Off-Plan Real Estate, & Cytonn Weekly #21/2023

Executive Summary

Fixed Income: During the week, T-bills were undersubscribed for first time in four weeks, with the overall subscription rate coming in at 91.9%, down from an oversubscription rate of 150.1% recorded the previous week. Investor's preference for the shorter 91-day paper persisted as they sought to avoid duration risk, with the paper receiving bids worth Kshs 14.2 bn against the offered Kshs 4.0 bn, translating to an oversubscription rate of 356.1%, lower than the 602.3% recorded the previous week. The subscription rates for the 182-day and 364-day paper declined to 40.4% and 37.6%, from the 42.2% and 77.1% recorded the previous week, respectively. The government accepted bids worth Kshs 21.0 bn out of the Kshs 22.0 bn total bids received, translating to an acceptance rate of 95.4%. The yields on the government papers were on an upward trajectory, with the yields on the 364-day paper, 182-day and 91-day papers increasing by 6.7 bps, 13.5 bps and 31.4 bps to 11.5%, 11.1% and 10.8%, respectively;

In the primary bond market, the Central Bank of Kenya released the tap sale results for the Treasury bond FXD1/2023/003 with tenor to maturity of 3 years. In line with our expectations, the bond was oversubscribed, receiving bids worth Kshs 27.2 bn, against the offered Kshs 20.0 bn, translating to an oversubscription rate of 136.0%. This is partly attributable to investors' preference for shorter dated bonds as they seek to avoid duration risk. The government accepted bids worth Kshs 27.2 bn, translating to an acceptance rate of 100.0%. Key to note, both the weighted average yield of accepted bids and the coupon rate came at 14.2%.;

During the week, the International Monetary Fund (IMF) announced that it had reached a staff level agreement with Kenyan authorities to conclude the fifth reviews of Kenya's economic program under the Extended Fund Facility (EFF) and Extended Credit Facility (ECF) arrangements. This will allow Kenya to access financing of USD 410.0 mn (Kshs 56.7 bn) once the formal review is completed by July 2023;

Additionally, we are projecting the y/y inflation rate for May 2023 to come in at the range of 7.9%-8.3%, despite inflation easing to 7.9% in April 2023 from 9.2% in March 2023. Our projection is mainly on the back of increased fuel prices as well as the elevated food prices in the country;

Also, the Monetary Policy Committee (MPC) is set to meet on Monday, 29 th May 2023, to review the outcome of its previous policy decisions and recent economic developments, and to decide on the direction of the Central Bank Rate (CBR). We expect the MPC to maintain the CBR at 9.50% with their decision mainly being supported by the ease on y/y inflation in April 2023 to 7.9%, from 9.2% recorded in March 2023 and the need to support the economy by adopting an accommodative policy that will ease financing activities;

Equities: During the week, the equities market recorded mixed performance with NASI and NSE 25 declining by 0.6% and 1.2% respectively, while NSE 20 gained by 1.4%, taking the YTD performance to losses of 23.1%, 11.2% and 19.0% for NASI, NSE 20 and NSE 25, respectively. The equities market performance was mainly driven by losses recorded by large cap stocks such as Co-operative Bank, Equity Group, Diamond Trust Bank (DTB-K) and BAT of 6.9%, 3.9%, 2.2% and 1.8%, respectively. The losses were however mitigated by gains recorded by stock such as Bamburi, NCBA Group, Standard Chartered bank and ABSA bank of 9.2%, 6.1%, 4.1% and 3.8% respectively;

During the week, two listed banks released their Q1'2023 financial results with NCBA Group recoding an increase in its Core Earnings Per Share of 48.5%, while KCB Group recorded a decline of 0.1% in its Core Earnings Per Share;

Real Estate: During the week, Actis Limited, a global private equity firm, announced that it had shut down two offices located in Nairobi, Kenya and Cape Town, South Africa. In the Regulated Real Estate Funds, under the Real Estate Investment Trusts (REITs) segment, Fahari I-REIT closed the week trading at an average price of Kshs 5.8 per share in the Nairobi Securities Exchange, representing a 4.0% decline from Kshs 6.0 per share recorded the previous week. On the Unquoted Securities Platform as at 26 May 2023, Acorn D-REIT and I-REIT closed the week trading at Kshs 23.9 and Kshs 21.6 per unit, respectively, a 19.4% and 7.9% gain for the D-REIT and I-REIT, respectively, from the Kshs 20.0 inception price. In addition, Cytonn

High Yield Fund (CHYF) closed the week with an annualized yield of 13.6%, representing a 0.1% points decline from the 13.7% yield recorded the previous week;

Focus of the Week: Off-plan investment in the Real Estate sector has emerged as an enticing opportunity, offering a mutually beneficial platform for both developers and buyers. This concept involves the sale and purchase of properties that are yet to be constructed or are still under development, with the completion and ownership transfer being governed by agreed contractual obligations. Over the years, off-plan investment has gained significant traction offering an advantageous platform for both developers and homebuyers. Through a contractual agreement, the buyer becomes the owner of a Real Estate unit with predetermined characteristics and specifications, whether it is an existing property or one under construction. The developer, in turn, is obligated to complete the construction within the agreed-upon timeframe, while the buyer is obliged to pay the price either in an expedited or deferred manner. The growing popularity of off-plan investment signifies its potential to reshape the Real Estate market by providing a promising avenue for profitable ventures and fulfilling the housing needs of prospective homeowners.

This week, we review Off-Plan program in Real Estate Development and Investing in order to identify the financial and marketing challenges being faced by such program in Kenya. Additionally, we shall undertake a case study of countries where off plan projects have been successfully implemented and the off-plan program is firmly and strictly regulated in the Real Estate sector. From the case studies, we shall give our recommendations of what can be done to improve the regulatory framework for off plan investments in Kenya;

Company Updates

Investment Updates:

- Weekly Rates:
    - Cytonn Money Market Fund closed the week at a yield of 11.16%. To invest, dial *809# or download the Cytonn App from Google Playstore here or from the Appstore here;
    - Cytonn High Yield Fund closed the week at a yield of 13.66% p.a. To invest, email us at sales@cytonn.com and to withdraw the interest, dial *809# or download the Cytonn App from Google Playstore here or from the Appstore here;
- We continue to offer Wealth Management Training every Wednesday and every third Saturday of the month, from 9:00 am to 11:00 am, through our Cytonn Foundation. The training aims to grow financial literacy among the general public. To register for any of our Wealth Management Trainings, click here;
- If interested in our Private Wealth Management Training for your employees or investment group, please get in touch with us through wmt@cytonn.com;
- Cytonn Insurance Agency acts as an intermediary for those looking to secure their assets and loved ones' future through insurance namely; Motor, Medical, Life, Property, WIBA, Credit and Fire and Burglary insurance covers. For assistance, get in touch with us through insuranceagency@cytonn.com;
- Cytonn Asset Managers Limited (CAML) continues to offer pension products to meet the needs of both individual clients who want to save for their retirement during their working years and Institutional clients that want to contribute on behalf of their employees to help them build their retirement pot. To more about our pension schemes, kindly get in touch with us through pensions@cytonn.com;

Real Estate Updates:

- For an exclusive tour of Cytonn's real estate developments, visit: Sharp Investor's Tour, and for more information, email us at sales@cytonn.com;
- Phase 3 of The Alma is now ready for occupation and the show house is open daily. To join the waiting list to rent, please email properties@cytonn.com;
- For Third Party Real Estate Consultancy Services, email us at rdo@cytonn.com;

- For recent news about the group, see our news section here;

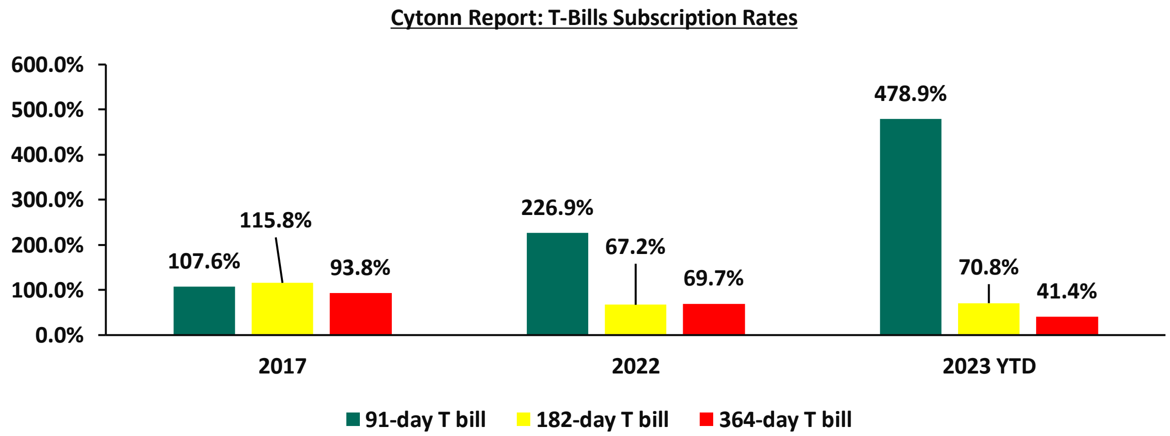
Hospitality Updates:

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

Fixed Income

Money Markets, T-Bills Primary Auction:

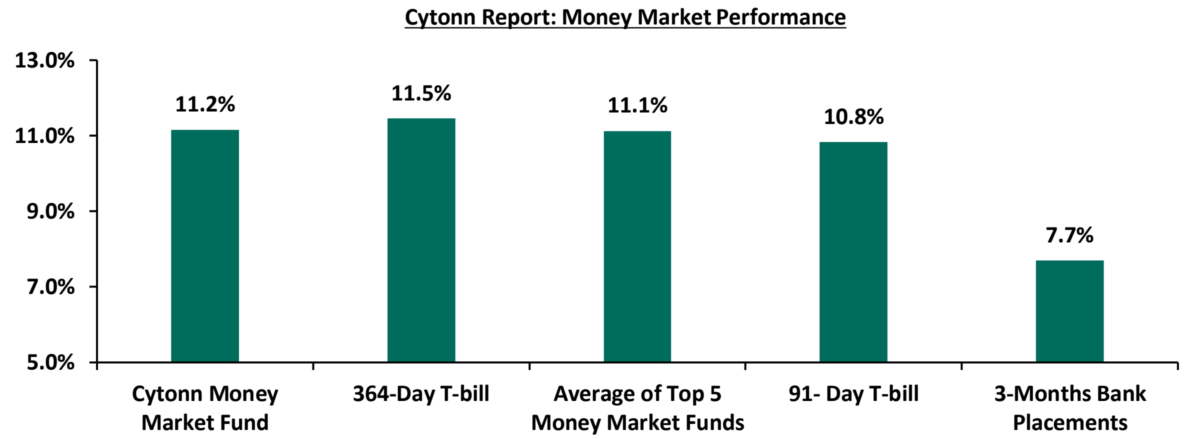
During the week, T-bills were undersubscribed for first time in four weeks, with the overall subscription rate coming in at 91.9%, down from an oversubscription rate of 150.1% recorded the previous week. Investor's preference for the shorter 91-day paper persisted as they sought to avoid duration risk, with the paper receiving bids worth Kshs 14.2 bn against the offered Kshs 4.0 bn, translating to an oversubscription rate of 356.1%, lower than the 602.3% recorded the previous week. The subscription rates for the 182-day and 364-day paper declined to 40.4% and 37.6%, from the 42.2% and 77.1% recorded the previous week, respectively. The government accepted bids worth Kshs 21.0 bn out of the Kshs 22.0 bn total bids received, translating to an acceptance rate of 95.4%. The yields on the government papers were on an upward trajectory, with the yields on the 364-day paper, 182-day and 91-day papers increasing by 6.7 bps, 13.5 bps and 31.4 bps to 11.5%, 11.1% and 10.8%, respectively. The chart below compares the overall average T- bills subscription rates obtained in 2017, 2022 and 2023 Year to Date (YTD):



In the primary bond market, the Central Bank of Kenya released the tap sale results for the Treasury bond FXD1/2023/003 with tenor to maturity of 3 years. In line with our expectations, the bond recorded an oversubscription rate of 136.0%, partly attributable to investors' preference for shorter dated bonds as they seek to avoid duration risk. The government issued the bond seeking to raise Kshs 20.0 bn for budgetary support. The tap sale of the bond received bids worth Kshs 27.2 bn, with government accepting bids worth Kshs 27.2 bn, translating to an acceptance rate of 100.0%. Key to note, both the weighted average yield of accepted bids and the coupon rate came at 14.2%.

Money Market Performance:

In the money markets, 3-month bank placements ended the week at 7.7% (based on what we have been offered by various banks), while the yields on the 364-day and 91-day paper increased by 6.7 bps and 31.4 bps to 11.5% and 10.8% respectively. The yield of Cytonn Money Market Fund increased by 2.0 bps to 11.2%, up from 11.1% recorded in the previous week, while the average yields of Top 5 Money Market Funds increased by 18.0 bps to 11.1%, up from 11.0% recorded the previous week.



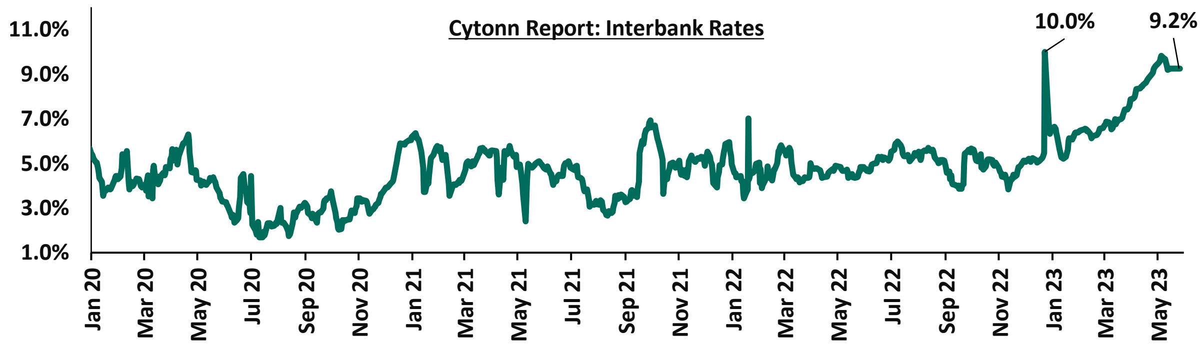
The table below shows the Money Market Fund Yields for Kenyan Fund Managers as published on 26 May 2023:

Cytonn Report: Money Market Fund Yield for Fund Managers as published on 26 May 2023		
Rank	Fund Manager	Effective Annual Rate
1	Etica Money Market Fund	11.6%
2	Cytonn Money Market Fund (dial *809# or download the Cytonn app)	11.2%
3	Madison Money Market Fund	11.0%
4	Dry Associates Money Market Fund	11.0%
5	Enwealth Money Market Fund	10.9%
6	GenAfrica Money Market Fund	10.9%
7	Apollo Money Market Fund	10.8%
8	Jubilee Money Market Fund	10.8%
9	AA Kenya Shillings Fund	10.5%
10	Old Mutual Money Market Fund	10.3%
11	Co-op Money Market Fund	10.1%
12	NCBA Money Market Fund	10.1%
13	Sanlam Money Market Fund	10.1%
14	Kuza Money Market fund	10.1%
15	Nabo Africa Money Market Fund	10.0%
16	Zimele Money Market Fund	9.9%
17	GenCap Hela Imara Money Market Fund	9.7%
18	British-American Money Market Fund	9.6%
19	CIC Money Market Fund	9.6%
20	ICEA Lion Money Market Fund	9.6%
21	Orient Kasha Money Market Fund	9.4%
22	KCB Money Market Fund	9.2%
23	Absa Shilling Money Market Fund	8.9%
24	Mali Money Market Fund	8.3%
25	Equity Money Market Fund	7.5%

Source: Business Daily

Liquidity:

During the week, liquidity in the money markets remained tightened, with the average interbank rate remaining relatively unchanged at 9.2% similar to what was recorded the previous week, partly attributable to tax remittances that offset government payments. The average interbank volumes traded increased by 13.7% to Kshs 25.7 bn, from Kshs 22.6 bn recorded the previous week. The chart below shows the interbank rates in the market over the years:



Source: CBK

Kenya Eurobonds:

During the week, the yields on Eurobonds recorded mixed performance with the yield on the 10-year Eurobond issued in 2014 gaining by 0.3% points to 15.7%, from 15.4%, recorded the previous week, while the yield on the 7-year Eurobond issued in 2019 declining the most by 1.0% points to 13.3%, from 14.3% recorded the previous week. The table below shows the summary of the performance of the Kenyan Eurobonds as of 18 May 2023;

