Kenya’s Real Estate Retail Sector Analysis

“Investor’s Perspective on Kenya’s Retail Sector”

11th July 2016

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I. Introduction to Cytonn Investments

160 Members, 1 Agenda – The Client

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Introduction to Cytonn Investments

Cytonn Investments is an independent investments management company

- Our mission is that ***"we work to deliver innovative & differentiated financial solutions that speak to our clients needs"***

- Cytonn Investments is differentiated in several respects:

  1. **Independence & Investor Focus:** Cytonn is solely focused on serving the interest of clients, which is best done on an independent investment management platform to minimize conflicts of interest

  2. **Alternative Investments:** Specialized focus on alternative assets - real estate, private equity, and structured products

  3. **Partnerships with Global Institutional Investors:** Such as Taaleri of Finland

  4. **Strong Alignment:** Every staff member participates in ownership. When clients do well, the firm does well; and when the firm does well, staff do well

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Cytonn's Corporate Structure – Kshs 73 bn Under Mandate

Cytonn Investments

Kenya

Cytonn Investments Ltd
- Independent investment management company, serving HNW & institutional clients

Cytonn Real Estate
- Development affiliate providing investment grade real estate development solutions

Private Equity

United States

Cytonn Diaspora
- Diaspora platform connecting investors in the diaspora with opportunities in the East African Region

Cytonn Investments LLC
- US advisory and investment management company

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Board of Directors

The board is comprised of 10 members from diverse backgrounds, each bringing in unique skill-sets

Prof. Daniel Mugendi,
Chairman

Antti – Jussi Ahveninen,
Non-executive Director

Madhav Bhalla,
Non-executive Director

James Maina,
Non-executive Director

Nasser Olwero,
Non-executive Director

Kenneth Ndura
Non-executive Director

Mike Bristow,
Non-executive Director

Edwin H. Dande,
Managing Partner & CEO

Elizabeth N. Nkukuu,
Partner & CIO

Patricia N. Wanjama,
Partner & Head of Legal

The Management Team

The team brings in diverse global and local experience in investments, real estate, finance and brand

Edwin H. Dande,
Managing Partner & CEO

Elizabeth N. Nkukuu,
Partner & CIO

Patricia N. Wanjama,
Partner & Head of Legal

Kennon Mwiti,
Financial Controller

Maurice Oduor,
Investment Manager

Johnson Denge,
Real Estate Services Manager

Frank Ndubi,
Quality Assurance Manager

Shiv Arora,
Head of Private Equity Real Estate

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The Management Team, continued…

The team brings in diverse global and local experience in investments, real estate, finance and brand

Robert M Mwebi,
Project Manager

Martin Gitonga
Project Manager

Peter Karenju,
Project Manager

Winfred Ndung'u,
Brand & Business
Admin Manager

Gaurang Chavda,
Head of Private Wealth
Management

Beverlyn Naliaka,
PR & Communication

Cytonn Investment Solutions

We offer differentiated investment solutions in four main areas

High Yield Solutions

- The Team's expertise and market knowledge enable us to offer investors higher yields than the market average
- Regular credit analysis, quick dealing capability and the large banking spread in the market allow the team to capitalize on investment opportunities

Real Estate Investment Solutions

- Our unique strategic partnerships with Cytonn Real Estate, our development affiliate, enables us to find, evaluate, structure and deliver world class real estate investment products for investors
- Our platform connects global capital seeking attractive return with institutional grade development opportunities in the East African region

Private Regular Investment Solutions

- We understand that investors have varying financial goals. Our highly customized and simple to understand investment products will enable you to achieve your investment objective
- We offer solutions to both local investors, and those in the diaspora interested in the investment opportunities back in Kenya and the region

Private Equity

- Cytonn seeks to unearth value by identifying potential companies and growing them through capital provision and partnering with their management to drive strategy
- We primarily invest in the Financial Services, Education and Technology sectors

Cytonn Real Estate's Unrivalled & Unique Capabilities

Cytonn has all the necessary capabilities to deliver the very best real estate investment product

Fundraising	• The global market exposure combined with local experience networks have it easier to raise funds • Our investors comprise of global and local institutions, local high-net-worth investors and Kenyans in the diaspora • An experienced and passionate team to collect and manage funds, bringing about diverse investment portfolios with good returns
Market Research & Site Acquisition	• Research team is an essential part of any investment, helping identify the highest and best use and concept for the different land deals received and taken up by the company • Cytonn has one of the best research teams in the region who carry out intensive market research for internal use and uses the data to release the data for guidance of external customers as well • Our Site Acquisition team uses the market research to find the best sites for development given the opportunity in the economy
Concept Design	• Cytonn has unique concept designs that arise from partnerships with global institutions in countries like Dubai giving superior quality products to the market • The internal concept team in collaboration with the project management function work tirelessly to deliver the products of the firm
Project Management	• The project management function is a vital part of real estate whose role is to ensure projects are delivered in the best quality, within scope and the most efficient resource use • Cytonn boasts of a large PM team with diverse experience in the various aspects of project management to deliver world class real estate products
Sales and Marketing	• The marketing and brand team have enabled the brand reach great heights and visibility locally and globally by employing their experience, passion and innovation • The firm has one of the best distribution teams that ensure our products reach far and wide. Their experience is backed by success stories of making sales of up to 45% even before start of construction developments

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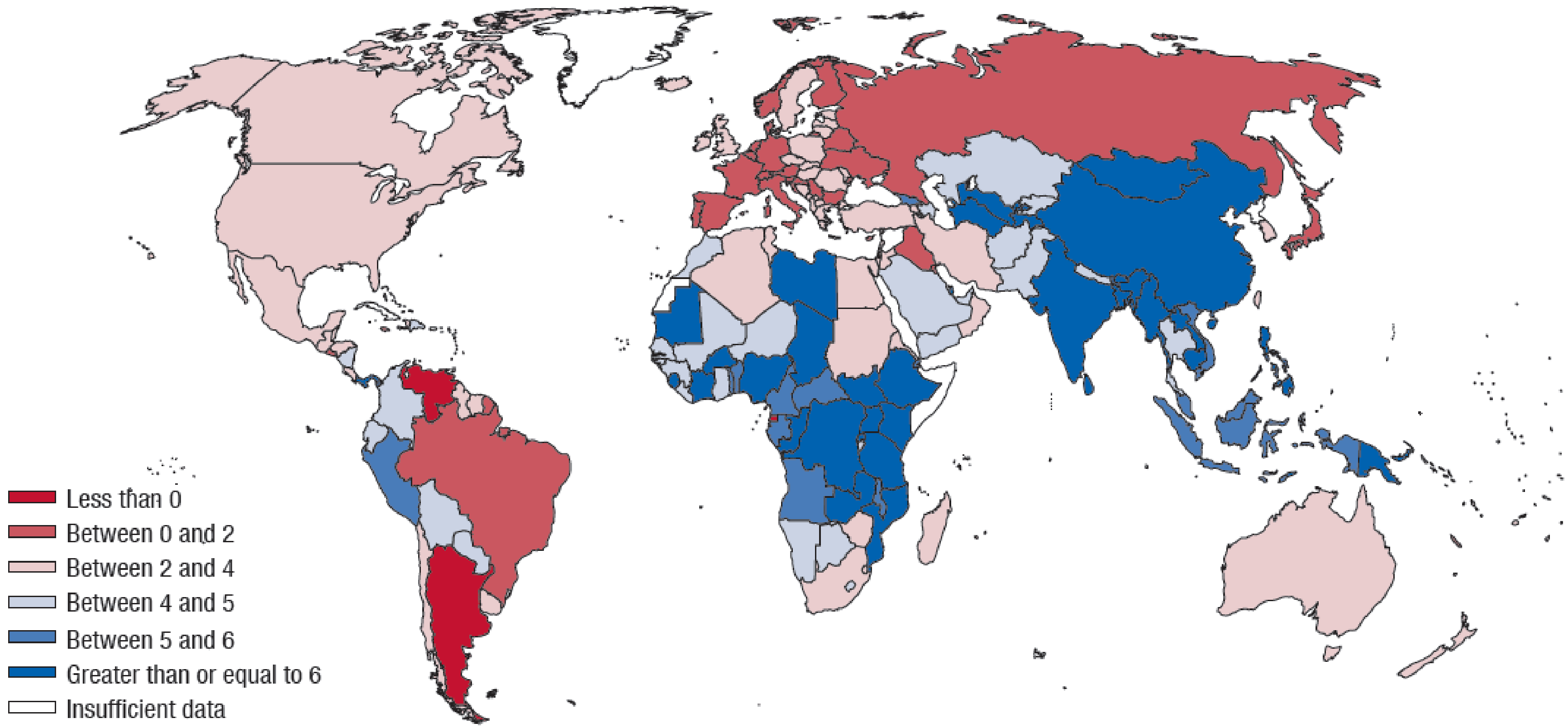
Global view of economic growth determines regions of focus

There is demand from global capital (light colors) looking for attractive returns (dark colors)

Figure 2.1. 2015 GDP Growth Forecasts and the Effects of a Plausible Downside Scenario

1. 2015 GDP Growth Forecasts[1]
(percent)



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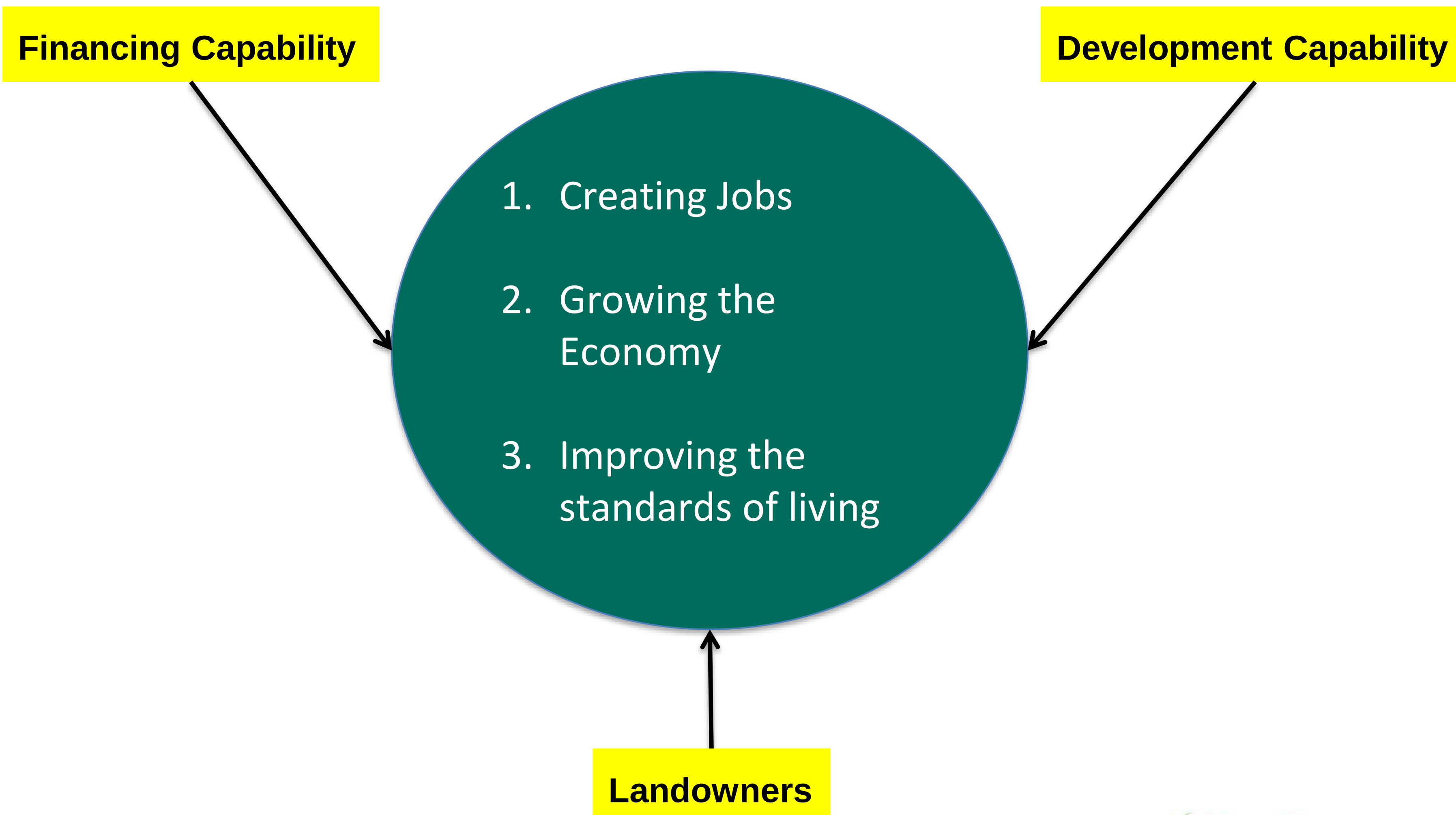
Cytonn's strategy brings three key pillars together



Deal pipeline overview – 85% to low and mid-income housing

Kshs 73 Billion Deal Pipeline

Low to mid-income Housing
85%

- Masterplanned Development
- Comprehensive Development
- Low to mid-income Modular Housing

Prime Residential and Mixed-use
15%

- High Density Integrated Mixed-use
- Gated Communities

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Summary of Projects – Kshs 73 bn Deal Pipeline Details

- **Set 1:** Projects are in the market, construction phase and being sold
- **Set 2:** Projects are in design stage
- **Set 3:** Projects are in acquisition stage

