THE EFFECT OF FOREIGN DIRECT INVESTMENT INFLOWS
ON THE FINANCIAL PERFORMANCE OF REAL ESTATE
SECTOR IN KENYA

BY

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A RESEARCH PROJECT SUBMITTED IN PARTIAL
FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD
OF THE DEGREE OF MASTER OF SCIENCE IN FINANCE,
SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

OCTOBER, 2017
DECLARATION

I, the undersigned, declare that this is my original work and has not been presented to any institution or university other than the University of Nairobi for examination.

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D63/81880/2015

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

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ACKNOWLEDGEMENTS

The completion of this project relied not only on the work of the author but on the assistance of many unseen parties. First, I thank God for seeing me through all the various stages and few challenges encountered in the study. I would like to express my very great appreciation to Dr. Herick Ondigo for his valuable and constructive guidance during the entire development of this research work. His willingness to give his time so generously is much appreciated.

I acknowledge the assistance and encouragement of my family, friends and colleagues who dedicated their time and energy when needed. God bless you. Thank you all!
DEDICATION

This study is dedicated to my mother, Prof. Violet Mugalavai for her unending support and constant encouragement throughout my education.
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<table>
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<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tr>
<td>CBK</td>
<td>Central Bank of Kenya</td>
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<tr>
<td>FDI</td>
<td>Foreign Direct Investments</td>
</tr>
<tr>
<td>FOREX</td>
<td>Foreign Exchange</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>ICT</td>
<td>Information, Communication and Technology</td>
</tr>
<tr>
<td>KNBS</td>
<td>Kenya National Bureau of Statistics</td>
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<tr>
<td>LAPSSET</td>
<td>Lamu Port-South Sudan-Ethiopia-Transport</td>
</tr>
<tr>
<td>MNC</td>
<td>Multi-National Corporation</td>
</tr>
<tr>
<td>NEMA</td>
<td>National Environment Management Authority</td>
</tr>
<tr>
<td>NHA</td>
<td>National Highways Authority</td>
</tr>
<tr>
<td>ROA</td>
<td>Return on Assets</td>
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<td>ROE</td>
<td>Return on Equity</td>
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<tr>
<td>SPSS</td>
<td>Statistical Package for Social Sciences</td>
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<td>USD</td>
<td>United States Dollar</td>
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ABSTRACT

Kenya has experienced a big boom in the real estate sector in the recent past to be ranked the fourth highest contributor to the economy. This is as a direct response to increased demand. The Kenya population is fast growing coupled with an increase in rural-urban migration. The middle class with demand for housing in the city is fast rising. Kenya is putting in place strategies to attract FDI into the country as it is believed to be a key contributor to economic prosperity. This study explored the impact of FDI inflows on financial performance of real estate sector in Kenya. The population for the study was all the 80 real estate firms that form the real estate composite index. The independent variable was FDI as measured by quarterly FDI inflows into the country. The control variables were interest rate as measured by CBK quarterly lending rate, inflation rates as measured by quarterly CPI and exchange rates as measured by quarterly exchange rate between ksh and usd. Financial performance was the dependent variable which the study sought to explain, it was measured by quarterly percent growth in composite index. Secondary data was collected for a period of 10 years (January 2007 to December 2017) on a quarterly basis. The study employed a descriptive cross-sectional research design and a multiple linear regression model was used to analyze the relationship between the variables. Statistical package for social sciences version 21 was used for data analysis purposes. The results of the study produced R-square value of 0.041 which means that about 4.1 percent of the changes in financial performance of real estate sector in Kenya can be explained by the four selected independent variables while 95.1 percent of the variation was associated with other factors not covered in this research. The study also found that the independent variables had a weak correlation with dividend payout ratio (R=0.203). ANOVA results show that the F statistic was insignificant at 5% level with a p=0.000. Therefore, the model was not fit to explain financial performance of the real estate sector in Kenya. The results further revealed that individually, FDI inflows, interest rates, exchange rates and inflation were statistically insignificant determinants of financial performance of real estate sector in Kenya. This study recommended that adequate measures should be put into place to improve and grow performance of real estate sector in Kenya.
CHAPTER ONE
INTRODUCTION

1.1 Background of the Study

Foreign direct investment (FDI) has been growing drastically given it is a major international capital form of inflows as well as due to financial and political transformation in developing economies (Adam and Tweneboah, 2009). According to Njuguna (2016), the effort made by developing countries in attracting FDI is based on the potential positive effects on the home economy such as productivity increase, complement domestic private investment, transfer of technology, management and technical skills, production network internationally, training of employees, creating employment opportunities, and easy external markets access which then boosts the overall economic growth. Global studies indicate that FDI is one of the key factors affecting the real estate sector performance with the effect of Foreign Direct investment being looked at in terms of the economy at large (Loyford and Moronge, 2014).

This study was guided by several theories such as the open system theory, internalization theory and foreign direct investment dependency theory that have tried to explain the relationships between foreign direct investments and financial performance of firms. These theories examine the ways through which FDI contribute to economic growth in their respective countries. These theories demonstrate the extent to which FDI contribute to technological change enhancement through acquisition of new knowledge and capital goods, that is, the technological diffusion process. There has been a lot of speculation about the contribution of FDI in the recipient countries with many arguing that it is based on the existing circumstances in
those respective countries. The theories relate FDI with economic growth of a country which in return leads to improved financial performance of firms in a given country.

The real estate sector in Kenya has been booming since the 2000s as the property market is reacting towards increased demand. This increased demand for housing has been associated with a vast majority of rich investors investing in shopping malls, restaurants and office complexes. Further, government’s expenditure on construction works such as rapid urbanization, airports expansion; expansion of the middle class and population growth have also contributed to the growing demand. According to Real Estate Report by Cytonn Investment of the third quarter of 2015, the greatest growth was reported by construction industry at 14.1% ahead of agriculture which reported 7.1% and financial service which reported 10.1%. Typically, foreign real estate firms are moving their operations into the country to capture the promising market which is generating a return of between 25% and 30% (Knight Frank Economic Report, 2011).

1.1.1 Foreign Direct Investments

Muema (2013) defined FDI as the long-lasting investments which are outside the investor’s physical or economic boundaries. The beneficiary country of FDI is equipped with capital flow as well as technology flow that will aid in its development. When a country seeks to invest in another, the benefit it seeks to achieve must be higher than the risks it must deal with. UNCTAD (2002) describes three different types of FDI. These are: reinvested earnings, equity capital and other capital which mainly consist of intercompany loans. FDIs create new job opportunities as upon setting of the business, recruitment and training of the locals in the host country is undertaken transferring skills and technological know-how as well as providing jobs.
According to Kinuthia (2010), FDI represent long term commitments to the host country. It is a preferred form of investment because it has no obligations to the host country.

