Kenya Retail Real Estate Sector Report 2019 & Cytonn Weekly #41/2019

Focus of the Week

In October 2018, we released the Kenya Retail Sector Report - 2018, themed "*Retail Sector Recovers in Key Cities Except Nairobi*", which focused on the performance of the retail real estate sector in Kenya in 2018. According to the report, the retail sector in Kenya recorded improved performance across all major cities in Kenya with the exception of Nairobi, which recorded a decline in rental yields by 0.2% points to 9.4% in 2018 from 9.6% in 2017.

This week, we update those findings with our Kenya Retail Sector Report - 2019. 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, Coastal Region, Western/Nyanza, and Mt. Kenya. The report highlights the performance of the retail real estate sector in Kenya in 2019, based on rental yields, occupancy rates, as well as demand and supply, all in comparison to 2018 and the years before to identify the trends, and hence, provide investors with an investment opportunity outlook for the sector. In this focus note, we will highlight the key take-outs from the report as below;

?. Overview of the Retail Sector in 2019
i. Retail Sector Performance Summary in 2019,
ii. Retail Space Demand Analysis,
iii. Retail Sector Investment Opportunity, and
iv. Retail Sector Outlook.

Section I: Overview of the Retail Sector in 2019

In the 2018/2019 period, the retail sector in Kenya continued to witness growth evidenced by increase in malls and number of international retailers making inroads in the country. New mall openings included The Karen Waterfront in Karen, expansion of Sarit Centre in Westlands, and Mwembe Mall in Mombasa, among others. New foreign players included Spanish fashion retailer, Mango, which set up shop in Nairobi at the Westgate Mall and South African retailer, Shoprite, also made its debut, opening at Westgate Mall in Westlands, Garden City, along Thika Road, and in City Mall, Nyali. Overall, the retail sector recorded an increase of 1.1 mn SQFT of mall space into the market in 2018, leading to a supply of 12.5 mn SQFT in 2019 from 11.4 SQFT in 2018. The sectors growth was driven by:

?. **Positive Demographics**: Kenya's urban population continues to expand at an annual rate of 4.3% as per the World Bank, increasing the need for formal retail,
i. **Rising Consumerism:** The retail sector continues to evolve on the back of a growing middle class and change in tastes and preferences especially towards international products, thus, creating a niche for international retailers,
ii. **Infrastructure:** The continued investment in infrastructure has encouraged a growth in mall space as this encourages tenancy as well as footfall

iii. **Recognition as a Regional Hub:** This has seen international retailers such as Carrefour, Shoprite and Game open locations within the Nairobi Metropolitan Area (NMA), and,
iv. **Growth of Small and Medium Sized Enterprises (SMEs):** SMEs contribute approximately 45% of Kenya's GDP, 80% of employment in Kenya and constitute 98% of businesses locally according to a CNBC News Report 2014 and are thus a key driver for the retail office sector.

However, due to a tough financial environment, developers continued to employ prudent methods in a bid to retain tenants and also to target international anchor tenants. Retail spaces are now differentiating themselves in a bid to attract footfall by focusing on entertainment and recreational facilities as seen in malls such as Two Rivers and Karen Waterfront.

During the year, the key challenges to the retail sector were:

?. Slow private sector credit growth, which stood at 5.2% as of June 2019, compared to a 5-year (2013-2018) average of 14.0%,
i. Tough financial environment brought about by inflationary pressures and challenges in the employment sector, and,
ii. Increase in troubled retailers, with Choppies, an anchor tenant in various Kenyan Malls, announcing plans to exit the country owing to poor governance.

Despite these challenges, we expect the retail sector to be cushioned by the presence of strong international retailers such as Carrefour, Shoprite, food chains such as Subway, Burger King and KFC, as well as local retailers such as Tuskys and Naivas. These retailers have continued to take up space in malls and mixed-use developments, in a bid to expand their local footprint, thus providing a boost to the retail sector. Overall, formal retail sector in Kenya remains relatively low at approximately 35.0%, in comparison to countries such as South Africa with 60.0% and therefore, we expect to see more growth in the sector.

