Cytonn Q3'2023 Markets Review

Real Estate

During Q3’2023, the Real Estate sector in Kenya recorded substantial growth in terms of activity, as compared to the similar period in 2022, attributable to continued investments flowing into the sector. According to the Kenya National Bureau of Statistics (KNBS), the Real Estate sector recorded a growth rate of 5.8% in Q2’2023, 0.8% points higher than 5.0% growth rate recorded in the similar period during 2022. This improvement in performance was supported by various factors including;

i. Resurgence of investor confidence in the sector, leading to increased development activities, evidenced by a 6.2% increase in the gross loans advanced to the Real Estate sector Kshs 495.0 bn in Q2’2023, from Kshs 466.0 bn in Q2’2022, according to the Central Bank of Kenya,
ii. A 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 an estimated total of 99,757 housing units under construction by the government and private sector,
iii. Implementation of various infrastructure projects, such as construction of the Kenol-Marua Highway, extension of the Standard Gauge Railway (SGR) to Kisumu and Isiolo, and development of the Dongo Kundu Special Economic Zone, which are set to open up new areas for investment, thereby boosting the performance of the Real Estate sector,
iv. Provision of sustainable housing finance 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,
v. Growth of 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,
vi. Increased activity in the hospitality industry which has reinstated investor confidence, with the planned development of hotels, as the number of international arrivals into the country registered a 13.3% increase to 317,196 in Q2’2023, from the 279,981 recorded in Q2'2022, and,
vii. Attractive national demographics, with relatively high population and urbanization growth rates of 1.9% and 3.7%, which are above the global averages of 0.9% and 1.6% respectively, as at 2021, which continue to drive the demand for Real Estate developments.

However, several challenges continue to impede the performance of the sector, such as;

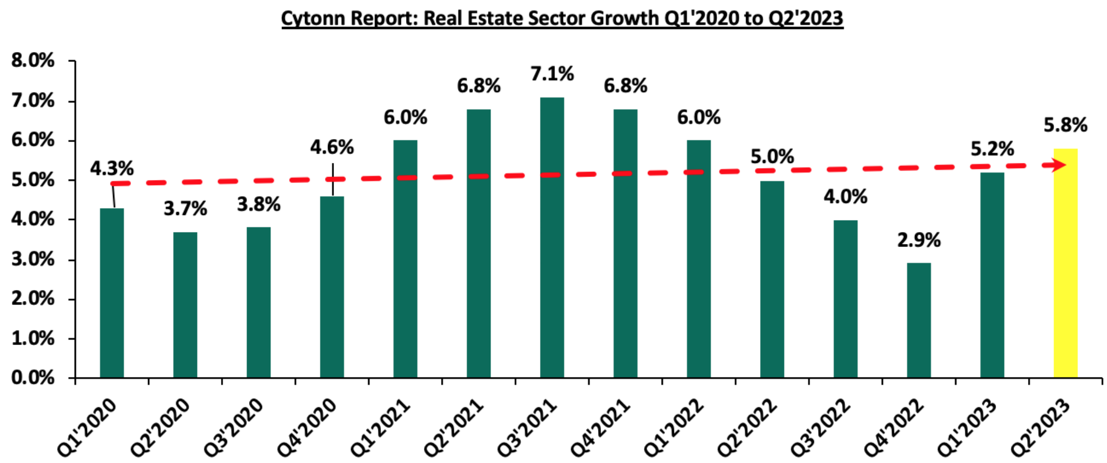
i. Stringent lending requirements to developers, with financial institutions such as banks demanding more collateral due to perceived credit risks in the Real Estate sector on the back of a tough operating environment. This is evidenced by a 20.9% spike in gross Non-Performing Loans (NPLs) to the Real Estate sector by banks to Kshs 96.0 bn in Q2’2023, from Kshs 79.4 bn in Q2’2022. In addition, on a q/q basis, the banking sector NPLs recorded a 9.0% increase from Kshs 88.1 bn realized in Q1’2023,
ii. Increasing construction costs, averaging Kshs 41,600 per SQM in 2023, a 20.1% increase from Kshs 34,650 per SQM 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. An existing oversupply of physical space in select sectors, with approximately 5.8 mn SQFT in the NMA commercial office market, approximately 3.3 mn SQFT in the NMA retail market, with the rest of the Kenyan retail market having an oversupply of approximately 2.1 mn SQFT, leading to prolonged vacancy rates in the respective Real Estate sectoral themes, and,

iv. Subpar performance of the REITs market, 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 limited knowledge of the asset class by investors.

Despite these limitations, the Kenyan Real Estate sector has continued to witness increased activities over the years, resurging from the slowdown attributed to the pandemic slowdowns. Consequently, the Real Estate sector is has become the second-largest contributor to the national economy. This positive performance can primarily be attributed to increased development activities driven by a resurgence in investor confidence. The graph below shows the Real Estate sector growth rates from Q1’2020 to Q2’2023;



Source: Kenya National Bureau of Statistics (KNBS)

Sectoral Market Performance:

I. **Residential Sector**

During Q3’2023, the NMA residential sector realized an improvement in performance with average y/y total returns to investors coming in at 6.0%, a 0.1%-points increase from 5.9% recorded in Q3’2022. The performance was attributed to an improvement in the residential average y/y rental yield which came in at 5.3% in Q3’2023, 0.2% points higher than the 5.1% rental yield recorded in Q3’2022. In addition, on q/q basis the residential market stabilized, with the average total return remaining relatively unchanged from H1’2023. The price appreciation came in at 0.7% in Q3’2023, recording a 0.1%-points decline from the 0.8% price appreciation recorded in Q3’2022. The table below shows the NMA residential sector’s performance during Q3’2022 and Q3’2023;

Cytonn Report: Nairobi Metropolitan Area (NMA) Residential Sector Summary – Q3’2023/Q3’2022

Segment	Average of Price per SQM Q3'2023	Average of Rent per SQM Q3'2023	Average of Rental Yield Q3'2023	Average of Price Appreciation Q3'2023	Average of Total Returns Q3'2023	Average of Rental Yield Q3'2022	Average of Price Appreciation Q3'2022	Average of Total Returns Q3'2022	y/y Δ in Rental Yield	y/y Δ in Price Appreciation	y/y Δ in Total Returns
Detached Units											
High End	197,758	818	5.1%	0.7%	5.8%	4.3%	1.3%	5.6%	0.8%	(60.0%)	0.2%
Upper Middle	142,010	603	4.6%	1.0%	5.5%	4.6%	0.8%	5.4%	0.0%	0.2%	0.1%

All values in Kshs unless stated otherwise

Lower Middle	74,206	330	5.0%	1.0%	6.0%	5.0%	0.8%	5.8%	0.0%	0.2%	0.2%
Detached Units Average	**137,991**	**583**	**4.9%**	**0.9%**	**5.8%**	**4.6%**	**1.0%**	**5.6%**	**0.3%**	**(0.1%)**	**0.2%**
Apartments											
Upper Mid-End	118,546	626	5.5%	0.3%	5.8%	5.4%	0.3%	5.7%	0.1%	0.0%	0.1%
Lower Mid-End Suburbs	91,011	490	5.8%	0.6%	6.4%	5.5%	0.3%	5.9%	0.3%	0.3%	0.5%
Lower Mid-End Satellite Towns	77,432	395	5.6%	0.9%	6.5%	5.5%	1.3%	6.8%	0.1%	(0.4%)	(0.3%)
Apartments Average	**95,663**	**504**	**5.6%**	**0.6%**	**6.2%**	**5.4%**	**0.7%**	**6.1%**	**0.2%**	**(0.1%)**	**0.1%**
Residential Market Average	**116,827**	**543**	**5.3%**	**0.7%**	**6.0%**	**5.1%**	**0.8%**	**5.9%**	**0.2%**	**(0.1%)**	**0.1%**

All values in Kshs unless stated otherwise

Source: Cytonn Research

A. Detached Units Performance

The table below shows the NMA residential sector detached units' performance during Q3'2023;

