

# Nairobi Metropolitan Area (NMA) Serviced Apartments Report 2021, & Cytonn Weekly #44/2021

## Real Estate

### I. Residential Sector

During the week, Unity Homes, a Kenyan-British housing developer began the construction of 640- two- and three-bedroom apartments dubbed Unity East at Tatu City in Ruiru. The move by the developer comes immediately after the completion of Unity West phase one project comprising of 384- two bedroom units which is also located in Tatu City, and Unity Gardens project in Eldoret comprising of 250 homes completed in 2020. Below is the summary of the sales prices of the Unity East units with an expected completion date of November 2023;

#### Tatu City's Unity East Development

Typology	Unit size (SQM)	Unit Price (Kshs mn)	Price per SQM(Kshs)
2	75	6.5	86,667
3	150	13.0	86,667
<b>Average</b>	<b>113</b>	<b>9.8</b>	<b>86,667</b>

Source: Cytonn Research

In terms of performance, according to the Cytonn Q3'2021 Markets Review, Ruiru recorded the highest annualized uptake at 20.7% against market average of 16.5%, signifying high demand for housing units in the area. Additionally, total returns in Ruiru came in at 6.1%, a 0.3% points higher than the market average and signifying the investment opportunity. The decision by Unity Developers to maintain Ruiru as its project destination is supported by; i) ease of accessibility facilitated by roads such as the Thika Superhighway and Eastern Bypass, ii) availability of amenities such as the Spur Mall and Kenyatta University among others, and iii) high demand for housing necessitated by Ruiru's high population growth rate at 4.6%, against Kenya's 2.3%.

The table below shows the market performance of apartments within satellite towns in Q3'2021;

*(All values in Kshs unless stated otherwise)*

#### Lower Mid- End Satellite Towns Apartments Performance-Q3'2021

Area	Price per SQM Q3'2021 Average	Rent per SQM Q3'2021 Average	Occupancy Q3'2021 Average	Uptake Q3'2021 Average	Annual Uptake Q3'2021 Average	Rental Yield Q3'2021 Average	Price Appreciation Q3'2021 Average	Total Returns Q3'2021 Average
Rongai	97,664	344	86.5%	89.3%	19.6%	5.6%	2.1%	<b>7.7%</b>

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Thindigua	94,549	468	80.5%	88.8%	21.1%	5.1%	2.3%	7.4%
Kikuyu	82,114	460	74.8%	82.4%	18.3%	5.0%	2.3%	7.4%
Ngong	63,446	346	73.7%	74.5%	12.2%	5.0%	2.1%	7.1%
Ruaka	107,629	522	92.4%	84.1%	23.8%	5.5%	1.1%	6.6%
Ruiru	89,249	493	84.3%	82.1%	20.7%	5.6%	0.5%	6.1%
Syokimau	64,953	334	84.2%	81.3%	11.9%	5.5%	(1.8%)	3.7%
Kitengela	59,394	242	93.0%	83.1%	10.0%	4.7%	(1.3%)	3.4%
Athi River	58,769	353	70.0%	89.0%	10.9%	5.7%	(2.7%)	3.0%
<b>Average</b>	<b>79,752</b>	<b>396</b>	<b>82.2%</b>	<b>83.8%</b>	<b>16.5%</b>	<b>5.3%</b>	<b>0.5%</b>	<b>5.8%</b>

Source; Cytonn Research

We expect the residential sector to record increased activities driven by continued focus by developers on the lower mid-end market segments, fuelled by positive demographics necessitating more demand for housing units in the country.

## II. Retail Sector

During the week, Chandarana Foodplus, a local retailer opened a new outlet at new Golden Life Mall in Nakuru, bringing its total operational outlets countrywide to 22. The move comes barely three months after the retailer opened a new outlet in Eldoret. The retailer also announced plans to open an additional outlet in Malindi Mall, signifying its aggressive expansion strategy. The decision to open the new outlet in Nakuru is supported by; i) Strategic location of the mall along the Great North Road promoting accessibility, ii) increased demand evidenced by Nakuru's high population growth rate at 3.2%, a 0.9% points higher than Kenya's growth rate at 2.3%, and, iii) Nakuru's low rental rates of Kshs 59.0 per SQFT, which is lower than the market's average price of Kshs 118.0 per SQFT as at the end of Q3'2021. The table below shows a summary of the performance of the retail sector in key urban cities in Kenya;

### Summary of Retail Performance in Key Urban Cities in Kenya 2021

Region	Rent (Kshs) 2021	Occupancy Rate 2021	Rental yield 2021
Mount Kenya	128	81.7%	7.9%
Nairobi	168	75.8%	7.5%
Mombasa	119	77.6%	6.8%
Kisumu	101	74.6%	6.4%
Eldoret	131	80.8%	6.3%
Nakuru	59	80.0%	6.1%

## Summary of Retail Performance in Key Urban Cities in Kenya 2021

Region	Rent (Kshs) 2021	Occupancy Rate 2021	Rental yield 2021
<b>Average</b>	<b>118</b>	<b>78.4%</b>	<b>6.8%</b>

Source: Cytonn Research 2021

The table below shows the summary of the number of stores of the Key local and international retailer 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	8	0	77	4	81
QuickMart	Local	10	29	37	9	0	46	0	46
Chandarana	Local	14	19	20	1	0	22	1	23
Carrefour	International	6	7	9	5	0	16	0	16
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	4	0	0	0
Nakumatt	Local	65	65	65	0	65	0	0	0
<b>Total</b>		<b>257</b>	<b>313</b>	<b>334</b>	<b>24</b>	<b>178</b>	<b>183</b>	<b>5</b>	<b>188</b>

