Kenya Market Update

2nd Half 2025

Knight Frank's ultimate guide to real estate market performance and opportunities in Kenya.

knightfrank.com/research

HIGHLIGHTS

PHOTO: **Silver Hills, Tatu City**

OVERVIEW

Kenya's real estate sector in H2 2025 demonstrated resilience against a backdrop of macroeconomic stabilisation, with developers largely focused on completing existing projects across asset classes. The period was marked by innovation in REIT structures and significant debt financing for housing, while office and retail markets recorded improved occupancy rates and expansions, and industrial and alternative assets such as data centres and SEZs remained resilient. The 2026 outlook is defined by cautious confidence amid a prevailing challenging economic environment and uncertainty ahead of the 2027 general elections. As a result, investment activity in 2026 is likely to be measured, with many investors adopting a wait and see approach, limiting expansion to priority opportunities.

- Inflation and exchange rates stabilised
- Central Bank Rate and commercial banks' lending rate dropped
- Increased supply pipeline of Grade A office space post 2026
- Prime residential prices increased
- Major retailers continued expansion
- Cement consumption increased while value of approved building plans decline

COVER IMAGE: **iXAfrica Data Centre,** Mombasa Road

MACROECONOMIC ENVIRONMENT

According to the January 2026 Global Economic Prospects, the global economy was expected to have grown at 2.7% in 2025 with projections standing at 2.6% in 2026. Nonetheless, volatility persists amid rising protectionism, labour market disruptions, fiscal vulnerabilities, and concerns over a potential AI bubble.

Sub-Saharan Africa was estimated to have grown faster than the global average, at 4.0% in 2025, with growth projected at 4.3% in 2026. However, reduced aid inflows, political instability, conflict, high public debt, and increasing climate shocks continued to constrain sustainable growth.

Kenya is estimated to have grown by 4.9% in 2025, up from 4.7% in 2024, and is forecast to expand by 4.9% in 2026, reflecting steady momentum despite a challenging global and domestic environment. However, this positive outlook remains subject to elevated uncertainty: persistent shortfalls in fiscal consolidation could intensify debt vulnerabilities and dampen private-sector-led expansion, including capital inflows; climate shocks may reignite inflationary pressures and exacerbate food insecurity; and slower-than-expected growth in advanced economies could weaken Kenya's recovery in tourism and remittance inflows.

To support economic activity, the Central Bank of Kenya (CBK) lowered the policy rate from 9.75% in June to 9.00% since December 2025, contributing to a marginal decline in commercial lending rates from 15.28% to 14.50% over the same period. Inflation remained within the CBK's 2.5% - 7.5% target range throughout 2025, signalling relative price stability despite broader economic headwinds.

For the past year and a half, the Kenyan Shilling has held steady against the US Dollar and showed resilience to other major currencies such as the British Pound and the Euro. While the shilling remains weaker than its pre-pandemic levels, its stabilization - after recovering from a low of USD 1 = KES 160 in January 2024 to around USD 1 = KES 130 throughout 2025 - signals a significant recovery and provides a stronger foundation for a more conducive business environment.

For developing countries, remittances serve as a vital lifeline for households. In Kenya, remittance inflows rose from KES 440 billion in 2024 to KES 593 billion in the first eleven months of 2025, a 34.77 increase. These inflows not only provided crucial foreign

MACRO ECONOMY

exchange but also supported household welfare and contributed meaningfully to national economic output including fuelling the demand for residential real estate, particularly in the mid-market segment.

CONSTRUCTION AND DEVELOPMENT ACTIVITY

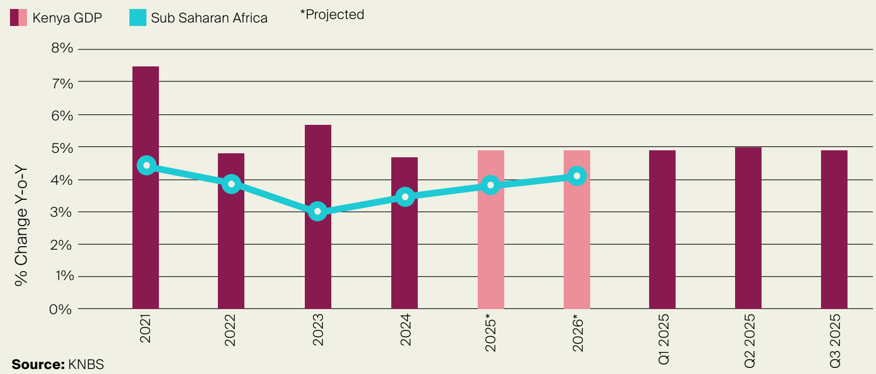
The construction sector expanded by 6.7% in Q3 2025, marking a rebound from the contraction recorded in the previous year. This recovery is further evidenced by a 21% year-on-year increase in cement consumption over the first eleven months of 2025, signalling strong activity in project completion nationwide.

Despite macroeconomic indicators pointing to a more stable business environment in 2025, sector-specific real estate data indicates a more cautious environment. While bank credit to the construction sector increased and financing costs slightly eased, the total value of building approvals in Nairobi City County declined sharply by approximately 24% year-on-year over the January to November 2025 period, with residential approvals falling even more steeply at 27%. This divergence suggests a strategic pause by developers, who appear focused on completing existing projects and de-risking current inventories before launching new ones, pointing to a market that is prioritising consolidation over expansion.

