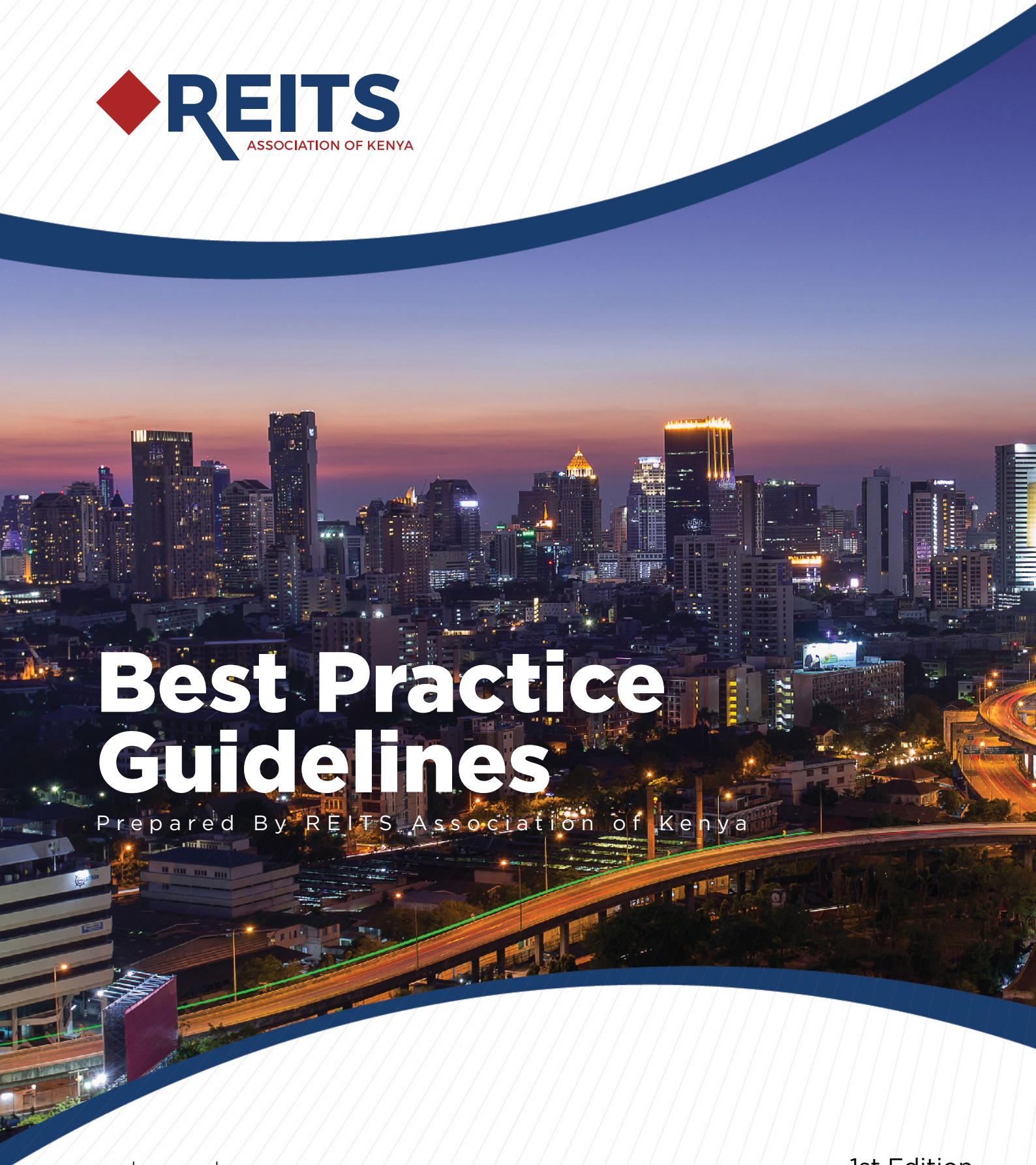
REITS
ASSOCIATION OF KENYA



Best Practice Guidelines

Prepared By REITS Association of Kenya

rak.co.ke

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Contents

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1. Chairman's Foreword

It is my great pleasure to present the REIT Best Practices Guidelines. This document marks an important milestone in the continued development and maturation of the Real Estate Investment Trust (REIT) market in Kenya.
As the Kenyan real estate sector evolves, REITs have emerged as a vital vehicle for mobilizing capital, enhancing market transparency, and broadening access to real estate investment opportunities. However, with this growth comes the responsibility to uphold the highest standards of governance, valuation, reporting, and investor protection. These Guidelines are therefore designed to provide a comprehensive framework to support market participants in achieving consistency, credibility, and global alignment.

The Guidelines address key pillars of the REIT ecosystem, including valuation methodologies, performance measurement, ESG integration, and credit rating practices. By incorporating internationally recognized standards while contextualizing them for the Kenyan market, this document seeks to bridge global best practice with local relevance. In particular, the emphasis on transparency, rigorous valuation approaches, and sustainability reflects the direction in which global capital markets are moving—and where Kenyan REITs must position themselves to remain competitive and attractive to investors.

We recognize that a robust REIT market is built on trust—trust from investors, regulators, and the broader public. These Guidelines are intended to strengthen that trust by promoting clarity, comparability, and accountability across the industry. They will also serve as a valuable reference for REIT managers, trustees, valuers, regulators, and investors alike.
I would like to commend all stakeholders who contributed their expertise and insights to the development of this document. Your collective effort underscores the shared commitment to advancing Kenya's capital markets and real estate sector.

As we look to the future, the REITs Association of Kenya remains dedicated to fostering a vibrant, transparent, and sustainable REIT market. We encourage all market participants to adopt and implement these Guidelines, not only as a benchmark for compliance, but as a foundation for excellence.

Geoffrey Odundo
Chairman
REITs Association of Kenya

Clarity in Value, Confidence in Investment

2. Introduction

The REITs industry has grown substantially over the past year with 5 REITs[1] currently in existence with a total market capitalization of KES 30,330,607,793 as at 26th March 2026. The 5 REITs are outlined below:

Table 1: Current REITs in Kenya

Name of REIT	Year of Establishment	Sector Focus	Total Assets (KES) as at 30th June 2025[2]	Market Capitalisation (KES) as at 26th March 2026
ILAM Fahari I-REIT	2015	I-REIT	3,661,667,147	1,990,695,300
Acorn Student Accommodation D-REIT	2021	D-REIT	16,115,685,000	7,716,147,693
Acorn Student Accommodation I-REIT	2021	I-REIT	11,340,001,000	8,515,624,040
Laptrust Imara I-REIT	2022	I-REIT	6,918,886,520	6,924,628,260
ALP Industrial REIT	2025	I-REIT		5,183,512,500[3]

Source: NSE and RAK analysis

To support this growth and increase awareness, RAK through its Standards Committee, has developed the Best Practices Guidelines ("BPG"). The BPG will act as a tool kit for REIT Issuers, REIT Managers, investors and other stakeholders to increase transparency over the financial reporting and disclosures for REITs. The increased transparency will help stakeholders understand how to evaluate REITs and form the basis for comparison amongst REITs.

The Standards Committee has noted that the European Public Real Estate Association ("EPRA") [4]and National Association of Real Estate Investment Trusts ("NAREIT")[5] developed similar guidelines as part of their contribution to the growth of the REIT industry. The BPG by RAK takes reference from these documents whilst creating guidelines that are aligned with local market conditions.

It is not the intention of the Standards Committee for current and prospective REIT Issuers to be burdened with additional disclosure requirements. The purpose is to provide a framework for ease of reporting whilst allowing investors to easily interpret REIT performance. The BPG is envisioned to be an evolving document that will be updated as the market grows.

