CHALLENGES AND PROSPECTS OF REAL ESTATE INVESTMENT TRUSTS (REITs) FINANCING OF REAL ESTATE IN KENYA

KEVIN MBURU KAMAU

D61/79235/2015

A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION OF THE UNIVERSITY OF NAIROBI 2016

DECLARATION

This research project is my original work and has not been presented for examination in any other University. I further declare that I followed all the applicable ethical guidelines in the conduct of the research project.

Signature: ……………………… Date: ………………...............

Kamau Kevin Mburu

Reg. No.: D61/79235/2015

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

Signature: ……………………… Date: ………………...............

Supervisor: Mr James M. Karanja

Lecturer School of Business

Department of Accounting and Finance

University of Nairobi.

DEDICATION

I would like to dedicate this Research project to my family, most especially my parents for their effort, who have helped me throughout my studies in Nairobi University with proper support and encouragement to proceed and succeed.

I would also like to dedicate this project to my friends who have also helped me in various stage in the project to facilitate the completion of this project.

ACKNOWLEDGEMENT

I am grateful to my research supervisor Mr. James Karanja for her professional support and guidance throughout the stages of the project I was undertaking. I am also grateful to my parents for their continuous support and encouragement.

ABSTRACT

A REIT (real estate investment trust) is a real estate firm which acquires, constructs or manages different types of buildings that are put up in various locations. REITs are a form of financing instruments from firms that source funds to build or acquire real estate assets which they sell or rent to generate income for the investors whom invested their funds in the firm. The income that is generated by the firm over the period is then distributed to the shareholders at the end of the financial year. The main aim of this study is to investigate the various challenges and prospects that such an investment can attain within the real estate sector in the country. This is a new venture/investment that has been introduced in the Kenyan market and this study will be able to identify the various challenges that affect the REITs and prospects that such an investment holds once it picks up in the country.

Based on the type of research to be carried out the best research design that would be appropriate for this research is an exploratory study research design approach due to the fact that this is a very new investment that has been introduced into the Kenyan market. The population of the study was 156 developing firms within Nairobi and a sample of 70 was selected for a representative of the population. Both primary data through the use of questionnaires and secondary data was used in the study.

The challenges that have been identified are policy, regulations and procedures, high dividend pay-out, culture of capital structure within the organization and market awareness of the investment vehicle. The prospects that have also been identified by this study were increased commercial and residential properties as a result to increased supply of real estate properties within the country, new pool of investors in real estate, huge source of capital for various real estate projects that require high source of income funding and high liquidity in the real estate sector. Interest rates, inflation rate and market capitalization were analyzed and concluded that these factors have a significant effect of on the REITs financing of real estate in Kenya. Further studies should be done on the various factors that affect the REITs financing of real estate in Kenya.

Table of Contents

LIST OF ACRONYMS

REITs: Real estate investment trust(s)

UPREIT - Umbrella partnership real estate investment trusts

NSE- Nairobi securities exchange

IPO- Initial public offer

NOI- Net operating income

ANOVA- Analysis of variance

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

REITs are used as a financing vehicle for companies in the sourcing of funds for various real estate projects. They have been used in various countries in the various real estate projects. REITs are real estate financing vehicles that are modelled after mutual (or unit trust) funds. REITs own, and in most cases, operate income-producing real estate projects. The REITs structure are created to provide all type of investors (private individuals and institutions) an opportunity to invest in the real estate sector through purchase of the REITs firm's shares and getting a share of the income earned from the various properties at the end of a given period once income is distributed in form of dividends. Public REITs are listed into stock exchanges. As of mid-2012, there were more than 410 real estate companies from more than 37 stock exchanges representing an equity market capitalization of more than US$ 1 trillion with a large share from REITs.

The genesis of the REITs can be traced back in 1960 where through a legislative action the U.S Congress gave all Americans, the opportunity to invest in income producing real estates in a manner similar to how individual and institutional investors invests in shares and bonds. Income producing real estate refers to land and the improvements on it such as construction of apartments, offices, industrial facilities and hotels. REITs may invest in various construction or acquisition of buildings thereby generating income through collection of rent. They may also advance in the mortgage sector or mortgage backed securities which are secured to properties, helping to finance the properties and generating interest income from lending.

In most emerging and developed economies REITs own many forms of the shopping malls, apartment building, student's hostels, homes, medical

facilities, office building, hotels, cell towers, etc. In these markets REITs contribute significantly in jobs creation and investment income to national economies.
REITs can be classified into two different categories which are equity REITs or mortgage REITs. Equity REITs get most of their income from rent from either leasing or renting out their properties. Mortgage REITs grow most of their income from interest earned on their investment in mortgages or mortgage-backed securities. REITs have many potential advantages to those who have interest in the real estate sector i.e. real estate developers, investors, and the economy.

There are various regulatory frameworks that are set up to which emphasize how the REITs should be managed and run so as to raise finances and capital for the various real estate projects that the REITs want to undertake. This is normally a legal framework, which emphasizes and provides rules relating to eligibility, responsibility, key players, listing procedures, operationalization of REITs and many more in relation to REITs.

The legal framework and the infrastructure enable the operationalization of the publicly listed REITs availability, therefore property and mortgage developers such as the National Housing Corporation, Pension funds, and other such institutions may consider making use of this platform to facilitate not only in enabling private individuals and professional institutional investors to invest and have ownership in the vibrant real estate industry but also enable real estate developers to access more efficient, effective, better priced and less costly public funding for speedier development of properties and mortgage, being either housing, commercial or industrial properties. In actual fact, less costly funding means lower cost for houses and commercial or industrial properties and hence more affordable houses, office space and industrial properties in our economy.

Once the initial public offer (IPO) is under taken in the primary market the securities will be traded in the secondary market thereby enhancing liquidity of the investments in the REITs market. REITs are highly liquid method of investing in real estate. Private individuals can invest in REITs by investing in the shares at the IPO or through acquiring the shares or securities in the secondary market or investing in various mutual funds that specialize in the REITs investment market. This enables retail investors and also institutions to become active participators in the real estate industry through owning shares in such REITs firms. For pension funds, this may also be one of the effective mechanisms to enable their members to participate in the ownership of assets created by their contributions.

In other African countries with relatively similar economic aspects, Ghana's Home Finance Company (now HFC Bank) established its first REIT in 1994. HFC Bank, as the forefront of mortgage financing in Ghana has successfully been using various collective investment scheme, of which REIT is part of, and are regulated by the Securities & Exchange Commission of Ghana.

In 2007 the Securities & Exchange Commission (SEC) of Nigeria set and issued guidelines for the registration, issuance and operationalization of REIT. The first successful REIT was launched in 2008 enabling the Union Homes Hybrid Real Estate Investment Trust to raise close to 50 billion. REITs have existed globally for the past 50 years, however the modern day REIT era can only be traced to the early 1990s and since that time, in which the real estate sector has seen various changes which were driven by the shift from privately to publicly owned real estate and the resulting migration of assets and talent into the public markets (Smotrich et al. 2012).

In Kenya, the capital markets regulator –CMA- have from December 2013 to date licensed five companies to manage REITs in their preparations to launch REITs products in the Nairobi Stock Exchange later this year. REITs were introduced in the Kenyan market through the Nairobi securities exchange (NSE) on 22 October 2015 with the launch of the first ever REITs by Stanlib Fahari I REIT. This was the launch of the REITs investment through the initial public offer (IPO) at the NSE.

