REVIEW OF REAL ESTATE INVESTMENT TRUSTS IN KENYA

BY

KAHINDI TRACY SADA

UNITED STATES INTERNATIONAL UNIVERSITY - AFRICA

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KAHINDI TRACY SADA

A Project Report Submitted to the Chandaria School of Business in Partial Fulfillment of the Requirement for the Degree of Master in Business Administration (MBA)

UNITED STATES INTERNATIONAL UNIVERSITY-AFRICA

FALL 2016
STUDENT’S DECLARATION

I the undersigned, declare that this is my original work and has not been submitted to any other college, institution or university other than the United States International University in Nairobi for academic credit.

Signed : ___________________________     Date: ___________________________

Kahindi Tracy Sada (ID 628269)

This research project has been presented for examination with my approval as the appointed Supervisors.

Signed : ___________________________     Date: ___________________________

Dr. Amos Njuguna

Signed : ___________________________     Date: ___________________________

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ABSTRACT
The purpose of this research was to review the introduction and development of Real Estate Investment Trusts (REITs) in Kenya. The research aimed to establish: the benefits of REITs to key stakeholders including investors, the risks associated with developing REITs in Kenya, and what can be done to enhance their existence in the Kenyan market.

The study employed the descriptive research design in the explanation of characteristics associated with the subject population, who in this case was Kenya’s investment management firms. The research was conducted during the months of May through to July 2016 through the use of questionnaires distributed to the subject population, while the analysis of both the quantitative and qualitative data was done using the SPSS data analysis software.

The findings showed that there is a high level of justification for the introduction of REITs in the Kenyan market due to the massive array of benefits associated with investing in them. These benefits include the fact that REITs facilitate: Access to investment in large scale real estate projects for small individual investors, diversification benefits for investors, liquidity advantage over direct investment in privately traded underlying real estate assets, access to professionally managed portfolio for the investor, reduced development costs for property developers, tax advantages and limited legal liability for the shareholders of a tax qualified REIT, and a regular income stream for the investor via the dividends distributed by the REIT.

While there were some risks associated with the introduction of and development of REITs in the country, the cross section of questionnaire respondents who were used in this study deemed the benefits far more extensive than the risks. In addition to this, it was also demonstrated that there are quite the number of steps that can be taken to mitigate the risks involved, as well as enhance the development of REITs in the country, key of which were: public education on REITs, need for the land ministry to address challenges surrounding land ownership and issuance of title deeds, need for property owners and developers to raise funds through the capital markets, and the need for enabling legislation.

The study further went on to identify further areas of research into the policy changes that would be required to propel REIT development in Kenya, as well as the relationship
between the different stakeholders in the property and capital markets, and how the regulations put in place by these bodies enhance REIT development.
ACKNOWLEDGEMENT

I would like to take this opportunity to thank the entire teaching and support staff at USIU, and to especially highlight my gratitude to my Supervisor, Professor Amos Njuguna, for the invaluable support and guidance accorded to me throughout this research project.

My special and heartfelt gratitude goes out to my entire family for believing in me at all times. They have demonstrated their unconditional love, encouragement, and understanding throughout this period, and have ensured that I did not give up even on my worst days.

Special thanks also go out to all who took their time to respond to my questionnaire, thereby helping me complete this study.

God bless you all.
DEDICATION

I dedicate this project to my parents, and my sisters, for your unending support, prayers, and love.
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LIST OF ABBREVIATIONS

REIT - Real Estate Investment Trust
CMA - Capital Markets Authority
IRA - Insurance Regulatory Authority
RBA - Retirement Benefits Authority
D-REIT - Development or Construction Real Estate Investment Trust
I-REIT - Income Real Estate Investment Trust
HFCK - Housing Finance Corporation of Kenya
KES - Kenya Shillings
FTSE – The Financial Times Stock Exchange
JSE - Johannesburg Stock Exchange
UK – The United Kingdom
SICAFI - Societe d’Investissement à Capital Fixe Immobilire
SIIC - Sociétés d’Investissements Immobiliers Cotes
SIIQ - Società di Investimento Immobiliare Quotata
SGX – Singapore Exchange
AUD – Australian Dollar
SGD – Singapore Dollar
RMB – Renminbi
SIFT – Specified Investment Flow-Through
REIC - Real Estate Investment Company
IREIC - Infrastructure Real Estate Investment Company
SOCIMI - Sociedades Anónimas Cotizadas de Inversión en el Mercado Inmobiliario

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CMB - Capital Markets Board

ASX - Australian Stock Exchange

US – The United States
CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Problem
A Real Estate Investment Trust (REIT) is a collective investment scheme in real estate, structured as a trust where an investor owns rights or interests in property in the form of units and earns returns from income or capital gains (Capital Markets Authority, 2013).

According to Chan (2002), the basic concept of the REIT was as a result of the fact that state laws in the mid-19th century prohibited corporations from being used as vehicles for investing and dealing in real estate exclusively. As a result, business trusts were formed in Boston, Massachusetts to match the demand for real estate investment opportunities that resulted from the wealth created during the industrial revolution. More specifically, the US REIT regime was first enacted in 1960 and effected in 1961 (PwC, 2013).

The REIT regimes have since been seen to evolve continuously, and in the past year REITs have shown an impressive upswing, even coming back from the financial crisis. For instance, the year-end market value of publicly traded US REITs was more than USD 600 billion in 2013. Unlisted REITs have raised an additional USD 83 billion of equity capital over the past decade, a segment that continues to grow by about USD 10 billion annually, with the number of US publicly held REITs totaling 162.

In Australia, the Australian REIT market dates back to 1971, when the first REIT was listed on the Australian Stock Exchange (ASX). The Australian REIT market is now very large, well established and sophisticated with approximately 70% of Australian investment grade properties securitized. As of 31 March 2013, there were forty six listed REITs on the ASX with a market capitalization of over AUD 90 billion (PwC, 2013).

France was one of the first (in 2003) European countries to introduce a REIT regime, which is known by its French acronym ‘SIIC’ for ‘Sociétés d’Investissements Immobiliers Cotées’. The so-called SIIC regime is an optional (that is, an election is required by the company to benefit from that regime) tax regime. Since its introduction in 2003, the SIIC regime has been modified several times. Some of these changes aimed to close certain existing loopholes and some others to broaden the scope of this regime. The SIIC regime
has now reached stability and maturity. Listed SIICs have become key players on the French real estate market (PwC, 2013).

The German REIT Act (‘REITA’) was introduced in 2007. The introduction followed intensive lobbying by the German real estate industry, which felt that Germany needed to keep up with developments in other European Union (EU) countries. German REITs (‘G-REITs’) are income tax-exempt stock corporations that must be listed on an organized stock market (PwC, 2013).

