Cytonn 2025 Markets Outlook

Executive Summary

Global Markets Outlook:

According to the World Bank's Global Economic Prospects 2024, global economic growth is projected to rise marginally by 0.1% points to 2.7% in 2025, from 2.6% in 2024. The expected economic expansion is driven by the easing global inflation that has in turn necessitated easing of monetary policies in most major economies leading to an ease in credit conditions, normalization of supply and demand dynamics as labor markets stabilize due to the resilient labor markets. After peaking at 9.4% year over year in Q3'2022, headline inflation rates are now projected to reach 3.5% by the end of 2025, below the average level of 3.6% between 2000 and 2019, mainly attributable to declining commodity prices. Moreover, the growth in the Emerging Markets and Developing Economies (EMDEs) is expected to expand by 3.6% in 2024, a 0.3% points increase from the estimated growth of 3.3% in 2024;

Sub-Saharan Africa Regional Market Outlook:

According to the World Bank's Global Economic Prospects , growth in the Sub-Saharan Africa region is expected to rebound to 3.9% in 2024, from the estimated growth rate of 3.5% recorded in 2023 mainly attributable to the easing inflationary policies, reduction in prices of key imports such as fertilizers, metal and fuel, improved fiscal support and the expected increase in domestic demand. However, the projections remain subject to key downward risks such as high debt levels in the region as borrowing persists in the region due to the ever-present fiscal deficits in the region. Additionally, the increased debt servicing costs due to the sustained currency depreciation of the local currencies against the Dollar are expected to put more pressure on the region's growth as most of the region's debt is dollar-denominated;

Kenya Macro Economic Outlook:

GDP Growth – Our outlook for 2025 is **Neutral** on GDP Growth. We are projecting the economy to register a growth within the range of 5.0%-5.4% in 2025 supported by continued recovery of business activity, expected strong growth in the agricultural sector, and robust performance in the services sector driven by growth in information and technology as well as accommodation and food services as a result of increased tourism. The key downside to this growth shall be the high risk of debt distress and a possible uptick in inflationary pressures;

Inflation - Our outlook for 2025 is **Neutral** on Inflation. We expect the annual average inflation rate to remain within the government's target of 2.5%-7.5% coming in at an average of 5.3% as compared to 4.5% in 2024. We expect the inflation rate to remain relatively stable in the short term, but face upward pressure in the medium to long term during 2025, driven by the expansionary monetary policy stance, high electricity prices and potential depreciation of the Kenyan Shilling;

Currency - Our outlook for 2025 is **Neutral** on Currency. We project the Kenya Shilling to trade against the US dollar within a range of Kshs 120.9 and Kshs 140.5 by the end of 2025, with a bias of 4.6% depreciation against the USD in 2025. We expect the depreciation to be primarily driven by Kenya's persistent current account deficit, as the country remains a net importer, which will increase demand for dollars and strain the local currency. The anticipated continuous ease in the Central Bank Rate (CBR) is likely to make local-currency assets less attractive to investors, further increasing demand for foreign currencies and putting additional pressure on the Kenyan shilling. Additionally, the high debt servicing costs continue to put pressure on forex reserves given that 67.2% of Kenya's external debt is US Dollar-denominated as of June 2024.;

Interest Rates – Our outlook for 2025 is **Positive** on Interest Rates. We expect the Central Bank to continue with the expansionary monetary policy stance in the short-to-medium term attributable to a stable currency and and the need to support the economic growth. Further, we expect the yield curve to normalize in the short to medium-term as the government turns to increase its external borrowing, hence alleviating pressure in the domestic market;

Government borrowing – Our outlook for 2025 is **Negative** on Government Borrowing. We expect the government to borrow aggressively from both the domestic and foreign markets to plug in the fiscal deficit, which is projected to come in at Kshs 768.6 bn, equivalent to 4.3% of the GDP. Furthermore, the government expects to receive more concessional financing from the IMF and the World Bank, in addition to commercial loans from loans from commercial lenders such as the Trade & Development Bank (TDB) and the African Development Bank. On revenue collection, we expect muted growth despite the raft of measures taken by the Kenya Revenue Authority to increase tax through the implementation of the Finance Act 2023 which revised a number of taxes upwards and widened the tax base to include the informal sector and digital services and proposals to broaden the tax base through the Tax Laws Amendment Bill 2024. The upward revision of taxes comes at a time when the amount of disposable income is decreasing which is weighing down on the projected revenue performance, with the total revenue collected as at the end of November 2024 amounting to Kshs 940.9 bn, equivalent to 35.8% of the revised estimates of Kshs 2,631.4 bn for FY'2024/2025 and is 85.8% of the prorated estimates of Kshs 1,096.4 bn.
The Tax Laws Amendment Bill 2024 introduced significant tax reforms including increasing tax-exempt limits for non-cash benefits, gratuity, and pension contributions, alongside deductions for contributions to the Affordable Housing Levy and other funds, exemptions for business transfers, locally assembled electric vehicles, and goods from AfCFTA countries from VAT or excise duty, could further reduce revenue collection from certain tax heads;

Investor Sentiment – Our outlook for 2025 is **Positive** on Investor Sentiment. We expect the high positive investor sentiments witnessed in 2024 to persist through the short to medium term of 2025, mainly due to anchored inflationary pressures driven by reduced fuel costs and stability of the Kenyan currency. Political noise and the high debt levels remains a key risk to the investors' confidence.

Security and political environmnet– Our outlook for 2025 is **Negative** on Security. We expect security to remain a concern in 2025 due to an unstable political environment, driven by the frequent political tensions and continued opposition to the current regime;

Fixed Income Outlook:

We expect interest rates to stabilize, especially for short-term papers as the yield curve adjusts to a normal yield curve supported by the improved liquidity in the money markets. This will allow cheaper borrowing for budgetary support, funding of infrastructure projects, and payment of domestic maturities which stand at Kshs 768.6 bn for the second half of the FY'2024/2025. Further, we expect the yield curve to normalize in the short to medium-term as the government turns to increased external borrowing alleviating pressure on the domestic market. Investors should be biased towards **LONG-TERM FIXED INCOME INSTRUMENTS** to lock in the high interest rates;

Equities Outlook:

We have a **BULLISH** outlook on the Kenyan Equities market in the short term but "**NEUTRAL**" in the medium to long term. We expect a continued improvement in the listed sector's earnings growth in 2025, largely driven by the expected 5.0%-5.4% GDP growth, decreased yields in the fixed income markets and the improvement of the country's business environment. The business environment showed signs of improvement in the last quarter of 2024, with the Purchasing Manager's Index (PMI) averaging at 50.6 in Q4'2024, higher than the year's average of 49.6. Additionally, the Kenyan currency appreciated against the major select currencies, gaining 17.4% against the

USD dollar in 2024 indicating a stable economy. The investor flight which has still persisted in the early weeks of the year may, however, inhibit the growth of the equities market in the short-term;

Real Estate Outlook:

Residential sector: Our outlook remains **NEUTRAL** for the residential sector. On the supply side, our outlook is neutral as we expect the government to intensify its affordable housing activities country wide as it aims to deliver 200,000 units annually. We also expect the private sector to play a crucial rule in supplementing government efforts to bridge the housing deficit. In addition, infrastructural development will play a pivotal role in supporting the development of residential projects. On the demand side, our outlook remains neutral, owing to the tough macro-economic conditions currently being experienced in the country which has weakened buyers' purchasing power. For detached units, investment opportunity lies in areas such as Kitengela, Ngong, and, South B&C, while for apartments, investment opportunity lies in Kahawa West, Westlands and Dagorreti, due to their remarkable returns driven by good demand for units;

Commercial Office Sector: Our overall outlook for the Nairobi Metropolitan Area commercial office sector is **POSITIVE.** We expect the sector to remain stable with a slight improvement by 0.2% in rental yields recorded in FY'2025, attributable to an expected increase in overall rental rates by 3.0% in FY'2025.The improved performance may be supported by; i) the increasing presence of multinational companies in Kenya is likely to drive up occupancy levels, ii) co-working spaces are gaining popularity in the region iii) the gradual return to "working from office" after the Covid-19 pandemic, iv) more start-ups are expected to drive demand for commercial spaces,. However, the sector continues to face challenges due to a significant oversupply of office space, currently standing at 5.8 mn SQFT. Despite these challenges, there are attractive investment opportunities in areas such as Gigiri, Westlands, and Kilimani, which offer rental yields of 8.8%,8.5% and 8.3%, compared to the market average of 7.8%;

Retail Sector: We maintain a **NEUTRAL** outlook on the retail sector's performance for 2025, influenced by several factors; i) continued expansion by local and international retailers, driven by evolving consumer preferences and market trends, ii) infrastructure improvements, including ongoing road and railway projects, are set to increase accessibility to key retail zones, unlocking further investment opportunities, and iii) favorable demographic trends, such as a growing urban population, will sustain demand for retail goods and services. However, growth could face challenges from: i) oversupply issues, with around 3.6 n SQFT of retail space available in Nairobi and an additional 1.9 mn SQFT countrywide, leading to low occupancy rates and rental yields, ii) e-commerce adoption, increasingly shifting retail demand online, pushing brick-and-mortar outlets to adapt, and iii) limited financing options for retail developments, along with high costs, are likely to hinder investment, especially for small and medium-sized enterprises (SMEs) that need to adopt technology to stay competitive;

Hospitality Sector: We maintain a **POSITIVE** outlook for the hospitality sector, supported by several key drivers: i) aggressive marketing campaigns promoting Kenya's tourism, expected to boost tourist arrivals and improve occupancy rates at hospitality venues, ii) continued international recognition of Kenya's tourism industry, enhancing its status as a leading tourist destination and drawing more global visitors, iii) strategic partnerships within the tourism sector, fostering innovation and collaboration to capitalize on new opportunities, iv) events and initiatives aimed at increasing tourism activity and improving guest experiences. However, while the sector demonstrated resilience in its overall performance in 2024, the outlook remains cautiously optimistic due to i) Kenya continues to face significant competition from neighboring markets, such as Rwanda, which employs aggressive promotional strategies, alongside Zanzibar, Tanzania, and South Africa, these regions actively position themselves as attractive alternatives, challenging Kenya's market share in the region, ii) difficulty in accessing finance as lenders demand more collateral to cushion themselves owing to elevated credit risk, and iii) occasional release of cautionary statements by governments like China and United States to their citizens advising them against travelling to Kenya due to threats like terrorism and elevated crime rates;

Land Sector: We retain a **POSITIVE** outlook for the land sector in the Nairobi Metropolitan Area (NMA), considering it a dependable investment opportunity that has shown improving performance year on year. Going forward, we anticipate that land in the NMA will continue on an upward trajectory coming in at a sector average price of Kshs 131.2mn in FY'2025 a 3.0% increase, from Kshs 130.9 mn recorded in FY'2024**.** We expect the sector's performance to be driven by several factors: i) government efforts to streamline land transactions through innovative solutions such as Ardhi Sasa, ii) continued activities by players on both the demand and supply sides, iii) growing demand for land driven by positive demographics, iv) the launch of infrastructure development projects opening up satellite towns for investment opportunities, and v) the continued rollout of the Affordable Housing Program (AHP) by the government, driving further demand for land. The investment opportunity lies in Juja, Limuru and Utawala for unserviced land, which recorded annualized capital appreciations of 6.3%, 5.7% and 4.8% respectively compared to market average of 4.5%. For serviced land, Rongai and Athiriver recorded the highest annualized capital appreciations of 7.1% and 3.3%, respectively against the serviced average of 3.2%;

Infrastructure Sector: We maintain a **NEUTRAL** outlook in the infrastructural sector.We anticipate the government will continue with its aggressive efforts to; i) construct and rehabilitate roads, bridges, railways, airports, and affordable housing units, among others, ii) increase its diplomacy and partnerships in development among neighbouring nations, and, iii) step up on the competition for attracting regional and international investors against other countries in Eastern Africa like Tanzania through railway connections and ports infrastructure. However, this efforts may slow down due to the reduction in allocation to state department of roads by 7.6% in the supplementary budget FY'2024/25, to ksh 178.7 bn from the ksh 193.4 bn set in the FY'2024/25 budget. Consequently, going forward to 2025 we anticipate there will be a decline in the number of completed infrastructure projects and there could be an increase in stalled infrastructure projects. Although the government acknowledges the importance of Public-Private Partnerships (PPPs) in tackling financing challenges, we believe that prioritizing PPPs is fundamental in addressing funding shortfalls;

Industrial Sector: We maintain a **NEUTRAL** outlook on the industrial sector's performance. We expect slight growth in the sector as investors continue to respond to the growing demand for industrial spaces both in Nairobi and around the country. Data centres, cold rooms, growth in e-commerce, and rising demand for fast-moving consumer goods will continue to foster growth in the industrial sector. In 2025, we expect a slight increase in development activities in the industrial sector through government support in line with its Bottom Up Economic Transformation Agenda (BETA) which aims to tap into the manufacturing sector to create wealth, employment and reduce poverty levels among Kenyan citizens. However, optimal performance in this sector may be weighed down by factors like high development costs for industrial facilities, low technological adoption and inadequate infrastructure to support operation of these facilities. Going forward, we expect the sector to continue on an upward trajectory driven by: i) the rising demand for data centers in the country, ii) an increasing demand for cold rooms, especially in the Nairobi Metropolitan Area, iii) demand for quality warehouses due to the growing e-commerce business in the country, iv) support from the government, as evidenced by the establishment of Special Economic Zones (SEZ) and Export Processing Zones (EPZ), v) increased development activities by industry players such as ALP Africa Logistics & Devki steel mills, vi) Kenya's continued recognition as a regional hub, hence attracting international investors, and, vii) efforts by the government to support agricultural and horticultural products in the international market Viii) continued improvement in infrastructure through projects such as the Standard Gauge Railway (SGR), the Eastern and Northern Bypasses connecting Jomo Kenyatta International Airport (JKIA) and other regions in the Nairobi Metropolitan Area, among other key infrastructural improvements which we expect will increase the output of Special Economic Zones and Inland Container Depots (ICDs);

Real Estate Investment Trusts : We maintain **NEUTRAL** outlook for the REITs sector and we expect Kenya's Real Estate sector to remain on a growth trend, supported by: i) demand for housing sustained by positive demographics, such as urbanization and population growth rates of 3.8% p.a and 2.0% p.a, respectively, against the global average of 1.7% p.a and 0.9% p.a, respectively, as at 2023, ii) activities by the government under the Affordable Housing Program (AHP) iii) heightened activities by private players in the residential sector. However, challenges such as rising construction costs, strain on infrastructure development (including drainage systems), high capital requirements for REITs, low investor knowledge on the asset class and existing oversupply in select Real Estate sectors will continue to hinder the sector's optimal performance by limiting developments and investments.

Company Updates

Investment Updates:

- Weekly Rates: Cytonn Money Market Fund closed the week at a yield of 16.61% p.a. To invest, dial *809# or download the Cytonn App from Google Play store here or from the Appstore here;
- We continue to offer Wealth Management Training every Tuesdays, from 7:00 pm to 8:00 pm. The training aims to grow financial literacy among the general public. To register for any of our Wealth Management Trainings, click here;
- If interested in our Private Wealth Management Training for your employees or investment group, please get in touch with us through wmt@cytonn.com;
- Cytonn Insurance Agency acts as an intermediary for those looking to secure their assets and loved ones' future through insurance namely; Motor, Medical, Life, Property, WIBA, Credit and Fire and Burglary insurance covers. For assistance, get in touch with us through insuranceagency@cytonn.com;
- Cytonn Asset Managers Limited (CAML) continues to offer pension products to meet the needs of both individual clients who want to save for their retirement during their working years and Institutional clients that want to contribute on behalf of their employees to help them build their retirement pot. To more about our pension schemes, kindly get in touch with us through pensions@cytonn.com;

Hospitality Updates:

- We currently have promotions for Staycations. Visit cysuites.com/offers for details or email us at sales@cysuites.com;
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A. Global Markets Outlook

Global Economic Growth:

According to the World Bank's Global Economic Prospects 2024, global economic growth is projected to rise marginally by 0.1% points to 2.7% in 2025, from 2.6% in 2024. The expected economic expansion is driven by the easing global inflation that has in turn necessitated easing of monetary policies in most major economies leading to an ease in credit conditions, normalization of supply and demand dynamics as labor markets stabilize and resilient labor markets. After peaking at 9.4% year over year in Q3'2022, headline inflation rates are now projected to reach 3.5% by the end of 2025, below the average level of 3.6% between 2000 and 2019, mainly attributable to declining commodity prices. Moreover, the growth in the Emerging Markets and Developing Economies (EMDEs) is expected to expand by 3.6% in 2024 from the estimated growth of 3.3% in 2024.
Growth in 2024 shall be shaped by the following four key themes:

i. Easing Inflation and Monetary Policies

In line with inflation-targeting strategies, central banks are expected to continue easing monetary policies in 2025, reducing interest rates to stimulate economic activity as inflationary pressures subside. This shift follows one of the most aggressive monetary tightening cycles in recent history, implemented to curb heightened inflation caused by persistent high fuel and food prices. Since June 2024, major central banks in advanced economies have started to cut their policy rates, moving their policy stance toward neutral. The change in global monetary conditions is easing the pressure on emerging market economies, with their currencies strengthening against the

US dollar and financial conditions improving. This will help reduce imported inflation pressures, allowing these countries to pursue more easily their own disinflation path.

In their latest meeting on 18th December 2024, the USA Federal Reserve cut their policy rates by 25 bps to a range 4.25%-4.50% from a range of 4.50%-4.75%. The Fed's decision to lower rates was driven by the need to support a soft landing for the economy, as inflation showed signs of easing but remained above the 2.0% target. As of November 2024, the y/y inflation rate stood at 2.7%, up from 2.6% in October 2024**.** The Fed noted that while inflation has made progress toward its target, it remains somewhat elevated, and economic growth continues at a solid pace. Additionally, in their most recent sittings, other major economies such as Canada, and the Euro Area also cut their monetary policy rates. While lowering rates could stimulate domestic growth and ease financial conditions, they must balance this with the risk of inflationary pressures, currency devaluation, and capital outflows. In our view, we expect the coming rate cuts to be gradual as economies seek to adopt accommodative policies that will support the economy while avoiding an uptick in inflation rates.

The table below highlights the policy stance adopted by the Central Banks of major economies

Cytonn Report: Monetary Policy Stance Adopted by Central Banks in Select Economies						
No	**Country**	**Central Bank**	**Last meeting date**	**Previous Rate**	**Current Rate**	**Margin**
1	Canada	Bank of Canada	11-Dec-24	3.75%	**3.25%**	(0.5%)
3	USA	Federal Reserve	18-Dec-24	4.50%-4.75%	**4.25%-4.50%**	(0.25%)
5	Euro Area	European Central Bank	18-Dec-24	3.40%	**3.15%**	(0.25%)
2	China	Bank of China	20-Dec-24	3.1%	**3.1%**	Unchanged
4	England	Bank of England	19-Dec-24	4.75%	**4.75%**	Unchanged
6	Malaysia	Bank Negara Malaysia	6-Nov-24	3.00%	**3.00%**	Unchanged
7	Australia	Reserve Bank of Australia	10-Dec-24	4.35%	**4.35%**	Unchanged

Data Source: Cytonn Research

II. Easing Commodity Prices

In 2024, commodity prices were on a downward trajectory and are projected to ease further in 2024. According to the World Bank's Commodity Markets Outlook report, commodity prices are expected to decrease by 5.1% percent in 2025, after softening 2.7% in 2024. This would lead aggregate commodity prices to their lowest levels since 2020. The projected declines are led by oil prices but tempered by price increases for natural gas and a stable outlook for metals and agricultural raw materials. The table below shows select commodity price indices:

Cytonn Report: Average Commodity Prices (USD)						
Commodity Index	**2023**	**2024**	**Average y/y change**	**Jun-24**	**Dec-24**	**Half-year Change**
Precious metals	147.3	180.2	**22.3%**	177.5	200.6	13.0%
Agriculture	110.9	114.8	**3.5%**	116.4	118.0	1.4%
Metals & Minerals	104.0	106.7	**2.6%**	112.6	107.9	(4.2%)
Non-energy commodities	110.2	112.4	**1.9%**	115.1	115.0	(0.1%)
Energy prices	107.0	101.5	**(5.1%)**	105.3	96.9	(8.0%)

Fertilizers	153.5	117.6	**(23.4%)**	113.5	120.9	6.5%
Aggregate index	**108.0**	**105.1**	**(2.7%)**	**108.6**	**102.9**	**(5.2%)**

Data Source: World Bank

Oil prices have been under downward pressure declining by 2.6% in 2024, albeit lower than the 16.8% decrease which was recorded in 2023, as the post-pandemic demand recovery stalled, China's economy struggled, and the U.S. and other non-OPEC producers pumped more crude into a well-supplied global market. Oil prices are expected to decline further in 2025 but remain above the pre-pandemic levels as a result of weak demand from China in addition to rising global supplies which are expected to cast a shadow on OPEC+ led efforts to shore up the market. In 2025, fertilizer prices are projected to decline further by 2.0%, building on the 23.4% decrease recorded in 2024. This continued downward trend is attributed to increased global production and lower feedstock prices. Similarly, food prices, which represent the largest component of the World Bank Agriculture Commodity Index, are expected to fall by 4.8% in 2025. This decline is driven by record-high rice and maize production in the 2023-24 season and favorable crop expectations for 2025. These trends are likely to reduce agricultural input costs, easing inflationary pressures in food-dependent economies. However, risks such as unpredictable weather patterns or geopolitical disruptions could still impact price stability and agricultural output.

