Nairobi Metropolitan Area (NMA) Residential Report 2022, & Cytonn weekly #23/2022

Focus of the Week

Last year, we released our Nairobi Metropolitan Area (NMA) Residential Report 2021, themed "*Market Performance in the Wake of a Recovering Economy*" where we analyzed the performance of 32 residential nodes. This week we update our research on the Nairobi Metropolitan Area (NMA) residential sector by showcasing the sector's performance in the region in terms of price appreciation, rental yields and market uptake, based on coverage of 35 areas located within the Nairobi Metropolis. We also discuss factors affecting residential supply and demand, the recent developments impacting the sector and conclude with a look at the investment opportunities as well as the sector's overall outlook for the next financial year. As such, we shall discuss the following:

i. Overview of the Residential Sector,
ii. Recent Developments,
iii. Residential Market Performance, and,
iv. Conclusion, Outlook and Investment Opportunity

Section I: Overview of the Residential Sector

In FY'2021/22, the residential sector recorded increased activities in construction, affordable housing and infrastructural development. Kenya's Real Estate and construction contribution to GDP came in at 15.9% in at 2021, a 0.4% points decline from 16.3% in 2020 according to the Kenya National Bureau of Statistics (KNBS). This was attributed to the recovery of the sector following a tough economic environment caused by the pandemic. However, the Real Estate sector GDP growth came in at 6.7% in 2021, a 2.6% points increase from 4.1% growth registered in 2021. This was attributed to resumption of economic activities that boosted Real Estate transactions. The residential sector recorded improved performance evidenced by total returns to investors registering an uptick. We expect the sector's contribution to improve more for the rest of 2020 despite the upcoming general elections supported by;

i. Government focus on infrastructural development having increased budgetary allocation to Kshs 212.5 bn for FY'2022/23 from Kshs 182.5 bn in FY'2021/22,
ii. Government and private sector aggressiveness in implementing housing initiative programs, with focus on affordable housing,
iii. The growing trend towards alternative financing for real estate development especially public-private partnerships (PPPs) delivering development projects, and,
iv. Increased budgetary allocation to the Kenya Mortgage Refinance Company (KMRC) to Kshs 4.6 bn in the FY'2022/23 Budget Statement from Kshs 3.5 bn in FY'2021/22. This is expected to boost mortgage financing to Primary Mortgage Lenders (PMLs) for onward lending to homebuyers.

We expect the following factors to shape the performance of the residential sector;

i. **Housing Deficit:** There still exists a housing deficit of more than 2.0 mn units with the government's initiative of delivering approximately 50,000 units every year still yet to be realized. With the current tough economic time, affordable housing continues to attract demand as people seek to own homes at a time when the country has seen increased unemployment and the subsequent drop in disposable incomes,
ii. **Demographics:** Kenya's population and urbanization is growing at 2.3% and 4.0% respectively against the global average which is at 1.1% and 1.9% respectively according to World Bank. This is a key factor in driving the demand for Real Estate products and services, hence also cushion the current housing deficit which is at 2.0 mn units growing by 200,000 p.a. Kenya's population and urbanization growth rate at 2.3% and 4.0% respectively against the global average which is at 1.1% and 1.9% respectively according to World Bank, is expected to drive the demand for Real Estate products and services, hence also cushion the current housing deficit which is at 2.0 mn units growing by 200,000 p.a, and,
iii. **Access to Credit:** The high mortgage interest rate at 11.3% and high transaction costs, has made it difficult for low and middle income earners to afford mortgages. However, the government increased the KMRC allocation to Kshs 4.6 bn for FY'2022/23, from Kshs 3.5 bn in FY'2021/2022 to enhance its capital and provide affordable loans, and we expect this to boost funding for Primary Mortgage Lenders (PMLs) for onward lending to homebuyers.

