THE RELATIONSHIP BETWEEN REAL ESTATE INVESTMENT TRUSTS AND FINANCIAL PERFORMANCE OF INVESTMENTS IN REAL ESTATE SUB-SECTOR IN NAIROBI COUNTY, KENYA

BY

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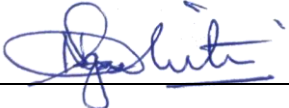
NOVEMBER 2021

DECLARATION

I, Faith Cherono, hereby declare that this is my original work and has not been presented for presentation and examination for any award of Degree in this university or any other university.

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This research project has been presented for examination with my approval as the University supervisor

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I acknowledge my supervisor, Mr Mwachiti, for his guidance and objective supervision.

DEDICATION

I dedicate this project first to our Almighty God, who gave me the strength, knowledge and enablement towards the completion of this research project. To my parents, Late Caleph Mutai and Grace Mutai, for their love for education and especially to my mom whose help and support have advanced my spirit and motivated me to seek after and complete this exploration. My kin for their ethical, material and social help.

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LIST OF ABBREVIATIONS AND ACRONYMS

D-REITS   Development Real Estate Investment Trusts

EAC   East African Community

FFO   Funds From Operations

G7   Group of Seven

GDP   Gross Domestic Product

IPO   Initial Public Offering

I-REITS   Income Real Estate Investment Trusts

KIHBS   Kenya Integrated Household Budget Survey

KLR   Kenya Law Reports

M-REITS   Mortgage Real Estate Investment Trusts

NSE   Nairobi Securities Exchange

PPP   Purchasing power Parity

REITS   Real Estate Investment Trusts

ROA   Return On Assets

ABSTRACT

Although the demand for social housing is growing and investors' investment opportunities in real estate are increasing, property prices are still increasing. This study is to apply the design of the descriptive study. Research conducted from REIT listed on Nairobi Stock Exchange. Research subject is Stanlib Fahari IREIT. The census survey was adopted since the population is small. Therefore, the survey sample was 10 managers. Primary data was collected using a structured questionnaire and secondary data was collected using a literature review form. Both primary and secondary data were analyzed using Excel's Social Science Statistics Package (SPSS) and Stata. Clear insights and result examine were performed dependent on the gathered quantitative information and the outcomes introduced in the Results area. Distinct measurements comprise of rate, recurrence, mean, and standard deviation. Connection and relapse techniques were utilized to decide the connection between REIT land ventures and monetary execution. There are various factors that influence investment ratio in real estate within Nairobi County. The management in Stanlib Fahari I-REIT face various constraints to increasing investment in real estates in Kenya. This research also concludes that REITS are not popular in Kenya due to various reasons with lack of knowledge and adverse selection being the major reasons. From the descriptive statistics, the study concludes that the demand and supply of housing; disposable income of Kenyans; and prevailing economic conditions influence the performance of real estate investments in Nairobi County. The study also concludes that the Kenyan government give tax credits and subsidies to REITS without any restrictions. Among the REITS in Nairobi County, default risk premium is attached to the interest charged. The study also concludes that REITS in Nairobi County are attractive to potential investors. From the descriptive statistics the researcher concludes that real estate investments in Nairobi County are experiencing increased return on investments and dividend yields but progressively low equity turnover. The capitalization of real estate investments in Nairobi County is relatively high compared to other firms. Correlation analysis shows that REITs have a significant positive impact on the financial performance of real estate investments. This suggests that REITs have a positive and significant impact on the financial performance of real estate investments in Nairobi County. The study concluded that real estate investment trusts affect the financial performance of real estate investments in Nairobi. Regression analysis showed that the increase in commercial lending as an indicator of REITs significantly improved the financial performance of real estate investments. This suggests that REITs have a positive impact on the financial performance of real estate investments in Nairobi County. To improve the financial performance of real estate investments, this study recommends that REIT managers increase their funding through their activities. The government is working with REITS managers to develop public awareness programs. This study recommends that you do the same for other factors that affect the financial performance of your real estate investment. Similar surveys are also recommended to compare results using unlisted REIT respondents. The study also recommends a study of how REITs affect performance indicators of other real estate companies, such as sales.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The real estate sector plays an important role in the economy. Real estate investment and prices are good indicators of projected real estate demand and good predictors Economic growth (Cytonn, 2015). According to Breggeman and Fischer (2005), the term real estate refers to lands, mineral resources, buildings, water, and natural resources that can be included in real estate. However, the capital required for real estate development investment is enormous, may not always be available or easily accessible to most investors, especially in developing countries. The main goal of any investor in real estate development is to maximize profits in the shortest time possible (Muthama, 2012). Accordingly, investors will put their money in instruments that will provide the best returns compared to comparable alternatives available.

According to Sprague (2016), factors that influence the return on real estate investment include macroeconomic factors, location, building characteristics, and infrastructure. Valentine (2009) found that in Sidney factors such as the building structure, economic and demographic factors, macroeconomic factors and location of the properties were affecting real estate investment. In Australia, Romkaew (2014) found that house prices were dependent on many characteristics such as location and physical characteristics of the building, presence of recreation facilities and neighborhood characteristics, presence and proximity of social facilities such as health clinics, schools, community services and parks. Sprague (2016) found that macro factors, property location factors, physical attribute of the property were significantly affecting the prices of the property. Real estate is an investment where investors make money from rental income, appreciation, and profits generated from businesses that depend on the property.

1.1.1 Real Estate Investment Trusts

REITs are usually organizations that own and manage real estate or related assets. These include office buildings, shopping malls, apartments, hotels, resorts, warehouses and more. These are regulated investment tools that enable collective investment in real estate. Kenya's

Capital Markets Act describes a "real estate investment trust" as a contract for all types of real estate or real estate interests constructed in accordance with the rules set by the authorities to enable everyone involved in the contract. Through him he becomes the owner of property or any part of it, or participates in the acquisition, possession, management or sale of property, or a profit from, or obtains an income from, property. Receive or receive payments from that income (National Legal Reporting council, 2012). Investing in high-yielding real estate is a great way to increase your net worth

There are several metrics that are important when assessing and comparing REITs. These include funds from investment (FFO), price to FFO (P / FFO), adjusted FFO, payment ratio, EBITDA ratio debt, interest coverage and capitalization rate. This study uses FFOs because they are the primary method of measuring REIT revenue. The amount of cultivated profit is also used. This study examines the impact of REITS on the financial performance of real estate investments and the impact of funds and profits of REITS transactions on the financial performance of real estate investments. The FFO is calculated as follows: FFO = (Net income + Depreciation + Depreciation + Loss on real estate sales) Profit on interest income from real estate sales-Interest Income.

1.1.2 Financial Performance

Financial performance is measured using profitability indicators. Profitability metrics provide various measures of a company's success in generating profits. net income margin could be a measure of earnings on sales. lucre takes into consideration the worth of goods sold by the corporate, but doesn't include other expenses. net income Margin = (Sales Cost) / Calculated. Return on investment may be a measure of how effectively a company's assets are wont to generate a profit. Return on Equity = net profit / (Initial Total Assets + Final Assets) / 2. Return on Equity is that the return on equity to shareholders, the speed of return per dollar invested during a company's stock. To measure. Return on equity is calculated as follows: Return on Equity = net profit / (Seed Capital + Final Capital) / 2. Return on Total Capital was employed in a study to see the link between REIT investment and realty financial performance. Investment. this is often because ROA is an efficient indicator of how a company's assets are being employed to get profits.

1.1.3 REITS and Financial Performance of Real Estate Investments

A REIT is a key component when building any portfolio of stocks or fixed-income securities. They offer more diversification, higher total potential return and/or lower overall risk. Examples of REIT managers in Kenya are; Ilam, CIC Asset Management Limited, UAP Investment and Nabo Capital. But so far, Kenya has only one listed REIT, Ilam Fahari IREIT, which opened in November 2015. Given that these REITs provide access to investment and the real estate sector in the Kenyan market is growing rapidly.

