Research

Kenya Market Update

H1 2020

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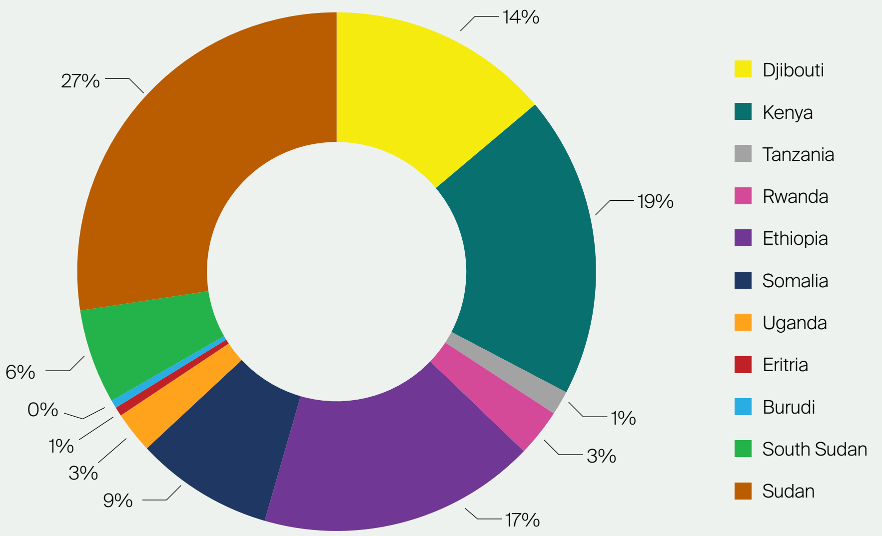
The Key Insights

- Kenya's economic outlook negative for 2020
- First case of COVID-19 confirmed in March
- Government introduces policies and directives to combat covid-19
- Monetary Policy Committee lowers central bank rate
- Kenya ranked 3rd largest economy in Sub-Saharan Africa
- Acorn Holdings launches Kenya's first green bond on the NSE and LSE
- Stanlib-Fahari I-REIT records lowest share price
- Land transactions fall
- Office requirements on hold as online activity increases
- Commercial office space occupancy remains steady at 73%
- Prime residential prices and rents decline
- Retail chains expand local footprint as foot traffic falls
- Tourism sector suffers Ksh 80 billion revenue loss
- Nairobi Gate Industrial Park opens modern warehousing complex
- Basic Learning institutions to open in January 2021

COVER IMAGE: Merchant Square, Riverside, Nairobi

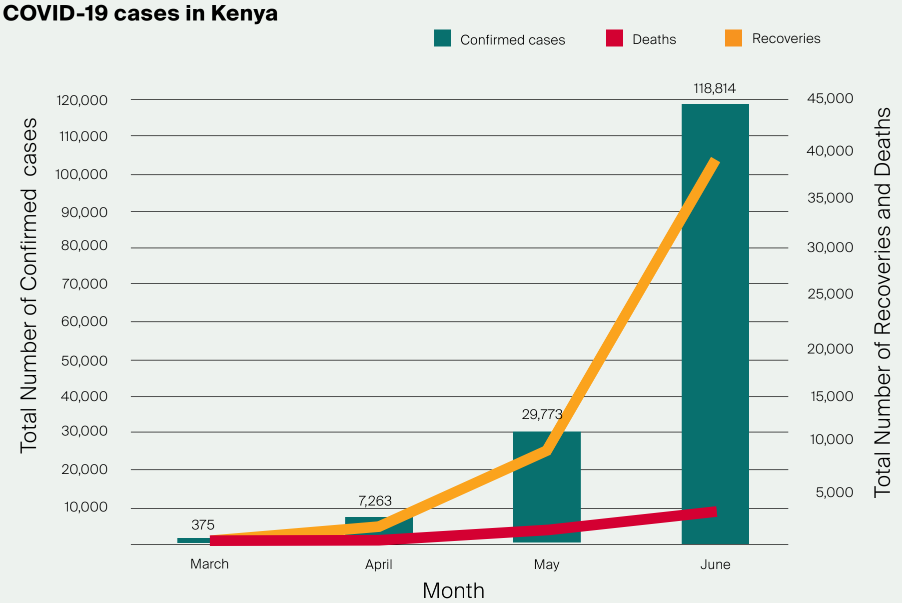
Number of confirmed COVID-19 cases in East Africa

June 30th 2020. Total Number of Cases 33,785



Source: WHO

COVID-19 cases in Kenya



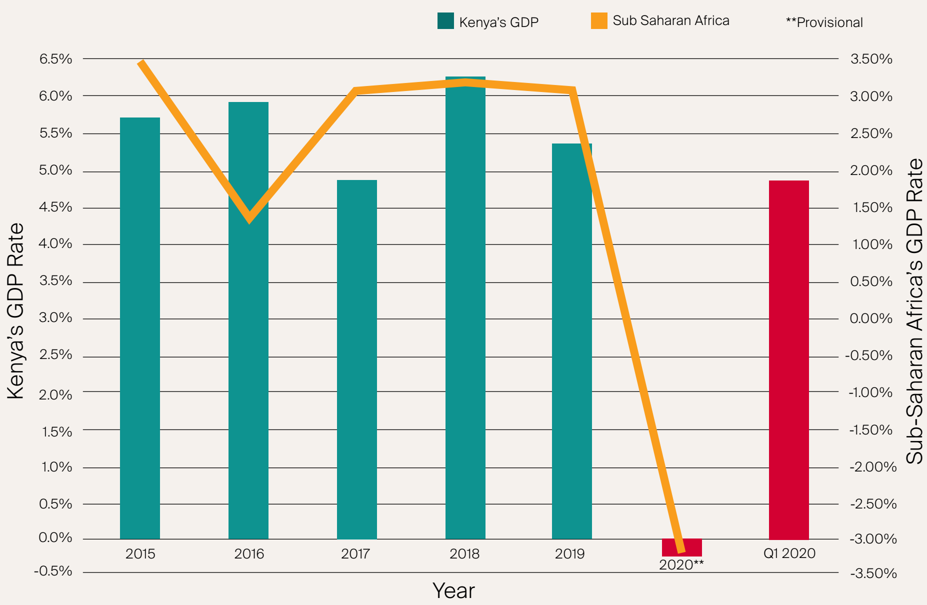
Source: WHO

COVID-19

The first case of COVID-19 was reported on 12th December, 2019 in Wuhan, China thereafter the disease has rapidly spread and dominated world affairs throughout 2020. The World Health Organisation (WHO) confirmed COVID-19 as a pandemic in March. As at 30th June, WHO had confirmed circa 10.5 million cases, 5.7 million recoveries and 511,000 fatalities globally. Across the East African region, the pandemic has been accelerating across various countries. As at 30th June, Kenya was the second highest country with confirmed cases, after Sudan.