In terms of supply, the residential sector was largely constrained by insufficient access to affordable funding by developers, and bureaucracies and delays in approval processes. In 2022, new supply is also expected to slow down owing to:

i. **Insufficient Access to Credit:** With the mortgage Non-Performing Loans (NPLs) to gross loans ratio being relatively high at 11.3%, the resultant impact is that most of the lenders will pull back or cease new lending to real estate backed loans due to the risk of default in payment, therefore we expect developers to seek alternative sources of financing such as Real Estate Investment Trusts and bonds,
ii. **Infrastructure:** Inadequate and poor infrastructure in different regions of the country limit development activities due to lack of accessibility hence supply limited as well. The insufficient drainage and sewerage systems in some areas also discourage developers due to the expected high development costs of projects, and,
iii. **High Development Costs:** Development costs remain high subject to high land and financing costs. According to Cytonn Land Report 2021, average land price per acre within Nairobi Suburbs is currently at Kshs 404.6 mn per acre, in comparison to the Satellite Town's average of Kshs 15.7 mn per acre, thus makes it hard for developers to undertake projects without sufficient financial resources.

However, to improve profit margins and supply, developers have embraced joint venture deals and public-private partnerships (PPP) with institutions like foreign investment institutions seeking to enter the market.

Section II: Recent Developments

In FY'2021/22, the government announced the following regulations, policies and measures affecting the residential sector namely:

a. **National Property Rating Legislation Review:** The government of Kenya announced plans to review property rates after every five years as contained in the proposed National Rating Bill, 2021, to ensure the government does not lose out on the current capital appreciations of public land in October 2021,
b. **The Public Private Partnerships (PPP) Bill 2021: President Uhuru Kenyatta signed the Public Private Partnerships (PPP) Bill 2021 into law in December 2021. The Act aims to address the shortcomings of the PPP Act 2013 by including a streamlined project**

processes with clear timelines, expanded procurement options and robust processes for privately initiated investment proposal,

c. **The Landlord and Tenant Bill of 2021;** The Landlord and Tenant Bill of 2021 was tabled to the Senate for consideration having been passed by the National Assembly in April 2022. The Bill aims to consolidate the laws relating to renting of business and residential premises, regulating the relationship between the landlord and tenant in order to promote stability in the rental sector, and, establish tribunals to provide for the adjudication of disputes, and,
d. **FY'2022/23 Budget Statement:** The State Department of Transport was allocated Kshs 1.4 bn in FY'2022/23 from Kshs 1.0 bn in FY'2021/22, representing a 37.4% increase. Infrastructure, was allocated Kshs 212.5 bn in the FY'2022/23 to support construction of roads and bridges as well as the rehabilitation and maintenance of roads, which is a 4.9% increase from Kshs 202.5 bn allocated in FY'2021/22.

On the affordable housing front, we continued to see both the government and private sector launching projects with low-cost housing being the main focus, and a few notable projects launched or ongoing during FY'2021/22 include:

i. The Harambee Investment Cooperative Society (HICS), the investment vehicle of Harambee Sacco, announced that it is seeking a joint venture partnership with African Development Bank (AfDB), a regional multilateral development finance institution, to develop affordable housing units for 596 of its members. For more information, see Cytonn Weekly #28/2021
ii. The National Housing Corporation (NHC), a state owned firm, announced plans to build 2,000 affordable housing units in various parts of Kiambu County, in addition to also signing a land lease agreement with Konza City that will see the firm develop 5,000 units beginning November 2021. For more information, see Cytonn Weekly #32/2021,
iii. National Housing Corporation (NHC) began the demolition of 792 detached units in Changamwe Estate in Mombasa County, to pave way for Phase II upgrade of the Estate valued at Kshs 0.4 bn. For more information, see Cytonn Weekly #38/2021,
iv. The government through the Ministry of Transport, Infrastructure Housing, Urban Development and Public Works, launched the construction of the Stoni Athi River Waterfront City housing project in Machakos County. For more information, please see our Cytonn Monthly – November 2021,
v. The Capital Markets Authority (CMA) approved the issuance of a Kshs 3.9 bn Medium Term Note (MTN) programme for Urban Housing Renewal Development Limited which will finance the construction of the ongoing Pangani Affordable Housing Project. For more information, please see our Cytonn Monthly – November 2021,
vi. The National Government through the Principal Secretary for Housing, Honorable Charles Hinga, announced plans to begin the construction of 5,360 affordable units in Machakos County, dubbed 'Mavoko Affordable Housing Programme'. For more information, please see our Cytonn Weekly #50/2021,
vii. The Kenya Mortgage Refinance Company, a treasury backed lender, got approval from the Capital Markets Authority (CMA) to roll out a Kshs 10.5 bn medium-term bond programme. The firm aims at raising a total of Kshs 1.4 bn during the first tranche of issuance, which will be disbursed to participating primary mortgage lenders (PMLs), such as banks, microfinance institutions and Savings and Credit Cooperatives (SACCOs) at a 5.0% rate, for onward lending to homebuyers at single digit rates. For more information, see Cytonn Weekly #02/2022,
viii. The Capital Markets Authority (CMA) announced that the first tranche of the Kshs 10.5 bn Kenya Mortgage Refinance Company's (KMRC) Medium Term Note (MTN) program recorded an oversubscription of 478.6%, attributable to the attractive returns offered by the bond of 12.5%. KMRC aimed to raise a total of Kshs 1.4 bn in the first tranche, received bids worth Kshs 8.1 bn and only accepted bids worth Kshs 1.4 bn. For more information, see Cytonn Weekly #08/2022,
ix. 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, and,

x. 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.

Section III: Residential Market Performance

In terms of performance, average total returns improved in FY'2021/22 to 5.8%, a 0.3% points increase from 5.5% recorded in FY'2020/21, and can be attributed to residential average y/y price appreciation, which came in at 0.9%, 0.3% points higher compared to a price appreciation of 0.6% recorded in FY'2020/21. Market uptake remained subdued coming in at 14.3% on average, 1.2% points lower than 15.1% recorded in FY'2020/21, indicating reduced demand for residential units attributed to constrained purchasing power. However, the average price per SQM came in at Kshs 118,652, 0.7% higher than FY'2020/21 average of Kshs 117,865, due to an uptick of house prices as sellers aimed to cash in on the improving business environment when the economy reopened.

Residential Performance Summary FY'2021/22

Segment	Typology	Average Price Per SQM	Average Rent Per SQM	Average Occupancy	Average Annual Uptake	Average Rental Yield	Average Y/Y Price Appreciation	Average Total Returns
High-End	Detached	191,754	691	92.0%	12.6%	4.0%	1.5%	**5.5%**
Upper Mid-End	Detached	146,515	591	87.7%	12.6%	4.5%	0.9%	**5.4%**
Lower Mid-End	Detached	73,037	329	87.7%	15.0%	5.0%	0.8%	**5.8%**
Upper Mid-End	Apartments	125,794	683	83.8%	16.2%	5.3%	0.3%	**5.6%**
Lower Mid-End	Apartments	93,772	510	85.5%	15.0%	5.4%	0.3%	**5.7%**
Satellite Towns	Apartments	81,043	405	82.7%	14.6%	5.3%	1.4%	**6.7%**
Residential Market Average		**118,652**	**535**	**86.6%**	**14.3%**	**4.9%**	**0.9%**	**5.8%**

Source: Cytonn Research

The average rental yields recorded a 0.1% points increase to 4.9% from 4.8% in FY'2020/21, due to increased rental rates as landlords aimed to cash in on improved property prices.

