

Acorn Holdings released their H1'2023 financial results for the Acorn D-REIT and I-REIT, which invests in purpose-built student accommodation (PBSA). The Development Real Estate Investment Trust (D-REIT) finances the development of Purpose-Built Student Accommodation (PBSA) housing projects and later exit the projects to the Investment Real Estate investment trust (I-REIT) through legally bidding acquisition agreement. Rental incomes and other sources of income play a significant role in driving the investments and operations of the REITs.

**Below is a summary of the Acorn's D-REIT and I-REIT H1'2023 performances:**

*Figures in Kshs mn Unless Stated Otherwise*

Cytonn Report: Income Statement						
	Acorn I-REIT			Acorn D-REIT		
	H1'2022	H1'2023	Change	H1'2022	H1'2023	Change
Rental Income	185.9	324.8	74.7%	138.9	162.0	16.6%
Income from Other Sources	0.2	0.3	53.4%	0.0	0.02	-
Total operating income	186.0	325.0	74.7%	379.5	515.6	35.9%
Operating Expenses	115.5	197.0	70.6%	146.2	181.4	24.1%
Finance costs	0.06	45.6	71,087.5%	128.3	166.1	29.4%
<b>Profit Before Tax</b>	<b>123.2</b>	<b>113.3</b>	<b>(8.0%)</b>	<b>105.3</b>	<b>170.2</b>	<b>61.7%</b>
<b>Basic EPS (Kshs)</b>	<b>0.55</b>	<b>0.39</b>	<b>(29.0%)</b>	<b>0.45</b>	<b>0.66</b>	<b>45.9%</b>

*Figures in Kshs bn Unless Stated Otherwise*

Cytonn Report: Balance Sheet						
	Acorn I-REIT			Acorn D-REIT		
	H1'2022	H1'2023	Change	H1'2022	H1'2023	Change
Total Assets	4.9	7.3	51.0%	9.7	11.3	16.1%
Investment Property	4.4	6.6	47.9%	9.3	10.5	13.3%
Total Equity	4.7	6.3	34.4%	5.6	6.5	17.4%
Total Liabilities	0.1	1.0	623.3%	4.1	4.7	14.2%

*Ratios summary for the D-REIT and the I-REIT*

Cytonn Report: Ratios Summary						
	Acorn I-REIT			Acorn D-REIT		
	H1'2022	H1'2023	% Points Change	H1'2022	H1'2023	% Points Change
ROA	2.5%	1.5%	(1.0%)	1.1%	1.5%	0.4%
ROE	2.6%	1.8%	(0.8%)	1.9%	2.6%	0.7%
Debt Ratio	2.8%	13.5%	10.7%	42.5%	41.9%	(0.7%)
Operating Expense to Total Income Ratio	62.1%	60.6%	(1.5%)	38.5%	35.2%	(3.3%)
Operating Expense to Investment Property Ratio	2.6%	3.0%	0.4%	1.6%	1.7%	0.1%
<b>PBT Margin</b>	<b>66.3%</b>	<b>34.9%</b>	<b>(31.4%)</b>	<b>27.7%</b>	<b>33.0%</b>	<b>5.3%</b>
<b>Rental Yield</b>	<b>4.2%</b>	<b>5.0%</b>	<b>0.8%</b>	<b>1.5%</b>	<b>1.5%</b>	<b>0.0%</b>
<b>Annualized Rental Yield</b>	<b>8.6%</b>	<b>10.1%</b>	<b>1.5%</b>	<b>3.0%</b>	<b>3.1%</b>	<b>0.1%</b>
<b>Distribution Per Unit</b>	<b>0.29</b>	<b>0.30</b>	<b>4.9%</b>	<b>0.16</b>	<b>0.35</b>	<b>113.0%</b>
<b>Payout Ratio</b>	<b>52.0%</b>	<b>76.8%</b>	<b>24.8%</b>	<b>36.5%</b>	<b>53.3%</b>	<b>16.8%</b>

**Key Highlights in H1'2023:**

- Acorn I-REIT declared an interim dividend of Kshs 87.0 mn representing a 35.9% increase compared to Kshs 64.0 mn in H1'2022 interim dividend,
- For the D-REIT, the Board of Trustees did not recommend the payment of a dividend, and,
- Additionally, on 2<sup>nd</sup> May 2023, Acorn I-REIT paid a final dividend of Kshs 0.50 per unit, adding to the interim dividend of Kshs 0.27 per unit with respect to FY'2022, bringing the total full year distribution to Kshs 192.3 mn, representing 99.0% of the REIT's distributable income.

