

Cytonn Kenya's REITs H1'2024 Report



25th August, 2024

Table of Contents



1 Introduction to Cytonn

2 Overview of Real Estate in Kenya

3 Overview of the REITs sector in Kenya

4 Themes that shaped the REITs sector in H1'2024

5 Performance of the REITs in H1'2024

6 Conclusion & Outlook for the sector

7 Appendix

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:

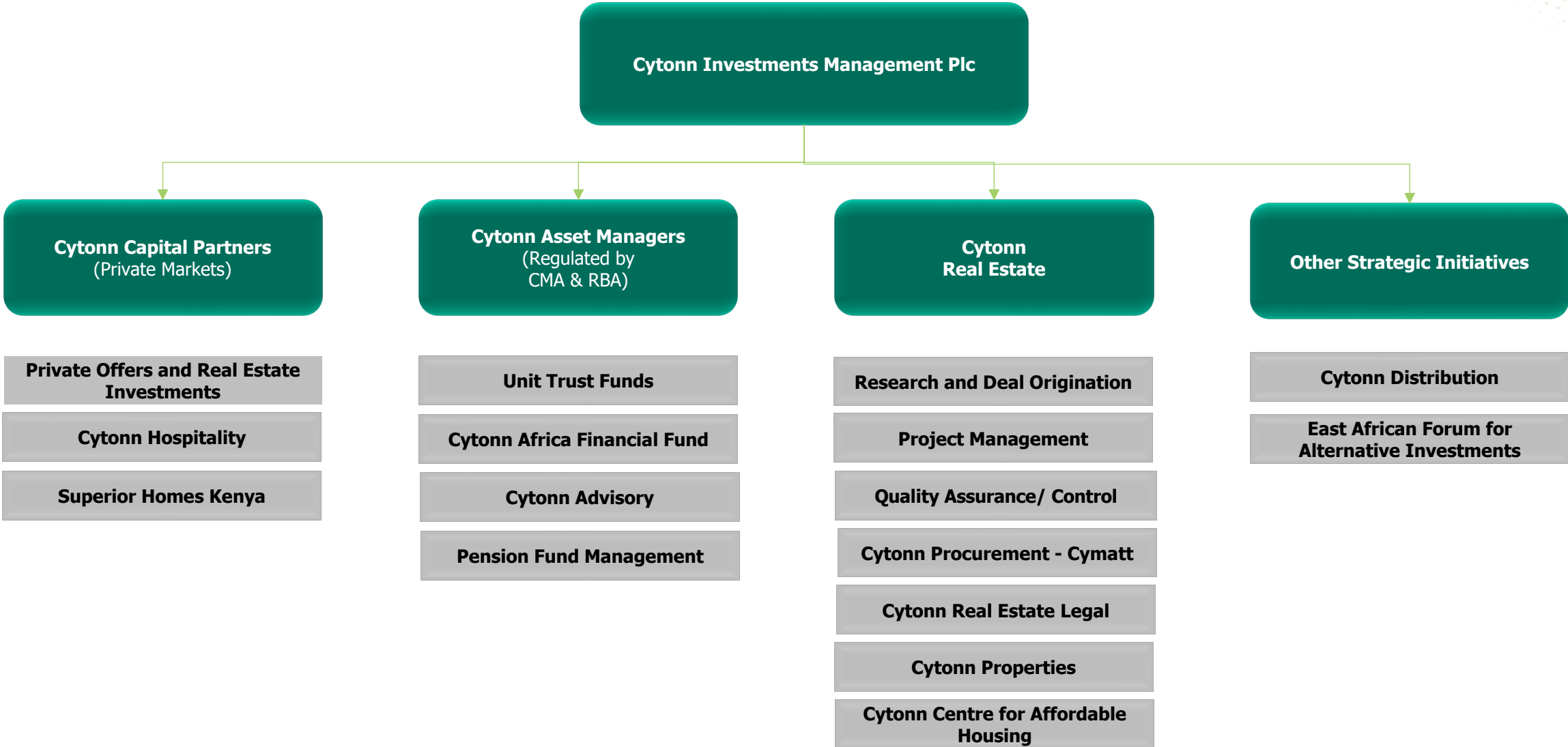
- High Net-worth Individuals through Cytonn Private Wealth. This is done through our captive Distribution Network
- East Africans in the Diaspora through Cytonn Diaspora
- Global and Local Institutional Clients. These clients are served from our Investment & Fundraising Team

WE INVEST OUR CLIENT FUNDS IN:

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



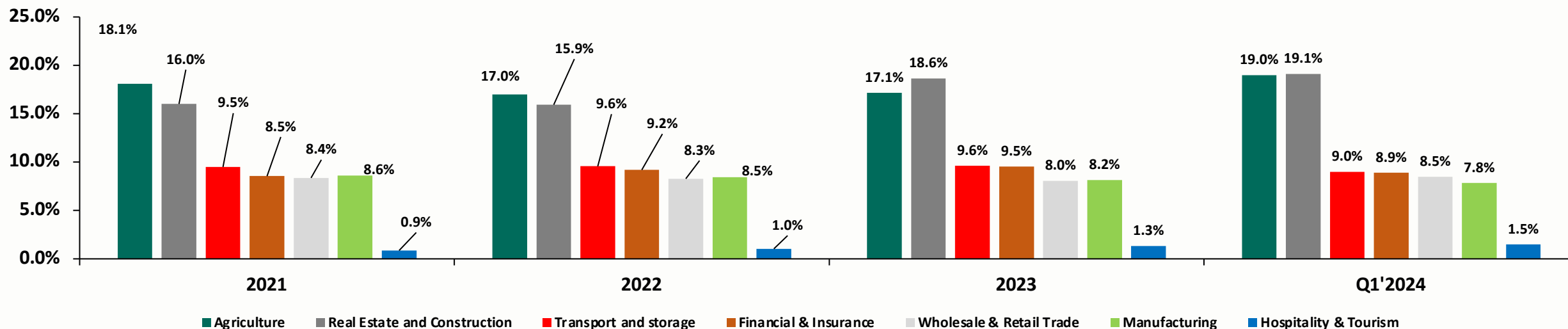
Our Business Structure



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'2021-Q1'2024)



