Research

Kenya Market Update

H1 2022

knightfrank.com/research

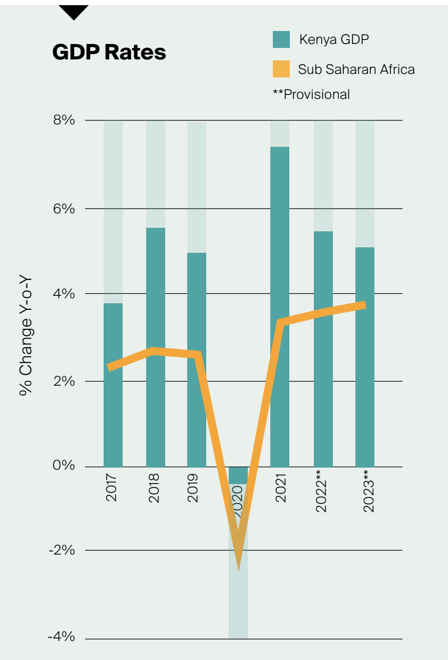
KENYA MARKET UPDATE

H1 2022

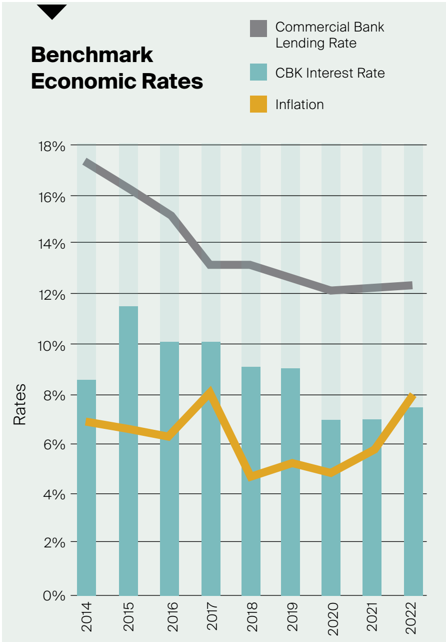
The Key Insights

- Economy Continues Expansion
- Inflation Eclipses CBK Ceiling
- Kenyan Shilling Depreciates
- Diaspora Inflows Surge
- A New Railway City Beckoning
- Construction Levy Reinstated
- Capital Gains Tax Tripled
- Prime Office Rentals Stable
- Naivas and Quickmart Aggressive Growth
- Number of Mortgages Marginally Decline as Interest Rates Increase
- Tourist Arrivals Increase
- Alternative Markets Appeal to Investors
- Acorn D-REIT & I-REIT Significant Expansion Plans
- Affordable Housing Continues Momentum

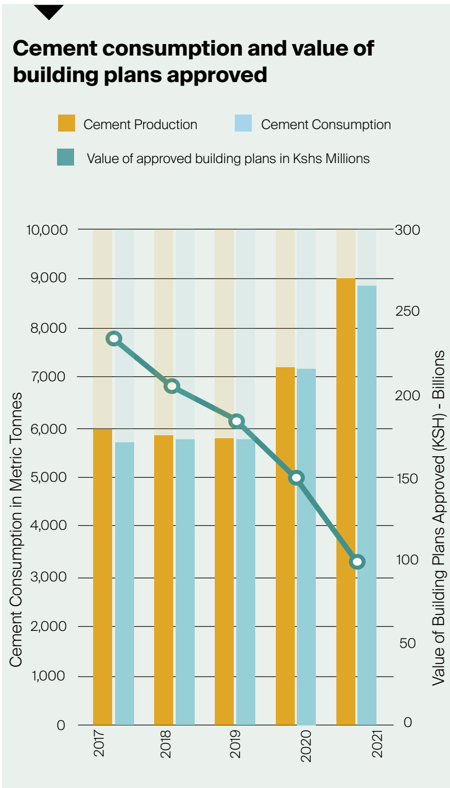
COVER IMAGE: General View of the Expanded Mombasa Port



Source: KNBS & The World Bank



Source: Central Bank of Kenya (CBK)



Source: KNBS

THE ECONOMY

According to Kenya National Bureau of Statistics (KNBS), Kenya Real Gross Domestic Product (GDP) is estimated to have grown by 7.5% in 2021 (Sub-Saharan Africa growth rate was estimated at 4%) compared to a contraction of 0.3% in 2020. Most economic activities recorded positive growth except Agriculture, Forestry and Fishing activities which contracted by 0.2% in the review period. Agriculture continues to be the economy's mainstay, contributing circa 23% of GDP in 2021. This highlights that Kenya is yet to extensively tap into other sectors that have potential to be revolutionary, such as manufacturing despite an increasing middle class. In 2022, agriculture's contribution is expected to fall owing to the ongoing drought caused by delayed and low rainfall. Activities that were severely hit by Covid-19 pandemic in 2020, such as Education and Hospitality, grew faster than those that were less severely affected. Economic growth in 2021 was supported by improved performance in key sectors of the economy including Manufacturing (6.9%), Wholesale and Retail Trade (7.9%), Real Estate (6.7%), Transportation and Storage (7.2%), and Financial and insurance activities (12.5%).

