Knight Frank

A Perspective on Kenya Wealth Investment Trends

THE WEALTH REPORT

Kenya Edition | 2024

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The Wealth Report

The Kenya
Supplementary Report

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DEFINITIONS AND DATA

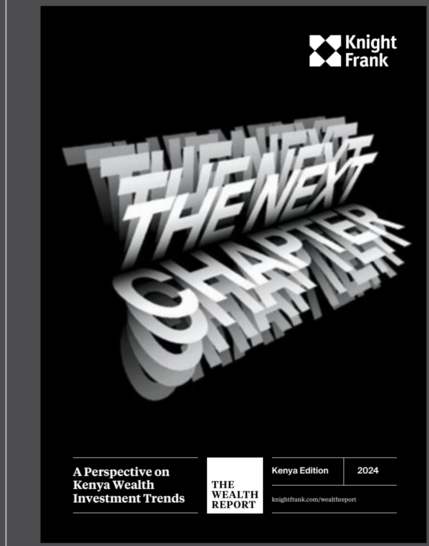
HNWI: High-net-worth individual – someone with a net worth of US$1 million or more.

UHNWI: Ultra-high-net-worth individual – someone with a net worth of US$30 million or more.

PRIME PROPERTY: The most desirable and most expensive property in a given location, generally defined as the top 5% of each market by value. Prime markets often have a significant international bias in terms of buyer profile.

THE KNIGHT FRANK WEALTH SIZING MODEL: The model, created by our data engineering team, measures the size of HNWI, UHNWI, and billionaire cohorts in more than 200 countries and territories

OUR COVER



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Global Outlook

Five themes shaping global real estate investments in 2024

By Liam Bailey, Global Head of Research and editor of the Wealth Report

1. Global growth will slow, but geopolitics will support critical sectors

The global economy has defied recession fears with robust growth over the past 12 months, most notably in the US. Despite apparent stability in developed economies, growth will slow over the coming year. Global GDP will likely expand by around 2.9% in 2024, down from 3.1% a year earlier. The American economy’s unexpected resilience is partly down to increased consumer spending, fuelled by savings accumulated during the Covid-19 pandemic. Once these savings diminish, higher interest rates will constrain spending, dragging on growth. The world’s economic stability is also underpinned by substantial but unsustainable government spending, resulting in historically high levels of government debt. Higher debt costs mean a reckoning is coming for governments this year.

Relations between the US and China showed some signs of thawing following a November meeting between presidents Joe Biden and Xi Jinping, but their economic rivalry will continue to escalate, adding to a fractious outlook for geopolitics. The fragmentation in relations initiated during the Trump administration, and expanded under Biden’s leadership, will likely lead to increased investment in strategic sectors such as technology, energy, and defence.

2. Rates will fall, just not as much as investors hope

While the inflation surge is subsiding, the extent and pace of rate cuts remain uncertain. Investors are convinced that we’ll see a sustained fall in rates over the course of the year, but how low they will go remains subject to conflicting long-term trends. Some factors will weigh on debt costs, notably the world’s ageing population. This demographic shift towards higher savings will lead banks to cut lending rates as they aim to align higher deposits with increased borrowing. That will be counterbalanced by the greening of the global economy and the ongoing decoupling of the West from China’s supply chains. Both transformations require huge public and private investment. In the long run, the global economy will acquire additional energy sources and increased productive capacity but achieving these goals will exert significant upward pressure on the prices of raw materials, infrastructure, and labour.

3. Liquidity will improve in 2024

Global property markets suffered value corrections in 2023. While most residential markets got off lightly, commercial markets felt the brunt of the downturn. New lending will be issued below the cost of debt that prevailed in late 2023 but still above the levels at which existing deals were struck. Even as central banks cut rates this year, it will still feel for many as though monetary policy is tightening. This process, while painful for some, is the key to a real estate market recovery in 2024. Lower values, lower interest rates, and some forced selling will allow for a much-anticipated improvement in investment volumes. With more than US$2 trillion in loans set to mature through to 2027 in the US alone according to MSCI, opportunities for well-capitalised investors will appear with increasing regularity as the year progresses.

Real estate is hitting a perfect storm of disruption. Hybrid working, the green agenda, and the retail reinvention, are prominent themes with a long way to go. Despite the repricing of property, the volume of apparently stranded assets will rise as use requirements shift, environmental policy requirements bite, and refurbishment costs rise. But with record funds totalling more than US$483 billion (Preqin) waiting to be invested, 2024 will mark the turning point for investment volumes.

4. AI investment will drive real estate requirements

By 2025, approximately 40% of corporate IT expenditure is anticipated to be directed towards AI-related projects, with IDC projecting an astonishing annual investment of US$500 billion in AI products by 2027. This substantial investment will be felt acutely in the real estate sector, driving a surge in demand for specific property categories. There will be a sizeable increase in demand for data centres, especially as proximity to cost-effective energy sources becomes increasingly critical. Expect a heightened need for specialized office spaces tailored to accommodate collaborative research and laboratory requirements. The rising demand for research facilities, pivotal to the development of AI-related hardware and software, will likely favour industrial real estate located near universities or established technology hubs. Moreover, the integration of AI-driven building management systems will elevate service standards in energy efficiency, climate control, and security. This enhancement will further distinguish top-tier office buildings from others in the market, enhancing their appeal to tenants and investors.

5. Climate change will impact property values but also presents new prospects

There is a 27% chance that 2024 will see the average rise in global temperatures surpass 1.5°C compared with the pre-industrial era, according to the UK's Met Office. The direct repercussions of this warming trend are already evident, influencing various aspects of the property market. The effects include altered crop yields in agricultural regions, shifts in tourism patterns, physical harm to buildings in vulnerable zones, and disruptions in infrastructure.

