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Retail Snapshot

Nairobi, Kenya – H2: 2018

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Economic Overview

Kenya is regarded as East Africa's business and investment hub with the service sector dominating the country's formal economic production. Retail services, along with transport, real estate and financial services all make up a large portion of Kenya's service sector. Additionally, the country is home to an estimated population of roughly 51 million people which is becoming increasingly urbanised.

GDP Growth Rate
Q3:2018 – 6.0%
2018 forecast – 5.9%

Exchange Rate
Q4:2018
1US$ - KSh100.70

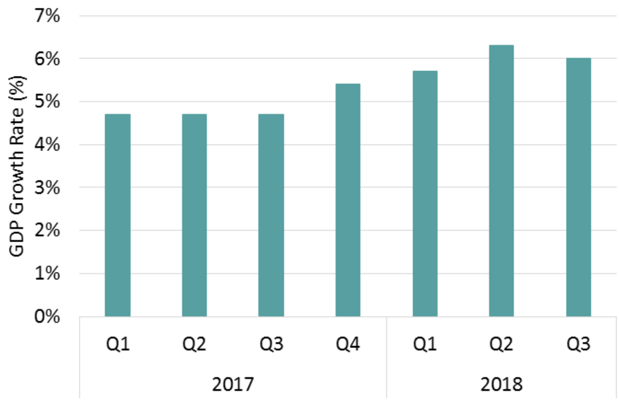
Interest Rate
Oct 2018 – 12.61%

Inflation Rate
Dec 2018 – 5.7%

Gross Domestic Product (GDP)

Provisional estimates indicate that Kenya's GDP grew by 6.0% as at Q3:2018, an improvement in comparison to 4.7% recorded in Q3:2017. The significant acceleration in growth was primarily attributed to improved weather conditions as well as a stable macroeconomic environment. The highest growth rates were evident for the accommodation and restaurant sector (16%) as well as the information and communication sector (9.1%). Additionally, sectors which recorded increased activity included the likes of agriculture (5.2% Q3:2018 vs 3.7% Q3:2017), construction (6.8% vs 5.6%) as well as electricity and water supply (8.5% vs 4.5%). Moreover, a rebound in the manufacturing sector was noted as the sector grew by 3.2% in comparison to -0.1% recorded in Q3:2017.

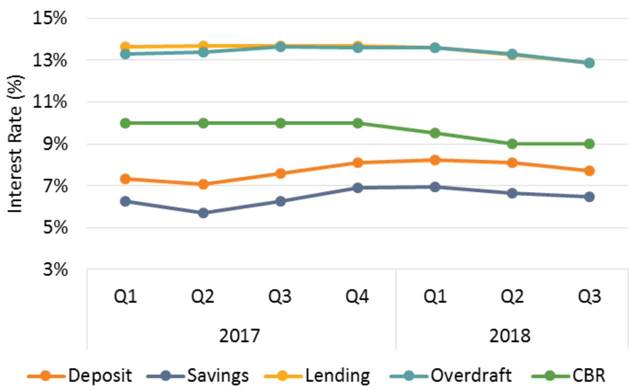
Estimates indicated that GDP is expected to grow by 5.9% for 2018 overall.



Source: KNBS

Interest Rates

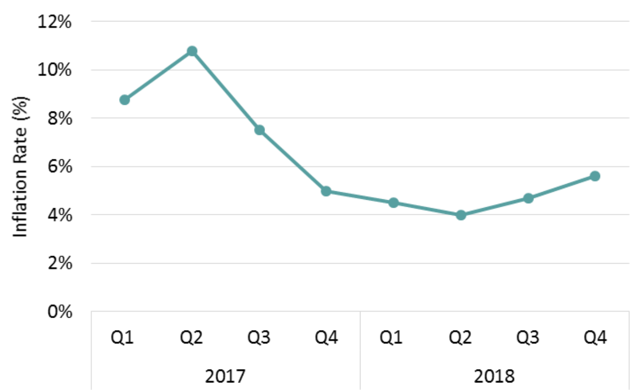
Kenya's weighted lending interest rate on commercial banks' loans recorded 12.61% as at October 2018 and averaged 12.85% in Q3:2018 compared to 13.68% in the corresponding quarter in 2017. The drop in the rate was attributed to the downward review of the CBR from 10.00% to 9.50% in March 2018 and to 9.00% in July 2018.



