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IMPACTS OF ACCESS TO SOURCE OF FINANCE ON GROWTH OF REAL ESTATE INVESTMENT IN KENYA; A CASE OF KAJIADO TOWNSHIP

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Abstract

The purpose of the study was to establish the impacts of access to sources of finance on growth of real estate investment in Kenya, a case study of Kajiado Township. This study's background looks at the challenges facing real estate growth globally, before narrowing the focus to the country, the region, and finally to Kajiado and how real estate growth has been prevailing there. The statement of the problem reflects on what many investors are concerned about, which is why real estate in Kajiado town does not compare to other up market areas like Nairobi, Nakuru or its neighboring Kitengela town. In order to achieve the objective, the researcher structured the research questions in a way that allows the respondent to provide the researcher with concrete information. The target population comprised of 15 property owners, 10 financiers, 20 property owners and 15 institutional managers. A sample from each category was selected using the stratified sampling method. A questionnaire and direct interviews were used to collect primary data, while mortgage finance institutions and land agencies were contacted for secondary data. Statistical Package for Social Sciences (SPSS) was used to classify and analyze the data. There was a clear indication that access to finance has a great contribution towards enabling individuals and firms to investment in property. The study suggests that developers in the housing sector should collaborate and establish partnerships to secure more affordable financing options.

Keywords: *Access to Finance, Growth, Real Estate Investment*

INTRODUCTION

There is no doubt that the real estate market is one of the most lucrative and attractive for investors around the world. Direct real estate investments can be made by individuals or through managed funds. Investments in real estate that involve direct ownership will be the primary focus of this study, such as purchasing property as an income producer or for resale later. According to Brüggeman (2011), real estate consists of permanent improvements attached to land that cannot be moved. There are several sectors involved in commercial real estate, which has become one of the most important industries in the world. (Kimmons, 2010). There is a connection between construction and real estate at all levels, for example, the global real estate industry now encompasses different fields such as property development, brokerages, real estate markets, and property appraisals. A real estate transaction can have various ownership interests, including freehold titles, life tenancies, estates for generations, leaseholds, reversions, and co-tenancies.

Real estate is a whole sector in the economy with a different economic logic (Porter, 2013).This is because of the specific features that this industry portrays. In this sector, there are land owners or those who have assets to sell or lease and they are of two types, (Chung, Fung & Hung, 2012), those who have patience to sell their assets at fair market values and those that are impatient or want to make rapid sale as a result of pressures they could be facing such as to make instant cash. Real estate investment is a lucrative and attractive market so it takes the rational thinking of persons to make decisions on where to invest or place their limited resources including time and money especially sectors that will give back best returns (Schelling, 2016) other factors being held constant. According to Ferlito (2018), property prices keep fluctuating unlike commodity prices in shops. Therefore, critical thoughts on when to buy or sell should be considered.

The purchaser of real estate has chance to negotiate for the price to pay for the property. The value of property is determined by standard methods of valuating fixed assets, (Sayce et al., 2009). Property prices in Kenya have increased significantly (Masika, 2010), and some properties in Kenya are being rented at a rate that is comparable to that of major cities globally (for example, Nairobi). According to Muthee (2012), almost 60% of pension funds are used to finance mortgages using real estate. Real estate financing in Kenya is largely based on mortgages. Mortgages are a type of security for debt, usually a loan of money, in which an interest in property is transferred to a lender as security. Mortgages are not debts in themselves, but they are security for debt held by the lender. Essentially, the mortgage secures the loan made by the lender to the borrower. Some jurisdictions allow mortgages only on land, while others allow it on other types of property (such as ships). Mortgages are most often secured by real estate instead of other property. Individuals and businesses generally use mortgages to buy real estate without having to pay its full value up front.

In addition to shopping malls, residences, commercial and agricultural land, office space, warehouses and retail outlets, Kenya's real estate consists of a variety of different types of properties. Masika (2010) describes Kenya's real estate as 'everything'. Located in Kenya's former Rift Valley Province, Kajiado County is a county with a population of 148,802. There are 687,312 people living in it, and an area of 21,292.7 km². Nairobi borders the county, and it extends southward to the Tanzanian border. Kajiado is the county capital, but Ngong is the largest town. Since 1971, Kajiado town has become a fully autonomous municipality (Vide Gazette notice No.61.1971). It currently covers a total of 21,292.7 square kilometers. Kajiado is an urban /rural town with about 60% in rural nature with its population mainly pastoralists who rear cattle. Real estate investment in this area is not sufficient which is what this research will be interested on its growth.

