Kenya Real Estate Retail Sector Report 2019

"Increased Market Activity to Promote Retail Growth"

Cytonn

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I. Overview of Real Estate in Kenya

Introduction to Real Estate in Kenya

Our outlook for the sector is neutral, with high financing cost for both developers and off takers remaining a key challenge

Factor	Characteristics
Macro-economic Contribution	• In Q1'2019, real estate sector's contribution to GDP came in at 12.2%, a 0.9% points increase from 11.3% recorded in Q1' 2019. We expect the sector's contribution to pick up for the rest of the year due to anticipated turn around in the mortgage market which is set to encourage building and construction activity, as well as government's continued implementation of the affordable housing initiative • The sluggish growth currently being witnessed across the sector is due to reduced effective demand in the high end residential market, evidenced by the 3.0% decline in the residential sector occupancy rates in 2018, and the increased supply of mall space in the retail sector recording a growth of 4.8% y/y in Nairobi to 6.5 mn SQFT in 2018 from 6.2 mn SQFT in 2017
High Returns	• Real estate has consistently outperformed other asset classes in the last 5 years, generating returns of on average 20.1% p.a., compared to an average of 8.7% p.a. in the traditional asset classes • The sector recorded rental yields of 7.8% in the commercial office sector, 8.2% in the retail sector, 4.3% in the residential sector, 8.0% in mixed use developments (MUDs) and 7.4% in serviced apartments in 2019
Recent Developments	• The sector continues to attract more of institutional and international players with an absolute development capability. Institutions that have unveiled real estate projects within the last year include United Nations' Habitat Cooperative Society in partnership with Singaporean firm, Singapura Developers as well as Actis • The Government's focus on the affordable housing initiative, following the recent launch of the Kenya Mortgage Refinancing Company, ongoing construction of flagship projects, namely the Park Road project, and the increased budget allocation on the same
Market Outlook	• Our outlook for the sector is neutral due to the subdued performance in the high-end markets mainly due to increased supply amidst waning demand. Additionally, the sector also continues to be constrained by limited access to financing for both developers and off takers. However, we do expect the market to pick up should the interest rate cap be lifted, and once the government, through the KMRC, improves the mortgage market by tapping into the capital markets • The real estate sector has pockets of value especially housing for lower-middle to low-income earners in the residential sector, serviced apartments, and Mixed-Use Developments (MUDs)

Introduction to Real Estate in Kenya –Contribution to GDP

Real Estate and construction sectors contribution to GDP increased by 0.9% points to 12.2% in Q2’2019 from 11.3% in Q’1 2019

	2010	2018	Q1’2019	Q2’2019
Agriculture	24.8 %	34.2 %	40.2 %	36.5 %
Manufacturing	11.3 %	7.7 %	7.5 %	7.7 %
Wholesale & Retail Trade	7.7 %	7.4 %	6.3 %	6.8 %
Hospitality & Tourism	1.7 %	1.3 %	0.7 %	0.5 %
Real Estate & Construction	12.8 %	12.4 %	11.3 %	12.2 %

Source: KNBS

II. Nairobi Metropolitan Area Retail Report

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Executive Summary

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

- 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
- 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 an introduction of 0.8 mn SQFT of retail space and constrained spending power among consumers due to a tough financial environment
- Rental yields within the Nairobi Metropolitan Area declined by 1.0% points to 8.0% in 2019, 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
- 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
- Mt. Kenya was the best performing region, with average yields of 8.6% and rental rates of Kshs 129.8 per SQFT. The region accounts for 7.7% retail market share and its performance was mainly as a result of low supply of malls in the region
- The opportunity remains in mid-tier counties which are undersupplied such as Kiambu County and Mt Kenya region, with space demand of 0.8mn SQFT and 0.2 nm SQFT, respectively

Kenya Retail Performance Summary

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

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**

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.

Nairobi Metropolitan Retail Report – "*Increased Market Activity to Promote Retail Growth*"

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

Value Area	Summary	Effect
Supply	• 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 • However, 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	• 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
Returns	• 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	• We see increased market activity with 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
Opportunity & Outlook	• The opportunity remains in mid-tier counties which are undersupplied such as Kiambu County and Mt Kenya region, with space demand of 0.8mn SQFT and 0.2 nm SQFT, respectively	• We expect to see investors shifting focus to county headquarters with higher retail demand such as Kiambu and Mt. Kenya

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

A. Introduction

Factors **Influencing** Supply of the Retail Sector in 2019

Increased supply of malls in the same region has resulted in stiff competition between malls leading to a decline in occupancy rates

