Research Note: Focus on Kisumu

Cytonn Real Estate has been carrying out periodical research on the real estate market in Kenya, focusing on the best investment opportunity for our investors. We recently released the Cytonn Retail Report, which was followed our Mortgage Affordability Index, a report to highlight the most affordable location for a household to purchase a home given their income levels. In line with our county strategy, we carried out market research in Kisumu City to determine the real estate investment opportunity present in the real estate sectors of residential, retail, mixed-use and hospitality.

From our research, the residential real estate sector in Kisumu presents investors with a total per annum return of 13.3%, with an income yield of 4.8% and annual capital appreciation of 8.5%. However, more attractive income yields of 9.6% p.a. are available in investing in mixed-use developments, which is where we recommend investors to participate.

The research findings are as presented below:

Overview:

Kisumu is the third largest city in Kenya and the principal city in Western Kenya. It is located on the shores of Lake Victoria, at the Winam Gulf. Kisumu covers approximately 780 SQ/KM and has an approximate population of 434,661 people. The population is composed of locals, mainly of Luo, Kisii, Luhya, Nubian and Asian descents. The main economic activities are farming, livestock keeping, fishing and trading. Kisumu City's main suburbs are Kilimani, Riat and Kajulu, which are dominated by high-end residential developments. Manyatta, High Rise, and Airport are mid-end residential settlements. Nyamasaria, Nyalenda and Kibos areas are dominated by low-end residential developments. The CBD is the commercial hub dotted with malls, mixed-use developments and a number of hotels. The hospitality sector is also vibrant along the Lake Victoria shorelines, with hotels such as Acacia Hotel.

Amenities:

The city is served with water from the Kisumu Water and Sanitation Council, and the CBD, Nyamasaria and Milimani areas have sewer connections, with the rest of Kisumu City using septic tanks. The main roads such as Oginga Odinga Street, Kisumu Kakamega Highway and Kisumu Busia Highway are tarmacked, with the feeder roads being paved and in good state of repair. A bypass is under construction to ease traffic from the CBD.

Key hospitals in the area include: The Aga Khan Hospital Kisumu, New Nyanza Provincial Hospital and Milimani Maternity Hospital. Kisumu City has a number of educational facilities including: Kisumu Boys and Girls Secondary Schools and Maseno University. Being the headquarters of Kisumu County and the former headquarters of Nyanza Province, it also plays an administrative role that has attracted a working population to the area, and boosted the demand for institutional grade real estate to cater for the working middle class.

Factors Boosting Real Estate Investment in Kisumu:

There are a number of factors boosting real estate investment in Kisumu, largely to do with population growth and infrastructure development, which has opened up the city for institutional grade development:

1. **Rising Population** – Kisumu City has a growing population, both organic and from immigration. The population has been growing at a rate of 2.8% p.a, compared to the Kenya average of 2.6%. This results in higher demand for residential real estate products, resulting in the growth of the real estate sector in Kisumu, as this population looks to purchase residential units.
2. **Accessibility** – Kisumu City is accessible by road from all parts of the country, rail from Mombasa and Nairobi, air from Eldoret, Mombasa and Nairobi, and by water from Mwanza in Tanzania. This has facilitated easy movement of people and goods such as agricultural produce, clothes and retail goods, and has made it an attractive real estate destination, especially for the sectors in real estate such as retail, residential and hospitality.

3. **City Status** – Being a city and administrative centre, Kisumu has attracted population from both its vicinity and beyond who come either to trade or to work. These people demand housing, recreational and retail facilities, which has resulted in the development of the real estate sector in Kisumu.
4. **Housing Upgrade** – Devolution has increased the local Government's effort to upgrade housing developments making them more habitable. This is most visible in areas such as Okore, Migosi, Celtel, Mosque, Makasembo and Arina estates.
5. **Infrastructural Development** – The city has seen a lot of infrastructural developments in the recent years, which have opened it up for development. These include upgrading of the airport to international status, slum-upgrading programs by National Youth Service (NYS), and development of roads such as the Nyamasaria and Kisumu- Kisian Highway.
6. **Tourism –** Kisumu has several tourist attraction sites such as Lake Victoria, Impala Park and the Museum. These attract a large number of domestic tourists, boosting the demand for the hospitality and retail sectors.

