



Real Estate Investment Training
For Pension Schemes Trustees
10th November, 2016



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I: Introduction to Cytonn Investments

What We Stand For



Our Mission

We deliver innovative & differentiated financial solutions that speak to our clients' needs



Our Vision

To be Africa's leading investment manager by consistently exceeding clients' expectations



Our Values

People

Passionate and self-driven people who thrive in a team context

Excellence

Delivering the best at all times

Client Focus

Putting clients' interest first at all times

Entrepreneurship

Using innovation and creativity to deliver differentiated financial solutions

Accountability

We take both corporate and personal responsibility for our actions

Integrity

Doing the right things

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I

Overview of The Firm

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**Strategy is
straightforward –
just pick a general
direction and
implement like hell**

— Jack Welch

About Us

Cytonn Investments is an alternative investment manager with presence in East Africa, Finland and the US. We provide investors with exposure to the high growth East Africa region. Our investors include global and local institutional investors, individual high net-worth investors and the diaspora. We also service retail investors through our Cytonn Co-operative

FACT FILE

74

Over Kshs. 73 billion under mandate

3

Three offices across 2 continents

150

Over 150 staff members

12

12 investment ready projects

A unique franchise differentiated by:

Independence & Investor Focus

Focused on serving the interest of clients, which is best done on an independent platform to minimize conflicts of interest

Alternative Investments

Specialized focus on alternative assets - Real Estate, Private Equity, and Structured Solutions

Strong Alignment

Every staff member is an owner in the firm. When clients do well, the firm does well; and when the firm does well, staff do well

Committed Partners

Strong global and local partnerships in financing, land and development affiliate

Why We Exist

Africa presents an attractive investment opportunity for investors seeking attractive and long-term returns. Despite the alternative markets in Africa having high and stable returns, only a few institutional players serve the market. Cytonn is focused on delivering higher returns in the alternative markets, while providing the best client service and always protecting our clients' interests.

WE SERVE FOUR MAIN CLIENTS SEGMENTS:

- Retail segment through Cytonn Co-operative membership
- High Net-worth Individuals through Cytonn Private Wealth
- East Africans in the Diaspora through Cytonn Diaspora
- Global and Local Institutional clients

WE INVEST OUR CLIENT FUNDS IN:

- Real Estate
- Private Equity
- Fixed Income Structured Solutions
- Equities Structured Solutions



Our Business

Where We Operate



Our Business Lines

Investments

Alternative investment manager focused on private equity and real estate

Real Estate

We develop institutional grade real estate projects for investors

Diaspora

We connect East Africans in the diaspora to attractive investment opportunities in the region

Technology

We deliver world-class financial technology solutions

Co-operative

Provides access to attractive alternative investment opportunities for members

Our Solutions

To unearth the attractive opportunity that exists in alternative markets in Africa, we offer differentiated investment solutions in four main areas:

HIGH YIELD SOLUTIONS

Our expertise in the alternative markets enables us to offer investors high yielding investments. Our robust credit analysis coupled with our quick dealing capabilities, our extensive research coverage and our innovative structuring helps to ensure consistent and above market returns to investors.

REAL ESTATE INVESTMENT SOLUTIONS

Our comprehensive real estate capabilities enable us to find, evaluate, structure and deliver world-class real estate investment products to our investors in the East African region. Our capabilities include fundraising, market research and acquisition, concept design, project management and agency and facility management.

PRIVATE REGULAR INVESTMENT SOLUTIONS









Attractive returns in the alternative segments have typically been accessible to institutional and high net-worth investors. Our regular investment solutions provide access to the alternative investments to members of the Cytonn Co-operative.

PRIVATE EQUITY

We seek to unearth value by identifying potential companies and growing them through capital provision, partnering with management to drive strategy and institutionalizing their processes. Our areas of focus are Financial Services, Education, Renewable Energy and Technology Sectors.

Our Products

We serve three main types of clients namely, high net-worth individuals, institutions and retail, each with diverse needs. Below are the suitability criteria for the various products.

	INSTITUTIONAL CLIENTS	HIGH NET WORTH INDIVIDUALS (HNWI)	RETAIL CLIENTS
Cash Management Solutions			
Regular Investment Plan <ul style="list-style-type: none">• Education Investment Plan• Regular Investment Solution• Co-op Premier Investment Plan• Land Investment Plan			
Real Estate Development <ul style="list-style-type: none">• Real Estate Developments• Sharpland			

Our People



If you could get all the people in an organization rowing the same direction, you could dominate any industry, in any market, against any competition, at any time.

— **Patrick Lencioni**



Board of Directors

To ensure that we remain focused on the clients' interests, we have put in place proper governance structures. We have a board of directors consisting of 10 members from diverse backgrounds, each bringing in unique skill-sets to the firm



Non-Executive Director
Chairman

Prof. Daniel Mugendi Njiru, PhD



Non-Executive Director

Madhav N. Bhalla, LLB



Non-Executive Director

Antti-Jussi Ahveninen, MSc



Non-Executive Director

Nasser J. Olwero, MPhil

For bios, visit www.cytonn.com



Non-Executive Director

James M. Maina, MA



Non-Executive Director

Michael Bristow, MSc



Non-Executive Director

Rose Kimotho, M.B.S.



Executive Director

Managing Partner

Edwin H. Dande, CPA, MBA



Executive Director

Senior Partner

Elizabeth N. Nkukuu, CFA, MBA



Executive Director

Partner

Patricia N. Wanjama, CPS (K), MBA

For bios, visit www.cytonn.com

Governance



If you have leadership without governance you risk tyranny, fraud and personal fiefdoms. If you have governance without leadership you risk atrophy, bureaucracy and indifference.

— **Mark Goyder**

INVESTMENTS & STRATEGY COMMITTEE

The committee oversees and provides strategic investment direction, including the implementation and monitoring process.

The committee consists of five directors with three non-executive directors namely: James Maina (Chairman), Antti-Jussi Ahveninen, Madhav Bhalla, Edwin Dande and Elizabeth Nkukuu.

AUDIT RISK & COMPLIANCE COMMITTEE

The committee establishes and oversees risk and compliance, including the implementation and monitoring process.

The committee consists of four directors with two non-executive directors namely: Madhav Bhalla (Chairman), Nasser Olwero, Edwin Dande and Patricia Wanjama.

GOVERNANCE, HUMAN RESOURCES & COMPENSATION COMMITTEE

The committee establishes, oversees and implements governance structure, human resource policies and firm wide compensations.

The committee consists of four directors with three non-executive directors namely: Antti-Jussi Ahveninen (Chairman), Prof. Daniel Mugendi, Michael Bristow and Edwin Dande.

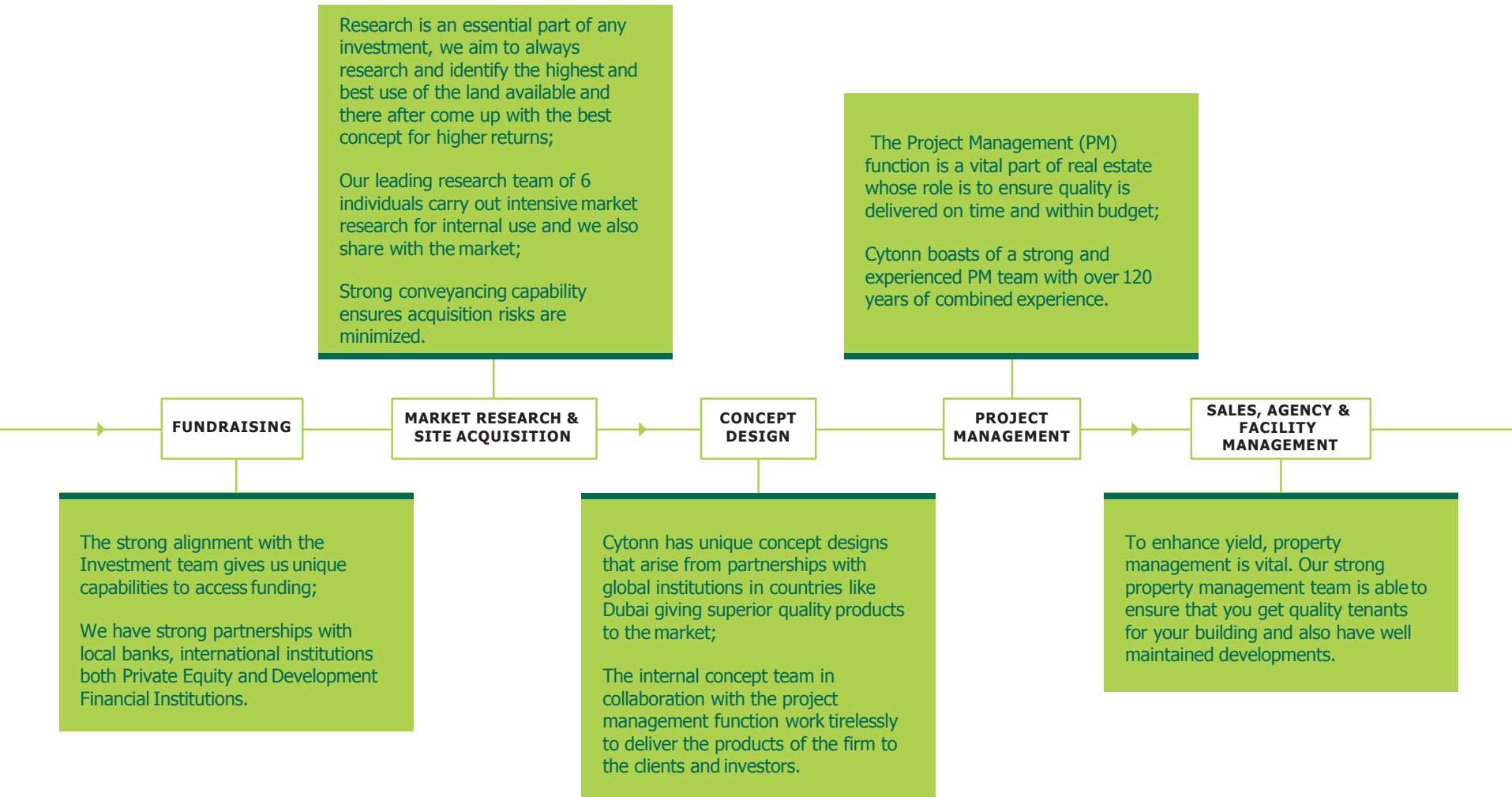
TECHNOLOGY & INNOVATION COMMITTEE

The committee establishes, oversees and implements technical expertise and innovative processes as a driver towards competitiveness.

The committee consists of three directors, with two non-executive directors namely: Nasser Olwero (Chairman), Michael Bristow and Patricia Wanjama.

Cytonn Real Estate's Unique Capabilities

Cytonn has all the necessary capabilities to deliver the very best Real Estate for investors.



AMARA RIDGE



SITU VILLAGE



THE ALMA



NEWTOWN



II: Introduction to Investments

What is investments

Knowing what investments will do well under each scenario is important

- **Investments:** This is the purchase of an Asset with the hope of generating some income in future or the asset appreciating hence being able to sell it at a profit
- What can people invest in:
 - ***Capital Market Investment***
 - ***Land***
 - ***Commodities***
 - ***Currencies***
 - ***Unlisted Companies etc***

Key Considerations when making investment decisions

Each client faces different scenarios and that determines their investment profile

Key Consideration while investing:

- **Risk:** The uncertainty that an investment may not earn its expected rate of return
- **Return :** These are the earnings from investments, and they vary depending on the type of investment e.g. dividends, rent, interests and capital appreciation.
- **Liquidity:** This is a definition of how quickly an asset can be converted into cash
- **Investment Horizon :** This is the length of time that an investor intends to hold an investment and it is dependent on the investors income needs and risk exposures
- **Tax profile of the Investors:** Depending on the type of the client, the taxation should be well planned to avoid losing a large chunk of returns in tax. Independent tax advice should always be sought by the Client
- **Age:** Investors who are approaching retirement age are likely to favor fixed income investments which guarantee a fixed return as opposed to equity investments which tend to be highly volatile
- **Unique preferences:** An investor may decide to invest according to a set of circumstances and what suites the investor's needs at the time

Macro Economic Variables Determine investments

Knowing what investments will do well under each scenario is important

- The investment outlook of an economy is determined by :
 - Expected GDP or economic growth globally and locally
 - Level of inflation and interest rates
 - The currency prospects
 - Performance of other trading countries
 - Political stability
 - Social stability

The performance of the investments is largely determined by peoples views on all the above

Introduction to Investments – Broad Classifications

There are two main broad classifications of investments based on the ease of accessibility

Traditional Investments

Description

- i. Equities
- ii. Fixed Income

Characteristics

- Liquid
- Price visible on stock exchange
- Liquid
- Highly sensitive to interest rates
- Returns made of both coupon and principal

