CHALLENGES CONTRIBUTING TO UNAFFORDABLE HOUSING IN KENYA

BY

ERIC MBITHUKA KAKUMU

UNITED STATES INTERNATIONAL UNIVERSITY – AFRICA

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ERIC MBITHUKA KAKUMU

A Project Report Submitted to the Chandaria School of Business in Partial Fulfillment of the Requirements for the Degree of Masters in Business Administration (MBA)

UNITED STATES INTERNATIONAL UNIVERSITY

SUMMER 2016
STUDENT’S DECLARATION

I, the undersigned, declare this my original work and has not been submitted to any other college, institution or university other than United States University in Nairobi for academic credit.

Signed __________________________ Date: __________________________

Eric Kakumu (625495)

This project report has been presented for examination with my approval as the appointed supervisor.

Signed __________________________ Date: __________________________

Francis Gatumo

Signed __________________________ Date: __________________________

Dean, Chandaria School of Business
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ABSTRACT
The main objective of the study was to evaluate some of the relevant challenges that are contributing to unaffordable housing in Nairobi County. The study was guided by the following research questions: what factors impact potential buyers from purchasing property in the Kenyan Market? Which is the preferable method of financing by most of the property buyers? And who do real estate property developers target in the market?

In this research, an exploratory research design was adopted. The study population consisted of a total of 50 apartments, this included gated communities and apartments within the specified regions from the targeted roads for data to be collected i.e. the target population consisted of property in the Kenyan market mostly along Mombasa Road, Kangundo Road, Thika Road and Langata Road. The study adopted a non-probability sampling technique. Data collection was by means of the attached questionnaires. Primary data collection was used and the data was coded and analyzed using the descriptive statistics, specifically mean, standard deviation to describe each variable under study. Coefficient of variation analyzed the variation of data. The Statistical Package for Social Science (SPSS) software was used to present the data in tables.

The findings established that real estate developers prefer working with large banks for individuals willing to take up mortgages, buyer would prefer buying it on cash rather than taking up mortgages and high income earners are able to afford to take up mortgage, government policies have contributed to rise in lack of affordable housing. The results also established that factor affecting affordability of housing in regarding geographical region of properties was that rental houses are more near learning institutions and work places as opposed to guarded estate communities, residential developments being constructed currently are far from the CBD, and lack of available land near the CBD has led to real estate developers developing in remote areas.

The main conclusion provided that financial institutions would prefer lending to salaried individuals as opposed to individuals without a steady income, real estate developers prefer building rental properties as opposed to properties for sale so as to be able to pay back the
financial institutions, levies charged on mortgages affects loans uptake, and cash buyers are very few because of the high property prices.

The study recommended that Real estate developers should work closely with Commercial banks in Kenya to provide mortgages at reduced interest rates. The developers should target both low and high income earners since most people prefer constructing their own home rather than buying an already constructed home. Rental houses should be constructed near learning institutions and work places as opposed to guarded estate communities. This is because majority prefer living next to commercial centers. There is a need to carry out a further study on the uptake of new construction methods in the country. The study suggests that future research could conduct a research factors that influence the cost of living across all counties as well as the preference on individuals preferring building their own property as opposed to taking up mortgages for already built structures. The study also suggests that future research could conduct a research on challenges of low-cost housing in Kenya. Low-cost housing is a potential area for further research studies in developing countries of the world.
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I will always honor the great men and women who have been resourceful in making this work a reality. Your support and encouragement has seen me this far. Above all, I am grateful to the Almighty God for his abundant goodness of life, love and support in face of difficulties and challenges.

Finally, to my dear parents, your love, patience, prayers and continued support and encouragement throughout my entire MBA journey shall forever be cherished. May the almighty God bless you.
DEDICATION

I dedicate this work to my dear parents who gave me the reason and motivation to pursue further education and to their constant reminder that failure is not an option
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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Problem
It’s clear enough that food clothing and shelter are basic needs to everyone. The struggle for these basic needs has increased progressively as the human race advances in numbers and cultural diversity. The Universal declaration of Human Rights (1948) recognizes the right to adequate housing as an important component of the right to adequate standards of living. Wadrip (2011) states that in the global arena shelter is recognized as one of the basic needs. The expectation is that lesser expenditure in housing by households accords them healthier diets, quality education to their children and the ability to meet other needs of life. Wood (2004) states that while housing is a durable good, the ability of households to access it in an adequate and decent environment without compromising other needs has been found to have a lot of economic benefits which accrue to the citizens, business community and the government.

Fraser (2006) states that in many countries the real estate market has been deemed to be essential as an important asset class for any type of investor. This may be due to such advantages such as hedging against inflation and the ability to act as a stabilizer during market volatilities. Real estate has been deemed to be a worthy investment as it has a finite life. Property price fluctuations have witnessed several booms and busts over the past two decades which have been associated with financial instability. The degree to which property prices booms and busts have led to financial instability differs among countries because of the important differences in countries methods in property valuation, available financing and the role that the government plays.

In recent years, the number of people living in what are termed "informal settlements and backyard shacks" across South Africa has been increasing (Balchin and Napier, 2000) and it is estimated that “150,000 to 220,000” households in Johannesburg live in informal dwellings”.

According to Tovrov (2011) some of these "informal dwellings" in which the urban poor in Johannesburg live often include urban shack settlements (with close to 200 of them across the
city). There are also 235 so-called "bad buildings" in the inner city and "shelters" in "backyards, on pavements, or under highway bridges.

According to Gandy (2006) there are as many as 200 different slums in Lagos, "ranging in size from clusters of shacks underneath highways to entire districts such as Ajegunle and Mushin. Gandy (2006) also points out, over two-thirds of the population of Lagos lives in the "informal settlements or slums scattered around the city". Most of these slums are densely populated with some estimates indicating that "more than 75 per cent of urban slum dwellers live in one room households with a density of 4.6 persons per room".

Housing has a central importance to quality of life with considerable economic, social, cultural and personal significance. The focus of this research is housing for low income households or what is commonly known as affordable housing. Affordable housing is a term used to describe dwelling units whose total housing costs are deemed "affordable" to those that have a median income. A median income refers to the average pay scale level of the majority people in a population which is often low. Although the term affordable housing is often applied to rental housing that is within the financial means of those in the lower income ranges of a geographical area, the concept is applicable to both renters and purchasers in all income ranges. Low-income housing is aimed at individuals without enough income to provide adequate housing for themselves and/or their families. These families are usually unable to purchase a home because they fail to qualify for a mortgage. Most families choose to rent based on their income and family situation; unfortunately, there may not be enough rental housing or enough good-quality rental housing for low-income families (Tovrov, 2011).

Nahinga (2007) indicates that Kenya is facing a serious shortage of houses and people earning below one hundred and twenty thousand Kenya shillings per month cannot afford the current mortgage rates. My definition of affordable housing is simply described as one that can be afforded without compromising the financial integrity of a buyer and the people that might be dependent on him. The current property market in Kenya is set up in a way that it is difficult for middle and low income earners to be able to afford homes. As we know shelter is a basic human need and for most of the middle class and low income earners to afford homes they will need to stretch themselves in order to come up with the capital if not they will engage in corruption so as to be able to raise substantial capital for acquisition of houses. The rapid growth in developed
regions and urbanization, increase in population and the expansion of the middle class in the society for the last ten years has seen the increase in demand for housing. It is estimated that the Nairobi metropolitan area has a shortage of houses of over 250,000 units per annum.

According to Hass Consult Q1 report (2013) the most common and rising experience is that most of house buyers in the Kenyan market are subjected to wage slavery whereby people take up quite high mortgage rates hence are enslaved in trying to pay up the mortgage taken. As its clear within the year 2013 the lowest mortgage offered was by international banks that is, Standard chartered bank and CFC Stanbic Bank and they were at 12.9% and 13.5% respectively. High mortgage rates have led to most home buyers preferring to rent houses rather than take up mortgages. This has hence contributed to the growth of rental prices by 5.1% in the second quarter of 2013. She also noted that most of the current home buyers have opted to buy them on cash basis. The high mortgage rates have also made it not worthy for landlords looking to buy houses through mortgage as a buy for rent as they are also not able to cover the cost of finance.

GOK (2004) indicates that due to the high cost of housing within the Nairobi environment most home buyers have opted to purchase land in obscure places where they are able to afford. This has resulted to most people living half-lives of commuting from distant places each day to make it to work while the brave souls try and attempt taking up mortgages which are paid over a very wide period bearing in mind that most of the mortgage rates are not at fixed rates.

According to Hass Consult report (2013), property developers are not helping the situation as they are sandwiched between the design team and the construction team. Most of the buildings being constructed are copying house designs from all over the world mostly Europe and American designs hence making it more expensive as some of the interior design materials have to be imported. However, they are also playing a major role by trying to unlock idle land and bring more players to participate in providing capital for willing home buyers.

Nahinga’s (2007) report also states that there is the case of importers of prefabricated houses from China post ponding their promises. Although the cost advantage on the houses which would be way cheaper than building a house tends to disappear between the port of loading and the market.
Mbogo (2011) the Government is not helping at all as there no subsidies been given to the low income earners compared to South Africa whereby low income earners are encouraged in building homes through such subsidies. According to a statistical abstract carried out in 2007 an average income earner in Kenya earns between Fifteen thousand to twenty thousand Kenya shillings. This has hence led to most of the property developers targeting the upper middle and high income segments. The Kenya integrated housing budget survey of 2005/2006 depicted that only 4.2 percent of Kenyans are able to build or borrow money to build a home.

Phang (2010) lack of customer knowledge on alternative construction materials that are cheaper in building homes have also led to developers fleecing on consumers. This simply is the result of most developers being part of the government and hence cannot risk jeopardizing their return on investment. For example, a company known as Riflo Hardware located at Githurai in Nairobi vends what it calls suspended floor and roof, which saves the home builder almost 40 per cent of the costs of normal floors and roofing but yet the technology is not widely used, this is due to the fact that most people do not know about it. In Kenya, the cost of building materials is estimated to account for approximately 40 per cent of the construction costs.

Developers are making the situation worse as they are only focused on building projects that. McLennan (1982) states that the current demand for affordable housing still far outstrips the supply. There are also many other factors affecting the supply of housing from private sector housing developers prominent of which is the cost of production and the opportunity cost to the developer’s finite funds in either providing middle income housing or high income segment housing or low income housing. Due to the high rate of urbanization hence the increase in poverty and escalation of housing costs and prices by property developers. This has made it a very daunting challenge for individuals to be able to afford homes. Financing is a major constraint in people gaining affordable housing as developers have to consider the rate of return to their investment and how fast they’ll realize this. Provision of low cost housing as opposed to the increasing number of lower and middle income classes in the country has also been hugely affected by the cost of land and inadequate infrastructure (Owiro, 2011).