REAL ESTATE OUTLOOK FOR 2026

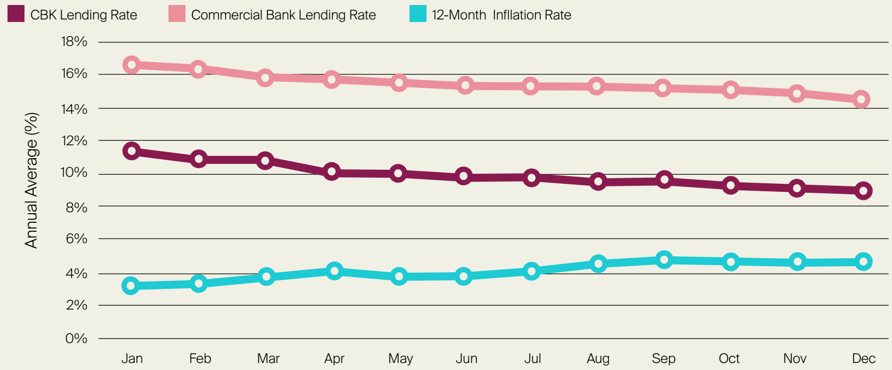
The real estate sector outlook for 2026 points to a year of absorption and completion. Developers are expected to focus primarily on completing existing projects, while absorption of current stock is likely to improve as new supply remains constrained. Expansion is expected to be strongest in segments supported by targeted capital inflows, particularly affordable housing, underpinned by the World Bank financing package and the Housing Levy. Although the stabilisation of the shilling and easing interest rates should support developer and investor confidence in 2026, uncertainty surrounding the 2027 general election presents a material risk. As a result, 2026 is likely to be characterised by a cautious, wait-and-see investment stance, with supply largely limited to the completion of ongoing projects and the launch of new developments remaining subdued.

GDP Growth Rates



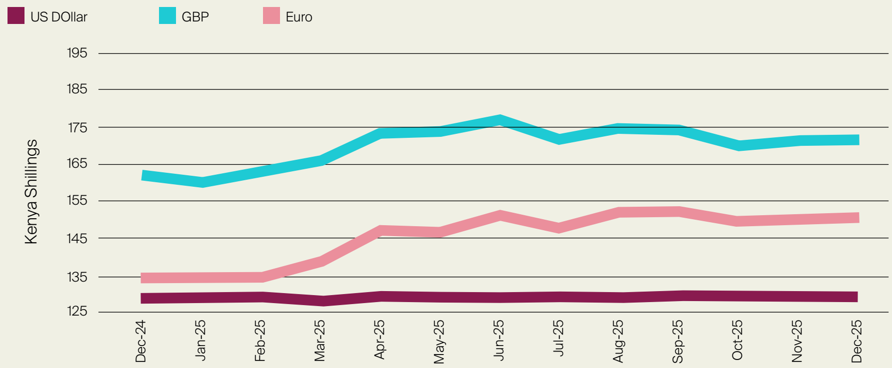
Source: KNBS

Economic Rates (2025)



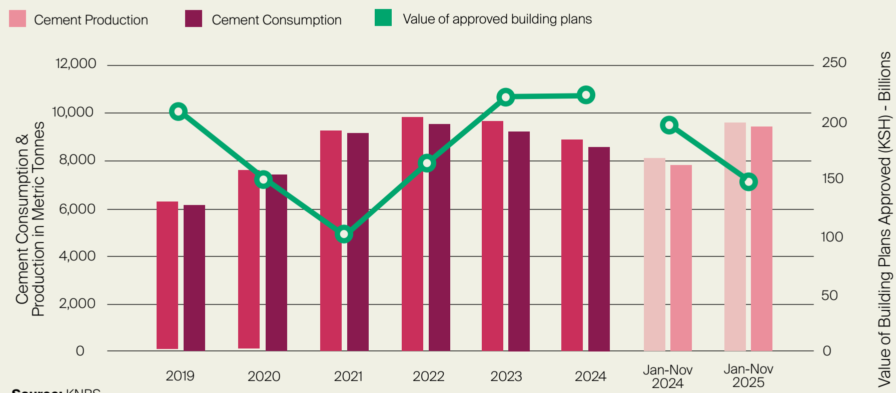
Source: KNBS

Exchange Rates



Source: CBK

Construction Sector Statistics



Source: KNBS

INFRASTRUCTURE AND POLICY

FINANCING GAP

The infrastructure landscape was characterised by a widening gap between strategic vision and the government's capacity to deliver. On the one hand, the Government's 10-year national infrastructure roadmap, a cornerstone of a KES 5 trillion economic plan, sets out an expansive agenda including dualling 2,500 km of highways, extending the SGR to Malaba, and developing major new expressways such as the Nairobi–Thika corridor to decongest the capital. The proposed National Infrastructure Fund, designed to ring-fence privatisation proceeds and attract institutional capital, signals a more innovative approach to financing these mega projects. On the other hand, this vision is constrained by a harsh fiscal reality. As noted in a World Bank update, infrastructure development spending has fallen to about a quarter of its level a decade ago, declining from 60% of the development budget in FY2014/15 to 32.5% in FY2022/23. This funding crunch has increased reliance on foreign investment and Public Private Partnerships.