In the short term, more properties are expected to face indirect consequences, such as rising insurance premiums and possibly expanding uninsurable areas. Data from MSCI in the US reveals a significant increase in insurance costs as a percentage of income receivable, doubling from 1.0% to 2.3% over five years to September 2023. Coupled with regulatory alterations, this signifies a notable rise in risks for investors who opt to disregard environmental factors in their investments this year.

Conversely, new opportunities are emerging. Demand is rising from tenants and investors for properties situated in low-risk areas and for energy-efficient buildings. As the toll of climate-related damage increases, there will be heightened demand for technology that assists property owners in preparing for, adapting to, and recovering from climate-related hazards and subsequent damage.

A comparison of Kenya

Versus global real estate outlook

ECONOMIC GROWTH AND GEOPOLITICS:

- **Global:** Global economic growth is expected to slow to 2.9% in 2024, with concerns about unsustainable government spending and heightened debt levels. The US-China economic rivalry continues, emphasizing strategic investments in technology, energy, and defence.
- **Kenya:** Kenyan HNWIs showcase optimism, with 62% foreseeing wealth growth in 2024. Confidence aligns with World Bank projections of Kenya's economy growing at 5.2%, driven by increased private sector investment.

INTEREST RATES AND ECONOMIC TRENDS:

- **Global:** Investors anticipate a fall in interest rates, influenced by conflicting trends like an aging population and the greening of the global economy. The goal is to align higher deposits with increased borrowing despite potential upward pressure on raw material prices.
- **Kenya:** The Central Bank recently implemented a series of rate hikes, raising the benchmark rate by 50 basis points to 13% in its February 6th, 2024, meeting, following a significant 200 basis points hike in December 2023. This brings borrowing costs to their highest level since October 2012. The policymakers' rationale behind this decision is to ensure that inflationary expectations remain controlled and to steer inflation towards the 5% mid-point of the target range. Additionally, the move aims to address residual pressures on the exchange rate.

LIQUIDITY IMPROVEMENT:

- **Global:** Global property markets faced corrections in 2023, significantly impacting commercial markets. Lower values, reduced interest rates, and forced selling will enhance investment volumes globally in 2024.
- **Kenya:** Kenyan HNWIs exhibit confidence in the real estate market, emphasizing strategic home-ownership and income generation through rental arrangements, indicating a positive trajectory.

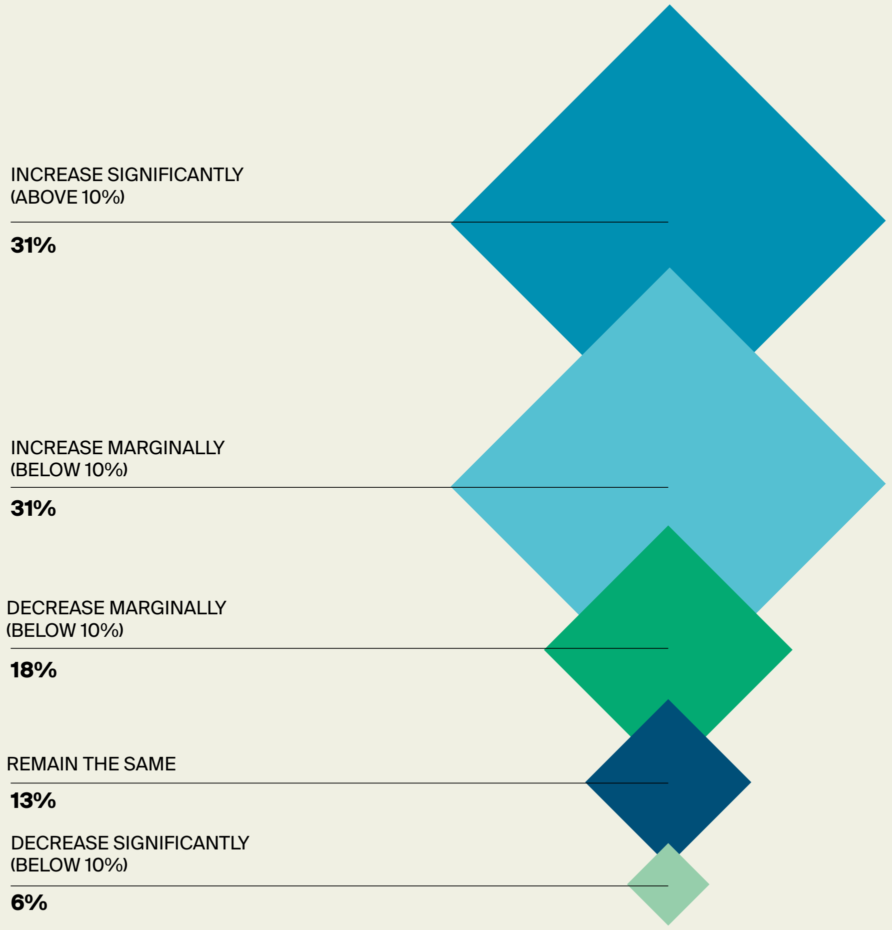
Focus on Kenya: **Key findings**

High Expectations for Wealth Growth in 2024

KENYAN HNWIS' WEALTH GROWTH EXPECTATIONS IN 2024

31%

of HNWIs optimistic



A noteworthy 31% of the interviewed HNWIs expressed an optimistic outlook, foreseeing a substantial increase in their wealth that surpasses the 10% mark. This confidence signifies a strong belief in the potential for robust financial growth among a significant proportion of the high-net-worth individuals in Kenya.

