Cytonn Q3’2024 Markets Review

Real Estate

In Q3’2024, Kenya’s Real Estate sector recorded notable growth in terms of activity compared to the similar period in 2023, attributable to various factors. Some of the key factors that have continued to shape the performance of the Real Estate sector include;

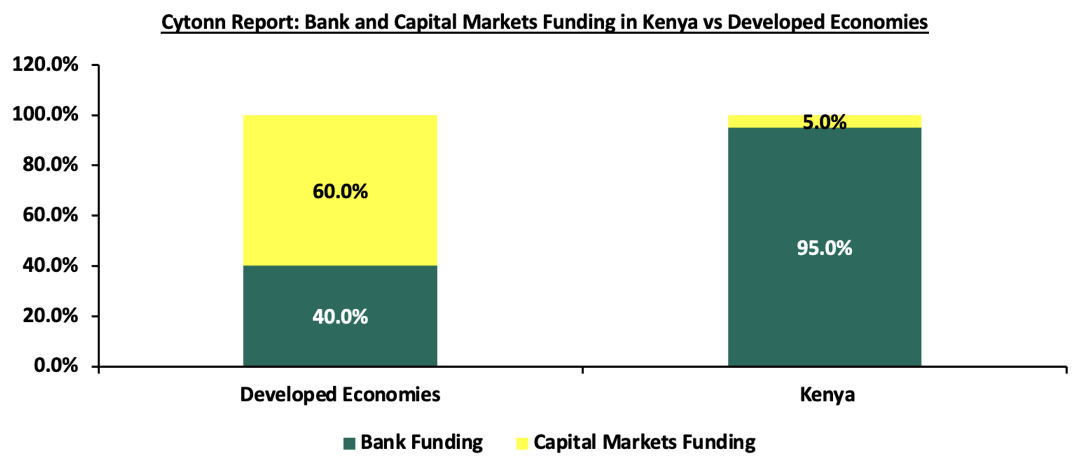
i. The government's ongoing focus on the Affordable Housing Program has been a major driver of growth. By incentivizing public-private partnerships and allocating resources for large-scale housing projects, the program has stimulated both residential construction and infrastructure development Currently, the AHP pipeline boasts an estimated total of 746,795 housing units under construction by both government and the private sector,
ii. Continuous improvements in infrastructure, such as new roads, bridges, and utilities, have opened up previously inaccessible areas for real estate development. This has led to increased property value and demand in urban and peri-urban areas. The government has continually prioritized infrastructural development in efforts aimed at positioning the country as a regional hub through the implementation of several key projects including, Makupa Bridge, Nairobi Expressway, and Nairobi Western and Eastern Bypasses among others. Notable projects delivered in 2024 include phase two of the Dongo Kundu bypass project,
iii. Kenya Mortgage Refinance Company (KMRC) has continued to drive the availability and affordability of home loans to Kenyans by providing single-digit fixed rate, and long-term finance to Primary Mortgage Lenders (PMLs) such as banks and SACCOs. Recently, KMRC, broadened its refinancing services to include non-shareholders, such as SACCOs and microfinance institutions. This is a strategic move to improve access to affordable mortgages, particularly for low and middle-income earners, a key target of Kenya's affordable housing agenda,
iv. The retail landscape has seen a surge in growth, with both domestic and international retailers like Naivas, QuickMart, China Square, and Carrefour aggressively expanding their market presence. These retailers are capitalizing on the opportunities created by the exit of distressed chains like Choppies, Nakumatt, Tuskys, and Uchumi. Furthermore, the influx of global brands such as Adidas, Puma, Aldo, and Michael Kors is poised to further fuel the sector's growth and development,
v. Kenya continues to enjoy recognition as a regional business hub. As a result, foreign entities have continued to open business operations in Kenya, boosting the demand for both commercial and residential Real Estate. Increased business activity has driven up demand for office space, apartments, and housing near business hubs, leading to the development of new projects, increased property values, and job creation in the construction sector,
vi. With relatively high urbanization and population growth rates of 3.7% p.a and 2.0% p.a, respectively, against the global average of 1.7% p.a and 0.9% p.a, respectively, as at 2023, there is a sustained demand for more housing units in the country, and Real Estate in general,
vii. Increase in investor confidence has greatly influenced the hospitality sector and this is evident through mergers, acquisitions and expansions of hotels. Furthermore, the number of international arrivals into the country registered a 13.0% year-to-year (y/y) increase to 149,922 persons as of June 2024 from 132,297 arrivals recorded in June 2023. Notably, the Hotel Chain Development Pipelines in Africa 2024 Report ranked Nairobi at 7th position by planned number of hotels and

rooms with 31 hotels and 4,268 rooms in the pipeline, and,

viii. There has been an increased popularity of purpose-built properties to host Student housing, medical centers, diplomatic residentials, and data centers which offer the potential for growth to the Real Estate sector through alternative markets. Due to these asset classes, the industry remains resilient despite the rapidly changing technological and economic environments

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

i. Rising Construction costs increased by 17.6% in H1'2024 to an average of Kshs 83,731 per SQM from an average of Kshs 71,200 per SQM recorded in 2023. 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 rising inflation. These higher costs are expected to impede development activities in the sector,
ii. 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 Nairobi Metropolitan Area (NMA) retail market, with the rest of the Kenyan retail market having an oversupply of approximately 1.7 mn SQFT. This has led to prolonged vacancy rates in the respective Real Estate sectoral themes,
iii. 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 compared to Kshs 10.0 mn for pension funds Trustees which limits the role of banks, prolonged approval process for REITs, only a few legal entities capable of incorporating REITs, high minimum subscription amounts or offer parcels set at Kshs 0.1 mn for D-REITs and 5.0 mn for restricted I-REITs and lack of adequate knowledge of the financial asset class by investors,
iv. Constrained financing to developers as credit financiers continue to tighten their lending requirements and demand more collateral from developers as a result of the high credit risk in the real estate sector. This is evidenced by an increase in Gross non-performing loans in the building and construction sector which increased by 18.0% on a y/y to Kshs 43.8 bn in Q1'2024 from Kshs 35.9 bn in Q1'2023,
v. Underdeveloped capital markets compound difficulties for developers in realizing pools of capital focused on projects, particularly in the private markets, to supplement government efforts in providing housing. Banks in Kenya are the primary source of funding for real estate developers, providing nearly 95.0% of funding as opposed to 40.0% in developed countries. This means that capital markets contribute only 5.0% of Real Estate development funding, compared to 60.0% in developed countries as shown below;



Source: World Bank, Capital Markets Authority (CMA)

Sectoral Market Performance:

I. Residential Sector

During Q3'2024, the NMA residential sector recorded a slight improvement in performance, with the average total returns coming in at 6.1%, a 0.1%-point increase from 6.0% recorded in Q3'2023. The performance is primarily attributable to an increase in the residential market average y/y rental yield which came in at 5.4% in Q3'2024, a 0.1% increase from 5.3% recorded in Q3'2023. The table below shows the NMA residential sector's performance during Q3'2024 and Q3'2023;

Cytonn Report: Nairobi Metropolitan Area (NMA) Residential Sector Summary - Q3'2024/Q3'2023