Cytonn Report: Residential Sector Detached Units Summary Q3'2023

Area	Average of Price per SQM Q3'2023	Average of Rent per SQM Q3'2023	Average of Occupancy Q3'2023	Average of Uptake Q3'2023	Average of Annual Uptake Q3'2023	Average of Rental Yield Q3'2023	Average of Price Appreciation Q3'2023	Total Returns
High End								
Karen	179,378	441	83.4%	91.6%	9.9%	5.1%	1.6%	**6.7%**
Runda	242,974	1,020	93.7%	95.8%	8.2%	4.7%	1.4%	**6.1%**
Kitisuru	216,975	994	95.4%	95.1%	11.6%	5.9%	(0.2%)	**5.7%**
Rosslyn	178,477	877	89.8%	98.2%	12.7%	5.3%	0.0%	**5.3%**
Lower Kabete	170,985	756	85.3%	81.6%	10.8%	4.3%	0.7%	**5.0%**
Average	**197,758**	**818**	**89.5%**	**92.5%**	**10.6%**	**5.1%**	**0.7%**	**5.8%**
Upper Middle								
Ridgeways	170,857	675	88.3%	90.7%	8.7%	4.4%	2.0%	**6.4%**
Redhill & Sigona	92,778	445	89.5%	97.0%	12.3%	5.3%	1.0%	**6.3%**
Loresho	168,277	785	80.5%	82.5%	11.7%	5.1%	0.9%	**6.0%**
Lavington	189,218	724	87.2%	91.6%	11.1%	4.1%	1.5%	**5.6%**
Runda Mumwe	154,392	697	87.4%	91.4%	11.6%	4.8%	0.5%	**5.3%**
South B/C	104,204	440	88.1%	86.4%	9.5%	4.1%	0.7%	**4.8%**
Langata	114,345	452	89.0%	85.7%	9.3%	4.3%	0.2%	**4.5%**
Average	**142,010**	**603**	**87.1%**	**89.3%**	**10.6%**	**4.6%**	**1.0%**	**5.5%**
Lower Middle								
Syokimau/Mlolongo	75,050	323	88.8%	90.8%	15.0%	4.5%	2.7%	**7.2%**
Ngong	53,509	295	94.9%	97.9%	8.7%	5.7%	1.3%	**7.0%**
Athi River	86,984	387	89.3%	95.9%	11.4%	5.1%	1.6%	**6.7%**
Ruiru	68,637	348	87.4%	83.7%	14.7%	5.6%	0.9%	**6.5%**
Kitengela	63,372	334	87.0%	87.4%	11.8%	5.3%	0.7%	**6.0%**
Rongai	81,862	297	97.1%	98.1%	14.3%	4.7%	1.0%	**5.7%**

All values in Kshs unless stated otherwise

Juja	92,884	318	86.8%	91.3%	16.5%	5.6%	(0.1%)	**5.5%**
Donholm/Komarock	83,647	400	87.8%	96.0%	9.8%	4.1%	1.1%	**5.2%**
Thika	61,912	266	83.0%	86.9%	11.6%	4.8%	(0.4%)	**4.4%**
Average	**74,206**	**330**	**89.1%**	**92.0%**	**12.6%**	**5.0%**	**1.0%**	**6.0%**
Detached Units Average	**137,991**	**583**	**88.6%**	**91.3%**	**11.3%**	**4.9%**	**0.9%**	**5.8%**

All values in Kshs unless stated otherwise

Source: Cytonn Research

The key take-outs from the table include;

i. **Average Total Returns** – The average y/y total returns to apartments' investors came in at 5.8%, a 0.2%-points increase from the 5.6% recorded in Q3'2022, driven by a 0.3%-points increase in the average rental yield to 4.9% in Q3'2023, from 4.6% recorded in Q3'2022. The improvement in performance was attributable to a 7.6% uptick in the average rents per SQM to Kshs 583 in Q3'2023, from Kshs 542 recorded in Q3'2022,
ii. **Segment Performance** – The best performing segment was the lower-middle segment offering an average total return of 6.0%, attributable to a relatively high average rental yield of 5.0%, 0.1%-points higher than the detached market average rental yield of 4.9%. The impressive performance of the segment is driven by returns from well-performing nodes such as Syokimau/Mlolongo, and Ngong that have continued to offer relatively high returns to investors, and,
iii. **Nodal Performance** – Overall, Syokimau/Mlolongo was the best performing node, offering the highest returns at 7.2%, driven by a relatively high y/y price appreciation of 2.7%. The node has continued to attract residential investments in terms of modern townhouses for sale within gated communities, due to its convenient accessibility from the Nairobi CBD through key infrastructure developments such as the Nairobi Expressway. Ngong followed with an average total return of 7.0%, while the worst performing node was Thika which recorded an average total return of 4.4%, 1.4% points lower than the detached market average of 5.8%.

B. **Apartments Performance**

The table below shows the NMA residential sector apartments' performance during Q3'2023;

Cytonn Report: Residential Sector Apartments Summary Q3'2023

Area	Average of Price per SQM Q3'2023	Average of Rent per SQM Q3'2023	Average of Occupancy Q3'2023	Average of Uptake Q3'2023	Average of Annual Uptake Q3'2023	Average of Rental Yield Q3'2023	Average of Price Appreciation Q3'2023	Total Returns
Upper Mid-End								
Kileleshwa	121,194	647	89.1%	92.5%	12.4%	5.8%	0.6%	6.4%
Westlands	125,592	812	83.1%	87.3%	15.3%	5.7%	0.5%	6.2%
Kilimani	106,859	584	87.8%	91.7%	19.4%	5.5%	0.3%	5.9%
Loresho	124,000	572	88.0%	97.2%	9.4%	4.9%	0.8%	5.7%
Upperhill	126,905	710	84.3%	88.4%	11.2%	5.8%	(0.3%)	5.5%
Parklands	106,723	432	88.6%	92.0%	12.0%	5.6%	(0.2%)	5.4%

All values in Kshs unless stated otherwise

Average	**118,546**	**626**	**86.8%**	**91.5%**	**13.3%**	**5.5%**	**0.3%**	**5.8%**
Lower Mid-End Suburbs								
Waiyaki Way	79,849	451	83.8%	87.3%	15.1%	5.7%	1.5%	**7.2%**
Kahawa West	74,351	454	89.0%	86.2%	8.1%	6.1%	0.9%	**7.0%**
South C	109,184	652	88.9%	90.0%	15.6%	6.1%	0.8%	**6.9%**
Race Course/Lenana	102,298	504	85.8%	91.2%	15.8%	5.6%	1.1%	**6.7%**
Langata	112,005	569	86.1%	88.0%	11.1%	5.2%	1.4%	**6.6%**
Imara Daima	70,482	407	86.4%	86.9%	8.8%	5.5%	1.0%	**6.5%**
South B	111,222	508	91.3%	96.1%	14.2%	5.2%	0.8%	**6.0%**
Donholm/Komarock	69,894	442	92.6%	91.4%	8.4%	6.1%	(0.2%)	**5.9%**
Dagoretti	89,810	424	88.3%	81.2%	11.1%	6.3%	(0.5%)	**5.8%**
Average	**91,011**	**490**	**88.0%**	**88.7%**	**12.0%**	**5.8%**	**0.6%**	**6.4%**
Lower Mid-End Satellite Towns								
Ngong	79,583	382	86.7%	85.9%	10.6%	5.7%	1.8%	**7.5%**
Syokimau	67,668	368	87.0%	91.8%	11.2%	5.9%	1.2%	**7.1%**
Ruiru	90,587	480	87.0%	83.6%	14.1%	5.5%	1.3%	**6.8%**
Ruaka	108,246	535	77.1%	83.8%	16.5%	5.2%	1.5%	**6.7%**
Athi River	59,356	285	90.1%	94.5%	13.2%	5.3%	1.3%	**6.6%**
Kikuyu	82,675	427	87.7%	93.6%	16.4%	5.4%	1.1%	**6.5%**
Rongai	52,702	248	89.6%	81.5%	13.0%	5.6%	0.4%	**6.0%**
Thindigua	97,189	522	88.9%	304.7%	143.2%	6.1%	(0.2%)	**5.9%**
Kitengela	58,885	306	85.5%	87.5%	8.3%	5.6%	(0.1%)	**5.5%**
Average	**77,432**	**395**	**86.6%**	**111.9%**	**27.4%**	**5.6%**	**0.9%**	**6.5%**
Apartments Average	**95,663**	**504**	**87.2%**	**97.4%**	**17.6%**	**5.6%**	**0.6%**	**6.2%**

