

RWANDA, AFRICA

Conducting A Real Estate Private Practices Assessment In Transitional Markets

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Background:

Rwanda is a country which is in a “post-genocide” environment seeking to evolve, grow and develop. It is the most densely populated country in Africa, and Kigali, the capital city, has grown nearly four-fold in the last 15 years to almost 1 million inhabitants. It has experienced steady economic growth over the past several years but the real estate industry is still in its infancy. The government of Rwanda is making concerted efforts to modernize and streamline land policy and is developing laws, rules and regulations for expropriated land as well as currently writing a law for real estate valuation and a human settlement law. The Central Bank has been the primary watchdog of the valuation industry “certifying” those individuals and offices which evidence some training and experience in valuation techniques.

Appraisal by: Norman D. Flynn, CRE, FRICS, CRB, CIPS
Stephen W. Giddings, Consultant

Preface: *There is no appraisal association in Rwanda. The major credential that most appraisers rely on is to be listed in the National Bank of Rwanda (Central Bank) list of Real Estate valuers. This list of valuers numbers 29 of which five are individuals and twenty-four are companies.*

We could find no appraisal firm that holds itself out as providing services to banks in the private sector strictly as an appraiser. The primary methodology for appraisal in Rwanda is “replacement value analysis.” The bulk of the appraisers have a background of being either an architect or civil engineer. As a consequence, they rely on analyzing the cost to replace the present facility and then depreciate it based on age, materials and general overall condition. The Housing Bank has some in-house appraisers but also require an independent, third-party appraiser. We could not review the work of any of the Housing Bank’s appraisers.

Quantitative Analysis

1. How many valuers (appraisers) exist in the marketplace?

We would estimate on a countrywide basis between 100-120 valuers are in the marketplace. Most of them are architects or civil engineers and 60-65 individuals are registered with the Central Bank either as individuals or as part of companies registered with that Bank.

2. Assess the number of companies into which these practitioners are formed. Estimate the relative size of the companies.

There are virtually no full-time, private appraisers practicing in a company that we could find in the country. Some of the multi-purpose engineering, architectural firms had between 2-4 appraisers and many of them had one or two part-time.

3. Determine the fee practice in the country. Who orders and uses appraisers? How many appraisals does the average practitioner do per year?

It would appear that the fees are between \$100-200 per appraisal for standards 2-4 bedroom homes. Larger appraisers that are "tendered" are based on a bid-basis and that fee ranges from 8/10 of 1% to a reported 3%. It also appears that there are very few appraisals done for individuals/firms. The highest number was five per month. Others indicated that they were doing four to six per year.

4. Have A standards of practice@ passed into law in the country=s legislature? Do these standards subscribe to TEGOVA? Do the standards subscribe to world standards?

No. The valuation law is now under construction, assisted by RDI, which would detail some of the standards. We suggested both to the Minister of State for Land and RDI that they include a provision in this law that would call for Rwanda meeting International Valuers Standards (IVS) and that as standards modernize, they could modify the law without returning to the Parliament. No valuer had any knowledge of TEGOVA or IVSC in the market.

5. Are there any Western valuers/appraisers in the market? What percentage of business do they do?

Other than Knight Frank which is marketing a high end lakeside development, there are no major companies from the West that have established a presence in Rwanda. Larger appraisals are performed by outsource firms from Kenya where

there appear to be higher skilled valuers. The big three accounting firms are in Rwanda but were reported not to involve themselves in valuation.

6. Are there appraisal standards for commercial large real estate transactions?

No. There is no distinguishing between tendered, larger residential and commercial evaluation. The replacement value analysis is used universally. Again, if the transactions are too complex, the evaluation service is performed by people from Kenya.

7. Have valuer associations evolved in the marketplace? What number and percentage of practitioners belong? What is the dues= structure?

No, although the valuers we contacted indicated that it would be extremely beneficial for them to come together and organize and would be eager to learn additional methodology and standards of performance getting closer to International Standards.

8. Are there ongoing training programs to upgrade the quality of valuers in the market?

None that we could find although there appears to be one or two courses in the construction curriculum of a University in Rwanda. Additional trainings would come from the University of Nairobi in Kenya and in the Congo.

9. Is there an enforcement mechanism in place for standards that may exist?

There are no standards or enforcement mechanisms in place. The Central Bank simply maintains a list of companies and individuals of which they have approved the credentials. There is no ongoing analysis of the continued skill of these companies.

10. Are there designations for higher quality practitioners?

None

Qualitative Analysis

1. What is the quality of appraisal reports generated by the practitioners? Would reports generated by the practitioners meet Western standards and expectations?

