REITS ASSOCIATION OF KENYA (RAK)

NEWSLETTER

6TH EDITION JUNE 2021

REITS ASSOCIATION OF KENYA

Content

- Message from the RAK Chairman 01
- Highlight of Recent RAK Events 02
- RAK Lobby Success 04

Contributing Authors:

- Harnessing REIT Structure as a Catalyst for Affordable Housing – Ruth Okal, ILAM Fahari I-REIT 05
- Mortgage Refinancing as a tool for Affordable Housing Financing: The Promise of the Kenya Mortgage Refinancing Company (KMRC) – Triple OK Law Advocates 08
- Green Financing and Affordable Housing – Susan Makena, Sterling Capital; Oscar Mbabu and Lucy Mwaura, Triple OK Law Advocates 10

Updates from the RAK Secretariat

- Highlight of the new membership categories 14

Message from RAK Chairman

A warm welcome to the 6th edition of the RAK Newsletter.

Affordable Housing has been a key issue on the Kenyan Government's agenda since around 2017, when it included Affordable Housing as one of it's key pillars of growth in the Big 4 Agenda. Since then the industry has witnessed several players endeavor to contribute towards the ambitious target of 500,000 affordable housing units by 2022. This edition is dubbed the *'Affordable Housing Issue'* and features articles which delve deeper into aspects of affordable housing explaining various financing techniques, including the use of REITs and the development and supply of affordable housing.

On page two to three we highlight events held in the recent past, one of which was the 2nd RAK Annual General Meeting (AGM) in October 2020, during which news officials were elected and the Main Committee was expanded. In March 2021, the Association partnered with the Capital Markets Authority and Nairobi Securities Exchange to host the Regional REITs Webinar, during which affordable housing was also a resounding theme.

Lastly, as we look to strengthen affiliations with Government and Academic Institutions, we expanded our membership categories – we have explained the 2 newly curated categories towards the end of the Newsletter. We welcome interested organizations and institutions to join the RAK, as we continue to work to add value to the REITs industry in Kenya.

Thank you for the continuing co-operation

Enjoy the read

Kenneth Masika
RAK Chairman

Highlight of Past RAK Events

i. REIT Investor Education Webinars July and August 2020

Theme: "Introduction to Underwriting and Valuation of Real Estate Assets"

ii. Webinar Series: "The Global Effect of Covid-19 on Real Estate"

, October and November 2020

Part 1: Residential Property Perspective

Part 2: Commercial Property Perspective

2nd Annual General Meeting (AGM)

The 2nd RAK Annual General Meeting was held virtually on Thursday 22nd October 2020 from 2:30PM. The General Meeting elected new officials: Kenneth Masika as the Chairman, Geoffrey Odundo as the Vice Chairman, Hilda Njoroge as the Secretary and Irungu Waggema as the Treasurer. The Immediate Past Chairperson committed to serving on the Officials Board as an Ex-Officio member. Likewise, the Main Committee of the Association was expanded to 12 members.

Regional REITS Webinar

MARCH 2021

nairobi securities exchange Discover Opportunity

REITS ASSOCIATION OF KENYA

CAPITAL MARKETS AUTHORITY Promoting Capital Markets Integrity

The Capital Markets Authority (CMA) in partnership with the Nairobi Securities Exchange (NSE) and the REITs Association of Kenya (RAK) hosted the Regional Capital Markets REITs Virtual Conference on Friday, 19th March 2021 from 8:00 a.m. to 1:00 p.m.

The conference was an opportunity to engage in consultations to enhance the uptake of REITs, given that increased activity within the sector could significantly contribute to uptake in the housing and construction sector, thus enhancing national economic growth, employment creation and local capital market development. The forum presented the operational structures and requirements for Income and Development REITs, current regulatory landscape, key lessons learnt by REIT issuers, understand the challenges facing the market and obtain targeted feedback to increase REIT market uptake.

The Key Note Speaker was Mr. Charles Hinga Mwaura, CBS, CA (SA), The Principal Secretary State Department for Housing and Urban Development, Ministry of Housing, and presenters and panelists included officials from local REITs, regulators, property developers, asset managers, industry associations and seasoned industry experts. The forum brought together over 350 participants from a wide array of industries.

