Cytonn Q1’2021 Markets Review

Real Estate

During the Q1’2021, the real estate sector recorded moderate activities with the residential sector recording an improvement in performance with average y/y total returns to investors coming in at 5.1%, up from 4.7% recorded in FY’2020. The retail sector performance in Q1’2020 recorded a decline of 0.1% points to 7.4% from 7.5% recorded in FY’2020. The average occupancies in the retail sector dropped by 0.2% points from 75.2% in FY’2020 to 75.0% in Q1’2021, the average monthly rents declined by 1.6% to Kshs 166 per SQFT in Q1’2021 from Kshs 169 per SQFT in FY’2020. Commercial office sector registered a 0.2% and 1.4% points decline in the average rental yields and occupancy rates to 6.8% and 76.3% in Q1’2021, from 7.0% and 77.7%, respectively in FY’2020. The land sector however remained resilient recording an average annualized capital appreciation of 2.8%, indicating that people consider land as a good investment asset in the long run despite the pandemic. Some of the key factors that have continued to shape the performance of the real estate sector include:

i. Positive demographics,
ii. Improving infrastructure opening up areas for development,
iii. Improved investor confidence with the Kenya’s ease of doing business ranking coming in at #65,
iv. Continued investor focus on affordable housing, and,
v. The government activities to enable access to affordable mortgages rates e.g. from Kenya Mortgage Refinance Company

There are however a couple of challenges facing the sector among them

i. Travel restrictions in the country,
ii. The existing oversupply of in some sectors e.g. 2.0 mn SQFT in the retail sector and 6.3mn SQFT in the commercial office sector,
iii. Tough economic environment affecting the purchasing power of people,
iv. Shift towards e-commerce affecting the uptake of retail spaces,
v. Constrained financing options in the markets, and,
vi. Business downsizing and adaptation of work from home affecting the demand for commercial office spaces.

Despite these limitations, the real estate sector will remain an attractive investment class in the long run as it continues to offer high developer returns, provide security of returns for investors with a guarantee of increased value for as long as the investor has a good location and can come up with a compelling concept.

Sectoral Market Performance

I. **Residential Sector**

During Q1’2021, the residential sector recorded an improvement in performance with average Y/Y total returns to investors coming in at 5.1%, up from 4.7% recorded in FY’2020. Prices in all segments saw an uptick with an overall average price appreciation of 0.5% in the residential market while the average rental yield recorded 0.2% points decline to 4.7% from 4.9% recorded in FY'2020 attributed to reduced rental rates in the wake of a tough operating environment.

Residential Performance Summary Q1'2021

Segment	**Average Rental Yield Q1'2021**	**Average Y/Y Price Appreciation Q1'2021**	**Average Y/Y Total Returns Q1'2021**	**Average Rental Yield FY'2020**	**Average Y/Y Price Appreciation FY'2020**	**Average Y/Y Total Returns FY'2020**	**q/q Change in Rental Yield (% Points)**	**q/q Change in Price Appreciation (% Points)**	**q/q Change in Total Returns (% Points)**
Detached Units									
High End	3.6%	1.0%	4.6%	3.8%	0.6%	4.4%	(0.2%)	0.4%	0.2%
Upper Mid-End	4.5%	0.5%	5.0%	4.5%	(0.3%)	4.2%	0.0%	0.8%	0.8%
Satellite Towns	4.1%	0.7%	4.8%	3.9%	0.1%	4.0%	0.2%	0.6%	0.8 %
Average	**4. 1%**	**0.8%**	**4.8%**	**4.1%**	**0.1%**	**4.2%**	**0.0%**	**0.7%**	**0.6%**
Apartments									
Upper Mid-End	5.2%	0.1%	5.3%	5.2%	0.0%	5.2%	0.0%	0.1%	0.1%
Lower Mid-End	5.0%	0.2%	5.2%	5.8%	(0.9%)	4.9%	(0.8%)	1.1%	0.3%
Satellite Towns	5.4%	0.1%	5.5%	6.0%	(0.5%)	5.5%	(0.6)%	0.6%	0.0%
Average	**5.2%**	**0.1%**	**5.3%**	**5.7%**	**(0.5%)**	**5.2%**	**(0.5%)**	**0.6%**	**0.1%**

• In comparison to FY'2020, rental yields for apartments recorded a decline in performance from 5.7%. to 5.2% in Q1'2020
• Rental yields in the detached units markets remained flat coming in at 4.1%

Source: Cytonn Research 2021

A. Detached Units Performance

Detached units recorded an improvement in performance in Q1'2021 compared to FY'2020 with y/y average returns to investors coming in at 4.8%, 0.6% points increase from 4.2% recorded in FY'2020. This was attributed to gradual reopening of the economy, that saw transactional volumes pick amid a tough economic environment. The upper mid-end segment was the best performing segment with a y/y average total return of 5.0%, with Runda Mumwe and Ridgeways offering the highest y/y average total returns at 5.7% and 5.3%, respectively. The best performing node was Rosslyn recording the highest y/y average returns at 6.7%, followed by Ruiru and Kitisuru at 6.3% and 5.9%, respectively, while Rongai offered the lowest returns at 2.0%.

(All Values in Kshs unless stated otherwise)

Detached Units Performance Q1'2021

Area	**Average Price per SQM Q1'2021**	**Average Rent per SQM Q1'2021**	**Average Occupancy Q1'2021**	**Average Uptake Q1'2021**	**Average Annual Uptake Q1'2021**	**Average Rental Yield Q1'2021**	**Average Y/Y Price Appreciation Q1'2021**	**Average Y/Y Total Returns Q1'2021**
High-End								
Rosslyn	177,615	744	84.7%	97.1%	12.5%	4.3%	2.4%	6.7%

