THE ARCHITECTURAL ASSOCIATION OF KENYA

AAK | PROMOTING EXCELLENCE IN THE BUILT ENVIRONMENT

STATUS OF THE BUILT ENVIRONMENT

JANUARY – JUNE 2019

Construction Sector Grew by 5.6% in Q1 of 2019 compared to 6.6% in Q1 of 2018

UCTION

...rt strives to ...res in the Built ...months of January ...r 2019.

...ng to the Kenya National Bureau ...stics' (KNBS) Statistical Release[1], the construction sector grew by 5.6% in Q1'2019 compared to a growth of 6.6% in Q1'2018. It is however key to note that this growth was supported by the construction of phase 2A of the Standard Gauge Railway (SGR) and other public infrastructure developments especially road construction.

Other industry matters highlighted in the Statistical Report include:-

- Consumption of cement (which is an indicator of construction activities) declined by 3.1% in Q1'2019
- Credit advanced to the construction sector in Q1'2019 declined by 1% reflecting a general slowdown in construction activities.
- The value of imported construction related materials increased from KSh 7.1 billion in Q1'2018 to KSh 12.4 billion in Q1'2019

1. *Statistical Release: Quarterly Gross Domestic Product Report, First Quarter 2019. Kenya National Bureau of Statistics (KNBS)*

12.4B

The value of imported construction related materials increased from KSh 7.1 billion in Q1'2018 to KSh 12.4 billion in Q1'2019

The residential sector recorded an increase in activities mainly driven by the Affordable Housing Agenda

Land in satellite towns average 22.6 million per acre.
Land in the City averages 238 m per acre

Decline in rental yields in Half 1 2019 due to increase in retail supply

...operty

...ctor recorded an increase in activities mainly driven by the ... on the Affordable Housing Agenda.

...planned communities in Kenya: generally, a master-... is a large-scale residential neighborhood with a large ...nal and commercial amenities e.g. Tatu City. There is a ...evelopment of master-planned communities in satellite ...n Athi River, Ruiru and Machakos. Factors necessitating this ...e:-

- ...bility of vast supplies of land for development;
- ...rdability of land. According to Cytonn Research, the average price of a... acre of land in Nairobi's satellite towns was KSh 22.6 million in 2018 compared Nairobi County's average of KSh 238.0 million/ acre;
- ...te infrastructure provision (including roads and sewere ...terior parts of these satellite towns have been the main ...wth of master-planned communities.

There is a growing trend of development of master-planned communities in satellite towns especially in Athi River, Ruiru and Machakos.

- ...s increased uptake of retail space by both global and local ...ers expanding their operations. Some local retailers however co...nued to experience constrained performance.
- There was a decline in rental yield in H1'2019. This is attributable to an increase in retail space supply which saw average occupancies drop. Property managers/owners reduced rental charges to attract tenants thus average rents declining.

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REAL ESTATE Cont

Commercial office spaces recorded a marginal decline in both rental yield and occupancy rates due to oversupply.

Serviced offices are increasingly becoming popular. Due to Flexibility and lower costs.

offices ... Nairobi Central Business District (CBD) to upcoming business nodes in search of more exclusive locations, ample space, tranquility, and less congestion.

b) ...ffice

The commercial office sector recorded a marginal decline in both average ... yields and occupancy rates mainly due to oversupply of office ...ich came in at 5.2 million sqft in 2018[2]

...ani and Karen areas recorded the highest rental yields in ...g to increased demand by businesses and multinational ... their superior locations and their offering of quality Grade ...e enable them to charge a premium on rental charges.

...nd Mombasa Road continue to record the lowest rental ...is attributed to the quality of the office spaces and traffic ... that have made the nodes generally unattractive to businesses.

...esses continue to relocate their offices from the Nairobi Central Business District (CBD) to upcoming business nodes in search of more exclusive locations, ample space, tranquility, and less congestion.

