Cytonn INVESTMENTS

Cytonn Q1’2018 Markets Review

Real Estate

The Real estate sector continues to exude signs of recovery following the end of the protracted electioneering period that saw investors adopt a wait and see attitude. In Q1’2018, the sector recorded increased activities especially across all the themes. These included; i) the 8.0% increase in cement consumption from 450,960 Metric Tonnes in December 2017 to 486,964 Metric Tonnes (MT) in January 2018 indicating an increase in construction activities, ii) Launching of new developments such as the 88 condominium in Upperhill by Lordship Africa and a Kshs 2.8 bn residential and commercial development in Kiambu County by CIC Group iii) expansion of both local and international retailers who seek to tap into the growing retail market in Kenya, with Naivas set to open its 44th outlet at Freedom Height Mall in Lang’ata and Botswanan Choppies opening its 12th Outlet in Southfield mall along Airport North Road and, iv) opening of new hotel brands such as the Hilton Garden Inn by Hilton Group near the Jomo Kenyatta International Airport in Nairobi and the announcement by DoubleTree, a brand by Global chain Hilton Group to rebrand and reopen a 109-room 4-star Hotel along Ngong’ Road,

However, the sector faces challenges such as;

i. **Oversupply** - in some themes such as the commercial office that had an oversupply of 4.7mn SQFT in 2017, the oversupply is expected to grow by 12.8% to 5.3mn SQFT in 2018,
ii. **Difficulty in Fundraising for Developments** – following the implementation of the Banking Amendment Act, 2015 that led to a decline in private sector credit growth to an average of 2.1% as at February of 2018, from a 5- year average of 14.4%. This led to a decline in mortgages by 1.5% to 24,085 as at December of 2017,and
iii. **High Costs of Land and Construction -** The inadequate supply of land at effective prices has led to an increase in development costs making it expensive for investors to venture into the sector. On average land prices maintain a 6-year CAGR of 17.4%.

This notwithstanding we remain cautiously optimistic of positive performance of the real estate sector in the coming months. The performance of the various themes in the quarter is as explained below;

I. **Residential Sector**

The residential sector picked up in terms of activities during Q1’2017 with the value of buildings approved at the Nairobi City Council increasing by 14.7% to Kshs 18.8 bn in December 2017 from Kshs 16.4 bn in November 2017, compared to 6.3% decrease during the same period in 2016. Out of this, 68.9% were residential developments while 31.1% were non-residential. We attribute the hike in activities to the delayed investments prior to the elections as investors adopted a wait-and-see approach then bounced back after the conclusion of the elections. We have therefore seen various developers announcing plans to undertake development during Q1’2017 including;

i. Lordship Africa launched a 44-floor apartment complex, named the 88 Nairobi Condominium along Bishop Rd in Upperhill,
ii. CIC Group announced plans to put up a Kshs 2.8 bn housing project on a 200-acre parcel of land

near Tatu City, and

iii. The National Government announced plans to spend over Kshs 1.0 bn to construct 744 houses for security officers.

During the quarter, there were more developments towards the agenda of low-cost and affordable housing in line with the Jubilee Government's Affordable Housing Initiative, which is part of the Big 4 Agenda;

i. Shelter Afrique announced the Top 3 winners for the "5,000 for 5,000 Housing Competition" design competition in its plan to construct 5,000 low-cost units across countries in Africa including Kenya. For more information, please see Cytonn Weekly #12/2018
ii. The County Government of Nairobi requested prospective partners to submit letters of interest, innovative designs and proposals for redevelopment of at least 26 slums in Nairobi, For more information, please see Cytonn Weekly #11/2018

In terms of returns performance, the sector improved marginally recording average total returns to investors of 11.0%, 0.7% points higher compared to Q4'2017 when the sector closed the year with average total returns of 10.3%. This is as the market recovered from the effect that the electioneering period had on last year's performance. Overall, the average y/y price appreciation came in at 6.4%, 1.3% points higher compared to 5.1% recorded in Q4'2017. However, the rental yields remained fairly flat with a marginal increase of 0.3% points. The performance summary is as shown below by different classifications:

(All figures in Kshs unless stated otherwise)