Cytonn Report: Kenya Eurobonds Performance						
	2014	2018		2019		2021
Date	10-year issue	10-year issue	30-year issue	7-year issue	12-year issue	12-year issue
Amount Issued (USD)	2.0 bn	1.0 bn	1.0 bn	0.9 bn	1.2 bn	1.0 bn
Years to Maturity	1.1	4.8	24.8	4.0	9.0	11.1
Yields at Issue	6.6%	7.3%	8.3%	7.0%	7.9%	6.2%
02-Jan-23	12.9%	10.5%	10.9%	10.9%	10.8%	9.9%
1-May-23	20.6%	14.1%	12.7%	15.5%	13.2%	12.4%
18-May-23	15.4%	12.6%	12.0%	14.3%	12.4%	11.7%
19-May-23	14.7%	12.3%	11.8%	13.5%	12.2%	11.4%
22-May-23	15.3%	12.3%	11.8%	13.5%	12.2%	11.3%
23-May-23	15.0%	12.1%	11.6%	13.2%	12.0%	11.2%
24-May-23	15.5%	12.1%	11.7%	13.4%	12.1%	11.2%
25-May-23	15.7%	12.1%	11.6%	13.3%	12.1%	11.2%
Weekly Change	0.3%	(0.5%)	(0.4%)	(1.0%)	(0.3%)	(0.5%)
MTD change	(4.9%)	(2.0%)	(1.1%)	(2.2%)	(1.1%)	(1.2%)
YTD Change	2.8%	1.7%	0.7%	2.4%	1.3%	1.3%

Source: Central Bank of Kenya (CBK) and National Treasury

Kenya Shilling:

During the week, the Kenya Shilling depreciated by 0.6% against the US dollar to close the week at Kshs 138.3, from Kshs 137.5 recorded the previous week, partly attributable to the persistent dollar demand from importers, especially oil and energy sectors against a slower supply of hard currency. On a year to date basis, the shilling has depreciated by 12.0% against the dollar, adding to the 9.0% depreciation recorded in 2022. We expect the shilling to remain under pressure in 2023 as a result of:

i. High global crude oil prices on the back of persistent supply chain bottlenecks coupled with high demand,

ii. An ever-present current account deficit estimated at 4.9% of GDP in twelve months to January 2023, from 5.6% recorded in a similar period last year,

iii. The need for Government debt servicing which continues to put pressure on forex reserves given that 63.0% of Kenya's External debt was US Dollar denominated as of December 2022, and,

The shilling is however expected to be supported by:

i. Diaspora remittances standing at a cumulative USD 1,335.9 mn in 2023 as of April 2023, albeit 3.1% lower than the USD 1,378.9 mn recorded over the same period in 2022, and,
ii. The tourism inflow receipts that came in at USD 268.1 bn in 2022, a significant 82.9% increase from USD 146.5 bn inflow receipts recorded in 2021.

Key to note, Kenya's forex reserves increased by 2.9% to USD 6.5 bn as of 25 May 2023, from USD 6.3 bn as of 18 May 2023. As such, it represented a 3.6 months of import cover, a notable increase from the 3.5 months of import cover recorded the previous week. However, the forex reserves remained below the statutory requirement of maintaining at least 4.0-months of import cover. Key to note, should the government receive the USD 410.0 mn from International Monetary Fund (IMF), upon completion of the fifth reviews of Kenya's economic programme under the Extended Fund Facility (EFF) and Extended Credit Facility (ECF) arrangements, the forex reserve months of import cover is expected to increase to 3.8 months from the current 3.6 months. The chart below summarizes the evolution of Kenya months of import cover over the last 10 years:

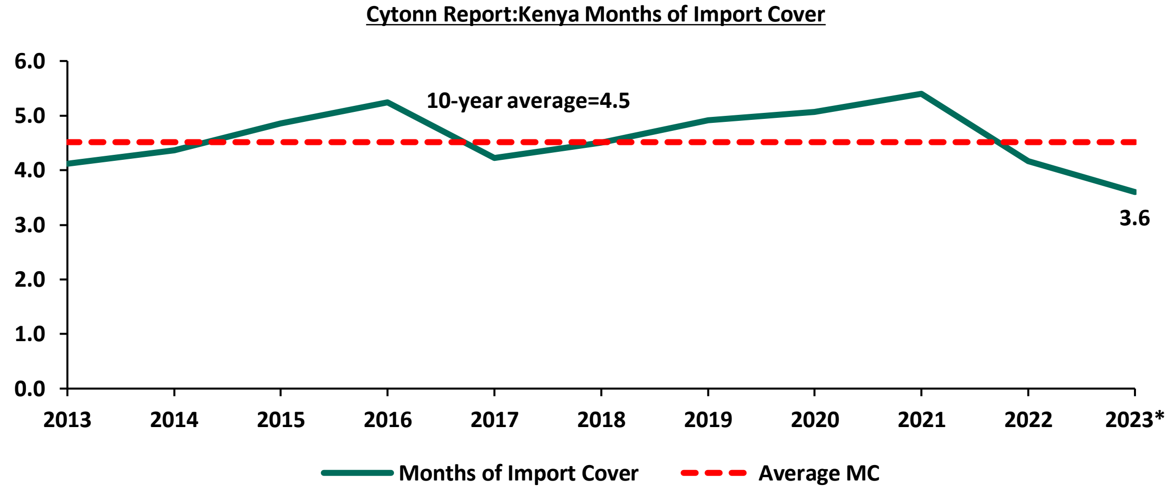


Figure as at 25 May 2023

Weekly Highlights:

I. Kenya's International Monetary Fund (IMF) Loan facility

During the week, the International Monetary Fund (IMF) announced that it had reached a staff level agreement with Kenyan authorities on the following;

i. To conclude the fifth reviews of Kenya's economic program under the Extended Fund Facility (EFF) and Extended Credit Facility (ECF) arrangements,
ii. An argumentation of access under the EFF/ECF totaling 75.0% of quota of USD 544.3 mn (Kshs 75.3 bn) given challenging global financing conditions,
iii. Extension of the duration of the EFF/ECF arrangements by 10 months to April 2025 to allow sufficient time for meeting the programme objectives, and,
iv. A new 20-month Resilience and Sustainability Facility (RSF) arrangement with access also of 75.0% of the quota that will run in parallel with the EFF/ECF arrangements until April 2025.

Upon the expected completion of the fifth reviews by July 2023, Kenya will have immediate access of USD 410.0 mn (Kshs 56.7 bn) of the approved loan facility totaling to USD 2.3 bn that was announced in April 2021 including from augmentation of access under the ECF/EFF. This will bring total IMF financial support disbursed under the EFF/ECF to USD 2,051.2 mn (Kshs 283.7 bn). Additionally, with the EFF/ECF augmentations and the RSF support, the total IMF commitment under these arrangements would be USD 3.5 bn (Kshs 486.7 bn)

The table below shows the funding the government has received so far out of the original amount:

Cytonn Report: International Monetary Fund (IMF) EFF and ECF Financing Programme		
Date	**Amount Received (USD mn)**	**Amount Received (Kshs bn, 1 USD = Kshs 138.3)**
Apr-21	307.5	42.5

Jun-21	407.0	56.3
Dec-21	258.1	35.7
Jul-22	235.6	32.6
Nov-22	433.0	59.9
Jul-23	*410.0	56.7
Total Amount Received	**2,051.2**	**283.7**
Amount Pending	**1,470.0**	**204.2**
**Expected funds upon IMF management and executive board approval*		

The government budget has been under pressure on the back of low revenue collection as well as tight financing conditions, evidenced by the total revenue collected as at the end of April 2023 amounting to Kshs 1,639.8 bn, equivalent to 78.4% of the revised estimates of Kshs 2,192.0 bn for FY'2022/2023 and was 89.8% of the prorated estimates of Kshs 1,826.7 bn. As such, the funding is expected to support the economy amid backdrop of the country's economic growth as evidenced by the GDP of 4.8% in 2022, which was lower than the 7.6% growth recorded in 2021. Additionally, upon disbursement, the financing is expected to boost the country's dwindling foreign exchange reserves which currently stand at USD 6.5 mn representing 3.6 months of import cover, below the minimum statutory requirement of 4.0 months of import cover. The Resilience and Sustainability Facility (RSF) is also expected to aid in addressing challenges posed by climate change, while also strengthening the macroeconomic stability.

Notably, the IMF commended the government move to bring back liquidity to the interbank market for foreign exchange which is expected to support exchange rate flexibility and backstop the external position. Going forward, the IMF noted the need for the government to fast track reforms in State Owned Enterprises (SOEs) which continues to drain on budget resources, among the SOEs include, Kenya Airways and Kenya Power and Lighting Company.

II. May 2023 Inflation Projection

We are projecting the y/y inflation rate for May 2023 to come in at a range of 7.9%-8.3%, despite inflation easing to 7.9% in April 2023 from 9.2% in March 2023. Our projection is mainly on the back of:

i. **Increased Fuel Prices** -Fuel prices increased by 1.9%, 4.0% and 10.4% to Kshs 182.7, Kshs 168.4 and Kshs 161.1 per litre of Super Petrol, Diesel and Kerosene, respectively, for the period between 15th May 2023 to 14th June 2023. The increase was attributed to the government's decision to completely fuel subsidy which was cushioning the citizens from high fuel prices. As such, given that fuel is major input to most sectors, we expect the cost of production to increase and consequently lead to high consumer prices, and,

ii. **Elevated food prices** - Food prices have remained elevated mainly on the back of uneven weather patterns as well as supply chain bottleneck experienced globally. The elevated prices were evidenced by the 10.1% y/y increase in the prices of food and non-alcoholic beverages in April 2023. Given that the food is a major input in inflation index, we expect the resulting high prices to underpin inflationary pressures.

Notably, the high commodity prices in the country are also attributed to the sustained depreciation of the Kenya Shilling which has inflated import bill. As a result, manufactures pass on the cost to consumers through hike in commodity prices. Going forward, we expect inflationary pressures to persist in the short term, however to ease in the medium term to CBK's target range of 2.5% to 7.5% aided by easing in global commodity prices and easing of domestic food prices on account of favorable weather conditions. We also expect the measures taken by the government to subsidize major inputs of agricultural production such as fertilizers to lower the cost of farm inputs and support the easing of inflation in the long term

III. May 2023 MPC Meeting

The Monetary Policy Committee (MPC) is set to meet on Monday, 29 th May 2023, to review the outcome of its previous policy decisions and recent economic developments, and to decide on the direction of the Central Bank Rate (CBR). We expect the MPC to maintain the CBR at 9.50% with their decision mainly being supported by;

i. The ease on y/y inflation in April 2023 to 7.9%, from 9.2% recorded in March 2023, despite remaining above the CBK's target range of 2.5%-7.5%. Additionally, food inflationary pressures are expected to slow in the near term, aided by continued rains as well as importation of duty-free staples such as maize, rice, cooking oil and sugar. However, elevated inflation is expected to endure in the short to medium following the increase in fuel prices after the government completely removed the fuel subsidies which was aimed at cushioning consumers from high fuel prices. As such, we expect the MPC to maintain the CBR as the current monetary stance still transmits in the economy,
ii. The continued deprecation of the shilling does not provide room for any easing, hence MPC has to maintain the elevated rates to protect the shilling, and,
iii. The need to support the economy by adopting an accommodative policy that will ease financing activities. Additional hike in the CBR rate might slow down economic activities given the current macro and business environment fundamentals cannot accommodate further hikes.

Notably, despite the macroeconomic indicators being inclined towards an increase in the Central Bank Rate with focus on easing inflation to the CBK target range while supporting the Kenyan shilling, the committee must be cautious as the country's economic growth has been declining. This is evidenced by Kenya's economy recording a 4.8% growth in 2022 compared to the 7.6% expansion in 2022. Therefore, we expect the MPC to maintain the CBR at 9.50% as they monitor the impact of the policy measures, as well as developments in the global and domestic economy.

For a more detailed analysis, please see our May 2023 MPC note.

Rates in the Fixed Income market have been on upward trend given the continued government's demand for cash as well as tight liquidity in the money market. The government is on target with its prorated borrowing target of Kshs 387.7 bn having borrowed Kshs 387.8 bn of the revised domestic borrowing target of Kshs 425.1 bn for the FY'2022/2023. We believe that the projected budget deficit of 5.7% is relatively ambitious given the downside risks and deteriorating business environment occasioned by high inflationary pressures. Further, revenue collections are lagging behind, with total revenue as at April 2023 coming in at Kshs 1.6 tn in the FY'2022/2023, equivalent to 74.8% of its revised target of Kshs 2.2 tn and 89.8% of the prorated target of Kshs 1.8 tn. Therefore, we expect a continued upward readjustment of the yield curve in the short and medium term, with the government looking to bridge the fiscal deficit through the domestic market. Owing to this, our view is that investors should be biased towards short-term fixed-income securities to reduce duration risk.

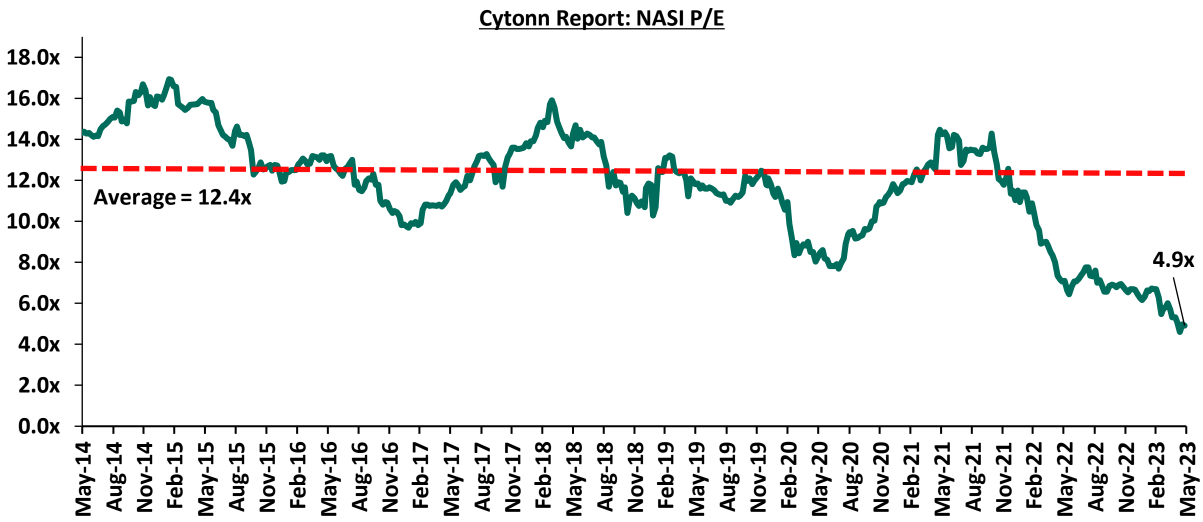
Equities

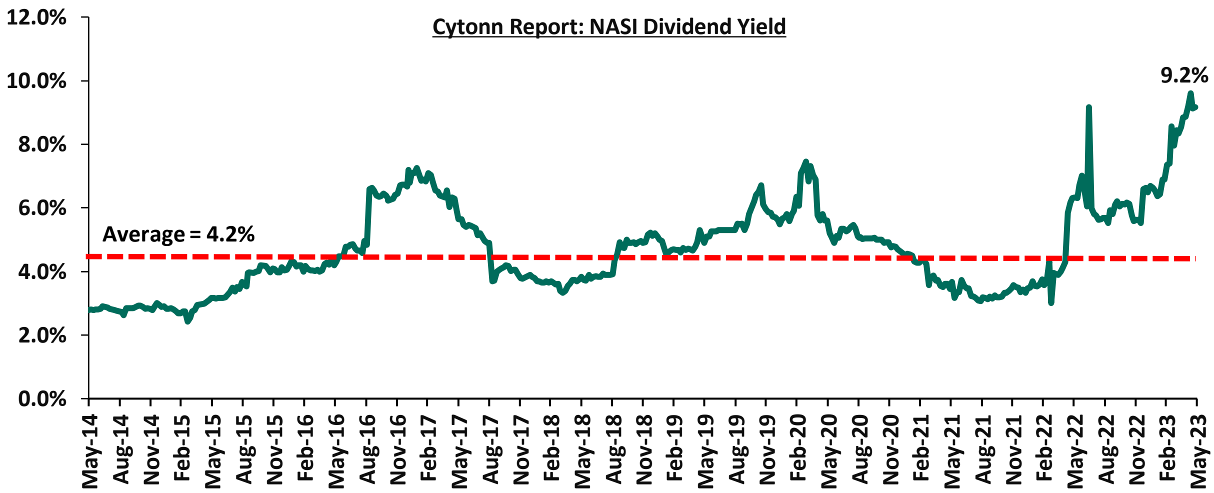
Market Performance:

During the week, the equities market recorded mixed performance with NASI and NSE 25 declining by 0.6% and 1.2% respectively, while NSE 20 gained by 1.4%, taking the YTD performance to losses of 23.1%, 11.2% and 19.0% for NASI, NSE 20 and NSE 25, respectively. The equities market performance was mainly driven by losses recorded by large cap stocks such as Co-operative bank, Equity Group, Diamond Trust Bank (DTB-K) and BAT of 6.9%, 3.9%, 2.2% and 1.8%, respectively. The losses were however mitigated by gains recorded by stock such as Bamburi, NCBA Group, Standard Chartered bank and ABSA bank of 9.2%, 6.1%, 4.1% and 3.8% respectively.

