Nairobi Metropolitan Area Mixed-Use Developments (MUDs) Report 2018, & Cytonn Weekly #44/2018

Real Estate

I. **Residential Sector**

Local real estate agency Hass Consult announced a joint venture with the family of the late Government Minister Munyua Waiyaki, which will see the development of 450 apartment units, on 22-acres of land owned by the family. The Kshs 10.0 bn project located along Redhill Road will have one, two, three, and four bedroom apartments with price points of Kshs 15.0 mn, 20.0 mn, 40.0 mn, and 80.0 mn, respectively, as well as studio apartments of Kshs 6-10 mn (sizes undisclosed). The Mixed-use Development dubbed 'Enaki' is slated to break ground mid-2019, and will include a hotel, retail, and high-end amenities such as an amphitheater, a floating restaurant, and a public botanical garden. Local developers' continued investment in luxury homes has been driven by:

a. Relatively high returns to investors; According to Cytonn Research, luxury developments offer higher returns to investors, with luxury apartments generating total returns to investors of 13.1% p.a as at 2017 (rental yield of 8.1% and price appreciation of 5.0%), compared to the residential market average of 5.4% as at 2017 and 2.8% as at Q2'2018. The returns are boosted by premium rents luxury homes attract as a result of the amenities and high quality of level of finishing,
b. The growth of the middle class as well as high net-worth individuals with sophisticated tastes, aspirational lifestyles, and increased disposable incomes, thus creating a market for luxury products, and,
c. The presence of multinational firms such as Google, General Electric and Hewlett Packard, as well as the recent entry of firms such as Wrigley's and Volkswagen, creating demand for up-market housing from expatriates.

Developers are, therefore, likely to continue investing in luxury products given the above factors. However, developers of luxury products ought to differentiate their products, especially in terms of amenities, quality and design, given the increased supply in middle class and high-end units in the market, to attract their target clientele.

II. **Retail Sector**

During the week, global luxury fashion house, Hugo Boss, opened its first store in East Africa at the Westgate Mall, in Westlands area, at a cost of Kshs 173.1 mn. The brand currently operates 31 stores across 26 countries in Africa and 127 stores globally. This comes after the recent opening by Mango, also a multinational fashion company that launched its first store in Eastern and Southern Africa, still at the Westgate Mall. The continued expansion of global retailers demonstrates the attractiveness of Kenya as an investment destination and we attribute this to:

i. Stable economic growth, with Kenya's GDP growth averaging at 5.1% over the last five-years, and set to come in at 5.4%-5.6%, according to Cytonn Research,

ii. Kenya's improvement in ease of doing business rankings, with the World Bank Doing Business Report 2019 ranking the country #61 a rise in 19 ranks from #80 in the 2018 report, mainly on account of the protection of minority investors, ease of getting credit, and ease of resolving insolvency, among others. For more information, see our Topical on the World Bank Doing Business Report 2019 here,
iii. The rising middle-class that has increased purchasing power as well as varying tastes and preferences for different goods and services, thus creating demand for international brands, and,
iv. The expanding cluster of wealthy individuals who have created demand for luxury products. According to the 2018 Knight Frank Wealth Report, the number of high net-worth individuals in Kenya worth at least USD 5.0 mn excluding their primary residence increased by 16.2% to 1,290 in 2017 from 1,110 in 2016 and is expected to grow by 60.5% by 2022. The increase in wealth and thus, increase in disposable income, leads to demand for luxury products especially clothing, accessories, and automobile items.

Other luxury brands that have set up shop in Kenya are luxury jewelry brand Swarovski, as well as luxury car brands Bentley and Porsche. These multinational brands demand top quality retail spaces, resulting in a surge in high-grade mall supply and incorporation of differentiating practices such as Green Building Technology, spacious and aesthetically appealing working spaces, as well as provision of adequate parking spaces.

For investors in retail real estate, the entry of foreign players boosts retail space uptake and thus, enhances investor returns. According to Cytonn Q3'2018 Markets Review, the retail sector recorded an average rental yield of 9.4% with average occupancy of 83.7%. Westlands was the best performing retail node with an average rental yield of 12.4%, 3.0% higher than the market average, attributable to relatively high occupancy rates, which came in at 90.2%, and premium rental rates that it attracts as it is a prime commercial and residential area hosting several multinational companies and is in close proximity to affluent neighborhoods such as Riverside, Spring Valley, Gigiri and Runda, which host a large portion of Nairobi's high-end and upper-middle class population. These residents create a ready market for sophisticated products and services, thus attracting both local and international retailers to the malls located in Westlands.

