Research

Kenya Market Update

H2 2020

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The Key Insights

- Kenya's GDP growth decelerated in 2020
- Kenya Shilling records historic low against major currencies
- Land transactions rise
- KMRC granted licence by CBK
- Private Sector looks to invest in infrastructure
- Prime retail rents stagnate
- Grocery retailing remains one of the most active segments of the retail sector
- Prime commercial office rents decline
- Office space absorption slows
- Prime residential values decline
- Tourism sector suffers Ksh 110.5 billion revenue loss
- Green building certification on the rise
- ALP opens its second, Grade-A logistics and distribution park
- Acorn Investment Management Limited launches D-REIT and I-REIT

COVER IMAGE: ALP West, Tilisi Logistics Park, Limuru

COVID-19

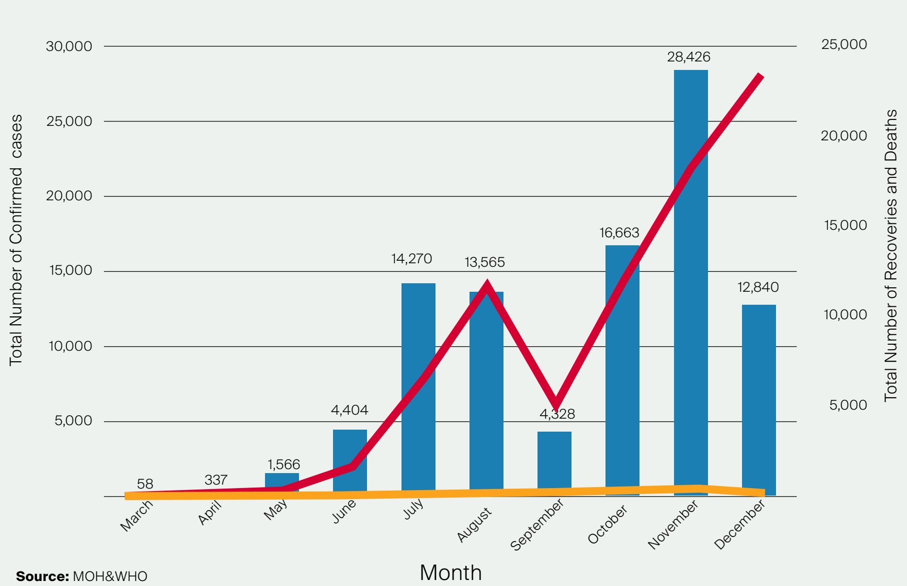
The World Health Organisation (WHO) as at 31st December, had confirmed circa 81.5 million cases, 60 million recoveries and 1.8 million fatalities globally. Similar to the first half of 2020, Kenya recorded the second highest number of confirmed cases in the region.

According to the Ministry of Health (MOH) as at 31 December, Kenya had confirmed 96,458 cases, 78,737 recoveries and 1,670 fatalities, however the infection rate had decreased in December compared to the months of October and November.

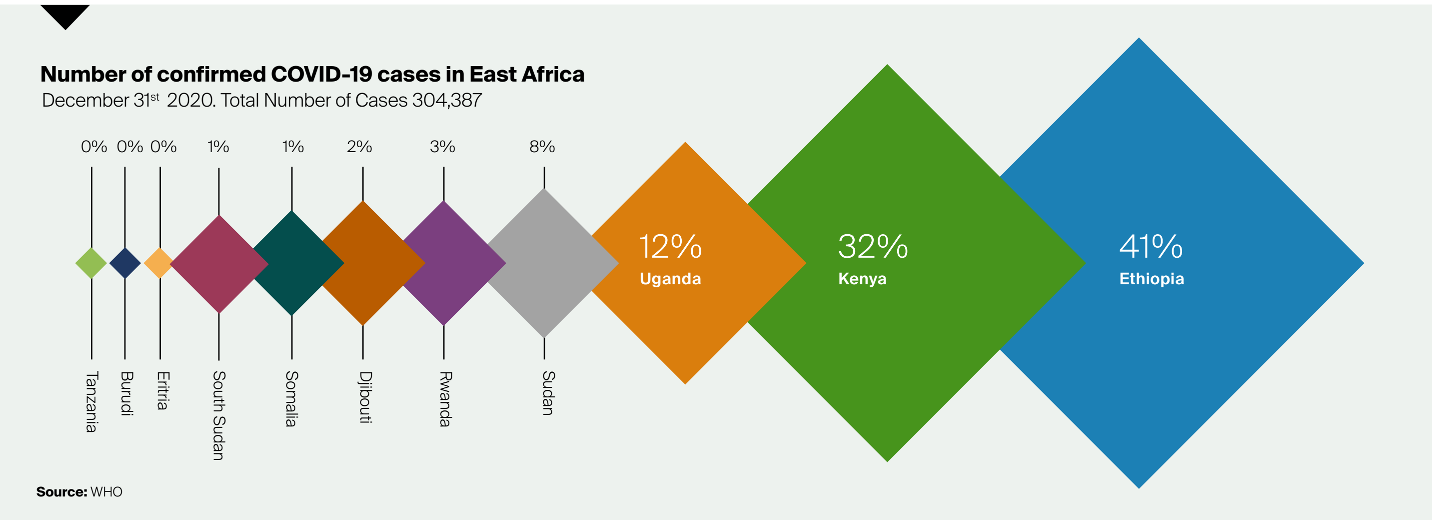
The Economy

The Kenyan economy contracted by 1.1% in the third quarter of 2020 compared to a 5.8% growth over the same period in 2019, according to the Kenya National Bureau of Statistics (KNBS). The drastic decline is mainly attributed to the on-going impact of the COVID-19 pandemic and various mitigation measures put in place which affected activities across majority of sectors of the economy. These included accommodation and food services; tourism; transport and storage and education. Consequently, the economy was projected to contract to -1% for 2020 but rebound to 6.9% in 2021.

COVID-19 cases in Kenya



Source: MOH&WHO



According to The World Bank, the Sub-Saharan African (SSA) GDP contracted to 3.7% in 2020. This was mainly due to the pandemic and underperforming economies specifically from countries that are commodity exporters or tourism dependent. The World Bank has predicted that the SSA GDP will expand to 2.7% in 2021 due to a rebound in export growth, private consumption and investment.

