The Management of Corporate Real Estate Assets in Kenya

Catherine KARIUKI, Nicky NZIOKI, Kenya

Key Words: Estate Management, Corporate, real estate assets,

SUMMARY

Management of corporate real estate assets in Kenya is often not a priority, despite the fact that companies, both public and private, own real estate valued at large sums of money. Like many corporations in other countries, their lack of proper management of these assets is because they are not in the real estate business. These institutions in some cases do not maintain adequate information of their real estate assets. Some of these corporations have estate departments, with qualified personnel, majority don't. One company quoted on the stock exchange show real property asset values of more than Kshs. 1.6 billion comprising freehold land and buildings as at March 2008 while another company owns freehold land worth Kshs.6.4 and buildings worth Kshs. 209.3 million as at January 2007. One US Dollar exchanges at between Kenya shilling 75 to 80.

This paper seeks to explore how these corporations manage these assets, how effective is their real estate management. The paper recommends that more priority must be accorded corporate estate management by corporate management and training institutions.

The Management of Corporate Real Estate Assets in Kenya

Catherine KARIUKI, Nicky NZIOKI, Kenya

INTRODUCTION

The buildings and land held by large organizations are part of the organizations assets. These assets are important for the smooth operations of these organizations. In Kenya corporations quoted on the Nairobi Stock Exchange are 47 in number consisting of organizations in the agricultural, commercial and services industry as well as finance and Investment and within the Industrial and Allied sectors.

These are publicly quoted and all operate on real property. Total occupancy can be very high, if rents are being paid, this translates in rent, maintenance cost. If properties are owner-occupied, this also comes with costs of ownership. These costs include rates paid to the local authorities, land rent paid to the central government and maintenance.

As stated by Heywood corporate real estate and its management have seldom been studied, but are important as corporate real estate is an organisation's second largest resource. While Veale (1989) states that in the US, corporate real estate represents about one quarter of corporate worth. Significant operating costs are associated with maintaining these assets. In some cases total occupancy costs can range between 5% to 8% of gross sales. These costs are sometimes second to payroll costs (Veale, 1989).

In some other companies, Hill et al (2001) found out that real estate is not adding shareholder value and is considered an 'operational pain'. Is this the case for Kenyan companies. Are shareholders interested in the real estate and the related management function.

THE HISTORICAL PERSPECTIVE OF REAL ESTATE ASSETS MANAGEMENT IN KENYA

A starting point will be a discussion on the historical perspective of the genesis of real estate assets management in Kenya and the efforts made so far since independence including the introduction of the relevant legislative framework and institutional arrangements in the property management in general.

THE RELEVANT LEGISLATIVE FRAMEWORK AND INSTITUTIONAL ARRANGEMENTS

The management of real estate assets is regulated by a number of statutes. These laws regulate the leasing, transfer and maintenance of real estate. This includes the following: The Public Health Act, which relates to maintenance of property in a good habitable condition. Specifically sanitation and housing are covered under Part IX of the Act, sections 115 to 126. The workings of this Act spells out the minimum standards to keep the property in and the consequences likely due in default. Secondly, the Landlord and Tenant Act which aims to make provisions with respect to certain premises for the protection of tenants of such premises from evictions or exploitation and other incidentals. It works as a counterpart of the Rent Restriction Act Cap 296 in commercial properties. It spells out the lease terms under the Acts control, maintenance and repair roles, payment of certain charges etc. The manager should be aware of this Act so as to manipulate the lease terms in a way to avoid controlled tenancies of commercial properties. The Distress for Rent Act, which is used for the recovery of rent arrears. Other notable statutes include, The Registered Land Act, The Local Government Act, Factories Act, the Building Code, Occupiers Liability, Sectional Properties Act and the Estate Agents Act which governors the property management profession for the managers are estate agents, the principals being the property owners.