Residential performance Summary Q1 2018

Type	Rent per SQM Q1 2017	Rent per SQM Q1 2018	Price per SQM Q1 2017	Price Per SQM Q1 2018	Occupancy Q1 2017	Occupancy Q1 2018	Rental Yield Q1 2017	Rental Yield Q1 2018	Y/Y Price Per SQM Change	Total Returns	Y/Y Change in Rental Yield (% Points)
Detached	578	602	135,648	142,013	78.9%	79.0%	3.8%	4.2%	4.0%	**8.2%**	0.5%
Apartments	484	512	92,750	100,956	80.8%	82.2%	5.0%	5.0%	8.9%	**13.8%**	0.0%
Average	**531**	**557**	**114,199**	**121,485**	**79.8%**	**80.6%**	**4.4%**	**4.6%**	**6.4%**	**11.0%**	**0.3%**

· The market recorded a 1.3% points increase in q/q growth in price per SQM indicating a positive recovery of the market
· Rental yields remained fairly flat increasing by an average of 0.3% points
· Total returns came in at 11.0%, a 1.3% points increase from the 10.3% recorded during the same period in 2017 attributable to a y/y price appreciation of 6.4% as investors come back to the market after last year's wait and see approach
· Apartments performed best during the quarter with a y/y price appreciation of 8.9%, hence average returns coming in at 13.8%, compared to the market average of 6.4%

Source: Cytonn Research

A. **Detached Performance Summary**

For our analysis, we have categorized areas into the following sub-sectors;

i. **High-End:** This comprises of areas such as Karen, Kitisuru and Runda
ii. **Lower-Middle:** This comprises of areas such as Athi River, Donholm, Kitengela, Ngong, Juja, Ruai and Ruiru
iii. **Upper-Middle:** This comprises of areas such as Loresho, Redhill, South C, Langata and Kerarapon

(All figures in Kshs unless stated otherwise)

Performance Summary: Detached

Zone	Price per SQM Q1 2017	Price Per SQM Q1 2018	Rent per SQM Q1 2017	Rent per SQM Q1 2018	Occupancy Q1 2017	Occupancy Q1 2018	Rental Yield Q1 2017	Rental Yield Q1 2018	Y/Y Price Per SQM Change	Total Returns	Change in Rental Yield Y/Y (% Points)
High-End	231,135	244,247	887	925	83.0%	88.5%	3.8%	4.0%	5.7%	**9.7%**	0.2%
Upper Middle	104,367	109,295	434	536	79.0%	77.3%	3.9%	4.6%	4.7%	**9.3%**	0.6%
Lower-Middle	71,442	72,497	278	346	74.7%	71.1%	3.5%	4.1%	1.5%	**5.5%**	0.6%
Average	**135,648**	**142,013**	**533**	**602**	**78.9%**	**79.0%**	**3.8%**	**4.2%**	**4.0%**	**8.2%**	**0.5%**

· Upper mid end zones recorded the best performance with average rental yields of 4.6% and year-on-year price increment of 4.7% and hence total returns of 9.3% compared to a market average of 8.2%, attributable to the expanding middle class
· High end areas such as Kitisuru and Karen, recorded a high price growth y/y of 5.7% compared to the market average of 4.0% as investor appetite resumes following a more peaceful political climate and a recovering macroeconomic environment
· The lower middle areas which included areas like Juja, Athi River and Donholm, recorded a marginal upward price change of 1.5% as relatively affordable housing found in these areas gains traction as (i) private developers are lured by government incentives such as the 50% cut on corporate tax for those who put up 100 units and above p.a, as well as the huge housing deficit for the low income population spectrum; and (ii) clients looking for affordability

Source: Cytonn Research

B. **Apartments Performance Summary**

For our analysis, we have categorized areas into the following sub-sectors;

i. **Upper-Middle:** This comprises of areas such as Kilimani, Kileleshwa, Riverside, Spring Valley, Loresho and Westlands
ii. **Lower-Middle Suburbs:** This comprises of areas such as Embakasi**,** Donholm, Imara Daima, Kahawa Wendani, Kahawa West and South B
iii. **Lower-Middle Satellite areas:** This comprises of areas such as Athi River, Ruaka, Ruiru, Kitengela, Kikuyu, Juja, Kinoo and Uthiru

(All figures in Kshs unless stated otherwise)

