REAL ESTATE MARKET MATURITY AND ATTRACTIVENESS IN RWANDA AND KENYA – INTERNATIONAL INVESTORS' PERSPECTIVE

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ABSTRACT

This paper examines the maturity and attractiveness of real estate markets in Kenya and Rwanda, their determinants independently and in relation to one another. This paper reports the findings of a semi-structured interview study conducted among local market participants in Kenya and Rwanda as well as in other East African countries targeting investments in the two researched jurisdictions. The results identify six main determinants of market maturity and attractiveness. It concludes that the two markets have very different drivers of attractiveness for international institutional investor when measured by the six determinant framework. Of the determinants, some increase the attractiveness universally; such as title security, but with some determinants the relative interaction plays a more important role as is the case for example with the relative interaction of investor protection in combination with perceived political stability. The paper analyses the maturity and attractiveness of Kenya and Rwanda only, without drawing parallels to other East African and concludes the concept of maturity and attractiveness that mature real estate market based research finds one and the same, does not hold for Kenya and Rwanda. The study indicates that both, Kenya and Rwanda have many determinants of maturity already at the required institutional grade levels, but the interaction component between the determinants may possibly lower the global allocations to Kenyan and Rwandese property markets. East African real estate market is currently amongst the most interesting markets for international real estate investors. Yet, it receives very little direct- or indirect investment due to the existing information gap. This study seeks to fill some of this gap and lays the framework for further research with practical approach.

INTRODUCTION

Research, similar to its underlying market, evolves. This said, the real estate research conducted on Sub Saharan markets can be considered relatively advanced having enjoyed a fast track development curve. It can build upon decades worth of previous research conducted on mature markets, when simultaneously the research subjects themselves, the Sub Saharan (SSA) real estate markets, are still in their institutional infancy. Hence, one could claim that the SSA research community is well ahead of its practitioners.

This said, the two need one another, but the product of the fairly advanced SSA real estate research community may not necessarily produce the grass root level work that the investment community desires. Similar statement was made by Worzala (1994) already two decades ago regarding overseas property investment. Worzala found that the existing research is theoretical only, conducted using ex-post data and that no work is done on the actual attractiveness or the institutional investor attitudes and market perceptions. Sirmans and Worzala (2003) still came to the same conclusion nearly ten years later adding that the earlier work used crude proxies and that the studies evolved from this into exploring real estate as a part of a global mixed-asset portfolio. For frontier markets that develop with full knowledge of the mature market practices and the developments tend to have their real estate research function differently from the mature markets with research developing faster than the sector itself.

In frontier markets such as SSA, without a doubt the main issue is reliable data. This puts a restrain on quantitative work. According to Chin et al (2006), the Southeast Asian metropolitan markets were in a similar situation where the reliable data was trapped in a double feedback loop of supply and demand of investment versus research. The study also stated that due to this, the investment levels were low. Lee (2005) addressed the low levels of investment in his study on the Asian market potential. Lee attributed this to the fear and difficulty of real estate investors in venturing into the unknown, but wrote that there are strategies on capitalizing on the Asian market potential. As per Lee's study the investor venturing overseas should consider three factors. These are namely: the potential of the country's property market, sector potential and the investment process.

Although real estate itself by default is local, the real estate investment industry is global. Since it is a deal driven sector, one's local market can put limitations to growth. Lynn (2007) concludes that the global real estate investment industry is transforming itself from a localized business into an international one that is characterized by freely available and reliable data, lower transaction costs and risk premiums via increased sophistication.

Inevitably this is the route that the property market of Sub Saharan Africa will follow as well. A path that can be made smoother and quicker by academic research that is responsive to the investment market demand addressing the appropriate information gaps.

The aim of this study is to examine the maturity and attractiveness of the real estate markets of Kenya and Rwanda. The paper is organized as follows: After the introductory section, existing literature on market maturity and attractiveness is discussed. The third section of the paper presents the methodology used in the empirical study. In the following section discusses the results of the empirical study. Finally, the last section of the paper draws the conclusions.

