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JOINT VENTURE FINANCING AND DEVELOPMENT OF HOUSING CONSTRUCTION PROJECTS IN KILIMANI WARD, NAIROBI COUNTY

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Abstract: *Exponential growth of the urban areas has been brought about by the migration of people flocking into cities in search of better economic opportunities, better healthcare and the promise of a better life. This rapid urbanization has brought pressure on the delivery of affordable housing which is reliant on the various models of housing finance. Mortgage financing and commercial bank institutions have been on the forefront in the provision of financial services to developers for various types of housing developments. However, the housing construction development in Nairobi has been challenged by bureaucratic red tape on the provision of funds by these commercial banking institutions. Delayed disbursement of funds for housing construction due to very stringent conditions based on macro-economic, risk, stakeholder competence and regulatory variables has become a norm and outcome. Joint venture financing is thus becoming a feasible housing finance alternative This study sought to examine the relationship between; the macro-economic factors, risk perceptions, project team competence, legal and regulatory framework, that directly and indirectly influence the adoption of the joint venture financing option towards the development of housing. The research design used in this study was survey research design. Stratified random sampling was used to select the sample size to ensure representativeness. The population size for this study was 1516 stakeholders. Data was collected from 73 respondents from the Kilimani ward using an online based questionnaire. Only 58 respondents provided feedback to the questionnaires. Secondary data was obtained from academic papers, journals and published reports from government agencies. The result was presented using charts, frequencies and percentages. The study recommends that the government enhances the formulation and implementation of feasible and sustainable frameworks; economic, fiscal and land policies that will be all inclusive to the stakeholders of the housing and construction sector. Capacity building by, establishment of training and knowledge centers which will address the generic joint venture issues. The issues include; standardization of joint ventures contracts, determination of ownership structures, control elements of the joint venture, risks mitigation approaches from operational, technical and strategic points, and knowledge sharing of the current building technologies that are more efficient, less costly and faster to build. We can also bring in the industry best practices on what requirements are required when tapping the various competencies of the various team members to ensure that the entire fit is working in synergy.*

Keyword: *Joint Ventures, Macro-economic Factors, Project Team Competence, Legal and regulatory framework*

I.1 Introduction

One of the most important goals of many governments, on a global scale, is the provision of affordable housing to its population. The demand to supply ratio of affordable housing has been increasing globally and this can be is attributed to the rapid urbanization, an increase in the middle-class income levels and progressive growth in population (Gopalan ,2015). According to McKinsey Global Institute (MGI ,2014) report, it is anticipated that by 2025, globally there will be a shortage of about 440million households in urban areas in the world. According to the United Nations Sustainable Development Goals Report (2015), Goal 11 was "to make cities and human settlements inclusive, safe, resilient and sustainable" and target to ensure access for all to adequate, safe and affordable housing and basic service.

Affordable housing provision is however marred by lack of a sustainable housing finance model to provide the high capital-intensive housing development industry with revolving liquidity in form of finances. The housing development is also marred by challenges primarily; shortage and high cost of land around urban areas, lack of clear regulatory guidelines and policy, high interest rates, rising cost of building materials and lack of adoption of current building technologies (Venkatraman 2015).

A joint venture (JV) is a formal arrangement between two or more firms to create a new business, special purpose vehicle, (SPV) for carrying out mutually beneficial activity, often related to business expansion, especially new product and/or market development. It is a business undertaking by two or more firms engaged in a single defined project. The joint venture is characterized by; (1) an express or implied agreement; (2) a common purpose that the group intends to carry out (3) shared profits and losses; and (4) each member equal voice in controlling the project (Black Law Dictionary 7th Edition, p 228). JVs may take the form of a corporation, limited liability company (LLC), partnership, formal long-term contracts, informal alliances, and acquisitions. (Terjesen, 2015). Joint ventures can further be described as equity-based collaborative arrangements whereby two or more organizations each contribute resources, including equity, for the joint pursuit of economic goals (Martin & Salomon, 2003b). It has long been established that firms often use joint ventures to enter into unfamiliar and risky product markets and geographic areas (Aharoni, 1966; Harrigan, 1988). Accordingly, though JVs may vary in their form and functional purpose(s), they are generally surrounded by high levels of uncertainty (Martin, Mitchell, & Swaminathan, 1995; Krishnan, Martin, & Noorderhaven, 2006).