Performance Summary: Apartments

Zone	Rent per SQM Q1 2017	Rent per SQM Q1 2018	Price per SQM Q1 2017	Price Per SQM Q1 2018	Occupancy Q1 2017	Occupancy Q1 2018	Rental Yield Q1 2017	Rental Yield Q1 2018	Y/Y Price Per SQM Change	Total Returns	Y/Y Change in Rental Yield (% Points)
Lower-Middle Suburbs	401	427	89,900	94,779	87.1%	84.3%	4.7%	4.6%	5.4%	**10.0%**	(0.1%)
Lower-Middle Satellite	370	412	73,080	81,286	75.9%	75.4%	4.6%	4.6%	11.2%	**15.8%**	0.0%
Upper-Middle	680	695	115,270	126,803	79.3%	86.9%	5.6%	5.7%	10.0%	**15.7%**	0.1%
Average	**484**	**512**	**92,750**	**100,956**	**80.8%**	**82.2%**	**5.0%**	**5.0%**	**8.9%**	**13.8%**	**0.0%**

· Satellite towns had the best performance for apartments with average returns to investor of 15.8%. This is as satellite towns such as Ruiru, Ruaka, Kikuyu and Athi River gain traction with home buyers due to affordable land prices, a serene environment and accessibility to the CBD, Westlands and Upperhill nodes where most people work
· Upper middle areas had the best rental yields of 5.7% compared to the market average of 5.0% as areas like Kilimani and Westlands attract premium rents from the upper middle income population and expatriates due to (i) proximity to main commercial hubs such as Westlands, CBD and Upperhill (ii) presence of social amenities such as malls, schools and hospitals and (iii) good infrastructure such as tarmacked roads and sewer systems

Source: Cytonn Research

The market's performance in Q1'2018 shows a positive recovery from 2017's performance with an average price appreciation of 6.4% compared to 5.1% recorded at the end of 2017. We expect better performance to continue in 2018 given the positive fundamentals that continue to support the sector such as: (i) positive demographic trends that drive demand for housing, (ii) Increased investor appetite due to the constantly growing housing deficit and government incentives such as 50% tax cut for developers of at least 100 units annually and the slashing of statutory fees such as NEMA and NCA, and (iii) continued

infrastructural development

II. Commercial Sector

A. Office

The performance of commercial office sector in Nairobi in 2017 softened as a result of i) an oversupply that stood at 4.7mn SQFT, a 62.1% increase from the 2.9mn SQFT recorded in 2016 ii) a decline in demand as a result of the protracted electioneering period that prompted investors to adopt a wait-and-see attitude, and (iii) low credit supply as a result of the implementation of Banking Amendment Act, 2015 that led to a decline in the private sector credit growth rate from a 5-year average of 14.4% to an average of 2.1% as at February 2018. The slowdown in performance persisted in Q1’2018 with occupancy rates reducing by 2.7% points q/q and rents declining by 1.1% q/q. The yields declined marginally by 0.04% points q/q as summarized in the table below.

(All figures in Kshs unless stated otherwise)

Nairobi Commercial Office Performance Summary Over Time

Year	FY’2015	FY’2016	FY’2017	Q1’2018	Q/Q Δ 2018
Occupancy (%)	89.0%	88.0%	83.2%	**80.5%**	**(2.7% Points)**
Asking Rents (Kshs/SQFT)	97	97	99	**98**	**(1.1%)**
Average Prices (Kshs/SQFT)	12,776	12,031	12,595	**12,718**	**1.0%**
Average Rental Yields (%)	9.3%	9.3%	9.2%	**9.2%**	**0.0%**

· Occupancy rates in Q1’2018 softened by 2.7% points to average at 80.5% from 83.2% in FY 2017. The decline was as a result of the oversupply office space of 4.7mn SQFT recorded in 2017 and expected to grow by 12.8% to 5.3 mn SQFT in 2018
· The asking rents also softened slightly reducing by 1.1% points q/q resulting in a decline in yields of 0.04% points q/q
· Going forward, we expect the market to soften further with yields averaging at 9.0% for 2018, and we thus expect to witness a reduction in development activity especially of purely commercial office buildings

Source: Cytonn Research 2018

In terms of Nairobi submarket performance, for Q1’2018, as was the case in FY 2017, Parklands was the best performing submarket with average rental yields of 9.7% followed by Westlands and Karen with average rental yields of 9.6% each, the high yields are as a result of high quality office spaces and prime locations enabling developers in the submarkets to charge prime rents. The worst performing nodes were the Nairobi CBD and Mombasa Road, which recorded average rental yields of 8.7% and 8.5%, respectively. The low performance is attributable to the low quality office spaces in these nodes with most of the commercial offices being low quality Grade B and Grade C offices, and congestion, the CBD by both human and vehicular traffic and Mombasa Road by traffic snarl ups.