Source: KNBS

Inflation

The country's inflation rate remained within the single-digit range throughout 2018. A rise in the average inflation rate was evident as at Q4:2018, recording 5.61%, this in comparison to 4.49%, 3.99% and 4.70% in Q1, Q2 and Q3:2018 respectively. The December year-on-year inflation rate of 5.7% was the highest figure recorded in over a year. The increased inflation rate has been largely driven by increased prices of food and non-alcoholic beverages as well as high inflation evident for housing and utilities, i.e. charcoal, kerosene and transport as a result of the increased diesel price.



Source: KNBS

Foreign Exchange

When comparing Q3 to Q4:2018, the local currency average depreciated slightly from Ksh101.84 to Ksh100.70 against the US Dollar, appreciated from Ksh131.04 to Ksh131.30 against the Pound Sterling and also appreciated from Ksh116.25 to Ksh117.17 against the Euro.

Amendments to laws

While the country is still recovering from the prolonged 2017 elections, changes to laws have been made. What remains to be seen is how these changes will be implemented and if the anticipated results will be achieved as controversy has been brought to light in certain instances.

The Coast Guard Act 2018 which establishes the Kenya Coast Guard service, responsible for enforcing maritime security and safety among other aspects, was signed into law. This law is expected to *strengthen the country's boarders while also mitigating risks of transnational organized crime via increased trans-border intelligence and information sharing*.

Kenya's Finance Act 2018 was signed into law in September 2018, this act amends the law relating to various taxes and duties. Some changes which are anticipated to have an effect on the real estate market include, but are not limited to, changes such as *8% VAT on petroleum products (previously exempt), 16% tax on garments and leather footwear manufactured in an Export Processing Zone at the point of importation (previously exempt), and asset transfers and other transactions related to the transfer of assets into Real Estate Investment Trusts are VAT exempt.*

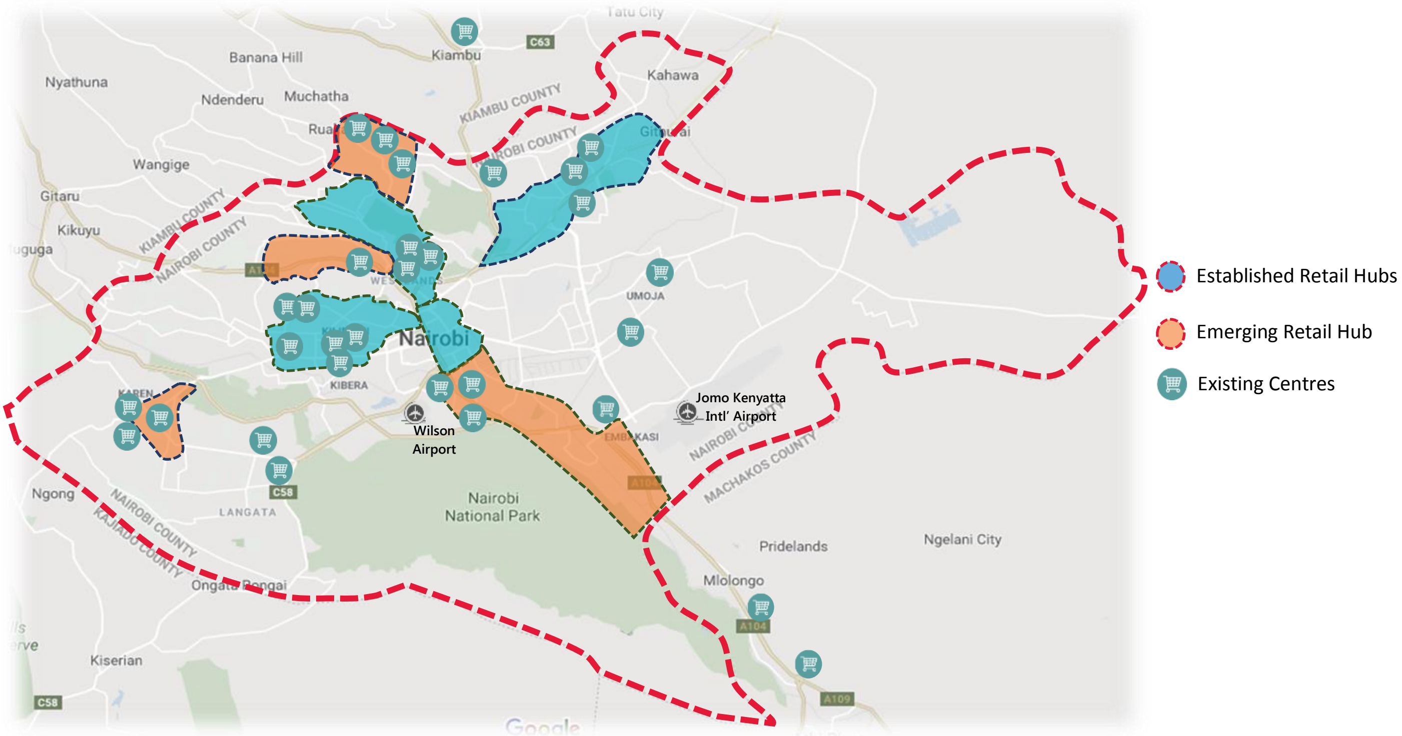
Centre Type	GLA (m^2)
Regional Centre	50,000m^2 – 99,999m^2
Small Regional Centre	25,000m^2 – 49,999m^2
Community Centre	12,000m^2 – 24,999m^2
Neighbourhood Centre	5,000m^2 – 11,999m^2

