

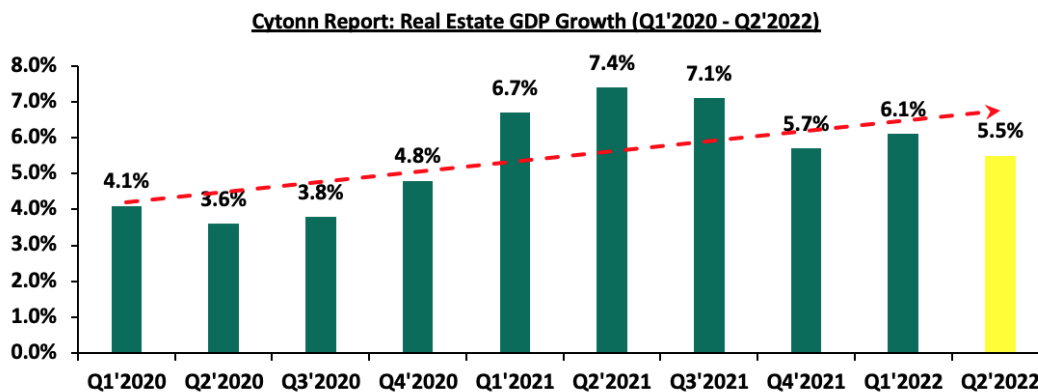
Kenya H1'2022 Listed Insurance Report, & Cytonn Weekly #41/2022

Real Estate

I. Industry Report

During the week, the Kenya National Bureau of Statistics (KNBS) released the Q2'2022 GDP Report, and the key take-outs related to the Real Estate sector were as outlined below:

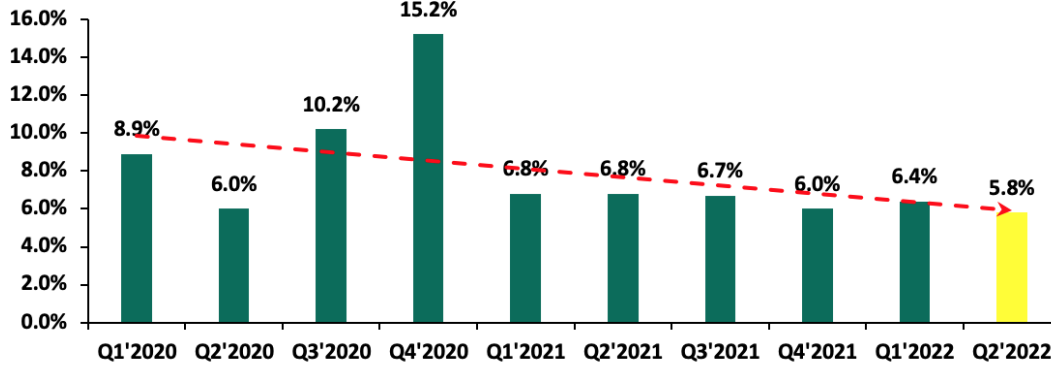
- i. **Gradual Growth in the Real Estate Sector** - The Real Estate Sector grew by 5.5% in the period under review, 0.6% and 1.9% points lower than the 6.1% and 7.4% growth recorded in Q1'2022 and Q2'2021, respectively. The decline in performance was mainly attributed to increased cost of construction materials hindering optimum investments, coupled with the looming uncertainties revolving around the general election. The graph below shows Real Estate sector growth rates from Q1'2020 to Q2'2022;



Source: Kenya National Bureau of Statistics (KNBS)

- ii. **Slower Growth in the Construction Sector** - The Construction Sector grew by 5.8% in Q2'2022, 1.0% point lower than the 6.8% growth recorded in Q2'2021. The performance was also a 0.6% q/q decline, from the 6.4% growth recorded in Q1'2022. The decline was driven by the rising cost of construction materials coupled with the completion of major development projects in the country such as the Nairobi Expressway. The graph below shows the construction sector growth rate from Q1'2020-Q2'2022;

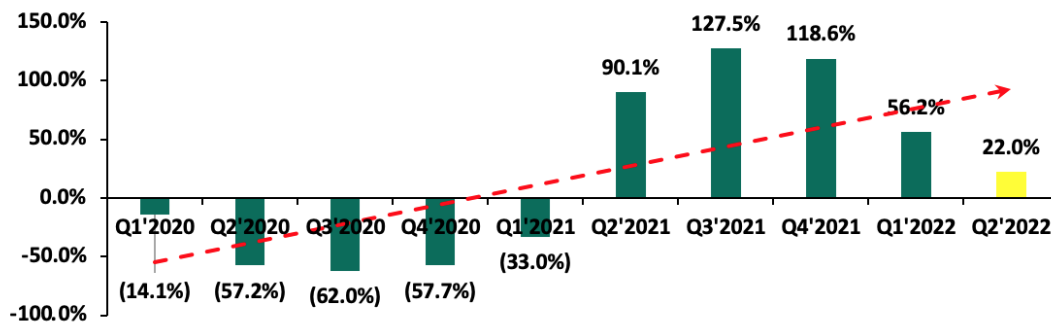
Cytonn Report: Construction Sector GDP Growth (Q1'2020 - Q2'2022)