REITS worldwide have achieved and received positive returns based on consistently high dividend income and long-term capital gains. Its low correlation compared to other businesses makes it an excellent portfolio diversification vehicle, reducing overall portfolio risk and consequently increasing returns. This is a key attribute, since diversification permits an investor to acquire a wanted return without taking a big risk as compared to an individual security. Such a characteristic on a model investment platform seems to be attractive to investors and therefore provides a perfect concoction when investor meets investment.

For example, in the United States of America, investors have found REITS to be an appealing investment since the passing of the Tax Cuts and Jobs Act (TCJA) of 2017 that allows for a federal 20 percent pass in the taxation of the regular dividends of entities. This is

notwithstanding the general prohibition of corporate entities, the wage and qualified basis limitation rules which are usually applicable to pass-through entities. This has in succession attracted the attention of investors both public and private wanting to reduce their overall tax loads in their real estate investments (Korving, 2018).

1.1.4 Real Estate Investments in Nairobi

Market volatility and lesser alternative low risk asset classes is increasing demand for REITS. Within this frame of reference, in East Africa, and discretely Kenya, has become a progressively predominant destination for private equity investors. Far off from proffering regulatory stability relatively, Kenya has for a long time been well known for its economy that is dominated by the private sector, and for its futuristic business environment, that is relative to the other East African countries economies in an absolute sense. Kenya is attractive to the eyes of investors as there are alluring advantages to the economic environment that make it a target in East Africa for investors.

Nairobi, the country's capital, is considered a strategic location in the East African Community (EAC) and attractive at that to the investors seeking to set up offices to cover the EAC region. According to the World Bank's Global Practice Group on Finance, Competition and Innovation, Nairobi's attractiveness makes the city a de facto investment hub for the EAC and, therefore, adjacent to Johannesburg, South Africa. and Lagos, in Nigeria, is the investment capital. of sub-Saharan Africa (World Bank, 2017). The quality of life, efficient and effective transportation links and means, a well-established human capital availability and a vast populace of dependable service providers for example, lawyers, consultants, accountants as well as other essential service providers needed to keep businesses afloat are available within Nairobi making it easy for investors to establish themselves in the city. Wrapping all these advantages that Nairobi holds for investors, is the presence of East Africa Venture Capital Association (EAVCA) that Nairobi homes which is an umbrella organization for Venture Capitalists and Private Equity Institutions.

1.2 Research Problem

Kenya is a great place for real estate investors, with GDP growing rapidly, the real estate market booming and economic profits secured. Kenya's property prices dipped by 1.8 percent in three months to September 2019 while asking rents also plunged by 0.3 percent with

property prices and rents for apartments taking the heaviest hit (Hass consult, 2019). The government of Kenya aspires to provide affordable investments for its people as envisioned in its development blueprint Vision 2030. To achieve this, the government has employed several strategies including lowering interest rates to ease credit uptake to spur private sector investments in the housing sector, review of mortgage rates for its staff and encouraging of pension schemes to invest in the sector. The number of expatriates in Kenya has grown in the last 10 years, this is because international companies have settled in the country. This has increased demand for residential real estate, and employees are looking for accommodation that is closer to work (Knight Frank, 2015).

Real estate prices have been on the rise since 2007, despite growing demand for public housing and increasing opportunities for investors to invest in real estate (Hass Consult, 2016).Townhouse purchases and rentals continue to grow moderately, driven by Kenya's middle class (Hass consult, 2019). The need for building infrastructure in Nairobi County brings about the establishment of Real Estate Investment Trusts. The formation of these REITS is a business opportunity for business investors. The units of REITS are listed under the Nairobi Securities Exchange (NSE) and therefore the market price of the units is not controlled by the investors but is controlled by the market itself. This does not mean that secondary offers to the market offers cannot be carried out. The REIT can be flexible enough to make and accept secondary offers if need be. Empirically, Ruslan (2019) found that REITS increase the investment in the real estate sector. However, Adilieme and Umeh (2020) REITS has not been shown to have a significant impact on real estate investments. A question arose in view of the above. How do real estate investment funds relate to the financial performance of Nairobi County real estate investments?

1.3 Objectives of the Study

To determine the relationship between investments by Real Estate Investments Trusts and financial performance of investments in Real Estate sector in Nairobi County.

1.4 Value of the Study

This study is useful to various stakeholders in the field of finance and investment among other fields. The private equity investors and the venture capitalists for example, are interested to know the way in which investing in REITS is more profitable and less of a risk as compared

to direct investment in real estate financed by loans and angel investors in exchange for a percentage of the business. Investors both foreign and local are to get more insight and enlightened which enable them to make comparisons and identify differences that REITS make in the market as well as the long term and short-term gains in investing in REITS to promote real estate investments. This helps them in making rational investment decisions and strategies. Investors benefit in obtaining useful information with regards to risk management and the value of the institution.

Entrepreneurial and business consultants benefit from the knowledge of the functionality of REITS and how a potential investor can own real estate and earn from it starting with the least amount of capital. This in turn increase their consultancy knowledge on good investment packages and helped them in the future prediction of profitability rates when investing in REITS. With this knowledge therefore, they can offer more advice to their clients. The Nairobi County government in correspondence with the National government can see how REITS are a profitable institution to the economy and the investors as well. This in turn allows the governments to make policies that are favorable to the REITS therefore attracting more investors to the region and as a ripple effect, real estate investments are foreseen.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The literature available during this chapter explores several aspects of the link between property investment and also the financial performance of realty investments in Nairobi County. This chapter presents theories and empirical findings acting as foundational basis for the study. Theories and former studies are accustomed show study's core variables. Conceptual framework is additionally presented during this chapter and it shows the link existing within the variables.

2.2 Theoretical Review

A substantial amount of literature has been recorded on the investment sector customarily. However, most of the research done in the area of investments and in REITS particularly, has been done in other jurisdictions, and predominantly in the developed countries. Therefore, insufficient information has been written about REITS in the developing world. The theoretical literature review assists in establishing the theories that already exist, the degree to which these existing theories have been explored, their in-depth review as well as the relationship between these theories. There are various theories that are attributed with Real Estate Investment Trusts and based from capital structure in relation to investments such as Tradeoff theory, pecking order theory and market timing theory.

Much of the normal financial literature tends to rule out regulated financial institutions, as regulation often aims to deal with the identical market deficiencies that the speculation focuses on. the primary motivation for our thesis is based on the unique regulatory environment during which REITs operate. The REITS was created primarily as an investment vehicle for organizations looking to avoid investing in assets because of the shortage of transparency and liquidity. The REITS is primarily intended to encourage investment, to not prevent neglect of fiduciary regulations.

A lot of the traditional literature based on finance is liable to disbar regulated institutions, purpose is, law is frequently tailor-made to attend to the very equal marketplace blemishes that principle is targeted on. The first motivation the theoretical literature evaluate is often retrieved

from the awesome regulatory surrounding REITS function in. REITS had been basically created as a funding platform for establishments and companies that tended to shun from making an investment in actual property belongings due to loss of liquidity and transparency as well. Therefore, the law on REITS is extra willing to result in funding in place of to keep away from forget of trustee responsibility.

2.2.1 Portfolio Theory

This theory was first proposed by Harry Markowitz within the early 1950s. Portfolio theory, also referred to as modern portfolio theory, provides a mathematical framework that enables investors to attenuate risk and maximize returns. The core of the speculation is that holding variance reduces risk, and returns are a function of expected risk (Portfolio Theory 2007). The normal exploit most speculations is uncertain, but it's possible to really represent future profits as a transfer of probabilities (expected return 2007). A productive portfolio offers the least possible risk to a given level of expected return. Financial backers can diminish chances and work fair and square of hazard comparative with return by expanding their portfolios. The way to enhancement is to pick speculations whose costs are not unequivocally connected. Putting resources into various areas, topographical locales and classes of safety further develops broadening. The upsides of offers, bonds and land will be more connected with one another than with speculations of totally various sorts (Diversification 2007).