Retail Market

Kenya's retail market continues to grow albeit at a lethargic rate. It is expected that landlords will continue to offer rent concessions with an anticipated shift from rent charges based on space occupied to either turnover rent or a combination of turnover rent and base rent. Landlords also appear to be more accepting with regards to lease terms such as extended rent free periods and landlord contribution to tenant installation. Due to the demise of one of the major hypermarkets in Kenya, most landlords have taken a cautionary approach by leasing smaller spaces to more than one anchor tenant.

Existing retailers are expected to renegotiate their rentals and general lease terms. Whilst new retailers are carrying out due diligence on market rents before committing to a minimum lease period of 5 years and 1 month, which is the average lease term period in the market.

The growth of aspirational consumers has influenced Food and Beverage (F&B) retailers who are now diversifying to Nairobi's CBD. Interest has been evident from both international and local cafes as well as restaurants with local retailers considering the inclusion of international cuisines. The industry continues to witness the involvement of investors either buying a stake in renowned F&B brands or managing the capital expenditure responsibility thereof. Beauty and cosmetics brands continue to be popular as they offer a variety of products from designer to local brands. While, the delicatessen section in supermarkets is also popular as it appeals to mainly the young adult demographic and its popularity is expected to continue.



Source: Broll Kenya Research

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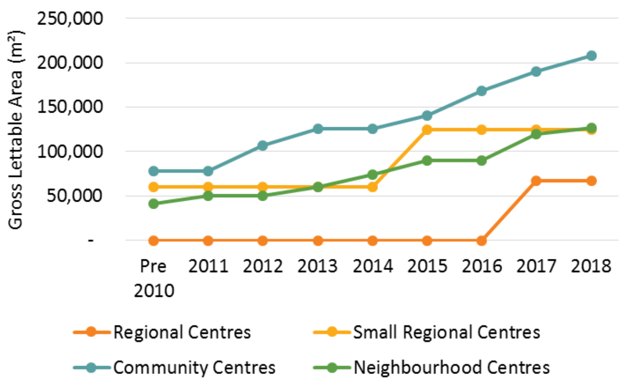
It has been noted that consumers tend to prefer shopping in stores or within retail centres that offer loyalty programmes. Going forward, increased retailer innovation is anticipated in an attempt to encourage consumer spending, some retailers are offering hire purchase options for electronics and homeware merchandize. Additionally, the retail industry has witnessed increased interest in design and build investment models between land owners and retailers with regards to stand-alone buildings, this is anticipated to continue.

Formal Retail Supply

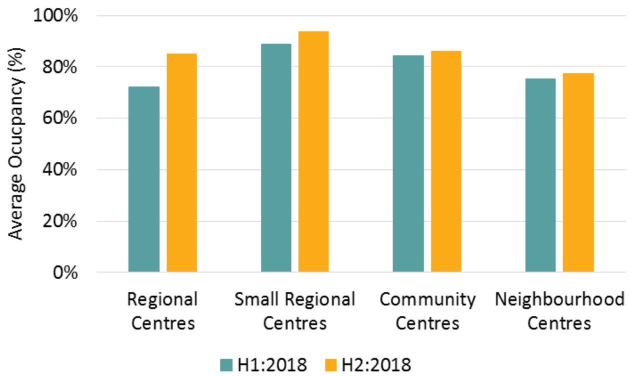
Nairobi's formal existing retail supply stands at an estimated 526,000m² as at H2:2018 registering a 5% growth from 502,000m² recorded in H1:2018. This growth has been primarily attributed to the opening of The Well (7,200m²) in Karen which is anchored by Chandarana Supermarket. Community centres account for the largest market share, approximately 39%, followed by small regional and neighbourhood centres, 24% respectively.



