Real Estate Annual Markets Review Note 2021

Executive Summary:

Residential: The residential sector recorded an improvement in performance, with the average total return to investors at 6.1%, an increase from the 4.7% recorded in FY'2020. On a q/q basis, the average total returns improved by 0.6% points from the 5.5% recorded in Q3'2021. The improvement is mainly on the back of the improved investor confidence in the residential market due to less uncertainties in Real Estate market compared to last year. Rental yields averaged at 4.8%, a 0.1% drop from 4.9% recorded in FY'2020 indicating inability to raise rents as the economy remains soft and spending power remains weak;

Commercial Office: The commercial office sector realized a slight improvement in its overall performance in FY'2021, with the average rental yields coming in at 7.1%, 0.1 % points higher than the 7.0% recorded in 2020. The average occupancy rates increased by 0.2% to 77.9%, from 77.7% recorded in 2020. The improvement in performance was mainly driven by an improved business environment following the lifting of the COVID-19 containment measures, as well as some businesses resuming full operations hence boosting the occupancy rates. The average asking rents remained flat at Kshs 93, as some landlords still offer discounts in order to retain and attract new clients, hence the rents haven't resumed their pre-covid rates;

Retail: In FY'2021, the Retail sector recorded a 0.3% points increase in average rental yields to 7.8%, from 7.5% in 2020. This increase was attributed to an improved business environment following the lifting of the COVID-19 containment measures, aggressive expansion by local and international retailers such as Naivas and Artcaffe, increased infrastructure developments opening areas for accessibility and access, and positive demographics facilitating demand for spaces, goods and services;

Mixed-use development: In November, we released the Nairobi Metropolitan Area (NMA) Mixed Use Developments Report 2021, highlighting that Mixed-Use Developments recorded an average rental yield of 7.2% in 2021, 0.7% points higher than the respective single-use themes which recorded average rental yield of 6.5% in the same period. The relatively better performance was mainly attributed to; i) an improved business environment, ii) strategic and prime locations of the developments with the capability to attract prospective clients, and, iii) preference by target clients due to their convenience hence improved demand and returns to investors;

Hospitality: In November, we released the Nairobi Metropolitan Area Serviced Apartments Report 2021. Serviced apartments' year on year performance improved, with the occupancy rates increasing by 13.5% points to 61.5%, from 48.0% recorded in 2020. The monthly charges per SQM increased by 0.7% to Kshs 2,549, from Kshs 2,533 recorded in 2020. The average rental yield increased by 1.5% points to 5.5% in 2021, from 4.0% recorded in 2020 attributed to increase in the monthly charges. The overall performance of the hospitality industry is as a result of the increase in the number of local and international tourist arrivals following the lift of travel bans by countries such as the UK. This led to increased number of hotel bookings, occupancies and operational hotels during the period;

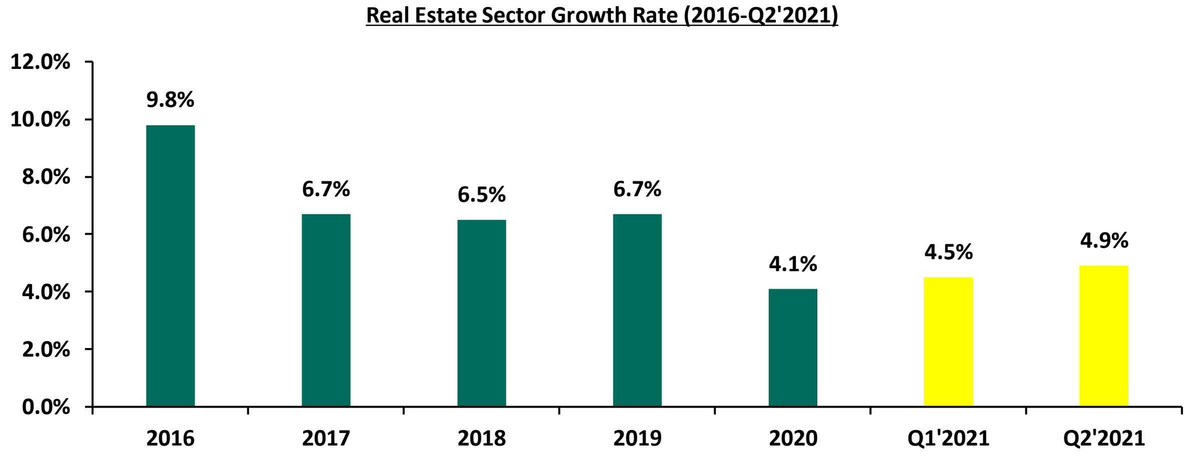
Land: The Nairobi Metropolitan Area (NMA) land sector recorded an average annualized capital appreciation of 2.8% in FY'2021, representing an 8.3% 10-year Compounded Annual Growth Rate (CAGR). Unserviced land in the satellite towns of the NMA recorded the highest capital appreciation at 5.8%, which is 3.0% points higher than the market average of 2.8%. This was mainly attributed to increased demand resulting from their affordability, with the average asking price coming in at Kshs 13.5 mn, lower than the market average of Kshs 134.8 mn in 2021, and increased infrastructure developments enhancing accessibility to areas;

Listed Real Estate: In the Nairobi Stock Exchange, ILAM Fahari I-REIT closed the year trading at an average price of Kshs 6.3 per share, representing a 7.9% Year-on-Year (YoY) increase from the Kshs 5.8 per share. However, on Inception-to-Date (ITD) basis, the REIT's performance declined by 68.5% from Kshs 20.0.

In the [Unquoted Securities Platform](), Acorn DREIT closed the year trading at Kshs 20.1 while the I-REIT closed at Kshs 20.6 per unit. This performance represented a 0.5% and 3.0% gain for the DREIT and I-REIT, respectively, from the Kshs 20.0 Inception price;

Real Estate Annual Markets Review:

In 2021, the Kenyan Real Estate sector witnessed increased development activities with a general improvement in Real Estate transactions, attributed to the improved business environment. The reopening of the economy has also facilitated numerous expansion and construction activities by investors, in addition to various businesses also resuming full operations. Consequently, the Real Estate sector grew by 4.9% in Q2'2021, 0.3% points higher than the 4.6% growth recorded in Q2'2020, according to the Quarterly GDP Report by the Kenya National Bureau of Statistics' (KNBS). The graph below shows Real Estate sector growth rate from 2016-Q2'2021;



Source: Kenya National Bureau of Statistics

Some of the factors that supported the improved performance of the sector included:

i. Government's continued focus on initiating and implementing affordable housing projects, coupled with improved investor confidence in the country's housing market. In November 2021, the Capital Markets Authority (CMA) approved the issuance of a Kshs 3.9 bn Medium Term Note (MTN) programme which will be used to finance the construction of the ongoing Pangani Affordable Housing Project,
ii. Aggressive expansion by local and international retailers in the country such as Naivas, QuickMart, and Carrefour supermarket chains taking up spaces previously occupied by troubled retailers such as Tuskys, Uchumi and Nakumatt,
iii. Lifting of flight travel bans that led to increased number of visitor arrivals into the country, evidenced by KNBS' October 2021 Leading Economic Indicators Report which highlighted that number of visitor arrivals came in at 72,809 in October 2021, compared to the 28,982 visitors recorded in October 2020. This in turn led to performance of serviced apartments increasing as well, and hotels also resuming full operations,
iv. Government's aggressiveness in implementing infrastructure projects especially road projects such as the Nairobi Expressway, and Nairobi Western Bypass projects, among many others, which in turn continues to boost Nairobi's positioning as a regional hub thereby supporting Real Estate investments,
v. Kenya Mortgage Refinance Company efforts to make loans available to home buyers. In support of this, the average mortgage loan size increased to Kshs 8.6 mn in 2020, from Kshs 8.5 mn in 2019, according to Central Bank of Kenya's (CBK) Bank Supervision Annual Report 2020,

vi. Positive demographics evidenced by Kenya's relatively high urbanization and population growth rates of 4.0% p.a and 2.3% p.a, respectively, against the global average of 1.8% p.a and 1.0% p.a, respectively, as at 2020, driving increased demand for developments, and,
vii. Establishment of statutory laws by the government aimed at aligning Kenya with international standards in an attempt to address the shortcomings of previous Acts. The laws are also expected to streamline Real Estate investments and transactions.

