Kenya’s unique combination of its beach and safari circuit are the pillars of the country’s huge tourist industry, with around 1.5 million people flocking to its 19 game reserves and the 1,400-kilometre Indian Ocean coastline every year.

The tourist season is also one of the longest anywhere at 40 weeks a year, with no typhoon season or extreme weather conditions to trouble it—only the rainy season around Easter. At other times during the year, the trade winds that once powered commerce between Africa and India fuel a booming kitesurfing industry on the powder-white beaches. Among them is Diani, which has just been voted one of the best beaches in Africa by TripAdvisor. Its popularity is on the rise again too, with occupancy rates in its beachfront resorts having doubled since 2015. A new bypass road under construction will also provide a direct link to the south coast from the western side of Mombasa city.

Kenya’s second home market is largely internal, with demand mainly from wealthy Nairobi families seeking a beachfront holiday home. Whilst house and apartment sales are typical, it is increasingly common for buyers to invest in a beachfront plot and build a holiday home.

Overseas interest in Kenyan holiday homes comes mainly from British buyers, but we also see a sizeable number of Italians and other nationalities drawn to the coast around Malindi, Watamu and Lamu, as well as the countryside such as in Nanyuki close to Mount Kenya, and within private game conservancies.

Nairobi is a different residential market altogether. As a fast-growing melting pot and major regional hub with a strong economy, Nairobi attracts international corporations looking to set up their headquarters in Africa. The biggest employers are those in the FMCG (fast moving consumer goods) sector who are tapping into new wealth and spotting the country’s massive growth potential.

The city’s hotel industry is growing fast, as is the technology industry, which attracts many young Americans straight out of college who want to embrace exposure to this rapidly expanding market. While many expatriates will live in high-end residential areas such as Karen, Runda or Muthaiga, these young tech workers tend to rent apartments closer to work and enjoy Nairobi’s burgeoning youth culture in the form of trendy bars and clubs.

The Kenyan capital is also on the radar of many high net worth investors, as seen in the Knight Frank Wealth Report 2017. Among the global HNW population, 4% look to own homes in Kenya—led by the UK’s HNW population, 63% of whom express interest in Kenyan property, followed by 16% of South African HNWIs and 11% of Spanish, Mauritian and US HNWIs. About 5% of the super-rich in Uganda, Tanzania, Nigeria, Ghana, Switzerland, France, Canada and Lebanon are also likely to invest in homes in Kenya. The country as a whole is among the top five most popular second home locations for Africa’s wealthiest.

New construction of prime residential properties is continuing apace in Nairobi and the abundance of supply ensures availability for those seeking bargains. However, affordability remains an issue for the local market, with much of the new stock beyond the means of most people. The biggest issue is access to credit. In a country of 48 million people, less than 30,000 have mortgages.

Interest rates are currently capped at 14.5%—as they would usually be closer to 16%—in a political move to free up mortgages, but the cap slashes the margins for banks. Lenders are tending to put their money into government bonds rather than get involved in the private mortgage market. Many overseas investors will buy with cash or get dollar-denominated mortgages at far better rates, but the lack of liquidity in the Kenyan property market is a major obstacle.

There is optimism that the market will pick up in 2018, however. Nairobi is a key regional centre that offers good prospects for investors, and Kenya’s relations with its neighbouring countries has never been better. On the coast and in the bush, buyers will be drawn by their hearts as much as their heads—and as history has shown, little will stop them.
Deerpark Karen

From conventional expansive estates to contemporary villas with all the trimmings – what is driving this growing trend and how are developers adapting to, and staying ahead of these changing behaviours and perspectives?

By Zoe Dare Hall

The number of Kenya’s high net worth individuals has doubled to around 9,400 over the last decade. The country is now home to the fourth highest number of dollar millionaires in Africa and property is a priority when it comes to ways of investing their wealth.

Where traditionally wealthy Kenyans might have sought a safe haven for their cash in luxury property in South Africa, Dubai, New York or London, they are increasingly seeking high-end products within Kenya itself. Their current focus is on locations that offer the best education for their children, personal security, an attractive lifestyle and the greatest opportunities for capital appreciation. Customarily, this type of buyer would have seen the ultimate trophy property as a prodigious home set on sprawling acres of land, alongside a private security team and an army of staff to maintain it. Currently, Kenyan buying behaviour has shifted and there is a growing preference for high-end villas on smaller parcels of land within gated communities that are designed and built to world-class standards.

