Introduction

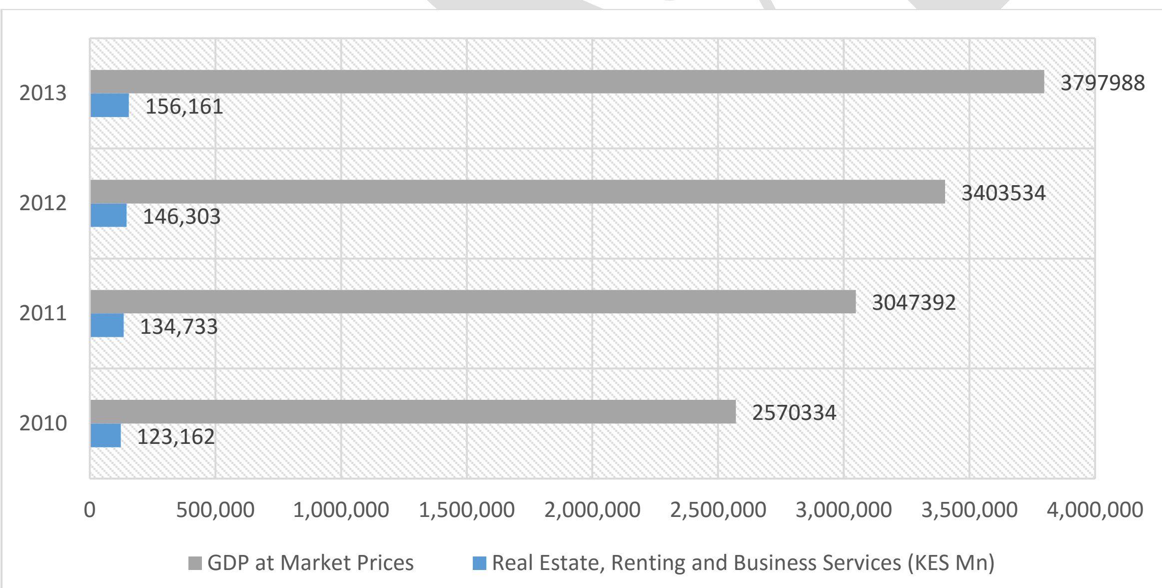
While most people associate real estate only with the purchase and sale of buildings, it also encompasses land and resources therein. For decades, real estate has been the path of choice for investors seeking high input and high output ventures. The fact that land is considered the sole asset which does not depreciate in value, many would-be investors have injected their money into the acquisition of parcels of land. Globally, the purchase of a home is one of the most taxing investments, and realtors as well as property owners seek to take advantage of this to tap into the lucrative market and make financial gains. This report will analyse the real estate sector in Kenya and use selected real estate firms to demonstrate the spread of the market. it will provide statistical information and relevant data to give an accurate depiction of the prevailing situation in Kenya. finally, a conclusion summarizing the main points of the report will be provided.

Overview

Real estate in urban areas bears the highest returns, depending on the prominence of the urban area in question. Cities such as Monaco, New York and London are globally renowned, and therefore owning property in such cities whether for rental purposes or for resale is highly lucrative. Additionally, financial institutions have for decades accepted property certificates and titles as loan securities, allowing owners to take up loans and channel them towards other avenues. Among the most preferred units are apartments, town houses, maisonettes and villas. Real estate can also be categorized according to the intended use of property. Under this fall acquisition of property for office space, rental purposes, permanent residence in the case of home-buying, resale and industrial establishment reasons. On the global front, Hong Kong ranks top as the highest real estate centre, with a square foot going for $10,700. This is followed by Monaco and New York at $9,000 and $6,100 respectively. The increased purchase of luxury apartments and multinational corporates setting up headquarters in some of these cities have served to drive prices upward significantly.

General Performance

According to data from the Kenya National Bureau of Statistics, real estate has been on the rise as far as contribution to the country's gross domestic product (GDP) is concerned. Below is an illustration of the GDP contribution by real estate against GDP at market prices between 2011 and 2013 in Kenya:



Source: Kenya National Bureau of Statistics

Growth of real estate from an industry point of view has, however, been far slower. Between 2010 and 2013, real estate in Kenya grew 3.2%, 3.6%, 3.3% and 4.3% respectively. The slow growth is attributable to several causes, key of which include the pre-election mood which saw the 0.3% decline between 2011 and 2012 and the low purchasing power of the general population. Lack of sufficient purchasing power has meant that real estate purchases remain out of reach for the lower middle income and low income brackets, in which a large percentage of Kenyans fall. These reasons will be discussed in detail in a later section of the report.

