



### **Research Note: Ruaka - Kiambu County Investment Opportunity 2017/2018**

In November 2017, we published a [note](#) on Ruaka suburb, where Cytonn has two residential developments, [The Alma](#) and [Taraji Heights](#). According to the [note](#), the area recorded average returns of 13.1%, with the rental yield and capital appreciation coming in at 5.3% and 7.8%, respectively. This year, we look into why the area is a great investment opportunity, by updating and analyzing our research data as at June 2018, that shows Ruaka's residential market performance in terms of uptake, rental yield, capital appreciation and return to investors in the real estate sector.

We shall start by having a brief overview of Ruaka, the factors driving the growth in the area, the residential market performance and finally conclude with the recommendation on the investment opportunity.

#### **Overview of Ruaka**

Ruaka is a suburb within Kiambu County, located approximately 10 km from Nairobi CBD to the North West. The area is accessible via Limuru Road and the Northern Bypass. On completion, the proposed Western Bypass, will also link Ruaka to Nairobi - Nakuru Highway at Gitaru. Approximately 7-years ago, Ruaka was primarily an agricultural area but this has been phased out by the development of both residential and commercial properties.

Real estate in the area has grown over the years driven by;

- i. **Good Transport Network:** The area is accessible through main roads such as Limuru Road and the Northern Bypass, which links it to Kiambu Road. The area will also be served by the proposed the Western Bypass, which on completion will link Ruaka to the Nairobi- Nakuru highway at Gitaru. These roads connect Ruaka to and from several neighboring areas such as Westlands, Kiambu Town, Runda, Limuru and Waiyaki Way, thus making the area easily accessible;
- ii. **Presence of International Organizations:** The presence of international organizations such as the United Nations (UN), United Nation Environmental Program (UNEP) in Gigiri, and International Organization for Migration(IOM) - Migration Health Assessment Centre, has attracted foreigners who not only boost the appeal of the town, but also create a market for residential and commercial real estate;
- iii. **Relaxation of Zoning Restrictions:** Ruaka town has seen an increase in high density developments that have resulted to an increase in the value of real estate property;
- iv. **Security:** improved in security in the area, with county measures on security and a general increase in security personnel in the country;
- v. **Hotels, Malls and Recreational Facilities:** Large commercial mixed-use developments such as Two Rivers, Riviera Mall and the Village Market surround Ruaka. This is in addition to hotels such as Tribe at the Village Market and Trademark Hotel along Limuru Road. The large retail and commercial footprint creates an opportunity for employment, thus favoring property development to house this increase in personnel.

#### **Ruaka Residential Market Performance**

The relatively high rate of urbanization at 4.4% and the expansion of the middle-class in Kenya has led to increased demand for housing in satellite towns and areas within the Nairobi Metropolitan Region, such as Ruaka and Ruiru, leading to an increase in land and property prices in these areas. Land in Ruaka is currently priced at approximately Kshs 77.0 mn per acre, growing with a 6-year CAGR of 11.6% as per our [Nairobi](#)

[Metropolitan Land Report 2018](#), and this is relatively high compared to other satellite towns such as Ngong, Utawala and Ruiru whose prices per acre are Kshs 14.4 mn, Kshs 11.0 mn and Kshs 19.7 mn, respectively. We therefore conducted research in order to update on the residential market performance in Ruaka, where we focused on the following;

- **Unit sizes of apartments:** this is to be used to establish what the market is offering and also determine the home buyers' preferences for sizes of houses;
- **Selling prices of apartments:** this will give an overview of the average exit prices of apartments in the area;
- **Rental rates of the apartments:** This informs on the average rental prices, and yields for investment analysis;
- **Uptake:** This gives an indication of the rate at which apartments have been bought hence indicating the attractiveness of residential property in the area.

From our research, 2-bedroom apartments have the highest total returns at 12.3%, compared to 1-bedroom and 3-bedroom apartments at 11.4% and 9.3%, respectively, and this we attribute to higher demand for the 2-bedroom units by families. In addition, 2bedroom units had the highest annual uptake of 32.4% compared to 1-bedroom and 3-bedroom units of 28.8% and 19.8%, respectively.

