Kenya Market Update

H1 2024

Knight Frank's ultimate guide to real estate market performance and opportunities in Kenya.

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Highlights

Economic challenges persist, but Kenya's real estate market remains resilient.

KES gains against major currencies

CBK base lending rate continues to rise

Prime office rents remain stable

Coworking operators and BPOs drive office absorption

Big box retailers continues to expand even as prime retail rents increase

Annual prime residential sale prices increase by 6.2%

International tourist arrivals surpass 2019 levels and international hotel brands continue expansion

COVER IMAGE: ENEO - Developed by GREA Limited, managed by Grit Group

MACRO ECONOMY

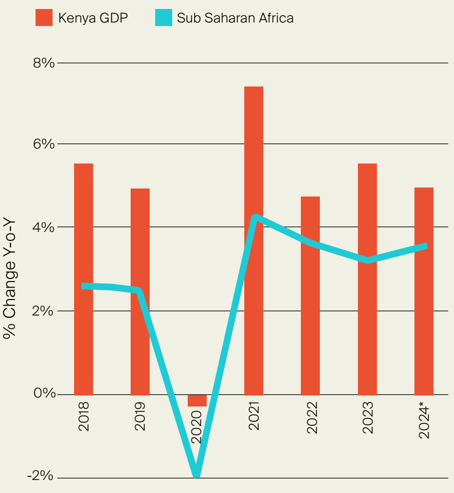
In H1 2024, the Kenyan economy exhibited some positive signs, mainly highlighted by a decline in headline (12-month) inflation and a significant rebound of the Kenyan Shilling. Inflation rates had a protracted steady fall, declining from a high of 9.59% in October 2022 to 4.6% in June 2024, the lowest figure since October 2020. This significant decrease boosted confidence in the health of the Kenyan economy despite the overall prevailing harsh economic conditions. The Kenyan Shilling staged a remarkable recovery after reaching historic lows against the US Dollar in 2023 and early 2024. Having started the year at its weakest point (KES 163 to the USD), the shilling appreciated by 24.43%, and was trading at KES 131 to the USD as at the end of June 2024. Nevertheless, pressure remains on the shilling mainly due to persistent current account deficits, and servicing of huge public debt.

The Kenyan real estate market boasts significant untapped potential. However, the main challenge is its inherent capital-intensive nature which has been exacerbated by the recent surge in the cost of capital and reduced demand of real estate, creating both demand and supply-side constraints. Consequently, the real estate sector registered a decelerated growth of 6.6% in the 1st quarter in 2024, down from the 7.3% growth recorded in the first quarter of 2023. A parallel trend on the construction sector which registered a growth of 0.1%, down from the 3.0% growth recorded in the first quarter of 2023. Cement consumption declined by 12.7% to stand at 1,950 thousand metric tonnes from 2,234 thousand metric tonnes in the corresponding period of 2023.

The total value of buildings approved by Nairobi City County declined from KES 63.8 billion in quarter 1 2023 to KES 43.87 billion in quarter 1 2024, representing a 31% decline. Specifically, the value of approved residential buildings decreased from KES 57.87 billion in Q1 2023 to KES 35.8 billion in Q1 2024. Nevertheless, most of the buildings remained speculative. High financing costs created a wait-and-see approach, as developers sought a more favourable investment environment before commencing construction.

In April, the County Government of Nairobi suspended the issuance of new building approvals to give way to the review of the integrity of the approval process. This decision was informed by heavy rains that led to flooding, revealing that a high number of buildings in the capital failed to meet building codes and urban planning requirements. Additionally, despite efforts to restrict the construction of multi-storey buildings in

GDP Growth Rates



Source: KNBS & The World Bank

previously exclusive neighbourhoods, the County government of Nairobi permitted construction of such buildings to accommodate the growing urban population.

