

The Nairobi Metropolitan Area (NMA) Mixed-Use Developments Report, & Cytonn Weekly #43/2022

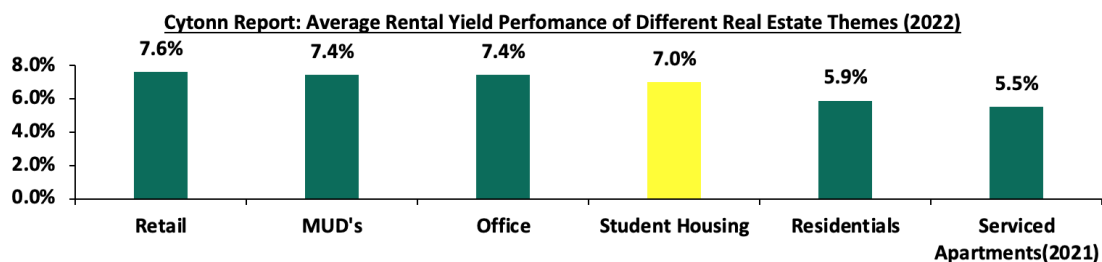
Real Estate

I. Residential Sector

a. Acorn Holdings to Repay Part of Its Kshs 5.7 bn Green Bond

During the week, student housing property developer Acorn Holdings, announced plans to repay loans worth Kshs 800.2 mn, which is a portion of its outstanding Kshs 5.7 bn green bond, through an early redemption option. Acorn Project Two, a subsidiary of Acorn Holdings, will repay the outstanding amounts which is inclusive of accrued interests but unpaid interest using funds from the sale of its two student housing development projects by the end of October 2022. The two projects include the USIU3 and Qwetu Aberdare Heights near the Pan African University.

As per our *Cytonn Weekly 29/2021*, Acorn, had in October 2019 floated a 5-Yr term Kshs 5.0 bn Green Bond at the Nairobi Securities Exchange with a coupon rate of 12.25%, which was then upsized to Kshs 5.7 bn in May 2021. The first tranche raised Kshs 4.3 bn against the Kshs 2.0 bn expectation, a 215.0% subscription rate, and was aimed at developing 6 Purpose Built Student Accommodation. The second tranche of the bond was floated in July 2021 with the purpose of raising Kshs 1.4 bn to develop 2 hostels constituting 2,654 beds. Acorn managed to raise Kshs 2.1 bn, representing a 145.8% subscription rate. Out of the Kshs 5.7 bn bond, the firm has withdrawn a total of Kshs 4.2 bn to develop hostels in USIU, Hurlingham and Chiromo. Following the announcement, a total of Kshs 1.6 bn having been redeemed so far, with Kshs 0.8 bn redeemed from the Wilson View transaction in 2021. As it stands, Acorn has over 4,500 beds under management, while it is targeting a total of 60,000 by 2030. In terms of performance, Purpose Built Student Accommodation continues to provide relatively higher rental yields compared to other asset classes, such as the residential and serviced apartments as highlighted below;



Source; *Cytonn Research*

The performance of the Acorn Bonds, continues to set a good precedence for corporate bonds as a way of funding Real Estate projects, as evidenced by the early loan redemption. The impressive performance, investment returns and attractiveness of the student housing market driven by the

increasing student population will continue to drive the positive performance of the Acorn D-REIT and I-REIT.

b. Shelter Afrique to Develop a Sovereign Lending Product to Boost Housing Finance in Africa

During the week, Shelter Afrique, a Pan African housing finance institution based in Nairobi’s Upperhill district, announced plans to develop a sovereign lending product which will boost its traditional lending products to finance both the demand and supply sides of the housing sector in Africa. Shelter Afrique shareholders constitutes of 44 African countries, the African Development Bank (AfDB) and the Africa Reinsurance Corporation (Africa-Re). The sovereign lending product will be facilitated by the AfDB through its training arm, the African Development Institute (ADI) to support affordable housing and commercial Real Estate in its member states by offering trade finance, equity investments, joint ventures, social housing, institutional lending, and project finance.

