FACTORS INFLUENCING FOREIGN DIRECT INVESTMENT IN CONSTRUCTION: A CASE OF REAL ESTATE PROJECTS IN NAIROBI COUNTY, KENYA

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A Research Project Report Submitted in Partial Fulfillment of the Requirement for the Award of Degree of Master of Arts in Project Planning and Management of the University of Nairobi

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DECLARATION

I hereby declare that this research project report is my original work and has not been presented for a degree at any other university.

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This research project report has been submitted for examination with my approval as the candidate's University Supervisor.

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DEDICATION

I dedicate this work to my entire family, all my lecturers and my classmates for their support, encouragement and patience during the entire period of my study and their continued prayers towards successful completion of my course.

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ABBREVIATIONS AND ACRONYMS

GDP- Gross Domestic Product

FDI- Foreign Direct Investment

NEPAD -New Partnership for Africa’s Development

MDGs- Millennium Development Goals

ABSTRACT

Most countries strive to attract FDI because of its acknowledged advantages as a tool of economic development. The study aims at determining the factors that influence FDI in Construction, A case of Real Estate Projects in Nairobi County, Kenya. The objectives of the study were establish the influence of trade regulations on FDI in Construction of Real Estate Projects in Nairobi, determine the influence of economic growth rates on FDI in Construction of Real Estate Projects in Nairobi, establish the influence of market size on FDI in Construction of Real Estate Projects in Nairobi and ascertain the influence of exchange rate valuation on FDI in Construction of Real Estate Projects in Nairobi. The study was grounded on two theories; Dependency Theory and Internalization Theory of Foreign Direct Investment. The study employed a descriptive research design. This study focused on a population of 6 Real Estate Projects (by capital) in Nairobi as at 2015, according to Kenya's Real Estate Market. This study used census sampling method. The sample size therefore comprised of all 6 investment managers, 6 project managers and 20 other senior staffs from different departments of the six Real Estate Projects (by capital) in Kenya. This study used questionnaires as the primary tool for data collection. The questionnaires contained both structured and unstructured questions. A pilot study was conducted where one project was picked. Test re-test method was used to test for reliability of the instrument. To establish the validity of the instruments in this research, the instrument was presented to the research supervisor and defended in the faculty forums where the research proposal was presented. Thereafter the questionnaire was administered with approval of the supervisor. The data collected was analyzed using descriptive statistics (measures of central tendency and measures of variations) to achieve the objectives of the study. The quantitative data generated was analyzed using descriptive statistics with the help of Statistical Package for Social Sciences (SPSS) version 20. The findings were presented using tables, frequencies and percentages. Throughout this study the researcher strived to adhere to ethical research considerations and professional guidelines. The study found that all factors investigated (trade regulations, economic growth rate, market size and exchange rate valuation) had influence on FDI in Construction of Real Estate Projects in Nairobi. The study therefore concluded that largely vertical FDI flows benefit from increasing openness, as might be expected in a sector for which international trade flows in intermediate and capital goods are important. In addition, the study concluded that Policies which promote economic growth and development should be given sufficient attention in order to attract FDI. The study further concludes that FDI moves to countries with larger and expanding markets and greater purchasing power. The study also concludes that in order to profit in real estate investments, investors must determine the value of the properties they buy and make educated guesses about how much profit these investments will generate, whether through property appreciation, rental income or a combination of both. The study also recommends that the Central Bank of Kenya (CBK) and other regulators should plan in advance and influence the macro-economic variables in the right direction. The government should also aim to grow the country's real GDP as this would enhance the growth of FDI in Construction of real estate in the economy as established by the study. The study recommended further research on the influence of FDI in construction of real estate projects in other counties so as to generalize the findings.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Most countries strive to attract FDI because of its acknowledged advantages as a tool of economic development. Africa and Kenya, in particular, joined the rest of the world in seeking FDI as evidenced by the formation of the New Partnership for Africa's Development (NEPAD), which has the attraction of foreign investment to Africa as a major component (Asiedu, 2001).

Sub-Saharan Africa as a region now has to depend very much on FDI. Therefore African countries have struggled to implement FDI and these efforts by several African countries to improve their business climate stems from the desire to attract FDI (Agosin & Mayer, 2000). One of the pillars on which the New Partnership for Africa's Development (NEPAD) was launched was to increase available capital to US$64 billion through a combination of reforms, resource mobilization and a conducive environment for FDI.

According to Agrawal and Khan (2011), the efforts of most countries in Africa to attract FDI have been futile. This is in spite of the perceived and obvious need for FDI in the continent. This trend sends very little hope of economic development and growth for these countries. Further, the pattern of the FDI that does exist is often skewed towards extractive industries, meaning that the differential rate of FDI inflow into sub-Saharan African countries have been offered to be due to natural resources, although the size of the local market may also be a consideration.

Since the early 1990s, and after the implementation of various regulatory multinational agreements, debates about the impacts of trade policies on international trade, technology production and FDI flows have been increasing. Particular attention has been paid to the issue of whether the regulations influence both FDI flows and international trade (Calvo, 2006).

If the degree of the trade regulations vary across countries, then the differences in the trade related costs for firms may be sufficient to have an impact on international competitiveness and on countries' export and import patterns.

A large market is necessary for efficient utilization of resources and exploitation of economies of scale (Chakrabarti, 2001). On the other hand, Asiedu (2002) argues that market size is a determinant for a developing country due to low income. In the presence of proximity-concentration trade-off, the firm's foreign market entry mode depends on which market segment it serves. Firms serving a mass market in the foreign country engage in FDI, whereas firms catering exclusively to the needs of a few rich consumers abroad tend to export.

Kenya is facing an economy evidenced by inadequate resources for long-term development, high poverty level, low capacity utilization, high level of unemployment, and other Millennium Development Goals (MDGs) increasingly becoming difficult to achieve by 2020. Promoting and facilitating technology transfer through FDI has assumed a prominent place in the strategies of economic revival and growth being advocated by policy makers at the national, regional and international levels because it is considered to be the key to bridging the technology and resource gap of underdeveloped countries and avoiding further buildup of debt (Ikiara, 2002).

According to Aitken (2007), real estate development is becoming a major issue emerging from the ongoing devolution debate, as to how the housing situation will look like in Kenya's capital city, Nairobi. It is expected to be one of the major engines of economic growth and will attract key investments. Workers of many international companies based in Nairobi and at the counties are expected to create a high demand for housing, according to Architectural Association of Kenya (AAK, 2011). According to World Bank report (2010), Kenya is one of the most rapidly urbanizing nations among the developing countries. It is estimates that about 200,000 Kenyans move to cities every year and that formerly rural areas are increasing becoming urban.

Despite this, the national and local governments have failed to provide basic urban services like infrastructure and affordable housing, thus allowing the private sector to take over (Kenya's Vision 2030). Unfortunately, the profit-motivated sector largely provides housing for the upper-middle and upper-income households, thus leading to proliferation of slums and other informal settlements that cater for poor dwellers.

1.1.1 Foreign Direct Investment Flow

FDI flows record the value of cross border transactions related to direct investment during a given period of time, usually per quarter or per annum. Financial flows consist of equity transactions, reinvestment of earnings, and intercompany debt transactions (Lehman, 2002). There are two types of flow in FDI, Outward flow represent transactions that increase the investment that investors in the reporting economy have in enterprises in a foreign economy, such as through purchases of equity or reinvestment of earnings, less any transactions that decrease the investment that investors in the reporting economy have in enterprises in a foreign economy, such as sales of equity or borrowing by the resident investor from the foreign enterprise. Inward flows represent transactions that increase the investment that foreign investors have in enterprises resident in the reporting economy less transactions that decrease the investment of foreign investors in resident enterprises (Lipsey, 2006).

FDI is a phenomenon resulting from globalization, which involves the integration of the domestic economic system with global markets. It is accomplished through the opening up of the local economic sector as well as domestic capital for foreign investors to establish business within the economy.

1.1.2 FDI Flow in Kenya

There is a long history of FDI in Kenya. During the 1970s Kenya was one of the most favoured destinations for FDI in East Africa. Since the 1970s the East African relationship with foreign investment has been turbulent and the region lost its overall appeal to foreign investors due to political unrest and corruption. After 2000 Kenya has witnessed a small improvement in attracting FDI, followed by a significant growth after 2006.

In 2007, the Economic Recovery Strategy paper expired and was replaced by the Kenyan Vision 2030. With this vision the Kenyan government hopes to reach global competiveness and there is a special focus on attracting more FDI. Examples of reforms to attract more FDI are the establishment of free trade zones, improvement of infrastructure and the development of incentives (Kinuthia, 2010). There was a significant growth in FDI in 2007 which can be partially explained by the reforms implemented that year.

Other reasons for the big upsurge in FDI in both 2000 and 2007 are new investments in mobile telephone companies, accelerated offshore borrowing by private companies to finance electricity generation and the privatization of the telephone operator Telkom Kenya (Mwega, 2010).

FDI inflows to Kenya have been highly volatile. After rising steadily from US$17.3 million in 1973 to the peak of US$84.0 million in 1979, they generally fluctuated in the 1980's and 1990's despite the economic reforms that took place and the progress made in improving the business environment during that period. The worst year of FDI performance in the 1980's was 1988, when the FDI inflows as a percentage of gross national product (GDP) were zero. The FDI net inflows increased to US$110.9 million in the year 2000, but declined to US$ 5.3 million in the year 2001. The highest inflows were US$ 729 million in the year 2007 which declined to US$95.6 million in 2008 before increasing to US$140.5 million in the year 2009. The decline in the year 2008 could be attributed to the political instability in the country resulting from the outcome of the December 2007 general elections, which caused much uncertainty among investors (World Bank, 2010).

1.1.3 Kenya Real Estate Projects

Real Estate is property consisting of land and the buildings on it, along with its natural resources such as crops, minerals, or water; immovable property of this nature; an interest vested in this (also) an item of real property; (more generally) buildings or housing in general. Real estate investing involves the purchase, ownership, management, rental and or sale of real estate for profit.

Kenyan real estate property covers all property categories including single and multi-family residential dwellings, commercial and agricultural lands, office space, godowns, warehouses, retail outlets and shopping complexes (Masika, 2010). Real estate is an asset form with limited liquidity relative to other investments. It is also capital intensive (although capital may be gained through mortgage leverage) and is highly cash flow dependent. If the factors affecting the growth in the real estate investment are not well understood and managed by an investor, real estate becomes a risky investment.

The real estate industry in Kenya is influenced by a number of unique factors that affect investment in the sector. In the recent past, Kenya has witnessed an upsurge in real estate projects. This has been driven by a number of factors notably the quest for Kenyans to own homes, rural urban migration, increased diaspora remittances among others (Murangi, 2013). As a result, property prices in the urban areas have been on an upward trend. The expansion of the Mombasa Road and the construction of the Thika Super Highway have also contributed to the rise of property prices in the adjacent areas. It is therefore important to assess the factors that contribute to investment growth so as to sustain its growth in future.

