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H1 2017 REAL ESTATE REPORT

Britam Asset Managers (K) Limited

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Real Estate sector remains a central component of the country's immediate and longer-term economic growth agenda. The sector's outlook remains positive underpinned by strong economic growth and infrastructure development. Current investor sentiment in the sector is neutral as the election period approaches. Investors and developers are waiting for the election to pass before engaging in development plans for new projects.

Real Estate Sector: Taxation & Legislation Matters

Local

Payment of Capital Gains Tax before Transfer of Property Nullified

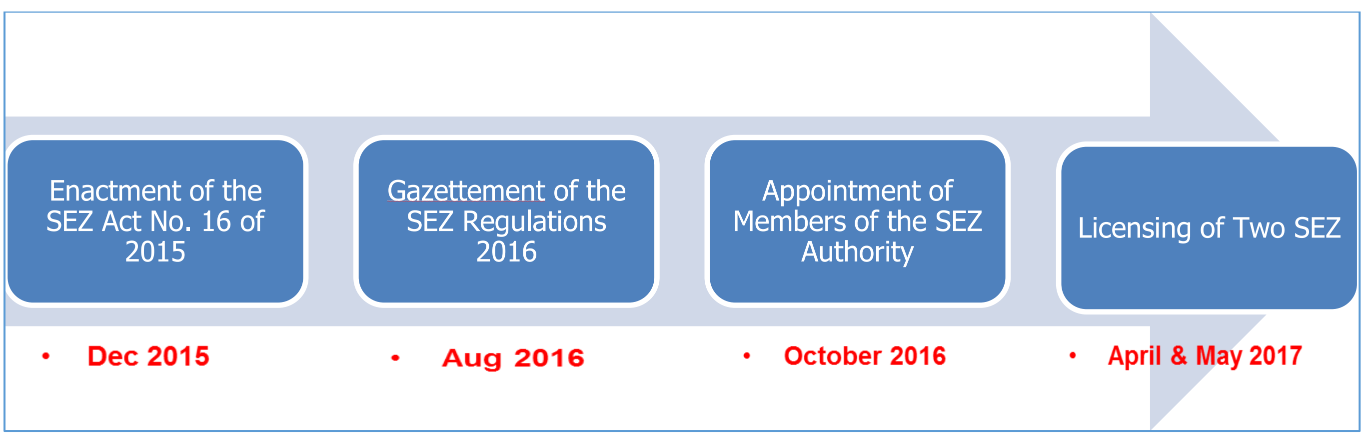
The High Court of Kenya nullified the provisions of Paragraph 11A of the Eighth Schedule to Kenya's Income Tax Act, which requires CGT to be paid prior to application to the Lands Office for the transfer of any property.

The High Court determined that the provision fails to meet the constitutional tests of rationality and proportionality. Therefore, KRA does not have a legal basis, at present, on which to collect capital gains tax (CGT) prior to registration for property transfer. The ruling was premised on the fact that CGT is a final tax payable by the vendor on the gains from sale of property. Transfer and registration of the property to the buyer are final conditions precedent to the vendor receiving the proceeds from sale from which CGT is payable. Initially, the determination and payment of CGT was similar to stamp duty where it was payable before transfer and registration.

First two Special Economic Zones Licenses Issued

The government issued the first two licenses for Special Economic Zones to Tatu City industrial park in Ruiru and the Africa Economic Zone in Uasin Gishu County. Tatu City' s business model involves the selling of fully serviced land, whereas the African Economic Zone business model involves the development of warehouses for rental and sale.

Below are the milestones achieved in the SEZ sector



Real Estate Sector: Entry, Deals & Exits

Entry

Indian Firm, Tata, to invest KES 15Bn in real estate in Kenya & Tanzania

Listed Indian firm Tata Housing Development Company is set to raise KES 15Bn for residential and commercial properties in major towns in Kenya, Tanzania and other countries. The firm inked a deal with the Indian National Housing Bank to venture into international projects starting with Kenya and Tanzania. The firm targets to develop mixed use townships in excess of 4.5 million square feet. *(Source: Business Daily)* The firm is best positioned to enter into development for the lower income segment of the market where there is a supply deficit and government incentives for developers.

