EFFECT OF FOREIGN DIRECT INVESTMENT ON THE GROWTH OF REAL ESTATE FIRMS IN KENYA

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A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADIMINISTRATION

SCHOOL OF BUSINESS

UNIVERSITY OF NAIROBI

2016

DECLARATION

The project is my original work and has not been submitted in any other University.

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D61/67916/2013

Signature……………. Date……………………………….

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

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DEDICATION

This work is dedicated to my family. My children, Miles and Myron, for being a constant inspiration when all else failed, my husband Hope for living up to his name and being there emotionally and financially throughout the process of conducting this study. God bless you abundantly. My mother Lynette Akinyi, my father Callisto Guwa, for believing in me and always affirming that the sky was not the limit for anyone; I thank you all.

ACKNOWLEDGEMENT

I wish to acknowledge all the individuals who assisted in various ways towards completion of this research proposal. Many thanks go to my supervisor Dr. John Yabs for giving me the required guidelines all the way till I was through. I am forever in-debted. My classmates who supported me in numerous ways, your sincere support cannot be forgotten. Not forgetting the administration of University of Nairobi for their assistance in providing library services where I got much information concerning the research study.

ABSTRACT

A business success or failure in the 21st century depends on how well it can compete in the existing market. The global system has harmonized standards from country to country right across to the lowest common denominator. The real estate property market has had tremendous growth because of the belief among investors that real estate is an asset that can offer security in terms of income and capital flow or both. In Kenya the real estate sector has expanded so much that it has turn out to be the fourth biggest contributor to the economy's wealth. This current study pursued to fill in the current research gap in this sector by answering the following research question; what is the effect of foreign direct investment on the growth of real estate in Kenya. This study adopted a descriptive research design. For this study, the target population consisted of the 80 real estate companies in Kenya. The study purposively selected one finance manager from each of the 80 Real estate companies in Kenya. Both primary and secondary data sources were used for the study to gather data for analysis. Primary data collection involved self-administration of a questionnaire. Quantitative data was analysed using descriptive analysis like frequency, mean, percentages and standard deviation, using SPSS as a tool for the analysis. Content analysis was used in analysing qualitative data. Here the opinion of the respondent was presented in a prose form. The study used multiple regression analysis. The study established that foreign direct investment influence growth of real estate's sector in the country to a great extent. It also established that the Kenyan government has initiatives of attracting foreign direct investments in the real estate's industry in Kenya. From the regression analysis, the study found that foreign direct investment positively influences growth of the real estate's sector in the country. The study also recommends that the government should enhance implementation of the various policies that will attract foreign direct investment in Kenya will be of benefit on the real estate progress in the Kenyan industry to a great extent. The government should have incentives that will attract FDI to the real estate sector stimulating the growth of real estate's sector in Kenya to a great extent.

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ABBREVIATIONS AND ACRONYMS

CBK	Central Bank of Kenya
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
KCB	Kenya Commercial Bank
KNBS	Kenya National Bureau for Statistics
MNCs	Multinational Corporation
OECD	Organization for Economic Co-operation and Development
PIRI	Prime International Residential Index
R&D	Research and development
SPSS	Statistical Package for Social Science
UNCTAD	United Nations Conference on Trade and Development

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Success and failure of business in the 21st century depends on how well it can compete in the existing market. The days when business waits for clients to beat a path to their doors is long gone (Ohmae, 1995). Therefore, according to Porter (1985) businesses are creating sustainable competitive advantage by exploring new markets. With the help of globalization, firms have started exploring new markets, especially in economies that are growing. Most of the developed areas such as euro area have stagnated growth while the developing economies such as those in the Sub Sahara Africa have been enjoying growth.

According to the neoclassical theory of investments; future investment flows are in a direct way related to the incentive package which has effect and expected rate of return, investment security and speed and scope the companies are able to disinvest (Cockcroft and Riddell, 1991). As explained in the neoclassical theory, foreign direct investment through increasing the amount of capital per person influences income growth. The Internationalization Theory asserts that MNE will exert exclusive control over an imperceptible at firm-level in knowledge-based and firm-specific advantage. The firm's specific advantage is competence-based. The theory suggests that vertical FDI enables companies decrease their exposure to risks that are as a result of investments from specialized assets. According to the theory, the investment decision is based on the expected returns and also on a country's specific features such as political stability, demand for products, economies of scale, production and capital costs and barriers to entry (Carbaugh, 2000).

In the World Bank's report on GDP annual growth for 2014-euro area grew by approximately 1% compared to Africa which grew by 5% in year 2014. This indicates that Africa's economy is growing faster than that in Europe. This has attracted multinational companies as well as other investors in investing in Africa especially Kenya thus enhancing economic globalization through FDI in developing countries in Africa such as Kenya.

1.1.1 Concept of International Business

International business describes all the commercial transactions occurring between countries. Mostly private sector firms have the intention of making profit whereas government undertake such for political and profit reasons (Daniels, Radebaugh and Sullivan, 2007). International business is defined as the business dealings that occur across countries borders. The definition is inclusive of the small firms that import and export small quantity of goods to a single country and also global firms that have strategic alliances and integrated operations across the globe (Grant, 2000). Over the last half of the century, International business has grown in part due to liberalization of investment and trade and also due to the fact that conducting business internationally has been made much easier.

In today's business environment internationalization of companies and markets has increased becoming an important trend (Vida and Fairhurst, 1998). In the international market large retail operations have become common thing (Myers and Alexander, 2007). The international business environment keeps on changing bringing into attention the impediments to internationalization (Evans *et al.,* 2008). A retail whose aim is to expand their business in the global market will be faced by the uncertainty and complexity that exists due to the dynamic nature of the market for instance; location for businesses, effective coordination of global operations, new business environments and unfamiliar consumer preferences (Burt *et al*., 2003).

1.1.2 Foreign Direct Investment

Growth and development of the country economy has in the recent past improved through FDI. It has improved in technological spillovers, job creation, improved managerial skill, productivity of international production networks and access to external market. FDI has played a vital role of providing capital for various investments in the country it has over the past two decades continued to deteriorate because of the country specific factors, which include; poor economic policies, inconsistent efforts at structural reforms, corruption, bad governance, poor infrastructure, insecurity, corruption, exchange rate volatility and political instability, and external factors including the oil crisis of 1979, recent global financial crisis and the current debt crisis in the euro zone.

According to Adegbite and Ayadi (2010), most developing countries are not able to generate adequate revenue to meet their expenditure needs FDI helps to fill the domestic revenue generation gap in such economies. They are also of benefit in form of adoption of foreign technology and externalities. These is in form of employee training, imitation and licensing and introduction of new processes (Alfaro, Chanda, Kalemli, Ozean and Sayek 2006).

