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Growth in property prices slows as uncertainty rattles investors

SLOWDOWN: Political uncertainty is taking its toll on the Kenyan property market and the slowdown is likely to continue through the rest of the year, according to a new study by private equity firm Cytonn. Page 5

Empty malls echo a sad retail report

A section of the Hub Karen Mall in Nairobi. The Kenyan capital is experiencing an upsurge of malls, which has led to high vacancy levels. COURTESY

Online commerce sparks warehouse boom in Nairobi

Firms jostle for bigger cement market share

Mega projects propel global equipment sales

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Cement manufacturers take hit from flagging big projects

BY MARY NIKROTE
Local cement firms are contending with lethargic growth in demand for the commodity as sinking orders from mega projects weigh heavily on the firms’ profitability.

Demand for cement has been lukewarm since the beginning of the year as key sectors such as energy infrastructure, highways and real estate continue to slow down. In a bid to protect their bottom lines, manufacturers are engaging in fierce battles for customers which have resulted in a significant weakening of cement prices. Although most local cement firms are not listed in the Nairobi Securities Exchange (NSE), and are therefore not obliged to disclose their financial statements, listed manufacturers have reported dismal half-year results.

The worst-hit is ARM Cement, Kenya’s third largest cement manufacturer, whose loss deepened to nearly five-fold in the six months to June 30 on reduced sales, which illustrates reduced activity in the sector.

The company, which has been in the red since 2015, said on September 1 that its net loss shot up 428.53 per cent to Sh1.41 billion from Sh266.78 million in June last year. Total revenue dropped 19.79 per cent to Sh1.32 billion in the period under review.

ARM Cement share has fared quite badly at the Nairobi Securities Exchange (NSE), losing 23.33 per cent of its value since January 1.

Kenya’s largest cement manufacturer Bamburi last month reported a 36.21 per cent drop in half-year net profit to Sh1.85 billion after turnover fell 8.21 per cent to Sh17.54 billion.

The giant manufacturer attributed the profit drop to low demand for the commodity and weakening prices due to ferocious competition by rival cement manufacturers.

“We expect the Kenyan market will rebound in the last quarter (October-December) while the Ugandan market is expected to continue performing well in line with the projected growth in both the domestic and regional markets,” Pescheux said.

This is however likely to take a little longer following the Supreme Court’s annulment of the presidential election results, which has demanded a repeat of the polls.

The industry slowed – which comprises buildings, roads and railway – expanded by 8.4 per cent in the first three months of the year compared with 10.2 per cent during a similar period last year.

According to the Kenya National Bureau of Statistics, the slowdown was attributable to a high number of developers who delayed spending decisions ahead of the August 8 polls due to heightened political uncertainty.

The completion of the Mombasa-Nairobi Standard gauge railway and the suspension of the Nairobi-Naivasha segment have also contributed to the contraction of the construction industry which accounts for over 5 per cent of Kenya’s Gross Domestic Product.

That level of growth, according to the Economic Survey 2016, was “a large extent buoyed by the development of transport infrastructure such as the continued implementation of the first phase of the standard gauge railway” and development of roads countrywide.
BOOM TIME Property developers are now rushing to build modern hostels in bid to cash in on the growing demand for student accommodation

UK fund, Acorn to build Sh7bn hostels in Nairobi

U-K-based private equity fund Helios has signed a Sh7.4 billion deal with property firm Acorn Group to build 3,800 hostels in Nairobi, in a development that seeks to bridge the current student housing gap.

The two entities have formed a new company, on a 50-50 ownership basis, which will undertake the project that will be partly funded by the International Finance Corporation, the World Bank’s private lending subsidiary.

IFC, which plans to fund the project to the tune of Sh6 billion, has hailed the development as a great initiative that will help to significantly reduce the deficit in affordable student accommodation.

Parcels of land

“This will be a big step towards reducing the deficit in affordable accommodation for those in tertiary institutions and those newly out of college but cannot afford to buy properties of their own,” IFC said.

The first bunch of hostels will be built near Strathmore, USIU-Africa and Daystar universities where the investors have acquired parcels of land for the proposed hostels.

The development comes at a time when local universities are contending with an acute shortage of student accommodation that has been caused by several factors including conversion of a number of middle-level colleges with little infrastructure into universities.

Accommodation crisis

A 2011 double intake policy for public institutions aimed at de-linking admissions from bed space has raised the total number of students from 251,106 in 2013 to 564,507 this year, according to the Economic Survey 2017—further worsening the accommodation crises.

This has subsequently resulted strained the on-campus housing—forcing students to seek nearby private housing at exorbitant costs.

According to a recent study by real estate researchers Jumia House, local universities have a combined 280,000 bed spaces against a student population of 769,500 which accounts for 40 per cent of the total deficit.

The deficit has caught the eye of investors as a powerful alternative asset class giving rise to an increasing investor interest for the market segment.

Although this provides some relief to students, the location of the houses as well as the exorbitant rents are in most cases proving to be a big challenge to many students and this has forced universities to build hostels for their students.

The universities are, however, facing several hurdles. While most of these institutions possess vast tracts of land, the huge cost associated with construction is proving to be a major roadblock to provision of adequate accommodation.

Private investors

Though the government has tripled its funding to public universities in the last four years to approximately Sh66 billion, this money is not enough to support such a degree of capital outlay to solve the issue, several universities have engaged private investors to build hostels for their students in a Public Private Partnership (PPP) model where the investors will manage the facilities for several years to recoup their investments before transferring the hostels to the university.

Kenya University has, for example, signed a deal with New York based private firm Africa Integras for the construction of a 10,000-capacity student hostel at the university’s main campus in Kahawa, Nairobi.

The project that will cost an estimated Sh5.1 billion is the biggest development to be completed under the PPP model since it was entrenched into law in 2013.

BY MIRIAM NIKROTE
A group of wealthy investors in Nakuru have launched a petition urging governor Lee Kinyanjui to help revive plans for construction of a multi-billion shilling airport in the county.

The business magnates, who hold major interests in horticulture and tourism sectors, have laments that the delay in implementing the project has been a major drag on the county’s economic growth.

Led by Shadrack Koskei, the investors have urged Mr Kinyanjui to liaise with the Kenya Airports Authority (KAA) - which is mandated to set up airport infrastructure and the aviation regulator, Kenya Civil Aviation Authority (KCMA), to revive the airport project.

“Farmers in Naivasha will have a chance exploit the huge market by increasing their exports to Europe and the United States. The airport will also make it easier for the county to receive hordes of international tourists,” Mr Koskei said.

Observers say that although this is a noble initiative, it will be difficult to revive the project that stalled in 2014 after the National Environment Management Authority (Nema) declined to approve it on grounds that the site lays on a flamingo migratory route.

The project, whose groundbreaking was scheduled for 2014, was to be located on a 642-acre parcel of land in the Pipeline area - about 15 kilometres from Nakuru town on the Nairobi-Nakuru highway.

Nakuru county government had proposed two other sites for the project: Naivasha and Njoro. The latter was rejected due to poor terrain.

In July 2014, KAA said that its engineers and those from the KCMA were surveying the Naivasha site and that they would communicate their findings once the process is completed. This is yet to happen.

Construction Business Review has been made to understand that local politics are frustrating the project, with a section of leaders pushing for the facility to be built on a 700-acre farm in Rongai.

“We should not jeopardise our main symbol of tourism [flamingos]. Let them build the airport in Rongai,” said a ward representative who cannot be named due to the sensitivity of the matter.

Nakuru is a major horticultural hub, accounting for nearly 70 per cent of the country’s flower exports. The county is also a premier tourist destination with scenic attractions such as the Menengai Crater, Hell’s Gate National Park and the Lake Nakuru National Park.
Online commerce sparks warehouse boom in Nairobi

INVESTMENT Growth of e-commerce in Kenya has led to increased demand for warehouse spaces

BY JUDY MWENDE

Growing demand for warehouses from e-commerce firms and conventional retailers seeking to boost their online sales is reshaping Kenya’s industrial property market and driving new development in the country.

Property developers are increasingly setting up new warehouses in strategic locations to meet the growing demand from local and international companies in need of space, according to a report by commercial property services firm Broll Kenya.

“The growth of e-commerce in Kenya has led to increased demand for warehouse spaces. This is as a result of a change in shopping habits in favour of home deliveries as opposed to conventional shopping,” Broll Property Group CEO Malcolm Horne said in the Broll Sub-Saharan Africa Snapshot 2017.

The shift from brick-and-mortar shopping to e-commerce has seen a number of small property developers setting up bases in the country, online shops are emerging as an essential part of the economy. This trend is being driven by increasing mobile penetration. In March, mobile penetration stood at 79 per cent in Kenya—amounting to over 38 million people. About 97 per cent of these people are connected to the Internet, which will help drive the growth of the logistics sector.

And as weighty e-commerce firms such as Jumia continue to expand their inventories, while pushing for same day deliveries, the need for warehouses in Nairobi will shift from the traditional nodes in the Industrial Area to newer nodes on Mombasa Road, Eastern Bypass, and Thika Road, which have “newer warehouses, coupled with improved infrastructure and access”.

Tatu City

Broll, however, noted that the local market predominantly has Grade-B and Grade-C spaces with Grade-A warehousing still in its infancy stage.