Deals

Centum buys land in Kiambu for private school plan

Centum bought 20 acres of land in Kiambu near Paradise Lost, in February 2017, for proposed school construction. Centum, in partnership with Investbridge Capital and Sabis, plan to build a 2,000-capacity institution that will admit pupils from kindergarten to high school. The school is anticipated to open to the public in September 2018 and will be constructed at a cost of KES 535Mn. The cost of land in the area is approximately KES 60mn an acre. The school will add to the existing stock including Brookhouse's second campus in the immediate neighborhood of Runda Estate with the first admition expected in September 2017, Potterhouse School, Runda, Rosslyn Academy, Rosslyn Estate, Braeburn Garden Estate School and the newly built Nova Pionner in Tatu City. This shows the increased investors confidence in private school where analyst contend of an existing opportunity for further growth.

Exits

EABL to sell its former brewery in Mombasa County

EABL seeks to sell its old brewery in Mombasa County. The property sits on six acres in Mombasa's Shimanzi Industrial Area and is built up to 160,000 Square Feet comprising of an office block, a former brewing complex, bottling halls, workshops, warehouses and gate houses. The property has 33 years remaining lease term, leased from Kenya Railways Corporation for KES 10mn annually. EABL is selling the property for c. KES 116 Mn per acre. *(Source: Business Daily)*

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Real Estate Sector: Progress

Fundraising

Superior Homes cedes 25% stake ahead of its NSE GEMs listing

Family-owned Superior Homes Kenya Limited, developer of Greenpark Estate at Stoney Athi, sold 25% of it's stake to Cytonn Investments at an estimated value of KES 1Bn. Superior Homes has a strong track record in master-planned developments and has construction capabilities. Superior Homes is valued at KES 4Bn and plans to list on the NSE in 2017 after regulatory approval, offering 15% of its stake to the public.

Urban Planning

Launch of National Spatial Plan (NSP)

The Ministry of Lands and Physical Planning launched the National Spatial Plan (NSP), 2015 – 2045. The NSP is Kenya's first spatial vision that defines the general trend and direction of development for the country.

The National land use blue print will aid County governments deal with land conflicts caused by issues such as burgeoning urban populations and land grabbing.

Real Estate Investment Trusts

Fahari Income-REIT

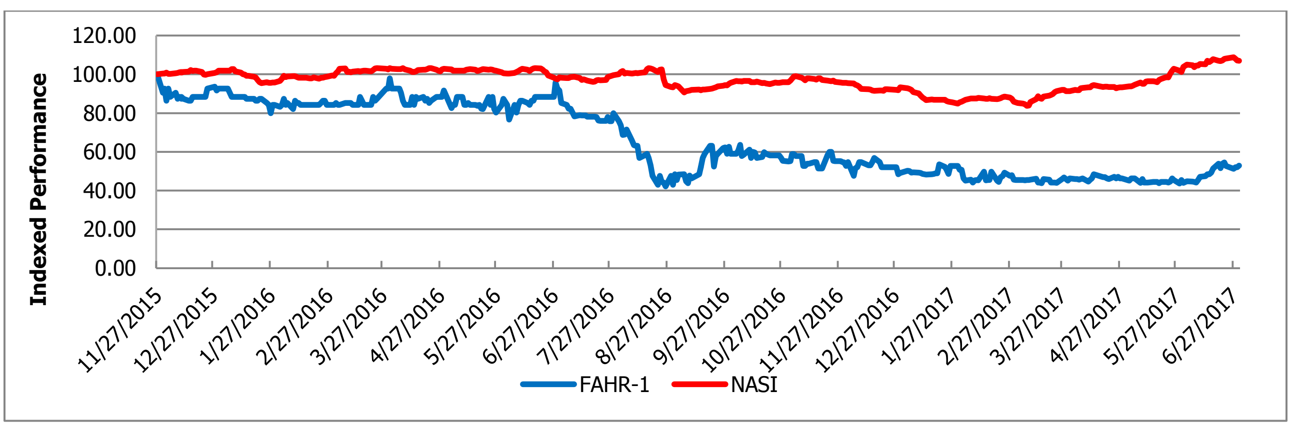
In its first full year earnings of the 13-month period ended 31 December 2016, the Fahari I-REIT reported a total return of 8.8% of which, 7.2% was income return and 1.6% was capital return. The REIT booked a profit of KES 106mn for the period resulting to earnings per unit of KES 0.59. It distributed 92% of all earnings to the unit holders at KES 0.50 per unit. It currently has net assets of KES 3.6bn translating to a Net Asset Value per unit of KES 19.81.

