Cytonn H1’2021 Markets Review

Real Estate

During the H1’2021, the real estate sector recorded increased activities following the reopening of the economy which saw an improved business environment supported by;

i. The Kenyan government’s aggressiveness in implementation of the affordable housing agenda and infrastructure projects such as the Nairobi Expressway, Pangani Housing Project, and River Estate Project in Ngara among many others, despite the pandemic, hence enhancement of home ownership rates and opening up areas for investment opportunities,
ii. Efforts by the Kenya Mortgage Refinance Company (KMRC) and other financial institutions to provide relatively affordable mortgages to Kenyans,
iii. Aggressive expansion by local and international retailers taking up prime retail spaces left by troubled retailers,
iv. Relatively high urbanization and population growth rates of 4.0% p.a and 2.3% p.a, respectively against the global average of 1.9% p.a and 1.1% p.a, respectively according to World Bank, and,
v. Launch of the National Land Information Management System (NLIMS) aimed at streamlining land transactions in Nairobi.

However, the following factors continued impeding performance of the real estate sector;

i. Partial lockdowns and travel restrictions imposed in the country that affected performance of the hospitality sector which heavily relies on tourism sector,
ii. Reduced demand for office spaces as organizations still embraced the remote working strategy,
iii. Reduced consumer purchasing power attributed to the tough economic condition brought about by the COVID-19 pandemic,
iv. The existing oversupply of 2.0 mn SQFT in the Kenya retail sector and 7.3mn SQFT in the commercial office sector, and,
v. Existing vacancy rates despite the slight occupancy increase rates for the retail spaces recorded in H1’2021, due to the shift towards online shopping that is still being embraced.

Despite the impeding factors, the real estate sector has made a remarkable improvement during the period, hence we expect its performance to stabilize in the long run supported by government efforts through the overall 2.0% increased budget allocation to Kshs 222.4 bn for the FY’2021/2022 from Kshs 218.0 bn budget allocation in FY 2020/2021 to support real estate activities, for the housing, tourism and infrastructure sectors.

Sectoral Market Performance

I. **Residential Sector**

During H1’2021 the residential sector recorded improved performance with average total returns registering a 0.8% points half-yearly increase to 5.5%, from 4.7% recorded in FY’2020.The average y/y price appreciation in the residential market came in at 0.6%, with prices in all segments registering appreciation apart from apartments in satellite towns which recorded a price correction of 0.8%, since more people opted to rent than to buy. The average rental yield registered a 0.2%

points q/q increase to 4.8% in H1'2021 from 4.7% recorded in Q1'2021 attributable to economic improvement which saw asking rents record an uptick.

(All Values are in Kshs unless stated otherwise)

Residential Performance Summary H1'2021

Segment	Average of Rental Yield H1'2021	Average of Y/Y Price Appreciation H1'2021	Total Returns H1'2021	Average Rental Yield Q1'2021	Average of Y/Y Price Appreciation Q1'2021	Average of Total Returns Q1'2021	Change in Rental Yield	Change in Y/Y Price Appreciation	Change in Returns
Detached Units									
High End	3.7%	1.1%	4.8%	3.6%	1.0%	4.6%	0.1%	0.1%	0.2%
Upper Mid-End	4.6%	1.2%	5.8%	4.5%	0.5%	5.0%	0.1%	0.7%	0.8%
Satellite Towns	4.3%	1.1%	5.5%	4.1%	0.7%	4.8%	0.2%	0.4%	0.7%
Detached Average	**4.2%**	**1.1%**	**5.4%**	**4.1%**	**0.8%**	**4.8%**	**0.1%**	**0.3%**	**0.6%**
Apartments									
Upper Mid-End	5.3%	0.3%	5.7%	5.2%	0.1%	5.3%	0.1%	0.2%	0.4%
Lower Mid-End Suburbs	5.3%	0.9%	6.2%	5.0%	0.2%	5.2%	0.3%	0.7%	1.0%
Satellite Towns	5.6%	(0.9%)	4.7%	5.4%	0.1%	5.5%	0.2%	(1.0%)	(0.8%)
Apartments Average	**5.4%**	**0.2%**	**5.6%**	**5.2%**	**0.1%**	**5.3%**	**0.2%**	**0.1%**	**0.3%**
Residential Market Average	**4.8%**	**0.6%**	**5.5%**	**4.7%**	**0.5%**	**5.1%**	**0.2%**	**0.2%**	**0.5%**

• Total returns registered a 0.5% increase to 5.5% in H1'2021 from 5.1% in in Q1'2021 with rental yield and price appreciation coming in at 4.8% and 0.6%, respectively in H1'2021

A. Detached Units Performance

Detached units recorded an improvement in performance in H1'2021 compared to Q1'2021 with average total returns registering a 0.6% points q/q increase to 5.4% in H1'2021 from 4.8% recorded in Q1'2021, and a 1.2% points half-yearly increase from 4.2% recorded in FY'2020. The upper mid-end segment was the best performing segment with an average total return of 5.8% compared to the high-end and lower mid- end segments whose average total returns came in at 4.8% and 5.4%, respectively. Performance of the upper mid-end segment is attributed to the high rental yield of 4.6% and 1.2% y/y price appreciation. The general improved performance of house prices and rents is attributable increased transactional volumes among buyers after holding on to cash following tough uncertain economic times at the onset of the pandemic.

Overall, the best performing node was Ruiru with an average total return of 6.6% while Syokimau, Redhill and Kitisuru followed in closely with total returns all averaging at 6.5%. The performance of Ruiru is attributed to the relatively high rental yield of 5.0% compared to the detached market average of 4.2%. Runda recorded the lowest average total returns at 2.1% attributed to a 1.6% price correction.

(All Values are in Kshs unless stated otherwise)

