Nairobi Metropolitan Area Land Report 2018

"The Resilient Investment Option"

April 2018

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Cytonn REAL ESTATE

I. Introduction to Cytonn Investments

What We Stand For

Our Mission

We deliver innovative & differentiated financial solutions that speak to our clients' needs

Our Vision

To be Africa's leading investment manager by consistently exceeding clients' expectations

Our Values

People
Passionate and self-driven people who thrive in a team context

Excellence
Delivering the best at all times

Client Focus
Putting clients' interest first at all times

Entrepreneurship
Using innovation and creativity to deliver differentiated financial solutions

Accountability
We take both corporate and personal responsibility for our actions

Integrity
Doing the right things

Strategy is straightforward – just pick a general direction and implement like hell

— Jack Welch

About Us

Cytonn Investments is an alternative investment manager with presence in East Africa, Finland and the US. We provide investors with exposure to the high growth East Africa region. Our investors include global and local institutional investors, individual high net-worth investors and the diaspora. We also service retail investors through our Cytonn Co-operative

82	Over Kshs. 82 billion worth of projects under mandate	**7**	Seven offices across 2 continents	**500**	Over 500 staff members	**10**	10 investment ready projects

A unique franchise differentiated by:

Independence & Investor Focus

Focused on serving the interest of clients, which is best done on an independent platform to minimize conflicts of interest

Alternative Investments

Specialized focus on alternative assets - Real Estate, Private Equity, and Structured Solutions

Strong Alignment

Every staff member is an owner in the firm. When clients do well, the firm does well; and when the firm does well, staff do well

Committed Partners

Strong global and local partnerships in financing, land and development affiliate

Cytonn INVESTMENTS

Why We Exist

Africa presents an attractive investment opportunity for investors seeking attractive and long-term returns. Despite the alternative markets in Africa having high and stable returns, only a few institutional players serve the market. Cytonn is focused on delivering higher returns in the alternative markets, while providing the best client service and always protecting our clients' interests.

WE SERVE FOUR MAIN CLIENTS SEGMENTS:

- Retail segment through Cytonn Co-operative membership
- High Net-worth Individuals through Cytonn Private Wealth
- East Africans in the Diaspora through Cytonn Diaspora
- Global and Local Institutional clients

WE INVEST OUR CLIENT FUNDS IN:

- Real Estate
- Private Equity
- Fixed Income Structured Solutions
- Equities Structured Solutions

Our Business

Where We Operate

Our Business Lines

Investments

Alternative investment manager focused on private equity and real estate

Real Estate

We develop institutional grade real estate projects for investors

Diaspora

We connect East Africans in the diaspora to attractive investment opportunities in the region

Technology

We deliver world-class financial technology solutions

Co-operative

Provides access to attractive alternative investment opportunities for members

Our Solutions

To unearth the attractive opportunity that exists in alternative markets in Africa, we offer differentiated investment solutions in four main areas:

HIGH YIELD SOLUTIONS

Our expertise in the alternative markets enables us to offer investors high yielding investments. Our robust credit analysis coupled with our quick dealing capabilities, our extensive research coverage and our innovative structuring helps to ensure consistent and above market returns to investors.

REAL ESTATE INVESTMENT SOLUTIONS

Our comprehensive real estate capabilities enable us to find, evaluate, structure and deliver world-class real estate investment products to our investors in the East African region. Our capabilities include fundraising, market research and acquisition, concept design, project management and agency and facility management.

PRIVATE REGULAR INVESTMENT SOLUTIONS

Attractive returns in the alternative segments have typically been accessible to institutional and high net-worth investors. Our regular investment solutions provide access to the alternative investments to members of the Cytonn Co-operative.

PRIVATE EQUITY

We seek to unearth value by identifying potential companies and growing them through capital provision, partnering with management to drive strategy and institutionalizing their processes. Our areas of focus are Financial Services, Education, Hospitality and Technology Sectors.

Our Products

We serve three main types of clients namely, high net-worth individuals, institutions and retail, each with diverse needs. Below are the suitability criteria for the various products.

	INSTITUTIONAL CLIENTS	HIGH NET WORTH INDIVIDUALS (HNWI)	RETAIL CLIENTS
Cash Management Solutions	●	●	
Regular Investment Plan • Education Investment Plan • Regular Investment Solution • Co-op Premier Investment Plan • Land Investment Plan	●	●	●
Real Estate Development • Real Estate Developments • Sharpland	●	●	●

Our People

> If you could get all the people in an organization rowing the same direction, you could dominate any industry, in any market, against any competition, at any time.
>
> **— Patrick Lencioni**

We are focused on one agenda:

THE CLIENT

Board of Directors

To ensure that we remain focused on the clients' interests, we have put in place proper governance structures. We have a board of directors consisting of 11 members from diverse backgrounds, each bringing in unique skill-sets to the firm.

