THE ARCHITECTURAL ASSOCIATION OF KENYA

STATUS OF THE BUILT ENVIRONMENT REPORT

AUGUST - DECEMBER 2020

Table of **Contents**

Introduction

The effects of the covid-19 pandemic adversely affected operations in the built environment sector and the economy at large. According to a study conducted by the World Bank Group, 93 % of firms in Kenya reported a reduction of sales in the period between May and August compared to the same period in 2019, while only 2% reported an increase in sales.

The mean decline in sales according to the study stood at 51%. The study also revealed that a quarter of firms saw sales drop by 70% with the decline in sales showing highly heterogeneous patterns- sales declined by 90% for the bottom 10 percent of firms, while sales declined by just 10% for the top 10% of firms. Large firms fared better than smaller firms, with no drop in sales reported at the 90th percentile of the large firms. Firms in the accommodation and hospitality sectors experienced the largest decline in sales.

A similar study specifically focusing on Kenya's built environment sector by the Architectural Association of Kenya (AAK) revealed that a total of 87.50% professionals in the industry had experienced significant decrease in client inquires for new projects while another 70.11% reported a decrease in communication or follow up of ongoing leads.

Only 4.55% and 3.45% reported an increase in the number of prospective client inquires for new projects and ongoing leads respectively.

Real Estate

Overview

Kenya's real estate sector was set to see a significant growth this year on the back of its growth recorded in 2019. However, the Covid-19 pandemic has affected these projections. Previously, the sector had witnessed sluggish growth in 2017 and 2018. In 2019, the real estate sector in Kenya recorded an average growth rate of 5.3 percent, which was 1.2 percentage points higher than 4.1% growth rate recorded in 2018, according to KNBS Economic Survey 2020.

The Cytonn Q1'2020 Markets Review further revealed that the real estate sector recorded moderate activity with average rental yields improving marginally in the residential and commercial office sectors to 5.2% and 7.8% respectively, from 5% and 7.5% in the fourth quarter of 2019. The retail sector, however, registered a 0.1 percent points drop in rental yields to 7.7 percent in the first quarter of 2020, from 7.8 % in the last three months of 2019. The impacts of the covid-19 pandemic notwithstanding, Kenya's construction industry experienced relative stability if statistics from Half 1 of 2020 are anything to go by.

The real estate sector (residential and non-residential) grew by 4.3 percentage points in Q1 2020, 0.5 percentage points lower than Q1 2019, attributable to a decline in activity amid a tough financial environment. House prices contracted by 0.2 percent in Q2 2020. Apartments accounted for 75.6 percent of the concluded sales, attributed to affordability, with detached units accounting for 24.4 percent. Mid and high-end markets accounted for 75 percent and 7.8 percent of the sales, respectively, reinforcing buyers' search for affordability.

Rental prices have declined, attributed to pressure on landlords to offer discounts amid reduced disposable income. Despite reduced development activities, the value of residential building approvals in the first two months of the year increased by 204%, attributed to clearing of the backlog by the liaison committee dealing with development applications.

Commercial Property

Property managers are now at task to minimize operational costs so as to contain outgoings to be balanced against the resulting limited income. Tenants' gross sales and footfall traffic within their individual stores/premises have declined due to the consumers avoiding crowded areas such as mall, retail and shopping centers as a result of social distancing directives. With a slowing economy and employment levels under pressure, the resulting economic constraints have shifted consumer spending away from impulse expenditure and luxury purchases, and towards a focus on essential items, most especially food.

Following the Government's directive in March banning public gatherings, many tenancies such as cinemas, kids' play area and other leisure tenants have been closed. Sit-down restaurants are now operational but have to take into account social distancing requirements. By contrast, supermarkets, grocery butchery and fast food outlets have been thriving in business.

Consumers now have the option of online shopping from various outlets. Non-essential tenants have initiated discussions with their respective landlords on rent waivers or discounts and an extension on rent-free months.

In terms of rent concession, reductions and moratoriums, there has been no one-size fits all solution applied in the sector. Rather, each landlord is handling their situations with their individual tenants on a case-to-case basis. In some cases, for example, landlords are requesting turnover sales figures in order to review a tenant's performance/trading densities during the pandemic in order to grant rent concessions based on this information. Generally, new commercial entities have extended fit-outs, while existing tenants are negotiating rent concessions, however, in almost all cases service charges are still required to be paid in full.

Residential Property

A report by the Kenya Bankers Association (KBA) on bank-processed house purchases showed that demand for apartments doubled in the second quarter of 2020 as buyers moved away from the costlier standalone units. The Kenya Bankers Association's (KBA) Housing Price Index released on 11th August 2020 also revealed that most buyers chose lower-priced apartments, which saw concluded sales rise to 75.6%, compared to the 33% reported in quarter one of 2020.

A recent report by Knight Frank showed that real estate investors recorded a double-digit loss in income as Covid-19 pandemic reduces rent prices and occupancy rate. According to the report, hospitality, retail, and health centers were the most affected assets, posting 50.5%, 41.4%, and 26.7% drop, respectively. The decline was attributed to economic slowdown heightened by the pandemic that resulted in most businesses putting on hold space requirements as they focused on operational rather than capital expenditure.

Infrastructure

Nairobi Expressway

Image: kenyanwallstreet.com

The 27.1 Km Nairobi Expressway project is currently underway with December 2022 as the set completion date. The Expressway which begins at Mlolongo to JKIA, Nairobi's CBD and ends at Westlands along Waiyaki Way is being undertaken through a public-private partnership(PPP). The project which is ongoing despite a petition pending in court seeking to halt its progress will see Kenyans pay a toll fee to use it following its gazettement as a toll road by the cabinet secretary in charge of transport on 31st December 2020.