III. Global Trade

The World Trade Organization (WTO) projects the global trade growth to improve to 3.0% in 2025 from the 2.7% growth rate in 2024 on the back of improved exports of manufactured goods from Asia and strong services trade. However, trade tensions, protectionist policies, and geopolitical uncertainties are significant risks to the outlook. The U.S.-China relationship remains a focal point, with American businesses growing more pessimistic about opportunities in China as its economic growth slows and local competitors, bolstered by state support, dominate key industries. Major U.S. companies are diversifying supply chains to countries such as Vietnam and India, reflecting diminished optimism about the Chinese market. Geopolitical uncertainties further exacerbate these challenges. The ongoing conflicts in the Middle East, for instance, could disrupt recovering global supply chains, thereby slowing down trade. Additionally, the potential for new tariffs and trade barriers, as indicated by recent policy discussions, may lead to increased market volatility and economic instability. In our view, global trade growth will remain constrained in the near term due to persistent structural challenges such as supply chain fragmentation, rising trade barriers, and labor market inefficiencies, despite a gradual easing of inflationary pressures.

IV. Public Debt

High debt levels especially in Emerging Markets and developing economies (EMDEs) are expected to persist in 2025 mainly on the back of widened current account deficits and surging debt service costs due to declining global trade and currency depreciation in most economies, coupled with tighter financial conditions undermining economic growth. According to the Global Debt Monitor by (IMF), the global public debt (public and non-financial private debt stocks) came in at 237.2% of the GDP, (USD 250.0 tn) in 2023, translating to 0.2% points decline from 238.0% of the GDP recorded in 2022. Conversely, public debt stock as a percentage of GDP increased by 2.0% points to 93.8% in 2023, from 91.8% recorded in 2022. However, given the perceived interest cuts in 2024, especially in developed economies such as the US, global debt levels may experience mixed impacts. While reduced borrowing costs could ease the debt servicing burden for some nations, the elevated refinancing costs for long-term debt and the persistent structural challenges, including fiscal deficits and weak revenue collection, are likely to counteract these benefits. Additionally, geopolitical risks and inflationary pressures, although moderating, remain key concerns that could strain fiscal positions, particularly in EMDEs. In our view, global debt is projected to remain elevated, with governments and corporations facing continued pressure to manage their liabilities amidst a challenging economic and financial landscape.

Below is a summary of the regional growth rates by country as per the World Bank:

Cytonn Report: World GDP Growth Rates						
	Region	2021	2022	2023	2024e	2025f
1.	India	9.7%	7.0%	8.2%	6.6%	**6.7%**
2.	Kenya	7.6%	4.9%	5.6%	5.0%	**5.3%**
3.	Middle-East, North Africa	6.2%	5.9%	1.5%	2.8%	**4.2%**
4.	China	8.4%	3.0%	5.2%	4.8%	**4.1%**
5.	Sub-Saharan Africa	4.4%	3.8%	3.0%	3.5%	**3.9%**
6.	Euro Area	7.2%	1.6%	3.2%	3.0%	**2.9%**
7.	Brazil	4.8%	3.0%	2.9%	2.0%	**2.2%**
8.	United States	5.8%	1.9%	2.5%	2.5%	**1.8%**
9.	Japan	2.6%	1.0%	1.9%	0.7%	**1.4%**
10.	South Africa	4.7%	1.9%	0.6%	1.2%	**1.3%**
	Global growth rate	**6.3%**	**3.0%**	**2.6%**	**2.6%**	**2.7%**

Data Source: World Bank

B. Sub Saharan Africa Regional Market Outlook

According to the World Bank's Global Economic Prospects , growth in the Sub-Saharan Africa region is expected to rebound to 3.9% in 2025, from the estimated growth rate of 3.5% recorded in 2024 mainly attributable to the easing inflationary policies, reduction in prices of key imports such as fertilizers, metal and fuel, improved fiscal support and the expected increase in domestic demand.

However, the projections remain subject to key downward risks such as:

- Persistent global inflationary pressures, which may lead to the deterioration of financial conditions in the region and high cost of living due to the high prices necessitating aggressive policy rate hikes in the region,
- The high debt levels in the region as borrowing persists in the region due to the ever-present fiscal deficits in the region. Additionally, the increased debt servicing costs due to the sustained currency depreciation of the local currencies against the Dollar are expected to put more pressure on the region's growth as most of the region's debt is dollar-denominated, and,
- Further rise in global or regional instability, such as the possible escalation of the conflict in the Middle East, which could drive up global energy and food prices which would in turn affect growth in the Sub-Saharan Africa region considering that most of the countries in the region are net importers.

In Nigeria, the region's largest economy, growth is projected to accelerate to 3.5% in 2025 from an estimated 3.3% in 2024. This improvement is attributed to increased non-oil sector activity, particularly in agriculture and services, supported by reforms to address structural economic challenges. Additionally, growth in South Africa is expected to increase slightly to 1.3% in 2025, from the estimated growth of 1.2% in 2024. The growth in South Africa is attributable to the energy sector reforms that are expected to improve energy supply in the medium term coupled with easing inflationary pressures which are expected to continue its gradual decline, easing cost-of-living pressures on households and supporting private consumption. However, growth in the region is expected to be hampered by the high debt levels, stifled demand, persistent depreciation of local currencies as well as the increased cases of corruption in the region as indicated by the Corruption Perceptions Index. Growth in the Eastern African region is expected to remain subdued due to the witnessed political clashes in Sudan, South Sudan and the Democratic Republic of Congo, coupled with persistent unfavourable weather conditions which continue to stifle agricultural production.

The table below highlights the real GDP forecasts of select Sub - Saharan Africa countries;

Cytonn Report: Real GDP Forecasts of Select Sub - Saharan Africa countries

Country	2024e	2025f
Senegal	7.1%	9.7%
Rwanda	7.6%	7.8%
Ethiopia	7.0%	7.0%
Uganda	6.0%	6.2%
Tanzania	5.4%	5.8%
Kenya	5.0%	5.3%
Ghana	2.9%	4.4%
Mauritius	5.0%	4.1%
Nigeria	3.3%	3.5%
Angola	2.9%	2.6%
South Africa	1.2%	1.3%
Average	**4.9%**	**5.2%**

Data Source: World Bank

C. Kenya Macro Economic Outlook

a. Economic Growth:

According to the Kenya National Bureau of Statistics (KNBS) Q3'2024 Gross Domestic Product Report, the Kenyan economy recorded a 4.0% growth in Q3'2024, a deterioration from the 6.0% expansion recorded in a similar period in 2023. The performance in Q3'2024 was mainly driven by the 4.2% growth in the agricultural sector due to favorable weather conditions, which led to a steady growth in agricultural output. Consequently, the economy recorded an average growth of 4.5% in the first three quarters of 2024, a decline from the 5.5% average growth recorded in a similar period in 2023. The average GDP growth rate for 2024 is expected to come in at a range of 4.8% - 5.0%, a decline from the 5.6% expansion witnessed in 2023.

In 2025, we expect the economy to continue its recovery trajectory with the projected GDP growth to come in at a range of 5.0% - 5.4%.

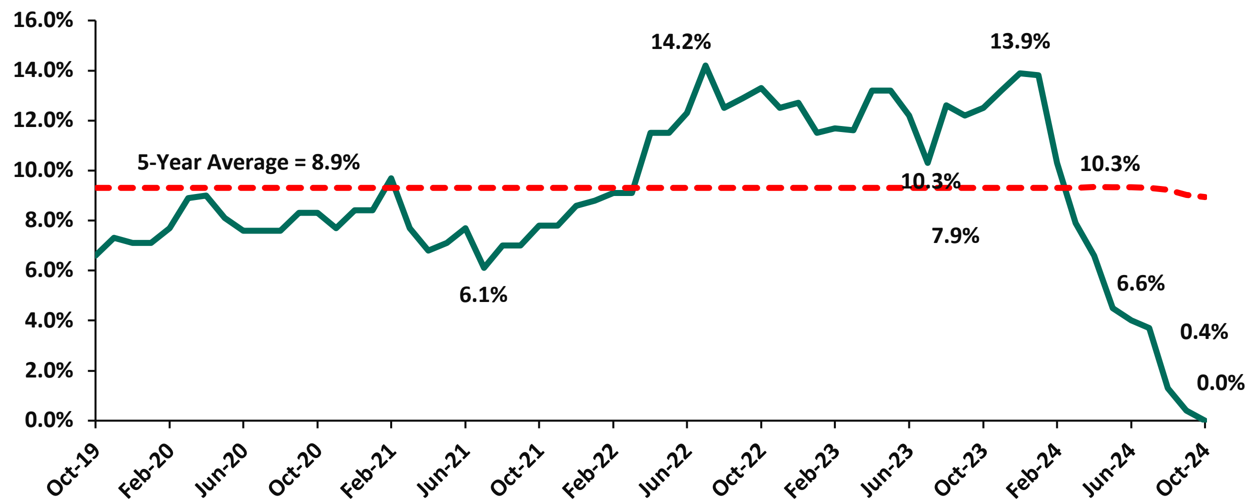
The key factors that shall support growth include:

I. **Continued growth in Services and Agricultural sectors:** The steady performance in the agricultural sector witnessed in 2024 is expected to continue into 2025 following continued support by the government through fertilizer and seed subsidy programs, despite a marginal 3.7% cut in budget allocation under the Crop Development and Management Programme in the Supplementary Budget I for the Fiscal Year 2024/25. Additionally, the favorable weather conditions and sufficient rainfall experienced in the country is set to continue supporting the sector. The service sector is expected to register robust performance driven by growth in information and technology as internet connectivity increases, as well as accommodation and food services as a result of increased tourism,

II. **Eased Monetary Policy** – In 2024, the Monetary Policy Committee (MPC) lowered the Central Bank Rate (CBR) by a total of 175.0 bps from 13.00% in February to 11.25% in December in a bid to support the economy, noting that its previous measures had successfully reduced overall inflation to below the mid-point of the target range of 2.5% - 7.5%, stabilized the exchange rate, and anchored inflationary pressures. We expect the MPC to continue lowering the rates gradually in the short to medium term therefore lowering borrowing costs, leading to increased spending and an uptick in the business environment. Further, this is expected to support the private sector credit growth, which has recorded record low credit growth rates in the recent months. The low CBR is expected to support economic growth, and,

III. **Gradual Increase in Access to Credit**: During the first 10 months of 2024, private sector credit growth rate averaged 5.3%, significantly lower than the 12.1% average growth rate recorded over the same period in 2023, mainly on the back of increased borrowing costs. Despite this decline, we anticipate an expansion of credit to the private sector driven by, the expansionary monetary policy stance by the Central Bank of

Kenya, policy initiatives such as the MSMEs Credit Guarantee Scheme and the ongoing economic revival. Additionally, we expect the renewed focus on Public-private Partnerships (PPP) to finance commercially viable projects to spur growth in the private sector. Furthermore, the Hustler Fund has continued to inject affordable credit to the private sector having disbursed Kshs 52.9 bn as of December 2024, and is expected to continue to offer specific financial products such as the Hustler Fund by Vikundi. Furthermore, with the expected reduction in credit risk and a decline in yields in the short-term government papers, we expect the banking sector to increase its lending to the private sector in search of better yields following the adoption of risk-based lending. The chart below shows 5-year private sector credit growth;



Source: CBK

However, key risks threaten economic growth including:

I. **High Risk of Debt Distress:** According to International Monetary Fund and the World Bank, Kenya is currently at risk of high debt distress with the country's debt to GDP ratio coming in at 71.8% as at June 2024, 21.8% points above the recommended IMF threshold of 50.0% for developing countries. Additionally, Kenya's debt stood at Kshs 10.8 tn as of September 2024, 1.9% higher than the Kshs 10.6 tn debt recorded over a similar period in 2023. Consequently, the government will face significant pressure to service the existing debt with the debt service to revenue ratio standing at 56.8% as of November 2024, 26.8% points above the 30.0% threshold recommended by the IMF. Economic growth potential diminishes when debt levels are high because a significant part of the revenue is allocated towards servicing the existing debt, leaving less for developmental spending, and,

II. **Rising Inflationary Pressures** –The country's inflation rate averaged 4.5% in 2024, remaining within and falling below the mid-point of the CBK's target range of 2.5%-7.5%. Despite the improvement recorded in 2024, we expect the inflation rate to remain relatively stable in the short term, but face upward pressure in the medium to long term during 2025, weighing down the business environment.

b. <u>Currency:</u>

The Kenya Shilling appreciated by 17.4% against the US Dollar to close at Kshs 129.3 in 2024, compared to Kshs 156.5 at the end of 2023, a contrast to the 26.8% depreciation recorded in 2023. The gain was majorly driven by the repayment of the USD 2.0 bn Eurobond that matured in June, through a buy-back in February 2024 that reduced credit risk on the country and pressure on the Shilling. Additionally, the cuts in the US Federal interest rates by a total of 100 bps in 2024 to a range of 4.25%-4.50%, from a range of 5.25%-5.50% in the beginning of 2024

Going forward, we expect the shilling to trade against the US dollar within a range of Kshs 120.9 and Kshs 140.5 by the end of 2025.

The Kenyan shilling will be supported by:

i. Improving diaspora remittances standing at a cumulative USD 4,872.0 mn in the 12 months to November 2024, 16.7% higher than the USD 4,175.0 mn recorded over the same period in 2023. In the November 2024 diaspora remittances figures, North America remained the largest source of remittances to Kenya accounting for 53.4% in the period. In 2025, diaspora remittances are set to improve further, mainly driven by the recovery of the global economy, increasing Kenyan population in the diaspora, and advancing technology that has facilitated easier transfer of money,

ii. Improving forex reserves currently at USD 9.2 bn (equivalent to 4.7-months of import cover), which is above the statutory requirement of maintaining at least 4.0-months of import cover and the EAC region's convergence criteria of 4.5-months of import cover. Forex reserves improved by a significant 39.1% to USD 9.2 bn (equivalent to 4.7 months of import cover) in December 2024, from USD 3.6 bn (equivalent to 4.0 months of import cover) in a similar period in 2023. The rise is largely attributed to reduced debt service obligations due to the stability of the Kenyan shilling and dollar inflows from concessional financing from International Monetary Fund (IMF) disbursements. Notably, the country successfully redeemed the 10-year USD 2.0 bn Eurobond that matured in June 2024, easing pressure on the country's forex reserves,

iii. Expected dollar inflows from both commercial and concessional financing, boosting the country's forex reserves. On 30th May 2024, The World Bank approved a new USD 1.2 bn funding under the Kenya Fiscal Sustainability and Resilient Growth Development Policy Operation (DPO), to be funded through a USD 850.0 mn loan from the International Bank for Reconstruction and Development (IBRD), a USD 300.0 mn credit from the International Development Association (IDA), and a USD 50.0 mn grant from the IDA's Window for Host Communities and Refugees. Additionally, in November 2024, Kenya secured a USD 606.1 mn from the International Monetary Fund (IMF), USD 485.8 mn under the Extended Fund Facility (EFF) and Extended Credit Facility (ECF) arrangements following the completion of the seventh and eighth reviews and USD 120.3 mn under the Resilience Sustainability Facility (RSF) arrangements, with the National Treasury expecting more financing from the IMF to fulfill the total financial commitment of USD 3.6 bn, and,

iv. The Government measures to stabilize the foreign exchange market which includes the Government-to-Government petroleum supply arrangement, revitalizing inter-bank forex bank trading and the revival and Commercialization of the National Oil Corporation of Kenya (NOCK). According to the Draft 2024 Budget policy, these arrangements are part of a broader strategy to enhance the stability of Kenya's foreign exchange market by addressing both supply and demand factors influencing currency valuation. Additionally, the Central Bank of Kenya (CBK) has been actively engaging in foreign exchange operations to manage the volatility of the Kenyan shilling against the U.S. dollar, shifting its strategy from selling to purchasing U.S. dollars from local banks, aiming to anchor its foreign exchange reserves and maintain the stability of the currency.

The Kenyan shilling will however face the following challenges:

i. An ever-present current account deficit estimated at 3.9% of GDP in Q3'2024, a deterioration from the 3.5% deficit recorded in a similar period in 2023. The persistent current account deficit reflects the country’s reliance on imports which has resulted in increased demand for foreign currency which continues to put more strain on the local currency,

v. The low interest rates, with the Monetary Policy Committee reducing the CBR to 11.25% in its last sitting, signalling an expansionary monetary policy stance, noting that its previous measures had successfully reduced overall inflation to below the mid-point of the target range of 2.5% - 7.5% and stabilized the exchange rate. The lower rates pose a challenge to the Kenyan Shilling, increasing pressure on the currency’s stability due to reduced attractiveness for foreign investors, especially in the face of sustained external borrowing needs and global market fluctuations.

ii. Elevated risk of increase in global crude oil prices as a result of supply chain constraints following the rising geopolitical tension in the Middle East. Consequently, the possible rise in global oil prices is set to increase demand for the US Dollar by oil and energy importers, as well as manufacturers against a low supply of US Dollar currency, and,

iii. The high debt servicing costs which continue to put pressure on forex reserves. Notably, the debt service to revenue ratio stood at 56.8% as of November 2024, 26.8% points above the 30.0% threshold recommended by the IMF, and 67.2% of Kenya’s external debt is US Dollar-denominated as of June 2024.

We expect the shilling to remain within a range of Kshs 120.9 and Kshs 140.5 against the USD by the end of 2025 with a bias towards a 4.6% depreciation by the end of the year.

c. Inflation:

In 2024, the average inflation rate in the country was 4.5%, marking 3.2% points decrease from the average inflation rate of 7.7% witnessed in 2023. However, the y/y inflation rate increased slightly by 0.2% points to 3.0%, in December 2024 from the 2.8% recorded in November 2024. Key to note, the overall inflation rates throughout 2024, remained within the Central Bank’s target range of 2.5% and 7.5%, hitting its lowest in October 2024 at 2.7%, the lowest since 2010. Despite the improvement recorded in 2024, we expect the inflation rate to remain relatively stable in the short term, but face upward pressure in the medium to long term during 2025, given that the current fiscal measures do not address the cost-driven inflation, in addition to a ripple effect of the current expansionary monetary stance.

