Nairobi Metropolitan Residential Report 2017

"Pockets of Value in the Face of Declining Performance"

4th September, 2017

Table of Contents

Cytonn REAL ESTATE

I. Introduction to Cytonn Investments

What We Stand For

Our Mission

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

Our Vision

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

Our Values

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

Excellence
Delivering the best at all times

Client Focus
Putting clients' interest first at all times

Entrepreneurship
Using innovation and creativity to deliver differentiated financial solutions

Accountability
We take both corporate and personal responsibility for our actions

Integrity
Doing the right things

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

— Jack Welch

About Us

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

82 bn	Over Kshs. 82 billion worth of projects under mandate	**5**	Five offices across 2 continents	**250**	Over 250 staff members	**10**	10 investment ready projects

A unique franchise differentiated by:

Independence & Investor Focus

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

Alternative Investments

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

Strong Alignment

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

Committed Partners

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

Cytonn REAL ESTATE

Why We Exist

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

WE SERVE FOUR MAIN CLIENTS SEGMENTS:

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

WE INVEST OUR CLIENT FUNDS IN:

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

We collect funds from our clients

We invest them in high growth opportunities

We deliver the best possible returns

Our Business

Where We Operate

Our Business Lines

Investments

Alternative investment manager focused on private equity and real estate

Real Estate

We develop institutional grade real estate projects for investors

Diaspora

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

Technology

We deliver world-class financial technology solutions

Co-operative

Provides access to attractive alternative investment opportunities for members

Cytonn REAL ESTATE

Our Solutions

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

HIGH YIELD SOLUTIONS

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

REAL ESTATE INVESTMENT SOLUTIONS

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

PRIVATE REGULAR INVESTMENT SOLUTIONS

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

PRIVATE EQUITY

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

Our Products

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

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

Our People

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

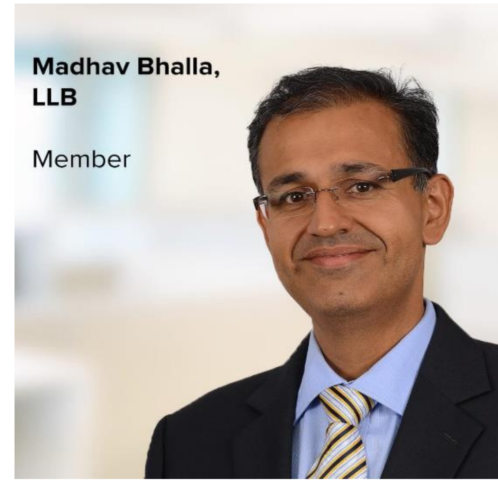
— Patrick Lencioni

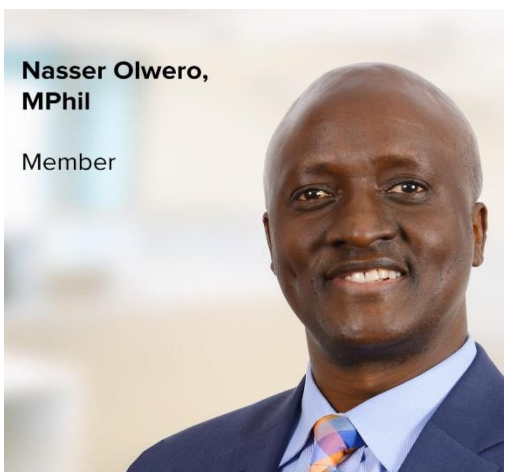
We are focused on one agenda:

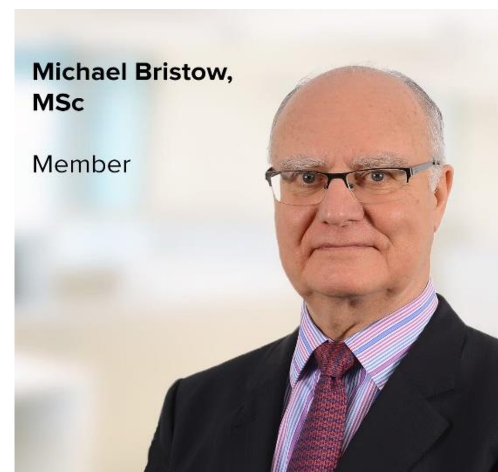
THE CLIENT

Board of Directors

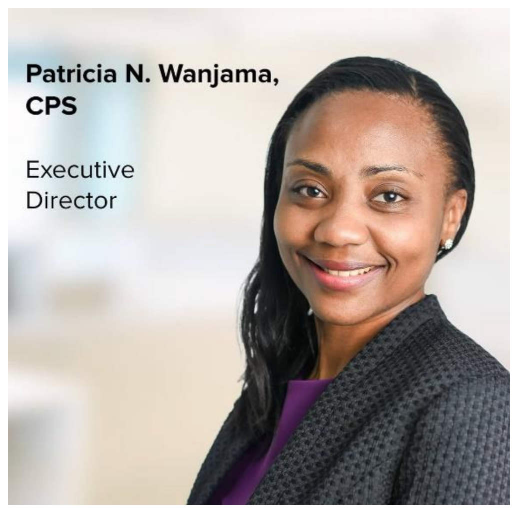
To ensure that we remain focused on the clients' interests, we have put in place proper governance structures. We have a board of directors consisting of 11 members from diverse backgrounds, each bringing in unique skill-sets to the firm.







