

# Q2'2023 Unit Trust Funds Performance, & Cytonn Weekly #39/2023

## Real Estate

### I. Residential Sector

During the week, the Capital Markets Authority (CMA) granted Linzi Finco Trust the approval to issue an inaugural Shariah compliant bond, 'Linzi Sukuk'. The bond which is set to raise Kshs 3.0 bn to finance the development of 3,069 institutional grade affordable housing units will offer an internal rate of return of 11.1%. Sukuk bonds are Islamic financial instruments that comply with Shariah compliant principles, structured in a way that complies with Islamic prohibitions on interest (usury), excessive uncertainty (gharar), and investments in certain industries or activities deemed unethical in Islam, such as gambling or alcohol. The issuance of the bond aligns with the government's transformative agenda and commitment to addressing the 80.0% national housing deficit by increasing the availability of affordable housing through the provision of accessible financing.

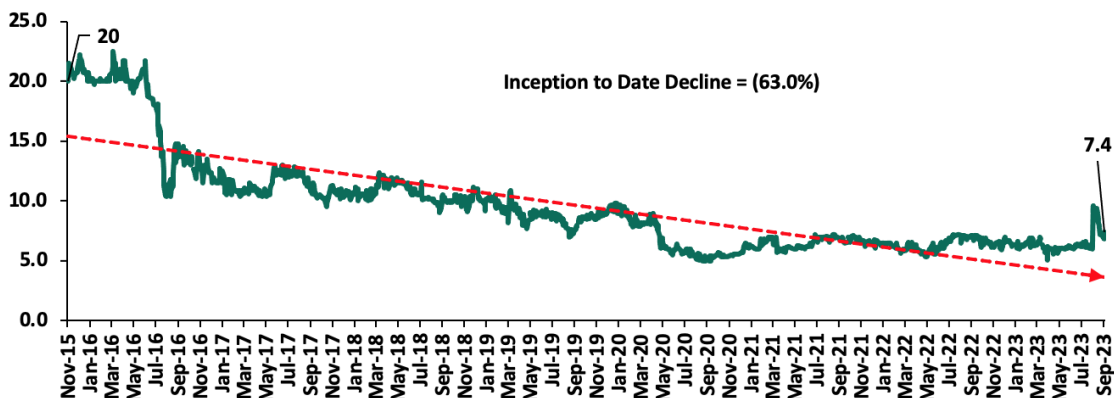
We expect the bond will; i) attract the attention of both local and global investors seeking ethical and socially responsible investment opportunities, ii) set precedence for the introduction of more inventive financial instruments in the nation's capital markets, and, iii) promote an inclusive and diverse capital market that accommodates a wider range of investors and their preferences.

### II. Regulated Real Estate Funds

#### a. Real Estate Investment Trusts (REITs)

In the Nairobi Securities Exchange, ILAM Fahari I-REIT closed the week trading at an average price of Kshs 7.4 per share. The performance represented a 3.6% growth from Kshs 7.1 per share recorded the previous week, taking it to a 9.1% Year-to-Date (YTD) growth from Kshs 6.8 per share recorded on 3 January 2023. However, the performance represented a 63.0% Inception-to-Date (ITD) loss from the Kshs 20.0 price. The dividend yield currently stands at 8.8%. The graph below shows Fahari I-REIT's performance from November 2015 to 22 September 2023;