Unaffordable housing in Kenya is on the rise according to the GOK (2007), improvement of housing for Kenya is a major concern to the government as it will be a strategically important social and economic investment. Provision of adequate shelter prevents social unrest occasioned
by depravity and frustrations of people living in slums and other forms of informal settlements. Housing is a good investment as it contributes towards eradicating poverty and health concerns, generating employment, raising incomes and increased productivity of the labor force.

Since 2007, costs of building materials have increased by as much as 70 per cent resulting in increased cost of construction as stated by the Ministry of Housing (GOK, 2004). The South African Government unlike the Kenyan Government has tried to provide housing as a constitutional right for those who cannot afford to buy or build and it also subsidies mortgages to help those who are not capable of affording houses in an open market by providing access to financing at cheaper interest rates based on their monthly income compared to Kenya whereby the housing sector is also dismally low. In short the problem is clearly ignorance on property developers ignoring the low income earners and just focusing more on high income earners who are capable of purchasing property at the quoted price. The government also contributes to the problem in that it does not encourage low income earners in developing their own homes as well as they do not create awareness on cheaper and advanced technologies in the market. Cost of building materials over the years have since grew by a certain margin while the income earned by Kenyans has not grown by the same margin which is also a main contributor to the shortage of housing in the Kenyan market.

If the Borgen project (2013) is a credible report to go by, it states that the largest urban slum in Africa is Kibera which is reported to be housing around two hundred thousand to one million people, a clear indication that Kenya is experiencing a looming crisis in developing affordable homes.
1.2 Statement of the Problem

The primary goal of many financial institutions is to lend, make profits and reward its shareholders for their investments. Financial institutions earn profits from utilizing their depository base to lend out credit to consumers at an interest. As they do this they encounter both good and bad borrowers. Due to this most financial institutions have raised most of their requirements in acquiring credit especially for huge amounts which would take time to pay back. It is clear that mortgages in the country are still out of reach for over 90% of Kenyans.

This has contributed to unaffordable housing in the Kenyan society, mostly in Nairobi County. This is a concern posed to potential home owners being unable to access financing as the minimum requirements set are stringent to most people. Potential property owners are not able to acquire financing as only a few people are able to access mortgages and construction loans. Furthermore financial institutions consider individuals to be viable to acquire mortgages if they earn a salary of more than one hundred and twenty thousand Kenya shillings per month. A clear indication that majority of Kenyans whose income earnings range between Ksh 15,000 to Ksh 25,000 are excluded from taking up mortgages. This study will fill the void.

1.3 Purpose of the Study
The general objective of this study was to investigate the challenges contributing to unaffordable housing in Kenya.

1.4 Research Questions

1.4.1. What hinders potential buyers from purchasing property in Kenya?

1.4.2. Which is the preferable method of financing by most of the property buyers in Kenya?

1.4.3. Which type of properties and market do real estate property developers focus on?
1.5 Importance of the Study

1.5.1 Technological Improvements in Nairobi County
The study tried to incorporate current technologies that have been discovered hence making it easier for people to afford building homes. Technologies such as using interlocking bricks which tend to save cost and are a cheaper alternative. The need to have shelter is indispensable to humanity, access to adequate and decent housing unit’s decreases with the increase in population, scarcity of fixed assets like land, continuous rise in house prices and cost of living hence the need to adopt new forms of technologies.

1.5.2 Real Estate Developers
The study will help broaden the target market for real estate developers and benefit them to capture the whole market as well as the consumers so as to be able to afford decent housing. The outcome of the research highlighted key areas where private developers require reform, change or incentives in order to enter the low-income market. With this knowledge, developers associations such as Kenya Private Developers Association (KPDA) can lobby for change and policy reforms as well as harness the collective strength of their developers to tap into the lower income market.

1.5.3 Studies of models used across the Country
The study findings helped developers and the government adopt models used in other regions of the country which can be incorporated in Nairobi County complex to be able to make housing more affordable. It also benefited both the developers in understanding consumer preference as well as the developer’s ability to supply housing that is highly demanded.

1.5.4 Mortgage Finance Institutions

The study will help potential investors and developers to be able to afford and build decent housing without stretching their financial capability. The study on low income housing market is a very vast one and the research gave rise to key areas of weakness where there is significant
opportunity for further research in an effort to enhance investments in provision of low income housing

1.6 Scope of the Study
The study focused on the Kenyan market mostly on the developed regions such as Nairobi County and its environs. The scope of the research was carried out on buildings and projects along Mombasa Road, Kangundo Road, Thika Road and Langata Road. The focus of the research was on real estate developments done by the leading developers. The study was based in Nairobi area due to its large array of developed properties. This study anticipated challenges of time constraint for data collection from respondents where some were not returned back given the busy schedule of respondents and reluctance by some of the respondents to fill them in due time. This was overcome by constantly reminding them to fill the questionnaires as well as giving them enough time to fill them. The survey was conducted for a period of five weeks beginning from 1st of June 2016.

1.7 Definition of Terms

1.7.1 Mortgage
Mortgage is a form of a secured loan by real property through use of a mortgage note. Purchasing a real estate instrument through borrowed financing (Wood, 2004).

1.7.2 Subsidy
Subsidy is a form of financial aid extended to individuals or corporate with the aim of promoting the social and economic policy (GOK, 2010).

1.7.3 Affordable Housing
Affordable housing is defined as ability of average income earners to be able to afford homes (Wadrip, 2011).
1.8 Chapter Summary

The chapter outlines the challenges faced by the Kenyan real estate market. It advances the reason why there is a rise in unaffordable housing. Three research questions were raised, that was used for the research. The chapter begins by stating the problem in global arena as it narrows down to the problems facing the Kenyan market. The chapter also detailed the scope of the study.

In Chapter two the questions raised that affect the real estate market was addressed in detail. The chapter also explain the reason why most developers target specific individuals and why they are reluctant in coming up with different projects. Chapter three is on research methodology used in the study, which are basically the methods and procedures used to carry out the study. Chapter four presents the results and findings while the last chapter, Chapter five, provides a discussion, conclusion and recommendations on the findings of the study.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction
In the chapter below it discussed on the relevant factors that lead to increase in lack of housing for most Kenyans’. There were clear examples cited throughout the chapter that helped guide understand the implication as a result of factors such as lack of financing to everyone and the reason as to why people opt to rent houses rather than buy them. Relevant statistics by different real estate developers helped outlay what hinders most buyers especially people within an age bracket of 27-38 years old. Most of the information gained was a result of sampling different project and statistics carried out in the market.

2.2 Factors Hindering Potential Buyers from Purchasing Property in the Kenyan Market

There are four main factors that affect the real estate across the globe and the Kenyan market is no exception. The four factors are demographics, interest rates, and economy and government policies.

2.2.1 Demographics
Most projects undertaken by developers focus on upper middle class and high net worth individuals hence most of the average income earners are left settling for indecent forms of settlement or renting out houses as they cannot meet the minimum financing requirements. Moreover financial institutions prefer the formal sector that is salaried individuals as opposed to individuals working in the informal sector. Financing has also been made harder as institutions prefer to finance projects that they have been involved throughout the project ignoring upcoming developers who are embracing low cost methods of construction (GOK, 2004).

Ojijo (2013) this can be defined as the data that describes the composition of a population that is gender, age, income and population growth. Mostly these factors influence the type of property
to be build and the price to be quoted. For example if it’s near a learning institution there will be more of hostels than residential homes unlike near work places where there will be more of residential homes. A clear example of this will be Kahawa Wendani where there more properties developed for the purpose of hosting students learning at Kenyatta University compared to Athi River where most of the properties build are bungalows for families. Property developers are keen on choosing the target market for the property that they are developing. Most will opt to build flats near learning institutions which vary from bedsitters, studio apartments and one bedroom houses as they will be in demand from the population in such areas which consists of very young individuals.

According to Quantity Surveyor’s report (2013) Suraya properties has tried to develop different properties which target different people in the market and tried incorporating the need to avail affordable housing. They have built different properties in different locations across Nairobi and its environs targeting different class of people such as gated communities like Rosslyn heights built along red hill road targeting the high end clients while the Lynx projects along Mbagathi road and Mombasa road targeting the middle income earners. According to the Co-founder of Suraya property developers Susan Muraya the houses built vary as they target young upward people from first time home buyers who are looking for homes in already developed areas although they main focus is on salaried individuals. They also have allowed the ability for one to trade the homes that they initially owned as they advance in life.

Simply if most of the real estate developers insist on building homes for salaried individuals this means due to the growth in the level of unemployment most individual will not be able to afford such homes. According to a study carried out by Kenya National Bureau of Statistics (2011) the average level of unemployment was at 24.4 percent between the year 1999 and 2011, with the level of unemployment increasing to 40 percent in 2011. This is a clear indication that almost 40 percent of the population will not be able to acquire homes as they are not employed and cannot meet the basic requirements set for financing homes.
2.2.2 Interest rates

Phang (2010) interest rate impact the ability of a buyer to be able to purchase property as the rates change periodically and frequently. This depends on the current prevailing market rate that a buyer will assess when the best time for him or her to take up a mortgage. Rates also have an inverse relationship with demand of property as when they are high demand of properties is low while when they decrease property demand rises hence prices tend to also increase, it’s more of a direct relationship between the interest rates and price of property.

Owiro (2011) state that the availability of financing is available to some of the employed people as one has to be able to meet the monthly repayment of mortgages. Most individuals who are able meet requirements set by mortgage institutions should earn a minimum basic salary in a region of over one hundred thousand Kenya shillings. This means that most of the individuals in the informal sector do not qualify for the rigid mortgage requirements.

Dipasquale (1999) states that real estate developers have entered into agreements with financial institutions making it easy to access property financing but still it does not make it cheaper for loan seekers. However, the demand for housing is affected by lack of long term funds and the supply of houses is driven by institutional constrains such as lack of affordable supply of funds to all potential home buyers. A solution that may help availability of funds to the middle income earners would be to use pension funds to guarantee the members mortgages though a conflict of interest may preside as some of the real estate projects have been heavily financed by pension funds for example Stima plaza whose financier is the Kengen pension fund. (Quantity Surveyors, 2013).

GOK (2011) it states that on average the basic salary of most middle income earners would be Ksh 80,000 while the average rate on mortgages would be 15 percent. The table 2.2.2.1 below depicts in a scenario that a middle income earner would opt to take a mortgage the maximum value of a property that he or she was able to pay for while still taking home a third of his salary.
2.2.3 Economy

The general economic condition of the country also impacts the demand for property. This is due to factors that impact the individual such as income earned by personnel, price of goods, manufacturing activities and any other relevant activity affecting the economy. If the economy of the state experiences a sluggish growth it will also affect the demand for property and its prices. Owiro (2011) states that the Nairobi metropolitan region has seen the development of many residential apartments but still the production unit has not met the demand hence leaving a huge gap and hence a continuing investment opportunity. As the rate of urbanization accelerates the economy in return also grows at a significant rate and so does the cost of land. In the past ten years land rates in the Nairobi region have increased by more than a 100 percent. The cost of land in return subjects the increase in the price of hence low income earners being the most adversely affected.

