Cytonn Annual Markets Review – 2015

Executive Summary

- **Global Markets:** Moderate global growth registered in 2015, supported by Central Bank policies;
- **Sub-Saharan Africa:** The Sub-Saharan region has reported a general slowdown in economic activity in 2015, a knock-off effect from both internal economic challenges and external pressures;
- **Kenya Economy:** Downward revisions of economic growth prospects indicative of the challenging macro-economic environment;
- **Fixed Income:** Yields on government securities remain volatile as government's appetite for cash for budgetary support increases;
- **Equities:** The market performed dismally during the year, with NASI and NSE 20 down 10.6% and 21.0%, respectively;
- **Private Equity:** Sub-Saharan Africa has remained very attractive for global capital in 2015, as witnessed by increased flow of private equity funds into the region;
- **Real Estate:** The real estate sector has shown tremendous activity ranging from the institutional frameworks reforms, to increased activities in the commercial and residential sectors.

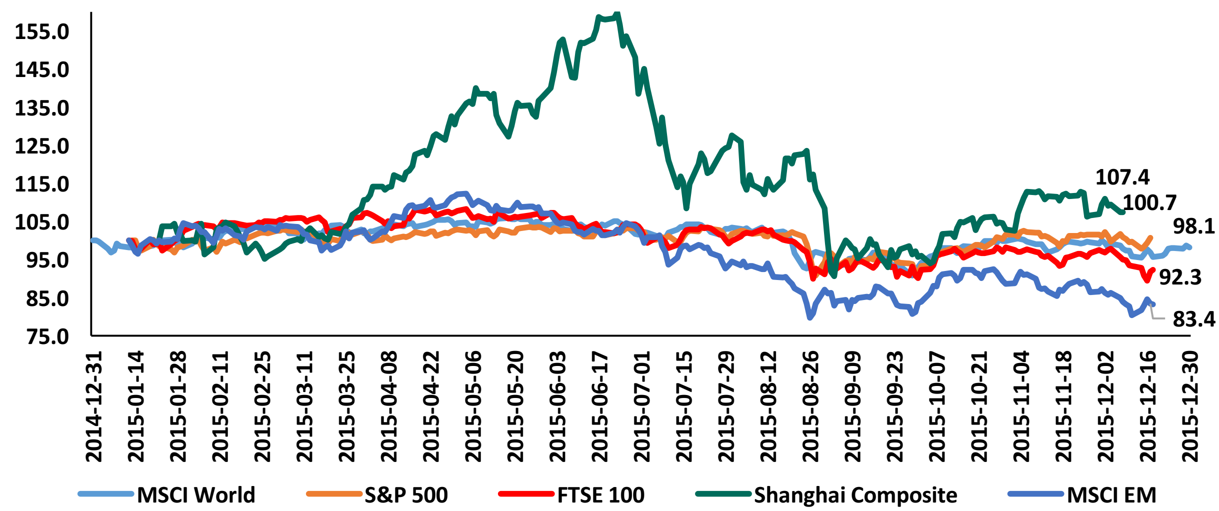
Company Updates

- Including this final report, the annual markets review, we produced 51 reports in 2015. The Cytonn Report has quickly gained recognition as a fair, objective and analytical report solely focused on informing the investor. We turned negative on equities early in the year, in February 2015, and we also recommended staying short duration in fixed income in April 2015. An investor following these recommendations would have outperformed the market. We look forward to another successful year of analyzing the markets in 2016, and our first report for 2016 will be on our outlook for 2016. Don't miss it and Happy New Year!
- 2015 has been a successful year at Cytonn, registering tremendous growth across all business lines. Read our Managing Partner & Chief Executive Officer's yearly review
- We continue to beef up the team with the ongoing hires

A: Global Markets Update: Full Year 2015

2015 can be summarized as a year of moderate global economic growth, with growth figures expected to come in at 3.3%, from 3.4% in 2014, largely supported by accommodative Central Bank policies in the developed economies. Unlike the recent past, developed economies contributed more to growth in 2015 compared to emerging markets, due to the slowdown in China and other major emerging markets. However, despite moderate global growth, no country was booming, with investor sentiment low throughout the year on the back of a slowdown in China and the uncertainty over the timing of the US Federal Reserve (Fed) rate hike, which led to Central Banks policy divergence (with Fed raising rates and

ECB undertaking quantitative easing), and could affect other economies. The MSCI world index declined 1.9% in 2015, down from the 2.9% positive performance seen in 2014 while the MSCI emerging markets index has declined 18.1% in 2015, compared to a decline of 6.0% in 2014.



United States:

The recent announcement by the Fed on 16th December 2015 to begin raising rates was the most significant monetary policy action in 2015, and brought to an end the era of near zero interest rates, confirming the status of a stable US economy. Ever since the start of Q2'2015, the US economy has presented sound economic data. GDP growth for Q3'2015 was an annualized 2.2% due to increases in personal consumption and growth in exports. Jobs data has been steadily improving and was more than expected in the months of October and November, adding 271,000 and 211,000 jobs, respectively, and the unemployment rate fell to a seven-year low of 5.0%; a green light which allowed the Fed to raise rates by 25 bps to a band of 0.25% - 0.50%. In addition to the jobs data, the market has shown signs of improvement in spending and wage growth.

Despite the positive macroeconomic data, there were no positive earnings surprises. The stock market has been relatively flat with S&P 500 having gained 0.2% in 2015. Volatility in the market was driven by the uncertainty of a rate hike.

