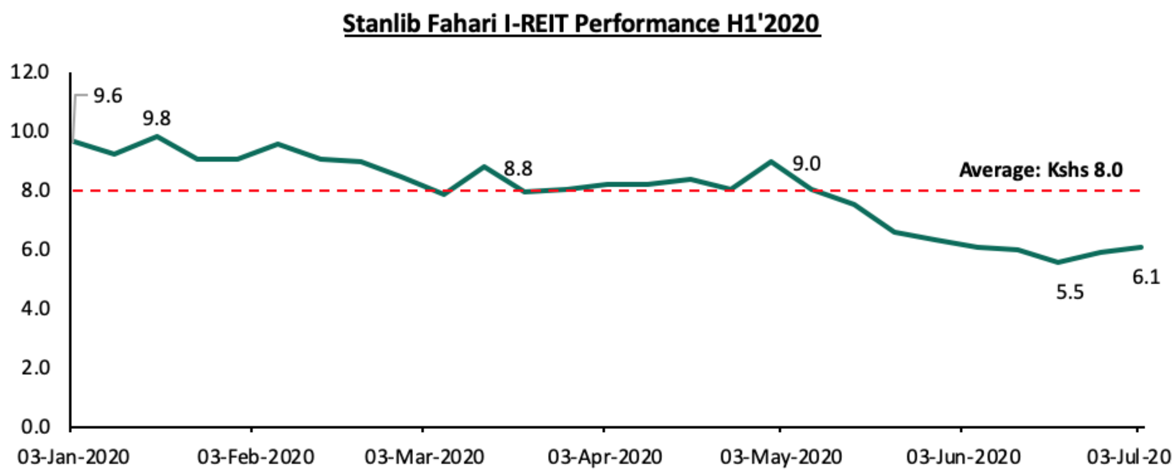
The first half of the year saw a significant amount of policy reforms, key among them being:

?. The president assented the Finance Bill 2020 into law on June 30th. Notably, the Act repealed section 22C of the Income Tax Act which was provision for Registered Home Ownership Savings Plans in Kenya, a scheme introduced in 1996 to encourage savings towards homeownership by offering tax rebates of up to Kshs 8,000 per month to contributors and tax relief on interest earned up to Kshs 3.0 mn. In abolishing the scheme, the committee cited low uptake of HOSP, which in our view is due to lack of public knowledge. However, while the repeal contradicts the government's goal of improving the housing finance system, we expect that it will encourage potential homebuyers to subscribe to the government's National Housing Development Fund (NHDF) and other available home financing solutions such as mortgages especially now that the Kenya Mortgage Refinancing Company, whose main objective is to enhance mortgage affordability, is ready to commence operations,
i. The Ministry of Transport, Infrastructure, Housing, and Urban Development published the National Housing Development Fund Regulations 2020. The regulations are aimed at guiding the operationalization of the National Housing Development Fund (NHDF), which was established in 2018 in line with the government's affordable housing initiative and under the mandate of the National Housing Corporation (NHC), to help bridge the affordable housing gap in Kenya. For more information, see Cytonn Weekly #21/2020,
ii. The National Treasury Cabinet Secretary, Ukur Yatani published regulations aimed at guiding the new amendment to Section 38 of the Retirement Benefits Act which was amended through the Tax Act 2020, allowing pensioners to use a portion of their pension savings to purchase a residential home. As per the regulations, pensioners will be allowed to use the lower of 40.0% of their pension savings or a maximum of Kshs 7.0 mn towards purchasing a home, in addition to the using 60.0% of their accumulated pension savings as mortgage collateral. For more information, see Cytonn Weekly #19/2020,
iii. The Ministry Of Lands and Physical Planning invited the public for participation in the regulatory impact statement for the proposed Land Transactions (Electronic) Regulations 2020. The proposed regulations seek to affect the development and implementation of a National Land Information System and the maintenance of a land register, to enable Kenyans to access land-related information electronically through the use of online portals and carry out all registry transactions under the Act through the electronic registry system. For more information, see Cytonn Weekly #20/2020.
iv. The Ministry of Transport, Infrastructure, Housing, Urban Development, and Public Works gazetted the National Construction Authority (Defects Liability) Regulations 2020, which introduced various changes to the defects liability period with regards to commercial buildings. Amongst the changes introduced, was a latent defects liability period for commercial buildings which shall be a minimum period of six years from completion of the regular defects liability

period (which will now be referred to as the patent defects liability period). For more information, see Cytonn Weekly #21/2020.

VIII. Listed Real Estate

During H1'2020, the I-REIT continued to perform poorly trading at Kshs 8.0 on average, 61.4% lower than its initial price of Kshs 20.75 as at November 2015. The former translates to a dividend yield of 9.4%, compared to the commercial real estate market average of 7.4% (retail -7.4% and commercial office - 7.3%) in H1'2020. During the period, the I-REIT recorded its lowest trading price of Kshs 5.5 attributable to the market uncertainties brought about by the ongoing pandemic. The instrument's price per share reduced by 38.5% YTD closing at Kshs 5.9 per share from Kshs 9.6 at the beginning of the year, as shown below:



Other notable activities on the listed real estate in H1'2020 include:

?. Acorn Holdings Limited, a local property developer, announced that it was structuring a Development Real Estate Investment Trust (D-REIT), to facilitate the sale of its stake in branded hostels Qwetu and Qejani's development pipeline to institutional investors and high net-worth individuals. For more information see Cytonn weekly #10/2020,

i. In April, Stanlib Kenya Limited released the Fahari I-REIT- Audited Results FY'2019, according to which, the earning per unit recorded a 9.4% decline to 0.97 from 1.07, attributed to a 9.0% decline in net profits, to Kshs 175.2 mn from Kshs 193.5 mn mainly due to the reduction in fair value gain on revaluation of investment property compared to prior year on the back of a sluggish real estate sector with continued downward pressure on rental income especially in the retail sector. Please see the Fahari I-REIT FY'2019 Earnings Note for the analysis,

ii. In May, Fund manager, ICEA Lion Asset Management (ILAM) announced that it had completed a transaction with Stanlib Kenya Limited (SKL) that will see it acquire the latter's role of managing property fund Stanlib Fahari I-REIT, from South Africa based Liberty Holdings Ltd. ILAM will now acquire all rights, obligations, and benefits of SKL in connection with SKL's role as promoter and REIT manager. For more information, see Cytonn Weekly #21/2020, and

iii. In June, the Cabinet Secretary for the National Treasury and Planning, Ukur Yatani, drafted rules under the Income Tax (Real Estate Investment Trusts) Rules, 2020 that will require Real Estate Investment Trusts (REITs) to apply for tax exemptions from Kenya Revenue Authority (KRA) during registration. The proposed rules seek to assure investors of the tax exemptions and seal any possible loopholes in tax collection. For more information, please see Cytonn Weekly #24/2020.

Our outlook for listed real estate is negative, attributed to continued lack of investor interest for the instruments and the continued subdued performance of the real estate sector as it continues to grapple with the effects of the COVID-19 pandemic. However, we expect continued engagement of investors, fund managers, developers and regulators to help unlock capital as investors take advantage of tax benefits.

Real Estate Performance Summary and Outlook

Below is a summary of the sectorial performance in H1'2020 and investment opportunities:

Theme	Thematic Performance and Outlook H1'2020	Outlook
Residential	The detached units' market recorded an average annual price appreciation of 0.3% compared to the apartment market's (0.2%) attributable to less supply of standalone units coupled by growing demand from homebuyers. We expect uptake to remain suppressed in 2020 as cash flows for investors and homebuyers come under pressure in light of the ongoing pandemic. As such, the opportunity is in low-cost housing in Satellite Towns such as Thindigua and Ruaka which continue to exhibit high demand attributable to their proximity the key commercial nodes, and suburbs such as Westlands and South C for investors seeking attractive rental yields.	**Neutral**
Office	The sector recorded a 0.2% and 0.3% points decline in average rental yields and occupancy rates, to 7.3% and 80.0% in H1'2020, from 7.5% and 80.3%, respectively in FY'2019, attributable to the ongoing COVID-19 pandemic which has led to reduced demand for office spaces as firms have put on hold expansion plans as they adopt a wait and see approach while others opt to scale down operations amidst declining revenues. Our outlook for the commercial office sector is negative owing to the current market oversupply and the impact of COVID-19 on economic activities. We expect asking rental prices to continue dropping due to increased vacancy rates and downward pressure arising from the existing oversupply in the market. The investment opportunity is in differentiated concepts such as serviced offices that attract yields of up to 12.3%.	**Negative**
Retail	Performance softened recording a 0.4% points decline in rental yield to 7.4% in H1' 2020 from 7.8% in FY' 2019 owing to an increase in vacancy rates in malls and constrained purchasing power. The investment opportunity is in mixed-use concepts in areas such as Westlands and Karen, with attractive yields of 9.8% and 9.2%, respectively, as well as prime located retail developments which can attract footfall	**Neutral**
Hospitality	The hospitality sector was significantly affected by the COVID- 19 pandemic which led to a slowdown of operations following the cancelling of meetings, conferences and events, the banning of all international flights and reduced local direct flights. However, we expect the sector's recovery to commence in the near term on the back of government policies such as the budget allocation towards tourism marketing and support for hotel refurbishment through soft loans. The sector has pockets of value in the serviced apartments in areas such as Westlands & Parklands, and Kilimani markets with rental yields of above 10.8% and 9.5%, respectively	**Neutral**
Land	The land sector recorded an overall annualized capital appreciation of 1.4%, with asking land prices in low rise residential areas recording the highest annualized capital appreciation at 3.8%. The investment opportunity lies in sub-markets such as Karen, Spring Valley and Kasarani which recorded relatively high annualized capital appreciation of 5.6%, 5.4% and 5.7%, respectively, and satellite towns such as Ruaka for un-serviced land, and Ruiru for site and service schemes, with average annualized capital appreciation of 5.2%, and 5.8%, respectively.	**Positive**
Listed Real Estate	The I-REIT continued to perform poorly during the period with the price per share dropping to lows of Kshs 5.5, the lowest since the I-REIT's inception in 2015. We expect listed real estate to continue performing poorly attributed to continued lack of investor interest for the instruments and the continued subdued performance of the real estate sector as it continues to grapple with the effects of the COVID-19 pandemic.	**Negative**

Of the six sectors, our outlook is positive for one – land; neutral for three – residential, retail and hospitality; and negative for two – office and listed real estate. Thus, our outlook

for the real estate sector remains neutral. Going forward, we expect the industrial sector, residential, land, and select office markets to continue holding up well in terms of performance, while retail and hospitality remain the most affected. We expect the real estate sector's performance to improve significantly towards the end of 2020 once economic activity regains momentum.

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