Cytonn Annual Markets Review - 2022

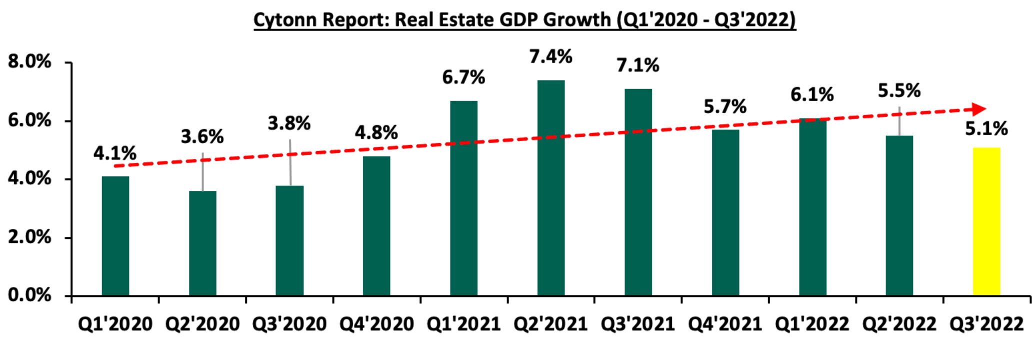
Real Estate

In 2022, the general Real Estate sector witnessed considerable growth in activity in terms of property transactions and development activities. Consequently, the sector's activity contribution to GDP grew by 5.6% to Kshs 749.7 bn for the 9 months to September 2022, from Kshs 710.3 bn recorded during the same period in 2021. Additionally, selling and rental prices also continued to soar, driven by continued inflationary pressures and a weakened shilling against the United States dollar that has seen a rise in costs of construction materials. Some of the key factors that continued to positively shape the performance of the Real Estate sector include:

i. The continued launch and implementation of various infrastructure projects by the government, hence opening up various areas for developments and investments, as well as positioning Kenya as a regional hub,
ii. Aggressive expansion efforts by both local and international retailers such as Naivas, Carrefour and Quickmart, among others, in a bid to increase their share of the market and ensure dominance, as Kenya's formal retail penetration stands at approximately 30.0% according to the Nielsen Report 2018,
iii. Continuous focus by the government and private sector to provide housing units to Kenyans through the affordable housing initiative and general housing projects, and, rehabilitation of existing housing assets by relevant authorities such as the Nairobi Metropolitan Services,
iv. The Kenya Mortgage Refinance Company (KMRC) continuous efforts to make home ownership more accessible to Kenyans by providing long-term, low-interest home loans to potential buyers,
v. Mergers and Acquisitions in the hospitality sector, signifying investor appetite and confidence in a bid to gain market dominance. This is on the back of the sector's gradual recovery away from the slowdown that was caused by pandemic lockdowns and travel restrictions, and,
vi. Positive demographics evidenced by 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. This continually promotes demand for Real Estate developments.

Despite the above, there were various challenges that impeded the optimum performance of the Real Estate sector such as:

i. Prevailing inflationary pressures from local and external shocks which slowed down activity in Kenya's Real Estate sector. In support of this, the sector's GDP growth rate came in at 5.1% in Q3'2022, 2.0% points lower than the 7.1% growth recorded in Q3'2021, as shown below;



Source: Kenya National Bureau of Statistics (KNBS)

ii. Difficulty in accessing credit as lenders continue to tighten their lending terms while requesting for more collateral from developers, owing to the high credit risk in the Real Estate sector. This is evidenced by the 9.2% increase in gross non-performing loans (NPLs) in the sector to Kshs 75.6 bn in Q3’2022 from Kshs 69.2 bn recorded during the same period in 2021. However, it is worth noting that the NPLs declined on a q/q basis from Kshs 79.4 bn recorded in Q2’2022 attributed to increased Real Estate loan repayments within the period as a result of increased business activity,
iii. Low absorption of physical space in select sectors due to the continued oversupply in the Nairobi Metropolitan Area (NMA) office and retail markets at 6.7 mn SQFT and 3.0 mn SQFT, respectively, coupled with an oversupply of 1.7 mn SQFT in the overall Kenyan retail market,
iv. Lack of urban planning in many urban areas has led to uncoordinated land use, through the proliferation of large, sprawling developments that are not connected to public transportation, water supply, and other services, and,
v. Subdued performance of the Real Estate Investment Trusts (REITs) market with just two approved REITs, of which only one is listed and actively trades on the Nairobi Securities Exchange (NSE) Main Investment Market. This is majorly due to the large minimum capital requirements, prolonged approval processes, scant investor knowledge, and only a few entities being capable of incorporating REITs. See our REITs Topical for an in-depth analysis.

In terms of performance in the Nairobi Metropolitan Area (NMA), the Residential, Commercial Office, Retail, Hospitality, and Mixed-Use Development sectors realized average rental yields of 5.1%, 7.6%, 7.9%, 6.2%, and 7.4%, respectively in FY’2022. This resulted to an overall rental yield of 6.8%, 0.3% points higher than the 6.5% recorded in FY’2021. The table below shows the annual Real Estate rental yields for existing properties from FY’2017 to FY’2022;

Cytonn Report: Annual Real Estate Rental Yields Summary Table, for Existing Properties

	FY’2017	FY’2018	FY’2019	FY’2020	FY’2021	FY’2022	Y/Y Change (% Points)
Average Rental Yield	7.6%	7.4%	7.0%	6.1%	6.5%	6.8%	0.3%

Sectoral Performance

I. Residential Sector

The NMA residential sector recorded improvement in performance with the average total return to investors coming at 6.2%, a 0.1%-points increase from the 6.1% recorded in FY’2021, attributable to average rental yield of 5.1% and y/y appreciation of 1.1%. The y/y improvement in performance was majorly driven by improved selling prices and rents which came in at Kshs 119,609 and Kshs 540, respectively, from Kshs 119,494 and Kshs 508, respectively, recorded in FY’2021. On a q/q basis, the average total returns improved by 0.3% points from the 5.9% recorded in Q3’2022, attributable to average rental yields increasing by 0.3% points to 5.1% from the 4.8% recorded in Q3’2022. The table below shows the NMA residential sector’s performance in FY’2022;

All values in Kshs unless stated otherwise

Cytonn Report: Residential Sector Summary FY’2022

Segment	Price per SQM FY'2022	Rent per SQM FY'2022	Occupancy FY'2022	Uptake FY'2022	Annual Uptake FY'2022	Rental Yield FY'2022	Price Appreciation FY'2022	Total Returns
Detached Units								
High End	193,036	728	92.3%	94.7%	12.5%	4.4%	**1.4%**	**5.8%**

