Cytonn H1’2023 Markets Review

Real Estate

In H1’2023, the Real Estate sector in Kenya witnessed increased activity in terms of developments and property transactions, in comparison to the similar period in 2022, attributable to continued investments flowing into the sector. In light of this, the year-on-year (y/y) gross loans advanced to the Real Estate sector increased by 4.6% to Kshs 481.0 bn in Q1’2023, from Kshs 460.0 bn in Q1’2022, attributable to increased construction activities in the sector according to the Central Bank of Kenya (CBK). This was supported by various factors such as;

i. There has been continued focus by both the government and the private sector to provide decent housing to Kenyans through the Affordable Housing Program (AHP). Currently, the AHP pipeline boasts about 15 housing projects by the government and 10 projects by the private sector, with an estimated total of 98,012 affordable housing units under construction,
ii. Implementation of various infrastructure projects, such as the Kenol-Marua Highway, which are aimed at improving the country's economic status. These have opened up new areas for investment, thereby boosting the performance of the Real Estate sector,
iii. The government has continued to make efforts to provide affordable mortgages through the Kenya Mortgage Refinance Company (KMRC) aimed at making home ownership more accessible to Kenyans. This is through offering sustainable financing to primary mortgage lenders (PMLs) such as banks and SACCOS,
iv. The retail sector has continued to grow, with local and international retailers such as Naivas, QuickMart and Carrefour pursuing aggressive expansion strategies in a bid to increase their dominance in the market, replacing distressed retailers such as Nakumatt, Tuskys, and Uchumi,
v. The hospitality sector has seen resumed investor confidence with the reopening of hotels, mergers and acquisitions, as the number of international arrivals into the country registered a 70.5% increase to 1,483,752 persons in 2022 compared to 870,465 persons in 2021, and,
vi. Kenya enjoys positive national demographics, with relatively high urbanization and population growth rates of 3.7% p.a and 1.9% p.a, respectively, against the global average of 1.6% p.a and 0.9% p.a, respectively, as at 2021, that continue to drive demand for Real Estate developments.

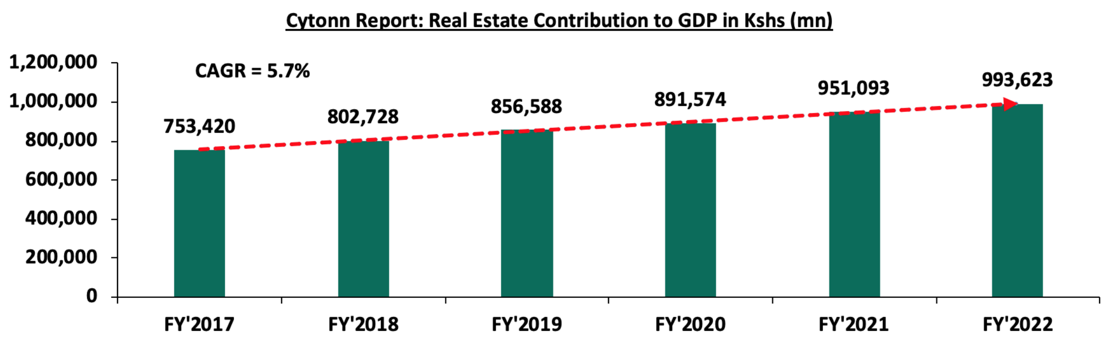
However, some of the challenges impeding the performance of the sector include;

i. Lenders have tightened their lending requirements as they demand more collateral from developers due to the high credit risk in the Real Estate sector on the back of the tough economic environment. This is evidenced by 12.2% increase in Gross Non-Performing Loans (NPLs) in the Real Estate sector to Kshs 88.1 bn in Q1’2023, from Kshs 78.5 bn in Q1’2022. In addition, on a q/q basis, the increase in NPLs represented a 9.7% increase from Kshs 80.3 bn realized in Q4’2022,
ii. Construction costs have been increased steadily, averaging Kshs 41,600 per square metre in 2023, a 20.1% increase from Kshs 34,650 per square metre in 2022. The rise is primarily due to the hike in prices of key construction materials such as cement, steel, paint, aluminum, and PVC on the back of inflation. These higher costs are expected to impede development activities in the sector,
iii. Existing oversupply of physical space in select sectors, with approximately 5.8 mn SQFT in the

NMA commercial office market, approximately 3.0 mn SQFT in the NMA retail market, with the rest of the Kenyan retail market having an oversupply of approximately 1.7 mn SQFT, leading to prolonged vacancy rates in the respective Real Estate sectoral themes, and,

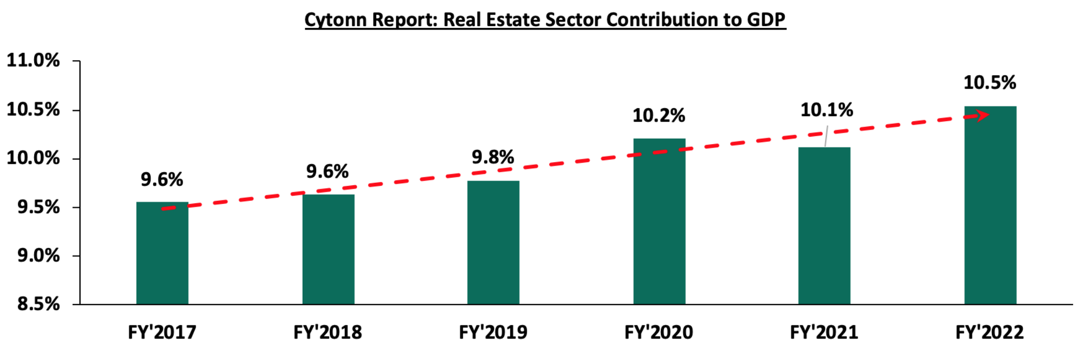
iv. The REITs market in Kenya continues to be subdued owing to various challenges such as the large capital requirements of Kshs 100.0 mn for trustees which limits the role to banks, prolonged approval process for REITs, only a few entities capable of incorporating REITs, and high minimum investment amounts set at Kshs 5.0 mn which discourage investments and lack of knowledge of the financial asset class by investors.

Despite these limitations, the Kenyan Real Estate sector has continued to witness increased activities over the years. According to the Economic Survey 2023 by the Kenya National Bureau of Statistics (KNBS), the sector's contribution to the country's real GDP recorded a 5-year CAGR of 5.7% to Kshs 993.6 mn in 2022 from Kshs 753.4 mn in 2017. The chart below shows the Real Estate sector's contribution to GDP from 2017 to 2022;



Source: Kenya National Bureau of Statistics (KNBS)

Additionally, the sector contributed 10.5% to the total GDP in FY'2022, coming in as the second largest contributor to Kenya's GDP, only behind the Agricultural sector that contributed 17.0%. The graph below shows the trend of Real Estate contribution to GDP between FY'2017 and FY'2022;



Sectoral Market Performance:

I. **Residential Sector**

During H1'2023, the NMA residential sector recorded an improvement in performance with average y/y total returns to investors coming in at 6.0%, a 0.2%-points increase from 5.8% recorded in H1'2022. The performance was attributed to an improvement in the residential average y/y rental yield which came in at 5.0% in H1'2023, 0.1% points higher compared to the 4.9% rental yield recorded in H1'2022. However, on q/q basis the market softened, registering a 0.1% points decline from the 6.1% average total returns recorded in Q1'2023. In addition, the price appreciation came in at 1.0% in H1'2023, a 0.1%-points increase from 0.9% price appreciation recorded in H1'2022. The table below shows the NMA residential sector's performance during H1'2022 and H1'2023;

All values in Kshs unless stated otherwise

Cytonn Report: Nairobi Metropolitan Area (NMA) Residential Sector Summary - H1'2023/H1'2022

Segment	Average of Price per SQM H1'2023	Average of Rent per SQM H1'2023	Average of Rental Yield H1'2023	Average of Price Appreciation H1'2023	Average of Total Returns H1'2023	Average of Rental Yield H1'2022	Average of Price Appreciation H1'2022	Average of Total Returns H1'2022	y/y Δ in Rental Yield	y/y Δ in Price Appreciation	y/y Δ in Total Returns
Detached Units											
High End	186,222	731	4.6%	1.2%	5.8%	4.0%	1.5%	5.5%	0.6%	(0.3%)	0.3%
Upper Middle	140,794	596	4.5%	1.1%	5.6%	4.5%	0.9%	5.4%	0.0%	0.2%	0.2%
Lower Middle	72,213	310	4.7%	1.2%	5.9%	5.0%	0.8%	5.8%	(0.3%)	(0.4%)	0.1%
Detached Units Average	**133,077**	**546**	**4.6%**	**1.2%**	**5.8%**	**4.5%**	**1.1%**	**5.6%**	**0.1%**	**0.1%**	**0.2%**
Apartments											
Upper Mid-End	119,362	637	5.2%	0.3%	5.5%	5.3%	0.3%	5.6%	(0.1%)	0.0%	(0.1%)
Lower Mid-End Suburbs	90,844	517	5.7%	0.7%	6.4%	5.4%	0.3%	5.7%	0.3%	0.4%	0.7%
Lower Mid-End Satellite Towns	76,582	407	5.5%	1.4%	6.9%	5.3%	1.4%	6.7%	0.2%	0.1%	0.2%
Apartments Average	**95,596**	**520**	**5.5%**	**0.8%**	**6.3%**	**5.4%**	**0.7%**	**6.0%**	**0.1%**	**0.1%**	**0.3%**
Residential Market Average	**114,336**	**533**	**5.0%**	**1.0%**	**6.0%**	**4.9%**	**0.9%**	**5.8%**	**0.1%**	**0.2%**	**0.2%**