Alternative Investments

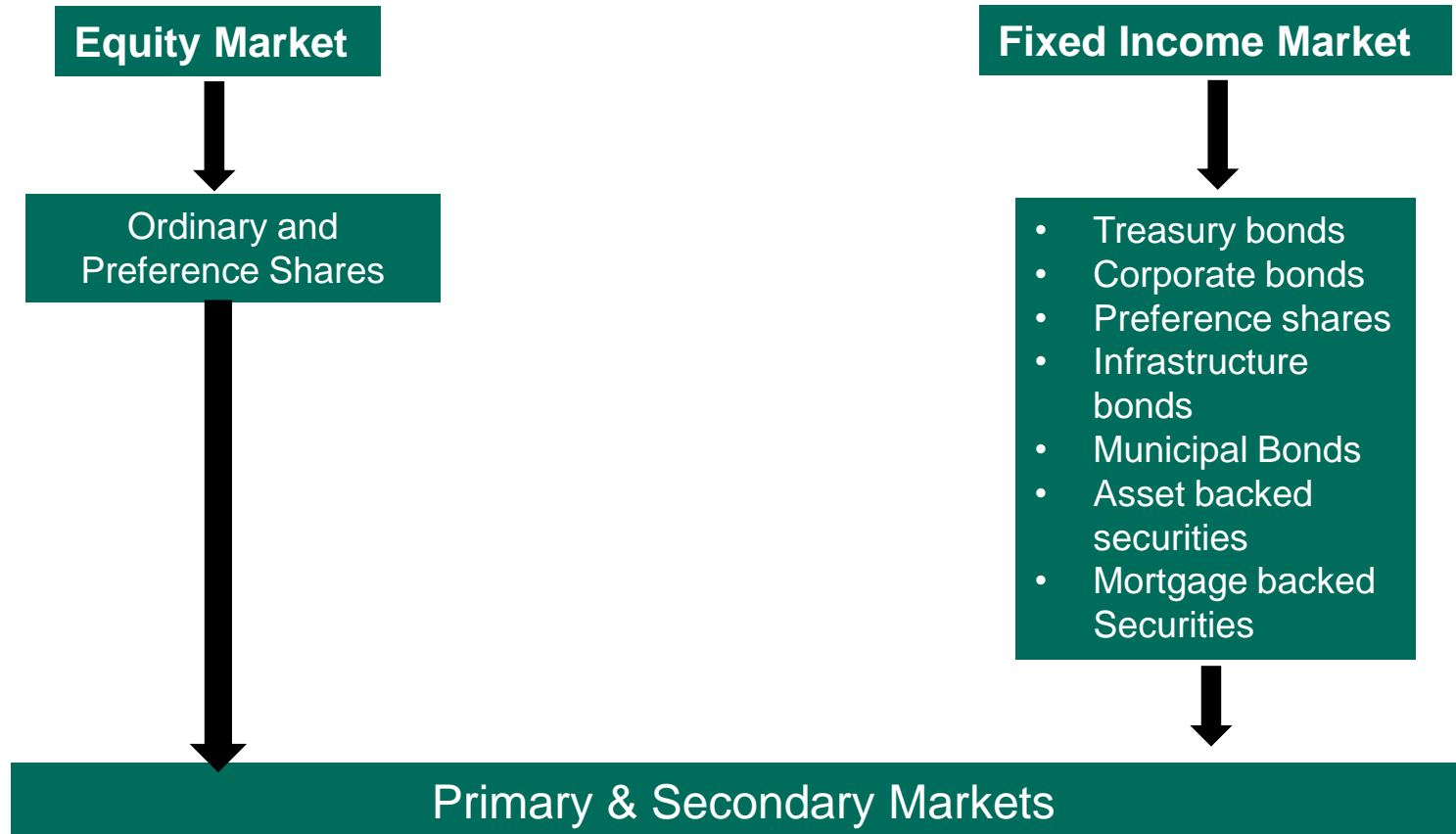
- i. Private Equity
- ii. Real Estate

- Illiquid
- Difficult to price
- Lack of availability of transaction data
- Illiquid
- Provides inflation hedge (have their own value)
- Low correlation with traditional investments
- Lack of availability of transaction data

i). Traditional Investments

Investment Products –Equities

Equity and Fixed Income market are the most common investment products



a). Equities Investment

Equities

Equities represent ownership interest in a company

Common Stock

- Get dividends depending on profit the company makes
- Capital appreciation of stock value
- Voting rights

Preferred Stock

- Receive cash dividends before common stock holders
- Pre-determined dividend rate
- Takes precedence over common stock in case of liquidation

Common Shareholder's Rights

- Voting power on major Issues during General Meetings
- Ownership in a proportional interest of the company
- Right to transfer ownership
- Opportunity to inspect corporate books and records
- Suing for wrongful acts

Advantages & Disadvantages of Investing in Equities

Equity investments are suitable for long term investors

Advantages

- For listed entities the securities are easily transferrable
- Limited liability to the extent of capital contributed in the company
- Voting rights and decision making during AGMs
- Receive dividend should your company make profits and choose to distribute

Disadvantages

- Usually high risk compared to fixed Income
- It may take a long period to realize a return when investing in equities
- Minority stake may not influence the company decisions
- In case of liquidation, shareholders are paid last

b). Fixed Income

Fixed Income Investments

Fixed Income are Contractual Agreements with Periodical Payments, and offers Principal Protection

Principal

- This is the amount of the bond held and is the sum to be repaid at maturity (also known as the nominal value)

Coupon

- Interest rate on the principal amount
- Paid at regular intervals until maturity
- Coupon is fixed for the life of the bond

Maturity

- Date in future on which the investors principal will be repaid

Yield

- This is the return that an investor gets by investing in the bond if held to maturity
- Yield impacts price of the bond and hence the cost

Redemption

- This is the repayment of the sum invested to the investor by the borrower,
- May be at maturity or before maturity based on redemption structure
- If done at maturity, redemption occurs at par

Fixed Income

Fixed income securities are less risky investments that offers principal protection

Bank Deposit

- These are deposits placed with banks or financial institutions
- The pricing depends on prevailing market rates
- The deposits can either be term or call deposits

Treasury Bill/Bond

- A promissory note issued and fully guaranteed by the government
- These are short-term investments and can either be 91, 182 or 364-day bills depending on their maturity
- Their value depends on the prevailing interest rates also known as yield

Commercial Paper

- A promissory note issued in bearer form by a company with a good credit rating
- These securities are usually for institutional investors
- The papers are priced at a margin to T-bill
- They are issued through private placement

Corporate Bonds

- A promise to pay interest and principle, but do not pledge collateral in case the firm does not fulfil its promise. It is basically a form of unsecured debt
- The holders of debentures have claim over general creditors
- Most are issued through private placement

Advantages & Disadvantages of Investing in Fixed Income

Fixed income instruments provide a fixed guaranteed return, which mostly underperforms inflation rates

Advantages

- Provide Periodical Income such as Coupon Payment
- Low risk involved compared to Equities
- Offers Principal Protection
- They are Investment for defined Period of time
- Rank higher than equities investors in case of liquidation

Disadvantages

- Lower returns as compared to other asset classes
- Returns usually underperforms inflation rates
- Usually money denominated
- Debt holders are not owners of the company

ii). Alternative Investments

a) Private Equity

Private Equity

Private equity is the purchase of a stake in a private company

- Private equity is an asset class consisting of equity securities investments in operating companies that are not publicly traded on a stock exchange
- It involves identifying good ideas or companies with growth potential and committing funds as well as providing management and strategy advice
- The majority of private equity consists of institutional investors and accredited investors who can commit large sums of money for long periods of time
- Usually high risk as the success of the investment is based on uncertain future business environment

Pros and Cons of Alternatives Assets Investments

Like in Real Estate, the benefits out-weigh the challenges of investing in Private Equity

Key Benefits of Private Equity

Superior long-term Return

- Provides superior long term returns due to active participation in management

Diversification

- Diversification benefits through a greater selection of investment options

Positive Social Footprint

- Private equity is directly involved in the development of the economy, job creation and innovation

Correlation

- Low correlation with traditional investment classes

Key Challenges of Private Equity

Complexity

- Also require rigorous analysis and due diligence

Pricing

- Value is difficult to ascertain and involves a lot of subjectivity

Information Asymmetry

- The risk of over overpricing is also high for PE because of information asymmetry

Illiquidity & Variability of Returns

- Like Real Estate, Private Equity investments are highly illiquid
- Not all deals go through well but those that do perform very well

Private Equity Investors

Global Players



Regional Players



What is common about these brands?



b). Structured Products

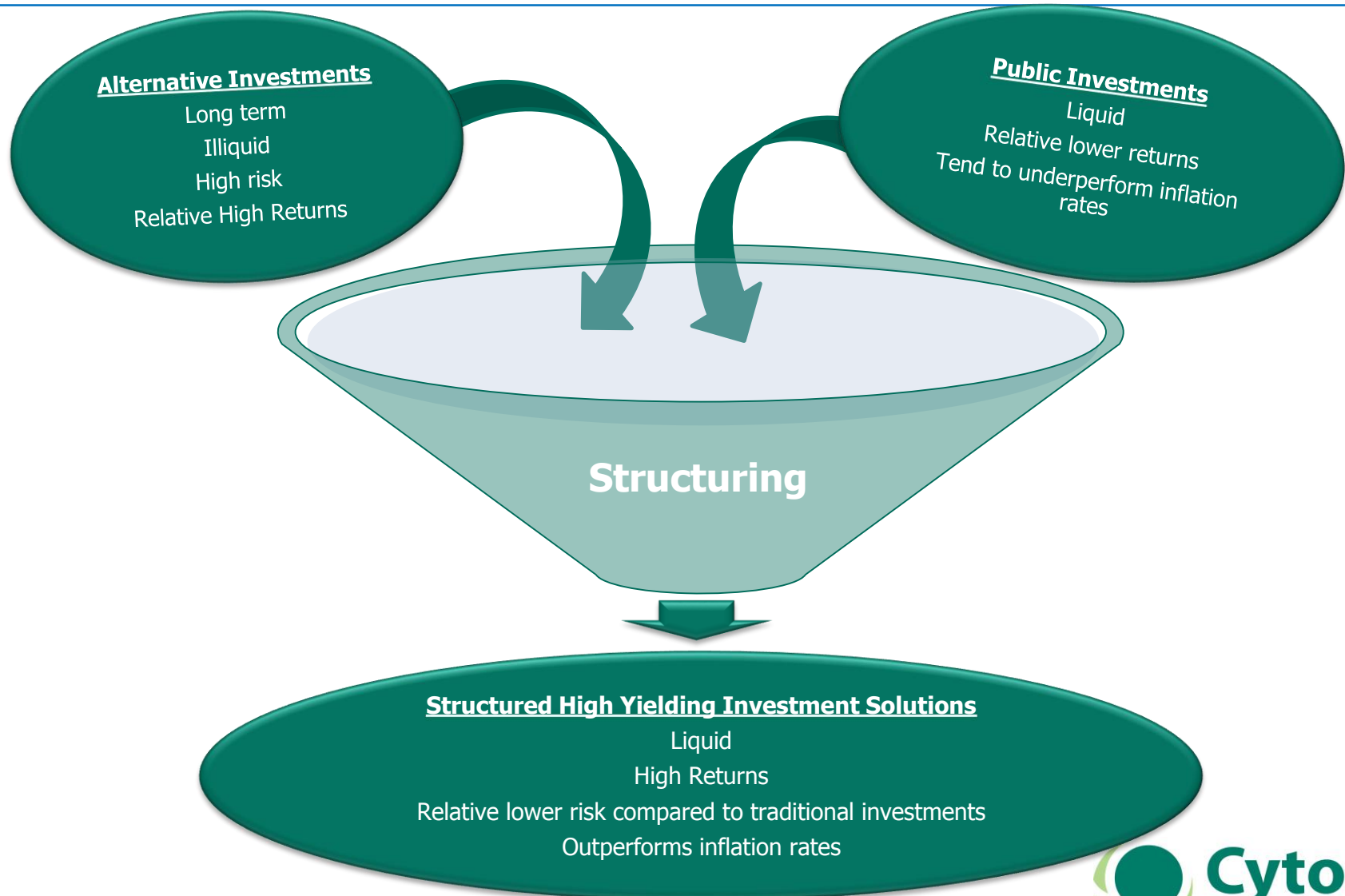
What are Structured High Yielding Investments?

Structured high yielding investments are packaged to suit the needs of an investor

- Structured high yielding investments are solutions that are packaged by investment professionals to enable an investor access a return, supported by the performance of an underlying asset, in a form that meets an investor's needs, which would not be met from the standardized financial products broadly available in the market
- Structured products tend to have the following characteristics:
 - i. They involve adding layers or features to traditional products, through a process called "structuring",
 - ii. They generally deliver higher returns than comparable traditional investments,
 - iii. They tend to provide principal protection, coupled with an above average yield return, and,
 - iv. They are generally traded in the private markets to qualified or sophisticated investors through alternative investment managers such as private equity managers.

What are Structured High Yielding Investments?...Cont'd

Structured high yielding solutions bridge the gap between alternative and public investments



i). Types of Structured High Yielding Investment Solutions

Types of Structured High Yielding Investment Solutions

Real Estate backed MTNs are among the local structured high yielding investment solutions

- Specific local examples of successful structured funding through private markets include:

Private Commercial Paper

Private Commercial paper is an unsecured, short-term debt instrument issued by a corporation, typically for the financing of accounts receivable, inventories and meeting short-term liabilities e.g the Nakumatt's private commercial paper programme

Equity Linked Note ("ELN")

Equity-Linked Note (ELN) is a debt instrument, usually a bond, that differs from a standard fixed-income security in that the final payout is based on the return of the underlying stock e.g the Centum's Equity Linked Note ("ELN") placement to investors

Real Estate Backed MTN

A Real Estate Backed Medium-Term Note (MTN) is a debt note that usually matures in 5–10 years and is backed by cash flows from Real Estate projects

Cash Management Solutions

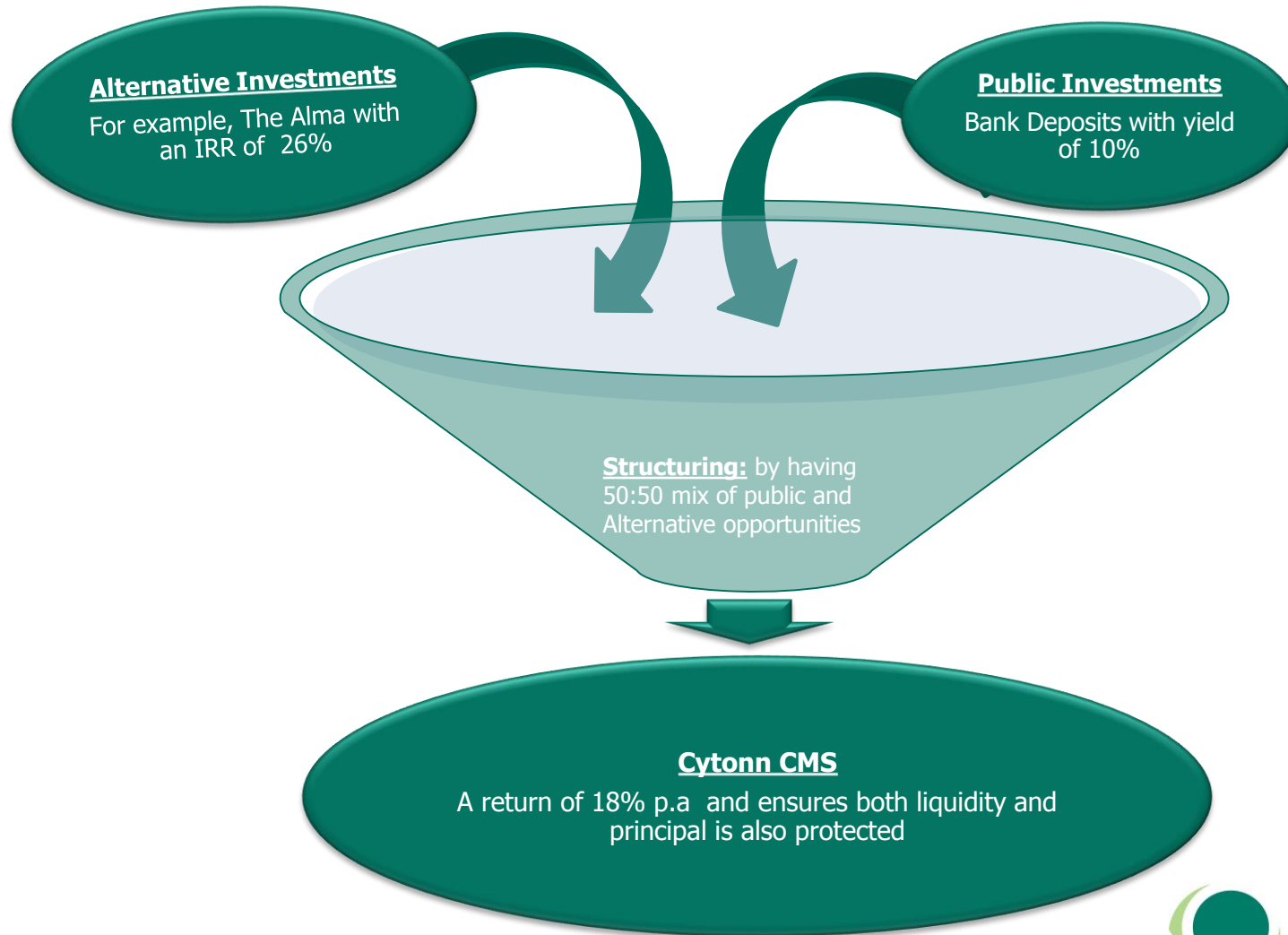
The various privately offered investment solutions that is designed to take advantage of mispricing in the deposit pricing by commercial banks and other private fixed income issues

Project Notes

A short to medium-term debt obligation issued to finance a project or multiple projects and are guaranteed by the real estate assets.