Cytonn Report: Residential Sector Summary FY'2022

Segment	Price per SQM FY'2022	Rent per SQM FY'2022	Occupancy FY'2022	Uptake FY'2022	Annual Uptake FY'2022	Rental Yield FY'2022	Price Appreciation FY'2022	Total Returns
Upper Middle	147,178	594	85.2%	89.8%	13.0%	4.5%	**1.1%**	**5.6%**
Lower Middle	73,696	325	87.0%	90.6%	15.3%	5.0%	**1.0%**	**6.0%**
Detached Units Average	**137,970**	**549**	**88.2%**	**91.7%**	**13.6%**	**4.7%**	**1.1%**	**5.8%**
Apartments								
Upper Mid-End	126,751	670	84.3%	89.9%	15.8%	5.4%	**0.5%**	**5.9%**
Lower Mid-End Suburbs	94,406	514	85.8%	88.0%	14.9%	5.5%	**1.1%**	**6.6%**
Lower Mid-End Satellite Towns	82,586	409	85.4%	86.3%	16.4%	5.5%	**1.4%**	**6.9%**
Apartments Average	**101,248**	**531**	**85.2%**	**88.1%**	**15.7%**	**5.5%**	**1.0%**	**6.5%**
Residential Market Average	**119,609**	**540**	**86.7%**	**89.9%**	**14.7%**	**5.1%**	**1.1%**	**6.2%**

Source: Cytonn Research

A. Detached Units

The table below shows the NMA residential sector detached units' performance during FY'2022;

All values in Kshs unless stated otherwise

Cytonn Report: Residential Detached Units Summary FY'2022

Area	Price per SQM FY'2022	Rent per SQM FY'2022	Occupancy FY'2022	Uptake FY'2022	Annual Uptake FY'2022	Rental Yield FY'2022	Price Appreciation FY'2022	Total Returns
				High-End				
Rosslyn	185,067	848	90.0%	98.2%	15.0%	5.0%	**1.5%**	**6.5%**
Kitisuru	227,620	808	96.0%	94.9%	11.8%	4.8%	**1.6%**	**6.4%**
Karen	186,636	679	83.3%	91.8%	12.7%	3.8%	**1.7%**	**5.5%**
Runda	212,856	839	96.8%	97.0%	10.1%	4.6%	**0.7%**	**5.2%**
Lower Kabete	153,001	465	95.3%	91.5%	13.1%	3.9%	**1.1%**	**5.0%**
Average	**193,036**	**728**	**92.3%**	**94.7%**	**12.5%**	**4.4%**	**1.4%**	**5.8%**
Upper-Middle								
Redhill & Sigona	99,238	447	84.6%	96.1%	14.4%	4.9%	**1.5%**	**6.4%**
Ridgeways	169,159	790	76.1%	87.4%	12.8%	4.7%	**1.6%**	**6.3%**
Runda Mumwe	152,756	718	90.8%	92.6%	13.6%	5.2%	**0.8%**	**6.0%**
Loresho	167,195	705	80.7%	83.0%	14.2%	4.8%	**1.1%**	**5.9%**
South B/C	113,184	436	88.5%	86.9%	12.6%	4.3%	**1.3%**	**5.6%**
Lavington	189,131	618	87.0%	91.3%	12.7%	4.0%	**0.6%**	**4.6%**
Langata	139,581	446	88.8%	91.0%	10.7%	3.8%	**0.7%**	**4.5%**
Average	**147,178**	**594**	**85.2%**	**89.8%**	**13.0%**	**4.5%**	**1.1%**	**5.6%**
				Lower-Middle				
Ruiru	68,474	345	87.3%	83.6%	18.2%	6.2%	**1.6%**	**7.8%**
Juja	66,081	290	81.4%	83.9%	18.2%	5.7%	**1.2%**	**6.9%**

Cytonn Report: Residential Detached Units Summary FY'2022

Area	Price per SQM FY'2022	Rent per SQM FY'2022	Occupancy FY'2022	Uptake FY'2022	Annual Uptake FY'2022	Rental Yield FY'2022	Price Appreciation FY'2022	Total Returns
Ngong	65,329	319	93.6%	96.3%	12.4%	6.2%	**0.4%**	**6.5%**
Kitengela	62,623	315	76.7%	85.4%	13.7%	4.9%	**1.4%**	**6.3%**
Syokimau/Mlolongo	75,913	321	91.3%	90.8%	18.3%	4.4%	**1.5%**	**5.9%**
Athi River	85,292	340	86.2%	95.0%	13.4%	4.3%	**1.1%**	**5.4%**
Rongai	81,535	286	98.8%	97.1%	16.7%	4.1%	**1.2%**	**5.2%**
Thika	63,549	304	83.3%	86.9%	13.7%	5.0%	**0.2%**	**5.2%**
Donholm & Komarock	94,468	404	85.0%	96.0%	13.1%	4.5%	**0.3%**	**4.7%**
Average	**73,696**	**325**	**87.0%**	**90.6%**	**15.3%**	**5.0%**	**1.0%**	**6.0%**
Detached Units Average	**137,970**	**549**	**88.2%**	**91.7%**	**13.6%**	**4.7%**	**1.1%**	**5.8%**

Source: Cytonn Research

The key take-outs from the table include;

i. **Average Total Return –** The average total return came in at 5.8%, a 0.2% points increase from the 5.6% recorded in FY'2021. The improved performance is attributable to increase in rental yield by 0.5% points to 4.7% in FY'2022 from the 4.3% recorded in FY'2021, majorly driven by increase in selling and rental prices to Kshs 137,970 and Kshs 549, respectively, from Kshs 136,031 and Kshs 505, respectively in FY'2021,

ii. **Segment Performance –** The best performing segment was the lower-middle segment offering an average total return of 6.0%, attributable to relatively high rental yields of 5.0%, which is driven by returns from well-performing nodes such as Ruiru, Juja, and Ngong, and,

iii. **Overall Node Performance –** Ruiru was the best performing node, offering the highest returns at 7.8% attributable to relatively high rental yield of 6.2% and price y/y appreciation of 1.6%. This is driven by increased popularity by investors due to presence of key infrastructure developments, such as the Eastern Bypass and Thika Superhighway which grants easy access from Ruiru to the Nairobi CBD. In addition, the node enjoys high demand in property due to affordability of apartments, with rents averaging Kshs 345 against the overall detached units' average of Kshs 549,

B. **Apartments**

The table below shows the NMA residential sector apartments' performance during FY'2022;

All values in Kshs unless stated otherwise

Cytonn Report: Residential Apartments Summary FY'2022

Area	Price per SQM FY'2022	Rent per SQM FY'2022	Occupancy FY'2022	Uptake FY'2022	Annual Uptake FY'2022	Rental Yield FY'2022	Price Appreciation FY'2022	Total Returns
Upper Mid-End								
Westlands	149,518	826	83.1%	87.3%	24.5%	5.9%	**0.5%**	**6.4%**
Kilimani	106,700	646	84.4%	88.9%	21.1%	5.8%	**0.2%**	**6.0%**
Kileleshwa	126,855	654	85.0%	88.2%	14.8%	5.5%	**0.3%**	**5.8%**
Loresho	123,248	541	88.0%	97.2%	10.4%	4.7%	**1.1%**	**5.8%**
Upperhill	134,588	745	81.5%	87.8%	10.6%	5.0%	**0.7%**	**5.7%**
Parklands	119,595	609	83.8%	89.9%	13.6%	5.2%	**0.4%**	**5.6%**
Average	**126,751**	**670**	**84.3%**	**89.9%**	**15.8%**	**5.4%**	**0.5%**	**5.9%**

