



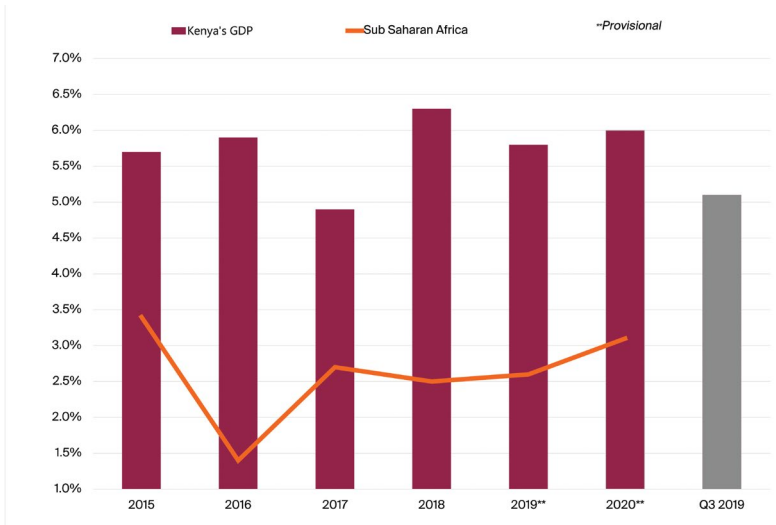
KENYA

MARKET UPDATE - 2ND HALF 2019

Qwetu Wilson View Student Residences, Nairobi County

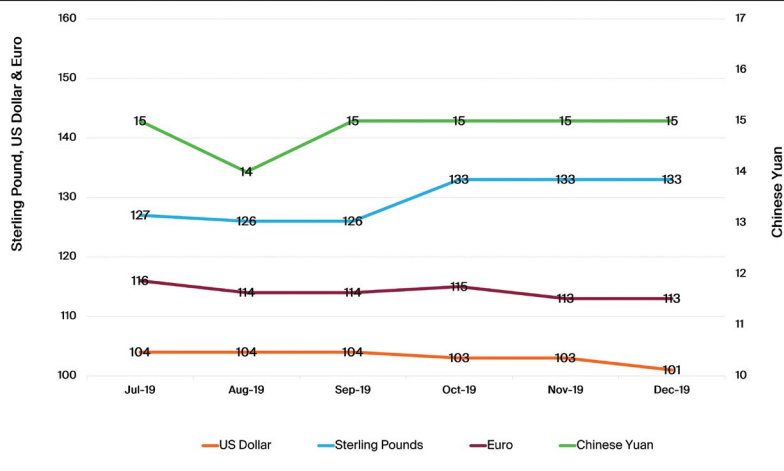
- ◆ Kenya's economic growth slows to 5.8%
- ◆ Interest rate cap lifted
- ◆ JKIA-Westlands expressway launched
- ◆ Kenya's first green bond raises Ksh 4.3 billion
- ◆ REITs subsidiaries exempted from corporation tax
- ◆ Local and international supermarket chains expand footprint
- ◆ Absorption of A Grade office space increases
- ◆ Prime residential values decline at a slower pace
- ◆ Tourist arrivals and earnings increase
- ◆ Defaults in non-performing mortgages increase by 40%
- ◆ Naivasha Industrial Park gets interest from international investors
- ◆ International educational institutions continue expansion

FIGURE 1:
GDP Rates



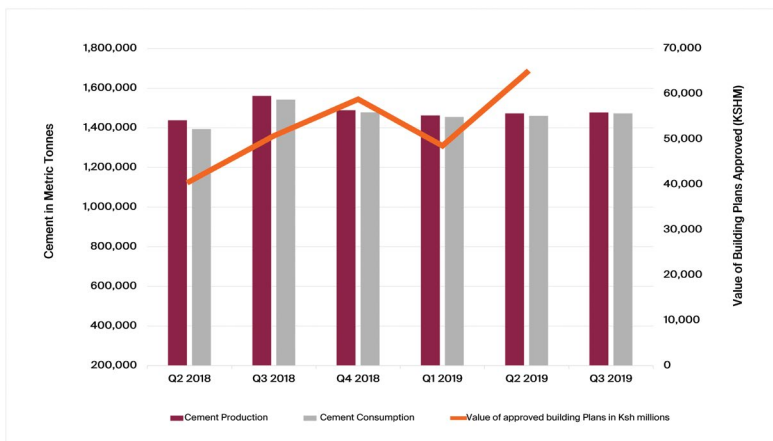
Source: Kenya National Bureau of Statistics (KNBS) & World Bank

FIGURE 2:
Foreign Currency Exchange Rates



Source: Central Bank of Kenya

FIGURE 3:
Value of Building Plans vs Cement Consumption



Source: Kenya National Bureau of Statistics (KNBS)

The Economy

Kenya's economic growth slowed down to 5.1% in the third quarter of 2019 compared to 6.4% over the same period in 2018. According to the Kenya National Bureau of Statistics (KNBS), this decline was attributed to a slowdown across almost all sectors. These included the agricultural, manufacturing, construction, and wholesale and retail trade sectors. The World Bank attributed the reduced Gross Domestic Product (GDP) growth in 2019 to declined performance in agriculture and reduced investment from the private sector.