Source: Cytonn Research

A. Detached Units Performance

The table below shows the NMA residential sector detached units' performance during H1'2023;

All values in Kshs unless stated otherwise

Cytonn Report: Residential Sector Detached Units Summary H1'2023

Area	Average of Price per SQM H1'2023	Average of Rent per SQM H1'2023	Average of Occupancy H1'2023	Average of Uptake H1'2023	Average of Annual Uptake H1'2023	Average of Rental Yield H1'2023	Average of Price Appreciation H1'2023	Total Returns
				High End				
Rosslyn	187,976	907	90.5%	98.2%	12.0%	5.3%	1.6%	**6.9%**
Karen	177,390	675	83.4%	91.6%	9.9%	4.8%	1.4%	**6.2%**
Kitisuru	216,800	810	94.6%	94.9%	11.6%	4.6%	1.1%	**5.7%**
Runda	183,111	690	95.3%	97.0%	7.6%	4.6%	0.9%	**5.5%**
Lower Kabete	165,834	575	96.0%	90.8%	11.0%	4.0%	0.9%	**4.9%**
Average	**186,222**	**731**	**92.0%**	**94.5%**	**10.4%**	**4.6%**	**1.2%**	**5.8%**
Upper Middle								
Redhill & Sigona	92,918	449	88.3%	97.2%	12.2%	4.9%	1.6%	**6.5%**
Ridgeways	170,601	697	85.7%	88.5%	8.5%	4.4%	1.8%	**6.2%**
Loresho	169,182	793	80.5%	82.5%	11.7%	4.8%	1.2%	**6.0%**
Runda Mumwe	141,228	672	91.2%	92.5%	10.2%	5.1%	0.6%	**5.7%**
South B/C	103,761	440	88.1%	86.4%	9.5%	4.1%	1.4%	**5.5%**
Lavington	187,314	683	87.2%	91.6%	11.1%	4.0%	0.6%	**4.6%**
Langata	120,556	441	88.5%	90.5%	9.7%	4.0%	0.4%	**4.4%**
Average	**140,794**	**596**	**87.1%**	**89.9%**	**10.4%**	**4.5%**	**1.1%**	**5.6%**
Lower Middle								

Cytonn Report: Residential Sector Detached Units Summary H1'2023

Area	Average of Price per SQM H1'2023	Average of Rent per SQM H1'2023	Average of Occupancy H1'2023	Average of Uptake H1'2023	Average of Annual Uptake H1'2023	Average of Rental Yield H1'2023	Average of Price Appreciation H1'2023	Total Returns
Ruiru	69,305	348	87.4%	83.7%	14.7%	5.6%	1.8%	**7.4%**
Ngong	53,239	317	94.0%	97.7%	14.4%	5.9%	0.8%	**6.7%**
Juja	72,843	300	86.9%	85.2%	15.3%	5.6%	1.0%	**6.6%**
Kitengela	64,345	306	86.0%	86.2%	11.8%	5.0%	1.3%	**6.3%**
Syokimau/Mlolongo	74,311	320	88.8%	90.8%	15.0%	4.4%	1.4%	**5.8%**
Athi River	86,844	341	86.8%	95.0%	10.7%	4.2%	1.5%	**5.7%**
Thika	63,309	223	83.3%	86.9%	11.6%	4.0%	1.2%	**5.2%**
Rongai	81,348	253	96.0%	97.5%	14.3%	3.8%	0.9%	**4.7%**
Donholm/Komarock	84,376	380	85.6%	95.6%	9.8%	3.5%	1.0%	**4.5%**
Average	**72,213**	**310**	**88.3%**	**91.0%**	**13.1%**	**4.7%**	**1.2%**	**5.9%**
Detached Average	**133,077**	**546**	**89.1%**	**91.8%**	**11.3%**	**4.6%**	**1.2%**	**5.8%**

Source: Cytonn Research

The key take-outs from the table include;

i. **Average Total Returns** – The average y/y total returns to investors came in at 5.8%, a 0.2%-points increase from the 5.6% recorded in H1'2022, driven by an increase in both rental yield and price appreciation by 0.1% points each to 4.6% and 1.2% respectively, from the 4.5% and 1.1%, respectively, recorded in H1'2022. The improved performance was attributable to a 1.7% increase in the average rents per SQM to Kshs 546 in H1'2023, from Kshs 537 recorded in H1'2022,

ii. **Segment Performance** – The best performing segment was the lower-middle segment offering an average total return of 5.9%, attributable to relatively high rental yields of 4.7%, 0.1%-points higher than the detached market average rental yield of 4.6%. The impressive performance of the segment is driven by returns from well-performing nodes such as Ruiru, Ngong, and Juja that have continued to offer relatively high returns to investors, and,

iii. **Nodal Performance** – Overall, Ruiru was the best performing node, offering the highest returns at 7.4% driven by the relatively high rental yield of 5.6% and price y/y price appreciation of 1.8%. Ruiru has continued to attract residential investments due to its convenient accessibility from the Nairobi CBD through key infrastructure developments such as the Eastern Bypass and Thika Superhighway. Rosslyn followed with an average total return of 6.9%, while the worst performing node was Langata which recorded an average total return of 4.5%, 1.3% points lower than the detached market average of 5.8%.

B. **Apartments Performance**

The table below shows the NMA residential sector apartments' performance during H1'2023;

All values in Kshs unless stated otherwise

Cytonn Report: Residential Sector Apartments Summary H1'2023

Area	Average of Price per SQM H1'2023	Average of Rent per SQM H1'2023	Average of Occupancy H1'2023	Average of Uptake H1'2023	Average of Annual Uptake H1'2023	Average of Rental Yield H1'2023	Average of Price Appreciation H1'2023	Total Returns
Upper Mid-End								
Westlands	123,355	768	83.1%	87.3%	15.3%	6.1%	0.3%	**6.4%**

Cytonn Report: Residential Sector Apartments Summary H1'2023

Area	Average of Price per SQM H1'2023	Average of Rent per SQM H1'2023	Average of Occupancy H1'2023	Average of Uptake H1'2023	Average of Annual Uptake H1'2023	Average of Rental Yield H1'2023	Average of Price Appreciation H1'2023	Total Returns
Kileleshwa	116,455	618	88.0%	91.2%	12.2%	5.6%	0.4%	**6.0%**
Kilimani	105,850	573	86.0%	89.9%	17.5%	5.7%	0.2%	**5.9%**
Parklands	112,174	587	86.7%	90.8%	11.8%	5.7%	0.1%	**5.8%**
Loresho	123,336	543	88.0%	97.2%	9.4%	4.7%	1.0%	**5.7%**
Upperhill	135,001	733	83.6%	88.1%	11.6%	5.7%	(0.1%)	**5.6%**
Average	**119,362**	**637**	**85.9%**	**90.7%**	**13.0%**	**5.2%**	**0.3%**	**5.5%**
Lower Mid-End Suburbs								
South C	112,472	733	80.4%	87.8%	15.2%	6.3%	1.1%	**7.4%**
Kahawa West	72,741	369	89.0%	86.2%	8.1%	6.4%	0.5%	**6.9%**
Waiyaki Way	79,051	480	83.8%	87.3%	15.1%	6.2%	0.6%	**6.8%**
Imara Daima	67,938	353	86.2%	86.6%	8.9%	5.5%	1.2%	**6.7%**
Langata	107,317	567	84.2%	86.6%	11.2%	5.3%	1.3%	**6.6%**
RaceCourse/Lenana	100,398	624	84.0%	91.1%	15.8%	6.4%	0.0%	**6.4%**
Donholm/Komarock	76,696	465	92.6%	91.4%	10.1%	5.2%	1.1%	**6.3%**
South B	111,301	528	88.7%	95.4%	14.1%	5.1%	0.6%	**5.7%**
Dagoretti	89,679	535	88.3%	81.2%	11.1%	5.2%	0.3%	**5.5%**
Average	**90,844**	**517**	**86.4%**	**88.2%**	**12.2%**	**5.7%**	**0.7%**	**6.4%**
Lower Mid-End Satellite Towns								
Ngong	73,648	452	86.5%	85.7%	10.6%	5.5%	1.9%	**7.4%**
Ruiru	89,416	492	87.0%	83.6%	14.1%	5.8%	1.5%	**7.3%**
Ruaka	108,765	600	77.1%	83.8%	16.5%	5.1%	2.1%	**7.2%**
Kikuyu	81,348	443	86.9%	92.0%	16.1%	5.8%	1.3%	**7.1%**
Thindigua	100,195	444	87.0%	83.4%	14.8%	4.7%	2.3%	**7.0%**
Syokimau	67,048	338	86.3%	90.8%	12.7%	5.3%	1.3%	**6.6%**
Athi River	57,677	302	88.9%	95.1%	13.4%	5.6%	0.8%	**6.4%**
Kitengela	57,108	293	85.5%	87.5%	8.3%	5.4%	0.9%	**6.3%**
Rongai	54,036	295	86.8%	80.4%	16.1%	5.7%	0.5%	**6.2%**
Average	**76,582**	**407**	**85.8%**	**86.9%**	**13.6%**	**5.5%**	**1.4%**	**6.9%**
Apartment Average	**95,596**	**520**	**86.0%**	**88.6%**	**12.9%**	**5.6%**	**0.8%**	**6.3%**

Source: Cytonn Research

The key take-outs from the table include;

i. **Average Total Returns** – The average y/y total returns came in at 6.3%, a 0.3%-points increase from the 6.0% recorded in H1'2022. The improved performance was driven by a 0.1% points increase in price appreciation to 0.8% in H1'2023, from the 0.7% recorded in H1'2022. In addition, the average rental yield increased by 0.2% points to 5.6%, from 5.4% recorded in H1'2022, majorly attributable to a 2.0%-points increase in average occupancy rates to 86.0%, from the 84.0% recorded in H1'2022,

ii. **Segment Performance** – The best performing segment was the lower mid-end satellite towns with average total return of 6.9%, attributed to an average rental yield of 5.5% and relatively high price appreciation of 1.4%. The impressive performance of the segment was driven by returns from well-performing nodes such as Ngong, Ruiru, and Ruaka that have continued to offer competitive returns to investors in comparison to other segments, and

iii. **Nodal Performance** – Overall, the best performing nodes were Ngong and South C, tied in with average rental yields of 7.4%, 1.1%-points higher than the apartment market average total returns of 6.3%. Ngong has seen increased investments with increased residents owing to increased accessibility to the CBD with the completion of the Ngong-Lang'ata Link road. The worst performing node was Dagoretti, which recorded an average total return of 5.5%, 0.8%-points lower than the detached market average of 6.3%.

