Nairobi Metropolitan Area Residential Report 2019

"*Housing Deficit and Economic Development to Drive Growth*"

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I. Overview of Real Estate in Kenya

Introduction to Real Estate in Kenya

Our outlook for the sector is neutral, constrained by high financing cost for both developers and off takers

Factor	Characteristics
Macro-economic Contribution	• In Q1'2019, real estate sector's contribution to GDP came in at 11.3% similar to Q1' 2018, which is 1.2% points drop from 12.5% in FY'2018. 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 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 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 • 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 declined slightly to 11.3% in Q'1 2019 from 14.4% in Q4'2018

	2010	2017	2018	Q1'2019
Agriculture	24.8 %	34.8 %	34.2 %	40.2 %
Manufacturing	11.3 %	8.0 %	7.7 %	7.5 %
Wholesale & Retail Trade	7.7 %	7.4 %	7.4 %	6.3 %
Hospitality & Tourism	1.7 %	1.5 %	1.3 %	0.7 %
Real Estate & Construction	12.8 %	12.7 %	12.4 %	11.3 %

Source: KNBS

2. Nairobi Metropolitan Area Residential Report

Executive Summary

Prices in 2018/19 appreciated marginally by 0.3%, 2.5% points lower than 2017/2018 period which recorded 2.8%, while average rental yields came in at 4.3%, 1.1% points lower than 5.4% recorded in 2017/2018

- To gauge residential performance in 2018/2019, we carried research in 41 area within the Nairobi Metropolitan Area (NMA)
- According to the research, prices in the NMA region appreciated marginally by 0.3% in 2018/2019, which is 2.5% points lower than the 2.8% growth recorded in 2018. The sluggish growth in capital gains could be attributed to the tough financial landscape in Kenya on account of the current capped interest rates regime, with stringent lending practices by lending institutions affecting homebuyers. In addition, increased residential stock in some markets, especially high-end and upper mid-end segments, has slowed down the rate of price appreciation as supply surpasses effective demand

- Rental yields in 2018/19 declined by 1.1% points, coming in at 4.3%, on average, from 5.4% in 2017/2018. We attribute this to increased supply stock, especially in high-end and upper mid-end markets, leading to investors having to keep rents stable while prices have generally been increasing

- Therefore, on the overall performance, with an average price appreciation of 0.3% in 2018/19 and rental yields averaging at 4.3%, average total returns per annum in the residential market averaged at 4.7%, with the best performing market being Ruaka which posted 8.0% returns

- On housing demand and supply, Nairobi Metropolitan Area had an estimated supply of 20,771 units in 2018 according to KNBS data, a 19.5% decline from 25,819 units in 2017. For 2019, we anticipate 26,000 units to be delivered, bringing the total number of units available to 1.97 mn. Therefore, with an estimated constant population growth of 3.3%, the projected number of units required in 2019 is 4.0 mn units, and therefore, the deficit in Nairobui Metropolitan Area in 2019 will be approximately 2.1 mn units

- On the best areas to invest, Runda Mumwe and Ruiru present the best opportunity for detached units development driven by relatively high returns of 5.8% and 6.0%, respectively, in comparison to the detached market average of 4.1%, and relatively higher uptake of 26.4% and 21.4%, respectively

- Ruaka and Kilimani are the best opportunity for apartments also driven by uptake, 23.0% and 30.4%, respectively, good infrastructure and market returns, which came in at 8.0% and 5.6%, respectively, in comparison to apartments market average of 5.1%

- We expect developers to scale back on supply in the high-end and upper mid-end sectors given the existing supply against waning demand with developers shifting focus to differentiated concepts such as mixed-use developments, especially in the upper mid-end markets, as well as niche markets in the lower mid-end and low-end segments, which have the highest uptake, thus potential for better returns.

Residential performance softened in the 2018/2019 period with Y/Y price appreciation coming in at 0.3% and average total annual returns came at 4.7%

Value Area	Summary	Effect
Demand & Supply	• Nairobi Metropolitan Area has an estimated deficit of 2.1 mn units as at 2019, according to Cytonn Research • 97.1% of the employed population in Kenya earn below Kshs 50,000 per month, and therefore, majority of the housing deficit is for this class whose average monthly rent is Kshs 6,734 - 18,112. Of these, 70.7% are lower middle while 26.4% are low end	• The government's affordable housing initiative has gained substantial progress this year, with various flagship projects for phase one set to for Nairobi Metropolitan Area • More incentives for developers in terms of funding and provision of development land and infrastructure is set to boost development of housing for lower income segments,
Returns	• Prices appreciated by 0.3% p.a. compared to a 2.8% appreciation in 2017/18 whereas rental yield declined marginally to 4.3% compared to 5.4% in 2018, indicating a sluggish growth of the sector • The best performing markets, namely Ruaka and Langata recorded annual returns to investors of 8.0% and 6.8%, respectively	• With returns in 2018/2019 being lower than the government risk-free rate, we expect reduced speculative demand with effective demand mainly coming from the lower mid-end markets from the owner-occupier market
Opportunity & Outlook	• The opportunity for detached units is in areas such as Runda Mumwe and Ruiru which posted relatively high average returns of 5.8% and 6.0%, respectively • For apartments, opportunity is in Ruaka and Kilimani also driven by uptake, which came in at 30.4% and 23.0%, with returns of 5.8% and 8.0%, respectively	• We expect to see investors shifting focus to differentiated concepts such as mixed-Use developments which yield better returns • We also expect investment in areas offering the highest uptake, and affordable land for development particularly in satellite towns where infrastructural developments are ongoing