GDP growth is projected at 5.5% in 2022, lower than last year's 7.5%, owing to persisting drought and Russo-Ukrainian conflict. Kenya has no significant direct trade with Russia and Ukraine (only 2.1% of Kenya's trade, between 2015 and 2020, was from Russia and Ukraine combined). Nevertheless, Kenya's exposure (as a net fuel, wheat, and fertilizer importer) to the global price impacts of the Russian invasion of Ukraine remains telling.

The overall year-on-year inflation rate as measured by the Consumer Price Index (CPI) was 7.91% per cent in June 2022, eclipsing the 7.5% CBK ceiling for healthy inflation for the first time in five years by 0.41% . The rise in inflation was mainly due to an increase in prices of commodities under; food and non-alcoholic beverages (13.8%); furnishings, household equipment and routine household maintenance (9.2%); and housing, water, electricity, gas and other fuels (6.8%) between June 2021 and June 2022.

With Central Bank of Kenya (CBK) reviewing upwards its base rate to 7.5% in May, commercial bank lending rates, having stabilised at circa 12.2% p.a. over the review period, are forecasted to rise in H2, 2022. The CBK gave a greenlight to Equity Group to implement a risk-based lending model which involves interest rates of between 13% (base rate) and 18.5% (ceiling). Other banks are very likely to get similar approvals hence in the near future the cost of lending will most probably rise. Scrapping of the interest rate controls and pressure from International Monetary Fund (IMF) has led CBK to start fast-tracking this process of approving commercial banks' risk-based lending models. The amount of credit advanced by commercial banks to Construction and Real Estate sectors, according to the Economic Survey 2022, increased by 0.9% from KES 526.5 billion in 2020 to KES 531.3 billion in 2021.

The Kenyan shilling has depreciated notably against the US Dollar and reached a record exchange rate low of $1= circa KES 117.88 over the review period. The depreciation is associated with higher demand for US currency by importers of petroleum products, fertilizers and wheat which has vastly surpassed earnings from exports, diaspora remittances and tourist receipts. With persisting disruption in global supply chains for wheat, fertilizer and oil, the Kenyan currency is expected to depreciate a little further with respect to the dollar but should stabilise by Q4, 2022.

Remittance inflows increased by 100% from KES 150 billion in 2020 to KES 301 billion in 2021. This massive surge is attributed to ease of digital money transfers via technology savvy Money Remittance Providers (MRPs).

Due to the rebound of the economy post Covid-19 pandemic and increase in investors' certainty, the quantity of cement consumed surged by 23%, from 7,375.60 tonnes in 2020 to 9,096.43 tonnes in 2021. However, the value of building plans approved by the Nairobi City County decreased by KES 50.7 billion from KES 153.6 billion in 2020 to KES 102.9 billion in 2021, a 33% decrease. This decline is consistent with real estate investment cycles (Recovery, Expansion, Hyper supply, Recession). Kenya's real estate sector has experienced oversupply in various asset classes hence the decline. Consequently, investors are diversifying into less traditional real estate assets such as Purpose Built Student Accommodation (PBSA) and modern warehouses/industrial parks that in the recent past have proven to be more resilient.

Towards the end of the 1st half of 2022, the country gradually experienced an upsurge in new Covid-19 infections. By end of H1, 2022 the Ministry of Health (MOH) reported a cumulative 333,694 Covid-19 cases since March 2020.

CAPITAL MARKETS

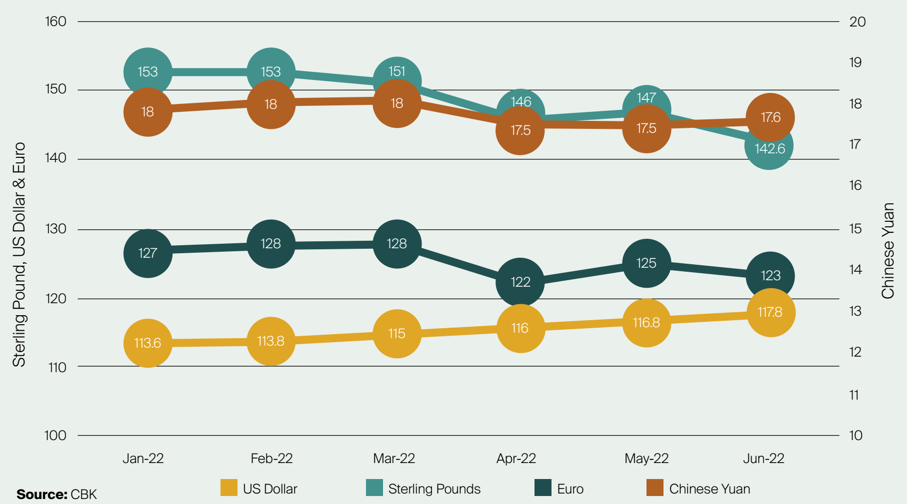
Acorn Student Accommodation (ASA) D-REIT and I-REIT made a combined net profit of KES 1.16 billion in 2021, with the D-REIT accounting for KES 776 million and I-REIT accounting for KES 387 million. ASA D-REIT pays no dividends until the subject property's transfers to the sister ASA I-REIT. ASA I-REIT had a payout ratio of 93% representing KES 1.03 per unit – with each unit costing KES 20.8 to buy.

