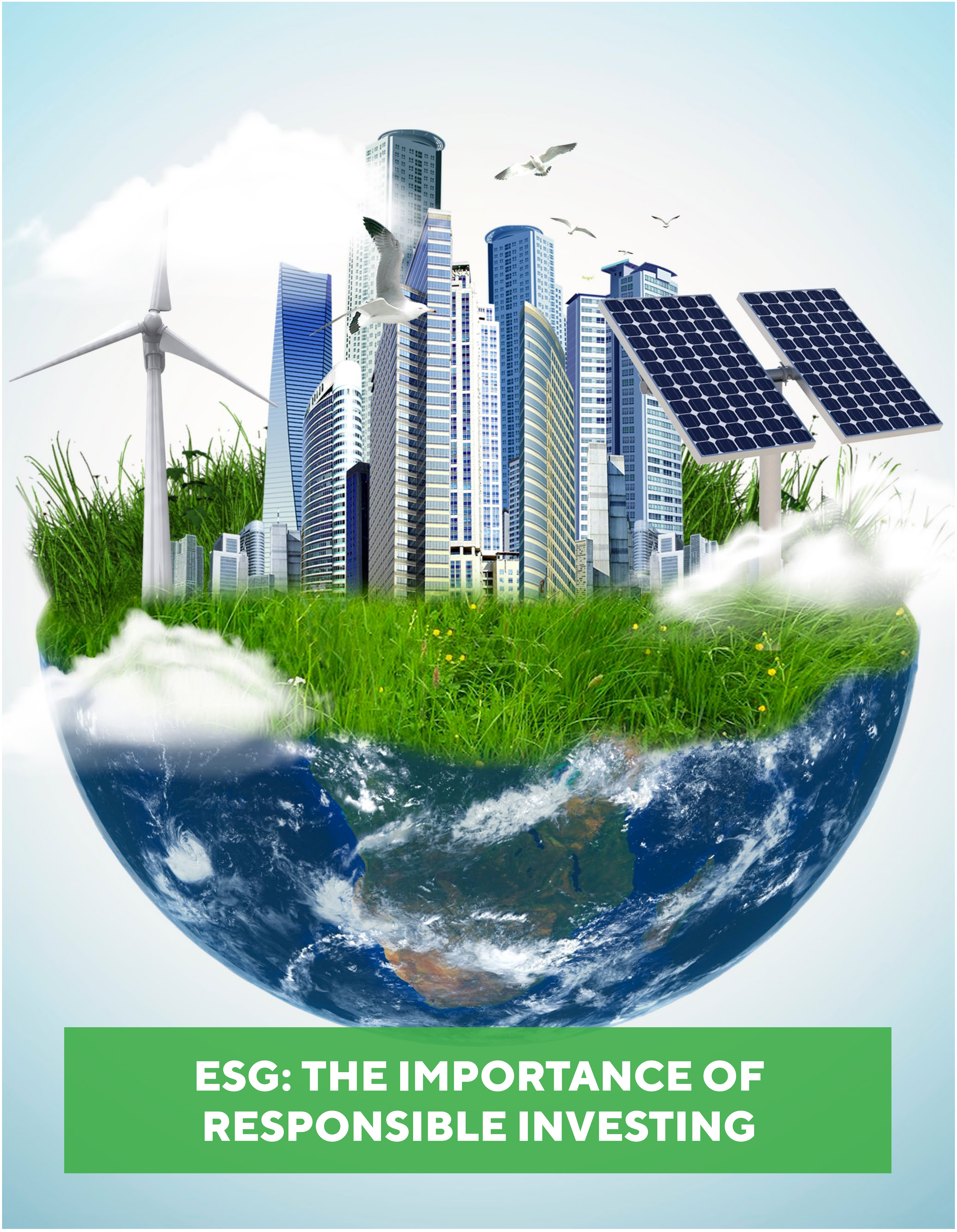
REITS ASSOCIATION OF KENYA (RAK)

NEWSLETTER

8TH EDITION JUNE 2022



ESG: THE IMPORTANCE OF RESPONSIBLE INVESTING

Welcome Note from the **RAK Chairman**

Welcome to the ESG edition of the RAK Newsletter.

