



## REAL ESTATE INVESTMENT TRUSTS PROMOTING REAL ESTATE DEVELOPMENT



# Fusion sees growth opportunities in REITs market

The region is currently facing a surge of economic development, which creates the opportunity for a lot of building of real estate to be done. Fusion aims to assess and deliver what the real estate market demands, whether it is middle-income residential developments or luxury office and shopping mall complexes.

Whilst there are risks involved in developing real estate, when managed correctly, the opportunity to make a good return is present." Daniel Kamau, Director of Real Estate at Fusion.

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Opportunities abound in the East African market with continued rising and unsatisfied demand for housing and office space in the region. We believe we are still in the growth stage of the real estate sector. In several areas the demand exceeds supply; the middle class is still growing meaning sector is growing as well.

In the residential segment for instance, we believe the middle class has significant unfilled demand and we are both in the process of developing and planning projects that address their needs. These projects are to be found in the greater Nairobi area, Mtwapa, Nakuru and Kampala. In 2012 we partnered with a Ugandan developer to put up luxury apartments serving business travellers to Kampala, a project which we completed in 2014.

In office space segment, we are excited that we have a share of the Nairobi Upperhill skyline through our investments in 2 projects. Upperhill has in the last decade evolved in to a high end commercial district, with blue chip companies and international development institutions setting up their headquarters and offices in the area. "We are approaching completion of these two major projects, expected at

end of 2015".

Fusion is an East African developer. In Kigali, we have a mixed used (retail and office) project conveniently located at Kimihurura, next to the upcoming Kigali Convention Centre. Various multinational brands have signed up to move into the space.

Kenya is the third African country to establish a real estate investment trust (REIT) framework. Kenya's framework is unique in that it makes an effort to address the unique needs of a market such as Kenya by facilitating mobilisation of capital for developing of real estate through Developing Real Estate Investment Trust (D-REIT), and capital to invest in complete buildings through Income Real Estate Investment Trusts (I-REIT)

We at Fusion see this as a great opportunity to mobilise capital from the capital markets for investment in Real Estate sector and are working on, subject to approval by the CMA, coming to the market with a D-REIT offer.

Some of the benefits investors are likely to accrue from investing in REITs are:

- An opportunity to access to real estate investment opportunities on a securities exchange saving the investor higher

expenses of buying and selling directly.

- Investors can own fractions projects, on relatively small investments. Access to professionals such as managers and fund managers manage the assets.

- Investment in a REIT will diversification by region and real estate, depending on the offer as the REIT may hold a range of properties.

- Controlled risk in investment real estate as REITs will offer transparency and accountability to the fact that they are regulated.

REITs is bound to spur real estate growth in the region as funding from unregulated platforms can be challenging.

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SPECIAL ADVERTISING SECTION

# REAL ESTATE INVESTMENT TRUSTS

## PROMOTING REAL ESTATE DEVELOPMENT



# How to get it right with real estate investme

By EVANS ONGMAE >>> eongmae@kenationmedia.com

**S**o should you put your money into real estate or the market? If you want a hands-on investment that you can see and touch and that will likely prove time-consuming, you should consider local real estate investments, provided you are familiar with the market.

There are two potential sources of revenue from real estate investments: rental income and appreciation of property value (with no capital gains taxes until the property is sold). For that reason, real estate investments make for a popular back-up investment.

What is the best type of property to invest in?

Your main choices in the world of real

**“A majority of real estate and property development companies in Kenya have in-house staff who handle the marketing and sales.”**



estate investments will include:

- Commercial property. It is probably best to rule out investments in commercial real estate unless the property is small and you are extremely familiar with the area. Otherwise, the risk usually outweighs the rewards for office buildings, malls, and industrial real estate investments—or for forming partnerships that invest in these types of properties.
- Residential property. Single family homes can be challenging investments, because if you plan to rent the property, the rental income must exceed the mortgage payments, property taxes, and management costs—an increasingly difficult task given that mortgage payments alone exceed average rents in many parts of the country. Multifamily properties are usually a better, though pricier investment. One solution: sell your own home and move into one of the units of a multiunit property.
- Real estate investment trusts (REITs). If you believe real estate

prices may outperform of investments, you in a REIT, a trust that a kind of real estate pool investors’ commercial and some real estate.

According to the Euro Estate Association (EURA) countries worldwide the “REIT-like” legislation in market for REITs is over with United States accounting 50 per cent of that.

that have REITs in France, Canada, Japan, Singapore, Hong Kong and If you are interested a REIT, you should go independent financial advisor all about this type of investment. REITs are a kind of for property and as such investment vehicle.

There are many of REITs, such as the residential, commercial, properties. Each require before investing.

# Why Housing Finance is putting its money on REITs

By NATION STAFF

**R**ules that allowed Real Estate Investment Trusts (REITs) were introduced in 2013 and while it has taken some time for companies to announce their intentions to roll out the new products, Housing Finance (HF) says it is well worth the wait.

HF, Kenya’s largest mortgage lender, says that it plans to be an active investor in the REIT market which promises to open the property market to a wider number of investors and in turn give companies like HF a much needed alternative source of funding.

HF Managing Director, Frank Ileri says that the listed company is considering putting up some of its properties in a REIT structure, allowing the company to free up capital and move on to other projects.

Mr Ileri says that one of the options that is definitely on the table is an investment REIT or

an I-REIT.

Under an I-REIT, HF will transfer buildings that provide rental income such as offices and retail malls to an investment vehicle or a company. Shares in the vehicle will then be sold to investors such as pension and insurance firms.

The buyers will then be entitled to an annual “dividend” which comes from the rent that the properties generate every year, less property management fees.

The advantage that HF has is its ability to competently complete projects and 50-years of experience in the property industry, a much needed skill in the selection of prime tenants who are vital for REITs. “We have a good track record and we will ensure that we get good tenants,” says Mr Ileri.

Prime tenants sign long-term leases and are in the habit of paying on time, this in turn ensures the investors in the I-REIT are paid the highest possible return.



HF is also looking at Development REITs or D-REITs which will give investors an opportunity at buying into a project such as a commercial building, retail mall or an estate every year.

HF will use the funds invested to construct buildings and on selling the properties under the project, investors in the D-REITs will get a return from the profits made.

A housing gap of 150,000 units per year and a rapidly urbanising

population are factors that have created a wide canvas to paint a profitable future for companies that choose to be entrepreneurial and use REITs, HF being one such company.

It will be some time before companies begin to list their REITs due to the complex structures but when the time comes HF will be among the pioneers.

Housing Finance



**“HF will fund investment in properties and on selling project, invest the D-REITs a return from profits made.”**