Factor	Characteristics
Availability of land	• Availability of development land has been low within towns and urban centres resulting in relatively high prices with areas such as Upperhill selling at Kshs 500Mn per acre • Developers are however shifting focus to Nairobi Satellite Towns such as Kiambu, Rongai, and Kitengela, and county headquarters where land is available at relatively affordable prices on average Kshs 14Mn, thus resulting in increased supply
Access to Credit	• A tough operating environment coupled with strict underwriting rules adopted by banks and financial institutions due to the enactment of the interest capping law which came into effect in 2016 has led to a constrained credit environment, with private sector credit growth coming in at 5.2% in June 2019, compared to a 5-year (2013-2018) average of 14.0%,This has led to reduced purchasing power among consumers, thus impacting negatively on the Kenyan retail sector as retailers generate less revenues due to the decreased demand
Infrastructure	• Improved infrastructural developments such as improved roads, electrification, and main sewer connections have opened up Nairobi satellite towns and county headquarters to increased development resulting in construction of malls such as Signature Mall in Athi River and Mega Mall in Kakamega
Competition	• Increased supply of malls in the same region has resulted in stiff competition between malls leading to a decline in occupancy rates, For example in Kiambu road, as a result of an 3.0% increase in space, occupancy rates have decline by 11.2%. This is likely to result in decreased development of malls in the City, already seen as supply increased by 4.8% between 2017 and 2018, compared to growth with a CAGR of 15.9% between 2010 and 2017
Poor Governance	• Lack of proper management structures coupled with poor governance and lack of transparency, especially in family run local retail chains has resulted in financial constraints and cash flow issues , leading to exit of several local retailers from the market, thus negatively impacting the retail sector in Kenya.

Factors **Influencing** Demand of the Retail Sector in 2019

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

Factor	Characteristics
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
Purchasing Power	• Increasing purchasing power, with GDP per Capita growing at a rate of 7.9% p.a over the last 5 years, from Kshs. 113, 539 in 2013 to Kshs. 166, 314 in 2017, hence sustained demand for retail products • This has translated to increase in purchasing power that creates sustained demand for retail products
Competition	• Expansion of formal retail chains such as fashion retail stores has been difficult due to competition from informal retailers • Formal retail space penetration is approximately 35% in Kenya, compared to 60% in developed countries such as South Africa according to a Nielsen Report
Online Shopping	• According to Economic Survey 2018, in 2017, internet subscription and mobile penetration rates stood at 71.6% and 91.9% , respectively, an increase from 58.8% and 85.9% in 2016, respectively • This has led to the growth of e-retailing with online shops such as Jumia, Rupu and social media growing rapidly • This has further been enabled by mobile wallets gaining popularity, hence making online shopping more convenient

Trends in Kenya's Retail Sector in 2019

Entry of international retailers, retailers expansion across the country and online shopping are some of the key trends in the retail market in Kenya in 2018

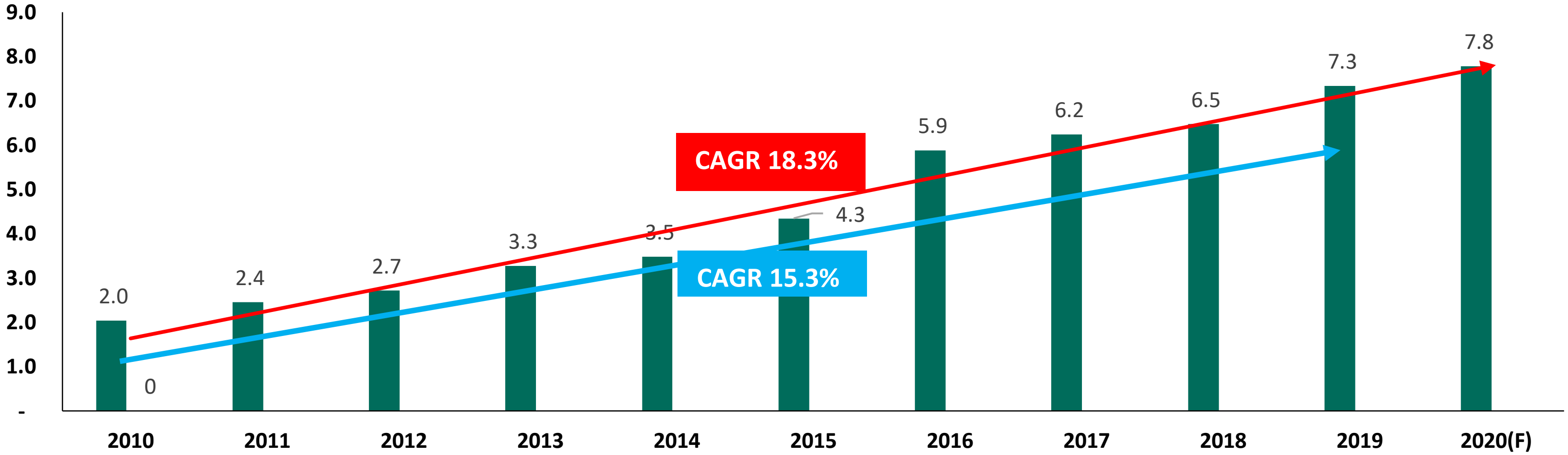
Factor	Characteristics
Retailers' Expansion Strategies	• In a bid to tap into the retailing industry, Naivas Supermarket, Tuskys and Carrefour have aggressively expanded across the country taking up space previously occupied by Nakumatt and Uchumi • The aggressive expansion by the retailers is being driven by shifting consumer habits as Kenyans increasingly shop in formal retail centres, are increasingly appreciating international brands and stable economic growth
Entry of International Retailers	• According to Nielsen report, Kenya's formal retail penetration is 30.0% making it the second highest in Africa, after South Africa's 60.0%, which has served as an incentive for foreign retailers • Over 20 notable local and international retailers have aggressively penetrated the Kenyan market within the last 6-years, including, Carrefour, Shoprite and Game of French and South Africa, respectively, supported by a widening middle class and provision of high-quality spaces in line with international standards as well as infrastructure