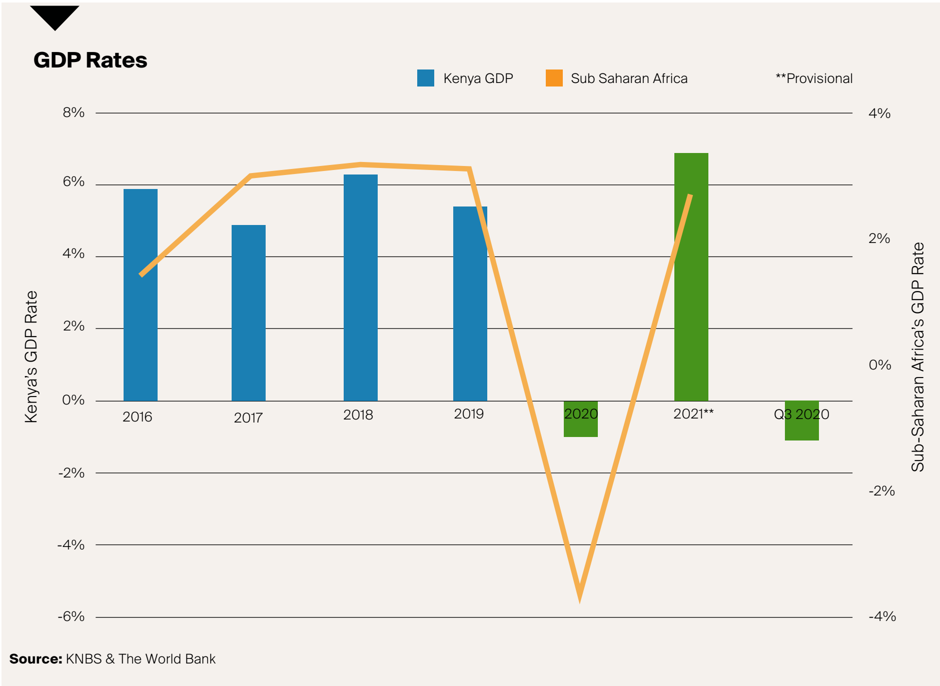
The Macroeconomic environment was fairly stable over the review period due to the various monetary and fiscal measures implemented in the first half of 2020 to mitigate the adverse effects of the pandemic. In December, The Government announced the reversal of various tax reprieves to pre-covid-tax rates, namely corporate tax, individual income tax (PAYE) and VAT rates.

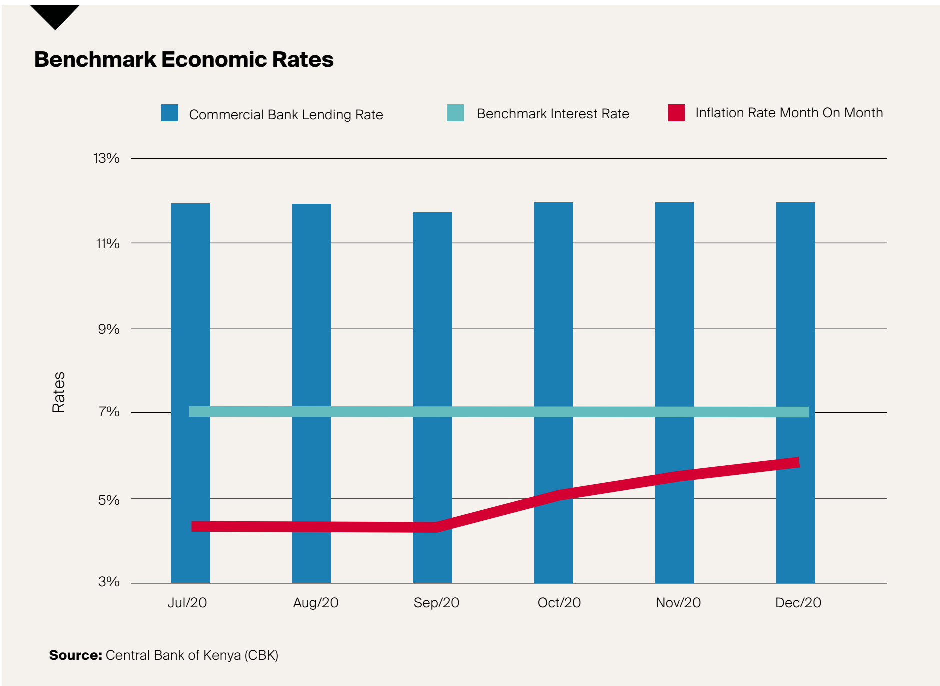
Commercial banks' interest rates remained at circa 12% during the second half of 2020. Month-on-month inflation remained within the government's target range, but September recorded the lowest inflation rate of the year at 4.2% due to a decrease in the prices of basic commodities.

The Monetary Policy Committee (MPC) maintained the Central Bank Rate (CBR) at 7% over the review period due to the current economic situation and to cushion the adverse effects of the economy.

Over the review period, the Kenya Shilling recorded historic lows against major currencies, drastically weakening against the US Dollar, the Sterling Pound and the Euro. In November the Kenya Shilling depreciated to Ksh 110 against the US Dollar. This was mainly attributed to the rise in import costs, reduction in exports of agricultural and horticultural produce and fewer tourists visiting the country.

Production of cement increased to 4.42 million metric tonnes (MT) in the 8 months to August, an 11% jump from 3.97 million MT over the same period in 2019. Similarly, cement consumption





increased to 4.37 million MT in the 8 months to August, a 11% jump from 3.95 million MT over the same period in 2019. The increase in cement production and consumption can be attributed to the various infrastructural and affordable housing projects ongoing nationwide.

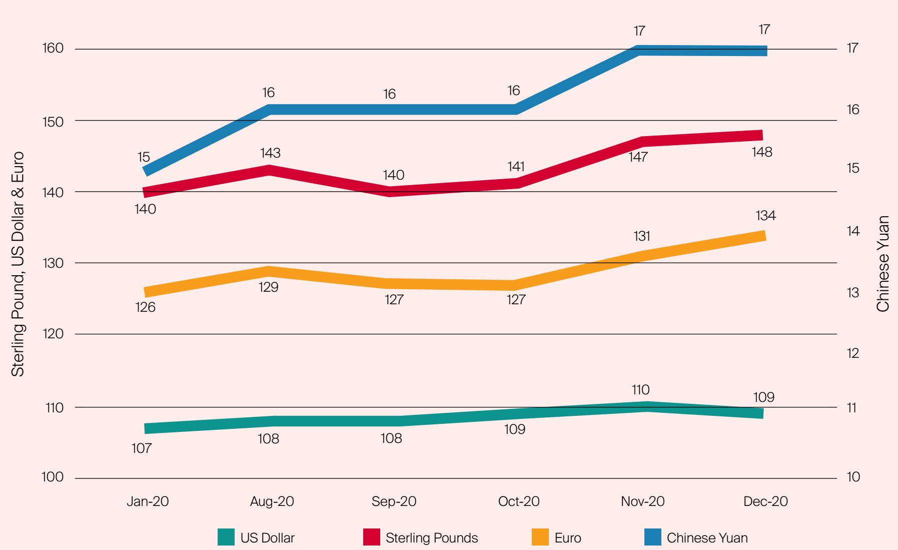
The value of building plans in Nairobi County, decreased however, to Ksh 120.78 billion in the 9 months to September, a 28% drop from Ksh 168.42 billion in a comparable period in 2019. This decrease is indicative of the continued slowdown in the real estate sector this year, due to the pandemic, resulting in developers adopting a wait-and-see approach.