*Source: KNBS

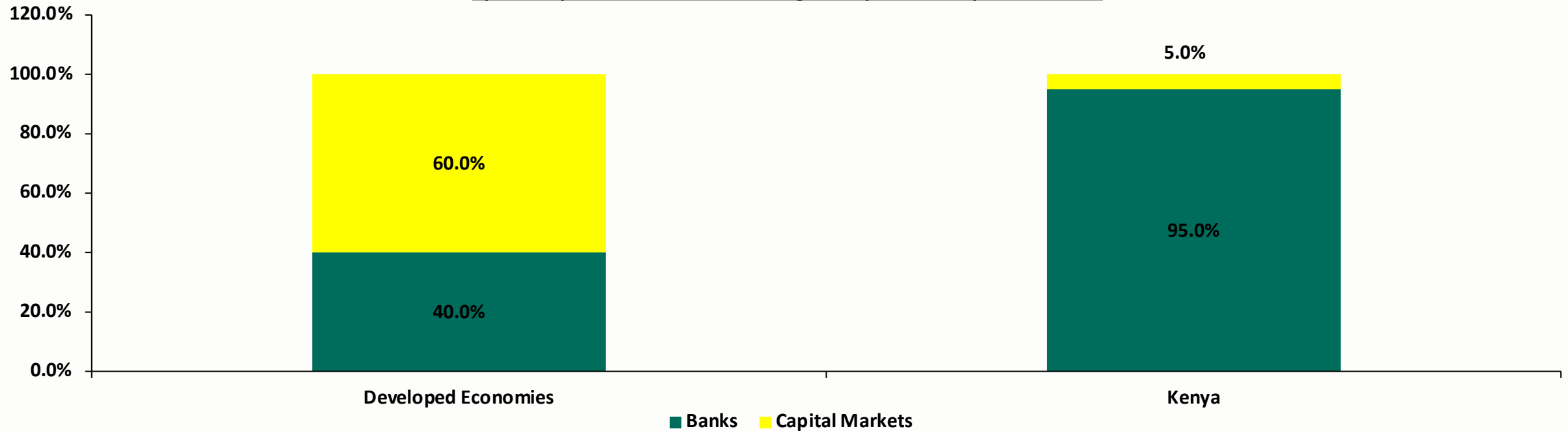
The Real Estate and Construction sector contributed 19.1% of the country's Gross Domestic Product (GDP) in Q1'2024, being the largest contributor to Kenya's economy, increasing by 2.6 % from Q1'2023's 18.6%. This is attributed to rapid urbanization and population rates which stood at averages of [3.7%](#) and [2.0%](#) respectively as of 2023, against the global averages of [1.7%](#) and [0.9%](#), 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

Cytonn Report: Authorized REITs in Kenya						
#	Issuer	Name	Type of REIT	Listing Date	Market Segment	Status
1	ICEA Lion Asset Management (ILAM)	Fahari	I-REIT	July 2024	Unquoted Securities Platform (USP)	Trading
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	Restricted Market Sub-Segment of the Main Investment Market	Restricted

*Source: Nairobi Securities Exchange, Capital Markets Authority

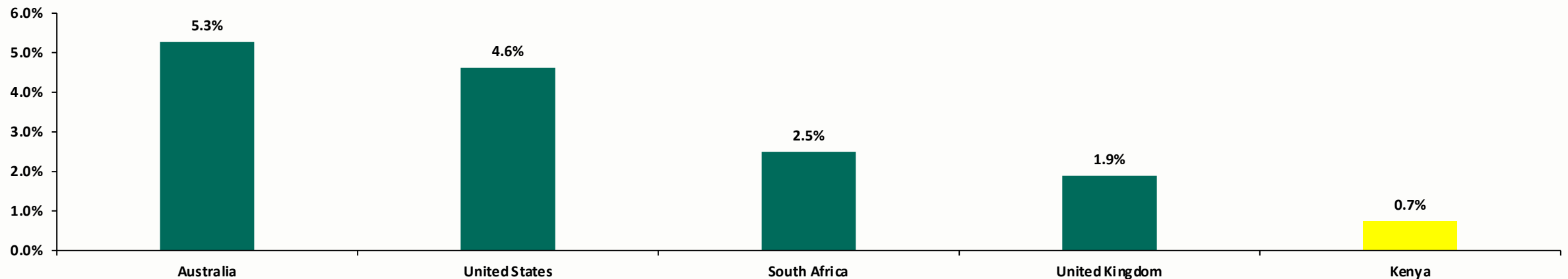
- Following the establishment of REIT regulations in 2013, four REITs were approved in the Kenyan market, all designed as closed-ended funds with a fixed number of shares. Currently, none of these REITs are actively trading on the Main Investments Market Segment of the Nairobi Securities Exchange (NSE). Following 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 NSE's Main Investment Market. It is important to note that Imara did not raise funds upon listing. The ILAM Fahari I-REIT, 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

Kenyan REITs Sector Overview

Kenyan REITs market capitalization remains low in comparison to other countries

Since its introduction in 2013, the REIT market in Kenya has faced several hurdles that have hindered its growth. Key challenges include the hefty capital requirement of Kshs 100.0 mn for trustees, limiting this role largely to banks, and a protracted approval process for setting up REITs. Additionally, the high minimum investment threshold of Kshs 5.0 mn discourages potential investors, while a lack of sufficient investor education and awareness further impedes market expansion. As a result, the REIT market capitalization in Kenya remains significantly lower compared to other regions

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



IV. Themes that shaped the REITs sector in H1'2024

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. Portfolio Holdings & 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 Abedare 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 H1'2024, 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

- V. During the year, the Capital Markets Authority (CMA) granted a license to [Mi Vida Homes Limited](#) to operate as a REIT Manager in efforts to strengthen and develop the country's capital markets. This brings the total number of REIT managers in Kenya to 11. As a REIT Manager, the company will offer Real Estate and fund management services for Real Estate investment trusts (REITs) on behalf of investors within a REIT scheme. We expect this milestone will open exciting new opportunities for investors and further develop our country's Real Estate market, as the country's REIT market remains underdeveloped and relies primarily on conventional funding alternatives.

Themes that Shape the REIT Sector - Capital Raising

Capital Raising in Kenya's REITs sector Continuation

3. Capital Raising

- i. Acorn Holdings, a student hostel developer in Nairobi announced a bid to raise Kshs 2.8 bn in new capital for its development and income Real Estate Investment Trusts (REITS) by February 2025 to fund the development and acquisition of new properties. The firm targets Kshs 1.9 bn for the Acorn student accommodation I-REIT and Kshs 810.0 mn for the D-REIT, which is set to be raised through a combination of a rights issue that closed on 31st July and open market offer which continues until February 2025. Acorn offered an open market price of Kshs 24.54 for the D-REIT and Kshs 22.03 for the I-REIT with existing unit holders enjoying a discount of 0.6% during the rights issue offer period which has since expired.
- ii. The Acorn D-REIT currently has an outstanding Kshs 1.86 bn green bond issued in October 2019, which financed eight hostel projects. The company had acquired Kshs 5.7 bn and has been making early repayments before the debt matures in November 2024. In February 2022, the D-REIT contracted a Kshs 6.7 bn loan from Absa Bank to fund 10 hostel projects, out of which Kshs 1.0 bn had been drawn down by June 2024 for ongoing projects at Juja, Kenyatta University and Hurlingham.
- iii. The Linzi Sukuk bond was launched on July 31, 2024, marking Kenya's first Sharia-compliant bond aimed at funding affordable housing projects. President William Ruto announced that the KShs 3 bn (approximately Usd 20 mn) bond would finance the construction of 3,069 affordable housing units, significantly reducing the cost of home ownership for many Kenyans. The initiative allows potential homeowners to pay as little as KShs 7,000 per month over a 15-year period for homes valued at an average of KShs

Themes that Shape the REIT Sector – Structural Adjustments

Structural Adjustments and delisting in Kenya's REITs sector

4. Delisting & Listing on the USP

- 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 had to choose between accepting the redemption offer, which ended their unitholder status, or retaining units with post-conversion trading restrictions.
 - **Professional Unitholders:** They remained largely unaffected, with the ability to trade units on the Unquoted Securities Platform (USP), though liquidity concerns persist.
 - **Tenants and Regulators:** Minimal impact was observed, with the CMA continuing regulatory oversight as the REIT shifted to a Restricted I-REIT.