1.1.1 Real estate investment trust (REIT) Financing of real estates

Real estate investment trusts (REITs) are pass-through vehicles designed to facilitate the flow of rental income and/or mortgage interest to investors, (Smotrich et al. 2012). A real estate investment trust (REIT) is a company that acquires or constructs and operates, income-producing real estate properties. The real estate properties can be in form of commercial properties such as offices, small business establishments and residential properties such as apartments and also warehouses, hospitals, shopping centers, hotels and even timberlands. Some REITs also engage in financing real estate and therefore setting up various buildings for both commercial and residential purposes. REITs normally in most cases raise finances via equity and have a special tax status which allows them to avoid corporate taxation if all or most the income earned from such real estate properties is paid out to the shareholders in form of dividends at the end of a specific period. This REIT structure enables small business transactions with a high liquidity and a transparent price in real estate investment.

Legal notice no.116 (2013) states a real estate investment trust scheme may be structured as a D-REIT or an I-REIT. D-REIT is a type of REIT in which the investors pool their money together for purposes of acquiring real estate with a view of undertaking development and construction projects and associated activities and the return is the sales proceeds. I–REIT is a type of REIT in which the investors pool their money for purposes of acquiring long term income generating real estate including housing, commercial and other real estate and the return is rental income. These are the two types of REITs currently established in Kenya by Stanlib Fahari I–REIT which introduced the I-REIT and Fusion capital which has just recently introduced the D-REIT.

1.1.2 Challenges and prospects of REITs

They are various challenges and prospects with relation to the REITs investment that can be identified. The study will analyze four of the major challenges and four of the major prospects in relation to REITs in the market.

The challenges will be the reason as to why the REITs in the country have not properly taken off and the issued REITs in the NSE have not yet properly taken of due to the undersubscription for both issues. The I-REIT which was issued by Stanlib Fahari in 22nd October 2015 was highly undersubscribed. Kenya's first Income-Real Estate Investment Trust (I-REIT) issued by Stanlib Investments was only able to raise Sh3.6 billion of the targeted Sh12.5 billion. Fusion Capital failed to raise Sh2.3 billion it targeted from its Development Real Estate Investment Trust (D-REIT), the firm only achieved a 38 per cent subscription collecting Sh873 million with only four investors against the requirement of seven. This highlights that their various challenges that are hindering the REITs financing vehicle from being used in the country.

There are also various advantages of using such an investment as a means of financing that can be seen from the various other countries in which the REITs have been successfully been implemented. This has been able to sole the demand crisis by increasing the supply of both commercial and residential properties in various countries such as Ghana and Nigeria in which the REITs has been able to be successful.

1.1.3 Challenges and prospects of REITs financing of real estate

In this study the challenges that have been experienced in using REITs for sourcing of funds for financing of the real estate projects for both commercial and residential will be determined and carefully analyzed. The real estate sector in Kenya has a huge demand for both commercial and residential properties however the supply of the same cannot meet the demand and one of the major issues is real estate finance which is a key issue for most developers. This study has examined one of the possible means of sourcing funds for the real estate and the challenges of using REITs as a means of sourcing funds in the Kenyan market.

This study also examined the various prospects that are available through the use of REITs as a means of finance in the real estate sector. Various real estates have been funded through the use of REITs in various countries and this has assisted in meeting the demand for the same. The REITs can bridge the gap between demand and supply in the country. This can see many residential and commercial properties set up in the country with the use of the finances acquired through IPOs for the REITs companies.

1.1.4 Real estate in Kenya

Real property was defined as all the interests, benefits, rights and encumbrances inherent in ownership of physical real estate, where real estate is land together with all improvements that are permanently affixed to it and all appetences associated thereto (Robert & Johnson, 1996). The number of properties in comparison to the demand in the country is not at all equal to the supply of such properties due to the fact that the growth rate of demand outweighs the supply. This was an opportunity that many investors have taken up in the real estate sector properties in Kenya. The real estate period of boom in which it was performing at its peak survived the 2008 Post Election Violence and global economic downturn that crippled other sectors such as tourism and agriculture which showed that this sector was very strong in the country and was very profitable. The construction sector is approximated to have created 82,000 private sector jobs in 2010 (Mulupi, 2012).

In the period for 2011 and part of 2012 the real estate sector growth had a server negative effect this was due to the high interest rates that were experienced during the period. This lead to a lot of construction of properties been postponed and left hanging for some time due to the mortgage interests at the time going to as high as 30%. However, with the fall of interest rates the sector picked up and the growth rate increased. This was from a study carried out by knight Frank for the 3rd quarter for the year ended 2012.

1.2 Research problem

Ogedengbe and Adesopo (2003) did a study which showed very that such problems as interest rates, inflation rates and the red tape in the borrowing of loans affected the financing of such properties in Nigeria to a great extent which lead to a weakening in the real estate development in the country. This clearly shows there are clearly financing issues in the real estate sector in which REITs can be used as an alternative source of financing.

Kenya's economy expanded overall by 4.9 per cent in the first quarter 2011 compared to 4.3 per cent in the same period in 2010; the real estate sector, renting and business services grew by 3.8 per cent in the same period which analysts attribute to a more vibrant property market and shifting consumer demands (Waithaka, 2011). The Kenyan economy is growing at a high rate with comparison to the real estate sector. This means that real estate properties are not matching the rate at which the economy is growing at and one of the various reasons is due to finances. The challenges in the up taking of REITs in the country has to be identified and corrective measures put in place so as to enable a vibrant financing for the supply of real estate properties. This will enable the growth of the real estate sector and demand of real estate properties both residential and commercial will be met.

This study0 took a closer look at the challenges and prospects of REITs as an investment which focuses on the real estate properties. They are various challenges that are affecting the REITs investment and this is hindering on the prospects of such an investment being fully realized in the country. The question that this study focused on is what are the challenges and prospects of using the REITs for the financing of real estate projects and developments within the country plus also the factors that affect REITs financing of the real estate in Kenya?

1.3 Research objectives

i) To identify the challenges and ascertain the level/degree in which these challenges affect the REITs financing of real estate in Kenya.
ii) To identify the prospects and ascertain the level/degree in which the prospects affect the REITs financing of real estate in Kenya.
iii) To analyze the effect of the determinants of REITs on the financing of real estate in Kenya with the use of REITs

1.4 Value of the study

This study enabled us to properly understand the REITs financing of the real estate sector and the various challenges that are being faced in the up taking of the REITs as a source of financing in Kenya. These challenges that were hindering the fully utilization of the EITs investment in the country should be known so as corrective measures can be set up to find solutions to some of these major challenges. This study will therefore enable us to identify some of the challenges that affect the REITs being used as a source of financing for the real estate sector.

It also enabled us to clearly outline the various opportunities that such an investment could bring if various investors are encouraged to invest in the same. There are various potential prospects that can be realized from the REITs financing. This is still quite a new investment market in Kenya but it has a lot of potential to meet the current high demand for real estate sector.

This study would benefit the developers of such real estate. It would be able to allow developers look for various kinds of finance depending on the various developments that they are undertaking given the fund requirement for such developments.

This study would also be useful to various investors in the identification of various areas in which the can be able to invest their funds and earn good returns.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

REITs are investments in the business world and have significant impact on business activity in relation to real estate properties both commercial and residential. Globally, various studies on REITs have been done and several theories have been proposed and tested for empirical validation.

