Cytonn Q1’2022 Markets Review

Real Estate

In Q1’2022, the Real Estate sector recorded notable activities compared to a similar period in 2021 attributable to the recovery of the Kenyan economy enabling increased Real Estate property transactions and boosting investor confidence. Some of the key factors that have continued to shape the performance of the Real Estate sector include:

?. Continued focus on Affordable Housing by both the government and the private sector, for instance, the State Department of Housing and Urban Development partnered with Seascan Development Limited to construct 4,900 affordable housing units in a project dubbed Mowlem Estate in Nairobi’s Dandora area,
i. Efforts by the government to provide affordable mortgages through the Kenya Mortgage Refinance Company aiming to increase home ownership. The firm rolled out a Kshs 10.5 bn Medium-Term Note (MTN) bond programme in January 2022, which recorded an oversubscription of 478.6% in the first tranche that aimed to raise Kshs 1.4 bn,
ii. Resumption of business operations by firms supported by the improved operating environment driving increase in office occupancies hence a better performance of the Commercial Office Sector,
iii. Positive demographics evidenced by Kenya’s relatively high urbanization and population growth rates of 4.0% p.a and 2.3% p.a, respectively, against the global average of 1.8% p.a and 1.0% p.a, respectively, as at 2020, driving increased demand for developments,
iv. Improved infrastructure opening up areas for investment such as the Nairobi Expressway, and Nairobi Western Bypass projects, among many others, and,
v. Aggressive entry and expansion by local and international retailers such as Naivas, QuickMart, and Carrefour, taking up spaces previously occupied by troubled retailers such as Tuskys and Nakumatt.

However, a couple of challenges impeding performance of the sector include;

?. Reduced lending to the Real Estate sector evidenced by a 3.9% decline in gross loans advanced to the Real Estate sector to Kshs 456.0 bn in FY’2021, from Kshs 439.0 bn realized in FY’2020. This is attributed to an increase in the number of Non-Performing Loans (NPLs) in the Real Estate sector by 21.6% to Kshs 74.7 bn in FY’2021 ,from Kshs 61.4 bn realized in FY’2020 according to the Central Bank of Kenya, with the increased Real Estate loan default rates being driven by the tough economic environment,
i. Increase in prices of construction materials such as steel, paint, and cement which is expected to lead to slowdown in the Real Estate sector according to the Architectural Association of Kenya,
ii. Travel Advisories in the country which is expected to have a downturn on the performance of the Hospitality sector, such as the Travel Advisory by the United Kingdom (UK) citing heightened threat of terrorism in Kenya,
iii. The existing oversupply of space in some sectors e.g. 1.7 mn SQFT in the Kenyan Retail sector and 6.7mn SQFT in the Commercial Office sector,
iv. Shift towards e-commerce affecting demand and uptake of physical Retail spaces, and,

v. Continued poor performance of the REIT market in Kenya due to lack of Knowledge and interest of the financing instrument by investors.

Despite these limitations, the Real Estate sector has registered increased activities in Q1’2022 and remains an attractive investment class. However, as 2022 is an election year, we expect a slow-down in market prices and sales volumes since investors and prospective buyers are expected to adopt a wait and see approach. The impact is expected to be temporary and the market is likely to stabilise on the back of relatively strong GDP growth at 5.2% as at Q3’2021, and an attractive demographic profile.

Market Performance:

I. Residential Sector

During Q1’2022, the residential sector recorded an improvement in performance on a YoY basis with average y/y total returns to investors coming in at 5.7%, a 0.6% points increase from 5.1% recorded in Q1’2021. However, on a q/q basis this was a 0.4% points decline from the 6.1% average total return in FY’2021. Prices in all segments saw an uptick with an overall average price appreciation of 0.9% in the residential market with the average rental yield recording a 0.2% points y/y increase to 4.8% from 4.6% recorded in Q1’2021, attributed to improvement in rental rates amid an improved economy.

Residential Performance Summary-Q1’2022

Segment	Average of Rental Yield Q1'2022	Average of Price Appreciation Q1'2022	Total Returns Q1'2022	Average of Rental Yield Q1'2021	Average of Price Appreciation Q1'2021	Average of Total Returns Q1'2021	y/y change in Rental Yield (% Points)	y/y change in Price Appreciation (% Points)	y/y change in Total Returns (% Points)
Detached Units									
High End	3.9%	1.3%	5.2%	3.6%	1.0%	4.6%	0.3%	0.3%	0.6%
Upper Mid-End	4.2%	1.1%	5.3%	4.5%	0.6%	5.0%	(0.3%)	0.5%	0.3%
Satellite Towns	4.5%	1.3%	5.8%	4.1%	0.7%	4.8%	0.4%	0.6%	1.0%
Detached Units Average	**4.2%**	**1.2%**	**5.4%**	**4.1%**	**0.8%**	**4.8%**	**0.1%**	**0.4%**	**0.6%**
Apartments									
Upper Mid-End	5.6%	0.5%	6.1%	5.2%	0.0%	5.2%	0.4%	0.5%	0.9%
Lower Mid-End	5.2%	0.6%	5.8%	5.0%	0.2%	5.3%	0.2%	0.4%	0.5%
Satellite Towns	5.4%	0.9%	6.3%	5.4%	0.0%	5.5%	0.0%	0.9%	0.8%
Apartments Average	**5.4%**	**0.6%**	**6.0%**	**5.2%**	**0.1%**	**5.3%**	**0.2%**	**0.5%**	**0.7%**
Residential Market Average	**4.8%**	**0.9%**	**5.7%**	**4.6%**	**0.4%**	**5.1%**	**0.2%**	**0.5%**	**0.6%**

Source: Cytonn Research 2022

A. Detached Units Performance

Detached units recorded an improvement in performance in Q1’2022 compared to Q1’2021 with average y/y returns to investors coming in at 5.4%, representing a 0.6% points y/y increase from 4.8% recorded in Q1’2021. This was attributed to investor confidence in the market, that saw transactional volumes pick amid recovery in the Real Estate market. Satellite Towns were the best performing segment with an average y/y total return of 5.8%, with Syokimau and Ngong offering the highest average y/y total returns at 6.7%. The best performing node was Redhill recording the highest average y/y total returns at 7.2%, followed by Syokimau and Ngong, and finally Athi River whose average y/y total return came in at 6.6%. Rongai and Langata recorded the lowest returns at 4.2%.

Detached Units Performance – Q1'2022

Row Labels	Average of Price per SQM Q1'2022	Average of Rent per SQM Q1'2022	Average of Occupancy Q1'2022	Average of Uptake Q1'2022	Average of Annual Uptake Q1'2022	Average of Rental Yield Q1'2022	Average of Price Appreciation Q1'2022	Total Returns
High-End								
Rosslyn	188,415	819	85.9%	94.4%	13.6%	4.7%	1.8%	**6.5%**
Kitisuru	227,272	736	92.0%	91.2%	12.5%	4.2%	1.4%	**5.6%**
Runda	211,728	789	91.0%	95.4%	10.0%	4.1%	1.1%	**5.2%**
Karen	185,270	686	85.3%	88.1%	12.3%	3.5%	0.8%	**4.3%**
Lower Kabete	156,352	422	81.9%	80.1%	12.1%	3.1%	1.2%	**4.3%**
Average	**193,807**	**691**	**87.2%**	**89.8%**	**12.1%**	**3.9%**	**1.3%**	**5.2%**
Upper Mid-End								
Redhill & Sigona	100,476	442	90.0%	88.6%	13.7%	4.3%	2.9%	**7.2%**
Ridgeways	167,607	761	84.0%	77.9%	11.8%	5.3%	1.1%	**6.4%**
Lavington	163,505	576	86.0%	82.7%	11.6%	4.0%	1.4%	**5.4%**
Loresho	168,277	719	74.3%	72.9%	12.7%	4.7%	0.3%	**5.0%**
South B/C	104,789	338	81.7%	78.5%	11.4%	3.2%	1.4%	**4.6%**
Runda Mumwe	151,208	604	85.3%	82.1%	11.3%	4.3%	0.2%	**4.5%**
Langata	137,432	282	88.6%	88.9%	10.1%	3.5%	0.7%	**4.2%**
Average	**141,899**	**532**	**84.3%**	**81.7%**	**11.8%**	**4.2%**	**1.1%**	**5.3%**
Lower Mid-End								
Syokimau/Mlolongo	73,436	311	79.1%	85.8%	17.0%	3.8%	2.9%	**6.7%**
Ngong	59,840	337	85.3%	89.7%	11.6%	5.1%	1.6%	**6.7%**
Athi River	84,577	313	86.5%	91.9%	12.9%	3.9%	2.7%	**6.6%**
Ruiru	65,251	302	83.8%	71.3%	16.0%	5.0%	1.5%	**6.5%**
Kitengela	67,478	274	92.0%	73.8%	11.4%	4.9%	1.1%	**6.0%**
Thika	63,581	302	79.8%	79.0%	12.3%	5.0%	1.0%	**6.0%**
Donholm & Komarock	92,706	389	93.9%	98.0%	13.1%	4.9%	(1.0%)	**3.9%**
Juja	71,242	266	75.1%	71.4%	14.3%	4.5%	1.2%	**5.6%**
Rongai	80,521	251	81.1%	87.5%	15.5%	3.3%	0.9%	**4.2%**
Average	**73,119**	**305**	**84.1%**	**83.2%**	**13.8%**	**4.5%**	**1.2%**	**5.7%**