Conversely, there were challenges that impeded performance of the Real Estate sector which include:

i. Financial constraints leading to various projects stalling, as banks limited lending due to the increasing non-performing loans. This is evidenced in Central Bank of Kenya's (CBK) Quarterly Economic Review Report April- June 2021 which highlighted that gross non-performing loans to the Real Estate sector increased by 14.8% to Kshs 70.5 bn in Q1'2021, from Kshs 61.4 bn recorded in Q4'2020,
ii. Existing oversupply in the Nairobi Metropolitan Area (NMA) office and retail market at 7.3 mn SQFT and 3.0 mn SQFT, respectively, coupled with an oversupply of 1.7 mn SQFT in the Kenya retail market,
iii. Crippled demand for office spaces as people continue to advocate for remote working strategy, leading to reduced occupancies, in addition to some landlords providing rent discounts in a bid to attract and retain existing clients,
iv. E-commerce strategy still being adopted by some business owners, thus crippling the demand for physical retail spaces,
v. Obstacles in in real estate fund raising given the high minimums of Kshs. 5 million for development REITs, limited Trustees in the market and the high levels of capital required for REIT trustees saw little to no local fundraising in the REITs market,
vi. Under-developed capital markets making it hard to develop pools of capital focused on projects particularly in the private markets, to complement efforts by the government. In Kenya, the main source of funding for real estate developers is banks which provide close to 95.0% of funding as compared to 40.0% in developed countries. This implies that capital markets contribute a mere 5.0% of real estate funding, compared to 60.0% in developed countries,
vii. Travel bans and restrictions imposed particularly in the first half of the year by key markets like the United Kingdom and United States of America, thereby affecting the number of arrivals into the country, and in turn the performance of serviced apartments and hotels, and,
viii. COVID-19 uncertainties as the virus continues to mutate with the most current emerging variant being Omicron. This might lead to most tourists halting their travel plans with other countries imposing strict measures to limit the spread of the virus.

In terms of performance, residential, commercial office, retail, mixed-use developments and serviced apartments sectors realized average rental yields of 4.8%, 7.1%, 7.8%, 7.2%, and 5.5%, respectively. This resulted to an average rental yield for the real estate market at 6.5%, 0.4% points higher than the 6.1% recorded in 2020. The improvement in performance was mainly attributed to improved business environment. The reopening of the economy also facilitated numerous expansions and construction activities by investors.

Annual Real Estate Rental Yields Summary Table, for Existing Properties						
	2017	2018	2019	2020	2021	Y/Y Change (% Points)
Average Rental Yield	7.6%	7.4%	7.0%	6.1%	6.5%	0.4%

Source: Cytonn Research 2021

I. Residential Sector

In 2021, various development activities lined up in the residential sector as the Real Estate market continued to record increased activities as a result of improved investor confidence. According to the October 2021 Leading Economic Indicators Report, the quantity of cement consumed increased by 29.1% in the three months to September to 885,312, from 686,024 metric tonnes recorded in June 2021 partly attributable to the increase in housing developments in the country such as Pangani and River Estate affordable housing programs. Additionally, aggregate value of building plan approvals in the Nairobi City County increased by 5,125.8% to Kshs 14.9 bn in September, from Kshs 0.3 bn recorded in August 2021. This was majorly attributable to increased investments in the residential sector, whose value improved by 5,787.1% compared to a 4,253.2% increase in the value of non-residential buildings.

The table below is a summary of some of the notable development projects that were launched and those that are ongoing;

Summary of the Notable Ongoing Development Projects in 2021					
Name	**Developer**	**Location**	**Number of Units**	**Pricing (Kshs)**	**Status**
Buxton Estate	Buxton Point Apartment Limited	Mombasa County	1,850	1 bed- 2.3 mn 2 bed- 3.6 mn 3 bed - 4.7 mn	Ongoing
Riverbank Apartments Ongoing	Centum Real Estate	Two Rivers	160	1 bed: 15.0 mn 2 bed: 21.0 mn 3 bed: 28.0 mn	Ongoing
Cascadia Apartments	Centum Real Estate	Two Rivers	400	1 bed: 8.5 mn 2 bed: 12.3 mn 3 bed: 14.4 mn	Ongoing
Pangani Affordable Housing Program	National Government and Tecnofin Kenya Limited	Pangani	1,562	1 bed: 1.0 mn 2 bed: 2.0 mn 3 bed: 3.0 mn	Ongoing
River Estate Affordable Housing Program	National Government and Edderman Property Limited	Ngara	2,720		
Affordable Housing Project Kakamega County	County Government	Kakamega and Mumias Towns	3,000		
Changamwe Estate	National Housing Corporation	Changamwe, Mombasa	9,000	1 bed: 1.5 mn 2 bed: 3.0 mn 3 bed: 4.0 mn	Ongoing
Nakuru Affordable Housing Program	County Government of Nakuru and Kings Pride Properties	Bondeni Estate and Nairobi Nakuru Highway Near GK	600	1 bed: 1.5 mn 2 bed: 3.0 mn 3 bed: 4.0 mn	Ongoing
Mavoko Affordable Housing Program	NHC through Epco Builders Limited	Machakos	5,360	1.0 – 3.0 mn (Affordable Housing) and 2.0 mn – 8.0 mn (Middle Income)	Initial Stages
Global Trade Center Executive Residences	AVIC Real Estate	Westlands	Four Residential Towers	1 bed: 21.0 -27.0 mn 2 bed: 27.0 - 32.0 mn 3 bed: 34.0 - 50.0 mn	Ongoing

Source; Online Research

For notable highlights related to affordable housing during the year please see our Cytonn Q1'2021 Markets Review, Cytonn H1'2021 Markets Review and Cytonn Q3'2021 Markets Review Reports. In Q4'2021;

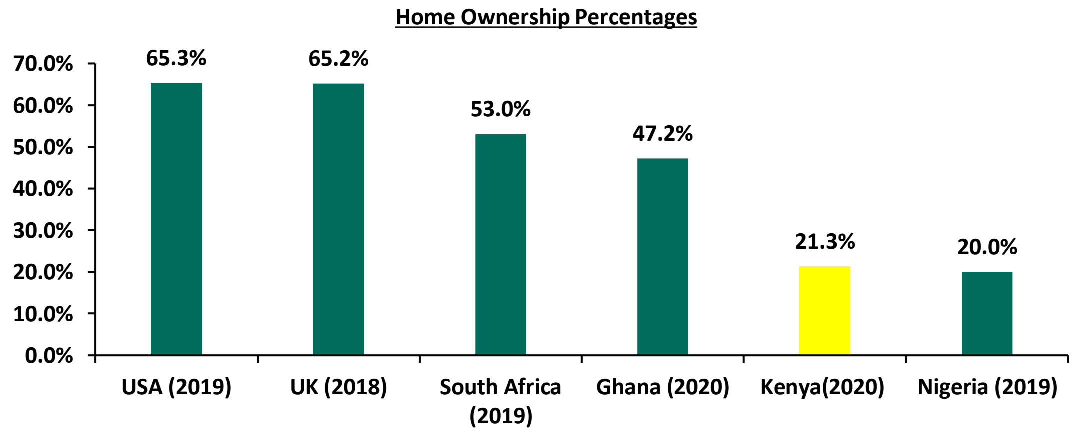
i. Kenya Mortgage Refinance Company (KMRC), announced that it is awaiting approval from the Capital Markets Authority (CMA) to raise Kshs 10.0 bn from investors through the issuance of a corporate bond by December 2021, to support financing of low cost homes through mortgages. For more information, please see our Cytonn Monthly October 2021,

ii. The government through the Ministry of Transport, Infrastructure Housing, Urban Development and Public Works, launched the construction of the Stoni Athi River Waterfront City housing project in Machakos County.

    The Capital Markets Authority (CMA) approved the issuance of a Kshs 3.9 bn Medium Term Note (MTN) programme for Urban Housing Renewal Development Limited which will finance the construction of the ongoing Pangani Affordable Housing Project.
    For more information, please see our Cytonn Monthly – November 2021 ,

iii. The National Government through the Principal Secretary for Housing, Honorable Charles Hinga, announced plans to begin the construction of 5,360 affordable units in Machakos County, dubbed '*Mavoko Affordable Housing Programme*'. For more information, please see our Cytonn Weekly #50/2021, and,

iv. During the week, the government announced a 15,000 affordable housing program in Mukuru Area on a 55.0 Acre piece of land along Enterprise Road in Industrial Area. The projects aim is to support the National Government's Big 4 Agenda unveiled in 2017 to supply at least 50,000 units affordable housing units every year before 2022. Despite the efforts, the government has not been able to deliver to the promise of 500,000 units by 2022 and the current housing deficit is at 2.0 mn units and continues to grow by 200,000 units annually. According to the Centre for Affordable Housing Africa, Kenya's Home ownership rates remains low at 21.3% as at 2020, compared to other African countries such as Ghana with 47.2%. The graph below shows the home ownership percentages of different countries compared to Kenya;



Source: Centre for Affordable Housing Africa, Federal Reserve Bank

Current hurdles constraining supply of affordable houses in the country include; i) high construction costs, ii) inadequate supply of development land, iii) ineffectiveness of Public-Private Partnerships (PPPs) for affordable housing development, and, iv) under-developed capital markets making it hard to develop pools of capital focused on affordable housing particularly in the private markets, to complement efforts by the government. In Kenya, the main source of funding for real estate developers is banks which provide close to 95.0% of funding as compared to 40.0% in developed countries. This implies that capital markets contribute a mere 5.0% of real estate funding, compared to 60.0% in developed countries.

In terms of performance, the residential sector recorded an improvement in performance, with the average total return to investors at 6.1%, an increase from the 4.7% recorded in FY'2020. On a q/q basis, the average total returns improved by 0.6% points from the 5.5% recorded in Q3'2021. The improvement is mainly on the back of the improved investor confidence in the residential market due to less uncertainties in Real Estate market compared to last year. Rental yields averaged at 4.8%, a 0.1% drop from 4.9% recorded in FY'2020 indicating inability to raise rents as the economy remains soft and spending power remains weak.