Sub-Saharan Africa's (SSA) economic performance in 2019 slowed due to falling commodity prices and weakening growth in non-resource intensive countries. The World Bank has predicted that this situation will improve in 2020, however, as a result of the strengthening of domestic demand and stronger growth in non-resource intensive countries. SSA's GDP is projected to expand by 3.1% in 2020, compared to 2.6% in 2019. The World Bank forecasts that Kenya's GDP will grow by 6% in 2020.

The country's macroeconomic environment remained stable during the review period. The Kenya Shilling remained stable against most major currencies such as the Sterling Pound, US Dollar, Euro and Chinese Yuan. Month-on-month inflation remained within the Central Bank's target range mainly due to lower food prices resulting from improved weather conditions. Commercial banks' interest rates remained capped at circa 13% during the third quarter of 2019. The Monetary Policy Committee (MPC) maintained the Central Bank Rate at 9% until November when it was reduced to 8.5% to support economic activity.

Production of cement decreased to 5.36 million metric tonnes (MT) in the 11 months to November, a 3.2% drop from 5.54 million MT over the same period in 2018. Similarly, cement consumption decreased to 5.32 million MT in the 11 months, a 2% drop from 5.43 million MT over the same period in 2018. However, the value of building plans approved in Nairobi County increased to Ksh 113 billion in the first half of 2019, a 11.9% jump from Ksh 101 billion in a comparable period in 2018.

The continued decrease in cement production and consumption is reflective of the reduced growth in the real estate sector, which is currently suffering from an oversupply and low transaction levels due to reduced liquidity in the market. The increase in the value of building plans approved in the first half of 2019 was mainly attributed to the affordable housing developments in the pipeline. This trend is expected to continue in the foreseeable future.

Diaspora remittances increased by 3.7% to circa US\$ 2.8 billion in 2019 compared to circa US\$ 2.7 billion in a similar period in 2018, with North America remaining the major source market. Remittances remain Kenya's largest source of foreign exchange, followed by tourism and agricultural exports.

The 2019 Kenya Population and Housing Census indicated that the Kenyan population grew to 47.6 million in 2019 from 37.7 million in 2009. Nairobi County recorded a population of 4.4 million, the largest amongst the 47 counties, whilst Mombasa County currently host a population of 1.2 million.

Capital Markets

Real Estate Investment Trusts (REITs) have struggled to pick up since introduction to the market in 2015, with only one REIT listed on the securities exchange. Listed real estate equities (Home Afrika and Stanlib Fahari I-REIT) closed the second half of 2019 with lower share prices than their initial listing values. Stanlib Fahari I-REIT closed at Ksh 9.42 on 31st December 2019, which was 53% lower than its initial listing price of Ksh 20. Home Afrika's share price closed at Ksh 0.60 on 31st December 2019, which was 95% lower than the initial listing price of Ksh 12.

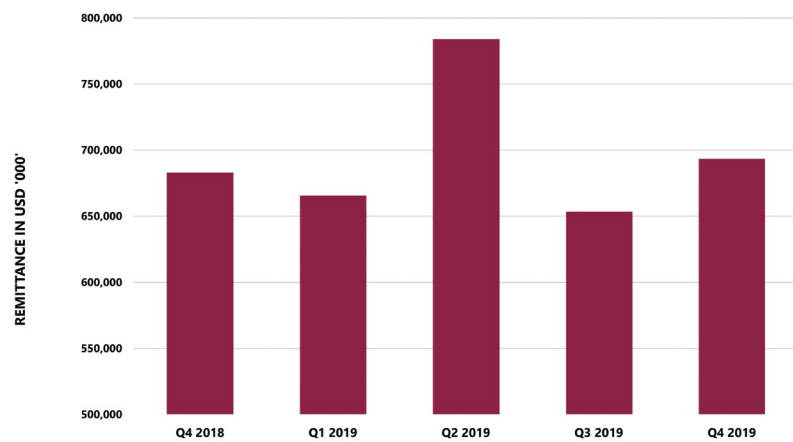
Home Afrika reported a loss of Ksh 346 million for the 2018 financial year compared to Ksh 181 million in the previous year. Actual sales dropped to Ksh 582 million in 2018 from Ksh 921 million in 2017. The property developer attributed the loss to the slowed growth in the real estate market, constricted credit access and reduced spending power amongst potential buyers.

