

Cytonn Kenya's REITs FY'2023 Report

"Strategies for Advancing Kenya's REIT Market"



09th June, 2024

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I. Introduction to Cytonn

About Us

Cytonn Investments is an alternative investment manager, with real estate development capability, and a primary focus on private equity and real estate investments in the high growth Kenyan Region. Cytonn has a unique strategy of coupling two compelling demand areas - the lack of high yielding investment products and the lack of institutional grade real estate. We provide high yielding investment instruments to attract funding from investors, and we deploy that funding to largely pre-sold investment grade real estate. With offices in Kenya and Washington, DC - USA, we are primarily focused on offering alternative investment solutions to global and local institutional investors, individual high net-worth investors, and diaspora investors interested in the East-African region. Real estate investments are made through our development affiliate, Cytonn Real Estate, where we currently have over Kshs. 82 billion (USD 820 mn) of projects under mandate across ten projects. In private equity, we invest in banking, education, and hospitality.

82

Over Kshs. 82 billion worth of projects under mandate

3

Three offices across 2 continents

500

Over 500 staff members, including Cytonn Distribution

10

10 investment ready projects in real estate

A unique franchise differentiated by:

Independence & Investor Focus

Focused on serving the interest of clients, which is best done on an independent platform to minimize conflicts of interest

Alternative Investments

Specialized focus on alternative assets - Real Estate, Private Equity, and Structured Solutions

Strong Alignment

Every staff member is an owner in the firm. When clients do well, the firm does well; and when the firm does well, staff do well

Committed Partners

Strong global and local partnerships in financing, land and Cytonn Real Estate, our development affiliate

Why We Exist

Africa presents an attractive investment opportunity for investors seeking attractive and long-term returns. Despite the alternative markets in Africa having high and stable returns, only a few institutional players serve the market. Cytonn is focused on delivering higher returns in the alternative markets, while providing the best client service and always protecting our clients' interests.

WE SERVE THREE MAIN CLIENT SEGMENTS:

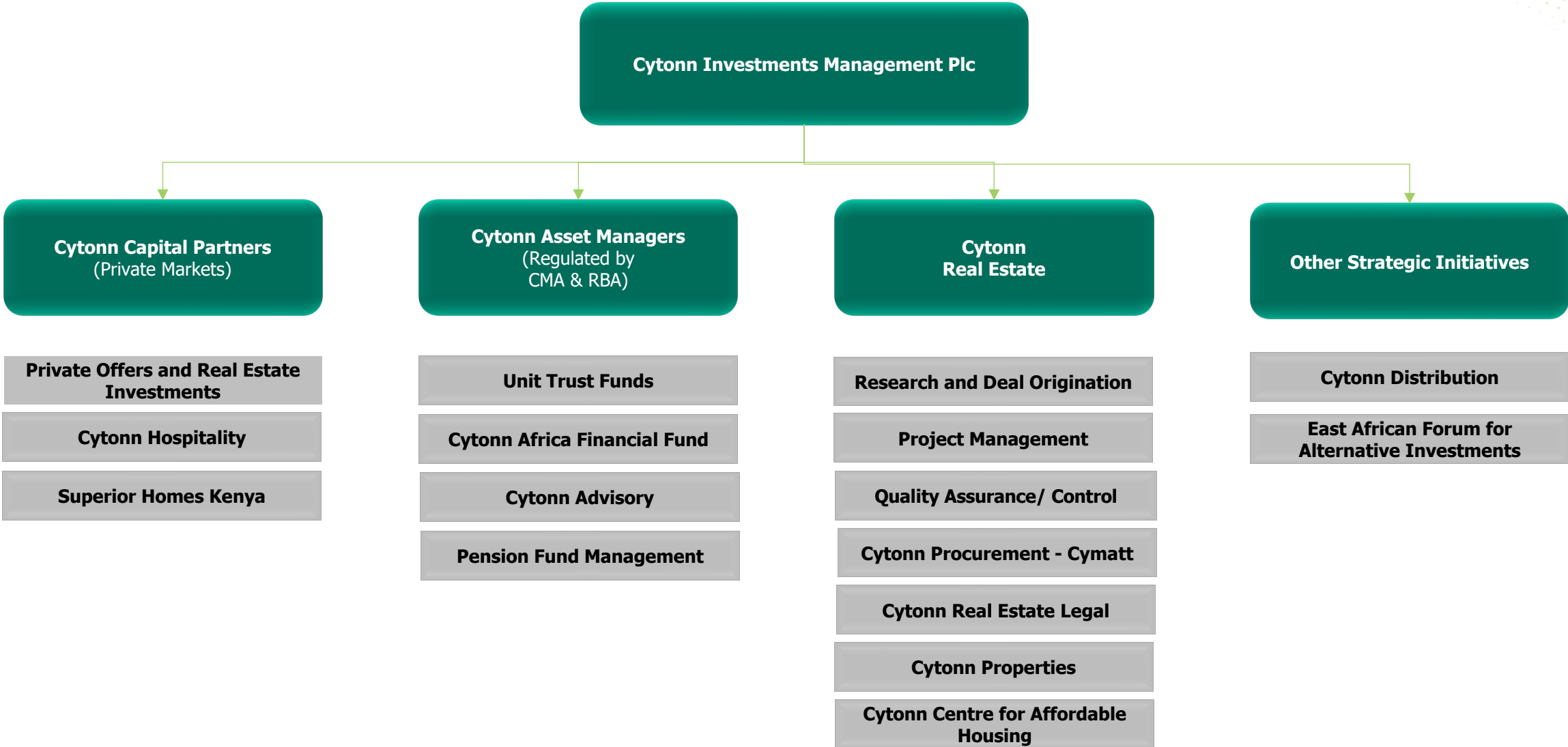
- High Net-worth Individuals through Cytonn Private Wealth. This is done through our captive Distribution Network
- East Africans in the Diaspora through Cytonn Diaspora
- Global and Local Institutional Clients. These clients are served from our Investment & Fundraising Team

WE INVEST OUR CLIENT FUNDS IN:

- Real Estate, and Real Estate Related Businesses
- Private Equity
- Fixed Income Structured Solutions
- Equities Structured Solutions



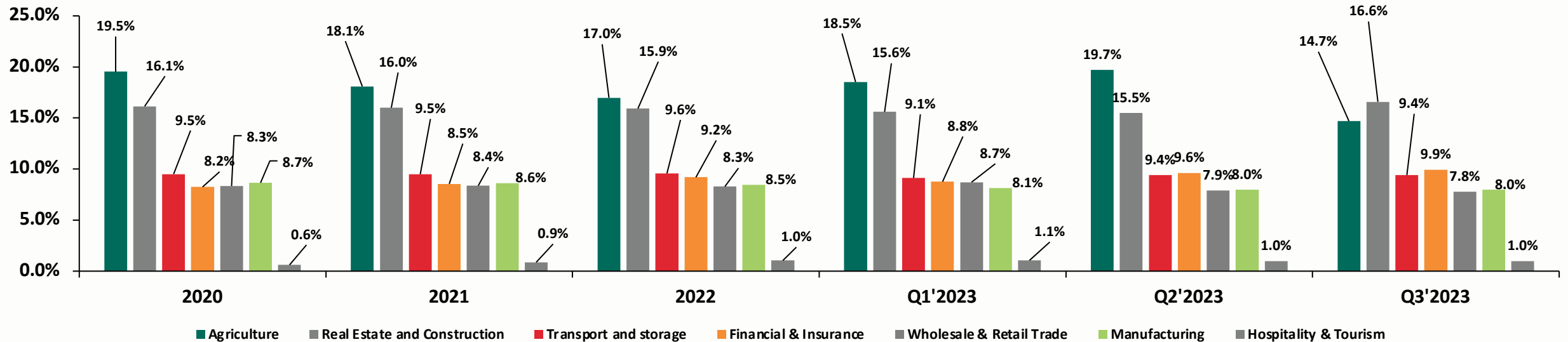
Our Business Structure



II. Overview of Real Estate in Kenya

Sectoral Contribution to GDP

Cytonn Report: Real Estate and Construction Sectors Contribution to GDP in Comparison with Other Sectors (FY'2020-Q3'2023)