Responsible investing has increasingly become an area of concern in the real estate and capital markets investments space. This time we spotlighted the University of Nairobi's article on ESG research. The UoN managed to interview stakeholders undertaking real estate projects and highlight the ways in which ESG aspects have been incorporated into their operations. In the famous words of Daisaku Ikeda, *"No matter how complex global problems may seem, it is we ourselves who have given rise to them. They cannot be beyond our power to resolve"*

In line with the theme of this edition, we partnered with Acorn Holdings Limited to spotlight their achievement of Silver Rating in the EcoVadis 2022 Sustainability Assessment. The EcoVadis Rating covers a broad range of non-financial management systems including Environmental, Labor & Human Rights, Ethics and Sustainable Procurement impacts. Companies are rated on the material issues as pertain to their company's size, location and industry. Congratulations to Acorn for emerging among the top 261 companies out of 30,000 assessed this year.

In this edition, we also highlight the REIT annual performances from 2021 for Fahari I-REIT and ASA D-REIT and I-REIT. Additionally, we have explained how the budget statement of 2022 supports investments into REITs by pension funds.

Following the signing of the MoU with the UoN in November 2021, RAK and UoN teams met for the first collaborative meeting on 2nd March 2022 to agree on next steps and action items – we have captured a summary of this on page 12.

Lastly, we highlight the 3rd RAK Annual General Meeting which was held on 7th June 2022 from 7:30am at the NSE trading floor. The meeting strengthened governance of the Association by expanding the Main Committee and Sub-Committee representations.

I would like to take this opportunity to welcome new organizations and individuals to join our membership to work together towards growing the REITs industry in Kenya.

Enjoy the Read!

Kenneth Masika
RAK CHAIRMAN

CONTENT

Acorn Holdings Limited Achieves Silver Rating in EcoVadis 2022 Sustainability Assessment!

EcoVadis is a global leader in the provision of business sustainability ratings in over 200 industries across over 150 countries.

In the 2022 rating, Acorn was one of 261 companies in the real estate sector that were assessed and successfully achieved a **silver rating!**

SILVER 2022 ecovadis Sustainability Rating

placed in the **75th** percentile

out of **30,000** companies assessed

outperformed Real Estate sector average of **43.56%**

Acorn is committed to maintaining its pursuit of innovative initiatives across the business and continues to implement the ESG Strategy towards a sustainable business.

We thank all our stakeholders for their continued support in our sustainability journey.

Photo credit: @jcomp

ENVIRONMENTAL RESILIENCE, SOCIAL JUSTICE, AND COLLABORATIVE GOVERNANCE IN REAL ESTATE DEVELOPMENT

UNIVERSITY OF NAIROBI

Authored by:
Mairura E. Omwenga, Lecturer Department of Urban and Regional Planning UoN and Chair, Town and County Planners Association of Kenya Sheila Chepkemoi, Urban and Regional Planner

1.0 OVERVIEW

Envisioning resilience and sustainability in planning for urban areas has been an evolving concern for rational change. Environmental conservation, social justice and collaborative governance have recently been areas of focus for most institutions in the real estate sector. An increased number of real estate firms are continually embracing the Environmental, Social and Governance (commonly referred to as ESG) concept as the right way to go and towards the premise of doing the right thing. Real Estate developers and investors are adapting to ESG to positively impact their profits and shareholding while also considering the impacts of their development on the environment, their employees, and their clients.

Environmental social governance is a measure of an entity's sustainability, based on those three central factors alongside the company's financial performance. The 'E' stands for the environment representing what sustainability efforts a company is making in its developments. The 'S', social aspect of ESG, considers a development company's relations with its employees and the local community which their development impacts. 'G' for governance is elaborated as the process in which a development company is run. This could be in terms of gender-inclusive policies, disability inclusiveness and the structuring of a company's administrative board.

2.0 ESG IN REAL ESTATE

It is becoming increasingly important to understand and pursue ESG implementation in real estate projects world-over as investors grow more concerned with the environmental and social impacts of their projects. While developers must ensure environmental and social sustainability criteria are adhered to from the sourcing of materials, building designs and building technology, human resources, and external social and environmental impacts of their developments. ESG Property Certification should also lead to higher property values as it also provides the potential for future mandating and regulation as it is intended to become an area of focus for most governments around the globe. Non-Governmental bodies have also lent their voice to the ESG discourse, with the United Nations recently launching its 2030 Agenda for Sustainable Development. This speaks to the measures and targets of sustainability that countries around the world should aim at to protect the environment and the people.