However, prices appreciated by 1.5% points to 1.3% from a 0.2% price correction recorded in FY’2020, majorly attributable to increased infrastructural projects in the Nairobi Metropolitan Area (NMA) such as the Nairobi Express Way, the Western Bypass, the conversion of the Eastern Bypass into a dual-carriage way among other projects. This has led to increase in property demand in these areas as investors seek to enter at the current lower prices before the projects are completed.

A. Detached Units

In FY’2021, detached units recorded an improvement in performance with average total returns to investors coming in at 5.6%, a 1.4% points y/y increase from the 4.2% recorded in FY’2020. On a q/q basis, the total returns represented a 0.8% points increase from the 4.8% recorded in Q3’2021. The improved performance is attributable to increased demand in the satellite town areas which are spacious and affordable as evidenced by the low price per SQM at Kshs 303, compared to upper mid-end and high-end areas at Kshs 531 and Kshs 682, respectively. The best performing segment was the upper mid-end with total returns at 6.0% compared to 5.8% and 4.9% recorded in the lower mid-end and high-end segments, respectively.

Overall, Ruiru and Ngong were the best performing nodes, with an average total returns of 8.2% and 8.0% attributable to availability of large parcels of land for detached units. The performance can also be attributed to key infrastructure developments with Ruiru being served by the Thika Superhighway and linked to the Eastern Bypass as well, while Ngong is served by Ngong Road whose Phase III upgrade is currently ongoing.

All values in Kshs unless stated otherwise

Summary of Detached Units – FY’2021

Area	Average of Price per SQM FY'2021	Average of Rent per SQM FY'2021	Average of Occupancy FY'2021	Average of Uptake FY'2021	Average of Annual Uptake FY'2021	Average of Rental Yield FY'2021	Average of Price Appreciation FY'2021	Total Returns
High-End								
Rosslyn	183,162	819	87.6%	94.4%	16.6%	4.7%	**2.0%**	**6.7%**
Lower Kabete	148,394	386	92.4%	80.1%	15.0%	2.9%	**2.5%**	**5.4%**
Kitisuru	245,741	736	91.4%	90.3%	15.5%	3.6%	**1.3%**	**4.9%**
Karen	179,672	678	87.0%	85.7%	14.0%	3.8%	**0.1%**	**3.9%**
Runda	211,606	789	91.0%	90.0%	10.2%	4.4%	**(1.0%)**	**3.4%**
Average	**193,715**	**682**	**89.9%**	**88.1%**	**14.3%**	**3.9%**	**1.0%**	**4.9%**
Upper Mid-End								
Redhill & Sigona	99,472	442	94.9%	87.6%	16.1%	4.9%	**2.1%**	**7.0%**
Runda Mumwe	151,663	604	86.3%	81.9%	14.4%	4.3%	**2.5%**	**6.8%**
South B/C	104,685	334	91.4%	78.5%	13.4%	3.6%	**3.2%**	**6.8%**
Langata	118,919	282	89.4%	78.1%	10.7%	3.5%	**3.1%**	**6.6%**
Ridgeways	168,291	761	83.3%	77.0%	13.6%	4.7%	**0.9%**	**5.6%**
Lavington	188,427	576	88.4%	82.2%	13.6%	3.6%	**1.2%**	**4.8%**
Loresho	165,765	719	73.2%	71.3%	15.2%	4.7%	**(0.5%)**	**4.2%**
Average	**142,460**	**531**	**86.7%**	**79.5%**	**13.9%**	**4.2%**	**1.8%**	**6.0%**
Lower Mid-End								
Ruiru	66,080	302	83.7%	70.6%	21.3%	5.3%	**2.9%**	**8.2%**
Ngong	62,988	337	88.7%	89.7%	13.6%	6.3%	**1.7%**	**8.0%**
Kitengela	61,067	274	89.2%	72.2%	12.2%	4.8%	**2.4%**	**7.2%**
Syokimau/Mlolongo	75,599	311	87.8%	85.8%	22.0%	4.2%	**2.9%**	**7.1%**
Juja	70,579	266	83.8%	70.5%	19.5%	4.7%	**1.7%**	**6.4%**

Rongai	79,685	251	93.5%	87.1%	18.7%	3.7%	**1.7%**	**5.4%**
Thika	62,776	302	79.1%	78.2%	15.1%	5.0%	**0.2%**	**5.2%**
Athi River	82,893	313	85.1%	91.9%	15.2%	3.9%	**(0.4%)**	**3.5%**
Donholm & Komarock	86,935	372	91.6%	98.0%	15.2%	4.0%	**(3.0%)**	**1.0%**
Average	**72,067**	**303**	**86.9%**	**82.7%**	**17.0%**	**4.7%**	**1.1%**	**5.8%**

Source: Cytonn Research

B. Apartments

In FY'2021, apartments recorded a significant improvement in performance with the average total returns coming in at 6.7%, a 1.5% points y/y increase from the 5.2% recorded in FY'2020. This was attributable to a 5.3% average rental yield and an average y/y price appreciation of 1.4%. On a q/q basis, the average total return increased by 0.6% from the 6.1% recorded in Q3'2021. Overall, Rongai was the best performing node with an average total return of 8.7%, 2.0% higher than the overall residential apartments average. This was attributable to a high rental demand in the area with rental returns coming in at 6.2%, 0.9% points higher than the lower mid-end satellite market average of 5.3%. Waiyaki Way and South C followed each other closely, with average total returns at 8.6% and 8.5%, respectively.

The lower mid-end satellite towns were the best performing segment with an average total return of 7.3% compared lower mid-end satellite towns and upper mid-end areas with average total returns at 7.1% and 5.7% respectively. This performance was attributable to increased returns in the major suburb town nodes where infrastructure developments are currently ongoing. These include Syokimau and Athi River which are touchpoints to the Nairobi Express Way, Ruaka and Kikuyu linked by the ongoing Western Bypass, Ruiru where the conversion of the Eastern Bypass into dual carriage way ends, and Ngong served by Ngong Road whose Phase III upgrade is currently on course. The demand in this areas has been increasing as investor and renters rush to secure residential spaces in these areas before the completion of the mega infrastructure project.

Notably also, for suburbs, Waiyaki Way and South C areas with link to the Express Way performed well with average total returns at 8.6% and 8.5%, respectively, compared to the suburb market average of 7.1%. In the upper mid-end segment, Westlands also recorded a total return of 6.6% compared to a market average appreciation of 5.7%.

All values in Kshs unless stated otherwise								
Residential Apartments Summary – FY'2021								
Area	**Average of Price per SQM FY'2021**	**Average of Rent per SQM FY'2021**	**Average of Occupancy FY'2021**	**Average of Uptake 2021**	**Average of Annual Uptake FY'2021**	**Average of Rental Yield FY'2021**	**Average of Price Appreciation**	**Total Returns**
Upper Mid-End								
Kileleshwa	127,623	728	89.1%	80.7%	17.6%	6.2%	**1.3%**	**7.5%**
Upperhill	144,437	813	81.3%	92.0%	14.8%	5.7%	**1.8%**	**7.5%**
Westlands	127,816	657	87.4%	86.6%	24.4%	5.1%	**1.5%**	**6.6%**
Kilimani	98,280	534	87.1%	93.5%	22.9%	6.1%	**(0.6%)**	**5.5%**
Parklands	111,152	559	88.0%	87.3%	16.1%	4.8%	**(0.7%)**	**4.1%**
Loresho	119,712	514	90.7%	89.6%	10.5%	4.7%	**(1.7%)**	**3.0%**
Average	**121,504**	**634**	**87.3%**	**88.3%**	**17.7%**	**5.4%**	**0.3%**	**5.7%**
Lower Mid-End Suburbs								
Waiyaki Way	87,231	526	86.8%	83.9%	27.4%	6.3%	**2.3%**	**8.6%**
South C	119,410	699	79.5%	67.0%	19.6%	6.1%	**2.4%**	**8.5%**
Dagoretti	87,342	560	91.9%	95.7%	20.9%	6.0%	**2.4%**	**8.4%**
Donholm & Komarock	84,741	422	86.1%	89.9%	13.4%	5.5%	**2.5%**	**8.0%**
Imara Daima	85,331	391	87.4%	87.7%	14.8%	5.0%	**2.1%**	**7.1%**

Langata	105,837	472	90.0%	87.6%	13.9%	4.9%	**1.7%**	**6.6%**
Kahawa West	71,509	345	80.0%	90.1%	12.2%	4.8%	**1.7%**	**6.5%**
Race Course/Lenana	105,524	618	87.2%	90.3%	25.6%	6.1%	**0.2%**	**6.3%**
South B	101,565	451	82.4%	95.2%	17.8%	4.1%	**1.9%**	**6.0%**
Lower Kabete	253,452	504	83.7%	85.7%	20.1%	3.0%	**1.7%**	**4.7%**
Average	**110,194**	**499**	**85.5%**	**87.3%**	**18.6%**	**5.2%**	**1.9%**	**7.1%**
Lower Mid-End Satellite Towns								
Rongai	60,003	347	86.3%	74.3%	16.1%	6.2%	**2.6%**	**8.8%**
Ruaka	107,375	588	91.9%	81.7%	20.2%	5.6%	**2.9%**	**8.5%**
Ruiru	89,260	493	84.3%	85.9%	21.9%	5.6%	**2.2%**	**7.8%**
Syokimau	72,318	330	89.9%	83.5%	12.7%	5.3%	**1.9%**	**7.2%**
Ngong	63,446	346	73.7%	76.3%	12.5%	5.0%	**2.1%**	**7.1%**
Kikuyu	80,656	464	69.9%	79.6%	17.6%	4.9%	**2.1%**	**7.0%**
Thindigua	96,294	491	84.0%	92.9%	14.9%	5.2%	**1.4%**	**6.6%**
Athi River	63,416	288	91.9%	91.8%	13.7%	5.2%	**1.4%**	**6.6%**
Kitengela	60,435	261	93.2%	84.0%	10.1%	5.0%	**1.6%**	**6.6%**
Average	**77,023**	**401**	**85.0%**	**83.3%**	**15.5%**	**5.3%**	**2.0%**	**7.3%**