*Source: KNBS

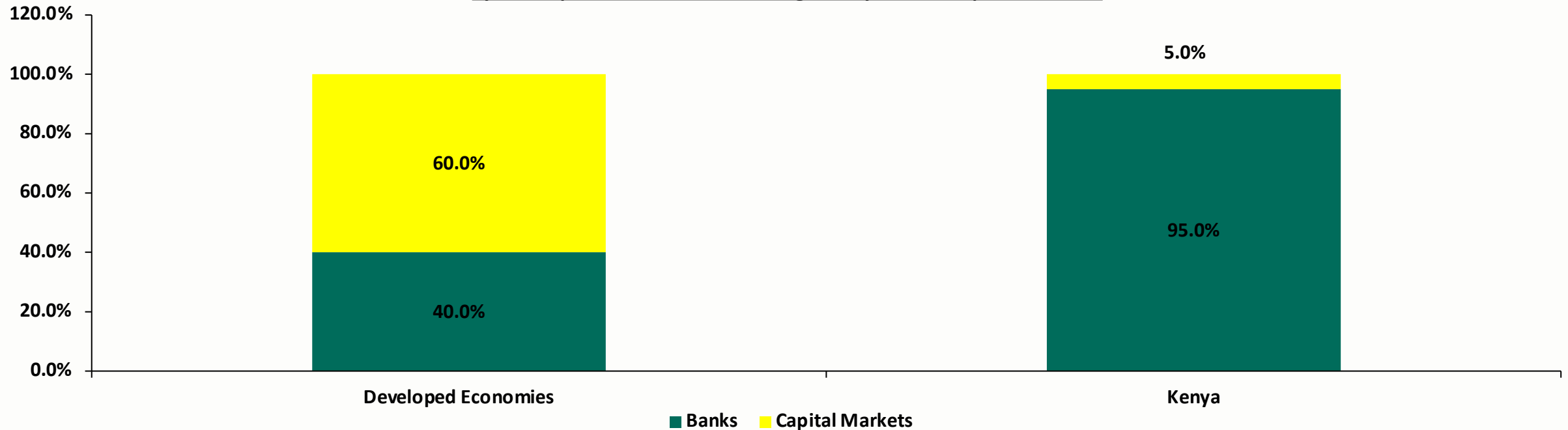
- The Real Estate and Construction sector contributed 16.6% of the country's Gross Domestic Product (GDP) in Q3'2023, being the largest contributor to Kenya's economy, increasing by 1.1% from Q2'2023's 15.5%. This is attributed to rapid urbanization and population rates which stood at averages of [3.7%](#) and [1.9%](#) respectively as of 2022, against the global averages of [1.5%](#) and [0.8%](#), driving the demand for developments. This performance was supported by several factors among them including the Kenya Mortgage Refinance Company's (KMRC) ongoing efforts to boost homeownership through long-term, low-interest home loans, and the government's sustained focus on affordable housing. However, this performance was weighed down by rising construction costs, an existing oversupply of physical space in certain sectors, and difficulties in accessing financing due to elevated credit risk and increasing interest rates

Funding Gap in the Real Estate Sector

There needs to be alternative financing to meet the funding gap to Real Estate development in Kenya

- Despite the existing demand in the Real Estate market, there exists limited funding options for developers. Banks in Kenya are the primary source of funding for Real Estate development, providing nearly 95.0% of funding for [construction](#) activities as opposed to 40.0% in developed countries

Cytonn Report: Construction Financing in Kenya Vs Developed Economies



*Source: World Bank, Capital Markets Authority

III. Overview of REITs Sector in Kenya

Kenyan REITs Sector Overview

There are four authorized REITs in the Kenyan market, all of which are structured as closed-ended funds

Cyttonn Report: Authorized REITs in Kenya						
	Issuer	Name	Type of REIT	Listing Date	Market Segment	Status
1	ICEA Lion Asset Management (ILAM)	Fahari	I-REIT	October 2015	Main Investment Market	Delisted on 12 th February 2024
2	Acorn Holdings Limited	Acorn Student Accommodation (ASA) – Acorn ASA	I-REIT	February 2021	Unquoted Securities Platform (USP)	Trading
3	Acorn Holdings Limited	Acorn Student Accommodation (ASA) – Acorn ASA	D-REIT	February 2021	Unquoted Securities Platform (USP)	Trading
4	Local Authorities Pension Trust (LAPTrust)	Imara	I-REIT	March 2023	Main Investment Market: Restricted Sub-segment	Restricted

*Source: Nairobi Securities Exchange, Capital Markets Authority

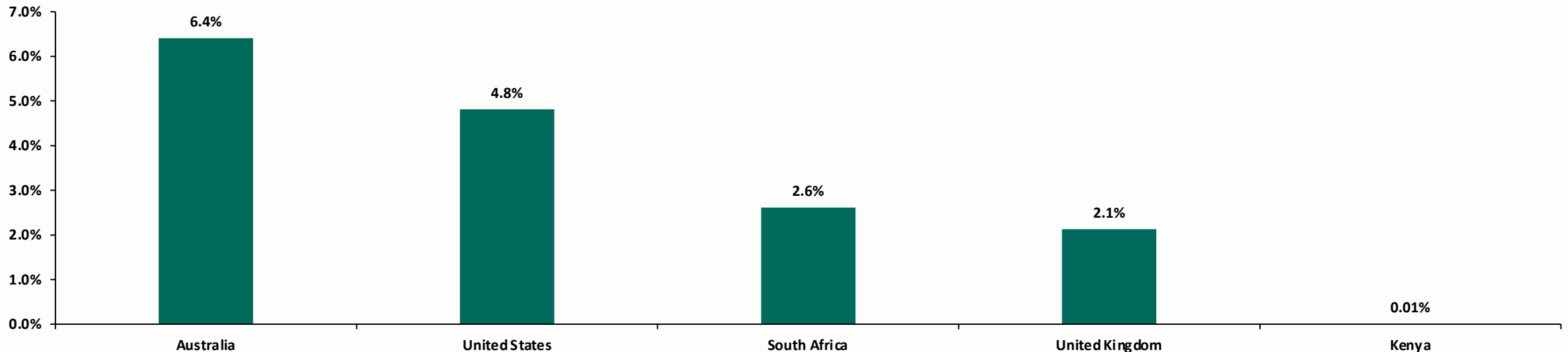
- Following the establishment of REIT regulations in 2013, four REITs were approved in the Kenyan market, all designed as closed-ended funds with a fixed number of shares. Currently, none of these REITs are actively trading on the Main Investments Market Segment of the Nairobi Securities Exchange (NSE). After the recent delisting of ILAM Fahari I-REIT, LAPTrust Imara I-REIT is the only listed REIT in the country, quoted on the [restricted market sub-segment](#) of the Main Investment Market of the NSE. However, it is important to note that Imara did not raise funds upon listing. Acorn I-REIT and D-REIT are not listed but trade on the Unquoted Securities Platform (USP), an over-the-counter market segment of the NSE

Kenyan REITs Sector Overview

Kenyan REITs market capitalization remains low in comparison to other countries

- Since its inception in 2013, the Kenyan REIT market has remained subdued due to several challenges. These include the substantial capital requirement of Kshs 100.0 mn for trustees, which restricts this role primarily to banks, a lengthy approval process for REIT creation, high minimum investment amounts set at Kshs 5.0 mn that deter investors, and insufficient investor awareness and understanding of this financial asset class. Notably, REIT market capitalization in Kenya remains significantly lower compared to other jurisdictions as shown below;

Cytonn Report: REIT Market Capitalization to GDP as at March 2024



IV. Themes that shaped the REITs sector in FY'2023

Themes that Shape the REIT Sector - Regulations

Any income that REITs distribute to their investors (unitholders) are not taxed

1. Regulation:

a) Exemption from Income Tax Act- Section 20 (1) (c) and (d) of the [Income Tax Act](#) (ITA) stipulates that upon registration with the Commissioner of Kenya Revenue Authority (KRA), both REITs and the companies they invest in are exempt from the standard 30.0% Income Tax Rate (ITR). Additionally, any income distributed by REITs to their investors (unitholders) is not subject to taxation. However, it is important to note that this tax exemption does not extend to the withholding tax imposed on interest income and dividends received by unitholders who are not exempted as per the first schedule of the ITA. The rates for this withholding tax can be found in paragraph 5 of the third schedule of the Income Tax Act

b) Capital Gains Tax (CGT) exemptions- A capital gain arises when the value of a unit upon transfer exceeds its adjusted cost. The disparity between these values is liable to a tax rate of 15.0%. Consequently, any profits made by a promoter or investors of a REIT from transferring property into the REIT are now subject to Capital Gains Tax (CGT) at the [revised rate](#) of 15.0%, supplanting the previous rate of 5.0% effective from 1 January 2023. Additionally, individuals holding units in a REIT who opt to sell their ownership stake are also required to remit CGT. This stipulation emerged following an amendment to Section 34(1)(j) of the Income Tax Act through the [Finance Act 2022](#). However, within the REIT industry, there are certain scenarios that qualify for exemptions from CGT:

- i. Transfers of property from life insurance companies to a REIT are exempt from CGT, as outlined in Section 19 (6B) of the

Themes that Shape the REIT Sector ...

A direct transfer of property from the REIT promoter or investors is not subject to VAT

Regulation Continuation:

- ii. Indirect transfer of property into a REIT when the promoter first transfers properties to a Special Purpose Vehicle (SPV). Subsequently, the shares of the investee company held by the SPV are transferred to the REIT. This is considered a restructuring, as the property transfer does not involve a third party. This exemption is based on Paragraph 13 of the Eighth Schedule to the ITA. However, CGT is applicable on gains made during the transfer of shares from the investee company to the REIT Trustee,
- iii. Payments received by unit holders or shareholders in a REIT for unit redemption or share sale are exempt from CGT in accordance with section 20 (2) of the ITA,
- iv. Gains realized by the REIT from the sale of properties, whether directly or through an SPV, are also exempt from CGT.

c) Exemption from Value Added Tax (VAT)- The [Finance Act 2021](#) reintroduced a significant change regarding the exemption from Value Added Tax (VAT) for transactions involving the transfer of assets to REITs and asset-backed securities. This exemption had previously been removed by the [Tax Laws Amendment Act No. 2 of 2020](#). According to Paragraph 33 of Part II of the First Schedule to the [VAT Act 2021](#), a direct transfer of property from the REIT promoter or investors is not subject to VAT. However, if the transfer of assets to the REIT is done indirectly, through the initial transfer of assets to the investee company, VAT will be applicable. Importantly, the transfer of shares from a REITs SPV to the REIT trustee will be exempt from VAT, even if the initial asset transfer involved VAT.

Themes that Shape the REIT Sector- Acquisitions

Starting from 1 January, 2023, any transfers occurring in REIT sector is subject to stamp duty

d) Adjustment in Stamp Duty- As per the regulations set out in section 96A of the [Stamp Duty Act](#), when the properties within a Development REIT (D-REIT) are completed and start to generate stable income, any later transfer of these stabilized properties from the D-REIT to the Income REIT (I-REIT) is not subject to stamp duty. However, it is important to highlight that this exemption was only applicable to transactions completed before 31 December 2022. Consequently, starting from 1 January, 2023, any transfers occurring is subject to stamp duty in accordance with section 96A subsection 4 of the act.