B. Nairobi Metropolitan Area (NMA) Retail Supply

Nairobi Metropolitan Area (NMA) Retail Supply – Growth

Nairobi Metropolitan Area (NMA) retail sector currently has a mall space supply of 7.3 mn SQFT, having grown from 2.0 mn SQFT in 2010 with an 9-yr CAGR of 15.3%

Nairobi Mall Supply Growth (2010-2020)

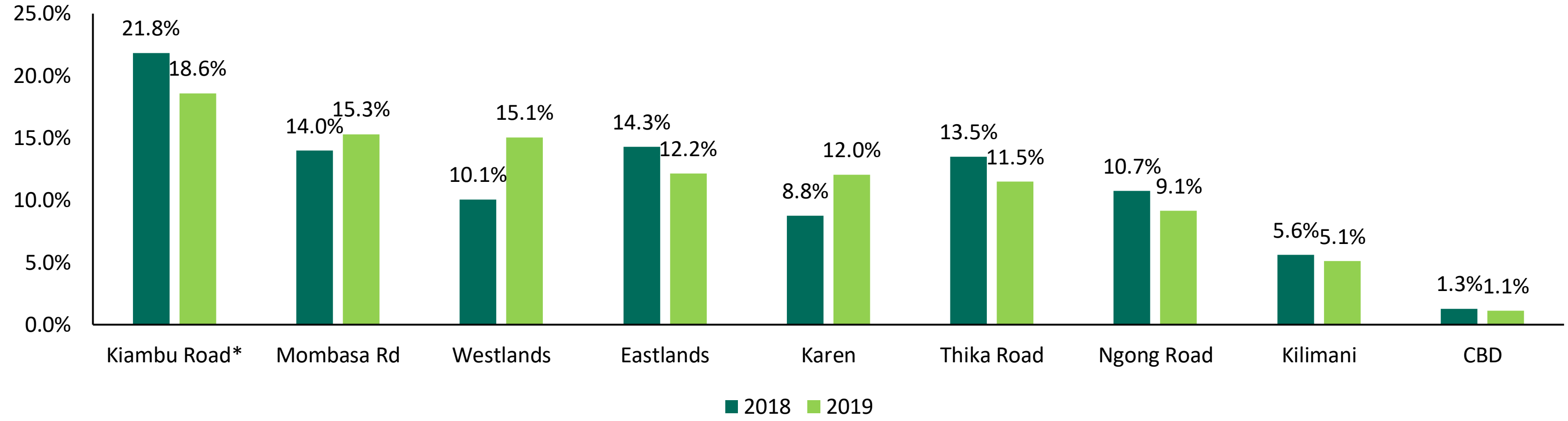


- Nairobi Metropolitan Area (NMA) retail sector currently has a mall space supply of 7.3 mn SQFT, having grown from 2.0 mn SQFT in 2010 with an 9-yr CAGR of 15.3%
- The continued development is driven by increased uptake of retail space as a result of entry by international retailers such as Mango and Hugo Boss, and expansion efforts by local retailers such as Naivas and Tuskys
- We project that by 2020, the retail space supply will have grown to over 7.8 mn SQFT, with the expected retail space addition of Britam Mall and the Beacon among others
- The retail supply is however growing at a decreasing rate owing to current retail space oversupply in Nairobi Metropolitan Area at approximately 2.8 mn SQFT

NMA Retail Space Supply – Current Distribution by Nodes

Kiambu Road Area and Mombasa Road recorded the highest market share in the retail sector recording 18.6% and 15.3% in 2019, respectively

Nairobi Metropolitan Area Retail Supply Market Share (2018-2019)