The table below shows the performance per submarket overtime but with an emphasis on Q1’2018:

(All figures in Kshs unless stated otherwise)

Nairobi Commercial Office Performance by Nodes Q1 2018

Area	Price Kshs/ SQFT Q1 2018	Rent Kshs/SQFT Q1 2018	Occupancy % Q1 2018	Rental Yield (%) Q1 2018	Price Kshs/ SQFT FY 2017	Rent Kshs/ SQFT 2017	Occupancy % 2017	Rental Yield % 2017	Q/Q Δ in Rent	Q/Q Δ in Yield	Q/Q Δ Occupancy
Parklands	12,700	103	82.1%	**9.7%**	12,729	103	85.7%	9.7%	(0.3%)	**0.0%**	(3.6%)
Westlands	13,050	107	86.4%	**9.6%**	12,872	103	88.5%	9.4%	3.9%	**0.2%**	(2.1%)
Karen	13,250	109	87.3%	**9.6%**	13,167	113	89.2%	9.5%	(3.8%)	**0.1%**	(1.9%)
Kilimani	12,604	99	81.5%	**9.3%**	12,901	101	84.5%	9.5%	(2.0%)	**(0.2%)**	(3.0%)
UpperHill	13,167	100	79.8%	**9.2%**	12,995	99	82.0%	9.0%	0.8%	**0.2%**	(2.2%)
Thika Road	13,250	95	73.7%	**8.8%**	11,500	82	73.6%	8.5%	16.3%	**0.3%**	0.0%
Nairobi CBD	11,800	87	76.5%	**8.7%**	12,286	88	84.1%	8.7%	(1.7%)	**0.0%**	(7.6%)
Msa Road	11,925	84	76.8%	**8.4%**	11,641	82	74.2%	8.5%	2.4%	**(0.1%)**	2.6%
Average	**12,718**	**98**	**80.5%**	**9.2%**	**12,679**	**99**	**83.2%**	**9.2%**	**(1.1%)**	**(0.1%)**	**(2.7%)**

· Parklands, Westlands and Karen recorded the best performance with average rental yields of 9.7% and 9.6%, respectively, and occupancy rates of 85.7%, 88.5% and 89.2%, respectively. The high returns are as a result of high quality office spaces in these areas and their prime locations enabling developers to charge prime rents
· The worst performing nodes are the Nairobi CBD and Mombasa Road with average rental yields of 8.7% and 8.5%, respectively mainly due to low quality office spaces and congestion by both human and vehicular traffic

Source: Cytonn Research 2018

The main highlight in the commercial office sector in Q1'2018 was the announcement by retirement benefits fund, Zamara Umbrella Solutions (formerly Alexander Forbes) of plans to build a 16 and 30-floor, twin tower in Westlands. The Mixed Use Development will feature retail as well as commercial office space. The development which is expected to commence in H1'2018 will be situated at the junction of Peponi Rd and General Mathenge Rd.

B. **Retail**

During Q1'2018, retailers retained a bullish outlook on the Kenyan retail market driven by high demand, which is boosted by demographics such as i) rapid population growth at 2.6% as compared to global averages of 1.2%, ii) high urbanization rate of on average 4.4% against a global average of 2.1%, iii) an expanding middle class with increased purchasing power due to higher disposable incomes that rose by 15.8% from Kshs 5.7 tn in 2015 to Kshs 6.6 tn in 2016, according to the KNBS Economic Survey 2017, that facilitates sustained demand, iv) changing tastes and preferences that incline towards quality and international brands, and (v) infrastructural development that has made it possible to invest in other areas away from Nairobi's CBD .