Some of the challenges noted as affecting the development of the Real Estate Sector both in Kenya and across various African countries include; restrictive taxation policies, lack of access to capital at competitive rates; harsh macro-economic conditions that impact the functionality of Africa's housing markets, challenges in attracting direct domestic and international investments in the housing sector and limited network infrastructure servicing residential land. Due to these challenges, the funding of the housing sector's projects in most African countries comes from Government rather than from international capital markets and domestic institutional investment markets, as is the case in developed economies.

Specific to the uptake of REITs, some of the key challenges highlighted include: inadequate investor knowledge, need for broader pool of Trustees, high minimum investment amount in REITs and rigid regulatory requirements.

Evidently, REITs can address some of the Real Estate sector challenges by:

a) Enabling developers to access capital that can facilitate growth at competitive rates, thus facilitating them channel resources to real estate investments.

b) REITs' tax efficiency can help aggregate diverse funding sources and channel them into real estate.

c) Enhancing liquidity by enabling investors have easier entry and exit points in real estate investments positioning REITs as an attractive investment choice.

d) Providing Higher Yields thus being preferred by investors because of their ability to offer investors higher yields and risk adjusted returns compared to other asset classes.

e) Portfolio diversification as they provide investors an opportunity to build well diversified portfolios that can withstand market related shocks with minimal capital attrition. The value of underlying real estate investments which maintain value even in challenging environments.

> **"REITs can address some of the challenges of the Real Estate Sector"**

Ps. Charles Mwaura, CBS, CA (SA) provided insights into the potential for funding the Affordable Housing Program through the capital markets. It was recommended that NSE, RAK and CMA find ways to sensitize developers and other participants on how they could use these instruments to invest in and increase the availability of affordable housing units in the country. Further, strategic alliances and partnerships with the State Department of Housing and Urban Development were recommended to structure some suitable projects for D-REITs and I-REITs so that their benefits could be manifested in the market. The need to harness capital markets to set up housing units at scale was emphasized in the ambition to provide affordable housing, as anchored in the Kenya Constitution by Article 43 (1) (b) which ascribes to the right of citizens to have accessible and adequate housing as well reasonable standards of sanitation.

The Action Roadmap from the Regional Capital Markets Conference includes engaging with State Department State Department for Housing and Urban Development; Addressing policy and tax related issues; Pursuing additional REITs listings & Introductions including Islamic REITs and Hospitality REITs; Facilitating regulatory reviews and alignment; Strategic partnerships and collaboration with key stakeholders; and Increasing education and awareness.

To address these issues and as a way forward, it was resolved in the REITs conference that CMA, RAK and NSE form three work streams namely;

i) Publications, Awareness and Investor Relations,
ii) StrategicPartnerships and Alliances, and
iii) Policy and Tax issues.

RAK successfully lobbies for re-instatement of exemption of VAT on transfer of properties into REITS

June 2021

The REITs Association of Kenya (RAK) has successfully lobbied for the re-instatement of exemption of Value Added Tax (VAT) on transfer of Assets into REITs, as noted during the 2021/22 Budget statement reading. The Cabinet Secretary, National Treasury noted that REITs can be used as a financing alternative for affordable housing, including specialized facilities like student hostels. The CS proposed to exempt from VAT asset transfer into the Real Estate Investment Trusts (REITs) and Asset Backed Securities (ABS). He noted that this will deepen our Capital Markets by encouraging investors to participate in REITs.

This re-instatement comes after the deletion of this tax benefit in March of 2020 when the Government of Kenya put in place measures to cushion the country's economy from the effects of the pandemic.

This is a great milestone and move in the right direction for REITs sector. REIT issuers will now be able to enjoy VAT free transactions when moving properties into REITs. Following publication of the Finance Act 2021, we anticipate continued growth and sparked interest within the REITs sector.

Many thanks to RAK Main Committee and Tax Working Group, Nairobi Securities Exchange (NSE), Capital Markets Authority (CMA), Kenya Property Developers Authority (KPDA) and Kenya Private Sector Alliance (KEPSA) for combined and consistent efforts towards pushing for achievement of this milestone.