No. While we reviewed only one report, it was relatively thin but with excellent detail on replacement analysis and depreciation and no detail on comparative sales and certainly no information on the income approach. As a consequence, the report was one-dimensional and would not meet Western or International standards.

2. How sophisticated is the valuation practice?

- Do they have an established data base?
There is no data base between the various companies. Individual companies indicated that they would keep some data from two to three years but it is not accumulated in a way that is useful for comparative analysis.
- Do they share data base with other practitioners?
Only one appraiser said that they would talk with other appraisers about data that they may have.
- Is there mutual respect between and among competitors in the marketplace?
Valuers were generally not widely aware of their competitors. When asked if they thought a professional society should be put together, most agreed that it would be useful.
- Are they retained by Western buyers and sellers?
Could not ascertain
- Are their valuations accepted by lenders?
Yes, generally but the lenders typically rely on their own experts and will order a second appraisal if they believe the first one is suspicious either being too high or too low.

3. How sophisticated is the valuer association?

None exist.

- Is their code of ethics effectively enforced?
No.
- Do they have high quality training programs attended by a large majority?
None exist.
- Do they have effective communication devices?
None.
- Do they communicate changes in valuation methodology and regulatory bodies?
Not applicable.
- Do they host meaningful conferences?
Not applicable.
- Do they attend appropriate international and transnational valuers= activities?
Not applicable.

- Do they have effective leadership? Effective staff?
Not applicable.
 - Do they show signs of growth and viability in the future?
Not applicable.
4. What deficiencies in the practice are noted? What meaningful corrective action can or will be taken?

There is no code of ethics or standards of professional conduct for the practitioners in the field. While the companies appearing on the Central Bank list have some status, it is clear that they desperately need training and an understanding of the basic standards and methodology of appraisal.

There is a significant lack of understanding of international methodology for evaluation and there is no local training to bring that methodology to the marketplace. No Appraisal Society or Association currently exists. This could be useful in developing a pool of data to be used by the valuers to accumulate comparable data sales.

If an association could be formed in conjunction with the brokers, certain of this remedial intermediate education and the standards of practice in the Appraisal Institute's 11th Edition Text could be made available to provide baseline information for the growth of the industry.

Summary

Rwanda is at a substantial competitive disadvantage in attracting Direct Foreign Investment without a valuation community that understands both European and world standards and develops the consistent use of accepted methodologies of valuation. It is extremely difficult for an outside investor to bring in a third party valuer from another country and rely on their judgment without having local expertise that understands the market, has an adequate data base, and the methodologies to assist an outside valuer.

To open the opportunities for better real estate finance and outside direct investment, this community must be developed. The numbers are relatively low of those that have committed to full-time employment as valuers. The question remains whether there is sufficient future potential market through the growth of particularly Kigali but also other sub-markets in the country where banks will need to rely on valuation if they are to get into the mortgage market in any substantial way.

The banks that were interviewed indicated a willingness to participate in educational opportunities in the valuation area. The Central Bank indicated that it would push to develop the valuation market and encourage its member banks to participate both with the professional society as well as in the educational trainings that could be brought to Rwanda.

**Brokerage by: Norman D. Flynn, CRE, FRICS, CRB, CIPS
and Stephen W. Giddings, Consultant**

Preface: *The brokerage community as it exists in Rwanda is wholly disorganized and primarily focuses on rentals for the middle to high end and the expat markets and an occasional new property sale and does very little in the “secondary” existing homes market. Since land has been difficult to secure title to and no significant methodology is in place to value land, that market has been very thin. The Government, however, is pushing towards creating a land market through a proposed human settlements law and expropriation law to help guide the future growth of communities in Rwanda. Each of these activities will help both build the data base for land valuations but also stimulate additional brokerage activities.*

There is a development community that currently is building several projects in 100-350 unit increments with some of the 800 units currently in the planning or underway in the market. These will stimulate additional brokerage but most of it is being marketed by the developers themselves and not by outside brokerage firms.

Quantitative Analysis

1. Determine number of practitioners in the country.

There is no reliable source for this information. Estimates from practitioners range from 3 to 7 legitimate formal companies to perhaps a maximum of 2000 individuals practicing in part as “scouts” or “hustlers” who will seek an apartment rental or a building for sale (if asked on the street). They have no offices but only have a cell phone and carry no business cards.

2. Assess the number of companies into which these practitioners are formed.
Estimate the relative size of the companies.