The having of several laws governing property has several disadvantages, among them, transactions in property take a long time to be completed. These delays lead to buyers and sellers being penalised for non payment of rates or ground rent. Not everyone knows the laws that governor a particular property and the lay man is forced to engage lawyers and estate agents, making transaction more expensive. Some sellers take advantage of the lack of information to sometimes sell to several buyers.

THE ROLE OF THE CAPITAL MARKETS AUTHORITY AND THE NAIROBI STOCK EXCHANGE

The capital market is part of the financial system that provides funds for long-term development. In the 1980s the Government of Kenya realized the need to design and implement policy reforms to foster sustainable economic development with an efficient and stable financial system. In particular, it set out to enhance the role of the private sector in the economy, reduce the demands of public enterprises on the exchequer, rationalize the operations of the public enterprise sector to broaden the base of ownership and enhance capital market development. It had become evident that the commercial banks could not support and sustain a desirable economic development because they could not offer the necessary long-term credit.

In 1984, a study on the Development of Money and Capital Markets in Kenya was jointly undertaken by the Central Bank of Kenya and the International Finance Corporation with the objectives of making recommendations on measures that would ensure active development and strengthening of the financial sector. The Government further re-affirmed its commitment to the creation of a regulatory body for the capital markets in the 1986 Sessional Paper on "Economic Management of Renewed Growth".

In November 1988, the Government set up Capital Markets Development Advisory

Council and charged it with the role of working out the necessary modalities including the drafting of a bill to establish the Capital Markets Authority (the Authority).
In November1989, the bill was passed in parliament and The Capital Markets Authority was set up in 1989 through an Act Parliament (Cap 485A, Laws of Kenya). The Authority was eventually constituted in January 1990 and inaugurated on 7th March 1990. The Authority is a body corporate with perpetual succession and a common seal.

THE NAIROBI STOCK EXCHANGE

In Kenya, dealing in shares and stocks started in the 1920's when the country was still a British colony. There was however no formal market, no rules and no regulations to govern stock broking activities. Trading took place on a gentleman's agreement in which standard commissions were charged with clients being obligated to honour their contractual commitments of making good delivery, and settling relevant costs. At that time, stock broking was a sideline business conducted by accountants, auctioneers, estate agents and lawyers who met to exchange prices over a cup of coffee. Because these firms were engaged in other areas of specialisation, the need for association did not arise.

In 1951 an Estate Agent by the name of Francis Drummond established the first professional stock broking firm. He also approached the then Finance Minister of Kenya, Sir Ernest Vasey and impressed upon him the idea of setting up a stock exchange in East Africa. The two approached London Stock Exchange officials in July of 1953 and the London officials accepted to recognize the setting up of the Nairobi Stock Exchange as an overseas stock exchange.

In 1954 the Nairobi Stock Exchange was constituted as a voluntary association of stockbrokers registered under the Societies Act. Since Africans and Asians were not permitted to trade in securities until after the attainment of independence in 1963, the business of dealing in shares was then confined to the resident European community. At the dawn of independence, stock market activity slumped due to uncertainty about the future of independent Kenya.

In 1988 there was the first privatization through the NSE is the successful sale of a 20% government stake in Kenya Commercial Bank. The sale left the Government of Kenya and affiliated institutions retaining 80% ownership of the bank.

Notably, in 1994 the NSE 20-Share Index recorded an all-record high of 5030 points on Feb. 18, 1994. The NSE was rated by the International Finance Corporation (IFC) as the best performing market in the world with a return of 179% in dollar terms. The NSE also moved to more spacious premises at the Nation Centre in July 1994, setting up a computerized delivery and settlement system (DASS). For the first time since the formation of the Nairobi Stock Exchange, the number of stockbrokers increased with the licensing of 8 new brokers.

In 1996, the largest share issue in the history of NSE, the privatization of Kenya Airways, came to the market. Having sold a 26% stake to KLM, the Government of Kenya proceeded to offer 235,423,896 shares (51% of the fully paid and issued shares of Kshs. 5.00 each) to the public at Kshs. 11.25 per share. More than 110,000 shareholders acquired a stake in the airline and the Government of Kenya reduced its stake from 74% to 23%.

