

# Cytonn – Sending Shockwaves in Real Estate

Cytonn Investments is dismantling the status quo in the real estate industry and fast emerging as a force to reckon with.

Sometime in September 2014, Kenya's corporate scene witnessed what can only be described as an explosion of unimaginable magnitude. Being a country where corporate shakeups that leave the market in awe are few and far between, the bombshell exit of four managers from a corporate giant, Britam, who went on to establish their own company felt like an earthquake. For a moment, the fund management and deal making sphere in the country felt mystified.

To observers, the tranquillity in the investment management industry was set for major disturbances by Cytonn Investments, the brainchild of three partners and one analyst all with more than five decades of experience in the wider financial services sector. More importantly, the configuration of the industry where a few firms dominated would significantly be upset. Indeed, the industry was in consensus, though in hushed tones, that Cytonn was going to be a force to reckon with and offered real threats to the status quo.

Despite being relatively new in the market, Cytonn Investment now has



Edwin Dande, Cytonn Investments  
Managing Partner and CEO

deals in the excess of Sh55 billion and employs a staff of 120 across three offices with one office in DC Metro area in the United States.

"We want to bring a paradigm shift in real estate development and structured finance because our growing economy needs innovative financial solutions,

and nobody can do this better than us," says Edwin Dande, Cytonn Investments Managing Partner and Chief Executive Officer. He adds that contrary to opinions surrounding their acrimonious exit from their previous employer, Cytonn is the invention of a team with a common mindset who are committed to growing their careers, building a lasting legacy

and generating above average returns for investors.

The belief that their exit from their previous employers was pre-planned, according to Dande, is far from the truth. "We had not planned to move because we loved what we were doing at our previous employer, Britam. We only moved when it was clear that the team was better off serving our clients from an independent platform," he states. The opportunity came in the form of significant growth of the real estate sector and transformation of the country's corporate sphere.

According to Dande, a man who honed his skills in the financial sector in Wall Street, globalisation has opened Kenya's financial sector to the world. In effect, the yoke of a few controlling investment deals has been broken. "In today's world we can raise money from anywhere because global investors are primarily concerned about talent and return on investments," he says.

The opportunities availed by the new order has Cytonn excited. The firm, which does not view itself as a new entrant in the market owing to the fact that its founding managers have

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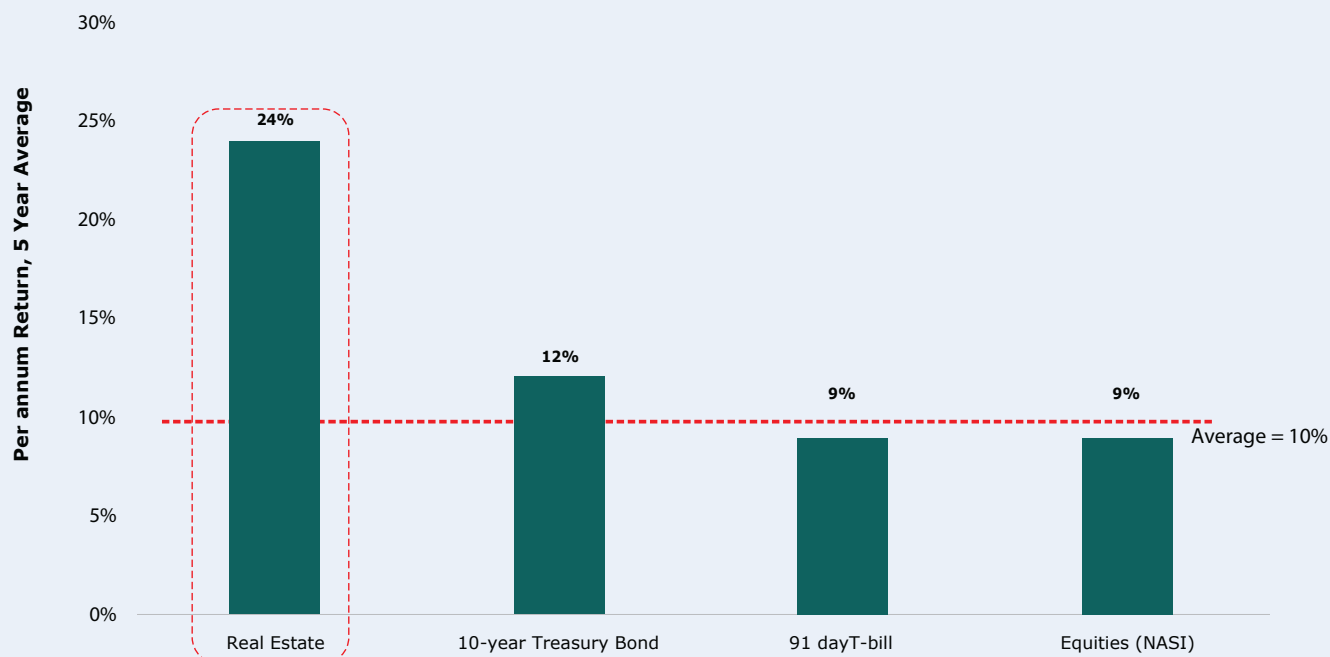
worked together for over five years, is determined to make a mark in real estate investment solutions, private equity, and structured solutions. These are the highest returning asset classes accessible to the wider population. These investments have typically been a preserve of the wealthy few. "We want to do to the real estate sector what Equity Bank did to the banking sector, making it really accessible to the ordinary Kenyan," explains Dande. While these are the core areas that