Diaspora remittances increased by 10.65% to US$3.09 billion in 2020 compared to US$2.80 billion in 2019. This was mainly due to inflows from North America following the roll out of the first phase of the stimulus package.

Similar to previous years, North America remained Kenya's biggest source contributing 61% of the total cash inflows.

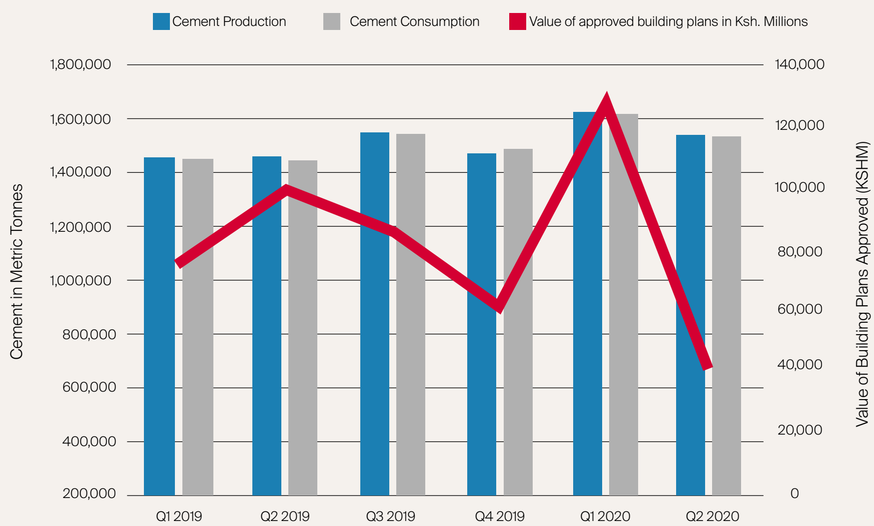
The number of land transactions in the form of transfer and leases at the Ministry of Lands has gradually risen over the review period. This is a result of the land registry reopening, allowing investors to finalise on transactions.

Foreign Currency Exchange Rates



Source: CBK

Value of Building Plans vs Cement Production and Consumption



Source: KNBS

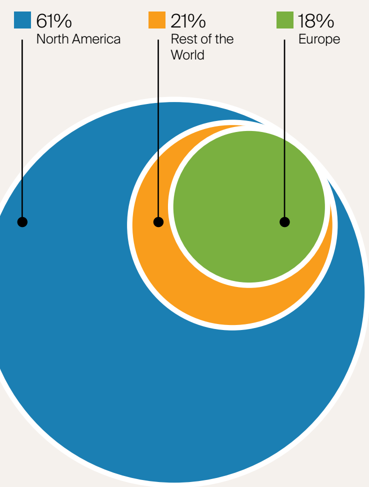
Capital Markets

The Capital Markets Authority (CMA) in November, approved the issuance of a REIT (real estate investment trust) manager's licence to Acorn Investment Management Limited (AIML) a subsidiary of Acorn Holdings Limited (AHL), which enables them to provide real estate management services in respect to a REIT. In December, the same licensing body approved two REITS by AIML; the Acorn Student Accommodation Development Real Estate Investment Trust (ASA D-REIT) and Income Real Estate Investment Trust (ASA I-REIT) with a total minimum subscription of Ksh 852 million and maximum subscription of Ksh 8.5 billion. The ASA D-REIT will develop student hostels and upon completion will be sold to the ASA I-REIT for long term holding and rental income. Acorn announced they will retain significant stake in both REIT's and will offer both REIT's to specific institutional and private investors through a restricted public offer.

European fund InfraCo owned by the UK, Netherlands and Swiss Government will be one of the anchor investors in the REITs by AIML. The fund invested Ksh 300 million in the D-REIT and Ksh 700 million in the I-REIT.

The publicly listed ILAM Fahari I-REIT announced in July a 13% increase in net profit in the first half of their financial year from Ksh 76.4 million to Ksh 86 million. The REIT closed at Ksh 5.64 in December, which was 72% lower than its initial listing price of Ksh 20. Home Afrika's share price closed at Ksh 0.42 in December, which was 97% lower than the initial listing price of Ksh 12.

Remittance Inflow Share by Source, Q4 2020



Source: CBK

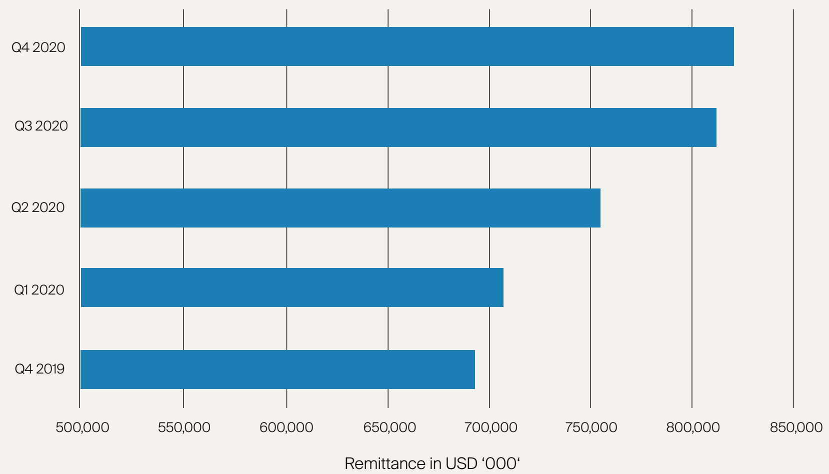
In October Centum Real Estate announced plans to issue a three-year, Ksh 4 billion bond, expected to finance their ongoing housing projects. The bond was approved by the CMA in December and the firm raised Ksh 3 billion from various investors.

Policy & Infrastructure

In July, Government backed affordable housing loans financier Kenya Mortgage Refinance Company (KMRC) received additional funding by admitting two new shareholders namely International Finance Corporation (IFC) and Shelter Afrique, who both contributed Ksh 200 million each. They announced plans to raise Ksh 5 billion through capital markets and are expected to launch a green bond in 2021 targeting institutional investors, fund managers and pension funds.

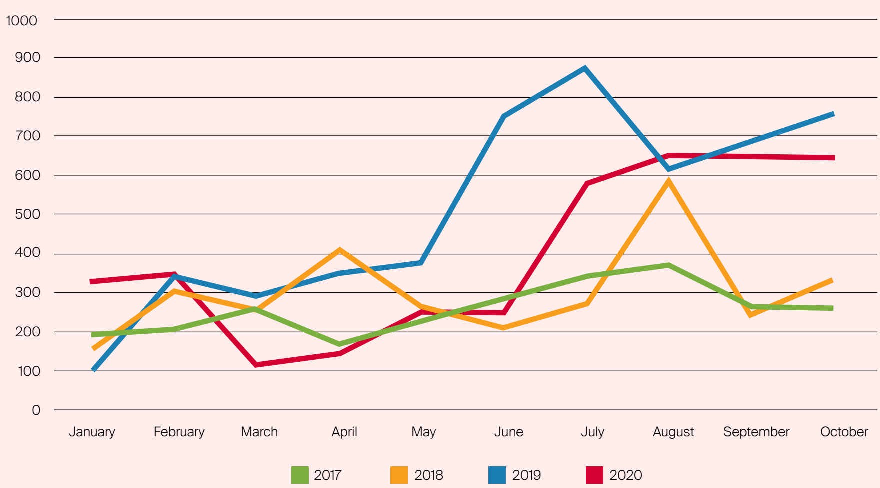
In September, the financier announced they will be providing loans to Kenyans earning Ksh 150,000 per annum and below at an annual subsidised interest rate of 7% in comparison to the average market rate of circa 12% following their license being granted by the CBK to commence operations. Mortgages for houses in the greater Nairobi metropolitan area which includes Kiambu, Machakos and Kajiado counties were capped to a maximum of Ksh 4 million whilst mortgages for houses across the rest of the country have been capped at Ksh 3 million.

