Kenya Market Update

1st Half 2026

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

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OVERVIEW

The first half of 2026 was characterised by resilience amid uncertainty. Although geopolitical tensions, elevated operating costs, and constrained consumer spending continued to influence market performance, the fundamentals of Kenya's real estate sector remained intact, supported by improving macroeconomic stability, strategic infrastructure investment, and sustained investor appetite. Market activity increasingly reflected a preference for quality, convenience, sustainability, and institutional-grade assets, trends that are expected to continue shaping the sector in the foreseeable future.

HIGHLIGHTS

- Kenya's GDP growth projected to slow to 4.4% in 2026
- TRIFIC successfully launches Kenya's latest USD-denominated REIT
- Strategic infrastructure projects set to unlock new investment corridors
- Average occupancy rate for prime offices rises to 84.88% as supply remains constrained
- Prime residential prices continue to rise amid constrained supply
- MICE sector drives growth in the hospitality industry
- Convenience retail continues to reshape the retail market
- Construction sector rebounds by 6.8% in 2025
- Alternative real estate assets continue to gain momentum

COVER IMAGE: **Jomo Kenyatta International Airport** Upgrade - Renders

MACRO ECONOMY

GLOBAL ECONOMIC OUTLOOK

According to the June 2026 Global Economic Prospects, a World Bank Group Flagship Report, the global economy is confronting another significant external shock as escalating conflict in the Middle East has driven energy prices higher, reignited inflationary pressures, and strengthened expectations of tighter monetary policy. Against this backdrop, global economic growth is projected to decelerate from 2.9% in 2025 to 2.5% in 2026, marking the weakest performance since the COVID-19 period. The outlook remains predominantly tilted toward downside risks. Should energy supply disruptions intensify and coincide with heightened financial market stress, global growth could slow further to approximately 1.3% in 2026. Additional risks include persistent uncertainty surrounding trade policies, escalating geopolitical tensions, and climate-related weather shocks. Conversely, broader investment in and adoption of artificial intelligence technologies could provide an important source of economic resilience and support global activity.

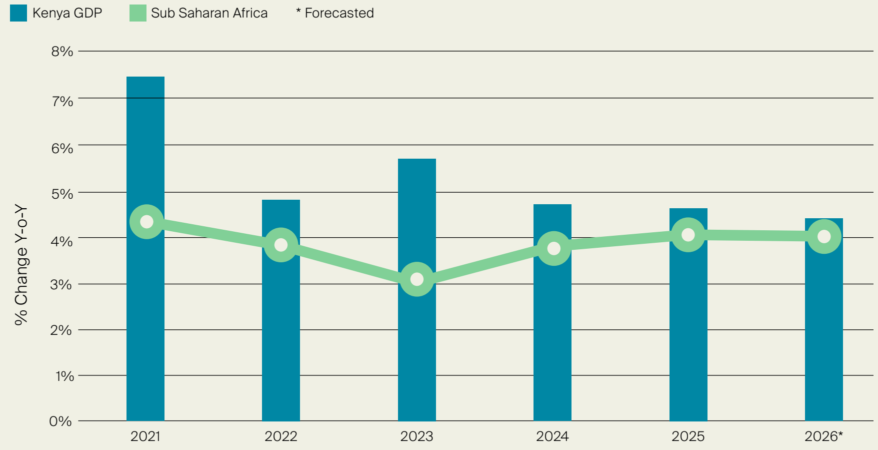
SUB-SAHARAN AFRICA ECONOMIC OUTLOOK

Additionally, the June 2026 Global Economic Prospects indicates that economic performance in Sub-Saharan Africa (SSA) improved in 2025, with regional growth strengthening to an estimated 4.1%. Despite higher energy prices and increased global uncertainty arising from the conflict in the Middle East, SSA demonstrated resilience during the first half of 2026. Nevertheless, food insecurity continues to affect large parts of SSA, while economic growth is expected to moderate slightly to 4.0% in 2026.

KENYA'S ECONOMIC PERFORMANCE

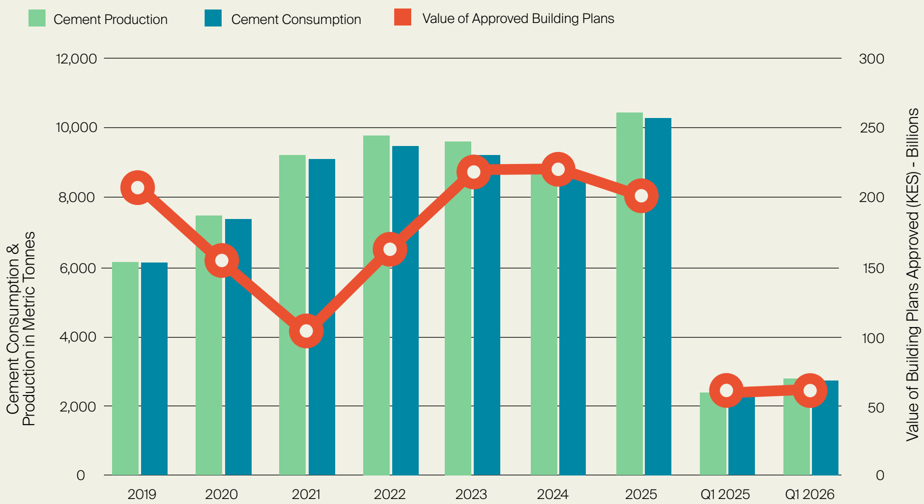
According to the 2026 Economic Survey, the flagship publication of the Kenya National Bureau of Statistics (KNBS), Kenya's economy remained resilient in 2025, with real Gross Domestic Product (GDP) expanding by 4.6%, only marginally below the 4.7% growth recorded in 2024. Growth was broad-based, with all major sectors registering positive performance. The Agriculture, Forestry and Fishing sector - the country's largest economic sector - grew by 3.1% and accounted for 23.2% of total GDP. In nominal terms, the economy increased from KES 16.23 trillion in 2024 to KES 17.58 trillion in 2025, representing an annual expansion of 8.29%. Looking ahead, the June 2026 Global Economic Prospects projects Kenya's

GDP Growth Rates



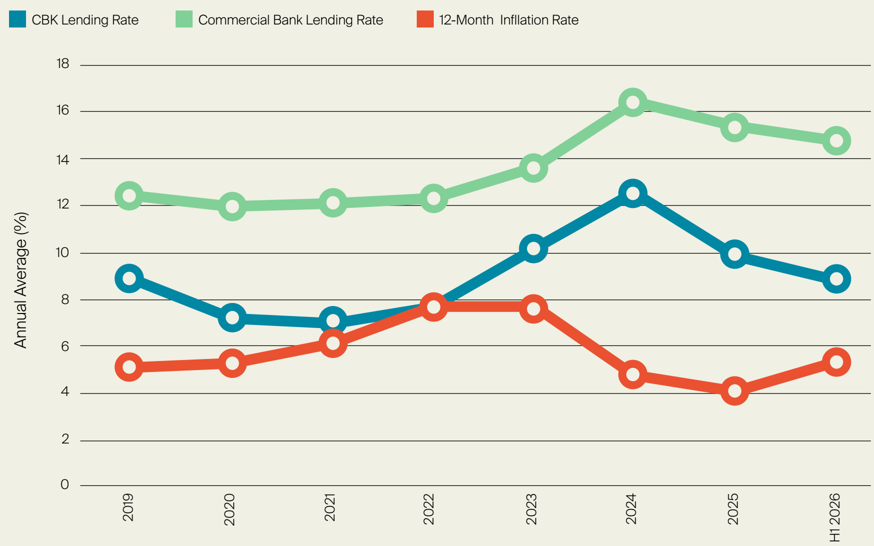
Source: KNBS (2026)

Construction Sector Statistics



Source: KNBS (2026)

Economic Rates



Source: CBK (2026); KNBS (2026)

economy to grow by 4.4% in 2026, reflecting continued resilience despite the challenging global economic environment.

In 2026, real GDP expanded by 5.3% in the first quarter of 2026, compared to 4.9% during the corresponding period in 2025.