We expect reduced activity in the high-end and upper mid-end sectors given the exisiting supply against waning demand with developers shifting focus to differentiated concepts such as mixed-use developments, especially in the upper mid-end markets, as well as niche markets in the lower mid-end and low end segments which have the highest uptake, thus potential for better returns

A. Introduction

Cytonn

Key Factors **Affecting** Residential Demand in 2019

Positive demographic growth, enhanced access to mortgages, and increasing purchasing power are likely to shape residential demand

Factor	Characteristics
Demographics	• Rapid population growth within Nairobi and its environs, population growth rate of 2.6% and urbanization rate at 4.3%, in comparison to global averages of 1.1% and 2.1%, respectively, continue to drive demand for formal housing in the region. As per our estimations, housing deficit in the area is expected to come in at 2.1 mn units in 2019, • The high demographic growth will, therefore, continue to sustain demand for more dwelling units with 97.1% of the demand being in the lower mid-end and low-end segments, who according to KNBS, earn below Kshs 50,000 p.m.
Access to Credit	• With the stringent lending practices, private sector credit still remains low with April 2019 posting 4.9% as at April 2019, compared to a five-year average of 14.0%. However, with the launch of the Kenya Mortgage Refinance Company (KMRC), which occurred in June 2019, we expect growth in the primary mortgage market, which according to Central Bank of Kenya, has 26,187 mortgages as at 2017 out of a total adult population of 23.0 mn persons,
Purchasing Power	• Kenya's GDP has grown steadily at above 5.0% for the last 5 years, with 2018 recording 6.3%, indicating higher incomes. As a result, household incomes have increased driven by the fact that most household especially within the middle income class have both partners working and earning a steady income • This has resulted in increased demand for formal housing, thus pushing prices up, albeit marginally in the period under review due to a tough economic environment and persistent drought and as food prices go up • According to KNBS, average real earnings grew by 3.2% in 2018, in comparison to 2.7% decline in 2017. We expect this to positively influence real estate demand, as it shows an increase in the middle income class

Key Factors **Affecting** Residential Supply in 2019

Government incentives, high development costs, and constrained access to credit to affect residential supply in 2019

Factor	Characteristics
Government Incentives	• The affordable housing initiative has gained substantial progress in 2018/2019 period. However, the initiative lag behind ahead of its 2022 goal of 500,000 units delivery. We, therefore, expect to see more government incentives geared towards creating an enabling environment for developers to roll out more mass housing projects within the short period remaining, while also improving the land sector's efficiency thus, cutting developers' costs • The unlocking of prime government-owned land for development by private developers as well as continued infrastructural support should encourage more development activity, while also enabling delivery of actual affordable homes
Development Costs	• Development costs remain high subject to high land and financing costs. According to Cytonn Land Report 2019, average land price per acre within Nairobi County is currently at Kshs 220.3 mn, in comparison to the Satellite Town's average of Kshs 23.7 mn • Despite continued infrastructural improvements, developers still continue to face challenges in form of insufficient sewer lines, access roads and water supply • However, the anticipated operationalization of the National Housing Development Fund, through which government will provide off-take guarantees will provide needed funding to private developers, albeit to low-cost housing projects
Access to Credit	• With the interest rates cap law still in effect, we expect developers to continue experiencing barriers to adequate financial access, which is expected to affect housing supply in 2019 • We, therefore, expect to see developers opting for alternative sources of finance such as Real Estate Investment Trusts and more partnerships with foreign investment institutions seeking to enter the market, and local pension funds seeking to diversify their investments with their growing portfolio of assets under management

Trends in the Residential Sector in 2018/2019

Key highlights during the period included the launch of the KMRC, Boma Yangu Portal as well as tax reliefs for homebuyers

- In 2018/2019, private developers continued to encounter financial challenges. As a result, majority of residential activity recorded mainly involved the Affordable Housing activity, which included:
  - **Launching of the Kenya Mortgage Refinancing Company:** The National Treasury officially launched the Kenya Mortgage Refinancing Company in June 2019. The company which is a prerequisite towards improving the affordability of mortgages in Kenya , is set to increase uptake for developers as it will enable homebuyers afford to take up homes against the current tough financial environment characterized by relatively low private sector credit growth

  - **Launch of the Boma Yangu Portal:** National Housing Corporation established the Boma Yangu portal where all stakeholders in the housing sector, including end-buyers and investors, interact with the Housing Fund. The portal will also serve as evidence of aggregating demand from potential homebuyers to developers and other investors in the affordable housing initiative, while also serving as a platform for prequalifying eligible individuals for the affordable homes under development

  - Increased Budget allocation geared towards National Housing Development fund

Trends in the Residential Sector in 2018/2019

Various upmarket developments were also unveiled in Karen, Limuru Road, and Thika Road