Board of Directors, continued …



II. Overview of Real Estate in Kenya

Introduction to Real Estate in Kenya

Real estate sector expected to continue growing on the back of sustained GDP growth, high returns over the last 5 years and government incentives to boost real estate investment especially in the residential sector

Macro-economic Contribution

- The real estate and construction sector contributed to 13.8% of Kenya's GDP in 2016 and has been improving from 12.6% recorded in 2010. This is according to the KNBS Economic Survey 2017
- A relatively stable political environment, as well as favourable macroeconomic conditions leading to sustained GDP Growth and a stable exchange rate have led to positive development in the sector

High Returns

- Real estate has consistently out performed other asset classes in the last 5-years, generating returns of over 25% p.a., compared to an average of 10% p.a. in the traditional asset classes
- Residential units in Kenya in the last five years have generated an average rental yield of 5.0%, while office and retail space have generated average yields of 9.0% p.a and 10.0% p.a, respectively

Recent Developments

- The real estate sector has seen entry of more institutional developers such as Saccos, private equity firms and funds such as Taaleri and Actis and foreign institutions such as AVIC of China
- Government initiatives such as digitising of the lands ministry, issuing of title deeds, waiving of the NCA, NEMA and title searching fees as well as a 15% tax cut for large scale developers are creating a conducive investment climate for real estate investment and lowering construction costs

Market Outlook

- We expect continued growth in Real Estate sector on the back of improved macroeconomic conditions, sustainable high returns, and a changing operational landscape as developers strive to satisfy the high housing deficit
- Key challenges include: high land and infrastructure development costs and in 2017 the political environment poses a challenge with investors adopting a wait and see attitude and hence reducing transactions volume in the industry

Cytonn REAL ESTATE

Introduction to Real Estate in Kenya – RE Contribution to GDP

Real Estate and construction sectors contribution to GDP has been increasing from 10.5% in 2000 to 12.6% in 2010 to 13.8% in 2016

	Sector	2000	2010	2016
	Agriculture	31.3%	23.7%	23.1%
	Manufacturing	17.0%	11.5%	10.4%
	Wholesale & Retail Trade	16.5%	7.1%	7.4%
	Hospitality & Tourism	16.5%	1.7%	0.9%
	Real Estate & Construction	10.5%	12.6%	13.8%

Source: KNBS Economic Survey 2017

III. Nairobi Metropolitan Residential Report

Executive Summary

The residential sector remains resilient with sub-markets such as Thindigua recording returns of up to 19.3%

- We carried out a research on 35 sub-markets in Nairobi Metropolis. The report aims to inform on the performance and the investment opportunity in the residential sector in Nairobi Metropolis in 2017
- According to Cytonn Research, prices in 2017 appreciated by 3.8% which is lower than price appreciation in 2016 at 7.4%. This is attributed to investor anxiety over the 2017 elections and thus they post-poned making long-term investment decisions
- Rental yields in 2017 remained stable at 5.6% compared to 5.2% recorded in 2016. This indicates that there is still sustained demand for rental housing
- On general performance, with an average price appreciation of 3.8% in 2017 and rental yields averaging at 5.6%, the total return in the market averaged at 9.4%. In some sub-markets such as Thindigua, however, we recorded returns of up to 19.3%
- On housing demand, Nairobi has a housing deficit of approximately 1.9 mn units in 2017, according to Cytonn Research, with 70.7% of the demand in the Lower Middle Income segment of persons able to afford an average rent of Kshs 18,000 per month
- On the best areas to invest, Ridgeways and Kilimani had the best investment opportunity for apartments driven by high returns, uptake and proximity to main business nodes, while Juja and Runda Mumwe had the best investment opportunity for detached units due to uptake and high returns
- We expect price stagnation in selected markets with surplus supply. Investors therefore need to invest in proper market research and trend analysis to identify specific market niches

Nairobi Metropolitan Residential Report – "Pockets of Value in the Face of Declining Performance"

Rental yields in 2017 remained stable at 5.6% compared to 5.2% in 2016, indicating sustained demand for rental properties