FDI include capital, marketing and managerial expertise and technology. All of the following factors have an impact on the host country production capabilities. Government policies success to stimulate the productive base for the economy in large part depends on the governments' ability to regulate the FDI which is inclusive of technological, capital resources and managerial to increase the production capacity (Omankhalen, 2011).

1.1.3 Real Estate in Kenya

Over the last decade, the outlook of real estate investors has become international. Globalization has led to great changes in terms of the way investments are made and also changed the investment opportunities breath. Over the last decade the real estate sector in the developing African countries Kenya included has undergone dramatic changes and more organization that are in the real estate market conduct activities such as, selling and buying, managing, renting and leasing of real estate for others and providing other related services for example appraisal services (Property Kenya, 2015).

As the process of land reforms and privatization continues, there are new opportunities that arise daily for real estate investment and other related business. However, these countries economic infrastructure is sometimes underdeveloped lacking a regulatory framework that relates to foreign investors. Land legislation can in often times be ambiguous with unresolved issues that relate to ownership. For instance, land ownership in Uganda is a complex issue consisting of four different titles. The lease term for people living in the urban areas is 49 years which can in some cases be extended to 99 years. In Tanzania, the land is publicly owned and is vested in the president as trustee and provided on 33, 66, or 99 year leases (National Land Policy Process, NLPP, 2008).

Kenya on the other hand does not have a clearly defined or codified National Land Policy since independence. This, coupled with many land laws some that are incompatible has led to complex administration system and complex land management system. Since colonization, Kenya has had to grapple with the land question and subsequent regimes are not willing or are unable to deal with. The land question manifestation can be seen in different ways including in terms of poverty, breakdown in land administration, fragmentation and in land ownership. This has led to political, economic, social and environmental problems which include; landlessness and squatting, deterioration of land quality, tenure insecurity and conflict, abandonment and underutilization of agricultural land, urban squalor and disinheritance of some groups and individuals (National Land Policy Process, NLPP, 2008). In spite of this background the Kenyan real estate sector has experienced tremendous growth. Kenya's strategic position in East Africa and its developing economy has increased the number of overseas investors putting their money into the tourism and real estate sector (CIA fact book) also into the holiday homes, resorts and on the retirement property developments situated in the seashores and in the game reserves. In Kenya, Residential property investment opportunities do exist for small personal investors while for large and corporate investors, there are real estate possibilities developing for them daily if they are looking for a true emerging market with long term sustainable possibility of yield, profit and growth (Property Kenya, 2015).

There is a very high demand for low income residential income housing which is higher than the supply. This deficit is very high such that even existing shanties attract rent. The existing government has given a pledge that it will supply 150, 000 new housing units yearly. Even with this new supply the increasing rural to urban migration makes it difficult for this gap to be bridged. The real estate market can attest that it is a major player and contributor to the country's economy. Its share in the country's economy consists of billions of shillings and its investors consists of farmers to multinational companies' executives all wanting to be part of the sector (Makathimo, 2013).

1.2 Research Problem

The relationship between economic growth and FDI, and stability of growth, is a significant reflection and countries look at tradeoffs that are part of foreign entry. This is in terms of long period of time performance. The argument by Romer (1993) who claimed that an idea gap reduces growth in the emerging markets and FDI has increased in this age of globalization. This has played vital role on economic growth in this global process. Korten (1995) argues that, FDIs are regarded as major source of finance that has influence on macroeconomic management and the balance of payments of global economy. FDIs have become a driving force in the economic liberalization. FDI promotes industrial restructuring, optimum distribution of global resources and enhances innovations in technology. De Mello, (1992) argues that FDI inflows is significant in explaining growth of recipient countries.

The belief that real estate is an asset that can offer security of income flow or capital or both has led to unprecedented growth and development of this sector, the sector has rapidly developed and currently it is number four in the major contributors of the country's economy. According to the current national accounts at the Ministry of Planning, the contribution of the sector to country's GDP has been revised to 10.6 percent which has doubled from previous year percentage which was 4.9 percent in 2013 (CBK, 2014). According to World Bank (2014) the real estate sector growth over the last ten years has seen the industry displace the retail sector which was the fourth largest contributor to the economy in the previous year's while the traditional sectors for example financial services, agriculture, wholesale continued to diminish.

Empirical studies in the country include; Muthee (2012) did a study on the connection between economic growth and the real estate prices in Kenya. The study established that there was a relationship between the variables. A quarterly change in housing prices results into a same change in gross domestic product. Choka (2014) examined investor sentiment effect on real estate investment decisions in Kenya, the study found that investment decisions of the real estate investor are influenced by the investor sentiment. Kinuthia (2012) sought to establish the elements of foreign direct investment in the country. The study established that the elements were external debt, inflation and foreign exchange reserve. Kim (2011) did a study on how FDIs influence development and economic growth in Kenya. The study established that it does influence economic growth and by strategically strengthening investment plans.

To the researcher's knowledge there was limited information topic. The study's aim was to fill in the existing research gap by answering this research question, what is the effect of FDI on the growth of real estate in the country?

1.3 Research Objective

The research objective was to establish the effects of FDI on the growth of real estate in Kenya.

1.4 Value of the Study

The research findings will benefit the real estate investors in making informed decisions in the real estate property investment. Investors seeking to invest in the real estate sector will be able to make informed evaluation with regard to the influence of FDIs on growth of real estate in the country.

Findings of this study may also be used by the government and other policy making bodies as a guideline in formulation and development of policies that are concerned with the sector in the economy. The government being the regulator will benefit with the findings of this study as it will be enlightened on the effects of FDIs in the progress of real estate sector.

Relevant knowledge in the sector will be acquired which will be of benefit to academicians also providing a foundation for further research in the field and contributing to the literature on effects of FDI on the improvement of real estate in Kenya. Researchers will also be able to borrow from the findings of this study and may even further the study by varying the various variables used in order to get more precise results.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The chapter encompasses of the literature review on study topic consisting of theoretical review and the summary of the literature review.

2.2 Theoretical Foundation of the Study

The study was steered by the neoclassical theory on investments, internationalization theory and the imperfect market theory.

2.2.1 Neoclassical Theory of Investments

Future investments flow are directly related to incentives packages which have an effect on the expected rate of return, and the speed of disinvestment (Cockcroft and Riddell, 1991). The tax regime, macroeconomic policies and investment code of guidelines are major elements affecting FDI.