In the gazette notice and through a concessionaire, Moja Expressway, a subsidiary of China Road and Bridge Construction (CRBC), will be at liberty to review annually the set base toll rates based on inflation rates in order to cushion the Chinese operator from exchange rate losses. Accordingly, motorists using the road linking Mlolongo to the Nairobi-Nakuru highway via Jomo Kenyatta International Airport (JKIA) will pay between Sh100 and Sh1,550, depending on the size of the cars and distance travelled.

World Bank Approves Sh81bn Loan for Isiolo-Mandera Road Corridor

Image: constructionreviewonline.com

The World Bank approved a Sh81 billion loan in September 2020 to upgrade half of the 750-kilometre Isiolo-Mandera road and lay a fiber-optic cable in a major boost to the North Eastern region. The project which is intended to improve the movement of people and goods, digital connectivity and access to social services for over 3.2 million people living in the region will also include introduction of a number of trade facilitation measures such as border management systems and construction of border posts.

The transformative project is expected to integrate the North Eastern region and enhance security, inclusion, and a sense of equity, will also provide basic socio-economic infrastructure for communities living along the corridor as well as emergency response measures in case of a disaster or catastrophe during the life of the project.

The programme which is the first in a series of projects aimed at supporting the development of regional transport corridors under the Horn of Africa Initiative is expected to take 6 years of implementation and will comprise of road upgrading, the fibre optic connections, and the provision of basic social services are expected to attract investments, facilitate regional and domestic trade, create jobs, and improve access to internet-based opportunities.

The World Bank's International Development Association (IDA), established in 1960, helps the world's poorest countries by providing grants and low to zero-interest loans for projects and programmes that boost economic growth, reduce poverty, and improve poor people's lives.

Land

The Kenya Ministry of Lands and Physical planning in partnership with the National Land Commission (NLC) recently rolled out electronic transactions in Nairobi on a pilot programme basis. The Land Registration (Electronic Transactions) Regulations (2020), the Land (Amendment) Regulations (2020), the Survey (Electronic Cadastre Transactions) Regulations (2020), and the Survey (Amendment) Regulations (2020) were published on July 9, 2020 and took effect on July 14, 2020, marking the start of online land transactions within Nairobi County.

The gazetted regulations relate to registration, providing for an electronic register and online transactions in the registration process and surveys and cadastral maps (providing for an electronic cadastre). This development means that all land transactions, including searches and lodging of transfers and charges, will be undertaken online.

In terms of land prices, Nairobi remained the most expensive county in Kenya to acquire land. Nevertheless, while land prices in the suburb areas of Nairobi dropped by up to 0.94% over the quarter while in the satellite towns the drop was 0.06%. According to a report by Hass Consult, Spring Valley registered the highest quarterly increase at 3.55% while Ongata Rongai topped the satellite towns at 4.71% in Q2 of 2020. Conversely, Riverside posted the biggest quarterly drop at 3.82% while in the satellite towns; Kiambu registered a 5.21% drop.

Partly attributed to its centrality and continued growth as a business hub over the years, Upperhill remains the most expensive suburb with an acre going for 525.7 million while Ruaka tops satellite towns with an acre now at 89.8 million,

Financing

Kenya Mortgage Refinance Company (KMRC)

Kenya's real estate sector was set KMRC, a treasury backed lender, was this year, September, issued with a license by Central Bank of Kenya, paving way for disbursement of funds by the World Bank and continental DFI (Development Finance Institution) African Development Bank (AfDB), to the tune of Sh. 35 billion in form of debt financing through the National Treasury. The facility is an initiative of the National Treasury and World Bank, formed in 2018 with the aim of supporting the affordable housing initiative, which is part of the government's Big Four Development Agenda.

KMRC provides secure, long-term funding to primary mortgage lenders such as banks, Sacco's and other microfinance institutions within the country for onward lending to potential home owners.

On 17th September 2020, the Kenya Mortgage Refinancing Company (KMRC) disbursed Sh.2.75 billion to participating primary mortgage lenders (PMLs) namely KCB Bank, HF Bank, Stima Sacco and Tower Sacco have each received Sh.2.13 billion, Sh.514million, Sh.69 million and Sh.29 million respectively. This first loan disbursement by KMRC is drawn from the World Bank line of credit.

This initial lending, provided at a fixed rate of 5% per annum, will help mortgage lenders create new mortgages in the market on long term-tenor within single digits rates.

Investor & Developer Scene

In a bid to help the sector weather the COVID-19 storm, the government introduced a number of new policies and counter measures. Intended to cushion the financial status of the country, the government through the CBK lowered the Central Bank Rate (CBR) to 7%. Further, the apex bank also lowered its Cash Reserve Ratio (CRR) by 1% to 4.25% to increase lending activities between the bank and its customers.

The government also announced a Kshs 53 billion 8-point stimulus programme which sought to offer soft loans to hotels and related establishments through the Tourism Finance Corporation (TFC), thus stimulating the hospitality sector. The government of Kenya also amended the Tax Laws (Amendment) Act 2020 with the Retirement Benefits Act, which facilitates the use of pension savings towards economical activities such as securing a mortgage loan to buy a new house. Similarly, the government introduced the Business Laws Amendment Act 2020 which facilitates the use of advanced electronic signatures as a valid mode of execution of documents in Kenya. This move was in an attempt to help parties in the real estate sector carry out land transactions digitally at a time when social distancing was highly encouraged. There has been a drop in prices of real estate properties already in Kenya and developers are offering discounts to encourage people to buy property during this pandemic and at the same time maintain a cash flow. Some developers are even coming up with personalised payment plans to suit their buyer's special needs.

Cement Consumption Defies Covid Curbs to Hit 3.4m Bags

Cement consumption in the first seven months of 2020 defied the effects of the corona virus pandemic pointing to stable activity in the construction sector despite the restrictions imposed in March to curb spread of the disease. Data from the Kenya National Bureau of Statistics (KNBS) show that consumption rose 4.5% to 3.59 million tonnes in the period from 3.44 million tonnes posted first seven months of 2019.