Detached Units Performance H1'2021

Area	Average of Price per SQM H1'2021	Average of Rent per SQM H1'2021	Average of Occupancy H1'2021	Average of Uptake H1'2021	Average of Annual Uptake H1'2021	Average of Rental Yield H1'2021	Average of Price Appreciation H1'2021	Average Total Returns H1'2021
High-End								
Kitisuru	203,113	615	92.5%	90.3%	15.0%	3.8%	2.7%	6.5%
Rosslyn	179,040	744	85.9%	95.2%	12.1%	4.4%	1.1%	5.5%
Lower Kabete	154,600	434	81.3%	84.5%	16.0%	2.8%	2.5%	5.2%
Karen	190,730	730	82.8%	89.3%	14.4%	3.8%	0.8%	4.5%
Runda	237,567	756	90.5%	94.2%	10.4%	3.7%	(1.6%)	2.1%
Average	**193,010**	**656**	**86.6%**	**90.7%**	**13.6%**	**3.7%**	**1.1%**	**4.8%**
Upper Mid-End								
Redhill & Sigona	97,843	446	90.9%	90.9%	15.4%	5.2%	1.3%	6.5%
Ridgeways	152,100	775	84.5%	86.2%	13.4%	5.2%	1.2%	6.3%
Runda Mumwe	152,949	635	85.2%	80.1%	14.1%	4.3%	2.0%	6.3%
Loresho	148,543	673	87.8%	82.0%	10.7%	4.8%	1.5%	6.3%
South B/C	127,298	537	94.4%	88.7%	14.0%	4.8%	1.2%	6.0%
Langata	163,120	555	85.9%	92.9%	10.0%	3.9%	0.8%	4.8%
Lavington	158,686	647	86.1%	82.5%	12.9%	4.4%	0.3%	4.7%
Average	**142,934**	**610**	**87.8%**	**86.2%**	**12.9%**	**4.6%**	**1.2%**	**5.8%**
Lower Mid-End								
Ruiru	79,138	332	83.9%	83.5%	24.9%	5.0%	1.6%	6.6%
Syokimau/Mlolongo	75,406	367	75.7%	85.1%	16.8%	4.4%	2.1%	6.5%
Juja	64,500	328	79.6%	88.4%	14.9%	4.6%	1.0%	5.6%

Detached Units Performance H1'2021

Area	Average of Price per SQM H1'2021	Average of Rent per SQM H1'2021	Average of Occupancy H1'2021	Average of Uptake H1'2021	Average of Annual Uptake H1'2021	Average of Rental Yield H1'2021	Average of Price Appreciation H1'2021	Average Total Returns H1'2021
Rongai	86,541	233	83.1%	75.9%	13.4%	2.9%	2.2%	5.1%
Kitengela	68,730	301	92.0%	88.6%	15.5%	4.7%	0.4%	5.1%
Ngong	58,982	283	84.5%	86.5%	12.7%	5.0%	(0.2%)	4.9%
Athi River	83,321	313	83.4%	94.1%	15.7%	3.8%	0.7%	4.4%
Average	**73,803**	**308**	**83.2%**	**86.0%**	**16.3%**	**4.3%**	**1.1%**	**5.5%**

Source: Cytonn Research 2021

B. Apartments Performance

Performance of apartments recorded improvement with total returns registering a 0.4% points half-yearly increase, coming in at 5.6% in H1'2021 from 5.2% in FY'2020 and a 0.3% points q/q increase from the 5.3% recorded in Q1'2021, with the average price appreciation and rental yield coming in at 0.1% and 5.4%, respectively. Apartments in the lower mid-end suburbs registered the highest average total return at 6.2% compared to upper mid-end and lower mid-end satellite towns with average total returns coming in at 5.7% and 4.8%, respectively. The lower mid-end suburbs performance is attributable to a high demand for rental units hence a relatively high rental yield of 5.3%, and a 0.9% y/y price appreciation compared to apartments market average of 0.1% as investors sought to capitalize on the residential space demand in these areas by the growing middle class.

Waiyaki Way was the best performing node, registering the highest returns at 8.1% attributable to continued demand evidenced by the relatively high average rental yield which came in at 5.6% and y/y price appreciation at 2.5%. Parklands and Ruaka followed in second and third positions respectively, with average total returns of 7.6% and 7.5%, respectively. The least performing node was Rongai with an average total return of 2.4% attributed to a price correction of 3.9% following reduced demand from buyers forcing sellers to revise their prices downwards.

(All Values are in Kshs unless stated otherwise)

Apartments Performance H1'2021

Area	Average of Price Per SQM H1'2021	Average of Rent per SQM H1'2021	Average of Occupancy H1'2021	Average of Uptake H1'2021	Average of Annual Uptake H1'2021	Average of Rental Yield H1'2021	Average of Y/Y Price Appreciation H1'2021	Total Returns H1'2021
Upper Mid-End								
Parklands	117,472	689	84.8%	83.2%	14.7%	5.6%	2.0%	7.6%
Westlands	144,289	757	80.6%	77.3%	17.7%	4.9%	2.0%	6.9%
Kilimani	103,745	577	87.6%	90.0%	23.0%	5.9%	(0.2%)	5.7%
Upperhill	139,414	883	80.3%	79.0%	10.1%	5.3%	0.4%	5.7%
Kileleshwa	121,559	646	86.4%	83.9%	16.3%	5.4%	(0.6%)	4.7%
Loresho	120,877	552	89.4%	85.3%	10.0%	4.9%	(1.6%)	3.3%
Average	**124,559**	**684**	**84.9%**	**83.1%**	**15.3%**	**5.3%**	**0.3%**	**5.7%**
Lower Mid-End: Suburbs								
Waiyaki Way	87,563	520	78.8%	77.9%	21.7%	5.6%	2.5%	8.1%
Dagoretti	87,565	514	86.7%	89.7%	17.4%	6.3%	1.1%	7.4%
South C	113,751	598	86.3%	64.1%	14.1%	5.9%	1.2%	7.1%
Kahawa West	74,871	350	78.2%	87.0%	10.6%	5.0%	1.7%	6.7%
Donholm & Komarock	80,520	399	85.2%	87.8%	13.3%	5.3%	1.1%	6.4%
South B	104,973	445	74.3%	84.9%	17.5%	4.0%	2.3%	6.3%
Race Course/Lenana	102,973	622	79.3%	82.3%	22.0%	5.8%	(0.3%)	5.5%
Imara Daima	83,040	406	83.9%	83.1%	13.0%	5.2%	(0.1%)	5.0%
Langata	125,241	545	88.2%	82.2%	14.2%	4.7%	(1.3%)	3.4%
Average	**95,611**	**489**	**82.3%**	**82.1%**	**16.0%**	**5.3%**	**0.9%**	**6.2%**
Lower Mid-End: Satellite Towns								
Ruaka	105,633	514	63.7%	76.0%	19.0%	5.5%	2.0%	7.5%
Kikuyu	80,766	529	79.6%	79.4%	17.6%	6.4%	0.3%	6.7%
Thindigua	108,551	537	79.3%	79.4%	12.8%	4.9%	1.2%	6.0%
Syokimau	67,967	345	79.0%	77.6%	12.0%	5.2%	(2.2%)	6.0%
Ngong	58,015	306	81.4%	72.3%	11.8%	5.3%	0.7%	5.9%
Kitengela	59,488	284	90.0%	82.8%	10.0%	5.1%	(2.8%)	5.5%