ILAM FAHARI I-REIT had a pay-out ratio of 89% at KES 0.50 per unit after recording a profit of KES 102 million in 2021, down from KES 134.4 million in 2020. The losses were largely attributed to revaluation. The carrying value of ILAM FAHARI I-REIT declined by KES 124 million as Greenspan Mall lost its previous anchor tenant, Tuskys Supermarket, and the incoming Naivas Supermarket took lesser space. ILAM FAHARI I-REIT is trading at KES 6.00, as of 30/6/2022, a 4.1% drop in price compared to end of 2021.

Over the review period, Home Africa Share prices slumped, with the price trading at KES 0.32 per share as of 30/6/2022 – a 20% drop in price compared to end of H2, 2021.

Capital Markets Authority (CMA) and CBK approved the Kenya Mortgage Refinance Company (KMRC) inaugural fixed rate senior unsecured medium-term note (MTN). The MTN sought to raise KES 10.5 billion as the corporation aims to aid the government achieve its affordable housing agenda. Of the KES 10.5 billion, the first tranche of KES 1.4 billion was issued in February and had an over subscription rate above 500%, indicating high liquidity in the market. Second tranche is expected to be issued in H1, 2023.

Foreign Currency Exchange Rates



Source: CBK

INFRASTRUCTURE & POLICY

The Nairobi Expressway was opened in May. The 27km partly elevated road cost more than KES 80 billion. Financed via a Public Private Partnership (PPP) under the build, operate, transfer (B-O-T) model between the Government of Kenya (GoK) and China Bridge and Road Construction (CBRC) of China, the financier (CRBC) is to recoup its investment via collection of tolls from motorists using the road. The toll collection will be for a 27-year term and undertaken by a CBRC subsidiary, Moja Expressway. Additionally, CBRC won a KES 9 billion tender to rehabilitate the lower deck road that was destroyed during construction of the Nairobi Expressway.

To ease traffic in the city, KES 1.2 billion was set aside for completion of Nairobi Bus Rapid Transport (BRT) Project - a 27 km road that connects Kasarani and Kenyatta National Hospital. The BRT project is expected to undergo piloting in H2, 2022 where BRT buses will use the already marked lanes along Thika-Nairobi super highway. In response to climate change, BRT buses are expected to use no fossil fuels, a response to the adverse climatic changes caused by burning hydrocarbons.

Phase 1 and 2 of the expansion of Kenol-Marua Road is circa 70% complete and targeting completion by end of year 2022. The 84km road is part of Africa's Great North Road and has a budget of KES 17 billion. It is financed via a partnership between the African Development Bank and GoK and is set to further open up central Kenya's accessibility to the capital, Nairobi. The Nairobi Western Bypass, 14km in length, is nearly complete, and the 41km Kwa Jomvu Road in

Mombasa is circa 95% complete. Expected to fully open in 2024 – albeit first phase is complete and in use - is 26km (circa 53% complete) KES 39 billion Dongo Kundu bypass which connects mainland Mombasa with South Coast. The Dongo Kundu bypass will link Mombasa-Nairobi highway to Likoni-Lunga Lunga road hence proving to be an alternative to the congested Likoni Ferry. Completion by China Communications Construction Company (CCCC) of the much anticipated KES 4.5 billion Makupa Bridge is projected to be in early Q3 2022. The Makupa Bridge replaces the environment-unfriendly Makupa Causeway. Another PPP project between GoK and Japan International Cooperation Agency (Jica) is Mombasa Gate Bridge. The 13km project is estimated to cost KES 85 billion, with KES 47 billion financed by Jica. This project is anticipated to begin in H2 2022. Mombasa Gate Bridge is set to connect Mombasa island with the Southern Coast (Likoni and its surroundings) with the aim of decongesting Mombasa City and developing the Southern Coast. Once complete, Mombasa Gate Bridge will replace the Liwatoni Floating Bridge and Likoni Ferry Services.

Toyo Construction Company Limited completed the KES 35 billion second phase of Mombasa Port Development Programme - a project financed via a public private partnership (PPP) between Jica and Kenya. Consequently, Kenya is mandated to repay the loan over a 40 - year term. The second phase adds 450,000 container capacity to cap Kilindini Port annual container capacity at 2.1 million. This is set to ease congestion and improve service delivery at the port of Mombasa in attempt to gain competitive advantage over the Ports of Dar es Salaam and Djibouti.

The GoK, through United Kingdom's (UK) Atkins Global, unveiled the KES 27.9 billion final design of the proposed first phase of the Railway City Project in May. The Railway City Project, set to be commissioned in H2 2022, is a partnership between Kenya and England and is expected to be developed over a 20-year period with the first phase to be completed by 2030. According to GOK, the first phase will have a: Central Railway Station, twin tower (5000 sq. m. each) commercial property, and 700 housing units, of which 70% will be affordable housing. The railway is expected to have eight lines, and four freight service lines and is expected to be completed by end of 2024.This mega project is planned to be built on 425 acres, 292 of which are already under Nairobi Railway Station. The location of this project will between Haile Selassie Avenue, Uhuru Highway and Bunyala Road.

Kisumu Airport underwent renovations and expansion – undertaken by China's Jiangxi International Economic and Technical Cooperation - at a cost of KES 240 million. The upgrading was marked by Kenya Civil Aviation Authority (KCAA) recertifying Kisumu Airport as an International Airport with a license validity term of 2 years. The expansion doubled the initial capacity of 250,000 passengers per year.