The Finance Act 2019, assented to in November, exempted investee companies of REITs from corporation tax. This was previously 30% of the net profit before distribution to a REIT. Investee companies comprise of entities through which REITs hold properties. This is expected to boost investments in REITs in the near future.

Kenya-based fund manager ICEA LION Asset Management (ILAM) acquired Stanlib Kenya from South African firm Liberty Group. The transaction, which is expected to be completed in 2020, will include ILAM managing the Stanlib Fahari I-Reit.

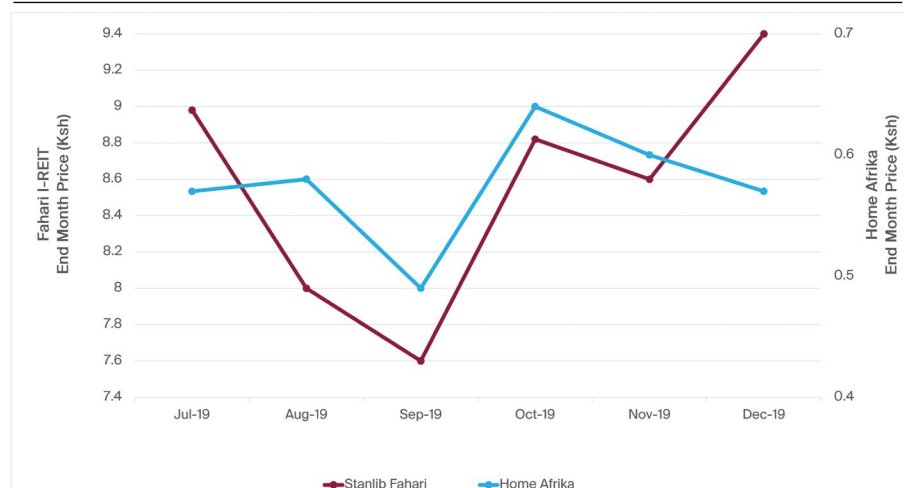
In August, the Capital Markets Authority (CMA) approved the issuance of Kenya's first green bond. Green bonds are regular bonds whose proceeds are used on projects with various environmental benefits. The green bond, issued by property developer Acorn Holdings Limited, was expected to raise Ksh 5 billion to finance sustainable and climate-resilient student accommodation. As of October, the green bond – certified by the

FIGURE 4:
Quarterly Diaspora Remittances



Source: Central Bank of Kenya

FIGURE 5:
Real Estate-Related Listings



Source: Nairobi Securities Exchange

UK Climate Bonds Initiative – closed with a 85% subscription which raised Ksh 4.3 billion from various investors including domestic pension funds, commercial banks, insurance and reinsurance companies and non-resident funds. Kenya became the first East African country and sixth in Africa to issue a green bond and this issuance is considered the first step towards the establishment of green capital markets in Kenya.