However, despite all the factors that have led to increased development of real estate in Kisumu, there are still a number of factors which, if not properly addressed, present challenges to real estate development**:**

1. **Poor Planning** – The city is poorly planned, based on a 1974 Town Plan. There are no clear policies guiding the planning, and in the past expansion of roads led to disruption of sewer and water lines in the city
2. **Space for Expansion –** As a result of the poor planning, residential developments are close to the city centre and hence the city's commercial hub cannot expand outwards. For instance, Milimani a high-end residential estate and is less than a five minutes' drive from The CBD. This problem can be solved by rezoning Milimani to be a commercial centre, with Riat being the main high-end residential zone hence enabling expansion of the CBD
3. **Steep Gradient** – Some parts of the city such as Riat Hills have a very steep gradient, making construction very expensive
4. **Political Instability and Intolerance** – In times of political instability in the past, property destruction has resulted in large losses. This discourages investments into the real estate sector by investors for fear of destruction, in times of violence.
5. **Fraud** – According to Agricultural Sector Development Support Program (ASDSP), only 63% of the lands in Kisumu actually have title deeds and many buyers have been conned off land or settled in land parcels belonging to other people and thence losing their property. This is a trend that has also made investors wary of investments in the city.

Kisumu Market Research:

In line with our county strategy, we carried out a market research in Kisumu City to determine the real estate investment opportunity.

In this research we will focus on the following areas:

- *Prices* – will give an overview of exit prices of real estate units in the market
- *Rents/ income* – will inform on the average rental prices and yields for investment analysis
- *Uptake and Occupancy* – indicates the rate at which the units have been bought or rented hence indicating the attractiveness of the real estate market in the area

Research Findings:

1. Residential:

Generally, the residential sector in Kisumu is undergoing development, with most of the mega developments, being less than 5-years old. This is being driven by Government decentralisation, urbanisation and growth of the middle class. Residential houses are distributed in the outskirts of the CBD. Areas like Milimani and Riat area are known for stand-alone houses, while places like Mamboleo, Kibos and areas around CBD host apartment blocks. The target market for residential units is mainly the locals.

(all values in Kshs unless stated otherwise)

Two Bedroom Apartments											
Project	Location	Plinth (SQM)	Initial Price	Current Price	Current Price Per SQM	Monthly Rent	No of Yrs	Annualized Sales Achieved	Price Appreciation	Rental Yield	Total Return
Low-end											
Milele Apts	Tom Mboya Estate	84	5,000,000	7,000,000	83,333	30,000	3	37%	14.4%	4.8%	19.2%
Translakes Estate	Kibos road	76	4,500,000	5,500,000	72,368	35,000	3	20%	6.9%	4.6%	11.5%
NHC Apts	Kanyakwar	70	3,500,000	4,000,000	57,143	30,000	2	29%	6.9%	5.2%	12.1%
SparrowApts	Kibos estate	80	5,800,000	5,800,000	72,500	28,000	2	50%	0.0%	5.8%	5.8%
La Rosey	Mamboleo	70	5,500,000	7,000,000	100,000	30,000	4	18%	6.2%	3.6%	9.8%
Average		**76**	**4,860,000**	**5,860,000**	**77,069**	**30,600**	**3**	**31%**	**6.9%**	**4.8%**	**11.7%**
High-end											
Milimani Court Apts	Milimani	100	7,000,000	10,500,000	105,000	65,000	5	20%	8.4%	7.4%	15.9%
Kavirondo Apts	Milimani	84	8,000,000	9,500,000	113,095	60,000	3	33%	5.9%	7.6%	13.5%
KUSCO Apts	Milimani	90	7,500,000	10,000,000	111,111	40,000	5	20%	5.9%	4.8%	10.7%
Tom Mboya Drive	Milimani	90	7,900,000	10,000,000	111,111	50,000	5	20%	4.8%	6.0%	10.8%
Average		**91**	**7,600,000**	**10,000,000**	**110,079**	**53,750**	**5**	**23%**	**6.3%**	**6.5%**	**12.7%**
Total Average		**84**	**6,230,000**	**7,930,000**	**93,574**	**42,175**	**4**	**27%**	**6.6%**	**5.6%**	**12.2%**