LITERATURE REVIEW

Previous studies often mix and match or consider maturity and attractiveness one and the same. This is as most of the work on the subject is done on mature markets. Similarly, often the interview sample pool is skewed towards respondents whose market universe is limited, or heavily weighted towards the mature markets. It is evident, that the real estate markets of Kenya and Rwanda are not mature, but yet very attractive to investors. A market that is mature has generally standardized practices; it is efficient to a high degree; it has ample of players and available investment products; it has solid legal and political framework and sophisticated capital markets. In addition to this a mature market generally provides a lower risk and lower returns. For an opportunistic investor this is not attractive. An opportunistic investor seeks to create alpha by his or her ability to function in an immature environment; is willing to take more controlled risk to achieve higher returns. For this reason, maturity and attractiveness in the context of opportunistic investor are two very different concepts.

The blended definitions of maturity and attractiveness place some limitation of full utilization of previous studies in building the analysis framework. Yet, the framework pattern for analysis in the previous studies is clear. From the previous studies two levels of frameworks can be established. First, the determinants that are the continuing theme, although in some occasions worded differently, are:

1. Real Estate Investment Opportunity
2. Investor Protection and Legal Framework
3. Socio Cultural and Political Environment
4. Administrative Burden and Regulatory Limitations
5. Depth and Sophistication of Capital Markets
6. Economic Activity

The other framework is the viewpoint that the previous studies have used. The markets are previously studied from the viewpoint of:

1. Neutral Comparative Analysis
2. Maturity and/or Attractiveness
3. Risk
4. Threshold and/or Barriers

2.1 Neutral Comparative Analysis

The literature assuming the neutral comparative analysis viewpoint uses determinants that can be also applied to the earlier studies looking at markets from the other above mentioned three angles that are namely: maturity and/or attractiveness, risk and threshold and/or barriers. Lieser and Groh (2011; 2014) studied attractiveness with the same six determinant framework: real estate investment opportunity, investor protection and legal framework, socio cultural and political environment, administrative burden and regulative limitations, depth and sophistication of capital markets and economic activity. They started the work in their 2011 study using a quantitative approach for comparative study of 66 markets looking at key drivers and identifying data series that adequately addressed their character. They then moved on to subdivide the data series into 31 sub-constituents. The authors continued their work in 2014 drilling deeper into the drivers and found that the economic growth, rapid urbanization and favorable demographics are positive drivers and lack of transparency in legal framework, administrative burden, socio cultural challenges and political instability are the key negative drivers.

This six determinant framework utilized by the earlier neutral comparative studies can be adapted also for the other three viewpoints. Although the wording might differ the categories can be said to be roughly the same. For example Chin et al. (2006) when examining barriers to investment found exactly the same six determinants. Falkenbach (2009) was examining market selection for international real estate investment and found that the main threshold factors to be: safety of title and property rights, expected return, liquidity, market size, taxation, availability of professional services in real estate sector, expected economic growth, availability of market information and benchmarks, geographical nearness to other target markets, existence of indirect investment possibilities, diversification possibilities and existence of other foreign investors in the market in question. Even when analyzing the former Soviet Union Adlington et al. (2008) managed by using the same framework only with few, Soviet-specific alterations.

2.2 Maturity and/or Attractiveness

It comes as no surprise that the most common research angle is maturity and/or attractiveness of a market or markets. Several studies either use the terms interchangeably suggesting maturity equals attractiveness. There seems to be a clear split here between results from mature- and emerging market research. When Adair et al. (1999) concluded that at the time emerging and immature market, Budapest, presents clear investment opportunities and is hence attractive; concludes Schulte et al. (2005) that the German market is attractive due to its maturity.