Greek REITs are special purpose entities whose main activity is investment in real estate assets prescribed by the Greek REIT law. The Greek REIT law was introduced in December 1999 by L.2778/1999, but was recently amended by L.4141/2013, in order to adapt to the current economic circumstances and facilitate the establishment of REIT structures in Greece (PwC, 2013).

In Hong Kong, REITs generally refer to real estate investment trusts authorized by the Securities and Futures Commission (SFC) under the Code on Real Estate Investment Trust (the ‘Code’), which was published in August 2003. There were currently eight REITs with a total market capitalization of approximately USD 24.39 billion in April 2013. These REITs invested in different types of real estate, including office buildings, shopping malls, and hotels. Six of these REITs held real estate exclusively in Hong Kong, while the other two held real estate exclusively in Mainland China. The first RMB-denominated REIT, with major assets in Mainland China, was listed in Hong Kong in April 2011 (PwC, 2013).

Following the positive experience of other countries, Italy introduced a real estate investment vehicle similar to the better known REITs in force in other countries: the SIIQ, ‘Società di Investimento Immobiliare Quotata’) that is, ‘Listed Real Estate Investment Company’). The SIIQ is a listed stock corporation, which has real estate rental activity as its main business and as a result benefits from income tax exemption with regard to this activity (directly or indirectly performed) and to investments in other SIIQs (PwC, 2013).

The Malaysian REIT industry started off with Property Trust Funds (PTF) listed on the Kuala Lumpur Stock Exchange (KLSE) in 1989. The term REIT was subsequently adopted, and the industry grew with an increasing number of listed REITs. REITs in
Malaysia are either listed or unlisted. Malaysian REITs can be sector specific (for example industrial, and offices) or diversified. Malaysia saw the establishment of its first Islamic REIT in 2005 (PwC, 2013).

The REIT regime in Singapore was officially launched in 1999, although the first Singaporean REIT (S-REIT) was listed on the Singapore Exchange (SGX) in 2002. The S-REIT market has grown exponentially in the last few years and has established itself as one of the largest in Asia. To date, 26 S-REITs and 8 business trusts are listed on the SGX. More are likely to be listed once the stock market conditions improve. The total market capitalization of S-REITs was approximately SGD 75 billion as of April 2013 (PwC, 2013).

A Turkish Real Estate Investment Company (REIC) is a capital market institution that can invest in real estate and capital market instruments. Turkish REICs are corporate income tax-exempt stock companies that must be listed on an organized stock market in Istanbul. Currently, there are 30 REICs listed on the Istanbul Stock Exchange. Starting from the beginning of 2009, the Capital Markets Board (CMB) announced another type of CMB-regulated Company: the Infrastructure Real Estate Investment Company (IREIC). IREICs are closed-end, corporate tax-exempt, investment companies managing portfolios composed of infrastructure investments and services, projects based on infrastructure investments and services, capital market instruments based on infrastructure investments and services, infrastructure companies, other real estate investment trusts, companies operating foundations established within infrastructure investments and services (operating companies), and other capital market instruments (PwC, 2013).

Here in developed capital markets, REITs have been in existence in their present format since the 1960s; although they were actually introduced in the 1800s (Market, 2008).

Empirical evidence has shown that the African middle class has been growing alongside Africa’s economic boom, thus encouraging rapid urbanization and strong growth in consumption expenditure and demand for certain types of goods and services, including housing. Such trends foresee immense strains on affordable urban housing, and exert a strong push on demand for real estate in general (Arvanitis, 2013).

The result is that African real estate has become an increasing part of investment portfolios over the past 20 years, which prompts the question as to prospects for the next
5-10 years. Is it a good time to invest? Will viable investment structures such as REITs be introduced more widely? And what other factors will act as catalysts or barriers? (DLA Piper, 2016).

On October 22, 2015, The Nairobi Securities Exchange became the fourth African bourse to launch the Real Estate Investment Trust (REITs) market in what coincided with the opening of the Stanlib Fahari I-REIT public offer (Ngugi, 2015).

The IPO however, registered a very low (29%) uptake of KES 3.6 billion, as opposed to the KES 2.6 billion to KES 12.5 billion that was anticipated, after expenses of KES 174 million, and netted KES 3.44 billion (Stanlib Fahari REIT IPO Results [Blog post], 2015). It is for this reason that we need to examine the factors that may have contributed to this disappointing performance, and what can be done to enhance REITs in the Kenyan market.

In Tanzania, the Capital Markets and Securities Authority (CMSA) approved Watumishi Housing Company REIT in early 2015. WHC-REIT aims to mobilize funding for the development of low-middle income housing, both for sale and for rent, and the development of commercial properties. WHC-REIT was created explicitly to target public sector workers’ housing demand. Over time, WHC-REIT intends to float units on the Dar es Salaam Stock Exchange to allow members of the public to invest (Centre for Affordable Housing Finance in Africa [CAHF], 2016).

“As we expand across Africa, we aim to focus on alternative assets and transactions that make a real difference in regions where we operate. Our strategy has always been to identify gaps and present opportunities that help grow economies and further improve the business environment and facilitate trade. The STANLIB Fahari I-REIT is positioned to do exactly that,” said STANLIB Group CEO Seelan Gobalsamy (Kangethe, 2015).

1.2 Problem Statement

The development of REITs in Africa is not widespread, with their use currently only limited to South Africa which has 29 REITs, Nigeria that has 3, Ghana that has 1 and just recently Kenya, which has been taking steps to facilitate the REIT framework through the Capital Markets Authority (Olukemi, Why You Should Look Forward To REITs Expansion Across Sub-Saharan Africa, 2014).
According to Market (2008), Kenya’s capital markets can play a strong role in the further development of the real estate sector, through the introduction of REITs, especially due to the need for additional financial instruments. For instance, before the onset of REITs, investors interested in real estate investment could only purchase real properties from the property market, as opposed to the stock markets. With the creation of REITs however, investors are now able to trade properties in the stock market, with the intention of buying a pool of real properties and/or mortgages (Chan, 2002).

In addition to this, the capital markets can help mobilize and allocate resources, as there is a strong demand and cultural bias towards property investments. Retirement Benefit Schemes as well as many individuals are already investing in property but many are very limited in their ability to do so in that they cannot afford direct investments that are not liquid (Market, 2008).

Following the findings of the study commissioned by Capital Markets Authority on the viability of REITs in Kenya, the CMA regulations have thus far provided for two types of REIT Schemes; namely a D-REIT, that is Development or Construction Real Estate Investment Trust, and an I-REIT, which is an Income Real Estate Investment Trust Scheme.

Past research studies conducted in this area have included: ‘An Assessment of the Viability of Real Estate Securitization in Kenya’, ‘The Existence of Real Estate Investment Trusts Needs by Institutional Investors at the Nairobi Stock Exchange’, ‘Real Estate Investment Trusts: An Alternative Source of Funding for Construction and Development in Kenya’, and ‘A Study on the Viability of Real Estate Investment Trusts in Kenya’. While all these studies have attempted to better dissect the REIT phenomenon, this study seeks to understand the link between the existence of the investment vehicle in the market, and the subsequent ripple effect/benefits to key stakeholders in the property market, including investors.