Munda (2014) lack of affordable income housing has also been subjected due to the lack of infrastructure in some regions and the ability to maintain affordability and keep the costs low. Lack of serviced land, low participation by the private sector and unfavorable legal and institutional framework are the major contributors to lack of housing. Currently there are scattered institutional regulators hence not making it easy to support the performance of the real estate market. Some of the institutional frameworks are:

Ministry of Lands, Housing and Urban Development: it incorporated functions in the previous ministries of lands and settlement, housing and local authority to regulate rural directly and indirectly, provide policy framework for house provision and provide social and economic housing to stabilize the real estate market and ensure orderly development of urban areas in conjunction with county governments.

County Governments: The county governments are responsible for planning and zoning regulations, approving development proposals and provision of services such as water and sewerage and roads.

Housing Finance Company of Kenya: this was established to provide an avenue for savings and mortgages to enhance home ownership in the country. It is currently one of the biggest mortgage and construction loan lenders in the country.
Judiciary and Tribunals: largely responsible for arbitration and dispute largely responsible for arbitration and dispute resolution.

2.2.4 Government Policies
Owiro (2011) the government policies have a substantial effect on the demand and prices of property in the market. Policies such as taxation and subsidies have a major effect on the demand for property. Most of property developers have blamed their overvalued property on the inability to be able to acquire serviced land and also the existing land rates which are very high. Valuation by such property developers have resulted to them incorporating the land rates and the cost in servicing the land in the initial price of the property. The government tried to remedy such problems by setting up the National housing policy for Kenya in 2003. The housing policy purpose was to:

Facilitate the access to land and security of tenure for all socio-economic groups

Facilitate the availability of finance in the domestic market and ways on mobilizing capital from investment groups

It also encouraged the participation of private sector and other development partners in the planning, development and management of housing programs

The government has also issued incentives so as to be able to welcome low income housing projects but the incentives are too small compared to the problem at hand. The lack of a definite institutional regulator unlike other investment securities is a major hindrance. Unlike other securities such as stocks which have regulators Capital Markets Authority (CMA) and for deposits Central bank of Kenya (CBK), the real estate market suffers dearly hence lack of information on advanced technology, fraud mostly on title deeds and bad decision making that leads to stalled projects. A good example, the land being disputed by the Lands ministry in Karen a clear indication that land records have a long way to go before investors and potential land owners will fill secure of having the correct property records issued to them (GOK, 2011).

Owiro (2011) the government and the state owned corporations are key to real estate as most of the residential commercial and public utility are owned by them. State corporations such as
NSSF, NHIF, Postal Corporation and Telkom Kenya own some of the largest commercial and residential real estate in urban and rural areas. The largest users of real estate is the government with the private owned companies gathering a small portion a clear indication as to why most private companies are reluctant to take up real estate.

2.3. The Most Preferable Method of Financing
Potential buyers often differ on the preferred option when financing for the acquisition of property. There are two mainly used methods of payments either by cash or financing through taking up a mortgage.

2.3.1 Real Estate Mortgage and Cash
According to Hass consult report (2013) most Kenyans are buying homes through mortgages a clear indication that it is the preferred method of financing for homes. His basis is that there conflicting reports state that the property market is dominated by cash buyers as stated in the index report at end of Q2 2013 by Hass consult although recent surveys discredited the report in that they indicate that mortgage uptake is lowest when there are high interest rates. He gives a clear example of Komarock phase five estate which is a middle income project, out of the 162 units complete only 30 of them are cash buyers. He further states that most Kenyans opt to take up mortgages regardless of the current high rates.

Kangethe (2014) states that cash buyers are only found in the high end market which only accounts for 20 to 30 per cent of all transaction in the market. She stated that around 50 to 70 per cent of the buyers are middle income earners and they tend to opt to take up mortgages. Stephen Omengo, an associate director and senior valuer at Tysons Limited, says most home buyers opt to pay a deposit and pay the remainder through mortgages. It is clear that most middle income earners want to own homes but financing is the ultimate problem. Most properties tend to appreciate in value as time passes hence making it difficult for individuals who are unable to access the two major methods of financing unable to acquire a home. Mortgages hence can be deemed to be making it expensive for people to be able to afford homes.
According to a report by Mortgage Company Hass consult (2013) it revealed that interest rates were now rising and that the current Kenyan real estate market has made it twice expensive to make mortgage payments compared to renting the same properties. The company reported that currently the applicants taking up mortgage ownership are at 17,000 a very significant low number if we are to compare with the rise of the population which stated that we need a minimum of 250,000 units each year.

An understanding of the challenges faced by developers in the low-income market would allow donor agencies such as UN Habitat and The International Monetary Fund (IMF) to direct funding into projects that would stimulate low income housing supply either directly, through funding of housing development or indirectly, through infrastructure investments. This research study will also be informed about the sustainability, scalability, and reliability of existent projects (Hass Consult, 2013).

Owiro (2011) states that, building or buying a house before the age of 40 should not be a priority. He illustrates that take the arbitrary incomes of Sh50,000 in net pay for a 25 year old single person, Sh100,000 for a thirty year old newlywed couple, Sh150,000 for a thirty five year old couple with one child and Sh200, 000 for a forty year old with two or three children, and see what can be achieved at these respective ages. If one takes a mortgage or construction loan before they turn 40 years old, they might buy or build a house that might prove to be a liability as one will have to part with between Sh5,000,000 and Sh6,000,000. He points out that the mortgage repayment he makes will be quite high a rough figure of Sh8,000 for the next twenty years compared to renting a two bedroom apartment for Sh30,000 hence pocketing the rest of the amount he would have paid if he was to take up a mortgage.

Mbogo (2011) states that lack of customer awareness and failure on setting up research teams to focus on low cost building materials and construction techniques has been limited, thus not providing viable guidance to the development of the sector. Moreover strict planning regulations and high infrastructural standards have been an impediment in the housing delivery system. The government is trying to help the real estate market by ensuring it provides subsidies for developers focusing more on low cost housing projects (GOK, 2011).
Ojijo (2013) states that the current available financing is also stringent on whom they are able to provide mortgages to without bearing the risk of defaulting the payment. Nahinga (2007) clearly states that most people who are considered to be viable to acquire mortgages earn a salary of more than one hundred and twenty thousand Kenya shillings. A clear indication that majority of Kenyans who are average income earners earning between Fifteen thousand to twenty thousand Kenya shillings are excluded from taking up mortgages.

Hassanali (2013) states that there is an overwhelming increase in mortgage rates for the past few years. The rates which are based on the market rates making individuals a bit skeptical in taking them up as most of them tend to rise as they are not fixed. The increase in mortgage rates have led to most potential investors preferring to buy houses in cash rather than take up mortgages.

Roack Consult Limited (2013) the reasons as to why people find it hard for them to take up mortgages are:

Funding. The mortgages currently being issued in the market are being offered by banks that are vulnerable to short term market liquidity which hence affects the rates prevailing in the market. For example in the Kenyan market the rates have been at an average of 14 to 24 percent from 2011 to 2013.

Lending rates affecting monthly payments. The need to have fixed rates or move rates to single digits will help the uptake of mortgages and hence make it affordable for the middle income earners to acquire homes. For example the USA mortgage rates are at 3.5 percent compared to the Kenyan market whereby mortgages are at an average of 15 percent.

Affordability. The current high land prices and cost of infrastructure coupled with the developers need to make a gain from the projects undertaken makes most homes out of reach for most Kenyans. Government will need to intervene by providing of affordable serviced land for developers and individual projects.

Roack Consult Limited (2013) states that the purchasers of the residential units have the option of owner occupying or leasing it for rental income. Evidence available indicates that approximately 40% of the purchased units are an investment where the investor expects rental income. The rental rates in residential sector have been on an upward trend in the past few years.
2.3.2 Mezzanine Financing
According to Clark (2014) Mezzanine financing is a hybrid of debt and equity financing. It is mostly used as a way for companies to finance their expansion costs. It entails timely payments on the loan or the lender is entitled to ownership or equity interest in the company. Most banks will lend money to financial institutions based on their cash flows and since equity financing can be at times be the most expensive source of financing. Mezzanine financing will allow business owners get financing without giving up little or no ownership of the company as long as they are able to pay their debt in a timely manner and in full.

To qualify for mezzanine financing a company must show a strong record in the industry and be well established with a good reputation. The company should also show a good historical record of profitability so that they are confident to get the return that they are focusing on. The borrower should also be able to show the use of the funds so as to be able to generate returns (Clark, 2014).

2.3.3 Bridge Financing
Chris (2015) states that bridge financing is an interim financing option used by companies and other entities to solidify their short-term position until a long-term financing option can be arranged. Bridge financing normally is given by an investment bank or venture capital firm in the form of a loan or equity investment. This kind of financing occurs when a company's or individual capital is shorter than its future financing options. Bridge financing in real estate happens to be given to an individual who wants to buy property from the proceeds of his earlier property investment but he expects to receive the proceeds later than the cut off on when he supposed to purchase his new property. Financing is given to the individual as they wait for the sale of their existing property to be sold. To put it simply a bridge loan is a short-term financing tool that helps purchasers to “bridge” the gap between old and new mortgages by allowing them to tap the equity in their current residence as a down payment.

Chris (2015) states that for one to determine the amount of a bridge loan, take the purchase price of the new house, then subtract the value of the mortgage and the initial deposit. The leftover
amount is the sum that will need to be financed until a sale is complete. The affordability of bridge loans which are typically offered for no more than 90 days, and only when a firm, condition waived sale agreement is in place for the borrower’s existing property. Chris (2015) also notes that bridge financing is expensive compared to other traditional forms of financing as mortgages.

2.4. Type of Properties and Target Market That Real Estate Property Developers Focus On

Like any other type of investment the key focus is the target market. Target market simply means ready consumers or buyers willing to purchase a product or service. Property is not an easy to sell especially in a market like the Kenyan one where most of the individuals are middle income earners. The current projects being constructed and location of such establishments is a main factor when choosing your target market i.e. you don’t expect to put up flats in Kibira targeting the high income earners (GOK, 2011).

Munda (2014) states that improvement of housing for Kenya is a major concern to the government as improving it will be a strategically important social and economic investment. Provision of adequate shelter prevents social unrest occasioned by depravity and frustrations of people living in slums and other forms of informal settlements. Housing is a good investment as it contributes towards eradicating poverty and health concerns, generating employment, raising incomes and increased productivity of the labor force.

