# Kenya Retail Sector Report 2018, & Cytonn Monthly – August 2018

## Focus of the Week

In October 2017, we released the Kenya Retail Sector Report - 2017, themed "*Cautious Optimism in the Face of Turbulence*", which focused on the performance of the retail real estate sector in Kenya in 2017. According to the report, the retail sector in Kenya was an attractive investment opportunity with average rental yields of 8.3% countrywide and 9.6% in Nairobi compared to other sectors such as the residential sector at 5.6% and office sector at 9.1%, driven by a growing middle-class population seeking aspirational lifestyles, high GDP growth rate, which averaged at more than 5.0% p.a over the previous five-years, and increased infrastructural developments opening up new areas for development. This week, we update that report with our Kenya Retail Sector Report - 2018. The report is based on findings from research conducted in 8 nodes in the Nairobi Metropolitan Area, as well as key urban cities and regions in Kenya, including North Rift, South Rift, Coastal Region, Western/Nyanza and Mt Kenya. The report highlights the performance of the real estate retail sector in Kenya in 2018, based on rental yields, occupancy rates, demand and supply, all in comparison to 2017 and the years before to identify the trends, and hence provides investors with an outlook for the sector, and we give a recommendation for investment. In this focus note, we will highlight the key take-outs from the report as below;

I. Introduction to the Retail Sector in Kenya,
II. Performance Summary in 2018,
III. Retail Space Demand Analysis,
IV. Retail Space Investment Opportunity, and,
V. Retail Sector Outlook.

1. **Introduction to the Retail Sector in Kenya**

In 2017, constrained by a tough operating environment characterized by low credit and prolonged electioneering period, Kenya's retail sector performance softened with average rental yields declining by 0.4% points y/y to 8.3% from 8.7% in 2016. In 2018, the sector recovered in key urban cities, recording average rental yields of 8.6%, 0.3% points higher than the 8.3% recorded in 2017. The improvement in performance is largely attributed to:

i. Recovery of the market from the tough economic environment in 2017, characterized by prolonged electioneering and reduced private sector credit growth,
ii. Prudent methods employed by developers to attract clientele and enhance footfall such as targeting international anchor tenants to attract clientele and enhance footfall,
iii. Entry and expansion of international retailers, supported by a widening middle class and provision of high-quality spaces in line with international standards as well as infrastructure as shown below; and,

**Select International Retailers in Kenya**

| Outlet | Parent Company | Origin Country | Year of Commencement | No. of Local Outlets | Number of Global outlets |
|---|---|---|---|---|---|
| **Food Chains** | | | | | |
| Mugg & Beans | Famous Brands | South Africa | 2017 | 1 | 220 |
| Burger King | Restaurants Brand International | United States | 2017 | 4 | 16,859 |
| Pizza Hut | Yum! Brands | United States | 2016 | 2 | 16,796 |
| Dominos | Bain Capital, Inc. | United States | 2014 | 3 | 15,000 |
| Coldstone | Kahala Brands | United States | 2014 | 8 | 1,100 |
| Chicken Inn/Pizza Inn/Bakers' Inn/Creamy Inn | Innscor Africa | Zimbabwe | 2013 | 121 | 398 |
| KFC | Yum! Brands | United States | 2012 | 19 | 20,404 |
| Subway | Doctor's Associates, Inc. | United States | 2011 | 8 | 44,834 |
| **Hypermarkets** | | | | | |
| Miniso | Miniso | Japan | 2017 | 6 | >2,600 |
| Choppies | Choppies Enterprises Limited | Botswana | 2017 | 12 | 212 |
| Carrefour | Majid Al Futtaim Holding | France | 2016 | 6 | 12,300 |
| Game | Massmart | South Africa | 2016 | 1 | 424 |
| **Other Stores** | | | | | |
| LC Waikiki | LC Waikiki Retailing Ltd | Turkey | 2017 | 3 | 881 |
| Swarovski | Swarovski Group | Austria | 2017 | 1 | 2,800 |
| Bosch | Robert Bosch Stiftung GmbH | Germany | 2018 | 1 | >440 |
| Woolworths | Woolworths Holdings Ltd | South Africa | 2012 | 12 | 1,400 |
| **Incoming Retailers** | | | | | |
| Shoprite | Shoprite Holdings Ltd | South Africa | * | | >500 |

*Source: Online, Wikipedia*

** Shoprite is expected to enter the Kenyan market this year; taking up space in Garden City and*

*Westgate malls*

iv. Increasing purchasing power, with GDP per Capita growing at a rate of 7.9% p.a over the last 5-years, from Kshs 113,539 in 2013 to Kshs 166,314 in 2017, hence sustained demand for retail products.