Statement of the Problem

As Antonio (2014) points out, the property sector accounts for a great deal of wealth in a country, and it is a significant indicator of economic growth. It is almost predictable for the property market to go through cyclical booms and busts (Smith, 2010). Investing in real estate in Kenya can provide investors with impressive rental income and substantial capital growth returns, but as with any emerging global real estate sector, a Global investors should learn more about domestic regions. A slight shift to low cost affordable housing for low income Kenyans is stimulating the sector and this tends to be appearing on the outskirts of Nairobi, Thika and Kitengela by offering prospective buyers a less expensive lifestyle with retaining space and build high quality housing hence demand can be sustained. Places where these incentives have not been implemented, real estate levels remain very low (Ruitha, 2010). The price of property in most places is determined by demand and supply forces, so a high demand will cause the price to rise as supply is limited (David et al; 1990). The underlying asset price of the property is likely to increase with the income from the rent. However, only a few people are able to afford to rent out a property.

Price levels in Real Estate are continually created and maintained by the interaction of supply and demand. Changing economic and demographic factors influence demand and supply in the Real Estate market. This study essentially examined these factors and predicted the impact of their changes on price and volume outcomes in the market. In addition, as the population grows, so does the demand for housing. Increasing housing requirements should also result in an increase in industrial and commercial development. Some areas of the country are experiencing a faster growth in demand for real estate than others, despite the overall rise in population. Availability of properties to develop and development of infrastructure determine this. Furthermore, the monetary policy of the government can affect real estate prices significantly. In order to allow commercial banks to borrow money from the Federal Reserve Board, it establishes a discount rate.This interest rate directly affects the rate that banks charge borrowers. These rates play an important role in people's ability to buy a home. These are some of the factors that have led researchers to examine the subject under study. This study aimed to examine the impacts of access to sources of finance on the growth of real estate in Kajiado Township, a critical area in Kenya's real estate landscape.

Theoretical Review

Property theories are more numerous than systems. Many people believe property doesn't exist without a theoretical context. Through history, Schlater (2012) illustrated the rich variety of theories that have been held sway over the concept of property. As Small (2013) explained, human nature implies an inalienable right to unlimited land ownership by everyone. It was Aristotle (Aristotle, 2016) who first identified the ideal balance between private ownership and common use in property. Liberal ownership was initially justified as natural by the modern theory of property. An individual's labor is naturally his or hers as long as the resultant product originates from the natural resources, he or she has applied labor to. That was Locke's hypothesis (2011/2012). Unless the producer had title to the product, Locke argued, the natural title would be violated.

There are several theories of housing, but the most widely cited one is the theory of housing adjustment (Morris and Winter, 2014), which describes how households behave in performing their housing activities. As part of the theory, the author examines how American families decide how to house themselves and how the structure of American society determines how families are housed, the consequences of housing on families, and the decisions families make in regards to housing. Sociologically based theory, it looks at the household's housing and microsociology from a micro perspective. According to this theory, housing norms are defined as constraints affecting households' ability to act and the results of their actions in deciding where to live. When households become aware of housing shortages, possible remedial actions involve two main processes. Residential Adaptation or Residential Adaptation.

The purpose of housing adjustment is to alter something about the household's living arrangement. It could either be to modify the dwelling currently occupied or to move somewhere else (Sharma and Combs, 2012). Households themselves must be adapted as part of housing adaptation. As part of a study that tested and extended the theory of housing adjustment as it pertains to residential mobility, Croll, Bode and Morris (2010) incorporated housing characteristics, housing satisfaction, and housing factors as determinants of residential mobility into their model. Different aspects of housing research have been explored with this theory, including how elderly people make housing decisions.