Eurozone:

European markets performed poorly in 2015, reflecting the current difficult economic environment. With the deep dependence on Asia, many companies and sectors, which depend on exported goods and services to the continent, were negatively affected; the greatest hit being those in the energy sector. For Euro Stoxx 600 Index, earnings were down 5.9%. However, excluding energy companies, earnings are up 7.4% y/y. The Euro Stoxx 600 index was up 7.2% in 2015.

It is this uncertainty and segmented growth which has caused the European Central Bank to announce an additional EUR 360 billion of quantitative easing (QE) in December, and extend the QE until March 2017, from September 2016 initially announced. So far EUR 600 bn has been pumped into the market, and it has had a positive impact of stabilizing growth.

China:

2015 was a year of transition for China in two areas: (i) from industrial-driven to consumer and services driven growth, with lower dependence on the export market, and (ii) a free-market economy from the controlled market it was previously. With China being one of the world's largest consumers of energy and manufactured products, the effects of the transition have caused a global slowdown, especially for countries in Europe (which supply manufactured goods) and West Africa (which supply commodity and energy products). Despite a pick-up in the services sector, the slowdown in the industrial sector was a key impediment to GDP growth, which is expected to come in at 6.9% from the 7.4% growth in 2014, and down from the 8.6% average of the last 5 years.

In addition to the lower than expected GDP growth, the Chinese market exhibited increased volatility as investors undertook a sell-off as fears developed over (i) growth and earnings prospects, and (ii) uncertainty over the Chinese government's willingness to support the stock market. The Shanghai Composite index lost 31.3% since its peak in June 2015.

B: Regional Markets Review

The Sub-Saharan region reported a general slowdown in economic activity in 2015, a knock-off effect from both internal economic challenges and external pressures. The slowdown in China, one of the biggest global partners of African economies, has impacted negatively the overall growth by significantly reducing demand for Sub-Saharan Africa's exports, particularly commodities.

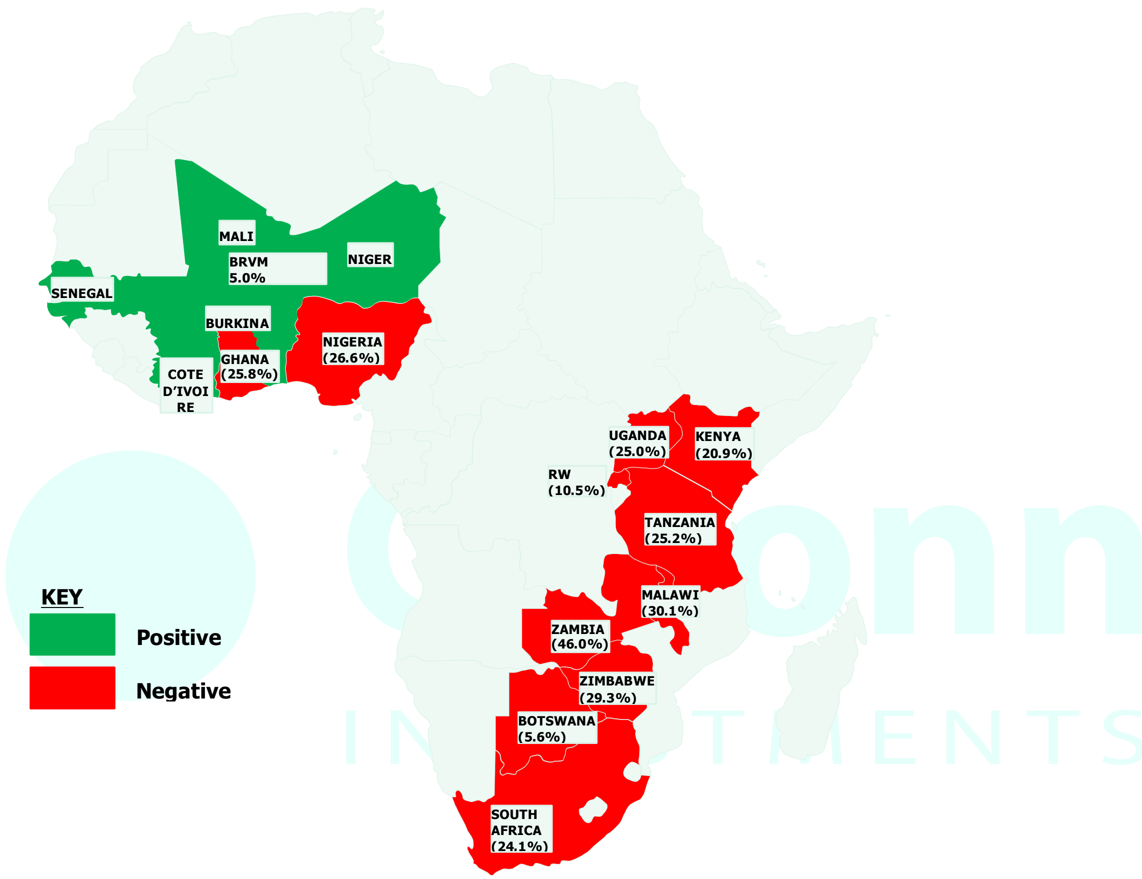
The IMF projects that Sub-Saharan Africa will grow by 4.4% in 2015, compared to 5.0% in 2014 as a result of declining commodity prices, especially oil and a lower commodity demand from China. Despite the drop in growth, Sub-Saharan Africa still has the second highest growth globally, behind emerging markets growth. This growth is supported by favorable demographics hinged on a growing middle-income population, which has been driving consumption, increased infrastructural investment and stable political environments that have offered a conducive platform for growth.

Sub-Saharan African currencies lost against all the major global currencies as a result of (i) strengthening of the dollar globally, (ii) increased outflow from the commodity dependent markets, and (iii) foreign investors shifting their investment portfolios to cheaper and less risky markets.