The sector has however, been constrained by;

i. Low private sector credit growth, which averaged at 4.3% as at June 2018, compared to a 5-year average of 14.0% (2013-2018), and,
ii. Oversupply in some nodes such as Nairobi, Eldoret, Kisumu and Nakuru, which have an oversupply of 2.0mn SQFT, 0.3mn SQFT, 0.2mn SQFT and 0.1mn SQFT, respectively, resulting in stiff competition between malls due to increased supply in the same. For instance, in Nairobi, the oversupply has resulted in an 0.6% decline in rental yields over the last two years from 10.0% in 2016 to 9.4% in 2018.

II. **Performance Summary in 2018**

In our analysis of the retail market performance in 2018, we will cover the general market performance in key urban cities, performance in Nairobi, both by nodes and by class, and then conclude with the performance of key urban cities in the country.

a. **Retail Sector Performance in Kenya Over Time**

In 2018, the retail sector's performance improved with average rental yields increasing by 0.3% points y/y to 8.6% from an average of 8.3% in 2017, and occupancy rates increased by 5.8% points y/y to 85.7% from 80.2% in 2017. The improvement in performance is attributed to recovery of the market from the tough economic environment in 2017 characterized by prolonged electioneering and reduced private sector credit growth to 4.3% as at June 2018 from a five-year average of 14.0%.

The performance of the sector across the key cities is as summarized below:

(all values in Kshs unless stated otherwise)

(all values in Kshs unless stated otherwise)

**Kenya's Retail Sector Performance Summary 2018**

| **Item** | **2016** | **2017** | **2018** | **Δ Y/Y 2016/2017** | **Δ Y/Y 2017/2018** |
|---|---|---|---|---|---|
| Average Asking Rents (Kshs/SQFT) | 154.9 | 140.9 | 132.1 | (9.0%) | **(6.2%)** |
| Average Occupancy (%) | 82.9% | 80.2% | 86.0% | (2.7%) points | **5.6% points** |

| | | | | | |
|---|---|---|---|---|---|
| Average Rental Yields | 8.7% | 8.3% | 8.6% | (0.4%) points | **0.3% points** |

- ***The average rental yields increased by 0.3%-points y/y to 8.6% in 2018 from 8.3% in 2017, attributable to increase in occupancy rates***

- ***The 5.8% points y/y increase in occupancy rates is as a result, Prudent marketing methods employed by developers to attract clientele and enhance footfall such as themed marketing and celebrity Advertising to attract clientele and enhance footfall, and recovery of the market from the tough economic environment characterised by low credit supply and the prolonged 2017 electioneering period***

- ***Rental rates bucked the 2017 trend declining by 6.2% in 2018 from an average of Kshs 140.9 per SQFT in 2017 to an average of Kshs 132.1 in 2017, this is attributable to increased competition due to increased supply, that has led to developers decreasing rents to attract retailers***

*Source: Cytonn Research*

b. **Nairobi Retail Market Performance – Occupancy increases, while yield declines slightly**

i. **Performance by Nodes- Westlands is the best-performing node**

In 2018, the rental charges in Nairobi were Kshs 178.9 per SQFT, which was a 3.4% decline from Kshs 185.3 per SQFT in 2017, occupancy rates were 83.7%, a 3.4% points y/y increase from 80.3% and average rental yield was 9.4%, a 0.2% points y/y decline from 9.6% in 2017. The softening of the performance is as result of an oversupply of mall space, currently at 2.0mn SQFT, hence price wars by developers have erupted in a bid to attract retailers and increase occupancy rates. Westlands, Kilimani and Karen were the best performing retail suburbs in Nairobi with average rental yields of 12.4%, 11.8% and 10.8%, respectively, due to the fact that they are high end neighbourhoods hosting most of Nairobi's middle-end and high-end populations. The worst performing nodes are the Eastlands and Satellite Towns recording average rental yields of 7.0% and 6.6%, respectively, attributable to low rental charges as a result of competition from informal retail space.