In addition to the group foreseeing substantial growth, another significant portion, constituting 31%, anticipated a more conservative but still positive trend. These respondents expect a marginal increase in their wealth, falling below the 10% threshold. This moderate growth projection suggests a widespread expectation of steady financial growth among many Kenyan HNWIs.

Conversely, a contrasting viewpoint emerged in only 6% of the respondents who expressed expectations of a significant decrease in their clients' wealth. While this pessimistic outlook represents a minority perspective, it introduces a nuanced dimension to the overall sentiment within the Kenyan high-net-worth landscape.

The prevailing sentiments among Kenyan HNWIs reflect a sense of increased confidence in the country's economic growth. These findings align with recent World Bank Projections, indicating that Kenya's economy is set to grow at a faster rate of 5.2% this year. This growth is expected to be boosted by increased private sector investment as the government reduces borrowing from the domestic credit market. Further, according to the latest Global Economic Prospects, a World Bank Group flagship report, growth in non-resource-rich countries such as Kenya is projected to strengthen to 5.4 percent in 2024 and 5.7 percent in 2025.

The HNWIs' hopefulness for a better 2024 could also be attributed to the political stability in the country, offering a conducive environment for investment purposes. As the survey reflects diverse expectations within the high-net-worth community, the overall sentiment points towards a positive trajectory for wealth accumulation in Kenya in 2024.

> "Kenya's economy is set to grow at a faster rate of 5.2% this year"
>
> World Bank Projections

Limited Interest in Second Passports

We wanted to know how many HNWIs were planning to apply for second passports or New Citizenships in 2024.

10%

Only less than 10% of the interviewed HNWIs expressed intentions to apply for new passports or citizenships in 2024.

My land is Kenya

The observed limited interest in acquiring second passports aligns with additional evidence pointing towards restoring trust among Kenya's HNWIs in the country's financial well-being and political stability. Furthermore, the survey findings suggest a sustained interest among HNWIs to reside and invest in Kenya. As indicated by the limited desire for alternative citizenship, the country's enduring appeal implies a deep-seated commitment and confidence in Kenya's economic prospects. The reluctance among Kenyan HNWIs to seek second passports in 2024 showcases a notable shift in perceptions, emphasizing growing trust and optimism in Kenya's financial landscape against increasing instability in international markets.

The Future of Residential

We sought to know which portion of our HNWI's wealth is allocated to their primary and secondary homes. Most HNWIs interviewed indicated that 50-60% of their client's wealth is allocated to primary and secondary homes. This points to the pronounced significance that real estate holds in the wealth management strategies of HNWIs. Furthermore, it becomes evident that real estate serves as a fundamental component of diversified investment portfolios for this demographic. The resilience of this allocation strategy is noteworthy, especially considering the prevailing economic landscape. HNWIs maintain confidence in real estate as a stable and appreciating asset class.

60%

Portion of HNWIs' wealth allocated primary and secondary homes

Home Ownership Abroad

We also wanted to know what portion of the HNWI's residential property is held outside the country. According to the survey, most respondents indicated that less than 10% of their residential property is owned outside the country. This trend raises questions about the investment strategies and risk perceptions guiding the decisions of high-net-worth property owners.

Many HNWI appear to find a sense of security and considerable returns within the country. Moreover, the convenience and familiarity of managing properties in close proximity contribute to the inclination towards domestic holdings. The logistical ease and direct oversight of local property ownership also present distinct advantages especially compared to the potential complexities and challenges of managing real estate assets abroad.

This preference for domestic property ownership may also be attributed to regulatory considerations, tax implications, and the broader legal landscape.

The intricacies of cross-border property ownership, including compliance with foreign regulations and navigating diverse legal frameworks, could encourage HNWI to seek simplicity and clarity in managing their residential real estate portfolios.

10%

Portion of residential property owned held abroad

> "HNWIs tend to prefer domestic holdings for security, returns, and the convenience of managing properties locally."

How many homes?

The majority of HNWIs indicated ownership of at least two homes, with only a marginal 5% reporting possession of a singular residence. One notable trend that emerges is the strategic use of the second home as an investment vehicle. For a significant portion of HNWI, the second property is a tangible asset for wealth preservation and growth. This aligns with broader investment diversification strategies often employed by the affluent to safeguard and enhance their financial portfolios.

Residential Dichotomy:

Beyond the investment angle, our research underscores the wealthy's diverse residential set-ups. Some individuals opt for a dual urban-rural residence model, with one home in the city and the other in a serene village. This dichotomy in living spaces reflects the varied lifestyle preferences and perhaps the desire for a harmonious balance between the urban hustle and rural tranquillity.

NUMBER OF HOMES OWNED BY THE HNWIs

Home Purchases in 2023 and Optimism for 2024

HOME-OWNERSHIP IN 2023/24

20% of HNWIs purchased a home in 2023

30% of HNWIs plan to purchase a new home in 2024

The survey reveals that 20% of the HNWIs interviewed disclosed that 10% and 20% of their clients invested in home purchases during 2023. This suggests a considerable appetite for real estate among this affluent demographic, with a significant segment of their clients actively engaging in property acquisitions.

Future Outlook: Looking ahead to 2024, an even more optimistic sentiment prevails, with 30% of the respondents believing that 10% and 20% of their clients will embark on home purchases. This anticipation underscores a sustained interest and confidence in the real estate market, projecting ongoing activity in property acquisition within this exclusive segment.

