Research

Kenya Market Update

H2 2021

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KENYA MARKET UPDATE

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The Key Insights

- Reopening of economy results in record growth
- Kenya Shilling records historic low
- Increase in building approvals
- Land transactions rebound
- Environmental sustainability gains traction
- Major infrastructure projects on track
- Prime retail rents decline marginally whilst footfall increases across retail centres
- Absorption of office space increases
- Prime residential rental rates decline at a slower pace
- Affordable Housing roll out gains momentum
- Hospitality sector continues gradual recovery
- Investment in alternative asset classes on the increase

COVER IMAGE: Riverside Square, Riverside Nairobi

COVID-19

The global economy continues to strengthen, largely supported by the ongoing deployment of vaccines, improved business investment and consumer spending, and accommodative government policy measures.

The pace of recovery however remains inconsistent across countries, due to an uneven distribution of vaccines, the varied supply chain constraints, and disparate policy support measures. Additionally, inflation in both advanced economies and emerging markets has risen sharply, driven by rising global oil prices, and growing concerns about the policy response. In response to the COVID-19 pandemic, the Kenyan government launched the national covid-19 vaccine deployment plan, 2021.The overall goal of vaccine deployment is to reduce community transmission of COVID-19, severe illness and the number of hospitalisations and deaths. The Government hopes to have 26 million people vaccinated by the end of 2022.

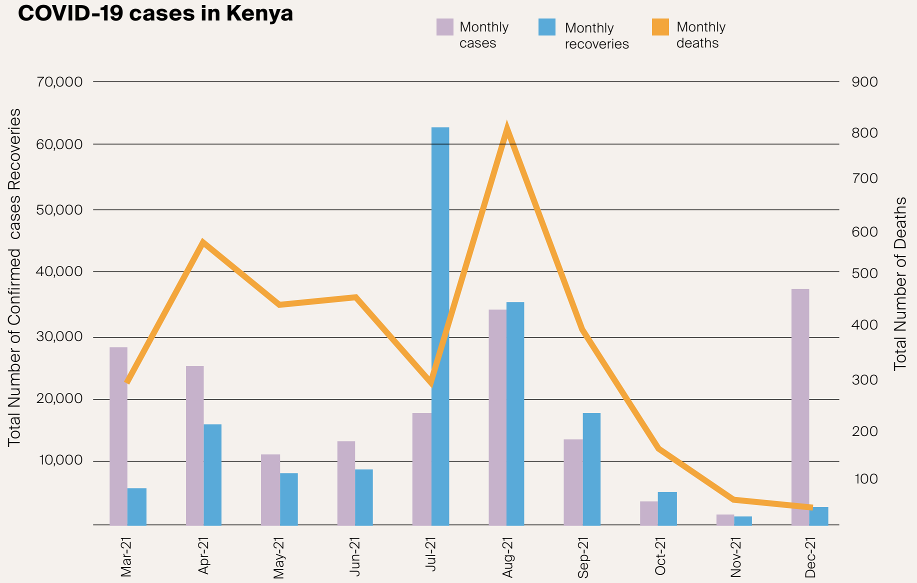
Government restrictions eased with the lifting of the 10pm - 4am curfew on October 20. This was as result of the reduction in COVID-19 cases in the month of October after the sharp rise recorded in August and the reduction in the COVID-19 positivity rate to below 2 percent amid the enhanced vaccination exercise in the country.

In December however, infections rate hit the highest level since the country recorded the first case of Covid-19 case in March 2020, prompting fears of fresh restrictions to curb the pandemic. This increase coincided with the discovery of the Omicron variant.

According to the Ministry of Health (MOH) as at 30th December 2021, Kenya had confirmed 295,028 cases, 252,281 recoveries and 5,378 fatalities since the onset of the pandemic.

In addition, a total of 10,002,184 vaccines had been administered across the country. Of these, 5,820,951 were partially vaccinated while those fully vaccinated were 4,155,832. The uptake of the second dose among those who received their first dose was at 41.5%. The surge in global coronavirus infections has seen many nations tighten restrictions to curb the spread of the Omicron variant.

COVID-19 cases in Kenya



Source: MOH

The Economy

Kenya's gross domestic product (GDP) is estimated to have increased to 5% in 2021, compared to a contraction of 0.3% in 2020. Real GDP growth of 4.9 % per year on average is projected over 2022–23, which would be a return to the pre-pandemic rate (5.0 percent average annual growth, 2010-19). This outlook considers that some sub-sectors have bounced back strongly (e.g., education), but others only partially and face a much more protracted recovery (e.g., international tourism). The anticipated further recovery of hotels and restaurants, trade, transport, and other services, depends on substantial vaccination progress to help minimise new waves of infections and reduce the need for associated containment measures.

