KENYA
SNAPSHOT
H2:2017

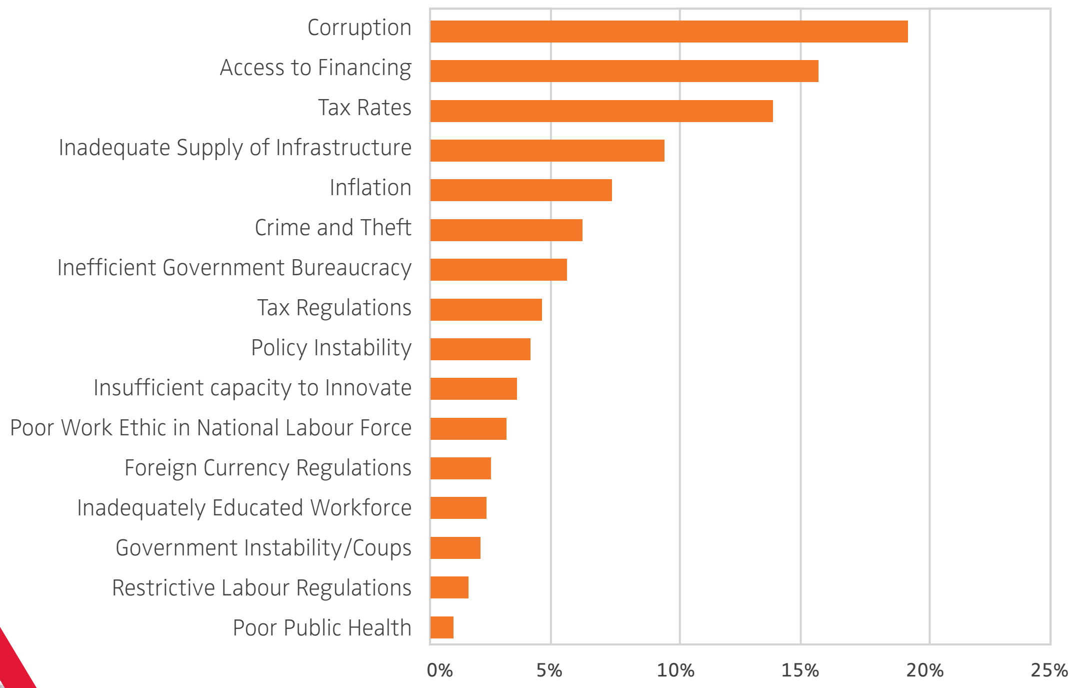
KENYA

ECONOMIC OVERVIEW

Kenya's macroeconomic fundamentals remained largely stable and supportive of growth during the second half of 2017. According to data released by the Kenya National Bureau of Statistics (KNBS), the country's GDP growth decelerated to 4.4% in Q3:2017 compared to 5.6% in the corresponding period in 2016. This decline was mainly attributed to the uncertainties caused by the national election, increased oil prices coupled with adverse weather conditions that led to the rise in food prices.

According to the World Economic Forum the top three problematic factors for doing business in Kenya include corruption, access to financing and tax rates. However, an improvement has been noted as the country ranked 91st out of 137 countries in the 2017/2018 Global Competitiveness Index, up from 96th the previous year. While also improving its ranking in terms of the Ease of Doing Business, i.e. ranking 80th out of 190 countries in comparison to 92nd the previous year.

