Cytonn Weekly Report #34, with a focus on Ruaka Real Estate Investment Opportunity

Cytonn Weekly

Executive Summary:

- **Fixed Income**: The Kenya Shilling was relatively stable during the week, shedding only 0.3%, to close the week at 103.7 against the dollar;
- **Equities**: NASI and NSE 20 declined 6.3% and 6.9%, respectively, during the week on the back of declines in large cap stocks as a number of companies announced much lower earnings growth;
- **Private Equity:** Infrastructural developments in Kenya open a gap for private equity players focused on investments in specialized logistics;
- **Real Estate:** The construction industry in Kenya set to benefit as key reforms are undertaken to boost real estate developments;
- **Focus of the Week:** Last week, in our **Cytonn Weekly Report #33**, we covered low to mid income housing opportunities in general; this week we focus on Ruaka, which is an attractive real estate investment satellite town with two prime developments within its vicinity ? Two Rivers and Riviera mall. Research by our Real Estate Services team shows that Ruaka developments can deliver between 28% p.a. and 41% p.a., compounded, for completed units and development equity investments, respectively;
  To reserve now, with zero deposit, please complete the form at the end of the Ruaka focus article. We also have low to mid income housing developments upcoming in Dagoretti and Athi River. For more information, subscribe to our private wealth investors? Cytonn Report at Subscription form.

Company Updates:

- Shiv Arora, our Investment Associate, was on CNBC Africa to address the market sentiment on emerging markets sell offs and the impact of China on the global economic stability. (Shiv Arora on CNBC Africa)
- Maurice Oduor, our Investment Manager, was on CNBC Africa to address the market sentiment on the performance of Kenya Shilling, and the appointment of the Equity Bank?s Chief Operating Officer Mr. Julius Kipng?etich as the Chief executive officer for Uchumi Supermarkets Ltd. (Maurice Oduor on CNBC Africa)
- With Amara Ridge, (Amara Ridge flythrough) our Karen exclusive gated community now 60% sold, this week we launch off-plan sales of ?The Alma?, our comprehensive apartment community development in Ruaka. Please get in touch with us at **sales@cytonn.com** should you be interested in off-plan booking for this development.

Fixed Income

Treasury bills were undersubscribed during the week, with total subscriptions declining to 57.7%, compared to last week?s 79.8%. The yields on the 182-day and the 364-day increased to 12.4% and 13.8% from 12.3% and 13.0%, respectively. Yields declined marginally on the 91-day T-bill to 11.5%, from 11.6% the previous week amidst slight oversubscriptions, at 107.4%, compared to 31.0% and 47.2% subscription rates for the 182-day and 364-day, respectively. The oversubscription on the 91-day T-bill is in line with our recommendation, showing investors prefer short-term fixed income investments given uncertainty in the current interest rate environment.

The Supreme Court upheld a ruling demanding that teachers be paid a 50% - 60% pay rise. This increment is expected to result in unplanned expenditures of Kshs 15.4 bn in the budget for the 2015/2016 financial year. We are wary of such an increase, as in order to finance this shortfall, the Kenyan Government is expected to issue a supplementary budget, and the expected impact of this will either:

1. Lead to increased levels of borrowings, which if done in the domestic market will crowd-out the private sector;
2. Result in higher levels of taxation, which will increase the strain on households and companies to meet consumption and investment expenditure which underpins our record budget for the year, or;
3. Reduce allocation to development expenditure to current expenditure, which will have a negative impact on economic growth in the long-term.

Despite the Central Bank intervening mid-week to mop up liquidity, the shilling continued to weaken during the week, losing 0.3% to close at 103.7 against the dollar. The shilling is expected to remain under pressure, given Kenya?s large current account deficit, and widening trade deficit which was at Kshs 492.8 bn in June, compared to Kshs 471.6 bn last year, owing to the increase in industrial goods imports. To address the exchange rate in the medium to long-term, the country must address the current account deficit and the import-export imbalance by encouraging more locally produced manufactured goods.

We continue to maintain our recommendation that investors should be biased towards short-term fixed income instruments due to uncertainty of rates in the current environment.