	Projects	Concept	Project Size (Kshs mn)
	SET 1		
1	Kanzi Plains	Site & Service Scheme	395.5
2	Athi Sharpland	Site & Service Scheme	644.7
3	Amara Ridge	Gated community	1,000.0
4	The Alma	Integrated lifestyle development	2,744.0
5	Situ Village	Gated masterplanned community	4,500.0
	Sub - Total		**9,284.2**
	SET 2		
6	The Annex	Integrated lifestyle development	522.9
7	Project Kitale	Masterplanned development	700.0
8	Rongai Sharpland III	Site & Service Scheme	937.4
9	Project Westlands	Serviced apartment concept	1,000.7
10	Ruaka III	Integrated lifestyle development	2,508.0
11	Project Ridgeways	High density mixed-use development	9,317.0
12	NewTown by Cytonn Real Estate	Low to mid income masterplanned city	22,500.0
	Sub - Total		**37,486.0**
	SET 3		
13	Project Kisumu	Mixed Used Office complex	500.0
14	Project Mombasa	High density mixed-use development	3,750.0
15	Project Hurlingham	Mixed Used Office complex	7,000.0
16	Project Upper Hill	Mixed used office complex	15,000.0
	Sub - Total		**26,250.0**
	GRAND TOTAL		**73,020.2**

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II. Overview of Real Estate in Kenya

Real Estate in Kenya

Real estate sector in Kenya expected to continue growing on the back of developments such as REIT's, and the entry of institutional developers and financiers to the market

Macro-economic Contribution

- The real estate sector contributed to 8.2% of Kenya's GDP in Q1'2016
- In Q1'2016, the construction and real estate industry recorded a growth of 6.7% year on year, backed by a vibrant real estate sector and mega infrastructural projects such as the SGR
- A stable political environment, as well as favourable macroeconomic conditions such as a relatively stable interest rate environment have led to positive developments in the sector

High Returns

- Real estate has consistently out performed other asset classes in the last 5 years, generating returns of 25% p.a., compared to an average of 10% p,a. in the traditional asset classes
- Residential units generate an average rental yield of 5.0%, while commercial and retail sectors generate an average yield of 9.0% and 10.0%, respectively in Nairobi

Recent Developments

- The real estate sector which was previously dominated by individual developers has seen entry of more institutional developers such as Saccos, private equity firms and foreign institutions
- Development of REITS in the capital markets, as a way to raise funding and exit real estate developments, is likely to attract more institutional investors
- The real estate market has also seen an increased interest in the structured products aimed at easing the financing of the developments in the market

Market Outlook

- We expect continued growth on the back of improved macroeconomic conditions, sustainable high returns, and a changing operational landscape as developers strive to satisfy the high housing deficit
- The industry however continues face challenges such as the unfavourable interest rate environment

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III. Kenya's Retail Report

Executive Summary

Retail market is attractive for investments in Kenya, especially in regional malls which are recording high yields of up to 11.7%. Opportunity for development in the sector exists in Kilimani, Karen and Mombasa City

- We carried out a research on the retail market in Kenya, with a bias on major towns and cities such as Nairobi and the metropolis, Kisumu, Mombasa, Eldoret and the Mt. Kenya region
- The report is aimed at informing investors on the current supply in the market, how it is performing in terms of yields and what both consumers and retailers think about the sector so as to understand the outlook of the sector
- The country has an increasing retail space with Nairobi County, the largest market, having a supply of 3.94 mn SQFT. The space in Nairobi has been growing at a CAGR of 17%
- The sector remains attractive with rental yields of 8.7% and occupancy of 82.9%
- Regional malls are the best performing with yields of 11.7% and occupancy of 94.0%
- The best markets for investing in retail sector are Kilimani and Karen in Nairobi and Mombasa City
- Consumers are embracing formal retail with 85% of the consumers citing that they visit formal retail space over informal
- Retailers are applying expansionary strategies as they expect revenues to grow by 20% y/y
- Our outlook for the sector is positive and we expect the sector to continue attracting investments in both development and retailing in the short to medium term

Kenya's Retail Report – *Investor's Perspective on Kenya's Retail Sector*

Positive outlook for the retail sector amid high uptake of 82.9% with increasing supply and positive market sentiment

Value Area	Summary	Effect on Retail Market
Increasing Supply	• Nairobi, Mombasa, Kisumu and Nakuru counties have the largest retail supply • Nairobi currently has retail space supply of up to 3.95 mn SQFT and an additional 1.67 mn SQFT set to be completed by 2017	• Increased supply in Nairobi County has led to developers focusing on the Nairobi Metropolitan and other counties • Increased development has been recorded in satellite towns in Kiambu, Kajiado and Machakos counties • The Mt Kenya region, Kisumu and Nakuru are also set to benefit from increased investor focus on counties
Returns	• Kenyan retail market has an average rental yield of 8.7% at an occupancy rate of 82.9% • Mt. Kenya and Nairobi area outperform other regions with average rental yields of 10.1% and 10.0%, respectively, while Eldoret area has the lowest average rental yield of 6.6%	• This has attracted developers into the retail market, hence achieving a retail Space growth in Nairobi at a CAGR of 17% • The opportunity is still largely in Nairobi despite its increasing supply in some nodes, due to its high yields of 10.0% and uptake of 89.3%
Market Sentiments	• Most consumers – 85% prefer to shop in formal retail space as opposed to informal channels as a result of product availability • Retailers have a positive outlook for the retail market expecting it to grow by 20% y/y	• This has led to the increase in development of retail space in the country, with which has a deal pipeline of more than 3.4 mn SQFT • Retailers are employing expansionary strategies such as franchising and increasing branch networks to tap into the market and increase their revenues

The outlook for the sector is positive and we expect the sector to continue attracting investments, in both development and retailing in the short to medium term due to the attractive yields and uptake

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A) Introduction

Introduction

The research aims to provide an insight into Kenya's retail real estate market

- Retailing is a distribution channel function ,where one organisation buys products from supplying firms or manufactures them and then sells these directly to consumers
- Kenya's retail market is attracting increased interest from local and international investors as witnessed through expansion of local stores, entry of international retailers and increased construction of malls
- Market studies rank Kenya as the country in Sub-Saharan Africa with the largest shopping centre space after South Africa, and with the largest development pipeline
- While kiosks, market stalls, supermarkets and cosmetic shops are still the most prevalent stores, the formal retail market has grown with several malls being constructed to offer consumers the convenience of a one-stop shop
- We therefore carried out this study with an aim of providing insight into Kenya's retail market market and provide an opinion on the following:
  - Supply of retail space in Nairobi Metropolis, Kisumu, Mombasa, Nakuru, and Mt Kenya regions
  - Trends and recent developments in the retail sector
  - Prevailing market rents, yields, occupancy and uptake of retail space
  - Consumer spending habits
  - Retail market outlook
  - Investment opportunity in retail real estate

Introduction: Key Factors Driving Retail Market in Kenya

Growing population, a rising middle class and improved technology are some of the factors driving retail market

Demographics

- Kenya's population growth of 2.6% p.a has created demand for retail good and services
- The rising middle-class has increased purchasing power as well as varying tastes and preferences for different goods and services
- Increasing rate of urbanization at 4.4% in Nairobi alone has resulted in migration of to urban centres, creating a need for retail stores and entertainment spots for the youth

Infrastructure

- Infrastructural development has led to opening up of new areas for development e.g. along the Northern Bypass
- The Lappset Corridor, SGR, expansion of airports and seaports are all opening up Kenya to trade and making it a business hub

Technology

- Improved technology has made goods/services available on demand through online shopping sites such as Jumia Mall, Kilimall and Facebook, thus widening consumer reach
- Availability of cashless payment systems such as Mpesa, Airtel Money and Mcoopcash make shopping safe and convenient

Economic Growth

- Kenya has robust economic growth with GDP growing at a CAGR of 5.3% over the last 10 years. This has translated to an increase in per capita wealth
- The population therefore has higher disposable income and increased financial ability for consumption

International Players

- Kenya has seen increased from International retailers seeking to enter the market as sole ventures or through partnerships with local investors
- Entry of brands such as Carrefour, Game, Choppies and KFC have given the consumer a wide variety of products/services to choose from, making the retail scene vibrant

Introduction: Factors Affecting Supply of Retail Space

High financing costs negatively affect retail space development, but improved infrastructure is opening up satellite towns for development

Availability of Land	• Availability of development land has been low within towns and urban centres resulting in relatively high prices • Developers are however shifting focus to Satellite Towns such as Rongai, Kitengela, Juja and Thika, where large tracts of land are available and relatively affordable, thus resulting in increased supply
Access to Funds	• Malls being large developments require a huge capital outlay. Lack of proper funding for developments has resulted in excessive debt funding • Lack of adequate funding has also resulted in stalling of projects, and extended project time frames, thus increasing financing costs
Competition	• Spurting of malls in the same region has resulted in stiff competition between malls. This is likely to result in decreased mall construction in areas such as Thika Road and Ngong Road • Mall developers face the risk of obsolescence of retail space, thus losing tenants to newer malls. They therefore have to continually revamp their malls so as to meet the tenants' and consumers' expectations
Infrastructure	• Improved infrastructural developments such as improved roads, the SGR, electrification, and ICT have opened up new development areas such as Athi River and Ruaka • Completion of the Thika Super Highway has resulted in an influx of malls along the busy highway, while the Northern Bypass has influenced growth of Ruaka Town and construction of the Two Rivers mall
Fragmented Markets	• Kenya's retail market is mostly concentrated in urban areas due to higher purchasing power and good infrastructure . In addition , poor infrastructure in rural areas makes accessibility difficult • Rural areas therefore continue to have low retail space supply due to inaccessibility and low purchasing power

Introduction: Factors Affecting Demand For Retail Space

Location, security and competition significantly affect the demand for retail space in Kenya

Location

- Ease of access results in increased consumer traffic, making the location attractive to retailers
- Proximity to urban areas, densely populated areas or high-end settlement will result in a large consumer base for retailers' products

Security

- Retailers in the country estimate losses incurred through theft and shoplifting being worth KES 3 bn every year. In addition, retailers risk massive losses during times of political, social unrest and terrorism, with supermarkets being the worst hit
- Retailers are therefore less likely to seek space in areas affected by tension and insecurity

Competition

- Presence of big local chains such as Nakumatt, Tusky's and Naivas make it difficult for both local and international new entrants to compete for customers
- On the other hand, expansion of formal retail chains such fashion retail stores has been difficult due to competition from informal retailers of second hand clothes ,also called "mutumba"

Online Retail

- The shift from shopping physically from retail stores to making orders online, may result in reduced demand for retail space in the long run as retailers will opt to save on costs for leasing retail space
- However, Kenyans still prefer physical shopping due to insecure delivery systems, cyber crimes and lack of proper physical addresses especially in rural areas necessitating the need retail stores

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B) Trends in the Retail Sector in Kenya

Trends in Kenya's Retail Sector

The Kenyan retail sector has seen the rise of various online shopping sites like Jumia in the recent past

Online Shopping

- The Kenyan retail sector has seen the rise of various online shopping sites like Jumia, OLX and Kilimall in the recent past
- These sites have grown rapidly over the recent years attracting a large number of visitors. Jumia estimates that approximately 2,000 people visit its website daily, while OLX has approximately 2 mn viewers monthly
- This growth is supported by:
    - **Technologically advancement** which has increased the target market and hence the revenues. This is as approximately 26 million of Kenyans use mobile money, which represents more than half the adult population
    - **Expansion of formal financial services** to the previously unbanked in Kenya, through mobile and agency banking which has increased the target market for the online stores
    - **Plastic Money**: Enhancements in payment gateways have improved the security and improved customer confidence in online transactions
    - **Comprehensive Mobility**: Growth in mobile internet user base aided by the introduction of 3G and 4G data plans
    - **Use of user incentive schemes** such as free delivery, offering discounts on products on sale regularly to lure a larger number of people to their sites

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Trends in Kenya's Retail Sector, continued…

Online shopping sector is set for further expansion in the future as technology continues to advance

- According to report published by Oxford Business Group in February 2016, 35% of retail in the country is formal with online marketplaces, targeting consumer-to-consumer trades
- This is also playing the role of online-to-offline transactions where micro-businesses and informal retailers that cannot afford the more expensive shopping mall footprint use the platform to distribute their fragmented inventories
- **Challenges faced in online retailing:**
  - **Insufficient awareness of brands and electronic processes -** which reduces their market share as despite them being suitable cheaper substitutes, consumers are not aware of this hence do not demand for their services
  - **E-commerce platforms that do not have a local feel –** in terms of currencies, languages, payment and shopping options and hence are not attractive to the local people limiting their revenues
  - **Lack of trust and confidence in online payments among online shoppers –** They hence prefer to go to physical shops instead of online stores
- However Online shopping sector is set for further expansion in the future as technology continues to advance and incomes rise according people the luxury of phones, credit cards and internet all of which increase their ability to demand for these products
- The changing lifestyles with people's desire for an easy life will also boost growth in this sector

Trends in Kenya's Retail Sector, continued…

Entry of international retailers is driven by the increasing spending power of Kenyan consumers and rising demand for overseas brands