Serviced offices are increasingly becoming popular in Nairobi driven by:-

- High returns: due to the subdued performance of the commercial office sector in the past two to three years, investors are embracing differentiated concepts such as serviced offices. They are currently offering attractive returns as a result of their low supply and low market share
- Flexibility: one can easily change their premises depending on business requirements. The spaces can be configured to suit one's own personal needs and vary in size; they are fairly cost effective as they are utilized when need be; and the business is able to get a fully functional office space immediately the need arises
- Increasing demand from multinationals seeking to establish business locations in the various cities of operations, start-up companies and SME's which don't want to make a financial commitment to a longer-term lease and home-based businesses.

2. *Cytonn's Nairobi Metropolitan Area Office Report 2019*

Increasing demand for storage facilities in Nairobi.
Move away from the traditional industrial areas.

...itled Africa Horizons: A Unique Guide to ...ities. Key take-outs from the report include

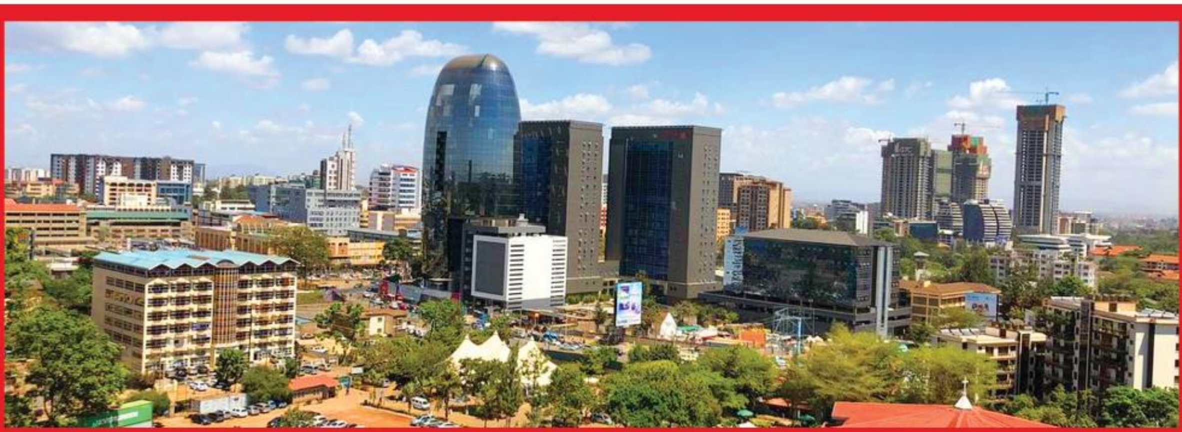
... hub of East Africa. This is further supported by ...w investments into the sector including the rail link between Na... and Mombasa; and the Kenyan Government's focus on the manufacturing sector under the Big 4 Agenda.
- There is increasing demand for storage facilities and sophisticated logistics properties in Nairobi. This is mainly driven by the continued expansion of international retailers.
- ... foresees a continued shift in activities from the existing ... to challenges such as poor infrastructure and high ... towns such as Ruiru supported by increased ...rehouses by retailers.
- ...ments of industrial and warehouse parks ...Africa Logistics Properties (APL) North and ...
- ... facilities and infrastructure, combined ...the Port of Mombasa, will open up more ...Great Lakes region, which includes landlocked ...nda, Rwanda and South Sudan.

Westlands remains the most attractive location for the hospitality industry

iv. Hotel and to... ...operty

- Westlands is the most attractive hospitality node in Nairobi. Factors contributing to this attractiveness include:-
  - its close proximity to the Central Business District and other commercial nodes hosting expatriates such as Gigiri;
  - easy access to the Jomo Kenyatta International Airport and Wilson Airport;
  - availability of amenities such as shopping malls and entertainment spots.

Kenya is the logistics hub of East Africa. This is further supported by the significant new investments into the sector including the rail link between Nairobi and Mombasa; and the Kenyan Government's focus on the manufacturing sector under the Big 4 Agenda.



Westlands is the most attractive hospitality node in Nairobi.

Ministry of Lands has re-engineered the land registration process with the LIMS System with the objective to move registration from 73 days to 12 days.