The region registered varying political and governance stances. Nigeria and Tanzania ushered new political regimes in peaceful elections, which supported rebounds of the local markets. However, challenges remain in countries like Burkina Faso, which had a coup, and Burundi, which is currently in a political strife.

Sub-Saharan African stock markets have significantly underperformed, with negative returns across the board as illustrated below.

Select Sub-Saharan Africa Stock Market Return (USD), FY'2015



There has been increased infrastructural spending and consequently development within the Sub-Saharan Africa region, driving more pressure on local currencies, since most of this spending is dollar denominated. However, despite the immediate erosion in currency, the region is bound to have significant benefits from the developmental spending currently underway.

C: Kenya Macro Economic Review

At the beginning of the year, the Kenyan economy was expected to grow at an impressive 6.9% GDP growth, underpinned by (i) adequate rainfall and consistent agricultural production, (ii) high government spending on infrastructural projects such as the Standard Gauge Railway and the LAPSSET corridor, and (iii) the recovery of the tourism industry following the setback it experienced in the previous years.

This year the Kenyan Treasury released their largest ever budget for the country, at Kshs 2.1 trillion, which would be funded by tax collection (1.4 trillion), domestic borrowing (219.0 bn) and foreign borrowing (357.0 bn), with the balance from grants and aid. As we indicated, the success of the budget was based on an ambitious GDP growth assumption of 6.9%. However, with the estimated GDP growth and tax collection targets highly unlikely to be met, this shall make financing of the budget difficult:

Some of the key challenges facing the economy include, among others:

- Weaker than expected company earnings affecting revenue collection, with the Kenya Revenue Authority (KRA) missing collection targets by Kshs 28 bn,
- Depreciation of the shilling affecting companies that rely on imported inputs,
- A high interest environment, which discouraged credit uptake and investment expenditure, and
- Increased cases of corruption and mismanagement of public funds.

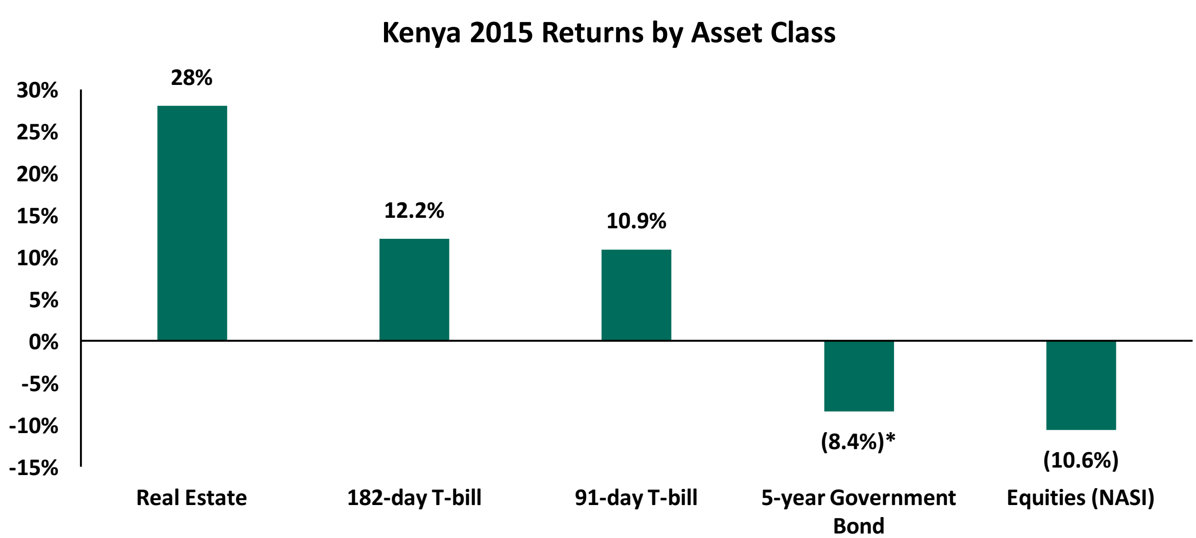
Despite the above challenges the economy has remained resilient and as can be seen by the growth figures released so far, GDP growth will most likely surpass our previous growth projection of 4.7% - 4.9%. In the third quarter, GDP growth came in at 5.8%, supported by the Construction industry (14.1%), Mining and Quarrying (12.5%), Electricity Supply (11.0%) and Financial Intermediation (10.1%). With GDP growth figures for the first 3 quarters out, with a strong GDP growth of 5.8% in Q3'2015, higher than our projection of 4.9%, we revise upwards our full year GDP projection to between 5.3% - 5.7%. According to our earlier projections, we were off on Mining, Manufacturing and Financial intermediation, where we projected a 5.0%, -3.0% and 5.5% growth versus an actual growth of 12.5%, 2.8% and 10.1%, respectively. Going forward, given the measures taken to address the key challenges discussed above, such as (i) beefing up dollar reserves by the CBK to 4.6 months of import cover to support the shilling, (ii) reshuffling of the cabinet to stem corruption, and (iii) the passing of the Tax Procedural Bill that will synergize tax collection mechanisms, we expect that GDP growth shall be steady going forward.