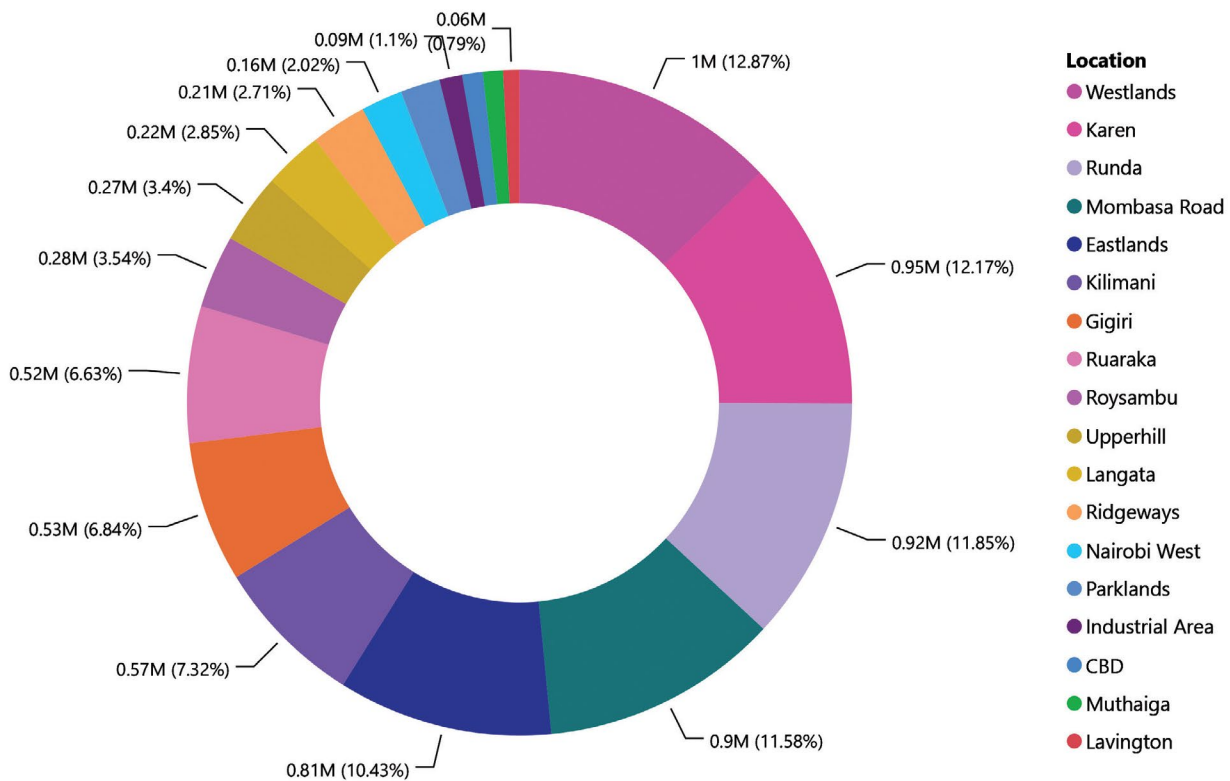
The country has previously relied on foreign based green building certification tools such as American Leadership in Energy and Environmental Design (LEED), Environmental Design for Greater Efficiencies (EDGE) and Green Star Rating System. Over the review period, the Architectural Association of Kenya (AAK) announced that Kenya was in the process of creating its own green building rating tool, which is expected to be launched in 2020.

Policy & Infrastructure

In September, Parliament rejected the National Treasury's proposal to raise the Capital Gains Tax to 12.5% from the current rate of 5% due to concerns that the increase would negatively affect the affordable housing programme through higher land prices, which would in turn increase sale prices for the houses. The Capital Gains Tax was retained at 5% following the assent to the Finance Act 2019 in November. The Act implemented several tax exemptions. These included:

- VAT exemption on locally purchased or imported goods for use in the construction of affordable houses.
- Stamp Duty exemption for houses being constructed under the AHP and transferred from the developer to the National Housing Corporation (NHC).

FIGURE 6:
Nairobi Retail Space Distribution



Source: Knight Frank Kenya

- Income Tax exemption for the National Housing Development Fund (NHDF), which was set up to assist the AHP.
- Tax exemption for locally issued green bonds.

The Finance Act also repealed the interest rates cap introduced in 2016 under Section 33b of the Banking Act, which means commercial banks can once again price loans based on their own risk assessment.

Since the interest rate cap was introduced, banks have been reluctant to lend to the private sector at interest rates that they felt did not adequately reflect the risks of such loans, preferring instead to invest in government bonds, which has in turn led to a huge shortfall in liquidity in the economy generally. With the repealing of the cap, it is expected that the situation will return to normal with liquidity increasing as banks resume lending to the private sector, which will in turn contribute to a wider economic recovery.

At the Coast, construction of the first berth at the Lamu Port was completed in August, whilst the construction of the second and third berths are expected to be completed in 2020. Once completed, Lamu Port is

expected to become the largest deep-sea port with the highest trans-shipment capability in Eastern Africa and is anticipated to contribute at least 1.5% of the country's GDP.

In the capital, the Jomo Kenyatta International Airport (JKIA) to Westlands expressway was launched by the president in October. The 18-kilometre, Ksh 62.2 billion expressway is expected to be completed in December 2021. The two-way, four-lane road, starting from Mlolongo and ending at James Gichuru, will be constructed in phases. Phase 1 includes the construction of 10km from Mlolongo to the Eastern Bypass Junction (City-Cabanas). Elsewhere, construction of the 219-km, Ksh 30 billion Kenol-Sagana-Isiolo dual carriageway, which was expected to commence over the review period, has suffered further delays due to the on-going procurement process. The dual carriageway will link various Central Kenyan counties to the Lamu Port-South Sudan-Ethiopia-Transport (LAPSSET) Corridor. Construction is expected to commence during the first half of 2020.

In December, the President launched freight services on the Standard Gauge Railway (SGR) from Nairobi to Naivasha, allowing freight operations from Mombasa to the Naivasha Inland Container Depot (ICD).