1 In 2025, Acorn Holdings also launched a Built to Let Development REIT
2 ALP Industrial REIT concluded its capital raise in 2026 and thus did not have half year 2025 accounts to report
3 This is a USD I-REIT so market capitalisation is reported in KES equivalent
4 www.epra.com
5 www.reit.com

The document has been discussed and debated amongst key stakeholders. We thank the following entities for their contributions to the BPG:

a. RAK Main Committee and Secretariat
b. Capital Markets Authority
c. Nairobi Securities Exchange
d. ILAM Fahari I-REIT
e. Laptrust Imara I-REIT
f. The Institution of Surveyors of Kenya

Our deep appreciation goes to the members of the Standards Committee which is comprised of: Wangui Maranga-Okello, Hilda Njoroge, Ruth Okal, Irungu Waggema and Cynthia Mbaru. Thank you to John Kabuye for his contribution and to Amina Abdi, Everlyne Mkaya and Anne Mwega from the RAK Secretariat for their support.

3. Glossary of Terms

In this document, unless otherwise stated, the following expressions shall have the following definitions and abbreviations:

Table 2: Definitions and Abbreviations

Subject	Definition
AFFO	Means Adjusted Funds from Operations;
CAPM	means Capital Asset Pricing Model;
DCF	means Discounted Cash Flow;
DDM	means Dividend Discount Model;
EDGE	means Excellence in Design and Greater Efficiencies, a design tool from International Finance Corporation for the certification of green buildings;
ESG	means a framework to assess an organisation's Environmental, Social and Governance impact
FCF	means Free Cash Flow;
FFO	means Funds from Operations;
GRESB	means a design tool to benchmark the Environmental, Social and Governance (ESG) performance of real assets
NAV	means Net Asset Value;
NOI	means Net Operating Income;
NPV	means Net Present Value;
WACC	means weighted average cost of capital;

4. Provisions of REIT Regulations on Valuation of Real Estate

Provisions of the 6th Schedule of the Legal Notice No. 116 The Capital Markets (Real Estate Investment Trusts) (Collective Investment Schemes) Regulations, 2013 with respect to the Valuation of REITS Real estate valuations

4.1. Real estate - means land and includes

a. all things natural part of the land or growing on the land;

b. attachments above and below the land;

c. fixtures or installations

d. improvements and permanent building, plant and equipment or attachment.

e. all rights and interests attaching to the land;

4.2. Eligible Real Estate:

Eligible real estate in respect of real estate situated in Kenya means only real estate where the form of tenure which applies to the land is

- freehold and includes the shares in any management company and any common management company established in respect of the freehold title that have been or are transferred or acquired by the trustee at the same time; or
- leasehold in respect of which either a certificate of title or a certificate of lease has been issued or is a long-term lease, as defined in the Land Act (Cap. 280) which has a registered separate title number and where, in the case of each leasehold title—
  - i) as at the latter of the date on which the leasehold is transferred to or acquired by the trustee, investee company or trustee of the investee trust and the date on which the scheme is authorized by the Authority, the leasehold has an unexpired residual term of at least twenty five years; and
  - ii) the shares in the management company and any common management company established in respect of the leasehold have been or are transferred or acquired by the trustee at the same time; or
- issued under the Sectional Properties Act
  - i) as at the date on which it is transferred to or acquired by the trustee, investee company or trustee of the investee trust and the date on which the scheme is authorized by the Authority, there is an unexpired residual term of at least twenty five years; and
  - ii) a Corporation has been constituted under section 17 of the Sectional Properties Act in respect of the sectional plan registered under that Act;

4.3. Qualifications of a valuer:

- Registered and Licensed as a valuer under the Valuers Act (Cap. 532);
- Is independent and does not have a conflict of interest;
- Provides real estate and other property valuation services on a regular basis;

- Carries on business of valuation of real estate in Kenya;
- Member of the Institution of Surveyors – 5 yrs;
- Maintains professional liability insurance to cover its obligations.

4.4. Valuation to be as per the Standards Adopted by

- Institution of Surveyors of Kenya Standards
- Requirements by the Valuers Registration Board.
- (International valuation Standards)
- Valuation prepared is a public document- No claim of confidentiality.
- Disclaimers, waivers and limitations – not deprive use.
- Reports addressed to the trustee
- Be expressed to be for the benefit of the trustee and all REIT securities holders.

5. REIT Valuation

This section will highlight the various methodologies available for the valuation of the REIT whilst Section 6 will focus on the valuation of the underlying properties.

Table 3: Summary of REIT Valuation Methodologies

Methodology	Description
Asset Approach	
Net Asset Value	Using the net assets of the business to determine value
Income Approach	
Discounted Cash Flow	Forecasting Free Cash Flows by forecasting the components of the Profit and Loss statement, Statement of Financial Position and Statement of Cash Flow, determining an appropriate discount rate and using the rate to discount the future cash flows to the present.
Dividend Discount Model	Dividends are discounted to Present Value at cost of equity It is a form of discounted cashflow that aims to arrive at the intrinsic value
Comparables	
Capitalisation Rates	This is calculated as Net Operating Income/Property Value and is a profitability metric
Equity Value to Funds from Operations	Equity Value/Funds From Operations
Equity Value to Adjusted Funds from Operations	Equity Value/Adjusted Funds from Operations

5.1. Net Asset Value

The Net Asset Value ("NAV") approach focuses on the value of a REIT's assets or the fair market value of its total assets after deducting liabilities and values the REIT as a going concern. As REITs value their properties on an annual basis, the NAV can be calculated from the latest audited financial statements to obtain the book value. The other method is to use the Net Operating Income ("NOI") and Capitalization Rates to calculate the fair market values of the assets.

a) Calculate the current NOI;

b) Using the growth rate, project the 1 year forward NOI;

c) Adjust the NOI for the capital expenditure and overheads;Divide the adjusted NOI by the Capitalisation Rate to obtain the property value;

d) Add cash and any other assets; and

e) Subtract the existing debt to give to the NAV

f) Divide NAV by outstanding number of units.

These methods can be used to value I-REITs and D-REITs.

5.2. Discounted Cash Flow

The Discounted Cash flow ("DCF") method is based on the premise that the value of the REIT can be estimated today by forecasting the future financial performance of the investment and identifying the net cash that the REIT will generate. Cash flows for all future years are then discounted by a risk-adjusted cost of capital (discount rate or the weighted cost of capital) back to the present to obtain the present value of those future cash flows.

This method is sensitive to the accuracy of the projections and the discount factor used, which may vary from investor to investor, depending upon the investor's attitude towards risk. The DCF evaluation technique determines the quantum of a REIT's future cash flows or value as the sum of the following:

- Present value of cash flows arising from the REIT, which is estimated by projecting future operating Free Cash Flows ("FCF") and discounting them by the Weighted Average Cost of Capital ("WACC") for the company. The WACC would normally reflect the investors desired rate of return on the project; plus
- The value of non-operating assets, estimated either using the market value of those assets or calculated as a DCF value (as for operating cash flows); less
- The present value of debt (estimated once again either through the market value of the claim or as a DCF value) and other liabilities that are of higher priority than the equity claim; less

Forecasting the future can be prone to a high degree of inaccuracy. To simplify the process and forecast a more meaningful value for the investment, the value of the business is separated into two time periods: an explicit projection period and a continuing value for the operations of the business.