Value Area	Summary	Effect
Demand	• Nairobi Metropolis has a deficit of 1.9 mn units as at 2017, according to Cytonn Research • 70.7% of housing demand is in the lower income segment of persons who can afford rent of Kshs 18,112 per month on average • 26.4% of the housing demand is in the low income segment of persons who can afford Kshs 6,734 per month on average	• The government has introduced incentives such as scrapping of fees and 15% tax for firms that build 100 affordable units annually to boost development of housing for lower income segments • Due to the current high prices of houses, the markets remains to be largely a renters' market.
Returns	• Prices appreciated by 3.8% compared to a 7.4% appreciation in 2016 whereas rental yield remained stable at 5.6% indicating sustained demand for rental properties • The best performing markets such as Thindigua and Ridgeways have returns of up to 19.3% and 18.4%, respectively	• High returns in specific pockets of the market continue to attract investors in areas such as Thindigua and Ridgeways • Investors have shied away from low performing areas such as apartments in Ngong' , Juja and Donholm
Opportunity & Outlook	• The opportunity in detached units lies in areas such as Juja and Runda Mumwe which have high uptake and returns • The opportunity in apartments lies is areas such as Ridgeways and Kilimani also driven by uptake and returns	• We expect increased investment in the best returning areas such as Thindigua, Ridgeways and Lang'ata • Sales are likely to pick up in performance once the elections period is over, as demand remains high

The opportunity in the residential sector lies in specific sub-markets that have continued to record high returns of up to 19.3%.

A. Introduction

Introduction: Factors Affecting Residential Demand

Increasing incomes, population growth and changing customer preferences are driving the demand for houses

Household Incomes

- Kenya's GDP has grown steadily at above 5.0% for the last 5 years, leading to higher incomes
- 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
- Increased income has also resulted in differentiated demand for housing that suits different household needs in terms of space, finishing, lay-out

Demographics

- Rapid population growth of 2.65% p.a. is creating increased demand for housing, as families grow and consumer needs change to reflect independent living
- High urbanization rate of 4.4% p.a. in the Nairobi area and the metropolitan area
- The Kenyan 'middle class' have created a huge opportunity for integrated housing developments such as mixed used developments and master planned communities

Access to Mortgages

- Access to mortgages is still relatively low and declined to approximately 2.8% of GDP in 2016 from 3.5% of GDP in 2015
- The Banking Amendment Act 2015 and more stringent borrowing terms by banks made it even more difficult for those wishing to secure mortgages, as banks are unable to factor in 'high risk borrowers' within the stipulated margins
- According to the CBK, mortgages declined by 1.5% to 24,085 in 2016 from 24,458 in 2015

Political Sentiments

- As 2017 is an election year, there has been a slow-down in market prices and sales volumes as investors and prospective buyers adopted a wait and see approach
- This is however temporary and the market is likely to stabilise on the back of relatively strong GDP growth at 5.4% in the last 5-years and an attractive demographic profile

Cytonn REAL ESTATE

Introduction: Factors Affecting Residential Supply

Difficulty in access to funding and high construction costs negatively affects the supply of houses, but improved infrastructure is opening up satellite towns for housing development

Availability & Price of Land

- Availability of development land has been low within Nairobi resulting in relatively high prices most especially in the city's suburbs such as Kilimani, Kileleshewa and Westlands
- This has resulted in more apartments coming up in these nodes as opposed to townhouses
- Developers are increasingly shifting focus to the Nairobi Satellite Towns such as Ruaka, Rongai, Kitengela, Ruai and Kikuyu where land is relatively affordable, thus resulting in increased supply

Access to Funds

- Lack of proper funding for real estate developments has resulted in excessive debt financing, resulting in increased financing costs owing to the extended project time frames
- The Banking Amendment Act 2015 and more stringent borrowing terms by banks has also resulted in decline in credit supply in the market and may hinder development of housing

Construction Cost

- Development costs have been relatively high owing to the high costs of construction materials which constitute 70% of the total development costs
- Technological innovations have brought in cheaper alternative construction material such prefabs which reduce construction costs by almost 40% but the market is still at infancy for prefab uptake

Infrastructure Support

- Improved infrastructural developments such as improved roads, the SGR, electrification, and ICT have opened up new development areas in areas such as Athi River, Mlolongo and Ruaka
- Challenges such has sewerage, water supply and proper roads in some areas have greatly hampered supply of housing especially in satellite towns necessitating the need for local government support in the real estate industry