Problematic Factors for Doing Business



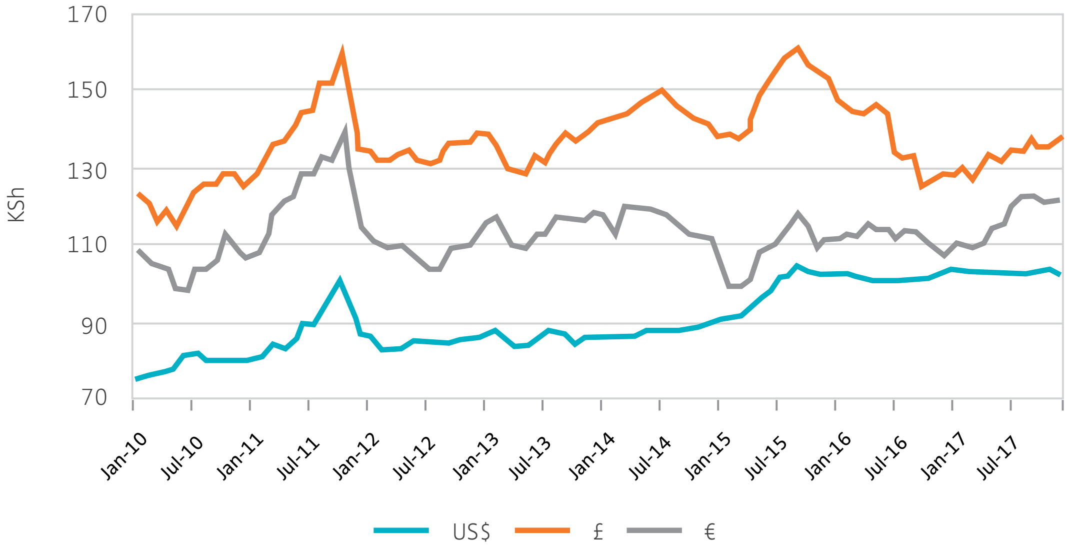
Source: World Economic Forum

The country's inflation rate remained within the single-digit range, registering a decreased average inflation rate of 6.3% compared to 9.8% in the first half of the year. This reduction was mainly driven by food subsidies from the Government of Kenya.

Kenya's weighted interest rate on commercial banks' loans remained stable at an average of 13.7% compared to 13.6% in H1:2017. The Monetary Policy Committee maintained the Central Bank Rate (CBR) at 10%, while the Savings Interest Rate improved slightly from 6.0% to 6.5% in the second half of the year.

The Kenya Shilling (KSh) remained stable throughout the year against the US dollar at KSh103. The local currency however depreciated from KSh130 to KSh136 against the Pound Sterling and KSh112 to KSh121 against the Euro.

Exchange Rate



Source: CBK

FACTS ABOUT KENYA

Size: 582,650km^2
Capital City: Nairobi
Total Population: 48,466,928 (2017)
Youth Dependency: 74.3% (2017)
Elderly Dependency: 5.2% (2017)
Internet Users: 43,329,434 (Dec 2017)
GDP Growth: 4.4% (Q3:2017)
GDP Growth Forecast: 5.7% (2018 est.)
Inflation Rate: 4.5% (Dec 2017)
Interest Rate: 10.0% (Dec 2017)
Ease of Doing Business Ranking/190: 80 (2018)
Global Competitiveness Ranking/137: 91 (2017/2018)

