

**EFFECT OF REAL ESTATE INVESTMENT STRATEGIES ON  
FINANCIAL PERFORMANCE OF INVESTMENT GROUPS IN  
KENYA**

**BY**

**PURITY W. MBOGO**

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## **DECLARATION**

I declare that this research project is my original work and has not been submitted for a degree in any other university.

Signed: ..... Date: .....

PURITY W. MBOGO

Reg. Number: D63/74975/2014

## **SUPERVISOR**

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

Signed: ..... Date: .....

DR. MIRIE MWANGI

**SENIOR LECTURER,**

**DEPARTMENT OF ACCOUNTING & FINANCE**

**UNIVERSITY OF NAIROBI**

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## **DEDICATION**

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# TABLE OF CONTENTS

<b>DECLARATION.....</b>	<b>ii</b>
<b>ACKNOWLEDGEMENT.....</b>	<b>iii</b>
<b>DEDICATION.....</b>	<b>iv</b>
<b>TABLE OF CONTENTS .....</b>	<b>v</b>
<b>LIST OF TABLES .....</b>	<b>ix</b>
<b>LIST OF FIGURES .....</b>	<b>x</b>
<b>ABBREVIATIONS.....</b>	<b>xi</b>
<b>ABSTRACT.....</b>	<b>xiii</b>
<b>CHAPTER ONE .....</b>	<b>1</b>
<b>INTRODUCTION.....</b>	<b>1</b>
1. 1 Background of the Study .....	1
1.1.1 Real Estate Investment Strategies .....	2
1.1.2 Financial Performance .....	3
1.1.3 Real Estate Investment Strategies and Financial Performance.....	4
1.1.4 Investment Groups in Kenya .....	5
1.2 Research Problem .....	7
1.3 Objective of the Study .....	9
1.3.1 Main objective of the study.....	9
1.3.2 Specific objective of the study.....	9
1.4 Value of the Study .....	9

<b>CHAPTER TWO .....</b>	<b>11</b>
<b>LITERATURE REVIEW .....</b>	<b>11</b>
2.1 Introduction.....	11
2.2 Theoretical Review .....	11
2.2.1 Modern Portfolio Theory .....	11
2.2.2 Prospect Theory .....	12
2.2.3 Arbitrage Pricing Theory .....	13
2.3 Determinants of Financial Performance for Investment Groups .....	14
2.3.1 Level of Risk Tolerance.....	15
2.3.2 Capital Growth Potential of Investment Projects and Performance .....	16
2.4 Empirical Studies .....	17
2.5 Conceptual Framework.....	19
2.6 Summary of Literature Review.....	19
<b>CHAPTER THREE .....</b>	<b>20</b>
<b>RESEARCH METHODOLOGY .....</b>	<b>20</b>
3.1 Introduction.....	20
3.2 Research design .....	20
3.3 Population .....	20
3.3.1 Sampling Frame .....	21
3.4 Sampling .....	21
3.5 Data Collection .....	21
3.6 Reliability and Validity.....	22
3.7 Data Analysis .....	22

<b>CHAPTER FOUR.....</b>	<b>24</b>
<b>DATA ANALYSIS, RESULTS AND DISCUSSION.....</b>	<b>24</b>
4.1 Introduction.....	24
4.2 Response Rate.....	24
4.3 Profile of Respondents.....	25
4.4 Data Validity.....	28
4.5 Descriptive Statistics.....	29
4.5.1 Number of Years of Existence.....	29
4.5.2 Amount of Investment held by the groups.....	30
4.5.3 Buy and Hold Strategy for investment groups in Kenya.....	31
4.5.4 Own and Operate strategy for Investment Groups in Kenya.....	33
4.5.5 Development strategy of Investment Groups in Kenya.....	35
4.5.6 Trend Analysis for ROI.....	37
4.6 Regression Analysis.....	38
4.6.1 Linear Regression Analysis between real estate investment strategies and Financial Performance.....	38
4.6.2 An ANOVA representing the linear relationship between real estate investment strategies and Financial Performance.....	39
4.6.3 Coefficients representing the linear relationship between real estate investment strategies and Financial Performance.....	40
4.7 Discussion of Findings.....	41

<b>CHAPTER FIVE .....</b>	<b>43</b>
<b>SUMMARY, CONCLUSION AND RECOMMENDATIONS .....</b>	<b>43</b>
5.1 Introduction.....	43
5.2 Summary of findings.....	43
5.3 Conclusion .....	46
5.4 Recommendations.....	47
5.5 Limitations of the Study.....	49
5.6 Suggestions for Further Research .....	50
<b>REFERENCES.....</b>	<b>51</b>
<b>APPENDICES.....</b>	<b>56</b>
Appendix I: List of top 50 registered Investment Groups That Have Invested in Real Estate in Kenya As Given By KAIG. ....	56
Appendix II: Questionnaire.....	60



## LIST OF TABLES

Table 4.1: Response Rate.....	24
Table 4.2 Profile of Respondents.....	26
Table 4.3: Factor Loadings .....	29
Table 4.4: Number of Years of Existence.....	30
Table 4.5: Amount of Investments held by the groups.....	31
Table 4.6: Buy and hold strategy for Investment Groups in Kenya .....	32
Table 4.6.1 General statistics of buy and hold Strategy on investment groups in Kenya .....	33
Table 4.7: Own and Operate strategy for Investment Groups in Kenya.....	34
Table 4.7.1 General statistics of Own and Operate Strategy on investment groups in Kenya .....	35
Table 4.8: Development strategy for Investment Groups in Kenya .....	36
Table 4.8.1 General statistics of Development Strategy of investment groups in Kenya .....	37
Table 4.9: The Linear Relationship Model Summary between Real Estate Investment Strategies and Financial Performance.....	39
Table 4.10: ANOVA representing the linear relationship between real estate investment strategies and Financial Performance.....	40
Table 4.11: Coefficients representing the linear relationship between different variables and financial performance of investment groups in Kenya .....	41

## LIST OF FIGURES

Fig 2.1: Conceptual Framework .....	19
Fig 4.1: Response Rate .....	25
Fig 4.2: Education level of Respondents .....	27
Fig 4.3: Education level of Respondents .....	27
Fig 4.4: Experience level of Respondents.....	28
Fig 4.5: Experience level of Respondents.....	28
Fig 4.6: Trend Analysis for Return On Investment (ROI).....	37

## **ABBREVIATIONS**

<b>CA/ CL</b>	Current Assets / Current Liabilities
<b>CBK</b>	Central Bank of Kenya
<b>CE</b>	Capital Employed
<b>COCE</b>	Cost of Capital Employed
<b>DCF</b>	Discounting Cash Flow
<b>EBITDA</b>	Earnings before Interest, Tax, Depreciation and Amortization
<b>EPS</b>	Earning Per Share
<b>FERA</b>	Foreign Exchange Regulation Act
<b>GAAP</b>	Generally Accepted Accounting Principles
<b>IPO</b>	Initial Public Offer
<b>KAIG</b>	Kenya Association of Investment Groups
<b>MPT</b>	Modern Portfolio Theory
<b>NOPAT</b>	Net Operating Profit after Taxes
<b>NPV</b>	Net Present Value
<b>NSE</b>	Nairobi Securities Exchange
<b>PAT</b>	Profit after Tax

<b>PBIT</b>	Profit before Interest and Tax
<b>PBT</b>	Profit before Tax
<b>REITS</b>	Real Estate Investment Trust
<b>ROA</b>	Returns on Asset
<b>ROE</b>	Returns on Equity
<b>ROI</b>	Returns on Investment
<b>RONW</b>	Return on Net Worth
<b>SACCO</b>	Savings and Credit Cooperative Union
<b>VIF</b>	Variance Inflation Factor
<b>WACC</b>	Weighted Average Cost of Capital

## ABSTRACT

The study sought to examine how real estate investment strategies affect the financial performance of Investment groups in Kenya. Its objective was to investigate the investment strategies adopted by investment groups popularly known as *chamas* in Kenya and the effect of these strategies on the financial performance of the groups. Descriptive research design was adopted in this study targeting a population of members from 50 registered investment groups in Nairobi with emphasis on real estate property investors in Nairobi. Primary data was used for the study and was gathered through survey questionnaires which were administered to the investment groups in Nairobi. Microsoft Excel was used to analyze the data as well as SPSS that was used to generate data. The results were presented using figures, tables and cross tabulations. There was a positive correlation between financial performance and all investment strategies with a beta of 4.496 specifically buy and hold strategy and own and operate posting results of great effect on financial performance of *chamas*. Out of these findings, the researcher recommends that investment groups should brainstorm among members to adopt a strategy that yields greater returns and seek advisory services to help them manage real estate investments. Secondly this study recommends that investment groups should explore local economic environment that are most suited with domestic and multi-domestic strategies instead of global strategies. The study further observes and recommends blending of real estate investment strategies that are best suited for the investment groups. It also recommends further research to be done on the advantages and challenges faced by the real estate investment groups in adoption of real estate strategies in global market and its effects on profits especially in an imperfect market.

# CHAPTER ONE

## INTRODUCTION

### 1. 1 Background of the Study

Investment can be defined as addition of value to the capital equipment or assets as a result of a productive activity engaged in a certain period. There is a variety of reasons why an economic agent such as a household or a firm can engage in investments. The primary reason for engaging in investment is to earn returns. Other reason for investing is to increase some ones wealth (Pagourtzi & French, 2003).