According to Kariguh (2014), foreign investment is one of the main sources of capital flows in most economies that are still developing as they tend to bridge the gap of capital, managerial skills, technology, formation of human capital as well as creating an environment for more business competition. However, according to Voorpijl (2011), there are consequences for increasing the FDI inflows whereby the multinationals can exploit the local capabilities more freely. Also, the promotion of private investment rather than public investments by many international donors leaves nothing to the host company when they decide to leave.

Generally, FDI are the net inflows of investments from one economy to another and therefore FDI is measured by the net inflow, which is the remainder of first time investment inflows after removing the divestiture and is measured as a percentage of GDP of that economy (Shahbaz, Lean and Kalim, 2013). FDI is advantageous to multinational enterprises as it is a means of entering the markets, accessibility to resources and reduced cost of production. It also benefits the invested country as it provides domestic investment capital which is much in need, creating job opportunity to locals, introduces new management skills and strategies, business practices, technology and economic concepts that ensures growth of local businesses, new industries and increased revenue which leads to economic development (Karthik and Kannan, 2011, Selma, 2013).
1.1.2 Financial Performance

The range by which objectives of the firm and in this case financial objectives will be met or have been met is referred to as financial performance (Yahaya and Lamidi, 2015). A company’s financial performance is subject to how effectively a firm uses its assets from its principal role of conducting business and its subsequent generation of revenues. Financial performance can also refer to the general well-being of a firm as far as finance is concerned. Financial performance can as well be used to gauge or measure firms from the same industry or across different industries for comparison purposes. Financial performance is, in summary, is a crucial objective that firms especially the profit oriented firms desire or aim at to achieve (Kajirwa, 2015).

Financial performance focuses more items that affect the financial statements or reports of a firm directly. The financial performance analysis can deal with items such as dividend growth, sales turnover, capital employed, asset base among others about the firm (Omondi and Muturi, 2013). The financial performance is a crucial indicator or measure of some economic units’ success for example on achievement of set goals and objectives (Xu and Wanrapee, 2014). Firms stakeholders are mostly interested in the firm’s performance as far as finance is concerned (Nyangita, 2014).

The measurement of financial performance is usually based on financial ratios such as liquidity ratios, activity ratios, profitability ratios, and debt ratios (Bouba, 2011). Financial performance can be measured from various perspectives including: solvency, profitability, and liquidity (Mwangi and Angima, 2016). Performance measurement for a company can be done through accounting-based measures calculated from firm’s financial statements such as ROE, ROA and Gross profit margin (Mwangi and Murigu, 2015).
1.1.3 Foreign Direct Investment Inflows and Financial Performance

Foreign Direct investment creates new employment in the host nation. New employment opportunities in the host country results to an increased income per capita of the country and a reduction in unemployment rate. Further, increased income is likely to attract a greater demand for housing a factor that will make the real estate sector of a country very attractive due to the growing market attributable to the increased demand. Increased demand which is an indicator of large revenue from the sector is bound to push housing prices up and increase the number of developments coming up to capitalize on this opportunity (Kamau, Mogaka and Mboya, 2015).

Spats and Nunnenkamp (2004) undertook a study measuring the effect of FDI on the economy and established that foreign direct investment had a positive impact on the economy as they modernize the host market and introduce new products to the host market. Drawing on these finding, it can be said that since foreign direct investment in real estate is market seeking, when they expand their operations to the foreign nation, they introduce new ways of investing in the sector such as the use of FREIT, partnership, group funding, efficient marketing techniques such as the use of social media, varied designs and techniques of developing houses and encourage improved quality of housing.

Olga (2011) in his research on determinants of FDI in Chinese real estate sector established that coastal cities were very attractive to foreign real estate investors and that they follow their clients to Chinese cities while seeking local profit opportunity. From these findings it can be deduced that as foreign investors in real estate expand their real estate activities to the host nation they tend to focus on the high-end properties market of the host nation. Investing in high end real estate sector requires a
lot of capital which may be easier for foreign firms to obtain as they have access to a wide range of financial resources. Following these advantages as foreign real estate firms attempt to exploit the local profit opportunity, they are prone to influence the level and quality of local investment as well as property prices in the host country real estate sector.

Omboi (2013) in their article on how Foreign Direct investment plays a role in Shanghai real estate prices primarily established that Real Estate Foreign Direct investment has a limited impact on real estate prices for both office and housing prices when a short-run consideration is made but affects office prices in the long run. Borrowing on this assumption it can be argued that foreign direct inflows in real estate has a significance influence on the performance of the real estate sector of the host nation based on its established relationship with the real estate prices. As inflow of Foreign Direct investment increases, there is increased demand for housing by MNCs in terms of residential and commercial property.

1.1.4 Real Estate Sector in Kenya

The real estate sector refers to all firms involved in land and any property that sits on it. It is categorized as residential real estate, commercial real estate and Industrial real estate. Kenya has experienced a big boom in the real estate sector in the recent past to be ranked the fourth highest contributor to the economy (Kenya National Bureau of Statistics, KNBS, 2013). This is as a direct response to increased demand. The Kenya population is fast growing coupled with an increase in rural-urban migration. The middle class with demand for housing in the city is fast rising.

Kenyan Government through its policies and infrastructure development has contributed to investment in Kenyan real estate sector. Devolution and increased
investment in infrastructure such as telecommunication system, electrification, ICT has contributed to real estate growth in urban Centre such as Mombasa, Kisumu, Eldoret and Nakuru. Bypasses including Ruaka and Karen have attracted real estate investment in these areas. The LAPPSET and standard railway gauge is also expected to have the same effect. Recently, the government announced the reduction in corporate tax rate to 20 per cent from 30 for developers who produces more than 1000 houses in a year and a waiver of levies payable to NHA and NEMA. This move is expected to contribute to increased investment in the sector to cater for the annual deficit of 200,000 and to take advantage of the tax and waiver incentives (Cytonn Investment Report, 2015).

Kenya is putting in place strategies to attract Foreign Direct Investment into the country. According to World Bank doing business report of 2016, in an attempt to increase Foreign Direct Investment, Kenya simplified business creation procedures and business license acquisition, improved credit accessibility and encouraged public private partnership. Foreign firms are surging into Kenya to venture into sectors such as oil and exploration, the booming technology industry, transport, real estate and manufacturing which have shown positive returns over the years. MNC have chosen Kenya as their regional hub as opposed to the other countries due to its market size, high development, suitable labor, promising middle class and good infrastructure (Abala, 2014).

As reported by US data vendor that tracks emerging markets, Kenya has been ranked second in the most preferred African destinations and fifth globally. The most prosperous year for Kenya in FDI was 2007 when there was an inward investment amount of USD 729 million which accounted for 2.7 percent of total GDP. Foreign
Direct Investment slowed in 2008 due to post election violence followed by an increase in 2009 with FDI reporting 425.1 million in 2014 (Kenyan Economic Report, 2015).