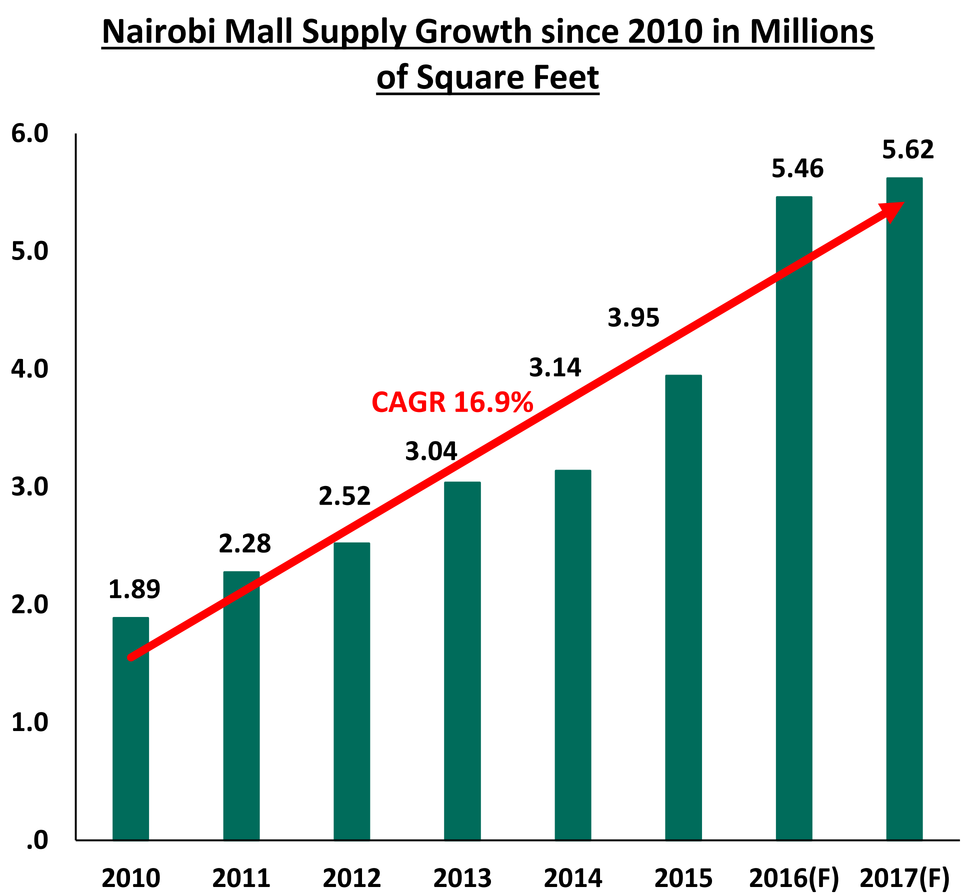
International Retailers

- The Kenyan retail market has been dominated by local supermarket chains with foreign chains struggling to make entrance due to a general resistance to foreign takeovers
- Despite this, Kenya has seen increased interest from international retailers seeking to enter the market, either as sole ventures or through partnerships with local investors
- Factors attracting international retailers:
    - **Increasing middle class -** The increased spending power of Kenyan consumers, hence attracting international retailers to capitalize on it and increase their returns
    - **The market share -** with formal retail penetration rates at 25% - 30% according to the African consumer and retail report, which indicates a positive avenue for international retailers as the market is becoming more formal
    - **Partnership with local retailers -** makes it easier for the entrance and hence can easily enjoy existing market share
- Entry of international retailers has encouraged a strong level of retail construction, with over 3.4mn SQFT of retail space currently under development and due for delivery in the near future and Pre-leasing levels in the new malls have been strong and forthcoming

C) Supply of Retail Space in Kenya

Retail Space Supply - Nairobi

Retail space in Nairobi has grown at a CAGR of 17% in the last 7 years, reaching about 3.95 Mn SQFT

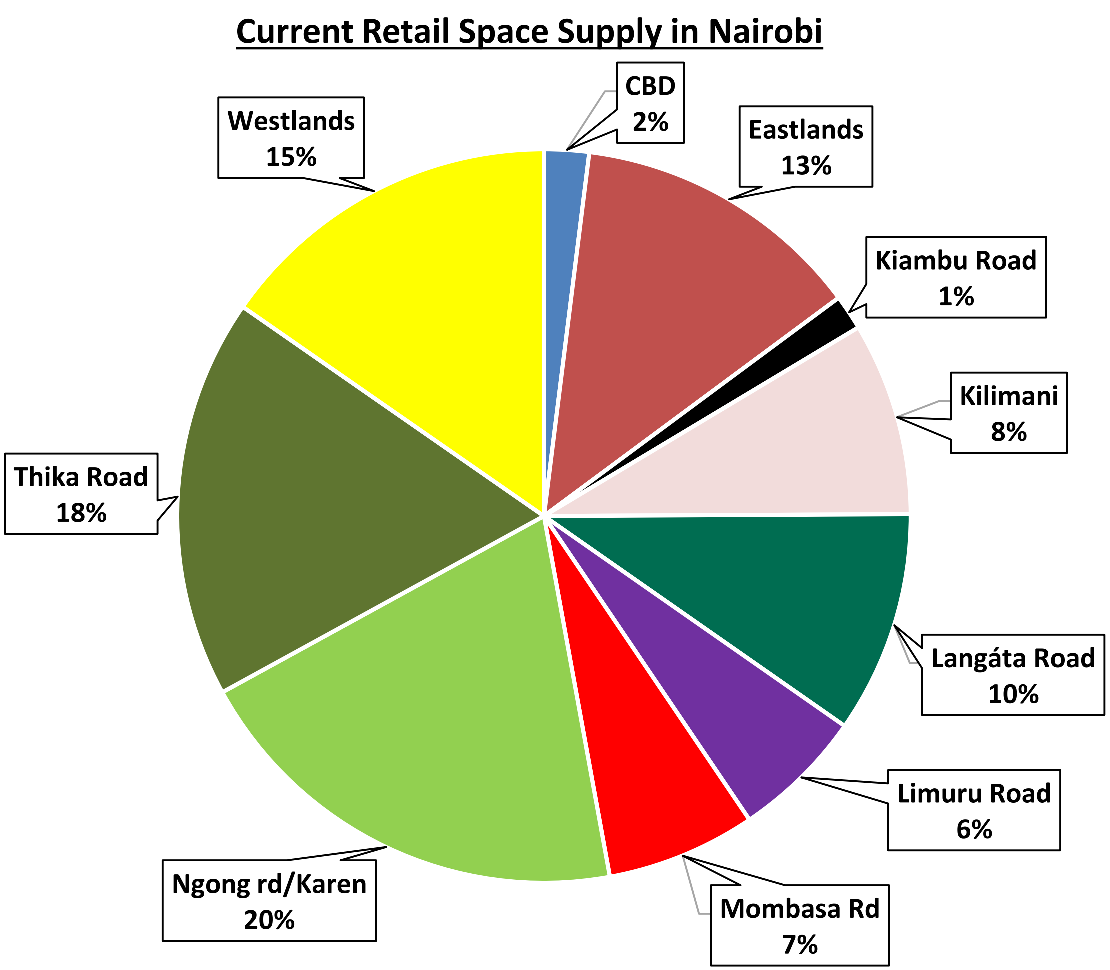


Source: Cytonn Research

- Nairobi currently has a mall space supply of approximately 3,945,000 SQFT making it the largest shopping centre in Sub-Saharan Africa after South Africa
- This has been largely driven by the rise of the middle class with increased purchasing power and demand for sophisticated lifestyles, as well as a good transport network
- We project that by 2017, the retail space supply will have reached over 5,621,000 SQFT with the opening of the Two Rivers Mall, Rosslyn Riviera, Comesa Mall and Ciata Mall

Retail Space Supply – Nairobi, continued…

Currently, Ngong' Road and Thika road have the largest mall space supply in Nairobi at 20% and 18%, respectively



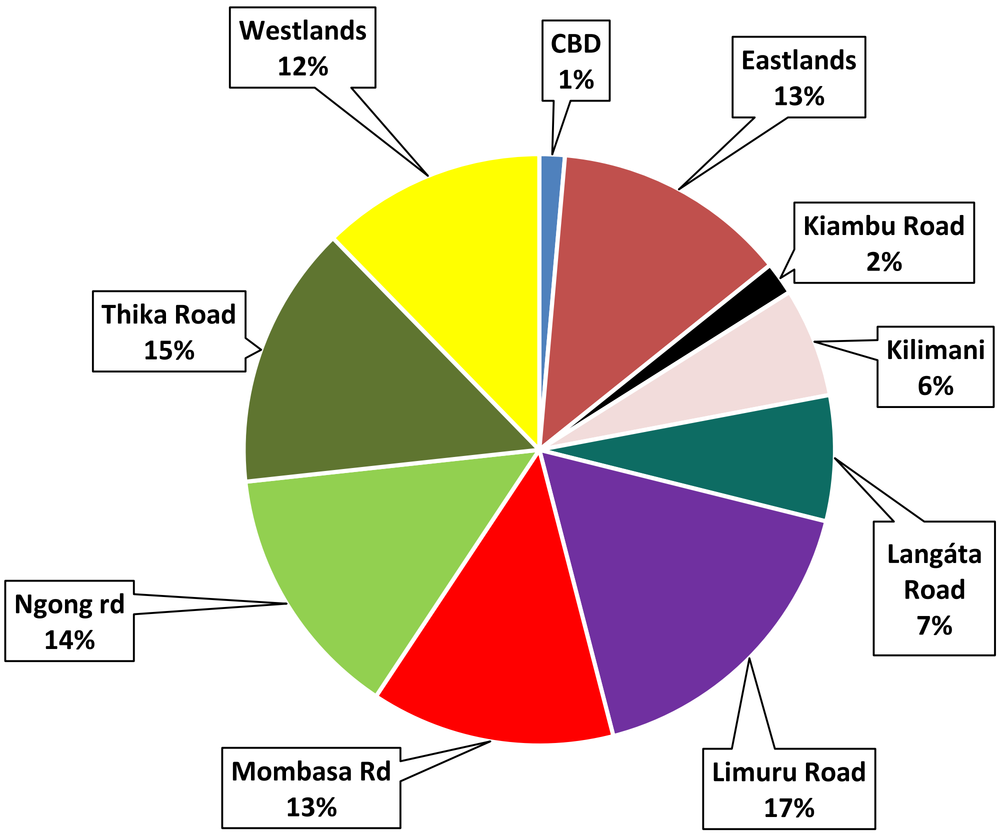
- Currently , Ngong' Road and Thika Road have the largest mall space supply contributing to 20% and 18% of Nairobi's total retail space
- This is due to the presence of large malls such as The Junction and The Hub along Ngong' road, and Garden City and TRM along Thika Road
- The large supply along Thika road is driven by presence of a good road network through the Thika Super Highway
- There also exists a large middle class population in Kasarani, Kahawa, Githurai, Zimmerman, Ngumba and Garden estate

Source: Cytonn Research

Retail Space Supply – Nairobi, continued…

Limuru road will have the largest mall space supply by 2017, at 17% of Nairobi's mall space supply

Mall Space Supply in Nairobi in the Next 2-years

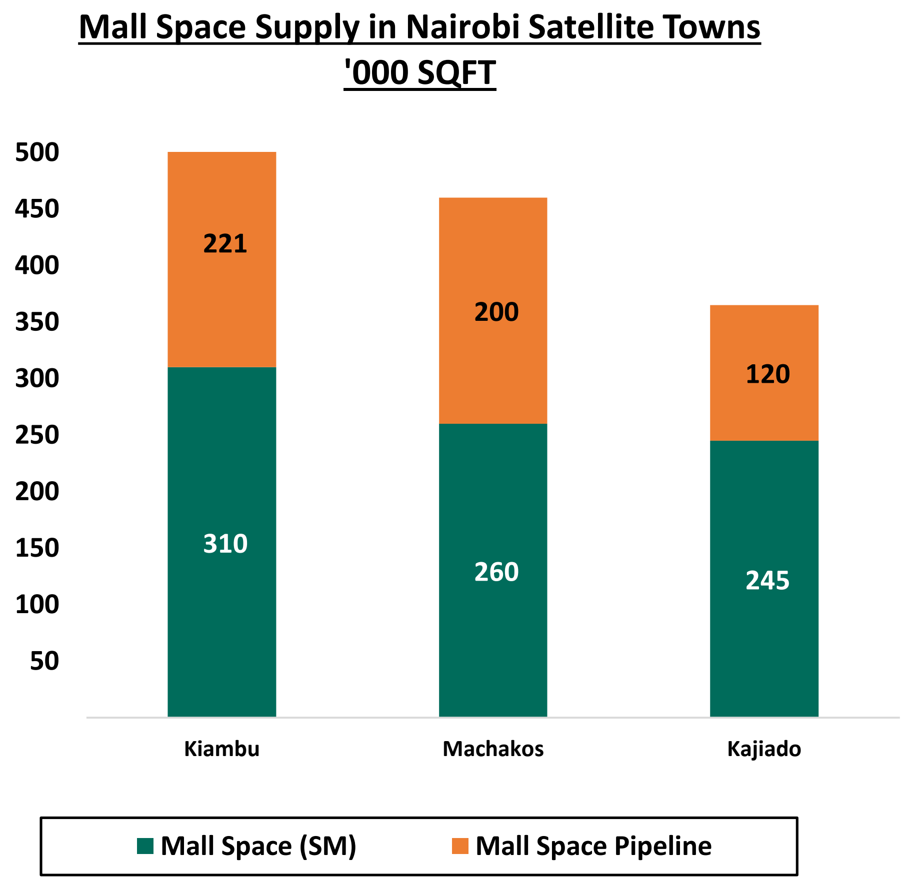


Source: Cytonn Research

- Limuru Road will have the largest retail space space by 2017 in Nairobi contributing to 17% of Nairobi's total retail space
- This will be due to completion of the Two Rivers Mall and Rosslyn Riviera , with a total of about 76,000 SM of mall space
- Development of malls along Limuru road is driven by a good transport network with the completion of the Northern Bypass, and proximity to an affluent population in Gigiri , Runda and the middle class in Ruaka
- Mall space supply in Eastlands will also receive a boost through completion of Comesa Mall and K-Mall. Nairobi's Eastlands boasts of a dense middle class population

Retail Space Supply - Nairobi Satellite Towns

Satellite towns in Kiambu County have the largest mall supply with a total of 310,000 SQFT