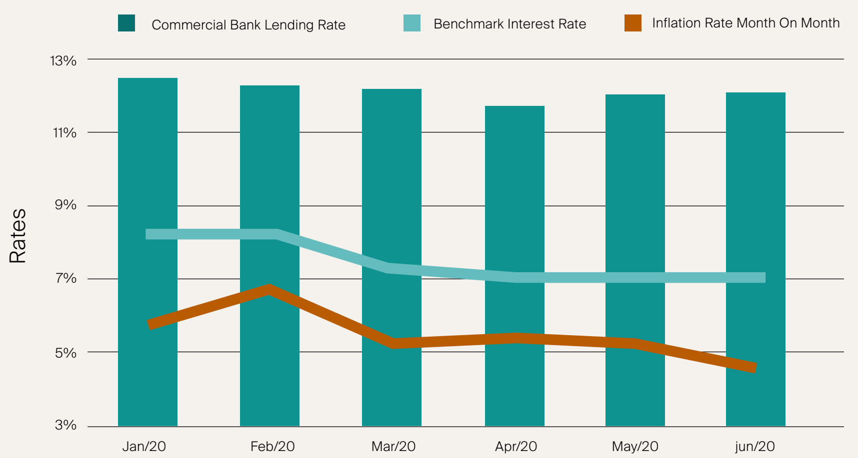
Kenya's Ministry of Health (MOH) confirmed its first case on 13th March. As at 30th June, Kenya had confirmed 6,366 cases, 2,039 recoveries and 148 fatalities. Nairobi County currently has the highest number of confirmed cases followed by Mombasa County.

GDP Rates



Source: KNBS & IMF

Benchmark Economic Rates



Source: Central Bank of Kenya (CBK)

The Economy

Kenya's economic growth slowed down to 4.9% in the first quarter of 2020 compared to 5.5% over the same period in 2019, according to the Kenya National Bureau of Statistics (KNBS). The Gross Domestic Product (GDP) decline is mainly attributed to an underperforming economy coupled with heightened uncertainty following the outbreak of COVID-19 during the end of the first quarter, which led to decelerated growth from traditionally strong sectors such as the tourism sector. The International Monetary Fund (IMF) predicted that the Kenyan economy is expected to contract to -0.3% in 2020, mainly due to the locust outbreak, flooding and the negative shocks COVID-19 has had on an already underperforming economy.

The Sub-Saharan African Gross Domestic Product (GDP) is expected to suffer from its first recession in 25 years. The GDP is expected to contract to -3.2% in 2020 and this is mainly attributed to the decline in global trade, reduced economic growth globally and from the region's largest economies, tourism dependent countries and oil exporting countries.

The Macroeconomic environment was fairly volatile over the review period. The Monetary Policy Committee (MPC) consecutively lowered the Central Bank Rate (CBR) over the first half of 2020. In order to stimulate economic growth, the CBR was lowered to 8.25% in January. In March, it was lowered further to 7.25% due to COVID-19 and the negative economic growth projections. The committee in April, reduced the CBR further to 7.00%, a rate which has been maintained up to June and the lowest since 2011. This was mainly attributed to the negative impact COVID-19 has had on the economy and adverse economic outlook. Commercial banks' interest rates remained at circa 12% during the first half of 2020. Month-on-month inflation ranged between 4.59% to 6.8%. June recorded the lowest inflation rate of 4.59% since September 2019 due to a decrease in food prices.

The Kenya Shilling continued to weaken against major currencies such as the US Dollar and the Euro. The Shilling remained stable against the Sterling Pound and Chinese Yuan.

Cement production increased to 2.15 million metric tonnes (MT) in the 4 months to April, a 9% jump from 1.96 million MT over the same period in 2019. Similarly, cement consumption increased to 2.13 million metric tonnes (MT) in the 4 months, a 9% rise from 1.96 million MT over the same period in 2019.

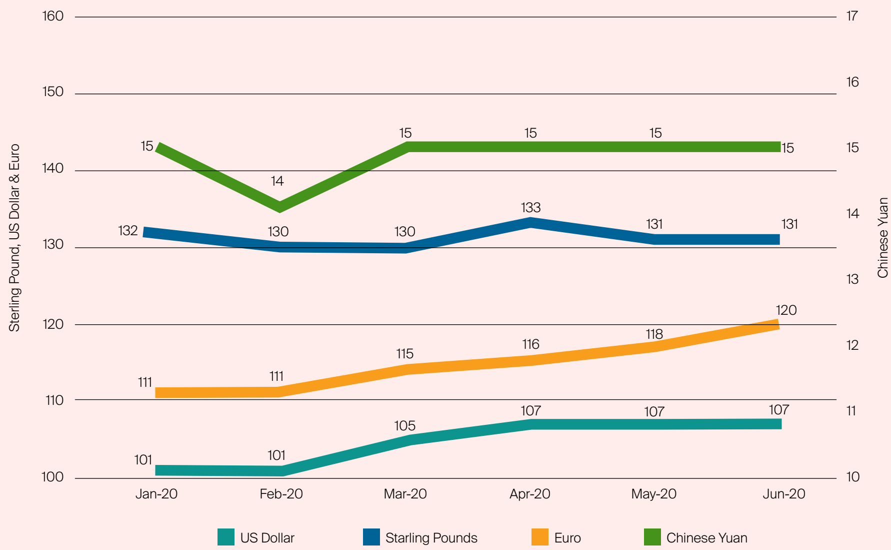
The increase in cement production and consumption over the first four months was an indicator of developers' renewed optimism in the real estate sector and commencement of construction of various real estate projects. We however expect a decline in the second half of 2020 due to the pandemic that has resulted in restricted movement, disruptions of business operations and developers opting to postpone the construction of real estate projects.