Cytonn Report: Residential Apartments Summary FY'2022

Area	Price per SQM FY'2022	Rent per SQM FY'2022	Occupancy FY'2022	Uptake FY'2022	Annual Uptake FY'2022	Rental Yield FY'2022	Price Appreciation FY'2022	Total Returns
Lower Mid-End Suburbs								
Waiyaki Way	87,429	539	83.8%	87.3%	21.2%	6.3%	**1.1%**	**7.4%**
South C	113,660	823	83.8%	84.8%	17.0%	6.2%	**0.9%**	**7.1%**
Imara Daima	85,008	395	86.1%	86.5%	11.7%	5.3%	**1.5%**	**6.8%**
Dagoretti	84,893	538	88.6%	81.4%	14.9%	5.8%	**0.8%**	**6.6%**
Donholm & Komarock	75,864	385	92.1%	91.8%	12.9%	5.7%	**0.6%**	**6.3%**
Kahawa West	83,616	371	89.0%	86.5%	9.8%	5.0%	**1.2%**	**6.2%**
Race Course/Lenana	98,276	654	81.4%	91.5%	19.1%	5.5%	**0.4%**	**5.9%**
Langata	115,681	482	82.0%	88.8%	12.4%	4.4%	**1.5%**	**5.9%**
South B	105,230	441	85.9%	93.2%	15.4%	4.4%	**1.3%**	**5.7%**
Average	**94,406**	**514**	**85.8%**	**88.0%**	**14.9%**	**5.5%**	**1.1%**	**6.6%**
Lower Mid-End Satellite Towns								
Ruaka	109,462	567	78.6%	83.8%	22.3%	5.2%	**2.3%**	**7.5%**
Ruiru	89,592	492	87.0%	83.6%	17.1%	5.8%	**1.6%**	**7.4%**
Ngong	66,940	368	83.1%	84.4%	14.0%	5.5%	**1.7%**	**7.2%**
Kikuyu	82,332	415	82.8%	86.8%	17.6%	5.0%	**2.0%**	**7.0%**
Athi River	59,754	354	86.8%	92.8%	16.0%	5.6%	**1.3%**	**6.9%**
Syokimau	77,437	368	85.5%	90.2%	12.0%	5.3%	**1.4%**	**6.7%**
Thindigua	102,267	505	90.0%	80.8%	21.1%	5.4%	**1.1%**	**6.5%**
Rongai	93,884	313	89.2%	77.0%	16.8%	6.0%	**0.3%**	**6.3%**
Kitengela	61,608	295	85.9%	97.5%	10.3%	5.3%	**0.7%**	**6.0%**
Average	**82,586**	**409**	**85.4%**	**86.3%**	**16.4%**	**5.5%**	**1.4%**	**6.9%**
Apartments Average	**101,248**	**531**	**85.2%**	**88.1%**	**15.7%**	**5.5%**	**1.0%**	**6.5%**

Source: Cytonn Research

The key take-outs from the table include;

i. **Average Total Return -** The average total return came in at 6.5%, a decline of 0.2% points from the 6.7% recorded in 2021. The decline came as sellers were open to negotiate apartment prices with buyers in order to close business, with people prefering renting apartments compared to buying, which is evidenced by a 0.4% decline in price appreciation to 1.0% from 1.4% in 2021,

ii. **Segment Performance -** The best performing segment was the lower mid-end satellite towns with average total return of 6.9%, attributed to average rental yield of 5.5% and relatively high price appreciation of 1.4%. The performance of the segment is boosted by the presence of rapidly developing nodes such as Ruaka and Ruiru, and,

iii. **Overall Node Performance -** Overall, the best performing node was Ruaka with average rental yield of 7.5% attributable to a relatively high y/y price appreciation of 2.3%, while Waiyaki Way closely followed with 7.4% average total return. The proximity of Ruaka and Waiyaki Way to more well-off neighborhoods has driven up property prices, making them prime locations for the development of high-density residential apartment complexes which garner high preference among low to middle-income earners.

For notable highlights related to the residential sector during the year please see our Cytonn Q1’2022 Markets Review, Cytonn H1’2022 Markets Review and Cytonn Q3’2022 Markets Review Reports. In Q4’2022, see Cytonn Monthly – October 2022 and Cytonn Monthly – November. For the month of December;

i. Superior Homes, a Nairobi based housing developer where Cytonn Investments is the second largest shareholder, launched a luxurious Conservancy Living Development project dubbed ‘*Lukenya Wildlife Estate*’ located within Swara Plains Conservancy, Machakos County. For more information, see Cytonn Weekly #51/2022,
ii. Property developer Erdemann Limited, in conjunction with the County Government of Machakos, broke ground for the construction of the 5th phase of Great Wall Gardens project located in Mavoko municipality. For more information, see Cytonn Weekly #50/2022, and,
iii. The Kenyan national government in partnership with the United Nations Habitat, and, Epco Builders, a local private developer, broke ground for the construction of Mavoko Affordable Housing Project in Syokimau, Machakos County. For more information, see Cytonn Weekly #49/2022.

Our Outlook for the residential sector is NEUTRAL supported by the continued development of infrastructure serving to open up areas for development and easy access for residency. This is as demand for housing is expected to continue growing on the back of Kenya’s attractive demographic profile. Additionally, the ongoing focus by the government and private sector to provide housing will serve to improve the sector's performance and in turn curb the existing housing deficit in the country. However, we expect the prevailing inflationary pressure coupled with a weakened shilling, high construction costs, and the low penetration of mortgages in the country to continue impeding the performance of the sector. For detached units, investment opportunity lies in areas such as Ruiru, Juja, and Ngong, while for apartments, investment opportunity lies in Ruaka, Waiyaki Way, and Ruiru.