Source: Cytonn Research 2022

B**. Apartments Performance**

Apartments registered improvement in Q1'2022 with average total returns recording a 0.7% points y/y increase to 6.0% in Q1'2022 from of 5.3% in Q1'2021, attributed to 0.5% points increase in y/y average price appreciation to 0.6% in Q1'2022 from 0.1% in Q2'2022. Satellite towns continued to be the best performing segment with average y/y total returns coming in at 6.3% attributed to the relatively high rental yield averaging at 5.4% and an average y/y price appreciation of 0.9%. The best performing nodes in terms of returns were Waiyaki Way, Westlands, Imara Daima, and, Ruaka which recorded an average y/y total returns of 8.4%, 8.1%,7.6%, and 7.5%, respectively attributed to relatively high rental yields coupled with resilience of house prices in the areas. Donholm and Kikuyu were the worst performing nodes which recorded average y/y total returns of 4.2% each.

Apartments Performance – Q1'2022

Area	Average of Price per SQM Q1'2022	Average of Rent per SQM Q1'2022	Average of Occupancy Q1'2022	Average of Uptake 2021	Average of Annual Uptake Q1'2022	Average of Rental Yield Q1'2022	Average of Price Appreciation Q1'2022	Total Returns
Upper Mid-End								
Westlands	148,981	872	87.4%	86.6%	43.8%	6.5%	1.6%	**8.1%**
Upperhill	136,249	813	81.3%	92.0%	14.8%	5.7%	1.0%	**6.7%**
Kileleshwa	125,270	671	87.5%	82.8%	14.0%	5.8%	0.7%	**6.5%**
Kilimani	104,503	534	87.1%	93.5%	18.2%	6.2%	(0.6%)	**5.6%**
Loresho	120,762	514	90.7%	94.0%	10.0%	4.6%	0.1%	**4.7%**
Parklands	119,893	559	88.0%	87.3%	13.4%	4.8%	0.0%	**4.8%**
Average	**125,943**	**660**	**87.0%**	**89.4%**	**19.0%**	**5.6%**	**0.5%**	**6.1%**
Lower Mid-End Suburbs								
Waiyaki Way	88,082	526	86.8%	83.9%	22.7%	6.3%	2.1%	**8.4%**
Imara Daima	81,101	409	86.3%	87.7%	12.6%	4.9%	2.7%	**7.6%**
South C	116,853	699	82.8%	73.9%	23.8%	6.1%	1.3%	**7.4%**
Langata	114,267	472	90.0%	87.6%	11.8%	4.9%	0.8%	**5.7%**
Race Course/Lenana	99,563	618	87.2%	90.3%	19.1%	6.1%	(0.9%)	**5.2%**
Dagoretti	85,064	560	92.0%	95.7%	16.9%	6.2%	(1.1%)	**5.1%**
South B	105,102	451	82.4%	95.2%	17.8%	4.2%	0.5%	**4.7%**
Lower Kabete	287,481	504	83.7%	85.7%	16.0%	2.9%	1.7%	**4.6%**
Kahawa West	73,354	313	80.0%	90.1%	10.4%	5.0%	(0.4%)	**4.6%**
Donholm & Komarock	79,853	406	86.6%	89.9%	11.6%	5.3%	(1.1%)	**4.2%**
Average	**113,072**	**496**	**85.8%**	**88.0%**	**16.3%**	**5.2%**	**0.6%**	**5.8%**
Lower Mid-End Satellite Towns								
Ruaka	103,584	559	91.9%	84.6%	20.7%	5.6%	1.9%	**7.5%**
Syokimau	69,135	330	89.9%	83.5%	12.7%	5.4%	1.5%	**6.9%**
Kitengela	60,665	261	93.2%	96.4%	10.1%	5.0%	1.9%	**6.9%**
Athi River	59,994	306	89.0%	90.9%	13.3%	5.4%	1.4%	**6.8%**

Apartments Performance – Q1'2022

Area	Average of Price per SQM Q1'2022	Average of Rent per SQM Q1'2022	Average of Occupancy Q1'2022	Average of Uptake 2021	Average of Annual Uptake Q1'2022	Average of Rental Yield Q1'2022	Average of Price Appreciation Q1'2022	Total Returns
Rongai	100,449	347	86.3%	74.3%	12.8%	6.2%	0.5%	**6.7%**
Ngong	59,206	346	73.7%	76.3%	10.7%	5.3%	0.9%	**6.2%**
Thindigua	99,367	475	83.6%	83.4%	24.2%	5.0%	1.2%	**6.%**
Ruiru	89,094	493	84.3%	85.9%	21.9%	5.7%	(0.4%)	**5.3%**
Kikuyu	80,659	464	69.9%	79.6%	14.0%	4.9%	(0.7%)	**4.2%**
Average	**80,239**	**398**	**84.6%**	**83.9%**	**15.6%**	**5.4%**	**0.9%**	**6.3%**

Source: Cytonn Research 2022

Weekly Highlights:

During the week, Centum Real Estate, a fully-owned subsidiary of Centum Investment company kicked-off the phase one construction of its Mzizi court housing project that will comprise 270 affordable residential units at the 102-acre Two Rivers Development. It is estimated that the construction of Mzizi Court apartments will take approximately 2 years and is anticipated to be complete by Q1'2024. A detailed summary of the developments is highlighted below;

26 Mzizi Court Residences

Typology	Plinth Area	Price (Kshs mn)	Price Per SQM (Kshs)
1-Bed	44	4.4	100,000
1-Bed Loft	49	5.3	108,163
2-Bed	69	6.8	98,551
2-Bed Duplex	72	7.8	108,333
2-Bed with DSQ	93	9.2	98,925
3-Bed	95	9.2	96,842
Average			**101,802**

Source: Centum Real Estate

The pricing of Mzizi Court apartments is relatively affordable with the average price per SQM at Kshs 101,802 compared to other developments at Two Rivers such as Riverbank whose average price per SQM stands at Kshs 166,881. This means that Two Rivers will have units that cater to the middle class with growing tastes and preferences. Other factors expected to drive demand for the units include

- Relatively good infrastructure, enhancing accessibility to commercial nodes such as Gigiri, Westlands and the CBD, thus boosting demand from Nairobi's working class,
- Demand from expatriates such as the United Nations serving in international organizations,
- Presence of amenities such as Two Rivers Mall, Village Market, Rosslyn Riviera, Ridgeways Mall,
- Close proximity to learning institutions such as Potterhouse Runda, Sabis International, and Braeburn Ridgeways, and,
- Relatively high levels of security due to proximity to the UN Blue Zone.