The standard portfolio theory introduced by Markowitz (1952) is static in this it considers investment decisions only over a particular period of your time. A more realistic approach should consider several time-frame aspects of the portfolio selection problem. The optimal portfolio structure is time-independent only in special circumstances. during this particular case, a one-period optimization is sufficient to characterize the optimal portfolio selection even in a very multi-period environment. However, investors typically restructure their portfolios as their income, accumulated assets, and investment opportunities change. This ability to regulate portfolio composition influences initial investment decisions (Wallmeier and Zainhofer 2006). A sufficient number of software elements and intelligent systems are developed for realty investment. assets Offer Generator (2007) is land software that calculates the asking price for rental properties. Generators help users buy assets that generates positive income.

Real Estate Tracker (2007) designed to assist clients make smart and accurate home asset decisions and integrate tools and realty portfolios to trace their income and expenses with an easy-to-use budget tracker. it's been. realty Tracker is an internet land investment tool created by investors to supply their clients with the knowledge they have to extend their return on investment and track their land income closely over the long run. realty Tracker (2007) identifies the simplest properties to shop for, the proper time to sell, or swaps to defer taxes, raise rents, and when to shop for shares to shop for new investments. Helps to warn you. Portfolio theory fixes the financial performance of land investments.

2.2.2 Prospect Theory

Prospect theory was developed in 1979 by Daniel Kahneman and Amos Tversky. Predict the choices people make when making risk-related decisions. To develop the theory, Kahneman and Tversky used controlled experiments, allowing people to choose an alternative that gave them 4,444 possible outcomes each. out and the probability of its occurrence. Based on these results, Kahneman and Tversky (1979) concluded that people's choices could be explained by individual outcome transformation models. In betting on subjective and weighted values, this subjective value is equal to the deterministic weight. Prospect theory predicts that those who choose between two games of probability will choose the game that is most valuable. The basic psychological concept of prospect theory is that people do not like the idea of losing status, but

prefer the idea of gaining status (Kahneman, 2011). People will do more to prevent losses than realize potential gains (Kahneman & Tversky, 2000).

Additionally, Kahneman and Tversky (Kahneman and Tversky, 2000) state that investor engagement increases when trying to avoid loss but decreases when trying to achieve something (Kahneman and Tversky, 2000). This means that the energy and resources an investor will use to avoid a loss will increase proportionally to the extent of the possible loss.

The opposite of profit is incorrect. In many situations, investors are unaware of the options available or the potential consequences of those options. As a result, investors often develop actionable alternatives and actions before making a decision. This is the creative aspect of any decision-making process. During this period, investors should reflect the importance of the information structures they will use.

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2.2.3 Agency Theory

Agency theory revolves around agency problems and their solutions (Jensen & Meckling, 1976; Ross, 1973). The history of the agency problem goes back to a time when human civilization tried to do business and maximize profits. Agency theory provides solutions to two problems that can arise in agency relationships. The main problem is that agency problems occur when your and your agent's desires or goals conflict, and it's difficult or worthwhile to determine what your agent is actually doing. Second, the problem of risk sharing arises when managers and agents have different attitudes to risk. The point is that you and your agent prefer different behaviors because they want different risk preferences.

Grossman and Hart (1983) have a noteworthy discussion of the difference in risk appetite between managers and agents. They said that the productivity of agents affects consumption of fixed capital. Agent costs affect company productivity, and executives want it to cost more. Therefore, it is necessary to balance the agent's work with an appropriate pay structure. Supervisors are currently using algorithmic models to see the optimal incentive structure. The structure of motivation is affected by the agent's attitude toward risk and the quality of the principal's information, and if the agent is risk-neutral, no incentive problem arises. Eisenhardt (1989) divided agency theory into two models. The positivist agency model, hence the basic agency model (Harris and Raviv, 1978). Both models support contractual relationships for the majority of agents, but the model for the majority of agents is more mathematical. The agency model explains that the owner is risk-averse and seeks profit, whereas the agent is risk-averse and seeks rent. Positive agency theory explains the costs associated with the causes of agency problems. This theory makes two proposals. The main sentence states that the agent acts in his favor if the outcome of the contract is incentive-based. Second, the agent's actions are disciplinary if I have information about the agent. Agency theory has proven reliable in explaining and resolving problems in the relationship between shareholders as owners and business owners as agents.

2.3 Empirical Review

Block (2000), states that REITS as they currently exist have been on the financial markets in the U.S. since the 1960s. Investors have been able to pool their resources together in order to access the same benefits as the large institutions had then. This was possible by a sanction that was officiated by congress and signed into law allowing investors to finance and own real estate property or shares in the country, with an advantage of being exempted from taxes. The intention was to enable small investors to bring together their investments in one business establishment, and therefore altogether improving their real estate investments in bigger, more established income-producing commercial real estate. This was an opportunity that was only mostly unavailable to the average small investor because of their lack of enough funds to venture into that space. The general goal as to why REITS were established is to make sure that ownership of the REIT is vast and not limited to only a few individuals.

According to Block (2000), the best structure for Real Estate Investment Trusts is a close ended structure rather than an open ended one, in which a close ended structure is best suited for collective investments by several investors. This is because of property investments are illiquid in nature. For close-end funds, normally they do not continue to offer their shares for sale and therefore they can invest in a bigger ratio of illiquid investments to mutual funds. If the funds were structured as open-ended, it would be cumbersome for the REIT managers to continuously have to liquidate property investments to pay off the investors, because real estate takes a long time to liquidate and therefore REIT managers would be at a disadvantage. For REITS to attain this probable liquidity requirement they would be arm twisted to retain a very large portion of the fund in cash which is unreasonable. This most likely would spoil investment returns for all investors, but to be precise, it would be very disadvantageous to the investors with long term investments. For this reason, most of the Real Estate Investment Trusts worldwide are close ended in nature. For a small time investor, investing in shares in REITS is the best option for them mainly because they do not have to actually purchase physical real estate, but trust units from a couple of properties and in this way they gain access to cash flows from the income earned from rent paid for the properties.

However, many small-scale investors are usually interested in investing in liquid investments that are easy to exit in case of anything. For this reason, therefore, close ended REITS seems not to be an automatic choice of investment. A closed-ended REIT is very restrictive on how to exit and in the Kenyan landscape, Block's study gives propositions that may work as entry barriers. He offers perceptivity into how REITS were conceptualized and created, how they have evolved over the years into what they are today and the legal framework that encompasses these investment platforms, thereby accomplishing what the initial starters of REITS had envisioned which is a way small investor can be able to earn through real estate without actually owning the physical estate.

However, unlike Kenya, Block's work is based on the US market and reaches deep into the historical foundations of REITS dating since the 1860s, which have evolved over time being that the US market is well developed and sophisticated in terms of investments. With this rich history of experience in REITS, there are a lot of lesson that have been learned over the decades and has helped develop a good sustainable saving and investment culture. His

recommendations and views and are therefore obtained from experience of a market that spans a period of a century and a half with the REIT product. In His effort to explain the REIT market however, he does not give recommendations and suggestions for states that are still struggling with building an investment culture in its citizens. For the markets that are also just introducing the concept to their investors, Block does not also point out which would be the best model to adopt to popularize the REIT concept and result in a rapid market growth.

According to Ipsos Synovate (2011), Kenya is still a premature market with a very poor saving culture as well hence the lack of substantial investments in the real estate. In the current Kenyan market, there is only one listed REIT which is the Ilam Fahari REIT and the rest are only real estate managers. Whether a REIT ought to be listed or not is another question pertaining how accessible they are on the part of the investors as well. Listing of REITS according to Meretsky (1995), is one way of making it accessible to the public in order to attract potential investors hence increase in real estate investments. In his opinion, a REIT is an investment institution owned by shareholders who acquire shares, and in the case of Publicly traded REITS, they are listed on the stock exchange. An investor who is interested in REITS secures a security, in the form of a share, which designates a portion of the assets held by the REIT to the investor according to how much they have put stake in. REITS are tailored to allow the general public interested in investing, to reap from investments in large-scale real estate establishments. However, for the REITS to be listed, then there must be a reasonable price by the stock exchange markets for it to meet this objective and allow many investments in the market thus promoting a culture in saving and investment in the country. Due to REIT's tax exemptions and regulations as well as their uncommon structure, they are identified to be different from other stocks in the stock exchange market. This is according to Chan (2003) who also notes that REITS have been observed to behave differently from other stocks and have certain unique characteristics that other stocks in the market do not have, which makes them quite attractive and noticeable to potential investors.