1.2 Research Problem
The causal nexus between foreign direct investments and performance has received considerable attention from academicians where studies have used data from both developed and developing countries. There has been an increased flow of FDI to developing countries in the past century though their effects differ extensively between countries (Voorpijl, 2011). Apart from FDI providing capital for domestic investment in developing countries, it is also responsible for the creation of employment opportunities and assists the transfer of managerial and technological skills. Because of its massive contribution economic development, all governments of Africa, including that of Kenya, want to attract it. The expected relationship is that improved economic development as a result of increased FDI inflows will lead to improved financial performance of real estate firms.

Over the years, Kenya’s real estate sector has been growing alongside Foreign Direct Investment in the country with housing projects coming up and more multinational corporations moving into the country (World Bank Doing Business Report, 2015). Kenyan real estate sector has grown to be fourth largest contributor to its GDP with its contribution more than doubling from the previous 4.9%. Kenya has experienced an increase in FDI inflows over the years with an average growth between 2007 and 2015 of 40% (Ernst and Young, 2015). This growth rate earned Kenya the status of FDI hotspot therefore joining other African countries such as Uganda, Zambia, Ghana, Mozambique, Tanzania, Nigeria and Rwanda. In 2015, FDI inflows stood at
$1076.9 million, up from $670 million a year earlier which is a sixty per cent (60%) increase (UNCTAD, 2015). It is expected that this growth in FDI will lead to improved performance in the real estate sector.

Empirical evidence is largely inconsistent and quite varied on the influence of foreign direct investment on financial performance. Aykut and Sayek (2005) in his study in Latin America established that FDI in the manufacturing sector has a positive impact on the economy while FDI in the primary or service sector has a negative impact on the economy. The study further indicated that FDI in the manufacturing sector in addition to using local resources brings in technology and know-how while Foreign Direct Investment in the primary sector uses less of local good and is export oriented. Borensztein (2008) examined the effect of FDI on economic growth on a selected sample of sixty-nine developing nations. His results showed that while FDI has a positive correlation to real per capita GDP growth, the association changes when the human capital levels are factored into. The author concluded that countries that have more learned workforces are in a better position to utilize the better technologies that are attained through FDI.

Locally, Muthee (2012) examined the connection between economic growth and the real estate prices in Kenya. According to the study results, a connection between the variables was found. 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 FDI in the country. The study established that the elements were external debt, inflation and foreign exchange reserve. Bioreri (2015) indicated that growth in exchange rate, interest rate, Diaspora remittance, inflation rate and real
GDP together as opposed to individually affect the performance of the real estate sector.

The reviewed studies in the Kenyan context have failed to show how FDI affect specific sectors of the economy rather the effect of FDI has been generalized to the economy at large ignoring the fact that the economy is made up of different sectors with different characteristics. In addition, studies conducted in the Kenya’s real estate sector have concentrated on the effect of selected macro-economic variables such as rate of exchange, prevailing rates of interest, Diaspora remittance, inflation and real GDP on real estate prices and performance. This study intends to fill this research gap by investigating the effect of foreign direct investments on financial performance of real estate firms in Kenya. The study intends to answer the following the research question; what is the effect of foreign direct investments on financial performance of real estate sector in Kenya?

1.3 Objective of the Study

The effect of foreign direct investments on financial performance of real estate sector in Kenya

1.4 Value of the Study

This study’s findings will be used as a foundation by future students and researchers who might be interested in undertaking a study in the same area or a related research gap. The study will be beneficial to students and other researchers in identifying the areas that need further research through identifying the fields that need further research and undertaking a review of empirical literature to bring out the study gaps.

Findings of this study may be useful to the government and other policy making bodies as a benchmark for development policies formulation related to 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.

The research findings will benefit the real estate investors in making informed decisions in the real estate property investment. Investors with an interest in real estate investments will be able to make informed decisions with regard to the best real estate firms to invest in based on their level of foreign direct investment inflows.
CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents the theoretical framework applied in the study and reviews previous studies done on foreign direct investments and financial performance of firms. It contains the theoretical review, determinants of firms’ financial performance, empirical review, conceptual framework and summary of literature review.

2.2 Theoretical Framework

This presents review of the relevant theories on FDI. The theories covered are; open system theory, Internalization theory and FDI dependency theory.

2.2.1 Open System Theory

Open system theory by Katz and Kahn (1978) is of the assumption that the organization is environmental serving and environment dependent, that is to say, it obtains its resources from the environment and supplies its products to the environment. On the other hand, the environment presents threats and opportunities from the environment such as technology, innovation, as well as competition to an organization. For an organization to survive it has to keep up with the environment which is constantly changing.

Businesses are constantly changing how they do business to ensure they remain relevant in the business world. An influx of MNCs into the country impacts on the environment in which businesses in that industry are operating as these MNCs come
up with new ways of doing business as well as sourcing funds. In the context of our study, MNCs have been seen to employ the use of social media as an efficient means of undertaking their marketing activities and diverse means of funding their venture such as group funding and bonds among others (Olga, 2011). When they expand their operations into a developing host country, they have these advantages over local firms; as a result, local firms are forced to be equally innovative to ensure they do not lose their market share to the foreign firms. This theory is relevant to this study as it relates open systems with ability to attract FDIs which in return forces local firms to increase innovativeness for them to remain competitive.

2.2.2 Internalization Theory

The theory was established by Rugman (1981) and Hennart (1982) and Casson and Buckley (1976). It asserts that proprietary controls over an intangible, knowledge-based, firm-specific advantage are exerted at firm level of an MNC. The theory claims firms reduce their risk exposure that arises 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 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 argues that FDI are only necessary ventures when the advantages of internalization exceed the costs. Lehman (2002) makes an addition to the theory by arguing that FDI may be used as a means of gaining control over inputs, thus creating a barrier to entry for new competitors. This theory is relevant to this study as it explains the factors considered by an MNC before making investment decisions in foreign countries and thus affect the amount of FDI inflows into a given country.

2.2.3 Dependency Theory

Prebisch (1950) guided the development of this theory whereby it explained that FDI does not have a positive contribution to the economy of the host country but rather have a negative effect on such economy. This meant that there exists a dependency relationship between the developed economy and developing country (Zafar, Ahmed and Khan, 2016). The reason behind this was that the developing countries export raw goods to the developed countries that then manufacture the good into finished goods and then sell them back to the developing country. The process of value addition increases the cost unlike for raw goods therefore the developing country would never get enough earnings from their exports earnings to cater for the imports (Ferraro, 2008).

In addition, FDI is a form of entry of developed economies into developing countries in which it brings in complicated and superior equipment therefore outperforming local industries by destroying domestic micro businesses through use of higher technology and greater advertising skills. FDI is thought to contribute significantly to the balance of payment problems of most advancing countries as the profit earned by the multinationals are usually returned to the investing economy. These activities of
the foreign investors usually create imbalance in the developing country therefore affecting the chance for economic growth (Odo, Anoke, Nwachukwu and Agbi, 2016). This theory is relevant to this study as it attempts to elaborate the expected association between FDI and performance of the recipient country.