“Kenya first pure A-grade industrial development is under construction at Tatu City and is due for completion in 2020. It has received interest especially from international warehouse occupiers seeking industrial spaces,” Mr Horne said.

The hot market is expected to create opportunities for owners of vacant bulk space who can afford to put up high quality warehouses to meet the current e-commerce standards.

The report echoes survey findings of Britam Asset Managers who anticipate a warehouse development boom in the country after the elections.

The findings, which were published last month, showed that A-grade warehouses were the most sought after industrial properties by multinationals setting up bases in the country.

Quality warehouses remain scarce in the Kenyan market and this presents developers with an opportunity to undertake warehousing projects,” the report said, adding that development of transport and energy infrastructure is the main catalyst for the sector’s success.

Feasible rentals

Britain expects that the demand for logistics hubs will continue to grow as e-commerce gains currency in the country. COURTESY

Britam expects that the demand for logistics hubs would continue to grow as companies shift from ownership of warehouses to concentrate on their core businesses in a bid to cut costs and boost efficiency.

Global commercial real estate firm JLL, in its latest study, has noted that developers in Nairobi estimate that for new prime industrial developments to be feasible rentals of at least Sh620 per square metre a month should be achieved.

“If rental levels drop below this threshold, new prime developments tend to not be feasible. Sustainable and affordable rental levels will therefore remain a major factor affecting growth of the prime industrial sector,” writes JLL.

Ordinarily, most warehouses in Kenya are situated in Nairobi, Mombasa and Kisumu, with major nodes located on Mombasa Road and Baba Dogo.

Shortage of land and congestion in these areas is forcing developers to shift focus to emerging nodes such as Ruiru, Thika Road, and Kikuyu— which are now attractive due to the Northern and Southern bypasses.

Besides Tatu, other prime logistics hubs currently underway in the emerging nodes include Nairobi Gateway Logistics Park on Mombasa Road, Infinity Industrial Park on Eastern Bypass and Tilisi Logistics Park on Nairobi-Nakuru highway.

Sh10bn

The amount of cash that Kenyans spent on e-commerce platforms in 2016 and this presents developers with an opportunity to undertake warehousing projects,” the report said, adding that development of transport and energy infrastructure is the main catalyst for the sector’s success.

Offices sit empty as Upper Hill loses shine

BY WAWUNDA MWANGASHA

Nairobi’s Upper Hill is feeling the pinch of oversupply as office vacancy rates remain relatively high, according to a report by commercial property services company Broll Kenya.

Upper Hill, the report says, is becoming increasingly unpopular due to the heavy congestion experienced in the area despite being the closest office node to the central business district.

This factor coupled with the high supply of offices in the area has forced landlords to lower rents and ease lease terms in order to maintain and attract tenants.

“Some A-grade buildings in Upper Hill are now charging the equivalent of B-grade rentals. There is a notable increased interest in the newer office nodes of Kilimani, Riverside, and Karen, where space offerings are mostly A-grade in nature,” Broll says in the report.

Rental rates achieved in the area vary depending on the grade of the building, with A-grade buildings recording average monthly rates of Sh126 per square feet (Sh1,365 per square metre), while B-grade monthly rentals average of Sh93 per square feet (Sh1,000 per square metre), both excluding VAT and service charges.

According to Broll Kenya, worst hit are buildings completed within the last two years, which are “still struggling to acquire tenants”.

“This can be attributed to a poor pre-let uptake, additional stock available and delays in development,” the company said.

“These factors, in some cases, force many tenants to renew their current leases or to find alternative space options thus impacting upon occupancy levels.”

The report, however, notes that there still remains an undersupply of pure A-grade offices in the country.
China firm to begin work on Kitale-Uganda road in October

ECONOMY: The road will boost cross border trade between Kenya and Uganda

BY JUDY MWENDE

China State Construction Engineering Corporation (CSCEC) has signed a contract with Kenya to build a 45-kilometre road that links Kitale to the Uganda border town of Suam.

The signing of the Shs.4.5 billion deal between CSCEC and the Kenya National Highways Authority paves the way for the launch of the project in October.

CSCEC is the world’s third largest construction firm and the 20th largest contractor in overseas sales.

Under the deal, the Chinese firm will build a new road between Kitale and Suam that will replace the existing earthen way, which is impassable during rainy seasons – hitting cross border trade.

“The project starts at Kitale town at the junction of Kisumu-Kakamega-Kigali-Lodwar-Nadapal road and runs northwards through the trading centre of Endebe and ends at Suam, the boundary with Uganda.

“This road will greatly boost cross border trade between Kenya and other East African Community (EAC) member countries,” KeNHA director general Peter Mundinia said.

He added that the formation of the new road will also include construction of new river bridges with reinforced concrete and footbridges in Kitale town.

The project will also involve construction of a dual carriage way through Kitale town up to Matisi shopping centre and the erection of access roads and provision of roadside facilities, key among them drainage works, street lighting and market stalls.

The Kitale-Suam road will join a 73-km road that is being built on the Ugandan side from Kipchorwa to Suam Bridge, which forms the boundary with Uganda.

The new road is a crucial cross-border carriage way, moving fuel, maize seeds, and fertiliser from Kenya to Uganda, which in turn supplies Kenya with products such as banana and sugar.

Kenya has embarked on projects aimed at opening up the northern corridor to facilitate regional trade. In March, the State and the World Bank signed a Shs.3.2 billion deal for the upgrade of a road running from Loichangamatak to Lodwar, Nadapal, and Nakodok to make it traversable during rainy seasons.

On completion, the new road will become key link along the Biharambo-Mwanza- Musoma-Sirari-Iseba- nia-Kitale–Lodwar –Lokichogio-Nakodok-Juba transport corridor of the EAC.

Kwale bets on new road technology to cut costs

By Peter Mwangi

Kwale County has partnered with three European firms to introduce a new road building technology that it hopes will fundamentally slash its infrastructure development costs.

The technology, which is known as Engineered Material Arresting System, entails the use of cement additives and sand – a fairly cheaper method compared to the current tar and ballast technique.

According to the county executive in charge of infrastructure Hemed Mwabudzo, the technology will be piloted at Mwabungo and will be scaled to other regions once it is proved to be a success.

The demonstration project will cover one kilometre of the Lunga Lunga-Mwabungo junction and it will be undertaken by Swiss builder Kibag, Nano Terra AG of Germany and Champion Afrik Limited.

“This project is meant to show-case the most advanced road building technology, which is able to improve the quality, the durability of roads in the most cost-effective manner,” Mwabudzo said, adding that the project will not cost the county any money.

Roads built using the new technology are said to be waterproof and last at least 50 years.

Mr Mwabudzo said the method will “aggressively transform Kwale’s infrastructure”.

Growth in property prices slows as uncertainty rattles investors

BY DANSON KAGAI

Political uncertainty is taking its toll on the Kenyan property market and the slowdown is likely to continue through the rest of the year, according to a new study by private equity firm Cytonn.

The worst affected market segment is the residential property, which is forecast to slow down to 3.2 percentage points this year on account of limited demand as investors hold on to their money as they await the outcome of the hotly contested presidential election, the report by Cytonn Real Estate said.

The company projects total returns to average 9.4 per cent compared to 12.6 per cent last year, a development that can be attributed to slower price increase.

“This can be attributed to investors shying away from long-term investments as they awaited the outcome of the 2017 elections,” Cytonn said in the Nairobi Metropolitan Residential Report 2017, which noted that property prices rise has nearly halved this year to 3.8 per cent from 7.4 per cent last year.

Investors who capitalize on rental businesses are, however, expected to see some marginal growth in their incomes, with Cytonn projecting average rental yields of 5.6 per cent up from 5.2 per cent last year.

The firm attributes the growth to sustained demand for rental units compared to units for sale.

11.1%

The returns that investors of detached houses in the mid-end market are expected to receive

Although Cytonn expects the market to stabilize through 2018 after the elections, there will be “price stagnation in selected markets” due to excess supply.

Investors in detached units in the mid-end markets are expected to reap the highest returns of 11.1 per cent on average, followed by apartments in upper mid-end at 10.5 per cent.

Owners of detached units in lower mid-end segment will reap 9.5 per cent, those of lower mid-end units in the outskirts at 9.2 per cent, while returns for detached units in high-end markets are estimated at 7.5 per cent.

Cytonn has identified Kilimani and Ridgeways as estates offering the best opportunity for developers of residential apartments, with Juja and Runda Mumwe as the best bets for developers wishing to put up detached units.

Kenya’s General Election was held on August 8, but the Supreme Court on September 1 annulled the re-election of President Uhuru Kenyatta on grounds that the polls were not held in accordance with the Constitution.

October 17 has been gazetted as the date for a repeat of the presidential poll, pitting Mr Kenyatta and Nasa leader Raila Odinga.
The expansion of Outer Ring Road in Nairobi, which is behind schedule by a year, is set to open this month, giving motorists something to smile about.

According to the Kenya Urban Roads Authority, the project is now in its final stages and the only remaining bit is the completion of the interchange where Jogoo Road connects with Outer Ring Road, which is set to have a total of 11 footbridges, grade separated intersections, service roads, cycle paths and footpaths.