Apartments Performance H1'2021

Area	Average of Price Per SQM H1'2021	Average of Rent per SQM H1'2021	Average of Occupancy H1'2021	Average of Uptake H1'2021	Average of Annual Uptake H1'2021	Average of Rental Yield H1'2021	Average of Y/Y Price Appreciation H1'2021	Total Returns H1'2021
Athi River	59,145	290	97.2%	96.9%	12.6%	5.7%	(1.2%)	4.5%
Ruiru	86,904	528	86.4%	85.8%	23.8%	6.1%	(1.8%)	4.3%
Rongai	68,982	363	87.3%	94.2%	28.6%	6.3%	(3.9%)	2.4%
Average	**77,272**	**411**	**82.7%**	**82.7%**	**16.5%**	**5.6%**	**(0.9%)**	**4.7%**

Source: Cytonn Research 2021

Notable highlights in H1'2021 include (See Q1'2021, Cytonn Monthly-April 2021 and Cytonn Monthly-May 2021 Highlights);

i. Real estate developer Acorn Holdings launched the construction of its 3,592 room-hostels at a cost of Kshs 1.9 bn in Nairobi's Karen under the Qwetu and Qejani brands, which are expected to be completed by the end of 2022. For more information, see Cytonn Weekly #24/2021,
ii. Absa Bank Kenya partnered with Property developer Mi Vida Homes to provide mortgage finance to middle income earners seeking affordable houses within the Nairobi region at a rate of 12.5% annually compared to its market rate of 14.0% with up to 90.0% financing and a 25-year repayment plan, for both employed and self-employed Kenyans. For more information, see Cytonn Weekly #24/2021, and,
iii. International Finance Corporation (IFC), the World Bank's private investment arm, signed a deal with Belco Realty, a real estate development firm, to support the launch and development of Kongowea Village, a mixed-use affordable housing initiative consisting of 1,379 residential units and over 4,500 SQM of retail and commercial space in Kongowea, Mombasa County. The development will sit on an eight-acre piece of land and is expected to be completed in 2024. For more information, see Cytonn Weekly #24/2021.
iv. During the week, the county government of Kakamega, through its Governor, Hon. Wycliffe Oparanya, announced plans to develop a 4000-unit modern affordable housing project in Kakamega and Mumias towns, at a cost of Kshs 6.0 bn. The project which is set to kick off in July 2021 is expected to be completed by March 2022 with phase one set to consist of 3,000 houses while phase two will consist of 1,000 houses, and priority for occupancy will be biased towards those whose houses will be demolished for construction purposes, after which the remaining units will be sold to county and national government officers between Kshs 1.0 mn and Kshs 3.0 mn. Members of staff will be required to pay 20.0% of the purchasing cost and the balance deducted from their salaries.

Our outlook for the residential sector remains NEUTRAL as we expect the sector to record increased activities following focus on affordable housing, efforts by the government to avail relatively cheaper mortgage facilities to encourage home ownership, and anticipated increase in the number of building approvals complemented by the Kshs 30.0 mn Nairobi County e-Development Permit System upgrade expected to be done by June 2022, aiming to offer faster and efficient construction approvals in Nairobi. However, the sector's performance continues to be weighed down by factors such as i) low mortgage uptake, ii) sluggishness in the delivery of government affordable houses, and, iii) reduced disposable income amongst Kenyans in the midst of tough economic times.

II. Commercial Office Sector

The commercial office sector recorded a 0.1% and 1.9% points decline in the average rental yields and occupancy rates to 6.9% and 76.3% in H1'2021, from 7.0% and 77.7%, respectively in FY'2020. The performance decline is attributable to the containment measures for the COVID-19 pandemic which has led to reduced demand for physical spaces as businesses continue to embrace the working from home strategy and may make it a permanent measure, coupled with the 7.3 mn SQFT office space oversupply as at 2020. The asking rents and selling prices also registered a 0.1% and 0.5% decline to an average of Kshs 92.8 per SQFT and Kshs 12,224 per SQFT in H1'2021, from Kshs 93.1

per SQFT and Kshs 12,228 per SQFT, respectively in FY'2020. The decline in the asking prices and rents is attributed to landlords providing incentives to tenants such as rent-free periods as well as reducing their rates so as to retain existing tenants and attract new occupants for their office spaces.

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

(All Values are 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**	**H1'2021**	**Δ FY'2020/H1'2021**
Occupancy %	81.7%	80.0%	79.9%	77.7%	76.3%	**75.8%**	**(1.9%)**
Asking Rents (Kshs/SQFT)	97	95	94	93	92	**93**	**(0.1%)**
Average Prices (Kshs/SQFT)	12,535	12,516	12,479	12,280	12,228	**12,224**	**(0.5%)**
Average Rental Yields (%)	7.8%	7.3%	7.2%	7.0%	6.8%	**6.9%**	**(0.1%)**

Gigiri and Karen were the best performing submarkets in H1'2021 recording rental yields of 8.2% and 7.9%, respectively against a market average of 6.9% attributed to their serene environments hence attracting prime, developments and rental prices, relatively good infrastructure, and low supply of commercial office spaces within the markets. However, Mombasa Road recorded the lowest performance within the Nairobi Metropolitan Area with rental yields coming in at 4.7% attributed to the effect of traffic snarl-ups which has been worsened by the current construction of the Nairobi-Express Way, low quality office spaces, and zoning regulations as Mombasa Road is mainly considered as an industrial area.

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

(All Values are in Kshs unless stated otherwise)

Nairobi Metropolitan Area Commercial Office Submarket Performance H1'2021

Area	**Price (Kshs) /SQFT H1'2021**	**Rent (Kshs) /SQFT H1'2021**	**Occupancy (%) H1'2021**	**Rental Yields (%) H1'2021**	**Price Kshs/ SQFT FY 2020**	**Rent Kshs/SQFT FY 2020**	**Occupancy FY 2020(%)**	**Rental Yield (%) FY 2020**	**Δ in Rent**	**Δ in Occupancy (% points)**	**Δ in Rental Yields (% points)**
Gigiri	13,375	115	80.0%	**8.2%**	13,400	116	82.5%	**8.5%**	(0.9%)	(2.5%)	**(0.3%)**
Karen	13,429	108	81.7%	**7.9%**	13,567	106	83.6%	**7.8%**	2.1%	(1.9%)	**0.1%**
Parklands	10,947	92	77.5%	**7.8%**	10,958	93	79.9%	**7.6%**	(0.2%)	(2.4%)	**0.2%**
Westlands	11,964	104	73.3%	**7.7%**	11,975	104	74.4%	**7.8%**	(0.2%)	(1.0%)	**(0.1%)**
Kilimani	12,245	93	79.5%	**7.3%**	12,233	93	79.1%	**6.8%**	0.2%	0.4%	**0.5%**
Upperhill	12,614	95	77.4%	**6.9%**	12,684	92	78.5%	**6.9%**	2.7%	(1.1%)	**0.0%**
Nairobi CBD	11,767	81	77.1%	**6.4%**	11,889	82	82.4%	**6.8%**	(1.8%)	(5.3%)	**(0.4%)**
Thika Road	12,429	77	73.7%	**5.5%**	12,500	80	76.1%	**5.8%**	(3.7%)	(2.4%)	**(0.3%)**
Mombasa road	11,250	71	61.7%	**4.7%**	11,313	73	63.0%	**4.8%**	(2.5%)	(1.3%)	**(0.1%)**
Average	**12,224.30**	**92.8**	**75.8%**	**6.9%**	**12,280**	**93**	**77.7%**	**7.0%**	**(0.5%**	**(1.9%)**	**(0.1%)**