We expect inflation to average 5.3% in 2025, within the government target range of 2.5% - 7.5%. Key risks driving inflationary pressure are the high electricity prices, fuel costs, and exchange rate fluctuations on the Kenyan shilling.

d. Interest Rates:

The Central Bank of Kenya (CBK) is expected to continue with the expansionary monetary policy stance in the short-to-medium term attributable to a stronger and stable currency and the eased inflation currently below the mid-point of the CBK’s preferred target of a range of 2.5% - 7.5%. The 11.25% Central Bank Rate (CBR) set in December 2024 marks the lowest level since December 2023. In the short term, we anticipate the Central Bank of Kenya (CBK) will adopt a more cautious approach to rate adjustments as it evaluates the performance of the local currency and inflation trends. However, in the medium term, there is potential for further reductions in the CBR to stimulate private sector credit growth, which experienced a decline in 2024 due to elevated interest rates.

Despite the projected decline in borrowing by 8.7% to Kshs 768.6 bn in FY’2024/25 from Kshs 835.1 bn in FY’2023/24, Kenya still has an ever-present fiscal deficit, projected at 4.3% in FY’2024/25. As such, we expect the government to continue borrowing aggressively from both the domestic and foreign markets, given that the government is already ahead of its total net domestic borrowing target of Kshs 408.4 bn in FY’2024/25. The escalating debt service due to further borrowing will persistently burden the government, compelling it to borrow more to cover the maturing debts. However, the interest rate environment is expected to stabilize in the medium term as the government receives a boost from concessional loans from the IMF and the World Bank, improving the country's credit outlook.

The table below summarizes the various macroeconomic factors and the possible impact on the business environment in 2025. With two indicators being negative, three being neutral and two being positive, the general outlook for the macroeconomic environment in 2025 is NEUTRAL.

Cytonn Report: Macro-Economic & Business Environment Outlook		
Macro-Economic Indicators	**2025 Outlook**	**Effect**
Government Borrowing	On the domestic front, we expect the government to borrow aggressively from the domestic market as it aims to plug in the fiscal deficit, which is projected to come in at Kshs 768.6 bn in the FY'2024/25 Supplementary Budget Estimates I, 4.3% of the GDP. The government intends to plug this fiscal deficit through Kshs 356.4 bn in external financing and Kshs 412.2 bn in domestic borrowing. Borrowing domestically is less costly for the government than acquiring debt denominated in foreign currencies, which not only carry higher interest rates but also come with the added risk of currency fluctuations. Currently the govet has borrowed ** from the domestic market In our view, the level of foreign borrowing will also increase in 2025 due to the following reasons; (i) Disbursement of concessional loans from the IMF under the Extended Credit Facility arrangement (EFF/ECF) and the Resilience Sustainability Facility (RSF) programme, coupled with funding from the World Bank under the Development Policy Operation (DPO) arrangement, and (ii) Disbursement of commercial loans from commercial lenders such as the Trade & Development Bank (TDB) and the African Development Bank. On revenue collection, we expect continued improvement in 2025 due to the raft of measures the new administration has put in place to boost tax collection such implementation of the Finance Act 2023 which revised a number of taxes upwards and widened the tax base to include the informal sector and digital services. The tax regime has also taken measures to strengthen tax administration by leveraging on technology to seal leakages, rolling out a Tax Invoice Management System (e-TIMS), and enhancing both the iTax platform and the Integrated Customs Management System (iCMS). However, the upward revision of taxes comes at a time when the disposable income is reducing leading to a lot of opposition weighing down on the projected revenue performance. Notably, the withdrawal of the Finance Bill 2024 which sought to raise Kshs 344.3 bn in additional revenue to fund the FY'2024/25 Budget has constrained the government revenue collection efforts, with the total revenue collected as at the end of November 2024 amounting to Kshs 940.9 bn, equivalent to 35.8% of the revised estimates of Kshs 2,631.4 bn for FY'2024/2025 and is 85.8% of the prorated estimates of Kshs 1,096.4 bn. The government is also employing a raft of measures to boost revenue collection through non-tax channels by streamlining its services to the public e.g. Citizen services, the Ministry of Lands and Immigration services and proposals to broaden the tax base through the Tax Laws Amendment Bill 2024. However, the upward revision of taxes comes at a time when the business environment remains subdued, underpinned by the increased taxation that has suppressed business production levels weighing down on the projected revenue performance. Additionally, the Tax Laws Amendment Bill 2024 that introduced significant tax reforms including increased tax-exempt limits for non-cash benefits, gratuity, and pension contributions, alongside deductions for contributions to the Affordable Housing Levy and other funds, exemptions for business transfers, locally assembled electric vehicles, and goods from AfCFTA countries from VAT or excise duty, could further reduce revenue collection from certain tax heads;	**Negative**

Exchange Rate	• We expect the shilling to remain within a range of Kshs 120.9 and Kshs 140.5 against the USD by the end of 2025 with a bias towards a 4.6% depreciation by the end of the year. In 2025, the shilling is likely to face continued pressure due to: i) Persistent current account deficit resulting in increased demand for foreign currency hence putting more strain on the local currency, ii) The high debt servicing costs which continue to put pressure on forex, and, iii) Elevated risk of increase in global crude oil prices as a result of supply chain constraints following the rising geopolitical tension in the Middle East. However, we expect Improved diaspora remittances to support the shilling coupled with expected dollar inflows from both commercial and concessional financing, boosting the country's forex reserves.	**Neutral**
Interest Rates	• Given the expansionary policy stance utilized towards the end of in 2024, we expect the same to continue in 2025 as the Monetary Policy Committee evaluates the effect of the lower CBR on the country's inflation rate and local currency performance in a bid to support private sector credit and lower borrowing costs for the government leading to a spur in economic growth. However, we expect the yield curve to normalize in the short to medium-term as the government turns to increased external borrowing alleviating pressure on the domestic market;	**Positive**
Inflation	• We expect inflation to average 5.3% in 2025, within the government target range of 2.5% - 7.5% due to inflationary pressure arising from high electricity prices, elevated fuel costs and potential exchange rate fluctuations on the Kenyan shilling.	**Neutral**
GDP	• We anticipate the economic growth to continue on its recovery trajectory in 2025, with the GDP growth rate ranging between 5.0% - 5.4%. We expect the GDP growth to be supported by the continued recovery of the agricultural sector and a robust performance in the services sector driven by growth in information and technology as well as accommodation and food services as a result of increased tourism. However, there are several risks could potentially hinder this growth such as the high risk of debt distress, elevated inflationary pressures and currency depreciation.	**Neutral**
Investor Sentiment	• We expect the high positive investor sentiments witnessed in 2024 to persist through the short to medium term of 2025, mainly due to; i) Anchored inflationary pressures driven by reduced fuel costs, ii) Stability of the Kenyan currency as a result of decreased dollar demand from importers, especially for oil and energy sectors, and iii) Recovery of the private sector as the low interest rate environment reduces borrowing costs leading to an uptick in the business environment.	**Positive**
Security	• We expect security to remain a concern in 2025 due to an unstable political environment, driven by ongoing political tensions and continued opposition to the current regime.	**Negative**

The change from last year's outlook is:

a) Interest Rate to Positive from Neutral necessitated by the expansionary monetary policy which is expected to be maintained in the short to medium term of 2025 to support private sector credit given the anchored inflation and stable shilling.
b) Security to Negative from Positive attributable to the political instability and opposition against the current regime.
c) Exchange rate to Neutral from Negative attributable to the stable Kenya shilling. We however expect the Shilling to face fluctuation pressures given the continued rate cuts by the CBK and the ever-present current account deficit and increasing debt service costs which continue to put pressure on the forex reserves.

Out of the seven metrics that we track, three have a neutral outlook, two have a negative outlook and two have a positive outlook; from last year where four had a neutral outlook, two had a negative outlook and one had a positive outlook. Our general outlook for the macroeconomic environment remains NEUTRAL for 2025, unchanged from 2024.

D. Fixed Income Outlook

The government is currently 128.3% ahead its prorated domestic borrowing target, having a net borrowing of Kshs 502.2 bn domestically, against the pro-rated target of Kshs 219.9 bn, and 23.0% ahead of the total net domestic borrowing target of Kshs 408.4 bn for FY'2024/25, suggesting aggressive borrowing from the local market mainly on the back of the high debt maturities. We expect a moderate downward pressure on the interest rates, supported by the Central Bank of Kenya's accommodative monetary policy stance and general economic improvement. While the international capital markets remain challenging, the reduced inflationary environment, easing global interest rates is expected to alleviate investor demands for high yields, though elevated debt servicing costs could still weigh on fiscal sustainability.

Below is a summary of treasury bills and bond maturities and the expected borrowings over the same period. The government will need to borrow Kshs 110.0 bn on average each month for the rest of the fiscal year to meet the domestic borrowing target of Kshs 408.4 bn for the FY'2024/2025, and cover T-bill and T-bond maturities, as illustrated in the graph below:

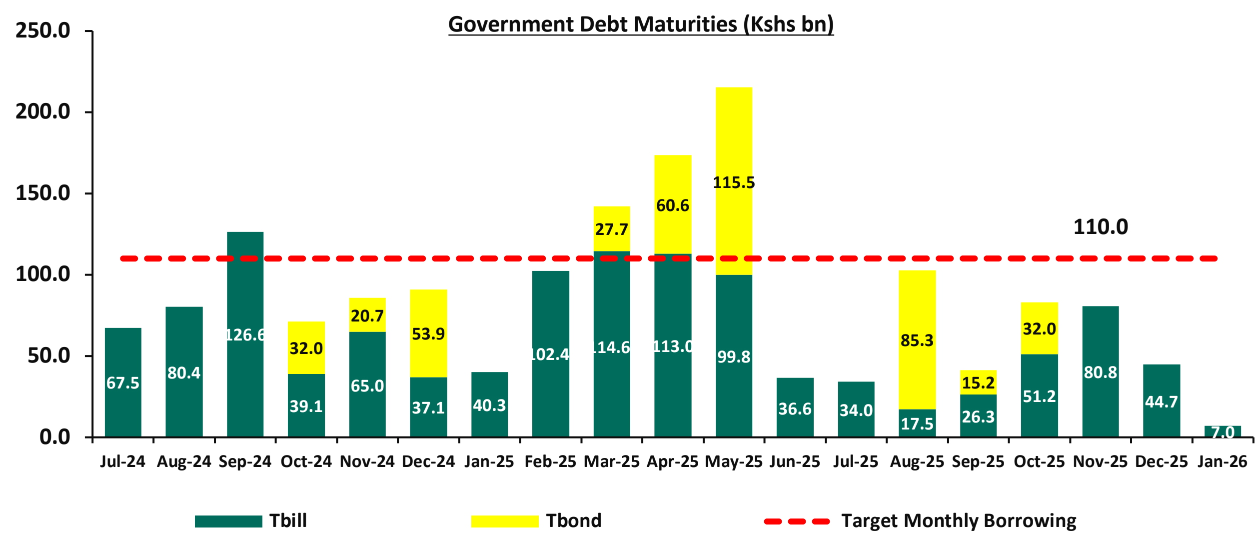


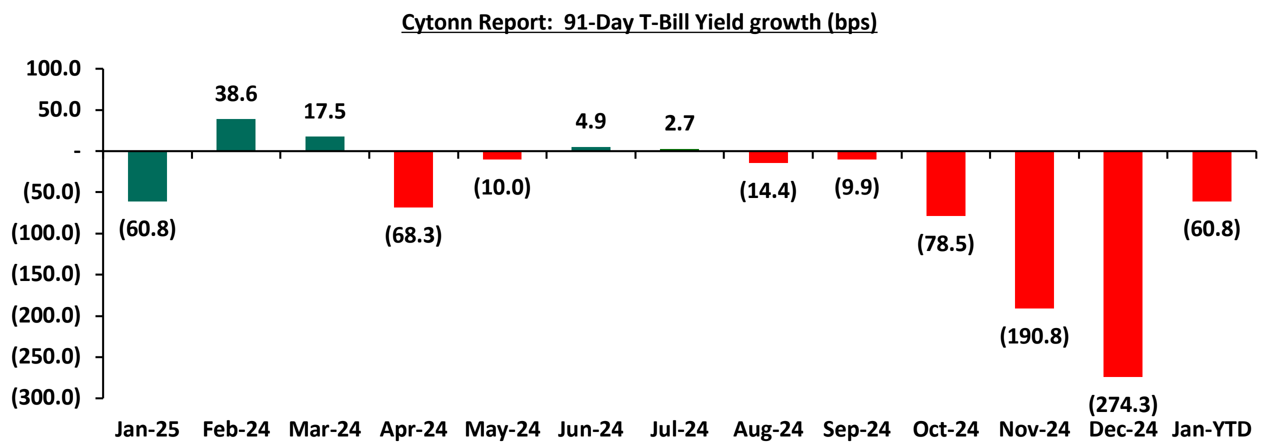
Fig: Schedule of Treasury bills and bonds maturities and the expected target borrowings in the 2024-2025 fiscal year to cater for the maturities and additional government borrowing.

Weekly Market Performance;

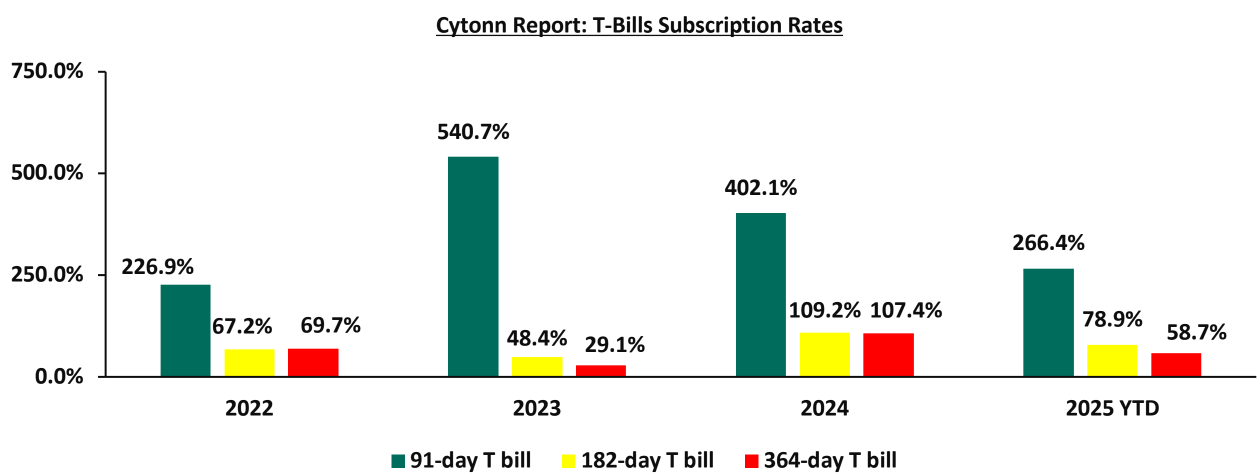
Money Markets, T-Bills Primary Auction:

During the week, T-bills were oversubscribed for the first time in five weeks, with the overall oversubscription rate coming in at 138.1%, higher than the undersubscription rate of 65.4% recorded the previous week. Investors' preference for the shorter 91-day paper persisted, with the paper receiving bids worth Kshs 13.3 bn against the offered Kshs 4.0 bn, translating to an oversubscription rate of 333.1%, significantly higher than the oversubscription rate of 199.7% recorded the previous week. The subscription rates for the 182-day and 364-day papers increased to 97.1% and 101.1% respectively from 60.8% and 16.3% respectively recorded the previous week. The government accepted a total of Kshs 24.5 bn worth of bids out of Kshs 33.1 bn bids received, translating to an acceptance rate of 73.8%. The yields on the government papers were on a downward trajectory, with the yields on the 91-day papers declining the most by 23.2 bps to 9.6% from 9.8%, while the yields on the 182-day paper declined by 0.1

bps to remain relatively unchanged at 10.0% % and the yields on the 364-day paper declined by 3.7 bps to 11.3% from the 11.4% recorded the previous week. The chart below shows the yield growth rate for the 91-day paper over the period:

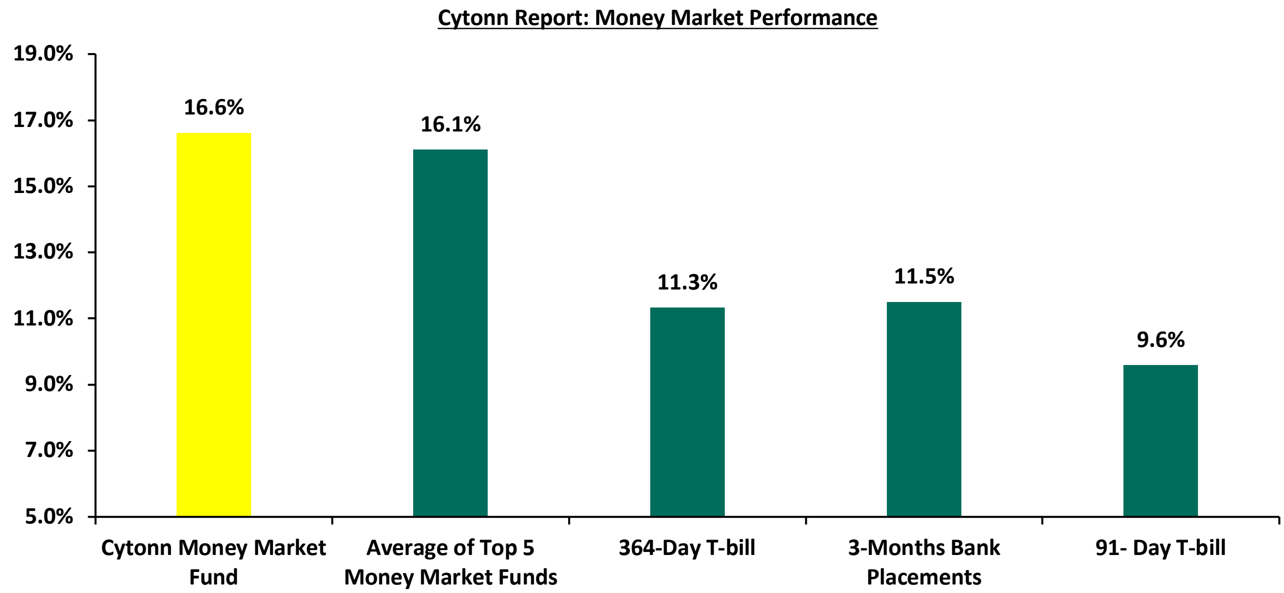


The chart below compares the overall average T-bill subscription rates obtained in 2022, 2023, 2024 and 2025 Year-to-date (YTD);



Money Market Performance:

In the money markets, 3-month bank placements ended the week at 11.5% (based on what we have been offered by various banks), and yields on the government papers decreased, with the yields on the 364-day and 91-day papers decreasing by 3.7 bps and 23.2 bps to 11.3% and 9.6% respectively, from 11.4% and 9.8% respectively recorded the previous week. The yield on the Cytonn Money Market Fund declined by 23.0 bps to 16.6% from the 16.8% recorded the previous week, while the average yields on the Top 5 Money Market Funds decreased by 11.0 bps to close the week at 16.1%, from 16.2% recorded the previous week.