Detached Units Performance Q1'2021

Area	Average Price per SQM Q1'2021	Average Rent per SQM Q1'2021	Average Occupancy Q1'2021	Average Uptake Q1'2021	Average Annual Uptake Q1'2021	Average Rental Yield Q1'2021	Average Y/Y Price Appreciation Q1'2021	Average Y/Y Total Returns Q1'2021
Kitisuru	231,719	776	89.1%	88.1%	14.7%	3.9%	2.0%	5.9%
Lower Kabete	154,600	521	75.5%	72.7%	14.3%	2.3%	2.3%	4.6%
Karen	189,301	730	80.3%	89.2%	14.3%	3.7%	0.0%	3.7%
Runda	235,567	824	88.1%	93.4%	10.3%	3.8%	(1.6%)	2.2%
Average	**197,760**	**719**	**83.6%**	**88.1%**	**13.2%**	**3.6%**	**1.0%**	**4.6%**
Upper Mid-End								
Runda Mumwe	152,759	639	81.0%	82.1%	14.2%	3.7%	2.0%	5.7%
Ridgeways	149,503	775	82.2%	84.5%	13.0%	5.1%	0.2%	5.3%
Langata	161,305	566	78.7%	94.8%	10.5%	3.8%	1.2%	5.0%
Redhill & Sigona	97,432	480	74.8%	71.5%	12.0%	4.8%	0.2%	5.0%
South B/C	125,025	537	93.3%	69.1%	11.1%	4.9%	(0.8%)	4.1%
Average	**137,205**	**599**	**82.0%**	**80.4%**	**12.2%**	**4.5%**	**0.5%**	**5.0%**
Lower Mid-End								
Ruiru	80,003	319	72.9%	84.2%	24.9%	4.2%	2.1%	6.3%
Juja	61,881	328	74.2%	89.0%	14.1%	4.7%	1.0%	5.7%
Syokimau/Mlolongo	73,976	350	88.3%	72.0%	13.9%	4.9%	0.3%	5.2%
Kitengela	70,719	306	91.5%	82.9%	14.2%	4.6%	0.6%	5.2%
Athi River	83,154	309	82.3%	89.1%	14.8%	3.7%	0.7%	4.4%
Rongai	82,405	233	65.4%	73.0%	10.8%	2.5%	(0.5%)	2.0%
Average	**75,356**	**307**	**79.1%**	**81.7%**	**15.4%**	**4.1%**	**0.7%**	**4.8%**

Source: Cytonn Research 2021

B. Apartments Performance

Apartments registered slight improvement in Q1’2021 with average total returns recording a 0.1% points marginal increase to 5.3% y/y from of 5.2% y/y in FY’2020. Satellite towns continued to be the best performing with an average total returns stagnating at 5.5% attributed to the relatively high rental yield averaging 5.4%. The best performing nodes in terms of returns were Westlands, and South C, and Ruaka which recorded an average y/y total returns of 6.8%, 6.5% and 6.2%, respectively attributed to the resilience of house prices in the areas coupled with above average apartments rental yield of 5.2%. In general, apartment prices in all segments recorded an uptick attributed to the slight increase in demand amid reduced prices that wooed buyers into purchasing units.

(All Values in Kshs unless stated otherwise)

Apartments Performance Q1'2021

Area	Average Price Per SQM Q1'2021	Average Rent per SQM Q1'2021	Average Occupancy Q1'2021	Average Uptake Q1'2021	Average Annual Uptake Q1'2021	Average Rental Yield Q1'2021	Average Y/Y Price Appreciation Q1'2021	Y/Y Average Total Returns Q1'2021
Upper Mid-End								
Westlands	146,032	783	78.5%	83.0%	18.7%	5.2%	1.6%	6.8%
Parklands	117,851	730	83.7%	78.3%	14.2%	5.8%	0.1%	5.9%
Kilimani	104,470	709	88.9%	90.5%	23.5%	5.8%	(0.1%)	5.7%
Loresho	120,877	564	89.2%	80.0%	9.4%	5.0%	0.3%	5.3%
Upperhill	130,608	710	77.0%	78.3%	10.9%	4.2%	(0.1%)	4.1%
Kileleshwa	124,714	625	85.2%	76.5%	14.7%	5.1%	(1.6%)	3.5%
Average	**124,092**	**687**	**83.8%**	**81.1%**	**15.2%**	**5.2%**	**0.1%**	**5.3%**
Lower Mid-End: Suburbs								
South C	114,104	675	96.8%	69.8%	14.2%	6.4%	0.1%	6.5%
Waiyaki Way	87,624	498	79.0%	76.7%	21.8%	5.2%	0.6%	5.8%
South B	103,763	445	70.9%	71.2%	15.2%	4.0%	1.1%	5.1%
Kahawa West	73,794	365	85.3%	77.5%	14.3%	5.4%	(0.5%)	4.9%
Langata	114,460	499	84.0%	82.4%	13.3%	4.2%	(0.4%)	3.8%
Average	**98,749**	**496**	**83.2%**	**75.5%**	**15.8%**	**5.0%**	**0.2%**	**5.2%**
Lower Mid-End: Satellite Towns								
Ruaka	100,757	494	66.4%	74.0%	18.2%	5.4%	0.8%	6.2%
Thindigua	107,336	543	77.3%	73.0%	12.1%	4.7%	1.3%	6.0%
Rongai	60,908	339	90.2%	94.2%	28.6%	6.1%	(0.1%)	6.0%
Ruiru	89,888	510	66.4%	63.9%	17.2%	4.5%	1.1%	5.6%
Ngong	58,015	306	86.4%	70.7%	11.4%	5.4%	0.1%	5.5%
Kikuyu	81,115	483	85.8%	96.9%	22.0%	6.4%	(1.2%)	5.2%
Athi River	58,400	290	91.2%	91.4%	12.8%	5.5%	(1.8%)	3.7%

Apartments Performance Q1'2021

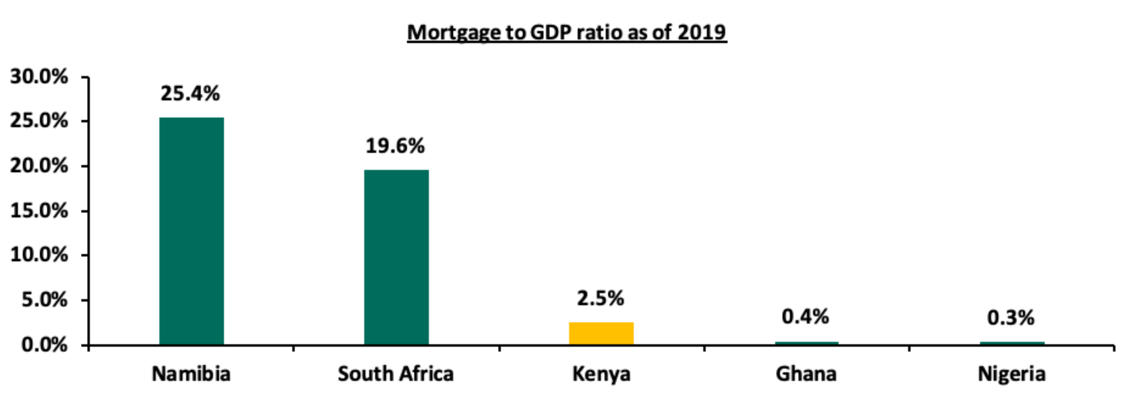
Area	Average Price Per SQM Q1'2021	Average Rent per SQM Q1'2021	Average Occupancy Q1'2021	Average Uptake Q1'2021	Average Annual Uptake Q1'2021	Average Rental Yield Q1'2021	Average Y/Y Price Appreciation Q1'2021	Y/Y Average Total Returns Q1'2021
Average	**79,488**	**424**	**80.5%**	**80.6%**	**17.5%**	**5.4%**	**0.1%**	**5.5%**