In housing finance joint ventures, the landowner typically enters into an agreement with the property financier to provide land while the latter finances the intended development. The profits derived from the joint venture are then apportioned according to the value of what each party has brought to the table. Joint venture partners could also be consultants such as architects, contractors, quantity surveyors (QS), project managers (PM), structural engineers, physical planners, accountants or lawyers who may agree to offer their professional skills and services as their contribution to the joint venture (Oraro, 2016).

In China, commercial housing development requires a large amount of capital and the current financing system of China cannot let developers possess the properties too long. 70%-80% capital comes from commercial banks and these loans are usually short-term, they need to get the funds back as soon as possible (Jiang, 2007). In America, 10% of the capital for developing commercial housing comes from commercial banks, 90% of the capital comes from the developers' own fund and other funds from investors. The low proportion of bank financing and high proportion of other funds financing reduce the risk of developers (Jiang, 2007).

In Ghana, there are various sources of funds for the housing construction. Surveys indicated that the informal methods of financing such as equity, barter arrangements and international sources were dominant ((Debrah et al., 2002 and Erguden, 2002) Debt financing through mortgage companies and commercial banks was not a primary source of housing finance. In Mozambique, a study by the Centre for affordable housing (CAH) (2016) found that the various sources of finances were mainly from savings, salary earnings, xitiques (informal saving groups) and donations to facilitate the funding of house construction or purchase. In Nigeria, access to finance is a major challenge to the developers according to the World Bank Report (2017). The report determined several innovative partnership approaches that have been undertaken by the different subsector players in raising funds for housing development. Land swaps, flexible instalment payments and off-plan sales are some of the main ways to raise funds in the absence of a robust mortgage sector.

In Kenya, the mortgage and commercial bank institutions have not been enough as a source in the provision of housing finance as evidenced by the ever-increasing demand for housing. There were 26,187 mortgage loans in the market in December 2017 (Central Bank of Kenya (CBK) Banking Report,2017). According to recent World Bank report (2017), Savings and Credit Cooperative Societies (SACCOS) have overtaken commercial banks and mortgage providers in the provision of home construction finance in Kenya. The SACCOs now account for more than 90 % (over 100,000 housing loans) of home loans in Kenya. SACCOs package home loans as development loans and at more affordable interest rates usually at 12 % per annum. According to the Parliamentary Budget Office Report (2016), to facilitate the implementation of the Housing pillar of the Big 4 Agenda, the government under the State Department for Housing, Urban Development and Public Works, incorporated the Kenya Mortgage Refinance Company. The Kenya Mortgage Refinancing Company will issue bonds to local capital markets and extend longer-term loans to financial institutions to secure mortgages (Bankelele 2018)

The significance of the study primarily is to examine the challenges facing the adoption of joint venture financing as a housing finance model. The findings may be a rich source of reference toward the co-sharing of resources and knowledge towards financial interdependence among the stakeholders in the housing finance development. From an academic perspective, the study will be of significant value to the practitioners and scholars who will venture into project finance by looking at the macroeconomic factors to be considered when adopting a housing finance model, risk factors to be mitigated and addressed and the importance of competence in project management undertaking. Finally, the findings of the study aimed at the government support towards formulation and implementation of feasible and sustainable frameworks; economic, fiscal and housing policies that will be all inclusive to the stakeholders of the housing and construction sector, capacity building that will enable and promote development of housing construction sector.

1.2 Literature Review

Theoretical Framework

Theoretical framework focused on organizational knowledge and learning theory (1995). Ikujiro nonaka (1995), under the organizational knowledge theory, proposed that organizations could create, disseminate new knowledge and embody this in the products systems and processes already in place. This could be done vide socialization, externalization, combination and internalization.