It would therefore be safe to conclude that further research needs to go into understanding other countries’ REIT structures and regimes, so as to tailor make a solution for our own market. Key stakeholders in both the property and capital markets need to extensively examine various aspects of REITs (such as their legal form, the capital and listing requirements associated with them, the restrictions on both local and foreign investors if
any, the distribution requirements involved, and the tax treatment on REITs as governed by the law) in order to formulate the policies and regulations required to propel investment in REITs. In regards to the tax treatment on REITs for example, the policies set in place must be clear on the specific taxes income derived from a REIT is subject to.

1.3 Purpose of the Study
The purpose of this study was to explore REITs as an alternative financial instrument in Kenya’s financial market.

1.4 Research Questions

1.4.1 What are the benefits of REITs on the property market in Kenya?

1.4.2 What are the risks associated with REIT development in Kenya?

1.4.3 What can be done to enhance REITs in Kenya?

1.5 Importance of the Study
The results and findings of this research study are anticipated to offer valuable and beneficial information to the following entities:

1.5.1 Current and Potential Investors
The research will shed light on how investment in REITs enables one to diversify their portfolio into real estate, and the strong prospects of capital gains and high dividend income that result from such an investment.

1.5.2 The Government and Financial Market Regulators
The government and financial market regulators will also gain insight on the dynamics of the property market, thus enabling them to put in place proper policies to regulate the same, and protect real estate investors. It is also hoped that through the favorable policies put in place, investment in real estate will be greatly encouraged.

1.5.3 Institutions of Higher Learning
The study will also benefit institutions of higher learning, academicians and researchers, in that it focuses on a relatively new phenomenon in the Kenyan market with very little literature on it.
1.5.4 The General Public

The information sought in this research is hoped to be of a beneficial nature to anyone interested in real estate investment and the property market in Kenya as a whole.

1.6 Scope of the Study

This study focused on the Kenyan listed REITs, with a few comparisons to other REITs in Africa, more specifically those in South Africa. All the data used in this study in regards to the Kenyan listed REITs was obtained from the Capital Markets Authority and Nairobi Securities Exchange, and the data was collected from a sample of respondents drawn from the listed REITs in the country, all of whom are based in Nairobi. The data collection period spanned from the months of May to July 2016.

1.7 Definition of Terms

1.7.1 Real Estate Investment Trust (REIT)

A Real Estate Investment Trust (REIT) is a company or a trust that pools funds from individual investors, acquires and operates income-generating real estate, and distributes the income derived from their own properties as dividends (Mohamad & Zolkifli, n.d.).

1.7.2 Real Estate Investment Trust (REIT) Manager

A REIT manager, according to the (Real Estate Investment Trusts) (Collective Investment Schemes) Regulations 2013, is a company incorporated in Kenya and licensed by the Capital Markets Authority to provide real estate management services in respect of a Real Estate Investment Trust.

1.7.3 Property Market

The property market, according to Miller and Eichholtz (2007), is a market for the ownership of real estate assets, which consist of real property, that is, land parcels and the buildings on them. In Kenya, the property market is segmented into several categories ranging from the slum market where the majority of units are rental units, to middle income properties that are not always in the formal sector, to the upper end formal part of the market (Walley, 2011).
1.7.4 Mortgage
According to Miller and Eichholtz (2007), mortgage refers to a loan secured by real property as collateral.

1.8 Chapter summary
In summary, the chapter introduced the topic, “review of real estate investment trusts in Kenya”; the researcher proceeded to introduce the main objectives of the study, these being: to establish the need for REITs in Kenya, to explore the effect and benefits of REITs on property investment in Kenya, and to explore the risks associated with REIT development in Kenya.

The viability of REITs in Kenya is discussed in consequent sections and the researcher gives the various benefits of this research to various interested parties including the policy makers, current and potential investors, as well as institutions of higher learning.

The second chapter reviews the literature available on the subject matter from various sources including books, journals, newspaper articles, and internet sources. The third chapter presents the methodology employed in the research, while chapter four presents the findings from the study and chapter five the conclusion and recommendations of the study.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction
This chapter investigates published information relating to REIT development in Kenya. The focus is on the benefits of REIT introduction in Kenya, the risks associated with REIT introduction and development in Kenya and what can be done to enhance REITs in the Kenyan market.

2.2 Benefits of REIT Introduction in Kenya

2.2.1 Investment in Large Scale Real Estate Projects

Real Estate Investment Trusts (REITs) typically specialize in investing in, and often actively developing and managing portfolios of commercial property equity, as they are essentially perpetual ownership vehicles. They also typically present their investors with risk and return characteristics similar to those of levered investment in the underlying physical real estate, but with some advantages. For instance, REIT shares are small, enabling small individual investors to participate in commercial property investment (Miller and Eichholtz, 2007).

In fact, while REITs are relative newcomers to markets such as the South African market, they have already outperformed other classes of assets in recent months. Looking ahead, the residential component of the property market, which has yet to be tapped by REITs, is expected to offer new opportunities for growth and provide a further boost to the investment appeal of trusts (Oxford Business Group, 2015).

Despite being relatively new to the exchange, listed property now has a larger presence than either the retail or health care sector, accounting for 5.8% of the FTSE/JSE All Share Index (Oxford Business Group, 2015).

2.2.2 Diversification Benefits

REIT investors may take advantage of diversification benefits both within the real estate market, and in a larger portfolio sense. Diversification within the real estate market is pegged on the fact that some REITs diversify their portfolios both geographically, and by property type. In the larger sense, REIT returns have a low correlation with common
stock and bond returns, thus enabling investors holding portfolios that contain no real estate investments to lower their portfolio risk by incorporating REIT shares into their portfolios (Larsen, 2003).

According to Miller and Eichholtz (2007), the efficiency of the stock market also tends to give REIT investors more protection against making foolish mistakes, assuming investors use common sense and basic investment caution. Thus, REITs are perhaps the preferred route for small, non-specialized investors who want some real estate in their portfolio. Larger, more sophisticated investors will typically have the ability, and gain some benefit, from using both REIT and private market investment vehicles simultaneously in various mixes depending on their objectives and where they perceive the market to be in terms of the real estate asset market cycle.

In addition to this, REITs are generally known to own multi-property portfolios with a diversified tenant pool. What this means for the investor is that they can actually invest in a diversified pool of real estate for a modest investment amount, rather than invest in an individual specific property (Boshoff and Bredell, 2013).