Two Bedroom apartments in high-end areas have the highest rental yields among residential units of 6.5% as compared to those in low-end areas with yields of 4.8% and three bedroom units of 5.0%. This is as they have higher rents, due to the exclusive locations, better amenities and security provided in high-end areas. They also have higher demand than three bedrooms in high-end areas, as they are relatively cheaper.

Source: Cytonn Research June 2016

(all values in Kshs unless stated otherwise)

Project	Location	Plinth (SQM)	Initial Price	Current Price	Current Price per SQM	Monthly Rent	No of yrs	Annualized Sales Achieved	Price Appreciation	Rental Yield	Total Return
Three Bedroom Apartments											
Low-end											
Milele Apts	Tom Mboya Estate	118	6,000,000	8,000,000	67,797	40,000	3	33%	10.1%	6.0%	16.1%
Translakes Estate	Kibos road	110	5,600,000	6,500,000	59,091	50,000	3	13%	5.1%	3.7%	8.8%
NHC Apts	Kanyakwar	95	5,250,000	6,000,000	63,158	35,000	2	44%	6.9%	6.2%	13.1%
SparrowApts	Kibos estate	93	6,500,000	6,500,000	69,892	35,000	2	50%	0.0%	6.5%	6.5%
La Rosey	Mamboleo	125	6,500,000	8,500,000	68,000	40,000	4	18%	6.9%	4.0%	10.9%
Average		**108**	**5,970,000**	**7,100,000**	**65,588**	**40,000**	**3**	**32%**	**5.8%**	**5.3%**	**11.1%**
High End											
Milimani Gardens	Milimani	130	11,000,000	13,500,000	103,846	70,000	4	21%	5.3%	5.2%	10.5%
Milimani court Apts	Milimani	179	9,500,000	13,000,000	72,626	80,000	5	20%	6.5%	7.4%	13.9%
Kavirondo Apts	Milimani	110	12,000,000	13,500,000	122,727	70,000	3	33%	4.0%	6.2%	10.2%
KUSCO Apts	Milimani	121	8,000,000	12,500,000	103,306	50,000	5	20%	9.3%	4.8%	14.1%
Tom Mboya drive	Milimani	120	12,000,000	15,000,000	125,000	50,000	5	20%	4.6%	4.0%	8.6%
Average		**133**	**10,375,000**	**13,500,000**	**105,915**	**62,500**	**5**	**23%**	**6.1%**	**5.6%**	**11.7%**
Total Average		**120**	**8,172,500**	**10,300,000**	**85,751**	**51,250**	**4**	**27%**	**5.9%**	**5.4%**	**11.4%**
Three bedroom apartments in low end areas in Kisumu have the highest annualized uptake of 32%, as compared to those in high end areas with 23%. The high uptake in low end areas is as a result of lower prices making them more affordable to the population. Three bedrooms in low end areas are 31% cheaper than the ones in high end areas.											