Land and anything fixed, immovable or that is attached to it as real estate. This includes fences and buildings (Simpson, 1976). Title to real estate includes rights to air, mineral, and surface and can be bought, sold, leased, or can be transferred in part or together. Real estate growth refers to percentage change in total real estate investment uptake. For an investor to invest in any real estate investment a huge capital is required and most people cannot afford on savings. Most investors use bank loans thanks to the recent reduction and regulation of interest rate by the government of Kenya. However the rates depend on loan period and the collateral used to secure the loan. The interest rate charged to the borrower is based on the Central Bank.

In the global context, real estate investment strategies include the decision to invest or not to invest in a real estate investments (Berg, 2006). This is influenced by several factors among them are, expected returns and other macro-economic factors like inflation rates, interest rates as well as exchange rates. This therefore has a huge impact on the real estate industry knowing that it is a capital intensive industry (Berg, 2006). Changes in expected returns rates always influence one's ability to acquire real estate property. That is arises

because as expected returns increase, the more an investor is willing to take part in such an investment in real estate.

### **1.1.1 Real Estate Investment Strategies**

Real estate is a unique kind of investment. The Real estate Investment strategies can be described as procedures, rules and policies that guides investors in constructing an efficient real estate portfolio. This means therefore that investor's risk-return tradeoff is determined by real estate investment strategy adopted. Therefore, an investor should plan his investment strategy well before making any real estate investment decisions (Jones, 2009). Fama & French (1992) further argues that investment strategies adopted at market levels, organizational or industry levels should guide inventors in selecting and constructing most efficient investment portfolios.

Real estate investment strategy is the decision made by the investors or the top level management concerning the amount of funds that can be utilized or deployed in real estate investment opportunities (Shilling, 2003). Most common form of real estate investment strategies includes the buy and hold strategy, development strategies and own and operate strategies. Others include flipping strategy commonly known as 'buy low sell high'.

The decision on whether to invest or not to invest in real estate is determined by factors such as real estate prices, mortgage interest rates, access to financing, disposable income of investors and risk of investors. In the economy, the impact of real estate investment on is great. There is employment of resources though real estate's multiplier and generation

of revenue through land rates and taxes. Real estate property ownership ensures sustainable neighborhood and also community stability. In any economy, long-term finance is one of the key driver of economic growth. Ndung'u (2010) talked of Long-term finance allowing for the provision of affordable and adequate housing which is a major thrust of Kenya's Vision 2030. Otwoma (2013), states that private developers dominate the real estate market in Kenya with the Government through the National Housing Corporation accounting for a small percentage. There is high demand for Kenya housing that outweighs supply, especially in urban areas where the estimated supply is a third of the estimated demand (Ministry of Housing, 2004).

The key factors that may have contributed to this shortage as given by the ministry included rapid urbanization brought about by improvement of infrastructures such as roads, hospitals, free primary and secondary education, inaccessibility to finances to purchase land and housing, government regulation on building standards, poor economic performance, high levels of poverty among others. Ndung'u (2010) indicate that increase in remittance by Diaspora has also been a key mover in real estate, In July 2012, total remittances inflow to Kenya was US\$ 1,101 million, an increase of 42.86 % than US\$ 770 million of 2011 (CBK, 2012).

### **1.1.2 Financial Performance**

Financial performance is defined as a measure of how efficient a firm utilizes its assets to generate revenues (Fama & French, 1992). Accounting based performance analysis are used to show the financial performance of a firm. They include Return on Equity (ROE)



or Return on Assets (ROA) determined by net income as a fraction of total assets. There is also market based measures which include Tobin Q (Lee & Lam, 2008).

A company's profitability is determined using Return on Equity which indicates the profits generated by a firm from the shareholders' investment. Higher ROA indicates that the company is generating more income on fewer assets. Tobin Q ratio, by James Tobin hypothesizes that replacement cost should be equal the market values of all the investment groups in the stock market. Tobin Q is widely used as a proxy for investment groups' performance when studying the relationship between investment groups' performance and corporate governance.

### **1.1.3 Real Estate Investment Strategies and Financial Performance**

Investment strategy is defined by Jones (2009) as procedures, rules and policies that guides investors in constructing an efficient real estate portfolio. Investor's risk-return tradeoff is considered in designing a real estate investment strategy. A Buy and hold investment strategy is a real estate investment strategy. In this strategy the investor holds securities in long-term whether the short-term markets fluctuate or not.

Own and rent strategy of real estate investing is more preferred than the outdated Buy and hold and rent method. The benefits of the own and rent strategy is that investors have an increased monthly cash flow, and there are significantly reduced repairs and maintenance required on the property. Finally development strategy is one which the buyer opts to develop the real estate property instead of renting it out or buying and holding for speculation (Geltner, 1993).

Investment in real estate is very common for the investors. How well investment returns are achieved depends on how well the real estate investor is able to forecast the expected returns while accurately considering the level of risk for each asset. Therefore, financial performance is very dependent on investment strategies. According to modern portfolio theory the primary reason the investors should include real estate in their strategies is to reduce the risk through diversification. Investors invest in property market for different reasons. Some of the investors invest in the property for commercial purpose, some for resale, and some for investment purpose and many other reasons. But when they invest in the property market, they do not know that certain factors affect their performance. Many people make investment emotionally, feeling fantasy, mood and sentiments have been observed to affect performance. These are some psychological factors that affect the investors in real estate. Investors are affected by how investment problems are presented to them. They often make different choices pertaining similar scenarios depending on how the problem has been frame (Shilling, 2003). This study therefore seeks to examine how financial performance of investment groups in Kenya are affected by the real estate investment strategies adopted by the groups.

#### **1.1.4 Investment Groups in Kenya**

An investment group is a group of 100 members or less who come together with an aim of pooling money and investing, that is, members regularly meet, make investment decisions as a group through a voting process and prepare minutes, or gather information and make investment transactions outside the group. An investment group popularly known as “chama” in Kenya is an informal cooperative society that is normally used to

pool and invest savings by many individuals in Africa, and particularly Kenya (KAIG, 2013). Capital Markets Authority (2012) states that informal investment groups, have been investing in multi-billion-shilling projects in various sectors of the economy, by pooling together finances.

Originally, investment groups were really informal women's groups but over the years they have grown in sophistication and now even men are participating in such groups. It is now a phenomenon that cuts across gender, social status and even age (Kibue, 2013). Initially, the Investment group was set up to be a rotating savings and credits association, whereby the members of the group would each contribute a fixed amount of money during each meeting and then the total amount would be given to one member. The Investment group has since evolved to be more than just a rotating savings and credit association (KAIG, 2013).

Investment groups have now become investment groups whereby members' intention is to pool together resources with the aim of creating wealth. They are no longer restricted to close family and friends but they are open to different individuals who are seen to bring different expertise that add value to the groups. Investment groups have grown in sophistication, complexity and diversity which necessitate proper planning and management. Investment groups are now investing in various sectors including, transport, agriculture and real estate (KAIG, 2013).

Investment groups are now regulated in Kenya under the “cooperative societies act”. The Kenya Association of Investment Groups (KAIG) is also an umbrella association for all investment groups in Kenya. Most of these groups can now register voluntarily to become members ([www.chasebank.co.ke](http://www.chasebank.co.ke)). Various corporate bodies have realized the value and potential of these investment groups and are providing products that target them as consumers. For instance, most investment groups now have special finance packages specifically for investment groups. These packages are tailored to suit the groups, for example through offering high interest rates on savings, offering loans at reduced rates and also ensuring that no charges are incurred on the savings.

Software developers are also coming up with packages that enable the investment groups to digitally manage their records and also provide easy accessibility to members (KAIG, 2013). This study therefore seeks to examine real estate investment strategies on financial performance of Investment groups in Kenya.

## **1.2 Research Problem**

The real estate market in Kenya has in the last 10 years thrived to an all-time high. In 2010 Nairobi recorded the highest growth in luxury house prices in the world. The prices for real estate jumped by 11% in 2011. These prices can be explained by the fact that Kenya is safer than its neighbors. It is also attracting investment from international companies and from the Diaspora. The growth in prices and number of developments can also be explained by other factors, such as increased credit at low interest rates from the

financial institutions, improvements and construction of new roads and the new land laws (Kariuki, 2012).

Financial performance is very dependent on investment strategies. Brueggeman and Fisher (2005) identified real estate investment strategies as one of the driving factors in performance among other factors. Empirical evidence on the real estate investment strategies by entrepreneurs has shown that indeed there exists a relationship between real estate investment strategies and performance. Corgel & DeRoos (1999) established that there was indeed a relationship between real estate investment strategies and financial performance. Sallie and Mae also tried to examine investment decisions by entrepreneurs.

In the Kenyan setting, studies done on the real estate sector include Makena (2012) who sought to study how real estate prices affect the economic growth in Kenya. Jumbale (2012) sought to determine if there exist a relationship between house prices and real estate financing by financial institutions in Kenya. This study differs from all above studies as earlier researchers look at all investors and the focus is not on Investment groups in Kenya. In this regard therefore it means that there exist a gap in research given that majority of these studies have been conducted in other parts of the world, with no particular study focusing on Kenyan entrepreneurs. Although numerous studies regarding the real estate investments as well as their financial performance have been carried out, many of these researches conducted were based on other variables not on real estate strategies and how they impact the financial performance of investment groups or in comparison with other countries. Hence, the purpose of this research is to analyze the impact real estate strategies on the financial performance of investment groups in Kenya.

### **1.3 Objective of the Study**

#### **1.3.1 Main objective of the study**

To examine how real estate investment strategies affects the financial performance of investment groups in Kenya.