Below is the summarized performance;

<i>All values are in Kshs unless stated otherwise</i>												
Market Performance Summary												
Typology	Unit Plinth Area (SQM)	Price 2016	Price 2017	Price 2018	Price Per SQM 2018	Avg Rent 2016	Avg Rent 2018	Avg Rent per SQM	Annual Sales 2018(%)	Rental Yield 2018	Price Appreciation 2018	Total Return 2018
1-Bed	53	5.2m	5.8m	6.2m	115,821	19,000	23,150	436	28.8%	4.5%	6.9%	11.4%
2-Bed	89	8.4m	8.7m	9.0m	100,840	41,667	38,625	428	32.4%	5.2%	6.1%	12.3%
3-Bed	118	10.6m	11.2m	11.3m	96,547	48,667	52,718	444	19.8%	5.7%	3.8%	9.3%
<b>Average</b>					<b>104,403</b>			<b>436</b>	<b>27.0%</b>	<b>5.3%</b>	<b>5.8%</b>	<b>11.1%</b>
<ul style="list-style-type: none"> <li>• The average total return of apartments in Ruaka came in at 11.1% in 2018, with 1bedrooms recording returns of 11.4%, while 2 and 3 bedroom units recorded 12.3% and 9.3% respectively</li> <li>• The average price per square metre for apartments came in at Kshs 104,403 and have an annual uptake of 27.0%</li> </ul>												

Source: Cytonn Research 2018

- 3-bedroom units recorded the highest average rental yield of 5.7%, while 1 and 2bedroom units recorded rental yields of 4.5% and 5.2%, respectively;
- On price appreciation, 1 bedroom units recorded the highest at 6.9%, compared to 2 and 3 bedroom units at 6.1% and 3.8%, respectively;
- The 1 bedroom units had the highest price per square metre at Kshs 115,821, compared to 2 and 3bedroom prices per sqm at Kshs 100,840 and Kshs 96,547, respectively;
- 3-bedroom units recorded the lowest annual uptake at 19.8%, while 1 and 2-bedroom units recorded 28.8% and 32.4%, respectively. However, on the rent prices, 3 bedroom units recorded the highest prices per square metre at Kshs 444, compared to the 1 and 2 bedroom units at Kshs 436 and Kshs 428 per square metre, respectively. This indicates that there is higher demand for units for rent unlike for sale, and this we attribute to the relatively low income for dwellers given

- that the areas large population are middle income earners, and thus prefer renting the units instead of buying due to affordability;
- Overall, 2 bedroom units recorded the highest returns at 12.3% compared to 1 and 3 bedroom units which recorded 11.4% and 9.3% total returns, and this we attribute to increased preference of 2 bedroom units by families thus the high demand for the same.

### **Conclusion & Recommendation**

Ruaka market performance softened in 2018 compared to 2017, with average total returns coming in at 11.1%, 2.0% points lower than 13.1% in 2017. We attribute the decline to political instability towards the end of 2017, which resulted in reduced economic activities and thus dwindled returns in the real estate sector. Despite the decline in performance, Ruaka was ranked as one of best low mid-end satellite towns to invest in according to our [Nairobi Area Metropolitan Residential Report 2017/2018](#), among areas such as Thindigua, which was ranked top with 11.2% total returns, and we expect the market performance to improve during this year, given the return of political calm.

For the investment opportunity, we recommend 1 and 2 bedroom apartments, which offer better returns to investors of 11.4% and 12.3% respectively, compared to the 3 bedroom apartments at 9.3%. Ruaka remains an attractive investment area, evidenced by the increasing land prices, which grew with a CAGR of 11.6% in the last 6 years, in addition to residential apartments average price appreciation coming in at 5.8% in 2018. Some of the drivers of real estate in this area include; i) the growing demand for land and housing in satellite town, ii) the construction of the Western Bypass which will enhance access in the area, and iii) the availability of social amenities and the growing state of investment grade developments in Ruaka. Therefore, we expect continued increase in property prices in the area, and thus an existing investment opportunity. For details on our projects at Ruaka, see the links [Taraji Heights](#) and [The Alma](#).