All values in Kshs unless stated otherwise

Source: Cytonn Research

The key take-outs from the table include;

i. **Average Total Returns** – The average y/y total returns to detached units' investors came in at 6.2%, a 0.1%-points increase from the 6.1% recorded in Q3'2022. The improvement in performance was driven by a 0.2%-points increase in the average rental yield to 5.6% in Q3'2023, from 5.4% recorded in Q3'2022. majorly attributable to a 2.1%-points increase in average occupancy rates to 87.2%, from the 85.1% recorded in Q3'2022. However, the y/y price appreciation softened by 0.1%-points to 0.6%, from 0.7% recorded in Q3'2022, mainly attributable to a 4.1% decline in the average selling prices per SQM to Kshs 95,663 from Kshs 99,567 recorded in Q3'2022,

ii. **Segment Performance** – The best performing segment was the lower mid-end satellite towns with average total return of 6.5%, attributed to a relatively high average price appreciation of 0.9%. The impressive performance of the segment was driven by returns from well-performing nodes such as Ngong, Syokimanu, and Ruiru that have continued to offer competitive returns to investors in comparison to other segments, and

iii. **Nodal Performance** – Overall, the best performing node was Ngong, offering investors average total returns of 7.5%, 1.3%-points higher than the apartment market average total returns of 6.2%. Ngong has seen increased apartment investments owing to an inflow of residents brought about by the enhanced accessibility to the Nairobi CBD after the completion of the Ngong-Lang'ata Link road. The worst performing node was Kitengela, which recorded an average total return of 5.5%, 0.7%-points lower than the detached market average of 6.2%.

For notable highlights during Q3'2023, please see our Cytonn Monthly - July 2023, and Cytonn Monthly - August 2023 reports. For the month of September;

i. Absa Bank Kenya announced a strategic partnership with Unity Homes, a leading property developer of residential communities in Kenya, which will allow potential home buyers to access affordable mortgage loans backed by the Kenya Mortgage Refinancing Company to purchase homes at Unity One. Additionally, the International Finance Corporation (IFC) disclosed details of a Kshs 2.9 bn (USD 20.0 mn) proposed loan to Centum Real Estate Limited (CRE), a wholly owned subsidiary of Centum Investment Company Plc. For more information, see Cytonn Weekly #36/2023, and,

ii. The Capital Markets Authority (CMA) granted Linzi Finco Trust the approval to issue an inaugural Shariah compliant bond, 'Linzi Sukuk. For more information, see Cytonn Weekly #39/2023.

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) increased financing geared to bring more property developments, 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 Q3'2022 to Q3'2023;

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

Δ Q3' 2[illegible]

Occupancy %

Asking Rents (Kshs/SQFT)

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

	∆Q3'2
Average Prices (Kshs/SQFT)	
Average Rental Yields (%)	0.3% points

Source: Cytonn Research

The key take-outs from the table include;

i. **Average Asking Rents** – In Q3’2023, the average asking rents per SQFT in the NMA increased by 4.2% to Kshs 100 from Kshs 96 in Q3’2022. On a quarter-on-quarter (q/q) basis, the performance registered a 2.0% increase to Kshs 100 from Kshs 98 recorded in H1’2023. The rise in average asking rents was attributable to increased supply of grade A offices fetching higher rents such as The Cube, The Rock, The Piano, Principal Place and TDB Towers among others, and increasing demand for high-grade office properties. Additionally, as a result of the continued depreciation of the Kenyan Shilling, there has been an escalating inclination among investors to opt for rental payments in U.S. dollars. This in turn, has contributed to an increase in rental rates,
ii. **Average Occupancy Rates** – The average occupancy rates came in at 79.9% in Q3’2023, a 1.7% points increase from 78.2% in Q3’2022. On a q/q basis, the performance registered a 0.9% points decline from 80.8% in H1’2023. The decline in occupancy rates was attributed to increased supply of office space on the back of new establishments being delivered into the market, which weighed down on absorption rates. However, the performance on a year-on-year (y/y) basis registered an improvement on account of reduced supply of office space delivered into the market as compared to a similar period in 2022, and,
iii. **Average Rental Yields** – The average rental yields recorded a 0.3% points increase to 7.7% in Q3’2023 from 7.4% recorded in Q3’2022 due to improved average asking rents and occupancy rates. On a q/q basis, average rental yields in the NMA declined by 0.1% points to 7.7%, from 7.8% recorded in H1’2023.

For the submarket performance, Gigiri, Westlands, and Parklands were the best performing nodes realizing average rental yields of 8.5%, 8.4% and 8.1% respectively in Q3’2023, compared to the market average of 7.7%. Their impressive performance was attributed to several factors including; i) the abundance of Grade A office spaces with high-quality amenities commanding premium rents, thus appealing to investors with the promise of attractive returns, ii) increasing demand for high quality commercial office spaces in these markets, supported by the presence of international organizations, multinational companies, and embassies, iii) relatively good infrastructure and amenities providing ease of accessibility and convenience, which has made them popular choices for businesses, and, iv) their appealing locations, set apart from the busy city center, offering a tranquil environment creating excellent office locations. Conversely, Mombasa Road was the least performing node with an average rental yield of 5.2%, 2.5% points lower than the market average of 7.7%. 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 in Q3’2023;

Cytonn Report: NMA Commercial Office Submarket Performance Q3’2023

Area	Price/SQFT Q3'2023	Rent/SQFT Q3'2023	Occupancy Q3'2023	Rental Yields Q3'2023	Price/SQFT Q3'2022	Rent/SQFT Q3'2022	Occupancy Q3'2022	Rental Yields Q3'2022	Δ in Rent	Δ in Occupancy (% points)	Δ in Rental Yields (% points)
Gigiri	13,500	115	81.8%	**8.5%**	13,500	118	81.0%	**8.6%**	**(2.5%)**	**0.8%**	**(0.2%)**
Westlands	12146	114	75.2%	**8.4%**	12,032	107	75.7%	**8.1%**	**7.3%**	**(0.5%)**	**0.3%**
Karen	13,431	116	79.7%	**8.3%**	13,431	107	83.0%	**7.9%**	**8.2%**	**(3.3%)**	**0.3%**
Parklands	11,662	93	83.6%	**8.0%**	11,662	91	81.0%	**7.6%**	**2.0%**	**2.6%**	**0.4%**
Kilimani	12,356	98	83.4%	**7.9%**	12,260	92	80.8%	**7.3%**	**6.6%**	**2.6%**	**0.6%**
Nairobi CBD	11,971	87	85.0%	**7.6%**	11,971	82	84.4%	**6.9%**	**7.1%**	**0.7%**	**0.7%**
Upperhill	12,605	98	76.1%	**7.1%**	12,586	96	75.2%	**6.9%**	**2.7%**	**0.9%**	**0.2%**
Thika Road	12,571	79	80.1%	**6.0%**	12,571	77	77.9%	**5.7%**	**1.9%**	**2.3%**	**0.3%**
Mombasa Road	11,325	71	67.9%	**5.2%**	11,325	73	65.5%	**5.1%**	**(2.3%)**	**2.4%**	**0.1%**
Average	**12,265**	**100**	**79.9%**	**7.7%**	**12,221**	**96**	**78.2%**	**7.4%**	**5.0%**	**1.7%**	**0.3%**

All values in Kshs unless stated otherwise

Source: Cytonn Research

We retain a NEUTRAL outlook for the NMA commercial office sector, driven by factors such as the growing popularity of co-working spaces and reduced developments in the pipeline, which we anticipate will assist curb the existing oversupply challenge. However, the oversupply of office space, totaling 5.8 mn SQFT in the NMA, is expected to dampen the sector's performance by constraining overall demand for physical space. Investment opportunity lies in Gigiri, Westlands and Parklands offering relatively higher returns compared to the market average.

I. **Retail Sector**

The table below shows the performance of the retail sector performance in Nairobi Metropolitan Area from Q1’2022 to Q3’2023;

Cytonn Report: Nairobi Metropolitan Area (NMA) Retail Performance Q1’2022 – Q3’2023

Year	**Q1'2022**	**H1'2022**	**Q3'2022**	**FY'2022**	**Q1'2023**	**H1’2023**	**Q3’2023**	**Q3’2023/ Q3’2022 Δ (% points)**
Average Asking Rents (Kshs/SQFT)	170	173	**171**	174	176	177	**182**	**7.2%**
Average Occupancy Rates	77.2%	75.9%	**76.1%**	77.6%	78.0%	79.2%	**78.7%**	**2.6%**
Average Rental Yields	7.9%	7.8%	**7.6%**	7.9%	8.0%	8.2%	**8.2%**	**0.6%**

Source: Cytonn Research

The key take-outs from the table include;

i. **Average Occupancy Rate** – The average occupancy rates came in at 78.7%, a 2.6% points increase from 76.1% recorded in Q3’2022. 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 franchises over the period, ii) increased entry of smaller retailers in the prime spaces introduced by new malls in the region such as Business Bay Square Mall in Easleigh, 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 not only benefited existing retail spaces but has also opened up new regions for retail opportunities.