The IMF in June ranked Kenya as the 3rd largest economy in Sub-Saharan Africa after South Africa and Nigeria. Kenya surpassed Angola an oil dependent country, which has suffered from lower economic growth due to declining oil prices.

Diaspora remittances increased by 1.7% to US$1.17 billion in the five months to May compared to US$1.15 billion in a similar period in 2019. This was mainly due to easing of Covid-19 restrictions from source countries and additional incentives from the CBK on money transfers. The share of diaspora remittances to Kenya from North America showed a similar pattern to previous years, contributing circa 57% of the total cash inflows. The amount remitted from North America in May was circa US$ 1.5 million.

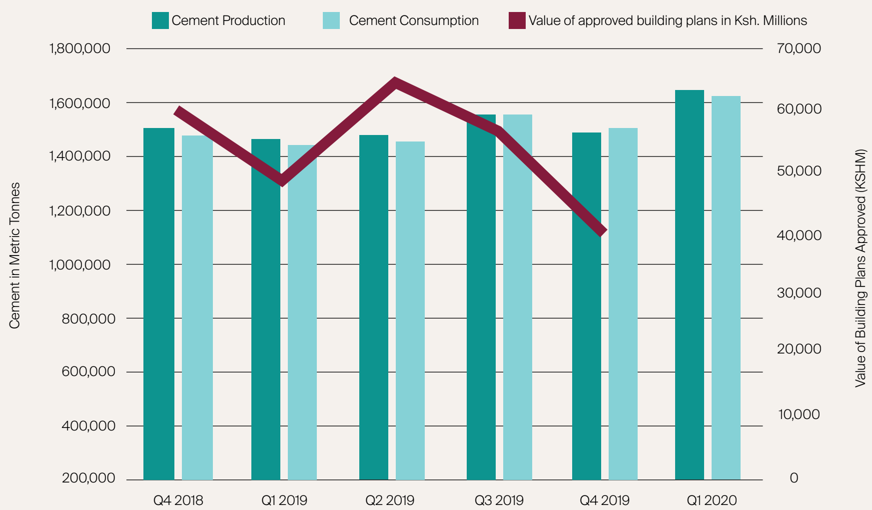
As a result of the ongoing pandemic, the number of land transactions in the form of transfers and leases at the Ministry of Lands fell in the months of March and April. This is a result of land registries closures and the wait-and-see attitude being adopted by majority of investors.

Foreign Currency Exchange Rates



Source: CBK

Value of Building Plans vs Cement Production and Consumption



Source: KNBS

Capital Markets

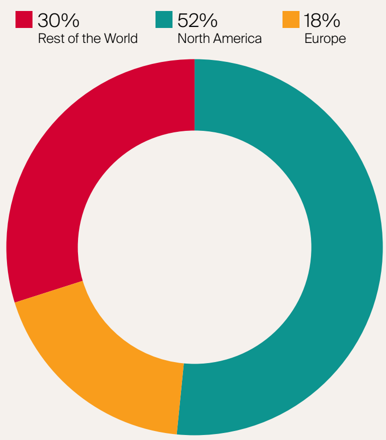
In January, property developer Acorn Holdings listed its Ksh 4.3 billion green bond on the Nairobi Securities Exchange (NSE) and London Stock Exchange (LSE). This was the first green bond to be listed on the NSE and the first Kenya shilling denominated bond to ever be listed on the LSE. Cross listing will allow the bond to trade in multiple currencies and gain more access to additional capital. The green bond will be listed in 3 tranches and the first tranche floated at Ksh 786 million. Acorn Holdings expects to raise funds to finance the construction of environmentally friendly student housing.

The real estate developer is also in the process of creating a Development Real Estate Investment Trust (D-REIT), which they expect to sell part of their ownership from their pipeline developments. They will retain a 30% ownership stake and their target market includes institutional investors and high net worth individuals. A D-REIT is an investment vehicle that is involved in the construction of properties for sale or rental. Historically, D-REITS have failed to take off in Kenya due to their stringent requirements, high investment values and lengthy approval processes.

Kenyan based fund manager ICEA LION Asset Management (ILAM) took over the management of listed property fund Stanlib Fahari I-REIT, from South African firm Liberty Group over the review period.

Similar to previous years, both Home Afrika and Stanlib Fahari I-REIT continued to perform below expectations on the NSE closing the first half of 2020 with lower share prices than their initial listing values. Home Afrika's share price closed at Ksh 0.41 in June, which was 97% lower

Remittance Inflow Share by Source, Q1 2020



Source: CBK

than the initial listing price of Ksh 12. Stanlib Fahari I-REIT closed at Ksh 5.9 in June, which was 71% lower than its initial listing price of Ksh 20. This is the lowest share price Fahari I-REIT has recorded since its introduction into the NSE.

Policy & Infrastructure

Over the review period, the government made several announcements and implemented various policies and legislations to mitigate the adverse effects of COVID-19, provide relief to the economy and stimulate economic growth.

In April, the following fiscal policies became effective:

- Reduction of Value Added Tax (VAT) from 16% to 14%
- Reduction on tax rates for corporates and personal income (PAYE) from 30% to 25% and 100% tax relief for those earning less than Ksh 24,000
- Reduction of Turnover Tax from 3% to 1% for micro, small and medium enterprises (MSME's)
- A reduction in resident corporates' income from 30% to 25%

The Public Health Act Cap 242 assented to in April, implemented several laws that directly affected the operations of several businesses and the real estate sector. Buildings, premises or conveyances which have signs of contamination with COVID-19 will require a medical health officer to decontaminate the affected building, premises or conveyance and allow them to direct the manner in which that building, premises or conveyance may be used. Under this law they also have the authority to order complete evacuation or prohibit entry into the building for a specified duration.

In the same month, the Kenya Mortgage Refinancing Company (KMRC) established to provide long term funding to primary housing mortgage providers such as commercial banks and SACCOs, announced they will lend money to financial institutions at an annual interest of 5% who will onward lend at a subsidised interest of 7% annually.

