Nairobi Metropolitan 2020 Residential Report, & Cytonn Weekly #30/2020

Focus of the Week

This week our focus is on the Nairobi Metropolitan Area (NMA) residential sector. We showcase the sector's performance in the region in terms of price appreciation, rental yields and market uptake, based on research on 38 areas located within the Nairobi Metropolis. We also look at the recent developments impacting the sector as well as factors that are expected to shape demand and supply and conclude with a look at the investment opportunities as well as the sector's overall outlook for the next financial year. As such, we shall look at the following:

I. Overview of the Residential Sector,
II. Recent Developments,
III. Residential Market Performance,
IV. Investment Opportunity, and
V. Conclusion

Section I: Overview of the Residential Sector

In 2019, the residential sector was marked by increasing affordability concerns amongst homebuyers amidst rising costs of living coupled by massive job losses and general economic uncertainty. However, according to KNBS Economic Survey 2020, despite the slow economic growth in 2019 which came in at 5.4%, the real estate sector, and by extension the residential market, was one of the sectors that continued to boost the country's growth. The sector was also poised for further improvement with the anticipated increase in liquidity following the government's repeal of the interest rate cap regime in November 2019, and as a result, the sector had started to stabilize at the end of 2019 and into the first quarter of 2020 recording a slight uptick in prices and rents. However, with the advent of the COVID-19 pandemic and its quick spread, and the subsequent adverse impact on the global economy, we expect the sector's performance to see some negative performance. Generally, the measures imposed by the government to curb the pandemic's spread as well as the global lockdowns suppressed construction activities negatively in the second quarter while housing demand remained sluggish as investors and homebuyers adopted a wait and see stance and incomes severely dented by the pandemic.

We expect the following factors to shape demand in the residential sector:

i. **Housing Deficit:** The need for affordable housing is currently at an all-time high considering the current economic downturn which has seen increased unemployment and the subsequent drop in disposable incomes. Additionally, the government's Affordable Housing initiative continues to lag behind expectations and therefore, the current housing deficit in Kenya which is estimated at 2.0 mn units is expected to continue increasing,
ii. **Demographics:** According to the 2019 census data, Kenya currently has a population of 47.6 mn persons, growing at 2.2% per annum, which is 1.0% points higher than the global average. Additionally, Kenya's urban population continues to grow rapidly accounting for 31.1% of the total

population and estimated to grow by 4.3% p.a. according to the World Bank. This demographic trend is expected to continue supporting housing demand especially in urban areas, exacerbating the need for decent and low-cost housing, and

iii. **Access to Credit:** The repeal of the interest cap regime in November 2019 was expected to enhance market liquidity and thereby stimulate growth of sectors such as real estate which are capital intensive. Additionally, according to Kenya Mortgage Refinancing Company's Chief Executive Officer Johnstone Oltetia, the institution will begin refinancing mortgage portfolios in Q3'2020 and as such, we expect homebuyers to begin accessing to affordable credit for home-buying in the near term.

However, with the ongoing crisis, demand is expected to remain relatively weak due to; (i) weak macroeconomic environment leading to increased credit risk, (ii) decline in demand from expatriates due to the ongoing global lockdown, and (iii) decline in purchasing power with the increase in unemployment rates.

In terms of supply, the residential sector was largely constrained by insufficient access to affordable funding by developers, the challenging local land tenure systems, and approval delays between the months of June and August 2019. In 2020, new supply is also expected to slow down owing to:

i. **Slow Economic Growth:** According to the World Bank, Kenya's economic growth is expected to decelerate to 1.5% in 2020 from 5.4% in 2019, whereas growth in Sub-Saharan Africa is projected to slip into its first recession in 25 years with the average growth expected to decline from 2.4% in 2019 to a range of between (2.1%) and (5.1%) in 2020,
ii. **Insufficient Access to Credit:** With the increase in non-performing loans in the sector and increased economic uncertainty, we expect developers to continue experiencing barriers to adequate financial access. Currently, lending institutions have also tightened their lending standards. We, therefore, expect developers to seek alternative sources of financing such as Real Estate Investment Trusts and bonds,
iii. **Reduced Revenues:** The COVID-19 pandemic has seen real estate revenue collections drop significantly due to declines in economic activities and the subsequent decline in disposable incomes, thereby affecting developers' ability to continue with development activities,
iv. **Supply Chains Disruption:** The global lockdown and partial national lockdowns in Kenya means developers are increasingly finding it difficult to access construction materials, which is likely to increase the input costs thus raising development costs higher, and
v. **High Development Costs:** According to Centre for Affordable Housing Finance in Africa, Kenya remains as one the countries with the highest constructions costs in Africa at Kshs 51,064 per SQM on average, compared to countries like Nigeria and South Africa with Kshs 43,264 and Kshs 30,245, respectively. This is largely attributable to relatively high land costs, which as per the Cytonn Land Report 2020 grew by 1.5% in 2020 with Nairobi suburbs recording up to Kshs 419 mn per acre.

However, we expect developers to seek alternative ways of improving their margins. As such, we expect the supply side to see an increase in joint venture deals and public-private partnerships (PPP) with institutions like foreign investment institutions seeking to enter the market, and local pension funds seeking to diversify their investments.

Section II: Recent Developments

In terms of regulation, the government announced a couple of policies and measures affecting the residential sector namely:

a. **Finance Act 2020:** (i) The Finance Act increased the amount of rental income that qualifies for Residential Rental Income (RRI) Tax to income to between Kshs 288,000 and Kshs 15 mn per annum from the initial income of between Kshs 144,000 and Kshs 10 mn, and (ii) The Act repealed section 22C of the Income Tax Act thereby abolishing Registered Home Ownership Savings (HOSP) schemes in Kenya effective January 2021,

b. **Tax (Amendment) Act 2020:** The Act saw the amendment of Section 38 of the Retirement Benefits Act (1997) to allow access of retirement benefits for purposes of purchasing of a residential house. In the draft RBA regulations, the amount used shall be the lower of either 40% of the savings, Kshs 7.0 mn or the purchase price of the house. This is expected to unlock a significant amount of pension funds towards the housing sector,

c. **Institutional Regulations:** (i) Following the president's directive in November 2019 to make NHDF contributions voluntary rather than mandatory, the Cabinet Secretary for Housing this year drafted the new NHDF regulations which are aimed at guiding the institutions full operationalization, and (ii) the Central Bank of Kenya finally gazetted the Mortgage Refinancing Companies regulations in August 2019. The facility is slated to begin refinancing mortgage portfolios by Q3'2020,

d. **Finance Act 2019:** The Act, which was assented into law in November 2019, introduced a couple of reforms: (i) inclusion of Fund Managers or Investment Banks registered under the Capital Markets Act as approved institutions for Home Ownership and Savings Plan (HOSP), (ii) stamp duty exemption on the transfer of a house constructed under the affordable housing scheme from the developer to the National Housing Corporation, and, (iii) exemption of goods supplied for the direct and exclusive use in the construction of houses under the affordable housing scheme from Value Added Tax (VAT).

In terms of construction activities, we continued to see key players launching projects with low-cost housing being the main focus, and a few upper market projects. Notable project launched during the period are as shown below:

Various Projects Launched in 2019/2020

Project	Developer	Location	Segment	Category	No. of Units	Estimated Value (Kshs mn)	Expected Completion Date
Belasi		Juja	Detached	Lower mid-End	30	165	N/A
Zaria Village	Safaricom Investment Committee(SIC)	Kiambu	Detached	Lower Mid-End	331	N/A	N/A
Pazuri Holiday Homes	Superior Homes	Kilifi	Detached	Upper Mid-End	372	7,000	Phase I: 2020
Heartland Home	Ever Forgarden Limited	Kilimani	Apartments	Upper Mid-End	900	-	-
	New Forhome Company	Kilimani	Apartments	Upper Mid-End	240	-	-
Wilma Towers	Vaal Real Estate	Kilimani	Apartments	Upper Mid-End	227	1,500	October 2020
Greatwall Gardens III	Erdemann Properties	Mlolongo	Apartments	Lower mid-End	288	3,200	
Eboss Investments	Eboss Investments	Ruiru	Detached	Lower mid-End	120	-	-
Tilisi	Tilisi	Tigoni	Detached	Upper Mid-End	186	3,300	October 2021
Total					**2,694**	**15,165**	

