STATUS OF THE BUILT ENVIRONMENT

JULY – DECEMBER 2019
The following report strives to summarize key features in the Built Environment in the months of July to December of the year 2019.

According to the Kenya National Bureau of Statistics’ (KNBS) Statistical Release¹, the construction sector grew by 6.6% in Q3’2019 (July to September) in comparison to 7.0% growth in the same period in 2018. Also within the review period, there was decreased cement consumption from 1,541,927 tonnes in 2018 to 1,472,473 tonnes in 2019. These statistics demonstrate the continued decline of activity in the construction sector.

INTRODUCTION


Decreased cement consumption in 2018

1,541,927 tonnes

Cement consumption in 2019

1,472,473 tonnes
There was high demand for low middle-income housing in far-flung Nairobi’s metropolis as tenants opted for cheaper units in the wake of the prevailing high cost of living and uncertainty in the economic environment.

According to the Kenya Bankers Association Housing Price Index, house prices declined by 2.3% in Q3'2019, compared to 1.7% in Q2'2019, attributed to a supply-demand mismatch. Demand remained relatively low attributed to tough credit conditions that resulted in decline in credit advances towards home ownership, in addition to constrained household disposable incomes in the wake of tough economic times.

Apartments accounted for 84.8% of total units in the market, compared to maisonettes and bungalows at 9.7% and 5.6% respectively. The preference for apartments is attributed to the relatively lower cost of construction; and affordability to potential homeowners in the wake of financially-constrained households.

According to Cytonn Research, the following were noted:

- **Detached units**: Their price dropped from KSh 138,049/m² in Q3'2018 to KSh 137,421/m² in Q3'2019 as developers reduced their prices in order to attract buyers. However, the lower mid-end markets recorded the highest returns to investors in the detached market, averaging at 5.2%.

- **High-end markets**: They registered the highest price depreciation of 0.3% attributable to notable declines in markets such as Kitisuru and Lower Kabete as developers aimed to clear overstayed market stock.

- **Upper mid-end markets**: Average total returns to investors came in at 4.3% in Q3'2019, down from 4.5% in H1'2019. This was as a result of reduced occupancy. This is as occupancy of the lower mid-end units increased due to their affordability evidenced by a relatively low rent of KSh 380/m² in comparison to the upper mid-end and high-end markets at KSh 650/m² and KSh 796/m², respectively. This is supported by a Hass Property Index Report which observed that there was high demand for low middle-income housing in far-flung Nairobi’s metropolis as tenants opted for cheaper units in the wake of the prevailing high cost of living and uncertainty in the economic environment.

- **Apartments**: They recorded average total returns of 4.9% in Q3'2019, down from 6.8% in Q3'2018. This is generally attributable to a negative price growth in price/m² from an average of KSh 110,195/m² in Q3'2018 to an average of KSh 97,369/m² in Q3'2019. The negative price growth is resultant of an increase in the oversupply of apartments thus forcing investors to reduce prices in order to attract buyers. However, rental yields increased from an average of 4.9% in H1'2019 to 5.1% in Q3'2019 on account of improved occupancy rates.
The retail sector was generally vibrant, attracting interest from renowned international retailers as well as the robust expansion of local retailers. This was driven by a widening middle class, provision of high-quality mall spaces in line with international standards as well as improving infrastructure within counties.

In overall, rental yield declined marginally mainly attributable to an oversupply of retail space. In a bid to attract and retain tenants, property managers have applied strategies such as reducing rental rates; and offering rent-free grace periods of up to 6 months. Further, there is a greater adoption of informal retail spaces and mixed-use developments by retailers.

Westlands and Kilimani recorded the highest average rental yields of 11.0% and 9.9%\(^5\), respectively. This is resultant of the premium rents charged in these locations as the areas are affluent neighborhoods.

Mombasa Road and Satellite towns recorded the lowest average rental yields at 6.3% and 5.7%\(^6\), respectively. This is due to the low rental charges of KSh 148/ft\(^2\)/month and KSh 131/ ft\(^2\)/month as a result of continued traffic congestion along Mombasa road and competition from informal retail space in Satellite towns.

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5. Cytonn’s Nairobi Metropolitan Area Retail Report 2019
6. Cytonn’s Nairobi Metropolitan Area Retail Report 2019
b) Office

- The rental yields performance of the commercial office sector declined marginally (from 7.8% in H1’2019 to 7.7% in Q3’2019) mainly as a result of reduced occupancy attributable to downsizing by companies and business closures

- Gigiri and Karen continue to record the highest average rental yields in 2019 owing to the relatively high asking rents due to the higher quality office space in the respective prime locations enabling the developers to charge premium rates.