- **Statutory Initiatives:** The President of Kenya, signed the Financial Bill 2018, which introduced 1.5% employee contributions to the Housing Fund clause, while employers top this up with a similar amount. However, this yet to be effected. Others included
  - Amendment of the Income Tax Act to allow buyers get a 15.0% tax relief up to a maximum of Kshs 108,000 p.a., or Kshs 9,000 p.m., under the newly introduced Affordable Housing Relief section, and,
  - Amendment of the Stamp Duty Act, to allow for exemption of first time homebuyers under the affordable housing scheme from paying the Stamp Duty Tax, normally set at 2.0% - 4.0% of the property value

- Breaking ground on the Park Road project to kick start the initiative, with Ngong Road phase one and two, and other flagship projects, in the predevelopment stages. The Government plans to hand over the first 228 units in September 2019

- However, various upmarket developments were also unveiled across the region including Applewood by Cytonn Investments located in Karen; Enaki, Hass Consult's Joint venture project along Redhill Road; Centum's Riverbank and Cascadia Apartments; and last but not least, Mida Vida Homes by Actis, in Garden City along Thika Road

B. Residential Market Performance

Cytonn

Market Performance Summary

We conducted research in 41 sub-markets and categorized them into High End, Upper Middle and Lower Middle segments

- We conducted market research in 41 sub-markets in Nairobi Metropolitan area to determine returns measured by rental yields and price appreciation
- In our submarket analysis, we classified the various suburbs in the Nairobi Metropolitan Area into three segments
   i. **High End Segment** – Consists of prime suburbs in Nairobi, such as Karen, Runda and Kitisuru. Most of these zones have been zones for low rise residential developments only and are characterized by palatial villas and bungalows on half acre parcels

   ii. **Upper Middle Income Segment** – Consists of suburbs such as Kilimani, Lavington, Kileleshwa, Loresho and Ridgeways among others. The population in these zones are middle class but with higher incomes than the average characterization of middle class. They are zones for both high rise and low density houses.

   iii. **Lower Middle Income Segment** – Consists of suburbs in Nairobi habited by middle class such as Donholm, Komarock and Imara Daima as well as Satellite Towns such as Ngong, Rongai and Juja
- We analysed detached units and apartments separately;

   i. **Detached units** refers to stand-alone houses such as townhouses, maisonettes and bungalows

   ii. **Apartments** refers to a self-contained housing units occupying part of a building, also called flats

Market Performance Summary

Prices appreciation came in at 0.3%, 2.5% points lower than 2018 which came in at 2.8%. Total returns declined by 3.5% points to 4.7% compared to last year's 8.1%

Segment	Average Rental Yield 2018/2019	Average Y/Y Price Appreciation 2018/2019	Average Total Returns 2018/2019	Average Rental Yield 2017/2018	Average Y/Y Price Appreciation 2017/2018	Average Total Returns 2017/2018	Change in Rental Yield	Change in Y/Y Price Appreciation	Change in Total Returns
High End	3.7%	0.1%	3.8%	4.7%	3.5%	8.3%	(1.0%)	(3.4%)	(4.5%)
Upper Mid-End	4.1%	0.1%	4.2%	5.1%	2.4%	7.5%	(1.0%)	(2.3%)	(3.3%)
Satellite Towns	3.9%	0.4%	4.3%	5.0%	2.0%	7.0%	(1.1%)	(1.6%)	(2.7%)
Detached Average	**3.9%**	**0.2%**	**4.1%**	**4.9%**	**2.6%**	**7.6%**	**(1.0%)**	**(2.4%)**	**(3.5%)**
Upper Mid-End	5.0%	0.4%	5.3%	6.0%	2.9%	8.8%	(1.0%)	(2.6%)	(3.5%)
Lower Mid-End	4.8%	0.4%	5.3%	5.6%	3.1%	8.7%	(0.8%)	(2.7%)	(3.5%)
Satellite Towns	4.5%	0.6%	5.1%	5.9%	2.7%	8.5%	(1.4%)	(2.1%)	(3.4%)
Apartments Average	**4.7%**	**0.5%**	**5.2%**	**5.8%**	**2.9%**	**8.7%**	**(1.1%)**	**(2.5%)**	**(3.5%)**
Residential Market Average	**4.3%**	**0.3%**	**4.7%**	**5.4%**	**2.8%**	**8.1%**	**(1.1%)**	**(2.5%)**	**(3.5%)**

- Overall change in prices in the residential market came in at 0.3%, 2.5% points lower than the 2.8% change in 2018 attributable to a tough financial environment which has negatively affected effective demand thus driving prices down as developers attempt to sell old stock
- High-end market registered the slowest growth in prices at 0.1% in 2018/19 in comparison to 3.5%, the previous year on account of increasing supply surpassing effective demand
- Average market rental yields also declined to 4.3% in 2018/19 from 5.4% in 2017/18. This is as rental charges have remained flat as developers try to attract and retain the existing clients

I. Detached Units Performance

Detached Units: High-End

Prices in the high-end markets grew by 0.1%, on average, whereas average rental yields came in at 3.7%, thus, average annual returns to investors of 3.8%