Estimates of the actual legitimate companies in Kigali run from 3-7 but most likely in the 5-6 range judging from the quality of the sources. Most of these companies are relatively small with the most sophisticated company having 7 individuals and one company having 40 agents. Most of these companies are relatively new forming in the last 12 months. The most legitimate company had been in existence for 3 ½ years. These firms that are new emerging firms not only do brokerage but also small scale development and some rehabilitation. There doesn't seem to be a strong enough market as yet either in western level rentals (up to \$2,000 per month) or new sales to sustain the industry. The secondary market is very thin as few put their properties on the market and fewer agents act as a catalyst to create that market.

3. Estimate the number of unprofessional practitioners (i.e., those without phones, offices or any trapping of permanence. Often called black brokers or muckluckers.)

It would appear that there are between 300-500 of these although it is impossible to tell. Some estimated that it was upwards of 2,000. Since many people in Rwanda are attempting to find niches to make money, they are out in the marketplace looking to intermediate not only real estate but any other product including cars, motorcycles, bicycles, and other activities.

4. Determine the fee or commission practice in the country. Who pays (buyer/seller)? How much? Co-brokerage?

It appears that the commissions are 3% on each side of the transaction and they attempt to collect from both. The most legitimate company was asking for 5% and then if a buyer came collected a second 2% from them getting them to a 7% range. Co-brokerage does exist but rarely on a 50-50% basis. The typical split was 70% for those that had the listing or buyer and 30% from the referring individual or company.

5. Estimate the volume of business the average company does in dollar terms.

Since the number of companies is relatively small, the number of transactions per month is also quite small. It would appear that there is insufficient capital to sustain a real estate company and firms that do hold themselves out to be active in the real estate market add ancillary services to earn enough money to keep the company moving. The proposed expropriation and land development laws may stimulate additional business.

6. What percent of the transactions are broker assisted?

No one had any idea of this percentage.

7. What is the incidence of home ownership by percent and by numerical count in the country?

Did not probe.

8. Is there adequate legal/regulatory structure to allow the business to grow? Does a secondary sale market exist? If so, how large and active is it?

Currently the legal/regulatory environment in Rwanda does not and will not stimulate the growth of the real estate brokerage community. There is no regulation or licensing and although there are demonstration projects now under way in a series of regions, until the Organic Land Law is fully fleshed out through other implementing laws and decrees, the growth of the real estate market will remain slow to develop and the demand for broker service will remain limited.

Expropriation and valuing lands that are expropriated could help stimulate a market for additional land sales. Rwanda would benefit greatly by having education and land valuation and brokerage in the market. There appears to be a very thin “secondary market.” This may be due to the lack of practitioners in the field to be a catalyst to create this market.

9. How are the transactions completed?

Contracts involved?

The legitimate companies indicate there are listing and sales agreements that they have had their legal counsel draft to conclude transactions. Even the organization that had 40 agents had a contract with individuals that allowed them to represent them. Strangely they have a “search fee” of 5,000 frw (approximately \$10) that would compensate them for looking for properties for a specific client.

Legal work?

There is a notary public and legitimate brokers indicated a reasonable confidence in the court systems.

Recordation systems in place?

There is one under development to record transactions.

Actual closings and documentation?

Yes, handled by the buyers and sellers.

Taxation policies

Yes, there is a transfer tax of 6% which has led to either non-compliance or under reporting of the value of properties transferred. The reduction or removal of the tax is being considered by the Central Bank.

Financing involved

There is financing available in the marketplace however it is very expensive in the 15-16% range with an occasional 13% rate amortized over 7 years. The Housing Bank charges 14% for the average individual with 15 years to repay and a 30 down payment but just 7% for civil servants who are allowed up to 20 years to amortize the loan.

10. Is there information sharing through multiple listing or other network sources?

None.

11. Are there real estate associations that have evolved? How many practitioners belong? What is their dues= structure?

None.

12. Does any training exist in the companies or associations to enhance productivity?

The only training in the companies is “on the job”. However, several practitioners said they would welcome additional practical training.

13. Are there forms of real estate finance?

- Costs - terms of loans

As mentioned above, they range from 14-16% with an occasional 13% amortized at 7 years, with a 25-30% down payment.

- Availability

More banks are looking to offer real estate mortgages although the current portfolios outside of the Housing Bank are 10-20% of their loan portfolio.

The housing bank has two schemes – one is a more traditional mortgage at 14% over 15 years with a 30% down payment usually achieved through a savings account at the bank and the other is the “hire purchase” loan that you mention here. The Housing Bank did not tell us what percentage of its loans is hire purchase. As noted above, terms for civil servants are much more generous 20-year loans at 7%

- Usage by the buying public

14. Is there a code of ethics or standards that practitioners follow?

No.