RETAIL MARKET OVERVIEW

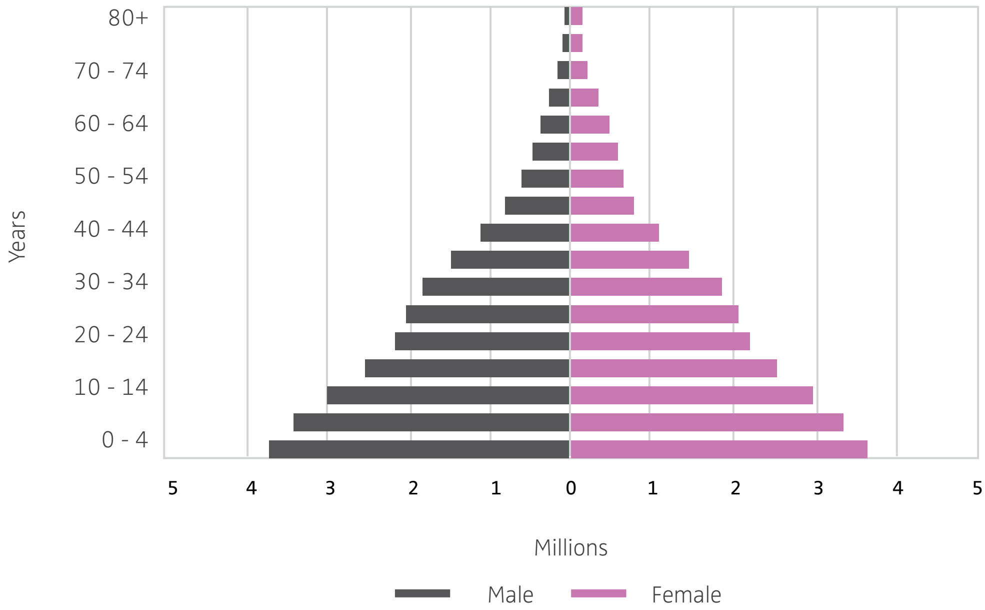
Kenya's formal retail supply stands at an estimated 982,300m² with a further 240,000m² expected to enter the market over the next 18 to 24 months. Moreover, approximately 58.0% of the total retail gross lettable area in Kenya is situated in Nairobi. The retail market has experienced both the emergence of new shopping centres and also the expansion of existing centres. Examples of centres under expansion include Sarit Centre (34,000m²) and The Village Market (21,300m²). Decentralised areas such as Kiambu, Mombasa and Machakos counties have also experienced an upsurge in the supply of retail space contributing to approximately 36.0% of the total retail space expected to be released to the market over the next 24 months.

In spite of the uncertainties caused by the general election in August, the re-run in October and the downfall of Nakumatt, investors and retailers continued to remain positive. International retailers including the likes of Carrefour, Shoprite, Choppies, Miniso and Game have all been seen increasing their investment in East Africa and particularly in Kenya. This is encouraging because these seasoned players usually precede their investment with a thorough research exercise on both country risk and the micro location. The vacant retail boxes left by Nakumatt have been hotly contested by the aforementioned players as well as local players such as Chandara, Naivas and Tuskys. The Massmart Group will be introducing both a Builders Warehouse and a new Game store at The Waterfront in Karen which will provide an interesting new offering to the Nairobi market.

Prime shopping centres are recording average occupancy levels of 91.0% while the newer, less established centres are achieving occupancies of between 45.0% - 84.0%. Enquiries from new local retailers for shorter tenancy options, as opposed to the typical 5 years 1 month minimum tenure commercial leases, have been on the rise. These are usually in the form of a license agreement or a ''pop up'' store concept, where landlords are willing to accommodate the offering. This model allows tenants to test the waters before committing to hefty outlay costs and a long-term lease. Furthermore, it is important that landlords embrace these concepts due to the current narrow tenant base which exists within the market and the need to facilitate the growth of an emerging retail market into the 1st world retail environment.