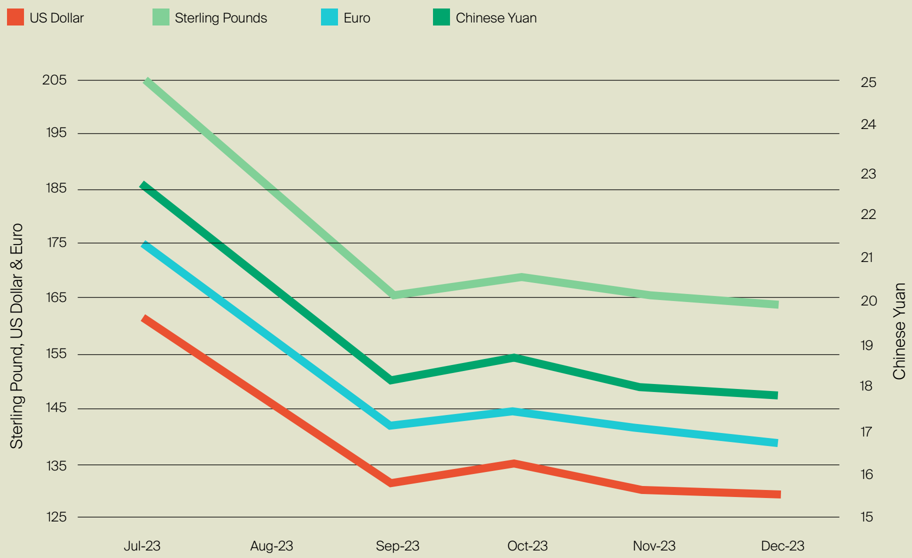
The International Monetary Fund's (IMF) April 2024 World Economic Outlook forecasted a moderation in Kenya's economic growth rate. While the global economy displayed surprising resilience in 2023 despite central banks tightening monetary policies, a slight slowdown is anticipated in 2024. This aligns with emerging and developing economies, where growth is expected to dip from 4.3% in 2023 to 4.2% in 2024. Kenya's GDP growth is projected to follow this trend, decreasing from 5.6% in 2023 to 5.0% in 2024, a 0.6% decline. This projection was indeed substantiated, as the economy expanded by 5.0% in the first quarter of 2024 compared to a growth of 5.5% in the corresponding quarter of 2023. Since mid-June, Kenya, especially Nairobi, experienced significant protests that impacted the economy. The anti-government demonstrations occurred on Tuesdays and sometimes on Thursdays, bringing businesses to a standstill in the central business district of Nairobi, paralysing critical activities including transport and adversely affecting other sectors such as office and retail in Nairobi, specifically within the major office nodes of Westlands and Upperhill.

CAPITAL MARKETS

During the review period, the Central Bank of Kenya raised its base lending rate from 12.5% to 13%. This move aligns with the global trend of central banks implementing stricter monetary policies to curb inflation, prevent/reduce capital flight and/or attract foreign direct investments. As a result, the Kenyan economy stabilised, compared to the volatility experienced throughout year 2023. However, the increase in interest rates has driven up the cost of capital, deterring real estate developers and contributing to a subdued supply of prime real estate properties. Furthermore, ongoing financial difficulties faced by real estate investors have significantly contributed to banks' non-performing loans, making it increasingly difficult for developers to secure financing in the current tougher economic environment. The financial constraints, mainly affecting newer buildings, originate from a lack of sustained demand of real estate spaces leading to very high management costs amidst high dollar-denominated loan interests that must be paid amidst a volatile Kenyan currency. Commercial bank lending rate had increased by 3.39% between February 2023 (13.06%) and June 2024 (16.45%). Consequently, we expect the supply of locally debt financed real estate investments to remain subdued in 2024 and 2025.