**Acorn I-REIT****Income Statement:**

- The basic earnings per unit for the Acorn I-REIT decreased by 29.0% to Kshs 0.39, from Kshs 0.55 in H1'2022, driven by a 8.0% decrease in the I-REIT's profits which came in at Kshs 113.3 mn, from Kshs 123.2 mn in H1'2022. The decrease in profits was attributable to a significant increase in finance costs to Kshs 45.6 mn in H1'2023 from Kshs 0.06 mn coupled with a 70.6% increase in total operating expenses to Kshs 197.0 mn from Kshs 115.5 mn in H1'2022,
- Total operating expenses came in at Kshs 197.0 mn in H1'2023, a 70.6% increase from Kshs 115.5 mn in H1'2022. This was mainly driven by increase in; i) administrative expenses by 78.5% to Kshs 120.7 mn in H1'2023 from Kshs 67.6 mn in H1'2022, and, ii) fund-operating expenses by 59.4% to Kshs 76.3 mn in H1'2023 from Kshs 47.8 mn in H1'2022,
- Rental income increased by 74.7% to Kshs 324.8 mn in H1'2023 Kshs 185.9 mn in H1'2022. The growth was driven by the increase rental income from its current properties coupled with a 4.9% rental escalation effected from April 2023 across its portfolio at the back of the rising inflation climate, and,
- The current rental yield increased by 0.8% points to 5.0% in H1'2023 from 4.2% in H1'2022 following an increase in the rental income and occupancy levels of current properties under their portfolios. This resulted to a 1.5% points increase in annualized rental yield to 10.1% in H1'2023 from 8.6% in H1'2022.

**Balance Sheet:**

- Total assets increased by 51.0% to Kshs 7.3 bn in H1'2023 from Kshs 4.9 bn in H1'2022. The increase in assets was mainly on the back of increased investment property which came in at Kshs 6.6 bn, a 47.9% increase from Kshs 4.4 bn in H1'2022 as it acquired the Qwetu Aberdare Heights I in October 2022,
- Total liabilities increased by 623.3% to Kshs 1.0 bn in H1'2023, from Kshs 0.1 bn in H1'2023 as a result of increase in payables to Kshs 172.3 mn in H1'2023 from Kshs 136.6 mn in H1'2022,
- The shareholder's funds increased by 34.4% to Kshs 6.3 bn in H1'2023, from Kshs 4.7 bn in H1'2022. The I-REIT's equity increase was as a result of; i) increase in retained earnings by 9.8% to Kshs 176.1 mn in H1'2023 from Kshs 160.4 mn in H1'2022, and, ii) increase in fair value reserves by 205.8% to Kshs 471.7 mn in H1'2023 from Kshs 154.2 mn in H1'2022 from Kshs 217.9 mn, and,
- The I-REIT recorded a 1.0% and 0.8% points decrease in Return on Assets (ROA) and Return on Equity (ROE) respectively to 1.5% and 1.8% in H1'2023 from 2.5% and 2.6% respectively in H1'2022. This was attributable to 8.0% decrease in profits for the period to Kshs 113.3 mn in H1'2023 from Kshs 123.2 mn in H1'2022.