Introduction: Recent Developments

Government incentives such as reduction of corporate tax are likely to boost development

i. **Government Incentives to Boost Development:** The government has given incentives to boost residential development including the reduction of corporate tax to 15% to firms that develop at least 100 housing units annually. In addition, the government has scrapped the land title search fees, NCA and NEMA levies in an effort to reduce development costs. This is likely to enable more developers including saccos and housing cooperatives provide more affordable housing

ii. **Automation of Land Registries:** Lands Ministry has embarked on automation of land records aiming to improve the ease of doing business through efficiency, reducing corruption and eliminating cases of missing files. Registries in areas such as Mombasa, Nakuru, Kisumu, Kiambu and Nairobi were digitised in 2016. This will ease housing development through a more efficient and transparent land transfer process

iii. **Rise of Masterplanned Cities:** Mater planned communities and cities have picked up in the recent times, and offer a live, work, play environment in a controlled nature. New master planned cities include Northlands and Cytonn's Newtown in Athi River and RiverRun Estates in Ruiru

iv. **Alternative Building Technology:** Although nascent it is starting to gain momentum as they save time in construction and hence have a possibility of reducing financing costs, which will benefit the end consumer as they will pay lower amounts for their residential units

v. **Increased Foreign Participation:** The real estate market in Kenya is increasingly being exposed to international developers and financiers. They include AFDB, Taaleri, Islamic Development corporation, China Africa Development Fund which are focusing on reducing the housing deficit in Kenya

B. Residential Market Performance

Market Performance Summary

We conducted research in 35 sub-markets and categorized them into High End, Upper Middle and Lower Middle segments

- In 2017, we conducted market research in 35 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 self-contained housing units occupying part of a building, also called flats

Market Performance Summary

Prices increased by 3.8% in 2017 compared to a 7.4% increase in 2016, while rental yields remained stable at 5.6% in 2017 compared to 5.2% yield in 2016

Segment	Unit Typologies	Average Price Appreciation 2017	Average Rental Yield 2017	Total Returns 2017	Average Price Appreciation 2016	Average Rental Yield 2016	Total Returns 2016	Y/Y Change in Total Return
Upper-Middle Income	Detached	6.1%	5.0%	11.1%	5.1%	5.0%	10.1%	1.0%
Lower-Middle	Detached	3.9%	5.6%	9.5%	9.6%	5.5%	15.0%	(5.5)%
High-End	Detached	2.6%	4.9%	7.5%	4.9%	5.1%	10.0%	(2.5)%
Detached Units		3.9%	5.0%	8.9%	6.5%	5.2%	11.7%	(2.8)%
Upper-Middle	Apartments	4.3%	6.2%	10.5%	6.2%	5.1%	11.3%	(0.8)%
Lower-Middle Satellite	Apartments	2.6%	6.5%	9.1%	9.6%	5.4%	15.0%	(5.9)%
Lower-Middle Suburb	Apartments	3.5%	5.3%	8.8%	9.2%	5.0%	14.2%	(5.4)%
Apartments		3.5%	6.0%	9.5%	8.3%	5.2%	13.5%	(4.0)%
Average		**3.8%**	**5.6%**	**9.4%**	**7.4%**	**5.2%**	**12.6%**	**(3.2)%**

- Average prices increased by 3.8% in 2017 compared to a 7.4% increase in 2016. This can be attributed to investors shying away from long-term investments as they awaited the outcome of the 2017 elections
- Rental yields have remained fairly stable at 5.6% in 2017 compared to 5.2% yield in 2016, indicating sustained demand for rental units compared to units for sale
- Generally total returns reduced to 9.4% in 2017 compared to a 12.6% returns in 2016 attributed to lower price appreciation

Cytonn REAL ESTATE

Market Performance: Detached Units, High End

Lower Kabete has the highest returns at 9.2% while Karen has the lowest at 5.7% per annum

Location	Average Price per SM (2017)	Average Rent per SM (2017)	Annual Uptake	Rental Yield	Price Appreciation	Total Return
Lower Kabete	165,113.9	562.5	18.0%	4.1%	5.1%	9.2%
Runda	208,621.3	892.0	9.9%	5.2%	3.6%	8.7%
Roselyn	173,513.4	853.5	24.3%	5.8%	2.0%	7.7%
Kitisuru	234,497.6	1,015.3	28.5%	5.4%	0.6%	6.0%
Karen	186,515.4	727.3	35.4%	4.0%	1.7%	5.7%
Average	**193,652.3**	**810.1**	**23.2%**	**4.9%**	**2.6%**	**7.5%**

- Lower Kabete area has the highest returns in the high-end market. This could be attributed to the low supply in this market thus low competition among developers. The area has high land prices of more than Kshs 100 mn per acre which has pushed property prices up
- Runda area has high returns due to relatively higher rental yields. The area attracts the ex-patriate market working at the UN
- Karen has the lowest returns due to low price appreciation. This could be attributed to the high supply of units in the area creating competition among developers