According to the Finance Act 2018, employees were required to contribute 1.5% of their monthly salary towards the National Housing Development Fund (NHDF), provided the total contribution did not exceed Ksh 5,000. Over the review period, the NHDF announced it was no longer mandatory for employees to contribute 1.5% of their monthly salary and proposed a voluntary minimum monthly contribution of Ksh 200 towards the fund.

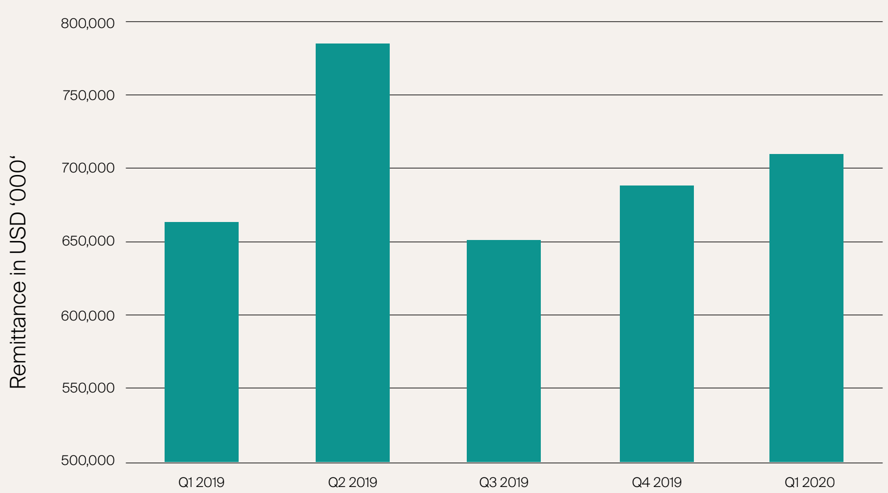
The Treasury proposed increasing the threshold for annual rental income subject to 10% rental income tax from Ksh 10 million to Ksh 15 million.

To mitigate the effects of the pandemic, the President in May, unveiled a Ksh 53.7 billion, 8-point economic stimulus package. This package is expected to assist affected sectors such as agriculture, education, manufacturing, health and tourism.

The 2020/2021 Budget Statement read in June announced the allocation of funds towards various infrastructural projects including;

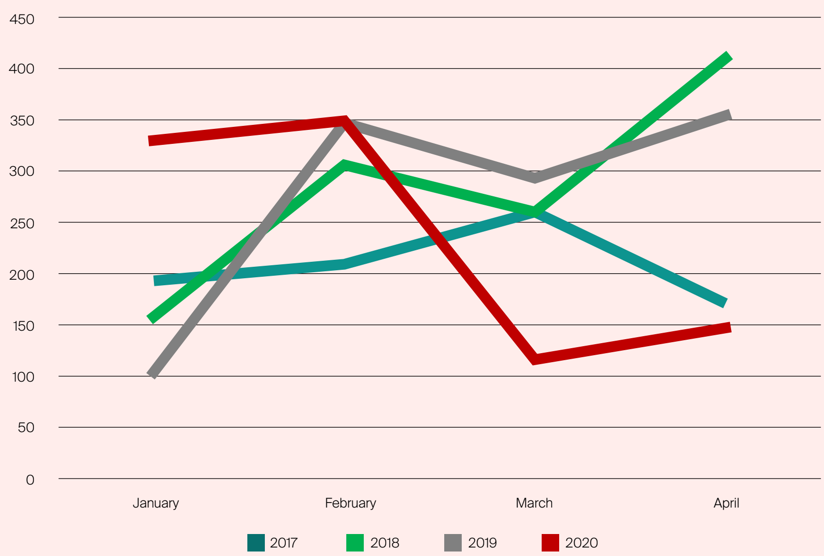
- Ksh 92 billion for ongoing road construction
- Ksh 31.6 billion for road rehabilitation
- Ksh 61.8 billion for road maintenance
- Ksh 1 billion for road and bridges design
- Ksh 18.1 billion towards the construction of the Standard Gauge Railway (SGR) Phase II (Nairobi-Naivasha);
- Ksh 6 billion for the Lamu Port-South Sudan-Ethiopia-Transport (LAPSSET) Project
- Ksh 5 billion for the Mombasa Port Development Project
- Ksh 3 billion for the Dongo Kundu Special Economic Zone (SEZ)

Quarterly Diaspora Remittances



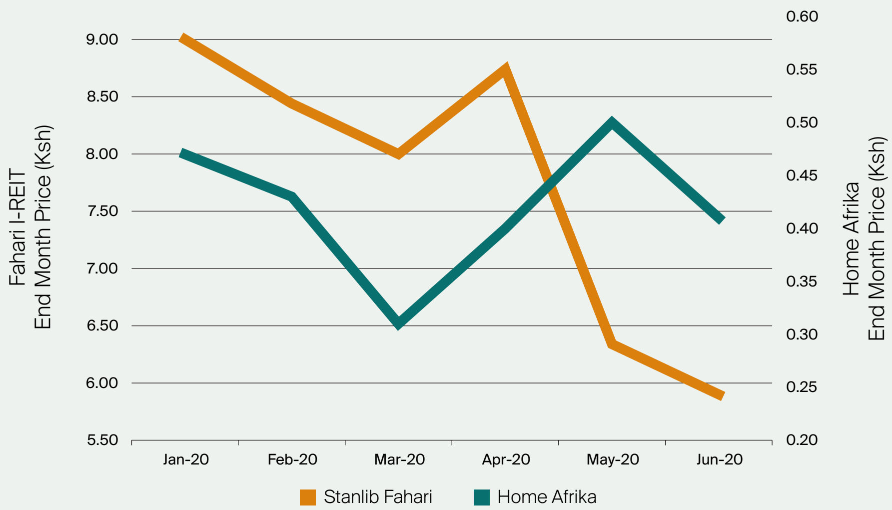
Source: CBK

Land Transfer Transactions



Source: Ministry of Lands

Real Estate-Related Listings



Source: Nairobi Securities Exchange

- Ksh 328 million towards the insurance of ferries for the Likoni Channel
- Ksh 6.3 billion towards the Horizontal Infrastructure Phase I (EPCF) for Konza Technopolis City
- Ksh 400 million for the ongoing construction of Konza Technopolis Complex Phase 1B
- Ksh 5.1 billion towards the Konza Data Center and Smart City Facilities Project

The Budget statement announced the KMRC had raised Ksh 2 billion as capital whilst the National Treasury had raised an additional Ksh 35 billion from development partners. These funds are expected to support the affordable housing sector by allowing primary housing mortgage providers to still maintain adequate liquidity and provide housing finance.

