The Nairobi Metropolitan Area (NMA) Mixed-Use Developments Report, & Cytonn Weekly #43/2022

Focus of the Week

In November 2021, we released the Nairobi Metropolitan Area Mixed-Use Developments (MUDs) Report 2021, which highlighted that Mixed-Use Developments (MUDs) recorded an average rental yield of 7.2%, which was 0.7% points higher than the 6.5% rental yield for the retail, commercial Office and residential themes in 2021. The relatively better performance was mainly attributed to; i) an improved business environment, ii) strategic and prime locations of the developments with the capability to attract prospective clients, and, iii) preference by target clients due to their convenience hence improved demand and returns to investors.

This week we update our report with the 2022 market research that was conducted in 8 nodes within the Nairobi Metropolitan Area (NMA), in order to determine the progress and performance of MUDs against the market performance of the Residential, Commercial Office and Retail sectors. Therefore, this topical will cover the following:

I. Overview of Mixed-Use Developments
II. Mixed-Use Developments Performance Summary in 2022
III. Mixed-Use Developments Investment Opportunity and Outlook

Section I: Overview of Mixed-Use Developments

A Mixed-Use Development (MUD) is an urban development that combines multiple Real Estate themes including residential, commercial, retail, and hospitality. Due to this integration, a single development project serves more than one purpose within a single location. MUDs thus offer benefits such as enhanced access to amenities and services, and, convenience of living and working areas at the same place. Consequently, they have been gaining traction in Kenya owing to the various changing life patterns and needs of clients. For the year 2022;

i. Property developer Unity homes completed 64 units out of 640 units of its Kshs 5.4 bn housing project dubbed Unity East, which sits on a 10.4-acre piece of land at Tatu City in Ruiru Sub - County. For more information, see Cytonn Weekly #42/2022,
ii. Local eye-wear Optica Limited opened a new outlet at NextGen Mall, along Mombasa Road bringing its total outlets countrywide to 65. For more information, see Cytonn Weekly #36/2022,
iii. Property developer Mi Vida Homes completed and launched the first phase comprising a total of 221 units of the Mi Vida housing project worth Kshs 12.0 bn at Garden City Thika Road. For more information, see our Cytonn Weekly #31/2022,
iv. Local Authorities Pension Fund (LAPF) Kenya announced plans to construct a Mixed Use development facility at an estimated cost of Kshs 10.0 bn in Nakuru County. For more information, see our Cytonn Weekly #31/2022,
v. Sheria Savings and Credit Cooperative Society (SACCO) announced plans to build a Mixed-Use

Development tower in Nairobi's Upper Hill Matumbato Close, at a cost of Kshs 3.3 bn, by December 2025. For more information, see Cytonn Monthly- April 2022,

vi. Gateway Real Estate Africa (GREA), a private development company specializing in turnkey construction, began the construction of CCI Group of Companies' commercial office project in Tatu City, Ruiru constituency. For more information, see Cytonn Weekly #24/2022, and,
vii. 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.

Some of the factors that have been driving the growth of MUDs include;

i. **Changing Lifestyles:** Mixed-Use Developments offer a convenient and integrated way of living, which appeals to the urban lifestyle. As such, there demand has been on the rise owing to the changing lifestyle patterns in Kenya, leading to increased developments,
ii. **Positive Demographics**: Kenya has relatively high population and urbanization growth rates of 2.3% p.a and 4.0% p.a, respectively, against the world's 1.0% p.a and 1.8% p.a, respectively, as at 2020. This creates demand for development which accelerates the growth and performance of MUDs,
iii. **Relatively Higher Returns:** The incorporation of different Real Estate themes within the same location make Mixed-Use Developments more profitable than single use developments. This is because investors can generate returns from multiple sources from the sale and lease of residential, office and retail spaces,
iv. **Improved Infrastructure**: There has been a significant improvement in infrastructure developments in the recent years, which has promoted the establishment of MUDs, given that they require massive infrastructure to set up. This includes the development of highways such as the Nairobi Expressway and Western Bypass project, among many others,
v. **Diversification of Risks:** Mixed-Use Developments provide diversification to the risk of any one asset class that may be negatively affected by market forces such as low uptake or demand in specific themes,
vi. **Strategic Location:** Mixed-Use Developments are in most instances strategically located in urban areas with adequate ample infrastructure and are accessible to high and middle income people thereby being accessible and attracting a large number of high end potential clients, and,
vii. **Sustainability:** Mixed-Use Developments integrate the different Real Estate classes in one project and location which utilizes space more efficiently and helps to reduce the need for people to commute long distances by living, working, and shopping all in one place.