“By the end of September the road will be ready but currently the two carriage ways are open and you can now drive from GSU headquarters (Thika Road) all the way to Taj Mall (Eastern Bypass),” Kura acting director general Silas Kinoti said last month during the opening to traffic of the carriageway from GSU headquarters to Taj Mall.

SinoHydro Tianjin Engineering Co. is expected to finalize the pending works in six months including erecting footbridges, landscaping, and building the remaining service roads.

The cost of the civil works is estimated at Sh9.20 billion. This together with the Sh3.38 billion that the project’s consultants were paid brings the total cost of the project to Sh12.58 billion.

Sh12bn
The estimated cost of expanding the road, including the fees paid to consultants

Kenya scouts for investors to build toll roads

Kenyascouts

TOLLING: The re-introduction of toll stations is likely to face legal encounters

BY ALBERT ANDESO

Kenya is scouting for investors to set up and operate five toll roads in the country in a move aimed to improve the expansion and maintenance level of major Kenyan highways.

The Southern Bypass, Nairobi to Mombasa road, Nairobi to Mau Summit road, Thika Road, and a second Nyali bridge in Mombasa are earmarked for this project that will re-introduce toll fees on key roads.

The toll roads will be established through a Public Private Partnership (PPP) model, where investors build, maintain and operate a road for several years to recoup their investments before transferring the facility to the State at the end of the contract period.

As a government, we have decided to enlist the help of the private sector as public resources are not sufficient to build highways fast enough,” the Kenya National Highways Authority (KeNHA) director general Peter Mundinia said in a recent press briefing in Nairobi.

Mr Mundinia said that feasibility studies have shown that the private sector can help bridge the road infrastructure funding gap thanks to the lucrative yields in the road toll sector.

“We expect the first toll roads to be operational by the end of 2020.” Mr Mundinia said, adding that a policy to guide the toll roads will soon be approved by the Cabinet.

For the already built roads such as Thika Road and the Southern Bypass, KeNHA will only recruit an investor to build and manage the toll stations.

The new toll roads will be managed by KeNHA, save for the proposed second Nyali bridge in Mombasa, which will be managed by the Kenya Urban Roads Authority. The bridge will connect Mombasa Island to the mainland.

During a past stakeholders meeting in Nairobi, Mr Mundinia disclosed that the toll stations will operate in three set-ups: a manual set-up where motorists stop and pay; a digital set-up that uses pre-paid cards; and a format in which vehicles are fitted with stickers.

Toll roads were introduced locally in the late 1980s, but were eliminated in the mid-1990s in favour of the Roads Maintenance Levy due to corruption at the toll stations.

The re-introduction of toll stations is, however, likely to face huge legal encounters including demands that the State provides toll-free roads for motorists who may not want to use the toll roads.
Nairobi faces oversupply of malls as retail space surges amid low demand

**GLUT:** Most malls have majority of the same tenants, hence a lack of product differentiation

**BY JUDY MWENDE**

All owners in Nairobi and other major towns in Kenya have struggled this year with a gloomy economy, plunging consumer spending and stores closing by retailers. But they now face a problem that is likely to continue long after the economy improves: oversupply of retail space.

Investors have built 761,805 square metres of retail space in the country with more than 250,000 square metres expected to enter the market in the next 18 to 24 months.

Nairobi accounts for about 73 per cent of the total number of shopping malls in the country, with Two Rivers Mall (67,000 sqm), Garden City (35,000 sqm) and The Hub (35,000 sqm) being the largest shopping malls in the city.

According to the latest study by commercial property servicing firm Broll Group, the Kenyan capital is experiencing an upsurge of shopping centres, which has led to relatively high vacancies especially within newly built developments.

“The local retail scene is restricted by a narrow tenant base that is unable to support the vacant spaces available in the market,” Broll Property Group chief executive Malcolm Horne said in the Broll Sub-Saharan Africa Snapshot 2017.

“Consequently, most shopping centres have majority of the same tenants, hence a lack of product differentiation is evident.”

The report further said that the process of acquiring tenants for newer developments is increasingly becoming difficult, which can be evidenced by the delays in opening of some shopping malls due to failure in securing tenants and reasonable occupancy levels.

“Generally, the prime shopping centres are recording average occupancy levels of 80 per cent, while the newer, less established centres are achieving occupancies of below 75 per cent,” Mr Horne said.

Tenant turnover is also speeding up, with some retailers and restaurants unwilling to commit to a space for as long as five years, especially at newly completed properties.

“The situation has been aggravated by the current turmoil in the retail sector that has seen established brands such as Nakumatt and Uchumi scaling down on their branch expansions. Early this month, retail chain Nakumatt Supermarkets closed down its outlet at the NextGen Mall on Mombasa Road, in Nairobi, after just nine months of operations.

The retailer is fighting to remain in business on the back of debts owed to suppliers estimated at Sh15 billion. The firm has declared that it is facing insolvency and thus unable to meet its financial obligations.

The slower uptake of space in malls, according to Broll, has resulted in tenants having an upper hand as it provides the ability to negotiate lower rental rates and more favourable lease terms.

The findings of the Broll’s survey echo those of British Asset Managers who recently said that oversupply of shopping malls countrywide was expected make it difficult to win tenants.

**Retail rents**

“Slower uptake of space is anticipated within the new malls due to demand and supply mismatch, where tenants are fewer than the supply,” British Asset Managers said in their real estate report capturing trends in the first half of the year.

The report says the new trend will weigh heavily on retail rents, which are expected to remain flat in the near future as more space is added to the market.

British managers reckon that shopping centres build to cater for neighbourhoods are likely to yield better revenue than those designed as destination centres.

On its part, Broll notes that investors are gradually taking a county based approach to “developing retail centres with the intention of tapping into the county based income” as well as the benefits of devolution.

**Iconic city building up for sale for Sh460m**

**BY NJOROGE MACHARIA**

One of Nairobi’s most iconic buildings, Sanlam House – formerly Pan Africa Life House – has been put up for sale, marking a new chapter in its 89-year history.

A price tag of Sh460 million has been put on the property that sits on 0.34 acres on Kenyatta Avenue in the Nairobi city centre.

Sanlam Kenya Plc, which owns the property, said on September 5 that it had contracted real estate firm JLL to sell the five-storey building as it prepares to relocate to Westlands.

“Sanlam House presents a well maintained and managed 40,151sqft mixed-use investment with an enduring appeal to growing SMEs,” the company said in a newspaper advert.

“The asset provides an opportunity to further enhance net rentals.

“Upon ownership, the possession of space vacated by Sanlam can be re-let to SMEs, who have a keen demand for space in the [city centre].”

According to the company, the building has a 99 per cent occupancy rate.

 Gazetted as a national monument, the Georgian styled Sanlam House was built in 1928 to signify the permanence and “lofty ideals” of the British rule in Kenya.

The building which once housed the Ministry of Agriculture and the Teachers Service Commission (TSC) was acquired by Pan African Insurance Company in the late 1940s.

It was named Pan Africa Life House, a name it retained until last year when its owner rebranded to Sanlam Kenya after South African Sanlam Group purchased majority shareholding in the company.

September 21 had been set as the deadline for buyers to place their bids, according to the advertisement.
Firms jostle for bigger cement market share

TROUBLE: Emergence of new players has brought about stiff competition in the local market.

BY MIRIAM NKIROTE

Kenya’s top cement manufacturers are aggressive pushing for bigger market share in the wake of on-going expansions and establishment of new players that are expected to flood the commodity into the market.

According to a research by Standard Investment Bank, established manufacturers such as Bamburi and East African Portland Cement (EAPCC) are having a rough time protecting their turf from new players that have grabbed a significant share of their market.

The study, which was released last month, showed that Mombasa Cement – the maker of Nyumba brand – now holds a market share of 15.8 per cent behind the country’s largest cement maker Bamburi, which commanded 32.6 per cent of the market as at the end of 2016.

The company that began operations in 2007 has dislodged EAPCC from the second to the third position with a market share of 15.1 per cent, slightly ahead of another newcomer Savannah Cement at 15.0 per cent.

EAPCC previously controlled 20 per cent of the market but this has been eroded by various factors among them corporate governance issues that have affected its operations.

In 2008, while Savannah began operations in 2012, the emergence of new players has brought about some stiff competition in the market, which has kept cement prices flat at Sh630 to Sh700 per 50-kilogramme bag for the past decade.

To overcome price challenges, the manufacturers are now turning to innovative products such as high-strength varieties used in infrastructure projects as well as ready mix concrete.

“We expect competition in high strength (42.5 & 52.5 grades) and ready mix concrete to intensify as producers respond to the growing demand from large-scale projects,” the SIB report says.

Despite the challenges, manufacturers are optimistic that the growth of the industry will persist in coming years and are investing billions of shillings in additional capacity.

Savannah Cement, for example, is expanding its Athi River plant to double its capacity from 1.2 million to 2.4 million metric tonnes by 2019. Bamburi and ARM are also upgrading their plants to add 900,000 and 650,000 metric tonnes annually in about two years.

Kenya’s cement consumption stood at 2.5 million metric tonnes in the first five months of this year compared to 2.56 million in a similar period in 2016.