McCall (2001), underlines that REITS can be bought, sold and exchanged at the stock exchange market at any instance, unlike investing in real estate directly which by itself is quite a long transaction process. With a minimal amount of money an investor can be able to invest in REIT stock of firms that are listed in the NSE. In Kenya, all property investments on real

estate are either done directly through direct purchase of physical property or through private allocation of equity to investors with large capital. And thus, brings out the need for more market openings for REITS to provide investment opportunities for small investors as well. In Kenya, information on real estate property is not easily available. Information such as the location of the property, the value of the property and the owner is usually hard to track down for certain reasons such as brokers and the like. Thus, this information being scarce to the investor, limits their advances in staking security in the properties. As is the case therefore, investors only get exposed to the real estate property market through purchase of already occupied residential property which is not affordable. (Njeru, 2015).

Gichuki, (2011) underscores that there is a very low penetration of the alternative financial model with estimates indicating that only 19% of the adult population invests in the capital markets, with emphasis to investment in shares. Gichuki's research plays a key role in REIT research in the Kenyan market in that it pinpoints the challenge of low establishment of capital markets in the Kenyan population. The paper sought to build and contribute on the gaps identified and tries to give suggestions on how REITS can affect the financial performance of real estate investments.

2.4 Summary

This chapter explores the historical origins of REITs in the US market a century and a half ago and how the research work of people like Ralph Block helped shape the REIT industry. This chapter has also explained in detail the theories pertaining to REITS and financial performance of real estate investments. These are the portfolio theory, the prospect theory and agency theory. A look into how the Kenyan real estate property market is structured is also highlighted in this chapter and ways in which small retail investors can also be part of the real estate market is reviewed as well.

2.6 Conceptual Framework

It is expected that there is a positive link between Real Estate Investment Trusts and real estate investments. High performing REITS would mean that more investors are investing through REITS and therefore resulting in high performance of real estate investments.

Independent Variable   Dependent Variable

| REITs

Funds from Operations

FFO=   (Net   Income   +
Depreciation + Amortization +
Losses on Property Sales) -
Gains on Sales of Property -
Interest Income | Financial   Performance   of
Real Estate Investments

Return On Assets

ROA= Net Income / Total
Assets |
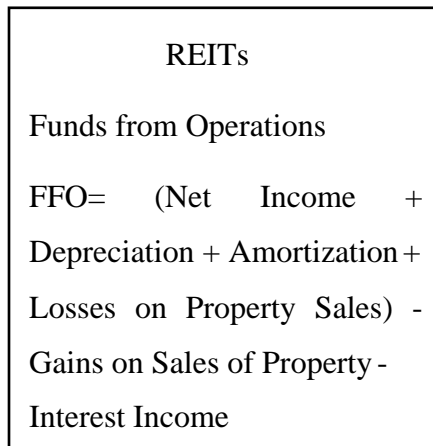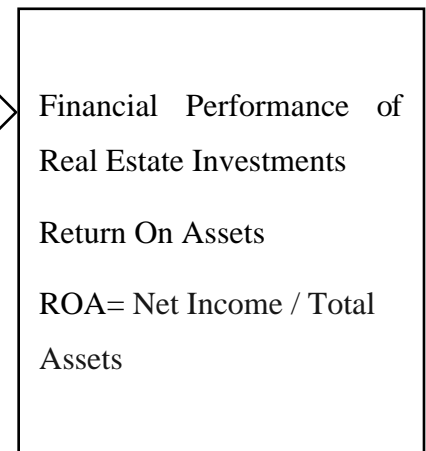
Figure 2.1: Conceptual Framework

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents a strategy for collecting and analyzing data. Research methodology is that the process by which researchers use tools and procedures to gather and analyze data. The chapter presented the study design and methods that were applied to handle the matter within the study. The chapter presented the study design and methods that was wont to solve problems in research. Specifically, this chapter covers the subsequent areas: research design, target population and research field, data collection tools, data1analysis and diagnostic tests.

3.2 Research design

In this study, we selected the best descriptive study design to provide information about current situations, situations and events (Ross, 2005). This allows the researcher to address the research questions presented earlier in this article. Effect of Real Estate Investments in REITS and Nairobi on Financial Performance. Descriptive study design choices allow researchers to gain insights into the country's REIT market and collect data on how REITS as an investment vehicle will continue to grow in Nairobi's growing real estate market. Was completed.

3.3 Population

The study was taken from the listed REIT on the Nairobi Securities Exchange. In Kenya, Stanlib Fahari I-REIT is the only listed REIT and started trading in November 2015. Therefore, the study population was Stanlib Fahari I-REIT. The study respondents were 10 managers at Stanlib Fahari I-REIT. The census sampling method was adopted since the population small. Therefore, the study sample was 10 managers.

3.4 Data Collection

For this study, data collection was applied in keeping with both primary and secondary collection methods. this can be for the aim of drawing in-depth conclusions about the impact of realty investment trusts on the financial performance of property investments in Nairobi. Primary data were collected employing a structured questionnaire and secondary data were collected employing a literature review form. For the secondary data collection method, however, there is also a serious challenge in compiling information because the assets Investment Trusts are quite a new landscape within the Kenyan market and thus there's not lots of knowledge available regarding them. this suggests that the available information is comparatively shallow and most of its more of speculation than fact. However, the available information gave insight to the dynamic REIT landscape in Kenya regarding finance performance of assets investments.

3.5 Data Analysis

According to Zikmund, Babin, and Griffin (2010), data analysis is defined because the use of arguments to grasp the collected data to work out the order of investigation and clarify important details. Primary and secondary data were analyzed using Excel, Statistical Package for Social Sciences (SPSS) and Stata. Descriptive statistical and logical analysis was performed supported the quantitative data collected and therefore the results shown within the Results section. Descriptive statistics include percentages, frequencies, means, and standard deviations. We checked normality and collinearity within the cross-sectional data. to grasp the link between REITS and therefore the financial performance of assets investment, correlation and multivariate analysis methods were used.

3.6 Model Specifications

The study was guided by the model as follows:

$Y = \beta_0 + \beta_1 X_1 + \varepsilon$

Where:

Y= Financial Performance of Real Estate Investments

X_1 = Real Estate Investments Trusts

β_0 = Constant

$\beta_{1,}$ = Regression coefficients X_1

ε = Error term

3.7 Diagnostic Tests

It is important to ensure non-infringement of presumptions of established classical linear regression model (CLRM) prior undertaking a regression condition. Examining these situations when the suppositions of linear regression are violated risks attaining one-sided biasness and contradictory parameter measures (Brooks, 2008). Thus, the normality, multicollinearity and heteroscedasticity, was tested to guarantee legitimacy of particular conditions in the regression equation.

3.7.1 Normality Test

Normality assumed that the mean sample distribution is normal. Shapiro-Wilk test was used in testing for normality. The test had the ability to determine normality variance because of kurtosis or skewness. The statistics are between 0 and 1 and values more than 0.05 shows a normal data (Razali & Wah, 2011).

3.7.2 Multicollinearity Test

Multicollinearity is a situation whereby the independent variables are inter-correlated (Hair et al, 2008). Cooper and Schindler (2006) indicate that failing to determine results for perfect multicollinearity leads to indeterminate coefficients of regressions and vast standard errors and presence of results of imperfect multicollinearity into huge standard errors. Variance Inflation Factor (VIF) was adopted in testing for multicollinearity, with the VIF value considered to be 10 (Gujarati, 2003). This was carried out to attain determinate regression coefficients and little standard errors. A VIF value > 10, shows the presence of multicollinearity and variables with VIF greater than 10 was removed.