Board of Directors, Continued…

Governance Committees

We have four main board committees to ensure all of Cytonn's functions are done in a fair and transparent manner:

Investments and Strategy Committee

The committee oversees and provides strategic investment direction, including the implementation and monitoring process. The members are:-

- James Maina (Chair)
- Antti-Jussi Ahveninen, MSc
- Madhav Bhalla, LLB
- Edwin H. Dande, MBA
- Elizabeth Nkukuu, CFA

Audit, Risk and Compliance Committee

The committee establishes and oversees risk and compliance, including the implementation and monitoring process. The members are:-

- Madhav Bhalla, LLB (Chair)
- Nasser Olwero, Mphil
- Madhav Bhandari, MBA
- Patricia N. Wanjama, CPS

Governance, Human Resources and Compensation Committee

The committee establishes, oversees and implements governance structure, human resource policies and firm wide compensations. The members are:-

- Antti-Jussi Ahveninen, MSc (Chair)
- Prof. Daniel Mugendi Njiru, PhD
- Michael Bristow, MSc (Chair)
- Rose Kimotho, M.B.S
- Edwin H. Dande, MBA

Technology and Innovation Committee

The committee establishes, oversees and implements technical expertise and innovative processes as a driver towards competitiveness. The members are:-

- Nasser Olwero, Mphil (Chair)
- Michael Bristow, MSc
- Rose Kimotho, M.B.S
- Patricia N. Wanjama, CPS

Cytonn INVESTMENTS

II. Overview of Real Estate in Kenya

Introduction to Real Estate in Kenya

Real estate sector expected to continue growing on the back of improved macroeconomic conditions, sustainable high returns, and a changing operational landscape as developers strive to satisfy the huge housing deficit

Macro-Economic Contribution

- In 2017, real estate contributed 8.5% of the GDP, a 0.1% points increase from the 8.4% in 2016 according to the KNBS Economic survey 2018 attributable to tough economic environment in 2017
- A relatively stable political environment, as well as favourable macroeconomic conditions leading to sustained GDP Growth and a stable exchange rate have led to positive development in the sector

High Returns

- Real estate has consistently out performed other asset classes in the last 5 years, generating returns of on average 24.3% p.a, compared to an average of 13.2% p.a. in the traditional asset classes
- Land prices have grown with a 6 year CAGR of 17.4%, with commercial real estate recording an average rental yield of 6.9% in 2017 that is 9.6% in retail, 9.2% in commercial office and 5.2% in residential

Recent Developments

- The real estate sector has witnessed the entry of institutional as well as international players. For instance, in Q1 2018, UK based Mace acquired YMR and Turner and Townsend acquired a majority stake in MML Kenya
- Government initiatives such as: the digitization of the land ministry, the scrapping off of the land search fees and inclusion of affordable housing as part of the Big Four Pillars of focus for the next 5-years are likely to boost real estate development

Market Outlook

- We expect continued growth of the sector boosted by improved macroeconomic conditions, sustainable high returns, and a changing operational landscape as developers strive to address the huge housing deficit
- Key challenges include: high land and infrastructure development costs, high finance costs and inadequate sources of funding

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Introduction to Real Estate in Kenya – RE Contribution to GDP

Real Estate and construction sectors contribution to GDP has been on a rising trend from 10.5% in 2000 to 12.6% in 2010 to 14.1% as at 2017





	2000	2010	2017
Agriculture	31.3%	23.7%	31.5%
Manufacturing	17.0%	11.5%	8.4%
Wholesale & Retail Trade	16.5%	7.1%	7.6%
Hospitality & Tourism	16.5%	1.7%	1.2%
Real Estate & Construction	10.5%	12.6%	14.1%

Source: KNBS

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III. Land Price Report

Executive Summary

The land sector recorded positive growth rates in most areas in Nairobi Metropolitan Area, growing with an annual capital appreciation of 3.7% in 2017

- We conducted research on land prices in suburbs and Satellite Towns in the Nairobi Metropolitan Area to inform on the performance of the land sector in 2017
- In the report we cover the factors driving the land market in Kenya, the challenges constraining performance of the sector, factors likely to shape the sector, performance and an conclude by giving an outlook for the sector in 2018. The land price used for the purpose of this report are asking prices. Note that, **asking price can be up to 30% above transaction prices**
- The sector performance is driven by fundamentals such as: i) positive demographic trends such as population growth rates of 2.6% p.a, higher than global averages of 1.2% and a rising middle class with increasing purchasing power, ii) improved infrastructure such as roads, water and sewer and power connection, iii) inadequate supply of development class land at affordable prices, and, iv) a robust real estate development sector,
- However, the sector is constrained by a few challenges ranging from the high land costs, inadequate infrastructural development, inadequate land administration capabilities and titling issues that slows down land transfers
- In terms of performance, the land prices recorded positive growth rates in most areas in Nairobi Metropolitan Area, recording an annual appreciation of 3.7% in 2017. High rise residential areas recorded the highest capital appreciation rates, growing by 4.8% y/y. The growth was supported by high returns per unit of land value as the areas allow for densification, and increased demand for housing from the growing middle-income population. Site and service schemes had the lowest appreciation rates with the asking prices growing by 2.7% y/y, lower than the 3.0% recorded for Unserviced land in the same localities attributable to buyers not willing to pay a premium for the services provided, rather opting for unserviced land and servicing it on their own
- **The opportunity in the sector is in markets with high returns such as Karen, Kilimani, Ridgeways, Juja and Kasarani which recorded annual capital appreciation rates of more than 5.0% in 2017, and are thus the most attractive areas both for land and real estate development**
- We expect increased investments in the sector driven by infrastructural development with the government expenditure on infrastructure expected to increase by 38.1% in 2018 from 2017, the conclusion of the electioneering period and relaxation of zoning regulations in some markets such as Spring Valley thus making them more attractive for real estate development