LAND

Application for land rent clearance, consent and valuation can now be assessed and done online

- In an effort to speed up land registration processes, the Ministry of Lands and Physical Planning (MoLPP) has re-engineered the land registration processes through the Lands Information Management System (LIMS). This will reduce the amount of time for the land registration process from 73 days to 12 days. The MoLPP publi… by CS Faridah Karoney stating that the land registr…
  - … clearance certificate, consent to … duty assessment in one step;
  - … ation purposes;
  - … instruments.

  … sent and valuation can now … government portal.

Ministry of Lands has plans to embrace Blockchain to prevent tampering of records in data.

- The … odel for processing most of the requireme… egistration, by moving all the operations to the 9thfloor of Ardhi House … e aim of consolidating the procedures and reducing processing time.
- The Ministry of Lands and Physical Planning announced plans to incorporate Blockchain Technology into the lands digitization process in a bid to end human interference in land transaction processes. Blockchain Technology is a type of distributed ledger for maintaining a permanent and tamper-proof record of transactional data. This will help to track all land transactions in the country, leading to an efficient, transparent and fair system in a country where issues of land fraud have been rampant.
- According to a report published by Prindex, Global Perceptions of Urban Land Tenure Security, Evidence from 33 countries, up to 28% of Kenyans feel they don't have security of tenure over their properties, with Kenya's central region having the highest levels of insecurity. Tenure insecurity was found to be more pronounced in urban areas as compared to rural locations. Prindex collects robust data on global perceptions of land and property rights.

Oth... ...lude:-

- ... of land tenure
- ... rights are ... now how ... onfident ... rights in
- ... nsecurity by ... resources and di... ...bers; while the most commonly ... tenure insecurity by renters is lack of financial ...urces.

39% of Kenyans say they possess formal documents to prove ownership or rights use of at least 1 of their properties

- 39% of the Kenyan respondents said they possess formal documents to prove ownership or rights-use of at least one of their properties. By comparison, the report shows that only 12% of Tanzanian respondents felt tenure insecure, 26% in Uganda and Ghana, and 22% in Nigeria.

61%
Kenyans that feel they have security of land tenure

12%
Tanzanians that feel they have security of land tenure

26%
Ugandans that feel they have security of land tenure

22%
Nigerians that feel they have security of land tenure

Kenya Mortgage Refinance Company was launched in 2018. So far the World Bank and Shelter Afrique have invested into the Company.

Company (KMRC)
bank financial institution, incorporated as a limited
y in 2018 to provide affordable long-term funding and capital
to primary mortgage lenders such as banks and financial co-
operative

- The National Treasury and Planning launched the KMRC. To facilitate this launch, KMRC was expected t the minimum core capital according t ulations 2019. Towards this e
  a. The World B al
  Bank for Re
  b. The www f
  c. Shelter Af
  of KMRC
- KMRC is set to
  Development Fi e
  a 20% stake.
- As a wholesale financ ans at fixed rates to financial inst so that they can extend the maturity of t end borrowers hence increasing affordability.

Housing Finance is planning to reduce its current average mortgage by 50% to get to 4.5 million to tap into growing demand of lower middle income class

$250M

Amount World Bank approved for Reconstruction and Development

KSH10B

Amount funded by Africa Development Bank (AfDB)

- Housing Finance (HF) announced plans to reduce its current average mortgage size by 50% to average at KSh 4.5 million, in a bid to tap into the growing demand for home loans from the lower middle income class. According to Central Bank of Kenya, Kenya's average mortgage size was KSh 10.9 million as at 2017, which has locked out many potential homebuyers from accessing mortgages due to unaffordability.
- The Ministry of Transport, Infrastructure, Housing and Urban Development (MoTIHUD) tabled before Parliament proposals to review the regulations governing the Civil Servants Housing Scheme Fund (CSHSF). They aim at making home loans more accessible to low income state workers. Key proposals include:-
  a. The reduction of mortgage deposits by public servants from 10% to 5% of the property value
  b. An allowance to pay mortgage loans up to 5-years after the retirement age of 60-years

In the 2019/2020 budget Affordable Housing sector was allocated Kshs 10.5 billion up from the previous year of 6.5 billion

(CSHSF) was established in 2004, with
...ties to civil servants for the purpose of
...esidential house and developing housing
...servants. Since inception, the scheme has
...civil servants to access...
finance loans or pu... f houses construct...
major challenges that h... faced the sche...
term repayment periods, which have p...