The primary cause of investment failure for real estate is that the investor goes into negative cash flow for a period of time that is not sustainable, often forcing them to resell the property at a loss or go into insolvency (Masika, 2010). Real estate projects in most countries are not as organized or efficient as markets for other more liquid investment instruments.

1.2 Statement of the Problem

FDI not only provides developing countries with much needed capital for domestic investment, but also creates employment opportunities and helps the transfer of managerial skills and technology, all of which contribute to economic development. Recognizing that FDI can contribute significantly to economic development, all governments of Africa, including that of Kenya, want to attract it. Indeed, the world market for such investment is highly competitive and Kenya, in particular, seeks such investment to accelerate the country's development efforts (Mitullah, 2010).

The real estate sector is one of the fastest growing sectors with a high potential to bring about rapid economic development and it is recognized as one of the major growth drivers for developing the economy. In terms of its employment generation, the housing and real estate sector in Kenya is considered to be growing at a high rate. As a result, major developers have been focusing their attention on such fields as residential housing facilities, shopping malls, and industrial establishments for the last few decades. At present, abundant opportunities exist for FDI in real estate related business in Kenya (Kinuthia, 2010). FDI in real estate in Kenya can create major inflows of funds that can enhance domestic investment to achieve a higher level of real estate development. FDI in Kenyan real estate projects can certainly bring in the funds at reasonably cheaper rates, besides new ideas and technologies, which would enhance the efficiency of the construction industry.

Several studies have been done on FDI. Borensztein (2008), examined the effect of FDI on economic growth in sixty-nine developing countries, finding that while FDI is positively correlated with real per capita GDP growth, the relationship is modified when levels of human capital are taken into account. In particular, the coefficient of FDI is larger when countries have higher levels of human capital (measured as the average years of secondary schooling for each country's male population), leading the authors to conclude that countries with more educated workforces are better equipped to take advantage of the advanced technologies that might be gained as a result of FDI.

Locally, Mahiti (2013) investigated the determinants of FDI in the East Africa countries Tanzania and Kenya. The study found that the Tanzania Investment Centre and the Kenya Investment Authority have much to do in order to attract more FDI in Tanzania and Kenya respectively. It also found that infrastructure such as roads, airports and railways need significant improvement in order to attract more FDI in the East African region. Indeed, it is important to review incentives granted to investors from time to time in order to make sure that they serve the intended objectives. Finally, to ensure that new technologies are transferred to Tanzania and Kenya so that the two countries become technologically competitive.

Similarly, Musau (2011), made a study on the impact of FDI on economic growth and development in Kenya. This study found that FDIs affect the balance of payments of a country by injecting much needed capital into the economy. On the other hand, a study carried out by the Kariuki (2008), to analyze the impact of FDI on Kenyan GDP over the period from 1990 to 2007, revealed the effect that FDI inflows have on economic growth. The study was also designed to analyze the effect of other variables of gross capital formation and labour on GDP. In the study, analysis of the rate of economic growth (GDP per capita) as the dependent variable and inflow of FDI as the independent variable was carried out.

A review of local studies shows that little research has been carried out on factors influencing FDI in Construction of Real Estate Projects in Nairobi County, Kenya; therefore the study sought to answer the question, what are factors influencing foreign direct investment in construction of real estate projects in Nairobi County, Kenya.

1.3 Purpose of the Study

The purpose of this study was to establish the factors influencing foreign direct investment in construction of real estate projects in Nairobi County, Kenya.

1.4 Research Objectives

The general objective of the study was to determine factors influencing foreign direct investment in construction of real estate projects in Nairobi County, Kenya.

Specific objectives

i. To establish the influence of trade regulations on foreign direct investment in construction of real estate projects in Nairobi County, Kenya.

ii. To determine the influence of economic growth rate on foreign direct investment in construction of real estate projects in Nairobi County, Kenya.

iii. To establish the influence of market size on foreign direct investment in construction of real estate projects in Nairobi County, Kenya.

iv. To ascertain the influence of exchange rate valuation on foreign direct investment in construction of real estate projects in Nairobi County, Kenya.

1.5 Research Questions

The study sought to answer the following research questions:-

i. To what extent do trade regulations influence foreign direct investment in construction of real estate projects in Nairobi County, Kenya?

ii. What is the influence of economic growth rate on foreign direct investment in construction of real estate projects in Nairobi County, Kenya?

iii. To what extent does market size influence foreign direct investment in construction of real estate projects in Nairobi County, Kenya?

iv. What is the influence of exchange rate valuation on foreign direct investment in construction of real estate projects in Nairobi County, Kenya?

1.6 Significance of the Study

The findings would be significant to policymakers in that it will serve as a guide when making government policies such as fiscal and monetary policy. The findings of the study will also be used by policymakers in basing their decisions related to issues of FDIs of the country.

The study will be significant to the government in the sense that Kenya has faced fluctuating economic growth rates and an increasing budget deficit in the past years. Understanding the influence of factors influencing FDI in construction of Kenya real estate market will therefore be important in formulating positive fiscal policies which are relevant and sensitive to the forces influencing the economic sector performance in Kenya.

The information generated in this study will enable various stakeholders in the real estate business to formulate plans and policies that will favor FDI flow in construction of real estate. It is expected that the vendors will use the information from this study to develop information systems with desirable characteristics that will increase the realization of economic factors affecting the real estate business.

The findings of this study will be significant to academicians in that it will add to the knowledge of the researchers in this field of study.

Researchers will also be able to borrow from the findings of this study and may even further the study by varying the various variables used in order to get more precise results.

The study will contribute to the existing literature in the field of FDI. It should also act as a stimulus for further research to refine and extend the present study especially in Kenya.

1.7 Delimitations of the Study

This study targeted real estate projects in Nairobi County, Kenya that are affected by FDI as at 2015. This ensured that the research population was identified faster, more easily and accurately.

1.8 Limitations of the Study

This study comprised of the real estate projects in Nairobi County, Kenya. This makes the research limited in the sense that the findings cannot be generalized to other projects in Kenya.

1.9 Assumptions of the Study

The study was based on the assumption that all respondents were honest, cooperative and provide reliable responses.

1.10 Definition of Significant Terms

Foreign Direct Investment - is a controlling ownership in a business enterprise in one country by an entity based in another country.

Influence - The capacity to have an effect on the character, development, or behaviour of someone or something, or the effect itself.

Project- Planned set of interrelated tasks to be executed over a fixed period and within certain cost and other limitations.

Real estate - is property consisting of land and the buildings on it, along with its natural resources such as crops, minerals, or water; immovable property of this nature; an interest vested in this (also) an item of real property; (more generally) buildings or housing in general.

Trade Regulations – trade regulation laws are laws enacted by both federal and state governments to promote unrestrained competition amongst businesses.

Economic growth rate- Real Economic Growth Rate is the rate at which a nation's Gross Domestic product (GDP) changes/grows from one year to another. GDP is the market value of all the goods and services produced in a country in a particular time period.

Market Size- The number of individuals in a given geographical area willing to buy and sell goods and services.

Exchange rate valuation – The value of one Nation's currency in terms of another Nation's Currency. It is the loss or gain of value of a country's currency with respect to one or more foreign reference currencies, typically in a floating exchange rate system

1.11 Organization of the Study

This document is organized into five chapters; chapter one discusses introduction, background of the study, statement of the problem, purpose of the study, research objectives, significance of the study, delimitations of the study, limitations of the study, assumptions of the study and definition of significant terms.

Chapter two discusses the literature review and the theories underpinning the study, while chapter three discusses the methodology adopted by the study. Chapter four brings out the research findings and chapter five looks at discussion, conclusions and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter covers other researcher work on factors influencing FDI flow on real estate projects. The main sections covered in this chapter include; determinants of FDI flow, theoretical framework, conceptual framework, research gaps and summary of literature review.

2.2 Determinants of FDI Flow

The literature examines a large number of variables that have been set forth to explain FDI. There are many determinants often cited in the econometric studies. In the following headlines, some of the determinants and their relations to FDI are explained in the light of this study.

2.2.1 Trade Regulations

Charkrabarti (2001), states that there is mixed evidence concerning the significance of openness to trade, which is measured mostly by the ratio of exports plus imports to GDP, in determining FDI. The maintained hypothesis is: given that most investment projects are directed towards the tradable sector, a country's degree of openness to international trade should be a relevant factor in the decision.

Jordaan (2004), claims that the impact of openness to trade on FDI flow depends on the type of investment. When investments are market-seeking, trade restrictions (and therefore less openness) can have a positive impact on FDI flow.

The reason stems from the "tariff jumping" hypothesis, which argues that foreign firms that seek to serve local markets may decide to set up subsidiaries in the host country if it is difficult to import their products into the country. In contrast, multinational firms engaged in export-oriented investments may prefer to invest in a more open economy since increased imperfections that accompany trade protection generally imply higher transaction costs associated with exporting. For example, Wheeler and Mody (1992), observe a strong positive support for the hypothesis in the manufacturing sector, but a weak negative link in the electronic sector in the United States.

A decrease in openness might be associated with more horizontal FDI flow, as investing firms might benefit from circumventing trade barriers through building production sites abroad. But Resmini (2000), studying manufacturing investment in Central and Eastern Europe, finds that these largely vertical FDI flows benefit from increasing openness, as might be expected in a sector for which international trade flows in intermediate and capital goods are important. Singh and Jun (1995), also find that export orientation is very important in attracting FDI, and link this to the rising harmonizing of trade and FDI flows.

Jordaan (2004), suggests that free-trade areas tend, on balance, to encourage FDI both among signatory countries and, in areas that are closely integrated, also with respect to third-party countries. By enlarging the overall size of the market, these agreements tend to increase the scope for reaping economies of scale through FDI aimed at accessing local markets (so-called "horizontal" FDI) for both signatory and non-signatory countries.

Moreover, the reduction in trade costs tends to increase FDI flows that are aimed at re-exporting final or intermediate products into the home country or into other signatory countries. These positive influences on FDI appear to outweigh the tendency of free-trade areas to lower the relative cost of supplying a foreign market via trade compared with local production, which would in principle depress FDI.

