Challenges in Real Estate Investment, Urban Management, Land Administration, Curriculum Development And Fashion Design

Journal of School of The Built Environment, University of Nairobi

http://www.uonbi.ac.ke/department/arch-build-sci/Africa-Habitat-Review
Decision-making Criteria for Investing in Commercial Real Estate in Kenya

Jennifer Murigu

Received on 23rd May, 2007; received in a revised form 8th June, 2009; accepted 18th August, 2009.

Abstract
Commercial real estate investments in Kenya's capital city-Nairobi reveal the following: A shrinking occupation demand; Disparities between expected and actual incomes; Difficulties in meeting debt servicing obligations and difficulties in completing construction projects within the specified cost and time frames. In spite of these problems, new, large and very expensive buildings continue to mushroom in the city. Therefore, there appears to be unexplained reasons that compel investors to continue investing in commercial real estate. It is against this background that research was undertaken to establish the basis of decision-making while investing in these properties. The research was based on two main objectives, namely; to identify and rank the factors that influence the decision to invest in commercial real estate and propose steps to be followed by investors in the decision to invest in these properties in order to, amongst other goals, minimise disparities between the expected and actual returns. A random sample of commercial buildings in the city was studied and it was established that, expected income was the most important factor influencing the decision to invest in commercial real estate followed by expected returns from the investment. While it was observed that the commercial real estate investor in Kenya is fairly rational and economically led, a lack of systematic and formal decision making rules and procedures was noted. The study's main proposal is that the decision to invest in commercial real estate ought to be undertaken in a systematic manner. Effective decision making rarely occurs by chance but involves a logical, sequential and ordered approach. The researcher is also of the opinion that a standard school of appraisal should be developed and introduced in Kenya. Continuous professional development programmes should also be instituted.

Key words: investment, decision-making, commercial real estate

INTRODUCTION
Real estate whether for commercial, residential, industrial or agricultural use plays a major and important role in the social and economic development of any country. It provides facilities and space for peoples' daily activities. In many communities, a man's wealth and influence is measured in terms of the number of buildings and/or hectares of land he owns irrespective of whether they may all be heavily mortgaged. The well-to-do nations and communities are often associated with the concentration of large numbers of commercial buildings in their capital cities and good residential suburbs. Even the status of a business organization is reflected in the location of its offices and the condition of the building from which it operates. The fact that real estate is tangible and useable means that it bestows special status to the owner as well as some degree of security in a psychological and financial sense. Its importance notwithstanding, investment in real estate ought to be undertaken with the assurance that the viability appraisal done guarantees adequate returns to compensate the investor. According to Syagga and Aligula (1999) and the Economic Survey Reports (2005 and 2006) this is because:

- Real estate as a product is very expensive. A high percentage of the invested capital is borrowed funds on which competitive interest rates are charged.
- In terms of the opportunity cost, the resources invested in the properties represent large amounts of foregone alternative investments.
- Investment in real estate provides a product which is relatively indivisible.
- The economic performance both at the national and local levels directly influences the process as well as the profits.

However, real estate investments in Kenya reveal the following: A shrinking occupation demand; disparities between expected and actual incomes; difficulties in meeting debt servicing obligations and; difficulties in completing construction projects within the specified cost and time frames. Nonetheless, new, large and very expensive buildings are still coming up not only in the City of Nairobi, but also in other urban centres in the country. Older buildings are also being demolished to give way to modern skyscrapers. Supply of new office space in the city of Nairobi has risen from less than 50,000 square metres fifteen years ago to well over 100,000 square metres completions per annum, with an average of 76,400 square metres completions per annum. Syagga and Aligula (1999) projected that active construction and granted planning permission will produce 200,000 square metres of office space against an annual take up of only 60,000 square metres with the implication that about 40% of the available space will remain vacant. Ngugi (2000) noted that, in Kenya, real estate is a substantial investment asset class with some institutions having property portfolios that account for as much as 70% of their total investment holding by value.

Therefore, there appears to be unexplained reasons that compel investors to continue investing in commercial real estate. It is not simply a question of the present being an appropriate time to address the factors upon which decisions to invest in commercial real estate...