2.3 Determinants of Financial Performance

Factors that influence financial performance can either be external or internal to the firms that define the level of output. The internal factors are different for each firm and determine its financial performance. These factors result from managerial decisions together with the board. External factors include; Foreign Direct investments, Exchange rate volatility, Interest rates, Inflation among others. The internal factors include corporate governance, firm size, financial leverage, liquidity, management efficiency, capital, market power among others (Athanasoglou, Brissimis and Delis, 2005).

2.3.1 Foreign Direct Investments

According to Bloomstrom and Kokko (2003) in their article on the economics of FDI incentives, FDI creates new employment in the host nation. New employment opportunities in the host country result to increase per capita income of the country and a reduction in unemployment rate. Further, increased income is likely to lead to an increase in the demand for housing a factor that will make the real estate sector of a country very attractive due to the growing market attributable to the increased demand (Kamau, Mogaka and Mboya 2015). Increased demand which is an indicator of large revenue from the sector is bound to push housing prices up and increase the number of developments coming up to capitalize on this opportunity.
2.3.2 Exchange Rates Volatility

FOREX market fluctuations are the result of fluctuations in the demand and supply of currency. The explanation for this is that foreign investors will be having an excess of the local currency for purposes of investment because for every dollar they will obtain more shilling. In spite of this, in the long term, this effect will be negative since depreciation of the local currency is an indication of poor economic performance. As a result of this, investors will demand a higher return to compensate for the poor performance and this will have an effect on real estate sector performance.

2.3.3 Inflation

Inflation can have both positive and negative effects (Biller, 2007). Thereby in periods of continuous upward price movements, the costs of building and maintaining property will rise as well. Hence an increase in inflation is expected to cause a decrease of the financial performance of firms in the real estate business. Investors who engage in real estate property sale will be forced to include a premium for inflation.

2.3.4 Interest Rates

The real interest rate signifies the cost of the financing of investments. Research has established that it has a profound effect on the prices of residential property both in the local scenario as well as the international scenario (Barksenius and Rundell, 2012). In this regard, money supply is considered a great determinant of the level of interest rates because by increasing the supply of money interest rates will be pushed down and financial performance in the real estate market will be boosted since it will be more attractive for investors who will choose to invest. The vice versa will occur if money supply is reduced.
2.3.5 Corporate Governance

It is necessary for economies to develop efficient and stable real estate sectors and this need is particularly important in developing countries. Having recognized the need, many developing countries have initiated changes in the financial measures that aim at improving the efficiency of real estate firms. Corporate Governance is one of the institutional ways in which decision making in financial institutions is aligned with that of the best of their stakeholders (Arun and Turner, 2009). In a study conducted in Bangladesh, Arun and Turner (2009) concluded that the entry of foreign firms in the banking industry enhance not only the competitive pressure but also introduce the relatively better functioning and more prudent governance mechanisms of western economies into developing economies. Therefore, policies regarding financial sector and corporate governance reform must ensure the participation of foreign firms as well as investors in the real estate sector.

2.3.6 Firm Size

The amount of assets owned by an organization determine it size (Amato and Burson, 2007). It is argued that large firms have adequate resources to undertake a number of large projects with better returns than firms with small amounts of total assets. In addition, firms with large amounts of total assets have adequate collateral which they can pledge to access credit and other debt facilities compared to their smaller counterparts (Njoroge, 2014). Lee (2009) established that the total assets controlled by a firm as measured by the total assets have an influence on the level of profitability recorded from one year to another.
2.3.7 Financial Leverage

The balance between debt and equity in financing firm operations has some level of influence on the level of returns on equity and Return on assets recorded in firms. As argued in the capital structure irrelevant theory, in perfect markets, it is assumed that there is perfect flow of information hence no room for arbitrage (Lee, 2009). This means that the net worthy of an organization is not affected in any way by the leverage. However, in real world, taxes exist and affect the way organization operates in terms of their capital structure (Njoroge, 2014). Usage of debt comes with some agency costs like the existence of constraints put by the firm providing debt on how an organization is to run its affairs (Lee, 2009). This may bring about inflexibility in undertaking some projects even if they promise greater return on equity (Amato and Burson, 2007).

2.4 Empirical Review

There are numerous empirical studies both locally and internationally to support the relationship between exchange rates and stock market returns, but these studies have produced mixed results.

2.4.1 Global Studies

Chin, Dent and Roberts (2006) examined factors determining local and foreign property investments in South East Asian Cities. They issued questionnaires to property consultants in Southeast Asia cities and used descriptive statistics in analysis of data. The results of the study showed that sound and financial economic structure, restriction and regulation on foreign investors, strength and stability of economy, political stability were key with preference placed on taxation, currency stability,
legal framework, government intervention, public infrastructure, market transparency and perceived corruption.

He, Wang and Cheng (2009) in his investigation on the FDI determinants in the China real estate industry and location pattern through spatial analysis of FDI in Chinese real estate development indicated that coastal cities were very attractive to foreign real estate investors. Following Foreign Direct investment inflow in the cities during 1997-2007 they indicated that foreign investors in China real estate follow their customers to Chinese provinces and seek local profit opportunities. Foreign firms were also seen to avoid the regions with high financial and labor costs and prefer regions with high housing prices; finally, the study indicated that foreign firms preferred provinces with developed services and land, good governance and house commercialization.

He and Zhu (2010) using 35 Chinese cities during period between 2002 and 2008 in their analysis of the determinants of FDI in real estate established that both local and foreign demand attracted foreign real estate developers. Also, foreign investors in real estate preferred Chinese cities with foreign firms and international tourism as these individuals preferred hotels / apartment stay that provided offices or are close to offices, cities with heavy real estate investment and land market.

Fereidouni and Masron (2012) in their investigation of the relationship between Foreign Direct investment in other sectors and FREI using fixed effect panel data approach in selected emerging economies during 2000-2008 implied that Foreign Direct investment contributed to internalization of FREI in 16 emerging economies and that policy makers in these countries expects increased entrance of FREI investors and developers as Foreign Direct investment expands.
Aondohemba and Lawrence (2015) study sought to identify drivers of investment performance of commercial property in Lagos city with a view to preventing a rule of thumb approach to investments’ decisions. The research questions underpinned on factors influencing commercial property investment performance were designed and administered to 125 real estate practitioners in Lagos in order to weigh the factors influencing commercial property investment performance in five selected locations in Lagos. Individual sub-markets reveal top factors common to each location as cost of building materials, location, and quality of road infrastructure, rental growth and security. Findings across submarkets revealed three critical set of factors. Condition of the premises; the second theme is a mixture of socio-cultural and legal framework; the third is also a mixture of socio-cultural, political and economic factors.