Lipsey (2006), looked at the effect of free-trade agreements on bilateral FDI transactions and found that by substantially lowering trade costs among countries, free-trade agreements make trade more advantageous than local production, tending to reduce horizontal FDI flows at any given level of fixed costs. However, by enlarging the overall size of the market in the free-trade area, these agreements also increase the scope for reaping firm-level economies of scale through horizontal FDI. Moreover, the reduction in trade costs tends to increase vertical FDI flows that are aimed at re-exporting products into the home country or into other signatory countries Furthermore, free-trade agreements tend to have a positive effect on horizontal FDI flows from non-signatory countries, because they enlarge the size of the market that they can access by producing locally at any given level of trade costs. Lehman, (2002), concluded that the effect of free-trade agreements on FDI flows among signatory countries is ambiguous, while it is presumably positive on FDI flowing from non-signatory countries.

2.2.2 Economic Growth Rates

The role of growth in attracting FDI has also been the subject of controversy. Charkrabarti (2001), states that a rapidly growing economy provides relatively better opportunities for making profits than the ones that are growing slowly or not growing at all.

FDI affects economic growth of developing countries positively through transfer of capital, know-how, and technology (Li & Liu, 2005). It increases activity not only in FDI beneficiary firms.

The effect can spread to other firms in the country and sectors through technology spillover, human and capital formation and increasing competition, thus raising productivity for the whole economy. FDI can accelerate growth in the ways of generating employment in the host countries, fulfilling saving gap and huge investment demand and sharing knowledge and management skills through backward and forward linkage in the host countries (Frenkel, 2004). The growth in real estate in a country depends on the changes in economic activity and prosperity of a region or country. According to the model of DiPascal and Wheaton (1992), a productive economy does positively affect the demand for real estate assets.

Similarly, Chin, Dent and Roberts (2006), conclude that a sound economic structure and an expected strong and stable economy are perceived to be the most significant factors in the ability of a region to attract foreign real estate investments. Besides, Hoskins and Cardew (2004) found that GDP growth, inflation and unemployment show significant relations with composite property returns.

In addition, Chen and Hobbs (2003), found that the size of a country's economy positively affects investment activity, as larger economies are usually more capable of withstanding external economic turmoil and are therefore more stable than smaller economies. Results of studies from Van Doorn, (2003), revealed that GDP per capita is commonly used in strategic real estate asset allocation for the determination of a country's economic level of development.

On the other hand, economic growth has been shown to boost FDI through technology transfer and diffusion, spillover effects, productivity gains, and the introduction of new processes, managerial skills and know-how in the host countries. In addition, FDI can create an international network that can help domestic products move across borders. Also, studies by Grossman and Helpman (2011), suggest that FDI plays an important role in modernizing the economy and promoting economic growth in host countries, especially developing countries.

Studies by Hermes and Lensink (2003), indicate that the growth effect of FDI is strongly dependent on the institutional circumstances of the host or receiving countries While others find that FDI inflow is positively associated with economic growth only when countries have previously achieved a certain level of wealth (Blomstrom,2004), education .On the other hand, Carkovic and Levine (2002), find that these results are not robust when controlling for simultaneity bias, while Townsend (2003), confirms this result using data for less developed countries. Overall, the diversity of these findings highlights the difficulty in making generalized comments on the FDI-growth nexus based on simple correlation based analysis.

2.2.3 Market Size

Artige and Nicolini (2005), state that market size as measured by GDP or GDP per capita seems to be the most robust FDI determinant in econometric studies. This is the main determinant for horizontal FDI. It is irrelevant for vertical FDI. Jordaan (2004) asserts that FDI will move to countries with larger and expanding markets and greater purchasing power, where firms can potentially receive a higher return on their capital and, by implication, receive higher profit from their investments.

Charkrabarti (2001), states that the market-size supports an idea that a large market is required for efficient utilization of resources and exploitation of economies of scale: as the market-size grows to some critical value, FDI will start to increase thereafter with its further expansion. This has been quite popular and a variable representing the size of the host country's market has come out as an explanatory variable in nearly all empirical studies on the determinants of FDI. Jordaan (2004), noted that econometric studies comparing a cross section of countries point to a well-established correlation between FDI and the size of the market, which is a proxy for the size of GDP, as well as some of its characteristics, such as average income levels and growth rates.

Market size has been the single most widely accepted as a significant determinant of FDI (Chakrabarti, 2001). The larger the host area's (country, region, and sub region) total income and its potential for development, the greater the amount of the FDI investment. A large market is necessary for efficient utilization of resources and exploitation of economies of scale. On the other hand, Asiedu (2012), argues that market size is not a determinant for a developing country due to low income. Culem (2008), tests the impact of market size for 14 countries for the period of 1969-1982. A bigger market allows the benefits of large-scale production to be more readily captured. Moreover, investors naturally prefer faster growing markets, which offer more promising prospects.

Asiedu (2012), further argues that the regional distribution in huge market size may also have regionalized FDI determinants. Zhang (2008), narrates that regional distribution factors effecting FDI are incentives, historical and cultural linkages with foreign investor along with other location factors.

He further asserts the importance of regional infrastructure projects which serve the objectives of regional cooperation, integration and enhance of FDI.

The study also recognizes regional power pool market which ensures sufficient availability of reliable and low cost energy supplies, integrated transportation, communications and other necessary elements.

A Study by Barro, (2009), on effect of domestic market size on FDI found a highly significant and positive effect of domestic market size and its expected growth on the FDI received by a country. The model therefore includes domestic market size, proxied by real GDP, and its expected growth, proxied by past real GDP growth. However, in order to test for a regional market size effect, this model introduces an alternative measure of market size which takes the value of the regional market size for countries belonging to a trade agreement and the value of domestic market size for stand-alone countries. The regional market size is calculated as the sum of the domestic market size and of the market size of all the countries sharing an agreement with the country considered. When a country belongs to multiple regional trade agreements, the measure of regional market size includes the partner countries in all the regional trade agreements of which the country is a member. This measure is imperfect as it does not take into account the extent of intra-RTA trade liberalization and hence the actual degree of integration of the markets of the regional trade agreements members.

2.2.4 Exchange Rate Valuation

A weaker real exchange rate might be expected to increase FDI as firms take advantage of relatively low prices in host markets to purchase facilities or, if production is reexported, to increase home-country profits on goods sent to a third market. Froot and Stein (2001) find evidence of the relationship: a weaker host country currency tends to increase inward FDI within an imperfect capital market model as depreciation makes host country assets less expensive relative to assets in the home country.

Blonigen (2005) makes a "firm-specific asset" argument to show that exchange rate depreciation in host countries tend to increase FDI inflows. But on the other hand, a stronger real exchange rate might be expected to strengthen the incentive of foreign companies to produce domestically.

In addition, stable public finances and a relatively good business climate in comparison to both developed and developing countries should be important determinants for investors seeking safe allocation of funds. This in turn increases the exchange rate, and future expectations of a higher exchange rate enhance this effect even further as the return on domestic bonds is higher in relation to foreign bonds (Blanchard, 2009). Despite a negative impact on output, an optimistic sentiment in the market with increasing consumption and an inclination by companies to make immediate investments to stimulate demand should be reflected in appreciating prices of stocks. According to Lind and Persson (2011), real estate has certain traits that are different from other types of assets. One is a fixed location, which makes real estate more exposed to exchange rate fluctuations. A good business climate that can ensure stable cash flows could therefore be of greater importance than changing exchange rates.

Culem (2008), noted that the relationship between FDI flows and exchange rate valuations are based on the currency area of FDI theory with two different directions.

A financial view of FDI is conditional on some form of imperfections or information asymmetry in international financial markets where the exchange rate is one of the most important financial variables that affect the relative advantage of a MNE in comparison with a local firm. A firm is assumed to maximize its profits given an exchange rate for a potential host country with respect to the FDI source country. Under this framework, depreciation of the host country currency is likely to attract FDI inflows at least for the following two reasons. Firstly, MNE has an advantage over a domestic firm because of its ability to obtain financing in international capital markets in strong-currency terms for lower cost due to its reputation (Blomstrom, 2004). Therefore, they can take higher profitable project because they can acquire higher value from the same project than the local firms due to lower cost of capital. Pursuant to that, countries with weak currencies tend to be recipients of FDI while countries with strong currencies tend to be sources of FDI. Secondly, the currency depreciation reduces production costs in the host country, thereby making it attractive for FDI seeking production efficiency and revenues (Barro, 2009).FDI can be a tool for foreign exchange risk hedging with the assumption that MNE may be more efficient in hedging the risk.

Caves (2006), in a study on relationship between exchange rate and FDI flows indicated that there was a significant relationship between dollar depreciations and enhanced FDI inflows to the United States. Another study showed a significant negative correlation between the level of the exchange rate (both nominal and real) and inflows of FDI in the US. Meanwhile, Froot and Stein (2007), argued that the presence of the capital market imperfections motivate the firms to invest abroad if their home currency appreciates because of their increment in relative wealth and this will make external finance become more costly than internal finance. Therefore, the study revealed that a real depreciation of the US dollar increases the FDI inflow in the US for periods between 1973 and 1988. The relationship seemed to be more prominent in the industries with a higher level of potential information asymmetry such as chemical and machinery industries.

2.3 Theoretical Framework

This section examines the various theories used to inform the study on factors influencing FDI flow on real estate projects. The study was guided by the following theories; Dependency Theory and Internalization Theory of FDI.

2.3.1 Dependency Theory

According to Aremu (2005), dependency theory maintains that the poorness of developing countries is due to: imperial neglect; overdependence upon primary products as exports to developed countries; foreign investors' malpractices, particularly through transfer price mechanics; foreign firm control of key economic sectors with crowding-out effect on domestic firms; implantation of inappropriate technology in developing countries; introduction of international division of labour to the disadvantage of developing counties; prevention of independent development strategy fashioned around domestic technology and indigenous investors; distortion of the domestic labour force through discriminatory remuneration; and reliance on foreign capital in the form of aid usually aggravating corruption. Furthermore, the dependency theorists also focused on the several ways by which FDI of multinational corporations distort developing nations' economies.

Some scholars of this theory believed that, distortive factors include the crowding out of national firms, rising unemployment related to the use of capital-intensive technology, and a marked loss of political sovereignty (Umah, 2007).

It has also been argued that FDI are more exploitative and imperialistic in nature, thus ensuring that the host country absolutely depends on the home country and her capital (Anyanwu, 1993). This theory from its points of analysis creates negative relationship between FDI and economic growth of developing countries. The theory indicates that the economic involvement of developed countries into developing nations under multinational companies and FDI will surely resort to economy disadvantages of developing nations.

2.3.2 Internalization Theory of Foreign Direct Investment

Internalization theory holds that the available external market fails to provide an efficient environment in which the firm can profit by using its technology or production resources.

