FEATURE

CRE Global Outreach: The Kenyan Student Exchange Program

BY MAURA COCHRAN, CRE, SIOR

INTRODUCTION

THE COUNSELORS OF REAL ESTATE (CRE) has established a small-scale student exchange program in one of the last emerging global markets: Africa.

Funded by The CRE Foundation (formerly known as the James E. Gibbons Educational Development Trust Fund), the program brought three Kenyan students from the Kenya School of Monetary Studies (KSMS) to New York City in May 2010. In June 2010, three CREs went to Kenya to speak at a high-level conference concerning real estate finance and to interact with educators and students at KSMS. The workshop brought together bankers, regulators, practitioners, researchers, academic and senior policymakers. This essay summarizes the interviews that the author had with those participants: Howie Gelbtuch, CRE; Sam Kuckley, CRE; Byron Koste, CRE; Tom Justin, CRE; and Kenyan students Nancy Atieno Jamal, Florence Apondi Amuok and Sylvia Wanjiru Kimani. CRE Hugh Kelly, along with Gelbtuch. Kuckley, Justin and Koste, helped host the exchange students while they visited in New York City.

BACKGROUND

KSMS, the government's finance business trading school, was established in 1997 to provide training for existing and prospective members of the financial sector and to future bankers of East Africa (Kenya, Tanzania and Uganda). The school is backed by two important Kenyan government agencies: the Central Bank of Kenya (CBK), the equivalent of the U.S. Federal Reserve, and the Kenya Ministry of Finance (MOF). School enrollment has averaged about 1,700 students over the past three years.

The idea for the exchange program began in the summer of 2009 via a request from the International Real Property Foundation to Howie Gelbtuch to travel to Nairobi to work with KSMS to provide assistance in evaluating and negotiating bids to expand and rehabilitate the school.

While there, Gelbtuch worked closely with the school's executive director, Professor Kinandu Muragu, who spent his childhood in a village not far from the current campus. Upon Gelbtuch's return home, and aware of the CRE desire to fund projects though The CRE Foundation that make a difference, he submitted an application for the first phase of the project—the exchange of Kenyan students with CRE educators.

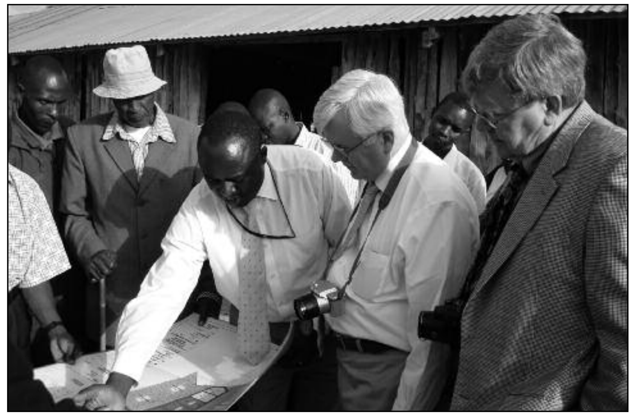
The Foundation looked closely at the ability of this program to make an impact. It was impressed with the school's leadership, and noted that many of the staff have advanced degrees from schools in the U.S. or the United Kingdom, which would aid in facilitating this joint effort. KSMS' 50-acre campus is located in Nairobi. It provided the physical platform in terms of classrooms, security and accommodations for the exchange program.

About the Author

Maura Cochran, CRE, SIOR, *joined Bartram & Cochran in 1987 and has worked in the commercial real estate industry for more than thirty years. She practices both national and local consulting and project implementation, including due diligence analysis, adaptive reuse studies, marketing plans, and corporate relocation assignments. Her active involvement with The Counselors of Real Estate (CRE) and the Society of Industrial and Office Realtors (SIOR) gives her excellent access to market information nationwide.*

THE ISSUE IS HOUSING

The CREs who traveled to Kenya (Justin, Kuckley and Koste) focused on one main issue—housing. As with many developing nations, there is, in Kenya, a major migration from rural to urban areas, which is leading to housing shortages. As is now typical around the world, financing is tight. Governments and banks in Kenya are looking for financing solutions that will *not* lead to a housing bubble or other issues. They are looking at changing the laws to enable pension funds to buy bonds to be used to provide mortgage money. The local press reports that "the government plans to change the building code to allow a wider range of acceptable construction materials apart from brick and mortar to accelerate provision of cheaper and decent houses in urban areas."



Center to right: Mohammed Munyanya, architect, Adventis Inhouse Africa Ltd.; Tom Justin, CRE; and Byron Koste, CRE. The three are reviewing are project plans in Nairobi.

THE ISSUE IS UNDERWRITING

At the conference, Koste pointed to current global trends: "To achieve market demand sustainability there should be smart growth—putting people where jobs are to reduce traffic, and green buildings that are energy efficient and allow for natural light and free flow of clean air." He said that housing development should be planned based on "the current, most likely scenarios."