Despite the aforementioned factors, there exist various setbacks hindering the development and performance of MUDs such as:

i. **High Costs of Development:** Mixed-Use Developments are more expensive to develop and finance as compared to single-use projects because they require complex designs to ensure that the various Real Estate themes integrate seamlessly and that the overall project is attractive and functional, thereby making it difficult for developers to access funding for MUDs from banks and other stakeholders,
ii. **Oversupply in Select Real Estate Sectors** such as the 6.7 mn SQFT in the NMA commercial office market, 3.0 mn SQFT in the NMA retail market, which in turn hinder optimum performance of the developments, and,
iii. **Coordinating Different Uses:** Integrating the diverse uses included in MUDs may be challenging, as each Real Estate theme has different needs and requirements. Incorporating the right mix requires specific management considerations, as the tenants need to complement each other and support the overall goals of the development, which may be difficult to implement.

Section II: Mixed-Use Developments Performance Summary in 2022

A. Summary of MUDs Performance in Comparison to General Market Performance

Mixed-Use Developments recorded an average rental yield of 7.4% in 2022, 0.6% points higher than the respective single use themes which recorded an average rental yield of 6.8% in the similar period. The relatively better performance was mainly attributable to MUDs attractiveness to the high and middle income earning population. The retail and commercial office themes in the MUDs recorded 0.4% and 0.2% points increase in average rental yields to 8.8% and 7.3%, respectively in 2022, from 8.4% and 7.1% in 2021. This was mainly supported by the addition of prime spaces fetching higher rents and yields such as Global Trade Centre (GTC), slow but rising demand for office spaces by potential clients such as CCI Group and Max International which took up approximately 60.0% space at Garden City Business Park in January 2022, and, a rapid expansion drive by retailers. For the Residential theme in the MUDs, the average rental yield declined by 0.8% points to 5.2% in 2022, from 6.0% in 2021, driven by the conclusion and launch of various developments which weighed down the overall occupancy rates in existing developments. New developments include Garden City's Mi Vida phase one housing project which was completed and launched for occupation in August 2022. The table below shows the performance of single-use and Mixed-Use development themes between 2021 and 2022;

Cytonn Report: Thematic Performance in MUDs Vs. Key Nodes Hosting MUDs Market Performance 2021-2022

	MUD Themes Average		Market Average			
	Rental Yield % 2021	**Rental Yield % 2022**	**Rental Yield % 2021**	**Rental Yield % 2022**	**Δ in y/y MUD Rental yields**	**Δ in theme Rental Yields**
Retail	8.4%	**8.8%**	7.8%	**7.8%**	**0.4%**	**0.0%**
Offices	7.1%	**7.3%**	6.6%	**7.0%**	**0.2%**	**0.4%**
Residential	6.0%	**5.2%**	5.2%	**5.2%**	**(0.8%)**	**0.0%**
Average	**7.2%**	**7.4%**	**6.5%**	**6.8%**	**0.2%**	**0.3%**

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

Source: Cytonn Research 2022

B. Mixed-Use Developments Performance per Node

In terms of performance per node, Karen was the best performing of all sampled nodes with an average MUD rental yield of 9.8%, 2.4% points higher than the market average of 7.4% in 2022. The remarkable performance was largely attributed to; i) the presence of prime retail and office spaces fetching higher rents and yields, ii) quality infrastructure supporting investments, and, iii) affluent residents with high consumer spending power. On the other hand, Eastlands was the worst performing node with an average MUD rental yield of 5.0%, 2.4% points lower than the market average of 7.4%. The relatively poor performance was mainly attributed to; i) low rental rates attracted by developments, ii) inadequate support infrastructure to promote investments, and, iii) a lower consumer spending power of residents. The table below shows the performance of Mixed-Use Developments by node in 2022;