Socialization involves the acquisition and conversion of tacit knowledge (concrete know how skills), from those who have it to those who do not. This could be in form of brainstorming and customer interaction (nonaka and takeuchi,1995). Externalization involves conversion of tacit to explicit knowledge. This is where we have documenting and coding the lessons learnt from skills, and experiences is effected. Combination involved the process of systemizing concepts into a knowledge system (nonaka and takeuchi, 1995) which formed as channels within which messages and information could be passed between different systems. Internalization involved the reversed engineering from explicit to tacit knowledge by distinctly learning by doing and what had been externalized.

Review of Empirical Studies

Economic Factors

Economic downturns characterized by excessive interest rates and high inflation, lead to high costs of funding and consequently reduced investment. An effective strategic measure in development of affordable housing is lowering the cost of construction of affordable housing (Assaf, 2010). The CAHF (2017) report indicated that the high mortgage interest rates of 29%, a down payment of 20% of the cost of constructing, lack of sufficient formal financing options and a poor microfinance credit facility, contributed to the housing deficit faced in Ghana. According to a state official, Aboagye (2017), the country housing needs were in deficit of 1.7 million units with an expectation of hitting 2million by the year 2018

Due to the high interest rates and cost of financing, lending for construction via mortgages has remained low and resulted in locking out millions from home ownership. There are about 26,187 active mortgages in Kenya, a low figure in a country of 44 million people (Central Bank of Kenya, 2017). The Cytonn Investment (2015) report indicates that 75% of potential home buyers, even though they have regular incomes, do not qualify for mortgages under the current mortgage lending requirements. Mortgage financing facilitates the acquisition of mortgage properties by able potential homeowners through scheduled repayment from a lender; it is an avenue of revenue generation since there are interest charges.

Inflation being the persistent increment of the general commodity prices of goods and services, influences an individual’s economic power in matters disposable income (Wagura 2013). The inflation factor is determined by the monetary policy whose objective is to, promote maximum employment, have a stability of pricing (low inflation) and moderate interest rates on a long term. This in turn ensures stable value of a country’s currency (Central Bank of Kenya Website). High inflation means we have high prices of commodities which raises the cost of production i.e. the labour costs, land and cost of materials (Noppen 2012). This in turn affects the level of an individual’s economic power which is a function of economic trends.

Policies and Legal Framework

Housing policies and legislative frameworks are designed to ensure production and provision of adequate housing and facilitate in the corrective measures where we have imperfections in the housing market. A study by Kubuta (2012), housing systems are unique to the participating market and country as each national strategy evolves from practical and theoretical origins. In addition,

delivery of the best approach towards affordable housing should focus on the roles and relationships between state, market and the society in the housing production.
In Kenya, we have had several legislative acts that have been put in place towards housing and construction. Under the Sessional Paper No 3 on National Housing policy 2004 has tried to provide access to adequate housing vide the five-year National Development plans and Poverty Reduction Strategy papers (ROK, 2004). This policy was put in place to ensure the rapid urbanization and population growth, needs were accommodated. The goal of this policy was to “facilitate the provision of adequate shelter and a healthy living environment at an affordable cost to all socio-economic groups in Kenya” (ROK 2004). Subsequent Session Paper No 4 on National Land Policy 2009 (RoK, 2009), provided the framework within which the maintenance of a land administration and management system would ensure citizens would occupy and use land.
The Housing Bill 2011 under Article 43(1) of the 2010 Constitution aims at provision of capacity building, establishment of the Kenya Housing Authority and National Housing Development Funds will coordinate and facilitate monitoring of the housing and settlement sector. The Land Act, 2012, provided a framework within which all land use would be planned from a government, regional and local level. The act would ensure there would be public participation in addressing the land use planning from both an urban and rural settlement. This planning would ensure there is controlled and equitable development with areas marked for commercial and residential housing. The implementation of the act would be driven by the National Land Commission, a parastatal body mandated with the management of land and offer technical support to the Ministry of Lands in regulation of land use (RoK, 2012).

