Effect of Social-Cultural Factors on Real Estate Investment: A Survey of Kisumu City

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Abstract
This study seeks to assess the effect of social-cultural factors on real estate investment. The study adopted a descriptive survey research design. The target population of the study included 1200 landlords of commercial real estates in Kisumu city. The study applied a stratified and random sampling technique to select a sample size of 300 individuals owning rental houses within Kisumu City. Collection of data for the study will be done mainly through questionnaire which will be given to 300 respondents. Data collected from the above stated sample will be analyzed both quantitatively and qualitatively. Qualitative data will rely mainly on narrations. Quantitative analysis will involve a summary description of the findings that rely on numerical. Both descriptive and inferential statistical analysis was applied. The data was analyzed using the multiple regression models. The findings of the study was to establish how the real estate investments could be improved in order to meet the increasing demand for commercial space and residential houses in Kisumu City. Results revealed that socio-cultural factors influence the real estate investment.

1.0 Introduction
The real estate investment is a service sector to the economy and its performance is directly and indirectly affected by the prevailing economic, legal and social conditions of the country. A vibrant economy will result in high opportunities, demographic attributes, financial structure and the market structure are important selection criteria for investment decisions. In addition, the accessibility of property is a critical factor in real estate investment due to the close link between market entry probability, liquidity risk, and market transparency.

The previous review also shows that the growth in real estate investment in a country is depended on the changes in economic activity and prosperity of a region or country (Hassett, 2008). According to the Chin, Dent and Roberts (2006) sound economic structure and an expected strong and stable economy are perceived to be the most significant factors in the ability of a region to attract foreign real estate investments. Besides, Hoskins, Higgins and Cardew (2004) found that GDP growth, inflation and unemployment show significant relations with composite property returns. Other researchers, such as Connor and Liang (2000), argues that over the long-term, the impact of technology on real estate investment has been overwhelmingly positive as advancement in technology affect positively the investment climate. Similarly, technological advancement have resulted to increased productivity and wealth, demand for all types of real estate has also increased (Connor and Liang, 2000). Connor and Lian (2000) latter even analyzed the property sectors individually and found that office and residential houses by far outperformed retail and industrial investments regarding inflation hedge.

Accelerating urbanization, which determines the structure, potential and quality of the real estate environment, plays an important role for the investment decision. Lynn (2007) notes that improvement in communication and transportation infrastructure facilitates the migration to cities and drives the pace of urbanization, which supports new development. Furthermore, Thrall (2002) claims that the financial and business service sectors reflect a growing level of sophistication in the service economy and, thus, the demand for commercial real estate.

The physical real estate market, with its capital-intensive nature, depends on social, economic and geographical factors (Mueller, 2005). Adlington et al. (2008) found out that viable and sustainable real estate markets require an established liquid capital market, including a stable banking and financial services system. Connor and Liang (2000) argues that publicly traded sources of equity capital, primarily as real estate investment trust (REITs), are particularly important for a dynamic real estate investment activity, due to the potential for raising capital in the public market at relatively low cost. Real estate firms consider initial public offerings (IPOs) as favored exit routes, and Hartzell, Liu and Kallberg (2004) found evidence of the positive link between local geographic factors and commercial real estate activity. In addition, FDI (foreign direct investment) inflow into a country plays an important role in the state of the real estate investment environment (OECD, 2002). Laposa and Lizieri (2005) show that relaxation of FDI regulation for investments in retail businesses has given further impetus to the commercial real estate sector. Even so, since commercial real estate assets are often used as collateral within leveraged buyout transactions, Brown, et al., (2006) notes that economic factors play an active role in flourishing
real estate markets.

Glaeser et al. (2001), and Djankov et al. (2003 and 2005) suggests that parties in common-law countries have greater ease in enforcing their rights arising from commercial contracts. However, Chin, Dent and Roberts (2006) and Lim, McGreal and Webb (2006) conduct surveys and reveal that particular aspects of the legal framework and legal regulation are also very important for real estate investors’ market perceptions. They relate this finding to the immobility of real estate property and to the complexity of real estate transactions. The current understanding of the factors affecting the housing supply, from the existing literature, stem from the public or government provision of new units through real estate development (Brown, et al., 2006).