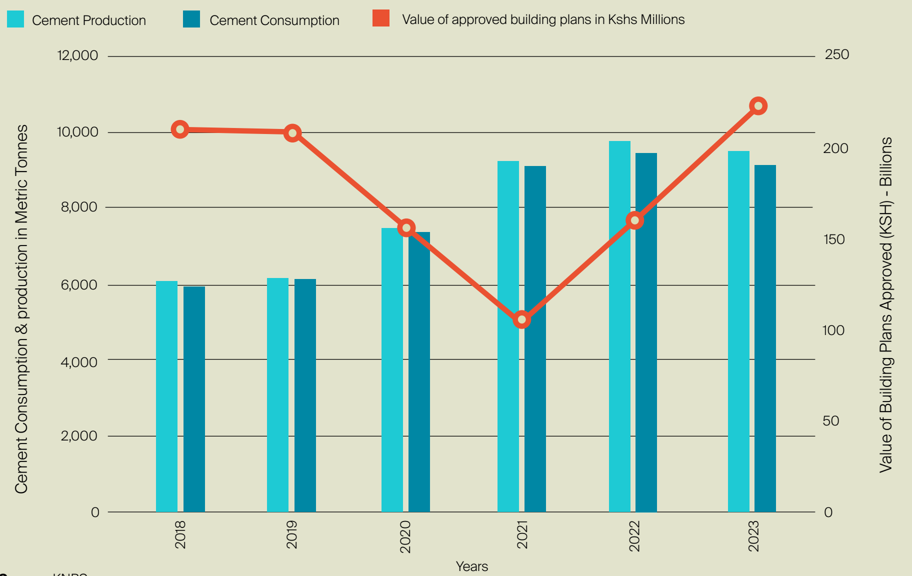
The few real estate entities that trade in the Nairobi Securities Exchange continued to struggle to attract investors in a market where local investment in stock markets is not predominant. For example, the performance of the only listed real estate company, Home Africa, has remained weak, offering little to attract investors. The other four listed real estate firms are Real Estate Investment Trusts (REITs). In Q1 2024, ILAM FAHARI I-REIT transitioned to a restricted REIT to attract professional investors following subdued public demand. Similarly, Laptrust Imara I-REIT has

Exchange Rates



Source: CBK

Construction Statistics



Source: KNBS

experienced a lack of significant demand for its shares. On a positive note, ASA D-REIT and ASA I-REIT have seen their share prices increase from KES 20 in 2022 to KES 24.5 and KES 22.0 per share, respectively, in 2024, suggesting that REITs may still have a future in Kenya's nascent REITs market.

The potential of REITs remains largely untapped. The stable performance of ASA REITs demonstrates that well strategised REITs can succeed. However, most REITs in Kenya fail to attract investors due to non-performing underlying assets. Only REITs with a clear roadmap aimed at meeting investor demand for prime properties (Grade A and B) can forge a successful path. In February, NCBA Bank was accredited to act as REIT Trustees by the Capital Markets Authority.

The high interest rates, the highest in over a decade, have led to substantial oversubscription of treasury bonds and bills during the review period. Individual professional investors and institutions have shifted their investment strategies to capitalise on these high-yielding, risk-free treasury products. This shift has contributed to a reduced money supply, further helping to slow inflation.

In June, Vantage Capital a South Africa-based fund manager provided USD 47.5 million of mezzanine funding to Centum's Two Rivers International Finance & Innovation Centre. Mezzanine funding is a hybrid form of financing that combines features of both debt and equity, allowing the lender to convert debt to equity should the borrower fail to repay.

OFFICE

Over the review period, monthly prime rent remained stable at USD 1.2 psft per calendar month, exclusive of taxes. Coupled by supply constraints, prime offices have shown resilience and leveraged their allure, remaining strong as highlighted by their occupancy rates of 77.2% as at June 2024, a slight improvement from 76.5% at the end of 2023.

