

Investors weigh risk and returns

PROPERTY

INTERVIEW

JOAN SALMON

Property market

The balance between risk, reward in E. Africa

Real estate is a lucrative investment portal. However, it could turn nasty should one make a small slip. Lilian Nanyunja, a data transformation consultant at the Real Estate Institute of East Africa, spoke to Business Daily's Joan Salmon about the nuts and bolts of East Africa's real estate industry.

Across East Africa today, which rental property segments are delivering the strongest returns?

Across East Africa, rental property performance is increasingly segmented, with certain asset classes significantly outperforming traditional buy-to-let housing.

At the top end, professionally managed short-term and serviced apartments are currently delivering the strongest headline returns. In parts of Nairobi and Kampala, investors report annualised returns of between 15 and 35 percent. The recovery in regional tourism, growth in business travel and steady diaspora demand for flexible, furnished accommodation have strengthened occupancy and nightly rates. High-demand neighbourhoods such as Westlands and Kilimani in Nairobi, and Nakasero and Kololo in Kampala, are particularly active.

Industrial and logistics assets rank next, generating yields in the 10–15 percent range in port-linked cities such as Dar es Salaam and Mombasa. Port expansion, e-commerce growth and rising intra-African trade have driven demand for modern warehousing. Compared with residential rentals, logistics properties benefit from longer leases, occasional dollar-denominated contracts and lower tenant turnover.

Purpose-built student accommodation (PBSA) remains one of the most resilient and institutionally attractive segments, typically delivering gross yields of 8–12 percent. In Nairobi, Acorn Holdings has scaled this model through branded student residences and REIT structures, reporting high occupancy levels amid chronic under-supply of university-managed housing. Similar dynamics are visible in Kampala, where private hostels and institutional projects are responding to sustained enrolment growth.

Prime urban residential suburbs continue to offer relatively strong returns by global standards: 8–10 percent in Kilimani and Westlands; 7–9 percent in Nakasero and Kololo; and 8–12 percent in Masaki and Oyster Bay in Dar es Salaam.

While student housing offers defensive income and industrial proper-



Apartments in Kampala. Rental demand is being reshaped by demographic and lifestyle shifts, particularly among young professionals aged 22–35. PHOTO/JOAN SALMON

ty provides long-lease stability, short-term rentals are currently delivering the highest potential returns, albeit with greater operational intensity and exposure to economic cycles.

When assessing a rental investment, what matters most: location, yield, or tenant demand?

These three factors are interconnected. However, if one must take precedence, tenant demand underpins both location and yield.

Location remains fundamental. Prime neighbourhoods in Nairobi, Kampala and Dar es Salaam command stronger rents, lower vacancy and better capital appreciation due to proximity to business districts, universities and transport corridors.

Yield, meanwhile, attracts investors. Gross rental yields across East Africa range from around 7 percent in established suburbs to above 15 percent in specialised segments such as serviced apartments. However, headline figures can be misleading if vacancy, maintenance, management costs and currency risk are not factored in.

Tenant demand is the engine. Sustainable rental income depends on a reliable pool of tenants willing and able to pay. For example, the resilience of PBSA in Nairobi is tied to chronic under-supply and rising enrolment. Similarly, serviced apartments thrive in business hubs because of consistent corporate and diaspora demand.

Location drives demand, demand sustains occupancy, and yield is the outcome. The most durable investments sit at the intersection of all three.

Returns on investment

- Professionally managed short-term and serviced apartments are currently delivering the strongest headline returns. In parts of Nairobi and Kampala, investors report annual returns of between 15 and 35 percent.
- Prime urban residential suburbs continue to offer relatively strong returns by global standards: 8–10 percent in Kilimani and Westlands; 7–9 percent in Nakasero and Kololo; and 8–12 percent in Masaki and Oyster Bay in Dar es Salaam.
- Gross rental yields across East Africa range from around 7 percent in established suburbs to above 15 percent in specialised segments such as serviced apartments. However, headline figures can be misleading if vacancy, maintenance, management costs and currency risk are not factored in.

How is rental demand changing with shifting lifestyles, remote work and urbanisation?

Rental demand is being reshaped by demographic and lifestyle shifts, particularly among young professionals aged 22–35.

In cities such as Nairobi, Kampala and Dar es Salaam, many in this cohort are delaying home ownership due to high borrowing costs and prefer renting in well-connected areas close to work and amenities. Flexibility and mobility are prioritised over long-term commitment.

Remote and hybrid working have further influenced preferences. Tenants increasingly demand reliable high-speed internet, back-up power, secure environments and dedicated workspaces. Furnished apartments, co-living arrangements and developments with shared amenities such as gyms and co-working lounges are gaining traction. Flexible lease terms are also valued.

Investment

‘Location drives demand, demand sustains occupancy, and yield is the outcome. The most durable investments sit at the intersection of all three.’

Urbanisation continues to expand the renter base, as individuals relocate for employment and education. In the mid-market and affordable segments, demand remains strong.

Short-term and serviced rentals are also benefiting from remote professionals, consultants and diaspora returnees seeking flexible accommodation. The 22–35 demographic is now the core driver of urban rental growth, shaping expectations around technology, convenience and community living.

For first-time investors, which rental models offer the best balance between lower risk and steady returns?

For new investors, stability and predictability are often more important than maximising yield.

Conventional long-term residential rentals in established middle-income suburbs remain one of the safest entry points. In Nairobi, areas such as Kilimani and South B offer yields of 7–9 percent with relatively low vacancy. In Kampala, neighbourhoods like Ntinda and Bukoto show similar stability. Dar es Salaam, districts such as Mbezi Beach maintain consistent occupancy.

Purpose-built student accommodation also offers defensive returns, particularly when accessed through regulated REIT structures. This allows investors to benefit from professional management and pooled risk rather than developing and managing student hostels independently.

Listed (Real Estate Investment Trusts) REITs provide even broader diversification, spreading exposure across multiple properties and tenants. Although dividend yields may be more modest than high-performing serviced apartments, they are generally more stable.

Short-term rentals can deliver double-digit returns but require active management and carry greater volatility. For first-time investors without operational capacity, conventional long-term rentals in high-demand areas maintain the most balanced approach.

What are the most common mistakes investors make, and how can they be avoided?

One of the most frequent errors is chasing headline yields without accounting for vacancy and operating costs. A property advertised at 15 percent gross yield can fall significantly once maintenance, service charges, management fees and downtime are deducted.

Another mistake is investing in over-supplied micro-markets. Rapid apartment development in certain suburbs has periodically created gluts, suppressing rents despite attractive purchase prices.

Mismatch between property type and tenant demographic is also common. Large luxury units in areas dominated by young professionals often face prolonged vacancies. Mid-market two-bedroom units in commuter zones typically offer more stable occupancy.

Overleveraging is another risk. With lending rates in some markets exceeding 15–18 percent, even modest interest rate increases can erode net returns. Conservative loan-to-value ratios and stress-testing are essential.

Finally, insufficient legal due diligence — including title verification and zoning compliance — can expose investors to costly disputes. Professional legal counsel and reputable property management, though costing 5–10 percent of rental income, often protect far greater sums.