Source: Broll Kenya Research

Occupancy Levels

Occupancy levels registered a year-on-year increase of 6% in the second half of 2018. This growth was mainly attributed to the take-up of space that was previously occupied by Nakumatt Supermarkets prior to their demise. The industry also experienced new international retailer entrants, primarily from Europe, across the fashion, sportswear and hypermarket categories.



Source: Broll Kenya Research

During the second half of 2018, Tuskys Supermarket was recorded as having the highest percentage of market share with regards to supermarkets within Nairobi, roughly 23%, with their most recent opening at Crossroad Mall (Karen). This was followed by Naivas Supermarket, at around 20%. Foodplus Supermarket's market share increased from 10% in H1:2018 to 11% in H2:2018 upon the opening of their store at The Well in Karen.

Rental Rates

Average rental rates across the retail market have remained fairly unchanged in comparison to the first half of the year.

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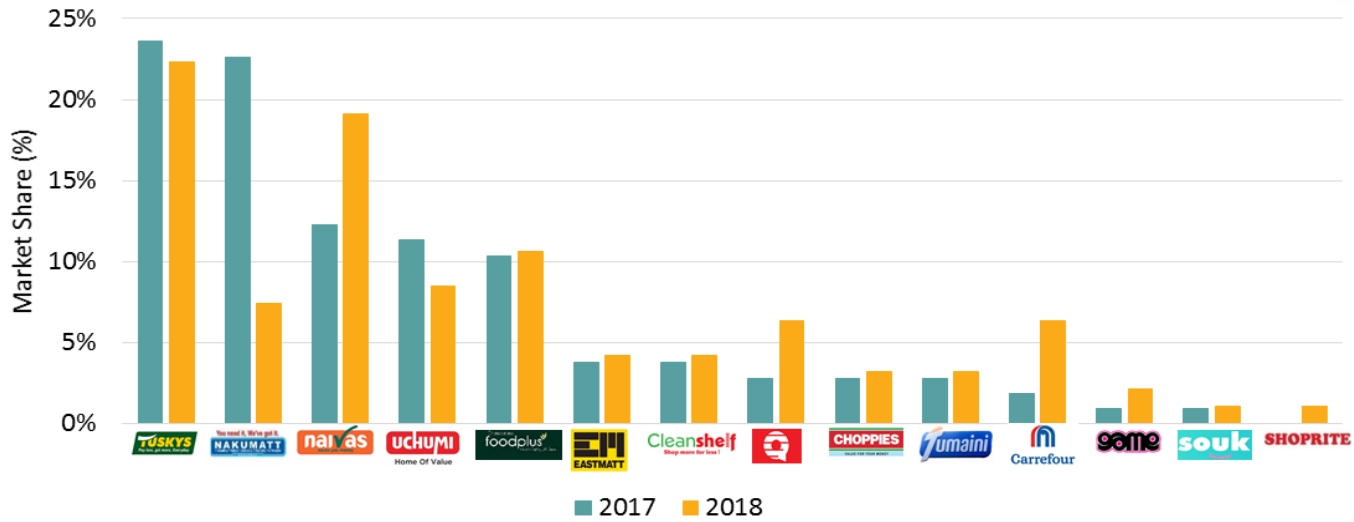
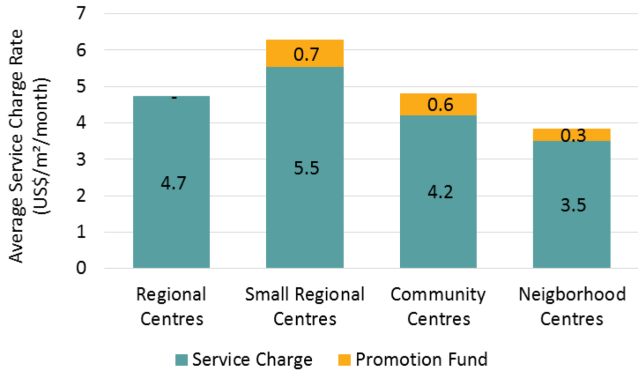


Source: Broll Kenya Research

- Kiosks achieved an average rent of between Ksh50,000/month (US$488/month) and Ksh120,000/month (US$1,172/month).
- Line shops recorded average rental rates of between Ksh120/ft²/month (US$12.60/m²/month) and Ksh340/ft²/month (US$35.77/m²/month).
- Anchor tenants have been noted to achieve average rental rates of between Ksh55/ft²/month (US$5.78/m²/month) and Ksh100/ft²/month (US$10.51/m²/month) depending on the lettable space, centre type and location. Additionally, certain anchor tenants have been negotiating rentals payable on a turnover basis.

