

**FACTORS INFLUENCING EXPANSION OF COMMERCIAL PROPERTY IN KENYA:
A CASE OF KERUGOYA TOWN, KIRINYAGA COUNTY.**

BY

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DECLARATION

I declare that this research project is my original report and it has never been submitted in any other University for any award.

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L50/83897/2016

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Declaration by the Supervisor:

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DEDICATION

To my loving family, Peterson Karimi, Eric Koome and Daisy Wangechi. I also appreciate my brothers; Patrick Mutuma, Ken Bundi and Dan Gikunda for their blessing, encouragement and moral support during my study. To all those people that encouraged me to sail through my coursework regardless of the tight schedule of not only taking care of my family but also measuring to standards at my place of work and academic assignments.

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ABSTRACT

The reason for conducting this particular study was to examine the different factors that tend to influence the expansion of commercial property in Kenya; a case of commercial property in Kerugoya town, Kirinyaga county. The project was guided by different objectives which include: To determine ways in which demographic characteristics tend to influence expansion of commercial property in Kerugoya town; To assess how interest rates influence expansion of commercial property in Kerugoya town; To find out how market demand influences expansion of commercial property in Kerugoya town and to establish ways in which Gross Domestic Product influences expansion of commercial property in Kerugoya town. This particular research adopted the use of a descriptive survey design. The researcher targeted a population of 112 respondents who consisted of investors/developers, financial consultants, government departments and property consultants. The researcher used simple random sampling method. The size of the sample was obtained by using the formula according to Yamane (1967). This is a simplified formula that is used for the calculation of small sample sizes. The formula was used in calculating the sample size assuming a 95% confidence level and $P = 0.05$ so as obtain a sample size of 88. Two particular sets of data namely primary and secondary were effective in carrying out of this research. The researcher obtained primary data which is also known as field data through well-structured questionnaires. These questionnaires were developed from the preliminary identification of the likely reasons influencing expansion of commercial property in Kenya; a case of Kerugoya town in Kirinyaga county. Secondary data was obtained from journals, business newspapers, county government documents and ministry of devolution. The study used both questionnaires and interviews; The study generated both qualitative and quantitative data. Quantitative data was coded and entered into Statistical Packages for Social Scientists (SPSS Version 21.0) and analysed using descriptive statistics. Qualitative data was analysed based on the content of the responses. The researcher found out demographic characteristics, market demand, interest rates and GDP were the major determinants of commercial property investment in Kerugoyatown. GDP growth contributed the most to the growth in commercial property, followed by market demand, demographic characteristics then interest rates. Hence these four factors i.e. demographic characteristics, interest rates, market demand and GDP had a statistically significant positive influence on investment of commercial property. Despite that, strategic measures directed towards the improvement of the economic growth as well as curbing of mounting inflation rates and interest rates must be implemented because they have the ability of increasing the investment levels. Based on the findings of the study, the researcher recommends the following: That future development of commercial properties in Kerugoya should be planned strategically bearing in mind that their development affects the economy of the county. Kenya also needs to bridge the gap between demand for residential housing units and supply. Hence Kenyan developers, real estate firms, the government and all other key stakeholders involved in real estate market, should benchmark to obtain best practices and strategies in order to alleviate or ease the problem of inadequate housing.

ABBREVIATIONS AND ACRONYMS

AM	-Assets management
GDP	-Gross Domestic Product
SWF	-Sovereign Wealth Funds
UN	-United Nations
REIT	-Real Estate Investment Trust
KEBS	-Kenya Bureau of Standards
ADB	-African Development Bank
IMF	- International Monetary Fund
UK	-United Kingdom

CHAPTER ONE

INTRODUCTION

1.1 Background to the study

Commercial property refers to property that is used with the sole purpose of making money. This includes renting spaces and building offices that would be used to run businesses. Commercial property includes: industrial property, office buildings, medical centers, garages, hotels retail stores, multifamily housing buildings, warehouses, farm land, and malls. Residential property that contains more than a specific number of units also tends to qualify as commercial property for tax purposes and borrowing.

According to (Brown and Matysiak, 2000) and (Syagga, 1987), commercial property is a principal type of real estate where the latter is defined as comprising land plus everything perpetually fixed to it. This includes buildings as well as other items that are attached to it. In addition, real estate also includes other special kinds of properties including petrol stations, recreational facilities, halls, restaurants, as well as places of assembly and institutional property. The commercial property industry and market tends to cover land as well as their improvements. It also tends to cover their rental and selling prices, returns on buildings, the specific economic rent of land and also the construction industry. Research shows that this is particularly true for most of the commercial property investors since the investment tends to represent a large portion of the people's riches in Kenya.

The rapid growth in real estates in the past few years has been greatly witnessed globally despite the fact that this period has been marked by worldwide financial crisis. The overall GDP augmented from 364.5 billion RMB in the year 1978 to approximately 3006.7 billion RMB in the year 2008. This was 82.5 times to 30 years ago. All industries also expanded continuously in this period. Research shows that extension of domestic demand would end up being the pivotal point of imminent economic growth in China. However, although subprime crisis has moved forward gradually to the end, in which commercial property played an important part. Property investment of approximately 4044.18 billion is known to have accounted for (23.4%) of the total fixed asset investment in 2008. (Yearly Book, 2009) As the base industry of national economy, it tends to promote the boom of other related industries including steel, cement and other building

materials. This particular industry tends to accelerate urbanization as well as improve the building of urban infrastructure. In addition, the revenue as well as employment rates tend to also increase during the course.

Commercial property financiers have for a long time been aware of the different challenges of interpreting the specific returns of property investment into a reliable time-series data (Fisher & Boltzmann, 2005). Research has shown that this specific challenge has been overcome by the development of statistical risk as well as returns inputs to the allocation models, construction of indices that tend to reflect broad trends in varied portfolio of investable properties. The properties include: time weighted rate of return, time, internal rate of return and simulation procedure. Hammers & Chen, (2005) argues that real estate performance is measured by analyzing return on asset. Correspondingly, Fisher, (2005) claims that use of internal rate of return (IRR) is to stimulate portfolios which comprise of commercial properties, U.S bonds and U.S stocks. Ooi & Liow, (2004) claims that use of systematic risk integrated in the traditional Capital Asset Pricing Model (CAPM) tends to explicate commercial property returns. The stock as well as bond portions of the portfolio are normally re-balanced with the aim of accommodating the negative and positive cash flows which are required by commercial property that is investing as observed by Fisher, (2005).

Commercial property investment tends to play a vital role in the provision of employment opportunities, alleviating poverty, offering accommodation to households and improving income distribution according to Abraham, (M 2009). Moreover, the commercial property industry located in Kenya continuously fails to fulfil this important role as a result of a number of distinctive factors that tend to affect investment in the sector. Kenya has witnessed an upsurge in commercial property investment in the recent past. This is as a result of a number of factors such as the quest for all Kenyans to own homes, higher diaspora remittances, and rural urban migration, among others. Property prices in urban areas are believed to have taken a rising trend because of the increased demand. The extension of Mombasa road as well as the construction of Thika super highway has contributed immensely to the increase of property prices in adjacent areas. It is therefore imperative to evaluate the different factors that often contribute to the investment growth with the aim of sustaining its growth in future.

Commercial property investing refers to an asset form that has limited liquidity in relation to other kinds of investment. In addition, it is also regarded as capital intensive. However, capital

may also be gained via mortgage leverage, and is also highly cash flow reliant. Commercial property becomes a risky investment if the different factors that tend to affect the growth in the investment are not well understood and managed by an investor. The main cause of investment failure for commercial property is that the investor tends to go into negative cash flow for a specific period of time that is not deemed as sustainable. This often forces them to resell their property at a great loss or eventually go into insolvency.

An analogous practice identified as flipping is another major reason for failure because the nature of investment is in most cases linked to short term profit with less effort based on Abraham, M (2009). The commercial property market in many countries is in most cases not as efficient or organized as other kinds of markets for other kinds of more liquid investment instruments. The individual's possessions tend to be unique to themselves and in most cases not directly interchangeable. This in turn presents a huge challenge to investors seeking to evaluate investment opportunities and price. Therefore, to locate properties to invest in can involve considerable amount of work as well as competition among the investors. Moreover, to purchase individual properties can be highly inconstant depending on the knowledge of accessibility. Information irregularities tend to be a common place in many of the commercial property markets. However, this tends to increase transaction risks as well as provides numerous prospects for investors with the aim of obtaining properties at different bargain prices. Commercial property investors characteristically use an assortment of different appraisal techniques with the purpose of determining the value of properties before purchase.

Research shows that investment in many of the commercial properties is normally undertaken because of its ability to provide different returns in form of income, capital, as well as other intangible benefits (Baum & Crosby 1988). In addition, when there is full occupancy, total and prompt rent collection, good physical conditions of the buildings as well as full market rent, is when returns in commercial property are maximized. Also of importance in this respect are low rates of tenant turnover and minimal irrecoverable outgoings.

Numerous studies have revealed that the larger volatility in return in a commercial property is often not an appraisal problem rather a problem of the commercial property and property markets as an investment vehicle. Henceforward, commercial property agents, the market listing, wholesale, private sales and public auction are regarded as the most available sources of real estate.

1.2 Statement of the problem

In Kenya, commercial property has seen a boom that began somewhere in the mid to late 2000s as the property market responded to the demand. The commercial property sector has remained as the focus of investment interest. Favourable government policies, growing number of urban population, adequate resources and unprecedented shifts have driven different changes in the demand for different real estates. Studies reveal that the middle-class residents in Kenya are demanding spaces that are far more commercial. Expansions in cities are resulting in rapid expansion of commercial property projects.

The study location, Kerugoya town, strategically placed in Kirinyaga County has for long been the District administrative headquarters. The town has experienced population growth in the last few years. The Kenya Population and Housing census report of 2009, it stated that Kirinyaga County has a population of 528,054 growing at a yearly rate of 1.5%. Kerugoya town has an urban population of 17,122 (Census, 2009). This growth has resulted in expansion of commercial properties in the town with properties coming up to house banks, supermarkets and businesses. This is indicated by the increased number of building plans approved for new commercial property developments or construction and business permits issued for new businesses in the last four years i.e.2012-2015. (Kirinyaga County Physical Planning and Revenue Departments, 2015).

The establishment of the devolved system of government created 47 counties, which are now operational and enjoy considerable independence from the central government. The counties are making the difference in the growth of the commercial property sector. Devolution is assisting commercial property development as it is placing the onus on county governments to improve the commercial property landscape, which has led to reduced bureaucracy and investment in infrastructure. The devolved governments have also created different prospects in the counties. However, it is the responsibility for each county to fund their local development. The prevailing political stability in Kenya has generated a safe environment for its foreign and local investors. Therefore, equally significant is the fact that the global financial and economic circumstances have favoured the growth of the emerging markets. Growth and emergence of new commercial property players and new asset managers has resulted in mounting competition for commercial property assets and growing competition within commercial property asset management. A wide range of financing possibilities has also massively contributed to the growing commercial

property sector. The scale and size of commercial properties market tends to make it lucrative and attractive sector for many investors.

Despite the foregoing, commercial property in Kenya has been faced with shrinking occupation demand with disparities existing between expected and actual income. The Vision 2030 now tends to estimate that Kenya requires approximately 200,000 new units of housing. However, only about 35,000 units have been built to date according to Shleifern&AVishny, R (2002). Therefore, there is a deficit of approximately 165,000 housing units. This is despite the fact that commercial property investment contributes enormously to the GDP of the country.