According to this theory income growth is affected by FDI as it increases the amount of capita per person. This affects variables such as human capital and research and development influencing long term growth. Ikiara (2003) claims that technological spillovers to independent firms in the country's economy and Technological transfers to affiliate companies, MNCs can increase the rate at which new transitional product varieties develop, can introduce new means of capital, increase international collaboration and R&D and raise the quality of a product.

Bajona and Kehoe (2006) discoursed clarifications on multinational production built on the theory. They nevertheless have criticized the theory because they were created on assumptions of existence of perfect factor and of good markets and making it difficult for the theories to provide explanations that are satisfactory on FDI pattern and nature. In case there are market imperfections the theory presumes that FDI cannot happen.

According to Seidman, (1987) the neoclassical theory of investments emphasized on the fall of the cost of capital while the desired capital-output ratio increases. The theory gives special emphasis to the role on the cost of capital of the user in determining the optimal capital-output ratio. According to the theory, FDI invasions provide solution in completing the foreign exchange, saving and investment gap and fiscal gap in developing countries. This may trigger the economic growth of the host economies through increasing capital formation, increasing employment, encouraging manufacturing growth, fetching management expertise and founding brand name, and providing the skilled labour with an access to the international production network.

2.2.2 Internationalization Theory

The theory was established by Buckley and Casson (1976), Rugman (1981), and Hennart, (1982). It asserts that proprietary control over an intangible, knowledge-based, firm-specific advantage are exerted at firm level of MNE.

The theory claims firms reduce their risk exposure that arise from investments in specialized assets by using vertical FDI. The theory also claims that cost benefit analysis of significant factors in the home and receiving country will determine a firm's ability to invest in a foreign country. The investment decision as explained in this theory is dependent on both the expected returns and also on a country's specific factors like political stability, demand for products, barriers to entry, cost of production and capital and economies of scale. Carbaugh (2000) explains that companies might choose to invest in countries whose raw materials and labor are cheaper when compared to other countries so as to reduce costs. This can be in part be the reason why there is movement of direct investment to Asia more so in India and China where the cost of labor is cheaper compared to other countries in the world.

Internalization theory considers that FDI are suitable when the benefits of internalization overweight costs. MNE possess the technological or managerial knowledge as a key for success and it is also protected in its internal market. Expanding on international market implies developing of new operations and activities, but managed and controlled by the holding company. Even though this theory is more applicable to production and licensing, in term of real estate it could be interpreted through investor's intention to maintain the position and establish quality standards on the foreign market.

2.2.3 Imperfect Market Theory

The resources that are available for production are not the same in different countries. Even with the existing comparative advantage, there would be limited international business if their resources could easily be transferred to different countries. If their markets were perfect factors of production except land would be transferable. Such an un-restricted mobility would lead to equal costs and returns and do away with the comparative cost advantage. This is the rational for international investment. The real world however is characterized by imperfect markets where the production factors are immobile. The fact that the markets that exist for different production factors are imperfect, firms are able to capitalize on the foreign market resources. This form of imperfect markets provides a reason for firms to seek for foreign opportunities in different countries (Jeff Madura, 2008). These structural market imperfections are the reason some markets enjoy advantages unlike the competitors. Such advantages include superior technology, managerial skills, organization knowhow and brand name, these allow firms to obtain rent in foreign countries that compensate for the unavoidable initial disadvantages (Hymer, 1960).

2.3 Empirical Review

Bonis (2006) did a study on the effects FDIs on United States commercial real estate values. The study objective was to determine FDI effect on the prices of real estate. The United States is a source of many investment opportunities to firms, individuals and government of foreign countries. For many years' foreigners, have put up residential properties, office buildings, hotels and malls. The thrust of property values is economic growth, interest rates and tax rates– variables which determine demand. The foreign demand can increase or decrease prices by a substantial amount. when the prices respond to changes in fiscal policies and economic growth FDI will establish a measurable portion of demand for real estate and the value fluctuations which will be to some level be explained by inflows or outflows of foreign capital.

He, Myer and Webb (2012) did a study on the effect of wealth of the real estate in the US when acquired by investors who are not US citizens. The study established there was increased wealth due to the selloff to the selling companies' shareholders but there was no difference found between sell offs to American or those who were not American citizens. Myer, He, Webb, and (2012) determined that those who were not American citizens were disadvantaged.

Gerlowsky, Fung and Ford (2014) looked at the factors that affect real estate location choices by foreigners in the US. The factors were found to be other users of space and the market potential for renters. Higher prices were found to reduce the attractiveness of the real estate investment for the foreign investors even though the foreigners' investment are the contributors to the higher prices in most of the desirable locations in the country. Areas like New York, California, Florida, and Texas attracted the most capital.

Chernysheva (2011) conducted a study on Swedish real estate foreign direct investment and its changes between the 2000 - 2010 periods. The study sought to generalize the results between 2000-2010 periods that showed the FDIs influence on the development of the Swedish real estate market and also to provide an improved understanding from foreigners' point of view. This study used deductive method to conduct the research and assumed previous research and theory. Quantitative data was from media and scientific sources while qualitative data were questionnaires filled by companies in the real estate industry FDI process. The study looked at political changes, cultural issues, investor preferences, micro and macroeconomic issues, changes in the market features and gives summary of both classical investment theories and FDI. According to this research the changes in the Swedish property market within the 10-year period included; augmented difficulty while obtaining finance, increased use of structural deals, decreased risk and yield levels, greater importance of diversification and higher selectiveness when choosing investment objects.

Borensztein *et al.* (2008) looked at the cross-country regression framework on the effect of FDI on economic growth using data FDI from OECD countries to 69 developing countries between 1970-1989. They established that FDI contributed highly to growth because of the adoption of new technologies. Additionally, it was of benefit to economic growth through the relationship between FDI and the human capital level.

According to Bengoa *et al.* (2003) he found that for a country to benefit from FDI, it had to have adequate human capital, liberalized market environment and political and economic stability. Moreover, several economists have observed the unpredictability of FDI and the financial adjustment needed (Durham 2004). The reasoning is that countries that attract high volumes of FDI inflows have well developed financial markets the host countries gains even more from it due to their capacity to adjust to the unpredictability of inflows of capital.

According to Levine and Carkovic (2005) there is relationship existing between economic growth and FDI using General Method of Moment. The findings indicated that FDI does not influence the economic growth directly. Choe (2003) explored the interaction between FDI and economic growth in eighty countries. He found evidence of stronger effects evident from economic growth to FDI rather than the opposite.