Equities

The market continued on a downward trend this week, posting the largest weekly losses in 2015. NASI and NSE 20 declined by 6.3% and 6.9%, respectively, due to losses in large cap stocks, with BAT down 10.0%, Cooperative Bank down 9.5%, Standard Chartered Bank Kenya down 8.6%, EABL down 8.5%, Safaricom down 5.7%, KCB down 4.3% and Equity Bank down 3.8%. Contrary to the previous week, foreign investors were net buyers in the market with net inflows standing at Kshs 400m, and active foreign participation was recorded in most liquid counters like Safaricom, KCB and Equity Bank. Since the February peak, NASI and NSE 20 are down 18.9% and 23.6%, respectively, and 14.7% and 20.5% on a year to date basis, respectively. The decline is clearly past the correction point and investors are now looking at the fundamentals of the listed stocks.

On the earnings front, a number of companies announced their half year results, with Nairobi Securities Exchange (NSE) recording a 39.6% y/y rise in PAT to Kshs 178.6 mn, mainly backed by a 226.8% y/y increase in interest income. Operating income rose marginally (4.7% y/y) to Kshs 314.3 mn and its contribution to total income declined to 78.4% in 1H?15, compared to 85.0% in 1H?14. This can be attributed to subdued trading activity, which only rose by 5.5% y/y (compared to a 37.5% y/y rise between 1H?14 and 1H?13) owing to the effects of the re-introduction of capital gains tax at the beginning of the year and the focus on other equity markets by foreign investors. Going forward, NSE will need to diversify its product offerings in order to grow revenues. NSE is on course to launch the derivatives market, and we await the launching and trading of the first listed REIT; continued product development is what is likely to drive revenue growth. However, we don?t see these new initiatives contributing to growth in 2015; consequently for 2H?15, we expect earnings from operations to continue being depressed due to the bearish outlook on the equities market.

After weak earnings releases from banks in the previous weeks, the trend seems to continue in other sectors. During the week, Total Kenya recorded a 16.7%y/y decline in PAT to Kshs 525.5 mn from Kshs 631.1 mn in the same period in 2014. The performance was weighed down by (i) 32.6% decline in net sales on the back of a slump in international oil prices, (ii) 351.8% increase in forex losses to Kshs 191.0 mn, and (iii) 4.0% decline in sales volumes which resulted from a slump in bulk sales to other oil marketing firms. Retail sales however remained robust with Total retaining its 20% market share. Going forward, the currency weakness and the uncertainty in the global oil prices are expected to impact the performance of the company. Crown Paints recorded a 75.7% slump in 1H?15 PAT to Kshs 25.1 mn, from 103.3 mn in 1H?14 and this comes after a 90.8% decline in the 2014 earnings. Given the 15.2% increase in revenues, the decline in profitability was attributed to regional expansion costs, mainly to Tanzania, as well as the depreciation of the Kenya Shilling. Management maintains a positive outlook for 2H?15 owing to the increased activity in the construction industry.

Insurance companies Britam and Liberty released their 1H?15 results. Britam?s 1H?15 PAT slumped 77.7% y/y to Kshs 624.5 mn, from 2.7 bn in 1H?14, despite an 81.8% growth in gross earned premiums to Kshs 10.2 bn. Despite the increase in gross earned premiums, total revenue grew a marginal 7.8% y/y to Kshs 11.0 bn, from Kshs 10.2 bn in 1H?14, with the insurance business remaining the greatest contributor at 93%. The poor performance was mainly attributed to a 129% y/y decline in fair value changes on financial assets, which saw the insurer record fair value losses of Kshs 842.9 mn, compared to a gain of Kshs 2.9 bn in 1H?14, with fund management fees and investment income growing by 33.3% from Kshs 2.8 bn, from Kshs 2.1 bn in H1?14. Adjusting for fair value gains and losses, total revenue grew by 61.1%. However, it is not clear what part of the growth is driven by core business growth and what part is driven by the Real Insurance acquisition. Total expenses grew by 38.2%, driven by a 140.0% increase in insurance claims and loss adjustment benefits to Kshs 5.1 bn in 1H?15 from Kshs 2.1 bn in 1H?14. Net claims and policyholder benefits grew 42.0% y/y to account for 46.3% of total income, up from 35.1% in 1H14. The loss ratio increased from 42.3% to 61.0%, while commissions payable increased by 81.0% from 1.1 bn in 1H?14 to 1.9 bn in 1H?15. If the growth in premiums and revenues are not largely driven by acquisitions, then core revenue appears to be doing fine, however, the expense side of the business is troubling given an expense growth of 38.2%, and total expense to revenue ratio of 92.4%, up from 72.1% in 1H?14. Additionally, the extreme volatility of Britam?s earnings, given its strong correlation to performance of equities revenues can only be addressed by a clear diversification strategy, which Britam has pinned on real estate. However, the real estate strategy is still too fuzzy to credibly factor into projections.