Service Charges

With regards to services charges, small regional centres registered the highest average rate of Ksh52.75/ft²/month (US$5.5/m²/month) net of a promotion fund at an average of Ksh7/ft²/month (US$0.7/m²/month). An average of Ksh13/ft²/month (US$1.37/m²/month) of the service charge rate is shared amongst cleaning (US$0.35/m²/month), security (US$0.81/m²/month), insurance (US$0.19/m²/month) and rates at US$0.02/m²/month.



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Intel Report Contact Details

Divisional Director
Broll Property Intel
Elaine Wilson
+27 11 441 4083
ewilson@broll.com

Researcher
Daniella Martino
+27 11 441 4075
dmartino@broll.com

Head of Research and Valuations
Kenya
Vivian Ombwayo
+254 709 113 000
vombwayo@broll.co.ke

Divisional Director
East Africa
Jess Cleland
+230 5 756 9552
jcleland@broll.com

Director Investor Services
East Africa
Stuart Gibson
+254 719 896 506
sgibson@broll.com

Director Occupier Services
East Africa
Pieter Van Rooyen
+254 741 799 905
pvrooyen@broll.co.ke

Head Office & Country Contact Details

Broll Property Group (PTY) Ltd (Head Office)
Physical Address: 61 Katherine Street, Sandown Ext. 54, Sandton.
Phone: +27 11 441 4000
Fax: +27 11 441 4452
Email: info@broll.com
LinkedIn: Broll Property Group
Twitter: @Broll_insights
Website: www.broll.com

Broll Botswana
Physical address: 1st Floor, The Hub, iTowers, Gaborone.
Phone: +267 398 1973
Email: botswana@broll.com

Broll Ghana
Physical address: 7th Floor, Ridge Tower, 6th Avenue, Ridge, Accra.
Phone: +233 302 672 888
Email: ghana@broll.com
Website: www.brollghana.com

Broll Indian Ocean (Madagascar, Mauritius, Seychelles & Réunion)
Physical address: Suite 2IJ, 2nd Floor, Raffles Tower, Ebene.
Phone: +230 468 1222
Email: indianocean@broll.com
Website: www.broll-io.com

Broll Kenya
Physical address: Westlands Business Park, Acacia Block, Ground Floor, Waiyaki Way, Nairobi.
Phone: +254 712 668 448
Email: kenya@broll.com
Website: www.broll.co.ke

Broll Malawi
Physical address: Kabula House, Ground Floor, Chilembwe Road, Blantyre.
Phone: +265 184 3311
Email: malawi@broll.com
Website: www.broll.co.mw

Broll Mozambique
Physical address: Rua Mateus, Sansao Muthemba, Maputo.
Phone: +258 21 496 852
Email: mozambique@broll.com
Website: www.broll.co.mz

Broll Namibia
Physical address: Zanlumor Building, 2nd Floor, Post Street Mall, Windhoek.
Phone: +264 6 137 4500
Email: namibia@broll.com
Website: www.brollnamibia.com.na

Broll Nigeria
Physical address: 6th Floor, ED Building, 47 Marina, Lagos Island, Lagos.
Phone: +234 1 270 1890
Email: nigeria@broll.com
Website: www.broll.com.ng

Broll South Africa
Physical address: 61 Katherine Street, Sandown Ext. 54, Johannesburg.
Phone: +27 11 441 4000
Email: info@broll.com
Website: www.broll.com

Broll Uganda
Physical address: The Acacia Mall, 4th Floor, Plot 14-18 Cooper Road, Kampala.
Phone: +256 312 531 500

Broll Zambia
Physical address: Manda Hill Mall, Cnr Great East and Manchinchi Roads, Lusaka.
Phone: +260 21 125 5550
Email: zambia@broll.com
Website: www.broll.co.za