3.7.3 Heteroscedasticity Test

As the research involved description analysis uncertainties about the presence of heteroscedasticity exists. The Classical Linear Regression Model (CLRM) makes the assumption that the error term is homoskedastic, meaning, it has steady fluctuation. If the error

change is inconsistent, at that point heteroscedasticity is present in the information. Carrying out regression analysis with no heteroscedasticity representation would prompt unfair parameter gauges. In testing for heteroscedasticity, the test used is the Breusch-Pagan/Godfrey. The study null hypotheses are the homoscedastic error variance. Rejecting the null hypothesis led to the conclusion of the presence of heteroscedasticity in the data. The presence of Heteroscedasticity was corrected through robust standard errors.

3.7.4 Linearity

Linearity means a point where the dependent variable linearly relates with one or more response variables (Hair et al, 2008). This implies that the dependent variable expected value is straight-line function of every response variable, when others are held constant. In testing linearity, scatter plots for nonlinear and linear aspects of any variables pair were calculated by use of SPSS 24. A scatter plot indication and upward slope link shows linearity; others it shows nonlinearity. Linearity proposes a strong positive linear association of the independent and dependent variables.

3.8 Significance Tests

The t-test was used to examine the strength of the relationship between real estate investment trusts and the financial performance of real estate investments. T and F statistics were used.

CHAPTER FOUR:

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This part explains how to understand and present the results of the field research. The demographics of the respondents is covered in this section, as well as the outcomes of the analysis on the topic under investigation. The results of the research were discussed.

4.2 Background Information

Table 4.1 : Respondent's Gender

	Frequency	Percent	Valid Percent	Cumulative Percent
Male	7	70.0	70.0	70.0
Female	3	30.0	30.0	100.0
Total	10	100.0	100.0	

From the analysis, majority of the managers were males as indicated by 70%. Female managers were 30%. This shows that majority of the managers at Stanlib Fahari I-REIT are male. This is accrued to the technicality of investing where men are always ready to take risks compared to females. Further, the real estate sector is dominated by men with few women coming up to take up positions in the sector.

Table 4.2: Age Bracket

	Frequency	Percent	Valid Percent	Cumulative Percent
31-40 years	4	40.0	40.0	40.0
41-50 years	4	40.0	40.0	80.0
Above 51 years	2	20.0	20.0	100.0
Total	10	100.0	100.0	

As a result of the analysis, the majority of respondents were in their 40s or older. This indicates that the majority of Stanlib Fahari IREIT managers are over 40.This is because for one to get to management he or she has to have worked for a certain number of years.

Table 4.3: Highest Academic Qualification

	Frequency	Percent	Valid Percent	Cumulative Percent
Degree	4	40.0	40.0	40.0
Master's	6	60.0	60.0	100.0
Total	10	100.0	100.0	

Researcher sought to establish the highest academic qualifications for Stanlib Fahari IREIT managers. From the findings, 60% had a master's degree with 40% having a bachelor's degree. This is an indication that the managers at Stanlib Fahari I-REIT have at least a bachelor's degree. This ensures that they would understand how REITS influence the performance of real estate investments within Stanlib Fahari I-REIT.

Respondents were asked to indicate their position within the company. The findings showed that the respondents indicated that they held positions like finance managers, investment managers, asset managers and property managers. This shows that various managers in real estate were involved to shed light on the influence of REITS on the performance of real estate investments within Stanlib Fahari I-REIT.

Table 4.4: Period of Tenure In Years

	Frequency	Percent	Valid Percent	Cumulative Percent
5-10 years	2	20.0	20.0	20.0
11-15 years	5	50.0	50.0	70.0
More than 15 years	3	30.0	30.0	100.0
Total	10	100.0	100.0	

Looking at the length of service, most of the respondents said that they had been in office for more than 10 years, and some said that they had been in office for less than 10 years. This indicates that most Stanlib Fahari IREIT managers have more than 10 years of experience.

Table 4.5: Time worked in Real Estate

	Frequency	Percent	Valid Percent	Cumulative Percent
Less than 3 years	1	10.0	10.0	10.0
3-5 years	2	20.0	20.0	30.0
6-10 years	4	40.0	40.0	70.0
More than 10 years	3	30.0	30.0	100.0
Total	10	100.0	100.0	

Respondents were asked how long they had worked in the real estate business. As for the frequency of collection, it was found that the majority (70%) had worked for more than 5 years. This shows that most Stanlib Fahari IREIT managers have worked in real estate for more than 5 years. This would make them to be better placed in understanding REITS and how they influence real estate investment.

Table 4.6: Period Trading in Nairobi Security Exchange

	Frequency	Percent	Valid Percent	Cumulative Percent
Less than 3 years	5	50.0	50.0	50.0
3-5 years	3	30.0	30.0	80.0
6-10 years	1	10.0	10.0	90.0
More than 10 years	1	10.0	10.0	100.0
Total	10	100.0	100.0	

Respondents were asked to indicate how long they were listed on the Nairobi Stock Exchange. Results show that most have been listed on the Nairobi Stock Exchange for more than 5 years. This is what most Stanlib administrators Fahari I-REIT had traded in the Nairobi Securities Exchange for more than 5 years. This would enable them to understand real estate investments and how REITS influence investment.

Table 4.7: Investment Options

	N	Minimum	Maximum	Mean	Std. Deviation
Real estate	10	34.00	65.00	51.0000	9.78661
Shares	10	11.00	48.00	30.0000	14.84737
Bonds	10	28.00	51.00	42.5000	8.08634
Treasury Bills	10	35.00	64.00	46.8000	9.89725
Foreign property	10	10.00	52.00	34.6000	16.47355
Others	10	11.00	35.00	22.1000	8.55635

The purpose of this study was to establish respondents' investment ratios for the various options available. According to the analyzed data, the average ratio of real estate investment was 51%. Investment in shares was at 30%, bonds was at 42.5%, while investment in treasury bills was at 46.8%. The findings further showed that the respondents invested 34.6% in foreign property with 22.1% indicating that they invested in other options like fixed deposit accounts, mutual funds, forex trading, and cryptocurrencies.

Table 4.8: Real Estate Investment Options Preferred By Clients

	Frequency	Percent	Valid Percent	Cumulative Percent
Owning shares	3	30.0	30.0	30.0
Financing and owning real estate	7	70.0	70.0	100.0
Total	10	100.0	100.0	

The respondents were asked to indicate the options clients would prefer between financing and owning real estate and owning shares in Real Estate Investment Trusts. The findings show that majority of the respondents (70%) indicated that clients preferred financing and owning real estate compared to owning shares. This is an indication that majority of the investors in real estate prefer to finance and own real estate.

4.3 Real Estate Investment Trusts

Table 4.9: Factors Influencing Investment Ratio

		Frequency	Percent
Limit set by Capital Markets Authority regulations	Yes	6	60.0
	No	4	40.0
Expected return and risk	Yes	8	80.0
	No	2	20.0
Duration of holding the investment	Yes	7	70.0
	No	3	30.0
Liquidity preference	Yes	5	50.0
	No	5	50.0
Others	Yes	3	30.0
	No	7	70.0
	Total	10	100.0

The researcher sought to establish the factors that influence their investment ratio in real estate. From the findings, 60% of respondents indicated that their investment ratio in real estate was influenced by limit set by capital markets authority regulations. On the other hand, 80% indicated that their investment ratio in real estate was influenced by expected return and risk while 70% indicated duration of holding the investment. Additionally, 50% were influenced by liquidity preference, with 30% indicating other factors like leverage, customized

occupancy, and upgrading of invested property. On their views on REITS, the respondents indicated that both individuals and corporate can invest in various REITS to surface their incomes. However, the investors need to consider the returns and the performance of the REITS considered for investment. The respondents also recommended that investors should consider the volatility of the REITS.