This study will look to investigate in detail factors influencing the expansion of commercial real estate property in Kenya, a case of Kerugoya town, KirinyagaCounty.

1.3 Purpose of the study

The main reason for conducting this particular research study was to investigatedifferent factors influencing expansion of commercial property in Kenya; a case of Kerugoya town, KirinyagaCounty.

1.4 Objectives of the study

The research project was guided by different objectives which include;

- i. To assess ways in which demographic characteristics influence expansion of commercial property in Kerugoya town.
- ii. To investigate how interest rates influence expansion of commercial property in Kerugoya town.
- iii. To determine how market demand influences expansion of commercial property in Kerugoya town.
- iv. To find out how Gross domestic product (GDP) influences expansion of commercial property in Kenya.

1.5 Research Questions

The research was guided by the following research questions;

- i. How do demographic characteristics influence expansion of commercial property in Kerugoya town?
- ii. How do interest rates influence expansion of commercial property in Kerugoyatown.

- iii. To what extent does market demand influence expansion of commercial property in Kerugoya town?
- iv. To what extent does Gross Domestic Product (GDP) influence expansion of commercial property in Kenya?

1.6 Significance of the Study

The different findings and results obtained from this particular study formed the basis for formulating policies on ways of regulating the various determinants of commercial property with the aim of sustaining the investment growth in future. The study is also significant to ensure controlled and orderly commercial development in counties in keeping with laid down regulations. This also guards against informal developments which plague developing economies.

1.7 Basic assumptions of the study

The project was based on the below assumptions;

It is presumed that all the research respondents will be answering all the questions as asked and honestly. In addition, it is assumed that the relevant concerned authorities will give their full cooperation. It is also assumed that the gaps and challenges to be highlighted will be a cause for review on plans and policies as well as the implementation process.

1.8 Limitations of the study.

The questionnaires may not be submitted back to the researcher on time. To break secrecy and/or lack of openness due to the confidentiality and secrecy policy in most government institutions that restrict some of the respondents from releasing vital information, the researcher will reassure the respondents that the information collected thereof is purely for academic reasons.

1.9 Delimitations of the Study.

The study seeks to investigate factors influencing expansion of commercial property in Kenya; a case of Kerugoya town, Kirinyaga County, with stress on the assessment of the different contributions of elements such as demographic factors, interest rates, market demand and GDP growth.

1.10 Definition of terms

Commercial property-land or building that is intended to generate profit from either rental income or capital gain.

Demographic characteristics-a particular sector of a population.

Interest rate- This refers to the amount of charges that are expressed as a percentage of a specific principal by a lender for a borrower for the use of particular assets.

Market demand-this is the sum of individual demand for a specific product from different buyers in a market.

Gross domestic product- This refers to the total amount of goods that are produced as well as services provided in a country on an annual basis.

1.11 Organization of the study

This research project will have a total of five different chapters. Chapter One will cover the background of the study, a statement of the problem as well as the main purpose of conducting the study. This is followed by the research objectives, research questions, limitations of the research, and delimitations of the research, significance of the study and definition of crucial terms and concludes with the organization of the research study.

Chapter Two covers the literature review from various sources to establish work done by other researchers, their findings, conclusions and identification of knowledge gaps which forms the basis of setting objectives as well as research questions of the research study. The theoretical and conceptual frameworks are also explained.

Chapter Three covers the research design, target population of the study, sample size and sampling procedures. This is followed by data collection procedures, data collection instruments, validity of the instruments, reliability of instruments, data analysis techniques, ethical considerations and concludes with operational definition of variables.

Chapter four will cover the findings from data analysis, presentation of findings and interpretation of findings. It will be concluded with the summary of the chapter. Chapter five will cover the summary of findings, discussions, conclusions and recommendations of the study. It will be concluded with suggested areas for further research and contribution to the body of knowledge.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This particular chapter covers all relevant literature on different factors that tend to influence expansion of commercial property in Kenya. The chapter also offers theoretical review, empirical review, theoretical framework and conceptual frameworks on which the study is based.

2.2 Expansion of Commercial property on a global and regional perspective

In accordance to the most recent forecasts from one of the United Nations report (2012), the world population is expected to rise from approximately 7 billion in 2010 to around 10 billion by the time the century ends. However, a large number of this increase is expected to take place in Africa, which is expected to see a population growth approximately 2.5 billion in the next 90 years. In addition, by 2025, above 60% of all the construction activities are predicted to take place in different emerging markets. This is up from only 35% in the year 2005.

Commercial real estate is a fundamental part of emerging markets' development phenomenon and is believed to have played a huge part in steering the country's economic growth (PWC Real Estate, 2010) in India. With even the normal growth patterns being experienced in numerous emerging markets, the speed of construction activities tends to remain rapid, therefore increasing venture opportunities. Subsequently, the growth of emergent economies is also increasing competition among commercial property managers and the investment community.

China, India, Indonesia, United States, Canada, Russia, and Mexico are expected to account for approximately 72% of the expected building activities according to Johnson (2013), executive director UBS Global Asset Management. In addition, developing Asia is anticipated to be one of the fastest growing regions for construction. This is between now and the year 2025, which will then be followed by the sub-Saharan Africa. Research shows that Nigeria alone will require approximately 20 million new households in comparison to data collected in 2012. In addition, the growth of developing countries is quickly creating dominant new commercial property players as well as new asset managers. Thus, there is mounting competition for commercial property assets. Research by Preqin revealed that about 54% of all (SWFs) sovereign wealth funds tend to invest in the real estate industry, with many SWFs from North Africa, Asia, the Middle East and North Africa. The SWFs are known to be competing for different prime assets

with the survey showing that 57% of them investing in commercial property prefer core estate. This has powerfully driven the expansion of commercial property sector globally.

Nevertheless, as emerging markets mature, there is a boom in the number of local and regional (AM) asset management organizations with commercial property arms. All these are offering customized commercial property solutions for the growing number of clients. These emerging companies, especially the home-grown ones, with a good connection with the local developers as well as links with different regional institutional investors, are in a strong position when compared to other western asset managers who often take advantage of development in their home regions.

In tandem with the strong financial growth rates that were registered in the previous decades, experiential evidence has revealed that the African middle class has also been growing too. The market size of the commercial property investment in Japan is the second largest in the world. However, research reveals that there is room for further extension of the market. Also, in the period following the Great Depression, research shows the income obtained from Japanese commercial property was stable. Correspondingly, the African continent is booming. According to research carried out by the African Development Bank (2013), the region's middle class has extended to 34.3% of the African population in the year 2010. This is from 26.2% which was recorded in 1980 (ADB 2013). The demand for housing has changed. In addition, as the middle class grows in numbers, so do the cities which today tend to host one individual out of every four Africans. Reports from UN-Habitat tend to estimate that African cities grow into homes to approximately 40,000 people on a daily basis (UN-Habitat 2011). Moreover, many of the globe's largest cities with a population growth rate of over 5% are located in Africa. These kinds of trends foresee massive strains on reasonably priced urban housing, as well as exert a solid push on the demand for it.

A trend is that greatest levels of baby boomers and millennials are making different housing decisions. As a result, this may have a large positive effect on housing. Research shows that millennials are currently buying their first homes while baby boomers are either retiring or downsizing to new homes or perhaps acquiring a second home thus expanding the commercial property sector, Hoskin and Cardew (2004). Hence a motivating element that is behind the developed outlook for different markets is the housing market. Therefore, housing has certainly stabilized and is poised to start a continued upward trajectory.

2.3 Expansion of commercial property in Kenya

The rising middle class in Kenya has encompassed 44.9% of the whole population and this specific phenomenon is alleged to be accompanied by rapid urbanization and a strong growth in terms of consumption and demand expenditure for commercial all property products. Research shows that in Kenya, just as the case with numerous other nations in Africa, there tends to be a massive demand and protracted scarcity of formal housing. Different factors that tend to contribute to this phenomenon include building costs as a result of market expectations relating to building solutions which are crucial, and also have the capability of driving costs upwards. The different market shareholder structures that are mainly categorized by only a small number of private developers in Kenya can afford to capitalise into medium as well as large scale developments. Research reveals that the Kenyan population growth was projected at 4.2% per annum as of year 2012. Reports by the Ministry of Housing in 2011, based on this particular growth as well as the rate of urban migration, the yearly increase in terms of demand for housing within the country is approximately 206 000 units of which 82 000 of these units are located in urban areas. In addition, the ministry of housing projected that the official supply of houses to the Kenyan market extended to 50 000 hence creating a shortfall of 156 000 units. This in turn added up to the total sum of 2 million units prevailing backlog in 2011. In addition, it is also approximated that additional 85 000 units were also added to the backlog in the year 2012. In Kenya, research shows that the housing demand has continuously surpassed supply, particularly in the lower section of the market. Moreover, developers have over the past years bridged the gap between the middle and upper reaches of the housing sector that are viewed as more profitable. In accordance with the country's 2009 population census, above 30% of the nation's population tends to live within the slums. For instance, in Nairobi, it was projected that over 1 million individuals out of a city 3.2 million city population resided in slums. In addition, only 3% of these individuals were living in a household that had permanent walls, electricity and water (World Bank 2011).

Despite the positive viewpoint by the local industry players, fiscal downturns in China and America the two leading global economies may jeopardize this particular outlook. According to a report written by the international consultancy company Knight Frank, the various undercurrents inside the American and Chinese economies tend to threaten the progression of the property sector in many developing nations such as Kenya for the next one and a half years.

Also, a 2016 Prime Cities Forecast Report 2016 reveals a slowdown in China's property market that had initially profited from China's financial boom.

Moreover, upcoming commercial properties in Kenya are mostly targeting the middle end of the sector, with lower ends experiencing massive supply constrictions that tend to arise particularly from the predisposition by developers concerning renting. A specific report with the title of *Hot Spots 2025: Benchmarking for Future Competitiveness of Cities* is known to have ranked Nairobi – Kenya as the fifth out of a total of seven African Capitals that have made it to a specific list of about 120 most competitive towns in the world. Therefore, this tends to highlight the appeal for business and capital that Kenya has. With the federalized government, the demand for commercial properties in real estate industry in Kenya can only keep expanding. The optimistic economic outlook as well as the huge desire for investment is sufficient to sustain a dynamic property sector.

Local developers and financial analysts have been quick to state that China's economic downturn may not have noticeable effects able to scuttle any gains in the commercial property sector in Kenya. A report by the Kenya Property Developers Association, says we should not be fixated with the Chinese effect as Kenya's commercial property industry is not overly reliant on the Asian giant for capital inflows. Kenya's economy grew by 5.6% last year and is expected to expand by more than 6% this year and in 2017, according to the International Monetary Fund (IMF), making the country one of the fastest-growing economies in Sub-Saharan Africa. Research shows that central bank cut its major interest rate by 50 base points to approximately 10% in September 2016, to buoy economic growth. In addition, foreigners can freely buy commercial class land in Kenya. This further pushes the expansion of commercial property in Kenya.

2.4 Demographic characteristics and commercial property expansion

Data that tends to describe the main composition of a particular population, such as race, age, gender, migration patterns, income and population growth is referred to as demographic data. These statistics are an important factor affecting ways in which commercial property is priced as well as the kinds of properties that are in demand. In addition, huge shifts in terms of demographics of a country may have a huge impact on commercial property trends for some decades. A report by PWC-Real Estate (2010) stated that demographic swings will end up

affecting demand for real estate primarily. The mushrooming middle-class metropolitan populations in Africa, South America and Asia will require far more housing options. In the meantime, the advanced markets' ageing people will end up demanding for specialist kinds of real estate, although their desires for family homes is expected to moderate.