Cytonn REAL ESTATE

Market Performance: Detached Units, Upper Mid-End

Detached units in the upper middle income segment have low annual uptake at 17.1% showing low demand

Location	Average Price per SM (2017)	Average Rent per SM (2017)	Annual Uptake	Rental Yield	Price Appreciation	Total Return
Langata	131,637.0	424.3	21.6%	3.9%	13.4%	17.4%
Runda Mumwe	146,861.5	684.9	21.3%	5.9%	6.1%	12.0%
Redhill	96,640.0	344.1	10.4%	5.0%	6.0%	10.9%
Loresho	147,610.6	613.6	16.8%	5.2%	2.9%	8.0%
Ridgeways	187,083.7	843.0	19.9%	5.1%	1.9%	7.0%
Average	**141,966.6**	**582.0**	**18.0%**	**5.0%**	**6.1%**	**11.1%**

- Runda Mumwe and Langáta areas have the highest returns in the Upper Middle Income segment of the market at 17.4% and 12.0%, respectively. Langáta has a high price appreciation driven by demand due to its proximity to the Nairobi CBD and other business districts such as Upperhill, while there is low supply to match the demand
- Runda Mumwe benefits from its association with the neighbouring prime Runda Estate thus attracting the upper middle income population. Due to the low incoming supply in Runda, buyers are venturing into Runda Mumwe which has cheaper units with the average price of a 4-bedroom house being Kshs 30 Mn
- The Ridgeways area has low price appreciation as it is slowly transforming as more apartments come up in the area, thus losing its appeal as a an exclusive low-density residential area
- Overall, the upper middle income segment has relatively low annual uptake at 18.0% per annum. This indicates low demand for this type of units

Cytonn REAL ESTATE

Market Performance: Detached Units, Lower Mid-End

Detached units in the Lower Middle segment have the highest annual uptake at 28.4% indicating high demand

Location	Average Price per SM (2017)	Average Rent per SM (2017)	Annual Uptake	Rental Yield	Price Appreciation	Total Return
Juja	70,526.1	308.6	44.4%	6.3%	11.0%	17.3%
Thika	66,253.7	340.5	17.4%	6.9%	7.8%	14.7%
Kitengela	76,716.3	307.6	26.4%	5.1%	9.0%	14.0%
Athi River	87,788.8	301.4	26.1%	4.3%	4.8%	9.0%
Ngong	64,285.8	251.0	24.2%	4.5%	4.4%	8.9%
Komarock	78,876.6	525.3	32.3%	8.0%	0.0%	8.0%
Ruiru	84,821.4	384.6	25.0%	5.7%	0.5%	6.2%
Rongai	72,351.6	289.0	21.2%	4.8%	0.9%	5.7%
Donholm	91,797.6	397.1	38.6%	5.2%	(3.2%)	2.0%
Average	**77,046.4**	**345.0**	**28.4%**	**5.6%**	**3.9%**	**9.5%**

- Juja and Thika have the highest returns at 17.3% and 14.7%, respectively, driven by demand from the lower middle income population, and also because the units are relatively larger compared to areas such as Donholm for the same price
- Asking Prices in Donholm declined by 3.2% indicating lower demand compared to previous periods as buyers prefer other locations with lower prices per square metre
- Detached units in the lower-middle segment have higher annual uptake at 28.4% compared to the high-end and upper-mid end segments indicating high demand from this segment

Market Performance: Apartments, Upper Mid-End

Ridgeways has high returns at 18.4% due to its prime location and demand from ex-patriates in the area

Location	Average Price per SM	Average Rent per SM	Annual Uptake	Rental Yield	Price Appreciation	Total Return
Ridgeways	118,482.7	585.0	32.9%	6.1%	12.2%	18.4%
Kilimani	159,201.5	846.0	28.3%	6.6%	8.7%	15.4%
Loresho	106,882.1	531.2	29.8%	6.0%	3.9%	9.9%
Westlands	128,151.3	585.2	22.0%	6.1%	3.5%	9.6%
Parklands	128,650.3	606.3	28.9%	5.6%	3.7%	9.3%
Riverside	159,359.7	734.3	8.8%	7.0%	2.2%	9.2%
Kileleshwa	128,442.6	602.7	26.6%	7.9%	1.1%	8.9%
Mountain View	85,069.1	380.8	28.9%	5.1%	2.8%	7.9%
Upper Hill	141,041.6	668.8	16.0%	5.8%	0.2%	6.0%
Average	**128,364.5**	**615.6**	**24.7%**	**6.2%**	**4.3%**	**10.5%**

