Retirement Benefits Schemes Performance in Kenya, & Cytonn Weekly #09/2021

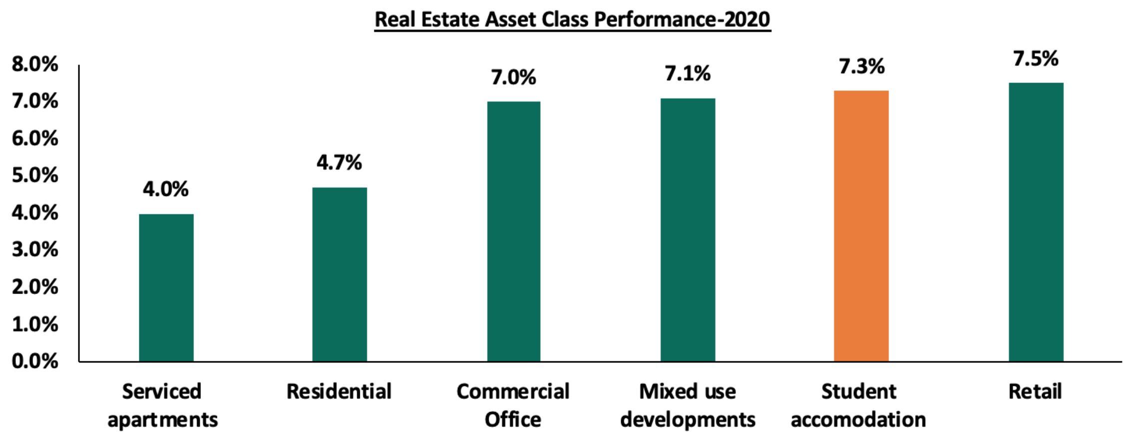
Real Estate

I. **Listed Real Estate**

During the week, Acorn Holdings, a real estate developer announced that InfraCo, a United Kingdom-funded private infrastructure development group has invested Kshs 1.0 bn to the firm's real estate investment trust (REIT) intended to support the construction of 10,000 affordable student accommodation units in Nairobi. InfraCo is the anchor investor for the Acorn Development and Income REITS. The development real estate investment trust (D-REIT) is expected to finance the student hostels whereas the Investment real estate investment trust (I-REIT) will be used to acquire properties and hold them for rental income.

The move by Acorn Holdings to focus on I-REITS and D-REITS as the main source of funding for its student housing projects signals that investors continue to explore available structured financing options in the capital markets. Currently, there is a heavy reliance on bank funding as opposed to funding from the capital markets, with 95.0% of business funding in Kenya being sourced from the banking industry and only 5.0% from the latter. 8 years since the inception of the regulatory framework, the REITS market has remained underdeveloped with only one I-REIT, and no D-REIT with the Fusion Capital D-REIT, which was launched in 2016, having failed due to low subscription rates while the Cytonn D-REIT was not progressed by the Capital Markets Authority due to the limited number of approved REIT trustees in the market. The poor performance of the REITs is attributed to (i) the high minimum investment amounts set at Kshs 5.0 mn, (ii) high minimum capital requirement for a trustee at Kshs 100.0 mn, which essentially limits the eligible trustees to only banks, effectively eliminating Corporate Trustees, (iii) sluggish growth in select sectors within the real estate market, and, (iv) lengthy approval process. To jumpstart the D-REIT market, the market needs to confront these challenges.

Student accommodation has relatively high yields of 7.4% as per the Cytonn Student Housing Market Kenya Research compared to other real estate sectors like the residential and Mixed-use developments which have an average rental yield of 4.7% and 7.1% respectively as shown below;



Source: Cytonn Research

The above implies that investors are up to benefit from high returns if they invest in these developments amidst the high demand for student accommodation as a result of the growing number of students. As of 2018, the number of available student housing stood at 300,000 against a university enrolment of 520,900 according to the ministry of education with the exclusion of technical colleges. This implies that there is a huge deficit of student accommodation which has been accelerated by i) high land rates, ii) insufficient access to funding, and, iii) inadequate expertise to build and manage student housing.

The continued focus on REITS by Acorn and ability to secure an anchor investor, signals hope for the real estate sector developers to raise funds to finance their investments from the capital markets

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