Cytonn Report: Nairobi Metropolitan Area Mixed Use Developments Performance by Nodes 2022

Location	Commercial Retail Sector			Commercial Office Sector			Residential Sector				Average MUD Yield
	Rent (Kshs/SQFT)	Occupancy	Rental Yield	Rent (Kshs/SQFT)	Occupancy	Rental Yield	Price (Kshs/SQM)	Rent (Kshs/SQM)	Annual Uptake	Rental Yield	
Karen	240	94.0%	**10.5%**	115	90.0%	**9.1%**					**9.8%**
Kilimani	166	80.0%	**8.7%**	102	80.0%	**7.4%**					**8.0%**
Westlands	193	71.1%	**9.2%**	106	74.4%	**7.6%**	245,095	1,984	13.7%	**7.0%**	**7.9%**
Upper Hill	140	73.3%	**7.8%**	102	78.3%	**7.9%**					**7.8%**
Limuru Road	238	80.0%	**10.3%**	105	72.5%	**6.9%**	184,399	1,292	31.1%	**6.0%**	**7.7%**
Thika Rd	193	76.7%	**8.6%**	93	75.0%	**6.5%**	138,831	758	17.8%	**4.4%**	**6.5%**
Mombasa Rd	203	72.5%	**8.8%**	90	70.0%	**5.8%**	120,539	551	13.6%	**4.1%**	**6.3%**
Eastlands	125	77.5%	**5.8%**	80	66.5%	**5.3%**	81,081	360	10.7%	**4.0%**	**5.0%**
Average	**185**	**76.4%**	**8.8%**	**101**	**76.2%**	**7.3%**	**159,301**	**1,030**	**16.5%**	**5.2%**	**7.4%**

(All Values in Kshs Unless Stated Otherwise)

****The average MUDs performance is based on areas where sampled projects exist***

Source: Cytonn Research 2022

C. Performance of Real Estate Themes in MUDs versus Single-themed Developments' Performance

In our Mixed-Use Development analysis, we looked into the performance of the retail, commercial office and residential themes:

i. Retail Space

The average rental yield of retail spaces in Mixed-Use Developments came in at 8.8% in 2022, 1.0% points higher than single use retail developments that realized an average rental yield of 7.8%. This was mainly attributable to the high rental rates that MUDs generated at Kshs 185 per SQFT when compared to the Kshs 175 per SQFT recorded for the single-use retail spaces owing to availability of quality spaces. Additionally, the impressive performance of MUDs is heavily linked to their increasing popularity, interest and demand as All-in-one facilities for customers shopping, working and residing in the vicinity.

Karen was the best performing node with the average rental yield at 10.5%, 1.7% points higher than the market average of 8.8%. This was mainly driven by; i) relatively high rental rates which generated higher returns, ii) presence of high income earning residents with greater purchasing power, and, iii) sufficient infrastructure in that adequately support the MUDs. On the other hand, Eastlands was the worst performing node with an average rental yield of 5.8%, 3.0% points lower than the market average of 8.8%. This was attributed to i) lower rental rates emanating from low quality spaces available, ii) competition from the informal retail spaces that offer cheaper rates, iii) fewer restrictions to conduct businesses in the node, and, iv) lower purchasing and spending power by consumers within the region as compared to other nodes in Nairobi Metropolitan Area.

The table below provides a summary of the performance of retail spaces in MUDs against market performance in 2022;

Cytonn Report: Performance of Retail in MUDs Vs. Market Performance 2022

Location	MUD Performance			Market Performance			Rental Yield Difference
	Rent/SQFT	Occupancy (%)	Rental Yield (%)	Rent/SQFT	Occupancy (%)	Rental Yield (%)	(%)
Karen	240	94.0%	**10.5%**	**205**	78.6%	**8.8%**	**1.7%**

(All Values in Kshs Unless Stated Otherwise)