- The National Treasury read the FY 20... Jobs, Transforming Lives - Harnessi...
  - The affordable housing sector ... the KSh 6.5 billion allocated in ... follows:-
    a) KSh 3.2 billion for social housin... units, including staff housing u... Prisons
    b) KSh 2.3 billion for the Public Servants Hous...
    c) KSh 5.0 billion set aside as the government ...ontribution to the National Housing Development Fund (NHDF).

Infrastructure sector was allocated Kshs 324.1 billion, 22.5% lower than the 418.8 billion from the previous years budget.

  - The infrastructure sector was allocated KSh 324.7 billion, 22.5% lower than the 418.8 billion allocated in the 2018/2019 budget. The funds will be mainly ...e ongoing road construction projects as well as road ...ance, completion of Phase 2A of the Standard ...rt-South Sudan-Ethiopia-Transport (LAPSSET) ...asa Port Development Project.

Kenyans in general are resistant to the mandatory housing levy

...n the Housing Fund levy, PS Charles Hinga ...nd Urban Development) announced that ... contributions of at least KSh200/month. ...tion is, therefore, set to be backed by voluntary ... billion seed funding from the National Treasury as provided for in ...onal Budget 2019/2020.

Kenyans generally re...ain against the mandatory contribution, due to:

- The perceived burden on those who already own homes or are currently servicing a mortgage
- The increased wage bill for employers
- The imposition on the formal sector alone, and not the whole public
- The ballot-based system meaning not all contributors will benefit from the scheme

KSH2.3B

Amount for the Public Servants Housing Mortgage Scheme

80%

Percentage KMRC is owned by the private sector (Banks, SACCOs and Development Finance Institutions)

20%

Percentage KMRC is owned by the Government of Kenya

INVESTOR AND DEVELOPER SCENE

Nairobi has been ranked the second most expensive city to build in Africa after Johannesburg and is ranked 86th globally; ahead of Beijing, Shanghai, Kuala Lampur and Mumbai.

- According to a report by Arcadis titled "2019 International Construction Costs. Smart Decisions Creating Long-term Value" Nairobi has been ranked the second most expensive city to build in Africa, after South Africa's … and 86th globally. Nairobi's construction costs topp… Beijing, Shangai, Kuala Lumpur and Mumba… Cities were ranked in the report based … cost of labour, cost of materials, qu… construction, and the local dollar rate … increased adoption of technology in th…
- The k… …ntinue to …

Westlands and Kilimani are the best performing retail nodes with average rental yields of 11.5% and 10.7%

…ment bra… …ch as commercial

Mombasa Road and Satellite Towns were the poorest performing retail nodes with average rental yields of 6.8% and 6.3%

…ytonn Research:-

- …e best performing retail nodes with … 10.7% respectively. Populations in the … purchasing power thus tenants are willing to pay … space in the area.
- Mombasa Road and …tellite Towns were the worst performing retail nodes with average rental yields of 6.8% and 6.3% respectively. The poor performance is attributable to low rental charges as a result of traffic congestion along Mombasa Road and competition from informal retail space in Satellite Towns.

11.5%

Average rental yields in Westlands areas

10.7%

Average rental yields in Kilimani areas

Ruiru and Athi River were the best performing satellite towns in Half 1 2019, with average returns to investors of 6% and 5%

- Karen, Mombasa Road and Thika Road declines in rental yield of 1.7%, 1.1%, a decline in performance is attributable to de increase in supply of retail space with the openi ... oho in Mlolongo.

Thindigua registered the highest annual returns amongst Satellite Towns owing to demand from youth working in the CBD

- ... to Cytonn Research ... best performing satellite towns in ... s of 6% and 5%, respectively. This ... nfrastructure such as the Eastern ... with relatively low land prices ... e best performing category with ... appreciation of 1.5% and a rental ... ly low land prices, with majority of the ... jor infrastructural ... enabling deve... sell homes at ... us boosting uptake.
- Thindigua registered the highest a... owing to an annual price apprecia... young population working in the ... surrounding international organiz... also posted quarterly price depre... discounts offered by developers during t... amidst increasing market competition.