Structured High Yielding Investments – Cytonn CMS

Through structuring Cytonn CMS have managed to provide to investors investments opportunities with return of 18% P.a

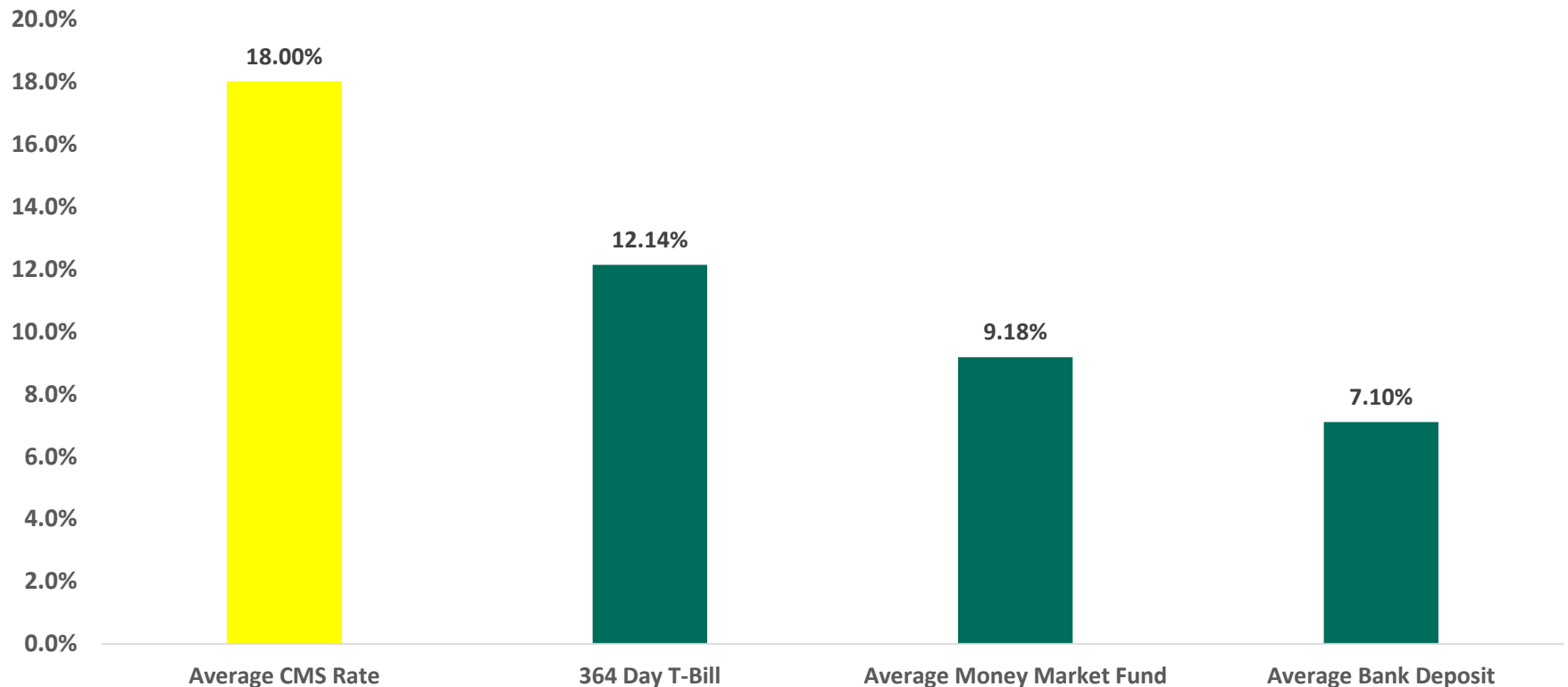


Types of Structured High Yielding Investment Solutions...cont'd

Structured high yielding investments have proved to offer superior returns over a one year period

- Structured high yielding investment solutions have outperformed other asset classes:

Average 1 Year Return on Investments



iii). Real Estate Investments Opportunities

Factors to Consider when Investing in Real Estate

Market performance is the key factor to consider while investing in real estate as it helps determine expected returns

- Real estate investment involves a relatively favourable risk/reward profile, but with relatively low liquidity as compared to other types of investments
- When considering investing into real estate, one should put into consideration the following factors;
- **Market performance** – One should analyse on the real estate trends over a given period, e.g. five years to measure the expected future returns on the investment based on the following factors:
 - **Uptake** – Find the historical and current records of the market uptakes, as this is directly related to the future expected gains in terms of price appreciation and demand hence a better cash conversion period for the projects
 - **Occupancy** – This informs on the market performance, in terms of expected rental yields and rental escalations
 - **Rental yields** – Rental yield is a key factor to long term project profitability as its related to the time needed to recover your initial investment. Thus a market or real estate theme with a higher rental yield is more attractive. For example its more profitable to invest in commercial office at 10% rental yields as compared to residential at 6% rental yield in Nairobi market, all other factors held constant
 - **Capital Appreciation** – This informs mainly on land investment. It helps investors make a decision based on whether to buy land for speculations and developers too can consider land banking for future gains

Factors to Consider when Investing in Real Estate, continued...

Location is a key factor to profitability in real estate as it is directly related to property valuations

- **Location** – This is the key factor to profitability in real estate as it is directly related to property valuations. Proximity to amenities, neighbourhood status and scenic views are major factors for residential property valuations; while proximity to markets, warehouses, transport hubs, freeways, tax-exempt areas, play an important role for commercial property valuations
- **Infrastructure** – Investors should consider factors such as road network, sewer line , electricity and water connections among others in the area to enable accessibility and for convenience as they directly increases the value of the project as well as demand
- **Security** – Security in the area is directly affects the uptake of the projects as clients have more confidence for areas associated with safety
- **Supply and Competition** – This are key factors to consider whether the type of investment you want to venture into has been exhausted by other developers and the type of the competitors you expect into the industry. This will help prevent you from being locked in a project

Introduction to Real Estate

Private and public real estate have distinct characteristics

Forms of Real Estate

- Investments into real estate can be categorized into public and private market investments:

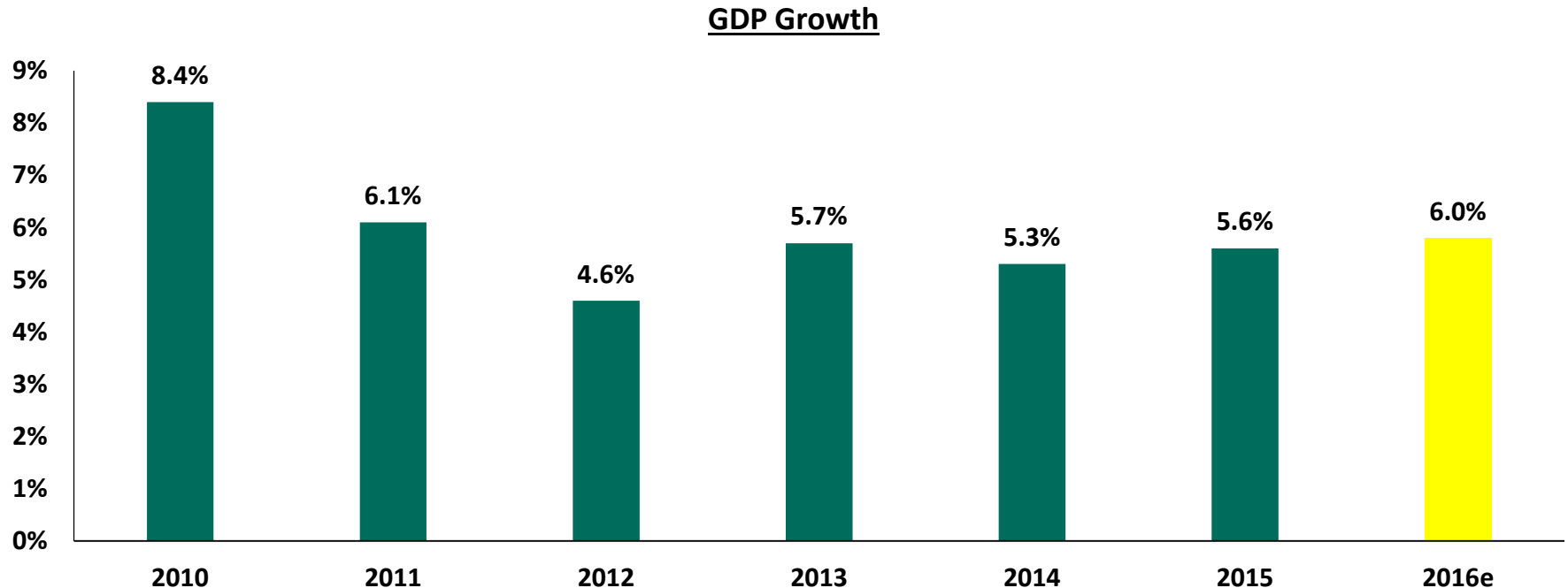
Private

- Ownership usually involves direct investments like purchasing property or lending money to a purchaser
- Direct investments can be solely owned or indirectly owned through partnerships or commingled real estate funds

Public

- Ownership involves securities that serve as claims on the underlying asset
- Includes ownership in a real estate investment trust (REIT), a real estate operating company (REOP)

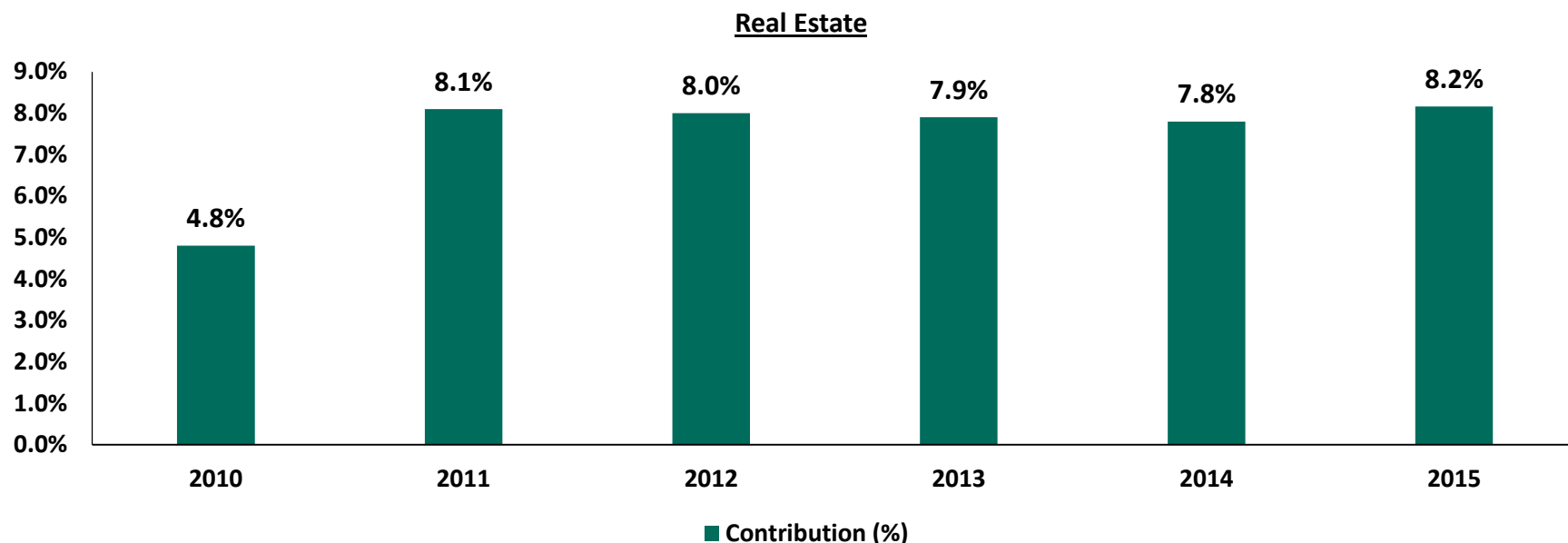
Kenya's GDP Growth Avg. 6% since 2010, needs financing



- 2016 GDP is expected to come in at 6.0% underpinned by (i) high government expenditure on infrastructure, (ii) the energy sector growing at 6.8%, **(iii) Real Estate estimated to grow at 6.9%**, (iv) Agriculture growing at 3.4% and (iv) the recovery of tourism growing at 9.5%

Real Estate Contribution to GDP Has Been Increasing

Real Estate is among the fastest growing sectors in the economy, contributing to 8.2% of GDP, from 4.8% in 2010



- The Real Estate sector is among the fastest growing sectors in the economy driven by a fast growing middle class and improved infrastructural developments by the government
- Despite Agriculture being the main driver of the economy, the tide is shifting and sectors such as Real Estate are emerging as the fastest growing sectors and are positioned well enough to drive the economy in the years to come. Real Estate is now the 5th highest contributor to Kenya's GDP, having a 5 yr. growth rate of 5.0%
- In order for this growth to be sustainable, access to credit is vital and PE investments are a major source in providing an alternative solution other than the traditional sources