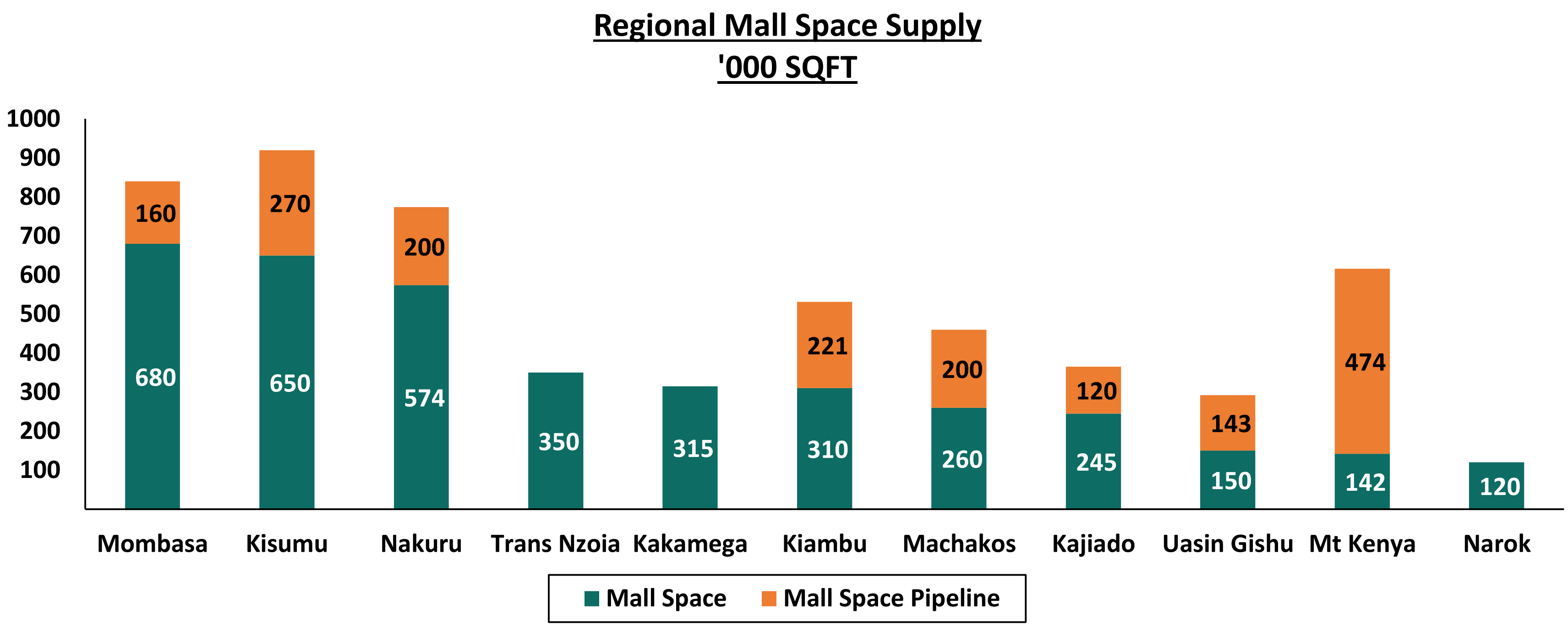


- Satellite towns in Kiambu county have the largest mall space supply with 310,000 SQFT of mall space in Juja and Thika areas
- Kiambu County enjoys a large urban population and has been ranked the wealthiest county in Kenya with $1,785 GDP per capita
- Machakos County has a large development pipeline with the construction of The Crystal Rivers Mall underway bringing the total mall space in the county to 460,000 SQFT
- Development in Machakos County is supported by improving infrastructure, affordable land and over 50% of its population being urban
- Kajiado county is served by Maasai Mall, Milele Mall and Red Heron in Rongai, Ngong and Kitengela respectively

Source: Cytonn Research

Retail Space Supply - Kenya Counties

Mombasa, Kisumu and Nakuru Counties are the leading frontiers in mall space supply, after Nairobi



- Mombasa, Kisumu and Nakuru are the leading frontiers in mall space supply, after Nairobi. Development of malls in these counties is largely supported by economic growth, a vibrant tourism scene and an increasing working population
- The Mt Kenya region which comprises of Meru, Embu, Nanyuki and Nyeri has the largest development pipeline with construction of the Meru Greenwood Park and Cedar Mall in Nanyuki among others. Meru and Nanyuki have been identified as investment frontiers due to population growth and tourism activity

Source: Cytonn Research

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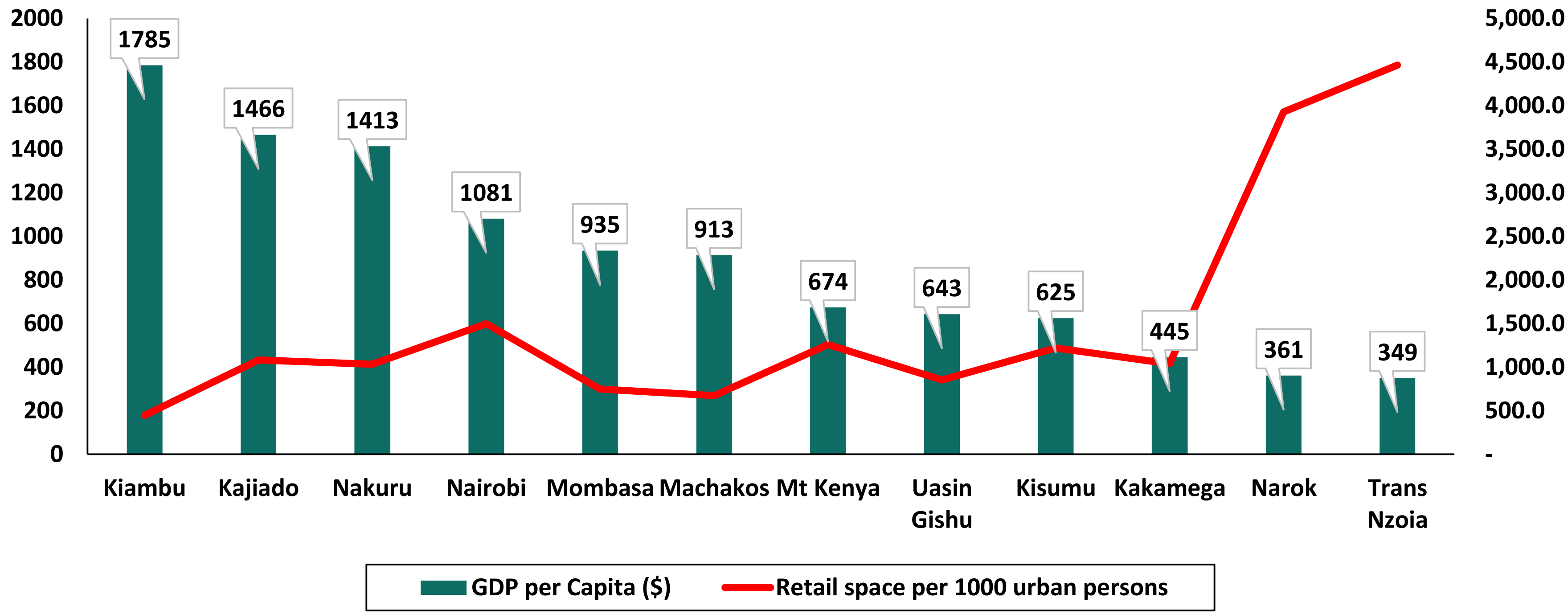
Retail Space Supply - Kenya Counties, continued…

Narok and Trans Nzoia Counties have high retail space of more than 4,000 SQFT per 1,000 urban people

Regional Supply per 1,000 Urban Persons against GDP per capita



- Low mall space supply in Kiambu and Machakos counties despite relatively high GDP per capita can be explained by the satellite town effect where the residents tend to work and shop in Nairobi town
- Narok and Trans Nzoia counties have very high mall space per 1000 urban persons. This is because less than 10% of their respective populations is urban, indicating this markets are less capable of absorbing more supply

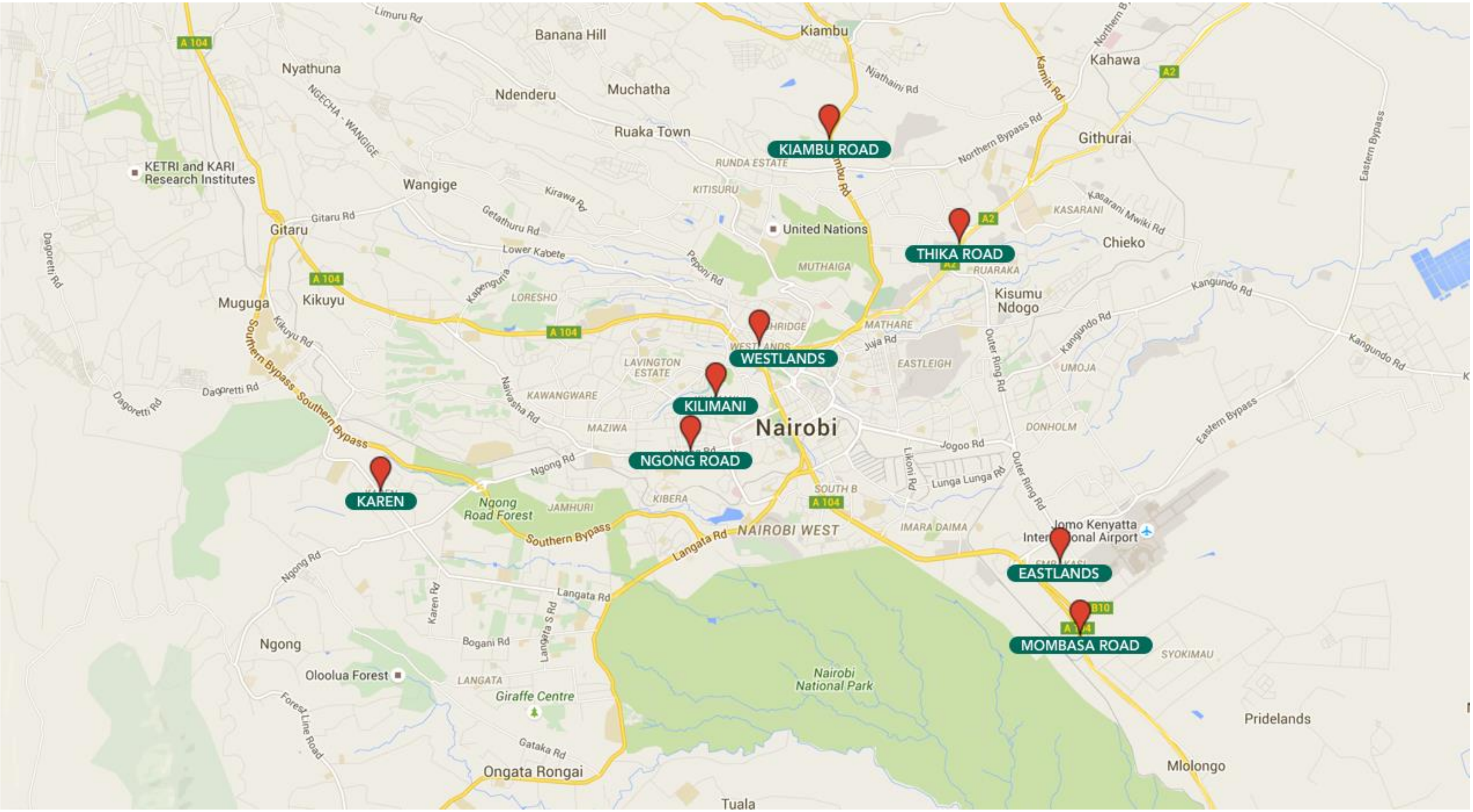
Source: Cytonn Research

IV. Retail Market Performance

A) Performance By Node / Region

Retail Sector Nodes in Nairobi

Karen, Westlands, Kiambu Road and Thika Road are the main retail nodes in Nairobi



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Nairobi Metropolitan Area Retail Market Performance

Mombasa Rd and Eastland's have low yields of 8.2% and 7.5%, respectively, attributable to competition from small scale retailers

Location	Rent / SQFT 'Kshs'	Occupancy (%)	Yield (%)
Karen	216.7	96.3%	12.5%
Westlands	231.4	92.0%	12.3%
Kilimani	209.3	86.0%	10.6%
Kiambu Road	187.3	90.0%	10.1%
Thika Road	187.1	89.3%	10.0%
Ngong' Road	170.1	93.3%	9.7%
Satellite Towns	175.0	88.3%	9.3%
Mombasa Road	157.6	83.3%	8.2%
Eastlands	148.2	85.0%	7.5%
Average	**186.9**	**89.3%**	**10.0%**

Source: Cytonn Research

- Retail in Nairobi has relatively high yields of 10.0% compared to other real estate themes such as the residential sector with yields ranging from 5 – 7%
- Karen is the best performing submarket, with a yield rate of 12.5% and an occupancy of 96.3%. This can be attributed to the premium for class charged on their rents
- Eastlands and Mombasa Road are the worst performing nodes with average yields of 7.5% and 8.2% and occupancy rates of 85% and 83.3%, respectively, attributed to low rents due to competition from small scale retailers and poor locations affected by insecurity and traffic jams

Source: Cytonn Research

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Performance by Nodes

Karen is the best performing submarket, with a yield rate of 12.5% and an occupancy of 96.0%

Karen

- Karen is the best performing submarket, with a yield rate of 12.5% and an occupancy of 96.0%. This is attributable to the premium for class charged on their rents and lower competition as in low end areas, the malls compete against second tier supermarkets

Westlands

- Westlands comprises of all classes of malls, with community and destination malls registering the highest average rental yields of 12.3% and 12.0%, respectively. Neighborhood malls, a relatively new concept in the area, record average rental yields of 3.6%, while most are still under construction, an indicator of high yields upon completion

Kilimani

- The average rents for retail space in Kilimani are Kshs 209.3 per square foot resulting in an average rental yield of 10.6% and occupancy rate of 86.0%
- The area comprises mainly of Neighborhood malls which can be attributed to the fact that it is largely a residential and office zone hence the community just requires convenience shopping centers

Kiambu Road

- Kiambu is a relatively new retail node with an average rental yield of 10.1% and high occupancy rates of above 90%
- Kiambu area comprise of neighborhood and destination malls all performing above average at 9.6% and 8.6% yields respectively
- This is attributable to the affluent neighborhood with high consumer purchasing power and thus investors are willing to pay higher rents for retail spaces in the area

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Performance by Nodes, continued…

Ngong road registers the highest rental yields of 12.7% for community malls in Nairobi, hence the best investment location for the same

Thika Road

- Thika road comprise of all malls classes, with above average returns. The rental yields of neighborhood, community and destination malls are 7.8%, 13.3%, 12.0% and occupancy of 87.5%, 96% and 100%, respectively
- This is attributable to good infrastructure hence accessible by large population and low land prices in the area hence reducing the construction cost

Ngong Road

- Ngong road has the highest yield rates 12.7% for community malls in Nairobi region at 100% occupancy, making it the best location for community malls in Nairobi. The market average for malls in this area is 9.7% at 93.3% occupancy