Therefore, the firm tends to produce an internal market via investment in multiple countries and thus creates the needed market to achieve its objective. A typical multinational enterprise consists of a group of geographically dispersed and goal-disparate organizations that include its headquarters and different national subsidiaries. These multinational enterprises achieve their objectives not only through exploiting their proprietary knowledge but also through internalizing operations and management. Internalization is the activity in which a multinational enterprise internalizes its globally dispersed foreign operations through a unified governance structure and common ownership (Lall & Narula, 2004). Internalization theorists argue that internalization creates "contracting" through a unified, integrated intra firm governance structure.

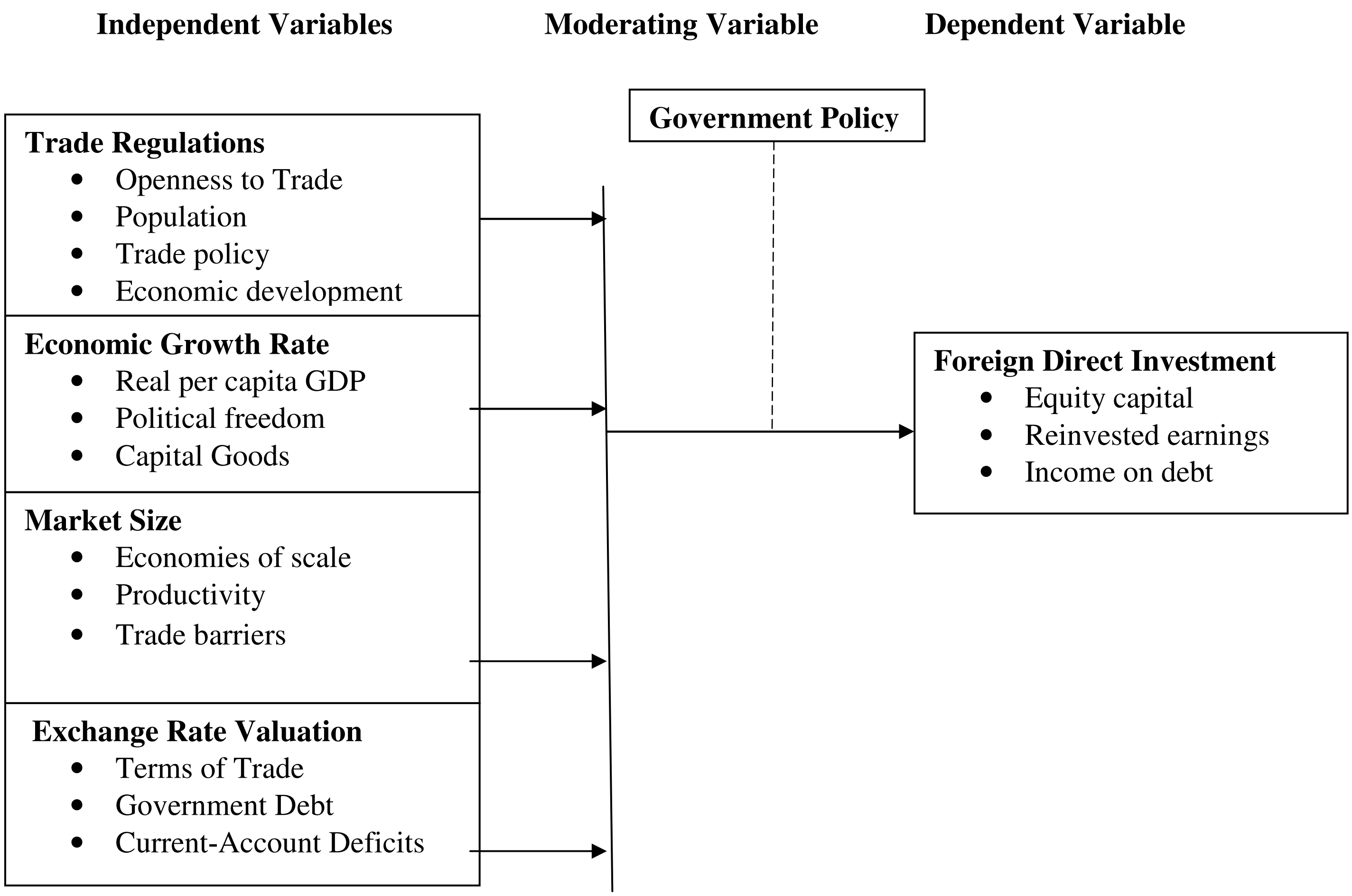
These theories assume that foreign companies have oligopolistic power in the host countries.

It holds micro and macroeconomic factors responsible for the real life deviations from the perfect market model. According to this approach, firms choose an investment location because of its comparative advantage. Lehman (2002) contributes to this theory by arguing that FDI may also be taken to gain control over inputs, thus creating a barrier to entry for new competitors. According to internalization theory, firms keep operations internal through a hundred percent owned subsidiary because they want to control the risk and retain control and market share. Multinationals engage in FDI to secure internalization advantages. Compared with external markets, the firm's linkages, integration, transfer pricing and economies of centralization allow costs to be reduced through FDI.

2.4 Conceptual Framework

The conceptual framework is a diagrammatical presentation of variables in the study. The framework illustrates the interrelationship between dependent and independent variables. The independent variables for the study are economic variables. The independent variables include: trade regulations, economic growth rate, market size, and exchange rate valuation while the dependent variable is Foreign Direct Investment.

Figure 2.1 Conceptual Framework



2.5 Research Gaps

Variable	Author and Year	Findings	Knowledge gap
Trade Regulations	Jordaan (2004), Wheeler and Mody (1992),	The impact of trade regulations on FDI flow depends on the type of investment A strong positive support for the trade regulations to trade in the manufacturing sector, but a weak negative link in the electronic sector in the United States.	The study only investigated impact of trade regulations on FDI in general investment. Studies should be made to incorporate FDI flow in construction of real estate projects. This study links trade regulations and FDI in construction of real estate projects in Nairobi
Economic Growth Rates	(Li & Liu, 2005).	FDI affects economic growth rate of developing countries positively through transfer of capital, know-how, and technology	Research should be made to relate economic growth rates and FDI on real estate projects. This study will look at influence of economic growth rates on FDI in construction of real estate projects in Nairobi
Market Size	Charkrabarti (2001),	As the market-size grows to some critical value, FDI will start to increase thereafter with its further expansion.	There is need to develop a relationship between market size and FDI in construction of real estate projects. This study will bridge the gap by linking market size with FDI in construction real estate projects in Nairobi.
Exchange Rate Valuation	Froot and Stein (2001) Blonigen (2005)	A weaker host country currency tends to increase inward FDI within an imperfect capital market model as depreciation makes host country assets less expensive relative to assets in the home country. A stronger real exchange rate strengthens the incentive of foreign companies to produce domestically.	There is need to link foreign exchange rate to FDI in construction of real estate projects because real estate has certain traits that are different from other types of assets. The study only investigated the production companies, research should on real estate projects. This study will investigate the role of exchange rate valuation on FDI in construction of real estate projects in Nairobi

2. Summary of Literature Review

The literature examines a large number of variables that have been set forth to explain FDI. There are many determinants often cited in the econometric studies. In the following headlines, some of the determinants and their relations to FDI are explained in the light of this study which are; trade regulations, Jordaan (2004), claims that the impact of openness to trade on FDI flow depends on the type of investment. When investments are market-seeking, trade restrictions (and therefore less openness) can have a positive impact on FDI flow. On economic growth rates, Charkrabarti (2001) noted that a rapidly growing economy provides relatively better opportunities for making profits than the ones growing slowly or not growing at all.

In dependency theory, Aremu (2005) noted that FDI is more exploitative and imperialistic in nature, thus ensuring that the host country absolutely depends on the home country and her capital. Internalization theory holds that the available external market fails to provide an efficient environment in which the firm can profit by using its technology or production resources.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter details the overall methodology that will be used in the study. This includes the research design, population of the study, sampling procedures, data collection methods, research procedures, method of data analysis and ethical considerations.

3.2 Research Design

Research design forms the blue-print or maps that detail how the research is going to collect information that is relevant to addressing the research questions. It is a general blue-print for the collection, measurement and analysis of data, with the central goal of solving the research problem. It includes the outline of what the research will do, from writing the hypothesis and its operational application to final analysis of data (Creswell & Clark, 2007).

The study employed a descriptive research design. A descriptive survey enabled the researcher to describe the characteristics of the variables of interest. This study was about the factors influencing FDI in Construction of Real Estate Projects in Nairobi County, Kenya. It is therefore justified that descriptive design is most suited and justifiably adopted in this study. They are useful in describing the characteristics of a large population. Additionally, high reliability is easy to obtain by presenting all subjects with a standardized stimulus which ensures that observer subjectivity is greatly eliminated (Cooper & Schindler, 2006)

3.3 Target Population

Population refers to the entire group of people, events or things of interest that the researcher wishes to investigate (Ngechu, 2004). A study population can be defined as the entire collection of cases or units about which the researcher wishes to draw conclusions. One of the major steps in formulating a research design is to define the population according to the objectives of the study. This study focused on a population of 6 Real Estate Projects (by capital) in Nairobi County as at 2015, according to Kenya's Real Estate Market.

3.4 Sample Size and Sampling Procedures

A sample is a finite part of a statistical population whose properties are studied to gain information about the whole. The sample size was established and the procedure for establishing is explained as follows.

3.4.1 Sample Size

A sample is a model of the population or a subset of the population that is used to gain information about the entire population. It is a small collection of units, from a much larger collection of population, which is studied to enable the researcher to make more accurate generalizations about the larger group (Mugenda & Mugenda, 2003). The sample size therefore comprised of all 6 investment managers, 6 project managers and 20 other senior staffs from different departments of the six Real Estate Projects (by capital) in Kenya.

3.4.2 Sampling Procedures

This study intended to use census sampling method. According to Creswell and Clark (2007), a census is a study of every unit, everyone or everything, in a population. A census study occurs if the entire population is very small or it is reasonable to include the entire population. This study used all the 12 managers (6 investment managers and 6 project managers). Simple random sampling was also used to select 20 other staffs from all departments. The use of this method ensured that there was no bias in the selection of the sample population.

3.5 Research Instruments

This study used questionnaires as the primary tool for data collection. The questionnaires contained both structured and unstructured questions. The questionnaires were preferred in this study because respondents are assumed to be literate and quite able to answer questions asked adequately. Kothari (2004), terms the questionnaire as the most appropriate instrument due to its ability to collect a large amount of information in a reasonably quick span of time. It guarantees confidentiality of the source of information through anonymity while ensuring standardization (Creswell, 2003). Experts were requested to comment on the representativeness and suitability of questions and gave suggestions to be made to the structure of the questionnaire (Kothari, 2004). This helped to improve the content validity and reliability of the data to be collected.

3.5.1 Piloting of the Study

A pilot test was conducted in order to test the validity of the questionnaire and it was carried out with the help of research assistants.