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Nairobi Metropolitan Area Land Report – "*The Resilient Investment Option…*"

Positive outlook for the land sector with an annual capital appreciation of 3.7% y/y from 2016 to 2017

Value Area	Summary	Effect on Land price
Land Price & Zoning	• In areas zoned for commercial or high rise buildings, land transacts at higher prices than satellite towns due to decreased supply of development class land and higher plot ratios hence high returns per	• Increased demand for land in Satellite Towns, since they are affordable hence people are willing to forego the opportunity cost of inadequate trunk infrastructure
Returns	• The Nairobi Metropolitan Area, recorded an annual appreciation of 3.7% y/y from 2016 • High rise residential areas recorded the highest capital appreciation rates, growing by 4.8% y/y whilst site and service schemes had the lowest appreciation rates with the asking prices growing by 2.7% y/y	• Increased real estate developments in high rise residential areas, driven by high returns per unit of land value as the areas allow for densification, and increased demand for housing from the growing middle-income population
Opportunity & Outlook	• We expect increased investments in the sector driven by infrastructural development, conclusion of the electioneering period and relaxation of zoning regulations in some markets	• We expect to witness increased investment in markets with high returns such as Karen, Kilimani, Ridgeways, Juja and Kasarani which recorded annual capital appreciation rates of more than 5.0% in 2017

We expect to witness increased investment in markets with high returns such as Karen, Kilimani, Ridgeways, Juja and Kasarani which recorded annual capital appreciation rates of more than 5.0% in 2017

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a) Key Factors Affecting Land Prices

Key Factors **Driving** Land Sector in Nairobi

Positive demographic trends, legal reforms and infrastructure are some of the factors driving the land sector in Kenya

Factor	Characteristics
Positive Demographics	• Kenya has a relatively high population growth rate of 2.6%, 1.4% points higher than global averages of 1.2%, a rapid urbanization rate of 4.4% against a global average of 2.1% and a rising middle class with increasing purchasing power that creates sustained demand for development class land as well as housing units
Improved Infrastructure	• Infrastructural developments such as sewer lines, road network as well as power grids have opened up new areas for development. For instance, the Outer Ring Road and Ngong Roads in 2017 opening up areas around Donholm and Ruaraka and easing traffic congestion in Kilimani, respectively, facilitating increased real estate development activity around the areas
Legal Incentives	• As seen through several government initiatives such as the scrapping of land search fees and the digitization of the land ministry leading to efficient land transactions
Land Supply	• Inadequate supply of development class land at affordable prices in areas close to the Nairobi CBD. For instance, high prices in areas such as Kileleshwa, Riverside and Kilimani with land prices of between Kshs 306 – 387 mn per acre that translates to Kshs 76,500 – Kshs 96,750 per SQM. This has led to interest in satellite towns as an alternative

Challenges Facing Land Sector in Nairobi

Inadequate trunk infrastructure and poor real estate performance are some of the factors that constrain the performance of the land sector in Kenya 2017

Factor	Characteristics
Legal Environment	• Long procedures in title deed issuance, cases of double titling and land that is not titled limits the transfer of land and hence development on the land
Poor Real Estate Performance	• In 2017, the real estate sector performance slowed down as a result of the extended electioneering period and thus reduced demand for land
Inadequate Infrastructural Development	• As seen through the shortage of trunk infrastructure such as: (electricity, water drainage, sewer and roads) and amenities especially in Satellite Towns, that limits maximum land use

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Factors Likely to **Shape** the Land Sector in Nairobi

Government land banking initiative, digitization of land ministry, and the relaxation of zoning regulations of some suburbs such as Spring Valley, are the key factors that will shape the land sector in Nairobi in 2018

Factor	Characteristics
Government Land Banking	• The government will create a land bank serving both foreign and local investors as an incentive to help on delivery of affordable housing initiative • The land bank will consist of excessive land holdings by government corporations, some of the institutions include the International Livestock Research Institute, Public Universities, Ministry of Agriculture and Livestock and the Kenya Prisons • If successful, the initiative may result in lower land price appreciations in the areas where the banks will be created
Digitization of the Land Ministry	• If fully rolled out, and approved, the digitization of the lands ministry will lead to elimination of manual systems and thus promote efficiency in the Ministry of Lands leading to cost cutting especially during the conveyancing process
Relaxation of Zoning Regulations	• The relaxation of zoning regulations in areas such as Kyuna, Loresho and Spring Valley, will lead to an increase in demand for land in these areas due to higher returns per unit of land value as the areas will allow for densification hence maximization on land use