To comply with regulations, Fahari I-REIT is required to invest an additional KES 1.8Bn by September 2017, to hold at least 75% of its assets in income generating real estate. The REIT has invested 67% so far.

In it's strategy, the REIT team considers returning to the market to fundraise up to KES 8.9bn, to fill up the tranche of KES 12.5bn initially allowed by the CMA. The fundraising is expected to be done after elections based on the market conditions at the time.

(Source: Stanlib, Bloomberg)

Fahari I-REIT Performance



The REIT industry gives investors an opportunity to invest in income producing real estate with lower capital requirements compared to outright purchase of property. Investors get to enjoy regular income streams, diversification and capital appreciation.

Real Estate Sub-Sector Updates

1. Land

Subsector Developments

- Q1 2017 land trends indicated that owners of land in Nairobi's exclusive suburbs are moving to unlock property value. Karen and Lang'ata were the biggest suppliers of advertised land in the suburbs. Over a one year period, asking prices in the areas have recorded double digit increases. Overall asking prices within the suburbs increased by a meagre 0.7%.
- In Q1 2017, Syokimau was the best performing satellite town with asking prices increasing by 5.6%. On a year on year basis, Juja was the best performer, prices increased by 31%. Asking prices in Satellite towns increased marginally by 1% *(Source: Hass Consult Real Estate)*

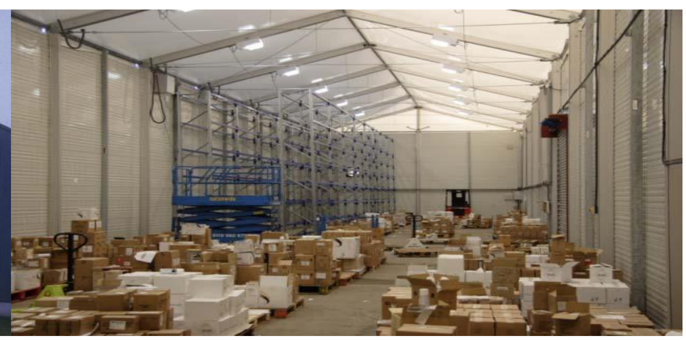
Our view – Speculation on land is expected to increase after elections. In the city suburbs, investors will seek to unlock value in locations experiencing rapid change in development types, consequently leading to upward momentum of land prices. Increased demand for land is anticipated in areas where change of use can be obtained from owner occupier residential houses to multidwelling residential apartments. Satellite towns are expected to experience high price movements as investors secure property for development especially considering the lower land prices as compared to prices in the city.

2. Retail Sector

Subsector Developments

- Approximately 100,000Sqm of formal retail space was delivered to the market in 2016. As a result of the new supply, it has taken longer to let out space and prime rents have stagnated. The average rent psf ranges from KES 350 to 450. In addition, the sudden rise in supply has stretched the capacity of local retailers to occupy the new space.
- Large international retailers are expected to drive the take up of new space as anchor tenants in upcoming malls. Carrefour, Game, LC Waikiki have been the pace setters. *(Source: Knight Frank)*

Our view – Slower uptake of space is anticipated within the new malls due to demand and supply mismatch, where tenants are fewer than the available supply. Retail rents are expected to remain relatively stable as more retail stock is added to the market evening out the demand. Going forward, malls designed to cater for their neighborhoods are expected to achieve better returns as opposed to large mega malls which are mainly designed as destination malls. We also anticipate speculative developments to slow down with pre-lets and built to suit demand driven developments being preferable cautionary tact.
Major mall additions to the retail stock in 2017 are the Rosslyn Riviera (11,000 Sq M) and Two Rivers Mall (62,000 Sq M) – both on Limuru Road.
Mall development in various counties is expected to pick up. Counties with announced plans include Laikipia, Uasin Gishu, Nakuru and Meru Counties.