2.4.2 Local Studies

Muli (2013) researched the indicator that affects the growth in real estate investment in Kenya. He examined on factors such as GDP growth, interest rate, populace growth, inflation rates affected results of real estate investment. Data was analyzed using the Pearson correlation and a regression model. Result showed GDP had a higher value of 83 percent, inflation growth 78 percent, interest rate value 75 percent. Populace growth put in least value 29 percent. The research was conducted based on secondary source of data which might be conflicting sometimes indicators touching the progress in real estate investment in Kenya.

Muchira (2013) examined the effect of FDI on Kenya’s economic growth. Using Foreign Direct investment and GDP data between 2004 and 2013, he established that there is a positive association between FDI and GDP in Kenya with Foreign Direct investment encouraging higher enrolment in tertiary institute hence a growth in
human capital, creating employment by lowering unemployment rate and alleviating poverty and transferring technology which enhances productivity of local firms. Following these benefits, the study recommended policies that encourage foreign direct investment inflow through infrastructure development, opening up of economies, fighting corruption, doing away with insecurity and managing Foreign Direct investment to prevent any negative effects from Foreign Direct investment.

Abala (2014) analyzed the association between FDI and GDP and contributors of FDI using time series data between 1970 and 2010. He established that openness of the economy increases competitiveness in the economy and provides accessibility to markets and exports. Further he indicated that openness of the economy has enabled access to new technology and management skills that has contributed to the growth of GDP. He also established that a high real GDP is the major determinant of Foreign Direct investment inflow as a high real GDP is an indicator of a large market size attributable to high demand for services and products that is appealing to market seeking Foreign Direct investment. Additionally, the study identified improved infrastructure and low indebtedness being the major determinant of Foreign Direct investment inflow.

Mati and Makori (2014) studied on effect on economic indicator on presentation of real estate within Kenya with reconsidering these area; inflation, interest rate, transaction cost and need for housing. Stratified sampling technique used in selecting a test from each level; simple random sample was used on a variety populace on feedbacker. The study concluded on interest rate, dealing cost, inflation and demand on real estate extremely control the representation on real estate. Researcher used
employees of real-estate agents while this research will target the top management of real-estate in developing Machakos County industry.

Juma (2014) research investigate on effect on macroeconomic variables growth in real estate venture in Kenya given they are key in the growth of the industry. The study used secondary data on annual real estate investments growth as computed from the Hass Consult. The researcher established that at least one or more of the selected macro-economic variables and the real estate growth declined over the periods; 2002-2005, 2007-2010, and 2011-2013. the study also established a strong positive relationship between the selected macroeconomic variables; Exchange Rate fluctuations, Growth in Diaspora Remittances, Growth in Money Supply, Inflations, and GDP Growth. The revise completed that there was optimistic connection among macroeconomic variable and real estate investment growth. This research will use secondary data sources to establish the rate at which the above-mentioned factors influence performance of real estate.

2.5 Conceptual Framework

According to Kamau, Mogaka and Mboya (2015), foreign direct investment creates new employment in the host nation. New employment opportunities in the host country enable growth in the income per capita of the country and a reduction in unemployment rate. Further, increased income is likely to lead to an increase in the demand for housing a factor that will make the real estate sector of a country very attractive due to the growing market attributable to the increased demand. Increased demand which is an indicator of large revenue from the sector is bound to push housing prices up and increase the number of developments coming up to capitalize on this opportunity (Kamau, Mogaka and Mboya, 2015).
The conceptual model developed below portrays this expected relationship between the study variables. The factors characterized here are foreign direct investments and financial performance. The independent variable is FDI as measured by quarterly FDI inflows into the country. The control variables are interest rate as measured by CBK quarterly lending rate, inflation rates as measured by quarterly CPI and exchange rates as measured by quarterly exchange rate between ksh and usd. Financial performance is the dependent variable which the study seeks to explain, and it will be measured by quarterly percent growth in composite index.

Figure 2.1: The Conceptual Model

<table>
<thead>
<tr>
<th>Independent variables</th>
<th>Dependent variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>FDI Inflows (FDI inflows)</td>
<td>Financial Performance (% growth in composite index)</td>
</tr>
<tr>
<td>Interest Rate (CBK lending rate)</td>
<td></td>
</tr>
</tbody>
</table>
Summary of the Literature Review

The different theories utilized while examining foreign direct investments such as the open system theory, internalization theory and foreign direct investment dependency theory were described in this chapter. This chapter further examines the different financial performance determinants to include foreign direct investments, interest rates, inflation rates, exchange rates, firm size, corporate governance and financial leverage. The chapter further presents the empirical studies of the research undertaken by different scholars on the topical area of foreign direct investment and financial performance both at the global and local scene. The reviewed studies in the Kenyan context have failed to show how FDI affect specific sectors of the economy rather the effect of FDI has been generalized to the economy at large ignoring the fact that the economy is made up of different sectors with different characteristics. This study intends to fill this research gap.

Source: Researcher (2017)
CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes methods of research applied to objectively establish the influence of foreign direct investments on financial performance. It also shows the population of study, research design and the procedure through which data will be analyzed.

3.2 Research Design

This study adopted descriptive research design which involves a description of all the
elements of the population. It allows estimates of a part of a population that has these attributes. Identifying relationships among various variables is possible, to establish whether the variables are independent or dependent.

3.3 Population

The population of the study comprised of all the 80 real estate firms operating in Kenya from 1st January 2007 to 31st December 2016 (Appendix I).

3.4 Data Collection

Data was exclusively collected from a secondary source. Quarterly data for ten years (January 2007 to December 2017) was collected and analyzed. As the study focused on the percent growth in the composite index of the real estate sector, the study included all the real estate companies that have been operating in Kenya from January 2007 to December 2017. Data for the independent variables; exchange rate and the CBK lending rate was obtained from the Central Bank of Kenya while data on foreign direct investments and inflation was collected from the Kenya National Bureau of Statistics (KNBS). Data for the independent variable; financial performance will be obtained from Hass consultants.

3.5 Diagnostic Tests

The linearity test was obtained through the F-statistic in ANOVA. Normality is a test for the assumption that the residual of the response variable are normally distributed around the mean. This was determined by Shapiro-walk test or Kolmogorov-Smirnov test. Autocorrelation is the measurement of the similarity between a certain time series and a lagged value of the same time series over successive time intervals. It was tested using Durbin-Watson statistic (Khan, 2008).
Multicollinearity is said to occur when there is a nearly exact or exact linear relation among two or more of the independent variables. This was tested by the determinant of the correlation matrices, which varies from zero to one (Burns and Burns, 2008).

3.6 Data Analysis

The SPSS software version 21 computer software was used in the analysis since it’s more user-friendly. The data was inputted into the SPSS and examined using descriptive, correlation and regression analyses. In descriptive statistics, the study used mean, standard deviation and scatter plot. In inferential statistics, the study used multivariate regression analysis to determine the relationship between the study variables.