In early 2016, Kenya was named second in a list of the top 8 safest emerging markets in the world, only second to India. The other countries in the list were Vietnam, Chile, Colombia, Mexico, Indonesia and Peru respectively. This places Kenyan real estate in a favourable position as far as attracting international investors is concerned. By so doing, not only does this benefit real estate agents and developers, it also contributes to the country's overall GDP. With a 6.5% overall growth in 2015, Kenya has reinforced herself as a stable economy with impressive returns on investments.

The spread of real estate and the relative ease of access has been to the advantage of developers, with a 2016 survey indicating a 4.2% growth in house prices in Quarter 1 of 2016. This has encouraged new market entrants, with favourable returns up for grabs for both developers and individuals or groups buying for resale purposes. Rent prices for residential units have also been noted to be on the decline from the same survey, with areas most significantly affected being Westlands (2.5%) and Syokimau (2.3%). The decreases are largely due to an abundance in supply but a deficit in demand for units, forcing rent down to correct the disequilibrium.

Statistical observations in the first Quarter of 2016 have pointed to a significant decline in the uptake of commercial spaces, especially those intended for shopping mall establishments. As at

April 2016, a 45% decline in uptake had been recorded, attributed to an oversupply of commercial real estate without commensurate demand. As at the end of 2016 with the completion of projects in the pipeline at the end of Quarter 1, commercial space in Nairobi alone is expected to hit about 700,000 square feet. With the market not being allowed enough time to absorb supply, some developers and property owners have been forced to operate noticeably empty spaces. In addition, office spaces in prime areas such as Upper Hill still lack facilities of superior enough quality to attract billionaire investors in droves. In light of this, there has been a shift in location in recent times, with some corporations moving to areas previously known for residential settlements such as Karen. Lack of ample and secure parking, tenant congestion and traffic snarl-ups are the main drivers of this phenomenon. It is expected, however, that with the opening of alternative routes such as the Southern Bypass, there will be an ease of traffic and that this will open up alternative areas and lure commercial space seekers.

Rationale for Purchase

Despite the ever-increasing nature of property prices in the country, more investors are keen on making acquisitions. Reasons for making property purchases in Kenya are generally classifiable into a number of categories. While some buyers make purchases for habitation, a large number of those who buy property in the form of apartments or stand-alone houses do so for renting out purposes. In Quarter 1 of 2016, apartments made up 92.79% of all properties on offer in the real estate market as far as buildings are concerned, with maisonettes and bungalows accounting for 5.8% and 1.41% of the remaining properties respectively. A far smaller percentage of speculator buyers make purchases for post-appreciation resale, and this is limited to individuals or groups that are able to incur purchase prices on a one-off basis without mortgage payments.

While residential units have dominated property (building) purchases, commercial units have gained prominence in the recent past. Several malls have been constructed, providing retail spaces for other investors and established brands. These include the Thika Road Mall, Garden City Mall, Ananas Mall and the upcoming Diamond Plaza and Two Rivers Mall, among others. In Quarter 2 of 2015, the average rental fees for office space in Nairobi were KES12,230. Lavington had the highest rental charges at KES14,500 per square foot, with Upper Hill and Westlands following in at KES14,300 and KES14,250 respectively. Mombasa Road had the lowest charges at 8,800 per square foot. The average rental fees for larger spaces for use as establishments such as banks and supermarkets stand at about KES100,000 monthly while purchase prices for such spaces average KES18 million. With regard to land purchases, the highest percentage of buyers make purchases for speculation purposes, hoping to buy low and sell at a profit. Other reasons driving land purchases are setting up rental units and for habitation purposes respectively.

Demand Drivers

Status and Prestige

Residing in some of the more affluent neighbourhoods in Kenya drives individuals to invest in real estate. Areas within and around Nairobi are particularly popular, especially with expatriates, members of the diplomatic core residing in the country and high income bracket members. Among the prime areas include Kitisuru, Runda, Lavington and Westlands. Specific prestigious properties include the English Point Marina at the Kenyan coast, with apartments going for between KES6 million and KES40 million.