Bende *et al.* (2001) studied the FDIs impact on economic growth through spillover effects of the ASEAN-5 between 1970-1996. The study established that either directly or through spillover there is economic growth when there is FDI. The FDI was found to be of benefit to economic growth in Malaysia, Philippines and Indonesia, whereas for Thailand and Singapore there was a negative relationship.

2.4 Summary of The Literature

From the theoretical review, three theories were advanced to explain the influence of FDI on growth of the real estate sector in the country. The theories are neoclassical theory of investment, internationalization theory and imperfect market theory. It is therefore important to understand the theory that better explains the topic of study. There has been a number of international studies done on the topic. The results show mixed results and therefore inconclusive.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The chapter comprises of research methodology which explains the intended, target population, research design, data collection and data analysis and presentation of the findings.

3.2 Research Design

The research study used a descriptive design. On Mugenda and Mugenda (2003) suggestion that descriptive research should be used to collect data so as to test a hypothesis or to give answers to questions in regard to the current status of the subject's understudy. This kind of method determines and then reports on how things are.

3.3 Population of The Study

Ngechu (2004) explains that, a population should be a discrete set of people, events of household elements, things or services that are investigated. The definition warrants that population should be homogeneous. The targeted population for this study entailed the 80 real estate companies in Kenya. The study purposively selected one finance manager from each of the 80 Real estate companies in Kenya (Appendix III).

3.4 Data Collection

In order to gather data for analysis purpose the primary and secondary data was used together. Open and close ended questions in a semi-structured questionnaire were used, the questions were easier to complete and respondents were less likely to turn down answering them Mugenda & Mugenda (2003). Secondary data were published annual reports of the firms on the study, these were a dependable source of the needed information (Sekaran, 2003).

The questionnaire was taken by the researcher at the respondents work stations. The researcher picked them up later after the respondent filled them. The company's websites provided published annual accounts that were used as sources of secondary data.

3.5 Data Analysis

In rating the questionnaires Likert scale was used. Quantitative data was analysed by descriptive analysis like mean, standard deviation, frequency and percentages using tools such as SPSS. The Qualitative data was analysed using content analysis, where the opinion of the respondent was presented in prose form. Multiple regression analysis was used to determine the relationship between the variables (Hair *et al.,* 2010). The multiple regression equation was

$$\mathbf{Y = \beta_0 + \beta_1 X_1 + \varepsilon}$$

CHAPTER FOUR

DATA ANALYSIS, INTERPRETATIONS AND PRESENTATION

4.1 Introduction

The chapter will comprise of analysis of data, interpretation and presentation of the findings.

4.2 Response Rate

The sample size was 80 respondents from which 71 filled in and returned the questionnaires making a response rate of 88.8**%**. The response rate of 50 percent is satisfactory for analysis and reporting and a rate of 60 percent is good while a response rate of 70 percent and over is excellent Mugenda & Mugenda (1999). Based on this observation, the study had an excellent response rate.

4.3 Demographic Information

Respondents by gender

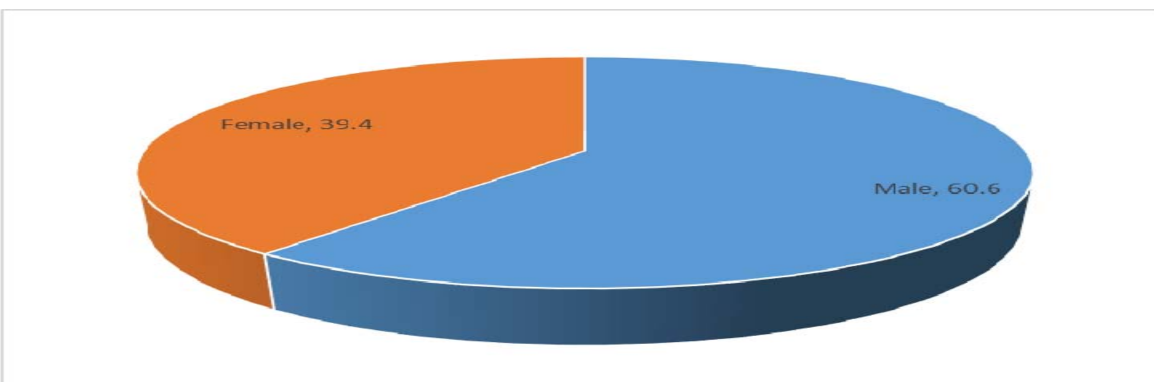

Figure 4.1: Respondents by gender

Those who were interviewed were asked to indicate their gender. Many of them as shown by 60.6 percent indicated they being male, while 39.4 percent indicated being female. This indicated that both male and female were well represented in the study, though not in equal proportion.

Respondents' age

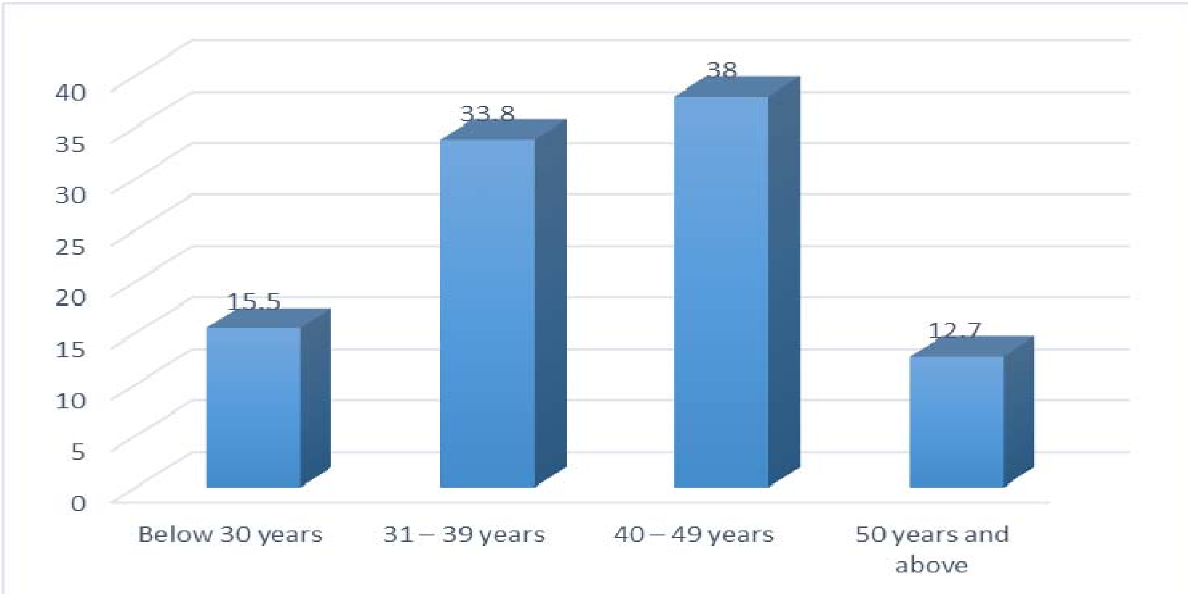

Figure 4.2: Respondents age

The study asked the respondent to indicate the category of their age. The study found that most of the respondents as shown by 38% indicted 40 to 49 years, 33.8% indicated 31 to 39 years, 15.5% indicated below 30 years and 12.7% indicated above 50 years. It clearly shows that respondents were mature enough to understand the questionnaire.