Retail

Rents for prime retail stores decreased by 4.2% in the second half of 2019 to US\$ 4.6 (Ksh 466.44) per square foot per month. The drop was mainly attributed to an oversupply of retail space in certain locations and reduced consumer spending due to the current economic climate. These factors have resulted in the retail sector remaining a tenants' market, with landlords having to increasingly make concessions to compete with other retail centres for occupiers.

Occupancy levels for retail averaged 77%, with the more established malls recording higher occupancy levels of over 90%. Footfall for most retail centres in Nairobi decreased over the review period due to competition amongst the increased number of malls, reduced consumer spending power and growth of e-commerce. Major retail developments in the pipeline include Comesa Mall in Eastleigh (280,000 sq ft) and Phase III of City Mall in Nyalı (50,000 sq ft). There was a notable decrease in the number of shopping centre developments opening in Nairobi and its environs over the period.

Local and international supermarket chains continued to make strategic moves, expanding their local presence and establishing stronger footing in the retail market.

In July, South African retailer Game opened its third outlet at Kisumu's Mega City Mall.

In August, local supermarket chain Tusksys opened a branch at Oasis Mall in Malindi, replacing Nakumatt as the anchor tenant. The retailer also announced plans to partner with small local retailers in Kenya and Uganda by 2024 through franchising and consolidation so as to gain a greater market share. It currently has a pilot franchise ongoing in Buru Buru Estate. Additionally, it has struck a deal with Vivo Energy to open express outlets within the Shell Petrol Stations.

In the same month, South African retailer Shoprite Holdings borrowed Ksh 571 million from Stanbic Bank Kenya for its local expansion. The retailer opened two new stores: at Waterfront Shopping Centre in Karen and City Mall in Nyal.

In September, Sokoni Retail Kenya became the majority stakeholder of Quickmart Supermarkets following the merger of Quickmart and Tumaini supermarkets. All Tumaini supermarkets will now trade under the Quickmart brand name. The retailer opened its second 24-hour supermarket in Westlands in August and another branch in Ongata Rongai in November. Quickmart is expected to open another five stores in 2020, including its third 24-hour outlet in Hurlingham.

In October, Chandarana Supermarket opened at Ridgeways Mall as the anchor tenant, whilst House of Leather & Gifts also opened its latest branch at Ridgeways Mall in December as the sub-anchor.

Over the review period, current and new tenants continued to move into the new phases of established malls, extending a trend that has become prominent in the retail segment. In October and November respectively, fashion retailer Woolworths and Text Book Centre opened their flagship stores at Sarit Centre Phase III. Woolworths took up circa 23,000 sq ft, while Text Book Centre took up 20,000 sq ft.

During the second half of 2019, several international brands opened stores across Nairobi. American sports and footwear retailer Nike opened a store at Westgate Mall in Westlands, while Turkish footwear and accessories store Flo opened at The Hub in Karen.

Office

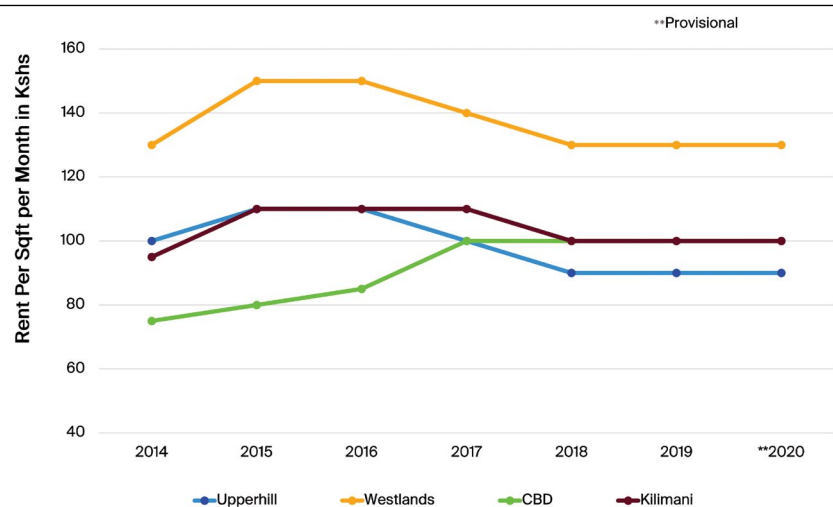
In the second half of 2019, prime office rents remained unchanged at US\$ 1.3/sq ft/month. This was due to the oversupply of commercial space in some locations and an unfavourable economic climate.

