

Acorn Holdings released their FY'2021 financial statements for the [Acorn D-REIT](#) and [I-REIT](#), which invest in purpose-built student accommodation. The Development Real Estate Investment Trust (D-REIT) finances the development of student hostels whereas the Investment Real Estate investment trust (I-REIT) is mainly invested in the respective properties by the firm for rental income. Investors in Acorn.

Disclaimer: This is the first published full year financial statement for the Acorn I-REIT and the Acorn D-REIT and hence the performance is not compared with other periods

Below is a summary of the Acorn's D-REIT and I-REIT FY'2021 performances:

Figures in Kshs bn Unless Stated Otherwise

Income Statement	I-REIT	D-REIT
Rental Income	0.3	0.1
Income from Other Sources	1.0	0.02
Operating Expenses	0.2	0.1
Profit Before Tax	0.4	0.8
Basic EPS	2.3	3.6

Figures in Kshs bn Unless Stated Otherwise

Balance Sheet	I-REIT	D-REIT
Total Assets	3.8	8.4
Total Equity	3.6	5.2
Total Liabilities	0.2	3.2

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

Ratios Summary	I-REIT	D-REIT
ROA	10.3%	9.9%
ROE	10.8%	14.8
Debt Ratio	4.7%	37.9%
PBT Margin	87.6%	67.7%
Occupancy Rate	Approx. 97.0%	71.2%
Rental Yield	11.4%	10.0%

Key Highlight in FY'2021:

- In August 2019, the Capital Markets Authority of Kenya [approved](#) the issuance of Acorn Holdings' Medium-Term green bond worth Kshs 5.0 bn, the very first green bond in Kenya. Its final tranche closed on 16th July 2021, with an oversubscription rate of 146.0%, through which Acorn Holdings managed to raise Kshs 2.1 bn, against a target of Kshs 1.4 bn. As per our [Cytonn Weekly #29/2021](#), Acorn aimed to develop 2 new hostels expected to avail 2,654 beds under the bond funding. The oversubscription of the bond is expected to set good precedent for investors regaining their confidence in corporate bonds which is one of the key methods of Real Estate financing,
- In July 2021, Acorn Holdings signed a partnership deal with the United States International University Africa (USIU-Africa), to provide 697 of its students with accommodation, through the development of hostels at a cost of Kshs 1.0 bn,

- In May 2021, Acorn announced plans to restrict construction of their student hostels to within a 3.0 km radius of targeted institutions in order to attract more students and to reduce students' transport costs, and,
- Qwetu Student Housing announced a partnership with the University of Nairobi on 10th February 2022 to develop 2,800 units of student hostels to serve the main campus and the Chiromo campus. The project was launched as a way to alleviate the acute shortage of student housing units at the university.

Income Statement:

- Acorn D-REIT recorded profits of Kshs 775.9 mn in FY'2021 while the I-REIT profits came in at Kshs 387.5 mn. The D-REIT Performance was mainly driven by the Kshs 339.0 mn a positive adjustment in the fair value of Investment Property to Kshs 1.1 bn,
- The total operating income of the D-REIT came in at Kshs 1,126.9 mn in FY'2021, 60.8% higher than the I-REIT whose operating income came in at Kshs 442.1 mn, indicating a higher investor appetite for the D-REIT instrument as opposed to the I-REIT, and,
- The total operating expenses for the D-REIT came in at Kshs 121.7 mn in FY'2021 driven by administrative expenses of Kshs 153.3 mn while the I-REIT's total operating expenses came in at Kshs 161.0 mn as at FY'2021 driven by property operating expenses of Kshs 105.7 mn and administrative expenses amounting to Kshs 12.9 mn.

For Acorn I-REIT, the Board of Trustees recommended a final distribution payout of Kshs 106.0 million, which equates to KES 0.6 per unit. This will result to a full year dividend of Kshs 169.0 million equating to Kshs 1.0 per unit, and a payout ratio of 93.0%. For the D-REIT, there were no dividends proposed to be paid out, as there have been no exits from the ASA D-REIT.

Balance Sheet:

- Total assets for the I-REIT in FY'2021 stood at Kshs 3.8 bn, representing an increase of 6.8% from Kshs 3.5 bn in H1'2021, driven by a 138.8% increase in amounts due from related parties to Kshs 96.5 mn in FY'2021, from Kshs (248.8 mn) in H1'2021. The D-REIT assets stood at Kshs 8.4 bn in FY'2021, with the assets mainly in investment properties,
- Total liabilities for the I-REIT stood at Kshs 176.8 mn in FY'2021, representing an increase of 138.3% from Kshs 74.2 bn due to the 117.3% increase in the amount due to related parties to Kshs 58.6 mn. The D-REIT closed FY'2021 with liabilities amounting to Kshs 3.2 bn, attributable to the presence of Kshs 3.2 bn worth of long-term debt,
- The shareholder's funds for the I-REIT as at FY'2021 stood at Kshs 3.6 bn, while the D-REIT closed FY'2021 with shareholders' funds amounting to 5.2bn. The I-REIT also closed FY'2021 with a net asset value of Kshs 21.4 per share from Kshs 20.6 per share, representing a 4.0% increase compared to the H1'2021, and,
- The I-REIT currently has a Return on Assets of 10.3% and a Return on Equity of 10.8%, while the D-REIT has a Return on Assets of 9.9% and a Return on Equity of 14.8%.

Key Take-Outs:

1. From the analysis, in FY'2021, the D-REIT recorded profits of Kshs 775.9 mn in while the I-REIT profits came in at Kshs 387.5 mn,
2. Assets under the two REITs recorded relatively high occupancy rates averaging at 84.1% in FY'2021, compared to other Real Estate sectors such as the Commercial Office, and Retail sectors which recorded occupancy rates of 77.9% and 76.8%, respectively, and,

3. The Acorn D-REIT and I-REIT closed the year with larger Assets Under Management (AUM) which came in at Kshs 11.8 bn, compared to the listed ILAM Fahari I-REIT which closed the year with an AUM of Kshs 3.6 bn.

Going forward, we expect the Acorn D-REIT and I-REIT to continue showing improved performance evidenced by the impressive investment returns and the attractiveness of the student housing markets given the growing population of students as well as the number of tertiary learning. In light of this, the student housing facilities generated attractive rental yields of 11.4% and 10.0% for the I-REIT and the D-REIT respectively as at FY'2021, compared to other asset classes such as the residential and commercial office spaces which recorded average rental yields of 4.8% and 7.3%, respectively, in FY'2021. Moreover, the I-REIT's performance is expected to be further boosted with the conversion of the Qwetu Arberdare Heights project from Acorn D-REIT to Acorn I-REIT.