Treasury is currently in the process of formulating a post COVID-19 economic recovery strategy aimed at mitigating the adverse impacts on the economy and repositioning the economy towards steady economic growth.

Major infrastructural developments, commenced over the review period. Preliminary works on the Nairobi expressway from Jomo Kenyatta International Airport (JKIA) to Westlands commenced in June. The 18-kilometre expressway will be constructed by China Road and Bridge Corporation (CRBC) under a public private partnership (PPP).

In addition, construction of the Ksh 30 billion, 540-kilometre Mau Mau Road commenced in June. The road starting at Gataka in Limuru and ending at Njengu in Nyeri will traverse through four counties; Kiambu, Muranga, Nyandarua and Nyeri. It will be constructed in four phases and expected to be completed in 2022.

Construction of the Isara-Imaroro-Kajiado-Isinya-Kiserian-Ngong Suswa road is ongoing and expected to be completed in the second half of 2020. This is the government's first project under an annuity agreement.

In the capital Nairobi, the Upperhill-Mbagathi Way dual-carriage link road was opened and is expected to relieve traffic in the Upperhill financial district.

In relation to the railway network, rehabilitation of the 240-kilometre old meter-gauge railway from Nairobi to Nanyuki commenced in January. The Ksh 3 billion project expected to be completed in July has re-introduced rail transport to this region which will greatly assist export produce to reach the Mombasa port more efficiently.

Major infrastructural developments announced in the first half of 2020 include the construction of the 8-kilometre Meru dual-carriageway costing Ksh 5 billion and expected to commence in October.

Retail

The retail sector was one of the hardest hit sectors due to the pandemic. Prime rental rates decreased from US$4.6 (Ksh 492) per square foot (sq. ft) per month to US$4.2 (Ksh 450) per sq. ft per month. The decline in rental rates was mainly attributed to the continued oversupply of retail space in certain locations, the current economic climate and reduced consumer spending due to a reduction in disposable income. Landlords over the review period provided concessions and incentives to retain and attract new occupiers however this was done on a case by case basis. Occupancy levels for retail centres average 80% with more established malls recording higher occupancy levels of 90%. The retail market continues to primarily remain a tenants' market.

Over the review period, consumers changed their shopping patterns due to the COVID-19 impact. Footfall in retail centres reduced heavily in April and May due to curfew restrictions and other government directives. In June however, there was an increase in footfall due to the adjustment of curfew hours. According to Google Mobility Reports, Nairobi retail and recreation centre location pings dipped to circa -46% in April, however at the end of June location pings dipped at a slower rate to -35%. This resulted in mainstream retail stores suffering from a reduction of sales whilst e-commerce sales increased commensurately.

In response to the crisis, various local supermarket chains partnered strategically with courier services to offer home deliveries allowing them access to a wider audience. In March, Tusky's partnered with Sendy to provide home deliveries to consumers. In the same month, Naivas partnered with Glovo to also provide home deliveries.

Local and international supermarket chains continued to expand their footprint by opening in new locations or capitalising on the voids left by struggling retailers. In February, local supermarket chain Chandarana opened up at Signature Mall, taking up 28,000 sq. ft of retail space previously occupied by Botswanan retailer Choppies. In June, the same retailer opened up at Holden Mall in Kakamega County, taking over space previously occupied by Nakumatt. In the same month, French retailer Carrefour opened on Uhuru Highway taking over the Mega store previously occupied by Nakumatt.

The shift to convenience retailing neighbourhood centres continued as Quickmart supermarket opened up 3 additional supermarkets in Roysambu, Central Business District and Kilimani, expanding their local footprint to 32 stores.

The unfavourable economic conditions and increasing competition has also had a negative impact on certain retailers. In April, South African retailer Shoprite closed its Waterfront Mall branch in Karen.

In line with their expansion strategy, local retailer Naivas supermarket expanded its market share with a 10,000 sq. ft store in Kilimani bringing its total number of stores to 64. Over the review period, the retail chain also entered into a consortium with international investors. French private equity fund Amethis, German Investment Corporation DEG, Mauritian Commercial Bank (MCB) Equity Fund and the International Finance Corporation (ICF) acquired a minority equity stake in the Naivas Group worth US$ 15 million.

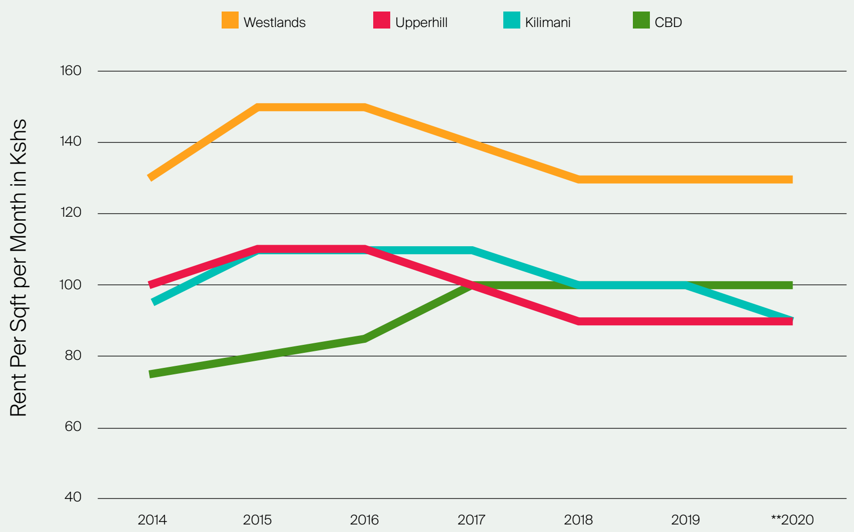
Retail brands continued to expand into established malls over the review period. Spanish fashion brand Springfield opened at Westgate Mall, while Chinese lifestyle brand Miniso opened at Yaya Centre and American cosmetic brand Maybelline opened up at The Junction. Sarit Centre also attracted major international brands such as American footwear store Sketchers and South African eatery Rocomamas.