Kilifi county has witnessed an influx of real estate development.

- Investment at the Coastal Region:
  - Kilifi County is witnessing an influx of real estate development ... aim to satisfy demand for housing for the growing coast... for accommodation by mid to long-term stay tourists. T... is attributable to:-
  - Proximity to sandy beaches creating demand for re... apartments from tourists
  - Affordability of development land with an average price ... acre in Mombasa County
  - Improvement in infrastructure such as construction of the Momb... Highway in 2018 and the expansion of the Mombasa port, openi... the area for development
  - Devolution has continued to open up the 47 county headquarters for development, attracting government institutions thus creating demand for office space, retail space and residential units.

Devolution has opened up the 47 counties for development in all sectors

6%

Average returns to investors in best performing satellite towns in H1'2019 in Ruiru Town

5%

Average returns to investors in best performing satellite towns in H1'2019 in Athi River Town

INFRASTRUCTURE

Western Bypass by KENHA was announced linking Gitaru to Southern Bypass and terminating at Ruaka

JKIA- Westlands Expressway will be undertaken as a PPP project

...nal Highways Authority (KeNHA) announced ...e Western Bypass starting from Gitaru linking ...ating at Ruaka. This road will include 17.4 ...erchanges at the major junctions of Wangige, ...i, Kabete, Banana and R... ...passes ...es. The project is fina... and is being u... ...ken by the China R... of KSh 17 billion.

- JKIA-Westlands Expressway: CS ... Infrastructure, Housing and Urb... was set to sign-off on the contra... Kenyatta International Airport (J... billion project will be constructed ... Corporation (CRBC), through a Priva... that will see the firm fund the project an... toll fees.

CRBC is set to refurbish the Nairobi commuter railway network as part of the plans to ease Nairobi traffic congestion

KSH17B

Cost of building the Western Bypass

ii. Rail and Port

- Nairobi Commuter Railway: China Road and Bridge Corporation (CRBC), a Chinese engineering and construction firm, is set to secure a KSh 2.5 billion contract to refurbish the Nairobi commuter railway network. The Nairobi commuter railway track is part of the KSh 10 billion fund set aside to ease traffic congestion in Nairobi, and is aimed at facilitating the operation of 11

Construction works at Kisumu Port are underway with a commissioning date scheduled for August 2019

second hand locomotiv... city such as the Kiteng... Syokimau and Embakasi...

- Railway station: The Nair... (NAMSIP) is planning to constr... new station will be relocated from the c... next to the Thika Superhighway and the BRT s... should be implemented on Thika Superhighway.
- Kisumu Port: Construction works for Kisumu Port's US $30 million face-lift are underway to meet the scheduled date of commissioning of August 2019 in the presence of Presidents Uhuru Kenyatta of Kenya, Yoweri Museveni of Uganda, Felix Tshisekedi of DR Congo, John Magufuli of Tanzania and Paul Kagame of Rwanda.

The renovation of the port is meant to allow bigger vessels to dock in Kisumu to enhance trade with neighbouring countries. The work being undertaken includes rehabilitation of the entire port; construction of a 8.8 million liters capacity oil jetty; construction of a 1,000-capacity container yard and rehabilitation of the Kisumu pier by the Kenya Ports Authority; construction of a ship assembling yard, a dry dock, and an industrial park as well as revitalization of One of East Africa's biggest cargo vessel-the MV Uhuru which ... thirteen years ago.

Large Projects are not completed at times due to :
Lack of clarity of project outcomes
Procurement rules based on lowest price rather than value

- Standard Gauge Railway (SGR)... the construction of the Naiva... According to CS Jam... complete and will b... 2B Naivasha-Kisu... government will... segment, even a... line.
- According to a rep... and the constructio... 2012 Olympics, Kenya... 2020 - up to 80% of large... and are over-budgeted.

Mace estimates that at current rates, Ke... pay approximately KSh. 200 billion/year until the year 2... a result of the delayed project deliveries. According to the report, large projects are not completed due to a number of reasons including:-

- Lack of clarity of project outcomes as decisions are made politically as opposed to them being informed by a cost-benefit analysis
- Inadequate cost estimation capabilities by project teams in the early stages,
- Procurement rules based on 'lowest price' rather than 'value' i.e. on large and complex projects, the lowest bidder could be economically counterproductive.