Source: Cytonn Research 2021

Our Outlook for the residential sector is NEUTRAL supported by the continued construction of affordable housing projects and diversified sources of finance to fund both affordable housing and mortgages. However, we expect the sluggishness of the affordable housing initiative and the low penetration of mortgages in the country to continue impeding the performance of the sector. For detached units, investment opportunity lies in areas such as Ruiru and Ngong while for apartments, investment opportunity lies in Rongai and Waiyaki Way.

II. Commercial Office

The commercial office sector realized a slight improvement in its overall performance in FY'2021, with the average rental yields coming in at 7.1%, 0.1 % points higher than the 7.0% recorded in 2020. The average occupancy rates increased by 0.2% to 77.9%, from 77.7% recorded in 2020. The improvement in performance was mainly driven by an improved business environment following the lifting of the COVID-19 containment measures, as well as some businesses resuming full operations hence boosting the occupancy rates. The average asking rents remained flat at Kshs 93, as some landlords still offer discounts in order to retain and attract new clients, hence the rents haven't resumed their pre-covid rates. The table below highlights the performance of the Nairobi Metropolitan Area (NMA) Commercial Office sector over time:

All values in Kshs Unless Stated Otherwise									
Nairobi Metropolitan Area (NMA) Commercial Office Returns since 2020									
	Q1' 2020	**H1' 2020**	**Q3' 2020**	**FY' 2020**	**Q1'2021**	**H1'2021**	**Q3' 2021**	**FY'2021**	**Δ FY'2020/FY '2021**
Occupancy %	81.7%	80.0%	79.9%	**77.7%**	76.3%	75.8%	77.3%	**77.9%**	**0.2%**
Asking Rents (Kshs/SQFT)	97	95	94	**93**	92	93	93	**93**	**0.0%**
Average Prices (Kshs/SQFT)	12,535	12,516	12,479	**12,280**	12228	12224	12,211	**12,279**	**0.0%**
Average Rental Yields (%)	7.8%	7.3%	7.2%	**7.0%**	6.8%	6.9%	6.9%	**7.1%**	**0.1%**

Source: Cytonn Research 2021

In terms of the sub markets performance, Gigiri was the best performing node in 2021 with average rental yields at 8.6%, 1.5% points higher than the market average 7.1%. This was mainly attributed to the availability of top quality grade A and B offices charging premium rental prices, and availability of adequate infrastructure and amenities in the area such as the Limuru Road.

On the other hand, Mombasa Road was the worst performing node with average rental yields at 5.1% in 2021, 2.0% points lower than the market average of 7.1%, attributed to the low average rents at Kshs 73.0 per SQFT which is lower than the market average of Kshs 93 Per SQFT, zoning regulations as Mombasa Road is mainly considered an industrial area thus making it unattractive to business firms, and current traffic snarl-ups caused by the ongoing Nairobi Expressway project thus making the area unattractive. However this is a temporary situation as we expect the area to record improved performance upon the completion of the project.

The table below shows the Nairobi Metropolitan Area (NMA) sub-market performance;

(All values in Kshs unless stated otherwise)

NMA Commercial Office Submarket Performance FY'2021

Area	Price /SQFT (Kshs) FY'2020	Rent /SQFT (Kshs) FY'2020	Occupancy FY'2020	Rental Yields FY'2020	Price Kshs/ SQFT FY 2021	Rent Kshs /SQFT FY 2021	Occupancy FY 2021(%)	Rental Yield (%) FY 2021	Δ in Rent	Δ in Occupancy (% points)	Δ in Rental Yields (% points)
Gigiri	13400	116	82.5%	8.5%	13,500	119	81.3%	8.6%	2.3%	(1.2%)	0.1%
Westlands	11975	104	74.4%	7.8%	11,972	104	75.5%	8.1%	0.4%	1.1%	0.3%
Karen	13567	106	83.6%	7.8%	13,325	106	83.0%	7.7%	(0.4%)	(0.6%)	(0.1%)
Parklands	10958	93	79.9%	7.6%	11,336	91	80.1%	7.6%	(1.4%)	0.2%	0.0%
Kilimani	12233	93	79.1%	6.8%	12,364	91	79.8%	7.1%	(1.5%)	0.7%	0.3%
Upperhill	12684	92	78.5%	6.9%	12,409	94	78.0%	7.0%	2.2%	(0.5%)	0.2%
Nairobi CBD	11889	82	82.4%	6.8%	11,787	82	82.8%	6.8%	(0.7%)	0.4%	0.0%
Thika Road	12500	80	76.1%	5.8%	12,571	79	76.3%	5.7%	(1.8%)	0.2%	(0.1%)
Mombasa road	11313	73	63.0%	4.8%	11,250	73	64.2%	5.1%	0.6%	1.2%	0.3%
Average	**12280**	**93**	**77.7%**	**7.0%**	**12,279**	**93**	**77.9%**	**7.1%**	**0.0%**	**0.2%**	**0.1%**

Source: Cytonn research

A key notable highlight for the commercial office sector during the year was;

i. Insurance Regulatory Authority (IRA) and Capital Markets Authority (CMA) announced that they want to jointly buy office spaces within Nairobi premises, a move that will see it take up at least 55,000 SQFT of office space in Upper Hill with a minimum of 100 parking bays, and the building expected to sit on at least two-acre piece land. For more analysis, please see Cytonn Weekly #19/2021.

Our outlook for the NMA commercial office sector is NEUTRAL attributed to an improved business environment following the lifting of the COVID-19 containment measures, as well as some businesses resuming full operations hence boosting the occupancy rates. However, the existing oversupply at 7.3 mn SQFT, coupled with the remote working strategy still being embraced by some firms thus crippling demand for physical spaces, is expected to weigh down performance of the sector.

III. Retail Sector

In FY'2021, the Retail sector recorded a 0.3% points increase in average rental yields to 7.8%, from 7.5% in 2020. The average rents and occupancies also increased by 0.6% and 1.6% points to Kshs 170 per SQFT and 76.8%, respectively, in FY'2021, from Kshs 169 per SQFT and 75.2%, respectively in FY'2020. The general improvement in performance in 2021 was due to; i) an improved business environment following the lifting of the COVID-19 containment measures, ii) aggressive expansion by local and international retailers such as Naivas, Artcaffe, QuickMart, and Carrefour, iii) increased infrastructure developments hence promoting accessibility to retail centres, iv) availability of prime retail space left by troubled retailers, and, v) positive demographics facilitating demand for spaces, goods and services.

The table below shows the performance of the retail sector in Nairobi over time;

Summary of Retail Sector Performance Since 2020									
Item	Q1'2020	H1'2020	Q3'2020	FY'2020	Q1'2021	H1'2021	Q3'2021	FY'2021	Y/Y 2021 Δ
Average Asking Rents (Kshs/SQFT)	173	170	169	169	166	169	168	170	0.6%
Average Occupancy (%)	76.3%	74.0%	74.2%	75.2%	75.0%	75.70%	75.8%	76.8%	1.6%
Average Rental Yields	7.7%	7.4%	7.4%	7.5%	7.4%	7.60%	7.5%	7.8%	0.3%

Source: Cytonn Research 2021

In terms of the sub markets analysis, Westlands was the best performing node recording average rental yields of 10.0%, 2.2% points higher than the market average of 7.8%. The remarkable performance was mainly attributed to; i) relatively high monthly rents at Kshs 213 per SQFT compared to the market average of Kshs 170, ii) adequate amenities and infrastructure servicing the areas, and, iii) relatively high demand evidenced by their high occupancy rates at 78.8%, compared to the market average of 76.8%.