Additionally, investment in mixed-use developments such as Two Rivers which also has Riverbank as one of its residential developments, continues to create operational synergies across various Real Estate themes hence enabling investors to maximize returns, either through rental income or capital appreciation. MUDs are also more convenient and preferred given that the development mix creates an upscale living environment with easy access to work places, retail stores, and/or, residential areas. In terms of performance, according to the Cytonn Mixed-Use Development Report-2021, MUDs offered better returns with the average rental yield coming in at 7.2% in 2021, 0.7% points higher than the respective single use themes which recorded average rental yield of 6.5% in the similar period.

The table below shows the performance of single-use and mixed-use development themes between 2020 and 2021;

Thematic Performance of MUDs in Key Nodes 2020-2021

	MUD Themes Average			Market Performance Average		
	Rental Yield 2020	**Rental Yield 2021**	**Δ in y/y MUD Rental yield**	**Rental Yield 2020**	**Rental Yield 2021**	**Δ in y/y Market Average Rental Yield**
Retail	7.1%	8.4%	**1.3%**	7.7%	7.8%	**0.1%**
Offices	6.9%	7.1%	**0.2%**	6.8%	6.6%	**(0.2%)**
Residential	6.3%	6.0%	**(0.3%)**	5.8%	5.2%	**(0.6%)**
Average	**6.9%**	**7.2%**	**0.3%**	**6.8%**	**6.5%**	**(0.3%)**

**** Market performance is calculated from nodes where sampled MUDs exist***

We expect the continued focus on developing affordable housing units offering convenience with the live, work and play incorporated under one development to attract demand from clients and interest from investors.*Source: Cytonn Research 2021*

Other highlights in Q1'2022 include; (see Cytonn Monthly- January 2022 and Cytonn Monthly-February 2022);

?. Pan- African mortgage lender, Shelter Afrique in partnership with the Centre for Affordable Housing Finance in Africa (CAHF) developed a 'Housing Affordability Calculator' to vet proposals by developers pitching for financing of affordable housing. For more information, see Cytonn Weekly #12/2022,

i. The Kakamega County Investment and Development Agency (KCIDA), in collaboration with Pinnie Agency Limited, a private developer, began the construction of 3,000 affordable housing units in 5 estates within Kakamega and Mumias towns. For more information, see Cytonn Weekly #11/2022,

ii. Unity Homes, a Kenyan-British housing developer announced plans to launch the construction of its third phase of housing units in Tatu City, Ruiru. The Kshs 4.3 bn project which is part of the developer's commitment to support the government's Big Four Affordable Housing initiative, will comprise of 1,200 apartments. For more information, see Cytonn Weekly #11/2022,

iii. The International Finance Corporation (IFC), an international financier, announced plans to buy Kshs 4.2 bn worth of bonds from the Kenya Mortgage Refinance Company's (KMRC) Kshs 10.5 bn Medium Term Note Program (MTN). For more information, see Cytonn Weekly #11/2022, and,

iv. South Korea Government granted Kenya Kshs 685.9 mn for the construction of transport infrastructure, planning and security installations at the Konza Technopolis City Project). For more information, see Cytonn Weekly #11/2022.

Our outlook on the Residential sector is NEUTRAL as we 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. 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, iii) increase in construction materials leading to slowdown of developments, and, iv) reduced disposable income amongst Kenyans in the midst of tough economic times.

II. Commercial Office Sector

The commercial office sector retained its average rental yields and asking rents at 7.3% and Kshs 94 per SQFT, respectively, in Q1'2022. The overall occupancy rates increased by 0.3% points to 77.9% in the period of focus due to an increased demand for office spaces, as various firms resume full operations at the beginning of the year as well. The average selling prices increased as well by 0.2% to Kshs 12,113 per SQFT in Q1'2022 from Kshs 12,106 per SQFT in FY'2021, due to increased construction costs. According to Kenya National Bureau of Statistics' (KNBS) Construction Input Price Indices, construction cost indices increased by 1.6% to 106.1 in Q4'2021, from the 104.4 that was realized in Q1'2021. 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	Q1'2021	H1'2021	Q3'2021	FY'2021	Q1'2022	Δ FY'2021/Q1'2022
Occupancy %	76.3%	75.8%	79.9%	77.6%	**77.9%**	**0.3%**
Asking Rents (Kshs) /SQFT	92	93	94	94	**94**	**0.0%**
Average Prices (Kshs) /SQFT	12,228	12,224	12,479	12,106	**12,113**	**0.2%**
Average Rental Yields (%)	6.8%	6.9%	7.2%	7.3%	**7.3%**	**0.0%**

Source: Cytonn Research 2022

Gigiri and Westlands were the best performing submarkets in Q1'2022 with average rental yields of 8.8% and 8.1%, respectively, attributed to their superior locations, availability of high quality office spaces attracting prime rental prices, and, relatively good infrastructure. On the other hand, Mombasa Road recorded the least average rental yields at 5.1%, as a result of the area being popular as an industrial area hence unattractive for office investments. 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 Q1'2022

Area	Price (Kshs) /SQFT FY'2021	Rent (Kshs) /SQFT FY'2021	Occupancy (%) FY'2021	Rental Yield (%) FY'2021	Price (Kshs) /SQFT Q1'2022	Rent Kshs/ SQFT Q1'2022	Occupancy (%) Q1'2022	Rental Yield (%) Q1'2022	Δ in Rent	Δ in Occupancy (% points)	Δ in Rental Yields (% points)
Gigiri	13,500	119	81.3%	**8.6%**	13,500	118	83.3%	**8.8%**	**(1.1%)**	**2.0%**	**0.2%**
Westlands	11,972	104	75.5%	**8.1%**	11,846	105	74.5%	**8.1%**	**0.7%**	**(0.9%)**	**0.0%**
Karen	13,325	106	83.0%	**7.7%**	13,325	107	82.8%	**7.8%**	**0.9%**	**(0.2%)**	**0.1%**
Parklands	11,336	91	80.1%	**7.6%**	11,562	91	82.8%	**7.7%**	**0.0%**	**2.7%**	**0.1%**
Kilimani	12,364	91	79.8%	**7.1%**	12,440	91	80.2%	**7.1%**	**0.0%**	**0.4%**	**0.0%**

Nairobi Metropolitan Area Commercial Office Submarket Performance Q1'2022

Area	Price (Kshs) /SQFT FY'2021	Rent (Kshs) /SQFT FY'2021	Occupancy (%) FY'2021	Rental Yield (%) FY'2021	Price (Kshs) /SQFT Q1'2022	Rent Kshs/ SQFT Q1'2022	Occupancy (%) Q1'2022	Rental Yield (%) Q1'2022	Δ in Rent	Δ in Occupancy (% points)	Δ in Rental Yields (% points)
Upperhill	12,409	94	78.0%	**7.0%**	12,409	94	76.1%	**6.9%**	**0.0%**	**(1.9%)**	**(0.1%)**
Nairobi CBD	11,787	82	82.8%	**6.8%**	11,863	82	83.8%	**6.9%**	**0.0%**	**1.0%**	**0.1%**
Thika Road	12,571	79	76.3%	**5.7%**	12,571	78	77.6%	**5.7%**	**(1.4%)**	**1.3%**	**0.0%**
Mombasa Road	11,250	73	64.2%	**5.1%**	11,250	73	64.6%	**5.1%**	**0.0%**	**0.4%**	**0.2%**
Average	**12,106**	**94**	**77.6%**	**7.3%**	**12,113**	**94**	**77.9%**	**7.3%**	**0.0%**	**0.3%**	**0.0%**

Source: Cytonn Research 2022

Notable highlight during the quarter include;

?. CCI Group of companies, a business process outsourcing (BPO) provider, and, nutrition supplements distributor Max International took up approximately 60.0% of the 270,000 SQFT space at Garden City Business Park along Thika Road. For more information, see Cytonn Weekly #02/2022, and,

i. Cytonn recently released its Nairobi Metropolitan Area (NMA) Commercial Office Report 2022 which was highlighting that the office market realized an improvement in its overall performance in 2021, with the average rental yields for the unserviced office spaces coming in at 7.1%, compared to the 7.0% recorded in 2020. For serviced offices, the average Y/Y rental growth came in at 0.8%, with Westlands being the best performing node. For more info, click here.