Quarterly Diaspora Remittances



Source: CBK

Land Transfer Transactions



Source: Ministry of Lands

Once fully operational, the KMRC is expected to increase the number of mortgage accounts through the provision of cheaper, long term funds. As at the end of 2019 there were 27,993 residential mortgage loans in the market up from 26,504 in December 2018, an increase of 1,806 loan accounts or 6.9%.

During the pandemic, infrastructure has been one of the most resilient real estate asset classes globally, although in Kenya infrastructural development has been the preserve of the public sector.

Kenya's annual infrastructure funding gap currently stands at more than Ksh. 200 billion presenting private investors with numerous opportunities in various sectors including power, transport and urban development.

Consequently, a consortium known as Kenya Pension Fund Investment Consortium (KEPFIC) was launched over the review period. KEPFIC will enable pension schemes to jointly make sustainable long-term infrastructure and alternative asset investments in the region.

Pension funds are the ideal funding partners for infrastructure projects due to their longer return on investment horizons and significant role in financing infrastructure projects in many countries.

KEPFIC intends to mobilise more than Ksh 25 billion over the next five years for infrastructural investment by pooling resources from individual funds.

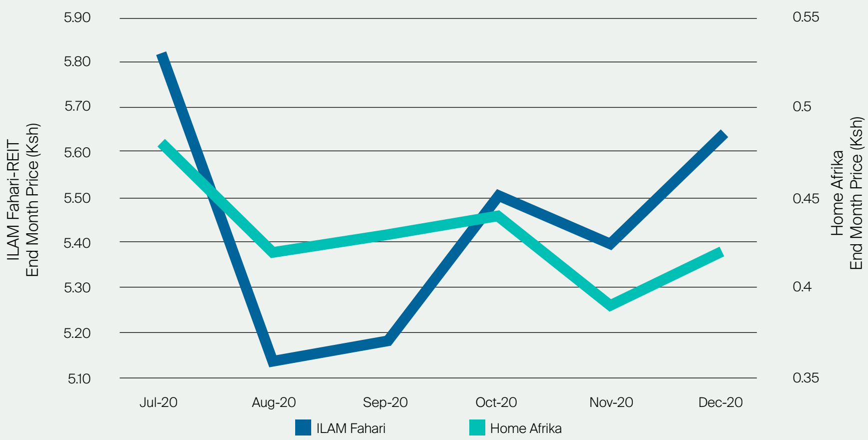
KEPFIC's membership includes major pension funds such as the Kenya Revenue Authority Staff Pension Scheme, Safaricom Staff Pension Scheme, KenGen Staff Retirement Benefits Scheme, and the Kenya Pipeline Company Retirement Benefits Scheme, and the consortium's investment pipeline includes opportunities across energy, transport and telecommunication sectors.

Over the review period, the Kenyan government made several announcements and commenced construction on various infrastructural projects regionally.

Construction of the 84km, Kenol-Sagana-Marua Dual Carriageway commenced in July. The Ksh 16.7 billion project, which is being funded by the Africa Development Bank, is expected to be completed by 2023. The dual carriageway passes through five counties namely Murang'a, Kirinyaga, Machakos, Embu and Nyeri.

Construction of the Nairobi expressway from Jomo Kenyatta International Airport (JKIA) to Westlands commenced in July. The 18 km expressway, being constructed by China Road and Bridge Corporation (CRBC) is expected to be completed in 2022. The project is a Public Private Partnership under the BOT model

Real Estate-Related Listings



Source: Nairobi Securities Exchange

(Build-Operate Transfer) between CRBC and the Government of Kenya. This is the first BOT road project where the Investor takes revenue risk and will operate as a toll road.

In September, the World Bank approved a Ksh 81 billion loan through the Horn of Africa Gateway Development Project (HoAGDP) to upgrade half of the 740 km Isiolo-Mandera road. In the same month, the dualling of the 1.7 km Likoni Road commenced. The Ksh 900 million project is expected to be completed in the first half of 2021 and upon completion is expected to ease traffic in and out of the Mombasa industrial area.

In October, the Kenyan government entered an agreement with a French consortium consisting of Vinci Highways SAS, Meridian Infrastructure Africa Fund and Vinci Concessions SAS to construct the Mau Summit Road. Construction on the Ksh 160 billion, 233 km toll highway will commence in 2021 and once completed will upgrade the Nairobi-Nakuru Highway.

Construction of the Ksh 1.5 billion, 1.2 km floating bridge in Mombasa County commenced over the review period. The bridge, which is being constructed by CRBC, is expected to be opened in January and will link the south of Mombasa Island to the mainland.

Plans to commence construction of the Ksh 28 billion, Nairobi Railway City begun in July following the establishment of The Railway City Development Authority (RCDA) in May. The urban development project will consist of a new railway station and various commercial and affordable housing developments. It will be constructed on a 425-acre land parcel across various parts of the CBD.

In August, CRBC commenced construction on the 23.5 km rail link which will connect the Standard Gauge Railway (SGR) line to the old Naivasha track. The project is expected to be completed in 2021 and upon completion will provide a direct link between the Mombasa port and Uganda.

Upgrading of the Kisumu railway line begun in the same month. The 216-km line will be refurbished by Kenya Railways engineers and the National Youth Service to connect to the recently refurbished Kisumu port. Upon completion, the railway track will be linked to the SGR Line in Naivasha which is expected to improve cargo movements to neighbouring countries.

In anticipation of Brexit, the UK Government signed an Economic Partnership Agreement with Kenya allowing all companies operating in Kenya duty free access to the UK market. Kenya is a major exporter of tea, coffee, agricultural and horticultural produce amongst other commodities. This trade agreement is beneficial to the Kenyan economy as the UK is one of Kenya's major trade partners.

Retail

Similar to the first half of 2020, the retail sector remained one of the hardest hit sectors due to the pandemic. Prime retail rents remain unchanged over the review period at US$4.2 per square foot (sq. ft) per month. The stagnation was mainly attributed to an oversupply of retail centres, economic slowdown, restrictions on mobility due to the nationwide curfew, unfavourable business climate and less disposable income which all resulted in reduced consumer spending. Landlords over the review period continued to adopt a range of lease concessions due to weaker economic conditions in a bid to retain existing and attract new tenants.