Source: Cytonn Research June 2016

Detached Houses												
Project	Location	No of Beds	No of Yrs	Plinth (SQM)	Initial Price	Current Price	Current Price Per SQM	Monthly Rent	Sales Achieved	Price Appreciation	Rental Yield	Total Return
United Oasis	Milimani	5	2	300	50,000,000	60,000,000	200,000	250,000	50%	9.5%	5.0%	14.5%
Riat Hills Villas	RIAT HILLS	5	1	600	48,500,000	48,500,000	80,833	100,000	0.0%	0.0%	2.5%	2.5%
Average				**450**	**49,250,000**	**54,250,000**	**140,417**	**175,000**		**10.0%**	**3.7%**	
Milimani Lifestyle Estate	Milimani	4	1	243	32,500,000	35,000,000	144,033	120,000	100.0%	7.7%	4.1%	11.8%
Riat Hills Villas	RIAT HILLS	4	1	425	43,000,000	43,000,000	101,176	70,000			2.0%	2.0%
Lakeview Villas	RIAT HILLS	4	1	250	18,450,000	21,000,000	84,000	80,000	100.0%	13.8%	4.6%	18.4%
Victoria Gardens	RIAT HILLS	4	1	186	15,000,000	16,500,000	88,710	70,000	77.8%	10.0%	5.1%	15.1%
Average				**276**	**27,237,500**	**28,875,000**	**104,480**	**85,000**	**92.6%**	**10.5%**	**3.9%**	**11.8%**
Victoria Gardens	RIAT HILLS	3	1	156	12,500,000	14,000,000	89,744	60,000	57.1%	12.0%	2.9%	14.9%
Lakeview Villas	RIAT HILLS	3	1	195	14,500,000	16,000,000	82,051	55,000	100.0%	10.3%	4.1%	14.5%
Sofa Gardens	Kakamega Rd	3	3	120	7,500,000	10,000,000	83,333	40,000	33%	10.1%	4.8%	14.9%
Ridge park estate	Kakamega Rd	3	1	166	13,500,000	15,000,000	90,361	70,000	100.0%	11.1%	5.6%	16.7%
Average				**159**	**12,000,000**	**13,750,000**	**86,372**	**56,250**	**72.5%**	**10.9%**	**4.4%**	**15.2%**

Detached houses have lower yields than apartments, with three bedroom houses having an average rental yield of 4.4%, while three bedroom apartments have an average rental yield of 5.4%. They however have the highest price appreciation and hence highest total return of 15.2% versus 11.4% and 12.2% for 3 bedrooms and 2 bedroom apartments respectively. Detached houses have lower yields as they are 33.1% more expensive than apartments, being a relatively new concept, the demand for these houses is high hence leading to high price appreciations

Source: Cytonn Research June 2016

b) Mixed Use Developments

Generally, Kisumu city lacks good commercial buildings with only a few having lifts, while others are in poor maintenance state. There is therefore an opportunity in this segment as the renovated buildings have high demand and are attracting high rental rates of Kshs 120 per square foot, verses a market average of Kshs 102 per square foot, with the un-renovated buildings charging only Kshs 55 per square foot. Poor quality office space in the city is as a result of absence of strong economic activities to spur growth and create demand for quality office space. With devolution, we expect to see an increase in economic activity and hence an improvement in the quality of space office space on offer.

(all values in Kshs unless stated otherwise)

Mixed Use Developments							
Project	Location	Retail Rent Per SQFT	Office Rent Per SQFT	Average Rent per SQFT	Service Charge Per SQFT	Current Occupancy	Rental Yield
Alpha house	Oginga Odinga Rd	80	55	67.5	15	50%	3.1%
Reinsurance plaza	Oginga Odinga Rd	85	60	72.5	20	80%	5.4%
Swan Centre	Oginga Odinga Rd	150	120	135	25	100%	12.5%
Jubilee building	Oginga Odinga Rd	120	100	110	20	100%	10.2%
Bank of Afrika	Oginga Odinga Rd	230	230	230	25	90%	19.1%
Al- IMRAN PLAZA	Oginga Odinga Rd	75	50	62.5	15	100%	5.8%
Pioneer	Oginga Odinga Rd	100	80	90	15	95%	7.9%
Eco - bank towers	Oginga Odinga Rd	120	120	120	20	100%	11.1%
Awori House	Bank street	150	100	125	15	100%	11.5%
Average		**123**	**102**	**113**	**19**	**91%**	**9.6%**
Median		**120**	**100**	**110**	**20**	**100%**	**10.2%**
Mixed Use Developments in Kisumu have an average of yield 9.6%, higher than the residential average of 4.8%, they also have a high average occupancy of 91%. The current high occupancy of these buildings is as a result of devolution which has brought about a need for office space and attracted population leading to the growth of small scale retail businesses.							