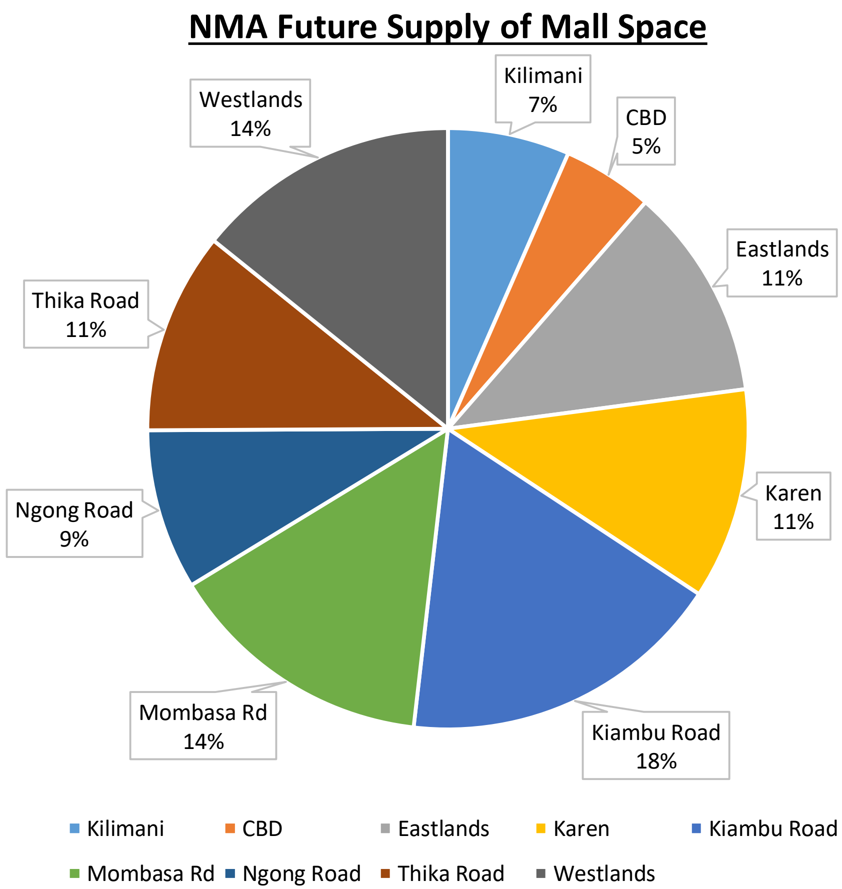


**Kiambu Road also includes Limuru Road*

- Kiambu Road Area and Mombasa Road recorded the highest market share in the retail sector recording 18.6% and 15.3% in 2019, respectively. This was mainly due to the availability of the of the largest destination malls in the country such as Two Rivers on Limuru Road and Next Gen Mall on Mombasa Road
- Kiambu Road, however registered the largest decline in market share recording a 3.2% decline to 18.6% in 2019 from 21.8% in 2018. This is mainly attributed to the opening of a number of retail spaces such as Waterfront and the Well in Karen and the expansion of the Sarit Centre and Westgate Mall
- Kilimani area and CBD still maintain the lowest market share recording 5.1% and 1.1% in 2019 attributed to the lack of development land in the CBD and previously-zoning purely for residential use in Kilimani, Kileleshwa & Lavington areas

NMA Expected Distribution of Retail Space Supply in 2020

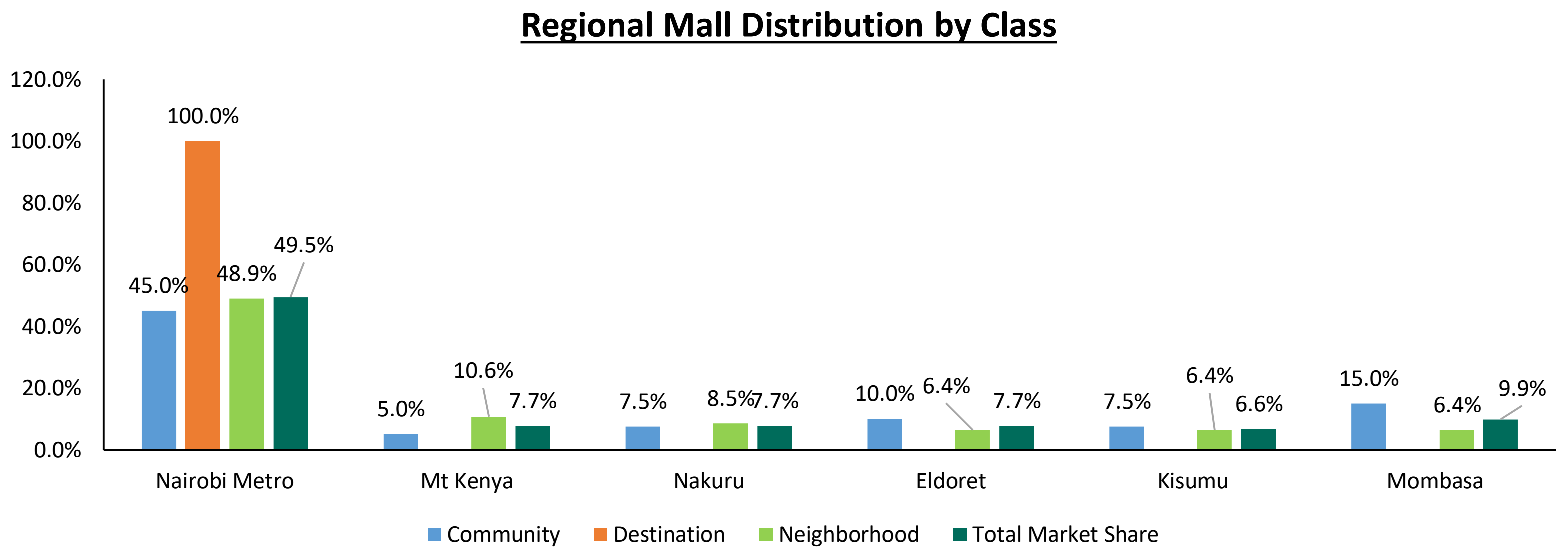
CBD market share is expected to grow to 4.9% with the expected completion of The Beacon Mall next to the Bunyala roundabout in 2020



