



Nanyuki Real Estate Investment Opportunity, 2019, & Cytonn Weekly #23/2019

Focus of the Week

In line with our regional coverage strategy, we continue to carry out research on various markets in Kenya. So far we have done research in counties such as Mombasa, Nakuru, Kisumu, Laikipia, Meru, Nyeri and Uasin Gishu. The exercise is aimed at identifying the best real estate investment opportunities for our investors outside Nairobi and taking advantage of the benefits of the devolution in these counties. This week, we focus on Nanyuki town in Laikipia County, by highlighting our findings on the Nanyuki real estate market, having collected and analyzed our research data as at January 2019. In summary, in terms of investment returns, we found that the Nanyuki real estate market recorded an average rental yield of 4.7% for the residential sector, 7.6% in the commercial sector and a capital appreciation of 4.7% in the land sector, compared to the Nyeri market average of 5.1%, 6.3% and 19.1%, respectively.

To comprehensively review the real estate investment opportunity in Nanyuki Town, we will cover the following;

- ?. Overview of Laikipia County, zeroing into Nanyuki Town,
- A. Factors Driving Real Estate Investment in Nanyuki,
- B. Challenges Facing the Real Estate Sector in Nanyuki
- C. Nanyuki Real Estate Market Performance,
- D. Regional Comparative Analysis, and,
- E. Investment Opportunity and Outlook.

?. **Overview of Laikipia County, zeroing into Nanyuki Town**

Laikipia County borders Samburu County to the North, Isiolo County to the North East, Meru County to the East, Nyeri County to the South East, Nyandarua County and Nakuru County to the South West and Baringo County to the West. The county has a total population of 479,072 and a population growth rate of 2.5% as at 2017 according to the **Laikipia County Statistical Abstract**. According to Kenya National Bureau of Statistics, the Laikipia county Gross County Product per Capita (2017), stands at USD 1,533, thus ranked 17th county in Kenya, with the 1st being Nyandarua County with a GCP per Capita of USD 3,467. Tourism is one of the highest contributors to County's economy as it is richly endowed with wildlife, distributed in most parts of the county extending to Aberdare, Samburu, Meru and Mt. Kenya Wildlife corridors.

In terms of infrastructure, Laikipia is served by water from the Nanyuki water and sewerage Company limited (NAWASCO) and Nyahururu water and sewerage company (NYAHUWASCO). The area has good mains electricity, landline and mobile telephony. Main roads in the area are bitumen and in a good state of repair and maintenance while feeder roads in the ranches are paved and earthen roads that are navigable. Key to note, in the wake of a growing population and evolving

economic state of the county, the county government is in the process of revising the zoning regulations that are intended to guide land use standards, zoning schemes and ordinances for all urban settlements in the county, to facilitate physical planning.

The main towns in Laikipia County include; Nanyuki town, which temporarily hosts the county headquarters, Dol Dol, Rumuruti and Nyahururu. For this topical, we will focus on Nanyuki Town, which lies northwest of **Mount Kenya** and currently has a projected population of 63,022. Nanyuki is famous for farms, ranches, game parks and wildlife conservancies in the region, in addition to hosting the British Army Training Grounds.

B. Factors Driving Real Estate Investment in Nanyuki

Over the last 5-years, Nanyuki has witnessed increased real estate activities in the town and its environs driven by:

- ?. **Tourism** - Nanyuki hosts key tourist attractions such as the Ol Pejeta Conservancy and Mount Kenya National Park. The town thus acts as a major tourist circuit to Mt. Kenya and the Northern Region, enhancing demand for hospitality services which continues to promote the hospitality sector,
- i. **Growth of Small and Medium Enterprises (SMEs)** - The informal sector is estimated to constitute 98% of business in Kenya, contributing to 83.4% of jobs as per the 2018 KNBS Economic Survey. There is an increase in the number of SME'S due to ease in business registration that takes a maximum of 2 weeks. Nanyuki hosts several of these companies such as Mawingu Networks that require office space and housing for the employees, hence drive the demand for real estate,
- ii. **Devolution** - Decentralisation has opened up major towns across the 47 counties attracting government institutions, private investors and entrepreneurs across all the county headquarters. This has increased the urbanisation rate hence attracting financial institutions such as ECLOF Kenya and Faulu Kenya, to the county level to tap into the unbanked population. The positive demographics, attributable to devolution have thus, created demand for office space, retail space and residential units to host investors and government officials, and
- iii. **Hosts the British Army Training Grounds**- The British Army Training Unit Kenya (BATUK) is a training support unit of the British Army located in Nanyuki under long-standing cooperative agreements with the country. The presence of the same has resulted in a growing demand for housing by the army officers mainly hosting their families in the town.