3.6.1 Analytical Model

The study will apply the following regression model:

\[ Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon. \]

Where;

- \( Y \) = Financial performance of real estate sector as measured by percent growth in the composite index
- \( \alpha \) = Constant Term
- \( \beta_i \) = Beta Coefficient of variable \( i \) which measures the change in \( Y \) to change in \( i \)
- \( X_1 \) = FDI inflows on a quarterly basis
- \( X_2 \) = Average quarterly interest rates charged by lenders
- \( X_3 \) = Average quarterly exchange rate between USD and Ksh.
- \( X_4 \) = Average quarterly inflation rate
- \( \epsilon \) = Error term
3.6.2 Tests of Significance

To test the statistical significance the F-test and the t-test were used at 95% confidence level. The F statistic was utilized to establish a statistical significance of regression equation while the t statistic was applied to test statistical significance of study coefficients.

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND INTERPRETATION

4.1 Introduction

Data collected data from CBK, KNBS and Hass consultants to determine the effect of foreign direct investments on financial performance of real estate sector in Kenya was analyzed to answer the research objective. Using descriptive statistics, correlation statistics and regression analysis, the results of the study were presented in table forms as shown in the following sections.

4.2 Response Rate

This study targeted all the 80 real estate firms that form the real estate composite index. Since the index incorporates performance of all the 80 firms it is assumed that
all the firms were used in this study. From the index, the researcher was able to obtain the quarterly percent growth in the composite index.

4.3 Diagnostic Tests
The researcher carried out diagnostic tests on the collected data. The hypothesis for the test was that the secondary data was not normal. If the p-value recorded was more than 0.05, the researcher would reject it. The results of the test are as shown;

Table 4.1: Normality Test

<table>
<thead>
<tr>
<th>Financial performance (FP)</th>
<th>Kolmogorov-Smirnov(^a)</th>
<th>Shapiro-Wilk</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Statistic</td>
<td>Df</td>
</tr>
<tr>
<td>FDI inflows</td>
<td>.161</td>
<td>40</td>
</tr>
<tr>
<td>Interest rates</td>
<td>.173</td>
<td>40</td>
</tr>
<tr>
<td>Exchange rates</td>
<td>.178</td>
<td>40</td>
</tr>
<tr>
<td>Capital Structure</td>
<td>.176</td>
<td>40</td>
</tr>
</tbody>
</table>

\(^a\) Lilliefors Significance Correction

Source: Research Findings (2017)

Both Kolmogorov-Smirnova and Shapiro-Wilk tests recorded p-values greater than 0.05 which implies that the research data was normally distributed. The data was therefore appropriate for use to conduct parametric tests such as Pearson’s correlation, regression analysis and analysis of variance.

4.4 Descriptive Analysis
Descriptive statistics gives a presentation of the mean, maximum and minimum values of variables applied together with their standard deviations in this study. The table below shows the descriptive statistics for the variables applied in the study. An
analysis of all the variables was obtained using SPSS software for the period of ten years (2007 to 2016) on a quarterly basis. FDI inflows had 49.58 mean with a 36.335 SD. Interest rates recorded a 7.95 mean with a 3.258 SD. Exchange rate resulted to a 81.17 with 10.002 SD. Inflation had a mean of 8.290 and standard deviation of 4.5699. Financial performance which was the dependent variable in this study had a mean of 1.98 and a standard deviation of 2.684.

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>FP</td>
<td>40</td>
<td>-4</td>
<td>9</td>
<td>1.98</td>
<td>2.684</td>
</tr>
<tr>
<td>FDI Inflows</td>
<td>40</td>
<td>17</td>
<td>211</td>
<td>49.58</td>
<td>36.335</td>
</tr>
<tr>
<td>Interest rates</td>
<td>40</td>
<td>2</td>
<td>20</td>
<td>7.95</td>
<td>3.258</td>
</tr>
<tr>
<td>Exchange rate</td>
<td>40</td>
<td>63</td>
<td>104</td>
<td>81.17</td>
<td>10.002</td>
</tr>
<tr>
<td>Inflation</td>
<td>40</td>
<td>2.7</td>
<td>19.2</td>
<td>8.290</td>
<td>4.5699</td>
</tr>
<tr>
<td>Valid N (listwise)</td>
<td>40</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Research Findings (2017)
4.5 Correlation Analysis

Pearson correlation was employed to analyze the level of association between financial performance of real estate sector and the independent variables for this study (FDI inflows, interest rates, exchange rates and inflation).

From the study findings, there was a weak positive and statistically insignificant correlation \( (r = .074, p = .649) \) between FDI and financial performance. The study also found out that interest rates, exchange rates and inflation have a weak negative and insignificant correlation with financial performance of real estate sector as evidenced by \( (r = -.144, p = .376) \), \( (r = -.103, p = .527) \) and \( (r = -.094, p = .565) \) respectively. Although the independent variables had an association to each other, the association was not strong to cause Multicollinearity as all the r values were less than 0.70. This implies that there was no Multicollinearity among the independent variables and therefore they can be used as determinants of financial performance of real estate firms in regression analysis.

**Table 4.3: Correlation Analysis**

<table>
<thead>
<tr>
<th>Correlations</th>
<th>FP</th>
<th>FDI Inflows</th>
<th>Interest rates</th>
<th>Exchange rate</th>
<th>Inflation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FP</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pearson Correlation</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>FDI Inflows</strong></td>
<td></td>
<td>.074</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pearson Correlation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td></td>
<td>.649</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Interest rates</strong></td>
<td></td>
<td>-.144</td>
<td>.110</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Pearson Correlation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td></td>
<td>.376</td>
<td>.498</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Table 4.4: Model Summary

<table>
<thead>
<tr>
<th>Mode</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Durbin-Watson</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.203a</td>
<td>.041</td>
<td>-.068</td>
<td>2.774</td>
<td>1.964</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Inflation, Exchange rate, FDI Inflows, interest rates
b. Dependent Variable: Financial performance

R squared indicates the deviations in the response variable that is as a result of changes in the predictor variables. From the outcome in table 4.4 above, the value of R square was 0.041, a discovery that only 4.1 percent of the deviations in financial performance of the real estate sector is caused by changes in FDI inflows, interest rates.
rates, exchange rates and inflation. Other variables not included in the model justify for 95.9 percent of the variations in financial performance of the real estate sector in Kenya. Also, the findings revealed existence of a weak relationship among the selected independent variables and the financial performance of real estate firms as shown by the correlation coefficient (R) equal to 0.203. A durbin-watson statistic of 1.964 indicated that the variable residuals were not serially correlated since the value was more than 1.5.