The projected cash flows are based on the projected Profit and Loss account (Income Statement) adjusted for non-cash items such as bad debt provisions, depreciation, reserves taken for claims which do not necessary crystallise in a certain period such as retirement benefits provisions, etc. In addition, items such as capital expenditure over the projection period and additional costs are provided for.

The choice of discount factor is critical to the value estimated and is normally determined from the WACC. The process for determination of the weighted average cost of capital is given below.

i. Explicit projection period

This involves forecasting the operating FCF for a specific period until cash flows are expected to normalise (i.e. cash flows have stabilised and are on a predictable path that can be extrapolated using constant growth figures and can be discounted using an annuity formula). An appropriate discount rate is applied to arrive at the net present value ("NPV") of these cash flows during the explicit forecast period.

i. Continuing value projection

This is the present value of the REIT beyond the explicit forecast period, based on: (a) the final year's projection; and (b) assumptions regarding future return on investment and growth. An annuity discount formula is used to show the value today of the cash flows from the continuing business.

i. Discount rate

The discount rate used to calculate the present value of the cash flows attempts to estimate the rate of return that potential investors will use in assessing the value of a REIT. The discount rate is a combination of the cost of equity and debt, and the relative weights of the cost of equity and debt depend upon the capital structure of the company.

The discount rate/factor is also influenced by several factors. It is estimated using the capital asset pricing model ("CAPM"). The approach involves working out a weighted average cost of capital ("WACC"), by weighting the cost of equity and the (after tax) cost of debt for any investment, based on the future expected level of gearing. The cost of equity is derived as the sustainable yield on risk free ("RF") long-term bonds (issued by Governments or triple A-rated agencies) plus equity risk premium ("ERP") multiplied by the market/sector Beta. The cost of equity would then be determined as the sum of the risk-free rate of return plus the risk premium adjusted for Beta.

5.3. Dividend Discount Model

The Dividend Discount Model ("DDM") a way of valuing a REIT based on the theory that a unit is worth the discounted sum of all of its future dividend payments. It is a form of a DCF model with the cash flows being the future dividends of the REIT. There are 3 types of dividend discount models:

- Zero-growth, which assumes that all dividends paid by a unit remain the same;
- Constant-growth model, which assumes that dividends grow by a specific percent annually;
- Variable-growth model, which typically divides growth into 3 phases: a fast initial phase, then a slower transition phase that ultimately ends with a lower rate that is sustainable over a long period.

Zero-growth model assumes that the dividend always stays the same, the unit price would be equal to the annual dividends divided by the required rate of return.

The constant-growth DDM assumes that dividends grow by a specific percentage each year. The model is often used to value units of mature REITs that have increased the dividend steadily over the years. Basically, the constant-growth rate model is extended, with each phase of growth calculated using the constant-growth method, but using 3 different growth rates of the 3 phrases. The present values of each stage are added together to derive the intrinsic value of the stock.

Variable-growth rate model (multi-stage growth models) generally assumes 3 different rates of growth: an initial high rate of growth, a transition to slower growth, and lastly, a sustainable, steady rate of growth. Sometimes, even the capitalization rate, or the required rate of return, may be varied if changes in the rate are projected.

5.4. Comparables

The comparables are metrics that will be calculated for REITs to enable investors to compare the relative valuations of REITs even if there are underlying differences in their business models and sector focus. As the industry grows, market comparables will be established from averaging comparables from existing REITs. These comparables will be able to be broken down by REIT specialization in the future.

5.4.1 Capitalisation Rates

The Capitalisation Rate is defined as follows:

$$Capitalisation\ Rate = \frac{Net\ Operating\ Income}{Property\ Value}$$

The Capitalisation Rate is a key valuation metric which incorporates the Net Operating Income and Property Value. Sector specific Capitalisation Rates can be used to value new properties or gauge whether properties are generating NOI in line with similar properties. Capitalisation Rates for REITs can also be calculated.

5.4.1 Equity Value to Funds from Operations

The Equity Value to Funds from Operations ("FFO") Metric is defined as follows:

$$Equity\ Value\ to\ Funds\ from\ Operations = \frac{Equity\ Value}{Funds\ From\ Operations}$$

Funds from Operations captures the income return that comes from the investments made by the REIT whilst adding back depreciation then excluding any changes that arise from changes in valuation (unrealized capital gains/losses) and sale of properties (realized gains or losses).

$$\begin{aligned} &Funds\ from\ Operations \\ &\quad = Net\ Income + Depreciation - changes\ in\ valuation \\ &\quad - gains\ from\ sale\ of\ properties \end{aligned}$$

The FFO can be seen as a measure of the cashflow available to the REIT. The EV/FFO metric is similar to the Enterprise Value/EBITDA metric for companies.

5.4.1 Equity Value to Adjusted Funds from Operations

This metric is calculated as follows:

$$EV\ to\ AFFO = \frac{Equity\ Value}{Adjusted\ Funds\ From\ Operations}$$

Adjusted Funds from Operations ("AFFO") is calculated using the same formula as FFO but goes a step further to exclude capital expenditures to maintain the property portfolio.

Adjusted Funds from Operations = Net Income+Depreciation-capital expenditure-changes in valuation-gains from sale of properties

This is considered a more accurate reflection of the cashflow position of the REIT as maintenance has been factored in. Whereas FFO provides an "inflated" cashflow position.

6. Property Valuation

6.1. Valuation Standards

Valuation for the real estate should be conducted in line with the valuation Standards which are principle based and adequately address the development of a credible opinion of value and the communication of that opinion to the intended user(s). The International Valuation Standards

Sets forth requirements for the conduct of all valuation assignments including establishing the terms of a valuation engagement, bases of value, valuation approaches and methods, and reporting. They are designed to be applicable to valuations of all types of assets and for any valuation purpose.

6.2. Valuation Methodology

There are three main approaches to real estate valuation based on the economic principles of price equilibrium, anticipation of benefits or substitution. Using more than one valuation approach or method is especially recommended where there are insufficient factual or observable inputs for a single method to produce a reliable conclusion especially in a developing market like Kenya. The idea is to try to triangulate on the market value by approaching the estimate three different ways. Further, the appraiser may have more confidence in one or more of the approaches depending on the availability of data for each approach. Section 111 to 113 and the 6th Schedule of the Legal Notice No. 116 The Capital Markets (Real Estate Investment Trusts) (Collective Investment Schemes) Regulations, 2013 provides comprehensive guidelines for REITS Real estate valuations as detailed below:

6.3. Basis of Value

The basis of the valuation is to be market value/Fair Value. A basis of valuation is a statement of the fundamental measurement assumptions of a valuation

Market Value : The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

6.4. Valuation Methodology

In general, there are three different approaches that appraisers use to estimate value: the income approach, the cost approach, and the sales comparison approach as detailed below.