The Report suggests that these matters can be addressed in the following ways:-

- Creating a single government department for large projects to improve decision-making and efficiency
- Creating an independent scrutinizing body to challenge the project scope, timescales and costs

$30M
Cost for construction works for Kisumu Port's face-lift

98%
Completion of the Nairobi to Naivasha SGR line

KSH200B
Amount Kenya is expected to pay per year until the year 2030

INFRASTRUCTURE cont

Lamu Coal Plant remains stalled due to environmental concerns.

- Providing high-quality practical training to ... especially on risk and probability

iii. Energy

- Lamu Coal Plant: Construction of the US $2 billion 1,000MW coal-fired plant in Lamu was halted following a court ruling that the National Environment Management Authority (NEMA) failed to do a thorough environmental assessment. Construction of the plant was to commence in the year 2015 and was scheduled to enter commercial service in the year 2024 but it has re... to opposition by environmentalists on grounds ...tion, destroy mangroves and breeding ... marine life.
- ...MW solar park in Mwale Medical ... city in western Kenya under ...
- ...e in East and Central Africa is ...e capacity to carry 2,000 MW of ...being higher than Kenya's current ...of about 1,900 MW. Construction is ...orter, while Kenya's side is over 90% ... live in April 2020. The project has been funde... ...pment Bank (AfDB), French Development Bank (AFD), World Bank and ...overnment of Kenya at US $620 million.

Tatu City has installed a solar power plant that will produce 1.4 million kilowatts per year and reduce carbon emissions by 1 million kilograms annually

- Tatu City's Solar power plant: Tatu City has installed its first solar power plant. The installation project consisted of mounting 2,880 solar modules on 5,700 square meters of roof space at Dormans Coffee's global headquarters at Tatu Industrial Park. The plant is expected to produce 1.4 million kilowatt-hours per year. The solar plant whose installation took only six days will additionally reduce carbon dioxide emission by at least 1 million kilograms per year while providing 1 MW of electricity.

Affordable Housing project is being undertaken in Ngaara and developers have filed bids for Lot 1A, 1 B and 1 C

Sectional Properties Act has been approved by Cabinet easing the process of registration of sectional property titles.

The Kenya Government and UNOPS signed a deal to deliver 100,000 low cost homes.

...ed the Sectional ...operties Bill which aims to ... sectional property titles in Kenya. Currently, the ... Sectional Properties Act No. 21 of 1987, which has often been touted ... ersome. The new Bill ... rty owners to own sectional ...es, if it is signed ...

- Participation of Counties: The ... companies tenders to construc... Technofin Kenya, Erdemann ... Kenya and Directline Assuranc... and Housing Regeneration Prog... Suna Road, Ngong Road Phases ...
- The Kenyan Government invited priv... A, Lot 1B and Lot 1C, which refer to flagship p... projects and county projects in order to participate in t... ordable housing initiative, by redeveloping government single dwelling estates to high-rise complexes
- Following the signed deal between the Government of Kenya and the United Nations Project Services (UNOPS) in 2018 to deliver 100,000 low-cost homes across Kenya at an estimated cost of KSh 64.7 billion, UNOPS kick started the initiative in January by injecting KSh 1 billion into the project and committed to seek the remaining KSh 63.7 billion from other organizations.
- The Government of Kenya revised the affordable housing regulations to include high income-earners of KSh 100,000 and above.