Online Sources

While construction activities grounded to a halt in the second quarter of 2020, we expect developers to resume works as the economy regains momentum in Q3 and Q4'2020.

Section III: Residential Market Performance

In terms of performance, average total returns improved marginally in FY'20 averaging at 5.0%, 0.3% points higher than 4.7% recorded in FY'19, and can be attributed to annual rent increases. Price appreciation, however, declined averaging at (0.1%), 0.4% points lower compared to 0.3% recorded in FY'19. Market uptake remained subdued coming in at 18.3% on average, 2.6% points lower than 20.9% recorded last year, indicating weak demand amidst a tough economic environment. As such, the average price per SQM came in at Kshs 113,972, 4.5% lower than FY'19 average of Kshs 119,330, due to developers offering price discounts in a bid to attract buyers as well as prices remaining flat in majority of the markets.

(All Values in Kshs Unless Stated Otherwise)

Residential Performance Summary FY'20

Segment	Typology	Average Price Per SQM	Average Rent Per SQM	Average Annual Uptake	Average Occupancy	Average Rental Yield	Average Y/Y Price Appreciation	Average Total Returns
High-End	Detached	184,843	736	16.5%	82.3%	4.2%	0.0%	4.2%
Upper Mid-End	Detached	140,642	601	17.7%	88.9%	4.6%	0.9%	5.6%
Lower Mid-End	Detached	69,484	317	17.5%	83.7%	4.6%	(0.5%)	4.1%
Upper Mid-End	Apartments	116,093	610	18.5%	87.9%	5.4%	(0.7%)	4.6%
Lower Mid-End	Apartments	90,939	526	20.3%	86.6%	5.8%	0.1%	5.9%
Satellite Towns	Apartments	81,833	426	19.5%	84.3%	5.4%	(0.1%)	5.3%
Residential Market Average		**113,972**	**536**	**18.3%**	**85.6%**	**5.0%**	**(0.1%)**	**5.0%**

Source: Cytonn Research

Notably, average rental yields improved significantly to 5.0% from 4.3% last year, indicating sustained demand for rental housing whereas demand for sale houses declined amidst a tough financial environment.

Residential Market Performance Summary: FY'20/FY'19 Comparison

Segment	Average Rental Yield FY'20	Average Y/Y Price Appreciation FY'20	Average Total Returns FY'20	Average Rental Yield FY'19	Average Y/Y Price Appreciation FY'19	Average Total Returns FY'19	Change in Rental Yield	Change in Y/Y Price Appreciation	Change in Total Returns (% Points)
High End	4.2%	0.0%	4.2%	3.7%	0.1%	3.8%	0.5%	(0.1%)	0.4%
Upper Mid-End	4.6%	0.9%	5.6%	4.1%	0.1%	4.2%	0.5%	0.8%	1.4%
Lower Mid-End	4.6%	(0.5%)	4.1%	3.9%	0.4%	4.3%	0.7%	(0.9%)	(0.2%)
Detached Average	**4.5%**	**0.1%**	**4.6%**	**3.9%**	**0.2%**	**4.1%**	**0.6%**	**(0.1%)**	**0.5%**
Upper Mid-End	5.4%	(0.7%)	4.6%	5.0%	0.4%	5.3%	0.4%	(1.1%)	(0.7%)
Lower Mid-End	5.8%	0.1%	5.9%	4.8%	0.4%	5.3%	1.0%	(0.3%)	0.6%