TABLE 1:
Select office developments in the pipeline

COMMERCIAL DEVELOPMENT	LOCATION	APPROX. SIZE (SQFT)	ESTIMATED COMPLETION DATE
Merchant Square	Riverside	165,000	2020
Global Trade Centre	Westlands	678,000	2021
Sandalwood	Riverside	250,000	2020
Curzon Properties	Westlands	146,715	2021
Pink Pearl Limited	Westlands	126,109	2022
Delta Chambers	Westlands	132,979	2020
Riverside Square	Riverside	94,722	2022
316 Upperhill Chambers	Upperhill	270,000	2020
Majani House	CBD	54,551	2020

Source: Knight Frank Kenya

FIGURE 7:
Average Prime Office Rental Rates per Month



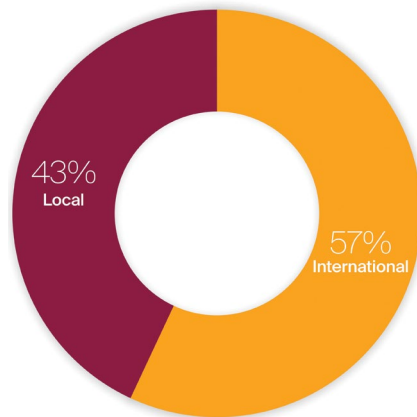
Source: Knight Frank Kenya

Absorption of Grade A and B office space increased by 41% in the review period compared to the first half of 2019, which is indicative that the oversupply situation has begun revising. This increase was mainly due to the closing of a few, large transactions of office space in recently completed Grade-A buildings such as serviced office providers' expansion, and mergers and acquisitions. This trend of fewer but larger transactions is expected to continue in 2020 as Nairobi remains a major commercial hub and a favourite location for multinationals looking for regional headquarters. This is an indicator that the commercial market is slowly beginning to recover.

One of the main contributors to the increase in absorption of office space were serviced office providers who continued to expand over the review period. Notable examples include Kofisi, formerly known as Eden Square Business Centre (ESBC), which opened a new co-working space in Karen, while Nairobi Garage opened its fourth co-working space at The Promenade in Westlands in December, taking up circa 30,000 sq ft.

Over the review period, office completions included Garden City Phase 1 in Ruaraka (134,160 sq ft), 1 Park Avenue (133,000 sq ft) and Capital Square (90,000 sq ft) both in Parklands. Major commercial office developments in the pipeline are illustrated on Table 1.

FIGURE 8:
**Tenant Profile of Grade A office
 take up 2017-2019**



Source: Knight Frank Kenya

Nairobi, which is considered the African Silicon Savannah, remains a favourable location for global tech investors and venture capitalists targeting early start-ups. According to the Global Innovation Index (GII) 2019 report by World Intellectual Property Organisation, Kenya was ranked the second leading innovation hub in Sub-Saharan Africa after South Africa. Findexable Global Fintech Rankings in December also ranked Nairobi as Africa's second largest fintech hub after Johannesburg and has considered it one of the fast-growing fintech cities. In October, the United Kingdom announced the launch of a Ksh 1.3 billion fund dedicated to Kenyan fintech start-ups.

Residential

Prime residential sales prices in Nairobi decreased at a slower rate of 4% in 2019, compared to 4.5% in 2018. Despite this sub-sector suffering from an oversupply and remaining a buyers' market, sale prices were seen beginning to stabilise. Over the second half of 2019, buyers were keen on closing deals before the end of the year. Prime residential values have been declining at varied rates since the second half of 2016.

Prime residential rents in Nairobi decreased by 2.8% in 2019, compared to 1.3% in 2018. The decline was mainly attributed to the oversupply of residential developments in certain locations such as Karen, whilst fewer expatriates were relocating to Kenya.

Prime residential rents and values are expected to improve in 2020 due to the repeal of the interest rate cap, which is anticipated to increase liquidity in the market.

In line with the affordable housing pillar of the government's Big Four Agenda, several announcements were made over the review period. In December, the president launched Habitat Heights, a new housing project in Mavoko, Machakos County. The development consists of 8,888 units and is expected to be completed by 2022. Habitat Heights is the first project under the Memorandum of Understanding between the State Department for Housing and Urban Development and United Nations Office for Project Services (UNOPS) which is expected to develop 100,000 housing units. In November, the Export Processing Zones Authority (EPZA) initiated a bid to potential investors for a joint venture to construct 5,000 units in the same region.

In August, Chinese Developer Erdemann Property broke ground for Phase 3 of its Ksh 3.2 billion Great Wall Gardens Project located in Athi River, Machakos County. This comprises of 688 units which are expected to be ready by July 2020.

In the same month, investment firm Centum broke ground on its Riverbank Apartments project. The 160-unit housing project is located at the Two Rivers mixed-use development and is projected to be completed in 2021. Riverbank Apartments is the first project in Centum's five-year plan to construct 1,560 residential units. In September, Uhuru Heights Limited, a subsidiary of Centum, sought approval from the National Environment Management Authority (NEMA) to build 400 apartments within the Two Rivers Development.