1.3 Research Methodology

The descriptive design was selected in this study because allowed the researcher to gather numerical and descriptive data and further determine how this data is related. This would assist the researcher to produce statistical information for determining the viability of joint ventures as an alternative project finance model in the development of the real estate.

In this research, the target population consisted of 1516 project stakeholders; Architects and Quantity Surveyors, lawyers, property developers, land owners and financial Institutions in the Kilimani Ward, Nairobi County. The Kilimani ward was chosen basically because it provides a large base of samples of testing and accessibility of the area to the researcher, due to its unique blend of upper-mid income maisonettes, modern apartments and office blocks. Kilimani ward continues to grow and expand, investment opportunities for housing construction developments in the area are on the rise with the key pull factors being: 1) Proximity to Nairobi CBD: Kilimani is only 10 minutes away from Nairobi CBD making it a convenient residential location for individuals working in town. 2) Good transport network: The area is served by a host of well paved roads, such as the Ardwings Kodhek road, Denis Pritt road, Lenana Road, Chaka road and Ngong roads that makes travelling convenient. 3) Growing middle class: An influx of higher middle-income earners in the area has increased the demand for residential as well as commercial developments. 4) Security: security in Kilimani is quite good and residents enjoy services offered by the Kilimani Police Station which is located at the heart of Kilimani. 5) Zoning: Kilimani area was predominantly a low-density residential area but has been rezoned to accommodate high-rise and high density residential and commercial uses. The study focused on the stakeholders because they are usually involved in the housing development process from conceptualizing, planning and financing of the projects. Stratified sampling was one of the probability techniques used to ensure that various stakeholder participants are included in the survey. The population under study was stratified into: architects and quantity surveyors, lawyers, property developers, land owners and financial institutions. The researcher then employed random sampling on each of the stratum. The sample size was 73 respondents selected as suggested by Godden (2004) in their sampling table.

Data collection instruments utilized in this study were the questionnaire and academic papers, journals published reports from Kenya National Bureau of Statistics, Central Bank of Kenya, Hass Consult Ltd and the World Bank. The Statistical Package for Social Sciences (SPSS version 20) was utilized to produce results in terms of descriptive statistics inform of percentages and frequency tables. Quantitative data was also presented inform of graphs based on the research questions. Qualitative data gotten from questions that were open ended was arranged in themes based on research objectives and these were narrated and presented quantitatively.

1.4 Results and Discussion

Table 1: Economic Factors

	Strongly Disagree (%)	Disagree	Neutral (%)	Agree (%)	Strongly Agree (%)	Mean	Std Dev
Prevailing Inflation Rate	1.7	1.7	12.1	84.5	0	3.79	.554
Cost of funds	0	0	15.5	84.5	0	3.57	.624
House price levels	1.7	1.7	34.5	62.1	0	3.57	.624
Levels of disposable income	1.7	6.9	22.4	69.0	0	3.59	.702
Inflation fluctuation Risk	0	3.4	19.0	77.6	0	3.74	.515
Financial Institutions lending interest rates fluctuation	0	3.4	19.0	77.6	0	3.74	.515

Source: Research Data, 2019

To measure the influence of the economic factors on joint venture financing, respondents were asked to indicate their views on certain economic factors. Majority of the respondents 49 (84.5%) indicated that they agree that prevailing inflation rate and cost of funds has a lot of influence on uptake of joint venture financing. This is confirmed by the mean value of 3.79 indicating agree. A standard deviation of .554 shows the variables values are clustered around the mean within one standard deviation. The prevailing inflation rate and cost of funds acquisition is inhibiting them from venturing into joint venture arrangements.

Financial institutions fluctuating interest rates are viewed to be a major factor that is influencing the joint venture financing and housing construction in kilimani ward. Majority of the respondents 45 (77.6%) indicate that they agree that this is an economic factor with great influence. This is also confirmed by a mean of 3.74 indicating they agree with the statement that this factor influences. A standard deviation of .515 shows that variable values are clustered around the mean within one standard deviation. This shows that the residents know that the fluctuation in interest rates which is not favourable to uptake of such expensive housing construction investments.