The universe is estimated to undergo large demographic shifts over the upcoming years. Demographic shifts have major implications for real estate, in that they drive demand and influence the functionality, location and type of real estate supplies. Moreover, various changes in configuration and population size will end up having huge implications for political and economic power, aggregate demand and resource distribution. This includes the demand for property. Reports reveal that the latest estimates collected by United Nations, world-wide population will increase from about 7 billion individuals in 2010 to above 10 billion by the finish of the century. Furthermore, wage gains are just starting to pick-up, and might improve the GDP growth beyond present expectations. In addition, even with uncertain wage growth as well as tepid GDP growth, the commercial property performance seems to have profited from constrained construction activity and job growth.

Unemployment is a global problem in both developed and developing countries. When unemployment keeps rising, a few individuals will have the ability of affording a house (Fortin, 2000). Besides, even the slightest fear of joblessness may end up discouraging individuals from venturing into the property market. Kenya has a high level of unemployment, with the level of unemployment particularly among the youth continuing to soar every year (KEBS, 2011). As unemployment escalates, organizations do not intensify their necessity for office space. As a result, they may end up shedding extra space adding to the availability and vacancy rates. Thus, the basics of commercial property are often stressed when joblessness tends to reach its peak.

Demographic changes and rapid urbanization, particularly within emerging markets are expected to result to considerable growth in the commercial property sector according to National Association of Realtors (2010). Changing demographic trends as well as changes in terms of consumer behaviour are most likely to generate a great demand for different as well as new commercial property from 2020 onwards. The commercial property market is also highly geographical, especially the housing market, where nation-wide house prices could be falling. However, some cities like London might still see mounting prices (Greenblatt, 2011). Desired

areas may buck market trends because supply is limited and demand is high. For instance, houses located near good transport networks or a good school may have an important premium in comparison to other areas.

2.4.1 Interest rates and commercial property expansion

The various rates on treasury bills and interbank exchanges have a profound effect on the specific value of income-generating commercial property as well as on other investment vehicles as stated by Kochhar (2014). Moreover, the effect of interest rates on a person's ability in purchasing residential houses (by decreasing or increasing the specific cost of mortgage capital) is so intense that most individuals inaccurately assume that the single deciding element in commercial property evaluation is the mortgage rates (Christopher 2001). Nevertheless, on the contrary, mortgage rates tend to be only a single interest-related factor that usually influences property values.

In addition, the interest rates tend to affect the cost of monthly mortgage payments. They similarly affect the supply, demand and capital flows for investors and capitals' required rates of return on investment purposes. Research shows that Interest rates could drive property prices in different ways (Andrew, 2004). An era of high interest rates will end up increasing the cost of mortgage expenses hence lowering the demand for property acquisition. Moreover, increased interest rates tend to make renting more attractive when compared to purchasing.

Commercial property investors often fear that mounting interest rates will end up causing property values to plummet and total returns to end up weakening. However, historic data tends to show that greater interest rates have not essentially derailed the overall return performance of commercial property. Property performance has in most cases remained resistant in the facade of increasing rates. The effect of mounting interest rates on commercial property performance has proved difficult to forecast. Certainly, the viewpoint for commercial property in a growing rate environment is dependent on a range of factors that tend to be definite to the current as well as expected property and economic market environment.

However, when the specific interest rates are very low, it tends to encourage potential customers to venture into the property market but when interest rates rise, buyers may be increasingly reluctant to take out specific loans they need so as to venture into the property market. With less individuals considering to buy, the specific worth of commercial property tends to decline or stagnate. Interest rates are regarded as a huge factor when it comes to property cycles. Therefore,

for that particular reason it is imperative for the potential home purchasers to keep a keen eye on the specific location of interest rates, and the direction of where they may be heading to. Generally, stronger economies often have high interest rates, with the lower interest rates being used as a method of increasing investment as well as eliminating an economic slowdown. The sharp rise in terms of interest rates resulted in a very sharp fall in the United Kingdom house prices because many homeowners could not meet the expenses of the increase in interest rates.

On the commercial property markets, interest tariffs have a huge impact. Research reveals that variations in interest rates significantly influence an individual's ability to rent or purchase property. Also, as the interest rate escalates, the cost of obtaining a mortgage tends to increase. Therefore, it lowers the prices and demand for real estate. Nevertheless, when considering the effect of interest rates on equity investment including a real (REIT), instead of impact on residential real estate, the specific link can be assumed to be similar to a bond's relationship with interest rates. When interest rates decline, then the value of a bond goes up because its coupon rate becomes more desirable, and when interest rates increase, the specific value of bonds tends to decrease. Equally, when the interest rate decline in the market, REITs' great yields end up becoming more attractive. In addition, their value also goes up. Research shows that when the interest rates rise, the particular yield on the REIT tends to become less attractive. As a result, it ends up pushing their value down.

Research reveals that inflation is likely to affect the interest rates. The greater the inflation rate, the higher the likelihood of interest rates rising. This often occurs since lenders will end up demanding greater interest rates as part of compensation for the decline in the purchasing power of the amount of money that they will be refunded in future. (James, 2001). Because interest rates similarly affect capital flows, the demand and supply for investors and capital's needed rates of return on investment, the interest rate will end up driving property prices in different ways (Andrew, 2004). However, the most obvious effect of interest rates on commercial property values may be seen when deriving capitalization or discount rates. Therefore, the capitalization rate may be regarded as an investor's requisite dividend rate. On the other hand, a discount rate tends to equal an investor's overall return requirements.

2.4.2 Market Demand and Commercial Property Expansion

The commercial property sector is cyclical, that it bursts and booms, and dips and rises as years pass by according to Geoffrey (2011). The housing supply is constantly changing. An increase in

population increases the demand for housing and thus increases prices. As a result, the demand creates a supply increase which affects the price of a property. Commercial property expansion is characterized by new building activities which are deemed as a great way of measuring the specific state of affairs in the commercial property sector.

By the end of 2007, prices of commercial property began to slightly decrease and sales also decreased in Spain. Adjustments were made in the quantities of property rather than the prices. Following the first signs of significant adjustment, progressive reduction of prices was done. Falling prices were attributed to declining employment levels, increasing costs of capital, increase in housing and credit rationing. Cycles of commercial property are defined by major fluctuations of economic variables across various markets according to Goetzman and Rouwenhorst (1999). Hence, the housing market is affected by a mix of global and local economic factors.

One specific factor that tends to determine the market demand is the inhabitants of a country or a city. Demand refers to a strong determining factor of commercial property pricing (Djankov, 2002). Whenever there is an inadequate amount of real estate whenever the population grows, the specific supply is normally diminished, and the housing prices tend to go up. In addition, demand is also contingent upon the purchasing power of potential homeowners (Golland, 1996). If the buyers do not have the purchasing power, supply will not be met, and demand is going to be weaker. Therefore, to measure the purchasing power of real estate; determinants include inflation, jobs reports, Gross Domestic Product, Consumer Price Index, disposable income and wage levels.

Once you have a great supply of things like housing, the prices for things in most cases decline that is according to Knight Frank Kenya (1998). On the other hand, if supply of things such as housing becomes limited, then prices for that particular housing in most cases increases. However, one could have a huge supply of housing, and if it is also in great demand then the prices might also end up rising. If there are huge supplies in the number of homes that are exceedingly desirable, they end up attracting buyers to the market who are enthusiastic to pay premium prices. In addition, studies have revealed that housing demand has been stimulated by several factors including strong economic expansion in this period, low interest rates on housing financing, demographic trends and the demand for second homes.

In accordance with (Han, 1996) the location of a property influences its demand. Property set up in an undesirable location may not sell well compared to property in a desirable location where potential clients are in favour of. Hence, location creates demand for commercial property. However, surplus in most cases generate inferior prices for housing. Having a wide variety of property to select from, as a result of an excess in terms of property inventories, a buyer's market ensues where available buyers pick out and choose from amongst the property vendors' offerings, in most cases dictating prices. The result of a buyers' market situation is that property sellers tend to compete with one another for the existing buyers which results in decreased prices.

A sellers' market ensues when the buyers in the commercial property market have fewer alternatives. Here, there are few viable alternatives. The result is that builders cannot keep up with the demand and the sellers hike up the prices of the available property. With buyers chasing the available housing, the commercial property sector experiences significant growth (Kibirigr, 2006). However, this depends on demand for prices and houses. In a boom, research shows that builders are normally keener on building more. This was evidenced by Hassanein and Barkouky (2008) who stated that falling house prices can lead to a restriction in supply. The supply of commercial property is affected by a number of factors including: the number of new houses being constructed; planning constraints on use of land; local resistance to building new homes as well as profitability of constructing new properties. The main determinants of housing demand are demographics, income levels, pricing, costs, consumer preferences and the availability of credit. The main demographic variables are the size of population as well as population growth. The more individuals within the economy, the higher the demand for housing. The supply of commercial property is produced using available labour, available land, as well as inputs such as building materials and electricity (Knight Frank – Kenya report, 1998). Supply of commercial property depends on the costs of these inputs. Commercial property prices tend to fall and rise based on the specific laws of demand and supply. In cases where the demand for commercial property is high, then prices in turn tend to skyrocket. Therefore, when the specific number of available properties surges, then prices usually decrease. Demand and supply in commercial property is not easy to balance.

2.4.3 Gross Domestic Product and commercial property expansion

Income is a major determinant of demand for housing. With rising incomes and greater economic growth individuals will manage to spend extra on houses. As a result, this will end up increasing prices owing to high demand. Researchers claim that demand for housing is in most cases recognized as income elastic. Also, mounting incomes lead to a larger percentage of revenue being spent on housing property. Correspondingly, dwindling incomes will mean individuals may not afford to rent or buy much and individuals who lose jobs in recessions tend to fall behind in terms of their mortgage payments.

In Gross Domestic Product, commercial property is such a huge part of the GDP. Some individuals believe that substantial changes within the housing market may end up affecting the trajectory of Kenya's economy. For instance, during the Great Recession, the housing bubble is known to have almost collapsed the whole financial system. However, that situation was the exception, rather than the rule. Nevertheless, under ordinary circumstances, the relative weakness or strength of our entire economy is what tends to chart the specific course for construction of houses. Research reveals that within a vibrant economy, jobs tend to be abundant, and that the personal income/mobility that often results is normally translated into very strong numbers for different home sales.

The performance for commercial property in 2014 was weaker than many expected in the United States. According to economists, the principal issue that contributed to this was the fact that the Maryland economy tanked in 2013, in as much as there were a number of dynamics that contributed to this weakness. Still in the United States, between the year 1993 and 2007, reports claim that there was a strong upsurge in terms of house prices. This was as a result of a combination of high growth, low interest rates and low unemployment. Nevertheless, between the year 2007 and 2009 reports reveal that house prices decreased. This was attributed to: a decrease in bank lending and credit crunch. In addition, the house prices became increasingly over-valued in explosion years. This means that only a few first time buyers could now afford. Moreover, rise in unemployment and the recession discouraged many individuals from buying.