This positive outlook translated in increased activity by both local and international retailers who opened new branches as they seek to tap into the sector as expounded below;

1. French-based retailer, Carrefour, opened a 4th outlet at the Junction Mall on a Gross Lettable Area (GLA) of 14,000 SQFT and announced plans to open another retail store in the Sarit Centre Shopping Mall in April 2018,
2. Naivas Supermarket announced plans to open its 44th outlet at Freedom Height Mall in Lang'ata occupying a GLA of 18,000 SQFT by May 2018,
3. South African retailer, Shoprite, announced that it had secured space in 7 prime malls in Kenya, with lease agreements already concluded for the Westgate Mall and the Garden City Mall in Westlands and Thika Road, respectively, with the stores set to be opened in 2018,
4. Choppies, the Botswanan retailer, opened its 12th outlet at Southfield mall along Airport North Road and also took up space in Nanyuki Mall, and,
5. Chinese retailer, Miniso, a low-cost variety store chain that specializes in household and consumer goods including cosmetics, stationery, toys, and kitchenware, opened its first branch in Kenya at the Village Market, with plans to open another at the Thika Road Mall, in the space vacated by Woolworths.

Performance

In Q1'2018, the retail sector performance softened, with occupancy rates declining by 0.2% points q/q from 80.3% in FY 2017 to 80.1% in Q1'2018. The rents increased by 2.0% points q/q, resulting in a 0.2% point decline in rental yields from 9.6% in FY 2017 to 9.4% in Q1'2018 attributable to decline in occupancy rates due to increased retail space supply, currently growing at a 7-year CAGR of 16.9%.

(All figures in Kshs unless stated otherwise)

Summary of Retail Market Performance in Nairobi Over Time

Item	H1'2017	Q3'2017	FY'2017	Q1'2018	Δ Q1'2018
Asking Rents (Kshs/SQFT)	190	189	185	188	2.0%
Occupancy (%)	83.1%	81.4%	80.3%	80.1%	(0.2) % points
Average Rental Yields	10.2%	9.8%	9.6%	9.4%	(0.2) % points

· The retail sector performance softened, recording an average rental yield of 9.4%, a 0.2% point decline from 2017. The occupancy rates as well declined by 0.2% points, while the rental charges increasing by 2.0% over the quarter.
· The decrease in occupancy rates is attributable to increase in mall supply in the market with entry of malls such as Southfield Mall along Airport North Road and Ciata Mall along Kiambu Road, among others.
· The increase in rental charges are driven by the recovery of the market from the tough economic environment and the prolonged electioneering period in Q3'2017 and Q4'2017.

Source: Cytonn Research

The retail sector outlook remains positive given the continued expansion of local supermarkets and the entry of foreign brands that will boost uptake of malls and other retail spaces, positive demographics that will boost demand and recovery of the market from the tough economic environment and the prolonged electioneering period in Q3'2017 and Q4'2017.

III. **Hospitality Sector**

The hospitality sector continued to witness increased activities in Q'1 2018, following the end of the prolonged electioneering period that adversely affected the sector according to Cytonn Hospitality Report 2017, recording a 24.0% decline in Revenue per Available Room (RevPAR), which came in at Kshs 8,286.0 in 2017 compared to Kshs 10,897.2 in 2016. However, there has been restored investor confidence after the elections, as evidenced by hotel openings and acquisitions including;

1. The opening of Hilton Garden Inn along Mombasa Road in February this year. The 4-star hotel, brings to the market 171-rooms,
2. DoubleTree, a brand by Global chain Hilton Group, rebranded and reopened a 109-room 4-star Hotel along Ngong' Road, previously known as Amber Hotel. This marked the brand's third hotel chain in Nairobi, with the others being Hilton Hotel in the CBD and Hilton Garden Inn along Mombasa Road,
3. Sarova Group of Hotels announced plans to take over the management of the Spirit of the Mara Lodge in a 15-year partnership agreement. The hotel located in Siana Conservancy overlooking the Mara, has 10-suites each having a lounge and sleeping area and,
4. Refurbishment of Sarova Panafric Hotel, Nairobi, which first opened in 1965 and has 162 keys.

The above is a clear indication of the attractiveness of the sector and will result in; i) better accommodation and service standards, as hotels rebrand or improve their facilities where they have depreciated over time, so as to remain competitive in the wake of stiff competition from global

brands such as Radisson Blu and Mariott, and ii) increased room capacity to meet the growing demand for accommodation as seen in the increase in tourist arrivals to 1.5 mn in 2017 compared to 1.3 mn in 2016, according to the Kenya National Bureau of Statistics Economic Survey Report 2017.