3.0 LEGISLATION AND POLICIES SURROUNDING ESG

How can investors and developers ensure that their developments and assets are ESG compliant? This remains to be the biggest challenge for ESG as it is still not a mandatory requirement for real estate developments. In Kenya, various policy and legislative documents speak to sustainability within the Real Estate Sector. Some of the documents which propose mandatory disclosure of social and environmental impacts to be used in the measure of ESG include: The Environmental Management and Coordination Act (1999); Occupation Health and Safety Act (2007); and the Consumer Protection Act (2012). Policies that companies use to benchmark ESG include the Kenya National Climate Change Action Plan, IFC Performance Standards on Environmental and Social Sustainability, UN Sustainable Development Goals, and the Global Reporting Initiatives Standards.

4.0 STANDARDS OF ESG

Globally, there are a few standard measures of ESG such as LEED (Leadership in Energy and Environmental Design) Certification, IFC Edge Certification and GRESB (Global Real Estate Sustainability Benchmark) Certification. Despite not having a set of country-specific criteria to rank ESG, local real estate companies such as Centum are ranking their developments off the International Finance Corporation (IFC) Performance Standards on Environmental and Social Sustainability coupled with the UN Sustainable Development Goals. Additionally, in the positive direction, the Architectural Association of Kenya has begun efforts to roll out a set of country-specific guidelines dubbed "The Safari Green Building Index tool". It prescribes a set of categories and rating systems to assess construction projects so as to establish their environmental performance. The Nairobi Securities Exchange (NSE) also recently launched its ESG Disclosure Guidance Manual with an aim to improve and standardize ESG reporting among listed companies in Kenya. Guided by the Global Reporting Initiative Standards of 2021, the NSE Guidance manual spells out the various categories and measures of performance listed companies in various sectors should use to report on their ESG compliance.

Environmental conservation, social justice and corporate governance is foreseen to promote a holistic approach not only within real estate development but also as a key consideration in ensuring both industries and the economic global markets adopt a holistic approach in their undertakings. The United Nations, for instance, launched Sustainable Development Goals as part of the 2030 Agenda for Sustainable Development. In Kenya, this position is no different; regulators are pushing for ESG compliance to be mandatory. But industry players are already taking matters into their own hands to ensure they meet ESG standards.

5.0 SAMPLE PROJECTS BY INDUSTRY PLAYERS

Buildings such as Dunhill Towers in Westlands have been certified as a green building by the World Green Building Council through the South African Green Building Council. The sustainability factors that the building adheres to include natural ventilation and natural lighting within the building and minimizing water usage. Photo-voltaic (PV) Panels on the building allow for sustainable electricity generation. Water closets, urinals and tape fixtures all reduce water consumption. Paints, adhesives sealants and carpets have low volatile organic compounds (VOC) emissions.

Centum Real Estate (CRE) is a leading homes developer and a brand with a current presence in Kenya and Uganda. CRE's product portfolio covers a wide range of affordable, mid-market and high-end homes in large mixed-use master-planned communities, with a focus on affordable and mid-market housing. CRE measures its adherence to ESG standards based on the IFC Performance Standards of Environmental and Social Sustainability. On an environmental front, Centum ensures that they incorporate the use of renewable sources of energy to an optimal extent as possible. For instance, at their Two Rivers Mall project, they have established a 1.2MW Solar plant which is envisioned to expand to 8MW to meet energy requirements at the development site.

They also incorporate a sewer treatment plant within all their developments to promote water recycling. The Two Rivers water supply system is designed to meet a demand of 2000 m3/day at full development. Treated wastewater capacity stands at 1800m3/day. As part of their social responsibility, they have also provided water to Githogoro residents from the Two Rivers Water Company since the onset of the COVID-19 pandemic, this is now approximately 40,000 liters. They also enforce a 30% greenery standard in Two Rivers to avoid the concrete jungle concept.

Figure 1: *Solar power plant at Centum's Two Rivers Development*

Source: *Centum Real Estate (https://centumre.co.ke/)*

Figure 2: *Water treatment plant*

Source: *Centum Real Estate (https://centumre.co.ke/)*

The building designs of their developments are also IFC benchmarked. On a social front, they also invested in the communities where their developments are. They have in turn created employment for the locals in the area, they have refurbished 10 schools in Vipingo and generated an education fund that supports over 200 scholars annually. During the COVID 19 crisis, they also endeavored to distribute food to vulnerable communities.