According to a study by Chin et al. (2006) the characteristics of a mature market are sophisticated and sound financial structure, full range of use and investment objectives, extensive property information, high level of professionalism, wide range the investment opportunities, liberalized financial market, good public infrastructure, provides high-quality investment products, standardization of property rights and market practices. Findings of Kongela (2013) on the other hand for an attractive or

competitive market are very similar. These are namely abundant land, institutional reforms, improved key economic indicators and political stability.

The literature quite often links the concepts of maturity and attractiveness to international property investment and internationalization. Newell and Worzala (1995) for example consider determinants contributing to attractiveness of international real estate investment to be, exchange rate, lack of local investment opportunities, interest rate differentials, liquidity, tax incentives, lack of ownership restrictions, diversified political environment, perceived competitive advantage and market conditions, growth and available investment product, strong economy, good market information and communication as well as access to capital. The literature also looks at this from the reverse angle – the effect of internationalization on market maturity. For example Falkenbach and Toivonen (2010) found that internationalization of the Finnish commercial property market has had a notable positive effect, making the market more dynamic and maturity. Also De Magalhaes (2001) concluded that a market maturing driven by international investment will see its market structures, practices and culture change.

Similar angle swaps have been performed in attractiveness research. Mauro (1995) studied corruption and growth and proved that one standard deviation increase improvement in his corruption index is responsible for a notable increase in the investment rate of the country's gross domestic product. Mauro also concludes that bureaucratic efficiency causes high investment and growth, hence increasing the attractiveness of a market.

2.3 Risk

After the initial research on a developing property market has been conducted, the risk based research follows. The risks of investing in the Asian real estate market has evolved since the early 2000's. According to Lee (2001) the determinants of risks in the Asian market are investment risk, currency risk, political risk and institutional risk. Geurts and Jaffe (1996) complement Lee by finding that the risk assessment variables in their research were highly correlated. Still, according to Lee (2001), the returns in Asia did not compensate for the perceived risks. In concert to this, it is good to consider Cheng et al. (2006) result that the property investors are sensitive to higher returns and political stability, but that the surveyed investors' exposure was still very limited to the studied markets of Central and South America and Africa. Given the geographic focus of this study it is also interesting to note, that as concluded by Adlington et al. (2008), the relative severity of each constraint or a risk factor varies between geographic regions as well as between urban and rural areas.

In emerging markets the perceived corruption that many investors might be unfamiliar with in their home markets is often considered a substantial risk factor. According to Lee's (2001) research it is the unfamiliarity of foreign market hindering the attractiveness. More detailed analysis of the determinants of corruption was conducted by Mauro (1995). Mauro concludes that corruption has nine institutional efficiency variables. These are political change, political stability, probability of

opposition group takeover, stability of labor, relationships between neighboring countries, terrorism, legal system, bureaucracy and red tape.

Geurts and Jaffe (1996) also found limitations to the risk approach method as a single index for investment climate or maturity, for example in relation for home ownership, due to its complexity as it is so closely linked to expropriation threat.

2.4 Threshold and/or Barriers

Initial research on emerging markets often takes the threshold or barrier focus. Falkenbach (2009) found that the main barriers for international investment are availability of professional services, availability of market information and benchmarks and lack of indirect investment opportunities. Similarly, when studying the property markets in Central Europe, McGreal et al. (2002) named the barriers to be financing, taxation structures, market information and land ownership issues.

As in the research taking the risk perspective, international investment flows are the key attribute. Lynn (2007) found that globalization helps in reducing these barriers for example by driving down the transaction costs, increasing information transmission , improving capital markets and improving the quality and transparency of information. Adair et al. (2006) found whilst studying Central and Eastern European property markets that these barriers encountered by international investors are initially caused by inefficient resource allocation, shortage of product and underutilization of capacity.

2.5 REAL ESTATE INVESTMENT OPPORTUNITY

The first determinant is real estate investment opportunity. In the previous research this determinant focused on urbanization, land bank and issues, supply of institutional grade property as well as transparency. Independently it was not found to be amongst the most important determinants, but received some attention in barrier and threshold focused research.

