Kenya's office market boosted by innovation in leasing deals

According to Broll Property Intel's latest Kenya Office Market Snapshot H1:2019 report, a creative approach to leasing deals is helping innovative landlords offset the challenges of high vacancies in an overstocked Nairobi office market.

Despite variable economic markers, the macroeconomic fundamentals that contribute to the overall dynamics of the property market have remained largely stable in the first half of 2019, says Vivian Ombwayo, Broll Kenya's head of research and valuations.

While economic growth brings with it an associated increased demand, there still remains a significant amount of A-grade office space available for tenants to choose from in the market. In such a competitive environment, landlords are recognising that they need to offer attractive terms to secure good quality tenants, while corporates with professional representation are realising the choice and power they have at the negotiating table.

A-grade space registers highest yoy growth

Ombwayo says that as a result of increasingly attractive leasing terms offered, A-grade office space registered the highest year-on-year occupancy growth of more than 27% from 65% in the first half of 2018 to 83% in the corresponding period in 2019. B-grade office space grew at a rate of 9% during the same period, recording an occupancy growth rate of 88% in H1:2019.

“A-grade buildings are top quality, modern properties, that are generally pace-setters in establishing rentals and the latest building services, and have ample parking, prestigious lobbies and other selling points like having a view and being located in a desirable addresses,” she said.

“The increase in occupancy levels can be attributed to increased interests from new entrants coupled with tenants who are realising their expansion plans, particularly in the manufacturing, pharmaceutical and electronics sectors. Innovative landlords are helping to drive the market by offering flexible occupational terms and commercial concessions, with most of the uptake being evident in A-grade space,” said Ombwayo.

“But the key driver to reason we have seen some take up in office space, is that landlords are finally beginning to accept softer rentals and lease terms,” Ombwayo said.

Extended business nodes

Historically, Nairobi’s office supply has mainly been located within the CBD, but in recent years there has been a notable shift to extended business nodes such as Westlands, Upper Hill, Parklands, Kilimani and Riverside. Secondary business districts like Karen, Lavington and Gigiri, which were previously predominantly low-density residential zones, are now experiencing a proliferation of office parks, mainly delivering A-grade office space to the market. These areas are particularly popular with multinationals and NGOs.

Westlands continues to lead the market in terms of quality office supply with about 623,000m² of combined A- and B-grade space, of which more than 75% is A-grade. For this reason, it also continues to be the location of choice for corporates.

However, the report indicates that the CBD and Upper Hill remain the preferred location of choice for local and government-based organisations. While the extended business districts are popular with blue chip tenants as they offer quality office stock, are centrally located, close to other socio-economic activities and are becoming the home of the skyscrapers that continue to shape Nairobi’s skyline.

Quasi-retail space

Many office buildings in Nairobi also offer quasi-retail space on the ground floor, with office space on the upper floors. The quasi-retail space mainly appeals to banking and restaurant/café type tenants that offer complementary services to the office users. The report further indicates rental rates for both office and quasi retail space, parking rents, service changes, amoung other factors within the various office nodes.

In general, the outlook for the Nairobi office market is expected to remain balanced in favour of the tenant while the overhang of supply is gradually taken up. Office space supply is anticipated to stabilise over the next six months, which is likely to eventually translate to improved occupancy across the major nodes, says the report.

Download the full report, here.