Section II: Retail Sector Performance Summary in 2019

In 2018, Kenya's retail sector performance improved with average rental yields increasing by 0.3% points y/y to 8.6%, from 8.3% in 2017, on the back of a recovery from the tough economic environment in 2017. However, in 2019, the sector's performance in key urban cities softened, recording average rental yields of 7.0%, 1.6% points lower than the 8.6% recorded in 2018. The reduced performance is largely attributed to:

?. **Rental Rates Reductions** – The tough financial environment has seen the rental rates in the sector decline by 10.6% to Kshs 118 per SQFT in 2019, from Kshs 132 per SQFT in 2018, and,
i. **Increased Vacancy Rates** - A surplus in retail space coupled with stiff competition between malls in some nodes such as Nairobi, which recorded an oversupply of 2.8 mn SQFT, which saw average occupancies drop by 8.7% points Y/Y from 86.0% in 2018 to 77.3% in 2018. Some property managers, therefore, introduced innovative strategies such as offering rent-free grace periods of up to 6 months in a bid to attract tenants.

In our analysis of the retail market performance in 2019, we will cover the general market performance within key nodes in the Nairobi Metropolitan Area by node and class and then conclude with the performance of key urban cities in the country.

a. Retail Sector Performance in Kenya Over Time

In 2019, the Kenyan retail sector's performance dropped slightly with average rental yields declining by 1.6% points to 7.0% in 2019, from 8.6% in 2018. Occupancy rates declined by 8.7% points to 77.3% in 2019, from 86.0% in 2018. The decline in performance is mainly attributed to:

i. An introduction of 0.8 mn SQFT of retail space into the Kenyan market driving down rents and occupancy rates by 10.2% and 4.8% points, respectively. The new retail spaces include the

Waterfront Mall and Signature Mall, amongst others, and,

ii. Constrained spending power among consumers due to a tough financial environment.

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

(all values in Kshs unless stated otherwise)

Kenya's Retail Sector Performance Summary 2019

Item	2016	2017	2018	2019	Δ Y/Y 2019/2018
Average Asking Rents (Kshs/SQFT)	154.9	140.9	132.1	118.0	**(10.6%)**
Average Occupancy (%)	82.9%	80.2%	86.0%	77.3%	**(8.7%) Points**
Average Rental Yields	8.7%	8.3%	8.6%	7.0%	**(1.6%) Points**

- ***The average rental yields declined by 1.6% points to 7.0% in 2019 from 8.6% in 2018 driven by 8.7% points decline in occupancy rates to 77.3% in 2019, from 86.0% in 2018***
- ***The decline in performance is attributable to an introduction of 0.8 mn SQFT of retail space into the Kenyan market and constrained spending power among consumers due to a tough financial environment***

Source: Cytonn Research 2019

b. Nairobi Metropolitan Area (NMA) Retail Market Performance – Rental yield and Occupancy rates recorded slight declines

?. **Performance by Nodes- Kilimani, Ngong Road and Westlands were the best-performing retail nodes**

In 2019, rental yields within the Nairobi Metropolitan Area declined by 1.0% points to 8.0%, from 9.0% in 2018. This was mainly driven by a decline in rents per SQFT and occupancy rates by 5.4% and 4.7% points, respectively, from Kshs 178.2 and 79.8% in 2018 to Kshs 168.6 and 75.1% in 2019. The decline is mainly attributed to an increase in retail space supply of 0.8 mn SQFT within the past year with the addition of malls such as Waterfront, The Well, Mountain View and the expansion of Westgate and Sarit Centre malls.