Kenya has consistently outperformed the Sub-Saharan African average, but its growth premium has narrowed from 3.1 percentage points in 2021 to a projected 0.4 percentage points in 2026. This reflects Kenya's economic growth moderating from 7.5% to 4.4% over the period, while regional growth has strengthened from 3.8% in 2024 to 4.1% in 2025. The narrowing differential is largely attributable to Kenya's slower pace of economic expansion amid tighter fiscal and monetary conditions, coupled with improving growth performance across much of the Sub-Saharan African region.

CONSTRUCTION SECTOR PERFORMANCE

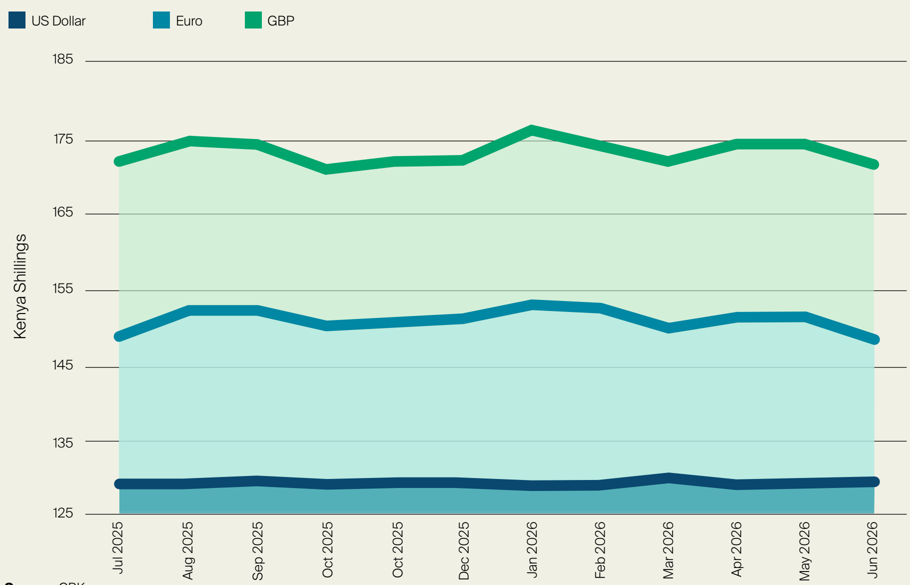
Kenya's construction sector rebounded strongly in 2025, recording a growth rate of 6.8% after contracting by 0.7% in 2024. The recovery coincided with a 12.18% increase in commercial bank lending to the sector from KES 576.3 billion in 2024 to KES 646.5 billion in 2025, while cement production rose by 16.85%, from 8.9 million metric tonnes in 2024 to 10.4 million metric tonnes in 2025, and cement consumption increased by 20.3% to 10.3 million metric tonnes in 2025, both of which point to heightened construction activity. Although the value of building plans approved by the Nairobi City County Government declined by 9.2% to KES 201.3 billion in 2025, the value of completed building works increased by 15.1% to KES 172.4 billion in 2025, suggesting that developers prioritised completing projects already underway even as new approvals slightly moderated.

In the first quarter of 2026, cement production increased to approximately 2.81 million metric tonnes from the corresponding period in 2025, while cement consumption rose to 2.76 million metric tonnes, reflecting sustained construction activity across both public and private developments. Additionally, the total value of building plans approved by Nairobi City County in the first quarter of 2026 increased by 3.1% to KES 62.4 billion from KES 60.6 billion recorded in the corresponding period of 2025. Conversely, approved residential developments declined from KES 45.7 billion to KES 41.0 billion, suggesting that developers increasingly diversified into commercial, mixed-use and alternative real estate sectors amid changing residential market dynamics.

INTEREST RATES AND INFLATION

The Central Bank Rate (CBR), which serves as the benchmark for lending rates, together with the commercial bank lending rate, has continued to ease despite prevailing global economic headwinds, gradually declining from the peaks recorded in 2024. Between July 2025 and June 2026, the CBR decreased by 10.26%, while the average commercial bank lending rate fell by 3.61%, reflecting a more accommodative monetary environment. Inflation had remained below 5% since July 2024 but began to edge upwards in April 2026, largely due to higher global energy prices following the US-Iran conflict, given Kenya's reliance on oil imports from the Gulf region. Consequently, inflation rose to 6.7% in June 2026, representing a 63.41% increase from July 2025, although it is expected to remain within the Central Bank of Kenya's target range of 2.5%–7.5% over the medium term.

Exchange Rates



Source: CBK

EXCHANGE RATE PERFORMANCE

The Kenya Shilling has remained stable against major international currencies, including the US Dollar, the Euro, and the British Pound Sterling. Since July 2024, the exchange rate has averaged approximately USD 1 = KES 130, reflecting sustained currency stability following the significant depreciation experienced in 2023 and early 2024, when the shilling reached a historic low of approximately USD 1 = KES 160 in January 2024. Continued exchange rate stability is expected over the medium term, supported by, among others, strong foreign exchange inflows from diaspora remittances and prudent monetary policy.

DIASPORA REMITTANCES

Diaspora remittances have grown consistently since 2019, making a significant contribution to Kenya's economic growth while providing a stable source of foreign exchange that has helped support exchange rate stability. Nevertheless, the increasingly challenging global economic environment has begun to weigh on inflows, with monthly remittances declining consecutively in April and May 2026. Consequently, cumulative remittances for the first five months of 2026 decreased by 1.39% to USD 2.066 billion compared to the corresponding period in 2025.

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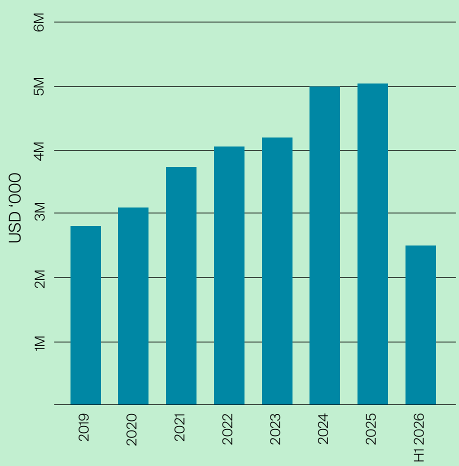
Diaspora Remittances



Source: CBK

CAPITAL MARKETS

REIT MARKET DEVELOPMENT

The launch of the USD-denominated TRIFIC I-REIT by the Two Rivers International Finance and Innovation Centre (TRIFIC), targeting USD 29.8 million to finance certified green real estate developments, marks another milestone in the evolution of Kenya's REIT market. Its inaugural investment, the TRIFIC North Tower within the TRIFIC Special Economic Zone (SEZ), reinforces the growing integration of Environmental, Social and Governance principles into the real estate sector, building on the precedent set by Acorn Holdings Limited's KES 5.7 billion Green Bond, which was issued in 2019 and successfully redeemed in 2024. The new REIT joins the established Acorn I-REIT and Acorn D-REIT, while the USD-denominated ALP I-REIT, launched in late 2025 to focus on industrial developments, has further expanded Kenya's REIT landscape. Collectively, these investment vehicles underscore the increasing role of REITs in mobilising long-term capital and advancing sustainable real estate development in Kenya.

LISTED REIT PERFORMANCE

The listed Real Estate Investment Trust (REIT) market recorded mixed performance during the six months to June 2026. ASA D-REIT remained the strongest performer, with its unit price appreciating by 8.0%, from KES 27.4 in December 2025 to KES 29.6 in June 2026, reflecting continued investor confidence in logistics and industrial real estate. ASA I-REIT also recorded growth, with its unit price increasing by 2.6% from KES 23.2 to KES 23.8 over the review period. ILAM Fahari I-REIT, Kenya's pioneer listed income REIT, registered the strongest recovery among the listed funds, gaining 25.5% to close at KES 13.8 from KES 11.0, suggesting renewed investor appetite following an extended period of subdued performance. Conversely, Laptrust Imara I-REIT remained unchanged at KES 20.0 per unit during the review period despite issuing a profit warning attributable to lower earnings and prevailing market conditions.