Respondent education level

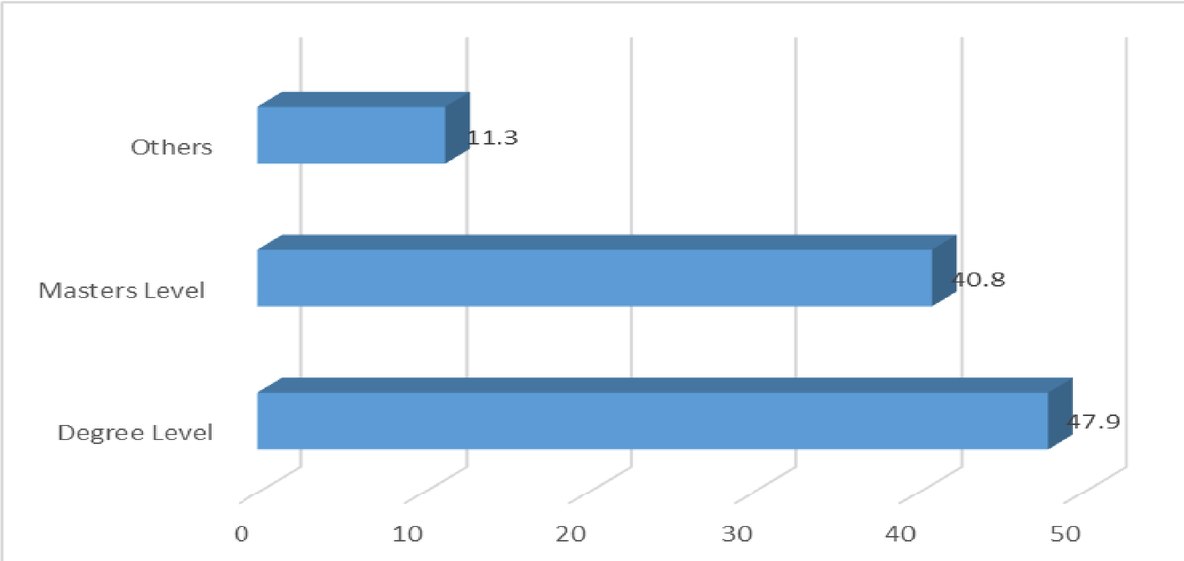

Figure 4.3: Respondent education level

Those who were interviewed were asked to indicate their highest-level education. The study discovered that majority of them as shown by 47.9 percent were degree holders, 40.8 percent were master's degree holders and 11.3 percent indicated others, which includes PhD and Certified Public Accountants.

Duration of time in the organization

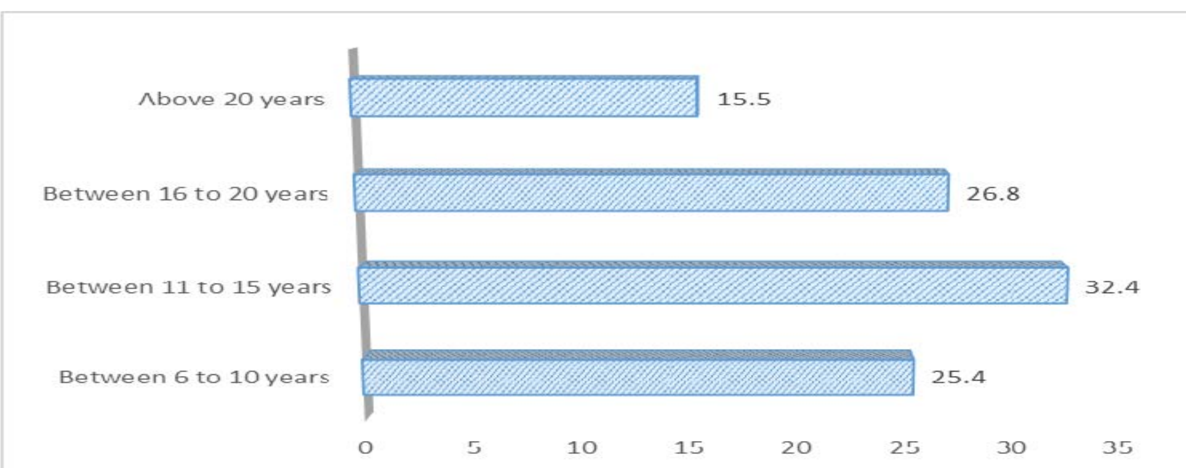

Figure 4.4: duration of time in the organization

The study established that many of the respondents as 32.4 percent had been working in the organization for 11 to 15 years, 26.8 percent indicated 16 to 20 years, 25.4 percent indicated between 6 to 10 years and 15.5 percent indicated above twenty years. This indicates that, those who were interviewed had worked for the organization respondents had worked for a long time and they could give reliable information to the study.