- Offices along Thika Road and Mombasa Road continue to record the lowest average rental yields in 2019 attributable to lower quality Grade B and C offices in the areas and frequent traffic snarl-ups making them generally unattractive to firms.

- There is a rising demand of serviced offices from technology start-ups, SMEs, and large corporate occupiers attributable to the emergence of new shared workspace providers racing to meet the growing demand from businesses.

A serviced office is a workplace or building that is fully equipped and managed by a facility management firm (office provider), which then rents individual workstations or floors to other businesses. These facilities allow businesses to have flexible lease treaties and office spaces, and the opportunity to operate inexpensively in a prime address.

Promoters of serviced offices believe that the niche market will continue to record growth over the next couple of years as more companies seek to eliminate non-core office setups.

iii. Industrial Property

- The Nairobi Gate Industrial Park - slated to be the largest industrial park investment in Kenya at 10,000m², is expected to be open at the end of March 2020. The project is located about 15 kilometres from Nairobi’s CBD in Ruiru’s Northlands City precincts. The development is at an estimated cost of KSh 11.3 billion as a joint venture between a South African industrial property developer Improvon and Pan-African private equity group Actis.

Over the last two years, investors in the Nairobi industrial sector have continued to shift focus away from the traditional industrial nodes such as Mombasa Road, Baba Dogo, and Industrial Area, which tend to be overcrowded and offer outdated warehousing stock. This has been enabled by:-

- Provision of infrastructure such as the Eastern Bypass and the Northern Bypass, which have eased transit to logistic hubs namely the Jomo Kenyatta International Airport, the Inland Container Depot (ICD), and the Standard Gauge Railway (SGR) station, and;

- Growth of foreign investment thus creating a huge demand for high quality industrial parks with modernized logistic systems.
• Hotpoint, an electronics firm, launched its new headquarters in Sukari Industrial Estate, off the Eastern Bypass. The complex will house the firm’s main offices as well as industrial park.

• Export Processing Zone Authority (EPZA) invited bids from developers for a planned mass housing project in Athi River on its 71.1 acres for 5,000 units for its workers and incoming investors in a bid to promote a live and work concept. As per the directive, the developer will be tasked with master planning, providing building models and funding the project.

• The Government of Kenya will receive technical support after the IFC World Bank approved a deal to offer advisory services in the development of a legal and regulatory framework for the Kenya Investment Generation Project which aims to construct Special Economic Zones (SEZs) and industrial parks in the country. Currently, Kenya has 61 SEZs, the largest number in Africa making up a quarter of the existing 237 SEZs. This is according to the United Nations Conference on Trade and Development June report. Moreover, SEZs in the country currently enjoy tax incentives corporation and value-added taxes, among other packages as a means of the government cutting down on the costs of operation.

• The Kenya Chamber of Commerce and Industry (KNCCI) has secured land in four counties including: Migori, Nandi, Elgeyo Marakwet and Embu, to construct industrial parks in partnership with international and local investors.
vi. Hotel and Tourism Property

- Gigiri is the most attractive hospitality investment node. Factors contributing to this attractiveness include:-
  - relatively low supply of hotels in comparison to nodes such as Westlands, Upperhill and CBD;
  - relatively high population of expatriates creating demand for hospitality services;
  - relatively good infrastructure with the Northern Bypass as well as the Westlands Link Road and the ongoing Western Bypass, which boost its accessibility;
  - blue diplomatic Zone thus high levels of security, and;
  - presence of recreational amenities along Limuru Road such as the Village Market and Two Rivers Mall that create shopping convenience to the residents.

- Rental yield for serviced apartments declined marginally mainly attributable to reduced occupancy rates, as a result of the decreased number of expatriates with the closing down of foreign firms given the current tough economic and operating environment, in addition to the growing competition from international hotels which have continued to expand their foothold in the Kenyan market and offer high quality hospitality facilities.
LAND

- In a bid to increase compliance, the County Government of Kajiado reduced land rates by 65% following a deadlock between the county government and land owners over rates especially in satellite towns. In early 2019, Governor Joseph Ole Lenku had directed his officials to review the land levies together with stakeholders. Beginning February 2020, when the new rates will take effect, a parcel of land with annual rates equivalent to KSh 10,000 will be required to pay KSh 3,500.