Occupancy levels for retail centres averaged 70-80%, with the more established malls recording higher occupancy levels of 90%.

Footfall across retail centres increased in the second half of 2020 due to the opening of anchor tenants in shopping malls and lifting of various lockdown measures such as inter-county movement and the relaxing of curfew hours.

According to Google community mobility reports, foot traffic in retail and recreational areas recovered in the second half of 2020 and was buoyed by the ease of restrictions and the festive season.

Major retail completions in the second half of 2020 included Likoni Mall (94,421 sq. ft) located in Mombasa County. Major retail developments in the pipeline are listed in Table 1.

New and existing international retail brands continued to expand into established malls over the review period due to the higher footfalls and an established customer base. The Junction Mall opened its doors to toy retailer Toyzoona, South African fragrance retailer Michaels Perfumery and American luggage retailer Samsonite. Chinese electronics retailer Huawei and Japanese optics and imaging retailer Nikon opened at the Yaya Centre. South African eatery Ocean Basket and German sportswear retailer Adidas opened at Westgate Mall. UAE lifestyle brand Homebox, UAE fashion brand Max and Babyshop, Kenyan butchery Morendat and Kenyan eatery and retailer Browns Cheese also opened up over the review period at Sarit Centre.

South African DIY construction and buildings materials retailer Builders Warehouse, opened its first East African stand-alone store in the Waterfront Mall in August.

Grocery retailing remained one of the most active segments in the retail sector. Over the review period, some supermarket chains scaled down on their operations whilst others expanded their local presence establishing a stronger footprint in the retail market.

Local retailer Tuskys closed several of its branches in various malls over the review period due to liquidity problems and strained supplier relationships. In August, Tusky's supermarket announced that it had signed an agreement with a Mauritius fund for Ksh 2 billion, to assist with the capital constraints and long-term survival of the business.

South African supermarket chain Shoprite, announced they were exiting the Kenyan market, only two years since its entry, as a result of underperformance. They shut their retail outlet in Westgate Mall over the review period.

Local supermarket chain Naivas continued with their expansion strategy over the review period, by either acquiring recently vacated spaces by struggling retailers or setting up in new locations nationwide. Various branches opened up over the review period including a branch in Rongai and a second branch in Syokimau in Machakos County.

In August, recently vacated space by Nakumatt at Hazina Towers in the CBD was taken over by Naivas. The retail chain in November also took over both Shoprite's vacated space in Waterfront Mall and Tusky's vacated space in Ananas Mall in Thika.

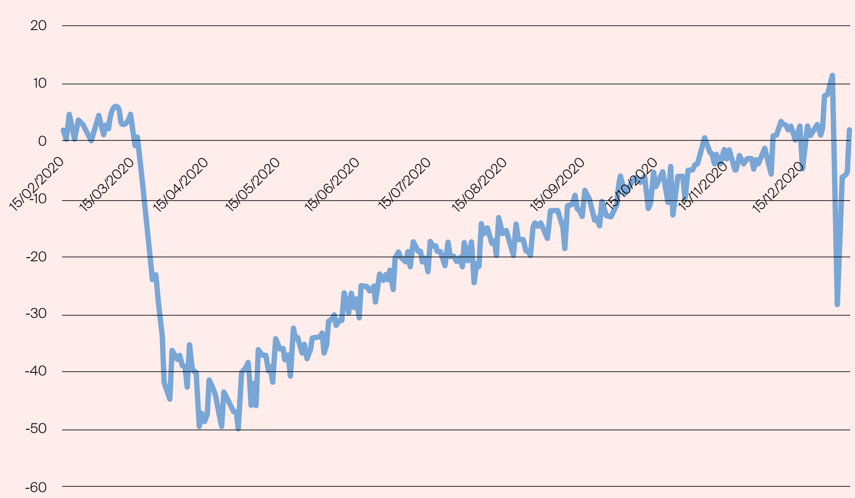
In September, local retail chain Quickmart opened up a new branch in Kiserian.

International retail chain Carrefour also expanded over the review period. In November, they opened two new stores in Mombasa County at City Mall Nyali and Diani Centre Point Plaza.

70-80%

average occupancy levels in retail centres with more established malls recording higher levels of 90%

Retail and Recreational Google Community mobility reports



Source: Google Mobility Index

TABLE 1: Retail Developments in the pipeline

RETAIL DEVELOPMENT	LOCATION	APPROX. SIZE (SQ. FT)	ESTIMATED COMPLETION DATE
Rhapta convenience centre	Westlands, Nairobi	25,833	2021
City Mall Phase II	Mombasa County	77,000	2021
The Imaara Mall	Mombasa Road, Nairobi	146,066	2021
Crystal Rivers Mall	Mavoko, Machakos County	215,278	2021
Ojijo Properties	Parklands, Nairobi	147,465	2022

Source: Knight Frank Kenya

Neighbourhood and more convenience focused malls (as opposed to larger traditional malls) have received increased interest from investors and developers due to a perceived increase in demand from consumers over the last few years. This is mainly attributed to the changing shopping patterns of consumers. Open air neighbourhood malls are usually located within close proximity to shoppers' homes, have easier parking systems and allow consumers to benefit from spending less shopping time in malls with less human engagement. We expect this trend of increased demand for neighbourhood malls to continue in the near future.

Entertainment players such as cinemas and casinos continued to face major challenges over the review period due to less disposable incomes and changing consumer habits who opted to remain home due to Covid-19.

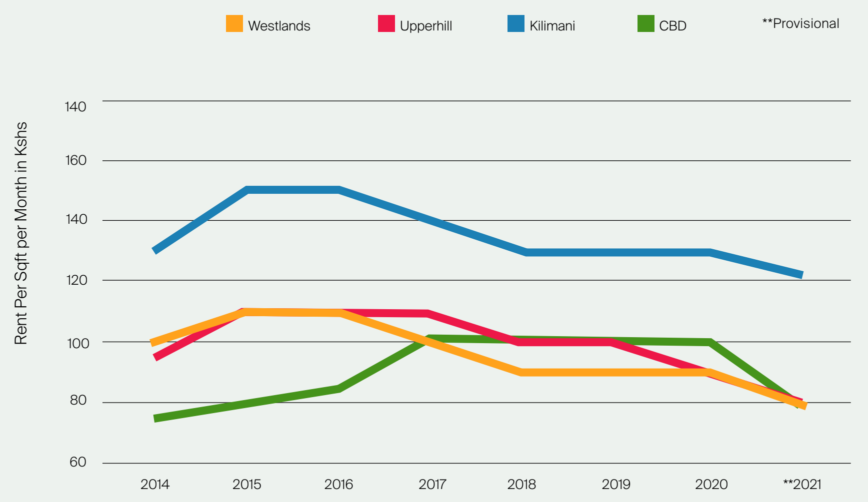
The turbulence being experienced by the retail sector has resulted in retailers having to restrategise to enable them to survive in the current climate of increasing competition, unfavourable business environment and Covid-19 pandemic.