The decision by the firm was made as a response to the risk of potential disengagement of African governments to continue with their housing goals, owing to Africa’s Gross Domestic Product (GDP) contraction at an average of 2.1% in 2020 resulting from the COVID-19 pandemic. The sovereign lending product is therefore expected to restore and improve the firm's financial flexibility and aligning itself to its members’ Real Estate priorities for better performance and enhanced development impact. This comes one month after Shelter Afrique approved a Kshs 2.2 bn corporate loan in September 2022 towards Maison Super Development (MSD) firm to finance the construction of three ongoing projects in the Democratic Republic of Congo (DRC). The firm also announced plans in February 2022 to issue an East African bond in the Kenyan Capital Market through the NSE to raise USD 500.0 mn (Kshs 56.9 bn) for financing upcoming affordable housing projects within East Africa with the main focus being on Kenyan market.

Upon implementation, we expect the decision by the lender will boost both local and foreign investors’ confidence in Africa amid recovery of economic status of most African countries after the COVID-19 period. The move will also promote the continued efforts to raise funds and support the housing sector which has witnessed improved activities and developments in several countries like Kenya.

II. Hospitality Sector

During the week, Crowne Plaza Nairobi was voted the best luxury airport hotel in Africa during the 16th World Luxury Hotel Awards 2022 becoming Kenya’s first airport hotel to win the award. The hotel emerged top beating 644 other hotels across the continent. This was supported by the hotel’s tranquility, state of the art design and facilities as well as high quality customer service and products offered. Notably, a total of 9 Kenyan hotels received awards in the different categories as highlighted below;

Cytonn Report: 16th World Luxury Hotel Awards

Hotel	Award
Crowne Plaza Hotel	Best Luxury Airport Hotel in Africa
Enashipai Resort and Spa	Best Luxury Spa Resort in Kenya
Maiyan	Best Luxury Eco Villa in Africa
Royal Tulip Canaan Nairobi	Best Luxury Business Hotel in Africa
Sarova Panafric	Best Luxury Banquet/Event Hotel in Africa
Silver Palm Resort and Spa	Best Luxury Boutique Resort in East Africa
Sirikoi Lodge	Best Luxury Eco Safari Lodge in East Africa

Cytonn Report: 16th World Luxury Hotel Awards

Hotel	Award
The Lawford	Best Luxury Historical Hotel in Africa
Villa Kalista	Best Luxury Villa Resort in Africa

Source: World Luxury Hotel Awards

In the 3rd annual World MICE Awards, Kenya emerged as Africa's best MICE destination, as a result of Nairobi winning Africa's Best MICE Destination 2022 award. This was on the back of outstanding conferencing centers such as Kenyatta International Convention Centre (KICC), top rated accommodation centers such as the Hilton Hotel in Nairobi, world class airlines such as Kenya Airways (KQ), and stable business environment. The table below shows the key awards for Kenya in the African category and the respective MICE winners in 2022 and 2021;

Cytonn Report: 3rd Annual MICE Awards

Award	2022 Winner	2021 Winner
Africa's Best MICE Destination 2022	Kenya - Nairobi	South Africa - Durban
Africa's Best Convention Centre 2022	Kenyatta International Convention Centre - Kenya	Durban International Convention Centre - South Africa
Africa's Best MICE Airline 2022	Kenya Airways - Kenya	Ethiopian Airlines - Ethiopia

Source: World MICE Awards

Subsequent awards that featured in the Kenyan category include;

Cytonn Report: 3rd Annual MICE Awards

Award	2022 Winner
Kenya's Best Convention Centre 2022	Kenyatta International Convention Centre
Kenya's Best MICE Hotel 2022	Hilton
Kenya's Best Incentive Hotel 2022	The Leopard Beach Resort & Spa
Kenya's Best MICE Organiser 2022	Zuri Events

Source: World MICE Awards

In our view, the aforementioned awards as well as the recent 29th World Travel Awards where Kenya was voted as Africa's leading destination, positions the country as a vibrant tourism market. In turn, this is expected to further boost investment confidence in the hospitality market as well as visitor arrivals into the country. Some of the factors that are expected to further enhance the growth of the sector include; i) promotion of local tourism, ii) aggressive marketing campaigns by the Kenya Tourism Board on the Magical Kenya platform, iii) calm post-electioneering period that has improved business stability in the country, iv) improved security, and, v) increased sports and leisure events. Notably, the incoming festive season is also expected to further boost the performance of the sector through increased bookings and leisure activities.