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IV. Land Performance in Nairobi Metropolitan Area

A. Capital Appreciation

Capital Appreciation: Overall Classification of Annual Price Appreciation

Land prices in Nairobi Metropolitan area recorded an annual appreciation of 3.7% in 2017

All values in Kshs Unless Stated Otherwise

Summary of the Performance Across All Regions						
Location	***Price in 2011**	***Price in 2015**	***Price in 2016**	***Price in 2017**	**6-year CAGR**	**Annual Capital Appreciation**
Nairobi Suburbs - High rise residential Areas	49mn	85mn	102mn	108mn	14.7%	4.8%
Nairobi Suburbs - Low Rise Residential Areas	39mn	72mn	84mn	87mn	14.4%	4.5%
Nairobi Suburbs - Commercial Areas	156mn	377mn	458mn	473mn	20.5%	3.4%
Satellite Towns - Unserviced Land	9mn	16mn	20mn	20mn	17.4%	3.0%
Satellite Towns - Site and service schemes	6mn	13mn	14mn	14mn	18.2%	2.7%
Average					**17.0%**	**3.7%**

* ***Asking price per acre***

- The Nairobi Metropolitan Area recorded an average capital appreciation of 3.7% in 2017, down from a 6 year CAGR of 17.0%, attributable to the tough operating environment in 2017 characterized by low credit supply, political uncertainty making investors adopt a wait and see attitude, and slowdown in real estate development activities and hence reduced demand for land
- High rise residential areas recorded the highest annual capital appreciation rates in 2017 of 4.8% attributable to the high returns in these areas given that they allow for densification and increased demand for housing from the growing middle-income population
- Commercial zones such as Westlands and Kilimani recorded annual appreciation rates of 3.4% y/y, down from a 6-year CAGR of 20.4%. The slowdown in growth is attributed to the increase in supply of commercial developments with offices having an oversupply of 4.7mn SQFT in 2017, and therefore a decline in demand for land for commercial developments

- Site and service schemes in Satellite Towns had the lowest appreciation rates of on average 2.7%, against a market average of 3.7%, and the 3.0% annual appreciation recorded in Unserviced land in the same localities. This implies that buyers are not willing to pay a premium for the services provided, rather opting for Unserviced land, which is 36.0% cheaper, and provide the services for themselves

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Capital Appreciation: High Rise Residential Areas

High rise residential areas recorded a capital appreciation of 4.8% in 2017 this we attribute to the high returns in the areas, given that the areas allow densification

All values in Kshs Unless Stated Otherwise

Location	*Price in 2011	*Price in 2015	*Price in 2016	*Price in 2017	6-year CAGR	Capital Appreciation 2017
Kahawa	33mn	51mn	60mn	65mn	12.0%	8.3%
Kileleshwa	149mn	227mn	286mn	306mn	12.7%	6.8%
Kasarani	32mn	51mn	60mn	64mn	12.0%	6.1%
Dagoretti	28mn	81mn	95mn	99mn	23.6%	4.0%
Githurai	21mn	37mn	45mn	46mn	14.2%	2.2%
Embakasi	33mn	61mn	69mn	70mn	13.6%	1.7%
Average				108mn	14.7%	4.8%

***Asking price per acre**

- High rise residential areas recorded a capital appreciation of 4.8% in 2017, the highest in the market, this is attributable to the high returns in the areas, given that the areas allow densification
- Kahawa recorded the highest capital appreciation at 8.3%, attributed to increased demand for land in the area from developers looking to cater for the mid income and student population housing
- Embakasi recorded the lowest appreciation rates of 1.7%, attributable to congestion on trunk infrastructure relative population making it unattractive for settlement, and thus development, and reduced development activity and therefore demand for land

Capital Appreciation: Low Rise Residential Areas

Low rise residential areas recorded an average price appreciation of 4.5%, which is 0.3% points lower than that of high rise residential areas

All values in Kshs Unless Stated Otherwise

Location	*Price in 2011	*Price in 2015	*Price in 2016	*Price in 2017	6-year CAGR	Capital Appreciation 2017
Karen	25mn	40mn	46mn	52mn	12.9%	12.2%
Ridgeways	24mn	51mn	62mn	68mn	19.0%	9.2%
Spring Valley	64mn	131mn	147mn	154mn	15.7%	4.7%
Runda	33mn	58mn	67mn	68mn	12.6%	1.2%
Kitisuru	32mn	59mn	70mn	70mn	13.9%	0.2%
Nyari	54mn	93mn	109mn	109mn	12.2%	(0.1) %
Average				87mn	14.4%	4.5%

