

Residential Sector Q1'2021 Markets Review Note:

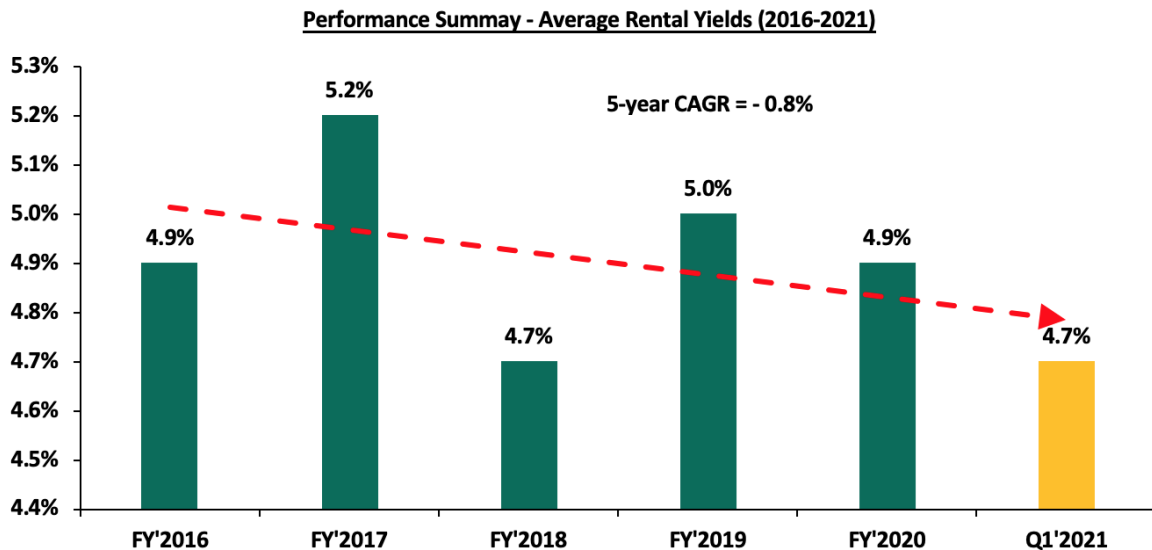
Residential Sector Q1'2021 Markets Review Note:

For detached units, top 3 markets were Rosslyn, Ruiru and Kitisuru, and for apartments, the top 3 markets were Westlands, South C, and Ruaka.

During Q1'2021, the residential sector recorded increased activities supported by; i) increased transactional volumes following improved liquidity with gradual reopening of the economy, ii) improved access to mortgage loans thus encouraging uptake of units, and, iii) continued focus on the affordable housing agenda aimed at delivering affordable homes for Kenyans.

In terms of performance, the sector recorded improvement, with y/y average 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 y/y average price appreciation of 0.5% in the residential market while the y/y average rental yield recorded a 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.

The chart below shows performance of average rental yields in the last five years;



Source: Cytonn Research

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%, a 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. Average y/y price appreciation in the detached market saw a 0.7% points increase from 0.1% in FY'2020 to 0.8% in Q1'2021 showing their resilience to economic slowdowns amid a pandemic.

Detached Units 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%

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% attributed to the relatively high rental yield averaging 4.3% in Q1'2020, 0.2% points higher than the detached market average which stood at 4.1%. Ruiru and Kitisuru came in second and third place respectively, 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%
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 segment with an average total returns stagnating at 5.5% attributed to their

relatively high rental yield averaging 5.4%.

Apartments 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)
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%

The best performing node in terms of returns was Westlands with a y/y average total return of 6.8% attributed to house prices recording a 1.6% y/y average price appreciation, which was the highest in the apartments market. South C and Ruaka came in second and third place respectively, recording average y/y total returns of 6.5% and 6.2% respectively, attributed to their relatively high rental yields at 6.4% and 5.4%, respectively. 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%

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
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%
Average	79,488	424	80.5%	80.6%	17.5%	5.4%	0.1%	5.5%

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Our outlook on the residential sector is **NEUTRAL** as we expect total returns to investors to improve following increased market activity. However, we expect reduced rental rates and house prices to continue affecting the rental yields and capital appreciation of properties hence a slowdown residential sector performance. The investment opportunity for detached units lies in submarkets such as Rosslyn, Kitisuru, Runda Mumwe, and Ruiru while for apartments it lies in areas such as Westlands, South C, Ruaka and Thindigua which continued to post high returns.

For more information, please see our [Cytonn Q1'2021 Markets Review](#).

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