The broader REIT sector continued to expand. According to the Real Estate Association of Kenya (RAK), Kenya had five operational REITs as of March 2026 with a combined market capitalisation exceeding KES 30.3 billion, reflecting the gradual institutionalisation of property investment within the country.

REGULATORY & INDUSTRY DEVELOPMENTS

Government policy continued to strengthen the investment landscape. The Finance Act, 2026 introduced significant tax reforms aimed at encouraging greater participation within the REIT market by exempting qualifying transfers of property into REIT structures from Capital Gains Tax (CGT) and Stamp Duty. These measures substantially reduce transaction costs associated with transferring completed developments into REITs and are expected to encourage developers, pension funds and institutional investors to securitise mature income-generating assets. Over time, the reforms are likely to improve liquidity within the property market, enhance capital recycling and provide developers with an additional avenue for raising long-term capital.

The first edition of the Real Estate Association of Kenya (RAK) Best Practice Guidelines, published in April 2026, marked another important milestone in promoting professionalism, governance, transparency and standardisation across Kenya's real estate industry. The guidelines are expected to strengthen investor confidence by encouraging higher standards in property management, agency practice, valuation and disclosure, thereby supporting greater institutional participation within the sector.

FOREIGN DIRECT INVESTMENT

External capital inflows continued to strengthen Kenya's investment outlook. According to UNCTAD's World Investment Report 2026, foreign direct investment (FDI) inflows increased by 38% to USD 3.2 billion in 2025, positioning Kenya as the seventh largest FDI destination in Africa. Greenfield investment announcements also increased by 73% to approximately USD 3.2 billion, highlighting sustained international investor confidence despite softer investment flows across the continent. Increased foreign investment is expected to continue supporting demand for commercial offices, industrial developments, logistics facilities and hospitality assets.

MORTGAGE MARKET FINANCING

Mortgage market financing also advanced during the first half of 2026. The Kenya Mortgage Refinance Company (KMRC) successfully launched a KES 3.0 billion Sustainability-Linked Note, priced at 12.2% per annum, with principal repayments scheduled between 2027 and 2034.

KES 30.3bn+

Kenya's operational REIT market continues to expand, reflecting the gradual institutionalisation of property investment

The issuance represents another milestone in developing Kenya's domestic capital markets while providing long-term liquidity to mortgage lenders. By expanding access to affordable mortgage financing, KMRC continues to support home ownership and stimulate residential development, particularly within the affordable housing segment.

PENSION FUND INVESTMENT

Between 2024 and 2025, the total pension fund value increased by KES 598.5 billion (26.8%), from KES 2.23 trillion to KES 2.83 trillion, reflecting strong growth in overall investment assets. While investment in immovable property rose modestly by KES 8.2 billion (3.4%), from KES 239.0 billion to KES 247.3 billion, this increase was significantly lower than that recorded in asset classes such as Kenya Government Securities (+KES 305.8 billion), Guaranteed Funds (+KES 97.3 billion), Quoted Equity (+KES 87.4 billion), and Offshore Investments (+KES 52.1 billion). The relatively subdued growth in immovable property suggests that fund managers continued to favour more liquid, lower-risk asset classes amid prevailing market conditions, while real estate allocations remained relatively stable due to the sector's longer investment horizon and lower liquidity. A trend similarly highlighted in Knight Frank's The Wealth and Investment Trends Report 2026.

OFFICE

OCCUPANCY & MARKET PERFORMANCE

In H1 2026, prime office occupancy increased by 3.30 percentage points, from 81.58% in December 2025 to 84.88% in June 2026. The improvement was primarily driven by continued absorption of existing prime office stock amid the absence of a significant number of new prime office completions, a trend that has persisted since 2025. Consequently, despite the prevailing macroeconomic headwinds, demand was sufficient to offset vacancies, resulting in improved occupancy across the prime office market. While new supply has remained constrained, the development pipeline remains robust from 2027 onwards, with many developers likely timing project completions to coincide with perceived improved market sentiment following the 2027 General Election.

The sustained slowdown in new prime office completions has created a shortage of large, high-quality office spaces suitable for multinational corporations (MNCs) and other large occupiers. Many occupiers have consequently extended leases in their existing premises while committing to upcoming developments, whereas others have absorbed available space in established prime assets such as the Global Trade Centre (GTC). GTC entered the market in early 2022 when the prime office segment was characterised by substantial competing supply, which moderated the pace of initial occupancy. As market conditions evolved, with a notable decline in new prime supply over the past two years, coupled with GTC's continued refinement of its leasing strategy, the development has become increasingly competitive, resulting in improved occupancy levels.

FLEXIBLE WORKSPACE

Flexible workspaces continued to expand during the review period. IWG, the global flexible workspace provider, opened four new centres at One Africa (Westlands), Nairobi Business Park (along Ngong Road), 1 Park Avenue (Parklands), and I&M Tower (Nairobi CBD), while Node NBO established a new hub in Gigiri targeting AI, technology, and digital infrastructure businesses. A notable emerging trend is the growing use of profit-sharing arrangements between flexible workspace operators and owners of Grade B office buildings experiencing prolonged vacancies. These partnerships enable landlords to improve occupancy and activate underutilised buildings, while allowing operators to expand with lower upfront risk, illustrating the increasing pressure facing older, less strategically located office stock.

PRIME OFFICE RENTS

Prime office rents remained stable at approximately USD 1.20 per sq. ft. per month, with annual escalations ranging between 3%–5% for USD-denominated leases and 5%–7% for KES-denominated leases. Although the supply of prime office space remains constrained, challenging economic conditions have limited upward pressure on rents, and the current pricing environment is expected to persist.

CGI: Crescent Heights, Westlands

PHOTO: 277 Brookside, Westlands

(Enhanced Image)

OCCUPIER ACTIVITY

Occupier activity remained healthy across multinational corporations, financial institutions, professional services firms, technology companies and diplomatic organisations. Nairobi continued to strengthen its role as East Africa's principal commercial, financial and diplomatic hub, attracting regional headquarters and corporate expansions. During the review period, several organisations announced new office investments, including Schneider Electric, which established new offices in Nairobi, and Glovo, which unveiled a new headquarters as part of a broader KES 10 billion investment programme in Kenya. This reinforced Nairobi's position as a preferred destination for regional operations.

SUSTAINABILITY & GREEN OFFICES

Sustainability continued to reshape the office market during the review period. Occupiers increasingly prioritised buildings offering internationally recognised green certifications such as EDGE and LEED, reflecting broader corporate ESG commitments and a growing focus on operational efficiency. Energy-efficient buildings capable of reducing utility costs while supporting employee wellbeing continued to command stronger occupier interest and improved retention rates. Developers similarly maintained a strong emphasis on sustainable design, incorporating energy-efficient systems, water conservation technologies and wellness-oriented workplace environments into both new developments and refurbishment programmes.

GOVERNMENT & INSTITUTIONAL DEMAND

Government and institutional investment also continued to support office demand. The National Treasury announced plans to acquire Jubilee House within Nairobi's CBD for approximately KES 2.5 billion, while several major public office developments progressed during the review period. These included the proposed Judiciary Headquarters in Upper Hill under a Public-Private Partnership framework, Cabinet approval for the development of a new Supreme Court Complex, the proposed Justice Centre for the Office of the Attorney General, and the commencement of Waajiri House in Upper Hill and Wakili Towers in Lavington. In addition, Government allocated approximately two acres in Upper Hill for the establishment of a new institutional headquarters, reinforcing Upper Hill's continued importance as Nairobi's premier government and commercial office district. Plans for a new United Nations Assembly Hall and continued progress in the diplomatic hub of the capital Gigiri, further underscore sustained institutional confidence in Nairobi as a regional business destination.

Nevertheless, policy developments presented mixed implications for occupier demand. The announcement by the United States administration of its intention to withdraw from several international organisations introduced uncertainty regarding the future footprint of certain donor agencies and development organisations operating in Kenya. Although the immediate impact on office demand remained limited, the announcement has prompted closer monitoring of future space requirements among multilateral institutions, many of which occupy substantial office accommodation within Nairobi.