Segment	Average of Price per SQM Q3'2024	Average of Rent per SQM Q3'2024	Average of Rental Yield Q3'2024	Average of Price Appreciation Q3'2024	Average of Total Returns Q3'2024	Average of Rental Yield Q3'2023	Average of Price Appreciation Q3'2023	Average of Total Returns Q3'2023	y/y change in Rental Yield (% Points)	y/y change in Price Appreciation (% Points)	y/y change in Total Returns (% Points)
Detached Units											
High End	197,784	818	4.8%	0.6%	5.5%	5.1%	0.7%	5.8%	(0.3%)	(0.1%)	(0.3%)
Upper Middle	140,007	603	4.9%	0.7%	5.6%	4.6%	1.0%	5.5%	0.3%	(0.3%)	0.1%
Lower Middle	75,858	377	5.2%	0.9%	6.1%	5.0%	1.0%	6.0%	0.2%	0.1%	0.1%
Detached Units Average	**137,883**	**599**	**5.0%**	**0.7%**	**5.7%**	**4.9%**	**0.9%**	**5.8%**	**0.1%**	**(0.2%)**	**(0.1%)**
Apartments											
Upper Mid-End	122,497	663	5.9%	0.7%	6.6%	5.5%	0.3%	5.8%	0.4%	0.4%	0.8%
Lower Mid-End Suburbs	88,707	479	5.4%	0.8%	6.2%	5.8%	0.6%	6.4%	(0.4%)	0.2%	(0.2%)
Lower Mid-End Satellite Towns	76,300	421	6.1%	0.6%	6.7%	5.6%	0.9%	6.5%	0.5%	(0.3%)	0.2%
Apartments Average	**95,835**	**521**	**5.8%**	**0.7%**	**6.5%**	**5.6%**	**0.6%**	**6.2%**	**0.2%**	**0.1%**	**0.3%**
Residential Market Average	**116,859**	**560**	**5.4%**	**0.7%**	**6.1%**	**5.3%**	**0.8%**	**6.0%**	**0.1%**	**(0.1%)**	**0.1%**

(All values in Kshs unless stated otherwise)

A. Detached Units Performance

The table below shows the NMA residential sector detached units' performance during Q3'2024;

Cytonn Report: Residential Detached Units Summary Q3'2024

Area	Average of Price per SQM Q3'2024	Average of Rent per SQM Q3'2024	Average of Occupancy Q3'2024	Average of Uptake Q3'2024	Average of Annual Uptake Q3'2024	Average of Rental Yield Q3'2024	Average of Price Appreciation Q3'2024	Total Returns
High End								
Kitisuru	229,486	815	91.3%	95.0%	10.5%	4.3%	1.2%	5.4%
Runda	237,068	1,073	90.0%	90.0%	8.4%	5.0%	0.8%	5.7%
Karen	187,272	755	92.0%	93.7%	11.6%	4.6%	0.7%	5.3%
Rosslyn	195,018	903	92.9%	98.2%	11.2%	5.5%	0.4%	6.0%
Lower Kabete	140,076	544	92.9%	91.4%	9.1%	4.7%	0.2%	4.8%
Average	**197,784**	**818**	**91.8%**	**93.7%**	**10.2%**	**4.8%**	**0.6%**	**5.5%**
Upper Middle								
Ridgeways	168,283	655	87.5%	88.3%	8.3%	4.5%	1.2%	5.8%
Loresho	136,975	613	90.6%	90.6%	8.6%	5.2%	1.1%	6.3%
Langata	113,737	423	91.1%	87.1%	7.6%	4.1%	1.0%	5.0%
Lavington	190,105	623	91.2%	93.1%	9.8%	3.8%	0.8%	4.6%
Runda Mumwe	163,300	702	91.1%	96.2%	13.6%	5.0%	0.7%	5.7%

All values are in Kshs unless stated otherwise

Redhill & Sigona	93,628	451	91.3%	97.0%	10.8%	5.7%	0.7%	6.4%
South B/C	114,018	756	86.9%	86.3%	10.6%	5.8%	(0.3%)	5.5%
Average	**140,007**	**603**	**89.9%**	**91.2%**	**9.9%**	**4.9%**	**0.7%**	**5.6%**
Lower Middle								
Ngong	60,617	692	94.4%	93.5%	7.3%	4.8%	1.7%	6.5%
Athi River	85,946	429	88.6%	93.8%	9.8%	5.3%	1.5%	6.8%
Juja	71,596	255	89.0%	92.3%	8.1%	4.3%	1.3%	5.6%
Syokimau/Mlolongo	75,678	324	89.0%	91.9%	11.2%	4.6%	0.8%	5.4%
Thika	63,318	323	83.2%	87.8%	11.6%	5.9%	0.6%	6.5%
Kitengela	65,698	295	91.1%	90.4%	10.7%	4.9%	0.5%	5.4%
Rongai	90,342	326	96.9%	94.4%	11.4%	5.7%	0.4%	6.1%
Donholm & Komarock	93,671	369	87.5%	88.1%	9.9%	6.1%	0.3%	6.4%
Average	**75,858**	**377**	**90.0%**	**91.5%**	**10.0%**	**5.2%**	**0.9%**	**6.1%**
Detached Grand Average	**137,883**	**599**	**90.6%**	**92.1%**	**10.0%**	**5.0%**	**0.7%**	**5.7%**

All values are in Kshs unless stated otherwise

Source: Cytonn Research

The Key take-outs from the table include;

i. **Average Total Returns** –The average total return came in at 5.7%, translating to a 0.1% decrease from 5.8% recorded in Q3’2023. However, rental yields came in at 5.0%, representing a 0.1%-point decrease from the 4.9% recorded in Q3’2023. The decrease in performance is attributable to a slight decrease in selling prices per SQM at Kshs 137,883, from 137,991 respectively recorded in Q3’2023,

ii. **Segment Performance** - The best-performing segment was the lower middle segment with an average total return of 6.1% attributable to relatively high rental yields of 5.2% which is driven by returns from well-performing nodes such as Athi River, Thika, and Ngong which posted relatively high returns at 6.8%, 6.5%, and 6.5% respectively, and,

iii. **Nodal Performance** – Overall, Athi River, Ngong, and Thika were the best-performing nodes offering an average total return of 6.8%, 6.5%, and 6.5% which is higher than the detached market average of 5.7%, driven by a relatively higher price appreciation of 1.5%, 1.7%, and 0.6% respectively. Ngong is witnessing major development supported by its close proximity to the CBD and enhanced connectivity via Ngong Road. Athi River and Thika are experiencing high housing demand due to accessibility to CBD through the Nairobi Expressway and Thika Superhighway respectively. Additionally, the areas continue to offer relatively affordable housing options with average rent per SQM of Kshs 429 and Kshs 323 compared to the market average of Kshs 599.

A. Apartments Performance

The table below shows the NMA residential sector apartments’ performance during Q3’2024;

Cytonn Report: Residential Apartments Summary Q3'2024

Area	Average of Price per SQM Q3'2024	Average of Rent per SQM Q3'2024	Average of Occupancy Q3'2024	Average of Uptake Q3'2024	Average of Annual Uptake Q3'2024	Average of Rental Yield Q3'2024	Average of Price Appreciation FY'2023	Total Returns
Upper Mid-End								
Kilimani	111,699	702	92.8%	91.5%	14.7%	6.4%	1.2%	7.5%