V. Performance of the REITs in H1'2024

Kenya REITs Sector H1'2024 Metrics

Laptrust I-REIT reported a notable NOI growth of 63.0%, reaching to Kshs 162.4 mn from Kshs 99.6 in H1'2023

- 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;

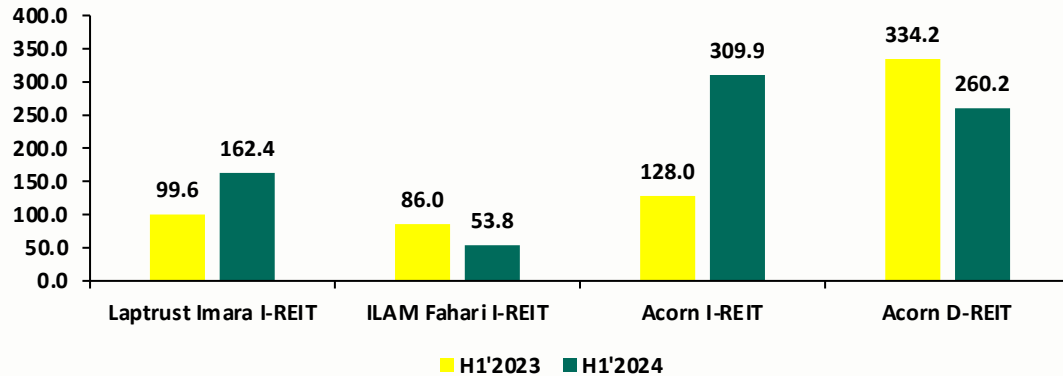
Cytonn Report: Summary Performance Kenya REITs in H1'2024															
	Laptrust Imara I-REIT			ILAM Fahari I-REIT			Acorn I-REIT			Acorn D-REIT			H1'2023	H1'2024	y/y change
	H1'2023	H1'2024	y/y Change	H1'2023	H1'2024	y/y Change	H1'2023	H1'2024	y/y Change	H1'2023	H1'2024	y/y Change			
Operating Metrics															
Net Operating Income (NOI)	99.6	162.4	63.0%	86.0	53.8	59.8%	128.0	309.9	142.1%	334.2	260.2	(22.2%)	647.9	786.3	21.4%
Profitability Metrics															
Funds from Operations	99.6	162.4	63.0%	86.0	53.8	59.8%	149.8	359.0	139.6%	334.2	260.2	(22.2%)	669.7	835.3	24.7%
Adjusted FFO	99.6	162.4	63.0%	84.4	55.1	53.2%	149.8	359.0	139.6%	334.2	260.2	(22.2%)	668.1	836.6	25.2%
Cash Available for Distribution (CAD)	99.6	129.9	30.4%	86.0	53.8	59.8%	92.8	104.0	12.0%	0.0	123.6		278.5	411.3	47.7%
Cash Amounts Distributed (CAD)	0.0	162.4	0.0%	0.0	0.0	0.0%	87.0	32.7	-62.4%	0.0	181.4		87.0	376.5	332.8%
Valuation Metrics															
Net Asset Value (NAV)	7,024.3	6,948.6	(1.1%)	3,392.8	3,233.6	4.9%	6,341.9	7,435.4	17.2%	6,547.7	6,749.5	3.1%	23,306.6	24,367.1	4.5%

Kenya REITs Sector H1'2024 Metrics

Acorn I-REIT Net Operating Income (NOI) recorded a 142.1% growth to Kshs 309.9 mn in H1'2024, from Kshs 128.0 mn in H1'2023

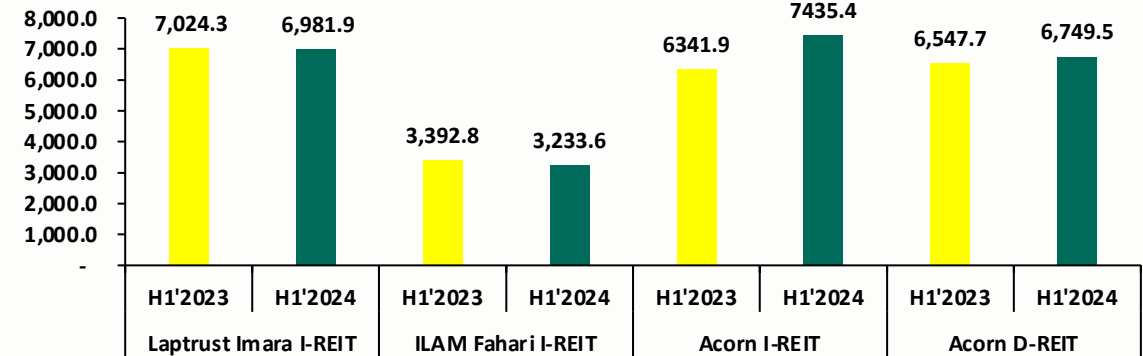
Operating Metrics

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



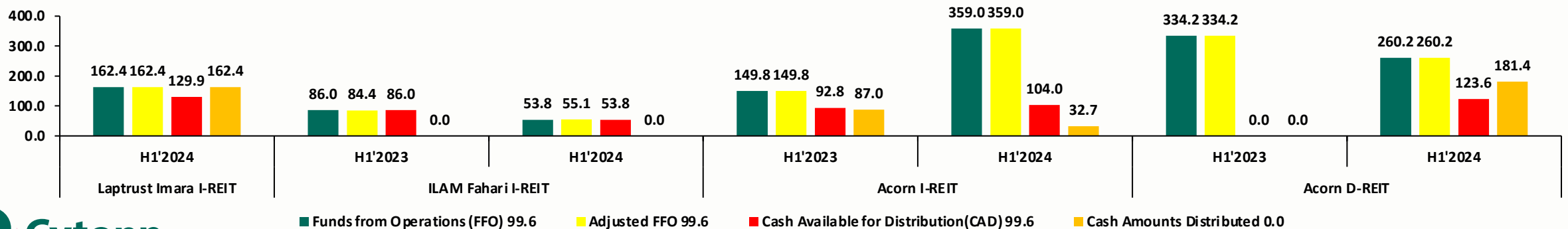
Valuation Metrics

Cytonn Report: Kenyan REITs Net Asset Values in mns



Profitability Metrics

Cytonn Report: Kenyan REITs Profitability Metrics (Kshs mns)



Kenya REITs Sector H1'2024 Metrics

Combined NOIs of Kenyan REITs recorded a 21.4% growth to Kshs 786.3 mn in H1'2024 from Kshs 647.9 mn in H1'2023

Key takeaways from the tables include:

- i. The combined Net Operating Income (NOI) of Kenyan REITs saw a 21.4 % increase, reaching Kshs 786.3 mn in H1'2024, up from Kshs 647.9 mn in H1'2023. This growth was largely driven by a 142.1% rise in the net operating income of Acorn I-REIT, which increased to Kshs 309.9 mn from Kshs 128.0 mn in H1'2023. Additionally, Laptrust I-REIT reported a notable NOI growth of 63.0%, reaching to Kshs 162.4 mn from Kshs 99.6 in similar period in 2023, further contributing to the overall positive performance. Acorn D-REIT's NOI saw the largest drop, falling by 22.2% to Kshs 250.2 mn from Kshs 334.2 mn in H1'2023,
- ii. Combined Funds from Operations (FFO) of Kenyan REITs increased by 24.7% in H1'2024, increasing to Kshs 835.3 mn from Kshs 669.7 mn in H1'2023. Similarly, Adjusted FFOs for Kenyan REITs increased by 25.2%, reaching Kshs 836.6 mn in H1'2024 from Kshs 668.1 mn in H1'2023. This increase was largely due to significant increases in NOIs except for Acorn D-REIT which recorded a decrease of 22.2% during the period,
- 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 47.7% in H1'2024 to Kshs 411.3 mn from Kshs 278.5 mn in H1'2023. The performance was propelled by Laptrust Imara I-REIT's distributable earnings which increased by 30.4% to come in at Kshs 129.9 mn from Kshs 99.6 mn during the same period last year. Additionally, Acorn D-REIT distributed earnings stood at 123.6 mn which was an improvement from the nil earnings recorded in H1'2023,
- iv. Notably, the REIT managers of all four REITs recommended provisional dividends. For Laptrust Imara I-REIT, the REIT Manager suggested a first dividend distribution of Kshs 129.9 mn, amounting to Kshs 0.38 per unit, which was approved by the Trustee for the H1'2024, ILAM Fahari I-REIT's manager proposed a first and final dividend of Kshs 0.3 per unit, making Kshs 53.83 mn available for distribution out of Kshs 181.0 mn. Acorn I-REIT increased its total distribution for the year to Kshs 104.0 mn, translating to Kshs 0.3 per unit, marking a 12.0 % rise from the Kshs 92.8 mn distributed in H1'2023. Acorn D-REIT recommended a distribution of Kshs 181.0 mn, equivalent to Kshs 0.7 per unit, which was an improvement from the nil distribution in H1'2023

Kenya REITs Sector H1'2024 Metrics

Majority of Kenyan REITs remained ungeared in H1'2024, 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 H1'2024 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			H1'2023*	H1'2024**	y/y change
	H1'2023	H1'2024	H1'2023	H1'2024	y/y Change	H1'2023	H1'2024	y/y Change	H1'2023	H1'2024	y/y Change			
Leverage Ratios														
Debt to Equity Ratios	0.0x	0.0x	0.0x	0.0x	0.0%	0.0x	0.0x	0.0%	0.6x	0.3x	(55.0%)	0.2x	0.1x	(10.4%)
Debt to Total Market Cap Ratio	0.0%	0.0x	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	64.0%	28.0%	(56.2%)	29.7%	8.1%	(21.7%)
Debt to Gross Book Value Ratio	0.0%	0.0x	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	35.1%	14.6 %	(58.4%)	16.3%	4.2%	(12.1%)
Debt to EBITDA Multiple	0.0x	0.0x	0.0x	0.0x	0.0%	0.0x	0.0x	0.0%	11.8x	7.0x	(40.4%)	5.5x	2.0x	(63.2%)
Liquidity Ratios														
Debt Service Coverage Ratio	-		-	-	-	-	-	-	8.1%	14.2%	6.1%	2.5%	4.1%	1.6%
Implied Capitalization Rate	0.0%	2.4%	12.3%	3.3%	(72.8%)	0.0%	3.0%	53.9%	3.2%	2.4%	(26.5%)	2.2%	2.7%	(0.4%)

*Market cap weighted as at 30/06/2023

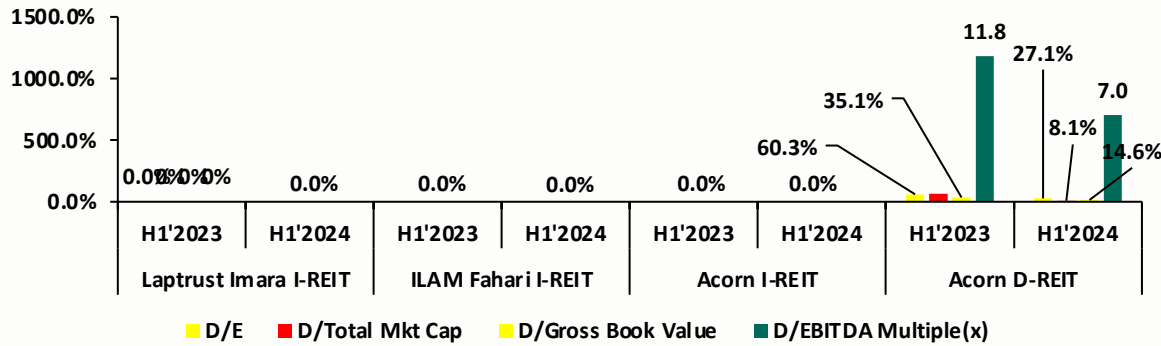
**Market cap weighted as at 30/06/2024

Kenyan REITs Sector H1'2024 Metrics

Acorn D-REIT'S debt to EBITDA multiple decreased to 7.0 x in H1'2024, from 11.8x in H1'2023

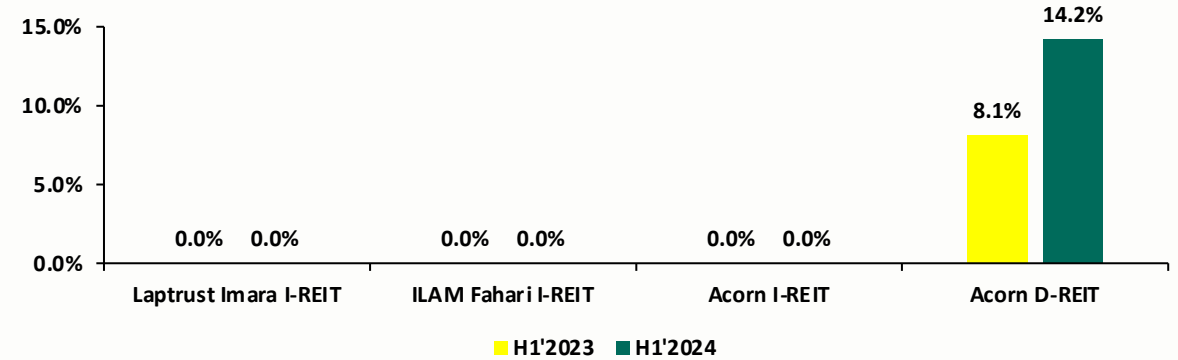
Leverage Ratios

Cytonn Report: Kenyan REITs Leverage Ratios (%)