The table below shows the Money Market Fund Yields for Kenyan Fund Managers as published on 10th January 2025:

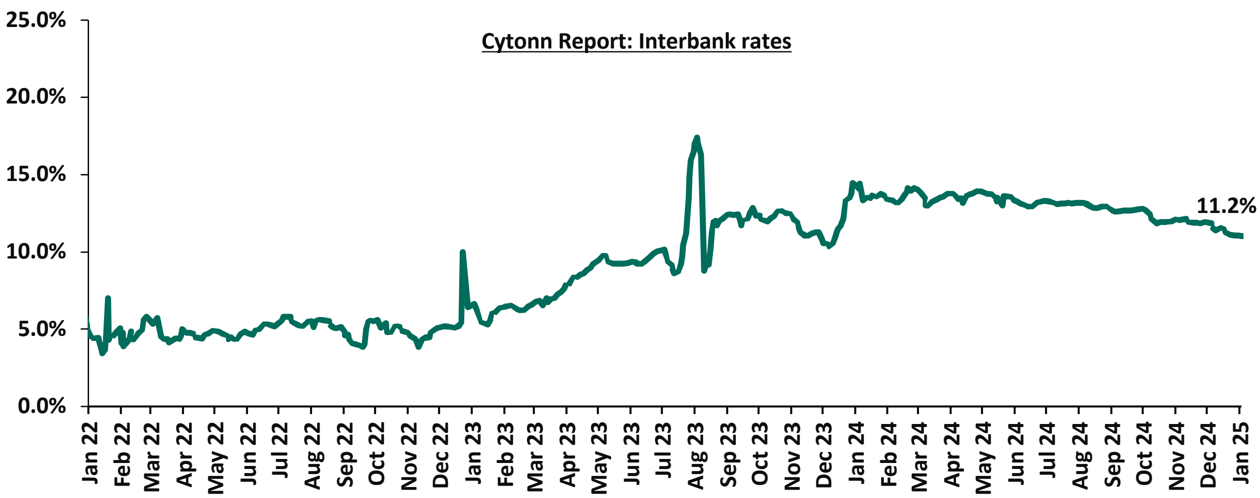
Money Market Fund Yield for Fund Managers as published on 10th January 2025		
Rank	**Fund Manager**	**Effective Annual Rate**
1	Cytonn Money Market Fund USD (Dial *809# or download the Cytonn app)	16.6%
2	Lofty-Corban Money Market Fund	16.3%
3	Gulfcap Money Market Fund	16.3%
4	Etica Money Market Fund	15.9%
5	Ndovu Money Market Fund	15.5%
6	Kuza Money Market fund	15.4%
7	Mali Money Market Fund	15.2%
8	Arvocap Money Market Fund	15.1%
9	Orient Kasha Money Market Fund	14.2%
10	Dry Associates Money Market Fund	13.7%
11	Sanlam Money Market Fund	13.7%
12	Madison Money Market Fund	13.6%
13	Faulu Money Market Fund	13.6%
14	Co-op Money Market Fund	13.3%
15	KCB Money Market Fund	13.3%
16	Nabo Africa Money Market Fund	13.1%
17	British-American Money Market Fund	13.1%
18	Genghis Money Market Fund	13.0%
19	Jubilee Money Market Fund	12.9%
20	Enwealth Money Market Fund	12.9%
21	Apollo Money Market Fund	12.9%

22	GenAfrica Money Market Fund	12.8%
23	Ziidi Money Market Fund	12.8%
24	Absa Shilling Money Market Fund	12.7%
25	CIC Money Market Fund	12.7%
26	Old Mutual Money Market Fund	12.6%
27	ICEA Lion Money Market Fund	12.5%
28	Mayfair Money Market Fund	12.1%
29	AA Kenya Shillings Fund	11.7%
30	Stanbic Money Market Fund	11.1%
31	Equity Money Market Fund	7.0%

Source: Business Daily

Liquidity:

During the week, liquidity in the money markets marginally tightened, with the average interbank rate increasing by 3.9 bps remaining relatively unchanged at 11.1% recorded the previous week, partly attributable to the tax remittances that offset government payments. The average interbank volumes traded increased by 52.3% to Kshs 34.6 bn from Kshs 22.7 bn recorded the previous week. The chart below shows the interbank rates in the market over the years:



Kenya Eurobonds:

During the week, the yields on Eurobonds were on a downward trajectory, with the yields on the 13-year Eurobond issued in 2021 decreasing the most by 32.6 bps, to 9.8% from 10.1% recorded the previous week. The table below shows the summary of the performance of the Kenyan Eurobonds as of 9th January 2025:

Cytonn Report: Kenya Eurobonds Performance						
	2018		2019		2021	2024
Tenor	10-year issue	30-year issue	7-year issue	12-year issue	13-year issue	7-year issue
Amount Issued (USD)	1.0 bn	1.0 bn	0.9 bn	1.2 bn	1.0 bn	1.5 bn
Years to Maturity	3.1	23.1	2.4	7.4	9.5	6.1
Yields at Issue	7.3%	8.3%	7.0%	7.9%	6.2%	10.4%
02-Jan-25	9.1%	10.3%	8.5%	10.1%	10.1%	10.1%
03-Jan-25	8.9%	10.1%	8.5%	9.9%	9.9%	9.9%

06-Jan-25	8.9%	10.0%	8.3%	9.8%	9.8%	9.8%
07-Jan-25	8.8%	10.0%	8.3%	9.7%	9.7%	9.7%
08-Jan-25	8.8%	10.0%	8.4%	9.8%	9.8%	9.8%
09-Jan-25	8.8%	10.0%	8.3%	9.7%	9.8%	9.8%
Weekly Change	**(0.3%)**	**(0.3%)**	**(0.2%)**	**(0.3%)**	**(0.3%)**	**(0.3%)**
MTD Change	**(0.3%)**	**(0.3%)**	**(0.2%)**	**(0.3%)**	**(0.3%)**	**(0.3%)**
YTD Change	**(0.3%)**	**(0.3%)**	**(0.2%)**	**(0.3%)**	**(0.3%)**	**(0.3%)**

Source: Central Bank of Kenya (CBK)

Debt sustainability concerns continue to persist in the Sub-Saharan Africa (SSA) region in 2025 amid a slow post-pandemic recovery and elevated inflationary pressures. In 2024, several Sub-Saharan African (SSA) countries re-entered the Eurobond market after a period of inactivity. In January 2024, Côte d'Ivoire issued Eurobonds totaling USD 2.6 bn with maturities of nine and thirteen years, offering a coupon rate of 8.5%. In February 2024, Benin entered the market with a 14-year, dollar-denominated Eurobond worth USD 750.0 mn at a coupon rate of 8.375%. This marked Benin's first dollar-denominated bond issuance and Kenya issued a seven-year Eurobond, raising USD 1.5 bn at a rate of 10.375%. Lastly, in June 2024, Senegal became the fourth SSA nation to issue a Eurobond, raising USD 750.0 mn with a maturity in 2031 at a coupon rate of 7.75%. These issuances highlight a cautious reopening of international capital markets to SSA countries, despite prevailing global financial challenges. In 2025, Sub-Saharan Africa's Eurobond market is projected to experience a cautious yet optimistic outlook. The region's economic recovery is expected to continue, with growth IMF projections reaching 4.0% in 2025. Several countries are anticipated to re-enter the Eurobond market to address fiscal deficits and refinance maturing debts. The table below shows the SSA countries that have issued Eurobonds and their respective risk of debt distress;

Cytonn Report: Sub-Saharan Africa Eurobond Countries					
Country	**Debt to GDP Ratio (2022, IMF)**	**Debt to GDP Ratio (2023, IMF Projected)**	**Debt Service to Revenue Ratio**	**Risk of overall debt distress (Joint IMF & Word bank DSA)**	**Current Situation**
Zambia	98.5%	98.3%	61.0%	In debt distress	External Debt Restructuring Ongoing
Ghana	92.4%	84.9%	97.1%	In debt distress	External and domestic debt restructuring ongoing
Angola	66.7%	84.9%	19.5%	High risk of debt distress	No debt restructuring ongoing
Senegal	76.6%	81.0%	21.7%	Moderate risk of debt distress	No debt restructuring ongoing
South Africa	71.1%	73.7%	36.2%	High risk of debt distress	No debt restructuring ongoing
Kenya	66.7%	70.1%	56.8%	High risk of debt distress	No debt restructuring ongoing
Namibia	69.8%	67.6%	13.8%	High risk of debt distress	No debt restructuring ongoing
Gabon	57.7%	64.9%	48.9%	Moderate risk of debt distress	No debt restructuring ongoing
Rwanda	61.1%	63.3%	30.1%	Moderate risk of debt distress	No debt restructuring ongoing
Seychelles	61.5%	60.8%	-	High risk of debt distress	No debt restructuring ongoing
Ivory Coast	56.8%	56.8%	34.0%	Moderate risk of debt distress	No debt restructuring ongoing

Benin	54.2%	53.0%	64.7%	Moderate risk of debt distress	No debt restructuring ongoing
Tanzania	42.3%	42.6%	14.2%	Moderate risk of debt distress	No debt restructuring ongoing
Cameroon	45.5%	41.9%	51.6%	High risk of debt distress	No debt restructuring ongoing
Nigeria	39.6%	38.8%	57.1%	Moderate risk of debt distress	Domestic Debt Restructuring
Ethiopia	46.4%	37.9%	16.8%	In debt distress	External Debt Restructuring Ongoing
Average	**62.9%**	**63.8%**	**41.4%**		

Sources: International Monetary Fund (IMF) 2023 economic outlook & Joint Debt Sustainability Analysis (DSA), World Bank

Key take-outs in the table include

i. Three countries already defaulted on their debt: Ghana, Zambia and Ethiopia are already in debt distress, and have already initiated different forms of debt restructuring, especially at the G20,
ii. The average debt servicing consumes above 41.4% of the total revenue collected, translating to less allocation for development purposes, and,
iii. Although Kenya's debt to GDP ratio is projected to increase to 70.1% in 2023 from 66.7% in 2022, the government's debt appetite might push the ratio higher, having recorded a debt to GDP ratio of 71.8% as of June 2024, despite the current administration's initiatives towards fiscal consolidation

Kenya Shilling:

During the week, the Kenya Shilling depreciated marginally against the US Dollar by 15.2 bps, to close the week at Kshs 129.5, from the Kshs 129.3 recorded the previous week. On a year-to-date basis, the shilling has depreciated marginally by 0.1% against the dollar, compared to the 17.4% appreciation recorded in 2024.

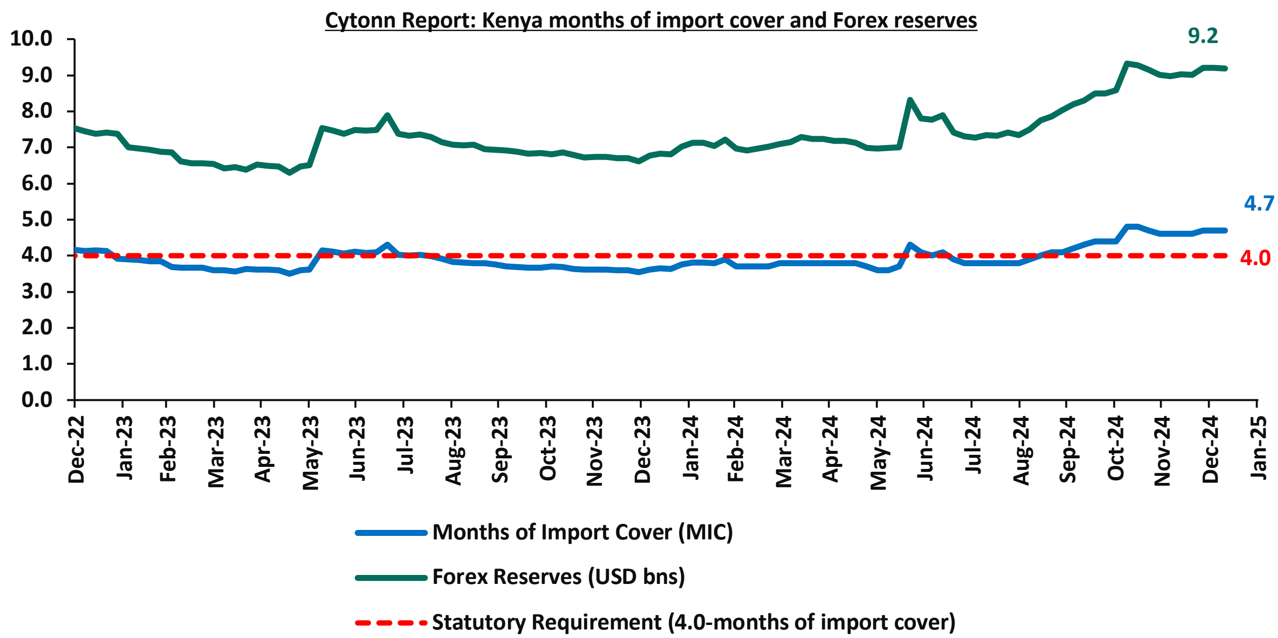
We expect the shilling to be supported by:

i. Diaspora remittances standing at a cumulative USD 4,872.0 mn in the 12 months to November 2024, 16.7% higher than the USD 4,175.0 mn recorded over the same period in 2023. In the November 2024 diaspora remittances figures, North America remained the largest source of remittances to Kenya accounting for 53.4% in the period, and,
ii. The tourism inflow receipts which came in at USD 352.5 bn in 2023, a 31.5% increase from USD 268.1 bn inflow receipts recorded in 2022, and owing to tourist arrivals that improved by 14.9% in the 12 months to October 2024, compared to a similar period in 2023.
iii. Improved forex reserves currently at USD 9.2 bn (equivalent to 4.7-months of import cover), which is above the statutory requirement of maintaining at least 4.0-months of import cover and the EAC region's convergence criteria of 4.5-months of import cover.

The shilling is however expected to remain under pressure in 2025 as a result of:

i. An ever-present current account deficit which came at 3.5% of GDP in Q3'2024 from 3.9% recorded in Q3'2023, and,
ii. The need for government debt servicing, continues to put pressure on forex reserves given that 67.2% of Kenya's external debt is US Dollar-denominated as of June 2024.

Key to note, Kenya's forex reserves decreased marginally by 0.2% during the week, to remain relatively unchanged at USD 9.2 bn recorded in the previous week, equivalent to 4.7 months of import cover, unchanged from last week, and above the statutory requirement of maintaining at least 4.0-months of import cover. The chart below summarizes the evolution of Kenya's m`15678uionths of import cover over the years:



Weekly Highlights:

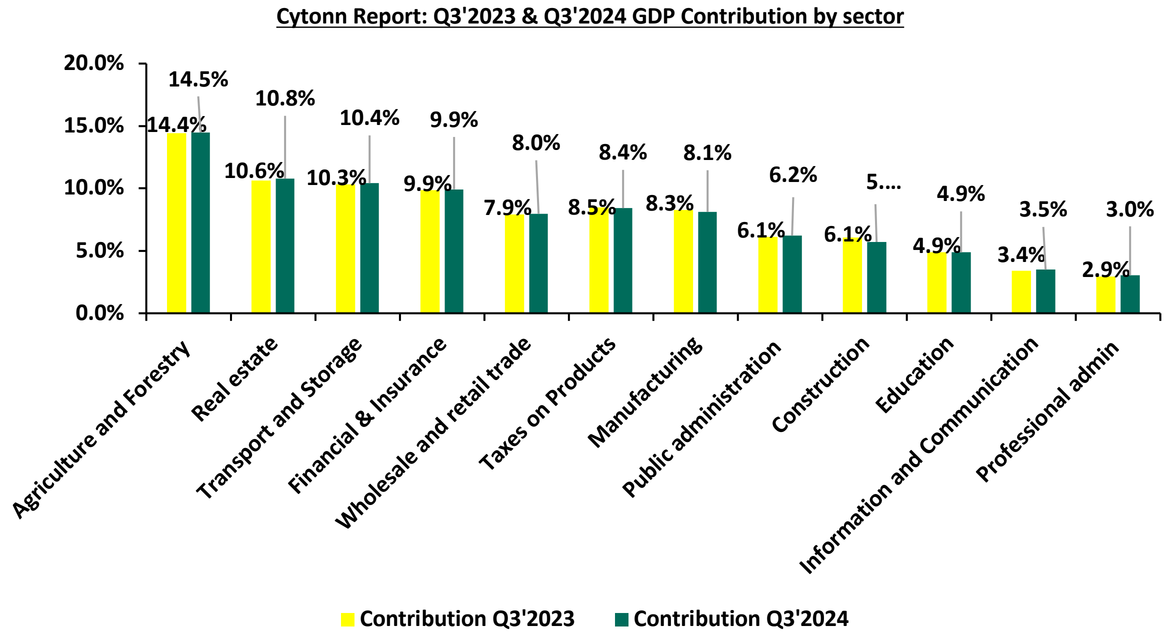
I. Kenya Q3'2024 GDP Growth

The Kenya National Bureau of Statistics (KNBS) released the [Q3'2024 Quarterly Gross Domestic Product Report](), highlighting that the Kenyan economy recorded a 4.0% growth in Q3'2024, slower than the 6.0% growth recorded in Q3'2023. The main contributor to Kenyan GDP remains to be the Agriculture, fishing and forestry sector which grew by 4.2% in Q3'2024, lower than the 5.1% expansion recorded in Q3'2023. All sectors in Q3'2024, except Mining and Quarrying and Construction recorded positive growths, with varying magnitudes across activities. Most sectors recorded declining growth rates compared to Q3'2023 with Accommodation and Food Services, Mining & Quarrying and Financial & Insurance Sectors recording the highest declines of 20.8%, 11.9% and 10.8% points, respectively. Other sectors that recorded a contraction in growth rate, from what was recorded in Q3'2023 were Construction, Electricity and Water Supply and Real Estate of 6.0%, 2.4% and 2.2% points respectively.

The key take-outs from the report include;

- **Sectoral Contribution to Growth** - The biggest gainer in terms of sectoral contribution to GDP was the Real Estate sector, increasing by 0.2% points to 10.8% in Q3'2024 from 10.6% in Q3'2023, while the Construction was the biggest loser, declining by 0.4% points to 5.7% in Q3'2024, from 6.1% in Q3'2023. Real Estate was the second largest contributor to GDP at 10.8% in Q3'2024, up from 10.6% recorded in Q3'2023, indicating sustained growth. The Accommodation and Food Services sector recorded the highest growth rate in Q3'2024 growing by 13.7%, albeit slower than the 34.5% growth recorded in Q3'2023.

The chart below shows the top contributors to GDP by sector in Q3'2023 and Q3'2024:



Source: KNBS Q3'2023 and Q3'2024 GDP Report

- **Slowed growth in the Agricultural Sector** – Agriculture and Forestry recorded a growth of 4.2% in Q3'2024. The performance was a decrease of 0.9% points, from the expansion of 5.1% recorded in Q3'2023. Additionally, the sector remains the major contributor to GDP, with the sectoral contribution to GDP marginally increasing by 0.1% to 14.5% in Q3'2024, from 14.4% recorded in Q3'2023.The positive growth recorded during the quarter was mainly attributable to favorable weather conditions that characterized the first three quarters of 2024. Notably, during the quarter, production of key food crops and cash crops increased with a significant increase in the production of sugarcane and volume of milk during the quarter under review. However, the performance was weighed down by decline in the production of tea.
- **Reduced growth in the Financial and Insurance Services Sector**: The Financial and Insurance sector growth rate slowed down by 10.8% points to 4.7% in Q3'2024 compared to the 15.5% in Q3'2023, attributable to the rise in cost of credit during the period. Additionally, the contribution to GDP increased by 0.07% points to remain relatively unchanged from the 9.9% recorded in Q3'2023. Some of the notable improvements include:
    1. Broad money supply (M3) grew by 2.6% to KSh 6.0 trillion as at end of September 2024, from Ksh 5.8 trillion recorded as at the end of September 2023.
    2. The NSE 20 Share Index rose by 17.8% to 1,776.0 points in September 2024 from 1,508.0 points in September 2023, signaling improved performance in the equity market.

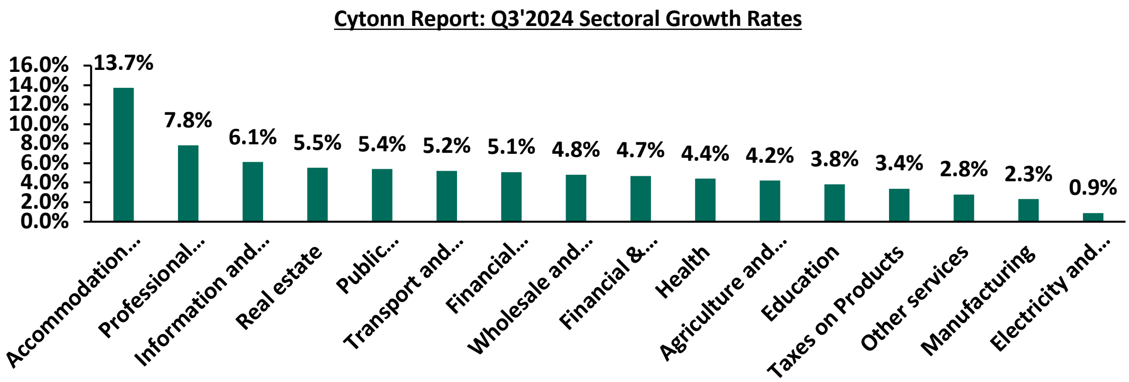
  However, growth in this sector was weighed down by;

    1. The number of shares traded in the Nairobi Securities Exchange decreased by 21.2% to 334.0 mn in September 2024 from 424.0 million in September 2023. Similarly, the total value of traded shares decreased by 3.8% in September 2024 to 5.0 billion from 5.2 billion in September 2023

- **Decelerated growth in the electricity supply sector** - The Electricity and Water Supply sector recorded a slowed growth of 0.9% in Q3'2024 compared to a 3.3% growth in a similar period of review in 2023, with the sectoral contribution to GDP marginally decreasing to 2.5% points in Q3’2024, from 2.6% recorded in Q3’2023.