Source: Cytonn Research 2021

Other notable highlights in the commercial sector in H1'2021 include:

i. Insurance Regulatory Authority (IRA) and Capital Markets Authority (CMA) announced that they want to jointly buy office spaces within Nairobi premises, a move that will see it take up at least 55,000 SQFT of office space in Upper Hill with a minimum of 100 parking bays, and the building expected to sit on at least two-acre piece land. For more analysis, please see Cytonn Weekly #19/2021.

We retain a NEGATIVE outlook for the NMA commercial office sector which is expected to continue being affected by factors such as the existing oversupply at 7.3 mn SQFT of space,

reduced demand as people continue embracing working from home which has proven to be a viable cost saving option for most firms and declines in the rental rates brought about by the reduced forces of demand. Despite the negative outlook, investment opportunity lies in areas such as Gigiri and Karen which fetch relatively higher rental yields with favorable locations.

III. Retail Sector

The retail sector performance in H1’2021 recorded a slight improvement of 0.1% rental yield to 7.6% from 7.5% in FY’2020 attributed to increased market activities in the retail front. The average occupancies and asking rents also recorded improvement in performance by 0.7% points and 0.3% points from 75.2% and Kshs 168.6 per SQFT in FY’2020 to 75.7% and Kshs 169.1 per SQFT respectively in H1’2021. The general improvement in the performance of the sector was attributed to; i) aggressive expansion of local and international retailers such as Naivas and Carrefour taking up space previously occupied by troubled retailers such as Tuskys and Nakumatt with the retailers having opened more than 13 stores in 2021 in different locations county wide, ii) improved infrastructure which is opening up areas for investment opportunities and boosting property prices, iii) positive demographics with urbanization and population growth rates of 4.0% p.a and 2.3% p.a respectively, compared to the global average of 1.9% p.a and 1.1% p.a, respectively according to World Bank, and, v) the gradual reopening of the economy.

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

(All Values are in Kshs unless stated otherwise)

Summary of Retail Sector Performance Over Time

Item	Q1' 2019	H1' 2019	Q3' 2019	FY' 2019	Q1'2020	H1'2020	Q3'2020	FY'2020	Q1'2021	H1'2021	Δ FY'2020
Average Asking Rents (Kshs/SQFT)	174	170	167	176	173	170	169	169	166	169	0.3%
Average Occupancy (%)	76.8%	75.6%	74.5%	75.9%	76.3%	74.0%	74.2%	75.2%	75.0%	75.7%	0.7%
Average Rental Yields	8.5%	8.2%	8.0%	7.8%	7.7%	7.4%	7.4%	7.5%	7.4%	7.6%	0.1 %

Source: Cytonn Research 2021

In terms of the sub markets performance, Westlands and Karen were the best performing nodes recording average rental yields of 9.7% and 9.5% respectively compared to the overall market average of 7.6% in H1’2021. The performance is attributed to presence of affluent residents who have a high consumer purchasing power with the areas hosting high-end income earners, relatively good infrastructure, and, relatively high occupancy rates of above 80.0% against the market average of 75.7%.

Eastlands recorded the lowest yields of 5.8% against the average market rates of 7.6%, attributed to low rental charges of Kshs 136 per SQFT against a market average of Kshs 169 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 are in Kshs unless stated otherwise)

Nairobi Metropolitan Area Retail Market Performance H1’2021

Area	Rent/SQFT H1'2021	Occupancy % H1'2021	Rental Yield H1'2021	Rent Kshs/SQFT FY’ 2020	Occupancy FY’ 2020	Rental Yield FY’ 2020	H1 2021 Δ in Rental Rates	H1'2021 Δ in Occupancy (% points)	H1’ 2021 Δ in Rental Yield (% points)
Westlands	209	80.0%	9.7%	209	81.5%	9.9%	0.0%	(1.5%)	(0.1%)
Karen	217	80.6%	9.5%	217	81.0%	9.8%	0.2%	(0.4%)	(0.2%)
Kilimani	173	82.8%	8.9%	171	82.5%	8.5%	0.9%	0.3%	0.4%

Nairobi Metropolitan Area Retail Market Performance H1'2021

Area	Rent/SQFT H1'2021	Occupancy % H1'2021	Rental Yield H1'2021	Rent Kshs/SQFT FY' 2020	Occupancy FY' 2020	Rental Yield FY' 2020	H1 2021 Δ in Rental Rates	H1'2021 Δ in Occupancy (% points)	H1' 2021 Δ in Rental Yield (% points)
Ngong Road	178	78.8%	**8.0%**	178	80.3%	**8.2%**	0.0%	(1.5%)	**(0.2%)**
Kiambu road	178	68.8%	**7.1%**	176	67.5%	**6.9%**	1.2%	1.3%	**0.2%**
Thika Road	159	73.3%	**6.7%**	158	70.5%	**6.3%**	1.0%	2.8%	**0.4%**
Mombasa road	139	73.0%	**6.3%**	140	70.0%	**5.9%**	(0.8%)	3.0%	**0.4%**
Satellite towns	134	74.0%	**6.2%**	133	73.0%	**5.8%**	0.7%	1.0%	**0.3%**
Eastlands	136	70.0%	**5.8%**	137	70.2%	**6.1%**	(0.9%)	(0.2%)	**(0.3%)**
Average	**169**	**75.7%**	**7.6%**	**169**	**75.2%**	**7.5%**	**0.3%**	**0.5%**	**0.1%**