The area of focus in this chapter will be the various challenges and prospects of REITs financing real estate in Kenya. The areas covered here are theoretical review, empirical review both local and international and discusses the literature gaps.

2.2 Theoretical Review

2.2.1 Trade off theory

Murray and Vidhan (2005) did a study on trade-off theory where it is used by different authors to describe a family of related theories and in all of these theories, a decision maker running a firm evaluates the various costs and benefits of alternative leverage plans.

From this theory REITs can be evaluated as a means of financing real estate and as an alternative better option. This is in terms of cheap financing or adequate capital requirement required for financing of various real estate projects within the country both commercial and residential. The trade-off theory assumes that there are benefits to leverage within a capital structure up until the optimal capital structure is reached.

2.2.2 The bird-in-the-hand theory of dividends

Popescu and Visinescu (2009) did a review on the capital structure theories and identified this theory of bird in the hand is a by-product of the MM irrelevance argument in that stockholders are indifferent between dividends today and capital gains tomorrow. The investors are indifferent between the dividends they gain today and the capitals gains that they could gain in future. They thus prefer the dividends that is for certain that they will gain today rather than the uncertain capital gains to be gained in the future.

The capital gains that are paid in future can be discounted to the equivalent amount to the dividends paid out today given the risk of uncertainty of future gains. This is why investors would prefer a firm that pays out high dividends against a firm that pays out low dividends in light of future capital gains. A lower required return results in a higher stock price for firms that match the high current payout pattern desired by bird-in-the-hand investors. Basically for investors that prefer investments that payout huge dividend from the incomes that are earned from a company ten the REITs is such an investment for such investors as it pays out almost all income earned from such real estate properties as dividends.

2.2.3 Theory of financial access

Theory suggests that financial exclusion acts as a brake on economic development, this basically points out that the lack of proper access to financial financing can lead to the hindrance of real estate development in a particular area which relies on financing to be able to acquire the resources for development of various properties.

This is why financial instruments such as REITs would assist in the sourcing of new funds for various projects in the real estate sector that require a huge source of funds to be able to be undertaken. The various investors will earn value for their investments through returns in form of dividends.

2.3 Determinants of REITs financing the real estate sector

2.3.1 Market capitalization

Olanrele (2014) did a study on factors that affect REITs whether they remain constant or not and found that market capitalization is a factor that determines the performance of the REITs investment. Market capitalization refers to the total dollar market value of a company's outstanding shares. The capitalization rate is the rate of return on a real estate investment property based on the income that the property is expected to generate. The capitalization rate could be calculated by dividing the net operating income (NOI) by the current market price of the shares of the gives firm. This is one of the determinants of having a vibrant REITs market in a given economy since the market capitalization of the properties which are owned by such REITs companies will be essential for the performance of REITs.

2.3.2 Interest rates

Interest rate increases are likely to be met by REIT price declines. The increase in the interest rates will require huge returns from REITs and this will make REITs unattractive if they will not be able to meet the returns of their investors during periods of huge interest rates.

2.3.3 Inflation

Earliest study by Chan, Hendershott, and Sanders (1990) indicate that there are three factors driven of REIT and general stock market, i.e. changes in the risk, term structure and unexpected inflation. Inflation will affect the returns of the REITs due to the fact that investments will yield a low income returns due to the cost of revenue going up thereby reducing the returns of various investments. This basically means with high inflation the will be little or no capital to invest in such REITs thereby reducing the overall income and returns of the investment.

2.3.4 Challenges of REITs financing

The major challenges that are currently being faced by REITs on a global scale are current policy, institutional and regulatory framework, tax incentives for the REITs investment, high capital requirement so as to get into the REITs for issuance of the IPO, lack of proper awareness of the investment vehicle and high dividends payout which results into low plough back into the company for further investments.

2.3.5 Prospects of REITs financing

The major prospects of the REITs investment on a global scale are infusion of additional capital which could reduce the supply gap of real estate assets both residential and commercial, it would open up real estate investing to a whole new pool of investors and bring up a more equitable ownership structure for real estate assets, would expand the range of financing for the real estate developers and this would create more liquidity in that one can easily liquidate their shares and get their funds.

2.4 Empirical studies

Gumbs (2001) did a study on the viability of the REIT structure as a vehicle for real estate development. This paper reviewed industry articles, past studies on the effects of development on REIT performance, and interviews with key personnel of the REITs and private development firms profiled in this thesis. The thesis concluded that the REIT format is an effective vehicle for real estate development although skilled management is vital to exploiting its inherent potential. This study basically identifies REITs as an investment that could be used in financing real estate sector in the developing and construction of both commercial and residential properties.

Lee and Stevenson (2004) did a research on the case for REITS in the mixed-asset portfolio in the short and long run. Poor performance of the U.S stock market in the period of 2003 resulted into REITs been seen as an attractive addition to the mixed-asset portfolio. The time period of the study was from 1980 to 2002 and investigated if REITs had a position in the efficient portfolio over varying time horizons which were estimated over a range of four alternative rolling periods. The results highlighted that REITs do play a significant role over both different time horizons and holding periods. The findings show that REITs attractiveness as a diversification asset increase as the holding period increases. This study basically views REITs as a diversified investment for the various investors and could be used as an investment plan in various mixed-asset portfolios and earn returns for such portfolios. For investors who normally have a diversified portfolio REITs investment could act like a diversified investment.

Muchiri (2006) did a study that examines the attitudes of Kenyans towards real estate securitization. The research design used in the study was an exploratory study and was mainly qualitative in nature. This design was chosen since the concept is relatively new and had not taken root in the country. The population for this study consists of every potential investor in the stock exchange in Kenya. All owners of real estate whose value is equal to, or exceeds the minimum required share capital and net asset value for listing at the Nairobi stock exchange qualify as potential promoters of a securitized real estate IPO. The sample of the study consisted of both institutional investors would be the most conveniently placed to provide insight into the questions raised, property consultants, in their capacity as advisors, this group has the ability to influence investment in a particular direction and trustees of some of the pension funds and officials of co-operatives that hold substantial property. This information was obtained using an in-depth interview. Such an interview provided opportunities to probe answers and allowed the interviewee to build on their answers. The qualitative data was used in the analysis of the findings from this research. The study concluded that professionals and ordinary investors would be ready to put their money in securitized real estate. However, the readiness to invest in shares of property companies went down as the amount involved went up. In addition, compared to owning a property most of the respondents favored owning a rental house to shares in a property company. This study basically states that given the amount required to invest in REITs investors would actually invest in the issues of REITs IPO.

Konagai (2009) did a research on Japan-REIT performance which intended to recognize the performance of REITs in Japan (J-REITs). This was done by conducting two kinds of studies the to do "factor loadings" being the first which sort to identify systematic risks of long run investment performance in J-REITs and the second being to demonstrate "Pure Play Indices," segment-specific indices of REIT-based property market returns by tracking monthly REIT return data and property holding data. The first study employed the Fama-French three-factor model for monthly J-REIT returns from September2001 to September 2008. The model resulted in a limited explanatory power for the J-REIT performance, which was probably due to too short a market history, as in the past research. The second study applied the Pure Play Indices to the J-REITs for office, residential, and retail segments since January 2006 when the J-REIT market became sizable enough for the study. The study concluded that as the market matures with more data accumulated this two-fold study that shows demonstration of returns from J-REITs will become more valuable to derive risk of J-REITs and different types of information of properties. The performance of REITs can only be seen once they become mature with a good history background on the same.