Kenya is one of the African countries with the greatest segment of the population taking up urban residence. According to a report by the National Housing Corporation (NHC, 2009), the Vision 2030 estimates that the country requires 200,000 new units of housing but only 35,000 units have been produced to date. That means we have a deficit of 165,000 housing units. Similarly, a report from the Kenya National Bureau of Statistics (KNBS, 2010) indicates that real estate investment has contributed lot to the growth of Kenya’s Gross Domestic Product. For instance, data from Kenya National Bureau of Statistics report (KNBS, 2012) shows that, in 2008, real estate contributed 107,323,000 Kenya shillings to the country's GDP. In the subsequent year, 2009, the value of GDP attributable to real estate reduced slightly to 116,657,000 Kenyan Shillings. In addition, the value of GDP further rose in 2010 to 123,173,000 Kenya shillings and consequently the contribution to GDP from real estate rose further in 2011 to 134,746,000 Kenyan shillings. Further, according to the report of 2011, real estate and renting business services play a crucial role in the Kenyan economy. For instance the investment grew at 3.5% in 2007 and rose slightly to 3.7% in 2009.

However, the growth declined sharply to 3.0% in 2009 due to reduction in capital investment and the poor performance of the economy as the result of the post-election violence, which led to destruction of property and in the 2007 general elections. The growth picked up in the preceding years at 3.2% and 3.6% in 2010 and 2011 respectively, as investment climate became conducive and by the of the end of the third quarter of 2012 the investment was growing at 3.8% depicting an increasing trend. There has been a great appreciation of property prices and volatility across the different property markets in Kenya since the year 2006.

Kisumu City is densely populated and houses around 500,000 people. More than half of these people live in slums, and a lot are extremely poor. Kisumu has three crowded slums located within it. Over three hundred thousand people live closely packed together in miserable conditions, lacking the basic necessities of life (UN Habitat, 2005). Kisumu, for the last couple of years, has been doing well development wise. With the expansion of Kisumu international airport, the glory of Kisumu has continued to shine and now it is a town which enjoys a city status. World class roads are being built, water and sanitation infrastructures are being developed and investment by local investors is steadily rising (Ondola, Odundo & Rambo, 2013). Kisumu city is currently enjoying a property boom in the housing sector as a result of ongoing infrastructural projects. Growth in education as well as banking sector has lead to increased demand for housing as a result of increased number of workers who have migrated to the city to make a living. According to statistics released recently by the ministry of land and housing (Ondola, Odundo & Rambo, 2013), Kisumu is likely to record a greater demand for housing amenities in future. This is because of strategic position of the city which has promoted it to a major business hub in East Africa region. It is within this background that this study seeks to investigate the determinants of the commercial real estate investment in Kisumu City, and examine how the real estate investments could be improved in order to meet the increasing demand for commercial space and residential houses in the City.

1.2 Statement of the Problem

Real estate in Kenya is a lucrative business and this is evident in the constant construction of buildings in all parts of the country. Despite being ranked poorly in the global market, Kenya is ranked the fourth best in Africa for housing, with many people in the working class and the middle class opting to own their own homes and places of business, in order to put an end to paying rent. There are a number of options available to Kenyans who are willing to invest in real property. These include mortgages, buying already built houses or building a house from scratch. On the other hand, there are implications and conditions that come with all of the above cited ways of acquiring property. Building a house may prove to be a cheaper way, but it is highly influenced by the rise of prices of prime land, which at the moment are rapidly increasing. Renting of houses is a cheaper option compared to buying a house which can prove to be quite costly. Even though financing of mortgages is cheaper in Kenya than countries in east Africa, many people are still forced to be tenants other than buyers and builders.

Further, it has not been a smooth ride for the real estate sector as there are factors that affect it, namely; high rate of urbanization, lack of serviced land, lack of affordable housing squatter and slum settlements. That not with standing there are a additional number of things that influence real estate investments, such as political stability, foreign investors and economic growth (Real Care, 2010).

The main concern is that real estate contribution to the economy of Kenya (as measured in relation to the economic growth) has faced a declining trend for the past years. For instance in 2008, it contributed to 5.1% of...
total GDP, and in 2009 it reduced to 4.9% of GDP. Subsequently, it slightly fell to 4.8% in 2010 and further declined to 4.5% in 2011. Consequently, the high costs of rents in Kisumu City have also been severely attributed to the lagging rate at which real estate investments seem to be competing with their demands. Nevertheless, there are few studies in Kenya, such as Muthee (2012) who sought to determine the relationship between economic growth and real estate prices in Kenya. Jumbale (2012) who attempted to determine the relationship between house prices and real estate financing in Kenya. Muli (2011) studied the relationship between property prices and mortgage lending in Kenya. Julius (2012) studied the determinants of residential real estate prices in Nairobi. However, there are limited studies that attempted to address the factors that determine real estate thereby creating a dearth gap in the existing literature. The study therefore, sought to analyze the effect of social-cultural factors on real estate investment in Kisumu City.