Cytonn Research 2021

Other highlights during the quarter include;(See Cytonn Monthly- January 2021 and Cytonn Monthly- February- 2021)

i. Kenya Mortgage and Refinance Company (KMRC), a treasury-backed lender, announced that it has so far advanced Kshs 2.8 bn in credit to mortgage lenders accounting for approximately 7.5% of the Kshs 37.2 bn they had planned to lend from September 2020. For more information, please see Cytonn Weekly #11/2021,
ii. Student Factory Africa, a consortium of architects, partnered with Betonbouw B, a Dutch-based private equity firm to launch a 4,500-bed student accommodation hostel to be located next to Catholic University of Eastern Africa in Karen, at a cost of Kshs 5.0 bn. For more information, please see Cytonn Weekly #11/2021, and,
iii. Property developer Mi Vida Homes, partnered with NCBA bank to provide mortgage finance for the purchase of apartment units at their Garden City project. The units being financed include 1, 2 and 3-bedroom apartments priced from Kshs 8.8 mn to Kshs 16.7 mn, with phase one of the project anticipated to be completed by March 2022. NCBA has been partnering with credible institutions and developers, others being Shelter Afrique and Tatu City developers, to facilitate affordable long-term mortgage financing to homebuyers with the aim of supporting the affordable housing agenda. Mi Vida Homes aims to address shortage of middle-income housing by delivering a minimum of 3,000 units over the next five years. The number of mortgage accounts in Kenya currently stands at 27,993 as at 2019 out of an adult population of more than 24.0 million people in Kenya, with low mortgage uptake of approximately 2.5% being attributed to; i) the high interest rates and high deposit requirements, ii) soaring of property prices, iii) low-income levels making it hard to service loans, and, v) lack of credit risk information for those in the informal sector leading to their exclusion.

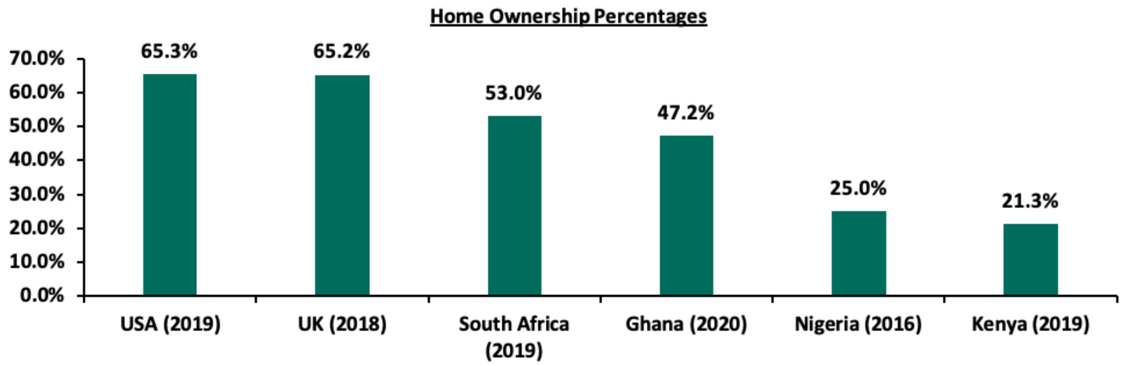
The graph below shows the Mortgage to GDP ratio of different countries as of 2019;



Source: Centre of Affordable Housing Africa

The above partnership is expected to result in increased mortgage uptake thus sparking an increase in the urban home ownership level which has remained low in Kenya at approximately 21.3%, implying that more than 78.7% of the total population are renters, compared to more developed countries such as South Africa which have more than 53.0% of the population owning homes. The low home ownership level in Kenya is mainly attributed to unavailability and unaffordability of housing finance.

The graph below shows the home ownership percentages for different countries in comparison to Kenya;



Source: Online Research

Residential sector performance is expected to be boosted by increased activities with focus on affordable housing by both the government and private sector availing relatively cheap mortgage facilities to homebuyers expected to lead to increased home ownership.

II. Commercial Office Sector

The commercial office sector recorded a 0.2% and 1.4% points decline in the average rental yields and occupancy rates to 6.8% and 76.3% in Q1'2021, from 7.0% and 77.7%, respectively in FY'2020. The declines in the rental yields and the occupancies is attributable to the ongoing COVID-19 pandemic which has led to reduced demand for office spaces as businesses restructure their operations hence scaling down. The asking rents also decreased by 0.8% to an average of Kshs 92 per SQFT in Q1'2021, from Kshs 93 per SQFT in FY'2020, while the asking prices declined by 0.4% to an average of Kshs 12,228 per SQFT in Q1'2021 from Kshs 12,280 per SQFT in FY'2020. The decline in the asking prices and rents is attributed to a surplus of office space which stood at 6.3mn SQFT as at 2020 which has created a bargaining chip for tenants forcing developers to reduce their prices so that they can retain and attract occupants for 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	**Q1'2020**	**H1'2020**	**Q3' 2020**	**FY'2020**	**Q1'2021**	**Δ FY'2020/ Q1'2021**
Occupancy %	81.7%	80.0%	79.9%	77.7%	**76.3%**	**(1.4%) points**
Asking Rents (Kshs) /SQFT	97	95	94	93	**92**	**(0.8%)**
Average Prices (Kshs) /SQFT	12,535	12,516	12,479	12,280	**12,228**	**(0.4%)**

Nairobi Metropolitan Area (NMA) Commercial Office Returns Over Time

Year	Q1'2020	H1'2020	Q3' 2020	FY'2020	Q1'2021	∆ FY'2020/ Q1'2021
Average Rental Yields (%)	7.8%	7.3%	7.2%	7.0%	**6.8%**	**(0.2%) points**

Source: Cytonn Research 2021

Gigiri and Karen were the best performing submarkets in Q1'2021 recording rental yields of 8.3% and 8.0%, respectively attributed to their superior locations, availability of high quality office spaces charging prime rental prices, relatively good infrastructure, and low supply of commercial office spaces within the markets.