In a study examining the determinants of international commercial real estate investment, Lieser and Groh (2014) found that a high degree of urbanization affects international property investment positively. They also concluded that accessibility of institutionally valuable property increases foreign investment. Kongela (2013) took a barrier and threshold focus on the determinant and concluded that lack of proper land bank and absence of aggressive marketing of real estate opportunities create barriers especially for foreign investors.

Schulte, Rottke and Pitschke (2005) examined the transparency in the German real estate market and found that transparency is required for successful investment in real estate. They continued by stating that only transparent markets can obtain investor confidence and hence only transparent markets can be attractive to professional investors.

2.6 INVESTOR PROTECTION AND LEGAL FRAMEWORK

The second determinant that is consistently cited in the previous literature is investor protection and legal framework: Research on both, mature and emerging markets, found the determinant to be equally important although it receives more attention in emerging markets research where investor protection and legal framework limitations are found to be more of an issue.

Svensson (1998) examined investment in conjunction with property rights and political instability and found that countries with more polarization and instability in their political system will have more inefficient legal systems resulting in poorly enforced property rights and lower level of domestic investment and risk of capital flight. Adair et al. (1999) provide support to this by concluding that uncertainty of property ownership in certain Eastern European cities was an important factor hindering the market attractiveness and maturity.

Falkenbach (2009) summarized that one of the most important factors for market selection for international real estate investment to be the safety of property rights and title as well as expected return. When examining the threshold factors in more detail, she also concludes that the most important threshold factor indeed is the safety of property title and property rights. Lieser and Groh (2014) pick up where Falkenbach left of and found that countries with strong property titles and high level of transparency have more active property markets.

2.7 SOCIO CULTURAL AND POLITICAL ENVIRONMENT

The third determinant is socio cultural and political environment. This determinant is often found to be important component in risk related studies. In previous there is a great variance in results that is largely driven by the wide interpretation of the concepts of the determinant. For example Lee (2006) concluded that country risk is often defined in terms of political risk. He notes that poltical risk measures are based on frequency of change in the governments, conflicts with other countries, violence, armed insurrections and failure to meet international debt payments, to mention few. But, country risk has many more dimensions than political risk. These are for example blocked funds, repatriation constraints in the form of exchange controls, expropriation of property resources, inconvertibility of national currency, war, civil strife, risk against personnel and discriminatory taxation to mention few. Lee's results suggest that country risk data can help international real estate investors in decision making since it shows a significant as well as consistent impact on property returns.

Due to the wide interpretation the results vary. Falkenbach (2009) does not mention socio cultural and political environment as a determinant for market selection, but Lieser and Groh (2014) and Adair et al. (1999) both find political system, bribery and corruption as the most important determinants. In turn, some studies such as Kongela (2013) conclude that political stability is necessary, but not sufficient alone to achieve state of competitiveness for a market. Geurts and Jaffe (1996) drill further into this and conclude that political risk is highly correlated with other determinants because it encompasses more than one dimension, such as low level of security and other socio

cultural factors. Similarly Cheng et al. (2006) when studying Africa, Central- and South America find that investors are sensitive to political stability and returns, yet investors have surprisingly low allocation to these markets given the result. In Asia, Lee (2001) finds that when looking at risk, political risk and currency risk are not important and that institutional risk, maturity and transparency in turn are important.

More specific or detailed work on Asia was done by Chau (1997) who studied political uncertainty and the real estate risk premiums in Hong Kong at the time of the Chinese repossession. Chau found that great political changes such as the Chinese repossession unsurprisingly have an effect on the real estate risk premiums. Interestingly he found that there was an increase in the risk premiums when the repossession became public information. The shift in the risk premium was much more obvious in commercial real estate than in the residential sector.

Similar work has also been done on the mature markets. Svensson (1998) found that countries that have more unstable and polarized political systems will have more inefficient legal systems resulting in weakly enforced property rights and lower level of domestic investment.