All values are in Kshs unless stated otherwise

Parklands	130,150	672	93.7%	94.3%	10.9%	5.9%	1.0%	6.9%
Loresho	123,802	477	93.7%	80.0%	7.0%	4.3%	0.8%	5.1%
Upperhill	104,309	651	88.3%	88.0%	10.1%	5.8%	0.5%	6.2%
Kileleshwa	126,435	730	96.1%	92.9%	11.5%	6.6%	0.4%	7.0%
Westlands	138,590	748	90.5%	92.0%	15.4%	6.3%	0.3%	6.5%
Average	**122,497**	**663**	**92.5%**	**89.8%**	**11.6%**	**5.9%**	**0.7%**	**6.6%**
Lower Mid-End Suburbs								
Dagoretti	87,233	692	82.2%	81.4%	8.6%	6.1%	1.7%	7.8%
Kahawa West	76,259	317	95.4%	94.4%	8.2%	5.0%	1.3%	6.3%
South C	118,513	458	84.9%	96.2%	14.0%	4.7%	1.2%	5.9%
South B	108,971	485	93.0%	98.0%	13.2%	5.2%	1.0%	6.2%
Waiyaki Way	70,761	490	91.5%	86.6%	13.7%	5.3%	0.9%	6.2%
Imara Daima	68,947	337	95.9%	89.1%	9.5%	5.6%	0.8%	6.5%
Langata	99,519	447	93.4%	92.6%	10.5%	5.2%	0.2%	5.3%
Race Course/ Lenana	79,453	604	86.4%	89.4%	13.0%	6.0%	(0.3%)	5.7%
Average	**88,707**	**479**	**90.3%**	**91.0%**	**11.3%**	**5.4%**	**0.8%**	**6.2%**
Lower Mid-End Satellite Towns								
Syokimau	74,878	369	87.9%	89.3%	10.9%	5.5%	2.3%	7.7%
Rongai	53,025	244	89.7%	87.4%	12.7%	5.3%	1.0%	6.3%
Kikuyu	82,709	447	95.8%	96.0%	15.0%	6.3%	0.8%	7.1%
Ruaka	112,787	534	90.9%	89.7%	14.6%	6.1%	0.6%	6.7%
Ngong	64,696	406	94.6%	95.8%	14.6%	6.2%	0.3%	6.5%
Athi River	57,136	449	95.6%	98.9%	11.7%	7.1%	0.2%	7.3%
Ruiru	88,872	502	87.1%	86.4%	12.6%	5.9%	(0.8%)	5.1%
Average	**76,300**	**421**	**91.7%**	**91.9%**	**13.1%**	**6.1%**	**0.6%**	**6.7%**
Apartment Grand Average	**95,835**	**521**	**91.5%**	**90.9%**	**12.0%**	**5.8%**	**0.7%**	**6.5%**

All values are in Kshs unless stated otherwise

The key take-outs from the table include;

i. **Average Total Returns** – The average total return came in at 6.5%, representing a 0.3% increase from 6.2% recorded in Q3'2023. In Q3'2024 the average selling and rental prices remained stable at Kshs 95,835 per SQM and Kshs 521 per SQM respectively, from Kshs 95, 663 per SQM and Kshs 504 registered in Q3'2023. Average rental yields came in at 5.8%, 0.2% higher than the 5.6% recorded in Q3'2023 driven by a 4.3% increase in occupancy to 91.5% in Q3'2024, from 87.2% registered in Q3'2023,

ii. **Segment Performance** – The best-performing segment was the lower mid-end satellite towns with the average total return coming in at 6.7%, attributed to a higher average rental yield of 6.1% against the sector average of 5.8%. The segment's performance is boosted by nodes such as Syokimau, Athi River, Kikuyu, and Ruaka, with total returns of 7.7%, 7.3%, 7.1%, and 6.7% respectively which have become highly attractive for investment, and,

iii. **Nodal Performance** – Dagoretti, Syokimau, and Kilimani, were the best-performing nodes with total average returns of 7.8%, 7.7 %, and 7.5%, respectively attributable to higher average appreciations of 1.7%, 2.3%, and 1.2% respectively against the market average of 0.7%. The nodes' performance is attributable to the enhanced accessibility of these subject areas from the CBD, the presence of various retail outlets in Kilimani, and enhanced proximity to other residential areas making these areas attractive to residential development. On the other hand, Athi River, Kikuyu, and Kileleshwa followed closely in the nodal performance with total average returns of 7.3%, 7.1%, and 7.0% respectively.

Weekly Highlights:

a. **Centum Two Rivers apartment handover**

During the week, Centum Real Estate completed the handover of over 24 four-bedroom luxury apartment units as part of its phase two Loft residence project at the Two Rivers mixed-use development. The luxury apartment units were sold for between Kshs 36.0 mn and Kshs 52.0 mn, marking a significant milestone for the firm, which also has developments in Nairobi, Kilifi, and Entebbe, Uganda. Phase 1 of the project was completed in February last year, with 32 units sold at prices starting from Kshs 55.0 mn. The project was funded through a Kshs 3.0 bn bond issued by Centum Re, a subsidiary of Centum Company, which is listed on the Nairobi Securities Exchange (NSE). In addition, Centum reported that 21.0% of buyers used mortgage financing while 79.0% made milestone cash payments.

We expect Centum Real Estate's success with the Loft residence project to reinforce the growing trend of mixed-use developments (MUDs) in Nairobi and beyond. These projects, which integrate residential, commercial, and sometimes retail or office spaces, are increasingly appealing to both developers and investors due to the efficiency and value they offer. By combining multiple property types in one location, MUDs create synergies that attract a variety of tenants and buyers, contributing to higher occupancy rates and better returns on investment.

b. **Madison and HF Group Financing deal**

During the week, Madison Life Assurance, in partnership with HF Group, announced the availability of affordable financing options for individuals looking to purchase and build homes at VillaKazi Homes in Athi River, Machakos County. VillaKazi Homes is a master-planned, fully serviced, mixed-use real estate development spanning 100 acres, with a project value of Kshs 3.0 bn. The development will feature over 700 residential units, as well as commercial centers, and will be completed in four phases.

HFC will provide project management, sales, marketing, and end-user buyer financing for the development. Additionally, under the partnership, HFC will offer affordable loans with a fixed interest rate of 9.5% on the project cost. The pricing for plots starts at Kshs 2.8 mn, with financing of up to 70.0% available through HFC.

We expect that the partnership to provide affordable financing for VillaKazi Homes will significantly boost homeownership, particularly in Kenya's growing satellite towns like Athi River. By offering accessible loans, more middle-income buyers will have the opportunity to own homes, addressing the rising demand for affordable housing options.

Notable highlights during Q3'2024 were;

i. The Kenya Mortgage Refinance Company (KMRC) broadened its refinancing services to include non-shareholders, such as SACCOs and microfinance institutions. This is a strategic move to improve access to affordable mortgages, particularly for low- and middle-income earners, a key target of Kenya's affordable housing agenda. For more information, please see our Cytonn Weekly #39/2024, and,

For more notable highlights during Q3'2024, please see our Cytonn Monthly August 2024 and

Our outlook for the NMA residential sector remains NEUTRAL, as we foresee increased activity from in the industry supported by: i) housing demand fueled by population growth and high urbanization rates, ii) government infrastructure development projects, iii) government initiatives, particularly the Affordable Housing Agenda which is being rolled out countrywide. However, growth in the sector remains hindered by rising construction costs, a challenging macroeconomic climate, and limited financing options for developers.

II. Commercial Office Sector

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

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

Year	Q1'2023	H1'2023	Q3'2023	FY'2023	Q1'2024	H1'2024	Q3'2024	Δ Q3'2023/ Q3'2024
Occupancy %	79.8%	80.8%	79.9%	80.3%	80.1%	80.1%	79.6%	(0.3%)
Asking Rents (Kshs/SQFT)	97	98	100	103	103	103	104	3.8%
Average Prices (Kshs/SQFT)	12,238	12,238	12,265	12,673	12,665	12,677	12,677	3.4%
Average Rental Yields (%)	7.6%	7.9%	7.4%	7.7%	7.6%	7.7%	7.7%	0.3%

All figures in Kshs unless stated otherwise

Source: Cytonn Research

The key take-outs from the table include

i. **Average Asking Rents** – In Q3’2024, average asking rents per SQFT in the NMA increased by 3.8% to Kshs 104 from Kshs 100 in Q3’2023. We attribute this increase to the rise in the supply of Grade A offices in the market during the review period. New Grade A offices added to the pipeline during this period between Q3’2023 and Q3’2024, include Eneo, Karen Green, The Cube, and the Piano, thereby driving up the asking prices for commercial office spaces. Additionally, we expect more commercial office spaces in the market once the following projects are completed; Highway Heights, The Atrium, Purple Tower, and Mandrake in Westlands. On a q/q basis, the asking rents have increased by 3.8% attributable to an improvement in the Kenyan economy which grew by 4.6% as of Q2’2024, and an increase in high-quality office spaces in the market,

ii. **Average Occupancy Rate** – In Q3’2024, commercial office occupancy showed a slight decrease of 0.3% points to 79.6% from 79.9% recorded in Q3’2023. This decrease can be attributed to the increased supply of new office spaces in the market. On a quarter-on-quarter basis, occupancy decreased by 0.5% point to 79.6% from 80.1% reflecting slower activities in the market and,

iii. **Average Rental Yield** – The average rental yields showed resilience with 0.3%-points increase, coming at 7.7% in Q3’2024 from 7.4% in Q3’2023. This is attributable to an increase in rental prices by 3.8% to Kshs 104 from Kshs 100. On q/q basis, performances remained unchanged as well.