   However, on a q/q basis, the performance represented a 0.5% points decline from 79.2% recorded in Q2’2023. The performance can be attributed to tougher economic conditions with; i) escalating inflationary pressure leading to receding consumer shopping baskets and power among shoppers, ii) credit squeeze from financial institutions due to increased tightening of lending terms, iii) persistent weakening of the Kenyan Shilling, and, iv) the introduction of new taxes in the business environment along with increased rates in the existing taxes which became effective from July 2023. Some of the notable ta changes include the increase in turnover tax to 3.0% from 1.0%, 15.0% withholding tax on income generated digitally, and increase in the Value Added Tax (VAT) rate on petroleum products from 8.0% to 16.0%. Some of the tax changes have also led to increased rental charges by retail space owners, cumulatively putting more significant pressure on retailers. Retailers are faced with the tough decision of either operating with reduced margins in retail spaces or passing the additional costs on to consumers. In response to these challenges, some retailers are moving to informal retail spaces to keep their businesses afloat. This shift allows them to continue operations while navigating the tough business environment,

ii. **Asking Rents** – The average asking rents per SQFT increased by 4.4% to Kshs 182 in Q3'2023 from Kshs 171 recorded in Q3'2022, driven by an increased entry of quality retail spaces such as the Global Trade Centre (GTC) mall and Business Bay Square (BBS) Mall which also boasts as the largest mall by total built up area in East and Central Africa. Additionally, presence of quality retail spaces continues to fetch higher rents in several nodes of NMA such as Karen, Kilimani, Westlands, and, along Kiambu and Limuru roads. These spaces within the aforementioned areas continue to attract more foreign businesses due to their proximity to multinational organizations and embassies aimed at serving the consumer needs and interests of foreign clients working in those entities. Some of the notable foreign businesses and international brands that have entered the Kenyan market for the first time and racing for the prime retail stores include Adidas, Puma, Michael Kors, Aldo and many more. 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, with a notable 22.8% depreciation to Kshs 148.7 by end of Q3'2023 from Kshs 121.3 by the end of Q3'2022 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, and,
iii. **Average Rental Yield** – The average rental yield for the NMA retail sector improved by 0.6% points to 8.2% in Q3'2023, from 7.6% in Q3'2022 attributed to improved asking rents and occupancy rates.

Regarding sub-market performance Karen, Kilimani, and Westlands stood out as the best performing nodes with average rental yields of 10.0%, 9.9%, 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 6.2% due to; i) lower occupancy rates at 71.7%, 6.0% points lower than the market average of 78.7% at the back of entry of BBS Mall in the region in 2023 and relatively lower demand in other malls within the region, ii) poor quality infrastructure in most towns within the region which is unsustainable for the retail spaces and hindering sufficient accessibility, and, 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. However, it has to be noted that the rental rates in Eastlands recorded the highest change at 26.3% against the market average of 7.2%. This increase can be attributed to the BBS Mall, which is currently the largest mall in East and Central Africa and offers high-quality and modern spaces at relatively higher rental charges.

Additionally, prime retail spaces in the satellite towns have exhibited the highest change in occupancy rates at 7.3% against the market average of 2.6%. This shift is primarily driven by the growing population in these regions, prompting retailers to expand their operations beyond the city center and tap into opportunities in satellite towns. This strategic move aims to bring convenience to residents in the most accessible way possible. Additionally, some retail space owners have reduced rents in these areas to attract more clients, given the increased demand for consumer goods, services, and entertainment facilities. The table below shows the submarket performance of nodes in the Nairobi Metropolitan Area (NMA) Q3'2023;

Cytonn Report: Nairobi Metropolitan Area Retail Market Performance Q3'2023

Area	Rent /SQFT Q3'2023	Occupancy% Q3'2023	Rental Yield Q3'2023	Rent/SQFT Q3'2022	Occupancy% Q3'2022	Rental Yield Q3'2022	Δ in Rental Rates	Δ in Occupancy (% points)	Δ in Rental Yield (% points)
Karen	217	85.0%	**10.0%**	205	78.6%	**8.8%**	**6.3%**	**6.4%**	**1.2%**
Kilimani	192	82.3%	**9.9%**	184	84.8%	**9.8%**	**4.2%**	**(2.5%)**	**0.1%**
Westlands	216	77.6%	**9.1%**	214	73.6%	**8.6%**	**0.8%**	**4.1%**	**0.5%**
Kiambu Road & Limuru Road	202	74.0%	**8.7%**	187	71.7%	**7.8%**	**8.0%**	**2.3%**	**0.9%**
Mombasa road	168	78.7%	**8.0%**	148	80.8%	**7.3%**	**13.8%**	**(2.1%)**	**0.8%**
Ngong Road	170	81.0%	**7.8%**	169	78.8%	**7.5%**	**0.7%**	**2.3%**	**0.3%**
Thika Road	165	80.7%	**7.5%**	158	73.8%	**6.7%**	**4.2%**	**6.8%**	**0.8%**
Satellite towns	139	79.8%	**6.9%**	138	72.5%	**6.1%**	**0.7%**	**7.3%**	**0.8%**
Eastlands	160	71.7%	**6.2%**	127	73.0%	**5.7%**	**26.3%**	**(1.3%)**	**0.5%**
Average	**182**	**78.7%**	**8.2%**	**171**	**76.1%**	**7.6%**	**7.2%**	**2.6%**	**0.6%**

All values in Kshs unless stated otherwise

Source: Cytonn Research

Weekly Highlights:

a. **Naivas opens 99th Outlet in Mombasa County**

During the week, chain store Naivas Supermarket opened its 99th outlet located along Ronald Ngala Street Tudor, Sabasaba, Mombasa County. The retailer's decision to open up the store forms part of its expansion strategy dubbed *'Road to 100'*, and was driven by;

i. Naivas' ambition to enhance shopping accessibility for its shoppers by offering convenience, thus catering to evolving consumer inclinations,
ii. Naivas' ongoing aggressive drive to broaden its presence and boost its market share in a bid to stamp market dominance against rival retailers such as Quickmart, and Carrefour as the outlet is Naivas' 11th branch in the coastal region, and,
iii. The strategic location the junction of Ronald Ngala street and Mombasa A109 highway and at the vicinity of the Mombasa Central Business District (CBD) Waiyaki Way aiming to capitalize on booth foot and vehicular traffic within the area.

b. **Carrefour opens 21st Outlet in Nairobi County**

During the week, French retailer Carrefour Supermarket, opened a new outlet at Ellis Plaza along Wabera Street in Nairobi CBD, bringing the retailer's number of operating outlets countrywide to 21. The move is part of the retailer's strategic plan to expand its footprint in the Kenyan market especially in the capital city with currently 17 outlets operating in Nairobi County, and 2 within the heart of the city. The location was also influenced by the desire to tap into the high footfall of shoppers within the city especially during the daytime period hence increasing shopping convenience. This is also a response to the consistent dominance of small retailers who are continually opening convenience stores not only in urban centers but also within residential areas. Additionally, the foreign retailer is on an aggressive move to stamp dominance and boost its market share against fierce rivals such as Naivas and Quickmart and consistent dominance by small retailers constantly opening convenience stores in not only the urban centers but within residential areas.