Residential Market Performance Summary: FY'2021/22-FY'2020/21 Comparison

Segment	Average of Rental Yield FY'2021/22	Average of Price Appreciation FY'2021/22	Total Returns FY'2021/22	Average of Rental Yield FY'2020/211	Average of Price Appreciation FY'2020/21	Average of Total Returns FY'2020/21	y/y change in Rental Yield (% Points)	y/y change in Price Appreciation (% Points)	y/y change in Total Returns (% Points)
High End	4.0%	1.5%	5.5%	3.7%	1.1%	4.8%	0.3%	0.4%	0.7%
Upper Mid-End	4.5%	0.9%	5.5%	4.6%	1.2%	5.8%	(0.1%)	(0.3%)	(0.3%)
Lower Mid-End	5.0%	0.8%	5.8%	4.3%	1.1%	5.5%	0.7%	(0.3%)	0.3%
Detached Average	**4.5%**	**1.1%**	**5.6%**	**4.2%**	**1.1%**	**5.4%**	**0.4%**	**0.3%**	**0.8%**

Residential Market Performance Summary: FY'2021/22-FY'2020/21 Comparison

Segment	Average of Rental Yield FY'2021/22	Average of Price Appreciation FY'2021/22	Total Returns FY'2021/22	Average of Rental Yield FY'2020/211	Average of Price Appreciation FY'2020/21	Average of Total Returns FY'2020/21	y/y change in Rental Yield (% Points)	y/y change in Price Appreciation (% Points)	y/y change in Total Returns (% Points)
Upper Mid-End	5.3%	0.3%	5.6%	5.3%	0.3%	5.6%	0.0%	0.0%	0.0%
Lower Mid-End	5.4%	0.3%	5.8%	5.3%	0.9%	6.2%	0.1%	(0.6%)	(0.4%)
Satellite Towns	5.3%	1.4%	6.7%	5.6%	(0.9%)	4.7%	(0.3%)	0.5%	2.0%
Apartments Average	**5.4%**	**0.7%**	**6.0%**	**5.4%**	**0.1%**	**5.5%**	**0.0%**	**0.6%**	**0.5%**
Residential Market Average	**4.9%**	**0.9%**	**5.8%**	**4.8%**	**0.6%**	**5.5%**	**0.1%**	**0.3%**	**0.3%**

Source: Cytonn Research

Sub-Market Analysis

In our submarket analysis, we classified the various suburbs in the Nairobi Metropolitan Area into three segments

- **High End Segment** – Consists of prime suburbs in Nairobi, such as Karen, Runda and Kitisuru. Most of these zones have been zones for low rise residential developments only and are characterized by palatial villas and bungalows on half acre parcels,
- **Upper Middle Income Segment** – Consists of suburbs such as Kilimani, Lavington, Kileleshwa, Loresho and Ridgeways among others. The population in these zones are middle class but with higher incomes than the average characterization of middle class. They are zones for both high rise and low density houses, and,
- **Lower Middle Income Segment** – Consists of suburbs in Nairobi habited by middle class such as Kikuyu, Ruaka, Dagoretti, Upper Kabete (Uthiru and parts of Mountain View), and Ngong Road (Race Course, Lenana, Corner), among others.

A. Detached Units

The detached market registered improved performance in returns, coming in at 5.6% in FY'2021/22 thus representing a 0.2% points y/y increase from 5.4% recorded in FY'2020/21. The average rental yields came in at 4.5%, 0.3% points higher than 4.2% recorded in FY'2020/21 attributable to increased rental rates while house prices remained flat, coming in at 1.1% in FY'2021/22.

In the high-end segment, Runda was the only node that recorded an average y/y price correction of 1.6% attributed to the relatively low uptake which came in at 10.0%, 2.6% points lower than the high-end market average of 12.6%. Notably, all nodes in the high-end segment recorded increases in average rental yields in FY'2021/22 compared to FY'2020/21 aside from Karen, with the market's average rental yield coming in at 3.7%, 0.1% point lower than 3.8% recorded in the last financial year indicating high demand for rental units.

The lower 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 5.5% and 5.4%, respectively, attributed to the high rental yield of 5.0% and 0.8% y/y price appreciation. Ruiru was the best performing node in the segment with an average total return of 7.8% attributed to the relatively high average rental yield, which came in at 5.9%.