TENANT MARKET DYNAMICS

Despite improving occupancy levels, Kenya's commercial office market continues to favour occupiers. Elevated vacancy across secondary office stock, coupled with limited rental growth, has enabled tenants to negotiate favourable lease terms, fit-out contributions and rent-free periods. Consequently, occupiers continue to leverage competitive market conditions to relocate into newer, higher-quality buildings without significantly increasing occupancy costs.

NEW SUPPLY & DEVELOPMENT PIPELINE

The only notable prime office completion during H1 2026 was Fadaq Park (277 Brookside), a 70,000 sq. ft. Grade A office development in Westlands. Nevertheless, the development pipeline remains substantial, as presented in the Table below.

84.88%

Prime office occupancy in H1 2026, up 3.30 percentage points from December 2025.

Pipeline of Select Prime Office Developments in Nairobi

COMMERCIAL DEVELOPMENT / OFFICE	LOCATION	APPROX. SIZE (SQ. FT)	ESTIMATED COMPLETION DATE
The Angelou	Lavington	42,000	2026
Mwanzi Square	Westlands	250,000	2027
Nexus	Riverside	70,000	2027
Tanzanian High Commission	Upper Hill	150,000	2028
The Pod	Lavington	128,000	2028
ICEA II	Westlands	350,000	2028
Vantage Point (Two Rivers)	Runda	423,810	2028
Standard Investment Bank (SIB) HQ	Westlands	250,000	2028

Source: Knight Frank Kenya

RETAIL

CONVENIENCE RETAIL & CHANGING FORMATS

Convenience continues to define Kenya's retail market, with developers and retailers increasingly prioritising neighbourhood and community-based retail formats in response to revealed consumer preferences. This shift is also driven by intensifying competition to capture expenditure that continues to flow through the large informal retail sector, particularly within mid-and lower-middle-income residential areas. Consequently, the market has witnessed continued growth in smaller convenience malls within residential neighbourhoods and at petrol stations, with several supermarket chains partnering with fuel station operators to expand their footprint closer to consumers.

CONSUMER SPENDING & RETAIL PERFORMANCE

Despite this structural shift, the retail sector faced headwinds during H1 2026. Recurrent demonstrations disrupted trading by forcing the temporary closure of many shopping centres because of security concerns and the risk of looting, while also discouraging shoppers from visiting malls. At the same time, the challenging economic environment and rising prices of essential goods constrained household spending, contributing to lower footfall and lower vehicle traffic across many retail centres.

RETAIL REPOSITIONING

Market repositioning also continued during the review period. Simara Mall, located along Tom Mboya Street in Nairobi CBD, reopened following the redevelopment of the former Tuskys-anchored property. Its conversion into a stall-based retail centre reflects the increasing viability of smaller, flexible retail formats in high-density urban locations following the exit of large struggling anchor tenants.

RETAILER EXPANSION

Prime, Grade A regional malls continued to attract both international and regional retailers, reinforcing Nairobi's position as East Africa's leading retail destination. Notable openings included Nike at Sarit Centre, Aboosto, Lovisa, Town Team, and Big Knife at Junction Mall, and Hippopick Mart at Cedar Mall. These expansions demonstrate continued investor confidence in Kenya's premium retail market and the resilience of demand within middle- and upper-income consumer segments.

Local supermarket operators also maintained an expansion strategy centred on convenience retail. QuickMart opened its 67th and 68th branches at Basic Elgon View in Eldoret and along Ngong Road. Naivas launched its 114th store at Ruaka Mall, and Jaza Supermarket continued expanding its neighbourhood retail model by opening at least six new outlets targeting middle- and lower-income residential areas. Uchumi also continued its turnaround strategy by reopening outlets at Lang'ata Hyper and Unicity Mall.

Footfall across established shopping centres remained healthy, supported by promotional campaigns, seasonal events and experiential offerings. Although discretionary spending remained constrained by inflationary pressures during parts of the review period, grocery-anchored centres continued benefiting from consistent daily visitation driven by essential shopping. Retailers increasingly responded to consumer sensitivity by expanding value-oriented product ranges, promotional pricing and loyalty programmes to maintain market share.

EXPERIENTIAL RETAIL

Shopping centres increasingly prioritised experiential retail to drive footfall and extend customer dwell times. During the review period, Promenade Mall introduced Smash & Play, further illustrating the growing importance of entertainment-led retail as landlords seek to differentiate shopping centres beyond traditional retail offerings. Experiential components including family entertainment centres, fitness facilities, children's play areas and dining experiences continued to attract visitors and support tenant performance, particularly during weekends and holiday periods.

EMERGING RETAIL OCCUPIERS

Healthcare retail continued to emerge as one of the fastest-growing occupier categories. Pharmacy operators and outpatient healthcare providers accelerated branch expansion to improve accessibility within residential neighbourhoods and retail centres. Goodlife Pharmacy surpassed 150 outlets nationally during the review period, while Equity Afya and Gertrude's Children's Hospital continued expanding their outpatient clinic networks. Online pharmacy platform MYDAWA also announced further investment to accelerate its omnichannel healthcare strategy, highlighting increasing convergence between physical retail space and digital healthcare delivery.

The automotive retail segment likewise remained active, with dealership networks continuing to expand showroom and service centre footprints in response to growing vehicle ownership and after-sales demand. These occupiers continue to provide stable tenancy demand within mixed-use commercial developments and roadside retail schemes.

E-COMMERCE & OMNICHANNEL RETAIL

Consumer behaviour continued to evolve alongside rapid growth in Kenya's digital economy. E-commerce penetration increased further during the review period, driven by improving internet access, widespread mobile money adoption and increasing consumer preference for online shopping. Rather than replacing physical retail, retailers increasingly adopted omnichannel business models integrating online ordering, click-and-collect services and home delivery alongside traditional store networks. This trend has increased demand for strategically located neighbourhood outlets capable of supporting last-mile fulfilment while maintaining convenient customer access.

NEW SUPPLY & DEVELOPMENT PIPELINE

The most notable retail development during H1 2026 was the completion of the 100,000 sq. ft. expansion of Galleria Mall in Karen. The retail development pipeline remains dominated by neighbourhood and mid-sized shopping centres of approximately 30,000–100,000 sq. ft., reinforcing the market's shift towards community-based retail. These developments are increasingly anchored by supermarkets occupying relatively smaller floor plates and are designed to serve day-to-day consumer needs, reflecting continued demand for convenience-oriented retail formats.

Pipeline of Select Prime Retail Developments in Nairobi

DEVELOPMENT	LOCATION	SIZE (SQ.FT)*	COMPLETION DATE*
Lavington Square	Gitanga Road-Nairobi	70,000	2026
Elgon Mall	Elgon Road-Upper Hill	60,000	2026
Hurlingham Mall	Kilimani	100,000	2026
Hookwood Square	Brookside, Westlands	60,000	2027
Maisha Mall	Tilisi	32,300	2027
Talanta Mall	Dagoretti	323,000	2029

Source: Knight Frank Kenya

* Estimated

RESIDENTIAL

PRIME RESIDENTIAL MARKET PERFORMANCE

In H1 2026, prime residential monthly rents increased by 0.73% compared to December 2025, while prime sale prices rose by 6.2% over the same period. The increase reflects a continued shortage of quality prime housing stock - particularly bungalows, villas, townhouses, and maisonettes - amid sustained demand from owner-occupiers and renters. The resulting supply-demand imbalance has continued to exert upward pressure on both rental and capital values.

BUYER & TENANT PREFERENCES

Buyer and tenant preferences continue to evolve in favour of gated communities over standalone homes. Beyond the security benefits, gated developments increasingly appeal because of their stronger sense of community, enhanced social interaction, well-maintained environments, and lifestyle amenities. This trend is evident among both young families seeking community-oriented neighbourhoods and retirees looking for secure, low-maintenance living environments, making gated communities an increasingly attractive development model for residential developers.