We have a NEUTRAL outlook for the NMA commercial office sector whose performance is expected to be boosted by an increase in uptake of space as various firms embark on full operations. However, the existing oversupply of space at 6.7 mn SQFT, coupled with the stagnating rental rates, is expected to weigh down performance of the sector. Investment opportunity lies in Gigiri, Westlands, and Karen which offer relatively high returns compared to the market averages.

III. Retail Sector

The retail sector performance in Q1'2022 realized a 0.1% points increase in the overall rental yields to 7.9% from the 7.8% that was recorded in FY'2021. The average rents and occupancies increased as well by 0.1% and 0.5% points, respectively, to Kshs 170 per SQFT and 77.2% in Q1'2022, from Kshs 169 per SQFT and 76.7%, respectively, in FY'2021. The improvement in performance was as a result of; i) continuous expansion by local and international retailers, ii) positive demographics driving demand for goods, retail spaces and services, iii) recognition of Kenya as a regional hub resulting to increased foreign investments in the country from retailers such as Chicken Cottage, and, iv) infrastructure developments driving retail investments in various parts of the country. The performance of the retail sector in the Nairobi Metropolitan Area over time is as shown below:

(All values in Kshs unless stated otherwise)

Summary of performance overtime

Item	Q1'2021	H1'2021	Q3'2021	FY'2021	Q1'2022	Rental Yield Change FY'2021/Q1'2022
Average Asking Rents (Kshs/SQFT)	166	177	177	169	**170**	**0.1%**
Average Occupancy (%)	75.0%	78.0%	78.0%	76.7%	**77.2%**	**0.5% points**

Summary of performance overtime

Item	Q1'2021	H1'2021	Q3'2021	FY'2021	Q1'2022	Rental Yield Change FY'2021/Q1'2022
Average Rental Yields (%)	7.4%	8.1%	8.1%	7.8%	**7.9%**	**0.1% points**

Source: Cytonn Research 2022

In terms of the sub markets analysis, Karen, Kilimani and Westlands were the best performing nodes recording average rental yields of 10.0%, 9.9% and 9.5%, respectively, compared to the overall market average of 7.9%. This was mainly attributed to; i) presence of quality retail spaces fetching prime rents and yields such as Galleria, Sarit, and Yaya Centre Malls, among others, ii) presence of affluent residents with a high consumer purchasing power as the areas host high end income earners, and, iii) adequate infrastructure enhancing investments. Key to note is that Westlands realized a sharp decline of 4.0% in its overall occupancy rates as a result of additional retail space at the Global Trade Centre worth 91,419 SQFT.

Eastlands recorded the lowest yields at 5.8%, 2.1% points lower than the average market rates of 7.9%, as a result of low rental charges at Kshs 131 per SQFT against a market average of Kshs 170 Per SQFT, coupled with a stiff competition from informal retail spaces. However, key to note is that the performance is an increase from the 5.6% average yields that was realized in FY'2021, due to increased occupancy rates which came in at 73.0% in Q1'2022, a 1.4% points increase from 71.6% recorded in FY'2021.

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 Q1'2022

Area	Rent (Kshs) /SQFT FY'2021	Occupancy% FY'2021	Rental Yield FY'2021	Rent (Kshs) /SQFT Q1'2022	Occupancy% Q1'2022	Rental Yield Q1'2022	Q1' 2022 Δ in Rental Rates	Q1' 2022 Δ in Occupancy (% points)	Q1' 2022 Δ in Rental Yield (% points)
Karen	202	84.0%	**9.8%**	200	85.0%	**10.0%**	**(1.5%)**	**0.8%**	**0.2%**
Kilimani	183	86.0%	**9.8%**	183	86.8%	**9.9%**	**0.0%**	**0.8%**	**0.1%**
Westlands	213	78.8%	**10.0%**	214	72.9%	**9.5%**	**4.5%**	**(4.0%)**	**(0.4%)**
Ngong Road	171	79.0%	**7.7%**	164	81.0%	**8.3%**	**2.1%**	**2.0%**	**0.6%**
Kiambu road	180	75.6%	**7.9%**	179	77.6%	**8.1%**	**(2.1%)**	**1.7%**	**0.2%**
Mombasa road	148	75.0%	**6.8%**	146	78.6%	**7.0%**	**(0.7%)**	**3.0%**	**0.2%**
Thika Road	161	74.0%	**6.7%**	156	74.2%	**6.6%**	**(2.2%)**	**0.2%**	**0.0%**
Satellite towns	142	69.0%	**6.2%**	145	70.8%	**6.2%**	**1.0%**	**1.5%**	**0.0%**
Eastlands	133	71.6%	**5.6%**	131	73.0%	**5.8%**	**(0.6%)**	**1.4%**	**0.2%**
Average	**169**	**76.7%**	**7.8%**	**170**	**77.2%**	**7.9%**	**0.1%**	**0.8%**	**0.1%**

Source: Cytonn Research 2022

For notable highlights during the quarter please see our Cytonn Monthly-January 2022, and Cytonn Monthly-February 2022 Reports. For the month of March 2022;

?. Naivas supermarket, a local retail chain, opened its 82nd outlet at Katani, along Mombasa Road, taking up 34,299 SQFT worth of space in the area. For more analysis, please see Cytonn Weekly #11/2022,

i. Simbisa Brands, Zimbabwe's largest fast-food restaurant operator, which runs quick-service restaurants such as Chicken Inn, Pizza Inn, Bakers Inn, and Creamy Inn, announced plans to expand to 245 outlets in Kenya by June 2022 from 190 outlets as at December 2021. For more analysis, please see Cytonn Weekly #12/2022,
ii. Naivas supermarket, announced plans to open 3 new outlets in the next few weeks. The outlets will be located at Kiambu Mall along Kiambu Road, at Safari Center in Naivasha while the third store will be opened in Meru. For more analysis, please see Cytonn Weekly #12/2022
iii. During the week, Eat'N'Go Limited, an international fast food chain, announced plans to open 100 new stores in Kenya, amidst its expansion drive to open stores in various parts of Africa. The incoming outlets will be spread in various parts of Kenya beginning with Nanyuki, Kisumu, Eldoret, and Nakuru towns. The master franchisee for the Domino's Pizza, Cold Stone Creamery, and Pinkberry Gourmet Frozen Yoghurt brands, currently has got a total of 8 outlets in Kenya; 7 in Nairobi and one in Mombasa. The move by the retailer to open the new stores in Kenya is driven by; i) a growing middle income class with a matching purchasing power, ii) stiff market competition from close rivals such as Pizza Inn, iii) positive demographics, and, iv) Kenya's recognition as a regional hub hence attracting foreign investments, and,
iv. Additionally, QuickMart supermarket, a local retail chain, announced plans to open its 51st outlet at Tuskys Mall located along Lang'ata Road in Nairobi. The retailer is set to begin operations in May 2022 at a space that was previously occupied by troubled Tuskys Supermarket. Moreover, this will be the retailer's 3rd outlet to be opened so far in 2022, with the other two having been opened in Kitengela and Machakos towns, in the months of February and March, respectively. QuickMart's decision to open the new store is drive by i) need to step up competition from close rivals such as Naivas that has so far opened 3 new outlets in 2022, ii) increased financial muscle with Sokoni Retail Kenya having acquired a controlling stake in the retailer, iii) strategic location of the outlet along Langata Road thus promoting accessibility, and, iv) availability of prime retail space left by Tuskys. 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	Highest number of branches that have ever existed as at FY'2021	Number of branches opened in 2022	Closed branches	Current number of Branches	Number of branches expected to be opened	Projected number of branches FY'2022
Naivas	Local	46	61	69	79	3	0	82	3	85
QuickMart	Local	10	29	37	48	2	0	50	1	51
Chandarana	Local	14	19	20	23	1	1	24	4	28
Carrefour	International	6	7	9	16	0	0	16	0	16
Cleanshelf	Local	9	10	11	12	0	0	12	0	12
Tuskys	Local	53	64	64	3	0	61	3	0	3
Game Stores	International	2	2	3	3	0	0	3	0	3
Uchumi	Local	37	37	37	2	0	35	2	0	2
Choppies	International	13	15	15	0	0	13	0	0	0
Shoprite	International	2	4	4	0	0	4	0	0	0
Nakumatt	Local	65	65	65	0	0	65	0	0	0
Total		**257**	**313**	**334**	**186**	**6**	**179**	**192**	**8**	**200**

Source: Online Search

We retain a NEUTRAL outlook for the retail sector with the performance expected to be

mainly supported by the rapid expansion drive by local and international retailers, ii) positive demographics, and, and, iii) increased foreign investments in the country as a result of Kenya being recognized as a regional hub. However, e-commerce still being adopted by some retailers, coupled with the existing oversupply of retail spaces in the market by 3.0 mn SQFT, is expected to weigh down the overall performance of the sector. Investment opportunity lies in Karen, Kilimani, and, Westlands which offer relatively high returns compared to the market averages.