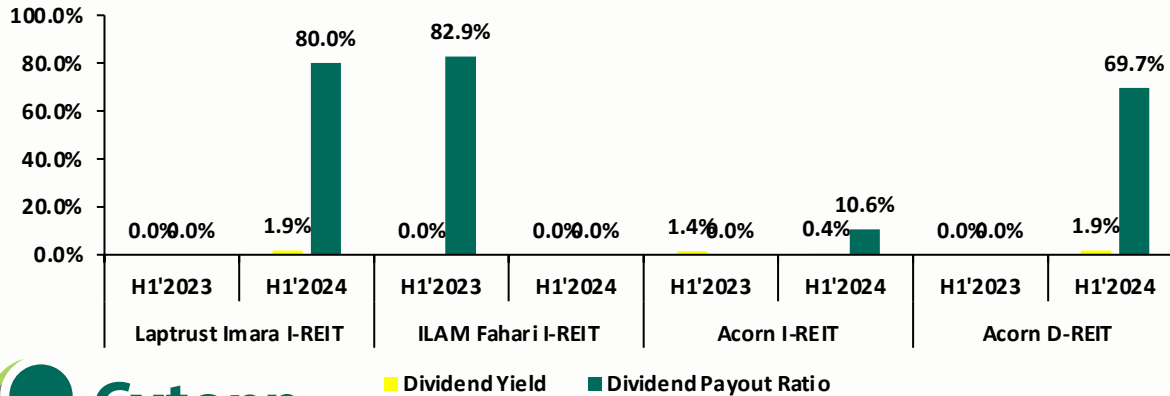
Liquidity Ratios

Cytonn Report: Kenyan REITs Liquidity Ratios



Valuation Metrics

Cytonn Report: Kenya REITs Valuation Metrics



Kenya REITs Sector H1'2024 Metrics

In H1'2024, ILAM Fahari traded at the highest implied capitalization rate of 3.3%

Key takeaways from the tables include:

- i. Majority of the REITs remained ungeared during H1'2024, with their leverage ratios remaining at zero except Acorn D-REIT. Acorn D-REIT debt ratios decreased in H1'2024 on account of a 53.6% decline in its long-term borrowings to Kshs 1.8 bn from Kshs 3.9 bn in H1'2023,
- ii. Notably, Acorn D-REIT's Debt to EBITDA Multiple reduced by 40.4% to 7.0x in H1'2024, from 11.8x recorded in H1'2023. 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 H1'2024 decreased by 22.2% to Kshs 260.1 mn from Kshs 334.2 mn in H1'2023, compared to a 53.6 % decrease in the REIT's long-term debt, and,
- iii. ILAM Fahari I-REIT traded at the highest implied capitalization rate of 3.3%, signifying a higher return on investment compared to other REITs. In contrast, Acorn D-REIT and Laptrust Imara I-REIT had the lowest implied capitalization rate of 2.4%. 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 H1'2024 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 42.6

- The table below presents a summary of key valuation metrics of Kenyan REITs in H1'2024;

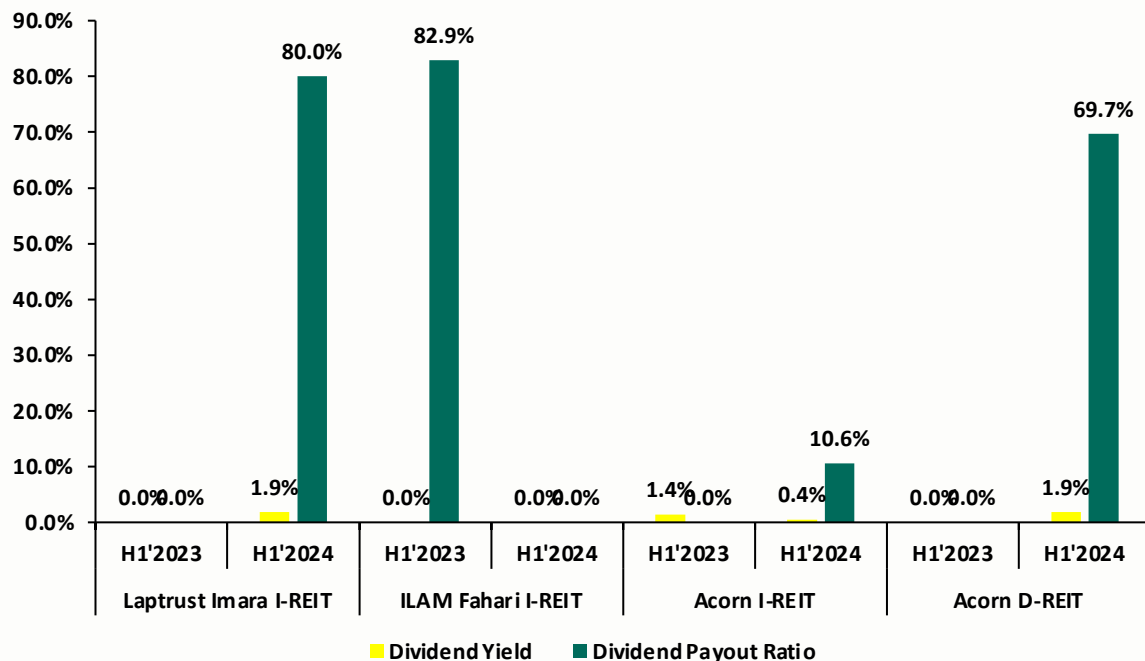
Cytonn Report: Valuation Metrics for Kenyan REITs															
	Laptrust Imara I-REIT			ILAM Fahari I-REIT			Acorn I-REIT			Acorn D-REIT			H1'2023	H1'2024	y/y change
	H1'2023	H1'2024	y/y Change	H1'2023	H1'2024	y/y Change	H1'2023	H1'2024	y/y Change	H1'2023	H1'2024	y/y Change			
Price/ FFO per Share	69.5x	42.6x	(38.6%)	12.7x	37.0x	191.1%	41.6x	20.3x	51.3%	18.5x	25.1x	35.9%	35.6X	31.3X	(12.2%)
Dividend Yield	0.00%	1.9%		0.0%	0.0%	0.0%	1.4%	0.4%	(0.9%)	0.0%	1.9%	0.0%	0.3%	3.8%	3.5%
Dividend Coverage/ Payout Ratio	100.0%	80.0%	(20%)	0.0%	0.0%	0.0%	93.7%	10.6%	(83.2%)	0.0%	69.7%	0.0%	48.4%	40.1%	(8.4%)
Net Asset Value	7,024.3	6,948.6	(1.1%)	3,392.8	3233.6	(4.7%)	6341.9	7,435.4	17.2%	6,547.7	6,749.5	3.1%	23,306.6	24,367.1	4.5%
Net Asset Value per Share	20.3	20.1	(1.1%)	18.7	17.9	(4.7%)	22.0	22.5	2.5%	25.3	25.4	0.2%	21.6	21.4	(0.6%)
Annualized Dividend Yield	0.0%	3.8%	0.0%	0.0%	0.0%	0.0%	2.8%	0.9%	(67.8%)	0.0%	3.8%	0.0%	0.7%	2.1%	1.4%