Income Generation through Second Homes

80-90%

of HNWIs generate income from their second homes

80-90% of the HNWIs follow a strategic approach to their second homes. Instead of maintaining these properties solely for personal use, they rent them out, leveraging their real estate assets to generate income. This trend implies a proactive approach to wealth management and growth, where high-net-worth individuals invest in real estate for potential appreciation and actively seek income streams through rental arrangements. The decision to rent second homes reflects a broader trend among HNWIs to diversify their income sources, utilizing residential real estate as a means of wealth generation beyond traditional investment avenues.

The findings paint a picture of HNWIs actively engaging in the real estate market, both in terms of property acquisitions and income-generating strategies. The optimism for future home purchases indicates a sustained interest in real estate as a wealth-building avenue. At the same time, the prevalent rental strategy underscores the strategic thinking of HNWIs in maximizing the financial potential of their real estate portfolios.

Top Choices for New Home Purchases

First Choice:

Kenya emerged as the unequivocal front-runner, capturing 33% of respondents' preferences.

Canada followed closely at 21%, positioning itself as the second most favoured destination. The UK secured the third spot with a 20% preference rate.

Second Choice:

Kenya maintained its appeal, sharing the leading position with South Africa and the UK, garnering 14.5% of respondents' preferences for a second home purchase.

Third Choice:

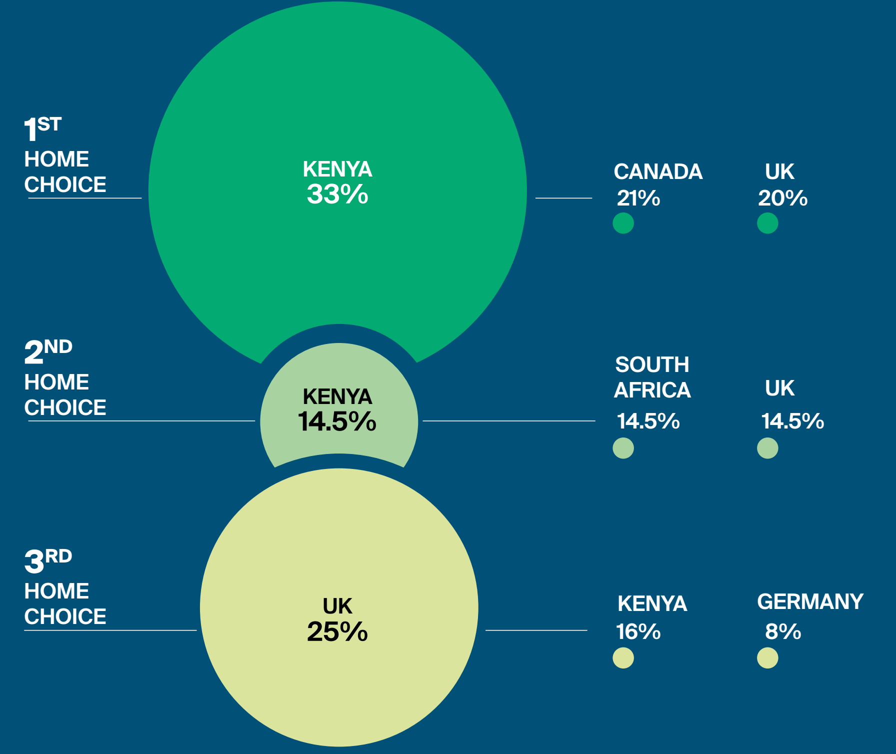
The UK claimed the top spot as the preferred destination for a third home purchase, commanding a 25% preference. Kenya also maintained a strong presence in the third option, securing the second position with a 16% preference rate. Germany emerged as a distant third choice, capturing 8% of respondents' preferences.

The remarkable choice of Kenya across all three options underscores its significance as the preferred location for new home purchases among Kenyan HNWIs. This trend reflects a renewed confidence in the country's economic, social, and political landscape. The survey indicates a notable upswing in perception among affluent residents, suggesting an overall trend where Kenyans display increased interest and trust in their home country.

Canada and the UK prominence:

While Kenya stands out, Canada and the UK also feature prominently in the preferences of Kenyan HNWIs. Canada's reputation for quality living, the UK's historical ties, and international appeal contribute to their consistent inclusion as top choices.

PREFERRED NEW HOME PURCHASE LOCATIONS



Investment Motivation

The majority of respondents identified investment as the primary motivation behind their clients' future home purchases. This strategic choice highlights a deliberate effort among HNWIs to view residential real estate as a lifestyle asset and a robust investment vehicle.

Factors Driving Investment Motivation:

- Wealth Appreciation: High-net-worth individuals often view real estate as a tangible asset with the potential for long-term appreciation. Residential properties, particularly, are perceived as secure investments that can yield substantial long-term returns.
- Diversification of Investments: Real estate allows HNWIs to diversify their investment portfolios. By allocating funds to residential properties, they can balance their wealth across different asset classes, reducing risk and enhancing overall financial stability.
- Income Generation: The prospect of rental income contributes significantly to the investment motivation. Many HNWIs recognize the potential to generate consistent returns by renting out their properties, creating an additional income stream.
- Legacy and Inheritance Planning: High-net-worth individuals often prioritize the creation of a lasting legacy. Real estate is an enduring asset passed down through generations, aligning with long-term family wealth strategies.