- The Nairobi City County Government announced in July 2019 that it would cap the new land rates at 1.0% of the current value of the plots as opposed to using the 1980 valuation which dictated that property owners pay land rates at 25.0% of the unimproved site value. The specific rates will now be based on the current value of undeveloped land and the new fees are to be effected in January 2020.

- The National Government designated 9,000 acres of land in Naivasha, Mombasa and Machakos as special economic zones. This move would allow the areas to benefit from special tax (yet to be disclosed) and infrastructure that facilitate storage and export.

- The price of land in Upperhill fell to a two-year low as developers slowed down activity in the area attributed to the decreased demand for development land due to the existing oversupply of commercial office and retail space and high vacancy rates.

FINANCING

• The Housing Finance Company Limited, a local mortgage finance provider, announced that it would offer mortgage financing for prospective buyers of the government’s Affordable Housing Project, Pangani Heights, located along Ring Road Ngara.

• The Capital Markets Authority of Kenya approved the issuance of what is Kenya’s first unlisted green bond (KSh 5.0 billion medium-term note) by Acorn Group, a Kenya-based property developer, in partnership with Helios, a UK-based Private Equity firm. The funds will be used to finance the construction of sustainable and climate-resilient student hostel units in Nairobi, with the two firms targeting to put up approximately 3,800 units in Nairobi at a cost of approximately KSh 7.4 billion.

• The Central Bank of Kenya (CBK) gazetted regulations aimed at guiding operations of Mortgage Refinancing Companies (MRCs) in Kenya. This marks a great milestone for Kenya’s undeveloped secondary mortgage market and generally paves way for the actual operationalization of the Kenya Mortgage Refinancing Company (KMRC), delayed by lack of a license. Once operational, KMRC is expected to revitalize the mortgage market through long-term funding by linking the primary mortgage market with the capital market. This should enable the lending institutions to increase mortgage tenures from the current average of 12-years to about 20-years, thus relieving borrowers of heavy repayment pressures and generally increasing the pool of mortgage borrowers to include low-income earners.

• According to the “2019 Affordable Housing Yearbook” published by Centre for Affordable Housing Finance (CHAF), the main barriers to mortgage issuance include:-
  • asset-liability mismatch by tenor due to the relatively long-term nature of mortgage loans and short-term nature of bank deposits;
  • limited access to capital markets funding for mortgages resulting in low supply of long-term capital
  • a complex legal and regulatory framework and collateral requirements making mortgages exceedingly expensive;
  • banks face the challenge of insufficient credit risk information - particularly on the informal sector despite the informal sector making up a significant 83.4 percent of the total employment.
  • an inefficient land and property registration process

  According to data from the Housing Finance Company Limited auction campaign, Nairobi, Kajiado and Mombasa top the list of counties with the highest value of distressed property sales. Nairobi had 68 distressed properties valued at over KSh 800 million; Kajiado had 11 distressed properties valued at about KSh 150 million while Mombasa had 25 distressed properties valued at KSh 100 million. According to a research by Centum, Housing Finance has the highest non-
performing mortgages in the market with a value of KSh 7.66 billion (16% of mortgage portfolio) compared to Kenya Commercial Bank with KSh 4.73 billion (7% of mortgage portfolio). According to Knight Frank’s latest Prime Global Cities Index, the rising number of distressed properties in Nairobi has also affected prime residential values significantly, with lenders intensifying efforts to recover non-performing loans through sale of collateral.

INVESTOR AND DEVELOPER SCENE:

- According to a report by Turner & Townsend titled “International Construction Market Survey 2019”, Nairobi is the fourth least expensive place to build in globally and the cheapest in Africa. The report indicates that it is cheaper to build in Nairobi (734.8 USD) than in all the African cities surveyed including Harare, which was the most expensive (1,683.3 USD) followed by Kigali (1,085.4 USD), Kampala (967.3 USD), Johannesburg (952.2 USD) then Dar es Salaam (922.3 USD).

The most expensive place to build in the world is San Francisco (4,482.7 USD) and the least expensive place to build in the world is Bangalore (582.2 USD).

Cities were ranked in the report based on the average cost of building in USD/m² of six different types of construction including: Apartment high-rise; Office block prestige; Large warehouse distribution centre; General hospital; Primary and secondary school; and Shopping centre including mall.

The report is an analysis of data gathered from a survey of 64 global markets with the aim of providing insight into the current state and direction of the global construction industry.

This report contrasts the Arcadis Report (whose findings were highlighted in the “AAK Status of the Built Environment Report H1 2019”) which stated that Nairobi was the most expensive city to construct in Africa and 86th globally. It is however worth to note that the two surveys used different criterion.

