

DETERMINANTS OF COMPETITIVE ADVANTAGE IN THE REAL ESTATE INDUSTRY IN KENYA: A CASE OF THIKA GREENS GOLF ESTATE IN MURANGA COUNTY**Charles Kibiru Reubenson**

University of Nairobi, Kenya

Prof. G. P. Pokhariyal

Head Applied & Industrial Mathematics, School of Mathematics, University of Nairobi, Kenya

John Obwocha

Jomo Kenyatta University of Agriculture and Technology, Kenya

CITATION: Kibiru, C. R., Pokhariyal, G. P and Obwocha, J. N. (2014). Determinants of Competitive Advantage in the Real Estate Industry in Kenya: A Case of Thika Greens Golf Estate in Muranga County. *International Journal of Social Sciences and Entrepreneurship*, 1 (9), 521-529.

ABSTRACT

Real Estates development industry is recognized globally for taking a critical role in social, political and economic development. World over, the real estate industry plays a significant role in providing employment opportunities, enhancing income distribution, development of skills and alleviating poverty. However, in Kenya the real estate industry has not been able to fulfill this fundamental role due to a number of unique factors that affect investment sustainability in the sector. The study targeted a sample of 209 respondents out of which 152 respondents gave their responses giving a response rate of 73%. The aim of this study was to examine the factors that determine the Competitive Advantage in Real Estate industry in Kenya with specific reference to Thika Green Limited (TGL) in Muranga County. The key factors which the researcher put under investigation were product differentiation strategies and product location and its proximity to infrastructures. The key objective of the whole study was to find out how the above key factors determine the Competitive Advantage in the real estate's industry in Kenya. Key research questions of the study were: To what extent does a product differentiation strategy influences the performance of the Real Estate industry in Kenya? How proximity to key infrastructure does determine the Competitive Advantage of the Real Estate industry in Kenya? The researcher adopted descriptive research in the study because this was a qualitative research. The target population was 2082 authenticated land owners who had started developing their Plots. Out of this 209 was selected as a sample size. Data was collected through Structured and Non Structured Questionnaires and Face to Face Interview. The researcher used SPSS tool to analyze the data after they were collected. The study concludes that that the development of infrastructure promoted the real estate development performance by motivating the customers to invest in the sector. This study therefore recommends that there is need to invest in infrastructure such as roads, water and sewerage in order to promote the competitiveness of the real estate businesses in Kenya.

Key Words: *Competitive Advantage, Real Estate Industry, Kenya, Thika Greens Golf Estate, Muranga County*

Introduction

The emergence of the first global firms in the sector reflects a significant shift in competitive advantage in RES. This paper examines this shift through an investigation of the determinants of competitive performance drawing on case study evidence from the leading real estate service firms in the United Kingdom (UK) and the United States of America (USA). Such an investigation provides a number of useful contributions to both our current knowledge of competitive advantages in professional business services in general and RES in particular. Firstly, it provides insights into how a very local orientated business service can develop advantages, which can be exploited globally. Secondly, it provides a range of models of competitive advantage in the sector and finally it provides important insights into the future organizational structure of the sector, in particular the extent to which the global firms can exploit existing advantages to increase their total market share with obvious consequent implications for the smaller players in the sector.

Real estate market is no exception and especially due to the fact that it is highly heterogeneous, and no two development sites are identical. Many factors determine their competitiveness for instance location and physical attributes are important determinants of the value of the site. Accessibility to sites could also create differential prices for two sites that are identical in size, use and their development. According to Taylor (2009), the growth of real estate industry is important for the overall development of a country. Most importantly, it increases the well-being of household by providing superior shelter and helping establish personal wealth that can be leveraged for creation of more wealth. The development of real estate industry is important for the overall development of a country as it contributes to employment, the development in commercial banking and ultimately to the development of capital markets.

Problem Description

According to an opinion article by Mulupi (2012), the weakening of the shilling against major currencies, double digit inflation and interest rates hike to a historical 30% up from 14% in 2011 took its toll on one of Kenya's most resilient sectors. Developers and buyers continue struggling to meet financing costs occasioned by the high interest rates triggered by aggressive tightening of monetary policy to counter the weakening of the shilling and high inflation. The paradox is some developers are abandoning projects, postponing phases, or reducing the number of homes under construction, construction workers are being laid off and fore closures are anticipated in coming months- all these amidst an annual demand of 250,000 housing units and supply of only 60,000. On a global perspective a study by Miller (1982) concludes that 'to dominate real estate sector with traditional marketing strategies seems impossible'.