Table 4.10: Motivation to invest in Real Estate

	N	Minimum	Maximum	Mean	Std. Deviation
Liquidity benefit	10	1.00	4.00	2.9000	1.10050
Search for higher returns	10	3.00	5.00	4.4000	.69921
Risk reduction in a portfolio	10	2.00	5.00	3.3000	.82327
Dividend payout (steady income stream)	10	2.00	5.00	3.7000	1.15950
Potential capital appreciation	10	1.00	4.00	2.2000	.78881
Tax incentives (stamp duty/corporation tax)	10	1.00	4.00	2.3000	.94868
Risk reduction of directly investing in real estate	10	1.00	5.00	2.6000	1.17379
Professional management of assets	10	1.00	3.00	1.7000	.67495
Benefit front market determined valuation	10	1.00	4.00	2.4811	.97183
Hedging against inflation	10	1.00	5.00	3.0000	1.41421
Unlocking real estate value	10	2.00	5.00	3.1000	.87560
Valid N (listwise)	10				

The researcher asked the respondents to indicate what their motivation was to invest in real estate investment trusts. This was based on a Likert scale where (5) was very important and

(1) Marked as unimportant. The survey found that the pursuit of higher returns was an important motivator, as evidenced by an average of 4.4000 among respondents. Respondents showed an average of 37,000 cases, citing dividend payment (stable income flow) as an important factor inducing investment in real estate investment funds.

However, respondents said that motivating factors such as portfolio risk reduction marked at 3.3000 average, unlocking real estate values marked at 3.1000 average, and hedging inflation displayed at 3.0000 average were very important to respondents. Respondents also said that motivation is important enough to include liquidity (average 2.9000) and reduced real estate direct investment risk (average 2.6000).

Nevertheless, benefit front market determined valuation as shown by mean of 2.4811, tax incentives (stamp duty/corporation tax) shown by mean of 2.3000, potential capital appreciation shown by mean of 2.2000 and professional management of assets shown by mean of 1.7000 as slightly important. The mean values are supported by standard deviation of less than 2 which indicated that the opinions didn't differ much.

Table 4.11: Constraints To Increasing Investment in Real Estates In Kenya

		Frequency	Percent
A lot of regulations from policies	Yes	4	40.0
	No	6	60.0
Huge initial startup capital	Yes	7	70.0
	No	3	30.0
High cost of land	Yes	6	60.0
	No	4	40.0
High cost of obtaining information on investments	Yes	4	40.0
	No	6	60.0
Lack of knowledge by the general public	Yes	7	70.0
	No	3	30.0

		Frequency	Percent
Total	10	100.0	100.0

Respondents were asked to indicate restrictions on growth in real estate investment in Kenya. As a result of the survey, 70% of initial start-up capital, 70% of ignorance of the general public, and 60% of high land cost accounted for the majority. However, 40% indicated a lot of regulations from policies and high cost of obtaining information on investments in each case. This shows that management in Stanlib Fahari I-REIT face various constraints to increasing investment in real estates in Kenya.

Table 4.12: Why REITS are not popular in Kenya

		Frequency	Percent
Lack of knowledge by the general public	Yes	7	70.0
	No	3	30.0
Lack of information sharing by developers	Yes	4	40.0
	No	6	60.0
Fear of destroying the real estate market for private investors	Yes	3	30.0
	No	7	70.0
Lack of knowledge on how REITS work	Yes	8	80.0
	No	2	20.0
It is an undiscovered market by investors	Yes	4	40.0
	No	6	60.0
Market prices will not reflect the correct asset value (adverse selection)	Yes	7	70.0
	No	3	30.0
	Total	10	100.0

On why REITS are not popular in Kenya, 70% indicated lack of knowledge by the general public. In addition, 40% indicated lack of information sharing by developers, while 30% indicated fear of destroying the real estate market for private investors. In addition, 80% indicated the reason as lack of knowledge on how REITS work, 40% indicated it as an undiscovered market by investors with 70% indicating market prices not reflecting the correct asset value (adverse selection). This shows that REITS are not popular in Kenya due to various reasons with lack of knowledge and adverse selection being the major reasons.

Table 4.13: Agreement on Statements About REITS

	N	Minimum	Maximum	Mean	Std. Deviation
The government gives tax credits to REITS	10	2.00	5.00	3.9000	.87560
The government put restrictions on the investments of REITS	10	2.00	5.00	3.7000	.84327
The government offers subsidies to REITS	10	2.00	4.00	1.6000	.67495
Production of REITS is affected by the prevailing economic conditions	10	3.00	5.00	4.2000	.63246
The disposable income of Kenyans influences real estate investments performance	10	4.00	5.00	4.3000	.48305
The demand and supply of housing influence the performance of real	10	4.00	5.00	4.4000	.51640

estate investments in Kenya					
REITS attaches default risk premium on the interest they charge	10	2.00	5.00	3.6000	.96609
REITS are attractive to potential investors	10	1.00	4.00	2.2000	.78881

The study expected respondents to indicate the degree to which they agree with REITS claims. They agreed that the demand and supply of housing influenced the performance of real estate investments in Kenya shown by mean of 4.4000. They also agreed that disposable income of Kenyans influenced real estate investments performance shown by mean of 4.3000, and that production of REITS was affected by the prevailing economic conditions shown by mean of 4.2000. The respondents further agreed that government gave tax credits to REITS as shown by mean of 3.9000, the government offers subsidies to REITS shown by mean of 3.7000 and that REITS attached default risk premium on the interest they charge shown by mean of 3.6000. The respondents, however, disagreed that REITS were attractive to potential investors as shown by mean of 2.2000 and that the government put restrictions on the investments of REITS as shown by mean of 1.6000. This shows that REITS influence investment in REITS. The mean is supported by standard deviation below 2, hence the opinions didn't differ much on the statements.

4.4 Financial Performance

Table 4.14: Financial Performance of REITS In Kenya

	N	Minimum	Maximum	Mean	Std. Deviation
Real estate investments have been recording increased dividend yields	10	2.00	4.00	3.5000	.84984

Capitalization of real estate investments is relatively high compared to other firms.	10	2.00	4.00	3.6000	.69921
Real estate investments have progressively enjoyed high equity turnover	10	2.00	4.00	1.6000	.84327
Real estate investments have been recording increased return on investments	10	2.00	5.00	3.9000	.99443
Valid N (listwise)	10				

Researchers wanted to establish the financial performance of REITS in Kenya. To establish this, she asked respondents to indicate their level of agreement with a performance claim. Based on the results, respondents agree that real estate investments reflect an increased return on investment of 3.9000 on average. They also agreed that capitalization of real estate investments is relatively high compared to other firms as shown by mean of 3.6000 and that real estate investments had been recording increased dividend yields shown by mean of 3.5000. However, they disagreed that real estate investments had progressively enjoyed high equity turnover as shown by mean of 1.6000. This shows that REITS have been enjoying mixed performance metrics. The standard deviation is less than 2, hence the opinions didn't differ much.

4.5 Diagnostic Tests

Table 4.15: Normality Test

	Shapiro-Wilk		
	Statistic	df	Sig.
Return On Assets	.919	5	.522
Funding From Operations	.959	5	.801

The purpose of the study was to test data normality using Shapiro Wilk statistics. The null hypothesis for this test is that the population is normally distributed. According to the obtained data, the variable showed a p value of 0.05 or more. Therefore, we do not reject the null hypothesis about the normal distribution of these variables.

Table 4.16: Multicollinearity

Coefficients[a]								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-12.579	1.740		-7.232	.005		
	Funding from Operations	.869	.090	.984	9.627	.002	.889	1.125
a. Dependent Variable: Return on Assets								

Multicollinearity was tested to using the variance inflation factor. Results indicate that VIF values were less than 2 indicating that the variance of the variables was inflated at a very low level. The tolerance statistics were also close to 95%. Hence, there are no multicollinearity issues in the data.