Source: Online Search

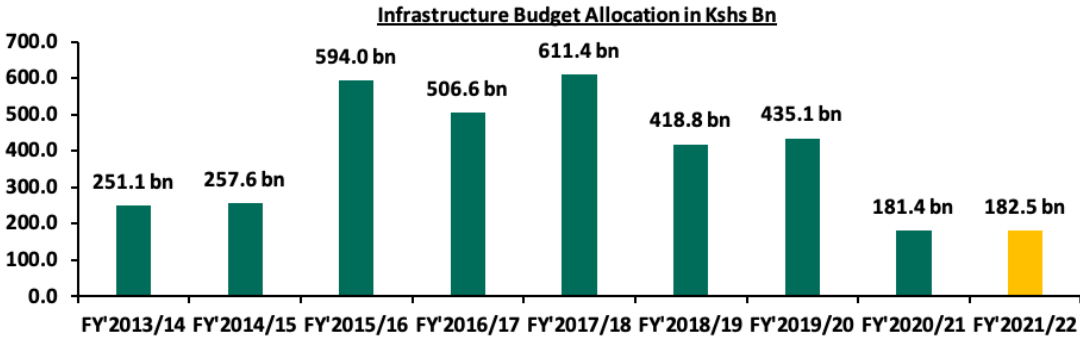
We expect the continued aggressive expansion by local and international retailers to cushion the performance of the retail sector in the near term. This will be supported by; i) the reopening of the economy which is expected to enhance a favorable environment for doing businesses, ii) changing consumer tastes and preferences, and, iii) positive demographics evidenced by Kenya's relatively high urbanization and population growth rates of 4.0% p.a and 2.3% p.a, against the global average of 1.9% p.a and 1.1% p.a, respectively. However, the performance of the retail sector is expected to be negatively impacted by the oversupply in the retail market at 3.0 mn SQFT in the Nairobi Metropolitan Area (NMA) and 1.7 mn SQFT in Kenya's retail market, and, the continued focus on e-commerce.

### III. Infrastructure

During the week, Transport Cabinet Secretary, Hon. James Macharia commissioned the construction of the 54.0 Km Mto Mwangodi-Mbale-Wundanyi-Bura road. The upgrading of the road to bitumen standard is to be done through Kenya Rural Roads Authority (KeRRA) at a cost of Kshs 2.2 bn. The project is expected to be completed by the end of 2024. Upon completion, the road will; i) ease transportation of goods to various areas such as Mwatate and Wundanyi constituencies, ii) open up

surrounding areas for investments thereby boosting property prices, and, iii) promote tourism activities by enhancing ease of access to tourist destinations such as the Taita Hills.

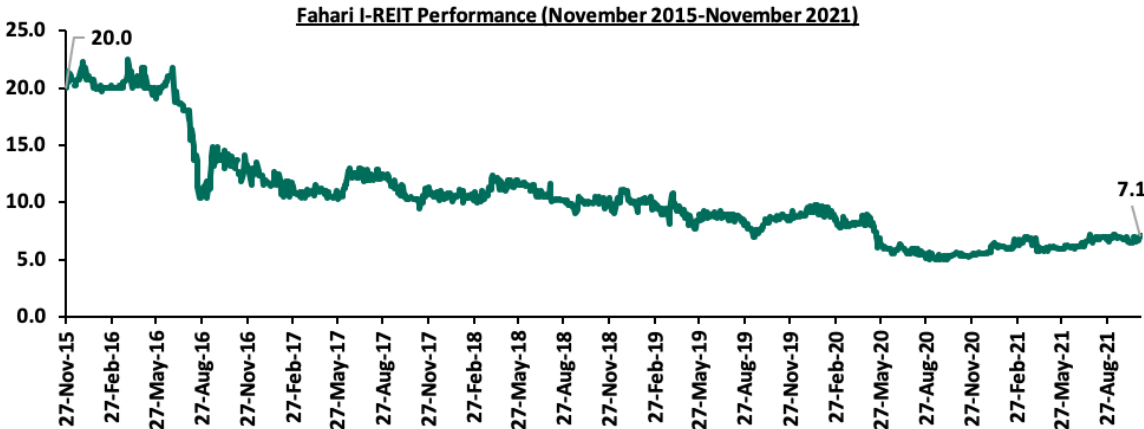
The government continues to initiate and implement infrastructure projects evidenced by the numerous ongoing projects like the Nairobi Expressway, Western Bypass, and, the Nairobi Commuter Rail project, among others. We expect more developments in the sector supported by the additional 0.6% budget allocation to Kshs 182.5 bn for the FY'2021/2022, from Kshs 181.4 bn in FY'2020/2021, coupled by the government's initiative to develop quality and adequate roads aiming to make Kenya an intra-regional hub for trade in East Africa. The graph below shows the budget allocation to the infrastructure sector over the last nine financial years:



Source: National Treasury

**IV. Listed Real Estate**

ILAM Fahari I-REIT closed the week trading at Kshs 7.1 per share, a 6.0% WTD and 22.4% YTD increase from Kshs 6.7 and Kshs 5.8 per share, respectively. On inception to date basis, the share price is still generally low having begun trading in November 2015 at Kshs 20.0, representing a 64.5% decline. We therefore expect the REIT's performance to continue being on a downward trajectory mainly attributed to a general lack of knowledge on the financing instrument, coupled with the general lack of interest of the REIT by investors, and a high minimum investments amounts set at Kshs 5.0 mn discouraging those interested in investing in it. The graph below shows the REIT's performance from November 2015 to November 2021:



*We expect the real estate sector in Kenya to continue registering more activities supported by increased activities in the residential sector, aggressive expansion by local retailers, and, continued implementation of infrastructural projects opening up areas for real estate investments. However, the low performance of the REIT sector is expected to slightly impede performance of the real estate sector.*

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