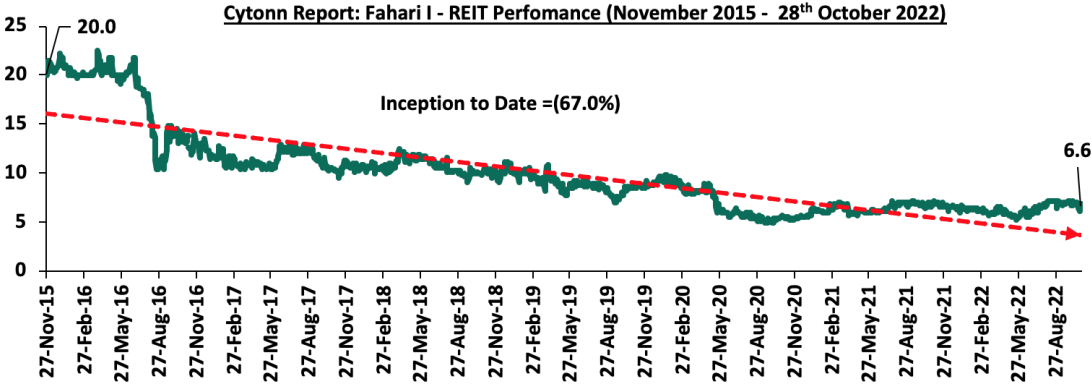
III. Statutory Reviews

During the week, President William Ruto announced plans to exempt all first-time home buyers from paying stamp duty. This comes two years after the Stamp Duty Act was amended in 2020 to allow

exemptions for first time home buyers of only approved affordable housing units by the government. Stamp duty is a property tax payable once by land transferee at a rate of 4.0% and 2.0% in urban and rural areas, respectively, and is to be paid within 30 days of contract execution. Failure to pay the duty and or assessed amounts leads to a 5.0% fine of the principal assessed stamp duty for every quarter from the date of land transaction. President Ruto’s decision is expected to improve the performance of the Real Estate sector by easing home ownership costs amid the rising cost of living. This in turn is expected to boost home ownership rates in Kenya by reducing the associated costs to purchase a home, while also helping curb the existing housing deficit in the country. Moreover, this correlates with the President’s affordable housing agenda of increasing the supply of housing units per annum by 200,000, as home ownership rates have remained significantly low at 21.3% in Kenya, owing to various setbacks outlined in our **Affordable Housing** topical. With the implementation of the policy, we expect that the exemption will lead to an improvement in property transaction volumes and uptake rates and in turn an improvement in the performance.

IV. Real Estate Investment Trusts (REITs)

In the Nairobi Stocks Exchange, ILAM Fahari I-REIT closed the week trading at an average price of Kshs 6.6 per share. The performance represented a 5.4% Year-to-Date (YTD) increase. However, this represents a 67.0% Inception-to-Date (ITD) decline from the listing price of Kshs 20.0. The graph below shows Fahari I-REIT’s performance from November 2015 to 28th October 2022:



In the Unquoted Securities Platform, Acorn D-REIT and I-REIT traded 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, with a turnover of Kshs 116.9 mn and Kshs 300.3 mn, respectively, since its Inception in February 2021.

We expect Kenya’s Real Estate sector performance to be on an upward trajectory driven by factors such as the initiative to exempt first time home buyers from paying stamp duty, continued growth in the hospitality sector owing to Kenya’s recognition as an impressive tourism market, and, efforts to provide financing towards the housing market. However, the low investor appetite for REITS continues to weigh down the optimum performance of the sector.