Liberty Insurance also released 1H?15 results recording 8.9%y/y decline in PAT to Kshs 419.9 mn from Kshs 461m in H1 15. This was as a result of a 47.3% y/y decline in investment income to Kshs 649.8 mn, accounting for 15.8% of total income compared to 32.9% in 1H14. The drop is attributed to fair value losses on its equities investments and significant reductions in the values of mark-to-market fixed income portfolio. Gross earned premiums grew 19.8% y/y as a result of increased depth in channel of distributions and focus on retail business. Net insurance claims and benefits increased 20.0% y/y (42.7% of revenue) while the commissions payable increased 30.8% y/y, which further compressed the income. The loss ratio declined to 59.7% in 1H?15 from 68.9% in 1H?14 which is good for the business. With the continued focus on alternative distribution channels and increased focus on retail market, there exists an upside for the company given Kenya?s low insurance penetration rate, which is currently at 2.9%.

We shall be working on the insurance sector report, which we shall release in early October.

Bamburi Cement recorded a 85.9% y/y jump in PAT to Kshs 3.0 bn, compared to Kshs 1.6 bn in 1H?14. Driven by a strong growth in sales and aggressive cost cutting initiatives. Sales grew by 11.7% to Kshs 19.3 bn, compared to Kshs 17.3 bn in June 2014, as a result of increase in cement demand in Kenya and Uganda, and strong inland Africa export markets. Expenses grew by a marginal 1.3%, from Kshs 15.1 bn in 1H?14 to Kshs 15.3 bn in 1H?15. Operating profit increased by 82.5% to Kshs 4.0 bn, compared to Kshs 2.2bn as at the end of June 2014. The management of Bamburi exuded confidence that the second half operating environment remains positive and that the company is on track to achieving its revenue growth targets for 2015, underpinned by a robust construction industry.

Given the high interest rate environment, which may result in slower economic growth, most listed companies will report stunted earnings growth, as has been reflected in the earning releases of companies that have published their result for first half of 2015. The weak shilling will also affect the manufacturing sector companies, which rely on imported inputs. With most listed stocks seemingly fairly valued, we remain neutral on equities, but will be reviewing our position in next week?s report.

Private Equity

South African logistics firm OneLogix is in negotiation with Kuehn+Nagel?s local subsidiary in Kenya to acquire a 30% stake valued at USD 1 mn. Kuehn+Nagel, a Swiss logistics company, deals with bulk transportation of vehicles, and the investment from OneLogix will go into buying a new fleet of carriers and improvement of their IT systems, which will be used to build capacity in operations. The investment thesis is driven by:

1. Kenya operates the main port in East Africa, in the city of Mombasa, which is an entry point for the region, mainly for landlocked countries such as Uganda and Rwanda, hence vast opportunity for transport logistics;
2. High potential for returns given the high demand in the market for imported vehicles;
3. Potential to reduce costs through efficiency by importing cars in bulk and upgrading of IT systems.

According to the Economic Survey 2015 by the Kenya National Bureau of Statistics (KNBS), the transport and storage sector grew by 13.7%, from an output of Kshs. 768.3 bn in 2013, to Kshs. 873.3 bn in 2014, with the road transport sub sector growing by 15.2% to Kshs. 600.2 bn in 2014, affirming the growth potential in the sector. With the current infrastructural developments in the country, specialized logistics and storage facilities are needed to transport raw materials, specialized equipment, and drive efficiency in the industry.