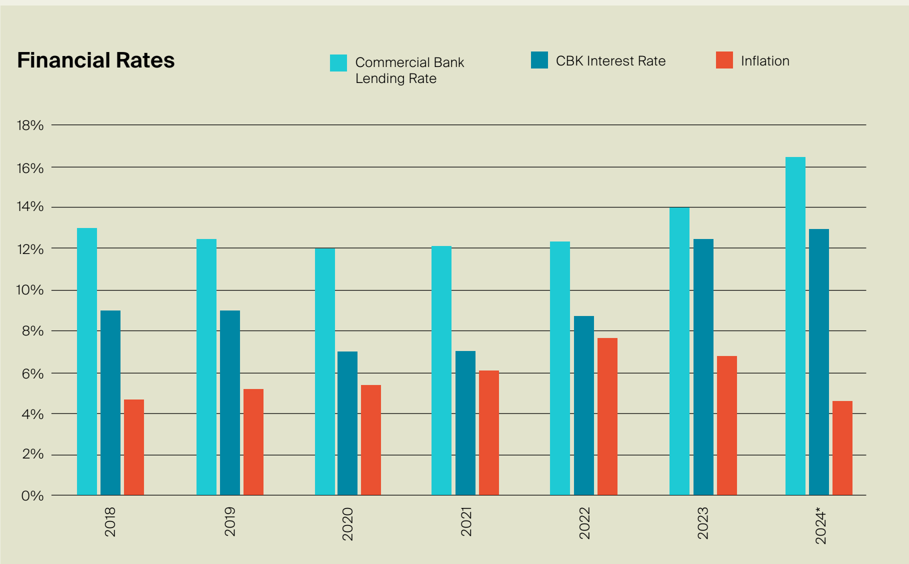
The trend of returning to physical office spaces has been prominent throughout the first half of 2024, with many organizations showing preference of physical offices to the working-from-home model. This has facilitated continued expansion of the flexible workspaces market in Nairobi.

In H1 2024, IWG, a global leader in flexible workspaces, opened new offices at Pramukh Towers, Westlands, under their HQ brand – occupying over 20,000 sqft, spread over 4 floors. Meanwhile, Kofisi, which operates 10 locations in Kenya, entered a partnership with Workshop17. Workshop17 has 12 outlets in Africa – 8 in South Africa and 4 in Mauritius. The objective of the partnership was to enhance connectivity for their 10,000 members distributed across 22 outlets, totalling a workspace area of 645,835 sqft. Horizons, another coworking operator, opened at the Two Rivers International Finance and Innovation Centre.

Developers utilised differentiation strategies such as green certifications to attract a premium, especially from multinational corporations (MNCs) since they are perceived to be more environmentally sensitive, earning the MNCs much-needed carbon credits. While there continues to be a growing emphasis on sustainability among occupiers, efforts by investors to improve sustainability credentials of their real estate portfolios were hampered by limited capital expenditure – upgrading a traditional building to a green building is capital intensive, made harder in cases where the property is still financing a loan. Relocation due to functional and physical obsolescence of buildings is a significant concern, but once again, capital expenditure limitations restrict short-term responses.

Over the review period, the major office completion was the 277,870 sqft Eneo (cover page photo). Eneo is a multi-storey development located in Tatu City, one of only two and the leading operational special economic zone in Kenya, 25 kilometres from Nairobi and JKIA - Kenya's main international airport. The Grade A office building was developed by GREA Ltd and is managed by the Grit Group. The anchor tenant is CCI Global, Africa's leading business process outsourcing (BPO) firm. The investment was estimated to add US$ 50 million into the Kenyan BPO industry. The state-of-the-art facility is Kenya's largest call centre, promising to invigorate the nation's economy by creating over 5,000 new job opportunities in the near future. Grit followed this up with a further announcement to develop a second building pre-leased to CCI Global confirming their commitment to the region.

Towards the end of H1 2024, the demonstrations that rocked Kenya, with Nairobi being the epicentre, affected the office market as most offices closed due to overall insecurity issues such as vandalism, forcing employees to revert to working



Source: Central Bank of Kenya (CBK)

77.2%

Prevailing average occupancy rate for Grade AB Offices, from 76.5% in H2 2023 from home on Tuesdays and Thursdays – significantly creating a non-conducive business environment. Supply in the prime office market remains limited, as evidenced by the table below, creating an opportunity for strategic investors. The significant decline in the supply of prime offices in 2024 has been neutralised by the historical oversupply of these prime office spaces. Consequently, rents and occupancy rates are expected to continue remaining stable in 2024.