Nairobi Retail Sector Performance by Nodes Q3'2018

Location	**Average Rent Q3'2018 per SQFT per Month**	**Average Occupancy Rate Q3'2018**	**Rental Yield Q3'2018**
Westlands	218.8	90.2%	**12.4%**
Kilimani	184.1	97.5%	**11.8%**
Karen	212.8	96.0%	**10.8%**
Ngong Road	170.5	94.4%	**10.1%**
Thika road	194.3	76.5%	**8.8%**
Kiambu Road	199.9	67.0%	**8.7%**
Mombasa Road	156.2	74.4%	**7.8%**
Satellite Towns	124.5	89.3%	**6.6%**
Eastlands	149.1	68.2%	**7.0%**
Average	**178.9**	**83.7%**	**9.4%**

Source: Cytonn Research

We expect global retailers to continue showing interest in the Kenyan retail sector, mainly attracted by the rise in disposable incomes, change in consumer tastes & preferences, and fast economic growth enabled by infrastructural developments.

III. Hospitality Sector

During the week, the Kenyan hospitality scene received global recognition as 10 local hotels brands bagged various awards at the World Luxury Hotel Brands Awards 2018 held in Bali, Indonesia. Some of the notable winning hotels include Sarova and DusitD2, as shown below:

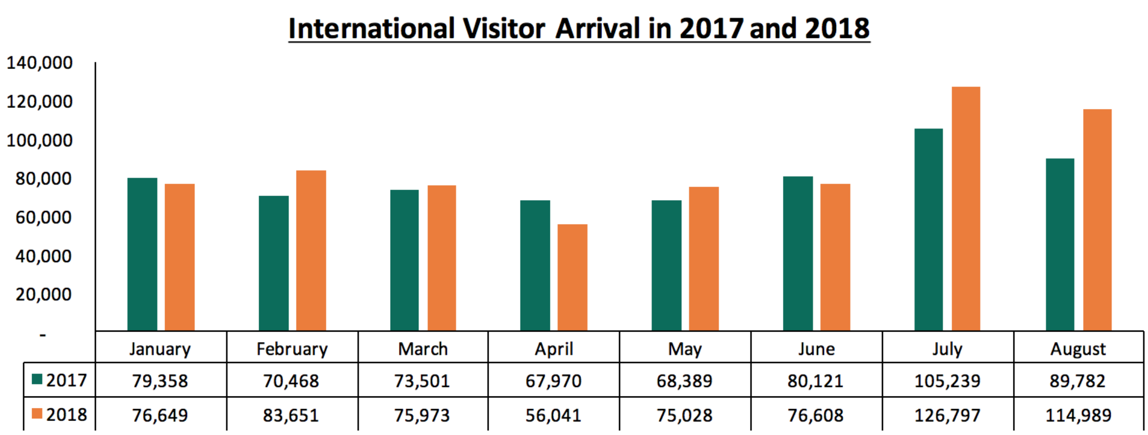
World Luxury Hotel Brand Award 2018 Winners

Hotel	Award
Sarova Hotels, Resorts, and Game Lodges	Global Luxury Brand
Sankara Nairobi	Continental Luxury Boutique Hotel
Lake Nakuru Sopa Lodge	Global Luxury Wilderness Lodge
DusitD2	Regional Luxury Business Hotel
Elewana Loisaba Tented Camp, Laikipia	Global Luxury Tented Safari Camp

• Other hotel brands that won awards are Diamond Dreams of Africa, Maiyan Hotel, La Maison Royale, Mara Bushtops Camp, and Sun Multinational

Source: World Luxury Hotel Brands Awards 2018

The awards give Kenya a competitive edge as they affirm the high-quality accommodation services provided, which is a pull factor and is likely to increase the number of inbound international tourists. According to the latest release by the Kenya National Bureau of Statistics (KNBS), Leading Economic Indicators September 2018, the number of tourist arrivals through the Jomo Kenyatta and Moi International Airports, increased by 8.0% for the first 8-months of 2018, reaching 685,736 persons in comparison to the same period in 2017, which came in at 634,828. This is attributable to a calm political climate in 2018, aggressive marketing of the tourism industry by the government, and increased international standard quality in the accommodation sector. Therefore, we expect that the global accolades will boost the number of international arrivals, and thus, hospitality sector returns, coming just a few weeks after the launch of the historic direct flight to the USA by the national carrier Kenya Airways.



Source: KNBS

Other Highlights:

- Naivas supermarket announced plans of taking up space at the Likoni Mall in Mombasa, in space previously occupied by Nakumatt. This will mark the retailer's 47th store nationwide, and 3rd in

Mombasa County.

We maintain a positive outlook for the real estate industry. We expect the sector to continue growing, bolstered especially by the increased entry of global players, the growth of the middle class, and the improved performance of the tourism & hospitality industries.
