

Research Article

Influence of Off-Plan Purchases and Sales on Performance of Real Estate Development Projects in Kilimani, Westlands Sub County, Nairobi County, Kenya

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Abstract: Foreign investors have been focusing on the real estate sector with investors from China, India and other countries increasingly investing in high-rise buildings across the country especially in Nairobi County. However, as noted by previous reports, the performance of real estate projects has been dropping significantly in the recent past with most of the buildings remaining stagnant for years. This is despite the recorded increase in foreign direct investment and most recently the focus by the government on housing as one of the big-four agendas. It is on this background that the study seeks to answer the question; what is the influence of off-plan sales and purchases in the foreign direct investment on the performance of real estate development projects? Descriptive research design was used while the target population was the real estate companies in Kilimani area, Nairobi County. There are 48 registered real estate companies in this area. The units of observation were the directors, finance officers and investment managers from the 48 companies. This made a total of 144 respondents. Purposive sampling method was employed where the company directors, finance officers and investment managers will be purposively picked. The data was collected using structured questionnaires and analyzed through descriptive and inferential statistical analysis techniques. The findings revealed that off-plan sales and purchases significantly and positively influenced the performance of real estate development projects in Kilimani area, Westlands Sub-County. Government policy was also found to significantly moderate the relationship between foreign direct investments and performance of the real estate development projects. The study concluded that through off-plan sales and purchases, the real estate development projects performance better.

Keywords: Real Estate, Off-plan sales and purchases, Foreign Direct Investment, Project Performance.

1.0 Introduction

Background of the Study

In the modern business environment, manager and investors are coming up with various strategies to steer the sustainability, growth and performance of their businesses. One of these strategies that is mainly utilized by companies property and real estate sector is the off-plan sales and purchases. This is a strategy that entails having customers subscribe to the projects or programmes that are yet to be completed at a lower rate than compared to the market rate. This is meant not only to attract customers but also to raise funding for the ongoing projects. Isthmus (2010) defines off plan purchase as the buying of property before works have begun or before the actual works have been completed. The buyer has the option of either making judgments on what to purchase from the unfinished house or from plans, maps and computer generated images of proposed development project of housing (Bhaskar, Krishnan, & Yu,

2017). This form of acquisition applies both to plots and houses. The buyer gets to buy the house by paying a deposit or providing the developer with a letter of credit before the project starts and signs a contract with the developer binding him to pay the remaining balance as a lump sum or in installments according to the terms and condition of the contract.

In off plan purchase usually the subdivision of land has not occurred and the certificates of title have not yet been issued by the Ministry of Lands. The issuance of certificate of title to the buyer occurs upon settlement of outstanding monies owed to the developer.

According to Mugendi (2012), the difference between an off-the-plan and a customary property buy is that individuals purchasing an established property can review the property before signing an agreement to purchase. This implies they can get a 'feel' of the property and check whether it is reasonable for their requirements. Individuals who purchase off-the-plan are some of the time restricted to survey promoting material or a longing idea given by the developer. In these cases, the purchaser needs to depend on the demonstrable skill, competency and trustworthiness of the developer, and the terms of the agreement, to guarantee the task is finished on time, and to an adequate quality.

In the sale agreement for an off-plan property, the developer promises to deliver a development/housing unit together with all the stipulated amenities to a buyer at an agreed price at a future date, subject to the developer obtaining all necessary approvals in respect of the development from the relevant authorities and satisfying any conditions necessary to finalize the development (Cytonn Investments, 2016). Bardhan and Kroll (2017) in their survey on the relationship between globalization and real estate industry showed that service firms for real estate firms and brokerage firms for residential real estate in the US follows MNCs to developing nations to provide residential real estate services for expatriate population. Based on their findings it can be said that as MNCs expand their operation in the host nation, they contribute to an inflow of Foreign real estate firms into the host country looking to capture the additional demand they create (He and Zhu, 2010). Inflow of Foreign real estate investment in the host country's real estate sector increases the level of foreign investment in the host nation further contributing to the level of competition and supply of housing in the host country's real estate sector (Fereidouni and Masron, 2012).