Table 4.17: Heteroskedasticity

------- Breusch-Pagan and Koenker test statistics and sig-values --------		
	LM	Sig
BP	.261	.610
Koenker	.850	.357

The null hypothesis of the heteroscedasticity test is that there is no heteroscedasticity. If the sig-value is less than 0.05, it is assumed that the researcher rejects the null hypothesis.

According to the obtained data, the significance value was 0.05 or more. Therefore, the researcher does not reject the null hypothesis and assumes that there is no heteroscedasticity in the data.
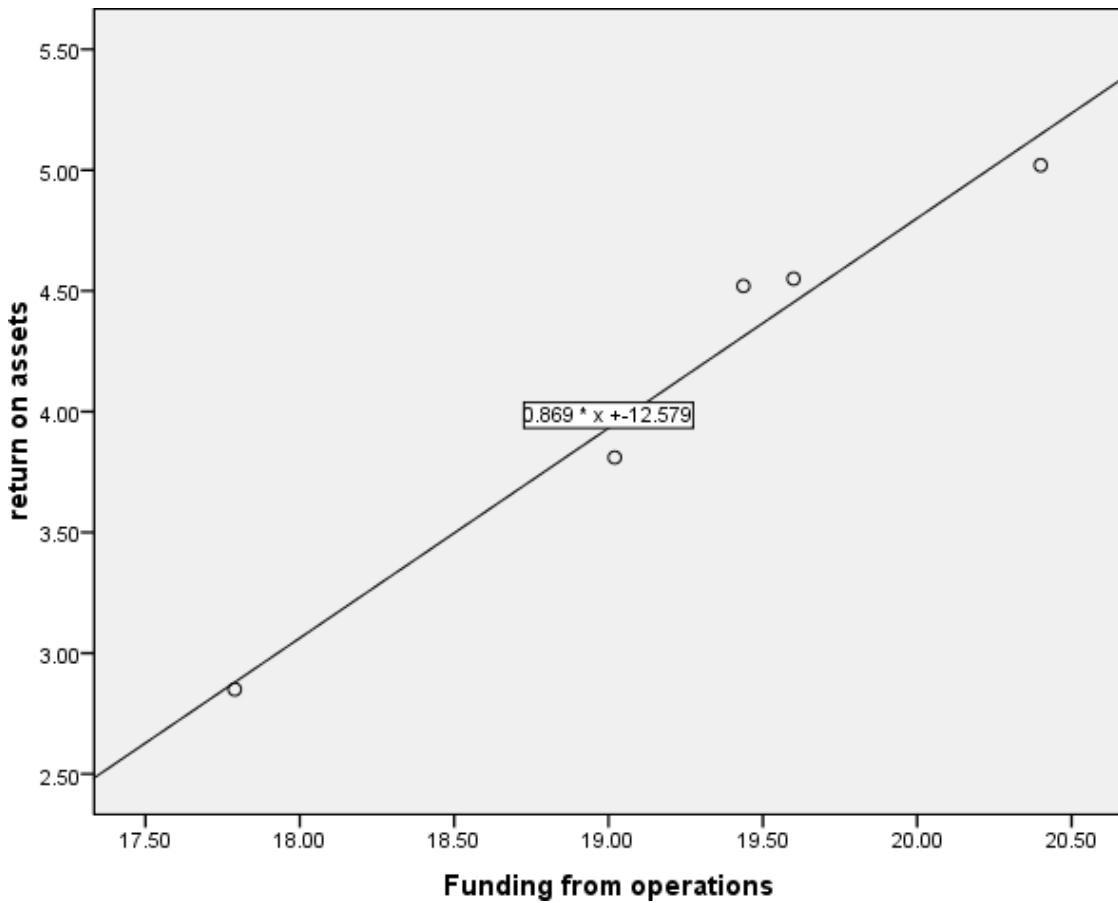

Figure 4.2: Linearity Test

From the scatter plot, it shows an upward slope link between return on assets and funding from operations. This shows that there is linearity in the data which proposes a strong positive linear association of the independent and dependent variables.

Table 4.18: Correlation Analysis

Correlations			return on assets	Funding from operations
return on assets	Pearson Correlation		1	.984**
	Sig. (2-tailed)			.002
	N		5	5
Funding from operations	Pearson Correlation		.984**	1
	Sig. (2-tailed)		.002	
	N		5	5
**. Correlation is significant at the 0.01 level (2-tailed).				

In this study, correlation analysis was performed to establish the relationship between REITS and the financial performance of real estate investment. According to the study results, REITS showed a direct and significant strong relationship with the financial performance of real estate investment ($r = 0.984$, $p = 0.002$). As a result, the improved REITS will improve the financial performance of Kenyan real estate investments.

4.6 Regression Analysis

Table 4.19: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.984ª	.969	.958	.17288

In the model overview, transaction finance as a measure of REITS is closely related to asset return, a measure of the financial performance of real estate investments, as indicated by an R value of 0.984. The results also show that REITS resulted in a 96.9% change in the financial performance of real estate investments (R squared = 0.969). This shows that real estate investment trusts have an impact on the financial performance of real estate investments in Kenya.

Table 4.20: Analysis of Variance

ANOVA[b]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.770	1	2.770	92.675	.002[a]
	Residual	.090	3	.030		
	Total	2.859	4			

a. Predictors: (Constant), Funding form operations
b. Dependent Variable: return on assets

To establish the model's significance, the researchers used F-statistics statistics. According to the obtained data, F-statistics was 92.675, which is higher than the critical statistic of 10.128. F-statistics showed a sig value of 0.002 less than 0.05. This shows that the regression model adopted in this study is important and consistent with the data.

Table 4.21: Regression Coefficients

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-12.579	1.740		-7.232	.005
	Funding from operations	.869	.090	.984	9.627	.002

a. Dependent Variable: Return on Assets

From the regression coefficients, if the funding from operations is held constant, financial performance would stand at -12.579. Results show that a unit increase in funding from operations as a measure of REITS would increase the financial performance of real estate investments by 0.869. The effect is significant at the 5% significance level ($0.002 < p < 0.050$).

From the data

$Y = \beta_0 + \beta_1 X_1 + \varepsilon$

is fitted into

$Y = -12.579 + 0.869 X_1$

4.7 Discussion of Findings

According to the regression ratio, as a measure of REITS, an increase in transaction capital improves the financial performance of a real estate investment. This, along with Kenya's REITS, shows that the financial performance of real estate investments is growing.

This is supported by a correlation analysis showing that REITS has a direct and significant relationship with the financial performance of real estate investments. The findings concur with those of Ruslan (2019) who found that REITS improved real estate investments. However, the findings differ with those of Adilieme and Umeh (2020) who found that REITS had no significant relationship with financial performance of real estate investments.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes the main findings of the study. It also makes conclusions and recommendations based on the results of the study.

5.2 Summary of the Findings

The researcher tried to identify the factors that affect the real estate investment ratio. The survey revealed that respondents indicated limits set by capital market authorities, expected returns and risks, investment duration and liquidity preferences. Other factors indicated were other factors like leverage, customized occupancy, and upgrading of invested property. On their views on REITS, the respondents indicated that both individuals and corporate can invest in various REITS to surface their incomes. However, the investors need to consider the returns and the performance of the REITS considered for investment. The respondents also recommended that investors should consider the volatility of the REITS.

From the findings, the respondents indicated that search for higher returns and dividend payout (steady income stream) were important motivators to invest in real estate investment trusts. However, the respondents indicated fairly important motivators as risk reduction in a portfolio, Unblocking the value of real estate, hedging against inflation, reducing liquidity and the risk of direct investment in real estate. Nevertheless, benefit front market determined valuation, tax incentives (stamp duty/corporation tax), potential capital appreciation and professional management of assets as slightly important.

Respondents pointed out that huge start-up capital, lack of public awareness and high land costs are obstacles to increasing real estate investment in Kenya. Others included a lot of regulations from policies and high cost of obtaining information on investments in each case. The findings showed that REITS were not popular in Kenya mainly due to lack of knowledge by the general public; lack of knowledge on how REITS work and market prices not reflecting the correct asset value (adverse selection). Other reasons for the lack of popularity were lack of information sharing by developers; fear of destroying the real estate market for private investors and the lack of investors to discover the market.