For instance, owning stakes in a Nigerian REIT that focuses on the retail sector, or a Kenyan REIT which focuses on residential allows for exposure to growth in those sectors and regions without having to fork out the incredible amounts necessary for the ownership of such assets. One could also simply invest in a diversified REIT and therefore outsource the time consuming task of building a diversified portfolio. “REITs smell like real estate, look like bonds and walk like equity,” says Greg Whyte, an analyst at Morgan Stanley (Olukemi, Why You Should Look Forward To REITs Expansion Across Sub-Saharan Africa, 2014).

2.2.3 Liquidity Advantage

Property, as a result of its heterogeneous nature, suffers from illiquidity. A seller would need to find a buyer who wants exactly that type of property, size, price, and maybe even color at that particular time the seller was trying to liquidate his asset. Listed REITs would instead provide a much easier entry and exit route for property investors. One would simply have to sell those shares on the exchange to exit a particular position (Olukemi, Why You Should Look Forward To REITs Expansion Across Sub-Saharan Africa, 2014).
Another angle would be that because REIT shares are usually publicly traded, they provide the typical investor with more liquidity than direct investment in privately traded underlying real estate assets (Miller and Eichholtz, 2007).

2.2.4 Professionally Managed Portfolio

According to Miller and Eichholtz (2007), while investing in REIT shares, the job of managing the portfolio is usually conducted by the REIT’s professional management, unless the investor purchases a large proportion of all the REIT shares. The REITs are typically known to also engage in the buying and selling of properties, as well as property development, in addition to holding and operating a static portfolio of properties, which in turn presents an obvious further advantage for the investor.

2.2.5 Reduced Development Costs

According to Market (2008), it is hoped that the introduction of REITs in Kenya will encourage property developers to raise funds at the capital markets, subsequently resulting in reduced development costs as bank financing will be forced to become more competitive.

2.2.6 Tax Advantages

Tax exemption status enjoyed by REITs translates into further advantages for the investor, as they avoid the double taxation of earnings typically incurred by corporate shareholders. In addition to this, the shareholders of a tax qualified REIT, like corporate shareholders, enjoy limited legal liability as they only lose that which they have invested (Larsen, 2003).

2.2.7 Regular Income Stream

Property investment is essentially capital intensive. (Olukemi, Why You Should Look Forward To REITs Expansion Across Sub-Saharan Africa, 2014). What REITs do therefore is to make it more affordable, via the dividends distributed by the REIT, as REITs are typically required to distribute 90 percent of income earned to their investors (Larsen, 2003).

In South Africa for instance, the steady nature of REIT returns is attracting investors from many areas of the market, according to Keillen Ndlovu, head of listed property funds at...
Johannesburg-based asset manager Stanlib. “Listed property remains the best asset class for growing income streams,” he told industry press in early November. “In contrast to equities, it delivers predictable income and less volatile earnings growth, even in an economic downturn” (Oxford Business Group, 2015).

2.3 Risks Associated with REIT Introduction and Development in Kenya

2.3.1 Stock Market versus Property Market

According to Chan (2002), investment in REITs requires the investor have adequate knowledge on both the stock market, as well as property market, in order to get the most out of their investment/arbitrage their profits. This is because there are quite a few differences between the two markets. An example would be in the price movements of stock on one hand, and real property on the other. For instance there could be a case where the price of an REIT stock differs from that of its underlying property, case in point being on Black Monday in October 1987 where the prices of REITs in the States dropped by 20% in one day, while the prices of their underlying properties did not report any change either before or after the subject day.

2.3.2 Valuation Uncertainty

Thanks to their unique fund-type organizational structure, REITs amplify the problem of valuation as well as lack of understanding of the actual value of the underlying property. This is further complicated by the fact that very little is known about the structure and performance of REITs in the stock market (Chan, 2002).

Now this problem is somewhat alleviated in developed markets such as the UK and the US by the fact that property prices are often influenced by the sale of comparables, data for which can easily be obtained from a consultancy such as Knight Frank or Savills. However, in developing markets such as that of Nigeria and Ghana, this information may be harder to come by and so valuations can be tricky.

The value of the REIT share would therefore be determined by the prevailing market price. (Olukemi, Why You Should Look Forward to REITs Expansion Across Sub-Saharan Africa, 2014). For the small investor, this could prove disastrous, as small investors do not have access to sophisticated research on the price movements of REITs on the stock markets (Chan, 2002).
2.3.3 Borrowing Risks

As is the case with any other investment, potential investors interested in REITs must be vigilant in assessing the amount of debts in an REIT’s books, before delving into the investment, as this may result in a relatively lower dividend payout than expected, in the event that an REIT is deeply in debt (DLA Piper, 2016).

It would also be pertinent for the investor to ensure that the chosen REIT is listed on the Stock Exchange and further assess its performance, so as to gain valuable insight on the dividend payout to expect (DLA Piper, 2016).

2.3.4 Economic and Political Environment

Economic growth is the major factor that determines REITs’ growth. On one hand, an uptick in economic fundamentals positively affects the REITs by increasing business growth (Maydith Limited, 2016).

On the other hand, hostile economic and political situations affect the value of the underlying property, for example, through depreciation (Oraro, Gitau, and Onchwari, 2016).

An example would be an anticipated interest rate hike in the US. Such a scenario could see global investment flows redirected away from emerging markets, which could put greater pressure on the African property markets, and subsequently REIT growth (Oxford Business Group, 2015).

2.3.5 Slower Growth

Real Estate Investment Trusts (REITs) can only reinvest a max of 20% of their annual profits back into their core business lines each year. This may cause some REITs to grow at a slower pace than a normal company (Maydith Limited, 2016).

2.3.6 Occupancy Rates and Rents

Higher occupancy rates and rising rents are the most immediate sources of revenue growth for REITs. Higher occupancy rates lead to higher income for REITs and lower occupancy rates lead to lower income for REITs (Maydith Limited, 2016).
Decrease of rental income can be as a result of termination of lease agreements or non-renewal of lease agreements and failure to secure replacement tenants in good time (Oraro et al., 2016).

2.3.7 Cyclical Nature of Real Estate

Although REITs have to pay at least 80% of their income as a dividend, their income stream is not guaranteed. Cyclical downturns in the real estate market could make REITs’ business unstable. REITs may be subject to market volatility from time to time (Maydith Limited, 2016).

2.3.8 Investment Period

A point to note is that REITs are commonly structured as closed ended trusts due to the illiquid nature of property. In a close-ended REIT however, the investor cannot seek to redeem his investment before expiry of the investment period unless there is an arrangement with the Trustee’s consent for the sale of the Investor’s units (Oraro et al., 2016).

2.4 Measures to Enhance REIT Development in Kenya

2.4.1 Public Education on REITs

This will be to ensure that Kenyans can take advantage of offers to come in the future (Kangethe, 2015), and that they are fully conversant with the how REITs work.

2.4.2 Address Challenges Surrounding Land Ownership and Issuance of Title Deeds

“Nairobi Securities Exchange (NSE) Chief Executive Officer Geoffrey Odundo has urged the land ministry to address challenges surrounding land ownership and issuance of Title Deeds in order to spur growth in the Real Estate Investment Trust (REIT) Market” (Kangethe, 2015).

