

Real Estate Investment Trusts (REITs) Progress Update in Kenya – One Pager

Real Estate Investments Trusts (REITs) are collective investment vehicles that allow investors to contribute money's worth as consideration for the acquisition of rights or interests in a trust that is divided into units with the intention of earning profits or income from Real Estate as beneficiaries of the trust. Investors can purchase and sell shares of REITs on the stock market. Some of the benefits of investing in REITs include; i) diversification, ii) provide a stable and consistent income stream, iii) are a flexible asset class, iv) offer competitive long-term returns, v) liquidity, vi) transparency, and, vii) entail beneficial tax reliefs, among others.

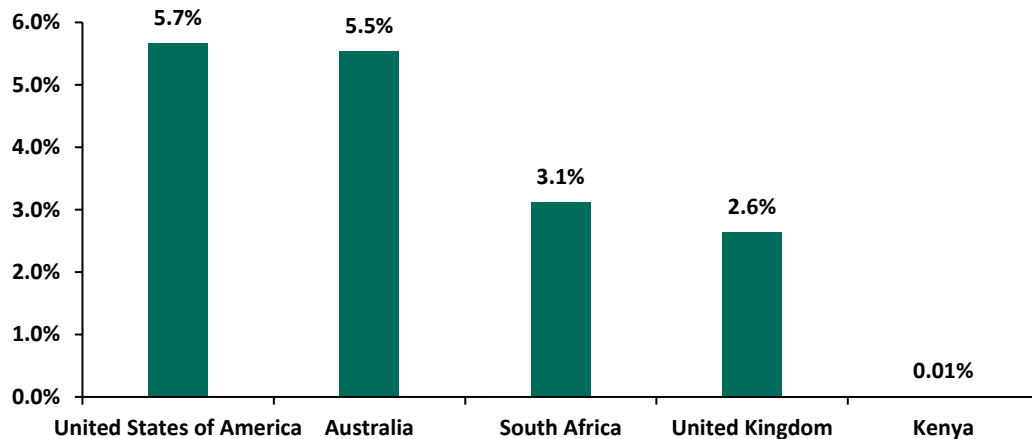
Subsequent to the putting in place of REIT regulations in 2013, four REITs were authorized in the Kenyan market, all structured as closed-ended funds with fixed numbers of shares. However, currently none of them are actively trading on the Main Investments Market Segment Nairobi Securities Exchange (NSE). With the recent delisting of ILAM Fahari I-REIT, LAPTrust Imara I-REIT remains as the only listed REIT in the country, having been quoted on the restricted market sub-segment of the Main Investment Market of the NSE. Acorn I-REIT and D-REIT are not listed but trade on the Unquoted Securities Platform (USP), an over-the-counter market segment of the NSE. The table below highlights all the REITs authorized by the Capital Markets Authority (CMA) in Kenya;

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

Source: Nairobi Securities Exchange

However, since 2013, the Kenyan REITs market continues to be subdued owing to various challenges such as the large capital requirements of Kshs 100.0 mn for trustees which limits the role solely to banks, prolonged approval process for REITs creation, high minimum investment amounts set at Kshs 5.0 mn which discourage investments, and lack of adequate knowledge of the financial asset class by investors. Notably, REITs market capitalization in Kenya remains significantly lower compared to other jurisdictions as shown below;

Cytonn Report: REIT Market Capitalization to GDP



Source: European Public Real Estate Association (EPRA), World Bank

The performance is mainly attributable to various challenges subduing the market, namely; i) inadequate investor knowledge, ii) high minimum capital requirement for a trustee, iii) high minimum asset size for investment companies, iv) subdued performance of select Real Estate sectors, v) opacity of exact returns for underlying assets, vi) shallow investment-grade asset pipeline, and, vi) lengthy licensing and approval processes among others.

We suggest the government considers the following recommendations to stimulate the REITs market;

- i. **Encourage Different Legal Entities to pursue REIT Formation:** In both Belgium and the United States, REIT formation allows for flexibility in the choice of legal entities, contributing to the diversity and dynamism of the REIT market. Belgium permits various legal structures, including public limited companies, limited liability companies and cooperative companies, offering options tailored to different investor preferences and business models. Similarly, in the US, REITs can be structured as corporations, trusts, or associations, providing versatility in organizational structures. Kenya should follow suit by encouraging different legal entities for REIT formation. By expanding the range of permissible structures beyond traditional trust-based models, such as permitting corporations or limited liability companies, Kenya can accommodate diverse investor needs and facilitate easier entry into the REIT market,
- ii. **Streamlined approval process:** To enhance the efficiency of Real Estate Investment Trusts (REITs) approval, consolidating the approval structure into a single agency, rather than the existing two (CMA and KRA), is recommended. Consolidating the approval process under one agency would eliminate the necessity of navigating through two distinct agencies for REITs approval. This consolidation would streamline the process, improving efficiency, reducing costs, and enhancing transparency and accountability,
- iii. **Abolish Minimum Investment Requirements:** Kenya should consider abolishing minimum capital requirements for Real Estate Investment Trusts (REITs), similar to the approach adopted in the United States. Removing this barrier would encourage greater participation in the REIT market by lowering entry barriers for investors and facilitating the establishment of REITs, thus fostering market growth and innovation,
- iv. **Reduce the minimum Capital for Trustees:** The minimum capital required of trustees of Kshs 100.0 mn is too high, effectively limiting the trustees to banks only. Currently there are 4 banks registered as REIT Trustees, being Kenya Commercial Bank (KCB), Co-operative Bank (Coop), Housing Finance Bank and NCBA Bank Kenya. We recommend the minimum should be brought down to Kshs 10.0 mn, to match the minimum needed for a Pension Fund Trustee. This would increase the number of Trustees that REIT Managers can pick from,

- v. **Fostering Institutional Grade Real Estate Development:** Presently, insufficient urban planning has led to a discernible void in the Real Estate sector for properties that offer more than mere residential accommodations and can generate attractive returns for investors. Addressing this gap involves promoting the development of institutional grade Real Estate assets, which would furnish robust underlying properties for REITs, thereby bolstering investor returns,
- vi. **Flexibility in Listing:** Belgium's requirement of ensuring 30.0% of shares held by the public offers a balance between public ownership and flexibility for REIT promoters. Kenya could adopt a similar approach to encourage broader investor participation while ensuring adequate liquidity in the market. Additionally, Kenya could emulate the United States in providing flexibility in listing options for REITs. Allowing REITs, the choice to go public or remain private offers greater flexibility to meet diverse investor preferences and business models. By accommodating both publicly listed and privately held REITs, Kenya can promote market inclusivity and cater to the needs of a wide range of investors, thereby enhancing the vibrancy and liquidity of the REIT market,
- vii. **Education and Awareness:** Conduct investor education and awareness campaigns to educate potential investors about the benefits and risks of investing in REITs. By enhancing investor knowledge and understanding, more investors may be encouraged to participate in the REIT market, contributing to its growth and development, and,
- viii. **Simplify the REIT formation process:** Currently, the bureaucratic procedures involved in forming a REIT can extend the timeline to between one to two years. The CMA should streamline this process to enhance efficiency and minimize the time required for formation.

Section VII: Conclusion

In conclusion, the progress of Real Estate Investment Trusts (REITs) in Kenya showcases both achievements and opportunities for further development. While the regulatory framework laid out under the Capital Markets (Real Estate Investment Trusts) Regulations, 2013 provides a foundation for REITs, there remain challenges to address and lessons to learn from global counterparts. Embracing these recommendations can propel Kenya's REITs market, fostering economic expansion and delivering appealing prospects for real estate investors.