6.0 FINANCING STRATEGIES

Financing strategies toward sustainable real estate development include the Kenya Green Bond Framework. This framework is intended to increase mobilization of green sustainable financing aligned to Green Bond Principles. The Green Bonds Programme Kenya, which is an initiative of the Kenya Bankers Association (KBA), the Nairobi Securities Exchange (NSE), Climate Bonds Initiative (CBI), Financial Sector Deepening (FSD) Africa and FMO - Dutch Development Bank, aims at developing a domestic green bond market. Regulations on REITs in Kenya are also impactful towards the development of ESG compliant green buildings as evidenced in Acorn Holdings listed REITs. Acorn Holdings, a Kenyan development company has also received GRESB certification for their Purpose Built Student Accommodation REITs. In addition to that, they have also received Green Certification from the Climate Bonds Initiative for their Acorn Green Bonds.

7.0 CHALLENGES OF ESG UPTAKE

One of the negative biases towards ESG that have stalled its uptake is that it is perceived to increase the cost of development. This cost could be quantified as financial and in terms of time. It would then be prudent if industry players would define how costs can be reduced while still ensuring sustainable developments. Another major challenge of ESG within the Real Estate Industry is the inability to fully quantify the benefits of ESG on development in relation to the rate of return. The social aspects are usually easier to quantify and qualify for the directly benefiting communities or the staff members although it does not directly translate to a quantifiable benefit for the investor or the developer. However, seeing as ESG seeks to promote responsible investing and development, this then remains to be a valuable criterion of assessment. If ESG can be seen to contribute to the cost, revenue, or profit of any company then it certainly can be termed as a beneficial value driver within the real estate sector. Although it may be difficult to undo what has been done in the past without ESG compliance, we can always look forward to ensuring sustainability. However, repurposing and regenerating previous developments could potentially remedy any negative impacts that buildings may pose environmentally and socially.

8.0 CONCLUSION

ESG in the Real Estate industry can be summarized as working progress towards the achievement of responsible development and investment, seeing as no development occurs in a vacuum. Most stakeholders: government organizations, non-governmental organizations, private developers, and other industry players; are all focused on adopting more sustainable and resilient transitions within the Real Estate Sector. This is because real estate projects provide a wide range of benefits to the public and a call for the real estate sector to focus on environmental conservation, social justice and good governance is evolving. Identifying and understanding the impacts of ESG is not only in line with quantifiable profits but also on the intangible environmental and social impact aspects.

BIBLIOGRAPHY

1. Acorn REITs Achieve GRESB Rating!. Acornholdingsafrica.com. (2022). Retrieved 19 April 2022, from https://acornholdingsafrica.com/acorn-reits-achieve-gresb-rating/.
2. Babu, B. Tools for Green Design. Presentation, Architectural Association of Kenya. (Babu, n.d.)
3. Cajias, M., Fuerst, F., & Nanda, A. (2011). Is ESG commitment linked to Investment Performance in the Real Estate Sector?. Do Responsible Real Estate Companies Outperform Their Peers?. Retrieved 19 April 2022, from. (Cajias et al., 2011)
4. Deloitte, (2021). Real Estate Predictions 2021. The Impact of Social Good On Real Estate ESG As A Value Driver For Real Estate.). (Deloitte, 2021)
5. Duggan, A., & Goatman, D. (2021). ESG is set to be the biggest investment driver in Africa in 2021. Knight Frank.
6. EPRA, (2020). EPRA measuring the ESG impact on listed Real Estate Performance. An Analysis of EPRA's BPR Database. Retrieved 19 April 2022, from. (EPRA, 2020)
7. Freshfields Bruckhaus Deringer, ESG and Real Estate. Effects of The Sustainable Finance Disclosure Regulation And The Taxonomy Regulation On The Real Estate Industry. Retrieved 19 April 2022, from (Freshfields Bruckhaus Deringer, n.d.)
8. Kenya, Government of. (1999). Environmental Management and Coordination Act, (No 8 of 1999). (Government of Kenya, 1999)
9. Kenya, Government of. (2007). The Occupational Safety and Health Act, OSHA (2007). (Government of Kenya, 2007)
10. Kenya, Government of. (2012). Consumer Protection Act, (2012). (Government of Kenya, 2012)
11. IFC World Bank, I. (2012). IFC Performance Standards on Environmental and Social Sustainability. Retrieved 19 April 2022, from. (IFC World Bank, 2012)
12. Nairobi Security Exchange ESG Disclosure guidelines. (2021) (4th ed.).(Nairobi Security Exchange ESG Disclosure guidelines, 2021)
13. Ndurie, J. (2021). New Index to Evaluate 'Green Buildings' in Kenya. In: Construction Kenya. Nairobi. https://www.constructionkenya.com/1933/green-building-certification/

REIT PERFORMANCE SNAPSHOTS

ILAM Fahari I-REIT

- Greenspan Mall - 86% occupancy rate, 67 Gitanga Place and Bay Holdings – 100% occupancy rate. Highway House – currently vacant. Total portfolio vacancy rate at 20.1% against portfolio target of 5%.