Thika Road and Mombasa Road were the worst performing commercial office nodes within the Nairobi Metropolitan Area recording rental yields of 5.3% and 4.7%, respectively attributed to the effect of traffic snarl-ups, low quality office spaces, and zoning regulations as Mombasa Road is mainly considered as an industrial area, while Thika Road is a popular residential hub, thus making the locations unattractive to business firms.

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

(All values in Kshs Unless Stated Otherwise)

Nairobi Metropolitan Area Commercial Office Submarket Performance Q1'2021

Area	Price (Kshs) /SQFT Q1'2021	Rent (Kshs) /SQFT Q1'2021	Occupancy (%) Q1'2021	Rental Yield (%) Q1'2021	Price (Kshs) /SQFT FY'2020	Rent Kshs/ SQFT FY 2020	Occupancy (%) FY'2020	Rental Yield (%) FY'2020	∆ in Rent	∆ in Occupancy (% points)	∆ in Rental Yields (% points)
Gigiri	13,400	116	81.0%	**8.3%**	13,400	116	82.5%	**8.5%**	0.0%	(1.5%	**(0.2%)**
Karen	13,511	107	83.8%	**8.0%**	13,567	106	83.6%	**7.8%**	0.5%	0.2%	**0.1%**
Westlands	11,974	101	74.0%	**7.6%**	11,975	104	74.4%	**7.8%**	(2.4%)	(0.3%)	**(0.2%)**
Parklands	10,763	92	77.2%	**7.4%**	10,958	93	79.9%	**8.2%**	(0.8%)	(2.7%)	**(0.8%)**
Kilimani	12,187	92	78.6%	**6.7%**	12,233	93	79.1%	**6.8%**	(0.4%)	(0.5%)	**(0.1%)**
Upperhill	12,524	95	74.8%	**6.8%**	12,684	92	78.5%	**6.9%**	2.5%	(3.7%)	**(0.1%)**
Nairobi CBD	12,110	81	80.9%	**6.6%**	11,889	82	82.4%	**6.8%**	(1.0%)	(1.5%)	**(0.2%)**
Thika Road	12,417	76	74.4%	**5.3%**	12,500	80	76.1%	**5.8%**	(4.7%)	(1.7%)	**(0.4%)**
Mombasa road	11,167	72	61.6%	**4.7%**	11,313	73	63.0%	**4.8%**	(1.8%)	(1.4%)	**(0.1%)**
Average	**12,228**	**92**	**76.3%**	**6.8%**	**12,280**	**93**	**77.7%**	**7.0%**	**(0.9%)**	**(1.4%)**	**(0.2%)**

Source: Cytonn Research 2021

We have a NEGATIVE outlook for the NMA commercial office sector attributed to the reduced demand of commercial office spaces brought about by the COVID-19 pandemic amid tough economic environments as firms continue to downsize due to financial constrains while others embrace the working from home strategy and may make it a permanent measure with the third wave of the pandemic making it worse. Landlords are expected to continue adopting strategies to cushion themselves against the impacts of the pandemic such as giving discounts and concessions to attract and retain clients. The sector is however expected to recover in the long run as the economy picks up. Investment opportunity lies in Gigiri and Karen which offer relatively good returns compared to the market averages.

III. Retail Sector

The retail sector performance in Q1’2020 recorded a decline of 0.1% points to 7.4% from 7.5% recorded in FY’2020. The average occupancies dropped by 0.2% points from 75.2% in FY’2020 to 75.0% in Q1’2021, the average monthly rents declined by 1.6 % to Kshs 166 per SQFT in Q1’2021 from Kshs 169 per SQFT in FY’2020. The general decline in performance of the sector is attributed to; i) exit by some retailers, both local and international to cushion themselves against the pandemic, ii) constrained spending power among consumers resulting from a tough financial environment, iii) declining occupancy rates due to the reduced demand for physical retail spaces as a result of the shifting focus to e-commerce by some retailers, iv) current oversupply in the retail sector of 2.0 mn SQFT in the Kenyan retail market and 3.1 mn SQFT in the NMA Metropolitan Area. However, some of the factors that continue to cushion the performance of the sector include: i) continued improvement of infrastructure opening up areas for investment, ii) relatively high population growth rate, and, iii) investor confidence due to the ease of doing business in Kenya, having been ranked position #56 by World Bank in the ease of doing business.

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

(All values in Kshs unless stated otherwise)

Summary of performance overtime

Item	**Q1'2020**	**H1'2020**	**Q3'2020**	**FY'2020**	**Q1’2021**	**Δ Q1’2021**
Average Asking Rents (Kshs/SQFT)	173	170	169	169	**166**	**(1.6%)**
Average Occupancy (%)	76.3%	74.0%	74.2%	75.2%	**75.0%**	**(0.2%) points**
Average Rental Yields (%)	7.7%	7.4%	7.4%	7.5%	**7.4%**	**(0.1%) points**

Source: Cytonn Research 2021

In terms of the sub markets analysis, Westlands and Karen were the best performing nodes recording average rental yields of 10.1% compared to the overall market average of 7.4%. The performance is attributed to presence of affluent residents who have a high consumer purchasing power with the areas hosting high end income earners, the ease of access to the areas, and, relatively high occupancy rates of above 81.0% against the market average of 74.9%.

Eastlands recorded the lowest yields of 5.5%, 1.9% points lower than the average market rates of 7.4%, the performance is attributed to low rental charges of Kshs 132 per SQFT against a market average of Kshs 167 Per SQFT, competition from informal retail spaces, and constrained consumer purchasing power.