2.8 ADMINISTRATIVE BURDEN AND REGULATORY LIMITATIONS

The fourth determinant is administrative burden and regulatory limitations. Studies taking the barrier and threshold focus or risk focus to certain degree put more weight on the administrative burden and regulatory limitations. This is as the administrative burden and regulatory limitations are seen to hamper growth, general market effectiveness as well as foster corruption. In the previous literature corruption is categorized either under the socio cultural and political environment determinant or administrative burden and regulatory limitations determinant.

It is clear that the easier the burden to operate and less limitations the more attractive the market already from the practical point of view. Lieser and Groh ((2014) found that the ease of registering a property, taxation, ease of acquiring construction permits and ease of starting a business to be important determinants of property investment whereas forex controls and risk of repatriation of capital are a cause of concern and make a market less attractive. Kongela (2013) used Porter's Competitiveness Model and Poovoru and Cruikshank Model to derive a conclusion that ineffectiveness of institutions, foreigners facing more challenges than locals and general inability to exploit key value drivers hamper the market attractiveness.

Corruption was generally found to be a very important component of the administrative burden and regulatory limitations determinant. Mauro (1995) concluded that corruption lowers private investment and hence keeping the brakes on for economic growth. He concluded that the negative association between corruption, growth and investment is significant. The highest correlation to corruption was found to be red tape followed by GDP per capita. At the same time due to multicollinearity it is difficult to tell which of the institutional factors studied was crucial for investment and growth.

2.9 DEPTH AND SOPHISTICATION OF CAPITAL MARKETS

The fifth determinant is depth and sophistication of capital markets. As the non-operational real estate sector is based on ownership it is the most capital intensive of all sectors. Due to this capital intensity, it is not a surprise that studies across the board find the depth and sophistication of capital markets important, boosting competitiveness, acting as market attraction or a barrier or indirectly being linked to risk and investor protection through financial markets treatment of collateral.

Results have been nearly uniform across the board. Kongela (2013) finds that financial market stability has boosted the real estate market competitiveness of Tanzania. Chin et al. (2006) summarized that sound financial and economic structure and the strength and stability of the economy were the biggest factors in attracting investments. Lieser and Groh (2014) found that M&A activity, state of the credit market and increasing REIT market capitalization all drive real estate investments.

Studies that took the barrier and threshold focus came to similar conclusions. Adair et al. (1999) found that major barrier for the development of the Prague real estate market has been the lack of finance from domestic sources with foreign lenders playing the major role. Laposa and Lizieri (200%) came to a similar conclusion regarding Central Europe after the fall of Berlin Wall in 1989.

This said, interestingly McGreal et al. (2002) pointed out that it is at times difficult to separate local finance from international finance. This is due to the structure of the banking industry, where subsidiaries act locally but financing decisions are often done at the headquarters abroad. Mc Greal et al. (2002) also noted that the depth and sophistication of capital markets is closely linked to investor protection or more specifically to the security of the title as lenders are reluctant to lend where they perceive questionable title rights and insufficient professional services and institutional grade investment product.

2.10 ECONOMIC ACTIVITY

Sixth and final determinant is economic activity. Studies that take the attractiveness focus or risk focus often find the economic activity determinant more important. This is partially due to the real estate level liquidity, both on leasing and transactions that economic activity brings. Still, different results do exist. Falkenbach (2009) for example ranked economic growth only as the 7th most important factor out of 12 threshold factors, whereas Mauro (1995) found economic activity so sensitive and significant that for example if Bangladesh were to improve integrity and efficiency of its bureaucracy to the level of Uruguay (meaning on standard deviation increase only) its investment rate would increase by five percentage points. One of the likely reasons for the difference in the results is the underlying markets, as one researched developed markets and the other developing markets.

Chen and Hobbs (2003) found the economic performance factors to be economic development, economic performance and technological development and the structural factors to be the size of the economy and state of the economy. They also concluded that real estate markets mature hand in hand with the underlying economy.