***Asking price per acre**

- Low rise residential areas recorded an average price appreciation of 4.5%, which is 0.3% points lower than that of high rise residential areas, but higher than the 3.4% recorded in commercial zones
- This is attributable to increased developments in these areas targeting the high end income earners seeking a sense of privacy and exclusivity and willing to pay a premium for the same

- Karen recorded the highest appreciation rates of 12.2% against a submarket average of 4.5% attributed to its affordability as compared to other low rise residential nodes, with an average price per acre of land in Karen being Kshs 52mn against a market average of Kshs 87mn for the low rise residential nodes
- In Nyari, the prices reduced by 0.1% attributed to the high land and house prices, with an acre of land in Nyari being Kshs 109mn against a market average of Kshs 87mn hence less affordable as compared to the other low rise residential nodes

- Given the high land prices in these nodes with the exception of Karen, for these regions to experience significant increase in prices, the zoning regulations need to be relaxed to allow for densification and thus more value can be derived per unit of land

Capital Appreciation: Commercial Zones

Commercial zones recorded an annual capital appreciation of 3.4% in 2017, lower than both the high rise and low rise residential zones which recorded annual increments of 4.8% and 4.5%, respectively

All values in Kshs Unless Stated Otherwise

Location	*Price in 2011	*Price in 2015	*Price in 2016	*Price in 2017	6-year CAGR	Capital Appreciation 2017
Kilimani	114mn	294mn	360mn	387mn	22.5%	7.5%
CBD	200mn	450mn	600mn	634mn	21.2%	5.7%
Westlands	150mn	350mn	453mn	474mn	21.1%	4.6%
Upper Hill	200mn	450mn	512mn	510mn	16.9%	(0.5)%
Riverside	116mn	343mn	362mn	361mn	20.8%	(0.5)%
Average				473mn	20.5%	3.4%

***Asking price per acre**

- Commercial zones recorded an annual capital appreciation of 3.4% in 2017, lower than both the high rise and low rise residential zones which recorded annual increments of 4.8% and 4.5%, respectively. We attribute this to decreased demand for commercial property given the existing oversupply of 4.7mn SQFT of office space
- Kilimani had the highest annual appreciation rate among the commercial nodes of 7.5%,attributable to its relatively low price compared to the other office nodes of on average Kshs 387mn per acre against a market average of Kshs 473mn for the nodes
- Riverside recorded a slight decline in prices of 0.5% with Prices in Upper hill correcting, hence recording a 0.5% decline in prices as a result of increased land prices over the last 5 years, whereby the area recorded an annual growth of 20.8%, an oversupply of office space in the node as well as traffic congestion into and out of the area that has led to many developers focusing on Kilimani, an upcoming office node with lower supply

Capital Appreciation: Satellite Towns Unserviced Land

Land in Satellite Towns recorded an annual price appreciation of 3.0% in 2017, lower than land in the suburbs which had an average annual price appreciation of 4.3%

All values in Kshs unless stated otherwise

Location	*Price in 2011	*Price in 2015	*Price in 2016	*Price in 2017	6-year CAGR	Capital Appreciation 2017
Juja	3mn	7mn	8.8mn	9.6mn	20.0%	8.7%
Athi River	2mn	3mn	3.8mn	4.1mn	12.5%	5.6%
Ruaka	40mn	58mn	74mn	77mn	11.6%	4.3%
Ruiru	7mn	15mn	19.3mn	19.7mn	20.0%	2.2%
Ngong	7mn	12mn	14.1mn	14.4mn	13.5%	2.1%
Limuru	5mn	13mn	16.6mn	16.7mn	20.6%	1.0%
Ongata Rongai	2mn	10mn	9.8mn	9.9mn	29.2%	0.1%
Utawala	6mn	9mn	10.9mn	11.0mn	11.3%	0.0%
Average				20.3mn	17.4%	3.0%

***Asking price per acre**

- Land in Satellite Towns recorded an annual price appreciation of 3.0% in 2017, lower than land in the suburbs which had an average annual price appreciation of 4.3%. This is attributable to a decline in speculation activity in 2017, as a result of growth of some towns such as Ruiru and Ruaka, and as a result of the wait and see attitude adopted by investors over the extended electioneering period
- The best performing Satellite Town was Juja which recorded an annual appreciation of 8.7%, attributable to speculation in the area as investors move from Ruiru, whose prices have matured
- The worst performing as Utawala, where prices stagnated as the price growth had in previous years been driven by speculation, speculators have since moved to the new towns along Limuru and Thika Road which are undergoing infrastructural and real estate development

Capital Appreciation: Site and Service Schemes

Site and service schemes recorded an annual appreciation rate of 2.7% over the last year, lower than the 3.0% recorded in unserviced land in the same localities