Muchuki (2010) did a study on real estate as an important investment asset class but it posed considerable problems for portfolio managers in valuing direct real estate investment. Real estate illiquid nature increases transaction costs yet it is assumed to be a safer asset for long term investment. Real estate can be purchased (direct investment) or the investment can take place through land held by listed or unlisted companies (indirect investment). REITs are the only truly liquid assets related to real estate investment. Indirect investment in real estate investment trusts (listed REITs) transforms the illiquid nature of direct real estate and offer more liquid investment vehicles thus forms part of a well-diversified investment portfolio. Public REITs did not exist in Kenya at the time. This study investigated whether there exits REITs needs among institutional investors trading at Nairobi Stock Exchange. A sample of 30 institutional investors consisting of pension fund managers and unit trusts was used. The findings showed that investors would invest in REITs if they were to be introduced at the exchange and therefore confirmed that REITs needs do exist among institutional investors at the NSE.

Alias and Tho (2011) did an analysis on the performance of REITS comparison between M-REITS and UK-REITS. The United Kingdom was one of the recent countries to enter into the tax efficient REITs regime. This took place early in the year 2007. At the moment, it ranks fourth in terms of market capitalization based on the Global REITs report 2008. Malaysia, with a long history of Unit Trust Funds with some recently converting to REIT, has yet to achieve the size of UK-REITs. This research analyzed the performance of six selected REITs in both countries. Nevertheless, prior to the performance analysis, the mechanism as well as the legislation adopted in regulating the respective REITs regime was discussed. In addition, factors which contributed to the variance of performance of REITs are presented and further discussions are made based on the performance analysis done. The findings and analysis of the study showed that the total revenue was the main factor affecting the performance for both the largest M-REITs and UK-REITs. Furthermore, the study views demonstrated that for every billion increase in market capitalization, the profit margins generated by the REITs will raise by approximately 9%. This study was a basic comparison of REITs growth in the various countries since it took off in the U.S. and has concluded that's the REITs investment is quickly catching up in the various countries.

Hoesli and Oikarinen (2012) did a study and the aim of this study is to examine whether securitized real estate returns reflect direct real estate returns or general stock market returns using international data for the U.S., U.K., and Australia. In the U.S., the research included four real estate sectors which were apartments, offices, industrial, and retail while for the U.K. it included just two real estate sectors which were offices and retail in the study analysis. For the Australian market, the research used the overall REIT and direct market indices given that no reliable sector data were available. For securitized real estate, the FTSE/NAREIT Equity REIT sector level indices are used for the U.S. and the S&P/ASX 200 A-REIT index for Australia. For the U.K., the study constructed the REIT indices from the company level price, dividend and market cap data provided by EPRA. It estimated the vector error-correction models and investigate the forecast error variance decompositions and impulse responses of the assets. Both the variance decompositions and impulse responses suggest that the long-run REIT market performance is much more closely related to the direct real estate market than to the general stock market. Consequently, REITs and direct real estate should be relatively good substitutes in a long-horizon investment portfolio. This study was basically testing the securitizing of real estate assets and if such a venture would generate returns in the public as it does in the private sector. The two sectors both private and public are closely linked and through the private sector one can be able to analysis if the securitizing of such real estate assets would generate returns to the public investors.

Nzalu (2013) did an assessment which lloked at the factors that affected the growth of the real estate sector in Kenya. The study investigated factors such as GDP Growth, the influence of interest rate, inflation rates and population growth. The design of the study used both quantitative and descriptive research design to obtain information. The study therefore, investigated the contribution on the current status of the phenomenon. The population in this study was real estate investors while the target population included private and public property investors. Data for analysis was based on the real estate and renting businesses as sourced from the various Economic Surveys and Kenya Statistical Abstracts Issues. The data obtained was analyzed by use of the Statistical Package for Social Sciences (SPSS) to obtain descriptive statistics and a regression model. From the results the contribution of the factors affecting real estate growth as measured by Pearson correlation coefficients indicated that GDP took the highest share with a value of 83% followed by inflation growth at 78% while interest rate came third with value of 75%. Population growth contributed the least to the growth in real estate investment with a value of 29%. The study hypothesis that GDP is the most significant contributor to the growth in real estate was supported by the data. In addition, GDP growth, interest rate variation and growth in inflation were found to be statistically significant determinant of real estate growth. A summary of the regression results showed that the variables considered could explain up to about 70% of variations in the investment growth. The study recommended that Policy measures geared toward improving the economic growth and curbing rising inflation rates and interest rates should be undertaken as they increase the investment levels. This shows the need for growth is the real estate developments across the country and this can be facilitated with the use of REITs as a financing vehicle for such properties that are required.

Mwathi (2013) did a study on the effect of financing sources on real estate development in Kenya. The purpose of this study was to establish the sources of financing real estate in Kenya. In specific terms the study reviewed whether financing in the real estate originates from; mortgage financing, savings, venture capital and equity financing. This study employed the descriptive survey design since it was conducted to describe the present situation, what people currently believe, what people were doing at the moment and so forth. The population of the study was all the real estate firms in Nairobi. This study used secondary data for five years. Data was analyzed using Statistical Package for Social Sciences (SPSS) and results were presented in frequency tables and charts. The findings indicated that mortgage financing is the most used source of financing, with equity and venture capital being the least source of financing used. The findings also indicated that there is a significantly positive relationship between mortgage financing and real estate development. However, the findings recommended that to increase use of equity and venture capital as a source of financing will require businesses to sell their ideas to people who have money to invest. Equity and venture capital financing can be a good source of financing if well implemented in the country.

2.4 Conceptual Framework

The conceptual framework for this study would show the various determinants for the REITs financing the real estate in the country. It was used to show the independent variables and the dependent variables and the relationship between such variables as stated in the above literature review.

The various determinants of REITs financing of real estate that this study will focus on are as follows:

i) Market capitalization
ii) Interest rates
iii) Inflation
iv) Challenges of REITs financing
v) Prospects of REITs financing