IV. Mixed Use Developments

Notable highlights during the month include;

i. CCI Group of companies, a business process outsourcing (BPO) provider, and, nutrition supplements distributor Max International took up approximately 60.0% of the 270,000 SQFT space at Garden City Business Park along Thika Road. CCI and Max International are taking up six-and-a-half floors, and, half-a-floor, respectively, at the business park with East Africa Breweries limited having being the other corporate giant that took up space at the development in November 2019. For more information, see Cytonn Weekly #02/2022.

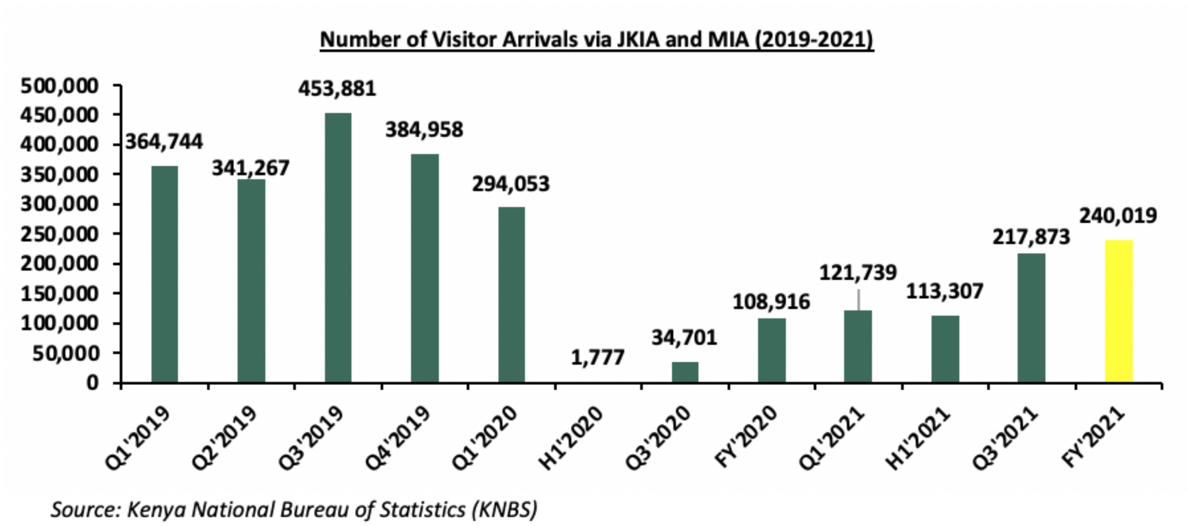
Our outlook on Mixed-Use Developments (MUDs) is NEUTRAL supported by the impressive returns recorded at 7.2% in 2021, from 6.9% in 2020. However, their performance is expected to be weighed down by existing oversupply at 6.7 mn SQFT in the NMA commercial office market, and oversupply in the retail market at 3.0 mn SQFT in the NMA and 1.7 mn SQFT in the Kenya retail market.

V. Hospitality Sector

During Q1'2022, three Industry Reports related to the Hospitality sector were released, namely;

Report	Key Take-outs
Leading Economic Indicators November 2021, by the Kenya National Bureau of Statistics (KNBS)	· International arrivals through the Jomo Kenyatta International Airport (JKIA) and Moi International Airport (MIA) increased by 5.1% to 76,706 in November 2021, from 72,809 realized in October 2021. On a YoY basis, this was a 59.3% increase from the 31,211 visitors recorded in November 2020, and, · Cement consumption increased by 4.0% to 7.5 mn metric tonnes between January and October 2021, from 7.2 mn metric tonnes realized in 2020. For more information, see Cytonn Weekly #04/2022.
Leading Economic Indicators (LEI)- December 2021, by the Kenya National Bureau of Statistics (KNBS)	· International arrivals through the Jomo Kenyatta International Airport (JKIA) and Moi International Airport (MIA) increased by 15.2% to 90,504 in December 2021, from the 76,706 recorded the previous month, and, · The value of building plan approvals increased by 14,166.7% to Kshs 41.5 bn in Q4'2021, from the Kshs 0.3 bn realized in the similar period in 2020. For more information, see Cytonn Weekly #08/2022.
Monetary Policy Committee Hotels Survey – January 2022, by the Central Bank of Kenya	· During the period under review, the sampled hotels indicated that they were in operation in January 2022, from November 2021, thus maintaining a 4.0% points increase to 100%, from the 96.0% operation rate in September 2021, · The average bed occupancy in the month of January 2022 averaged at 54.0%, 2.0% points higher than 52.0% recorded in the month of November 2021, and, · Local guests continued to account for majority of clientele population at 85.0% of accommodation and 81.0% restaurant services between December 2021 and Janury 2022, compared to 62.0% and 68.7%, respectively, before the COVID-19 pandemic.

During the week, the United Kingdom (UK), issued a Travel Advisory urging its residents to desist from travelling to a number of areas in the North Eastern part of Kenya in April 2022, citing heightened threat of terrorism in parts of Kenya. The move by the UK government is expected to weigh down the performance of the tourism and hospitality sectors in general as its citizens will minimize their travel plans to cushion themselves against the terror claims despite the fact that the advisory has been issued in specific areas of the country. UK formed the 5th source market for international tourists in Kenya in H1'2021 with 16,264 visitors which was 5.3% of the total visitor arrivals at 305,635 between January and June 2021 as evidenced by the International Tourism Performance Report January to June 2021 by Tourism Research Institute of Kenya. Additionally, according to the Kenya National Bureau of Statistics(KNBS), the number of international visitors in Q4'2021 increased coming in at 240,019 hence continued Travel Advisories might have a downturn on this improvement. The graph below shows the number of international arrivals in Kenya between 2019 and 2021;



Source: Kenya National Bureau of Statistics (KNBS)

Notable highlights during Q1'2022 include;

?. Global US hotel brand JW Marriott International, signed an agreement with Baraka Lodges Limited to open its first luxury safari lodge in Masai Mara, Narok County. For more information, see Cytonn Weekly #12/2022,

i. Global five-star hotel brand Radisson Blu located in Nairobi Upper Hill announced plans to resume operations on 9th May 2022 following easing of the coronavirus crisis. For more information, see Cytonn Weekly #12/2022,

ii. Cytonn Group, under the hospitality arm of the business, launched CySuites Hospitality Management Company, a serviced apartment hotel management company, whose primary focus is optimizing operational and managerial efficiency of serviced apartments on behalf of owners as well as investors. For more information, see Cytonn Weekly #10/2022,

iii. The United Arab Emirate (UAE) retained Kenya in its 'Red List' of countries barred from visiting UAE, with other countries such as Ghana, Angola, Uganda, Guinea and Cote d'Ivoire allowed admission to the middle-eastern state in its latest review. For more information, see Cytonn 2022 Markets Outlook. However, key to note is that Kenya is currently not on the red list after having been removed by UAE on 27th January, and,

iv. The Kenyan government suspended all inbound and transit passenger flights from the United Arabs Emirates (UAE) for seven days effective 10th January. Additionally, the United States of America (USA), raised Kenya's travel advisory alert from Level One to Level Three, amidst concerns of the increasing COVID-19 infections following the emergence of the Omicron variant. For more information, see Cytonn Weekly #02/2022.