Empirical Review

Chinedu (2003) in his research based in Nigeria analyzed shortage of finance as a major constraint to real estate growth. He states that property being a form of investment requires a substantial saving other than what is set aside for transactions, precautionary or speculative motive by individuals. Consequently, his findings found that the amount of savings varies according to income, marginal propensity of saving, and attitude of saving for future needs rather than present needs. Commercial banks and insurance companies also invest relatively small portions of their funds in real estate since equity funds are in short supply as a result of poor savings habits. A small percentage of the population is able to benefit from these banks, since they are selective with their securities and very strict with their lending requirements. Moreover, most commercial banks focus on urban areas, and very few finance non-urban development.

Berger (2012) in his research states that just as with tradable goods, the more land that is available, the less its worth. In most areas where there is limited amount of land, the land value is usually high. He also adds that cultivatable land is extremely valuable. One may not be interested in growing anything on their property but if one owns land with fertile soils, one is likely to sell this land at a considerable high profit.

Aiming to understand African real estate markets, including their structure and functions, and attempts to reform them, the Journal of African Real Estate Research (2008) seeks to provide insight into these topics. Africa's real estate markets play an important role in alleviating poverty, growing and stabilizing households, providing affordable housing, and allocating resources efficiently, fostering social cohesion and equitable land management, improving urban development, economic development on both the national and urban levels, and the development of the financial sector. This journal explains the following factors as impediments to development of real estate. Construction costs, as explained in the Ethiopian Investment Authority (2006), tended to increase in the period 2003-2006, especially for some construction materials such as the price of cement, timber, sheet metal, bricks, blocks, sand paint, etc. Access to source of finance- Access to funding sources is another factor that determines real estate growth. Real estate development typically requires investment that is much larger than individual household savings and therefore annual income (Galal and Razza, 2001). Financial markets in developing countries tend to serve only high-income, new construction and housing. Housing construction accounts for 65% of Africa's total housing stock, and mortgages account for less than 10% of total housing investment in most developing countries (Galal and Razza, 2001).

METHODOLOGY

In this study, descriptive survey methods and explanatory research methods were employed. The study's target population was defined by Kasomo (2013) as the set of cases that were in conformity with the specified specifications. Survey participants were provided by the Kajiado County government, and the researchers plan to distribute the questionnaire to 90 registered real estate companies and government agencies responsible for urban planning and land permits within the county. Judgemental purposive sampling method was used to identify financiers (banks,housing finance corparaton of kenuya Ltd and housing developers) and contractors. Property agent, Property owners and institutional managers were picked through stratified simple random sampling method. Sampling frame included Housing or property agents, Contractors, Financiers who will include banks and even the Housing Finance Corporation of Kenya Limited, Property Owners, and Institution Managers to represent the group of potential investors. Questionnaire was the main method which was used for collecting primary data. Survey research is a very valuable tool for assessing opinions and trends where in this study will be trends of real estate development in Kajiado Township. Variables such as capital availability, investor perception, and land and building prices will be assessed by asking people questions and then examining the relationships among them. The qualitative and quantitative analysis were used. The data collected was presented in tables.

FINDINGS AND DISCUSSIONS

Types of Real Estate Investment or property owned

The studied respondents owned the following types of real estate investments as illustrated below. They concentrated mainly on single Family resident (36%) and the real estate with the least people was space in apartment building which was held by 8% of the respondents as shown in Figure 1.