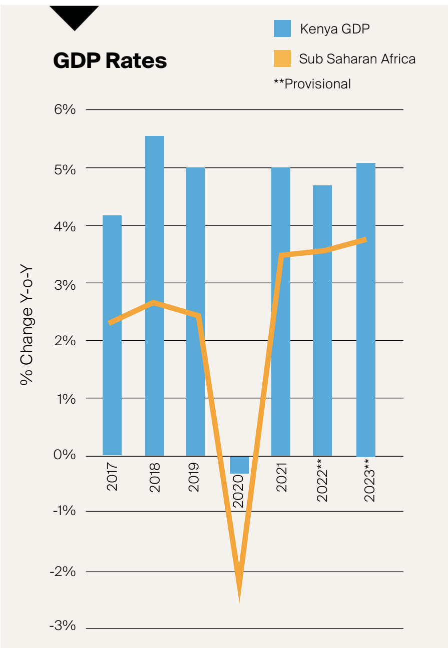
The growth projections are supported by preliminary statistics that show the economy expanded by 10.1% & 9.9% in the second quarter and third quarter of 2021 respectively. This was mainly attributable to significant rebounds in most economic activities that had contracted in the third quarter of 2020. Some of the sectors that supported overall growth included Manufacturing (9.5%), Education (64.7%), Transportation and Storage (13.0%), Accommodation and Food Serving Activities (24.8%) and, Financial and Insurance Activities (6.7%).

Economic growth is expected to remain strong in 2022 , with the normalisation of domestic economic activities, as well as easing of global supply chain constraints, and stronger global demand. this is in spite of the historical trend of a decline in GDP brought about by the uncertainty of the general elections.

The country's macroeconomic environment remained stable during the review period. Month-on-month inflation ranged between 5.73% to a high of 6.91% in September. This was mainly driven by a rise in prices of basic commodities, transport; and housing, water, electricity, gas, and other fuels.

Commercial banks' interest rates remained at circa 12% during the second half of 2021. Consequently, the Monetary Policy Committee (MPC) maintained the Central Bank Rate (CBR) at 7% boosted by the full reopening of the economy.

Over the period, the Kenya Shilling depreciated significantly by 4.9% against the US dollar but was relatively stable against other major currencies. This downward trend was attributed to the continued gains by the US dollar against other global currencies, elevated global oil prices and reduced dollar inflow from key export earning sectors such as agriculture and tourism. This decline favors landlords that have dollar denominated rentals, whilst making life harder for tenants with dollar-based leases.



Source: KNBS & The World Bank

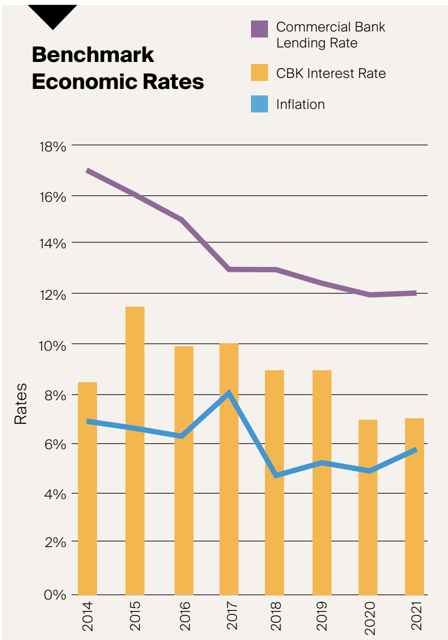
The production of cement increased to 2.67 million metric tonnes (MT) in quarter three of 2021, a 28% jump from 2.1 million MT over the same period in 2020. Similarly, cement consumption increased to 2.62 million MT in the third quarter, a 29% jump from 2.0 million MT over the same period in 2020. The increase in cement production and consumption is mainly attributed to the major ongoing infrastructural and affordable housing projects ongoing regionally.

The value of building plans approved in Nairobi County also increased to Kshs 16.8 billion in Q3 a 49% increase from Kshs 11.3 billion in a comparable period in 2020. This significant increase was a result of greater efficiencies in the county government operations coupled by the improving economic conditions.

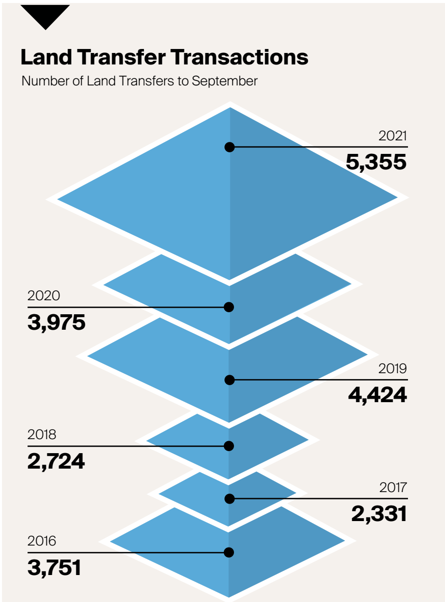
The number of land transactions in the form of title transfers and leases at the Ministry of Lands to September 2021 was the highest in the past 5 years totalling 5,355, which represents a 35% increase from a similar period in 2020. This is a result of the greater efficiencies at the lands registry allowing investors to finalise on transactions carried forward from previous periods. Market correction also contributed to increased transactions with some vendors accepting offers of more than 20% off their asking prices.