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

(All values in Kshs unless stated otherwise)

Nairobi Metropolitan Area Retail Market Performance Q1’2021

Area	**Rent (Kshs) /SQFT Q1'2021**	**Occupancy% Q1'2021**	**Rental Yield Q1'2021**	**Rent (Kshs) /SQFT FY’ 2020**	**Occupancy FY’ 2020**	**Rental Yield FY’ 2020**	**Q1’ 2021 Δ in Rental Rates**	**Q1’ 2021 Δ in Occupancy (% points)**	**Q1’ 2021Δ in Rental Yield (% points)**
Westlands	205	84.5%	**10.1%**	209	81.5%	**9.9%**	(2.0%)	3.0%	**0.2%**
Karen	219	82.6%	**10.1%**	217	81.0%	**9.8%**	1.1%	1.6%	**0.3%**
Kilimani	173	83.8%	**8.7%**	171	82.5%	**8.5%**	0.9%	1.3%	**0.2%**
Ngong Road	178	75.0%	**7.6%**	178	80.3%	**8.2%**	(0.4%)	(5.3%)	**(0.5%)**

Nairobi Metropolitan Area Retail Market Performance Q1'2021

Area	Rent (Kshs) /SQFT Q1'2021	Occupancy% Q1'2021	Rental Yield Q1'2021	Rent (Kshs) /SQFT FY' 2020	Occupancy FY' 2020	Rental Yield FY' 2020	Q1' 2021 Δ in Rental Rates	Q1' 2021 Δ in Occupancy (% points)	Q1' 2021Δ in Rental Yield (% points)
Kiambu road	163	70.8%	**6.7%**	176	67.5%	**6.9%**	(8.1%)	3.3%	**(0.2%)**
Mombasa road	139	73.0%	**6.0%**	140	70.0%	**5.9%**	(0.7%)	3.0%	**0.1%**
Satelite towns	138	72.4%	**6.0%**	133	73.0%	**5.8%**	4.0%	(0.6%)	**0.2%**
Thika Road	148	66.8%	**5.6%**	158	70.5%	**6.3%**	(6.2%)	(3.7%)	**(0.7%)**
Eastlands	132	66.0%	**5.5%**	137	70.2%	**6.1%**	(3.5%)	(4.2%)	**(0.5%)**
Average	**166**	**75.0%**	**7.4%**	**169**	**75.2%**	**7.5%**	**(1.6%)**	**(0.2%)**	**(0.1%)**

Source: Cytonn Research 2021

Other notable highlights in the retail sector in Q1'2021 include:

i. Naivas Supermarket announced plans to open its 70th retail store at Kilifi Complex Centre in Kilifi taking up the 25,000 SQFT space previously occupied by troubled retailer Tuskys. This follows the opening of other outlets such as Ananas Mall in Thika, Hazina Towers, and Prestige Plaza among others. For more analysis, please see Cytonn Weekly #03/2021,

ii. Giordano, a Hong Kong clothing retailer, opened its 3rd store in Nairobi at Two Rivers Mall along Kiambu Road, taking up 1,076 SQFT space. The two other outlets by the retailer which were opened in 2020 are located at the Garden City Mall along Thika Road and at the Junction Mall along Ngong Road. For more analysis, please see Cytonn Monthly-January 2021,

iii. French Retailer Carrefour opened 3 new outlets in: i) Westgate Mall in Westlands, taking up approximately 15,000 SQFT of space previously occupied by Shoprite, ii) Nextgen Mall along Mombasa Road taking up approximately 18,000 SQFT of space previously occupied by Souk Bazar supermarket, and iii) Centre Point Mall in Diani, Kwale County taking up approximately 10,000 SQFT of space occupied by former retail giant Nakumatt. For more analysis, please see Cytonn Monthly-February 2021, Cytonn Weekly #05/2021, and, Cytonn Weekly #07/2021,

iv. Kentucky Fried Chicken (KFC), a US fast food chain, opened a new branch in Mombasa County, in an expansion drive that saw it take up approximately 2200 SQFT of space in Mombasa Trade Centre, marking its first outlet in the county and raising its national branch count to 24. For more analysis, please see Cytonn Weekly #11/2021, and,

v. QuickMart Supermarket, a local retailer opened up a retail store in Eldoret at Eldo Center Mall taking up space that was previously occupied by struggling retailer Tuskys. This brings the total number of outlets opened by the retailer to 39 with two outlets opened this year. Eldoret has remained an attractive investment area for retailers supported by; i) positive demographics with Eldoret having a population of 475,715 an increase by 64.4%, from 289,340 in 2009, ii) a growing middle class, and, iii) improving infrastructure. In terms of performance, according to the Cytonn Kenya Retail Report 2020, Eldoret had the highest occupancy rates at 80.2%, 3.6% points higher than the market average of 76.6%, however, Eldoret recorded rental yields of 5.9%, 0.8% lower than the market averages due to limited quality retail space supply and competition from informal retail markets.

The table below shows a summary of retail performance in key urban cities in Kenya;

All Values in Kshs Unless Stated Otherwise

Summary of Retail Performance in Key Urban Cities in Kenya

Region	**Rent/SQFT 2020**	**Occupancy% 2020**	**Rental Yield 2020**
Mount Kenya	125.0	78.0%	**7.7%**
Nairobi	168.5	74.5%	**7.5%**
Mombasa	114.4	76.3%	**6.6%**
Kisumu	97.2	74.0%	**6.3%**
Eldoret	130.0	80.2%	**5.9%**
Nakuru	55.7	76.6%	**5.9%**
Average	**115.1**	**76.6%**	**6.7%**

Source: Cytonn research 2020

The table below shows the number of stores of key local and international retail supermarket chains in Kenya:

Name of Retailer	**Highest No. of Branches that ever Existed as at FY'2020**	**Number of Branches Opened in 2021**	**Closed Branches**	**Current Number of Branches**
Naivas Supermarket	69	1	0	70
Tuskys	64	0	59	5
QuickMart	37	2	0	39
Chandarana Foodplus	20	0	0	20
Carrefour	9	3	0	12
Uchumi	37	0	33	4
Game Stores	3	0	0	3
Choppies	15	0	13	2
Shoprite	4	0	2	2
Nakumatt	65	0	65	0
Total	**323**	**6**	**172**	**157**