Purchasing Power Increase

In recent times, the purchasing power of the Kenyan public has been on the rise. This means that more middle-income Kenyans have more disposable income, with which they can invest in real estate. The surge has been driven by the country's jump from a low-income country to attain lower-middle income status where annual per capita incomes are between $1,046 and $4,125. Kenya's relatively steady economic performance and economic growth has also contributed to the income level shift and consequently, the population's increased purchasing power.

Speculation

Human behaviour in business is always driven by the hope that an investment will increase in value based on specific considerations over time. The same applies to real estate in Kenya, with more people especially in formal employment opting to invest their savings in land. Whereas some make the purchases to build residential houses, a large majority make purchases for the land's resale value increase over a number of years.

Population Pressure

With the advent of rural-urban migration, more people have opted to go for rental units as opposed to the more expensive option of buying houses and apartments. This has fuelled demand for land and the subsequent set-up of apartment blocks for rental purposes. A variation of this has been in the form of individuals buying property and renting it out instead of occupying the property themselves. This is especially prevalent among middle income earners since low income earners cannot sustain the rent payments in the long run and instead opt for informal settlements.

Long-Term Projects

Kenya has placed herself as one of the fastest growing countries in Africa. Its Vision 2030 development agenda has drawn up elaborate infrastructure plans which have generated international attention. Some of these include the Standard Gauge Railway project expected to be completed in 2017 along with Tatu City, Konza Techno City and the Two Rivers Mall are some of the projects which are intended to lure investors to the country. These have driven up interest in land and property around their vicinity and within them, with multinational corporates eager to set up early and take advantage of the country’s favourable economic climate.

Strategic Location

Real estate in the country has received a boost from the strategic location of the country and its performance. Kenya is the only African country that hosts a major United Nations, the United Nations Environment Programme, in Gigiri within Nairobi. The demand for property in the area has been exclusive for a number of years, with projects coming up around the area also gaining prominence. Furthermore, as East Africa’s largest economy, Kenya has attracted international organizations who use the country as their Eastern and Central African hub. Among renowned brands with a Kenyan presence include Google Africa, Intel and Coca Cola. Their establishment of office spaces as well as purchase of the same has positively impacted Kenya’s real estate sector.

Information Access and Awareness

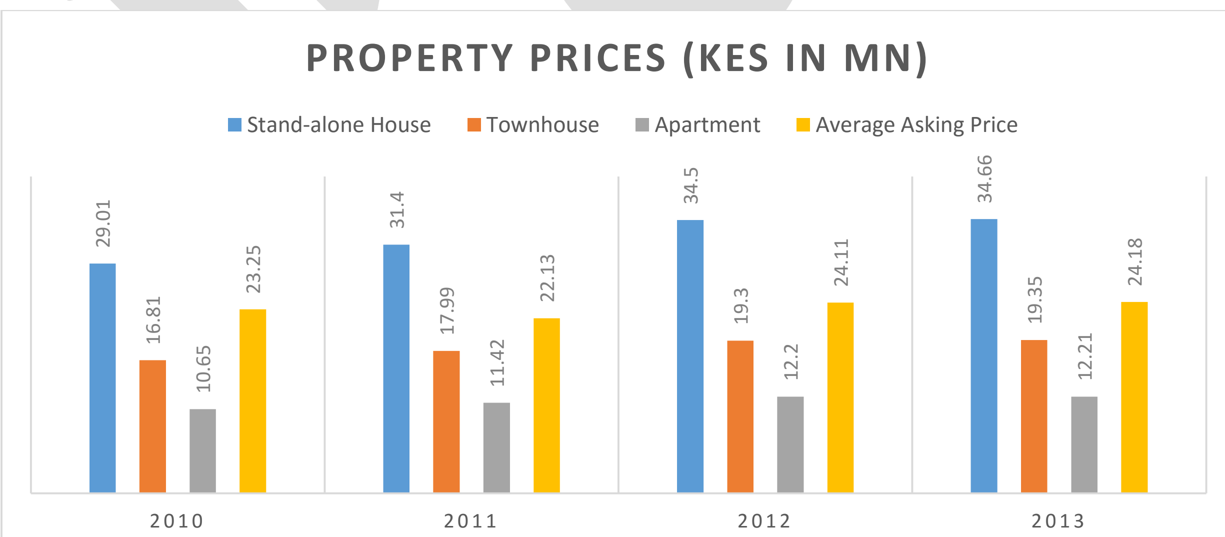
Although land has been in abundance in Kenya, information on how to invest in land and buildings has been scarce in the past. This stifled the sector's growth since would-be investors would shy off on scepticism grounds. With more access to information as well as the crop-up of investment advisors, more people are now willing and able to inject finances into real estate in a more conscious and informed manner. Moreover, there has been improved legislation governing transactions, making them safer for would-be investors who would otherwise be driven off by unscrupulous agents.