Limuru Road	238	80.0%	**10.3%**	**187**	71.7%	**7.8%**	**2.5%**
Westlands	193	71.1%	**9.2%**	**214**	73.6%	**8.6%**	**0.6%**
Mombasa Rd	203	72.5%	**8.8%**	**148**	80.8%	**7.3%**	**1.5%**
Kilimani	166	80.0%	**8.7%**	**184**	84.8%	**9.8%**	**(1.1%)**
Thika Rd	193	76.7%	**8.6%**	**158**	73.8%	**6.7%**	**1.9%**
Upper Hill	140	73.3%	**7.8%**				
Eastlands	125	77.5%	**5.8%**	**127**	73.0%	**5.7%**	**0.1%**
Average	**185**	**76.4%**	**8.8%**	**175**	**76.6%**	**7.8%**	**1.0%**

(All Values in Kshs Unless Stated Otherwise)

Source: Cytonn Research 2022

ii. **Commercial Office Space**

The average rental yield for commercial office spaces in MUDs came in at 7.3%, 0.3% points higher than single use commercial developments which realized an average rental yield of 7.0% in 2022. The performance by MUDs was largely attributed to; i) higher rental rates owing to the presence of quality, sustainable and energy efficient spaces to enhance businesses and workers' experience, and, ii) slow but rising demand and uptake for the office spaces. In terms of submarket performance, Karen was the best performing node posting an average rental yield of 9.1%, 1.8% points higher than the market average of 7.3% attributable to; i) the presence of high-end business parks such as the Hub and the Galleria business park which offer higher rental rates and returns, ii) good and sufficient infrastructure interconnecting the node, and, iii) higher demand for the prime location, with targeted clients who are willing to pay premiums rents for the spaces. Eastlands was the worst performing node with an average rental yield of 5.3% attributable to; i) availability of low quality office spaces posting lower rents, and, ii) insufficient quality infrastructure that can support seamless facilitation of MUDs. The table below shows the performance of office spaces in MUDs against the single use themed market in 2022;

Cytonn Report: Performance of Commercial Offices in MUDs Vs. Market Performance

Location	**MUD Performance**			**Market Performance**			**Rental Yield Difference**
	Rent/SQFT	**Occupancy (%)**	**Rental Yield (%)**	**Rent/SQFT**	**Occupancy (%)**	**Rental Yield (%)**	**(%)**
Karen	115	90.0%	**9.1%**	107	83.0%	**8.0%**	**1.1%**
Upper Hill	102	78.3%	**7.9%**	96	75.2%	**6.9%**	**1.0%**
Westlands	106	74.4%	**7.6%**	107	75.7%	**8.2%**	**(0.6%)**
Kilimani	102	80.0%	**7.4%**	92	80.8%	**7.4%**	**0.0%**
Limuru Road	105	72.5%	**6.9%**				
Thika Rd	93	75.0%	**6.5%**	77	77.9%	**6.6%**	**(0.1%)**
Mombasa Road	90	70.0%	**5.8%**	73	65.5%	**5.1%**	**0.7%**
Eastlands	80	66.5%	**5.3%**				
Average	**101**	**76.2%**	**7.3%**	**92**	**76.4%**	**7.0%**	**0.3%**

(All Values in Kshs Unless Stated Otherwise)

Source: Cytonn Research 2022

iii. **Residential Space**

Residential units within MUDs recorded an average rental yield of 5.2% in 2022, 0.3% points lower than the single-use residential market average of 5.5%. The relatively subdued performance was mainly on the back of declined occupancy rates emanating from the addition of new developments such as the Mi Vida project consisting of 225 units. In terms of sub market performance Westlands was the best performing node with an average rental yield of 7.0%, attributable to the presence of affluent developments fetching premium rents, coupled with the area being serviced by adequate infrastructure such as Redhill and Mwanzi roads and the Nairobi Expressway. On the other hand, Eastlands was the worst performing node recording an average rental yield of 4.0% primarily owing to the lower prices and rental rates generated by the developments within the node. The table below summarizes the performance of residential spaces in MUDs against the single themed market in 2022;

Cytonn Report: Performance of Residential Units in MUDs Vs. Market Performance 2022