This indicates a contraction in the construction, one of the sectors that have been dealt a major blow by a decline in private sector lending.

According to a report by NIC Securities, home builders segment of the cement market – which accounts for 75 per cent of the demand has been badly hit by lack of credit hence the slowdown.

Japan paint firm eyes big money in Kenya real estate

BACKGROUND

Why Kenya is a big market for paints

- A decade long construction boom in the country has led to a rapid expansion of the local paints industry, which has attracted top international paint companies.

- East Africa is one of the fastest growing regions on the continent, with a rapidly emerging middle class, increased spending power and growing urbanisation.

- “This is, therefore, a good time to launch into a market that is in need of our wide range of products to enhance their lifestyles,” said Gary van der Merwe, President of Kansai Plascon East Africa.

BY MIRIAM NKIROTE

Kansai Paint Company has acquired a 90 per cent stake in Kenya’s paint manufacturer Sadolin Group in a deal valued at Sh10 billion.

The Japanese paint and coating maker said last month that its subsidiary, Kansai Plascon Africa Limited, will now be running Sadolin operations in Kenya, Uganda, Tanzania and Rwanda.

“We have retained the current management, the leadership in business for a two-year period. We will work closely with the local leadership and after the two years, we’ll then decide whether to acquire the balance or the local shareholder will retain the 10 per cent in the Sadolin business,” said Gary Van Der Merwe, President-Kansai Plascon East Africa Ltd, during a press briefing in Nairobi.

The East African branches of Sadolin pay royalties to Sadolin Group, which is owned by Akzo Nobel – a Dutch multinational, to use the brand name.

The franchise expires in February and it is expected that the businesses will adopt the Kansai Plasco brand name.

According to Kansai Paints’ 2016 financial report, Sadolin recorded sales of Sh8.8 billion in 2015, with an operating profit of Sh1.4 billion. Kansai is hoping to tap into Sadolin’s market to expand its global footprint.

“East Africa is one of the fastest growing regions on the continent, with a rapidly emerging middle class, increased spending power and growing urbanisation. “This is, therefore, a good time to launch into a market that is in need of our wide range of products to enhance their lifestyles,” said Gary van der Merwe, President of Kansai Plascon East Africa.

A decade long construction boom in Kenya has led to a rapid expansion of the local paints industry. According to global growth strategy analyst Frost & Sullivan, the burgeoning of commercial and residential developments in various parts of the country has increased the need for high quality paints.

But there is a major problem. The rapid growth of the sector has led to an increase of hazardous paints, with nearly three quarters of decorative paints available locally containing high amounts of lead.

The Centre for Environment Justice & Development (CEJAD) says 71 per cent or 15 out of 21 paint brands sold in the country have lead concentrations of above 10,000 parts per million (ppm) – above 90ppm, the legal limit.

Executive director Griffiths Ochieng said tests conducted in a top US laboratory found that yellow paint in the market had the highest levels of lead.

“Highest lead concentration of 160,000ppm was detected in a yellow paint produced by Marilyn Enamel Paint for home use and advertised as “leaflree”.

These are levels as high as 16 per cent of the paint,” Mr Ochieng said.
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Why Kenyan houses have become unreasonably expensive for citizens

How many Kenyans can afford a Sh29 million house? HassConsult, a Kenyan real estate consultancy, says Sh29 million was the average price for houses and apartments in the middle and upper market at the end of 2015.

This is about the same as the price of a 90 square metre apartment in Berlin, a much wealthier country than Kenya.

Very few Kenyans can afford a house at the amount. According to a 2013 World Bank survey, 75 per cent of households in Nairobi, one of Kenya’s wealthiest counties, had monthly incomes below Sh22,500. These households can only afford a mortgage of up to Sh500,000.

To afford a mortgage on the lowest priced formally developed house in the market, a household would need a monthly income of Sh70,000, a figure still out of reach for most urban Kenyan families.

HassConsult’s price index reflects market reality: Kenya’s real estate industry caters primarily to wealthy people.

Meanwhile, 90 per cent of city dwellers rent, with the majority of these in informal settlements. 70 per cent of Kenya’s housing stock is in nine square metre shacks, built with wood, tin, galvanised iron sheets, and latticed wood strips.

Most urban households can only afford to spend Sh7,400 per month on housing. Why don’t formal developers build decent, safe, and sanitary homes that more families could afford?

First, construction costs are 30 to 40 per cent higher in Kenya than in many other countries. In part because builders target the high-end of the market, work on small volumes, hence, they are unable to take advantage of economies of scale in building methods and materials procurement.

Kenyan residential projects rarely exceed 250 or 350 dwelling units in a given construction phase, and few projects rarely reach 1,000 units in total.

What efficient housing sector should look like

1.) It would use industrial methods to produce more than 100,000 houses and apartments priced between Sh800,000 and Sh1 million each year.

2.) Counties would ensure provision of basic infrastructure. Land cost would not be more than 20pc of a unit.

3.) Each property sale and mortgage would be registered in one or two days, with fees capped at 3pc of the value.

Even if a few builders were to deliver 5,000 to 10,000 units each year in large scale projects, they would still be addressing only a part of the 200,000 units needed yearly in Nairobi alone.

Second, Kenya’s slow and costly property titling system makes housing expensive. The sub-division process for large tracts of land can take years, and costs hundreds of thousands of shillings in legal fees.

As a result, if a builder were to construct a dwelling unit in a week, it would still take over two months to legally register the sale of the unit to the buyer, and even longer to register a mortgage lien if the buyer is unable to pay cash.

Meanwhile, the builder continues to pay interest on the construction loan as he awaits the sale and mortgage registration. Naturally, this financing cost is passed on to the buyers.

Third, urban land costs are very high given that developers often have to install the infrastructure for water, sanitation, and roads. The high cost of providing infrastructure makes serviced land count for as much as 60 per cent of total development costs in Nairobi.

Counties often lack the resources to provide this essential infrastructure, even to the edge of land parcels to be developed, as would be the normal practice in most countries.

The small-scale of Kenyan housing developments, and the private costs of providing public infrastructure has a cost. It is much cheaper to provide infrastructure for 5,000 units than for 200 units.

But what would an efficient housing industry look like? It would use industrial methods to produce more than 100,000 houses and apartments priced between Sh800,000 and Sh1 million each year.

COMMENT

BRITT GWINNER and DEAN A. CIRA

Housing

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Letters to the editor

Innovative housing model that can help lower costs

I would like to suggest a novel configuration in housing design as a way of providing low cost housing. Instead of the standard apartment designs, reduce the cost per person by combining four bedrooms with the shared space in the kitchen and living areas. Architects could decide on one, two or four bathrooms. Give each bedroom an external entrance to provide some privacy that is not normally associated with apartment living, and call it a “quad.”

Housing configurations have historically been designed for families, whose members are supposed to love each other. Apartment dwellers typically like each other. Quad residents only have to tolerate each other. This expands the range of people who could live together in this shared space. Singles of all kind might be interested in a quad because of the opportunity for social interaction coupled with lower rent, but especially single mothers for whom child care is always a problem. Schedules could be adjusted so that one adult was always at home, teaching and playing with the kids while the others could go to work, or school. Landlords should like the fact that occupant turnover in a quad would be easier to manage because the compatibility requirements are lower, and city planners should appreciate the quad as higher density housing.

Everybody wins.

RODGER WINN
via email

For the sake of economy, polls should be held in Dec

We can agree that 2017 has been a short and very difficult year, at least for the building and construction industry.

This is not only due to the fact that this is an electioneering year, but also due to the timing of the General Election.

Previously, polls used to be held towards the end of December. This was a perfect timing for two reasons: one, most companies globally are closed during this period to allow people to enjoy Christmas holidays and two, institutions of learning are usually closed for the holidays.

This means that there are very minimal effects, if any, on the local economy since the polls coincide with the holidays.

This year was different. The polls were held in August, as per the Constitution. This means campaigns started way back in March, barely three months into the year. This has really affected the productivity of the nation, which will be reflected in the official growth statistics for the full year.

In my view, we should go back to the old December polls date. There is no need stall our economy in the middle of the year, when others are active.

- Jane Macharia
Buruburu, Nairobi

Belt and Road Initiative can help boost Africa’s financial integration

Financial integration is one of the five areas of cooperation priority for the China-proposed Belt and Road Initiative, but it seems this topic has not received the consideration it deserves.

Rather, most analyses have focused on its ambitious infrastructure investment goals of the Belt and Road Initiative in the countries along the two routes, because big amounts of money easily grab attention.

If we define financial integration as enhancing capital mobility across borders, can we find indications that the Belt and Road Initiative will pave a path in that direction?

To help answer that question, three documents are especially useful. The first is the March 2015 “Vision and Actions on Jointly Building Silk Road Economic Belt and 21st Century Maritime Silk Road”, which provides the initial framework for the concept proposed by President Xi Jinping in fall 2013.

It states that “financial integration is an important underpinning for implementing the Belt and Road Initiative”, and offers a long list of options in the financial space, including cross-border economic cooperation zones, bond market development, regulatory coordination, development of new institutions such as the Asian Infrastructure Investment Bank and the Silk Road Fund, and credit rating cooperation.

