Nairobi Commercial Market Overview

A comprehensive market report by Pam Golding Commercial and Actis

Macro Overview:

Economic growth eased to 5.7% in 2019 and as we all are aware of, the real estate market has been on a steady decline since 2016.

This is due to a number of factors including the interest rate cap taking effect into the economy as well as the increase of capital gains tax to more than double 12.5% compared to its previous 5%.

These and more factors have led to reduced liquidity in the market and banks reduced their lending to borrowers that fell under the “High Risk” category and have led to a slowdown in the property sector.

Additional factors that have contributed to this slump in the property sector are delays in the processing of construction permits, an oversupply of property and slow private sector credit growth.

Market confidence in developments has also been a critical component that has driven the slow down; investors are less confident in non-finished products and therefore, majority of non-established developers are not able to pre-finance projects through pre-sales. The market perception has taken a turn. This is applicable in both residential and commercial markets.

Impacts and Trends:

The impact of the current oversupply has seen a decline in rentals across the city as the market becomes increasingly tenant driven. One of the biggest trends we have noticed is the increase transactions of pre-fitted units, and a growth in the serviced offices business in Nairobi.

Both these options offer a better value proposition to the tenant market as they can save huge initial capital investment costs for businesses and allow instant accessibility to a working space. We believe these solutions will experience growth in the coming years.

Aside from that, developers continue to offer lower rentals and offer concessions to attract tenants and shore up occupancy rates. Concessions such as longer rent free periods, parking concessions and escalations have been offered to tenants.

As more tenants demand efficient principles, high parking ratios and complimentary amenities, Grade A delivery to the market has risen incrementally over the years. We expect this to continue into the short to medium term, as current leases expire and older developments start to become obsolete and less desirable to prospective tenants

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