- New anchor tenant at Greenspan Mall – Naivas Supermarket took up space in August 2021 following Tusky's exit; Naivas took up less space than former tenant for strategic reasons i.e to reduce concentration risk.

- In 2022 tax exemption certificates on properties obtained for 3 properties; expected that going forward this will not have an impact on revenue leakage experienced by the REIT in the past.

- Aggressive marketing underway by the REIT to increase occupancy levels across all properties; Uptake of space by new anchor tenant in Greenspan Mall expected to increased footfall in mall thus push up occupancy.

- 2022 REIT plans - grow its portfolio, optimize existing portfolio, incorporate sustainability and strengthen investor relations.

Financial Highlights:

- **Total net (loss)/income:** (KES.124Mn) down from KES.148.0Mn in 2020 attributable to revaluation losses recorded by the property portfolio in the context of the COVID-19 pandemic whose impact continues to be a material valuation uncertainty in the short to medium term and increased vacancy at Greenspan Mall
- **Operating expenses:** KES.229Mn, unchanged from 2020
- **Total AUM:** KES.3.7Bn down from 3.83Bn due to a decrease in investment property by 6.4% mainly due to revaluation loss of KES.194Mn
- **Distributable earnings:** KES.102Mn down from KES.134.4.Mn in 2020 attributable to the loss of revenue from the anchor tenant at Greenspan mall for 1st seven months of 2021
- **Net Asset Value (NAV):** KES. 19.58 down from KES. 20.86 in 2020, due to a decrease in AUM
- **Dividend per share:** KES. 0.50
- **Dividend yield** based on the value of the units as at 31.12.2021: 8%.

Full annual report: https://ilamfahariireit.com/assets/files/annual_report%202021/I_FAHARI_IREIT_Annual_Report%20_2021FY.pdf

Acorn Student Accommodation (ASA) I-REIT (11months)

- All properties achieved target occupancy rates with Qwetu Wilson view achieved 99% occupancy by Q4 2021.
- Qwetu USIU 4 to be opened in anticipation of USIU's opening day in May 2022.
- Qwetu and Qejani Catholic to open in Q4 2022 with Catholic marking the first Qejani property to be launched by Acorn REIT.
- I-REIT opened supplementary offer for from

April 2022 of KES 2,800 Mn for acquisition of Qwetu Aberdare Heights and Qwetu Parklands

- Construction underway for Qwetu and Qejani Chiromo.
- D-REIT opened supplementary offer of KES. 400Mn from April 2022 for project capital expenditure and land acquisitions.
- ASA REITs raised almost 3 billion from 30 investors during 2021
- Acorn's retail platform ***"Vuka"*** gained over 500 clients with approximately KES 15 Mn invested in FY 2021.
- Acorn aims to launch a new property type for young professionals in 2023 as part of its long term goals.

Financial highlights:

- **Total net income:** KES. 387 Mn; majorly attributable to rental and related income and bargain purchase gain
- **Operating expenses:** KES. 105Mn
- **Total AUM:** KES. 3.7Bn up by 4.4% since launch due to properties revaluation gain
- **Distributable earnings:** KES. 181Mn
- **NAV Unit Price:** KES 20.80 up from KES 20 per share at launch, attributable to increase in AUM; as a result of the revaluation gain from the properties (KES 106 Mn) and the retained earnings achieved by the I-REIT
- **Dividend per share:** KES. 1.02; KES 0.64 per unit payable in April 2022, in addition to interim distribution of KES 0.38 per unit paid in September 2021
- **Dividend yield** based on the value of the units as at 31.12.2021: 5.4% against a targeted 3.5%; to achieve this dividend yield, the I-REIT had to **pay out** 93% of its distributable earnings, 13% above the regulatory recommendation.