- We expect Kiambu Road and Mombasa Road to maintain the highest retail space supply in the Nairobi Metropolitan Area (NMA) recording a market share of 18.6% and 15.3%, respectively,
- CBD market share is expected to grow to 4.9% with the expected completion of The Beacon Mall next to the Bunyala roundabout in 2020. The mall is expected to add about 300,000 SQFT to the area
- Completion of Britam Mall in 2020 is expected to add about 140,000 SQFT increasing the market share of Kilimani area by 1.5% to 6.6% in 2020 from 5.1% in 2019

Retail Space Supply in Kenya – Regional Distribution by Class

Nairobi Metropolitan Area leads with the largest market share of retail space at 49.5% with community, destination and neighbourhood malls accounting for 45.0%, 100.0% and 48.9%, respectively

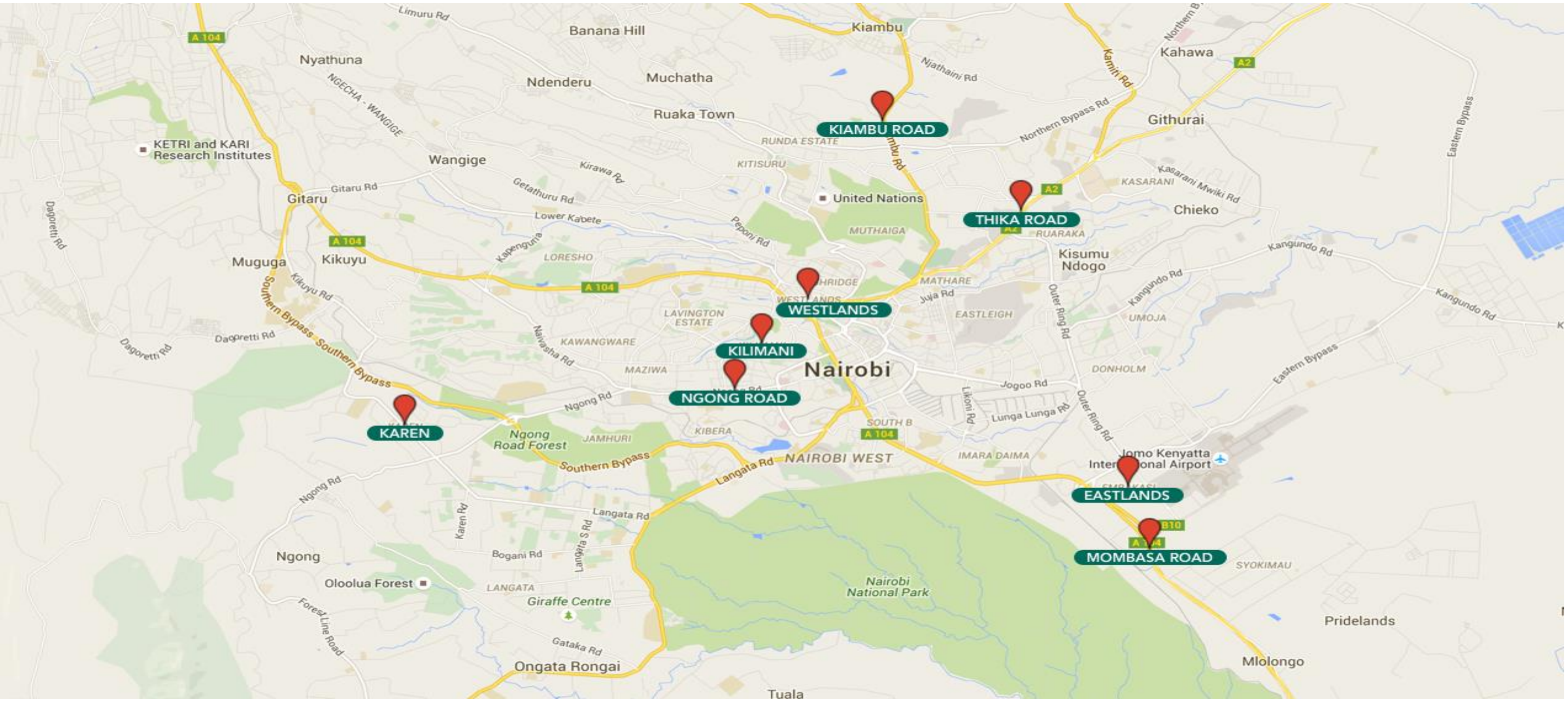


- Nairobi Metropolitan Area leads with the largest market share of retail space at 49.5% with community, destination and neighbourhood malls accounting for 45.0%, 100.0% and 48.9%, respectively
- Neighbourhood and Community malls account for the largest percentage of malls within the country recording 51.6% and 44.0%, respectively, while destination malls are 4 in number
- The high number of neighbourhood and community malls is mainly attributed to lower construction cost and more affordable amenities compared to destination malls

C. Performance by Sub-markets (Nodes)

Nairobi Metropolitan Area Retail Sector Nodes

Main retail nodes included in our research include Kilimani, Ngong Road, Kiambu Road, Mombasa Road and Westlands



Our research sample includes the following;

- Kiambu Road includes Limuru Road
- Kilimani includes Kilimani, Kileleshwa & Lavington and their environs,
- Ngong & Lang'ata Road covers area between Community, Lang'ata Road up to Dagoretti Corner
- Westlands includes Parklands and Mountain View

Performance by Nodes

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

Location	Rent Kshs/SQFT 2019	Occupancy Rate 2019	Rental Yield 2019	Rent Kshs/SQFT 2018	Occupancy Rate 2018	Rental Yield 2018	Change in Rental Charges	Change in Occupancy Rates	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%)**

- In 2019, rental yields within the NMA 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, and was 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.
- 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

Performance by Nodes

Kilimani area which includes Kileleshwa and Lavington, was the best performing sub-market within the Nairobi Metropolitan Area recording rental yields of 9.9% in 2019.