During the week, equities turnover declined by 14.8% to USD 10.2 mn, from USD 12.0 mn, recorded the previous week, taking the YTD turnover to USD 418.8 mn. Foreign investors remained net sellers with a net selling position of USD 1.7 mn, from a net selling position of USD 1.4 mn recorded the previous week, taking the YTD net selling position to USD 52.4 mn.

The market is currently trading at a price to earnings ratio (P/E) of 4.9x, 60.3% below the historical average of 12.4x. The dividend yield stands at 9.2%, 5.0% points above the historical average of 4.2%. Key to note, NASI's PEG ratio currently stands at 0.6x, an indication that the market is undervalued relative to its future growth. A PEG ratio greater than 1.0x indicates the market is overvalued while a PEG ratio less than 1.0x indicates that the market is undervalued. The charts below indicate the historical P/E and dividend yields of the market;





Weekly Highlights:

I. Shorecap III, LP acquires 20.0% stake in Credit Bank Plc

During the week, Central Bank of Kenya (CBK) announced the acquisition of 20.0% stake of Credit Bank Plc by Shorecap III, LP a Private Equity fund registered under the laws of Mauritius, with Equator Capital Partners LLC as the managers of the fund. The acquisition will be effective 15 June 2023 and this comes after CBK's approval on 24 April 2023 and approval by the Cabinet Secretary for the National Treasury and Planning on 28 April 2023. Notably, the search for a potential investor by Credit Bank started in 2018 with the company having sought shareholder's authorization to enter into discussion with potential investors interested in buying its shares. The value of the deal was not disclosed by the CBK, however, Shorecap III, LP will take over 7,289,928 ordinary shares which constitute of 20.0% of the ordinary shares of the Bank. This move comes after Oikocredit acquired 22.8% stake of the lender in August 2019, after paying a cash consideration of Kshs 1.0 bn, with the transaction trading at price to book (P/B) multiple of 1.5x.

Credit Bank Plc currently has 17 branches with its balance sheet recording expansion as its total assets grew at a 5-year CAGR of 7.6% to Kshs 25.8 bn in 2022, from Kshs 17.9 bn in 2018. In FY'2022, the Bank's net loans came in at Kshs 17.45 bn, while Customer deposits was at Kshs 17.54 bn, translating to a loan to deposit ratio of 99.5%, reflecting the bank's current inability to amass deposits. Additionally, the Bank's profitability has declined significantly to a loss of Kshs 1.7 mn in 2022, from a profit of Kshs 0.1 bn in 2021, mainly due to 3.8% decline in total operating income coupled with the 14.4% increase in total operating expenses. Key capital ratios such as the Core capital to deposit liabilities ratio came in at 9.4% in FY'2022, only 1.4% points above the regulatory limit of 8.0%. The core capital to risk weighted assets came in at

7.4% in FY'2022, 3.1% points below the regulatory limit of 10.5%. Similarly, the Capital adequacy ratio came in at 14.9% in FY'2022, slightly above the regulatory requirement of 14.5%. The liquidity ratio came in 20.5%, only 0.5% points above the regulatory requirement of 20.0%. Further, other ratios have also been adverse, such as the asset quality, with the bank having Non-Performing loan (NPL) ratio of 27.4% in FY'2022, 14.1% points above the banking sector average of 13.3% during the same period. The table below summarizes Credit Bank's Performance and Key Financial Ratios;

Cytonn report: Summary of Credit Bank Plc Financials					
	FY'2018	FY'2019	FY'2020	FY'2021	FY'2022
Balance Sheet Summary (Kshs bn)					
Net Loans	13.0	15.2	15.6	15.5	17.5
Total Assets	**17.9**	**21.7**	**23.2**	**26**	**25.8**
Customer Deposits	13.1	16.8	17.6	20.4	17.5
Total Liabilities	**15.0**	**18.6**	**20.0**	**22.6**	**22.5**
Shareholders' Funds	2.9	3.0	3.2	3.4	3.3
Income Statement Summary (Kshs mn)					
Total Operating income	1,719.4	1,794.9	1,754.1	1,638.3	1,575.3
Total Operating expenses	1,376.5	1,492.0	1,736.0	1,423.9	1,629.3
Profit After Tax (PAT)	**248.5**	**393.8**	**92.1**	**138.1**	**(1.7)**
Balance Sheet Ratios					
Loan to Deposit	99.3%	90.6%	88.6%	75.9%	99.5%
ROaE	8.6%	13.4%	2.9%	4.2%	(0.1%)
ROaA	1.4%	2.0%	0.4%	0.6%	(0.01%)
Income Statement Ratios:					
Yield on Interest Earning Assets	1.8%	2.3%	0.5%	0.6%	(0.01%)
Net Interest Margin	6.6%	5.4%	5.6%	4.3%	3.6%
Cost to Income Ratio	73.0%	75.5%	82.6%	84.0%	92.9%
Capital Adequacy Ratios:					
Core Capital liabilities ratio	20.0%	16.9%	16.3%	8.2%	9.4%
Minimum Statutory requirement	8.0%	8.0%	8.0%	8.0%	8.0%
Excess/Deficit	**12.0%**	**8.9%**	**8.3%**	**0.2%**	**1.4%**
Core Capital risk weighted assets ratio	14.0%	14.1%	13.0%	7.9%	7.4%
Minimum Statutory requirement	10.5%	10.5%	10.5%	10.5%	10.5%
Excess/Deficit	**3.5%**	**3.6%**	**2.5%**	**(2.6%)**	**(3.1%)**
Total Capital risk weighted ratio	14.5%	15.0%	14.5%	15.8%	14.9%
Minimum Statutory requirement	14.5%	14.5%	14.5%	14.5%	14.5%
Excess/Deficit	**0.0%**	**0.5%**	**0.0%**	**1.3%**	**0.4%**
Liquidity ratios:					
Liquidity ratio	21.0%	26.0%	26.5%	39.4%	20.5%
Minimum Statutory requirement	20.0%	20.0%	20.0%	20.0%	20.0%
Excess/Deficit	**1.0%**	**6.0%**	**6.5%**	**19.4%**	**0.5%**
Asset quality ratios:					
Gross Non-Performing Loan Ratio	8.3%	10.1%	11.9%	27.2%	27.4%
NPL Coverage Ratio	36.8%	35.8%	65.4%	59.7%	63.1%

In light of the recent Credit Bank's performance, we expect the completed acquisition to boost the Bank's capital adequacy and liquidity ratios to above the minimum statutory requirements and positively impact the bank's operations. The acquisition is also a welcome move as it ensures that the bank's customer deposits are protected and will bring stability to the bank. Additionally, the completed transaction will enhance diversification and strengthen the resilience of the Kenyan banking sector. Going forward, we expect to see more acquisition and consolidation activities in the Kenya's banking sector as larger banks and other companies with sufficient capital base take over smaller and weaker banks.

Below is a summary of the deals in the last 9 years that have either happened, been announced or expected to be concluded:

Cytonn Report: Banking sector Deals and Acquisitions						
Acquirer	**Bank Acquired**	**Book Value at Acquisition (Kshs bn)**	**Transaction Stake**	**Transaction Value (Kshs bn)**	**P/Bv Multiple**	**Date**
Shorecap III	Credit Bank Plc	3.0	20.0%	Undisclosed	N/A	Jun-23
Premier Bank Limited	First Community Bank	2.8	62.5%	Undisclosed	N/A	Mar 27
KCB Group PLC	Trust Merchant Bank (TMB)	12.4	85.0%	15.7	1.5x	Dec-22
Equity Group	Spire Bank	Unknown	Undisclosed	Undisclosed	N/A	Sep-22*
Access Bank PLC (Nigeria)	Sidian Bank	4.9	83.4%	4.3	1.1x	June-22*
KCB Group	Banque Populaire du Rwanda	5.3	100.0%	5.6	1.1x	August-21
I&M Holdings PLC	Orient Bank Limited Uganda	3.3	90.0%	3.6	1.1x	April-21
KCB Group**	ABC Tanzania	Unknown	100%	0.8	0.4x	Nov-20*
Co-operative Bank	Jamii Bora Bank	3.4	90.0%	1	0.3x	Aug-20
Commercial International Bank	Mayfair Bank Limited	1.0	51.0%	Undisclosed	N/D	May-20*
Access Bank PLC (Nigeria)	Transnational Bank PLC.	1.9	100.0%	1.4	0.7x	Feb-20*
Equity Group **	Banque Commerciale Du Congo	8.9	66.5%	10.3	1.2x	Nov-19*
KCB Group	National Bank of Kenya	7.0	100.0%	6.6	0.9x	Sep-19
CBA Group	NIC Group	33.5	53%:47%	23.0	0.7x	Sep-19
Oiko Credit	Credit Bank	3.0	22.8%	1	1.5x	Aug-19
CBA Group**	Jamii Bora Bank	3.4	100.0%	1.4	0.4x	Jan-19
AfricInvest Azure	Prime Bank	21.2	24.2%	5.1	1.0x	Jan-18
KCB Group	Imperial Bank	Unknown	Undisclosed	Undisclosed	N/A	Dec-18
SBM Bank Kenya	Chase Bank Ltd	Unknown	75.0%	Undisclosed	N/A	Aug-18
DTBK	Habib Bank Kenya	2.4	100.0%	1.8	0.8x	Mar-17
SBM Holdings	Fidelity Commercial Bank	1.8	100.0%	2.8	1.6x	Nov-16
M Bank	Oriental Commercial Bank	1.8	51.0%	1.3	1.4x	Jun-16
I&M Holdings	Giro Commercial Bank	3.0	100.0%	5.0	1.7x	Jun-16
Mwalimu SACCO	Equatorial Commercial Bank	1.2	75.0%	2.6	2.3x	Mar-15
Centum	K-Rep Bank	2.1	66.0%	2.5	1.8x	Jul-14
GT Bank	Fina Bank Group	3.9	70.0%	8.6	3.2x	Nov-13
Average			**74.5%**		**1.3x**	
*** Announcement Date**						
**** Deals that were dropped**						

II. Earnings Releases

a) KCB Group Plc

During the week, KCB Group Plc released their Q1'2023 financial results. Below is a summary of the performance:

Balance Sheet Items (Kshs bn)	Q1'2022	Q1'2023	y/y change
Net Loans and Advances	704.4	928.8	31.9%
Government Securities	240.6	252.1	4.8%
Total Assets	**1,166.9**	**1,630.6**	**39.7%**
Customer Deposits	845.8	1,196.6	41.5%

Deposit per Branch	1.7	2.0	15.6%
Total Liabilities	**983.2**	**1,415.8**	**44.0%**
Shareholders' Funds	**181.8**	**208.1**	**14.5%**

Balance Sheet Ratios	Q1'2022	Q1'2023	% y/y change
Loan to Deposit Ratio	83.3%	77.6%	(5.7%)
Return on average equity	22.9%	20.9%	(2.0%)
Return on average assets	3.5%	2.9%	(0.6%)

Income Statement (Kshs bn)	Q1'2022	Q1'2023	y/y change
Net Interest Income	19.7	22.1	11.8%
Net non-Interest Income	9.3	14.8	59.2%
Total Operating income	**29.0**	**36.9**	**26.9%**
Loan Loss provision	(2.1)	(4.1)	98.4%
Total Operating expenses	(15.0)	(23.0)	53.3%
Profit before tax	14.0	13.9	(1.3%)
Profit after tax	**9.9**	**9.8**	**(1.0%)**
Core EPS	**3.07**	**3.0**	**(1.0%)**

Income Statement Ratios	Q1'2022	Q1'2023	y/y change
Yield from interest-earning assets	11.4%	10.2%	(1.2%)
Cost of funding	3.0%	3.2%	0.2%
Net Interest Spread	8.4%	7.1%	(1.3%)
Net Interest Margin	8.6%	7.3%	(1.3%)
Cost of Risk	7.1%	11.2%	4.1%
Net Interest Income as % of operating income	68.0%	59.9%	(8.1%)
Non-Funded Income as a % of operating income	32.0%	40.1%	8.1%
Cost to Income Ratio	51.7%	62.4%	10.7%

Capital Adequacy Ratios	Q1'2022	Q1'2023	% points change
Core Capital/Total Liabilities	19.7%	15.0%	(4.7%)
Minimum Statutory ratio	8.0%	8.0%	
Excess	**11.7%**	**7.0%**	**(4.7%)**
Core Capital/Total Risk Weighted Assets	19.2%	13.6%	(5.6%)
Minimum Statutory ratio	10.5%	10.5%	
Excess	**8.7%**	**3.1%**	**(5.6%)**
Total Capital/Total Risk Weighted Assets	22.8%	17.0%	(5.8%)
Minimum Statutory ratio	14.5%	14.5%	
Excess	**8.3%**	**2.5%**	**(5.8%)**
Liquidity Ratio	36.9%	43.7%	6.8%
Minimum Statutory ratio	20.0%	20.0%	
Excess	**16.9%**	43.7%	6.8%
Adjusted core capital/ total deposit liabilities	19.7%	15.0%	(4.7%)
Adjusted core capital/ total risk weighted assets	19.3%	13.6%	(5.7%)
Adjusted total capital/ total risk weighted assets	22.9%	17.0%	(5.9%)

Key Take-Outs:

Decline in Earnings: Core earnings per share declined by 0.1% to Kshs 3.03 from Kshs 3.07 in Q1'2022, mainly as a result of the 53.3% growth in total operating expense to Kshs 23.0 bn, from Kshs 15.0 bn in Q1'2022, which outpaced the 26.9% growth in total operating Income to Kshs 36.9 bn, from Kshs 29.0 bn in Q1'2022,

Improved Lending – The Group's loan book increased in Q1'2023 as seen by a significant 31.9% growth in loans to Kshs 928.8 bn from Kshs 704.4 bn in Q1'2022, mainly attributable to increased lending boosted by the recent acquisitions with the Group's Congo subsidiary, Trust Merchant Bank, contributing 6.8% of the loan book during the period under review,

Revenue diversification – The Group's Non-Funded income increased by 59.2% to Kshs 14.8 bn, from Kshs 9.3 bn in Q1'2022, which resulted to a shift in revenue mix to 60:40 from 68:32 funded to non-funded income. The increase was mainly attributable to a 38.0% increase in non-funded income from digital channels due to increased usage of internet banking, mobile banking and merchant POS terminal, coupled with 52.1% increase in Forex trading income to Kshs 2.6 bn, from Kshs 1.7 bn in Q1'2023, and,

Increased Customer Deposit – KCB customer deposit increased significantly hitting Kshs 1.2 tn mark for the first time. Customer deposits increased by 41.5% to Kshs 1,196.6 bn from Kshs 845.8 bn in Q1'2022 mainly attributable to the completion of the acquisition of TMB Bank and the organic growth in the existing business.