Location	MUD Performance				Market Performance				Rental Yield Difference
	Price/SQM	Rent/SQM	Annual Uptake	Rental Yield %	Price/SQM	Rent/SQM	Annual Uptake	Rental Yield %	(%)
Westlands	245,095	1,984	13.7%	**7.0%**	149,039	802	22.4%	**5.7%**	**1.3%**
Limuru Road	184,399	1,292	31.1%	**6.0%**	108,117	546	21.5%	**5.1%**	**0.9%**
Thika Road	138,831	758	17.8%	**4.4%**	83,283	416	14.0%	**5.4%**	**(1.0%)**
Mombasa Road	120,539	551	13.6%	**4.1%**	80,718	468	14.1%	**5.6%**	**(1.5%)**
Eastlands	81,081	360	10.7%	**4.0%**	72,884	379	12.6%	**5.1%**	**(1.1)**
Average	**159,301**	**1,030**	**16.5%**	**5.2%**	**91,053**	**492**	**15.6%**	**5.2%**	**0.0%**

All Values are in Kshs Unless Stated Otherwise

Source: Cytonn Research 2022

Section III: Mixed-Use Developments Investment Opportunity and Outlook

The table below summarizes our outlook on Mixed-Use Developments (MUDs), where we look at the general performance of the key sectors that compose MUDs i.e. retail, commercial office and residential and investment opportunities that lies in the themes;

Cytonn Report: Mixed-Use Developments (MUDs) Outlook

Sector	2022 Sentiment and Outlook	2022 Outlook
Retail	• Retail spaces within MUDs recorded average rental yields of 8.8%, 1.0% points higher than the single-use retail developments average of 7.8%; mainly attributable to MUD's generating higher rental rates of Kshs 185 per SQFT compared to single-use retail developments which generated Kshs 175 per SQFT, • We expect the retail spaces within MUDs to continue with the improved performance attributable to the continued expansion of local and international retailers such as Naivas and Quickmart, positive demographics and positive changes in consumer tastes and preferences • However, the existing oversupply of 3.0 mn SQFT in the retail market within the Nairobi Metropolitan Area and the continued shift to ecommerce is expected to curtail the performance of the sector, • Investment opportunities lie in Karen, Limuru Rd and Westlands, with the nodes providing relatively higher rental yields.	**Neutral**

Sector	2022 Sentiment and Outlook	2022 Outlook
Office	• The average rental yield for commercial office spaces in MUDs came in at 7.3%, 0.3% points higher than single use commercial developments which realized an average rental yield of 7.0% in 2022. The performance by MUDs was largely attributed to higher rental rates owing to the presence of quality, sustainable and energy efficient spaces to enhance businesses and workers' experience, • We expect a gradual increase in the uptake of commercial office spaces. However, the sector's performance is still expected to be weighed down by the existing oversupply of office spaces at 7.3 mn SQFT of space. Key to note is that there exist fewer developments in the pipeline compared to last year, which is expected to curb the office space deficit, • Karen, Upperhill, Westlands and Kilimani provide the best investment opportunities owing to their relatively high rental yields emanating from quality spaces.	**Neutral**
Residential	• Residential units within MUDs recorded an average rental yield of 5.2% in 2022, 0.3% points lower than the single-use residential market average of 5.5%. This was driven by a decline in occupancy rates resulting from the addition of new developments. We however expect the performance to increase amidst increased occupancy rates, • The best investment opportunity lies in Westlands and Limuru Rd, which recorded the highest rental yields at 7.0% and 6.0%, respectively.	**Neutral**
Outlook	***Our outlook for the Mixed Use Developments (MUDs) is Neutral, supported by the remarkable returns compared to single use themes, and the increasing need for quality, sustainable and energy efficient developments However, the existing oversupply of NMA office market at 7.3 mn SQFT, 3.0 mn SQFT in the NMA retail market and 1.7mn SQFT in the Kenyan Retail market is expected to weigh down the performance. Karen, Kilimani and Westlands nodes provided the best investment opportunities, with the areas providing the highest average MUD yields of 9.8%, 8.0% and 7.9% respectively, compared to the market average of 7.4%.***	