Source: Cytonn Research 2021

Notable highlights in H1'2021 include (See Q1'2021, Cytonn Monthly-April 2021, and, Cytonn Monthly-May 2021 highlights);

i. Optica Limited, a local eye-wear retailer, opened its 43rd Kenyan outlet in Gateway Mall along Mombasa Road as part of the retailer's expansion strategy to the geographical outreach of its products and services. For more analysis, please see Cytonn Weekly #24/2021,
ii. Fusion Capital, a Kenyan based Private Equity firm and a subsidiary of Fusion Investments management, announced that it had raised Kshs 800.0 mn from international investors in the United Kingdom (UK) and Finland as well as local land partners in support of completion of the 12,000 SQFT Greenwood City Mall project worth Kshs 1.2 bn in the Meru's Central Business District (CBD). For more analysis see Cytonn Weekly #25/2021,
iii. Naivas supermarket, a local retail chain, opened a new store in Nairobi's Central Business District (CBD), along Muindi Mbingu Street, taking up prime retail space previously occupied by Tuskys Supermarket. This bring Naivas' total operational outlets to 73 having already opened 3 other stores so far this year in Eldoret, Nakuru and Kilifi. With Naivas being on an aggressive expansion spree taking up space previously owned by troubled retailers, it also aims to open two more branches next month in Kisumu at Simba Club Hall and in Githurai 44 along Kamiti Road, as it continues to gain more market share relative to its competitors QuickMart and Carrefour who have each opened 4 stores so far this year. The decision by the retailer to take up space within Nairobi's CBD is supported by i) stiff market competition with closest rivals Carrefour and QuickMart each having 13 and 41 stores respectively, ii) growing middle class with increased purchasing power, iii) positive demographics with Nairobi having registered a 41.9% population increase to 4.4 mn in 2019 from 3.1 mn in 2009, and, iv) exit by troubled retailers leaving prime retail spaces, and,
iv. Additionally, French retailer Carrefour supermarket, announced plans to open two stores in Kisumu's United Mall and Mega Plaza in July 2021. The retailer will take up space previously occupied by troubled Tuskys hence bringing its total operational outlets to 15, having opened a new outlet in Nairobi Garden City Mall along Thika Road taking up space that was vacated by Shoprite Supermarket in April. The move by the retailer is supported by; i) a growing middle-income population with improved purchasing power, ii) stiff market competition with closest rivals Naivas and QuickMart each having opened 41 and 73 stores respectively, iii) exit of troubled retailers leaving prime retail space for uptake, and, v) rapid population growth with Kisumu having registered a 33.3% population increase from 0.9mn in 2009 to 1.2mn in 2019.

In terms of performance, according to our Kenya Retail Report 2020, Kisumu registered rental rates of Kshs 97.2 against the market average of Kshs 115.1 hence provide good investment opportunity to the retailer due to affordability.

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

Summary Performance of Key Urban Cities in Kenya

Region	Rent/SQFT 2020	Occupancy% 2020	Rental Yield
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 summary of the number of stores of the key local and international retail supermarket chains in Kenya;

Main Local and International Retail Supermarket Chains

Name of Retailer	Category	Highest number of branches that have ever existed as at FY'2018	Highest number of branches that have ever existed as at FY'2019	Highest number of branches that have ever existed as at FY'2020	Number of branches opened in 2021	Closed branches	Current number of Branches	Number of branches expected to be opened	Projected number of branches FY'2021
Naivas	Local	46	61	69	4	0	73	2	75
QuickMart	Local	10	29	37	4	0	41	4	45
Chandarana Foodplus	Local	14	19	20	0	0	20	0	20
Carrefour	International	6	7	9	4	0	13	2	15
Cleanshelf	Local	9	10	11	1	0	12	0	12
Tuskys	Local	53	64	64	0	61	3	0	3
Game Stores	International	2	2	3	0	0	3	0	3
Uchumi	Local	37	37	37	0	35	2	0	2
Choppies	International	13	15	15	0	13	2	0	2
Shoprite	International	2	4	4	0	3	1	0	1
Nakumatt	Local	65	65	65	0	65	0	0	0
Total		**257**	**313**	**334**	**13**	**177**	**170**	**8**	**178**

Source: Online Research

Our outlook for the retail sector is NEUTRAL. Despite the numerous expansion activities by local and international retailers witnessed during the quarter which have continued to support the growth of the retail sector, there are still various factors impending its performance such as the shift to online shopping causing occupancy rates decline, the existing oversupply at 2.0mn SQFT in the Kenyan retail market and 3.1mn SQFT in NMA, as well as the tough economic condition causing space uptake decline.

IV. **Mixed-Use Developments**

Notable highlights in the Mixed-Use Developments in H1'2021 include;

i. Tatu City, a mixed-use property developer in the country, appointed Australian-based construction company, Snowy Mountains Engineering Corporation (SMEC) as the lead infrastructure consultant for the second phase of its 2,500-acre Tatu Industrial Park in Ruiru, with a projected completion date of May 2022. For more information, see Cytonn Monthly- May 2021,

ii. Hilshaw Group, a Dubai based firm, was appointed as the adviser and financing consultant of the planned Athi River Smart Green City project in Nairobi by Jetblack Group, which will sit on 4,500 acres, with its development expected to commence in May 2022 and open Phase 1 by end of 2025. For more information, see Cytonn Monthly- May 2021, and,

iii. Kenya Commercial Bank (KCB) Group announced that it is seeking joint venture partners to finance and develop its 153.2 acres in Juja at a cost of Kshs 6.0 bn for mixed-use development project comprising of 5,786 residential and commercial buildings. KCB’s contribution towards the venture will therefore be its prime land worth Kshs 2.3 bn whereas the JV partner will provide the cash and meet other construction related costs translating to a 38.0 % and 61.0 % shareholding respectively on the successful completion of the project. For more information, see Cytonn Weekly #19/2021.

Mixed-use developments are expected to continue gaining traction as they offer the live, work and play concept thus convenient for the rising sophisticated middle-income earners with huge demand for exceptional lifestyles, relatively higher returns to investors compared to single-use theme developments, and, a diversified portfolio to investors hence risk spread in the case a thematic sector is performing negatively in the market.

Our outlook for MUDs is NEUTRAL due to constraints from some thematic sectors such as commercial office whose reduced demand is expected to weigh down MUDs in which the theme has been incorporated.