The results confirm the central bank of kenya position that, due to the high interest rates and cost of financing, lending for construction via mortgages has remained low and resulted in locking out millions from home ownership. There are about 26,187 active mortgages in kenya, a low figure in a country of 44 million people (central bank of kenya, 2017). The results are also in line with noppen (2012) study that concluded that when there is high inflation, there is a high price of commodities which raise the cost of production. This in turn affects the level of an individual's economic power which is a function of economic trends. Inflation being the persistent increment of the general commodity prices of goods and services, influences an individual's economic power in matters disposable income (wagura, 2013).

Legal and Regulatory Frameworks in Joint Ventures Financing

Table 2: Representation of sufficiency of legal and regulatory policies to safeguard peoples' interests

		Frequency	Percent	Cumulative Percent
Valid	Yes	31	53.4	53.4
	No	27	46.6	100.0
	Total	58	100.0	

Source: Field data, 2019

The respondents were subjected to test whether the stakeholders felt safeguarded by the government in joint venture arrangements. The presented results show that majority of the respondents 31 (53.4%) indicated that there is adequacy of legal processes and regulations. A proportion of 27 (46.6%) indicated that there is inadequacy of legal processes and regulatory frameworks to safeguard people who are entering into joint venture arrangements. This implies that almost half of the respondents do not believe they are well safeguarded by the existing legal processes and regulations in joint venture financing and housing construction arrangements.

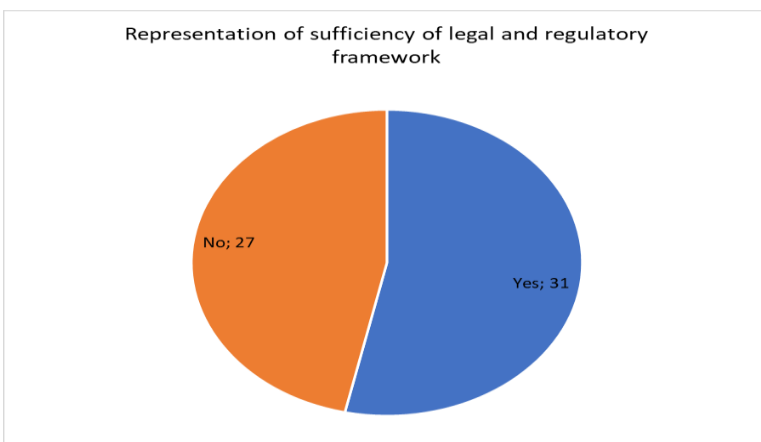

Figure 1: Representation of sufficiency of legal and regulatory framework

Table 3. Relationship between legal processes and the joint venture financing

			Participation in a joint venture arrangement	Sufficient legal and regulatory framework policies to safeguard interests of people in joint
Spearman's Rank Order Correlation	Participation in a joint venture arrangement	Correlation Coefficient	1.000	.067
		Sig. (2-tailed)	.	.618
		N	58	58
	Sufficient legal and regulatory framework policies to safeguard interests of people in joint	Correlation Coefficient	.067	1.000
		Sig. (2-tailed)	.618	.
		N	58	58

Source: Field data, 2019

To test the relationship between legal processes and regulatory framework Spearman's correlation was calculated. Presented results indicate $r=.067$, $p<.616$. An $r=.067$ indicates a very weak positive correlation. Its associated high $p<.618$ specifies that we accept the null hypothesis that asserts that there is no significant relationship between legal processes and joint venture financing and housing construction. This implies that the parties entering into these agreements do not feel adequately safeguarded by the existing legal framework. The findings indicate that government's frameworks may not be adequate**.**

Some of the direct feedback provided by the respondents to the research regarding the impact of the legal process and regulatory framework were as below;

"*We are still dealing with colonial laws in a modern world and this market is unregulated thus people decide to peg whatever value that they feel is appropriate for them thus throwing the real estate market into disarray. This market needs to be regulated urgently or else we will be facing Real Estate Market Crash as experienced in the U. S. a couple of years ago*" (Respondent No. 1)

The interpretation of the Respondent No 1 Sentiments is that, in as much as we have the various housing laws in place, most of them are archaic and are not supportive of the current real estate market. We require an updated all-inclusive version of the housing laws. The laws need to adopt and address the advantages and disadvantages of technologies in construction, the various financing options and what are the legislative repercussions where we have a breakdown in the process.