If implemented, these plans could result in a decrease of regulatory barriers to cross-border financial transactions, and increase in gross cross-border portfolio investment, gross foreign direct investment and cross-border banking activity.

In other words, we would see signs of more money moving more freely along the Belt and Road.

The second document, the communicated issued at Belt and Road Forum for International Cooperation in May this year includes “enhancing financial infrastructures connectivity”, and “promoting openness and connectivity among financial markets including through cooperation on payment systems”, which, if successful, will expand the areas where the Belt and Road Initiative can reduce barriers to financial integration.

And the “Guiding Principles on Financing the Development of the Belt and Road”, also issued at the forum, calls for “the orderly opening-up of local and regional financial markets” and the “steady expansion of market access of banking, insurance and securities sectors”, as well as strengthening cooperation in cross-border supervision, which could increase capital flows across borders.

The three documents may not be binding, but the Belt and Road Initiative is providing opportunities and perhaps more importantly, new institutions (such as the Silk Road Fund) that could foster tangible movement toward financial integration among countries.

The author is a PhD candidate at Paul H. Nitze School of Advanced International Studies.

TALKING POINT | ELISABETH SMITS

A Chinese and Kenyan workers at a construction site.
China using Africa as testing ground for its international ambitions

STRATEGY: The country's politicians, lenders and businesses are eyeing opportunities for growth and greater geopolitical influence.

On Pate Island, off Kenya's coast, there are light-skinned Africans with Chinese features, fragments of ancient Chinese porcelain, and even a place named "New Shanga". All lend weight to a local story that shipwrecked sailors from the fleet of Zheng He, the 15th-century Chinese explorer, settled on the island many years before Columbus set foot in the US.

Whether or not there are descendants of the Chinese helmsman's crew in Kenya, records show that huge ships reached the east African coast more than 500 years ago, swapping Chinese treasures for exotica such as ivory and zebras.

Indeed, there is a long history of contact between China and Africa, cemented under Mao Zedong in the 1960s with anti-colonial solidarity and the construction of engineering works, notably the 1,860km Tanzam railway linking Zambia with the Tanzanian coast.

In the past 15 years, however, the level of engagement by Chinese state-owned enterprises, political leaders, diplomats and entrepreneurs has put centuries of previous contact in the shade.

The China-Africa relationship — partly spontaneous and partly the fruit of an orchestrated push from Beijing — is shifting the commercial and geopolitical axis of an entire continent that many western governments had all but given up on. While Europeans and Americans view Africa as a troubling source of instability, migration and terrorism — and, of course, precious minerals — China sees opportunity.

Africa has oil, copper, cobalt and iron ore. It has markets for Chinese manufacturers and construction companies. And, least understood, it is a promising vehicle for Chinese geopolitical influence.

"To have 54 African [nations as] friends is very important for China," says Jing Gu, director of the Centre for Rising Powers and Global Development in East Sussex, who contrasts Beijing's mostly good ties with African governments with the tense relationship it has with neighbours from Tokyo to Hanoi.

Many, including some Africans, are suspicious of what they see as a neo-colonial land grab, in which companies acting as proxies for the Chinese state extract minerals in return for infrastructure and finance that will saddle governments with large debts.

The behaviour of Chinese actors in Africa, in common with those from the west, has often fallen short of the exemplary. There have been legitimate complaints about Chinese companies employing few locals, mistreating those it has and paying scant regard to the environment.

Nevertheless, there is a recognition that China has mostly benefited Africa and that the country's participants on the continent have learnt lessons.

Beijing's engagement with Africa is more multi-layered than is often recognised. China, Ms Jing says, has used Africa almost as a testing ground for its growing international ambitions, whether through peacekeeping missions or construction of the roads, ports and railways intended to bind much of the developing world, via a new Silk Road, to the Middle Kingdom.

Howard French, whose book China's Second Continent charts the experience of about 1m Chinese entrepreneurs who have settled in Africa, agrees.

"Africa has been a field where China can try various things in a very low-risk environment," he says. "Africa has been a workshop of ideas that now have a much bigger scale and strategic significance."

A few numbers illustrate the shift. In 2000, China-Africa trade was a mere $10bn. By 2014, that had risen more than 20-fold to $220bn according to the China Africa Research Initiative at Johns Hopkins School of Advanced International Studies in Washington, though it has fallen back because of lower commodity prices. Over that period, China's foreign direct investment stocks have risen from just 2 per cent of US levels to 55 per cent, with billions of dollars of new investments being made each year.

China contributes about one-sixth of all lending to Africa, according to a study by the John L Thornton China Center at the Brookings Institution.

Certainly, China has been attracted by Africa's abundant resources: oil from Angola, Nigeria and Sudan, copper from Zambia and the Democratic Republic of Congo, and uranium from Namibia.

In recent months, Chinese companies appear to have made an effort to corner the market for cobalt, crucial for the production of electric car batteries, with multibillion-dollar purchases of stakes in mines in Congo, the world's biggest producer.

From Libya and Zambia to Ghana and Mozambique, Chinese businesses have gained a reputation for unbridled extraction, whether of old-forest timber, oil, gold or illegal ivory.
Yet the emerging China-Africa relationship goes well beyond commodities. One of the top destinations for Chinese investment in Africa is Ethiopia, a mostly resource-poor country of 100m people that is pursuing Chinese-style state-led development.

Ethiopia has few resources of interest to China other than its strategic location and potentially large market. Since 2000, Ethiopia has been the second-biggest recipient of Chinese loans to Africa, with financing for dams, roads, rail and manufacturing plants worth more than $12.3bn, according to researchers at Johns Hopkins. That is more than twice the amount loaned to oil-soaked Sudan and mineral-rich Congo.

Tangible benefits
In fact, a larger portion of US direct investment — 66 per cent vs 28 per cent for China — goes into mining.

China-Africa ties have proliferated in other areas. Beijing has 52 diplomatic missions in African capitals against Washington’s 49. Of the UN Security Council’s five members, China has the most peacekeepers on the continent, with deployments of more than 2,000 troops in Congo, Liberia, Mali, Sudan and South Sudan.

From Africa’s perspective, although China presents risk it brings tangible benefits in finance and engineers. More importantly, it brings choice.

That is welcome for African governments that have, for decades, been locked in often unproductive relationships with foreign donors who have brought billions of dollars in aid, but also, in the 1980s and 1990s, brought what many view as the ruinously prescriptive Washington consensus of market-based development and reform.

“The narrative of donor and recipient has changed considerably with China,” says Dambisa Moyo, a Zambian economist whose 2009 book Dead Aid questioned the aid-based ties of Africa to Europe and the US.

“African countries need trade and they need investment. To the extent that China, or anybody else — India, Turkey, Russia or Brazil — bring new trading and investment opportunities to Africa, that’s good news.”

- FINANCIAL TIMES
MEGA PROJECT: The new railway network is expected to reduce journey times by 30 per cent.

Chinese builders ink deal to build $1.24 billion Cairo railway network

A consortium of Chinese companies, led by a division of China Railway Group, has been awarded the contract to build a new light rail system in Egypt.

The US$1.24 billion network will connect Cairo with the under-construction new administrative capital, and will extend to some of the far-reaching districts of greater Cairo, including Al-Salam, 10th of Ramadan, Obour, Badr and Shorouk.

With a maximum speed of 120km/h, the 66 km network – which includes 11 stations – is expected to reduce journey times by 30 per cent.

The Ministry of Transportation, which awarded the contract for the rail system, said its construction would create jobs while reducing traffic congestion in the region.

Han Bing, minister counselor for economic affairs with the Chinese embassy in Egypt, said: “The planned rail project shows that Egypt acknowledges China’s advanced technology in rail construction.”

He said, “Chinese firms will offer technology and equipment, while locals will be responsible for the construction.”

Meanwhile, Egypt has been ranked the 19th most powerful economy out of a list of the world’s 21 most powerful economies in 2030, according to a report published by global accounting firm Pricewaterhouse-Coopers (PwC).

The report said that emerging markets will start to dominate the word’s top economies by 2030.

The report said that emerging markets such as India and Brazil are set to challenge the economic dominance of the US and China.

- CBR CORRESPONDENT

Abuja’s $823m railway set for Dec completion

The China Civil Engineering Construction Corporation (CCECC) has assured that phase one of the Abuja Rail Mass Transit project will be ready for public use in the next four months.

The rail transit project, costing N299 billion ($823 million), consists of lot 1A and lot 3 covering a length of 45km with 12 designated passenger stations.

The facility links the Nnamdi Azikiwe airport, Abuja, to the Central Business District.

It is a double tracked line of right side running, and standard gauge 1435mm.

Speaking to journalists during a tour of the site, the project manager, Mr Kong Tao, said work on the large scale project was progressing smoothly and would be test-run by November and commissioned for public use in December.

He said the railway will boost the commercial activities of the host communities.

“Abuja rail mass transit project is bound to accelerate the growth of the economy. The realization of this large-scale project will definitely deliver much benefits to the public, such as better investment environment, better living condition, more employment, land value enhancement and greater social responsibility,” he said.

Tao, however lamented that a perimeter fencing built to prevent trespassing had not stopped some residents of the host communities who crossed the rail track at will.

This, he said, endangered lives as trains moved constantly on the rail track.