- **Sustained growth in the Accommodation and Food Service sector**: Accommodation and Food Services sector is the only sector that recorded double digit growth in Q3’2024, having expanded by 13.7%, albeit slower than the 34.5% recorded in Q3’2023. Additionally, the contribution to GDP increased by 0.1% points, to 1.4% in Q3’2024, from1.3% recorded in Q3’2023.

The chart below shows the different sectoral GDP growth rates for Q4’2024:



Source: KNBS Q3’2024 GDP Report

In 2025, we expect the economy to grow at a faster pace in the range of 5.2%-5.5% due to the improved business activity on the back of stronger and stable Shilling, reduced borrowing costs and eased inflation rate. We however expect the growth to be subdued by the challenging business environment, driven by increasing taxes and elevated costs of living. However, recent economic developments, including the Central Bank of Kenya's (CBK) decision to lower the Central Bank Rate (CBR) in its December 2024 meeting by 75.0 bps to 11.25% and the anticipated further reduction in the subsequent meetings, have provided a more accommodative monetary policy stance. This shift, combined with the significant easing of inflation, currently at 3.0% as of December 2024, is expected to alleviate some pressure on the cost of credit, thereby improving access to affordable borrowing. The lower CBR is likely to support investment spending by both individuals and businesses, contributing positively to economic activity. Inflation remains well within the CBK's target range of 2.5%-7.5%, and while risks of rising fuel prices persist due to global geopolitical tensions, the overall inflation outlook is more favorable. Despite this, consumer purchasing power remains somewhat constrained due to increased taxation and high cost of living, which may limit demand for goods and services, moderating economic growth. On a positive note, the agricultural sector, Kenya's largest contributor to GDP, is expected to continue supporting growth due to favorable rainfall, while easing inflationary pressures and a strengthening Shilling provide further optimism for the economic outlook.

II. Kenya Q3’2024 Balance of Payments

Kenya’s balance of payment (BoP) position improved significantly by 113.5% in Q3’2024, to a surplus of Kshs 17.8 bn, from a deficit of Kshs 131.5 bn in Q3’2023, and a 78.9% decline from the Kshs 84.1 bn surplus recorded in Q2’2024. The y/y positive performance in BoP was mainly driven by a significant 5,756.4% improvement in the financial account balance to a surplus of Kshs 62.9 bn in Q3’2024, from a deficit of Kshs 1.1 bn in Q3’2023. The performance was however weighed down by a 60.4% deterioration in the capital account balance to a surplus of Kshs 1.4 bn from a surplus of Kshs 3.4 bn in Q3’2023. The table below shows the breakdown of the various balance of payments components, comparing Q3’2023 and Q3’2024:

Item	Q3'2023	Q3'2024	Y/Y % Change

Current Account Balance	(139.8)	(139.2)	0.4%
Capital Account Balance	3.4	1.4	(60.4%)
Financial Account Balance	(1.1)	62.9	5,756.4%
Net Errors and Omissions	6.0	92.7	1442.5%
Balance of Payments	**(131.5)**	**17.8**	113.5%

All values in Kshs bns

Key take-outs from the table include;

i. The current account deficit (value of goods and services imported exceeds the value of those exported) narrowed by 0.4% to Kshs 139.2 bn from Kshs 139.8 bn in Q3'2023. The y/y narrowing of the current account was brought about by the 37.0% improvement in the services trade balance to a surplus of Kshs 24.4 bn from a surplus of Kshs 17.8 bn in Q3'2023, coupled with a 2.6% increase in secondary income/transfers to Kshs 258.0 bn from Kshs 251.5 bn in Q3'2023,
ii. The capital account balance (shows capital transfers receivable and payable between residents and non-residents, including the acquisition and disposal of non-produced non-financial items), which includes foreign direct investments (FDIs), decreased by 60.4% to a surplus of Kshs 1.4 bn in Q3'2024 down from a surplus of Kshs 3.4 bn in Q3'2023,
iii. The financial account balance (the difference between the foreign assets purchased by domestic buyers and the domestic assets purchased by foreign buyers) recorded a net inflow of Kshs 62.9 billion in Q3 2024, compared to a net outflow of Kshs 1.1 billion in Q3 2023, attributable to increased inflows of debt securities and other investments, in spite of the reduced loan disbursements to general government. During the review period, the government did not receive credit and loans from the International Monetary Fund (IMF),
iv. Consequently, the Balance of Payments (BoP) position improved to a deficit of Kshs 17.8 bn in Q3'2024, from a deficit of Kshs 131.5 bn recorded in Q3'2023.

Current Account Balance

Kenya's current account deficit narrowed marginally by 0.4% to Kshs 139.2 bn in Q3'2024 from the Kshs 139.8 bn deficit recorded in Q3'2023. The y/y contraction registered was driven by:

i. A 37.0% improvement in the services trade balance to a surplus of Kshs 24.4 bn from a surplus of Kshs 17.8 bn in Q3'2023,
ii. Secondary income/transfers surplus (the transactions recorded in the secondary income account pertain to those current transfers between residents and non-residents that directly affect the level of gross national disposable income and thus influence the economy's ability to consume goods and services) increased marginally by 2.6% to Kshs 258.0 bn from Kshs 251.5 bn in Q3'2023 and,
iii. The narrowing of the primary income deficit (the earnings that residents of a country receive from their investments abroad and the compensation they receive for providing labor to foreign entities) by 1.5% to Kshs 80.6 bn in Q3'2024, from Kshs 81.8 bn recorded in Q3'2023.

The table below shows the breakdown of the various current account components on a year-on-year basis, comparing Q3'2024 and Q3'2023:

Item	Q3'2023	Q3'2024	Y/Y % Change
Merchandise Trade Balance	(327.3)	(341.0)	(4.2%)
Services Trade Balance	17.8	24.4	37.0%
Primary Income Balance	(81.8)	(80.6)	1.5%
Secondary Income (transfer) Balance	251.5	258.0	2.6%
Current Account Balance	**(139.8)**	**(139.2)**	0.4%

All values in Kshs bns

Kenya's balance of payments improved in Q3'2024, mainly on the back of a 5,756.4% improvement in the financial account balance to a surplus of Kshs 62.9 bn in Q3'2024, from a deficit of Kshs 1.1 bn in Q3'2023 reflecting significant inflows of financing to the country, possibly in government securities. The current account deficit (value of goods and services imported exceeds the value of those exported) narrowed by 0.4% to Kshs 139.2 bn from Kshs 139.8 bn in Q3'2023. The y/y narrowing of the current account was brought about by the 37.0% improvement in the services trade balance to a surplus of Kshs 24.4 bn from a surplus of Kshs 17.8 bn in Q3'2023, coupled with a 2.6% increase in secondary income/transfers to Kshs 258.0 bn from Kshs 251.5 bn in Q3'2023, which outpaced the 4.2% deterioration in Merchandise trade deficit to Kshs 341.0 bn in Q3'2024, from Kshs 327.3 bn in Q3'2023. Looking ahead, the outlook for Kenya's current account is optimistic, as continued growth in key export sectors and sustained diaspora remittances are expected to further improve the current account balance. Efforts to diversify exports and enhance value addition in agricultural products, along with prudent fiscal and monetary policies, will be crucial in sustaining this positive trajectory. Furthermore, the ongoing stability of Kenyan Shilling against most trading currencies is expected to lower the import bill hence narrowing the current account deficit. We expect that the current administration's focus on fiscal consolidation will improve the balance of payments performance by minimizing the costs of servicing external debts. Additionally, the favorable weather conditions and government intervention through subsidy programs are set to boost agricultural production in the country, thereby increasing the export of agricultural products, and supporting the current account. We anticipate that the balance of payments will continue being stable with the help of multiple trade agreements, such as the one between Kenya and the EU and the one among the EAC, SADC and COMESA, as the agreements will boost the amount and variety of exports that are needed and offer more opportunities to sell them.

III. Stanbic Bank's December 2024 Purchasing Manager's Index (PMI)

In December 2024, the Stanbic Bank Kenya PMI showed a marginal improvement in business conditions, with the index registering 50.6, slightly down from November's 50.9. This marked the third consecutive month of private sector growth, albeit at a slower pace. Increased output, new orders, and modest employment gains supported the marginal improvement, while inflationary pressures and muted business expectations posed challenges.

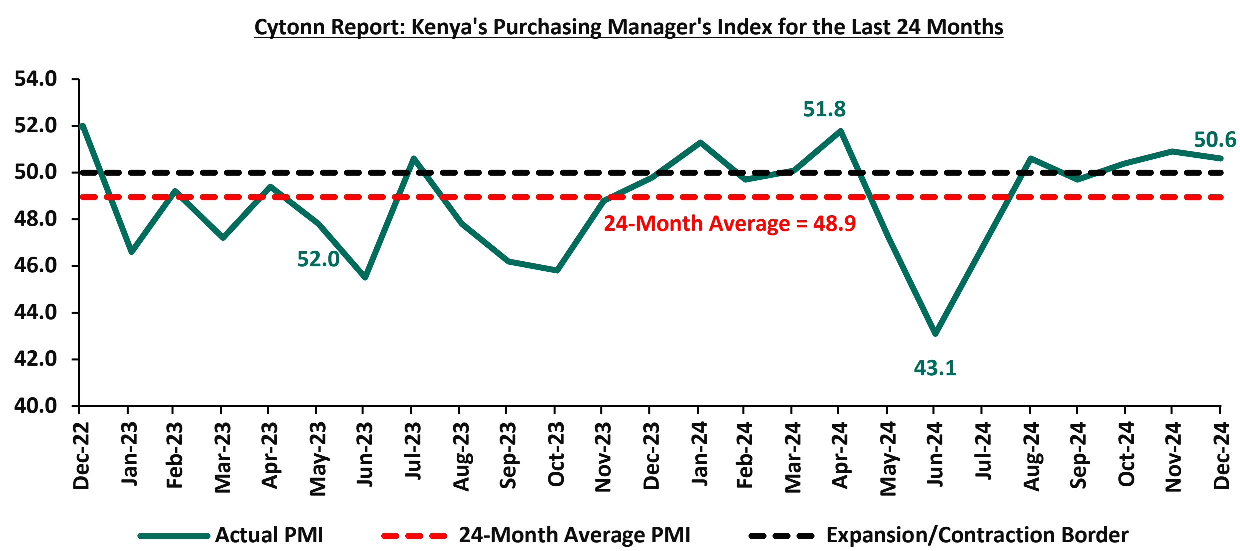
Kenya's private sector continued to see growth in output, driven by moderate increases in new orders, attributable to the improved purchasing power among customers, successful advertising efforts, and new bookings. Input buying also increased for the fifth consecutive month, reaching its highest pace since September 2022. However, the benefits of this growth were tempered by significant input cost inflation, with firms attributing higher costs to currency weakness, elevated taxes, and greater supplier fees.

Inflationary pressures led to firms raising their selling prices at the fastest rate in 2024, with agriculture and manufacturing sectors experiencing the highest levels of both input and output price inflation. Despite these challenges, businesses managed to reduce backlogs for the second time in three months, reflecting spare capacity within the private sector even as sales improved.

Employment growth remained minimal, with only the agriculture sector reporting a notable increase in staffing. Most firms maintained stable workforce levels, reflecting cautious hiring amid uncertain future growth prospects. Inventory levels also declined for the first time in five months, as businesses opted to reduce stock to avoid wastage.
Business expectations for the year ahead remained subdued, with optimism dropping to its second-lowest level in the survey's history. Only 5.0% of firms expressed confidence in increased activity over the next 12 months, citing planned expansions and new product and service launches as reasons for optimism.

Although the private sector maintained its growth trajectory, rising input costs, cautious employment trends, and weak business confidence highlight the fragile nature of this recovery. Sustained demand and strategic business expansions could provide some support in the short to medium term, but inflationary pressures and a challenging operating environment remain significant concerns.

The chart below summarizes the evolution of PMI over the last 24 months:



Going forward, we anticipate that the business environment will improve in the short to medium term as a result of the improving economic environment driven by lower interest rates following the easing monetary policy, the stability of the Kenyan Shilling against the USD and the low inflation and stable fuel prices. However, we expect businesses to be weighed down by the high cost of living coupled with the high taxation, which are set to increase input costs. Overall the private sector is expected to continue with the recovery albeit with potential headwinds in the coming months.

Rates in the Fixed Income market have been on a downward trend given the continued low demand for cash by the government and the improved liquidity in the money market. The government is 128.3% ahead of its prorated net domestic borrowing target of Kshs 219.9 bn, and 23.0% ahead of the total FY'2024/25 net domestic borrowing target of Kshs 408.4 bn, having a net borrowing position of Kshs 502.2 bn. However, we expect a continued downward readjustment of the yield curve in the short and medium term, with the government looking to increase its external borrowing to maintain the fiscal surplus, hence alleviating

pressure in the domestic market. As such, we expect the yield curve to normalize in the medium-term and hence investors are expected to shift towards the long-term papers to lock in the high returns.

E. Equities Outlook

We have a **BULLISH** outlook on the Kenyan Equities market in the short term but "**NEUTRAL**" in the medium to long term. We expect a continued improvement in the listed sector's earnings growth in 2025, largely driven by the expected 5.0%-5.4% GDP growth, decreased yields in the fixed income markets and the improvement of the country's business environment. The business environment showed signs of improvement in the last quarter of 2024, with the Purchasing Manager's Index (PMI) averaging at 50.6 in Q4'2024, higher than the year's average of 49.6. Additionally, the Kenyan currency appreciated against the major select currencies, gaining 17.4% against the USD dollar in 2024 indicating a stable economy. The investor flight which has still persisted in the early weeks of the year may, however, inhibit the growth of the equities market in the short-term.

In 2024, the Kenyan equities market was on an upward trajectory, with NSE 10 gaining the most by 42.9%, while NSE 25, NASI and NSE 20 gained by 42.5%,34.3% and 33.3%, respectively. The equities market performance was driven by gains recorded by large-cap stocks such as KCB Group, SCBK, Absa Bank, Diamond Trust Bank Kenya, Bamburi, and EABL of 89.5%, 74.6%, 56.3%, 54.2%, 52.8%, and 51.0% respectively. The performance was, however, weighed down by losses by large-cap stocks such BAT of 11.5%. The performance during the year was mainly attributable to decreased sell offs by foreign investors, ending the year at a net selling position of USD 17.4 mn compared to a net selling position of USD 92.0 mn recorded in 2023. Additionally, interest rate cuts in developed economies such as the United States caused dollar investments to be less appealing and thus increasing investors' appetite for riskier high-yield investments in emerging markets such as Kenya.

Following the good performance in the equities market in 2024, the market valuation closed the year at a price-to-earnings ratio (P/E) of 5.4x, 5.9% higher than the 5.1x recorded at the end of 2023 and 53.7% below the 15-year historical average of 11.7x. On the other hand, the equities market closed the year at a dividend yield of 6.0%, 1.4% points above the historical average of 4.6%. Additionally, equities turnover increased by 22.0% to USD 0.8 bn, from USD 0.6 bn recorded in FY'2023. Foreign investors remained net sellers, with a net outflow of USD 16.9 mn, compared to net outflows of USD 92.0 mn recorded in 2023. The year also saw 9 companies issuing profit warnings in 2024, as compared to 15 companies in 2023. The decrease in the number of companies that issued profit warnings in 2024 highlights the improving macroeconomic environment occasioned by the continued appreciation of the Kenyan Shilling against other global currencies and eased inflationary pressures which increased the purchasing power of consumers. However, the improved economic conditions were weighed down by increased taxes in addition to disruption of the global supply chain due to the challenging geopolitics resulting in high production costs. Key to note, companies are required to issue profit warnings if they project a more than 25.0% decline in profits year-on-year. For more information, see our [Cytonn Annual Markets Review - 2024].

Kenyan 2025 Equities Outlook

In 2025, we project the following factors to affect the direction of the Kenyan equities market:

i. **Corporate Earnings Growth:** We expect a slight improvement in the listed sector's earnings growth in 2025, largely driven by the expected 5.0%-5.4% GDP growth and the improvement of the country's business environment. The business environment showed signs of improvement in the last quarter of 2024, with the Purchasing Manager's Index (PMI) averaging at 50.6 in Q4'2024, higher than the year's average of 49.6. Additionally, the growth in Corporate Earnings is expected to be boosted by the continued expansion of operations into the Ethiopian telecommunication industry by Safaricom, which currently controls 35.5% of the Nairobi Securities Exchange (NSE). Further, we anticipate growth in the banking sector's earnings following the 24.6% growth in earnings in Q3'2024,

ii. **Attractive valuations**: The market valuations remained below the historical average, with NASI closing the year at a price-to-earnings ratio (P/E) of 5.4x, 53.7% below the 15-year historical average of 11.7x, and a dividend yield of 6.0%, 1.4% points above the historical average of 4.6%. Given these cheap valuations, we expect investors to take advantage of this and buy into the market,

iii. **Capital Markets Investor Sentiment:** We anticipate increased foreign interest in the equities market in 2025, driven by the relatively more stable Kenya's macroeconomic conditions, particularly the appreciation of the currency against the dollar and eased inflationary pressures. Additionally, there are still opportunities for value in the equities market, given the appealing valuations, with the NASI currently trading below its historical average. However, Kenya's macroeconomic conditions is expected to be challenged by the occasional political instability,

iv. **Private Capital Inflows:** The European Investment Bank (EIB) reports that Kenya ranked second in Africa for private capital investment, following South Africa. The financial services sector received the largest portion of these investments, accounting for 40.0%, alongside contributions to industrials, consumer products, information technology (IT), renewable energy, healthcare, conventional energy, and telecommunications. These investment inflows and Kenya's market appeal are expected to persist in the coming months, provided the Capital Markets Authority (CMA) fulfils its commitment to attracting foreign portfolio investments through initiatives such as corporate and sovereign Shariah-compliant capital market products, green finance, and carbon markets,

v. **Diversification of Capital Markets:** We anticipate increased activity by the Nairobi Securities Exchange (NSE) in 2025, as the Capital Markets Authority has signalled plans to focus on revitalizing the Over-the-Counter (OTC) trading system to boost market liquidity and,

vi. **Monetary Policy Direction:** In 2024, the Monetary Policy Committee (MPC) lowered the Central Bank Rate (CBR) by 175.0 bps from 13.00% in February to 11.25% in December, in a bid to support the economy, following anchored inflation rate falling to within the CBK's target range of 2.5%-7.5%, registering a 4.5% average in 2024 from the 7.7% average in 2023, as well as a stable exchange rate. The decrease in CBR has driven the yields on short-term government papers downwards, which is expected to make equities more attractive compared to government papers. Additionally, the improved liquidity will help support the equities market. We expect the MPC to continue lowering the CBR rates in the coming meetings in a bid to continue supporting the private sector, while also keeping an eye on the effect on the inflation and exchange rate.