Table 4: Valuation Methodology Overview

Number	Methodology	Brief Description
a.	Market Approach	The market approach provides an indication of value by comparing the subject asset with identical or similar assets for which price information is available. In general, the Market Approach is mostly used with every effort made to identify sales and properties for sale in a meaningful market area. Thus, values are based on sales which are most similar and comparable to the appraised property.by comparing the subject asset with identical or similar assets for which price information is available
b.	Cost Approach	Provides an indication of value using the economic principle that a buyer will pay no more for an asset than the cost to obtain an asset of equal utility whether by purchase or by construction
c	Income Approach	The income approach provides an indication of value by converting future cash flows to a single current capital value. This approach considers the income that an asset will generate over its useful life and indicates value through a capitalization or discounting process. Capitalization involves the conversion of income into a capital sum through the application of an appropriate discount rate. The income stream may be derived under a contract or contracts, or be non-contractual, e.g. the anticipated profit generated from either the use of or holding of the asset. It includes the following sub-methodologies: i. Investment method ii. Residual method iii. Profits method iv. Discounted cash flow method v. Other methods

6.4.1 Comparison Method

The sales comparison approach considers what similar or comparable properties (comparables) transacted for in the current market. Adjustments are made to reflect comparables' differences from the subject property, such as size, age, location, and condition of the property and to adjust for differences in market conditions at the times of sale. The concept is that an investor would not pay more than others are paying for similar properties. For each comparable sale the following details are noted; type of property, address, land area, gross and net floor area where applicable, condition of the comparable, accommodation, amenities, proximity to the appraised property, date of sale, sales price and sales price per appropriate unit of measure. Major variables which have an impact on value such as location, size, condition, zoning, etc are noted. Based on these variables, the comparables are compared to the property being appraised and adjusted/analyzed and applied accordingly to arrive at the value. The process requires the availability of the following:

i. Appropriate and adequate comparables.

ii. Details of the comparables

iii. Adjustments made to ensure comparability so far as possible.

6.4.2 Cost Approach

This approach is based on the principle that the price that a buyer in the market would pay for the asset being valued would, unless undue time, inconvenience, risk or other factors are involved, be not more than the cost to purchase or construct an equivalent asset. Often the asset being valued will be less attractive than the alternative that could be purchased or constructed because of age or obsolescence. Where this is the case, adjustments may need to be made to the cost of the alternative asset depending on the required basis of value. The concept is that you should not pay more for a property than the cost of buying vacant land and developing a comparable property. This approach relies on the following inputs and processes.

i. The actual construction or tender cost, if available;

ii. The cost and rates adopted for construction;

iii. Adjustments for depreciation and obsolesce.

iv. Adjustments for comparability

v. Depreciation rates adopted and their bases.

vi. A caution should be included as to the appropriateness of use of the cost method in that costs may not reflect value.

6.4.3 Income Approach

The income approach considers what price an investor would pay based on an expected rate of return that is commensurate with the risk of the investment. The value estimated with this approach is essentially the present value of the expected future income from the property, including proceeds from resale at the end of a typical investment holding period. The concept is that value depends on the expected rate of return that investors

would require to invest in the property.

6.4.3.1 The Direct Capitalization Approach

The direct capitalization method capitalizes the current NOI at a rate known as the capitalization rate, or cap rate for short. If we think about the inverse of the cap rate as a multiplier, the approach is analogous to an income multiplier. The direct capitalization method differs from the DCF method, in which future operating income (a proxy for cash flow) is discounted at a discount rate to produce a present value.

In Direct capitalization, an all-risks or overall capitalization rate is applied to a representative single period income. Capitalization rate is derived from analysis of market transactions in relation to rental incomes for similar properties. The process is as follows:

i. Establish Gross Income (projected income is market derived;
ii. Actual outgoings/operating expenses (past three years)
iii. Any major capital expenditure likely to be incurred in the next two years;
iv. Market evidence to support the capitalization and discount rates utilized which reflect the risk of the business, sector

Value is derived from the following Equation:

$$V = NOI/(r - g)$$

where:

r = the discount rate (required return)

g = the growth rate for income

6.4.3.2 The Discounted Cash Flow (DCF) Method

The use of a DCF approach for real estate income- producing properties, especially when there are lots of tenants and more complex leases, is intuitively appealing. The general steps to a DCF analysis are as follows:

i. Project income from existing leases
ii. Make assumptions about lease renewals
iii. Make assumptions about operating expenses
iv. Make assumptions about capital expenditures
v. Make assumptions about absorption of any vacant space
vi. Estimate resale value (reversion)

vii. Select discount rate to find PV of cash flows

Common Errors of DCF

Discounted cash flow analysis requires a lot of assumptions, and analysts may knowingly or otherwise make assumptions that are not consistent with reality. The following are some of the more common erroneous assumptions:

i. The discount rate does not reflect the risk.

ii. Income growth is greater than expense growth.

iii. The terminal cap rate is not logical compared with the implied going-in cap rate.

iv. The terminal cap rate is applied to an income that is not typical.

v. The cyclical nature of real estate markets is not recognized.

6.4.3.3 Residual method

The residual method calculates the market value of the property in its present form by following the procedure whereby the development or reconstruction costs and the developer's profit are deducted from the completed development value of the implemented scenario. The following are the steps to realizing residual valuation.

i. The approved or submitted development plan and requisite consents Consider the reasonableness of the gross development value, timing of the development

ii. and construction period and seek expert opinion from structural engineer/ project management certifier

iii. Relevant market information to support projected supply, including supply in the pipeline or approved developments, rates of absorption and projected rents or sales prices and

iv. The complexity of the development and construction and terms of the building contracts and prior performance of the builder on similar contracts particularly as regards cost overruns, disputes and timing for completion should be taken into account together with the potential impact on cash flows;

v. The discount rate adopted must be market derived.

7. Performance Metrics

For equity REITs as a group, the following key specific investment characteristics, opportunities, and risks should be assessed when conducting performance measurement and appraisal purposes.

i. **Remaining lease terms.** Short remaining lease terms provide mark- to-market opportunities on rents. They are a positive consideration in an expansionary economy and/or rental rate environment and a negative one in a declining economy and/or rental market.

ii. **Inflation protection**. Leases that have pre- set periodic increases in rent throughout the lease term (or that have minimum or base rents linked to the local inflation rate) provide a degree of inflation protection for investors.

iii. **Market rent analysis.** Current market rents should be compared with rents paid by existing tenants. Low in- place rents provide upside potential to cash flows upon lease re- negotiation and high in- place rents represent additional risk to maintaining current cash flows.

iv. **Costs of re-leasing space.** Costs to lease space when a lease matures typically include brokerage commissions, allowances for tenants' improvements to their space, free rent, and downtime between leases. Such costs can be burdensome for landlords/ investors.

v. **Tenant concentration.** Tenants that rent significant amounts of space and the percentage of rents paid by these significant tenants should be noted. Assessing the financial strength of significant tenants and the risk they pose to the REIT are important parts of performance analysis

vi. **Availability of new competitive supply.** The potential for new competitive supply to the REIT's existing properties should be analyzed by examining new buildings under construction or planned by other developers and by assessing the likelihood of more projects gaining approval.

vii. **Balance sheet/leverage analysis.** A detailed review of the REIT's balance sheet, including leverage levels, cost of debt, and debt maturity profile should be completed.

viii. **Management.** Due diligence should include a review of senior management's background, skill sets, track records, years of experience, and length of time with the REIT.

Below is a summary of performance measures that an analyst would be interested in for REITs

Table 5: Summary of Performance Metrics

Metric	
Operating Metric	1. Net Operating Income (NOI) *NOI = Rental Income + ancillary income - direct operating expenses* 2. Earnings Growth for REITs or FFO Growth 3. Management's Track Record 4. Weighted Average Unexpired Lease Term (WAULT) $$WAULT = \frac{Total\ Weighted\ Lease\ Term}{Sum\ of\ all\ tenant's annual\ rents}$$ where (to be calculated for each tenant)
Profitability Metric	1. Funds from Operation 2. Adjusted Funds from Operations (AFFO) 3. Cash Available for Distribution (CAD)
Balance Sheet Metric	1. Leverage 2. Debt-to–Total Market Capitalization Ratio 3. Debt-to–Gross Book Value Ratio 4. Debt-to-EBITDA Ratio 5. Weighted Average Cost of Capital (WACC)
Valuation Metric	1. Price/Earnings Multiple 2. Price/Earnings to Growth (PEG) Ratios 3. Dividend Yield 4. Dividend Safety 5. Dividend Coverage, or Payout Ratios 6. Dividend Discount Model 7. Net Asset Valuation (NAV) 8. Implied Capitalization Rate

8. ESG Reporting

8.1. Executive Context and Rationale

Real estate is a cornerstone of economic development and the single largest global asset class, with an estimated value of USD 393.3 trillion as at the end of 2024—exceeding the combined value of global equities and debt. In Kenya, real estate plays an equally strategic role, accounting for an estimated 60% of high-net-worth individuals' wealth and serving as a primary vehicle for capital appreciation, income generation, and wealth preservation.