Capital Markets

Globally, Environmental, Social and Governance (ESG) revolution has been gaining momentum and investors focused on sustainable development have been adjusting their asset portfolios to reflect such changes. ESG criteria are accounted for in investment decisions taken by capital entities and included in risk management by most global investment funds.



Source: Central Bank of Kenya (CBK)



Source:: Ministry of Lands

The recently concluded November Climate Change Conference (COP 26) in Glasgow, has helped to cement the growing importance of sustainable led real estate developments.

Realising these ambitions does put real estate firmly in the frame, given that The World Economic Forum estimates that both commercial and residential real estate is responsible for around 40% of all global carbon emissions. In the period under review, property developer Acorn Holdings Limited (AHL) Acorn Student Accommodation Development Real Estate Investment Trust (ASA D-REIT) and Acorn Student Accommodation Income REIT (ASA I-REIT) achieved GRESB certification and were both ranked 1st positions in Africa.

GRESB is a global framework that assesses and benchmarks the ESG (Environmental, Social and Governance) performance of real estate assets and infrastructure globally. It is the leading ESG framework for real estate assets and aims to help investors and various stakeholders assess the ESG performance of participants in the real estate sector.

The real estate listed market experienced lesser activity in the second half of 2021 than the first half of 2021.

As part of its efforts to facilitate affordable housing, which is a pillar of the Big Four National Government Agenda, the Capital Markets Authority (CMA) has approved the issuance of a secured Kshs 3.9 billion Medium Term Note Programme for Urban Housing Renewal Development Limited.

The Note has an 18-month tenor and will be offered at an interest rate of 11 percent. The proceeds will support an affordable housing project in Pangani in Nairobi, comprising 1,562 housing units is a partnership with the Nairobi County Government.

Historically, projects have been financed by straight equity and debt contributions. However, investors are continuously looking for innovative ways of raising capital including capital markets for funding.

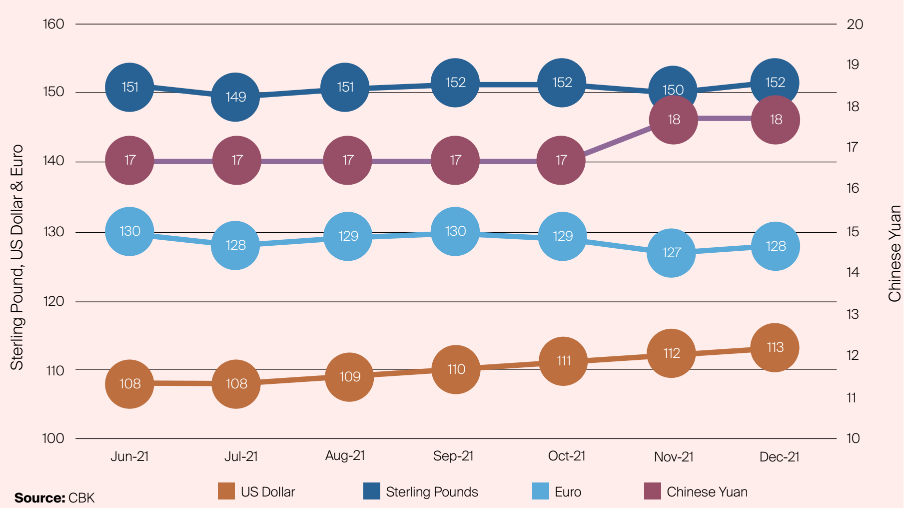
The issuance of the corporate bond comes on the heels of the recent oversubscription by 245% reported for the EABL medium term note listed at the Nairobi Securities Exchange (NSE). The CMA approved an issuance to raise Kshs11 billion, but applications were received for nearly Ksh38 billion.

ILAM Fahari I-REIT closed at Kshs 6.26 per share in December 2021, which was 11% higher than December 2020. Home Afrika's share price closed at Kshs 0.4 in December, which was 5% lower than its value in December 2020.

Agriculture is key to Kenya's economy, contributing 26% of the GDP and a further 27% indirectly through linkages with other sectors. The sector employs more than 40 per cent of the total population and more than 70 per cent of Kenya's rural people. Agriculture in Kenya is large and complex, with a multitude of public, parastatal, non-governmental and private sector players. Consequently, the sector continues to be of interest to both local and international investors. Over the review period, Adenia Partners, a private equity firm investing in Africa, has acquired a majority stake in Altilands SA, the parent company of Redlands Roses, a leading grower of premium fresh-cut roses in Kenya.