**Cytonn Report: Fahari I-REIT Performance (November 2015 - 29th September 2023)**

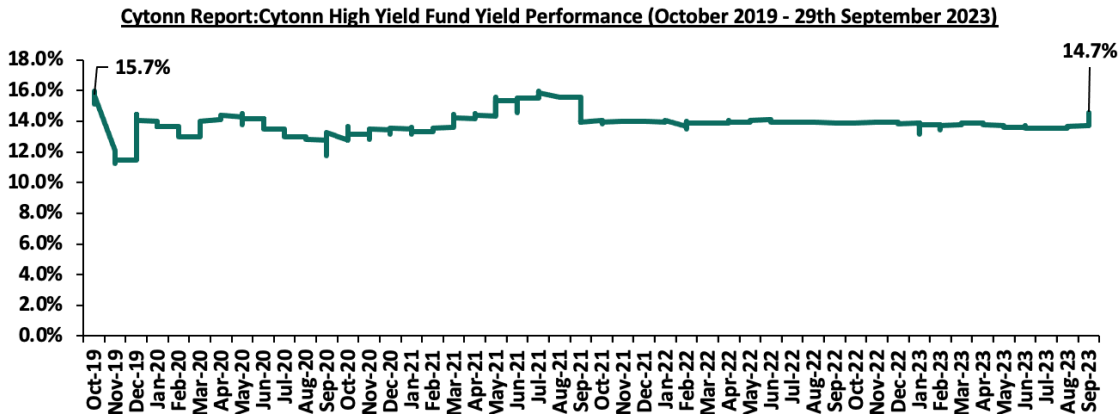


On the Unquoted Securities Platform, Acorn D-REIT and I-REIT traded at Kshs 25.3 and Kshs 21.7 per unit, respectively, as at 29 September 2023. The performance represented a 26.6% and 8.2% gain for the D-REIT and I-REIT, respectively, from the Kshs 20.0 inception price. The volumes traded for the D-REIT and I-REIT came in at 12.3 mn and 30.6 mn shares, respectively, with a turnover of Kshs 257.5 mn and Kshs 632.1 mn, respectively, since inception in February 2021.

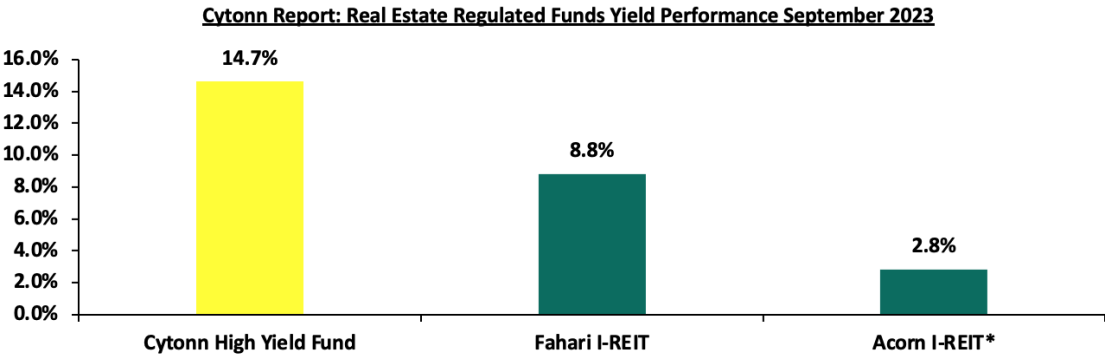
REITs provide various benefits like tax exemptions, diversified portfolios, and stable long-term profits. However the continuous deterioration in performance of the Kenyan REITs and restructuring of their business portfolio hampering major investment they had previously made are on top of other general challenges such as; i) inadequate comprehension of the investment instrument among investors, ii) prolonged approval processes for REITs creation, iii) high minimum capital requirements of Kshs 100.0 mn for trustees, and, iv) minimum investment amounts set at Kshs 5.0 mn, continue to limit the performance of the Kenyan REITs market.

**b. Cytonn High Yield Fund (CHYF)**

Cytonn High Yield Fund (CHYF) closed the week with an annualized yield of 14.7%. The performance represented a 0.7% points increase from 14.0% recorded the previous week, taking it to a 0.8% points Year-to-Date (YTD) growth from 13.9% yield recorded on 1 January 2023. However, the performance represented a 1.0% points Inception-to-Date (ITD) decline from the 15.7% yield. The graph below shows Cytonn High Yield Fund’s performance from October 2019 to 29 September 2023;



Notably, the CHYF has outperformed other regulated Real Estate funds with an annualized yield of 14.0%, as compared to Fahari I-REIT, and Acorn I-REIT with yields of 9.1% and 2.8% respectively. As such, the higher yields offered by CHYF makes the fund one of the best alternative investment resource in the Real Estate sector. The graph below shows the yield performance of the Regulated Real Estate Funds:



\* H1'2023

***We expect the performance of Kenya's Real Estate industry to remain on an upward trajectory, supported by factors such as; i) positive demographic trends boosting housing demand thereby leading to increased construction activities, ii) the government's ongoing emphasis on affordable housing, and, iii) the growing availability of diverse and innovative financing options in the housing sector. However, the sector's optimal performance is expected to be subdued by rising construction costs due to inflationary pressures, an oversupply of physical space in the commercial office and retail segments resulting in slower uptake of new spaces, and limited investor knowledge in REITs coupled with high minimum investment amounts that are stymying the asset class.***

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