For a comprehensive analysis, please see our KCB Group Plc Q1'2023 Earnings Note

b) NCBA Group

During the week, NCBA Group Plc released their Q1'2023 financial results. Below is a summary of the performance:

Balance Sheet (Kshs bn)	Q1'2022	Q1'2023	y/y change
Net Loans and Advances	243.9	287.2	17.7%
Government Securities	194.7	207.1	6.4%
Total Assets	**587.4**	**628.8**	**7.1%**
Customer Deposits	465.5	499.7	7.3%
Deposits Per Branch	4.5	5.8	**7.3%**
Total Liabilities	**507.1**	**540.9**	**6.7%**
Shareholders' Funds	**80.2**	**87.9**	**9.6%**

Key Ratios	Q1'2022	Q1'2023	% point change
Loan to Deposit Ratio	52.4%	57.5%	5.1%
Government Securities to Deposit ratio	41.8%	41.4%	(0.4%)
Return on average equity	14.0%	18.4%	4.4%
Return on average assets	1.9%	2.5%	0.6%

Income Statement (Kshs bn)	Q1'2022	Q1'2023	y/y change
Net Interest Income	7.1	8.4	18.0%
Net non-Interest Income	6.1	7.2	18.5%
Total Operating income	**13.1**	**15.5**	**18.2%**
Loan Loss provision	2.5	2.0	(22.6%)
Total Operating expenses	**8.1**	**9.2**	**12.8%**
Profit before tax	4.8	6.4	31.9%
Profit after tax	**3.4**	**5.1**	**48.5%**
Core EPS	**2.1**	**3.1**	**48.5%**

Income Statement Ratios	Q1'2022	Q1'2023	% point change
Yield from interest-earning assets	9.8%	10.4%	0.6%
Cost of funding	4.3%	4.6%	0.3%
Net Interest Spread	5.5%	5.7%	0.2%
Net Interest Margin	5.7%	6.0%	0.3%
Cost of Risk	19.2%	12.6%	(6.6%)

Net Interest Income as % of operating income	53.9%	53.8%	(0.1%)
Non-Funded Income as a % of operating income	46.1%	46.2%	0.1%
Cost to Income Ratio	61.7%	58.9%	(2.8%)
Cost to Income Ratio without LLP	42.5%	46.3%	3.8%

Capital Adequacy Ratios	Q1'2022	Q1'2023	% points change
Core Capital/Total Liabilities	15.9%	16.8%	0.9%
Minimum Statutory ratio	8.0%	8.0%	
Excess	**7.9%**	**8.8%**	**0.9%**
Core Capital/Total Risk Weighted Assets	18.0%	17.7%	(0.3%)
Minimum Statutory ratio	10.5%	10.5%	
Excess	**7.5%**	**7.2%**	**(0.3%)**
Total Capital/Total Risk Weighted Assets	18.0%	17.8%	(0.2%)
Minimum Statutory ratio	14.5%	14.5%	
Excess	**3.5%**	**3.3%**	**(0.2%)**
Liquidity Ratio	63.0%	53.1%	(9.9%)
Minimum Statutory ratio	20.0%	20.0%	
Excess	**43.0%**	**33.1%**	**(9.9%)**
Adjusted core capital/ total deposit liabilities	16.0%	16.8%	0.8%
Adjusted core capital/ total risk weighted assets	18.6%	17.7%	(0.9%)
Adjusted total capital/ total risk weighted assets	18.6%	17.8%	(0.8%)

Key Take-Outs:

Strong earnings growth - Core earnings per share rose by 48.5% to Kshs 3.1, from Kshs 2.1 in Q1'2022, driven by 18.2% growth in total operating income to Kshs 15.5 bn from Kshs 13.1 bn in Q1'2022. The lender's growth in total operating income was driven by 18.0% growth in Net Interest Income to Kshs 8.4 bn, from Kshs 7.1 bn in Q1'2022, coupled with an 18.5% increase in Non-Funded Income to Kshs 7.2 bn from Kshs 6.1 bn in Q1'2022,

Improved Asset Quality – The Group's Asset Quality improved, with Gross NPL ratio declining to 12.8% in Q1'2023, from 16.3% in Q1'2022. This was mainly attributable to 11.9% decrease in Gross non-performing loans to Kshs 39.7 bn, from Kshs 45.1 bn in Q1'2022, coupled with 12.0% increase in gross loans to Kshs 309.7 bn, from Kshs 276.7 bn recorded in Q1'2022, and,

Aggressive lending – The Group's increased its lending in Q1'2023 with the loan book recording a 17.7% increased to Kshs 287.2 bn, from Kshs 243.9 bn in Q1'2022, highlighting the Group's aggressive lending despite the tough operating business. Consequently, the loan to deposit ratio increased by 5.1% to 57.1% from 52.4% in Q1'2022.

For a comprehensive analysis, please see our NCBA Group Plc Q1'2023 Earnings Note

Summary performance:

Asset Quality:

The table below highlights the Asset Quality of the listed banks:

	Q1'2023 NPL Ratio*	Q1'2022 NPL Ratio**	% point change in NPL Ratio	Q1'2023 NPL Coverage*	Q1'2022 NPL Coverage**	% point change in NPL Coverage
Equity Group	10.0%	9.0%	1.0%	62.0%	66.0%	(4.0%)
Stanbic Bank	11.7%	11.1%	0.6%	66.7%	59.1%	7.6%
NCBA Group	12.8%	16.3%	(3.5%)	56.8%	72.6%	(15.8%)
Co-operative Bank of Kenya	14.1%	13.9%	0.2%	62.2%	65.3%	(3.1%)
Standard Chartered Bank Kenya	14.4%	15.4%	(1.0%)	86.8%	81.8%	5.0%

KCB Group	17.1%	16.9%	0.2%	57.3%	52.7%	4.6%
Mkt Weighted Average	**13.2%**	**12.5%**	**0.7%**	**63.7%**	**65.1%**	**(1.4%)**
*Market cap weighted as at 26/05/2023						
**Market cap weighted as at 17/06/2022						

Key take-outs from the table include;

i. Asset quality for the listed banks that have released their Q1'2023 financial results has deteriorated with market weighted average NPL ratio increasing by 0.7% points to 13.2%, from a 12.5% in Q1'2022. The deterioration was largely driven by deterioration in Equity Group's, Stanbic bank's, and KCB Group's asset quality with their NPL ratios increasing by 1.0%, 0.6% and 0.2% points to 10.0%, 11.7%, and 17.1%, from 9.0%, 11.1%, and 16.9%, respectively recorded in Q1'2022, and,

ii. Market weighted average NPL Coverage for the listed banks decreased by 1.4% points to 63.7% in Q1'2023, from 65.1% recorded in Q1'2022. The decrease was mainly attributable to decrease in NCBA Group's, Equity Group's and Co-operative Bank's NPL coverage by 15.8%, 4.0% and 3.1% points to 56.8%, 62.0% and 62.2%, from 72.6%, 66.0% and 65.3%, respectively in Q1'2022.

The table below highlights the performance listed banks, showing the performance using several metrics:

Bank	Core EPS Growth	Interest Income Growth	Interest Expense Growth	Net Interest Income Growth	Net Interest Margin	Non-Funded Income Growth	NFI to Total Operating Income	Growth in Total Fees & Commissions	Deposit Growth	Growth in Government Securities	Loan to Deposit Ratio	Loan Growth	Return on Average Equity
Stanbic	84.3%	49.1%	59.7%	44.7%	7.2%	89.3%	51.4%	17.7%	23.8%	9.7%	79.1%	11.5%	20.7%
NCBA	48.5%	21.0%	25.2%	18.0%	6.0%	18.5%	46.2%	9.1%	7.3%	6.4%	57.5%	17.7%	18.4%
SCB-k	47.2%	34.1%	(5.4%)	40.1%	7.3%	55.5%	35.9%	13.3%	14.2%	(6.2%)	45.3%	7.0%	23.0%
Equity	7.9%	21.6%	46.9%	12.1%	7.4%	54.3%	45.9%	39.2%	23.3%	(7.7%)	68.1%	23.1%	26.8%
Co-op	4.7%	11.2%	32.2%	3.9%	8.5%	10.8%	39.7%	9.7%	2.2%	(2.3%)	85.8%	11.0%	20.7%
KCB	(1.0%)	26.0%	67.7%	11.8%	7.3%	59.2%	40.1%	65.5%	41.5%	4.8%	77.6%	31.9%	20.9%
Q1'23 Mkt Weighted Average*	**22.2%**	**25.2%**	**41.6%**	**18.0%**	**7.3%**	**48.5%**	**43.1%**	**32.4%**	**21.6%**	**(0.7%)**	**69.3%**	**19.9%**	**22.6%**
Q1'22 Mkt Weighted Average**	**37.9%**	**17.8%**	**17.1%**	**17.7%**	**7.3%**	**21.4%**	**35.9%**	**21.7%**	**9.5%**	**17.6%**	**73.9%**	**17.2%**	**21.9%**
*Market cap weighted as at 26/05/2023													
**Market cap weighted as at 17/06/2022													

Key take-outs from the table include;

i. The listed banks recorded a 22.2% growth in core Earnings per Share (EPS) in Q1'2023, compared to the weighted average growth of 37.9% in Q1'2022, an indication of sustained performance despite the tough operating environment experienced in Q1'2023,

ii. Non-Funded Income grew by 48.5% compared to market weighted average growth of 21.4% in Q1'2022, mainly due to growth in forex related fees occasioned by the wide spreads in the dollar exchange rate during the quarter, and,
iii. The Banks recorded a weighted average deposit growth of 21.6%, higher than the market weighted average deposit growth of 9.5% in Q1'2022, highlighting increased investment risk in the business environment.

Universe of coverage:

Company	Price as at 19/05/2023	Price as at 26/05/2023	w/w change	YTD Change	Target Price*	Dividend Yield	Upside/ Downside**	P/TBv Multiple	Recommendation
Jubilee Holdings	179.8	178.0	(1.0%)	(10.4%)	305.9	6.7%	78.6%	**0.3x**	Buy
Britam	4.2	4.2	(0.2%)	(20.0%)	7.1	0.0%	71.2%	**0.7x**	Buy
I&M Group***	17.0	15.9	(6.8%)	(7.0%)	24.5	14.2%	68.7%	**0.3x**	Buy
Liberty Holdings	4.0	4.1	2.8%	(19.2%)	6.8	0.0%	65.8%	**0.3x**	Buy
Equity Group***	38.4	36.9	(3.9%)	(18.1%)	56.3	10.8%	63.5%	**0.7x**	Buy
Diamond Trust Bank***	46.0	45.0	(2.2%)	(9.7%)	64.6	11.1%	54.7%	**0.2x**	Buy
Kenya Reinsurance	1.8	1.8	(2.2%)	(5.9%)	2.5	11.4%	54.0%	**0.1x**	Buy
NCBA***	32.6	34.6	6.1%	(11.2%)	48.7	12.3%	53.2%	**0.7x**	Buy
KCB Group***	30.9	31.1	0.6%	(19.0%)	45.5	6.4%	53.0%	**0.5x**	Buy
Sanlam	8.0	7.8	(2.5%)	(18.6%)	11.9	0.0%	52.7%	**0.8x**	Buy
ABSA Bank***	10.4	10.8	3.8%	(11.5%)	15.1	12.5%	52.7%	**0.8x**	Buy
Co-op Bank***	12.3	11.4	(6.9%)	(5.8%)	15.9	13.2%	52.6%	**0.5x**	Buy
Standard Chartered***	140.0	145.8	4.1%	0.5%	195.4	15.1%	49.1%	**0.9x**	Buy
Stanbic Holdings	110.0	98.3	(10.7%)	(3.7%)	131.8	12.8%	46.9%	**0.7x**	Buy
CIC Group	1.7	1.9	11.2%	(1.6%)	2.3	6.9%	30.3%	**0.7x**	Buy
HF Group	4.2	4.3	2.4%	36.2%	4.5	0.0%	3.7%	**0.2x**	Lighten

Target Price as per Cytonn Analyst estimates
****Upside/ (Downside) is adjusted for Dividend Yield**
*****For Disclosure, these are stocks in which Cytonn and/or its affiliates are invested in**

We are "Neutral" on the Equities markets in the short term due to the current adverse operating environment and huge foreign investor outflows, and, "Bullish" in the long term due to current cheap valuations and expected global and local economic recovery.

With the market currently trading at a discount to its future growth (PEG Ratio at 0.6x), we believe that investors should reposition towards value stocks with strong earnings growth and that are trading at discounts to their intrinsic value. We expect the current high foreign investors sell-offs to continue weighing down the equities outlook in the short term.

Real Estate

I. Commercial Office Sector

During the week, Actis Limited, a global private equity firm, announced that it had shut down two offices located in Nairobi, Kenya and Cape Town, South Africa. This comes at a time when Actis is actively exploring alternative working solutions, which consequently resulted in the decision to not renew the commercial leases for the two offices. However, Actis has maintained that the closure of these branches does not imply an exit from the respective markets. Following the closure Actis currently maintains a total of 17 physical offices worldwide, with four of them strategically located in Africa which include; Lagos in Nigeria, Johannesburg in South Africa, Port Louis in Mauritius, and Cairo in Egypt. Within Kenya, Actis has invested in the residential sector in Garden City Mall and Mi Vida homes, the retail sector in Junction Mall, and in the hospitality sector with an ownership of Java House.

The decision by Actis to review its office footprint in Africa aligns with the prevailing trend of hybrid and remote working strategies that have significantly influenced the commercial office market. This is as many companies have embraced these strategies to reduce costs and introduce greater flexibility in their working environments alongside their recovery from the COVID-19 pandemic. Consequently, this shift has resulted in a slowdown in occupancy rates in the commercial market, with the closure of their office located at Courtyard, along General Mathenge Road in Westlands, Nairobi prolonging the vacancy rates within the sector.

The table below shows the Nairobi Metropolitan Area (NMA) commercial office sub-market performance;

All values in Kshs unless stated otherwise											
Cytonn Report: Nairobi Metropolitan Area Commercial Office Market Performance Q1'2022/Q1'2023											
Area	**Price Kshs/ SQFT Q1'2023**	**Rent Kshs/ SQFT Q1'2023**	**Occupancy Q1' 2023**	**Rental Yields Q1 2023(%)**	**Price Kshs/ SQFT Q1'2022**	**Rent Kshs/ SQFT Q1'2022**	**Occupancy Q1'2022 (%)**	**Rental Yields Q1 2022(%)**	**Δ in Rent**	**Δ in Occupancy (% points)**	**Δ in Rental Yields (% points)**
Gigiri	13,500	118	81.6%	**8.7%**	13,500	118	83.3%	**8.8%**	**0.4%**	**(1.7%)**	**(0.1%)**
Westlands	12,032	108	77.2%	**8.4%**	11,846	105	74.5%	**8.1%**	**2.8%**	**2.7%**	**0.2%**
Karen	13,431	111	82.9%	**8.3%**	13,325	107	82.8%	**7.8%**	**3.8%**	**0.1%**	**0.5%**
Kilimani	12,260	93	84.1%	**7.8%**	12,440	91	80.2%	**7.1%**	**2.9%**	**3.9%**	**0.7%**
Parklands	11,662	91	82.2%	**7.8%**	11,562	91	82.8%	**7.7%**	**0.0%**	**(0.6%)**	**0.0%**
Nairobi CBD	11,971	83	85.3%	**7.2%**	11,863	82	83.8%	**6.9%**	**1.4%**	**1.4%**	**0.3%**
Upperhill	12,605	97	76.6%	**7.0%**	12,409	94	76.1%	**6.9%**	**2.7%**	**0.4%**	**0.1%**
Thika Road	12,571	79	80.3%	**6.0%**	12,571	78	77.6%	**5.7%**	**1.4%**	**2.7%**	**0.3%**
Mombasa Road	11,325	71	67.0%	**5.2%**	11,250	73	64.6%	**5.1%**	**(2.5%)**	**2.4%**	**0.1%**
Average	**12,238**	**97**	**79.8%**	**7.6%**	**12,113**	**94**	**77.9%**	**7.3%**	**2.2%**	**1.9%**	**0.4%**

Source: Cytonn Research

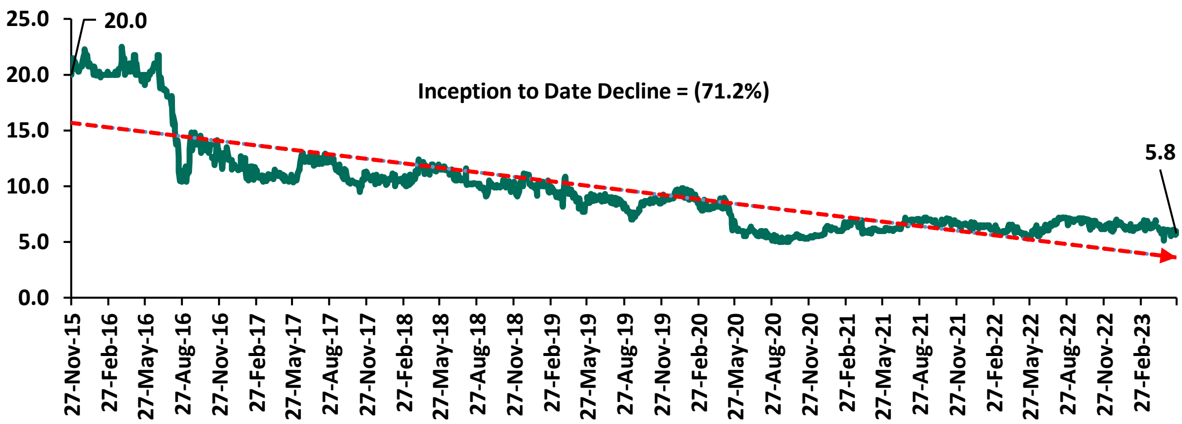
Going forward, we expect the sizing down of physical operations by companies which has resulted in an oversupply of approximately 5.8 mn SQFT of space in the NMA market, to continue subduing the performance of the commercial office sector. On the other hand, the vacancy rates will further prompt investors to withhold new developments in order to allow occupation of the existing space. As a result, we expect this will in the long term boost the sector by increasing the uptake rates of commercial space.