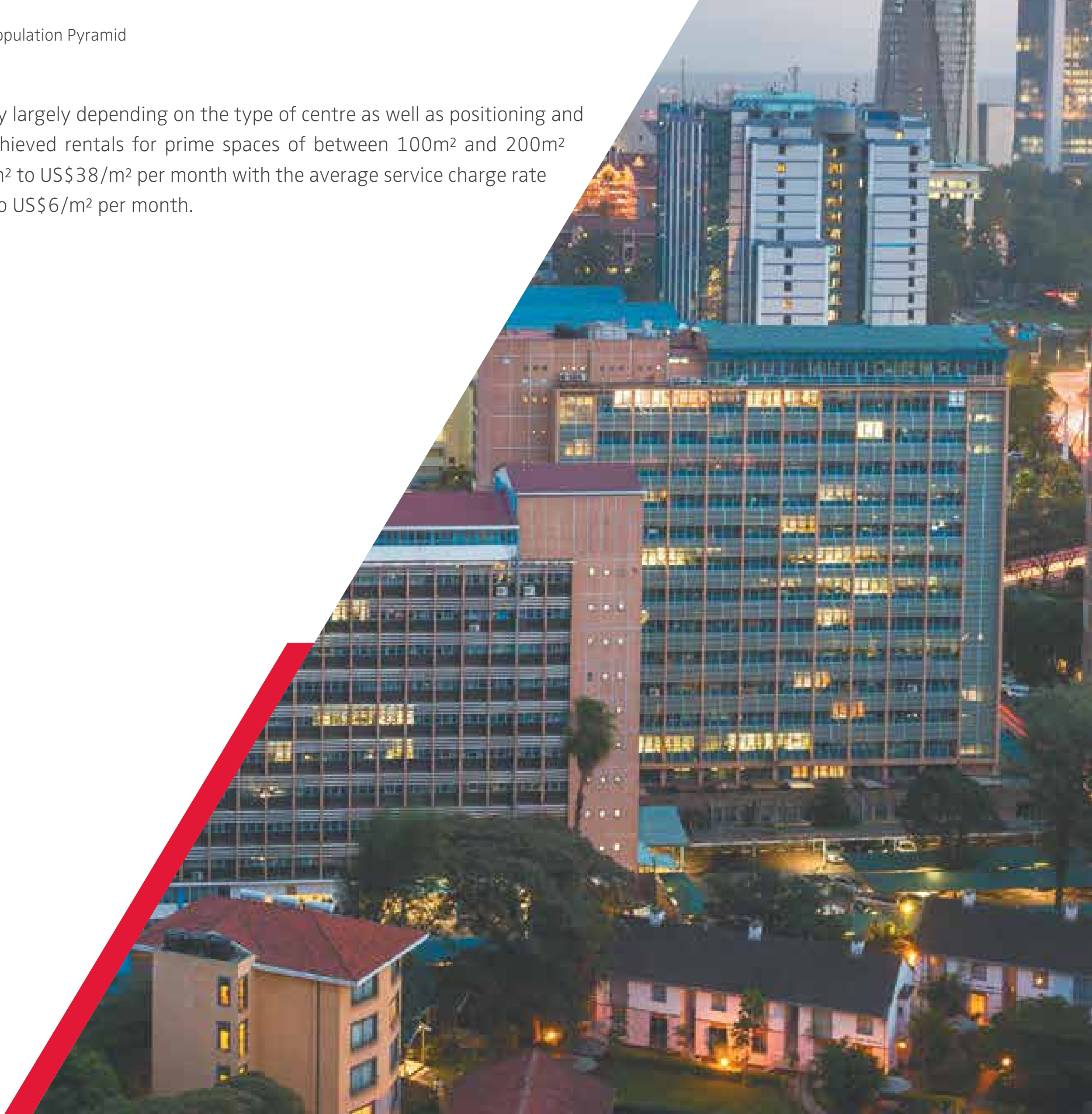
The ongoing vitality of the retail sector is evident with the likes of LC Waikiki announcing expansion plans not only in Nairobi but also in the second tier cities, while Tuskys has also announced an ambitious 100 new store roll out over the next 3 years. Additionally, 61% of the country's population is below the age of 24 thus potential for a broad consumer base is evident.

Total Population



Source: Population Pyramid

Nairobi's rental rates vary largely depending on the type of centre as well as positioning and size of the unit. Nett achieved rentals for prime spaces of between 100m² and 200m² range between US$35/m² to US$38/m² per month with the average service charge rate ranging from US$3/m² to US$6/m² per month.



OFFICE MARKET OVERVIEW

Nairobi's existing supply of A-grade and B-grade office stock is approximately 2million m², with in excess of 327,000m² expected to be delivered over the next 24 months in Nairobi. The office nodes with the highest supply of quality office space are Westlands followed by Upper Hill and Kilimani.

The office market has recently been experiencing an expansion of A-grade office space in areas that were initially set aside for residential use – for instance, Lavington, General Mathenge Drive, State House Crescent and Karen. Supply of new office space declined in the second half of the year which can be attributed to uncertainties surrounding the general election which consequently translated to a decline in construction activities. Therefore most projects that were expected to be delivered in the latter part of 2017 will now be delivered in 2018.

