

Retirement Benefits Schemes Q2'2024 Performance Report and Cytonn Weekly #36/2024

Real Estate

I. Real Estate Investments Trusts (REITs)

a. Acorn Holding to Construct Two Hostels in Eldoret

During the week, Acorn Holdings, a Real Estate developer, completed the acquisition of a 0.79-acre piece of land in Eldoret along Makasembo Road, near the Moi Teaching & Referral Hospital and Moi University Medical School. The company had earlier hinted at this move in their semi-annual report 2024 after identifying Eldoret and Kakamega as the first tier two areas to host its student hostel developments, upon acquisition of land. The company is expected to launch a Kshs 1.6 bn two-hostel project under their Qwetu and Qejani brands, with each having a total of 514 rooms and 510 rooms respectively, and a combined bed capacity of 2,291.

Eldoret stands as a strategic location for the company due to a high student population supported by the presence of tertiary institutions, public universities such as the University of Eldoret, Moi University, and satellite campuses of several other institutions including the Catholic University of East Africa, University of Nairobi and Kisii University.

Upon completion, we expect the project to provide much-needed student accommodation in Eldoret, as demonstrated by the high number of tertiary learning institutions in the area. Additionally, we anticipate the project will economically boost local businesses and attract investment in retail spaces such as shops, as the growing student population will drive demand for goods and services. We also expect the project to encourage private landlords to improve their offerings to match the standards set by Acorn Holdings.

We expect the student accommodation market to remain resilient as enrolment into universities and tertiary institutions continues to rise. The Kenya National Bureau of Statistics (KNBS) highlighted that **University enrollment** for the 2023/2024 academic year increased by 3.0% year-on-year to 579,046 students from 561,674 in 2022/2023. For Technical, Vocational Education, and Training (TVET) institutions, student enrollment in 2023/2024 increased by 14.0% year-on-year to 642,726 students from 552,744 in 2022/2023. This will in turn increase the demand for quality and affordable student housing creating more opportunities for developers focused on student accommodation.

b. REIT Weekly Performance

On the **Unquoted Securities Platform**, Acorn D-REIT and I-REIT traded at Kshs 25.4 and Kshs 22.2 per unit, respectively, as per the last updated data on 6th September 2024. The performance represented a 27.0% and 11.0% 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 Kshs 12.3 mn and Kshs 31.6 mn shares, respectively, with a turnover of Kshs 311.5 mn and Kshs 702.7 mn, respectively,

since inception in February 2021. Additionally, ILAM Fahari I-REIT traded at Kshs 11.0 per share as of 9th August, 2024, representing a 45.0% loss from the Kshs 20.0 inception price. The volume traded to date came in at 138,600 for the I-REIT, with a turnover of Kshs 1.5 mn since inception in November 2015.

REITs offer various benefits, such as tax exemptions, diversified portfolios, and stable long-term profits. However, the ongoing decline in the performance of Kenyan REITs and the restructuring of their business portfolios are hindering significant previous investments. Additional general challenges include: i) insufficient understanding of the investment instrument among investors, ii) lengthy 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 for the Investment for D-REITs and Kshs 1.0 Mn for I-REITS, all of which continue to limit the performance of the Kenyan REITs market.

We expect the performance of Kenya's Real Estate sector to be sustained by: i) increased investment from local and international investors, particularly in the residential sector ii) favorable demographics in the country, leading to higher demand for housing and Real Estate, (iii) government infrastructure development projects e.g. roads, opening up satellite towns for investment, and iv) increased enrollment in universities and other tertiary institutions supporting the take up of Purpose-Built Student Accommodation properties. However, challenges such as rising construction costs, strain on key infrastructure development, and high capital demands in the REITs sector will continue to impede the sector's optimal performance by restricting developments and investments.

Liason House, StateHouse Avenue
The Chancery, Valley Road
www.cytonn.com
Generated By Cytonn Report

A product of **Cytonn Technologies**