V. **Hospitality Sector**

In H1’2021, three hospitality related industry reports were released and the key-take outs were as stated below;

#	Report	Key Take-out
1	Central Bank of Kenya Monetary Policy Committee Hotel Survey- May 2021	• The number of operating hotels registered a 16.0% increase to 94.0% in May from 81.0% in April • The hospitality sector has remained dependent on local guests and this accounted for 84.0% and 85.0% of accommodation and restaurant services, respectively in May 2021 compared to 62.0% and 69.0% respectively during the Pre-COVID period • The average bed occupancy in May was at 18.0%, an increase by 1.0% points from 17.0% in April. For more analysis, see Cytonn Weekly #23/2021
2	FY’2021/2022 Budget Statement	• The tourism sector received a total allocation of Kshs 18.1 bn with the Tourism Promotion Fund (TPF) receiving Kshs 0.6 bn and Tourism Fund receiving Kshs 1.7 bn. The allocation for the tourism sector decreased by 11.3% from Kshs 20.4 bn in FY’2020/21. For more information, visit the Cytonn Weekly 23/2021.
3	Kenya National Bureau of Statistics Leading Economic Indicators February 2021	• The number of international arrivals through Jomo Kenyatta International Airport (JKIA) and Moi International Airport (MIA) declined by 25.5% from 47,038 persons in January 2021 to 35,052 persons in February 2021

Some of the major highlights during the first half of the year include (see Q1’2021 highlights);

i. In June 2021, the Kenyan government through the Ministry of Foreign Affairs, lifted the ban on passenger flights between Nairobi and London, with flights expected to resume on June 26th 2021. Additionally, the United States of America (USA) lowered Kenya’s travel advisory from level 4 to level 2 citing moderate levels of Covid-19 in the country, having issued the highest level of advisory since April 2021. For more information, see Cytonn Weekly #24/2021,

ii. In May 2021, Kenya Airports Authority announced that JKIA passenger movement registered a 24.1% decline in the month of March 2021, to 279,413 passengers from 368,279 passengers in the same period last year. For more analysis, see Cytonn Weekly #21/2021, and,
iii. In April 2021, the United States of America (USA) retained the highest travel advisory on Kenya after the Centre for Disease Control (CDC) issued a Level Four Travel Health Advisory to American nationals due to the steep rise in Covid-19 cases in the country. Additionally, Kenyan government and the United Kingdom (UK) announced plans to form a joint committee to review the travel restrictions that triggered a tit-or-tat travel blockade between UK and Kenya over rising Covid-19 risk levels. For more information, see Cytonn Weekly #14/2021.

The hospitality sector is expected to bounce back after being one of the worst hit sectors by the Covid-19 pandemic, as evidenced by the increased number of operating hotels and bed occupancies coupled with expected increase in tourist arrivals from the lifting of travel bans, revision of travel restrictions and the government's efforts to resolve affairs affecting tourism. The government has also reiterated its support for the tourism sector through incentives such as World Rally Championships 2021 which the President of Kenya, Hon. Uhuru Kenyatta, announced that they will run for five years up to 2026 in order to boost tourism in the country. The Cabinet Secretary for Tourism and Wildlife, Hon. Najib Balala, also announced measures to give priority vaccination to workers in the tourism sector as well as the consequent top ups to the initial Kshs 500.0 mn (USD 4.7 million) set aside under the economic stimulus package last year to help the tourism sector recover from the COVID-19 outbreak.

The sector, however, still faces setbacks from reduced budgetary allocations with tourism allocation for FY'2021/22 reducing by 11.3% to Kshs 18.1 bn compared to Kshs 20.4 bn and the uncertainties emanating from Covid-19 infection waves. Therefore, our outlook for the tourism sector is NEUTRAL despite the huge strides being made to revive it after a tough 2020, due to the uncertainties of Covid-19 with new infections, waves and variants expected to constrain recovery in the sector.

VI. **Land Sector**

During H1'2021, the land sector recorded an overall annualized capital appreciation of 1.6%, with asking land prices in low rise residential areas recording a 4.9 % annualized capital appreciation, attributed to the relative affordability of land valued at Kshs 88.3mn per acre compared to high rise areas selling at Kshs 132.7mn per acre. Other factors making the areas attractive to people is the fact that they are sparely populated thereby offering exclusivity and privacy. Land in the commercial zone recorded a (3.7%) price correction to approximately Kshs 131.0 mn per acre compared to Kshs 133.0 mn per acre due to reduced demand for land in commercial zones as most developers have put on hold their activities as they await the absorption of the current office supply with the oversupply being at 7.3mn SQFT.

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

(All Values are in Kshs unless stated otherwise)

Nairobi Metropolitan Area(NMA) Land Performance H1'2020

	Price Per Acre H1'2020	Price per acre H1'2021	Annualized Capital Appreciation
Nairobi Suburbs- Low Rise Residential Areas	84.3 mn	88.3 mn	4.9%
Serviced land	15.1 mn	15.7 mn	2.9%
Satelite Towns Unserviced Land	13.2 mn	13.5 mn	2.3%
Nairobi Suburbs- High Rise Residential Areas	133.2 mn	132.7 mn	(0.7%)
Nairobi Suburbs- Commercial Areas	419.2 mn	404.6 mn	(3.7%)
Average	**133.0 mn**	**131.0 mn**	**1.6%**

Source: Cytonn Research 2021

Performance per node

a. The asking prices of land in the low-rise areas recorded an annual capital appreciation of 4.9% 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. Kitisuru was the best performing submarket in the low-rise residential segment recording an annualized capital appreciation of 6.7% attributed to growing demand for land to develop and availability of good infrastructure allowing ease of access to the area.

(All Values are in Kshs unless stated otherwise)

Low Rise Residential Areas			
Location	**Price Per Acre (Kshs) H1'2020**	**Price per acre (Kshs) H1'2021**	**Annualized Capital Appreciation**
Kitisuru	72.7 mn	77.9 mn	**6.7%**
Runda	70.2 mn	74.3 mn	**5.5%**
Karen	56.4 mn	59.6 mn	**5.4%**
Ridgeways	65.9 mn	68.8 mn	**4.1%**
Spring Valley	156.1 mn	161.0 mn	**3.0%**
Average	**84.3 mn**	**88.3 mn**	**4.9%**

Source: Cytonn Research 2021

b. The asking price of unserviced land in satellite towns recorded an annualized capital appreciation of 3.3% attributed to increased demand for development land supported by; i) affordability with the average price of land going at Kshs 13.5 mn per acre compared to the market average of 131.0 mn, ii) continued focus on affordable housing, iii) positive demographics, and, iv) improving infrastructure thereby opening up areas for development. Juja was the best performing node with an annualized capital appreciation of 5.5% attributed to affordability with the asking prices coming in at an average of Kshs 10.6 mn per acre compared to an average of Kshs 13.5 mn for the satellite towns unserviced land, and availability of infrastructure with the area being served by Thika super highway.

(All Values are in Kshs unless stated otherwise)

Satellite Towns- Unserviced Land			
Location	**Price Per Acre (Kshs) H1'2020**	**Price per acre (Kshs) H1'2021**	**Annualized Capital Appreciation**
Juja	10.0 mn	10.6 mn	**5.5%**
Athi River	4.3 mn	4.5 mn	**4.4%**
Utawala	12.0 mn	12.4 mn	**3.2%**
Ongata Rongai	18.6 mn	19.0 mn	**2.1%**
Limuru	21.0 mn	21.2 mn	**1.0%**
Average	**13.2 mn**	**13.5 mn**	**3.3%**

c. The serviced land in satellite towns recorded an average annualized capital appreciation of 2.9% with Ongata Rongai recording an annualized capital appreciation of 8.1% compared to the satelite towns average of 2.9% attributed to i) increased demand for land especially from the middle-income population, ii) positive demographics and iii) availability of infrastructure with the area being served by the Magadi Road which is opening the area for real estate development. Ruai on the other hand recorded a price correction of (3.6%) attributed to reduced demand of land as investors focus on areas witnessing more real estate related activities.