For submarket performance, Westlands emerged as the top performer, achieving an average rental yield of 8.6% in Q3’2024, surpassing the market average of 7.7%. Gigiri and Kilimani also performed strongly, with rental yields of 8.4% and 7.8%, respectively. This performance can be attributed to several factors: i) a high concentration of Grade A offices in these areas, ii) robust infrastructure developments such as roads like the Nairobi Express Way and the expanded Waiyaki Way, iii) increasing demand for high-quality offices driven by embassies, international organizations, and multinational companies, and iv) availability of after-work amenities like hotels and quality social venues. In contrast, Mombasa Road was the least performing node with an average rental yield of 6.1% in Q3’2024, 1.6% points lower than the market average of 7.7%. This lower performance can be attributed to: i) its reputation as an industrial center, which diminishes its appeal to office businesses aiming to attract clients, ii) the general perception that the area is less ideal for businesses, iii) intense competition from other neighbourhoods such as the CBD and Upperhill, and (iv) offices of relatively lower quality, which are perceived as less attractive and thus command lower rents, as evidenced by a 72.2% occupancy rate, 7.4% lower than the market average of 79.6%. The table below displays the performance of sub-markets in the Nairobi Metropolitan Area (NMA).

Cytonn Report: NMA Commercial Office Submarket Performance Q3'2024

Area	Price/SQFT Q3'2024	Rent/SQFT Q3'2024	Occupancy Q3'2024	Rental Yields Q3'2024	Price/SQFT Q3'2023	Rent/SQFT Q3'2023	Occupancy Q3'2023	Rental Yields Q3'2023	Δ in Rent	Δ in Occupancy (% points)	Δ in Rental Yields (% points)
Westlands	12,448	119	76.3%	**8.6%**	12146	114	75.2%	**8.4%**	3.8%	1.1%	0.1%
Gigiri	14,850	127	81.6%	**8.4%**	13,500	115	82.2%	**8.5%**	10.4%	(0.6%)	(0.1%)
Kilimani	13,051	102	82.7%	**7.8%**	12,356	98	83.4%	**7.9%**	3.5%	(0.6%)	(0.0%)
Parklands	11,922	94	83.0%	**7.8%**	11,662	93	83.6%	**8.0%**	1.3%	(0.7%)	(0.2%)
Karen	14,315	115	80.9%	**7.8%**	13,431	116	79.7%	**8.3%**	(1.0%)	1.2%	(0.5%)
Nairobi CBD	12,206	92	85.2%	**7.7%**	11,971	87	85.0%	**7.6%**	5.1%	0.1%	0.1%
Upperhill	13,014	100	73.4%	**6.7%**	12,605	98	76.1%	**7.1%**	2.0%	(2.7%)	(0.4%)
Thika Road	12,571	88	76.6%	**6.3%**	12,571	79	80.1%	**6.0%**	12.4%	(3.5%)	0.2%
Mombasa Road	11,325	80	72.2%	**6.1%**	11,325	71	67.9%	**5.2%**	11.5%	4.3%	0.8%
Average	**12,677**	**104**	**79.6%**	**7.7%**	**12,265**	**100**	**79.6%**	**7.7%**	**5.4%**	**(0.3%)**	**0.0%**

All Values are in Kshs unless stated otherwise

Source: Cytonn Research

Notable highlights in Q3'2024 include;

i. Within the month, The Kenya Ports Authority (KPA) announced plans to construct a multistoried office tower away from Mombasa Port in a bid to ease congestion, improve security, and rent out offices and conference rooms to earn additional revenue. The complex will comprise approximately 40,000 SQM of office space for KPA staff, four times the space they are using now. For more details, please see our Cytonn weekly #39/2024.

For more highlights during the quarter, please see our Cytonn Monthly – July 2024.

The commercial office sector in Nairobi Metropolitan Area (NMA) remains NEUTRAL, impacted by several key dynamics: i) the increasing presence of multinational companies in Kenya is likely to drive up occupancy levels, ii) co-working spaces are gaining in popularity in the region. However, the sector continues to face challenges due to a significant oversupply of office space, currently standing at 5.8 mn SQFT. Despite these challenges, there are attractive investment opportunities in areas such as Westlands, Gigiri, and Kilimani, which offer returns that exceed the market average.

III. Retail Sector

The table below shows the performance of the retail sector performance in Nairobi Metropolitan Area from Q1'2023 to Q3'2024;

Cytonn Report: Summary of Retail Sector Performance in Nairobi Metropolitan Area Q1'2023 - Q3'2024

Item	Q1'2023	H1'2023	Q3'2023	FY'2023	Q1'2024	H1'2024	Q3'2024	Y/Y 2024 Δ
Average Asking Rents (Kshs/SQFT)	176	177	**182**	182	180	182	**185**	**1.6%**
Average Occupancy (%)	78.0%	79.2%	**78.7%**	78.7%	79.3%	79.8%	**81.4%**	**2.7%**
Average Rental Yields	8.0%	8.2%	**8.2%**	8.3%	8.1%	7.9%	**8.2%**	**0.0%**

All values in Kshs unless stated otherwise

All values in Kshs unless stated otherwise

Source: Cytonn Research

The key take-outs from the table include;

i. **Average Occupancy Rate** – During Q3’2024, the retail sector experienced a slight increase in average occupancy rates, rising by 2.7 % points to reach 81.4%, up from 78.7% in the same period in 2023. This growth can be attributed to several key factors: i) ongoing expansion by both local and global retailers, such as Naivas, Jaza Stores, QuickMart, Carrefour, China Square, and Panda Mart, ii) the rise of new shopping centers like Business Bay Square (BBS) Mall in Eastleigh, which has drawn a variety of smaller retailers, effectively filling crucial retail spaces, iii) continued demand for consumer products and services, fueled by favourable demographic trends, iv) response to shifting market conditions, with efforts from Jaza Stores and Carrefour enabling online shopping via platforms like WhatsApp to meet changing consumer preferences, v) ongoing infrastructure development, which has both improved existing retail spaces and created new opportunities for retail expansion, broadening the sector's footprint,

ii. **Asking Rents** – In Q3’2024, average rental rates per SQFT saw a slight rise, increasing by 1.6% to Kshs 185, up from Kshs 182 in Q3’2023. Several key factors contributed to this slight increase: i) the launch of upscale retail spaces like the Global Trade Centre (GTC) mall and Business Bay Square (BBS) Mall, which commanded premium rents due to their superior facilities and offerings, ii) ongoing demand for high-end retail spaces in prime locations within the Nairobi Metropolitan Area (NMA), including Karen, Kilimani, Westlands, and along Kiambu and Limuru roads. These strategic locations, known for their quality amenities, attracted both local and international businesses aiming to be near multinational corporations and embassies, catering to a global clientele, iii) the entry of prominent international brands like Adidas, Michael Kors, Puma, and Aldo into the Kenyan market, increasing competition for top-tier retail spaces and driving up rental prices, and,

iii. **Average Rental Yield**- The average rental yield for the NMA retail sector was stable at 8.2% in both periods, this stagnation was attributable to the increase in the average rental prices by 1.6% to Kshs 185, up from Kshs 182 in Q3’2023, increase in the average occupancy rates by 2.7% to 81.4% from 78.7% in Q3’2024, and the increase in average sales price which rose by 3.6% to Kshs 21,381 from Kshs 20,643 in Q3’2023, matching the rental prices increase and the average occupancy increase.