GTC Office Towers

RETAIL

Traditionally, retailers primarily focused their outlets within well-established malls which are predominantly situated in affluent neighbourhoods, away from the chaos of central business districts, but still far from residential areas of their target consumers. However, historical oversupply of regional malls and evolving consumer spending behaviours, marked by a preference for convenience, have compelled retailers to establish their presence closer to their consumers – focusing on expansions away from malls and channelling their efforts towards increased satisfaction of their customers. This shift, coupled with reduced disposable incomes and the surge in e-commerce, is prompting retailers to recalibrate their customer outreach strategies, focusing on strategic proximity to residential areas.

Despite the downward pressure on incomes, major retailers continued with their expansion trend. Quickmart extended its reach to Narok with the opening of a new outlet, bringing its total store count to 60. Naivas expanded its presence along Thika Road, Mwanzi Market, Lang'ata Road, and Buruburu, solidifying its position with 104 stores nationwide. South African retailer Panda Mart entered the Kenyan market, renting 90,000 sq ft at Garden City Mall. This move signifies confidence in the long-term potential of the Kenyan market, despite the challenges faced by previous South African retailers. China Square opened their third outlet along Langata Road. Additionally, furniture and homeware seller, Love Home Mart opened at Rosslyn Riviera.

Prime retail rents and occupancies in established malls remained strong, with variations influenced by factors such as location, brand reputation, and expected footfall. Consequently, developers capitalised by expanding and modernising their establishments to meet the evolving retail consumer patterns. In Nairobi, monthly rents for prime retail space range from KES 600 per psft to KES 700 psft. Rent increases are attributed to higher demand for strategically located shops in higher income prime retail developments, with prime malls continuing to register occupancy rates exceeding 75%.

The review period witnessed the completion of Mwanzi Market and GTC Mall, both located in Westlands. The supply of retail centres in Nairobi remains steady. Notable projects include Community Mall and Lavington Square. In 2024, 225,000 sqft of retail space is expected to be added into the Kenyan retail market. The table below highlights select pipeline retail developments.

Pipeline of Select Prime Office Properties in Nairobi

COMMERCIAL OFFICE DEVELOPMENT	LOCATION	APPROX. SIZE (SQ.FT)	ESTIMATED COMPLETION DATE
Mandrake	Westlands	120,000	2024
Purple Tower	Mombasa Road	197,800	2024
The Atrium	Westlands	100,000	2024
Highway Heights	Kilimani	100,000	2024
Bishop's Road	Upperhill	100,000	2027
Twin Towers	Upperhill	200,000	2027

Source: Knight Frank Kenya

Pipeline of select Prime Retail Properties in Nairobi

COMMERCIAL RETAIL DEVELOPMENT	LOCATION	APPROX. SIZE (SQ.FT)	ESTIMATED COMPLETION DATE
The Cove	Gitanga Road-Nairobi	50,000	2024
Promenade	Rhapta Road-Nairobi	75,000	2024
Community Mall	Magadi Road, Karen	100,000	2024
Lavington Square	Gitanga Road-Nairobi	70,000	2025
The Beacon	Upperhill	60,000	2025
Elgon Road	Upperhill	70,000	2026
The Junction Expansion	Ngong Road	100,000	2027
Galleria Mall Expansion	Langata Road	100,000	2027

Source: Knight Frank Kenya

>75%

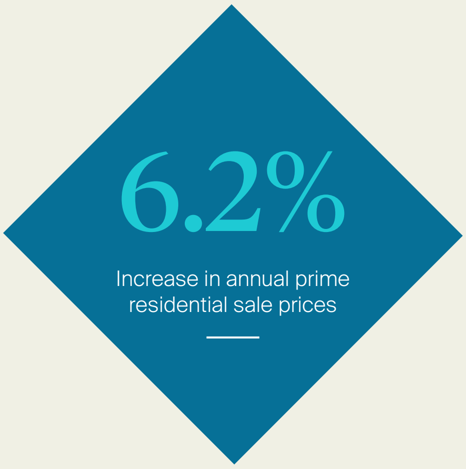
Prevailing average occupancy rate among major retail malls

RESIDENTIAL

The prime residential market has demonstrated resilience, as evidenced by key indicators. Between June 2023 and June 2024, prime sale prices surged by 6.2%, while monthly prime rents increased by 2.25% between January and June 2024. As the residential sector grows, buyers are becoming more discerning, seeking clear value for money from high-priced developments. Consequently, developers must rise to the challenge, offering unique, high-quality residences that meet the expectations of an increasingly knowledgeable and demanding clientele.