II. Commercial Office Sector

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

All values in Kshs unless stated otherwise

Cytonn Report: Nairobi Metropolitan Area (NMA) Commercial Office Returns Over Time

Item	Q1'2021	H1'2021	Q3'2021	FY'2021	Q1'2022	H1'2022	Q3'2022	FY'2022	Δ FY'2021/ FY'2022
Occupancy %	76.3%	75.8%	79.9%	77.6%	77.9%	77.9%	78.2%	79.4%	1.8%
Asking Rents (Kshs/SQFT)	92	93	94	94	94	95	96	96	2.1%
Average Prices (Kshs/SQFT)	12,228	12,224	12,479	12,106	12,113	12,142	12,221	12,223	1.0%
Average Rental Yields (%)	6.8%	6.9%	7.2%	7.3%	7.3%	7.4%	7.4%	7.6%	0.3%

Source: Cytonn Research

The key take-outs from the table include;

i. **Average Asking Rent** – Average asking rents per SQFT in the NMA increased by 2.1% to Kshs 96 per SQFT from Kshs 94, owing to increased supply of Grade A offices fetching higher rents such as Karen Green and Global Trade Centre (GTC) Office Tower, among others,
ii. **Average Occupancy Rate** – The overall occupancy rates increased by 1.8% points to 79.4% from 77.6% as a result of a slow but rising demand for physical space on the back of various firms resuming full operations, coupled with the expansion strategy by various firms such as Nairobi Garage and Call Centre International (CCI) Group, and,
iii. **Average Rental Yield** – The average rental yield improved by a 0.3% points increase to 7.6% in FY’2022 from 7.3% recorded in FY’2021, due to improved occupancy and rental rates.

For the submarket performance, Gigiri was the best performing node realizing an average rental yield of 8.7% in FY'2022 compared to the market average of 7.6%. Westlands and Karen were the second-best performing nodes, both registering average rental yields of 8.3%. These locations continue to record the best yields as a result of; i) high concentration of top-notch office spaces fetching premium rental rates and attractive yields for investors, ii) availability of adequate infrastructure and amenities in the areas enhancing investments, and, iii) presence of international organizations, multinational companies and embassies within the areas which drive up demand for quality offices. On the other hand, Mombasa Road was the least performing node with an average rental yield of 5.1% in 2022, 2.5% points lower than the market average of 7.6%, attributed to; i) low quality offices which attract low average rents at Kshs 73 per SQFT, ii) its recognition as an industrial area thus making it less attractive to office businesses and, iii) stiff competition from other sub-markets. The table below shows the Nairobi Metropolitan Area (NMA) sub-market performance;

All values in Kshs unless stated otherwise

Cytonn Report: Nairobi Metropolitan Area Commercial Office Market Performance FY'2022

Area	Price/SQFT FY 2021	Rent/SQ FT FY 2021	Occupancy FY 2021(%)	Rental Yields FY 2021(%)	Price Kshs/ SQFT FY 2022	Rent Kshs/ SQFT FY 2022	Occupancy FY 2022(%)	Rental Yield FY 2022(%)	Δ in Rental Yields (% points)
Gigiri	13,500	119	81.3%	**8.6%**	13,500	118	81.6%	**8.7%**	**0.1%**
Westlands	11,972	104	75.5%	**8.1%**	12,032	108	76.4%	**8.3%**	**0.2%**
Karen	13,325	106	83.0%	**7.7%**	13,431	111	82.9%	**8.3%**	**0.6%**
Kilimani	12,364	91	79.8%	**7.1%**	12,260	92	84.1%	**7.7%**	**0.6%**
Upperhill	11,336	91	80.1%	**7.6%**	11,662	91	81.5%	**7.7%**	**0.1%**
Parklands	11,787	82	82.8%	**6.8%**	11,971	83	85.2%	**7.3%**	**0.5%**
Nairobi CBD	12,409	94	78.0%	**7.0%**	12,586	96	76.5%	**7.1%**	**0.1%**
Thika Road	12,571	79	76.3%	**5.7%**	12,571	79	80.1%	**6.0%**	**0.3%**
Mombasa Road	11,250	73	64.2%	**5.1%**	11,325	71	66.9%	**5.1%**	**0.0%**
Average	**12,106**	**94**	**77.6%**	**7.3%**	**12,223**	**96**	**79.4%**	**7.6%**	**0.3%**

Source: Cytonn Research

For notable highlights during the year, please see our Cytonn Q1'2022 Markets-Review, Cytonn H1'2022 Markets Review , and, Cytonn Q3'2022 Markets Review Reports.

Our outlook for the NMA commercial office sector is NEUTRAL owing to the existing oversupply of office spaces at 6.7 mn SQFT in the NMA thereby crippling the overall demand for physical spaces. Conversely, given the reduced developments in the pipeline, coupled with the slow but rising expansion in the sector, we expect that this will help curb the oversupply challenge by allowing room for the absorption of available and fewer incoming spaces.

III. **Retail Sector**

The table below shows the performance of the retail sector performance in Nairobi Metropolitan Area from 2021 to 2022;

Cytonn Report: Summary of Retail Sector Performance in Nairobi Metropolitan Area 2021 to 2022

Item	Q1'2021	H1'2021	Q3'2021	FY'2021	Q1'2022	H1'2022	Q3'2022	FY'2022	Y/Y 2022 ∆
Average Asking Rents (Kshs/SQFT)	166	177	177	**170**	170	173	171	**174**	**2.4%**
Average Occupancy (%)	75.0%	78.0%	78.0%	**76.8%**	77.2%	75.9%	76.1%	**77.6%**	**0.8%**
Average Rental Yields	7.4%	8.1%	8.1%	**7.8%**	7.9%	7.8%	7.6%	**7.9%**	**0.1%**

Source: Cytonn Research

The key take-outs from the table include;

i. **Average Occupancy Rate** - The average occupancy rates came in at 77.6%, a 0.8% points increase from 76.8% recorded in FY'2021. This was primarily on the back of factors such as; i) an improved business environment following the gradual recovery of the economy in the post COVID-19 era, ii) aggressive expansion by local and foreign retailers such as Naivas, Optica Limited, Kentucky Fried Chicken (KFC), Chicken and Pizza Inn, Chandarana Food plus, QuickMart, and Carrefour, iii) improved infrastructure developments enhancing accessibility to retail centres, and, iv) positive demographics which continues to facilitate demand for spaces, goods and services,

ii. **Asking Rents** - The average asking rents per SQFT increased by 2.4% to Kshs 174 in FY'2022 from Kshs 170 recorded in FY'2021, driven by an increased presence of quality retail spaces which attract high rents such as the Global Trade Centre (GTC) in Westlands, and,

iii. **Average Rental Yield-** The average rental yield for the NMA retail sector improved by 0.1% points to 7.9% in FY'2022, from 7.8% in FY'2021, as a result of improved rental yields and occupancy rates.