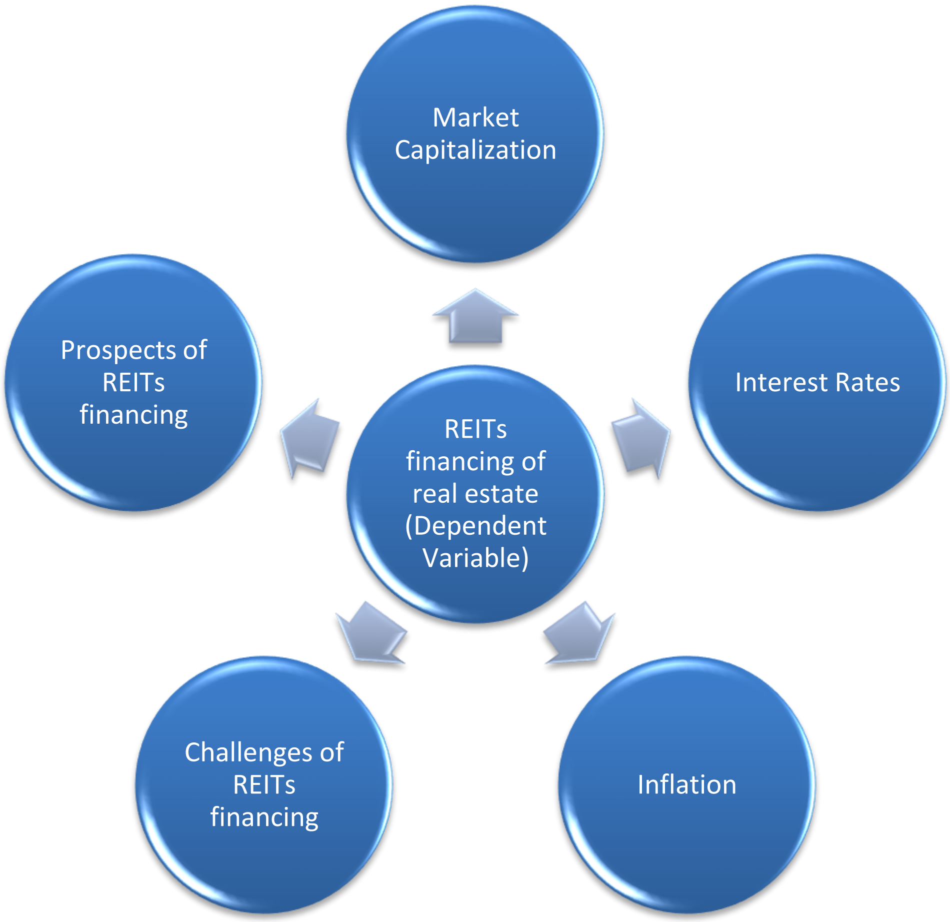

Figure 2.5: The relationship between REITs financing of real estate and the various determinants that affect the REITs

2.6 Chapter Summary

This chapter had highlighted the different literature reviews behind the REITs development and the challenges and prospects of REITs financing of real estate. These challenges and prospects were in accordance to the objectives of chapter one and the literature review prove that they are independent variables of REITs financing of real estate which is the dependent variable of the research.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter contains how the project will be carried out in terms of research design to be used for the study, population of the study from where the data is to be collected, data collection method to be used, analysis of the data collected, sample to be used in the research and the method which is to be used in carrying out the analysis. This is basically the architecture or the layout of the research framework.

3.2 Research design

This research design that was chosen to undertake this study was an exploratory design. An exploratory design study is a research that aims to seek new insights into phenomena, to ask questions, and to assess the phenomena in a new light, (Saunders et al, 2003). This design was chosen since the concept is relatively new and had not taken root in the country. This will enable to conduct the research on the new investment that has been started in the country just recently in the ear 2015.

3.3 Population

We currently had only two REITs companies in Kenya, this study will gather data from various developing firms across Nairobi. The population of this research will be the various developing companies/firms in Nairobi County. There is a huge population of various developing firms in Nairobi a total of 156 companies and due to time limit a sample will be chosen to represent the vast population. These are the institutions that source for the various funds to be used in the construction of such real estate properties the challenges and prospects that they could experience from the REITs investment.

Secondary data collected will be on a monthly basis till June 2016 since the existence of REITs in Kenya.

3.4 Sample design

Due to the large number of various developing companies located within Nairobi, the research will collect data from 70 developing companies within Nairobi to be the representative data and also various articles and statements that will have data containing to the determinates of the performance of REITs in Kenya.

3.5 Data collection

Data would be collected from a sample selected through convenience sampling. The main research instruments to be used in the collection of data are questionnaires. The design of the questionnaire would include multiple-choice questions; fill in questions and also questions that required ranking of answers. This would make it easier to do the analysis of the findings from the data collected. The questionnaires would be printed and handed to various developers and developing companies within Nairobi.

There will also be the use of secondary data for a proper analysis from the various financials that are available currently so as to cover all the relevant areas in which data can be collected and analysed.

3.6 Validity and Reliability

The validity of the data collected would be validated by the primary source of data collection through the interviews and questionnaires from developers and developing companies within Nairobi. This would also assist with the reliability since the source of the information would be a primary source of data.

3.7 Data analysis

This is the analysis of the data collected from the questionnaires and secondary data. This involves interpreting information collected from respondents when the questionnaires would be completed by the respondents. Also data from secondary sources will be used in the analysis so as to capture all the relevant data for the study.

The analysis of various ranks and presentation would be in form of graphs, charts and detailed explanation of the results that would be collected from the questionnaires and secondary data.

In order to fully understand the relationship of the various challenges and prospects of REITs financing of real estate, the following model shall be used through use of regression analysis technique. This will be tabulated from the data collected from the questionnaires by inputting the data into the model so as to ascertain how each challenge and prospect affects this form of investment in terms of financing real estate across the country. There will be both a model for challenges and another for prospects.

$Y=\alpha+\beta_1X_1+\beta_2X_2+ \beta_3X_3 +\beta_4X_4 + \varepsilon$

Where:

Y = REITs financing of real estate in Kenya

α = the constant of regression

X_1 =Market capitalization

X2 = Interest rates

X3 = Inflation

X4 = Challenges of REITs financing

X5 = Prospects of REITs financing

ε = the error term.

B= coefficient terms

a= constant term

T-test= 95% confidence level

F-test=95% confidence level

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION

4.1 Introduction

This chapter gives a detailed analysis and explanation of the data collected for the study of the project in which the main objective is to identify the challenges, prospects and determinants of REITs in Kenya and to analyse how they affect the REITs financing of real estate in Kenya. The data was gathered exclusively from the published reports obtained from the Central Bank of Kenya (CBK) data source, NSE daily statistics of the public traded REITs and questionnaires that were handed to various developing companies in Nairobi county. There was a 71% response rate out of the 70 questionnaires that were distributed to the various developing firms and companies within Nairobi county.

4.2 Response Rate

The responses on how long the respondent have been in the construction business of developing real estate. Table 1: Response to duration of construction of real estate.

Trading duration at NSE	**No. of respondent**	**Percentage**
3 years and below	20	28.5%
3-5 years	10	14.3%
5-10 years	15	21.4%
Over 10 years	5	7.1%
Total	**50**	71.3%

Table 4.2: *Source: Research data from questionnaires*

The data gotten from various developing firms within Nairobi showed that the duration in which the firms have been in the construction business was that 28.5% of the respondents where in the business for 3 years and below, 14.3% were in the business for between 3 to 5 years, 21.4% were in the business for between 5 to 10 years and 7.1% were in the business for over 10 years.

4.2 Data findings

4.2.1 Challenges of REITs financing of real estate

This was the data collected on the various challenges that affect the REITs financing of real estate projects in Kenya. The challenges that were identified and data gathered on were policy, regulations and procedures which had a huge weight of the response indicating a 56% agreement of this being a challenge to a great extent. The other challenge was high dividend pay-out that prevents the ploughing back of income generated into the business which got a huge weight of the response indicating a 54% agreement of this being a challenge to a great extent. The other challenge that was identified was the lack of proper tax incentives in such a business for the attraction of various investors which had a huge weight of the response indicating a 40% agreement of this being a challenge to an average extent.

The other challenge that was identified was culture of capital structure within the organisation which can be a problem with new concepts of financing a rising that may be overlooked. This challenge had most of its weight of the response indicating a 70% agreement of this being a challenge to a great extent. The other challenge that was identified was high cost of setting up of the IPO for the organisation in which it had to meet various requirements of the CMA for it to go public in such a business venture. The weight of the response indicated a 36% agreement of this being a challenge to a little extent. The other challenge that was identified was the market awareness of the investment vehicle, which basically states that REITs knowledge is yet to be widely spread out within the country. The weight of the response indicated a 60% agreement of this being a challenge to a great extent.