Area	Average of Occupancy FY'2021/22	Average of Annual Uptake FY'2021/22	Average of Rental Yield FY'2021/22	Average of Price Appreciation FY'2021/22	Total Returns	Average of Rental Yield FY'2020/21	Average of Price Appreciation FY'2020/21	Total Returns FY'2020/21	Change in Rental Yield (% Points)	Change in Price Appreciation (% Points)	Change in Total Returns (% Points)
High-End											

Area	Average of Occupancy FY'2021/22	Average of Annual Uptake FY'2021/22	Average of Rental Yield FY'2021/22	Average of Price Appreciation FY'2021/22	Total Returns	Average of Rental Yield FY'2020/21	Average of Price Appreciation FY'2020/21	Total Returns FY'2020/21	Change in Rental Yield (% Points)	Change in Price Appreciation (% Points)	Change in Total Returns (% Points)
Rosslyn	88.4%	14.5%	4.7%	2.8%	**7.5%**	4.4%	1.1%	**5.5%**	0.4%	1.9%	2.3%
Karen	86.0%	12.8%	3.7%	2.0%	**5.7%**	3.8%	0.8%	**4.5%**	(0.1%)	1.2%	1.2%
Kitisuru	93.4%	12.3%	4.2%	1.2%	**5.4%**	3.8%	2.7%	**6.5%**	0.4%	(1.5%)	(1.2%)
Lower Kabete	98.8%	13.4%	3.6%	1.2%	**4.8%**	2.8%	2.5%	**5.2%**	0.8%	(1.3%)	(0.3%)
Runda	93.5%	10.0%	4.1%	0.3%	**4.4%**	3.7%	(1.6%)	**2.1%**	0.3%	1.7%	2.0%
Average	**92.0%**	**12.6%**	**4.0%**	**1.5%**	**5.5%**	**3.7%**	**1.1%**	**4.8%**	**0.3%**	**0.4%**	**0.7%**
Upper Mid-End											
Redhill & Sigona	88.9%	14.4%	4.7%	1.7%	**6.4%**	5.2%	1.3%	**6.5%**	(0.5%)	0.4%	(0.1%)
Ridgeways	82.2%	12.8%	5.0%	1.1%	**6.1%**	5.2%	1.2%	**6.3%**	(0.2%)	(0.1%)	(0.2%)
Runda Mumwe	89.1%	12.4%	5.1%	0.6%	**5.7%**	4.3%	2.0%	**6.3%**	0.8%	(1.4%)	(0.5%)
South B/C	89.5%	12.8%	4.2%	1.1%	**5.3%**	4.8%	1.2%	**6.0%**	(0.6%)	(0.1%)	(0.7%)
Loresho	80.5%	13.2%	4.9%	0.3%	**5.2%**	4.8%	1.5%	**6.3%**	0.1%	(1.2%)	(1.1%)
Langata	92.6%	10.0%	3.8%	1.0%	**4.8%**	3.9%	0.8%	**4.8%**	(0.1%)	0.2%	0.0%
Lavington	91.2%	12.7%	4.0%	0.5%	**4.5%**	4.4%	0.3%	**4.7%**	(0.4%)	0.2%	(0.2%)
Average	**87.7%**	**12.6%**	**4.5%**	**0.9%**	**5.4%**	**4.6%**	**1.2%**	**5.8%**	**(0.1%)**	**(0.3%)**	**(0.4%)**
Lower Mid-End											
Ruiru	85.4%	18.6%	5.9%	1.9%	**7.8%**	5.0%	1.6%	**6.6%**	0.9%	0.3%	1.2%
Juja	86.3%	16.8%	5.5%	1.2%	**6.7%**	4.6%	1.0%	**5.6%**	0.9%	0.2%	1.1%
Kitengela	85.3%	12.3%	4.9%	1.4%	**6.3%**	4.7%	0.4%	**5.1%**	0.2%	1.0%	1.2%
Ngong	89.2%	12.3%	6.5%	(0.2%)	**6.3%**	5.0%	(0.2%)	**4.9%**	1.5%	(0.0%)	1.4%
Syokimau/Mlolongo	86.6%	18.2%	4.5%	1.5%	**6.0%**	4.4%	2.1%	**6.5%**	0.1%	(0.6%)	(0.5%)
Athi River	86.6%	13.1%	4.3%	1.6%	**5.9%**	3.8%	0.7%	**4.4%**	0.5%	0.9%	1.5%
Rongai	95.4%	16.4%	4.0%	1.1%	**5.1%**	2.9%	2.2%	**5.1%**	1.1%	(1.1%)	0.0%
Thika	82.3%	13.5%	5.3%	(0.5%)	**4.8%**						
Donholm & Komarock	92.5%	13.3%	4.3%	(1.0%)	**3.3%**						
Average	**87.7%**	**15.0%**	**5.0%**	**0.8%**	**5.8%**	**3.8%**	**0.7%**	**4.4%**	**0.7%**	**(0.3%)**	**0.3%**
Detached Units Average	**89.2%**	**13.4%**	**4.5%**	**1.1%**	**5.6%**	**4.2%**	**1.1%**	**5.4%**	**0.3%**	**0.0%**	**0.2%**