Abraaj Group announced the first close of its 2nd North African Fund (Abraaj North Africa Fund II) at USD 375.0 mn. Cumulatively, Abraaj has raised USD 1.4 bn for the African continent this year, a record for any PE firm investing in Africa, having raised USD 990.0 mn for its 3rd Sub Saharan Africa Fund. This fund is designed to target mid-sized businesses in Algeria, Egypt, Morocco and Tunisia that have displayed a strong growth potential. It focuses on sectors such as healthcare, education, FCMG and logistics.

Global institutional investors, pension funds, sovereign wealth funds and development finance institutions helped close the fund, with 63.0% of the total capital committed coming from European and North American investors. Currently the fund has made 6 investments across its target markets with its initial investment in the North Africa Hospital Group, a healthcare company with assets in Egypt, Morocco and Tunisia. In addition to North Africa recording the highest income level in the continent, 156 PE deals took place from 2007-2014 worth USD 5.3 bn (as per the Africa Private Equity and Venture Capital Association?s spotlight on North Africa) affirming that North Africa offers an attractive PE destination.

Global private equity players such as Abraaj are attracted to the African continent due to a number of factors:

1. Positive demographics driven by rapid urbanisation and the growing middle class across the African continent;
2. Improved governance and transparency in the business environment;
3. Willingness of business owners on the continent to accept private capital and management expertise, increasing the number of acquirable businesses and providing a quality deal flow;
4. Under provision of basic services such as housing, healthcare and infrastructure by local governments, and;
5. Increased ability to exit, which is key for PE investors.

Real Estate

Once the 2015 Finance Bill is passed, real estate developers will pay less to acquire building permits in Nairobi, which is expected to cost 0.5% of the total construction cost, down from the current rate of between 1.0% and 1.5%, the range varying as per the size of the building. The construction permit fee has been increased exponentially, from rates of 0.001% to 0.006% of the cost of construction in 2012, and finally reaching the current average rate of 1.25% in 2013, which has stood till today. The increase in the rates has been reflected in the Nairobi County?s revenue collection, with records showing that in the fiscal year ending June 2015, the County collected Kshs 1.3 bn from this revenue stream, a major leap from Kshs 840 mn in 2014. The proposed rate of 0.5% of construction cost will be flat, a marked departure from the current rate, where the range of between 1.0% and 1.5% is based on the size of the building. The lower permit fee is contrary to the recent market trends, which have seen multiple fees introduced in the real estate industry as investors pump in billions of shillings to leverage on rising home prices and rental income.

As per the Physical Planning Bill 2015, there is a proposal that property developers and individuals building homes will have to complete construction within 5 years or face penalties. The Bill states that, once an applicant is granted development permission for building works, that applicant shall complete those building works within 5 years after receiving the development permission. In our view:

1. The reforms being introduced in the real estate industry are in an attempt to improve the efficiency of the construction of developments;
2. The reduced permits fees will encourage investment in the real estate sector as it makes it more cost effective to undertake developments. This in turn will boost investments, both local and foreign, in the Kenyan property market.

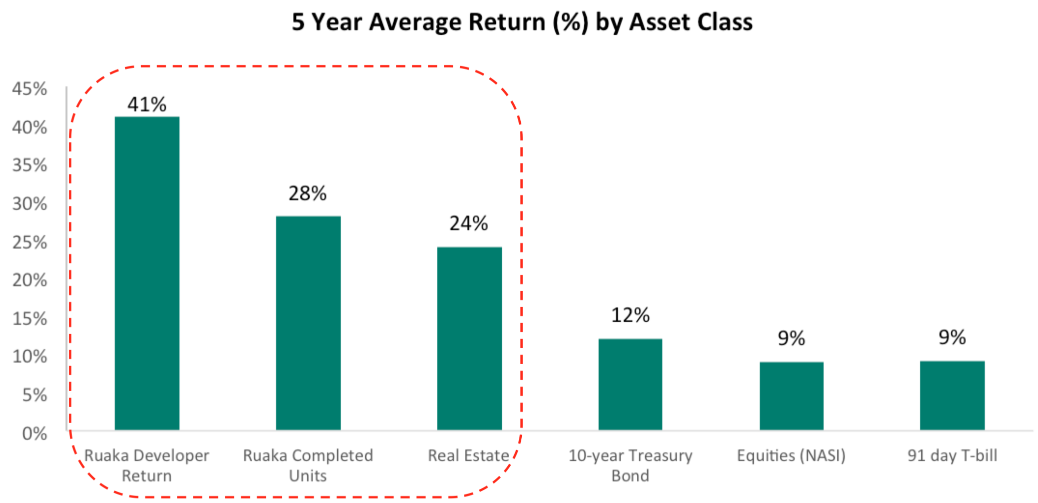
Focus of the week: Ruaka Real Estate Investment Opportunity