NAIROBI

Nairobi is the fourth least expensive place to build in globally and the cheapest in Africa.
### BUILDING COSTS OF INTERNAL AREA IN 2018 (KENYA) KSH/M²

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
<th>Cost (KSH/M²)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Residential</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Individual detached house – prestige</td>
<td>80,000</td>
</tr>
<tr>
<td></td>
<td>Apartments – high-rise</td>
<td>65,000</td>
</tr>
<tr>
<td></td>
<td>Townhouses – medium standard</td>
<td>60,000</td>
</tr>
<tr>
<td></td>
<td>Apartments – low-rise medium standard</td>
<td>55,000</td>
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<tr>
<td></td>
<td>Individual detached or terrace style house – medium standard</td>
<td>52,000</td>
</tr>
<tr>
<td></td>
<td>Affordable units</td>
<td>35,000</td>
</tr>
<tr>
<td><strong>Retail</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Prestige car showroom</td>
<td>72,500</td>
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<tr>
<td></td>
<td>Large shopping centre including mall</td>
<td>67,500</td>
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<tr>
<td></td>
<td>Neighbourhood including supermarket</td>
<td>57,500</td>
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<tr>
<td><strong>Commercial</strong></td>
<td></td>
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<tr>
<td></td>
<td>CBD Offices – high-rise prestige</td>
<td>95,000</td>
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<tr>
<td></td>
<td>CBD offices - up to 20 floors medium (A-grade)</td>
<td>72,000</td>
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<tr>
<td></td>
<td>Offices business park</td>
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<tr>
<td><strong>Industrial</strong></td>
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<tr>
<td></td>
<td>High-tech factory/laboratory</td>
<td>100,000</td>
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<tr>
<td></td>
<td>Large warehouse distribution centre</td>
<td>50,000</td>
</tr>
<tr>
<td></td>
<td>Warehouse/factory units basic</td>
<td>35,000</td>
</tr>
<tr>
<td><strong>Hotel</strong></td>
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<td></td>
</tr>
<tr>
<td></td>
<td>5 star luxury</td>
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<tr>
<td></td>
<td>Resort style</td>
<td>120,000</td>
</tr>
<tr>
<td></td>
<td>3 star travelers</td>
<td>102,000</td>
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<tr>
<td><strong>Hospital</strong></td>
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<tr>
<td></td>
<td>General hospital</td>
<td>125,000 (teaching referral)</td>
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<tr>
<td></td>
<td>Regional hospital</td>
<td>103,000</td>
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<tr>
<td></td>
<td>Day centre (including basic surgeries)</td>
<td>85,000</td>
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<tr>
<td><strong>Education</strong></td>
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<tr>
<td></td>
<td>University</td>
<td>50,000</td>
</tr>
<tr>
<td></td>
<td>Primary and secondary</td>
<td>45,000</td>
</tr>
<tr>
<td><strong>Car park</strong></td>
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<td></td>
</tr>
<tr>
<td></td>
<td>Multi-storey below ground</td>
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<tr>
<td></td>
<td>Multi-storey above ground</td>
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<tr>
<td><strong>Airports (building only)</strong></td>
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<tr>
<td></td>
<td>Domestic terminal (full service)</td>
<td>267,000</td>
</tr>
<tr>
<td></td>
<td>Low-cost carrier terminal, basic service</td>
<td>200,000</td>
</tr>
</tbody>
</table>

Kenyan projects won a few awards at the 10th Africa Property Investment (API) Summit held in Johannesburg, South Africa. They include the following:

- Best architectural design: Crawford International Schools
- Best high-end residential development: Purple Haze

The API Summit provides property developers, suppliers and investors an opportunity to showcase their best projects and services from across sub-Saharan Africa in various categories including: Retail, Office, Mixed Use, Green Building, Hotel, Alternative Asset, Architectural Design, Banking, High-end residential, Logistics and Best women in Property.

The projects were judged on a wide range of criteria including location, infrastructure and transport access, integration into the environment, originality of the concept, technical and architectural quality, services offered, sensitivity to the local community, innovation, sustainability, corporate staff involvement, response to market demands, financial performance, occupancy, and the impact of the project on economic convergence.


According to the Hass Consult Property Index, semi-detached units recorded the highest total return for investors at 13.54% as this model is preferable over detached units which are pricier and apartments where there is oversupply and as a result rents are being discounted to attract tenants.

