

# INSTITUTIONAL FACTORS INFLUENCING THE PERFORMANCE OF REAL ESTATE PROJECTS IN KENYA: A CASE OF FAIRDEAL PROPERTIES LIMITED, MOMBASA COUNTY

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**ABSTRACT:** The purpose of this study was to examine the influence of Institutional factors on the performance of Real estate development projects, A Case of Fairdeal Properties Limited Company in Mombasa County. The study sought to establish the extent to which availability of Finance, Client related considerations, Contractor competency and Organizational Leadership influence the Performance of Real Estate Projects in Kenya. The study is anchored on transactional leadership theory and project management theory. The study adopted descriptive research design. Top managers, Clients, Project staff and Contractors constituted the target population of 145 while a sample size of 120 derived from the Krejcie & Morgan (1970) table was employed. The study applied stratified sampling technique. The appropriate instrument for the data collection that was used were questionnaires with the use of digital device so as to avoid the papered questionnaire as result of observing Covid-19 protocols or guideline. The instrument was subjected to validity and reliability before carrying out the pilot study. The pilot study was undertaken on the ongoing real estate projects in Kilifi County. The data technique that was applied is quantitative with the use of descriptive and inferential analysis. In descriptive analysis the study used means and standard deviation whereas inferential analysis applied regression, correlation analysis for testing of hypothesis. As per the findings the study indicated that availability of finance, client related considerations, contractor competency and organizational leadership influence performance of real estate development projects. The study made the following conclusions; it is very indicative that availability of finance greatly contribute to the performance of real estate project hence more financial resource ought to be deployed to enhance the smooth implementation and completion of the project. Adoption of various model of finance to bridge the financial deficit that constrains the projects implementations. Client needs ought to be taken into consideration when making decisions this will enhance the project performance. Also, engagement of suitable and qualified contractor is paramount hence given much consideration during bidding process. Leaders ought to develop make decisions, empower employee and strengthen communication for the purpose of enhancing project performance. It is recommended that adoption of various funding models such as Public private Partnership agreement, review of regulatory and administrative framework, engagement of client from the onset of the project so as to address and meet their needs, the need to conduct due diligence for all contractors to assess their suitability for the work, organizational leaders need to develop resource mobilization strategies, introduce employee motivation rewards systems and enhance communication are key for improved performance of Real estate development projects

**KEYWORDS:** Competence, Institutional factors, Organizational leadership, Real estate projects

## I. INTRODUCTION

### 1.1 Background

Shortage of housing has been one of the major challenges that the urban residents have been grappling with. Real estate investment is seen as a gateway to meeting these important needs that has grown exponentially in recent times due to a number of factors such as growth in population, increased urbanization and industrial growth among other (Elile et al., 2019) Affordable housing as one of the big four agendas of the current government.

The development of real estate projects is normally characterized by various parties such as project sponsors, contractors, financiers, suppliers, legal advisors, prospective buyers. It is evident that project organization has to ensure that it meets all the stakeholder needs or expectations. All the parties involved play critical role in ensuring the success of the project is achieved at all stages of the projects from the initiation phase, planning phase, implementation or construction phase and operation phase. However, this is dependent on the type of model adopted by the project proponents.

The motive behind the real housing investment has been attributed to the shrinkage role played by the government in the provision of housing to its citizen owing to financial constrains (Muiruri,2018) Real Estate investment across the world is termed as the key contributor to the economy growth. Amongst the economic pillars in a country real estate development takes the leading role hence its impact is not overlooked (Abidoeye et al., 2016).Real estate industry plays primary role in the creation of employment opportunities, increase income distribution and reducing the poverty levels across the world (Mbuki,2018). Investment in real estate is one of the strongest pillar in the development of the economy(Onyango,2019).

With the increase of population in the urban areas inadequate housing in Kenya has been one of the greatest challenges that the urban dwellers grapple with. Notably, The Government of Kenya has focused on this problem by making it one of the Big Four agenda. The government has tried to solve this problem by collaborating with private sectors to ensure that the existing gap is filled. This has created opportunity for the private developers to invest heavily due to high demand. In collaboration with the private sector the government has provided incentives on the real estate developers so as to attract potential real estate investors. Real estate industry contributes significantly to the economic growth a country by creating employment opportunities to young people.

## 1.2 Problem Statement

It is evident that the growth of real estate industry in Kenya has really transformed the nation However, a number of private real estate developers have cited some challenges in the investment of this promising sector these pitfalls include land acquisition, late government approvals, unfavorable taxes, litigation and corruption. This has negatively affect the implementation and successful completion of the projects which has resulted to time and cost overruns.

Despite the external environmental factors that hinder the implementation of real estate projects, there are considerable internal factors that could also attribute to the slow uptake of these lucrative projects. A number of studies have dwelled on the external factor as key obstacles to the projects. Oyaya (2017) focused on the influence of leadership style on the performance of construction projects. This study will critically examine the Influence of Institutional factors on the performance of real estate development projects with particular focus in Fairdeal Properties Limited Company in Mombasa County. The main objective is to establish whether availability of finance, client related considerations, contractor competency and organizational leadership have influence on the performance of real estate development projects.