Residential Market Performance Summary: FY'20/FY'19 Comparison

Segment	Average Rental Yield FY'20	Average Y/Y Price Appreciation FY'20	Average Total Returns FY'20	Average Rental Yield FY'19	Average Y/Y Price Appreciation FY'19	Average Total Returns FY'19	Change in Rental Yield	Change in Y/Y Price Appreciation	Change in Total Returns (% Points)
Satellite Towns	5.4%	(0.1%)	5.3%	4.5%	0.6%	5.1%	0.9%	(0.7%)	0.2%
Apartments Average	**5.5%**	**(0.2%)**	**5.3%**	**4.8%**	**0.5%**	**5.2%**	**0.8%**	**(0.7%)**	**0.0%**
Residential Market Average	**5.0%**	**(0.1%)**	**5.0%**	**4.3%**	**0.3%**	**4.7%**	**0.7%**	**(0.4%)**	**0.3%**

• The upper mid-end market for detached units recorded the highest positive change in total returns at 1.4% indicating growth in demand in the segment
• The sector saw a notable decline in asking prices in the lower mid-end market for detached units and upper mid-end apartments market at (0.5%) and (0.7%), respectively indicating decline in effective demand. Apartments, however, registered attractive rental yields averaging 5.5% owing to an increase in asking rents driven by a growing working population in the region as well as increased value-add in residential developments

Source: Cytonn Research

Sub-Market Analysis

In our submarket analysis, we classify the various suburbs in the Nairobi Metropolitan Area into three segments

- **High End Segment** – Consists of prime suburbs in Nairobi, such as Karen, Runda and Kitisuru. Most of these zones have been zones for low rise residential developments only and are characterized by palatial villas and bungalows on half acre parcels
- **Upper Middle Income Segment** – Consists of suburbs such as Kilimani, Lavington, Kileleshwa, Loresho and Ridgeways among others. The population in these zones are middle class but with higher incomes than the average characterization of middle class. They are zones for both high rise and low density houses.
- **Lower Middle Income Segment** – Consists of suburbs in Nairobi habited by middle class such as Kikuyu, Ruaka, Dagoretti, Upper Kabete(Uthiru and parts of Mountain View), and Ngong Road(Race Course, Lenana, Corner), among others

A. **Detached Units**

The detached market registered average rental yields of 4.5%, 0.6% points higher than 3.9% recorded in FY'19 on account of a vibrant rental market evidenced by the relatively high occupancy rates averaging at 85.0% from 81.4% in FY'19. The high-end market, however, recorded subdued performance with returns averaging 4.2%. This is largely due to subdued price growth as Rosslyn and Lower Kabete recorded negative averages of (0.1%) and (1.2%), respectively, attributable to decline in asking prices as developers attempt to sell off old stock as well as competition from other high-end markets such as Kitisuru and Runda.

The upper mid-end market recorded an annual price appreciation of 0.9% compared to other detached markets, testament to the relatively high demand from the expanding middle class.

The lower mid-end market recorded subdued performance with price appreciation averaging (0.5%). This is due to decline in asking prices especially in areas such as Ngong, Athi River and Syokimau owing to increased supply amidst minimal uptake especially as lower middle income earners continued to reel from a tough economic environment.

Ridgeways recorded the highest price appreciation and annual returns at 3.0% and 8.5%, respectively, compared to the detached markets averages of 0.1% and 4.6%. The area's performance is boosted by the relatively low supply coupled by presence of good infrastructure and amenities as well as proximity to Runda and Muthaiga, which are high-end areas.