Where 1 – Great extent, 2- Some extent, 3 – Average, 4 – Little extent and 5 – No extent

Challenges	**Response**					**Counts**
	1	**2**	**3**	**4**	**5**	
Policy, regulations and procedures	28	6	5	5	6	50
High dividend pay-out.	27	7	7	0	7	50
Lack of proper tax incentives	15	8	20	3	4	50

Culture of capital structure within the organization.	35	10	5	0	0	50
High cost of setting up an IPO	7	9	7	18	9	50
Market awareness of the investment vehicle.	30	10	5	5	0	50

Table 4.2.1

4.2.2 Prospects of REITs financing of real estate

This was the data collected on the various prospects that affect the REITs financing of real estate projects in Kenya. The prospects that were identified and data gathered on were increased commercial and residential properties as a result to increased supply of real estate properties which had a huge weight of the response indicating a 64% agreement of this being a prospect to a great extent. The other prospect that was identified was a pool of new investors in real estate which would create greater availability of resources and this had a response indicating 50% agreement of this being a prospect to a great extent. The other prospect that was identified was equitable ownership of various real estate properties in Kenya in which it was seen that the many investors would be able to get into the investment which had a huge response indicating 40% agreement of this being a prospect to a great extent.

The other prospect that was identified was huge source of capital for various real estate projects with a huge requirement for capital investment and the response indicated an 82% agreement of this being a prospect to a great extent. The other prospect that was identified was high liquidity in the real estate sector such that one could easily convert their investment quickly into cash through the sale of their shares and there was a huge response indicating 52% agreement of this being a prospect to a great extent. The other prospect was identified was access to low cost of capital for the development of properties and the had a response indicating a 44% agreement of this being a prospect to an average extent.

Where 1 – Great extent, 2- Some extent, 3 – Average, 4 – Little extent and 5 – No extent

Prospects	Response					Counts
	1	2	3	4	5	
Increased commercial and residential properties as a result to increased supply.	32	12	6	0	0	50
New pool of investors in real estate	25	14	5	2	4	50
Equitable ownership of the various real estate properties in Kenya	20	10	10	9	1	50
Huge source of capital for various real estate projects	41	5	2	1	1	50
High liquidity in the real estate sector	26	12	10	2	0	50
Access to low cost of funds for development of properties	18	5	22	3	2	50

Table 4.2.2

4.2.3 Model Results on interest rates, inflation rate and market capitalization

In this data the correlation between the variable of REITs financing of real estate which is the dependent variable (Y), interest rates, inflation rate and market capitalization are being analysed to determine the level at which they relate with one another.

Correlations

		REITS_financing	Interest_rates	Infaltion_rate	Market_capitalization
REITS_financing	Pearson Correlation	1	-.621	-.244	.147
	Sig. (2-tailed)		.137	.598	.753
	N	7	7	7	7
Interest_rates	Pearson Correlation	-.621	1	.745	-.556
	Sig. (2-tailed)	.137		.055	.195
	N	7	7	7	7
Infaltion_rate	Pearson Correlation	-.244	.745	1	-.141
	Sig. (2-tailed)	.598	.055		.763
	N	7	7	7	7
Market_capitalization	Pearson Correlation	.147	-.556	-.141	1

	Sig. (2-tailed)	.753	.195	.763	
	N	7	7	7	7

Table 4.2.3

The analysis done showed that the adjusted r square which is the coefficient of determination was at 0.405 which means that 40.5% of the variation in REITs financing of real estate in Kenya is explained by interest rates, inflation and market capitalization which is a substantial range in explanation of the factors affecting REITs financing of real estate. This further implies that 59.5% of the variation in REITs financing of real estate is explained by other factors not captured in the model such as challenges and prospects of REITs financing of real estate in Kenya. R is the correlation coefficient which shows the relationship between the study variables, from the findings shown in the table below there was a strong positive relationship between the study variables as shown by 0.838.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.838[a]	.703	.405	.29152

Table 4.2.4 a. Predictors: (Constant), Market_capitalization, Infaltion_rate, Interest_rates

From the ANOVA table it is evident that interest rate, inflation rate and market capitalization are good predictors for the case of REITs financing of real estate projects in Kenya. This is supported by a p vale of 0.249.

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.602	3	.201	2.362	.249[b]
	Residual	.255	3	.085		
	Total	.857	6			

Table 4.2.5 a. Dependent Variable: REITS_financing

b. Predictors: (Constant), Market_capitalization, Infaltion_rate, Interest_rates

The regression of coefficient results indicates that the constant financing would be 7.639 and a percentage increase in the interest rates would cause a 0.430 decrease in the REITs financing of real estate, a percentage increase in inflation rate would cause a 0.283 increase in the REITs financing of real estate and a percentage increase in market capitalization would cause a -1.122e-009 decrease in the REITs financing of real estate. The equation of the model would thus be as shown below.

REITs financing= 7.639-0.430X1+0.283X2-1.122e-009X3

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	7.639	3.588		2.129	.123
	Interest_rates(x1)	-.430	.171	-1.627	-2.521	.086
	Infaltion_rate(x2)	.283	.174	.879	1.621	.203
	Market_capitalization(x3)	-1.122E-009	.000	-.634	-1.457	.241

Table 4.2.6 a. Dependent Variable: REITS_financing

4.3 Summary and Interpretation of Findings

The data collected from questionnaires was in regards to the various challenges and prospects of REITs financing of real estate in Kenya. From the data that was collected it was evident that various challenges are prohibiting the REITs utilization as a source of financing for real estate projects that area under taken within the country. The challenges that were picked were the ones with more weight being of a greater extent and above 50% and these were policy, regulations and procedures, high dividend pay-out, culture of capital structure within the organisation and market awareness of the investment vehicle.

The prospects that were identified in the event the REITs investment picks up momentum within the country were increased commercial and residential properties as a result to increased supply of real estate properties within the country, new pool of investors in real estate, huge source of capital for various real estate projects that require hi source of income funding and high liquidity in the real estate sector.

Interest rates as a macro-economic factor were found to having a negative relationship in that a percentage increase in the interest rates would cause a -0.430 percent decrease in the financing of real estate by REITs this can also be seen from the correlation which is negatively correlated at -0.621. The correlation between interest rate and the other variables showed that interest rates are positively correlated to inflation rate at 0.745 and negatively correlated to market capitalization at -0.556.

Inflation rates as another macro-economic factor were found to having a positive relationship in that a percentage increase in the inflation rates would cause a -0.283 percent increase in the financing of real estate by REITs. The correlation between inflation rate and the other variables showed that interest rates are positively correlated to interest rate at 0.745 and negatively correlated to market capitalization at -0.141.

Market capitalization was found to having a negative relationship in that a percentage increase in the market capitalization would cause a -1.122e-009 percent decrease in the financing of real estate by REITs. The correlation between market capitalization and the other variables showed that market capitalization are negatively correlated to interest rate at -0.556 and negatively correlated to inflation rates at -0.141.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

This chapter provides the summary of the findings, the limitations and the recommendation for further studies on REITs.

5.2 Summary findings and conclusion

The research that was done through questionnaires and secondary data collected data that was analysed in chapter four and the findings were as follows. The challenges that have been identified are policy, regulations and procedures, high dividend pay-out, culture of capital structure within the organisation and market awareness of the investment vehicle.