For notable highlights during H1'2023, please see our Cytonn Q1'2023 Markets Review, and Cytonn Monthly - May 2023 reports. For the month of June;

i. Housing Finance Company (HFC), the banking subsidiary of HF Group, announced a partnership deal with Kigutha Farmers Limited, to develop a Kshs 1.4 bn gated community housing project dubbed 'Barista Gardens' located in Kamiti Corner, Kiambu County. The Joint-Venture (JV) deal will see the farmers holding provide a 58-acre piece of land, which will consist of serviced plots for buyers to develop 180 housing units within the gated community. For more information, see Cytonn Weekly #24/2023.

We have a NEUTRAL outlook for the NMA residential sector, as we as we expect the supply and demand of housing to grow, supported by several factors such as; i) infrastructural development leading to more development activities, ii) provision of affordable housing by the government and private sector, iii) focus on mortgage financing through the KMRC, and, iv) Kenya's positive demographics in terms of urbanization and population growth rates compared to global rates. However, various setbacks such as the continued increase in construction costs on the back of the high inflation, low penetration rate of mortgage financing to buyers, and constrained financing to developers with underdeveloped capital markets are expected to remain weighing down the optimum performance of the sector.

II. **Commercial Office Sector**

The table below highlights the performance of the Nairobi Metropolitan Area (NMA) Commercial Office sector from H1'2022 to H1'2023;

Cytonn Report: Nairobi Metropolitan Area (NMA) Commercial Office Returns Over Time H1'2022 – H1'2023

Year	H1'2022	Q3'2022	FY'2022	Q1'2023	H1'2023	Δ H1'2022/H1'2023
Occupancy (%)	77.9%	78.2%	79.4%	79.8%	80.8%	2.9% points
Asking Rents (Kshs/SQFT)	95	96	96	97	98	3.2%
Average Prices (Kshs/SQFT)	12,142	12,221	12,223	12,238	12,238	0.8%
Average Rental Yields (%)	7.4%	7.4%	7.6%	7.6%	7.8%	0.4% points

The key take-outs from the table include;

i. **Average Asking Rents** – In H1'2023, average asking rents per SQFT in the NMA increased by 3.2% to Kshs 98 from Kshs 95 per SQFT recorded in H1'2022. On a q/q basis, the performance registered a 1.0% increase to Kshs 98, from Kshs 97 per SQFT recorded in Q1'2023. The improvement in performance was occasioned by a surge in supply of Grade A offices commanding higher rents such as The Piano, The Cube, The Rock, Principal Place, TDB Towers among others,

ii. **Average Occupancy Rates** – The overall occupancy rates in H1'2023 increased by 2.9% points to 80.8%, from 77.9% realized in H1'2022 attributed to; i) the absence of major developments entering the market during the review period, which allowed for absorption rates to stabilize thus boosting occupancy rates, ii) gradual resurgence in the demand for physical office space as more companies resumed in-person work policies post COVID-19, and, iii) growing popularity in co-working spaces which continue to bolster occupancies. On a q/q basis, occupancy rates in the

NMA increased by 1.0% points to 80.8% recorded in H1’2023, from 79.8% realized in Q1’2023, and,

iii. **Average Rental Yields** – The average rental yields improved by 0.4% points increase to 7.8% in H1’2023 from 7.4% recorded in H1’2022, due to improved asking rents and occupancy rates. On a q/q basis, average rental yields in the NMA increased by 0.2% points to 7.8% in H1’2023, from 7.6% recorded in Q1’2023;

For the submarket performance, Karen, Gigiri and Wetlands were the best performing nodes realizing average rental yields of 8.8%, 8.7% and 8.6% respectively in H1’2023, compared to the market average of 7.8%. Their performance was on the back of; i) high concentration of Grade A office spaces attracting prime rents thus resulting in attractive yields for investors, ii) low supply of commercial office spaces within the markets thus creating demand, coupled with the presence of international organizations, multinational companies and embassies in the areas further enhancing demand, iii) relatively good infrastructure and amenities providing ease of accessibility and convenience, which has made them popular choices for businesses, and, iv) serene environment offered by these locations, situated away from the bustling city center which provides excellent office settings that are highly valued by businesses. Conversely, Mombasa Road was the least performing node with an average rental yield of 5.2%, 2.6% points lower than the market average of 7.8%. This was attributed to; i) the presence of lower quality offices fetching lower average rents at Kshs 71 per SQFT, ii) its recognition as an industrial zone, making it less appealing to office-centric businesses, and, iii) stiff competition from other sub-markets in the NMA that offer superior quality office spaces. The table below shows the Nairobi Metropolitan Area (NMA) sub-market performance;

All values in Kshs unless stated otherwise

Cytonn Report: NMA Commercial Office Submarket Performance H1'2023

Area	Price /SQFT H1'2023	Rent/SQFT H1'2023	Occupancy H1'2023	Rental Yields H1'2023	Price/SQFT H1'2022	Rent/SQFT H1'2022	Occupancy H1'2022	Rental Yields H1'2022	Δ in Rental Rates	Δ in Occupancy (% points)	Δ in Rental Yields (% points)
Karen	13,431	117	83.5%	8.8%	12,385	107	83.0%	7.9%	9.7%	0.5%	0.8%
Gigiri	13,500	118	81.8%	8.7%	13,500	118	81.0%	8.6%	0.0%	0.8%	0.1%
Westlands	12032	110	78.2%	8.6%	11,853	105	74.6%	8.1%	4.4%	3.7%	0.4%
Parklands	11,662	93	83.6%	8.1%	11,662	90	82.8%	7.6%	4.4%	0.8%	0.5%
Kilimani	12,260	93	84.6%	8.0%	12,385	92	80.2%	7.3%	1.4%	4.4%	0.7%
Nairobi CBD	11,971	87	85.0%	7.6%	11,812	82	83.9%	6.9%	6.8%	1.2%	0.7%
Upperhill	12,605	97	78.8%	7.3%	12,409	94	76.2%	6.9%	3.2%	2.5%	0.4%
Thika Road	12,571	79	80.1%	6.0%	12,571	78	77.6%	5.7%	1.4%	2.6%	0.3%
Mombasa Road	11,325	71	67.9%	5.2%	11,225	73	65.0%	5.1%	-2.8%	2.9%	0.1%
Average	**12,238**	**98**	**80.8%**	**7.8%**	**12,142**	**95**	**77.9%**	**7.4%**	**3.3%**	**2.9%**	**0.5%**

Source: Cytonn Research

Notable highlights in H1’2023 include (please see our Q1’2023 Markets Review report);

i. Actis Limited, a global private equity firm, announced that it had shut down two offices located in Nairobi, Kenya and Cape Town, South Africa. However, Actis has maintained that the closure of these branches does not imply an exit from the respective markets. For more information, please see our Cytonn Weekly #21/2023, and,

ii. The United Nations (UN) announced plans to relocate the United Nations Office for Project Services (UNOPS) Africa regional office to Nairobi, Kenya. Previously, the UNOPS Africa regional headquarters had its base in Denmark, while maintaining country offices in Liberia, Tunisia, Sudan, South Sudan, Kenya, the Democratic Republic of Congo (DRC), Nigeria, Ethiopia, Cote d'Ivoire, and Tunisia. For more information please see Cytonn Weekly #18/2023.

We have a NEUTRAL outlook for the NMA commercial office sector whose performance is supported by gaining traction in co-working spaces, and, reduced developments in the pipeline which we expect will help curb the oversupply challenge. However, the existing oversupply of office spaces at 5.8 mn SQFT in the NMA is expected to weigh down optimum performance of the sector by stifling the overall demand for physical space. Investment opportunity lies in Karen, Gigiri and Westlands which offer relatively high returns compared to the market average.