“Safety is the most important thing in our operation. Even though we built a fence to prevent trespass, they break it to cross the rail track,” he said.

He also deplored the recurrent incidence of theft of the company’s equipment.

“Despite hundreds of security personnel employed, thieves still steals something here almost every week,” he added.

- AGENCIES

BRIEFLY

ADDIS ABABA

Fire at Ethiopia stadium construction site kills seven

A fire that engulfed workers’ dormitory at the site of Aden Abeba Stadium, the biggest stadium in Ethiopia is constructing, killed seven people while a dozen were burned severely.

Around 20 casual workers were believed to have been inside their dormitory when the fire broke out early last month. Some were readying to sleep and others were preparing dinner when a gas cylinder exploded at about 8pm local time.

LAGOS

BUA Group invests $2bn in Nigerian cement industry

Nigerian BUA Group has invested $2 billion in the Nigerian cement industry with capacities in excess of over 12 million tonnes per annum.

Chief executive Abdulsamad Rabiu made this disclosure at the recent inauguration of the BUA Obu Cement factory in Okpella.

According Mr Rabiu, the unveiling of the complex was an important milestone for the company as it will make Nigeria a net exporter of cement.

DAR ES SALAAM

Tanzania opens bids for Stieger’s Gorge Project

Energy ministry has opened the tendering process for the construction of Rufiji Hydro-power project at the Stieger’s Gorge.

The project will see the construction of the largest dam in Tanzania on Rufiji River in the Selous Game Reserve.

It will have an installed capacity of 2,100MW with a minimum guaranteed annual firm energy of 5,920 GWh.

The project will involve construction of the main dam and appurtenant structures.

KAMPALA

Uganda needs more land for pipeline from Hoima to Tanga

Kampala says it needs more land for a pipeline from Hoima to the Tanzanian port of Tanga.

Originally, the State and the companies participating in the project indicated they required a strip of 30 metres for the pipeline and way leaves, but a new requirement estimate has more than tripled this to 133 metres along the 296km stretch in the Ugandan territory.

The extra land is required for a utility corridor to cater for associated infrastructure.

- AGENCIES

Aerial view of a section of Abuja.
Muscat counts on Chinese billions to build desert town

BY EGYPT INDEPENDENT

In the remote desert along Oman’s southern coast, construction machines hired by a Chinese consortium are leveling an expanse of pale orange sand – a first step toward billions of dollars of investment.

Over the past year the Chinese have become key to Oman’s effort to transform Duqm, a village 550 km south of Muscat, into an industrial centre that will help diversify its economy beyond oil and gas exports.

In a pattern seen across much of the Middle East, the economic interests of the Omani and Chinese governments are coinciding in ways that promise a surge of Chinese capital into the region over the next few years.

Oman’s state finances have been hit hard by low oil prices, so it is scrambling to attract foreign money for new industrial zones that will create jobs for Omani whom the State can no longer afford to employ. Duqm is its biggest such project.

For China, the project is a potential success in its Belt and Road Initiative, a government-backed drive to win trade and investment deals along routes linking China to Europe.

Duqm is a potential operating base for Chinese businesses near export markets which they want to develop in the Gulf, India, and East Africa.

China to invest $11bn in Egypt’s new capital city

ENTERPRISE: Egypt is building a new administrative capital with Chinese funds

BY EGYPT INDEPENDENT

Egypt and China signed a number of deals during President Abdel Fatah al-Sisi’s visit to China for the ninth annual BRICS summit early this month.

One of the agreements included the funding of the electric train project between Salam City and the new administrative capital, and another agreement entailed the establishment of Egypt’s second satellite “Egypt Sat 2” with a Chinese grant $45 million.

China is establishing the electric train with 11 stops, and providing the wagons with a $740 million loan, to be repaid throughout 15 years, with a grace period of five years, MENA reported on September 3.

The construction of the electric train will take three years, but Egypt’s president has asked the Chinese company to reduce the period of execution to two years.

Sisi said earlier in July that the project will provide a safe and modern means of transportation for commuters between Greater Cairo and the New Administrative Capital. It will also facilitate transportation of goods and production materials to and from the cities and industrial areas located along the railway line.

The electric train will connect with the third line of the subway in Salam City, linking the cities of Greater Cairo, Obour, Shorouk, Badr, and the New Administrative Capital through the 10th of Ramadan City.

The Chinese investments in the new capital included $3.2 billion invested in the second phase of the project, Oma Magdoub, Egypt’s Ambassador to China said in a televised interview.

Moreover, he said that investments worth $8 billion will be implemented in the new capital over the next 10 years. In the interview, the ambassador added that one of the mega Chinese companies, which established an industrial zone on an area of 60 kilometers, was granted an additional six kilometers.

Economic relations between Cairo and Beijing are deemed strong.

The volume of trade exchanges between the two countries recorded $5.178 billion in the first six months of 2017.
SLOWDOWN: Construction of multi-family houses tumbled to a 10-month low in July

US housing market declines as multi-family home projects slump

Housing starts declined 4.8 per cent to a seasonally adjusted annual rate of 1.16 million units, hurt also by a drop in ground-breaking on single-family projects, the Commerce Department said.

June’s sales pace was revised down to 1.21 million units from 1.22 million units in May. Building permits fell 4.1 per cent, with the multi-family segment recording a drop of 11.2 per cent. Permits for single-family homes were unchanged.

The report tempered hopes of a sharp rebound in home-building investment after it fell in the second quarter at its steepest pace in seven years. “Soft July starts following on June’s solid reading is a disappointment as we had expected housing to pick up more robustly from a soft second quarter,” said Andrew Labelle, an economist at Citigroup in New York. “Still, we are inclined to look through some of the pullback as it was concentrated in generally lower value and more volatile multi-family.”

Housing fell 0.27 percentage point from second-quarter gross domestic product. Many economists had forecast ground-breaking activity to be little changed at a rate of 1.22 million units in July. Home-building fell 5.6 per cent on a year-on-year basis.

Housing starts are well below their historic average of 1.5 million, a rate realtors say would eliminate an acute shortage of houses on the market that has driven up prices. Completions fell 6.2 per cent to 1.18 million -pace last month.

The PHILX housing index HGX was trading higher, in line with a broadly firmer U.S. stock market. Shares in the nation’s largest homebuilder, D.R. Horton, were little changed as those of Lennar Corp.

Despite Brexit, Chinese property buyers flock to London

Chinese investment in London commercial property has more than trebled since before Britain voted to leave the European Union, most of it channelled through Hong Kong at a time of heightened political uncertainty in the former British colony.

While others have pulled back from UK property over Brexit, investors mainly from Hong Kong are snapping up the British capital’s best-known skyscrapers including the “Cheesegrater” and “Walkie Talkie”.

In the first half of 2017 Chinese investors spent 3.96 billion pounds on London commercial property according to data from CBRE real estate group, the highest amount on record and outpacing the 2.69 billion pounds spent in 2016.

Hong Kong accounted for 92 per cent of the Chinese investment, said Knight Frank. Hong Kong’s freedoms, including judicial independence, are constitutionally enshrined under a “one country, two systems” deal struck before Britain returned the territory to China in 1997.

However, concerns have been rising in recent years and an appeals court jailed the three leaders of Hong Kong’s democracy movement last month.

Business heads extend loans to small UK firms to plug gap

Many directors of small British construction businesses are lending them more money to plug a funding gap as banks set tighter lending criteria and major contractors delay payments.

Banks have taken a more cautious approach on funding after a slowdown in UK property markets and tighter scrutiny from regulators, and are instead choosing to focus on larger players.

“Confronted by continued borrowing constraints and often faced by long waits for payment, they (directors) are ploughing significant amounts of their own money into their businesses to ensure they remain on a firm financial footing,” Funding Options CEO Conrad Ford said.

“But it is questionable whether such drastic personal measures is sustainable for much longer.”

Subcontractors that fail to find funding solutions could face insolvency, with the industry often requiring significant upfront cash payments to be made for materials and labour.

“Deals from mainland China already make up a smaller proportion of the activity from the region, with Hong Kong investors most active,” said Anthony Duggan, head of capital markets research at Knight Frank.

“We expect that Chinese investors will still look to make strategic real estate purchases that fit within their business plans.”

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However, concerns have been rising in recent years and an appeals court jailed the three leaders of Hong Kong’s democracy movement last month.
The Future is Now!

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China’s big four banks raise billions of dollars for ‘Belt and Road’ deals

FUNDRAISING: Sourcing of funds follows government calls on financial institutions to develop overseas lending businesses

China’s largest state-owned commercial banks are raising billions to fund investment under Beijing’s “Belt and Road” drive, people close to the matter said, bolstering ambitions to revive Silk Road trade routes and internationalize the yuan.

China Construction Bank, the country’s second-biggest bank by assets, has been conducting roadshows to raise at least 100 billion yuan ($15 billion) from onshore and offshore investors, the people said.

Bank of China, the smallest of the country’s “big four” lenders, aims to raise around 20 billion yuan, two of the people said.

The fundraising comes shortly after the government said it would strengthen regulation to reduce risk for domestic firms investing abroad and curb “irrational” Belt and Road investment.

The government is increasingly scrutinising international investment after some big-money deals in recent years.

