

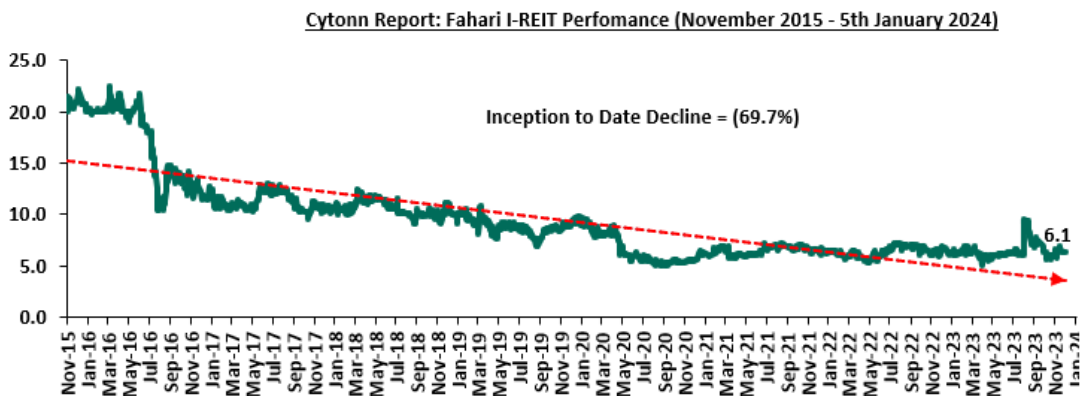
Currency and Interest Rates Review & Cytonn Weekly #01.2024

Real Estate

I. Regulated Real Estate Funds

a. Real Estate Investments Trusts (REITs)

In the Nairobi Securities Exchange ILAM Fahari I-REIT closed the week trading at an average price of Kshs 6.1 per share. The performance represented a 3.8% Year-to-Date (YTD) loss from Kshs 6.3 per share recorded on 2nd January 2024, taking it to a 69.7% Inception-to-Date (ITD) loss from the Kshs 20.0 price. The dividend yield currently stands at 10.7%. The graph below shows Fahari I-REIT's performance from November 2015 to 5th January 2024;



We note that the planned delisting of the I-REIT, following the approval of the fund's operational restructuring by unitholders on 27th November 2023, has been delayed. As a result, the I-REIT has continued to trade of the Main Investment Market segment of the Nairobi Securities Exchange as its delisting remains pending. The fund's decision to delist from the NSE was intended to provide the REIT manager ICEA Lion Asset Management (ILAM) greater flexibility in managing the REITs portfolio and allow a more focused investment strategy.

The main features of the fund's operational restructuring included; i) The proposed conversion of ILAM Fahari I-REIT from an unrestricted I-REIT to a restricted I-REIT which was voted for by 93.1% of unitholders, ii) delisting of the REIT from the Main Investment Market of the NSE which was passed by 93.0% of unitholders, iii) subsequent quotation of the REIT on the Unquoted Securities Platform (USP), and, iv) the authorization of ICEA Lion Asset Management (ILAM) and the Co-operative Bank of Kenya as the Fund Manager and Trustee of ILAM Fahari I-REIT to take all requisite actions for the conversion and delisting.

The conversion offering memorandum had set the date for delisting on Monday 4th December 2023 and subsequent quoting of the I-REIT on the USP on Monday 22nd January 2024. However, the dates were provisional and subject to amendment and notification to the general public with the approval of the Capital Markets Authority (CMA) and Nairobi Securities Exchange (NSE). For more