III. **Retail Sector**

The table below shows the performance of the retail sector performance in Nairobi Metropolitan Area from Q1'2022 to H1'2023;

Cytonn Report: Nairobi Metropolitan Area (NMA) Retail Performance Q1'2022 – H1'2023

Year	Q1'2022	H1'2022	Q3'2022	FY'2022	Q1'2023	H1'2023	H1'2023/ H1'2022 Δ
Average Asking Rents (Kshs/SQFT)	170	**173**	171	174	176	**177**	**2.1%**
Average Occupancy (%)	77.2%	**75.9%**	76.1%	77.6%	78.0%	**79.2%**	**3.3% points**
Average Rental Yields	7.9%	**7.8%**	7.6%	7.9%	8.0%	**8.2%**	**0.4% points**

The key take-outs from the table include;

i. **Average Occupancy Rate** – The average occupancy rates came in at 79.2%, a 3.3% points increase from 75.9% recorded in H1'2022. The positive growth is attributed to; i) continuous expansion by local and foreign retailers such as Naivas, Carrefour, Quickmart, Optica Limited, Kentucky Fried Chicken (KFC), Cleanshelf, and, Simbisa Kenya that owns Chicken and Pizza Inn over the period, ii) an improved business environment following the continuous gradual recovery of the economy in the post COVID-19 era and post-electioneering season , iii) positive demographics which continues to sustain demand for consumable goods and services hence triggering expansion by several existing retailers, and, iv), continuous improvement of infrastructure developments enhancing accessibility to retail centres and opening up other regions in NMA for newer opportunities. On a q/q basis, average occupancy rate in the NMA increased by 1.2% points to 79.2% in H1'2023, from 79.2% recorded in Q1'2023,

ii. **Asking Rents** – The average asking rents per SQFT increased by 2.1% to Kshs 177 in H1'2023 from Kshs 173 recorded in H1'2022, driven by an increased presence of quality retail spaces which continue to fetch higher rents in several nodes of NMA such as Karen, Kilimani, Westlands, and, along Kiambu and Limuru roads. The presence of foreign businesses in the retail spaces within the aforementioned areas continue to become attractive due to their proximity to multinational organizations and embassies aimed at serving the consumer needs and interests of foreign clients working in those entities. As a result, property owners of these retail spaces have allowed rental transactions to be quoted in dollars. This practice has contributed to the increase in rental rates, especially considering the ongoing depreciation of the Kenyan currency against the dollar. The combination of foreign business attraction and the quoting of rents in dollars has led to a notable increase in rental prices in these areas. On a q/q basis, average asking rents in the NMA increased by 0.8% to Kshs 177 in H1'2023, from Kshs 176 recorded in Q1'2023, and,

iii. **Average Rental Yield** – The average rental yield for the NMA retail sector improved by 0.4% points to 8.2% in H1'2023, from 7.8% in H1'2022 attributed to improved asking rents and occupancy rates. On a q/q basis, average rental yields in the NMA increased by 0.2% points to 8.2% in H1'2023, from 8.0% recorded in Q1'2023

Regarding sub-market performance, Kilimani, Karen, and Westlands stood out as the best performing nodes with average rental yields of 10.1%, 9.7%, and 9.1% respectively, surpassing other nodes. The exceptional performance of was attributed to the availability of high-quality retail spaces that command high rents, as well as the presence of quality infrastructure services in those areas. Conversely, Eastlands continued to register the least average rental yield of 6.0% due to; i) lower rents of Kshs 128 per SQFT, as compared to the market average of Kshs 177 per SQFT, ii) poor quality infrastructure which is unsustainable for the retail spaces and hindering sufficient accessibility, iii) heavy presence of informal retail spaces that quickly adapt to market trends and service stations with value added amenities offering opportunities for better quality retail spaces, one-stop-shop approach, convenience and cheaper rates for price sensitive clients increasingly cause stiffer competition, and, iv) relatively lower demand shown by a low occupancy rate of 75.6%, compared to the market average of 79.2%. Additionally, prime retail spaces in the satellite towns have exhibited the highest occupancy rate and rental yield attributed to population growth in the regions prompting retailers to extend their services beyond the city centre and tap opportunities in satellite towns. This shift of focus aims to bring convenience to residents in the nearest and most accessible way. This is also at the back of reduced rents by the retail space owners to attract more clients in the region amid increased demand for consumer goods, services and entertainment facilities. The table below shows the submarket performance of nodes in the Nairobi Metropolitan Area (NMA) H1’2023;

(All values in Kshs unless stated otherwise)

Cytonn Report: Nairobi Metropolitan Area Retail Market Performance H1’2023

Area	Rent /SQFT H1’2023	Occupancy% H1’2023	Rental Yield H1’2023	Rent/SQFT H1’2022	Occupancy% H1’2022	Rental Yield H1’2022	Δ in Rental Rates	Δ in Occupancy (% points)	Δ in Rental Yield (% points)
Kilimani	190	84.7%	**10.1%**	182	85.0%	**9.7%**	**4.6%**	**(0.3%)**	**0.4%**
Karen	217	82.4%	**9.7%**	205	78.6%	**8.9%**	**5.6%**	**3.8%**	**0.8%**
Westlands	216	77.6%	**9.1%**	215	72.9%	**9.0%**	**0.5%**	**4.7%**	**0.1%**
Kiambu road & Limuru Road	202	74.0%	**8.7%**	187	73.3%	**8.1%**	**8.0%**	**0.7%**	**0.6%**
Ngong Road	170	81.0%	**7.8%**	169	78.0%	**7.5%**	**0.4%**	**3.0%**	**0.3%**
Mombasa road	165	80.7%	**7.5%**	165	74.8%	**7.3%**	**0.0%**	**5.9%**	**0.2%**
Thika Road	156	79.9%	**7.5%**	150	78.5%	**7.3%**	**3.8%**	**1.4%**	**0.2%**
Satellite towns	138	78.8%	**6.8%**	138	70.7%	**6.0%**	**(0.2%)**	**8.1%**	**0.8%**
Eastlands	128	75.6%	**6.0%**	133	74.2%	**5.9%**	**(3.8%)**	**1.4%**	**0.1%**
Average	**177**	**79.2%**	**8.2%**	**173**	**75.9%**	**7.8%**	**2.1%**	**3.3%**	**0.4%**

Source: Cytonn Research

For notable highlights during the H1’2023, please see our Cytonn Q1’2023 Markets Review, Cytonn Monthly- April 2023, and Cytonn Monthly- May 2023 reports.

We have a NEUTRAL outlook on the performance of retail sector as we anticipate that the sector will be influenced by various factors. On the positive side, growth and expansion efforts by both local and international retailers, increased infrastructure development enhancing accessibility in satellite towns, and positive demographics supporting demand for space, goods, and services in NMA in other parts of NMA and satellite towns expanding to its environs are expected to drive performance. On the negative side, the continuous

oversupply of retail space in the NMA and Kenyan retail sectors (excluding NMA) at approximately 3.0 mn and 1.7 mn SQFT respectively, and the ongoing closure of retail spaces by exiting retailers will hinder the optimum performance of the sector. Additionally, the rapid growth of e-commerce in the retail landscape with an expected Compound Annual Growth Rate (CAGR 2023-2027) of 6.7% driven by change in consumer behaviours and preferences could intensively limit the optimal utilization of physical retail spaces.

IV. **Hospitality Sector**

In H1’2023, two hospitality sector related industry reports were released and the key-take outs were as follows;

Cytonn Report: Released Industry Report related to Hospitality Sector H1’2023

#	**Report**	**Key Take-outs**
1	The Leading Economic Indicators (LEI) March 2023 Report, by Kenya National Bureau of Statistics (KNBS)	· Overall international arrivals through Jomo Kenyatta International Airport (JKIA) and Moi International Airport (MIA) increased by 0.2% to 114,295 in February 2023, from the 114,048 recorded in January 2023 · On a y/y basis, the performance represented a 58.7% increase to 228,343 persons recorded for the months of January and February 2023 compared to the 114,882 persons recorded in January and February 2022. The improved performance is attributable to; i) increased international marketing of Kenya’s tourism market by the Ministry of Tourism in collaboration with the Kenya Tourism Board, through platforms such as the Magical Kenya platform, ii) the tourism board alignment of its marketing initiatives towards targeting emerging and established source markets, and, iii) an increase in corporate and business Meetings, Events, and Conferences (MICE) from both the public and private sectors. For more information, please see Cytonn Weekly #25/2023.
2	FY’2023/2024 Budget Statement by the National Treasury	· The tourism, sports and culture sector received a total allocation of Kshs 22.1 bn, with the Tourism Promotion Fund (TPF) receiving Kshs 2.0 bn and Tourism Fund receiving Kshs 4.1 bn respectively in FY’2023/24 · The allocation for the TPF increased by 11.1%, to Kshs 2.0 bn in FY’2023/224, from Kshs 1.8 bn in FY’2022/23 · Additionally, allocation for the Tourism Fund increased by 28.1% to Kshs 4.1 bn in FY’2023/24, from Kshs 3.2 bn in FY’2022/23.

For notable highlights in H1’2023, please see our Cytonn Q1’2023 Markets Review report. Other notable highlights include;

i. Pan Pacific Hotels Group, a subsidiary of Singapore-listed UOL Group Limited, one of Asia’s most established hotel and property companies, opened a luxurious hotel facility dubbed ‘Pan Pacific Serviced Suites Nairobi’ located at the Global Trade Centre (GTC) in Westlands, Nairobi. Marking the first entry by the global hospitality brand in Africa, the facility comprises of 175 high-end one-to-four-bedroom penthouse suites ranging from 82.0 SQM to 309.0 SQM, and various amenities for residents. For more information, please see Cytonn Weekly #25/2023, and,
ii. JW Marriot, a subsidiary of the Marriot Bonvoy global portfolio of 30 extraordinary hotel brands officially opened a luxurious safari lodge in River Masai Mara, Talek, within Masai Mara National Reserve dubbed ‘JW Marriott Masai Mara’. The high-end property consists of a restaurant, lounge bar, spa, fitness centre, photographic studio, garden, and outdoor pool. Additionally, the hotel entails 20 private tented rooms and suites which offer different kind of high-end amenities and at different rates. The rooms and suites are categorized into; Deluxe, Deluxe Sunset, Executive, and Ambassadorial. For more information, see Cytonn Weekly #14/2023.