#### **1.3.2 Specific objective of the study**

- i. To establish the impact of buy and hold strategy on financial performance of investment groups
- ii. To examine the effect of own and rent strategy on financial performance of investment groups
- iii. To establish the influence of development strategy on financial performance of investment groups

### **1.4 Value of the Study**

This study will bring value addition to the academic theoretical discussion by testing the relationship between real estate investment strategies and financial performance in Kenya. The findings of the study are useful resource base to students pursuing banking, land economics and Finance, also researchers exploring the area of real estate and mortgages. The study provides useful data for comparative study purposes in future researches on this topic.

The study will broaden the knowledge of investors in real estate investing and financing and thus providing an opportunity for them to construct and expand an efficient portfolio. This study also, will not only benefit theorist but also key players such as Government, to

endeavor to regulate the real estate investment industry. The investment groups and associations such as KAIG shall also find the results of these findings invaluable as they may be able to ascertain real estate investment strategies that improve the performance of investment groups in Kenya.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter reviews the theoretical and empirical literature on real estate investment strategies and the relationship with the financial performance.

#### **2.2 Theoretical Review**

Real estate investment strategies are the decisions made by the real estate investors concerning the amount of funds that can be deployed in real estate investment opportunities to construct an investment portfolio (Shellah, 2007). An investor's decision adds value to the firm if the investment decisions are profitable and maximizes shareholder's wealth. This subsection presents the theoretical review of the study. The subsection will review theories which include the Modern Portfolio theory developed by Markowitz (1952), Prospect Theory that was developed by Psychologist Daniel Kahneman and Amos Tversky in 1979 and Arbitrage Pricing Theory (APT) model that was developed by Ross (1976).

##### **2.2.1 Modern Portfolio Theory**

Developed by Markowitz (1952), a Modern Portfolio Theory (MPT), is a hypothesis on an investment theory emphasizing that the greater the risk the higher the returns. It is also based on the concept that risk-averse investors can construct efficient portfolios in order to optimize or maximize expected return based on a given levels of market risk.



Under MPT, an optimal portfolio gives the maximum possible expected returns for a given level of risk. For this reason it is advisable to look at a well-diversified portfolio of investments and the benefits of risk reduction but not the risk and return of only one investment. The benefits are to improve the risk levels and to increase the expected returns (Markowitz, 1952). This theory is relevant to this study given that investment groups in Kenya engage in real estate financing as a way of diversifying their investment portfolio and also due to the fact that real estate investment is more profitable in the long run. Real estate financing is a secured loan and therefore offers lower risks of loss of the investment. This theory therefore justifies the reason as to why investment groups invest in real estate investment.

### **2.2.2 Prospect Theory**

In 1979, Psychologist Daniel Kahneman and Amos Tversky developed the prospect theory. This was as a psychologically realistic alternative to the expected utility theory. According to Prospect theory, a loss makes investor to feel more pain than the pleasure from an equal amount of gain.

This theory is relevant in this study given that in the real estate markets, mental accounting is manifested through the tendency of risk averse investors who are reluctant to realize losses because they psychologically consider unrealized paper losses differently from the actual loss though from economic perspective they are the same (Kahneman & Tversky, 1979).

Generally, the prospect theory is concerned with how and why individuals make decisions under uncertainty in a real day to day life while the traditional classical utility theory emphasizes how decisions should be made in a rational environment. Prospect theory may be used to explain the irrationality that is constantly seen in financial markets that goes contrarily to the assumptions of the EMH that prices reflect the intrinsic value of securities (Kahneman & Tversky, 1979).

Since people are loss-averse, the prospect theory may lead to narrow framing which leads to myopic risk aversion creating a disposition effect. When investors sell shares, they typically sell stocks that have appreciated rather than those that have depreciated. This means that investors are afraid to close their losing positions at least until they see a little shed of hope that prices would turn around, while in winning situations they are prone to grab the first opportunity to sell their assets (Kahneman & Tversky, 1979).

### **2.2.3 Arbitrage Pricing Theory**

Developed in 1976 by Ross Alan Stephen, the Arbitrage Pricing Theory (APT) model considers that markets are competitive and that individuals homogeneously believe that the linear structure of risk drives the returns of all assets in the economy. The APT model represented an answer to criticisms suffered by the popular Capital Asset Pricing Model. CAPM establishes a linear relation between the excess assets' return and a single risk factor – the excess return on the market portfolio. It assumes that all assets can be held by an individual investor. Although it can be considered a particular case of APT,

the theoretical construction of CAPM requires normality of returns or quadratic utility function, what isn't always easy to justify.

Besides, it can be proved that any mean-variance portfolio satisfies exactly the CAPM equation. However, the true set of all investment opportunities would include everything with worth (Sharpe & Cooper, 1972). Risk factors (in the APT) emanate from changes in some fundamental economic and financial variables. APT theory is applicable in this research in that real estate markets are competitive and that individuals homogeneously believe that the return of all real estate assets in the economy are driven by a linear structure of risk factors.

### **2.3 Determinants of Financial Performance for Investment Groups**

Performance is a result of certain activities. Financial Performance is a subjective measure of how efficient a firm utilizes its primary assets from to generate revenues. The relationship between Investment groups financial performance is their determinants is obtained using different models where both dependent and independent variables are estimated. The main reason for determining the financial performance is to examine the direction in which an organization is moving and whether it is operating efficiently and effectively (Treynor, 1965). It also motivates the managers to work hard towards achieving the organizational goals. The major determinants of the financial performance of investment groups that have invested in real estate include, the type of investment strategy adopted, the investment capital growth potential, the level of risk tolerance that the investors are willing to accommodate and length of time the investor is willing to hold the real estate investment.

A Buy and hold investment strategy is a real estate investment strategy where a real estate investor holds real estate for long-term, even if there are short-term market fluctuations. This strategy is not a passive strategy since an investor actively selects the securities to invest. These long term strategies include the firm's long-term growth strategy, the quality of its products as well as the firm's relationships with management. Own and operate strategy of real estate investing is more preferred. The benefits of the own and operate (rent) strategy to the investor more compared to buy hold strategy. Finally development strategy is one which the buyer opts to develop the real estate property instead of renting it out or buying and holding for speculation (Shellah, 2007).

### **2.3.1 Level of Risk Tolerance**

Most economic researches have shown that human beings are rational and modern economic model are based on the fact that most investors want to minimize risk and maximize returns (Barber & Odean, 1999). Investors evaluate a risk-return tradeoff for all the investments options available in order to come up with an efficient portfolio.

In order to ensure an increase in financial performance an investor need to construct a well-diversified portfolio that ensures that the risk is diversified; not putting all eggs in one basket. In the real estate sector the risk exposure arises from various elements. The key elements include the life cycle of real estate asset, the real estate property type, the property location, the investment strategies adopted, the risk classification and the investment manager engaged. The behavioral characteristics of real estate investors is very different from the modern economic model's investors (Barber & Odean, 1999). The major risk elements should be monitored when constructing a portfolio. Investors should

take this responsibility and leave the investment managers to optimize the transactions and increase revenues. A good risk management process must permeate both the firm and the decision making process. Investment groups should work towards a balanced opinion of both the returns from investment and the risks that associated with it.

### **2.3.2 Capital Growth Potential of Investment Projects and Performance**

Many investors believe a capital growth strategy is the ideal method for profiting from property (Baxter & King, 1999). Real estate wealth comes from doubling asset holdings every seven to ten years and therefore growth is the only way to build wealth. The style of investing in value stocks provides returns that are more than returns obtained from growth stocks.

Baxter & King (1999) constructed a portfolio that consisted of both high and low price-earnings ratio and he found out that a portfolio with stocks with low price-earnings ratios yielded significant higher returns than the portfolio with higher price-earnings ratio stocks. He therefore concluded that higher returns are obtained from investing in value stocks and are more profitable than growth stocks. The findings of the above studies cannot be generalized to emerging capital markets since the studies were based in the developed capital markets that could have different investor characteristics hence the need for the current study which is carried out in an emerging market.

## **2.4 Empirical Studies**

The main driver for investing in real estate is to forego current consumption and generate future returns considering uncertainty and risk (Seiler, Web & Myer, 1999). In their study, investment patterns were grouped according to the rate of earning, the cash deposit liquidity and stability, and considering the real estate investors behavioral patterns.

Lamont (2005) asserts that real estate investors are also driven by periodic capital gain from their investments, protection from inflation and gain form social recognition. Property investors usually anticipate adequate market demand for their property so as to be able to pay off expenses from the rent collected. They also plan disposing off the property after holding it for some time so that they can generate capital gain.

Majority of real estate investments would be deemed as high value transactions and would consequently expect a complex decision-making process with clear expected outcomes fully considered. Lamont (2005) found that the psychological and behavioral state of investors before an investor purchases a property some mental information processing has already taken place.

Economou, Kostakis and Philippas (2011) studied the behavior of herding under extreme market conditions in various stock markets using daily stock prices for the period 1998-2008 and found that herding is prevalent during periods of rising stock prices. The rational is that investors act rational in tranquil times, but lose their confidence and follow the trends in volatile periods. These findings indicate that herding behaviour

affects trading volume, market returns and return volatility therefore portfolio performance. These studies were however based in developed markets unlike the current study that is carried in an emerging market. The studies were also conducted in periods of extreme conditions while the current study does not make any assumption regarding the market conditions.

In Kenya, studies have been done on real estate investment decisions. Waweru, Munyoki and Uliana (2008) in investigating the role of behavioral finance and investor psychology in investment decision making find that institutional investors operating on the Nairobi Stock Exchange suffer from a number of behavioral biases that include overconfidence, availability, representativeness, anchoring, gamblers fallacy, loss aversion, regret aversion and mental accounting.