Harnessing REIT structure as a catalyst for affordable housing initiative.

Authored By: Ruth Okal, Asset Manager –FAHARI I-REIT/ Chair of the Policy, Research and Publications Committee of RAK

Background

According Knight Frank Africa Report 2020/2021, Africa's housing crisis is mounting in the face of a growing population and urbanization both which are expected to persist in the coming years. The report further indicates that residential housing currently consists of only 2.5% of listed property holding in the continent as compared with an average of 25% in developing countries and 15% in developed countries.

Further, Shelter Afrique estimates that Africa needs US Dollars 1.4 trillion in funding to address its 56 million housing units deficit. By all standards, these challenges also presents a huge opportunity to invest in housing across Africa.

Africa Housing Finance Year Book 2020 indicates that Kenya is estimated to have approximately 52.6 Million people in 2020 with approximately 27.5% being urban. Kenya also experiences high population growth estimated at 2.27% per annum compared to global average of 1.2%. The country's urbanization rate of 4.02% is just below the sub Saharan estimate of 4.1%. This has resulted on incremental pressure on amenities and services especially in urban areas with a spiral effect on cost of housing and land. As a result, it is estimated that 61% of Kenyans are living in slums often characterized by overcrowding, poor sanitation and poor structural quality. In response, Kenya like many other African countries has continued to promote new urban developments through creation of satellite cities to offset pressure on existing urban centres.

Housing Supply

In Kenya, it is estimated that housing production stands at 50,000 units with an annual demand of 200,000 leading to a cumulative deficit of nearly 2 million units. Supply in the lower segment has even remained lower despite rising need. Despite the government having made strides to fill the gap by increasing the housing budget by 61.5% to Kes 10.5 Billion in Financial Year 2019/2020 up from Kes 6.5 Billion in Financial Year 2018/2019 (Africa Housing yearbook, 2019), for the financial year 2020/21, the housing sector recorded a decline in budget allocation, attributed to constrained fiscal space by the government as it grapples with economic effects of the COVID—19 pandemic, which means reduced development of affordable housing. Further to earlier efforts aimed at decongesting the cities, the government affordable housing initiative launched in 2017 under the Big Four Agenda continues to gain momentum albeit at a snail pace. Centre for Affordable Housing yearbook, 2020 reports that approximately 228 units delivered, suggesting that the programme will fall short of its 2022 target.

The main structures adopted to deliver housing projects are Government partnerships including Public-Private Partnerships, Private - Private partnerships and state funded projects. Conspicuously missing is the role of REITs despite Kenya adopting REIT structures in 2013 among them I-REITS and D-REITs. REIT structures are globally recognized and are very vital in catalyzing supply and demand for affordable housing as will be discussed below.