Kilimani, Ngong Road and Westlands were the best-performing retail nodes recording rental yields of 9.9%, 9.2% and 9.2%, respectively, in 2019 attributed to the nodes serving the upper middle income and high-end population. However, Westlands area experienced the largest drop in performance recording a 3.0% points decline in rental yields to 9.2% in 2019 from 12.2% in 2018. Its occupancy rates also declined by 3.6% points to 84.6% in 2019 from 88.2% in 2018. This was mainly attributed to a 7.1% reduction of rental rates from an average of Kshs 219.2 per SQFT in 2018 to Kshs 203.6 per SQFT as of 2019, in a bid to attract tenants especially with the addition of 0.5 mn SQFT of retail space within the node following the completion of malls such as Mountain View mall and the expansion of Sarit Centre and Westgate shopping malls.

Satellites towns recorded the lowest rental yields at 6.0% attributed to low rents, which average at Kshs 131.4 per SQFT, 28.3% lower than the market average of Kshs 168.6 per SQFT driven by low rental charges as a result of competition from informal retail space.

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

(all values in Kshs unless stated otherwise)

Summary of NMA's Retail Market Performance 2018-2019

Location	Rent Per SQFT 2019	Occupancy Rate 2019	Rental Yield 2019	Rent Per SQFT 2018	Occupancy Rate 2018	Rental Yield 2018	Change in Rents	Change in Occupancy	Change in Rental Yields
Kilimani	170.4	87.2%	**9.9%**	167.1	97.0%	**10.7%**	2.0%	(9.8%)	**(0.9%)**
Ngong Road	179.4	83.1%	**9.2%**	175.4	88.8%	**9.7%**	2.3%	(5.7%)	**(0.5%)**
Westlands	203.6	84.6%	**9.2%**	219.2	88.2%	**12.2%**	(7.1%)	(3.6%)	**(3.0%)**
Karen	207.9	77.0%	**9.1%**	224.9	88.8%	**11.0%**	(7.6%)	(11.8%)	**(1.9%)**
Eastlands	145.0	74.5%	**7.5%**	153.3	64.8%	**6.8%**	(5.4%)	9.7%	**0.7%**
Thika road	165.4	73.5%	**7.5%**	177.3	75.5%	**8.3%**	(6.7%)	(2.0%)	**(0.8%)**
Kiambu Road	166.0	61.7%	**6.8%**	182.8	69.5%	**8.1%**	(9.2%)	(7.8%)	**(1.4%)**
Mombasa Road	148.1	64.0%	**6.3%**	161.5	72.4%	**7.9%**	(8.3%)	(8.4%)	**(1.6%)**
Satellite Towns	131.4	70.3%	**6.0%**	142.1	73.7%	**6.7%**	(7.5%)	(3.3%)	**(0.7%)**
Average	**168.6**	**75.1%**	**8.0%**	**178.2**	**79.8%**	**9.0%**	**(5.4%)**	**(4.7%)**	**(1.0%)**

- ***Kilimani, Ngong Road and Westlands were the best-performing retail nodes recording rental yields of 9.9%, 9.2% and 9.2%, respectively, in 2019***
- ***Westlands experienced the largest drop in performance driven by a 7.1% decline in rental charges to Kshs 203.6 per SQFT in 2019 from Kshs 219.2 per SQFT in 2018. This was attributed to a reduction of rental rates by property managers in a bid to attract tenants***
- ***Satellites towns were the worst performing recording rental yields of 6.0% attributed lower rents at Kshs 131.4 per SQFT, 28.3% lower than the market average at Kshs 168.6 per SQFT driven by low rental charges as a result of competition from informal retail space***

Source: Cytonn Research 2019

0. **Performance by Class - Destination malls were 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 (except NextGen), in Nairobi these include; Sarit Centre, Two Rivers Mall, NextGen 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; The Hub, Capital Centre, Galleria, Village Market, Junction Mall, and Westgate, and,
- **Neighbourhood 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; Prestige Plaza, Rosslyn Riviera and Ridgeways Mall.

On performance by class, destination malls were the best performing mall typologies recording average rental yields of 9.4%, attributable to high rental charges averaging at Kshs 211.6 per SQFT, 25.5% higher than the market average of Kshs 168.6 per SQFT. This is as the malls charge premium rents for the high-quality retail space, facilities provided, and higher footfall attracted by the presence of international retailers. Despite the attractive yields, destination malls recorded a slight decline in performance with rental yields declining by 0.2%

points from 9.6% in 2018 to 9.4% in 2019 and rental rates declining by 2.9% to Kshs 211.6 in 2019 from Kshs 217.9 in 2018.