II. Regulated Real Estate Funds

a) Real Estate Investment Trusts (REITs)

In the Nairobi Securities Exchange, ILAM Fahari I-REIT closed the week trading at an average price of Kshs 5.8 per share. The performance represented a 4.0% decline from Kshs 6.0 per share recorded the previous week, taking it to an 15.0% Year-to-Date (YTD) decline from Kshs 6.8 per share recorded on 3 January 2023. In addition, the performance represented a 71.2% Inception-to-Date (ITD) loss from the Kshs 20.0 price. The dividend yield currently stands at 11.3%. The graph below shows Fahari I-REIT's performance from November 2015 to 26 May 2023;

Cytonn Report: Fahari I-REIT Perfomance (November 2015 - 26 May 2023)



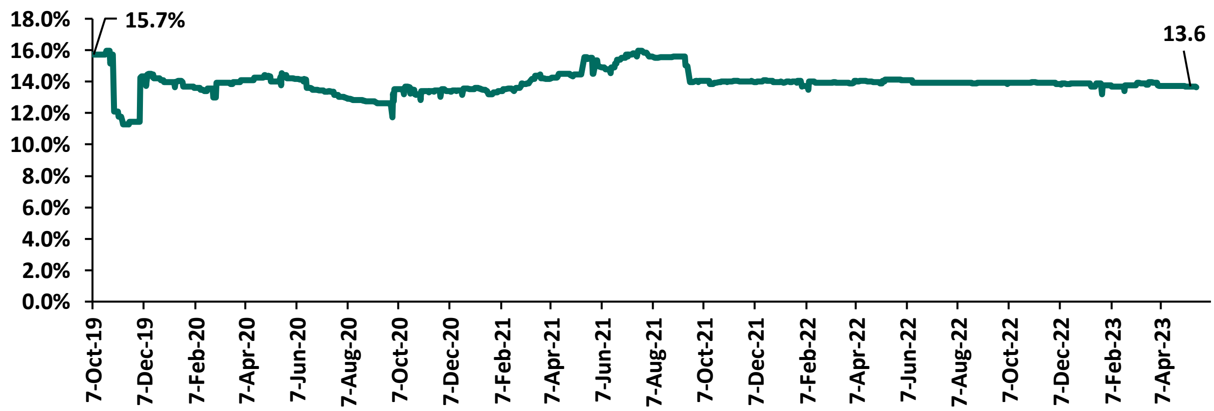
In the Unquoted Securities Platform, Acorn D-REIT and I-REIT traded at Kshs 23.9 and Kshs 21.6 per unit, respectively, as at 26 May 2023. The performance represented a 19.4% and 7.9% gain for the D-REIT and IREIT, respectively, from the Kshs 20.0 inception price. The volumes traded for the D-REIT and I-REIT came in at 12.3 mn and 30.1 mn shares, respectively, with a turnover of Kshs 257.5 mn and Kshs 620.7 mn, respectively, since inception in February 2021.

REITs provide numerous advantages, including; access to more capital pools, consistent and prolonged profits, tax exemptions, diversified portfolios, transparency, liquidity and flexibility as an asset class. Despite these benefits, the performance of the Kenyan REITs market remains limited by several factors such as; i) insufficient investor understanding of the investment instrument, ii) time-consuming approval procedures for REIT creation, iii) high minimum capital requirements of Kshs 100.0 mn for trustees, and, iv) high minimum investment amounts set at Kshs 5.0 mn discouraging investments.

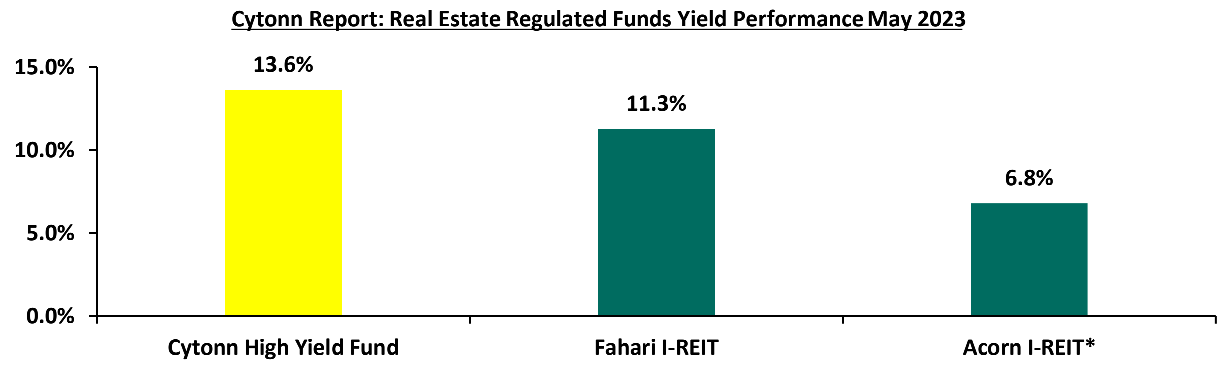
b) Cytonn High Yield Fund (CHYF)

Cytonn High Yield Fund (CHYF) closed the week with an annualized yield of 13.6%, representing a 0.1% points decline from the 13.7% yield recorded the previous week. The performance also represented a 0.3% points Year-to-Date (YTD) decline from 13.9% yield recorded on 1 January 2023, and 2.1% points Inception-to-Date (ITD) loss from the 15.7% yield. The graph below shows Cytonn High Yield Fund's performance from October 2019 to 26 May 2023;

Cytonn Report: Cytonn High Yield Fund Yield Performance (October 2019 - 26 May 2023)



Notably, the CHYF has outperformed other regulated Real Estate funds with an annualized yield of 13.6%, as compared to Fahari I-REIT and Acorn I-REIT with yields of 11.3%, and 6.8% respectively. As such, the higher yields offered by CHYF makes the fund one of the best alternative investment resource in the Real Estate sector. The graph below shows the yield performance of the Regulated Real Estate Funds:



**FY'2022*

Source: Cytonn Research

We expect the performance of Kenya's Real Estate sector to remain on an upward trajectory, supported by factors such as; i) the ongoing push by both the government and private sector to focus on affordable housing, ii) improvement in infrastructure, ii) aggressive expansion drive by both local and international retailers, and, iv) the relatively positive demographics in the country that are driving demand for housing upwards. However, the shift by companies to scale down physical operations in favour of hybrid and remote work policies, existing oversupply of physical space in select sectors, rising costs of construction on the back of rising inflation, and low investor appetite for REITs are expected to continue subduing the performance of the sector.

Focus of the Week: Off-Plan Real Estate

Real Estate development relies on several elements, primarily financing and marketing. Real Estate finance involves providing the necessary financial resources for investment projects aimed at expanding building infrastructure and services. On the other hand, Real Estate marketing serves as a connection between those responsible for the production of various Real Estate properties such as residential houses and offices and those who purchase and benefit from them. Its objective is to fulfill the needs and desires of individuals by offering properties, whether it be land or housing, at the right value and with exceptional customer service.

Off-plan investment in the Real Estate sector has emerged as an enticing opportunity, offering a mutually beneficial platform for both developers and buyers. This concept involves the sale and purchase of properties that are yet to be constructed or are still under development, with the completion and ownership transfer being governed by agreed contractual obligations. Over the years, off-plan investment has gained significant traction offering an advantageous platform for both developers and homebuyers. From the perspective of developers, off-plan investment refers to selling a property that has an approved design but has not been constructed or is still under development. In such cases, the developer is responsible for completing the property's construction, delivering it on time, and transferring ownership to the buyer according to the agreed contract. From the perspective of homebuyers, off-plan acquisition involves purchasing a property before its construction has commenced or been finalized. Buyers can make their decision based on blueprints, plans, and computer-generated representations of the proposed housing project. Prior to construction, buyers can secure the home by making a down payment or providing the developer with a letter of credit. Through a contractual agreement, the buyer becomes the owner of a Real Estate unit with predetermined characteristics and specifications, whether it is an existing property or one under construction. The developer, in turn, is obligated to complete the construction within the agreed-upon timeframe, while the buyer is obliged to pay the price either in an expedited or deferred manner. The growing popularity of off-plan investment signifies its potential to reshape the Real Estate market by providing a promising avenue for profitable ventures and fulfilling the housing needs of prospective homeowners.

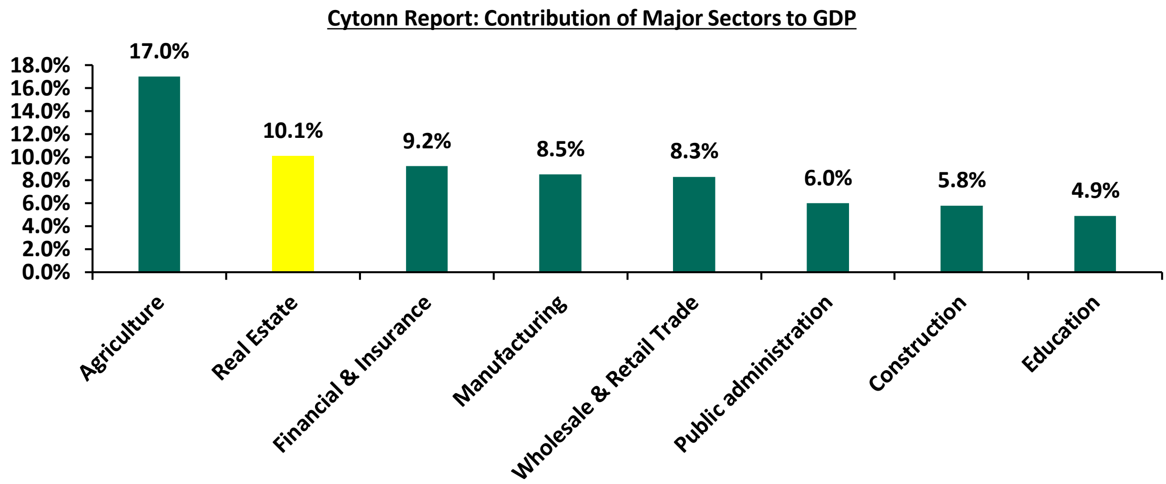
We have previously covered the same topic on the concept of off-plan in Kenya's Real Estate namely; Off Plan Real Estate Investing in January 2022 and Off Plan Investment in Real Estate - What a Buyer Needs to Know in 2017, where we provided an in-depth assessment of the concept of off plan investments in the Real Estate sector to provide a basis for the justification of the concept and advising buyers on what they should look out for when purchasing property off plan. This week, we turn our focus on reviewing Off Plan program in Real Estate Development and Investing in order to identify the financial and marketing challenges being faced by such program in Kenya. Additionally, we shall undertake a case study of countries where off plan projects have been successfully implemented and the off plan program is firmly and strictly regulated in the Real Estate sector. From the case studies, we shall give our recommendations of what can be done to improve the regulatory framework for off plan investments in Kenya. We shall undertake this by looking into the following;

I. Background and Overview of the focus,
II. Off-Plan Buying Process and Off-Plan Investing Tips,
III. Benefits and Limitations of Off Plan Investments,
IV. Case Study of Off-Plan Development Frameworks in other countries, and,
V. Recommendations and Conclusion.

Section One: Background and Overview of the topic

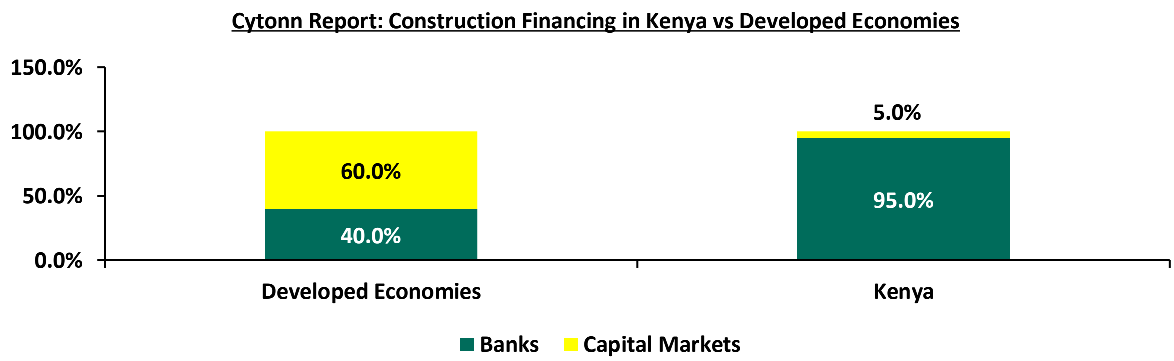
The Real Estate industry holds immense significance in the economy of any nation. It serves as a catalyst for growth, generating numerous employment prospects and stimulating economic activities across various sectors. It encompasses a wide range of activities, including pre-construction tasks such as engineering consultation, economic analysis, and marketing studies, as well as construction-related activities which include contracting, sourcing building materials, and actual construction work. Furthermore, the sector continues to contribute into growth of a country's economy even after the completion of construction, with operations, property management, and maintenance of supporting infrastructures and facilities playing vital roles.