**INFRASTRUCTURE**

i. **Road**

- Kenya Urban Roads Authority (KURA) announced the completion of the newly constructed Outer Ring Interchange, set to be commissioned in January, and was aimed at creating a seamless link to Thika Road, hence, easing traffic snarls on the two major roads. The US $142 million development project included converting the current one into a six-lane highway with interchanges and overpasses. The project was fully funded by the African Development Bank and the European Union in partnership with the Government of Kenya. The project was undertaken by Stecol Corporation (previously named Sinohydro Tianjin Engineering Co. Ltd.)

- The African Development Bank approved a US$384.22 million financing package for construction of the Mombasa-LungaLunga/Horohoro and Tanga-Pangani-Bagamoyo roads – a transnational roads project connecting Kenya and Tanzania. The loan will be dedicated to phase 1 construction of the project which involves the construction of 175 km of road sections (the 121 km Mkanga-Pangani road section in Tanzania and the 54 km Mombasa-Kilifi road section in Kenya). This fund represents 78.5% of the total US$445.14 million project cost.
The construction of Phase Two of the Dongo Kundu Bypass in Mombasa is finally set to begin by a Japanese consortium - Fujita Corporation-Mitsubishi Corporation. The 8.96km dual carriageway project, expected to cost KSh25 billion, involves construction of an interchange at the Likoni-Lunga Lunga highway and erection of two bridges: one at Mwache – spanning 660 metres, and another at Mteza straddling 1,440 metres. Once constructed, the Mteza Bridge will be seven times longer than Nyali (bridge). Mwache Bridge is designed to land on the Tsunza peninsula in Kwale County where it will connect with the Mteza Bridge – which will complete the South Coast mainland connection. The entire project is expected to be completed in 48 months. The Kenyan government is expected to pay back the debt in 30 years at an interest rate of 1.2%, after a grace period of ten years – which is scheduled to expire in 2024. Dongo Kundu Bypass, also known as Mombasa Southern Bypass, is seen as the solution to congestion at Likoni Ferry, which is blamed for the slow growth of the south coast region.

The Nairobi City County Government received more than US $4.2 million in conditional grant to rehabilitate roads in the county. The grant from the Kenya Roads is part of the funds released to county governments every year. The 2018 County Allocation of Revenue and the 2012 Public Finance Management Acts mandate the State agency to release funds to county governments annually. For Nairobi, the money was to be released in the financial year that ended on June 30 but it delayed due to the county government not complying with the requirements for benefiting from the grant. Out of the 3, 600km of the road network under the Nairobi City County government, only 50% are tarmacked, 20% gravelled while the remaining 30 are earth roads.
President Kenyatta launched the construction of the Jomo Kenyatta International Airport (JKIA) -Westlands Expressway, an 18.6-km road project, which would start at JKIA and terminate at James Gichuru, along Waiyaki Way Road, in Westlands. The two-year project will be implemented through a Public-Private Partnership with China Roads and Bridges Corporation (CRBC), and motorists will have the option of using the expressway at a fee or toll charges to help the private firm building the road recover its investments.

ii. Rail and Port

In October, President Uhuru Kenyatta, launched Phase 2 of the Standard Gauge Railway (SGR) project, bringing to operationalization the rail between Nairobi and Suswa. This is after a five-month delay, due to a delay in compensation of the affected persons. The 120.5 km (Phase 2A) project, which commenced in 2017, cuts across Nairobi, Kajiado, Nakuru and Narok with four passenger stations - Ongata Rongai, Ngong, Mai Mahiu and Suswa.

The Government of Uganda has started demarcating the route on which the anticipated Standard Gauge Railway (SGR) line is set to pass – from Malaba to Kampala. The exercise is aimed at protecting the route from encroachment in preparation for the handover of the project to the contractor so that construction can begin without any hindrances. The government of Kenya has already re-submitted a loan application to the Exim Bank of China through the Ministry of Finance to get resources to fund the exercise.

Construction of the US$68 million Naivasha Dry Port has started. The port will sit on a 1,000-acre piece of land in Kedong ranch. The project features an inland container depot, railway marshalling yard, logistics zone and public utility area. The road linking the port to the Standard Gauge Railway (SGR) is also nearly complete.

The Directorate of the Metropolitan confirmed that the rehabilitation of the Kikuyu railway station was finalized. The project, under the Nairobi Commuter Rail Service Development was funded by the World Bank together with the National Government of Kenya. It is a part of the Nairobi Metropolitan Transport Master Plan, which aims to decongest the city.