GOK (2011) states that the current demand for affordable housing still far outstrips the supply. There is a high rate of urbanization hence the increase in poverty and escalation of housing costs and prices by property developers have made it a very daunting challenge for individuals to be able to afford homes. Developers are also not helping the situation as they are only focused on building projects that focus on upper middle class and high net worth individuals hence most of the average income earners are left settling for indecent forms of settlement or renting out houses.
Roack consult limited (2013) research for an individual to own a house whether rental or outright ownership he or she should have a stable source of income. The assumption is for one to have a stable income is for one to be a salaried individual. It also noted a finding from the Economic Survey 2012; Nairobi had 538,600 persons in formal wage employment by 2011 up from 479,300 reported in 2007. The wage employment expansion was 12.5% in a period of four years and at an average of 3.4% annually. It is projected that wage employment in Nairobi will grow by 5% in 2013/2014, bringing the total number of wage employment to 565,500 persons. Assuming that most of those in the wage employment were couples, the demand for housing in Nairobi is 282,750 units. Such statistics are quite staggering as from the official government records released in 2007 it is estimated that 35,000 units are completed annually. Clearly there is a huge gap of over 200,000 units which hence creates an investment opportunity for property developers.

GOK (2007) before a project commences there is need for a design used to conceptualize the ideas. There is need to high skilled personnel so as to be able to weigh the profitability of a project and it is also a requirement under The Physical Planning Act No. 286, The Urban Areas and Cities Act No. 13 of 2011 and The Environmental Management and Coordination Act of 1999 to submit for approval any works that are defined as development. The Act requires the approval of any development proposal before it is implemented. The application is to be made to the local authority in a prescribed form and upon payment of prescribed fees. The approving authority is required to consider the applicable physical plan, health concerns and the welfare of the community. All this have to be factored to the completion time and price of the property.

Hassanali (2013) states that low-cost housing projects remain the eternal “gap in the market” as the potential demand is huge. However, due to the absence of good infrastructure in many parts, the costs and therefore sale prices of these projects are such that the homes are not really affordable for the target market hence the focus on luxury upmarket projects which are rising fast in quality as the market is getting more discerning. This is a good trend and bodes well for the future. Kenya is the most developed country in the east Africa region and the middle class is growing fast, creating opportunities for housing. Business tourism has increased significantly in Kenya, creating the need for more accommodation facilities. There is a need for investment in
affordable hotel accommodation facilities that are up to par with international standards (Ojijo, 2013).

Upon completion of real estate projects marketing is very important so as to realize the objectives set by the firm. A critical component of marketing is pricing and timing. The price will have been set at the feasibility study but will require to be regularly reviewed to ensure speedy disposal of the project while ensuring that the project meets its performance targets. The profit margin set by most developers has been good and have encouraged investment in the submarket (Dipasquale, 1994).

Roack (2013) survey of several developed projects indicates that the average cost of projects range is sixty five thousand Kenya shillings per square meter. This indicates that more than half of the current population in the county are unable to afford the cost of projects already constructed.

Giddings (2011) the sale price of real estate products is a mostly dependent on supply and demand hence due to urbanization of the country’s capital city residential sale prices in Nairobi have been on the rise in the past few years as expected. On average, the pricing of middle changes more rapidly compared to that of the high net worth individuals, an indication that most projects being developed target the middle income class. There has been a rise in the property developed for the middle class if the mortgage uptake from an old average of 4 million to the current average of 6.5 million.

Olotuah (2010) states that real estate development projects are very capital-intensive. Only a handful of developers in Kenya have the capacity to fully finance their projects entirely out of their pockets. Most times, you will find that even investment clubs pool funds for their projects before they supplement external funds such as loans from banks. Secondly, property developers need money to finish their development within the shortest time possible in order to start realizing the economic benefits of the development. A project that stalls midway or delays serves no economic purpose. On the other hand, a project that is completed within good time is an asset that generates its cash flows (Olotuah, 2010).
Ojijo (2013) founder and organizer of Kenya Homes Expo buyers in the current market seem to prefer spending an average of 20 million Kenya shillings for a luxurious 3 to 4 bedroom house on an apartment rather than spending double the price in a standalone or townhouse but located within estates while those buying for investment purposes prefer apartments sold at off-plan compared to those already constructed. Most developers have hence note the requirements of such individuals hence their leaning towards constructing more of high rise apartments as opposed to the development of stand-alone houses as they get double returns from apartments, a good example will be the 360 apartments and Olonyori estate in Mlolongo off Mombasa Road.

Due to the prevailing economic times and shortages in housing most investors are willing to partake in purchasing more property as compared to other securities such as stocks in Nairobi securities exchange. Also the fact that there is an increase in the number of expatriates in the region due to exploration in the mining sector the demand has increased substantially over the period. The industry report states that apartments have taken up 40.1 percent of the market, Town Houses 26.5 percent while Standalone houses are at 33.4 percent of the market. The Hass Index reported in June 2013 that apartments had their values increased by 2.39 times since 2001, a 1.7 percent rise from January to April in 2014 and 6.6% rise in 2013. The average price for an apartment is currently 12.5 million up from 5.2 million in December 2000 according to the Hass property Index (Hassanali, 2009).

Obaga (2015) states that banks and other property development financing institutions in Kenya are in the business of making money. A bank will advance you a loan if the property you are putting up promises them financial gain that meets their objectives. No bank is willing to sink in money in a project that will generate losses or you will fail to complete based on their assessment. Secondly, banks have owners and shareholders who have invested in them. These investors have investments of varying scopes: short-term, middle-term and long-term investments. As an institution, a bank perceives real estate assets as a long-term investment that they can depend on. It is out of these investments that bank owners desire to make returns.
Banks lend property developers because real estate assets make good financial security. That is why banks charge property, complete with their name included in the titles until the project is completed. If you as a developer fail to pay the loan, the bank will dispose the property and recoup their costs. Also, when the property is charged, no transaction can be done on that property until it is discharged. This explains why some developers end up wrestling with banks over property financed through loans. Only in unique circumstances will banks express confidence in a project by injecting equity funding in a project. This is in addition to the loan facility advanced to you. Banks consider property to be an asset. Unlike other assets, banks regard property highly due to the immense potential for property to grow in terms of value or even rental income that arises from a property (Obaga, 2015).

Property developers will concentrate more on their understanding of the overall real estate and property market. They are expected to know the functioning of the specific sub-market, i.e. if they are putting up apartments in Nakuru, they are expected to know the construction costs vary from time to time and from place to place. This are highly the reasons as to why developers will build apartments in some regions and bungalows in other region due to the financial and planning cost that they may incur (Munda, 2014).

2.5 Chapter Summary

In summary the chapter focused on the relevant issues that the Kenyan real estate market is being faced with. It gives a clear description on the factors that have subjected for the study to be relevant and tries to state what else would have been done to correct the current situation. The research highlighted that most of the projects being undertaken focus on the middle income earners while still stating the hindrances that most middle class face when trying to acquire homes. The chapter highlighted the research questions in detail. The rise in cost of apartment which has been deemed to be the most suitable investment by potential buyers is a major hindrance as the growth of the value of such properties over the past ten years has almost doubled in price.

In the next chapter, clustering sampling and convenience sampling technique helped outline the findings that the research question pointed out in the real estate market. The study reviewed
earlier researches carried out in the market done by some of the major property developers in the Kenyan market. The chapter basically tried to outline the findings in the previous chapter.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 INTRODUCTION
In this chapter the researcher presented the kind of research design to be used. This chapter discusses the research methodology that will be applied in this study. Various methodological issues have also been discussed including: population choice, sampling techniques, sampling frame and size and data collection and analysis methods that will be used to conduct the study. A summary of the research methodology is provided at the end of the chapter.

3.2 Research Design
In this research, exploratory research design was adopted. An exploratory research design is a research conducted for a problem that has not been clearly defined. It often occurs before we know enough to make conceptual distinctions or pose an explanatory relationship. Explanatory research design which is defined as involving direct observation of behavior and querying on the current status hence help in developing explanations as to why there is a rise in unaffordable housing in the country. This suggests that the degree of uncertainty about the research problem determines the research methodology hence this was preferred due to the nature of the data being analyzed that is the different classes of people in the society and different property developer who use different methods in valuing their housing projects.

The design was appropriate as it allowed more control in making assumptions about causation and implications of findings as well as have the most control, and thus allows researchers to explain differences between groups. One of the key features of the design is that participants are randomly assigned to groups to test differences between groups. The research therefore focused on the capability of people to access financing, preference of housing structures by willing buyers and the target market for property developers.
3.3 Population and Sampling Design
Cooper and Schindler (2006) describe a population as the total collection of elements whereby references have to be made. Due to the fact that Nairobi is the most developed county in Kenya, the study focused on Nairobi County as the parameters of the research, projects built along Thika Road, Langata Road, Kangundo Road and Mombasa Road.

3.3.1 Population
The basis of the research was carried out in the projects done in Nairobi County. The population took into account completed apartments. The study targeted 50 apartments along Mombasa Road, Kangundo Road, Langata Road and Thika Road that have a margin of thirty to eighty units so as to give clear findings for the basis of the research; data such as how many home owners had bought homes through mortgages and cash. The number of people in the population who were renting houses rather than acquiring them and also to get their main source of financing. The data collected for the research was adequate as we had different classes in the population hence depicting the exact situation currently in Kenya.

3.3.2 Sampling Design

3.3.2.1 Sampling Frame
According to Coopers and Schindler (2006), a sampling frame is defined as the list of elements from which the sample is actually drawn. It refers to a complete and correct list of population members only. In this study, the sample was derived from 50 apartments obtained from the completed projects which have already been occupied in the population i.e. the study based their research on individuals who had already taken up houses. The sample frame was 50 completed apartments with more than thirty units along Mombasa Road, Kangundo Road, Langata Road and Thika Road. This ensured that the sampling frame is current, complete and relevant for the attainment of study objectives.
3.3.2.2 Sampling Technique
Sampling technique is the method used to ensure the subset of individuals within a statistical population. This study adopted a non-probability sampling technique. Non probability sampling is a sampling technique that does not use chance selection procedures. Rather they rely on the personal judgment of the researcher (Coopers & Schindler, 2007). Under non-probability sampling, the researcher adopted a convenience sampling technique which attempts to use first available primary data source for the research without additional requirements. In other words, this sampling method involves getting participants wherever you can find them and typically wherever is convenient. This procedure is useful when broad population as all subjects are invited to participate.

3.3.2.3 Sample Size
Sample size is the number of observations relevant for the researcher to use in his or her research. Coopers & Schindler (2007) states that statistical determination of the appropriate sample size can be generalized to represent the entire target population. To obtain the minimum population sample for this study, the researcher conducted a sample on 50 apartments along Mombasa Road, Kangundo Road, Langata Road and Thika Road which was deemed to be free from error and provided 100% surety and representative of the population.