Below, we summarize the metrics used in coming up with our 2025 Equities Outlook;

Cytonn Report: Equities Outlook Summary		
Equities Market Indicators	**Outlook for 2025**	**Current View**
Macro-Economic Environment	• We expect the GDP to grow within a range of 5.0%-5.4% in 2025, driven by the ongoing recovery of business activity, a projected rebound in the agricultural sector, and strong performance in the services sector, particularly in information technology and accommodation and food services, fuelled by increased tourism. Furthermore, the Central Bank of Kenya's Monetary Policy Committee's decision to lower the Central Bank Rate (CBR) is expected to support economic growth. • The key upside to this growth shall be the expansionary monetary policy, anchored inflation, and local currency stability against major currencies. Additionally, we expect the agricultural sector to be supported by the long rains witnessed across the country at the end of the year, coupled with	**Positive**

	recent fiscal policies such as subsidizing costs of crucial farm inputs such as fertilizers that will enhance growth in the sector	
Corporate Earnings Growth	• We expect an improvement in the listed sector's earnings growth in 2025, largely driven by the expected 5.0%-5.4% GDP growth, eased inflation, stable Shilling and the improvement of the country's business environment. Corporate earnings growth is projected to come in at 15.0% for 2025 compared to the projected 12.5% growth in 2024, • We also expect growth in the banking sector's earnings, driven by an anticipated rise in lending supported by the ongoing adoption of risk-based lending practices and banks' efforts to diversify their revenue streams.	**Positive**
Valuations	• With the market closing the year 2024 at a P/E of 5.4x, 53.7% below the 15-year historical average of 11.7x, and a dividend yield of 6.0%, 1.4% points above the historical average of 4.6%. This represents a potential upside of 55.1% compared to historical levels	**Positive**
Investor Sentiment and Security	• We anticipate a high foreign interest in the equities market in 2025, driven by the improved Kenya's macroeconomic conditions, save for the occasional political instability • Additionally, we believe there are still opportunities for value in the equities market, given the attractive valuations, as NASI is currently trading below its historical average.	**Neutral**

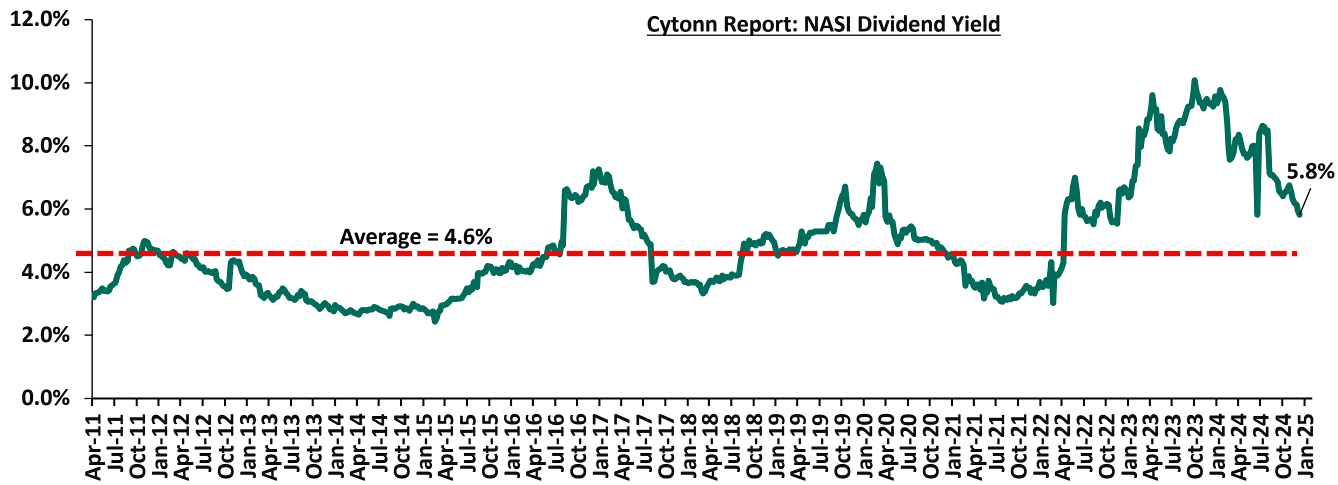
Out of the four metrics that we track, one has a "neutral" and three a "positive" outlook. Compared to 2024, we have maintained our positive outlook on the valuations of the market. In consideration of the above, we have a ''BULLISH" outlook on the Kenyan Equities market in the short term. However, we shift our bias towards a "NEUTRAL" equities market in the medium to long term, with the expectations of improved growth in corporate earnings and the cheap valuations currently in the market.

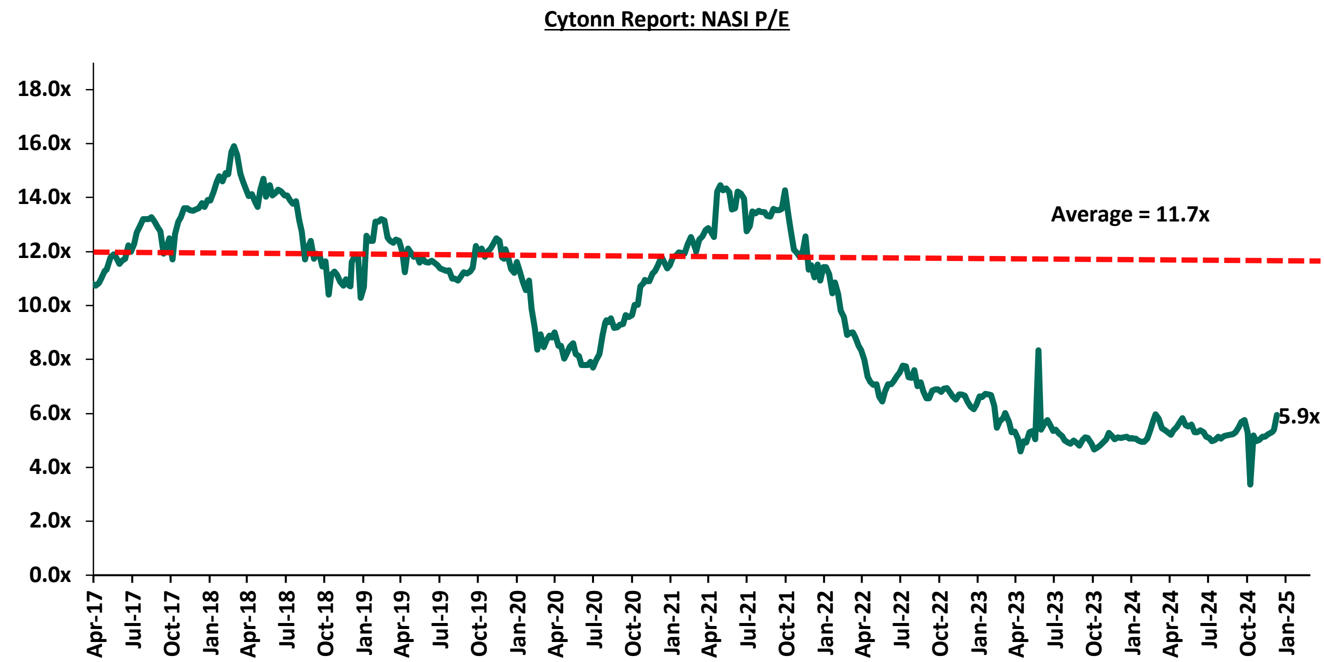
Weekly Market Performance

During the week, the equities market was on an upward trajectory, with NSE 20 gaining the most by 2.7%, while NASI, NSE 25, and NSE 10 gained by 2.6%, 0.8%, and 0.2% respectively; taking the YTD performance to gains of 4.2%, 3.4%, 1.5% and 0.8% for NSE 20, NASI, NSE 25 and NSE 10, respectively. The equities market performance was driven by gains recorded by large-cap stocks such as Stanbic, DTBK and Safaricom of 8.8%, 4.5%, and 4.3% respectively. The gains were, however, weighed down by loses recorded by large-cap stocks such as Coop Bank, NCBA and Bamburi of 5.9%, 4.5%, and 2.7% respectively.

During the week, equities turnover increased significantly by 406.1% to USD 21.5 mn, from USD 4.2 mn recorded the previous week, taking the YTD total turnover to USD 24.0 mn. Foreign investors remained net sellers for the fourth consecutive week, with a net selling position of USD 5.3 mn, from a net selling position of USD 0.6 mn recorded the previous week, taking the YTD foreign net selling position to USD 5.5 mn.

The market is currently trading at a price-to-earnings ratio (P/E) of 5.9x, 49.0% below the historical average of 11.7x. The dividend yield stands at 5.8%, 1.2% points above the historical average of 4.6%. Key to note, NASI's PEG ratio currently stands at 0.7x, an indication that the market is undervalued relative to its future growth. A PEG ratio greater than 1.0x indicates the market is overvalued while a PEG ratio less than 1.0x indicates that the market is undervalued. The charts below indicate the historical P/E and dividend yields of the market;





Weekly Highlights

I. Lifting of the suspension in the trading of Kenya Airways Plc Highlight by NSE

During the week, Nairobi Securities Exchange (NSE) announced the lifting of the suspension in the trading of Kenya Airways Plc securities, effective January,5 2025. The suspension on trading Kenya Airways PLC shares was lifted following the company's recent positive performance, which included posting a profit after tax and the withdrawal of the National Aviation Management Bill 2020.The trading of the group's shares were suspended in July 2020 mainly due to implementation of the National Aviation Management Bill 2020.

The group posted a significant increase in Profit after tax (PAT) of 102.4% to Kshs 513.0 mn in H1'2024,a reversal from Kshs 21.7 bn loss recorded in H1'2023, recording a positive profit after tax for the first time since

2013. The growth is attributed to the strategic turnaround initiative, Project Kifaru, which focuses on customer-centricity, operational efficiency, financial discipline, innovation, and sustainability.

In 15 June 2020, the National Aviation Management Bill 2020 was introduced to establish the National Aviation Council and the Kenya Aviation Corporation, aiming to oversee entities like Kenya Airways and the Kenya Airports Authority. The bill proposed merging Kenya Airways with the Kenya Airports Authority and the Aviation Investment Corporation to create the Kenya Aviation Corporation. However, the bill faced criticism for potentially creating an overly bureaucratic aviation management structure and for including the President in the National Civil Aviation Council, which some viewed as unnecessary. In March 2021, the Kenyan government withdrew the bill, effectively shelving plans to renationalize Kenya Airways. Following this development and the airline's improved performance, the suspension on trading Kenya Airways PLC shares was lifted. The Capital Markets Authority approved the lifting of the suspension in accordance with Section 11(3)(w) and Section 22A of the Capital Markets Act (Chapter 485A). Following the lifting of Kenya Airways Plc suspension, three companies remain suspended at the Nairobi Securities Exchange, namely, Deacons (East Africa) PLC, ARM Cement PLC and Mumias Sugar Co. Ltd with the number of listed companies on the NSE amounting to 65.

Kenya Airways Plc has a Market Cap of 32.6 bn as of 10 January 2025 and the share price has gained by 49.9% on a year to date basis trading at Kshs 5.7 as of 10 January 2025 from Kshs 3.8 in the beginning of the year ranking number one on the NSE in terms of year to date performance. Going forward, we are positive on the stock price in the short term as the investors are optimistic about Kenya Airways Plc due to implemented policies that has seen the company have a turnaround in terms of its financial performance.

Universe of Coverage:

Cytonn Report: Equities Universe of Coverage

Company	Price as at 03/01/2025	Price as at 10/01/2025	w/w change	m/m change	YTD Change 2025	Year Open 2025	Target Price*	Dividend Yield***	Upside/ Downside**	P/TBv Multiple	Recommendation
Jubilee Holdings	175.3	190.5	8.7%	0.9%	9.0%	174.8	260.7	8.4%	45.2%	**0.3x**	**Buy**
Equity Group	48.0	47.5	(1.0%)	7.3%	(1.0%)	48.0	60.2	8.7%	35.4%	**0.9x**	**Buy**
CIC Group	2.2	2.3	7.9%	5.4%	8.4%	2.1	2.8	6.0%	26.7%	**0.7x**	**Buy**
Co-op Bank	17.7	16.6	(5.9%)	19.2%	(4.9%)	17.5	18.8	9.4%	22.7%	**0.8x**	**Buy**
KCB Group	42.8	43.3	1.2%	8.3%	2.1%	42.4	50.3	0.0%	16.2%	**0.7x**	**Accumulate**
Britam	5.6	6.6	16.7%	(3.0%)	13.1%	5.8	7.5	0.0%	14.0%	**0.8x**	**Accumulate**
NCBA	50.8	48.5	(4.5%)	11.7%	(5.0%)	51.0	53.2	9.9%	19.7%	**0.9x**	**Accumulate**
ABSA Bank	19.0	19.1	0.5%	20.7%	1.3%	18.9	19.1	8.9%	8.9%	**1.5x**	**Hold**
Stanbic Holdings	144.3	157.0	8.8%	5.6%	12.3%	139.8	149.5	11.0%	6.2%	**1.0x**	**Hold**
Standard Chartered Bank	291.3	300.0	3.0%	15.0%	5.2%	285.3	291.2	10.3%	7.4%	**1.9x**	**Hold**
Diamond Trust Bank	67.0	70.0	4.5%	29.0%	4.9%	66.8	71.1	7.3%	8.9%	**0.3x**	**Hold**
I&M Group	36.2	34.0	(6.1%)	20.4%	(5.7%)	36.0	32.3	7.1%	2.3%	**0.7x**	**Lighten**

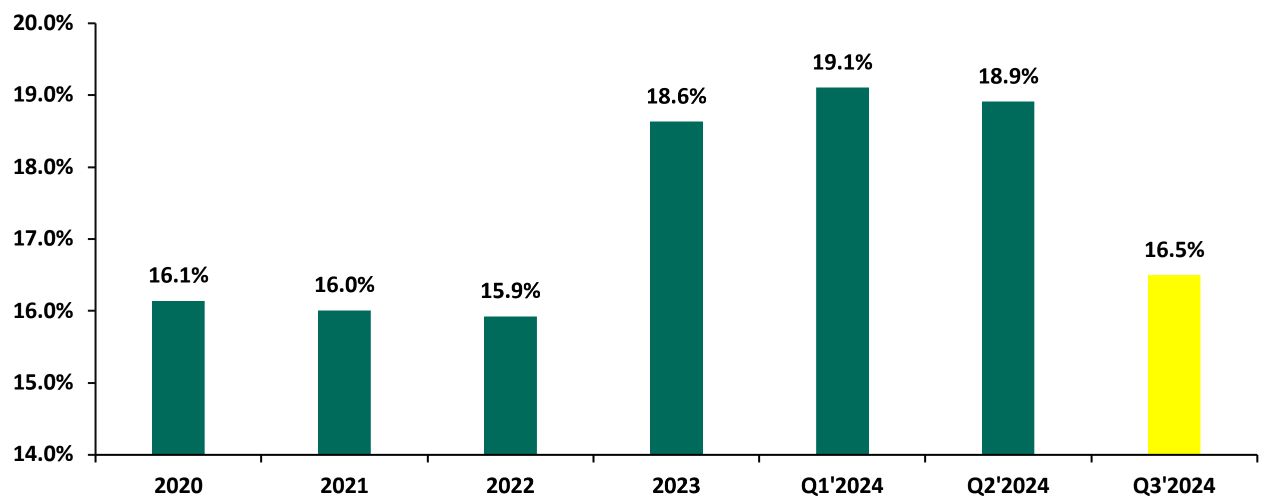
***Target Price as per Cytonn Analyst estimates**
****Upside/ (Downside) is adjusted for Dividend Yield**
*****Dividend Yield is calculated using FY'2023 Dividends**

We are "Bullish" on the Equities markets in the short term due to current cheap valuations, lower yields on short-term government papers and expected global and local economic recovery, and, "Neutral" in the long term due to the adverse operating environment and huge foreign investor outflows.
With the market currently trading at a discount to its future growth (PEG Ratio at 0.7x), we believe that investors should reposition towards value stocks with strong earnings growth and that are trading at discounts to their intrinsic value. We expect the current high foreign investors sell-offs to continue weighing down the economic outlook in the short term.

F. Real Estate

In 2024, the general Real Estate sector continued to witness considerable growth in activity in terms of property transactions and development activities. Consequently, the sector's activity contribution to Gross Domestic Product (GDP) grew by 5.5 % to Kshs 283.8 bn in Q3'2024, from Kshs 268.9 bn recorded during the same period in 2023. In addition, the sector contributed 10.8% to the country's GDP, 0.3% points increase from 10.5% recorded in Q3'2023. Cumulatively, the Real Estate and construction sectors contributed 16.5% to GDP, 0.2% points decrease from 16.7% in Q3'2023, contributable to decline in construction contribution to GDP by 0.4% points, to 5.7% in Q3'2024, from 6.1% recorded in Q3'2023. The graph below highlights the Real Estate and Construction sectors' contribution to GDP from 2020 to Q3'2024;

Cytonn Report: Real Estate and Construction Sector contribution to GDP (2020-Q3'2024



Source: Kenya National Bureau of Statistics (KNBS)

In terms of performance in the Nairobi Metropolitan Area (NMA), the Residential, Commercial Office, Retail, Hospitality, and Mixed-Use Development sectors realized average rental yields of 5.4%, 7.8%, 8.4%, 7.3%, and 7.5%, respectively in FY'2024. This resulted to an overall rental yield of 7.2%, 0.1% points lower than the 7.3 % recorded in FY'2023. The table below is a summary of thematic performance of average rental yields in FY'2024 compared to FY'2023;

Cytonn Report: Real Estate Rental Yields in FY'2023 – FY'2024			
Theme	**Rental Yield FY'2023**	**Rental Yield FY'2024**	**y/y Change**
Residential	5.5%	**5.4%**	(0.1%)

Commercial Office	7.7%	**7.8%**	**0.1%**
Retail	8.3%	**8.4%**	**0.1%**
Hospitality	6.8%	**7.3%**	**0.5%**
Mixed-use Developments (MUDs)	8.4%	**7.5%**	(0.9%)
Grand Average	**7.3%**	**7.2%**	**(0.1%)**

Source: Cytonn Research

We retain a NEUTRAL outlook for the overall Kenyan Real Estate sector whose market performance is expected to be supported by; i) increased and consistently growing demand for Real Estate developments facilitated by the country's positive demographic profile, ii) government's continued focus on provision of affordable housing, iii) initiation and implementation of various infrastructural improvements opening up new areas for investment and boosting property prices, iv) renewed investor confidence in the hospitality sector as a result of continuous recovery, as evidenced by increased international arrivals, v) efforts by the government through the Kenya Mortgage Refinance Company (KMRC) to provide affordable home loans to buyers, vi) initiation and implementation of infrastructure projects, vi) aggressive expansion efforts by both local and international retailers, and, vii) continued recognition of Kenya as a regional business hub, attracting foreign investments. However, rising construction costs, existing oversupply of physical space in the commercial office and retail sectors, slow delivery of affordable housing projects, recently issued travel advisories by multiple governments, impacting tourism, the deteriorating business environment and, low investor appetite for REITs is expected to hinder the optimum performance of the sector. For a detailed review of the sector's performance during 2024, see our Cytonn Annual Markets Review – 2024.