C. Challenges Facing Real Estate Sector in Nanyuki

Despite the above factors supporting the real estate sector in Nanyuki, the sector continues to face challenges which include;

- i. **Lack of Structured Planning Regulations** - The town currently lacks updated structured planning regulations outlining areas zoned for commercial, residential and special needs. This is likely to lead to urban sprawl in the town and thus reduced land use maximization. The Laikipia County Government is, however, working on revising the zoning regulations to formulate land use standards, zoning schemes and ordinances for all urban settlements in the county,
- ii. **Inadequate Infrastructure** - Despite most of the roads in Nanyuki being tarmacked, majority of these are in a bad state of repair. In addition, the sewerage system is insufficient thus does not serve some parts of the town, thus making the area unattractive to investors due to additional development costs resulting in the slow growth of real estate,
- iii. **Unavailability of Development Land** - the unavailability of development class land in the town attributed to the area being largely an agricultural area and inadequacy of trunk infrastructure, leading to slow investment growth.

D. Nanyuki Real Estate Market Performance

Our market research focused on;

- **Plinth Area** - Research on the size of the units found in the market allows us to gauge the current offering, and establish the home buyer's preferences for sizes of houses,
- **Annual Uptake** - This allows the investor to appreciate the rate at which available property is sold over a specific period, thus helps him/her gauge how fast they can exit the market,
- **Occupancy** - This measure the number of units or the size of the development that is let out, in order to inform on the expected rental yield of the building,
- **Prices** - Research on prices will be used in comparison with our products against the market prices,
- **Rental Rates** - Research on rental rates allows us to inform prospective investors on the rental yield they can gain from investing in the Nanyuki Real Estate Market.

We covered the residential, commercial (retail and offices), hospitality(holiday homes) and the land sectors. The performance per theme was as follows:

?. Residential Sector

The residential housing development market in Nanyuki is still nascent with most of the estates, having existed for less than 3 years. The key drivers of the growth include; the British Army station, government decentralisation, urbanisation and growth of the middle class in the region.

The key residential areas are distributed within the Nanyuki CBD, Maiyan and near the airstrip, and mainly comprise of owner-built and occupied stand-alone houses, as the market lacks institutional developers. The residential market in and around Nanyuki town is mainly rental, as most of the investors target foreigners on long term stay of approximately 2 years.

The performance was as follows:

All values in Kshs unless stated otherwise

Nanyuki Residential Apartments Market Performance 2019

Typology	Unit Plinth Area	Price per SQM (2019)	Monthly Rent (2019)	Monthly Rent per SQM (2019)	Annualized Uptake (2019)	Rental Yield (2019)
Studio	48		10,333	218		4.5%
1 bedroom	65		14,500	225		4.5%
2 bedroom	78	56,034	20,700	278	50%	6.0%
3 bedroom	144	59,028	25,000	174	25%	3.5%
Average		57,531		224	38%	4.6%

***Rental yields assume 100% occupancy**

• **Apartments recorded a 4.6% average rental yield, with the 2- bed units recording the highest rental yield of 6.0%, compared to studios, 1 bed and 3-bedroom units at 4.5%, 4.5% and 3.5%, respectively. This is attributed to the relatively high monthly rate per SQM of the 2-bedroom units at Kshs 278, compared to the market averages at Kshs 224 per SQM, fueled by the high demand of the typology in the market by young families thus attracting the relatively high rent prices**

Source: Cytonn Research, 2019

The market stand-alone units' performance was as follows:

All values in Kshs unless stated otherwise

Stand Alone Residential Units Performance 2019

Typology	Unit Plinth Area	Price per SQM (2019)	Monthly Rent (2019)	Monthly Rent per SQM (2019)	Annualized Uptake (2019)	Rental Yield (2019)
3 bedroom	262	66,667	75,000	262	20%	3.0%
5 bedroom	415	66,667	150,000	371		6.7%
Average		66,667		316	20%	4.8%

**Rental yields assume 100% occupancy*

- *The average rental yield of the standalone units is 4.8%, at an average price per square metre of Kshs 66,667 and an average rent per square meter of Kshs 316,*
- *The market has a low supply of standalone units, attributable to the low demand for the same as most residents prefer to purchase land and build their own homes,*
- *Key to note, the available standalone units in the market are rental and have been introduced into the market in the last 1 year*

Source: Cytonn Research, 2019

On the overall, the Nanyuki residential market recorded an average rental yield of 4.7% and an annualized uptake rate of 29.0%. Below is the summary table:

All values in Kshs unless stated otherwise

Residential Market Performance Summary

	Price per SQM (2019)	Monthly Rent per SQM (2019)	Annualized Uptake (2019)	Rental Yield (2019)
Apartments	57,531	224	38%	4.6%
Stand Alone Units	66,667	316	20%	4.8%
Average	62,099	270	29%	4.7%

- *For residential properties, the average price and rent price per SQM for the units came in at Kshs 62,099 and Kshs 270, respectively*
- *The standalone units recorded a higher rental yield of 4.8%, compared to apartments at 4.6%, attributed to the high rent prices of the standalone units, which mainly target army officers hosting their families in the town*

Source: Cytonn Research, 2019

ii. Commercial Sector

The commercial sector in Nanyuki is yet to record entry of quality commercial space especially in the office sector where most of the offices are classified grade C and below. In the last 2-years, we have seen the establishment of new buildings such as the Ubii Plaza, which lack modern facilities such as lifts. The retail sector is served by two formal shopping malls; Nanyuki Mall and Cedar Mall with some of the key retailers being Botswana's Choopies, Chandarana Food Plus Supermarket and American fast food restaurant chain, Kentucky Fried Chicken (KFC).

The performance of the sector was as follows:

All values in Kshs unless stated otherwise

Mixed Use Developments Performance 2019

Element	Retail Sector	Office Sector
Rent per SQFT	95	81
Occupancy (%)	73.0%	73.0%
Rental yield (%)	8.3%	7.0%

- *The commercial properties recorded an average rental yield of 7.6%, at an average occupancy rate of 73.0%, assuming an exit price of Kshs 9,951 per SQFT obtained from the MUD and Office development valuation, and Kshs 10,068 per SQFT for Nanyuki and Cedar Malls*

- *The average rent price per SQFT for the retail space is Kshs 95, while the service charge stands at an average of Kshs 21, which is 22.0% of the average cost of the space. The sector recorded an 8.3% average rental yield, at an occupancy rate of 73.0%*

- *For the commercial office sector, the average rental yield came in at 7.0%, 1.3% points lower than that of the retail sector. On average, the rent per SQFT for the commercial office space came in at Kshs 81*

Source: Cytonn Research, 2019

iii. Land Sector

Land prices in Nanyuki town are highly dependent on the proximity to the main roads and proximity to the CBD. In the CBD, the land price is relatively high at an average price of up to Kshs 100 mn per acre, while an acre in the outskirts costs approximately Kshs 1.6 mn. Most of the land in Nanyuki has been utilized as ranches which are privately owned and could be as large as over 100 acres each. Despite having several ranches, the market has continued to embrace the selling of plots mainly 1/4 and 1/8 acres, with several property agents having entered the market.

The plots for sale recorded average annual sales of 45.8%, attributed to a growing demand for development land in the area fueled by speculations for higher property value boosted by the opening of the Northern Corridor.