One cannot ignore that within capital markets the increasing prevalence of the terms 'sustainability' and 'ESG,' with all their intended meanings, reflects mounting evidence of the usefulness of some sustainability information for achieving business objectives. Companies and investors have come to a shared realization that financial returns can be sustained only if companies are well governed and the social and environmental assets underlying those returns are not depleted. Far more than an exercise in altruism, sustainability constitutes a key focus area of even the most financially motivated companies and investors.

The sector is increasingly exposed to sustainability-related risks with direct and measurable financial consequences. These include:

- Physical climate risks such as flooding, heat stress, water scarcity, and extreme weather events.
- Transition risks arising from evolving regulation, carbon pricing mechanisms, changing investor expectations, and market repricing of carbon-intensive assets; and
- Social and governance risks linked to labour practices, health and safety, community relations, data integrity, and board effectiveness.

These risks influence operating costs, insurance premiums, asset valuation, tenant demand, financing terms, and ultimately long-term returns. ESG performance has therefore become a proxy for asset quality, resilience, and management capability.

8.2. Why ESG Matters for Real Estate Investors

Buildings sit at the intersection of environmental, social, and economic systems. Globally, the built environment accounts for approximately:

- 40% of energy-related greenhouse gas emissions
- 30–40% of total energy use
- 12% of freshwater consumption
- Nearly 40% of waste generated and;
- Over 10% of global employment

With people spending up to 90% of their time indoors, the quality, efficiency, and governance of real estate assets have direct implications for productivity, health, social outcomes, and climate resilience.

For investors, this translates into a clear investment thesis: well-governed, resource-efficient, and socially responsible buildings are more competitive, more resilient, and better positioned to protect and grow value over time. Empirical evidence increasingly links strong ESG performance to lower operating costs, reduced volatility, lower default risk, improved tenant retention, slower asset depreciation, and pricing premiums at exit. As a result, ESG is no longer a reputational

consideration, it is a core driver of underwriting, valuation, and capital allocation decisions.

8.3. Capital Markets, Regulation, and the Kenyan Context

While ESG disclosure is not yet mandatory for Kenyan REITs, the regulatory and market trajectory is clearer as far ESG disclosures are concerned. The adoption of IFRS Sustainability Disclosure Standards (IFRS S1 and S2) from 2027 will introduce mandatory, decision-useful sustainability and climate-related disclosures aligned with financial reporting. These standards emphasize:

- Financial materiality of sustainability risks and opportunities
- Governance and risk management processes
- Climate-related metrics, targets, and scenario analysis
- Data consistency, auditability, and comparability

In parallel, global and regional capital markets are rapidly aligning with sustainability-linked financing structures, green bonds, sustainability-linked loans, and ESG-screened investment mandates. Kenyan REITs seeking to attract institutional capital—particularly international investors—must therefore demonstrate credible ESG integration, transparent data, and alignment with recognized frameworks as both asset, portfolio and entity level. This creates a strong case for a market-appropriate ESG reference framework that supports consistency, comparability, and investor confidence, even ahead of regulatory mandates.

8.4. ESG as a Value Creation and Risk Management Tool

In the real estate sector, ESG integration functions as both a risk mitigation mechanism and a value creation lever. At a portfolio level, ESG informs strategic asset allocation, capital expenditure planning, and resilience assessments. At an asset level, it drives operational efficiency, tenant experience, and lifecycle performance. Developers, REIT managers, and operators that proactively embed ESG considerations are better positioned to:

- Anticipate regulatory change rather than react to it
- Access lower-cost and more diversified sources of capital
- Enhance asset liquidity and exit optionality
- Demonstrate stewardship and fiduciary responsibility

As REIT investor expectations continue to evolve, ESG capability is increasingly viewed as a measure of management quality and long-term strategic discipline.

8.5. ESG Framework Architecture for Kenyan REITs

A robust ESG approach for the Kenyan REIT market should operate across two complementary levels: the Entity Level and the Asset Level.

8.5.1 Entity-Level ESG Standards and Frameworks

Entity-level standards shape governance structures, strategy, risk management, disclosures, and performance measurement across the organisation. These frameworks inform ESG and impact strategy, define data requirements, and guide reporting and investor communication.

Key reference standards include:

- **Global Reporting Initiative (GRI) standards -** The Global Reporting Initiative (GRI) Standards are the world's most widely used framework for sustainability reporting, helping organizations be transparent about their impacts on the economy, environment, and people. Artificial intelligence (AI) is increasingly used to streamline the data-intensive reporting process, automate data collection, and provide actionable insights.
- **Integrated Reporting (<IR>) Framework -** The Integrated Reporting () Framework is a set of principles and content elements for a concise corporate report that explains to providers of financial capital how an organization creates, preserves, or erodes value over time. It is designed to promote integrated thinking, connecting an organization's financial performance with its wider environmental, social, and governance (ESG) impacts.
- **GRESB (Global Real Estate Sustainability Benchmark) -** GRESB (formerly the acronym for the Global Real Estate Sustainability Benchmark, now the official name of the organization) is an investor-led organization that provides a globally recognized Environmental, Social, and Governance (ESG) benchmark and reporting framework for real estate and infrastructure investments.
- **IFRS S1 and IFRS S2 (effective from 2027 onwards) -** IFRS S1 and IFRS S2, issued by the International Sustainability Standards Board (ISSB), are global sustainability disclosure standards that aim to provide investors with a worldwide baseline for assessing sustainability-related risks and opportunities that impact a company's finances. IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information provides a set of disclosure requirements designed to enable companies to communicate to investors about the sustainability-related risks and opportunities they face over the short, medium and long term. The information provided about sustainability-related risks and opportunities is based on the four content elements set out in the TCFD recommendations and in addition, industry-based information is required to be provided. IFRS S2 Climate-related Disclosures sets out specific climate-related disclosure requirements for a company to disclose information about its climate-related risks and opportunities. IFRS S2 builds on the requirements set out in IFRS S1 and fully integrates the TCFD recommendations.
- **The 2X Challenge -** The 2X Challenge is a major global initiative, launched at the G7 Summit in 2018, by Development Finance Institutions (DFIs) and Multilateral Development Banks (MDBs) to collectively mobilize private sector investments that support gender-smart investing and social impact women in developing countries.

These standards enable alignment with global best practice while ensuring ESG disclosures are decision-useful, comparable, and credible to investors.

8.5.2 Asset-Level Standards and Certifications

Asset-level standards provide third-party verification of ESG claims and ensure that sustainability performance is embedded in the design, construction, and operation of individual properties.