Office

Prime commercial office rents in Nairobi decreased from US$1.3 per square foot (sq. ft) per month to US$1.12 per sq. ft per month in the second half of 2020. Absorption of Grade A and B office space decreased by 50% in the review period compared to a similar period in 2019, with overall absorption for the year 2020 declining by 47%. The decline in office uptake and rental values is mainly attributed to the continued oversupply of commercial space in some locations, the ongoing economic climate, and tightened restrictions implemented in the second quarter of 2020, which affected business operations and resulted in majority of occupiers halting their space requirements due to most of their staff working remotely.

Absorption of Grade A and B office space however increased by 13% in the second half of 2020 compared to the first half of 2020. This was mainly due to the lifting of lockdown measures and the gradual re-opening of businesses allowing international and local occupiers to proceed with key business decisions and finalise transactions. This trend is expected to continue in the first half of 2021 from both local and international tenants as the economy fully reopens, the Covid-19 vaccine is rolled out and the expected rebound of the Kenyan economy.

Average Prime Office Rental Rates per Sq.ft per Month



Source: Knight Frank Kenya

TABLE 2: Major Completed Commercial Developments

COMMERCIAL DEVELOPMENT	LOCATION	APPROX. SIZE (SQ. FT)
Millennium Business Park	Langata	23,000
Templeton House	Westlands	33,132
Majani House	CBD	54,551
Capital Square	Westlands	101,000
Delta Chambers	Westlands	132,979
Central Bank Pension building	CBD	180,000
Upperhill Chambers	Upperhill	270,000

Source: Knight Frank Kenya

TABLE 3: Major Commercial Developments in the pipeline

COMMERCIAL DEVELOPMENT	LOCATION	APPROX. SIZE (SQ. FT)	ESTIMATED COMPLETION DATE
Global Trade Centre	Westlands	678,000	2021
Riverside Square	Riverside	94,722	2021
China Road & Bridge Corporation	Langata	100,000	2021
Sandalwood	Riverside	250,000	2022
Curzon Properties	Westlands	146,715	2022
Pink Pearl Limited	Westlands	126,109	2022

Source: Knight Frank Kenya

72%

average occupancy rates across commercial buildings at the end of 2020

Average occupancy rates across commercial buildings at the end of the year were at circa 72%. Landlords over the review period were open to negotiations and offering concessions such as free fit-out periods and freezing of escalations to retain and attract new tenants due to the current economic climate and increased competition.

In the second half of 2020, strata sale prices ranged from Ksh 11,600-14,000 per sq. ft exclusive of VAT. Demand was noted to be higher in certain locations such as Westlands.

Major commercial office developments recently completed and in the pipeline are illustrated on Tables 2 and 3 respectively.

Sustainable development continues to be an emerging trend both globally and regionally as a result of tighter legislation and growing corporate responsibility expectations. Property developers have begun constructing green buildings, which incorporate resource-efficient design features and technology.

In November, the Promenade, a Grade-A commercial building located in Westlands, received its final EDGE certification from the Green Business Certification Inc. (GBCI). The commercial building has higher thermal performance glass, LED lighting, occupancy sensors and water-efficient plumbing features which will reduce the building's water and energy consumption.

We expect this trend to increase in the near future, with more landlords and property developers incorporating energy efficient features and technology in their designs to lower operating costs and reduce the environmental impact.

Recently completed Templeton House is located on Matundu Lane in Westlands. For more information please contact our Commercial Agency Team

Residential

Prime residential sale prices in Nairobi decreased by 3.9% in 2020, compared to 4% in 2019. This was mainly attributed to an increase in market activity over the second half of 2020 specifically from developers and sellers who became more flexible and were willing to negotiate lower prices with potential buyers. The slower but steady decline is indicative that sale prices for this niche market were stabilising, however due the continued oversupply of residential developments in certain locations this niche sector remains a buyers' market.

Prime residential rents experienced a sharp decline of 10.25% in 2020, compared to 2.8% in 2019. Rental prices for this niche market have been steadily declining since 2018 and this is mainly attributed to the continued oversupply of rental properties, less disposable income due to the unfavourable economic climate, budget cuts from multinationals and fewer expatriates in the country as a significant number relocated back to their home countries in the first half of 2020 due to the pandemic.

Over the review period, there was continued investor focus in the affordable housing sub-sector across various counties.

In August, property developer Unity Homes handed over their first set of units to home owners for its residential project in Tatu City named Unity West. Phase 1, which consists of 384 units is expected to be completed by 2022.

In the same month, Centum Real Estate announced plans to construct 268 affordable housing units in Kasarani. The Ksh 7 billion housing development named 265 Elmer One Apartments, is expected to meet green building standards.

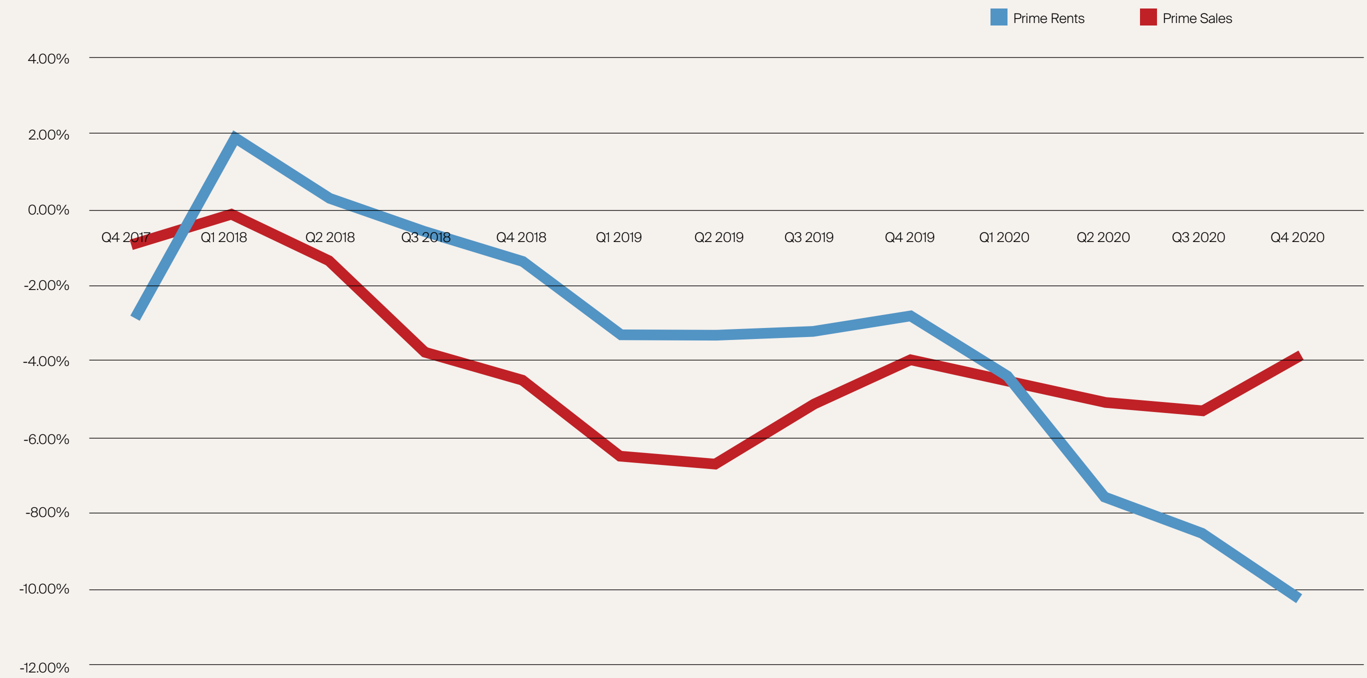
In November, the developers broke ground on Loft Residences, their Ksh 2 billion housing development in Two Rivers, which will consist of 4-bedroom duplexes due to be completed by 2022.