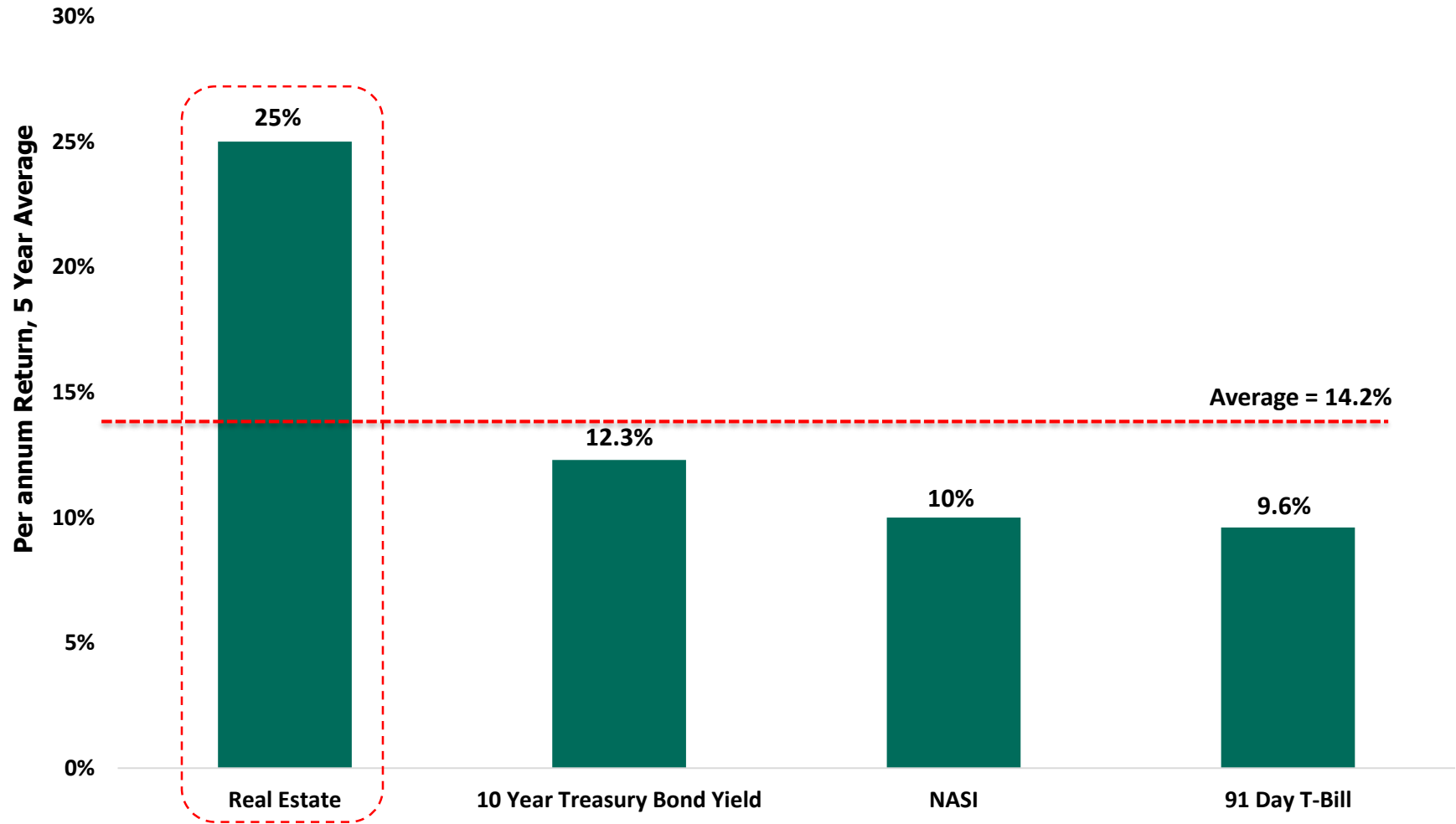
Top 10 Global Real Estate Investment Companies are PE Firms

9 out of the 10 largest real estate investment companies are private equity firms. The sector is dominated by private equity firms or developers, with no traditional investors able to dominate

Rank	Firm	Capital Raised (USD bns)	Private Equity Firm
1	Blackstone Group	31,947	✓
2	Starwood Capital Group	7,868	✓
3	Lone Star Funds	7,864	✓
4	Colony Funds	7,709	✓
5	LaSalle Investment Management	7,395	✓
6	Tishman Speyer	7,340	
7	The Carlyle Group	7,337	✓
8	Goldman Sachs Principal Investment Area	5,626	✓
9	Brookfield Asset Management	5,250	✓
10	MGPA	5,200	✓
Total		93,536	

Returns: Real Estate Offers the Highest Returns – Creating Wealth

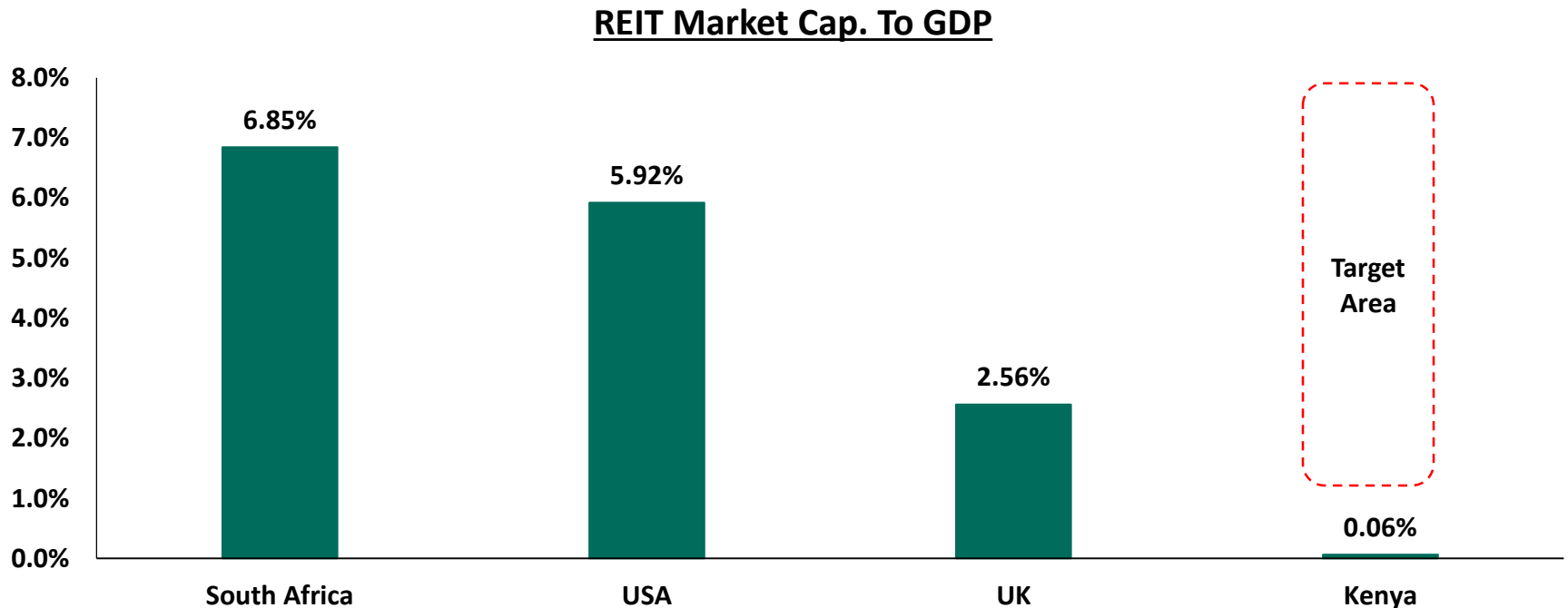
Traditional investments returning 10% compared to 25% for real estate, & projected to continue



And the Best Returns are Not in the Listed Markets ...Yet..

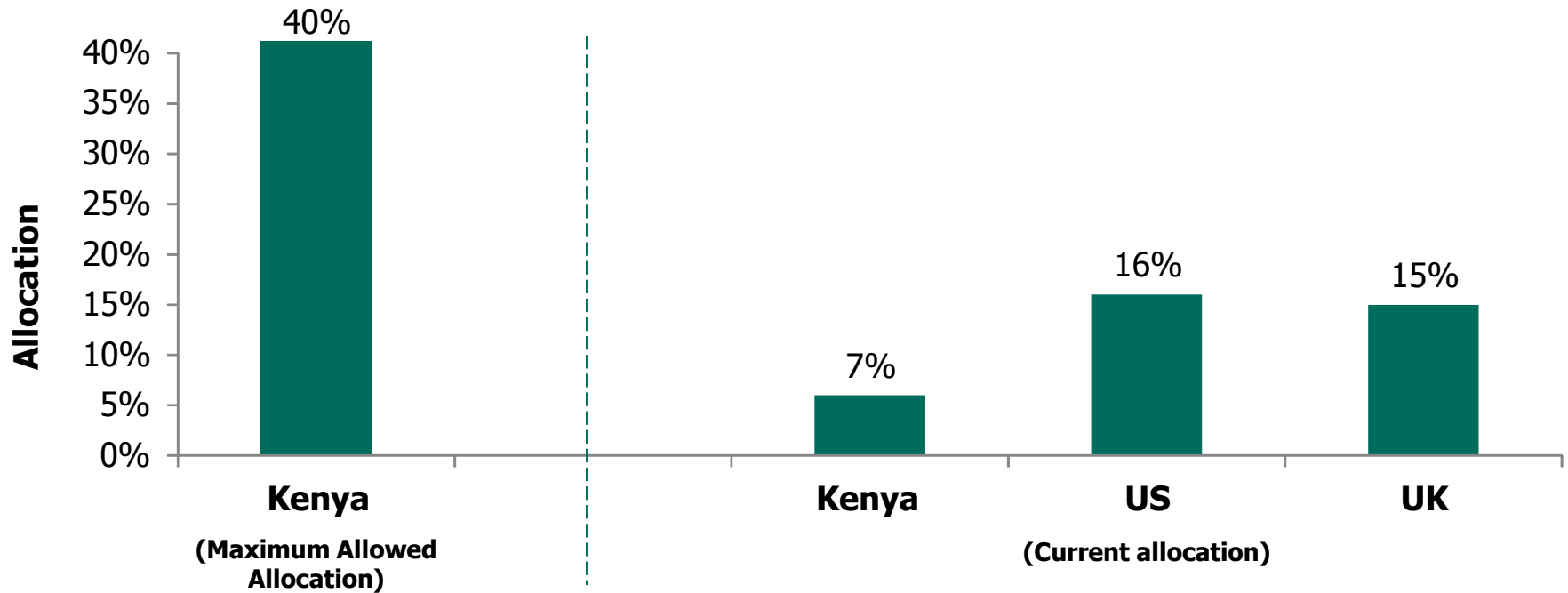
The opportunity to securitize real estate will increase deepening of the capital markets in Kenya

- The investments in alternative markets can be packaged into securities that enable the public (those who are unable to invest in such asset classes) an opportunity to own real estate, and lead to deepening of our capital markets
- REIT's such as FRED and Fahari I-Reit are examples of such securities and have increased the market cap of the securities exchange and capital markets deepening



...However, our Pensions are Not Invested in These High Returns

Current allocation to alternatives is behind other markets despite the positive potential highlighted



Portfolio Allocation and Returns – Case of 2015

Portfolios with allocation to alternatives outperformed those without alternative investment exposure

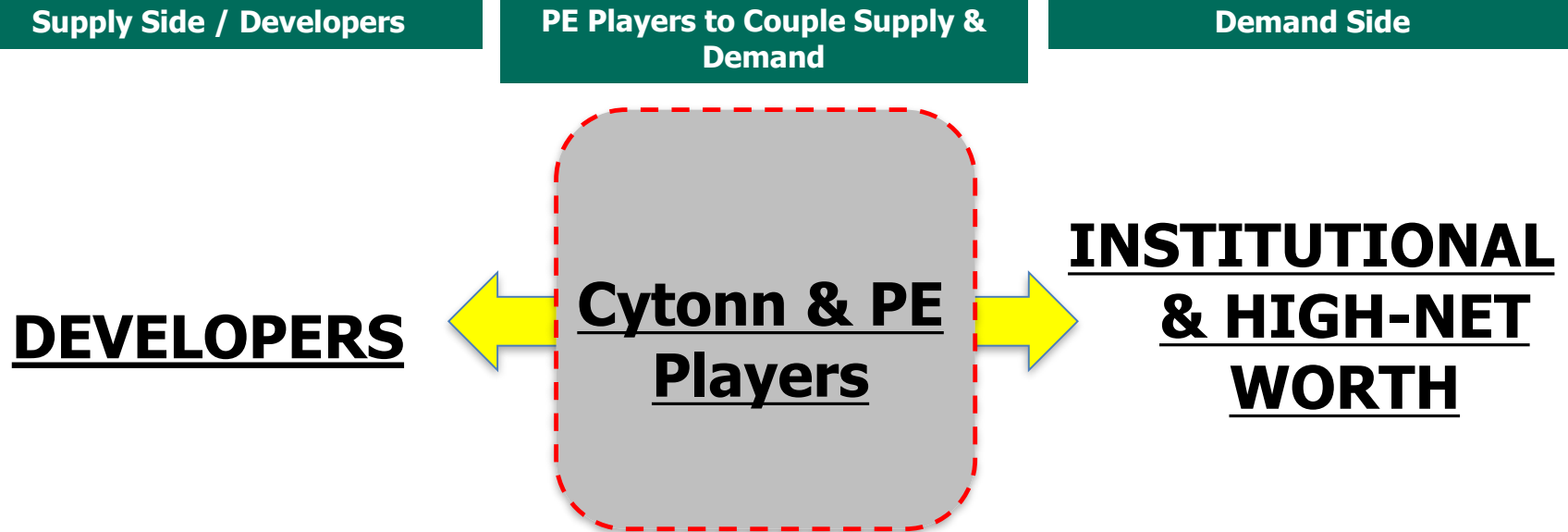
- We consider a typical conservative moderate portfolio with 65:35 allocation in fixed income and equities, (all traditional investment portfolio) and another with 50:30:20 allocation in fixed income, equities and Real estate (alternative investment)
- As indicated below, taking 2015 as a case, a portfolio with purely traditional investments recorded a negative return of 6.0% compared to a positive return of 0.7% in a portfolio with exposure in alternatives

Asset Classes	2015 Asset Class Return	Portfolio	
		Without Alternatives	With Alternatives
Fixed Income	(3.5%)	65.0%	50.0%
Listed Equities	(10.6%)	35.0%	30.0%
Real Estate	25.0%	0.0%	20.0%
Weighted Return		(6.0%)	0.7%

Solution is to Promote More PE Players

Cytonn looks to bridge the Supply and Demand gap in the Real Estate market

- For many years, the supply and demand have been largely disconnected in the Kenyan Real Estate market, characterized by adhoc forays by players on both sides