Detached Units' Performance 2019/20

Area	Average Occupancy FY'20	Average Annual Uptake FY'20	Average Rental Yield FY'20	Average Y/Y Price Appreciation FY'20	Annual Total Returns FY'20	Average Rental Yield FY'19	Average Price Appreciation FY'19	Total returns FY'19	Change in Rental Yield (% Points)	Change in Price Appreciation (% Points)	Change in Total Returns (% Points)
High-End											
Runda	89.1%	17.6%	4.3%	0.7%	5.0%	4.0%	1.8%	5.8%	0.3%	(1.1%)	(0.8%)
Rosslyn	85.7%	14.0%	4.7%	(0.1%)	4.7%	4.3%	(2.6%)	1.7%	0.4%	2.5%	3.0%
Karen	83.7%	17.2%	4.1%	0.3%	4.4%	3.0%	1.8%	4.8%	1.1%	(1.5%)	(0.4%)
Kitisuru	85.4%	18.2%	4.4%	0.0%	4.4%	3.7%	(0.4%)	3.2%	0.7%	0.4%	1.2%
Lower Kabete	67.3%	15.6%	3.7%	(1.2%)	2.5%	3.3%	0.0%	3.3%	0.4%	(1.2%)	(0.8%)
Average	**82.3%**	**16.5%**	**4.2%**	**0.0%**	**4.2%**	**3.7%**	**0.1%**	**3.80%**	**0.6%**	**(0.2%)**	**0.4%**
Upper Mid-End											
Ridgeways	90.0%	17.8%	5.5%	3.0%	8.5%	5.0%	0.0%	5.0%	0.5%	3.0%	3.5%
South B/C	94.9%	18.6%	5.2%	0.6%	5.8%	4.6%	(0.7%)	3.9%	0.6%	1.3%	1.9%
Lang'ata	87.4%	17.8%	4.9%	0.9%	5.8%	4.7%	(1.7%)	3.0%	0.2%	2.6%	2.8%
Lavington	80.2%	18.8%	4.0%	1.6%	5.6%	3.3%	(0.3%)	3.0%	0.7%	1.9%	2.6%
Runda Mumwe	85.5%	24.1%	4.8%	0.7%	5.5%	4.3%	1.5%	5.8%	0.5%	(0.8%)	(0.3%)
Loresho	95.8%	14.6%	4.5%	(0.3%)	4.2%	4.5%	1.7%	6.2%	(0.0%)	(2.0%)	(2.0%)
Redhill	88.8%	12.6%	3.4%	0.1%	3.5%	3.3%	0.3%	3.6%	0.1%	(0.2%)	(0.1%)
Average	**88.9%**	**17.7%**	**4.6%**	**0.9%**	**5.6%**	**4.1%**	**0.1%**	**4.2%**	**0.4%**	**0.8%**	**1.2%**
Lower Mid-End											
Ruiru	67.3%	20.6%	5.5%	0.3%	5.8%	5.1%	0.9%	6.0%	0.4%	(0.6%)	(0.2%)
Kitengela	88.3%	17.7%	5.2%	0.0%	5.2%	3.1%	1.6%	4.3%	2.1%	(1.6%)	0.9%
Thika	82.3%	10.0%	4.0%	0.0%	4.0%	4.6%	0.0%	4.6%	(0.6%)	0.0%	(0.6%)
Juja	90.1%	17.1%	3.8%	0.0%	3.8%	2.7%	(2.1%)	0.7%	1.1%	2.1%	3.1%
Syokimau	79.8%	16.7%	4.8%	(1.1%)	3.7%	3.4%	0.0%	3.4%	1.4%	(1.1%)	0.3%
Athi River	94.5%	18.2%	4.7%	(1.2%)	3.5%	4.5%	0.6%	5.0%	0.2%	(1.8%)	(1.5%)
Ngong	83.5%	14.4%	3.9%	(1.1%)	2.7%	3.2%	0.3%	4.8%	0.7%	(1.4%)	(2.1%)
Average	**83.7%**	**16.4%**	**4.6%**	**(0.5%)**	**4.1%**	**3.9%**	**0.4%**	**4.3%**	**0.8%**	**(0.6%)**	**0.0%**
Detached Units' Average	**85.0%**	**16.9%**	**4.5%**	**0.1%**	**4.6%**	**3.9%**	**0.2%**	**4.1%**	**0.6%**	**(0.1%)**	**0.5%**