Kenya REITs Sector H1'2024 Metrics

Acorn I-REIT dividend payout came in at 10.6%, compared to 0.0% in H1'2023

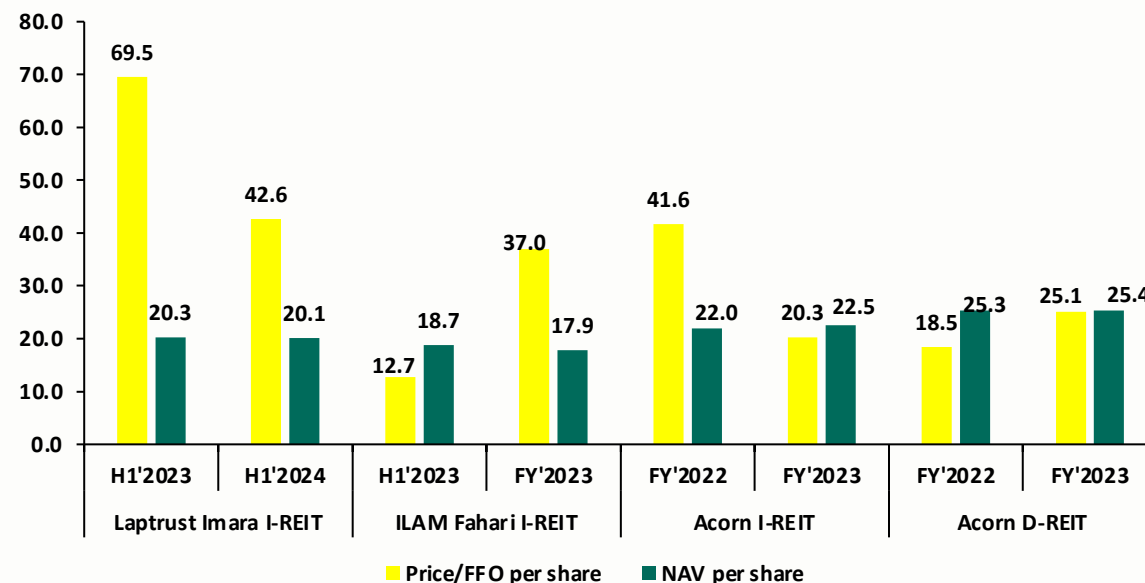
Valuation Metrics

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 H1'2024 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 42.6, however this was a decrease of 38.6% from Kshs 69.5 price per FFO per share multiple,
- Laptrust Imara I-REIT's and Acorn D-REIT boasted the highest annualized dividend yield in H1'2024 at 3.8%, surpassing ILAM Fahari I-REIT 0.0% and Acorn I-REIT's 0.9%. On the payout side, Imara's dividend payout was 80.0%, adhering to Kenya's REIT regulations that mandate distributing at least 80.0% of net profits after tax as dividends. Conversely, Acorn I-REIT and D-REIT had lower payouts of 10.6% and 69.7%, respectively, falling short of the regulatory threshold, and,
- Acorn D-REIT recorded the highest NAV per share at Kshs 25.4, a 0.2% increase from H1'2023's NAV per share of Kshs 25.3. This is on the back of a faster growth in the number of shares, which increased by 2.9% to Kshs 266.2 mn from Kshs 258.7 mn in H1'2023; 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 17.9, a 4.7% decline from 18.7 recorded in H1'2023. This is attributable to a 4.0% decrease in total assets to Kshs 3.4 bn from Kshs 3.5 bn in H1'2023.

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

- Kenya's REITs market has seen moderate performance, shaped by various factors. Despite challenges, there are encouraging trends, such as growth in net operating incomes, indicating improved financial performance. Additionally, leverage ratios for most REITs have remained low, with many REITs being ungeared and relying on short-term debt for their operations to avoid overexposure to rising interest rates. This trend is expected to continue as REITs seek to maintain financial sustainability, as evidenced by Acorn Holdings' issuance of a green bond. Moreover, the recent regulatory proposal by the Capital Markets Authority (CMA) to reduce the minimum investment amounts for professional investors to Kshs 10,000 is anticipated to increase interest in the sector and attract 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. **Stakeholder Education:** There is a need to educate all key stakeholders 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

- II. Expanding Legal Entities:** 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,
- III. 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,
- IV. 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

- V. 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,
- VI. Lower Capital Requirement for Trustees:** We propose a reduction in the minimum capital requirement, presently set at Kshs 100.0 mn, as this financial threshold practically 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 mn to align with the minimum required for a Pension Fund Trustee. This adjustment would expand the pool of potential Trustees available to REIT Managers,
- VII. 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,
- VIII. 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 H1'2024 Earnings Notes

I. ILAM Fahari I-REIT

ILAM Fahari I-REIT Summary of Performance – H1'2024

Below is a summary of the ILAM Fahari I-REIT's H1'2024 Performance;

Ratios Summary	H1'2022	FY'2022	H1'2023	FY'2023	H1 2024	Δ Y/Y (H1'24/ H1'23) % Points
ROA	2.3%	(0.8%)	2.4%	(0.01%)	1.59%	(0.8%)
ROE	2.4%	(0.8%)	2.5%	(0.01%)	1.66%	(0.9%)
Debt Ratio	4.0%	5.3%	4.9%	4.7%	4.3%	(0.6%)
PBT Margin	51.2%	(8.4%)	48.4%	(0.1%)	38.4%	(9.9%)
Annualized Rental Yield	10.3%	9.8%	12.7%	11.6%	10.2%	(2.4%)

All values in Kshs bn unless stated otherwise

Balance Sheet	H1'2022	FY'2022	H1'2023	FY'2023	H1'2024	Δ Y/Y (H1'24/ H1'23)
Total Assets	3.7	3.6	3.6	3.5	3.4	(5.3%)
Total Equity	3.5	3.4	3.4	3.3	3.2	(4.7%)
Total Liabilities	0.1	0.2	0.2	0.2	0.1	(17.1%)

All values in Kshs bn unless stated otherwise

Income Statement	H1'2022	FY'2022	H1'2023	FY'2023	H1'2024	Δ Y/Y (H1'24/ H1'23)
Rental Income	0.2	0.4	0.2	0.3	0.1	(22.7%)
Income from Other Sources	0.0	0.0	0.0	0.1	0.0	50.8%
Operating Expenses	0.1	0.2	0.1	0.2	0.1	(0.1%)
Profit/Loss	0.1	0.0	0.1	0.0	0.1	(37.4%)
Basic EPS	0.5	(0.2)	0.5	0.0	0.3	(37.4%)

Key Highlights in H1'2024:

- ICEA Lion Asset Managers (ILAM) Fahari I-REIT was admitted to the Unquoted Securities Platform (USP) of the Nairobi Securities Exchange (NSE), following their delisting from the main investment market in February 2024. ILAM Fahari joined Acorn I-REIT, Acorn D-REIT, and Linzi Sukuk in the USP, marking the first trading day in the segment.

Financial Statements Extracts

ILAM Fahari I-REIT recorded a 37.4% loss of Kshs 53.8 mn in H1'2024, from a gain of Kshs 86.0 mn recorded in H1'2023.