Area	Average Price per SQM	Average Rent per SQM	Average Annual Uptake	Average Occupancy	Average Rental Yield	Average Price Appreciation	Total Returns
Runda	234,697	888	17.8%	83.8%	4.0%	1.8%	5.8%
Karen	205,087	659	20.0%	76.6%	3.0%	1.8%	4.8%
Lower Kabete	165,043	467	16.3%	89.5%	3.3%	0.0%	3.3%
Kitisuru	223,310	903	19.4%	83.3%	3.7%	(0.4%)	3.2%
Rosslyn	178,237	757	19.1%	84.3%	4.3%	(2.6%)	1.7%
Average	**201,275**	**735**	**18.5%**	**83.5%**	**3.7%**	**0.1%**	**3.8%**

- High-end markets registered average price appreciation of 0.1%, rental yields came in at 3.7%, thus average annual returns of 3.8%
- Karen and Runda recorded the highest price appreciation in the high-end market at 1.8% for both markets. The two areas continue to exhibit relatively high demand from the high-income earning class owing to presence of amenities such as shopping malls and relatively good infrastructure such as the Northern and Southern Bypasses, which enhance their accessibility, thus, attracting clientele
- Annual uptake was highest in Karen and Kitisuru, with Karen recording the lowest occupancy rates attributable to increase in new gated communities
- Rosslyn recorded the lowest returns to investors mainly attributable to decline in asking prices, as developers seek to attract clients due to competition from other surrounding neighborhoods such as Gigiri, Runda, and Muthaiga in addition to the market's limitation in terms of what it offers investors as a result of inadequate land for development

Detached Units: Upper Mid-End

The upper mid-end segment recorded the highest total annual uptake and yield in the detached unit's market at 21.5% and 4.5%, respectively

Area	Average Price per SQM	Average Rent per SQM	Average Annual Uptake	Average Occupancy	Average Rental Yield	Average Y/Y Price Appreciation	Total Returns
Loresho	146,540	575	17.5%	94.6%	4.5%	1.7%	6.2%
Runda Mumwe	158,932	662	26.1%	83.6%	4.3%	1.5%	5.8%
South C	120,928	494	23.8%	92.5%	4.6%	(0.7%)	3.8%
Redhill & Sigona	105,218	367	21.1%	77.5%	3.3%	0.3%	3.6%
Langata	142,183	556	17.7%	97.2%	4.7%	(1.7%)	3.0%
Lavington	180,021	555	27.3%	79.4%	3.3%	(0.3%)	3.0%
Average	**142,303**	**535**	**22.3%**	**87.5%**	**4.1%**	**0.1%**	**4.2%**

- Upper mid-end markets registered average rental yields of 4.1% and a price appreciation of 0.1%, thus average annual returns of 4.2%
- Loresho registered the highest returns in the detached units market with 6.2%. Loresho appeal to investors is attributable to demand for the growing middle class and its proximity to the high-end Kitisuru. The area is also well-connected with the newly finished Westlands Link Road boosting prices
- Annual Uptake was highest in Runda Mumwe and Lavington, at 26.1% and 27.3%, respectively. Runda Mumwe continues to exhibit high demand owing to its association with the high-end Runda as well as proximity to amenities such as Two Rivers and other malls along Kiambu Road, schools such as Sabis International and Braeburn, as well as proximity to foreign embassies and international organizations. Langáta and Lavington posted the lowest returns owing to declining prices, at a rate of 1.7% and 0.3%, respectively, attributable to increasing relaxation of zoning regulations in both areas, and thus a proliferation of high-rise developments making the areas lose their appeal to low-rise homebuyers

Detached Units: Lower Mid-End

The lower mid-end sector recorded average returns of 4.3%, and the highest annual price appreciation for detached units at 0.4%

Area	Average Price per SQM	Average Rent per SQM	Average Annual Uptake	Average Occupancy	Average Rental Yield	Average Y/Y Price Appreciation	Total Returns
Ruiru	99,064	353	17.1%	79.6%	5.1%	0.9%	6.0%
Rongai	74,820	305	17.0%	69.0%	4.6%	0.7%	5.3%
Athi River	92,054	406	19.3%	79.6%	4.5%	0.6%	5.0%
Ngong	64,843	238	19.4%	72.8%	3.2%	1.6%	4.8%
Thika	68,824	408	20.3%	84.1%	4.6%	0.0%	4.6%
Kitengela	73,919	446	17.7%	66.1%	3.1%	1.2%	4.3%
Syokimau/Mlolongo	72,464	263	20.9%	73.2%	3.4%	0.0%	3.4%
Juja	73,182	260	16.6%	61.9%	2.7%	(2.1%)	0.7%
Average	**77,396**	**335**	**18.5%**	**73.3%**	**3.9%**	**0.4%**	**4.3%**

- Lower mid-end areas posted the highest average price appreciation for detached units at 0.4%, compared to the detached market average of 0.2%
- Ruiru was the best performing market with average annual returns of 6.0% in comparison to the detached market average of 4.1%. This is on account of presence of good infrastructure such as the Eastern bypass, Thika Superhighway for Ruiru, with upcoming master planned cities, such as Tatu City and Northlands driving speculative demand due to expected developments in terms of infrastructure and social amenities, thus maintaining prices and rents
- Juja posted a notable decline in price, with a depreciation rate of 2.1%, attributable to declined effective demand in the area as a result of competition from other satellite towns, namely Ruiru, and increased densification due to demand by the relatively high student population in the area