One of the most important main indicators that are used in gauging the specific health of a region's economy is the (GDP) Gross Domestic Product. It represents the aggregate dollar value of entire products and services that were produced over a definite period of time. (Wikipedia,

2016) also reveals that measuring of GDP is complex, but it may be measured using two ways. Firstly, there is the Income Approach that entails adding up what everybody earned in that region. Secondly, there is the Expenditure Approach that entails adding up what everybody spent within that specific region.

The regional price of commercial property can be greatly increased by arise in GDP. A large expenditure in a specific region which can typically be best exemplified with a large infrastructural project promotes employment in that region. As jobs are filled, the vacancy rate decreases as people move to that region. Rental rates increase, which makes a mortgage payment seem more affordable. The demand to own a property increases. The regional price of commercial property increases as a result and the regional GDP dramatically increases as a result of all the above factors.

In 2015, commercial property construction contributed \$990 billion to the country's economic output. Furthermore, construction of buildings is regarded as the only part of commercial property that is measured by GDP. Real estate plays a major role in the economy of the United States. Commercial property such as apartment buildings tends to create spaces for different jobs in retail, manufacturing and offices. In addition, it affects numerous other regions of economic well-being that are not measured. For instance, a decrease in commercial property sales finally results in a decrease in commercial property prices. As a result, it tends to lower the specific value of all houses, whether the home owners are actively selling it or not.

News about real GDP does influence stock markets according to Birz and Lott (2010). For commercial property markets, there is not a strong relationship (Bouchouicha and Ftiti, 2012). Unforeseen changes tend to actually impact the securitized commercial property market. In addition, the improved real output ought to result in greater industrial production and innovation pace (Ewing and Payne 2003). Organizations may also take advantage of a mounting economy as well arise in revenues without significantly impacting the internal competition balance of the specific business sector (see Koller et al, 2010; and Porter, 1980). When the corporate and private income levels rise, it may end up stimulating domestic demand for office space and residential properties. Countries such as Switzerland and Sweden have managed to confront the financial crisis containing good economic conditions. Therefore, they had a firm economic

foundation aimed at attracting foreign investments. As a result, this intensifies the demand for commercial property as well as the relative worth of commercial property securities in a mutual way.

2.5 Theoretical Framework

The research study has been guided by the monetarism theory of inflation as well as the Maslow's Theory

2.5.1 Monetarism Theory of Inflation

Money matters have resulted in the progress of the monetary policy and that of the monetary theory which is regarded an increasingly potent instrument when compared to financial policy in terms of economic stabilization that is based on Friedman and Schwartz (1963). Based on monetarism, it is true that the money supply tends to dominate. However, it is not an exclusive determinant of the levels of output as well as prices registered in the short-run. It also does not affect the level of output in the long run.

Inflation is normally everywhere and research reveals that it is a monetary phenomenon that often arises from an increasingly rapid development in terms of quantity of money when compared to the total output. In addition, the amount of money that tends to exist will end up determining the specific amount of money individuals spend so as to acquire real estate. In the commercial property market, in most cases the price of property is normally determined by the demand and supply. For that reason, the prices of different items will end up going up but only when their supply is deemed lower in comparison to the demand and vice versa. Chin (2002) argues that commercial property markets are incessantly being adjusted to attain equilibrium. This is where price ranges are mainly adjusted based on the supply. Consequently, the increase of property prices in Kenya is often attributed to low supply and high demand.

2.5.2 Maslow's Theory

Abraham Maslow's hierarchy of needs theory provides an insight into what basically motivates people. Maslow (1943) came up with five levels of needs. These are; Self Actualization which is in the highest level, while Esteem is in level 4. Also, social belonging and Love needs are in level 3. Safety needs are contained in level 2. The lowest level is identified as physiological. The scholar believed that motivation is normally driven by the existence of unsatisfied needs,

Silva (2009). If potential commercial property clients are to be motivated, the lower level needs have to be met before the next higher level of needs according to the theory. After the lowest level of Maslow's needs have been satisfied, the developers and potential clients will end up being motivated with the aim of satisfying the next level of needs. The hierarchy of needs theory also shows that commercial property developers and clients do differ from each other. If the needs of potential tenants are therefore to be motivated, the developers will have to look into their needs first and then develop suitable property.

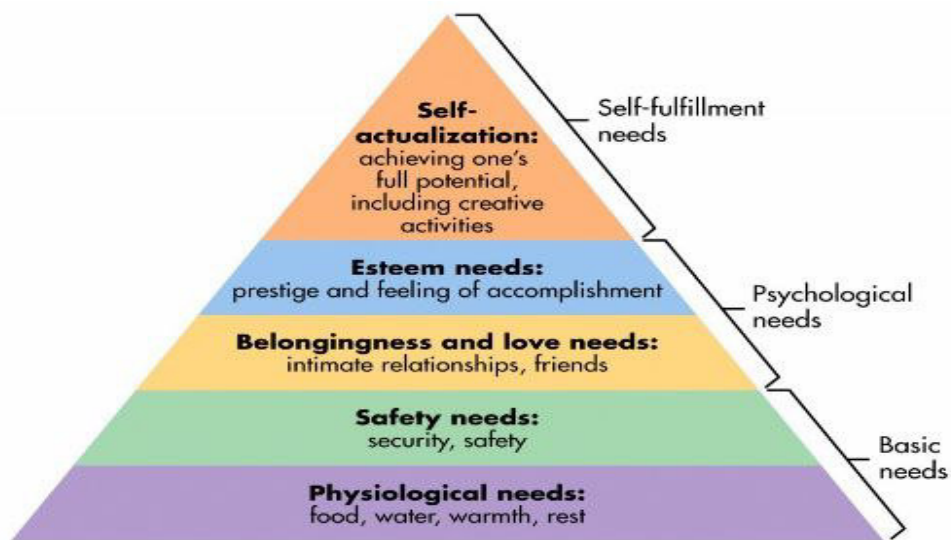


Figure 1 Maslow theory

2.6 Conceptual Framework

This is a brief description of the specific relationships between the variables identified for the research project in the problem statement, the objectives of the study as well as the research questions. Therefore, the conceptual framework will entail the concise description of the specific phenomenon under study accompanied by visual depiction of the variables under study as stated by (Mugenda, 2008) in this research. The figure is the diagrammatic representation of the relationship between the dependent and the independent variable. In addition, the arrows indicate the specific direction of influence. As a result, it shows the independent variables influence the dependent variable. This is shown in the figure 1 below;

Independent variable

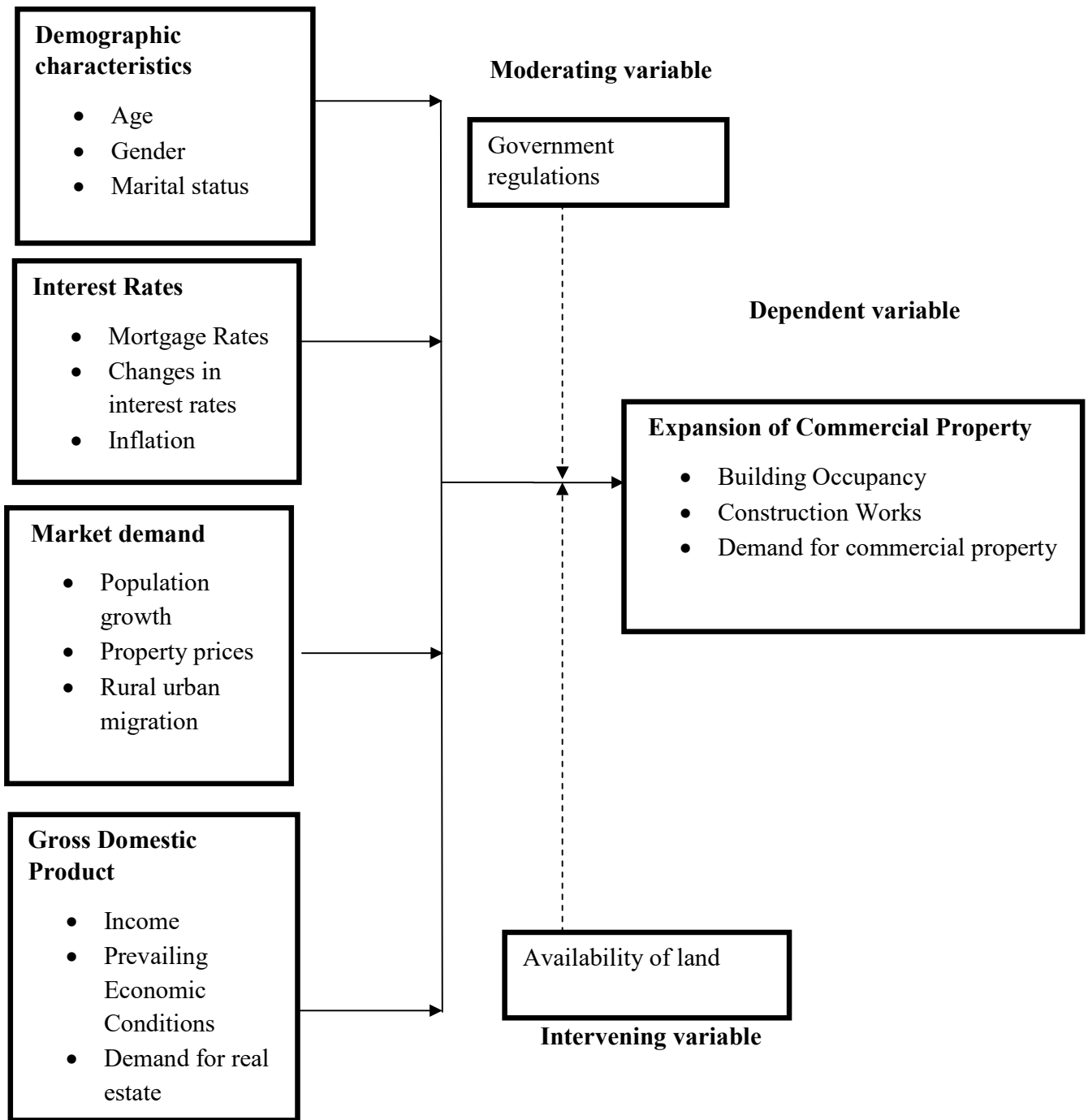


Figure2: Conceptual frame work

2.7 Research Gap

The literature review presented above suggests that the conceptualized determinants have impacted the expansion of commercial property in Kenya. Demographic characteristics, interest rates, market demand and gross domestic product are some of the factors affecting the expansion of commercial property in Kenya. However, there is a deficiency in previous studies on the subject and hence, their relative importance is not easily discernible. This particular study is intended to bridge this gap in knowledge. The study will seek to fill this gap by comprehensively and critically examining the key factors influencing commercial property growth.