We have a NEUTRAL outlook for the sector as we expect the hospitality sector’s

performance to continue on an upward trajectory moving forward in terms of overall hotels in operations, hotel bookings, and hotel occupancies. We expect performance to be supported by factors such as: i) increased budgetary allocation towards the sector through the Tourism Fund and Tourism Promotion Fund (TPF) in FY'2023/24, ii) increased international tourism arrivals into the country gearing towards pre-COVID levels as highlighted by the Annual ***Tourism Sector Performance Report 2022 Report****, iii) intensive and ambitious marketing of Kenya's tourism market by the Ministry of Tourism, in collaboration with the Kenya Tourism Board, through platforms such as Magical Kenya towards targeting emerging and established source markets, iv) concerted efforts to promote local tourism highlighted under the* ***Ministry of Tourism Strategy 2021-2025****, v) increased corporate and business Meetings, Incentives, Conferences and Events (MICE) from both the public and private sectors owing to the revamping of the economy during the post-COVID-19 and electioneering periods, vi) increased leisure and sporting activities with the hosting of Annual* ***World Rally Championship (WRC)*** *competition in Naivasha until 2026, vii) resumption of daily direct flights from Nairobi to New York which we expect will contribute to an increase in international arrivals, viii) continued recognition of Kenya's hospitality industry by international hospitality agencies such as Henley and Partners Real Estate in their* ***Africa Wealth Report 2023*** *and through positive accolades awarded to several local and foreign hotel brands based in Kenya such as the* ***World Travel Awards 2022****,* ***MICE Awards****,* ***Fodor Finest Hotels Awards****, among others, which have boosted investors' confidence in the sector, and, ix) continuous opening, expansions, acquisitions and mergers by local and international hotel brands in the country. However, the recent issuance of travel advisories regarding insecurity in certain regions of the country by the* ***United Kingdom (UK)****,* ***United States of America (USA)****,* ***Irish****, and* ***Canadian*** *governments in February 2023 and the current government's austerity measures to indefinitely suspend hotel meetings, conferences and trainings by Ministries, Departments and Agencies (MDAs) will curtail optimum performance of the sector.*

V. **Land Sector**

The average selling prices for land in the Nairobi Metropolitan Area (NMA) recorded an overall improvement in performance in H1'2022, with the y/y average capital appreciation coming in at 4.5%. Additionally, average prices per acre in the NMA came in at Kshs 128.5 mn in H1'2023, from Kshs 128.4 mn recorded in H1'2022. The performance was mainly attributed to;

i. Government's continued focus on the development of infrastructure such as roads, railways, water and sewer lines which has improved and opened up areas for investment, ultimately increasing property prices,
ii. Limited supply of land especially in urban areas which has contributed to exorbitant prices,
iii. Increased construction activities particularly in the residential sector fueled by the government's affordable housing agenda which has boosted demand for land, and,
iv. Positive demographics driving demand for land upwards, facilitated by high population and urbanization growth rates of 1.9% and 3.7%, above the global averages of 0.9% and 1.6% respectively.

Overall Performance: Un-serviced land in the satellite towns of Nairobi recorded the highest y/y capital appreciation of 9.1% mainly due to; i) the areas improved accessibility benefitting from infrastructural developments such as the Nairobi Expressway and the recent expansion of the Eastern Bypass, ii) affordability of land prices enticing buyers and investors. The average asking land prices per acre for un-serviced land in satellite towns came in at Kshs 15.4 mn, significantly lower than Kshs 397.3 mn per acre in Nairobi suburbs, and, iii) presence of a notable quantity of affordable housing development initiatives in the satellite towns, in contrast to other regions within the Nairobi Metropolitan Area (NMA) which has additionally amplified the demand for land. The table below shows the overall performance of the sector across all land sub-sectors during H1’2023;

All Values in Kshs Unless Stated Otherwise

Summary of the Performance Across All regions H1’2023

	H1'2022	H1'2023	Annualized Capital Appreciation
Un-serviced land - Satellite Towns	14.7 mn	15.4 mn	**9.1%**
Serviced Land - Satellite Towns	17.0 mn	18.3 mn	**8.5%**
Nairobi High End Suburbs (Low- and High-Rise Areas)	130.5 mn	135.5 mn	**5.3%**
Nairobi Middle End Suburbs- High Rise Residential Areas	76.3 mn	76.1 mn	**1.1%**
Nairobi Suburbs- Commercial Areas	403.4 mn	397.3 mn	**(1.4%)**
Average	**128.4 mn**	**128.5 mn**	**4.5%**

Sub-markets Performance: For satellite towns, Syokimau, Athi River, Juja and Utawala were the best performing nodes with y/y capital appreciations of 23.9%, 19.2%, 18.9% and 18.4% respectively, owing to: i) improved infrastructural developments such as the Nairobi Expressway, Juja Farm Road, Katani Road and Eastern Bypass which have expanded investment opportunities by opening up new areas, consequently driving up land prices, ii) convenient transportation links and connectivity facilitating seamless commute benefitting homebuyers seeking to settle away from the city and, iii) a presence notable number of higher learning institutions particularly within Juja Sub-County, which have exacerbated the demand for land to develop student housing.

For Nairobi suburbs, Spring Valley recorded the highest y/y appreciation from H1’2023 at 9.2% due to; i) increased demand for land in the region owing to adequate infrastructure and amenities such as Sarit Centre, and Westgate Shopping Malls, ii) proximity to the CBD and other prime and rising urban nodes such as Parklands and Westlands thus making it easily accessible and convenient, iii) a higher population of affluent residents with higher purchasing power and disposable incomes, and, iv) serene environment appealing to aforementioned high end buyers.

Land in Nairobi Suburbs Commercial Zones recorded a 1.4% price correction mainly on the back of declined demand owing to high land prices. The average asking prices per acre coming in at Kshs 397.3 mn, which is significantly higher than the market average of Kshs 128.5 mn. Furthermore, these areas are increasingly becoming congested due to relaxed zoning regulations in areas such as Kilimani, occasioning frequent traffic snarl-ups rendering them inconvenient and difficult to access. The table below shows NMA’s land performance by submarkets in H1’2023;

Price in Kshs per Acre

Cytonn Report: Nairobi Metropolitan Area Land Performance By Submarkets – H1’2023

Location	Price H1'2022	Price H1'2023	Capital Appreciation
Satellite Towns - Unserviced Land			
Athi River	4.4 mn	5.2 mn	**19.2%**

Cytonn Report: Nairobi Metropolitan Area Land Performance By Submarkets – H1’2023

Location	Price H1'2022	Price H1'2023	Capital Appreciation
Juja	12.2 mn	14.5 mn	**18.9%**
Utawala	14.1 mn	16.7 mn	**18.4%**
Limuru	24.1 mn	23.5 mn	**(2.6%)**
Rongai	18.9 mn	17.3 mn	**(8.5%)**
Average	**14.7 mn**	**15.4 mn**	**9.1%**
Satellite Towns - Serviced Land			
Syokimau	13.9 mn	17.2 mn	**23.9%**
Ruiru & Juja	25.9 mn	28.1 mn	**8.6%**
Athi River	13.3 mn	14.4 mn	**8.2%**
Ruai	11.6 mn	12.5 mn	**7.7%**
Rongai	20.4 mn	19.1 mn	**(6.1%)**
Average	**17.0 mn**	**18.3 mn**	**8.5%**
Nairobi High End Suburbs (Low and High Rise Areas)			
Spring Valley	161.7 mn	176.5 mn	**9.2%**
Runda	81.7 mn	87.9 mn	**7.6%**
Ridgeways	81.4 mn	87.0 mn	**6.8%**
Kitisuru	90.3 mn	95.0 mn	**5.2%**
Karen	62.0 mn	64.5 mn	**4.2%**
Kileleshwa	305.8 mn	301.9 mn	**(1.3%)**
Average	**130.5 mn**	**135.5 mn**	**5.3%**
Nairobi Middle End Suburbs – High Rise Residential Areas			
Embakasi	66.9 mn	71.5 mn	**6.9%**

Cytonn Report: Nairobi Metropolitan Area Land Performance By Submarkets – H1'2023

Location	Price H1'2022	Price H1'2023	Capital Appreciation
Kasarani	66.9 mn	71.3 mn	**6.6%**
Dagoretti	95.2 mn	85.6 mn	**(10.1%)**
Average	**76.3 mn**	**76.1 mn**	**1.1%**
Nairobi Suburbs - Commercial Zones			
Riverside	343.1 mn	342.1 mn	**(0.3%)**
Kilimani	380.4 mn	375.9 mn	**(1.2%)**
Westlands	418.3 mn	413.2 mn	**(1.2%)**
Upperhill	471.9 mn	458.1 mn	**(2.9%)**
Average	**403.4 mn**	**397.3 mn**	**(1.4%)**

Source: Cytonn Research

We retain a POSITIVE outlook for the land sector in the NMA which has continued to remain resilient affirming its position as a reliable investment opportunity. We expect that the sector's performance will be propelled by several key factors including; i) heightened demand for land for development facilitated by positive population demographics, ii) ongoing efforts by the government to streamline land transactions creating a more efficient and accessible market, iii) notable increase in the initiation and completion of affordable housing projects owing to both government and private sector involvement, and, iv) rapid expansion of satellite towns, accompanied by substantial infrastructural developments resulting in elevated property prices.