5% → 15%

Capital gains tax triples, starting January 1st 2023, as Finance Bill 2022 becomes law

Key Infrastructure Developments Update

INFRASTRUCTURE PROJECTS	DISTANCE (KM)/ DESCRIPTION	ESTIMATED COST (KSHS, BILLION)	EXPECTED COMPLETION DATE
Nairobi Expressway Lower Deck	27	9	To be advised
Nairobi Bus Rapid Transport	27	1.2	H2, 2022
Kenol - Marua	84	17	H2, 2022
Western Bypass	14	17.3	99% Complete
Dongo Kundu Bypass	26	39	2024, 1st Phase Open
Makupa Bridge	0.5	4.5	H2, 2022
Mombasa Gate Bridge	13	85	H2, 2022
Railway City Project	N/A	27.9	1st Phase - 2024

Source: Government of Kenya

In the regulatory sector, National Environment Management Authority (NEMA) reinstated the defunct, since 2017, environmental impact assessment (EIA) license fees. This tax is 0.1% of the gross project cost with a lower threshold of KES 10,000 and no capping. NEMA also reintroduced the surrender, transfer, or variation of the EIA license fees for KES 5,000. Moreover, a strategic environmental assessment processing and monitoring fee of KES 1,000,000 will be applied too. NEMA fees came into effect from 1st June 2022. Consequently, additional taxation - National Construction Authority (NCA) construction levy - is expected to be restored in the foreseeable future at a rate of 0.5% on the developer contract value. Building levies had been scrapped in 2017 as they were viewed to be a large hurdle towards real estate investment.

Pursuant to the government policy to digitize land records, the Ministry of Lands and Physical Planning, via Gazette Notices, published the conversion of titles – Batch I to M for various areas within Nairobi City County. Any transaction involving gazetted parcels will be conducted only after title conversion and within the National Land Information Management System (NLIMS) which houses the Ardhi Sasa platform. With the 2022 general elections, real estate market activity, especially the sales market, has traditionally slowed down – a situation exacerbated by the title conversion processes and the uncertainties that accompany it as investors/landlords accustom themselves to the new system.

Following presidential assent, the Finance Bill 2022 which takes effect from 1st January 2023 has tripled capital gains tax from 5% to 15%. The Finance Bill 2022 also rejected stakeholders' almost unanimous plea to introduce the concept of indexation (inflation adjustment) into capital gains tax.

OFFICE

Over the review period, average monthly prime rents stabilised at US $1.20 per sq.ft. This is mainly attributed to the completion of A grade office blocks and the continued uptake of quality stock. There has been increased preference from investors to have rent in dollar payments due to continually depreciating Kenyan Shilling. The decline of KES has been exacerbated by high demand of dollar vis-à-vis its short supply.

Office occupancy rate fell by just over 5 percentage points from H2 2021 to stand at 72.8% as at the end of H1 2022 . Absorption of Grade AB decreased by circa 30% from a similar period in 2021 as the market slowed amidst the run up to the August elections. Consequently, the office market continues to be a tenants' market because of the oversupply of commercial space in major commercial nodes that is expected to continue in 2022. However, as illustrated by the office market pipeline table, there seems to be no major office developments entering the Nairobi office market in 2023 – a situation that may potentially increase occupancy rates and prime rents in office buildings since most companies have either resumed a 'working from office' policy or adopted a hybrid version.

After a peaceful general election, the office sales market is expected to pick up in H2 2022 after a quiet period as investors adopted a wait-and-see tactic in the electioneering season.

Increased investor awareness and expansion of multinational corporations (MNC) into the Kenyan market has heightened the focus on sustainability in the real estate sector, as most MNC's prefer developments that incorporate various Environmental, Social, and Governance (ESG) elements. Over the review period, Absa Bank – Kenya received an EDGE certification after retrofitting its branches with greater efficiency components costing them KES 45 million and expected to cushion annual energy and water costs by 30% and 33% respectively, ergo cutting annual expenses by KES 25 million. Other properties to attain the coveted EDGE certification were Caxton House and PTA Complex.

Global business process outsourcing powerhouse, CCI, announced their plans to pre-let a new facility at Tatu City. They are to occupy a five-storey tower, which is to be constructed by Gateway Real Estate Africa Ltd (GREA), – completion forecasted to be end of 2023.

International technology giants are investing heavily in Nairobi and investors are expected to take advantage by incorporating the firms' demands, such as large floor plates

72.8%

Grade AB office occupancy rate

Select Office Market Pipeline-Nairobi

COMMERCIAL DEVELOPMENT	LOCATION	APPROX. SIZE (SQ.FT)	ESTIMATED COMPLETION DATE
The Piano	Westlands	136,167	2022
The Cube	Riverside	77,876	2022
Purple Tower	Mombasa Road	197,800	2024
The Atrium	Westlands	100,000	2024
The Rock	Westlands	100,000	2022
CCI HQ	Tatu City	233,168	2023

Source: Knight Frank Kenya

and sustainability, in their building designs. Investment in technology specific workplaces to international standards is seen as an attractive option especially with the growing Kenyan digital industry. In March, Microsoft inaugurated their KES 3 billion Microsoft Africa Development Centre (innovation hub) at Dunhill Towers, just three years since Microsoft entered the Kenyan market. In April, Visa opened an innovation studio in Nairobi, their first in Africa and sixth worldwide. Moreover, Google announced, in April, that it planned to invest in its first-ever Africa product development hub in Nairobi. Google's investment is part of her promise to invest KES 116.5 billion in Africa over the next five years. In April, Amazon Web Services (AWS) announced plans to set an AWS Local Zone hub in Nairobi that will improve cloud connectivity.