Justin brought lessons learned from the 2006–2007 real estate bubble. He told the group that "…there was a massive lending at low interest rates. The exuberance characterized by herding behavior and greed are other factors that fueled the crisis." As reported in a local paper, *Smart Money*, the panelists said that "fear gripped the market, credit dried up, transactions dwindled, property performance levels plummeted as demand decreased and prices plunged further. In Kenya, the prohibitive cost of land and lack of essential infrastructure have stifled the growth in construction."

The panelists reported that the combination of the lack of data on all property types and the obsolescence of existing data impacts the creation of accurate appraisals. It is the Kenyan custom to commission two appraisals and average the values. Also, there is no reliable system of title insurance. Request for Proposals (RFPs) for professional services are the reverse of the U.S. method of stating a scope of work and requesting a fee. In Kenya, the RFP states the fee up front and the respondents propose what the developer will get for that amount of money. However, fees for construction management do vary. But the main difference is that corruption is a way of life there. They reported some progress on that front as some universities' developers have posted "corruption-free zone" signs at their campuses' construction sites.

THE TAKE-HOME VALUE

The real value of the program is described by one of the exchange students, Florence Amuok:

"The U.S. real estate industry is far much advanced in comparison to Kenya. I was impressed with the fact that developers are keen in finding out what the market desires and construct units according to the demand side of the market. The LEED certification is a noble idea in the real estate industry considering the global concern of global warming; this is a big plus in the industry. This is one idea I would love to see getting implemented in Kenya, which will not only save cost, but will make the environment a better place to live in. In Kenya the scenario is totally different.

"Here, the focus is not really from the demand side but the supply side. Developers come up with units with their own designs then market what they have, which in most cases tend to be fully sold out (in relation to condominiums or residential units) or having at least 95 percent occupancy (in terms of apartments or commercial units), upon completion of the project because every Kenyan is eager to own property. This has been so for the past three years with the influx of 'piracy money', which is causing a major debate where different stakeholders are arguing whether or not the steady skyrocketing prices of houses is as a result of this money or not.

"The most valuable lessons learnt from the U.S. experience is that financial institutions are the backbone of any

Left to right in New York City: **Byron Koste**, CRE, executive director emeritus, University of Colorado Leeds School of Business, Boulder, Colo.; **Howard Gelbtuch**, CRE, principal, Greenwich Realty Advisors, Incorporated, New York City; **Jamie Gelbtuch**, principal, Cultural Mixology; **Nancy Atieno Jamal**, Kenya student; **Florence Apondi Amuok**, Kenya student; **Sylvia Wanjiru Kimani**, Kenya student; **Samuel Kuckley**, CRE, director, TIAA, New York City; and **Thomas Justin**, CRE, principal, The Weitzman Group, Inc., New York City.

economy. One thing which Kenyan banks are keen on is the risk a borrower poses to the institution. When a mortgage application is made, ALL financial institutions conduct a thorough scrutiny of the borrower, the most important determinant of whether the facility will be granted or not depends on the creditworthiness of the borrower. There has to be some evidence showing that a borrower has a stable source of income and the disposable income at any one given time. If you ask me if Kenya is safe from the U.S. experience of overzealous lending, I would say yes. But this does not mean that we are totally safe.

"Currently, the real estate sector is contributing a significant amount to the GDP. While everyone is worried about the steady increase of housing units and the rate at which banks are competing with each other to the extent of almost hawking their financial products to the suitable market, (which sounds very familiar in the U.S. prior to the credit crunch), the real danger lies in the extent to which our GDP depends on the thriving of the real estate industry. Hugh Kelly made me reason from this perspective. Kenya may not necessarily experience the exact happenings as those in the U.S., but caution has to be taken to ensure that a failure in the real estate industry does not cripple the economy due to the contributions to the GDP.

"We have a long way to go as a country but we are slowly getting there. With the improvement of infrastructure, such as having a mass transportation system (which is unavailable currently—we depend 100 percent on buses and private vehicles which cause a lot of congestion in the city and towns), we can steadily reach to the desired level of development. I would like to see developers in Kenya consider having a fraction of affordable units in their projects. There is no such consideration at the moment but I think with government promising tax concessions to such developers, things will happen. It [is] rare in Kenya to have condos or even apartments within the city centre, which I think should change so as to salvage the hours wasted in traffic jams.

"My U.S. experience was totally amazing and I would forever cherish the memories of the well designed architectural buildings of the city of New York, the ever busy streets and most importantly, the friendly, humble and down-to-earth people."

THE FUTURE OF THE PROGRAM

Participants in the Kenyan project are hopeful of expanding the program. Kelly, clinical professor of real estate at New York University's Schack Institute of Real Estate, is exploring ways that the school can conduct a joint program. Gelbtuch is also exploring various avenues of continuing and expanding these types of international programs. ■

REFERENCES

Student exchange program participants
Kenyan newspaper *Smart Money*
Kenyan newspaper *Business Daily*