Eastlands ranked last with average rental yields of 5.6%, 2.2% points lower than the market average of 7.8% as a result of; i) the lower rents at Kshs 133 per SQFT compared to market average of Kshs 170 per SQFT, ii) presence of informal retail spaces causing stiff competition to the formal spaces, and, iii) inadequate infrastructure to service the retail spaces. The table below shows the submarket performance of nodes in the Nairobi Metropolitan Area (NMA):

(All values in Kshs unless stated otherwise)

Nairobi Metropolitan Area Retail Market Performance FY'2021									
Area	Rent Kshs /SQFT FY'2020	Occupancy% FY'2020	Rental Yield FY'2020	Rent Kshs /SQFT FY'2021	Occupancy% FY'2021	Rental Yield FY'2021	FY' 2021 Δ in Rental Rates	FY' 2021 Δ in Occupancy (% points)	FY' 2021 Δ in Rental Yield (% points)
Westlands	209	81.5%	9.9%	213	78.8%	10.0%	2.0%	(2.7%)	0.1%
Karen	217	81.0%	9.8%	202	84.0%	9.8%	(7.6%)	3.0%	0.0%
Kilimani	171	82.5%	8.5%	183	86.0%	9.8%	6.6%	3.5%	1.3%
Ngong Road	178	80.3%	8.2%	171	79.0%	7.7%	(4.2%)	(1.3%)	(0.5%)
Kiambu road	176	67.5%	6.9%	180	74.2%	7.7%	2.2%	6.7%	0.8%
Mombasa road	140	70.0%	5.9%	148	75.0%	6.8%	5.5%	5.0%	0.9%
Thika Road	158	70.5%	6.3%	161	74.0%	6.7%	1.8%	3.5%	0.4%
Satellite towns	133	73.0%	5.8%	142	69.0%	6.2%	6.4%	(4.0%)	0.4%
Eastlands	137	70.2%	6.1%	133	71.6%	5.6%	(3.4%)	1.4%	(0.5%)
Average	**169**	**75.2%**	**7.5%**	**170**	**76.8%**	**7.8%**	**0.6%**	**1.6%**	**0.3%**

Source: Cytonn Research 2021

For notable highlights during the year; see (Cytonn Q1'2021 Markets-Review, Cytonn H1'2021 Markets Review, and, Cytonn Q3'2021 Markets Review highlights); For Q4'2021,

i. Naivas Supermarket, a local retailer, opened a new outlet in Nairobi CBD at Uchumi City Centre along Agha Khan Walk, taking up 20,000 SQFT prime space previously occupied by Uchumi Supermarket. For more information, see Cytonn Monthly October 2021,
ii. Chandarana Foodplus, a local retailer opened a new outlet at new Golden Life Mall in Nakuru, bringing its total operational outlets countrywide to 22. For more information, see Cytonn Weekly # 44/2021,

iii. Papa John's International Inc. announced a partnership deal with Kitchen Express to open 60 new fast-food outlets in Kenya and Uganda from 2022. For more information, see Cytonn Weekly #47/2021,

iv. Artcaffe Group, an international restaurant chain, announced plans to open 4 new outlets in Nairobi by the end of the year. For more information, see Cytonn Monthly November 2021,

v. Naivas Supermarket opened two new outlets. The first is located at Oasis Mall in Malindi, Kilifi County, taking 28,000 SQFT of space previously occupied by Nakumatt, while the second is located in Embakasi off Airport North Road, Nairobi County taking 27,000 SQFT of space previously occupied by Tuskys Supermarket. For more information, see Cytonn Weekly #49/2021, and,

vi. Rhapta Square Shopping Mall along Rhapta Road in Westlands began operations in December 2021. Rhapta Square will host key retail chains such as Optica Limited, Artcaffe' Market, Peak-a-boo Kids Shop, Good Life Pharmacy, Diamond Trust Bank (DTB), among others. For more information, see Cytonn Weekly #51/2021.

The table below shows the summary of the number of stores of the key Local and International Retailer supermarket chains in Kenya;

Main Local and International Retail Supermarket Chains									
Name of Retailer	Category	Highest number of branches that have ever existed as at FY'2018	Highest number of branches that have ever existed as at FY'2019	Highest number of branches that have ever existed as at FY'2020	Number of branches opened in 2021	Closed branches	Current number of Branches	Number of branches expected to be opened	Projected number of branches FY'2021
Naivas	Local	46	61	69	10	0	79	1	80
QuickMart	Local	10	29	37	9	0	46	0	46
Chandarana	Local	14	19	20	1	0	22	1	23
Carrefour	International	6	7	9	5	0	16	0	16
Cleanshelf	Local	9	10	11	1	0	12	0	12
Tuskys	Local	53	64	64	0	61	3	0	3
Game Stores	International	2	2	3	0	0	3	0	3
Uchumi	Local	37	37	37	0	35	2	0	2
Choppies	International	13	15	15	0	13	2	0	2
Shoprite	International	2	4	4	0	4	0	0	0
Nakumatt	Local	65	65	65	0	65	0	0	0
Total		**257**	**313**	**334**	**26**	**178**	**185**	**2**	**187**

Source: Online Search

We have a NEUTRAL outlook on the retail sector's performance with the performance expected to be driven by the rapid expansion by retailers, infrastructure road and railway projects boosting accessibility, and positive demographics facilitating demand. However, the performance is expected to be impeded by; i) oversupply at 1.7 mn SQFT in the Kenyan retail sector and 3.0 mn SQFT in the NMA retail sector, ii) growing popularity of e-commerce which continues to affect occupier demand, and, iii) financial constraints hindering developments.

IV. Mixed-Use Developments

In 2021, we released the Nairobi Metropolitan Area (NMA) Mixed Use Developments Report 2021. According to the report Mixed-Use Developments recorded an average rental yield of 7.2% in 2021, 0.7% points higher than the respective single-use themes which recorded average rental yield of 6.5% in the similar period. The relatively better performance was mainly attributed to; i) an improved business environment, ii) strategic and prime locations of the developments with the capability to attract prospective clients, and, iii) preference by target clients due to their convenience hence improved demand

and returns to investors. The retail and commercial office theme in the MUDs recorded a 1.3% and 0.2% points increase in the average rental yield to 8.4% and 7.1%, respectively in 2021, from 7.1% and 6.9% in 2020. This was mainly due to an improved business environment leading to increased demand and uptake of spaces.

For the residential theme in the MUDs, the average rental yield declined by 0.3% points to 6.0% in 2021, from 6.3% in 2020, attributed to other landlords still offering discounts in a bid to attract more tenants as well as retaining the existing ones. Additionally, the retail, commercial office and residential themes in the MUDs performed better in 2021 when compared to single-use retail, commercial office and residential themes which realized rental yields of 7.8%, 6.6% and 5.2%, respectively in 2021. This was attributed to their incorporated live, work and play lifestyle thus more preferred, coupled with the adequate amenities available leading to their increased demand.

The table below shows the performance of Mixed-Use Developments by node in 2021;

(All Values in Kshs Unless Stated Otherwise)

Nairobi's Mixed-Use Developments Market Performance by Nodes 2021

	Retail Performance				Commercial Office Performance				Residential Performance				
Location	**Price/SQFT**	**Rent/SQFT**	**Occup. (%)**	**Rental Yield (%)**	**Price/ SQFT**	**Rent/SQFT**	**Occup. %)**	**Rental Yield (%)**	**Price/ SQM**	**Rent/ SQM**	**Annual Uptake %**	**Rental Yield %**	**Average MUD yield**
Karen	23,333	196	86.7%	**8.8%**	13,233	117	85.0%	**9.0%**					**8.7%**
Westlands	15,833	173	70.8%	**9.5%**	12,892	110	71.7%	**7.3%**	211,525	1,226	15.6%	**7.0%**	**7.8%**
Kilimani	18,500	162	79.0%	**8.3%**	13,713	106	79.0%	**6.7%**					**7.4%**
Mombasa Rd	20,000	185	70.0%	**8.4%**	13,000	100	60.0%	**5.5%**	156,079	853	13.3%	**6.6%**	**7.4%**
Thika Rd	23,750	215	82.5%	**9.2%**	13,250	105	72.5%	**6.9%**	128,545	612	17.9%	**6.1%**	**7.0%**
Upper Hill	15,485	130	62.5%	**6.4%**	12,000	102	70.0%	**7.0%**					**6.8%**
Eastlands	20,000	124	75.0%	**5.5%**	12,000	80	62.5%	**5.0%**	72,072	360	10.0%	**4.2%**	**5.1%**
Average	**18,759**	**170**	**75.9%**	**8.4%**	**12,924**	**106**	**73.6%**	**7.1%**	**142,055**	**763**	**15.0%**	**6.0%**	**7.2%**

***The average MUDs performance is based on areas where sampled projects exist*

Source: Cytonn Research 2021

For notable highlights during the year please see our Cytonn Q1'2021 Markets Review, Cytonn H1'2021 Markets Review and Cytonn Q3'2021 Markets Review Reports. In Q4'2021;

i. Sheria Savings and Credit Cooperative Society (SACCO) announced plans to begin construction of Sheria Towers in Upperhill, Nairobi before the end of 2021. The Kshs 2.0 bn project will comprise of residential units, shopping centers, and commercial offices sitting on a one-acre piece of prime land along Matumbato Close near their offices. For more information, see Cytonn Weekly #45/2021
ii. Tatu City, a Mixed-Use developer, announced a partnership deal with Stecol Corporation, a Chinese construction and engineering firm, to develop supporting infrastructure in the final phase of Kijani Ridge located in Ruiru, Kiambu County. The project's cost is estimated at Kshs 1.0 bn and is expected to be completed by the end of 2022. For more information, see Cytonn Weekly #47/2021
iii. President Uhuru Kenyatta, officially opened the Global Trade Center (GTC) Office Tower located along Waiyaki Way in Westlands. Global Trade Center is a Kshs 40.0 bn investment comprising of 6 towers has been developed by Avic International Real Estate from 2014. For more information please see our Cytonn Weekly #51/2021, and,
iv. During the week, Tatu City, a mixed-use developer, set up a 'One-stop-shop' facility in their 5,000-acre city located in Ruiru, Kiambu County. The shop will facilitate operations of the Special Economic Zone Authority (SEZA) activities which include application of permits, approvals, and licenses for ease of doing business with the government, and is expected to begin operations in January 2022. This comes

after Stecol Corporation, a Chinese engineering company began Kshs 1.0 bn infrastructural works such as footpaths and street lights among other developments, on Kijani Ridge, which is part of the residential area in Tatu City. The development of the center is expected to ease delivery and accessibility of services within the city as well as promote expansion of the Mixed-Use Developments in the country, which have become preferential due to convenience and high returns offered to investors compared to single theme developments.