- Ridgeways area has the highest returns at 18.4% and annual uptake for apartments at 32.9% driven by high demand due to its prime location close to Runda and Muthaiga areas. The area attracts ex-patriates working at the UN and other agencies in Gigiri and Runda. It still has few developments compared to markets such as Kilimani and Westlands hence less competition between developers
- Upperhill has low price appreciation due to relatively lower demand. It is mainly a business district thus does not have a 'homely' feel. The area is more ideal for serviced apartments which are suitable for short to mid-term stay for business travellers

Market Performance: Apartments, Lower Mid-End Suburbs

Lang'ata is the best performing suburb in the Lower mid-end segment due to demand from investors and home-buyers

Location	Average Price per SM	Average Rent per SM	Annual Uptake	Rental Yield	Price Appreciation	Total Return
Langata	108,948.8	434.6	23.9%	4.8%	13.9%	18.7%
Komarock	71,071.2	210.5	14.4%	3.6%	9.1%	12.7%
Imara Daima	78,010.8	354.0	22.7%	5.6%	5.2%	10.7%
Dagoretti	98,185.3	516.9	31.9%	6.4%	3.9%	10.3%
Kahawa West	75,956.9	511.9	38.1%	8.6%	(3.8%)	4.8%
Kasarani	115,628.3	413.5	23.0%	4.2%	0.0%	4.2%
Donholm	73,807.0	393.2	18.7%	6.4%	(3.7%)	2.7%
Average	**88,801.2**	**404.9**	**24.7%**	**5.7%**	**3.5%**	**9.2%**

- Lang'ata has the highest returns among Lower Middle suburbs at 18.47% attributed to the high price appreciation. The area is attractive to both investors and home-buyers due to its proximity to major business districts
- Donholm has the lowest returns at 2.7% due to a decline in price appreciation indicating low demand for apartments in the area

Market Performance: Apartments, Lower Mid-End Satellite Towns

Thindigua is the best performing satellite towns with 19.3% returns due to its prime location near Runda and Ridgeways areas

Location	Average Price per SM	Average Rent per SM	Annual Uptake	Rental Yield	Price Appreciation	Total Return
Thindigua	78,875.0	415.8	32.2%	6.4%	13.0%	19.3%
Uthiru	71,564.8	386.3	37.9%	6.8%	5.5%	12.3%
Kitengela	47,369.2	225.9	22.6%	5.4%	6.4%	11.8%
Ruaka	99,240.3	448.7	25.0%	5.3%	6.4%	11.8%
Kikuyu	77,060.2	353.8	13.0%	5.5%	5.2%	10.7%
Thika	50,974.5	296.9	12.9%	7.6%	1.5%	9.1%
Ruiru	79,435.6	453.5	15.6%	6.5%	1.9%	8.4%
Lower Kabete	81,388.4	469.2	19.4%	6.6%	1.2%	7.8%
Athi River	59,982.1	356.5	23.1%	7.5%	(0.1%)	7.4%
Juja	50,728.3	239.1	15.3%	5.6%	0.0%	5.6%
Rongai	57,951.9	322.6	27.3%	6.8%	(1.4%)	5.4%
Ngong	60,760.2	263.5	11.8%	5.1%	(1.1%)	4.1%
Average	**67,944.2**	**352.7**	**21.3%**	**6.3%**	**3.2%**	**9.5%**

- Thindigua is the best performing market for lower-mid income apartments in the satellite towns driven by demand. The estate lies at the border of Kiambu and Nairobi county and neighbours other prime areas such as Runda and Ridgeways .Its is also easier to access the Central Business District from Thindigua compared to other satellite towns
- Apartments in Juja, Ngong and Rongai have recorded stagnation and decline in prices indicating low demand compared to other satellite towns. This can be attributed to their distance from the Central Business District making them more ideal for detached units, which thus have higher demand

Market Performance: Summary

The average return for 2017 is 9.5% with highs of 16.7% on average indicating opportunity in various pockets of the market

Segment	Unit Type	Average Price per SM	Average Rent per SM	Annual Uptake	Rental Yield	Price Appreciation	Average Returns
Upper-Mid End	Detached Units	141,966.6	582.0	19.9%	5.0%	6.1%	11.1%
Lower-Mid End	Detached Units	77,046.4	345.0	26.6%	5.6%	3.9%	9.5%
High-End	Detached Units	193,652.3	810.1	23.2%	4.9%	2.6%	7.5%
Lower-Mid End Satellite Towns	Apartments	68,139.3	366.6	22.6%	6.5%	2.6%	9.1%
Lower-Mid End Suburbs	Apartments	88,801.2	404.9	24.7%	5.3%	3.5%	9.2%
Upper-Mid End	Apartments	128,364.5	615.6	24.7%	6.2%	4.3%	10.5%
Average				**23.6%**	**5.6%**	**3.8%**	**9.4%**