2. Acquisitions

- i. LAPTrust Imara I-REIT possess a diversified portfolio of properties which include; i) Pension Towers, Metro Park, and CPF House which are commercial office buildings located in Nairobi CBD, ii) Retail centre Freedom Heights mall located in Lang'ata, iii) Nova Pioneer which is a purpose built education facility located in Eldoret, iv) Freedoms Height residential apartments and serviced plot located in Lang'ata, and, v) Man apartments located in Kilimani,
- ii. ILAM Fahari I-REIT manages and operates several properties under their portfolio which include: i) a mixed used development (MUD) Greenspan Mall located in Donholm, Nairobi, ii) 67 Gitanga Place which is a prime office property located in Lavington, and, iii) Bay Holdings and Highway House which are industrial properties located in Industrial Area and Mombasa Road area respectively,
- iii. Acorn Student Accommodation (ASA) I-REIT has five completed student housing properties with 3,003 beds under their management serving up to 128 universities and colleges. These properties include; Qwetu Jogoo Road, Qwetu Ruaraka, Qwetu

Themes that Shape the REIT Sector - Acquisitions

ASA D-REIT is currently developing student accommodation properties through debt and equity financing

WilsonView in Lang'ata, Qwetu Parklands, and Qwetu Aberdare Heights I along Thika Road next to United States International University Africa (USIU-A). On the other hand, Acorn D-REIT boasts of four properties which are currently operational and six other properties under development bringing to a total of ten properties with 10,060 beds under its portfolio. Operational properties include; Qwetu Hurlingham, Qwetu Aberdare Heights II, Qwetu Karen, Qejani Karen whereas properties under development include; Qwetu Chiromo, Qejani Chiromo, Qejani JKUAT next to Jomo Kenyatta University of Agriculture and Technology, Qejani Hurlingham, Qwetu KU, and Qejani KU next to Kenyatta University,

- iv. During H1'2023 period, the ASA I-REIT and ASA D-REIT entered into a legally bidding agreement for the acquisition of Qwetu Hurlingham, along Arwings Kodhek Road. The property commenced operations in January 2022 and caters to serve tertiary-education students within Hurlingham area and surrounding regions, primarily targeting Daystar University, University of Nairobi (UoN) School of Medicine, Riara University and Strathmore University students. The transaction is scheduled to be finalized in Q3'2023. For more information see [Cytonn Monthly – July 2023](#)
- v. During FY'2023, Acorn Student Accommodation Development REIT (ASA D-REIT) announced it had sold its stabilized asset, Qwetu Aberdare Heights II, to the Acorn Student Accommodation Income REIT (ASA I-REIT) in a Kshs 1.5 bn deal. The acquisition of the 630-bed capacity hostel located adjacent to Qwetu Aberdare Heights I and United States International University (USIU) brings the total number of assets acquired by the I-REIT to four over the last three years, after successful acquisitions of Qwetu Hurlingham in June 2023, Qwetu WilsonView in February 2021, and Qwetu Aberdare Heights I in October

Themes that Shape the REIT Sector - Acquisitions

ASA D-REIT is currently developing student accommodation properties through debt and equity financing

Acquisitions Continuation:

Through the sale, ASA D-REIT will repay Kshs 600.0 mn of the Acorn Green Bond, pushing the repayment of the Kshs 5.7 bn bond to Kshs 3.0 bn ahead of its maturity in November 2024. The bond which was first floated in 2019, was issued in partnership with Private Equity Fund Helios and had attracted an 85.0% subscription rate, raising Kshs 4.3 bn of the targeted amount of Kshs 5.0 bn. The bond was priced at a rate of 12.3%, and was intended to be used to finance sustainable and climate-resilient student accommodation with a combined capacity of 40,000 beds

3. Capital Raising

- i. Through injection of [Kshs 4.3 bn equity](#) raised from investors and [Kshs 6.7 bn debt](#) secured from Absa Bank Kenya PLC in February 2023, ASA D-REIT is currently developing student accommodation properties across Kiambu and Nairobi countries at a total cost of Kshs 11.0 bn for the next three years. For more information see [Cytonn Monthly – July 2023](#)

Themes that Shape the REIT Sector - Capital Raising

Capital Raising in Kenya's REITs sector Continuation

- ii. In March 2023, Kenya's long-standing pension scheme, the Local Authorities Pension Trust (LapTrust) [listed](#) the inaugural Income-Real Estate Investment Trust (I-REIT) by a pension fund on the NSE, a ceremony presided over by President William Ruto. The I-REIT dubbed '*LAPTrust Imara I-REIT*', holds profound importance for government pension schemes and the broader Kenyan capital markets, presenting investors with an exceptional chance to participate in a diversified collection of income-generating Real Estate assets. For more information, see our [Cytonn Monthly-October 2022](#)
- iii. During the same period, [CMA](#) collaborated with key market stakeholders, including the Sanduku Investment Initiative, the Association of Pension Trustees and Administrators of Kenya (APTAK), and the Nairobi Securities Exchange (NSE), to establish the Kenya National REIT (KNR). With a focus on affordable housing and infrastructure, this initiative falls under the purview of the Sanduku Investment Initiative. For more information, see our [Cytonn weekly #06/2023](#), and,
- iv. Additionally during this period, ILAM Fahari I-REIT [proposed](#) the sale of two properties valued at Kshs 200.4 mn, as part of its strategy to divest non-core assets and reorganize its operations. The properties earmarked for sale include Highway House, a three-story industrial building situated off Mombasa Road in Nairobi, currently vacant following the departure of the former tenant, and Bay Holdings, fully leased to Imperial Bank, Packard Limited, and Architecture Supply Limited, located in Nairobi's Industrial Area. The sale process is anticipated to conclude by December 2023. This restructuring will lower the fund's investment property value from Kshs 3.2 bn to Kshs 2.9 bn but significantly augmenting its cash holdings. In terms of new acquisitions, Fahari has yet to initiate property purchases but is actively considering the development of a portion of the vacant land at Greenspan Mall.

Themes that Shape the REIT Sector – Structural Adjustments

Structural Adjustments and delisting in Kenya's REITs sector

4. Structural Adjustments

- ILAM Fahari I-REIT's delisting from the Main Investment Market Segment (MIMS) of the Nairobi Securities Exchange (NSE) marked a strategic move in response to operational challenges and structural optimization. Following approval from the Capital Markets Authority (CMA), ILAM Fahari embarked on a transition to become a Restricted I-REIT, tailored to target professional investors. The decision to delist ILAM Fahari I-REIT from the unrestricted main investment market segment to the restricted segment reflects both challenges faced by the REIT and its proactive response. Operational hurdles prompted a re-evaluation of its structure and operations, leading to resolutions passed during an Extraordinary General Meeting (EGM) in December 2023. Key among these was the proposed conversion to a restricted REIT and subsequent delisting, which garnered significant unitholder support
- **Implications of Delisting:**
- **Non-Professional Unitholders:** Retail investors faced choices following the delisting announcement. Accepting the redemption offer ceased their unitholder status, while those opting to retain units faced trading restrictions post-conversion,
- **Professional Unitholders:** Professional investors remained unaffected by the delisting, with the option to trade units on the Unquoted Securities Platform (USP), albeit with liquidity uncertainties,
- **Tenants and Regulators:** Tenants and regulators experienced minimal impact from the delisting, with the CMA maintaining regulatory oversight as the REIT transitioned to a Restricted I-REIT.

V. Performance of the REITs in FY'2023

Kenya REITs Sector FY'2023 Metrics

ILAM Fahari I-REIT's Net Operating Income improved slightly to Kshs 148.7 mn in FY'2023, from Kshs 141.9 mn in FY'2022

- The tables below highlight the performance of the Kenyan REITs sector, showing the performance using several National Association of Real Estate Investments Trusts (NAREIT) approved metrics, and the key take-outs;

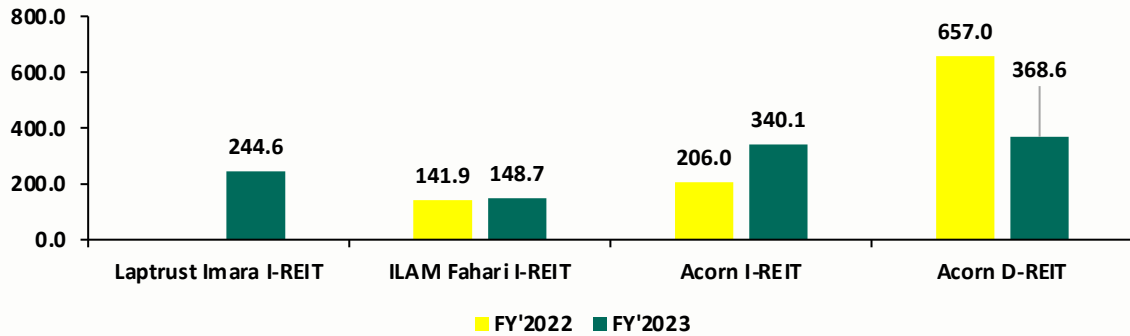
Cytonn Report: Summary Performance Kenya REITs in FY'2023														
	Laptrust Imara I-REIT		ILAM Fahari I-REIT			Acorn I-REIT			Acorn D-REIT			FY'2022	FY'2023	y/y change
	H1'2023	FY'2023	FY'2022	FY'2023	y/y Change	FY'2022	FY'2023	y/y Change	FY'2022	FY'2023	y/y Change			
Operating Metrics														
Net Operating Income (NOI)	99.6	244.6	141.9	148.7	4.8%	206.0	340.1	65.1%	657.0	368.6	(43.9%)	1,004.9	1,102.0	9.7%
Profitability Metrics														
Funds from Operations	99.6	57.2	(28.4)	(0.3)	(99.0%)	571.3	501.8	(12.2%)	657.0	368.6	(43.9%)	1,199.9	927.3	(22.7%)
Adjusted FFO	99.6	57.2	(45.8)	(6.1)	(86.7%)	571.3	501.8	(12.2%)	657.0	368.6	(43.9%)	1,182.4	921.5	(22.1%)
Cash Available for Distribution (CAD)	99.6	244.6	141.9	148.7	4.8%	162.4	235.7	45.1%	0.0	239.8	-	304.3	868.9	185.5%
Cash Amounts Distributed (CAD)	0.0	57.2	117.6	126.7	7.7%	132.3	154.1	16.5%	0.0	71.6	-	249.9	352.3	41.0%
Valuation Metrics														
Net Asset Value (NAV)	7,024.3	6,981.9	3,424.4	3,306.4	(3.4%)	5,854.3	7,377.5	26.0%	6,155.6	6,560.9	6.6%	15,434.2	24,269.1	57.2%