3. Industrial Sector

Subsector Developments

- Mara Delta Property Holdings acquired a pharmaceutical storage facility from Imperial Health Sciences Logistics for KES 2Bn in a sale-leaseback transaction. The pharmaceutical warehouse is located along Mombasa road and will be leased back to Imperial Health Sciences on a 10 year triple net basis.
  The transaction of this highly specialized built to suit property is classical example of the deficiency of Grade A industrial developments that led the pharmaceutical company to adopt a build, sell and leaseback approach.
- Expansion works at the Embakasi inland container depot in the eastern suburbs of Nairobi nears completion, and will facilitate the handling of cargo from the port of Mombasa, about 580 kilometers

away. The KES 22Bn development is expected to be completed in 2017. *(Source: Nams News Network).* The development is anticipated to increase speed and efficiency in the handling of imported goods giving a huge boost to the manufacturing sector.

Our view – Quality warehouses remain scarce in the Kenyan market presenting developers with an opportunity to undertake warehousing projects. Attractive returns are anticipated for warehousing projects strategically located in areas served with good infrastructure. Lower occupancy rates are anticipated within the main Industrial Area as firms move to the less congested and easily accessible areas located in the periphery of the city. Government initiatives are seen as great catalysts to the sector's success. These initiatives include (i) Establishment of Special Economic Zones (ii) Development of inland ports.
Key developments in 2017 include

1. Tatu City Warehousing project
2. Africa Logistics Properties and
3. Infinity Industrial Park


4. Office Sector

Subsector Developments

- Hass Petroleum Group signed a KES 20Bn deal with a Chinese company for the construction of a mixed use development that will stand over 300 meters tall in Upperhill, Nairobi. Completion of the construction is slated for 2020.
- Multinational firm, Johnson & Johnson, opened a regional office in Nairobi. The office is anticipated to give the firm more control over distribution of its products in the region.

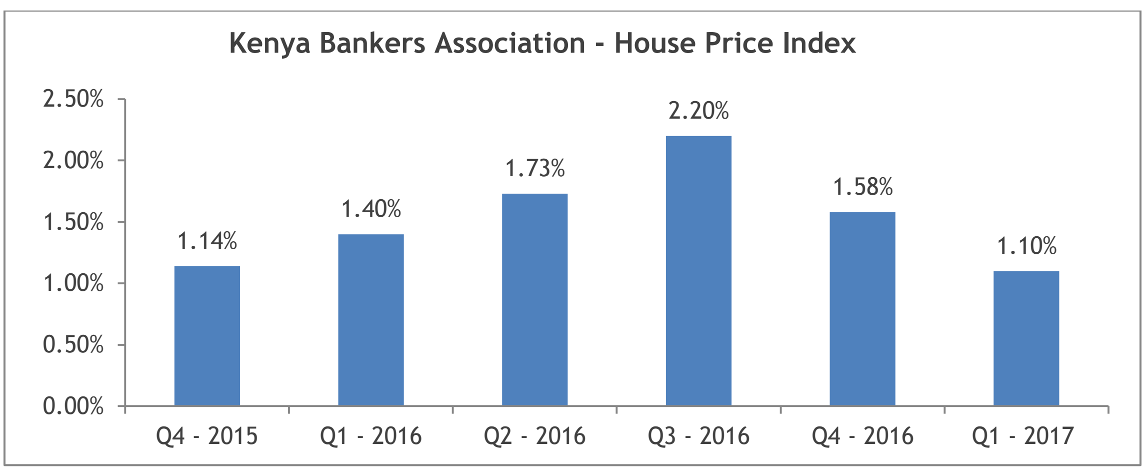
Our view – Owing to increased supply in different nodes in the city such as Upperhill and Westlands, developers are expected to engage in aggressive marketing technics, undercutting each other in a bid to achieve higher occupancy levels. This will prolong the trend of falling rents in these areas. Of note is that there is a limited number of office buildings in Nairobi which have managed to achieve Grade A office status of among others; raised floors, certified green buildings, parking ratios of 4 bays per 1000 Square feet, highly specialized fire suppression systems.
Key developments to be completed in 2017 include the Britam Tower with 300,000 Sq. Ft and the 32 floor Prism Tower.