increasing the housing budget by

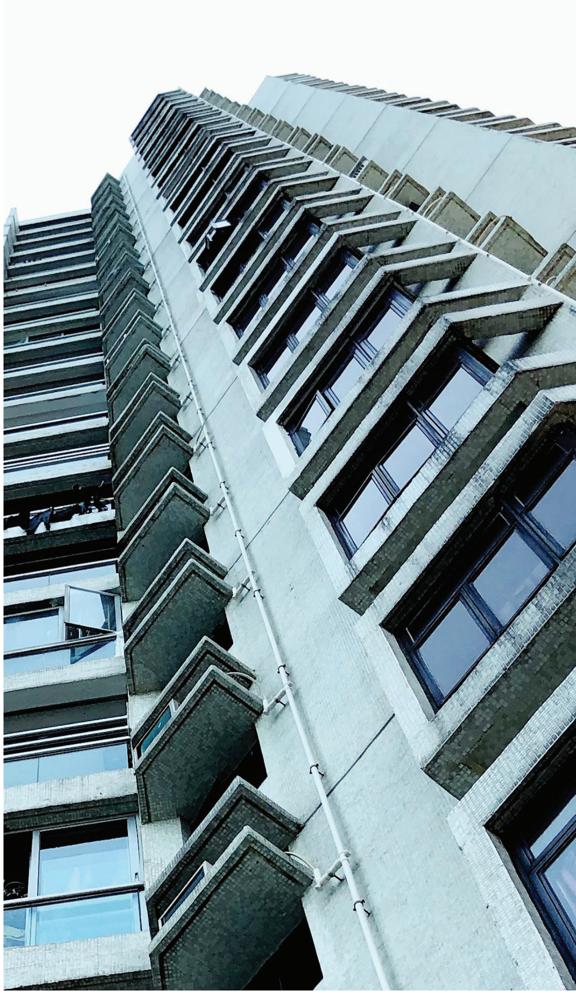
61.5%

to Kes 10.5 Billion

Role of REITS

The success of affordable housing includes a fusion of supply, demand and enablers. Despite several policy initiatives undertaken by the government including formation of Kenya Mortgage Refinancing Company to enhance long term mortgage affordability and capital market access to primary mortgage lenders, National Housing Development Fund to bridge the gap for affordable housing by de-risking private developers through guaranteed offtake and provision of affordable financing solutions to end buyers, the supply function is still far from making significant strides. One may then ask: What could be the challenges? How can they be further mitigated?

The government has gone further to review the PPP structure with a view to fast track it and included other options such as land swaps and joint ventures. However, challenges remain in areas of uncertainty of revenue sharing and private developers' reluctance to commit to projects of more than five years as a result of uncertainty associated with the cyclical nature of our presidential elections. I opine that a REIT structure (especially development REIT) though still nascent in the region, is well placed to address these challenges due to its long-term focus as well as significant disclosures and mandatory transparency requirements that are anchored in law.



Opportunities for REITS in catalyzing demand within Affordable Housing Sector

Though REITs markets in sub-Saharan Africa are still at a nascent stage, the recent adoption of REITs legislation in Kenya, Ghana and Uganda for example is, however, set to contribute to continued real estate market formalization and deepening in Africa. In Ghana for example, through the National Housing and Mortgage Fund, Ghana (NHMF) partnering with GCB Securities, an Affordable Housing Real Estate Investment Trust (REIT) was set up to provide rental homes for public sector workers. The scheme is based on a rent-to-own model where public sector workers can access decent and affordable homes for between 15 to 20 years and pay a residual value to own the property at lower interest rates (11.9 to 12.5 percent) compared with the nominal minimum rate of 24 percent for non-foreign currency or cedi-denominated mortgages (CAHF, 2020).

To catalyze demand, A REIT would participate as an off-taker to free capital for the developer as well as receive a steady annuity for its' investors by acquiring projects under two scenarios i.e. direct sale or sale and leaseback. The trade-off between the two options is one of market risk vs. reinvestment risk both of which could be manageable depending the specific REIT's investment objectives. Some of the salient commercial features of such off-take agreement would be:

- Purchase of recently completed developments or Greenfield with potential development plans valued at market value.
- Direct sale or a sale and leaseback between developer and a REIT with a requirement to guarantee specific target yield backed by a bank/insurance company guarantee.

In a sale and Leaseback:

- The tenure would be more than 5 years and at a pre-agreed target Internal Rate of Return (IRR) between the REIT and the developer to achieve long term predictable and growing returns;
- Developer would then pursue a rental strategy for the units as well as a steady sales program that would result in the pre-agreed exit return over the tenure;

- Developer would not be pressed to sell the units hurriedly and could achieve higher sales prices over time versus attempting to offload full development in the market at once (concentration risk);

- Through the ongoing rental and sales hybrid strategy during investment period, the developer would pay both the agreed running yield (may need to dig into their pocket to top up in cases of deficit) and sales proceeds to the REIT, and the carrying value of the development on the REIT's balance sheet would steadily reduce and be replaced by cash;

  As a result of the guaranteed pre-agreed exit IRR (via the ongoing sales) the REIT essentially has no exit market risk which it would have if it bought the units outright and then sold them eventually in the market at target exit date. The Developer shoulders the full market risk through the pre-determined exit IRR

.