The quality of outdoor living environments has also emerged as a key differentiator within the prime residential market. Buyers are increasingly willing to pay a premium for developments incorporating substantial natural green spaces, with demand consistently outperforming comparable projects that lack meaningful landscaped areas. This preference has extended beyond standalone housing into high-rise residential developments, where developers are increasingly allocating larger proportions of sites to landscaped open spaces as a means of product differentiation and value creation.

EMERGING RESIDENTIAL LOCATIONS

Among Nairobi's emerging residential nodes, Tilisi/Limuru continues to gain momentum following the strong market reception of earlier developments within the master-planned Tilisi SEZ. Its strategic location, proximity to Nairobi, planned infrastructure, and tranquil natural environment continue to attract both developers and homebuyers seeking alternatives to the increasingly congested traditional suburban market. Notable upcoming developments include The Stables, a gated community, and a residential project by 17 Group, further reinforcing Tilisi's position as one of Nairobi's fastest-growing residential locations.

PRIME APARTMENT MARKET

Prime apartment development in Nairobi suburbs also remained robust during the review period. Although the current development pipeline suggests that supply has outpaced demand, market evidence indicates that demand remains supported by retirees seeking downsized homes, empty nesters transitioning from larger suburban residences, expatriates requiring conveniently located accommodation, and investors acquiring units for rental income or as pied-à-terre residences. These buyer segments are expected to continue underpinning demand for well-located, high-quality apartment developments.

DEVELOPMENT ACTIVITY & PIPELINE

During the review period, several notable residential developments were introduced, including Keza Laika by Mivida Homes, the launch of 156 Elara within Tatu City and the breaking ground of Jabali Towers, further reinforcing Tatu City's position as one of Kenya's leading integrated urban developments. These projects reflect sustained developer confidence in master-planned communities that combine residential, commercial, educational and recreational amenities while offering high-quality infrastructure and lifestyle-oriented environments.

Despite continued project launches, planning activity indicates that developers have become increasingly cautious. The value of approved residential building plans in Nairobi declined by approximately 10% to KES 41.0 billion during the first quarter of 2026 from approximately KES 45.7 billion recorded over the corresponding period in 2025. The decline suggests that many developers are prioritising the completion and absorption of existing developments rather than commencing new residential projects. This more disciplined approach reflects prevailing market conditions, where maintaining healthy occupancy and sales rates has become increasingly important amid heightened competition and evolving buyer preferences.

SUSTAINABLE RESIDENTIAL DEVELOPMENT

Sustainability remained a defining characteristic of residential developments. Muzi Salama, located within the Tilisi master-planned development, close to completion during the review period, delivering over 200 IFC EDGE-certified green homes.

PHOTO: Asili Home, Nanyuki

HOSPITALITY

TOURISM PERFORMANCE

International tourism to Kenya remained resilient despite ongoing global geopolitical and economic uncertainties. Total tourist arrivals increased by 6.22% from 2.40 million in 2024 to 2.55 million in 2025, while international arrivals through Jomo Kenyatta International Airport (JKIA) and Moi International Airport (MIA) rose by 6.13% to 1.96 million visitors. Holiday travel continued to dominate, accounting for 47.8% of total arrivals - an increase of 3.67 percentage points from 2024 - whereas business travel declined to 25.21% from 26.80% in 2024, reinforcing Kenya's position as a predominantly leisure tourism destination despite ongoing efforts to strengthen the Meetings, Incentives, Conferences and Exhibitions (MICE) segment. In Q1 2026, international arrivals through JKIA and MIA increased by 13.1% to 506,622 passengers, compared with growth of only 0.8% during the corresponding period in 2025.

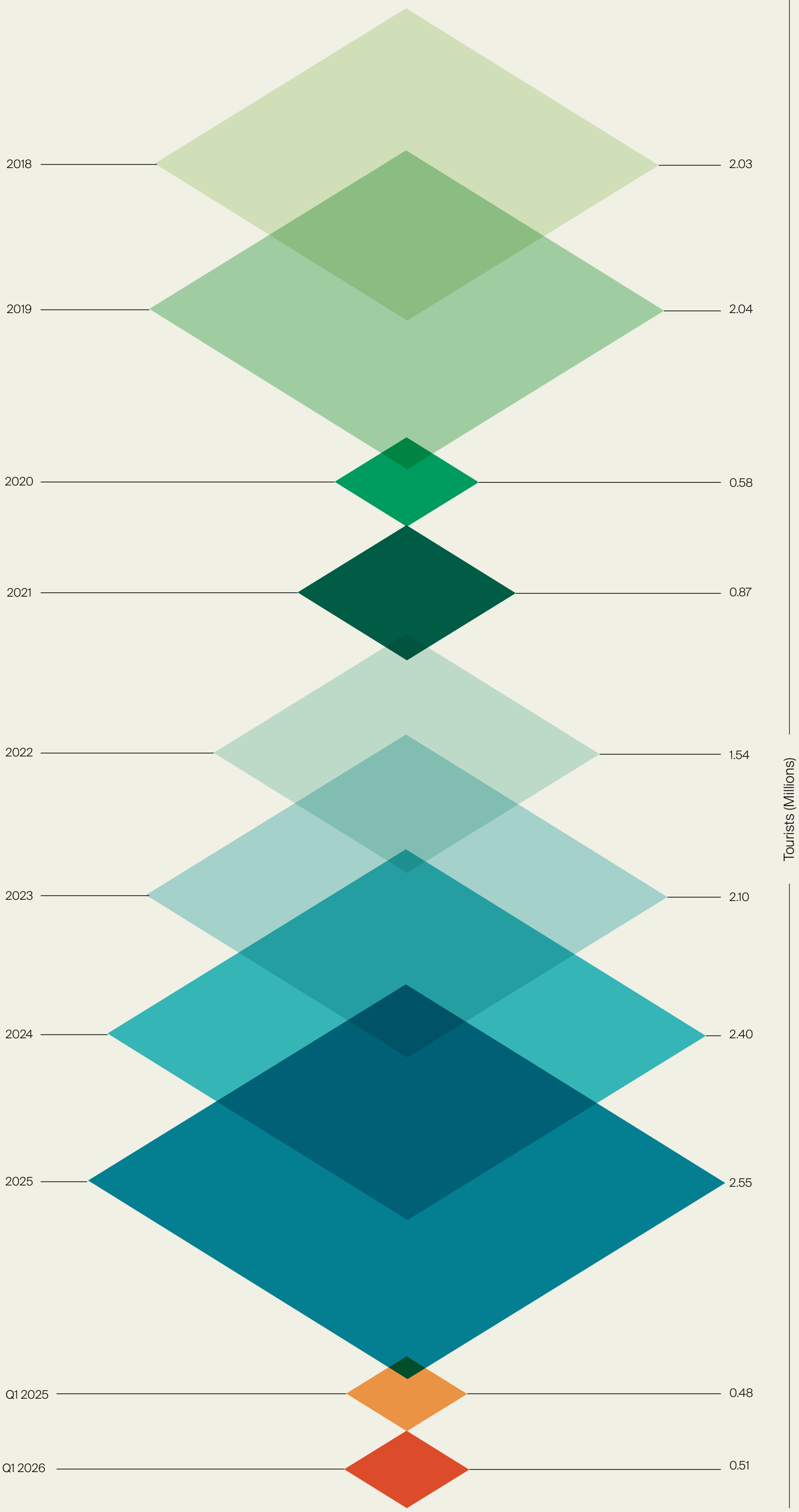
HOTEL MARKET PERFORMANCE

The increase in visitor arrivals, however, contributed to a slight improvement in hotel performance. Average occupancy across all hotels in Kenya, regardless of rating, rose by 0.42 percentage points to 29.29%. The national average, however, masks significant regional differences. Coastal hotels accounted for 50.09% of all occupied room nights, while Nairobi accounted for 22.71%. As Kenya's leading leisure and business destinations, these two markets continue to outperform the rest of the country, with average occupancies in the 60% range along the Coast and the 50% range in Nairobi. This suggests that the recovery has been uneven, with many hospitality establishments - particularly those outside Kenya's established leisure destinations - continuing to experience subdued occupancy levels. In the first quarter of 2026, the accommodation and food service sector expanded by 14.7%, significantly outperforming the 8.0% growth recorded during the corresponding quarter of 2025.