2.0 Effect of Socio-Cultural Factors ON Real Estate Investments

Studies have also suggested that socio-economic factors could be pertinent in influencing investment in real estate. Bardhan and Edelstein (2007) noted that social structure, marriage institutions, inter-state relations and, more broadly, socio-economic organization have been affected by and simultaneously have influenced the nature and functioning of real estate markets. Bowles and Choi (2002) suggested that at a micro-socio level, the evolution of the structure of the family and the household has been a source of unexpected changes on the demand for real estate, particularly in the sphere of housing.

Living arrangements have changed dramatically over the centuries, albeit not always along a straightforward and foreseeable path, from a setup involving joint families and households to independent, nuclear families and households, with a concomitant impact on the number of housing units demanded as well as the space allocation per unit. The changing institutions of domestic servitude, which in turn are a function of social changes, have also altered living space requirements, migration related factors, economic and social inequality, urban structure and the availability of job opportunities (Bowles 2002).

The lumpy, sunk-cost nature of real estate, tied to a particular location, is a defining attribute of real estate, and as such exposes investors to unique multifaceted risks. Changing demographics, tastes, commuting patterns, all examples of socio-cultural factors, can transform location from desired to shunned, and vice-versa (Bardhan and Edelstein, 2007). Bowles (2002) argued that family size and age-group distribution affects the number of investments made in the real estate industry. Neighborhood stability and attitudes about property contributes mainly to positive or negative perceptions about the real estate investment business. Population growth, decline, or shifts at the community, regional and national levels affects how investors perceive real estate business hence having a lot of impact on the total number of investments made in commercial real estate (Komal 2009).

Life-styles and living standards often combined with other forces plus attitudes about law enforcement, the role of government and individual responsibility could positively or negatively affect the number of real estate investments in the country (Malik 2008). Johnson (2008) argues that attitudes about development, growth and ecology together with attitudes toward public education affect how real estate investment is carried out. Positive attitudes will enhance real estate investment while negative attitude will hinder the development of real estate in the country at large hence decrease the level of investments made in the country and the total amount of income made in the country. People have the basic need for territory and companionship. Also, price and status of certain places prompt people to have one location over another. The social factors of age distributions, education, ratio of crimes, and pride of ownership, need consideration when examining residential real estate use patterns (Johnson 2001).

3.0 Methodology

The study adopted a survey research design with a target population of 1200 (Kisumu county, ministry of housing) landlords of commercial real estates in Kisumu city. The sample population was 300 responded. The data collection tool was a questionnaire which was checked for validity and reliability. Both primary and secondary data was used. The primary data was obtained from the respondents of the study using a questionnaire. A pilot study was conducted to ensure the results obtained were valid and reliable.

4.0 Discussion

Results from table 4.1 below shows results on socio cultural factors on real estate investment in Kisumu City. When respondents were asked whether there is a wall there is a well ethnic dynamism in Kisumu city that favors investment in real estate, on a likert scale of strongly agree, agree, neutral, disagree and strongly disagree, majority of them were neutral on the statement. 25 percent disagreed, while 22.9 percent agreed.

Results on whether there is a good attitude towards other ethnic communities by the local community to foster investment in real estate, majority did not know by 30 percent, 30.8 percent disagreed to the statement. 15.8 percent of them were neutral on the statement. 25 percent disagreed, while 22.9 percent agreed. 15.8 percent of them were neutral on the statement. 25 percent disagreed, while 22.9 percent agreed respectively. only 5 percent strongly disagreed showing that they did not know about there was a good attitude towards other ethnic communities by the local community to foster
investment in real estate.

Results on the statement that the status and roles of the people in society of Kisumu city favors investment in real estate revealed that 30 percent of the respondents agreed, 27.5 percent disagreed. 23.3 percent were neutral, while 13.8 strongly agree and 5.4 percent strongly disagreed respectively that the status and roles of the people in society of Kisumu favors investment in real estate.

From table 4.1 below, again on the statement of the cultural practices of the locals are in line with modern real estate investment 33.3 percent of the respondent agreed, 15.8 percent strongly agreed while 24.6 percent disagreed and 7.1 strongly disagreed to the statement. 19.2 percent were neutral.