All values in Kshs unless stated otherwise

Location	*Price in 2011	*Price in 2015	*Price in 2016	*Price in 2017	6-year CAGR	Capital Appreciation 2017
Thika	5mn	7mn	8.4mn	9.2mn	10.4%	9.7%
Ruai	8mn	12mn	12.8mn	13.1mn	8.8%	2.2%
Syokimau-Mlolongo	3mn	12mn	11.9mn	12.1mn	24.8%	1.7%
Ongata Rongai	7mn	16mn	18.8mn	19.1mn	18.2%	1.5%
Ngong	11mn	18mn	19.1mn	19.4mn	10.7%	1.4%
Athi River	2mn	11mn	13.0mn	12.9mn	36.5%	(0.3)%
Average				14mn	18.2%	2.7%

***Asking price per acre**

- Site and service schemes recorded an annual appreciation rate of 2.7% over the last year, lower than the 3.0% recorded in unserviced land in the same localities indicating that the buyers are not willing to pay a premium for servicing
- Thika recorded the highest appreciation rates of on average 9.7% attributable to speculative tendencies brought about by the growth potential of the area and urbanisation pressure due to devolution
- Athi River recorded a decline in prices of 0.3%, attributable to decreased demand in the area as a result of poor trunk infrastructure and availability of relatively cheaper unserviced land
- The provision of trunk infrastructure in the individual plots without commensurate infrastructure in the surrounding area is therefore not attractive to buyers. Therefore, to boost site and service schemes, the government should provide this trunk infrastructure in the areas

Summary and Conclusion

Karen, Kilimani, Ridgeways, Juja and Kasarani are among the best performing sub markets in terms of capital appreciation, recording annual rates of more than 5.0% in 2017

Land Capital Appreciation

Capital Appreciation 2017	Areas
> 5%	Karen, Kahawa, Kileleshwa, Kasarani, Ridgeways, spring valley, Runda, Kilimani, CBD, Juja, Athiriver,
1 -5%	Dagoretti, Githurai , Embakasi, Westlands, Ruaka, Ruiru, Ngong ,Limuru
< 1%	Nyari, Upper Hill, Riverside, Ongata Rongai, Utawala, Kitisuru

Site and Service Schemes Capital Appreciation

Capital Appreciation 2017	Location
6 - 10%	Thika
1- 5%	Ruai, Syokimau-Mlolongo, Ongata Rongai, Ngong
< 1%	Athi River

- Karen, Kilimani, Ridgeways, Juja and Kasarani are among the best performing sub markets in terms of capital appreciation, recording annual rates of more than 5.0% in 2017, and are thus the most attractive areas for both land and real estate development
- Thika offers site and service investors the highest expected returns of on average 9.7% against a market average of 3.7% in 2017
- For the suburbs, Utawala, Ongata Rongai, Upperhill and Nyari are the least attractive recording declines in price appreciations

B. Land Price Ranking

Land Price Ranking

For the purpose of this report we use simple capital appreciation to compute the land price changes

- **Capital appreciation changes** is a tool used to measure the changes in the price of land over a given period of time
- Used to inform on the land sector performance and define a trend of the same to enable one predict the future
- For the purpose of this report we use simple price changes to compute the land price increases
- Method is calculated by dividing the average current price with the average base period price and multiplying by 100 percent

<u>Interpretation</u>

  - If the Result is more than 100/1.0x : This indicates a positive price change from the base year
  - If the Result is equal to 100/1.0x: This indicates price stagnation as from the base year
  - If the Result is less than 100/ 1.0x : This indicates a negative price change from the base year

- We went further to determine the key factors affecting land by use of hedonic regression method; $Pt=c0+\sum Bjyi+\sum cjXi+e$. This method is based on the principal that the property price depends on land characteristics
- The characteristics used are accessibility, location and amenities i.e. availability of sewer lines and the zoning regulations
- The location is used as the hedonic variable, while amenities and zoning regulations are dummy variables
- From our analysis, land in 2017 was impacted by the availability of infrastructure such as roads, electricity and sewer, zoning and availability of amenities

Land Price Ranking – Suburb Areas

Nairobi suburbs records a 2.6x price change as from 2011 to 2017 with commercial zones outperforms at a 3.1x price change