Source: Cytonn Research June 2016

c) Retail

Kisumu has a well-developed retail market. There are 7 major malls in Kisumu, with an approximate total size of 650,000 square feet serving a population of 434,661 persons in Kisumu. The major retail chains in the city are Nakumatt, Tuskys, Ukwala and Naivas. The average rental yield for retail is 9.0% with an annual average occupancy of 76%. In the future, we expect a slowdown in retail sector, especially development as a result of the high supply in the city.

(all values in Kshs unless stated otherwise)

Retail								
Name	**Location**	**Approx. Size in SQFT**	**Construction yr.**	**Anchor Tenant**	**Rent Per SQFT**	**rent + Other incomes Per SQFT**	**Current Occupancy**	**Rental Yield**
United Mall	Kakamega Rd	200,000	2005	Tuskys	116	127	80%	7.4%
Mega Plaza	Oginga Odinga St	under Construction	2003	Nakumatt Nyanza	103	114	60%	5.2%
Mega City	Nairobi Road	300000+ under construction	2007	Nakumatt Mega	124	136	80%	8.2%
Tuff Foam	Ochieng Oneko Rd	50,000	2012	none	175	192	90%	13.0%
Lake Basin Mall	Kakamega Rd	270,000	2014	Tuskys	128	140	50%	5.3%
West End	Ochieng Oneko Rd	50,000	2013	Uchumi	187	205	95%	14.6%
Average					**139**	**152**	**76%**	**9.0%**
On average, retail space in Kisumu has an occupancy of 76%, the rent per square foot is Kshs 152 and the yield 9.0%, higher than the residential average of 4.8% but lower than in MUD of 9.6%. MUD's have higher yields as a result of higher occupancy averaging at 91%.								

Source: Cytonn Research June 2016

d) Hospitality

Currently Kisumu City is experiencing a boom in Hotel industry with many hotels and resorts coming up in the region such as Vittoria Suites. The industry in the area is however yet to attract international brands and 5 star Hotels in the region, with the best hotel in the area being Acacia hotel in Milimani, developed and run by the Villa Rosa Kempinski hotel developers. The developers in this industry target business and leisure travellers both at domestic and international level. The hotels experience high uptake during the holidays by the locals.

(all values in Kshs unless stated otherwise)

Hotels					
Name	**Location**	**Approx. Area (SQM)**	**Calculated Property Value**	**Estimated Annual Income**	**Income Yield**
Imperial Hotel	Acheing Oneko Rd	6,800	789,674,831	71,070,735	6.0%
Acacia Hotel	Acheing Oneko Rd	8,000	1,100,141,071	99,012,696	7.0%
Kisumu Hotel	Acheing Oneko Rd	8,500	996,182,990	89,656,469	6.0%
Sovereign Hotel	Lolwe Drive	4,500	320,054,237	28,804,881	4.0%
The Vic Hotel	Ondieki Highway	7,700	735,341,695	66,180,753	5.0%
Average				**70,945,107**	**5.6%**
Hotels in Kisumu have low yields averaging at 5.6% almost equal to the residential units, and lower than both retail and MUD's. They are thus the least attractive investment opportunity in the area. The low yields can be attributed to the lower occupancy of averagely 50% verses more than 70% average occupancy in all the other themes and high operational costs.					

Source: Cytonn Research June 2016

Recommendation

The ideal development in Kisumu is thus a mixed-use development encompassing retail and office blocks. The building ought to be in a prime location in the city and offer relatively good facilities such as lifts and sufficient parking. This is because most buildings in the city are old, and do not have upgraded facilities and this is the gap that exists in this market.

The market lacks fractional office space for sale, and this is a new area of opportunity for real estate investors.

The retail sector, despite having attractive yields of 9.0% is not ideal as the city has a large supply of retail space of 650,000 SQFT, against a population of 434,661 people with an additional 270,000 SQFT in the pipeline.