II. Apartments Performance

Apartments: Upper Mid-End

The upper mid-end segment registered average rental yields and price appreciation of 4.9% and 0.4%, respectively, thus, total returns of 5.3%

Area	Average Price per SQM	Average Rent per SQM	Average Annual Uptake	Average Occupancy	Average Rental Yield	Average Price Appreciation	Total returns
Riverside	135,813	737	22.9%	76.2%	5.1%	0.9%	5.9%
Loresho	113,122	479	20.9%	95.4%	4.3%	1.4%	5.7%
Kilimani	121,845	852	30.4%	76.8%	5.6%	0.0%	5.6%
Westlands	145,042	665	27.8%	80.4%	5.2%	0.2%	5.4%
Parklands	123,146	744	23.3%	85.7%	5.1%	(0.3%)	4.8%
Kileleshwa	138,619	846	28.1%	81.7%	4.2%	0.0%	4.2%
Average	**129,598**	**720**	**25.6%**	**82.7%**	**4.9%**	**0.4%**	**5.3%**

- Upper mid-end markets registered the highest annual uptake at 25.6%, on average, attributable to strong investor demand. This is as the upper mid-end market attracts high rental income evidenced by the relatively high average rental yields which came in at 4.9%, in comparison to the residential market average of 4.3%
- Riverside recorded the best average total returns to investors in the upper mid-end sector with 5.9%, compared to the upper mid-market average of 5.3%. Riverside attracts top-notch clientele especially from foreign embassies and other multinational firms in Riverside and surrounding nodes such as Westlands, boosting the demand for luxury units
- Loresho recorded the highest price appreciation in this segment, which is attributable to the relatively low supply for apartments in the area which is largely low rise, thus driving prices
- Prices in Kileleshwa and Kilimani remained flat, attributable to the increasing supply of apartments, thus, competition leading to innovative pricing among developers in a bid to attract buyers

Apartments: Lower Mid-End Suburbs

Lower Mid-end suburbs recorded average annual returns of 5.3% and notably the highest occupancy rates indicating rental demand for neighbourhoods around the key commercial nodes

Area	Average Price per SQM	Average Rent per SQM	Average Annual Uptake	Average Occupancy	Average Rental Yield	Average Y/Y Price Appreciation	Total Returns
Langata	97,012	544	15.0%	85.4%	5.5%	1.3%	6.8%
South B/C	99,059	497	20.6%	88.8%	4.8%	0.8%	5.6%
Imara Daima	63,203	354	22.3%	98.9%	5.6%	(0.2%)	5.4%
Dagoretti	89,807	627	16.5%	88.7%	5.1%	0.0%	5.1%
Ngong Road	99,800	508	20.7%	84.7%	4.5%	0.9%	5.4%
Upper Kabete	97,719	380	25.8%	82.3%	4.3%	1.0%	4.3%
Kahawa West	74,521	404	19.0%	72.8%	3.9%	0.3%	4.2%
Average	**88,731**	**473**	**20.0%**	**85.9%**	**4.8%**	**0.4%**	**5.3%**

- Lower mdi-end suburbs recorded average rental yields of 4.8%, price appreciation of 0.4%, thus, total returns averaging at 5.3%
- Langata recorded the highest total returns to investors with 6.8% and a price change of 1.3%, on average, in comparison to the lower mid-end suburb market average of 5.3% and 0.4%, respectively. The growth in prices is attributable to strong demand from the growing middle class, especially due to its proximity to key commercial nodes such as Kilimani, Upperhill, and CBD, while still being relatively affordable
- Kahawa West recorded the lowest returns with 3.3% attributable to a decline in asking prices, mainly attributable to congestion leading to loss of appeal to homebuyers

Apartments: Satellite Towns

Satellite markets recorded average returns of 5.1% with the highest annual price growth in the residential market of 0.6%

Area	Average Price per SQM	Average Rent per SQM	Average Annual Uptake	Average Occupancy	Average Rental Yield	Average Y/Y Price Appreciation	Total Returns
Ruaka	98,098	454	23.0%	91.9%	5.6%	2.4%	8.0%
Kitengela	60,124	341	16.5%	76.3%	4.5%	2.2%	6.6%
Thindigua	99,270	499	21.1%	88.4%	4.2%	1.8%	6.1%
Rongai	63,064	350	19.1%	68.5%	4.6%	1.1%	5.7%
Syokimau	59,242	289	15.6%	88.2%	4.9%	0.0%	4.9%
Kikuyu	77,269	409	21.7%	72.1%	4.3%	0.0%	4.3%
Lower Kabete	96,876	449	20.8%	86.5%	4.3%	(1.1%)	3.3%
Ruiru	89,421	433	31.1%	74.0%	3.9%	(0.8%)	3.2%
Thika	46,722	331	24.2%	71.0%	4.6%	(2.0%)	2.6%
Average	**76,676**	**395**	**21.4%**	**79.6%**	**4.5%**	**0.6%**	**5.1%**

- Satellite towns posted the highest average annual price appreciation of 0.6%, with average rental yields of 4.5%, thus, average annual returns of 5.1%
- Ruaka, was the best performing node recording average total returns to investors of 8.0%, attributable continued demand from Nairobi's working class, increase in infrastructure improvements such as the incoming Western Bypass and Westlands Link Road, coupled by its proximity to shopping amenities such as Two Rivers, Village Market, and Rosslyn Riviera
- Ruiru and Thika recorded the lowest returns on account of decline in asking prices in the areas, which are more popular for detached units from families seeking to settle down. This has been witnessed through various price offers as developers attempt to attract their target clientele, which has also had the effect of increasing uptake for units in these areas