5. Residential Sector

Subsector Developments

- Britam launched the development of KES 3.3Bn serviced apartments in Kilimani. The development will comprise of 163 one and two bedroom apartments on 1.6 acres. The development of the property will be undertaken by Britam Properties Limited.
- Tatu City plans to invest KES 35Bn in the construction of one of the largest residential developments in the country that will consist of 2,715 residential houses in Ruiru. The project will be dubbed Tatu Waters.
- A group of South African investors plan to develop 345 housing units in Ngando area along Nairobi's Ngong road. The project will be funded under the investment vehicle Momentum Africa Real Estate Fund (Maref) that raised KES 25Bn for real estate projects in Mozambique, Zambia, Kenya, Nigeria and Ghana.
- An investment co-operative owned by employees of Lancet Kenya, one of the country's leading pathology laboratories, is set to build a KES 800Mn estate in Mavoko, Machakos. The project will see the construction of 190 houses that will be sold to the members and the public.
- Nairobi's Riruta Estate anticipates two high density developments consisting of 1,452 housing units. The developments will be put up on 3.4 acres.

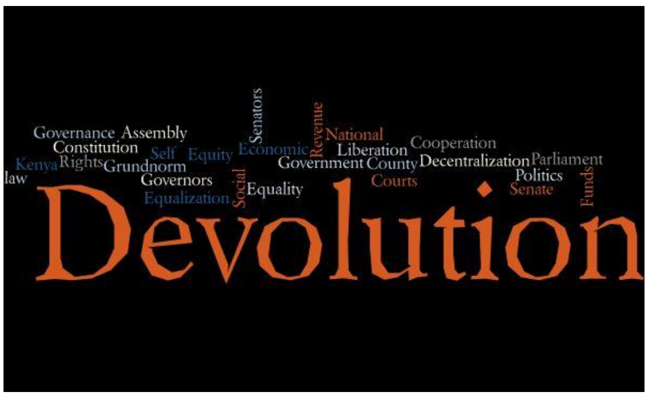
Market Movements

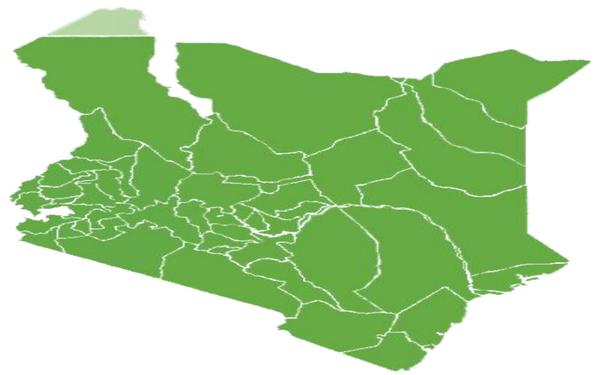


House prices have been increasing at a decreasing rate from quarter three 2016 indicating softening prices. The trend can be attributed to (i) the shrinkage of the private sector lending following the introduction of the law capping bank interest rates and (ii) market slowdown as the election period approaches. *(Source: KBA – HPI, Budget Kenya 2016/2017)*

Our view – The high end market is expected to improve after the elections and when the global market environment improves. For the middle income segment, apartments will continue to be more appealing to developers due to the fact that they offer higher returns compared to standalone houses. Increased development of high-rise residential units for the low and lower-middle income segments is anticipated as developers move to take advantage of the reduced taxes.

Continued contraction of private sector lending will inhibit ability to take up mortgages thereby dampening demand for the purchase of units.





In the Counties

Uasin Gishu

Chinese firm to build KES 200bn industrial park

The signing of a multi-billion shilling deal between the county government and a Chinese firm will see construction of the first Special Economic Zone in Uasin Gishu county. The industrial park to be constructed by Guangdong New South Group Limited, will cost KES 200 Bn and will be located at Plateau area, four kilometers from Eldoret Town. The project will be undertaken in three phases. Phase one will be on 700 acres and will consist of various industries. Phase two will consist of a science and technology hub on 86 acres. Phase three will sit on 1,000 acres and will house a city with residential and recreational areas. *(Source: Business Daily)*

Mombasa

United Kingdom announces KES 10bn deal to boost infrastructure, tourism in Coast

The United Kingdom government announced a KES10bn investment deal in the Coast aimed at developing infrastructure, creating jobs and strengthening the investment climate.

The major projects supported by the UK government include the construction of the Moi International Airport road in Mombasa's mainland to address traffic congestion on the key road. *(Source: Nation Media)*

Kiambu

Tatu City acquires an additional 2,500 acres

Tatu City purchased an extra 2,500 acres from Belgian plantations firm, Socfinaf for the expansion of its mixed-use development in Kiambu County. The expansion follows increased interest in the initial 2,500 acre property from industrial, commercial and residential parcels from local and foreign investors.