(All Values are in Kshs unless stated otherwise)

Satellite Towns- Serviced Land			
Location	**Price Per Acre (Kshs) H1'2020**	**Price per acre (Kshs) H1'2021**	**Annualized Capital Appreciation**
Ongata Rongai	18.4 mn	20.0 mn	**8.1%**
Athi River	12.4 mn	13.1 mn	**5.6%**
Ruiru	24.0 mn	25.3 mn	**5.2%**

Satellite Towns- Serviced Land			
Location	**Price Per Acre (Kshs) H1'2020**	**Price per acre (Kshs) H1'2021**	**Annualized Capital Appreciation**
Thika	10.0 mn	10.4 mn	**3.5%**
Syokimau-Mlolongo	12.0 mn	11.8 mn	**(1.4%)**
Ruai	14.0 mn	13.5 mn	**(3.6%)**
Average	**15.1 mn**	**15.7 mn**	**2.9%**

d. The asking land prices in the high-rise residential areas recorded a 0.7% annualized capital appreciation in H1’2021 with Embakasi being the best perform node at 6.5% mainly attributable to affordability of land prices averaging at Kshs 67.2mn mn compared to the node’s average of Kshs 132.7 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 the Airport Road and part of the Outer Ring Road.

(All Values are in Kshs unless stated otherwise)

High Rise Residential Areas			
Location	**Price Per Acre (Kshs) H1'2020**	**Price per acre (Kshs) H1'2021**	**Annualized Capital Appreciation**
Embakasi	62.8 mn	67.2 mn	**6.5%**
Kasarani	64.8 mn	67.7 mn	**4.2%**
Kileleshwa	303.1 mn	300.9 mn	**(0.7%)**
Dagoretti	102.1 mn	95.2 mn	**(7.3%)**
Average	**133.2 mn**	**132.7 mn**	**0.7%**

Source: Cytonn Report 2021

e. The commercial zones recorded a 3.7% price correction in the average asking land prices. This is attributed to reduced demand for development space mainly due to the high asking prices of Kshs 404.6 mn per acre thus limiting the ability of developers to generate favorable returns from the investments and decreased activities in the commercial office front. The existing oversupply in the commercial office spaces of 7.3 mn SQFT in the Nairobi metropolitan area has also affected the supply since developers have halted their development plans to allow for absorption of the existing spaces.

(All Values are in Kshs unless stated otherwise)

Commercial Zones			
Location	**Price Per Acre (Kshs) H1'2020**	**Price per acre (Kshs) H1'2021**	**Annualized Capital Appreciation**
Westlands	421.3 mn	413.6 mn	**(1.9%)**
Upper Hill	506.1 mn	487.3 mn	**(3.9%)**
Kilimani	398.5 mn	381.7 mn	**(4.4%)**
Riverside	350.9 mn	335.7 mn	**(4.5%)**
Average	**419.2 mn**	**404.6 mn**	**(3.7%)**

Notable highlights in the land sector in H1’2021 include:

i. ***President Uhuru Kenyatta officially launched the National Land Information Management System (NLIMS) marking the culmination of years of digitization of land records in Kenya. The launch of the digital land platform named ‘Ardhi Sasa’, which will be first rolled out in Nairobi then in other counties in phases, coincided with the opening of the National Geospatial Data Centre, an online depository that will contain all the land records in Kenya. For more analysis, please see Cytonn Monthly-April 2021, and,***

ii. The Central Lands Registry, whose offices are located in Ardhi House, Upperhill Nairobi, was shut down after its operations were migrated to an online platform following the official launch of the National Land Information Management System (NLIMS) by President Uhuru Kenyatta last month. The launch of the digital land platform named ‘Ardhi Sasa’, first rolled out in Nairobi will be implemented in other counties in phases in an effort to contain fraud in the land sector. For more analysis, please see Cytonn Monthly-May 2021.

The land sector has continued to show resilience recording despite the ongoing pandemic

which has affected some of the real estate sectors. We therefore hold a POSITIVE outlook for the land sector and we expect the performance of the land sector to continue being supported by factors such as; i) positive demographics, ii) growing demand for land particularly in the satellite areas, iii) improving infrastructure thereby opening up areas for investment, and, iv) the continued focus on the affordable housing initiative.

VII. **Infrastructure Sector**

Major developments in the infrastructure sector in H1’2021 include;

i. Upgrading of the Kshs 10.8 bn Garsen- Minjilla- Mokowe 113-km road project linking Lamu and Tana River County was concluded and launched by President Uhuru Kenyatta. For more information, see Cytonn Weekly #23/2021,
ii. Cabinet Secretary for Transport, Infrastructure, Housing, Urban development and Public Works, Hon. James Macharia announced that the construction of the 233-km Nairobi-Mau Summit highway is expected to begin in September 2021 at a cost of Kshs 160.0 bn in a build, operate and transfer (BOT) 30-year partnership. For more information, see the Cytonn Monthly- May 2021,
iii. President Uhuru Kenyatta launched the first berth of the Lamu Port-South Sudan-Ethiopia-Transport (LAPSSET) corridor, a project that targets to link Kenya to South Sudan, Ethiopia and the middle belt of Africa. For more information, please see Cytonn Weekly #20/2021,
iv. Uganda signed a Public Private Partnership deal worth Kshs 5.0 bn with China Roads and Bridge Corporation (CRBC) to renovate its century-old meter gauge railway line between Malaba and Kampala, which will link the Standard Gauge Railway (SGR) track in Kenya through Naivasha to Malaba old railway. For more information, see Cytonn Weekly #20/2021, and,
v. The Government of Kenya, through the State Department of infrastructure released Kshs 3.1 bn to complete tarmacking of the 192.0 km Kabati-Migwani-Mbondoni road in Kitui. The road will join the Lamu Port-South Sudan-Ethiopia Transport (LAPSSET) corridor hence linking Machakos, Makueni and Kitui counties to the coastal and northern areas such as Tharaka-Nithi, Meru to Moyale. For more information, see Cytonn Weekly #16/2021.

Infrastructural developments are expected to; i) open up areas for investments, ii) increase total returns to investors due to a boost in property prices, and, iii) enhance efficient real estate supply chains.

