State Owned Enterprises Privatization & Cytonn Weekly #14/2024

Real Estate

I. **Residential Sector**

During the week, the Kenya Mortgage Refinance Company (KMRC) unveiled the Kenya Mortgage Guarantee Trust (KMGT), a pivotal initiative aimed at mitigating risks for banks and SACCOs providing home loans to high-risk individuals, particularly low to mid-income workers. According to the latest SACCO Supervision Annual Report, regulated SACCOs disbursed Kshs 680.4 bn in loans during 2022, compared to banking institutions at Kshs 3,630.3 bn during the similar period. By providing a partial guarantee for mortgages, KMGT aims to instill confidence in lenders, thus catalyzing the provision of housing finance to income groups previously deemed high risk. In collaboration with private lenders and development financiers, this effort aligns with KMRC's broader objective of de-risking the mortgage market by offering long-term funds to participating lenders at a fixed interest rate of 5.0%, thereby enabling them to extend affordable financing to prospective homeowners earning a maximum monthly income of Kshs 200,000. By extending financing to qualifying homebuyers at a single-digit interest rate, the primary lenders will ensure affordability and stability in repayments. The credit-sharing facility is poised to expand KMRC’s reach to workers in the informal sector, encompassing approximately 84.0% of Kenya’s labour force, and represents a crucial step towards achieving inclusive access to housing finance. This strategic intervention addresses the challenges faced by low- to mid-income earners in accessing affordable housing financing, ultimately contributing to the realization of President William Ruto's ambitious agenda to construct 250,000 affordable housing units annually.

We expect that the establishment of the Kenya Mortgage Guarantee Trust (KMGT) will serve as a catalyst for revitalizing the housing finance landscape in Kenya. By providing a partial guarantee for mortgages extended to high-risk individuals, KMGT is poised to instill confidence in lenders and stimulate increased financing for homeownership, particularly among low- to mid-income workers. This innovative approach aligns with KMRC's mission to broaden access to housing finance and foster economic empowerment. Additionally, the expected expansion of KMRC's product offering to include workers in the informal sector further underscores the organization's commitment to promoting inclusivity and addressing the diverse needs of Kenya's labour force.

II. **Real Estate Investments Trusts (REITs)**

In the Unquoted Securities Platform, Acorn D-REIT and I-REIT traded at Kshs 24.4 and Kshs 21.7 per unit, respectively, as of 22nd March 2024. The performance represented a 22.0% 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 the 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 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.

We anticipate the Real Estate sector in Kenya to receive significant support from various factors: i) expansion of initiatives and the advancement of affordable housing projects are set to stimulate growth in the residential segment, ii) favorable demographics, characterized by population growth and urbanization, are fueling increased demand for housing and Real Estate assets, and iii) ongoing infrastructure improvements are opening up new investment prospects in emerging areas. However, challenges such as rising construction costs, limited investor familiarity with Real Estate Investment Trusts (REITs), and existing oversupply in certain market segments may persist. These obstacles have the potential to hinder sectoral performance by constraining development and investment opportunities.