Table 2.1 Research gap

Variable	Indicators	Author (Year)	Title of Study	Findings	Knowledge Gaps
Demographic characteristics	<ul style="list-style-type: none"> • Age • Gender • Marital status 	National Association of Realtors (2010).	Identification of short-term lending indicators for Commercial Property Rental Performance, <i>Journal of Property Investment and Finance</i> , Vol. 2, No 3, MCB University Press limited.	Rapid urbanization and demographic changes, particularly within emerging markets tends to spur considerable growth in commercial property sector.	The author acknowledged the effects of fast demographic changes and urbanization particularly within emerging markets. However, the authors failed to acknowledge that under demographic factors, unemployment is a global problem in both developed and developing countries. When joblessness is increasing, a few individuals will have the ability of affording a house. Moreover, even the increased fear of unemployment tends to discourage individuals from venturing into the property market. Therefore, this study seeks to identify the other indicators like income and unemployment that influence expansion of commercial property.
Interest Rates	<ul style="list-style-type: none"> • Mortgage Rates • Changes in interest rates 	Kochhar(2014).	<i>The Role of Affordable Mortgages in</i>	Rates on interbank exchanges and	The author affirmed that the influence of interest rates on an individual's ability to purchase real estate by increasing or decreasing the cost of

	<ul style="list-style-type: none"> • Inflation 		<p><i>Improving Living Standards and Stimulating Growth, IMF Working Paper</i></p>	<p>treasury bills have as profound an effect on the value of income-producing commercial property as on any investment.</p>	<p>mortgage capital is so profound that many people incorrectly assume that the only deciding factor in commercial property valuation is the mortgage rate. However, the author failed to acknowledge that mortgage rates are only one interest-related factor influencing property values.</p>
<p>Market demand</p>	<ul style="list-style-type: none"> • Population growth • Property prices • Rural urban migration 	<p>Djankov, (2002)</p>	<p>The regulation of entry. In: <i>Quarterly Journal of Economics</i>, vol. 117, no. 1, pp. 1-37.</p>	<p>Demand is a strong determinant of commercial property pricing as well, and changes just as supply does whenever there is a limited amount of real estate, as the population grows, the supply is</p>	<p>The study failed to acknowledge demand is also contingent upon the purchasing power of potential homeowners. If the buyers do not have the purchasing power, supply won't be met and demand will be weaker.</p>

Gross Domestic Product	<ul style="list-style-type: none"> • Income • Prevailing Economic Conditions • Demand for commercial property 	Bernard, Messah (2011)	<p>Factors Influencing Commercial property Prices, A Survey of Commercial property in Meru Municipality.</p>	<p>diminished, and housing prices go up.</p> <p>Income is a major determinant of demand for housing. With higher economic growth and rising incomes people will be able to spend more on houses; this will increase demand and push up prices.</p>	<p>From the study, it was clear that commercial property constitutes a significant part of GDP, that some believe significant changes in the housing market can affect the trajectory of our economy as a whole. This study will focus on how in a vibrant economy, jobs can influence expansion of commercial property.</p>
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2.8 Summary of the Literature Review

This section reviews literature on expansion of commercial property in Kenya based on the following objectives: Influence of demographic characteristics on expansion of commercial property. Major demographic shifts have a large impact on trends in the commercial property industry with demographics affecting how commercial property is priced, the type of properties that are in demand and the functionality and location of commercial property requirements. The extent to which interest rates influence growth of commercial property cannot be underrated particularly the effect of mortgage rates, changes in interest rates and inflation. These factors will tend to either encourage or discourage investment in the commercial property industry. The influence of market demand on expansion of commercial property has been considered which affects property prices and supply. Gross Domestic Product (GDP) of which commercial real estate is a large part of, has been noted as a determinant of this sector's growth. A flamboyant GDP is an indicator of an economy that is doing well and is also evidence of a thriving commercial real estate industry. A vibrant economy means that unemployment is low, people are relatively well off and can afford houses/property for rental or purchase.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This specific chapter describes the research methodology that was used; it includes the adopted research design, target population, sampling frame, sample and the accompanying sampling technique, research instruments, techniques of collecting data, pilot testing, data processing and its analysis.

3.1 Research design

Kothari (2004) defines a research design as a blueprint strategy, a roadmap and a plan of study conceived to obtain answers to research questions. As such, it can be said to be the centre or heart of any given study. The research design adopted for this study is descriptive survey since the study aims at giving a precise description on the state of factors influencing expansion of commercial property. Descriptive survey is appropriate because the study is aimed at gathering data on existing or ongoing conditions. Descriptive research studies are intended to get accurate and relevant information relating to the current condition of a given happening and if possible to draw a valid general conclusion from the discovered facts (Gay, 1992; Kombo and Tromp, 2006)

3.2 Population of the study

Polit and Hungler (2010) define a population as all individuals who possess certain characteristics that interest a researcher. A target population, on the other hand, entails all cases about which the researcher wishes to generalize. The accessible population includes all the cases that match the selected criteria and are easily reached by the researcher as a collection of study subjects. The research targeted a population of 112 respondents consisting of: investors/developers, financial consultants, government departments and property consultants who are the main stakeholders. (Kirinyaga County Government 2016)

Table 3.2 Target population

Respondents	Target Population (N)
Investors/developers	42
Financial consultant	30
Government departments	10
Property consultants	30
Total	112

Source; (Kirinyaga County Government 2016)

3.3 Sample and sampling technique

A sample in a research study is a predetermined part of a statistical populace whose properties are under study to get information regarding the whole sample according to Kombo and Tromp (2011). For Saunders, Lewis & Thornhill (2012) sampling denotes the method of choosing a number of people to participate in a study from a larger group of people. The researcher will use simple random sampling method.

The study's sample size was obtained by using the Yamane formula, a simplified method for calculating small sample sizes, developed by Yamane in 1967. This formula will be used to determine the sample size assuming a 95% confidence level and $P = 0.05$.

Where n is the sample size, N is the population size, and e is the level of precision

$$n = \frac{N}{1+N(e)^2} \quad n = \frac{112}{1+112(0.05)(0.05)} = \text{Total sample size } 88$$

Determination of each sample size of respondents; (Target population/Total target population*total sample size)

Investors/developers $(42/112*88) = 33$

Financial consultant $(30/112*88) = 24$

Government departments $(10/112*88) = 7$

Property consultants $(30/112*88) = 24$

Therefore, the total sample size of all respondent was 88

Table 3.3 Sample size

Respondents	Target Population (N)	Sample size
Investors/developers	42	33
Financial consultant	30	24
Government departments	10	7
Property consultants	30	24
Total	112	88

3.4 Data collection Instruments

Secondary and primary data are the two sets of data that are pertinent to effectively conduct the research. Primary data denotes field data which will be obtained using logical questionnaires developed from the preliminary identification of likely factors influencing expansion of commercial property in Kenya; a case of Kerugoya Town, Kirinyaga County.

Secondary data was obtained from journals, business newspapers, county government documents and ministry of devolution. The study used both questionnaires and interviews, which were administered to the respondents to gather information about factors influencing expansion of commercial property in Kenya; a case of Kerugoya Town, Kirinyaga County

In the questionnaire, part one of the questionnaire contained the background information of the respondents. Subsequently, some closed yes/no questions will seek to establish the research variables of factors influencing expansion of commercial property in Kenya: a case of Kerugoya Town, Kirinyaga County; and the extent to which each of the research variable influence expansion of commercial property. The likert scale of 1-5 items had five categorizations ranging from strongly agree (SA), agree (A), neither agree nor disagree (ND), disagree (D) and strongly disagree (SD).

In order to measure the mean (M) and standard deviation (SD) from the likert scale items allotment of numerals will be done as follows; SA=1, A=2, ND=3, D=4 and SD=5.

According to Mugenda&Mugenda (2003) an interview schedule makes it possible to get the required data aimed at meeting the specific research objectives. In addition, interview schedules can be used to homogenize the interview scenarios so that interviewers can pose the same question in a similar way. The researcher used the interview schedule to elicit information from clients.

3.5 Piloting of Research instruments

According Joppe (2011) pilot testing is aimed at establishing the reliability and validity of the research instruments. A pilot test will be carried out using the questionnaire on five respondents working in the county government of Kirinyaga. The pilot group was selected through random sampling; the respondents were required to answer the questions after which they will be analysed by the researcher to check whether the respondents filled in the questions with ease. If there will be any problems registered, the questions in the questionnaire and interviews will be rephrased and returned after a week so they can fill again. The filled questionnaires and interviews were analysed again to ascertain that there is no problem in answering. This process was repeated until it is confirmed that the respondents filled in the questionnaires without problems.

3.5.1 Validity of the Research Instruments

Copper and Schindler (2010) posit that validity denotes the degree to which dissimilarities found with a measuring instrument reflect accurate dissimilarities among respondents being tested. As such, validity aims at establishing the extent to which the research tools collect the intended data. Pilot studies help in ascertaining the validity of the interview schedules and questionnaires. For this purpose, this study used both face and content validity to determine the validity of the questionnaires and interview schedules.

3.5.2 Reliability of the Research instruments

According to Copper and Schindler (2010) reliability denotes the accuracy and precision of a measurement procedure. It is used to measure the degree to which a research tool gives consistent or invariable results. A construct composite reliability co-efficient (Cronbach alpha) of 0.6 or above, for all the constructs, will be considered sufficient for this study. The tolerable reliability coefficient according to Rousson, Gasser & Seifer (2012), is 0.8 though generally a co-efficient of 0.7 and beyond is acceptable.

Cronbach Alpha was used to assess the reliability of the research tool which yielded a reliability co-efficient of 0.8 which in view of the foregoing is acceptable.

3.6 Data analysis techniques

Kothari (2004) defines data analysis as the entire process that starts soon after data collection is carried out and ends after data interpretation and processing. The completed questionnaires and interview schedules will be edited for consistency and comprehensiveness before processing the responses. This study generated both qualitative and quantitative data. Quantitative data was coded and entered into Statistical Packages for Social Scientists (SPSS Version 21.0) and analysed using descriptive statistics. Descriptive statistics involved the use of relative and absolute percentages. Qualitative data, on the other hand, was analysed based on the gist of the responses. Responses with common patterns or themes will be grouped collectively into logical categories. Quantitative data was presented in tables while explanations were presented in prose form.

3.7 Ethical Considerations

This involved delineation of the research content and what is required of the participants, ways of obtaining informed consent and ensuring confidentiality. The researcher assured the study respondents that confidential information would not be disclosed to third parties. They were also assured that no identifying information about them would be exposed in written or other form of communication. The respondents were also assured that the information they provide would only be used for the stated purpose.

3.8 Operational definition of variables

Operational definition of variables denotes relating research objectives into quantifiable terms for purposes of carrying out the actual research. The research topic was translated to observable and measurable objectives. The variables were identified and measurable indicators specified.

Table 3.4 Operational definition of variables

Objectives of the studies	Type of Variables	Indicator(s)	Level of scale	Approach	Level of Analysis
To determine how demographic characteristics influence expansion of commercial property in Kerugoya town.	<u>Independent</u>	Age	Ordinal	Qualitative and Quantitative	Descriptive
	Demographics	Gender	Ordinal	Qualitative and Quantitative	Descriptive
		Marital status	Ordinal	Qualitative and Quantitative	Descriptive

<p>To assess how interest rates influence expansion of commercial property in Kerugoya town.</p>	<p><u>Independent</u> Interest rates</p>	<p>Mortgage rates Changes in interest rates Inflation</p>	<p>Interval Interval Interval</p>	<p>Qualitative and Quantitative Qualitative and Quantitative Qualitative and Quantitative</p>	<p>Descriptive Descriptive Descriptive</p>
<p>To find out how market demand influences expansion of commercial property in Kerugoya town.</p>	<p><u>Independent</u> Market demand</p>	<p>Population growth Property prices</p>	<p>Ordinal Ordinal</p>	<p>Qualitative and Quantitative Qualitative and Quantitative</p>	<p>Descriptive Descriptive</p>

		Rural urban migration	Nominal	Qualitative and Quantitative	Descriptive
To establish how Gross Domestic Product influences expansion of commercial property.	<u>Independent</u> Gross Domestic Product	Income	Ordinal	Qualitative and Quantitative	Descriptive
		Prevailing economic condition	Nominal	Qualitative and Quantitative	Descriptive
		Demand for real estates	Nominal	Qualitative and Quantitative	Descriptive

Dependent	Expansion of commercial property	Building occupancy	Ordinal	Qualitative and Quantitative	Descriptive
		Construction works	Ordinal	Qualitative and Quantitative	Descriptive
		Demand for commercial property	Ordinal	Qualitative and Quantitative	Descriptive

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction

This chapter contains the analysis of results based on the four study objectives. These were: to assess how demographic characteristics influence expansion of commercial property in Kerugoya town; to determine how market demand influences expansion of commercial property in Kerugoya town; to establish how interest rates influence expansion of commercial property in Kerugoya town and to find out how Gross domestic product (GDP) influences expansion of commercial property in Kerugoya town.