The Kenya Shilling lost ground against the US Dollar, declining by 13.0% with 9.5% being in the first half of the year. The decline is attributed to (i) a strong global dollar in the international markets, (ii) a wide current account deficit at the beginning of the year but has been improving now, at 6.9% from 10.4% at the start of the year due to reduced import bill, (iii) reduced foreign exchange earnings from horticulture and tourism sectors, (iv) increased dollar denominated imports for infrastructural projects, and (v) lack of a substantive Central Bank Governor in the first quarter. In the second half of the year the currency has been relatively stable supported by:

- **Improved Diaspora Remittances**: The inflows continued to improve growing at a rate 7.7% y/y based on the 12 month cumulative inflows of USD 1.5 bn to September 2015 from USD 1.4 bn in the same period the previous year,
- **Central Bank Reserves:** The Central Bank however held sufficient reserves throughout the year to stem the decline of the shilling. After declining to 3.98 months of import cover, CBK has accumulated more reserves to close the year at 4.6 months of import cover, and
- **IMF Facility:** Approval for USD 688 mn (Kshs 70 bn) precautionary IMF facility to provide a buffer to protect the shilling against any economic shocks.

Inflation has increased gradually over the year from 6.0% in December 2014, to 7.0% in June, and at 8.0% in December 2015. At the beginning of the year, lower oil prices lead to a slight decline in the inflation rate, however the (i) weakening shilling, (ii) effect of the El-Nino rains on agricultural food prices, and (iii) price increases in beer and cigarettes due to the Excise Duty Bill have eroded all the gains made, with inflation now past the upper barrier of the 2.5% - 7.5% CBK target. The Central Bank governor projects that the factors are transitory in nature, and there is no reason for major concern. We are of the view that inflation will remain above the upper bound given the rising oil prices and the hesitation by the CBK to raise rates to stem inflation, as raising rates will be detrimental to the economy.

The graph below shows the summary of returns by asset class in 2015 (Real Estate, Bonds, Treasury Bills and Equities market). The best performing asset in 2015 was real estate and the worst performing was equities. Clearly, investors who did not have diversified and balanced portfolios, with exposures to fixed income and real estate registered underperformance in 2015.



**Total return on the 5-year Government Bond is on a Mark-to-Market basis.*

Source: Cytonn Investments

The table below summarizes the various macro-economic factors, the expectations at the beginning of the year, the actual 2015 experience and the impact of the same on investor sentiment:

Macro-Economic Indicators	Expectations - Jan 2015	2015 Experience	Effect
GDP	6.0% - 6.9% growth in 2015	(i) 4.9% growth in Q1' 2015 (ii) 5.5% growth in Q2'2015 (iii) 5.8% growth in Q3'2015 (iv) IMF and World Bank downgrade their GDP projections to 5.6% and 5.4%, respectively. We project the 2015 GDP to come in at between 5.3% - 5.7%	Negative
Interest Rates	Low and stable	(i) CBR increased 300 bps to 11.5% (ii) 91 Day T-Bill hitting a high of 22.5%	Negative
Inflation	Low and stable at below 7.0%	(i) December inflation at 8.0% (highest for year)	Negative
Exchange Rate	Shilling to depreciate marginally	(i) Shilling depreciated 13.0% against the dollar. (ii) The foreign reserves cover hit a low of 3.9 months of cover in the period	Negative
Corporate Earnings	Improve on credit expansion and a favorable macroeconomic environment	(i) Weak earnings from banking sector. Banks recorded slower growth in Q3'15 of 9.3% y/y compared to 13.1% in Q3'14 (ii) 16 companies have issued profit warnings	Negative
Investor sentiment	Positive, supported by re-allocation of funds from the Nigerian market	(i) Peaceful conclusion of Nigerian election resulting to re-allocation to other cheaper markets (ii) Increased flows into Kenya's debt market, however few flows into the equities market	Negative
Security	Expected to improve given Government initiatives to eradicate extremism	(i) Garissa attack that claimed the lives of 148 people, mostly students (ii) Swearing in of Joseph Boinett as Inspector General of the Police (iii) Lifting of travel advisories by Western Nations (i) Visit by The US President, Barrack Obama and Pope Francis (ii) Hosting of the Global Entrepreneurship Summit and The MC10 conference	**Positive**