Notably, these two major openings come at a time when formal retail penetration in Kenya is still low, standing at 30.0% as at 2018, coupled with existing gaps left by other retailers such as Nakumatt, Uchumi, Shoprite and Choppies Supermarkets which exited the market. The table below shows the number of stores currently operated by key local and international retail supermarket chains in Kenya;

Cytonn Report: Main Local and International Retail Supermarket Chains

Name of retailer	Category	Branches as at FY'2018	Branches as at FY'2019	Branches as at FY'2020	Branches as at FY'2021	Branches as at FY'2022	Branches opened in 2023	Closed branches	Current branches
Naivas	**Hybrid***	**46**	**61**	**69**	**79**	**91**	**8**	**0**	**99**
Quick Mart	Hybrid**	10	29	37	48	55	4	0	**59**
Chandarana	Local	14	19	20	23	26	0	0	**26**
Carrefour	**International**	**6**	**7**	**9**	**16**	**19**	**2**	**0**	**21**
Cleanshelf	Local	9	10	11	12	12	1	0	**13**
Tuskys	Local	53	64	64	6	6	0	59	**5**
Game Stores	International	2	2	3	3	0	0	3	**0**
Uchumi	Local	37	37	37	2	2	0	35	**2**
Choppies	International	13	15	15	0	0	0	15	**0**
Shoprite	International	2	4	4	0	0	0	4	**0**
Nakumatt	Local	65	65	65	0	0	0	65	**0**
Total		**257**	**313**	**334**	**189**	**211**	**15**	**181**	**225**

***51% owned by IBL Group (Mauritius), Proparco (France), and DEG (Germany), while 49% owned by Gakiwawa Family (Kenya)**

****More than 50% owned by Adenia Partners (Mauritius), while Less than 50% owned by Kinuthia Family (Kenya)**

Source: Cytonn Research

For other highlights during Q3'2023, please see our Cytonn Monthly - July 2023, and Cytonn Monthly - August 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, We anticipate a sustained upsurge in activities within the Kenyan retail industry, supported by; i) ongoing expansion efforts by local and foreign retailers and international brands to capture a larger market share and establish dominance, ii) increased capital investments from foreign entities in the Kenyan retail market amid e-commerce developments, iii) rising demand for goods, services, and retail spaces due to favorable demographics in the country, and, iv) infrastructural developments enhancing accessibility in various regions, thus opening up viable opportunities to previously inaccessible areas for retail investment. However, the sector's optimal performance is expected to be subdued by challenging economic conditions such as inflationary pressures, eroding the purchasing power of consumers, which could have a dampening effect among retailers especially those reliant on discretionary spending. Very tough economic conditions with the introduction of new taxes in the business environment along with increased rates in the existing taxes has persistently been piling pressure on retailers and thus face the tough decision of either

operating with reduced margins or passing the additional costs on to consumers. Additionally, the oversupply of retail spaces, currently estimated at 3.3 mn SQFT in the Nairobi Metropolitan Area (NMA) and 2.1 mn SQFT in the larger Kenyan retail sector (excluding NMA), will continue to subdue 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 behavior and preferences could intensively limit the optimal utilization of physical retail spaces.

IV. **Hospitality Sector**

During the quarter, one hospitality sector related industry report was released and the key-take outs were as follows;

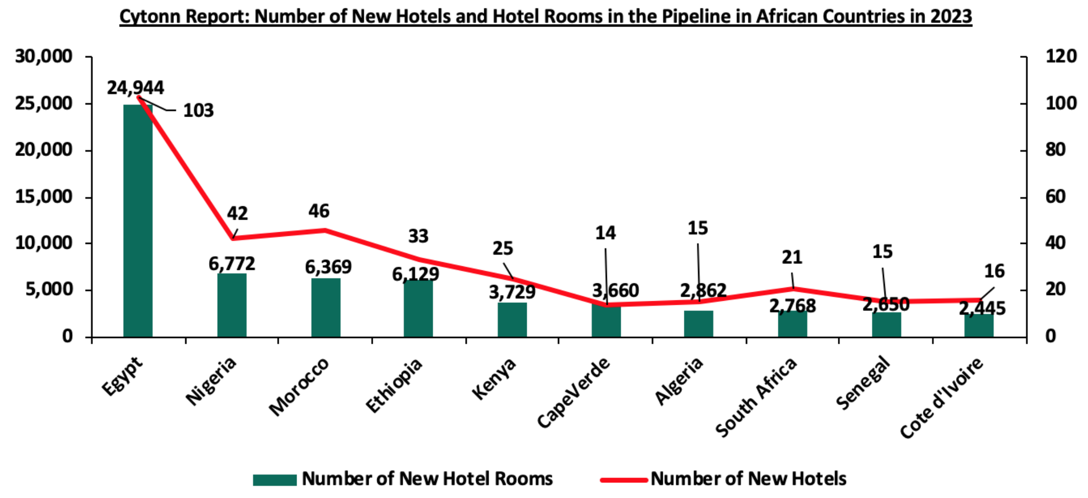
Cytonn Report: Released Industry Report related to Hospitality Sector H1’2023

#	Report	Key Take-outs
1	The Leading Economic Indicators (LEI) July 2023 Report by the Kenya National Bureau of Statistics (KNBS)	• Overall international arrivals through Jomo Kenyatta International Airport (JKIA) and Moi International Airport (MIA) increased on a year-on-year (y/y) basis by 13.3% to 317,196 in Q2’2023, from the 279,981 recorded in Q2'2022. On a quarter-on-quarter (q/q) basis, the performance was a 6.1% decrease from 337,937 recorded in Q1’2023, • Additionally, for the month of July 2023, the total number of arrivals increased by 26.6% to 158,100 from 124,927 recorded in July 2022, • The improvement in performance was attributed to; i) continued intensive marketing of Kenya’s tourism market by the Ministry of Tourism through platforms such as the Magical Kenya platform, ii) the Tourism Board’s alignment of its marketing initiatives towards strategies targeting emerging and established source markets, and, iii) an upsurge in corporate and business meetings, events, and conferences from both the public and private sectors with the new government regime. For more information, please see our Cytonn Weekly #38/2023.

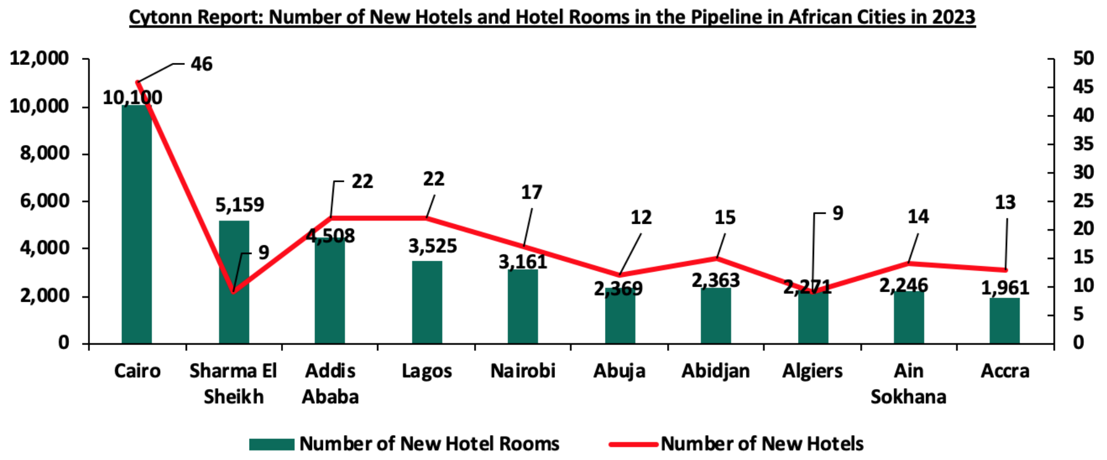
During the week, W Hospitality Group released the Hotel Chain Development Pipelines in Africa 2023 Report, compiling data from 45 regional and international hotel chains. Key highlights from the report included;

i. African hotel chain development pipelines now total 482 hotels with 84,427 rooms, a 5.2% increase from 447 hotels with 80,291 rooms registered in the pipeline in 2022. This total was analyzed according to two main regions, which are North Africa accounting for five countries – Morocco, Algeria, Tunisia, Libya and Egypt, and sub-Saharan Africa accounting for 49 countries, including the Indian Ocean islands. Notably, the pipeline for Sub-Saharan Africa recoded a 6.1% increase to 47,750 rooms in 2023, from 45,011 rooms in 2022,
ii. Kenya was ranked fifth highest in the continent by number of planned rooms, with 25 hotels and 3,729 rooms in the pipeline. This was a 18.2% increase from 2022, when Kenya registered 24 hotels and 3,155 rooms in the pipeline and was ranked position seven in the continent, and,
iii. Additionally, Nairobi was ranked the fifth highest city with anticipated additions to supply, with 17 hotels and 3,161 rooms expected to open in 2023. This is a 21.6% increase from 16 hotels with a total of 2600 rooms in the pipeline in 2022.