Kilimani, Kileleshwa & Lavington

- Kilimani area which includes Kileleshwa and Lavington, was the best performing sub-market within the Nairobi Metropolitan Area recording rental yields of 9.9% in 2019. This was however a 0.9% decline from 10.7% recorded in 2018 driven by a 9.8% drop in occupancy due to additional retail space as a result of the opening of Westend Mall in Lavington

Ngong & Lang'ata Road

- The area was the second-best performing node recording rental yields and occupancy rates of 9.2% and 87.2% in 2019, respectively, a 0.5% and 5.7% decline from 9.7% and 88.8% in 2018. The decline in rental yields is attributable to less uptake of retail space as a result of higher rental charges at 168.6 per SQFT, 6.4% higher than the market average at Kshs 168.6 per SQFT

Westlands

- Westlands dropped to third place in 2019 from the best-performing in 2018 attributed to a 3.0% decline in yields driven by a 7.1% and 3.6% decline in rents and occupancy rates to Kshs 203 per SQFT and 84.6%, respectively, in 2019 from Kshs 219.2 per SQFT and 88.2% in 2018, respectively. This was attributed to reduction of rental rates by property managers in a bid to attract tenants

Karen

- Karen recorded an average rental yield of 9.1% in 2019, which was a 1.9% points decrease from the 11.0% recorded in 2018, while occupancy rates in the node averaged at 77.0%, a 11.8% points decline from the 88.8% recorded in 2018. The softened performance is attributable to new entrants into the retail market such as the Waterfront and the Well

Eastlands

- Nairobi Eastland's recorded a 0.7% increase in rental yields driven by a 9.7% increase in occupancy rates to 74.5% in 2019 from 64.8% in 2017 attributable to the lower rental rates at Kshs 145.0, 16.6% lower than the market average at Kshs 168.6

Performance by Nodes

Thika Road retail sector declined by 0.8% points to record 7.5% in 2019 from 8.3% in 2018.

Thika Road

- In 2018, Thika Road retail sector declined by 0.8% points to record 7.5% in 2019 from 8.3% in 2018. The decline in performance was driven by 6.7% decline in rental charges to Kshs 165 in 2019 from Kshs 177 per SQFT in 2018. The rental rates remain lower than the market average, recording Kshs 165 per SQFT, 1.9% lower than the market average at Kshs 168.6. This is attributed to an oversupply of retail space in the area

Kiambu Road

- Kiambu Road area performance softened slightly with rental yields declining by 1.4% to 6.8% in 2019 from 8.1% in 2018 driven by a decline in rental rates and occupancy rates by 9.2% and 7.8%, respectively. The decline in performance is attributed to reduced tenancies as a result of the high number of retail spaces in the area. Kiambu Road Area has the largest market share of retail space accounting for about 1.4 mn SQFT. Some of the largest retail malls in the area include Two Rivers Mall and Ciata City Mall

Mombasa Road

- Mombasa Road retail performance declined by 1.6% to 6.3% in 2019 from 7.9% in 2018 driven by a 8.3% and 8.4% decline in rents and occupancy rates, respectively. The decline in performance in mostly attributable to the high supply of retail space accounting for about 1.2 mn SQFT and frequent traffic snarl-ups in the area discouraging footfall

Satellite Towns

- Satellite towns retail performance softened slightly with rental yields declining by 0.7% to 6.0% in 2019 from 6.7% in 2018. This decline was mainly driven by 7.5% and 3.3% decline in rents and occupancy rates, respectively.

D. Performance by Regions

Performance by Regions

Mt. Kenya and Nairobi were the best performing regions, with average yields of 8.6% and 8.0%, respectively

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%)**

- 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 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
- Mt. Kenya was the best performing region, with average yields of 8.6% and rental rates of Kshs 129.8 per SQFT. The region accounts for 7.7% retail market share and its performance was mainly as a result of low supply of malls in the region
- 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

E. Performance by Class – Nairobi Metropolitan Area

Retail Mall Classification

Shopping Malls are usually classified according to occupancy, brands, tenants, achievements and awards, facilities, building materials, sizes and trade area size

- A retail mall refers to a commercial establishment that is planned, developed, owned and managed as a single property, typically with on-site parking provided
- A typical mall has 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

