How property developer cashes in on construction of Kenyan superhighway

For many years the road network connecting Nairobi and Thika, an industrial town about 40km north-east of the Kenyan capital, was known for notorious traffic snarl ups. Businesses avoided that part of town and land prices stagnated.

Despite this, one man held onto his property along the route. Gerald Taylor, managing director of Willmary Development, says his family kept the land his grandfather bought in Kenya in the 1930s because it didn't make sense to sell.

"Traditionally the land in this area had a very low price. I mean, for 11 acres (4ha), even 10 years ago if you wanted to sell it you would only get KS. 5m an acre. There was no benefit in that."

Fast forward to 2013 and an acre is now selling for up to KSh 60m (US$686,000). The Thika superhighway, a KSh 27bn ($308m) road network that was launched last November, has pushed up land prices and property values along the route.

Five years ago, the early stages of construction of the road inspired Taylor to venture into property development. He wanted to do something that justified the use of his parcel of land and was optimistic that a new road network would attract buyers and increase land prices.

"I saw Thika Road becoming a reality. Now the land value here is between KSh 50m and KSh 60m ($571,000-$686,000) an acre. That is in a [period of] about four years. If you had told me the price would change that much I would have laughed at you."

With not enough funds to complete an entire project, Taylor took a bank loan and constructed three houses which he sold for KSh12m ($136,000) each. He reinvested the money and constructed more units. Today, the 2ha Willmary Estate comprises 65 units that sell for

KSh 25m ($285,000) each.

Taylor says the value of land and property in the area is set to rise even further as construction begins at Garden City, a mixed-use development funded by London-based private equity firm Actis and located near Willmary Estate.

Venturing into property development was a new experience for Taylor but it was not his first shot at business. After years working for a number of companies involved in transport and logistics. Taylor ran a company that supplied and fitted vehicles with speed governors. At first, business was good as the government had introduced new traffic laws. However, when law enforcement failed, business slowed down.

“I learnt from that how to become independent of the salary,” says Taylor of his decision to leave formal employment. But going into property development was still not easy.

“The biggest difference of going from a small company like that to doing property development is, instead of dealing in thousands, suddenly everything is in millions. That is a very big mental transition, because it’s not [just that you're] earning millions, you also owe millions. When you do sales, you talk about sales in millions, but, what people don’t understand, is that your debts are also in millions.”

Another change for Taylor was doing business with professionals such as architects, mechanical engineers, structural engineers, electrical engineers, contractors and insurance agents. “If you have never dealt with it before, coming into this is quite challenging. All of these [services] are expensive if you consider that professional fees are approximately 10% to 12% of a project,” he says.

According to Taylor, his project has been successful as the business has grown organically. Already 75% of the units have been sold. However, changing laws, increased interest rates and national elections have all affected the business.

Growing a successful business

While starting a project with ready finances and turning it over within eight to 12 months is a profitable way of conducting business, Taylor says it is also a risky path. “If you have misread the market and you are launching 45 or 60 houses and you have misread the demand for those, you are very heavily exposed.” Despite these shortfalls, Taylor says property development in Kenya is a profitable industry and worth investing in.

“There is still money to be made in property,” he says. “People are buying houses cash. There is clearly enough money in the economy to support it at the moment. For the foreseeable future, I don’t think anything will change.”

Taylor already has another project up his sleeve, also along the Thika superhighway. “The problem is land pricing; to try and identify a place where we should do a viable project is getting harder and harder. It is pushing developers further and further from where we want to be into more rural-like areas. Changing location changes the dynamics of the project.”

While developers like Taylor and investors such as Actis are cashing in on the demand for property along Thika Road, other landowners in the area do not see the full potential. “It is ridiculous running a car wash when you are sitting on land of that value,” says Taylor, referring to landowners who run small businesses on high priced properties.

One of the lessons Taylor has learnt in business is to pay employees and suppliers promptly and work at building relationships that will be profitable in the future. “Delaying staff pay is unbelievable, it’s not acceptable. To me that is a sin. It used to happen to me when I was employed and it puts huge financial strain and stress on families.”

Taylor says that being an employee for many years before starting his own business was a blessing. “Without being employed I would not have learnt half of the skills I had. Being in employment was very necessary,” he says “Most of the time you have to go through the school of hard knocks. You have to go through the process of being employed to understand [things].”