All values in Kshs Unless Stated Otherwise

Location	*Price in 2011	*Price in 2015	*Price in 2016	*Price in 2017	6-year CAGR	Capital Appreciation 2017	Price Change from 2011
Commercial Zones							
Kilimani	114mn	294mn	360mn	387mn	22.5%	7.5%	3.4 x
CBD	200mn	450mn	600mn	634mn	21.2%	5.7%	3.2 x
Westlands	150mn	350mn	453mn	474mn	21.1%	4.6%	3.2 x
Riverside	116mn	343mn	362mn	361mn	20.8%	(0.5) %	3.1 x
Upper Hill	200mn	450mn	512mn	510mn	16.9%	(0.5) %	2.6 x
Average	156mn	377mn	458mn	473mn	20.5%	3.4%	3.1 x
High Rise Residential Area							
Dagoretti	28mn	81mn	95mn	99mn	23.6%	4.0%	3.6 x
Githurai	21mn	37mn	45mn	46mn	14.2%	2.2%	2.2 x
Embakasi	33mn	61mn	69mn	70mn	13.6%	1.7%	2.2 x
Kileleshwa	149mn	227mn	286mn	306mn	12.7%	6.8%	2.1 x
Kasarani	32mn	51mn	60mn	64mn	12.0%	6.1%	2.0 x
Kahawa	33mn	51mn	60mn	65mn	12.0%	8.3%	2.0 x
Average	49mn	85mn	102mn	108mn	14.7%	4.8%	2.3 x
Low Rise Residential Area							
Ridgeways	24mn	51mn	62mn	68mn	19.0%	9.2%	2.8 x
Spring Valley	64mn	131mn	147mn	154mn	15.7%	4.7%	2.4 x
Kitisuru	32mn	59mn	70mn	70mn	13.9%	0.2%	2.2 x
Karen	25mn	40mn	46mn	52mn	12.9%	12.2%	2.1 x
Runda	33mn	58mn	67mn	68mn	12.6%	1.2%	2.0 x
Nyari	54mn	93mn	109mn	109mn	12.2%	(0.1)%	2.0 x
Average	39mn	72mn	84mn	87mn	14.4%	4.5%	2.3 x
Total Average							2.6 x

***Asking price per acre**

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Land Price Ranking – Satellite Towns

Nairobi Satellite Towns records a 2.9x price change as from 2011 to 2017 with site and service schemes recording the highest price change at 3.0x

All values in Kshs Unless Stated Otherwise

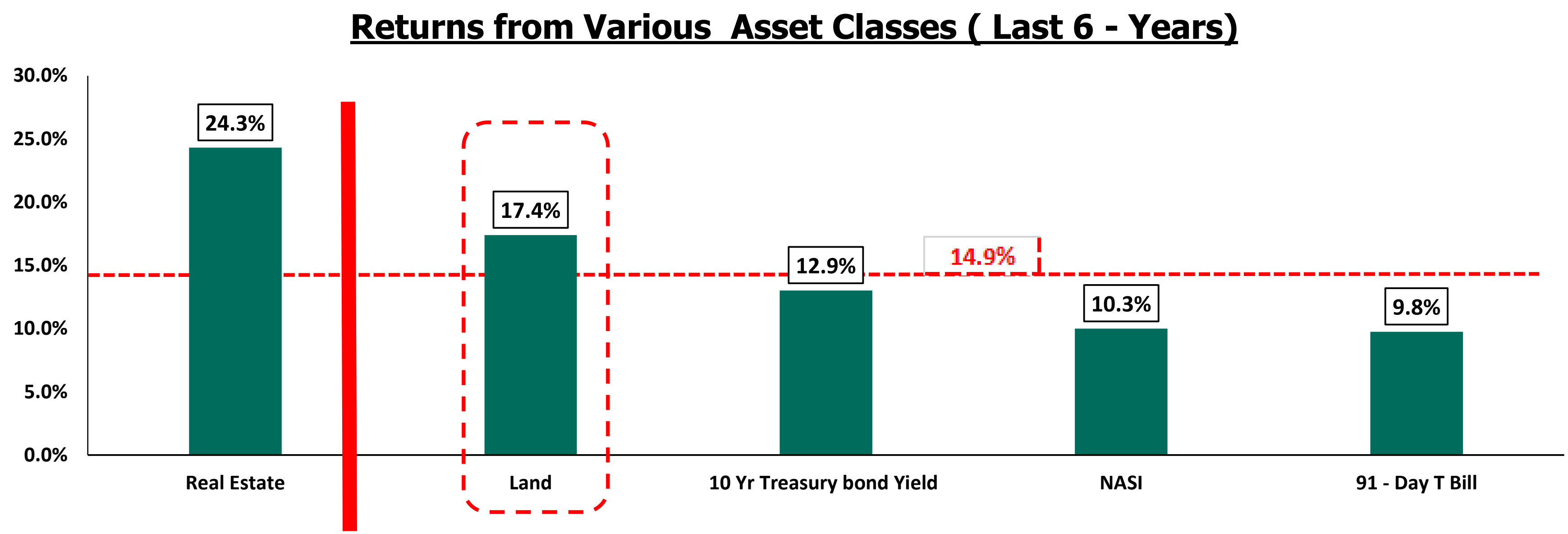
Location	*Price in 2011	*Price in 2015	*Price in 2016	*Price in 2017	6-year CAGR	Capital Appreciation 2017	Price Change from 2011
Satellite Towns							
Ongata Rongai	2m	10m	9.8m	9.9m	29.2%	0.1%	4.7 x
Limuru	5m	13m	16.6m	16.7m	20.6%	1.0%	3.1 x
Juja	3m	7m	8.8m	9.6m	20.0%	8.7%	3.0 x
Ruiru	7m	15m	19.3m	19.7m	20.0%	2.2%	3.0 x
Ngong	7m	12m	14.1m	14.4m	13.5%	2.1%	2.1 x
Athi River	2m	3m	3.8m	4.1m	12.5%	5.6%	2.0 x
Ruaka	40m	58m	74m	77m	11.6%	4.3%	1.9 x
Utawala	6m	9m	10.9m	11.0m	11.3%	0.0%	1.9 x
Average	9m	16m	19.7m	20.3m	17.4%	3.0%	2.7 x
Site and Service Schemes							
Athi River	2m	11m	13.0m	12.9m	36.5%	(0.3)%	6.5 x
Syokimau-Mlolongo	3m	12m	11.9m	12.1m	24.8%	1.7%	3.8 x
Ongata Rongai	7m	16m	18.8m	19.1m	18.2%	1.5%	2.7 x
Thika	5m	7m	8.4m	9.2m	10.4%	9.7%	1.8 x
Ngong	11m	18m	19.1m	19.4m	10.7%	1.4%	1.8 x
Ruai	8m	12m	12.8m	13.1m	8.8%	2.2%	1.7 x
Average	6m	13m	14m	14m	18.2%	2.7%	3.0 x
Total Average							2.9 x