- The basic earnings per unit declined by 37.4% to come in at a gain of Kshs 0.3 mn in H1'2024, from a gain of Kshs 0.5 mn in H1' 2023. The performance is attributed to a 37.4% loss in ILAM Fahari's comprehensive profit to a gain of Kshs 53.8 mn in H1'2024, from a gain of Kshs 86.0 mn recorded in H1'2023. This was mainly driven by a 15.1% reduction in total income to a gain of Kshs 164.9 mn realized in H1'2024 from a gain of Kshs 194.4 mn in H1'2023. Additionally, operating expenses declined by 0.1% from Ksh 109.9 mn in H1'2023 to Kshs 109.8 mn in H1'2024,
- Rental income declined by 22.7% to Kshs 138.7 mn in H1'2024, from Kshs 179.5 mn recorded in H1'2023, largely attributed to the loss of revenue from Starling Park Properties upon lease expiry. We note that efforts are underway by the REIT Manager to secure a new tenant for the property,
- Interest income increased by 50.8% to Kshs 24.9 mn in H1'2024, from Kshs 16.5 mn realized in the similar period in 2023, owing to the high interest rates being experienced in the market currently,
- The total operating expenses decreased by 0.1% to Kshs 109.8 mn in H1'2024, from Kshs 109.9 mn recorded in H1'2023, driven by a 4.2% decrease in Fund-Operating expenses to Kshs 53.6 mn in H1'2024, from Kshs 55.9 mn in FY'2022. However, there was a 4.1% increase in the property expenses to Kshs 56.2 mn in H1'2024, from Kshs 53.9 mn in H1'2023. 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 66.6% of the total operating income,
- Total earnings available for distribution for the period H1'2024 decreased by 37.4% to Kshs 53.8 mn, from the Kshs 86.0 mn recorded in H1'2023, primarily driven by an increase in fair value loss of investment property, which deteriorated to a loss of Kshs 0.4 mn in H1'2024, from a loss of Kshs 0.3 mn realized in H1'2023,

Financial Statements Extracts

ILAM Fahari I-REIT distributable earnings per unit came in at Kshs 0.82 in H1'2024, a 4.8% increase from Kshs 0.78 recorded during a similar period in 2022

- Distributable earnings per unit came in at Kshs 0.3mn in H1'2024, a 37.4% decrease from Kshs 0.5 mn recorded during a similar period in 2023 as there was reduction of operational expenses offset by a decline in rental income, and,
- The REIT Manager did not recommend an interim distribution in relation to H1'2024. However, a first and final distribution of Kshs 0.7 per unit was paid in April 2024 in relation to FY'2023. This translates to a dividend yield of 6.4% as at the last trading date, that is 26th July 2024 as of the distribution made in FY'2023 and an implied capitalization rate of 3.3%.
- The annualized yield came in at 10.2%
- For more information, please see our [ILAM Fahari I-REIT H1'2024 Earnings Notes](#)

II. Laptrust Imara I-REIT

Laptrust Imara I-REIT Performance – H1'2024

- 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 H1'2024 Performance;

Key Highlights in H1'2024:

- 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,

- Below is a summary of the Laptrust Imara I-REIT's H1'2024 Performance;

Figures in Kshs bn unless stated otherwise

Balance Sheet	H1'2023	H1'2024	H1'2023/H1'2024 Change
Total Assets	7.3	7.3	(0.39%)
Total Equity	7.0	6.9	(1.08%)
Total Liabilities	0.3	0.4	15.36%

Figures in Kshs mn unless stated otherwise

Income Statement	H1'2023	H1'2024	H1'2023/H1'2024 Change
Rental Income	167.1	198.3	18.70%
Income from Other Sources	36.2	73.8	104.09%
Operating Expenses	103.6	109.8	5.95%
Profit/Loss	99.6	162.4	62.97%
Basic EPS (Kshs)	0.3	0.5	62.97%

Ratios Summary	H1'2023	H1'2024	H1'2023/H1'2024 Change
ROA	2.74%	4.50%	1.76%
ROE	2.86%	0.05%	(2.80%)
Debt Ratio	4.2%	4.9%	0.66%
PBT Margin	59.6%	81.9%	22.24%
Rental Yield	2.4%	3.0%	0.53%
Annualized Rental Yield	4.9%	6.0%	1.09%

Financial Statements Extracts

Laptrust Imara I-REIT recorded Kshs 198.4 mn in rental and related income, and Kshs 109.8 mn in total operating expenses for the period H1'2024

- The basic earnings per unit came in at Kshs 0.5 in H1'2024, a 63.0 % increase from 0.3 recorded in H1'2023. The performance was driven by a 63.0% increase in net earnings to Kshs 162.4 mn in H1'2024 from Kshs 99.6 mn recorded in H1'2023,
- Rental and related income for the REIT stood at Kshs 198.4 mn in H1'2024, a 18.7% increase from Kshs 167.1 mn in H1'2023, implying a gross rental yield of 3.0% in H1'2024 on interest-earning assets, higher than the 2.4% rental yield recorded during H1'2023. This increase in rental income was driven by 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 6.0 %, an increase of 1.09% from 4.9% achieved in H1'2023,
- Total operating expenses for the REIT came in at Kshs 109.8 mn, 6.2% higher than the Kshs 103.6 mn recorded in H1'2023, attributed to a 20.2% increase in fund operating expenses to 41.0mn from 34.1 mn, and a Kshs 35.5 mn incurred in utility expenses,
- Trustee fees in H1'2024 stood at Kshs 22.1 mn, accounting for 53.8% of the total fund operation expenses. Key to note, expenses made up 40.3 % of the total operating income,
- Total earnings available for distribution for the period H1'2024 came in at 129.9 mn an increase of 30.4% from 99.6 Mn recorded in H1'2023. This was attributed to by the increase in total operating profit which increased by 63.0%,

Financial Statements Extracts

Laptrust Imara I-REIT recorded Kshs 308.1 mn in total liabilities, and Kshs 6.95 mn in shareholder's funds for the period H1'2024

- Total assets for the REIT stood at Kshs 7.30 bn in H1'2024, a 0.4% decrease from Kshs 7.33 bn recorded in H1'2023 attributable to Kshs 0.4 bn in cash and cash equivalents, and Kshs 0.1 bn in trade and other receivables, Kshs 6.7 bn in investment property saw a 2.6% decrease from Kshs 6.9 bn in H1'2023 attributable to the fair value adjustment applied to the investment property
- Total liabilities in H1'2024 came in at Kshs 355.4 mn, recording a 15.4 % increase from Kshs 308.1 mn in H1'2023 wholly attributable to an increase in trade and other payables by 15.4% to 355.4 Mn from 308.1 Mn in H1'2023,
- The shareholder's funds decreased by 0.6% to Kshs 6.95 bn from Kshs 7.02 bn in H1'2023, attributable to 187.4 Mn fair value reserve which was incurred in H1'2024, and
- The REIT currently has a Return on Asset and a Return on Equity of 4.5% and 0.05% respectively.
- For a more comprehensive analysis, please see our [Laptrust Imara I-REIT H1'2024 Earnings Note](#).