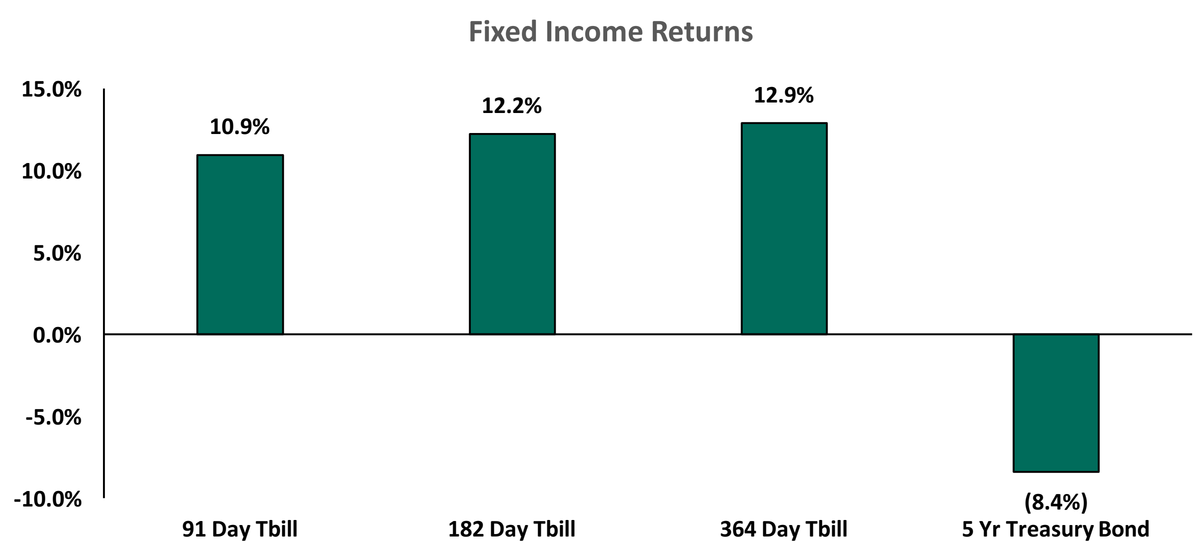
Source: Cytonn Investments

D: Fixed Income Review

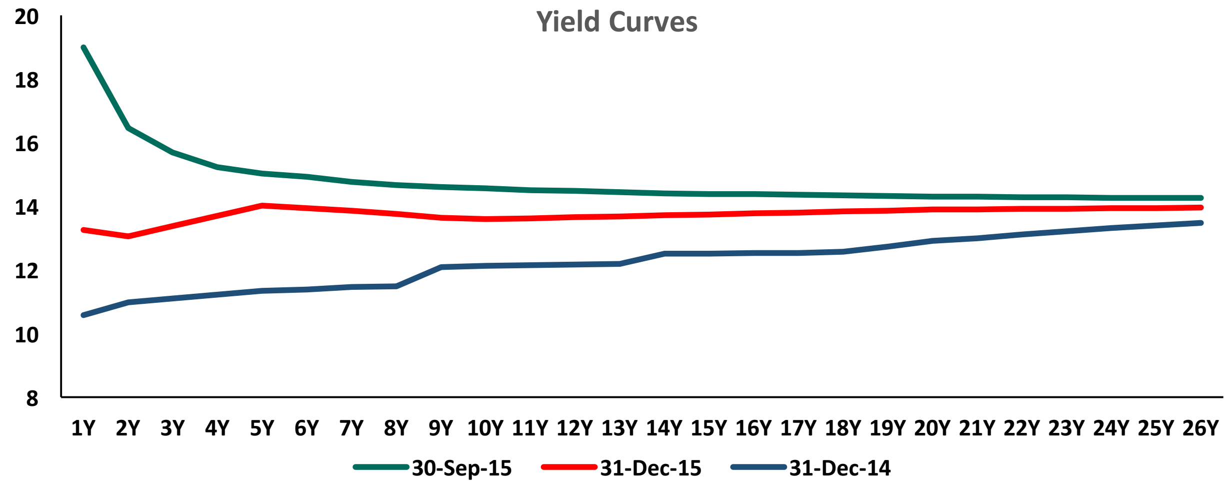
During the year, the fixed income market was characterized by aggressive government borrowing to fund huge infrastructural projects and Kenya's largest ever budget, with a domestic borrowing target of Kshs 219 bn for the financial year 2015/2016. It was this aggressive borrowing, combined with policy divergence between monetary and fiscal policy, which led to increased volatility in the interest rate environment. The 91, 182 and 364-day papers hit a high of 22.5%, 22.3% and 22.4%, respectively, before correcting to close the year at 10.8%, 12.8% and 13.3%, respectively, as the government resorted to financing the budget through short-term money-market instruments.

The impact of the high interest rate environment resulted in subdued activity in the secondary bonds market as investors preferred high yielding treasury instruments in the primary market, causing bond turnover at the NSE to decline 40.0% from Kshs. 0.5 tn in 2014 to Kshs. 0.3 tn in 2015. Based on the yield curve movement and the FTSE Bond Index, the average bond portfolios lost about 14.6% over the year.

The graph below shows the returns of various fixed income securities:



The graph below shows the evolution of the yield curve during the year, from a normal yield curve at the beginning of the year, to an inverted yield curve (owing to the high interest environment and the desire of investors to keep short) then to a normalization of the yields at the end of the year.



During the first half of the year, the money markets were characterized by tight liquidity as evidenced by the under-subscription of government securities as a result of the CBK's mop-up activity in support of the shilling. The tight liquidity persisted into the second half with the interbank hitting a high of 25.8%, which corrected to finally close the year at 6.9%. This year also saw the Central Bank Liquidity Management step up through reverse repos to help even out liquidity distribution in the interbank market especially in support of the small banks, which have been struggling to get funds from the interbank market since the closure of Imperial Bank. During the year, Central Bank have injected Kshs. 164.2 bn of which Kshs. 151.0 bn amounts have matured leaving a net injection of Kshs. 13.2 bn at year end.

Despite the Government being ahead of target in its domestic borrowing programme, having borrowed Kshs 130.5 bn for the current fiscal year compared to a target of about Kshs 114.1 bn, (assuming a pro-rated borrowing throughout the financial year of the budgeted Kshs. 219 bn of total domestic borrowing for this year), the pressure on rates is expected to persist. Most of these borrowings are short-term instruments that mature within the current fiscal year and the Government will face pressure in refinancing the obligations as they mature. As a result, we maintain our view that investors should be biased towards short-term fixed income instruments given the uncertainty in the interest rate environment.