Marete (2011) found out that the key determinants of real estate property prices in Kiambu Municipality in Kenya were location of a real estate property and estate agents influence on the prices. In this study, he concluded that, prices for real estate market are dictated by a different set of forces unlike other markets where price are determined by forces of demand and supply. According to Makena (2012) in her study of determinants of residential real estate prices in Nairobi she suggests that the level of money in supply and information gave a better predictor of the real estate market on 29 real estate prices. Using databases of more than 680,000 retail investor transactions at the Nairobi Securities Exchange between 2005 – 2007.

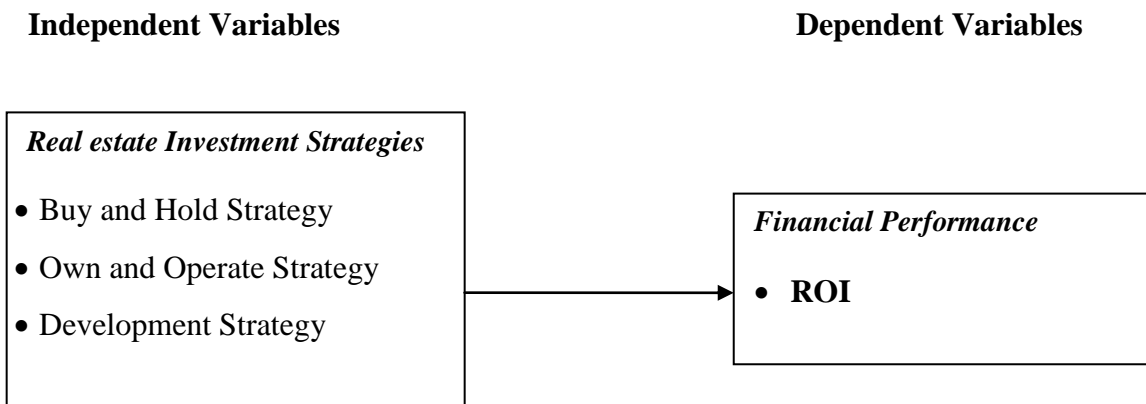
K'Otieno (2012) in a study of investor thinking on investors' decision making in Nairobi Securities Exchange market established that although investors tend to put clear the

objectives of their investment to steer investment decisions to ensure that they get returns from their investments, psychological processes also influence the kind of an investment an individual would want to engage in.

## 2.5 Conceptual Framework

The schematic model below is a visual presentation of the interrelationship between the financial performance (dependent variable) and the real estate investment strategies (independent variable).

**Figure 2.1: Conceptual Framework**



*Source: Researcher 2016*

## 2.6 Summary of Literature Review

This summary indicates that investor behaviour is both rational and irrational. The review indicates that investors' behaviour does influence security prices and consequently financial performance. The findings are conflicting with some indicating that investor behaviour positively influence security prices and others find the influence to be negative while others find no influence at all. The results were conflicting and therefore provided the gap that this research aimed to fill.



## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter describes the different methods that were used to collect, analyze, present and discuss the findings of the study. These are the research design, sources of data, population and its characteristics and methods used for data analysis.

#### **3.2 Research design**

A descriptive research design was used in this study to collect data from the respondents. According to Kothari, (2004) this research design is defined as a group of methods and procedures that describe variables. A descriptive research design is based on determining the frequency with which something occurs and the relationship between variables (Kothari, 2004). This method was appropriate, since it allowed the researcher to describe the interpretation of existing relationships, and comparison of variables under this study. Using this approach variables were described rather than testing the predicted relationship between variables.

#### **3.3 Population**

While KAIG estimates that there are over 300,000 Investment groups in the country, most of them are not properly registered. The population of the study was the 90 investment firms in Nairobi, Kenya that are fully active in real estate investment activities as given by the Kenya Association of Investment Groups (KAIG) with emphasis on residential property investors in Nairobi and its environs.

### **3.3.1 Sampling Frame**

The sampling frame for this study was from 90 investment groups in Nairobi. The choice of this 90 investment groups is that they are the only registered investment groups who have carried out real estate investments in Nairobi.

### **3.4 Sampling**

This study adopted the use of simple random sampling method where the sample size for this study was 50 respondents selected from 90 investment groups in Nairobi who have invested in real estate. This study used simple random sampling due to its unbiased nature as any element of a statistical population can be chosen in for each member of the population bears equal probability of being chosen.

### **3.5 Data Collection**

Both primary and secondary methods were used for the study. The primary data was gathered through survey questionnaires which were administered to the Investment group in Nairobi. The researcher personally distributed the questionnaires to the respondents' study institution as she requested them to participate by filling to the questionnaires. The questionnaires were collected after three days so as to give the respondents enough time to fill them at with relevant data.

This study also utilized secondary data. The secondary data used in this study was collected from websites, online references, and reports of KAIG on the investment groups that were sampled in this research

### **3.6 Reliability and Validity**

A measure is reliable to the extent that repeated application of it under the same condition gives the same result (Cronbach, 1951). point out that reliability is a measure in which an instrument can produce consistent results. The validity of questionnaires was determined using experts.

This study used content validity to measure the degree to which data obtained from the study instruments, in this case questionnaires, meaningfully and accurately reflected the theoretical concept. Both supervisor and expert feedback were used to modify the instruments. Cronbach alpha statistic was used to test the reliability of the data (Cronbach, 1951).

### **3.7 Data Analysis**

Data collected was quantitative in nature. Data obtained from the financial reports was exported from Microsoft excel to SPSS. To analyse the data the statistical package for social sciences (SPSS version 18) package was used. A regression model was applied to determine the effect of each real estate investment strategy on financial performance of each group. This was because regression model studies the nature of relationship between variables which is the objective of this study.

It was also used basically for prediction purposes and also used as a tool for studying cause and effect relationship which this study aims to achieve. The response on the effect of real estate investment strategy on financial performance of the investment groups was determine using the Likert-Scaled questions and computing indices based on the

responses. In order to determine the relationships between independent and dependent variables, regression techniques are used (Mugenda & Mugenda, 2003).

Financial Performance = ROI

Return on investments= net income/ total investments

$$Y_t = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$$

Where;

$Y_t$  = Financial Performance (Measured by Return on Investment: net profit/total investment).

$X_1$  = Buy and Hold strategy

$X_2$  = Own and Operate strategy

$X_3$  = Development strategy

$X_1$ ,  $X_2$  and  $X_3$ , Measurement based on a Likert scale from questionnaire and analysed with mean and standard deviation)

$e$  = Random error term (transaction prices error, valuation error or time biases)

$\beta_i$  = Beta coefficients for respective independent variables

P-value was used in null hypothesis significance testing.

## CHAPTER FOUR

### DATA ANALYSIS, RESULTS AND DISCUSSION

#### 4.1 Introduction

The first section of this chapter presents the background information of the respondent while the subsequent sections provide findings on the various real estate investment strategies on financial performance. The validity and reliability of the questionnaires used for data collection was tested using Cronbach alpha measure.

#### 4.2 Response Rate

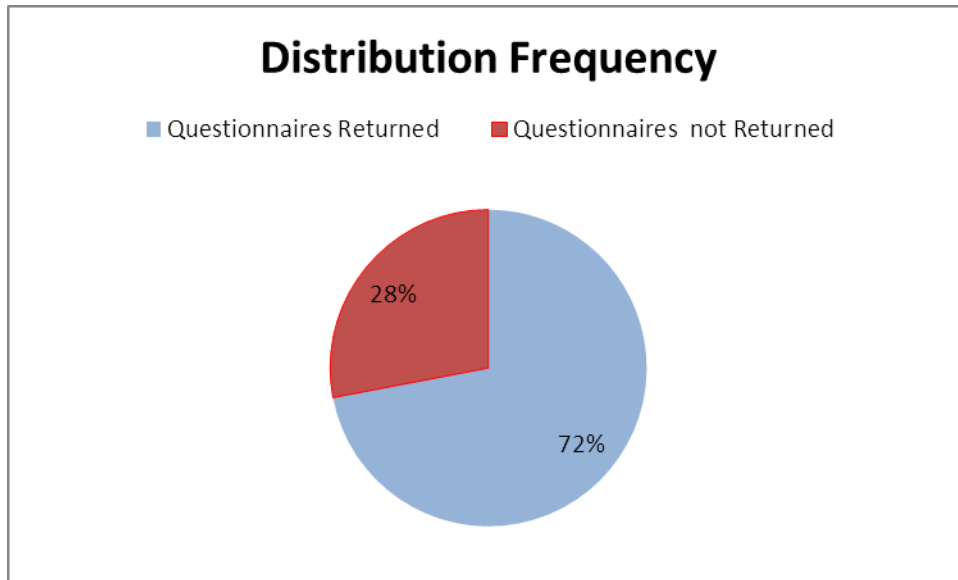
The study targeted 50 respondents from various investment groups, out of which 36 responded. This indicates 72% response rate of which as per Mugenda & Mugenda (1999), rate of 71% and over 70% is excellent. It therefore means that the response rate was excellent.

**Table 4.1: Response Rate**

	Distribution	
	Frequency	Percent
Questionnaires Returned	36	72
Questionnaires not Returned	14	28
<b>Distributed</b>	<b>50</b>	<b>100.0</b>

*Source: Researcher Survey.*

**Fig 4.1: Response Rate**



*Source: Researcher Survey.*

### **4.3 Profile of Respondents**

The table 4.2 below shows the background information on of the respondents. As seen in the table, out of the 50 questionnaires issued to the respondents, the researcher collected 36 questionnaires. This represents 72% of the population. 21 respondents are females which represents 58.33 % of the total response while 15 are males which represent 41.66% of the total response. The gender of the respondents is therefore not balanced, which further confirms the fact that there is gender imbalance of the *chamas* in Nairobi County.