The prospects that have also been identified by this study were increased commercial and residential properties as a result to increased supply of real estate properties within the country, new pool of investors in real estate, huge source of capital for various real estate projects that require high source of income funding and high liquidity in the real estate sector.

The regression analysis that was carried out on the macro-economic factors of interest rates, inflation rates and market capitalization concluded that the level at which these factors affect the financing of real estate projects by REITs was quite at a significant level as from the results drawn from chapter four. The goodness in fit for the model was at 0.405 which is at 40.5% which is a significant representation of the variables as factors for determining the REITs financing of real estate. The analysis of variance (ANOVA) indicated that the overall model was significant. This was supported by a p value of 0.249. The ANOVA results demonstrated that the variables of interest rates, inflation rates and market capitalization are good predictors of REITs financing of real estate projects in Kenya.

In conclusion the project has been able to identify that there are various challenges that need to be addressed for the proper utilization of REITs as a source of financing for real estate projects in the country to be actualized and the prospects attained. This project also concludes that interest rates, inflation rates and market capitalization are significant variables at 40.5% that affect the REITs financing of real estate in Kenya at the moment.

5.3 Recommendations

The recommendations of this project are that REITs should be further looked at as a good economic investment into the real estate sector and developers should take full advantage of the financing source so as to be able to undertake various real estate projects within the country so as to be able to meet the growing demand in the country at the moment and the growing demand in the future.

The other factors that affect REITs financing should also be properly identified so as to manage such factors to enable the uptake and growth of REITs with the country to become possible.

5.5 Limitations of the study

The main limitations of the study were the time given for the study was short and not enough data was collected for the analysis stage.

The budget allocation for the study did not enable us to travel to other counties for the collection of data for a proper representative sample of the population.

5.6 Suggestions for further study

The area that can be further studied are the main factors that affect the REITs financing of real estate in Kenya so as to ascertain the variable that affect the REITs within the country.

REFERENCES:

Saunders, M. N., P. Lewis, A. Thornhill, (2003).*Research Methods for Business Students*. 3rd Ed. New York: FT Prentice Hall,

Smotrich R. L., Bennett, R. H., Lazarevic K., Lewis, M. R., & Rand M. (2012). *Equity research U.S. REITS*: Barclays Capital Inc.

Jagodic D., Dobrojevic G., Suljic S., (2011). *REIT Regimes in EU Countries – Institutional Environment versus Attractiveness of Real Estate Investment Vehicles*

Legal notice no.116. (2013). *The capital markets (real estate investment trusts) (collective investment schemes) regulations*. Kenya Gazette Supplement No. 90

Robert, P. W., & Johnson, A. C. (1996). Dallas Business Journal. *Journal of Small Business Management*, Vol.32; PP.27-35.

Mulupi, D. (2012, June 20). *Venture Africa*. Retrieved August Friday, 2016, from Investing, Marketing, Real estate: http://www.ventures-africa.com/2012/06/kenyas-real-estate-sector-boom-or-doom/

Ogedengbe, P. S., & Adesopo, A. A. (2003). *Problems of Financing Real Estate Developmentin Nigeria.*

Waithaka, J. (2011, July, 6 Wednesday). *The Star.* Retrieved August Friday, 2016, from The Star: http://www.the-star.co.ke/news/article 58189/construction-top-performing-industry-kenyas-economy#sthash.y1oikATs.dpuf

Murray, Z. F. & Vidhan, K. G. (2005). *Trade-off and pecking order theories of debt*

Popescu, L. & Visinescu S. (2009). *A review of the capital structure theories*

Hilgen, M. (2014). *The impact of cultural clusters on capital structure decisions: Evidence from European retailers.*

Menyah, K. and Paudyal, K. (2002). *IPO decisions and the costs of going public.*

U.S. securities and exchange commission-Office of investor education and advocacy. *Investor bulletin: real estate investment trusts(REITs)*

Hoesli, M. & Oikarinen, E. (2012). International real estate securities*, Journal of international money and finance.,* Vol 31; pp 1823-1850.

Lee, S. & Stevenson, S. (2004). The case for REITS in the mixed-asset portfolio in the short and long run. *Journal of Real Estate Portfolio Management.,* Vol 11; pp. 55-80.

Gumbs, B. (2001). *The Viability of the REIT Structure as a Vehicle for Real Estate Development.* U.S.: Massachusetts Institute of Technology

Konagi, R. (2009). *Two Studies of Japan-REIT Performance: Modeling Risk and Tracking Property Level Performance.* U.S.: Massachusetts Institute of Technology

Michuki, D. W., (2010). *The existence of real estate investment trusts (REITS) needs by institutional investors at the Nairobi stock exchange.* Nairobi: University of Nairobi.

Muchiri, S. K., (2006). *An assessment of the viability of real estate securitization in Kenya.* Nairobi: University of Nairobi.

Nzalu, F. M., (2013). *An Assessment of the Factors Affecting the Growth in Real Estate Investment in Kenya.* Nairobi: University of Nairobi.

Mwathi, J. K., (2013). *The effect of financing sources on real estatedevelopment in Kenya.* Nairobi: University of Nairobi.

Alias, A. & Thou, S., (2011). Performance analysis of REITS: Comparison between M-REITS and UK-REITS. *Journal of Surveying, Construction and Property.* Vol 2; pp. 38-61

Olanrele, O. O., (2014). REIT PERFORMANCE ANALYSIS: ARE OTHER FACTOR DETERMINANTS CONSTANT? *Journal of Asian Economic and Financial Review*. Vol 4; pp. 492-502

Modigliani, F. & M. Miller, (1961). The Cost of Capital, Corporation Finance, and the Theory of Investment, American Economic Review, 48, 3, 261-297.

Pham, T. H. H., (2010). *Performance and return determinants of REIT and Non-REIT real estate stocks in selected Asian markets.* Amsterdam: University of Amsterdam

Chan, K.C., Hendershott, P.H., and Sanders. A.B. (1990).Risk and Return on Real Estate: Evidence from Equity REITs, *The Journal of American Real Estate and Urban Economics Association*, Vol 18; pp 431-52

APPENDICES

QUESTIONNAIRE

A SURVEY ON CHALLENGES AND PROSPECTS OF REAL ESTATE INVESTMENT TRUSTS (REITs) FINANCING OF REAL ESTATE IN KENYA.

Please complete this questionnaire honestly by ticking the answer from the given options. Some questions will require a bit of explanation and clarification. Information collected from this questionnaire will be handled with high confidentiality and will strictly be used for academic purposes by the researcher. Your cooperation will be highly appreciated.

SECTION A: Background Information

a) The name of the respondent?

b) How long has your company or yourself been in the development of real estate property business?

Length	Below 3 Years	3-5 years	5-10 years	Above 10 years
Response				

c) The number of real estate projects the company has done across Nairobi?

d) Do you have prior knowledge of the REITs investment in Kenya or in other countries where the same has been established?

e) Do you know of any REITs that are in Kenya?