Aligned with global trends, buyers in Kenya are increasingly interested in full-service residential buildings. These properties offer amenities, safety, and convenience, appealing to both younger first-time home buyers and older individuals seeking second homes. This gradual shift in buyer preferences towards properties that provide comprehensive services has outpaced the supply of branded residences in Kenya. Branded residences are highly sought after by affluent buyers looking for luxury, exclusivity, and the assurance of a renowned international brand. The branded residences market in Kenya, though small, has immense potential for growth. Developers are tasked with ensuring that their projects align with local luxury standards and create a meaningful connection between the brand and the property to justify premium pricing. A recent addition to the luxury branded residences market was the Pan-Pacific serviced suites at GTC Residential Tower, introduced in 2023.

According to the Bank Supervision Annual Report 2023, the residential mortgage market saw an 8% increase in the number of mortgages from 27,786 in 2022 to 30,015 in 2023. The average loan size remained at KES 9.4 million for both years, while the average loan maturity term slightly increased from 10.9 years in 2022 to 11.7 years in 2023. In line with the overall rise in interest rates, the average mortgage interest rate rose from 12.3% in 2022 to 14.3% in 2023. This increase likely contributed to the rise in the outstanding value of non-performing mortgage loans, which went from KES 37.8 billion in 2022 to KES 40.8 billion in 2023, as 88.4% of mortgage loans are on variable interest rates.



HOSPITALITY

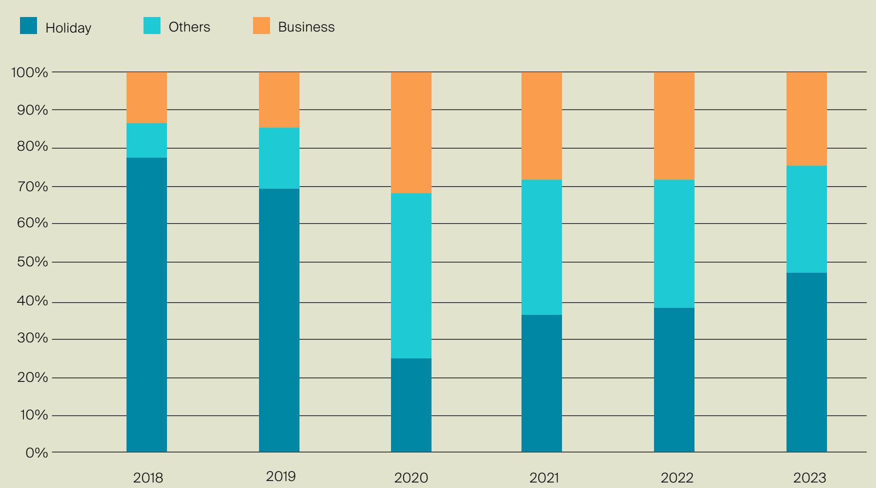
The Kenyan hospitality sector has exhibited remarkable resilience, emerging stronger from the challenges posed by the COVID-19 pandemic. Data from the KNBS revealed that international tourist arrivals in 2023 surpassed the pre-pandemic peak of 2019, achieving a remarkable 102.5% recovery rate. Compared to 2022, international visitor arrivals rose from 1.54 million to 2.09 million in 2023, a 35.4% increase. Additionally, tourist arrivals in Q1 2024 recorded a 10% increase compared to Q1 2023, from 370,570 to 409,164 tourists.

This positive performance was underpinned by Kenya's strategic shift towards establishing itself as a premier business and conference destination within SSA. In contrast to pre-pandemic years, which primarily focused on holiday tourism, KNBS data indicates a notable rise in international conferences (9.0% to 977 in 2023 compared to 2022) and local conferences (11.0% to 10,725 in 2023 compared to 2022). This strategic pivot has demonstrably strengthened Kenya's position as a leading business tourism destination within the SSA region, further bolstered by the country's successful hosting of the inaugural Africa Climate Summit in 2023.