In terms of sub-market performance, Kilimani, Karen, and Kiambu Road & Limuru Road displayed impressive average rental yields of 9.8%, 9.7%, and 8.9%, respectively, surpassing the overall market average of 8.2%. This strong performance was mainly driven by the growing demand for retail services in these key areas, the availability of premium retail spaces commanding higher rents, and the provision of high-quality infrastructure, which increased the appeal for both tenants and customers.

Conversely, retail spaces in Thika Road reported the lowest average rental yield at 6.3%, influenced by several factors: i) rental rates in Thika Road were significantly below the market average of Kshs 185 per SQFT, standing at Kshs 160 per SQFT due to oversupply of retail space from numerous malls along Thika Road thereby creating an excess in supply, reducing demand and rental rates, ii) there is oversaturation of retail businesses which increases competition among malls and retail spaces forcing landlords to lower rents to attract customers, iii) increased e-commerce reduces demand for physical retail spaces along Thika Road, iv) certain retail spaces suffer from insufficient foot traffic, particularly outside peak hours or in less popular malls.

The following table illustrates the submarket performance of nodes within the Nairobi Metropolitan Area (NMA) in Q3’2024;

Nairobi Metropolitan Area Retail Market Performance Q3’2024

Area	Prices Kshs /SQFT Q3’2024	Rent Kshs /SQFT Q3’2024	Occupancy% Q3’2024	Rental Yield Q3’2024	Prices Kshs /SQFT Q3’2023	Rent Kshs /SQFT Q3’2023	Occupancy% Q3’2023	Rental Yield Q3’2023	Δ in Rental Rates	Δ in Occupancy (% points)	Δ in Rental Yield (% points)
Kilimani	20,000	198	82.2%	**9.8%**	19,200	192	82.3%	**9.9%**	3.0%	(0.1%)	(0.1%)
Karen	23,600	218	87.5%	**9.7%**	22,400	217	85.0%	**10.0%**	0.4%	2.5%	(0.3%)
Kiambu road & Limuru Road	20,667	201	76.3%	**8.9%**	20,667	202	74.0%	**8.7%**	(0.6%)	2.4%	0.2%
Ngong Road	23,013	191	86.2%	**8.7%**	21,250	170	81.0%	**7.8%**	12.3%	5.2%	0.9%
Mombasa road	19,571	169	82.9%	**8.6%**	19,571	168	78.7%	**8.0%**	0.4%	4.2%	0.5%
Eastlands	20,500	161	78.1%	**7.3%**	20,500	160	71.7%	**6.2%**	0.4%	6.4%	1.1%
Satellite towns	19,600	140	82.8%	**7.2%**	19,200	139	79.8%	**6.9%**	0.7%	3.0%	0.3%
Westlands	25,000	239	79.4%	**7.1%**	22000	216	77.6%	**9.1%**	10.6%	1.8%	(2.0%)
Thika Road	20,473	160	79.3%	**6.3%**	21,000	165	80.7%	**7.5%**	(2.8%)	(1.3%)	(1.2%)
Average	**21,381**	**185**	**81.4%**	**8.2%**	**20,643**	**182**	**78.7%**	**8.2%**	**1.6%**	**2.7%**	**0.0%**

(All values in Kshs unless stated otherwise)

Source: Cytonn Research

The notable highlight in the month of September was;

i. French retailer Carrefour Supermarket opened its latest store in Ruiru, Kiambu county marking its 24th outlet in the country. The retail store is situated at the newly developed Nord Mall, Ruiru town, Kiambu. The company aims to continue offering a wide selection of household products to the residents around Ruiru town with items ranging from appliances, furniture, stationary, and groceries among many other items. For more information, please see our Cytonn Weekly #38/2024

For notable highlights during the quarter; please see our Cytonn Monthly – August 2024.

We maintain a NEUTRAL outlook on the retail sector’s performance for 2024, influenced by several factors: i) Continued expansion by local and international retailers, driven by evolving consumer preferences and market trends, ii) Infrastructure improvements, including ongoing road and railway projects, are set to increase accessibility to key retail zones, unlocking further investment opportunities, and iii) Favorable demographic trends, such as a growing urban population, will sustain demand for retail goods and services. However, growth could face challenges from: i) Oversupply issues, with around 3.0 min SQFT of retail space available in Nairobi and an additional 1.7 mn SQFT countrywide, leading to low occupancy rates and rental yields, ii) E-commerce adoption, increasingly shifting retail demand online, pushing brick-and-mortar outlets to adapt, and iii) Limited financing options for retail developments, along with high costs, are likely to hinder investment, especially for small and medium-sized enterprises (SMEs) that need to adopt technology to stay competitive

IV. **Hospitality Sector**

During Q3’2024, Industry Reports related to the Hospitality sector were released as follows;

Cytonn Report: Released Industry Report related to Hospitality Sector Q3'2024

#	Report	Key Take-outs
1.	Leading Economic Indicators (LEI) July 2024 Report	• The Kenya National Bureau of Statistics (KNBS) released the Leading Economic Indicators (LEI) July 2024 Report, which highlighted the performance of major economic indicators. Key highlights related to the Real Estate sector include; • The total value of building plans approved in the Nairobi Metropolitan Area (NMA) decreased on y/y basis by 38.4% to Kshs 15.5 bn in July 2024, from Kshs 23.2 bn recorded in July 2023. In addition, on a monthly basis, the performance represented a 33.3% decrease from Kshs 25.7 bn recorded in June 2024. • This decrease in performance may be attributable to; delays experienced by developers in acquiring building plan approvals from the county planning department and the clearing of the backlog of pending approvals in June after the county lifted a ban that had stopped new approvals from the previous months. The chart below shows the value of building plans approved in the Nairobi Metropolitan Area (NMA) between Q1'2021 and July 2024; • For more information, please see our Cytonn Weekly #38/2024
2.	Q1'2024 Quarterly Economic Review Central Bank of Kenya (CBK)	• Central Bank of Kenya (CBK) released their Q1'2024 Quarterly Economic Review which highlighted that the year-on-year (y/y) gross loans advanced to the Real Estate sector increased by 3.7% to Kshs 499.0 bn in Q1'2024, from Kshs 481.0 bn in Q1'2023. The advanced loans also represented a 2.0% quarter-on-quarter (q/q) decrease from Kshs 509.0 bn realized in Q4'2023. • The gross Non-Performing Loans (NPLs) in the Real Estate sector realized a q/q increase of 15.0% to Kshs 117.1 bn in Q1'2024, from Kshs 101.70 bn in Q4'2023. • The gross loans advanced to the hospitality sector decreased by 0.9% to Kshs 111.0 bn in Q1'2024, from Kshs 112.0 bn in Q1'2023 on a y/y basis. On a q/q basis, the performance also represented a 9.8%-point decrease to Kshs 111.0 bn recorded in Q1'2024 from Kshs 123.0 bn in Q4'2023. • Gross NPLs in the hospitality sector reduced on a y/y basis by 15.8% to Kshs 15.2 bn in Q1'2024 from Kshs 12.8 bn in Q1'2023. • Gross loans advanced to the building and construction sector recorded a y/y growth of 5.7% to Kshs 159.0 bn in Q1'2024, from Kshs 150.0 bn in Q1'2023. This also represented a 1.3% q/q decrease from Kshs 161.0 bn recorded in Q4'2023 • Additionally, Gross NPLs in the building and construction sector increased by 18.0% on a y/y to Kshs 43.8 bn in Q1'2024 from Kshs 35.9 bn in Q1'2023. • For more information, please see our Cytonn Weekly #32/2024
3.	Leading Economic Indicators (LEI) June 2024 Report by the Kenya National Bureau of Statistics (KNBS)	• The Kenya National Bureau of Statistics (KNBS) released the Leading Economic Indicators (LEI) June 2024 Report which highlighted that the total value of building plans approved in the Nairobi Metropolitan Area (NMA) increased y/y basis by 136.1% to Kshs 59.8 bn in Q2'2024, from Kshs 25.3 bn recorded in Q2'2023. • The consumption of cement came in at 0.7 mn metric tonnes in April 2024, a 7.0% increase from 0.65 mn metric tonnes recorded in March 2024. On a y/y basis, the performance represented a 5.5% decrease from 0.74 mn metric tonnes recorded in April 2023. • In June 2024, the number of arrivals was 149,922, reflecting a 27.4% increase from 117,639 in May 2024. On a year-on-year basis, this represented a 13.3% increase compared to 132,297 arrivals in June 2023. • The accommodation and restaurant services grew by 28.0% during Q1'2024, representing a 19.1%-points y/y decline from the 47.1% growth recorded in Q1'2023. • For more information, please see our Cytonn Weekly #32/2024.
4.	2024 Economic Survey by Kenya Bureau of Statistics	• The Kenya National Bureau of Statistics (KNBS) released the Q1'2024 GDP Report which highlighted that the Real Estate sector posted steady growth of 6.6% in Q1'2024, which is 0.7% points slower than the 7.3% growth registered in Q1'2023 • The construction sector grew by 0.1% in Q1'2024, which is 2.9% points slower than the 3.0% growth in Q1 2023. On a quarter-on-quarter basis, this performance represented a 2.1%-points decrease from the 2.2% growth recorded in Q4'2023 • The accommodation and restaurant services grew by 28.0% during Q1'2024, representing a 19.1%-points y/y decline from the 47.1% growth recorded in Q1'2023. • For more information, please see our Cytonn Weekly #27/2024.