On statements about REITS, respondents agreed that the demand and supply of housing influenced the performance of real estate investments in Kenya. They also agreed that disposable income of Kenyans influenced real estate investments performance and that production of REITS was affected by the prevailing economic conditions. The respondents further agreed that government gave tax credits and subsidies to REITS. It was also agreed that REITS attached default risk premium on the interest they charged. The respondents disagreed that REITS were attractive to potential investors and that the government put restrictions on the investments of REITS.

REITS' 'Financial Performance' research shows that the ROI of real estate investment has increased. The market capitalization of real estate investment was found to be relatively high compared to other companies with high dividend yields. However, the results show that real estate investments do not exhibit consistently high capital turnover.

Correlation analysis shows that REITS has a strong and positive impact on the financial performance of real estate investments. This is supported by model reviews showing that operating financing as a measure of REITS is closely related to asset return as a measure of the financial performance of real estate investments. The findings also showed that REITS caused a 0.969 change in financial performance of real estate investments. From the regression coefficients the study found that an increase in funding from operations as a measure of REITS would significantly increase the financial performance of real estate investments.

5.3 Conclusions

Various factors affect Nairobi County's real estate investment ratio. Stanlib Fahari IREIT management faces various obstacles to increasing their real estate investment in Kenya. The study also concluded that REITS is not popular in Kenya for a variety of reasons. The main reasons are lack of knowledge and unfavorable choices.

From the descriptive statistics, the study concludes that the demand and supply of housing; disposable income of Kenyans; and prevailing economic conditions Affects the performance of real estate investments in Nairobi County. The study also concluded that the Kenyan government provides unlimited tax credits and subsidies to REITS. Among the REITS in Nairobi County, default risk premium is attached to the interest charged. The study also concludes that REITS in Nairobi County are attractive to potential investors.

From the descriptive statistics the researcher concludes that real estate investments in Nairobi County are experiencing increased return on investments and dividend yields but progressively low equity turnover. The capitalization of real estate investments in Nairobi County is relatively high compared to other firms.

Correlation analysis showed that REITS had a strong and positive impact on the financial performance of real estate investments. This leads to the conclusion that REITS has a strong, positive and significant impact on the financial performance of real estate investments in Nairobi County.

5.4 Recommendations

To improve the financial performance of real estate investments, research recommends that REITS managers increase their operating capital. The REITS also need to monitor their investments in order to understand the factors driving investment in real estate. This would enable them to improve the performance of investment in real estate with improved positive factors and reduced negative effects of the factors.

The study also recommends that the government together with REITS managers come up with public sensitization programmes to create awareness on REITS among public members. This will attract more investors and real estate investments, improving the financial performance of real estate investments. They can also come up with enticing packages and returns for investors which would make the market more attractive to potential investors.

5.5 Limitations of the Study

This study was limited by the variables and measures used in the analysis. This means that where other variables and measures are used the researcher may get different results. The study was also limited by the inability to confirm how credible the data was. The study was also limited by the lack of willingness to fill the questionnaires.

5.6 Suggestions for Further Research

This study recommends conducting similar studies on other factors that affect the financial performance of real estate investments. Similar research is also recommended using respondents from non-listed REITS to compare the results. This research also recommends a study on how REITS influence other performance metrics of real estate firms like Sales.

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APPENDICES

Appendix 1: Questionnaire

The relationship between Real Estate Investment Trusts and financial performance of real estate investments

Kindly, fill all the questions either by ticking in the boxes or writing in the spaces provided.

Section A: Demographic Information

1. Kindly indicate your gender(Optional)

    Male _____() Female ()

2. Kindly indicate your age bracket

18-30 years _____()

31-40 years _____()

41-50 years _____()

Above 51 years ()

3. What is your highest academic qualification?

Certificate _____()

Diploma _____()

Degree _____()

Master's _____()

Others ....

4. Position in the company..

5. Period of tenure in years..

6. For how long have you been working in the real estate industry?

    Less than 3 years ()   3-5 years ()

    6-10 years ()   More than 10 years ()   Not working/worked ()

7. How long have you traded in the Nairobi Security Exchange?

    Less than 3 years ()   3-5 years ()

    6-10 years ()   More than 10 years ()

    Not working/worked ()

8. Please indicate percentage (%age) of your investment in the following options j
   a) Real estate   0
   b) Shares   0
   c) **Bonds**   0
   d) Treasury Bills = <)
   e) Foreign property
   f) Others (please specify)........

9. **Between financing and owning real estate and on nning shares in Real Estate Investment Tru:-.-ts,** which one would clients prefer?

   Owning shares   **D**

   Financing and o\ming real estate O

   Please   state   ?

Section B: Real Estate Investment Trusts

10. **\/hat are the factors that influence your investment ratio in real estate? Please tick where** appropriate.
    a) Limit set by Capital Markets Authority regulations $=1.$)
    b) Expected return and risk
    c) Duration of holding the investment $=1.$)
    d) Liquidity preference $=1.$)
    Others (please specify)_____

.1 What are your ,,ews on Real Estate Investment Trusts?

12. What is the motivation to invest in real estate investment trusts?" here (5) is Very important, (2) importan (3) fairly important, (2) slightly important and (1) not important.

	1	2	3	4	5
a) Liquidity benefit					
b) Search for higher returns					
c) Risk reduction in a portfolio					
d) Dividend payout (steady income m = !!!)					
e) Potential capital appreciation					
I) Ta.x incentives (stampduty/coljlOration					
g) Risk reduction of directly investing in real estate					
h) Professional management of as.ets					
i) Benefit front market detennined valuation					
J) Hedging against inflation					
k) Unlocking real estate value					

u

13. **What are the constraints to increasing investment in real estates in Kenya?**
    a) **A lot of regulations from pnlicies**   ()
    b) Huge initial startup capital   _____
    c) High cost of land   _____
    d) High cost of obtaining information on investments ..Q

14. Why are REITS not popular in Kenya?
    a) Lack of knonledge by the general public   ()
    b) Lack of infonnation sharing by developers   ()
    c) Fear of destroying the real estate market for private investors   )
    d) Lack of knonledge on bow REITS work   <)
    e) **It is an widiscovered market by investors**   ()
    f) **l\.fark.et prices will not reflect the correct asset value (adverse selection)** ()

15. Indicate your level of agreement on the following statements about REITS where (5) is strongly agree, (2) agree, (3) neutral, (2) disagree and (l) strongly disagree.

	1	2	3	4	5
The govennnent gives tax credits to REITS					
The government put restrictions on the investments of REITS					
The govennnent offers subsidies to REITS					
Production of REITS is affected by the prevailing economic conditions					
Tue disposable income of Kenyans influences real estate investments perfonnance					
The demand and supply of housing influence the perfonnance of real estate **investments in Kenya**					
REITS attaches default risk premium on the interest they charge					
REITS are attractive to potential investors					

Section C: Financial Perfonnance

16. Indicate your level of agreement on the following statements about perfonnance .w ere(5) is strongly agree, (4) agree, (3) neutral,(2) disagree and (1) strongly disagree.

	1	2	3	4	5
Real estate investments have been recording increa,ed dividend yields					
Capitalization of real estate investments is relatively high compared to other firms.					
Real estate investments have progressively enjoyed high equity turnover					
Real **estate investments have been** reoording **increased** retwn **on investments**					

Thank you for participating in th.is s wvey.

Appendix 2: Document Review Form

	Return On Assets		
	Net profit	Total assets	ROA
2016	106,000,288	3,715,011,411	2.85
2017	171,126,409	3,761,627,663	4.55
2018	193,491,759	3,852,621,474	5.02
2019	175,228,248	3,878,449,025	4.52
2020	148,025,113	3,883,746,200	3.81

Source: Stanlib Fahari i-REIT