According to a report by ExpoGroup, the construction sector remained relatively unaffected by restrictions on movement into and out Nairobi and Mombasa, dusk to dawn curfew and bans on public gatherings that hit most sectors of the economy.

Cement consumption rose month-on-month from April before it fell in July when Kenya announced phased re-opening of the country including resuming movement into and out of Nairobi and Mombasa.

Consumption was 551,914 tonnes in March, fell to 505,958 tonnes in April and rose to 506,728 tonnes and 508,298 in May and June, respectively. Interestingly, cement use in the three months to June during the peak of the restrictions, remained higher compared to the same period in 2019. This contrasts with other indicator in the property market like rent, home prices and land costs which have been subdued by the reduced economic activities in the wake of the pandemic.

Builders Sets Foot in Kenya with Store in Nairobi

Image: builders.co.ke

South African construction and building materials retailer, Builders, opened its first store in Nairobi in August 2020 as it seeks to expand into the East African region. The store, located at the Waterfront Karen brings the total number of Builders stores beyond South Africa to nine.

The opening of the branch saw Kenya, East Africa's commercial hub; join Botswana, Mozambique, and Zambia as regions with the firm's outlets outside the retailer's stronghold, with management affirming intentions to entrench its presence on the continent.

Covering almost 10 000 square meters of trading, dispatch space and garden centre, the Nairobi store has brought a wide range of high-quality home improvement and building materials products and services. The retailer seeks to tap into the emerging market of DIY(do-it-yourself) enthusiasts, homeowners, small businesses or large contractors, with the product range covering among others, building materials and home improvement requirements for flooring, paint, sanware, kitchens, lighting, electrical and appliances host of services such as paint tinting and mixing, glass cutting, kitchen design, gardening products, pool water analysis and others will be available trade credit.

USD 42m Praise Mall in Mt. Kenya Area Breaks Ground

Image: constructionreviewonline.com

The construction of Mt. Kenya region's tallest building "Praise Mall" begun in the last quarter of 2020. The Praise Mall project for mixed-use urban growth covers a total area of 0.4 hectares of land along Meru-Embu-Nairobi Highway in Meru, Meru County.

The USD 42M facility designed by Jesus House of Praise International and will be constructed by Jianxi Jingtai Water Conservancy and Electric Power Development Ltd.

The facility will include the construction of a thirty-storey building with 2 lower ground floors, construction of driveways, sidewalks and parking bays, installation of development utilities (water, drainage, electricity, health and safety systems, IT systems and security), and landscaping/ beautification of the site.

The project expected to be completed in 3 years will include office spaces, retail spaces, serviced apartments, hotels, swimming pools, gymnasium, modern conference facilities, church halls, a 200-capacity parking space and related accessories. The project will benefit the local economy by using locally available materials such as construction stones, iron sheets, timber, bricks, paint, electrical cables, water storage equipment, water pipes, steel, glasses, fencing posts, sand, cement, fuel, etc., and paying government taxes.

50-Storey Ugatuzi Tower to be constructed in Hurlingham


Image: kenyans.co.ke

On 4th December 2020, President Uhuru Kenyatta commissioned the construction of the 50-storey G47 Ugatuzi Tower at Hurlingham in Nairobi County. The building, which is estimated to be the tallest on the continent, will be constructed through a partnership between the Council of Governors and the County Pension Fund (CPF). Financing of the project is expected to be drawn from the county government budgets over the next three financial years, supplemented by resources from other development partners.

The building upon completion is expected to serve as the devolution headquarters and would host the Council of Governors offices, County Satellite offices, County assemblies' forum offices, and the Ministry of Devolution and related State agencies.

Nevertheless, the proposed construction of the Ksh5 billion (US$45 million) G47 Ugatuzi Tower in Hurlingham, Nairobi County has drawn criticism from a section of Kenyans with concerns being raised on the viability of the project.

The Kenya County Government Workers Union (KCGWU) has also moved to the High Court to halt the project spearheaded by the Council of Governors (COG) arguing that the Board of Trustees of Local Authority Pension Trust (LAPTRUST) and the County Pension Fund illegally allowed the land to be used and entered the partnership for their pensions to partly finance the construction without being consulted.

Big 4 Agenda

Affordable Housing Programme

Although it was expected that the government's affordable housing initiative would take a back seat as public funds are channeled towards COVID-19 containment, significant progress has been made on the same. Markedly, H.E President Uhuru Kenyatta signed into law the Supplementary Appropriation Bill No. 2 of 2019, which allocated Kshs. 7B towards the Affordable Housing agenda. This was a 66.7% increment from the Kshs 10.5 bn allocated in Kenya National Budget 2019/20, in support of the initiative.

The first lot of Park Road Affordable Housing Project comprising of 488 units were recently put up for sale with the State Department of Housing and Urban Development indicating that one-bedroom units would go for Sh1 million, two bedrooms for Sh2 million and three-bedroom units for Sh3 million with an interested individual required to deposit 12.5 percent of the amount based on the unit of choice. The Park Road Project which is the first development promoted by Government under the Affordable Housing Program will be integrated human settlement project comprising of 1,370 units upon completion.

The realization of the AHP objectives also received a boost as a result of the efforts by the Nairobi Metropolitan Services (NMS) through Pangani Affordable Housing Project. The Pangani project is an initiative by in partnership with Tecnofin Kenya Limited to renew and re- create Pangani Estate by way of providing dignified and affordable homes for residents of Nairobi. Construction is currently ongoing. When complete, the project will have 1562 units with mixed elements of amenities in the commercial space to cater to residents.

In Kitui, the Kitui County Affordable Housing Project, was initiated through a Public Private Partnership (PPP) between the Kitui County Government and Tecnofin Kenya ltd, a local real estate company. The housing project upon completion will boast of modern finishes, unobstructed view of Nzambani rock, flexible payment terms and proximity to the town and and other social amenities such as schools and hospitals. The project has a planned total of 509 units and completion is 24 months from its launch date of December, 2020.