4.2 Questionnaire Return Rate

This study distributed 88 questionnaires of which 82 were returned, representing 93%. Based on Kothari (2003) a return rate of this percentage is deemed adequate. Therefore, 93% questionnaire return rate was representative enough. In survey, research response rate (also referred to as return rate or completion rate) denotes the actual number of respondents who participated in the study divided by the sample size. It is usually expressed in percentage form.

4.3 Influence of socio-demographic characteristics on expansion of commercial property

This segment highlights both demographic and social characteristics of the respondents based on age, gender, and line work.

4.3.1 Age of the Respondents

The study established the respondents' age brackets by asking them to indicate their age range which served in helping determine the age distribution for the respondents. The results were as shown in Table 4.5

Table 4.5 Age of respondents

Age years	Frequency	Percentage
18-25	8	10
26-30	16	20
31-35	20	24
36-40	19	23
41-45	12	15
46 above	7	8
Total	82	100

Results show that the respondents were distributed in the following age brackets as follows: 31-35 years were 20 (24%), 36-40 years were 19 (23%), 26-30 years were 16 (20%), 41-45 years were 12 (15%), 18-25 years were 8 (10%) and 46 years and above were 7 (8%). This implies there was no uniform distribution of respondents across the age groups or age brackets, an indication that the respondents gave different views on the factors influencing expansion of commercial property in Kenya: a case of Kerugoya Town, Kirinyaga County. The table also shows that most respondents were mature adults.

4.3.2 Gender of the respondents

Gender distribution among the key respondents was determined by asking the respondents to indicate their gender. This was done in order to assess if gender had any influence on expansion of commercial property in Kenya: a case of Kerugoya town, Kirinyaga County. The findings are shown in Table 4.6

Table 4.6 Gender of Respondents

Gender	Frequency	Percentage
Male	52	63
Female	30	37
Total	82	100

Based on the analysis, most respondents were males 52 (63%) while the rest were females 30 (37%). The results showed that there was a considerable ($p < 0.05$) deviation in the gender distribution among the respondents since the expected 50% was not achieved because males respondents surpassed females respondents. Consequently, gender equity among the study respondents was not attained. This could also indicate that more males are involved in the commercial property industry than women in Kirinyaga County. The finding corroborated by a 2012 World Bank report on overall status of women in Africa which states that women's participation remains biased in national educational systems due to the economic and socio-cultural environments. The lack of genuine political will to guarantee that girls are accorded equal access to education in Africa also contributes to this biasness. Women comprise more than two-thirds of Africa's illiterates. They are often considered inferior to men. Women in these African societies are expected to not aim high like men, particularly in what are regarded as 'male' domains (computing, engineering, medicine, architecture, and leadership). Girl child empowerment is often shunned due to the assumption that it would make them too independent, that is, women would refuse to do what they are expected to do such as catering to their husband's needs, bringing up children and maintaining the home.

4.3.3 Status of residence

The study sought to establish the whether the respondents were residents of Kirinyaga County; the findings are shown in Table 4.7

Table 4.7Status of residence

Response	Frequency	Percentage
Yes	54	66
No	28	34
Total	82	100

The findings depict that most respondents 54(66%) were permanent residents of Kirinyaga while 28(34%) were not permanent residents of Kirinyaga. This indicates that majority of the respondents who have a stake in the commercial property sector in Kirinyaga county are residents of the county which gives them an opportunity to invest in their own county and boost its economy.

4.3.4 Line of work

The study sought to establish the respondents' line of work with the aim of determining the type of work they engage in vis-à-vis the factors influencing expansion of commercial property. The results are shown in Table 4.8

Table 4.8Line of work

Category	Frequency	Percentage
Building Contractor	10	12.2
Engineer	14	17
Financial Services	20	24.39
Housing Ministry	16	19.51
Land Ministry	22	26.82
Total	82	100

The findings in this table show that the respondents in terms of their line of work were distributed as follows: from the Land Ministry were 22 (26.82%), from financial services, 20 (24.39%), from the Housing ministry 16 (19.51%), Engineers 14(17%) and Building contractors were 10 (12.2%). This implies the land ministry and financial institutions are mostly involved when it comes to building or investing in commercial property because such a venture requires land and finances.

4.4 Influence of demographic characteristics on expansion of commercial property

This section focuses on the first study objective and entails how demographic characteristics influence expansion of commercial property in Kerugoya town. The results are represented and tabulated in the following sub thematic areas:

4.4.1 Age Group which presents the larger market for commercial property

The study further sought to establish what age group presents the larger market for commercial property and this was to be determined by the numbers in each age group. The findings are as presented in Table below 4.9

Table 4.9Age group

Category	Frequency	Mean	Percentage
Below 30 yrs	5	0.06	6.09
Btw 30-40 yrs	10	0.12	12.19
Btw 40-50 yrs	28	0.34	34.14
Btw 50-60 yrs	32	0.39	39.02
Above 60 yrs	7	0.08	8.53
Total	82		100

From the table 4.7, the research found out that the age group which presents the larger market for commercial property in Kerugoya town was between the age of 50-60 years 32(39.02%); 40-50 years 28(34.14%); 30-40 years 10(12.19%); below the age of 30 years and above 60years was 5(6.09%) and 7(8.53%) respectively. The age group which has larger market of commercial property is a significant factor as it determines the varieties of properties in demand and the costing of commercial property. Major national demographic shifts can impact heavily on commercial property trends for a number of decades. This finding is corroborated by a report by PWC-Real Estate (2010) which states that demographic shifts will essentially influence the demand for real estate.

4.4.2 Commercial property developed steadily in the past five years due to income

The study also sought to establish whether the commercial property industry has been steadily on the rise in the past five years due to growth of income and propensity to spend. The findings are as presented in Table 4.10 below.

Table 4.10 Commercial property developed steadily in the past five years due to income

Response	Frequency	Percentage
Yes	82	100
No	0	0
Total	82	100

According to table 4.8's findings all the respondents, 82(100%) agreed that commercial property industry has been developing steadily in the last five years. This is a clear indication that the growth of income has led significantly to expansion of commercial property in the last five years. This implies that commercial property plays a critical role in the Kenyan economy. Statistical Abstract (2011) observed that commercial property, renting business and real estate had been rising steadily from 2000 to 2016. For instance, in 2007 investment grew to 70,860 by a 3.5% growth rate and rose slightly in 2008 to 73,461 representing a growth of 7%.

4.4.3 Rural-urban migration has led to expansion of commercial property

The study also sought to establish whether the urbanization migration from rural areas to cities has led to expansion of commercial property in Kenya. The findings are as presented in Table 4.11 below.

Table 4.11 Urbanization migration from rural areas to cities

Response	Frequency	Percentage
Yes	79	96.34
No	3	3.66
Total	82	100

Results show that the majority of respondents 79(96.34%) agreed that urbanization migration from rural areas to cities has led to expansion of commercial property in Kenya while 3(3.66%) disagreed. Based on the findings, the implication is that the large number of people migrating from the rural areas to cities probably looking for jobs or working in the cities has led to expansion in the commercial property sector in Kerugoya because of population growth in the towns. This goes in line with Fortin (2000) who states that changes in demographic attributes have significant implications for real estate, in that they drive demand and influence the location, functionality and type of real estate requirements. Changes in population configuration and size will have deep implications for political and economic power, aggregate demand such as demand for commercial property and resource distribution. Demographic changes and rapid urbanization particularly within budding markets will result in considerable growth in the commercial property industry (National Association of Realtors, 2010).

4.4.4 High number of working class adults has led to greater demand hence rising rental prices.

The study further sought to establish whether the rising number in young working class adults has led to rising rental prices due to greater demand. The findings are as presented in Table 4.12 below.

Table 4.12High numbers of working class adults has led to rising rental prices

Response	Frequency	Percentage
Yes	80	97.56
No	2	2.44%
Total	82	100

The findings in table 4.12 indicate that majority of the participants 80 (97.56%) agreed that the rising number in young working class adults has led to rising rental prices hence greater demand for commercial property while 2 (2.44%) disagreed with that statement. This also implies that as the rate of unemployment increases, companies reduce their need for office space and may thus shed excess space which in turn increases office vacancies due to depressed demand. This goes in line with Fortin (2000) who stated that with increasing rates of unemployment, less people will have the capacity to afford a house and vice versa. This means that fear of unemployment may hinder people from venturing into the property market.

4.5 Influence of Interest rates on expansion of commercial property

The second objective of the study was to determine how interest rates influence expansion of commercial property in Kerugoya town. To achieve this objective, the study focused on the following:

4.5.1 Inflationary tendencies lead to unoccupied residential, commercial and office spaces

The study further sought to establish whether inflationary tendencies lead to unoccupied residential, commercial and office spaces. The findings were as following in Table 4.13 below;

Table 4.13 Inflationary tendencies lead to vacancies in commercial spaces

Response	Frequency	Percentage
Agree	82	100
Disagree	0	0
Total	82	100

Table 4.13 shows that 82 respondents (100%) concurred that inflationary tendencies lead to unoccupied residential, commercial and office spaces. This implies that interest rates are likely to be affected by inflation. The higher the inflation rate, the more likely interest rates will rise leading to unoccupied commercial and office spaces. According to Jame (2001), this happens because lenders will stipulate higher rates of interest as compensation for the reduction in the purchasing power of the money they will be paid back in the future. Rates of interest also influence capital flows, the demand and supply for capital and investors' essential rates of return on investment; hence rates of interest will push property prices in several ways (Andrew, 2004). The section below provides the analysis of findings and presents various aspects touching interest rates on expansion of commercial property. The findings are depicted in Table 4.14.

Table 4.14 Various aspects touching interest rates on expansion of commercial property

Interest Rate	SA			A			N/A/D		SD			
	F	M	%	F	M	P%	F	P%	F	M	P%	
Frequency(f) and Percentage (p)												
Low interest rates boost commercial property growth	49	0.59	59.75	21	0.26	25.60	2	0.02	2.43	10	0.12	12.19
Increased credit to private sector boost commercial property growth	72	0.87	87.80	10	0.12	12.19	0	0	0	0	0	0
Stable macroeconomic environment boosts commercial property growth	80	0.97	97.56	2	0.02	2.43	0	0	0	0	0	0

SA=Strongly Agree A=Agree N/A/D=Neither Agree/Disagree SD=Strongly Disagree.