Kenya has grown through the years to become East and Central Africa?s business and financial centre. Houses for sale in upcoming areas of Nairobi and its metropolis, where growth is centred, are highly sought after. The diverse population lends itself to providing a truly cosmopolitan city serving as the regional headquarters for some of the world?s largest corporations such as General Electric, Hewlett-Packard, Google, & Coca-Cola.

Growth in the economy has had a profound positive effect on the middle class, who have benefitted greatly on the back of improved economic conditions, which has resulted in increased demand of residential housing outpacing market supply. Kenya?s residential property market in middle income category has seen a price surge resulting in the market outperforming most other asset classes in

Kenya over the last 10 years.

As can be seen below, the real estate sector has outperformed public markets investments in fixed income and equities, while our development in Ruaka, ?The Alma?, is delivering above market returns of 28% and 41% for completed units and developer equity, respectively.



As highlighted in our Cytonn report #33 last week, there is a huge opportunity in providing housing for the low to middle income bracket in Kenya, especially along the bypasses, which have opened up development opportunities.

Development opportunity in satellite towns is driven by:

1. Relative affordability of land in satellite towns,
2. Huge demand from the middle class, who in our view is anyone who has Kshs 100,000 per month in disposable income,
3. The current market inability to cater for the housing shortage, and even existing housing does not provide adequate amenities such as back up power, reliable water, sewer and drainage, security and comprehensive lifestyle amenities such as clubhouse and gym,
4. Major infrastructure developments that have opened up the satellite towns for development.

The chart below shows the appreciation of land prices in satellite towns across Nairobi and its metropolis:

Nairobi Satellite Towns*	Change from 2007	Average Annual Return	Price per Acre (Kshs)
Athi River	864%	31%	11,100,000
Juja	783%	29%	6,800,000
Limuru	755%	29%	14,300,000
Tigoni	708%	28%	17,600,000
Thika	700%	28%	14,300,000
Ongata Rongai	658%	27%	15,500,000
Ruiru	625%	26%	14,700,000
Kiambu	587%	25%	33,700,000
Mlolongo	585%	25%	28,200,000
Ngong	560%	24%	17,200,000

Syokimau	554%	24%	16,900,000
Kiserian	547%	24%	5,420,000
Ruaka	509%	23%	56,600,000
Kitengela	505%	22%	7,700,000

**Satellite market data sourced from HassConsult report.*

We have picked Ruaka as one of our key areas of focus for developments because it is one of the few areas in the Nairobi metropolis that provides a secure, accessible, and convenient location with significant potential for attractive financial returns. Ruaka is situated 20 minutes drive away from the Westlands district, and a few minutes from Gigiri, which is where the UN headquarters are located. Essentially, it offers an opportunity to not only own and enjoy a home, but also a location that provides an attractive real estate investment opportunity, driven by 6 main factors:

1. **Nairobi northern bypass:** Ruaka has a good transport network system connecting it to the Nairobi City Center via Limuru Road, and Thika using the northern bypass route, thereby attracting businesses and property developments;
2. **Prospective infrastructure improvements:** The road from Ruaka towards Limuru is expected to be expanded into a dual carriage and the largest vacant land around Ruaka belonging to the Aga Khan foundation is expected to be home to an education centre;
3. **Hotels, malls and recreational facilities:** Large commercial mixed-use developments such as Two Rivers, Riviera mall and the Village Market surround Ruaka. This is in addition to hotels such as Tribe at the Village Market. The large retail and commercial footprint creates an opportunity for employment, thus favouring property development to house this increase in personnel;
4. **Security:** Due to county measures on security and a general increase in security personnel in the country, Ruaka has seen an improvement in security;
5. **International Organisations:** United Nation Environmental Program in Gigiri (8 Minutes from Ruaka) attracts foreign visitors who improve the appeal of the area further adding to the areas value;
6. **Zoning**: The on-going relaxation of zoning restrictions allowing for more comprehensive and higher density development, which increases real estate values.