The graph below highlights the number of new hotels and hotels room in the pipeline in the top ten countries and cities in the African continent;



Source: Hotel Chain Development Pipelines in Africa 2023



Source: Hotel Chain Development Pipelines in Africa 2023

The rise in the number of hotels and hotel rooms in the pipeline comes at a period when the hospitality sector across the region and globally is recovering from the adverse effects of the COVID-19 pandemic which negatively affected the growth and expansion of the hotel industry. The relaxation of travel restrictions between countries worldwide played a pivotal role in the resurgence of local and international tourism, resulting in an uptick in visitors' arrivals to major tourist destinations for various purposes such as leisure, entertainment, sports, business meetings, physical conferences, and international exhibitions among others.

Additionally, the recent revived efforts by the Tourism Fund and other regulatory authorities such as the Tourism Regulatory Authority to register all short-term rental accommodation businesses popularly known as Airbnb will have a mixed effect in the serviced apartment sector and the general hospitality sector. The regulatory bodies have raised concerns about the growing preference among Kenyan tourists for luxurious Airbnb stays over traditional hotel accommodations, leading to a substantial revenue loss Part of the concerted efforts will to register more Airbnb hosts where out of the 40,000 short term accommodations mapped by the authorities only 400 units have been registered. On top of that, the short term accommodation business will be added in the tax bracket where the Tourism fund has proposed a 2.0% tax levy for the hosts.

In our view, we expect the deliberations to; i) significantly increase government revenue through the tax levy collected from the over 40,000 Airbnb hosts that will be registered in Kenya, ii) create a level playing field and fairer competition between traditional hotels and Airbnbs where hoteliers have complained about high taxation while Airbnbs have enjoyed tax-free profits due to lack of regulations, and, iii) better regulatory framework where all hosts will have to meet certain quality standards, increased protection on clients, increased accountability and transparency in the market, price and rental charges control and stabilization thus potentially improving the quality of accommodations available. However, some of the proposals such as levying of tax will contribute to negative factors such as; i) increase the cost of Airbnb accommodations, which could affect their competitiveness where hosts might choose to absorb the cost, while others might pass it on to the clients therefore decrease in demand and ultimately affect the profitability of the businesses especially during low seasons in the Kenyan tourism sector, and, ii) potential resistance from the hosts where majority of serviced apartment owners Airbnb might resist the levy and the registration processes or have ways of navigating the processes to evade the taxation.

We retain a NEUTRAL outlook for the hospitality sector during the year as we expect the sector's performance to be supported by; i) promotion of regional tourism to enhance performance of the African markets, ii) increased international tourism arrivals into the country gearing towards pre-COVID levels as highlighted by the LEI and** Annual Tourism Sector Performance Report 2022 **reports, ii) increased budgetary allocation towards the sector through the Tourism Fund and Tourism Promotion Fund (TPF) in FY'2023/24, iii) development of niche products such as cruise tourism, adventure tourism, culture and sports tourism, iv) extensive marketing of Kenya's tourism sector through platforms such as Magical Kenya by the Kenya Tourism Board, v) promotion of affordable and accessible travel across Kenya for Free Independent Travelers (FITs) and implementation of vital government initiatives such as the** New Tourism Strategy for Kenya 2021-2025 **promoting local tourism, vi) increased leisure and sporting activities with the hosting of Annual World Rally Championship (WRC) competition in Naivasha until 2026, and, vii) continuous opening and expansions by local and international hotel brands such as** JW Marriott **of the Bonvoy Global and** Pan Pacific Hotels Group **in the country. We also continue to expect greater improvement in the hospitality sector driven by high-level regional events and international exhibitions held in Nairobi, such as the 5th Mid-Year Coordination Meeting, African Climate Summit, African Development Bank's (AfDB) Civil Society and Community Engagement Division, Nairobi International Trade Fair, and many others to be held towards the end of 2023. These events attracted numerous African presidents, expatriates, and professionals and activists from various sectors, solidifying Nairobi's position as a regional hub for meetings, events, exhibitions, and conferences across the continent. The continuous efforts by the head of state in marketing the country further bolster this position.

However, the** **recent** **austerity measures implemented by the Chief of Staff and Head of Public Service, including the indefinite suspension of non-essential local and foreign travels, stringent restrictions on essential travels, and significant reduction in delegation size for hotel meetings, conferences, and trainings by state officers in Ministries, State Departments, and Agencies (MDAs), are expected to adversely impact the optimal performance of the hospitality sector in the country.

V. **Land Sector**

The average selling prices for land in the Nairobi Metropolitan Area (NMA) recorded an overall improvement in performance in Q3'2023, with the y/y average capital appreciation coming in at 3.2%. Additionally, average prices per acre in the NMA slowed down to come in at Kshs 129.0 mn in Q3'2023, from Kshs 130.4 mn recorded in Q3'2022 attributable to uncertainty on future demand cycles given economic slowdown. The performance was supported by;

i. Government's continued emphasis on infrastructural development 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, private sector initiatives in trying to curb the housing deficit and individuals homeownership demands, in addition to increased developments in other segments in Real Estate sector thus boosting demand for land upwards, and,
iv. Positive demographics driving demand for land upwards, facilitated by high population and urbanization growth rates of 1.9% and 3.7%, which are 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 9.0% mainly due to; i) the areas improved accessibility benefitting from infrastructural developments such as the Nairobi Expressway and the expansion of the Eastern Bypass, ii) affordability of land prices enticing buyers and investors, and, iii) high land prices within Nairobi commercial zones. Notably, average land prices per acre in Nairobi commercial zones registered significant price corrections owing to their high prices weighing down on demand. The table below shows the overall performance of the sector across all land sub-sectors during Q3'2023;*

Cytonn Report: Summary of the Performance Across All regions Q3'2023

	Q3'2022	Q3'2023	Annualized Capital Appreciation
Un-serviced land - Satellite Towns	15.2 mn	16.4 mn	**9.0%**
Serviced Land - Satellite Towns	15.9 mn	18.3 mn	**8.7%**
Nairobi High End Suburbs (Low- and High-Rise Areas)	134.8 mn	135.7 mn	**2.4%**
Nairobi Middle End Suburbs- High Rise Residential Areas	84.2 mn	82.3 mn	**(1.2%)**
Nairobi Suburbs- Commercial Areas	402.1 mn	392.5 mn	**(2.6%)**
Average	**130.4 mn**	**129.0 mn**	**3.2%**

Price in Kshs Per Acre

Source: Cytonn Research

Sub-markets Performance - For the satellite areas, Juja, Ruiru and Athi River were the best performing nodes both with 15.5%, 12.22% and 11.4% year-on-year (y/y) capital appreciations owing to: i) improved infrastructure developments enhancing accessibility, and high concentration of tertiary learning institutions such as colleges, Technical and Vocational Education and Training (TVETs), and campuses around and within the areas. On the other hand, Nairobi commercial zones recorded a 2.6% price correction mainly on the back of declined demand owing to high land prices. The average asking prices per acre coming in at Kshs 392.5 mn, which is significantly higher than the market average of Kshs 129.0 mn. Furthermore, areas such as Kilimani are increasingly becoming congested due to relaxed zoning regulations, occasioning frequent traffic snarl-ups rendering them inconvenient and difficult to access. The table below shows NMA's land performance by submarkets in Q3'2022;

Cytonn Report: Nairobi Metropolitan Area Land Performance By Submarkets – Q3'2023

Location	Price Q3'2022	Price Q3'2023	Capital Appreciation

Price in Kshs per Acre

Satellite Towns - Unserviced Land			
Juja	13.0 mn	15.0 mn	**15.5%**
Athi River	4.7 mn	5.2 mn	**12.2%**
Limuru	21.7 mn	23.5 mn	**8.3%**
Rongai	20.3 mn	21.4 mn	**5.5%**
Utawala	16.1 mn	16.7 mn	**3.5%**
Average	**15.2 mn**	**16.4 mn**	**9.0%**
Satellite Towns - Serviced Land			
Ruiru & Juja	25.2 mn	28.1 mn	**11.4%**
Syokimau	15.5 mn	17.2 mn	**11.1%**
Ruai	11.3 mn	12.5 mn	**10.4%**
Rongai	17.8 mn	19.1 mn	**7.2%**
Athi River	14.0 mn	14.4 mn	**3.2%**
Average	**16.8 mn**	**18.3 mn**	**8.7%**
Nairobi High End Suburbs (Low and High Rise Areas)			
Runda	82.2 mn	87.9 mn	**6.9%**
Kitisuru	90.4 mn	95.0 mn	**5.0%**
Spring Valley	168.7 mn	176.5 mn	**4.6%**
Ridgeways	86.0 mn	87.0 mn	**1.2%**
Karen	65.2 mn	65.7 mn	**0.9%**
Kileleshwa	316.2 mn	301.9 mn	**(4.5%)**
Average	**134.8 mn**	**135.7 mn**	**2.4%**
Nairobi Middle End Suburbs – High Rise Residential Areas			
Kasarani	77.6 mn	82.2 mn	**6.0%**