In terms of the sub-markets performance, Kilimani, Karen, and, Westlands continued to outshine other nodes thereby being the best performing nodes with average rental yields of 9.8%, 9.4%, and 8.7% respectively, compared to the overall market average of 7.9%. The impressive performance is mainly driven by presence of high quality retail spaces fetching the high rents, coupled with the availability of quality infrastructure services. On the other hand, retail spaces in Eastlands recorded the least average rental yield of 5.9% as a result of; i) the lower rents chargeable at Kshs 131 per SQFT compared to market average of Kshs 174 per SQFT, ii) poor quality infrastructure which does not sufficiently support the retail spaces, iii) heavy presence of informal retail spaces causing stiff competition to the formal investments, and, iv) relatively low demand evidenced by their low occupancy rates at 73.0%, compared to the market average of 77.6%. The table below shows the submarket performance of nodes in the Nairobi Metropolitan Area (NMA) 2022;

All values in Kshs unless stated otherwise

Cytonn Report: Nairobi Metropolitan Area Retail Market Performance FY'2022

Area	Rent Kshs /SQFT FY'2021	Occupancy% FY'2021	Rental Yield FY'2021	Rent Kshs /SQFT FY'2022	Occupancy% FY'2022	Rental Yield FY'2022	FY' 2022 ∆ in Rental Yield (% points)
Kilimani	183	86.0%	**9.8%**	187	83.8%	**9.8%**	**0.0%**

Cytonn Report: Nairobi Metropolitan Area Retail Market Performance FY'2022

Area	Rent Kshs /SQFT FY'2021	Occupancy% FY'2021	Rental Yield FY'2021	Rent Kshs /SQFT FY'2022	Occupancy% FY'2022	Rental Yield FY'2022	FY' 2022 Δ in Rental Yield (% points)
Karen	202	84.0%	**9.8%**	216	80.2%	**9.4%**	**(0.4)%**
Westlands	213	78.8%	**10.0%**	211	75.7%	**8.7%**	**(1.3)%**
Kiambu/Limuru road	180	74.2%	**7.7%**	202	72.8%	**8.6%**	**0.9%**
Ngong Road	171	79.0%	**7.7%**	168	80.5%	**7.7%**	**(0.1)%**
Mombasa road	148	75.0%	**6.8%**	154	78.9%	**7.4%**	**0.6%**
Thika Road	161	74.0%	**6.7%**	165	78.7%	**7.3%**	**0.6%**
Satellite towns	142	69.0%	**6.2%**	134	74.6%	**6.2%**	**0.0%**
Eastlands	133	71.6%	**5.6%**	131	73.0%	**5.9%**	**0.3%**
Average	**170**	**76.8%**	**7.8%**	**174**	**77.6%**	**7.9%**	**0.1%**

Source: Cytonn Research

For notable highlights during the year; see (Cytonn Q1'2022 Markets-Review, Cytonn H1'2022 Markets Review, and, Cytonn Q3'2022 Markets Review highlights). During Q4'2022;

i. Naivas Supermarket opened five new outlets located at Shell Express Uthiru along Waiyaki Way, Nairobi West Shopping Centre, Boardwalk Mall located in Parklands, Ruai, opposite Ruai Market, Meru's Greenwood City Mall, and Kahawa Sukari opposite Engen Petrol Station, bringing the total number of its operating outlets countrywide to 91 outlets. For more information, see Cytonn Weekly #51/2022, and,
ii. Carrefour Supermarket, a French based retail chain opened a new store at Comet House along Monrovia Street bringing the retailer's number of operating outlets to 19, and the first ever store to be opened by the retailer at Nairobi's Central Business District. For more information, see Cytonn Weekly #45/2022.

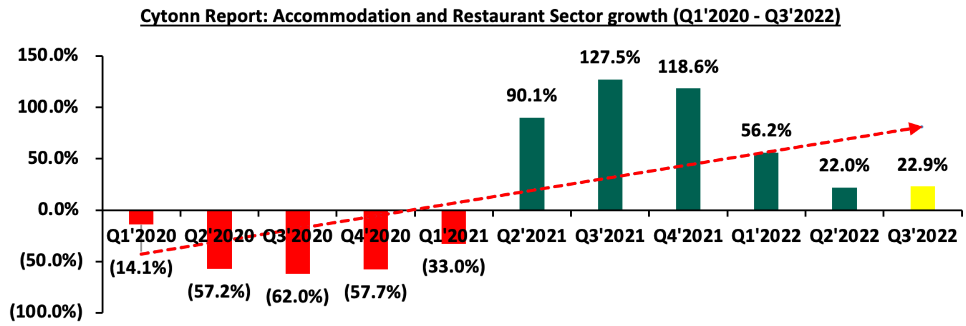
We have a NEUTRAL outlook on the performance of retail sector with the performance expected to be driven by; i) the continuous aggressive growth and expansion by both local and international retailers, ii) increased infrastructural developments boosting accessibility, and, iii) positive demographics facilitating demand of space, goods and services. However, its optimum performance is expected to be impeded by; i) oversupply of retail space at approximately 3.0 mn SQFT in the NMA retail sector and 1.7 mn SQFT in the Kenyan retail sector excluding NMA, and, ii) fast-evolving e-commerce hampering the optimum uptake of physical retail spaces.

IV. **Hospitality Sector**

During the year, the hospitality sector continued to make great strides towards its recovery path, away from the adverse effects of the COVID-19 pandemic as evidenced by an increase in the number of international tourist arrivals into the country, number of hotels in operation, bed occupancies and hotel bookings. According to the Leading Economic Indicators (LEI) September 2022, the total number of visitors arriving through Jomo Kenyatta International Airport (JKIA) and Mombasa International Airport (MIA) stood at 0.8 mn persons for the period between January and September 2022, an 18.4% increase from 0.7 mn persons registered during the same period under review in 2021. Furthermore, Central Bank of Kenya (CBK)'s Monetary Policy Committee Hotels Survey – July 2022 report highlighted that out of the 80 hotels sampled around the country, all 80 of them were operating in Q2’2022, up from 90.3% and 39.0% over the same period in 2021 and 2020, respectively. The survey established that normalcy in the level of operations in most hotels around the country had returned to pre-COVID-19 levels, signaling the continued recovery of the sector.

We attribute the upward performance and activities of the sector to; i) intensive marketing of Kenya’s tourism market through platforms such as the Magical Kenya and Kenya Tourism Board, ii) increased promotion of local tourism, iii) improved security, iv) reopening of the global economy owing to mass vaccinations as well as lifting of all travel restrictions and lockdowns, v) continuous improvement of the economy after the peaceful August general elections, vi) increased conferences and meetings from private sector businesses and companies, vii) increased leisure activities during the festive season and sporting activities with the hosting of Annual Safari Rally competition until 2026, and, vii) continued recognition of Kenya’s hospitality industry through positive accolades awarded to several local and foreign hotel brands based in Kenya in different categories such as the World Travel Awards, MICE Awards, Fodor Finest Hotels, among others, which has boosted investors’ confidence in the sector.