According to the Economic Survey 2023 by Kenya National Bureau of Statistics (KNBS), the Real Estate sector is the second largest contributor in Kenya's economy as it contributed 10.1% to the country's Gross Domestic Product (GDP) in FY'2022, with a growth rate of 4.5%. With a rapid urbanization and population rates which stood at averages of 3.7% and 1.9% respectively as of 2021, against the global averages of 1.6% and 0.9, the demand for housing in Kenya is very high. This is far exceeding the available supply, as the country faces a significant housing deficit of about 2.0 mn units according to the National Housing Corporation (NHC). This is also at the back of increased infrastructural projects that have opened up new regions for development across the country. The graph below contribution of major sectors of Kenya's economy to GDP in the year ending 2022;



Source: Kenya National Bureau of Statistics (KNBS)

As such, there is a favorable opportunity for private developers in the residential Real Estate sector to construct additional housing units, alleviate the housing crisis, and generate significant profits from the sector. However, these developers are encountering significant financial limitations that hinder project execution. The primary issue lies in the heavy reliance on financial institutions, specifically banks, for costly financial capital required by private developers in execution of large-scale housing projects. This over-reliance and limited financial options make it challenging to secure the necessary affordable finances for construction and completion of housing projects in Kenya. In contrast, developed countries rely more on capital markets, which provide the majority of funding for such ventures. The graph below shows the comparison of construction financing in Kenya against developed economies;

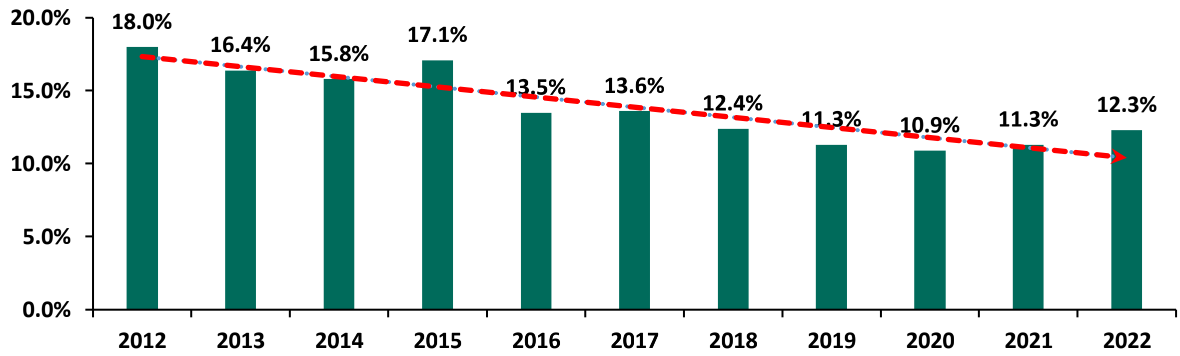


Source: World Bank, Capital Markets Authority

Financial institutions, who have monopolized the access of capital for projects in the sector, continue to tighten their lending requirements and demand more collateral from developers as a result of elevated credit risk in the Real Estate sector. This is evidenced by;

i) **Rising interest rates on loans:** the Bank Supervision Annual Report 2022 by Central Bank of Kenya (CBK) which highlighted 1.0% points increase in interest rates charged on loans towards Real Estate developments to 12.3% in 2022, from 11.3% in 2021. The interest rates majorly ranged from 8.2% to 17.0% in 2022, compared to a range of from 7.1% to 15.0% recorded in 2021. The rise in the interest rates were in line with gradual increases in the MPC rate by CBK to 8.8% at the end of 2022, from 7.0% in 2021 aimed at curbing the elevated inflation rate. The rates are projected to even rise further illustrating return to pre-COVID-19 levels as majority of financial institutions begin to eradicate pandemic related reliefs in their new risk-based interest rate pricing formulas, making the loans more expensive. The graph below shows the trend in the average interest rate charged on mortgage loans in Kenya from 2012 to 2022:

Cytonn Report: Average Interest Rate Charged on Mortgage Loans in Kenya (2012-2022)



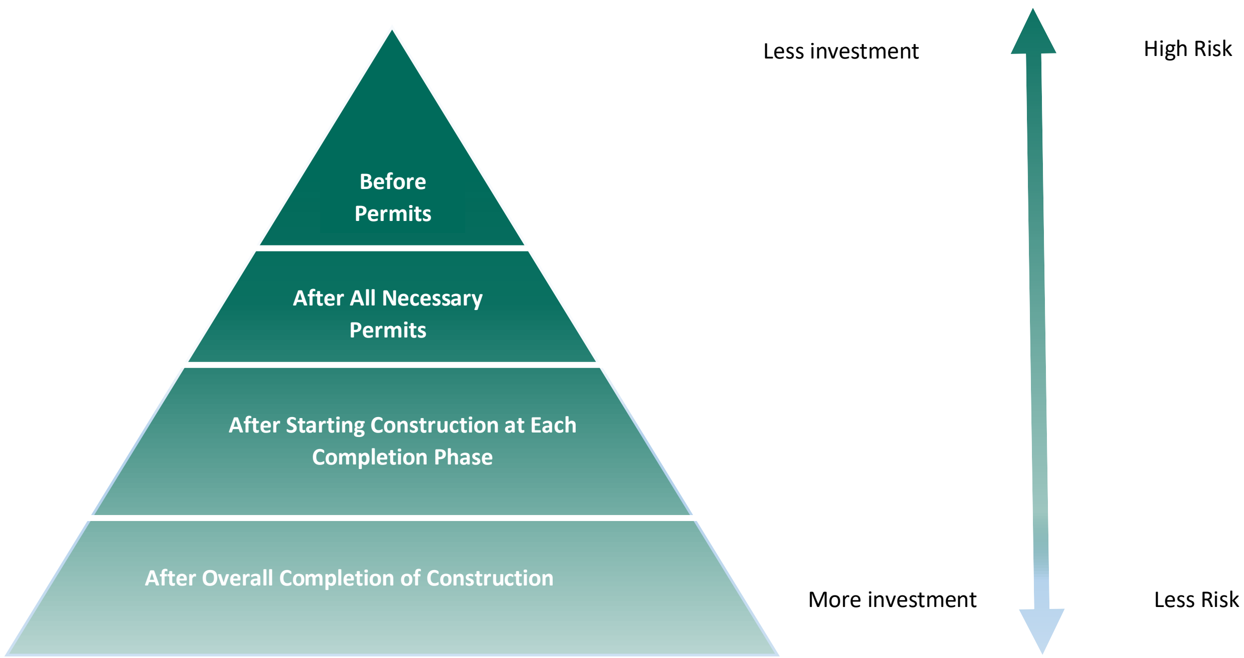
Source: Central Bank of Kenya (CBK)

ii) **Increasing Non-Performing Loans**: the higher credit risks coincide with a 33.6% increase in the value of Non-Performing Mortgage Loans (NPMLs) to Kshs 37.8 bn in 2022, from Kshs 28.3 bn in 2021. This increase can be attributed to various factors that have made it challenging for a considerable number of housing investors and buyers to repay their loans which include; i) escalating construction costs over the years, ii) disruptions in the housing market activities caused by the COVID-19 pandemic and general elections, iii) the upward trend in prices of existing housing units, which has resulted in a slowdown in Real Estate sales, iv) rise in unemployment and income instability at the back of job losses, salary reductions and reduced business activities among borrowers, and, v) insufficient risk assessment can lead to a higher number of loans being extended to borrowers who are more likely to default,

iii) **Decreasing the period of mortgage facilities to developers**: the average maturity of the loans was 10.9 years ranging between 5 years and 18 years in 2022 as compared to loan maturity of 12 years recorded in 2021, ranging between 5 years and 20 years. As such, the financial institutions will continue to cushion themselves more against the heightened risk of default by investors in the Real Estate sector.

In light of the prevailing challenges in the industry, stakeholders are increasingly adjusting to off-plan investment which emerges as a unique alternative in progressing developments and stimulate activities in the sector majorly target to; i) lower the cost of purchasing housing units in comparison to buying ready-made units from the market, ii) protect the rights of buyers by establishing procedures and systems that ensure developers adhere to the agreed-upon project completion timelines and contractual obligations, and, iii) promoting competition among Real Estate development companies by implementing a system for qualifying and classifying developers.

The concept of off-plan investment stands out from other sales programs due to its unique combination of financing and marketing strategies. This approach allows developers to secure funding by selling Real Estate units before construction begins, eliminating the need for costly bank fees and interest that could potentially inflate housing unit prices. Furthermore, it provides developers with valuable insights into market demand and allows them to assess buyer satisfaction and acceptance of their products. The process of off-plan sales typically involves multiple stages with varying levels of risk, which developers must carefully analyze. Initially, buyers are offered the opportunity to invest in the project at significant discount rates, even before construction starts and permits are obtained. This early stage carries a higher level of risk as the execution of the project and completion of construction is uncertain, despite thorough due diligence. However, as the project progresses and completion rates increase, the level of risk decreases, and developers adjust the discount rates offered to subsequent investors. When the project is near completion, the risk becomes very low or even non-existent as the physical nature of the project becomes evident, including the presence of amenities. However, buyers who purchase units at this stage may need to pay higher prices as developers aim to maximize profits, complete the finishing touches, initiate the handover process, and secure additional funds for property management and the operationalization of other on-site facilities. The chart below demonstrates the level of risk and amount of investments incurred by buyers during the life of an off-plan development project;



Source: Cytonn Research

Factors that have Contributed to the Concept's Growth in Popularity Over the Years

In recent years, the concept of off-plan growth has gained popularity in the global Real Estate sector, including Kenya. Several factors that have contributed to this trend include;

i) **Potential for Capital Appreciation**: Off-plan properties often offer the potential for significant capital appreciation. For instance, in the Pre-Launch stage when the construction has not yet begun, the developer offers a substantial discount to attract buyers during this phase. The pricing is set at a significantly lower rate compared to the subsequent tranches. As the development takes shape, more resources are needed hence the developer will demand more from other homebuyers seeking to purchase housing units reflecting increased value as the project nears its final stages. Therefore, off-plan buyers can take advantage of attractive pricing during the early stages, potentially benefiting from price appreciation as the project advances towards completion,

ii) **Lower entry costs:** Off-plan properties generally require a lower initial investment compared to completed properties. Developers often offer attractive pre-construction prices and flexible payment plans, allowing buyers to secure a property with a smaller down payment. This affordability factor appeals to a broader range of potential investors and homebuyers,

iii) **Customization and personalization:** Buying off-plan allows buyers to customize and personalize their properties according to their preferences. They can often choose from a variety of finishes, materials, and layouts during the construction phase. This level of customization is particularly appealing to buyers who want to create a unique living space that aligns with their specific requirements and tastes as the construction progresses,

iv) **Developer incentives:** Developers often offer incentives to attract buyers to off-plan projects. These incentives may include discounted prices, waived fees, or additional features and amenities. Such incentives serve as enticing benefits for investors and buyers, creating a sense of exclusivity and added value,

v) **Long-term investment Potential:** Off-plan properties are seen as long-term investments, especially in rapidly developing areas. Investors and buyers anticipate that the surrounding infrastructure, amenities, and property values will improve by the time the project is completed. This expectation of long-term growth prospects and potential returns on investment drives the demand for off-plan properties,

vi) **Limited supply as a result of high demand:** with the significant low housing supply in Kenya, the growing demand for housing is never sufficiently met. By purchasing off-plan, buyers have the opportunity to secure a property in a location or development that may have a limited supply of completed units. This exclusivity factor appeals to buyers who are willing to commit to a property before its construction is completed, and,

vii) **Market Speculation among investors:** The Real Estate market, including the off-plan segment, can attract speculators looking to make a profit from property price fluctuations. Speculators may buy off-plan properties with the intention of selling them before completion to take advantage of rising market values. This speculation can contribute to the popularity of off-plan growth, particularly in markets with high demand and limited supply.

Examples of Off-plan Developments in Kenya

In Kenya, the adoption of off-plan investments by developers as a means to enhance their funding capacity has been a prominent trend. This strategy has proven to be advantageous for developers who are committed to fulfilling their promises, as it creates a mutually beneficial scenario for both the developers and the eventual buyers. Several noteworthy case studies serve as examples of successful projects that have been accomplished with the support of off-plan investments. These projects exemplify the effectiveness of this approach in securing funding and ensuring the successful completion of Real Estate developments and they include;

Cytonn Report: Capital Appreciations of Successful Off Plan Investments								
Development Name	Location	Developer	Number of Bedrooms	Unit Size	Price Before Completion (Kshs mn)	Price After completion (Kshs mn)	Capital Appreciation	Summary
Amara Ridge	Karen	Cytonn Real Estate	5	470	85.0	125.2	47.3%	The project was launched in 2015 and completed in 2017, with a 100.0% off plan sales achieved. It is a private gated community located in Karen, comprising of 10 luxurious 5 Bed Room Villas of 470 SQM each, and with easy access to Ngong and Lang'ata roads
Alma (Phase 1, 2 and 3)	Ruaka	Cytonn Real Estate	1	51	5.5	8.5	54.5%	The comprehensive mixed use development project consisting of 477 units broke ground in 2016. Out of which, 201 units were sold as off plan in phase 1, 2 and 3, representing a 42.1% sales realized
			2	84	7.5	12.0	60.0%	
			3	117	9.0	15.0	66.7%	
Muthaiga Valley Apartments	Parklands	Sameer Business Group	3	174	14.0	18.1	29.3%	The development project consisting of 50-3 bedroom apartments broke ground in 2015 and completed in 2017 with an overall 42.0% off plan sales achieved
			3 with SQ		15.0	19.6	30.7%	
Ramata Greens Phase I	Baba Dogo		2		7.5	11.5	53.3%	Construction of the 70-unit project began in 2013 and completed in 2016, with a 32.9% off plan sales made
			3		8.8	13.3	51.1%	
Pearl Heights	Kileleshwa	Custom Homes Limited	3	223	19.0	25.9	36.3%	This is an 8-storey apartment complex consisting of 32 units. It was launched in 2013 and

			3	174	14.0	20.3	45.0%	completed in 2016, with a 31.3% off plan sales achieved during the period
Kings Millenium	Imaara Daima	Kings Developers Limited	3	124	6.5	9.5	46.2%	Construction began in 2013 and completed in 2016. During the period, 25.0% off plan sales were realized out of the 220 unit development project
Mi Vida Homes Garden City	Kasarani	Shapoorji Pallonji Real Estate and Actis	1	56	6.9	8.9	29.0%	Construction of 221 apartments began in July 2019 and completed in August 2022 with 35.0% off-plan sales achieved during the period
			2	86	10.1	12.5	23.8%	
			3	123	12.9	16.7	29.5%	
Average				**153**	**15.8**	**22.6**	**43.1%**	

Source: Cytonn Research

Existing Regulatory Gaps in Off-plan Investments in Kenya

In Kenya, there is a lack of clear legal provisions specifically addressing the sale of off-plan developments. While the Land laws in the country include provisions for property registration, there is no specific clause or article that covers the registration of properties purchased off-plan. The residential properties commonly sold through the off-plan strategy in Kenya include apartments, townhouses terraced and stand-alone maisonettes, and villas. Regulation for such developments are addressed through the Sectional Properties Act, 1987, No. 21 of 1987 which highlights the subdivision of buildings into units that can be registered separately by the Lands Registrar. This allows for the registration of sections of buildings and office suites as individual units with their own titles. Additionally, Section 5 of the same Act provides for the registration of sectional plans. Developers can generate a sectional plan from an existing plan of the site, enabling them to sell the concept of the off-plan development to potential investors. The registration of such sectional plans gives investors' confidence that the developer has a genuine intention to undertake the proposed development.

However, due to its relative newness and the lack of a competent regulatory framework in the off-plan investment sector, these existing provisions do not fully encompass the specific regulatory needs and protections required for off-plan investments. These gaps in regulation have allowed some developers to exploit the system, leading to various challenges and risks for buyers. Here are some of the existing regulatory gaps in the sector:

i) **Inadequate consumer protection:** There is a lack of comprehensive legislation specifically addressing off-plan investments, which leaves buyers vulnerable to potential fraudulent activities or unethical practices by developers as they take advantage of the information asymmetry that exist among most buyers in the housing market. The absence of clear guidelines on issues such as contract terms, dispute resolution mechanisms, and buyer rights has created an imbalance in the relationship between developers and buyers.

ii) **Lack of oversight and monitoring**: There is limited resources and insufficient mechanisms in place to effectively oversee the off-plan investment sector and developers' activities. This lack of oversight allows some developers to operate without proper scrutiny, potentially leading to partnering with quack contractors and specialists in construction to deliver sub-standard buildings, project delays, or even abandonment of projects with their traces never to be followed by law enforcers.

iii) **Absence of escrow accounts**: There is absence of mandatory requirements for developers to establish escrow accounts or mechanisms to safeguard buyers' funds or compensate them upon not delivering the projects as stipulated in contracts, posing a significant risk. Without such accounts, developers easily misuse buyers' deposits and fail to deliver the promised properties, leaving buyers with financial losses and unfinished projects.

iv) **Insufficient disclosure requirements:** There is a lack of clear guidelines on the information that developers should disclose to buyers during the off-plan investment process. This includes details about the developer's track record, financial standing, project timelines, construction plans, and potential risks associated with the development. Through the protection of contracts signed with clients, developers are at free will to adjust some clause which favor them in restricting crucial information regarding the progress of the project. Such insufficient disclosure hampers buyers' ability to make informed decisions and assess the credibility of developers.

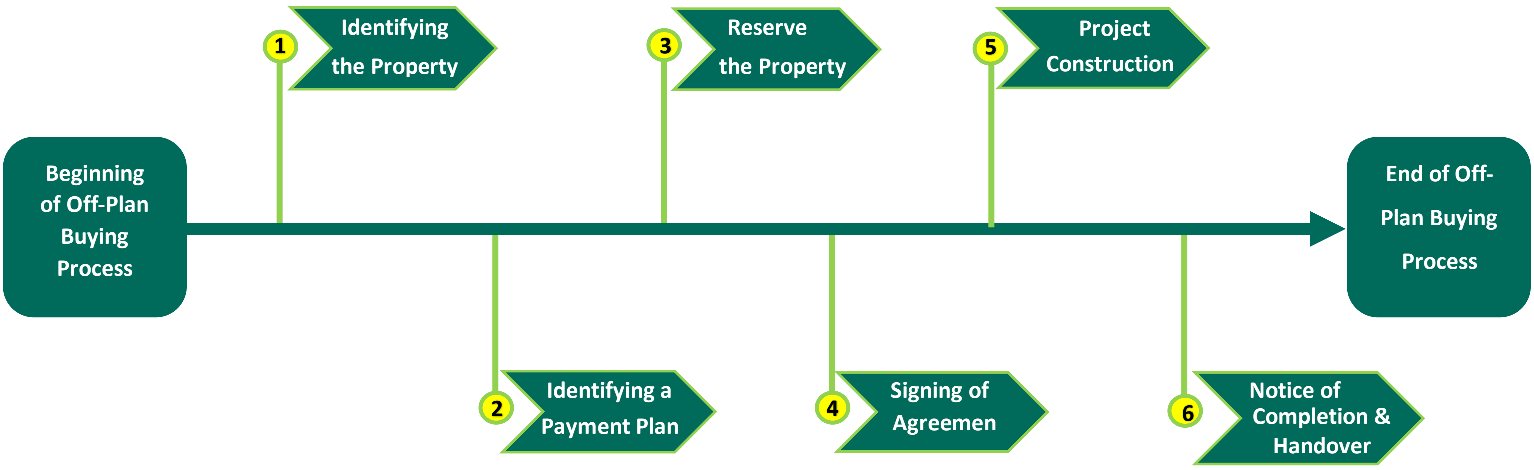
v) **Limited remedies for breach of contract:** The existing legal framework has not adequately address remedies for breaches of contract or non-compliance by developers. Apart from alternative resolution mechanisms that might have been agreed stakeholders in the off-plan development, parties in the transactions are left with very limited options to seek redress in case of project delays, poor construction quality, or other contractual violations.