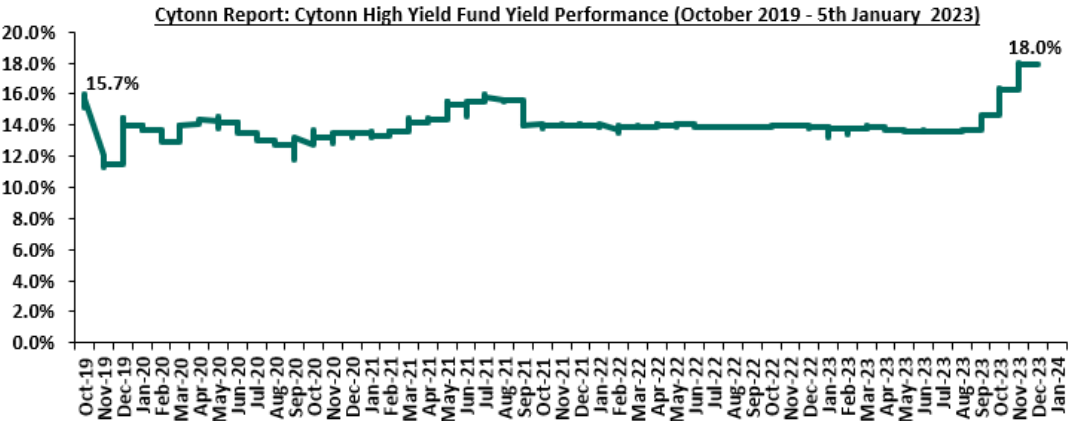
information, please see our Cytonn Weekly #47/2023, Cytonn Monthly October 2023, Cytonn Monthly August 2023 and, Cytonn Monthly - November 2023

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 1st December 2023. The performance represented a 26.6% and 8.3% 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.

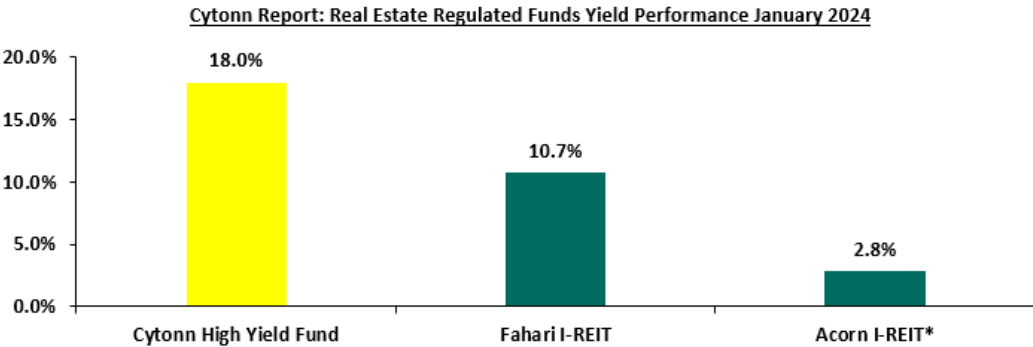
REITs provide various benefits like tax exemptions, diversified portfolios, and stable long-term profits. However, the continuous deterioration in the performance of Kenyan REITs and restructuring of their business portfolios is hampering major investments that had previously been made. The other general challenges include; i) inadequate comprehension of the investment instrument among investors, ii) prolonged approval processes for REIT 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.

a. Cytonn High Yield Fund (CHYF)

Cytonn High Yield Fund (CHYF) closed the week with an annualized yield of 18.0%, remaining relatively unchanged from 1st January 2024. The performance represented a 2.3% 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 5th January 2024;



Notably, the CHYF has outperformed other regulated Real Estate funds with an annualized yield of 18.0%, as compared to Fahari I-REIT and Acorn I-REIT with yields of 10.7%, 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

Source: Cytonn Research

We expect the sector's performance will be supported by; i) the government's continued efforts to provide affordable housing, ii) Kenya's positive population demographics driving up demand for Real Estate, iii) aggressive expansion efforts by retailers, and, iv) increased international arrivals in the hospitality sector. However, we expect the sector's optimum performance to be weighed down by rising construction costs, existing oversupply in select sectors and constrained performance in the REIT market attributable to several factors including lack of investor knowledge and appetite for the asset class.

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