Despite the above cushioning factors, the sector’s optimum performance was still majorly weighed down by the prevailing inflationary pressures, and consequently its GDP growth also curtailed. According to the Q3’2022 GDP report, the Accommodation and Restaurant services grew by 22.9% in Q3’2022, 104.6% decline from the 127.5% growth recorded in Q3’2021. However, on a q/q basis, the performance represented a 0.9% points increase from the 22.0% growth recorded in Q2'2022. Additionally, the performance of the sector continued to be cushioned by rising tourism activities, with the number of international arrivals through Jomo Kenyatta International Airport (JKIA) and Moi International Airport (MIA) increasing by 44.6% to 315,112 in Q3’2022, from the 217,873 recorded in Q3’2021. The graph below shows the Accommodation and Restaurant Sector growth rate from Q1’2020-Q2’2022;



Source: Kenya National Bureau of Statistics (KNBS)

Additionally during the year, we released the Nairobi Metropolitan Area (NMA) Serviced Apartments Report 2022. The general performance of the serviced apartments improved y/y, with the occupancy rates coming in at 65.8%, a 4.3% points increase from the 61.5% recorded in 2021. The monthly charges also improved to Kshs 2,716 per SQM from Kshs 2,549 per SQM recorded in 2021, representing a 6.6% increase. Consequently, the average rental yield increased to 6.2% in 2022, a 0.7% points increase from the 5.5% recorded in 2021. The table below shows the comparative analysis between 2021 and 2022;

All values in Kshs unless stated otherwise

Cytonn Report: Comparative Analysis-2021/2022 Market Performance

Node	Monthly Charge/SQM 2021	Occupancy 2021	Rental Yield 2021	Monthly Charge/SQM 2022	Occupancy 2022	Rental Yield 2022	Change in Monthly Charges/SQM	Change in Occupancy	Change in Rental Yield
Westlands	3,569	68.8%	8.3%	3,916	70.7%	9.3%	9.7%	1.9%	1.0%

Cytonn Report: Comparative Analysis-2021/2022 Market Performance

Node	Monthly Charge/SQM 2021	Occupancy 2021	Rental Yield 2021	Monthly Charge/SQM 2022	Occupancy 2022	Rental Yield 2022	Change in Monthly Charges/SQM	Change in Occupancy	Change in Rental Yield
Kilimani	2,815	60.0%	**5.8%**	2,937	69.3%	**7.2%**	4.3%	9.3%	**1.4%**
Kileleshwa & Lavington	2,571	57.1%	**6.4%**	2,811	66.3%	**6.6%**	9.3%	9.2%	**0.2%**
Limuru Road	2,853	60.5%	**4.9%**	2,976	60.6%	**5.8%**	4.3%	0.1%	**0.9%**
Nairobi CBD	2,176	66.6%	**4.9%**	2,348	66.2%	**5.2%**	7.9%	(0.4%)	**0.3%**
Upperhill	2,109	61.1%	**4.5%**	2,225	65.4%	**5.0%**	5.5%	4.3%	**0.5%**
Thika Road	1,748	56.4%	**3.5%**	1,800	62.1%	**4.2%**	3.0%	5.7%	**0.7%**
Average	**2,549**	**61.5%**	**5.5%**	**2,716**	**65.8%**	**6.2%**	**6.3%**	**4.3%**	**0.7%**

Source: Cytonn Research

For notable highlights during the year please see our Cytonn Q1'2022 Markets Review, Cytonn H1'2022 Markets Review and Cytonn Q3'2022 Markets Review Reports. During Q4'2022;

i. Hotel group Hemingways Collection took over management of Eden Hotel, which featured as the only Kenyan hotel in the Fodor Finest Hotels List, Africa 2023. The hotel set to be renamed Hemingways Eden is located in Karen, Nairobi and will take the number of operating hotels by the group to four. For more information, see Cytonn Weekly #49/2022,
ii. Global hospitality chain Hilton Hotel, announced plans to open a new hotel in Westlands dubbed Kwetu Nairobi in February 2023. For more information, see Cytonn Weekly #46/2022,
iii. Crowne Plaza Nairobi was voted the best luxury airport hotel in Africa during the 16th World Luxury Hotel Awards 2022, thereby becoming Kenya's first airport hotel to win the award, while Kenya emerged as Africa's best MICE destination in the in the 3rd annual World MICE Awards. For more information, see Cytonn Weekly #43/2022, and,
iv. Nairobi was voted as Africa's leading business travel destination in the 29th World Travel Awards which was held at the Kenyatta International Convention Centre (KICC). Nairobi has received the award for the fourth consecutive year signifying the continued confidence in the city as a vibrant business destination. For more information, see Cytonn Weekly #42/2022.

We have a NEUTRAL outlook for the sector as we expect the sector to continue registering improved performance moving forward in terms of overall hotels in operations, hotel bookings, and hotel occupancies. However, we anticipate factors such as the newly issued travel advisory by the United Kingdom government through its Foreign and Commonwealth Office (FCO) to have a negative impact on international arrivals in 2023 considering the UK is among top five tourist markets for Kenya, and, the government's directive to indefinitely suspend hotel meetings, conferences and trainings to weigh down the optimum performance of the conferencing, food and accommodation sub-sectors.

V. **Mixed Use Developments (MUDs)**

In October 2022, we released the Nairobi Metropolitan Area (NMA) Mixed Use Developments (MUDs) Report 2022, which highlighted that MUDs recorded an average rental yield of 7.4%, 0.2% points higher than the 7.2% yield recorded in 2021. The relatively improved performance was mainly attributed to; i) strategic and prime locations of the developments attracting prospective clients, ii) increased infrastructural developments in the NMA hence improving accessibility to the developments, and, iii) continuous preference by target clientele owing to convenience, resulting in increased demand and returns on investment. The table below shows the performance of Mixed-Use development themes by node in 2022;

All Values in Kshs Unless Stated Otherwise

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%**	**5.2%**
Average	**185**	**76.4%**	**8.8%**	**101**	**76.2%**	**7.3%**	**159,301**	**1,030**	**16.5%**	**5.2%**	**7.4%**
***The average MUDs performance is based on areas where sampled projects exist**											

Source: Cytonn Research

Overall performance: 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.

For notable highlights during the year please see our Cytonn Q1’2022 Markets Review, Cytonn H1’2022 Markets Review, and Cytonn Q3’2022 Markets Review Reports. In Q4’2022;

i. Property developer Mi Vida Homes announced plans to begin the construction of two projects at Garden City in April 2022; the 2nd phase of their mid-market apartments dubbed Amaiya, and, affordable housing units dubbed 237 Garden City. For more information, see Cytonn Weekly #45/2022,

Our overall outlook for Mixed Use Developments is Neutral, backed by the attractive returns in comparison to single use projects and the rising demand for high quality, efficient and environmentally sustainable developments. Nevertheless, the surplus in the NMA commercial office market which currently stands at 6.7 mn SQFT, 3.0 mn SQFT in the NMA retail market and 1.7 mn SQFT oversupply in the overall Kenyan retail market is expected to have a negative impact on their performance. In terms of investment opportunities, Karen, Kilimani and Westlands are the most promising node, with average yields of 9.8%, 8.0% and 7.9% respectively, compared to the general market average yield of 7.4%.