Source: Kenya National Bureau of Statistics

iii. **Sustained Recovery in the Accommodation and Food Service Sector** - The Accommodation and Restaurant services grew by 22.0% in Q2'2022, from the 90.1% and 56.2% growth recorded in Q2'2021 and Q1'2022, respectively. The decline was mainly driven by the persistent inflationary pressures that has seen food inflation increase to 12.8% in Q2'2022 from 9.2% in Q1'2022. However, the sector's performance continues to be cushioned by the rising tourism activities. The number of visitors arriving into the country came in at 279,981 in Q2'2022 from 113,307 visitors in Q1'2022. The graph below shows the Accommodation and Restaurant Sector growth rate from Q1'2020-Q2'2022;

Cytonn Report: Hospitality Sector GDP Growth (Q1'2020 - Q2'2022)



Source: Kenya National Bureau of Statistics

Kenya's Real Estate sector is expected to gain momentum supported by the peaceful post-election period which we expect to continue improving investors' confidence in the sector, coupled with the continuous recovery of the hospitality sector, and more development activities particularly in the residential sector. However, the elevated inflationary pressures on the hospitality and construction sectors is expected to weigh on the optimum performance of the Real Estate sector.

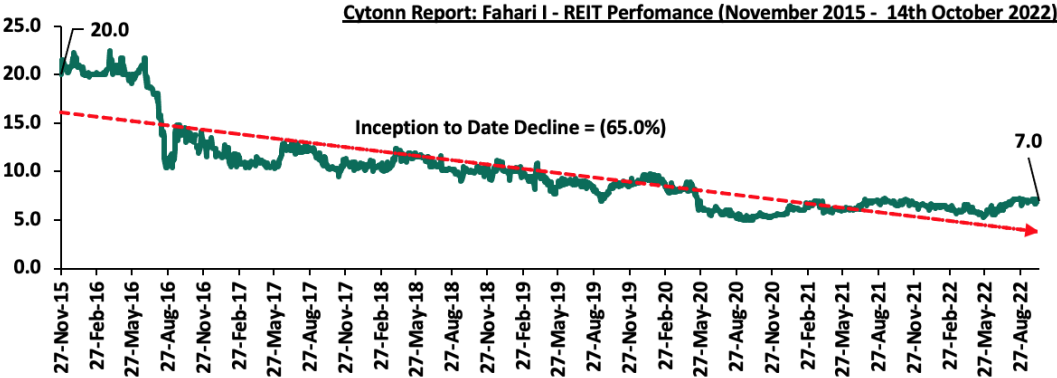
II. Statutory Reviews

During the week, the Retirement Benefits Authority (RBA) announced plans to have pension managers publish data on the number of Kenyans who use their retirement savings to purchase homes by January 2023, after having reviewed the Retirement and Benefits Act. The law was amended in 2020 in order to allow pensioners to use 40.0% of their savings to purchase homes, in a bid to boost the uptake of affordable homes and in turn the low home ownership rate in Kenya, currently at 23.0% in the urban areas. Through this, RBA aims to track the uptake of homes under the policy whose implementation has been delayed as pension managers continue to learn and familiarize with the process. Additionally, the uptake of homes under the scheme has been low as the number of individuals exiting the scheme increases owing to setbacks such as i) lengthy application processes which require a lot of documentation, ii) high taxes on withdrawals of the pension advance, iii) inadequate advance which does not cover stamp duty and legal fees thus requiring additional funds, iv) a decline in the disposable income hence lower contributions, and, iv) limiting caveats on the property title preventing owners from selling houses once purchased, among others.

With the implementation of the policy, we expect it to provide accurate information regarding the number of applications and the rate of uptake of housing units by Kenyans through their retirement savings. This will clarify the state of activities in the Real Estate sector and consequently allow better decision making by stakeholders and thereby foster the growth and performance of the sector as a whole. However, the above challenges continue to reduce the level of uptake of housing units, and therefore hamper the optimal operation of the pension advance provision. It is also not clear how RBA is planning on tackling the issues revolving around the scheme in a bid to boost its attractiveness to Kenyans.

III. Real Estate Investment Trusts (REITs)

In the Nairobi Stock Exchange, ILAM Fahari I-REIT closed the week trading at an average price of Kshs 7.0 per share, representing an 11.8% Year-to-Date (YTD) increase. However, the performance was a 65.0% Inception-to-Date (ITD) decline from Kshs 20.0. The graph below shows Fahari I-REIT’s performance from November 2015 to 14th October 2022:



In the Unquoted Securities Platform, Acorn D-REIT and I-REIT closed the week at Kshs 23.8 and Kshs 20.8 per unit, respectively, as at 7th October 2022. The performance represented a 19.0% and 4.0% gain for the D-REIT and I-REIT, respectively, from the Kshs 20.0 inception price. The volumes traded for the D-REIT and I-REIT came in at 5.5 mn and 14.5 mn shares, respectively, with a turnover of Kshs 116.9 mn and Kshs 300.3 mn, respectively, since its Inception in February 2021.

We expect the performance of Kenya’s Real Estate sector to improve owing to the anticipated increase in the construction activities particularly in the residential sector driven by private and government’s efforts to provide housing units to citizens, the continuous recovery of the hospitality sector, as well as the enforcement of regulations aimed at tracking and providing clarification on the performance of select property sectors. However, setbacks such as inflationary pressures in the economy, coupled with the minimal investor appetite for REITs still pose a challenge to the optimum performance of Kenya’s property market.