Kibera Soweto East project
Image: journals.openedition.org

Affordable Housig Program
Image: bomayangu.go.ke

Other efforts under the AHP initiative include the Proposed Redevelopment of Kibera Soweto East Zone 'B' with the government targeting to develop 3000 housing units and other social amenities in the 3.5 Ha Piece of land demarcated as Zone 'B'.

Under the project, the proposed deliverables include 3000 Housing units to be contained in blocks of 12 floors consisting of 25% (750 No.) two roomed housing units (1 bedroom) with shared w.c and shower and a Kitchenette as well as 75% (2250 No.) one roomed housing units (bedsitters) with shared w.c and shower and a Kitchenette.

The NMS has also initiated other programs including among others the Makongeni Housing project that will comprise of 20,000 units, the Starehe Housing Project comprising of 3,500 units as well as the Shauri Moyo Housing Project that will comprise of 5,300 units.

Shelter Afrique Report

The supply of affordable housing units in Africa remains a key social and economic challenge with the supply deficit continuing to increase. The affordable housing deficit in Africa is considered to be a crises, which this puts Shelter Afrique the prime position to play the expected role as "Wholesale Market Maker" in offering holistic bankable solutions in terms of financing solutions on both the supply (construction) and demand (mortgage finance) sides. The Company has also been deploying its intellectual capital by offering capacity building, policy advocacy and research support to our member countries through the Centre of Excellence (CoE) strategic initiative which launched in 2019.

In line with our revised strategy and specifically to align with Strategic Goal 2: Enhancing Shareholder Value and Impact, all our new lending programs have and continue to be aimed at demonstrating the overriding need to achieve development impact to our member countries. This is in line with our mandate of financing affordable and decent homes for Africa. As a Pan-African development finance institution devoted to delivering affordable housing solutions for Africa, we shall aim at being a one stop shop by playing three key roles of financier, advisor and partner of choice to our member countries in the housing sector.

The current key development impact outcomes look at such metrics as: Number of affordable homes built; Number of families accommodated; Jobs created; Women empowerment achieved; and Knowledge transfer programs to member countries etc.

The latest Development Impact Review and Outcomes indicated a total of 3,821 housing units were delivered were 15,284 direct jobs & 11,463 indirect jobs were created, 242 Women were also empowered.

With respect to the impact of COVID 19 pandemic in the built environment, Shelter Afrique is taking the lead in policy and strategy formulation through various initiatives seeking to mitigate the impact of COVID-19 on housing and urban development.

To that effect, Shelter Afrique Centre of Excellence (CoE) issued a publication titled: The COVID- 19 Pandemic as an Imperative for Pragmatic and Sustainable Solutions to the Affordable Housing and Urban Development Challenges in Africa. The publication discussed the spread of COVID-19 in Africa, the inherent risks that the pandemic poses to the vast majority of inhabitants in the region living in slums and also highlighted the role of Shelter Afrique and other related stakeholders in the built environment space in providing innovative solutions to the affordable housing and urban development challenges.

Shelter Afrique also issued in collaboration with UN Habitat, UN Economic Commission for Africa and United Cities and Local Governments (UCLG) a report titled: COVID 19 in African Cities. The report discussed COVID-19; And the attendant socioeconomic, urbanization and other related effects of the pandemic in Africa. The report provided strategic housing policy recommendations needed to effectively manage the pandemic in the short, medium and long-term.

Additionally, as it pertains to advocacy, the CoE has organized a virtual symposium as part of the 39th AGM which held in September 2020 themed: Affordable Housing Delivery as an Economic Revival Strategy in the COVID 19 Era in Africa.

This initiative is based on the premise of the Shelter Afrique Strategic Goal 2, delivering Superior Stakeholder Value and Development Impact, Shelter Afrique through CoE has the mandate to organize advocacy initiatives to support affordable housing delivery and urban development in Africa.

The symposium which is organized in collaboration with UN Habitat, African Union Commission , Centre for Affordable Housing Finance (CAHF) featured experts covering key aspects as it pertains to positioning large scale affordable housing delivery as a key strategy to enable economic revival in Africa in the COVID 19 era.

Manufacturing and Industrial Production

i. Kenya-UK Trade and Economic Partnership Agreement

In recognition of the UK being the largest foreign investor in Kenya, with a portfolio estimated at £2.7 billion (Sh385 billion) and the mutuality of the benefits between the two nations, Kenya and the UK have agreed to explore an economic partnership agreement in line with the ambition of the Strategic Partnership agreed by Kenya's President Uhuru Kenyatta and UK Prime Minister Boris Johnson. Markedly, over 220 British companies have invested across all sectors and regions of the country, contributing to Kenya's economic and social prosperity through jobs, incomes and economic growth.

Moreover, the UK is one of Kenya's leading trading partners outside the EAC. The value of annual trade between the two countries is estimated at Sh70-90 billion. Kenya has continuously enjoyed a favorable trade balances since 2016. The highest was Sh8.6 billion in 2018, when the value of Kenya's exports was Sh40.2 billion, relative to imports valued at Sh31.6 billion.

The talks which began on 21st September 2020 are based on the initialed text of the European Union-East African Community Economic Partnership Agreement (EU-EAC EPA) and are open to all EAC partner states. The objective of the talks is to further deepen the long and mutually beneficial economic and trade relationship existing between the two countries. The importance of the negotiations is further premised on the fact that Kenya needs to maintain its duty and quota free access to the UK even after the letter exits the EU on December 31, 2020 following the BREXIT. These negotiations aim to maintain market preferences for Kenya, which is the only non-least developed country (LDC) in the EAC. Without this framework, Kenya's exports to the UK and the EU would be subject to duties from January 2021 and that would make its exports less competitiveness and undermine economic growth.

ii. USA Free Trade Area (USFTA) Agreement Negotiations

Kenya and the United States of America (USA) have formally entered into negotiations that will culminate in a historic Free Trade Area Agreement (FTA) which will allow duty-free access for Kenya to the U.S. market. According to the Ministry of Industrialization and Trade, the FTA negotiations provide Kenya with a unique opportunity to enter into bilateral trade and development cooperation talks with one of the global economic powerhouses – the United States of America, which is Kenya's third largest export market and seventh overall trading partner.