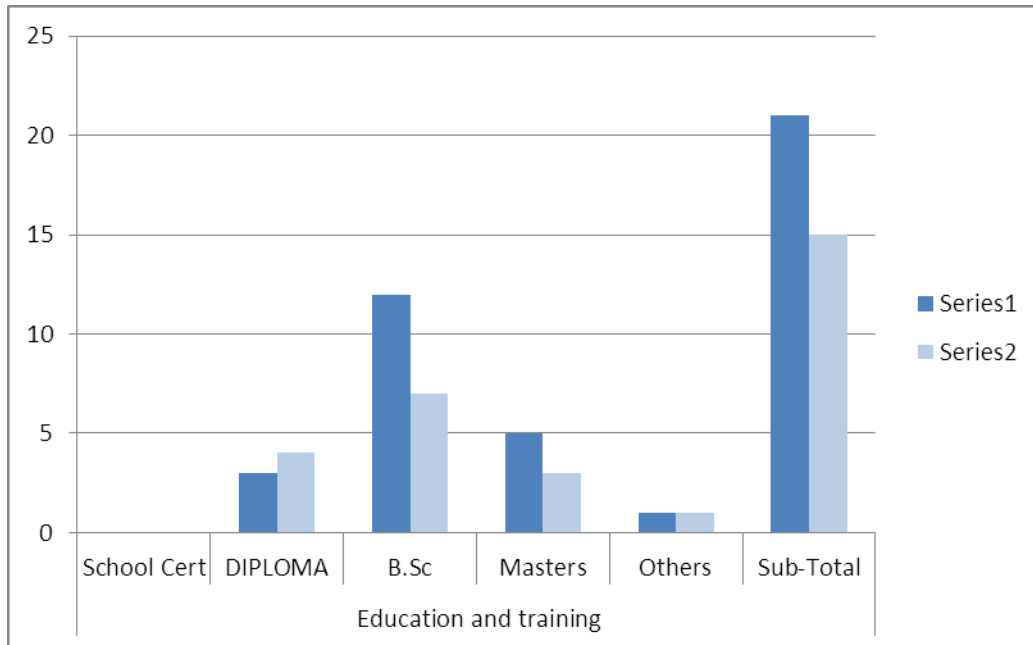
From this research, 16 respondents have less than 5 years of experience which represented 44.44%, 13 respondents fall between 5 and 10 years of experience which represented 36.11% while 7 respondents were in the category of above 11 years which represented 19.44% of the total respondents. Among the respondents, none had a

certificate, 7 (19.44%) are diploma holders, 19 (52.77%) degree holders, 8 (22.22%) were masters holders while 2 (5.55%) had other qualifications of education.

**Table 4.2 Profile of Respondents**

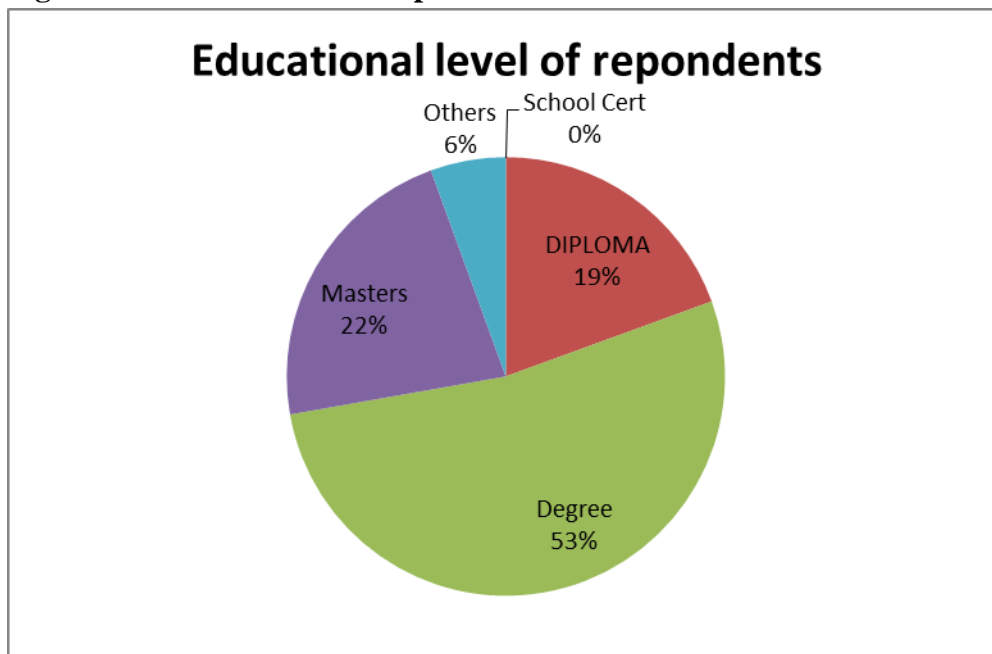
<b>Variation</b>	<b>Levels</b>	<b>Female</b>	<b>Male</b>	<b>TOTAL</b>	<b>%</b>
GENDER	respondents	21	15	36	72
Years of experience	0 – 5	8	8	16	44.44
	5 – 10	9	4	13	36.1
	11 – above	4	3	7	19.4
	<b>Sub Total</b>	<b>21</b>	<b>15</b>	<b>36</b>	<b>100</b>
Education and training	Certificate	0	0	0	0
	DIPLOMA	3	4	7	19.4
	B.Sc	12	7	19	52.7
	Masters	5	3	8	22.2
	Others	1	1	2	5.5
	<b>Sub-Total</b>	<b>21</b>	<b>15</b>	<b>36</b>	<b>100</b>

**Fig 4.2 Education level of Respondents**



Source: Researcher Survey.

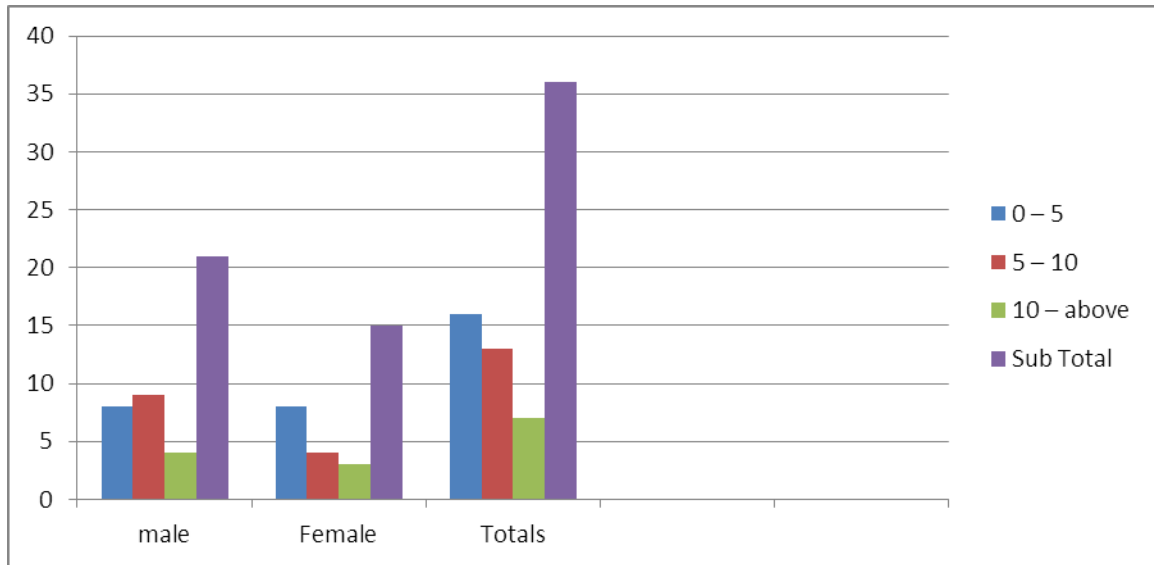
**Fig 4.3 Education level of Respondents**



Source: Researcher Survey.

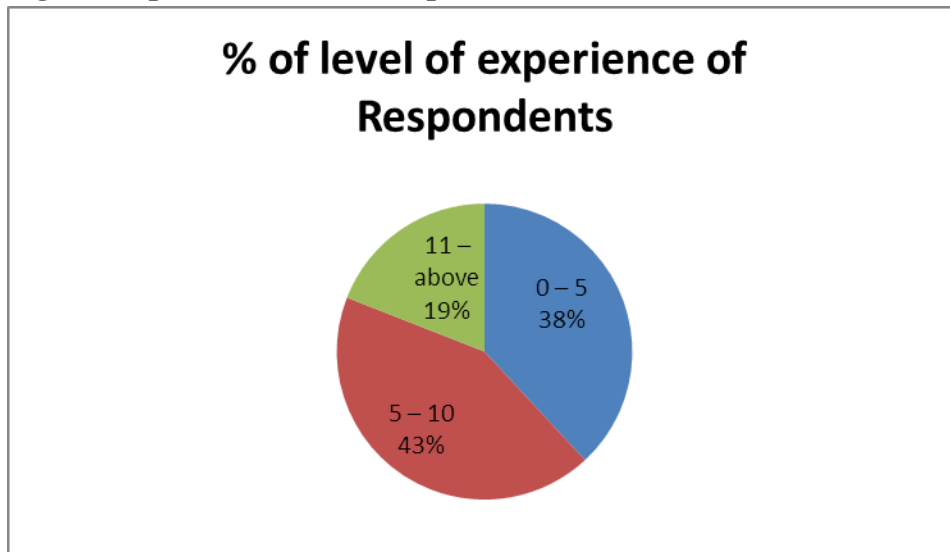


**Fig 4.4 Experience level of Respondents**



*Source: Researcher Survey.*

**Fig 4.5 Experience level of Respondents**



*Source: Researcher Survey.*

#### **4.4 Data Validity**

The reliability of the instrument was tested using Cronbach Alpha as seen in table 4.3

**Table 4.3: Factor Loadings**

<b>Factors</b>	<b>Cronbach's Alpha</b>
Buy and Hold strategy	743
Own and Operate strategy	792
Development strategy	843

*Source: Researcher Survey*

## **4.5 Descriptive Statistics**

### **4.5.1 Number of Years of Existence**

The study first wanted to find out the years the investment groups of the respondents had existed as this would also be used to determine the financial performance of these groups.