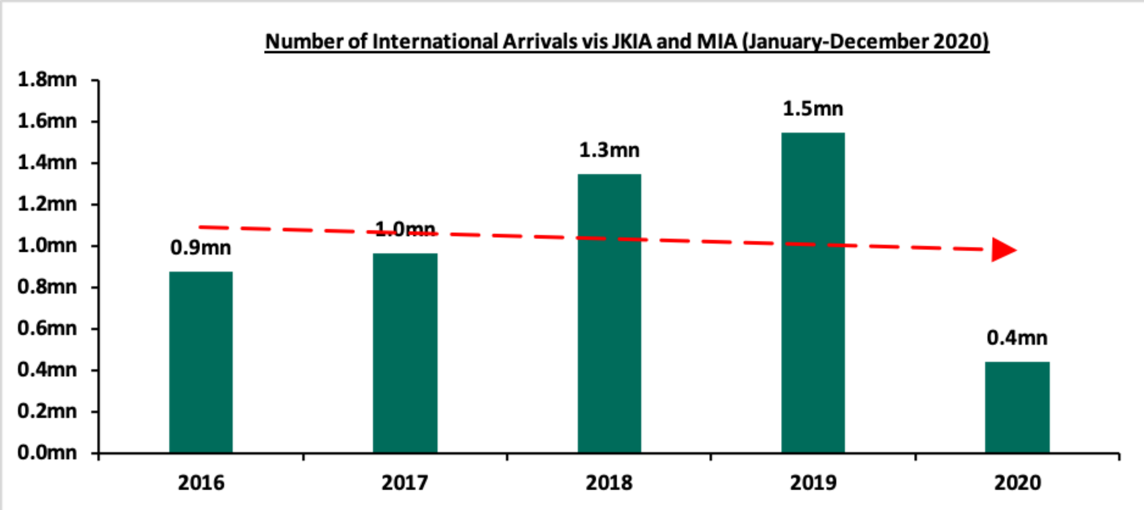
Source: Online Research

We retain a NEUTRAL outlook for the retail sector with the performance expected to be affected by factors such as shift towards e-commerce reducing need for physical retail spaces, ii) reduced purchasing power among consumers amid a tough economic environment, iii) reduced rental rates as landlords offer rental concessions and discounts to retain tenants. However, the performance of the retail sector is expected to be cushioned by, i) expansion by local and international retailors, ii) improving infrastructure opening up areas for investment, positive demographics, and iii) investor confidence due to the ease of doing business in Kenya, having been ranked position #56 by World Bank.

IV. **Hospitality Sector**

During the quarter, the Kenya National Bureau of Statistics (KNBS), released the Leading Economic Indicators (LEI) December 2020, indicating that the total number of international arrivals through Jomo Kenyatta International Airport (JKIA) and Moi International Airport (MIA) rose by 48.7% from 31,875 persons in November 2020 to 47,406 persons in December 2020.

The graph below shows the number of international arrivals in Kenya in the last five years;



Source: Kenya National Bureau of Statistics

Despite this, the hospitality sector remains the hardest hit by the COVID-19 pandemic which resulted in reduced demand for hospitality facilities and services given the overreliance on tourism and MICE. The current lockdown has made matters worse with individuals operating in the hospitality sector witnessing reduced activities, low occupancies for hotels and serviced apartments, and others being forced to halt their operations.

A highlight of the quarter was;

i. The Kenyan National Treasury cut the Ministry of Tourism budget by 3.4 bn to 9.4 bn from 12.8 bn in the proposed Supplementary Budget Estimates for the 2020/2021 fiscal year in an effort to reduce funds meant for tourism marketing. This comes at a time when the hard-hit sector has been recovering from the effects of the Covid-19 pandemic following the government's Post-Corona Hospitality Sector Recovery Stimulus by offering financial aid from Ministry of Tourism through the Tourism Finance Corporation (TFC) and other international agencies, repackaging of the tourism sector to appeal to domestic tourists, and relaxation of travel advisories. However, we expect the move by the National Treasury to constrain the recovery plans in the hospitality sector with the current Covid-19 restrictions on bars, restaurants and eateries in Nairobi, Nakuru, Machakos, Kajiado and Kiambu expected to affect accommodation and food services sector which will have a downturn on the hospitality sector performance.

We expect the hospitality sector to record subdued performance with the reduced budgetary allocation expected to hamper recovery efforts while the lockdown restrictions will affect accommodation and food services hence reduced occupancy rates in hotels.

V. **Land Sector**

The land sector has continued to show resilience in Q1'2021 recording an average annualized capital appreciation of 2.8%, indicating that people consider land as a good investment asset in the long run despite the pandemic. The satellite towns recorded the highest annual capital appreciation of 7.2%, this is attributed to the affordability of land, continued focus on affordable housing and improving infrastructure opening up the areas for development.

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

All Values in Kshs Unless Stated Otherwise

Summary of the Performance Across All regions Q1’2021

	Q1'2020	Q1'2021	Annualized Capital Appreciation
Un-serviced land-Satelite Towns	24.5 mn	25.6 mn	**7.2%**
Nairobi Suburbs- Low Rise Residential Areas	86.8 mn	89.9 mn	**4.6%**
Serviced land-Satelite Towns	14.5 mn	15.0 mn	**3.8%**
Nairobi Suburbs- High Rise Residential Areas	136.3 mn	134.1 mn	**0.5%**
Nairobi Suburbs- Commercial Areas	419.2 mn	410.2 mn	**(2.0%)**
Average	**136.2 mn**	**135.0 mn**	**2.8%**

Source: Cytonn Research 2021

Performance per node

a. The asking land prices for the Unserviced land in satellite towns recorded an annualized capital appreciation of 7.2%, this is attributed increased demand for development land, and focus on affordable housing. Ruaka had the highest land prices per acre of Kshs 93.4 mn compared to the market average of Kshs 25.6 mn.

All values is Kshs unless stated otherwise

Satellite Towns - Unserviced Land

Location	**Q1'2020**	**Q1’2021**	**Annualized Capital Appreciation**
Juja	10.2 mn	11.3 mn	**10.5%**
Athi River	3.8 mn	4.1 mn	**8.6%**
Ongata Rongai	11.4 mn	12.4 mn	**8.5%**
Utawala	12.9 mn	13.9 mn	**7.6%**
Limuru	17.5 mn	18.5 mn	**5.5%**
Ruaka	91.0 mn	93.4 mn	**2.7%**
Average	**24.5 mn**	**25.6 mn**	**7.2%**

Source: Cytonn Research 2021

b. The asking prices of land in the low rise areas recorded an annual capital appreciation of 4.6% attributable to high demand in the areas. These areas have also remained attractive due to their exclusivity and privacy with the areas being attractive for family units as they are sparsely populated.