Our outlook on Mixed-Use Developments (MUDs) is NEUTRAL supported by the impressive returns recorded at 7.2% in 2021, from 6.9% in 2020. However, their performance is expected to be weighed down by existing oversupply at 7.3 mn SQFT in the NMA commercial office market, and oversupply in the retail market at 3.0 mn SQFT in the NMA and 1.7 mn SQFT in the Kenya retail market. Investment opportunity lies in areas with relatively high returns such as Karen and Westlands which recorded an average MUD rental yield of 8.7%, and, 7.8% respectively, against the market average of 7.2%.

V. Hospitality Sector

The hospitality sector has been on a recovery path in 2021, as evidenced by the increasing number of hotels in operation, hotel bookings and bed occupancies during the year. In 2020, the hospitality sector was among the worst hit sectors by the COVID-19 pandemic following the international travel ban, lockdowns and social distancing measures put in place to curb the spread of the virus. These measures led to the decline in hotel bookings and occupancies, and, the closure of many hospitality-affiliated businesses.

In 2021, we released the Nairobi Metropolitan Area Serviced Apartments Report 2021. Overall serviced apartments' year on year performance improved, with the occupancy rates increasing by 13.5% points to 61.5%, from 48.0% recorded in 2020. The monthly charges per SQM increased by 0.7% to Kshs 2,549 in 2021 from Kshs 2,533 recorded in 2020. The average rental yield increased by 1.5% points to 5.5% in 2021, from 4.0% recorded in 2020. This is mainly attributable to an increase in the number of local and international tourist arrivals following the lift of travel bans by countries such as the UK. This led to increased number of hotel bookings, occupancies and operational hotels during the period. The increase in the number of tourists is attributable to the; i) aggressive local marketing through price discounts, and, international marketing through the Magical Kenya platform in countries such as the Ukraine, ii) positive accolades for the Kenyan hospitality sector, iii) the return of international flights which had stalled from COVID-19 operational guidelines, and, iv) the mass vaccination currently underway in the country boosting confidence in the sector.

The table below shows the comparative analysis between 2020 and 2021;

All values in Kshs unless stated otherwise

Comparative Analysis-2020/2021 Market Performance

Node	Occupancy 2021	Occupancy 2020	Change in Occupancy	Monthly Charge/SQM 2021 (Kshs)	Monthly Charge/SQM 2020 (Kshs)	% Change in Monthly Charges/SQM	Rental Yield 2021	Rental Yield 2020	Change in Rental Yield
Westlands	68.8%	49.4%	19.4%	3,569	3,584	(0.4%)	8.3%	6.1%	**2.2%**
Kileleshwa & Lavington	57.1%	48.1%	9.0%	2,571	2,553	0.7%	6.4%	4.3%	**2.1%**
Nairobi CBD	66.6%	42.1%	24.6%	2,176	2,122	2.5%	4.9%	2.9%	**2.0%**
Kilimani	60.0%	48.4%	11.7%	2,815	2,783	1.1%	5.8%	4.8%	**1.0%**
Thika Road	56.4%	48.1%	8.3%	1,748	1,726	1.3%	3.5%	2.0%	**1.6%**
Upperhill	61.1%	48.9%	12.2%	2,109	2,121	(0.6%)	4.5%	3.6%	**0.9%**
Limuru Road	60.5%	51.4%	9.1%	2,853	2,839	0.5%	4.9%	4.5%	**0.4%**
Average	**61.5%**	**48.0%**	**13.5%**	**2,549**	**2,533**	**0.7%**	**5.5%**	**4.0%**	**1.5%**

- Average rental yield increased by 1.5% points to 5.5% in 2021 from 4.0% recorded in 2020 mainly attributable to an increase in the number of local and international tourists from the lift of travel bans

Source: Cytonn Research, 2021

- Westlands and Kileleshwa were the best performing nodes with a rental yield of 8.3% and 6.4%, respectively, compared to the market average of 5.5%. The submarkets recorded an increase in rental charges by 2.2% and 2.1% points, respectively, compared to an overall market increase of 1.5%. This can be attributed the strategic locations of these areas given its the proximity Nairobi CBD, availability of high quality serviced apartments, ease of accessibility, and proximity to most international organizations hence the demand.
- Thika Road was the least performing node with a rental yield of 3.5%, 2.0% points lower than the market average of 5.5% and we attribute this to the relatively low charge rates for apartments within the area given its unpopularity, the significant distance from main commercial zones, in addition to security concerns as the area is not mapped within the UN Blue Zone.

In Q4'2021 five reports related to the hospitality sector were released and below are the key takeouts;

#	Report	Key-Take Outs
1.	Monetary Policy Committee Hotels Survey - November 2021	i. Overall, all the sampled hotels indicated that they were in operation between October and November 2021, representing a 4.0% points increase to 100%, from the 96.0% operation rate in September 2021, ii. The average bed occupancy in the month of October averaged at 56.0%, 18.0% and 4.0% points higher than 38.0% and 52.0% recorded in the months of September and November, respectively, and, iii. Local guests continued to account for majority of clientele population at 75.5% of accommodation and 76.4% restaurant services between October and November 2021, compared to 62.0% and 68.7%, respectively, during the period before the COVID-19 pandemic. For more information, please see our Cytonn Weekly #49/2021
2.	Monetary Policy Committee Hotels Survey- September 2021	i. The number of operational hotels came in at 96.0%, representing a stagnation since July 2021, i. Local guests continued to account for majority of clientele population at 79.5% for accommodation and 78.9% for restaurant services between August and September 2021, and, i. The average bed occupancy in September 2021 was at 38.0%, a 8.0% points increase from 30.0% in July. For more information please see our Cytonn Weekly #40/2021

For notable highlights during the year please see our Cytonn Q1'2021 Markets Review, Cytonn H1'2021 Markets Review and Cytonn Q3'2021 Markets Review Reports. In Q4'2021;

i. Jameson Valley Holdings and Actis Limited, private equity firms, announced a Kshs 1.0 bn joint venture bid to buy three hotels, namely; Nairobi's Fairview Hotel and Town Lodge Hotel both located along Bishop Road Upperhill, and, City Lodge Hotel located in Two Rivers, Runda. For more information, please see our Cytonn Weekly #41/2021,
ii. World Travel Awards (WTA), a global institution that acknowledges, rewards and celebrates excellence across all sectors of the tourism industry yearly, announced the 28th World Travel Awards winners. For more information, please see our Cytonn Monthly – October 2021 , and,
iii. Actis Limited, a Private Equity Firm announced the completion of the acquisition of Fairview Hotel and Town Lodge Hotel both located at Bishop Road Upperhill, and, City Lodge Hotel in Two Rivers, Runda at a cost of Kshs 1.0 bn. For more information, please see our Cytonn Weekly #51/2021.

We have a NEUTRAL outlook for the hospitality sector and we expect the sector to be on an upward trajectory in terms of overall hotels in operations, hotel bookings, and hotel occupancy following the ambitious international marketing, positive accolades, the return of international flights and the mass vaccination currently underway in the country. However, the emergence of new COVID-19 variant Omicron, continues to pose a risk on this recovery as stricter measures may be imposed in order to curb its spread.

VI. Land Sector

The Nairobi Metropolitan Area (NMA) land sector recorded an average annualized capital appreciation of 2.8% in FY'2021, representing an 8.3% 10-year Compounded Annual Growth Rate (CAGR). Unserviced land in the satellite towns of the NMA recorded the highest capital appreciation at 5.8%, which is 3.0% points higher than the market average of 2.8%. This was mainly attributed to an increased demand resulting from their affordability, with the average asking price coming in at Kshs 13.5 mn, lower than the market average of Kshs 134.8 mn in 2021, and increased infrastructure developments enhancing accessibility to areas. On the other hand, average asking prices for land in the commercial zones of the NMA realized a 0.3% Year on Year (YoY) price correction. This was attributable to limited demand as developers withheld their construction plans awaiting the absorption of existing spaces particularly in the oversupplied commercial office and retail sectors.

