RESIDENTIAL RESEARCH

KENYA INSIGHT 2018

ASSESSING KEY TRENDS ACROSS KENYA'S PRIME RESIDENTIAL MARKETS

PRICE PERFORMANCE | NEW INVESTMENT | MARKET OUTLOOK

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.

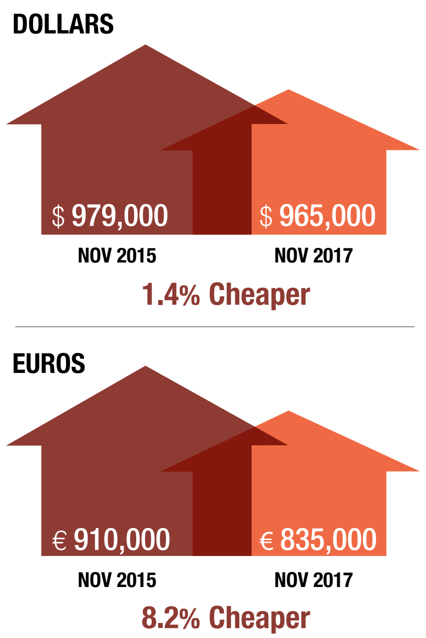
By Charles Macharia

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.

Purchasing a Kshs100m home: Potential savings for a European and US buyers Nov 2015 Vs Nov 2017



Knight Frank Research

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 US 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 Kshs100 million, 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 US$14,000) over the same period.

Outlook

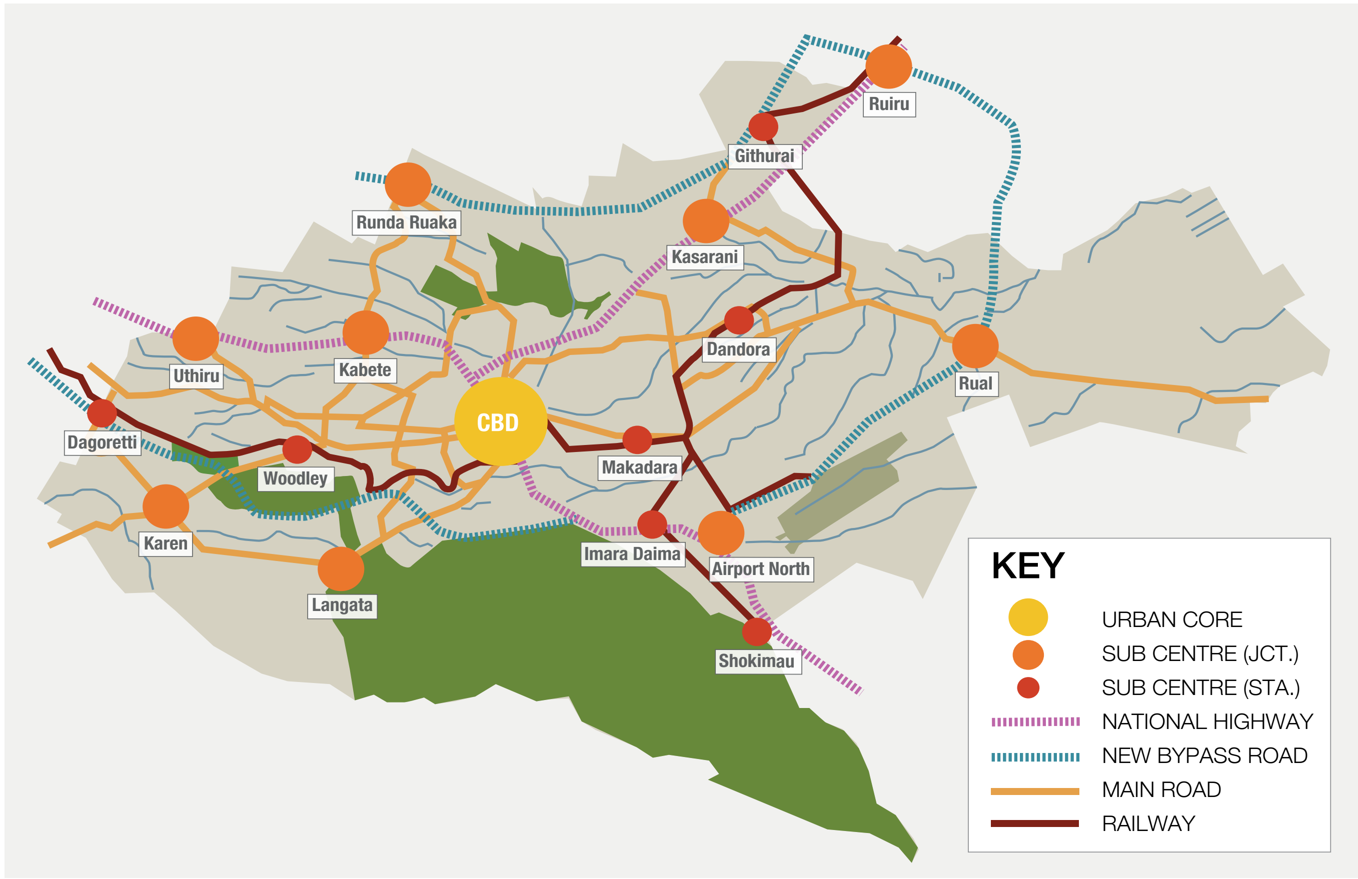
Our outlook for Kenya remains positive in 2018. Government regulations, infrastructure spending (to meet the country's Vision 2030 goals), combined with a growing realisation amongst developers that there is a need to phase project launches in line with demand, leads us to believe the real estate market has become more mature and resilient.

Kenya's projected GDP growth rate of 5.8% in 2018 is significantly above Sub-Sahara 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

Proposed Sub-Centres Under Nairobi's Master Plan



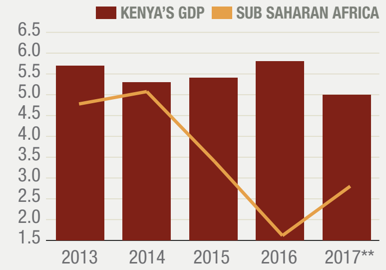
Nairobi City Master Plan

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. The tallest tower in the scheme will stand at 178 metres (43 storeys).

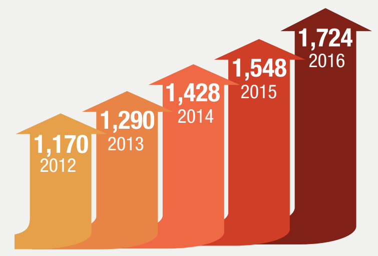
Chinese property developer Erdemann Property is also building a US$60 million residential housing project in Athi River on the outskirts of the capital. The investment will be the company's third phase of the Great Wall Gardens development, which will see the construction of 2,000 units comprising two-bedroom and three-bedroom apartments.

GDP GROWTH: KENYA VS SSA



Central Bank of Kenya
**Provisional

REMITTANCE INFLOWS USD MILLIONS



Central Bank of Kenya

SHARE OF REMITTANCES BY SOURCE 2017

Central Bank of Kenya

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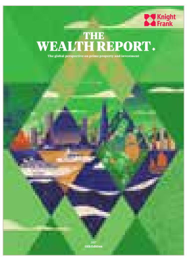
MARKETING PUBLICATIONS

Kenya Inside View 2018

The Research data provided in this report was originally published within **Kenya: Inside View**

RESEARCH PUBLICATIONS



Wealth Report - 2017

Africa Report 2017

UAE Market Review & Forecast 2018

PGCI Q3 2017

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