RISE OF PPPs

Infrastructure delivery in H2 2025 was increasingly shaped by PPPs and external capital, particularly from Chinese partners. A flagship development was the commencement of Phase 1 of the Nairobi–Nakuru–Mau Summit (A8) and Nairobi–Maai Mahiu–Naivasha (A8 South) roads, a 139 km section delivered under a USD 863 million Build Operate Transfer PPP spearheaded by China Road and Bridge Corporation and NSSF, alongside the 94 km Gilgil–Mau Summit section to be undertaken by Shandong Hi Speed Road and Bridge International. In parallel, key completions such as the Athi River–Machakos dual carriageway, new tenders such as the 23.5 km Muthaiga–Kiambu–Ndumberi Road, which will rely on PPP financing, and the planned privatization of the Kisumu-Malaba SGR line, further confirm the growing reliance on private and foreign capital to sustain and expand Kenya's transport infrastructure.

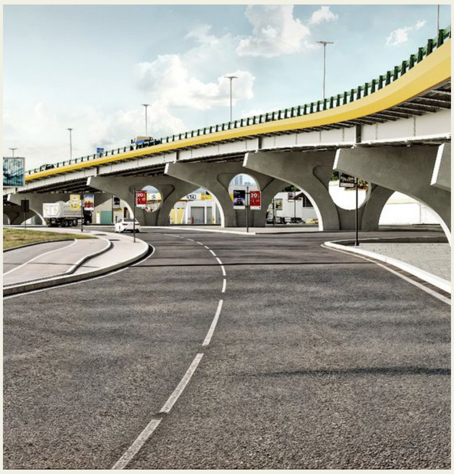
POLICY AND REGULATORY DEVELOPMENTS

In H2 2025, policy and regulatory actions focused on enabling development, protecting investments, and strengthening land governance, with several landmark decisions providing greater market clarity. The Cabinet's approval of measures to support the Affordable Housing Programme and a court ruling permitting high rise developments along Rhapta Road, subject to lawful planning, signalled a shift toward facilitating urban densification in appropriate corridors. At the same time, key court judgments strengthened investor and creditor rights, including an Environment and Land Court ruling upholding developers' rights to repossess properties for nonpayment of service charges and a High Court decision reinforcing professional accountability between lenders and valuers. Additionally, there were reforms to land administration regime in Kenya, reshaping the mandate of the National Land Commission, compulsory acquisition processes, and registration frameworks to improve transparency and predictability. Lastly, the introduction of higher land rates by Nairobi City County from January 2026 will further increase holding costs for landowners and developers in the capital.

OUTLOOK FOR 2026

The 2026 outlook will be shaped by the government's ability to bridge the gap between rising pre-election infrastructure vision and the realistic delivery of infrastructure projects. The successful launch and capitalisation of the National Infrastructure Fund, alongside the privatisation of selected state assets, will be critical in determining the pace of the 10-year national infrastructure roadmap. Additionally, with fiscal space constrained, public private partnerships and foreign capital will remain the default infrastructure delivery model.

CGI: Ngong Road-Naivasha Road - Flyover



Major infrastructure projects

PROJECT	LENGTH KM	ESTIMATED PROJECT COST (KES BILLIONS)	EXPECTED COMPLETION /STATUS
James Gichuru – Rironi	26	20.41	Under construction
Valley Road/Ngong Road/Nyerere Road Interchange and Upperhill Overpasses	6	2.99	Under construction
Dualling of Ngong Road (Dagoretti Corner - Karen Rounda-bout Section)	11	2.38	Under construction
Kwa Jomvu – Mariakani	30	10.23	Under construction
Mombasa – Mtwapa	13.5	7.59	Under construction
Kenol – Sagana	48	8.5	Under construction
Sagana – Marua	36	6.12	Under construction
Dualling of the Nairobi Northern Bypass	20.2	TBA	To begin 2026
Rehabilitation Mombasa Road (JKIA-James Gichuru)	20	TBA	To begin 2026
Ngong Road - Naivasha Road Flyover (Nairobi)	N/A	3.6	Under construction
Rironi Mau Summit Highway	233	180	Under construction
Standard Gauge Railway Phase 2B & 2C (Naivasha-Kisumu)	475	648	To begin 2026
Nairobi Thika Expressway	60	TBA	To begin 2026
Dualling of Kiambu Road	23.5	38.7	To begin 2026
Nairobi Mombasa Expressway (Usahihi Expressway)	419	468	Feasibility Stage
Airport Expansion	N/A	TBA	Master Planning Phase
Talanta Sports Stadium	N/A	44.7	Under construction

Source: KENHA/KURA

CAPITAL MARKETS

MARKET PERFORMANCE AND DEBT CAPITAL

Capital movements in H2 2025 highlighted ongoing performance challenges in Kenya's public real estate market. A notable development was Actis' exit from its Kenyan development, MiVida, signalling a rotation in institutional capital and potentially opening acquisition opportunities for domestic investors, while also reflecting a reassessment of risk and returns. Elsewhere, the mixed performance of listed REITs underscored a clear investor preference for structure and asset quality, with ASA D-REIT and I-REIT posting solid gains (37% and 16%, respectively) since their 2021 inception while a much older REIT continued to trade at a 45% discount to its 2015 listing price. This divergence underscores that mere listing is insufficient; transparent governance, strong sponsorship, and high-quality underlying assets are critical for investor confidence and liquidity. Encouragingly, market innovation gained momentum through the launch of a dollar denominated I-REIT by Centum, CMA approval for Africa Logistics Properties' industrial REIT, and the emergence of a REIT incubator initiative, sponsored by the REITS association of Kenya, aimed at nurturing assets for future listings.