We have a NEUTRAL outlook on the hospitality sector following increased international arrivals boosting tourism, improved hotel operations and occupancies. This is attributed to the mass vaccination currently underway in the country, the ambitious international marketing of Kenya as a tourist destination through the magical Kenya platform, and, positive accolades. However, the increasing Travel Advisories, and relaxation of Covid-19 measures continues to pose a risk on the performance of the sector as this may reduce international arrivals.

IV. Land Sector

The average asking rents for land in the Nairobi Metropolitan Area (NMA) recorded an overall improvement in performance in Q1’2022, with the YoY capital appreciation coming in at 2.4%. This was mainly attributed to; i) positive demographics driving demand for land, ii) improved development of infrastructure such as roads, railways, water and sewer lines, iii) proximity to amenities such as shopping malls, and, iv) increased construction activities particularly in the residential sector thus fueling demand for land. In terms of performance per node, unserviced land in the satellite towns of Nairobi recorded the highest YoY capital appreciation of 4.1% mainly due to increased demand resulting from their affordability and improved accessibility to these areas supporting demand for Real Estate investments. In support of this, the average asking prices for unserviced land came in at Kshs 12.5 mn in Q1’2022, 90.6% lower than the market average of Kshs 133.4 mn. The table below shows the overall performance of the sector during the quarter:

All Values in Kshs (mn) Unless Stated Otherwise

Summary of the Performance Across All regions Q1’2022

Location	**Q1'2021**	**Q1'2022**	**Annualized Capital Appreciation**
Un-serviced land-satellite Towns	12.0	12.5	**4.1%**
Nairobi Suburbs- Low Rise Residential Areas	89.9	93.6	**3.9%**
Serviced land-Satellite Towns	15.2	15.7	**3.4%**
Nairobi Suburbs- High Rise Residential Areas	134.2	135.1	**0.7%**
Nairobi Suburbs- Commercial Areas	410.2	410.1	**0.0%**
Average	**132.3**	**133.4**	**2.4%**

Source: Cytonn Research 2022

Performance per node

a.In Q1’2022, unserviced land in the satellite towns of Nairobi recorded an average annualized capital appreciation of 4.1%, with prices coming in at Kshs 12.4 mn, from the Kshs 12.0 mn recorded a similar period in 2021. The improvement in performance was mainly driven by; i) affordability of land prices, ii) scarcity of land within Nairobi which in turn drive demand for land in the satellite towns, and, iii) concentration of affordable housing projects in the satellite towns thus driving demand for land. Juja was the best performing node with a YoY capital appreciation of 6.4%, attributed to; i) adequate infrastructural developments such Thika Superhighway, ii) proximity to amenities such as Juja City Mall, and, Jomo Kenyatta University, among others, and, iii) positive demographics fueling demand.

All Values in Kshs (mn) Unless Stated Otherwise

Satellite Towns Unserviced Land

Location	Price Q1'2021	Price Q1'2022	Capital Appreciation
Juja	11.3	12.0	**6.4%**
Athi River	4.1	4.3	**5.3%**
Rongai	12.4	13.0	**4.8%**
Limuru	18.5	19.1	**3.3%**
Utawala	13.9	14.0	**0.8%**
Average	**12.0**	**12.4**	**4.1%**

b. Land in the low rise residential areas of NMA recorded a YoY capital appreciation of 3.9% in Q1’2022, 1.5% points higher than the market average of 2.4%. These areas continue to remain attractive to investors due to; i) their serene environments, ii) privacy enhanced by the sparse population, iii) relatively affordable prices at Kshs 93.6 mn per acre compared to the high areas averaging at Kshs 135.1 mn per acre. Kitisuru was the best performing node with an average price appreciation of 7.3%, 3.4% points higher than the market average of 2.4% due to; i) ample infrastructure servicing the area such as Kitisuru Road and Waiyaki Way among others, ii) proximity to adequate amenities such as the International School of Kenya and the Two Rivers Mall among others, and, iii) strategic location as it’s connected to high end areas like Westlands, Nyari, and Runda hence attracting investments.

All Values in Kshs (mn) Unless Stated Otherwise

Low Rise Residential Areas

Location	Price Q1'2021	Price Q1'2022	Capital Appreciation
Kitisuru	83.7	90.3	**7.3%**
Ridgeways	69.0	74.1	**6.9%**
Runda	74.8	77.8	**3.8%**
Karen	59.0	60.8	**3.0%**
Spring Valley	162.9	164.8	**1.1%**
Average	**89.9**	**93.6**	**3.9%**

c. Serviced land in the satellite towns of Nairobi recorded an average annualized capital appreciation of 3.4% with Syokimau being the best performing area recording an average annualized capital appreciation of 15.4%. This was mainly driven by; i) strategic location along the ongoing Nairobi Expressway project promoting investments, ii) presence of the commuter train station making it easier for people to navigate various areas whilst avoiding traffic along the busy Mombasa Road, iii) relatively affordable rates at Kshs 14.5 mn per acre against the market average of Kshs 15.7 mn per acre, and iv) presence a growing middle income class driving demand for land investments. On the other hand, Ruai recorded a price correction of 6.5% attributed to reduced demand of land as investors focus on areas witnessing more Real Estate related activities, whereas it is also quite far from Nairobi CBD by approximately 30 Km.

All Values in Kshs (mn) Unless Stated Otherwise

Satellite Towns Serviced Land

Location	Price Q1'2021	Price Q1'2022	Capital Appreciation
Syokimau-Mlolongo	12.6	14.5	**15.4%**
Athi River	13.2	14.0	**5.8%**
Ruiru-Juja	23.0	23.6	**2.8%**
Rongai	17.9	18.3	**2.4%**
Thika	11.2	11.2	**0.6%**
Ruai	13.1	12.2	**(6.5%)**
Average	**15.2**	**15.7**	**3.4%**

d. The asking land prices in the high rise residential areas recorded a 0.7% annualized capital appreciation in Q1'2022, with areas within Embakasi such as Fedha and Imaara Daima being the best performing nodes with an average price appreciation of 5.2%. This was driven by; i) the affordability of land in the area, having recorded average selling prices at Kshs 74.9 mn compared to the market average of Kshs 135.1 mn, ii) close proximity of the area to major infrastructure developments such as the Nairobi Expressway, thus fueling demand, and, iii) presence of ample amenities such as the newly launched Imaara Mall. Conversely, Kileleshwa registered a 1.9% price correction attributed to reduced demands as investors continue to explore more affordable land options with an acre averaging at Kshs 295.4 mn, 54.3% higher than the market average of Kshs 135.1 mn per acre.

All Values in Kshs (mn) Unless Stated Otherwise

High Rise Residential Areas

Location	Price Q1'2021	Price Q1'2022	Capital Appreciation
Embakasi	71.0	74.9	**5.2%**
Kasarani	68.1	70.6	**3.5%**
Dagoretti	96.4	99.7	**3.3%**
Kileleshwa	301.1	295.4	**(1.9%)**
Average	**134.2**	**135.1**	**0.7%**

e. Land in the commercial zones realized a slight price correction of 0.02% in their asking prices which came in at Kshs 410.1 mn in Q1'2022, from the Kshs 410.2 mn that was recorded in Q1'2021. Westlands was the best performing node with a capital appreciation of 0.6% due to an increased demand driven by its close proximity to the Nairobi CBD, and, infrastructure developments such as the Nairobi Expressway promoting accessibility. On the other hand, Upper hill realized a price correction of 1.2% due to declined demand resulting from land in the area being expensive, with an acre averaging at Kshs 483.1 mn, 17.8% higher than the market average of Kshs 410.1 mn per acre.