4.4 Effects of FDI On Growth of Real Estate

FDI influence to the growth of real estate's industry

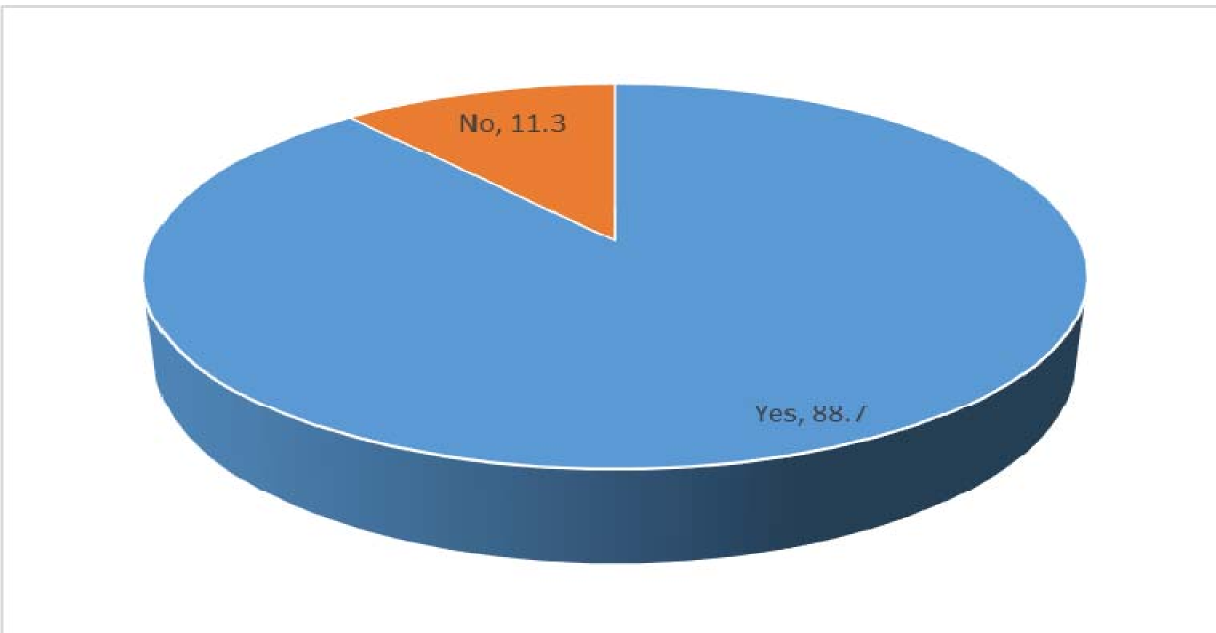

Figure 4.5: FDI Influence to the growth of real estate's sector

The study established that many respondents shown by 88.7% agreed that there was an influence, while 11.3% were on the contrary. This clearly shows that foreign direct investment influence growth of real estate's industry in Kenya

Table 4.1: Extent to which foreign direct investment influence growth

Extent	Frequency	Percent
Very great extent	24	33.8
Great extent	39	54.9
Moderate extent	8	11.3
Total	**71**	**100.0**

From the findings on the extent to which foreign direct investment influence growth of real estate's industry in Kenya, the study established that many of the interviewed respondents as shown by 54.9% showed great extent, 33.8% showed to very great extent, while 11.3% showed to moderate extent. This depicts that foreign direct investment influence growth of real estate's industry in Kenya a great extent.

Table 4.2: FDI On the Growth of Real Estate's Industry

Statements	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Mean	Std deviation
In developing countries FDI has become a source of capital for projects needed in development	0	0	11	35	25	4.197	1.617
Policies and political decisions have been reshaped by the governments to attract FDI	0	0	9	27	35	4.366	1.726
There is higher growth rate in Developing countries opened to FDI	0	0	3	48	20	4.239	1.749
The gap between a countries internal savings and funds required is reduced by FDI	0	0	6	26	39	4.465	1.811

Companies in the developing countries are becoming more productive in response to the competition brought by FDI	0	0	7	29	35	4.394	1.748
There has been increased employment opportunities due to FDI's	0	0	10	35	26	4.225	1.635
Host countries are increasingly developed by FDI through improvements in productivity and technological transfers	0	0	9	41	21	4.169	1.641
Host countries may be concerned if there is more possession of companies by foreign investors in tactically important industries	0	0	5	41	25	4.282	1.708
In order to attract FDI governments go to the extreme extent damaging the environment	0	0	6	47	18	4.169	1.702
Economic growth may reduce if the government encourages FDI by reducing investment opportunities for local investors.	0	0	4	26	41	4.521	1.861

The following were the findings on the respondent's reaction on statements relating to effects of foreign direct investment on improvement of Kenyan real estate's industry. According to the study findings, majority of the respondent strongly agreed that Economic growth may reduce if the government encourages FDI by reducing investment opportunities for local investors shown by mean of 4.521. Respondents further agreed that Economic growth may reduce if the government encourages FDI by reducing investment opportunities for local investors as shown by mean of 4.465, local companies are becoming more productive with the aim of countering the threat brought by FDI 4.394, Policies and political decisions have been reshaped by the governments to attract FDI as shown by mean of 4.366, Host countries may be concerned if there is more possession of companies by foreign investors in tactically important industries as shown by mean of 4.282, there is higher growth rate in Developing countries opened to FDI as shown by mean of 4.239, There has been increased employment opportunities due to FDI's as shown by mean of 4.225, In developing countries FDI has become a source of capital for projects needed in development as shown by mean of 4.197, In order to attract FDI governments go to the extreme extent damaging the environment as shown by mean of 4.169 in each case.

Presence of government initiatives of attracting foreign direct investments

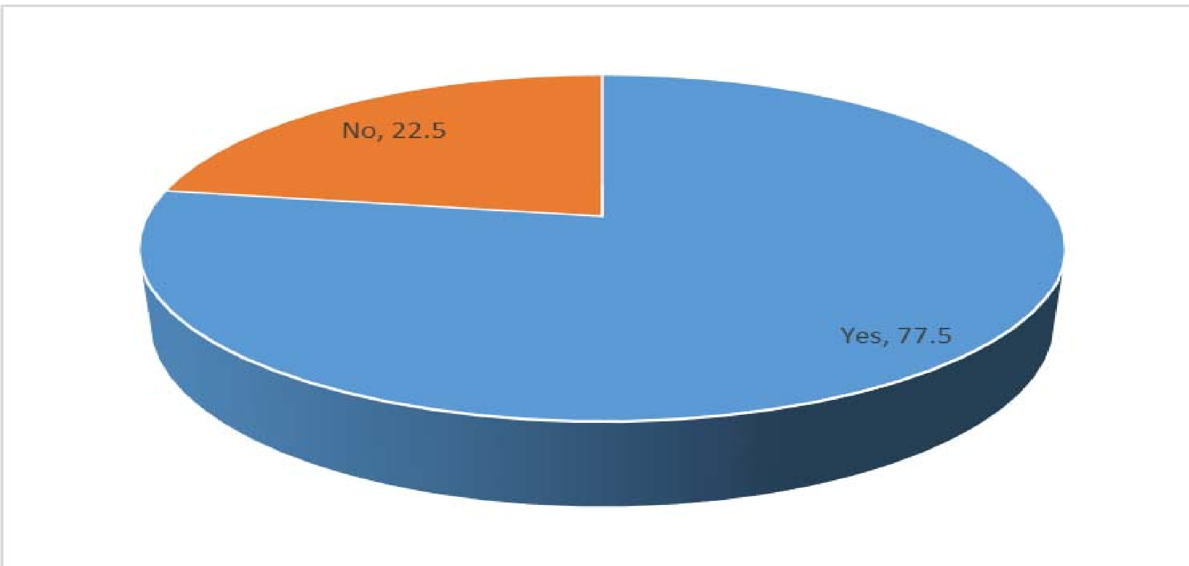

Figure 4.6: Presence of government initiatives of attracting foreign direct investments

On whether the Kenyan government has initiatives of attracting foreign direct investments in the real estate's sector, the study established that many of the respondents shown by 77.5% agreed, while 22.5% were on the contrary. This is an indication that Kenyan government has initiatives of attracting foreign direct investments in the real estate's industry in Kenya.