Press Release on the launch of the Kenya-USA Free Trade Area (USFTA) Agreement Negotiations

Image: www.industrialization.go.ke

The proposed FTA, the first of its kind for Sub-Saharan Africa, will provide continued market access for Kenyan goods to the expansive US market at the end of AGOA according to the Ministry. Nevertheless, concerns have been raised on the effect of Kenya's quest to improve its production and capacity through implementation of the local content policy.

Accordingly, a number of proposals have been made to ensure that the FTA protects the interest of local manufacturers and consultants. Key among the proposals include the need for the inclusion of a cap for the maximum number of such citizens that can be registered annually as professionals. The maximum number would be for instance 10% of locally registered professionals. Local professional bodies should also be mandated to provide temporary practicing licenses. In addition, the requirements that cross border services suppliers establish a local presence must be properly monitored and evaluated failure to which instances of remote delivery of services will be a norm. The same would disadvantage local consultants as those from the U.S would be operating at no cost and will not be obligated to file their tax returns locally.

Development Control

Nairobi Metropolitan Services

Planning Approvals

970
Total No. of Building Applications

Ksh. 50.9 Billion
Cost Estimate of Development

Ksh. 176,787,163
Permitting fees collected by NMS for building approvals

Planning Applications

664
Total No. of Planning Applications

Ksh. 33,929,000
Permitting fees collected by NMS for planning approvals

Applications for renovations

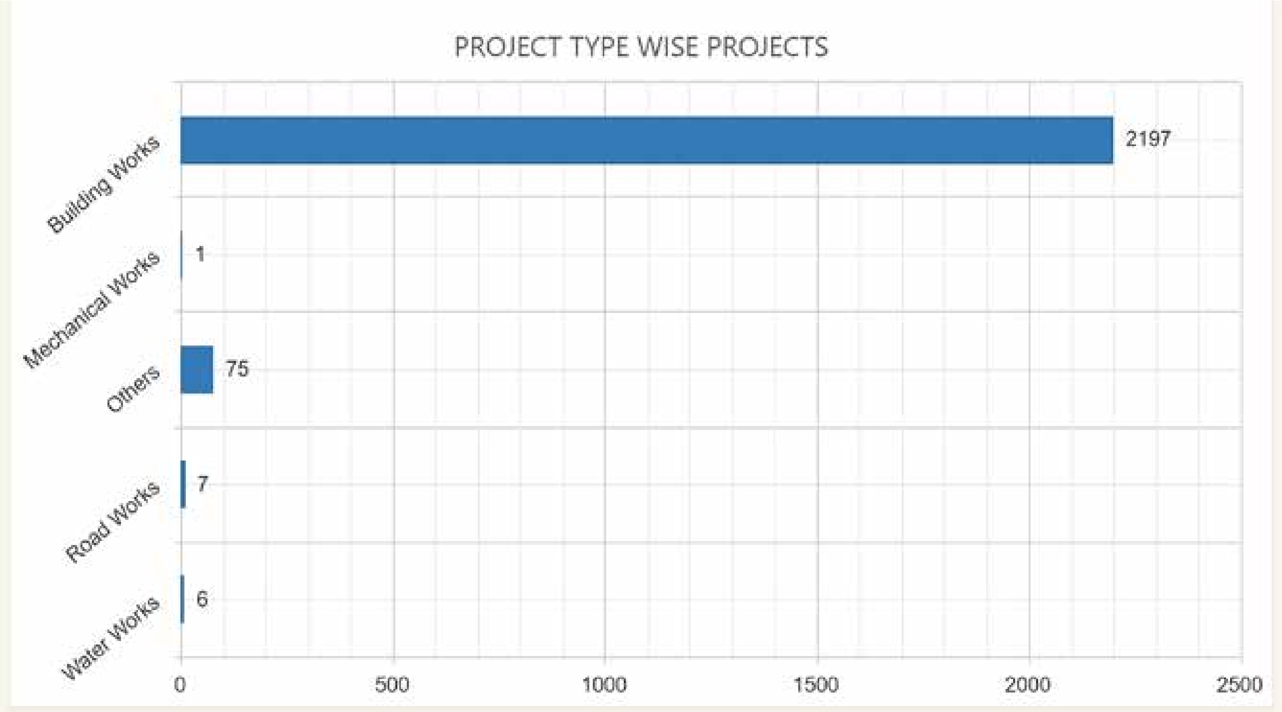
866
No. of Applications for Renovation Works