The performance of the key nodes in the Nairobi Metropolitan Area is as summarized below:

(all values in Kshs unless stated otherwise)

**Summary of Nairobi's Retail Market Performance by Nodes 2018**

| Node | Average Rent 2018 per SQFT per Month | Average Occupancy Rate 2018 | Rental Yield 2018 | Average Rent 2017 per SQFT per Month | Average Occupancy Rate 2017 | Rental Yield 2017 | Change in Occupancy Y/Y | Change in Yield Y/Y | Reason for Change in Yield |
|---|---|---|---|---|---|---|---|---|---|
| Westlands | 218.8 | 90.2% | **12.4%** | 234.7 | 91.0% | 13.5% | (0.8%) | **(1.1%)** | 6.8% decline in monthly rental charges y/y, |
| Kilimani | 184.1 | 97.5% | **11.8%** | 181.0 | 87.0% | 10.3% | 10.5% | **1.5%** | 10.5% y/y increase in occupancy rates, |
| Karen | 212.8 | 96.0% | **10.8%** | 206.2 | 96.3% | 11.2% | (0.3%) | **(0.4%)** | 3.2% y/y increase in monthly rental charges and 0.3% decline in occupancy rates |
| Ngong Road | 170.5 | 94.4% | **10.1%** | 170.7 | 81.8% | 8.7% | 12.6% | **1.4%** | 12.6% y/y increase in occupancy rates |
| Thika road | 194.3 | 76.5% | **8.8%** | 199.2 | 75.3% | 8.7% | 1.3% | **0.1%** | 1.3% y/y increase in occupancy rates |

**Summary of Nairobi's Retail Market Performance by Nodes 2018**

| Node | Average Rent 2018 per SQFT per Month | Average Occupancy Rate 2018 | Rental Yield 2018 | Average Rent 2017 per SQFT per Month | Average Occupancy Rate 2017 | Rental Yield 2017 | Change in Occupancy Y/Y | Change in Yield Y/Y | Reason for Change in Yield |
|---|---|---|---|---|---|---|---|---|---|
| Kiambu Road | 199.9 | 67.0% | **8.7%** | 216.1 | 78.2% | 10.6% | (11.2%) | **(1.9%)** | 11.2% decline in occupancy rates |
| Mombasa Road | 156.2 | 74.4% | **7.8%** | 180.4 | 68.8% | 8.3% | 5.7% | **(0.5%)** | 13.4% decline in monthly rental charges |
| Eastlands | 149.1 | 68.2% | **7.0%** | 148.9 | 61.8% | 6.1% | 6.5% | **1.0%** | 6.5% increase in occupancy rates |
| Satellite Towns | 124.5 | 89.3% | **6.6%** | 130.1 | 82.5% | 7.7% | 6.8% | **(1.0%)** | 4.4% decline in monthly rental charges |
| **Grand Total** | **178.9** | **83.7%** | **9.4%** | **185.3** | **80.3%** | **9.6%** | **3.4%** | **(0.2%)** | |

· ***The performance softened, recording on average 0.2% points y/y decline in rental yields to 9.4% from 9.6% in 2017 as a result of 3.4% y/y decrease in rental charges, due to an oversupply of mall space, currently at 2.0mn SQFT, hence price wars by developers in a bid to attract retailers and increase occupancy rates***

· ***Kilimani, Ngong Road and Nairobi Eastlands, recorded the largest increase in rental yields y/y of 1.5%, 1.4% and 1.0% points, respectively, attributable to increase in occupancy levels of 10.1%, 12.6% and 6.5% points, for Kilimani, Ngong Road and Nairobi Eastlands, respectively***

· ***The increase in occupancy rates is attributable to prudent methods employed by developers, such as targeting international retailers as anchor tenants, these include; Carrefour and Shoprite to fill vacancies left by struggling retailers such as Nakumatt and Uchumi***

· ***Kiambu road, Westlands and Nairobi Satellite Towns, recorded the largest y/y decline in rental yields of 1.4%, 1.0% and 1.0% points, respectively, attributable to 40, 000 SQFT, 232,340 SQFT and 134,760 SQFT increase in retail space supply.***

*Source: Cytonn Research*

ii. **Performance by Class - Destination and Community malls are the best performing malls**

To analyze the performance of malls by class we classified malls into three bands as below:

- **Regional Centers/Destination Malls**: They are largest malls, with a Gross Lettable Area (GLA) of 400,000 - 800,000 SQFT and characteristically have two or more anchor tenants, in Nairobi these include; Two Rivers Mall, Next Gen Mall and Garden City,
- **Community Centers**: These are the second largest mall types, occupying spaces of between 125,001 - 400,000 SQFT and characteristically have zero to two anchor tenants, in Nairobi these include; Galleria, Village Market and Westgate, and,
- **Neighborhood Centers**: They have the minimum mall space, with a Gross Lettable Area (GLA) of 20,000 SQFT and characteristically having a maximum of one or even no anchor tenant, in Nairobi these include; Cross Roads Mall, Lavington Mall and K-Mall

On performance by class, destination and community malls are the best performing mall typologies with both typologies recording average rental yields of 9.6% attributable to:

1. For destination malls, the high rental charges on average Kshs 217.9 per SQFT, 22.2% higher than the market average of Kshs 178.3 per SQFT due to a premium for class, amenities provided and higher footfall in the malls as a result of presence of international retailers mainly as the anchor tenants,
2. For community malls high occupancy rates on average 84.5%, 1.1% points higher than the market average of 83.4%, due to community malls competing with destination malls by providing quality amenities and attracting international anchor tenants to boost footfall. Despite the attractive yields, destination malls recorded a 0.7% points decline in rental yields from 10.3% in 2017 to 9.6% in 2018 as a result of a 7.0% decline in monthly rental charges, due to increased competition from community malls that are providing quality amenities and attracting international retailers as well.

Retail market performance in Nairobi by class is as shown below:

(all values in Kshs unless stated otherwise)

**Retail Market Performance in Nairobi by Class 2018**

| Class | Average Rent 2018 per SQFT per Month | Average Occupancy Rate 2018 | Rental Yield 2018 | Average Rent 2017 per SQFT per Month | Average Occupancy Rate 2017 | Rental Yield 2017 | Change in Occupancy Y/Y | Change in Yield Y/Y |
|---|---|---|---|---|---|---|---|---|
| Destination | 217.9 | 81.0% | **9.6%** | 234.4 | 77.3% | 10.3% | 3.7% | **(0.7%)** |
| Community | 176.9 | 84.5% | **9.6%** | 159.5 | 82.9% | 9.0% | 1.6% | **0.6%** |
| Neighbourhood | 170.0 | 80.2% | **9.0%** | 170.8 | 76.9% | 7.5% | 3.3% | **1.5%** |
| **Average** | **178.3** | **83.4%** | **9.4%** | **171.2** | **79.8%** | **8.9%** | **2.9%** | **0.5%** |

- ***Destination and Community malls are the best performing malls with an average rental yield of 9.6% attributable to the high rental charges on average Kshs 217.9 per SQFT above the market average of Kshs 178.3 per SQFT for destination malls and high occupancy rates on average 84.5% for community malls***
- ***Neighborhood malls register a lower rental yield of 9.0% mainly because of competition from retailers such as supermarkets and other small-scale retailers. They also have fewer amenities as compared to destination malls***

*Source: Cytonn Research*

### c. Retail Market Performance in Key Urban Cities in Kenya

Unlike in Nairobi, where the performance softened as a result of an oversupply, in key urban cities in Kenya, the retail sector performance improved, recording a 0.3% points y/y increase in average yields to 8.6% in 2018, from 8.3% in 2017, while occupancy rates increased by 5.8% points y/y to 86.0% in 2018 from 80.2% in 2017. The better performance is attributable to the recovery of the market from the tough economic environment in 2017 characterized by prolonged electioneering and reduced credit to the private sector, with private credit growth reducing from a five-year average of 14.0 to 4.3% as at June 2018. Mt. Kenya and Kisumu were the best performing regions, with average yields of 9.9% and 9.7%, respectively. Mt. Kenya performance is attributable to a 4.5% points y/y increase in occupancy rates due to low supply of retail space, accounting for 9.6% of market share, while Kisumu performance is driven by high occupancy rates of 88.0%, 2.0% points above market average at 86.0% driven by increased retail business to serve the increasing urban population at 52.0% of the population compared to country average at 26.5%. Nakuru was the worst performing region with a rental yield of 6.9%, which is due to low rental rates charged within that market of an average Kshs 83.3 per SQFT, 38.0% lower than the market average of Kshs 134.3 per SQFT, as a result of competition from mixed use developments (MUDs) that are older in the market.