MOTIVATION FOR HOME PURCHASES

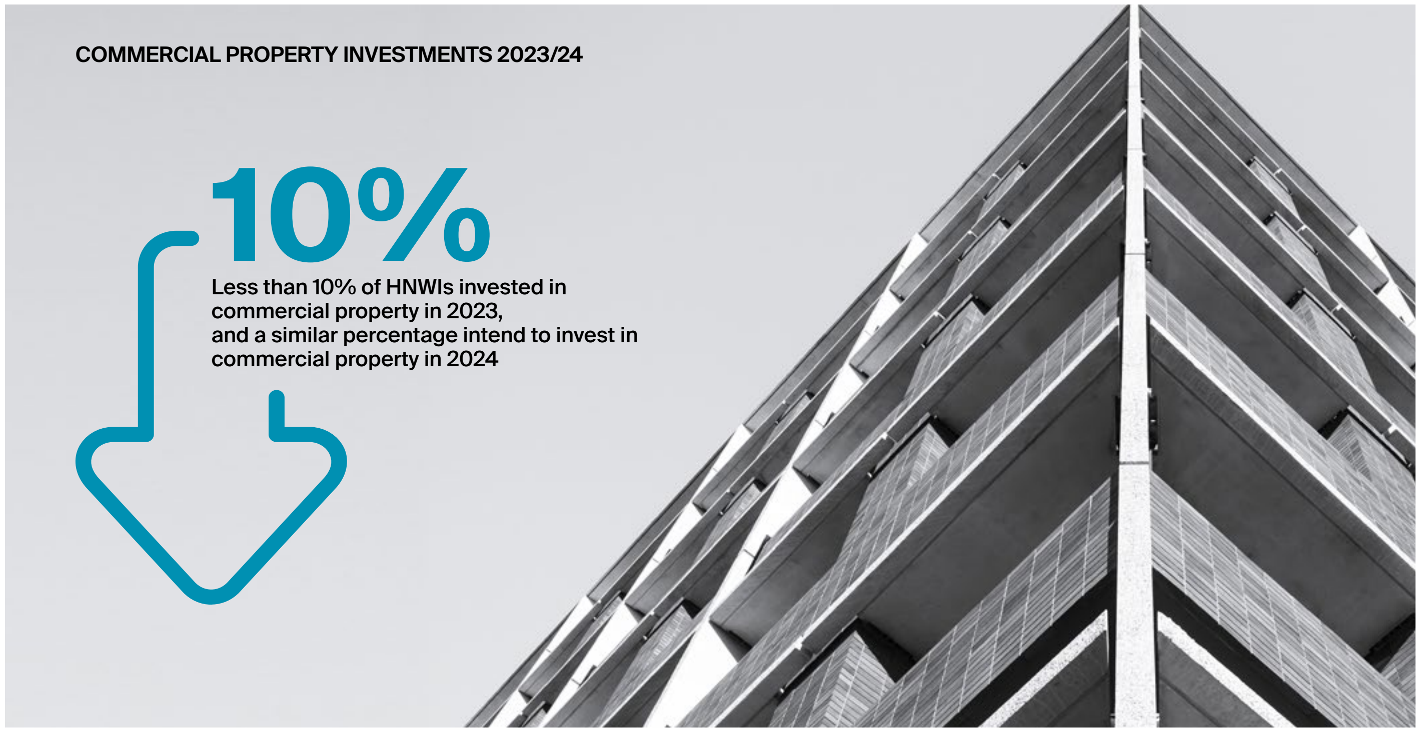
Investment	25%
Education	18%
Lifestyle	18%
Job relocation	17%
Political safe haven	12%
Tax	10%

A slower 2023/24 for commercial:

i. Commercial property investments in 2023

When HNWIs were asked about the percentage of those who invested directly in commercial property during 2023, only less than 10% were engaged in commercial property investments. This pattern suggests a cautious approach among HNWIs towards the commercial real estate sector during the specified period.

- Stagnated Yield and Rental Growth: A key contributing factor to the subdued interest in commercial property investments is the lower yields and slow rental growth experienced in the commercial space. Over the past few years, the office sector has grappled with an oversupply situation, leading to stagnating rental growth. The diminished potential for lucrative returns may have deterred HNWIs from allocating a significant portion of their investment portfolios to commercial properties.
- Shift in Working Patterns: A notable shift in working patterns, driven by the global embrace of hybrid and flexible work arrangements, has played a pivotal role in curbing the appetite for commercial spaces. The advent of remote work and flexible schedules has prompted some businesses to downsize their office spaces, decreasing demand for commercial properties. This change in the office landscape has likely influenced HNWIs to re-evaluate the attractiveness of commercial real estate as a viable investment avenue.
- Cost Considerations: Commercial construction is often characterized by higher costs than residential developments. The scale, complexity, and specialized systems required in commercial projects contribute to larger budgets. According to a report by Utilities One, the cost of materials, labour, and engineering for commercial projects tends to surpass that of residential projects. This financial barrier may deter HNWIs and their clients, especially in an environment where obtaining financing has become more expensive.