• Detached units improved in terms of performance with average total returns increasing by 0.5% points to 4.6% in FY'20 from 4.1% in FY'19 boosted by growth in the rental market where rental yields increased by 0.6% points

Source: Cytonn Market Research

B. **Apartments**

With increased supply and thus, competition among developers, apartment prices remained subdued recording an average price appreciation of (0.2%), 0.7% points lower than FY'19. However, the rental yields remained relatively strong averaging at 5.5% compared to 4.8% last year, attributable to an increase in occupancy rates which averaged at 86.3% compared to 82.8% during the same period in 2019.

The upper mid-end segment recorded a mixed performance with an average price appreciation of (0.7%) as markets like Kileleshwa and Kilimani continued to experience a price correction. This is attributable to increased supply in the markets thus leading to downward pressure on prices amidst heightened competition among developers.

Apartments in lower mid-end suburbs recorded the highest total annual returns at 5.9% driven by demand from the growing middle class in Nairobi. Dagoretti recorded the highest price appreciation at 3.1%. This was due to increase in asking prices especially in projects previously selling as off-plan. The area also appeals to investors due to attractive rental yields, which averaged at 6.2% boosted by demand from Nairobi's working population in surrounding commercial nodes such as Kilimani, Upperhill, and Westlands.

In Satellite Towns, apartments recorded a slight decline in price appreciation which came in at

(0.1%) owing to decline in asking prices in areas such as kikuyu and Syokimau amidst reduced uptake. Thindigua recorded the highest annual total returns at 7.9% supported by a relatively high price appreciation which came in at 2.0%. This is due to continued demand in the area driven by the area's proximity to the CBD, increased availability of amenities along Kiambu Road as well as proximity to upper markets such as Runda.

Areas such as Kahawa West and Kikuyu recorded high declines in asking prices with price appreciation averaging (1.4%) and (1.7%), respectively, indicating a drop in demand. Kahawa West continues to lose in appeal due to increased densification and lack of sufficient infrastructure while Kikuyu faces competition from other satellite towns such as Thindigua and Ruaka, thus suppressing price growth.