The maturing leads to increasing transparency and liquidity, greater certainty in the pricing and market performance.

According to Lieser and Groh (2014) fast growing countries are usually small. They often cannot absorb investments in similar magnitude to those of larger, more developed economies. They also found that growing workforce affects demand for real estate and that innovation and technological improvements spur investments. Countries with higher gross domestic product per capita tend to attract higher levels of real estate investments. Similarly falling unemployment and inflation increase investment activity

3. METHODOLOGY

Due to lack of data on the topic the methodology is qualitative. The research is based on 68 semi-structured interviews conducted between 10.10.2013 and 31.12.2014. The interviews were done either one on one or in a small group setting in Kenya, Rwanda, Ethiopia, South Africa, Angola, Mozambique, Tanzania, UK and Turkey. The interviewees were seasoned market practitioners. The interviews covered East African markets as appropriate with lot of the sample population practicing across borders. Evidence gathered on markets other than Kenya and Rwanda is excluded.

To cancel out possible misinterpretation of the results, the evidence gathered was further tested in the interviews that followed. In addition to the verification of statements the evidence testing allowed the research to build further on the results and to fine tune them for the purpose. Given the nature of the topic, this is a clear advantage over a structured interview method or a mail/email survey method.

The method has limitations arising from possible voluntary or involuntary country bias or an interviewee assuming a role of a marketer due to interviewer's background in the industry. In the small group interviews in addition a single person or persons can steer the responses of the group. These limitations were controlled by the above mentioned multiple testing and verification method and by eliminating the outlier statements from the sample that could not be verified.

4. RESULTS

4.1 Real Estate Investment Opportunity

Amongst the respondents, most named real estate investment opportunity as either the most important determinant or one of the most important determinants for both Kenya and Rwanda. Unlike in the previous studies, the main driver of the opportunity was found to be rapid industrialization and structural changes of the national economies forcing change on the real estate sectors. Other drivers were drastic supply and demand imbalances. These imbalances were found to vary between sectors and locations. For example mid- and low end residential sectors, both Kenya and Rwanda lack stock, but high end offices in both capital cities were in oversupply.

The degree of urbanization in Kenya and Rwanda was found to be fuelling the opportunity. In Kenya it was found that only the main metropolitan areas are of investment grade. This is due to mainly to title insecurity in rural areas. In Rwanda this is not considered an issue due to its superior electronic land registry and highly developed procedures in land transactions as well as construction-related permits.

Contrary to previous research that has found accessibility of institutional grade property as prerequisite for foreign investment, the respondents named the fact that Rwandese and Kenyan markets' are very untapped as one of the main opportunities via the first mover pricing advantage. In both markets the laws of supply and demand hold. This is the case for equity as well. Hence, the equity starved Rwandese and Kenyan property markets were seen to provide a great opportunity for import of foreign equity funding.

Neither the Kenyan market nor the smaller Rwandese property market are mature enough for an efficiently priced or structured market for yielding properties. The yield gap between the bid and offer is far too wide to result in deals taking place. This said the relatively scarce new money engaged in institutional development in the markets' banks on the sale and leaseback market's is in its emergence. The South African listed investors are assumed to lead the pack in standing asset acquisitions. The institutional grade yielding property sector is assumed to emerge faster in Kenya than in Rwanda. This is due to the larger market size and higher liquidity in Kenya compared to that in Rwanda. Also, Kenyan Government's REIT regime initiative was often complemented. The regime allows for property development in a REIT structure as well as the income REITs. Some respondents see the Kenyan REITs to be the main driver of opportunity, but at the same time some respondents questioned its ability to materialize.

Previous research found transparency of a market a general perquisite for successful investment and said that only transparent markets can be attractive to professional investors. The interviewees fully disagreed with this statement. Neither the Kenyan market nor the Rwandese real estate market can be considered transparent. Yet, both are considered amongst the most attractive for the opportunistic investors providing ample of investment opportunities. Respondents' view is that the opportunity arises from a combination of non-transparency, specialized local networks, knowledge and local market intelligence that allow the investors to create alpha. Due to this, the most attractive market entry model was found to be the joint venture model.