In 2025, we expect the key drivers of Real Estate to be as follows:

i. **Government's continued Focus on Affordable Housing:** The Kenyan government has continued to put its best foot forward towards delivering affordable housing to its citizens. Currently, the AHP pipeline boasts an estimated total of 730,062 housing units under construction by both the government and private sector. This is according to the Architectural Association of Kenya (AAK's) Status of the Built Environment Report 2024. In addition, the government is developing a pool of resources geared towards the provision of affordable housing through the affordable housing levy, which the Affordable Housing Bill 2023 which was accented into law and took effect in 2024

i. **Infrastructural Development:** In general, Continuous improvements in infrastructure, such as new roads, bridges, and utilities, have opened up previously inaccessible areas for real estate development. This has led to increased property value and demand in urban and peri-urban areas. The government has continually prioritized infrastructural development in efforts aimed at positioning the country as a regional hub through the implementation of several key projects including, Makupa Bridge, Nairobi Expressway, Nairobi Western and Eastern Bypasses among others. Notable projects delivered in 2024 include phase two of the Dongo Kundu bypass project,

ii. **Provision of Affordable Mortgage Financing:** Kenya Mortgage Refinance Company (KMRC) has continued to drive the availability and affordability of home loans to Kenyans by providing single-digit fixed rate, and long-term finance to Primary Mortgage Lenders (PMLs) such as banks and SACCOs. Recently, KMRC, broadened its refinancing services to include non-shareholders, such as SACCOs and microfinance institutions. This is a strategic move to improve access to affordable mortgages, particularly for low and middle-income earners, a key target of Kenya's affordable housing agenda.

iii. **Aggressive Expansion pursued by Retailers:** The retail landscape has seen a surge in growth, with both domestic and international retailers like Naivas, QuickMart, China Square, and Carrefour aggressively expanding their market presence. These retailers are capitalizing on the opportunities created by the exit of distressed chains like Choppies, Nakumatt, Tuskys, and Uchumi. Furthermore, the influx of global brands such as Adidas, Puma, Aldo, and Michael Kors is poised to further fuel the sector's growth and development,

iv. **Kenya's Recognition as a Regional Business Hub:** Kenya continues to enjoy recognition as a regional business hub. As a result, foreign entities have continued to open business operations in Kenya, boosting the demand for both commercial and residential Real Estate. Increased business activity has driven up demand for office space, apartments, and housing near business hubs, leading to the development of new projects, increased property values, and job creation in the construction sector**,**

v. **Positive Demographics:** With relatively high urbanization and population growth rates of 3.8% p.a and 2.0% p.a, respectively, against the global average of 1.7% p.a and 0.9% p.a, respectively, as at 2023, there is a sustained demand for more housing units in the country,

vi. **Increasing Investor Confidence:** Increase in investor confidence has greatly influenced hospitality sector and this is evident through mergers, acquisitions and expansions of hotels. Furthermore, the number of international arrivals into the country registered a 7.2% year-to-year (y/y) increase to 144,996 persons as of September 2024 from 135,248 arrivals recorded in September 2023. Notably, the Hotel Chain Development Pipelines in Africa 2024 Report ranked Nairobi at 7th position by planned number of hotels and rooms with 31 hotels and 4,268 rooms in the pipeline, and,

vii. **Special Built Developments:** There has been an increased popularity of purpose-built properties to host Student housing, medical centers, Diplomatic residentials, data centers which offer potential for growth to the Real Estate sector through alternative markets. Due to these assets classes, the industry remains resilient despite the rapidly changing technological and economic environments.

viii. **Easing Construction Costs**: Construction costs decreased by 6.8% in 2024 to an average of Kshs 66,375 per SQM from an average of Kshs 71,200 per SQM recorded in 2023. The decrease is primarily due to the Kenyan Shilling appreciation against the US dollar and low inflation rates, however, the improvement in construction cost remains subdued due to the increase in building materials such as cement which increased by 10.7% in 2024 to Kshs 830 from Kshs 750 recorded in 2023. Land prices increased as well, adding to the high construction costs.

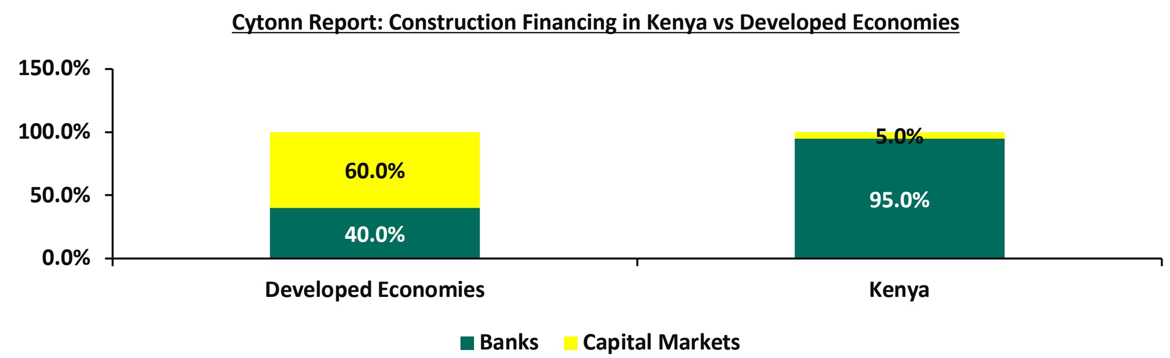
Despite the above drivers, the sector's optimal performance is expected to be hampered by the following factors in 2025:

i. **Existing oversupply of physical space in select sectors**: With approximately 5.8 mn SQFT in the NMA commercial office market, approximately 3.0 mn SQFT in the Nairobi Metropolitan Area (NMA) retail market, with the rest of the Kenyan retail market having an oversupply of approximately 1.7 mn SQFT. This has led to prolonged vacancy rates in the respective Real Estate sectoral themes,

ii. **Subdued REITs Market**: The REITs market in Kenya continues to be subdued owing to various challenges such as the large capital requirements of Kshs 100.0 mn for trustees compared to Kshs. 10 mn for pension fund Trustees, which limits the role to banks, prolonged approval process for REITs, only a few legal entities capable of incorporating REITs, high minimum subscription amounts or offer parcels set at Kshs 0.1 mn for D-REITs and 5.0 mn for restricted I-REITs and lack of adequate knowledge of the financial asset class by investors,

iii. **Constrained financing to developers:** Constrained financing to developers as lenders continue to tighten their lending requirements and demand more collateral from developers as a result of the high credit risk in the real estate sector. This is evidenced by an increase in gross non-performing loans in the building and construction sector which increased by [18.0%](#) on a y/y to Kshs 43.8 bn in H1'2024 from Kshs 35.9 bn in H1'2023, and,

iv. **Underdeveloped capital markets**: It is difficult to develop pools of capital focused on projects, particularly in the private markets, to supplement government efforts in providing housing. Banks in Kenya are the primary source of funding for real estate developers, providing nearly 95.0% of funding as opposed to 40.0% in developed countries. This means that capital markets contribute only 5.0% of Real Estate development funding, compared to 60.0% in developed countries as shown below;



Source: World Bank, Capital Markets Authority

The table below summarizes our outlook on the various Real Estate themes and the possible impact on the business environment in 2024;

Thematic Performance Review and Outlook

Cytonn Report: Thematic Performance Review and Outlook			
Theme	**2024 Performance**	**2025 Outlook**	**Effect**
Residential Sector	• During FY'2024, the NMA residential sector recorded a slight downtrend in performance, with the average total returns to investors coming in at 5.8%, a 0.3%-point decline from 6.1% recorded in FY'2023. The performance was attributed to a decrease in the residential average y/y price appreciation which came in at 0.4% in FY'2024, 0.2%-points lower than the 0.6% appreciation recorded in FY'2023, driven by slowed property transactions during the year. • On the other hand, the average rental yield came in at 5.4% in FY'2024, recording a 0.1%-points decline from the 5.5% rental yield recorded in FY'2023. This was driven by a decline in the average rent per SQM by 5.3 % to Kshs 567, from Kshs 599 recorded in FY'2023.	• The demand for housing is anticipated to remain strong in 2025, fueled by favorable population demographics. The government's increased focus on executing its affordable housing agenda is likely to stimulate further growth in the sector. Moreover, the expansion and development of infrastructure projects are expected to boost the sector, along with government initiatives to provide low-cost loans to Kenyans through the Kenya Mortgage Refinance Company (KMRC), which aims to improve homeownership opportunities. • Conversely, we expect the sector to be weighed down by the prevailing tough economic environment such as the low penetration of mortgages, soaring cost of building materials and land prices affecting construction cost in the long run • For detached units, investment opportunity lies in areas such as Kitengela, Ngong, and, South B&C, while for apartments, investment opportunity lies in Kahawa West, westlands and Dagorreti, due to their remarkable returns driven by relatively high returns to investors	**Neutral**
Commercial Office Sector	• In FY'2024, the average rental yields showed resilience with 0.1%-points increase, coming at 7.8% in FY'2024 from 7.7% in FY'2023. This is attributable to an increase in asking rents by 1.7% to Ksh 105 in FY'2024 from Ksh 103 in FY'2023.	• We expect the sector to remain stable with a slight improvement by 0.2% in rental yields recorded in FY'2025, attributable to an expected increase in overall rental rates by 3.0% in FY'2025.The improved performance may be supported by; i) the increasing	**Positive**

	• The improvement in performance was mainly driven by; high number of Grade A offices which are highly preferred especially by multinational companies, high demand for quality offices by embassies, international organizations and multinational companies in prime areas that are have ease of access to the capital.	presence of multinational companies in Kenya is likely to drive up occupancy levels, ii) co-working spaces are gaining in popularity in the region iii) the gradual return to "working from office" after the Covid-19 pandemic, iv) more start-ups are expected to drive demand for commercial spaces, and v) a considerable uptake of prevailing commercial office spaces. However, the sector continues to face challenges due to a significant oversupply of office space, currently standing at 5.8 mn SQFT as at FY'2023. • Investment opportunity lies in areas such as Gigiri, Westlands, and Kilimani, which offer rental yields of 8.8%,8.5% and 8.3%, compared to the market average of 7.8%;	
Retail Sector	• The sector recorded 3.6% points to 82.2% in FY'2024, from 78.7% recorded in FY'2023. Average rents and occupancies also increased by 1.2% and 3.6% points to Kshs 184 per SQFT and 82.2%, respectively • The improved performance was due to; i) aggressive growth strategies implemented by both domestic and international retailers such as Naivas, QuickMart and Carrefour,and, ii) continuous demand for consumer goods and services supported by positive demographics, encouraging further expansions from current retailers,	• We expect a slight increase in rental yields by 0.3% points as a result of; i) continued expansion by local and international retailers, driven by evolving consumer preferences and market trends, ii) infrastructure improvements, including ongoing road and railway projects, are set to increase accessibility to key retail zones, unlocking further investment opportunities, and iii) favorable demographic trends, such as a growing urban population, will sustain demand for retail goods and services. However, oversupply of physical space, increased adoption of e-commerce, and limited financing options for retail businesses are expected to undermine the performance of the sector in turn affecting rental yields of the sector during the year • Investment opportunity lies in areas such as Westlands, Karen, and Kilimani which continue to record impressive returns. This is in addition to the undersupplied regions of the country such as Mount Kenya, western and the Coast	**Neutral**
Hospitality Sector	• In 2024, serviced apartments' year-on-year (y/y) performance improved, with the occupancy rates coming in at 72.2% in 2024, a 5.8%-points increase from the 66.4% recorded in 2023. The average monthly charges for 2024 increased by 4% to Kshs 3155 per SQM from 3,044 recorded in 2023. Consequently, the average rental yield increased to 7.3% in 2024, a 0.5%- points increase from the 6.8% recorded in 2023. • The sector's overall performance improved attributable to increasing number of visitor arrivals in the country by 8.5% to 489,831 visitors in Q3' 2024 from 451,441 visitors recorded in Q3' 2023 Which increased the number of hotels in operation, hotel bookings and bed occupancies during the year, in addition to aggressive local and international marketing of Kenya's tourism industry	• We expect the sector to continue registering improved performance moving forward in terms of overall hotels in operation, hotel bookings, and hotel occupancies supported by; : i) aggressive marketing campaigns promoting Kenya's tourism, expected to boost tourist arrivals and improve occupancy rates at hospitality venues, ii) continued international recognition of Kenya's tourism industry, enhancing its status as a leading tourist destination and drawing more global visitors, iii) strategic partnerships within the tourism sector, fostering innovation and collaboration to capitalize on new opportunities, iv) events and initiatives aimed at increasing tourism activity and improving guest experiences. • However, while the sector demonstrated resilience in its overall performance in 2024, the outlook remains cautiously optimistic due to i) Kenya continues to face significant competition from neighboring markets, such as Rwanda, which employs aggressive promotional strategies, alongside Zanzibar, Tanzania, and South Africa, these regions actively position themselves as attractive alternatives, challenging Kenya's market share in the region, ii) difficulty in accessing finance as lenders demand more collateral to cushion themselves owing to elevated credit risk, and iii) occasional release of cautionary statements by governments like China and United States to their citizens advising them against travelling to Kenya due to threats like terrorism and elevated crime rates;	**Positive**

		• Prime investment prospects lie in Westlands, Limuru Road, and Kilimani, where average rental yields stood at 11.0%, 9.1%, and 8.8%, respectively, surpassing the market average of 6.8% in 2023. This was due to their proximity to the CBD, the existence of top-tier serviced apartments commanding premium rates, convenient accessibility, and their closeness to international organizations, fostering a robust demand for serviced apartments in these areas	
Land Sector	• The Nairobi Metropolitan Area (NMA) land sector recorded an average annualized capital appreciation of 2.7% in FY'2024 to Kshs 130.9 mn from Kshs 128.9 mn recorded in FY'2023. • The overall asking prices for unserviced land in the satellite towns and High-rise residential areas in Nairobi recorded the highest average capital appreciations of 4.5% and 3.5%, higher than the overall sector appreciation of 2.7%. • This was mainly attributed to increased demand for land in satellite towns to their relative affordability at an average of 16.1mn compared to the market average of Kshs 130.9 in the NMA and the potential for capital appreciation for land around high rise residential areas. Moreover, infrastructure developments enhancing accessibility to these areas, availability of amenities and high concentration of learning institutions around and within the areas necessitating demand land for development of student housing.	• We retain a **POSITIVE** outlook for the land sector in the Nairobi Metropolitan Area (NMA), considering it a dependable investment opportunity that has shown improving performance year on year. Going forward, we anticipate that land in the NMA will continue on upward trajectory to coming in at a sector average price of Kshs 131.2mn in FY'2025 a 3.0% increase, from Kshs 130.9 mn recorded in FY'2024. We expect the sector's performance to be driven by several factors: i) government efforts to streamline land transactions through innovative solutions such as Ardhi Sasa, ii) continued activities by players on both the demand and supply sides, iii) growing demand for land driven by positive demographics, iv) the launch of infrastructure development projects opening up satellite towns for investment opportunities, and v) the continued rollout of the Affordable Housing Program (AHP) by the government, driving further demand for land. • The investment opportunity lies in Juja, Limuru and Utawala for unserviced land, which recorded annualized capital appreciations of 6.3%, 5.7% and 4.8% respectively compared to market average of 4.5%. For serviced land, Rongai and Athiriver recorded the highest annualized capital appreciations of 7.1% and 3.3%, respectively against the serviced average of 3.2%;	**Positive**
Infrastructure Sector	• The government continued to make considerable efforts in advancing infrastructural developments across the country amid focus on achieving the Vision 2030 and Big Four Agenda • In the FY'2024/25, the total budget allocation for infrastructure, energy and ICT stood at a substantial Kshs 477.2bn, recording a 1.9% increase from the Kshs 468.2 bn recorded for the preceding FY'2023/24. • Some of the key projects implemented in 2024; launching the tarmacking of the 25-kilometre Rukuriri-Kathageri-Kanyaumbora road in Embu County, ground breaking for the tarmacking of 65.0-Kilometre-long link roads in Sombogo, Kitutu Chache and opening of the Dongo Kundu Bypass to the public among other several notable projects.	• In 2025, We anticipate the government will continue with its aggressive efforts to; i) construct and rehabilitate roads, bridges, railways, airports, and affordable housing units, among others, ii) increase its diplomacy and partnerships in development among neighbouring nations, and, iii) step up on the competition for attracting regional and international investors against other countries in Eastern Africa like Tanzania through railway connections and ports infrastructure. • However, this efforts may be slowed down by the reduction in allocation to state department of roads by 7.6% in the supplementary budget FY'2024/25, to ksh 178.7 bn from the ksh 193.4 bn set in the FY'2024/25 budget. Consequently, going forward to 2025 we anticipate there will be a decline in the number of infrastructure projects completed, while the number of stalled infrastructure projects across the country is expected to continue rising due financial constraints. Although the government acknowledges the importance of Public-Private Partnerships (PPPs) in tackling financing challenges, we believe that prioritizing PPPs is fundamental in addressing funding shortfalls. By leveraging the resources and expertise of the private sector, PPPs can support sustainable infrastructure development and stimulate economic growth. •	**Neutral**
Industrial Sector	• In 2024, Kenya's industrial sector continued to demonstrate slight improvement in performance through government support, including the establishment of Special Economic Zones (SEZs) and Export Processing Zones	• In 2025, we expect a slight increase in development activities in the industrial sector through government support in line with its Bottom Up Economic Transformation Agenda (BETA) which aims to tap into the manufacturing sector to create wealth,	**Neutral**

	(EPZs) to attract investments. In terms of performance, the Nairobi Metropolitan Area has been on the front line and a major contributor to the Industrial Real Estate Sector accounting for approximately 90.0% of the country's industrial space known for its high concentration of industrial projects in areas like Nairobi, Kiambu, Machakos and Kajiado; with Nairobi County holding the largest share at 66.0%, largely due to its status as the capital city.	employment and reduce poverty levels among Kenyan citizens. However, optimal performance in this sector may be weighed down by factors like high development costs for industrial facilities, low technological adoption and inadequate infrastructure to support operation of these facilities. • Going forward, we expect the sector to continue on an upward trajectory driven by: i) the rising demand for data centers in the country, ii) an increasing demand for cold rooms, especially in the Nairobi Metropolitan Area, iii) demand for quality warehouses due to the growing e-commerce business in the country, iv) support from the government, as evidenced by the establishment of Special Economic Zones (SEZ) and Export Processing Zones (EPZ), v) increased development activities by industry players such as ALP Africa Logistics & Devki steel mills, vi) Kenya's continued recognition as a regional hub, hence attracting international investors, and, vii) efforts by the government to support agricultural and horticultural products in the international market Viii) continued improvement in infrastructure through projects such as the Standard Gauge Railway (SGR), the Eastern and Northern Bypasses connecting Jomo Kenyatta International Airport (JKIA) and other regions in the Nairobi Metropolitan Area, among other key infrastructural improvements which we expect will increase the output of Special Economic Zones and Inland Container Depots (ICDs).	
Listed Real Estate	• The underperformance of the Kenyan REIT sector is attributable to various factors such as; 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 10.0 mn for pension funds Trustees, essentially limiting the licensed REIT Trustee to banks only, iv) The rigidity of choice between either a D-REIT or and I-REIT forces managers to form two REITs, rather than having one Hybrid REIT that can allocate between development and income earning properties, v) Limiting the type of legal entity that can form a REIT to only a trust company, as opposed to allowing other entities such as partnerships, and companies, vi) We need to give time before REITS are required to list – they would be allowed to stay private for a few years before the requirement to list given that not all companies maybe comfortable with listing on day one, and, vii) Minimum subscription amounts or offer parcels set at Kshs 0.1 mn for D-REITs and Kshs 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 Kenyan REITs. • 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 31st October 2024. The performance represented a 27.0% and 11.0% gain for the D-REIT and I-REIT, respectively, from the Kshs s 20.0 inception price. The volumes traded for the D-REIT and I-REIT came in at Kshs s 12.3 mn and Kshs 31.6 mn shares, respectively, with a turnover of Kshs 311.5 mn and Kshs 702.7 mn, respectively,	In 2025 we expect REITS to gain popularity as developers such as Future construkt being licenced as REIT managers by the Capital Market Authority. Centum Real Estate are looking forward to launch a dollar based Income REIT and we expect that the dollar based I-REIT will: i) increase foreign investments by boosting investors' confidence against local currency uncertainties, ,ii) dollar-denominated REITs provide an alternative for investors seeking more liquid and globally recognized investment options, iii) the dollar based move is likely to set a precedent for other players in the market, encouraging the development of more innovative and investor-centric financial products, and, iv) the fund could force policy regulatory framework improvement to ensure transparency and investments protection. • In addition, we expect the sector will continue to lag behind in comparison to other African countries such as South Africa, attributable to several challenges facing the sector such as; i) lack of sufficient investor awareness regarding the potential of REITs as an investment tool, ii) lengthy approval procedures for establishing REITs have hindered their formation and deployment in the market, iii) high minimum capital requirement of Kshs Kshs 100.0 mn for REIT trustees compared to Kshs 10.0 mn for pension funds Trustees, essentially limiting the licensed REIT Trustee to banks only,, and, iv) steep minimum subscription amounts or offer parcels set at Kshs 0.1 mn for D-REITs and Kshs 5.0 mn for restricted I-REITs. • However, we also expect the trend of strategic acquisitions to persist, with REITs actively seeking opportunities to broaden and diversify their portfolios, cater to evolving market demands and also set standards in promoting environmental sustainability such as execution of green bonds by Acorn holding.	**Neutral**

	since inception in February 2021. Additionally, ILAM Fahari I-REIT traded at Kshs 11.0 per share as of 31st October 2024, representing a 45.0% loss from the Kshs 20.0 inception price. The volume traded to date came in at 138,600 shares for the I-REIT, with a turnover of Kshs 1.5 mn since inception in November 2015.		