**Table 4.5: Analysis of Variance**

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>11.571</td>
<td>4</td>
<td>2.893</td>
<td>.376</td>
<td>.824b</td>
</tr>
<tr>
<td>Residual</td>
<td>269.404</td>
<td>35</td>
<td>7.697</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>280.975</td>
<td>39</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Financial performance

b. Predictors: (Constant), Inflation, Exchange rate, FDI Inflows, interest rates

The significance value is 0.824 which is more than p=0.05. This implies that the model was statistically insignificant in predicting how FDI inflows, interest rates,
exchange rates and inflation affects financial performance of the real estate sector in Kenya.

Coefficients of determination were used as indicators of the direction of the relationship between the FDI inflows, interest rates, exchange rates, inflation and performance of the real estate sector in Kenya. The p-value under sig. column was used as an indicator of the significance of the relationship. At 95% confidence level, a p-value of less than 0.05 was interpreted as a measure of statistical significance. The results are as indicated in table 4.6

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>5.031</td>
<td>3.804</td>
<td>1.323</td>
<td>.195</td>
</tr>
<tr>
<td>FDI Inflows</td>
<td>.010</td>
<td>.014</td>
<td>.142</td>
<td>.733</td>
</tr>
<tr>
<td>Interest rates</td>
<td>-.100</td>
<td>.161</td>
<td>-.121</td>
<td>-.619</td>
</tr>
<tr>
<td>Exchange rate</td>
<td>-.034</td>
<td>.051</td>
<td>-.127</td>
<td>-.669</td>
</tr>
<tr>
<td>Inflation</td>
<td>-0.001</td>
<td>0.115</td>
<td>-0.002</td>
<td>-0.008</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Financial performance


From the above results, it is evident that all the independent variables were found to be insignificant determinants of financial performance in the real estate sector in Kenya as evidenced by high t values and p > than 0.05.

The following regression equation was estimated:

\[ Y = 5.031 + 0.010X_1 - 0.1X_2 - 0.034X_3 - 0.001X_4 \]

Where,

- \( Y \) = Financial performance of the real estate sector
- \( X_1 \) = FDI inflows
- \( X_2 \) = Interest rates
- \( X_3 \) = Exchange rates
- \( X_4 \) = Inflation

On the estimated regression model above, the constant = 5.031 shows that if selected dependent variables (FDI inflows, interest rates, exchange rates and inflation) were rated zero, the financial performance would be 5.031. A unit increase in FDI inflows would result in a higher ROA by 0.010. A unit increase in interest rates, exchange rates and inflation would lead to a decrease in financial performance of the real estate sector by -0.100, -0.034 and -0.001 respectively.

4.7 Interpretation of the Research Findings

The purpose of the current study was to determine the effect of foreign direct investment inflows on the financial performance of the real estate sector in Kenya.
The independent variable was FDI as measured by quarterly FDI inflows into the country. The control variables were interest rate as measured by CBK quarterly lending rate, inflation rates as measured by quarterly CPI and exchange rates as measured by quarterly exchange rate between ksh and usd. Financial performance was the dependent variable which the study sought to explain and it was measured by quarterly percent growth in composite index. The effect of each of the independent variables on the dependent variable was analyzed in terms of strength and direction.

The Pearson correlation coefficients between the variables revealed that there was a weak positive and statistically insignificant correlation ($r = .074, p = .649$) between FDI and financial performance of real estate sector. The study also found out that interest rates, exchange rates and inflation have a weak negative and insignificant correlation with financial performance of real estate sector as evidenced by ($r = -.144, p = .376$), ($r = -.103, p = .527$) and ($r = -.094, p = .565$) respectively.

The model summary revealed that the independent variables: FDI inflows, interest rates, exchange rates and inflation explains only 4.1% of changes in the dependent variable as indicated by the value of $R^2$ which implies that there are other factors not included in this model that account for 95.9% of changes in ROA of real estate sector in Kenya. The model was found not to be fit at 95% level of confidence since the F-value is 0.376. This implies that the overall model applied for this study is statistically insignificant, in that it is not a suitable prediction model for explaining financial performance of the real estate sector in Kenya.

The findings of this study contrast with Juma (2014) who investigated on effect on macroeconomic variables in real estate venture in Kenya. The researcher established a strong positive relationship between the selected macroeconomic
variables; Exchange Rate fluctuations, Growth in Diaspora Remittances, Growth in Money Supply, Inflations, and GDP. The findings of the current study indicate that only FDI have a positive relationship with real estate performance as exchange rate, interest rate and inflation exhibit a negative relationship.

This study is in agreement with Amondi (2016) who studied on the effect of FDI on real estate sector performance in Kenya. The study concluded that foreign direct investment, interest rates and inflation rates all affect the performance of real estate sector in Kenya. Additionally, foreign direct investment was established to have a positive effect on real estate sector performance while inflation and interest rates were established to have a negative effect on real estate sector performance. Further, the study established that Foreign Direct Investment, Inflation and interest rates were statistically insignificant individually.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction
This chapter summarizes the findings of the previous chapter, conclusion and limitations encountered during the study. This chapter also elucidates the policy recommendations that policy makers can implement to achieve the expected financial performance in the real estate sector in Kenya. Lastly the chapter presents suggestions for further research which can be useful to future researchers.

5.2 Summary
The study sought to investigate the effect of foreign direct investment inflows on financial performance of the real estate sector in Kenya. The independent variables
for the study were FDI inflows, interest rates, exchange rates and inflation. The study applied a descriptive cross-section design in data collection and analysis. Secondary data was obtained from the CBK, KNBS and Hass Consultants and was analyzed using SPSS software version 21. The study used quarterly data covering a period of ten years from 2007 to 2016.

From the results of correlation analysis, a weak positive correlation was found to exist between FDI inflows and financial performance of the real estate sector in Kenya. The relationship between all the control variables (interest rates, exchange rates and inflation) and financial performance of the real estate sector was found to be weak and negative. The relationship was also found to be insignificant as indicated by p values that are more than 0.05.

The co-efficient of determination R-square value was 0.041 which means that about 4.1 percent of changes in financial performance of the Kenyan real estate sector can be explained by the four selected independent variables while 95.9 percent in the variation of financial performance is associated with other factors not covered in this research. The study also found that the independent variables had a weak correlation with financial performance of the real estate sector (R=0.203). ANOVA results show that the F statistic was insignificant at 5% level with a p=0.824. Therefore the model was not fit to explain the relationship between the selected variables.

The regression results show that when all the selected dependent variables (FDI inflows, interest rates, exchange rates and inflation) are rated zero, the financial performance would be 5.031. A unit increase in FDI inflows would result in increased composite index by 0.010. A unit increase in interest rates, exchange rates and inflation would result in a decrease in composite index of the real estate sector by -
0.100, -0.034 and -0.001 respectively. Analysis of model coefficients revealed that all the independent variables are statistically insignificant determinants of financial performance in the real estate sector in Kenya.