Transaction Type	Pros	Cons
Direct Purchase	No reinvestment risk as the asset is not being sold down during the holding period.	Concentrated market risk on exit should the REIT decide to sell the asset.
Sale & Leaseback	Steady de-risking of investment returns through sales programme. No concentration risk at lease expiry.	Reinvestment risk from cash sales (if re-investment returns is lower than target returns)

Conclusion

REITS though still a nascent sector is well placed to complement successful delivery of affordable housing by catalyzing supply and demand thereof. However, in-depth stakeholder engagements are required especially in areas of structuring, funding, performance measurem ents and operations to be able to align the REIT structure with the affordable housing Initiative.

References: Centre for Affordable Housing in Africa – 2020 Yearbook, Knight Frank Africa report 2020/2021 and Boma Yangu Website.

Mortgage Refinancing as a Tool for Affordable Housing Financing The Promise of the Kenya Mortgage Refinancing Company (KMRC)

By TRIPLEOKLAW ADVOCATES

A 2014 report by the National Treasury/Central Bank of Kenya (CBK) Committee cited availability of land for affordable housing projects, high construction costs, preference for larger housing units and limited availability of financing for developers as major blockages in the housing supply and transaction process. Costly land registration processes for multi-unit developments resulting in mortgaged purchases being priced at as much as 10% or more to cover developer's carrying costs, was also identified as an inhibiting factor.

Kenya, like Nigeria, Malaysia, Tanzania and Egypt's primary mortgage markets is also faced with the predicament of developing against the hindrances of high interest rates on mortgages, lack of standardization in the activities surrounding origination, underwriting and servicing of loans and the lack of substantial mortgage portfolios by financial institutions. However, these governments' response has been unilateral through the establishment of a Mortgage Liquidity Facility (MLF), a financial institution designed to support long-term lending activities by Primary Mortgage Lenders (PMLs). MLFs act as an intermediary between PMLs and the bond market with the objective of providing long term funds at better rates, terms, and conditions than PMLs can obtain if acting independently. They also provide temporary liquidity support to lenders through collateralized short-term operations i.e., repurchase agreements which is highly advantageous.

The Central Bank of Kenya (Mortgage Refinance Companies) Regulations 2019, regulates mortgage refinance companies plying their trade in the Republic of Kenya. In Kenya, the sole institution licensed to carry out MLF activities under the Regulations is the Kenya Mortgage Refinance Company (KMRC), a limited liability company incorporated under the Companies Act. Its shareholders include the National Treasury of Kenya, 20 primary mortgage lenders (PMLs) 8 commercial banks, 1 microfinance bank, 11 SACCOs and 2 development finance institutions (Shelter Afrique and the International Finance Corporation).

As a newly created, private, non-bank financial institution restricted to providing long-term funding and capital market access to mortgage lenders and issuing bonds to investors, it will increase the availability and affordability of mortgage loans to Kenyans. It will neither take deposits nor lend directly to individual borrowers and is subject to regulation and supervision of the CBK.

Notable MLFs throughout the globe and their impact within their given economies:

The study of the nature and impact of numerous MLFs deployed within their own respective primary mortgage markets and with similar mandates to the KMRC can act as a barometer to the expected outcomes which will be brought forth by its establishment. Some notable MLFs include those formed in Jordan, France, Egypt and Malaysia. Below, we expound on the Jordan and France MLFs.

The Jordan Mortgage Refinancing Company (JMRC)

Established in 1966 with the help of a World Bank loan, JMRC was set up at a time when the state housing bank had withdrawn from mortgage lending to focus exclusively on commercial banking. JMRC comprises of 16 shareholders from both the public and the private sector.

Shortly thereafter the number of lenders active in mortgage lending increased from two to ten and the stock of mortgage loans increased from JD 100 million (1997) to JD 336 million (USD 470 million) (2001). Conversely, down payments required from borrowers declined while loan maturities more than doubled and are now generally between 12 and 15 years, highest being 20 years. JMRC's impact has been substantial with a total refinanced loan amount of JD 1.467 billion (USD 2.07 billion) in 2018.

Caisse de Refinancement de l'Habitat (France)

The CRH was created in 1985 following legislation aimed at facilitating the refinancing of loans through the issuance of bonds. Currently owned by 18 institutions making use of the facility, it is operated with a small number of staff operating its business model without charging a margin to its borrowers. Its refinanced portfolio amounts to $25bn (2005) equivalent to 4% of the then French mortgage market and its profits stem from the return it makes on its capital which is then paid out as dividends to its members.