Table 4.4 presents findings with regards to the number of years the investment groups have been in existence.

**Table 4.4: Number of Years of Existence**

Statistics	Years of Existence of groups			
	0 - 5	0 - 10	11 above	Total
SUM	0	77	632	709
Frequency	0	9	27	36
Mean	.0000	8.55	23.407	19.694
Std.deviation	.0000	1.014	6.416	8.565
Maximum	0	10	37	37
Minimum	0	7	11	7
Median	0	8	26	19
Mode	0	8	18	18
Kurtosis	.000	-0.7626	-0.68356	-1.24173

*Source: Survey data.*

In table 4.4, it was evident that none of the investment groups have been in existence between 0-5 years, 9 investment groups existed between 5-10 years representing 25% while 27 groups have existed for 11 years and above representing 75%. Results in table also indicate that all the 36 respondents had existed between 7 and 37. Results also showed that the most investment groups had existed for 18 years and the middle period of existence for the groups being 19 years.

#### **4.5.2 Amount of Investment held by the groups**

The study further sought to find out the percentage value of real estate investment in the investment portfolios of investment groups in Kenya inform of Kenya shillings.

Table 4.5 presents findings with regards to the type of investment made by the chamas.

**Table 4.5: Amount of Investments held by the groups**

	N	Frequency	Max	Min	Mean (Ksh 'millions')
Real Estate Properties	36	36	7,853,200,500	854,492,000	449,200.63
Local Stock	36	20	1,552,491	924,717	371,129.045
Bonds	36	27	994,598	339,954	194,598.37

*Source: Survey data*

As seen in table 4.5, all the respondents had investments in all the three categories of investments with the real estate posting the highest investment of Kshs. 7, 853, 20,500 and mean total of 1,449,200.630 having been invested in real estate properties by investment groups in Kenya, all these affecting the financial performance of the investment groups

Results also showed that all respondents had investments in local stocks and bonds with local stock investments posting the highest investment of Kshs. 1,552,491 and mean total of 1,371,129.045 investments while the bond posting Kshs. 994,598 with a mean total of 194,598.37 invested by the groups in Kenya

#### **4.5.3 Buy and Hold Strategy for investment groups in Kenya**

The first objective of the study was to analyze the influence of buy and hold strategy on the financial performance for investment groups in Kenya. Likert scale of five points was used where (1 = Not at all to 5 = very large extend), the researcher asked the respondents to indicate their levels of agreement with buy and hold strategy. Table 4.6 below,

present's findings with regards to the influence of buy and hold strategy for investment groups in Kenya.

**Table 4.6: Buy and hold strategy for Investment Groups in Kenya**

Extent of influence	Strongly	Agree	Neutral	Disagree	Strongly	Disagree	Mean	S.D
Your investment group has invested heavily in the real estate projects for the last five years	67%	23%	3%	5%	2%		3.75	1.109
Your investment group invests in projects that are undeveloped waiting for them to appreciate before they are developed	65%	20%	8%	7%	0		3.82	1.39
Your investment group invests in projects that are undeveloped waiting for them to appreciate before they are developed	69%	18%	3%	5%	5%		3.91	1.006
Your investment group invests even in the least valuable projects with the view of waiting for them to appreciate after a stipulated period of time	63%	28%	7%	0	2%		3.15	0.896

*Source: Survey data*

**Table 4.6.1 General statistics of buy and hold Strategy on investment groups in Kenya**

Extent of influence	N	Strongly agree	Agree	Neutral	Disagree	Strongly Disagree	Mean	S.D
Mean	36	61%	25%	7%	4%	3%	3.6575	1.10025

*Source: Survey data*

As seen in table 4.6.1 it's evident that most investment groups agree that buy and hold strategy greatly influences financial performance of the investment groups in Kenya by 61%, strongly agreeing and 25% agreeing with only 4% disagreement. The results also showed a mean of a mean of 3.6575 and a std. Deviation of 1.10025 for the 36 investment groups that responded to this question, this shows to what extent the financial performance of the chamas is influenced by this strategy.

#### **4.5.4 Own and Operate strategy for Investment Groups in Kenya**

The first objective of this study was to examine how the influence of buy and hold strategy on financial performance for investment groups in Kenya. Using five point Likert scale, the researcher asked the respondents to indicate their levels of agreement with own and operate strategy. Table 4.7 presents findings with regards to the influence of Own on Operate strategy on Financial Performance for Investment Groups in Kenya.

**Table 4.7: Own and Operate strategy for Investment Groups in Kenya**

Extent of influence	Strongly agree	Agree	Neutral	Disagree	Strongly Disagree	Mean	S.D
Your Investment group's financials have been greatly directed on preference of acquisition and owning real estate projects in Kenya	60%	31%	3%	12%	2%	3.75	1.109
The capital growth potential of a particular real estate project influences the buying decisions of investments projects of your investment groups	60%	20%	12%	9%	0	3.82	1.39
The revenues of your company has been greatly influenced by the policy of investing in projects that are operated by the investment group	55%	18%	3%	5%	5%	3.91	1.006
The real estate project owned and operated by your Investment group have increased the portfolio of your Investment group in the last five years	53%	28%	7%	0	0	3.15	0.896

*Source: Survey data.*

**Table 4.7.1 General statistics of Own and Operate Strategy on investment groups in Kenya**

Extent of influence	N	Strongly agree	Agree	Neutral	Disagree	Strongly Disagree	Mean	S.D
Mean	36	57%	24%	6%	7%	2%	3.6575	1.10025

*Source: Survey data*

As seen in table 4.7.1, Own and Operate Strategy influences financial performance in Kenya by 57%, with a mean of a mean of 3.6575 and a Std. Deviation of 1.10025.

#### **4.5.5 Development strategy of Investment Groups in Kenya**

Table 4.8 presents findings with regards to the influence of development strategy on financial performance for investment groups in Kenya.



**Table 4.8: Development strategy for Investment Groups in Kenya**

<b>Statement</b>	<b>Strongly agree</b>	<b>Agree</b>	<b>Neutral</b>	<b>Disagree</b>	<b>Strongly disagree</b>	<b>Mean</b>	<b>S.D</b>
Development strategy influences financial performance in Kenya	77%	15%	2%	2%	4%	3.15	0.9982
The cost of development influences financial performance in Kenya	77%	12%	4%	5%	2%	3.01	1.023
Returns from developing a real estate project influences financial performance in Kenya	66%	18%	4%	5%	7%	3.97	0.8856
Riskiness of the investment	72%	5%	12%	6%	5%	3.99	0.1005

*Source: Survey data*

**Table 4.8.1 General statistics of Development Strategy of investment groups in Kenya**

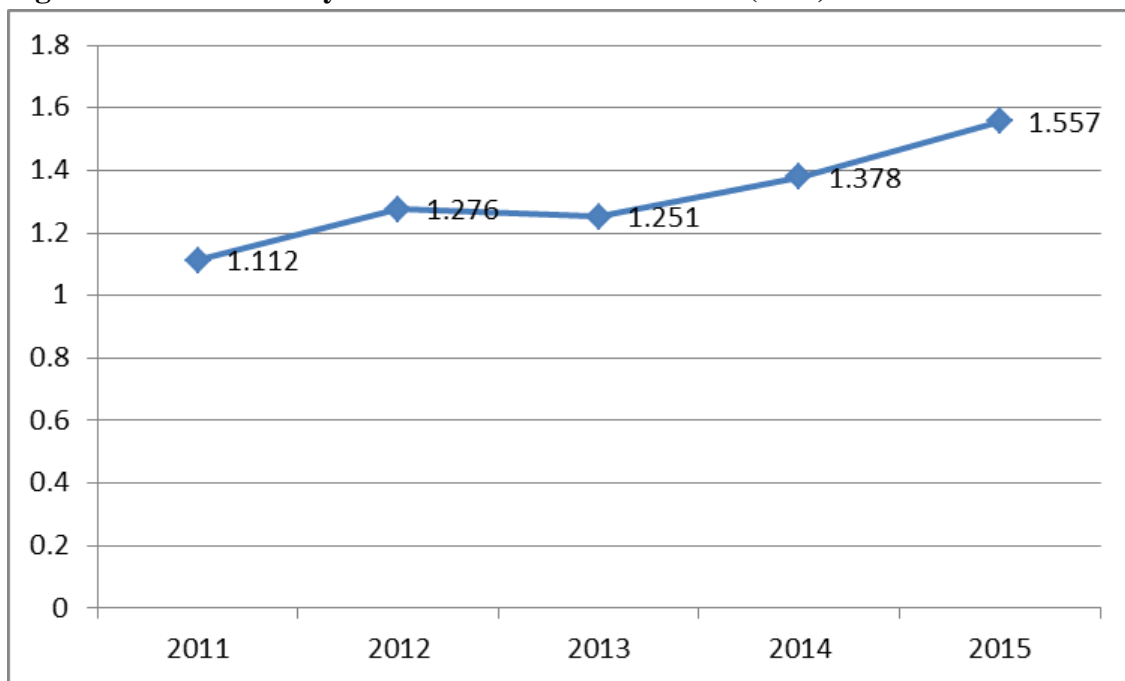
Extent of influence	N	Strongly agree	Agree	Neutral	Disagree	Strongly Disagree	Mean	S.D
mean	36	73%	13%	6%	5%	5%	3.53	0.751825

*Source: Survey data.*

Table 4.8.1 reveals that most of the respondents agreed that development strategy influences financial performance of the investment groups by 73% with a mean of 3.53 and a standard deviation of 0.751825

#### **4.5.6 Trend Analysis for ROI**

**Figure 4.6: Trend Analysis for Return On Investment (ROI)**



*Source: Survey data*

As seen in figure 4.6, the analysis, ROI for the investment groups in 2011 was 11%, while that for 2012 was 12.8%, for 2013 was 12.5%, 2014 was 13.8% and finally for 2015 was 15.6%. This shows the increase in investment groups from the first year of study to the fifth year which is attributed to the use of investment strategies by individual investment groups.