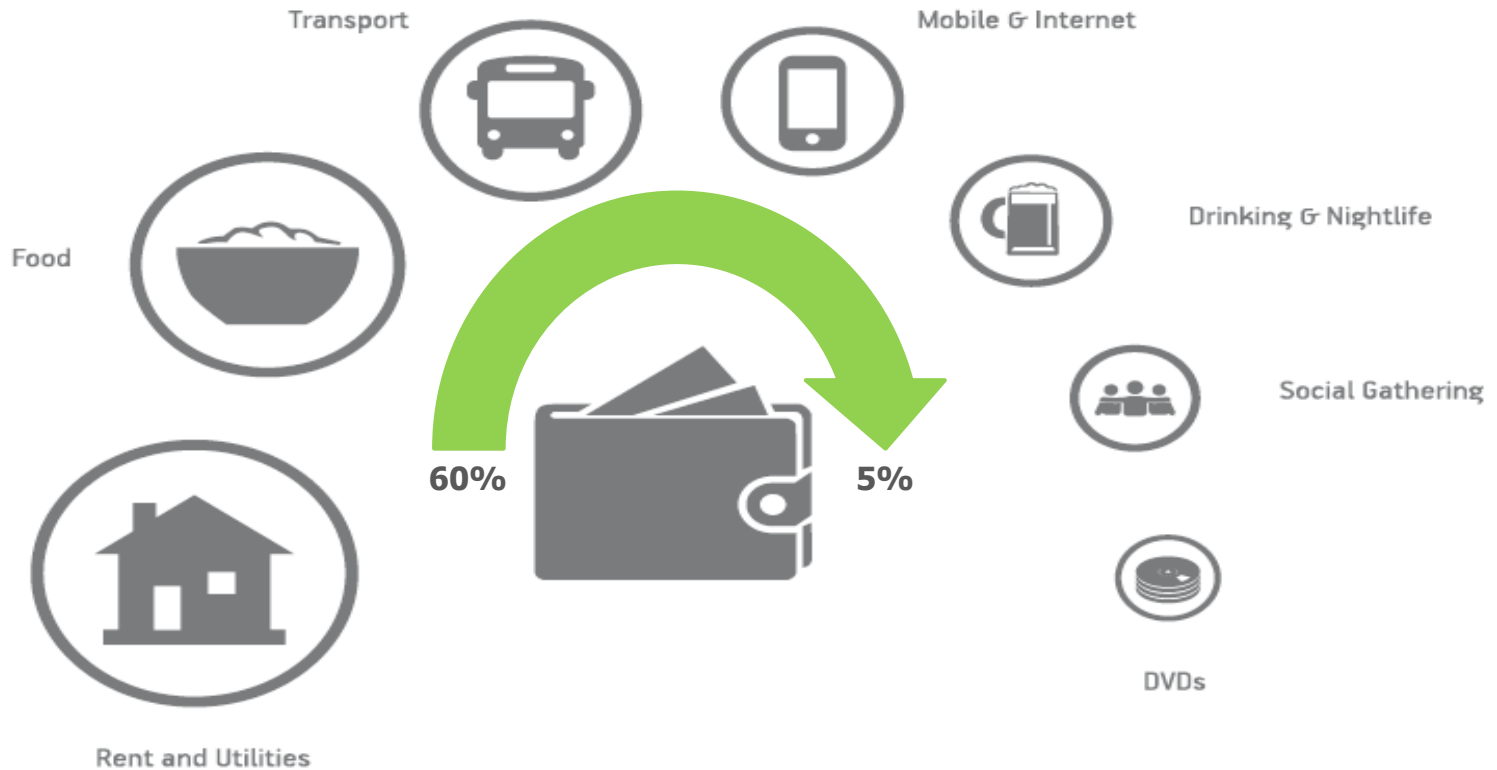


By matching demand in the economy, which is 200,000 units per annum, to supply from institutional grade real estate developers in the region, private equity players provide expertise and execution capability to reduce the housing deficit in Kenya

Demographic Trends: Share of the Wallet

Citizens spending more on Rent & Utilities

- Individuals are willing to spend up to 60% of their Income on Rent & Utilities
- This growing wallet share, combined with rapid urbanization bodes well for Real Estate



The Opportunity in Residential Housing

Real Estate has the opportunity to create Kshs 240 Bn of AUM

**35% of the 40 Million
Kenyans are employed**

**Of the 14 Million employed,
20% earn on Average KES
100K**

**The 1.4 Million people are
able to spend KES 20,000
per Month on rent**

**These Cash-flows
can create an AUM of KES
241 Billion**

- 14 Million Kenyans are employed
- 3.5 Million Kenyans earn KES 100,000 per month
- 75% of those reside in the Nairobi area & Metropolis
- 67% of residents within Nairobi Metropolis are renters
- $1.4 \text{ Mn} \times 20,000 = \text{Cash Flows of KES 28.1 Billion per month}$
- This equates to KES 337 Billion per Annum
- Assuming we Target only 5%, it equates to roughly KES 16.9 Billion per annum
- Capitalization for the KES 16.9 Billion is at 7%
- This equals to KES 241 Billion of AUM

**The opportunity in Real Estate is similar to that which Equity had in Banking, and Safaricom in Telecommunications
10 Years ago**

Key Themes Driving our Property Development

The below are just a few of the factors driving our thematic investments in Real Estate

KEY THEME	REAL ESTATE SECTOR PROVIDING EXPOSURE TO KEY THEME				
	Master Planned Communities	Commercial Office Parks	Commercial Mixed-Use	Suburban Malls	Hospitality Sector
1. Large Housing Deficit	✓		✓		
2. Growth of Middle Class	✓	✓	✓	✓	✓
3. Demographic Trends	✓	✓	✓	✓	✓
4. Improved Infrastructure	✓	✓	✓	✓	✓
5. Political Decentralization	✓	✓	✓	✓	✓
6. Kenya as a Regional Hub	✓	✓	✓	✓	✓

IV: Investing in Real Estate

Real Estate Exposure

Despite being capital intensive, there are several ways how one can get exposure in real estate

- Real Estate is capital intensive and therefore, not everyone can get into this kind of investment. However, there are several ways through which one can invest in Real Estate namely
 - **Real Estate Investment Trusts (REIT's)** - A REIT is a company that mainly owns and operates income producing real estate such as apartments, shopping centers, offices, hotels and warehouses. REITs were created in order to make investments in large scale income producing real estate available to average investors. There are 2 kinds of REITS,
 - **Investment REIT (I-REIT)** – This is an investment in an income generating Real Estate such as residential or retail developments where 90% of the income is distributed among the REIT holders as dividends. In Kenya, The Fahari I- REIT is the first of its kind having achieved only 29% subscription at issue
 - **Development REIT (D-REIT)** – This is an investment in an development company where the REIT Holders will receive their returns once the company exits the development. In Kenya Fusion D-Reit would have been the first of its kind but however failed to get the minimum requirements in terms of subscriptions and number of individual investor
 - **Project Notes** – This is a structured debt instrument backed by a Real Estate project where investors buy into the note which guarantees them a return. The notes can be structured in a way that the minimum amount investable is favorable for people with fewer funds at their disposal
 - **Shares in a Real Estate company** – A Real Estate company, either a developer or an investing company, can list on the main bourse allowing common investors to have a chance to tap into the high returns from Real Estate. As the company derives value for Real Estate, so will the investors realize value through share price appreciation and dividend payments

Real Estate Investments – Traditional Way

Traditionally Kenyans have been investing in real estate via Brick and Mortar

- There are two ways to access real estate in any market,
 - **Brick and mortar:** this is the development of a building or the purchase of a parcel of land, aiming to benefit from future capital appreciation and rental income
 - **Real estate investments:** this is the conversion of the physical real estate asset into a liquid investable product. This can either be public markets tradable like REITs or privately placed
- Traditionally, Kenyan's have been investing through the brick and mortar way. However they have been facing the following challenges:

How We Have Traditionally Invested in Real Estate

Summary

- Traditionally, Kenyans used to invest in real estate through brick and Mortar. They would purchase a piece of land and then embark on developing a building
- Financing for these investments is typically personal savings and expensive bank debt

Challenges

- The traditional way of investing in Real Estate had the following challenges;
 1. Illiquidity – Exiting brick and mortar Real Estate is hard as there lacks an official platform for transactions and pricing is opaque
 2. Delays in land titling process
 3. Brick and mortar Real Estate is expensive hence people resort to expensive bank debt

Real Estate Investments – The “Sharp” Way

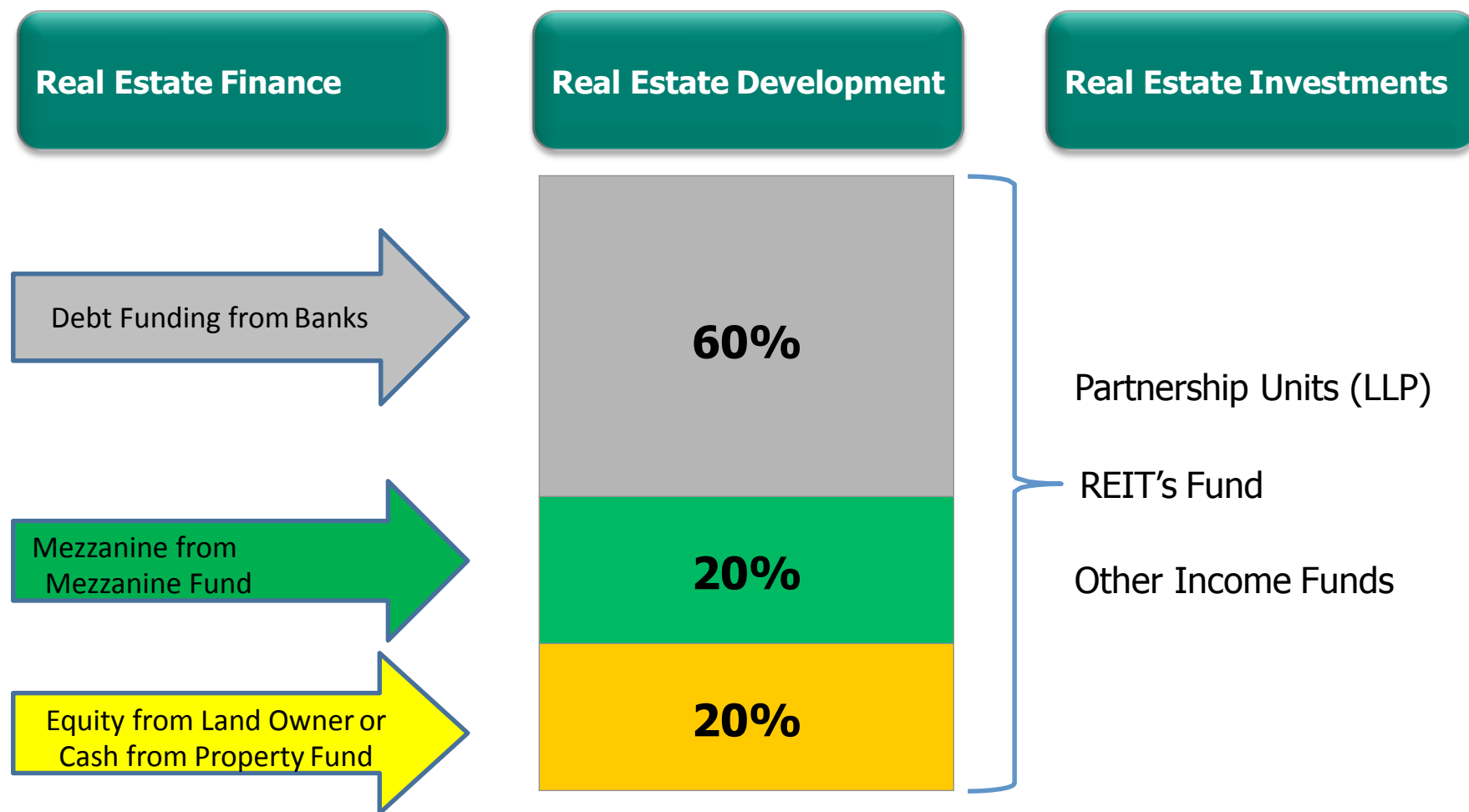
There are three broad ways through which one can invest in real estate

- Apart from the traditional ‘smart’ way of investing in Real Estate which was through brick and mortar, investors can opt for the following ‘sharp’ investment options, depending on the investors’ investment needs, risk/return profile, time horizon and liquidity needs;

Investment Type	Description	Investment Horizon	Risk Appetite/Return Profile
Equity	Purchasing partial ownership of a vehicle owning real estate developments and using a professional developer to manage the development activities	3-7 Yrs	Risk appetite is high hence they demand returns in excess of 25.0%
Mezzanine	Providing subordinated financing to a real estate development. The financing is junior to bank debt, hence gets paid only after the bank but senior to equity, hence gets paid before equity investors	1-3 Yrs	Risk appetite is moderate hence demand returns of between 14-15%
Project Notes	This involves financing for construction by investing in a fixed income note backed by real estate	1 Yr (Depends on set milestones)	Risk appetite is low, however they demand returns on average of 18.0% due to the leverage they hold. They usually finance 60.0% of the project

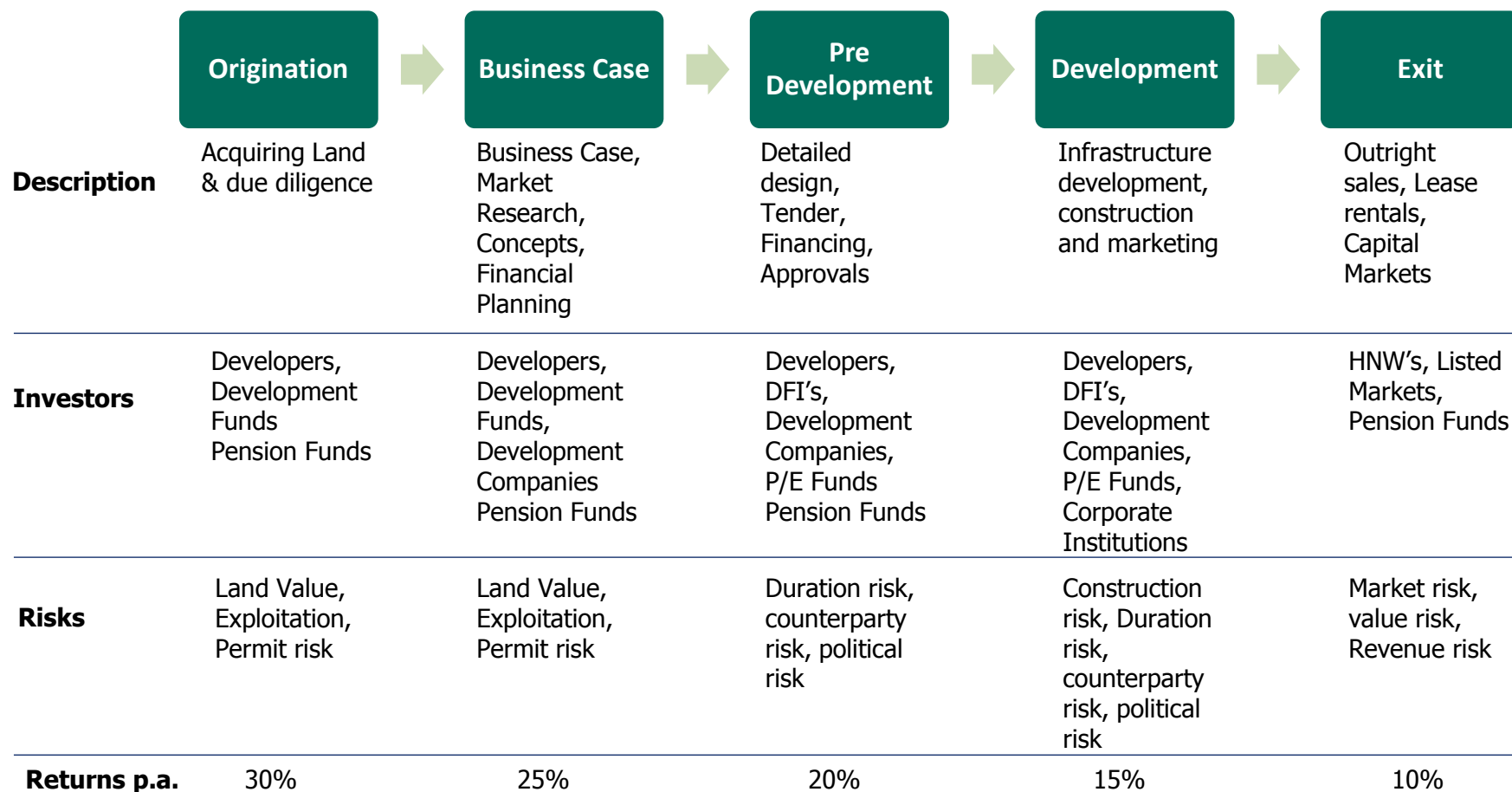
Typical Capital Structure & Value Chain

Highlighted is our typical Real Estate capital structure consisting of 60% debt and 40% equity