***Asking price per acre**

V. Land Performance Versus Other Investment Assets

Land Performance Versus Other Investment Assets

Land performance in Nairobi Metropolitan region outperforms other investment asset at a 6 year CAGR of 17.4% against the market average at 14.9%



*Land only measures capital appreciation

- Land in the Nairobi Metropolitan Area recorded a 17.4% 6 year CAGR, outperforming other investment asset class as shown on the graph above
- Land is thus an attractive investment opportunity, since it guarantees higher returns and hedges one from inflation

VI. Conclusion and Outlook

Land Report Outlook

We have a positive outlook for the land sector in Nairobi and we expect to see the land and real estate market witness price increments driven by the stable macroeconomic outlook and positive legal reforms

Activity	2017 Projections	2018 Projections	2017 Outlook	2018 Outlook
Infrastructure Development	It was expected that the government expenditure on infrastructure would increase by 35.6% in 2017 to Kshs. 342.2bn from Kshs. 252.6bn in 2016. This was exceeded by 1.5% to Kshs. 347.4bn in 2017	The government expenditure on infrastructure expected to increase by 14.2% in 2018 to Kshs. 396.8bn from Kshs. 347.4bn in 2017, therefore opening up areas along these corridors, translating to an increase in land value	positive	Positive
Legal Reforms	Relaxation of the zoning regulations in some submarkets. Zoning regulations relaxed in Kyuna, Loresho and Spring Valley translating to higher returns, with Spring Valley recording an annual appreciation of 4.7% 1.0% points the market average Scrapping of land search fees which was done	The digitization of the land ministry expected to enhance transparency and efficiency of land transactions hence reduced transaction cost	positive	Positive
Credit Supply	We expected if the Banking Amendment Act 2015 is not reversed, to continue constraining credit supply to the sector thus reducing both development and off take of real estate. This was witnessed where we saw private sector credit growth decline to 2.4% as at October 2017 from a 5-year average of 14.4% with the number of active mortgage accounts dropping by 1.5% to 24,085 from 24,458 in 2015	In the case the Banking Amendment Act 2015 review is not successful, we expect low credit supply to continue hindering access to funds reducing both development and off take of real estate. However, we expect developers to embrace alternative funding such as Real Estate Investment Trusts (REITs),	Negative	Neutral
Real Estate Activities	Decreased activities due to elections uncertainty. This was evidenced with the value of building plans approved by the NCC, decreasing by 28.1% to Kshs 240.8 mn in 2017 from Kshs 308.4 mn in 2016	Increased real estate activities on the back of the calm conclusion of the prolonged electioneering period in 2017 and the government affordable housing initiative	Negative	Positive

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Land Report Outlook

We have a positive outlook for the land sector in Nairobi and we expect to see the land and real estate market witness price increments driven by the stable macroeconomic outlook and positive legal reforms

Activity	2017 Projections	2018 Projections	2017 Outlook	2018 Outlook
Performance	We expected Land in Nairobi Metropolitan Area to grow with a 5-year CAGR of 19.4% between 2011 and 2016. Land prices, however recorded an annual capital appreciation of 3.7% in 2017 due to the prolonged electioneering period	We expect land prices in Nairobi to record an annual capital appreciation of 10.2% in 2018 following the return to normalcy after the conclusion of the electioneering period	**Positive**	**Positive**
Opportunity	The opportunity in the sector is in markets with high returns such as Karen, Kilimani, Ridgeways, Juja and Kasarani which recorded annual capital appreciation rates of more than 5.0% in 2017, and are thus the most attractive areas both for land and real estate development			

For the 2017 Land sector outlook, we had three out of the five metrics as positive, and two negative and thus a positive outlook for the land sector in Nairobi. For 2018, we have four of the metrics under consideration are positive and one neutral, thus we retain our positive outlook for the land sector in Nairobi and we expect the land and real estate market to record better performance in 2018.

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Thank You!

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