During the period, over 276,800 sq. ft. was released via Principal Place (119,000 sq. ft.) in Westlands, Karen Green (67,700 sq. ft.) in Lang'ata, and 19 storeyed PTA Complex (90,000sq. ft.) in Kilimani. Over 550,000 sq. ft. is in the Nairobi Office pipeline via Piano, Rock, and two EDGE designed developments - Purple Tower and Cube.

On 26th May 2022, the circa KES 2.5 billion, 27 – storey, solar powered, CBK Pension Tower along Harambee Avenue in Nairobi Central Business District was officially opened.

RETAIL

Supermarket chains continue to dominate activity in the retail space. Kenyan retail giant, Naivas, pursued their expansion by opening new branches at; Greenspan Mall in Donholm, Imaara Shopping Mall in Embakasi, a 34,299 sq. ft. outlet in Syokimau along Mombasa Road dubbed

Retail Developments in the Pipeline

COMMERCIAL DEVELOPMENT	LOCATION	APPROX. SIZE (SQ.FT)	ESTIMATED COMPLETION DATE
Global Trade Centre Mall	Westlands-Nairobi	124,000	2022
Broadwalk	Westlands-Nairobi	147,000	2022
Crystal Rivers Mall	Mavoko, Machakos County	215,000	2022
Business Bay Square	Eastleigh-Nairobi	333,700	2022
The Cove	Gitanga Road-Nairobi	50,000	2023
Lana Plaza	Oloitoktok Road-Nairobi	50,000	2022
Greenwood Mall	Meru County	300,000	2022
Park Place Avenue	Parklands-Nairobi	23,600	2022

Source: Knight Frank Kenya

Naivas-Katani, Kiambu Mall, and Naivasha Safari Centre to bring their total outlets to 84. Naivas is also expected to anchor a mixed-use property dubbed "Broadwalk" along Muthithi Road in Westlands. This property will enter the market in H2 2022.

In June, Amethis (a French conglomerate) and its partners, DEG (a German sovereign wealth fund), MCB Private Equity (a Mauritian conglomerate), and IFC (a World Bank Group subsidiary) reached an agreement with IBL Group (a Mauritian conglomerate) alongside Proparco (a French sovereign wealth fund) and DEG to sell all their shareholdings in Naivas International (a Mauritian entity that wholly owns Naivas Limited – a leading supermarket chain in Kenya). If approved by regulatory authorities, IBL Group, Proparco and DEG will own 40% of Naivas International. The exit strategy marks less than two years' worth of holding period for Amethis and its partners. The deal, however, is set to offer no new capital injection into Naivas Limited.

Quickmart opened new branches at; OBC Kitengela Mall, Westlands Square, both T Mall and Cross Roads (Karen) to replace Tuskys, and Machakos-Wote Road, opposite Machakos Level 5 hospital to achieve a total national outlet of 52. Chandarana Foodplus Supermarkets shifted from their favoured mall strategy to the taking the shopping space closer to their target market – in residential areas. Having opened a Chandarana convenience store along Rhapta Road in February, the family-controlled Chandarana Foodplus expanded their footprint by opening new stores at Riverside and Thigiri. A new Chandarana store will open along General Mathenge Road in H2, 2022.

With the increasing demand for convenience from customers, and the attractiveness of an environment where 15 minutes or less are enough to sustain one's needs such as shopping, retailers' expansion in residential areas is motivated by the heavy traffic in residential estates. Consequently, we expect to see further expansions in the 2nd half of 2022 despite increase in cost living.

RESIDENTIAL

Prime residential rents declined by 2.23% over the past six months to June 2022, compared to a 1.58% decrease in 2021 over the same review period. The decline in prime rents is attributed to an oversupply of prime residential properties coupled with adverse economic conditions. Prime residential sale prices improved by 1.2% in H1, 2022. The marginal rise in prime sales is attributed to the reopening of the economy. Though positive, the increase slowed down from 2.4% in Q1, 2022 due to the August general elections.

According to CBK, the value of outstanding mortgage loans increased by 5.3% from KES 232.7 billion in 2020 to KES 245.1 billion in 2021. The value of non-performing mortgage loans increased by 1.8% from KES 27.8 billion in 2020 to 28.3 billion in 2021. The ratio of non-performing mortgage loans to gross mortgage loans, however, dropped to 11.6% in 2021, from 12% in 2020. Despite the slight decrease, both ratios were below the banking industry's ratios of 14.1% and 14.5% in 2021 and 2020 respectively. There was a 0.9% decrease in the number of mortgages from 26, 723 in 2021 to 26, 971 in 2020. This decline signifies that the number of mortgage loans settled was more than approved mortgage loans. There was a 6.9% increase in the average mortgage loan size from 8.6 million in 2020 to 9.2 million in 2021. This surge is attributed to higher values of mortgage loans advanced in 2021.

Increased overall bank interest rates resulted in a rise in average mortgage interest rates from 10.9% in 2020 to 11.3% in 2021. The average loan maturity term stood at 12 years in 2021 with a range of 5 years - 25 years, compared to an average of 11 years and a range of 4 years – 20 years in 2020. Majority of banks, both in 2021 and 2022, capped their loan to value (LTV) ratio at 90%. However, the market is experiencing a trend where banks are increasing the LTV ratio with the aim of increasing their mortgage accounts.