The table below shows the summary of the NMA land performance;

All Prices in Kshs (mn) Unless Stated Otherwise								
Nairobi Metropolitan Area Land Performance Trend								
Location	**Price in 2011**	**Price in 2017**	**Price in 2018**	**Price in 2019**	**Price in 2020**	**Price in 2021**	**10 Year CAGR**	**Annual Capital Appreciation 2020/'21**
Unserviced land- Satellite Towns	9.0	20.4	22.7	24.9	12.7	13.5	**4.1%**	**5.8%**
Serviced land- Satellite Towns	6.0	14.4	14.3	14.3	14.8	15.4	**9.9%**	**3.8%**
Nairobi Suburbs - Low Rise Residential Areas	56.0	82.4	89.4	91.6	93.8	96.6	**5.6%**	**3.2%**
Nairobi Suburbs - High Rise residential Areas	46.0	134.6	135.0	137.5	135.7	137.0	**11.5%**	**1.6%**
Nairobi Suburbs - Commercial Areas	156.0	429.8	447.3	428.5	413.0	411.2	**10.2%**	**(0.3%)**
Average	**54.6**	**144.5**	**155.4**	**139.4**	**134.0**	**134.8**	**8.3%**	**2.8%**

Source: Cytonn Research 2021

<u>Performance per Node</u>

- The average asking prices for unserviced land in the satellite towns of the NMA recorded annualized capital appreciation at 5.8%, which is 3.0% points higher than the market average of 2.8%. This was mainly attributed to an increased demand resulting from their affordability, and increased infrastructure developments enhancing accessibility to areas. Juja recorded the highest appreciation at 7.6% due to; i) affordability of land prices at Kshs 12.4 mn per acre against the market average of Kshs 13.5 mn per acre, ii) the availability of infrastructure with the area being served by roads such as Thika Superhighway, iii) increased demand as a result of an increased population in Ruiru constituency where Juja lies, by 35.1% to 371,111 in 2019, from 241,007 in 2009, and, iv) the rising student population in the area from institutions such as Jomo Kenyatta University of Agriculture and Technology (JKUAT), thus facilitating increased demand for land for development of student housing units.

All Prices in Kshs (mn) Unless Stated Otherwise						
Satellite Towns - Unserviced Land						
Location	**Price in 2017**	**Price in 2018**	**Price in 2019**	**Price in 2020**	**Price in 2021**	**Annualized Capital Appreciation**
Juja	9.6	10.1	10.8	11.5	12.4	**7.6%**
Utawala	11.0	12.9	15.1	15.1	16.2	**7.5%**
Ongata Rongai	9.9	11.4	12.1	13.3	14.0	**5.0%**
Athi River	4.1	3.7	4.2	4.5	4.7	**4.9%**
Limuru	16.7	17.1	17.4	19.3	20.0	**3.9%**

Average	21.4	24.1	24.9	12.7	13.5	5.8%

Source: Cytonn Research, 2021

- Serviced land in the satellite towns of the NMA realized a 3.8% annualized capital appreciation, which is 1.4% points higher than the overall market average of 2.8%. The good performance was driven by increased demand that was fuelled by; i) the presence of infrastructure amenities supporting the performance of the areas, ii) affordability of the land prices at Kshs 15.4 mn compared to market average of Kshs 134.8 mn, and iii) availability of ongoing infrastructure road and railway networks which continue to open up areas for investments.
- Syokimau was the best the performing location with an annualized capital appreciation of 8.1% mainly attributed to the ongoing construction of the Nairobi Expressway boosting the land prices and promoting accessibility of the area. Thika however recorded a slight price correction of 0.1% a result of a declined demand for development land in the area.

All Prices in Kshs (mn) Unless Stated Otherwise						
Satellite Towns - Serviced Land						
Location	**FY'2017**	**FY'2018**	**FY'2019**	**FY'2020**	**FY'2021**	**Annualized Capital Appreciation**
Syokimau-Mlolongo	12.1	12.1	13.9	15.1	16.3	**8.1%**
Ruiru - Juja	19.7	20.6	20.9	22.2	23.3	**6.4%**
Ongata Rongai	19.1	16.7	16.4	15.0	15.7	**4.7%**
Athi River	12.9	12.9	13.1	14.6	15.0	**3.0%**
Ruai	13.1	13.6	12.3	11.2	11.5	**2.8%**
Thika	9.2	10.0	9.5	10.8	10.8	**(0.1%)**
Average	**14.4**	**14.3**	**14.3**	**14.8**	**15.4**	**3.8%**

Source: Cytonn Research 2021

- Asking land prices in low rise residential areas recorded an annualized capital appreciation of 3.2% attributed to relatively high demand that was fuelled by; i) adequate infrastructure and amenities servicing the areas such as the Karen road and Runda Water Services Provider, among many others, ii) presence of affluent population with capability to purchase the assets, and iii) sparsely populated neighbourhoods with serene appearance thus attractive to investors.
- Kitisuru realized the highest price appreciation of 8.2% compared to market average of 3.2% mainly due to a relatively high demand for land for development in the area driven by; i) adequate infrastructure serving the area such as Kitisuru road, ii) its exclusive neighbourhood attracting investments, and, iii) relatively affordable prices at Kshs 89.1 per acre compared to the overall market's price of 96.6 mn.

All Prices in Kshs (mn) Unless Stated Otherwise						
Nairobi Suburbs- Low Rise Residential Areas						
Location	**FY'2017**	**FY'2018**	**FY'2019**	**FY'2020**	**FY'2021**	**Annualized Capital Appreciation**
Kitisuru	70.0	77.3	78.3	81.8	89.1	**8.2%**
Runda	67.8	77.1	75.7	78.7	81.4	**3.3%**
Karen	51.6	56.9	58.7	58.9	60.1	**3.2%**
Spring Valley	154.4	164.0	168.8	166.3	168.5	**1.3%**
Ridgeways	68.0	71.6	76.7	83.3	83.3	**0.0%**
Average	**82.4**	**89.4**	**91.6**	**93.8**	**96.6**	**3.2%**

Source: Cytonn Research 2021

- High rise residential areas recorded a 1.6% annualized capital appreciation, with Embakasi being ranked highest at 3.8%. This was mainly attributable to affordability of land prices driving demand, having recorded average selling prices at Kshs 74.5 mn compared to market average of Kshs 136.9 mn, coupled with the availability of infrastructure presence such as the Airport Road and part of the Outer Ring Road.

All Prices in Kshs (mn) Unless Stated Otherwise						
Nairobi Suburbs- High Rise Residential Areas						
Location	FY'2017	FY'2018	FY'2019	FY'2020	FY'2021	Annualized Capital Appreciation
Embakasi	70.4	68.8	69.0	71.6	74.5	3.8%
Kasarani	63.6	64.7	73.8	79.7	81.9	2.7%
Kileleshwa	305.5	306.5	304.8	291.9	292.6	0.2%
Dagoretti	98.8	100.0	102.4	99.4	99.1	(0.3%)
Average	**134.6**	**135.0**	**137.5**	**135.7**	**136.9**	**1.6%**

Source: Cytonn Research, 2021

- Asking land prices in commercial zones recorded an overall price correction of 0.3%. This was as a result of; i) minimal demand for land in the areas as developers withheld their construction plans awaiting the absorption of existing spaces such as the oversupplied office market by 7.3 mn SQFT, and, ii) high prices at Kshs 411.2 mn per acre against a market average of Kshs 134.8 mn per acre limiting investment opportunities. Westlands however recorded a 2.1% price appreciation mainly attributed to the presence of ongoing Nairobi Expressway project fuelling demand for development land, coupled with its close proximity to Nairobi Central Business District (CBD).

All Prices in Kshs (mn) Unless Stated Otherwise						
Nairobi Suburbs- Commercial Zones						
Location	FY'2017	FY'2018	FY'2019	FY'2020	FY'2021	Annualized Capital Appreciation
Westlands	473.7	499.1	474.3	443.9	451.2	1.7%
Riverside	360.6	395.8	340.5	312.8	314.5	0.6%
Kilimani	350.0	387.3	392.2	393.5	391.3	(0.6%)
Upper Hill	535.0	507.0	507.2	501.6	487.9	(2.7%)
Average	**429.8**	**447.3**	**428.5**	**413.0**	**411.2**	**(0.3%)**

Source: Cytonn Research, 2021

A key notable highlight for the land sector during the year was;

President Uhuru Kenyatta officially launched the National Land Information Management System (NLIMS) marking the culmination of years of digitization of land records in Kenya. The launch of the digital land platform named 'Ardhi Sasa', which will be first rolled out in Nairobi then in other counties in phases, coincided with the opening of the National Geospatial Data Centre, an online depository that will contain all the land records in Kenya. For more analysis, see Cytonn Monthly, April 2021.

We have a POSITIVE outlook for the land sector supported by factors such as; i) positive demographics, ii) growing demand for land particularly in the satellite areas, iii) improving infrastructure thereby opening up areas for investment, iv) government's efforts towards ensuring efficient and streamlined processes in land transactions, and, v) the continued focus on the affordable housing initiative driving demand for land.