ii. Commercial property investments in 2024

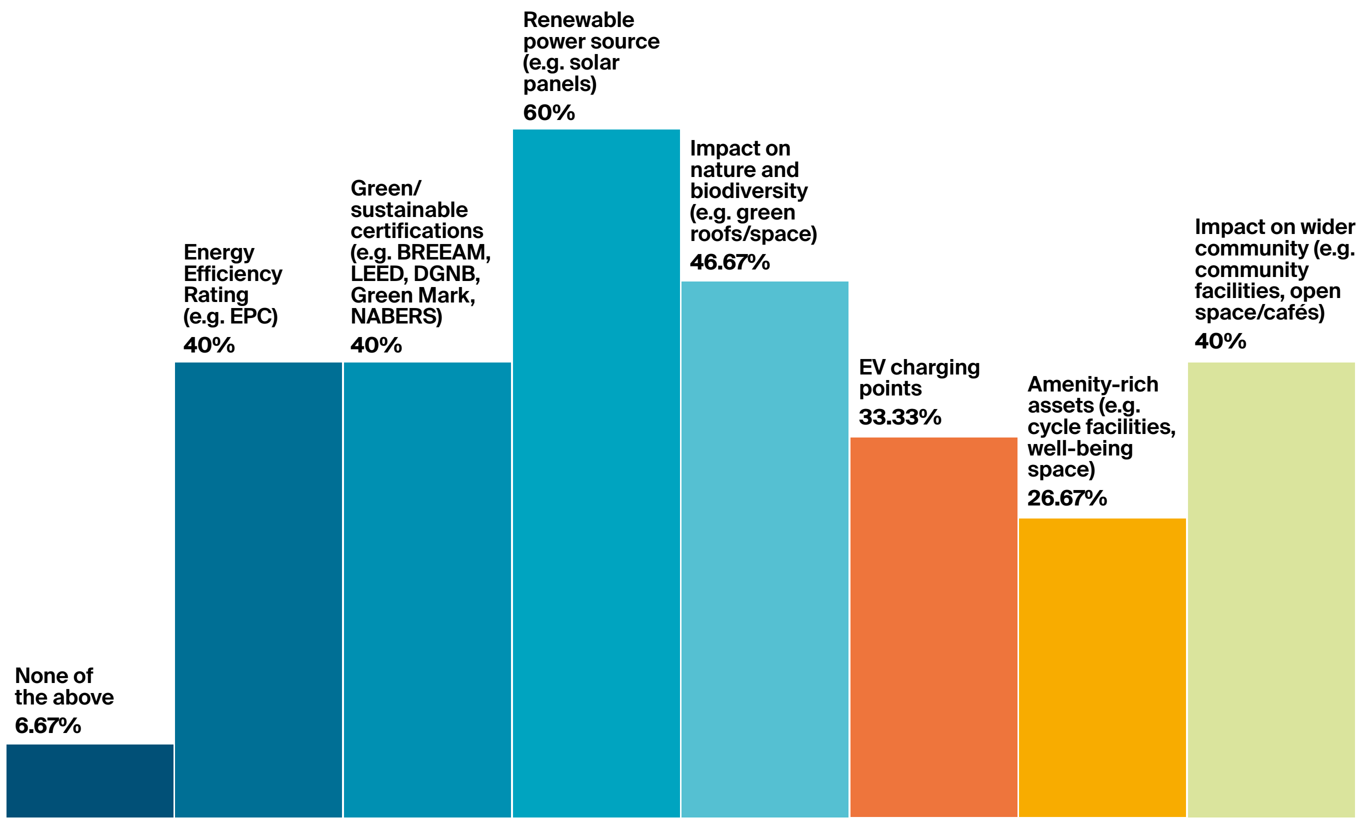
The survey extended its inquiry into the prospective investment plans of High-Net-Worth Individuals (HNWIs) for 2024. The findings reveal a consistent pattern, with less than 10% of the HNWIs planning to invest in commercial property in 2024. This continuation of cautious sentiment can be attributed to ongoing challenges within the commercial real estate sector. The historical oversupply of commercial spaces, particularly in the office sector, continues to be a prominent factor. This oversupply situation has led to slower rental growth, diminishing the appeal of commercial properties as lucrative investment opportunities. Additionally, the evolving landscape of remote and flexible work arrangements has resulted in a persisting downsizing of office spaces, impacting demand for commercial real estate

Sustainable Trends in Focus

When HNWIs were asked about the ESG (Environmental, Social, Governance) criteria they assess when considering property acquisitions, a clear trend emerged – the majority highlighted a focus on renewable power sources, such as solar panels. This choice reflects a growing emphasis on sustainable and environmentally friendly practices within the real estate investment landscape.

- Environmental Impact: The prioritization of renewable power sources aligns with a broader commitment to reducing the environmental footprint of real estate investments. Solar panels, in particular, offer a clean and renewable energy solution, contributing to decreased reliance on traditional energy sources and subsequently lowering the carbon footprint associated with property operations.
- Long-term Cost saving: The HNWIs further highlighted the economic rationale behind investing in optimising the efficiencies of sustainable energy sources such as solar panels, wind power and hydroelectric systems. As a private, non-governmental solution Solar panels in particular, are recognized for their ability to harness energy from the sun, providing a renewable and cost-effective alternative to traditional power sources. Over the lifespan of a property, the upfront investment in renewable energy infrastructure often translates into reduced operational costs, making it an attractive prospect for HNWIs mindful of the financial sustainability of their investments.

The significant emphasis on renewable power sources as a key ESG-related criterion in property investment underscores the evolving priorities of HNWIs.. This strategic consideration aligns with a broader commitment to sustainable practices, reflecting a growing recognition of the interconnectedness between environmental responsibility, long-term financial viability, and positive social impact in the real estate investment landscape.