HOSPITALITY INVESTMENT & DEVELOPMENT

Investor confidence in Kenya's hospitality sector nevertheless remained strong. Choice Hotels International, one of the world's largest hotel franchisors, entered the African market through Kenya by adding three properties to its portfolio, including an Ascend Collection property in the Maasai Mara and the rebranding of La Maison

International Arrivals



Source: KNBS

Royale Westlands and La Maison Royale South C under its Clarion and Quality Inn brands, respectively. The entry of a new global hotel operator in Kenya underscores the country's continued attractiveness as a regional hospitality investment destination.

Further confidence was demonstrated during the Future Hospitality Summit Africa, where the UAE-based Diar Group, owner of CityBlue Hotels, announced partnerships to develop Oceara Residences by CityBlue in Watamu and Diani Residences by CityBlue in Diani Beach. These proposed developments reflect sustained investor interest in Kenya's upscale coastal hospitality market and the growing convergence of hospitality and branded residential developments.

The Ascott Limited, through a partnership with Britam, announced plans to manage a new serviced apartment development in Kilimani, reflecting growing investor interest in extended-stay accommodation targeting business travellers and expatriates. In addition, Pullman Residences received EDGE green building certification, underscoring the increasing importance of sustainability and operational efficiency within hospitality developments. Regionally, continued expansion by international hotel brands across East Africa, including the introduction of Tulip Residences Mombasa and new hospitality developments in secondary cities such as Nakuru, highlights sustained investor confidence in Kenya's long-term tourism potential, with the most notable development being the opening of the 205-room 5-star Encore Hotel in Nakuru City.

Additionally, after several unsuccessful revival attempts over the years, the former Grand Regency Hotel, most recently operating as Laico Regency Hotel, has reopened as the Iconic Plaza Hotel. The upscale property, comprising more than 150 rooms and extensive conference facilities, is strategically located less than 600 metres from Kenya's Parliament Buildings, positioning it to capitalise on both business and government-related demand.

TOURISM & MICE INFRASTRUCTURE

Government investment in tourism-supporting infrastructure continued to strengthen the sector's long-term outlook. The signing of a USD 1.2 billion agreement for the expansion and modernisation of JKIA is expected to significantly improve passenger handling capacity and enhance Nairobi's competitiveness as East Africa's primary aviation hub. Complementing this investment, construction of the Bomas International Convention Centre, a KES 41.9 billion project expected to be completed during the second half of 2026, continued to progress. Once operational, the facility will provide conference capacity for approximately 11,000 delegates, substantially enhancing Kenya's ability to host large-scale international events and supporting demand for surrounding hotels, serviced apartments and mixed-use developments.

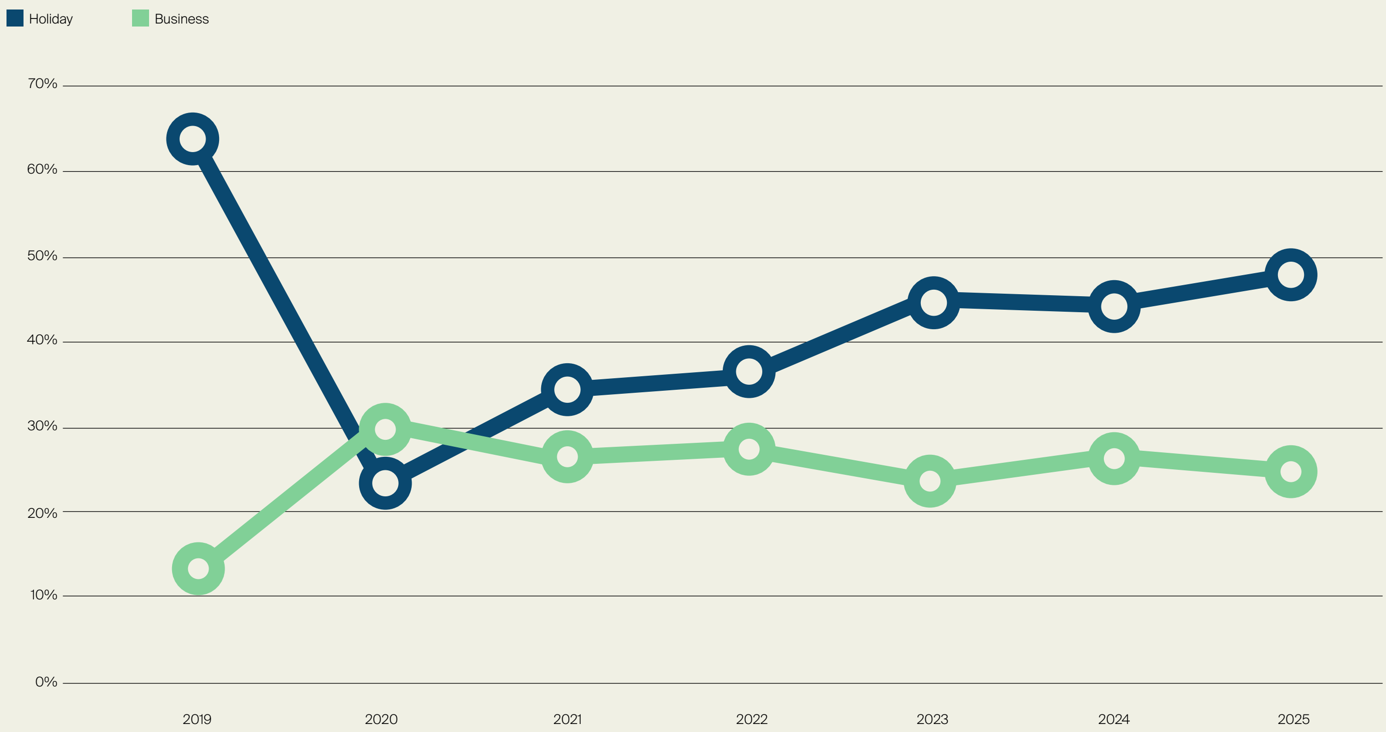
TOURISM POLICY & REGIONAL CONNECTIVITY

Policy initiatives also provided further support to tourism growth. Kenya's continued expansion of visa-free entry arrangements for eligible African travellers is expected to stimulate both leisure and business travel by reducing entry barriers and strengthening regional connectivity. Together with improved aviation infrastructure, these measures are likely to increase visitor arrivals and diversify tourism demand beyond traditional international source markets.

13.1%

Growth in international arrivals through JKIA and MIA in Q1 2026.

Purpose of Tourism Visits



INDUSTRIAL

INDUSTRIAL & MANUFACTURING OUTLOOK

The June 2026 Global Economic Prospects notes that emerging market and developing economies (EMDEs), including Kenya, are likely to experience a slower pace of generative artificial intelligence adoption than advanced economies because of their industrial structure. While this reduces the risk of widespread labour displacement, it also highlights the need for continued investment in enabling infrastructure - including reliable electricity, high-speed internet, and data centres - to support future industrial productivity. At the same time, elevated energy and transport costs arising from ongoing geopolitical tensions in the Gulf are expected to moderate industrial production by increasing operating costs and weakening consumer demand.

Kenya's industrial sector continues to operate below its long-term potential. According to the 2026 Economic Survey, manufacturing contributed only 7.1% of national GDP despite the country's ambition under Vision 2030 to become a more industrialised economy. Although the Government has gazetted numerous Export Processing Zones (EPZs), Special Economic Zones (SEZs), and County Aggregation and Industrial Parks (CAIPs), the sector has yet to achieve the scale required to significantly transform the economy.