The demand for A-grade office space has been fairly stable owing to Nairobi's growing status as a regional hub mainly driven by financial institutions, insurance companies, law and accounting firms, telecommunications and ICT firms. Most serviced and co-working office space operators have also been expanding mainly into A-grade office spaces. B-grade office space is popular with start-ups, industrial and allied companies, consultancy firms as well as aid and development organisations.

H2:2017 occupancy levels remained fairly unchanged mainly due to the general election uncertainties. Vacancy levels in A-grade space increased to 29.5%, up from 27.0% in H1:2017, B-grade space registered a vacancy level of 27.0% compared to 20.0% in H1: 2017 while C-grade office space recorded the highest vacancy level of 31.0% which is a slight increase from 30.0% in H1:2017.

The average asking rental rate for A-grade office space is US$14/m²/month while B-grade monthly rentals average US$11/m²/month, excluding VAT and service charges. The average service charge rate ranges from US$2/m²/month to US$3/m²/month. However, certain office developments offer differentiated rental rates for quasi-retail space (ground floor) and office space (upper floors), with the quasi-retail space being approximately 50.0% more expensive.

The sectional floor by floor sale of office space is not as vibrant as the rental market. Consequently, there have been very few transactions of this nature in the recent past. Office spaces in Nairobi are being sold between US$1,045/m² to US$1,463/m², while parking bays are selling at approximately US$9,709 to US$14,563 per bay.

INDUSTRIAL MARKET OVERVIEW

The industrial market has witnessed a development explosion of quality warehouses away from the typical warehouses (''godowns'') found in the traditional industrial zones. The development of logistics parks, mainly in decentralised areas such as Kiambu and Machakos counties, showcase institutional interest in this sector. Major industrial park projects include the likes of Tatu City (Phase I: 457 acres, Phase II: 450 acres, Ruiru), Infinity Industrial Park (200 acres, Eastern Bypass), Northlands (100 acres, Eastern Bypass) and Tilisi Logistics Park (90 acres, Limuru). These projects offer both serviced industrial land and built warehouses. Moreover, increased demand for cold and specialised warehouses in addition to A-grade warehouse space has become evident. Warehouses typically range between 500m² to 1,000m² in nature with a few projects offering spaces of approximately 10,000m².

There has been an increase in the number of serviced industrial land transactions, mainly driven by the light industrial users seeking to build bespoke warehouses while keeping in mind future expansion plans. Most of the major projects offer serviced industrial land of a minimum of 2 acres with prices ranging from US$359,223/acre to US$689,320/acre, depending on the level of infrastructural investment. Serviced industrial land price appreciation has averaged around 27.0% over the last 12 months.

The warehouse rental market remained fairly vibrant in H2:2017 offering average net asking rentals of between US$3/m²/month and US$5/m²/month for B and C-grade warehouse spaces. The few existing A-grade warehouse spaces achieve an average rent of US$8/m²/month. The average service charge rate is approximately US$0.5/m²/month. Additionally, the warehouse sales market has been growing at a slow rate with fewer transactions compared to the rental market. Sale prices range from US$523/m² to US$1,045/m².

Off-plan sales and leases are gaining popularity mainly for A- and B-grade warehouse spaces hence occupancy levels for pipeline projects are currently at around 40.0% while occupancy rates for existing quality stock is estimated at 90.0%.

Market Indicators (Nairobi)

	RETAIL	OFFICES			INDUSTRIAL
Indicator	**Prime Space**	**A-grade**	**B-grade**	**C-grade**	**Prime Space**
Approximate Size of the Market (m²)	982,300	621,400	1,123,500	68,300	700,000
Demand - Next 6 Months (Up/Down/Stable)	▶	▶	▶	▼	▶
Supply - Next 6 Months (Up/Down/Stable)	▲	▶	▶	▼	▶
Average Net Asking Rent (US$/m²/month)	35	14	11	8	5
Average Vacancy Rate (%)	9.0%	29.5%	27.0%	30.0%	7.0%
Average Yield (%)	9.0%-10.0%	8.0%-9.0%	7.0%-8.0%	7.0%	7.0%-8.0%

For a full list of sources please email research@broll.com

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