The recovery rates underscore this diversification. While the number of business visitors in 2023 exhibited a significant 180.4% increase compared to 2019, the number of holidaymakers achieved a more modest 72.5% recovery. This highlights Kenya's deliberate shift towards a more diversified and resilient tourism sector, less reliant on holiday tourism. However, with holiday tourists still accounting for 44.8% of international arrivals in 2023 compared to 23.7% for business visitors, continued efforts are necessary to solidify Kenya's position as a top-tier conference hub, which can rival established destinations like Egypt, Morocco, and South Africa.


Beach Resort

Purpose of Tourist Visits



Source: KNBS

The increase in international visitor arrivals translated into a significant boost for hotel bed occupancy rates. Nationally, occupancy rates rose by 23.2%, with a noteworthy observation - half of these occupied beds were filled by domestic tourists. This underscored the growing potential of the domestic tourism market, an area that remains largely underexploited. Coastal beach hotels continued to be the most popular destinations, contributing 41.28% and 33.48% of bed occupancies in 2023 and 2022, respectively.

UI Group, a German global leader in the tourism sector, plans to enter the Kenyan market by constructing a 124-room TUI Blue branded hotel in Watamu, Kenya's coast. This addition to Kenya's high-end coastal hotels will increase competition and strengthen Kenya's culture of offering high-quality services to tourists. The Panari Resort in Nyahururu, a countryside town neighbouring Mt Kenya and the Aberdare, became Africa's first hotel under the prestigious Best Western Signature Collection brand, further strengthening Kenya's list of impressive country-hotels.

The Kenyan hospitality sector experienced notable growth over the review period. Key developments included the completion of GTC's 315-bed, 35-storey hotel tower, operating under the JW Marriott brand. Additionally, the 211-room Glee Hotel along the Northern Bypass, the rebranded 162-room Pullman hotel in Upperhill, and the 105-room M Gallery hotel in Gigiri opened their doors. In the pipeline, the French midscale hotel brand, Novotel, is set to open in Westlands Nairobi in the foreseeable future.

On the transaction front, the iconic 287-room former Hilton hotel in Nairobi CBD was officially put up for sale by both Hilton International and the Government through the Kenya Development Corporation. The hotel shut down in December 2022.

INDUSTRIAL & INFRASTRUCTURE

As Kenya's population continues its upward trajectory, the demand for commodities will increase, further driving the already high demand for industrialization in the country. Industrialisation plays a significant role in exchange rate volatility. Transitioning into an industrialised nation, as envisioned in Kenya's Vision 2030, will reduce Kenya's trade deficit, strengthen the Kenya Shilling, and improve citizens' livelihoods.

Export Processing Zones (EPZs) and Special Economic Zones (SEZs) are among key strategies to attract investments in the industrial sector. In January, the government authorised part of Tilisi Logistics Park to operate as an EPZ. Additionally, a 100,000 sqm textile park was opened at Nairobi Gate Industrial Park, an SEZ. According to the Textile Global Market Report 2024 by Research and Markets, the textile industry is expected to grow from USD 638.03 billion in 2023 to USD 689.54 billion due to growing global population, increasing demand for man-made fibres, government initiatives supporting the textile industry, robust economic growth in emerging markets, and the implementation of restrictions on plastic usage.

In infrastructure, data centres are in high demand as quality internet services become almost a necessity. This demand extends beyond organizations and major cities and is being driven by Kenya's growing middle class which is seeking better internet connectivity for remote working and socialising. Having completed NBO1 last year, iColo, a leading developer of data centres, is constructing the second phase of its Nairobi Karen Campus (NBO2). Once completed, NBO1 & NBO2 will have a capacity of 13MW of IT power, with sustainability features such as a 200kW solar power installation. NBO2 is expected to be completed in 2025. Additionally, G42, an Emirati technology company, partnered with Olkaria EcoCloud Data Centre to construct a one-Gigawatt geothermal-powered data centre, leveraging Olkaria's rich geothermal energy resources and promoting climate protection. The $1 billion data centre campus is scheduled to break ground in H2 2024 and become operational by H1 2027.