Kenya REITs Sector FY'2023 Metrics

Acorn I-REIT Net Operating Income (NOI) recorded a 65.1% growth to Kshs 340.1 mn in FY'2023, from Kshs 206.0 mn in FY'2022

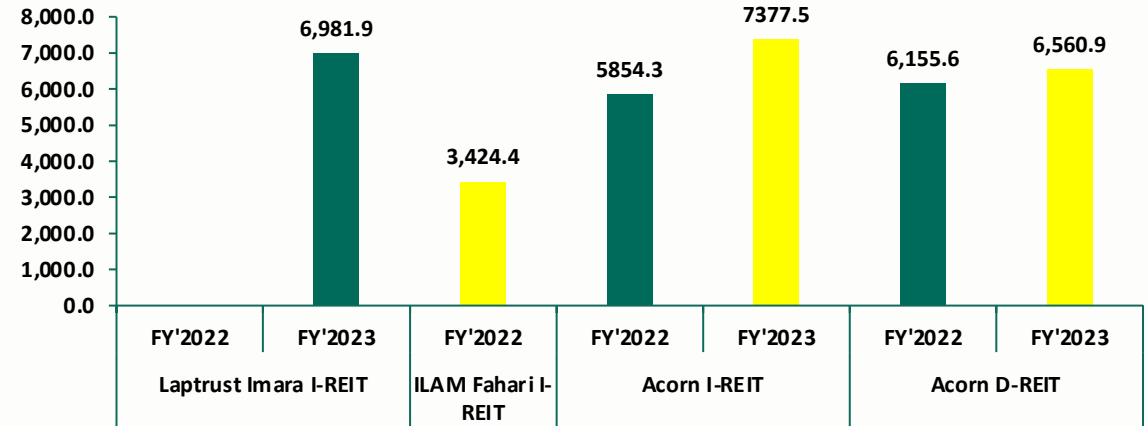
Operating Metrics

Cytonn Report: Kenyan REITs Net Operating Incomes(Kshs mns)



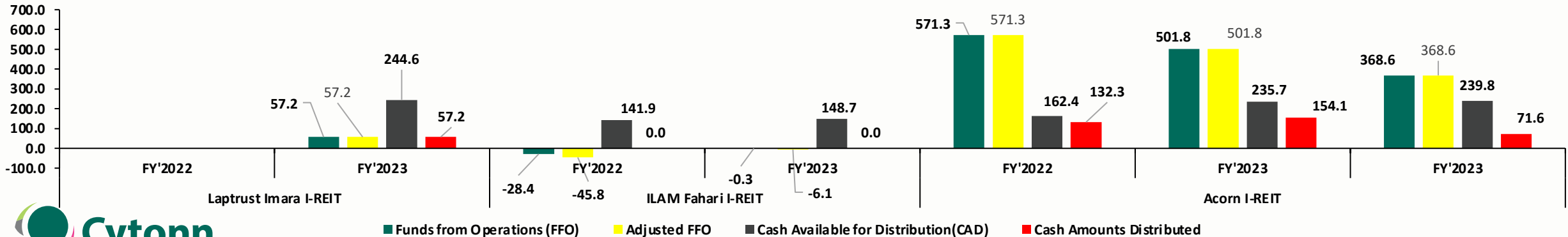
Valuation Metrics

Cytonn Report: Kenyan REITs Net Asset Values in mns



Profitability Metrics

Cytonn Report: Kenyan REITs Profitability Metrics (Kshs mns)



Kenya REITs Sector FY'2023 Metrics

Combined NOIs of Kenyan REITs recorded a 9.7% growth to Kshs 1,102.0 mn in FY'2023 from Kshs 1,004.9 mn in FY'2022

Key takeaways from the tables include:

- i. The combined Net Operating Incomes (NOI) of Kenyan REITs saw a 9.7% increase, reaching Kshs 1,102.0 mn in FY'2023, up from Kshs 1,004.9 mn in FY'2022. This growth was largely driven by a 65.1% rise in the net operating income of Acorn I-REIT, which increased to Kshs 340.1 mn from Kshs 206.0 mn in FY'2022. Additionally, ILAM Fahari I-REIT reported a notable NOI growth of 4.8%, reaching Kshs 148.7 mn from Kshs 141.9 mn in FY'2022, further contributing to the overall positive performance,
- ii. Combined Funds from Operations (FFO) of Kenyan REITs declined by 22.7% in FY'2023, dropping to Kshs 927.3 mn from Kshs 1,199.9 mn in FY'2022. Similarly, Adjusted FFOs for Kenyan REITs fell by 22.1%, reaching Kshs 921.5 mn in FY'2023 from Kshs 1,182.4 mn in FY'2022. This decrease was largely due to significant reductions in NOIs during the period. Acorn D-REIT's NOI saw the largest drop, falling by 43.9% to Kshs 368.6 mn from Kshs 657.0 mn in FY'2022, which in turn led to a 43.9% decrease in Adjusted FFO. Additionally, Acorn D-REIT's FFO decreased by 12.2% due to a 56.1% drop in fair value adjustment to investment property, which fell to Kshs 160.4 mn from Kshs 365.3 mn in FY'2022,
- iii. The REITs combined Cash amounts available for paying dividends to REIT investors which we measured using the Cash Available for Distribution (CAD) metric increased by 185.5% in FY'2023 to Kshs 868.9 mn from Kshs 304.3 mn in FY'2022. The performance was propelled by Laptrust Imara I-REIT's distributable earnings which stood at Kshs 244.6 mn, and,
- iv. Notably, the REIT managers of all four REITs recommended final dividends. ILAM Fahari I-REIT's manager proposed a first and final dividend of Kshs 0.7 per unit, making Kshs 126.7 mn available for distribution out of Kshs 148.8 mn. Acorn I-REIT increased its total distribution for the year to Kshs 242.8 mn, translating to Kshs 0.7 per unit, marking a 20.7% rise from the Kshs 192.5 mn distributed in 2022. Acorn D-REIT recommended a distribution of Kshs 240.0 mn, equivalent to Kshs 0.9 per unit, which was paid in December 2023. For Laptrust Imara I-REIT, the REIT Manager suggested a first and final dividend distribution of Kshs 195.7 mn, amounting to Kshs 0.57 per unit, which was approved by the Trustee for the 2023 fiscal year.

Kenya REITs Sector FY'2023 Metrics

Majority of Kenyan REITs remained ungeared in FY'2023, with the exception of Acorn D-REIT

The tables below makes a comparison of the leverage and liquidity ratios of all four Kenyan REITs during FY'2023 and FY'2022;

Cytonn Report: Leverage & Liquidity Ratios of Kenyan REITs

	Laptrust Imara I-REIT		ILAM Fahari I-REIT			Acorn I-REIT			Acorn D-REIT			FY'2022*	FY'2023**	y/y change
	H1'2023	FY'2023	FY'2022	FY'2023	y/y Change	FY'2022	FY'2023	y/y Change	FY'2022	FY'2023	y/y Change			
Leverage Ratios														
Debt to Equity Ratios	0.0x		0.0x	0.0x	0.0%	0.0x	0.0x	0.0%	0.6x	0.2x	(40.5%)	0.3x	0.1x	(21.3%)
Debt to Total Market Cap Ratio	0.0%		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	60.1%	16.5%	(43.6%)	27.9%	5.2%	(22.8%)
Debt to Gross Book Value Ratio	0.0%		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	33.8%	9.4%	(24.3%)	15.7%	2.9%	(12.7%)
Debt to EBITDA Multiple	0.0x		0.0x	0.0x	0.0%	0.0x	0.0x	0.0%	5.3x	2.9x	(45.1%)	2.5x	0.9x	(63.0%)
Liquidity Ratios														
Debt Service Coverage Ratio	-		-	-	-	-	-	-	18.7%	34.1%	15.3%	8.7%	10.7%	2.0%
Implied Capitalization Rate	0.0%		18.7%	22.9%	4.2%	3.3%	4.4%	1.1%	7.3%	3.8%	(3.5%)	6.6%	3.7%	(2.9%)