“Odundo said uncertainties over land ownership and delays in issuance of Titles could stifle the growth of the REIT market that was launched in a bid to enable Kenyans invest affordably in the lucrative real estate segment” (Kangethe, 2015).
2.4.3 Need for Property Owners and Developers to Raise Funds through the Capital Markets

The SA REIT Association say that first there must be a larger listed property market in African countries such as Nigeria before there can be other REIT structures. REITs use an ordinary share structure rather than a complex, linked-unit structure and pay out most of their profits to shareholders. REITs globally follow a similar tax dispensation. Since the introduction of the system in South Africa in 2013, the big, listed property funds have joined new REIT-focused indices, which has led to foreign investment into South African REITs. However, most African countries have not yet become a big enough listed market to sustain a REIT structure (Africa Property News, 2015).

“The launch of REITs further enhances financial inclusion in our capital markets as average investors will now be able to invest in large-scale commercial, residential and industrial properties, without requiring large sums of money”. It is for this reason that Mr. Odundo urges property owners and developers to follow in Stanlib’s footsteps and raise funds through the capital markets (Kangethe, 2015).

2.4.4 Enabling Legislation

During the past few years, REIT regimes across the world have been continuously evolving in order to respond to the ever changing market environment. For instance, significant changes have been introduced in the Spanish SOCIMI and the UK REIT regimes, further discussed below.

Spain introduced in October 2009 the SOCIMI regime (‘Sociedades Anónimas Cotizadas de Inversión en el Mercado Inmobiliario’), the Spanish version of a REIT vehicle. SOCIMIs are listed corporations whose main activity is direct and indirect investment in real estate for lease. Unlike REITs in other countries, SOCIMIs were subject to a reduced corporate flat rate of 19%. The economic turmoil, the severe real estate market crisis, and the stringent requirements are to be blamed for the poor record of entrants to the SOCIMI regime so far. In December 2012 significant amendments to the REIT regime were introduced for tax periods starting on or after 1 January 2013. The reform seeks to turn the SOCIMI into a more standard and attractive REIT vehicle mainly through the reduction of the corporate income taxation from 19% to 0% in the REIT vehicle as well
as the relaxation of many of the existing requirements. Additionally, it should be noted that this tax regime is applicable to qualifying subsidiaries of foreign listed REITs for their Spanish income (PwC, 2013).

The UK REIT was introduced by provisions in the Finance Act 2006 and came into force on 1 January 2007. A UK REIT comprises a group of companies carrying on a property investment business, with property let to third-party tenants. The parent company can be incorporated anywhere but must be a UK tax resident company whose shares are traded on a recognized stock exchange. A UK REIT benefits from an exemption from UK tax on both rental income and gains relating to its property investment business. On an on-going basis, the REIT business has to meet certain tests and the REIT is required to distribute 90% of its rental income in respect of each accounting period in order to obtain exemption from tax on its rental income (PwC, 2013).

Mexican REITs are still growing as a potential vehicle of doing business in Mexico. With the objective of fostering investment in real estate infrastructure in Mexico, a number of provisions were incorporated into the Mexican Income Tax Law (MITL) since 2005, which established the requirements of a trust to receive a particular-beneficial-tax treatment (PwC, 2013).

In Belgium, the Belgian closed ended real estate collective collective investment company (SICAFI or ‘Societe d’Investissement à Capital Fixe Immobilière’) was created by the Law of 4 December 1990. However, it took until the Royal Decree of 10 April 1995 to put in place a regulatory framework whereby a balance was sought between allowing investment flexibility to the SICAFI and providing security to the investor. A new Royal Decree was issued on 7 December 2010, replacing the aforementioned decree and amending the regulatory framework for public SICAFIs. The most important new change is the introduction of the regulatory framework for institutional SICAFIs allowing a public SICAFI to realize specific projects with third parties, that is, other institutional or professional investors. The regulatory framework of the institutional SICAFI is aimed at protecting the underlying investors in the public SICAFI (PwC, 2013).

SICAFIs are subject to the standard corporate income tax rate at 33.99%, be it on a very limited lump-sum basis. Currently, there are 17 public SICAFIs and 3 institutional SICAFIs acknowledged by the Financial Services and Markets Authority (FSMA).
Belgian public SICAFIs represent a total market capitalization of approximately EUR 6.1 billion (PwC, 2013).

Since 2007, Canada’s income tax legislation has contained a specific set of rules that apply to listed REITs (the ‘REIT Rules’). The REIT Rules were introduced as an exception to new provisions dealing with specified investment flow-through entities (that is, certain publicly traded trusts and partnerships) (the ‘SIFT Rules’). Entities subject to the SIFT Rules are subject to tax (‘SIFT tax’) in a manner similar to that of public corporations and are not entitled to the flow through tax treatment that is generally available to trusts and partnerships. In their legal form, REITs are mutual fund trusts (PwC, 2013).

Finnish legislation provided a framework for collective investments in real property as early as 1997 (Act on Real Estate Funds (‘REF Act’). However, no funds were set up under the REF Act, mostly due to unattractive taxation: no tax exemptions were available for the Real Estate Funds, which consequently were subject to regular corporate income tax on all income. However, after a lengthy lobbying effort by the industry, a tax exemption for such real estate fund, governed by the said REF Act, was introduced with effect from 1 January 2009 by the Finnish Act on Tax Incentives for certain Limited Companies Carrying on Residential Renting Activities (24.4.2009/299, ‘FIN-REIT Act’). Despite the objections from the market participants, the tax exemption was only extended to real estate funds investing in residential property (PwC, 2013).

In Africa, growth in the REIT market has been limited by the absence of enabling legislation. South Africa has traded in REITs for the last 10 years, while Ghana has had access to REITs since 1994 and Nigeria 2007.

In Nigeria, some SEC rules such as the limitations placed on the amount of leverage permitted as well as the non-treatment of REITs as asset backed investment securities have likely curbed REIT growth (Olukemi, 2014).

At a more general level, the steps necessary to raise the attractiveness of African markets for investment include: improved information availability and due diligence including legal frameworks and legal registration of property, transparency in valuation of property, easier capital repatriation, development of local mortgage markets, moves towards
democratization, and an improvement in the tourism and visa processing frameworks (DLA Piper, 2016).

There are examples of some of these steps having been taken in some countries. For instance, in Kenya, land rights were enshrined in the 2010 constitution and the unified land Acts of 2012; investment vehicles such as REITs and limited liability companies have been established; limits on the repatriation of capital have been raised; and judicial and dispute resolution mechanisms set up. Nevertheless, progress is gradual and barriers remain (DLA Piper, 2016).