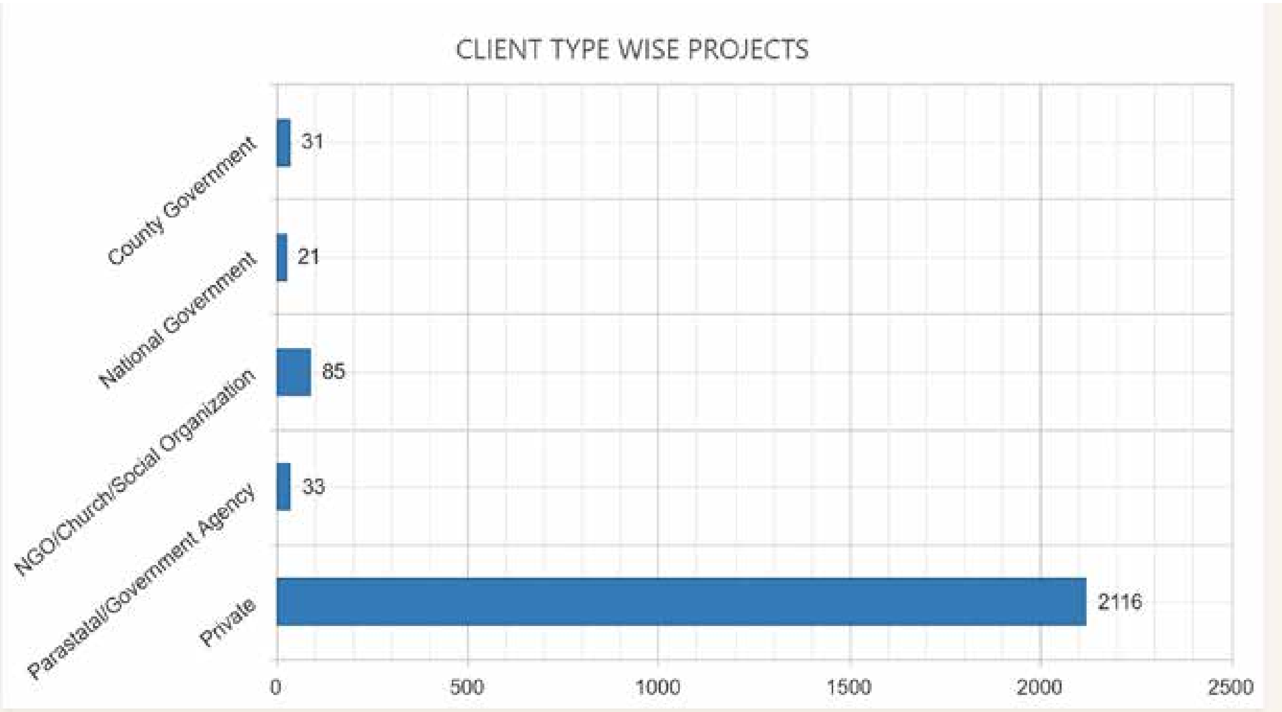
Ksh. 5,226,005
Permitting fees collected by NMS for renovation applications

The total permitting fees collected by the NMS in H'2 of 2020 was Kshs. 215,942,168 which was a 20.3% decline from the Kshs. 270,959,678 recorded in the first half of 2020 presumably due to the effects of the COVID-19 pandemic which saw a decline of activities in the built environment sector.

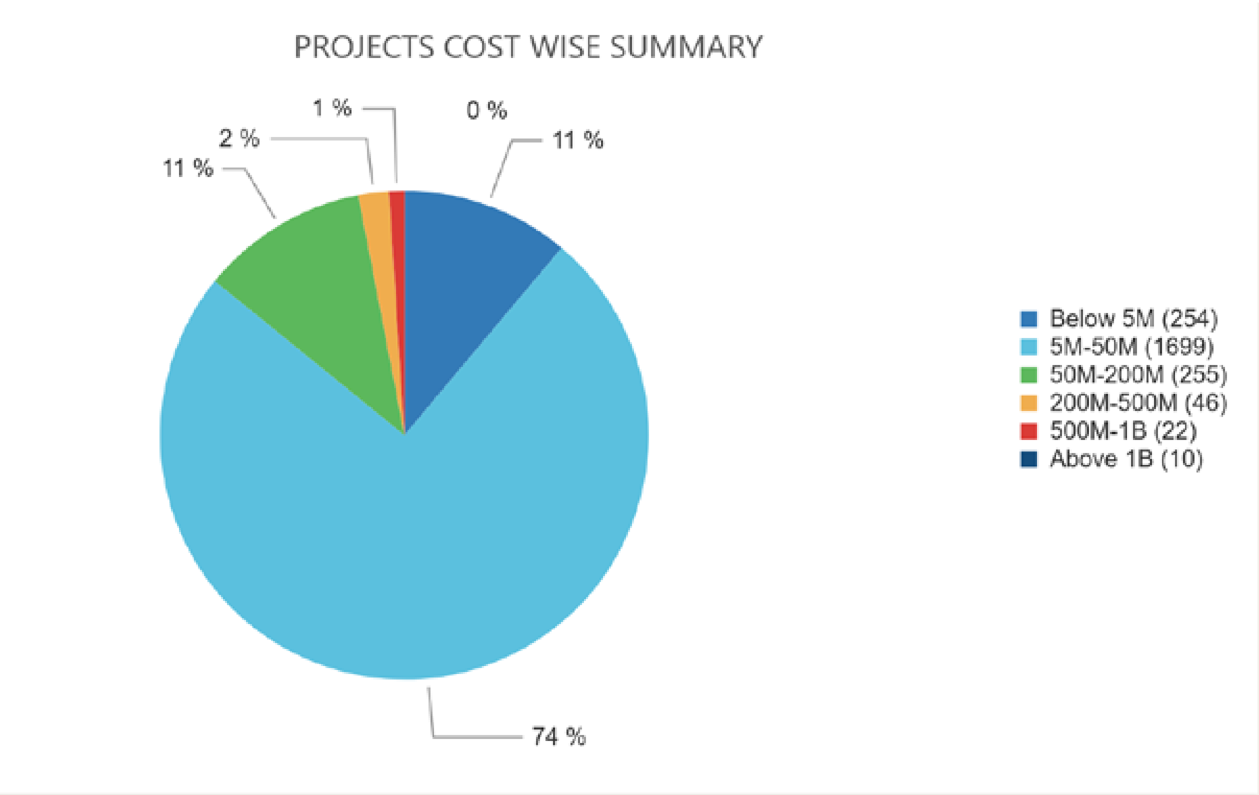
**Please note that AAK engagement commenced on 16th July 2020*

National Construction Authority





National Construction Authority



Moving Forward

Residential

Market Direction	Impact of covid-19 on sector (high end)	Impact of covid-19 on sector (low-middle income)
Rents	Moderately Negative	Flat
Capital Values	Moderately Negative	Flat
Development Pipeline	Flat	Moderately Negative
Investment and Capital Markets	Negative	Flat
Leasing Activity and New Tenants	Negative	Flat
Overall Sentiment	Negative	Positive

Negative

Moderately Negative

Flat

Positive

Residential

Defaults and Payment Cycles

A few defaults have been noted among the growing number of tenants using flexible rent payment platforms or those that have landlords willing to offer monthly and quarterly rental payments.