**Acorn D-REIT****Income Statement:**

- The basic earnings per unit for the Acorn D-REIT increased by 45.9% to Kshs 0.66 in H1'2023 from Kshs 0.45 in H1'2022. This was mainly driven by a 16.6% increase in the rental income to Kshs 162.0 mn,

from Kshs 138.9 mn in H1'2022, coupled with a 47.0% increase in fair value of investment properties to Kshs 353.6 mn, from Kshs 240.6 mn in H1'2022,

- Total operating expenses for the D-REIT increased by 24.1% to Kshs 181.4 mn in H1'2023 from Kshs 146.2 mn in H1'2022. This was driven by an increase in the; i) administrative expenses by 45.0% to Kshs 77.1 mn in H1'2023 from Kshs 53.2 mn in H1'2022, and, ii) fund-operating expenses by 12.1% to Kshs 104.3 mn in H1'2023 from Kshs 93.0 mn in H1'2022,
- Rental income increased by 16.6% to Kshs 162.0 mn in H1'2023 from Kshs 138.9 mn in H1'2022. The growth was mainly driven by full operationalization of Karen Qwetu and Qejani projects as from April 2023 and continued increase in residential revenue from Qwetu Hurlingham and Qwetu Aberdare Heights II in the half-year which continue to showcase stabilized occupancy levels. On the other hand, I-REIT rental growth was driven by the increase rental income from its current properties coupled with a 4.9% rental escalation effected from April 2023 across its portfolio at the back of the rising inflation climate, and,
- The current rental yield remained unchanged at 1.5% compared to H1'2022 and resulted to a marginal increase in annualized rental yield by 0.1% points to 3.1% from 3.0% in H1'2022. This was attributable to stabilized occupancy levels in properties and their portfolio as the performance was weighed down by exit of some of properties to I-REIT which were recording improving occupancy levels and rental income such as the Qwetu Aberdare Heights II.

**Balance Sheet:**

- Total assets for the D-REIT increased by 16.1% to Kshs 11.3 bn in H1'2023 from Kshs 9.7 bn in H1'2022. The increase in assets was mainly on the back of increased investment property which came in at Kshs 10.5 bn, an 13.3% increase from Kshs 9.3 bn in H1'2022,
- Total liabilities increased by 14.2% to Kshs 4.7 bn, from Kshs 4.1 bn in H1'2022 largely driven by; i) 19.5% increase in long-term borrowings which came in at Kshs 3.9 bn in H1'2023 from Kshs 3.3 bn in H1'2022, and ii) 28.0% increase in trade and other payables to Kshs 504.1 mn from Kshs 393.8 mn in H1'2022,
- The shareholder's funds for the D-REIT increased by 17.4% to Kshs 6.5 bn H1'2023 from Kshs 5.6 bn in H1'2022. The increase was attributed to; i) increase in retained earnings by 47.5% to Kshs 1.4 bn in H1'2023 from Kshs 1.0 bn in H1'2022, and, ii) increase in unit holders contributions by 11.5% to Kshs 5.1 bn in H1'2023 from Kshs 4.6 bn in H1'2022, and,
- The D-REIT recorded a 0.4% and 0.7% points increase in ROA and ROE respectively to 1.5% and 2.6% in H1'2023 from 1.1% and 1.9% respectively in H1'2022. This was attributable to 61.7% increase in profits for the period to Kshs 170.2 mn in H1'2023 from Kshs 105.3 mn in H1'2022.

Moving forward,

- We anticipate the Acorn D-REIT and I-REIT to maintain their upward trajectory, demonstrating improved performance through; i) impressive investment returns by the fully operational projects and the attractiveness of the student housing markets given the growing population of students as well as the number of tertiary learning, ii) continued partnership with more tertiary institutions and other financiers such as the Mastercard Foundation in the Global Scholars Program in supporting student accommodation for students facing constraints in accessing education in major universities across the region, and, iii) potential acquisition of more properties for the coming period in addition to successful completion of development of properties under development. Additionally, the continuous repayment of the Acorn Green Bond reflects the commitment of the REITs towards sustainability and responsible financial practices. It highlights their dedication to supporting environmentally-friendly initiatives and aligning their investments with eco-conscious principles In light of this, the student housing facilities generated annual rental yields of 10.1% for the I-REIT, compared to other asset classes such as the commercial, retail, and residential sectors which recorded average rental yields of

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**30<sup>th</sup> June 2023**

7.8%, 8.2%, and 5.0% respectively in [H1'2023](#) and 1.5% points higher than 8.6% recorded in H1'2023 by the I-REIT. This is attributable to continuous increase in rental income and occupancy levels from fully operational student housing projects.