## 1.3 Purpose of the Study

The purpose of the study is to determine the institutional factors influencing the performance of Real estate projects in Kenya; A Case of Fairdeal Properties Limited Company in Mombasa County.

## II. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

### 2.1 Literature Review

#### 2.1.1 Performance of Real Estate Development Projects

One of the major challenges that have really affected the real estate industry is the completion of the projects within the set timeframe. The success of the project is achieved when the project is completed within time, cost, quality and scope.Prathamesh et al. (2015) acknowledge that the project is successful when it meet the client expectation, technical specifications and observed the triple constrains. Cost, time, quality and performance are the key parameters for project success.Cost overruns and delay are critical issue that affects the project performance (Rono, 2020).

Performance is viewed to be a great indicator towards the success of the project. It is through performance indicators that enable the organization to comprehend the process; established plans and how they can be improved for the upcoming projects (Mesfin, 2019) .The housing projects ought to be in line with the set standards, high quality, finished on time and satisfying customer expectations. Momanyi (2018) assert that real estate projects that are constructed with little regard on the timeframe, sub-standard materials and improper planning tend to compromise on the total quality of the project deliverable. The performance of real estate projects can be attributed to internal and external environmental factors Ngari (2016) noted that project

communication management, resource availability, stakeholder involvement and project planning have great influence on the performance.

### **2.1.2 Finance Availability**

Funding for real estate mega development project is one of the major constraints that all project organizations have been facing. It is believed that the successful completion of any development projects lies with adequate financial resources. Without adequate funds the project cannot be implemented and attain its goal. Otieno (2017) assert that funding is a critical component that support smooth execution of the. Project cost is one of the key triple constraints that failure to plan it can severely affect the project performance. One of the greatest challenges encountered by many real estate developers investing in real estate project is insufficient project funds that have led to time overruns and change of project scope.

### **2.1.3 Client Related Considerations**

In real estate industry client varies depends on the role they play this include tenants, leaseholders, purchasers or off-takers. In order to build and retain the company image, the organizations ought to meet and satisfy their client. Alzubi (2015) defines client satisfaction as a means of meeting to the customer request and needs. When the client needs or request are fulfilled and satisfied they will refer the services or product to other fellow customers. The successful implementation of the project is dependent on the incorporation of client's needs and ideas at the designing stage of the projects. Client satisfaction is determined by the performance of the product or project. The client is satisfied when the project deliverable is in conformity with the outlined needs or expectations. In a study done by Sanda & Iveta (2017) revealed that customers satisfaction creates a room for improvement in the formulation of strategies and principles, development of course of actions to the core problems and promotion of corporate social responsibility. The performance of the project could be improved if all the client assessment is done through surveys.

### **2.1.4 Contractor Competence**

Project delays and cost overruns are common issues cited by contractors in any mega projects. Dokata (2018) revealed that 52% of the project experienced cost overruns in while 45% had time overruns in construction projects. However, this can be as result of inadequate knowledge and skill on a particular assignment that at times the project task is subcontracted. The selection of right and qualified contractor has great influence to the performance of the project. During pre-qualification of tendering process the key considerations are given to the contractors who have the experience of particular work, financial capacity and technical capacity. Technical competences include: qualifications and competence of personnel (for example in regard to design, implementation and management) experience gained in similar projects; quality management and assurance, effective project controlling; H&S management; environmental aspects.

### **2.1.5 Project Leadership**

Project governance provides direction and defines decision-making procedures and metrics for validating impacts to the project (PMI, 2014). In the case of county governments, mostly poor governance is a problem and it manifests itself in public institutions which are supposed to oversight public expenditure in execution of development projects (Yieke, 2010). Basel, Williams and Klak (2011) argue that success of government commissioned projects lies on the political goodwill and support. Lack of political support will spell doom to the successful completion of development projects.

The effective performance of the project is dependent on the available and acquisition resources such as the materials, equipment. Project manager must ensure that there is optimum resources required for the project. Most of the real estate construction projects have been halted owing to the requisite materials and equipment. It is this regard that the top management should lay down plans that would ensure the project is well resourced and the performance of the project won't be affected. Poor implementation of strategy has been blamed for a number of strategic failures with lack of top management commitment being one of the most mentioned problems (Khaleji, 2017) Project manager and top management have the role to play in ensuring that the project is completed within budget, time, quality and scope. The acquisition of project resources is the sole responsibility of the top executive through the adoption of sound strategies. Muteti (2017) assert that leaders ought to communicate clearly the strategies to the staff and provide financial resources and motivate its staff. Construction organizations need systemic project management to ensure project success resulting in profitability. The successful execution of projects would ensure the profitability of the organization (Onyali, 2017).

## **2.2 Hypothesis Development**

Based on the reviewed literature, the study sought to test the following hypotheses;

Hypothesis 1: Project financing has significant influence on performance of real estate development projects.

Hypothesis 2: Client related factors has significant influence on performance of real estate development projects.

Hypothesis 3: Contractor competence has significant influence on performance of real estate development projects.