Full annual report:
https://acornholdingsafrica.com/wp-content/uploads/2022/05/ASA-I-REIT-2021-Annual-Report.pdf

ASA D-REIT (11 Months)

- **Total net income:** KES 776 Mn attributable to fair value gain on revaluation of investment properties and rental revenue
- **Operating expenses:** KES 121Mn
- **Total AUM:** KES 8.42 Bn; majorly comprised of Real Estate Assets
- **NAV ex distribution:** KES 5.2 Bn
- **NAV Unit Price:** KES. 23.84 up by 24.4% from the entry value attributable to increase in AUM
- **Distributable Earnings:** Nil; As projected at launch in order to enable sufficient liquidity to continue existing developments and acquire new land parcels. The D-REIT aims to pay investors at the earliest juncture once capital gains have been realized from sale of properties
- **D-REIT 10 yr. projected return:** 34.9%
- **Blended 10 yr. return:** 18.3%; projected return based on 30% allocation to the D-REIT and 70% to I-REIT

Full annual report:
https://acornholdingsafrica.com/wp-content/uploads/2022/05/ASA-D-REIT-2021-Annual-Report.pdf

The 2022 Budget Statement Supports Pension Funds Investments into REITs

The 2022 budget statement proposed the widen the scope of investments where pension schemes can invest their funds. Previously, pensions could only invest up to 30% of their funds in listed REITs only. Unlisted REITs in Kenya fell under 'Any Other Assets' which was not ideal as it required schemes to seek specific trustee approvals and 'no objection' letters from the Retirement Benefits Authority (RBA) which was cumbersome and was a potential deterrent for investment into the REIT asset class.

The regulation did not provide for a 'direct' investment of pension funds into unlisted REITs. As a result, current and upcoming unlisted REITs would continue to face very small investable amounts in asset allocation which would restrict diversification portfolio actions and overall investment into alternatives such as these that present a more sustainable way into property investments. The extra layer of approvals also meant that pension funds found it easier to go with 'direct' deals where the larger allowable limit existed within the RBA investment guidelines.

This will amend the RBA guidelines to include unlisted REIT. This will allow up to 30% investment by pensions in both listed and unlisted REITs, thus offering fund managers, trustees a wider investment pool, given the new unlisted REITs in the market and potential upcoming unlisted REITs.

Useful Links:

- **Full Finance Bill 2022:** http://www.parliament.go.ke/sites/default/files/2022-04/The%20Finance%20Bill%2C%202022-1.pdf
- **Retirement Benefits Authority:** https://www.rba.go.ke/
- **Nairobi Securities Exchange:** https://www.nse.co.ke/
- **ILAM Fahari I-REIT:** https://ilamfahariireit.com/
- **Acorn REITs:** https://acornholdingsafrica.com/

RAK AND UON HOLD FIRST JOINT MEETING

Following the signing of the Collaborative Agreement between REITs Association of Kenya (RAK) and University of Nairobi (UoN), teams from both parties held a first joint meeting on 2nd March 2022 from 2:30pm to agree on the next steps of action towards making the collaboration a success. The session was opened by The Dean, Faculty of the Built Environment, Dr. Robert Rukwaro who noted that the collaboration was in line with the mission and vision of the University of Nairobi, including the agenda of bringing together the practice and the theory of teaching. The UoN noted its commitment to bring a wealth of resources including knowledge and human resource to ensure the success of the collaboration, given that research is a fundamental pillar for the future, for both partners and for the academia sector. RAK noted anticipation for significant impact of the collaboration in the sector not only for the Association but also for students, the University of Nairobi, industry players, the government, and investors.

From Left to Right: *Ms. Ruth Okal, Dr. Edwin Ondieki, Ms. Diana Gachuhi, Ms. Sheila Chepkemoi, Ms. Wendy Owade, Ms. Catherine Kariuki, Ms. Elizabeth Njenga, Dr. Kenneth Mbali and Eng. Mairura Omwenga*

RAK-UoN Collaborative Meeting in session

RAK HOLDS THE 3RD ANNUAL GENERAL MEETING

The REITs Association of Kenya held its 3rd Annual General meeting on Tuesday 7th June 2022 from 7:30 am at the Nairobi Securities Exchange Trading Floor. The meeting confirmed the extension of term of officials for a period of one year, following their appointment at the October 2020 AGM. The meeting also expanded the Main Committee of the Association with new representatives appointed from Acorn Investment Management Limited (AIML), Kenya Association of Stock Brokers and Investment Banks (KASIB) and Kenya Property Developers Association (KPDA). The meeting also saw the expansion of the Membership and Events Committee to 8 members and the Policy Research and Publications committee to 6 members.

(Left-Right): *Geoffrey Odundo, CEO, NSE and Vice-Chairperson, RAK, Kenneth Masika, Director, Lloyd Masika Limited and Chairperson, RAK, Hilda Njoroge, Property Investment Manager, Co-op Trust Investment Services Limited and Secretary, RAK, Irungu Waggema, Chief Officer Strategy and Compliance, NSE and Treasurer, RAK*

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