All values in Kshs unless stated otherwise

Land Price Performance - Nanyuki

Size of plot	Selling Price 2016	Selling Price 2019	Annual Sales (%) 2019	Compounded Annual Price Appreciation
1/8	300,000	350,000	53.1%	5.3%
1/4	425,000	484,750	39.3%	4.5%
1/2	722,500	824,075	45.0%	4.5%
Average			45.8%	4.7%

- *The plots for sale in the market are mainly in 1/8 acres, 1/4 acres and 1/2 acres at an average price of Kshs 0.4 m, Kshs 0.5 mn and Kshs 0.8 mn respectively,*

- *The 1/8 acre plots recorded the highest annual uptake at 53.1%, and a relatively high price appreciation of 5.3%, attributed to their relatively high demand by individuals who prefer to build their own residential houses and speculators who expect to reap from the capital appreciation*

- *On average, the land in Nanyuki recorded an annual capital appreciation of 4.7%, attributable to the growing demand for development land mainly by speculators who expect to benefit from the high capital appreciation, in addition to individuals looking to build their own residential homes*

iv. Holiday Homes

Nanyuki hosts key tourist attractions such as the Ol Pejeta Conservancy and Mount Kenya National Park, making the town a major tourist circuit to Mt. Kenya and the Northern Region. This has continued to create demand for hospitality services and facilities, thus the development of holiday homes such as Maiyan Homes and the Mt. Kenya Wildlife Estates.

The performance of holiday homes was as follows:

All values in Kshs unless stated otherwise

Holiday Homes Market Performance 2019

Element	2017	2019	Annualized Δ
Selling Price per SQM	95,374	107,645	6.4%
Rent Price per SQM	557	653	8.6%
Average Daily Rate (ADR)	4,212	5,460	14.8%
Revenue per Available Room (RevPAR)	1,685	2,271	17.4%

- **The Average Daily Rate stood at Kshs 5,460 in 2019, 14.8% higher than the Kshs 4,212 recorded in 2017, while Revenue per Available Room came in at Kshs 2,271, 34.7% higher than the Kshs 1,685 recorded in 2017,**
- **We attribute the increase in revenues to an annualized increase in rent prices of 8.6%, to Kshs 653 per SQM from Kshs 557 in 2017, due to the growing demand for hospitality services and facilities as the concept of holiday homes continues to become popular**

Source: Cytonn Research, 2019

v. Nanyuki Real Estate Market Performance Summary

Nanyuki Real Estate Market Performance Summary

Theme	Occupancy Rates	Rental Yield	Annual Capital Appreciation
Residential	100%	4.7%	
Commercial Office	73%	7.0%	
Retail Sector	73%	8.3%	
Land Sector			4.7%
Average	85%	6.7%	4.7%

- **The market recorded an annual capital appreciation of 4.7% in the land sector, attributed to the increased demand for property, fuelled by the positive demographics, devolution and speculations with the opening of the northern corridor,**
- **The Nanyuki real estate sector recorded an average rental yield of 6.7%, with the retail sector recording the highest rental yield at 8.3%, attributed to the high demand for retail space in the town, which is currently undersupplied with only two shopping malls; Nanyuki Mall and Cedar Mall**

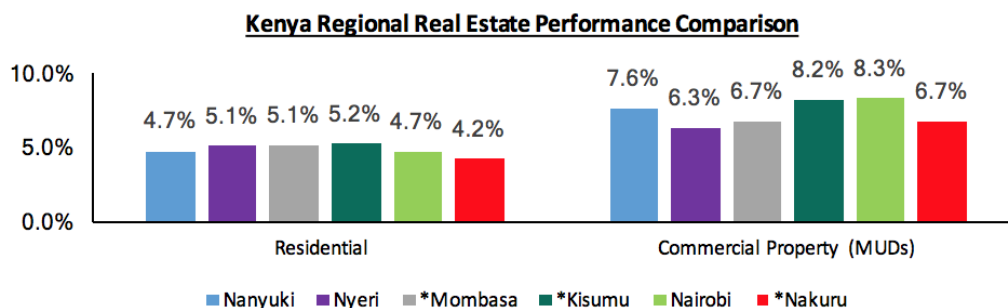
Source: Cytonn Research 2019

E. Regional Comparative Analysis

Comparing across the 6 counties we have tracked so far;