In September, Safaricom Investment Co-operative (SIC) launched its latest residential project in Kiambu County targeting middle-income earners. The Zaria Village sits on 124 acres and comprises of 331 plots each on quarter of an acre.

Earlier in June, Tilisi Developments signed a deal with Maisha Homes, which is expected to construct two affordable to mid-level housing projects within the residential section of the mixed-use development. In October, Tilisi begun construction of its first housing project Tilisi Views. The first phase includes the construction of 26 units which are expected to be ready by 2021. The 186-unit development will sit on 41 acres.

In November, property developer Superior Homes announced plans to construct 372 holiday homes in Kilifi County. Pazuri at Vipingo is expected to cost Ksh 7 billion and will sit on 105 acres. Phase 1 of the project will comprise of 63 units, expected to be ready by June 2020.

In the mortgage market, the number of residential accounts increased marginally to 26,504 in 2018 from 26,187 in 2017. According to the Central Bank of Kenya (CBK), the defaults on non-performing mortgages increased by circa 40%, from Ksh 27.3 billion in 2017 to Ksh 38.1 billion in 2018. This contributed to the increased number of distressed properties in the market in 2019 and affected residential values significantly as lenders intensified efforts to recover non-performing loans through sale of collateral.

Hotel & Tourism

In August, Thai hospitality chain DusitD2 Hotel reopened after renovations following the January 2019 terrorist attack. The luxury hotel, located in 14 Riverside, a mixed-use complex, reopened with enhanced security measures. In the same month, Sun Africa Group of Hotels started renovations on its 200-room Mombasa hotel, Nyali Sun Africa Beach Hotel and Spa.

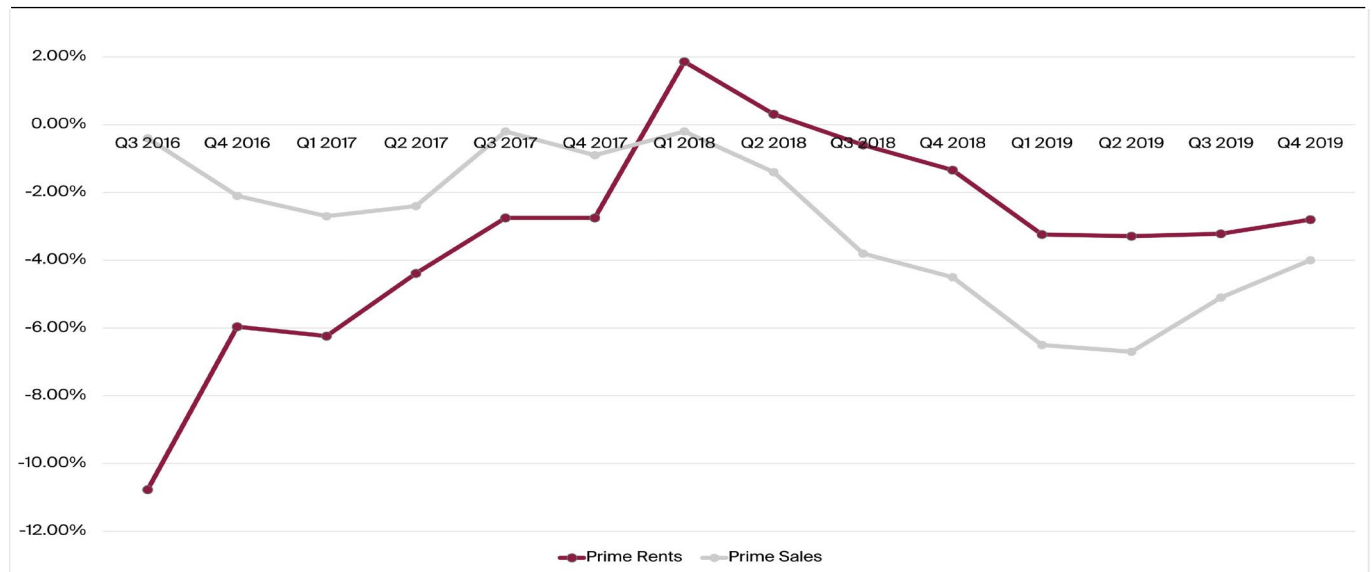
Tourist arrivals in the country increased marginally to 2.05 million in 2019 from 2.03 million in 2018. The 1% increase was attributed to political stability, global marketing campaigns and notable growth in the aviation sector. International airlines such as Air France and Ethiopian Airlines increased their flight frequencies to Nairobi and Mombasa respectively, whilst Uganda Airlines introduced direct flights between Entebbe and Mombasa. The reduced growth in tourist arrivals in comparison to previous years was mainly due to the terrorist attack in January 2019, reduced budgetary allocation towards marketing and tourism development and reduced global growth.