Mombasa Road

- Malls in Mombasa road have average occupancy of 83% but low yields of 8.3% compared to other regions like Karen and Kilimani due to competition from small scale retailers and poor locations affected by traffic jams

Eastlands

- Malls in Eastlands region register low yields of 7.5% and occupancy of 85.0% due to inaccessibility, traffic jams and insecurity in the area

Satellite Towns

- Satellite towns are attracting major developments such as Ananas in Thika, Crystal Rivers in Athi River among others as these areas are under development to accommodate the Urban sprawl in Nairobi area
- Current malls in satellite towns have an average rental yields of 9.3% at 88.3% occupancy

Performance by Regions

The high yields of 10.0% in Nairobi region can be attributed to the high uptake due to a large population

Location	Rent / SQFT (Kshs)	Occupancy (%)	Yield (%)
Mt. Kenya	151.5	90.0%	10.1%
Nairobi	192.3	89.3%	10.0%
Kisumu	170.2	75.0%	9.4%
Mombasa	154.7	76.7%	7.2%
Eldoret	105.6	83.3%	6.6%
Average	154.9	82.9%	8.7%

Source: Cytonn Research

- Malls in Mt. Kenya and Nairobi region register the highest yield rates of 10.1% and 10.0% at 90% and 89.3% occupancy rates, respectively, while Malls in Eldoret register the least yield rates of 6.6% at an occupancy of 83.3%
- High yields in Mt. Kenya region are attributable to the low construction cost, and high occupancy rates of 90% due to high purchasing power mainly from the local community, tourists and military personnel in Nanyuki
- The low yields in Eldoret can be attributed to low monthly charges in the area due to stiff competition from small scale retailers
- The high yields in Nairobi region can be attributed to the high uptake created by the increase in urbanization rates hence increase in Nairobi population

Performance by Regions, continued…

Mt. Kenya Region is the best performing retail market with yields of 10.1% at 90% occupancy

Nairobi

- Nairobi remains one of the best performing region in the country at an average rental yields of 10.0% and occupancy of 90%, due to improved infrastructure, high population and accelerated inflation rates

Mt. Kenya Region

- Mt. Kenya region comprise of neighborhood and community malls with average rental yield of 10.1%. This performance is attributed to Mt. Kenya as a tourist hub and high purchasing power mainly from the local community and presence of military personnel in the region

Eldoret

- From our sample, Eldoret's poor performance with an average rental yield of 6.6% can be attributed to competition from small scale retailers, hence lower rental charges
- The Town remains undersupplied with retail space/ malls with Zion Mall being the only major mall in the area

Kisumu

- Kisumu has a large supply of retail space of 65,000 sqm, second to Nairobi area. This is attributable to adoption of the 'malling' culture in the area hence high demand for space and devolution which led to increased population in the area as a result of urbanization

Mombasa

- Neighborhood malls in Mombasa city perform well with average rental yields of 8.0% due to the target market which is the international tourists and high end persons in the area

B) Performance By Class

Malls Classification

Shopping Malls are classified mainly according to size and number of anchor tenants

- A shopping Mall is a group of retail and other commercial establishments that is planned, developed, owned and managed as a single property, typically with on-site parking provided
- A shopping center will have a minimum Retail gross lettable Area (GLA) of 20,000 SQFT
- Shopping Malls are usually classified according to occupancy, brands, tenants, achievements and awards, facilities, building materials, sizes and trade area size
- In our classification we have majored on classification by sizes and number of anchor tenants, and classified into three categories
- We classified malls according to the following criteria

Type	Size (SQFT)	No. of Anchors
Regional Center/ Destination	400,001 - 800,000	2+
Community Center	125,001 - 400,000	0-2
Neighborhood Center	20,000 - 125,000	0-1

Source: Cytonn Research

Malls Classification, continued…

Destination malls are those with GLA of 400,000 SQFT – 800,000 SQFT such as Garden City

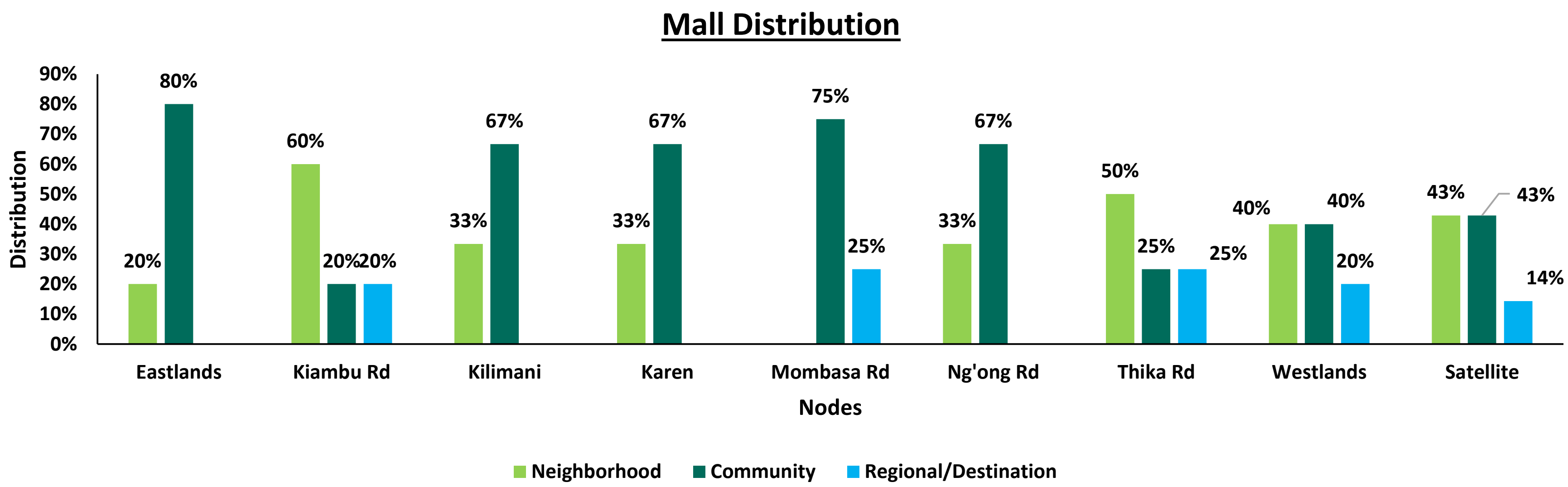
Mall Classification					
Neighborhood		Community			Destination
Hazina Trade Centre	Mountain View Mall	Greenspan	Capital Centre	Spur Mall	Two Rivers Mall
K-Mall	Red Heron	Shujaa Mall	Gateway Mall	Juja City Mall	Nextgen mall
Ridgeways Mall	Milele Mall	The Point	Highway Mall	Crystal Rivers	Garden City
Ciata	Maasai Mall	Comesa Mall	Tmall	Nakumatt Meru	Sarit Centre
Rosslyn Riviera	Nanyuki Mall	Village Market	Junction Mall	Mtwapa	Ananas
Lavington Mall	Cedar Mall	Valley Arcade	Greenhouse Mall	United Mall	
Crossroads Mall	Naivas Mall	Yaya Centre	TRM	Mega City	
Prestige Plaza	Mega Plaza	Galleria	The Mall	Lake Basin Mall	
				Zion Mall	
Mountain Mall	West End	The Hub	Westgate	City Mall	
Unicity	Tuff Foam				
Sky Mall	Khetia Hse				
Eldo Centre					

- Destination malls in Kenya include Two Rivers, Sarit Centre and Garden City among others that attract international retailers and have large built up areas
- In Kenya only Nairobi has destination malls. This is attributable to the fact that Nairobi is the capital city, attracting both local and international consumers, hence high population as well as high consumer purchasing power

Source: Cytonn Research

Malls Classification, continued…

Community malls account for 51% of the retail space in Nairobi area



- From our sample size, community malls are the most common, accounting for 51%, followed by neighborhood malls at 37% ,while regional/destination malls account for 13% of retail space in Nairobi area
- Destination malls are found in Westlands, Mombasa road, Thika road, Kiambu road and Satellite Towns. This is attributable to the good infrastructure especially the highways and the By- passes, opening up the areas
- Community malls are distributed across all nodes this is as they require less space and infrastructure and can still attract decent demand for space
- Thika Road and Mombasa Road have the highest concentration of destination malls, Eastlands community malls and Kiambu Road neighborhood malls

Source: Cytonn Research

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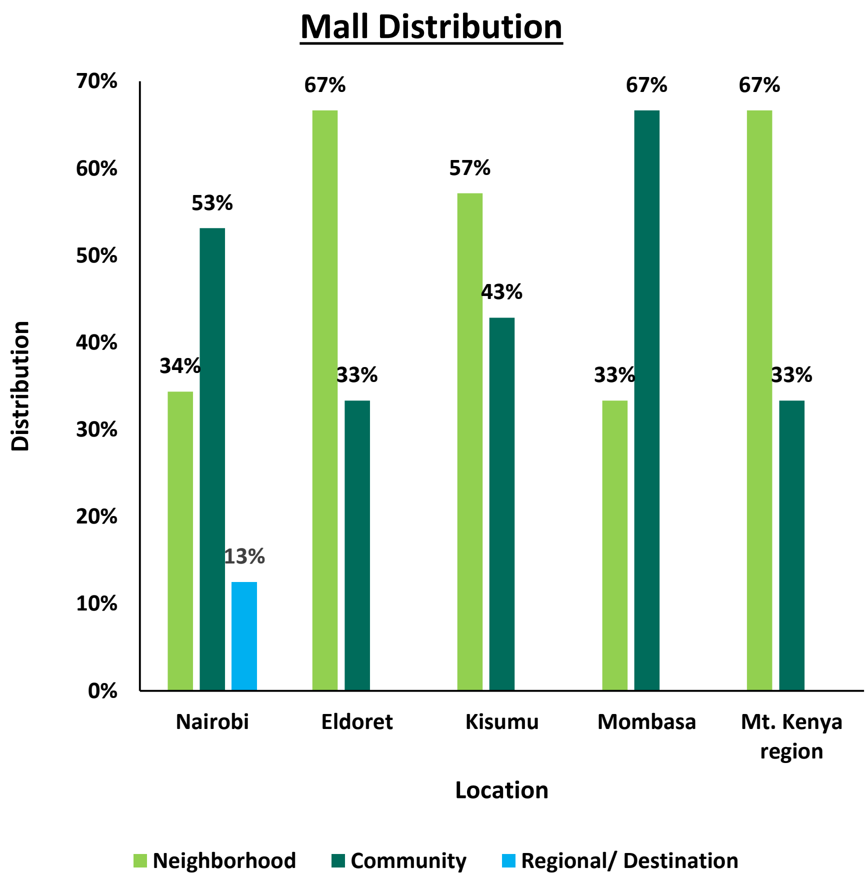
Malls Classification, continued…

Community Malls are the most common in the Kenyan market contributing to 50% of market share



- From our sample size Neighborhood malls account for 42% of retail space in Kenya, Community mall 50% while Regional/Destination malls account for 8%
- Destination malls are only found in Nairobi. This is attributable to the large population estimated to be 3.76 Mn as at 2016, good infrastructure, and the increase in middle class income earners in the area
- Community malls are distributed across all locations, and this can be attributed to their convenience in terms of accessibility by the public and are cost effective and affordable in terms of construction cost

Source: Cytonn Research

Performance by Class

Regional malls have high average yields of 11.7% as they attract international retailers, hence increasing the mall footfall

Class	Rent 'Kshs'	Occupancy (%)	Yield (%)
Destination	204.8	94.0%	11.7%
Community	183.5	85.0%	9.8%
Neighborhood	166.5	88.0%	9.2%
Average	**184.9**	**88.9%**	**10.2%**

Source: Cytonn Research

- Regional malls have an average yield of 11.7% at an occupancy rate of 94% attributable to high rents, as the retailers are charged a premium of class on rent due to amenities provided and higher footfall in the malls as a result of presence of international retailers mainly as the anchor tenants
- Neighborhood malls register a lower rental yields mainly because of competition from retailers such as supermarkets and other small scale retailers. They also have fewer amenities as compared to destination malls

Malls Performance by Nodes and Class

Neighborhood malls in Karen have the highest rental yields of 14.9%, at an occupancy of 94.0%

Location	Neighborhood Malls		Community Malls		Destination Malls	
	Yield(%)	Occupancy(%)	Yield (%)	Occupancy(%)	Yield (%)	Occupancy(%)
Karen	14.9%	94.0%	11.3%	98.0%		
Thika Rd	7.8%	87.5%	13.3%	96.0%	11.2%	86.0%
Westlands	3.5%	31.5%	12.5%	94.5%	12.0%	100.0%
Kiambu Rd	9.6%	90.0%			11.6%	90.0%
Eastlands	7.6%	77.5%	7.5%	92.5%		
Mombasa Rd	3.9%	61.0%	10.4%	94.5%		
Ng'ong Rd	8.1%	90.0%	12.7%	100.0%		
Kilimani	10.6%	86.0%				
Satellite	10.4%	97.5%	7.1%	70.0%		

- Among the Neighborhood malls, Karen have the highest yields at an average of 14.9%, and an average occupancy of 94.0%
- Community malls in Thika Road and Ngong road nodes are the best performing in terms of rental yields and occupancy
- Out of the Destination malls, those in Westlands are the most lucrative with an average yield of 12.0% and occupancy of 100% . This can be attributed to the location being known as a hangout place and covering high net worth individuals
- Satellite towns register an average performance. This is due to low uptake associated to the fact that most malls are upcoming following the population shift to these areas in recent years
- Satellite towns have a potential for higher returns in future due to population sprawl

Source: Cytonn Research

Malls Performance by Regions and Class

Destination malls, in Nairobi are the most lucrative with a yield of 11.7% and occupancy of 94.2%

Location	Neighborhood Malls		Community Malls		Regional /Destination Malls	
	Yield(%)	Occupancy(%)	Yield (%)	Occupancy(%)	Yield (%)	Occupancy(%)
Nairobi	9.2%	86.8%	10.7%	91.3%	11.4%	94.2%
Eldoret	7.0%	90.0%	5.8%	90.0%		
Kisumu	9.3%	73.6%	8.7%	66.7%		
Mombasa	8.0%	80.0%	6.8%	75.0%		
Mt. Kenya	10.1%	100.0%	10.1%	80.0%		