While public equity markets continued to evolve, the largest capital injections in 2025 were channelled through structured debt and development finance into priority sectors. The most significant was the World Bank package of KES 174.47 billion for affordable housing, designed to expand mortgage access through the Kenya Mortgage Refinance Company. In parallel, Acorn Holdings secured backing from PIDG's InfraCo Africa (USD 10 million), Shelter Afrique Development Bank (USD 2 million), and Acorn's own equity contribution (USD 5 million), and obtained CMA approval to launch a Build to Rent D REIT, marking a strategic expansion into rental housing for young urban professionals. Confidence in long term construction demand was further reflected through a planned development of a KES 32 billion clinker plant in Kwale by Bamburi Cement and Sinoma, a Chinese conglomerate.

OUTLOOK FOR 2026

The capital market outlook for 2026 will be defined by increased focus on the real estate market's response to newly introduced investment vehicles. With affordable housing delivery already being driven at scale by the government, the critical test will be whether innovative structures can successfully mobilise private and institutional capital into real estate. The launch and performance of vehicles such as Centum's dollar denominated I-REIT and ALP's Industrial REIT will serve as key indicators of investor appetite for specialised, well-structured products in a market dominated by Acorn's purpose-built student housing REITs. Their success would pave the way for a broader pipeline of sector focused real estate investment vehicles. However, enhancing secondary market liquidity for listed REITs will remain a structural challenge. Investor education, consistent dividend yields, and larger fund sizes will be essential to attract deeper market participation.

OFFICE

MARKET PERFORMANCE

Market performance was positive, with prime office occupancy rates in Nairobi climbing from 77.71% in June to 81.58% by December 2025, a 4.98% increase. This absorption was largely fuelled by strong tenant uptake in the high-quality developments completed in late 2024, such as Purple Tower and The Mandrake, underscoring a persistent “flight to quality.” Rents for prime space remained stable at USD 1.20 per square foot per month, indicating a market finding equilibrium between improved demand and available stock. The investment market, while quiet, saw a notable transaction with the acquisition of The Cube, an A-Grade development, reflecting sustained institutional investor confidence in prime assets, with yields holding steady in the 8-9% range for such properties and in line with prime yields as captured in Knight Frank’s 6th Edition of the Africa Report.

FLEXIBLE WORKSPACE

A notable trend in H2 2025 was the expansion of flexible and coworking spaces. Major operator IWG significantly extended its network, adding multiple HQ centres in locations like Loresho, Crescent Parklands, and Mombasa Road, contributing over 25,800 square feet of new flexible space. Workstyle also expanded, opening its third Nairobi outlet. Furthermore, the period witnessed innovative “change of use” conversions, with part of the former Hilton Hotel rebranding as Tulivu Coworking, and Worknest introducing a flexible workspace in Runda. This trend highlights a fundamental shift in occupier preferences towards flexibility, cost management, and curated work environments, moving beyond traditional leases. However, KOFISI, a leading provider of flexible workspaces, closed two outlets in Kenya after recording a loss of KES 417 million in 2024 with the company attributing losses largely to non-core activities. This development underscored the continued importance of location, as the affected sites in Upper Hill and Karen are not core flexible workspace nodes, with Westlands remaining the dominant hub.

DEVELOPMENT PIPELINE

Nairobi’s office development pipeline remains substantial at an estimated 2.5 million square feet, but most of this supply is scheduled for delivery in 2027/2028, reflecting continued confidence in the long-term outlook for premium office space. The 2026 pipeline mirrors 2025, with limited new supply as developers target post-election completions. This constrained short-term supply will most likely support higher occupancies in existing stock, as already observed in 2025. Outside Nairobi, Homa Bay County opened their new county headquarters, funded by a circa KES 920 million loan from CPF, which continues to expand its investment portfolio through increased participation in PPP projects, diversifying from their core pension management business.

ESG

Over the review period, the market dynamics continued to favour tenants. Despite rising occupancy, occupiers maintained a strong negotiating position, with cost optimisation, sustainability credentials, and premium quality remaining paramount. The US Embassy complex in Nairobi achieved LEED certification, aligning with the growing corporate emphasis on ESG.

OUTLOOK FOR 2026

In 2026, prime office occupancy is expected to continue rising due to limited availability of high-quality stock, placing mild upward pressure on rents in key nodes such as Westlands and Upper Hill, although the broader market is likely to remain competitive and tenant friendly. Growth in the flexible workspace segment should continue but at a slower pace, with the KOFISI closures likely to prompt operators to moderate expansion and focus more on value, service quality, and performance within existing locations, while also raising early questions about potential market saturation. With no major prime completions due in early 2026, attention will shift toward pre-leasing activity for the large projects scheduled for delivery in 2027 and 2028.

CGI: Vantage Point Towers

Pipeline of Select Prime Office Developments in Nairobi

COMMERCIAL DEVELOPMENT / OFFICE	LOCATION	APPROX. SIZE (SQ. FT)	ESTIMATED COMPLETION DATE
277 Brookside	Westlands	70,000	2026
The Angelo	Lavington	42,000	2026
761 Lenana Road	Kilimani-Nairobi	127,500	2027
Mwanzi Square	Westlands	250,000	2027
Nexus	Riverside	70,000	2027
Tanzanian High Commission	Upperhill	150,000	2028
The Pod	Lavington	128,000	2028
ICEA II	Westlands	350,000	2028
Vantage Point (Two Rivers)	Runda	423,810	2028
Standard Investment Bank (SIB) HQ	Westlands	250,000	2028

Source: Knight Frank Kenya

RETAIL

RETAILER EXPANSION AND DIGITAL DISRUPTION

A dominant theme in H2 2025 was the physical expansion of major retail chains, which acted as the primary engine for the real estate sector. This growth occurred despite a challenging consumer environment. A Nielsen report from August 2025 highlighted a critical shift in the retail landscape, noting that smartphones are present in 97% of Kenyan households. This digital penetration is fundamentally altering retail, driving investments in e-commerce and delivery services, as evidenced by Simbisa Brands reporting a 33% year-on-year increase in delivery revenue in Kenya.