The Kenya Ports Authority announced completion of the KSh 350 million cruise ship terminal at the Port of Mombasa and it was ready for the official handing over to the Port of Mombasa management.

Construction of the US$385 million new Kipevu Oil Terminal is 40% complete after eleven months of work. The project which is being developed by China Communications Construction Company (CCCC) began on February 1st 2019 with the expected date of project completion being August 1st 2021. The current 50-year old Kipevu Oil Terminal will be relocated to a new site on the southern side of the port (near Dongo Kundu), opposite the current container terminal. The new terminal is expected to have the capacity to handle four vessels of up to
100,000 tonnes and will have a Liquified Petroleum Gas line that is expected to help stabilise cooking gas supply in the country. Currently, the country depends on the old Kipevu Oil Terminal and the Shimanzi terminal near the Likoni Ferry channel to offload oil product, both of which can only handle one oil tanker at a time. The Kipevu Oil Terminal will supplement the two facilities at Shimanzi and the previous Kipevu terminal. The construction of the oil terminal is part of the authority’s expansion programme which is key to securing the country’s energy needs. The new Kipevu Oil Terminal will have both subsea and land-based pipelines connecting it to the storage facilities in Kipevu, and the capacity to handle five different fuel products. These include crude oil, heavy fuel oil and three types of white oil products (DPK-aviation fuel, AGO-Diesel and PMS-Petrol).

• The first of the proposed 32 berths at the Lamu port is now 100% complete. This was announced by the LAPSSET Corridor Development Authority (LCDA), which is in charge of the coordination and management of the implementation of the Lamu Port-South Sudan-Ethiopia Transport Corridor. This berth is one of the three berths whose construction began with dredging works in December 2016 with a delivery time of 24 months; and 45 months for the other two, all at a cost of US$480 million. LCDA stated that berths 2 and 3 will be completed by December 2020. The Government of Kenya is fully funding the construction of these first three berths. It has structured the remaining 29 berths to be handed over to private sector investors for financing, construction and operation.

• The Government of Kenya is set to commission the refurbished new Kisumu port which has undergone an intensive seven month upgrade at a cost of US$ 30 million. The Kenya Ports Authority confirmed that works had been completed and the facility was ready to start handling cargo. The port will handle both containerized and conventional cargo and can handle 50,000 TEUs or an equivalent of 200,000 metric tonnes.

• The Mama Ngina Waterfront Park in Mombasa County (redeveloped at US$4.6 million) was reopened to the public on Sunday 20th October 2019 for the Mashujaa Day national celebrations. The 26-acre park that overlooks the Kilindini Channel has been transformed into an integrated urban tourist attraction site. The refurbishment included landscaping and paving the waterfront with concrete blocks, construction of an amphitheatre, the Kilindini Cultural Centre, ablution blocks and two main gates. The redevelopment that was undertaken by a local company, Suhufi Agencies.

• Energy

• The Government of Kenya launched the construction of a 40-km 400kv power line which is set to power Konza City, as well as Kajiado, Makueni, and Machakos Counties. The project is a partnership between the Ministry of Energy and China Aerospace Construction Group, aimed at ensuring a steady power supply, especially for the upcoming Konza City. The project is funded by the China Exim Bank.

• President Uhuru Kenyatta unveiled the 54MW Garissa solar power plant that cost KSh 13 billion in Mbalambala, Garissa County. The power plant (which is currently the largest in East and Central Africa) is part of a broad renewable energy strategy by the government to harvest 400MW of electricity from the country’s vast solar value.

Mombasa Cement has joined a growing list of establishments that have set up their own power production units to battle inefficiencies of Kenya Power. These include KTDA, Strathmore University, Garden City, Williamson Tea, Africa Logistics Properties, Kapa Oil Refineries, London Distillers, and Oserian Flowers.
China Jiangxi Corporation for International Economic and Technical Corporation (CJIC) was the EPC contractor that designed and built the plant, in conjunction with Kenya’s Rural Energy Authority (REA) after its commissioning in November 2018. The plant occupies 210 acres and the solar panels sit on 120 acres.

The Geothermal Development Company (GDC) received a KSh1.9 billion grant for its Baringo-Silali geothermal project in western Kenya from the Geothermal Risk Mitigation Facility (GRMF) - a sub-regional organization that finances and facilitates the development of geothermal energy in East Africa. The project has been steadily progressing under the Geothermal Development Company and is intended to pave the way for geothermal exploration in western Kenya. Experts estimate that the Baringo-Silali geothermal site can produce up to 3,000 MW.