The second half of 2020 is anticipated to see a reduced level of activity in the retail market as local and international retailers continue to deal with the adverse effects of the ongoing pandemic on their business, particularly those that deal in non-essential consumer goods. Footfall is expected to continue rising as the economy gradually reopens, although rental rates are expected to continue their downward trend due to the oversupply of retail centres, unfavourable business climate and adverse economic conditions.

Office

Prime commercial rents in Nairobi remained unchanged in the first half of 2020 at US$ 1.3 (Ksh 139) per square foot per month. The stagnation of prime rental prices was mainly attributed to the continued oversupply of commercial space in some locations and current economic slowdown that has resulted in most organisations putting on hold office space requirements as they focus on operational rather than capital expenditure. Additionally, the ongoing pandemic resulted in potential tenants becoming more hesitant to carry out physical viewings of potential new space. According to Google's Community Mobility reports, Nairobi workplace location pings in April dipped

Average Prime Office Rental Rates per Sq.ft per Month



Source: Knight Frank Kenya

Nairobi currently has a formal supply of circa 500,000 sq. ft of flexible office space.

TABLE 1: Select office developments in the pipeline

COMMERCIAL DEVELOPMENT	LOCATION	APPROX. SIZE (SQFT)	ESTIMATED COMPLETION DATE
316 Upperhill Chambers	Upperhill	270,000	2020
Majani House	CBD	54,551	2020
Central Bank Pension Building	CBD	180,000	2020
Global Trade Centre	Westlands	678,000	2021
Sandalwood	Riverside	250,000	2021
Delta Chambers	Westlands	132,979	2021
Riverside Square	Riverside	94,722	2021
Curzon Properties	Westlands	146,715	2022
Pink Pearl Limited	Westlands	126,109	2022

Recently completed 1 Park Avenue in Parklands is currently over 50% let. For more information please contact our Commercial Agency Team.

between circa -40% to -70% indicating majority of Kenyans were working from home. The dip reduced from -60% in the beginning of June to -10% towards the end of June indicating employees were slowly returning back to their workplaces.

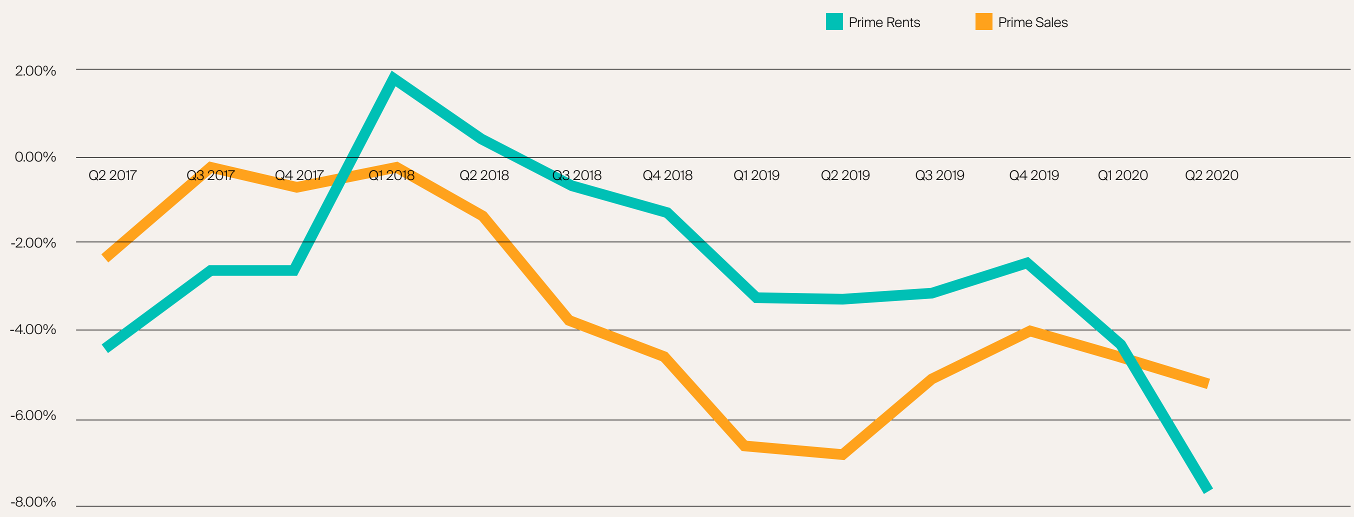
Over the review period, it was noted there were increasing requests from tenants considering surrendering their commercial space. As at the end of the first half, the average occupancy rate was at circa 73%, with certain districts such as Westlands having higher occupancy rates.

Fewer commercial office buildings were completed in Nairobi over the review period compared to second half of 2019, this included Merchant Square (165,000 sq. ft) on Riverside Drive. Major Nairobi commercial office developments in the pipeline are illustrated on Table 1.

The serviced office sector continues to be an emerging trend in the office market that has recorded rapid growth both globally and regionally. Nairobi currently has a formal supply of circa 500,000 sq. ft of flexible office space. The current pandemic resulted in majority of people working from home towards the second quarter of the review period. Whilst we expect this niche sector to be negatively impacted in the short term, in the long term we expect to see an increase in the demand for serviced offices.

The heightened safety regulations and increased agile working is causing a shift in operations as occupiers will have to re-configure their office layout. In addition, they will be looking for

Annual Prime Residential Rents and Prices



Source: Knight Frank Kenya

flexibility to allow for expansion and contraction of office space and lease terms. COVID-19 is expected to evolve the commercial office market and form a new working normal. According to the Africa Market Pulse Survey Report released in June, 27% of office landlords indicated they had granted their tenants rent deferrals while 33% have undertaken a renegotiation of lease terms to ensure that tenant businesses stay afloat. 40% of office landlords indicated that they were likely to offer concessions to retain existing and attract new tenants. We expect these trends will continue in the second half of 2020.

Residential

Prime residential prices in Nairobi decreased by 2.9% over the first half of 2020 compared to a decline of 1.8% in the first half of 2019, pushing the annual decline to 5.1% in the year to June.

47%

increase in the number of online users over the months of May and June.