Source: Cytonn Research

B. **Apartments**

Apartments recorded improved performance with average returns to investors coming in at 6.0% in FY’2021/22, a 0.5% points increase from 5.5% recorded in FY’2020/21. The average y/y price appreciation registered a 0.6% y/y increase to 0.7% in FY’2021/22, up from the price appreciation of 0.1% in FY’2020/21. However, the rental yields remained flat at 5.4% in FY’2021/22 similar last year.

The upper mid-end segment recorded an average price appreciation of 0.3% as all markets experienced price appreciations apart from Upperhill which recorded a price correction of 1.1%. This is attributable to reduced demand for residential premises in Upperhill as clientele preferred satellite town. Satellite Towns recorded the highest total returns at 6.7% driven by demand for renting units in satellite towns due to their affordability. Thindigua and Ruaka recorded the highest annual total returns in the segment at 7.5% and 7,4%, respectively supported by a relatively high price appreciation which came in at 2.2% for each of the nodes. This is due to continued demand in the area driven by the area’s proximity to upper markets such as Runda and proximity to social amenities.

Waiyaki way recorded the highest returns in the lower mid-end suburb segment at 7.3%, compared to the apartment’s market average of 6.0% as well as the highest price appreciation at 1.1% compared to the market’s average of 0.7%. The area’s performance is boosted by the improving infrastructure especially construction of the Nairobi Expressway that boosted property prices upon completion.

Apartments Performance 2020/21

Area	Average of Occupancy FY'2021/22	Average of Annual Uptake FY'2021/22	Average of Rental Yield FY'2021/22	Average of Price Appreciation FY'2021/22	Total Returns	Average of Rental Yield FY'2020/21	Average of Price Appreciation FY'2020/21	Total Returns FY'2020/21	Change in Rental Yield (% Points)	Change in Price Appreciation (% Points)	Change in Total Returns (% Points)
Upper Mid-End											
Westlands	83.8%	24.9%	5.9%	0.1%	**6.0%**	4.9%	2.0%	**6.9%**	1.0%	(1.9%)	(0.9%)