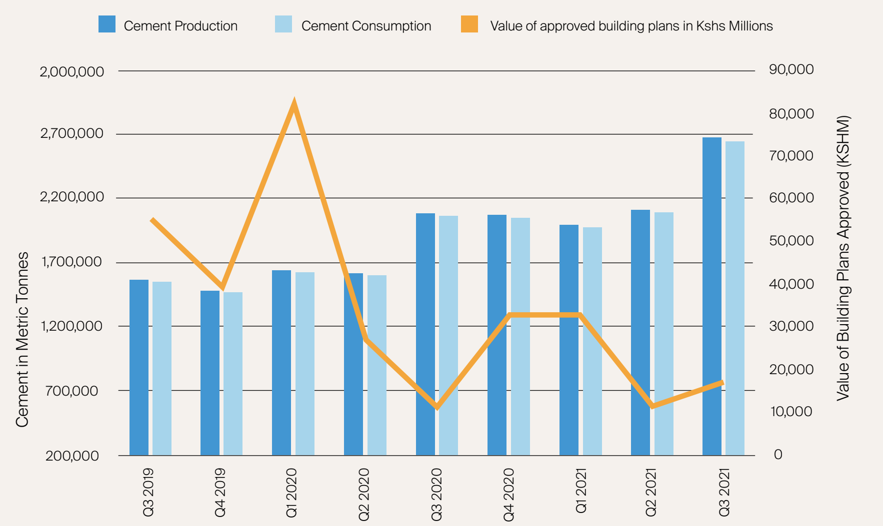
Another major transaction over the period was Unilever's announcement that it had entered into an agreement to sell its global tea business, ekaterra, to CVC Capital Partners Fund VIII for €4.5 billion on a cash-free, debt-free basis.

Foreign Currency Exchange Rates



Source: CBK

Value of Building Plans vs Cement Production and Consumption



Source: KNBS

Ekaterra is the world's leading Tea business, with a portfolio of 34 brands. The business generated revenues of around €2 billion in 2020.

Unilever Tea Kenya Ltd (UTKL), a subsidiary of Unilever, an Anglo-Dutch conglomerate, has a total landholding standing at about16,223 acres, 20 tea estates and eight factories manufacturing an average of 32 million kgs of tea per year.

Infrastructure

Over the review period, several key infrastructure projects were launched while the majority underway are fast nearing completion.

The expansion of the Eastern Bypass into a dual carriageway at Sh12.5 billion begun in the second half of 2021. According to the Kenya Urban Roads Authority (KURA), the 28-kilometre road, which stretches through busy centres such as City Cabanas, Pipeline, Utawala, and Ruiru will be done by the China Communication Construction Company Limited. The expansion is expected to ease traffic and improve access from the southern part of the Capital to the Northern part of the city. Major beneficiaries include upcoming logistics parks such as Tatu City, Nairobi Gate and Infinity Industrial park.

The Sh17 billion, 16.8km, Nairobi western bypass construction being undertaken by China Road and Bridge Corporation and funded by the Exim Bank of China, was circa 85% complete as at the end of the second half of 2021. It is the last stretch of the ring road system around Nairobi.

The Kshs 65 billion Nairobi expressway was 86% complete as at the end of the second half, and once operational the route will have a toll system that requires motorists to pay charges from March 2022 when the project is expected to be completed.

Construction of the 84km, Kenol-Sagana-Marua dual carriageway continues. The Kshs 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.

In Mombasa City, construction continued of phase three of the Dongo Kundu Road that is set to be completed by quarter two of 2022. The road is set to facilitate the establishment of the Dongo Kundu Economic Zone (SEZ) . The SEZ is designed to be multi-sectoral comprising Industrial Parks, Free Trade Zones/Free Port, Dongo Kundu Port, Tourism Zone (MICE), Business service parks; and commercial and residential zones.

The seven-kilometre road between Mteza and Kibundani, linking the highway with the Likoni-Lunga Lunga Road, was circa 75 per cent complete as at the end of 2021 and shall connect with Dongo Kundu Phase 2 in Mwache to Miritini.

The road shall also be an essential alternative route to connect the South Coast from Mombasa mainland without using the unreliable and congested Likoni ferry service.

Once complete, it will connect directly to Miritini Standard Gauge Railway Station and Moi International Airport, Mombasa, thus opening Mombasa and the South Coast.

Construction also continued of the 457m Makupa bridge in Mombasa. The bridge is being constructed at a cost of Kshs 4.5 billion and shall replace the historic Makupa causeway that links Mombasa Island to the mainland.

On completion, currently estimated at June 2022, it shall comprise two, four-lane parallel bridges and is being undertaken by China Communications Construction Company (CCCC).

Other projects expected to be completed in 2022 include the Kisumu Mamboleo Road, the Eldoret Bypass; Isebania – Kisii Road; Kibwezi-Mutumo-Kitui-Migwani Road; Garsen-Witu-Road; Laisamis Ngurunit Road; Makutano-Kachelieba-Konyao Road in West –Pokot; Ngong Suswa Road; the Mombasa Roads Network; the James Gichuru- Rironi Road Expansion, and the Mau Mau Roads.