Hypothesis 4: Project leadership has significant influence on performance of real estate development projects.

### III. METHODOLOGY

This study used descriptive research design. Oyaya (2017) assert that this approach is suitable because it provides a fact finding method of inquiry administered to a large group with the use of questionnaire to clearly understand a particular phenomenon.

The participants of this study were comprised of Top managers, Contractors, Suppliers and Project team. Section of the group were part of participants that work closely with the organization this includes the suppliers and the project clients. The target population for this study was 145. The study focused on the ongoing real estate projects in Mombasa County which include Zawadi apartments, Mishaal heights, Coconut villa and Kisimani heights.

This study employed stratified sampling method. The derivation of the sample size was done using Krejcie and Morgan (1970) table. A sample of 120 participants was chosen in the study. The most commonly applied quantitative data collection method used in the social sciences is the questionnaire survey. Questionnaire survey was considered to be the most suitable method of quantitative data collection for the objectives of the current research.

The data collected was coded and analyzed using descriptive statistics and inferential statistics as data analysis techniques. Analyzed data was presented in frequency distribution tables so as to make it easy for research results description and explanation. The data analysis tool used in the study was Statistical Package for Social Sciences (SPSS version 28).

The following linear regression model was adopted to test the statistical significance of the study predictor variables on dependent variable;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon$$

### IV. RESULTS AND DISCUSSION

#### 4.1 Response Rate

The researcher distributed 120 questionnaires to the study participants and 114 questionnaires were received back fully complete representing 95% response rate.

#### 4.2 Correlation Analysis Results

Table 4.1: Correlation Results

	Performance of real estate projects	Availability of finance	Client related considerations	Contractor competence	Project leadership
Performance of real estate projects	1				
Availability of finance	0.490*	1			
Client related considerations	0.513*	0.489*	1		
Contractor competencies	0.559*	0.351*	0.547*	1	
Organizational leadership	0.395*	0.357*	0.543*	0.571*	1

\*Correlation is significant at the 0.05 level (2-tailed).

Correlation results showed that availability of finance was significantly positive correlated with the performance of real estate development projects ( $r=0.490$ ,  $p<0.05$ ) implying that a change in availability of

finance leads to corresponding changes in performance of real estate development project. Also, client related considerations, contractor competencies and organizational leadership were found to be significantly associated with performance of real estate projects ( $r=0.513$ ,  $p<0.05$ ), ( $r=0.559$ ,  $p<0.05$ ) and ( $r=0.395$ ,  $p<0.05$ ) respectively.

#### 4.2 Multiple Regression Analysis Results

Table 4.2: Regression Coefficients

Model 1	B	Std. Error	Beta	t	Sig.
Constant	0.655	0.474		1.381	0.170
Availability of finance	0.264	0.081	0.275	3.282	0.001
Client related considerations	0.175	0.092	0.185	1.899	0.060
Contractor's competency	0.430	0.109	0.369	3.930	0.000
Project leadership	0.016	0.106	- 0.015	0.156	0.877

Considering regression coefficients in Table 4.2, the regression equation can be presented as follows.

$$Y = 0.655 + 0.264X_1 + 0.175X_2 + 0.430X_3 + 0.016X_4$$

The regression equation indicates that considering all variables at zero, the performance of real estate development projects will be equivalent to 0.655 units. Also, when all other variables are held constant at zero, a unit increase in availability of finance leads to a 0.264 increase in performance of real estate development projects. Similarly, all other variables held constant at zero, a unit increase in client related considerations yields a 0.175 increase in performance of real estate development projects. Further, when all variables are held constant at zero a unit increase in contractor competency leads to a 0.430 increase in performance of real estate development projects. Lastly, a unit increase in project leadership while holding other variables constant at zero yields a corresponding increase in performance of real estate development projects by a factor of 0.016.

## V. CONCLUSION

The study concludes that institutional factors as measured by availability of finance, client related factors, contractor competence and project leadership has significant influence on performance of real estate development projects. It is concluded that Adoption of various model of finance to bridge the financial deficit that constrains the projects implementations. Also client needs ought to be taken into consideration when making decisions this will enhance the project performance. Engagement of suitable and qualified contractor is paramount hence given much consideration during bidding process. The paper concludes that project leaders ought to develop make decisions, empower employee and strengthen communication for the purpose of enhancing project performance.

The researcher recommends that for many companies to thrive in this sector there is need to adopt various funding models such as adoption of Public private Partnership agreement, review of regulatory and administrative framework. For the company to grow and successful implement their projects, it is very important to engage client from the onset of the project so as to address and meet their needs. It is evident that many building construction projects collapse as a result of poor workmanship which is majorly on the contractor side. It is therefore advised that there is need to conduct due diligence for all contractors to assess their suitability for the work. The success of the project is dependent on the top management support, it is recommended organizational leaders need to develop resource mobilization strategies, introduce employee motivation rewards systems and enhance communication.

The study suggests a need to undertake similar studies exploring other factors not considered in the study to ascertain their influence on performance of other development projects in other sectors.

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