Therefore, addressing these gaps in the regulatory framework is necessary to provide adequate safeguards and promote a transparent and secure off-plan investment environment in Kenya.

Section Two: Off-Plan Buying Process and Off-Plan Investing Tips

A. Off-plan buying Process

It is evident that Off-plan buying provides several advantages, including the potential for capital appreciation, customization options, and the ability to secure desirable units in high-demand areas. However, it also comes with its own set of considerations and risks. Therefore, understanding the off-plan buying process in Kenya is crucial for investors looking to participate in this dynamic market and maximize their investment opportunities. The process is outlined below;



Source: Cytonn Research

i) **Identifying the Property:** The first step in off-plan investment is for the buyer to identify a development project that is either ongoing or yet to be executed. This requires conducting thorough due diligence on the developer responsible for the project such as; i) assessing their track records, ii) identifying the feasibility of the site where the development will be done, iii) having a review on the necessary permits available and ensure the developer followers up on statutory requirements that are yet to be undertaken, and, iv) reviewing blueprints and designs submitted for views, adjustments and preferences. Market research is also essential during this stage as it provides the buyer with valuable information on the performance of the development in comparison to similar properties in the market. Additionally, in the initial step, buyers become aware of off-plan projects through the marketing efforts conducted by developers. A vigorous marketing strategy is crucial to attract potential buyers to properties that are currently existing on paper or pre-construction phase and do not physically exist yet. Such strategies include; i) comprehensive promotional materials that showcase the proposed development, including detailed descriptions, high-quality renderings, architectural plans, and artist impressions, ii) setting up sales offices or showrooms where buyers can visit and explore a mock-up or model unit of the planned development, iii) establishing a strong online presence by creating dedicated project websites or microsites that provide comprehensive information about the off-plan project, including virtual tours, 3D walkthroughs, floor plans, and pricing details, iv) leverage social media platforms, online advertisements, and digital marketing campaigns to raise awareness and engage with potential buyers, v) organizing sales events, property exhibitions, and roadshows to showcase their off-plan projects to a targeted audience, vi) collaborating with Real Estate agents or agencies specializing in off-plan properties with networks of potential buyers, viii) producing various marketing collateral, such as brochures, flyers, advertisements in newspapers, magazines, and digital platforms, highlight the unique selling points, benefits, and investment potential of the development, aiming to capture the attention of potential buyers, and, ix) 0ffering referral programs or incentives for existing buyers to recommend the off-plan project to their friends, family, or colleagues.

ii) **Choosing a Payment Plan:** Once the right property has been identified, the buyer and seller must agree on the payment plan and schedule for the development. There are various payment options available, including cash payments, installment plans, and mortgages where the developer has partnered with various financial institutions. However, buyers have an option of engaging their preferred mortgagee if the developer has no partnership with such. It is important for the buyer to carefully evaluate and select the payment plan that best suits their financial situation and preferences,

iii) **Reserve the Property:** After deciding on a suitable payment plan and the appropriate property, the buyer can proceed to reserve the desired property. This is typically done by making an initial deposit or down payment, which secures the property and serves as a reservation or hold on the unit. The deposit amount is usually a percentage of the total purchase price. Activities under this step should be legally bound in a Reservation Form signed by both developer and homebuyers. Additionally, both parties should sign the Letter of Offer which indicates the amount of money that the developer is willing to accept in exchange of granting ownership of the off-plan property to the buyer,

iv) **Signing of Agreement:** At this stage, the buyer and seller enter into a legally binding agreement, such as a sale agreement contract. It is crucial for the buyer to thoroughly review the contract and ensure that all terms and conditions are clear, fair and in line with their expectations. Seeking legal advice from a qualified lawyer is highly recommended to ensure a smooth and effective conveyance process and to address any potential concerns,

v) **Project Construction:** After the agreement has been signed, the developer proceeds with the construction of the project. The duration of the construction phase varies depending on factors such as the design, type, and complexity of the development. During this period, the buyer should stay informed about the progress of the project. This can be done through periodic site visits and inspections, as well as by maintaining open communication with the developer either physically or through online means. The developer should also provide regular updates to the buyer regarding the status of the project and any anticipated delays or changes,

vi) **Notice of Completion and Handover**: Once the project is fully implemented, the buyer receives a notice of completion from the developer. This notification indicates that the construction is finished, and the property is ready for handover. At this stage, the buyer officially takes possession of the property, and the developer transfers ownership to the buyer as outlined in the agreement. The buyer should conduct a thorough inspection of the property to ensure that it meets the agreed-upon specifications and quality standards.

B. Tips for Developers and Buyers in Off-Plan Investments:

Investing in properties that are still in the planning or development stage carries significant risks, including the possibility of project delays. To mitigate these risks, it is important for an investor to undertake various strategies to minimize future risks and losses resulting from uncertainties such as projects stalling, and information asymmetry that cuts across all stakeholders in the transactions in different contexts such as moral hazards, adverse selection and hold up menace. Before engaging in off-plan investments, it is crucial to consider the following essential tips

i) **Conducting Due Diligence on Developers**

Verify the developer's registration: Before investing, buyers should ensure that the developer is a registered company in the country of operation. They should also research the directors of the company and evaluate their track records in delivering previous projects and reputation in the market. This helps assess the developer's management, leadership, workmanship, adherence to timelines, and credibility, preventing investment with fraudulent or inexperienced entities,

ii) **Conducting Due Diligence on the Projects**

a) Visit the site: It is essential for buyers to personally visit the site before making any investment. This ensures that the site exists not only on paper and provides an opportunity to monitor the progress of the development at any moment. Regular site visits allow buyers to stay updated and address any potential issues promptly, reducing the risk of being defrauded,
b) Confirm land ownership: Homebuyers should request copies of the land title from the developer as proof of ownership. They can also conduct a search on the title in the Ministry of Lands to verify its authenticity and ensure there are no undisclosed encumbrances on the property,
c) Obtain project plan approvals: Buyers should ascertain whether the developer has obtained all necessary approvals for the property and permits for construction of buildings. This ensures that there will be no delays in project delivery or cancellation of projects due to legal or regulatory issues,
d) Evaluate the project team: It is important to assess the competence and experience of the project team and companies contracted in the project, including architects, engineers, and contractors. This helps gauge their ability to deliver the project successfully,
e) Seek regular updates: Homebuyers should insist on receiving regular updates from the developer regarding the progress of the development. A lack of communication or transparency may indicate potential issues or fraudulent activities,
f) Conduct research on comparable properties in the surrounding area: this is to mainly assess the potential returns promised by the developer from the project being executed. This includes studying rental prices, property prices, yields, occupancy rates, and market uptake and keep updated on the market trends. Such information helps buyers evaluate the feasibility of the investment and identify potential investment risks or overvaluation,
g) Understand project timelines: Homebuyers should have a clear understanding of the project timelines and milestones. Holding the developer accountable to these timelines helps ensure timely completion of the project,
h) Check for Insurance and Guarantees: Inquire about the developer's insurance coverage and warranties. An established developer should provide appropriate insurance policies that cover risks such as construction defects and project delays. These safeguards provide additional assurance and protection for the buyer,

iii) **Conduct Due Diligence on Contracts**

a) Engage a conveyancing lawyer: It is crucial for buyers to hire a qualified conveyancing lawyer to review and assess all contracts involved in the transaction especially the Reserve Forms, Letter of Offers, Sale Agreements, and Handover Forms. This ensures that the contracts are legally sound, mitigating the risk of fraud or unnecessary exposure to risks,

iv) **Additional Considerations**

a) Be cautious of unrealistically low prices and Occupancy Rates**:** Buyers should exercise caution if a developer offers properties at significantly lower prices than the market average. Unrealistically low prices and unreasonable occupancy rates at a very short timeline may indicate a scam aimed at deceiving desperate buyers. In most instances, such tactics are used by marketers in the industry to draw more leads. Conducting thorough due diligence and consulting professionals can help identify such scams,

b) Paying attention on communication and transparency: Buyers should prioritize ensuring that the developer maintains regular and up-to-date open communication regarding the progress of the project. It is crucial for the developer to provide consistent updates and establish clear channels of communication, fostering trust, addressing any concerns in a timely manner, and facilitating a seamless and successful transaction.

On the other hand, developers are also at the hook of being swindled of their investments and hence at full responsibility of compensating homebuyers who had invested in their projects. Therefore, developers and other stakeholders are also advised to engage may involve financial experts or legal experts in ascertaining such hidden risks involved in off-plan investments in the following instances:

i) **Feasibility analysis**: Prior to commencing an off-plan development project, developers may engage financial experts to conduct a comprehensive feasibility analysis. This analysis involves assessing the financial viability of the project, considering factors such as construction costs, projected sales prices, market demand, and keeping updated on the market trends and potential risks. Financial experts can provide valuable insights into the potential risks and returns associated with the project,

ii) **Risk assessment:** Developers may seek the expertise of financial or legal professionals to assess and mitigate the risks involved in off-plan investments. These experts can help identify potential legal, financial, and market risks that could impact the success of the project. They can also offer strategies to mitigate these risks, such as structuring contracts and agreements to protect the developer's interests,

iii) **Contract review and negotiation:** When entering into contracts with buyers or other stakeholders such as contractors, developers often involve legal experts to review and negotiate the terms and conditions. Legal experts ensure that the contracts are legally sound, protect the developer's rights, and minimize potential risks and liabilities,

iv) **Compliance with regulatory requirements:** Off-plan investments are subject to various common regulatory frameworks and compliance obligations in the construction industry. Developers may engage legal experts to ensure compliance with zoning regulations, building codes, environmental laws, and other legal requirements. Financial experts may also assist in navigating financial regulations and tax obligations associated with the investment,

v) **Investor relations:** In cases where developers seek external funding or partnerships for their off-plan projects, financial experts can provide guidance on structuring investment deals, conducting due diligence on potential foreign and local investors, and evaluating the financial implications of different funding options. Legal experts can assist in drafting investor agreements and ensuring compliance with securities laws and regulations,

vi) **Dispute resolution:** In the event of disputes or legal challenges arising during the off-plan investment process, developers may engage legal experts to represent their interests and navigate the dispute resolution process. This includes negotiating settlements, resolving contractual disputes, or representing the developer in litigation if necessary,

vii) **Diversify on various financial options and investment portfolios:** Developers should carefully consider diversifying their investment portfolio as a risk mitigation strategy. Instead of solely focusing on a single development, they should explore opportunities to invest in multiple projects or properties across different locations. By diversifying their portfolio, developers can reduce their exposure to the risks associated with a single project and spread their investments across various avenues. This approach helps safeguard against potential losses and uncertainties that may arise in any particular development. Additionally, developers should also employ a mix of financing options to mitigate financial risks. By utilizing a blend of debt and equity financing, developers can distribute the financial risk associated with a project. Relying solely on one source of financing can be risky, as it exposes developers to the specific terms and conditions of that financing arrangement. By diversifying their sources of funding, developers can have more flexibility and resilience in managing financial risks.

viii) **Maintain contingency fund:** through the help of financial experts, developers are advised to establish and maintain a contingency fund specifically allocated for unexpected costs and potential delays during the construction phase. This fund serves as a financial buffer to address unforeseen circumstances that may arise throughout the project. Having a contingency fund in place ensures that developers can handle unexpected challenges without significant disruptions to the construction timeline or compromising the project's quality. It is essential to proactively plan for contingencies and allocate sufficient resources to the fund to mitigate potential risks and maintain project progress.

Section Three: Benefits and Limitations of Off Plan Investments

Off plan investments avail significant benefits to both buyers and developers when the projects are well executed. Some of the advantages of off plan investments include;

i) **Demand Validation from Market Insights:** Off plan sales provide developers with valuable market insights for assessing the demand for their projects. By analyzing buyer preferences, sales patterns, and market trends during the off plan phase, developers can make informed decisions regarding design, amenities, and pricing for future projects. This market intelligence helps developers align their offerings with the needs and preferences of their target audience,

ii) **Financial Stability through Pre-Sales:** Off plan investments provide developers with a substantial source of capital early in the project's lifecycle. By securing pre-sales of units, developers can finance construction costs, acquire necessary permits, and initiate the development process with reduced financial risks. This financial stability enhances the developer's ability to complete the project successfully,

iii) **Higher Profit Margins with Capital Appreciation:** Off-plan developers often have the advantage of pricing their units at a premium compared to the final market value. As the development progresses, market conditions and the capital appreciation of the property allow developers to command higher prices for the remaining units. This pricing strategy can result in higher profit margins and overall project profitability,

iv) **Enhanced Reputation and Brand Building:** Successful execution of off plan projects contributes to the developer's reputation and brand image. Delivering high-quality developments on time and meeting buyers' expectations establishes trust and credibility in the market. This in turn attracts more buyers and investors for future projects, fostering long-term growth and success,

v) **Customization and Personalization:** Off plan investments allow buyers to customize their properties according to their preferences. Buyers may have the flexibility to select specific finishes, fixtures, and layouts, creating a personalized living space tailored to their needs. Developers can benefit from this customization feature by offering various upgrade options to buyers, thereby increasing the value of the units and attracting more potential buyers,

vi) **Favorable Payment Terms:** Off plan investments typically involve installment-based payment structures. Buyers usually pay a small deposit upfront, followed by staggered payments over the construction period. This payment flexibility allows buyers to manage their finances more effectively and potentially invest in properties that might have been otherwise unaffordable, and,

vii) **Early Entry at Lower Prices:** Buyers who invest off plan often have the advantage of securing properties at lower prices compared to the market value upon completion. As the property market tends to appreciate over time, early entry can provide buyers with significant cost savings and potential capital gains. Developers benefit from this by attracting buyers during the early stages of a project, ensuring a steady stream of sales, and minimizing the risk of unsold units upon completion.

While off plan investments offer various advantages, there are potential pitfalls associated with this type of investment to both developers and buyers. Some of these limitations to off plan investing include;

i) **Potential Delays in Construction Timelines:** Unforeseen circumstances such as company governance issues, supply chain disruptions, or regulatory issues can cause construction timelines to be extended. This can impact both buyers and developers, as buyers will have to wait longer to take possession of their properties, and developers may face increased costs in order to complete the off plan project,

ii) **Poor Product Quality during Delivery:** Despite careful planning, there is a risk of changes in the final product when investing in off plan properties. Cost overruns due to unforeseen circumstances may force developers to downgrade the final quality of finishes, fixtures, or materials compared to what was initially marketed. This can result in discrepancies between the buyer's vision and the final product, leading to dissatisfaction or the need for costly modifications,

iii) **Capital Risk due to Market Fluctuations:** Off plan investments are subject to market fluctuations, which can impact the property's value upon completion. The anticipated capital appreciation may not materialize as expected, leading to lower returns on investment. Factors such as changes in economic conditions, oversupply in the market, or shifts in buyer preferences can influence property values and affect the buyer's financial gains,

iv) **Financing Challenges on Loan Approval:** Securing financing for off plan properties can be more challenging compared to purchasing a completed property. This is as lenders may have stricter criteria and requirements for financing off plan investments, including higher down payments or additional documentation. In addition, buyers may face difficulties in obtaining loan approval or may need to pay higher interest rates, potentially affecting their financial plans and affordability,

v) **Absence of Rental Income:** Until the property is completed, buyers cannot generate rental income from their investment. This lack of immediate cash flow can be a disadvantage for buyers who rely on rental income to offset their expenses or finance their investment. In addition, unforeseen delays in delivery of the project may lead to buyers defaulting on repayment of the initial financing taken to buy into the off plan project, causing penalties to the investors, and,

vi) **Brand Trust and Reputation Risk:** Developers undertaking off plan projects are entrusted with buyers' investments and expectations. Any failure to deliver on promises, such as construction delays, quality issues, or inadequate communication, can harm the developer's brand reputation and lead to decreased trust among buyers and potential investors. As such, the negative experiences shared by buyers can significantly impact the developer's future sales and success.