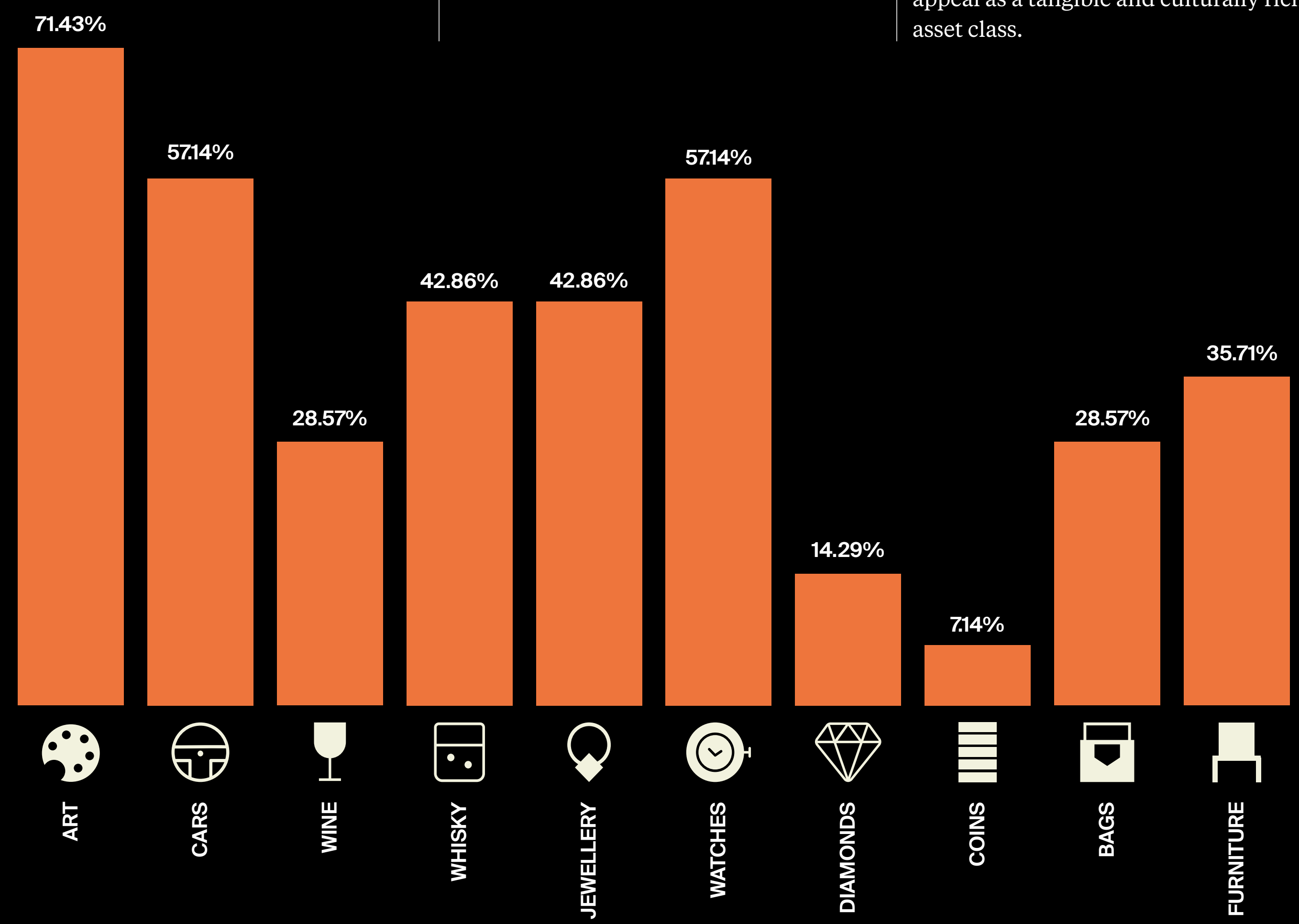
Investments of Passion:

Art overtakes cars in Knight Frank's Luxury Investment Index

A noteworthy shift in the investment preferences of Kenyan HNWIs has been observed, signalling changing trends in investments of passion. A substantial 70% of our Kenyan HNWI clients expressed a keen interest in art, a significant uptick compared to the previous year when the majority (50%) showed a penchant for purchasing classic cars. This shift aligns with global patterns, as evidenced by The Knight Frank Luxury Investment Index (KFLII), which tracks the performance of 10 popular investments of passion.

The latest data from the KFLII underscores the rising prominence of art as the best-performing luxury asset class in 2023, experiencing an impressive 11% price increase.

The shift from classic cars to art among Kenyan clients suggests a dynamic response to global investment trends and attests to the evolving nature of passion investments. The resilience of the art market in the face of broader economic fluctuations further underscores its appeal as a tangible and culturally rich asset class.



For the love of it

Factors driving HNWI's investments of passion

1. JOY OF OWNERSHIP
2. AS AN INVESTMENT
3. INTELLECTUAL INTEREST
4. STATUS AMONG PEERS
5. TO BELONG TO THE COMMUNITY

Joy of Ownership:

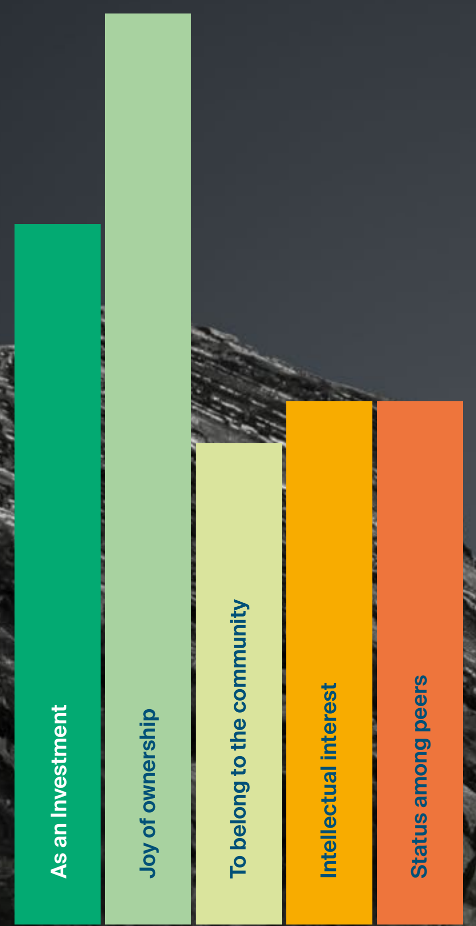
Knowledge is essential in selecting assets, particularly in categories like whisky, classic cars, and art. The pleasure derived from owning unique and culturally rich assets is evident, with a recognition that the joy of ownership complements the financial aspects of these investments.