Competition and Variety

The Kenyan real estate sector is a free market, unregulated in the strictest terms by government. As such, market entry is considerably easy, allowing more developers to compete for market shares. The increased competition has served to increase variety, availing more real estate investment options for buyers to venture into. Firms such as Suraya Property Group Limited, Cytonn Investment, Property Realty Company and Knight Frank Kenya Limited among others have diversified property offerings and made the market more dynamic. They provide a range of prices, payment options and also avail consultancy services, further developing Kenyan real estate over and above simply buying and selling property.

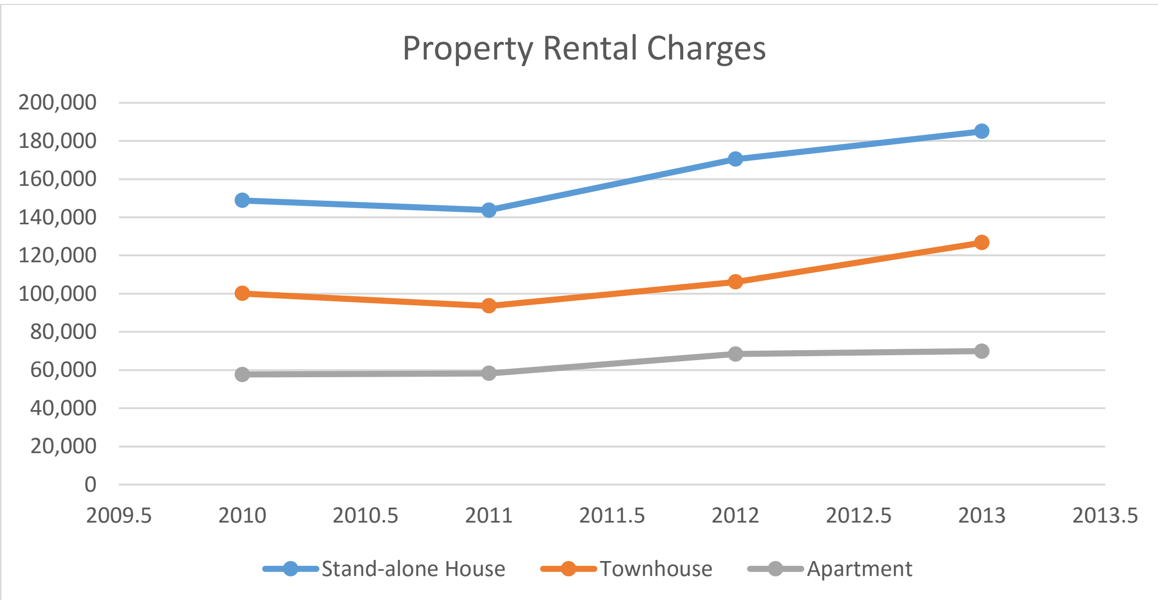
Prices and Valuation

Price levels on the Kenyan real estate front have shown considerable consistency over the years. In Quarter 4 of 2009, the average property price was KES20,080,317, a 0.4% increase compared to the previous quarter. In Quarter 4 of 2010, the average price for a house increased by 2.9% to stand at KES29.01 million. In the same period, a townhouse sold for KES16.81 million while an apartment was priced at KES10.65 million. 2011 saw asking prices register mixed signals, rising by 4.4% in the first quarter before slowing down to 1.9% in the second quarter. A stand-alone house in 2011 sold for KES31.4 million, a town house KES17.99 million and an apartment costed KES11.42 million. The average price for a property rose from KES7 million in December 2000 to KES24.1 million in December 2012. In Quarter 4 of 2012, the average price for a stand-alone house was KES34.5 million from KES8.8 in 2000 while a town house sold for KES19.3 million up from KES6.5 million in 2000. In the same period apartments sold for KES12.2 million compared to KES5.2 million in 2000, representing a 140% increase. Asking prices for Quarter 4 of 2013 for all properties averaged KES24,184,047. Stand-alone houses, townhouses and apartments sold for KES34,660,721, KES19,351,064 and KES12,214,150 respectively in the same period. A summary of this data is provided in the following illustration:



Source: HassConsult Limited

The rental charges have increased significantly compared to their levels in 2000. In 2000, stand-alone house, townhouse and apartment asking rents stood at KES53,602, KES37,700 and KES21,638 respectively. The rent charged in the 2010-2013 period for the same units is provided:



Source: HassConsult Limited

According to 2015 statistics, land in and around Nairobi has appreciated sharply, making investment and speculation in land feasible to would-be investors. The top 5 suburbs in Nairobi with the highest annual percentage appreciation rates are Karen, Eastleigh, Langata, Loresho and Gigiri with 17.3%, 13%, 12.8% (tied) and 11.3% respectively. Satellite towns (located on the outskirts of Nairobi) have in recent years become preferred settlement areas for people working in and around Nairobi. Land in such areas has also shown sharp appreciation. The top 5 highest percentage annual appreciation areas are Athi River, Kiambu, Kiserian, Limuru and Ruiru with 18.8%, 13.7%, 12.3%, 11.1% and 9.3% respectively. In the first quarter of 2016, a survey by

HassConsult Limited revealed that Upper Hill is still the most expensive place to buy land in Nairobi, with an acre selling at KES511.3 million. Kilimani, Westlands, Parklands and Kileleshwa follow with an acre going for KES425.7 million, KES391.1 million, KES380.2 million and KES259.3 million respectively. Land in Upper Hill has appreciated 3.06-fold since 2007, and the area is particularly notable for being preferred by multinational corporations for its prime nature. These include the World Health Organization, Coca Cola, the World Bank, Citibank and Price Waterhouse Coopers. The price levels are driven most significantly by population density per acreage, which raises demand, thereby pushing prices upward owing to fixed supply as is the nature of urban settings.

It is worth noting that the information and data collected revolves around Nairobi and its environs due to the fact that growth of real estate and price levels in other counties has been slow. The slow movement rates contributed to by low investor interest has stifled balanced real estate development in Kenya, rendering even some city spaces more valuable than others. Nairobi for instance has property worth more as compared to Kisumu and Mombasa Cities.

Sales Price Factors

Several factors influence the price at which properties sell, property in this case encompassing buildings and excluding land. Some of these include the type of building (stand-alone, townhouse, apartment, office space potential and so on), number of bedrooms and bathrooms, location, security, age of the property and the presence of surrounding amenities such as shopping areas, schools and recreational areas. Prime locations attract the highest sales and rental fees, with amenities being the other most highly regarded factor.

Modernization of Real Estate

Traditional buying and selling of properties is still the most widely relied on form of real estate investment in Kenya, especially among rural dwellers. However, in 2015, the Nairobi Securities Exchange (NSE) launched the country's first real estate investment trust (REIT). Dubbed the Fahari I-REIT and launched by STANLIB Kenya, the REIT allows investors to pool funds and acquire real estate in the form of acquisitions of establishments like malls and hospitals. The Greenspan Mall in Nairobi's Donholm area is one such example. REITs make acquisitions easier since when done on an individual basis the capital injections needed would prove monumental, while offering returns from the acquired properties.

Conclusion

Residential real estate, while still profitable as a venture for would-be investors and speculators, has come under increasing competition from commercial space real estate. Apartments have overtaken stand-alone and town houses as the most preferred property, with most developers opting to put them up and offer them for purchase and rental purposes on the residential front. With the devolution of government, there has been a surge in demand for both residential and commercial spaces, and the increase in population has increased acreage density thereby driving prices up even further. The Kenyan real estate front has become even more competitive with the introduction of the country's first REIT, allowing smaller-scale investors to participate in purchase and sale of property. Land and its appreciation continues to attract speculators and investors who opt not to acquire buildings as assets. The ease of transfer has also preserved it as an avenue worth exploration. Relatively low regulation of land and property has made entry and exit into and out of the market easy, and this has increased sector dynamism and flexibility.