

Kenya's Listed Insurance Report H1'2023, & Cytonn Weekly #43/2023

Real Estate

I. Residential Sector

During the week, Kenya's Diamonds Resorts secured two prestigious awards at the 30th World Travel Awards 2023. Diamond Leisure Beach and Golf Resort located in Diani, and Diamond's Dreams of Africa Resort which is located in Malindi, Kenya were crowned Africa's Leading Resort and Africa's Leading All-Inclusive Resort respectively. Set against a stunning costal backdrop, the hotels offer a sanctuary of unparalleled hospitality where tourists can enjoy a luxurious lifestyle, pristine beaches, top-tier amenities, and exciting experiences. Notably, a total of 13 Kenyan hotels received awards in the best African category, as highlighted below;

Cytonn Report: 30th World Travel Awards 2023 Kenya Hotels Winners in the African Category

#	Hotel	Award
1	Diamond Leisure Beach and Golf Resort	Africa's Leading Resort
2	Four Points by Sheraton Nairobi Airport	Africa's Leading Airport Hotel
3	Diamond's Dreams of Africa	Africa's Leading All-Inclusive Resort
4	Swahili Beach	Africa's Leading Beach Resort
5	Billionaire Resort and Retreat	Africa's Leading Boutique Resort
6	Fairmont The Norfolk	Africa's Leading City Hotel
7	Baobab Beach Resort and Spa	Africa's Leading Family Resort
8	Fairmont Mount Kenya Safari Club	Africa's Leading Hotel
9	Leopard Beach Resort and Spa	Africa's Leading Hotel Residences
10	Sirai House	Africa's Leading Private Luxury Private Villa
11	Somerset Westview	Africa's Leading Serviced Apartments Hotel
12	Finch Hattons	Africa's Leading Tented Safari Camp
13	Manda Bay	Africa's Leading Private Island Resort

Source: World Travel Awards

In terms of destinations, Nairobi and Diani emerged as Africa's top destinations in various categories. Overall, Kenya was voted as Africa's Leading Destination 2023, marking the second consecutive win after emerging top in the 29th World Travel Awards in 2022. The table below shows the key awards for top Kenya destinations in the African category 2023;

Cytonn Report: Top Kenya Destinations in the African Category 2023

#	Destination	Award
1	Diani, Kenya	Africa's Leading Beach Destination
2	Nairobi, Kenya	Africa's Leading Business Travel Destination
3	Kenya	Africa's Leading Destination

Source: World Travel Awards

In our view, the aforementioned awards where Kenya was voted as Africa's leading destination therefore positions the country as a vibrant tourism market. This is expected to further boost investor confidence in the hospitality market as well as lead to an increase in visitor arrivals into the country. Some of the factors that are expected to further enhance the growth of the sector include; i) concerted efforts to promote local and regional tourism, ii) aggressive marketing campaigns by the Kenya Tourism Board on the Magical Kenya platform, iii) implementation of vital government initiatives such as the **New Tourism Strategy for Kenya 2021-2025**, iv) continuous opening and expansions by local and international hotel brands such as **JW Marriott** of the **Bonvoy Global** and **Pan Pacific Hotels Group** in the country, and, v) increased visitor arrivals into the country gearing towards pre-COVID levels. However, the; i) **recent** austerity measures implemented by the Chief of Staff and Head of Public Service, including the indefinite suspension of non-essential local and foreign travels, ii) newly issued travel advisories by multiple governments, including those of **China** and the **United States** in light of heightened security concerns and threats, and iii) soaring operational costs exacerbated by rising inflation amidst a tough micro-economic climate are expected to weigh down the optimal performance of the hospitality sector in the country.

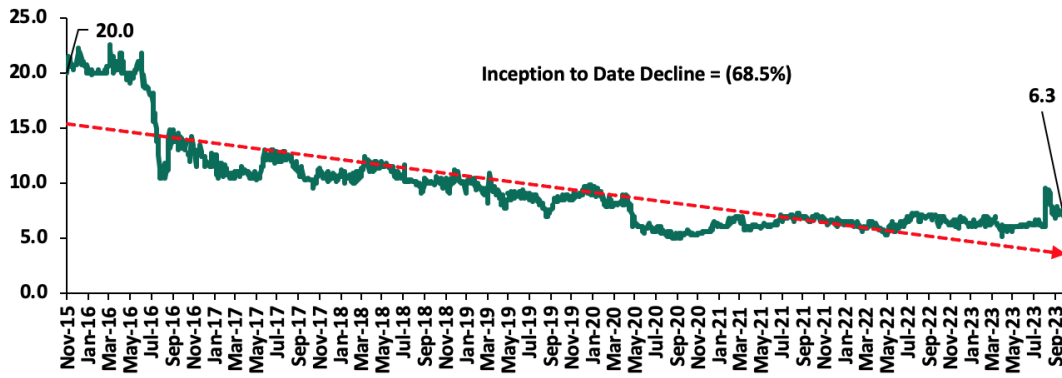
I. Regulated Real Estate Funds

a. Real Estate investment trusts (REITs)

During the week, LAPTrust Imara I-REIT **traded** for the first time on 25th October 2023 since its listing, with a total of 30.0 mn shares traded in two deals valued at Kshs 600.0 mn. The restricted I-REIT's share price remained unchanged from its listing price of Kshs 20.00. The I-REIT which is structured as a close-ended fund consisting of 346.2 mn units worth Kshs 6.9 bn was initially intended to remain non-public, with no securities offered to the general market for the next three years. The decision was to provide the I-REIT sufficient time to build a performance track record, allowing investors to gain confidence in the asset class. Imara I-REIT which was listed in **March 2023** is listed on the Main Investment Market - Restricted Sub-Segment of the Nairobi Securities Exchange, and its units can only be traded to persons qualifying as professional investors, confined to high net-worth individuals and institutions. For more information, please see our **Cytonn Weekly # 12/2023**.