Source: Cytonn Research

- Neighborhood malls, in Mt. Kenya have the highest yields at an average rate of 10.1% and an average occupancy of above 100%
- Nairobi and Mt. Kenya region locations have the greatest community malls yields of 10.7% and 10.1%, respectively, and high occupancy of 91.3% and 80.0% on average
- Destination malls, are only in Nairobi with the most lucrative yield of 11.7% and occupancy of 94.2%
- However other cities/towns posses the potential for destination malls due to opening of the areas through improvement of infrastructure, increase in urbanization rate, and growth in middle class income earners that have been brought about by devolution

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C) Retail Market Opportunity

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Retail Market Opportunity

Indexing methodology has been used to determine retail space opportunities

- The following criteria has been used for ranking retail space performance according to location and to find the most viable retail space opportunity:

Retail Space Opportunity Criterion for Nairobi Nodes				
Yields	**1-4%**	**5-9%**	**>10%**	
Points	1	2	3	
Income	**High Income**	**Upper middle income**	**lower Middle Income**	**Low income**
Points	4	3	2	1
% contribution to current supply in Nairobi	**<5**	**5-10%**	**>10%**	
Points	3	2	1	
% contribution to upcoming mall supply in Nairobi	**<5**	**5-10%**	**>10%**	
Points	3	2	1	

- For the purpose of this study the following criteria has been used to classify nodes according to their income levels;

Cytonn's Classification of Income Levels		
Income Group	**Income Level**	**Location**
High Income	> Kshs 300,001 and above	Karen, Kiambu road
Upper Middle Income	Kshs 150,001 - Kshs 300,000	Kilimani, Westlands, Ngong Road
Lower Middle Income	Kshs 50,000 - Kshs 150,001	Mombasa road, Thika road, Satellite towns
Lower Income	Kshs 25,000 - Kshs 50,000	Eastland's

Source: Cytonn Research

Comprehensive Rankings – Nairobi & Metropolis

Kilimani and Karen present the best opportunity for developing up a retail space/ mall

Location Weights	Current Mall Supply 0.2	Yields 0.3	Income 0.2	Upcoming Mall Supply 0.3	Weight	Rank
Kilimani	3	3	3	3	3.0	1
Karen	2	3	4	3	3.0	1
Westlands	2	3	3	3	2.8	3
Ngong Road	2	2	3	3	2.5	4
Satellite Towns - Kiambu Road*	1	3	2	3	2.4	5
Satellite Towns - Thika Road**	3	2	2	2	2.2	6
Kiambu Road	1	3	4	1	2.2	7
Kajiado	1	3	2	2	2.1	8
Thika Road	1	3	2	2	2.1	9
Satellite Towns - Mombasa Road***	2	2	2	2	2.0	10
Eastlands	2	2	1	2	1.8	11
Mombasa Road	1	2	2	1	1.5	12

***Includes Satellite Towns in Kiambu Road such as Ruaka and Limuru*
**Includes Satellite Towns in Thika Road such as Thika and Juja*
****Include Satellite Towns in Mombasa Road such as Athi River and Syokimau*

Source: Cytonn Research

- Kilimani presents the best opportunity for putting up a retail space/ mall due to low mall supply , high yields and lack of upcoming malls
- Mombasa road is the least viable location, with high retail space supply at low yields and low purchasing power

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Retail Space Opportunity

Kisumu city is the least viable location for mall developments in the country

- The following criteria has been used for ranking retail space performance according to location and to find the most viable retail space opportunity:

Retail Space Opportunity Criterion for Kenyan Cities/Towns				
Yields	**1-4%**	**5-9%**	**>9%**	
Points	1	2	3	
GDP per Capita in Kshs	**<400**	**401-700**	**700 – 1,000**	**>1,000**
Points	1	2	3	4
Current Supply (sq. m/person)	**< 100/"000"**	**100/"000"- 150/"000"**	**> 150/"000"**	
Points	3	2	1	
Upcoming Mall Supply (sq. m/person)	**< 1/"000"**	**1/"000"- 5/"000"**	**> 5/"000"**	
Points	3	2	1	

Location Weights	Current mall supply 0.2	Yields 0.3	GDP per Capita 0.2	Upcoming Mall supply 0.3	Weight	Rank
Mombasa	3	2	3	2	2.4	1
Eldoret	3	2	2	2	2.2	2
Mt. Kenya Region	3	2	2	1	1.9	3
Kisumu	1	1	2	2	1.5	4

- Mombasa presents the best opportunity for putting up a retail space/ mall due to the low mall supply, with high yields and GDP per capita
- Kisumu city is the least viable location, with high retail space supply at low yields and high mall supply

Source: Cytonn Research

Comprehensive Ranking - Kenya

Mombasa Road node in Nairobi is the least viable location for mall development in the country

Location Weights	Current Mall Supply 0.2	Yields 0.3	Income/GDP Per capita 0.2	Upcoming Mall Supply 0.3	Average Weight	Rank
Kilimani	3	3	3	3	3.0	**1**
Karen	2	3	4	3	3.0	**2**
Westlands	2	3	3	3	2.8	**3**
**Satellite Towns - Kiambu Road	1	3	3	3	2.6	**4**
Ngong Road	2	2	3	3	2.5	**5**
*Satellite Towns - Thika Road	3	2	3	2	2.4	**6**
Mombasa	3	2	3	2	2.4	**7**
Kajiado	1	3	3	2	2.3	**8**
Eldoret	3	2	2	2	2.2	**9**
Kiambu road	1	3	4	1	2.2	**10**
Thika road	1	3	2	2	2.1	**11**
***Satellite Towns- Mombasa Road	2	2	2	2	2.0	**12**
Mt. Kenya Region	3	2	2	1	1.9	**13**
Eastlands	2	2	1	2	1.8	**14**
Kisumu	1	1	2	2	1.5	**15**
Mombasa Road	1	2	2	1	1.5	**16**

**Includes Satellite Towns in Thika Road such as Thika and Juja*
***Includes Satellite Towns in Kiambu Road such as Ruaka and Limuru*
****Include Satellite Towns in Mombasa Road such as Athi River and Syokimau*

- Kilimani presents the best opportunity for putting up a retail space/ mall due to low mall supply , high yields and lack of upcoming malls while Mombasa road is the least viable location, with high retail space supply at low yields and low purchasing power
- Despite the high supply, Nairobi Metropolitan remains the best location for a mall based on the above metrics as 8 of the top ten locations are in Nairobi

Source: Cytonn Research

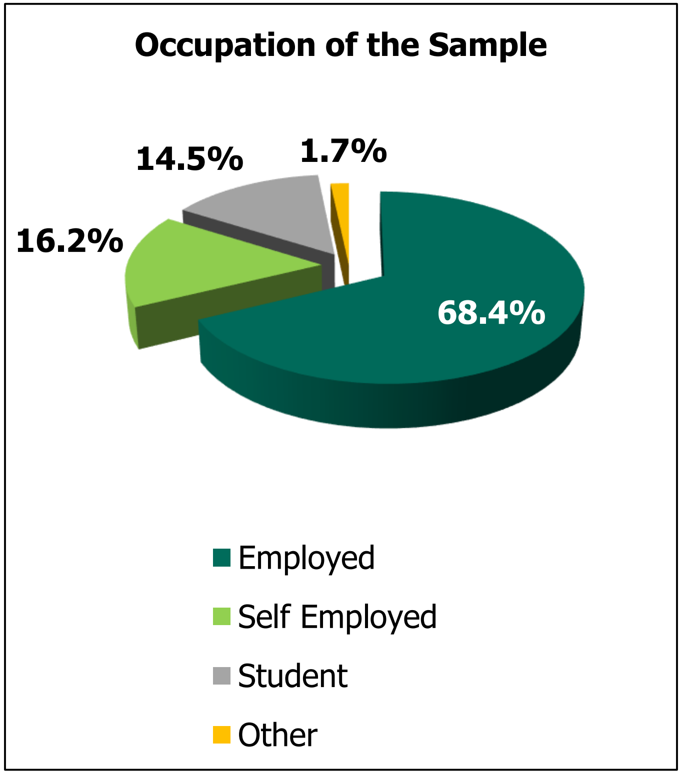
V. Market Sentiments

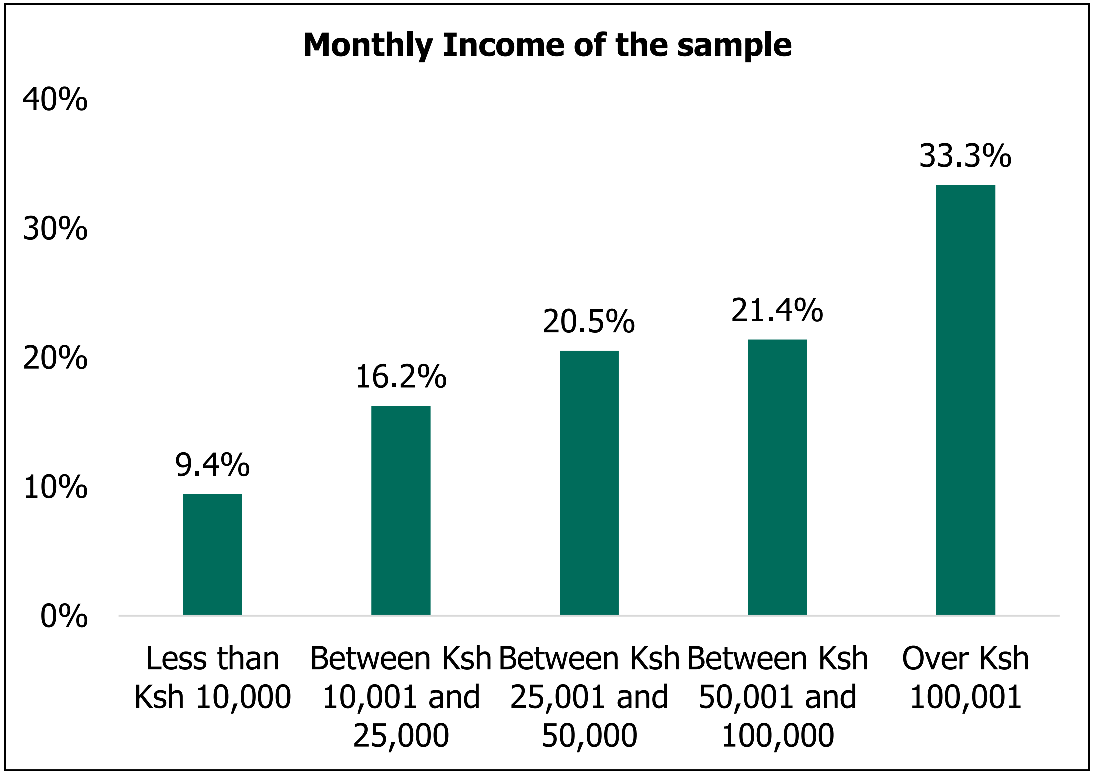
A) Consumer Spending Habits

Introduction

The survey on consumer behaviour was conducted online over a period of 4 days

- We conducted an online survey on consumer habits between 24th and 27th June 2016 which was on a weekend falling on an end month'
- The aim of the survey was to get to know the shopping habits of a typical regular shopper in the Kenyan retail market
- 69.2% of the respondents were aged between 21 and 35 years with 61% of them being male

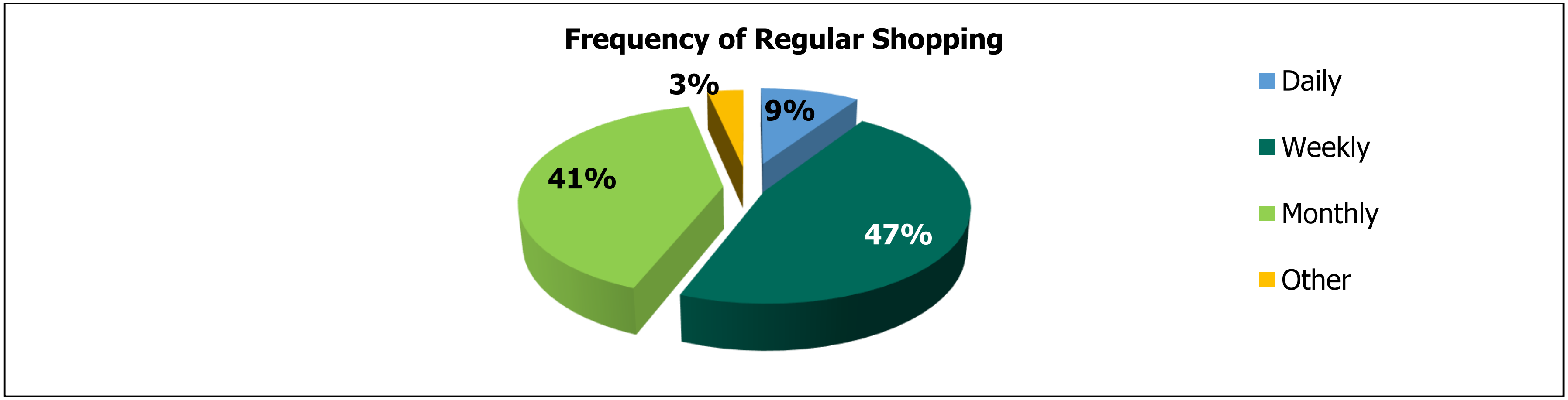


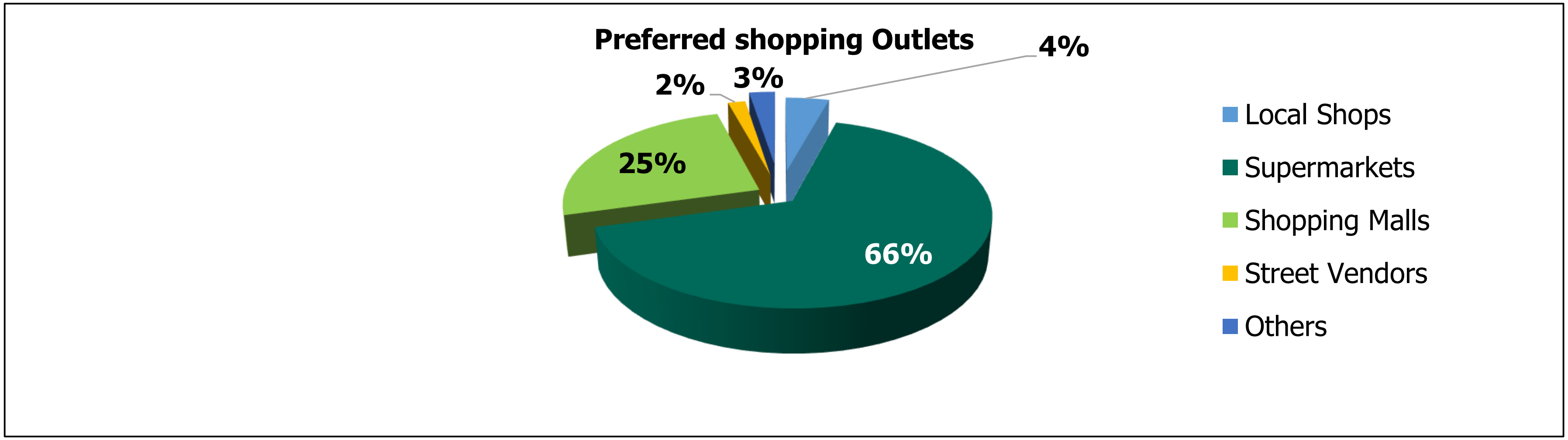


Source: Cytonn Research

Frequency of Shopping and Preferred Shopping Outlets

88% of shoppers in Nairobi prefer doing their regular shopping on a monthly and weekly basis