Private spending on overseas mergers and acquisitions has since slumped in countries other than those targeted by the Belt and Road initiative, where investment for 2017 hit $33 billion this month.

That compared with $31 billion for all of 2016, Thomson Reuters data showed.

CCB and BOC are raising money via their private equity or other investment platforms, as part of a broader central bank push to invest yuan overseas, one of the people said.

Funds from offshore investors would be in U.S. dollars, the people said.

Top lender Industrial and Commercial Bank of China Ltd and third-ranked Agricultural Bank of China Ltd are also considering raising Belt and Road funds, two of the people said.

The people were not authorised to speak with media on the matter and so declined to be identified.

The four lenders and the People’s Bank of China did not respond to requests for comment.

The fundraising follows government calls on financial institutions to develop overseas lending businesses, targeting a combined 300 billion yuan, to help connect China with old and new trading partners under an initiative modelled on the Silk Road, which stretched from Asia to Europe for almost two millennia.

Raising yuan, also known as renminbi, for overseas investment would also increase the currency’s use in global trade and further its internationalisation, thereby reducing exchange-rate risk and preserving China’s foreign reserves.

“Because those Belt and Road countries have close economic and trade ties with China, after they receive our yuan funds, they can use renminbi to pay for Chinese goods, equipment and labour,” said a banker at one of the lenders with knowledge of the fundraising.

“That is the overseas renminbi recycling mechanism we’ve envisioned and an important way to push forward the internationalization of renminbi.”

Senior China economist at ANZ, Betty Rui Wang, said yuan funds for overseas use would ease Chinese corporate concerns about normal funding channels being restricted by capital controls. However, there would still be foreign exchange risk, she said.

“Many of those Belt and Road countries are developing economies with underdeveloped financial markets,” Wang said.

“Companies may need to convert yuan into local currencies after all.”

- REUTERS

SUMMARY
The Belt and Road initiative in figures

$100bn
The total amount that China’s “big four” banks are raising for the initiative.

$15bn
The total amount China Construction Bank has raised from onshore and offshore investors.

$45bn
The total value of the proposed overseas lending businesses kitty.

On going construction works for a Belt and Road project. COURTESY
Real estate market slows down as polls uncertainty scares off investors

The City County of Nairobi approved Sh47.62 billion worth of non-residential building plans in the year to May 2017.

BY JANET MUTEGI

The Nairobi real estate market posted a significant decline in the early months of 2017 as investors grew jittery about the hotly contested August 8 election.

Latest data from the Kenya National Bureau of Statistics shows that the City County of Nairobi approved Sh105.69 billion worth of building plans in the year to May, 16.2 per cent down from Sh129.31 billion in a similar period in 2016.

The official statistics show that the value of approved plans for residential property fell by more than a fifth year-on-year to Sh58.07 billion from Sh74.27 billion, a 21.81 per cent drop.

Nairobi approved Sh47.62 billion worth of non-residential building plans in the period under review, an 8.49 per cent drop from Sh52.04 billion a year earlier.

Volume of deals

According to reports by HassConsult, which tracks prices based on advertisements, investors have adopted a wait-and-see standpoint that has impacted negatively on the volume of deals in the property market.

“There has been a complete drop in buying activity, which we completely expected. A lot of people have adopted a wait-and-see attitude. ‘They probably don’t want to commit to property right now,’” Sakina Hassanali, HassConsult research and marketing manager, said at a press briefing in Nairobi on July 28.

Ms Hassanali who was speaking during the release of the HassConsult’s second quarter index, which showed that Nairobi’s overall property market had cooled down 3.1 per cent in the review period.

The report showed that asking rents for all property types fell by at least two per cent with detached houses recording the highest quarterly drop at four per cent.

The world over, real estate ordinarily gets hit by elections as risk-averse investors usually adopt a wait-and-see attitude for fear of incurring losses in case of troublesome disputes.

But despite the optimism, it is likely that the property market recovery will take a little longer following the Supreme Court’s annulment of the polls results.

On September 1, the highest court in the country annulled the August 8 Presidential election for not complying with the Constitution - ordering the elections body to hold a fresh election within 60 days.

China’s push into Africa seen as a scramble for state funds

BY FINANCIAL TIMES

The evolving China-Africa relationship is not monolithic, but conducted by multiple players with different agendas.

On the one hand, there are 54 African countries and, on the other, various Chinese banks, state-owned enterprises, provincial governments, private companies and individuals.

“When you look at what China is doing in totality you see chaos, not coherence,” says Minxin Pei, a Chinese scholar, who rejects the idea of a grand Chinese strategy for Africa.

Uwe Wissenbach, an expert on Chinese projects in Africa, also cautions against the idea of a Beijing “master plan.” The construction of the $4bn railway from Mombasa to Nairobi was Kenya’s idea rather than China’s, he says. Even though the railway may be extended to Uganda and possibly Rwanda, it is not a Beijing strategy to link east Africa. Rather, it was an opportunistic bid by state-owned China Road and Bridge Corporation for a lucrative contract, he says.

The absence of a sweeping strategy does not mean there is no state influence. Chinese leaders have been active in courting African governments. In 2015, Xi Jinping, China’s president, pledged $60 billion for African projects over three years despite the downturn in commodity prices. Beijing has consistently encouraged Chinese companies, many with huge surplus capacity at home, to win contracts in Africa.

“When the government says: ‘This is the new frontier; it’s lucrative and people should go there,’ then people do go there,” says Mr Wissenbach.

Policy directives from Beijing come with cheap finance and an implicit state guarantee should African governments default on loans.

Rather than Beijing carving up the world, he suggests, what has emerged is a scramble for Chinese state funds. “In that sense, it is strategic but it’s also very opportunistic.”
Manufacturers of heavy duty equipment are set to record better sales this year as demand for construction machinery rebounds after years in the doldrums.

According to specialist consultancy Off-Highway Research, global construction equipment sales are expected to grow 16 per cent this year, to 810,000 units valued at $80 billion. This is nearly 200,000 units less than the last sales peak of 2011 when more than one million units of heavy machinery were purchased.

Graeme Macdonald, chief executive of JCB, was earlier this year quoted by Financial Times as saying that the privately owned UK group “began to see a pick-up in towards the second half of last year” and that 2017 started robustly worldwide.

“One swallow doesn’t make a summer [but] there’s definitely momentum in the market – we are seeing it from our customers and dealers,” he said.

Global unit sales of construction equipment grew last year for the first time since 2011, but only by 1 per cent according to Off-Highway Research.

Although the industry generated total revenue of $70.1 billion last year, the market is 30 per cent smaller in US dollar terms compared with its 2011 peak, Off-Highway’s data shows.

The global equipment market peaked in 2011 on the back of Beijing’s $585 billion stimulus spending programme. However, this boom was followed by a drop in sales which saw market demand fall to 25 per cent of its peak size at the bottom of the cycle in 2015 and 2016.

**Mini excavators**

A driving force of the anticipated growth in 2017 is the replacement of ageing machines bought six to seven years ago that are now coming to the end of their working lives.

China, which accounted for 40 per cent of sales in 2011, is expected to be the key driver of growth this year. Sales of equipment in the Asian country are expected to grow 55 per cent this year on rising demand for all types of equipment, according to Off-Highway Research.

Crawler and mini excavators will be the drivers of growth, representing half of the Chinese market in terms of unit sales.

Sales of crawler excavators will overtake wheeled loaders for the first time in the history of the Chinese market.

“The sudden recovery in market demand is attributed to the large number of new projects that have been given approval to proceed since 2015, when the government decided to strengthen the economy by increasing infrastructure investment,” the company said.

India is also looking strong, with a 10 per cent sales growth forecast this year – continuing the momentum of the 36 per cent growth seen last year.

It is projected that the Indian market will surpass the previous record high of 54,065 machine sales seen in 2011.

**Modest growth**

In North America, the market is expected to rise 8 per cent to over 170,000 units. This would take it back to levels seen in 2014 and 2015, before market growth was interrupted by last year’s presidential poll.

The European market is expected to grow 2 per cent this year to about 145,000 units – a modest grow that follows an 11 per cent surge in 2016.

A 4 per cent jump in equipment sales is expected in Japan, after a demand slump last year.

Over the long term, Off-Highway Research expects global construction equipment sales to rise to close to 900,000 units by 2021, with a value of more than US$90 billion in today’s terms.
Marketing 101: Taking the guess out of advertising

PROMOTION You should learn to sugarcoat an expensive offer by throwing in a bonus or premium

I s a long subject line better than short? Do green envelope work better around Christmas? Is a postcard enough copy?

There’s no reason to guess! Instead, you can apply tested principles in preparing your promotional materials that increase their effectiveness.

Advertising legend Robert Collier called it “taking the guess out of advertising.” Collier understood that writing advertising copy should be something of a science.

He liked to refer to the work of the Tested Selling Institute and Word Laboratory Inc., which identified words and phrases salespeople could use to get customers to buy.

These “Tested Selling Sentences” were used by salespeople in one-on-one interactions with customers.

Collier believed that taking this kind of approach to selling would be just as effective when applied to the printed word.

For example, his research showed that in writing sales pieces, there were certain tested openings to letters that would invariably win readers’ attention, which, of course, is the first step to making a sale.