In the prime residential investment market, the joint venture between Gateway Real Estate Africa (GREA) and Verdant Venture to build Rosslyn Ridge Residences, a 90-unit diplomatic community, wholly leased for 8 years to the US Embassy, at a cost of KES 5.52 billion, expects completion in Q3, 2022.

HOTEL & TOURISM

The number of tourists into Kenya increased from 579,600 in 2020 to 871,300 in 2021, representing a 50.3% growth. This was attributed to the opening of the global economy following mass vaccinations and improvements in international travel. These numbers were, however, still sharply lower than pre-pandemic levels of two million in 2019. According to the Ministry of Tourism and Wildlife, tourism arrivals are forecast to surpass 1 million in 2022. Kenya's tourism sector is benefiting from returning international visitors. However, war related disruptions to global travel are holding back the pace of recovery.

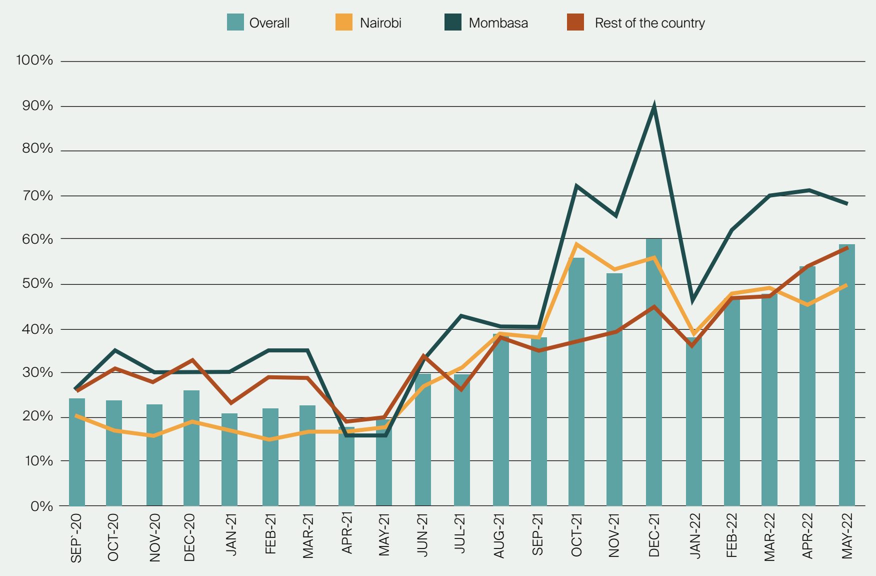
According to the Economic Survey 2022, the hotel sector grew by 52.5% in 2021 as opposed to a 47.7% contraction in 2020. In Q1, 2022, the sector is estimated to have registered a 56.2% growth. According to CBK's Hotel Survey for July, most of the sampled hotels had attained their pre-Covid-19 operation levels highlighting continued recovery of the sector. The recovery is attributed to removal of Covid-19 restrictions amidst an increased number of vaccinated persons. Domestic tourism took up 60% and 71% of accommodation and restaurant services between June and July 2022, compared to pre-pandemic levels of 56% and 67%, respectively. However, the share of domestic clientele in both accommodation and restaurant services decreased between June and July in line with the rising numbers of international tourist arrivals into the country. The share of foreign clients increased during the review period albeit it remained short of pre-Covid levels. The Covid pandemic exposed the hospitality's sector vulnerability to overdependence on foreign clients, and 'unsustainable' pricing models. Economists at the Kenya Institute of Public Policy Research and Analysis (Kippra) argue that the decline in the number of foreign clients due to the Covid-19 pandemic presents an opportunity for the hotel sector to rethink its business model, including a focus on the domestic market.

Compared to early Covid-19 period, forward bookings in the next four months have significantly increased especially in Mombasa and Nairobi following the wholescale opening of the economy, a reflection of rising certainty and continued recovery of the sector. Average bed occupancy rose to 57% in May 2022 from 10% in May 2021 while employment increased from 37% in May 2021 to 83% in May 2022. However, both figures were below pre-Covid levels. Utilization of restaurants and conference services over the review period also improved - with average use of conferencing facilities being above pre-Covid levels - as corporate and government institutions expanded their conferences and workshops as the end of their fiscal year approached.

The hospitality sector hosted its inaugural Kenya Hospitality Event - a premier international exhibition for the hospitality, food and beverage sectors in Kenya - at Sarit Centre in March. Employment rates in the hospitality sector have continued to improve and stood at 83% of pre-Covid levels according to CBK Hotel Survey July 2022, signalling continued recovery of the sector and economy at large.

Recovery within the hospitality sector continued as several hotels reopened. Nairobi's iconic Fairmont Norfolk reopened on April 4 after 21 months of closure and two months later

Bed Occupancy



Source: CBK

Fairmont Mount Kenya Safari Club reopened, two years after shutting. Radisson Blu, Upperhill reopened in May.

After 53 years of service, Hilton Hotel in Nairobi central business district will close its doors permanently on 31st December 2022 after succumbing to economic challenges. On a positive highlight, Hilton announced that it will open a new hotel, Kwetu Nairobi, under Hilton's Curio Collection. This new five-building hotel will be located at the junction of Peponi Road and Kitisuru Road in the Westlands Business District and will have a 100-room capacity.