Market Performance Summary

Apartments registered the highest annual returns to investors with an average of 5.2% in comparison to detached units average of 4.1%

Segment	Typology	Average Price Per SQM	Average Rent Per SQM	Average Annual Uptake	Average Occupancy	Average Rental Yield 2019	Average Y/Y Price Appreciation 2019	Average Total Returns 2019
High End	Detached	201,275	735	18.5%	83.5%	3.7%	0.1%	3.8%
Upper Mid-End	Detached	142,303	535	21.5%	87.5%	4.1%	0.1%	4.2%
Lower Mid-End	Detached	77,396	335	18.5%	73.3%	3.9%	0.4%	4.3%
Upper Mid-End	Apartments	129,598	720	25.6%	82.7%	4.9%	0.4%	5.3%
Lower Mid-End	Apartments	88,731	472	20.0%	85.9%	4.8%	0.4%	5.3%
Satellite Towns	Apartments	76,676	395	21.4%	79.6%	4.5%	0.6%	5.1%
Residential Market Average		**119,330**	**532**	**20.9%**	**82.1%**	**4.3%**	**0.3%**	**4.7%**

- The residential market has an average total return of 4.7% in 2017/18 with rental yield averaging at 4.3% while price appreciating averaged at 0.3%. The low performance compared to prior years is due to a challenging financial environment, leading to a sluggish growth in prices and uptake. Thus investors ought to conduct market research to identify the niches in the market
- For investment, Ruaka and Langata recorded the highest annual returns in the apartments segment with 8.0% and 6.8%, respectively,
- For detached units, returns to investors were highest in areas such as Loresho and Ruiru, which had the best annual returns at 6.2%, and 6.0%, respectively

C. Residential Market Investment Opportunity

Cytonn

Residential Market Investment Opportunity: Demand

The measure of adequate housing used is one person per habitable room

- We carried out an analysis to determine the housing requirement in Nairobi Metropolis based on the population, and the housing supply;

Assumptions Used

- The measure of adequate housing used is one person per habitable room
- Developments have a 2-year lag-period between getting approvals and completion
- Only 75% of planned developments actually go into market
- Owner-occupiers account for 28% of the housing market
- The population grows at a constant rate of 3.3%
- Only 30% of the buildings are compliant on obtaining approvals

Terms Used

- A **habitable room** is any room in a dwelling unit that is used mainly for living and excludes stores, granaries, offices, toilets and garages

Limitations of Methodology

- The methodology used assumes one person per habitable room as a measure of adequate housing whereas in reality families are comfortable sharing rooms eg couples, young children and same gender children

Source: Nairobi City County Building Audit, KNBS

Residential Market Opportunity: Demand

With the constantly increasing urban populations, Nairobi Metropolitan Areas require 2.1 mn housing units as at 2019

Year	2009	2014	2015	2016	2017	2018	2019F	2020F	2021	2022
Nairobi Metropolis Urban Population	5.0m	5.8m	6.0m	6.2m	6.4m	6.6m	6.9m	7.1m	7.3m	7.6m
Housing Approvals (2 years lag)				12,964	18,013	14,491	11,621	18,670	18,670	18,670
Total Units Supplied		17,039	18,020	18,581	25,819	20,771	26,495	42,566	42,566	42,566
Nairobi Metropolis Habitable Rooms Supplied		28,540	30,184	31,123	43,247	34,791	44,379	71,297	71,297	71,297
Nairobi Metropolis Habitable Rooms Available	3.1m	3.2m	3.2m	3.2m	3.3m	3.3m	3.4m	3.4m	3.5m	3.6m
Nairobi Metropolis Habitable Rooms Required	5.0m	5.8m	6.0m	6.2m	6.4m	6.6m	6.9m	7.1m	7.3m	7.6m
Nairobi Metropolis Habitable Rooms Deficit	1.9m	2.6m	2.8m	3.0m	3.1m	3.3m	3.5m	3.6m	3.8m	4.0m
Nairobi Metropolis Dwelling Units Deficit	**1.3m**	**1.6m**	**1.7m**	**1.8m**	**1.9m**	**2.0m**	**2.1m**	**2.2m**	**2.3m**	**2.4m**
Owner-Occupied Developments	28%	28%	28%	28%	28%	28%	28%	28%	28%	28%
Developer Supplied Housing Requirement	**0.9m**	**1.1m**	**1.2m**	**1.3m**	**1.3m**	**1.4m**	**1.5m**	**1.6m**	**1.6m**	**1.7m**

Income Groups	Percentage	2014	2015	2016	2017	2018	2019	2020	2021	2022
Low Income (Avg Rent Kshs 6,734)	26.4%	299,153	317,373	336,197	354,386	374,288	393,890	411,261	429,467	448,535
Lower Middle Income (Avg Rent Kshs 18,112)	70.7%	801,480	850,295	900,728	949,460	1,002,780	1,055,297	1,101,837	1,150,613	1,201,700
Upper Income (Rent above Kshs 30,000)	2.9%	32,842	34,842	36,909	38,906	41,091	43,243	45,150	47,148	49,242