3.4 Data Collection Methods
Primary data was collected by the use of questionnaires. Coopers & Schindler (2007) states that questionnaires are an important data collection tool. In addition, the use of questionnaires was justified because they provide an effective and efficient way of gathering information within a short time. Further, questionnaires facilitated easier coding and analysis of data collected. Paper pencil questionnaires would be efficient in acquiring data as they can be sent and issued to a large number of people. The questionnaires administered included closed and open ended questions. This was because closed ended questions ensured that the respondents are restricted to certain categories in their responses while open ended questions provided an insight of ideas. In addition, the questionnaire was organized in the following ways: Part 1: asked questions on general information of the respondents. Part 2: factors that are key for potential real estate

3.5 Research Procedures
A pilot test involving 2 respondents was carried out to evaluate the completeness, precision, accuracy and clarity of the questionnaires. This ensured the reliability of the data collection instruments used (Coopers & Schindler, 2007). After the amendment of the final questionnaire, the researcher explained the purpose of the research. The questionnaires were administered to the students and employees in different institutions during working hours. The research procedure used when administering the questionnaires was drop and pick. This entailed getting the relevant population and administer questionnaires to all stakeholders needed for the research. In order to ensure high questionnaire response, the researcher used constant reminders and pre-contact with respondents. The research was well accepted and the questionnaires were carefully conducted so as to ensure confidentiality of information obtained and anonymity of respondent’s identity. Each questionnaire took approximately fifteen minutes to fill. The questionnaires were personally administered by the researcher.

3.6 Data Analysis Methods
Data analysis used quantitative techniques. Quantitative research generally involves the collection of data from large numbers of respondents with the aim of presenting the findings to a large population. The aim is to generalize about a specific population based on the results of a representative sample of that population. The research findings may then be subjected to mathematical or statistical manipulation to produce a broad representative of data to the total population and forecasts of future events under different conditions (Cooper and Schindler, 2006). The collected data was coded and analyzed using regression and correlation analysis to measure the relationship between the variables in the study, Anova to establish the challenges if they are statistically significant and descriptive statistics specifically mean and standard deviation which described the variables in the study, by the use of Statistical Package for Social Science (SPSS). The presentation of data was by the use of tables and charts.
3.7 Chapter Summary
This chapter highlighted the various methods and procedures the researcher adopted in conducting the study in order to answer the research questions raised in the first chapter. The research design was descriptive in nature, the target population comprised of 50 apartments. The data collection methods involved primary data collections, the research procedures involved the conducting of a pilot study to confirm the reliability of the research instruments and also explain the purpose of the study to the respondents and data analysis methods involved was quantitative technique in which the data was analyzed using Statistical Package for Social Science (SPSS). The next chapter presents the findings of the study.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction
This chapter presents the data analysis and interpretation and discusses the findings of the study in line with the specific objectives of the study. All completed questionnaires were edited for accuracy, uniformity, consistency and completeness.

4.1.1. Response Rate
The study targeted to sample 50 respondents in collecting data with regard to an investigation of challenges contributing to unaffordable housing in Kenya. Out of the 50 questionnaires that were distributed, 47 questionnaires were returned. This represents a response rate of 94% which is significant to give reliable findings for this study. This agrees with Munda (2014) who states that the response rate that is above 50% is adequate for analysis and reporting.

Table 4.1 Response Rate

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Responded</td>
<td>47</td>
<td>94.0</td>
</tr>
<tr>
<td>Not Responded</td>
<td>3</td>
<td>6.0</td>
</tr>
<tr>
<td>Total</td>
<td>50</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.2 Demographic information

4.2.1 Gender of respondents
The findings showed that majority (55.32%) of the respondents were male while female contributed 44.68%. This indicates that majority of the respondents were male, although the difference is not significant enough to influence the results of the study towards any gender. Respondents were asked to indicate their gender. The findings are illustrated in Figure 4.1 below.
Figure 4.1: Gender of Respondents

4.2.2 Age of Respondents
Figure 4.2 indicates that 51.06% of the respondents were between the ages of 29 – 39 years, 23.40% were between the ages of 18 – 28 years, 19.15% between 40 – 50 years and 6.38% were above 50 years. This shows that the respondents were spread across all ages and the study will not be influenced by any age group.
Respondents were asked to indicate their age and indicated as shown in Figure 4.2;

![Age Range Chart]

**Figure 4.2: Age of Respondents**

### 4.2.3 Level of Education

Table 4.2 above reveals that majority (68.1%) of the respondents had attained a bachelor’s degree as their highest level of education, 14.9% have reached graduate level, and 12.8% have reached college level and 4.3% at secondary level. This indicates that majority of the respondents were knowledgeable to understand the concepts of housing affordability.

Respondents were asked to indicate their level of education and indicated as in Table 4.2;

**Table 4.2 Level of Education**

<table>
<thead>
<tr>
<th>Level of Education</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Graduate Level</td>
<td>7</td>
<td>14.9</td>
</tr>
<tr>
<td>Undergraduate Level</td>
<td>32</td>
<td>68.1</td>
</tr>
<tr>
<td>College Level</td>
<td>6</td>
<td>12.8</td>
</tr>
<tr>
<td>Secondary School</td>
<td>2</td>
<td>4.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>47</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>
4.2.4 Employment Status
As shown in figure 4.3, 80.85% of respondents were currently employed while 19.15% did not have any form of employment.
Respondents were asked to indicate their employment status and results indicated as in Figure 4.3 below;

![Employment Status Pie Chart]

**Figure 4.3: Employment status of respondents**

4.2.5 Duration of Service
From the findings, we can note that most of the respondents (44.68%) have work experience of between 5 – 10 years (44.68%). In addition, 34.04% have between 11 – 15 years, 14.89% less than 5 years and 6.38% above 15 years. This indicated that 78.72% had worked for more than 5 years hence can provide good information on their position to take mortgages based on work experience, which also reflects their salaries.
The respondents were asked to indicate the number of years they’ve been employed. Figure 4.4 reveals the responses given.
4.2.6 Management Level
The study shows that 74.5% of the respondents were in non-managerial level while 25.5% were in managerial level. This indicates that the respondents came from all the targeted strata.

The respondents were asked to indicate the management level they serve. Table 4.3 reveals the responses given.

Table 4.3 Management Level

<table>
<thead>
<tr>
<th>Management Level</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managerial</td>
<td>12</td>
<td>25.5</td>
</tr>
<tr>
<td>Non-Managerial</td>
<td>35</td>
<td>74.5</td>
</tr>
<tr>
<td>Total</td>
<td>47</td>
<td>100</td>
</tr>
</tbody>
</table>

4.2.7 Area of Residence
As indicated in Table 4.4, most of the respondents currently live along Thika road and along Langata road represented by 42.6% and 29.8% respectively. On the contrary, 14.9% currently reside along Kangundo road and 12.8% along Mombasa road. This indicates that the respondents come from different geographic location. Majority of the respondents reside along Thika road
and Langata because the areas has many apartments. This shows that many people prefer living in apartments.

The study required respondents to indicate there are of residence. The findings are shown in Table 4.4;

**Table 4.4: Area of Residence**

<table>
<thead>
<tr>
<th>Area of Residence</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Along Mombasa road</td>
<td>6</td>
<td>12.8</td>
</tr>
<tr>
<td>Along Langata road</td>
<td>14</td>
<td>29.8</td>
</tr>
<tr>
<td>Along Kangundo road</td>
<td>7</td>
<td>14.9</td>
</tr>
<tr>
<td>Along Thika road</td>
<td>20</td>
<td>42.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>47</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

**4.3 Factors that are Key for a Potential Real Estate Investor**

The study sought to identify the factors that are key for a potential real estate investor. Likert scale was used where: 1 = Strongly disagree 2 = Disagree 3 = Agree 4 = Strongly agree. The results are indicated as shown in Table 4.5;
Table 4.5 Factors that are key for a potential real estate investor

<table>
<thead>
<tr>
<th>Factor</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The real estate market is affordable for every type of class</td>
<td>47</td>
<td>2.62</td>
<td>.644</td>
</tr>
<tr>
<td>The real estate market hinders one from owning a home due to the current qualifications for a mortgage</td>
<td>47</td>
<td>3.06</td>
<td>.763</td>
</tr>
<tr>
<td>The real estate market growth has been affected largely due to developers targeting the large income earners in the society</td>
<td>47</td>
<td>3.09</td>
<td>.775</td>
</tr>
<tr>
<td>Do you think government policies have contributed to the rise in lack of affordable housing</td>
<td>47</td>
<td>3.36</td>
<td>.605</td>
</tr>
<tr>
<td>As a potential real estate buyer you would prefer buying it on cash rather than taking up a mortgage</td>
<td>47</td>
<td>3.62</td>
<td>.491</td>
</tr>
<tr>
<td>Only high income earners are able to afford to take up a mortgage</td>
<td>47</td>
<td>3.40</td>
<td>.712</td>
</tr>
<tr>
<td>Real estate developers prefer working with large banks for individuals willing to take up mortgages</td>
<td>47</td>
<td>3.64</td>
<td>.486</td>
</tr>
<tr>
<td>The real estate market mortgage rates are very high compared to neighboring countries</td>
<td>47</td>
<td>3.19</td>
<td>.947</td>
</tr>
<tr>
<td>The real estate market is affected due to potential buyer’s rejection on using the innovative technologies such as SSB blocks</td>
<td>47</td>
<td>2.85</td>
<td>.859</td>
</tr>
<tr>
<td>Most people will prefer constructing their own home rather than buying an already constructed home</td>
<td>47</td>
<td>3.30</td>
<td>.749</td>
</tr>
<tr>
<td>Bungalows are highly preferred for residential purpose when buying a home rather than apartments</td>
<td>47</td>
<td>2.68</td>
<td>1.181</td>
</tr>
<tr>
<td>Apartments bought by investors are ideal to rent out as opposed to investors living in</td>
<td>47</td>
<td>2.79</td>
<td>1.041</td>
</tr>
<tr>
<td>Valid N (list wise)</td>
<td></td>
<td>47</td>
<td></td>
</tr>
</tbody>
</table>
As shown in Table 4.5 above, the respondents strongly agreed that real estate developers prefer working with large banks for individuals willing to take up mortgages (3.64) and buyer would prefer buying it on cash rather than taking up mortgages (3.62). The respondents agreed that only high income earners are able to afford to take up mortgage, government policies have contributed to rise in lack of affordable housing (3.36), most people will prefer constructing their own home rather than buying an already constructed home (3.30), real estate market mortgages rates are very high compared to neighboring countries (3.19), real estate market growth has been affected largely due to developers targeting the large income earners in the society (3.09) and that real market estate hinders one from owning a home due to developers targeting the large income earners in the society (3.06).