Relevant asset-level standards and certifications include:

- **IFC EDGE (Excellence in Design for Greater Efficiencies) -** EDGE, an innovation of International Finance Corporation (IFC), is a green building certification system focused on making new and existing residential and commercial buildings more resource-efficient. EDGE is comprised of a web-based software application, a universal standard and a certification system.
- **IFC Performance Standards -** IFC Performance Standards are globally recognized benchmarks for managing environmental and social risks in private sector projects, outlining client responsibilities for areas like labor, pollution, land use, and Indigenous Peoples' rights, aiming

to ensure sustainable development through a framework of assessment, mitigation, and stakeholder engagement, applicable to all IFC-backed investments. The framework includes eight specific standards (PS1-PS8) that guide clients in managing impacts from project conception through operation.

- **Equator Principles -** The Equator Principles (EPs) are a global risk management framework for financial institutions to assess and manage environmental and social (E&S) risks in large project financing (>$10M). Adopted voluntarily, they ensure projects meet social and environmental standards, incorporating IFC Performance Standards on labor, pollution, community health, and indigenous rights. Signatories apply these principles to project finance, corporate loans, and bridge loans, requiring impact assessments, stakeholder engagement, and management plans to ensure responsible development.
- **World Bank Environmental, Health and Safety (EHS) Guidelines -** The World Bank Environmental, Health, and Safety (EHS) Guidelines are technical documents setting Good International Industry Practice (GIIP) for environmental and social performance in projects supported by the World Bank Group
- **WRI Greenhouse Gas Protocols -** The WRI Greenhouse Gas (GHG) Protocols are globally recognized standards and tools, developed by the World Resources Institute (WRI) and World Business Council for Sustainable Development (WBCSD), for companies and organizations to measure, manage, report, and reduce their greenhouse gas emissions. They provide frameworks like the Corporate Standard (Scopes 1, 2, 3), Value Chain (Scope 3) Standard, and Product Standard to offer a comprehensive approach to carbon accounting, helping businesses understand their climate impact across operations, supply chains, and products.

Together, these frameworks support lifecycle-based performance measurement, carbon accounting, and alignment with green finance eligibility criteria.

8.6. IFC EDGE as a Cornerstone Standard

IFC EDGE is particularly relevant to the Kenyan and broader emerging market context. EDGE is a green building standard, certification system, and design tool developed by the International Finance Corporation to accelerate the adoption of resource-efficient buildings at scale.

EDGE certification requires a minimum 20% reduction in energy use, water consumption, and embodied carbon in materials compared to a locally defined baseline. This makes it rigorous yet achievable, aligning national development priorities with global climate objectives.

Calculations are based on the size and shape of buildings, building use, building envelope properties, occupancy type, usage patterns, climate (e.g. monthly average solar radiation, ground temperature), building systems such as lighting and HVAC. EDGE meets the need for a simple, quick, and affordable system for all, ultimately providing performance assurance to buyers and investors.

The EDGE Software compares an improved (project specific) case relative to a local baseline in terms of:

- % reduction in energy consumption
- % reduction in water consumption
- % reduction in embodied carbon in materials
- Utilities cost savings relative to base case

Energy use for the base case in each city is based on current building practices or local building code in practice. IFC's EDGE team will regularly update the EDGE software, including bug fixes, cost data updates, materials database and country specific data. The EDGE software is initially calibrated to a specific country, then targeted for update every 3 years. In the case of major updates, a new version of EDGE software will be released.

Edge also recognizes advanced performance EDGE advanced and Zero Carbon i.e.

- **EDGE Certified – Achieve the minimum standards of 20% in energy, water and embodied energy in materials.**
- **EDGE Advanced – Earn 40% or more energy savings for a higher level of recognition, with at least 20% savings in water and materials.**
- **Zero Carbon – Go all the way to carbon neutral with 40% or more energy savings on-site, achieving 100% through renewables or topping off with carbon offsets.**

According to EDGE, A Green certitied building is one that is naturally ventilated or conditioned (heated or cooled) structure with at least one full-time equivalent occupant in one of the following uses; Residential Apartments & Homes (both single and multi-family at any income level), Hospitality (Hotels, resorts and serviced apartments), Retail, Light industrials and Warehouses, Hospitals and Clinics, Offices, Education.

Eligibility: EDGE can be used for new and existing buildings as well as core & shell projects and therefore catering to the mass market which has limited capacity to implement green building regulations.

The EDGE online platform one-stop shop comprising of a Project Team, Auditors and Certifiers.

The EDGE application is prepared by the owner/expert/project team, verified by the auditor and certified by the local EDGE partner.

Unlike other certification systems, EDGE differentiates itself as follows;

1) Financial calculator - No other certification system has free software to calculate the cost of going green.
2) Quantitative approach EDGE; uses projected performance for a uniquely measurable approach.
3) One-stop shop; Efficiency simulations are executed in EDGE and the entire certification process can be conducted within the software.
4) Project integration; Certification compliance can be achieved with invoices, photos and a few architectural drawings.
5) Location-specific EDGE; has climate and lifestyle data for the most accurate results.
6) Green buildings for all; Fast and affordable, EDGE makes certification available for everyone.

8.7. GRESB CERTIFICATION CRITERIA

GRESB (formerly known as the Global Real Estate Sustainability Benchmark) assesses and benchmarks the Environmental, Social and Governance (ESG) performance of real assets mainly Commercial Real Estate & Infrastructure, providing standardized and validated data to the capital markets. GRESB provides actionable insights and benchmarks that help investors and managers make informed decisions.

GRESB was established in 2009 and is globally recognized and driven by investors. Its assessments are aligned with international reporting frameworks, goals, and emerging regulations.

GRESB assess 3 main components: Management, performance, and development.

Management - the Management Component is one of the primary sections of its assessments,

measuring an entity's high-level strategy, leadership, and processes for integrating environmental, social, and governance (ESG) principles into its overall operations. It focuses on the organizational level, rather than individual asset performance. It will look into Strategy, leadership management, policies, processes, risk management, and stakeholder engagement etc.

Performance - The GRESB Performance Component measures the actual environmental and social performance of an entity's real asset portfolio (real estate or infrastructure) using asset-level data, focusing on metrics like energy, GHG emissions, water, and waste, as well as health, safety, and employee/customer aspects, to assess how well assets perform compared to targets and peers. It's distinct from the Management Component, focusing on "doing" (actual results) rather than "planning" (policies and strategy).

Development - The GRESB Development Component measures an entity's efforts to address environmental, social, and governance (ESG) issues during the design, construction, and major renovation phases of buildings or infrastructure assets. It is designed for real estate companies, funds, and developers that are actively involved in new construction projects or major renovations.

GRESB is primarily used by Companies, Fund managers & Asset Operators who use it to measure, benchmark, and improve the performance of their portfolios and assets. Some choose to share their data to attract and engage investors.

In the case of REITs, GRESB is advantageous during capital raising when looking to attract & engage investors as Institutional investors now expect asset managers and operators to integrate sustainability and ESG considerations into their business. This means collecting reliable data and reporting on sustainability performance so that it's transparent and comparable to other investments.

How GRESB works;

- Collects self-reported ESG data from members
- Validates, scores, and benchmarks the data
- Provides a GRESB Score and ranking for each entity within the same peer pool and it also;
- Provides a detailed benchmark report

GRESB is essential because it provides a standardized way to assess the sustainability performance of companies and funds. Additionally, it helps investors make responsible investment decisions by providing detailed information on a company's or fund's ESG performance.

The Real Assets industry benefits from GRESB by getting tools and insights to better access capital, engage investors, manage risk, stay ahead of regulations and improve their sustainability performance and financial returns. GRESB provides standardized and validated ESG data for the global financial industry, and as of 2025, covering over 2,200 real estate companies and REITs and USD 9 trillion in assets under management.