*Market cap weighted as at 31/12/2022

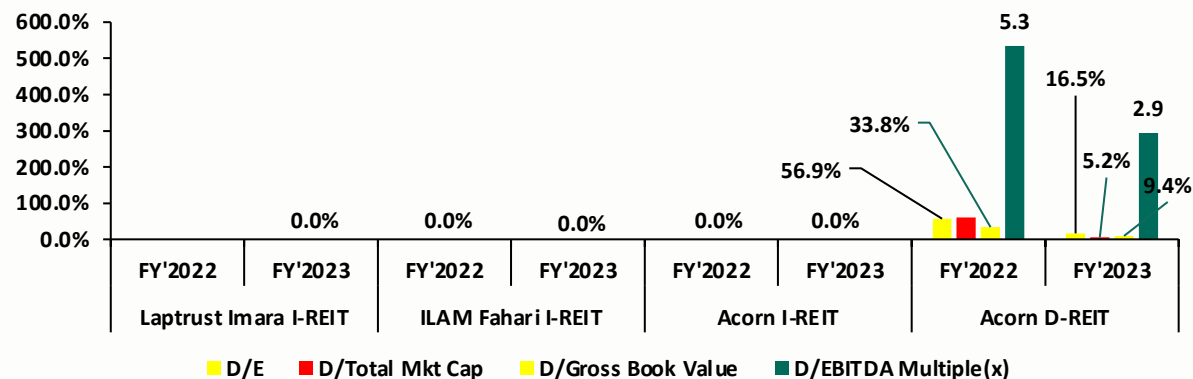
**Market cap weighted as at 31/12/2023

Kenyan REITs Sector FY'2023 Metrics

Acorn D-REIT'S debt to EBITDA multiple decreased to 2.9x in FY'2023, from 5.3x in FY'2022

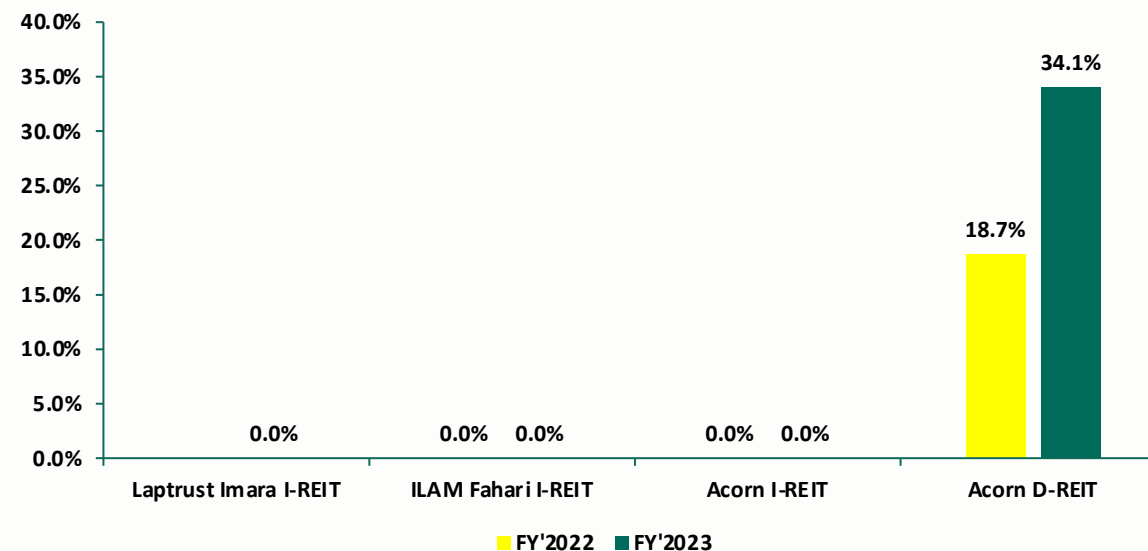
Leverage Ratios

Cytonn Report: Kenyan REITs Leverage Ratios (%)



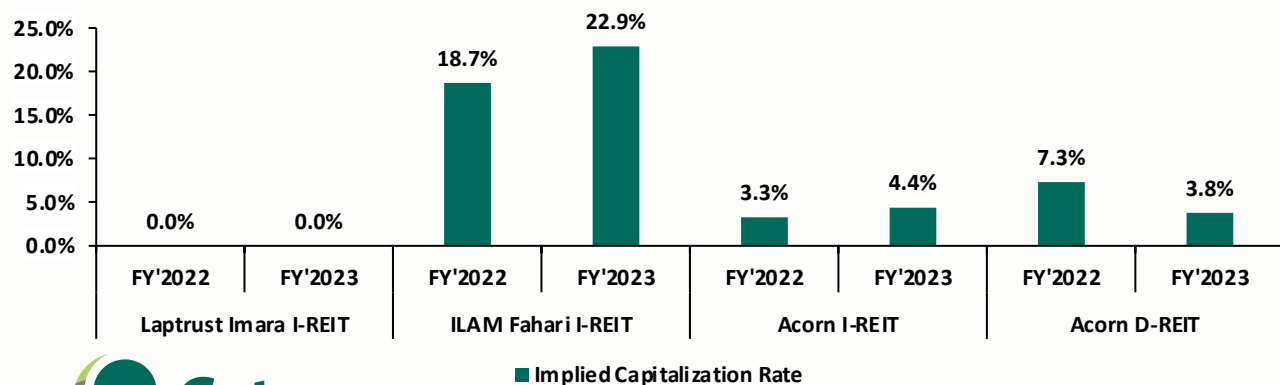
Liquidity Ratios

Cytonn Report: Kenyan REITs Liquidity Ratios



Valuation Metrics

Cytonn Report: Kenya REITs Valuation Metrics



Kenya REITs Sector FY'2023 Metrics

In FY'2023, ILAM Fahari traded at the highest implied capitalization rate of 22.9%

Key takeaways from the tables include:

- i. Majority of the REITs remained ungeared during FY'2023, with their leverage ratios remaining at zero except Acorn D-REIT. Acorn D-REIT debt ratios decreased in FY'2023 on account of a 69.1% decline in its long-term borrowings to Kshs 3.5 bn from Kshs 1.1 bn in FY'2022,
- ii. Notably, Acorn D-REIT's Debt to EBITDA Multiple reduced to 2.9x in FY'2023, from 5.3x recorded in FY'2022. This was on the back of a faster decline in the REIT's long-term borrowings which outpaced the EBITDA's decline. Acorn D-REIT EBITDA in FY'2023 decreased by 43.8% to Kshs 370.0 mn from Kshs 657.0 mn in FY'2022, compared to a 69.1% decrease in the REIT's long-term debt, and,
- iii. ILAM Fahari I-REIT traded at the highest implied capitalization rate of 22.9%, signifying a higher return on investment compared to other REITs. In contrast, LAPTrust Imara I-REIT had the lowest implied capitalization rate of zero. Despite this, we anticipate that LAPTrust Imara I-REIT's performance will improve gradually, given that the REIT is still in its early years of operation.

Kenyan REITs Sector FY'2023 Metrics

Laptrust Imara I-REIT units are trading at a premium relative to its peers, with a price to FFO per share multiple of Kshs 121.0

- The table below presents a summary of key valuation metrics of Kenyan REITs in FY'2023;

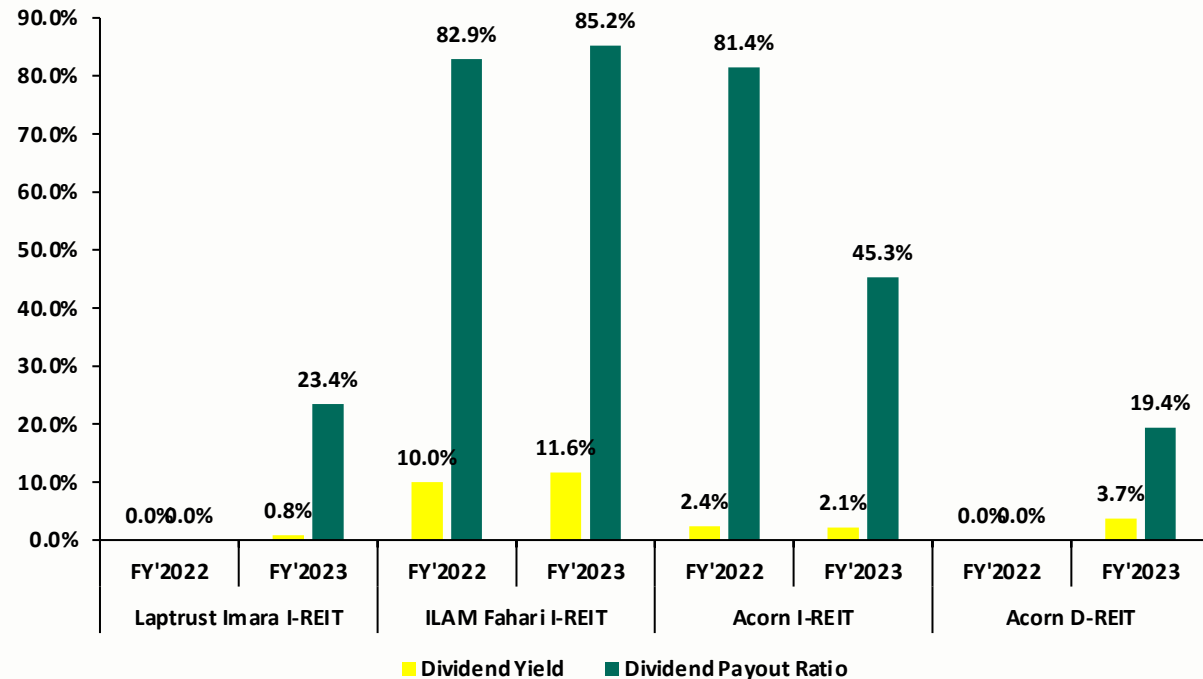
Cytonn Report: Valuation Metrics for Kenyan REITs														
	Laptrust Imara I-REIT		ILAM Fahari I-REIT			Acorn I-REIT			Acorn D-REIT			FY'2022	FY'2023	y/y change
	H1'2023	FY'2023	FY'2022	FY'2023	y/y Change	FY'2022	FY'2023	y/y Change	FY'2022	FY'2023	y/y Change			
Price/FFO per Share	69.5x	121.0x	(41.6x)	(3,672.4x)	8,727.9%	9.7x	14.4x	48.3%	8.9x	17.8x	100.1%	(7.7x)	(892.7x)	11,524.7%
Dividend Yield	0.00%	0.83%	10.0%	11.6%	1.6%	2.4%	2.1%	(0.3%)	0.0	0.0	-	1.2%	2.1%	0.9%
Dividend Coverage/Payout Ratio	0.0%	23.4%	82.9%	85.2%	2.3%	81.4%	45.3%	(36.1%)	0.0%	19.4%	-	40.7%	45.3%	4.6%
Net Asset Value	7,024.3	6,981.9	3424.4	3306.4	(3.4%)	5,854.3	7,377.5	26.0%	6,155.6	6,560.9	6.6%	15,434.2	24,269.1	57.2%
Net Asset Value per Share	20.3	20.2	18.9	18.3	(3.4%)	22.1	22.5	2.0%	25.2	24.6	(2.4%)	22.1	21.4	(2.9%)