Community malls recorded the largest drop in performance with rental yields declining by 1.5% points, driven by an 8.4% points decline in occupancy rates from 84.5% in 2018 to 76.1% in 2019. The decline in performance is attributed to a large number of community malls such as the Waterfront and the Signature Mall, opened within the past year adding 528,000 SQFT into the retail market.

Neighbourhood malls equally recorded a drop in performance with rental yields and occupancy rates declining by 1.1% and 6.7% points, respectively, attributed to the reduction of rental rates by property managers to attract smaller retailers.

Retail market performance in Nairobi Metropolitan Area (NMA) by class is as shown below:

(All values in Kshs Unless Stated Otherwise)

Nairobi Metropolitan Area (NMA) Retail Market Performance by Class 2019

Class	Rent per SQFT 2019	Occupancy 2019	Rental Yield 2019	Rent per SQFT 2018	Occupancy 2018	Rental Yield 2018	Change in Occupancy Rates	Change in Rental Yields
Destination	211.6	79.8%	9.4%	217.9	81.0%	9.6%	(1.3%)	(0.2%)
Community	166.9	76.1%	8.1%	176.9	84.5%	9.6%	(8.4%)	(1.5%)
Neighbourhood	162.3	73.5%	7.9%	170.0	80.2%	9.0%	(6.7%)	(1.1%)
Average	**168.6**	**75.1%**	**8.0%**	**178.2**	**79.8%**	**9.0%**	**(4.7%)**	**(1.0%)**

- ***Destination malls were the best performing mall typologies recording average rental yields of 9.4% attributable to charging premium rents for the high quality space, facilities provided, and higher footfall attracted by the presence of international retailers***
- ***Community malls recorded a decline in occupancy rates from 84.5% in 2018 to 76.1% in 2019 attributed to a large number of community malls opened within the past year***

Source: Cytonn Research 2019

c. Retail Market Performance in Key Urban Cities in Kenya

Performance in key urban cities within the country softened with rental yields declining by 1.6% points to 7.0% in 2019 from 8.6% in 2018. This was mainly driven by a drop in occupancy rates by 8.7% points to 77.3% in 2019, from 86.0% in 2018. The decline in performance is mainly attributed to adoption of informal retail spaces and mixed-use developments by retailers and increase in the supply of retail space by 0.8 mn SQFT in 2019 with malls such as Lake Basin Mall in Kisumu, the Waterfront in Nairobi and the Signature Mall in Kitengela.

Mt. Kenya was the best performing region, with average yields of 8.6% and rental rates of Kshs 129.8 per SQFT. The region has a relatively low mall space supply accounting for 7.7% market share in Kenya, which means high occupancy rates.

Kisumu and Nakuru had the lowest rental yields recording 5.6% and 4.5%, respectively. Kisumu's lower performance is attributed to oversupply of retail space in the area after the opening of Lake Basin Mall with over 0.3 mn SQFT of retail space that resulted in a 12.2% points decline in retail space occupancy to 75.8% in 2019, from 88.0% in 2018. Nakuru's low performance is attributed to competition due to lower rental rates

offered from more established mixed-use developments (MUDs) that are in the market such as CK Patel and Shoppers Paradise.

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

(all values in Kshs unless stated otherwise)