Source; Cytonn Research

We maintain a neutral outlook for the hospitality sector in the coming quarter, supported by several key drivers: i) Aggressive marketing campaigns promoting Kenya's tourism, expected to boost tourist arrivals and improve occupancy rates at hospitality venues, ii) International recognition of Kenya's tourism industry, enhancing its status as a leading tourist destination and drawing more global visitors, iii) Strategic partnerships within the

tourism sector, fostering innovation and collaboration to capitalize on new opportunities, iv) Events and initiatives aimed at increasing tourism activity and improving guest experiences, and v) Direct flights from Dubai to Mombasa by FlyDubai, expected to enhance accessibility and attract tourists from key markets, vi) Domestic tourism promotion under the Ministry of Tourism Strategy 2021-2025 strategy, prioritizing local tourism growth. However, challenges may arise from: i) Financing difficulties, as stricter lending criteria could limit access to capital for expanding hospitality infrastructure

V. **Industrial Sector**

Notable highlights in the quarter include;

i. Taita-Taveta County is set to achieve an economic milestone with the approval of a Kshs 11.0 bn steel plant by Devki Steel Mills Limited which will be completed within eight months. The plant is set to be constructed in Manga area, Voi. Narendra Raval of Devki Steel Mills was officially handed a 500-acre parcel of land to commence the construction of the plant. For more information, please see our Cytonn monthly August 2024.

For more notable highlights during Q3'2024 please see our Cytonn Monthly –July.

We expect that the Kenyan industrial Real Estate sector to continue on an upward trajectory mainly driven by: i)Kenya's continued recognition as a regional hub, hence attracting both local and international investors, ii) support from the government, as evidenced by the establishment of Special Economic Zones (SEZ) and Export Processing Zones (EPZ), iii) increasing demand for quality warehousing spaces due to continued growth in the E-commerce business in the country iv) the growing establishment of data centers in the country, v) increasing demand for cold storage facilities around Nairobi Metropolitan Area (NMA) driven by consumption by the middle class.

VI. **Infrastructure**

During the week, Superior Homes, a Real Estate developer, unveiled the first roadside truck stopover complex along the Northern Corridor at Sultan Hamud on the Nairobi-Mombasa highway. The complex, dubbed Supastop, is expected to cost approximately Kshs 350.0 mn and aims to promote road safety while providing a secure resting point for long-distance truck drivers and travellers who park along the route daily. Sultan Hamud is strategically located at the center of a 145-kilometer stretch between Mtito Andei and Salama, making it a significant parking spot for long-distance trucks traveling to or from Mombasa. The project is anticipated to be completed in partnership with the Northern Corridor Transit and Transport Coordination Authority, aiming to provide safe and decent accommodation facilities for long-distance drivers.

We expect that the unveiling of the Supastop truck stopover complex will significantly enhance road safety and convenience for long-distance truck drivers and travellers along the Nairobi-Mombasa highway. The strategic location of Sultan Hamud as a central parking spot for trucks is likely to increase traffic and boost economic activity in the area, opening it up to further investment opportunities in retail and accommodation spaces.

Key highlights during Q3'2024;

i. President Willian Ruto launched upgrading of link roads in Suna East Constituency in Migori county during his Nyanza area tour. Upon completion, the roads are expected to further Migori's business vibrancy, improve livelihoods, and unlock the region's economic potential. Further, the president launched the construction of Rusinga Ring Road in Homa Bay County. The road will ease the transportation pressures in the area, promote business in the area, and contribute to economic growth by providing improved accessibility and basic services which will attract investments and create jobs for the locals. Please see our Cytonn Monthly August,

ii. President William Ruto launched the tarmacking of the 25-kilometre Rukuriri-Kathageri-Kanyaumbora road in Embu County. Upon completion, the road is expected to further Embu's agricultural vibrancy, improve livelihoods, and unlock the region's economic potential. For more information, please see our Cytonn weekly #32/2024,
iii. The Dongo Kundu Bypass was officially opened to the public following its handover by the contractor to the government. This Kshs 40 bn project, undertaken by the China Civil Engineering Construction Corporation (CCECC), began in 2018 and features a 17.5-kilometer road with three bridges. For more information, please see our Cytonn weekly #32/2024, and,
iv. The president, oversaw ground breaking for the tarmacking of 65.0-Kilometre-long link roads in Sombogo, Kitutu Chache, and tarmacking of Metembe-Ngenyi/Bobaracho-Ititi/Rioma-Nyaore/Marani-Nyakoe Roads in Marani, Kisii County. For more information, please see our Cytonn weekly #33/2024.

For more notable highlights during Q3'2024 please see our Cytonn Monthly – August 2024, and Cytonn Monthly –July.

We anticipate that Kenya's infrastructure sector will continue to play a vital role in driving economic growth, supported by the government's commitment to building and rehabilitating key infrastructure such as roads, bridges, railways, and airports. These improvements are expected to enhance the efficient movement of people, goods, and services, which will, in turn, boost demand for real estate properties in remote areas and satellite towns.

III. **Land Sector**

During the period under review, the land sector in Nairobi Metropolitan Area (NMA) recorded a price appreciation of 3.9% to Kshs 130.8 mn from 129.0 mn. This performance was bolstered by;

i. The growing demand for land in the Nairobi Metropolitan Area (NMA) is driven by a rising population, as individuals from various regions of the country migrate annually in search of employment, education, and other opportunities,
ii. The fixed supply of land has intensified demand, particularly for residential and commercial purposes, leading to an increase in land prices,
iii. There is an expanding middle class in the NMA with disposable income, willing to invest in land as a savings and investment option,
iv. The government's ongoing infrastructural development projects, such as roads, sewers, railways, and water connections, are opening up more satellite towns, subsequently driving land prices upward,
v. The widely held belief among the middle class that land represents a secure form of wealth has prompted many families to save specifically for land acquisition, and,
vi. The government's Affordable Housing Program, under the Bottom-Up Economic Transformation Agenda (BETA), has initiated construction projects across various parts of Nairobi and the country, further increasing land values due to heightened construction activity.