In addition to the increased investment in the sector, various flight operations are likely to boost the hospitality sector, such as:

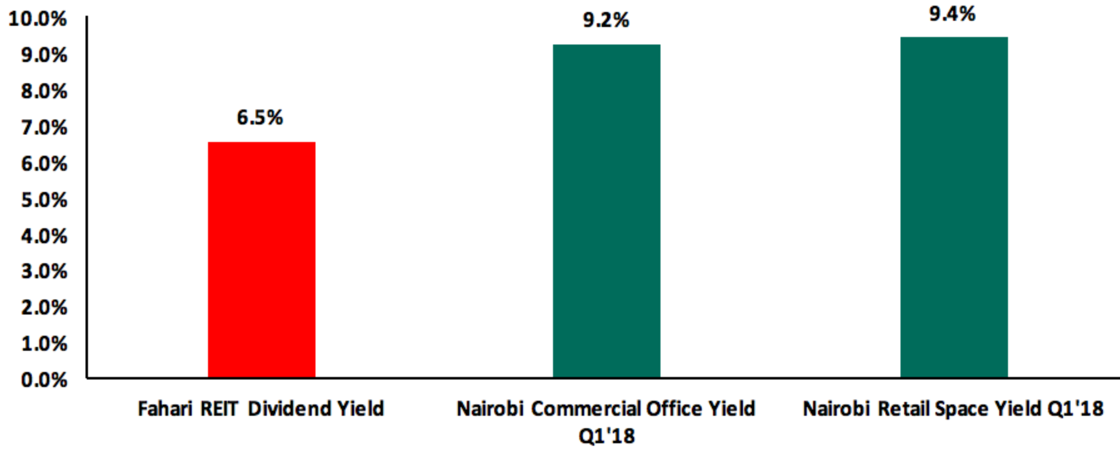
1. Kenya Airways announced plans to start operations between Kenya and Mauritius offering four weekly flights by June this year. The route is expected to complement Air Mauritius' existing operations,
2. Jambojet increased the frequency of its local flights per week to 39 up from 22, while Kisumu-Nairobi flights increased to 14 from the previous 8, attributed to increased demand,
3. The launch of direct flights to the US from Kenya where Kenya Airways will be operating daily flights to and fro New York and Nairobi, and will see the trip time reduce by about 8 hours, to 15 hours from the previous 23 hours.

On serviced apartments, Executive Residency by Best Western Nairobi received the Best Property 21 to 70 Units Award at the Serviced Apartments Awards 2018, held at Grange Hotel Tower Bridge in London. The serviced apartment development, which is situated along Riverside Drive, came into the market in November 2016 and is currently the only internationally branded serviced apartment development in Kenya, showing the opportunity in the provision of international-grade serviced apartment facilities.

We, therefore, project further growth in the hospitality sector as a result of i) restoration of political calm, ii) the revision of negative travel advisories, warning international citizens, e.g. from the United States against visiting Kenya, iii) positive reviews from travel advisories such as Trip Advisor who ranked Nairobi as the 3rd best place to visit in 2018, only behind Ishigaki Island in Japan and Kapaa in Hawaii, and The Travel Corporation who ranked travel to Kenya as one of the top 10 transformative travel experiences in the world, iv) improved hotel standards as hotels rebrand while some embark on refurbishment and expansion, and v) improved flight operations and systems such as direct flights from the USA introduced earlier this year.

IV. **Listed Real Estate**

Stanlib Fahari I-REIT released their FY'2017 earnings, registering a 61.0% growth in earnings to Kshs 0.95 per unit from Kshs 0.59 per unit in FY'2016, attributable to a 24.8% decline in fund management expenses to Kshs 135.6 mn from Kshs 180.4 mn in FY'2016 and a 12.4% increase in rental income to Kshs 279.4 mn from Kshs 248.6 mn in FY'2016 from the 3 real estate assets they own; Greenspan Mall, Bay Holdings and Signature International Properties. The decline in expenses was because of the one-off set up and listing costs such as promotional and marketing expenses incurred in H1'2016 while the increase in revenues was a result of the additional income from 2 of the properties that were acquired mid-2016. In addition, the I-REIT had no debt in FY'2017, thus no financing costs compared to the previous period, which had Kshs 23.4 mn in financing costs. The I-REIT manager has recommended the distribution of a first and final dividend of Kshs 135.7 mn in earnings to unit holders at Kshs 0.75 per unit bringing the dividend yield to 6.5% of market price as at 29th March 2018, up from 4.3% dividend yield at Kshs 0.50 per unit at the last distribution. Despite the increase, the yield is still relatively low compared to brick and mortar assets with commercial retail and office achieving rates of 9.4% and 9.2%, respectively as shown below;

