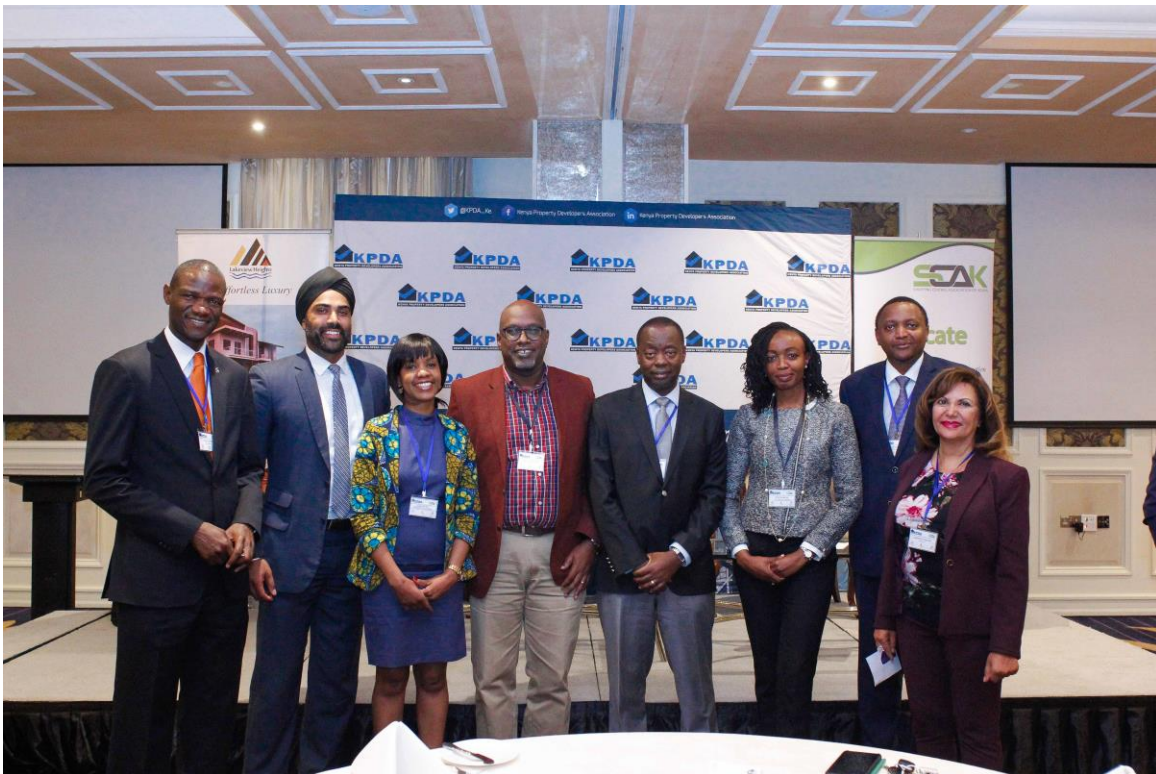


Proudly Sponsored By Home Afrika Ltd



REPORT ON THE KPDA/SCAK CEO BREAKFAST FORUM, THURSDAY 28TH FEBRUARY 2019 AT THE VILLA ROSA KEMPINSKI HOTEL, NAIROBI

THEME: 'Emerging Trends in Financing Commercial Developments'



In the recent [Brookings Financial and Digital Inclusion Project \(FDIP\)](#) Kenya ranks 1st among 21 emerging economies in enabling access to and usage of financial services among people excluded from formal finance. Financial service providers are diverse and key regulators are focused on inclusion. Today in Kenya there are 44 commercial banks, 12 deposit taking microfinance banks, 30 non-regulated credit-only microfinance institutions, 199 registered savings and credit cooperatives (Saccos), 5 mobile money operators, a large number of community-level services providers such as village banks, financial services associations (FSAs) and savings groups and a growing number of start-ups in (financial technology) fintech looking to build a new generation of financial services.

The Kenya Property Developers Association together with the Shopping Centres Association of Kenya organized a CEO Breakfast Forum on Thursday, 28th February 2019 from 7.30am to 10.00am at the Villa Rosa Kempinski Hotel in Nairobi.

The forum whose theme was '*Emerging Financing Options for Commercial Developments*' focused on achieving the following objectives;

1. Learning more about the 30% interest in real estate investment in the portfolios of pension funds;
2. Learning about how retailers can access funding for expansion projects from pension funds;

3. Understanding the due diligence requirements to become eligible for international funding, as well as understand how retailers can access funding for expansion projects;
4. Learning more about international sales strategies for retailers; and
5. Understanding joint ventures and how parties should protect their split profits.

The audience comprised approximately 100 delegates who were representatives from private developer firms, retailer developers, real estate agent/manager firms, professional firms, industry suppliers and financiers. KPDA would like to thank Zoravar Singh of iJenga Ventures Ltd (who is also a member of the KPDA Affordable Housing Taskforce) to for moderating the event and acting as the forum MC.