The above unique factors have seen land prices in Ruaka increase 5 times over the last 7 years, and Ruaka is now the most expensive satellite town in Kenya to purchase land. The skyline of Ruaka, once a small rural centre better known for its security challenges, has changed more rapidly than adjacent satellite towns in the last five years, which has led to the increase in land prices. The appreciation of land prices in satellite towns could be attributed to increased development potential due to factors such as:

1. Investment class development land is scarce in this market, especially within a radius of 2km from the Ruaka town Centre, with possibilities of getting an intact one acre parcel of land for development is near to nil;
2. Infrastructural developments such as the northern bypass, which have opened up the area for development;
3. Upcoming major retail and commercial developments within the area.

However, despite the attractiveness of Ruaka, it faces two key challenges:

1. Rapid development to cater for the growing middle class has outpaced the provision of infrastructure. As a result, most residential developments in the area do not have reliable water, sewer and power;
2. Lack of adequate lifestyle facilities in real estate developments. The population in Ruaka is very diverse, ranging from foreigners to both wealthy and middle class locals, both of whom desire for

lifestyle facilities where they stay e.g. clubhouse?s & gyms:
3. Unplanned haphazard developments that have outpaced urban planning

When taking into account the development potential in the area i.e. (i) relaxed zoning, (ii) access to amenities, (iii) proximity to international organisations, and (iv) improved security, as well as the challenges of infrastructure and lifestyle, the most appropriate residential concept is a high-density mixed-use residential development, with a commercial centre and lifestyle facility in the development. This would be combined with market leading facilities management to offer services to those who wish to purchase units for investment, as well as to cater for those investors in the diaspora who cannot actively manage their development units.

Residential communities are comprehensive developments, which encompass a comprehensive clubhouse, restaurant and light retail and commercial conveniences.

Having chosen Ruaka as one of the locations where Cytonn Real Estate will focus on, we undertook market research to quantify the return potential for residential community developments in the area.

I. **Market Research on Residential Communities:**

We carried out market research, targeting at finding four key assumptions for residential community developments in Ruaka:

1. **Plinth area:** Research on the size of the units in the market allows us to gauge the current offering, and to be sensitive to home buyers preferences for sizes of houses
2. **Sale price:** This allows us to position our real estate development in the market so as to attract our target market, and gauge the return potential from the sales of ?The Alma?
3. **Rental income:** This allows us to inform prospective investors of the rental yield opportunity available when purchasing an apartment in ?The Alma?, as well as inform prospective tenants of the current market rental rates
4. **Construction cost:** Research on construction costs allows us to be more efficient and accurate on the return potential we are speaking to our investors about. The higher the cost of construction, the lower the return to the investor

Summary of research findings:

all values in Kshs unless stated

C[illegible]

L[illegible]

A[illegible] Road

O[illegible] Road

O[illegible] Road

Of [illegible] Road
2-Bed [illegible] Mean
Of [illegible] Road
Of [illegible] Road
Alo[illegible] Road

1. **Plinth Area:**
    a. Research indicates that the mean plinth area for 2-bedroom apartments is 89 square metres. It is also worthy to note that there are many developments which have 2-bedroom apartments of 90 to 100 square metres, offering a high-end development feel and providing a sense of openness in the houses. For Ruaka, we recommend developments in the range of 80 to 90 square metres for 2-bedroom apartments
    b. Research indicates that the mean plinth area for 3-bedroom apartments is 117 square metres. It is also of note that there are no developments that have less than 100 square metres. For Ruaka, we recommend developments in the range of 110 to 120 square metres for 3-bedroom apartments
2. **Sale Price:**
    a. Our research indicates that 2-bedroom units in Ruaka have sold for an average of Kshs 86,000 per square metre, while achieving sales of 74% during construction. The price of a unit ranges between Kshs 7.0 mn to Kshs 8.5 mn, with the average price at Kshs 7.6 million. For Ruaka, we

recommend 2-bedroom unit sales prices in the range of 85,000 to 90,000 per square meter

b. As per research, 3-bedroom units in Ruaka have sold for an average of Kshs 80,000 per square metre, while achieving sales of 65% during construction. The price of a unit ranges between Kshs 8.5 mn to Kshs 10.0 mn, with the average price at Kshs 9.3 million. For Ruaka, we recommend 3-bedroom unit sales prices in the range of 80,000 to 85,000 per square meter