Results on the statement that most of the residents in the municipality are family people thus boost the investment in real estate 32 percent disagreed with 3.8 percent strongly disagreeing. 22 percent strongly agree and 19.6 percent strongly agreeing respectively. only 21.3 percent who were neutral. as shown on table 4.1 below.

Table 4.1: Descriptive Statistics for Socio-cultural Factors

<table>
<thead>
<tr>
<th>Variable</th>
<th>SD</th>
<th>D</th>
<th>N</th>
<th>A</th>
<th>SA</th>
</tr>
</thead>
<tbody>
<tr>
<td>There is a well ethnic dynamism in Kisumu city that favors investment in real estate</td>
<td>Percentage</td>
<td>5.8</td>
<td>25</td>
<td>30.8</td>
<td>22.9</td>
</tr>
<tr>
<td>There is a good attitude towards other ethnic communities by the local community to foster investment in real estate</td>
<td>Percentage</td>
<td>6.7</td>
<td>30.8</td>
<td>33.8</td>
<td>12.9</td>
</tr>
<tr>
<td>The status and roles of the people in society of Kisumu city favors investment in real estate</td>
<td>Percentage</td>
<td>5.4</td>
<td>27.5</td>
<td>23.3</td>
<td>30</td>
</tr>
<tr>
<td>The cultural practices of the locals are in line with modern real estate investment</td>
<td>Percentage</td>
<td>7.1</td>
<td>24.6</td>
<td>19.2</td>
<td>33.3</td>
</tr>
<tr>
<td>Most of the residents in the municipality are family people thus boost the investment in real estate</td>
<td>Percentage</td>
<td>3.8</td>
<td>32</td>
<td>21.3</td>
<td>22</td>
</tr>
</tbody>
</table>

Thus, while investors are likely to agree that locals have a good culture and are family people that boost investment in real estate, they are likely to rate more poorly the locals attitude to other ethnic communities and the ethnic dynamism existing in Kisumu City.

The study conceptualized that socio-cultural factors influenced commercial real estate investment in Kisumu City. A Pearson correlation was conducted to establish the degree of relationships between the real estate investment and the independent variables. The Pearson correlation coefficient ranges from 0 (if no relationship exists) to 1 (for a perfect relationship). The results are shown in Table 4.2 below. The table showed that all the predictor variables in the study was significantly related (P<0.001) with the dependent construct (real estate investment).

Table 4.2: Pair wise correlations analysis results

<table>
<thead>
<tr>
<th>Variable</th>
<th>Real estate investment</th>
<th>Socio-cultural factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real estate investment</td>
<td>r</td>
<td>1</td>
</tr>
<tr>
<td>Socio-cultural factors</td>
<td>r</td>
<td>677*</td>
</tr>
</tbody>
</table>

r = Pearson correlation coefficient; * = correlation significant at .01 level (2-tailed)

From the table 4.2 above, result shows that all the independent variables are likely to influence the real estate investment. The relationship between each independent variable and dependent variable are all positive. This means that the variables move together in the same direction, that is, they increase or decrease together. For example, when socio-cultural factors improve, investment in commercial real estate likely improves and vice versa at 68 percent.

Multiple linear regression was employed to help determine which of the independent socio-cultural factors) to predict investment in real estate. The highest Cook’s distance was .097 while the maximum leverage value was .094, which were less than one and two, respectively. This indicated that no single case exerted undue influence on regression coefficients, hence, there were likely to be no extreme outliers in the data. The predictors had either moderate or high correlation with the dependent variable, which indicated that the data was suitable for examination through multiple linear regression.
4.2 Regression model results

The table 4.3: Regression results

<table>
<thead>
<tr>
<th></th>
<th>Unstandardized Coefficients</th>
<th>Co linearity Statistics</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>-0.705</td>
<td>0.147</td>
<td>-4.81</td>
</tr>
<tr>
<td></td>
<td>Std. Error</td>
<td>Beta</td>
<td>T</td>
</tr>
<tr>
<td>Socio-cultural factors</td>
<td>0.286</td>
<td>0.056</td>
<td>0.298</td>
</tr>
<tr>
<td></td>
<td>T</td>
<td></td>
<td>5.081</td>
</tr>
<tr>
<td></td>
<td>P-value (Sig.)</td>
<td>Tolerance</td>
<td>VIF</td>
</tr>
<tr>
<td></td>
<td>0.000</td>
<td>0.453</td>
<td>2.209</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Real estate investment

Hence, using the constant and the B coefficients of socio-cultural factors (X4), an estimated prediction (regression) equation for this model can be written as follows:

\[ \hat{Y} = -0.705 + 0.286X + e \]

Since the regression results of p-values in table 4.3 above of all the coefficients of the independent variable were less than 0.01 (0.00), it indicates that positive relationship .357 for socio-cultural factors was significant at 99 percent interval level. It applies that the major determinants of real estate investment in Kisumu are the socio-cultural factors.