Summary of 2019 Retail Performance in Key Urban Cities in Kenya

Region	Rent 2019	Occupancy Rate 2019	Rental Yield 2019	Rent 2018	Occupancy Rate 2018	Rental Yield 2018	Change in Occupancy Y/Y	Change in Yield Y/Y
Mt. Kenya	129.8	80.0%	**8.6%**	130.1	84.5%	**9.9%**	(4.5%)	**(1.3%)**
Nairobi	168.6	75.1%	**8.0%**	178.9	83.7%	**9.4%**	(8.6%)	**(1.4%)**
Eldoret	131.0	82.3%	**7.9%**	134.1	78.5%	**7.6%**	3.8%	**0.3%**
Mombasa	122.8	73.3%	**7.3%**	135.8	96.3%	**8.3%**	(22.9%)	**(0.9%)**
Kisumu	96.9	75.8%	**5.6%**	106.3	88.0%	**9.7%**	(12.2%)	**(4.1%)**
Nakuru	59.2	77.5%	**4.5%**	63.0	85.0%	**6.9%**	(7.5%)	**(2.4%)**
Average	**118.0**	**77.3%**	**7.0%**	**124.7**	**86.0%**	**8.6%**	**(8.7%)**	**(1.6%)**

· ***Mt. Kenya was the best performing region, with average yields of 8.6% and rental rates of Kshs 129.8 per SQFT***

· ***Kisumu and Nakuru had the lowest rental yields recording 5.6% and 4.5%, respectively. Kisumu's lower performance is attributed to an oversupply of retail space in the area after the opening of Lake Basin Mall with over 0.3 mn SQFT of retail space***

Section III: Retail Space Demand Analysis

We worked out a retail space demand analysis to help track retail market gaps across the country, and therefore inform investors on both overserved and underserved markets. Our demand analysis is based on the current and incoming retail space supply and the required retail space demand per region dependent on the population.

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. For calculation of the Net Space Uptake, we used the average uptake in Kilimani as a guideline. 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:

?. 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,

i. Percentage of Shopping Population (14 years and above) at 58.0% according to KNBS (2009 Census).

If the figure is positive, then the market has an undersupply 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;

Retail Space Demand Analysis Summary 2019

Region	Population 2019(F)Mn	Urban Population (%)	Urban population 2019 (Mn)	Shopping Population(Mn)	Net Space Uptake per pax in SQFT (Based on Uptake per pax in Kilimani)	Occupancy (2 Year Average)	Gross Space Uptake per Pax 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	79%	2.1	1.7	0.9	0.8
Mombasa	1.3	100%	1.3	0.8	1.9	85%	2.1	1.8	1.6	0.2
Kajiado	1.1	41%	0.5	0.3	0.7	79%	0.7	0.6	0.4	0.2
Mt Kenya	2.8	22%	0.6	0.4	0.9	82%	1.0	0.8	0.6	0.2
Machakos	1.3	52%	0.7	0.4	1.0	79%	1.1	0.9	0.7	0.2
Nakuru	2.2	45%	1.0	0.6	1.4	81%	1.6	1.3	1.4	(0.1)
Kisumu	1.2	52%	0.6	0.4	0.9	82%	1.0	0.8	1.0	(0.2)
Uasin Gishu	1.3	39%	0.5	0.3	0.7	80%	0.8	0.7	0.9	(0.2)
Nairobi	4.6	100%	4.6	2.7	6.7	79%	7.4	5.9	8.6	(2.8)
Total	**18.0**		**11.1**	**6.5**	**16.1**		**17.9**	**14.4**	**16.1**	**(1.7)**

- ***The Kenyan retail market is currently oversupplied by 1.7mn SQFT with Nairobi recording a 9-year CAGR of 15.3%***
- ***Kiambu is the highest under-supplied area by 0.8 mn SQFT while Mombasa, Kajiado, Mt. Kenya and Machakos are under-supplied by 0.2 mn SQFT each***
- ***Nairobi is the most over-supplied area at 2.8 mn SQFT, a 40% increase from 2.0 mn SQFT in 2018***

Source: Cytonn Research 2019

In summary, the table above gives us the below three key take-outs:

- The Kenyan retail market is currently oversupplied by 1.7mn SQFT with Nairobi recording a 9-year CAGR of 15.3%
- Kiambu County is the highest under-supplied area by 0.8 mn SQFT while Mombasa, Kajiado, Mt. Kenya and Machakos are under-supplied by 0.2 mn SQFT each
- Nairobi is the most over-supplied area at 2.8 mn SQFT, a 40% increase from 2.0 mn SQFT in 2018