**The performance of the key urban centres in Kenya is as summarized below:**

(all values in Kshs unless stated otherwise)

**Summary of Retail Market Performance in Key Urban Cities in Kenya 2018**

| **Region** | **Average Rent 2018 per SQFT per Month** | **Average Occupancy Rate 2018** | **Rental yield 2018** | **Average Rent 2017 per SQFT per Month** | **Average Occupancy Rate 2017** | **Rental yield 2017** | **Change in Occupancy Y/Y** | **Change in Yield Y/Y** | **Reason for Change in yield** |
|---|---|---|---|---|---|---|---|---|---|
| Mt Kenya | 141.3 | 84.5% | **9.9%** | 136.0 | 80.0% | 9.1% | 4.5% | **0.8%** | 4.5% points y/y increase in occupancy rates |
| Kisumu | 148.2 | 88.0% | **9.7%** | 157.2 | 76.4% | 9.1% | 11.6% | **0.6%** | 11.6% points y/y increase in occupancy rates |
| Nairobi | 178.9 | 83.7% | **9.4%** | 185.0 | 80.3% | 9.6% | 3.4% | **(0.2%)** | 3.4% y/y decline in monthly rental charges |
| Mombasa | 103.7 | 96.3% | **8.3%** | 130.3 | 82.8% | 7.3% | 13.5% | **1.0%** | 13.5% points y/y increase in occupancy rates |
| Eldoret | 137.5 | 78.5% | **7.6%** | 96.0 | 83.3% | 6.6% | (4.8%) | **1.0%** | 43.2% y/y increase in rental charges due to entry of new community malls charging 56.4% above market average |
| Nakuru | 83.3 | 85.0% | **6.9%** | | | | | | |
| **Average** | **132.1** | **86.0%** | **8.6%** | **140.9** | **80.2%** | **8.3%** | **5.6%** | **0.6%** | |

· ***Mt. Kenya and Kisumu were the best performing regions, with average rental yields of 9.9% and 9.7%, respectively. This is attributable to an increase in occupancy rates of on average 4.5% and 11.6% points y/y for Mt. Kenya and Kisumu regions, respectively***

· ***Nakuru had the lowest rental yield of on average 6.9%, which is due to the low rental rates charged within that market of on average Kshs 83.3 per SQFT, 38.0% lower than the market average of Kshs 134.3 per SQFT as a result of competition from MUDs that are older in the market.***

· ***Nairobi is the only market that registered a decline in rental yields of 0.2%, to 9.4% from 9.6% due to an oversupply of mall space, currently at 2.0mn SQFT, hence price wars by developers in a bid to attract retailers and increase occupancy rates***

*Source: Cytonn Research*

## III. Retail Space Demand Analysis

With an aim to determine the current retail space gap in the market we worked out a demand analysis based on the current and incoming retail space supply, and the required retail space demand per region dependent on the population. Therefore, to determine the retail space demand per region we looked at Net Space Uptake **(**the total retail space adequate to serve a region dependent on the population less the vacancy rates in malls) per person in SQM, shopping population, and current retail market occupancy rates. In this analysis:

- **Total Demand/Gross Uptake** is the total retail space adequate to serve a region dependent on the population. This is calculated by multiplying the Net Space Uptake per person by the total shopping population,
- **Net Demand/Uptake** is the gross uptake less the vacancy rates in malls in a specific region. This is calculated by multiplying the Gross uptake by respective market occupancy rates,
- **Supply** is calculated by summing up the completed retail stock and the incoming retail space,
- To get the over/undersupply **(Gap)** in the market, the supply is subtracted from the demand/net

uptake, and

- Key assumptions are, (i) number of persons per household at 3.6 based on the average household size in urban areas as per Kenya Population and Housing Census 2009, and (ii) percentage of Shopping Population (14 years and above) at 58.0% according to KNBS (2009 Census).

If it is a positive figure, then the market has an under supply i.e, demand is more than supply and if it is a negative figure then the market has an oversupply, i.e. supply is more than demand.