Of all these openings, the word “how” seemed to work the best. In some cases, using the word “how” in a headline could greatly increase the pull of a sales piece. This rule is certainly used widely today, as “how” frequently appears in headlines, blog posts and article titles.

According to Collier, other “magic” words that impelled people to give their attention and ultimately buy were: truth, life, love, at last, new, advice, and facts you should know about.

If you read magazines or surf the internet today, you’ll find these words popping up again and again. They seem to be as powerful as ever.

Feeding vanity
Collier urged marketers to appeal to readers’ vanity. For example, giving the impression that the reader has been specially selected to receive an offer because of his or her unique qualities can lead to a huge response.

This approach is used a great deal today. The word “exclusive” appears everywhere, and people still have a positive response to it. Statements like “Read ONLY if you’re serious ...” help pull the reader in by complimenting them, while keeping out less-qualified prospects.

Successful letter openings
Collier gave a number of examples of ways to open letters that proved to work very well.

Here is my favourite: “Give me ___ and I’ll give you ___.” Collier also found great success with variations on the idea “Give Me Five Minutes, and I’ll Give You [This or That].” For example, “Give Me Two Minutes – And I’ll Give You the Secret of a Goodyl Profit Without Investment.”

You can see how easy it is to take a good idea like this and adapt it as needed to different subjects.

You just have to keep testing it and examining the response rate to make sure the approach is still working.

Sugarcoating the pill
Another way to “take the guess” out of advertising is to sugarcoat the offer by throwing in a bonus or premium.

The high cost becomes easier to swallow when a special gift is included in the deal.

This approach works with just about anything you’re selling, from magazine subscriptions to dental implants.

Always offer some special bonus, and you can see a huge increase in your rate of response.

You’ve been given some of the most effective rules here, but the only way you can find out what works best for you is through testing your own sales pieces and other promotional materials. Once you discover what works, you can use it again and again for better and better results.

-ENTREPRENEUR
Across the globe, women face challenges related to cultural norms and values in the workplace. Here are a few tips to help you succeed as a female leader.

**Be versatile**
The ability to offer extensive knowledge and cadre of sought-after skills is essential in establishing yourself as an asset to the team. I strive to share my knowledge across the organization in the areas that I am uniquely poised to provide.

To continuously provide valuable information, I continually seek ways to improve my technical knowledge, awareness of trends and technological development, as well as ongoing issues and challenges faced by various industries.

Each day, I spend at least two hours reading newsletters, articles, business news, and listening to first-hand accounts of the changing industry landscapes.

Knowledge prioritization encourages regular requests for advice and recommendations for the organization.

**Deliver on the details**
Many organizations claim to be data-driven, but many individuals do not have time to dive into the details. My experience, in an Asian organization, has taught me the importance of having the details available and accessible.

I rely on my expert team to provide insights and then incorporate those facts back into the organization.

These details add up to vital data that help inform crucial business decisions. The awareness of the details can be a real game-changer.

Knowing the details means being methodical, going through every situation, environment, and set of data available to speak or know every detail that others may have missed. This drives the pursuance of your worth to the company.

**Innovative approach**
Continually advocating for innovation in the workplace is vital. When it comes to problem solving, creativity and logical go hand-in-hand in an environment where women thrive.

I expect my team to be inventive and open-minded when pursuing clear, logical ideas. Design Thinking, a staple in Silicon Valley, has proven extremely valuable in promoting a new approach to innovation. Its process has helped my team be successful and made me a valuable leader.

**Show benefits**
A fundamental approach in Japanese business organization is a focus on illustrating proven benefits before executing a decision.

Before moving forward with a deal, investment, new line of business, or strategy, it is essential to be ready to address concerns with tangible proof.

To be taken seriously, with the context of the decision-making process having a full understanding of the benefits of the change, is important.

To gain respect and provide sustained value, it is essential to have logical justification, compelling success metrics, and examples from comparable case studies.

**Develop confidence**
Being the only woman in a meeting or on the floor, though daunting, built my confidence.

Today, I face challenges but I’m able to give direction that drives growth within our company. I can’t back down or waver. I know my details based on an innovative approach and established research-backed proof points.

Furthermore, I understand the values and perspectives of those at the table, and I can present in such a way that each of my subjects is compelled to pursue my recommendation.

**Six major reasons why discounting is destroying your sales**
Offering discounts on goods or services is a common strategy for many businesses entering a new market.

While discounts may seem like a smart way to win new customers, price reductions can hinder business growth. Here are six reasons why you should stop giving discounts.

**Too much emphasis on price**
By offering discounts, your primary focus is on price rather than your products or services. If the only competitive advantage you have is price, your business is in big trouble.

**Price wars**
Discounts can result in price wars with your competitors, and bigger companies nearly always win these wars because they have enough financial backing to stick it out the longest. For a business just getting off the ground, this is a fight you don’t want to enter.

**Wrong impression**
When a company offers a discount to their customers, they’re taking a big risk of devaluing their services. Customers can get the impression that the services being offered aren’t worth paying full price for.

**Negative impact on profits**
If competitors match your discounted prices, not only will you be left with less money in the bank, but you’ll still be expected to produce high quality services at a discounted price.

**Stockpiling**
Customers might buy as many products as they can at the discounted price. Then, not only will you have to scurry to provide a mass amount of product, but this can also negatively affect future profits because your customers won’t need to buy once you lift the discount.

**Negative impact on quality**
Offering a discount can lead to your company having no choice but to provide a greater number of products in a short period of time. This can lead to decreased quality to get everything done on time.

Occasional discounts, however, do make sense. Just make sure you’ve considered what discounting could mean to your business.
World’s first floating wind farm is set to open next month in Scotland

CLEAN ENERGY: The $253 million Hywind Scotland in the North Sea, off the coast of Peterhead in Scotland, will generate enough power for 20,000 households when it starts operations next month.

BY AGENCIES

Hywind Scotland, reportedly the world’s first floating wind farm is being installed in the North Sea, off the coast of Peterhead in Scotland.

After six years of successful operation of a prototype that was installed off the island of Karmøy in Norway, floating wind farm concept is now becoming a reality, with five turbines being towed into position at Buchan Deep.

The turbines, built in Norway earlier this year, have been dragged across the ocean to Scotland, where they will start working just off the coast.

The $253 million wind farm is expected to generate enough power for 20,000 households when it starts producing energy next month, according to Statoil, the Norwegian state energy firm behind the project.

30MW of electricity

Each turbine has a total height of 253m, 78m of which will sit below water while the remaining 175m will stand above water.

In total, the turbines have been designed to generate up to 30MW of electricity and are expected to start powering 20,000 homes back on the mainland as early as next month.

The design of the floating turbines adapts spar buoy technology from the oil and gas industry, whereby large cylinders are used to support floating platforms.

They are filled with water and ballast to hold the turbines upright. This pilot project, which is majority-owned by Norwegian oil group Statoil, is one of a number of floating wind schemes that have open up waters previously considered too deep for conventional wind farms.

Each of the five turbines is 20,000

The estimated number of households expected to be powered by the wind farm

also secured to the seabed by three suction anchors. The 4 square kilometre area covered by the pilot park has a water depth that ranges from 95m to 120m, and the average wind speed is about 10m/s.

As one of several floating wind schemes due to be carried out off the Scottish coast, it is hoped that Hywind Scotland will be the first step to unlocking the potential of other waters that have, until now, been considered too deep for conventional, fixed-bottom wind farms.

Such areas of deep water generally have winds that are higher speed and more reliable. They are also more remote, making them less likely to face objection for blighting coastal views. This is one reason why floating wind farm technology has caught the interest of other countries.

The seas off of Japan and much of the west coast of the US, for instance, are too deep for fixed-bottom structures.

If floating wind did become a global industry, it was said that Scottish suppliers could have a first mover’s advantage.

Scotland’s deputy first minister John Swinney said, “The ability to leverage existing infrastructure and supply chain capabilities from the offshore oil and gas industry create the ideal conditions to position Scotland as a world leader in floating wind technology.”

Subsidy scheme

Whether floating wind moves beyond small pilot projects will depend on cost, however.

The initial projects in Scotland were enabled by an enhanced renewables obligation subsidy scheme, which was a type of funding for renewable electricity projects in the UK that closed to new applications earlier this year.

The hope is that costs will come down as more floating wind projects are pursued globally, allowing the technology to compete with other forms of low-carbon electricity generation – as has happened with conventional offshore wind.

The Energy Technologies Institute – UK-based research and development body – has calculated that floating wind could be competitive with other forms of low carbon generation by the mid-2020s.

The Hywind Scotland wind farm is expected to open new markets for renewable energy.

installation of a giant turbine at the Hywind Scotland. COURTESY

World’s first floating wind farm in figures

$253 million
The total cost of setting up Hywind Scotland project.

30MW
The total amount of electricity that the wind farm will inject into the power grid.

253km
The total height of each turbine, 76m of which will sit below water and 175m will stand above water.

20,000
The total number of households to be powered by the wind farm.
WE EXPERIENCE being part of your world

EARTHMAX RADIAL OTR TIRES

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- Suitable on hard rocky surface
- Extra-long tread life
- High puncture resistance
- Outstanding stability

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