All values is Kshs unless stated otherwise

Low Rise Residential Areas

Location	Q1'2020	Q1'2021	Annualized Capital Appreciation
Kitisuru	77.4 mn	83.7 mn	**8.2%**
Runda	70.2 mn	74.8 mn	**6.5%**
Ridgeways	65.2 mn	69.0 mn	**5.8%**
Karen	57.0 mn	59.0 mn	**3.5%**
Spring Valley	164.3 mn	162.9 mn	**(0.9%)**
Average	**86.8 mn**	**89.9 mn**	**4.6%**

Source: Cytonn Research 2021

c. The serviced land in satelite towns recorded an average annualized capital appreciation of 4.7% with Thika being the best performing area recording an average annualized capital appreciation of 10.5%. Ruai recorded a price correction of (6.4%) attributed to reduced demand of land as investors focus on areas witnessing more real estate related activities.

All values is Kshs unless stated otherwise

Satellite Towns- Serviced Land

Location	Q1'2020	Q1’2021	Annualized Capital Appreciation
Thika	10.1 mn	11.2 mn	**10.5%**
Ruiru	21.1 mn	23.0 mn	**9.0%**
Ongata Rongai	16.7 mn	17.9 mn	**7.3%**
Syokimau-Mlolongo	12.0 mn	12.6 mn	**4.8%**
Athi River	12.8 mn	13.2 mn	**3.1%**
Ruai	14.0 mn	13.1 mn	**(6.4%)**
Average	**14.5 mn**	**15.0 mn**	**4.7%**

Source: Cytonn Research 2021

d. The asking land prices in the high rise residential areas recorded a 0.5% annualized capital appreciation with Kasarani being the best perform node at 5.2% as the price has remained low at Kshs 68.1 mn compared an average of Kshs 134.1 mn. The attractiveness is also supported by developers showing interest in the area to accommodate the growing middle income population and availability of infrastructure with the area being served by Thika Road. Kileleshwa registered an 3.6% price correction attributed to reduced demands as investors continue to explore more affordable land options with an acre averaging at Kshs 301.1mn compared to the market average of Kshs 134.1mn per acre.

All values is Kshs unless stated otherwise

High Rise Residential Areas

Location	Q1'2020	Q1'2021	Annualized Capital Appreciation
Kasarani	64.7 mn	68.1 mn	**5.2%**
Embakasi	68.7 mn	71.0 mn	**3.3%**
Dagoretti	99.2 mn	96.4 mn	**(2.9%)**
Kileleshwa	312.4 mn	301.1 mn	**(3.6%)**
Average	**136.3 mn**	**134.1 mn**	**0.5%**

Source: Cytonn Research 2021

e. The commercial zones recorded a 2.0% price correction in the average asking land prices. This is attributed to the decrease demand for development land mainly due to the high asking prices of Kshs 410.2 mn per acre thus limiting the ability of developers to generate favorable returns from the investments. The existing oversupply in the commercial office spaces of 6.3 mn SQFT and 2.0 mn SQFT in the Nairobi metropolitan area has also affected the supply since developers have halted their plans to allow for absorption of the existing spaces. Upperhill recorded the highest price correction of (3.4%) attributable reduced demand brought about by unaffordability as land in the area costs Kshs 488.8 mn per acre against the commercial zone average of Kshs 410.2mn per acre.

All values is Kshs unless stated otherwise

Commercial Zones

Location	Q1'2020	Q1’2021	Annualized Capital Appreciation
Riverside	350.9 mn	348.3 mn	**(0.7%)**
Westlands	421.3 mn	415.4 mn	**(1.4%)**
Kilimani	398.5 mn	388.4 mn	**(2.5%)**
Upper Hill	506.1 mn	488.8 mn	**(3.4%)**
Average	**419.2 mn**	**410.2 mn**	**(2.0%)**

Source: Cytonn Research

Despite the current decline in real estate related activities as a result of the effects of the COVID-19 pandemic, the land sector has continued to show resilience, the performance of the land sector has been cushioned by various factors including i) growing demand for land to develop especially in the satelite towns, ii) improving infrastructure, iii) positive demographics, iv) continued focus on the affordable housing initiative.

vi. **Infrastructure Sector**

Highlights in the sector during Q1’2020 include;

i. The National Treasury proposed an allocation of Kshs 200.0 bn to the State Department of Infrastructure. The proposal is expected to increase the budget allocation to the infrastructure sector by 16.0% from Kshs 172.4 bn allocated in the financial year 2020/2021. For more information, please see Cytonn Monthly-January 2021, and,

ii. The Kenya Urban Roads Authority (KURA) announced the construction of a Kshs 907.2 mn 8-Kilometre road in Nairobi's Umoja-Innercore aimed at improving access into the area. The project is expected to include a 7-meter wide two-lane carriageway, a footpath, bus bays, drainage facilities, road markings and street lighting. For more information, see Cytonn Weekly #06/2021.

The expected increase in the infrastructure budget allocation is expected to boost the implementation of select infrastructural projects thus opening up areas for development hence boosting the real estate sector. This will be in line with the country's economic expansion goals to make Kenya the African hub for transportation, industrial, and services sectors. Despite the reduced budget allocation to the sector some of the other ongoing infrastructural projects include; i) the Nairobi Express way, ii) Nairobi Western Bypass, iii) Lamu Port Access Road, and, iv) the Mombasa Port Development Project among others.

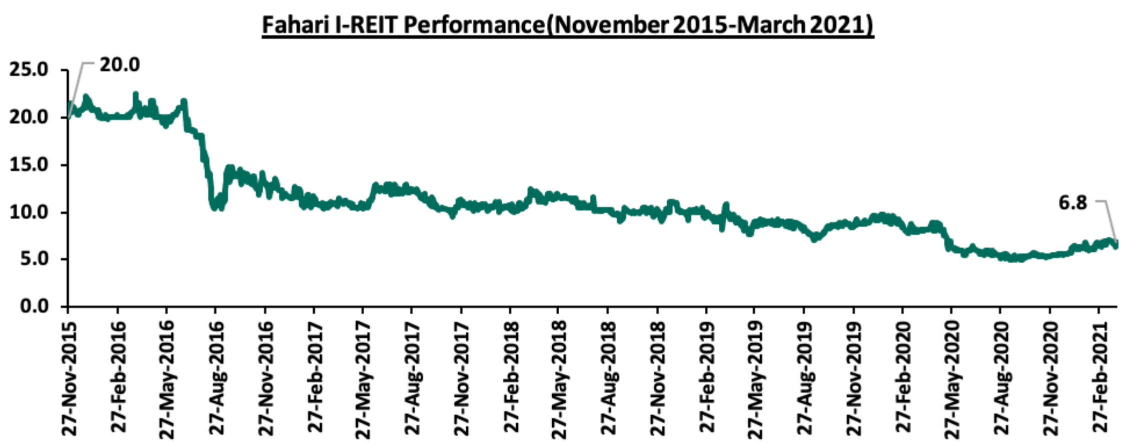
vii. **Statutory Review**

During the Q1'2021;