Retail Mall Classification

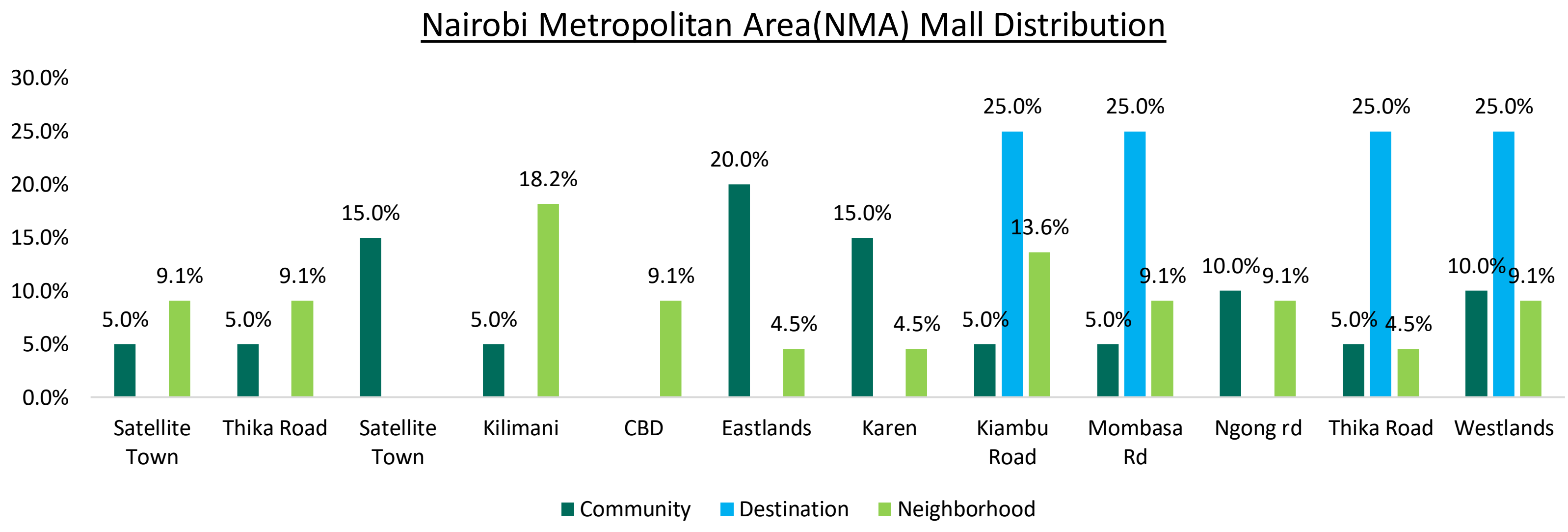
Based on our research finding destination malls composed the least number at four while neighbourhood and community malls recorded 47 and 40, respectively

- Based on our research finding destination malls composed the least number at four while neighbourhood and community malls recorded 47 and 40, respectively

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	
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	Southfield mall	Signature Mall		
	Khetia Hse				
Sky Mall	Ananas	Waterfront Mall			
Eldo Centre	The Well				

Performance by Class – Nairobi Metropolitan Area

Destination malls were the least in number with Kiambu Road, Mombasa Road, Thika Road and Westlands sharing an equal market share



- Within the Nairobi Metropolitan Area (NMA), neighborhood malls comprised the majority of the malls at 22 with Kilimani recording the largest market share at 8.7% and Eastlands recording the lowest at 2.7%
- Destination malls were the least in number with Kiambu Road, Mombasa Road, Thika Road and Westlands sharing an equal market share
- Eastlands composed of the highest market share of community malls at 25%, followed closely by Karen and Satellite towns recording 15% each

Performance by Class – Nairobi Metropolitan Area

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

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 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
- 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

Performance by Node and Class – Nairobi Metropolitan Area

Kiambu & Limuru road offers the highest yields for Community malls at 11.6% attributed to the presence high quality malls such as Village Market, serving the high end regions of Runda and Rossylyn

	Neighbourhood Malls		Community Malls		Destination Malls	
	Occupancy	Yield	Occupancy	Yield	Occupancy	Yield
Karen	75.0%	9.9%	80.3%	8.6%		
Westlands	92.5%	10.7%	69.0%	9.8%	99.0%	14.1%
Ngong Road	70.0%	8.3%	87.5%	9.5%		
Thika road	71.5%	7.5%	70.3%	6.9%	87.0%	9.1%
Kilimani	85.3%	10.4%	90.0%	9.0%		
Eastlands	66.0%	6.8%	78.8%	7.9%		
Mombasa road	60.0%	6.5%	69.3%	6.8%	52.0%	4.6%
Satellite Towns	83.3%	7.0%	57.3%	5.1%		
Kiambu Road	50.5%	4.8%	88.0%	11.6%	80.0%	9.8%

- Westlands offers the best returns for Destination malls at 12.2%, with average occupancy rates of 99.0%. It also offers attractive returns for community malls with rental yields and occupancy rates of 9.8% and 69.0%, respectively, as the area serves upper middle end population in neighbourhoods such as Riverside, Parklands and Westlands and has relatively low competition from small scale retailers
- Kiambu & Limuru road offers the highest yields for Community malls at 11.6% attributed to the presence high quality malls such as Village Market, serving the high end regions of Runda and Rossylyn
- Westlands and Kilimani on the other hand offer the best returns for neighbourhood malls, recording an average rental yields of 10.7% and 10.4%, respectively