Major infrastructure projects in the pipeline include plans to build a dual carriage way from Rironi, where the current expansion of Waiyaki Way terminates, to Mau Summit past Nakuru City. Once this is completed, it will take just 45 minutes to drive from Nairobi to Naivasha.

Retail

The review period has witnessed an increased demand for prime retail shops in strategically located developments. This has been evidenced by the slight increase in prime rents from US$ 4.00 per square foot (sq.ft) per month in to US$ 4.10 per sq.ft per month and an increase in retailer activity in acquiring new units. Other than supermarkets, other sub anchor tenants such as restaurants and entertainment players continue to face challenges because of the necessity to adhere to COVID-19 protocols and guidelines. In some cases, inability to meet financial liabilities will continue to lead to insolvency and overall business restructuring. The resulting shift towards shorter, more flexible lease structures and turnover rents will fundamentally change retail real estate.

Foot and vehicular traffic continues to return to retail centres as the economy reopens and the roll out of the various vaccines continues. As usual, the holiday season contributed to the increased mall traffic as consumers looked to take advantage of various retail offers and celebrate the festive season. Additionally, better performing supermarkets continue to take up space occupied by struggling retailers, further attracting customers to the various retail outlets. Notably, prices of food items in December 2021 were relatively high compared with recorded in 2020.

Strategically located and the more-established malls have shown more resilience throughout the lockdown periods, partly because many are anchored by recognised popular supermarkets.

In the recent past, supermarket chains have had mixed fortunes. South African retailer Massmart, that operates the Game Stores, has revealed its plan to sell its three stores in Kenya, marking the latest of a string of retreats from East Africa by Southern African retailers.

The Johannesburg Stock Exchange-listed retailer announced that it put up 14 Game stores in East and West Africa for sale. Massmart's planned exit follows previous similar exits of South African retailers Shoprite and their Southern Africa peer, Botswana-based Choppies.

On a more positive note, other supermarkets continue to thrive and whose current success they attribute to having solid corporate governance structures.

Naivas Supermarket, the largest local supermarket chain with 78 branches, opened five outlets in the period under review. The locations include Juja Mall (37,000 sq.ft), Nyayo Estate, Mega Mall Kisumu (24,000 sq.ft), Aga Khan Walk CBD (20,000 sq.ft) and Oasis Mall (28,000 sq.ft). The retailer aims to increase its footprint in the Kenyan retail market amid competition from local and international retailers. Chandarana Food Plus, another local supermarket chain, opened 3 additional branches over the review period. The locations include Golden Life Mall in Nakuru City, Buffalo Mall in Naivasha and the newly opened Highlands Mall in Eldoret Town thus increasing its number of branches to 23. Other major supermarkets that expanded include Carrefour and Quickmart that opened 5 and 6 outlets respectively in 2021.

Other than supermarkets, restaurants have been on expansion and capital raising plans in the race to tap Kenya's emerging coffee drinking culture and the demand for fast foods snacks and meals. Over the review period ArtCaffé Group opened four more outlets in Nairobi, setting the stage for competition with rival brands such as Java and Kentucky Fried Chicken (KFC) that also expanded its local footprint by the establishment of its first branch at the Kenyan Coast.

The new branches were opened at Britam Tower in Upper Hill, Shell petrol stations on the Northern bypass, Eastern bypass Road and Rhapta Road. Restaurant Chain Java House announced plans to open 30 new Kukito branches in the next five years. The group currently operates two Kukito eateries in Nairobi.

TABLE 1: Retail Developments in the pipeline

RETAIL DEVELOPMENT	LOCATION	APPROX. SIZE (SQ.FT)	ESTIMATED COMPLETION DATE
Global Trade Cetre Mall	Westlands	124,000	2022
Ojijo Properties	Westlands	147,465	2022
Westlands Square	Westlands	52,000	2022
Rhapta convenience centre	Westlands	25,833	2022
The Imaara Mall	Mombasa Road	146,066	2022
Crystal Rivers Mall	Mavoko, Machakos County	215,278	2022
Business Bay Square	Eastleigh	333,681	2022

Source: Knight Frank Kenya

Supply of enclosed malls remains subdued, with the most notable completion during the period being Phase II of City Mall in Mombasa, that increased the lettable area by circa 77,000 sq.ft.

Major retail developments in the pipeline are listed on Table 1.

Office

Over the review period prime commercial office rents increased from US$1.10 to US$1.20 per sq.ft per month. The increase in rental levels is mainly attributed to the reopening of the economy coupled by the completion of several A Grade office blocks in the capital. A significant amount of office space was released into the Nairobi office market in the 2nd half of 2021. This included the iconic mixed use Global Trade Centre, that comprises of 625,000 sq.ft of offices, a retail component, four residential towers and a hotel. Other completed developments include Hazina Trade Center (234,000 sq.ft) in the CBD, Principle Place (120,000 sq.ft) in Westlands, The Convex (250,000 sq.ft) and Riverside Square (94,000 sq.ft) both in Nairobi's Riverside area.