Based on the table above, the findings are explained systematically according to each of the components embodied in interest rate:

4.5.2 Low interest rates boost commercial property growth

Based on the findings shown in table 4.14, 49(59.75%) strongly agreed low interest rates boosts commercial property growth, 21(25.60%) agreed, 2(2.43%) neither agreed nor disagree while 10(12.19%) strongly disagreed. From the findings, majority of the respondents strongly agreed that low interest rates boosts commercial property growth which implies that interest rates, particularly the rates on Treasury bills and interbank exchanges have an intense effect on the worth of income-producing commercial property as on any investment vehicle. Hence the effect of rates of interest on an individual's capacity to buy residential properties (by decreasing or increasing the rate of mortgage capital) is so intense that most people wrongly assume that the only deciding issue in real estate valuation is the rate of mortgage.

4.5.3 Increased credit to private sector boost commercial property growth

Table 4.14 also indicates that most respondents 72(87.80%) strongly concurred that increased credit to private sector boosts expansion of commercial property while 10(12.19%) agreed. This implies that the major option to increase growth of commercial property is to overcome the income/ capital constraint through increased credit provision to private sector to boost commercial property growth. The finding also implies that institutions which provide credit facilities play a pivotal role in the survival and expansion of commercial properties in Kenya.

4.5.4 Stable macroeconomic environment boosts commercial property growth

From table 4.14 findings, most respondents 80 (97.56%) strongly agreed that a stable macroeconomic environment boosts commercial property growth while 2 (2.43%) agreed. This implies that when the country's macroeconomic environment is stable in terms of: low inflation and unemployment, political stability etc. this will influence positively expansion of commercial property. Hence interest rates influence commercial properties in Kenya and its counties.

4.6 Influence of market demand on expansion of commercial property

The third objective of the study sought to determine how market demand influences expansion of commercial property in Kerugoyatown. This section provides the analysis of findings and presents various aspects touching market demand and expansion of real estates. Table 4.15 depicts the findings as follows:

Table 4.15 Market Demand and Expansion of Real Estates

Market Demand	High			Low		
	F	M	%	F	M	P%
How is the market Demand for Commercial property in Kerugoya?	77	0.93	93.9	5	0.06	6.09
How is the Population growth in Kerugoya?	81	0.98	98.78	1	0.02	1.22
How are property prices in Kerugoya compared to other towns?	69	0.84	84.14	13	0.16	15.82

Based on the table above, the findings are explained systematically according to each of the components embodied in market demand.

4.6.1 Market Demand for Commercial property in Kerugoya

On the question about how is the market demand for commercial property in Kerugoya, 77 (93.9%) of the respondents stated the market demand was high while 5 (6.09%) indicated it was low. This implies that the market demand for commercial property in Kerugoya town is high and therefore there is a large market for real estate and commercial property developers to invest in that county. Market demand determines strongly the pricing and changes in commercial property just as supply does (Djankov, 2002). Whenever there is a restricted amount of real estate due to a growing population, there is diminished supply and the prices of housing goes up.

4.6.2 Population growth in Kerugoya

Based on the findings on how is the Population growth in Kerugoya, majority of the respondents 81(98.78%) indicated that it was high while 1(1.22%) indicated it was low. This shows that the population growth in Kerugoya has been on the increase and this has led to expansion of commercial properties. The implication is that population increase increases the housing demand and increase in prices. Demand creates a supply increase which affects the price of a property. Commercial property expansion is characterized by new construction activities which is a good technique of quantifying the state of affairs in the commercial property industry.

4.6.3 Property prices in Kerugoya compared to other towns

On the question about how are property prices in Kerugoya compared to other towns, the response was as follows; 69(84.14%) majority of the respondents indicated that property prices in Kerugoya are high compared to other towns while 13(15.82%) indicated it was low. This indicates that there is high demand for commercial property in Kerugoya town and by assumption a corresponding rate of employment in the town. In case there is limited supply of housing, prices for that particular housing often rise. Nevertheless, a large supply with a corresponding high demand could also result in increasing prices. High supplies of housing units that are highly sought-after also tend to attract buyers who are ready to pay premium prices. In addition, studies have revealed that housing demand has been stimulated by several factors including strong economic expansion in this period, low interest rates on housing financing, demographic trends and the demand for second homes (Han, 1996).

4.6.4 The influence of market demand

The study further sought to establish whether market demand influences expansion of commercial property in Kenya. Table 4.16 presents the findings as follows:

Table 4.16 Market demand influence on expansion of commercial property in Kenya

Response	Frequency	Percentage
Yes	70	85.36
No	12	14.63
Total	82	100

According to the findings in table 4.14, 70(85.36%) of the respondents agreed that market demand influences expansion of commercial property in Kenya while 12(14.63%) respondents disagreed. Based on the findings, this clearly shows that market demand influences expansion of commercial property in Kenya. This implies that both market demand and supply determines the pricing and changes in commercial property (Djankov, 2002). Demand is also reliant on potential home owners' purchasing power (Golland, 1996). If the purchasers do not have purchasing power, then supply won't be met while the demand will weaken.

4.7 Influence of Gross Domestic Product on expansion of commercial property

Study objective four was aimed at determining how Gross Domestic Product impacts on expansion of commercial property. The study focused on the following questions regarding GDP; Whether there are any large projects in the area that are driving employment and how are the average rental rates for commercial property within the town. These are further discussed in the following sub thematic areas:

4.7.1 Any large projects in the area that are driving employment

The study sought to establish whether there are any large projects apart from the commercial property industry in the area that are driving employment. Table 4.17 presents the findings as shown below:

Table 4.17 Any large projects in the area that are driving employment

Response	Frequency	Percentage
Yes	11	13.41
No	71	86.59
Total	82	100

Based on the findings in table 4.15, 71(86.59%) stated that there were no large projects in the area that are driving employment while 11(13.41%) stated there were some projects mainly in the jua kali industry. This implies that commercial property projects in Kerugoya town are the major sources of employment for a majority of the people from top level managers to lower level employees (casuals). The regional price of commercial property can be greatly increased by a rise in GDP. A large expenditure in a specific region which can typically be best exemplified with a large infrastructural project promotes employment in that region. As jobs are filled, the vacancy rate decreases as people move to that region. Rental rates increase, which makes a mortgage payment seem more affordable. The demand to own a property increases. The regional price of commercial property increases as a result and the regional GDP dramatically increases as a result of all the above factors.

This section provides the analysis of findings and presents various aspects touching GDP and expansion of commercial property. The findings are depicted in Table 4.18

Table 4.18 Various aspects touching GDP and expansion of commercial property

Gross Domestic Product	SA			A			N/A/D			SD		
	F	M	%	F	M	P%	F	P%	F	M	P%	
Frequency (f) and Percentage (p)												
Income and wage growth have a great influence on expansion of commercial property in Kenya	77	0.93	93.90	5	0.07	6.097	0	0	0	0	0	0
Global economic growth has had a great influence on expansion of commercial property in Kenya	80	0.97	97.56	2	0.03	2.43	0	0	0	0	0	0
Terrorism and insecurity have had a great influence on expansion of commercial property	32	0.39	39.02	50	0.61	60.98	0	0	0	0	0	0
Construction costs have a great influence on expansion of commercial property in Kenya	81	0.99	98.78	1	0.01	1.22	0	0	0	0	0	0
Land costs have a great influence on expansion of commercial property in Kenya	82	1	100	0	0	0	0	0	0	0	0	0

SA=Strongly Agree A=Agree N/A/D=Neither Agree/Disagree SD=Strongly Disagree.

Based on Table above, the findings are explained systematically according to each of the components embodied in Gross Domestic Product.

4.7.2 Income and wage growth on expansion of commercial property in Kenya

Based on the findings, 77(93.90%) strongly agreed that income and wage growth have an influence on expansion of commercial property in Kenya, and 5(6.097%) agreed. There was no response on respondents who neither disagreed nor agreed and strongly disagreed. This means that income and wage growth have a great influence on expansion of commercial property and based on the findings, income is a major determinant of housing demand. Rising incomes and higher economic growth rates mean that people will have capacity to spend more on houses, that is, a bigger fraction of income will be spent on houses. Correspondingly, reducing incomes will imply that people cannot manage to buy or rent more while those who lose jobs in recessions will fall behind in paying their mortgage.

4.7.3 Global economic growth and expansion of commercial property in Kenya

The findings depict that most respondents 80(97.56%) concurred strongly that global economic growth has a significant influence on expansion of commercial property, 2(2.43%) agreed while there was no response on respondents who neither disagreed nor agreed and strongly disagreed. This implies that when there is global economic growth there is also growth in commercial property industry which plays a very key role in our economy.

4.7.4 Terrorism and insecurity and expansion of commercial property in Kenya

From the results, the respondents gave different views. For example, 32(39.02%) of respondents strongly agreed that terrorism and insecurity influence expansion of commercial property in Kenya and 50(60.98%) agreed. This implies that when a particular county or country experiences terror attacks or insecurity, that hinders commercial property investors and developers from investing in that particular area hence it influences negatively expansion of commercial properties.

4.7.5 Construction costs have a great influence on expansion of commercial property in Kenya.

From the results, 81(98.78%) of respondents strongly agreed construction costs have a great influence on expansion of commercial property in Kenya while 1(1.22%) agreed. This implies that when construction cost is low in terms of materials and labor this will encourage most investors to start building hence influencing expansion of commercial property in Kenya.

4.7.6 Land costs have a great influence on expansion of commercial property in Kenya

Results from the table indicate that 82(100%) participants strongly agreed that land costs have a great influence on expansion of commercial property. High cost of land tends to discourage investment as it increases the overall cost of development which puts off potential investors. When the cost of land is affordable it attracts investment particularly in the commercial sector.

Such investments create employment in that region and as jobs are filled, the vacancy rate for commercial spaces decreases. Rental rates increase, which makes a mortgage payment seem more affordable. The demand to own a property also increases. The regional price of commercial property increases as a result and the regional GDP dramatically increases as a result of all the above factors.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The chapter tends to cover summary of outcomes as well as the recommendations and conclusions drawn from the research study.

5.2 Summary of the Findings

The section tends present the summary of outcomes as drawn from different responses provided by the respondents. Results showed that the respondents were distributed in the age brackets as follows: 18-25 years 8(7%), 26-30 years 16 (20%), 31-35 years 20(24%), 36-40 years 19(23%), 41-45 years 12(15%), and 46 years and above had 7(8%). This implies there was a significant difference among respondents in terms of age variations since expected uniform distribution of respondents across the age groups was not achieved. This also shows that most respondents were mature middle age people. Consequently, the respondents gave different views on the factors influencing expansion of commercial property in Kenya: a case of Kerugoya town, Kirinyaga County due to the varied age distribution. The study sought to establish whether the urbanization migration from rural areas to cities has led to expansion of commercial property in Kenya. Results showed that the majority of respondents 79(96.34%) agreed that urbanization migration from rural areas to cities has led to expansion of commercial property in Kenya while 3(3.66%) disagreed. Based on the findings, the implication is that the large number of people migrating from the rural areas to cities probably looking for jobs or working in the cities has led to growth in the commercial property sector in Kerugoya because of population growth in the towns. This goes in line with Fortin (2000) who stated that changes in demographics have considerable implications for real estate, in that they drive demand and influence the location, functionality and type of requirements for real estate. Changes in population configuration and size also impact heavily on economic and political power, distribution of resources and aggregate demand such as the demand for commercial property. According to the National Association of Realtors (2010), rapid demographic changes and urbanization, particularly within budding markets, will result in considerable growth in the commercial property industry.