Overall Performance:

Un-serviced land in Satellite Towns registered the highest capital appreciation during the period under review, with an annual capital appreciation of 9.5%, where average selling prices rose to Kshs 17.9 mn from Kshs 16.4 mn recorded in Q3'2023. The performance in this segment can be attributed to several factors: i) relatively lower prices, with the average selling prices at Kshs 17.9 mn compared to the market average of Kshs 130.8 mn in the Nairobi Metropolitan Area (NMA), ii) a growing middle class willing to invest in Satellite Towns as they settle their families, iii) the anticipation of price increases once various services are introduced in these areas, and iv) the desire to settle in areas free from the city's hustle and pollution. On the other hand, land in Nairobi Suburbs under the Commercial Areas recorded the least movement with an annual capital appreciation of 0.6%, below the market average of 3.9%. This was mainly due to the high selling prices, which averaged Kshs 394.9 mn, relatively higher than the market average of Kshs 130.8 mn The table below shows the overall performance of the sector across all land sub-sectors during Q3’2024;

Cytonn Report: Summary of the Performance Across All regions Q3’2024

	Q3'2023	Q3'2024	Annualized Capital Appreciation
Un-serviced land - Satellite Towns	16.4 mn	17.9 mn	**9.5%**
Serviced Land - Satellite Towns	18.3 mn	19.2 mn	**5.4%**
Nairobi Middle End Suburbs – High Rise Residential Areas	82.3 mn	84.5 mn	**2.5%**
Nairobi High End Suburbs (Low- and High-Rise Areas)	135.7 mn	137.5 mn	**1.3%**
Nairobi Suburbs- Commercial Areas	392.6 mn	394.9 mn	**0.6%**
Average	**129.0 mn**	**130.8 mn**	**3.9%**

Source: Cytonn Research

Sub-markets Performance – For the unserviced satellite towns, Rongai, Juja, and Utawala emerged as the best-performing nodes with annualized capital appreciation of 19.1%, 6.9%, and 6.6%, respectively. This performance can be attributed to: i) close proximity to several transport routes, ii) a high concentration of higher learning institutions, driving the demand for student accommodation, iii) a rising middle class looking to settle in these areas, iv) good proximity to retail centers such as malls, and v) relatively affordable prices compared to the market average. Additionally, land in unserviced towns presents a good opportunity for speculative investors, who invest in anticipation of price appreciation. On the other hand, Commercial Areas in Nairobi’s Suburbs registered the least price movement, with Upperhill recording a correction of 0.4%. The segment had the highest price per acre, with the average selling price coming in at Kshs 394.9 mn, significantly higher than the market average of Kshs 130.8 mn. Notably, some areas in this segment, such as Kilimani, are witnessing a proliferation of high-rise apartments, which has made them less attractive. The table below shows NMA’s land performance by submarkets in Q3’2024;

Cytonn Report: Nairobi Metropolitan Area Land Performance By Submarkets – Q3’2024

Location	Price Q3'2023	Price Q3'2024	Capital Appreciation
Satellite Towns - Unserviced Land			
Rongai	21.4 mn	25.5 mn	19.1%
Juja	15.0 mn	16.0 mn	6.9%
Utawala	16.7 mn	17.8 mn	6.6%
Limuru	23.5 mn	25.0 mn	6.4%
Athi River	5.2 mn	5.2 mn	0.0%
Average	**16.4 mn**	**17.9 mn**	**9.5%**
Satellite Towns - Serviced Land			
Athi River	14.4 mn	16.2 mn	12.6%
Syokimau	17.2 mn	18.8 mn	9.3%

Price in Kshs per Acre

Ruai	12.5 mn	13.1 mn	4.7%
Rongai	19.1 mn	19.6 mn	2.4%
Ruiru & Juja	28.1 mn	28.6 mn	1.7%
Average	**18.3 mn**	**19.2 mn**	**5.4%**
Nairobi Middle End Suburbs – High Rise Residential Areas			
Embakasi	79.2 mn	82.7 mn	4.2%
Kasarani	82.2 mn	84.7 mn	3.0%
Dagoretti	85.6 mn	86.0 mn	0.5%
Average	**82.3 mn**	**84.5 mn**	**2.5%**
Nairobi High End Suburbs (Low and High Rise Areas)			
Ridgeways	87.0 mn	91.3 mn	5.0%
Kileleshwa	301.9 mn	309.0 mn	2.3%
Kitisuru	95.0 mn	96.1 mn	1.2%
Runda	87.9 mn	88.9 mn	1.2%
Spring Valley	176.5 mn	175.5 mn	(0.6%)
Karen	65.7 mn	64.2 mn	(2.4%)
Average	**135.7 mn**	**137.5 mn**	**1.3%**
Nairobi Suburbs - Commercial Zones			
Westlands	413.2 mn	418.1 mn	1.2%
Riverside	323.0 mn	326.5 mn	1.1%
Kilimani	375.9 mn	379.1 mn	0.9%
Upperhill	458.1 mn	456.1 mn	(0.4%)
Average	**392.6 mn**	**394.9 mn**	**0.6%**
Price in Kshs per Acre			

Source: Cytonn Research

We maintain a POSITIVE outlook for the land sector in the Nairobi Metropolitan Area (NMA), considering it a dependable investment opportunity that has shown resilience year on year, with long-term potential to hedge against macroeconomic factors such as inflation. Going forward, we expect the sector's performance to be driven by several factors: i) government efforts to streamline land transactions through innovative solutions such as Ardhi Sasa, ii) continued activities by players on both the demand and supply sides, iii) growing demand for land driven by positive demographics, iv) the launch of infrastructure development projects opening up satellite towns for investment opportunities, and v) the continued rollout of the Affordable Housing Program (AHP) by the government, driving further demand for land.

VII. **Real Estate Investments Trusts (REITs)**

i. **REIT Weekly Performance**

On the Unquoted Securities Platform, Acorn D-REIT and I-REIT traded at Kshs 25.4 and Kshs 22.2 per unit, respectively, as per the last updated data on 27th September 2024 2024. The performance represented a 27.0% and 11.0% 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 Kshs 12.3 mn and Kshs 31.6 mn shares, respectively, with a turnover of Kshs 311.5 mn and Kshs 702.7 mn, respectively, since inception in February 2021. Additionally, ILAM Fahari I-REIT traded at Kshs 11.0 per share as of 27th September 2024, 2024, representing a 45.0% loss from the Kshs 20.0 inception price. The volume traded to date came in at 138,600 for the I-REIT, with a turnover of Kshs 1.5 mn since inception in November 2015.

ii. **Weekly highlight:**

a. **ILAM Fahari's Sale of Bay Holdings**

During the week, ILAM Fahari, a Real Estate Investment Trust (REIT), completed the sale of one of its properties, Bay Holdings, located in the Nairobi Industrial Area at the intersection of Enterprise and Bamburi Roads. The property sold with a carrying value of Kshs 160.0 mn, was acquired in June 2016 at Kshs 216.1 mn. It features a gross leasable area of 33,265 SQFT, along with a covered parking area. The property was fully occupied by three anchor tenants: Imperial Bank, Packard Limited, and Mat-Han Equipment.

This sale is part of ICEA Lion Asset Management's strategic move to dispose of its non-core assets. The company had last year also placed another property, Highway House, on the market with an asking price of Kshs 45.1 mn, a premium over its last valuation of Kshs 30.0 mn. However, the sale price for Bay Holdings represents a loss compared to the Kshs 108.7 mn acquisition price from June 2016. Following this transaction, ILAM Fahari is expected to retain two assets: Greenspan Mall in Donholm and Starling Park Properties, with an estimated combined worth of Kshs 2.9 bn.