Cytonn is focusing on, real estate is what the company wants to be defined by. "When we set up we said we want to focus on real estate. We want to make Cytonn a house hold name in real estate because in this market nobody has positioned themselves this way," says Dande. He adds that customers and investors want a trusted brand that delivers on its promises and that real estate is still plagued with many unprofessional players.

To build the envisioned brand, the team needs to be glued together for the long haul. In this respect, the original partners have signed a pact that nobody can leave before three years are over. More critically, Cytonn has adopted a Wall Street system that partners cannot engage in other enterprises (side hustles) as long as they are working at the firm. "For us to deliver on our promises we have to put our mind and soul into the business," notes Dande. He adds that these commitments will ensure the firm does not compromise clients' interests as it pursues to be the country's only-house in real estate investments. "A lot of players are rigging the game, they take the best opportunities for themselves and offer clients the rest. The only way to stop

## Cytonn focuses on the highest returning Asset Class

Traditional investments returning 10% compared to 24% for real estate, & projected to continue







From (l to r) Edwin Dande, Partner, Chief Executive Officer, Patricia Wanjama, Partner, Head of Legal & Company Secretary, Elizabeth Nkukuu, Partner, Chief Investment Officer and Shiv Arora, Head - Private Equity Real Estate

this from happening is to prohibit senior management from engaging in any investment business, other than for clients," Notes Dande.

There are good reasons why real estate matters to Cytonn. First, real estate is today among the few vibrant sectors of the economy. According to the Economic Survey 2015, the building and construction industry recorded a growth of 13.1 per cent in 2014 against a target of 5.9 per cent. The real estate industry accounted for about half of the growth in the sector. Today, real estate accounts for about eight per cent of the gross domestic product.

Second, Kenya is grappling with a monumental housing challenge. The country is currently experiencing a housing deficit of 150,000 units annually and the situation is worsening with population growth and urbanisation. In Nairobi alone, the deficit stands at 80,000 units annually. With the annual national output of new houses currently standing at about 17,000, the situation is bound to get worse considering Kenya's population is projected to grow by around one million per year over the next 40 years, reaching about 85 million by 2050.

Third, the positive economic growth recorded in the country in recent

## Cytonn in Numbers

- 120 – Number of employees
- Sh6 billion – Value of the company
- Sh56 billion – Real estate portfolio

years has given rise to a ballooning middle class that is driving demand of residential properties, both for buying and renting. The growing middle class is also responsible for driving consumption, something that has translated in exponential growth of the retail sector and in effect the malls culture.

Besides, the fact that Kenya has emerged as a regional economic hub has seen many multinationals and foreign companies open shop in the country. This in effect is causing huge demand for office space and high end residential properties. Resurgence of the tourism industry is another factor that is also

driving investments in properties.