Another example would be the fact that in Kenya, the REIT legislation allows for a housing development focus, via the D-REIT. Investors take some of the project risk, so the regulations limit D-REITs to professional investors. A D-REIT can be converted into an I-REIT (an Equity REIT) which realizes returns through rental cash flows, when the bulk of the assets have completed the construction phase and rentals begin to flow (CAHF, 2016).

2.5 Chapter Summary

The literature review reveals that Kenya is continuing to see significant growth in the real estate sector, further driven by increased urbanization that has in turn driven demand for housing to far surpass supply of the same. This has resulted in the Capital Markets Authority commissioning expert research on the viability of REITs in Kenya as an additional financial instrument geared towards increasing investment in the real estate sector, subsequently alleviating the current shortage of housing in the country.

From the literature, it is evident that there is indeed a need for REITs in Kenya, with the overall benefits listed outweighing the challenges faced in their development. The primary research that follows will seek to explore whether Kenya’s investment management firms share in the optimism of the Capital Markets Authority on the viability of REITs in the market, and whether the stock market as a whole is indeed ready for the impact of the same on the property market. The following chapter discusses the methodology employed in carrying out the research.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction
This chapter presents a discussion of the research questions, and introduces the process through which collection, analysis and processing of the data collected for purposes of this research was carried out. The chapter also introduces and examines: the participants used for collection of the data used in the research, the challenges identified in the data collection, and how these challenges were overcome. Lastly, the chapter outlines the techniques used to implement the research, and seeks to link the research tools utilised to the quality of data collected.

3.2 Research Design
Research design can be defined as a blueprint for collection, measurement and data analysis (Cooper and Schindler, 2008). This study made use of descriptive research design, which provides information about conditions, situations, and events that occur in the present (Ross, 2005), as this enabled the researcher to adequately examine the research questions earlier presented in this paper in relation to the fact that REIT introduction in the country is a relatively new phenomenon.

This choice of research design also made it easier to collect data on the pre-conceived benefits of REITs introduction as an additional and alternative investment avenue into the country’s booming property market, from the currently available service providers in the country.

3.3 Population and Sampling Design

3.3.1 Target Population
A population is the full set of cases from which the sample is taken (Saunders, Lewis, and Thornhill, 2013). The population was selected based on the listed REIT managers in the country at the time for the study. The study therefore focused on data derived from a sample of Kenya’s real estate elite, and available information from the Capital Markets Authority and the Nairobi Securities Exchange.
3.3.2 Sampling Design

Sampling design is defined as the way you select a sample. Because I already identified the specific groups of people from whom to get information from, the study made use of a non-probability sampling technique, more specifically a purposive sample of real estate professionals and employees from the listed REITs in the country.

3.3.3 Sampling Frame

The defined target population provided an operational definition that may be used to guide the construction of a list of population elements, or sampling frame, from which the sample may be drawn (Ross, 2005). For this study, the sampling frame consisted of a list of all the participants in the survey. The sample therefore included an insight into the study from all the REIT service providers currently licensed by the Capital Markets Authority.

3.3.4 Sample Size

A given number of members from the accessible population was selected, in order to form a representation of the larger population, as this made it easier to collect and analyze the data required.

The intended population size was 20 individuals from the currently licensed REIT managers in the country.

3.4 Data Collection Methods

This study made use of both primary and secondary data collection methods, in order to give conclusive findings on the problem statement. The questionnaire referenced in the Appendix section of this paper was designed to gain insight into whether REITs introduction in the country is truly viable, and if so, just what can be done to enhance their development.

Descriptive statistics based on already collected empirical data was used to analyse the future outlook of REITs introduction on the Kenyan market and whether the country’s property market is truly ready for the subsequent effects.
For attaining the relevant information from the respondents of this research project the questionnaire (Appendix I) was structured into four sections as below in relation to the research questions:

Section 1: Background information
Section 2: Benefits of REIT introduction in Kenya
Section 3: Risks associated with REIT introduction and development in Kenya
Section 4: What can be done to enhance REITs in the Kenyan Market?

The primary data collection method employed in this study provided on one hand a wide range of advantages that include: easy administration (through soft copies distributed via email as opposed to face to face interviews), speedy delivery, cost efficiency (to a significant extent), and access to a larger geographical dispersed sample.

On the flip side however, challenges such as: printing expenses (for the hard copies to be hand delivered), the fact that I required continuous access to the internet, and the non-ability to clarify questions that may have been unclear to the respondents, presented a slight disadvantage in regards to the referenced data collection method.

In regards to the secondary data required in order to make conclusive inferences, one of the major challenges was that this is a relatively new phenomenon in the market, and as such the data available in regards to the same is quite scarce and mostly speculative. The advantage however, was that the data available presented an up-to-date and ever evolving insight into the problem statement.

3.5 Research Procedure
The questionnaire was pre-tested by administering it to a student and two staff members from the research office. Initially there were two questionnaires: one for the real estate elite in the country, and another to the general public. During this exercise, it was deemed best to reduce the number of questionnaires to just one, the one designed for the real estate elite. Vague questions that did not correlate to the study were also excluded, and open ended questions introduced. The questionnaires were then administered either electronically via email, or in hard copy whereby the same were dropped at the respondents’ offices and then picked up later.
3.6 Data Analysis

This study made use of the quantitative method of data analysis. To ensure ease of analysis, the questionnaires were first coded as per each variable in each question of the study so as to improve on accuracy during the analysis. Data was then analyzed using statistical software known as the Statistical Package for the Social Sciences (SPSS) program to compute descriptive statistics for the collected set of data.

More specifically, frequency tables were used to display and analyze the data, while a non-parametric test, that is, the Chi Square goodness of fit test was used to draw further inferences from the data. An additional table was then generated to further demonstrate the mean, standard deviation, minimum and maximum points of the data collected.

In a chi square goodness of fit test, the null hypothesis is usually that there is no significant difference between the observed and expected value, while the alternative hypothesis is that there is a significant difference between the observed and the expected value (Chi-Square Goodness of Fit Test, 2016).

For my analysis of the responses from the questionnaire, I used a chi square test of equal proportions, whereby the null hypothesis was that the proportion of responses expected in each category provided (strongly disagree, disagree, uncertain, agree, strongly agree) would be equal. The alternative hypothesis would therefore be that there is a significant difference between the preferences of the respondents with some preferring some categories as compared to the others. The decision rule was based on a significance level of 0.05 for the p value (or Asymp. Sig. in SPSS), in which case the null hypothesis would be accepted if the p value was less than 0.05. From a combination of the frequency tables as well as the below chi square tables, it is apparent that in this case the null hypothesis was rejected, as the respondents did not choose the categories in equal proportion. There is a clear preference of the categories ‘agree’ through to ‘strongly agree’ for most of the responses, as compared to a very limited number of responses in the ‘strongly disagree’ through to ‘uncertain’ categories.
3.7 Chapter Summary
The chapter presented a description of the methodology that was used in carrying out the study. The research design was descriptive in nature with the main focus being on the benefits of REIT introduction in Kenya, the risks associated with their introduction and development, and what can be done to enhance their presence in the market. The next chapter presents the findings from the study as well as analysis and interpretation of the data.
CHAPTER FOUR

4.0 DATA ANALYSIS, FINDINGS, AND RESULTS INTERPRETATION

4.1 Introduction
This chapter highlights and discusses the results of the survey from the questionnaires distributed. The responses from the questionnaire are first examined, after which the total number of responses and the number of responses within each category of the questionnaire are analyzed in the order in which they appeared in the survey.