Apartments Performance 2020/21

Area	Average of Occupancy FY'2021/22	Average of Annual Uptake FY'2021/22	Average of Rental Yield FY'2021/22	Average of Price Appreciation FY'2021/22	Total Returns	Average of Rental Yield FY'2020/21	Average of Price Appreciation FY'2020/21	Total Returns FY'2020/21	Change in Rental Yield (% Points)	Change in Price Appreciation (% Points)	Change in Total Returns (% Points)
Kileleshwa	86.4%	15.0%	5.5%	0.4%	**5.9%**	5.4%	(0.6%)	**4.7%**	0.1%	1.0%	1.2%
Kilimani	83.4%	15.0%	5.5%	0.4%	**5.9%**	5.9%	(0.2%)	**5.7%**	(0.4%)	0.6%	0.2%
Loresho	87.8%	10.4%	4.7%	1.2%	**5.9%**	4.9%	(1.6%)	**3.3%**	(0.2%)	2.6%	2.6%
Parklands	82.8%	13.7%	4.8%	1.0%	**5.8%**	5.6%	2.0%	**7.6%**	(1.4%)	(1.0%)	(2.6%)
Upperhill	80.5%	11.1%	5.1%	(1.1%)	**4.0%**	5.3%	0.4%	**5.7%**	(0.2%)	(1.5%)	(0.4%)
Average	**83.8%**	**16.2%**	**5.3%**	**0.3%**	**5.6%**	**5.3%**	**0.3%**	**5.7%**	**0.0%**	**0.0%**	**(0.1%)**
Lower Mid-End: Suburbs											
Waiyaki Way	84.1%	18.3%	6.2%	1.1%	**7.3%**	5.6%	2.5%	**8.1%**	0.6%	1.4%	(0.8%)
South C	82.3%	18.2%	6.1%	0.4%	**6.5%**	5.9%	1.2%	**7.1%**	0.2%	(0.8%)	(0.6%)
Imara Daima	87.3%	12.9%	5.2%	1.2%	**6.4%**	5.2%	(0.1%)	**5.0%**	0.0%	0.3%	1.4%
Dagoretti	88.1%	14.4%	5.9%	0.1%	**5.9%**	6.3%	1.1%	**7.4%**	(0.4%)	(1.0%)	(1.5%)
Donholm & Komarock	93.1%	12.5%	5.8%	0.1%	**5.9%**	5.3%	1.1%	**6.4%**	0.5%	(1.0%)	(0.5%)
Race Course/Lenana	81.9%	19.9%	5.9%	(0.1%)	**5.8%**	5.8%	(0.3%)	**5.6%**	0.1%	0.2%	0.2%
Kahawa West	88.8%	10.7%	5.2%	0.6%	**5.7%**	5.0%	1.7%	**6.7%**	0.2%	(1.1%)	(1.0%)
South B	82.4%	14.9%	4.2%	0.2%	**4.4%**	4.0%	2.3%	**6.3%**	0.2%	(2.1%)	(1.9%)
Langata	81.2%	13.0%	4.5%	(0.6%)	**4.0%**	4.7%	(1.3%)	**3.4%**	(0.2%)	0.7%	1.3%
Average	**85.5%**	**15.0%**	**5.4%**	**0.3%**	**5.7%**	**5.3%**	**0.9%**	**6.2%**	**(0.5%)**	**(0.6%)**	**0.4%**
Lower Mid-End: Satellite Towns											
Thindigua	87.2%	17.5%	5.4%	2.2%	**7.5%**	4.9%	1.2%	**6.0%**	(1.0%)	(0.8%)	1.5%
Ruaka	81.0.%	22.0%	5.2%	2.2%	**7.4%**	5.5%	2.0%	**7.5%**	0.0%	1.9%	(0.1%)
Kikuyu	71.5%	14.9%	5.2%	2.1%	**7.3%**	6.4%	0.3%	**6.7%**	1.4%	2.0%	(0.6%)
Ngong	78.0%	11.5%	5.6%	1.6%	**7.2%**	5.3%	0.7%	**5.9%**	0.3%	0.9%	(1.3%)
Ruiru	84.3%	17.3%	5.6%	1.4%	**7.0%**	6.1%	(1.8%)	**4.3%**	1.5%	(1.8%)	3.3%
Athi River	83.3%	13.7%	5.5%	1.2%	**6.7%**	5.7%	(1.2%)	**4.5%**	(0.4%)	(1.2%)	2.5%
Syokimau	87.4%	12.1%	5.0%	1.6%	**6.6%**	5.2%	(2.2%)	**6.0%**	(0.5%)	(1.4%)	0.6%
Rongai	88.8%	12.1%	5.8%	(0.1%)	**5.7%**	6.3%	(3.9%)	**2.4%**	(0.5%)	0.8%	3.3%
Kitengela	82.7%	10.1%	4.9%	0.1%	**5.0%**	5.1%	(2.8%)	**5.5%**	(0.2%)	(2.9%)	(0.5%)
Average	**82.7%**	**14.6%**	**5.3%**	**1.4%**	**6.7%**	**5.6%**	**(0.9%)**	**4.7%**	**(0.3%)**	**2.3%**	**2.0%**
Apartments Average	**84.0%**	**15.3%**	**5.4%**	**0.7%**	**6.0%**	**5.4%**	**0.1%**	**5.5%**	**0.0%**	**0.6%**	**0.5%**