Price in Kshs per Acre

Embakasi	76.6 mn	79.2 mn	**3.3%**
Dagoretti	98.4 mn	85.6 mn	**(13.0%)**
Average	**84.2 mn**	**82.3 mn**	**(1.2%)**
Nairobi Suburbs - Commercial Zones			
Upperhill	461.3 mn	458.1 mn	**(0.7%)**
Westlands	420.3 mn	413.2 mn	**(1.7%)**
Kilimani	384.7 mn	375.9 mn	**(2.3%)**
Riverside	342.1 mn	323.0 mn	**(5.6%)**
Average	**402.1 mn**	**392.5 mn**	**(2.6%)**
Price in Kshs per Acre			

Source: Cytonn Research

We retain a POSITIVE outlook for the land sector in the NMA which has consistently demonstrated its resilience affirming its position as a reliable investment opportunity. We expect that the sector's performance will be driven by several key factors including; i) increased demand for land for development supported by positive population demographics, ii) ongoing government initiatives to streamline land transactions leading to 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, coupled with substantial infrastructural developments resulting in higher property prices.

VI. **Infrastructure**

Notable highlights during Q3'2023 included;

i. CPF Financial Services, a leading provider of innovative financial services in Kenya and Africa Finance Corporation (AFC) signed a memorandum of understanding to jointly collaborate on infrastructure investments within the country. The agreement will see CPF make an equity investment of an undisclosed value in AFC, a move aimed at diversifying its investments from traditional asset classes, and strengthening its infrastructure investments portfolio. Under the partnership, the two entities will collaborate in identifying, developing and co-financing infrastructure projects which are in line with Kenya's development roadmap, leveraging their combined technical expertise and access to both global and domestic capital. For more information, see our Cytonn Weekly #36/2023, and,

ii. Superior Homes, a Kenyan- based housing developer broke ground for the construction of its first modern roadside stopover facility at Sultan Hamud town along the busy Nairobi – Mombasa highway. The Kshs 350.0 mn complex, which will also serve as a pilot project, is part of a partnership project between Superior Homes and Northern Corridor Transit and Transport Coordination Authority (NCTTA) in developing 30 service and rest point areas dubbed '*SupaStop*'. The rest points will strategically be located along various busy transit routes frequented by long-distance truckers traversing the country to neighbouring landlocked countries. For more information, see our Cytonn Monthly- August 2023.

We expect the infrastructure sector in Kenya to continue playing 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 increased the budgetary 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 the 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 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. Additionally, we expect both the local and national governments to continuously foster strategic partnership with other public transport agencies, and major stakeholders within and beyond the infrastructure sector. These collaborations will extend beyond road construction and encompass the development of supporting facilities with standardized and quality amenities that are poised to serve as hubs for road safety awareness campaigns, promoting a culture of safe driving.

VII. **Industrial Sector**

During Q3'2023, notable highlights in the sector included;

i. Tatu City Limited, Chandaria Properties, M&T Construction and Steel Structures broke ground for the construction of 'The Link', a warehousing and logistics park, located in Tatu City, Kiambu County. The facility will offer quality warehouse spaces ranging across 800 SQM to 8,000 SQM, targeting Small and Medium Enterprise (SME) businesses in the Tatu City Special Economic Zone (SEZ). For more information, please see our Cytonn Weekly #30/2023, and,
ii. During the week, Kenya Electricity Generating Company (KenGen), government energy and electricity generating company, and Konza Technopolis Development Authority (KoTDA), government agency overseer of the Konza Technopolis development and management, broke ground for KenGen's Green Energy Park in Olkaria, Naivasha. The industrial park project, spanning 342.0 hectares, is estimated to be developed at a cost of USD 884.0 mn (Kshs 128.4 bn). The park aims to attract a diverse range of businesses, including small, medium, and large enterprises involved in the production of fertilizers, iron, steel, plastics, packaging, fabricated metal and wood products, food and beverages, textiles, and apparel. For more information, please see our Cytonn Monthly- August 2023.

We anticipate substantial growth and development in the industrial sector in 2023 supported by; i) increased business operations in the post-election and post-COVID-19 period, ii) the government's accelerated focus on exporting agricultural and horticultural products to the international market, with aim to improve the quantity, quality, efficiency, and reliability of Kenya-farmed produce thereby increasing the country's competitiveness, iii) increased demand for cold storage facilities for perishable agricultural produces for export and drugs and vaccines whose demand is supported by the Universal Health Coverage program initiated by the government and private and Non-Governmental health organizations, iv) Kenya being recognized as a regional hub hence attracting investments exhibited by entry, expansions, mergers and acquisitions of more foreign manufacturing entities such as CFAO Motors, Taifa Gas, Unilever East Africa, Safic-Alcan, Globeleq, and many more, v) increased demand for data centres by both the government and private-sector firms driven by continued increase in demand for data protection services in line with the Data Protection Act 2019 requiring personal data to be stored in servers or data centres located within Kenya's borders, vi) increased foreign investments in Kenya's information and communication sector such as Huawei and Toshiba in collaboration with private communication firms such as Safaricom, Jamii Telkom Limited and the public sector through the Ministry of Information and Communication Technology unveiling several units for data protection services and free internet provision within the country. This is in line with governments ambition of enhancing digital superhighway across the country through its Bottom Up Economic Transformation Agenda (BETA) and the country hosting several international and regional ICT companies, such as Microsoft, IBM, Google, and Facebook, and, vii) 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. However, the prolonged stalling of development of infrastructure such as roads, water and electricity within industrial parks and in most towns continues to hamper optimum development and investments in the industrial sector.

Additionally, there are significant initiatives at both the national and county levels in Kenya aimed at boosting economic growth, particularly in the manufacturing and agriculture sectors. These initiatives involve collaboration between the National Government, County Governments, private sector partners, development organizations, and the United Nations Industrial Development Organization (UNIDO).

Since August 2023, these entities have been actively working together to implement the County Aggregation and Industrial Parks (CAIP) in the 47 Counties across the country. This project is a joint effort between the National Government, the Council of Governors, and County Governments the National Government through the Ministry of Investment, Trade and Industry and County Governments in partnership with private sector, development partners and United Nation Industrial Development Organization (UNIDO). The programme is expected to grow manufacturing and investments through Agro-Industries and enhance productivity of agriculture sector in a sustainable manner hence creating inclusive decent jobs, increase farmers' income; increase foreign exchange through Foreign Direct Investments (FDIs), provide platform where farmers, processors, exporters, research institutions, industrial bodies and Government can engage for agro-industrial development. Upon completion, each CAIP will be tailored to harness the unique potential and resources of the respective counties, with a focus on maximizing value addition to the products offered by each region. The overarching goal is to accelerate inclusive and sustainable industrial development that will have a positive impact on the country's overall economic growth.