Fourth, and most important, real estate is proving to be the ideal card for investors looking for attractive and stable returns on investment. The stock market, which had become the preferred channel of investing, has long lost its allure. The market is only now showing signs of stability after a prolonged period of a bear run in 2015 in which investors lost a staggering Sh300 billion. Over the past five years, per annum real estate returns have averaged 24 per cent compared to 10 per cent return by traditional investments like equities, treasury bonds and treasury bills.

According to Dande, Cytonn has adopted a unique model in real estate development. The firm focuses on mobilising resources from investors, connecting the investors with people with land and executing the projects. Despite being in the market for less than two years, the company already has a real estate portfolio worth Sh60 billion. "Going by our portfolio we are the largest real estate developer," he avers.

Currently the company is implementing some key projects that include Situ Village, a gated master plan project in Karen valued at Sh4 billion, The Alma which is a middle class residential

project in Ruaka valued at Sh2 billion and Amara Ridge, a gated community in Karen valued at Sh625 million. Apart from the three ongoing developments, Cytonn has other proposed projects in Hurlingham, Upper Hill, Rongai, Mombasa, Juja, Mount Kenya, Mavoko and Lukenya all valued at Sh43.7 billion. The company has consciously ensured it focuses on low to mid-income projects which account for 85 per cent of its portfolio because that is where the demand is high. "We want to serve the bottom of the pyramid market," states Dande.

To finance the projects, Cytonn has been mobilizing resources. According to its projections, the company intends to incur debt of Sh28 billion while the remaining Sh28 billion will be raised through equity and equity-like instruments. So far the company has mobilised Sh10 billion, which is Sh5 billion in the form of joint ventures with land owners, Sh3 billion from individual investors and Sh2.5 billion from Taaleri Private Equity Funds of Finland. "We have already raised more capital than we currently need," observes Dande. He adds the firm will continue sourcing for financing as it implements projects. So far Cytonn has sold shares to other shareholders raising Sh100 million. Currently valued at Sh6 billion, the company continues to see strong investor interest in its shares.

One area that Cytonn has been careful to get it right is on joint ventures with land owners. It is imperative to note that the land issue in Kenya remains emotive and often has a penchant to generate controversies, particularly where a number of family members are involved. To avoid getting entangled into land controversies, Cytonn carries out a thorough due diligence on the land, the owner and family before entering into a joint venture. "Our joint ventures are robust in terms of structures and governance," he explains. He adds that while Cytonn wants to bring on board more joint ventures, it avoids land owners with whom it does not possess shared values. "Doing business with people with whom you do not have shared values will always end in a dispute," he says.

Having already sent a statement of intent to dominate the real estate

market to its competitors, Cytonn is also building the blocks internally to have a strong foundation that will enable it take the market head-on. The internal blocks involve putting in place a strong governance structure anchored by an experienced and diverse board of directors. The board is chaired by Prof Daniel Mugendi. The Principal of Embu University College is a renowned

## Cytonn focuses on mobilising resources from investors, connecting the investors with people with land and executing projects

scholar, researcher, consultant and higher education leader. Cytonn has recently added Mr Michael Bristow, the Chairman of Central Depository and Settlement Corporation Limited (CDSC), to its board.

Cytonn has also assembled a relatively young, energetic, and vibrant team of 120 staff that believe in a culture of

hard work, being sharp, likeable and ready to work for long hours. Majority of the staff have been recruited through a rigorous Young Leadership program. "We know that to build a great company you need great people. That is why we look for the best people and align them to our culture," explains Dande. He adds that to retain the best people, to the firm offers a challenging environment, the best opportunity to grow careers and every fulltime team member owns shares. He adds the company also invests in training, considering that research forms an important component of its operations. Cytonn is also investing in IT and other support services as part of the internal blocks. It has also established a subsidiary in the US to address the needs of the diaspora market.

As Cytonn approaches two years in the market, it has recently launched a campaign dubbed "Sharp is the New Smart". The theme is designed to challenge clients and market participants to aspire for extraordinary standards. "The brand campaign has really worked. Our business volume has grown by three times since we launched the brand campaign. But this is not just about our business, the underlying message is that we live in a country with enormous opportunities to prosper through hard work and innovation, rather than through corruption and 'tenderpreneurship'," observes Dande.

## Cytonn's strategy brings three key pillars together