Risk – Return Profile for Real Estate Investments

Those who take development risk gain greater returns, in the region of 25% - 30% p.a.



a). The Development Process

The Development Process

Real Estate Development is a systematic process

Stage	Key Milestone	Target Timelines
Origination	Project conception and Site acquisition	1-2 Months
Business case	Business Case Complete	1-3 Months
	Board Approval to Proceed	
Pre-development	Finance Close	4 -6 Months
	Project Initiation	
	Scheme Design	
	Detailed Design Complete	
	Shortlist Contractors	
	Tender Documents and Action	
	Presentation of Tender Results to Board	
	County Council Building Plans/ NEMA Approvals	
	Board Approval to Award	
Construction	Construction of the Project	18-24 Months
Project Closure (Exit)	Project Complete	3-6 Months

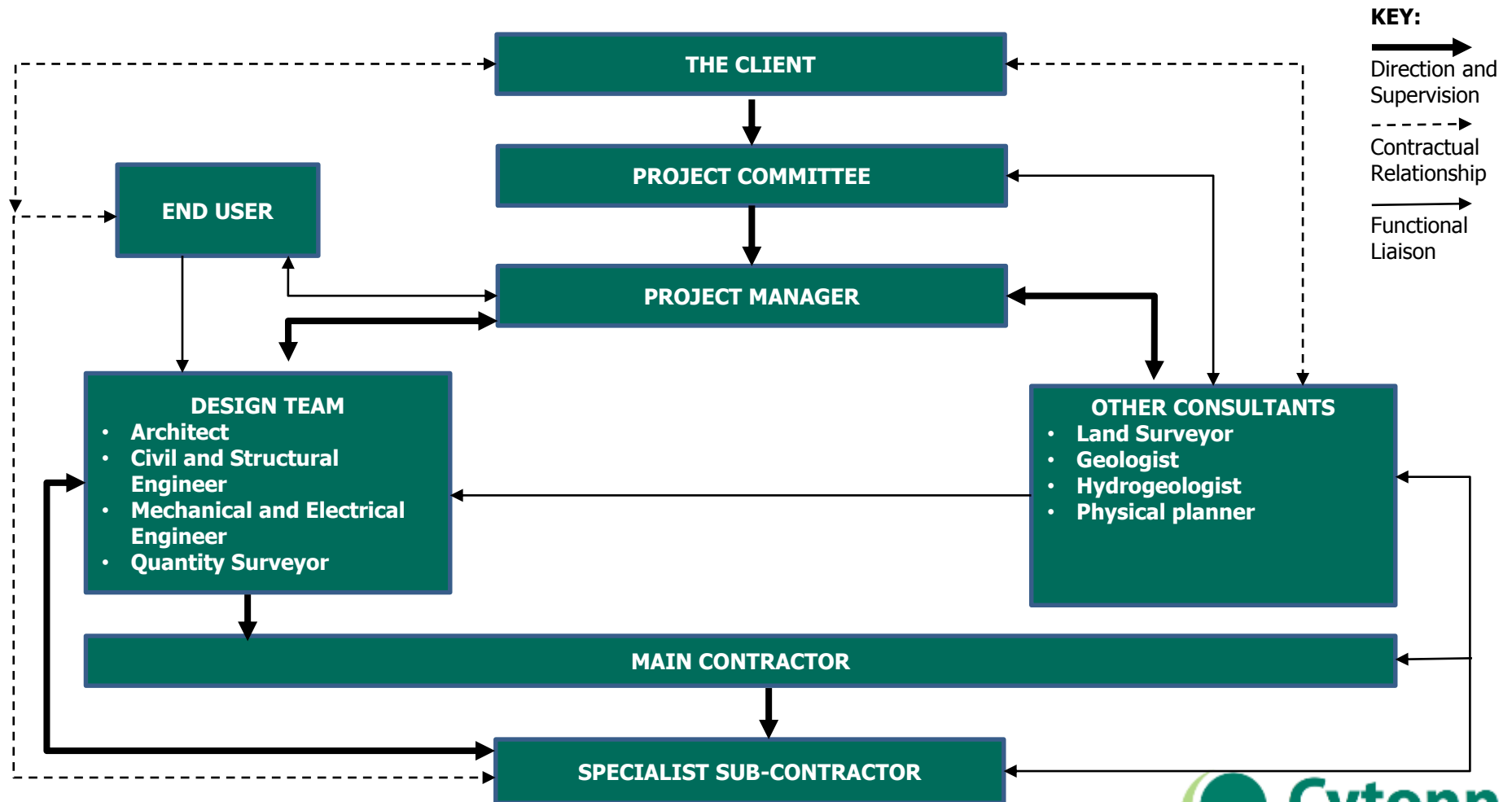
The Development Process

Real Estate Development is the process creating value to real property

- Real estate development is the process of creating value by making tangible improvements to real property. Real Estate development is different from the development of goods because each real estate project is unique and thus managing the process is different for each real estate project
- The primary role of the developer is to manage the entire real estate development process ,from initial concept to the start of operations for the finished project. More roles include:
 - ❖ Oversee the preparation of development program and concept plan(s)
 - ❖ Undertake market/need/demand analysis
 - ❖ Identify, evaluate and assist with negotiating property acquisition
 - ❖ Assist with project design (particularly from market and budget perspectives)
 - ❖ Prepare capital and operating cost budgets
 - ❖ Assist with zoning and other development approvals
 - ❖ Prepare marketing materials and coordinate marketing/application/pre-leasing/pre-sales process
 - ❖ Prepare financing applications and negotiate terms
 - ❖ Coordinate an acceptable procurement method and construction contract
 - ❖ Account for all project costs
 - ❖ Assist with organizing property management

The Development Process

Project Development involves key players



i). Deal Origination

Deal Origination & Site Acquisition

These are the initial steps in a real estate development

- Deal origination is a process by which firms source investment prospects in real estate
- Prospect identification can be through:
 - a) Leads proposed by individuals or institutions
 - b) Proactively sourcing vacant land through agents, online and print forums as well as approaching individuals/institutions with the land
- Once the prospective parcel of land has been identified, the process of site acquisition begins. This is basically obtaining interests in land for the purpose of development
- The process involves
 1. Identification of potential site
 2. Inspection by real estate expert in order to gauge the value of the property
 3. The potential buyer conducts due diligence on the property
 4. Obtain and verify documents which prove ownership of the land in question
 5. Sending of written offer to purchase property
 6. Negotiation with land owner in order to reach a mutually acceptable agreement for property purchase
 7. Signing of Joint Venture agreement or Sale/Lease agreement with land owner
 8. Transfer of property (in case of a Sale)

Deal Origination & Site Acquisition- Due Diligence

A thorough investigation on the said property is necessary before acquisition

- Due diligence is the necessary probe into unseen and potentially problematic features of the property. One's objective is to clearly define any land development issues and determine whether to proceed with the purchase of the land and construction of the development
- The following are vital aspects of due diligence that need to be conducted;

1. Land Use Due Diligence

- This involves reviewing legal access to the property and analysing jurisdictional issues affecting the property. It also includes checking which governing authorities' ordinances and rules affect the property

2. Title Due Diligence

This involves conducting a search process at the registrar of land. A search enables the one determine the following;

- a) The rightful owner – The seller of the land should be listed as the rightful owner of the property
- b) The land being sold should be free from restriction (cautions and caveat)
- c) The land is not on a road or railway reserve
- d) The land has no problems. i.e. lying on public land or government allocated land
- e) The title Deed is genuine

Deal Origination & Site Acquisition- Market Research

Market research is the link between the end user and the developer/investor

- Market research is the process of gathering market data and analysing it to gauge consumer preference, demand and supply dynamics for particular development themes as well as the investment potential for a particular type of development
- Market research simply helps you to gauge the uptake and investment potential of your development. It also helps the developer to see what competitors are doing, identify market gaps and structure products that can fill that gap in the market
- Using market research, one can get accurate data on:
 - i) Other planned, proposed, and under construction properties in order to help decide the location and timing of your next project
 - ii) Features and amenities to ensure competitive advantage in the existing market
 - iii) The current prices of similar developments
- With information on pricing and rental income, the developer will be able to assess the capital appreciation and rental yields of the properties in a given area and thus make an informed decision whether the property is lucrative as an investment

Deal Origination & Site Acquisition-Market Research Process

The process requires an outlined and methodical gathering of market data

Defining the research problem

- Determining market gaps
- Evaluating the market trends

Selecting the research design

- Identifying the information types and sources e.g. numerical data, peoples opinions, the people to interview
- Designing the research instruments e.g. phone interviews, questionnaires etc

Collecting data

- Data is collected from comparable properties in the market
- Reliable sources of the information should also be identified

Analyzing data

- Data is analyzed using various tools such as capital appreciation, yields, measures of central tendency
- Analysis helps draw findings and conclusions

Formulate and present findings

- Compilation of findings
- Drawing of Conclusions
- Presentation to relevant parties for decision making

ii. Business Case

Business Case

The highest and best use is the basic concept for developing real estate

- A business case is a document/report that provides information that will allow the management to judge whether the project to be undertaken is desirable, viable, achievable and worth the continued investment that is being made during the project
- This involves:
 - i. Developing the Right Concept, based on the Highest Best Use of the land and zoning regulations
 - ii. Financial Modelling to establish expected revenues and costs
 - iii. Investment Appraisal to establish the return to the investors (IRR)
 - iv. Establish risks and how to mitigate them

Business Case- Risk Analysis

A major consideration when developing the right concept is risk analysis

- Risk Analysis is crucial in developing the right concept for a Real Estate Development. Risk can be analyzed in the following contexts:
 - ❖ **Business risk:** risk due to fluctuations in economic activity and factors affecting the variability of income produced by a property
 - ❖ **Financial risk:** the use of debt financing and risks attached to excessive gearing
 - ❖ **Liquidity risk:** the risk when there is a lack of consistent and continuous buoyancy in the market place
 - ❖ **Inflation risk:** income from the property must increase sufficiently to counter upward trends in inflation
 - ❖ **Management risk:** all properties need to be managed properly
 - ❖ **Legislative risk:** amendments to numerous regulations, taxes, zonings and other restrictions imposed by government can adversely jeopardize property developments
 - ❖ **Environmental risk:** the value of real estate can be affected by changes in the environment or sudden awareness that the existing environment is potentially hazardous

iii. Pre-development

b). Engaging Consultants

Engaging Consultants

Ethics, a proven track record and focus on the clients needs are key in selecting consultants

- The following are important considerations when selecting consultants for a Real estate development project
- A culture of good-quality, professional service, satisfying customer expectations, should be seen from the potential consultants
- A proven track record should be observed in terms of the quality of projects, construction, and legal and customary rules for transactions
- Consultants should promote a green real estate sector and energy efficiency in buildings
- The skills and characteristics of various professionals should be well identified and the qualifications required to exercise a specific profession and any additional specializations should be defined. A culture of continuous professional development should be seen and whose quality is acceptable
- Services should be based on high performance standards and ethical standards and the adoption of specific codes of conduct
- Services should be competitive. This is done through a competitive tender process to obtain the best consultants
- It is also important to ensure there is cohesiveness in the consulting team and this ensures that the team works efficiently in achieving the mission

Engaging Consultants

There are several consultants involved in the development process

- The consultants involved in the development process include the following:

Consultant	Role
Project Manager	Engaging consultants and general administration of the entire real estate development project
Physical Planner	Ensure that all the statutory approvals are obtained
Valuer	Determining the market value of the project
Land Surveyor	Determine the actual boundaries of the site for development
Topographic expert	Ascertain the suitability of the terrain for development
Hydrogeologist	Determine the level of water below the surface of the ground
Geologist	Determine the level of Rockbed below the surface of the earth
Hydrology expert	Determine the water patterns on the surface of the earth
Architect	Designing the built form of the Real Estate project
Civil and Structural Engineers	Determining the most suitable enforcements on the built form of the Real Estate Project
Electrical Engineers	Determining the most suitable electrical connections that supply the built form
Landscapers	Ensuring the most suitable use of the surroundings of the built form
Quantity Surveyors	Preparation of the Bills of Quantities for costing

c). Statutory Approvals

Statutory Approvals

The main approvals for construction are NCC and NEMA

Governing Authority	Approvals	Requirements
County Council	<ul style="list-style-type: none"> Approval of all drawings 	<ul style="list-style-type: none"> Certificates of registration from the registered professionals Ownership documents for the property Latest annual land rates receipts The completed application for approval for building permit
National Environmental Management Authority	<ul style="list-style-type: none"> Environmental Impact Assessment License 	<ul style="list-style-type: none"> Complete set of architectural drawings EIA report compiled by a registered EIA expert
National Construction Authority	<ul style="list-style-type: none"> Construction permit 	<ul style="list-style-type: none"> All other approvals must be complete
<u>Other Approvals:</u>		<u>Conditions:</u>
Kenya Civil Aviation Authority	<ul style="list-style-type: none"> If the construction is in the vicinity of airports or documented flight paths 	
Water Resource Management Authority	<ul style="list-style-type: none"> For any water permits, construction of a borehole or if the construction touches any body of water 	

V: Legal Factors to Consider in Real Estate Investments

Legal Factors to Consider in Real Estate

I have made a decision to invest in Real Estate so what next...