VI. Land Sector

The NMA land sector continued to soar in FY’2022, with land asking prices per acre rising by 0.2% Year-on-Year (y/y) to Kshs 131.0 mn from Kshs 130.8 mn in FY’2021. The improvement in performance was ascribed to;

i. Better accessibility through improved infrastructure which has increased areas attractiveness to investors and developers thereby fueling demand for land,
ii. Increased demand for Real Estate facilitated by Kenya’s high population and urbanization growth rates, coupled with a rising middle income class population with disposable income,
iii. Limited supply of land especially in urban areas which has contributed to rising land prices,
iv. Government’s continued efforts in the construction of infrastructure, such as roads, trains, water, and sewer lines, which has improved and opened up areas for investment, ultimately increasing property prices, and,
v. The availability of amenities such as learning institutions, shopping malls and organizations among others, which increase desirability of areas, potentially increasing demand for land and

consequently drive up land prices.

Overall Performance – Un-serviced land in Nairobi's satellite towns recorded the highest y/y capital growth of 11.1%, with demand being fueled by: i) high land prices within Nairobi, which has caused investors to source for cheaper land in satellite towns, ii) enhanced accessibility to the areas owing to infrastructure boost through projects such as the Nairobi Expressway and expanded Eastern Bypass, that unlocked value for investors, iii) their affordability which entices both buyers and investors, and, iv) a high number of affordable housing development projects in the areas compared to other NMA regions, further increasing demand for land. The table below shows the overall performance of the sector across all regions in FY’2022:

Cytonn Report: Summary of the Performance Across All regions FY’2022

	FY’2021	FY'2022	Annualized Capital Appreciation
Un-serviced land-satellite Towns	13.5 mn	15.1 mn	**11.1%**
Serviced land-Satellite Towns	16.4 mn	17.8 mn	**8.0%**
Nairobi High End Suburbs- Low and High Rise Residential Areas	130.2 mn	137.4 mn	**6.0%**
Nairobi Middle End Suburbs- High Rise Residential Areas	83.0 mn	81.1 mn	**(2.0%)**
Nairobi Suburbs- Commercial Areas	410.8 mn	403.4 mn	**(1.3%)**
Average	**130.8 mn**	**131.0 mn**	**4.3%**

Source: Cytonn Research

Sub-markets Performance – For satellite towns , Syokimau and Juja were the best performing nodes with y/y capital appreciations of 19.2% and 16.6% respectively, owing to: i) improved infrastructure developments such as refurbishment of roads, ii) reduced commute time owing to infrastructural improvements which has benefitted homebuyers seeking to settle away from the city, and, iii) a high presence of higher learning institutions within Juja Sub-County, Zetech University Main Campus located in Weteithie being the latest entrant in September 2022, which have exacerbated the demand for land for development of student housing. For Nairobi suburbs, Kitisuru recorded the highest appreciation of 12.1% due to; i) good infrastructure supporting investments, ii) a large population of affluent residents with higher purchasing power and disposable incomes, iii) ample security, iv) serene environment, and, v) proximity to social amenities such as Two Rivers malls which have generally increased the area’s desirability driving land prices upwards. The table below shows NMA’s land performance by submarkets in FY’2022;

Price in Kshs per Acre

Cytonn Report: Nairobi Metropolitan Area Land Performance By Submarkets – FY’2022

Location	Price FY'2021	Price FY'2022	Capital Appreciation
Satellite Towns - Unserviced Land			
Juja	12.4 mn	14.4 mn	**16.6%**
Utawala	16.2 mn	18.6 mn	**14.8%**
Limuru	20.0 mn	22.7 mn	**13.4%**
Rongai	14.0 mn	15.0 mn	**7.1%**

Athi River	4.7 mn	4.9 mn	**3.4%**
Average	**13.5 mn**	**15.1 mn**	**11.1%**
Satellite Towns - Serviced Land			
Syokimau	16.3 mn	19.5 mn	**19.2%**
Ruiru & Juja	23.3 mn	26.3 mn	**13.0%**
Rongai	15.7 mn	16.2 mn	**3.3%**
Athi River	15.0 mn	15.5 mn	**3.2%**
Ruai	11.5 mn	11.7 mn	**1.4%**
Average	**16.4 mn**	**17.8 mn**	**8.0%**
Nairobi High End Suburbs (Low and High Rise Areas)			
Kitisuru	89.1 mn	99.9 mn	**12.1%**
Spring Valley	168.5 mn	179.7 mn	**6.6%**
Karen	60.9 mn	64.5 mn	**6.0%**
Ridgeways	83.3 mn	87.0 mn	**4.5%**
Kileleshwa	298.3 mn	309.5 mn	**3.8%**
Runda	81.4 mn	83.7 mn	**2.9%**
Average	**130.2 mn**	**137.4 mn**	**6.0%**
Nairobi Middle End Suburbs – High Rise Areas			
Embakasi	74.5 mn	78.8 mn	**5.5%**
Kasarani	75.5 mn	78.7 mn	**4.1%**
Dagoretti	99.1 mn	85.7 mn	**(15.7%)**
Average	**83.0 mn**	**81.1 mn**	**(2.0%)**
Nairobi Suburbs - Commercial Zones			
Riverside	319.3 mn	342.1 mn	**7.2%**
Upperhill	487.9 mn	479.4 mn	**(1.7%)**
Kilimani	397.8 mn	378.7 mn	**(4.8%)**
Westlands	438.2 mn	413.2 mn	**(5.7%)**
Average	**410.8 mn**	**403.4 mn**	**(1.3%)**

Source: Cytonn Research

We retain a positive performance for the land sector in the Nairobi Metropolitan Area which proves to be a reliable investment opportunity, having continued to show great resilience even during times of economic hardship in the COVID-19 period, and a depreciating Kenyan currency. We anticipate that the sector's performance will continue being driven by; i) a greater emphasis on Affordable Housing projects and private projects, ii) positive population demographics, iii) the government's attempts to streamline land transactions, and iv) rapid growth of satellite towns amid increased delivery of infrastructural developments which are improving accessibility, property prices and demand in the regions

VII. **Infrastructure**

The government of Kenya continued to make considerable efforts in advancing infrastructural developments across the country amid focus on achieving the Vision 2030 and Big Four Agenda with regards to providing efficient, sustainable, and, environmentally friendly projects. However, 2022 experienced a slight slowdown in the completion and commissioning of projects on the back of; i) the recently concluded election season, ii) change of guard, and, iii) consequential administrative restructuring of government Ministries, departments and Agencies (MDAs) involved in the projects by the new government administration after the August polls. For notable highlights during the year please see our Cytonn Q1'2022 Markets Review, Cytonn H1'2022 Markets Review, and Cytonn Q3'2022 Markets Review Reports. For Q4'2022;

i. African Infrastructure Investment Managers (AIIM), one of Africa's leading infrastructure private equity managers, committed Kshs 4.1 bn to Kenya's Road Annuity Programme for the development of road infrastructure in the country to be done through the AIIM's pan African AIIF4 Fund. For more information, please see our Cytonn Weekly #47/2022, and,
ii. The national government in partnership with the African Development Bank (AfDB), announced plans to construct a highway linking West Pokot and Turkana counties with South Sudan. The construction of the road whose distance, construction cost and period is yet to be disclosed, will be done by the Kenya National Highway Authority (KeNHA). For more information, please see our Cytonn Monthly – October 2022.