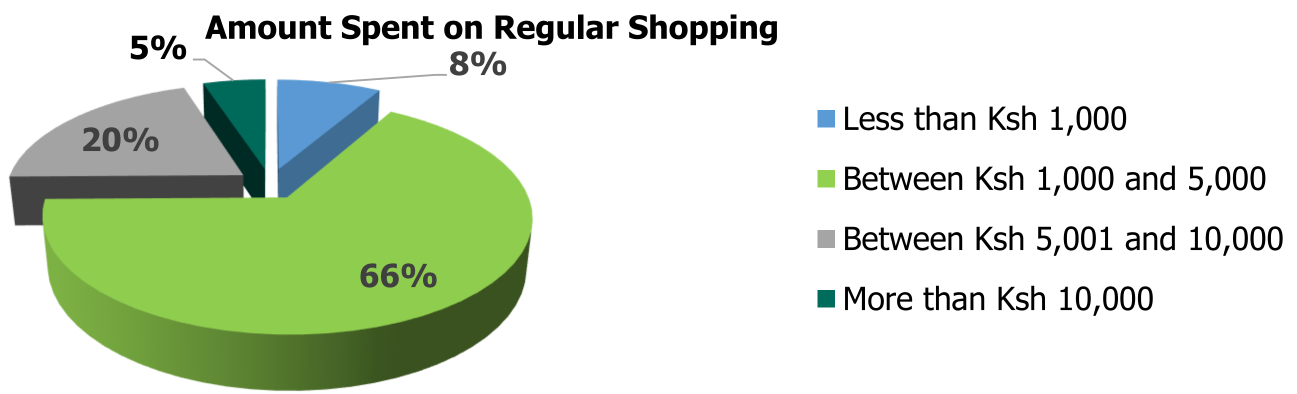


- From our analysis, 66% of the shoppers prefer doing their regular shopping in supermarkets

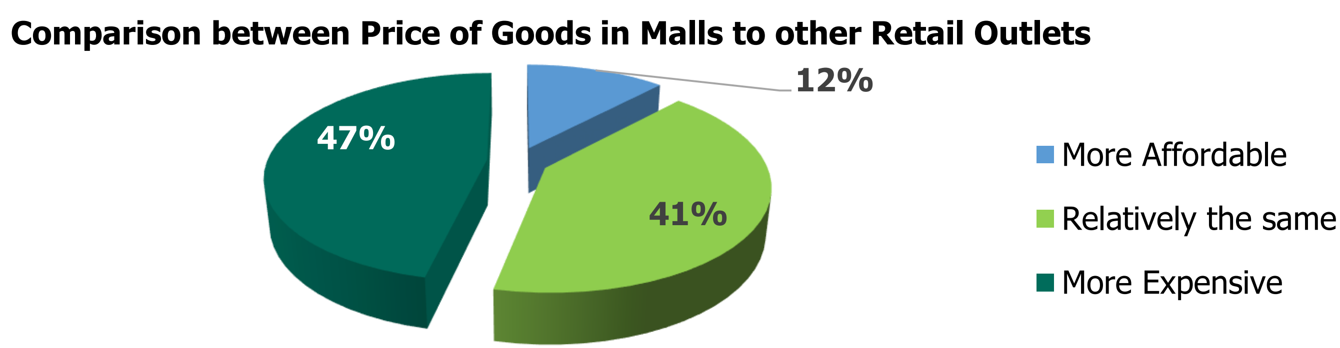
Source: Cytonn Research

Consumer Expenditure in Shopping Malls

66% of shoppers spend between Ksh 1,000 and 5,000 on their regular shopping trips



- 47% of the shoppers consider prices of commodities in malls to be more expensive than in other retail outlets

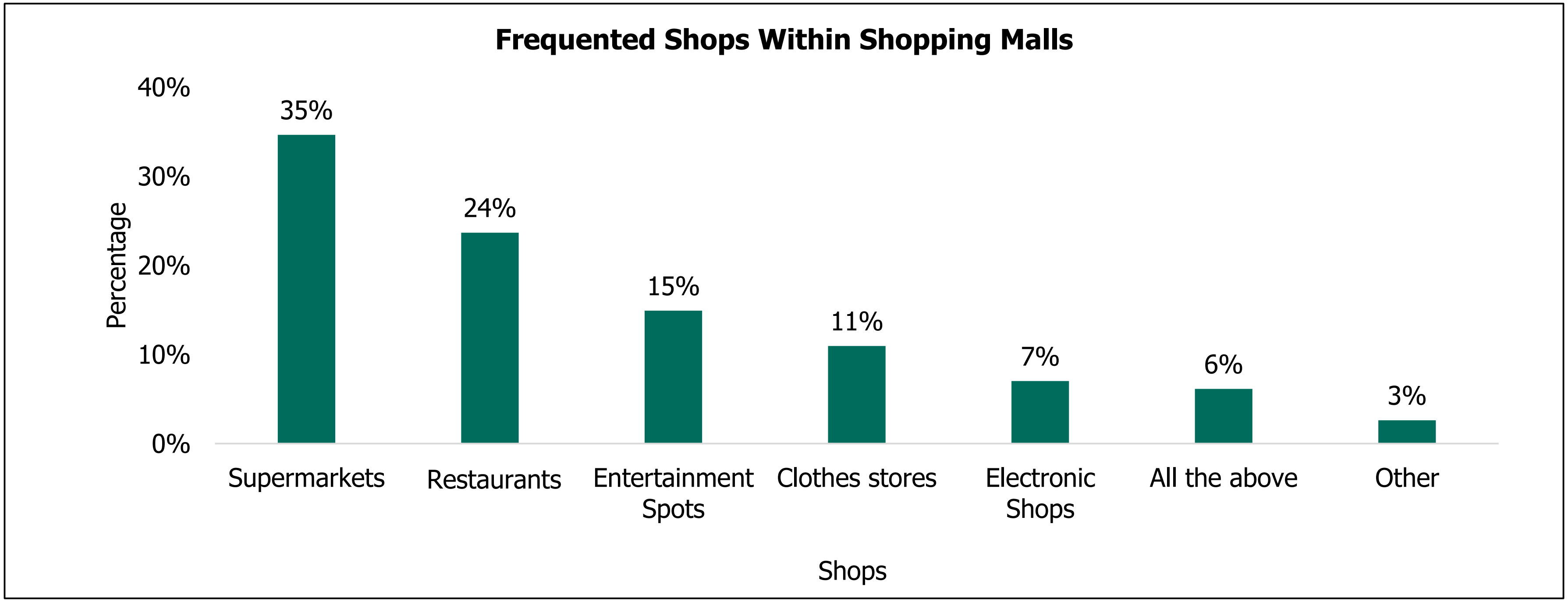


Source: Cytonn Research

Shopping Habits Within Shopping Malls

35% of consumers who shop in malls visit supermarkets within these malls

- During their visits to the malls, 35% of the shoppers visit the supermarkets within the mall and 24% visit restaurants as shown below
- Entertainment spots and restaurants are popular since malls are convenient meeting places and family destinations especially during weekend and public holidays’
- Though they are often overlooked, kids play zones is a consideration for most people who visit the malls

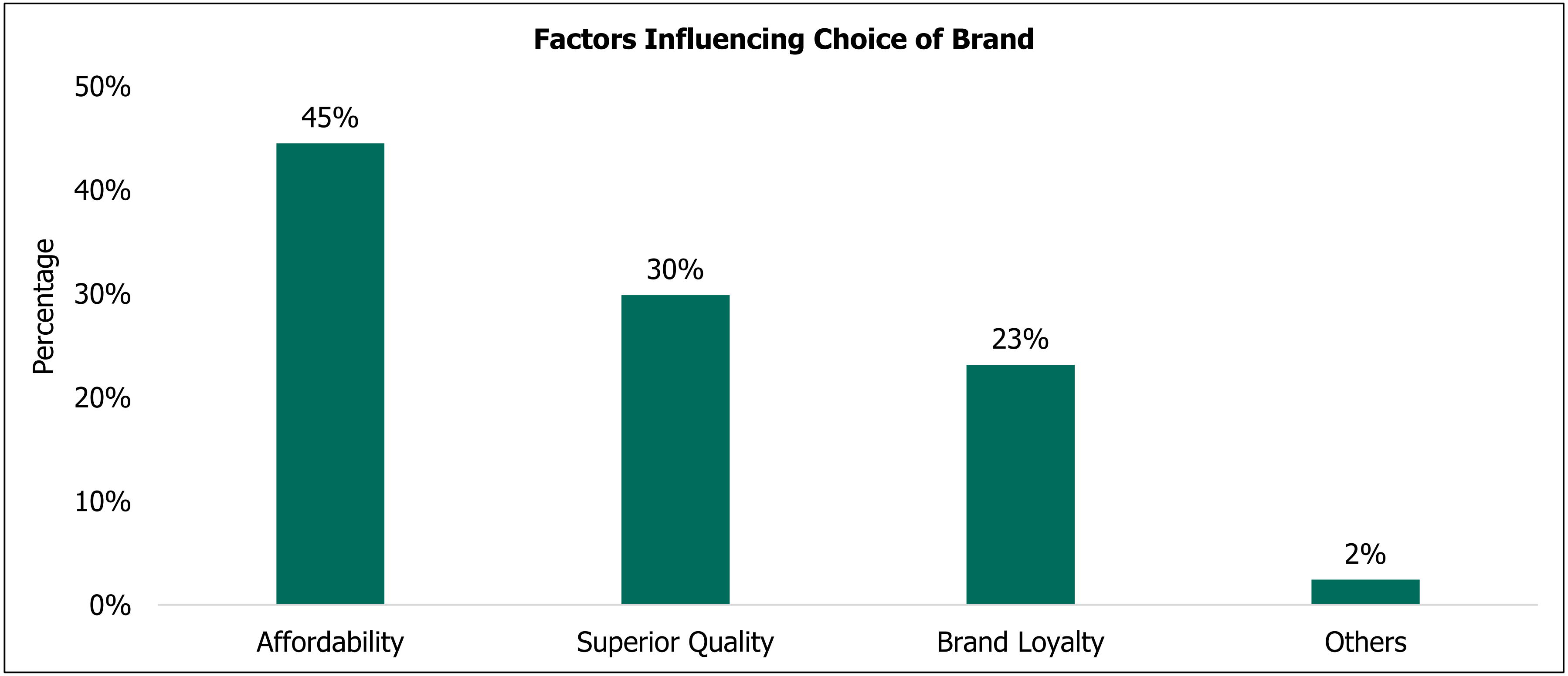


Source: Cytonn Research

Brand Preference

63% of shoppers prefer local brands to international brands

- 63% of shoppers prefer local brands for most goods and their preference is mostly influenced by affordability of the products
- Brand loyalty plays a role in products that are not locally produced especially electronics