INDUSTRIAL REAL ESTATE INVESTMENT & DEVELOPMENT

Nevertheless, investor confidence in modern industrial real estate remained strong during the review period. Africa Logistics Properties (ALP), in partnership with the UK Government's MOBILIST programme and the Private Infrastructure Development Group (PIDG), successfully listed the Africa Logistics Properties Industrial REIT (ALP I-REIT), supported by a combined USD 24 million investment. The listing marks the first industrial REIT in East Africa and was the first USD-denominated security to be listed and traded on the Nairobi Securities Exchange, representing an important milestone in broadening institutional investment into Kenya's logistics sector.

Development activity also remained robust. ALP completed the 129,000 sq. ft. Kivu Warehouses, the third phase of ALP West in Tilisi, while The Link at Tatu City announced construction of its 107,500 sq. ft. second phase following the successful delivery of Phase I in 2025. The continued rollout of additional phases by major developers reflects sustained occupier demand for modern, institutional-grade warehouse space and the gradual shift away from older conventional warehouses towards higher-quality logistics facilities.

MANUFACTURING PERFORMANCE

While manufacturing remains a key pillar of Kenya's economic transformation agenda, its contribution to Gross Domestic Product (GDP) has largely stagnated at between 7.1% and 7.5% since 2020, significantly below the approximately 13% contribution recorded during the 1990s. The sector continues to face constraints including high electricity tariffs, regulatory inefficiencies and limited access to affordable long-term financing, preventing it from achieving the Government's ambition of increasing manufacturing's contribution to over 15% of GDP. Nevertheless, operational performance improved during the review period, with the manufacturing sector's gross value-added expanding by 4.4% in the first quarter of 2026, compared to 2.8% during the corresponding quarter of 2025.

Growth within manufacturing was supported by stronger activity across several industrial subsectors. Production of assembled motor vehicles increased by 18.1%, rising from 3,373 units in the first quarter of 2025 to 3,983 units during the review period, reflecting

PHOTO: Factory

continued investment in Kenya's automotive assembly industry. Production of galvanised steel sheets increased by 16.2%, while cement production rose by 17.7% to approximately 2.81 million metric tonnes, signalling continued construction activity across residential, commercial and infrastructure projects. These trends continue to support demand for industrial land, manufacturing facilities and strategically located warehousing.

LOGISTICS & FREIGHT PERFORMANCE

The logistics sector similarly recorded positive performance, reinforcing demand for modern industrial space. The transportation and storage sector expanded by 3.6% during the first quarter of 2026, while consumption of light diesel—a key proxy for freight movement—increased by 9.9%, indicating growing road transport activity. Cargo throughput at the Port of Mombasa increased by 3.7% to approximately 11.0 million metric tonnes, while freight transported through the Standard Gauge Railway (SGR) grew by 12.7% to 2.05 million metric tonnes. Passenger traffic on the SGR similarly increased by 12.3%, demonstrating continued utilisation of Kenya's multimodal transport infrastructure. The sustained improvement in freight volumes continues to strengthen occupier demand for Grade A logistics facilities, inland distribution centres and last-mile warehousing.

SUSTAINABLE INDUSTRIAL DEVELOPMENT

Sustainability remains an increasingly important consideration within the industrial sector - illustrated by the achievement of EDGE certification for the Mara Warehouse within Nairobi Gate Industrial Park - reflecting growing occupier preference for energy-efficient industrial facilities that reduce operating costs while supporting corporate ESG objectives.

SPECIAL ECONOMIC ZONES & INDUSTRIAL PARKS

Kenya's SEZ programme continued to gain momentum during the review period. Progress was recorded at the Nakuru Special Economic Zone, while additional investment proposals were announced across several industrial parks. Dubai-based Arise Integrated Industrial Platforms (Arise IIP) announced plans to invest substantially in Kenya's industrial ecosystem, underscoring increasing international investor confidence in the country's manufacturing and export potential. Similarly, six firms received 99-year leases within the Murang'a Industrial Park, signalling continued progress in decentralising industrial development beyond Nairobi and Mombasa into emerging regional manufacturing hubs.

INDUSTRIAL INVESTMENT

Private sector investment further reinforced confidence in Kenya's industrial market. The MeTL Group announced plans to establish a KES 6.5 billion soft drinks manufacturing plant in Mombasa, increasing competition within Kenya's beverage industry and generating additional demand for industrial land and logistics infrastructure. Similarly, Dangote Group announced plans to develop an oil refinery in Lamu, a project expected to strengthen Kenya's downstream petroleum industry while stimulating demand for storage terminals, port infrastructure and associated industrial developments. Continued investment by industrial equipment suppliers and manufacturing support services further illustrates confidence in Kenya's long-term industrial growth trajectory.

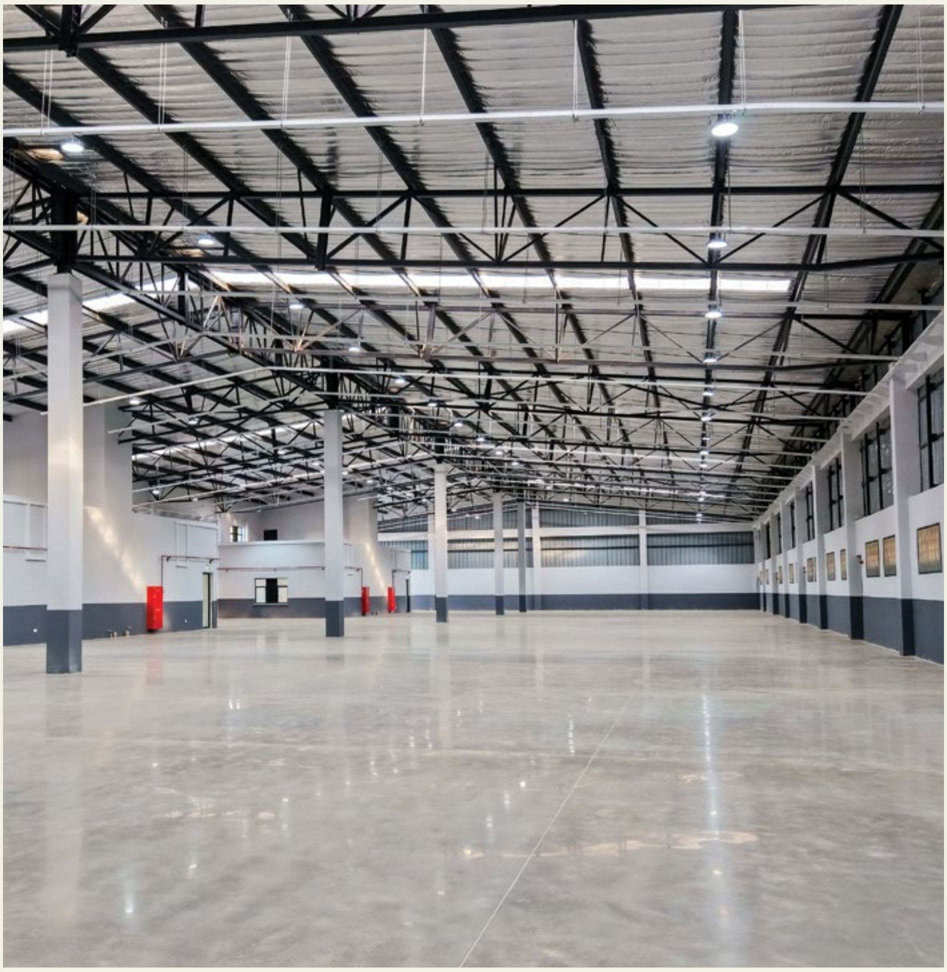
INDUSTRIAL POLICY & COMPETITIVENESS

Government policy also remained supportive of industrial expansion. The Kenya Association of Manufacturers (KAM) continued advocating reforms through its Manufacturing Priority Agenda 2026, emphasising lower energy costs, improved trade competitiveness, infrastructure investment and enhanced access to industrial financing. In addition, continued investment in transport corridors, Special Economic Zones and logistics infrastructure, together with ongoing preparations for infrastructure financing through initiatives such as the proposed Samurai Bond, are expected to improve Kenya's competitiveness as a regional manufacturing and logistics hub.