Investment:

The emphasis on investment as one of the reasons for collecting investments of passion is underscored by the performance analysis of various luxury assets. Notably, the discussion highlights fluctuations in the value of luxury assets such as whisky, classic cars, handbags, fine wine, watches, and jewellery. The financial aspect of these investments is a central theme, focusing on value appreciation, market corrections, and notable sales contributing to the overarching consideration of investments.

Intellectual Interest:

Intellectual interest is the third-ranking factor in clients' motivations for collecting investments of passion. There is a need for knowledge and expertise in making informed decisions, especially in areas like whisky, where understanding the scarcity and undervaluation of certain bottles is crucial. The intellectual engagement with the assets, their history, and market dynamics contributes to the overall appeal of investments of passion.



Status among Peers:

Status among peers is also recognized as a contributing factor, albeit less prominent than the Joy of Ownership and financial aspects. According to the Classic car guru Dietrich Hatlapa, the retreat in the value of classic cars might be influenced by factors like changes in portfolio allocations and profit-taking. The discussion hints at the impact of market trends on the perceived status associated with certain investments.

To Belong to a Community:

To belong to a community is identified as the smallest factor influencing clients' motivations for collecting investments of passion. The sense of belonging to a community is likely associated with shared interests among collectors. For instance, the hip-hop culture influencing the jewellery market exemplifies how cultural trends and communities can shape preferences within investments of passion.

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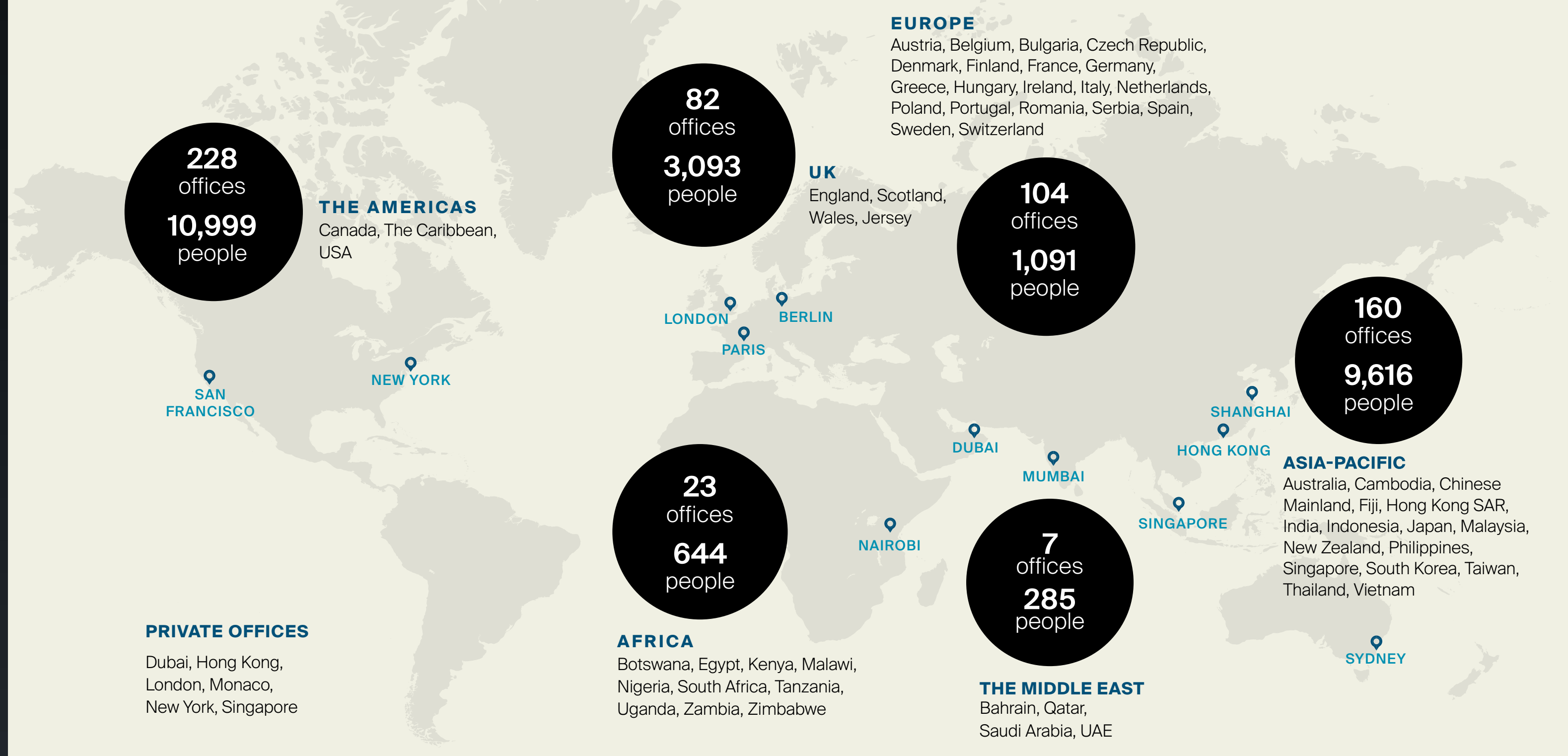
604 offices across 58 countries and territories supported by more than 25,000 people



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