- In the residential sector, Kisumu recorded the highest rental yield at 5.2%, while Nanyuki, Nyeri and Nakuru recorded rental yields of 4.7%, 5.1% and 4.2%, respectively
- In the commercial sector, Nairobi recorded the highest rental yield at 8.3%, while Kisumu, Nanyuki, Nakuru and Mombasa followed at 8.2%, 7.6%, 6.7% and 6.7%, respectively

Below is the comparison of the performance of the 6 counties:



*2018 Data
Source: Cytann Research

F. Investment Opportunity & Outlook

We have a positive outlook for 4 sectors; commercial office, retail, hospitality and land sector and a neutral outlook for the residential sector in Nanyuki. The opportunity is in the commercial, hospitality and land sectors (unserviced land), supported by the high tourist numbers in the region, drawn by the wildlife conservancies and national parks, increasing demand for development land and an existing market gap for quality commercial buildings.

The table below shows a summary of the outlook and investment opportunity:

Theme	Performance (2019)	Investment Opportunity	Outlook
Residential Sector	The residential sector has an average rental yield of 4.7%, and an annualized uptake of 29.0%. The Residential sector is still nascent, with most of the estates, having less than 5 years existence, and yet to adopt a build for sale model	The market is yet to embrace the build for sale model, thus the focus should be on rental units. The investment opportunity lies in rental apartments which recorded an average rental yield of 4.7%. For standalone units, we have a negative outlook as the market lacks demand for the same, in addition to not embracing the built for sale concept, evidenced by the low current supply and a relatively low annual uptake of 20.0%	Neutral
Retail Sector	The rent price per SQFT for the retail space stands at approximately Kshs 95. The sector recorded an average rental yield of 8.3%, at an occupancy rate of 73.0%	Our outlook for the retail space is positive given the relatively high rental yields of 8.3%, as compared to areas such as Nakuru and Nyeri that have average rental yields of 5.8% and 6.3%, respectively. There exists a demand for retail space in Nanyuki as the town has only two malls that is Nanyuki Mall and Cedar Mall. In addition, the Mt Kenya region currently has an undersupply of retail space in the wake of the increasing retail business aimed at serving the increasing urban population	Positive
Commercial Office Sector	The commercial office sector has an average rental yield of 7.6% and an average occupancy of 73.0%.	The market lacks quality offices with the old commercial blocks being in a poor state of repair, while the few new commercial properties lack facilities such as lifts. However, there are relatively high occupancy rates in both the new and the old blocks, at an average of 73.0%, thus signalling a growing demand for commercial office space	Positive

Theme	Performance (2019)	Investment Opportunity	Outlook
Land Sector	Unserviced plots recorded an average annual capital appreciation of 4.7% at an annual uptake of 45.8%	Selling of unserviced land present an investment opportunity in the Nanyuki, with increased demand for owner-built residential units, mainly on 1/8 th acre plots which recorded relatively high annualized uptake of 53.1%, as the markets embrace the tradition of building their own homes and the demand for investment land especially in Nanyuki due to speculation given the improving state of infrastructure	Positive
Holiday Homes	The Average Daily Rate stood at Kshs 5,460 in 2019, 14.8% higher than the Kshs 4,212 recorded in 2017, while Revenue per Available Room came in at Kshs 2,271, higher than the Kshs 1,685 recorded in 2017,	Given the high tourist numbers in the region, drawn by the wildlife conservancies and national parks, holiday homes present an investment opportunity, targeting both leisure tourism, business tourists and conferencing	Positive

We have a positive outlook for the Nanyuki real estate market, driven by devolution, positive demographics, and the growing demand for development land in addition to the improving infrastructural development. For investment, we recommend investing in the land sector, hospitality and the commercial sector given the relatively high rental yield and existing market gap for quality commercial buildings.

Disclaimer: *The views expressed in this publication are those of the writers where particulars are not warranted. This publication, which is in compliance with Section 2 of the Capital Markets Authority Act Cap 485A, is meant for general information only and is not a warranty, representation, advice or solicitation of any nature. Readers are advised in all circumstances to seek the advice of a registered investment advisor.*