USD 24m

Combined investment supporting the first industrial REIT in East Africa and the first USD-denominated security listed on the NSE

PHOTO: ALP Kivu Warehouses



INFRASTRUCTURE & POLICY

INFRASTRUCTURE INVESTMENT AND PPPS

Infrastructure development remained one of the principal drivers of Kenya's real estate market during the first half of 2026, with continued Government investment in transport infrastructure, public-private partnerships (PPPs), housing and urban development expected to unlock new development corridors and enhance long-term property values across the country. Public-private partnerships continued to play an increasingly important role in delivering strategic infrastructure. As of April 2026, Kenya had 51 PPP projects, comprising 10 projects under implementation and 41 projects progressing through various stages of the project development cycle.

ROAD INFRASTRUCTURE & CONNECTIVITY

Among the most significant road projects is the proposed Rironi–Mau Summit Highway, a planned tolled road expected to become operational from 2029, with proposed user charges of approximately KES 8 per kilometre. As part of the Northern Corridor, the project is expected to enhance the movement of goods and people between Nairobi, the Rift Valley, Western Kenya, Nyanza, and neighbouring countries. Complementing the proposed Rironi–Mau Summit Highway, the Government has also prioritised the expansion of Waiyaki Way from James Gichuru to Rironi to address longstanding congestion along the corridor. Together, the two projects are expected to improve regional connectivity while supporting continued growth in Limuru and the surrounding metropolitan area.

Within Nairobi, investment in transport infrastructure remains focused on easing congestion and improving connectivity to key commercial nodes. Construction of the KES 2.99 billion Upper Hill Viaduct, which resumed in 2025 after prolonged delays, progressed beyond the halfway mark during the review period, with completion expected in 2027. Once complete, the viaduct is expected to significantly improve traffic circulation between Upper Hill and the CBD by reducing congestion around the Haile Selassie–Uhuru Highway roundabout. Meanwhile, the completion of the KES 3.8 billion Ngong Road–Naivasha Road Flyover, together with the opening of the 70 km Ngong–Suswa Road, has already enhanced connectivity to the western metropolitan corridor while providing an alternative route to the frequently congested Mai Mahiu Road.

The Government, during the review period, announced the commencement of a feasibility study for the 243-kilometre Mau Summit–Eldoret–Malaba Expressway, a flagship corridor linking Nairobi to Uganda and the wider East African region. The study, funded by the Asian Infrastructure Investment Bank (AIIB) and undertaken by a consortium of Kenyan and Canadian firms, represents a major step towards upgrading one of Kenya's busiest trade corridors. Once implemented, the expressway is expected to significantly reduce travel times, improve freight efficiency and stimulate commercial, industrial and logistics developments along the Nakuru, Eldoret and Malaba growth corridor.

URBAN REGENERATION & RAILWAY INFRASTRUCTURE

Progress was also recorded on the proposed Railway City development following the signing of a lease agreement between Kenya Railways Corporation and Zaria Group to develop a modern indoor arena and entertainment district. The agreement represents another milestone in the implementation of the wider Railway City masterplan, which is expected to catalyse mixed-use urban regeneration around Nairobi's central transport hub.

AVIATION INFRASTRUCTURE

The Kenya Airports Authority (KAA) advanced procurement for the development of a new passenger terminal at Jomo Kenyatta International Airport (JKIA), with the contract award announced in June 2026. In parallel, plans for the proposed Airport City surrounding JKIA continued to gain momentum, reinforcing Nairobi's position as East Africa's principal aviation and commercial hub. The integrated development is expected to catalyse demand for commercial offices, hotels, logistics parks, conference facilities and residential developments serving airport-related businesses. Regionally, Ethiopia's commencement of construction on its proposed USD 12.5 billion mega airport further underscores the growing importance of aviation infrastructure across East Africa and is expected to intensify regional competition while supporting broader investment in aviation-linked real estate.

REAL ESTATE TAXATION AND INVESTMENT POLICY

From a policy perspective, the Finance Bill 2026 introduced several measures with implications for the real estate sector. The Bill increased the residential rental income tax rate from 7.5% back to 10% of gross rental income, while exempting qualifying REIT transactions from capital gains tax and stamp duty to encourage greater use of formal real estate investment structures. It also strengthened tax administration by encouraging landlords to register on the KRA eTIMS platform, signalling the Government's continued efforts to improve compliance and reduce tax leakages within the property sector.

PLANNING & DEVELOPMENT CONTROL

The review period also highlighted the continued resilience of Nairobi's development market. A notable High Court ruling allowing a high-rise mixed-use development in Lavington to proceed reaffirmed the judiciary's support for lawful planning approvals and reinforced developer confidence in high-density redevelopment within established urban neighbourhoods. As land scarcity and rising land values persist within Nairobi's prime suburbs, redevelopment of low-density sites into higher-density residential and mixed-use schemes is expected to remain a key trend.

Beyond physical infrastructure, H1 2026 also marked an important shift in Nairobi's urban planning and development framework. The Nairobi City County Assembly passed the Nairobi City County Development Control Policy, 2026, establishing a comprehensive policy framework intended to guide future planning approvals, zoning, development control and enforcement across the capital. The policy seeks to address longstanding concerns regarding inconsistent planning decisions, weak enforcement of development approvals and recurring incidents of non-compliant developments, including building failures and encroachment on environmentally sensitive areas. If effectively implemented, the policy is expected to enhance planning certainty, strengthen regulatory oversight, improve development standards and increase investor confidence by promoting greater transparency and accountability within Nairobi's development approval process.

ALTERNATIVES MARKET

DATA CENTRES & DIGITAL INFRASTRUCTURE

Alternative real estate asset classes continue to gain prominence in Kenya as investors seek opportunities beyond the traditional office, retail, residential, hospitality, and industrial sectors. One of the most promising areas is digital infrastructure, particularly data centres, although adequate and reliable electricity supply remains a critical constraint. This challenge was highlighted during the review period when the Government raised concerns over the power requirements of the proposed USD 1 billion data centre campus in Olkaria, Gilgil, announced in 2024 and spearheaded by Microsoft and G42, underscoring the importance of continued investment in power infrastructure to support the growth of Kenya's digital economy.

Nevertheless, IXAfrica announced collaboration with Oracle Cloud to support regional cloud services, reinforcing Nairobi's growing importance as a destination for hyperscale data centres and enterprise digital infrastructure. The Government also advanced plans to establish a national property database and land information strategy at Konza Technopolis, aimed at improving land administration, property management and digital public services. Complementing these initiatives, the announcement of the Blu Raman subsea fibre optic cable is expected to significantly increase international bandwidth capacity, improve internet resilience and further enhance Kenya's attractiveness for technology firms, cloud service providers and digital infrastructure investors.

HEALTHCARE REAL ESTATE

Healthcare infrastructure also continues to attract private capital through public-private partnerships (PPPs). During the review period, Tanzania-based Amsons Group committed USD 35 million to develop and equip ten modern maternal and child healthcare facilities across nine counties under a Build-Equip-Transfer model. The project demonstrates the growing role of PPPs in addressing social infrastructure deficits while creating investable opportunities within the healthcare real estate sector. Additionally a KES 600 million, 38-bed specialist cancer centre at Redhill in Nairobi was approved for development. The project reflects growing demand for specialised healthcare facilities driven by increasing healthcare awareness, medical tourism and an expanding middle-income population.

PURPOSE-BUILT RESIDENTIAL

Purpose-built residential assets also present an emerging opportunity for developers. While purpose-built student accommodation (PBSA) has become increasingly established, other specialised residential segments - including housing targeted at young urban professionals and retirement communities for older adults - remain relatively underdeveloped despite favourable demographic trends. A phased development approach could enable investors to align supply with demonstrated demand while reducing development risk and supporting sustainable capital deployment.

AFFORDABLE HOUSING

The Government also continues to advance its Boma Yangu affordable housing programme. By facilitating home ownership through structured instalment-based purchase arrangements, the initiative seeks to improve access to quality housing for lower-income households while supporting continued activity within the residential development sector.

> While PBSA is established, young-professional housing and retirement communities remain underdeveloped

PHOTO: Data Centre

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