The rise of the shopping center in Kenya

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Kenya has seen a surge in the number of shopping centers being built recently, with Nairobi—the economic hub of the country— hosting most of them. These shopping centers are largely catering for a growing Kenyan middle class with disposable income, and new standards are being set in terms of their size, use and quality. For new shopping centers, there is a tendency towards mixed-use centers as opposed to the purely retail centers that were previously preferred. These now extend to office, residential, retail and leisure facilities. To illustrate this, compare the Sarit Centre which opened its doors in 1983 (and was the first enclosed shopping center), catered purely to retail and occupied approximately 500,000 sq. ft., with the Two Rivers Center which will be a mixed-use development occupying 1.7 million sq. ft. once completed this year.

Nairobi has positioned itself among the top cities in Sub- Saharan Africa, being the largest shopping center development location besides South Africa. This has influenced other satellite towns such as Mombasa, Thika, Nakuru, Nanyuki, among others which are catching up with the wave.

There has been a concomitant surge in foreign investment in the country's real estate market due to the attractive returns and the willingness of Kenyans to embrace shopping centers. This investment boom has taken Nairobi by storm even as concerns are raised about the viability of the new center projects around the country. There are fears of oversupply with shoppers abandoning the older centers for new and trendier ones. It is not overstating the matter to say that the shopping center landscape is changing drastically with the ongoing construction of several centers and hotels within the city—all scrambling for the attention of the city's growing middle class.

Retail centers and mixed-use trends

Traditionally, one high-rise building would have a mix of retail space on the lower floors, office space on the upper floors, and occasionally, some penthouses on the top-most floors. Currently there are properly integrated mixed use developments, which are delivering commercial, residential and retail space on a far bigger scale, with striking examples being the above-mentioned Two Rivers Center situated in the affluent Runda area, the Hub in the upmarket Karen area and Garden City Center off the Thika Super Highway.

There have also been developments in satellite areas, where projects like Konza City and Tatu City, besides being mixed-use for retail, residential and commercial space, are also incorporating industrial use.

The live–work–play lifestyle concept is fast gaining popularity in major cities worldwide, with Nairobi being no exception, bringing homes, offices, shops and recreational spaces closer to one another. This has partly been attributed to the rising middle class who are embracing the one-stop-shop concept and who have the disposable income to generate consumer interest.

These mixed-use formats are designed as city hubs where people can live, work, shop and play in the same location. When all one needs is within easy reach, there is greater efficiency and more time available in which to do all these things. For companies, this will translate into higher productivity at work while for employees who live within the developments it means more time for recreation and their families. There is also the added advantage of less time wasted in traffic commuting to and from work.

The major centers in Kenya

Kenya alone has over 53 shopping centers located in various parts of the country, with the majority being concentrated in the capital city, Nairobi. To highlight a few:

Two Rivers Center in Runda

- Two Rivers Center is expected to open in February 2017
- The development is being undertaken by Centum Investment Company Limited
- The center covers a total of 1.7 million sq. ft.
- The center has a mixed use including a medium density residential area, an office block and a shopping center, as well as a three and a five star hotel
- The center is expected to cost Kenya Shillings (Kshs.) 15.5 billion (approximately US$ 153.5 million)

Garden City Center

- The Garden City Center claims to be East Africa’s second largest center after the forthcoming Two Rivers Center in Runda
- It is financed by private equity fund, Actis
- It occupies a 32-acre mixeduse development featuring retail, commercial and residential space

The Hub in Karen

- This too is a mixed-use complex which has been built at a cost of Kshs. 4 billion (approximately US$ 39.6 million)
- It is set on 20 acres in the green suburbs of upmarket Karen
- Its construction is in two phases, integrating retail, office and residential use, as well as a hotel and conference center

The Village Market

- This is one of the older centers and is currently undergoing some renovation works
- It is owned by Greenhills Investment Ltd, a local company
- It is currently undertaking a Kshs. 5 billion (approximately US$ 49.5 million) expansion project which will involve the construction of 75 new retail outlets and 187 rooms in a low cost hotel with a conference center that will be able to host 500 people

Benefits and challenges

Advocates of these large, mixed-use shopping centers argue that they provide greater convenience by supplying multiple services in one location; they enhance efficiency thus saving time; they create employment opportunities; competition leads to supply of quality products at competitive prices; and they help economic growth by boosting the real estate sector and opening up investment opportunities.

Despite these benefits, there are some challenges facing shopping centers in Kenya. These include the following:

1. Poor roads and infrastructure have not kept pace with the growth in the number and size of shopping centers. This can cause major traffic disruption, especially during the rush hours.
2. The high cost of land, especially in prime locations, has deterred many who would be interested in investing in shopping centers.
3. The high cost of finance can also be a deterrent.
4. There are systemic delays. It takes the land registries and related planning authorities time to process and approve the change of use applications and accord the necessary approvals.
5. The zoning regulations are not always clear.
6. There are security concerns relating to terrorist threats, such as that experienced in the Westgate Center attack in September 2013. These have had a major effect on shoppers' willingness to visit the centers. However, despite these threats, retailers continue to show confidence in the sector.
7. There has been a lack of government participation in such projects which, if provided, would greatly aid their development.

There are also some disadvantages associated with the growth in shopping centers, the major one being the death of smaller businesses since shoppers prefer centers where they can purchase everything under one roof. There is also arguably a detrimental effect on the environment as green spaces are being developed.

The laws governing shopping centers in Kenya

There are various laws governing shopping centers in Kenya which include the National Construction Authority Act, No. 41 of 2011, Environmental Management and Coordination Act, No. 8 of 1999, the Occupational Safety and Health Act (Cap 514), the Physical Planning Act (No. 6 of 1996), amongst others. When purchasing land the governing legislation includes the Land Act (No. 6 of 2012) and the Land Registration Act (No. 3 of 2012) which form the substantive and procedural laws respectively in the sale and purchase of property.

Management of centers

Most of the shopping centers are managed by letting and managing agents. The owners usually enter into a management agreement with these agents for provision of the services such as rent collection, maintenance of common parts, provision of security, etc.

The agents are also responsible for setting up the management systems and recruiting the management teams for the shopping centers on behalf of the owners. In some cases there are in-house managing agents appointed by the owners of the shopping centers from their subsidiary company.

Lawyers are involved in providing a wide range of legal services related to shopping center projects. Legal advice is crucial when purchasing the land for such a project, ensuring that due diligence is conducted, coordinating any change of use process, reviewing and negotiating the agreement for sale and assessing, stamping and registering the transfer document. Lawyers also provide support for property management providers including the review, negotiation and preparation of leases, management contracts, construction and architectural contracts, supplier and franchise agreements among others.

Conclusion

Against a background of fast-moving change and turbulence in the market, the owners of shopping centers must ensure they are in a position to compete in the long term by having strategies in place that cannot be easily imitated and bettered by other market players in the industry.

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