GRESB provides a rigorous methodology and consistent framework to measure the ESG performance of individual assets and portfolios based on self-reported data. Performance assessments are guided by what investors and the wider industries consider to be material issues, and they are aligned with the Sustainable Development Goals, the Paris Climate Agreement and major international reporting frameworks.

Through a GRESB Membership, data is reported to the relevant GRESB Assessment each year on a regular cycle and are validated by a third party and scored before being used to generate the following ESG benchmarks for the industry:

- Real Estate Benchmark
- Real Estate Development Benchmark

- Infrastructure Fund Benchmark
- Infrastructure Asset Benchmark

Each year, GRESB publishes the global aggregated benchmark data showing the state of ESG in the industry. The benchmark itself evolves over time, ensuring that scores reflect relative performance and evolving sustainability expectations.

The GRESB Score is an overall measure of ESG performance – represented as a percentage (100 percent maximum). The GRESB Score you get gives you quantitative insight into your ESG performance in absolute terms, over time and against your peers. The GRESB score is currently sitting at 79% with an average of 66%.

Why participate in GRESB:

- Engage investors and gain access to new capital - Communicate on sustainability and risk management topics and structure favorable lending terms.
- Identify climate-related risks and opportunities - Access the necessary tools and insights to navigate climate challenges and drive sustainable growth.
- Get ahead of ESG reporting requirements - GRESB aligns with the most common ESG reporting frameworks globally, easing the reporting burden.
- Gain industry recognition as a responsible manager - Showcase your commitment to ESG and enhance your reputation as a sustainability leader through GRESB.
- Benchmark your performance against peers - Assess your ESG strategies, identify improvement areas, and compare your performance against peers.
- Identify areas of risk, opportunity and impact in your portfolio and assets.
- Attract new investors seeking more comprehensive risk, opportunity and impact analysis.
- Systematically improve your investor engagement.
- Get a clear picture of your ESG performance, how it compares against your peers and what you can do to improve.
- Report validated ESG performance information to the market using a global industry standard.

8.8. Conclusion: Positioning Kenyan REITs for the Future

As sustainability considerations reshape global capital flows, ESG integration is becoming a defining feature of competitive real estate investment platforms. For Kenyan REITs, early alignment with credible ESG frameworks offers a strategic opportunity to enhance resilience, protect value, and access patient, long-term capital.

9. Credit Rating

9.1. Introduction

Credit ratings for Real Estate Investment Trusts (REITs) and other securities such as bonds have some similarities, but they also have distinct differences due to the nature of the underlying assets and business models. Here are the key differences between REIT credit ratings and bond credit ratings:

9.1.1 Underlying Asset Differences

9.1.1.1 REITs:

a. Asset-backed: REITs are typically backed by income-producing real estate properties. The value and income generation of these properties play a significant role in the rating.

b. Business Operations: REIT ratings consider the quality and management of the real estate portfolio, tenant quality, occupancy rates, lease terms, and market conditions.

c. Revenue Volatility: The revenue from REITs can be more volatile due to factors such as economic cycles, real estate market conditions, and tenant turnover.

9.1.1.2 Bonds:

a. Issuer's Creditworthiness: Bond ratings primarily focus on the issuer's overall creditworthiness, including its ability to generate sufficient cash flow to meet debt obligations.

b. Fixed Income: Bonds typically offer fixed interest payments, and the rating assesses the likelihood of these payments being made on time.

c. Debt Structure: The rating considers the specific terms and conditions of the bond, such as seniority, collateral, covenants, and maturity.

9.1.2 Risk Factors

9.1.2.1 REITs:

a. Market and Property-Specific Risks: REITs face risks related to the real estate market, including property value fluctuations, rental rate changes, and occupancy levels.

b. Management and Operational Risks: The quality of the REIT's management team and their strategies for property acquisition, development, and maintenance are crucial.

c. Regulatory Risks: REITs must comply with specific regulations, such as maintaining a high percentage of income from real estate and distributing most

of their taxable income as dividends.

9.1.2.2 Bonds:

a. Credit and Default Risk: The primary risk is the issuer's ability to repay the principal and interest. This is influenced by the issuer's overall financial health and market position.
b. Interest Rate Risk: Bond values are sensitive to changes in interest rates. When rates rise, bond prices typically fall, and vice versa.
c. Inflation Risk: Inflation can erode the purchasing power of the fixed interest payments that bonds provide.

9.1.3 Rating Methodologies

9.1.3.1 REITs:

a. Asset Quality and Diversification: Evaluates the quality, location, and diversification of the real estate portfolio.
b. Operational Performance: Looks at metrics like Net Operating Income (NOI), Funds From Operations (FFO), and occupancy rates.
c. Financial Metrics: Includes leverage ratios (e.g., Debt-to-EBITDA), liquidity, and interest coverage ratios.

9.1.3.2 Bonds:

a. Issuer's Financial Health: Focuses on the issuer's financial statements, cash flow, and debt levels.
b. Bond-Specific Terms: Assesses the specifics of the bond issue, including security, seniority, covenants, and maturity.
c. Macroeconomic Factors: Considers the broader economic environment and its impact on the issuer's ability to meet debt obligations.

9.1.4 Investor Considerations

9.1.4.1 REITs:

a. Income Stability: Investors look for stable and growing dividends, influenced by the REIT's property portfolio and management effectiveness.
b. Growth Potential: Potential for capital appreciation through property value increases and successful property development projects.

9.1.4.1 Bonds:

a. Fixed Returns: Investors are attracted to the predictable interest payments and principal repayment at maturity.
b. Credit Risk: Investors closely monitor the issuer's credit rating to assess the risk

of default.

9.1.5 Impact of Ratings

9.1.5.1 REITs:

a. Access to Capital: Higher credit ratings can lower the cost of capital, enabling REITs to borrow more cheaply for property acquisitions and development.

b. Investor Confidence: High ratings enhance investor confidence in the REIT's ability to manage its property portfolio and generate stable income.

9.1.5.2 Bonds:

a. Interest Rates: Higher credit ratings typically result in lower interest rates for bond issues, reflecting the lower risk of default.

b. Marketability: Bonds with high credit ratings are more attractive to a broader range of investors, including institutional investors.

9.2. Summary

While both REIT and bond credit ratings assess the ability to meet financial obligations, REIT ratings are more complex due to the inherent volatility and operational aspects of real estate investments. Bond ratings, on the other hand, focus more on the issuer's overall creditworthiness and the specific terms of the bond. Understanding these differences helps investors make more informed decisions based on their risk tolerance and investment goals.

10.Credit Rating for REITS

10.1. Benefits for REITs:

Credit ratings for Real Estate Investment Trusts (REITs) offer several significant benefits, both for the REITs themselves and for investors and stakeholders. Here are the key advantages:

10.1.1 Access to Capital Markets:

a. Higher credit ratings can lower the cost of borrowing, as they indicate lower credit risk. This enables REITs to issue debt at more favorable interest rates.

b. Easier access to capital markets facilitates growth and expansion opportunities through acquisitions and development projects.

10.1.2 Improved Credibility and Trust:

a. A strong credit rating enhances a REIT's reputation and credibility with investors, lenders, and other stakeholders.

b. It signals financial stability and prudent management practices, which can attract more investment.

10.1.3 Better Negotiation Terms:

a. High credit ratings can provide leverage in negotiating terms with lenders and other financial institutions.

b. This includes securing better loan terms, such as lower interest rates, longer maturities, and more favorable covenants.

10.1.4 Increased Investor Confidence:

a. Investors tend to have greater confidence in REITs with higher credit ratings, as they are perceived to be lower-risk investments.

b. This can result in a broader investor base and potentially higher demand for the REIT's securities.