4.2 Background Information of the Respondents
4.2.1 Respondents’ Experience in the Real Estate Industry (in years)

Table 4.1 Distribution of respondents by work experience in the real estate industry

<table>
<thead>
<tr>
<th>Experience</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid Less than 3 years</td>
<td>4</td>
<td>20.0</td>
<td>20.0</td>
<td>20.0</td>
</tr>
<tr>
<td>3-5 years</td>
<td>6</td>
<td>30.0</td>
<td>30.0</td>
<td>50.0</td>
</tr>
<tr>
<td>6-10 years</td>
<td>3</td>
<td>15.0</td>
<td>15.0</td>
<td>65.0</td>
</tr>
<tr>
<td>More than 10 years</td>
<td>7</td>
<td>35.0</td>
<td>35.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Respondents with a working experience of more than 10 years in the real estate industry were the majority, representing 35% of the respondents, followed by those with a working experience of 3-5 years representing 30% of the respondents, with those having work experience of less than 3 years and 6-10 years representing 20% and 15% of the respondents respectively.
4.2.2 Level of Management of Respondents

Table 4.2 Distribution of respondents by level of management

<table>
<thead>
<tr>
<th>Level of Management</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior management level</td>
<td>4</td>
<td>20.0</td>
<td>20.0</td>
<td>20.0</td>
</tr>
<tr>
<td>Middle management level</td>
<td>5</td>
<td>25.0</td>
<td>25.0</td>
<td>45.0</td>
</tr>
<tr>
<td>Supervisory level</td>
<td>4</td>
<td>20.0</td>
<td>20.0</td>
<td>65.0</td>
</tr>
<tr>
<td>Other</td>
<td>7</td>
<td>35.0</td>
<td>35.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Respondents in ‘Other’ levels of management were the majority, representing 35% of the respondents, followed by respondents in middle level of management who represented 25% of the respondents, with the respondents in senior management and supervisory levels tying in at 20% of the total number of respondents.

4.2.3 Number of years the company the respondent works for has been in operation

Table 4.3 Distribution of respondents by the number of years the company they work for has been in operation

<table>
<thead>
<tr>
<th>Years in Operation</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>5-10 years</td>
<td>4</td>
<td>20.0</td>
<td>20.0</td>
<td>20.0</td>
</tr>
<tr>
<td>10-20 years</td>
<td>9</td>
<td>45.0</td>
<td>45.0</td>
<td>65.0</td>
</tr>
<tr>
<td>20-50 years</td>
<td>7</td>
<td>35.0</td>
<td>35.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Majority of the respondents (45%) worked for companies that have been in operation for 10-20 years, followed by 35% of respondents who worked for companies that have been in operation for 20-50 years, and lastly 20% of the respondents worked for companies that have been in operation for 5-10 years.

4.2.4 Number of branches the company the respondent works for has locally

All the respondents worked for companies that only had 1 branch locally.
4.2.5 Scope of the company the respondents work for

All the respondents worked for companies that had business operations outside Kenya.

4.3 Benefits of REIT Introduction in Kenya

4.3.1 REIT Introduction in Kenya will facilitate access to investment in large scale real estate projects for small individual investors

Table 4.4 REIT Introduction in Kenya will facilitate access to investment in large scale real estate projects for small individual investors

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td>9</td>
<td>45.0</td>
<td>45.0</td>
<td>45.0</td>
</tr>
<tr>
<td>Agree</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>11</td>
<td>55.0</td>
<td>55.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

All the respondents agreed with this statement, with 55% selecting the strongly agree option.

4.3.2 REIT Introduction in Kenya will facilitate diversification benefits for investors

Table 4.5 REIT Introduction in Kenya will facilitate diversification benefits for investors

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td>7</td>
<td>35.0</td>
<td>35.0</td>
<td>35.0</td>
</tr>
<tr>
<td>Agree</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>13</td>
<td>65.0</td>
<td>65.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

All the respondents agreed with this statement, with 65% selecting the strongly agree option.
4.3.3 REIT Introduction in Kenya will facilitate liquidity advantage over direct investment in privately traded underlying real estate assets

Table 4.6 REIT Introduction in Kenya will facilitate liquidity advantage over direct investment in privately traded underlying real estate assets

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agree</td>
<td>8</td>
<td>40.0</td>
<td>40.0</td>
<td>40.0</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>12</td>
<td>60.0</td>
<td>60.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

All the respondents agreed with this statement, with 60% selecting the strongly agree option.

4.3.4 REIT Introduction in Kenya will facilitate access to professionally managed portfolio for the investor

Table 4.7 REIT Introduction in Kenya will facilitate access to professionally managed portfolio for the investor

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
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<tr>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agree</td>
<td>2</td>
<td>10.0</td>
<td>10.0</td>
<td>10.0</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>18</td>
<td>90.0</td>
<td>90.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

All the respondents agreed with this statement, with 90% selecting the strongly agree option.
4.3.5 REIT Introduction in Kenya will facilitate reduced development costs for property developers, as bank financing will be forced to become more competitive

Table 4.8 REIT Introduction in Kenya will facilitate reduced development costs for property developers, as bank financing will be forced to become more competitive

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td>Disagree</td>
<td>7</td>
<td>35.0</td>
<td>35.0</td>
</tr>
<tr>
<td></td>
<td>Uncertain</td>
<td>6</td>
<td>30.0</td>
<td>65.0</td>
</tr>
<tr>
<td></td>
<td>Agree</td>
<td>1</td>
<td>5.0</td>
<td>70.0</td>
</tr>
<tr>
<td></td>
<td>Strongly Agree</td>
<td>6</td>
<td>30.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>20</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Majority of the respondents (35%) disagreed with this statement completely, while 30% were uncertain. Thirty percent strongly agreed with the statement while another 5% agreed with it. This could be an indication that this pre-conception may not be practical in the actual market, and as such is only a benefit in theory.