Singaporean real estate magnate in operating lodgings business, Ascott, entered into management of their first in Kenya and Africa, serviced apartments at Kilimani. Dubbed 'Somerset Westview Nairobi', the property has 162 units and is targeting people moving in and out of Kenya, coming for work in embassies, seeking long stays, expatriates, business executives on both short and long-term assignments, and travellers on holiday.

In Kilifi County, the Ministry of Tourism announced that the much-awaited phase one of Ronald Ngala Utalii College and Hotel will be completed by Q3, 2023. Initially budgeted at KES 4.9 billion in 2010, delays have inflated the construction cost to approximately KES 11 billion.

Following a management contract entered in 2020, Pride Inn Group increased their footprint by taking over the management of Azure Hotel, located at Signature Mall in Machakos County, along Mombasa Road. Branded Pride Inn Plaza, the facility boasts, among others, circa 64 rooms, and a conference centre. Pride Inn Group also secured the management of Plaza Beach Hotel in Shanzu, Mombasa.

Over the review period, the major sale in the hotel sector was that of Crowne Plaza located in Upperhill, Nairobi. The 4-star hotel boasts 206 guestrooms and was bought by Kasada. Kasada is an independent real estate private equity platform dedicated to hospitality in Sub-Saharan Africa. The firm was launched with the backing of Qatar Investment Authority, the sovereign wealth fund of the State of Qatar, and Accor, a leading hospitality group. This is Kasada's second acquisition in East Africa after Umubano Hotel in Rwanda and first in Kenya.

INDUSTRIAL

Prime industrial rates increased by 5% in the review period as compared to H2, 2021. The increase from circa KES 68 per sq. ft. to circa KES 71 per sq. ft. is mainly attributed to easing of mobility restrictions which propelled recovery of the industrial sector.

Worldwide Logistics Group started operations in Kenya with their offices at Panesar Centre along Mombasa Road.

In support of the manufacturing pillar of the government's big four agenda, KES 2.6 billion and KES 2.945 billion were reserved for Dongo Kundu Special Economic Zone, and other special economic zones: Naivasha's textile park, Kinanie leather industrial park, Athi River textile hub, Freeport and Industrial Park Special Economic Zone (SEZ) in Mombasa, and RIVATEX, respectively. Dongo Kundu SEZ is a partnership between the GoK and Jica and is set to strengthen Kenya's position as the epicentre of East Africa's Trade via the Port of Mombasa. The Dongo Kundu SEZ is forecasted to be fully operational by 2026, and breaking ground planned in H2, 2022.

Mauritius based Grit Real Estate Income Group (GRIT) finalised acquisition of Orbit Products Africa Ltd, a warehouse and manufacturing facility located in Machakos County for a consideration of KES 6.1 billion. Letlole La Rona Ltd (LLR), a Botswana real estate firm and 30% owned by GRIT, entered into an agreement with GRIT to be a 30% shareholder of Orbit Products Africa Ltd warehouse and manufacturing plants through injection of an inceptive KES 842 million. Moreover, GRIT is negotiating a majority takeover of GREA, a firm where it already owns 19.98%.

After rebranding to Corporation for Africa & Overseas (CFAO) in February 2022, Toyota Kenya Limited continued its expansion by announcing their planned KES 572 million investment in a new showroom and body shop in Kisumu and Nairobi cities, respectively. The Kisumu showroom will be adjacent to Mega City Mall and expects completion in Q2 2023. This facility will see CFAO vacate their rented offices in Kisumu and move into their own four-acre property. Nairobi's body shop is planned to be complete in early Q3, 2022.

The third agro industrial park in Africa, estimated to cost KES 3 billion, is to be located in Sironga, Nyamira County and will be majorly funded by United Nations Industrial Development Organisation (UNIDO). This development is forecasted to be a major economic boost to the nine immediate counties of; Nyamira, Kisii, Kisumu, Siaya, Migori, Homa Bay, Bomet, Nandi, and Kericho.

Phase one of Africa Logistics Properties (ALP) West Logistics Park - a modern warehouse development located on 49 acres in Tilisi and planned at 8 phases - stands at circa 70% occupancy rate, after completion of the facility in October 2020. Construction of circa 300,000 sq. ft. via phases 2, 3, and 4 begun in June 2021 and is ongoing. Phase 4, dubbed ALP Kyoga, is expected to be complete and open for letting by August 2022.

As part of celebrations to mark their 100-years of existence, East Africa Breweries Limited plan to open a microbrewery, commissioned on 30th May 2022 and expected to cost KES 1 billion, by end of 2022.

During the review period, Signature Healthcare Warehouse (13,500 sq. ft.) in Tilisi attained EDGE certification.