In the current diplomatic world, Foreign Direct Investment (FDI) is on the rise with international investors highly eyeing the emerging markets to lay ground for investments and expand their multinationals. This also has seen individual investors expand their operations to the emerging markets and one of the key areas of focus has been the real estate sector. Through flux of foreign investors in the developing markets including Kenya, the real estate sector has seen continued expansive growth and development. Generally, foreign direct investment and real estate relationship has been viewed in the same light with the sector being lesser risky (Waldron, 2018), higher returns (Battisti, Creta, & Miglietta, 2020) and the emphasis by the government to the foreign investors to focus high value investments.

Statement of the Problem

Off-plan sales and purchases has been considered as a key dimension towards finding the real estate development projects. The real estate development projects has been a key economic driver not only in Kenya but in many countries across the globe. Locally, the sector has seen tremendous transformation especially with the continued flux of foreign investors and focus by the Kenyan government to the real estate sector through the national housing programme (GOK, 2019). The performance of the real estate projects however has not been appealing

especially with dynamics such as economic instability, currency fluctuation, increase in the costs of materials and the policy changes. This has seen many real estate development projects in the country record low rate of completion and compromised quality of projects as evidenced by increased collapse of buildings claiming lives.

Considering the increased dynamisms in the real estate sector, studies have proposed different revival mechanisms such as off-plan sales and purchases (Andrew, & Larceneux, 2019; Oyedele, 2018; Goodfellow, 2017; and Ocircan, 2019). Off-plan sales and purchases refer to the process of purchasing property before it is completed. This is one of the approaches in the FDI which has its risks and advantages. There has been complaints in the country over the past five years of increased risks associated with off-plan sales and purchases, a case of two local companies (Suraya Ltd and Gakuyo Real Estate Ltd) where investors paid through off-plan for property which was never to be (Wafula & Ng'ang'a, 2019; and Michiri, 2017). In a local context, it is yet to be academically proven on the role played by the off-plan sales and purchases on the performance of the real estate projects especially in the view of foreign direct investments. This paper therefore sought to fill the existing gaps by assessing the influence of off-plan sales and purchases on the performance of real estate development projects in Kenya.

Objectives

- 1) To establish how off-plan purchases and sales influences performance of real estate development projects in Kenya;
- 2) To assess how government policy moderates the relationship between off-plan purchases and sales and performance of real estate development projects in Kenya.

2.0 Literature Review

Theoretical Framework

The study was informed by the Arbitrage Pricing Theory (APT). The theory was first developed by Ross Alan Stephen in 1976. The theory considers that markets are competitive and that individuals homogeneously believe that the linear structure of risk drives the returns of all assets in the economy. The APT model represented an answer to criticizes suffered by the popular Capital Asset Pricing Model. CAPM establishes a linear relation between the excess assets' return and a single risk factor—the excess return on the market portfolio. It assumes that all assets can be held by an individual investor.

Although it can be considered a particular case of APT, the theoretical construction of CAPM requires normality of returns or quadratic utility function, what isn't always easy to justify. Besides, it can be proved that any mean-variance portfolio satisfies exactly the CAPM equation. However, the true set of all investment opportunities would include everything with worth (Sharpe & Cooper, 1972). Risk factors (in the APT) emanate from changes in some fundamental economic and financial variables. APT theory is applicable in this research in that real estate markets are competitive and that individuals homogeneously believe that the return of all real estate assets in the economy are driven by a linear structure of risk factors.

Performance of Real Estate Development Projects

The real estate sector is vital to the economy for the part it plays in the country's not only for the physical structures but for the growth of the whole state and multiple economic (Sorina, 2014). The properties pricing are vital as they are used to predict the economic growth of the nation (Scatigna, Szemere and Tsatsaronis, 2014). They are also vital to other sectors of the economy especially the financial markets which put their collateral on the advanced funds to

its clients on them in cases of default. Ren (2016) analyzed the impact of property market investment on GDP and found that the study variables are directly correlated. Jackman (2010) carried out the analysis of the property market construction and GDP where the results were ambiguous. Sorina (2014) posits that real estate market strongly influence the entire economy. According to Gaspareniene, Venclauskiene and Remeikiene (2014), supports that the growth or decline of real estate sector considerably affects the general growth or decline of a country's economy.

Kong, Glascock and Lu-Andrews (2016) in their research on the impact of properties market on economic performance in Asian content where their study findings revealed an existence of a significant and direct correlation among the study variables. Zhang, Wang and Zhu (2012) examined association linking real estate investment on GDP among the Asian countries where the study results revealed a strong direct association among the study variables.