- Investment in Real Estate involves dealing in land and as we all know, in Kenya and generally the whole of Africa, the most emotional and complex issues legal issues revolve around land with some land matters stuck in court for 20 years or more, something that warranted a specialised Court for Land matters at the level of the High Court, the Land and Environmental Division;
- Real Estate Companies such as Cytonn Real Estate, LLP through its structured projects or real estate units provide an easy and convenient way to invest in real estate as they put into consideration the key legal matters that need to be considered in a Real Estate investment, throughout the project life cycle, which include:-
 - Undertaking Due Diligence prior to acquisition;
 - Tax Structuring and choosing the right legal entity;
 - Ensuring the relevant statutory approvals are obtained to facilitate the construction and the contract documents with the various contractors and professionals are legally sound;
 - Preparing the right legal documentation to facilitate the sales process such as Sale Agreements and Leases; and
 - Determining the right structure and preparing the relevant legal documentation for Management of the Property after completion of the Project.

Legal Factors to Consider in Real Estate

Brief Overview of what is typically required...How do I do it?

From the foregoing there seems to be a lot of legal work to be done and below is a snapshot of what is done in the various stages:-

Due Diligence prior to Land Acquisition

Here typically there are a number of checks undertaken to confirm (i) ownership (ii) actual existence of the Property (iii) the acreage/size of the Property (iv) the existence of any encumbrances and (v) the status of the land- government land, a road or bonafide private land

The typical checks would therefore include a search at the Lands Registry, at the Surveys' office, a visit by a registered Surveyor to site to confirm existence of the Property and a rough estimate of the size prior to beacon verification. Typical extra measures include a look at the Ndung'u Land Report and if the land borders a road a quick check at KeNHA or KURA

Tax Structuring and Determination of the Appropriate Legal Vehicle

Here the advice of a lawyer and a tax advisor would be crucial factors to consider would include whether you are going alone or as a group and therefore the appropriate legal body, the extent of legal liability you want to expose yourself to, the level of involvement of foreigners especially where you are fundraising and your capital structure i.e. level of debt vis a vis equity among others

Legal Factors to Consider in Real Estate

Getting it Right

Obtaining Statutory Approvals

This would involve of professionals more than the lawyer and the lawyer functions best as the co-ordinator and include professionals such as a Physical Planner and an Environmental Impact Assessment Expert

A lot of interactions with public bodies is also witnessed at this stage including the City County(for Change of Use and Structural/Architectural Approvals), the National Construction Authority (NCA), National Environmental Management Authority (NEMA) and if access from a public road bodies such as KURA

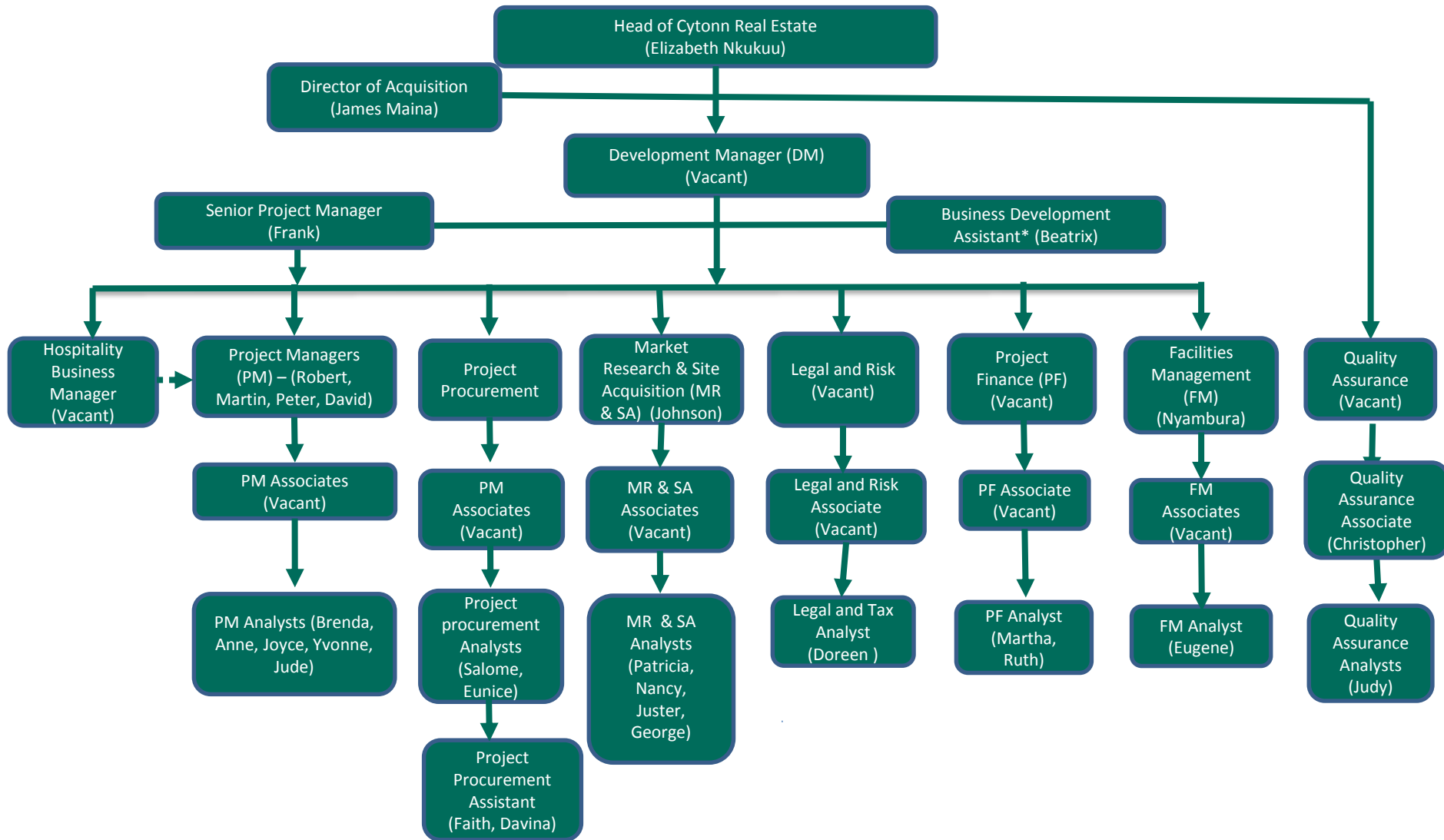
Interactions with residential associations are common at this stage and it stakeholder engagement is key to avoid litigation that may delay the Project

Getting your Documentation Right

Documentation cuts across all facets of the process when dealing with 3rd parties right from the Seller/Landowner, your contactors and even the persons who buy your units if you are selling and it is important to get it right so as to close all vulnerabilities. Key clauses include how to terminate in case either party defaults, how penalties are calculated where a buyer with an instalment plan defaults and if you are managing the Property, after construction, how to ensure the residents comply

VI: Introduction to Cytonn Real Estate

Cytonn Real Estate – Structured to Access The Opportunity



Cytonn Real Estate Business Units

Cytonn Real Estate has experienced professionals with deep market insight

Market Research and Site Acquisition

- To us, real estate research is not just about data collection and analysis. We go further to look at the existing gaps, enhancing market knowledge and informing concept development

Project Management

- Successful projects are dependent on the guidance of a great project management team. The discipline involves coordinating and executing various aspects of a project from initiation to closure

Project Finance

- Cytonn Real Estate has distinguished project finance capability whose key competencies include ability to source for capital, financial modelling, risk analysis, global relationships and deep local financial connections

Project Procurement

- Our project procurement is the main support structure for project management. It involves obtaining goods and services from external vendors and consultants

Quality Control and Assurance

- Quality control and assurance involves overseeing project implementation process from pre-development to project exit. We aim for the highest quality standards that ensure client's interests and expectations are made

Property Agency and Facilities Management

- Comprises of 2 arms which is sales agency in charge of selling and letting of properties on behalf of other entities, and facilities management which entails maintenance planning, asset life cycle analysis and budgeting

Franchising

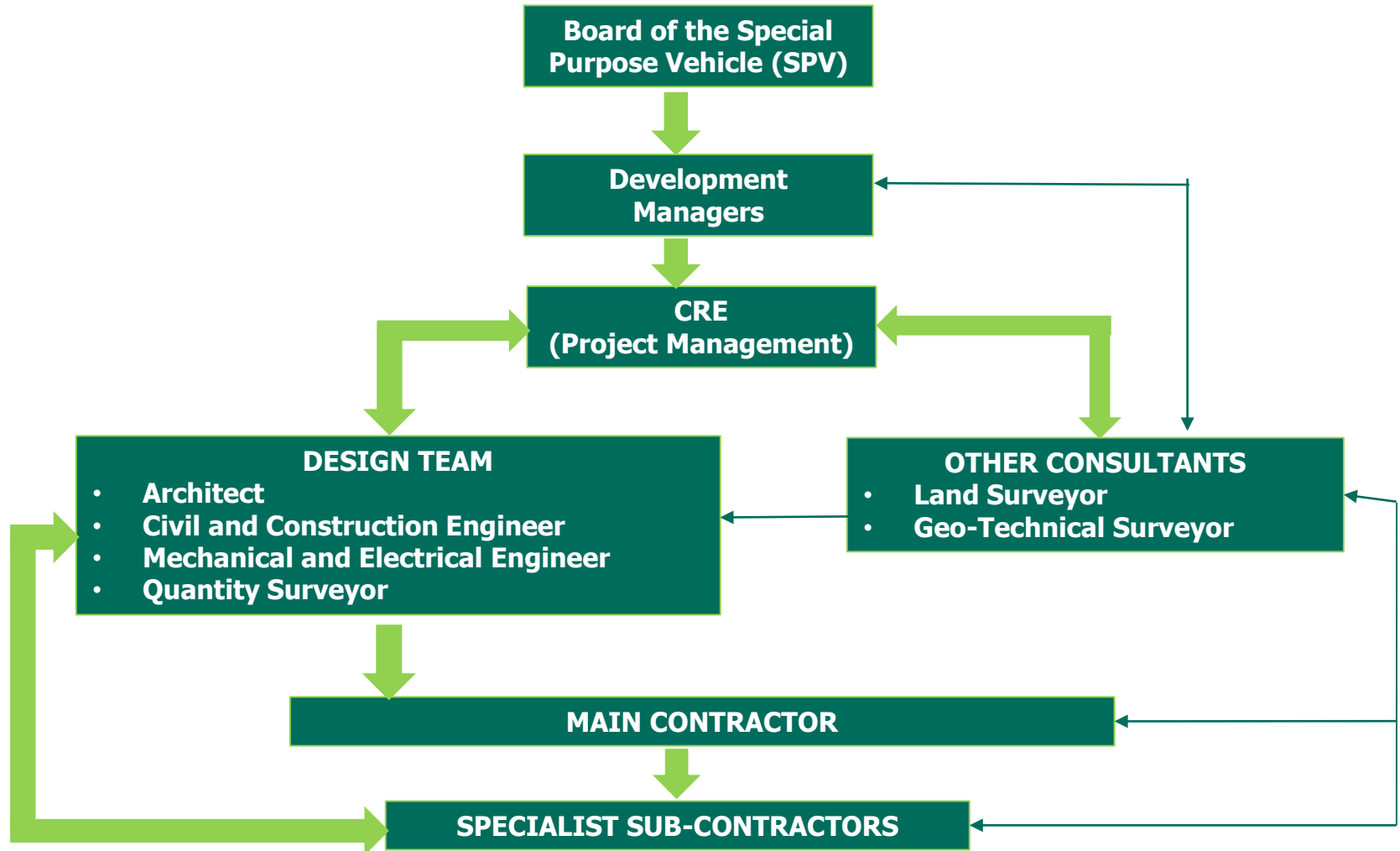
- To expand our footing nationally and regionally, we are offering to extend our brand execution template and platform using a franchise model

Business Development

- This arm primarily focuses on achieving synergy with internal and external parties by ensuring seamless operations within departments and forming alliances with strategic partners

Governance Structure - Real Estate Projects

Good governance is key and each project has its own company with its own board that meets every quarter



a). Deal Showcases

The Alma

The Alma is a signature development in Ruaka



- Strategically positioned in the heart of the fast growing Ruaka neighborhood, it is only a 20 minutes drive from the CBD and 40 minutes' drive during rush-hour. The adjacent suburbs Runda, Rosslyn and Gigiri also make the location quite secure and attractive for investors
- Neighbouring our project is the proposed Two Rivers mall scheduled to open in 2016. It shall be the biggest shopping mall in East Africa unseating the Garden City Mall. Likewise, residents living in The Alma will have access to Village Market Mall and the upcoming Rivera Rosslyn Mall
- The development will encompass: day-care/ nursery, retail centre, swimming pool, roof-top gardens, elevated playing fields, solar water heating for 3-bed units, eco-friendly water recycling plant, borehole and sewer treatment facility, round the clock security – manned perimeter wall, electric fence, well-lit driveway and security check points
- **The investment was conceived on bridge financing which was paid back to the investor with an IRR of 54%**

Amara Ridge

Amara Ridge – Breathtaking, distinct and luxurious in the heart of Karen



- The development is composed of luxurious 5 bedroom villas of 495 SqM each, including a DSQ, on a half an acre in an exclusive gated community of 10 Villas and a club house
- It features two designs:
 - i. **Classical design** with timeless architecture, grand arrival, elegant arches and sumptuous space to cater for every family need while ensuring a signature lifestyle
 - ii. **Contemporary design** offers a modern feel with a sleek canopy at the entrance. It provides sumptuous space for a distinctive signature lifestyle
- Its amenities will include top of the world club house with meeting place and children play area, a common swimming pool and option for individual pool at your home, abundance of water, power backup, water recycling plant for irrigation, 24-hour security with CCTV and an electric fence, DSQ for two, paved roads and a leafy neighbourhood
- **The development is 100% sold and we have paid 25% of the principal back to the investor**

Situ Village

Situ Village – the best Live-Work-Play environment, located in Ololua, Karen

- Nestled in the scenic ravine of the Mbagathi and Ololua Ridges and with frontage to the Mbagathi River and Ololua Forest, Situ village derives its name from this unique setup
- It sits on 29 acres of land featuring 4-bedroomed villas on half acre plots, duplex cottages and convenient stores
- The development features two architectural designs that give a homely yet unique feel:
 - i. **Andalusian design** with long and rectangular natural stone walls, tile roofs covering the tops of the expansive homes and windows set within thick walls and lined with sloping sills
 - ii. **Mediterranean design** with low pitched tile roof, wrought iron balconies, arches over the windows and doors, clad walls and patio
- It will have amenities such as: state of the art club house, security including CCTV, ICT infrastructure, water recycling for irrigation, riding ways, well-manicured gardens, jogging paths, swimming pools, convenience stores, power back up, borehole and street lighting