In the same month, Hydro Developers Limited partnered with the Kenyan government through a Public-private Partnership (PPP) to construct 30,489 affordable units in Kamiti, Kiambu County for Ksh 3 billion. Hydro City will sit on a 302-acre land parcel and consist of 10,166 studio units, 9,384 one-bedroom units, 6,256 two-bedroom units and 4,692 three-bedroom units.

In December, the Kitui County Government entered a PPP with local developers Tecnofin Kenya Limited to construct 20,000 affordable units. The Ksh 3 billion project will be constructed in 2 phases and expected to be completed in 2022.

In the same month, the Kisumu County government launched their Ksh 3.8 billion Anderson Ofafa housing project. The 1,200 affordable housing units will be constructed by Laptrust on a 7-acre land parcel. Construction is expected to commence in the first half of 2021 and will be completed by 2022.

Annual Prime Residential Rents and Prices



Source: Knight Frank Kenya

In December, the Krishna Group launched Phase II of their Green Zone Housing Project in Thindigua, Kiambu County. The Ksh 750 million affordable housing project will consist of 160 units that are expected to be completed by 2022.

In line with sustainability, in September the Kenyan government announced that the Affordable Housing Programme will adopt the International Finance Corporation's (IFC) green housing standards.

Hotel & Tourism

Similar to the first half of 2020, the tourism sector, which was historically one of the key pillars of the Kenyan economy, remained one of the hardest hit sectors due to the ongoing pandemic. The unfavourable business environment, current economic climate and major source markets going back into lockdown due to the resurgence of Covid-19 infections in their respective countries all negatively impacted this industry. According to the Ministry of Tourism, the sector lost Ksh 110.5 billion of tourism revenue, which decreased by 75% to Ksh 37 billion in the 10 months to October compared to Ksh 147.5 billion in a similar period in 2019.

Over the review period the Kenyan government begun easing the restrictions put in place back in March, through a phased reopening of the economy. In July, the inter-county lockdown was lifted and domestic air travel resumed. In August, international air travel resumed and passengers who were travelling on late night international flights were exempt from the nationwide curfew, although these measures did little to increase the number of international visitor arrivals in 2020. Tourist arrivals in the country declined to 470,971 in the 10 months to October compared to 1.72 million in a similar period in 2019.

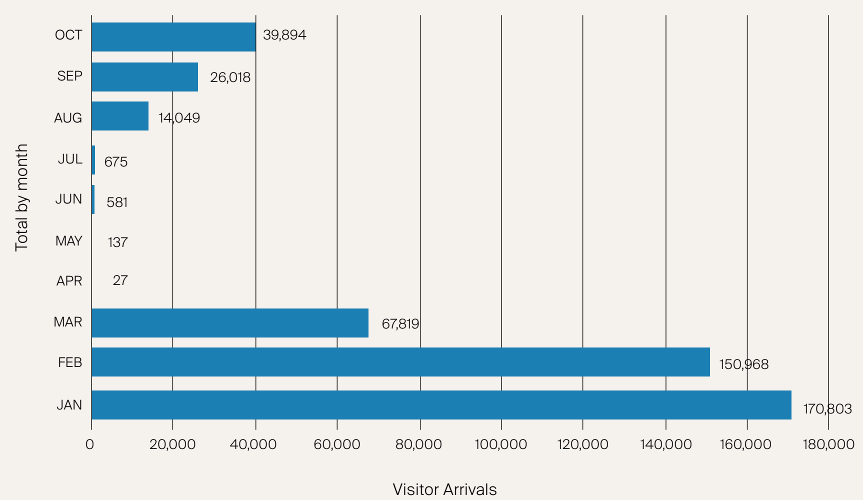
Majority of international visitors travelled either for business or to visit family members, compared to previous years where holiday tourism was the main purpose for majority of tourists. This is indicative that the market hasn't fully recovered from the effects of the global Covid-19 pandemic.

In July, Kenya was among the 80 destinations that were awarded the safe travel stamp launched by the World Travel and Tourism Council (WTTC). The safety and hygiene stamp is expected to inform travellers of countries and businesses that have adopted health and hygiene standard protocols globally. The Ministry of Tourism is optimistic that the safe travel stamp will rebuild trust and confidence and restart the struggling sector.

The second half of 2020 saw an increase in local domestic tourism, which was mainly attributed to the easing of lockdown measures locally, reopening of hotels, favourable holiday packages for domestic tourists, aggressive domestic tourism marketing, and Kenyans being hesitant to travel internationally. The Kenyan government over the review period provided various incentives to stakeholders in the tourism industry to boost local tourism. Park and game reserve fees were halved for locals and the Ministry of Tourism issued a one-year moratorium on rents for hotels operating inside parks and other sites. In July, the government also provided loans to tourism establishments affected by pandemic at lower interest rates of 5-7% with a repayment period of 10 years.

According to a hotel survey carried out by the CBK in November, 96% of the hotels they sampled across the country were operational in November compared to 35% in May.

International Visitor Arrivals 2020



Source: Ministry of Tourism

Average bed occupancy was also noted to have improved, albeit slowly. In November it increased to 23% compared to 10% in May. Bed occupancies outside Nairobi were higher compared to those in Nairobi due to the city having higher numbers of confirmed Covid-19 cases, resulting in tourists being discouraged to utilise hotel accommodation services. The overall slowdown in bed occupancies was due to cancellations of conferences and fear from local tourists of a resurgence in infections. In December however, due to holiday festivities, occupancies at the coast increased notably.

Local airlines introduced direct intercounty flights over the review period in a move to boost domestic tourism. Jambojet, a subsidiary of Kenya Airways commenced direct flights from Mombasa to Kisumu and Eldoret in August.

National airline Kenya Airways enhanced their freight business over the review period due to the low demand of passenger travel. They received permission to operate cargo directly from Johannesburg to Tanzania and various Southern African countries namely; Zambia, Mozambique, Malawi and Zimbabwe. The airline will no longer have to pass through its home base before flying to another country. In November, the airline introduced direct cargo flights from Mombasa to the UAE.