Table 4.14 findings shows that most respondents 72 (87.80%) concurred strongly that increased credit to private sector boosts expansion of commercial property while 10 (12.19%) agreed. This implies that the major option to increase growth of commercial property is to overcome the income/capital constraint through increased credit provision to private sector so as to boost commercial property growth. The finding also implies that institutions which provide credit facilities play a crucial role in the survival and expansion of commercial properties in Kenya.

Study findings also indicate that most respondents 80 (97.56%) concurred strongly that a stable macroeconomic environment boosts commercial property growth while 2 (2.43%) agreed. This implies that when the country's macroeconomic environment is stable in terms of: low inflation and unemployment, political stability, etc, this will influence positively expansion of commercial property. Hence interest rates influence commercial properties in Kenya and its counties.

On the question about how is the market Demand for Commercial property in Kerugoya, 77(93.9%) of the respondents stated the market demand was high while 5(6.09%) indicated it was low. This implies that the market demand for commercial property in Kerugoya town is high and therefore there is a big market for real estate and commercial property developers to invest in that county. Market demand determines the pricing and changes in commercial property just as supply does (Djankov, 2002). Whenever real estate is limited as the population increases, supply tends to be diminished which results in housing prices going up.

Based on the findings on how is the population growth in Kerugoya, majority of the respondents 81(98.78%) indicated that the population growth was high while 1(1.22%) indicated the population growth was low. This shows that population growth in Kerugoya has been on the increase and this has led to expansion of commercial properties. The implication is that an increase in population increases the housing demand as well as their pricing. Demand creates a supply increase which affects the price of a property. Commercial property expansion is characterized by new construction activities which is a good technique of quantifying the state of affairs in the commercial property industry.

5.3 Discussion of the findings

Discussion of the different findings presented is based on four study objectives.

5.3.1 Demographic characteristics and expansion of commercial property

Based on the findings, between the age of 50-60 years 32(39.02%); 40-50 years 28(34.14%); 30-40 years 10(12.19%); below the age of 30 years and above 60years was 5(6.09%) and 7(8.53%) respectively, hence the more mature age group constituted the larger market for commercial property. This is a considerable factor that influences the pricing of commercial property and the varieties of properties in demand. It was also an indication that changing consumer behaviour and demographic trends are likely to result in a huge demand for new and different commercial property by 2020 and years after. Major shifts in national demographics can impact heavily on commercial property trends for numerous decades according to a report by PWC-Real Estate (2010) which stated that shifts in demographic will basically affect demand for real estate. Results also showed that the majority of respondents 79(96.34%) agreed that urbanization migration from rural areas to cities has led to expansion of commercial property in Kenya while 3(3.66%) disagreed. Based on the findings this implies the large number of migrants from rural areas to cities probably looking for jobs or working in the cities has led to increase of commercial property in Kerugoya town because of the increase in population. Therefore, demographic characteristics influenced expansion of commercial properties in Kerugoya town in Kirinyaga County.

5.3.2 Interest rates and expansion of commercial property

The rates of interest can influence the monthly cost of paying for mortgage. They also influence flows of capital, capital's supply and demand and investors' essential rates of return on investment. Rates of interest will also push the prices of property in a number of ways. A period of higher rates of interest will increase the cost of paying for mortgages thus reduce the demand for property acquisition. High rates of interest make renting relatively more attractive as compared to purchasing. Based on the findings 82(100%) agreed inflationary tendencies lead to unoccupied residential, commercial and office space. This implies that interest rates are likely to be affected by inflation. The higher the inflation rate, the more the rates of interest are likely to increase hence leading to unoccupied, commercial and office spaces. Based on the findings 49(59.75%) strongly agreed low interest rates boost commercial property growth, 21(25.60%) agreed, 2(2.43%) neither agreed nor disagree while 10(12.19%) strongly disagreed thus interest rates influence expansion of commercial properties.

5.3.3 Market demand and expansion of commercial property.

The housing demand is constantly changing. Population increase enhances housing demand thus pushing up prices. As a result, the demand creates a supply increase which affects the price of a property. Commercial property expansion is characterized by new construction activities which is a good technique of quantifying the state of affairs in the commercial property industry. Based on the findings 77(93.9%) of the respondents stated the market demand of commercial property in Kerugoya was high while 5(6.09%) indicated it was low. This implies that the market demand for commercial property in Kerugoya town is high and therefore there is a big market for real estates and commercial property developers to invest in that county. Market demand determines heavily the pricing and changes in commercial property just as market supply does. Whenever real estate reduces as the population grows, supply tends to be diminished while the pricing of housing goes up. Therefore, market demand influenced expansion of commercial property to a very great extent.

5.3.4 Gross Domestic Product and expansion of commercial property

In Gross Domestic Product, of which commercial real estate is part of, it is believed that considerable changes in its market can impinge on our economy's trajectory as a whole. Income is a major determinant of demand for housing. Rising incomes and higher economic growth can enable people to spend more on houses; this will raise demand and push up prices. Housing demand is often seen as income elastic. In addition, increasing incomes result in bigger fractions of income being used on houses. The results showed that 77 (93.903%) strongly agreed that income and wage growth had an influence on expansion of commercial property in Kenya, 5(6.097%) agreed while there was no response on respondents who neither disagreed nor agreed and strongly disagreed. This means that income and wage growth have a great influence on expansion of commercial property and based on the findings income is a major determinant of housing demand. With higher economic growth and rising incomes people will be able to spend more on houses. Similarly falling incomes will mean people cannot manage to purchase or rent much and those who are retrenched during recessions default in paying for their mortgage. Therefore, GDP has a great influence on expansion of commercial property in Kenya.

5.4 Conclusions of the study

This study revealed that: demographic characteristics, market demand, interest rates and GDP were the major determinants of commercial property investment in Kerugoya town. GDP growth contributed the most to the growth in commercial property, followed by market demand, demographic characteristics then interest rates. The study indicated that shifts in these factors had a statistically significant influence on investment of commercial property and positively related to expansion of commercial property in Kerugoya town. Despite that, policy measures aimed at increasing economic growth and curbing rising rates of inflation and rates of interest should be embraced in order to increase the levels of investment.

5.5 Recommendations

Based on the study findings, the researcher proposes the following:

- i. That future development of commercial properties in Kerugoya should be planned strategically bearing in mind that their development affects the economy of the county.
- ii. In order for Kenya to bridge the gap between demand for residential housing units and supply, Kenyan developers, real estate firms, the government and all other key stakeholders involved in real estate market, should benchmark to obtain best practices and strategies in order to alleviate or ease the problem of inadequate housing.
- iii. Owing to the unpredictable economic environment, the cost of materials can skyrocket thus make a great project entirely unviable. To avoid this, one needs to develop fixed rate contracts with suppliers of construction materials if possible. Others may even embrace Corporate Social Responsibility programs. It is also necessary to undertake a comprehensive feasibility study to determine among other issues the project's social impact so as to negotiate better terms.

- iv. Several other measures that help in curbing rising rates of inflation and interest include the following: creation of a well-fledged financial sector, together with a more incorporated microcredit sector. This will go a long way in expanding access to a collection of financial services (saving facilities, insurance and credit as well as payment instruments). This also helps in financing small private firms at rates that do not hinder their operations.

5.6 Suggestions for Further Study

Possible areas for further research may include but not limited the following:

- i. Studies need to be conducted on the effects that new shopping malls have on the already existing shopping complexes and the overall commercial real estate market.
- ii. The impact of finance costing on the construction industry.
- iii. The effect of population growth on the development of real estate.
- iv. Other similar research studies should be conducted in various counties for comparison purposes.

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APPENDICES

APPENDIX I: LETTER OF TRANSMITTAL

Joy Naitore Karimi

P.O BOX 233

Kerugoya

Mobile: 0720449113

Dear respondent,

RE: REQUEST FOR PERMISSION TO CARRY OUT RESEARCH STUDY.

I am a graduate student undertaking a degree in Master of Arts Degree in Project planning and Management in the University of Nairobi and I am currently conducting a research on factors influencing expansion of commercial property in Kenya; a case of Kerugoya town, Kirinyaga county. You have been selected to assist in providing the required information because your views are considered important to this study. I am therefore kindly requesting you to fill this questionnaire. Please note that any information given will only be used for the purpose of this study.

Yours Faithfully;

Joy. N.Karimi

L50/83897/2016

APPENDIX II: QUESTIONNAIRES FOR PARTICIPANTS

The researcher seeks to investigate the factors influencing expansion of commercial property in Kenya. To achieve this, relevant questions have been provided to gather data for analysis. Kindly spare some time to provide the information as accurately as possible. Any information given will be treated with utmost confidentiality and will be used for academic purpose only.

SECTION A

1. Which category below includes your age
18 – 25 [] 31 – 35 [] 36 – 40 [] 41 – 45 [] >46 []
2. Kindly state your gender
Male [] Female []
3. Are you a permanent resident of Kirinyaga County? Yes () No ()
4. Kindly state your line of work
Building Contractor () Engineer () Financial Services () Housing Ministry () Other ()

SECTION B

Demographic characteristics

5. What age group presents the larger market for real estate?
Below 30years ()
Between 30-40 years ()
Between 40-50 years ()
Between 50-60 years ()
Above 60 years ()
6. The commercial property industry has been developing steadily in the past five years due to growth in income and propensity to spend. Yes () No ()
7. Urbanization migration from rural areas to cities has led to an expansion of commercial property in Kenya. Yes () No ()

8. The rising number in young working class adults has led to rising rental prices due to greater demand. Yes () No ()

SECTION C

Interest Rates

9. Inflationary tendencies lead to unoccupied residential, commercial and office spaces
Agree () Disagree ()
For your answer kindly explain why _____
10. Returns from commercial property investment are high compared to other businesses.
Yes () No ()
11. In your opinion, indicate your level of agreement with the following statements regarding the expansion of commercial property in Kenya. Where 1- Strongly disagree, 2-Disagree 3- Neutral 4-Agree 5- Strongly agree

STATEMENT	1	2	3	4	5
Low interest rates boost commercial property growth					
Increased credit to private sector boost commercial property growth					
Stable macroeconomic environment boost commercial property growth					

SECTION D

Market demand

12. How is the market Demand for Commercial property in Kerugoya? High() Low ()
13. Does Market demand influence expansion of commercial property in Kenya; Yes() No()
14. How is the Population growth in Kerugoya? High() Low ()
15. How are property prices in Kerugoya compared to other towns? High() Low ()

16. In your opinion do property prices influence expansion of commercial property in Kenya? Yes () No ()

17. Is there rural to urban migration in Kerugoya town? Yes () No ()

SECTION E

Gross Domestic Product

18. Are there any large projects in the area that are driving employment? Yes () No ()

19. In your opinion, indicate your level of agreement with the following statements regarding the expansion of commercial property in Kenya.

Where 1- Strongly disagree, 2-Disagree 3- Neutral 4-Agree 5- Strongly agree

STATEMENT	1	2	3	4	5
Income and wage growth have a great influence on expansion of commercial property in Kenya					
Global economic growth has had a great influence on expansion of commercial property in Kenya					
Terrorism and insecurity have had a great influence in expansion of commercial property in Kenya					
Construction costs have a great influence on expansion of commercial property in Kenya					
Land costs have a great influence on expansion of commercial property in Kenya					

APPENDIX III MAP

Kirinyaga County: Gini Coefficient by Ward