Naivas solidified its position as Kenya's largest supermarket chain by store count. It opened several new outlets, including stores at Westbay Mall in Gachie (its 110th), OUR Mall on Magadi Road (111th), Mihango area on Kigwathi Road (112th), and culminated the year with its 113th store in Athi River in December.

Similarly, Carrefour Kenya, operated by Majid Al Futtaim, continued its growth trajectory, reaching 34 stores nationwide by December 2025. Key openings in H2 2025 included outlets at Waris Mall in Ruai, Beacon Mall in Upperhill, Ayden Plaza in Ngara, and Parkview Mall in Parklands. Quickmart also expanded its footprint, opening its 63rd store at Basic Mall on Banana Road in Ruaka. Global Supermart opened their first outlet at Crystal Rivers Mall in Athi River.

INTERNATIONAL AND SPECIALTY RETAILERS

International and local brands also seized opportunities. Azadea Group, an international lifestyle retail operator managing global franchises across the Middle East and Africa, signed to open a Kiko Milano store, the Italian beauty and fashion brand, at the Junction Mall in Q1 2026. South Korea's HLA opened stores at City Mall Nyali and Garden City Mall in Nairobi. Additionally, the discount segment saw growth with China Village opening a new branch at Juja City Mall in December 2025.

RETAIL DEVELOPMENT ACTIVITY

New retail supply in 2025 remained measured, with developers responding cautiously to historical oversupply in some segments and current economic headwinds. Completions were primarily in the neighbourhood and community mall category, aligning perfectly with retailers' expansion strategies. Notable retail completions in H2 2025 included Beacon Mall in Upper Hill, a 60,000 square foot development, OUR Mall on Magadi Road, a 100,000 square foot project, and Waris Mall in Ruai. Promenade Mall in Westlands, a 75,000 square feet development was completed in H1 2025.

The most significant pipeline announcement was the proposed development of a major shopping mall at Talanta Sports City. The project is planned to deliver at least 323,000 square feet of lettable retail space and, together with a proposed 300 room hotel, is intended to transform the complex into a fully integrated sports, entertainment, and retail destination.

MARKET DYNAMICS

Retail market performance in 2025 was mixed, reflecting a balance between resilient retailer expansion and ongoing pressure on consumers. Footfall rose across major centres during the festive season, confirming the continued relevance of physical retail for peak shopping periods, but high taxes and constrained disposable incomes kept spending value driven. In response, leading chains such as Carrefour and Naivas sharpened their focus on promotions, local sourcing, and value positioning. The limited new supply of quality retail stock, and a shift toward smaller, neighbourhood-focused malls helped stabilise occupancies, with mall performance increasingly dependent on the strength of anchor tenants such as Naivas, Quickmart, Carrefour, and Chandarana Food Plus to attract footfall into the mall including into the other line shops tenants.

OUTLOOK FOR 2026

The outlook for Kenya's retail real estate market in 2026 will be defined by a continued shift toward neighbourhood centres and mixed-use developments, with less emphasis on large regional malls. Supermarket chains such as Carrefour, traditionally associated with higher end locations, have begun expanding into middle income areas such as Ruai, underscoring the sector's pivot toward community-based retailing. This focus on middle income areas is expected to deepen, supported by the continued rollout of discount and budget retail chains such as China Village, China Square, Love Home Mart and Panda Mart, as consumers become more value conscious amid reduced disposable incomes.

230K+

Amount of lettable retail space in Sq.ft that entered the market in 2025

Source: Knight Frank Kenya

Pipeline of Select Prime Retail Developments in Nairobi

DEVELOPMENT	LOCATION	SIZE (SQ.FT)*	COMPLETION DATE*
Galleria Expansion	Karen	100,000	2026
Lavington Square	Gitanga Road-Nairobi	70,000	2026
Elgon Mall	Elgon Road-Upperhill	60,000	2026
Hurlingham Mall	Kilimani	100,000	2026
Hookwood Square	Brookside, Westlands	60,000	2027
Talanta Mall	Dagoretti	323,000	2029

*Estimate

Source: Knight Frank Kenya

RESIDENTIAL

MARKET PERFORMANCE

Residential market performance in 2025 showed a clear moderation in both price and rental growth. The sales price index rose by 6.17% in the twelve months to December 2025, down from 8.27% in the same period in 2024, while prime rents increased by 4.05% compared to 7.46% the previous year, still reflecting steady demand for quality homes in prime locations. Despite a rise in the number of mortgages in 2024, the market remained constrained by high average interest rates of 14.9%, increasing non-performing loans, and the dominance of variable rate lending (88.4% of total mortgages), which continued to weigh on affordability. Additionally, a 27% year on year (to October 2025) decline in residential building approvals signalled a clear shift in developer behaviour, with most focusing on completing existing projects rather than launching new ones.