Off-Plan Sales and Purchases and Performance of Real Estate Projects

Kioleoglou (2015) analyses whether purchasing off-Plan was the most efficient way of investing in real estate. It was noted that during the last decades, markets around the globe have been attempting elective approaches to back tasks. In real estate development, there have been a few alternatives to raise adequate funds for such ventures. Bank Loans, value reserves, are probably the most well-known among others. The choice however that most developers appear to incline toward is "off plan sales". Kioleoglou (2015) further notes that other than the apparent dangers of a developer who might discontinue from business before the construction of the development is completed and the purchaser being unable to recuperate the deposit progressive, the option of decline in property values before completion of the construction is an issue to be considered.

According to Isthmus (2010), property developers in the United Kingdom sell off-plan properties at a discount to potential buyers in a bid to attract financing for their developments and to compensate the investors for potential construction risks. Further, buyers have alternative to insurance funds in case the developers fail to complete their projects or be bankrupt. Isthmus (2010) notes that 'caveat emptor' (meaning let the buyer beware), is the market doctrine for buyers of units in off-plan developments. Though, participants in the market are aware of the risks intrinsic to in purchasing and vending off-plan and the regulations laid for property development.

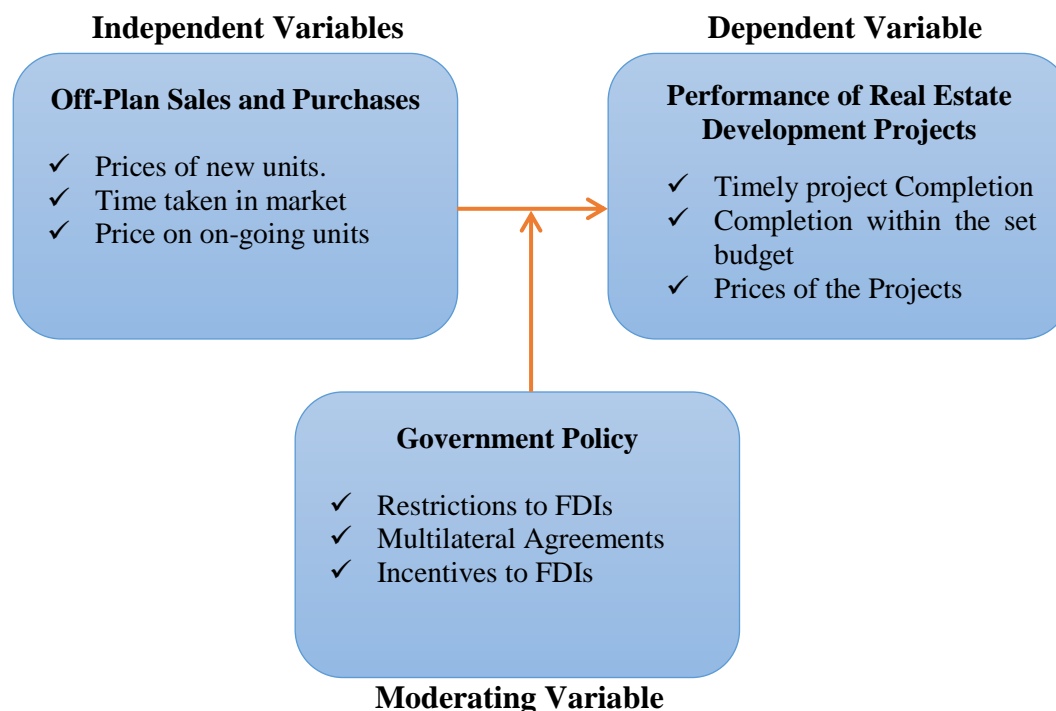
Government Policy and Performance of Real Estate Projects

The major aspects of government policy attached to FDI include the restrictions, the openness of the borders as well as internal policies aimed at providing guidelines on how FDI are carried out with limitations and benefits. The openness of a country to FDI is primarily assessed in terms of policies that create (or eliminate) border barriers for investors, measured by indicators of statutory restrictions to FDI and multilateral agreements that create areas of free trade and/or capital movements among signatory countries. However, tariff and non-tariff barriers to trade in goods and services are also considered, because they may affect the choice of MNEs between exporting and investing abroad as well as the choice between horizontal and vertical FDI.