VII. Infrastructure

The government has continued to demonstrate commitment to development of infrastructure in line with Vision 2030 aspirations to provide safe, efficient, accessible, and, sustainable transportation services. For notable highlights during the year please see our Cytonn Q1'2021 Markets Review, Cytonn H1'2021 Markets Review and Cytonn Q3'2021 Markets Review Reports. For Q4'2021;

i. The County government of Turkana and the Eastern Equatorial State of South Sudan signed a Memorandum of Understanding (MoU) that will allow the continuation of the construction of the Nadapal River Section A1 road, which is part of the Lokichar-Nadapal/Nakodok road upgrade that links Kenya to South Sudan. Additionally, the Cabinet Secretary for Ministry of Transport, Infrastructure, Housing and Urban Development, Hon. James Macharia, announced that the construction of the 233.0 Km Rironi-Nakuru-Mau Summit Road toll highway from Nairobi to Mau

Summit will begin by December 2021. For more information, please see our Cytonn Weekly #40/2021,

ii. Kenya Urban Roads Authority (KURA) announced plans to revamp sections of the 9.8 Km Ngong Road starting from Dagoretti Corner to Karen Shopping Centre. For more information, please see our Cytonn Weekly #42/2021. Additionally, KURA also announced the commencement of the conversion of the 32.0 Km Eastern Bypass into a dual carriage way at a cost of Kshs 12.5 bn. For more information, see Cytonn Weekly #46/2021,
iii. Kenya National Highways Authority (KENHA) announced the commencement of construction of the 29.0 Km Kinango-Kwale road in Kwale County by China Civil Engineering Construction Corporation at a cost of Kshs 3.0 bn. For more information, see Cytonn Weekly #45/2021. Additionally, KENHA also announced that they had contracted Victoria Engineering Company, to tarmac the 35.8 Km Kopasi River- Lomut – Sigor- Marich link road, in West Pokot County, at a cost of Kshs 4.4 bn. For more information, see Cytonn Weekly #47/2021.
iv. The Italian government through its Ambassador to Kenya, Alberto Pieri, announced plans to spend Kshs 780.0 mn on revamping dilapidated roads in Malindi such as the Mjanaheri-Ngomeni road that links Malindi to the Italian space agency San Marco. For more information, please see our Cytonn Monthly - November 2021,
v. The National Government tasked the Kenya Rural Roads Authority (KeRRA) was tasked to upgrade the 54.0 Km Mto Mwagodi-Mbale-Wundanyi-Bura at a cost of Kshs 2.2 bn. For more information, see Cytonn Weekly # 44/2021. KERRA also announced plans to revamp the 36.4 Km Lurambi road in Kakamega County at a cost of Kshs 1.7 bn. For more information, please see our Cytonn Weekly #50/2021. Additionally, during the week, KERRA commenced the construction of 44.0 Km road network linking the Sub-Counties of Oljoro Orok and Ol-Kalou constituencies, in Nyandarua County at a cost of Kshs 2.0 bn. The road is expected to enhance accessibility, improve trade activities and boost real estate investments in the area, and,
vi. Japanese Government through the United Nations Development Program (UNDP), announced a Kshs 24.0 mn funding for the reopening of the 24.0 Km Chesogon Road linking the areas of Sigor and Marakwet, in West Pokot and Elgeyo-Marakwet counties. For more information, please see our Cytonn Weekly #51/2021.

We expect the government to continue supporting improvement of infrastructure in an aim to open up areas for investments in Kenya through provision, maintenance and management of road infrastructure. This will in turn boost the real estate sector through enhanced accessibility for investors and suppliers and the boosted property prices along these areas due to improved demand.

VIII. Statutory Reviews

In 2021, the government continued to foster progressive legislation to align with the current market requirements in order to streamline Real Estate transactions. We expect the reforms to have a positive impact on the Real Estate sector as they will not only improve operations but also solve some of the current challenges being experienced in the sector. For notable highlights during the year, please see our Cytonn Q1'2021 Markets Review, Cytonn H1'2021 Markets Review and Cytonn Q3'2021 Markets Review Reports. In Q4'2021;

i. The government of Kenya announced plans to review property rates after every five years as contained in the proposed National Rating Bill, 2021, to ensure the government does not lose out on the current capital appreciations of land. For more information, please see our Cytonn Weekly #41/2021, and,
ii. President Uhuru Kenyatta signed the Public Private Partnerships (PPP) Bill 2021 into law. The Act aims to address the shortcomings of the PPP Act 2013 by including a streamlined project processes with clear timelines, expanded procurement options and robust processes for privately initiated investment proposals. For more information, please see Cytonn Weekly #49/2021.

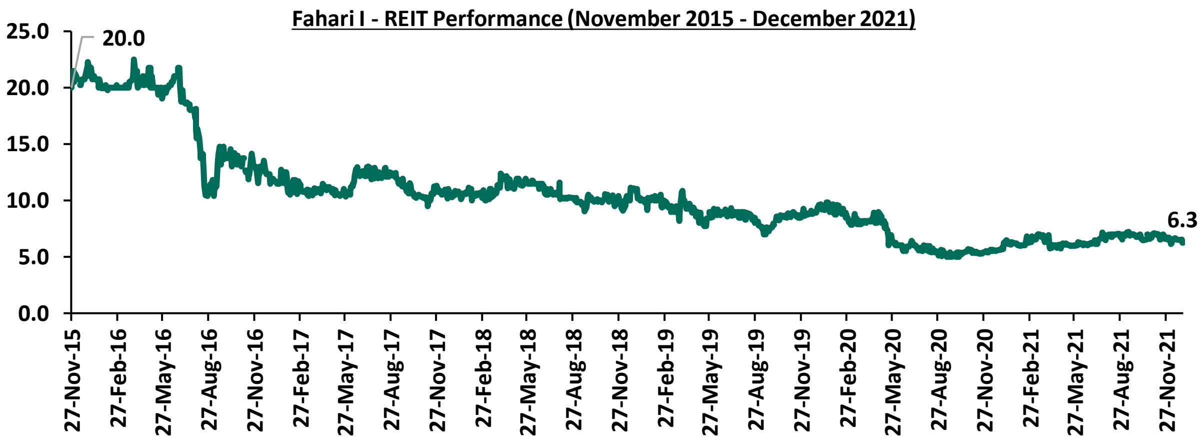
The legislations are expected to align Kenya with international standards and attempt to address the shortcomings of previous Acts. The institutional and operational changes are expected to make more investor-friendly processes to counter the challenges currently being experienced in the Real Estate sector.

IX. Listed Real Estate

In the Nairobi Stock Exchange, ILAM Fahari I-REIT closed the year trading at an average price of Kshs 6.3 per share, representing a 7.9% Year-on-Year (YoY) increase from the Kshs 5.8 per share. However, on Inception-to-Date (ITD) basis, the REIT's performance declined by 68.5% from Kshs 20.0.

In the Unquoted Securities Platform, Acorn DREIT closed the year trading at Kshs 20.1 while the I-REIT closed at Kshs 20.6 per unit. This performance represented a 0.5% and 3.0% gain for the DREIT and I-REIT, respectively, from the Kshs 20.0 Inception price. The volumes traded for the D-REIT and I-REIT came in at 5.4 mn and 12.3 mn shares, respectively, with a turnover of Kshs 108.9 mn and Kshs 254.1 mn, respectively since Inception-to-Date.

The graph below shows Fahari I-REIT's performance from November 2015 to December 2021:



Notable highlight in the REITs sector during the year include;

i. ILAM Fahari I-REIT released their H1'2021 earnings, which registered a 50.9% decline in their basic earnings per unit to Kshs 0.2 from Kshs 0.5 realized in H1'2021. This was attributed to the 18.4% decline in the total operating income to Kshs 147.1 mn, from Kshs 180.1 mn in H1'2020. The rental income came in at Kshs 136.7 mn, a 21.8% decline from the Kshs 174.7 mn recorded in H1'2020, with rental yields thereby realizing a 1.3% points YoY decline to 1.2% from 2.5% in 2020. This was mainly attributable to the low rental income generated by the retail and commercial offices struggling to attract and maintain tenants. For a more comprehensive analysis, please see our ILAM Fahari I-REIT H1'2021 Earnings Note, and,
ii. Acorn Holdings published their first financial statement released in H1'2021, for the D-REIT and I-REIT Investment arm which have been invested in student accommodation. Acorn D-REIT recorded profits of Kshs 266.9 mn in H1'2021 while the I-REIT profits came in at Kshs 141.3 mn. The D-REIT Performance was mainly driven by the Kshs 339.0 mn increase in the fair value of Investment Property. For a more comprehensive analysis, please see our Acorn Holdings H1'2021 Earnings Note.

Real Estate Investments Trusts (REITs) offer various benefits which include low cost exposure to real estate, tax exemption, and diversification among many others. However, their performance is expected to be subdued due to; i) a general lack of knowledge on the financing instrument, ii) general lack of interest of the REIT by investors, iii) high minimum investments amounts set at Kshs 5.0 mn for D-REITs, and, iv) lengthy approval processes to get all the necessary requirements thus discouraging those interested in investing in it.

We expect the real estate sector performance to be on an upward trajectory mainly supported by; i) government's focus to implement affordable housing projects coupled with improved investor confidence in the country's housing market, ii) increased demand for office spaces, iii) rapid expansion by local and international retailers, iv) increased visitor arrivals into the country hence boosting the performance of hospitality sector, v) government's aggressiveness towards infrastructure roads development thus boosting investments through accessibility, and, vi) positive demographics. However, factors such as financial constraints, oversupply in the commercial office and retail sectors, and low of investor appetite in Real Estate Investments Trusts (REITs) are expected to continue impeding performance of the sector.