Residential Market Opportunity: Supply

Metrics such as uptake, returns, infrastructure and distance from key business nodes have been used to determine the best areas to invest

- Whereas the overall market performance has declined, there exists an opportunity in some sub-markets. To identify the developer's investment opportunity in the sector and single out the specific suburbs that would be best to invest in, we used the following metrics;
  - i. **Annual Uptake-** This refers to how fast developments sell on average per annum, the higher/ faster the sales rate, the higher the points allotted
  - ii. **Average returns-** This is the sum of the rental yield and price appreciation for each suburb. The higher the return the more points allotted
  - iii. **Amenities** – areas with a regional mall in close proximity among other social amenities scored high with areas that lack a mall scoring low
  - iv. **Distance from Main Business Nodes-** This is to establish the commute distance for majority of the working population, where we assumed Nairobi Central Business District as the common node
  - v. **State of infrastructure -** Here we looked at bits of infrastructure that affect real estate heavily, that is, roads and sewer systems. For the purpose of the ranking, for detached properties, we used the status of the roads only, while the following factors were used to rank the state of the infrastructure for high rise areas;
    - a. **Good**-Access mainly through tarmac Roads and sewered
    - b. **Average**- Access mainly through tarmac roads but not sewered
    - c. **Poor-** Access mainly through earth roads and not sewered

Residential Market Opportunity: Supply

Areas have been allocated points from 1 to 3, with 3 being the highest points

- The following shows the points allocated for each metric
- Areas have been allotted points from 1 to 3, with 3 being the highest points. The higher the points, the better an area is for investment

Residential Market Opportunity			
Annual Uptake	**Below 20%**	**20-24.9%**	**>25%**
Points	1	2	3
Average Returns	**<5%**	**5-5.9%**	**>6%**
Points	1	2	3
Availability of Amenities	**None**	**Proximity to or Upcoming mall**	**High (Neighborhood and/or Regional malls available)**
Points	1	2	3
Infrastructure	**Poor**	**Average**	**Good**
Points	1	2	3
Distance from Main Business Nodes	**>28 km**	**15km-28km**	**Within 14km radius of NRB CBD**
Points	1	2	3

Residential Market Opportunity: Supply

Runda Mumwe and Ruiru present the best opportunity for detached units development driven by returns and relatively higher uptake

	5.0%	5.0%	20.0%	30.0%	35.0%	5.0%		
Location	**Distance from main Business Node**	**Social Amenities**	**Infrastructure**	**Annual Uptake**	**Average Returns**	**Availability of Development Land**	**Total Points**	**Rank**
Runda Mumwe	3.0	2.0	2.0	3.0	2.0	3.0	**2.4**	1
Ruiru	1.0	1.0	2.0	2.0	3.0	3.0	**2.3**	2
Loresho	3.0	1.0	2.0	1.0	3.0	2.0	**2.1**	2
Karen	3.0	3.0	3.0	2.0	1.0	3.0	**2.0**	4
Runda	3.0	3.0	2.5	1.0	2.0	2.0	**1.9**	5
Lavington	3.0	3.0	1.0	3.0	1.0	1.0	**1.8**	6
Athi River	1.0	2.0	1.5	1.0	2.0	3.0	**1.6**	7
Syokimau/Mlolongo	2.0	2.0	1.5	2.0	1.0	3.0	**1.6**	7
Langata	3.0	2.0	3.0	1.0	1.0	1.0	**1.6**	9
Rongai	1.0	1.0	1.0	1.0	2.0	3.0	**1.5**	10
South C	3.0	2.0	1.0	2.0	1.0	1.0	**1.5**	11
Thika	1.0	1.0	1.0	2.0	1.0	3.0	**1.4**	12
Redhill & Sigona	1.0	1.0	1.0	2.0	1.0	2.0	**1.4**	13
Kitisuru	3.0	1.0	2.0	1.0	1.0	2.0	**1.4**	13
Lower Kabete	3.0	1.0	2.0	1.0	1.0	1.0	**1.3**	15

- For detached units, we allotted the highest points to returns and uptake at 35% and 30%, respectively. For an investor to recoup their investment in detached units, the most important factor would be how fast they can sell
- The lowest weighting was allotted to amenities, availability of development land, and distance from main business nodes at 10% since investors prefer to buy cheaper land away from the CBD for development of low density units
- Runda Mumwe and Ruiru present the best opportunity for detached units development driven by returns and relatively higher uptake

Residential Market Opportunity: Supply

Ruaka and Kilimani therefore are the best opportunity for residential development driven by uptake, good infrastructure and market returns