VI. **Infrastructure**

Notable highlights during H1'2023 included;

i. Tatu City, a mixed use development located in Ruiru municipality and Kenya's first operational special economic zone completed the final phase of infrastructure for Kijani Ridge valued at Kshs 1.0 bn. The works mainly included horizontal infrastructural works including; i) 6 kilometres of tarmacked roads which forms part of a wider network of more than 50 kilometres of tarmacked roads within Tatu city, ii) 12 kilometres of footpath, iii) 5 kilometres of underground piped storm water network, iv) 5 kilometres of water supply, v) 2.7 kilometres of sewer line, vi) 12 kilometres of fiber-optic cabling, and, vii) 9.5 kilometres of 11Kv medium voltage underground power lines. For more information, see our Cytonn Q1'2023 Markets Review,
ii. Northern Corridor Transit and Transport Coordination Authority (NCTTCA) announced a partnership with Superior Homes Kenya, a housing developer where Cytonn Investments is the second largest shareholder, to construct roadside stations along major highways. Superior Homes Kenya will develop the service and rest point areas along various transit routes within the

country, which will feature self-contained facilities for long-distance truckers such as; i) safe parking spaces, ii) driver accommodation features, iii) convenience stores for food and beverage options, iv) health facilities, v) truck maintenance and refueling, and, vi) cargo handling. For more information, see our Cytonn Monthly – February 2023 report,

iii. Kenya Railways Corporation (KRC) commenced construction of the first phase of the Kshs 30.0 bn Railway City project which was launched in by President William Ruto in December 2022. For more information, see our Cytonn Weekly #07/2023, and,

iv. The Kenya National Highways Authority (KeNHA) announced plans to begin rehabilitation and improvement of sections of Mombasa road which were damaged during the construction of the Nairobi Expressway. Additionally, two major roads; Murang'a-Kangema and Murang'a-Kiriaini-Othaya located in Murang'a County were upgraded to national status for the purpose of rehabilitation and other maintenance works. For more information, see our Cytonn Weekly #06/2023.

We expect the infrastructure sector in Kenya to continue to play a crucial role in promoting economic activities, which in turn will drive the growth and performance of the Real Estate sector, with better and improved road, railway and air transport networks, and other support facilities that make it easier for delivery of people, goods, and services efficiently, thereby increasing demand for Real Estate properties. Additionally, the government has increased budget allocation to the infrastructure sector by 16.9%, to Kshs 286.6 bn in FY'2023/2024 from Kshs 245.1 bn in FY'2022/2023, with key focus in development and maintenance of major roads and bridges across the country, extension of the Standard Gauge Railway (SGR) to Kisumu and Isiolo, development of Dongo Kundu Special Economic Zone, development of Nairobi Railway City, and construction of airports, airstrips and a Kshs 1.3 bn modern cruise ship terminal in Mombasa. Additionally, the government is actively pursuing the completion of major infrastructure projects that were previously halted by the current regime, signalling a renewed commitment to infrastructural developments. Such projects include the dualling of Rironi- Mau Summit Highway at a cost of Kshs 180.0 bn, Kenol-Sagana-Marua highway Phase 3 and 4 at a cost of Kshs 8.0 bn, and the Eastern Bypass Highway Phase 2, that have received financial injection by the African Development Bank (AfDB). As a result, we expect boost in development of more habitable areas for settlements and increased developments of Real Estate in the new upcoming regions across the country. However, it is likely that alternative financing strategies such as Public-Private Partnerships (PPPs) and joint ventures will be explored to ensure the successful execution of more infrastructure projects in the country.

VII. **Industrial Sector**

During H1'2023, notable highlights in the sector included;

i. Rogers Group Limited, a Mauritanian investment group disclosed that it recorded a Kshs 113.6 mn gain in a bargain purchase acquisition deal of Rongai Workshop and Transport Limited, a renowned transport and logistics company in Kenya, through its logistics subsidiary Velogic Limited. Additionally, Turkish based manufacturing conglomerate, Turkish Industry Holdings, committed Kshs 48.0 bn towards the construction of five industries situated within the Naivasha Industrial Park, Mai Mahiu, Nakuru County. The project which is valued at Kshs 90.0 bn, was commissioned by President Uhuru Kenyatta in July 2022 during the official opening of the 1,000-acre Special Economic Zone (SEZ), and consists of six manufacturing industries set across 400 acres within the SEZ. For more information, see our Cytonn Weekly #16/2023,

ii. Improvon, a South African based logistics and industrial developer, announced ongoing expansion efforts to set up mini-warehouse units at Nairobi Gate Industrial Park in Northlands City, Ruiru. The facility targets medium-sized firms seeking specialized logistics solutions and already hosts two 5,000 SQM depots. For more information, see our Cytonn Weekly #15/2023, and,

iii. Logistics firm Mitchell Cotts Freights Kenya Limited, in partnership with two other logistics firms; Perishable Movements Kenya Limited and Fresh Handing Kenya Limited, unveiled a dry cargo and cold storage facilities worth Kshs 30.0 mn, within Jomo Kenyatta International Airport (JKIA). The cold storage occupies 1,943 SQM whereas the dry cargo storage will take up 4,174 SQM summing up to 7,609 SQM of total space occupied by the facilities in JKIA at the landslide of the air-cargo terminal. For more information, see Cytonn Weekly #02/2023 report.

We expect Kenya’s industrial sector to continue realizing growth and development activities supported by; i) the government's accelerated focus on exporting agricultural and horticultural products to the international market, with an aim to improve the quantity, quality, efficiency, and reliability of Kenya-farmed produce thereby increasing the country’s competitiveness, ii) increased commitment by both the private and public sectors in development of industrial parks, with the recent gazattement of Two Rivers Special Economic Zone (SEZ) in Kiambu County by Centum Investment, development of Olkaria Industrial Park in Nakuru County by Kenya Electricity Generating Company (KENGEN), and Dongo Kundu SEZ in Mombasa County by the Kenya Ports Authority in partnership with Japan International Cooperation Agency (JICA), iii) Kenya being recognized as a regional hub hence attracting investments, iv) increased demand for data centres by both the government and private-sector firms driven by continued increase in demand for data protection services with the Data Protection Act 2019 requiring personal data to be stored in servers or data centres located within Kenya’s borders, v) increased demand for cold storage facilities for drugs and vaccines whose demand is driven by the Universal Health Coverage program by the government and accelerated campaign in provision of better and cheaper health services by private and Non-Governmental health organisations, vi) increased focus by foreign companies in setting up production factories and storage facilities in efforts to localise sourcing of raw materials and production of goods at the back of depreciating value of the currency against foreign currencies that has drastically increased cost of importing inputs, vii) improvement of infrastructure such as the SGR project, the Eastern and Northern Bypasses connecting Jomo Kenyatta International Airport (JKIA) and other regions in NMA which are expected to increase the output of Special Economic Zones and Inland Container Depots (ICDs), and, viii) increased demand of e-commerce warehouses in the retail sector driven by the rising demand for space to store goods meant for delivery to clients across the country, as more people shift towards home delivery as a convenient and efficient way to purchase goods.

VIII. **Statutory Review**

During the week, the Finance Bill 2023 was assented to law by President William Ruto into the Finance Act 2023 on 26 June 2023. The Act amends laws relating to various taxes and duties policies affecting the Real Estate sector in Kenya. This Effective 1 July 2023, the Third Schedule of The Income Tax Act paragraph 5 (ja) was amended to reduce the rate of Monthly Rental Income (MRI) tax to 7.5% from 10.0%. MRI tax is a deduction on the gross monthly rents collected by the residential property owners or their appointed property managers who handle the remittance of these amounts on behalf. rate has been reduced to boost the government’s revenue collection by encouraging tax compliance of residential property owners.

Additionally, the under the act, the Tax Procedures Act, 2015 was amended by inserting a new section 42(C), which assigns the Commissioner-General of the Kenya Revenue Authority powers to appoint withholding tax agents for the purpose of collection and remittance of rental income tax to the commissioner. The main objectives of this amendment is to; i) expand the government's capabilities of collecting revenue, ii) reduce loopholes of property owners who try to evade payment of the tax, iii) empower the Commissioner to bring landlords, whose rent is handled by estate agents, into the tax net, and, iv) provide the Commissioner with better oversight of transactions conducted through Real Estate property managers. Moreover, the Act amended Section 35 of the Income Tax Act by inserting new subsections immediately after subsection (3A), highlighting that the appointed tax agents will be given the authority to deduct rental income tax at a rate of 7.5% on gross rental income collected by the residential property owners or property managers who will be assigned to them. They shall as well remit the amount to the Commissioner, a return in writing suggesting the amount deducted, and any other information the Commissioner may deem necessary within five working days. Upon receipt of the tax, the Commissioner will be authorized to furnish certificates to individuals or companies who have remitted the withheld amounts, which shall state the amount of the rent and tax deducted from the rental income collected.