"*Largely positive. However, one of the major drawbacks is the absence of the Sectional Property law and the slow enactment of various aspects of the current Land law*" (Respondent No. 4)

The interpretation of the Respondent No 4 sentiment is that, there is enough legal and regulatory policies to safeguard peoples' interests albeit a few shortcomings in the archaic Sectional Properties Act of 1987 where we have provision of division of buildings into units to be owned by individual proprietors and common property to be owned as tenants in common. This would affect the residential apartment buildings where there are various owners and there are issues that arise that affects the entire complex an example being, if there was a burst pipe within the complex, under whose responsibility would that fall.

"*Though the legislation is there and well-articulated, the information is not being disseminated to the Landowners, developers and buyers. The Govt needs to pick up on this as it is one of the Big-4 Agendas for economic and population stability*." (Respondent No. 7)

The interpretation of the Respondent No 7 sentiment is that, despite there being enhancements on several land acts that have been amended since the New Constitution of 2010, the government needs to have a way to disseminate new or updated laws to the real estate construction fraternity. We have had an enactment of new land laws including: The Land Act 2012, The Land Registration Act 2012, The National Land Commission Act 2012, Community Land Act of 2016 which require public participation, interpretation and readily available.

"*Minimal impact factoring it's only those who are in the construction sector who are privy to what goes on with the frameworks already in place*" (Respondent No. 11)

The interpretation of the Respondent No 11 sentiment is that despite the legal and regulatory frameworks being in place, only those mostly in touch with the construction sector are the ones who know what is happening in the industry. For new entrants into the housing development sector, the availability of this material is not readily available.

The study results are in conformity that the government has attempted to boost the uptake of the housing financing by putting in place some regulatory framework by enacting some acts into laws. The impact however is not entirely felt at the grassroots by the participants of the joint venture financing option. From the quoted respondent excerpts, we note that the participants are not entirely up to date with the various policies and legislative enhancements that have been amended to facilitate improvement and delivery of the services

1.5 Conclusion

The study concludes that 49 (84.5%) of the respondents agree that prevailing inflation rate and cost of funds have a lot of influence on the joint venture financing. It is also concluded that the inflation and financial institutions lending interest rates fluctuation, influenced the joint venture financing adoption and housing construction in Kilimani. A large proportion of the respondents 45 (77.6%) indicate that it is a very influential economic factor that has high levels of influence on adoption of joint venture financing and housing construction in Kilimani Ward. On adequacy of legal processes and regulatory framework, 31respondents (53.4%) indicated that there is adequacy of legal processes and regulations. Only 27 respondents (46.6%) indicated that there is inadequacy of legal processes and regulatory frameworks. When qualitative analysis was applied it was concluded that some respondents believed the legal framework was archaic. It was established from the discussions that there was a knowledge gap in the dissemination of information regarding legislative housing policies in relation to housing development.

1.6 Recommendations

The recommendations derived from the study are that the government;

a) Should enhance a favorable economic environment for investments to take place and improve the standard of living so that the investors would have adequate disposable income. This is by formulation and implementation of feasible and sustainable frameworks, economic and fiscal policies that will be all inclusive to the stakeholders of the housing and construction sector.
b) Should establish training and knowledge centers which will enhance capacity building by addressing the learning points that have been researched in this paper. These include standardization of contracts where new joint ventures is established, determining the ownership structure and control elements of the joint venture, risks mitigation approaches from operational, technical and strategic points, study of the current building technologies that are more efficient, less costly and faster to build.
c) Should develop and implement concise strategies, processes and policies that will monitor and evaluate the performance measures for regulatory and authority agencies whose impact is not quantifiably measured

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