VIII. **Statutory Review**

In 2022, both the Kenyan national and county governments continued to implement various relevant laws and regulations in the Real Estate sector in order to level up transactions and build on the overall efficiency, compliance, and, transparency in the industry. For notable highlights during the year, please see our Cytonn Q1'2022 Markets Review, Cytonn H1'2022 Markets Review and Cytonn Q3'2022 Markets Review Reports. In Q4'2022;

i. Nairobi City Hall issued a notice on the increment of land rates to 0.115% of the current value of undeveloped land in Nairobi County based on the 2019 Draft Valuation roll, from 1st January 2023, in line with the Nairobi City Finance Act 2022. For more information, see Cytonn Weekly #47/2022,
ii. President William Ruto announced plans to exempt all first-time home buyers from paying stamp duty. This comes two years after the Stamp Duty Act was amended in 2020 to allow exemptions for first time home buyers of only approved affordable housing units by the government. For more information, see Cytonn Weekly #43/2022, and,
iii. The Retirement Benefits Authority (RBA) announced plans to have pension managers publish data on the number of Kenyans who use their retirement savings to purchase homes by January 2023, after having reviewed the Retirement and Benefits Act. For more information, see Cytonn Weekly #41/2022.

IX. **Real Estate Investment Trusts (REITs)**

During the week, the Capital Markets Authority (CMA) granted a No Objection to Acorn Investment Management Limited to roll-out its Vuka Investment Platform to the mass market after successful completion of testing on the regulatory sandbox that started in August 2021.

Vuka allows retail investors to own units of the Acorn Student Accommodation Income REIT (Acorn I-REIT) which operates under the brand names of Qwetu and Qejani. Under the platform, qualified retail investors purchase and sell asset-backed units through CMA-qualified custodial accounts, which entitle them to dividends and capital appreciation of the underlying income generating portfolio. Qualified retail investors include Investment Clubs (Chamas), Saccos or individuals with earnings equivalent Ksh 50,000 per month seeking long-term investments of not less than one year.

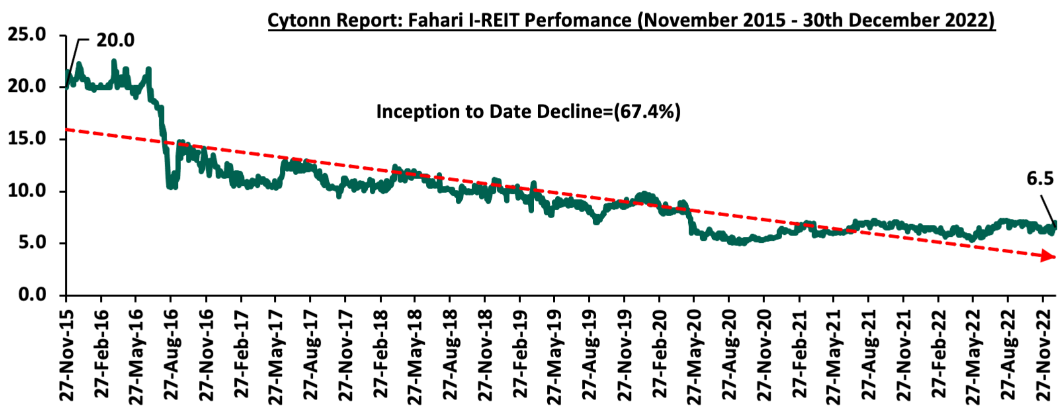
Vuka currently has 2,100 retail investors and Kshs 62.0 mn worth of assets under management. The Platform is expected to boost the performance of the Kenyan REITs market by;

i. Mobilizing investor participation in the REITs market,
ii. Increasing liquidity to investors willing to participate in the Real Estate market which is illiquid in nature, and,
iii. Enhancing financial literacy regarding trading of units amongst investors akin to the larger capital markets.

Acorn Investment Management Limited is a wholly-owned subsidiary of Acorn Holdings Limited, which serves as the REIT Manager for Acorn Student Accommodation Development REIT (Acorn D-REIT) and the Acorn Student Accommodation Income REIT (Acorn I-REIT) which are both traded on the Unquoted Securities Platform (USP) of the Nairobi Securities Exchange (NSE).

We expect the deployment of the Vuka Investment Platform into the Kenyan REITs market to open up the opportunity for more investors to tap into REITs market the asset-backed units, thereby providing liquidity for investors. However, the high minimum capital requirements for Trustees, long approval process, and few entities capable of incorporating REITs to continue subduing the optimal performance of the sector.

In the Nairobi Securities Exchange, ILAM Fahari I-REIT closed the week trading at an average price of Kshs 6.5 per share. The performance represented a 1.8% decline from Kshs 6.6 per share recorded the previous week, taking it to a 1.6% Year-to-Date (YTD) gain from Kshs 6.4 per share. However, the performance represented a 67.4% Inception-to-Date (ITD) loss from the Kshs 20.0 price. The dividend yield currently stands at 7.7%. The graph below shows Fahari I-REIT's performance from November 2015 to 30th December 2022;



In the Unquoted Securities Platform, Acorn D-REIT and I-REIT traded at Kshs 23.8 and Kshs 20.9 per unit, respectively, as at 16th December 2022. The performance represented a 19.2% and 4.4% gain for the D-REIT and I-REIT, respectively, from the Kshs 20.0 inception price. The volumes traded for the D-REIT and I-REIT came in at 5.5 mn and 15.5 mn shares, respectively, with a turnover of Kshs 117.0 mn and Kshs 320.7 mn, respectively, since inception in February 2021.

We maintain an overall NEUTRAL outlook for Kenya's property market whose performance is expected to be underpinned by; i) continued growth in demand for developments due to Kenya's positive demographic profile, ii) rehabilitation of existing housing assets, iii) aggressive expansion efforts by both local and international retailers, iv) growing investor confidence on the hospitality sector as a result of continuous recovery, v) efforts by the KMRC to provide home loans to buyers, and, vi) initiation and implementation of infrastructure projects. However, the increase in capital gains tax on property sales commencing in 2023, prevailing oversupply of physical space in the commercial office and retail sectors, slow delivery of affordable housing projects, rising cost of construction materials, and, the low investor appetite for REITs is expected to hinder the optimum

performance of the sector.

Liason House, StateHouse Avenue
The Chancery, Valley Road
www.cytonn.com