Section Four: Case Study of Off-Plan Development Frameworks in other countries

The popularity of off-plan financing in Real Estate development by developers has consistently grown in recent years, yet the sector remains largely unregulated. The absence of a well-established regulatory framework that is anchored in law has created an environment where rogue developers engage in fraudulent practices, with investors incurring major financial losses as projects they invested in ultimately fail to materialize. Consequently, many investors or buyers have become hesitant to purchase off-plan property due to uncertainties and concerns about the reliability of developers. Thus, it is imperative to establish a comprehensive framework that encompasses all aspects of the sector, in order to regulate the activities of key players and ensure improve investors’ confidence in the sector.

For our study, we look at case studies of off-plan development frameworks in other countries, with a focus on the Saudi Arabia and Dubai off-plan sales programs. We discuss key lessons and key take outs that we can derive from them as follows;

A. Saudi Arabia – Off Plan Regulations Resolution No. 536 of 6th September 2016

Sale and lease operations of off-plan property units in Saudi Arabia are regulated by the Off-Plan Regulations Resolution No. 536, which were implemented by the Council of Ministers in September 2016, along with a number of implementing regulations (‘Implementing Regulations’). These newly implemented Off-Plan Regulations superseded the Council of Ministers Resolution No. 73, as amended by the Council of Ministers Resolution No. 47, which previously covered off-plan sales only. The Implementing Regulations include;

i. Licensing regulations for developers,
ii. Escrow accounts regulations,
iii. Beneficiaries Rights and Developers Obligations Regulations, and,
iv. Principles of property project registration and marketing or advertising.

The objective of the regulations included; i) to establish a well-regulated and structured off-plan Real Estate market in Saudi Arabia by imposing specific requirements on stakeholders such as developers of Real Estate development projects, mandating them to obtain the necessary consents and approvals, ii) enhance confidence among end users, developers, and investors, iii) raise the level of transparency of quantities of supply and demand, and, iv) discourage property speculation. The regulations form the basis of the 'Wafi Program', or the Off-Plan Sales and Rent Program (OPSRP) which was launched by the Saudi government, with the purpose of authorizing and regulating off-plan development, as well as sales and rentals of off-plan property. The following are some the key take-outs from the Saudi OPSRP;

i) **Establishment of the Wafi Committee**: The off-plan regulations provide for the establishment of a committee in the Ministry of Municipal, Rural Affairs and Housing, which has the power to approve or reject an application to obtain a license in order to undertake in the following activities; i) off plan sale or lease of property units, ii) off-plan property development including residential, commercial, investment, offices service, industrial or tourism property, and, iii) the carrying out of the marketing of off-plan property, whether locally or internationally including participation in property exhibitions,

ii) **Operational Licensing Requirements for Developers**: All developers are required to obtain a qualification certificate from the Wafi Committee, prior to being registered on the Real Estate Developer Registry known as Etnam, which records the names of all registered developers in. In the event the Committee revokes a developer's license, the Real Estate Developer Register shall be amended accordingly with the removal of the details of the developer,

iii) **Non-compliance and Penalties**: The Committee has the power to revoke a license granted to a developer, should the developer fail to; i) commence construction of the project without an acceptable reason, ii) if the development has stalled or the developer does not have any intention of continuing with the project, iii) any provision of the Off-Plan Regulations is violated, or iv) if the developer has acted in a fraudulent manner,

iv) **Operation of Escrow Accounts:** The regulations generally expect buyers will make payments by means of instalments during construction. As such, law requires all payments by buyers along with any financing obtained, to be deposited into the project's designated escrow account. In addition, the funds can only be released from the escrow account to make progress payments to the principal contractor and other consultants involved in the project, such as those handling marketing and sales, subject to specific conditions being met and requires approval from the developer, consulting engineer, and a chartered accountant,

v) **Safe guarding Investors and Buyers Interest**: The regulations mandate the Committee to take all required steps to safeguard the rights of end users and ensure the completion of the project or the return of funds paid by end users to the developer or any financing obtained by the developer, if a developer is unable to complete a project or should a project be stalled or suspended for a period of more than 6 months,

vi) **Project Registration**: Law mandates all developers to register any of their off-plan property projects with the Ministry of Municipal, Rural Affairs and Housing, upon which, caveats and restrictions will be placed on the title deed of the land preventing any disposition or conveyance. In the event that the developer is not the owner of the land upon which the project will be constructed on, the regulations further require the Committee to be provided with the agreement concluded between the developer and the owner of the land, in accordance with provisions of Article 5 of the Licensing Regulations.

Moreover, a developer is required to submit but not limited to the following; i) a copy of the developer's commercial registration, ii) a certificate demonstrating the developer has sufficient financial capability and strength, iii) a copy of the title deed or its equivalent, iv) a copy of the contract with a sub developer if any, iv) confirmation of the opening of an escrow account, v) the approved architectural designs for the project, and, vi) a project feasibility report,

vii) **Regular Expert Project Supervision**: The off-plan regulations require that all off-plan projects are supervised by a consultation office, which has been accredited with the Organization of Saudi Engineers and has no less than 3 years' experience in construction and project management. The role of the consultation office includes submitting quarterly technical reports to the Committee on the progress of the project, and to provide a certificate which has been notarized by the Chamber of Commerce confirming the project has been completed, and,

viii) **Standards for Advertising and Marketing**: Regulations prohibit marketing, advertising and exhibitions of Real Estate projects, within or outside Saudi Arabia, without the approval of the Committee. Thus, a marketer is mandated to provide the Committee with several documents such as a copy of the title deed, and a copy of the contract between the marketer and the developer. In addition, a marketer is required to provide an additional financial guarantee of 1.0% of the value of the project up to a value of SAR 1.0 mn (USD 0.3 mn) for up to 3 months after the expiry of its license, where the project is located outside the country.

B. Dubai – Laws No. 8 of 2007 & No. 13 of 2008

Dubai's off plan Real Estate market is regulated by the Dubai Land Department (DLD), and the Real Estate Regulatory Agency (RERA). The main legislations governing off-plan Real Estate development frameworks include Law No.13 of 2008 'the Interim Real Property Register in the Emirate of Dubai' and its amendments, and Law No.8 of 2007 concerning Escrow Accounts for Real Property Development in the Emirate of Dubai.

The main objectives of the legislations included; i) to set the rules regulating off-plan sale agreements in a way that ensures that the rights of developers and purchasers are protected, and ii) to create a safe and transparent environment where real property projects are implemented in a timely fashion. The following are some of the key aspects of the off-plan regulatory framework in Dubai:

i) **Dubai Land Department (DLD):** The DLD is the primary regulatory authority responsible for overseeing and regulating the Real Estate sector in Dubai. DLD plays a crucial role in implementing and enforcing regulations related to off-plan projects. Furthermore, the DLD is also responsible for; i) documenting of property sales and purchases, ii) issuing Real Estate ownership, iii) organizing and promoting investments, and, iv) promoting education and cultural awareness regarding a skilled and competent domestic workforce in the Real Estate industry,

ii) **Real Estate Regulatory Agency (RERA):** RERA is a United Arab Emirates (UAE) government agency and regulatory body established in July 2007 under the DLD that focuses specifically on regulating the Real Estate market in Dubai. RERA is responsible for issuing permits and licenses to developers and Real Estate professionals, as well as monitoring compliance with regulations,

iii) **Management of Real Estate Developers Trust Accounts**: Off-plan regulations in Dubai require developers of off-plan projects to open escrow accounts with approved banks in Dubai. These accounts are managed by RERA and serve as a safeguard for investors' funds. The funds paid by buyers for off-plan properties are deposited into escrow accounts and are exclusively allocated for the purposes of construction of the particular Real Estate project and any other directly related activities. As such, funds from these accounts can only be withdrawn by the developer based on construction milestones or as specified in the sales and purchase agreement. Failure to comply leads to penalties including revoking of a developer's license to operate,

iv) **Project Registration and Licensing:** A developer or sub-developer may not commence the implementation of a project or sell its units off-plan unless he obtains the necessary approvals from the DLD. Consequently, a developer may not enter into any sale contract with a purchaser until it obtains relevant approvals from the DLD. Therefore, as a fundamental step, buyers are required to ensure that the developer is registered with the DLD and RERA, and has obtained all the required permits and approvals from both government agencies. In addition, a developer may only commence project implementation or sell of its units off plan if in possession of the land on which the project is to be constructed on,

v) **Refund of all payments in case of project cancellation**: RERA reserves the power to terminate or suspend a project on the basis of technical grounds, or in the event a developer does not fulfil required conditions such as; i) failing to commence construction work without a valid reason, ii) if the authority is satisfied that the developer has no genuine intention or 'good faith' to continue with the project, and, iii) failure by the developer to implement the project due to gross negligence.

In such instances, the law mandates that developers reimburse purchasers for all payments made, in accordance to Article 11(b) of the Dubai Amended Interim Real Property Registration Regulations of 2017. Failure to comply with this resolution empowers RERA to take any appropriate measures to safeguard the rights of purchasers, including but not limited to referring the matter to competent judicial authorities.

Section Five: Recommendations and Conclusion

As established in the preceding sections, there is a need for enacting legislation that specifically addresses off-plan Real Estate development and investing in Kenya, and encompasses comprehensive regulation of all aspects related to off-plan Real Estate. This can either be done through the enactment of an Act of Parliament that will establish a dedicated and independent Housing Committee responsible for overseeing the implementation of these off-plan regulations, similar to the system adopted in Saudi Arabia. Alternatively, the Real Estate Developers Regulatory Board (REDRB), the agency proposed to oversee the regulation of Real Estate developers in Kenya can oversee the implementation and enforcement of the off-plan regulations mirroring the existing approach in Dubai. Based on our analysis of the case studies, we propose the following recommendations for provisions that the government should incorporate during the formulation off-plan regulations in Kenya;

i. **Enactment of an Act of Parliament Specific to Off-Plan Real Estate**: The government should formulate an Act of law that specifically addresses all aspect of off-plan Real Estate development and investing in Kenya. The regulatory framework should be comprehensive enough to oversee development activities as well as the sale and lease of off-plan rental units. This regulatory framework will; i) serve to protect the rights of all parties particularly buyers against fraudulent practices by developers, ii) promote transparency and fairness in the sector, and, iii) enhance confidence among end users, developers, and investors,

ii. **Licensing Requirements for Developers**: Developers who wish to undertake in off-plan Real Estate activities in Saudi Arabia are required by law to obtain a separate licensing certificate from the Wafi Committee that is renewable on an annual basis. Correspondingly, off-plan regulations in Kenya should require all developers who wish to undertake in off-plan Real Estate development and sales activities to obtain an additional licensing permit along with the development permit obtained from the REDRB. The license should be renewable on annual basis, subject to fulfilment of preset conditions. This will assist promote consumer protection by ensuring that developers meet certain standards and qualifications before engaging in off-plan activities, and quality assurance. In addition, the registry should be made available to the public at no extra-cost. This would be fundamental in assisting buyers assess the credibility of an off-plan property developer and avert possible cases of financial losses and fraud,

iii. **Formulation of Penalties for Non-Compliance**: Both agencies responsible for overseeing the implementation and enforcement of off-plan regulations in Saudi Arabia and Dubai reserve the right to terminate or suspend an off-plan project on the basis of technical grounds, and failure by a developer to meet required conditions. As such, off-plan regulations in Kenya should convey power to the agreed upon oversight regulatory body to terminate or suspend an off-plan project on the basis of either technical grounds, or any other conditions set out in the Act. These could include; i) failure by a developer to commence construction of the project without an acceptable reason at the agreed upon time, ii) if a development has stalled for a period exceeding twelve months, iii) if the developer has acted in a fraudulent manner, iv) if the authority is satisfied that the developer has no genuine intention or 'good faith' to continue with the project, v) failure by the developer to implement the project due to gross negligence, vi) if any provision of the off-plan Regulations are violated, and vii) any time the authority having investigated deems fit to do so.

    Furthermore, additional measures such as fines and revoking of a developer's licensing certificate to engage in off-plan Real Estate activities in case of law breaches should be put in place. Subsequently, the revoking of a developer's licensing should be followed by an amendment in the Real Estate developer's registry with the removal of the details of the developer. These measures would ensure developers comply with the law, maintain high ethical standards in the industry, and fulfill their obligations in a timely and responsible manner, failure to which would result in legal action,

iv. **Establishment and Operation of Escrow Accounts**: Off-plan regulations in Kenya should compel developers to open escrow accounts with approved banks as is the case in both Saudi Arabia and Dubai. Escrow accounts safeguard buyers' funds in off-plan Real Estate projects by establishing a trust account where the funds are held. The funds are to be released to the developer in a controlled manner, typically linked to specific project milestones or completion stages, ensuring that buyers' money is protected and used exclusively for the intended project. This reduces the risk of misappropriation or misuse of funds by developers, providing buyers with financial security and minimizing the potential for fraud or project abandonment,

v. **Refund of Payments Made by Buyers**: Off-plan regulations in Saudi Arabia and Dubai ensure the reimbursement of payments made by purchasers to the developer or any financing obtained by the developer should a project be terminated or suspended. Similarly, off-plan regulations in Kenya should provide for the same in the event of either project suspension or termination. This would help minimize financial losses in cases where projects fail to materialize,

vi. **Expert Supervision of Off-Plan Real Estate Projects**: The off-plan regulations in Saudi Arabia require that all off-plan projects are supervised by a consultation office accredited with the Organization of Saudi Engineers. Correspondingly, off-plan regulation in Kenya should contain a provision for expert project supervision by a consultant engineer approved by the Engineers Board of Kenya. This would ensure quality and timely project delivery through regular technical and progress updates reports made by the consulting engineer to the oversight authority,

vii. **Safeguarding Investors and Buyers Rights:** Dubai off-plan Real Estate regulations allow for provisions which safeguard investors and buyers' rights such as restrictions and cautions placed on land upon which the project is to be constructed on. These measures limit the sale or any conveyancing of land before or during construction. Likewise, it is prudent that off-plan regulations in Kenya incorporate such measures to ensure buyers and investor's rights are protected in law,

viii. **Standards for Advertising and Marketing:** Off-plan regulations in both Dubai and Saudi Arabia contains strict regulations on the advertising and marketing standards of Real Estate properties. Real Estate marketing and salespeople and developers are required by law to include certain information in their advertisements, such as the license number of the dealer or developer, and any relevant disclosures. This provision helps to prevent deceptive advertising practices, and to enhance transparency and protect consumers by providing them with essential information about the developer's legitimacy and qualifications. More so, these requirements ensure that buyers have access to crucial details, enabling them to make informed decisions, and,

ix. **Stimulation of Capital Markets to Improve Access to Financing:** Insufficient funding poses a significant challenge for off-plan projects, frequently resulting in project delays or, in some cases, project suspension. Without adequate funds, developers may struggle to commence or complete construction on time, resulting in extended project timelines which can frustrate buyers, erode investor confidence, and lead to reputational damage for the developer. As such, the government should work towards the stimulation of capital markets in order to improve access to financing for developers. This can be achieved through the establishment and utilization of specialized Collective Investment Schemes (CIS) and Real Estate Investment Trusts (REITs) known as Development REITs (DREITs). Through CIS and DREITs, developers can tap into a broader range of potential investors as well as expand their investor base thus increasing the availability of capital for development projects, while reducing reliance on traditional financing channels such as bank loans.

Conclusion

Off-plan Real Estate development and investing in Kenya offers a promising opportunity for both investors and developers aiming to capitalize on the country's rapidly growing property market. Investors can leverage the potential for significant returns and the advantage of purchasing properties at lower prices during the construction phase. Simultaneously, developers stand to benefit from pre-sales, which provide upfront funding and in ensuring a ready market for their properties ahead of project completion. However, the sector stands to benefit from the establishment of a robust regulatory framework firmly enshrined in law. Such a framework would fuel the sector's growth, ensure regulation of the sector, foster transparency, bolster investor confidence, and pave the way for a thriving business landscape in off-plan Real Estate development and investing in Kenya.