The following were able to make presentations and engage with the audience during the panel discussion;

1. **Mr. Nzomo Mutuku, MBS, Chief Executive Officer - Retirement Benefits Authority**
“Real Estate Investment Opportunities for Pension Funds in Kenya”
2. **Ms. Eva Warigia, Executive Director - East Africa Private Equity and Venture Capital Association**
“New Trends in Private Equity and Venture Capital as an Investment Instrument”
3. **PDM (K) Ltd - Ms. Azmeena Bhanji, General Manager Real Estate Development**
4. **Coulson Harney LLP - Mr. Alex Njage, Partner - Head of Real Estate and Construction**
5. **Axis Real Estate Ltd - Mr. Gikonyo Gitonga - Managing Director**



Ms. Parita Shah (CEO - SCAK) makes her remarks



Mr. Nzomo from the Retirement Benefits Authority (RBA)



Ms. Warigia of the EAVCA

We would like to appreciate the sponsor of the event *Home Afrika Ltd*



Dan Awendo, CEO - Home Afrika Ltd

SOME KEY TAKEAWAYS FROM THE SESSION FOR NOTING

- ❖ The state of real estate sector is in a space where commercial occupancy of office space is low. For instance, the Upperhill rental uptake has fallen even as Government offices are choosing Upperhill as their preferred area to set up offices.
- ❖ The Westlands area is prime for corporate office occupancy.
- ❖ Industrial development (logistics and warehousing) is currently the new flavor and there is also a move to invest in specialized developments such as schools and hospitals.
- ❖ There still remains an oversupply of high-end residential developments even as the focus is moving towards middle income housing ranging from Kshs. 5Million to Kshs. 15Million.
- ❖ Real Estate Private Consortiums are majorly driven by international capital and thus it is important to strategically position local assets to the world to attract investors considering the competition for available investable funds and the opportunities needed for investor interests who require strategic exits.
- ❖ When it comes to Joint ventures, even though there are monetary and otherwise expectations, there are certain considerations to be thought through such as;
 - Capital (land and valuations)
 - Relationships (board formation)
 - The project itself (the communication involved) and
 - Exit mechanisms (dispute resolution)
- ❖ The lessons learned in the case of PDM (K) Ltd is that at the board formation stage, it is important to have control of the board when the nominees of both parties are selected. The agreement should be clear on all factors and there should be Jointly Shared Philosophies from the very beginning (especially in the event that a dynamic in the partnership changes such as the value of the land). The choice of partner to involve has to have a value add and have a separate (decision making) role from that of the management team.



the panel discussion

- ❖ Globally, direct real estate investments by pension funds is small at approximately 4.5% while in Kenya its 20%. In the case of indirect real estate investments that number is much higher at about 10 - 15%.
- ❖ Pension funds in Kenya have invested about Kshs 220bn in real estate investments - mostly direct which is about 20%. This has resulted in the formation of the REITs Association of Kenya (RAK).
- ❖ The REITs Association of Kenya (RAK) was established in 2017 by players in the Real Estate and Capital markets industries. Although in its infancy, the Association Membership has grown to include diverse range of market participants including:
 - The Kenya Property Developers Association
 - The Kenya Association of Stockbrokers and Investment Bankers
 - The Nairobi Securities Exchange (*among the top 4 Exchanges in Africa*)
- ❖ There has been good RAK endorsement from RBA with Mr. Nzomo saying that an entity had been formed to provide information and guidance to the market on REITs and be the first point of contact for any business/deals/new opportunities related to REITs. Therefore, offering a haven for new REITs to be launched into the market. He also mentioned the RAK Conference held in 2018 noting that it was successful and was looking forward to more initiatives by RAK where both the supply side and demand side meet.
- ❖ Additionally, he echoed the tax benefits associated with REITs save for the ongoing tax exemption for SPV's wholly owned by the REIT.
- ❖ He also highlighted that there are a number of large pension schemes that need to unlock liquidity in some of their property portfolios, saying that the sole purpose pension schemes were created is to pay benefits to their members upon retirement. Hence, require de-risked high return investments.
- ❖ Pension schemes can also be classified into 3 categories that help assess their property portfolios;
 - a) **Mature Schemes** - generally large in nature with most of their members retired hence need more liquidity for pay outs like Kenya Railways with little to no additional contributions.
 - b) **Dynamic Schemes** - usually experiencing an imbalance between ongoing inflows by way of contributions and outflows - payouts. Require relative liquidity requirements depending on the size of the scheme.
 - c) **Young Schemes** - these are growing with strong contributions creating high liquidity levels that enable the scheme invest in medium to longer term investment opportunities
- ❖ REITs and Real Estate Private Equity related investments dubbed the next frontier to unlocking the sustainability of property related investments in the long term.
- ❖ Out of the 52 PE deals noted last year only 2 were in Real estate related investments. Most PE deals termed real estate are commonly a mix consisting of infrastructure which is usually the larger portion of the pie.
- ❖ It was noted that for RE investments to be more appealing to investors considering the competition for available investable funds, the opportunities need to align with investor interests who require strategic exits.
- ❖ In terms of measurement of risk for RE investments, investors are said to be wary of valuation standards applied on property assets as these tend to be subjective. Effective management of the value of the asset was also emphasized as a key risk factor in maintaining the enhanced investment value over the investment period.
- ❖ At the end of the session, the conversation was strongly steered towards REITs as the focus of discussion of the next KPDA CEO Breakfast Forum which will be held on 2nd April 2019. The forum will be jointly organized between KPDA and RAK.

*Photography by **OCD Film Company**

Email: brucemakau@gmail.com

Tel: 0725 606 543

For more information, kindly contact the KPDA Secretariat on 0737 530 290 / 0725 286 689