All Values in Kshs (mn) unless Stated Otherwise

Nairobi Metropolitan Area Commercial Zones

Location	Price Q1'2021	Price Q1'2022	Capital Appreciation
Westlands	415.4	417.8	**0.6%**

Nairobi Metropolitan Area Commercial Zones

Location	Price Q1'2021	Price Q1'2022	Capital Appreciation
Riverside	348.3	350.0	**0.5%**
Kilimani	388.4	389.7	**0.3%**
Upperhill	488.8	483.1	**(1.2%)**
Average	**410.2**	**410.1**	**0.0%**

Source: Cytonn Research

The land sector in Nairobi Metropolitan Area has proven to be a reliable investment avenue and has shown resilience throughout the years despite economic downturns. This is evidenced by a 2.4% YoY capital appreciation recorded this quarter. We therefore retain a POSITIVE outlook for the sector whilst expecting a similar trend to continue being witnessed throughout the year driven by; i) government's focus on establishing infrastructure developments thus promoting demand for land, ii) increased focus on the Affordable Housing projects fuelling the need for more land, iii) positive demographics, and, iv) government's efforts towards ensuring efficient land transactions, with the digitization of the land records in the Nairobi County expected to be completed in June 2022.

Notable highlights during the quarter include;

?. The national government through the Kenya Railways Corporation announced plans to revamp select dilapidated railway lines in the country namely; i) 217.0Km Nakuru-Kisumu Meter Gauge Railway (MGR), ii) 77.8Km Gilgil-Nyahururu MGR line, and, iii) 69.1Km Kisumu-Butere railway line, at a cost of Kshs 4.5 bn. For more information, see Cytonn Monthly-January 2022,
i. The National Government announced that it had begun the documentation process for the dualing of the 40 Km Mtwapa-Kilifi Road. For more information, see Cytonn Weekly #04/2022, and,
ii. The government of Kenya through the Kenya Rural Roads Authority (KERRA) announced that it has begun upgrading to Bitumen Standards the Mago-Mululu - Wangulu (E240) & Lusui - Vokoli (E293) Roads. The two projects are approximately 20 Kms and are estimated to cost Kshs 1.1 bn. For more information, see our Cytonn 2022 Markets Outlook report.

We expect continued construction, revamp, and completion of various projects in the infrastructure sector due to government's aggressive focus to implement and conclude projects through various strategies such as; i) issuing of infrastructure bonds to raise funds for construction, ii) initiating project partnerships such as Pubic Private Partnerships, and, iii) priority in the YoY budget allocations.

VII.Industrial Sector

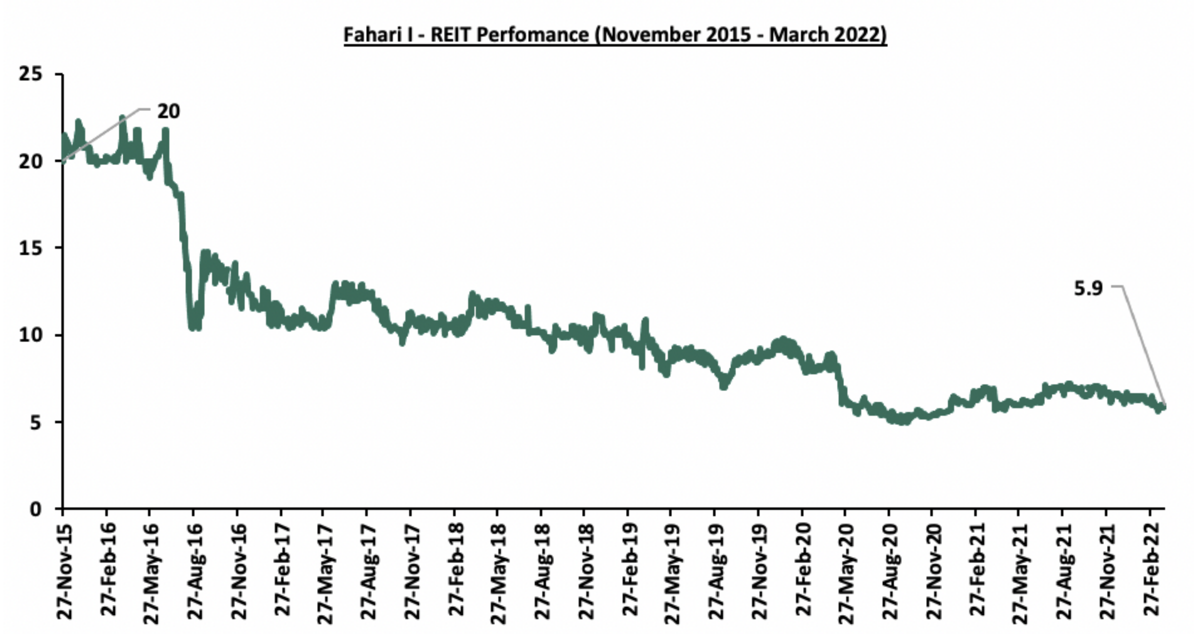
During the quarter, Grit Real Estate Income Group, a Mauritius based Real Estate Investment Company, completed the purchase of Orbit Products Africa, a warehouse and manufacturing facility located in Machakos County, at a cost of Kshs 6.1 bn. This comes after the investment firm entered a Kshs 2.9 bn loan agreement with the International Finance Corporation (IFC) in July 2021, with an aim of acquiring and developing the warehousing and manufacturing facility. For more information, see Cytonn Weekly #11/2022.

We expect Kenya's industrial sector to continue realizing growth and development activities supported by; i) Kenya being recognized as a regional hub hence attracting investments, ii) expansion of local and international retailers seeking storage space for goods, and, iii) government focus on the Big 4 Agenda on manufacturing which is expected

to influence demand for warehouses used to manufacture products, iv) improvement of infrastructure, for instance Standard Gauge Railway project which is expected to increase the output of Special Economic Zones, and, iv) e-commerce driving demand for warehouse spaces.

VIII. Listed Real Estate

In the Nairobi Stock Exchange, ILAM Fahari I-REIT closed the week trading at an average price of Kshs 5.9 per share. This represented a 1.7% and 7.8% Week-to-Date (WTD) and Year-to-Date (YTD) decline, respectively, from Kshs 6.0 per share and Kshs 6.4 per share, respectively. On an Inception-to-Date (ITD) basis, the REIT's performance continues to be weighed down having realized a 70.5% decline from Kshs 20.0. In the Unquoted Securities Platform, as at 25th March 2022, the Acorn D-REIT traded at Kshs 20.2 per unit with a turnover of Kshs 11.7 mn while the I-REIT traded at Kshs 20.6 per unit with a turnover of Kshs 43.3 mn. This performance represented a 1.0% and 3.0% gain for the D-REIT and I-REIT, respectively, from the Kshs 20.0 Inception price. The graph below shows Fahari I-REIT's performance from November 2015 to February 2022;



Our outlook on the REIT market is NEGATIVE. The Kenyan REIT market performance continues to be weighed down by factors such as; i) a general lack of knowledge on the financing instrument, ii) general lack of interest of the REIT by investors, iii) regulatory obstacles such as high minimum investment amount at Kshs 5.0 mn for the D-REIT, high minimum capital for REIT Trustees of Kshs. 100 million compared to Kshs. 10 million for pension trustees leading to only 3 trustees who are all banks, and, iv) lengthy approval processes to get all the necessary requirements thus discouraging those interested in investing in it.

REITs Performance – FY'2021

During the week, ILAM Fahari I-REIT, Acorn D-REIT and Acorn I-REIT released their FY'2021 earnings, highlighting mixed fortunes as the Acorn D-REIT and I-REIT recorded profits of Kshs 775.9 mn and Kshs 387.5 mn, respectively in FY'2021, while ILAM Fahari I-REIT recorded a loss of Kshs Kshs 124.0 mn in FY'2021 down from a profit of Kshs 148.0 mn in FY'2020.