Construction of a 36MW Kilifi wind farm, which will power manufacturing operations of Mombasa Cement, has been completed. The wind farm is built on a 1,200 acre parcel of land in Vipingo, Kilifi County and construction began in early 2019. The wind park consists of 12 turbines of 3MW each. Mombasa Cement has joined a growing list of establishments that have set up their own power production units to battle inefficiencies of Kenya Power. These include KTDA, Strathmore University, Garden City, Williamson Tea, Africa Logistics Properties, Kapa Oil Refineries, London Distillers, and Oserian Flowers.

The African Development Bank announced that it would not fund the Lamu Coal-fired power plant project. The bank reiterated that it took environmental concerns seriously and was focusing on renewable energy. The project was planned near a UNESCO World Heritage Site but was halted by a local environmental tribunal.

The Physical and Land Use Planning Act, 2019 came into effect on 5th August 2019, repealing the Physical Planning Act, 1996. The Act is meant to regulate planning and prescribe the appropriate use of development land. The bill will also allow the board to put funds aside for the repayment of loans and other facilities taken for road maintenance, development and rehabilitation.

President Uhuru Kenyatta signed into law the Kenya Roads Board (Amendment) Bill, 2019 which will pave way for the government to seek a KSh800 billion infrastructure bond in four years. The law gives the Kenya Roads Board powers to seek the required funds to allow the government to deliver on its pledge of constructing 10,000km of roads by 2022. Further, it will restructure the directive and operations of the board and other agencies in the sector including Kenya Highways Authority (KeNHA), Kenya Rural Roads Authority (KeRRA) and Kenya Urban Roads Authority (KURA). The law has also stated the percentages that the board will share funds across the different levels right from the constituency roads to the national highways.
The County Assembly of the Nairobi City County Government has proposed the Nairobi County Corporation Bill, 2019 which if adopted into an Act could see the establishment of County Corporations much like State Corporations. Such an organization, formed to expedite public interest within the county, will be granted independent corporate status similar to public companies. The bill states in part that ‘there shall be a Board for every County Corporation which shall supervise and control the business, property, and affairs of the County Corporation.’ According to the bill, county corporations will be funded primarily from the County Treasury although it makes provision for County Corporations to borrow funds externally. This could see County Corporations floating bonds on the bond markets.

The Finance Act 2019 was assented to by President Uhuru Kenyatta. The Act partly focused on supporting the Big Four Agenda, mainly the provision of affordable housing, with some of the key amendments intended to support the same being:

- Inclusion of Fund Managers or Investment Banks registered under the Capital Markets Act as approved institutions which can hold deposits of a Home Ownership and Savings Plan (HOSP);
- Stamp duty exemption on the transfer of a house constructed under the affordable housing scheme from the developer to the National Housing Corporation, and;
- Exemption of goods supplied for the direct and exclusive use in the construction of houses under the affordable housing scheme (AHS) from Value Added Tax (VAT);
- Exemption of goods supplied for the direct and exclusive use in the construction of houses under the affordable housing scheme (AHS) from Value Added Tax (VAT). This exemption shall be subject to the AHS approval by the Cabinet Secretary (CS) for Finance. Currently, the tax on imports stands at approximately 25% of the value of the goods;
- Exemption of companies implementing projects under the affordable housing scheme from the application of thin capitalization rules,
- Reduction of Import Declaration Fee (IDF) from the previous 2.0% to 1.5% on inputs for the construction of houses under the affordable housing scheme approved by the Cabinet Secretary for Finance.

President Uhuru Kenyatta signed into law the Supplementary Appropriation Bill No. 2 of 2019, which allocated KSh 7.0 billion towards the affordable housing agenda. This is a 66.7% increment from the KSh 10.5 billion allocated in the Kenya National Budget 2019/20, in support of the affordable housing initiative.
**BIG 4 AGENDA:**

**AFFORDABLE HOUSING:**

- In a bid to ensure the full implementation of the National Housing Development Fund (NHDF), President Uhuru Kenyatta officially directed The National Treasury to revise the legal requirement for mandatory contributions of the National Housing Development Fund Levy and make it voluntary, with immediate effect. The Fund, which was launched in 2017, was aimed at providing offtake financing for developers while helping homebuyers save towards homeownership. So far, according to PS Charles Hinga, only 14,800 Kenyans have made voluntary contributions.

- The Government of Kenya announced that the first lottery on the Park Road affordable housing project in Ng’ara was set to be conducted following the completion of the first phase of the project, comprising of 228 housing units. However, this did not happen and according to PS Charles Hinga, approximately sixty people had paid up the 12.5% of the home value required for unit allocation under Boma Yangu through the National Housing Development Fund.