Location	Distance from Main Business Node	Social Amenities	Infrastructure	Uptake	Returns	Availability of Development Class Land	Total Points	Rank
	5%	5%	20%	30%	35%	5%		
Ruaka	2.0	3.0	3.0	2.0	3.0	3.0	**2.7**	1
Kilimani	3.0	3.0	3.0	3.0	2.0	2.0	**2.6**	2
Westlands	3.0	3.0	3.0	3.0	2.0	1.0	**2.6**	3
Thindigua	3.0	2.0	2.0	2.0	3.0	2.0	**2.4**	4
Upper Kabete	3.0	3.0	2.0	3.0	2.0	1.0	**2.4**	5
Langata	3.0	2.0	3.0	1.0	3.0	1.0	**2.3**	6
Ngong Road	2.0	2.0	3.0	2.0	2.0	1.0	**2.2**	7
Ruiru	1.0	3.0	3.0	3.0	0.5	3.0	**2.0**	8
Riverside	3.0	2.0	2.0	2.0	2.0	1.0	**2.0**	9
Loresho	3.0	1.0	2.0	2.0	2.0	2.0	**2.0**	9
Kitengela	1.0	3.0	1.0	1.0	3.0	3.0	**1.9**	11
Kikuyu	2.0	1.0	3.0	2.0	1.0	3.0	**1.9**	12
South B/C	3.0	1.0	1.0	2.0	2.0	1.0	**1.8**	13
Kileleshwa	3.0	1.0	1.0	3.0	1.0	1.0	**1.7**	14
Parklands	3.0	2.0	2.0	2.0	1.0	1.0	**1.7**	15
Imara Daima	1.0	1.0	1.0	2.0	2.0	1.0	**1.7**	15

- For apartments we allotted the highest weighting to uptake, average returns and availability of amenities at 20%, 25% and 20%, respectively. This is because for the investors and buyers, these are the most important factors to consider when investing
- We allotted the lowest weighting to availability of development land and infrastructure at 10%. This is because low land supply is not a limitation to apartments performance. Increase of plot ratios enables investors get value for higher priced land
- Ruaka and Kilimani therefore are the best opportunity for residential development driven by uptake, good infrastructure and market returns

D. Conclusion

Residential Report Conclusion

Of the key metrics we use to measure performance, two are positive and two neutral, thus our outlook for the residential sector is neutral with a bias to positive

Measure	2018/2019 Experience and Outlook Going Forward	2018 Outlook	2019 Outlook
Demand	• The Housing deficit in the Nairobi Metropolitan Area continues to grow driven by rapid population growth at an average of 3.3%, compared to the national average of 2.6%, with 97.1% being lower middle-income and low end income earners, creating demand for affordable homes • Furthermore, the number of wealthy Kenyans has been on the rise and is expected to grow by 60.5% by 2022, creating demand for luxury homes • In terms of delivered stock, Nairobi Metropolitan Area had an estimated supply of 20,771 units in 2018 according to KNBS data, a 19.5% decline from 25,819 units in 2017. For 2019, we anticipate 26,000 units to be delivered, bringing the total number of units available to 1.97 mn. Therefore, with an estimated constant population growth of 3.3%, the projected number of units required in 2019 is 4.0 mn units, and therefore, the deficit in Nairobi Metropolitan Area in 2019 will be approximately 2.1 mn units	Positive	Positive
Credit	• In 2018, private sector credit growth was relatively lower coming in at 2.1% as at April 2018 compared to a 5-year average of 14.0% between 2013 and 2018 • In 2019, this was still relatively low coming in at 4.9% as at April 2019, • The introduction of innovative financial credit solutions through the recently launched Kenya Mortgage Refinancing Company, is set to link real estate and capital markets which will create a better credit financing environment for developers and end buyers alike	Neutral	Neutral

Residential Report Conclusion

Of the key metrics we use to measure performance, two are positive and one is neutral, and one negative, thus our outlook for the residential sector is neutral

Measure	2018/2019 Experience and Outlook Going Forward	2018 Outlook	2019 Outlook
Infrastructure	• The government continued to realize most of its infrastructural development plans with works ongoing for key roads including dualling of Waiyaki way and Ngong Road • Westlands Link Road which connects Waiyaki Way and Limuru Road was completed, a boost for areas such as Loresho, Kitisuru and Lower Kabete • More infrastructural improvements are expected especially to pave way for the Bus Rapid Transit system. Notable projects include the incoming Western Bypass, expansion of the Northern Bypass, Kiambu Road and Mombasa Roads as well as the planned sewer and water improvements in areas such as Ruiru and Kitengela	Positive	Positive
Performance	• In 2017/18, average annual returns in the residential sector came in at 8.2%, with a price appreciation of 2.8% and rental yields at 5.4%, with the best-performing markets have returns of up to 13.9% • In 20118/2019, performance continued to slow down with the average change in price across the sector coming in at 0.3% and rental yields at 4.3%, thus average annual returns at 4.7%. However, the best performing market recorded returns of 8.0% • However, we expect investors to scale back on new developments in a bid to get rid of existing stock especially in oversupplied markets, which will boost prices up • For investors, off-plan investments in niche markets will give better returns, and therefore, trend analysis and proper research is required to identify these markets	Neutral	Negative

- **For the key metrics that have been used to determine the performance of the sector, two are positive, that is, demand and infrastructure; one is neutral, that is, access to developer and end buyer credit, and a negative on performance as the returns came lower than the government risk-free rate, thus our outlook is neutral**
- **For apartments, the best opportunity is investment in areas such as Ruaka and Kilimani driven by returns, uptake as well as state of infrastructure and amenities; For detached units, the best opportunity is in areas such as Runda Mumwe and Ruiru, driven by uptake and the current performance in terms of returns to investors**

Thank You!

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For more information or any further clarification required, kindly contact the research team at rdo@cytonn.com

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