MASTER PLANNED, GATED, AND BRANDED PROPERTIES

H2 2025 was defined by major launches and investments in master planned communities, signalling a clear shift in buyer and investor preference away from standalone developments toward integrated, amenity rich environments. This trend, for example, was exemplified by the July 2025 launch of Jabali Towers in Tatu City, a mixed-use scheme comprising over 350 apartments, Grade A offices, a hotel, and retail. Tatu City also secured several multibillion-shilling investments, including a major agreement with Business Bay Square to develop a sixty-acre mixed-use project valued at approximately KES 65 billion, incorporating high-end residential units, retail, office space, and logistics facilities. Hounen, a Chinese multinational real estate developer and sustainable energy company, also announced plans to invest in more than fifteen acres within Tatu City.

Tilisi, a master planned community in Limuru along Waiyaki Way, marked the completion of Maisha Developments, adding new residential stock to the estate. Similarly, Northlands in Kiambu County celebrated the completion of its first residential project, signalling the beginning of a broader rollout in this expansive master planned development.

Developers have also taken note of the limited supply of high-quality gated communities, prompting increased activity in this segment. New gated developments are emerging in areas such as Runda, along Kiambu Road, including Phase 2 of Ineza, and Runda Paradise.

Nairobi's also saw the launch of high-profile branded residences such as Le Mirage by CityBlue, underscoring sustained demand for luxury living in prime urban locations.

SHIFT TOWARDS APARTMENT LIVING

A notable trend in the prime residential segment is the increasing shift toward high end apartment blocks. Land scarcity amidst an increasing Nairobi population, combined with the relatively small group of buyers who can afford one hundred million shilling plus standalone homes in suburbs such as Muthaiga, Kitusuru, Karen, and Lavington, have encouraged developers to focus on high quality apartments. These units are designed for the growing upper middle class, particularly in well regarded locations such as Westlands, Riverside, Upper Hill, and Kileleshwa. In these neighbourhoods, it is now common to find multiple upcoming high density residential towers offering premium finishes to attract residents seeking access to these previously exclusive areas, or investors hoping to rent out the units.

OUTLOOK FOR 2026

The residential market in 2026 is expected to remain vibrant. Demand from high-net-worth individuals, expatriates, and diaspora buyers for secure and well serviced developments is expected to remain strong. Likewise, investment in large master planned communities, such as SEZs is forecasted to continue. Developers are expected to prioritise completion of ongoing projects and the delivery of high specification units that meet modern expectations for sustainability, design, and community living. A key structural trend will be the continued shift toward high-end apartment living, including smaller one-bedroom formats, although the rapid increase in supply, in areas such as Westlands, has introduced uncertainty around absorption and pricing, making rigorous market research and disciplined project positioning more critical than ever.

CGI: Osterea, Karen

HOSPITALITY

TOURISM PERFORMANCE

The Accommodation and Food Service sector's growth slowed to 17.7% in Q3 2025 from 22.9% a year prior, showing growth and resilience amidst prevailing tough economic conditions. Despite this, international visitor arrival growth via major airports increased by 9.5% over the period. Full year tourist numbers showed durability with a 6% increase to 1.88 million by September 2025, supported by the landmark policy shift to visa-free entry for most of Africa and the Caribbean countries. This move is a long-term strategic play to deepen regional integration and diversify tourist source markets.

NEW OPENINGS

H2 2025 was marked not only by a boom in tourist volume, but also by a clear upgrade in tourism and urban infrastructure. The official opening of iconic properties like the Ritz Carlton Masai Mara, alongside new branded entries from Hilton's Tapestry Collection and Choice Hotels International (Clarion, Quality, Ascend), signalled robust international investors' confidence in Kenya's high-end leisure and business travel segments. Simultaneously, critical urban projects reached fruition, most notably the Mombasa Commuter Rail Service. Launched in September 2025, this Sh6 billion project seamlessly integrates Mombasa city with the SGR, alleviating chronic congestion and enhancing the coastal tourism experience. This infrastructure boost, alongside the new Dongo Kundu Bypass, helped coastal hotels achieve peak December occupancies exceeding 85%. Small and medium scale investors are also expanding, largely targeting the expanding middle-class hospitality market. A notable example is Céline & Lolo, a boutique hotel and restaurant with 24 rooms along Kabarsiran Avenue in Lavington, which opened during the review period.

DEVELOPMENT PIPELINE

The real estate pipeline points to a clear strategic shift toward mixed use and serviced accommodation. With an estimated 1,500 serviced apartment units and more than 2,000 new hotel rooms under development, heavily concentrated in nodes such as Westlands and the JKIA corridor, the market is increasingly targeting longer stay corporate clients and high-end transient travellers, as evidenced by brands such as Radisson, Marriott, and Somerset. This positioning is reinforced by institutional commitments such as the IFC's investment in Safari Holdings and by the global visibility of the Maasai Mara following its recognition by Guinness World Records. A notable addition to the pipeline is the planned 300 room four-star hotel at Talanta Sports City, which will form part of a broader integrated mixed use development combining entertainment, retail, and hospitality. In addition, the KES 35 billion Bomas Complex, which will significantly expand Nairobi's convention and business tourism capacity, is expected to be completed in late 2026.