CRH's business model is minimization of financial risks achieved through matching assets and liabilities on a marked to market basis, elimination of prepayment risk by doing so at market value, facilitation of repossession through legislation allowing security interest in the underlying housing loan, minimization of over-collateralization to 25% and commitment of members to providing CRH with liquidity if required.

CRH exemplifies how operational efficiency of an MLF can create significant tangible value for the given mortgage market at a low total cost leading to consistent service delivery.

How will the KMRC operate?

The KMRC will engage in refinancing or purchasing of eligible mortgage loans; investment in debt securities issued by the Government of Kenya or any guaranteed debt; extending finance to primary mortgage lenders for financing of eligible mortgages; issuing bonds, notes and other financial instruments for purposes of meeting its objectives; and other activities as may be prescribed by the Bank from time to time. A primary objective of any MLF is minimization of any possible risks in order to achieve the lowest spread to Government bonds as possible. Being seen as a secure low risk institution is therefore crucial in gaining a good rating for the bonds which they issue.

Conclusion

KMRC can create greater competition in the mortgage market as new institutions can enter the market regardless of the restrictions placed on their operational capabilities, such as their investment in a branch network, their credit rating and their deposit collection capabilities. Inclusion of the SACCO sector, which has shown resilience and a unique blend of performance and sturdiness, could be part of the solution to originating mortgage loans to low- and informal-income earners in the near future.

By acting as central refinancing platforms, MLFs are able to be utilized as a force for standardization in the market, pushing PMLs to adhere to best practice, a need identified by the Cabinet Secretary for National Treasury. MLFs also allow for greater transparency and create better market information systems which results in better risk management, better market and consumer regulations, and a drop of risks associated with mortgage lending a welcomed outcome in Kenya's growing primary mortgage market.

Green Financing For Affordable Housing

Authored by: Susan Makenna – Sterling Capital
Lucy Mwaura, Grace Kala, Oscar Mbabu – Triple OK Law Advocates

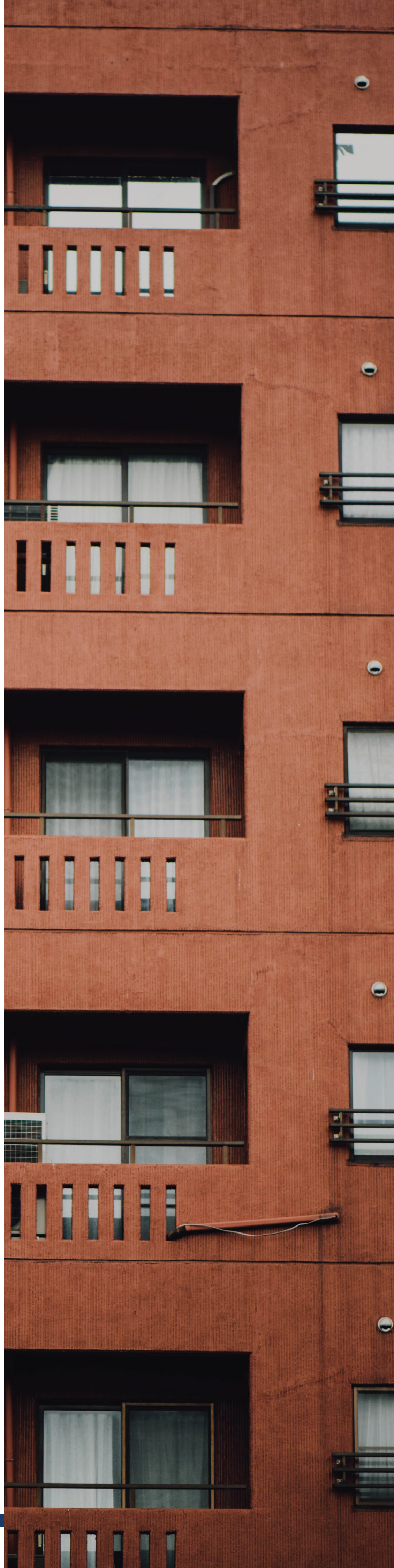
Housing affordability continues to be a key challenge in Kenya given the current high cost of funding and unavailability of financing amid rising property prices resulting in one third of public sector and urban wage earners living in inadequate housing.