Investment in undersea cables needs to be increased despite the addition of 2Africa submarine cable, the world's largest subsea fibre-optic cable to-date and connecting Europe, Africa and Asia. Kenya experienced episodes of connectivity loss during the review period when two of the six internet undersea cables became faulty. Similar issues occurred in 2023, underscoring the need for more investment in this sector to maintain Nairobi's reputation as Africa's Silicon Savannah. Quality internet connectivity is critical for current and future developments.

Kenya's high public debt has significantly reduced fiscal spending on infrastructure, even affecting public-private partnerships (PPP). Nevertheless, The Nairobi-Mombasa Highway has been put forward for expansion and a project development agreement was entered into between the Kenya National Highways Authority (Kenha) and Everstrong Capital, a US investment manager. However, the construction is expected to begin in 2026/2027. Previous projects like the Standard Gauge Railway in 2017 and the Nairobi Expressway in 2022 are being evaluated for their value for money before committing to new PPP funded projects. Recent floods, due to uncharacteristic high short rains, exposed vulnerabilities in critical infrastructure, highlighting the urgent need for upgrades to maintain Kenya's status as a leading economic hub for the region.


Data Centre

ALTERNATIVES MARKET

Despite the challenging macro-economic conditions, investment in alternative asset classes continued. In the education sector, Nova Pioneer Schools, a leading provider of international curriculum education in South Africa and Kenya, divested their Tatu City assets to Heri Holdings Limited, a Kenyan holding company. Nova Pioneer will continue operating on the land as tenants.

Acorn Holdings Limited (AHL), Africa's largest developer and operator of grade A purpose-built student accommodation (PBSA), secured USD 180 million from the US Development Finance Corporation. This funding is expected to support the development of an additional

35 PBSA properties, which AHL estimates will add 48,000 more student beds. Currently, AHL develops and operates the Qwetu and Qejani brands of PBSA.

International Housing Solutions (IHS), a South African private equity firm and an African pioneer in green affordable housing, launched 'Muzi Salama,' a green affordable housing project comprising 240 units of 2 and 3-bedroom apartments in a gated estate in Tilisi, Limuru, Kiambu County. Additionally, IHS has partnered with Mi Vida to spearhead the construction of 200 green affordable apartments within Garden City, Kasarani, Nairobi City County.

The government aims to provide affordable housing through the housing levy. According to the government's budget statement for 2024/2025, KES 32.5 billion was to be set aside for this purpose. Proposed or ongoing affordable housing initiatives include:

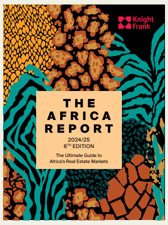
Pipeline of select Affordable Housing developments

RESIDENTIAL DEVELOPMENT	LOCATION	NUMBER OF UNITS
Shauri Moyo	Shauri Moyo	3848
Starehe Point 1	Starehe	6,704
Kibera Soweto B	Kibera	4,054
Ruiru Affordable Housing Project	Ruiru	1,050
Homa Bay Affordable Housing	Homa Bay	2,000
Mowlem	Embakasi West	4,900
Makasembo Estate	Kisumu	2,000
Mukuru Housing	Nairobi	13,000
Clay City	Nairobi	5,280
Buxton Point	Mvita	1,400
Bachelors Jeevanjee	Nairobi	1,800
Pangani Housing	Nairobi	1,562
Bondeni Housing	Nakuru	605
Stoni Athi	Athi River	10,500
Greatwall Apartments Phase 6	Athi River	3,110
Anderson Park Estate	Kisumu	1,300
Mzizima Affordable Housing	Mombasa	2,000

Source: Knight Frank Kenya

Recent Publications

6th The Africa Report



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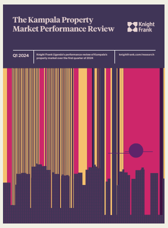
Kampala Market Performance Review



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