- The residential market has an average return of 9.4% in 2017
- There are however specific areas of high value such as apartments in Thindigua, Lang'ata and Ridgeways with returns of 19.3%, 18.7% and 18.4% on average
- Detached units in the lower-mid end segment have the highest annual uptake at 26.6% due to their affordability
- Apartments in the upper mid-end segment have the highest uptake at 24.7% driven by high demand and returns in specific sub-markets such as Ridgeways

C. Residential Market Opportunity

Residential Market 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 2015

Residential Market Opportunity: Demand

Nairobi Metropolis requires 1.9 Mn dwelling units in 2017; 70.7% of the demand is in the lower middle income segment

Year	2009	2014	2015	2016	2017F	2018F	2019F	2020F
Nairobi Metropolis Urban Population	5.0m	5.8m	6.0m	6.2m	6.4m	6.6m	6.9m	7.1m
Nairobi Metropolis Urban Population Growth Rate		3.3%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%
Total Units Supplied		17,039	18,020	18,581	25,819	20,771	16,238	20,352
Nairobi Metropolis Habitable Rooms Supplied		28,540	30,184	31,123	43,247	34,791	27,199	34,090
Nairobi Metropolis Habitable Rooms Available	3.1m	3.2m	3.2m	3.2m	3.3m	3.3m	3.3m	3.4m
Nairobi Metropolis Habitable Rooms Required	5.0m	5.8m	6.0m	6.2m	6.4m	6.6m	6.9m	7.1m
Nairobi Metropolis Habitable Rooms Deficit	1.9m	2.6m	2.8m	3.0m	3.1m	3.3m	3.5m	3.7m
Nairobi Metropolis Dwelling Units Deficit	**1.3m**	**1.6m**	**1.7m**	**1.8m**	**1.9m**	**2.0m**	**2.1m**	**2.2m**
Owner-Occupied Developments	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**

Income Groups	Percentage	2014	2015	2016	2017	2018	2019	2020
Low Income (Avg Rent Kshs 6,734)	**26.4%**	299,153	317,373	336,197	354,386	374,288	395,830	417,402
Lower Middle Income (Avg Rent Kshs 18,112)	**70.7%**	801,480	850,295	900,728	949,460	1,002,780	1,060,495	1,118,290
Upper Income (Rent above Kshs 30,000)	**2.9%**	32,842	34,842	36,909	38,906	41,091	43,456	45,824

Source: KNBS, Kenya 2009 Census, Cytonn Research

Cytonn REAL ESTATE

Residential Market Opportunity: Supply

Metrics such as uptake, returns, infrastructure and availability of development land 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 investment opportunity in the sector and single out the specific suburbs that would be best to invest in, we used the following metrics;
    i. **Weighted Annual Uptake-** 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. **Price to Land Multiple-** This the number of times the price of a residential unit in a suburb sells above the price of land on which the unit sits, the higher the multiple the more points allotted
    iv. **Development Land Supply-** Areas with higher supply of development land have higher ranking and hence more points
    v. **Distance from Main Business Nodes-** This is to establish the commute distance for majority of the working population
    vi. **State of infrastructure -**For the purpose of the ranking, the following factors have been used to rank the state of the infrastructure in the various 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			
Weighted Annual Uptake	**<1%**	**1-2%**	**>2%**
Points	1	2	3
Average Returns	**<10%**	**10-15%**	**>15%**
Points	1	2	3
Price to Land Multiplier	**<10X**	**10-20X**	**>20X**
Points	1	2	3
Availability of Development Land	**Low**	**Average**	**High**
Points	1	2	3
Infrastructure	**Poor**	**Average**	**Good**
Points	1	2	3
Distance from Main Business Nodes	**>25 km from Nbi CBD**	**16km-25km from Nbi CBD**	**Within 15km radius of Nbi CBD**
Points	1	2	3

Residential Market Opportunity: Apartments, Top 15

Ridgeways and Kilimani are the best for apartments development due to high annual uptake, investor returns and relatively good state of infrastructure

Weights	20%	20%	15%	15%	10%	20%		
Metrics	**Uptake Points**	**Returns Points**	**Distance from Main Business Nodes**	**Price to Land Multiple**	**Availability of Development Land**	**Infrastructure**	**Total Points**	**Rank**
Ridgeways	3.0	3.0	3.0	2.0	2.5	2.5	2.7	1
Kilimani	2.0	3.0	3.0	2.0	2.0	3.0	2.6	2
Langata	2.0	3.0	3.0	2.0	1.0	2.5	2.4	3
Dagoretti	3.0	1.0	3.0	2.0	2.5	2.5	2.3	4
Westlands	1.5	2.0	3.0	1.0	2.0	3.5	2.2	5
Loresho	1.5	2.0	3.0	2.0	2.5	2.0	2.1	6
Ruaka	3.0	2.0	3.0	1.0	2.0	1.5	2.1	7
Thindigua	1.5	3.0	3.0	1.0	2.5	1.5	2.1	8
Uthiru	2.0	2.0	2.0	1.0	2.5	2.5	2.0	9
Kasarani	1.0	1.0	3.0	2.0	2.5	3.0	2.0	9
Komarock	2.0	2.0	3.0	2.0	1.0	1.0	1.9	11
Ruiru	1.0	1.0	2.0	3.0	3.0	2.0	1.9	11
Kitengela	1.0	2.0	1.0	3.0	3.0	1.5	1.8	13
Athi River	2.0	1.0	1.0	3.0	3.0	1.5	1.8	13
Imara Daima	2.0	1.0	3.0	1.0	1.0	2.5	1.8	15