ALTERNATIVES MARKET

With steady gradual increase in university enrolments adding to the existing demand for student hostels in Nairobi, it is unsurprising that purpose-built student accommodation (PBSA) is becoming popular among investors. The sector is currently dominated by Acorn Holdings Limited that reports to have more than 90% occupancy rates in most of their 7 Qwetu branded accommodation. In the pipeline, Acorn has 4 developments expected to enter the market by end of 2023 – Qwetu Chiromo, Qwetu Catholic University, Chiromo Qejani, and Catholic University Qejani. Moreover, postulated to open by end of Q1, 2024 are a further 4 Acorn branded PBSA; Hurlingham Qejani, Kenyatta University's (KU) Qwetu and Qejani – to be in Northlands City which is adjacent KU main campus, and Jomo Kenyatta University of Agriculture and Technology (JKUAT) Qejani – located along Gachororo road in Juja and near JKUAT main campus. In Kenya, PBSA is proving to have higher yield (circa 8%) than prime residential properties (circa 4%). Indeed, worldwide, it has been observed that PBSA is associated with slightly higher returns than primary real estate. PBSA is also more resilient to shocks as it was observed during Covid pandemic. However, it is soon expected that as investors strive to meet the demand, the yields will slightly fall to a level very near, if not similar, to traditional real estate yield.

Kenya, being a lower middle-income country, is still plagued by challenges in accessing quality health care services. With the national referrals, county referrals, and large private hospitals flooded with patients, investments in health care are picking pace. Through the renovation of 3 warehouses at Kenya Medical Supplies Authority (KEMSA) premises, the GoK, via state backed Kenya Biovax Institute Ltd (KBI), is planning on using KES 2.5 billion to install Kenya's first vaccine manufacturing plant. This follows a period when the country was exposed to the threats and negative effects of western and eastern dependency on vaccines during the Covid -19 pandemic. In March, Moderna, an American biotechnology giant, entered into an agreement with the GoK to establish a circa KES 57.5 billion mRNA vaccine manufacturing plant in Kenya to produce circa 500 million vaccine doses per year for the African continent. This investment will be Moderna's first in Africa and is planned to be operational by end of 2023. The World Health Organization intends to invest KES 600 million in its proposed Regional Emergency Hub at Kenyatta University grounds. Africa Centre for Disease Control will also build a facility on the varsity's land.

Kenya's new legislation on data protection, requiring personal data handled by companies in Kenya to primarily be stored within Kenya's boundaries, has served as an incentive to the data centre industry. This incentive hastened the already growing data centre industry aiming to serve Africa via Kenya. Pan African IX (PAIX) Data Centres received a major boost in its expansion plans by receiving KES 2.3 billion from Africa50, an African intergovernmental infrastructure investment group. As of 30/6/2022, PAIX operates 2 data centres in Africa – Kenya and Ghana.

According to Internet Corporation for Assigned Names and Numbers (ICANN), a non-profit organization that globally coordinates the domain name systems, Kenya will host one of its two mega data centres in Africa. The new data centres (two Root Server (IMRS) clusters) will increase Internet speeds and make it harder for hackers to bring down websites. ICANN added that the IMRS clusters will ensure that Internet queries from Africa can be answered within the region, and not be dependent on networks and servers in other parts of the world, thus reducing latency and improving Internet user experience in the entire region. This was hailed by the GoK since it sits in line with Kenya's Digital Economy Blueprint of 2019. Phase 1 of the three-phased IX Africa hyper cloud data centre with 20MW of IT capacity is ongoing along Mombasa Road and within 4.3 acres of land.

During the budget reading in April, and to promote the GoK agenda on affordable housing, KES 27.7 billion was disbursed; KMRC – which had a 55.3% increase in profits before tax, from KES 183.7 million in 2020 to KES 285.3 million in 2021, after disbursing loans worth KES 1.3 billion in 2021 - was allocated KES 4.6 billion, KES 8.7 billion set aside for construction of affordable housing units, and KES 1.2 billion for construction of social housing units. A further KES 1.1 billion was proposed for construction of housing units for National Police and Kenya Prison. The following affordable housing projects have continued to be mooted by the government.

Affordable Housing Pipeline

PROJECT NAME	LOCATION	NUMBER OF UNITS
Kibera Soweto B	Kibera	3,000
Mowlem	Embakasi West	4,900
Makesembo Estate	Kisumu	2,000
Mukuru Housing	Nairobi	13,000
Clay City	Nairobi	5,280
Buxton Point	Mombasa	2,150
Bachelors Jeevanjee	Nairobi	1,800
Pangani Housing	Nairobi	1,562
Bondeni Housing	Nakuru	605

Source: Knight Frank Kenya

Recent Publications

The Africa Report 2022/23

The Wealth Report 2022

Kampala H1 2022

Kenya H2 2021

Please get in touch with us

MANAGEMENT
Mark Dunford
Chief Executive Director
+254 792 650 685
mark.dunford@ke.knightfrank.com

Maina Mwangi
Executive Director & Head – Property Management
+254 733 805 205
maina.mwangi@ke.knightfrank.com

VALUATION & ADVISORY
Stephen Makau
Head - Valuations & Advisory
+254 723 389 092
stephen.makau@ke.knightfrank.com

AGENCY
Anthony Havelock
Head of Capital Markets and OLSS
+254 727 099 364
anthony.havelock@ke.knightfrank.com

RESEARCH
Charles Macharia
Senior Research Analyst
+254 721 386 019
charles.macharia@ke.knightfrank.com

Ndiritu Muriithi
Research Analyst
+254 741 805 238
ndiritu.muriithi@ke.knightfrank.com

Knight Frank Research Reports are available at
knightfrank.com/research

Knight Frank Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, funding organisations, corporate institutions and the public sector. All our clients recognise the need for independent expert advice customised to their specific needs

Knight Frank