The main reasons for the pilot study was to identify any potential deficiencies, omissions and errors in the questionnaire and eliminate them before it is used to collect the actual data (Cooper & Schindler, 2006). A pilot study was conducted where one project was picked. Test-retest method was used to test for reliability of the instrument. The instruments were administered to the respondents and re-administered to the same respondents after one week. This is in line with Creswell (2003), who stated that the instrument should be administered at two different times and then the correlation between the two sets of scores computed.

3.5.2 Validity of Instruments

Creswell and Clark (2007), describe the validity in quantitative research as "construct validity". The construct is the initial concept, notion, question or hypothesis that determines which data is to be gathered and how it is to be gathered. They also assert that quantitative researchers actively cause or affect the interplay between construct and data in order to validate their investigation, usually by the application of a test or other process. In this sense, the involvement of the researchers in the research process would greatly reduce the validity of a test. Ngechu (2004) provides the following explanation of what validity is in quantitative research where validity determines whether the research truly measures that which it was intended to measure or how truthful the research results are. Researchers generally determine validity by asking a series of questions, and often look for the answers in the research of others. To establish the validity of the instruments in this research, the instrument was presented to the research supervisor and defended in the faculty forums where the research proposal was presented. There after the questionnaire was administered with approval of the supervisor.

3.6 Reliability of the study

Reliability is a measure of the degree to which a research instrument yields consistent results after repeated trials (Cooper & Schindler 2006). Reliability refers to the consistency of the research and the extent to which studies can be replicated. To ensure a high degree of reliability of instruments in this study, the researcher personally collected the data and only in a few cases where assistance was sought from well-trained and motivated research assistants.

Test-retest technique of reliability testing was employed whereby the pilot questionnaires were administered twice to the respondents, with a one week interval, to allow for reliability testing. Reliability was conducted where two project managers were used for the pilot study. Test-retest method was used to test for reliability of the instrument. For reliability, the researcher used internal consistency measure known as Cronbach's Alpha (α) which indicates the extent to which a set of measurement items could be treated as measuring a single latent variable (Ngechu, 2004). Reliability provides a measure of the internal consistency and homogeneity of the items comprising the scale.

3.6 Data Collection Procedures

Permission to collect data from investment managers and project managers of the real estate projects was sought from the six projects, after the approval from the university to carry out the research. The researcher attached a transmittal letter in each questionnaire. The questionnaires were self-administered via the use of email, drop and pick later method to the respective managers of the real estate projects.

According to Cooper and Schindler (2006), the use of structured questions in the questionnaire allows for uniformity of responses to questions; while unstructured questions will give the respondent freedom of response which will help the researcher to gauge the feelings of the respondent, he or she will use his or her own words.

The structured questions were in form of a five point Likert scale, whereby respondents were required to indicate their views on a scale of 1 to 5. The researcher exercised care and control to ensure all questionnaires issued to the respondents were received and achieved this, the researcher maintained a register of questionnaires which were used.

3.7 Data analysis Techniques

Data analysis, according to Sekaran (2005), involves a number of closely related operations which are performed with the purpose of summarizing the collected data and organizing them in such a manner that they answer the research questions. The operations include editing, coding, classifying and tabulating. It also entails categorizing, ordering, manipulating and summarizing data, to find answers to the research questions.

The data collected was analyzed using descriptive statistics (measures of central tendency and measures of variations) to achieve the objectives of the study. The process of data analysis involved several stages: the completed questionnaires were edited for completeness and consistency and checked for errors and omissions. The research yielded both qualitative and quantitative data. The qualitative data collected was analyzed through content analysis where a thematic framework was developed.

The quantitative data generated was analyzed using descriptive statistics with the help of Statistical Package for Social Sciences (SPSS) version 20. The findings were presented using tables, frequencies and percentages.

The study used ANOVA to test the level of significant of the independent variables on the dependent variable at 95% level of significance. In addition, the study conducted a multiple regression analysis. The regression equation was:

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

Whereby Y = Foreign Direct Investment

X_1= trade regulations,

X_2= economic growth rate,

X_3= market size

X_4= exchange rate valuation,

While $\beta_{0,}$ $\beta_{1,}$ β_2, $\beta_{3,}$ β_4 and β_5 are coefficients of determination and ε is the error term. This generated quantitative reports through tabulations, percentages, and measures of central tendency.

3.8 Ethical Considerations

According to Sekaran (2005), professional ethical standards should be noted during all phases of the research process.

Ethical considerations represent a moral stance that involves conducting research to achieve not just high professional standards of technical procedures, but also respect and protection for the people actively consenting to be studied (Creswell, 2003). Professional ethical standards should be noted during all phases of the research process

Throughout this study the researcher strived to adhere to ethical research considerations and professional guidelines.

This involved avoiding acts of misconduct in research, such as data fabrication, falsification and plagiarism. Permission to conduct the study was obtained from the relevant authorities before commencement of data collection. During data collection the researcher explained the aim and significance of the study to the respondents and consent for participating in the interviews and focus group discussions was sought from them. The researcher ensured that the information collected was treated with due confidentiality and used purely for research work.

3.9 Operationalization Table of variables

This section analyses the operational definition of variables for the FDI flow and the Kenya Real Estate Projects. The operation of the variables is as shown below

Table 3.1: Operationalization Table of Variables

Objectives	Variables	Indicators	Measurement	Measurement scale	Type of Analysis	Tool of Analysis
To establish the influence of trade regulations on foreign direct investment in construction of real estate projects in Nairobi County, Kenya	Trade Regulation	Population	Number of people in a country	Interval	Descriptive	Mean
		Trade policy	Trade restrictiveness indices	Interval	Descriptive	T -test
		Economic development	GDP per capita	Ordinal	Descriptive	Mean
To determine the influence of economic growth rate on foreign direct investment in construction of real estate projects in Nairobi County, Kenya	Economic growth rate	Real per capita GDP	Ratio of GDP to number of people	Interval	Descriptive	T -test
		Political freedom	Level of Democracy	Interval	Descriptive	Mean
		Capital Goods	market or dollar value	Interval	Descriptive	Regression
To establish the influence of market size on foreign direct investment in construction of real estate projects in Nairobi County, Kenya	Market size	Economies of scale	output per worker	Nominal	Descriptive	percentage Mean
		Productivity	ratio of output to inputs	Interval	Descriptive	T -test
		Trade barriers	imports and exports of goods	Interval	Descriptive	Mean
To ascertain the influence of exchange rate valuation on foreign direct investment in construction of real estate projects in Nairobi County, Kenya	Exchange rate valuation	Terms of Trade	Trade restrictiveness indices	Nominal	Descriptive	Mean percentage
		Government Debt	general government debt in relation to GDP	interval	Descriptive	ANOVA
		Current-Account Deficits	value of exports - value of inputs	Nominal	Descriptive	Mean

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction

This chapter presents data analysis of the findings obtained from the field. It presents the background information of the respondents, findings of the analysis based on the objectives of the study. Descriptive statistics have been used to discuss the findings of the study.

4.1.1 Response rate

The study targeted a sample size of 32 respondents from which all filled in and returned the questionnaires making a response rate of 100%. This response rate was satisfactory to make conclusions for the study as it acted as a representative. According to Mugenda and Mugenda (1999), a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent. Based on the assertion, the response rate was excellent.

Table 4.1: Response Rate

Questionnaires	Frequency	Percent (%)
Response	32	100%
Non-response	0	0%
Total	**32**	**100%**

4.2 Demographic Information

The study sought to establish the demographic information in order to determine whether it has factors influencing FDI in Construction of Real Estate Projects in Nairobi County, Kenya. The demographic information of the respondents included gender, education levels of the respondents and period of service in the firm.

4.2.1 Gender distribution

The study found it paramount to determine the respondents' gender in order to ascertain whether there was gender parity in the positions indicated by the respondents. The results are displayed in the table below:

Table 4. 2 : Gender distribution

Gender	Frequency	Percentage
Male	20	62.5
Female	12	37.5
Total	**32**	**100**

Table 4.2: Gender distribution

The study sought to establish the gender distribution of the respondents, from the research findings the study revealed that majority of the respondents as shown by 62.5% were males whereas 37.5% of the respondents were females. This implies that respondents were fairly distributed in terms of their gender.

4.2.2 Level of Education

The study sought to find out the respondents level of education. The findings of the study are tabulated as in the table below:

Table 4. 3 Level of Education

Level of Education	**Frequency**	**Percentage**
College Diploma	8	25
Undergraduate	9	28.13
Master	15	46.87
Total	**32**	**100**

Table 4.3: Level of Education

The level of education determines the level of knowledge and exposure to factors influencing FDI flow on Real Estate Projects in Nairobi thus considered important.

On respondents' level of education, the study revealed that most of the respondents as shown by 46.87% had attained master's degree whereas 28.13% of the respondents had attained undergraduate degrees. Only 25% of the respondents had attained college diplomas. This implies that respondents were well educated and therefore they were in position to respond to the research questions on factors influencing FDI in Construction of Real Estate Projects in Nairobi.

4.2.3 Period of Service

The researcher sought to determine if the respondents were had stayed in the firm long enough to provide valuable responses that pertain to factors influencing FDI in Construction of Real Estate Projects in Nairobi**.**

Table 4. 4 Period of service

Period of service	Frequency	Percentage
Below 2 years	4	12.5
3-5 years	7	21.87
6-8 years	10	31.25
9 years and above	11	34.38
Total	**32**	**100**

Table 4.4: Period of Service

Based on the findings, the study revealed that majority of the respondents, as shown by 36.38%, had served the institution for more than 9 years, whereas 31.25% of the respondents had served the institution for a period of 6 to 8 years. 21.87% of the respondents had served the institution for a period of between 3 to 5 years while only 12.5% had served the institution for less than 2 years. This implies that majority of the respondents had served the institution for a considerable period of time and thus they were in a position to give credible information relating to this research.

4.3 Determinants of FDI Flow

The study sought to establish the influence of various factors influencing FDI in construction of the Real Estate Projects in Nairobi which are; trade regulations, economic growth rate, market size and exchange rate valuation.