Prime residential rents also declined over the review period by 6.55% compared to 1.67% over a similar period in 2019, taking the annual decline to 7.62% in the year to June.

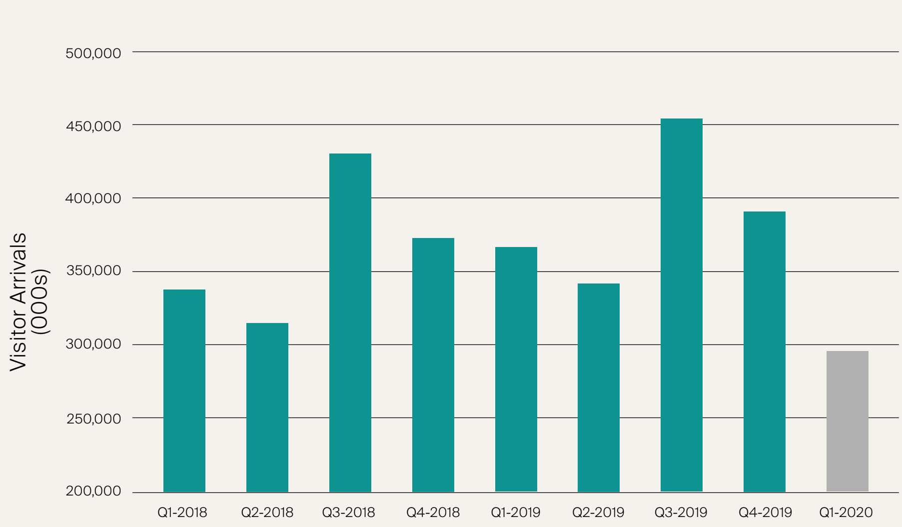
The decline in both prime residential rents and prices is mainly attributed to the continued oversupply of residential developments, unfavourable economic climate, low liquidity and expatriates returning to their home countries. Additionally, due to Covid-19, fewer transactions were finalised as a result of land registries being closed and potential buyers opting to postpone land purchases.

We expect prime residential rents to decline in the second half of 2020 due to the projected negative economic growth, tighter liquidity, continued relocation of expatriates and less disposable income from potential tenants.

Prime residential prices are also expected to decline albeit at a slower rate. As the economy slowly reopens, we expect land registries to fully resume, allowing pending land transactions to be finalised.

Whilst the review period had fewer physical viewings occurring as potential buyers and tenants were hesitant to view properties, there was a significant increase in online activity due to an increase in people working from home. Knight Frank Kenya's website registered a 47% increase in users over the months of May and June compared to the previous year. Virtual tours allowed potential tenants and buyers to have realistic "walk through" tours of the properties. The prime residential market primarily remains a buyers' and tenants' market.

International Visitor Arrivals



Source: KNBS

There were a number of major housing announcements made over the review period.

In June, Real estate developers Centum Real Estate and Crossnet Limited announced plans to construct an apartment complex in Kasarani, Nairobi. 365 Pavilion Place will sit on 4.5 acres and comprise of one, two and three-bedroom units being sold for Ksh 6.2, 9.9 and 12.9 million respectively. Construction of Phase 1 is expected to commence in September and completed by 2023.

Over the review period, the government made progress towards the Affordable Housing goal of constructing 500,000 homes by 2022. The Kenyan government in January signed a deal with various British Investors at the inaugural UK-Africa Summit to develop 80,000 units across the country. The UK Climate Investment (UKCI), a joint venture between the Green Investment Group and the UK's Government Department for Business, Energy and Industrial Strategy announced plans to invest Ksh 3.94 billion towards the construction of 10,000 affordable green homes.

In January, phase 1 of the government's affordable housing flagship project, Park Road located in Ngara was completed. The government is currently in the process of allocating 288 units to members registered on the Boma Yangu Platform who pass the qualification requirements. Phase 2 and 3 are expected to be completed in the second half of 2020. They will comprise of one, two, and three-bedroom apartments going for Ksh 1, 2 and 3 million respectively.

In the private sector, local realtor King's Developers Limited continued construction of their 720 units in Ongata Rongai, Kajaido County. The two-bedroom units are being sold for Ksh 3.2 million and expected to be completed in December 2021.

Tatu City in June, launched sales on its first low-income residential project named Unity West. 48 of the 1,200 units are currently ready for occupation and the second set of 48 units are expected to be completed by October. The two-bedroom units are currently being sold for Ksh 4 million.

Realtor Ever Forgaden announced plans to construct 900 units in Kilimani. They are currently in the process of seeking approvals.

The 2020/2021 Budget Statement read in June announced the allocation of;

- Ksh 6.9 billion towards affordable housing,
- Ksh 4.2 billion for KMRC,

- Ksh 0.3 billion for Kenya police and Kenya prison staff Housing Units,
- Ksh 7.5 billion towards the Kenyan Urban Programme,
- Ksh 1.1 billion towards the construction of various retail markets in Nairobi.

The Government is currently in ongoing discussions to secure Ksh 3.6 billion from the African Development Bank.

Hotel & Tourism

Pre-Covid, the hospitality sector was slowly recovering from various shocks such as terrorist attacks and travel advisories. Over the review period, this sector once again become one of the hardest hit due to the pandemic and has suffered from hotel and flight cancellations, business disruptions and job losses. According to the Ministry of Tourism, the tourism sector over the first half of 2020 suffered a Ksh 80 billion loss from tourism revenue.

The government implemented several directives as a strategy to contain the spread of COVID-19. These included; a local and international flight ban in March allowing only cargo flights to operate, closure of various tourist attraction sites and cessation of movement from Nairobi, Mombasa, Kilifi, and Kwale county in April. Consequently, various stakeholders made several adjustments over the review period including temporary closure of hotel establishments.

Over the recent years, Kenya has become a top destination for Meetings, Incentives, Conferences and Exhibitions (MICE) tourism. The Ministry of Tourism has estimated the MICE sector will lose approximately Ksh 163.56 billion due to the pandemic. In April, The Kenya National Convention Bureau (KNCB) was inducted into the largest global meetings industry network, International Congress and Convention Association (ICCA) joining the African Chapter and Destination Marketing Sector of ICCA. This association is expected to increase Kenya's global profile in the MICE sector.