Statement of the problem

The study endeavored to establish the determinants of competitive performance in the real estate industry in Kenya and the success garnered so far. The study in particular looked at how Thika Greens Golf City, a mixed-use fully integrated development project, which offers a unique lifestyle to the estate residents is ensuring it is the market product of choice for the discerning home owners. This study narrows down to Thika Greens Golf Estate while in knowhow of existence of other gated upcoming estates like Migaa, Tatu City, Buffalo Hill, Rea Vipingo among others.

Objectives of the study

1. To establish the extent to which product differentiation strategies determine the Competitive Performance in the Real Estate industry in Kenya.
2. To access the extent to which physical proximity to infrastructure determine the Competitive Performance in the Real Estate industry in Kenya

The Concept of Real Estate Industry

A major challenge in real estate industry is financing, both at development stage and in end-user finance. Kenya has only two financial institutions specializing in real estate funding. These are Savings and Loans (S & L) and Housing Finance Corporation of Kenya. The former merged with its mother company, the Kenya Commercial Bank on 1st January, 2010 which now only leaves the latter as the only stand-alone real estate finance company. Because of the limited financing options, the real estate industry in Kenya has been characterized by fairly rigid financing conditions and relatively high interest rates. Margret (2005) states that in business there is need to put capital aside for the growing of the business in response to the demand of which small scale business operators do not have. Taro (2004) states that the lack of capital is a problem for small and micro business enterprises therefore most have remained operating in small scale.

Thika Greens Golf Estate

Thika Greens is a three-phase Real Estate development project, incorporated on 29th December 2008. The project's broad objective is to develop three unique residential communities with world class infrastructural on some 1,706 acres of land in the outskirts of Nairobi but within the 100km radius of Nairobi's Metropolitan boundary. It is anticipated that at the project completion in 2015 it shall deliver up to 4000 new homes with up to date infrastructure and all social amenities. As the brain child of five entrepreneurs, Thika Greens development represents an ambitious practical actualization of the Vision 2030 plans to decongest Nairobi city and other urban centers as stipulated in its social pillar.

Determinants of Competitive Advantage in the Real Estate Industry

Product Differentiation strategies and how they determine the Competitive Advantage of Real Estate Industry

Product differentiation is achieved by offering a valued variation of the physical product. The ability to differentiate a product varies greatly along a continuum depending on the specific product. There are some products that do not lend themselves to much differentiation, such as beef, lumber, and notebook paper. Some products, on the other hand, can be highly differentiated. Appliances, restaurants, automobiles, and even batteries can all be customized and highly differentiated to meet various consumer needs. In Principles of Marketing (1999), authors Gary Armstrong and Philip Kotler note that differentiation can occur by manipulating many characteristics, including features, performance, style, design, consistency, durability, reliability, or reparability. Differentiation allows a company to target specific populations.

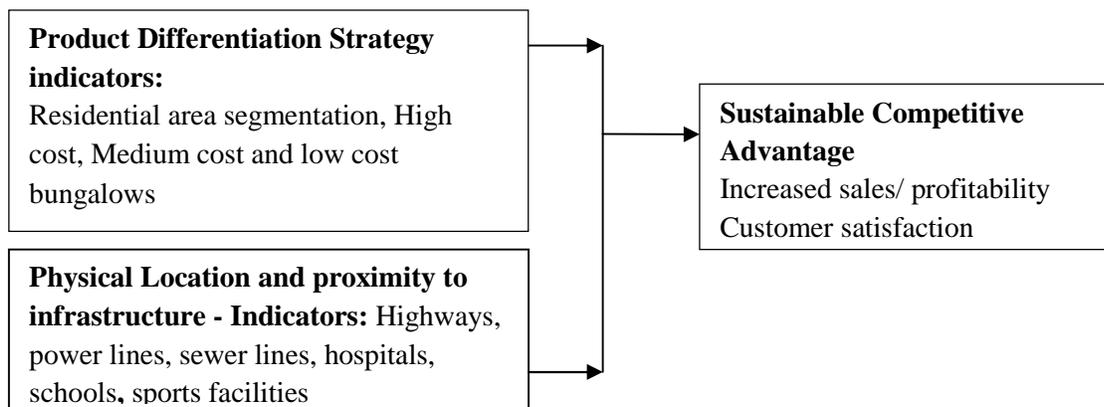
Physical Location and Proximity to Key Infrastructure and how they influence the Competitive Advantage of Real Estate Industry