4.2 Investor Protection and Legal Framework

Similar to previous research, investor protection and legal framework was found to be very important determinant by the respondents. There were great differences found in the determinant between Kenya and Rwanda.

Rwanda was found to be one of the most investor friendly markets in Africa. This is due to the adaptation of the Singapore model, electronic and thoroughly vetted land registry and ease of obtaining permits and doing business. This said, the respondents did not perceive the market as transparent. The lack of transparency was not seen as a huge problem for Rwanda due to its market size as obtaining data through foot work is

considered doable due to the limited number of institutional players and low number of deals taking place.

Kenya received a lot of criticism for investor protection especially on land- and title related issues. Land registry was perceived somewhat reliable only in the major cities as land grabbing in rural areas is commonplace. Although severely flawed, it was mentioned that Kenya still has a system in place for land transactions. This means that even though problems in investor protection and legal framework exist, due to the transaction framework in place it is possible for an investor to obtain a clean and secure title. This is often done by the international investors by teaming up with local entities that have the ability and understanding of the local investor protection measures and legal framework. It was also found that the due diligence costs associated with real estate transactions in Kenya is notably higher to those in Rwanda. Similar to Rwanda, Kenyan real estate market was not perceived as transparent.

Previous research found that only countries with strong property rights and high transparency can have active real estate investment markets. This was found to be different in Kenya and Rwanda. Although both markets are perceived to be non-transparent and Kenya has found to have significantly weaker property rights, has Kenya notably more active and liquid real estate investment market. This emphasizes our earlier statement regarding the relevance of the interaction component of the determinants where the relative interaction has a higher weight in market entry decisions as well as required risk premiums to individual determinant weights. It was also found that similar to previous research that the uncertainty regarding property titles is an important factor hindering the market attractiveness and maturity both in Kenya and Rwanda.

4.3 Socio Cultural and Political Environment

Unlike some previous studies, all respondents found the socio cultural and political environment as an important determinant. The respondents found the socio cultural and political environments of Kenya and Rwanda to be very different. This said, both were found to be politically stable in relative terms, but similar to previous research this political stability was not found to be sufficient alone to achieve attractiveness to the markets.

Some respondents raised concerns about Rwandan political environment, but in relative terms it was not an issue. The vibrant and open political debate in Kenya was found to be positive. Still, the respondents were not able to raise one political environment above to the other. Although completely different, both were viewed from the international investor point of view as equally attractive from the perspective of socio cultural and political environment determinant. Contrary to this, the respondents stated that election time in Kenya will lead to a higher jump in risk premiums to that of Rwanda.

Corruption was raised as the main cause for concern amongst the respondents. This was found to be one of the main factors driving the risk premiums. The corruption was found to be perceived notably worse in Kenya compared to Rwanda. The Kenyan socio cultural and political environment is actively and openly fighting corruption. This was perceived as a positive driver for Kenya. There was a great difference in opinion on the

effectiveness of the measures taken in Kenya for improving the situation.

The respondents found that as political environment or risk has so many components to it, and hence it is highly correlated with other determinants. This finding is in line the results of previous research conducted.

4.4 Administrative Burden and Regulatory Limitations

The results suggest that the perceived administrative burden and regulatory limitations between Kenya and Rwanda are drastically different in the favor of Rwanda. The Rwandese system is praised across the board for its effectiveness and functionality. The finding is in line with the ease of doing business ranking published by World Bank for example in terms of acquiring construction permits, registering a property and starting a business, to mention a few.

In Kenya the administrative burden and regulatory limitations determinant is found to be one of the main attributes holding back attractiveness for foreign capital targeting real estate investments. This is due to ineffectiveness of institutions and practices with foreign investor facing substantially more challenges operationally and hence becoming incapable to derive the full investment value out of the sector.