Apartments Performance 2019/20

Area	Average Occupancy FY'20	Average Annual Uptake FY'20	Average Rental Yield FY'20	Average Y/Y Price Appreciation FY'20	Annual Total Returns FY'20	Average Rental Yield FY'19	Average Price Appreciation FY'19	Total returns FY'19	Change in Rental Yield (% Points)	Change in Price Appreciation (% Points)	Change in Total Returns (% Points)
Upper Mid-End											
Westlands	89.6%	23.9%	5.2%	1.6%	6.8%	5.2%	0.2%	5.4%	0.0%	1.4%	1.4%
Parklands	95.7%	17.1%	5.8%	0.3%	6.1%	5.1%	(0.3%)	4.8%	0.7%	0.6%	1.3%
Loresho	90.8%	13.9%	5.2%	0.0%	5.2%	4.3%	1.4%	5.7%	0.9%	(1.4%)	(0.5%)
Kilimani	88.3%	20.0%	5.8%	(2.7%)	3.1%	5.6%	0.0%	5.6%	0.2%	(2.7%)	(2.5%)
Kileleshwa	75.3%	17.6%	5.0%	(3.0%)	2.0%	4.2%	0.0%	4.2%	0.8%	(3.0%)	(2.2%)
Average	**87.9%**	**18.5%**	**5.4%**	(0.7%)	**4.6%**	**4.9%**	**0.4%**	**5.3%**	**0.5%**	**(1.1%)**	(0.7%)
Lower Mid-End: Suburbs											
Dagoretti	87.0%	21.9%	6.2%	3.1%	9.3%	5.1%	0.0%	5.1%	1.1%	3.1%	4.2%
South C	96.9%	22.7%	6.0%	0.1%	6.1%	4.8%	0.8%	5.6%	1.2%	(0.7%)	0.5%
Langata	94.5%	21.3%	5.6%	0.5%	6.1%	5.5%	1.3%	6.8%	0.1%	(0.8%)	(0.7%)
Donholm	89.6%	16.3%	5.3%	0.0%	5.3%	5.0%	(0.1%)	4.9%	0.3%	0.1%	0.4%
Upper Kabete	76.1%	23.2%	6.0%	(1.4%)	4.6%	4.3%	1.0%	5.3%	1.7%	(2.4%)	(0.7%)
Ngong Road	76.2%	23.3%	5.3%	(0.6%)	4.7%	4.5%	0.9%	5.4%	0.8%	(1.5%)	(0.7%)
Kahawa West	85.6%	13.3%	5.9%	(1.4%)	4.5%	3.9%	(0.7%)	3.1%	2.0%	(0.7%)	1.4%
Average	**86.6%**	**20.3%**	**5.8%**	**0.0%**	**5.8%**	**4.8%**	**0.4%**	**5.3%**	**1.0%**	(0.4%)	**0.5%**
Lower Mid-End: Satellite Towns											
Thindigua	88.2%	22.0%	5.9%	2.0%	7.9%	4.2%	1.8%	6.1%	1.7%	0.20%	1.8%
Athi River	87.4%	16.6%	6.1%	0.0%	6.1%	5.2%	0.3%	5.5%	0.9%	(0.3%)	0.6%
Ruaka	89.5%	22.6%	5.5%	0.1%	5.6%	5.6%	2.4%	8.0%	(0.1%)	(2.3%)	(2.4%)
Kitengela	82.7%	19.4%	5.1%	0.0%	5.1%	4.5%	2.2%	6.6%	0.6%	(2.2%)	(1.5%)
Syokimau	84.6%	18.2%	5.7%	(0.8%)	5.0%	4.9%	0.0%	4.9%	0.8%	(0.8%)	0.1%
Ruiru	74.5%	19.7%	4.6%	0.0%	4.6%	3.9%	(1%)	3.2%	0.7%	0.8%	1.4%
Kikuyu	83.3%	18.2%	5.0%	(1.7%)	3.3%	4.3%	0.0%	4.3%	0.7%	(1.7%)	(1.0%)
Average	**84.3%**	**19.5%**	**5.4%**	**(0.1%)**	**5.4%**	**4.5%**	**0.6%**	**5.1%**	**0.9%**	**(0.7%)**	**0.3%**
Apartments Average	**86.3%**	**19.4%**	**5.5%**	**(0.3%)**	**5.3%**	**4.7%**	**0.5%**	**5.2%**	**0.8%**	**(0.7%)**	**0.1%**

• *Returns to investors in the apartments segment remained largely flat increasing marginally by 0.1% to 5.3% in FY'20 from 5.2% in FY'19. Decline in demand due to the a tough economic environment led to developers reducing prices in a bid to attract buyers resulting to an average price appreciation of (0.3%), 0.7% points lower than 0.5% recorded in FY'19*

Source: Cytonn Research

Section IV: Investment Opportunity

In the residential report, we also gauge which residential nodes offer the most attractive investment opportunity based on important factors that investors consider when investing. To this end, we rank the areas based on:

- Average returns – This is the sum of the rental yield and price appreciation for each suburb. The higher the return the more points allotted,

- Annual uptake – Refers to how fast developments sell on average per annum, the higher/ faster the sales rate, the higher the points allotted,
- Distance from Main Business Nodes- This is to establish the commute distance for majority of the working population, where we assumed Nairobi Central Business District as the common node. This is particularly important to people living in apartments as they tend to attract more young people who prefer to live in close proximity to the CBD,
- Availability of development land – Areas with higher supply of development land have higher ranking and hence more points, and
- State of infrastructure – Ranked as poor, average or good, with poor referring to areas that are accessed by earth roads and have no sewer, average referring to areas that are accessed by tarmac but have no sewer and good referring to areas that are both tarmacked and have a sewerage system.