Few want the costs of owning large tracts of land in an urban setting any more. They want the ability to lock up and go, and the reassurance of shared security, back-up water and electricity. Such is the mobility of the modern urbane,” comments architect Johann de Wet, managing partner at Boogertman + Partners Architects Kenya, whose projects include East Africa’s biggest shopping mall, the new Two Rivers in Nairobi, and Nelson Mandela’s family house in Maputo, Mozambique.

De Wet is also the architect behind a new, gated community that he says will redefine luxury living in Nairobi. Deerpark Karen is a new development of 10 villas, priced from US$1.11m (Kshs115m), due for completion in March 2018, in the sought-after Miotoni neighbourhood of Karen.

The affluent suburb – named after Karen Blixen, the Danish author of the colonial memoir Out of Africa, whose farm once stood on this land – is a magnet for British and European expats when they relocate to Nairobi. This is no transient population though; many stay for generations. Karen has a peaceful, suburban feel combined with the benefit of an easy commute into the Central Business District, and to Jomo Kenyatta International Airport, via the Southern bypass – one of various infrastructural upgrades that is driving Karen’s expansion as it becomes an increasingly popular lifestyle location of choice.

Karen boasts many of the city’s international schools, renowned restaurants, a growing number of best-in-class shopping malls and the Karen Golf & Country Club. On its doorstep is the Ngong Forest – one of the few remaining natural forests in a capital city – and the Oloolua Forest, whose trails provide an oasis for residents seeking respite from the hectic city centre.

It’s in this setting, and with this wealthy, well-travelled demographic of prospective buyers in mind, that De Wet has designed Deerpark Karen’s villas to reflect what Nairobi’s wealthy residents now expect. In a striking departure from the ’country’ aesthetic that dominates high-end homes in the area – large houses with pitched roofs, more redolent of well-heeled English country homes – he has gone for contemporary, angular European-style homes that offer the rare luxury of their own private leisure facilities. Each home is set on half an acre of private land with multiple courtyards, a garden, pool and gym. Next to the pool is the entertainment wing in a separate building, which includes a steam room. “This is not typical of homes in gated communities, but from my experience, communal facilities in developments are rarely used as they don’t provide home-owners with the privacy to entertain their guests. We have prioritised the need for each home-owner’s privacy in this model,” comments De Wet.

The spaces within are large, open-plan and flooded with light – the result of what De Wet describes as “the very restrained use of materials”. The large windows and sliding doors allow the sunlight and breeze to permeate the rooms and provide a connection with the mature woodland that surrounds Deerpark Karen. Rather than a classic pitched roof, De Wet has opted for flat roofs “to provide better use of internal spaces, including roof space for storage”.

The sense of luxury begins on entering Deerpark Karen via a drive-through Porte Cochere and the houses feature technology that is rare in Nairobi’s gated developments, including CCTV security and electronic chip and pin access in every house.

In keeping with its green surroundings, the development is also ahead of the curve sustainability-wise. “With the increased pressure on energy and water around the world, it is our responsibility to ensure we develop sustainable environments,” says De Wet. “Deerpark is playing its role by going beyond the statutory need for energy and water conservation measures. There is solar water heating with an added ‘green’ heating feature that uses air to heat water as a back-up for overcast days, and waste water is treated and re-used for gardening.”

By bringing something new to the market that appeals to high net worth domestic and international buyers, Deerpark Karen is proving to be an exceptional development, with 60% of its villas having sold in less than eight months since its launch.

They call Nairobi the ‘Green City in the Surf’, and Deerpark Karen makes the most of its natural assets to bring a level of luxury the Kenyan capital has not seen before.
Market resilience continues

Following a period of unprecedented growth from 2010 to 2012 when annual price growth exceeded 30% per annum, Nairobi’s prime residential market has witnessed a price correction in recent years. We see this an indicator of a maturing market as vendors adjust their price expectations. We expect the prime market to recover in the first half of 2018 as the current wave of political uncertainty draws to a close, ending the period of moderate price growth, evident throughout 2016 and 2017.