One of the main challenges facing housing sector in Kenya is insufficient serviced land for housing development. The demand for land with necessary infrastructure (Access roads, water, sewerage and electricity) by far exceeds supply. The department assists in meeting the demand for serviced land through coordination of provision of housing infrastructure services by either the government or through the private – private or public- private partnerships. Sessional Proposal No.3 of 2004 on National Housing Policy for Kenya, under article 42 states that “ the opening of new land for housing development or the upgrading of existing informal settlements require installation and maintenance of infrastructure such as water, sewerage, roads, electricity, social services and security. Infrastructural services and facilities therefore form a major and vital component of shelter provision facilitation. It is further envisaged that, accessibility to adequate urban basic services will greatly improve people’s economic capacities, health and quality of life in general”.

Conceptual Framework

Independent variables

Dependent variable



Research Design

The researcher used descriptive research design. Research design refers to the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in the procedure (Mugenda and Mugenda, 2003). According to Donald & Delno (2003), the plan is also the overall program of the research and includes an outline of what the investigator will do from writing of the hypothesis and their operational implications for the final analysis of data. Cooper and Schindler (2003) summarizes the essentials of research design as an activity and time based plan; always based on the research question; guides the selection of sources and types of information; a framework for specifying the relationship among the study variables and outlines the procedures for every research activity. The researcher will collect and collate data from different primary and secondary sources. The design is preferred because it is concerned with answering questions such as who, how, what, which, when and how much (Cooper and Schindler, 2003). A descriptive study is carefully designed to ensure complete description of the situation, making sure that there is minimum bias in the collection of data and to reduce errors in interpreting the data collected.

According to Cooper and Schindler (2003), descriptive studies are more formalized and typically structured with clearly stated hypotheses or investigative questions. It serves a variety of research objectives such as descriptions of phenomenon or characteristics associated with a subject area of population that can be used to define the characteristics of the whole population, and discovery of associations among different variables.

Data Analysis Technique

The researcher proposed to use descriptive qualitative analysis through both Correlation and regression analysis to establish the relationship between independent and dependent variables. The regression model was of the general form of:

$$Y = f(X_1, X_2,)$$

$$\text{Thus } CA = \beta_0 + \beta_1 PD + \beta_2 LnP + \varepsilon$$

Where:

CA = the dependent variable (Competitive Advantage of TGL)

β_0 = Is a constant

β_0 , β_1 and β_2 = Constants that show how the dependent variables changes with a unit change in the respective independent variables.

PD and LnP = Independent variables (Product Differentiation (PD); and, Physical location and proximity to key infrastructure (LnP) that the study sought to find if they had an effect on the dependent variable.

ε = the error term which captured the effect of all other variables that have been omitted. It's also referred to as disturbance. These variables were either not known or difficult to measure.

$\beta_0 + \beta_1 PD + \beta_2 LnP$ = Deterministic component

While

$$\beta_0 + \beta_1 PD + \beta_2 LnP + \varepsilon = \text{Probabilistic model}$$

Research Findings

Product Differentiation and influence of Competitive Advantage

The study revealed that TGL offered different products for different customer groups and that the firm had products which were unique from each other. The study further revealed that TGL offered different after sales benefits for different projects phases and that the firm's product differed in quality from each other depending on target market. The study established that TGL had a high level of innovativeness.

Project Location and proximity to infrastructure and influence of Competitive Advantage

The study established that TGL was keen on ensuring access to clean water for its customers. The study also established that the projects were served by all weather roads being in good conditions. The study revealed that the customers agreed to the promise to provide reliable electronic power source with a back-up generator provided. The study also revealed that the project was close to social amenities and that the region was secure and friendly. The study further established that the customers agreed that the project was accessible and that Thika super highway had influenced the customers purchase decision at TGL. Lastly, the study revealed that the customers were fully satisfied with the property they purchased and that entrepreneurial skills, marketing strategies, product differentiation strategies, physical proximity to infrastructure influenced the competitiveness of Thika Greens LTD.