Consequently, the sector continues to face various challenges such as oversupply of space in major commercial nodes that is expected to continue into 2022. In addition, the change in working patterns and adverse economic conditions have resulted in several organisations downsizing.

Consequently, the sector continues to be a tenant's market.

TABLE 2: Major Commercial Developments in the pipeline

COMMERCIAL DEVELOPMENT	LOCATION	APPROX. SIZE (SQ.FT)	ESTIMATED COMPLETION DATE
The Piano	Westlands	136,167	2022
One Principal Place	Westlands	126,109	2022
Orbit II	Westlands	100,000	2022
PTA Complex	Kilimani	90,000	2022
The Cube	Riverside	77,876	2022
Karen Green	Langata	69,000	2022

Source: Knight Frank Kenya

Absorption of Grade A and B office space increased by circa 60% in the second half of 2021 from the first half of 2020. This dramatic increase was mainly attributed to the reopening of the economy and the roll-out of vaccinations, which has enabled employees to physically return to their offices. The increased absorption was also as result of pent-up demand from 2020, which was mainly in the A grade stock where there was a flight to quality. This lead to the best space being taken up with vacancy levels rising in older stock. Coworking and the financial services sectors also contributed considerably to this absorption, which improved occupancies to 78% up from 73% in the 1st half of 2021. We expect that the occupancy rates will fall because of the large amount of space released in the market towards the end of 2022.

According to the Knight Frank (Y)our Space Report , more than 40% of the global businesses we surveyed, already have a net zero carbon target in place. Reflecting the importance of the situation, over 75% have target dates of before 2030 – or to put it in real estate terms, one market cycle.

Locally, just under 5% of office developments in Nairobi have any form of green accreditation. However developers are responding to the global trend and importance that occupiers now treat this issue is increasing especially with new developments as over 20% of the office supply in 2022 have achieved an EDGE Advanced Preliminary Certificate from Green Business Certification, a clear indication that more investors are incorporating ESG into their operational objectives.

Residential

Prime residential sale prices in Nairobi marginally improved by 1.2% over the past 6 months to December , compared to a 1.1% decline in the same period in 2020.

This is mainly attributed to the reopening of the economy as investment activity resumed with a reduction in the uncertainty that had been brought about by the pandemic

Prime residential rents remained unchanged over the past 6 months to December, compared to a 4.17% decline in a comparable period in 2020. This stability in rentals is mainly attributed to the reopening of the economy, and landlords adjusting rental terms to accept lower rental prices. The continued oversupply of residential developments in certain locations coupled with the current economic state still makes this niche sector a buyers' and tenants' market. This stability is reflected by increased occupancies across several high-end gated properties.

We expect prime residential sale prices and rental rates to remain stable in the first half of 2022 due to the projected favourable economic environment and subject to containment measures put in place to deal with the pandemic.

Over the review period, notable progress was made regionally by both the government and private investors in the affordable housing sub-sector. As at December 2021 the government had delivered 2,235 units under the affordable housing programme and had several ongoing projects across the country.

Other projects from the public sector include the commencement of the first phase of the Kenya Defence forces (KDF) housing project that will see 3,000 houses constructed at Roysambu in Nairobi County.

The houses to be developed on a build, lease and transfer (BLT) arrangement will be constructed on KDF land in Roysambu (Nairobi), Kwambuzi in Nanyuki (Laikipia), Nyali (Mombasa) and Gilgil (Nakuru).

The private sector is also contributing towards the delivery of affordable housing. The Mavoko Affordable Housing Programme is a partnership between Kenya and the UN Habitat aimed at providing affordable homes to low and middle-income earners. The project, which sits on a 55-acre parcel of land in Mavoko, will be completed in four years.

The Mavoko housing project is expected to deliver 960 one-bedroom units, 2,400 two-bedroom units, 1,440 three-bedroom units, and 560 studio units.

ESG continues to be a key factor for both investors and end users for the built environment. According to Knight Frank's 2021 Global buyer survey, an

TABLE 3: Affordable Housing Pipeline

PROJECT NAME	LOCATION	NUMBER OF UNITS
Mukuru Housing	Nairobi	13000
Clay City	Nairobi	5280
Buxton Point	Mombasa	2150
Bachelors Jeevanjee	Nairobi	1800
Pangani Housing	Nairobi	1562
Bondeni Housing	Nakuru	605

Source: Knight Frank Kenya

overwhelming 71% of African respondents indicated that energy efficiency was very important to them compared to 42% globally. In addition, more respondents across Africa (29%) indicated that they would prefer a greener home and be willing to pay more for it compared to 27% globally. This indicates that the coronavirus pandemic has driven a shift in attitudes amongst African home buyers.

The Global Buyer Survey represents the views of over 900 Knight Frank clients across 49 global markets and the 9 African countries: Kenya, Uganda, Tanzania, Nigeria, South Africa, Botswana, Malawi, Zambia, and Zimbabwe.