Kenya REITs Sector FY'2023 Metrics

Acorn I-REIT dividend payout came in at 45.3%, compared to 81.4% in FY'2022

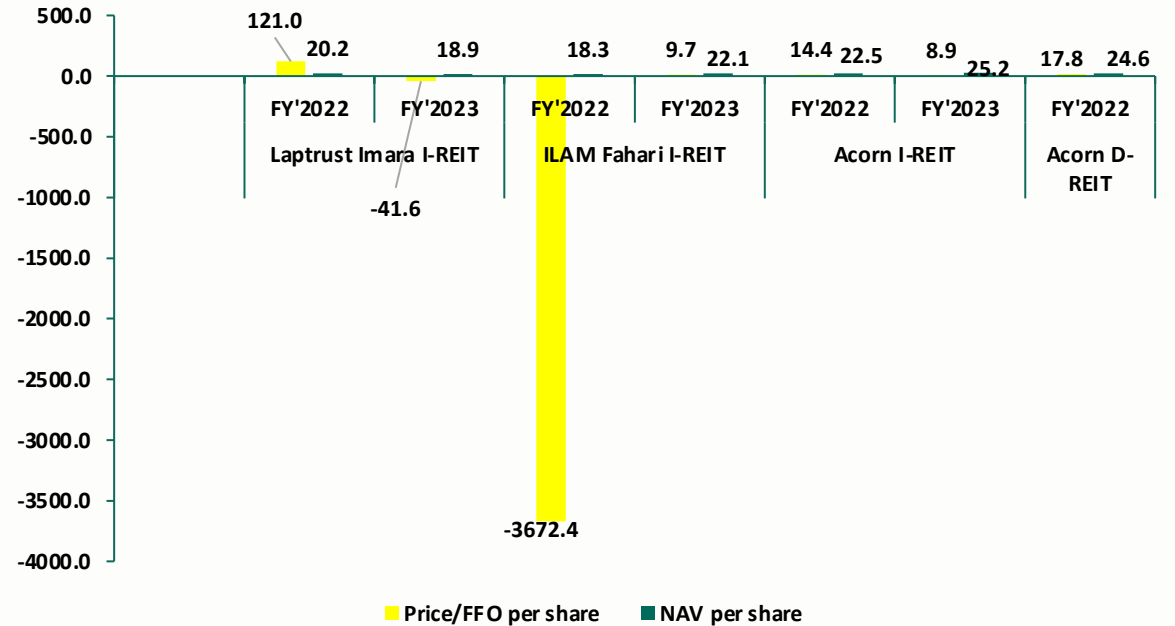
Valuation Metrics

Cytonn Report: Kenya REITs Valuation Metrics



Valuation Metrics

Cytonn Report: Kenya REITs Valuation Metrics (Kshs)



N.B

- Price/FFO per share multiple (x)
- NAV per share (Kshs)

Kenyan REITs Sector FY'2023 Metrics

Acorn D-REIT recorded the highest NAV per share at Kshs 24.6, and, ILAM Fahari had the lowest NAV per share at Kshs 18.3

Key takeaways from the tables include;

- Laptrust Imara I-REIT units are trading at a premium relative to its peers, with a price to FFO per share multiple of Kshs 121.0. Comparatively, ILAM Fahari I-REIT units are trading at a discount with a price to FFO per share multiple of Kshs (3,672.4),
- ILAM Fahari I-REIT boasted the highest dividend yield in FY'2023 at 11.6%, surpassing Laptrust Imara I-REIT's 0.83% and Acorn I-REIT's 2.1%. On the payout side, ILAM's dividend payout was 85.2%, adhering to Kenya's REIT regulations that mandate distributing at least 80.0% of net profits after tax as dividends. Conversely, Laptrust Imara I-REIT and Acorn I-REIT had lower payouts of 23.4% and 45.3%, respectively, falling short of the regulatory threshold,
- Acorn D-REIT recorded the highest NAV per share at Kshs 24.6, a 2.4% decline from FY'2022's NAV per share of Kshs 25.2. This is on the back of a faster growth in the number of shares, which increased by 9.2% to Kshs 266.7 mn from Kshs 244.2 mn in FY'2022; compared to a 6.6% growth in the Net Asset Value (NAV) to Kshs 6.6 bn from Kshs 6.2 mn. ILAM Fahari had the lowest NAV per share at Kshs 18.3, a 3.4% decline from 18.9 recorded in FY'2022. This is attributable to a 4.0% decrease in total assets to Kshs 3.5 bn from Kshs 3.6 bn in FY'2022.

VI. Conclusion & Outlook for the REITs Sector

Conclusion, Recommendations & Outlook for the sector

The performance of the REITs market in Kenya has been marked by a moderate trajectory since inception

- The performance of the REITs market in Kenya has been marked by a moderate trajectory, influenced by a range of contributing factors. Noteworthy, despite the overall challenges, there are positive indicators within the Kenyan REIT landscape. Notably, net operating incomes have displayed growth, reflecting improved financial performances. Additionally, leverage ratios for most REITs remained strikingly low, as majority of the REITs remain ungeared with most leaning towards short-term debt to sustain their operations. We anticipate that this trend will continue to persist going forward, in line with REITs fear of overexposure to interest rates, particularly in the current rising interest rates environment. In support of this, we expect to see more developments along financial sustainability commitment as demonstrated by key sector players such as Acorn Holdings, through the issuance of its [green bond](#). Additionally, we anticipate that the recent regulatory proposition by the Capital Markets Authority (CMA) to [reduce](#) minimum investment amounts for professional investors to Kshs 10,000 will invigorate interest in the sector, potentially attracting a broader investor base.
- Based on our research and analysis, we make the following recommendations to enhance the REITs sector through a more informed and strategic approach:
 - i. **Enhancing Stakeholder Education:** All key stakeholders need to be educated on the REIT structure. Implementing investor education and awareness campaigns is essential to inform potential investors about the benefits and risks associated with REIT investments. By improving investor knowledge and understanding, it is likely that more individuals will be encouraged to participate in the REIT market, thereby contributing to its growth and development,

Conclusion, Recommendations & Outlook for the sector

We recommend that the approval structure be consolidated into a single agency instead of two

- i. Expanding Legal Framework:** In South Africa, the REITs' legal and operational framework allows different legal entities to establish REITs, unlike Kenya, where this is limited to trusts. In both Belgium and the United States, REIT formation permits flexibility in the choice of legal entities, contributing to the diversity and dynamism of the REIT market. Belgium allows various legal structures, including public limited companies, limited liability companies, and cooperative companies, tailored to different investor preferences and business models. Similarly, in the US, REITs can be structured as corporations, trusts, or associations, providing versatility in organizational structures. To enhance the Kenyan REIT market, it is prudent to introduce similar flexibility. By expanding the range of permissible structures beyond traditional trust-based models to include corporations, partnerships, and limited liability companies, Kenya can better accommodate diverse investor needs and facilitate easier entry into the REIT market. This diversification would promote a more robust and dynamic REIT sector, catering to different organizational preferences,
- ii. Streamlined approval process:** To improve the efficiency of Real Estate Investment Trusts (REITs) approval, it is recommended to consolidate the approval structure into a single agency, instead of the current two (CMA and KRA). Merging the approval process under one agency would eliminate the need to navigate through two separate entities for REITs approval. This consolidation would streamline the process, enhancing efficiency, reducing costs, and improving transparency and accountability,
- iii. Introduce Hybrid REIT Vehicles:** Currently, investors have to subscribe to both of the separate REIT classes, forcing them to pay duplicate costs, due to the nature of exclusivity of the two. A hybrid REIT would provide investors integrated returns, by combining the higher return from development while reducing risk exposure through the relatively stable income component of the I-REIT. In addition, an IPO with such a hybrid REIT vehicle would eliminate the duplicated costs of running two separate REITs, thereby improving subscriptions by investors. Introducing a hybrid REIT within a unified structure would thus enable investors to capitalize on the strengths of both investment types, potentially leading to more balanced risk-reward profiles