Since no a priori hypotheses had been made to determine the order of entry of the predictor variables, the model was built by the forced entry of all the hypothesized independent variables. Table 4.4 shows the model summary statistics that was obtained to measure the strength of the regression model results: The R^2 in this model was found to be .789, which means that the four predictors could explain about 79 percent of the variation in real estate investment. Since R^2 values above 40 percent are considered high, this model could therefore explain a lot of the variation in the dependent variable. In other words, we can predict, to a great degree, real estate investment by using the four independent variables. The remaining unexplained variation in service quality could partly be attributed to other factors not specified in the model and partly to the error term in the regression equation.

Adjusted R square provides information on how well a model can be generalized in the population. If this model had been derived from the population rather than the sample, then it would have accounted for approximately 78.5 percent of the variance in the dependent variable, which is just about 0.4 percent less than what the model explains. The Durbin-Watson statistic shows whether the assumption of independent errors is tenable, or existence of serial correlation. The value should not be less than 1 or greater than 3. In this model, it was 1.95, meaning that the errors were independent.

Table 4.4: Summary Statistics of the Regression model

<table>
<thead>
<tr>
<th></th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Durbin-Watson</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.888</td>
<td>0.789</td>
<td>0.785</td>
<td>1.952</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Socio-cultural factors

Dependent Variable: Real estate investment

4.6.4 ANOVA results of the regression analysis

The analysis of variance (ANOVA) table 4.5 below, also called the overall regression F test, is used to test several equivalent null hypotheses: that there is no linear relationship in the population between the dependent variable and the independent variables, that all of the population partial regression coefficients are 0, and that the population value for multiple R^2 is 0. This study found a significant regression equation, F (4, 235) = 219.69, p < 0.001. Therefore, there was likely to be a linear relationship between real estate investment and the predictors in the population, at least one of the population partial regression coefficients of the predictors is not 0, and the population value for multiple R^2 is not 0. Please, note that the statistics from the ANOVA table are the same as the change statistics presented earlier.

Table 4.5: Shows the ANOVA table

<table>
<thead>
<tr>
<th>MODEL</th>
<th>Sum squares</th>
<th>of Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>336.428</td>
<td>4</td>
<td>84.107</td>
<td>219.685</td>
<td>.000</td>
</tr>
<tr>
<td>Residual</td>
<td>89.970</td>
<td>235</td>
<td>.383</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>426.398</td>
<td>239</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Socio-cultural factors,
5.0 Conclusion and Recommendations

Social-cultural factors have been shown to have a significant impact on real estate investment. This is because the coefficients related with social-cultural factors contribute up to 5.6% of the variation in real estate investment as revealed by simple regression. Similar studies in other developed countries have also shown the same results, for example, Studies have also suggested that socio-economic factors could be pertinent in influencing investment in real estate. Bardhan and Edelstein (2007) have noted that social structure, marriage institutions, inter-state relations and, more broadly, socio-economic organization have been affected by and simultaneously have influenced the nature and functioning of real estate markets. Bowles and Choi (2002) have suggested that at a micro-socio level, the evolution of the structure of the family and the household has been a source of unexpected changes on the demand for real estate, particularly in the sphere of housing. Bardhan and Edelstein, 2007, suggested that socio-cultural factors, can transform location from desired to shunned.

Social-cultural factors such as ethnic dynamism, attitude towards other communities, Good status and roles. Cultural practices in line with modernity and Residents are family people positively influence more investment in real estate. A call for more structure and use of information in the market analysis. By applying a more structural and thorough approach in the construction of the market analysis, to promote an opportunity for better informed decisions for investors. It was evident that most of the land polices in the county are not favorable for the investors. This might in effect imply that there is less investment in real estate in the city. Inducement to real estate investors by financial institutions in the form of good terms in loaning would help to open up the city in terms of housing estates to cater for the growing population.

The county government should broaden its scope in terms of the size of the city to widen possibility for better terms in loaning to the people who are outside the city and to enhance their credit rating. To the financial analysts, it is important to realize the need to sensitize their clients to do more investment in real estate in the County because there is need for housing. Further, they need to let financial banks realize that real estate investment in the municipality is not exhausted financing so that they can open up possibilities for their client who would like to venture in the same.

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