There was partial agreement on real market is affected due to potential buyer’s rejection on using the innovative technologies such as SSB blocks (2.85), apartments bought by investors are ideal to rent out as opposed to investors living in (2.79), bungalows are highly preferred for residential purpose when buying a home rather than apartments (2.68) and real estate market is affordable for every type of class (2.62).

4.4 Geographical Region of Properties in Kenya

4.4.1 Potential Real Estate Buyer Preference on Geographical Region of Properties in Kenya
The study sought to identify whether geographical region of properties is a factor that are key for a potential real estate investor. Likert scale was used where: 1 = Strongly disagree 2 = Disagree 3 = Agree 4 = Strongly agree. The results are indicated as shown in Table 4.6;
Table 4.6: Potential Real Estate Buyer Preference on Geographical Region of Properties in Kenya

Majority of the respondents agreed that rental houses are more near learning institutions and work places as opposed to guarded estate communities (3.45), properties nearer the CBD are more expensive compared to property far off (3.43), geographical region when affecting property really matter (3.40), residential developments being constructed currently as far from the CBD (3.32) and potential buyers prefer a property nearer the CBD as opposed to property far from the CBD (3.11) It was disagreed that potential buyers are reluctant on apartments constructed near the CBD which lack a garden (1.72).

<table>
<thead>
<tr>
<th>Statement</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Does the geographical region when purchasing a property really matter</td>
<td>47</td>
<td>3.40</td>
<td>.577</td>
</tr>
<tr>
<td>As a potential buyer you would prefer a property nearer the CBD as opposed to property far from the CBD</td>
<td>47</td>
<td>3.11</td>
<td>.561</td>
</tr>
<tr>
<td>Properties nearer the CBD are more expensive compared to property far off</td>
<td>47</td>
<td>3.43</td>
<td>.542</td>
</tr>
<tr>
<td>Rental houses are more near learning institutions and work places as opposed to guarded estate communities</td>
<td>47</td>
<td>3.45</td>
<td>.544</td>
</tr>
<tr>
<td>Residential developments being constructed currently are far from the CBD</td>
<td>47</td>
<td>3.32</td>
<td>.594</td>
</tr>
<tr>
<td>Potential buyers are reluctant on apartments constructed near the CBD which lack a garden</td>
<td>47</td>
<td>1.72</td>
<td>.649</td>
</tr>
<tr>
<td>Valid N (list wise)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
4.4.2 Factors Affecting Geographical Region of Properties in Kenya

The study sought to identify whether geographical region of properties is a factor that are key for a potential real estate investor. Likert scale was used where: 1 = Strongly disagree 2 = Disagree 3 = Agree 4 = Strongly agree. The results are indicated as shown in Table 4.7;

Table 4.7: Factors Affecting Geographical Region of Properties in Kenya

Lack of available land near the CBD has led to real estate developers developing in remote areas (3.28), and lack of title deeds distributed in all regions has also affected real estate sector from growing (3.00). Partial agreement was noted on approvals from authorities needed before commencing a structure has led to a sluggish growth as some are done by the county while others are issued by national authorities (2.85) and lack of available amenities i.e. water across the counties in Kenya has directly affected the market (2.70).

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of available land near the CBD has led to real estate developers developing in remote areas</td>
<td>47</td>
<td>3.28</td>
<td>.649</td>
</tr>
<tr>
<td>Lack of available amenities i.e. water across the counties in Kenya has directly affected the market</td>
<td>47</td>
<td>2.70</td>
<td>.883</td>
</tr>
<tr>
<td>Lack of title deeds distributed in all regions has also affected real estate sector from growing</td>
<td>47</td>
<td>3.00</td>
<td>.692</td>
</tr>
<tr>
<td>Approvals from authorities needed before commencing a structure has led to a sluggish growth as some are done by the county while others are issued by national authorities</td>
<td>47</td>
<td>2.85</td>
<td>.780</td>
</tr>
<tr>
<td>Valid N (list wise)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
4.5 Availability of Property Financing in Kenya

4.5.1 Factors Hindering Mortgage Uptake on Property Financing in Kenya

The study sought to identify whether availability of property financing is a factor that is key for a potential real estate investor. Likert scale was used where: 1 = Strongly disagree 2 = Disagree 3 = Agree 4 = Strongly agree. The results are indicated as shown in Table 4.8;

Table 4.8: Factors hindering mortgage uptake for property financing in Kenya

Table 4.8 Levies charged on mortgages affects loans uptake (3.45), cash buyers are very few because of the high property prices (3.45), mortgage uptake is low as most of the interest rates payable by mortgage financiers is high (3.43), mortgage uptake is low due to the qualifications required by most financial institutions (3.28) and mortgage uptake is very low compared to cash buying (2.57).

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgage uptake in the country is very low as compared to cash buying</td>
<td>47</td>
<td>2.57</td>
<td>1.058</td>
</tr>
<tr>
<td>Most real estate investors prefer renting as opposed to buying houses</td>
<td>47</td>
<td>2.74</td>
<td>1.093</td>
</tr>
<tr>
<td>Mortgage uptake is low due to the qualifications required by most financial institutions</td>
<td>47</td>
<td>3.28</td>
<td>.649</td>
</tr>
<tr>
<td>Mortgage uptake is low as most of the interest rates payable by mortgage financiers is high</td>
<td>47</td>
<td>3.43</td>
<td>.580</td>
</tr>
<tr>
<td>Levies charged on mortgages affects loans uptake</td>
<td>47</td>
<td>3.45</td>
<td>.619</td>
</tr>
<tr>
<td>Valid N (list wise)</td>
<td>47</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
4.5.2 Factors Hindering Availability of Property Financing in Kenya

The study sought to identify whether availability of property financing is a factor that is key for a potential real estate investor. Likert scale was used where: 1 = Strongly disagree 2 = Disagree 3 = Agree 4 = Strongly agree. The results are indicated as shown in Table 4.9;

Table 4.9 reveals that the respondents agreed that financial institutions would prefer lending to salaried individuals as opposed to individuals without a steady income (3.47), real estate developers prefer building rental properties as opposed to properties for sale so as to be able to pay back the financial institutions (3.45), developers have to quote a high figure when selling their property so as to be able to pay back their loan and operating expenses (3.30) and lack of title deeds distributed in all regions has also affected financing for some properties (3.06). There was slight disagreement that most real estate investors prefer renting as opposed to buying houses (2.74).

Table 4.9: Factors hindering availability of property financing in Kenya

<table>
<thead>
<tr>
<th>Factor</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real estate developers prefer building rental properties as opposed</td>
<td>47</td>
<td>3.45</td>
<td>.619</td>
</tr>
<tr>
<td>to properties for sale so as to be able to pay back the financial</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>institutions</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial institutions would prefer lending to salaried individuals as</td>
<td>47</td>
<td>3.47</td>
<td>.584</td>
</tr>
<tr>
<td>opposed to individuals without a steady income</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Developers have to quote a high figure when selling their property</td>
<td>47</td>
<td>3.30</td>
<td>.587</td>
</tr>
<tr>
<td>so as to be able to pay back their loan and operating expenses</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lack of title deeds distributed in all regions has also affected</td>
<td>47</td>
<td>3.06</td>
<td>.704</td>
</tr>
<tr>
<td>financing for some properties</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash buyers are very few because of the high property prices</td>
<td>47</td>
<td>3.45</td>
<td>.544</td>
</tr>
<tr>
<td>Valid N (list wise)</td>
<td>47</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
4.6 Regression

Regression analysis was done to estimate the relationship between the challenges facing housing affordability and the affordability of housing. The findings are shown in Table 4.8 below;

Table 4.10: Regression Analysis

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Change Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>R Square Change</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>F Change</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>df 1</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>df2</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Sig. F Change</td>
</tr>
<tr>
<td>1</td>
<td>.653a</td>
<td>.427</td>
<td>.248</td>
<td>.436</td>
<td>.427</td>
</tr>
</tbody>
</table>

Regression analysis revealed a positive relationship 42.7% (R =0.427). The study also revealed that a combination of state of economy, interest rates, availability of property financing in Kenya, and geographical region of properties contributed to 73% of affordability of housing. The F value (2.383) changes are statistically significant which implies that the model is fit and robust.
4.7 Correlation Analysis
Correlation analysis was done to establish the relationship between the challenges facing housing affordability and the affordability of housing.

Table 4.11 Correlation Analysis

<table>
<thead>
<tr>
<th>Coefficients*</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
<th>95.0% Confidence Interval for B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td>t</td>
<td>Sig.</td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>2.729</td>
<td>.646</td>
<td></td>
<td>4.224</td>
<td>.000</td>
</tr>
<tr>
<td>Level of income</td>
<td>.468</td>
<td>.329</td>
<td>.468</td>
<td>1.421</td>
<td>.161</td>
</tr>
<tr>
<td>Interest rates</td>
<td>.363</td>
<td>.286</td>
<td>.364</td>
<td>1.268</td>
<td>.210</td>
</tr>
<tr>
<td>Availability of property financing in Kenya</td>
<td>.088</td>
<td>.285</td>
<td>-.096</td>
<td>-.309</td>
<td>.758</td>
</tr>
<tr>
<td>Geographical region of properties</td>
<td>-.104</td>
<td>.308</td>
<td>-.103</td>
<td>-.336</td>
<td>.738</td>
</tr>
</tbody>
</table>

\[ Y = 2.729 + 0.468X_1 + 0.363X_2 + 0.088X_3 - 0.104X_4 + \epsilon \]

Where \( Y \) is the affordability of housing and \( \epsilon \) is the error term of the model.

\[ X_1 = \text{level of income} \]
\[ X_2 = \text{Interest rates} \]
\[ X_3 = \text{Availability of property financing in Kenya} \]
\[ X_4 = \text{Geographical region of properties} \]

Positive effects were reported on level of income, interest rates, and availability of property financing in Kenya. Negative effect was reported on geographical region of properties.

ANOVA test was carried out to establish if the challenges were statistically significant and if it influence affordability of housing at 95% confident level. The results are indicated in Table 4.11.
Table 4.12 Anova

ANOVA*  

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>12.028</td>
<td>7</td>
<td>1.718</td>
<td>6.256</td>
<td>.013</td>
</tr>
<tr>
<td>Residual</td>
<td>26.009</td>
<td>8</td>
<td>3.251</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>38.037</td>
<td>15</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Analysis of Variance (ANOVA) consists of calculations that provide information about levels of variability within a regression model and form a basis for tests of significance. Significance exist between the response and predictor variables if P-value < 0.05. As shown in Table 4.12, P-Value = 0.013 < 0.05 indicated that there is enough evidence to support the alternative hypothesis, that there is a statistically significant linear relationship between the challenges facing affordability of housing and ability of a buyer to purchase property.