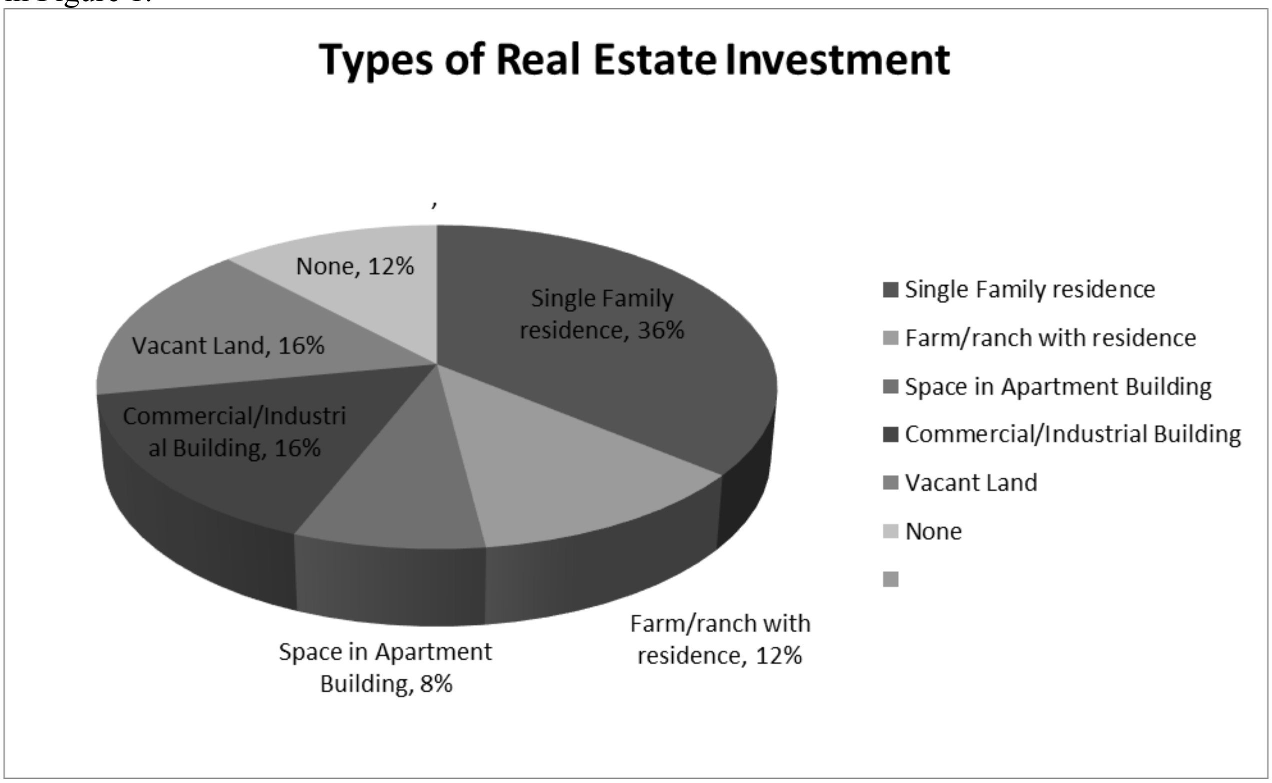

Figure 1: Types of Real Estate Investment

Distribution as per access to finance

There was a clear indication that access to finance has a great contribution towards enabling individuals and firms to investment in property in that the respondents who said that it affected real estate investment to a large extent were (48%) representing close to half of the population surveyed. The others perceived that access to finance had a fair contribution (33%) and those that said it had low contribution were (14%) of the sample population.

Table 1: Level of access to financing

Rate of Influence	Percentage
Great extent	48%
Fair Extent	33%
Poor Extent	14%

None	5%
Total	**100%**

Impact of typical method of financing on the growth of housing or property investment

Most respondents embraced different measures to finance property the main method being loans and savings. Other sources specified by respondents included sale of farm out as a source of financing. The respondents expounded that the method of financing used would determine how large the housing investment would be and how long it would take to establish that property. Those that agreed that type of financing had a great and or even fair influence were (40%) and those that stated that it had a low or poor influence were (12%).

Table 2: Impact of financing on real estate growth

Rate of Influence	Percentage
Great extent	40%
Fair Extent	40%
Poor Extent	12%
Other sources	12%
Total	**100%**

CONCLUSION

Access to finance is major primary element and strategy in real estate investment. From the research findings the researcher found out that the cost of financing housing development, both long and short term has been increasing at a very high rate. This in turn increased the price of housing development. The cost of borrowing long term mortgage loans has also gone too high for the low and middle income earners making them shy away from housing investment. This situation has excluded a good number of potential market participants in the housing sector.

Recommendations

The study recommended that developers in housing sector team up, form a memorandum of understanding with housing financiers such as banks and mortgage banks to access cheaper finances, achieve better marketing to boost demand or even acquire off shore finances that are cheaper.

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