Indeed, developers are increasingly including ESG aspects in their investments. Over the review period , it was announced that Africa's largest 3D-printed affordable housing project will be developed by 14Trees, a joint venture between Holcim and CDC Group, the UK's development finance institution. The 52 house Mvule Gardens project will be in Kilifi town, north of Mombasa, in Kenya.

The new 52 house community will be part of the Green Heart of Kenya regenerative ecosystem, a Kenyan model for inclusive and climate-resilient cities. The project is testament to 14Trees' high regard for sustainability and won the IFC-EDGE advanced sustainable design certification, recognising resource-efficient and zero-carbon buildings.

Hotel & Tourism

Accommodation and Food Service activities recorded a slight rebound from a consistent contraction reported in the last three quarters of 2020. The sector grew by 24.8 per cent in the third quarter of 2021 compared to 63.4 per cent contraction in the third quarter of 2020. This sector was among the hardest hit of the economy by the COVID-19 pandemic in 2020 owing to the measures put in place to combat the pandemic such as cessation of movement and closure of eateries. Sector activity did however pick up in the fourth quarrter of 2021 after relaxation of most of the resitrition measures in the fourth quarter of 2021. The improved performance was demonstrated by a significant increase in the number of visitor arrivals from 40,743 in the third quarter of 2020 to 265,602 visitors in the third quarter of 2021.

A survey undertaken by the Central Bank of Kenya (CBK) indicated that on average, bed occupancy improved from 25 percent in quarter four 2020 to circa 55 percent in the same period in 2021. There was a slight decline in bed occupancy in November from the levels reported in October particularly in Mombasa and Nairobi Hotels. This was on account of the increased demand for hotels during the school holidays in the first week of October. This was further boosted by the lifting of curfew and restrictions on public gathering. Similarly, the level of operations in terms of conferences and restaurant activity increased proportionately.

Mombasa hotels reported the highest occupancy levels in December, which was mainly attributed to the Christmas/New Year holidays.

The majority of hotels in the country reported that they largely depend on walk in clients or bookings on short notice.

The occupancies are still dominated by the local population that account for over 75% of the clientele.

In Kenya, and indeed globally, domestic leisure demand was the principal driver of hotel performance following the sector's reopening in October, with coastal and countryside markets performing well relative to Nairobi, which typically has a higher reliance on international and business demand.

The availability of vaccines for COVID 19 and the easing of travel restrictions will be a big factor in the trajectory of recovering hotel demand. If the vaccine roll out is successful by end of 2022 as planned, and accounting for the socio-economic consequences of the virus, we expect hotel revenues to broadly recover to pre pandemic levels in 2024. The speed of recovery is expected to be dependent on a hotel's location, business mix, condition, management, and market position. For example, hotels with limited exposure to conference, events and group demand will recover more quickly.

In the short term, pressure will be even more acute in markets which have a substantial active development pipeline such as Nairobi. Here, those assets which are under invested will be most exposed.

For the first half of 2022,the tourism sector is expected to undergo a stronger recovery due to the roll out of vaccines globally, the containment of the virus, reopening of the economies and government financial assistance.

Industrial Market

According to the Africa Logistics and Industrial Review H2 2021, Prime rental rates remained at USD 0.6 per sq.ft per month, similar to 2020.

Investor focus continues to be for strategically located assets in locations that have favourable development policies such as SEZ status.

Africa Logistics Properties (ALP) continued construction of phases two, three and four of its 1,076,390 sq.ft. modern warehousing complex located in Tilisi Logistics Park in Limuru. The Kshs 1 billion project is expected to be completed in the second half of 2022; phase one of the project which comprises of 83,958 sq.ft is currently over 50% let.

Nairobi Gate Industrial Park located off the Eastern bypass completed construction on their smaller sized warehousing units ranging between 4,306 sq.ft and 16,146.sq.ft . The project is expected to benefit greatly from the Eastern bypass expansion.

Appetite for industrial stock across Africa remains strong, with investors attracted to the sector's strong income profile and positive market fundamentals such as rising urbanisation levels, which are driving demand for urban logistics facilities.

Alternatives Market

With the pandemic exposing the risks of traditional asset classes, investors have begun shifting their focus to alternative investments that have proven to be more resilient. These include specialty operational real estate that generate higher yields than other asset types. They include sectors such as data centres, healthcare, student housing, cold storage, senior housing, and infrastructure.

The growing need for data that has been boosted by the pandemic, has resulted in an increased interest in data centres. In addition, there has been a change in regulation that has created new demand for data centre services. Specifically, companies in Kenya are required to maintain electronic records and to have versions within the country. (Some neighbouring countries are following suit as well).