4.8 Chapter Summary

The findings on the factors that are key for a potential real estate investor revealed that real estate developers prefer working with large banks for individuals willing to take up mortgages (3.64) as the most influential factor while affordability of real estate market for every type of class was the least factor with a mean of 2.62. The main factor affecting affordability of housing in regarding geographical region of properties was that rental houses are more near learning institutions and work places as opposed to guarded estate communities (3.45) while the least factor was that potential buyers are reluctant on apartments constructed near the CBD which lack a garden (1.72). With regard to availability of property financing as a factor that is key for a potential real estate investor, the main factor indicated by the respondents was that financial institutions would prefer lending to salaried individuals as opposed to individuals without a steady income (3.47), while mortgage uptake is very low compared to cash buying (2.57) was the least factor.
CHAPTER FIVE

5.0 DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction
This chapter summarizes the major findings of the study. This study sought to find out challenges facing affordability of housing in Kenya. In addition, this chapter provides a direction for further studies and gives some recommendations for policy making by the relevant authorities. Questionnaires were used to gather primary data. The questionnaires comprised of both closed and open-ended questions and were strictly administered by the researcher. Both primary and secondary information was used to determine the findings of the study.

5.2 Summary
The study inquired on the challenges facing affordability of housing in Kenya. The respondents cited. The study attempted to answer the following questions; which is the preferable method of financing by most of the property buyers? What factors impact potential buyers from purchasing property in the Kenyan Market? Who do real estate property developers target in the market?

The study employed an exploratory research design which is defined as involving direct observation of behavior and querying on the current status hence looking for potential relations between variables as to why there is a rise in unaffordable housing in the country. The population took into account apartments completed and occupied along Mombasa Road, Kangundo Road, Langata Road and Thika Road that have a margin of thirty to eighty units. The samples size used was ten percent of the region, which gave a sample size of 47 respondents. The study adopted a non-probability sampling technique. Primary data collection was used and the data was coded and analyzed using the descriptive statistics, specifically mean, standard deviation to describe each variable under study. Coefficient of variation analyzed the variation of data. Data was collected using questionnaire. The data was analyzed using SPSS Version 21 tool.

The findings established that real estate developers prefer working with large banks for individuals willing to take up mortgages, buyer would prefer buying it on cash rather than taking
up mortgages and high income earners are able to afford to take up mortgage, government policies have contributed to rise in lack of affordable housing. Most people will prefer constructing their own home rather than buying an already constructed home, real estate market mortgages rates are very high compared to neighboring countries, and the real estate market growth has been affected largely due to developers targeting the large income earners in the society. The findings also established that real market estate hinders one from owning a home due to developers targeting the large income earners in the society.

The factor affecting affordability of housing in regarding geographical region of properties was that rental houses are more near learning institutions and work places as opposed to guarded estate communities, residential developments being constructed currently are far from the CBD, and lack of available land near the CBD has led to real estate developers developing in remote areas. The study also established that potential buyers prefer a property nearer the CBD as opposed to property far from the CBD and lack of title deeds distributed in all regions has also affected real estate sector from growing.

The findings also established that financial institutions would prefer lending to salaried individuals as opposed to individuals without a steady income, real estate developers prefer building rental properties as opposed to properties for sale so as to be able to pay back the financial institutions, levies charged on mortgages affects loans uptake, and cash buyers are very few because of the high property prices. Mortgage uptake is low as most of the interest rates payable by mortgage financiers is high, developers have to quote a high figure when selling their property so as to be able to pay back their loan and operating expenses, mortgage uptake is low due to the qualifications required by most financial institutions, and lack of title deeds distributed in all regions has also affected financing for some properties.

5.3 Discussion

5.3.1 Factors that are Key for a Potential Real Estate Investor

The findings established that real estate developers prefer working with large banks for individuals willing to take up mortgages (mean=3.62, sd=0.49), buyer would prefer buying it on cash rather than taking up mortgages and high income earners are able to afford to take up
mortgage, government policies have contributed to rise in lack of affordable housing. Most people will prefer constructing their own home rather than buying an already constructed home, real estate market mortgages rates are very high compared to neighboring countries, and the real estate market growth has been affected largely due to developers targeting the large income earners in the society. The findings also established that real market estate hinders one from owning a home due to developers targeting the large income earners in the society. GOK (2004) states that the high rates of mortgages have shielded more than 90% of the population to be able to take up mortgages. This is clear from the research that more potential real estate investors prefer purchasing homes in cash rather than taking up mortgages which are very high as compared to our neighboring countries.

This is in agreement with the argument of several studies for example Gichunje (2001) argued that housing development situation has been skewed in favor of high income earners as most developers and housing financiers always target high income population because of the perception that they can rent houses or take up mortgages and repay comfortably. Local land use and development regulations have undermined the goals of affordable housing policy, whether intentionally or not (Mustapha, 2002). Many regulations that raise the cost of housing development have legitimate goals, such as protecting health and safety or preserving farmland. Local governments need not abandon these goals, but they can and should reassess their regulatory policies to ensure that they allow for the development of more affordable rental and homeowner housing (Ibem & Amole, 2010).

Fraser (2006) supports that all type of investors deem that real estate is an important type of asset class to have. It’s clear from the research that the response that there is a shortage on supply of property that target every type of class in the society (mean=2.62, sd=0.64). According to Tovrov (2011) there more informal dwellings as a result of real estate developers targeting the high and middle income earners, this leave the low income earners barely unable to afford homes. Most low income earners will hence result to renting rather than purchasing homes as a result.
Roack Consult Limited (2013) argues that most people would prefer constructing their own home rather than purchasing an already constructed property. The need to make construction loans more easily accessible to the population will be a step to improving the real estate sector (GOK, 2011). The study was able to agree with this conclusion as most respondents agreed that they would prefer building their own homes rather than buying already constructed properties (mean=3.30, sd=0.75).

It is clear that most apartment buildings are either owned by corporates or a few investment firms. They are mostly built by the investors for them to gain rental income as opposed to investors living in them (GOK, 2011). The research findings were that most real estate investors build properties to gain a rental income rather than selling of properties. The cost of selling an apartment is too high due to the cost that the developers incur upon completion of the project hence most developers prefer building rental income generating properties (Roack Consult Limited, 2013).

Potential buyer rejecting new forms of technologies is also a contributor to the sluggish growth in real estate development (Nahinga, 2007). The research findings were that the population is not really opposed to the current form of technologies but there still a bit hesitant, though they did not totally agree that resistance on new forms of technologies is a key factor to them acquiring property (mean=2.85, sd=0.86).

The findings establish that real estate developers prefer working with large banks for individuals willing to take up mortgages hence most of potential real estate investors who are customers to the small banks are unable to take up mortgages (mean=3.64, sd=0.49). The research findings were clear that this was the key factor to potential investors.

5.3.2 Geographical Region of Properties in Kenya

The factor affecting affordability of housing in regarding geographical region of properties was that rental houses are more near learning institutions and work places as opposed to guarded estate communities, residential developments being constructed currently are far from the CBD, and lack of available land near the CBD has led to real estate developers developing in remote
areas. The study also established that potential buyers prefer a property nearer the CBD as opposed to property far from the CBD and lack of title deeds distributed in all regions has also affected real estate sector from growing.

The findings agrees with Balchin et al. (2000) that location plays a critical role in the effectiveness of rental-assistance programs. A growing body of research now indicates that living in a high-poverty neighborhood can undermine the well-being of families and children, and that affordable housing alone cannot revitalize a distressed neighborhood. According to Hassanali (2009) low income housing projects are sited in areas of low land cost and high density building permissibility. This allows reduction of the land cost constituent of each residential component, facilitating sale at lower prices. In looking for areas with lower land costs, developers have had to undertake low income housing schemes in locations that are peripheral to urban centers where benefit is gained from the nearness to cities but land costs are significantly lower (Hassanali, 2009).

The geographical region of a property is one of the key factor to potential investors (Owiro, 2011). The findings clearly agreed with this as the response was that geographical region of a property really mattered as well as the type of houses constructed. The findings established that rental houses are more common near learning institutions as opposed to gated communities.

Roack Consult Limited (2013) argues that some of the reasons as to why geographical location of properties really matter is due to the requirements under The Physical Planning Act No. 286. It requires the approval of any development proposal before it is implemented whereby the approving authority is required to consider the applicable physical plan, health concerns and the welfare of the community (mean=3.40, sd=0.58). This might be the reason why property developers would prefer to build in remote sites as the chance for the project to be approved are high as they may not infringe on any of the act as well as that there is only limited amount of land closer to the CBD.

The research findings totally disagreed with the fact that potential investors are reluctant on purchasing apartment blocks closer to the CBD which lack a garden. This agrees with the fact
that people are embracing new forms of properties and technology. The findings also agreed that the current developments are far from the CBD though potential investors did not find this a major factor to hinder them from investing in real estate (mean=3.32, sd=0.59).

Lack of available amenities such as water and electricity has directly affected the real estate market (GOK, 2011). Improving housing is a major concern to the government and the need to provide adequate shelter across the regions is strategically important (Munda, 2014). The research findings did not totally agree that amenities across all regions hinder growth in the real estate market but it’s a contributor to its sluggish growth (mean=2.70, sd=0.88).

The findings on the research also note that properties near the CBD are more expensive compared to the ones located in remote areas (mean=3.43, sd=0.54). This agrees with the government which indicated that the high cost of property is largely dependent on the property developers and valuer’s who have constantly stated that the cost is attributed due to the high land rates and cost of servicing land (Owiro, 2011).

The findings also noted that approvals from authorities before commencement of the project did not hinder the sluggish growth of the real estate market but was a key contributor (mean=2.85, sd=0.78). Owiro (2011) argues that the government has tried to remedy the high land rates by issuing incentives in form of tax waivers and subsidies as well as welcoming low income housing projects. The lack of a definite regulator unlike other investment securities is also a major hindrance as some of the projects stall due to fraud on most title deeds (GOK, 2011).

5.3.3 Availability of Property Financing in Kenya

The findings also established that financial institutions would prefer lending to salaried individuals as opposed to individuals without a steady income (mean=3.47, sd=0.58), real estate developers prefer building rental properties as opposed to properties for sale so as to be able to pay back the financial institutions, levies charged on mortgages affects loans uptake, and cash buyers are very few because of the high property prices. Mortgage uptake is low as most of the interest rates payable by mortgage financiers is high, developers have to quote a high figure when selling their property so as to be able to pay back their loan and operating expenses,
mortgage uptake is low due to the qualifications required by most financial institutions, and lack of title deeds distributed in all regions has also affected financing for some properties. The research found out that these was a major hindrance to growth of real estate market as most individuals are in the informal sector and the salaried individuals only a few of them are capable to take up mortgages. Mbogo (2011) concurs that the Kenya integrated housing budget survey of 2005/2006 depicted that only 4.2 percent of Kenyans are able to build or borrow money to build a home.

