Kenya Mortgage Refinance Company (KMRC) Review 2024, & Cytonn Weekly #15/2024

Real Estate

I. **Real Estate Investments Trusts (REITs)**

On the Unquoted Securities Platform, as per the last trading data recorded on 22nd March 2024, Acorn D-REIT and I-REIT traded at Kshs 24.4 and Kshs 21.7 per unit, respectively. The performance represented a 22.0% and 8.3% gain for the D-REIT and I-REIT, respectively, from the Kshs 20.0 inception price. The volumes traded for the D-REIT and I-REIT came in at 12.3 mn and 30.7 mn shares, respectively, with a turnover of Kshs 257.5 mn and Kshs 633.8 mn, respectively, since inception in February 2021.

REITs offer various advantages such as tax exemptions, diversified portfolios, and consistent long-term returns. However, the ongoing decline in the performance of Kenyan REITs and the restructuring of their business portfolios are hindering significant investments previously made. Additional challenges include; i) insufficient understanding of the investment instrument among investors, ii) extended approval processes for establishing REITs, iii) high minimum capital requirements of Kshs 100.0 mn for trustees, and iv) minimum investment thresholds set at Kshs 5.0 mn, which continue to constrain the performance of the Kenyan REITs market.

We anticipate the Real Estate sector in Kenya to continue being supported by: i) favorable demographics, marked by population growth and urbanization leading to heightened demand for housing and Real Estate assets ii) increased activities in the residential sector by government in projects such as the affordable housing project and, iii) ongoing infrastructure enhancements are creating new investment prospects in emerging areas. However, challenges such as escalating construction costs, limited investor familiarity with Real Estate Investment Trusts (REITs), and existing oversupply in certain market segments may persist. These hurdles have the potential to impede sectoral performance by restricting development and investment opportunities.