We allotted the highest points to returns and uptake at 35% and 30%, respectively. For an investor to recoup their investment in detached units, the most important factor would be how fast they can sell.

For detached units, Runda Mumwe and Ruiru continue to offer the best opportunity for detached units' development driven by returns, relatively higher uptake and presence of good infrastructure.

Investment Opportunity: Top 5 Detached Units' Markets

Location	Amenities	Infrastructure	Annual Uptake	Average Returns	Availability of Development Land	Total Points	Rank
Ruiru	2.0	3.0	3.0	3.0	3.0	2.9	1
Runda Mumwe	3.0	2.0	3.0	3.0	2.0	2.8	2
Runda	3.0	2.0	3.0	3.0	2.0	2.8	2
South C	2.0	1.0	3.0	3.0	1.0	2.4	4
Karen	3.0	3.0	2.0	2.0	3.0	2.4	5

For apartments, Ruaka and Westlands ranked highest in terms of average returns, annual uptake and infrastructure, therefore are the best opportunity for development.

Investment Opportunity: Top 5 Apartment Markets

Location	Distance from Main Business Node	Supply	Amenities (Malls & Recreation)	Infrastructure	Uptake	Returns	Availability of Development Class Land	Total Points	Rank
Ruaka	2.0	2.0	3.0	3.0	3.0	3.0	2.0	2.8	1
Westlands	3.0	1.0	3.0	3.0	3.0	3.0	1.0	2.7	2
Thindigua	3.0	2.0	2.0	2.0	3.0	3.0	2.0	2.6	3
Langata	3.0	1.0	2.0	2.0	3.0	3.0	1.0	2.5	4
Ngong Road	2.0	1.0	2.0	3.0	3.0	2.0	1.0	2.3	5

Section V: Outlook and Conclusion

We use demand, access to credit, infrastructure and performance, as the key metrics to gauge our sentiment for the sector going forward.

ResidentialMarketOutlook FY’20Experien[illegible]kGoingForward

Residential Market Outlook Going Forward

Positive Demand

- According to KNBS, the number of Kenyans earning Kshs 50,000 and below decreased in 2019 to 63.1% from 74.5%, affirming the growth of the middle class. However, despite the improvement, the majority of the housing deficit continues to be in the lower mid-end and low income segments. In light of the ongoing economic crisis, we expect the demand for housing to therefore continue rising in the middle and lower income segments as COVID-19 erodes the previou

Residential Market Outlook FY'20 Experience 2020 Outlook Going Forward

- Despite an expected increase in overall credit to the private sector after the repeal of the interest rate capping and the subsequent reduction of the Central Bank Rate to 7.0% in response the ongoing [illegible]

Neutral

[illegible]

Residential Market Outlook FY'20 Experien[illegible]k Going Forward

- With the infrastructure budget allocation dropping by 60.4% in the 2020/21 budget to Kshs 172.4 bn, from Kshs 435.1 bn in 2019/2020 as the government grapples with the economic effects of the COVID-19 pandemic, we expect the government to focus only on the essential infrastructure
- However, Nairobi Metropolitan Area is expected to remain a key priority due to its status as a regional hub

Residential Market Outlook FY'20 Experien… Outlook Going Forward

- Average annual returns improved ma… [illegible] …it and see attitude in light of the current economic uncertainty. The sector's performance is nonetheless expected to stabilize once the economy recovers and housing deman…

For the key metrics that have been used to determine the performance of the sector, one is positive, that is, demand, and three are neutral that is, infrastructure, access to credit and performance. Thus, our outlook for the sector is neutral. For apartments, the best opportunity is investment in areas such as Ruaka and Westlands driven by returns, uptake as well as state of infrastructure and amenities; for detached units, the best opportunity is in areas such as Runda Mumwe and Ruiru, driven by uptake and the current performance in terms of returns to investors. For more information, see the full report.

Liason House, StateHouse Avenue
The Chancery, Valley Road
www.cytonn.com