SECTION B: CHALLENGES OF REITs FINANCING REAL ESTATE IN KENYA.

a) Which challenges do you know of that are affecting the REITs being used as a financing vehicle of real estate in Kenya?

b) Has your company ever used REITs or equity as a financing vehicle for the real estate properties that have been developed?

c) To what extent do agree with the following as challenges to the use of REITs as a financing vehicle in Kenya? (Tick as appropriate)

Where 1 – Great extent, 2- Some extent, 3 – Average, 4 – Little extent and 5 – No extent

Statement	1	2	3	4	5
Policy, regulations and procedures					
High dividend pay-out					
Lack of proper tax incentives					
Culture of capital structure within the organization.					
High cost of					

setting up an IPO					
Market awareness of the investment vehicle					

SECTION B: PROSPECTS OF REITs FINANCING REAL ESTATE IN KENYA.

a) Which prospects do you know of that could be gained from the REITs being used as a financing vehicle of real estate in Kenya?

b) Do you have any needs that REITs can solve in your company?

c) To what extent do you agree with the following as prospects to the use of REITs as a financing vehicle in Kenya? (Tick as appropriate)

Where 1 – Great extent, 2- Some extent, 3 – Average, 4 – Little extent and 5 – No extent

Statement	1	2	3	4	5
Increased commercial and residential properties as a result to increased supply					
New pool of investors in real estate					

Equitable ownership of the various real estate properties in Kenya					
Huge source of capital for various real estate projects					
High liquidity in the real estate sector					
Access to low cost of funds for development of properties					

```
CORRELATIONS
  /VARIABLES=REITS_financing Interest_rates Infaltion_rate
Market_capitalization
```

```
/PRINT=TWOTAIL NOSIG
/MISSING=PAIRWISE.
```

Correlations

Notes

Output Created		10-NOV-2016 19:11:47
Comments		
Input	Data	C:\Users\kevo\Desktop\2nd new compelet\data 1.sav
	Active Dataset	DataSet1
	Filter	<none>
	Weight	<none>
	Split File	<none>
	N of Rows in Working Data File	7
Missing Value Handling	Definition of Missing	User-defined missing values are treated as missing.
	Cases Used	Statistics for each pair of variables are based on all the cases with valid data for that pair.
Syntax		CORRELATIONS /VARIABLES=REITS_financing Interest_rates Infaltion_rate Market_capitalization /PRINT=TWOTAIL NOSIG /MISSING=PAIRWISE.
Resources	Processor Time	00:00:00.20
	Elapsed Time	00:00:00.22

```
[DataSet1] C:\Users\kevo\Desktop\2nd new compelet\data 1.sav
```

Correlations

	REITS_financing	Interest_rates	Infaltion_rate	Market_capitalization

REITS_financing	Pearson Correlation	1	-.621	-.244	.147
	Sig. (2-tailed)		.137	.598	.753
	N	7	7	7	7
Interest_rates	Pearson Correlation	-.621	1	.745	-.556
	Sig. (2-tailed)	.137		.055	.195
	N	7	7	7	7
Infaltion_rate	Pearson Correlation	-.244	.745	1	-.141
	Sig. (2-tailed)	.598	.055		.763
	N	7	7	7	7
Market_capitalization	Pearson Correlation	.147	-.556	-.141	1
	Sig. (2-tailed)	.753	.195	.763	
	N	7	7	7	7

```
REGRESSION
  /MISSING LISTWISE
  /STATISTICS COEFF OUTS R ANOVA
  /CRITERIA=PIN(.05) POUT(.10)
  /NOORIGIN
  /DEPENDENT REITS_financing
  /METHOD=ENTER Interest_rates Infaltion_rate Market_capitalization.
```

Regression

Notes

Output Created		10-NOV-2016 19:11:58
Comments		
Input	Data	C:\Users\kevo\Desktop\2nd new compelet\data 1.sav
	Active Dataset	DataSet1
	Filter	<none>
	Weight	<none>
	Split File	<none>
	N of Rows in Working Data File	7
Missing Value Handling	Definition of Missing	User-defined missing values are treated as missing.

	Cases Used	Statistics are based on cases with no missing values for any variable used.
Syntax		REGRESSION /MISSING LISTWISE /STATISTICS COEFF OUTS R ANOVA /CRITERIA=PIN(.05) POUT(.10) /NOORIGIN /DEPENDENT REITS_financing /METHOD=ENTER Interest_rates Infaltion_rate Market_capitalization.
Resources	Processor Time	00:00:00.02
	Elapsed Time	00:00:00.03
	Memory Required	1948 bytes
	Additional Memory Required for Residual Plots	0 bytes

```
[DataSet1] C:\Users\kevo\Desktop\2nd new compelet\data 1.sav
```

Variables Entered/Removed[a]

Model	Variables Entered	Variables Removed	Method
1	Market_capitalization, Infaltion_rate, Interest_rates[b]	.	Enter

a. Dependent Variable: REITS_financing

b. All requested variables entered.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.838[a]	.703	.405	.29152

a. Predictors: (Constant), Market_capitalization, Infaltion_rate, Interest_rates

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.602	3	.201	2.362	.249[b]
	Residual	.255	3	.085		
	Total	.857	6			

a. Dependent Variable: REITS_financing

b. Predictors: (Constant), Market_capitalization, Infaltion_rate, Interest_rates

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	7.639	3.588		2.129	.123
	Interest_rates	-.430	.171	-1.627	-2.521	.086
	Infaltion_rate	.283	.174	.879	1.621	.203
	Market_capitalization	-1.122E-009	.000	-.634	-1.457	.241

a. Dependent Variable: REITS_financing

CENTRAL BANK RATES

YEAR	MONTH	Repo	Reverse Repo	Interbank Rate	91-Day Tbill	182-days Tbill	364-days Tbill
2015	JAN	8.09	-	7.12	8.59	10.19	10.73
	FEB	7.87	-	6.77	8.59	10.37	10.96
	MAR	8.08	-	6.85	8.49	10.35	10.69
	APR	8.38	-	8.77	8.42	10.26	10.57
	MAY	8.5	-	11.17	8.26	10.37	10.77
	JUN	9.7	-	11.78	8.26	10.55	10.98
	JUL	10.61	-	12.89	10.57	11.99	11.93
	AUG	11.5	-	18.8	11.54	12.06	13.3
	SEP	11.5	-	19.85	14.61	13.4	15.24
	OCT	11.5	18.12	14.82	21.65	21.52	21.61
	NOV		14.21	8.77	12.34	14.02	15.2
	DEC	9.23	11.93	7.27	9.81	11.43	12.5
2016	JAN	8.85	11.44	6.12	11.36	13.46	14.08
	FEB	9.68	11.58	4.54	10.63	13.19	13.74
	MAR	4.31	11.63	4.1	8.72	10.83	12.26

APR	5.23	12.49	4.01	8.92	10.87	11.84
MAY	6	11.55	3.82	8.15	10.25	11.6
JUNE	10.04	10.59	4.56	7.25	9.56	10.84
JULY	9.76	10.57	5.88	6.16	9.79	10.88

Source: Central Bank of Kenya

Inflation (%)

		Inflation (month-on-month) %	Inflation (annual average) %
2015	January	5.53	6.74
	February	5.61	6.63
	March	6.31	6.63
	April	7.08	6.69
	May	6.87	6.65
	June	7.03	6.63
	July	6.62	6.54
	August	5.84	6.34
	September	5.97	6.29
	October	6.72	6.31
	November	7.32	6.42
	December	8.01	6.58
2016	January	7.78	6.77
	February	6.84	6.87
	March	6.45	6.88
	April	5.27	6.72
	May	5	6.56
	June	5.8	6.46
	July	6.4	6.44
	August	6.26	6.47

Source: Kenya National Bureau of Statistics