Tariff barriers can also indirectly affect bilateral FDI relationships. Vertical FDI aimed at re-importing to the home country or exporting to third-party countries the final or intermediate goods produced by foreign affiliates can be depressed by high bilateral tariffs between the

host and investor country or between the host and third-party countries. On the other hand, high bilateral tariffs can generate so-called “tariff-jumping” behaviour by MNEs (Sauve and Steinfatt, 2003).

Conceptual Framework



3.0 Research Methodology

The study used a descriptive survey research design. This is a study design that systematically describes the characteristics of the study objects in all aspects. It gives a wide range of information on the research phenomenon that the research seeks to focus on (Babbie, 2012). The target population for this study was real estate companies in Kilimani area, Westlands Sub-County, Nairobi County. According to the Nairobi City County and the real estate agents board, there are 48 real estate companies in Kilimani area, Westlands Sub-County. The study specifically targeted the company directors and finance/investment personnel in the 48 companies.

The sample size for the study was specifically drawn from the directors and finance officers and investment managers. This totaled to a sample size of 144 respondents. A purposive sampling was used where a director, a finance officer and an investment manager from each of the 48 companies were surveyed. This totaled to 148 respondents for the study. According to Creswell (2013), a purposive sampling helps the researcher to obtain the appropriate respondents who are more familiar with the research subject. A self-administered questionnaire was used to collect the primary data. Questionnaires were dropped at the respondent's working places through use of research assistants and the researcher who also picked the questionnaires at an agreed date. The study used both qualitative and quantitative data analysis techniques to analyse the collected data. Descriptive statistics were used to analyse the quantitative data. Under the descriptive statistics, mean, standard deviation, percentages and frequencies were used which were generated by use of Statistical Package for Social Sciences (SPSS). The findings were presented in form of frequency tables which are easily interpretable and thus making the findings profound. The correlation between the

variables was tested through use of ANOVA, P-values and regression coefficients.

4.0 Findings

Response Rate

A response rate of 81.3% was achieved where 117 respondents gave back their questionnaires dully filled for analysis. This therefore makes the study appropriate to make conclusions and recommendations.

Off-Plan Sales and Purchases

The study sought to examine the influence of off-plan sales and purchases on the performance of real estate development projects in Kilimani area, Westlands Sub-county. The respondents were asked to indicated their levels of agreement or disagreement with specific statements on off-plan sales and purchases based on a 5-point Likert's scale. The findings are as shown in Table 1.

The findings revealed that off-plan sales and purchases was upheld in most of the surveyed companies and that through off-plan sales and purchases, most of the companies were able to enhance the success of their projects. The findings concur with those by Kioleoglou (2015) who found out that though off-plan sales and purchases, the companies are able to finance their projects effectively and through cheaper means thus enhancing their success.

Table 1. Descriptive Statistics on Off-plan Sales and Purchases

| Statement | Mean | Std. Dev. |
|--|------|-----------|
| The company has set prices of new units where the customers are asked to pay upon completion | 3.94 | 1.14 |
| The interests rates set when pricing the new units are competitive and significant for raising adequate profits | 3.91 | 1.27 |
| Our company carries out market analysis to ensure the prices of the new units are competitive | 3.85 | 1.17 |
| Our completed projects take a reasonable time before they are completely sold out | 3.98 | 0.92 |
| There are strategies taken in place such as early marketing to speed the sale of the completed units and reduce the time taken in market | 3.54 | 1.03 |
| There is adequate risk assessment by the company's management before getting into off-plan sales and purchases to minimize losses | 3.78 | 0.88 |
| The completion duration of the projects has been a key factor in setting prices and investing in off-plan sales and purchases | 3.67 | 0.95 |
| The management considers the price of the on-going projects when entering into off-plan sale and purchases agreements | 3.97 | 0.94 |
| The time taken by the competed units on the market before they are soled is reasonable and manageable | 3.56 | 1.07 |
| Through off-plan sales and purchases, our company has been able to enhance the success of its projects | 3.74 | 0.92 |

Government Policy

The study sought to establish the moderating effect of government policy on the relationship between Foreign Direct Investment and the performance of real estate development in Kilimani area, Westlands Sub-County.

The findings revealed that majority of the respondents felt that the minimization of the restrictions by the government on FDIs had enhanced the contribution and availability of foreign investors in the real estate sector and the most of the foreign investors had complied with the government regulations and policies.