Table 4.3: Initiatives taken by the government in attracting foreign direct investment

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Mean	Std deviation
The Launching of vision 2030 in Kenya is a stra tegy s to achieve global competitiveness and pro sperity of the nation thus an initiative to attract FDI	0	0	9	37	25	4.225	1.646
Kenya has friendly policies and a culture of hos pitality to foreigners too welcome FDI in Kenya	0	0	9	30	32	4.324	1.692
financial incentives such as tax allowances and grants in aid among other policies to attract FDI	0	0	3	50	18	4.211	1.759
In order to attract FDIs governments damage the environment to attract foreign direct investment	0	0	6	30	37	4.549	1.823
The government has put into place measures of reducing corruption, providing investment incentives for FDIs, after-investment services promotion efforts improving administrative efficiency and the provision of social amenities	0	0	10	32	35	4.690	1.835

From the findings of the respondents on statements relating to initiatives taken by the government of Kenya in attracting FDI in the real estate, this study established that the majority of those who responded strongly agreed that the government has put into place measures of reducing corruption, providing investment incentives for FDIs, after-investment services promotion efforts improving administrative efficiency and the provision of social amenities a mean of 4.690, In order to attract FDIs governments go to the level of damaging the environment to attract FDI a mean of 4.549, Kenya has friendly policies and a culture of hospitality to foreigners too welcome FDI in Kenya a mean of 4.324, launch of vision 2030 in Kenya is a strategy s to achieve global competitiveness and prosperity of the nation thus an initiative to attract FDI by a mean of 4.225 and financial incentives such as tax allowances and grants in aid among other policies to attract FDI mean of 4.221.

4.5 Regression Analysis

Table 4.4: Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.889	.790	.736	.22462

Source: Author, 2016

Coefficient of determinatin is adjusted R squared it indicates changes in independent variable bringing about the variation in the dependent variable. The results shows that the adjusted R squared was 0.736 showing a variation of 73.6 percent on growth of the real estate firms this is because of the changes in FDI of 95 percent confidence interval. It shows that changes in foreign direct investment resulted to 73.6 percent changes in growth of real estate firms. The connection between the study variables are illustrated by the correlation coefficient R. this shows that there was benefit relationship of the variables as shown by 0.899.

Table 4.5: Analysis of Variance

Model		**Sum of Squares**	**df**	**Mean Square**	**F**	**Sig.**
1	Regression	1.293	1	.431	3.814	.001[b]
	Residual	37.968	69	.113		

	Total	39.261	70			

Source: Author, 2016

Critical Value =2.631

Using the ANOVA statistics, the results were that the regression model had a significance level of 0.3 percent. This indicates it was perfect to make a conclusion on the population as the p-value was less than 5%. Critical value was less than the calculated value (3.814>2.631) this indicates that foreign direct investment significantly influences growth of real estate sector in the country. The significance value was less than 0.05 shows that the model was significant.

Table 4.6: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.508	1.131		1.333	.001
	Foreign Direct Investment	.481	.228	0.203	2.110	.002

Source: Author, 2016

The established regression equation was

$$\mathbf{Y = 1.508 + 0.481X_1}$$

It was revealed that growth of real estate sector in the country will be at 1.508 holding foreign direct investment to a constant zero, a unit increase in foreign direct investment leads to a unit increase in growth of real estate by a factor of 0.481. All variables were significant as the significant value was less than (p<0.05).

CHAPTER FIVE:

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The following conclusion and recommendations were made from the analysis and data collected.

5.2 Summary of The Findings

It was established that FDI influence the growing of the real estate sector in Kenya. On the extent that foreign direct investment influence growth of the real estate's sector in the country in Kenya, the study found that FDI influence growth of real estate in Kenya a great extent.

The study found that Economic growth may reduce if the government encourages FDI by reducing investment opportunities for local investors. Respondents further agreed that Economic growth may reduce if the government encourages FDI by reducing investment opportunities for local investors, local companies are improving in their productivity with the aim of reducing the threat brought by FDI. Policies and political decisions have been reshaped by the governments to attract FDI. Host countries may be concerned if there is more possession of companies by foreign investors in tactically important industries. There is higher growth rate in Developing countries opened to FDI. There has been increased employment opportunities due to FDIs. In developing countries FDI has become a source of capital for projects needed in development. In order to attract FDI, governments go the extreme extent of damaging the environment in each case.

On whether the Kenyan government has initiatives of appealing to FDIs in the real estate's se ctor. The study found that Kenyan government has initiatives of appealing to the FDIs in the real estate's sector in the country.

The study established that the government has put into place measures of reducing corruption, providing investment incentives for FDIs, after-investment services promotion efforts improving administrative efficiency and the provision of social amenities. In order to attract FDIs governments damage the environment to attract FDI, Kenya has friendly policies and a culture of hospitality to foreigners to welcome FDI in Kenya, launch of vision 2030 in Kenya is a strategy to achieve global competitiveness and prosperity of the nation thus an initiative to attract FDI and financial incentives such as tax allowances and grants in aid among other policies to attract FDI.

5.3 Conclusion

The study established that foreign direct investment influence growth of the real estate's firms in the country at a great extent. It further found out that the Kenyan government has initiatives of attracting foreign direct investments in the real estate's industry in Kenya.

From the regression analysis, it was established that that foreign direct investment positively influences growth of real estate firms in the country. Therefore, the study resolves that FDI positively influences the growth of real estate's sector in Kenya to a great extent.

5.4 Recommendations drawn from the study

The researcher recommends that the government should enhance implementation of various policies that will appeal to the foreign direct investment in Kenya as this will in a positive way influence the growth of real estate industry in Kenya. The study further recommends that the government should have incentives in the country that will attract FDI in real estate industry in doing these growths in the real estate's industry in Kenya will increase to a great extent.

5.5 Recommendations for Further Studies

The study pursued to determine the influence of FDI to the growth of real estate in the country. The study recommends that an exhaustive study should be done on challenges facing the real estate growth in the country.