The retail space demand across key regions in Kenya is as shown below;

**Required Analysis Summary 2018**

| Region | Population 2018 (F) (Mn) | Urban Population | Urban Population 2018 (Mn) | Shopping Population (Mn) | Net Space Uptake per Pax in SQFT (Mn) | Occupancy (2-year Average) | Gross Space Uptake per Pax (Required Space Kilimani) SQFT (Mn) | Net Uptake (Space Required) for Each Market SQFT (Mn) | Total Supply | GAP at Current Market Performance |
|---|---|---|---|---|---|---|---|---|---|---|
| Kiambu | 2.1 | 62% | 1.3 | 0.8 | 1.9 | 71% | 2.1 | 1.5 | 0.9 | **0.6** |
| Mombasa | 1.3 | 100% | 1.3 | 0.7 | 1.9 | 88% | 2.1 | 1.8 | 1.6 | **0.3** |
| Kajiado | 1 | 41% | 0.4 | 0.2 | 0.6 | 91% | 0.7 | 0.6 | 0.4 | **0.2** |
| Mt Kenya | 2.7 | 22% | 0.6 | 0.4 | 0.9 | 81% | 1 | 0.8 | 0.6 | **0.2** |
| Machakos | 1.3 | 52% | 0.7 | 0.4 | 1 | 79% | 1.1 | 0.9 | 0.7 | **0.1** |
| Nakuru | 2.1 | 45% | 0.9 | 0.6 | 1.4 | 85% | 1.5 | 1.3 | 1.4 | **(0.1)** |
| Kisumu | 1.2 | 52% | 0.6 | 0.4 | 0.9 | 82% | 1 | 0.8 | 1 | **(0.2)** |
| Uasin Gishu | 1.3 | 39% | 0.5 | 0.3 | 0.7 | 80% | 0.8 | 0.6 | 0.9 | **(0.3)** |
| Nairobi | 4.4 | 100% | 4.4 | 2.6 | 6.4 | 81% | 7.1 | 5.7 | 7.8 | **(2.0)** |
| **Total** | **17.4** | | **10.8** | **6.2** | **15.6** | | **17.3** | **14.1** | **15.3** | **(1.2)** |

· ***The market is oversupplied by 1.2mn SQFT following the aggressive retail space supply by developers over the last 5 years, with Nairobi recording an 8-year CAGR of 15.9%***

· ***Kiambu, Mombasa, Kajiado, Mt. Kenya and Machakos are undersupplied by 0.6 mn, 0.3 mn, 0.2 mn, 0.2 mn and 0.1 mn SQFT, respectively***

· ***Nairobi, Eldoret, Kisumu and Nakuru regions are oversupplied by 2.0 mn, 0.3 mn, 0.2 mn and 0.1 mn SQFT, respectively***

*Source: KNBS, Cytonn Research*

IV. **Retail Space Investment Opportunity – Best opportunity is in Mombasa, Mt. Kenya and Kiambu**

To determine the investment opportunity for development of malls in Nairobi and the other key cities, we analyzed the regions based on three metrics, that is performance (rental yield), required retail space and household expenditure as a proxy for purchasing power, which have been allocated 30%, 30% and 40% weights, respectively.

**Methodology Used:**

- ***Rental Yield*** *– Measures the expected return from development hence the higher the better. This carried 30% of the weight. The area with highest yield was given the highest score of 9, while the area with least yield was given the least score of 1,*
- ***Household Expenditure*** *- It shows the ability of the population to spend and thus the higher the better. This carried a 40% weight, hence, the area with a high household expenditure was given the highest score of 9, while the area with least household expenditure was given the least score of 1, and*
- ***Retail Space Demand*** *– measures the amount of space a region can take up at the current market occupancy rates. The higher the better. This carried a 30% weight, hence, an area with a high retail space was given the highest score of 9, while the area with least retail space was given the least score of 1.*

Based on these metrics, Mombasa, Mt. Kenya and Kiambu offer the best investment opportunities to mall developers. This is mainly due to low retail space supply, with a retail space gap of 0.3mn, 0.2mn and 0.6mn, high household expenditure at Kshs 5,800, Kshs 5,211 and Kshs per adult for Mombasa, Mt. Kenya and Kiambu, respectively. The ranking is as shown below:

**Retail Space Opportunity**

| **Region/** | **Rental Yield Score** | **Retail Space Demand Score** | **Household expenditure (per adult) Score** | | |
|---|---|---|---|---|---|
| **Weight** | **30%** | **30%** | **40%** | **Weighted Score** | **Rank** |
| Mombasa | 5 | 8 | 7 | 6.7 | **1** |
| Mt Kenya | 8 | 6 | 5 | 6.2 | **2** |
| Kiambu | 1 | 9 | 8 | 6.2 | **3** |
| Machakos | 9 | 5 | 4 | 5.8 | **4** |
| Nairobi | 6 | 0 | 9 | 5.4 | **5** |
| Kajiado | 4 | 7 | 3 | 4.5 | **6** |
| Kisumu | 7 | 0 | 6 | 4.5 | **7** |
| Nakuru | 2 | 0 | 2 | 1.4 | **8** |
| Uasin Gishu | 3 | 0 | 1 | 1.3 | **9** |