4.3.1 Trade Regulations

Respondents were asked to indicate the extent to which they agreed with the listed statements on trade regulations and FDI flow on the Real Estate Projects in Nairobi. Using a scale of 1-5, where (1= strongly disagree, 2= disagree, 3= moderately agree, 4= agree and 5= strongly agree)

Table 4. 5: Influence of trade on foreign direct investment

Statement	1%	2%	3%	4%	5%	Mean	SD
A country's degree of openness to international trade should be a relevant factor in the decision.	0	4	10	59	27	4.18	0.24
The impact of openness to trade on FDI flow depends on the type of investment.	0	0	11	52	37	4.33	0.20
When investments are market-seeking, trade restrictions can have a positive impact on FDI flow.	0	3	9	49	39	4.22	0.20
Foreign firms that seek to serve local markets may decide to set up subsidiaries in the host country if it is difficult to export their products to the country.	0	5	19	43	33	4.21	0.19
Investing firms benefit from circumventing trade barriers through building production sites abroad.	0	2	7	56	35	4.24	0.21
Export orientation attracts FDI, and links this to the rising harmonization of trade and FDI flows.	0	3	12	56	29	4.18	0.24
Average mean						**4.23**	

Based on the findings majority of the respondents 59% agreed that a country's degree of openness to international trade should be a relevant factor in the decision (M= 4.18), 52% also agreed that the impact of openness to trade on FDI flow depends on the type of investment (M=4.33), 49% of the respondents further agreed that when investments are market-seeking, trade restrictions can have a positive impact on FDI flow (M=4.22).

A further 43% also agreed that foreign firms that seek to serve local markets may decide to set up subsidiaries in the host country if it is difficult to export their products to the country (M=4.21), 56% agreed that investing firms benefit from circumventing trade barriers through building production sites abroad (M=4.24) and 56% agreed that export orientation attract FDI, and links this to the rising harmonization of trade and FDI flows (M=4.18).

4.3.2 Economic growth rate

Respondents were asked to indicate the extent to which they agreed with the listed statements on Economic growth rate on the Real Estate Projects. Using a scale of 1-5, where (1= strongly disagree, 2= disagree, 3= moderately agree, 4= Agree and 5= strongly Agree)

Table 4.6: Influence of economic growth rate on foreign direct investment

Statement	1%	2%	3%	4%	5%	Mean	SD
A rapidly growing economy provides relatively better opportunities for making profits than the ones growing slowly or not growing at all.	0	0	6	69	26	4.20	0.24
FDI affects economic growth rate of developing countries positively through transfer of capital, know-how, and technology.	1	2	6	55	36	4.22	0.24
FDI can accelerate growth in the ways of generating employment in the host countries, fulfilling saving gap and huge investment demand.	3	1	12	61	20	4.12	0.25
The growth in real estate in a country depends on the changes in economic activity and prosperity of a region or country.	3	1	12	62	21	4.09	0.25
A productive economy does positively affect the demand for real estate assets.	0	0	6	69	26	4.16	0.23
A sound economic structure and an expected strong and stable economy are perceived to be the most significant factors in the ability of a region to attract FDI flow in real estate.	0	1	9	57	33	4.21	0.21
Average mean						**4.17**	

The findings revealed that respondents agreed to all the statements on Economic growth rate concerning Real Estate Projects. The researcher noted that a rapidly growing economy provides relatively better opportunities for making profits than the ones growing slowly or not growing at all (M=4.20) this was confirmed by 69% of the respondents, 55% of the respondents agree that FDI flow affects economic growth rate of developing countries positively through transfer of capital, know-how, and technology (M=4.22), 61% of the respondents confirmed that FDI flow can accelerate growth in the ways of generating employment in the host countries, fulfilling saving gap and huge investment demand (M=4.12).

In addition, the researcher noted that the growth in real estate in a country depends on the changes in economic activity and prosperity of a region or country (M= 4.09) as confirmed by 62% of the respondents, 69% of the respondents agree that a productive economy does positively affect the demand for real estate assets (M= 4.16) and 57% respondents agree that a sound economic structure and an expected strong and stable economy are perceived to be the most significant factors in the ability of a region to attract foreign real estate (M=4.21).

4.3.3 Market Size

Respondents were asked to indicate the extent to which they agreed with the listed statements on Market Size on the Real Estate Projects. Using a scale of 1-5, where (1= strongly disagree, 2= disagree, 3= moderately agree, 4= agree and 5= strongly agree).

Table 4. 7: Influence of market size on foreign direct investment

Statement	1%	2%	3%	4%	5%	Mean	SD
FDI moves to countries with larger and expanding markets and greater purchasing power.	7	8	11	55	19	4.19	0.13
The market-size supports an idea that a large market is required for efficient utilization of resources and exploitation of economies of scale.	0	4	8	57	31	4.27	0.03
FDI moves to countries where firms can potentially receive a higher return on their capital.	4	6	12	54	24	4.12	0.01
A bigger market allows the benefits of large-scale production to be more readily captured.	0	0	7	70	23	4.18	0.05
The small size of the market due to the low income in developing countries is associated with non-market seeking FDI activities.	3	3	8	59	27	4.17	0.14
Average mean						**4.19**	

The findings revealed a majority (55%) agreed with the statement that FDI moves to countries with larger and expanding markets and greater purchasing power (M=4.19), 57 % also agreed that the market-size supports an idea that a large market is required for efficient utilization of resources and exploitation of economies of scale (M=4.27). In addition, 54% agreed that FDI moves to countries where firms can potentially receive a higher return on their capital (M=4.12). However 70% agreed that a bigger market allows the benefits of large-scale production to be more readily captured (M=4.18) and 59% agreed that small size of the market due to the low income in developing countries is associated with non-market seeking FDI activities (M=4.17).

4.3.4 Exchange Rate Valuation

Respondents were asked to indicate the extent to which they agreed with the listed statements on exchange rate valuation on the Real Estate Projects. Using a scale of 1-5, where (1= strongly disagree, 2= disagree, 3= moderately agree, 4= Agree and 5= strongly Agree).

Table 4. 8: Exchange Rate Valuation on foreign direct investment

Statement	1%	2%	3%	4%	5%	Mean	SD
A weaker real exchange rate increases FDI as firms take advantage of relatively low prices in host markets to purchase facilities.	1	8	17	54	20	4.51	0.19
Stable public finances and relatively good business climate are important determinants for investors seeking safe allocation of funds.	0	10	18	55	19	4.29	0.15
Real estate are different from other types of assets because they are more exposed to exchange rate fluctuations as companies investing domestically are limited to diversification concerns.	0	3	8	67	21	4.41	0.19

Statement	1%	2%	3%	4%	5%	Mean	SD
Fixed location, makes real estate more exposed to exchange rate fluctuations as companies investing domestically are limited what concerns diversification.	0	4	8	64	24	4.35	0.20
FDI inflows in developing countries causes exchange rate appreciation, trade and income account balance worsening thus having serious implications for foreign exchange reserves.	0	0	7	69	24	4.22	0.27
The exchange rate and future expectations of a higher exchange rate enhance growth even further as the return on domestic bonds is higher in relation to foreign bonds.	0	2	3	58	37	4.34	0.15
Average mean						**4.35**	

From the findings, a majority (54%) agreed that a weaker real exchange rate increases FDI as firms take advantage of relatively low prices in host markets to purchase facilities (M=4.51). It was also noted that a majority (55%) agreed that stable public finances and a relatively good business climate are important determinants for investors seeking safe allocation of funds (M=4.29). 67% agreed that real estate assets are different from other types of assets because they are more exposed to exchange rate fluctuations (M=4.41). 67% indicated that fixed location makes real estate more exposed to exchange rate fluctuations as companies investing domestically are limited what concerns diversification (M=4.35). In addition 69% agreed that FDI inflows in developing countries cause exchange rate appreciation and trade and income account balances worsening, thus having serious implications for foreign exchange reserves (M=4.22).

While 58% agreed that the exchange rate, and future expectations of a higher exchange rate enhance growth even further as the return on domestic bonds is higher in relation to foreign bonds (M=4.34).

4.4 Regression Analysis

A multiple regression model was applied to identify the factors influencing FDI in Construction of Real Estate Projects in Nairobi County. The study adopted the following regression equation to establish the relationship between variables $Y = a+b_1X_1+b_2X_2+b_3X_{3+}b_4X_{4+}e$; where Y = FDI in Construction of Real Estate Projects, a=the constant of regression (or the y intercept when X is 0), b_1, b_2,b_3, b_4 and b_5 = are the regression coefficients/weights of the following respective independent variables; X_1= trade regulations, X_2= economic growth rate, X_3= market size and X_4= exchange rate valuation. All the four independent variables were measured using the responses on each of the variables obtained from the respondents. The results are shown in Table 4.9.

Table 4.9: Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
	(Constant)	.454	.123	.411	3.691	.002
	Trade Regulations,	.476	.113	.456	4.212	.001
1	Economic growth rate	.294	.128	.264	2.297	.013
	Market Size	.381	.102	.351	3.735	.021
	Exchange Rate Valuation	.489	.122	.455	4.008	.004

a) Predictors: (Constant), trade regulations, economic growth rate, market size and exchange rate valuation.
b) Dependent Variable: FDI in Construction of Real Estate Projects in Nairobi County

From the data in the above table the established regression equation was

$$\mathbf{Y = 0.454 + 0.476\, X_1 + 0.294\, X_2 + 0.381\, X_3 + 0.489\, X_4}$$

From the above regression equation it was revealed that holding trade regulations, economic growth rate, market size and exchange rate valuation to a constant zero, FDI in Construction of Real Estate Projects would be at 0.454, a unit increase in trade regulations would lead to an increase in FDI in Construction of Real Estate Projects by a factors of 0.476, a unit increase in economic growth rate would lead to increase in FDI in Construction of Real Estate Projects by factors of 0.294, a unit increase in market size would lead an increase in FDI in Construction of Real Estate Projects by a factor of 0.381 and a unit increase in exchange rate valuation would lead to an increase in FDI in Construction of Real Estate Projects by a factors of 0.489 and . All the variables were significant as their significant value was less than ($p<0.05$).

Table 4. 10: Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	.919	0.844	0.796	.223

a) Predictors: (Constant), trade regulations, economic growth rate, market size and exchange rate valuation.
b) Dependent Variable: FDI in Construction of Real Estate Projects in Nairobi County

The study used the R square. Adjusted R squared is coefficient of determination which tells us the variation in the dependent variable due to changes in the independent variable. From the findings in the above table the value of adjusted R squared was 0.796 an indication that there was variation of 79.6 percent of FDI in Construction of Real Estate

Projects in Nairobi County due to changes in trade regulations, economic growth rate, market size and exchange rate valuation. This shows that 79.6 percent of FDI in Construction of Real Estate Projects in Nairobi County Could be accounted to trade regulations, economic growth rate, market size and exchange rate valuation. R is the correlation coefficient which shows the relationship between the study variables, from the findings shown in the table above is notable that there exists strong positive relationship between the study variables as shown by 0.919.