In 2019, only eight out of the top 20 source markets recorded increased numbers of tourists entering the country. Major source countries such as the UK, Germany, Italy and Canada – which were historically high contributors of tourist arrivals to Kenya – recorded fewer numbers in 2019 in comparison to 2018. The US remained the leading source country for tourists, with the commencement of direct flights by Kenya Airways in 2018 between Nairobi and New York having assisted in sustaining the growth.

According to the Ministry of Tourism, leisure tourists contributed to circa 63% of the visitors entering Kenya in 2019 followed by business tourists contributing 13.5%. Hotel bed-nights occupancy for domestic tourism increased by 10.4% in 2019 to 4,955,800 from 4,489,000 in 2018.

The hospitality industry continued to attract international hotel chains owing to Nairobi's role as a major regional hub within SSA. Additionally, Kenya remains a top destination for Meetings, Incentives, Conferences and

FIGURE 9:
Annual Prime Residential Rents and Prices



Source: Knight Frank Kenya

Exhibitions (MICE) tourism, as well as coastal and wildlife tourism, resulting in increased demand for hospitality services from leisure and business travellers.

Radisson Hotel Group opened its third hotel and branded residences in October. Radisson Blu Hotel and Apartments, located in Arboretum, comprises of 122 rooms and joins the Radisson Blu in Upperhill and Park Inn by Radisson in Westlands.

In August, Chinese investors announced plans to build a 225-room airport hotel in Embakasi near the JKIA and are currently in the process of acquiring approvals. The six-storey luxury hotel is expected to cost Ksh 853.2 million.

French hospitality chain Accor announced in August plans to open its first MGallery Hotel Collection in Gigiri, Nairobi, through a partnership with JIT group. The 105-room hotel is expected to be completed in 2021 and will be the fifth hotel under the hospitality group, joining the Ibis Hotel, Mövenpick Hotels and Resorts and various Fairmont hotels across the country. The hospitality chain also owns the Pullman Hotel in Westlands that is currently under construction.

Dubai-based Aleph Hospitality Group opened the Best Western Plus Hotel in Westlands. The hotel is under the Best Western Collection Group that owns several hotels within Nairobi. The hospitality chain has two hotels currently in the pipeline, including The Alba Hotel in Lavington.

Other major hotel developments in the pipeline include the JW Marriott at GTC and Protea Hotel by Marriott Nairobi, located near the JKIA.

Industrial Market

Electronics and home appliances distributor HotPoint Appliances Limited relocated to its new Ksh 1.1 billion office and warehouse block in Sukari Industrial Estate in September, which will be its East African's headquarters. This trend is expected to continue as more firms are opting to either construct their own premises or lease modern warehousing space that act as their servicing and office space. Nigerian freight e-logistics start up Kobo360 expanded into the Kenyan market in September, marking the company's first physical expansion into East Africa.

The upcoming Naivasha Industrial Park has received interest from both local and foreign investors, as the 9,000-acre park is a Special Economic Zone (SEZ), with lower power tariffs. In December, the industrial park acquired its first anchor tenant, Danish Brewing Company East Africa Limited. The Danish brewer, which manufactures Tuborg and Carlsberg beer, is expected to invest Ksh 4.5 billion in a plant within the industrial park. Once completed, the Naivasha Industrial Park is expected to make Nakuru County a major commercial hub within the region.

Construction of the Nairobi Gate Industrial Park, which is located in the upcoming Northlands City, is currently ongoing. Prime industrial rental prices for Grade A

warehousing space ranged between US\$ 0.6-0.7/sq ft/month over the review period.

Institutional Market

The institutional sector, specifically the private education segment, has continued to experience increased demand for high-quality education facilities from international institutions. In the second half of 2019, South African educational institution Nova Pioneer announced plans to expand into the Mombasa market. This is in line with its strategy of having a minimum of 10 primary and secondary schools in the country by 2022. It is currently building two schools in Eldoret through a joint venture with the Local Authorities Pension Trust (LapTrust), which is expected to be completed by January 2020.

In student accommodation, Acorn Holdings Africa currently has four housing developments under construction in Madaraka, Hurlingham and near the United States International University (USIU).

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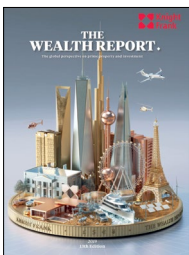
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