

Investment Options in the Kenyan Market, & Cytonn Weekly #12/2021

Real Estate

I. Industry Reports

During the week, Knight Frank, a real estate developer and property management company, released the **Africa Residential Dashboard H2'2020**, a report that highlights the rental performance of prime residential markets across Africa. The key take outs from the report are;

- There was a significant decline in both occupancies and rental yields across most of the African cities with the Johannesburg and Cape-town being worst hit having recorded 30.0% decline in rents,
- In Kampala, occupancies registered a 15.0% drop year-on-year in H2'2020 compared to H2'2019 but the rental yields remained at around 8.0% to 10.0%,
- Prime residential sale prices in Nairobi decreased by 3.9% in H2'2020, compared to a 4.0% decrease in H2'2019 attributed to an increase in concessions over the second half of 2020 from developers and sellers due to flexibility and willingness to negotiate lower prices with potential buyers, and,
- Prime residential rents declined by 10.3% between January 2020, and, December 2020 compared to a 2.8% decline during the same period under review in 2019 attributed to the continued oversupply of rental properties and less disposable income due to the unfavourable economic climate.

The above findings are in tandem with the **Cytonn Annual Markets Review-2020** which highlighted that the residential sector recorded a decline in performance in FY'2020 with average total returns coming in at 4.7%, down from 6.1% recorded in FY'2019. The rental yields also recorded 0.1% points marginal drop to 4.9% as a results of reduced rental rates amid a tough economic environment while average annual uptake stagnated at 19.3%, as buyers held on to money amid market uncertainty. We expect the residential market to continue experiencing constrained transaction volumes with the ongoing pandemic and this is expected to affect prices and rental rates.

Knight Frank also released the **Africa Offices Dashboard H2'2020**, a report that outlines the rental performance and trends of prime offices markets across Africa. The key take outs from the Africa Office Dashboard report are as follows;

- Lagos recorded the largest year on year declines in the rental yields by 25.0% as people vacated grade one offices,
- The prime office rents in Nairobi declined by 13.0% in H2'2020 compared to H1'2020 attributed to landlords giving concessions and discounts amid decline in occupancy rates,
- The average occupancy rates across commercial office was approximately 72.0% in the H2'2020,
- The absorption of Grade A and B office space increased by 13.0% in the H2'2020 compared to the H1'2020, attributed to the easing of lockdown measures and the gradual re-opening of the economy, and,

- Nairobi still has some of the low rents per Square meter compared to other cities in the continent.

The above findings are also in line with our **Cytonn Annual Markets Review-2020** which highlighted that the asking rents for the commercial office sector declined by 3.2% to an average of Kshs 93.0 per SQFT in 2020 from Kshs 96.0 per SQFT in 2019, while the average asking price declined by 2.9% to Kshs 12,280 per SQFT in 2020 from Kshs 12,638 per SQFT in 2019. The decline in rates is attributable to discounts or concessions offered by landlords in a bid to cushion their clients amid a tough financial environment. The average occupancy rate also recorded a 2.6% decline to 77.7% in FY'2020 from 80.3% in FY'2019. This was attributed to reduced demand of commercial spaces brought about by the ongoing COVID-19 pandemic as some businesses restructured their operations hence scaling down while other organizations adopted work from home strategies. We expect the oversupply in the commercial office sector to increase in 2021 based on the above factors from the current 6.3mn SQFT and the resultant effect will be reduced prices, rental, and occupancy rates.

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