On the property acquisition side, many payment plans for properties are being extended while the very small pool of Kenyans using mortgages may note diiculty in meeting payments due to salary cuts and layoffs. As rental payment cycles for property in Kenya are still largely annual, we do not expect the retrenchment and layos to have an immediate eect on the market performance.

Among others, global supply chain disruptions will have a strong negative eect on the residential sector as inputs are largely sourced from abroad.

Luxury Segment

Demand is expected to reduce within the luxury segment as corporates will hold off on making decision in this environment. Where they proceed, they will be seeing significant rental discounts. Despite the market activity, the pipeline for new developments is still strangely strong and we expect this to remain flat.

Middle to Low-Income Segment

Overall sentiment within this space is expected to remain positive while other factors should remain relatively constant despite the uncertain environment.

Office

Market Direction

Rents	Negative
Capital Values	Moderately Negative
Development Pipeline	Negative
Investment and Capital Markets	Flat
Leasing Activity and New Tenants	Negative
Overall Sentiment	Moderately Negative

Negative

Moderately Negative

Flat

Positive

Office

Wait and See Approach
Over the past few months decisions to relocate and expand have been placed on hold or abandoned altogether as businesses adopt a wait and see approach.

Incentives
Many landlords have been incorporating attractive tenant incentives to remain competitive in recent years but we expect incentives moving forward to focus more on flexibility in leases (break clauses, options to surrender and much shorter terms altogether) in lieu of creative discounts.

Serviced Offices and Co-Working
Though limited altogether in this environment, the demand for serviced office spaces will grow when the lockdown ends as businesses will opt for flexible options or remain put in serviced space in lieu of investing in fitting out new space. As such, developers already exploring serviced office space components in their fully speculative developments will need to accelerate that process.

With the higher demand for serviced office spaces, we expect to see some coworking providers explore increasing their private office capacity instead of the typical hot desk. Especially if many of the usual hot desk users continue to work from home at the end of the lockdown.

Remote Work
Following successful remote work system implementations for many companies, not all, we expect that occupiers will incorporate more remote working options for their teams and review their space requirements during lease renewals or during a new search. Coupled with leaner teams to manage costs, space requirements are expected to shrink altogether.

Development Pipeline
Our outlook for the commercial sector is NEGATIVE as the sector's performance continues to be constrained by oversupply of 6.3 mn SQFT of space as at 2020. The sector is also facing reduced demand as some firms downsize due to financial constrains while others embrace the working from home strategy amid the Covid-19 pandemic. The asking prices and rents are also expected to decline as landlords continue giving discounts and concessions to attract and retain clients. Though this pipeline includes conceptual and active site projects, we expect the COVID-19 pandemic to encourage many to reconsider or slow down. This will reduce additional downward pressure on a market, which is already under immense stress.

Retail

Market Direction

Rents
Capital Values
Development Pipeline
Investment and Capital Markets
Leasing Activity and New Tenants
Overall Sentiment

Negative

Moderately Negative

Flat

Positive

Retail

Anchors and Essential Services continue to trade

We have a NEUTRAL outlook for the sector with performance being constrained by;

i. the existing oversupply of space estimated at 2.0 mn SQFT,
ii. dwindling demand for physical space due to shifting focus to e-commerce,
iii. reduced purchasing power among consumers amid a tough economic environment, and
iv. reduced rental rates.

However, we remain optimistic that the sector's performance will be cushioned by the continued expansion of local and international retail chains. Consumers are also leaning towards more formal retail centres when considering options for their shopping as they follow better hygiene, health and safety standards.

Reduced Foot Traffic

Far less footfall in line shops within formal shopping centres is putting retailers operating within Kenya even under greater pressure. As retailers in smaller sub categories such as fashion or accessories are not deemed essential, they unable to trade at this time and this will have major implications on the rent roll.

Though footfall has reduced, the average spend per visitor is expectec to rise sharply as all visits to retail centres are for purchases.

Online Strategies and Delivery Services

Large retailers that only have a formal mall presence and no local online strategy may suffer as their income will be significantly stifled. Others including Medplus and multiple quick-service restaurants have commenced the diversification of their businesses by investing heavily in online strategies and partnering with logistics providers to keep their businesses afloat.

Incentives and Concessions

Retail tenants have been among the biggest beneficiaries of tenant incentives and concessions across all property sectors. This is expected to grow as many will request for concessions as a result of limited activity within their stores.

Winners

Grocers of essential materials in proximity to residential areas are major beneficiaries as families continue to stock up on food essentials and other basic materials to survive the lockdown.

Industrial

Market Direction

Rents	↗
Capital Values	↗
Development Pipeline	↗
Investment and Capital Markets	↗
Leasing Activity and New Tenants	↗
Overall Sentiment	↗

↘	↘	⇨	↗
Negative	Moderately Negative	Flat	Positive

Greater Demand
As grocers or other market participants look to scale up online operations and distribution during the lockdown the demand for industrial space is expected to rise.

Demand noted is increasingly for small spaces within warehouses for short periods of time (micro-leases) as the duration of the lockdown is still unclear to many of the government directives intended to contain the spread of COVID-19.