The Government of Kenya's (GOK) affordable housing programme, christened 'Boma Yangu,' which is one of the governments Big Four Agenda, aims at facilitating affordable and decent housing for Kenyans in all 47 counties in the low and middle-income brackets who are unable to own decent homes due to the prohibitive land and construction costs and stringent financing requirements. It aims at delivering 1 million homes with 800,000 units (bedsitters, 1, 2 and 3 bedrooms) costing between KES.0.8Million (US$7,788) and KES.3.0Million (US$29,204) while 200,000 will be social housing units costing between KES.0.6Million and KES.1.0Million.

These affordable housing units are available to lowest paid workers earning less than KES.14,999 per month (about 2.62% of Kenya's formally employed work-force) who will qualify for social housing with homes selling for about KES.500,000. Those earning between KES.15,000 and KES.49,999 per month (72% of workforce) will be offered homes under the tenant purchase scheme while individuals grossing between KES.50,000 and KES.99,000 (23% of the formal workforce, according to the Kenya National Bureau of Statistics) will be offered mortgages at 7% per annum with a repayment period of 15 years.

According to the World Bank's economic update 'Housing Unavailable and Unaffordable', Kenya's housing deficit stood at 2 million in 2017 with 61% of urban households living in slums. Annual housing production remains at partly 50,000 units, way below the targeted provision of 250,000 units.

The panacea to Kenya's affordable housing conundrum may be found in the implementation of green finance within project finance structures in various housing projects within the Republic of Kenya. This article will focus on the opportunity offered by green bonds in Kenya through a substantive analysis of the first Kenyan green bond, implemented by Acorn Holdings Limited to create student housing for Kenya's growing youth population.



How does green financing work and what does it involve?

Green financing is any financial instrument or investment including equity, debt, grant, purchase and sale or a risk management tool (investment guarantee, insurance product or commodity, credit or interest rate derivative) issued to a firm, facility, person, project or agency, public or private, in exchange for the delivery of positive environmental externalities that are real, verified and additional to business. Green financing increases levels of financial flows (from banking, micro-credit, insurance and investment) from the public, private and not-for-profit sectors to sustainable development priorities thereby promoting public-private partnerships for sustainable development.

What is a Green Bond?

The World Bank, which has been issuing bonds since 1947, issued the first green bond in 2007 creating a new way to connect financing from investors to climate projects after a group of Swedish pension funds wanted to invest in projects that help the climate. Bonds are essentially an agreement where issuers borrow funds from investors and must repay investors at an agreed rate after a specified amount of time. The concept of a bond that is dedicated to a specific kind of project is the history-making quality that fundamentally changed the way investors, development experts, policymakers, and scientists work together. A green bond therefore is a type of fixed-income instrument that is specifically earmarked to raise money for climate and environmental projects.

Similar in structure and characteristic of standard bonds in terms of seniority, rating, execution process and pricing, the novelty of green bonds is the capital is used in projects like clean energy, energy efficiency, low carbon transport, smart grid, agriculture and forestry and similar projects. They are typically asset-linked and backed by the issuing entity's balance sheet, so they usually carry the same credit rating as their issuers' other debt obligations.

Types of Green Bonds

Green bonds are of three types; corporate green bonds issued by financial and non-financial corporations e.g., the Vodafone green bond; sovereign green bonds issued by national governments and can either be denominated in the specific country's local currency or in foreign currency; and sub-National green bonds issued by cities, counties or government agencies.

Benefits of Green Bonds

Green bonds offer various benefits for both investors and issuers as a means of encouraging climate sustainable growth. On top of providing investors with tax-exempt income, green bonds offer a means of accessing sustainable investments in the fixed income market in a familiar low risk vehicle for investors. Advantageous reputational benefits accrue for issuers due to the requirement of enhanced transparency and disclosure associated with green bond issuance appeals to investors. The bonds provide an ideal opportunity to develop Public Private Partnerships to accelerate the advancement of new technologies and energy efficiency, enable projects at a lower cost of capital, and ensure alignment with current or future climate policies in line with the Paris Agreement.