E: Equities

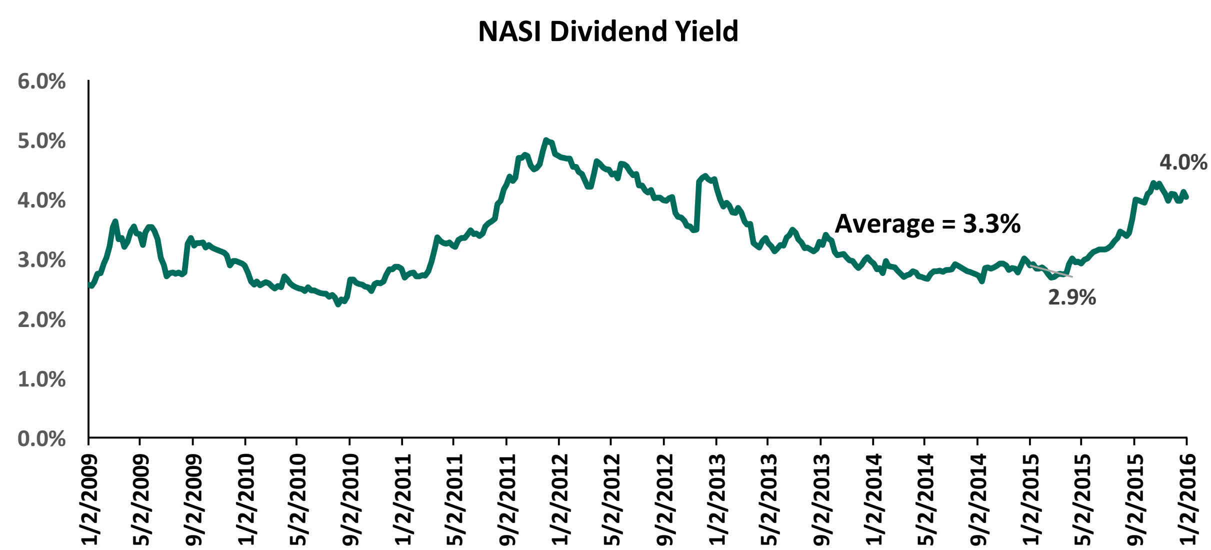
During the year, the Kenya equities market performed poorly with NASI and NSE 20 shedding 10.6% and 21.0%, respectively, as a result of declines in large cap stocks, while NSE 25 lost 2.2% since inception during the year. The top five losers for the year were Atlas, TransCentury, Britam, Longhorn and HF Group declining 82.9%, 57.7%, 55.9%, 53.6% and 52.4%. Reduced oil exploratory activities led to a low demand for support services, which impacted Atlas earnings, consequently closing out the Kenyan operations to settle in Ethiopia. Britam's portfolio exposure to equities markets that under-performed in 2015 coupled with various strategic challenges (run away expense growth, a stuck real estate strategy and closing of its Linda Jamii initiative) has subdued earnings in 2015, and consequently led to issuing a profit warning. Following its rights issue, HF Group share took a dip, due to a price correction and weaker earnings in the first and second quarters.

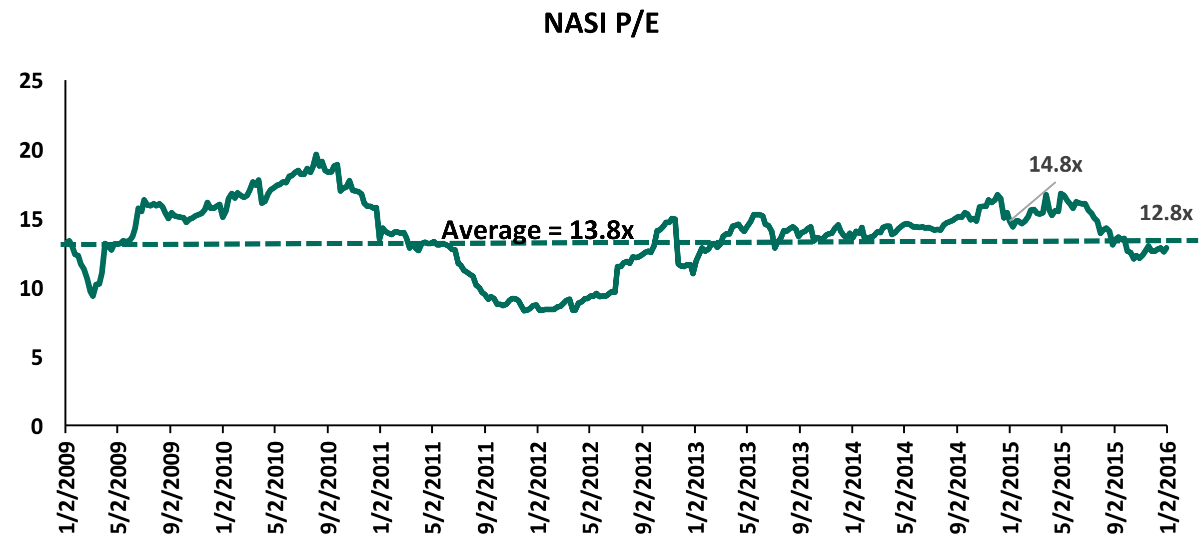
The top five gainers for the year were Kakuzi, Williamson Tea, Sasini, Kapchorua and Limuru Tea advancing 76.1%, 54.8%, 50.4%, 46.0% and 40.7%. The gainers, all agricultural stocks benefited from the strengthening dollar, which increased their export value and the expectation of an increased dollar strength has led investors to continue taking positions. Centum Investments acquired 9,646 acres of the Rea Vipingo land at Kshs 180,000 per acre and 900 acres of Vipingo Estates Limited at Kshs 340.0 mn. Centum paid more than the market-price that was estimated at Kshs 175,000 per acre, a 2.9% premium. REA was initially perceived as an agricultural stock but was ultimately valued as a real estate asset given the land holding, we believe that the entire agricultural sector experienced upward repricing in 2015 to take into account the potential value that could be unlocked from their real estate holdings. This upward repricing is partly responsible for the gains in the sector.

The top movers for the year were Equity Bank and Safaricom with a turnover of Kshs. 50.2 bn and Kshs. 39.0 bn, respectively.