The Ridge

The Site is a 9.9 – acre development, near the junction of Kiambu Road & Northern Bypass

- The Ridge is a comprehensive luxurious lifestyle development located approximately 10 Km from Nairobi CBD, 300 m from the junction of Kiambu Rd and the Northern Bypass. The development sits on 9.8 acres of land and touches the Northern Bypass. It will consist of the following components:
 - a) 1 Bedroom
 - b) 2 Bedroom
 - c) 3 Bedroom
 - d) 3 Bedroom with DSQ
 - e) Penthouses
 - f) Terraced units Retail centre
 - g) Serviced Apartments
- The development will have amenities such as a gym, infinity pools, gazebos, and children's play areas. The development will also have 6 courtyards for recreation
- In terms of security, the development shall have 2 accesses to the property from the Bypass. We shall also have a second security check after each access and a third, as the resident's access the various courtyards
- The retail section shall consist of boutique shops and offices as well



Taraji Heights

Taraji Heights is located a few meters away from the Junction of Limuru and Red Hill Road

- Taraji Heights is a comprehensive development that is located along Limuru road, 2 km from Ruaka shopping centre, with proximity to the Two Rivers Mall, Roslyn Mall and the village market
- The development sits on 2.8 acres of land and has iconic sky walks that connects the communities and creates recreational areas for the residents
- Taraji Heights comprises of:
 - 2 bedroom units
 - 3 bedroom units
 - 3 bedroom units with DSQs
- The development will have amenities such as a retail centre that will have facilities like gymnasium and a convenient store.



b). Case Study – Amara Ridge

Project Amara Ridge

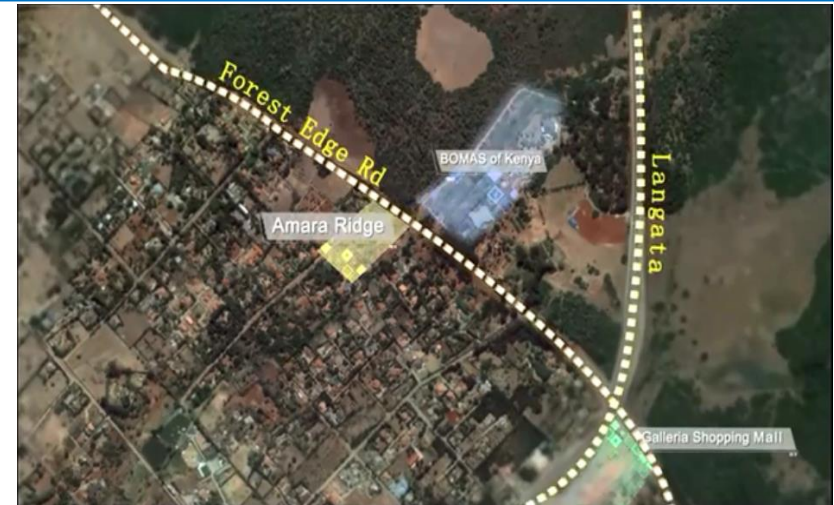
Amara Ridge is a gated community on 5 acres located in Karen off Forest Edge Rd

Project Particulars

- **No of Units:** 10 Villas
- **Plinth Area:** 495 sqm
- **Amenities:** Clubhouse (with pool, gym playground & entertainment area)

Basic Site Characteristics

- **Land Reference No:** L.R 10050
- **Tenure:** Vacant
- **User:** Multiple Dwellings
- **Size:** 5 acres
- **Registered Owner:** Cytonn Investments Partners Three LLP
- **Context:** Bomas of Kenya; Galleria mall



Amara Ridge Project Particulars

We have used our market research and findings to inform our project particulars

Item	Project Component	Assumption
1	Land Value per Acre	45,000,000.0
2	Total Land Value	225,000,000.0
3	Number of Houses (1/2 acre plots each)	10.0
4	Plinth Area per House (square metres)	495.0
5	Construction Cost (per square metre)	72,247.2
6	Total Construction Cost	357,623,597.8
7	Total sales proceeds	979,715,416.7
8	Sale Price for each House	97,971,541.7
9	Sale Price per SM	197,922.31
10	Monthly Rental Income per House	400,000.0

- The Development consists of 10 Houses, each sitting on ½ acre parcels
- In order to create a vision of space and openness which is familiar with Karen, we have used a Plinth Areas of 495 metres squared
- Construction cost per square metre is currently at KES. 72,247.2 per square metre creating a superior, high quality product
- The total construction cost stands at KES 357,623,597.8

Amara Ridge Project Budget

The Project stands to make a total of KES 190,248,407

PROJECT COMPONENT	BUDGETED (KSHS)
Land Cost	225,000,000
Acquisition costs (Including stamp duty & conveyancing)	11,250,000
Total Construction Cost	357,623,598
Licenses, Surveys and Approvals	7,880,202
Professional fees	45,322,795
Disbursements	3,000,000
Legal Charges	4,260,000
Marketing	20,000,000
Sales Commissions	11,700,000
Site Personnel	4,000,000
Project Management Fees (2.4%)	12,633,419
Structuring Fees (2%)	16,008,849
Project Contingency (1%)	7,259,382
Mezzanine Interest	100,784,219
Interest Earned on Undeployed Cash	(37,255,455)
Total Development Costs	789,467,010
Revenues from Sale of Houses	979,715,417
TOTAL BALANCE	190,248,407

The Project is currently 100% sold, 5 months before the scheduled completion date, giving a total revenue of KES 979,715,417

Return to TTA – Project Amara Ridge

TTA stands to make an IRR of 33.7% at the end of the investment period

all values in KES Millions unless stated otherwise

Key Assumptions	
Outflow (Principal)	424.0
Project Residue	190.2
Residue Available to Share	190.2
Share in Residue (50%)	0.5
Absolute Value of Residual Equity	95.1

all values in KES unless stated otherwise

Investment Returns	24-Sep-15	30-Sep-16	15-Dec-16	31-Mar-17
Outflow	(424.0)	-	-	-
Inflow (Principal)	-	106.0	106.0	212.0
Interest at 18%	-	78.0	11.9	11.0
Share in Residue	-	-	-	95.1
Total	(424.0)	184.0	117.9	318.0

Loan Repayment Schedule

Tranches	Repayment Terms	Date
Tranche 1	25% of the Principle + Interest Accrued	30-Sep-16
Tranche 2	25% of the Principle + Interest Accrued	15-Dec-16
Tranche 3	50% of the Principle + Interest Accrued	31-Mar-17

IRR to Investor

33.7%

Given the success of the project, we are intending to exit TTA 6 months prior to the agreed investment period of 2-years, offering a return of 33.7%

Return to TTA – As at 17th October 2016

As of Today, TTA would make an IRR of 36.3%

all values in KES Millions unless stated otherwise

Key Assumptions	
Outflow (Principal)	424.0
Project Residue	190.2
Residue Available to Share	190.2
Share in Residue (50%)	0.5
Absolute Value of Residual Equity	95.1

Loan Repayment Schedule

Tranches	Percentage of Principle	Date
Tranche 1	25% of the Principle + Interest Accrued	30-Sep-16
Tranche 2	25% of the Principle + Interest Accrued	15-Dec-16
Tranche 3	50% of the Principle + Interest Accrued	31-Mar-17

all values in KES unless stated otherwise

Investment Returns	24-Sep-15	30-Sep-16	17-Oct-16	31-Mar-17
Outflow	(424.0)	-	-	-
Inflow (Principal)	-	106.0	318.0	-
Interest at 18%	-	78.0	2.7	-
Share in Residue	-	-	-	95.1
Total	(424.0)	184.0	320.7	95.1

IRR to Investor- As at Today 36.3%

VII). Cytonn Project Notes

Real Estate Investments – The “Sharp” Way

There are three broad ways through which one can invest in real estate

- Apart from the traditional ‘smart’ way of investing in Real Estate which was through brick and mortar, investors can opt for the following ‘sharp’ investment options, depending on the investors’ investment needs, risk/return profile, time horizon and liquidity needs;

Investment Type	Description	Investment Horizon	Risk Appetite/Return Profile
Equity	Purchasing partial ownership of a vehicle owning real estate developments and using a professional developer to manage the development activities	3-7 Yrs	Risk appetite is high hence they demand returns in excess of 25.0%
Mezzanine	Providing subordinated financing to a real estate development. The financing is junior to bank debt, hence gets paid only after the bank but senior to equity, hence gets paid before equity investors	1-3 Yrs	Risk appetite is moderate hence demand returns of between 14-15%
Project Notes	This involves financing for construction by investing in a fixed income note backed by real estate	1 - 3 Yr (Depends on set milestones)	Risk appetite is low, however they demand returns on average of 18.0% due to the leverage they hold. They usually finance 60.0% of the project

Project Notes – What Are They?

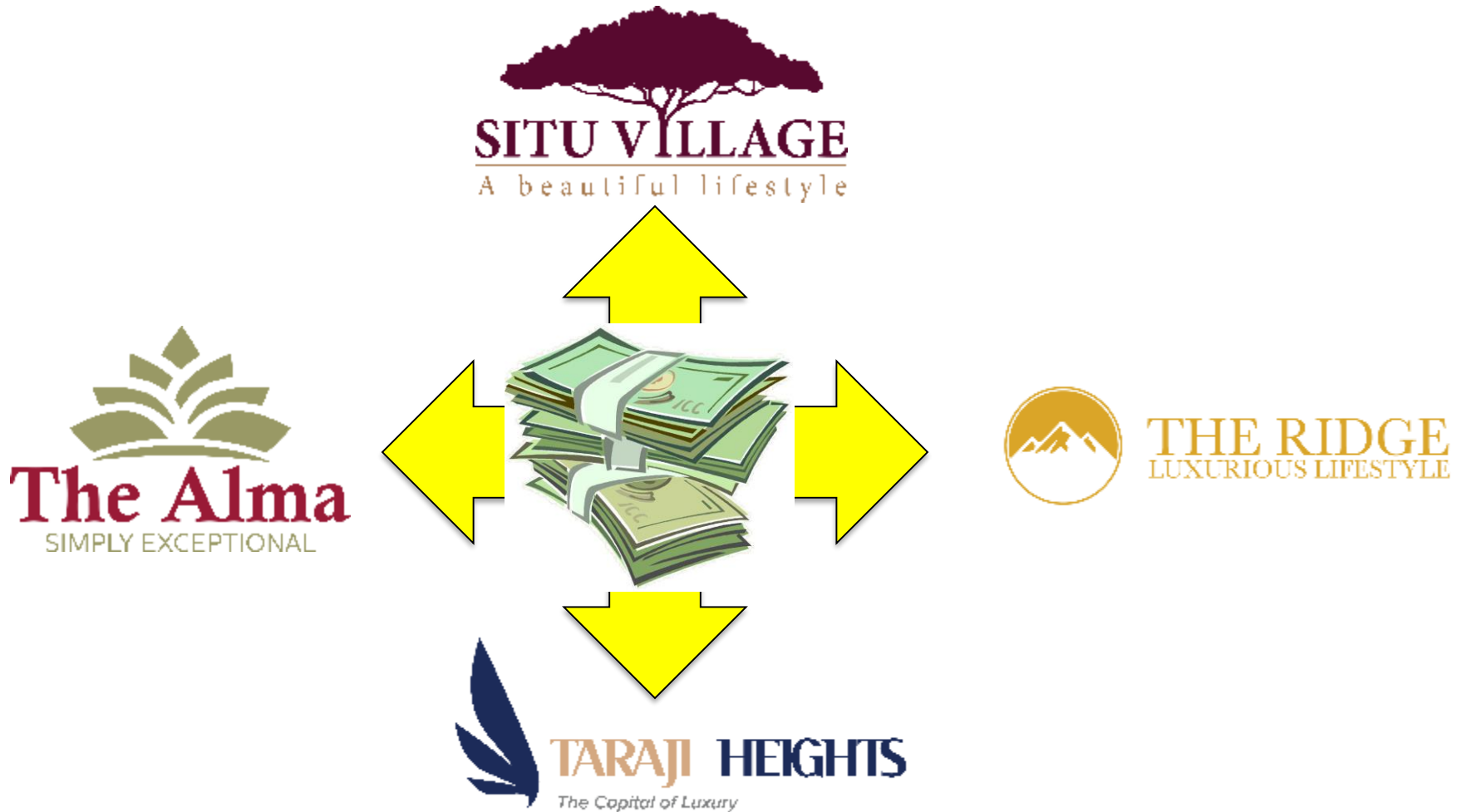
Project Notes are used to finance real estate developments, and allow all investors access to attractive real estate returns

- Project Notes are used to invest in a number of real estate developments, and give individual investors access to the attractive returns available in real estate
- They are backed by the cash-flows of each real estate development, and give returns on a periodic basis to investors
- Each project is already generating cash-flows through the sales of units



Use of Proceeds for Cytonn Project Notes

Cytonn Project Notes will invest in 4 of Cytonn's real estate developments



Cytonn Project Notes Structure

Below are the key items to note about the structure and return of Cytonn Project Notes

Particulars	Details
Issuer	Cytonn Project Notes LLP
Arrangers and Placing Agents	Cytonn Investments Management Limited
Transaction Description	The issue of up to Kenya Shillings Ten Billion(KES 10,000,000,000/-)
Issue Amount	Kenya Shillings Ten Billion, (KES 10,000,000,000/-)
Note Currency	Kenya Shillings (KES)
Note Denomination (lot size)	Kenya Shillings One Million (KES 1,000,000/-)
Issue Date (Notes Value Date)	Open
Maturity Date	As per individual investor
Note Return	1-year: 18% pa 2-year: 19% pa 3-year: 20% pa
Coupon Status	The Notes will trade cum-coupon – Trade at Principal plus Accrued Interest

Cytonn Project Notes Structure, continued...

Below are the key items to note about the structure and return of Cytonn Project Notes

Particulars	Details
Interest Notification	The Issuer will notify the interest amounts due two weeks before they are due
Interest Payments	Interest will be payable either semi-annually, annually or at maturity from the Issue Date
Note Redemption	Unless previously converted, cancelled or redeemed, the Loan Notes shall be redeemed at their Principal Amount on the Maturity Date dependent on the date of the Noteholders subscription to the Notes

Investing in Cytonn Project Notes LLP

Investing in Cytonn Project Notes is easy and done in four simple steps

Read Investment Memorandum & Familiarize With Offering



Fill in Subscription Form



Deposit Funds in Cytonn Project Notes LLP Account



Receive Business Confirmation and Investment Advice Contract

Q&A