Table 4. 11: Analysis of Variance (ANOVA)

Model		Sum of Squares	Df	Mean Square	F	Sig.
	Regression	2.588	3	.647	5.726	.001[b]
1	Residual	9.379	28	.113		
	Total	11.967	31			

a) Predictors: (Constant), trade regulations, economic growth rate, market size and exchange rate valuation.
b) Dependent Variable: FDI in Construction of Real Estate Projects in Nairobi County

The study used ANOVA to establish the significance of the regression model from which an f-significance value of p less than 0.05 was established (p=0.001 <0.05). The model is statistically significant in predicting how trade regulations, economic growth rate, market size and exchange rate valuation affect FDI in Construction of Real Estate Projects in Nairobi County. This shows that the regression model has a less than 0.05 likelihood (probability) of giving a wrong prediction. This therefore means that the regression model has a confidence level of above 95% hence high reliability of the results. Using the F-test statistic, the sample F value had a value of 5.726 with critical f value at $\alpha = 0.05$, 4 degrees of freedom for the numerator and 28 degrees of freedom for the denominator; this implies that the regression model is statistically significant since 5.726>2.710. According to Beamon (1999), this is a model can be used for estimating purposes.

CHAPTER FIVE

SUMMARY OF FINDINGS, DISCUSSION, CONCLUSION AND RECOMMENDATION

5.1 Introduction

From the analysis and data collected, the following discussions, conclusion and recommendations were made. The responses were based on the objectives of the study. The study sought to determine the factors influencing FDI in Construction, A Case of Real Estate Projects in Nairobi County, Kenya. Specifically the study sought to establish the influence of trade regulations on FDI in Construction of Real Estate Projects in Nairobi, to determine the influence of economic growth rate in Construction of Real Estate Projects in Nairobi, to establish the influence of market size on FDI in Construction of Real Estate Projects in Nairobi and to ascertain the influence of exchange rate valuation in Construction of Real Estate Projects in Nairobi.

5.2 Summary of the Findings

This section presents the key findings as considered under each objective in the study.

5.2.1 Trade Regulations on Foreign Direct Investment

The findings established that trade regulations affected FDI in various ways. A country's degree of openness to international trade should be a relevant factor in the decision. It was also noted that the impact of openness to trade on FDI flow depends on the type of investment. In addition the researcher established that when investments are market-seeking, trade restrictions can have a positive impact on FDI flow. The findings further revealed that foreign firms that seek to serve local markets may decide to set up subsidiaries in the host country if it is difficult to export their products to the country while investing firms benefit from circumventing trade barriers through building production sites abroad. It was also noted that export orientation attract FDI, and links this to the rising complementarity of trade and FDI flows.

5.2.2 Economic growth rate on Foreign Direct Investment

The researcher found a relationship between economic growth rates and the flow of FDI in Construction of Real Estate Projects. It was noted that a rapidly growing economy provides relatively better opportunities for making profits than the ones growing slowly or not growing at all and therefore FDI affects economic growth rate of developing countries positively through transfer of capital, know-how, and technology. The findings further revealed that FDI can accelerate growth in the ways of generating employment in the host countries, fulfilling saving gap and huge investment demand. The researcher in addition noted that the growth in real estate in a country depends on the changes in economic activity and prosperity of a region or country. The findings also show that a productive economy does positively affect the demand for real estate assets and that a sound economic structure and an expected strong and stable economy are perceived to be the most significant factors in the ability of a region to attract foreign real estate investment.

The research findings showed that a relationship exists between economic growth and FDIs. Positive economic growth rate, for example the growth in gross domestic product, is associated with increments in FDIs. A positive relationship also exists between the exchange rates growth with the FDIs. This implies that as the value of the domestic currency reduces, more investors are attracted to the country hence attract investment in construction of real estate projects.

5.2.3 Market size on Foreign Direct Investment

The findings revealed that the small size of the market is associated with non-market seeking FDI activities. Even though GDP per capita is a poor indicator for the market seeking FDI activities, both population and GDP are crucial. The findings of the study show that FDI is concerned with the size of market in developing countries not measured by per capita, but rather in aggregate size. The findings further revealed that companies are interested in knowing the market size before launching a new product or service in an area. FDI moves to countries with larger and expanding markets and greater purchasing power. According to the findings the market-size supports an idea that a large market is required for efficient utilization of resources and exploitation of economies of scale. It was noted that FDI moves to countries where firms can potentially receive a higher return on their capital and a bigger market allows the benefits of large-scale production to be more readily captured. The researcher also noted the small size of the market due to the low income in developing countries is associated with non-market seeking FDI activities.

5.2.4 Exchange Rate Valuation on Foreign Direct Investment

According to the findings real estate assets are different from other types of assets because they are more exposed to exchange rate fluctuations as companies investing domestically are limited to what concerns diversification and fixed location. It was also noted that FDI inflows in developing countries cause exchange rate appreciation and trade and income account balance worsening, thus having serious implications for foreign exchange reserves.

The findings also revealed that the exchange rate and future expectations of a higher exchange rate enhance growth even further as the return on domestic bonds is higher in relation to foreign bonds.

5.3 Discussion of the Findings

This section discusses the key findings as considered under each objective.

5.3.1 Trade Regulations Covering Foreign Direct Investment

Based on the findings, trade regulation laws are laws enacted by both federal and state governments to promote unrestrained competition amongst businesses.

Trade regulations extend into many categories of law, such as anti-trust law, which prohibits anti-competitive acts like price fixing, monopolistic conduct, and deceptive practices. Consumer protection law, advertising law, trademark law, and franchise law also fall under the umbrella of trade regulation.

The study findings on trade regulations and FDI in construction of real estate projects revealed that a country's degree of openness to international trade should be a relevant factor in the decision about FDI. It was also noted that the impact of openness to trade on FDI flow depends on the type of investment. In addition, the researcher established that when investments are market-seeking, trade restrictions can have a positive impact on FDI flow. The findings further revealed that foreign firms that seek to serve local markets may decide to set up subsidiaries in the host country if it is difficult to export their products to the country while investing firms benefit from circumventing trade barriers through building production sites abroad. It was also noted that export orientation attracts FDI and links this to the rising harmonization of trade and FDI flows. The findings revealed the impact of openness to trade on FDI flow depends on the type of investment. When investments are market-seeking, trade restrictions (and therefore less openness) can have a positive impact on FDI flow.

These findings are in line with Jordaan (2004), who claimed that the impact of openness to trade on FDI flow depends on the type of investment. When investments are market-seeking, trade restrictions (and therefore less openness) can have a positive impact on FDI flow. In addition the findings support Mosses' (2011) findings that investing firms benefit from circumventing trade barriers through building production sites abroad. But Resmini (2000), studying manufacturing investment in Central and Eastern Europe, finds that these largely vertical FDI flows, benefit from increasing openness, as might be expected in a sector for which international trade flows in intermediate and capital goods are important.

5.3.2 Economic growth rate on Foreign Direct Investment

On economic growth rate on FDI in Construction of Real Estate Projects the study findings revealed that an economic growth rate is a measure of economic growth from one period to another in percentage terms. It was however established that this measure does not adjust for inflation, it is expressed in nominal terms.

In practice, it is a measure of the rate of change that a nation's gross domestic product goes through from one year to another. In addition, the findings revealed that a rapidly growing economy provides relatively better opportunities for making profits than economies growing slowly or not growing at all. Therefore FDI affects economic growth rate of developing countries positively through transfer of capital, know-how, and technology. The findings further show that FDI can accelerate growth in the ways of generating employment in the host countries, fulfilling saving gap and huge investment demand. The researcher additionally noted that the growth in real estate in a country depends on the changes in economic activity and prosperity of a region or country.

The findings also shows that a productive economy does positively affect the demand for real estate assets and that a sound economic structure and an expected strong and stable economy are perceived to be the most significant factors in the ability of a region to attract foreign real estate investment.

5.3.3 Market size on Foreign Direct Investment

On market size influence on FDI in construction of real estate projects the findings revealed that market size is defined as the number of individuals in a certain market who are potential buyers and/or sellers of a product or service. According to the findings many companies are interested in knowing the market size before launching a new product or service in an area.

FDI moves to countries with larger and expanding markets and greater purchasing power. According to the findings the market-size supports an idea that a large market is required for efficient utilization of resources and exploitation of economies of scale.

It was noted that FDI moves to countries where firms can potentially receive a higher return on their capital and a bigger market allows the benefits of large-scale production to be more readily captured. The researcher also noted the small size of the market due to the low income in developing countries is associated with non-market seeking FDI activities. According to the findings markets may be associated with higher FDI due to larger potential demand and lower costs due to scale economies. For example, Resmini (2000), looking into manufacturing FDI, finds those countries in Central and Eastern Europe with larger populations tend to attract more FDI.

The findings are in line with Chen and Hobbs (2003), who found that the size of a country's economy positively affects investment activity, as larger economies are usually more capable of withstanding external economic turmoil and are therefore more stable than smaller economies. In addition the results of studies from Van Doorn, (2003), revealed that GDP per capita is commonly used in strategic real estate asset allocation for the determination of a country's economic level of development. According to Morris (2013) the real economic growth builds onto the economic growth rate by taking into account the effect that inflation has on the economy. The real economic growth rate is a "constant dollar" and is therefore a more accurate look at the rate of economic growth because it is not distorted by the effects of extreme inflation or deflation (Charkrabarti, 2001).

5.3.4 Exchange rate valuation on Foreign Direct Investment

On the relationship between exchange rate valuation and FDI in Construction of Real Estate Projects the researcher found that a weaker real exchange rate increases FDI as firms take advantage of relatively low prices in host markets to purchase facilities. It was also noted that stable public finances and a relatively good business climate are important determinants for investors seeking safe allocation of funds. According to the findings real estate are different from other types of assets. It was also noted that FDI inflows in developing countries cause exchange rate appreciation, trade and income account balance worsening, thus having serious implications for foreign exchange reserves. The findings also revealed that the exchange rate and future expectations of a higher exchange rate enhance growth even further as the return on domestic bonds is higher in relation to foreign bonds.

According to the study findings, a weaker real exchange rate might be expected to increase vertical FDI as firms take advantage of relatively low prices in host markets to purchase facilities or, if production is reported, to increase home-country profits on goods sent to a third market. Froot and Stein (1991) find evidence of the relationship: a weaker host country currency tends to increase inward FDI within an imperfect capital market model as depreciation makes host country assets less expensive relative to assets in the home country. In addition Blonigen (2007) makes a "firm specific asset" argument to show that exchange rate depreciation in host countries tends to increase FDI inflows. But on the other hand, a stronger real exchange rate might be expected to strengthen the incentive of foreign companies to produce domestically: the exchange rate is in a sense a barrier to entry in the market that could lead to more horizontal FDI. These findings concur with the findings by Blanchard (2009) that stable public finances and a relatively good business climate, in contrast to both developed and developing countries should be important determinants for investors seeking safe allocation of funds.

5.4 Conclusions

Based on the findings, different variables have influence on FDI in construction of real estate projects. The study concluded that largely vertical FDI flows, benefit from increasing openness, as might be expected in a sector for which international trade flows in intermediate and capital goods are important.