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APPENDICES

Appendix I: Introductory letter

TO: WHOM IT MAY CONCERN

Dear Sir/Madam,

RE: REQUEST TO UNDERTAKE RESEARCH AT YOUR INSTITUTION

I am a postgraduate student undertaking a Master of Business Administration in International Business Management degree at the School of Business, University of Nairobi. As a partial fulfillment of the requirements for the award of the MBA degree, I am conducting a survey on **"EFFECTS OF FOREIGN DIRECT INVESTMENT ON THE GROWTH OF REAL ESTATE FIRMS IN KENYA".**

I sincerely request you to allow me conduct interviews in your institution to gather the required information. The information given will be treated in strict confidentiality and will be used strictly in academics.

Your co-operation will be highly appreciated.

Yours faithfully,

SALOME CANDIDA JAMESA

Appendix II: Questionnaire

Section A: Demographic Data

1. Gender

    Female [ ] male [ ]

2. Age

    Under 30 yrs [ ]

    31 – 39 yrs [ ]

    40 – 49 yrs [ ]

    50 yrs and above [ ]

3. Education level

    Secondary Certificate [ ]

    Diploma level [ ]

    Degree Level [ ]

    Masters Level [ ]

    other: kindly specify ………..…………………………………………..

4. For what duration of time have you worked in these organization?

    under 5 years ( ) between 6 to 10 yrs ( )

    Between 11 to 15 yrs ( ) between 16 to 20 yrs ( )

    Above 20 yrs ( )

Part B: Effects of FDI On Growth of Real Estate

5. Does FDI influence growth of real estate's sector in Kenya?

    Yes ( ) No ( )

6. To what extent does FDI influence growth of real estate's firms in the country?

    No extent ( )

    Moderate extent ( )

    Great extent ( )

    Very great extent ( )

7. What is your level of agreement with this Statements relating to effects of FDI real estate growth in Kenya . (key1- strongly disagree, 2-Disagree 3-Neutral 4-Agree 5-Strongly Agree,)

	1	2	3	4	5
In developing countries FDI has become a source of capital for projects needed in development					
Policies and political decisions have been reshaped by the governments to attract FDI					
There is higher growth rate in Developing countries opened to FDI					
The gap between a countries internal savings and funds required is reduced by FDI					
Companies in the developing countries are becoming more productive with the aim of countering the threat brought by FDI					
There has been increased employment opportunities due to FDI's					
Host countries are increasingly developed by FDI through improvements in productivity and technological transfers					
Host countries may be concerned if there is too much ownership of companies by foreign investors in tactically important industries					
In order to attract foreign direct investment Some governments go to the extreme extent damaging the environment					
Economic growth may reduce if the government encourages FDI by reducing investment opportunities for local investors.					

8. Does Kenya government have initiatives of attracting foreign direct investments in the real estate's industry?

Yes ( ) No ( )

9. Indicate on your level of conquering with this statements on initiatives taken by the government of Kenya in attracting foreign direct investment in real estate. (Key1-strongly disagree, 2-Disagree, 3-Neutral, 4-Agree, 5-Strongly Agree)

Statements	**1**	**2**	**3**	**4**	**5**

Launch of vision 2030 in Kenya is a strategy to achieve global competitiveness and prosperity of the nation thus an initiative to attract FDI.					
Kenya has friendly policies and a culture of hospitality to foreigners to welcome FDI in Kenya.					
Financial incentives such as tax allowances and grants in aid among other policies to attract FDI.					
In order to attract FDIs governments damage the environment in a bid to attract foreign direct investment					
The government has put into place measures of reducing corruption, providing investment incentives for FDIs, after-investment services promotion efforts improving administrative efficiency and the provision of social amenities					

Thank You for your Cooperation

Appendix III: List of Selected Real Estate Firms

1. VillaCare Kenya
2. Hass Consult
3. Lynex Holdings
4. East gate apartments Ltd
5. LlyodMasika Ltd
6. Jamia Valuers & Estate Agent Management
7. Urban Bliss Realstore
8. Knight Frank Ltd
9. Milligan International Ltd
10. Regent Management Ltd
11. Neema Management Ltd
12. CB Richard Ellis Ltd
13. Alliance Realtors Ltd
14. Paragan Property Ltd
15. Lowanjo Properties Ltd
16. Urban Properties Consultants & Development Ltd.
17. Tysons Ltd
18. Norkan Investments Ltd
19. Masterways Properties Ltd
20. Cornerstone International Ltd
21. Dunhill Consulting Ltd
22. Home Afrika Ltd
23. Wesco Property Consultations Ltd
24. Acorn Properties Ltd
25. Canaan Properties Ltd
26. Pinnacle Properties Ltd
27. SEB Estate Ltd
28. Liberty Real Estate Ltd
29. Bluehills Real Estate Ltd
30. Guardian Properties Ltd
31. Sundown Valuers & Realtors Ltd
32. Axis Real Estate
33. Homelands Holdings Ltd
34. Mudas Properties Services Ltd
35. Legend Valuers& Estate Agents
36. Diversity Property Ltd
37. Kimly Properties Ltd
38. Easy Properties Ltd (K)
39. Eackelberg& Co. Ltd
40. Silverrock Properties Ltd
41. Gamp Investments Ltd
42. Colburne Holdings Ltd
43. Savannah Consulting Ltd
44. Joskinyagat Ltd
45. Ryden International Ltd
46. Real Appraisal Ltd
47. Jeankins Investments Ltd
48. Realken International Ltd
49. Heri Properties Ltd
50. Valentine First Venture (K) Ltd
51. Frank Valuers & Properties Management Ltd
52. Wakama Estate Agency Ltd
53. Terestam Properties Management Ltd
54. Paradise Properties Ltd
55. Chapter Consultants Ltd

56. Perscale Properties Ltd
57. Property Point Ltd
58. ENA Properties Ltd
59. Menga Management Ltd
60. Nile Real Appraisee Ltd
61. Maestro Properties Ltd
62. Town House Agencies
63. Etion Property Consultants
64. Add Property Consultants
65. Tuco Properties Ltd
66. Sortmaster Properties Ltd
67. Heritage Property Consultants
68. Value Build Management Ltd
69. Konaken Investment Ltd
70. Ngumo Properties Ltd
71. Elegant Investments Ltd
72. Arkpoint Properties Ltd
73. Karen Link Ltd
74. Vera Property Ltd
75. Beryt Properties Investments Ltd
76. Opus Property Ltd
77. Nairobi Homes Ltd
78. Rank Global Ltd
79. Landmark Realtors Ltd
80. Property Ins Ltd