Corruption links to many of the six determinants. It was also raised as an important component of the administrative burden and regulatory limitations determinant. Respondents clearly rank Kenya below Rwanda in corruption perceptions. It is found that the perceived correlation between foreign investment flows, economic growth projections and corruption is high putting a drag into the attractiveness of the Kenyan real estate sector.

4.5 Depth and Sophistication of Capital Markets

Respondents did not find the depth and sophistication of capital markets amongst the most important determinants. This was true more for construction financing than for the depth and sophistication of capital markets affecting the exit.

The respondents agreed that a sound structure and stability of the financial market improve competitiveness of the real estate sector due to its capital intensity. Lack of importance placed on depth and sophistication of construction financing or financing an acquisition of a standing asset can be derived from the fact that many respondents discount it out due to its non-competitive pricing. In both markets senior debt is often substituted by mezzanine. The respondents expect the lenders to become more competitive going forward.

The Kenyan financial sector was deemed to be more advanced than the one in Rwanda. This was said to be due to larger the size and better liquidity of the Kenyan market. Also the sources of financing were found to be different. Whereas the Rwandese market tends to peg costs and income to the United States Dollar, at least in the tenant, developer and landlord level; operates the Kenyan market in local currency. Partially due to this the Kenyan market seeks to finance development and standing asset acquisition locally and Rwandese market internationally. Here it is important to note that even if a debt financier has a branch operating locally, the decision making power may be lo-

cated abroad. Also the fact that the Kenyan financing, as well as rents and construction costs are denominated in Kenya Shilling instead of the United States Dollar, are many international lenders shying away from this full currency risk exposure.

Regarding exits the respondents pointed out two drivers. The first driver was the introduction of a real estate investment trust regime in Kenya. The Kenyan legislation allows for development REITs as well as income REITs. This was seen as affecting the market very positively in the long run, although many respondents were sceptic of the Kenyan REIT market's liquidity in the beginning. The second driver was the mergers and acquisitions market activity. The more active M&A market in Kenya was also seen as an important factor positively affecting the perceived liquidity of the market at exit.

The results also suggest that the investor protection and legal framework determinant is closely correlated to the depth and sophistication of capital markets determinant. This is due to the security of a property title - or the lack of it. When the title can be challenged, the banks are less willing to provide funding as the strength of the collateral is weaker.

4.6 Economic Activity

As opposed to previous research, the respondents found economic activity as an important determinant mainly due to it being the main driver for arising foreign investors' interest towards a new market. It was also mentioned that the economic activity determinant alone is insignificant. For economic activity to lead to market entry, are the rest of the determinants required to be at sufficient level. For Kenya for example it was mentioned that although the economic activity determinant is at an attractive level, some investors keep away from the market due to security issues, corruption or land related issues. Size and liquidity of the Rwandese market was mentioned in the same context.

Some previous studies found that high GPD per capita attract real estate investment. The results in this study disagree. The difference in the results may be explained by the respondents profile with previous studies sampling mostly respondents who focus only on mature markets. The respondents found that in an emerging market the GDP per capita is not an important metric.

5. CONCLUSIONS

This paper examines the maturity and attractiveness of real estate markets in Kenya and Rwanda, their determinants independently and in relation to one another. This paper reports the findings of a semi-structured interview study conducted among local market participants in Kenya and Rwanda as well as in other East African countries targeting investments in the two researched jurisdictions. The results identify six main determinants of market maturity and attractiveness. It concludes that the two markets have very different drivers of attractiveness for international institutional investor when measured by the six determinant framework., East Africa is currently amongst the most interesting markets for international real estate investors. Yet, it receives very little direct- or indirect investment due to the existing information gap.

Given that there is a clear interest from the investors towards both Kenyan and Rwandese property markets, more research on the markets would support the evolutionary trends of both. Until proper quantitative data sets are available, qualitative research is to play a vital role in narrowing the information gap and laying down the basis for further research.

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