## **4.6 Regression Analysis**

### **4.6.1 Linear Regression Analysis between real estate investment strategies and Financial Performance**

As seen on table 4.11, R which is the correlation between the observed and predicted values of the financial performance is obtained as 0.895. This indicates a powerful correlation between the two values of the dependent variable. It also shows the R squared values of 0.802 or 80.2% of the proportion of variation in the dependent variable described by the regression model. That is 80.2 % of the change in real estate investment strategies (independent variable) can be used to explain the three dependent variables which are Shareholders Value, Profitability, Financial liquidity. The standard error value is 010514. In the regression model, a good fit of 80.2% was obtained which showed the variance in financial performance and an adjusted R squared of 77.9%. This is a slight over estimate in the model of the variance in financial performance.

**Table 4.9: The Linear Relationship Model Summary between Real Estate Investment Strategies and Financial Performance**

Model	R	R Square	Adjusted R square	Error of Estimate
1	.895	.802	.779	.010514

**Predictors:** Financial Performance

**4.6.2 An ANOVA representing the linear relationship between real estate investment strategies and Financial Performance.**

Table 4.9 summarizes the results of an analysis of variance, with the sum of squares, degrees of freedom, and mean square being displayed for two sources of variation, regression and residual. For the accounted for values, the mean square (the sum of squares divided by the degrees of freedom), is 1028.010, the F statistic (the regression mean square (MSR) divided by the residual mean square [MSE]) is 198.932 and the degree of freedom (df) is 1 whereas the output for residual which displays information about the variation that is not accounted for by the model has the following values: sum of squares as 175.700, df as 35 and a mean square of 5.168.

The overall relationship was statistically significant ( $F_{3, 33} = 198.932$ ,  $p < 0.05$ ) It has a significant level of 0.000 this means that the chances are zero that the result of regression model are due to random events instead of a true relationship.

**Table 4.10: ANOVA representing the linear relationship between real estate investment strategies and Financial Performance**

Model	Sum of squares	df	Mean square	F	Significance
Regression	1028.010	1	1028.010	198.932	.000
Residual	175.700	35	5.168		
Total	1203.711	36			

**Independent variable:** Real estate investment strategies

**Predictors:** Financial performance (ROI)

#### **4.6.3 Coefficients representing the linear relationship between real estate investment strategies and Financial Performance.**

In Table 4.10, contains the coefficients of both the independent variables and the dependent variable. Significant levels are below 0.05 that is, 0.000. This means that the all the predictor values are statistically significant.

As shown in the table below, all the predictors are significant since their significant levels are of 0.000 which is less than 0.05. In addition, any time real estate investment strategies is increased by 1 unit, financial performance of the investment group changes by 4.496 units, when all other variables are held constant. Therefore financial performance of the investment groups are greatly influenced by the investment strategies in this study.

**Table 4.11: Coefficients representing the linear relationship between different variables and financial performance of investment groups in Kenya**

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	5.849	.736		7.946	.000
	Financial Performance	4.496	.319	.924	14.104	.000
a. Dependent Variable: Financial performance						

#### 4.7 Discussion of Findings

This section puts together the summary of the findings and results from the analysis of this study. The findings show that all the 36 investment groups had spread their investments across the three investment portfolios of real estate, local stock and bonds with the highest investment being in the real estate and the lowest being the bonds. The maximum amount of investment by each firm was Kshs 7,853,200,500 while the minimum being Ksh 854,492,000 with a mean investment portfolio of Kshs 1,449,200.630. This justifies the projections made by Kenya Housing Corporation in 2003 that real estate investment will grow by 12% by 2015 hence attracting much investment.

The study portrays a positive relationship between the two variables as the findings from this study give a relationship between investment strategies and the financial performance of the chamas. This is also pointed out the study on impact of investor experience on the disposition effect in China, Hsu and Shiu (2002). Hsu and Shiu (2002) studied the impact of demographics such as income and the type of employment on the disposition effect.

This study also agrees with Seiler, Webb & Myer (1999) who examined the degree of mental accounting and false reference points in the property markets. Moving from holding a real estate investment in isolation versus holding the asset as part of a mixed-asset portfolio their results demonstrate that mental accounting is prevalent amongst investors in the real estate market.

These findings indicate that herding behavior affects trading volume, market returns and return volatility therefore portfolio performance. These studies were however based in developed markets unlike the current study that is carried in an emerging market. The studies were also conducted in periods of extreme conditions while the current study does not make any assumption regarding the market conditions. This study also demonstrates the ability of each investment strategy to influence greatly the financial performance of the investment groups when applied. The level of influence is posted at 4.496 times for financial performance for every 1 variable of change in the investment strategies applied. This gives maximum yield to all investment groups that applies these strategies in totality hence encouraging many investment groups to embrace the investment strategies in their investments.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter consists of various sections, beginning summary of the findings to the conclusions, and recommendations.

#### **5.2 Summary of findings**

The study sought to analyze the effects of real estate investment strategies on financial performance of Investment groups. The objective of the study was too analyze if the buy and hold strategy influences financial performance of investment groups, to examine if own and rent strategy influences financial performance of investment groups and to establish if development strategy influences financial performance of investment groups

A descriptive research design was adopted in this study targeting a population of members from 36 registered investment groups in Nairobi with emphasis on residential property investors in Nairobi. Primary data was used for the study and was gathered through survey questionnaires which were administered to the investment groups in Nairobi. The questionnaire had three main parts; Demographic information, the preferred investment strategies by the investment firms and how investment strategies affect the financial performance of investment groups. Microsoft Excel was used to analyze the data as well as SPSS that was used to generate the findings such as frequencies and percentages. The results were presented using figures, tables and cross tabulations.



The study revealed existence of a high relationship between financial performance and all investment strategies with a beta of 4.496 specifically buy and hold strategy and own and operate posting results of great effect on financial performance of investment groups. Many research studies have reported that, investment strategies can be the tool for real estate investment development and growth (Lamont, 2005). This causes many investment groups to apply the buy and hold strategy as the investment is acquired at a lower cost and within a holding period, it gains much value which earns the investment groups a high return on investment. From this study, many investment groups have adopted this strategy as it pays off very well considering the rising economic value of the real estate investments in most parts of the country, especially in Nairobi.

There was a correlation between the buy and hold strategy variables and the return on investments of individual respondents as the ROI increased greatly when the strategy was applied by the investment groups for the five year period of study in this study.

The major obligation of a business for its investment is the return on their investments. Many business operators employ many strategies to see that this has been achieved and for this study after adoption of any investments strategy can term the combination process to be a failure or a success (Pike & Neale, 2002). The effect of any real estate investment strategies is assessed by its ability to create and enhance value or increase the balance sheet of the investment group.

For the profitability as a variable of financial performance in this study, it was evident that all the investment groups recorded high profits in the five years covered in this study in which own and operate strategies were adopted. The results from the study show that most of the investment groups had an increase in the profits as per their financial statements due to use of the own and operate estate investment strategies. The effect of own and operate investment strategies was measured quantitatively in terms of increased profitability and reduced costs, reduction of cost and increase in efficiency

Another observation made in the study was that small and medium sized investment groups adopted these strategies essentially for survival and so in this study the results show that after these investment strategies, the investment groups turned into profitable investment groups then adopted the development strategy. Smaller Investment groups have especially been prone to liquidity problems due to their weak capital base and the best way many were using to come into profitability was to adopt the buy and hold and the own and operate strategies.

Financial liquidity is the amount of cash, cash equivalents and other assets (liquid assets) that can be easily converted into cash (Pike & Neale, 2002). In the case of a market, a stock or a commodity, the extent to which there are sufficient buyers and sellers to ensure that a few buy or sell orders would not move prices very much. In this study it's evident that the investment groups had performed well in terms of size and profitability due to the strategies. It's observed that investment groups recorded meaningful increase in their net earnings, and those with the successful real estate investment strategies of the investment

groups, the return on capital employed and return on total assets, increased substantially with a significant increase in percentage.

It was also observed that the total assets of the investment groups went up steadily in the period of study for all investment groups as a result of variability in the earnings (risk) of the real estate investment strategies for investment group's use of the investment strategies. This greatly significantly impacted the investment groups in lowering the risk hence increasing their portfolio and becoming attractive ventures.

### **5.3 Conclusion**

The results lead to a conclusion that indeed there exists a relationship between real estate investment strategies and financial performance of investment groups in Kenya. Investment strategies when adopted by investment groups they greatly affect their financial performance as all variables of financial performance changed in this study for all the 36 investment groups for the five years which is an evident of a stronger relationship between the investment strategies and financial performance.