i. The Kenya's National Treasury announced plans to draft a national property rating legislation to replace the outdated Valuation for Rating Act of 1956and the Rating Act of 1963. The agency seeks to overhaul the 1956 property valuation laws in a bid to determine new land rates and ensure inclusion of more property owners into the tax bracket. For more information, please see Cytonn Weekly #01/2021, and,
ii. The Landlord and Tenant Bill of 2021was tabled in Parliament with the aim of consolidating the laws relating to the renting of business and residential premises and regulating the relationship between the landlord and tenant in order to promote stability in the rental sector. For more information, please see Cytonn Weekly #11/2021.

viii. **Listed Real Estate**

During Q1'2021, the Fahari I-REIT reported a 17.2% price increase its share price closing the quarter at Kshs 6.8 per having opened the year trading at Kshs 5.8 per share. The share price remains low compared to Net Asset Value of the REIT at Kshs 20.9 having lost 68.0% from its initial trading price of Kshs 20.0 in November 2015.The graph below shows performance of the Fahari I-REIT since inception;



During the week, student hostels developer Acorn Holdings, announced that it had raised a total of Kshs 2.1 bn from investors in issuance of its development real estate investment trust (D-REIT) and income REIT (I-REIT) thus falling short of its Kshs 7.5 bn target. The total performance of the two REITs stands at 28.0% with the D-REIT at 18.7% and the I-REIT at 8.6% having raised Kshs 1.4 bn for the D-REIT raised and Kshs 641.5 mn for the I-REIT. According an early statement Kshs 1.0 bn of the REIT money was raised from InfraCo, a United Kingdom-funded private infrastructure development group. For more information, Cytonn Weekly #09/2021.

We expect the REIT market to pick up signaling hope for the real estate sector developers to raise funds to finance their investments from the Capital Markets. However, REITs performance is expected to be constrained by i) insufficient institutional-grade real estate assets, ii) lack of investor appetite in the instruments, iii) high minimum investment amounts set at Kshs 5.0 mn that is over 100x the median income in Kenya, and, iv) low investor knowledge.

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 Q1’2021	Outlook
Residential	• Apartments registered relatively higher average total returns to investors at 5.2% compared to detached markets at 4.1%, while price appreciations recorded an uptick at 0.8% and 0.1%, respectively owing to improved market activity amid the reopening of the economy • We expect total returns to investors to improve supported by improved rental rates and capital appreciation of properties • The investment opportunity for apartments lies in areas such as Westlands, South C, Ruaka and Thindigua which continued to post high returns. For detached units, opportunity lies in submarkets such as Rosslyn, Kitisuru, Runda Mumwe, and Ruaka	Neutral
Office	• The commercial office sector recorded a 0.2% and 1.4% points decline in the average rental yields and occupancy rates to 6.8% and 76.3% in Q1’2021, from 7.0% and 77.7%, respectively in FY’2020, attributed to reduced demand for office spaces • Investment opportunity lies in Gigiri and Karen which were the best performing submarkets in Q1’2021 recording rental yields of 8.3% and 8.0%, compared to a market average of 6.8%	Negative
Retail	• The retail sector performance in Q1’2020 was flat with the rental yields coming in at 7.5%. The average occupancies dropped by 0.3% points from 75.2% in FY’2020 to 74.9% in Q1’2021, attributed to reduced demand and the current oversupply of 2.0mn SQFT • We expect the sector to continue witnessing i) shift towards e-commerce reducing need for physical retail spaces, ii) reduced purchasing power among consumers amid a tough economic environment, iii) reduced rental rates as landlords offer rental concessions and discounts to retain tenants • Investment opportunity lies in Westlands and Karen which were the best performing nodes recording average rental yields of 10.3% and 10.1%, respectively, compared to the overall market average of 7.5%	Neutral
Hospitality	• The hospitality sector began to recover gradually following the Ministry of Tourism’s post-corona recovery strategy funds, the government’s stimulus package and, the tourism sector’s plan to repackage their products to appeal to a wider scope of domestic tourists. • We expect the hospitality sector to record subdued performance with the reduced budgetary allocation expected to hamper recovery efforts while the lockdown restrictions will affect accommodation and food services hence reduced occupancy rates in hotels. However with the provision of international flights, the tourism sector is expected to boost performance of the hospitality sector	Neutral

Theme	Thematic Performance and Outlook Q1’2021	Outlook
Land	• The land sector has continued to show resilience in the Q1’2021 recording an average annualized capital appreciation of 2.8%, indicating that people consider land as a good investment asset in the long run despite the pandemic.	Positive
	• Investment opportunity lies in Juja for the Unserviced land and Kitisuru in the low rise segment which recorded average annualized capital appreciation of 10.5% and 8.2%, respectively. For the sites and service schemes, investment opportunity lies in Thika which recorded an annualized capital appreciation of 10.5%.	
Listed Real Estate	• The Fahari I-REIT reported and a 17.2% price increases its share price closing the quarter at Kshs 6.8 per having opened the year trading at Kshs 5.8 per share. The share price remains low compared to Net Asset Value of the REIT at Kshs 20.9 having lost 68.0% from its initial trading price of Kshs 20.0 in November 2015.	Neutral

The outlook of the real estate sector is positive for one sector-land, neutral for four sectors-residential, retail, hospitality and listed real estate, and negative for one sector-commercial office. Therefore, our overall outlook for the real estate sector is NEUTRAL, supported by; positive demographics, improving infrastructure, continued focus on the affordable housing font, and improved access to mortgages. The performance of the sector is likely to be constrained by the existing oversupply in the commercial office font and the retail sector, reduced consumer purchasing power brought about by the tough economic environment and reduced demand as businesses downsize especially in the commercial office sector and the retail sector.