Upon implementation, we expect the policy will positively boost the Real Estate regulation taxation systems by the government through; i) encouraging more property owners to comply with their tax obligations through reduced MRI tax, ii) expanding government tax bases by bringing more property owners into the tax bracket and increasing its capabilities in collection of the required amounts, and, iii) increasing oversight and transparency through appointment of more withholding tax agents who will directly handle the collection and remittance of the tax amounts and issuance of remittance certificate by the commissioner. However, it is important to note that property owners will continue to experience increased financial burden due to the deduction of MRI tax at a rate of 7.5%, impacting on their profitability and efficiency of managing the properties. The appointment of tax agents and the associated reporting requirements will as well introduce additional administrative and financial burdens on the government, adding to its already demanding operational obligations from other institutions and debt repayment pressures. Additionally, the compliance with the regulations and timely submission of information and payments could pose challenges, especially for smaller landlords, or those without robust administrative systems in place, especially in the informal settlement setups.

Another key amendment in the Finance Act 2023 is to the Employment Act, 2007 which introduced sub clause 31B on creation of an Affordable Housing Levy, which is change from the Affordable Housing Fund previously contained in the proposed Finance Bill 2023. The levy will be a monthly mandatory deduction of 1.5% on gross monthly salary of every formal employee in both the private and public sectors in Kenya, with the respective employer matching the same amount in the contribution. Under the Act, employers are required to deduct the amounts from their employee(s) gross monthly salary and remit the amount together with the employer’s contribution within nine days from the end of the month in with the payment is due. The mandatory requirement also institutes a 2.0% penalty on the employers who will fail remit the total deducted amounts from them and their employees. The Act further specifies that the Affordable Housing Levy shall only be utilized in the development of affordable housing and supporting social and physical infrastructure which will also create conducive environment for the private sector to also deliver their affordable housing projects effectively. Whereas the initial bill proposed for the contributing members to access their funds after seven years of contribution, the change of name from a fund to a levy implies that the contribution will not be accessible to the contributing party for any other purpose and no returns will be available in any way whatsoever. The Act also does not specify any contribution limit based on the amount individuals are paid, unlike the previous Finance Bill which had set a maximum contribution of Kshs 5,000 from both employee and employer. This change is meant to bring about a sense of equality in the amounts contributed across he low-income, middle-income and high-income earning employees.

Key to note is that, according to Economic Survey 2023 by Kenya National Bureau of Statistics (KNBS), there are approximately 3.0 mn wage employees in the formal public and private sector. Additionally, as the end of 2022, the average monthly gross income for Kenyan wage employees in the formal public and private sector came in at Kshs 72,130. Therefore, with the proposed 1.5% deduction from gross income, the government expects to collect Kshs 1,082 from each employee and the same amount from the employer every month adding up to Kshs 2,164 from every individual and a total of Kshs 25,967 annually. Therefore, the government expects to collect up to Kshs 78.3 bn annually, which is set to increase onwards with regards to growth in the average monthly gross income and the wage employment annually.

Other notable highlights during H1’2023 included;

i. The Finance Act 2022, became effective as of 1 January 2023, with the Capital Gains Tax (CGT) chargeable on net gains upon transfer of property tripling to 15.0% from the 5.0% previously chargeable. For more information, see Cytonn Weekly #01/2023 report.

We anticipate that both the national and county governments will continue to make adjustments to their legal policies and introduce new regulations to enhance transparency, efficiency, compliance, and increased transactions in the Real Estate sector. These efforts aim to strengthen Kenya's competitive advantage in the region for Real Estate investments. Furthermore, the recently assented Finance Act 2023 to law, is expected to stimulate activities in the residential sector such as; i) the government will have the much-needed capital to finance affordable housing projects across the country, aiming to address the significant housing deficit, which currently stands at around 80.0%, ii) incentives outlined in the act will also support the private sector's efforts to construct affordable housing units and price them within reach of Kenyan homeowners, iii) encouraging collaborations and partnerships between the government and private developers, further boosting the supply of affordable housing in the country, iv) generating employment opportunities, increase incomes of those in the construction sector and development, and overall economic growth of both individuals and the country as a whole, and, v) help reducing housing inequalities and improving social equity by bridging the gap between different income groups by providing housing options for low- and middle-income individuals and families

However, it is important to note that some provisions in the act, such as the deduction of amounts from the incomes of employees and employers without benefits or return, starting from 1 July, 2023, may have negative consequences. This, along with other increased taxable deductions, prevailing inflationary pressures, and a high cost of living, will reduce the disposable incomes of formal employees, employers in the private sector, and civil servants in the public sector. On the other hand, employers may resort to reduce the number of employees to help them maintain financial stability and adapt to the new financial obligations imposed by the deductions on their incomes. As a result, individuals may have limited to no funds available to pursue their homeownership goals or service their mortgage loans, which could impact investments in Real Estate. Additionally, there are some of the key concerns that the government has deliberately not addressed, which include;

a. The Act does not explicitly address how the affordable houses will be allocated after being constructed using the levy, considering that the contributed funds will not be accessible to the contributors. It is not clear if the houses will be allocated to the contributors, the homeless, those in slums, or a loophole will be design for the senior government officials to take advantage of the program and allocate themselves the housing units,
b. There is ambiguity in how the government will handle employers who pay their employees after the 9th of the following month, while the Act requires remittance of the levy before the 9th of the next month. This issue could create confusion and may require further clarification or guidelines from the government authorities, and,
c. Regarding the government's role as an employer to civil servants, the Act does not provide information or any penalties on the consequences if the government defaults or fails to remit the deducted funds to the Affordable Housing Levy.

Therefore, there is need for supplementary regulations or provisions to address these and many more arising legality, constitutionality and compliance concerns and establish appropriate long-lasting frameworks.

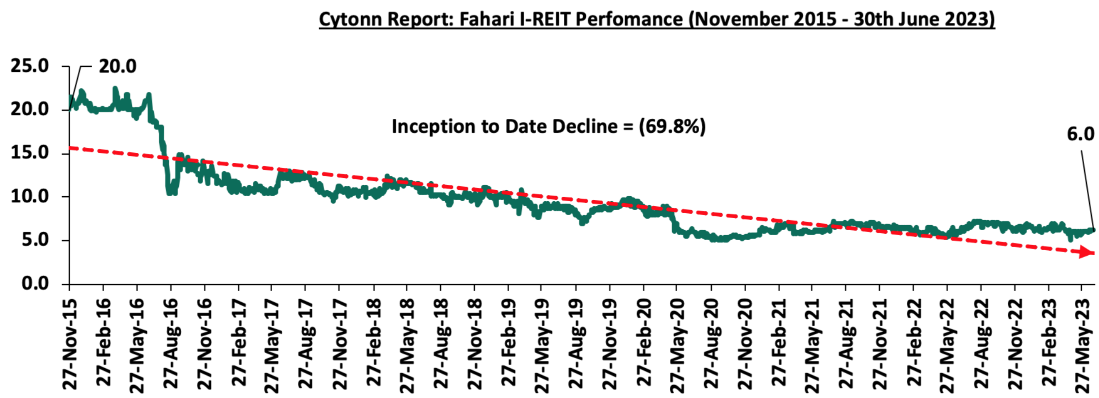
Moreover, policies such as the new CGT rates may have negative effects on the attractiveness of Kenya's Real Estate sector, such as reduced property transaction volumes, limited investments due to increased merger and acquisition costs, and a slight decrease in foreign investments. With such, some investors may opt to shift their investments to other countries in the region with lower Capital

Gains Tax (CGT) rates. Ultimately, the decision to raise the Value Added Tax (VAT) on petroleum products to 16.0% through the Finance Act 2023 is also expected to have a detrimental impact on the Real Estate sector, specifically in terms of increased construction costs. This increase in VAT will lead to a surge in the production costs of key construction inputs such cement, steel and paint as manufacturers will be compelled to pass on the burden of increased production expenses to their clients. Consequently, the overall cost of construction is expected to rise considerably. Additionally, the escalated prices of fuel products due to the VAT increase will result to higher transportation costs for construction materials to project sites, further adding to the overall cost burden faced by developers in investing in Real Estate projects.

IX. **Regulated Real Estate Funds**

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

In the Nairobi Securities Exchange, ILAM Fahari I-REIT closed the week trading at an average price of Kshs 6.0 per share. The performance represented a 3.2% decline from Kshs 6.2 per share recorded the previous week, taking it to a 10.9% Year-to-Date (YTD) decline from Kshs 6.8 per share recorded on 3 January 2023. In addition, the performance represented a 69.8% Inception-to-Date (ITD) loss from the Kshs 20.0 price. The dividend yield currently stands at 10.8%. The graph below shows Fahari I-REIT's performance from November 2015 to 30 June 2023;



In the Unquoted Securities Platform, Acorn D-REIT and I-REIT traded at Kshs 23.9 and Kshs 21.6 per unit, respectively, as at 23 June 2023. The performance represented a 19.4% and 8.0% 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 12.3 mn and 30.1 mn shares, respectively, with a turnover of Kshs 257.5 mn and Kshs 620.7 mn, respectively, since inception in February 2021.