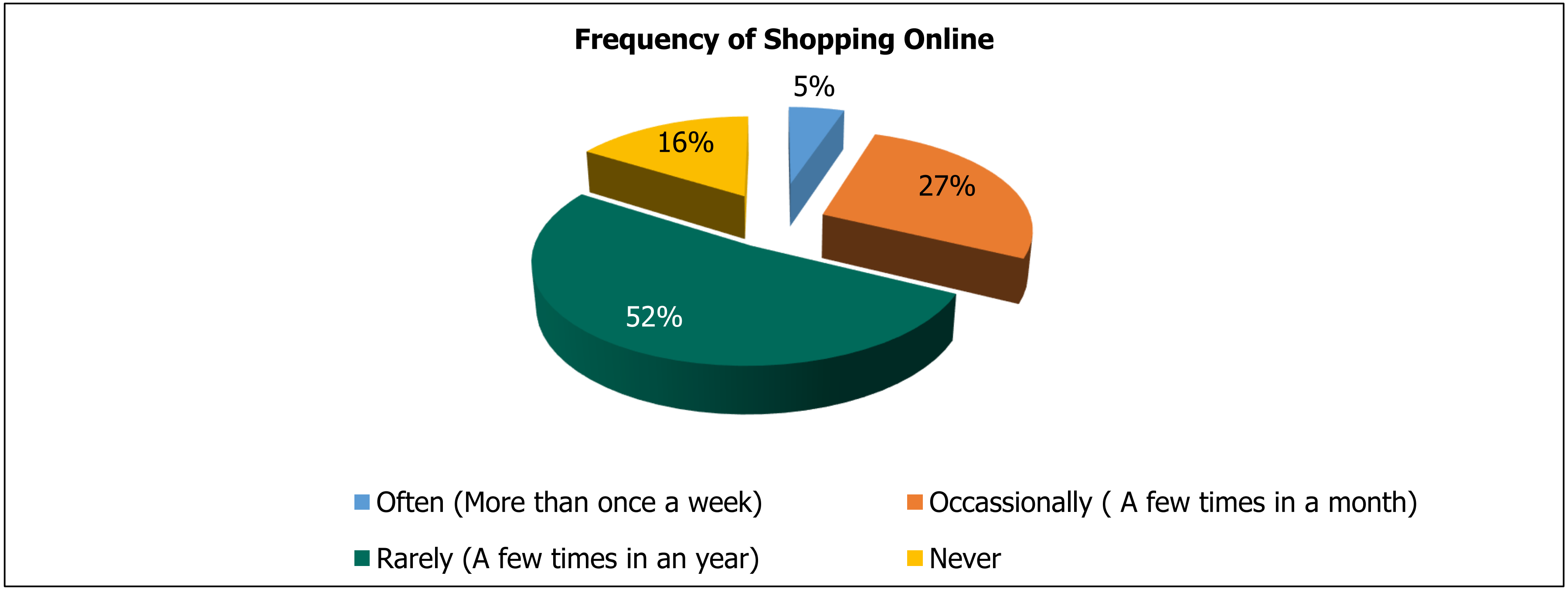


Source: Cytonn Research

Online Shopping

Majority of the population still have not embraced online shopping

- Despite the high large penetration of the internet and mobile phones among the country's population, this is not reflected in their shopping habits as far as online shopping is concerned
- Most consumers do not shop online since they associate it with non-consistence in product quality, cyber crime and hence most of them only buy the electronics since their specifications are more or less constants especially mobile phones

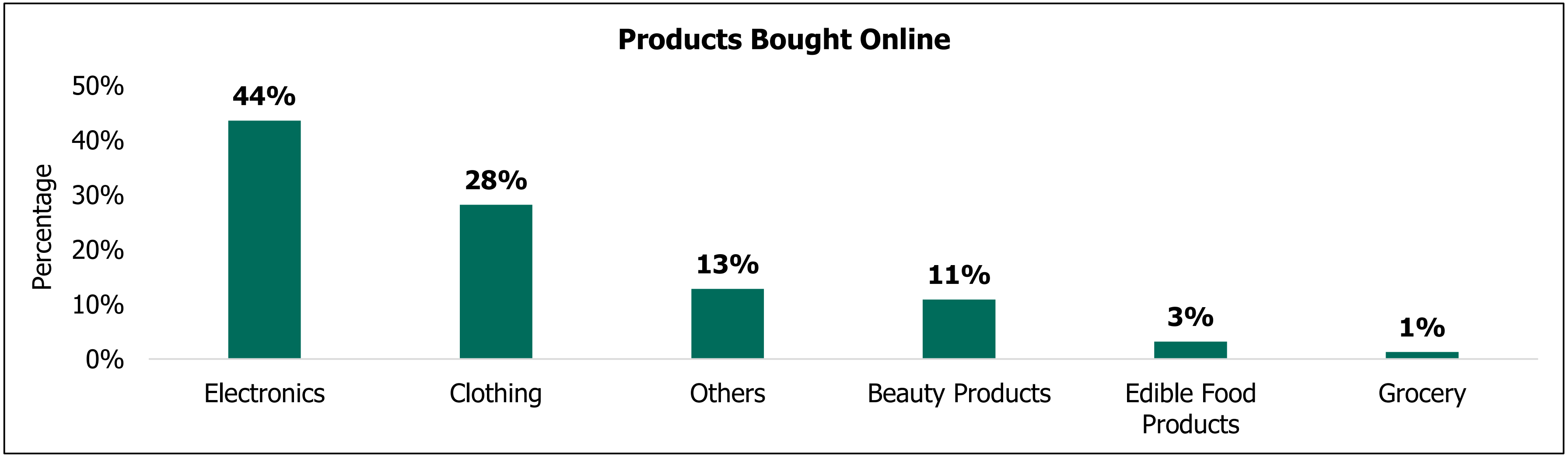


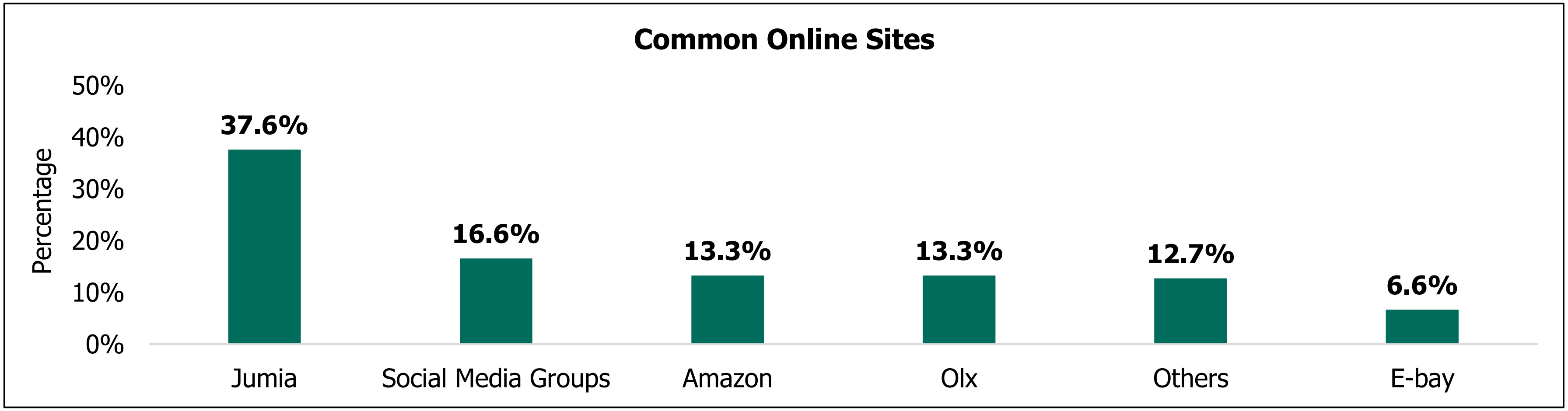
- Our sample has a level of bias as our survey was conducted online hence locking out people without internet access

Source: Cytonn Research

Online Shopping, continued…

Jumia is the most common online shopping site for the online shoppers who buy electronics





Source: Cytonn Research

Findings

The retail market is still undersupplied in terms of online shopping and 24 hour shopping

- Though a majority of the respondents earned a monthly salary of above Kshs 25,000, it is evident that 47% of them still find prices in those places more affordable meaning that they go to malls so as to fit in among their peers
- There is great opportunity in 24 hour shopping outlets as this will help solve the issue of inadequate parking and slow customer services
- Some of the challenges that shoppers face during their regular shopping in malls include:-
  - Inadequate parking
  - Inaccessibility for disabled persons
  - Long queues
  - Lack of variety and overpricing of some commodities in certain malls
- Besides online shoppers having little trust for goods sold online, they are also concerned about:-
  - Late delivery of items or prolonged waits
  - Lack variety of commodities from shopping websites
  - Delivery to areas outside Nairobi area

B) Retailers Sentiments on the Market

Current State of the Retail Market

Players believe the market is on an upward trajectory

- We also conducted a survey among CEO's of major retail chains to get their sentiments on the market and the results are as follows:

Situation	Sentiment
Current State of the retail market in Kenya	· Market is on an upward trajectory with increasing revenues and customer base
	· The food retail market is dominated by local retailers, while other sectors such as fashion have significant foreign retailers participation
	· Increased international interest pointing to a growing retail market
	· The target population, the young urbanised youth are increasingly demanding classy products and hence more difficult to satisfy
	· Online shopping is also growing and is a key sector for future growth and or expansion
	· Other than food, there is increased demand for lifestyle products
	· Due to time and traffic constraints, most shopping is being done on weekends
	· Don't expect competition from entry of international retailers

- Key industry players believe that the retail market is on a high growth path with increasing revenues. They believe that the local retailers will continue to dominate the food sector while facing competition from international retailers on the other sectors especially fashion. They believe that the entry of international retailers is not a challenge as the market is big enough to accommodate all the players
- They are thus more likely to increase investments into the sector

State of the Market in the Next 2-5 Years

Key players expect revenues to double up in the next five years and product differentiation among retailers

Situation	Sentiment
State of the market in the next 2-5 years	·Key industry players expect the market to double up in revenues as a result of a fast growth rate which they expect to range between 10-20% y.o.y ·Product differentiation among key retailers in a bid to secure a market share increasing returns. Currently there are no major differences in terms of products. ·Increased competition in the industry as a result of increased supply leading to lower product prices as a result of loyalty products and cash discounts

- Over the next two to five years, key retail players expect the sector to grow at between 10-20% y.o.y leading up to doubling in revenues. They also believe that the retail chains currently almost unanimous, will be clearly differentiated according to product offerings
- They are thus more likely to increase investments into the sector

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Strategies Being Applied for Growth

Expansion is the key strategy being applied by retailers in the medium and short term

Situation	Sentiment
Strategies being applied for growth in the short and long term	
Established retailers >10 years old	· Improving the customer experience through loyalty programs and better service delivery to increase customer retention and expenditure · Increasing products available in the stores and partnering with suppliers · Partnership with Cooperates to drive growth · Franchising · Online Shopping · Listing in the NSE
New Retailers < 5 years	· Establishing smaller sized, retail units to serve even the smallest of markets · Regional expansion · Increasing distribution outlets, quick expansion · Marketing · Increasing distribution outlets beyond Nairobi · Affordable pricing

- Retailers are mainly focusing on client retention through pricing, customer service, and product differentiation in the short term, most of the mare focusing on increasing distribution channels through organic growth, partnerships and franchising in the medium term online shopping is also a key target area for developers in the medium term
- In the long run, the key retail chains in Kenya plan to increase financing through listing in the NSE and regional expansion. All these factors point to a growing retail market

Preferred Product Lines

Food and lifestyle products are the most preferred items in retail stores

Situation	Sentiment
Preferred product Lines	· Food · Lifestyle products

- The most preferred products in the Kenyan retail space are food and lifestyle products
- Increased demand for food products has seen retailers increase the range of food products from labelled pastries to currently fully operational cafes with sitting space in most of the retail stores
- The demand for lifestyle products such as clothes, accessories, watches, perfumes and foot wear is being driven by the increase in the disposable income among the middle class as well as changing lifestyle and peer pressures
- The above factors are not expected to change and hence we expect further an increase in demand for this products and hence an increase in the overall retail market in Kenya

Key Challenges

Pilferage is the main challenge facing retail stores leading to losses of up to Kshs 3.5 bn

Situation	Sentiment
Main Challenges	· Pilferage leading to losses of up to Kshs 3.5bn annually to theft among major retailers · Political risk especially with the forthcoming general election · Inconsistency in supply of products by key importers · Matching international standards locally · Devolution has increased taxes · Scarcity of suitable space from where to start operations

- According to the CEO's of some of the major retailers in Kenya, the key challenges facing the industry is pilferage with the key retailers losing Kshs 3.5 bn annually and the whole sector Kshs 5 bn annually
- This issue they believe is being taken lightly by the authorities as the culprits are always set free yet the magnitude of the losses are significant

Last Takes

Retailers believe industry is headed for further growth though there will be an increase in competition

Situation	Sentiment
Last Takes	· Bright future for retail industry amid high supply and returns · To mitigate against competition , retailers ought to increase stores · Efficiency of supply chains and proper training of employees are and will continue to be critical to the success of the industry · There will be increases innovation with focus on affordability and convenience ·Location will be key to the success of retail chain stores

- Generally the key industry players expect the sector to grow as a result of the high supply
- They foresee intense competition in the industry in the coming years from both international and local retailers and are working on
    - Customer satisfaction
    - Increasing the number of stores,
    - Partnerships
    - Identifying the best locations
    - Increased financing
- They will thus implement the above to mitigate against competition and grow

Retail Industry Players Sentiments

Based on market sentiment, the retail industry is headed for continued growth

Measure	Sentiment	Outlook
Current State	Young vibrant market with high population capable of driving demand	Postive
Future Expectations	Expectations of growth at a high rate. More players to enter the market	Positive
Strategies	Expansionary and fundraising strategies, differentiation, Bullish measures	Positive
Products	FMCG	Positive
Challenges	Mitigatable	Positive
Last Takes	Retailers are bullish on market performance expecting revenue increases of 10-20%	Positive

- The sentiments of the CEO's of key retail stores in Kenya point to a growing market in terms of revenue, customer base and products
- All the CEO's interviewed expressed positive sentiment on the sectors potential growth
- We thus expected them to increase investment into the sector as per their long and short term plans

VI. Retail Market Opportunity and Outlook

Retail Market Opportunity and Outlook

Retail sector headed for continued growth with opportunities in Nairobi, Satellite Towns and Mombasa

Measure	Sentiment	Outlook
Supply	Increasing supply with 220,000 sqm of space expected to be supplied in 2017	Postive
Market Performance	High yield rates of more than 9% with high occupancy levels of more than 90%	Positive
Consumer Survey	Most prefer to shop in formal retail sector(malls and supermarkets)	Positive
Retailers	Bullish on market performance with expansionary strategies in the medium to long term	Positive

- There is an increase in the supply of retail space and the yields remain attractive with high occupancy rates
- Consumers are showing a preference for formal retail over the informal market especially due to the convenience that the stores allow them in product provision
- Retailers on the other hand bullish about market performance are engaging in expansion and growth both organic and through partnerships and franchising
- The sector is thus headed for continued growth. The opportunity is still largely in Nairobi despite its increasing supply in some nodes. Nairobi's satellite towns which are experiencing heavy population influx provide a good opportunity for investment as well as some nodes with little supply such as Kilimani
- The ideal stores in this market are community malls with supermarket anchors and encompassing restaurants, entertainment joints and small convenience retail stores

Thank You!

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Appendix

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