- **Mombasa, Mt. Kenya and Kiambu offer the best investment opportunities to mall developers. This is mainly due to low retail space supply, high household expenditure and high yields**
- **The lowest ranking regions are Uasin Gishu, Nakuru and Kisumu due to high retail space supply, low rental yields and low household expenditure**

*Source: Cytonn Research*

## V. Retail Sector Outlook

The table below summarizes metrics that have possible impact on retail sector, that is the retail space supply, performance, retail space demand, consumer shopping habits and concluding with the market opportunity/outlook in the sector.

**Kenya Retail Sector Outlook**

| **Measure** | **Sentiment 2017** | **Sentiment 2018** | **2017 Outlook** | **2018 Outlook** |
|---|---|---|---|---|
| **Retail Space Supply** | •Increasing supply with Nairobi currently having a mall space supply of approximately 5.6 mn SQFT, a having grown from 2.0mn SQFT in 2010 at 7-yr CAGR of 16.9%. Expected to grow with a 3-year CAGR of 7.3% to 6.9mn square feet of retail space by 2020 | •Increasing supply with Nairobi currently having a mall space supply of approximately 6.5 mn SQFT, a having grown from 2.0mn SQFT in 2010 at 8-yr CAGR of 15.9%. Expected to grow with a 2-year CAGR of 9.5% to 7.8mn square feet of retail space by 2020 | Neutral | Neutral |

**Kenya Retail Sector Outlook**

| Measure | Sentiment 2017 | Sentiment 2018 | 2017 Outlook | 2018 Outlook |
|---|---|---|---|---|
| **Retail Market Performance** | •The retail sector recorded an average rental yield of 8.3% and occupancy of 80.2% in 2017. Nairobi recorded an average rental yield of 9.6% and occupancy of 80.3% higher than the commercial office yield of 9.2% and residential market yield of 5.6% | •Kenya retail sector recorded an average rental yields of 8.6%, and occupancy rates of 86.0%, which are 0.3% and 5.8% points y/y increase 2017<br>•Mt. Kenya and Kisumu were the best performing regions, with average yields of 9.9% and 9.7%, respectively indicating that the investment opportunity is tilted to the counties outside Nairobi Metropolitan Area | Positive | Positive |
| **Retail Space Demand** | •Nairobi has sufficient retail space supply factoring in incoming supply of 1.3mn in the next 2-3 years and thus investment opportunity is in other regions such as Mombasa which has relatively low supply | •Kiambu, Mombasa, Kajiado, Mt. Kenya and Machakos are undersupplied by 0.6mn, 0.3mn, 0.2mn,0.2mn and 0.1mn SQFT, respectively, presenting an investment opportunity in these areas | Positive | Positive |
| **Market Sentiments** | •Positive expectations about the retail sector growth due to a widening middle class and a growing economy | •The market is adopting to formal retail, as consumers are increasingly preferring to shop in formal retail space as opposed to informal channels as a result of product availability | Positive | Positive |
| **Market Outlook** | **The outlook for the sector is positive and we expect to witness reduced development activity in Nairobi, with developers shifting to county headquarters in some markets such as Mombasa and Mt. Kenya regions that have retail space demand of 0.3mn and 0.2mn SQFT, attractive yields at 8.3% and 9.9% and occupancy rates at 96.3% and 84.5%, respectively** | | | |

*Source: Cytonn Research*

***For the 2017 retail sector outlook, we had three out of the four metrics considered as positive and one neutral and thus a positive outlook for the retail sector. For 2018, three of the metrics under consideration are positive and one neutral and thus we retain our positive outlook for the retail sector, given the higher yields at 8.6% from 8.3% in 2017, supported by the improved macro-economic environment. The opportunity is in county headquarters in some markets such as Mombasa and Mt. Kenya regions that have retail space demand of 0.3mn and 0.2mn SQFT, attractive yields at 8.3% and 9.9% and occupancy rates at 96.3% and 84.5%, respectively. For more details on the report see the link Cytonn Retail Sector Report - 2018***