10.2. Benefits for Investors:

10.2.1 Risk Assessment:

a. Credit ratings provide a standardized assessment of a REIT's creditworthiness, helping investors gauge the risk associated with investing in its debt or equity.

b. This helps investors make informed decisions based on the REIT's ability to meet its financial obligations.

10.2.2 Comparability:

a. Credit ratings allow investors to compare different REITs easily, facilitating more informed investment choices.

b. Ratings provide a common benchmark to evaluate the financial health and risk profile of various REITs.

10.2.3 Portfolio Diversification:

a. Including REITs with strong credit ratings in an investment portfolio can enhance diversification and reduce overall risk.

b. Credit ratings help identify stable REITs that can provide consistent income streams, balancing higher-risk investments.

10.2.4 Transparency and Disclosure:

a. The process of obtaining and maintaining credit ratings requires REITs to disclose detailed financial and operational information.

b. This increased transparency benefits investors by providing more comprehensive data for analysis.

10.3. Benefits for the Market:

10.3.1 Market Stability:

a. Credit ratings contribute to the overall stability and efficiency of the real estate investment market.

b. They provide a check on excessive risk-taking and encourage prudent financial management among REITs.

10.3.2 Enhanced Market Liquidity:

a. Well-rated REITs can attract a wider range of investors, including institutional investors, enhancing market liquidity.

b. This increased liquidity can lead to more active trading and better price discovery in the market.

10.3.3 Regulatory Compliance and Standards:

a. Credit ratings help ensure that REITs adhere to high standards of financial discipline and regulatory compliance.

b. They serve as an external validation of the REIT's financial health and management practices.

10.4. Summary

Overall, credit ratings play a crucial role in the functioning of the REIT market by providing valuable insights into the financial stability and risk profile of REITs, benefiting both the issuers and the investors.

11. Credit Rating Methodologies for different types of REITS

11.1. Introduction

Credit rating agencies such as Standard & Poor's (S&P), Moody's, and Fitch use detailed methodologies to assess the creditworthiness of Real Estate Investment Trusts (REITs). These methodologies are tailored to account for the specific risks and characteristics of different types of REITs, including hospitality, residential, and commercial REITs. Here's an overview of the factors considered for each type:

11.2. Hospitality REITs

11.2.1. Key Factors:

11.2.1.1 Property Quality and Location:

a. The quality and geographic distribution of hotel properties.

b. Proximity to demand generators such as business districts, tourist attractions, and transportation hubs.

11.2.1.2 Revenue Volatility:

a. The cyclical nature of the hospitality industry, which can lead to volatile revenue streams.

b. Sensitivity to economic downturns, seasonality, and changes in travel patterns.

11.2.1.3 Occupancy and Average Daily Rate (ADR):

a. Historical and projected occupancy rates and ADR.

b. Performance metrics compared to industry benchmarks.

11.2.1.4 Management and Brand Affiliation:

a. The experience and track record of the management team.

b. Relationships with major hotel brands and the benefits of brand affiliation.

11.2.1.5 Capital Expenditure (CapEx) Requirements:

a. Ongoing maintenance and renovation needs to keep properties competitive.

b. The impact of CapEx on cash flow and liquidity.

11.3. Residential REITs

11.3.1. Key Factors:

11.3.1.1 Property Locations and Demographics:

a. The location of residential properties in relation to employment centers, schools, and amenities.

b. Demographic trends and population growth in the areas where properties are located.

11.3.1.2 Occupancy and Rent Levels:

a. Historical and projected occupancy rates.

b. Trends in rental rates and the ability to increase rents.

11.3.1.3 Tenant Quality and Lease Terms:

a. The credit quality of tenants and the stability of the tenant base.

b. Lease terms, including average lease duration and turnover rates.

11.3.1.4 Regulatory Environment:

a. Local and national regulations affecting residential properties, including rent control laws and tenant protection regulations.

11.3.1.5 Diversification:

a. Geographic and property-type diversification to mitigate risk.

b. The mix of property types (e.g., single-family, multi-family, affordable housing).

11.4. Commercial REITs (Office, Retail, Industrial)

11.4.1. Key Factors:

11.4.1.1 Property Quality and Location:

a. The quality of office, retail, and industrial properties.

b. Locations in prime business districts, shopping areas, and industrial hubs.

11.4.1.2 Tenant Quality and Lease Structure:

a. The creditworthiness of tenants and the diversity of the tenant base.

b. Lease structures, including length of leases, renewal rates, and escalation clauses.

11.4.1.3 Occupancy and Rental Rates:

a. Current and projected occupancy levels.
b. Trends in rental rates and the ability to pass through costs to tenants.

11.4.1.4 Market Conditions:

a. Economic conditions affecting demand for office, retail, and industrial space.
b. Trends in supply and demand for commercial real estate.

11.4.1.5 Development and Redevelopment Activities:

a. Ongoing and planned development projects and their impact on cash flow.
b. Risks associated with construction and market absorption of new space.

11.5. Common Factors Across All REIT Types

11.5.1. Financial Metrics:

a. Leverage ratios (e.g., Debt-to-EBITDA, Debt-to-Total Capitalization).
b. Coverage ratios (e.g., Interest Coverage, Fixed-Charge Coverage).
c. Liquidity position and access to capital.

11.5.2. Cash Flow Stability:

a. The predictability and consistency of cash flows from operations.
b. The ability to cover operating expenses, debt service, and distributions to shareholders.

11.5.3. Management Quality and Strategy:

a. The experience, track record, and strategic vision of the management team.
b. Corporate governance practices and risk management policies.

11.5.4. Market Position and Competitive Advantage:

a. The REIT's position within its market and competitive strengths.
b. The scale and scope of operations compared to peers.

11.5.5. Regulatory and Environmental Considerations:

a. Compliance with regulations and potential legal risks.
b. Environmental, Social, and Governance (ESG) factors and sustainability practices.

12. REITS Rating Methodologies

12.1. REITS Rating Methodologies by Agencies

12.1.1. S&P Global Ratings:

a. Utilizes criteria specific to REITs, considering industry risks, business risk profile, and financial risk profile.

b. Emphasizes cash flow stability, debt levels, and market position.

12.1.1. Moody's:

a. Focuses on business profile, financial profile, and overall industry risk.

b. Evaluates factors like asset quality, tenant diversity, and financial policies.

12.1.1. Fitch Ratings:

a. Considers operating environment, company profile, and financial profile.

b. Assesses leverage, coverage metrics, and management quality.

12.2. Summary of REITS Rating Methodologies

These methodologies help provide a comprehensive assessment of the creditworthiness of hospitality, residential, and commercial REITs, aiding investors in making informed decisions.

12.3. Conclusion

Credit ratings play a vital role in the development and success of REITs in Kenya. By providing a detailed assessment of a REIT's financial health and operational stability, credit ratings help attract investment, improve access to capital, and enhance overall market credibility. As the Kenyan REIT market continues to grow, robust credit rating practices will be essential for fostering investor confidence and ensuring sustainable growth.

APPENDIX I
Valuation Standards

Relevant Valuations Standards

- General Standards
- IVS 101 Scope of Work
- IVS 102 Investigations and Compliance
- IVS 103 Reporting
- IVS 104 Bases of Value
- IVS 105 Valuation Approaches and Methods

Asset Level Standards

- IVS 300 Plant and Equipment 102
- IVS 400 Real Property Interests 109
- IVS 410 Development Property 116
- IVS 500 Financial Instruments 127

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