The market is currently trading at a price to earnings ratio of 12.7x, compared to 16.0x at the beginning of the year and a 7-year historical average of 13.8x. The market dividend yield has increased to 4.1% from 2.9% as at January and a 7-Year historical average of 3.3%.

The charts below indicate the historical P/E and dividend yields of the market.





During the year, banks released their results, the most recent being Q3'2015, which indicated a slowdown in earnings growth. Overall, the banking sector earnings grew at 9.3% as of Q3'2015, compared to 13.1% in Q3'2014. This slowdown was attributed to the high and uncertain interest rate environment, which reduced loan disbursement and discouraged credit uptake. For more information on banking sector performance, please see our detailed analysis of the banking sector Q3'2015 performance in our banking report.

Listed insurance companies also released their half-year results, registering mixed performance. While Kenya Re, Jubilee and CIC Insurance registered a y/y growth in earnings of 20.3%, 24.5% and 51.3%, respectively, the results were countered by declines of 8.9%, 32.5% and 77.7% by Liberty, Pan Africa and Britam, respectively. The declines were mainly as a result of the fair value losses on investments given the poor performance of the equities market and the increase in interest rates. The gains were mainly from historically low valuations (Kenya Re) and reduced exposure to the equities market (Jubilee).

For more information on insurance sector performance, please see our detailed analysis of the sector H1'2015 performance in our insurance report.

Other results of keynote were Safaricom, Uchumi and Kenya Airways:

- Safaricom announced a 38.4% increase in profit to a record Kshs 31.9 bn. While headline earnings growth of 38.4% appear very strong, the growth was driven mainly by a flat year over year depreciation charges. Excluding depreciation, EBITDA growth was a respectable 17% but way below the headline 38.4% earnings growth.
- Uchumi also released Full Year 2015 results, posting Kshs 3.4 bn loss after tax, driven by a 10.4% decline in revenue and a one-off Kshs 1.6 bn impairment provision for the closed branches in Uganda and Tanzania. We published a research note on Uchumi with a buy recommendation, Cytonn Uchumi Report. It is noteworthy that since our research note, the stock

has moved up by 36.9% surpassing our target of Kshs. 9.7. We shall be reviewing our recommendation in the next research note.

- Kenya Airways (KQ) reported half year results, recording losses of Kshs 11.95 bn, a 14.4% increase in losses from the Kshs 10.5 bn recorded in a similar period last year attributed to finance costs which rose 104% to Kshs 3.4 bn while losses on foreign exchange and hedged fuel derivatives rose to Kshs 4.8 bn, from Kshs 1.2 bn in the previous year.

This year saw the highest number of listed companies issue profit warnings during the year, with 15 companies notifying investors of expected significant drop in earnings, by at least 25%, compared to 11 last year. This points to a challenging operating environment during the year 2015, which was characterized by higher interest rates and a weak shilling.

2015 saw a number of legislations enacted that affected the equities market and investor sentiment, namely:

1. **Re-introduction of Capital Gains Tax**: Charged at 5%, and was introduced in January, leading to significant volatility in the market. This was later replaced with 0.3% withholding tax due to administrative challenges,
2. **Companies Act**: Made it possible for publicly listed companies to buy back their shares from the market, encouraging companies (i) to intervene when they view their shares as undervalued, and (ii) issue shares to employees as an alignment tool.

During 2015, Kenya's operating environment has remained difficult for businesses to operate. While valuations are not as stretched as at the beginning of the year, (market valuation currently at 12.7x PE compared to 16x PE as at the beginning of the year) earnings growth is much weaker, and the operating environment continues to be unfavorable. Despite the fact that some of the factors have already been priced into the market, as can be seen by a 10.6% decline in NASI in 2015, we remain neutral in equities with a negative bias. The market is now purely a stock pickers' market, with few pockets of value.

F: Private Equity

Private equity as an asset class was robust in 2015, supported by (i) increased flow of global private equity funds into the region, (ii) increased ease of exit, and (iii) the growing entrepreneurial population which provides a backbone for the asset class to thrive.

The emergence of global private equity players showcased the opportunity in the region. We witnessed various fund commitments in 2015, with key of them being:

i. The Abraaj Group raised USD 1.4 bn for the African continent this year, a record for any PE firm investing in Africa, having raised USD 990.0 mn for its 3rd Sub Saharan Africa Fund,

ii. TPG Capital is looking to invest USD 1 bn in Africa in various sectors. TPG is the third largest American PE firm to enter the African market after Carlyle and KKR. The entry of such big American PE funds (TPG, KKR and Carlyle are all top 10 global PE firms) into Africa is a clear indicator that Africa is becoming important to commercial PE players, in addition to the DFIs, and the asset class will see increased competition due to attractive returns supported by fundamentals, and,

iii. Carlyle Group, the world's second-largest manager of investment alternatives announced that the attractive growth of Africa would see it make purchases in 2016.