We expect that the decision to sell Bay Holdings, despite the loss on the acquisition price, suggests ILAM Fahari REIT is focused on rebalancing its portfolio. This move could be driven by the need to free up capital for more strategic investments or reduce exposure to underperforming assets. Reinvesting the proceeds into high-performing assets or new growth opportunities is likely a priority, particularly in the retail and mixed-use sectors.

Notable highlights during Q3'2024 included;

i. Acorn Project Two LLP, a special purpose vehicle of Acorn Holdings announced an early redemption of Kshs 2.6 bn in outstanding notes maturing on 8th November 2024 under the Kshs 5.7 bn medium-term note (MTN) Programme, effective 4th October 2024. The notice highlighted that the notes will be redeemed at an amount equal to the nominal value of the notes, together with accrued but unpaid interest from the preceding interest payment date up to and including the early redemption date. Additionally, in connection with early redemption, the notes will be delisted from the fixed-income securities market segment of the Nairobi Securities Exchange. For more information, please see our Cytonn Weekly #38/2024, and,
ii. Acorn Holdings, a Real Estate developer, completed the acquisition of a 0.79-acre piece of land in Eldoret along Makasembo Road, near the Moi Teaching & Referral Hospital and Moi University Medical School. The company had earlier hinted at this move in their semi-annual report 2024 after identifying Eldoret and Kakamega as the first tier two areas to host its student hostel developments, upon acquisition of land. The company is expected to launch a Kshs 1.6 bn two-hostel project under their Qwetu and Qejani brands, with each having a total of 514 rooms and 510 rooms respectively, and a combined bed capacity of 2,291. For more information, please see our Cytonn Weekly #36/2024.

For other notable highlights during the quarter, please see our Cytonn Monthly – August 2024 and Cytonn Monthly – July 2024.

REITs offer various benefits, such as tax exemptions, diversified portfolios, and stable long-term profits. However, the ongoing decline in the performance of Kenyan REITs and the restructuring of their business portfolios are hindering significant previous investments. Additional general challenges include: i) insufficient understanding of the investment instrument among investors leading to a slower uptake of REIT products, ii) lengthy approval processes for REIT creation, iii) high minimum capital requirements of Kshs 100.0 mn for REIT trustees compared to Kshs 10 mn for pension funds Trustees, (iv) limiting the type of entity that can form a REIT to only a trust company, and v) minimum subscription amounts or offer parcels set at Kshs 0.1 mn for D-REITs and 5.0 Mn for restricted I-REITs. The significant capital requirements still make REITs relatively inaccessible to smaller retail investors compared to other investment vehicles like unit trusts or government bonds, all of which continue to limit the performance of Kenyan REITs

Real Estate Performance Summary and Outlook

Below is a summary of the sectorial performance in Q3'2024 and investment opportunities:

Theme	Cytonn Report: Thematic Performance and Outlook Q3'2024	Outlook
Residential	• NMA residential sector recorded a slight improvement in performance, with the average total returns coming in at 6.1%, a 0.1%-point increase from 6.0% recorded in Q3'2023. The performance is primarily attributable to an increase in the residential market average y/y rental yield which came in at 5.4% in Q3'2024, a 0.1% increase from 5.3% recorded in Q3'2023. • For detached units; the average total return came in at 5.7%, translating to a 0.1% decrease from 5.8% recorded in Q3'2023. For apartments, the average total return came in at 6.5%, representing a 0.3% increase from 6.2% recorded in Q3'2023. • Our outlook for the NMA residential sector remains NEUTRAL, as we foresee increased activity in the industry supported by: i) housing demand fueled by population growth and high urbanization rates, and ii) government infrastructure development projects, iii) government initiatives, particularly the Affordable Housing Agenda which is being rolled out countrywide. However, growth in the sector remains hindered by rising construction costs, a challenging macroeconomic climate, and limited financing options for developers.	Neutral
Commercial Office	• In Q3'2024, average asking rents per SQFT in the NMA increased by 3.8% to Kshs 104 from Kshs 100 in Q3'2023. • In Q3'2024, commercial office occupancy showed a slight decrease of 0.3% points to 79.7% from 79.9% recorded in Q3'2023. • The commercial office sector in the Nairobi Metropolitan Area (NMA) remains NEUTRAL, impacted by several key dynamics: i) the increasing presence of multinational companies in Kenya is likely to drive up occupancy levels, ii) co-working spaces are gaining in popularity in the region. However, the sector continues to face challenges due to a significant oversupply of office space, currently standing at 5.8 mn square feet. Despite these challenges, there are attractive investment opportunities in areas such as Westlands, Gigiri, and Kilimani, which offer returns that exceed the market average.	Neutral
Retail	• The average rental yield for the NMA retail sector was stable at 8.2% in both periods, this stagnation was attributable to the increase in the average rental prices by 1.6% to Kshs 185, up from Kshs 182 in Q3'2023, increase in average occupancy rates by 2.7% to 81.4% from 78.7% in Q3'2024, and the increase in average sales price which rose by 3.6% to Kshs 21,381 from Kshs 20,643 in Q3'2023, matching the rental prices increase and the average occupancy increase. • We maintain a neutral outlook on the retail sector's performance for 2024, influenced by several factors: i) Continued expansion by local and international retailers, driven by evolving consumer preferences and market trends, ii) Infrastructure improvements, including ongoing road and railway projects, are set to increase accessibility to key retail zones, unlocking further investment opportunities, and iii) Favorable demographic trends, such as a growing urban population, will sustain demand for retail goods and services. However, growth could face challenges from: i) Oversupply issues, with around 3.0 mn SQFT of retail space available in Nairobi and an additional 1.7 mn SQFT countrywide, leading to low occupancy rates and rental yields, ii) E-commerce adoption, increasingly shifting retail demand online, pushing brick-and-mortar outlets to adapt, and iii) Limited financing options for retail developments, along with high costs, are likely to hinder investment, especially for small and medium-sized enterprises (SMEs) that need to adopt technology to stay competitive. • In terms of the sub-markets performance, investment opportunity lies in Kilimani, Karen, and Kiambu Road & Limuru Road, which offer higher returns compared to the market average.	Neutral

Theme	Cytonn Report: Thematic Performance and Outlook Q3’2024	Outlook
Hospitality	• We maintain a neutral outlook for the hospitality sector in the coming quarter, supported by several key drivers: i) Aggressive marketing campaigns promoting Kenya’s tourism, expected to boost tourist arrivals and improve occupancy rates at hospitality venues, ii) International recognition of Kenya’s tourism industry, enhancing its status as a leading tourist destination and drawing more global visitors, iii) Strategic partnerships within the tourism sector, fostering innovation and collaboration to capitalize on new opportunities, iv) Events and initiatives aimed at increasing tourism activity and improving guest experiences, and v) Direct flights from Dubai to Mombasa by FlyDubai, expected to enhance accessibility and attract tourists from key markets, vi) Domestic tourism promotion under the Ministry of Tourism Strategy 2021-2025 strategy, prioritizing local tourism growth. However, challenges may arise from:i) Financing difficulties, as stricter lending criteria could limit access to capital for expanding hospitality infrastructure.	Neutral
Land	• We maintain a POSITIVE outlook for the land sector in the Nairobi Metropolitan Area (NMA), considering it a dependable investment opportunity that has shown resilience year on year, with long-term potential to hedge against macroeconomic factors such as inflation. Going forward, we expect the sector's performance to be driven by several factors: i) government efforts to streamline land transactions through innovative solutions such as Ardhi Sasa, ii) continued activities by players on both the demand and supply sides, iii) growing demand for land driven by positive demographics, iv) the launch of infrastructure development projects opening up satellite towns for investment opportunities, and v) the continued rollout of the Affordable Housing Program (AHP) by the government, driving further demand for land.	Positive