- The Nairobi City County Government commenced works on the Pangani Regeneration Project, one of the seven Nairobi Urban Regeneration Projects under the affordable housing initiative. The project, which is set on 12.5-acres in Pangani Estate, is to be undertaken by Technofin as the main contractor and Stima Sacco as the sales agent, and will see the development of approximately 1,434 units in a span of one year at an estimated cost of KSh 4.0 billion. This will mark the second public-private affordable housing project to commence construction since the Park Road Project.

- The County Government of Nakuru invited bids from local and international developers and financiers for the development of the Naivasha Affordable Housing Project (NAHP). The project is expected to see 2,400 units delivered to the market on a 55-acre parcel of land in Naivasha, along the Nairobi-Nakuru Highway. The project targets income earners within the bracket of between KSh 15,000 and KSh 150,000.

- President Uhuru Kenyatta launched construction of the first phase of the 8,888 affordable housing units in Lukenya, Mavoko Sub-county, dubbed ‘Habitat Heights’. This follows the signing of a Memorandum of Understanding with the United Nations Office for Project Services (UNOPS) and the Kenya National Government for construction of a 100,000 affordable housing units which the government aims to deliver within the next three to five years. The project will sit on 78-acres of land and will comprise of 576 studios of 22 and 28m²; 972 one-bedrooms of 44 m²; 2,912 two-bedrooms of 75 m²; and 4,368 three-bedroom units of 95m². In terms of pricing, the units have price points of KSh 3.5 million, KSh 4.8 million, and KSh 5.8 million, for one, two and three-bedroom units, respectively, which translates to an average price/m² KSh 68,199.
DEVELOPMENT APPLICATIONS APPROVALS
(NAIROBI CITY COUNTY GOVERNMENT)
JULY TO DECEMBER 2019

It is worth to note that the Nairobi City County Government held Technical Committee meetings for 3 months during the second half of 2019 i.e. in the months of October, November and December.

Total no. of development plan applications approved

613
Applications

Value of Development Projects Approved
KSh 57,102,263,183

Total Permitting Fees Collected
KSh 102,883,280

Where were most developments carried out? (From area with highest developments to lowest)
Data attained was not comprehensive enough

Development classification with the highest number of approvals issued (Percentage)

<table>
<thead>
<tr>
<th>Classification</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential</td>
<td>71.56%</td>
</tr>
<tr>
<td>Public Use</td>
<td>13.74%</td>
</tr>
<tr>
<td>Industrial</td>
<td>5.21%</td>
</tr>
<tr>
<td>Commercial</td>
<td>5.69%</td>
</tr>
<tr>
<td>Mixed Use</td>
<td>2.37%</td>
</tr>
</tbody>
</table>
Month with the Highest Number of Approvals

263 APPROVALS
December 2019

Month with the Lowest Number of Approvals

146 APPROVALS
November 2019

Average number of days taken for approvals to be issued;
Comprehensive quantification could not be assessed as the last Technical Committee meeting prior to the October 2019 Technical Committee meeting was held in July 2019. Even in the month of July 2019 there was a backlog of hundreds of development applications that had not been reviewed and had been submitted earlier.

Performance comparison between the first and second halves of 2019

<table>
<thead>
<tr>
<th></th>
<th>H1’2019 (JANUARY-JUNE)</th>
<th>H2’2019 (JULY-DECEMBER)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total no. of development plan applications approved</td>
<td>955</td>
<td>613</td>
</tr>
<tr>
<td>Value of Development Projects Approved</td>
<td>KSh 84,173,194,081</td>
<td>KSh 57,102,263,183</td>
</tr>
<tr>
<td>Total Permitting Fees Collected;</td>
<td>KSh 333,119,267</td>
<td>KSh 102,883,280</td>
</tr>
</tbody>
</table>

The delay in the processing of construction permits by the Nairobi City County Government negatively affects all persons in the construction value chain – from the professional, investor/developer, contractor, construction workers, construction materials suppliers and the real estate agents by prolonging project implementation timelines. The delays have mainly been because of the e-CPS downtime and suspension of the technical planning committee. This has continued to cripple the ease of doing business. Following this, the Architectural Association of Kenya and the Kenya Property Developers Association held a press conference in October 2019 calling for an immediate resolution of the matter. The NCCG responded by appointing a new technical committee, however, there is negligible improvement of the e-CPS and the issuance of construction permits.
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