German airline Lufthansa will begin direct flights from Frankfurt to Mombasa in March 2021. The introduction of this direct flight is expected to be a boost to the tourism industry as Germany is one of Kenya's major source markets for tourists.

The current economic climate and the struggling tourism industry resulted in various hospitality chains closing over the review period. The Intercontinental Hotels Group (IHG) shut down The Intercontinental Hotel located in the CBD in August and the Radisson Hotel Group shut down Radisson Blu Upperhill in December, with the tentative reopening date scheduled for March 2021.

The adverse effects being experienced by this industry has also resulted in hospitality chains delaying their expansion plans, resulting in fewer hotel developments in the pipeline, such as the JW Marriot at GTC in Westlands and Protea Hotel by Marriot near JKIA.

Similar to previous years, transactions in the hospitality sector have remained low, with the City Lodge Hotel Group announcing its intention to exit its operations in both the Kenyan and Tanzanian market through outright sale. In Kenya, the Group has 3 properties all located in Nairobi, these include; the 84-room Town Lodge, the 127-room Fairview Hotel and the 171-room City Lodge Hotel.

Kenya won major categories during the 2020 World Travel Awards held virtually in November, indicating that the country still remains a preferred travel destination globally. Nairobi was named "Africa's leading business travel destination" and The Kenyan Tourism Board (KTB) was named "Africa's Leading Tourism Board". The Kenya International Convention Centre (KICC) was awarded "Africa's Leading Meeting and Conferences Destination" for the second year in a row and Kenya was named "World's Leading Safari Destination" for the seventh time. In the same month, Kenya was named "Africa's Best Golfing Destination" during the 7th Annual World Golf Awards held in Dubai.

Industrial Market

Modern warehousing complexes continue to receive increased demand from occupiers due to increased intra-regional trade and e-commerce activity over the last few years.

Phase 1 of Africa Logistics Properties (ALP) second Grade-A logistics and distribution park, ALP West located in Tilisi Logistics Park, opened in October. The modern warehousing complex, which has a footprint of circa 83,958. sq. ft, is 20% let and is targeting small and medium sized enterprises (SMEs) with smaller sized starter units of 5,000 sq. ft. The remaining six phases of the 1,076,390 sq. ft warehousing complex are expected to target larger occupiers.

In July, Cold Solutions Kenya Limited announced plans to construct a Ksh 7.5 billion cold storage facility in Tatu City. The 161,459 sq. ft facility, will sit on 6 acres and is expected to be completed by 2022. Investment in cold storage is still in its infancy in Kenya, although the niche subsector is poised for growth as a result of an e-commerce expansion into the grocery business.

In October, recently opened Nairobi Gate Industrial Park, which is located off the Eastern Bypass, entered two lease agreements with Kentainers Limited. The first lease consisted of a 32,292 sq. ft factory and warehouse which will be constructed on a two-acre land parcel and the second lease signed was for the construction of office buildings and a client collection centre also on two-acres.

Mlolongo, in Machakos County, continues to attract investors/developers for storage and logistics facilities due to its strategic proximity to Nairobi and JKIA, together with key infrastructure improvements such as the SGR and the Inland Container Depot (ICD).

Scania East Africa Limited commenced construction of its Ksh 1 billion facility in Mlolongo over the review period, which is expected to be completed in 2021.

Mauritius based Real Estate Income Group Grit is currently in the process of finalising a Ksh 4 billion sale-and-leaseback of a 314,769 sq. ft warehouse from consumer goods manufacturer Orbit Products Africa. The warehouse is located in Mlolongo, on a 20-acre land parcel adjacent to Grit's Imperial Health Sciences facility

The Income Group announced plans to expand its logistics presence by constructing an additional 109,167 sq. ft of warehousing space in Mlolongo. Construction is expected to commence in 2021 and be completed by 2022.

Other than infrastructure, data centres globally have been one of the most resilient asset classes. In Kenya, this investment class is still at its nascent stages with organisations still preferring to use applications that are hosted outside the country. The pandemic has however increased and shifted consumer behaviour to e-commerce and organisational behaviour to remote working tools and internet storing programs such as the cloud. Consequently, we expect to see more interest in this subsector with organisations looking to reduce their technology costs.

This investment is spear headed by the government through the construction of the National Data Center (Phase I -Containerized) at Konza Technopolis that is ready for use. The data centre which has attained Uptime Institute design certification will support Platform as a Service (PaaS) and Infrastructure as a Service (IaaS), providing high-end cloud data center services to clients looking for hosting. In addition, it will act as a shared services host for government ministries and support Konza Technopolis Smart Facilities and Smart Services. The project that officially commenced in June 2019, is being implemented by the Government of Kenya through the Ministry of ICT, with Konza Technopolis Development Authority as the Project Implementing Agency and Huawei as the Contractor.

Phase II (in a constructed facility), is expected to be completed in 2021 as a Tier III National Data Centre, with Smart City facilities and services to support Konza Technopolis, e-government as well as the Small and Medium Enterprises Services (SME'S).

Kenya Electricity Generating Company Limited (KenGen) the leading electric power generation company in Kenya, announced plans to build a new Tier IV Data Centre that can host mission critical systems and provide colocation, business continuity and managed services facilities to local and international organizations; as an additional and diversified revenue stream.

Institutional Market

Following the closure of all learning institutions in March, the Kenya government begun a phased reopening of educational institutions in October and announced all learning institutions will be open by January.

The private educational sector continues to experience an increase in the supply of international institutions investing into this niche market, due to the increased demand from locals and expatriates for high-quality education. British educational institution Durham School launched their first international academy in July. The nursery and pre-prep school will open in January and is located in Thigiri.

In the first half of 2020, purpose-built student accommodation (PBSA) providers were forced to close their student living developments due to the pandemic, although over the review period they reopened their premises due to increased demand. They are currently refurbishing their existing shared rooms, to enable social distancing

Acorn Holdings Limited (AHL) one of the key players in the sector currently have three housing developments in Nairobi under construction in Hurlingham and near the Unites States International University (USIU) all expected to be completed next year. Aberdare Heights, one of their student housing residences near USIU is expected to open in January 2021.

The property developers announced in September, they're planning to construct a 3,591 hostel in Karen that will sit on a 5-acre land parcel catering to Catholic University of Eastern Africa students and other tertiary institutions. The student housing residences are expected to be completed in 2022 and will consist of both Qwetu and Qejani hostels, their lower level student housing residences.

In November, they also announced plans to construct both Qwetu and Qejani hostels in Chiromo. Funding for the project will be via their green bond which was listed earlier this year on the NSE and LSE. Phase 1 of the project is expected to completed by 2022.

AHL's third student residence, Qwetu Parklands received its final EDGE certification from Sintali-SGS in September and their Wilson view student residence currently has a preliminary EDGE certification from Thinkstep-SGS. Their upcoming Qwetu and Qejani hostels in Chiromo are also both expected to be EDGE-certified.

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