With 3 themes having a positive outlook and 5 neutral, the general outlook for the sector therefore is NEUTRAL. The sector's performance will be supported by; i) infrastructural development, ii) government and private sector focus on affordable housing, iii) focus on mortgage financing through the KMRC, iv) improved investor confidence amid recovery of the hospitality sector, v) aggressive expansion by both local and international retailers in a bid to maintain market dominance, and, vi) Kenya's positive demographics driving housing demand. However, factors such as increased construction costs on the back of inflation, constrained financing to developers with increased underdeveloped capital markets, oversupply in select sectors and low of investor appetite in Real Estate Investments Trusts (REITs) are expected to continue impeding performance of the sector.

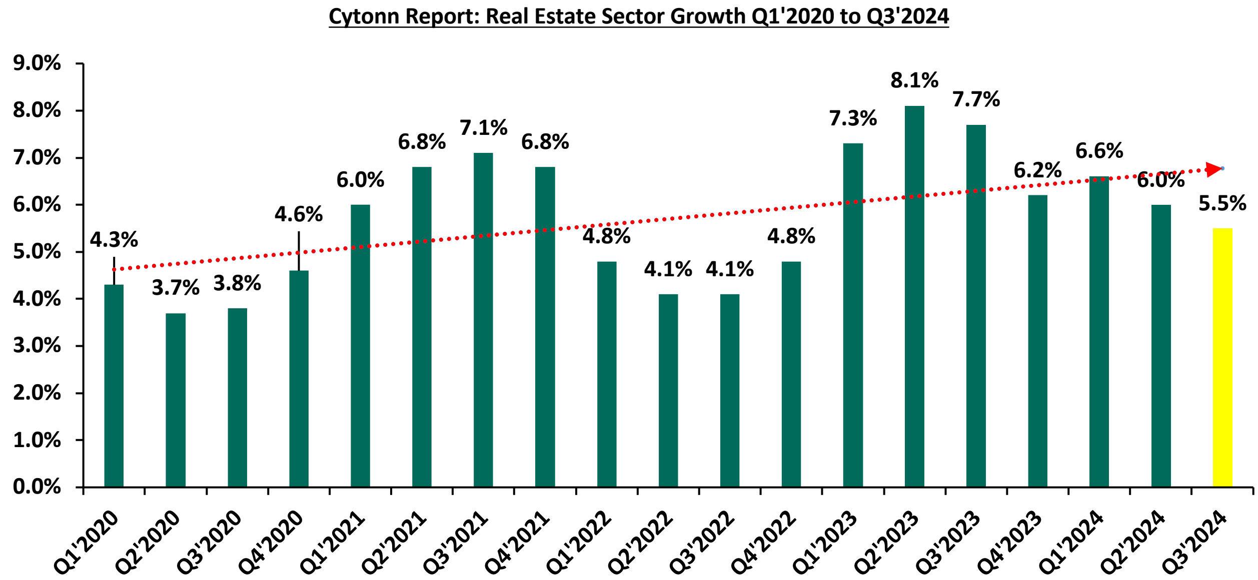
For the detailed real estate market outlook report, see our Real Estate Sector 2025 Markets Outlook Note.

Key Highlights during the Week:

I. Industry Report

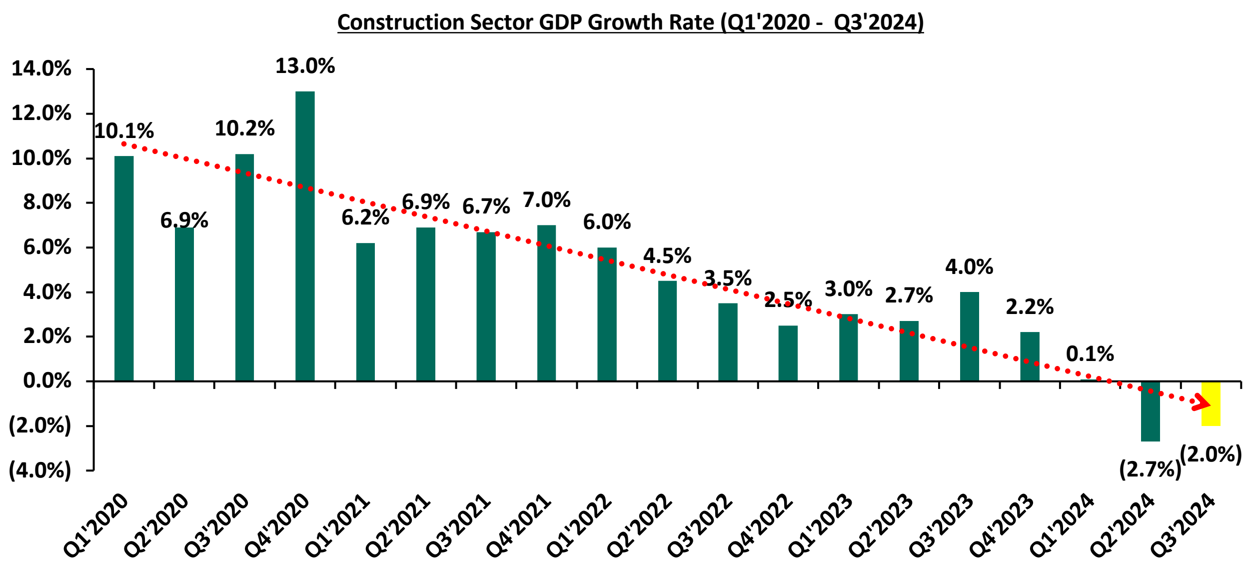
During the week, the Kenya National Bureau of Statistics (KNBS) released the Q3'2024 GDP Report, and below are the key take-outs related to the Real Estate sector:

i. **Steady growth in the Real Estate Sector** - The Real Estate sector posted steady growth of 5.5% in Q3'2024, which is 2.2% points slower than the 7.7% growth registered in Q3'2023. The steady growth can be attributable to an increasing demand for housing in the country. However, the slowed growth compared to Q3'2023 can be attributable to the sustained increase in the cost of construction materials which remained a significant challenge to developers and investors during the period under review. Additionally, the total value of building plans approved in the Nairobi Metropolitan Area (NMA) decreased y/y basis by 41.3 % to Kshs 9.4 bn in October 2024, from Kshs 16.1 bn recorded in October 2023.On a quarter-on-quarter basis, this represented a 1.0 %-points decrease from the 6.0% growth recorded in Q2'2024. The decrease in performance can be attributable to; i) increased prices of construction materials such as reinforced steel and cement, ii) tough operating environment, which led lenders to tighten lending to the real estate sector due to the rising number of non-performing loans .iii) developers and investors shifting strategies, emphasizing operational efficiency and sustainability rather than embarking on new large-scale developments. The graph below shows the Real Estate sector growth rates from Q1'2020 to Q3'2024.



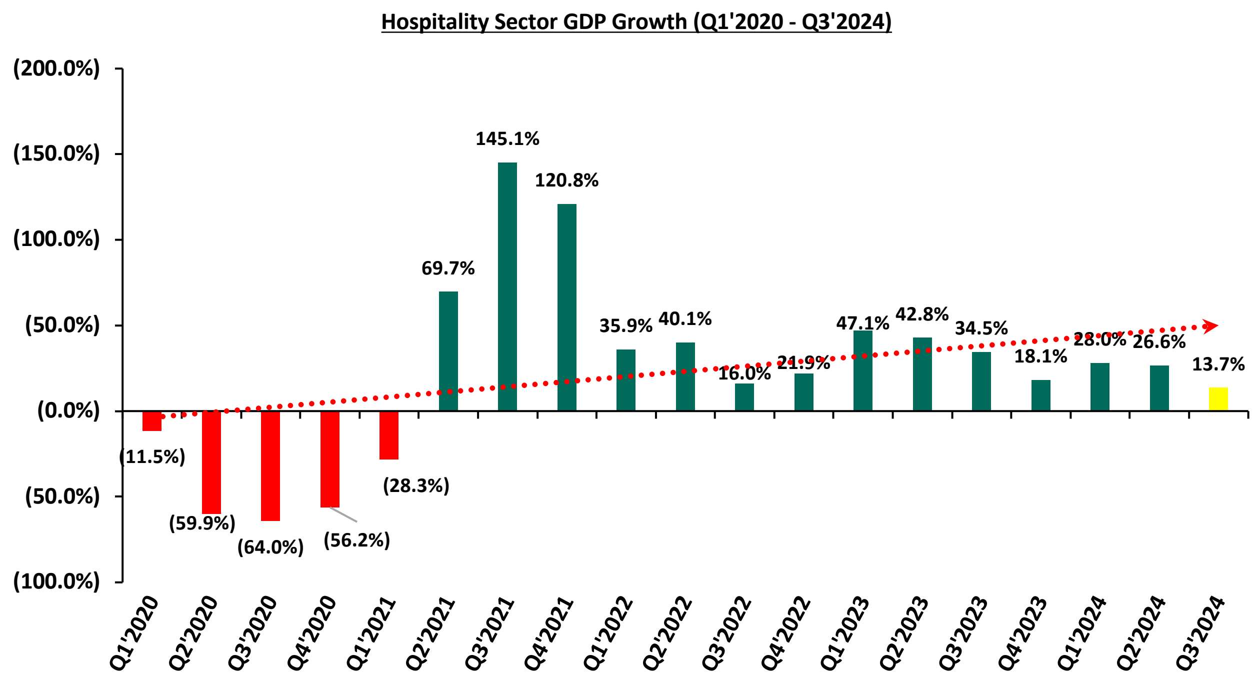
Source: Kenya National Bureau of Statistics (KNBS)

ii. **Subdued growth in the construction sector -** The construction sector contracted by 2.0% in Q3'2024, which is 6.0% points slower than the 4.0% growth in Q3' 2023. On a quarter-on-quarter basis, this performance represented a 0.7%-point increase from the 2.7% growth recorded in Q2'2024. The decline in performance is attributable to; i) the rise in non-performing loans (NPLs) within the Real Estate sector has prompted lenders to demand additional security, which has, in turn, slowed down development projects, ii) construction costs have surged by 17.7%, driven by increased prices for key materials like cement, steel, and, iv) delays in obtaining construction building permits have further hindered construction activities. The graph below illustrates construction sector growth rates from Q1' 2020 to Q3' 2024.



Source: Kenya National Bureau of Statistics (KNBS)

iii. **Sustained Recovery in Accommodation and Restaurant Sector –** The accommodation and restaurant services grew by 13.7% during Q3’ 2024, representing a 20.8% points y/y decline from the 34.5% growth recorded in Q3’ 2023. On a q/q basis, this performance represented 12.9% points decrease from the 26.6% in Q2’2024. The slowed growth can be attributed to increasing operational expenses caused by challenging macroeconomic conditions, primarily due to disruptions in the global supply chain from the Russia-Ukraine war and the Israel-Palestine conflict. These conflicts have significantly affected material availability and increased costs, putting pressure on the sector. Despite these challenges, the market shows steady recovery from the impacts of COVID-19, with the lifting of travel restrictions playing a major role in boosting activity within the real estate sector. The sector is however expected to continue benefitting from an increased number of international arrivals; for instance, in Q3’ 2024, the number of visitor arrivals through the two major airports, the Jomo Kenyatta International Airport (JKIA) and Mombasa International Airport (MIA) increased by 0.8% to 489,831 in Q3’2024 from 486,102 in Q3’2023. The graph below shows the accommodation and restaurant sector growth rates from Q1’2020 to Q3’2024;



Source: Kenya National Bureau of Statistics (KNBS)

We anticipate growth in Kenya's Real Estate sector, supported by several key factors such as; i) high urbanization and population growth rates of 3.7% p.a and 2.0% p.a, respectively, against the global average of 1.7% p.a and 0.9% p.a, respectively as at 2023, sustaining demand for housing units and other Real estate developments, ii) increased visitor arrivals through the major points of entry such as the Jomo Kenyatta International Airport (JKIA) and Mombasa International Airport (MIA) by 0.8% to 489,831 in Q3’2024 from 486,102 in Q3’2023, iii)the government continued roll out and support of the affordable housing programme in the country, iv) increased activities by industry players, especially in the residential sector. However, we expect the sectors growth to be weighed down by increasing construction costs and the toughing lending environment for real estate developers.

I. Industrial Sector

During the week, Kenya capped the period for SEZ investors to enjoy tax benefits and incentives at 10 years, reducing the time in which the government loses revenue in order to attract investors. Previously, there was no limit on the tax breaks offered to SEZs. Investors enjoyed a graduated corporate income tax (CIT) rate of 10.0% for the first 10 years, increasing to 15% for the next 15 years. Additionally, they were exempt from value-added tax

(VAT), permit and advertisement fees and other duties. The government estimates that these tax breaks cost it Ksh 510.56 bn in revenue as of 2023. SEZs, which have attracted over ksh 71.0bn in investments, are seen as a key route for job creation and export growth with the country boasting of over 25 gazetted SEZs. However, the new 10-year limit aims to balance attracting investment with revenue generation.

We anticipate a potential slowdown in new SEZ development projects due to the reduced investor incentives which could lead to a temporary decline in demand for land and commercial real estate within SEZs. However, in the long term, we expect SEZ developers to adapt by focusing on building more sustainable and profitable projects with greater long-term viability. This could lead to a shift towards higher-quality developments that are less reliant on tax breaks, ultimately enhancing the overall value proposition of SEZs and attracting investors based on other competitive advantages.

Also, during the week, the Kenya Revenue Authority (KRA) granted the Tatu City special economic zone (SEZ) a customs area status. A move which designates Tatu City as a zone where imported or exported goods can be stored before clearance by customs authorities. The SEZ status, already enjoyed by Tatu City, allows for business and trade laws distinct from the rest of Kenya with the main aim being to boost trade, employment, and investment in the region. With both SEZ and customs area designations, Tatu City aims to streamline trade processes and attract businesses seeking a favorable environment for their operations.

We expect that this designation, alongside the existing Special Economic Zone (SEZ) status, will likely attract more foreign investment, particularly from businesses involved in import/export operations. This will in turn position Tatu city as a more attractive business hub, creating jobs and drive demand for both commercial and residential properties within its area.

II. Commercial Office Sector

During the week, global business services provider Tele performance announced plans to expand its Kenyan operations with the launch of a new hub at the Two Rivers International Finance and Innovation Centre (TRIFIC) SEZ. The new location is expected to create an estimated 5,000 new jobs, offering services such as digital business services, customer experience management, and advanced analytics. Tele performance already employs 1,400 staff in Kenya and aims to leverage the country's skilled workforce and strategic location to provide cost-effective solutions to global clients. Centum Investment Company Plc team, the parent company of TRIFIC SEZ, welcomed the move highlighting TRIFIC's infrastructure and capacity to host leading global business outsourcing companies

We expect this move by Tele performance to have a positive impact on Kenya's economy through the creation of 5,000 new jobs which will significantly boost employment opportunities in the country. Additionally, this development is likely to attract further investment from global companies in the business services sector, leading to economic growth and development in the Two Rivers International Finance and Innovation Centre (TRIFIC) SEZ.

III. Retail Sector

During the week, Majid Al Futtaim, the operator of Carrefour in Kenya, launched a new store at Rhapta Promenade Mall in Westland's, marking its 27th store in the country. The new store aims to improve convenience and accessibility for customers around Westlands area and has so far created 45 direct jobs contributing to its current workforce of over 2,800 employees the company has in Kenya. The following table outlines the current store counts of major local and international supermarket chains operating in Kenya and international supermarket chains operating in Kenya;

Cytonn Report: Main Local and International Retail Supermarket Chains												
#	Name of retailer	Category	Branches as at FY'2018	Branches as at FY'2019	Branches as at FY'2020	Branches as at FY'2021	Branches as at FY'2022	Branches as at FY'2023	Branches as at FY'2024	Branches opened in FY'2025	Closed Branches	Current Branches

1	**Naivas**	Hybrid*	46	61	69	79	91	99	6		0	**105**
2	**Quick Mart**	Hybrid**	10	29	37	48	55	59	1		0	**60**
3	**Chandarana**	Local	14	19	20	23	26	26	0		0	**26**
4	**Carrefour**	International	6	7	9	16	19	22	26	1	0	**27**
5	**Cleanshelf**	Local	9	10	11	12	12	13	0		0	**13**
6	**Jaza Stores**	Local	0	0	0	0	0	4	2		0	**6**
7	**Tuskys**	Local	53	64	64	6	6	5	0		59	**5**
8	**China Square**	International	0	0	0	0	0	2	2		0	**4**
9	**Uchumi**	Local	37	37	37	2	2	2	0		35	**2**
#	**Panda Mart**	International	0	0	0	0	0	0	1		0	**1**
#	**Game Stores**	International	2	2	3	3	0	0	0		3	**0**
#	**Choppies**	International	13	15	15	0	0	0	0		15	**0**
#	**Shoprite**	International	2	4	4	0	0	0	0		4	**0**
#	**Nakumatt**	Local	65	65	65	0	0	0	0		65	**0**
Total			**257**	**313**	**334**	**189**	**211**	**232**	**38**	**1**	**181**	**249**
***51% owned by IBL Group (Mauritius), Proparco (France), and DEG (Germany), while 49% owned by Gakiwawa Family (Kenya)**												
****More than 50% owned by Adenia Partners (Mauritius), while Less than 50% owned by Kinuthia Family (Kenya)**												

Source: Cytonn research

Going forward into 2025, we expect to witness more retailers rolling out their expansion activities for the year, driven by increased investments from both local and international investors, the availability of retail space, a growing consumer base, and evolving consumer preferences in the country.

IV. Real Estate Investments Trusts (REITs)

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 31st October 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 31st October 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 10.0 mn for pension funds Trustees, essentially limiting the licensed REIT Trustee to banks only

iv. The rigidity of choice between either a D-REIT or and I-REIT forces managers to form two REITs, rather than having one Hybrid REIT that can allocate between development and income earning properties

v. Limiting the type of legal entity that can form a REIT to only a trust company, as opposed to allowing other entities such as partnerships, and companies,

vi. We need to give time before REITS are required to list – they would be allowed to stay private for a few years before the requirement to list given that not all companies may be comfortable with listing on day one, and,

vii. Minimum subscription amounts or offer parcels set at Kshs 0.1 mn for D-REITs and Kshs 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 Kenyan REITs.

We expect Kenya's Real Estate sector to remain on an upward trajectory, supported by: i) an increase in the number of international arrivals in the hospitality sector, ii) the initiation and completion of major infrastructure projects, opening up areas for development, iii) demand for housing sustained by positive demographics, such as urbanization and population growth rates of 3.7% p.a and 2.0% p.a, respectively, against the global average of 1.7% p.a and 0.9% p.a, respectively, as at 2023, iv) activities by the government under the Affordable Housing Agenda (AHP), v) heightened activities by private players in the residential sector, and, vi) increased investment by local and international investors in the retail sector vii) increasing presence of multinationals and start-ups driving demand for commercial office spaces. However, challenges such as rising construction costs, strain on infrastructure development, high capital requirements for REITs, and existing oversupply in select Real Estate sectors will continue to hinder the sector's optimal performance by limiting developments and investments.

Cytonn Report: Real Estate Outlook Summary for 2024	
Real Estate Sector	The overall outlook for the real estate sector is **NEUTRAL**, supported by; ***i) infrastructural development, ii) government and private sector focus on affordable housing, iii) focus on mortgage financing through the KMRC, iv) improved investor confidence amid recovery of the hospitality sector, v) aggressive expansion by both local and international retailers in a bid to maintain market dominance, and, vi) Kenya's positive demographics driving housing demand.***