THE ROLE OF THE CORPORATE REAL ESTATE MANAGER

Real estate managers in Kenya are trained to carry out several functions.
These include the leasing activity, tenant administration, risk management, maintenance, management of expenses and income, also budgeting, record keeping and reporting and marketing and the development function.

METHODOLOGY

A telephone survey was done on some of the companies listed on the Nairobi stock exchange. The aim is to find out which of these companies have property manager, trained in the relevant degrees.

The companies listed on the Nairobi Stock exchange include the following:

Table 1. Companies on the Nairobi Stock Exchange

Agriculture	**Commercial and Services**	**Finance and Investment**	**Industrial and Allied**
Sasini Tea & Coffee Ltd.	Access Kenya Group	Barclays Bank of Kenya Ltd.	Athi River Mining
Kakuzi	Marshalls E.A. Ltd	CFC Stanbic bank Ltd.	BOC Kenya Ltd
Rea Vipingo Ltd.	Car &General Ltd	Housing Finance	British American Tobacco Kenya Ltd
	Kenya Airways	Centum Investment ltd	Carbacid Investment Ltd
	CMC Holdings	Kenya Commercial Bank	E.A. Cables Ltd
	Uchumi Supermarkets	National Bank of Kenya Ltd	E.A. Breweries Ltd
	Nation Media Group Ltd	Pan Africa Insurance Holdings Co. Ltd	Sameer Africa Ltd
	TPS (Serena) Ltd	Diamond Trust Bank of Kenya	Kenya Oil Ltd
	Standard Group Ltd	Jubilee Insurnce Co. Ltd	Mumias Sugar Company Ltd
	Safaricom Ltd	Standard Chartered Bank Ltd	Unga Group Ltd
		NIC Bank Ltd	Bamburi Cement Ltd
		Equity Bank Ltd	Crown Berger (K) Ltd
		Olympia Capital Holdings Ltd	E.A. Portland Cement Co.
		The Cooperative Bank of Kenya Ltd	Kenya Power & Lighting Co. Ltd
		The Kenya Re-Insurance Ltd	Total Kenya Ltd
			Eveready East Africa Ltd
			Kengen Ltd

From the telephone survey, companies who have established property management departments were found mainly in the finance and investment sectors. In the Kenya Re-insurance Ltd, the employees in this department are listed in the company's annual report. Kenya Power and Lighting Company was the only one in the Industrial and Allied sector to have a property management department.
The survey showed that many of the companies did not have property management departments and there was no indication that they outsource. Meaning management of these properties is done by people not trained as property managers. All the companies listed in the Nairobi Stock Exchange own or lease real estate for their operations.

RECOMMENDATIONS

The paper recommends that more priority must be accorded corporate estate management by corporate management and training institutions. As Veale (1989) said several years ago, for developed countries, corporate real estate management needed to be recognized as a field of management in its own right. The time has now come for developing countries' institutions of higher learning to develop a well organized and comprehensive approach to managing a corporation's real estate assets. This will involve a strategic framework for connecting the many elements associated with real property management such as maintenance and repair, leasing, space planning, tenant services etc.

Public and private companies, on the other hand, must see the importance of corporate real property management.

REFERENCES:

1. Heywood Christopher, Evaluating the Sustainable Competitive advantage model for corporate real estate, Journal of Corporate Real Estate
2. Hill Matthew, Andersen. (2001) Corporate Real Estate: Its role in maximizing shareholder value, Journal of Corporate Real Estate, Vol. 3 No. 4 pp335-345
3. Veale P. R. (1989) Managing Corporate Real Estate Assets: Current Executive Attitudes and Prospects for an Emergent Management Discipline, The Journal of Real Estate Research pp.1-22
4. Government of Kenya, Various Acts of Parliament
5. Nairobi Stock Exchange Newsletter

CONTACT

Ms. Catherine Kariuki
University of Nairobi,
Email: ckariuki@uonbi.ac.ke
Kenya