Funding of Affordable housing in Kenya using Green Financing

Green financing offers cheaper options to fund projects whose bottom line directly impact the environment. Residents of low-income communities are more likely to live, attend school and work in older, less energy-efficient buildings resulting in higher utility costs and negative health and environmental outcomes a problem green financing can resolve. By reducing utility costs i.e., the implementation of solar hot water systems and energy efficient lighting and enhancing people's surroundings, green finance affordable housing improves the environment and produce positive health benefits for residents.

The financing is new in Kenya and we believe the market is ready for it based on the country's first green bond issue subscription rate. It will enable Kenya meet its affordable housing agenda with more housing developers shifting to this sustainable finance. For instance, in February 2013 Housing Finance Company (HFC) secured a KES.1.7 Billion (US$20 Million) Green Building finance from the International Finance Corporation (IFC). KES.350 Million (US$.4 Million) of this was funded through the Canada Climate Change Program to finance energy efficient projects particularly homes construction that leads to at least a 20% reduction on water and energy consumed daily. Pan African housing development financier Shelter Afrique is also betting on green financing to fund its affordable housing projects across Africa.

Case Study: The Acorn Holdings Limited (AHL) Green Bond

On 13th January 2020, AHL listed its green bond in the Nairobi Stock Exchange making it the first green bond in East and Central Africa. Days later it was listed in the London Stock Exchange (LSE) making it the first Kenya shilling denominated corporate green bond to be listed in the United Kingdom effectively enabling investors from the LSE to invest in Kenya thus widening the country's investor pool.

Structure of the Bond

The bond offers bond-holders collateral, unlike previous bonds issued in the Kenyan market, thus reducing the risk of loss of capital. It is further backed by a 50% guarantee from Guarantee Company Limited, a Mauritius based private infrastructure Development Company thus protecting the investors of the bond.

Projects of the AHL Green Bond

AHL intends to use the bond's funds on the following projects:

1. Qwetu 3 and 4 United States International University (USIU-A)
2. Qwetu Hurlingham Phase 1
3. Qwetu Chiromo Phase 1
4. Qwetu Sirona Phase 1

The projects will provide accommodation for university students that are in proximity to a specific project. Average rent out is 100 Sterling Pounds (Kshs. 13, 167) per month however, the Qejani hostels which are a lower variety, will go for 60 Sterling Pounds (Kshs. 7,909). This is affordable considering the services they offer i.e., internet connectivity, study areas, security, transport and a social community for the students in addition to offering a solution to security and clean accommodation concerns.

Noteworthy is the uptake with AHL having already rolled out three purpose-built student accommodation properties with more than 1,500 beds in reference to the Jogoo Road and Ruaraka campuses. The third property in Parklands opened in March 2019 and the fourth property in Wilson View opened in early 2020 and have received demand like the rest.

In conclusion, the AHL green bond has led the country in introducing alternative forms of investments with a wide range of benefits for investors, the environment and society. Accordingly, investors, developers and the government should leverage green bonds when it comes to realizing sustainable development.

Highlight of RAK's new membership categories

In addition to the 3 membership categories currently existing: Corporate, Association and Individual, RAK has added 2 categories of membership including:

Affiliate Membership which is open to government ministries, agencies, government-controlled entities or authorities, whether national, county or local, that is involved in the real estate industry, whether by investing in that industry, engaging in research regarding that industry.

Academic Membership which is open to academic or research institutions, involved in the real estate sector whether through its academic learning programs or research programs, including think tanks and policy institutions that conduct research and advocacy programs involving real estate and the real estate industry.

Joining Details: https://rak.co.ke/join-rak

Stay engaged for up-coming REITs Event

Wendy Owade, RAK Senior Administrator

The Exchange, 55 Westlands Road

P. O. BOX 43633 – 00100 (GPO) Nairobi, Kenya | Tel: +254 (020) 283 1000

Email: raksecretariat@nse.co.ke | wowade@nse.co.ke | Website: www.rak.co.ke

@REITSKenya

REITS Association of Kenya