The entire development ecosystem will host light industries, a three star hotel, low and middle income residential developments and a 20,000 capacity stadium and will incorporate social amenities such as schools, parks and retail centers.

Isiolo

Isiolo Airport to boost real estate in the county

The property markets in Isiolo and neighboring Meru County are expected to flourish following the KES 2.7Bn upgrade of Isiolo Airport. Supporting real estate developments such as residential developments and retail centers are expected to come up around the airport. Rents in Isiolo town have gone up by 20% and the county anticipates that approximately KES 5Bn worth of new property will come up by 2020. *(Source: Nation Media)*

Vision 2030 identified Isiolo as a gateway to realizing economic growth for the arid northern Kenya that will link Isiolo Town with Mombasa, Nairobi and Kisumu.

Mt Kenya Region

Mount Kenya region develops KES 100Bn economic blueprint

Ten Mt Kenya region governors developed an ambitious KES 100Bn blueprint to transform the economic fortunes of the vast area.

In the plan, the counties will spend about KES 10Bn each, most of which will be private-sector driven, with the government providing infrastructure such as revived roads and railways to create a conducive business environment.

Priority pillars of the region are agriculture and agri-business, industrialization, healthcare, tourism, water and resource management, infrastructure and ICT. All of which will be supported by real estate.

Regional Developments

Rwanda

Directive in Kigali to have all businesses in residential centers move to the city center

A directive was given in Kigali to have all businesses in residential areas move to the city center. The directive is expected to add life to Kigali Central Business District as small businesses, mainly offices, small retailers and restaurants leave residential areas across the city's three districts for the city centre.

The directive is expected to affect over 900 businesses and several non-governmental organisations.

The city had requested developers to reduce rental rates for the incoming businesses. Before the directive, developers were struggling with low occupancy rates, raising fears that they could default on their obligations to banks.

Authorities emphasized that the directive is consistent with implementing the Kigali city master plan, whose provisions designate specific areas for commercial activities, office and residential purposes.

Uganda

Stanlib, Chestnut to build USD 50Mn mall in Kampala

South African property developer, Stanlib in partnership with Chestnut Uganda plan to construct a USD 50Mn shopping mall in Kampala's suburb, Makindye Municipality.
The mall, 'Arena Mall' will be built on a five-acre piece of land, less than 2km from the capital's central business district. The mall will occupy 14,000 square metres with two levels of shopping space, a rooftop cinema, restaurant and parking. Development is expected to be completed in 2018.
Stanlib's private equity Africa Direct Property Development Fund will provide USD 30Mn with USD 20Mn debt from Standard Bank South Africa.
According to real estate players, Makindye was the only municipality in Kampala that lacked a high-end shopping mall despite a presence of a middle-class with purchasing power. Among prominent organisations neighbouring the mall will be the American Embassy, Nsambya hospital and Kampala International University.

Conclusion

Activity in the Real Estate market is bound to pick up after the elections, as most market players have adopted a wait strategy until the election period is over.
The bright future of the real estate sector remains underpinned by government spending on infrastructure as well as developments in the counties.
In our view, developers can pursue the following options

1. Housing developments targeting low income and lower middle-income segments. - Availability of well-priced land within convenient nodes away from the Central Business District will be critical components to realizing meaningful returns in the residential sub-sector.

2. Provision of strategically located well managed student accommodation. - Joint Ventures between developers and institutions of higher learning geared towards build operate transfer (BOT) agreements in strategic locations will be ideal.

3. Provision of quality Grade A warehousing. - A built to suit approach will be preferable, compared to speculative development.

4. Precautionary (built to suit or demand driven) development of offices and retail sector - This should be in line with the current supply-demand mismatch.

About: Britam Asset Managers (Kenya) Ltd is a subsidiary company of Britam Holdings Ltd, which provides asset management and investment services to its customers through a wide range of investment products and services, such as: Unit Trust/Mutual Funds, Wealth Management, Property, and discretionary portfolio management. The company manages over USD 1Bn in Assets Under Management and is licensed as a Fund Manager by the Capital Markets Authority (CMA) and the Retirement Benefits Authority (RBA).

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