OUTLOOK FOR 2026

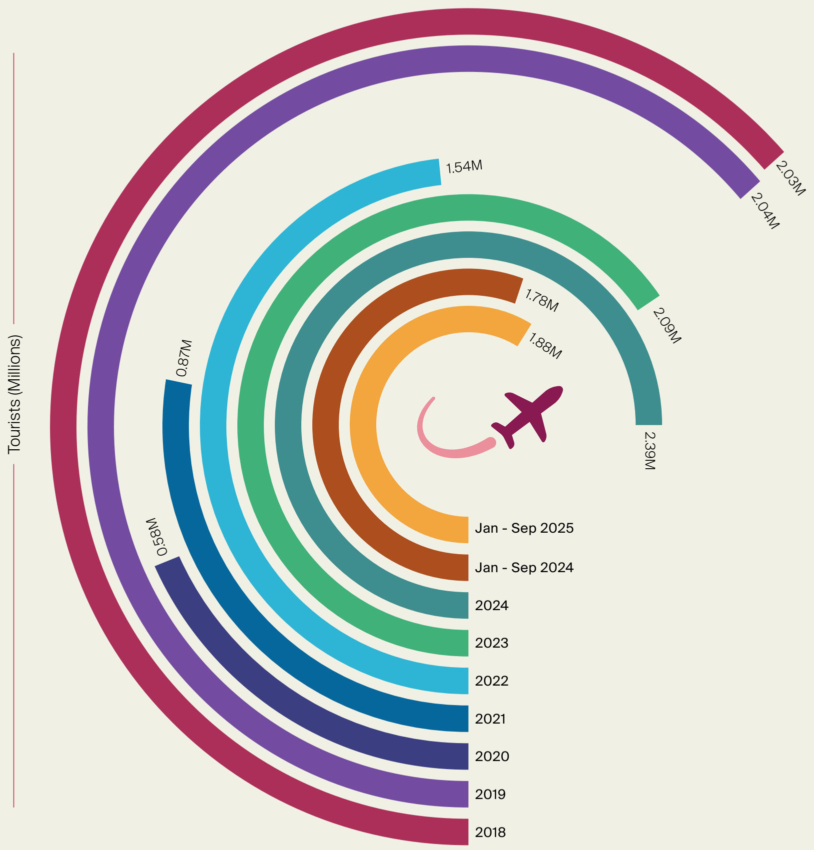
The outlook for 2026 is cautiously optimistic and will depend largely on how effectively the market absorbs investments made in 2025. The sector is expected to shift from a phase of capacity building to one focused on absorption and yield optimisation. The full year impact of visa free travel for Africans should further boost arrivals and support occupancies, although the volume of new supply coming into the market via online placements may place short term pressure on average daily rates, especially in Nairobi. Investor attention is therefore likely to turn toward operational efficiency and higher value niches, as demonstrated by continued demand for ultra luxury offerings, for example, Richard's River Camp joined the Hemingways Collection.

2,000+

New hotel rooms under development

Source: Knight Frank Kenya

International Arrivals



Source: Tourism Research institute

INDUSTRIAL

SECTOR PERFORMANCE AND INVESTMENT ACTIVITY

The Manufacturing sector's GDP growth accelerated to 2.5% in Q3 2025 (up from 2.3% in Q3 2024), this figure belied a more dynamic story unfolding on the ground. The sector's true momentum was driven by significant capital inflows into specialized industrial and logistics parks, a surge in new manufacturing plant announcements, and robust expansion in transportation and storage infrastructure, which grew by 5.2% (compared to a growth of 4.6% in the corresponding quarter of 2024).

The industrial real estate market in H2 2025 was supported by a combination of policy momentum, sector specific investment, and logistics expansion. The operationalisation of long delayed projects such as the KES 5 billion Kenanie Leather Industrial Park in Machakos signalled improved execution of industrial policy. Additionally, automotive and electric mobility investments emerged as major demand drivers, highlighted by the restart of Volkswagen production plant in Thika, groundbreaking of Isuzu's KES 3.1 billion Parts Distribution Centre in Lukenya, and new commitments to the EV sector including announcements for a KES 19 billion Olkaria EV assembly plant and plans by China's MojaEV for a plant in Athi River targeting regional exports. Kenya's regional logistics role was further reinforced by strategic partnerships such as the Yusen Logistics and Africa Global Logistics joint venture, while the rollout of the County Aggregation Industrial Parks programme, backed by a KES 4.45 billion allocation in the national budget for financial year ending June 2026, added to the sector's positive momentum.

SPECIAL ECONOMIC ZONES

Over the review period, special economic zones emerged as the main focal points for new industrial development and foreign direct investment. Tatu City reinforced its position as Kenya's leading operational SEZ, attracting over KES 65 billion in new commitments, including Hounen's large scale (over 678,125 square feet) manufacturing and mixed-use development, the opening of Sun King's 81,800 square feet solar products plant, and the establishment of a Tsinghua University Research and Teaching Base. Moreover, the launch of the 2,000-acre Vipingo SEZ and the development of the Nairobi Free Trade Zone expanded the supply of serviced, incentive backed industrial land.

This expansion was further complemented by the formal operationalisation of Grove Industrial Park in Vipingo, a 125-acre master planned developed by Purple Dot offering ready warehouses and build to suit plots for logistics, manufacturing, assembly, and cold storage users. Additionally, Purple Dot also have a notable development in the pipeline, the Harvest Industrial Park in Athi River, which is expected to deliver 48 traditional Grade B warehouse units, each measuring approximately 7,500 square feet.

OUTLOOK FOR 2026

In 2026, demand for industrial space in established SEZs such as Tatu City and along key logistics corridors including Mombasa Road and Athi River is expected to remain strong, with a growing emphasis on build to suit facilities and higher specification warehouses for advanced manufacturing. As serviced land in prime locations becomes scarcer and construction costs stay elevated, rents for Grade A industrial space are likely to record moderate growth, while industrial projects the with strong ESG credentials expected to continue to attract institutional capital. However, the industrial sector will need to contend with high financing costs and expensive inputs including challenges to reliable energy supply.