VIII. **Statutory Review**

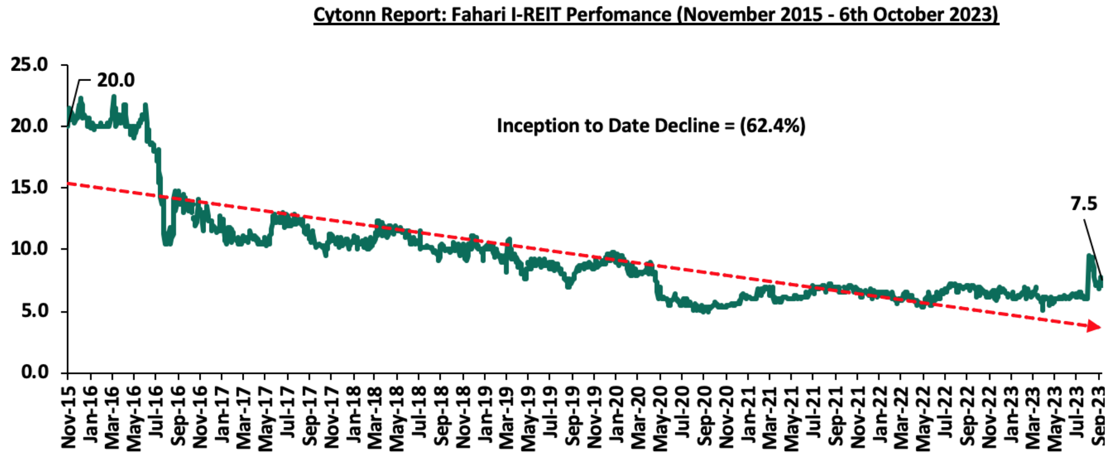
We continue to anticipate that both the national and county governments will continue to make adjustments to their legal policies and introduce new regulations to enhance transparency, efficiency, compliance, and increased transactions in the Real Estate sector. These efforts aim to strengthen Kenya's 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 secure the essential capital needed to finance nationwide affordable housing projects, with the goal of addressing the significant housing deficit, currently estimated at approximately 80.0%, ii) encouraging collaborations and partnerships between the government and private developers, further boosting the supply of affordable housing in the country, iii) 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, 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 worth noting that certain policies, such as the new Capital Gains Tax (CGT) rates, could potentially have adverse effects on the attractiveness of Kenya's Real Estate sector. These effects may include reduced property transaction volumes, limited investments due to increased merger and acquisition costs, and a slight decrease in foreign investments. Consequently, some investors may opt to divert their investments to other countries in the region with lower CGT rates.

IX. Regulated Real Estate Funds

a. Real Estate Investment Trusts (REITs)

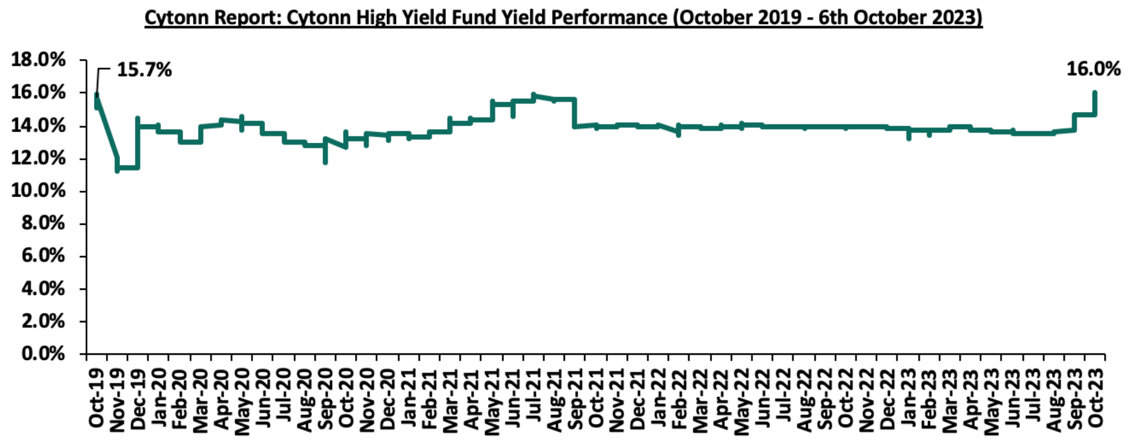
In the Nairobi Securities Exchange, ILAM Fahari I-REIT closed the week trading at an average price of Kshs 7.5 per share, marking it the last day for ILAM Fahari I-REIT to trade in the NSE Main Market Segment. The performance represented a 1.6% increase from Kshs 7.4 per share recorded the previous week, taking it to a 10.9% Year-to-Date (YTD) growth from Kshs 6.8 per share recorded on 3 January 2023. Additionally, the performance represented a 62.4% Inception-to-Date (ITD) loss from the Kshs 20.0 price. The dividend yield currently stands at 8.6%. The graph below shows Fahari I-REIT's performance from November 2015 to 06 October 2023;



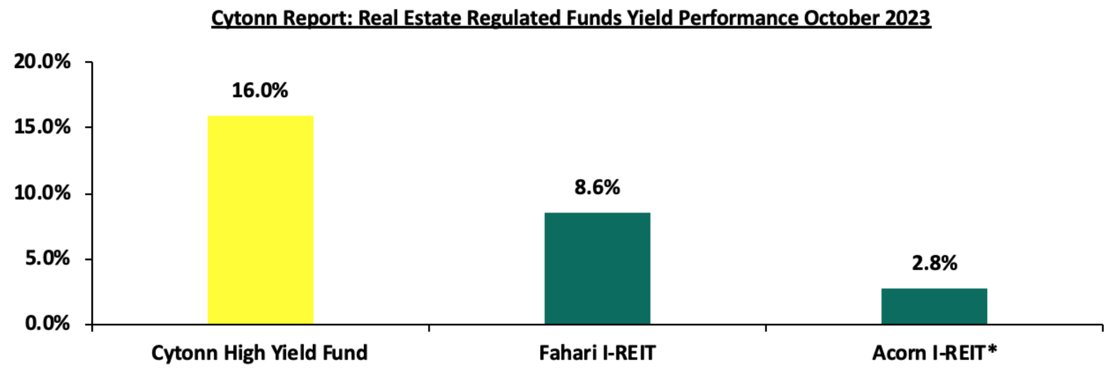
On the Unquoted Securities Platform, Acorn D-REIT and I-REIT traded at Kshs 25.3 and Kshs 21.7 per unit, respectively, as at 29 September 2023. The performance represented a 26.6% and 8.2% gain for the D-REIT and I-REIT, respectively, from the Kshs 20.0 inception price. The volumes traded for the D-REIT and I-REIT came in at 12.3 mn and 30.6 mn shares, respectively, with a turnover of Kshs 257.5 mn and Kshs 632.1 mn, respectively, since inception in February 2021.

b. Cytonn High Yield Fund (CHYF)

Cytonn High Yield Fund (CHYF) closed the week with an annualized yield of 16.0% which was 1.3% points higher than the 14.7% annualized yield recorded the previous week. The performance also represented a 2.1% points Year-to-Date (YTD) increase from 13.9% yield recorded on 1 January 2023, and 0.3% points Inception-to-Date (ITD) increase from the 15.7% yield. The graph below shows Cytonn High Yield Fund's performance from November 2019 to 06 October 2023;



Notably, the CHYF has outperformed other regulated Real Estate funds with an annualized yield of 16.0%, as compared to Fahari I-REIT and Acorn I-REIT with yields of 8.6%, and 2.8% 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;



**H1’2023*

Source: Cytonn Research

Notable highlights during Q3’2023 include;

i. During the week, the Capital Markets Authority (CMA) gave its approval for the conversion of ILAM Fahari Income Real Estate Investment Trust (REIT) from the Unrestricted Main Market segment of the Nairobi Securities Exchange (NSE) into the Restricted Market Segment through a Conversion Offering Memorandum. Under the conversion process, 36,585,134 units held by retail investors also known as non-professional investors, worth below Kshs 5.0 mn will redeem their shares at Kshs 11.0 per unit to ICEA Lion Asset Management Limited. The proposed conversion is part of the ongoing strategic restructuring of the property fund. The offer is set to commence on September 6, 2023, and will conclude on October 6, 2023. For more information, see our Cytonn Monthly- August 2023.

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.

On the other hand, the introduction of LAPTRUST Imara I-REIT on the Nairobi Securities Exchange

(NSE), the establishment of the Kenya National REIT (KNR), and the launch of the Vuka Investment Platform towards the end of 2022 are poised to bring about positive changes in Kenya's capital markets. These initiatives, in addition to the existing REIT institutions, offer several advantages. These advantages include accessing additional sources of capital, diversifying investment portfolios, generating consistent and long-term returns, enjoying tax exemptions, ensuring transparency, promoting liquidity, and offering flexibility as an asset class.

Additionally, we expect reduced activities in the industry as all REIT platforms are at a cautionary undertaking of their businesses by not actively engaging in open trading of their shares on the NSE. This may also involve restrictions on offering interim or final dividends to existing investors, as analyzed in our Kenya’s Real Estate Investments Trusts (REITS) H1’2023 Report. Instead, we expect the REITs will focus on long-term capital growth, portfolio development in Real Estate, stabilization of earnings, and acquiring more investments before considering re-entering the main market segment of NSE. Furthermore, the restriction limiting only high-net-worth individuals to buying shares contradicts a proposal made by the CMA to reduce the minimum investment for entering the market from Kshs 5.0 mn to Kshs 10,000, thereby hindering investment decisions for many small-scale retail investors who would otherwise be attracted to invest in Kenyan REITs market.