5.3 Conclusion
This study concludes that financial performance of real estate sector in Kenya has a positive association with FDI inflows. The study therefore concludes that higher FDI inflows lead to improved financial performance in the real estate sector even though not to a significant extent. The study found that interest rates had a negative correlation with financial performance in the real estate sector and we can therefore conclude that higher interest rates tends to discourage investment in the real estate sector and therefore affects financial performance. Exchange rates and inflation were also found to be negatively related to financial performance in the real estate sector and therefore an increase in either leads to a decrease in financial performance but to an insignificant extent.

This study concludes that independent variables selected for this study FDI inflows, interest rates, exchange rates and inflation influence financial performance of real estate sector but not to a large extent as they only account for 4.1 percent of the changes in financial performance. The fact that the four independent variables explain 4.1% of changes in financial performance of the real estate sector imply that the variables not included in the model explain 95.9% of changes in financial performance. It is therefore sufficient to conclude the variables discussed do not significantly affect the financial performance as shown by the p value in anova summary.
This finding concurs with Amondi (2016) who studied on the effect of FDI on real estate sector performance in Kenya. The study concluded that foreign direct investment, interest rates and inflation rates all affect the performance of real estate sector in Kenya. Additionally, FDI was established to have a positive effect on real estate sector performance while inflation and interest rates were established to have a negative effect on real estate sector performance. Further, the study established that Foreign Direct Investment, Inflation and interest rates were statistically insignificant individually.

5.4 Recommendations for Policy and Practice
The study found that although there is a positive influence of foreign direct investments on financial performance of real estate sector in Kenya, the influence is not statistically significant. This study recommends adequate measures to be put into place to ensure that the other variables not included in this study but explains 95.9% of changes in financial performance are well taken care of. The policy makers should also develop policies aimed at attracting FDI inflows because though not to a great extent, they affect the real estate sector’s financial performance.

The study found that interest rates, exchange rates and inflation rates have a negative relationship with Kenya’s real estate sector financial performance. This study recommends that policy makers should pay attention to the prevailing rates of these selected macro-economic variables as they can negatively affect financial performance of the real estate sector.

5.5 Limitations of the Study
The scope of this research was for ten years 2007-2016. It has not been determined if the results would hold for a longer study period. Furthermore it is uncertain whether
similar findings would result beyond 2016. A longer study period is more reliable as it will take into account major economic conditions such as booms and recessions.

One of the limitations of the study is the quality of the data. It is difficult to conclude from this research whether the findings present the true facts about the situation. The data that has been used is only assumed to be accurate. The study also considered selected determinants and not all the factors affecting financial performance of the real estate sector mainly due to limitation of data availability.

For data analysis purposes, the researcher applied a multiple linear regression model. Due to the shortcomings involved when using regression models such as erroneous and misleading results when the variable values change, the researcher cannot be able to generalize the findings with certainty. If more and more data is added to the functional regression model, the hypothesized relationship between two or more variables may not hold.

5.6 Suggestions for Further Research
This study focused on foreign direct investment inflows and financial performance of real estate sector in Kenya and relied on secondary data. A research study where data collection relies on primary data i.e. in depth questionnaires and interviews covering all the 80 registered real estate firms is recommended so as to compliment this research.

The study was not exhaustive of the independent variables affecting financial performance of real estate sector in Kenya and this study recommends that further studies be conducted to incorporate other variables like money supply, poverty levels, technology, firm specific characteristics, political stability and other macro-economic variables. Showing the effect of each variable on the real estate sector’s financial
performance will enable policy makers know what tool to use when controlling performance.

The study concentrated on the last ten years since it was the most recent data available. Future studies may use a range of many years e.g. from 1970 to date and this can be helpful to confirm or disapprove the findings of this study. The study limited itself by focusing on real estate sector. The recommendations of this study are that further studies be conducted on other sectors in Kenya. Finally, due to the shortcomings of regression models, other models such as the Vector Error Correction Model (VECM) can to demonstrate the different associations between the variables.

REFERENCES


APPENDICES

Appendix I: List of Real Estate Firms Operating in Kenya as at 30th June 2017

1. Acorn Properties Ltd
2. Add Property Consultants
3. Alliance Realtors Ltd
4. Arkpoint Properties Ltd
5.Axis Real Estate
6. Beryt Properties Investments Ltd
7. Bluehills Real Estate Ltd
8. Canaan Properties Ltd
9. CB Richard Ellis Ltd
10. Chapter Consultants Ltd
11. Colburne Holdings Ltd
12. Cornerstone International Ltd
13. Diversity Property Ltd
14. Dunhill Consulting Ltd
15. Eackelberg and Co. Ltd
16. East gate apartments Ltd
17. Easy Properties Ltd (K)
18. Elegant Investments Ltd
19. ENA Properties Ltd
20. Etion Property Consultants
21. Frank Valuers and Properties
22. Gamp Investments Ltd
23. Guardian Properties Ltd
24. Hass Consult
25. Heri Properties Ltd
26. Heritage Property Consultants
27. Home Afrika Ltd
28. Homelands Holdings Ltd
29. Jamia Valuers and Estate Agent
30. Jeankins Investments Ltd
31. Joskinyagat Ltd
32. Karen Link Ltd
33. Kimly Properties Ltd
34. Knight Frank Ltd
35. Konaken Investment Ltd
36. Landmark Realtors Ltd
37. Legend Valuers and Estate Agents
38. Liberty Real Estate Ltd
39. LlyodMasika Ltd
40. Lowanjo Properties Ltd
41. Lynex Holdings
42. Maestro Properties Ltd
43. Management
44. Management Ltd
45. Masterways Properties Ltd
46. Menga Management Ltd
47. Milligan International Ltd
48. Mudas Properties Services Ltd
49. Nairobi Homes Ltd
50. Neema Management Ltd
51. Ngumo Properties Ltd
52. Nile Real Appraisee Ltd
53. Norkan Investments Ltd
54. Opus Property Ltd
55. Paradise Properties Ltd
56. Paragan Property Ltd
57. Perscale Properties Ltd
58. Pinnacle Properties Ltd
59. Property Ins Ltd
60. Property Point Ltd
61. Rank Global Ltd
62. Real Appraisal Ltd
63. Realken International Ltd
64. Regent Management Ltd
65. Ryden International Ltd
66. Savannah Consulting Ltd
67. SEB Estate Ltd
68. Silverrock Properties Ltd
69. Sortmaster Properties Ltd
70. Sundown Valuers and Realtors Ltd
71. Terestam Properties Management Ltd
72. Town House Agencies
73. Tuco Properties Ltd
74. Tysons Ltd
75. Urban Bliss Realstore
76. Urban Properties Consultants and Development Ltd.
77. Valentine First Venture (K) Ltd
78. Value Build Management Ltd
79. Vera Property Ltd
80. VillaCare Kenya

Source: Hass Consultants Website (2017)