In the **Nairobi Securities Exchange**, ILAM Fahari I-REIT closed the week trading at an average price of Kshs 6.3 per share after a two-week trading suspension from Friday 6th October 2023. Trading of Fahari I-REIT's units had been suspended to allow for the redemption of 36.6 mn units from Non-Professional investors in order to facilitate the conversion of the I-REIT into a restricted REIT from an un-restricted REIT. The performance represents a 16.2% decline from Kshs 7.5 per share recorded on 6th October 2023, taking it to a 7.1% Year-to-Date (YTD) loss from Kshs 6.8 per share recorded on 3 January 2023. Additionally, the performance represents a 68.5% Inception-to-Date (ITD) loss from the Kshs 20.0 price. The dividend yield currently stands at 10.3%. The graph below shows Fahari I-REIT's performance from November 2015 to 27th October 2023;

Cytonn Report: Fahari I-REIT Performance (November 2015 - 27th October 2023)

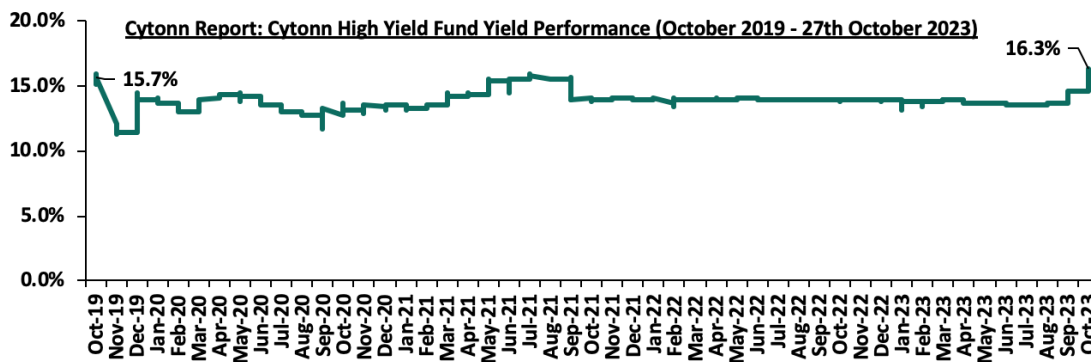


In the Unquoted Securities Platform, Acorn D-REIT and I-REIT traded at Kshs 25.3 and Kshs 21.7 per unit, respectively, as of 27th October 2023. The performance represented a 26.6% and 8.2% gain for the D-REIT and I-REIT, respectively, from the Kshs 20.0 inception price. The volumes traded for the D-REIT and I-REIT came in at 12.3 mn and 30.7 mn shares, respectively, with a turnover of Kshs 257.5 mn and Kshs 633.8 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 is hampering major investments that had previously been made. The other general challenges include; 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.

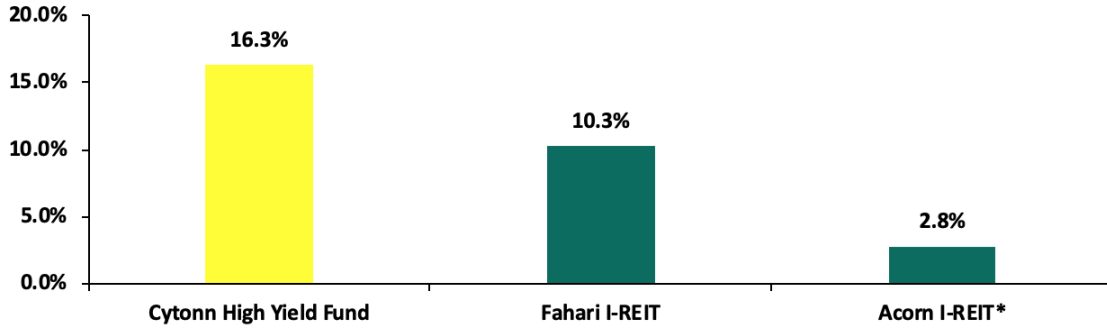
b. Cytonn High Yield Fund (CHYF)

Cytonn High Yield Fund (CHYF) closed the week with an annualized yield of 16.3%, a 0.2%-point increase from 16.1% recorded the previous week. The performance represented a 2.4%-points Year-to-Date (YTD) increase from the 13.9% yield recorded on 1st January 2023, and 0.6%-points Inception-to-Date (ITD) increase from the 15.7% yield. The graph below shows Cytonn High Yield Fund’s performance from November 2019 to 27th October 2023;



Notably, the CHYF has outperformed other regulated Real Estate funds with an annualized yield of 16.3%, as compared to Fahari I-REIT and Acorn I-REIT with yields of 10.3%, 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;

Cytonn Report: Real Estate Regulated Funds Yield Performance October 2023



*H1'2023

Source: Cytonn Research

We expect the performance of Kenya's Real Estate sector to be resilient, supported by; i) continued expansion activities and recovery of the hospitality sector, ii) strategic positioning of Kenya as a regional hub which continues to attract multi-national businesses and organizations into the country, iii) positive accolades awarded to several local and international brands in various award categories such as the World Travel Awards which will continue to boost investor confidence in the sector, iv) government's continued emphasis on affordable housing, and, v) growing demand for Real Estate supported by positive demographics. However, the sector's optimal performance will be hampered by; i) rising construction costs as a result of inflationary pressures, ii) existing oversupply of physical space in select market segments resulting in slower uptake of new spaces, and iii) limited investor knowledge in REITs coupled with high minimum investment amounts among other factors impeding the growth of the asset class.

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