3. **Rental Income:**

   Our research showed us that 2-bedroom units in Ruaka have average rental rates of Kshs 30,000 per month, while 3-bedroom units have a rental rate of 40,000 per month, exclusive of service charge. Another interesting aspect is that the rental rate is not very dependent on the size of the units; rather we see the location of Ruaka sells itself as a prime location for rental accommodation due to the conveniences and amenities that are in the area

all values in Kshs unless stated

Lynn Lane

Along Murray Road

Off-Murray Road

2-Bedroom Mean

Along [illegible] Road

Off [illegible] Road

Along [illegible] Road

3-Be[illegible] Mean

OVERALL MEAN

4. **Land and constructions costs:**

Based on our consultations with quantity surveyors, a well-finished unit in Ruaka should cost between Kshs 35,000 to Kshs 40,000 per square metre in constructions costs, giving a mid point of Kshs 37,500 per square metre. Given the average plinth area of about 103 square metres, then the average construction cost per unit, excluding land, is about Kshs 3,860,000, using a mid range Kshs 37,500 per SQM of construction costs multiplied by 103 SQM.

It is important to note that our research analysts did not come across any 1-bedroom development in Ruaka, however 1-bedroom apartments are present in Cytonn Real Estate?s development, ?The Alma?. Research and sentiment in the Ruaka market showed there was appetite for 1 bedroom housing for (i) professionals who have just begun working and are looking for rental accommodation, and (ii) diaspora investors who wish to invest in real estate in the region.

II. **Analysing the investment opportunity:**

Rental Yield: Given a monthly rent of about Kshs 35,000 per month, that works out to be Kshs 420,000 per year. Given that house prices are about Kshs 8,470,000, it means that the gross rental yield for Ruaka should be about 5% p.a., consistent with residential property yield expectations.

Total Return: Rental Yield + Projected Capital Appreciation. Over the last 7 years, the annualized total capital appreciation has been 23% per annum. Given (i) the on-going infrastructure developments, (ii) upcoming retail and commercial facilities, (iii) close proximity to the bypass, and (iv) zoning changes going on in Ruaka, the next 5 years should show equal capital appreciation, so we estimate projected capital appreciation of at least 23% p.a.

The aforementioned rental yield of 5% p.a., combined with a 23% projected appreciation brings a total return of 28% per annum for completed units over the next 5 years.

Development Return: Developer return on investment, including financing costs, for those willing to invest equity into the Ruaka development gives a 41% IRR, which works out to an annualized return of 15% above the completed units return of 28%, which is very attractive for investors given that listed markets returns over the last 5 years have been about 13% per annum.

Cytonn?s upcoming development in Ruaka, ?The Alma?, is a comprehensive residential development. The development encompasses 284 residential units, with 1, 2 and 3 bedroom options set across a 3-acre parcel of land. It will also encompass (i) a commercial facility to provide basic necessities to the residents, (ii) a lifestyle clubhouse for residents, (iii) high levels of security, (iv) a borehole and sewer treatment facility, and (iv) round the clock security. The development will be located on the main Limuru road, 100 meters from the junction of the northern bypass, and a 5-minute commute from retail and commercial facilities such as Two Rivers mall, Village Market, and the Rosslyn mall development. To ensure that the quality of the development is maintained, Cytonn Real Estate shall undertake the facilities management of the development during the development, and after completion.

In conclusion, a 5% p.a. rental cash yield, a 28% p.a. total return, and 41% annualized development return makes Ruaka one of the most attractive real estate investment locations in Kenya.

For more information, and an early bird discount on the units, please fill in a reservation form at reservation form. To attend the launch of Ruaka scheduled for October 5th at the Kempinski hotel, Nairobi, please email **sales@cytonn.com**.