Majority of the respondents indicated that the time taken to obtain completion and occupation certificates affected the success of the real estate projects as evidenced by a mean of 4.11 and a standard deviation of 0.82.

According to Golub (2003), government policies influence the way of doing business such as the duration of approvals, easy of obtaining licenses and other operational requirements.

Table 2. Descriptive Statistics on Government Policy

| Statement | Mean | Std. Dev. |
|--|------|-----------|
| The restrictions by the government on FDIs have enhanced the contribution and availability of foreign investors in the real estate sector | 3.94 | 0.94 |
| There are fewer restrictions for new entrants into FDIs to encourage their investments | 3.84 | 0.92 |
| Most of the foreign investors in our company have complied with the government regulations and policies | 3.42 | 0.98 |
| The multilateral agreements between the government and other governments is friendly and has led to increase in FDIs | 3.90 | 0.98 |
| The foreign investors in our company are majorly as a results of multilateral agreement between the Kenyan government and their respective governments | 3.80 | 0.73 |
| The foreign investors in our company have received incentives from the government which have influenced their continued investment in real estate | 4.07 | 0.82 |
| The government policy has played a significant role in determining the extent of FDIs and their contribution to the real estate projects | 3.68 | 1.03 |
| The time taken to obtain building plan approvals from county governments affects the completion of the projects | 3.64 | 1.05 |
| Time taken to obtain completion and occupation certificates affects the success of the real estate projects | 4.11 | 0.82 |

Performance of Real Estate Development Projects

The study sought to assess the performance of real estate development projects in Kilimani area, Westlands Sub-county. The respondents were asked to indicate their level of agreement on specific statements on project performance based on Likert's scale. As the findings portray, majority of the respondents agreed that most of the projects in their respective companies had been completed within the set timelines and that the number of projects completed by their respective companies had increased over time.

Table 3. Descriptive Statistics on Performance of Real Estate Projects

| Statement | Mean | Std. Dev. |
|--|------|-----------|
| Most of the real estate projects in our company have been completed within the set timelines | 4.00 | 0.92 |
| There has been an increase in the number of projects completed by our company over the last five years | 3.94 | 0.90 |
| The company has more recorded an increase in the sold units over the last five years | 3.93 | 0.87 |
| Majority of the real estate projects by our company have been completed with the set budget | 4.11 | 1.03 |
| The real estate projects completed by our company meets the quality expectations of our customers | 4.23 | 0.89 |
| There are more investors willing to enroll in our company due to the outstanding performance record | 3.94 | 1.08 |

Regression Model Coefficients

The regression coefficients of the model are as shown in Table 4. The findings revealed that the Beta (β) coefficient for off-plan sales and purchases was 0.215. This implies that a unit change off-plan sales and purchases leads to 21.5% increase in the performance of real estate development projects.

To enhance the sale of the completed units, most of the companies ensured that the prices of the units were competitive through assessing the market price from the competitors. The analysis of the regression model revealed that off-plan sales and purchases had positive and significant influence on the performance of real estate development projects in Kilimani area, Westlands Sub-County.

Table 4. Coefficients

| Model | | Unstandardized Coefficients | | Standardized Coefficients | T | Sig. |
|--|------------------------------|-----------------------------|------------|---------------------------|-------|------|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | -2.064 | 2.574 | | -.802 | .424 |
| | Off Plan Sales and Purchases | .215 | .104 | .156 | 2.062 | .006 |
| A. Dependent Variable: Performance Of Real Estate Development Projects | | | | | | |

Conclusion

The study concluded that off-plan sales and purchases had a significant influence on the performance of the real estate development projects. Through setting competitive and effective process on the new units as well as those of the on-going projects, off-plan sales is enhanced thus availing funds for the companies to complete the on-going projects and start new projects.

Recommendations

The real estate companies through their management can enhance the performance of their development projects through maximizing on off-plan sales and purchases. The management ought to set prices on completed units and those of the ongoing prices. This will encourage customers to participate in off-plan sales and purchases thus providing funding for the companies to complete their projects effectively and timely.

The government ought to speed the process of licensing the real estate companies and offering compliance and completion certificates as a move towards enhancing the ability of these companies to implement their projects timely as well as enhancing the timely sales of the completed units. The government should be supportive to these companies since they also play a critical role in economic growth and development.

Conflicts of interest: None

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