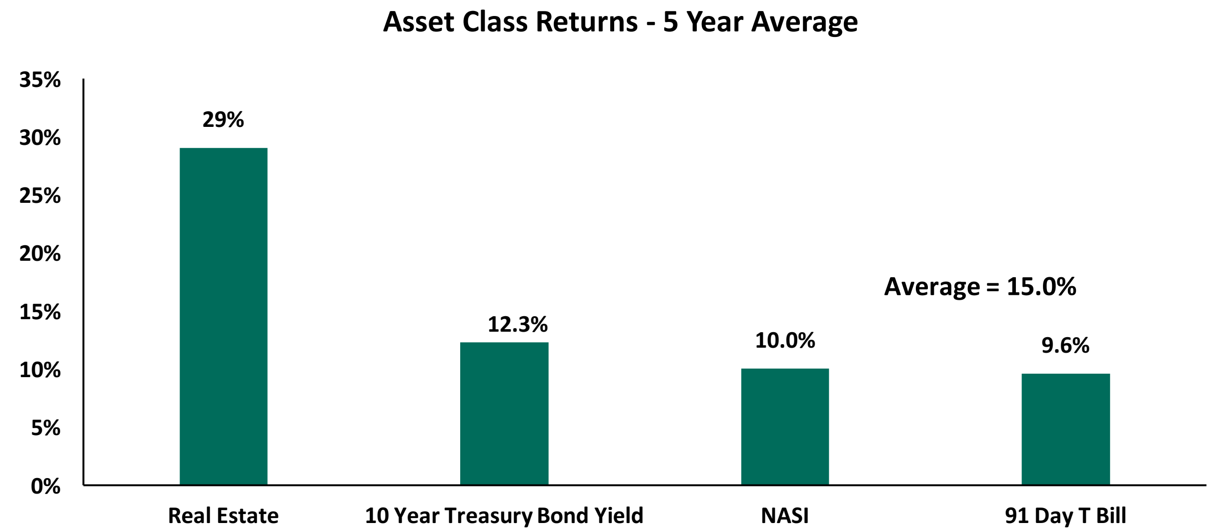
iv. Helios raised a USD 1 mn Africa Fund, of which existing investors funded 60%. This was their 3rd fund since their inception in 2007.

In Kenya, 2015 had increased activity by private equity funds, in exits, buy-outs and joint ventures. The Kenyan market has demonstrated overall attractiveness with key players posting high returns from their investment, with (i) Helios Investment Partners fully exiting its 25% holding in Equity Bank which we estimate that Helios made an annualized compounded return of over 30% per annum during the 7 years it was an investor in Equity Bank, (ii) Centum's exit of their investment in UAP to Old Mutual Group, and (iii) Taaleritehdas Private Equity Funds and Cytonn Investments exited a Kshs 220 million structured real estate note at an IRR of 54%.

The overall Sub-Saharan Africa region has remained attractive for private equity funds given (i) the abundance of global capital looking for opportunities in Africa, (ii) the attractive valuations in private markets compared to public markets, (iii) better economic growth in Sub-Saharan Africa as compared to global markets, and (iv) the ability to exit investments.

G: Real Estate:

Real estate as a sector for both development and investment continues to provide the most attractive opportunity in Kenya and the region for investors. It provides a long-term, stable and attractive investment opportunity, which has outperformed all other asset classes in the past with returns of over 28% pa compared returns in equities and fixed income of 10.0% and 12.3%, respectively.



In addition, the increased investment in infrastructure by the government has continued to open up more areas for growth especially along the bypasses, which combined with strong demographics and a growing population saw real estate thrive as an asset class in 2015. In the third quarter the construction sector was the best performing sector and we also saw an increase in building approvals.

The Kenyan real estate sector in 2015 has seen increased activities in some key areas such as:

i. **Legal and institutional reforms**: The Government has undertaken key reforms in the sector to boost activity as well as restore confidence to the citizens and investors. This is through the National Construction Authority, which instituted new reforms such as the Physical Planning Bill 2015, where property developers and individuals building homes will have to complete construction within 5 years or face penalties. The Bill states that, once an applicant is granted development permission for building works, that applicant shall complete those building works within 5 years after receiving the development permission. Other reforms include those on the sales front whereby agents would be required to be registered before conducting any kind of property agency. In the coming year we expect reinstated confidence in the real estate sector based on the legal reforms. This will further increase the investor interest in real estate in Kenya,
ii. **Growth of the retail sector**: This year tens of billions of shillings have been sunk into the retail space, much of it during the first half of the year. Although the growth in construction is slowing, supply of commercial space continues to rise. Shopping malls are becoming a key thrust for developers of mega projects. This is largely driven by the expanding middle class, which have increased disposable income. Some of the major malls that have opened their doors this year include Buffalo Mall in Naivasha, Garden City Mall, Ananas Mall in Thika among others. We expect the coming year to have more retail space entering the market with Two Rivers Mall, Riviera Mall, among others expected to open,

iii. **Launch of Major housing projects**: Major housing projects worth billions have been launched in the year such as Kijani Ridge in Tatu City, Tilisi master plan community and HF housing projects. These are in a bid to curb the housing shortage that has been facing Kenya. Cytonn has subscribed to this and rolled out a signature residential development, Amara Ridge, in the Karen area of Nairobi, which offers stunning and luxurious living. In the coming year, we shall be rolling out major projects with the most recent ones expected to break ground in Q1'2016, Situ Village and The Alma.

iv. **The entry of several international developers and investors**, driven mostly by the high demand of real estate products and the high returns in the sector. These include players such as Taaleritehdas of Finland in partnership with Cytonn Real Estate, X-Calibur and Avic International. This is because Kenya, this year, has been ranked as the most improved country by JLL research in terms of transparency. This in turn has attracted international players aided by other factors such as improved infrastructure, growth of the middle class and political decentralization,

v. **Introduction of Real Estate Investments Trusts**: This was a major addition to the real estate market in Kenya. The Fahari I-REIT, launched in November 2015, by Stanlib.

However, the sector still faced a number of challenges in 2015, including (i) the opaqueness of the land dealings, (ii) the land registry yet to be fully automated, (iii) lack of central data points, (iv) the depreciating shilling which made imports for construction more expensive, and (v) the expensive credit making property purchase difficult as a result of the high interest rate environment.

Overall, the sector remains very attractive for investors seeking stable, long-term returns.