Conclusion, Recommendations & Outlook for the sector

We retain a NEUTRAL outlook for the Kenyan REITs sector going forward

- i. **Flexibility in Listing:** Acknowledging the apprehensions of companies regarding an immediate shift to public listing, we propose a gradual, phased strategy. Providing REITs with an initial period of private operation before mandating public listing would facilitate a smoother transition and align with the comfort levels of corporate entities. Belgium's stipulation of ensuring 30.0% of shares held by the public strikes a balance between public ownership and flexibility for REIT promoters. Kenya could adopt a similar approach to encourage broader investor participation while ensuring sufficient liquidity in the market. Moreover, Kenya could follow the example of the United States by offering flexibility in listing options for REITs. Granting REITs the autonomy to choose between going public or remaining private offers increased flexibility to accommodate diverse investor preferences and business models. By accommodating both publicly listed and privately held REITs, Kenya can promote inclusivity in the market and cater to the needs of a wide range of investors, thereby bolstering the vibrancy and liquidity of the REIT market. This approach creates a favorable environment for REITs to thrive while addressing concerns related to the transition to public listing,
 - ii. **Inclusive Corporate Trusteeship:** An essential modification entails the integration of Corporate Trustees, mirroring practices observed in the pension sector. Additionally, we propose a reduction in the minimum capital requirement, presently set at Kshs 100.0 mn, as this financial threshold currently limits trusteeship options solely to banking institutions. Currently, four banks are registered as REIT Trustees, including Kenya Commercial Bank (KCB), Co-operative Bank (Coop), Housing Finance Bank, and NCBA Bank Kenya. We suggest lowering the minimum to Kshs 10.0 million to align with the minimum required for a Pension Fund Trustee. This adjustment would expand the pool of potential Trustees available to REIT Managers
 - iii. **Introduce Tokenization of REITs:** Introducing the concept of tokenization for REITs presents an innovative solution and has the potential to amplify market participation. This would facilitate the ownership of REIT units in smaller denominations, even as low as Kshs 100.0, and,
 - iv. **Diminishing Entry Barriers:** Reconsideration of the steep Kshs 5.0 mn minimum for D-REITs is vital to eliminate entry barriers that inadvertently limit individual market entry. A revised minimum could promote a more inclusive investment landscape.
- In summary, despite the hurdles encountered in the Kenyan market, the potential of REITs remains promising. These investment instruments offer a means to enhance liquidity and broaden financing options within the Real Estate sector, presenting an alternative avenue for development funding and potential returns for investors. Although Kenya's REIT journey has faced challenges, the proposed adjustments in investment thresholds and the resilience shown in the financial performance of certain REITs indicate a possible revitalization in the sector.

VII. Appendix

Kenyan REITs FY'2023 Earnings Notes

I. ILAM Fahari I-REIT

ILAM Fahari I-REIT Summary of Performance – FY'2023

Below is a summary of the ILAM Fahari I-REIT's FY'2023 Performance;

Ratios Summary	FY'2022	FY'2023	Δ (FY'22/ FY'23)
ROA	(0.8%)	(0.0%)	0.8%
ROE	(0.8%)	(0.0%)	0.8%
Debt Ratio	5.3%	4.7%	(0.6%)
PBT Margin	(8.4%)	(0.1%)	8.3%
Rental Yield	12.1%	11.6%	(0.5%)

Figures in Kshs bn Unless Stated Otherwise

Balance Sheet	FY'2022	FY'2023	Δ (FY'22/ FY'23)
Total Assets	3.6	3.5	(4.0%)
Total Equity	3.4	3.3	(3.4%)
Total Liabilities	0.1	0.2	(14.8%)

Figures in Kshs bn Unless Stated Otherwise

Income Statement	FY'2022	FY'2023	Δ (FY'22/ FY'23)
Rental Income	0.4	0.3	(9.0%)
Income from Other Sources	0.0	0.0	68.1%
Operating Expenses	0.2	0.2	(7.2%)
Profit Before Tax	(0.0)	(0.0)	(99.0%)
Basic EPS	(0.0)	(0.0)	(99.0%)

Key Highlights in FY'2023:

- A first and final dividend of Kshs 70 cents per unit was recommended by the REIT manager ILAM and approved by the Trustee in respect to the 2023 fiscal year, to be paid by 30th April 2024

Financial Statements Extracts

ILAM Fahari I-REIT recorded a 99.0% improvement in net loss to Kshs 0.3 mn, from Kshs 28.4 mn in FY'2022

- The basic earnings per unit improved to come in at a loss of Kshs 0.002 in FY'2023, from a loss of Kshs 0.2 in FY'2022. The performance was supported by a 99.0% improvement in ILAM Fahari's net loss which came in at a loss of Kshs 0.3 mn in FY'2023, from a loss of Kshs 28.4 mn recorded in FY'2022. This was mainly driven by a 12.5% reduction in fair value loss of investment property to a loss of Kshs 149.0 mn in FY'2023, from a loss of Kshs 170.3 mn realized in FY'2022. Additionally, operating expenses declined by 7.2% to Kshs 225.9 mn in FY'2023, from Kshs 243.4 mn recorded in FY'2022. Moreover, income from other sources also increased by 68.1% to Kshs 52.1 mn in FY'2023, from Kshs 31.0 mn in FY'2022,
- Rental income declined by 9.0% to Kshs 322.4 mn in FY'2023, from Kshs 354.3 mn recorded in FY'2022, largely attributed to the termination of the lease agreement for the single-tenanted property at 67 Gitanga Place. We note that efforts are underway by the REIT Manager to secure a new tenant for the property,
- Interest income increased by 25.0% to Kshs 38.8 mn in FY'2023, from Kshs 31.0 mn realized in the similar period in 2022, owing to the high interest rates being experienced in the market currently,
- The total operating expenses decreased by 7.2% to Kshs 225.8 mn in FY'2023, from Kshs 243.4 mn recorded in FY'2022, driven by a 26.0% decrease in property expenses to Kshs 97.2 mn in FY'2023, from Kshs 131.3 mn in FY'2022. This was attributable to lower repairs and maintenance costs as well as reduced provision for doubtful debts. However, there was a 14.8% increase in the fund operating expenses to Kshs 128.6 mn in FY'2023, from Kshs 112.1 mn in FY'2022. The increase in expenses was mainly on the back of the restructuring costs incurred during the year under review. Key to note, expenses made up 61.2% of the total operating income,

Financial Statements Extracts

ILAM Fahari I-REIT distributable earnings per unit came in at Kshs 0.82 in FY'2023, a 4.8% increase from Kshs 0.78 recorded during a similar period in 2022

- Total earnings available for distribution for the period FY'2023 increased by 4.8% to Kshs 148.8 mn, from the Kshs 142.0 mn recorded in FY'2022, primarily driven by improvements in fair value loss of investment property, which decreased to a loss of Kshs 149.0 mn in FY'2023, from a loss of Kshs 170.3 mn realized in FY'2022. Additionally, the REIT's profit after tax for the period improved by 99.0% to Kshs a loss of 0.3 mn in FY'2023 from a loss of Kshs 28.4 mn recorded in FY'2022
- Distributable earnings per unit came in at Kshs 0.82 in FY'2023, a 4.8% increase from Kshs 0.78 recorded during a similar period in 2022 as the improvement realized in the reduction of operational expenses was offset by a decline in rental income
- The REIT Trustee approved the REIT manager's recommendation to pay out a first and final dividend of Kshs 126.7 mn relation to the financial year FY'2023, against Kshs 148.8 mn of earnings available for distribution representing a dividend payout ratio of 85.2%, and
- The dividend yield as at the last trading date, that is 9th February 2024 stood at 12.3%
- For more information, please see our [ILAM Fahari I-REIT FY'2023 Earnings Notes](#)

II. Laptrust Imara I-REIT

Laptrust Imara I-REIT Performance – FY'2023

- Laptrust Imara I-REIT was authorized by the Capital Markets Authority (CMA) on 1st November 2022. Laptrust Imara I-REIT holds several properties across the country including; Pension towers, CPF House, Metro Park, Freedom Heights mall, Freedom Heights serviced plot, Man apartments and Nova Pioneer in Eldoret
- Below is a summary of the Laptrust Imara I-REIT's FY'2023 Performance;

Key Highlights in FY'2023:

- On 7th May 2024, the REIT Manager recommended a first and final dividend distribution of Kshs 195.7 mn, representing Kshs 0.57 distribution per unit, which was approved by the Trustee in respect to the 2023 fiscal year. We note that this was the REIT's debut dividend distribution since its inception,
- On 22nd March 2023, Laptrust Imara I-REIT was [listed](#) on the Restricted Sub Segment of the Main Investment Market segment of the Nairobi Securities Exchange (NSE)

- Below is a summary of the Laptrust Imara I-REIT's FY'2023 Performance;

<i>Figures in Kshs bn unless stated otherwise</i>			
Balance Sheet	H1'2023	FY'2023	FY'2023/H1'2023 Change
Total Assets	7.3	7.3	(0.6%)
Total Equity	7.0	7.0	(0.6%)
Total Liabilities	0.3	0.3	(1.3%)

<i>Figures in Kshs mn unless stated otherwise</i>	
Income Statement	FY'2023
Rental Income	305.2
Income from Other Sources	115.8
Operating Expenses	176.4
Profit/Loss	57.2
Basic EPS (Kshs)	0.2

<i>Figures in Kshs mn unless stated otherwise</i>			
Ratios Summary	H1'2023	FY'2023	FY'2023/H1'2023 Change
ROA	1.36%	0.79%	(0.6%)
ROE	1.42%	0.82%	(0.6%)
Debt Ratio	4.2%	4.2%	(0.03%)
PBT Margin	59.6%	18.8%	(40.9%)
Rental Yield	2.4%	4.5%	2.1%

Financial Statements Extracts

Laptrust Imara I-REIT recorded Kshs 305.2 mn in rental and related income, and Kshs 176.4 mn in total operating expenses for the period FY'2023