Hospitality

Market Direction

Rents	Negative
Capital Values	Negative
Development Pipeline	Negative
Investment and Capital Markets	Negative
Leasing Activity and New Tenants	Negative
Overall Sentiment	Negative

Negative

Moderately Negative

Flat

Positive

Reduced demand from key business tourism segment
Moving foward the hospitality sector is expected to recover from the shocks of the corona virus pandemic despite reduced demand from key business segments. Despite the sector being the hardest hit by the COVID-19 pandemic, it has begun to gradually recover supported by financial aid from the government through the Post Corona Hospitality Sector Recovery Stimulus by the Ministry of Tourism through the Tourism Finance Corporation (TFC) and other international agencies, repackaging of the tourism sector to appeal to domestic tourists and relaxation of travel advisories. We expect this to fuel resumption of activities and resultant improved performance in the medium term

With official lockdowns in effect globally, we expect the fall in occupancy levels to fall by an even greater percentage. With less demand, average daily rates (ADRs) are already trending lower and mass cancellations of events will negatively impact revenue per available rooms (RevPAR). The impact of demand from some corporates keeping sta or team members in hotels during this period will be marginal at best.

Emerging Trends

Push against large gatherings
While it is clear that large parties and gatherings are far from over in the African context, within the business world, many large gatherings and conferences may be swapped out for webinars.

Virtual tours
After years of encouraging property developers and agents to use Virtual Tours and 3D Photography technology, virtual tour operators have noted that they are receiving more enquiries from more receptive prospects. Other agents are investing in the technology themselves.

Space optimisation in office
It is still unclear what the post-COVID workplace will look like, but new discussions are centred around more space per capita in lieu of the now conventional (oen crammed) open-plan layouts.

Remote work
The future of work has always been remote, however, the COVID-19 pandemic has accelerated the pace at which traditional workplaces consider this option. Remote work options are expected to become a more standard requirement from employers, leading to lower space requirements and oices more focused on collaborative spaces.

New spending patterns
During the recession expected in Kenya, spending patterns and consumption are expected to lean towards essential spending on groceries items, pharmacy or medical supplies and white goods.

Exploring new sectors
We expect developers to explore more investments in the healthcare, industrial and data centre segments of the markets due to the resilience they have shown in this environment.

E-commerce push
Retailers within Kenya are investing in their online presence and partnering logistics companies to close gaps in the income that has been lost from foot traffic.

Potential Impact on Market Participants and Next Steps

Market Participant	Potential Impact	Next Steps
Asset Owners or Landlords	Increased lease renegotiations and concessions for tenants. Longer void periods for existing vacancies and longer periods of carrying assets held for sale with the possibility of rental and sale price reductions.	Model scenarios that incorporate concessions for your tenants and consider the impact on your loan repayments and income expectations. Also, Constantly engage with tenants and adopt a ‘partnership’ approach. Incorporate Covid Safety measures into all assets owned and provide tenants with assurance of improved hygiene measures in the spaces they are leasing. Where there is an inability to meet interest or loan payments be proactive in seeking restructuring options with financiers.
New Investors & Property Developers	Longer time to deploy capital raised for investment. Fundamentals of investment case created for projects may be altered because of the new economic environment. Foreign exchnage volatility may mean higher prices for developers yet to break ground or import fixtures and fittings to site.	Adopt a wait and see approach till the market stabilises and conduct market research in downtime to validate investment case. If investing with Foreign Exchange, wait till oil prices stabilize before making investment due to the possibility of a devaluation. In the meantime convert all undeployed capital to USD. Where a developer has an active site, evaluate contracts or agreements with contractors to ensure protection. Payment at key milestones achieved are advisable. Where there is an inability to meet interest or loan payments be proactive in seeking restructuring options with financiers.

Market Participant	Potential Impact	Next Steps
Real Estate Service Providers	Client push back on recurring fees and one o commissions. Extended periods without commission income earned. Longer sale cycles as decision making process is slowed.	Explore process automation and integration with technology to manage costs and reduce overheads. Ramp up on content published online to stay at the top of mind of prospective clients during downtime. Model scenarios that incorporate reduced fee incomes and plan for the potential eects on business. Focus energy on property sectors that will thrive in this period, such as industrial.
Occupiers or Tenant	Office Occupiers - Reduced productivity while remote work system is created, if unavailable pre-lockdown. Retail - reduced sales as a result of lower foot traffic across board.	Explore revenue generating opportunities through online channels. Engage with landlord to discuss concessions or lease extensions that may be possible. Optimise layouts for oice spaces and footfall volumes into small shops while considering best practice for social distancing.
Construction Professionals and Vendors	Lower cash flows and the possibility of layoffs as a result of payment delays due to stalled or suspended construction projects and extended timelines. For Vendors, longer sales cycle as property developers reconsider or slow down pace of investment. Foreign Exchange volatility and minimal global movement may lead to price increases and difficulty restocking.	Vendors can attempt to diversify or adopt product line that oer value to sectors such as Covid Safety measure or hygiene that are currently in high demand.

References

AAK Survey on the Impact of Covid-19 on Built Environment Industry Operations

Africa Report –Real Estate Market Update 2020-21

Cytonn Investment Nairobi Metropolitan Area (NMA) Commercial Office Report 2020

IMF, The World economic Outlook 2020 A Crisis Like no Other, An Uncertain Recovery

Ministry of Industrialization, Trade and Enterprise Development (MoITED) Kenya-UK Trade and Economic Partnership Agreement

Ministry of Industrialization, Trade and Enterprise Development (MoITED) Kenya - USA Free Trade Area (USFTA)Agreement Negotiations

Parliament Budget Office Half Year Economic & Fiscal Update, August 2020
Statista. Impact of coronavirus on growth of services and manufacturing in Kenya 2020

@ArchKE @arch_ke @arch_ke

Contact Us

aak@aak.or.ke

020 242 0806, 0721 691 337

Blue Violet Plaza, Kindaruma Rd