A lack of public finances can also impede the state or local authorities in providing appropriate levels of infrastructure or public equipment to housing projects. Lastly, other common problems that developers face are the cost and availability of inputs including skilled labour, primary infrastructure (sewerage, access roads, and electricity) and raw materials, which often have to be imported or are difficult to source in bulk in emerging markets (Olotuah, 2010). Subsidizing the rents for existing units is much less costly than building new units, and can help stabilize a faltering housing market, enable low-income households to compete in a tight market, provide struggling landlords with sufficient rent revenues to maintain their properties, and prevent rental units from deteriorating and dropping out of the housing stock (Hassanali, 2009).

The findings established that mortgage intake is low due to the qualifications required by most financial institutions (mean=3.28, sd=0.64). Roack Consult Limited (2013) concurs that current lending rates in the market are too high hence affecting monthly payments hence the need to move rates to single digits which will hence increase the uptake of mortgages.

The findings established that real estate developers are targeting more rental income properties as opposed to properties for sale so as to be able to pay back the financial institutions (mean=3.45, sd=0.62). Roack Consult Limited (2013) concurs that current high land prices and cost of infrastructure has led to developers need to make a quick return from the projects developed hence more rental properties as opposed to properties for sale.

The research also depicted that real estate developers quote very high figures on properties built for sale so that they can be able to payback their financier and operating expenses and still get a
great margin (mean=3.30, sd=0.59). McLennan (1982) concurs that the current demand for housing still far outstrips the supply and due to the high rate of urbanization there is an increase in poverty and escalation of housing costs and prices by property developers. The government also does not help at all as there are no or very little subsidies to low income earners as compared to South Africa (Mbogo, 2011).

The findings established that cash buyers are also very few due to the higher cost of property prices. Cash buyers are only found in the high end market which accounts for 20 to 30 percent of all transactions in the market (Kangethe, 2014). The study established that most potential buyers are only able to own properties by taking up mortgages. It is clear that potential investors want to own properties but financing is crucial hence agrees with Hass Consult (2013) states that the current state of Kenyan real estate market has made it twice expensive to make mortgage payments. The findings also established that potential investors are also shy of taking mortgages as a means of finance as the levies charged on them make it quite expensive and unattractive for one to willingly take up a mortgage (mean=3.45, sd=0.62). It is quite clear from the research that the main hindrance in the real estate market is the means of financing as well as the cost of properties.

5.4 Conclusions

5.4.1 Factors that are Key for a Potential Real Estate Investor

The study concluded that real estate developers prefer working with large banks for individuals willing to take up mortgages. Buyers would prefer buying it on cash rather than taking up mortgages and high income earners are able to afford to take up mortgage, government policies have contributed to rise in lack of affordable housing. Most people will prefer constructing their own home rather than buying an already constructed home, real estate market mortgages rates are very high compared to neighboring countries, and the real estate market growth has been affected largely due to developers targeting the large income earners in the society.
5.4.2 Geographical Region of Properties in Kenya
The study concluded that rental houses are more near learning institutions and work places as opposed to guarded estate communities and residential developments being constructed currently are far from the CBD. The study also concluded that lack of available land near the CBD has led to real estate developers developing in remote areas and that potential buyers prefer a property nearer the CBD as opposed to property far from the CBD and lack of title deeds distributed in all regions has also affected real estate sector from growing.

5.4.3 Availability of Property Financing in Kenya
The study concluded that availability of property financing in Kenya affects affordability of housing. People prefer lending to salaried individuals as opposed to individuals without a steady income. The real estate developers prefer building rental properties as opposed to properties for sale, levies charged on mortgages affects loans uptake, and cash buyers are very few because of the high property prices. Mortgage uptake is low because interest rates payable by mortgage financiers is high. The study also concluded that developers have to quote a high figure when selling their property so as to be able to pay back their loan and operating expenses, mortgage uptake is low due to the qualifications required by most financial institutions.

5.5 Recommendation
5.5.1 Recommendation for Improvement
Based on the findings of this study, the following section provides the recommendations for improvement with reference to the research objectives.

5.5.1.1 Factors that are key for a potential real estate investor
Real estate developers should work closely with Commercial banks in Kenya to provide mortgages at reduced interest rates. The developers should target both low and high income earners. Since most people prefer constructing their own home rather than buying an already constructed home, banks should support by providing loans. Real estate market mortgages rates should be reduced to enable low income earners in the society to afford houses.

5.5.1.2 Geographical Region of Properties in Kenya
Rental houses should be increased near learning institutions and work places as opposed to guarded estate communities. This is because majority prefer living next to commercial centres.
Real estate developers should develop in remote areas as it will open new opportunities. Title deeds distributed in all regions should be provided to enhance affordability of housing.

5.5.1.3 Availability of Property Financing in Kenya
Other methods of property financing should be embraced so as to be able to cater for individuals who are not salaried. Financing such as bridge financing should also be embraced by financial institutions so as to have flexibility when purchasing new homes. Group home financing is also a way that people can be able to afford homes as a group i.e. by a number of individuals contributing and owning equity to a home where eventually they earn a rental income that helps them purchase more houses, eventually this will lead to them owning many homes.

5.5.2 Recommendations for Further Studies
The study suggests that future research could conduct a research on challenges of low-cost housing in Kenya. Low-cost housing is a potential area for further research studies in developing countries of the world.
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APPENDIX

APPENDIX I: QUESTIONNAIRES
This study is a requirement for the partial fulfillment for the degree of Masters in Business Administration (MBA). The purpose of this research is to determine the challenges contributing to unaffordable housing in Kenya Real Estate market. Please note that any information you give will be treated with confidentiality and at no instance will it be used for any other purpose other than for this project. Your assistance will be highly appreciated. I look forward to your prompt response.

SECTION A: BIO-DATA
Kindly answer all the questions by ticking in the boxes or writing in the spaces provided.

1. What gender are you: Male ☐ Female ☐

2. What is your age range?
   - 18-28 years ☐
   - 29-39 years ☐
   - 40-50 years ☐
   - Above 50 years ☐

3. Educational Level
   - Secondary school ☐
   - College level ☐
   - Undergraduate level ☐
   - Graduate level ☐

4. Are you currently employed?
   - Yes ☐ No ☐

5. How long have you been working?
   - Less than 5 years ☐
   - 5-10 years ☐
   - 11-15 years ☐
   - Above 15 years ☐

6. Management Level
   - Managerial ☐
   - Non-Managerial ☐

7. Where do you currently live?
   - ☐ Along Mombasa road
   - ☐ Along Kangundo road
   - ☐ Along Langata road
   - ☐ Along Thika road
**SECTION B: Factors that are Key for a Potential Real Estate Investor**

Please tick the extent to which you agree with the following statements by using a scale of 1 to 4 where 1= strongly disagree and 4 = strongly agree. Circle (O) which best describes your opinion of the statement.

<table>
<thead>
<tr>
<th>Factors that are Key for a Potential Real Estate Investor</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. The real estate market is affordable for every type of class?</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>2. The real estate market hinders one from owning a home due to the current qualifications for a mortgage?</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>3. The real estate market growth has been affected largely due to developers targeting the large income earners in the society?</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>4. Do you think government policies have contributed to the rise in lack of affordable housing?</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>5. As a potential real estate buyer you would prefer buying it on cash rather than taking up a mortgage?</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>6. Only high income earners are able to afford to take up a mortgage?</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>7. Real estate developers prefer working with large banks for individuals willing to take up mortgages?</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>8. The real estate market mortgage rates are very high compared to neighboring countries?</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>9. The real estate market is affected due to potential buyer’s rejection on using the innovative technologies such as SSB blocks?</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>10. Most people will prefer constructing their own home rather than buying an already constructed home?</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>11. Bungalows are highly preferred for residential purpose when buying a home rather than apartments?</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>12. Apartments bought by investors are ideal to rent out as opposed to investors living in?</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
</tbody>
</table>

13. What other factors not mentioned above, influence the status of Kenyan real estate market?
SECTION C: Geographical Region of Properties in Kenya

Please tick the extent to which you agree with the following statements by using a scale of 1 to 4 where 1= strongly disagree and 4 = strongly agree. Circle (O) which best describes your opinion of the statement.

<table>
<thead>
<tr>
<th>Geographical Region of Properties in Kenya</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Does the geographical region when purchasing a property really matter?</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>2. As a potential buyer you would prefer a property nearer the CBD as opposed to property far from the CBD?</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>3. Properties nearer the CBD are more expensive compared to property far off?</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>4. Rental houses are more near learning institutions and work places as opposed to guarded estate communities?</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>5. Lack of available land near the CBD has led to real estate developers developing in remote areas?</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>6. Residential developments being constructed currently are far from the CBD?</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>7. Potential buyers are reluctant on apartments constructed near the CBD which lack a garden?</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>8. Lack of available amenities i.e. water across the counties in Kenya has directly affected the market?</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>9. Lack of title deeds distributed in all regions has also affected real estate sector from growing?</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>10. Approvals from authorities needed before commencing a structure has led to a sluggish growth as some are done by the county while others are issued by national authorities</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
</tbody>
</table>

11. Which region would be ideal for you to live in if you were to purchase a home?

☐ Along Mombasa road
☐ Along Kangundo road
☐ Along Langata road
☐ Along Thika road

12. What other factors not mentioned above, influence the geographical location when building a residential home?
SECTION D: Availability of Property Financing in Kenya

Please tick the extent to which you agree with the following statements by using a scale of 1 to 4 where 1= strongly disagree and 4 = strongly agree. Circle (O) which best describes your opinion of the statement.

<table>
<thead>
<tr>
<th>Availability of Property Financing in Kenya</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Mortgage uptake in the country is very low as compared to cash buying?</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>2. Most real estate investors prefer renting as opposed to buying houses?</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>3. Mortgage uptake is low due to the qualifications required by most financial institutions?</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>4. Real estate developers prefer building rental properties as opposed to properties for sale so as to be able to pay back the financial institutions?</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>5. Financial institutions would prefer lending to salaried individuals as opposed to individuals without a steady income?</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>6. Developers have to quote a high figure when selling their property so as to be able to pay back their loan and operating expenses?</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>7. Mortgage uptake is low as most of the interest rates payable by mortgage financiers is high?</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>8. Levies charged on mortgages affects loans uptake?</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>9. Lack of title deeds distributed in all regions has also affected financing for some properties?</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>10. Cash buyers are very few because of the high property prices?</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
</tbody>
</table>

11. What other factors not mentioned above, influence the availability of property financing?