- The basic earnings per unit came in at Kshs 0.2 in FY'2023, a 42.6% decline from 0.3 recorded in H1'2023. The performance was driven by a 42.6% decline in net earnings to Kshs 57.2 mn in FY'2023 from Kshs 99.6 mn recorded in H1'2023,
- Rental and related income for the REIT stood at Kshs 305.2 mn in FY'2023, implying a gross rental yield of 4.5% in FY'2023 on interest-earning assets. This rental income was driven by an upward review in rental prices for several properties within the portfolio. For instance, rental prices at Pension Towers increased from Kshs 78 per SQFT in Q2'2023 to Kshs 100 per SQFT in Q4'2023; a 33.3% increase. Moreover, there was a 14.8% increase in rental prices at CPF House to Kshs 463 per SQFT in 2024 from Kshs 403 per SQFT in 2023. The annual rental yield currently stands at 4.5%,
- Total operating expenses for the REIT came in at Kshs 176.4 mn, attributed to Kshs 62.8 mn incurred in utility expenses, 47.9 mn in property expenses, and Kshs 65.7 mn in fund operating expenses. Notably, property valuation fees stood at 2.9 mn, accounting for 6.1% of the total property expenses in FY'2023,
- Trustee fees in FY'2023 stood at Kshs 37.4 mn, accounting for 56.9% of the total fund operation expenses. Key to note, expenses made up 41.9% of the total operating income,
- Total assets for the REIT stood at Kshs 7.29 bn in FY'2023, a 0.6% decrease from Kshs 7.33 bn recorded in H1'2023, comprising of Kshs 6.7 bn in investment property that saw a 2.7% decrease from Kshs 6.9 bn in H1'2023 attributable to a fair value adjustment of Kshs 187.4 mn, Kshs 0.4 bn in cash and cash equivalents, and Kshs 0.1 bn in trade and other receivables,

Financial Statements Extracts

Laptrust Imara I-REIT recorded Kshs 304.2 mn in total liabilities, and Kshs 6.98 mn in shareholder's funds for the period FY'2023

- Total liabilities in FY'2023 came in at Kshs 304.2 mn, recording a 1.3% decrease from Kshs 308.1 mn in H1'2023 wholly attributable to a decrease in trade and other payables,
- The shareholder's funds decreased by 0.6% to Kshs 6.98 mn from Kshs 7.02 bn in H1'2023, attributable to 6.9 bn in trust capital which recorded no change, and 57.2 mn in retained earnings which saw a 42.6% decline from 99.6 mn recorded in H1'2023, and,
- The REIT currently has a Return on Asset and a Return on Equity of 0.79% and 0.82% respectively. For a more comprehensive analysis, please see our [Laptrust Imara I-REIT FY'2023 Earnings Note](#).

III. Acorn REITs

Acorn REITs Performance – FY'2023

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

Key Highlights in FY'2023:

- Acorn D-REIT recommended a distribution of Kshs 240.0 mn translating to Kshs 0.9 per unit which was paid in December 2023. The recommendation will be ratified in the upcoming annual general meeting. We note this was the REIT's debut dividend since its inception, and,
- Acorn I-REIT raised its total distribution for the year to Kshs 242.8 mn translating to Kshs 0.7 per unit, a 20.7% increase from Kshs 192.5 distributed in 2022.

Cytonn Report: Balance Sheet						
	Acorn I-REIT			Acorn D-REIT		
	FY'2022	FY'2023	Change	FY'2022	FY'2023	Change
Total Assets	6.8	9.2	34.7%	10.4	11.5	10.7%
Total Equity	5.9	7.4	26.0%	6.2	6.6	6.6%
Total Liabilities	0.9	1.8	88.4%	4.2	4.9	16.6%

Acorn REITs Performance – FY'2023

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

Cytonn Report: Income Statement						
	Acorn I-REIT			Acorn D-REIT		
	FY'2022	FY'2023	Change	FY'2022	FY'2023	Change
Rental Income	442.0	722.3	63.4%	311.0	324.5	4.3%
Income from Other Sources	4.8	2.2	(54.9%)	0.5	6.8	1,325.7%
Total operating income	463.0	724.9	56.6%	1,012.6	728.0	(28.1%)
Operating Expenses	316.1	384.7	21.7%	356.1	366.2	2.8%
Finance costs	22.0	127.4	459.0%	313.3	305.4	2.5%
Profit Before Tax	504.9	396.1	(21.5%)	343.6	71.6	(79.2%)
Basic EPS (Kshs)	1.9	1.2	(36.5%)	1.6	0.3	(82.9%)

Cytonn Report: Ratios Summary						
	Acorn I-REIT			Acorn D-REIT		
	FY'2022	FY'2023	Change	FY'2022	FY'2023	Change
ROA	7.4%	4.3%	(3.1%)	3.3%	0.6%	(2.7%)
ROE	8.6%	5.4%	(3.3%)	5.6%	1.1%	(4.5%)
Debt Ratio	13.9%	19.5%	5.5%	40.7%	42.9%	2.2%
PBT Margin	114.2%	54.8%	(59.4%)	33.9%	42.9%	(24.1.0%)
Rental Yield	6.8%	8.2%	1.5%	3.4%	3.8%	0.4%
Distribution Per Unit	0.8	0.8	0.2%	0.0	0.9	-
Payout Ratio	96.9%	73.4%	(24.2%)	0.0%	335.2%	-

Financial Statements Extracts

Acorn I-REIT recorded profits of Kshs 396.1 mn in FY'2023, from Kshs 504.9 mn

- Key takeout's include;

Acorn I-REIT

- The basic earnings per unit decreased by 36.5% to Kshs 1.2 in FY'2023, from Kshs 1.9 recorded in FY'2022. This was mainly driven by a 21.5% decline in profit to Kshs 396.1 mn recorded in FY'2023, from Kshs 504.9 mn that was recorded in FY'2022. This was on the back of increased total operating expenses which registered a 21.7% increase to come in at Kshs 384.7 mn from Kshs 316.1 mn in FY'2022. The increase was however offset by a 56.6% increase in total operating income to Kshs 724.9 mn in FY'2023 from Kshs 463.0 mn in FY'2022,
- The REIT's total operating expenses came in at Kshs 384.7 mn, a 21.7% increase from Kshs 316.1 mn recorded in FY'2022. This performance was attributable to a 58.9% increase in; fund-operating expenses to Kshs 124.2 mn in FY'2023, from Kshs 114.0 mn in FY'2022. Additionally, administrative expenses also increased by 30.3% to Kshs 264.8 mn in FY'2023 from Kshs 47.8 mn in FY'2022,
- Total assets for the I-REIT increased by 34.7% to Kshs 9.2 bn in FY'2023 from Kshs 6.8 bn in FY'2022. This was mainly on the back of a 34.2% increase in investment property during the period, coming in at Kshs 8.8 bn from Kshs 6.5 bn in FY'2022. This was a result of newer acquisitions during the period including Qwetu Hurlingham, and,
- Total liabilities increased by 88.4% to Kshs 1.8 bn in FY'2023, from Kshs 0.9 bn in FY'2022 as a result of increase in trade payables. During the period under review, payables increased by 66.3% to Kshs 260.0 mn from Kshs 156.3 mn in FY'2022. Moreover, the REIT registered short-term borrowings amounting to Kshs 1.5 bn in FY'2023 which further contributed to the increase in liabilities.

Financial Statements Extracts

Acorn D-REIT recorded profits of Kshs 71.6 mn in FY'2023, from 396.1 mn in FY'2022

Acorn D-REIT

- The basic earnings per unit for the REIT decreased by 82.9% to Kshs 0.3 in FY'2023, from Kshs 1.6 in FY'2022. This was mainly driven by a 79.2% decline in profits to Kshs 71.6 mn from Kshs 396.1 mn in FY'2022, on the back of declined total operating income by 28.1% to Kshs 728.0 mn from 1.0 bn in FY'2022,
- The total operating expenses for the D-REIT increased marginally by 2.8% to Kshs 366.2 mn in FY'2023 from Kshs 356.1 mn in FY'2022, mainly driven by a 16.7% increase fund-operating expenses to Kshs 214.4 mn from Kshs 183.7 mn in FY'2022,
- Total assets for the D-REIT increased by 10.7% to Kshs 11.5 bn in FY'2023, from Kshs 10.4 bn in FY'2022. The increase in assets was mainly on the back of an increase in non-current assets to Kshs 2.2 bn from Kshs 0.7 bn in FY'2022 as a result of classified as held for sale which came in at Kshs 1.5 bn, and,
- Total liabilities for the D-REIT increased by 16.6% to Kshs 4.9 bn, from Kshs 4.2 bn in FY'2022, mainly driven by; i) 5330.5% increase in short-term borrowings which came in at Kshs 2.9 bn in FY'2023, from Kshs 54.1 mn in FY'2022, and ii) 89.1% increase in trade and other payables to Kshs 744.8 mn, from Kshs 393.9 mn in FY'2022
- For a more comprehensive analysis, please see our, and [Acorn Holdings FY'2023 Earnings Note](#)

Feedback Summary

During the preparation of this Cytonn Kenya's REITs FY'2023 Report, we shared with the subject companies the metrics that were used in the Report for their confirmation and verification

- Below is a summary of the REITs we were able to acquire feedback from and those that went unresponsive:

Bank	Metrics Shared	Sent Feedback
Laptrust Imara I-REIT	Yes	Unresponsive
ILAM Fahari I-REIT	Yes	Unresponsive
Acorn I-REIT	Yes	Unresponsive
Acorn D-REIT	Yes	Unresponsive

Thank You!

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For more information or any further clarification required, kindly contact the research team at investment@cytonn.com

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