Notable highlights during H1'2023 included;

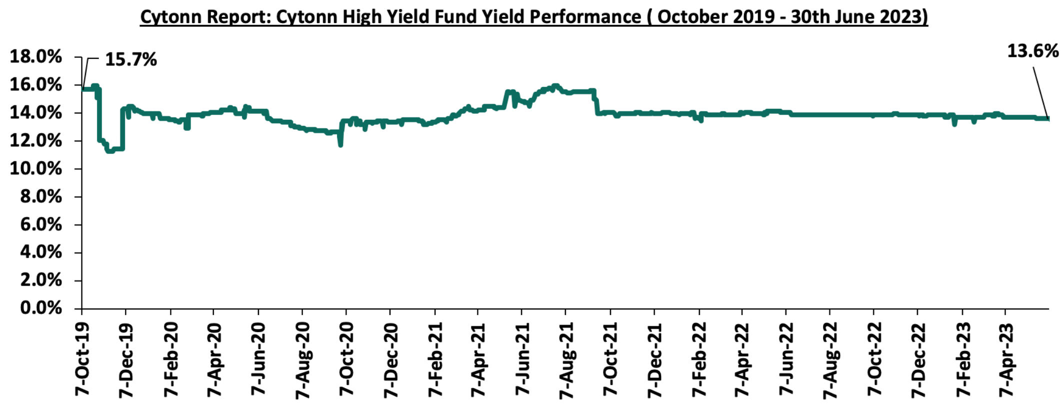
i. ILAM Fahari and Acorn Holdings released their FY'2022 financial results highlighting that both Acorn D-REIT and I-REIT recorded profits of Kshs 384.2 mn and Kshs 504.9 mn, respectively. Additionally, ILAM Fahari I-REIT recorded a significant improvement in performance with its net earnings for the period FY'2022 improving by 77.1% to a Kshs 28.4 mn loss, from the Kshs 124.0 mn loss recorded in FY'2021. For more information, see our Q1'2023 Markets Review,
ii. Local Authorities Pension Trust (LAPTRUST), the oldest pension scheme in Kenya, listed the LAPTRUST Imara I-REIT on the Nairobi Securities Exchange (NSE) at a bell-ringing ceremony officiated by President William Ruto. This comes four months after the Capital Markets Authority (CMA) announcedthe approval for the listing of the Imara I-REIT on the NSE's Main Investment Market, under the Restricted Sub-Segment. For more information see our Cytonn Weekly #12/2023 report, and,
iii. The Capital Markets Authority (CMA) in collaboration with the Sanduku Investment Initiative, the Association of Pension Trustees and Administrators of Kenya (APTAK) and the Nairobi Securities Exchange (NSE) announced ongoing plans to create a Kenya National REIT (KNR) as an

accreditation body for REITs and their stakeholders within the Kenyan REITs market. For more information, see our Cytonn Weekly #06/2023 report.

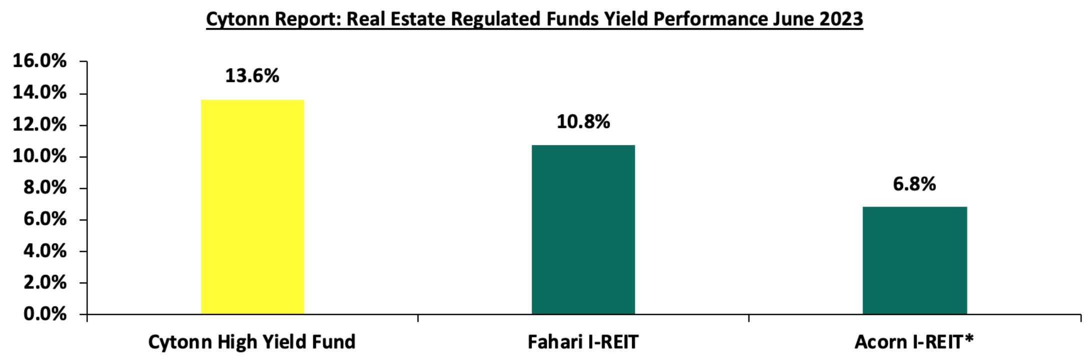
The inclusion of LAPTRUST Imara I-REIT on the Nairobi Securities Exchange (NSE), the establishment of the Kenya National REIT (KNR), and the introduction of the Vuka Investment Platform towards the end of 2022 are expected to spur positive developments to the capital markets in Kenya. In addition to the existing REIT institutions, these initiatives provide numerous advantages, such as accessing additional capital pools, creating diversified portfolios, generating consistent and long-term returns, enjoying tax exemptions, ensuring transparency, promoting liquidity, and offering flexibility as an asset class. Despite these benefits and the gradual growth in the sector, REITs have struggled to achieve significant performance due to various obstacles such as; i) lack of sufficient investor awareness regarding the potential of REITs as an investment tool, ii) lengthy approval procedures for establishing REITs have hindered their formation and deployment in the market, iii) high minimum capital requirement of Kshs 100.0 mn for trustees which restricts the involvement of non-bank entities in the role of trustees, and, iv) steep minimum investment amount of Kshs 5.0 mn discourages potential investors from engaging in REITs.

b. **Cytonn High Yield Fund (CHYF)**

Cytonn High Yield Fund (CHYF) closed the week with an annualized yield of 13.6% which was 0.1% point decline from 13.7% recorded the previous week. The performance also represented a 0.3% points Year-to-Date (YTD) decline from 13.9% yield recorded on 1 January 2023, and 2.1% points Inception-to-Date (ITD) loss from the 15.7% yield. The graph below shows Cytonn High Yield Fund's performance from November 2019 to 30 June 2023;



Notably, the CHYF has outperformed other regulated Real Estate funds with an annualized yield of 13.6%, as compared to Fahari I-REIT and Acorn I-REIT with yields of 10.8%, and 6.8% respectively. As such, the higher yields offered by CHYF makes the fund one of the best alternative investment resource in the Real Estate sector. The graph below shows the yield performance of the Regulated Real Estate Funds;



**FY'2022*

Source: Cytonn Research

Real Estate Performance Summary and Outlook

Below is a summary of the sectorial performance in H1'2023 and investment opportunities:

Theme	Cytonn Report: Thematic Performance and Outlook H1'2023	Outlook
Residential	· Apartments registered relatively higher average total returns to investors at 6.3% compared to detached markets at 5.8%, while prices recorded an uptick at 0.8% and 1.2% y/y appreciation, respectively, owing to continued property transactions amid continued investments in the sector · We expect continued increase in activity within the sector to boost performance in terms of improved rental rates and capital appreciation of properties · The investment opportunity for apartments lies in areas such as Ngong, South C and Ruiru which continued to post high returns. For detached units, opportunity lies in submarkets such as Ruiru, Rosslyn and Ngong which offer higher returns compared to the market averages	Neutral
Commercial Office	· The commercial office sector recorded average rental yields of 7.8% in H1'2023, representing a 0.4% points y/y increase from 7.4% recorded in H1'2022 · We expect performance to be supported by gaining traction in co-working spaces, and, reduced developments in the pipeline which we expect will help curb the oversupply challenge. However, the existing oversupply of office spaces at 5.8 mn SQFT in the NMA is expected to weigh down optimum performance of the sector by stifling the overall demand for physical space · Investment opportunity lies in Karen, Gigiri, and Westlands which offer relatively high returns compared to the market average	Neutral
Retail	· The retail sector recorded average rental yields of 8.2% in H1'2023, representing a 0.4% points y/y increase from 7.8% recorded in H1'2022 · We expect performance to be mainly supported by the positive demographics, rapid expansion drive by local and international retailers, and, increased infrastructure development enhancing accessibility. However, e-commerce still being adopted by some retailers, ongoing closure of retail spaces by exiting retailers, and the existing oversupply of retail spaces in the market by approximately 3.0 mn SQFT, are expected to weigh down the overall performance of the sector · Investment opportunity In terms of the sub markets performance lies in Kilimani, Karen, and Westlands which offer higher returns compared to the market average	Neutral

Theme	Cytonn Report: Thematic Performance and Outlook H1’2023	Outlook
	· We expect performance to be supported by gaining traction in co-working spaces, and, reduced developments in the pipeline which we expect will help curb the oversupply challenge. However, the existing oversupply of office spaces at 5.8 mn SQFT in the NMA is expected to weigh down optimum performance of the sector by stifling the overall demand for physical space	
Hospitality	• The hospitality sector has been on a recovery path following increased international arrivals boosting tourism, and, improved hotel operations, bookings and occupancies · This is attributed to factors such as; i) intensive and ambitious marketing of Kenya’s tourism market by the Ministry of Tourism, in collaboration with the Kenya Tourism Board, through platforms such as Magical Kenya towards targeting emerging and established source markets, ii) concerted efforts to promote local tourism, iii) increased corporate and business Meetings, Incentives, Conferences and Events (MICE) from both the public and private sectors owing to the revamping of the economy during the post-COVID-19 and electioneering periods, and, iv) increased leisure and sporting activities with the hosting of annual rally competition in Naivasha until 2026	Neutral
Land	• The average selling prices for land in the Nairobi Metropolitan Area (NMA) recorded an overall improvement in performance in H1’2023, with the y/y average capital appreciation coming in at 4.5%. Additionally, average prices per acre in the NMA came in at Kshs 128.5 mn in H1’2023, from Kshs 128.4 mn recorded in H1’2022 · Un-serviced land prices in satellite towns realized the highest y/y capital appreciation at 9.1% · We expect that the sector's performance will be propelled by several key factors; i) heightened demand for land for development facilitated by positive population demographics, ii) ongoing efforts by the government to streamline land transactions creating a more efficient and accessible market. iii) notable increase in the initiation and completion of affordable housing projects owing to both government and private sector involvement, and, iv) rapid expansion of satellite towns, accompanied by substantial infrastructural developments resulting in elevated property prices.	Positive
Listed Real Estate	· The Fahari I-REIT closed the H1’2023 trading at Kshs 6.0, representing a 3.2% Year-to-Date (YTD) decline per having opened the year trading at Kshs 6.8 per share. In addition, the performance represented a 69.8% Inception-to-Date (ITD) loss from the Kshs 20.0 price. The dividend yield currently stands at 10.8%	Negative

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