By Charles Macharia

Rentals

Prime residential rents in Nairobi declined during the first half of 2017 albeit at a slower rate of -2.8% compared to -3.2% during the first half of 2016. An oversupply of prime properties for rent is behind the weaker prime rental growth, which has given tenants more leverage to negotiate with landlords. In a market dominated by expatriate tenants, corporate budget cuts by multinational firms have further influenced the performance of this high-end residential market segment.

While there has been much talk in the market about a dramatic decline in residential rents, we sense that the residential market is reaching its cyclical trough.

Sales

Prime residential prices increased by 0.9% over the first nine months of 2017 compared to a decrease of 1.0% over the same period in 2016. The prevailing market conditions, coupled with the already high capital values of prime residential homes, have however resulted in low transaction volumes.

Furthermore, the introduction of interest rate capping during the second half of 2016 led to most financial institutions being reluctant to lend to private individuals. Lenders have since shifted their focus to corporate borrowers and investing in government bonds. This trend has continued into the second half of 2017 as potential sellers and buyers hold off key investment decisions until the election is concluded.

However, despite the slowdown in activity, we believe transactional activity will gain momentum in 2018 as the market stabilises.

Nairobi and Mombasa continue to attract interest from both local and international buyers.

Currency

The Kenyan Shilling remained largely stable in the year, but had depreciated against the major currencies such as USD Dollar, UAE Dirham, Indian Rupee, Chinese Yuan and Euro by 1.8%, 1.8%, 4.3%, 4.2% and 6.7% respectively as of mid-November 2017. However, it strengthened against the Japanese Yen by 6.4% over the same period. Within the East African Community, the Kenyan Shilling had depreciated against the Ugandan Shilling, Tanzanian Shilling and Rwandese Franc by 1.9%, 0.9% and 1.4% respectively as of mid-November 2017.

Taking account of currency movements only, a European buyer purchasing a Kshs100m home, property would have saved 8.2% on the price (or $75,000 in real terms) compared to two years earlier, whilst a US buyer would have realised a saving of 1.4% (or $314,000) over the same period.

Outlook

Our outlook for Kenya remains positive in 2018. Government regulations, infrastructure spending (to meet the country’s Vision 2020 goals), combined with a growing realisation amongst developers that there is a need to phase project launches in line with demand, leads us to believe the real estate market has become more mature and resilient.

Kenya’s projected GDP growth rate of 5.8% in 2018 is significantly above Sub-Saharan Africa’s projected average growth rate of 3.5%, making it an ideal location for local and international investors.

Other factors making Kenya an ideal investment destination include: rapid urbanisation at 4.3% per annum versus a global average of 2.0%, an expanding middle class, and positive demographics such as high population growth at 2.6% per annum against a Sub-Saharan Africa average of 2.3%.

The positive outlook has led to increased investment from major foreign firms, in particular from China, with their focus being in and around the country’s capital. Examples include a US$70 million investment by Chinese investors, China National Aero-Technology International Engineering Corporation (AVIC), as well as the acquisition of a 38.9% stake in the Two Rivers development by Jiangxi Water and Hydropower Construction Company—which will consist of five-star hotels, office blocks, residential homes and shops when completed, with the retail component having opened for trading in February 2017.

Nairobi’s Westlands district is the focus of another largescale development. Here, AVIC International Africa is investing in a US$100 million development. The complex will be the hub of AVIC International’s African operations.
Buying Guide

The Purchase Procedure in Kenya

Thinking of buying in Kenya? Our step-by-step guide takes you through some of the key considerations.

Buying Process

The purchaser begins with identifying a suitable property for purchase. One needs to enlist the services of a reputable real estate agency/firm to assist in identifying a suitable property. The buyer then should endeavour to visit the site and satisfy themselves that it meets the desired criteria including its physical location and boundaries, and thereafter make a formal offer or expression of interest.

After an offer has been accepted, buyers should conduct due diligence to verify the ownership and other material aspects pertaining to the property and documentation etc. The vendor also conducts due diligence on the buyer.