Performance by Node & Class – Key Urban Centres

The destination malls record high occupancy rates due to presence of international retailers, attracting clientele and high footfall

Region	Neighbourhood		Community		Destination	
	Occupancy	Yield	Occupancy	Yield	Occupancy	Yield
Nairobi	73.5%	7.9%	76.1%	8.1%	79.8%	9.4%
Kisumu	86.7%	5.4%	65.0%	5.8%		
Mt Kenya	67.5%	7.0%	95.0%	11.0%		
Mombasa	77.5%	7.4%	71.3%	7.3%		
Nakuru	72.5%	3.8%	82.5%	5.2%		
Eldoret	95.3%	7.2%	72.5%	10.7%		

- Destination malls are only located within Nairobi, offering the highest yields of 9.4% at an occupancy rates of 79.8%. The destination malls record high occupancy rates due to presence of international retailers, attracting clientele and high footfall
- Community malls in Mt. Kenya offer the highest rental yields of 11.0% at an occupancy rates of 95.0%, attributable to the low supply of retail space and an increasing middle-income population in the region
- Neighbourhood malls in Nairobi regions have the highest yields at 7.9%, and average occupancy rates of 73.5%, as consumers move towards convenience shopping at residential neighbourhood malls

F. Retail Market Opportunity

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Retail Space Opportunity – Methodology

To determine the retail space demand per region we looked at Net Space Uptake per person in SQM, shopping population, and current retail market occupancy rates

- 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:
  i. **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
  ii. **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
  iii. **Supply** is calculated by summing up the completed retail stock and the retail space under construction or in deal pipeline
  iv. **Gap** (over/undersupply) in the market, the supply is subtracted from the net uptake
- If its is a positive figure then the market has an under supply that is demand is more than supply and if it is a negative figure then the market has an oversupply that is supply is more than demand

Retail Space Opportunity – Demand Analysis

Based on our demand analysis, Nairobi, Uasin Gishu and Kisumu are the most oversupplied areas by 2.8 mn, 0.2 mn and 0.2 mn, respectively

Demand Analysis - Local Space Uptake										
Assumptions										
No of persons per Household (2009 Census)										3.6
% of Shopping Population (14 years and above)										58%
No of Shopping Persons per household										2.1
Net Space Uptake per pax in SQM (Based on Uptake per pax in Kilimani)										2.5
Region	**2019**	**Urban Population**	**Urban population 2019**	**Shopping People**	**Net Space Uptake per pax in SQM (Based on Uptake per pax in Kilimani)**	**Occupancy (2 year Average)**	**Gross Space Uptake per Pax (Required Space Kilimani)**	**Net Uptake (Space Required) for each market**	**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)**

- Based on our demand analysis, Nairobi, Uasin Gishu and Kisumu are the most oversupplied areas by 2.8 mn, 0.2 mn and 0.2 mn, respectively

Retail Space Opportunity - Kenya

To find the investment opportunity for real estate retail development in Kenya, we used three key factors, 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

- To find the investment opportunity for real estate retail development in Kenya, we used three key factors, 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

- The points have been allocated based on the performance of a region per each factor. Oversupplied regions are allocated 0 points. The higher the ranking the higher the points allocated as shown below

Region	Rental Yield 2019		Required Retail Space		Household Expenditure (per adult)	
Weight	30%	Rank	30%	Rank	40%	Rank
Uasin Gishu	7.9%	7	(231,870)	2	3,700	1
Kajiado	7.7%	6	192,275	7	3,800	2
Kiambu	5.3%	3	777,871	9	5,100	7
Kisumu	5.6%	4	(169,963)	3	4,400	6
Machakos	5.0%	2	153,503	5	3,900	3
Mombasa	7.3%	5	245,035	8	5,800	8
Mt Kenya	8.6%	9	176,466	6	4,333	5
Nairobi	8.4%	8	(2,752,436)	1	7,200	9
Nakuru	4.5%	1	(82,375)	4	4,000	4

Retail Market Opportunity

Based on our analysis, 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

Region/Weight	Retail Yield Score 30%	Retail Space Score 30%	Household expenditure (per adult) score 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

- Based on our analysis, 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

G. Retail Market Investment Opportunity

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Retail Sector Outlook

The retail sector performance in the Nairobi Metropolitan Area declined by 5.4% and 4.7%, respectively to record rental yields of 8.0% and occupancy rates of 75.1%, respectively

Kenya Retail Sector Outlook				
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, a having grown from 2.0mn SQFT in 2010 at 8-yr CAGR of 15.9%. Expected to grow with a 2-year CAGR of 9.5% to 7.8mn square feet of retail space by 2020	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**	**Negative**
Retail Market Performance	The retail sector recorded an 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 in the Nairobi Metropolitan Area 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 region with average rental of 8.6% and 8.0%, respectively. Kisumu’s performance dropped significantly indicating due to increased mall supply in the counties	**Positive**	**Neutral**

Retail Sector 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

Kenya Retail Sector Outlook				
Measure	**Sentiment 2018**	**Sentiment 2019**	**2019 Outlook**	**2019 Outlook**
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**			

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Thank You!

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rdo@cytonn.com