The table below includes a summary of the three REIT's performance in FY'2021:

Balance Sheet Items (Kshs bn)	Acorn I-REIT FY'2021	Acorn D-REIT FY'2021	ILAM Fahari I-REIT FY'2021	ILAM Fahari I-REIT FY'2020	ILAM Y/Y Change (%)
Total Assets	3.8	8.4	3.7	3.9	(4.4%)
Total Liabilities	0.2	3.2	0.2	0.1	56.8%
Total Unitholders' Funds	3.6	5.2	3.5	3.8	(6.2%)
Income Statement Items (Kshs bn)					
Rental Income	0.3	0.1	0.30	0.34	(12.8%)
Total Operating Income	0.4	0.1	0.30	0.35	(13.8%)
Total Operating Expenses	(0.2)	(0.4)	(0.2)	(0.2)	0.0%
Investments Property Revaluation Gain/(Loss)	0.1	1.1	(0.2)	0.01	(1,760.7%)
Profit/ (Loss)	**0.4**	**0.8**	**0.2**	**(0.1)**	**(183.7%)**
Basic EPS	**2.3**	**3.5**	**(0.7)**	**0.8**	**(183.7%)**
Ratios Summary (%)					
ROA	10.3%	9.9%	(3.3%)	3.8%	(7.2%) points
ROE	10.8%	14.8	(3.5%)	3.9%	(7.4% points
Debt Ratio	4.7%	37.9%	4.6%	3.9%	1.8% points
PBT Margin	87.6%	67.7%	(41.4%)	42.6%	84.0% points
Rental Yield	11.4%	10.0%	9.1%	9.8%	(0.7%) points
Distribution Per Unit -Kshs (*Subject to Approval*)	1.02	-	0.5	0.6	0.1
Distribution Yield	4.9%	-	8.5%	10.2%	(1.7%) points
Distribution Pay-out Ratio	93.5%	-	88.7%	80.8%	7.9% points

Key Take outs:

ILAM Fahari I-REIT

a. Earnings per unit declined by 183.7% to Kshs (0.7) in FY'2021, from Kshs 0.8 in FY'2020 as the ILAM Fahari I-REIT recorded a loss of Kshs 124.0 mn compared to a profit of Kshs 148.0 mn in FY'2020. The performance was mainly attributable to revaluation losses recorded by the property portfolio in the context of the COVID-19 pandemic, whose impact continues to be a material valuation uncertainty in the short to medium term, particularly in the retail space. This was coupled by a 18.2% decline in total operating income to Kshs 299.6 mn, from Kshs 324.5 mn in FY'2020,

b. Rental income declined by 12.8% to Kshs 297.5 mn in FY’2021, from Kshs 341.2 mn in FY’2020. This was attributable to an increased vacancy at Greenspan Mall resulting from Naivas, the new anchor tenant, taking up a smaller space of 37.0% of the (GLA) compared to that previously occupied by Tuskys that occupied 48.0% of the GLA contributing up to 40.0% of the rental income collected. The loss of Tuskys not only resulted in a direct loss of revenue but also occasioned reduced footfall in the mall and low collections from the rest of the tenants, and,
c. Total assets reduced by 4.4% to Kshs 3.7 bn in FY’2021 from Kshs 3.9 bn in FY’2020, driven by a 6.4% decrease in investment property to Kshs 3.3 bn from Kshs 3.5 bn in FY’2020 coupled with an 8.6% decline in property and equipment to Kshs 13.3 bn from Kshs 14.5 bn in FY’2020

Acorn D-REIT and I-REIT

a. Acorn D-REIT recorded profits of Kshs 775.9 mn in FY’2021 while the I-REIT profits came in at Kshs 387.5 mn. The D-REIT Performance was mainly driven by the Kshs 339.0 mn a positive adjustment in the fair value of Investment Property to Kshs 1.1 bn
b. Total assets for the I-REIT in FY’2021 stood at Kshs 3.8 bn, representing an increase of 6.8% from Kshs 3.5 bn in H1’2021, driven by a 138.8% increase in amounts due from related parties to Kshs 96.5 mn in FY’2021, from Kshs (248.8 mn) in H1’2021. The D-REIT assets stood at Kshs 8.4 bn in FY’2021, with the assets mainly in investment properties, and,
c. Assets under the two REITs recorded relatively high occupancy rates averaging at 84.1% in FY’2021, compared to other Real Estate sectors such as the Commercial Office, and Retail sectors which recorded occupancy rates of 77.9% and 76.8%, respectively during the same period.

For a more comprehensive analysis, please see our ILAM Fahari I-REIT FY’2021 Earnings Note and Acorn Holdings FY’2021 Earnings Note.

Weekly Highlight:

During the week, Acorn Holdings announced plans to raise Kshs 3.2 from the Capital Markets through debut issuance of two supplementary offers which will be open to both new and existing investors with the I-REIT targeting Kshs 2.8 bn while the balance of Kshs 400.0 mn will be for the D-REIT. The money raised in the D-REIT will enable it to acquire more land, and also continue development of existing projects which include student accommodation facilities under the Qwetu and Qejani Brands, while that raised in the I-REIT, will be used to acquire two new properties in the next six months. Additionally, the firm announced that investors can expect an interim dividend pay-out at about 80.0%-90.0% of earnings as standard policy, which will be paid out twice a year in order build confidence in the asset class.

Real Estate Performance Summary and Outlook

Below is a summary of the sectorial performance in Q1’2022 and investment opportunities:

Theme	Thematic Performance and Outlook Q1’2022	Outlook
Residential	· Apartments registered relatively higher average total returns to investors at 6.0% compared to detached markets at 5.4%, while price appreciations recorded an uptick at 0.6% and 1.2%, respectively owing to improved property transactions amid the recovering 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 Waiyaki Way, Westlands, and Ruaka which continued to post high returns. For detached units, opportunity lies in submarkets such as Redhill, Syokimau, Ngong and Rosslyn	Neutral

Theme	Thematic Performance and Outlook Q1’2022	Outlook
Office	· The commercial office sector retained its average rental yields and asking rents at 7.3% and Kshs 94 per SQFT, respectively, in Q1’2022 · We expect performance to be boosted by an increase in uptake of space as various firms embark on full operations. However, the existing oversupply of space at 6.7 mn SQFT, coupled with the stagnating rental rates, is expected to weigh down performance of the sector · Investment opportunity lies in Gigiri, Westlands, and Karen which offer relatively high returns compared to the market averages	Neutral
Retail	· The sector’s performance in Q1’2022 realized a 0.1% points increase in the overall rental yields to 7.9% from the 7.8% that was recorded in FY’2021 · We expect performance to be mainly supported by the rapid expansion drive by local and international retailers, positive demographics, and, increased foreign investments in the country as a result of Kenya being recognized as a regional hub. However, e-commerce still being adopted by some retailers, coupled with the existing oversupply of retail spaces in the market by 3.0 mn SQFT, is expected to weigh down the overall performance of the sector · Investment opportunity In terms of the sub markets performance lies in Karen, Kilimani, and, Westlands which were the best performing nodes with average rental yields of 10.0%, 9.9% and 9.5%, compared to the market average of 7.9%	Neutral
Hospitality	· The hospitality sector has been on a recovery path following increased international arrivals boosting tourism, and, improved hotel operations and occupancies. This is attributed to the mass vaccination currently underway in the country and the ambitious international marketing of Kenya as a tourist destination · We expect the hospitality sector to be affected by the increasing Travel Advisories, and relaxation of Covid-19 measures posing a risk on the performance of tourism industry as this may reduce international arrivals	Neutral
Land	· The land sector in Nairobi Metropolitan Area has proven to be a reliable investment avenue and has shown resilience throughout the years despite economic downturns. This is evidenced by a 2.7% YoY capital appreciation recorded this quarter · We expect performance of the sector to be driven by; i) government’s focus on establishing infrastructure developments thus promoting demand for land, ii) increased focus on the Affordable Housing projects fueling the need for more land, iii) positive demographics, and, iv) government’s efforts towards ensuring efficient land transactions, with the digitization of the land records in the Nairobi County expected to be completed in June 2022	Positive
Listed Real Estate	· The Fahari I-REIT closed the quarter trading at Kshs 5.9, representing a 7.8% Year-to-Date (YTD) decline per having opened the year trading at Kshs 6.4 per share. The share price remains low compared to Net Asset Value of the REIT at Kshs 19.6 having lost 70.5% from its initial trading price of Kshs 20.0 in November 2015.	Negative

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