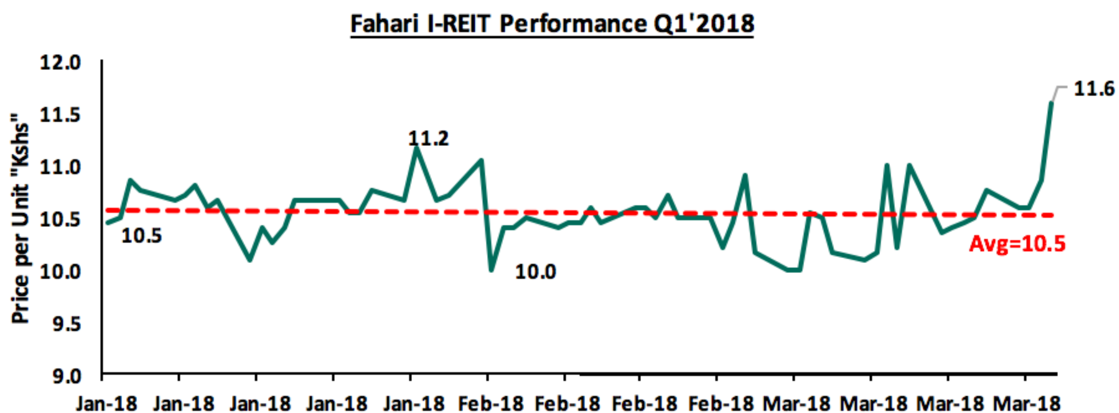


Source: Cytonn Research 2018

For a more comprehensive analysis on the REIT FY'2017 performance, see our Stanlib Fahari I-REIT Earnings Note.

On the bourse, during Q1'2018, Stanlib's Fahari I-REIT price rose by 10.5%, closing at Kshs 11.6 from Kshs 10.5 at the beginning of the year. The share price peaked after the release of the FY'2017 report indicating a 61.0% growth in earnings and a 50.0% growth in dividends per share. Notwithstanding, the REIT traded at an average unit price of Kshs 10.5 in Q1'2018, 49.5% lower than its listing price of Kshs 20.0 in November 2015. In addition, Fahari I-REIT is trading at a 42.9% discount to its net asset value of Kshs 20.3 as per FY'2017 reporting and we attribute this to the negative market sentiments around REITs performance. Important to note is that the Fahari I-REIT was required by the Capital Markets Authority (CMA) to increase its real estate assets to reach 75.0% of its total assets, or an equivalent of Kshs 245.0 mn by 31st March 2018. With effect to this, the REIT fund-manager has recently announced plans for acquisition of 330-Gitanga Road, a Grade A low rise office in Lavington, whose developer is Acorn Group, at Kshs 850.0 mn. The ability of the developer of the office block to exit to a fund is a good indicator that there is institutional appetite for investment grade real estate. However, the purchase is subject to approval by the Capital Markets Authority and unit holders and the transaction is set to be complete in Q2'2018.

In general low performance of REITs is attributed to i) opacity of the exact returns from the underlying assets, ii) the negative sentiments currently engulfing the sector given the poor performance of Fahari and Fusion REIT (FRED), iii) inadequate investor knowledge, and iv) lack of institutional support for REITs. We expect the REIT to continue trading at low prices and in low volumes. The graph below shows the REIT's performance in Q1'2018;



Source: Bloomberg

We remain cautiously optimistic about the positive performance of the real estate sector driven by: positive demographic trends such as: rapid urbanization that currently stands at

4.4% against a global average of 2.1%, rapid population growth rates of 2.6% against a global average of 1.2%, sustained infrastructural development, with the government set to build 10,000 kms of road networks in the next 5-years which will open up areas for real estate development and a better operating environment due to political calm after the end of the extended electioneering period.

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