Discussion of Findings

Product Differentiation and influence of Competitive Advantage

The study revealed that TGL offered different products for different customer groups. In Principles of Marketing (1999), authors Gary Armstrong and Philip Kotler note that differentiation can occur by manipulating many characteristics, including features, performance, style, design, consistency, durability, reliability, or reparability. Differentiation allows a company to target specific populations. The study further revealed that TGL offered different after sales benefits for different construction projects and that the firm's product differed in quality from each other depending on target market. In Principles of Marketing (1999), Philip Kotler notes that companies can also differentiate the services that accompany the physical product. Two companies can offer a similar physical product, but the company that offers additional services can charge a premium for the product. The study established that TGL had a high level of innovativeness. Gary Armstrong notes that product innovation is very important to remain competitive, but just as important is process innovation. Process innovation is anything new or novel about the way a company operates. Process innovations are important because they

often reduce costs, and it may take competitors a significant amount of time to discover and imitate them.

Project Location and influence of Competitive Advantage

The study established that TGL was keen on ensuring access to clean water for its customers. One of the main challenges facing housing sector in Kenya is insufficient serviced land for housing development. The demand for land with necessary infrastructure (Access roads, water, sewerage and electricity) by far exceeds supply. The study also revealed that the project was close to social amenities. The study found out that the region was secure and friendly. The study established that the customers agreed that the project was accessible. The study further established that Thika super highway had influenced the customers purchase decision at TGL. This is as per the Sessional Proposal No.3 of 2004 on National Housing Policy for Kenya, under article 42 that states; “ the opening of new land for housing development or the upgrading of existing informal settlements require installation and maintenance of infrastructure such as water, sewerage, roads, electricity, social services and security. Infrastructural services and facilities therefore form a major and vital component of shelter provision facilitation.

Conclusions

The study also deduced that there exists a significant relationship between product differentiation and the competitive performance of TGL. Product differentiation is achieved by offering a valued variation of the physical product. The ability to differentiate a product varies greatly along a continuum depending on the specific product.

The study further concludes that there exists a significant relationship between project location and the competitive advantage of TGL. Physical proximity and development of infrastructure affects the success of real estate development.

Finally, the study concludes that physical location had the greatest effect on the competitive advantage of TGL while product differentiation had the least effect on the competitive advantage of TGL.

Recommendations

From the study findings and conclusions, the following recommendations are made:

The study found out that there the development of infrastructure promoted the real estate development by motivating the customers to invest in the sector. This study therefore recommends that there is need to invest in infrastructure such as roads, water and sewerage in order to promote the competitiveness of the real estate businesses in Kenya.

The study established that 30% of the respondents were not initially aware of the project location; therefore it is recommended that awareness should be created on the areas in which the projects are located.

References

- Armstrong, G. and P. Kotler. (1999). *Principles of Marketing*. 8th ed. Upper Saddle River, NJ: Prentice Hall.
- Cooper and Schindler (2003): *Descriptive studies Research practices; methodology and Analysis*
- Donald, K. K., & Delno, L.A.T. (2003). *Proposal and Thesis Writing; An Introduction*, Nairobi, Pauline's Publication of Africa.
- Kotler K. (2009): *Marketing Management, Millennium Edition*, New Jersey: Prentice Hall.
- Margret, J. (2005). Why business models mater? Harward Business Review, R0205F, viewed on 5, October 2010, <http://info.psu.edu.sa/psu/fnm/asalleh/WhyBusModelMatter.pdf>.
- Miller, N.G. (1982), "Residential property hedonic pricing models: a review", Urban Housing Markets and Property valuation. Research in Real Estate, Vol.2, JAI Press, Greenwich,CT, pp.25-46.
- Mugenda, M. & Mugenda, G. (2003): *Research Methods, Quantitative and Qualitative Approaches*, Kenya.\
- Taylor I. R. (2009): *The Current State of Asset Securitization in Africa – Historical Perception of Capital Generation*. Oxford university press: United Kingdom Writing Powerful Business Plans, 2nd Edition