Section IV: Retail Space Investment Opportunity

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 the highest yield was given the highest score of 9, while the area with the 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 a lower retail space supply, with a retail space supply gap of 0.2 mn, 0.2 mn and 0.8 mn SQFT, respectively and household expenditure at Kshs 5,800, Kshs 4,333 and Kshs 5,100 for Mombasa, Mt. Kenya and Kiambu, respectively. The ranking is as shown below:

Retail Space Opportunity 2019

Region/Weight	Retail Yield Score	Retail Space Score	Household expenditure (per adult) score		
	30%	30%	40%	Weighted score	Rank
Mombasa	5	8	8	7.1	1
Mt. Kenya	9	6	5	6.5	2
Kiambu	3	9	7	6.4	3
Nairobi	8	1	9	6.3	4
Kajiado	6	7	2	4.7	5
Kisumu	4	3	6	4.5	6
Machakos	2	5	3	3.3	7
Uasin Gishu	7	2	1	3.1	8
Nakuru	1	4	4	3.1	8

- **Mombasa, Mt. Kenya and Kiambu offer the best investment opportunities to retail mall developers attributed to higher rental yields, higher household expenditure and lower retail space supply**
- **Uasin Gishu and Nakuru are the lowest ranking as a result of lower yields, higher retail space supply and lower household expenditure**

Source: Cytonn Research 2019

Section V: Retail Sector Outlook

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

Kenya Retail Sector Outlook 2019

Measure	Sentiment 2018	Sentiment 2019	2018 Outlook	2019 Outlook
Retail Space Supply	•Increasing supply with Nairobi currently having a mall space supply of approximately 6.5 mn SQFT, having grown from 2.0mn SQFT in 2010 at 8-yr CAGR of 15.9%.	• Majority of the Kenyan regions that is Kiambu County, Mt Kenya region, Machakos, Mombasa and Kajiado are undersupplied and therefore, we expect to see developers shifting their focus to these regions • However, in the short-run we expect developers to scale back on the top-tier regions that are oversupplied, that is, Nairobi, Kisumu, Uasin Gishu and Nakuru with more development picking up based on demand from international retailers and investors as well as improved financial environment	**Neutral**	**Neutral**

Kenya Retail Sector Outlook 2019

Measure	Sentiment 2018	Sentiment 2019	2018 Outlook	2019 Outlook
Retail Market Performance	•The retail sector recorded average rental yields of 8.6%, and occupancy rates of 86.0%, which are 0.3% and 5.8% points y/y increase from average rental yield of 8.3% and occupancy rates of 80.2% in 2017 •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	•The retail sector performance declined by 5.4% and 4.7%, respectively to record rental yields of 8.0% and occupancy rates of 75.1%, respectively •Nairobi and Mt. Kenya were the best performing regions with average rental yields of 8.6% and 8.0%, respectively. Kisumu's performance dropped significantly indicating due to increased mall supply in the counties	**Positive**	**Neutral**
Retail Space Demand	•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	•Despite four major cities i.e Nakuru, Uasin Gishu, Kisumu and Nairobi being oversupplied, the rest are undersupplied including Kiambu with a retail space demand of 0.8mn SQFT	**Positive**	**Neutral**
Market Outlook	**The outlook for the sector is neutral and we expect to witness reduced development activity in Nairobi, with developers shifting to county headquarters in some markets such as Kiambu and Mt. Kenya that have retail space demand of 0.8mn and 0.2mn SQFT, respectively**			

Source: Cytonn Research 2019

For 2019, the metrics under consideration are neutral and therefore our outlook for the retail sector is neutral. However, we remain optimistic that the sector's performance will remained cushioned by increased market activity driven by the entry of international retailers into the Kenyan market and the expansion efforts by local retailers such as Naivas and Tuskys as they take advantage of the attractive rental rates. The opportunity remains in county headquarters in some markets such as Kiambu that have retail space demand of 0.8mn SQFT. For more details on the report see the link Cytonn's Kenya retail Sector Report – 2019