PHOTO: Industrial Development, Tatu City

Demand for industrial space in established SEZs and along key logistics corridors including Mombasa Road and Athi River is expected to remain strong in 2026

ALTERNATIVES MARKET

DIGITAL INFRASTRUCTURE

Data centre development emerged as one of the standout stories of H2 2025, reinforcing Kenya's position as East Africa's leading digital hub. The period saw the groundbreaking of Airtel Africa's Nxtra data centre at Tatu City, a 44 MW facility designed for cloud computing and AI workloads, alongside the announcement by Rand Merchant Bank of up to USD 200 million in financing to support the expansion of IXAfrica's Nairobi campus (from the current 2.5MW to a 22.5MW facility) on Mombasa Road. This momentum is complemented by strategic digital infrastructure such as Meta's investment in the USD 2.9 billion Daraja subsea cable landing in Mombasa, which will further provide the international bandwidth needed to support large scale data centre growth. The data centre market is maturing rapidly, with facilities targeting global certification standards, including LEED equivalent benchmarks and accreditations from the Uptime Institute, a global authority in the data centre sector. Specifically, Airtel's Nxtra facility is targeting LEED-equivalent certification, while iColo's NBO1 data centre has achieved Tier III certification from the Uptime Institute.

INSTITUTIONAL, STUDENT, AND AFFORDABLE HOUSING

The residential sector in H2 2025 saw growing momentum across institutional rental, student housing, and affordable segments. International Housing Solutions delivered the 200 unit '237 Mivida' project in Nairobi under the 'Muzi Stawi' brand, reflecting rising demand for secure and professionally managed mid-market rental communities for urban professionals, while Acorn Holdings, together with PIDG InfraCo Africa and Shelter Afrique, secured USD 17 million to support new housing for the same demographic. The student housing segment also saw growth with the groundbreaking of JKUAT's 1,680 bed modern hostel, underscoring both the supply gap and the investment potential in purpose-built accommodation. On affordable housing, the government reported the handover of 4,536 units at the Mukuru Affordable Housing Scheme and more than 239,000 units are under construction nationwide.

SPECIALISED INSTITUTIONAL ASSETS

Specialised institutional real estate continued to attract significant investment in 2025, particularly in education and healthcare. In the education sector, Durham International School launched a new campus including a senior school in Rosslyn in September 2025, while South Africa based ADvTECH strengthened its presence in Kenya through the KES 1.23 billion acquisition of Regis Runda Academy, building on its earlier investment in Makini Schools. These developments reinforce Nairobi's role as a regional hub for premium international education serving high income families. In healthcare, large-scale projects advanced, most notably the 4,000 bed Multi Specialty Moi Teaching and Referral Hospital in Eldoret, with construction led by the Ministry of Defence and the first 2,000 bed phase scheduled for completion by 2027.

OUTLOOK FOR 2026

In 2026, the alternative assets market is expected to see the delivery of new data centres and the announcement of further expansion phases. Differentiation will increasingly be driven by sustainability and energy efficiency, with Kenya's green energy supply and the Daraja subsea cable strengthening the country's appeal to hyperscale operators. Elsewhere, large master planned developments, such as Tatu City, are expected to further evolve into fully integrated live work learn ecosystems, embedding long term demand for data centres, light industry, education, leisure, retail, and housing. The main risk to this growth momentum will remain the high cost and limited availability of scalable and affordable construction finance for these capital-intensive developments.

PHOTO: Talanta Stadium, Ngong Road

KEY CONTACTS

MANAGEMENT

Mark Dunford
Chief Executive Officer
+254 792 650 685
mark.dunford@ke.knightfrank.com

VALUATION & ADVISORY

Stephen Makau
Head - Valuations & Advisory
+254 723 389 092
stephen.makau@ke.knightfrank.com

RESIDENTIAL AGENCY

Tarquin Gross
Head of Residential Agency
+254 716 875 920
tarquin.gross@ke.knightfrank.com

RESEARCH

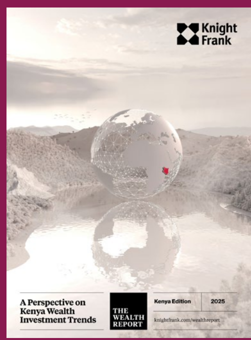
Charles Macharia
Senior Research Analyst
+254 721 386 019
charles.macharia@ke.knightfrank.com

Ndiritu Muriithi
Research Analyst
+254 741 805 238
ndiritu.muriithi@ke.knightfrank.com

Boniface Abudho
Africa Research Analyst
+254 717 264 504
boniface.abudho@ke.knightfrank.com

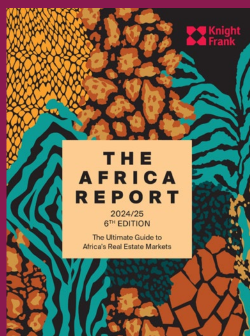
RECENT PUBLICATIONS

Kenya Market Update H1 2025



Wealth Report 2025 Kenya Edition

Africa Horizons - 2025/26



Africa Report - 2024-25

Knight Frank Research Reports are available at
knightfrank.com/research

SCAN QR CODE
DOWNLOAD YOUR COPY

Knight Frank Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, funding organisations, corporate institutions and the public sector. All our clients recognise the need for independent expert advice customised to their specific needs