Kenya’s Listed Banks H1’2024 Report, and Cytonn Weekly #37/2024

Real Estate

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

a. **Pangani affordable houses-Tecnofin Kenya Limited**

During the week the construction of the Pangani Affordable Housing, the Ksh 5.0 bn Project in Nairobi, which had been stalled for two years due to financial challenges, has resumed after the developer, Tecnofin Kenya Ltd, secured new funding. The project, initially scheduled for completion by June 2023, faced delays after the developer ran out of funds, partly due to the project's rapid pace. The specific amount of funding that Tecnofin Kenya Ltd secured to resume the Pangani Affordable Housing Project has not been publicly disclosed in the available sources. However, the developer's new financial backing allowed them to overcome previous cash flow challenges and restart the project. Previously, they had attempted to secure additional funding through the project's title deed, but a court ruling blocked this attempt

Construction has now resumed, with work such as equipment servicing, debris removal, painting, and window installation underway. Located near Nairobi CBD, it offers easy access to essential services and infrastructure. The project also provides financial benefits, including tax exemptions and affordable mortgage rates, for first-time homebuyers under the Affordable Housing Scheme. The below table shows various typologies and their prices per SQM

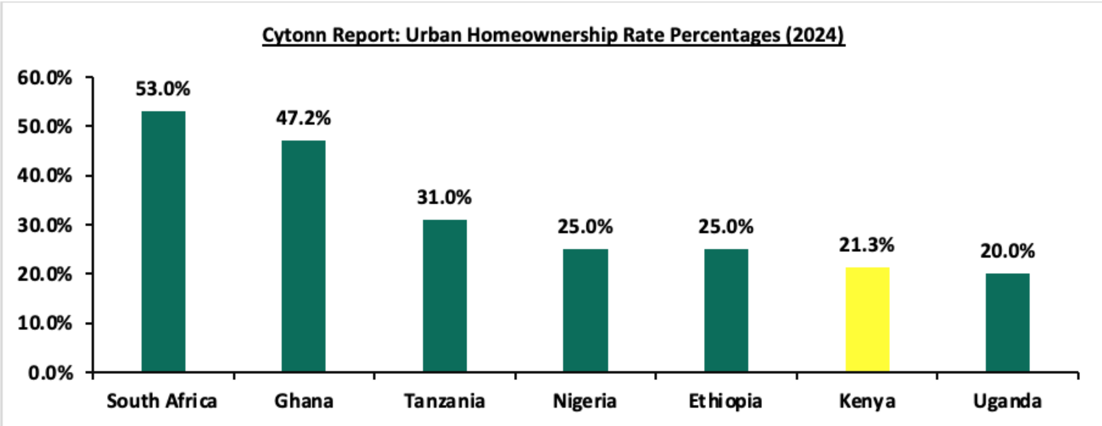
Cytonn Report: Pangani affordable housing units by Tecnofin Kenya Limited

Typology	Plinth Area (SQM)	Price (Kshs Mn)	Price per SQM(Kshs)
1	30	1.0	33,333
2	40	2.0	50,000
3	60	3.0	50,000
Average	**43**	**2.0**	**44,444**

The project consists of 1,562 units, including 952 affordable housing units and 610 market-rate units. Prices for the affordable units range from KSh 1.0 mn for a one-bedroom to Ksh 3.0 mn for a three-bedroom unit, while market-rate units are priced at Ksh 9.0 mn. The above prices matches with Projects under the Affordable Housing Programme in the Nairobi area affordable housing price per SQM which ranges between Kshs 33,333 to Ksh 50,000

We expect heightened activities in the Real Estate residential sector supported by the government initiatives in the residential sector, especially through the Affordable Housing Agenda and demand for housing driven by the growing population and high urbanization rate currently at 3.7% per annum. The outlook for Kenya’s residential real estate sector in 2024 indicates continued growth despite various challenges. The real estate market is benefiting from strong demand driven by urbanization, population growth, and government initiatives such as the affordable housing program. However, rising construction costs, high interest rates, and financing constraints due to tightened lending are dampening growth prospects.

As of 2024, the homeownership rate in Kenya is about 21.3% in urban areas, which remains significantly low compared to other countries like South Africa (53.0%) and Ghana (47.2%) as shown in the below chart



This figure highlights the need for more affordable housing initiatives, as the country continues to face a housing deficit of approximately 2.0 mn units. The low homeownership rate is attributed to factors such as high property prices, limited access to affordable financing, and rapid urbanization. Programs like the government's Affordable Housing initiative are working to address this deficit and improve homeownership rates by offering subsidized housing options to lower-middle and middle-income earners

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 13th 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 13th September, 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 leading to a slower uptake of REIT products, ii) lengthy approval processes for REIT creation, iii) high minimum capital requirements of Kshs 100.0 mn for REIT trustees compared to Kshs. 10 million for pension funds Trustees, (iv) limiting the type of entity that can form a REIT to only a trust company, and v) minimum subscription amounts or offer parcels set at Kshs 0.1 mn for D-REITs and 5.0 Mn for restricted I-REITs. The significant capital requirements still make REITs relatively inaccessible to smaller retail investors compared to other investment vehicles like unit trusts or government bonds, 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.