The study also concludes that policies which promote economic growth rate and development should be given sufficient attention in order to attract FDI. This is due to the fact that positive economic growth rate attracts FDI. It is important to note that Kenya has low levels of FDI hence it needs to develop its immediate business surroundings through improving on its administrative procedures and legal systems so as to accelerate economic growth. These factors would lead to higher levels of FDI being channeled into the country.

The study further concludes that FDI moves to countries with larger and expanding markets and greater purchasing power. In addition it can be concluded that the small size of the market due to the low income argument in developing countries is associated with non-market seeking FDI activities. The study also concludes that in order to profit in real estate investments, investors must determine the value of the properties they buy and make educated guesses about how much profit these investments will generate, whether through property appreciation, rental income or a combination of both.

The study findings concurred with the findings of Festus (2009), who established that there is a positive and significant relationship between domestic saving and foreign direct investment. This suggests that domestic savings has potential to drive the growth in foreign direct investment in Kenya and this requires Government to formulate policy measures to divert much of Kenya's savings into foreign direct investment projects. Government therefore, needs to formulate a policy that supports joint ventures between local investors and foreign investors who can combine locally sourced finance and foreign direct investment.

5.5 Recommendations

It is suggested that the government endeavor should be on the type and volume of FDI that will significantly boost domestic competitiveness, enhance skills, technological learning and invariably leading to both social and economic gains. It is also suggested that the government must promote sustainable development through FDI by further strengthening of the economic sector performance in Kenya.

Government must pay attention to the emerging Kenyan economy as the new economic power house of business transaction and try to boost the trade within this region through bilateral, multilateral agreements and also concludes FTAs with the emerging economic African giants. The government should also aim to grow the country's real GDP as this would enhance the growth of real estate investments in the economy as established by the study.

5.6 Areas for further research

To enhance the investors' confidence in the Kenyan economy, Government needs to maintain quality of governance, taking into account issues of property rights, the unpredictability of bureaucratic requirements and corruption. Government and its institutions need to formulate and maintain predictable economic policies and political responses as these are considered a prerequisite for FDI inflows. This research was based on Nairobi County, therefore, further research should be done influence of FDI in construction of real estate projects in other counties so as to generalize the findings.

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APPENDIX I

LETTER OF TRANSMITTAL

Rebecca Mbithe Mutua
P.O. Box 38382, 00623
NAIROBI
Registration No: L50/73561/2014

25^{TH} May, 2016

TO WHOM IT MAY CONCERN

RE: FACTORS INFLUENCING FOREIGN DIRECT INVESTMENT IN CONSTRUCTION, A CASE OF REAL ESTATE PROJECTS IN NAIROBI COUNTY, KENYA

I am a student of Project Planning and Management in the University of Nairobi School of Continuing and Distance Learning. I have completed the course work in my studies. For the research project I intend to carry out a study on the factors influencing foreign direct investment in construction of real estate projects, in Nairobi County, Kenya. The information which you provide me with will enable me complete my research study and provide more knowledge to the industry targeted on the topic. I am therefore requesting for your support and cooperation in answering questions honestly and completely. The information will be treated with the utmost confidentiality and will only be used for purposes of this research.

Yours faithfully,

Rebecca Mbithe Mutua
Tel: 0724-960003

APPENDIX II

UNIVERSITY LETTER

UNIVERSITY OF NAIROBI
COLLEGE OF EDUCATION AND EXTERNAL STUDIES
SCHOOL OF CONTINUING AND DISTANCE EDUCATION
DEPARTMENT OF EXTRA-MURAL STUDIES
NAIROBI EXTRA-MURAL CENTRE

Your Ref:

Our Ref:

Telephone: 318262 Ext. 120

Main Campus
Gandhi Wing, Ground Floor
P.O. Box 30197
N A I R O B I

23rd May 2016

REF: UON/CEES//NEMC/22/014

TO WHOM IT MAY CONCERN

RE: REBECCA MBITHE MUTUA: L50/73561/2014

This is to confirm that the above named is a student at the University of Nairobi, College of Education and External Studies, School of Continuing and Distance Education, Department of Extra- Mural Studies pursuing Master of Arts in Project Planning and Management.

She is proceeding for research entitled **"factors influencing foreign direct investment in construction"**: A Case of real estate projects in Nairobi County, Kenya.

Any assistance given to her will be appreciated.

for.

CAREN AWILLY
CENTRE ORGANIZER
NAIROBI EXTRA MURAL CENTRE

UNIVERSITY OF NAIROBI C E E S
P O Box 30197.
23 MAY 2016
NAIROBI
NAIROBI EXTRA MURAL CENTRE

APPENDIX III

RESEARCH PERMIT

THIS IS TO CERTIFY THAT:
MISS. REBECCA MBITHE MUTUA
of UNIVERSITY OF NAIROBI, 38382-623
Nairobi,has been permitted to conduct
research in *Nairobi County*

on the topic: ***FACTORS INFLUENCING FOREIGN DIRECT INVESTMENTS IN CONSTRUCTION: A CASE OF REAL ESTATE PROJECTS IN NAIROBI COUNTY, KENYA***

for the period ending:
22nd August,2017

Permit No : NACOSTI/P/16/70625/12809
Date Of Issue : 22nd August,2016
Fee Recieved :Ksh 1000

....
Applicant's Signature

....
Director General
National Commission for Science, Technology & Innovation

APPENDIX IV

RESEARCH QUESTIONNAIRE

Section: A: Demographic Information

1. Gender

   Male ( ) female ( )

2. Please indicate the highest level of education attained? (Tick as applicable)

   College Diploma [ ]

   Undergraduate [ ]

   Master [ ]

   Others (specify)

   …………………………………………………………………………...

3. Indicate your period of service in this firm

   Below 2 years ( ) 3 to 5 years ( )

   6 to 8 years ( ) 9 years and above ( )

4. Indicate your job title

……………………………………………………………………………………………

Section: B. Determinants of FDI Flow

5. To what extent do trade rules influence foreign direct investment flow on Real Estate Projects in Nairobi?

   Very great extent ( )

   Great extent ( )

   Moderate extent ( )

   Little extent ( )

   No extent ( )

6. Indicate your level of agreement with the following statements relating to influence of trade regulations. Use a scale of 1-5, where (1= strongly disagree, 2= disagree, 3= moderately agree, 4= Agree and 5= strongly Agree)

Influence of trade regulations on FDI in Construction of Real Estate Projects in Nairobi	**1**	**2**	**3**	**4**	**5**
A country's degree of openness to international trade should be a relevant factor in the decision					
The impact of openness to trade on FDI flow depends on the type of investment					
When investments are market-seeking, trade restrictions can have a positive impact on FDI flow					
Foreign firms that seek to serve local markets may decide to set up subsidiaries in the host country if it is difficult to export their products to the country					
Investing firms benefit from circumventing trade barriers through building production sites abroad					
Export orientation is very important in attracting FDI, and links this to the rising complementarity of trade and FDI flows.					

7. To what extent do economic growth rate charges influence foreign direct investment in construction of Real Estate Projects in Nairobi?

Very great extent ( )

Great extent ( )

Moderate extent ( )

Little extent ( )

No extent ( )

8. Indicate your level of agreement with the following statements relating to influence of economic growth rate. Use a scale of 1-5, where (1= strongly disagree, 2= disagree, 3= moderately agree, 4= Agree and 5= strongly Agree)

Influence of economic growth rate on FDI in Construction of Real Estate Projects in Nairobi	**1**	**2**	**3**	**4**	**5**
A rapidly growing economy provides relatively better opportunities for making profits than the ones growing slowly or not growing at all					
Foreign Direct Investment affects economic growth rate of developing countries positively through transfer of capital, know-how, and technology					
FDI can accelerate growth in the ways of generating employment in the host countries, fulfilling saving gap and huge investment demand					
The growth in real estate in a country depends on the changes in economic activity and prosperity of a region or country					
A productive economy does positively affect the demand for real estate assets.					
A sound economic structure and an expected strong and stable economy are perceived to be the most significant factors in the ability of a region to attract foreign real estate					

9. To what extent do market size influence foreign direct investment in Construction of Real Estate Projects in Nairobi?

Very great extent ( )

Great extent ( )

Moderate extent ( )

Little extent ( )

No extent ( )

10. Indicate your level of agreement with the following statements relating to market size. Use a scale of 1-5, where (1= strongly disagree, 2= disagree, 3= moderately agree, 4= Agree and 5= strongly Agree)

Effect of market size on FDI in Construction of Real Estate Projects Nairobi	**1**	**2**	**3**	**4**	**5**
FDI moves to countries with larger and expanding markets and greater purchasing power					
The market-size supports an idea that a large market is required for efficient utilization of resources and exploitation of economies of scale					
FDI moves to countries where firms can potentially receive a higher return on their capital					
A bigger market allows the benefits of large-scale production to be more readily captured.					
The small size of the market due to the low income in developing countries is associated with non-market seeking FDI activities					

11. To what extent does exchange rate valuation influence foreign direct investment in Construction of Real Estate Projects in Nairobi?

    Very great extent ( )

    Great extent ( )

    Moderate extent ( )

    Little extent ( )

    No extent ( )

12. Indicate your level of agreement with the following statements relating to influence of exchange rate valuation. Use a scale of 1-5, where (1= strongly disagree, 2= disagree, 3= moderately agree, 4= Agree and 5= strongly Agree)

Influence of exchange rate valuation on FDI in Construction of Real Estate Projects in Nairobi	**1**	**2**	**3**	**4**	**5**
A weaker real exchange rate increases FDI as firms take advantage of relatively low prices in host markets to purchase facilities					
Stable public finances and relatively good business climate are important determinants for investors seeking safe allocation of funds.					

Influence of exchange rate valuation on FDI in Construction of Real Estate Projects in Nairobi	**1**	**2**	**3**	**4**	**5**
Real estate are different from other types of assets because they are more exposed to exchange rate fluctuations as companies investing domestically are limited what concerns diversification.					
Fixed location, makes real estate more exposed to exchange rate fluctuations as companies investing domestically are limited what concerns diversification.					
FDI inflows in developing countries causes exchange rate appreciation, trade and income account balance worsening thus having serious implications for foreign exchange reserves					
The exchange rate, and future expectations of a higher exchange rate enhance growth even further as the return on domestic bonds is higher in relation to foreign bonds					

APPENDIX V

REAL ESTATE PROJECTS IN NAIROBI AS OF 2015

1. Garden City Mall
2. The Two Rivers Mall
3. Comesa Shopping Mall
4. Karen Waterfront
5. Crystal Rivers in Athi River
6. Rosslyn Riviera Mall in Runda