Qualitative Analysis

1. Do practitioners follow ethical practice standards? If a code of ethics exists, how well is it enforced?

There is no association in place in the country and therefore no code of ethics. There is also no legislation pending that might provide both legitimacy to real estate brokerage but also establish a basic rule of representation and setting forth of obligations of a broker to the consuming public.

2. What is the sophistication of the practice in the country?

- Amount and quality of computerization

While companies do have computers, they certainly maintain relatively small data bases. Only one legitimate company appeared to have any sophistication and came close to Western standards in that sophistication.

- Existing training and training capacity
Virtually none other than a broker training agents "on the job".
- Quality of the offices
Those visited especially the legitimate company and those with a multiple of activities other than pure brokerage were reasonably professional appearing. The less well-organized were reasonably shabby and for the vast majority of practitioners there were no offices, simply cell phones and wandering on the street.
- General deportment of the agents
There were few agents found but the principals in the better companies carry themselves quite well
- Do they have effective company policies?
None could be determined.
- To what extent are contracts enforceable?
When quizzed, the brokers indicated that they believed that the courts would enforce their listing and sales agreement. There seemed to be no hesitancy to look to the courts for resolution.
- Do they have appropriate compensation structures?
The compensation structures vary from company to company. In some instances, the broker paid 50% to the agents but in others as low as 15%. Also on the co-brokerage side, it really depended on the legitimacy of the company as to what percentage they would pay but it was rarely on a 50-50% basis.

3. How sophisticated is their computerization (MLS=s) and networking opportunities?

There is no MLS or data sharing between firms.

4. Leading Broker Analysis

- Do they determine market share?
Only one broker was capable of even understanding the question and he indicated that he had a 40% share of the entire market and 60% share of the upper-end market. Given the sophistication of his practice, that number seemed credible.

- Are there broad advertising approaches?
There is very little advertising in the marketplace. There were no yellow-page advertisements and while there had been some properties listed in the English speaking daily paper for the months of January and February, none had appeared in the last three months. One broker indicated that they occasionally would go to television or radio We observed several fairly large billboards for one property development company (Thomas and Piron).
- Have they developed data bases?
Only the sophisticated company indicated they had any data base whatever.
- Are there any evaluation methodologies?
Mostly the brokers rely on their knowledge of the marketplace and employ comparative market analysis based on their experience.
- What is their organizational structure?
The companies are too small and flat to determine that.
- Do they do commercial brokerage as well as residential?
Only the very legitimate company indicated that they did do commercial brokerage. The others said they would broker any property that would be available to them but it was apparent they lacked sufficient sophistication to do so.

5. Association Development

- How sophisticated is the real estate association?
Non-existent.
- What is the quality of their training program?
Non-existent.
- Are there clear job descriptions for lay leadership and paid staff?
No - n/a.
- How effective are the leaders and staff members?
N/A.
- Do they have effective communication mechanism for their membership?
N/A.
- Is there long-term viability and sustainability in the association?
It is questionable at the moment that there are sufficient enough brokers to sustain a Brokerage Association. While there are demographic, legal, financial, and governmental interest in stimulating the development of this

market, it will take time to generate sufficient numbers to make it work. Only if an association were linked with the Valuers and potentially developers would there likely be sufficient density to make it self-sustaining.

- How well is the industry viewed by government officials and the society in general?
Because of the vast number of “hustlers” and “black brokers,” the general overall attitude toward the brokerage community is extremely low. Most bankers knew few and those asked to comment said that it was extremely low.

Summary

What seems clear from this profile is that the real estate brokerage industry is struggling to maintain profitability and to try to gain market share. One of the severe difficulties is attempting to determine what comes first a legitimate brokerage community that stimulates the market or a growing market that allows real estate practitioners to make a living in it. It does seem clear that there are currently insufficient numbers to create any self-sustaining organization for the brokerage community. A possible solution could be creating a real estate association which had a primary function of working with the valuers but would also provide some programming for brokers and additional programming for the development community.

Any training that is brought to the market for the brokerage community will have to be substantially remedial dealing with: “How to organize a real estate company,” and the “Services that legitimate real estate companies do supply.”

Because individuals and companies do not make a great deal of money, reliance on dues at the beginning of an association’s development is highly unlikely. Short-term assistance will be necessary to help them organize and gain stature and strength and perhaps they can move to self-sufficiency in two to three years.