DEVELOPMENT APPLICATIONS APPROVALS (NAIROBI CITY COUNTY GOVERNMENT) JANUARY TO JUNE 2019:

955

Total number of development plan applications approvals

KSh. 84,173,194,081

Value of Development Projects Approved

KSh. 333,119,267

Total Permitting fees collected

Areas where most developments were carried out

1. Eastleigh
2. Karen
3. Nairobi CBD
4. Industrial Area

Development classification with the highest number of approvals issued

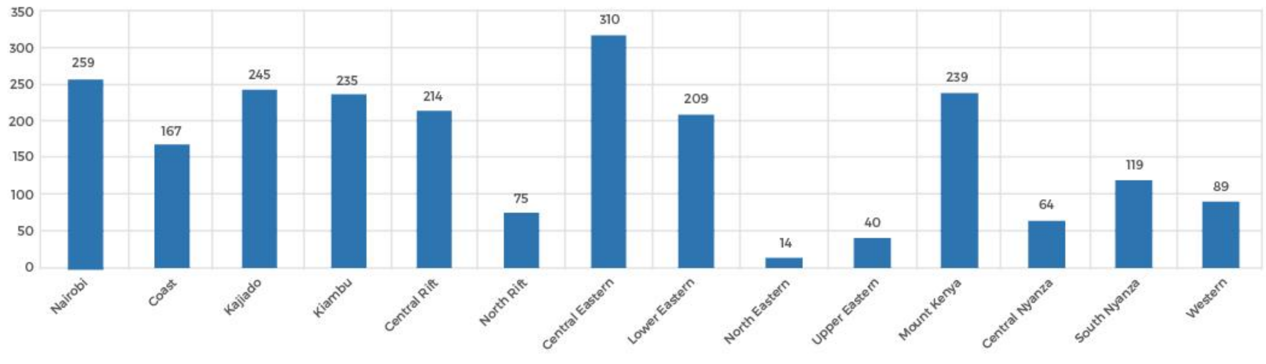
1. Residential class = 74.32% of total approvals
2. Public Use class = 11.23% of total approvals
3. Industrial class = 8.63% of total approvals
4. Commercial class = 5.93% of total approvals
5. Educational = 0.21% of total approvals

41.35

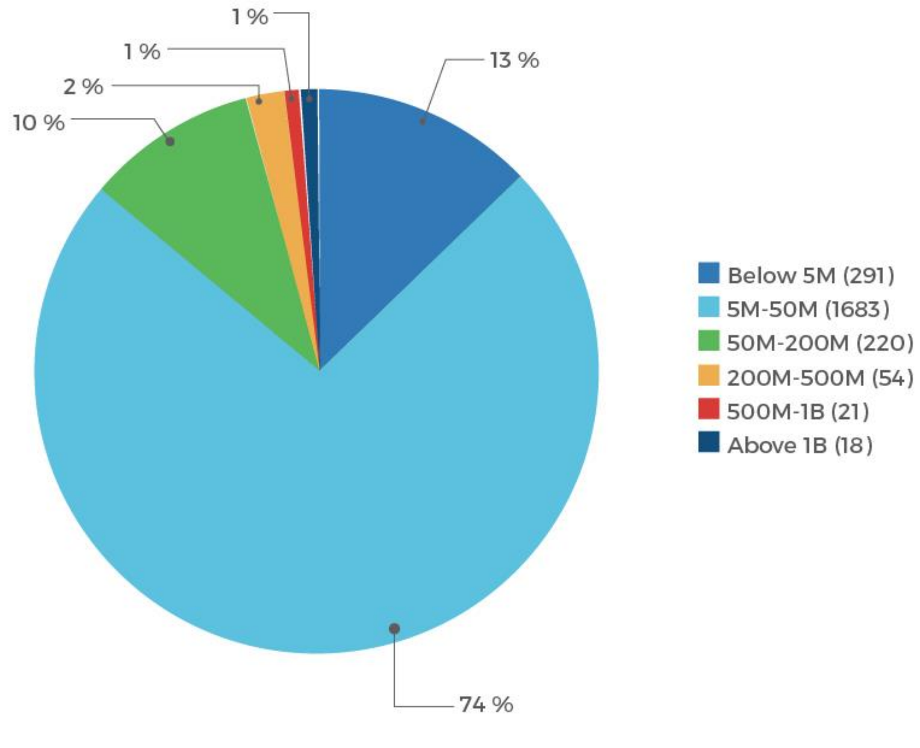
Average number of days taken for approvals to be issued

PROJECTS REGISTERED BY THE NATIONAL CONSTRUCTION AUTHORITY (NCA):-

REGION WISE PROJECTS



PROJECTS COST WISE SUMMARY



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