If the due diligence process is successful, both parties then instruct their advocates to proceed to the contract stage. The procedure may vary slightly depending on whether one is buying a completed property (ready for occupation), land or an off-plan property. In the former, after paying the deposit, the transaction is completed within a defined closure period, normally 90 days from date of signing the sale agreement (although parties can mutually agree on any closure period that suits them). In the latter, after paying the requisite deposit, buyers normally pay a percentage of the purchase price in equal instalments until the project is completed.

Sale Agreement

Once the sale agreement is signed by both parties, the deal becomes legally binding and enforceable under the law of contract. The buyer is required to pay a deposit of at least 10% of the purchase price (or such other amount as may be agreed by both parties) upon signing the sale agreement. The deposit is held by the seller’s advocates as stakeholders pending completion of the transaction in accordance with the terms of the sale agreement. Alternatively, the buyer and seller can mutually agree to open a joint escrow account mandating both advocates to oversee the purchase funds until completion of the sale.

Buyers will normally then forfeit a percentage, or all, of the deposit if they default or are refunded the said deposit if the seller is unable to complete the transaction. It is important that every instrument effecting a disposition in land is executed by each of the parties consenting to it. Execution under the relevant Kenyan law consists of the person appending his/her signature or affixing his/her thumbprint or other mark as evidence of personal acceptance of the instrument. Execution by a corporate body, association or any other organisation should be done in the presence of an Advocate of the High Court of Kenya, a magistrate, a judge or a notary public.

Completion

On the completion date, buyers are required to pay the full balance of the purchase price in exchange for the completion documents from the seller.

Once the buyer’s advocates are in receipt of the completion documents, they make arrangements for the property to be assessed for Stamp Duty by a Government Valuer and subsequently stamping of transfer documents. Thereafter, they proceed to lodge the property for registration in favour of the buyer. After the registration process, the seller’s advocate is legally permitted to release the full deposit if the sale is completed.

Evidence that the person named as the proprietor of the land is the absolute and indefeasible owner. It is also possible to purchase land in Kenya without being in the country. One can assign a lawyer to go through the whole process on their behalf through the power of attorney.

Property Transactional Costs

Buyers will incur certain transactional costs when buying either residential or commercial property in Kenya.

Buying Residential Property

Stamp Duty/Land Tax: This levy is centred on the property value and the State relies on the amount returned by the Government Valuer or the purchase price agreed upon; whichever is higher:

- 4% for land/property within a municipality
- 2% for agricultural land or property outside a municipality
- 1% if a property is registered as a company and transfer is by way of shares rather than title

Legal fees: Each party pays for their own legal fees based on a percentage of the purchase price on a scale stipulated in the Advocates Remuneration Amendment Order, 2014. The only exception which appears to be a common practice, is where buyers are required to pay legal fees for both parties when buying an apartment. The argument for this is based on the fact that the seller’s lawyer is the one who does registration for all the leases on behalf of the buyer.

Agency fees: The agent is paid by the party who instructs them; either by the seller who instructs the agent to market the property or the buyer who instructs the agent for a property acquisition. The fee is on a scale capped at a maximum of 3% of the property’s value.

Registration and disbursement fees: Buyers are generally responsible for the cost of registration of titles in their name(s) together with other disbursement costs as may be advised by the seller’s advocate.

Foreigners’ Purchasing Regulations

Just like Kenyan citizens, foreigners are permitted to buy commercial and residential properties/land located within a town or municipality without any restrictions whatsoever, provided that they comply with the laid down procedures. The only restrictions are on owning agricultural land, freehold titles and first row beach plots along the Kenyan Coast.

Article 65 of the Kenyan Constitution limits foreigners to holding only leasehold titles for a maximum of 99 years but permits future renewals on condition that the subject property held under that title is economically active and it is not required for public use purposes. This therefore means that if a foreigner purchases a property held under a freehold title, it will revert to a long term leasehold tenure. The restriction also applies to companies that are not wholly owned by citizens or property held in trust whose beneficiary is not a citizen.

This note is meant to give a very basic indication of the purchasing process and no liability is assumed as each interested person should seek local professional advice.
Our Teams

The Kenya Network

Our team

The London team works closely with our network of local experts in Kenya. Our local agents have been carefully selected for their integrity, experience and professionalism, and speak English.

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