Tourist arrivals decreased by 19% to 2.9 million tourists in the first quarter of 2020 from 3.65 million tourists over the same period in 2019. March recorded the lowest number of tourist arrivals in the country since 2014.

To support the hospitality sector during this period, the Ministry of Tourism in March allocated Ksh 500 million towards the country's post coronavirus recovery plan.

The Treasury announced in the 2020/2021 Budget Statement an allocation of;

- Ksh 3 billion towards renovation of facilities and restructuring of business operations
- Ksh 1 billion to promote post COVID-19 marketing by the Kenya Tourism Board (KTB)
- Ksh 2 billion to community conservancy grants and support Kenya Wildlife Service (KWS)
- Ksh 2.5 billion for the Tourism Promotion Fund (TPF)
- Ksh 3.8 billion for the Tourism Fund

Fewer hotel developments were announced over the review period due to the pandemic leading to hospitality chains delaying their expansion plans. Existing projects however, proceeded as planned. In January, Thai hospitality chain Avani Hotels and Resorts announced plans to open its first East African Hotel, Avani Nairobi Suites. The 120-room hotel located in Westlands, is expected to open in the second half of 2020. Other major hotel developments in the pipeline include the JW Marriott at GTC in Westlands, and Protea Hotel by Marriott Nairobi, located near the JKIA.

In January, South African hospitality chain Tsogo Sun closed the Southern Sun Mayfair Hotel in Nairobi. Sarova Hotels in May, announced ceasing management of two properties, Sarova Taita Hills Game Lodge and Sarova Salt Lick Game Lodge. The hospitality chain will remain with seven properties in their portfolio.

Transactions in the hospitality sector remain low with the only notable transaction including the Ksh 2.8 billion sale of the Fairmont Norfolk in Nairobi County and the Fairmont Mara Safari Club in Narok County.

In June, the hospitality sector started showing early signs of recovery, as major hotel establishments reopened such as Sarova Hotels, Villa Rosa Kempinski, Ole Sereni, Radisson Hotel Group, Trademark Hotel and the Hemingways collection.

In the second quarter of 2020, the government implemented several directives to assist the struggling sector. In June, the ban restricting meetings in hotels was temporarily lifted and landing and parking fees at airports were waived to facilitate movement of cargo in and out of Kenya. We expect this trend to continue into the second half of 2020 due to additional government support to restore destination confidence, revised tourism packages, easing of restrictions from major source markets and aggressive domestic, regional and international tourism marketing.

Industrial Market

The Kenyan government in April listed cargo movement as an essential service and kept its borders open to facilitate movement of cargo across neighbouring countries. Logistics and warehousing providers have had to make several adjustments to comply with the new regulations such as reconfiguring warehouses to allow social distancing, providing accreditation of essential staff working during curfew hours, testing of personnel at ports or borders of arrival, putting arriving personal under quarantine and reduced business hours and productivity due to the nationwide curfew. This has resulted in higher operational costs, productivity disruption and a fall in logistics performance.

Cement manufacturer and distributor Simba Cement Limited, opened their Ksh 5.8 billion factory in January. The Nakuru based plant is expected to provide job creation and boost the manufacturing sector by providing affordable cement in Nakuru and neighbouring environs.

In February Aviation services company Swissport, opened their upgraded pharmaceutical shipments facility at JKIA. The temperature-controlled unit will take up 13% of their 111,945 sq. ft warehouse complex and their target market includes hospitals and drug manufacturers. In the same month the logistics firm was awarded the Centre of Excellence for Independent Validators (CEIV) certification by the International Air Transport Association (IATA), making them the first global air cargo handler to receive the CEIV Pharma certification for a facility in Africa.

Africa Logistics Properties (ALP) in February signed a 10-year lease with Twiga Foods Limited, a retail company for circa 139,000 sq. ft at ALP North. The 538,195 sq. ft logistics and distributions complex is currently 75% let. ALP's second project, ALP West located at Tilisi Logistics Park is currently under construction in seven phases. Phase one of the 1,076,390 sq. ft modern warehousing complex is expected to be completed in October. With a circa 84,000 sq. ft footprint it will be sub divisible to smaller leasing units of circa 5,000 sq. ft.

Phase 1 of the Nairobi Gate Industrial Park located in the upcoming Northlands City was completed in June. The first two warehouses comprising of 53,820 sq. ft are currently ready for occupation.

Nairobi Gate Industrial Park off the Eastern Bypass now available to let. For more information please contact our Commercial Agency Team.

Disruption of consumer supply chains caused by the pandemic is expected to result in a continued wave of demand for well-located modern warehouses. Due to consumers turning to online forms of retail amid lockdown measures, companies in the short term are seeking temporary additional storage space to accommodate this shift.

Institutional Market

The Kenyan government announced the closure of all schools in March, and has further cancelled the 2020 academic year for primary and secondary schools. This has resulted in most institutions shifting to digital learning and short-term increased demand for online lessons that international investors and educational institutions are responding and adapting to. In May Dutch-based DOB Equity, injected additional funding in Moringa School, a Nairobi-based software development institution to assist in the transition and retain majority its students. Prior to the pandemic, investment in the private education sector continued with the opening of Regis School which is part of the GEMS Education Group. The school opened in January and is built to cater for 2,000 pupils. As a result of the ongoing pandemic the Ministry of Education announced local and international institutions will reopen in January 2021.

The investment outlook in the purpose-built student accommodation space (PBSA) remained active as Kenya Conference of Catholic Bishops sought approvals to develop a Ksh 1.5 billion facility to cater for students in Karen.

Meanwhile, the single largest private investor in PBSA, Acorn Holdings has four Qwetu Student Living developments under construction in Hurlingham, Chiromo and along Thika Road. All student housing residences are expected to be completed in 2021 apart from Chiromo which is expected to be completed in 2022. The property developers have commenced construction on their lower level student housing residences Qejani. Qejani Sirona Phase 1 hostels is expected to be completed in 2022 and will cater to various tertiary institutions such as University of Nairobi, Strathmore University, KCA University, Daystar University and Riara University.

The ongoing pandemic is having adverse effects on the sector, with the long-term outlook largely dependent on government directives and investors response to requisite health and safety regulations.

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