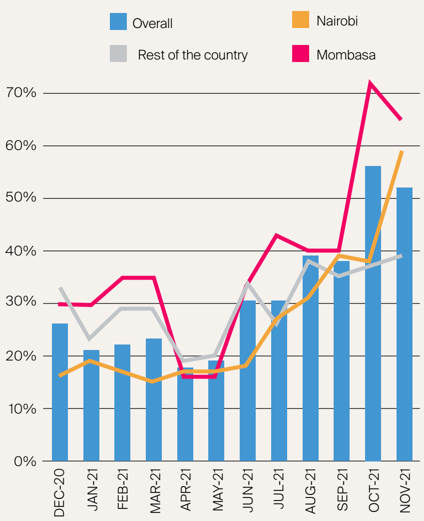
2018 and 2019 saw the construction of two iColo facilities and one PAIX in response to this increasing demand. There are several facilities in Nairobi, with a combined supply of 8MW of live power and a further five under construction. There are also 9 developments in planning.

IX Africa is under construction with the largest facility built in three phases. Once completed, it will have 12MW of power, with 4.5MW in the first phase.

Over the review period, Africa Data Centres (ADC) announced that it plans to build a total of ten interconnected, cloud- and carrier-neutral data centres across the length and breadth of Africa in an unprecedented $500m investment in the continent's digital transformation.

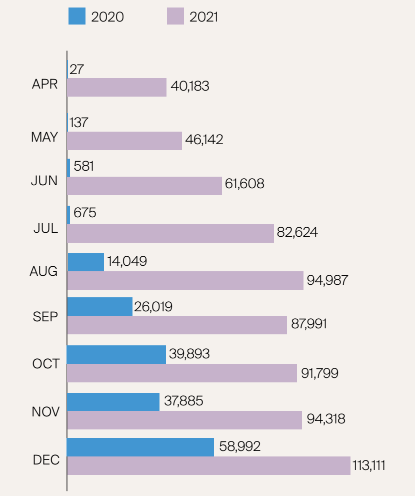
ADC is the continent's leading carrier-neutral co-location data centre provider and has begun the development of a second data centre of up to 20MW of IT load whilst securing land for a third facility in Nairobi. This $200+M investment will double the country's data centre capacity and enhance the development of Kenya as a key digital hub, allowing Kenyan data to stay in Kenya by providing the reliable digital infrastructure it needs.

Hotel Occupancy Time



Source: CBK

International Visitor Arrivals



Source: Tourism Research Institute

Confidence in purpose-built student accommodation continued as Acorn Project (Two) LLP, the Issuer of the Acorn Medium-Term Green Note (MTN) Programme, closed the final tranche on Friday 16th July 2021. The Issuer raised KES 2.096 billion against the target of KES 1.438 billion representing a subscription rate of 146%.

Acorn Holdings Limited, the largest provider of PBSA in sub–Saharan Africa, completed several of their developments including Qwetu Hurlingham located in close vicinity to Daystar University and Qwetu Aberdare located adjacent to the United States International University (USIU). The completion of the Aberdare Heights developed was marked by the signing of a first of its kind nomination agreement between USIU and Qwetu. Under the agreement USIU Africa will refer their students to reside at Qwetu while Qwetu will provide support for several of the Universities programs and initiatives.

AHL currently have several student housing developments under construction including the 601, bed USIU 4,the 3,591-room student hostel in Karen and the 1,278-unit Chiromo Qejani/ Qwetu units that are adjacent to the University of Nairobi.

The projects are part of the Acorn Student Accommodation D-REIT and are expected to exit to the Acorn Student Accommodation I-REIT at very competitive internal rates of return of plus 26%.

They had also submitted plans to the National Environmental authority for the construction of 16-storey 504-unit development in Hurlingham, Nairobi.

According to the Health Care Index, which gives a single measure of the state of each country's health system based on data provided by the World Health Organization, Kenya today ranks third behind South Africa and Tunisia among the most improved healthcare systems in Africa in the year 2020.

In terms of access to healthcare, in 2013, the number of health facilities across the country stood at 4,430. These facilities have since increased by 43 percent by building 1,912 new hospitals in the last 8 years. This is an average of 239 new facilities per year.

In the healthcare sector, HHI a private healthcare holding company that manages an integrated healthcare services business across the East African region, opened 140 bed facility along Kiambu Road in Nairobi. AAR Hospital is one of a handful of secondary care large scale private hospitals set up in Nairobi since independence.

In line with the sustainability agenda, the Hospital has received a Preliminary EDGE Certification from Green Business Certification Inc. (GBCI). HHI's investments currently include the AAR Healthcare Group and Nakasero Hospital.

The Aga Khan University (AKU) received its Charter from President Uhuru Kenyatta and inaugurated its new $50 million state-of-the-art University Centre.

Located opposite the Aga Khan University Hospital in Parklands, Nairobi, the University Centre will be AKU's main campus in Kenya, housing its Graduate School of Media and Communications, Medical College, School of Nursing and Midwifery, Institute for Human Development, Brain and Mind Institute and other programmes. It features 23 floors above and below ground, encompasses 37,500 square metres (400,000 sq.ft).

These investments complemented by government investments are aimed to tap into the increased demand for affordable quality healthcare.

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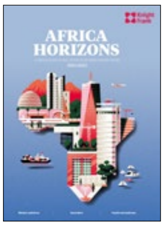

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