III. Acorn REITs

Acorn REITs Performance – H1'2024

- Acorn Holdings released their H1'2024 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 H1'2024:

- In May, Acorn Holdings announced its decision to exercise the early redemption of its green bond, with an outstanding balance of Kshs 1.9 bn. The green bond, initially launched in 2019, successfully raised Kshs 5.7 bn through multiple transactions to develop Acorn's branded student hostels. For information please see our [#Cytonn Monthly May 2024](#),
- Acorn Holding managed to secure a Kshs 23.6 bn (USD 180 mn) concessional loan from the US Development Finance Corporation (DFC),
- In the period under review, ASA D-REIT Manager has initiated the [development](#) of Qwetu and Qejani properties outside the Nairobi metropolitan area and is planning to transfer the Karen properties to the ASA I-REIT upon successful stabilization. The ASA D-REIT is not in a position to pay out an interim dividend due to the ongoing development activities expected to be undertaken annually. and,
- ASA I-REIT has announced an interim distribution of Kshs 99.0 mn translating to Kshs 0.30 per unit held, which represents a 14.0% increase compared to the interim distribution of Kshs 70.7 mn in H1'2023. This translates to a dividend yield of 1.3% as per the last trading date on [26th July 2024](#).

Cytonn Report: Balance Sheet						
	Acorn I-REIT			Acorn D-REIT		
	H1'2023	H1'2024	Change	H1'2023	H1'2024	Change
Total Assets	7.3	10.6	44.1%	11.3	12.6	11.4%
Total Equity	6.3	7.4	17.2%	6.5	6.7	3.1%
Total Liabilities	1.0	3.1	215.9%	4.7	5.8	23.1%

Acorn REITs Performance – H1'2024

Below is a summary of the Acorn's D-REIT and I-REIT H1'2024 performances:

Cytonn Report: Income Statement						
	Acorn I-REIT			Acorn D-REIT		
	H1'2023	H1'2024	Change	H1'2023	H1'2024	Change
Rental Income	324.8	534.2	64.5%	162.0	53.1	(67.2%)
Income from Other Sources	10.6	7.9	(25.2%)	0.02	0.0	(100.0%)
Total operating income	335.4	553.2	65.0%	515.6	424.8	(17.6%)
Operating Expenses	197.0	243.3	23.5%	181.4	153.6	(15.3%)
Finance costs	(45.6)	(194.9)	327.8%	(166.1)	(81.2)	(51.1%)
Profit Before Tax	113.3	164.1	44.7%	170.2	181.4	6.6%
Basic EPS (Kshs)	0.4	0.5	26.6%	0.66	0.7	3.5%

Cytonn Report: Ratios Summary						
	Acorn I-REIT			Acorn D-REIT		
	H1'2023	H1'2024	Change	H1'2023	H1'2024	Change
ROA	1.5%	1.6%	0.0%	1.5%	1.4%	(0.1%)
ROE	1.8%	2.2%	0.4%	2.6%	2.7%	0.1%
Debt Ratio	13.5%	29.6%	29.6%	41.9%	46.2%	4.4%
PBT Margin	34.9%	30.7%	(4.2%)	33.0%	42.7%	9.7%
Rental Yield	5.0%	5.2%	0.2%	1.5%	0.5%	(1.1%)
Annualized Rental Yield	10.1%	10.6%	0.5%	3.1%	1.0%	(2.1%)
Distribution Per Unit	0.1	0.10	(4.2%)	0.34	0.46	11.4%
Payout Ratio	26.3%	19.9%	(6.4)	53.3%	68.1%	14.8%

Financial Statements Extracts

Acorn I-REIT recorded profits of Kshs 164.1 mn in H1'2024, from Kshs 113.3 mn

- Key takeout's include;

Acorn I-REIT

- The basic earnings per unit increased by 26.6% to Kshs 0.5 in H1'2024, from Kshs 0.4 recorded in H1'2023. This was mainly driven by a 44.7% increase in profit to Kshs 164.1 mn recorded in H1'2024, from Kshs 113.3 mn that was recorded in H1'2023, linked to a 64.5% increase in rental income coming in at Kshs 534.2 mn from 324.8 mn in H1'2023
- The REIT's total operating expenses increased by 23.5%, rising to Kshs 243.3 mn from Kshs 197.0 mn in H1'2023. This performance was attributable to a 57.1 % increase in administrative expenses which rose to Kshs 187.6 mn in H1'2024 from Kshs 119.4 mn in H1'2023. However, this movement was mitigated by a decrease in fund operating expenses which registered a 34.6% decrease coming in at Kshs 49.9 mn in H1'2024 from 76.2 mn in H1'2023,
- Total assets for the I-REIT increased by 44.1% to Kshs 10.6 bn in H1'2024 from Kshs 7.3 bn in H1'2023. This was mainly on the back of a 57.0% increase in investment property during the period, coming in at Kshs 10.3 bn from Kshs 6.6 bn in H1'2023. This was as a result of newer acquisitions during the period including Qwetu Aberdare Heights II at a valuation of Kshs 1.4 bn,
- Total liabilities increased by 215.9% to Kshs 3.1 bn in H1'2024, from Kshs 1.0 bn in H1'2023 as a result of an increase in short term borrowings. During the period under review, short-term borrowings increased by 214.3% to Kshs 2.6 bn from Kshs 0.8bn in H1'2023. Moreover, the REIT registered payables amounting to Kshs 268.5 mn in H1'2024 which further contributed to the increase in liabilities,

Financial Statements Extracts

Acorn D-REIT recorded profits of Kshs 0.7 bn in H1'2024, from 0.6 bn in H1'2023

Acorn D-REIT

- The basic earnings per unit for the REIT increased by 3.5% to Kshs 0.7 Bn in H1'2024, from Kshs 0.66bn in H1'2023. This was mainly driven by a 6.6% increase in total profit to Kshs 181.4 mn in H1' 2024 from Kshs 170.2 mn in H1' 2023.
- The total operating expenses for the D-REIT decreased marginally by 15.3% to Kshs 153.6 mn in H1'2024 from Kshs 181.4 mn in H1'2023, mainly driven by a 38.8% decrease in administrative expenses to Kshs 47.2 mn in H1' 2024 from Kshs 77.1 mn in H1' 2023, and,
- Total assets for the D-REIT increased by 11.4% to Kshs 12.6 bn in H1'2024, from Kshs 11.3 bn in H1'2023. The increase in assets was mainly backed by an increase amount due from related parties which increased by 1233.0% to Kshs 400.6 mn in H1' 2024 from Kshs 30.0 mn in H1' 2023.
- Total liabilities for the D-REIT increased by 23.1% to Kshs 5.8 bn in 2024, from Kshs 4.7 bn in H1' 2023, mainly driven by; i) 4,343.8% increase in short-term borrowings which came in at Kshs 2.7 bn in H1'2024, from Kshs 62.4 mn in H1'2023, and ii) 111.2% increase in trade and other payables to Kshs 1.1 bn in H1'2024, from Kshs 504.1 mn in H1' 2023,
- For a more comprehensive analysis, please see our, and [Acorn Holdings H1'2024 Earnings Note](#)

Feedback Summary

During the preparation of this Cytonn Kenya's REITs H1'2024 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!

For More Information

- **Free Market Research:** www.cytonnreport.com
- **Follow on Twitter:** @CytonnInvest
- **On Facebook:** Cytonn Investments

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

Disclaimer: The views expressed in this publication, are those of the writers where particulars are not warranted. This publication, which is in compliance with Section 2 of the Capital Markets Authority Act Cap 485A, is meant for general information only and is not a warranty, representation, advice or solicitation of any nature. Readers are advised in all circumstances to seek the advice of a registered investment advisor.