Source: Cytonn Research

Section IV: Conclusion, Outlook and Investment Opportunity

We use demand, access to credit, infrastructure and performance, as the key metrics to gauge our sentiment for the sector going forward.

Residential Market Outlook

Measure	FY'2021/22 Experience and Outlook Going Forward	2021 Outlook	2022 Outlook
Demand	• Demand for affordable housing continues to remain high with the annual demand at more than 200,000 units, and is expected to cumulatively grow to 2.0 mn units with the government yet to realize delivery of 50,000 units every year despite the growing urbanization and population rates estimated at 4.0% p.a and 2.3% p.a. respectively, against the global average of 1.8% p.a and 1.0% p.a • We therefore expect housing demand to keep rising especially in the lower and middle income areas as the government lags behind in the affordable housing program under the Big 4 Agenda	**Positive**	**Positive**

Residential Market Outlook

Measure	FY'2021/22 Experience and Outlook Going Forward	2021 Outlook	2022 Outlook
Access to funding	• The government increased the CBR rate to 7.5% in May 2022 from 7.0% since March 2020 which is expected to increase the cost of borrowing for developers thus constraining residential supply • The number of mortgages advanced by banks declined in 2021 with mortgage loan accounts coming in at 26,723 from 26.971 in 2020 attributed to tight lending standards following high default rates. We expect cautious lending to continue amidst the tough economic times with Non-Performing Loans to gross mortgage ratio of 11.6% being attributed to lesser loans to be granted • Despite the government supporting affordable housing through mortgage financing by the Kenya Mortgage Refining Company (KMRC), budgetary allocation reduced to 8.7 bn in FY'2022/23 from Kshs 13.9 bn in FY'2021/22. Over reliance on bank funding for Real Estate development still remains a challenge with funding through banks being 99.0% while 1.0% is through capital markets. There is a growing trend towards alternative financing for development especially through Public-Private Partnerships (PPPs)	**Neutral**	**Negtive**
Infrastructure	• Infrastructural developments remain one of the key drivers of residential developments by boosting price appreciations and increase in rental yields • The government has reiterated its commitment to infrastructural developments having boosted its budgetary allocations in FY'2022/23 to Kshs 212.5 bn from Kshs 182.5 bn in the last financial year • Numerous infrastructure projects are ongoing including the Northern and Westen Bypasses, LAPPSET project, and Nairobi Commuter Rail project among others, while others such as the 27-km Nairobi Express Way running from Westlands to Jomo Kenyatta International Airport (JKIA), and the first three births of the t Northern Bypass and the LAPPSET project are complete	**Positive**	**Positive**
Performance	• In terms of performance, the sector recorded improved performance with average total returns averaging at 5.8%, 0.3% points higher than 5.5% recorded in Q4'2021, and can be attributed to y/y price appreciation, which came in at 0.9%, 0.3% points lower compared to a price appreciation of 0.6% recorded in FY'2020/21	**Neutral**	**Neutral**

Our overall outlook for the sector is NEUTRAL with a positive outlook on housing demand and infrastructure, neutral outlook on performance and negative outlook on access to funding. For apartments, the best opportunity is investment in areas such as Thindigua, Ruaka, Waiyaki Way, and Kikuyu driven by returns, appreciation as well as state of infrastructure and amenities; for detached units, the best investment opportunity is in areas such as Ruiru, Rosslyn, Juja and Redhill, driven by uptake and the current performance in terms of returns to investors. For more information, see the full report.

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