In the same regard, the study revealed that there was a significant inter-relationship, between the investment strategies as any of the three strategies when applied by the investment groups they could still affect the financial performances of investment groups. From the findings in this study buy and hold and own and own and strategies were mostly used by investment groups. This can be concluded that this is due to majority of the groups did not have the capacity to apply development strategy hence using the former two strategies to build up themselves over some time.

The study also concludes that real estate investment strategies had a positive effect on the profitability of investment groups due to the fact that there were reduced costs. Due to decreased capital costs however, it was evident that the prices of services increased for the development strategy and thus shifting customer base. This is in line with as study Lamont (2005) whose findings showed that real estate investment strategies were regarded as a positive signal in the real estate industry since it was associated with increased returns.

Further, the study concludes that there is a significant relationship between development strategy and financial performance as there were significant improvements in the liquidity, of 36 out of 50 studied investment groups. This is because total assets were financed by equity and retained earnings in most of investment groups sampled. This is in line with a study conducted by Lamont (2005) who found out that in the best performing investment groups in which had adopted real estate investment strategies, total assets were high due to buy and hold. It can be concluded therefore that there exists a positive relationship between investment strategies and financial performance of investment groups.

#### **5.4 Recommendations**

From the findings of this research, the study recommends that investment groups should explore avenues to enhance capacities within investment groups for managing real estate investments. They should explore the route of continued education for those in workplaces through short term training that should be very practical oriented, this could involve professional organizations for finance specialists, bankers, accountants and consultants.

Such training should ideally be out of site because of the need to meet participants from diverse businesses and orientations for training and assessment to avoid internal interruptions. These trainings should not only investment opportunities alone but rather could be preceded by introductory contents on investment strategies.

Secondly this paper gives a recommendation that investment groups should consider adopting Domestic or Multi-domestic strategies which are suitable for local economic environment other than applying global strategies. The study further observes and recommends blending of real estate investment strategies that are best suited for the investment groups.

Due to the fact that some investment groups did not have sufficient data on the variables of financial performance indicators in the study period, there is evidence that information of the real estate strategies and financial management was not fully utilized by the investment groups and this affects the overall financial performance of the investment groups. To curb this, the government should create a bureau for storage and exchange of information to capacitate the smaller investment groups and in an effort to discourage unprofitable investment groups

Investment groups adopting real estate investment strategies should put into keen consideration operation cost reduction strategies in an effort to increase the shareholders values in the firm this is due to the fact that most investment groups adopt real estate investment strategies tend to plough back the profits to cater for the operating costs that escalate as a result of the strategies.

Investment groups should engage in service and product diversification, and establish private public partnerships that add value. Investment groups should enhance forward integration linkages for sustainability and be internationally competitive.

### **5.5 Limitations of the Study**

During this research exercise there were challenges that the researcher encountered. Some of the limitations of the study were that the respondents wanted the information treated as confidential and also withheld crucial information despite the assurance that the information was only meant for this study and not any other purpose. This was due to the competitive nature of the real estate investment business in Kenya in the recent past of which none of the investment group would like to share their strategies.

The other limitation was the distance covered by the researcher to conduct this research. The investment groups are sparsely distributed as most of their investments are in the outskirts of the city where their offices are also located. This made it impossible for the researcher to cover the expected groups in the stipulated time hence prolonging the time for this study. As a result, respondents referred the researcher to other investment group members who were not easy to trace hence generalized information was given.

This research was limited by the fact that it was difficult to establish the level of operation of the investment strategies by the investment groups hence generalizing the results. This study also did not consider the possible effect of other factors of influencing the financial performance e.g. the role of corporate governance and other internal factors and how they can affect the return of investment.

## **5.6 Suggestions for Further Research**

Some of the areas for further research may include the following: The impact of the cost of finance on the real estate industry, the effect of macro-economic factors on the financial performance of real estate investments.

Further research should be conducted on the advantages and challenges faced by the real estate investment groups in adoption of real estate strategies in global market and its effects on profits especially in an imperfect market.

A comparative analysis should be conducted to find out if domestic real estate investment groups with multi-industries provide positive results to the financial performance since all the real estate investment majorly experienced in this study were from local and not multinational.

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## APPENDICES

### **Appendix I: List of top 50 registered Investment Groups That Have Invested in Real Estate in Kenya As Given By KAIG.**

NO.	GROUP NAME
1	Amalgamated Chama
2	Home Africa
3	SIAM Investment
4	Mhasibu Investments
5	Kenya Women Inv. Ltd
6	Maanzon Lodge Ltd
7	Investech Capital
8	Keveoya Investment Ltd
9	Genghis Capital
10	Fechim Investment Ltd
11	Gee Ten
12	BAAM Investment

13	Investeq Capital Limited
14	Kenya Commercial Bank
15	Centum Investments
16	Nairobi Securities Exchange
17	NIC Securities Ltd
18	Olympia Capital Ltd
19	Origins IGA Ltd
20	Pan Africa Life Assurance Ltd
21	Petken Ltd
22	Standard Investment Bank
23	Sterling Securities Ltd
24	Synergy Management Ltd
25	Vidmerck Limited
26	Africa Advance Investment Ltd
27	Athi Boys Investments Group
28	Avec Investment Ltd

29	Thuraya Investments
30	BDS Capital LLC
31.	Capital Wide Investment Ltd
32.	Cayenne Ltd
33.	Centive Investment Limited
34.	Chairman Investment Ltd
35.	Confer Limited
36.	Consolidated Securities Limited
37.	Critical Mass Growth Ltd (CMG)
38.	Divas Investment Ltd
39.	Dolphin Ventures Ltd
40.	Exemplar Limited
41.	Futures Investment Ltd
42.	Glenmore Trading Company Ltd
43.	Greater Heights Investments Limited
44.	Gufi Company Limited

45.	Insight Investments Limited
46.	Umeme Pamoja Ltd
47.	Visionary Investment Ltd
48.	Petkens Invest
49.	Wealth Creators (2010) Kenya
50.	Milele Alliance Ltd



## Appendix II: Questionnaire

Dear Respondent,

The purpose of this questionnaire is to collect information. All the information collected will be treated as private and confidential and will only be used for research purposes.

We highly value your assistance in completion of this questionnaire.

### SECTION A; BACKGROUND INFORMATION

1. Name of your investment group

\_\_\_\_\_

2. What is your gender

Male ( )      Female ( )

3. For how long have you worked in this Investment group?

0 - 5years ( )    5 – 10 years ( )    11 years and above ( )

4. What is your position/Rank in the Investment group

\_\_\_\_\_

5. What is your highest educational qualification? Please tick as appropriate;

Diploma ( ) Undergraduate ( ) Masters ( ) other ( ) \_\_\_\_\_

**SECTION B; REAL ESTATE INVESTMENT STRATEGIES**

6. Does your investment group consider the Real estate Investment projects in their investment portfolio?                      Yes (   )                      No (   )

If yes please indicate how these projects guide the investment portfolio of the investment group

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7. Does the the Real estate Investment strategies projects in by your investment group have an impact on the revenues and expenditures of the investment group  
Yes (   )                      No (   ).

If yes how does it the revenues and expenditures of the investment group?

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To what extent do the following influence the the revenues and expenditures of your Investment group? Please tick as appropriate in the corresponding box? Use a scale of 1-5, where 1 = Not at all, 2 = Little extent, 3 = Moderate extent, 4 = To a large extent and 5 = A very large extent

	<b>The influences of buy and hold strategy on financial performance of investment group</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
a	Your investment group has invested heavily in the real estate projects for the last five years					
b	Your investment group invests in projects that are undeveloped waiting for them to appreciate before they are developed					
c	Your investment group invests in projects that are undeveloped waiting for them to appreciate before they are developed					
d	Your investment group invests even in the least valuable projects with the view of waiting for them to appreciate after a stipulated period of time					
e	Price of real estate project influences financial descisions of your investment groups budgets					
f	The cost of capital for real estate investment in your investment group is influenced by the financial policy of your investment group.					

To what extent does the following influence the financial operations of your Investment group? Please tick as appropriate in the corresponding box? Use a scale of 1-5, where 1 = Not at all, 2 = Little extent, 3 = Moderate extent, 4 = To a large extent and 5 = A very large extent

	<b>The influences of own and operate strategy on the of investment group</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
a	Your Investment group's financials have been greatly directed on preference of acquisition and owning real estate projects .					
b	The capital growth potential of a particular real estate project influences the buying descisions of invetsments projects of your investment groups					
c	The choice to invest in a residential or commercial real estate project is determined by the your capacity to operate the project .					
d	The revenues of your company has been geartly influenced by the policy of investing in projects that are operaated by the investment group					
e	The real estate project owned and operated by your Investment group have increased the portfolio of your Investment group in the last five years					
f	The Location of the property influences own operate strategy of investment .					

To what extent does the following influence the revenues and expenditures of your Investment group? Please tick as appropriate in the corresponding box? Use a scale of 1-5, where 1 = Not at all, 2 = Little extent, 3 = Moderate extent, 4 = To a large extent and 5 = A very large extent

	<b>The influences of the development strategy on financial performance of investment group</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
a	Your group considers the cost of development and how it influences investment policy of your investment group					
b	The location of the investment project influences the development strategies of your investment group					
c	Returns from developing a real estate project motivates your group to invest in real estate					
d	Your investment group considers the riskiness of the investment					

## SECTION C; FINANCIAL PERFORMANCE

What are the organization's returns on investment over the following years?

	Performance indicator	Financial Year (figures in million shillings)				
		2011	2012	2013	2014	2015
a	Earnings before interest and taxes					
b	Amount of capital					
c	Return on investments					

Thank you

**END**