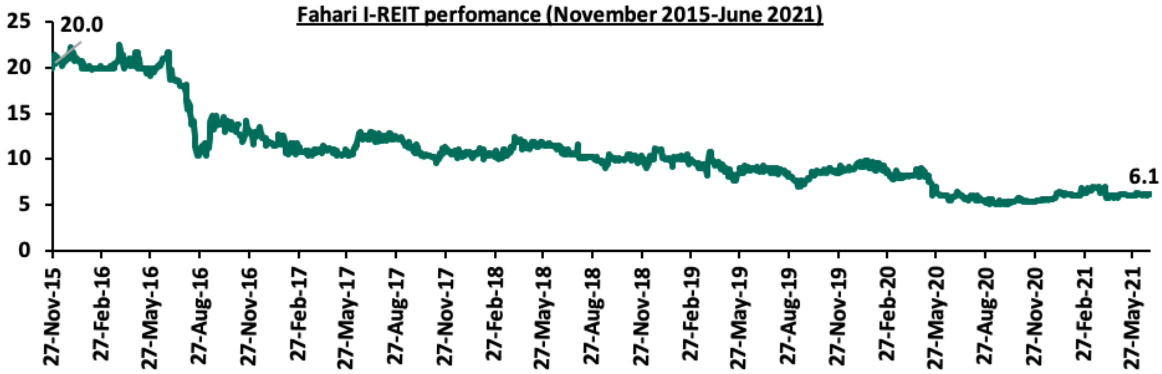
VIII. **Statutory Review**

In H1’2021, the main policy reforms included;

i. Nairobi’s City Hall announced plans to conduct public participation into the New Draft Valuation Roll, on 16th June 2021 in the 17 sub-counties in Nairobi, to pave way for its roll-out, since being tabled before the Nairobi County Assembly in February. For more information, see Cytonn Weekly #21/2021.

IX. **Listed REITs**

The Fahari I-REIT closed the month of June trading at Kshs 6.1 per share, a 5.2% YTD price increase having opened the year trading at Kshs 5.8 per share. However, the share price is generally low when compared to its Kshs 20.0 inception price in November 2015, which is an overall 69.5% decline, with Net Asset Value of the REIT being Kshs 19.8. The graph below shows performance of the Fahari I-REIT since inception;



REITs offer various benefits which include low cost exposure to real estate, tax exemption, and diversification among many others, however, our outlook for the sector is NEUTRAL as its performance is expected to still be constrained by factors such as; i) inadequate investor knowledge of the instrument, ii) lengthy approval process, iii) high Minimum Capital Requirements for a Trustee of Kshs 100.0 mn, iv) subdued performance of some real estate sectors due to the COVID-19 pandemic, and, v) high Minimum Investment Amounts Set at Kshs 5.0 mn.

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	• The residential sector recorded improved performance with average total returns registering a 0.8% points half-yearly increase to 5.5%, from 4.7% recorded in FY’2020, and a 0.4% q/q increase from 5.1% recorded in Q1’2021. The average y/y price appreciation in the residential market came in at 0.6%, while the average rental yield registered a 0.2% points q/q increase to 4.8% in H1’2021 from 4.7% recorded in Q1’2021	Neutral
	• We expect total returns to investors to improve supported by improved rental rates and capital appreciation of properties • The investment opportunity for detached units lies in Ruiru, Kitisuru, Redhill, and Syokimau, while for apartments opportunity lies in Ruaka, waiyaki way and Parklands, which posted high returns.	
Office	• The commercial office sector recorded 0.1% and 1.9% points decline in the average rental yields and occupancy rates to 6.9% and 76.3% in H1’2021, from 7.0% and 77.7%, respectively in FY’2020, attributed to reduced demand for office spaces and the existing office space oversupply at 7.3 mn SQFT	Negative
	• Investment opportunity lies in Gigiri and Karen which were the best performing submarkets in H1’2021 recording rental yields of 8.2% and 7.9%, compared to a market average of 6.9%	

Theme	Thematic Performance and Outlook Q1'2021	Outlook
Retail	• The retail sector performance in H1'2021 recorded a 0.1% rental yield improvement to 7.6% from 7.5% recorded in FY'2020 attributed to the opening of the economy coupled with the aggressive expansion of local and international retailers to take up prime space left by troubled retailers • We expect the sector to continue registering more developments and activities attributed to opening of the economy coupled with local and international retailers' aggressiveness to take up space previously occupied by troubled retailers • Investment opportunity lies in Westlands and Karen which were the best performing nodes recording average rental yields of 9.7% and 9.5% respectively compared to the overall market average of 7.6%	Neutral
Mixed-Use Developments (MUDs)	• Mixed-use developments are expected to continue gaining traction as they offer the live, work and play concept thus convenient for the rising sophisticated middle-income earners with huge demand for exceptional lifestyles • We expect MUDs to continue gaining traction supported by relatively higher returns to investors compared to single-theme developments, and a diversified portfolio to investors hence risk spread in the case a thematic sector is performing negatively in the market	Neutral
Hospitality	• The hospitality sector which heavily relies on tourism sector recorded subdued performance attributed to the partial lockdowns in March coupled with travel bans by UK into Kenya and USA travel advisory against flying into Kenya in April • We expect the hospitality sector bounce back after being one of the most hit by the Covid-19 pandemic, as evidenced by the increased number of operating hotels and bed occupancies coupled with expected increase in tourist arrivals from the lifting of travel bans, revision of travel restrictions and the government's efforts to resolve affairs affecting tourism	Neutral
Land	• Land sector recorded an overall annualized capital appreciation of 1.6% indicating that land is still considered as a good investment asset, • We expect the performance of the land sector to continue being supported by factors such as; positive demographics, growing demand for land particularly in the satellite areas, improving infrastructure thereby opening up areas for investment and the continued focus on the affordable housing initiative	Positive
Listed Real Estate	• The Fahari I-REIT closed the quarter at Kshs 6.1 per share, which is a 5.2% price increase having opened the year trading at Kshs 5.8 per share. However, the share price is generally low when compared to its Kshs 20.0 inception price in November 2015, which is an overall 69.0%, with Net Asset Value of the REIT being at Kshs 19.8	Neutral

With the positive outlook for land sector, negative outlook for the commercial office sector and neutral outlook for the residential, retail, MUDs, hospitality and REITs sectors, our overall outlook for the real estate sector is NEUTRAL with performance expected to be supported by; government aggressiveness on affordable housing initiative, improved infrastructure activities, positive demographics, improved mortgage availability, and improved retail space uptake. However, performance of the sector is likely to be constrained by reduced demand for office and retail spaces due to remote working and

online shopping, reduced purchasing power of people due to the tough economic conditions, high mortgage interest rates, and the existing oversupply in the retail and commercial sectors.

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