- For apartments we allotted the highest weighting to uptake, average returns and infrastructure at 20%. This is because for the investor, this are the most important factors to consider when investing
- We allotted the lowest weighting to availability of development land 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
- Ridgeways and Kilimani present the best opportunity for residential development driven by uptake, infrastructure and market returns

Cytonn REAL ESTATE

Residential Market Opportunity: Detached Units, Top 15

Juja and Runda Mumwe are the best for detached units development due to relatively higher uptake and returns

Weights	25%	15%	10%	15%	15%	20%		
Metrics	Weighted Annual Uptake	Returns Points	Distance from Main Business Nodes	Price to Land Multiplier	Availability of Development Land	Infrastructure	Total Points	Rank
Juja	3.0	3.0	1.0	2.0	3.0	1.0	2.3	1
Runda Mumwe	3.0	2.0	3.0	1.0	2.5	1.5	2.2	2
Athi River	3.0	1.0	1.0	2.0	3.0	1.0	2.0	3
Kitengela	2.0	2.0	1.0	2.0	3.0	1.0	1.9	4
Langata	1.5	3.0	3.0	1.0	1.0	2.0	1.8	5
Kitisuru	2.0	1.0	3.0	1.0	2.0	2.0	1.8	6
Thika	2.0	2.0	1.0	1.0	3.0	1.5	1.8	7
Karen	2.0	1.0	2.0	1.0	2.5	2.0	1.8	8
Lower Kabete	1.0	2.0	3.0	1.0	2.0	2.0	1.7	9
Loresho	1.5	1.0	3.0	1.0	2.0	2.0	1.7	10
Ruiru	1.5	1.0	2.0	2.0	3.0	1.0	1.7	11
Rongai	1.5	1.0	2.0	2.0	3.0	1.0	1.7	11
Redhill	1.5	2.0	2.0	1.0	3.0	1.0	1.7	13
Donhom	2.0	1.0	3.0	1.0	1.0	2.0	1.7	14
Roselyn	1.0	1.0	3.0	1.0	2.0	2.0	1.6	15
Runda	1.0	1.0	3.0	1.0	2.0	2.0	1.6	15
Ridgeways	1.0	1.0	3.0	1.0	2.0	2.0	1.6	15

- For detached units, we allotted the highest points to uptake at 25%. 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 distance from main business nodes at 10% since investors prefer to buy cheaper land away from the CBD for development of low density units
- Juja and Runda Mumwe present the best opportunity for detached units development driven by relatively higher uptake and returns

D. Residential Report Conclusion

Residential Report Conclusion

The opportunity in the residential sector lies in specific submarkets that have higher uptake and returns to the investor

Measure	Sentiment
Factors influencing residential development	• The key drivers for the residential sector are mainly population growth, urbanisation, improved infrastructure and increased incomes as seen through economic growth with an average GDP growth rate of more than 5.0% over the last five years. New government incentives such as reduced taxes and scrapping of various fees is likely to spur development • The key challenges remain to be high land costs, high construction and infrastructural costs and access to financing hindering provision of affordable housing
Residential Sector Performance	• The average return in the residential sector is 9.4%. However, the best performing markets have returns of up to 19.3% which is high compared to returns from other asset classes such as the 10-Year treasury bond with a 13.2% yield
Residential Demand	• There is a housing deficit of approximately 1.9 mn units according to Cytonn Research • Residential demand is highest in the lower middle income segment of the market at 70.7%
Outlook	• We expect the market to stabilise through 2018 after the elections period. However, there will be price stagnation in selected markets with surplus supply. Investors therefore need to invest in proper market research and trend analysis to identify specific market niches.
Opportunity	• **For apartments, the best opportunity is investment in areas such as Ridgeways, Kilimani and Lang'ata driven by returns, uptake and state of infrastructure** • **For detached units, the best opportunity is in areas such as Juja and Runda Mumwe driven by uptake and the market returns to an investor**

Cytonn REAL ESTATE

Q&A

Cytonn
REAL ESTATE