4.3.6 REIT Introduction in Kenya will facilitate tax advantages and limited legal liability for the shareholders of a tax qualified REIT

Table 4.9 REIT Introduction in Kenya will facilitate tax advantages and limited legal liability for the shareholders of a tax qualified REIT

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td>Agree</td>
<td>8</td>
<td>40.0</td>
<td>40.0</td>
</tr>
<tr>
<td></td>
<td>Strongly Agree</td>
<td>12</td>
<td>60.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>20</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

All the respondents agreed with this statement, with 60% selecting the strongly agree option.
4.3.7 REIT Introduction in Kenya will facilitate a regular income stream for the investor via the dividends distributed by the REIT

Table 4.10 REIT Introduction in Kenya will facilitate a regular income stream for the investor via the dividends distributed by the REIT

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Uncertain</td>
<td>3</td>
<td>15.0</td>
<td>15.0</td>
</tr>
<tr>
<td>Agree</td>
<td>13</td>
<td>65.0</td>
<td>65.0</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>4</td>
<td>20.0</td>
<td>20.0</td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Majority of the respondents agreed with this statement, with 20% selecting the ‘strongly agree’ option, 65% selecting the ‘agree’ option, and 15% selecting the ‘uncertain’ option.

Table 4.11 Test Statistics-Benefits of REIT Introduction in Kenya

A summary of the test statistics of the questions relating to the benefits of REIT introduction in Kenya are presented below:

<table>
<thead>
<tr>
<th>Benefit 1: Access to investment in large scale real estate projects for small individual investors</th>
<th>Chi-Square</th>
<th>df</th>
<th>Asymp. Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefit 2: Diversification benefits for investors</td>
<td>1.800^a</td>
<td>1</td>
<td>.180</td>
</tr>
<tr>
<td>Benefit 3: Liquidity advantage over direct investment in privately traded underlying real estate assets</td>
<td>.800^a</td>
<td>1</td>
<td>.371</td>
</tr>
<tr>
<td>Benefit 4: Access to professionally managed portfolio for the investor</td>
<td>12.800^a</td>
<td>1</td>
<td>.000</td>
</tr>
<tr>
<td>Benefit 5: Reduced development costs for property developers, as bank financing will be forced to become more competitive</td>
<td>4.400^b</td>
<td>3</td>
<td>.221</td>
</tr>
<tr>
<td>Benefit 6: Tax advantages and limited legal liability for the shareholders of a tax qualified REIT</td>
<td>.800^a</td>
<td>1</td>
<td>.371</td>
</tr>
<tr>
<td>Benefit 7: A regular income stream for the investor via the dividends distributed by the REIT</td>
<td>9.100^c</td>
<td>2</td>
<td>.011</td>
</tr>
</tbody>
</table>
Table 4.12 Descriptive Statistics- Benefits of REIT Introduction in Kenya

A summary of the descriptive statistics of each of the questions relating to the benefits of REIT introduction in Kenya are presented below:

<table>
<thead>
<tr>
<th>Benefit 1: Access to investment in large scale real estate projects for small individual investors</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>20</td>
<td>4.5500</td>
<td>.51042</td>
<td>4.00</td>
<td>5.00</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Benefit 2: Diversification benefits for investors</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>20</td>
<td>4.6500</td>
<td>.48936</td>
<td>4.00</td>
<td>5.00</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Benefit 3: Liquidity advantage over direct investment in privately traded underlying real estate assets</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>20</td>
<td>4.6000</td>
<td>.50262</td>
<td>4.00</td>
<td>5.00</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Benefit 4: Access to professionally managed portfolio for the investor</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>20</td>
<td>4.9000</td>
<td>.30779</td>
<td>4.00</td>
<td>5.00</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Benefit 5: Reduced development costs for property developers, as bank financing will be forced to become more competitive</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>20</td>
<td>3.3000</td>
<td>1.26074</td>
<td>2.00</td>
<td>5.00</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Benefit 6: Tax advantages and limited legal liability for the shareholders of a tax qualified REIT</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>20</td>
<td>4.6000</td>
<td>.50262</td>
<td>4.00</td>
<td>5.00</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Benefit 7: A regular income stream for the investor via the dividends distributed by the REIT</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>20</td>
<td>4.0500</td>
<td>.60481</td>
<td>3.00</td>
<td>5.00</td>
<td></td>
</tr>
</tbody>
</table>
4.4 Risks Associated with REIT Introduction and Development in Kenya

4.4.1 Investment in REITs requires the investor to have adequate knowledge of both the stock market, and the property market in order to get the most out of their investment

Table 4.13 Investment in REITs requires the investor to have adequate knowledge of both the stock market, and the property market in order to get the most out of their investment

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strongly Disagree</td>
<td>8</td>
<td>40.0</td>
<td>40.0</td>
<td>40.0</td>
</tr>
<tr>
<td>Disagree</td>
<td>2</td>
<td>10.0</td>
<td>10.0</td>
<td>50.0</td>
</tr>
<tr>
<td>Agree</td>
<td>9</td>
<td>45.0</td>
<td>45.0</td>
<td>95.0</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>1</td>
<td>5.0</td>
<td>5.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Forty percent of the respondents strongly disagreed with this statement, with another 5% disagreeing with it. This therefore resulted in the industry experts being divided into two groups: 50% agreed with the statement, while 50% disagreed with it. Perhaps there is a need to conduct further research on this, to determine once and for all whether there is some sort of correlation between an investor’s knowledge on both markets, and their resultant investment returns.

4.4.2 REITs amplify the problem of valuation as well as a lack of understanding of the actual value of the underlying property

Table 4.14 REITs amplify the problem of valuation as well as a lack of understanding of the actual value of the underlying property

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disagree</td>
<td>14</td>
<td>70.0</td>
<td>70.0</td>
<td>70.0</td>
</tr>
<tr>
<td>Agree</td>
<td>2</td>
<td>10.0</td>
<td>10.0</td>
<td>80.0</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>4</td>
<td>20.0</td>
<td>20.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Seventy percent of the respondents disagreed with this statement while only 30% agreed with this.
4.4.3 REITs present borrowing risks in that investors must be vigilant in assessing the amounts of debts in an REIT’s books before delving into the investment

Table 4.15 REITs present borrowing risks in that investors must be vigilant in assessing the amounts of debts in an REIT’s books before delving into the investment

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strongly Disagree</td>
<td>7</td>
<td>35.0</td>
<td>35.0</td>
<td>35.0</td>
</tr>
<tr>
<td>Disagree</td>
<td>7</td>
<td>35.0</td>
<td>35.0</td>
<td>70.0</td>
</tr>
<tr>
<td>Uncertain</td>
<td>6</td>
<td>30.0</td>
<td>30.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Seventy percent of the respondents disagreed with this statement while 30% were uncertain, with no respondent agreeing with the statement. This can be taken to demonstrate that there is very little need (if any) for a potential investor to examine a REIT’s books before making a final investment decision.

4.4.4 The economic and political environment of a country affects the value of the underlying property which in turn affects returns from investment in an REIT

All the respondents agreed with this statement, further proving that just like with any other investment, REITs are no exception to the effects of economic and political (in)stability of a given country at any given time.

4.4.5 REITs exhibit low growth rates as they can only invest a maximum of 20% of their annual profits back into the business

Table 4.16 REITs exhibit low growth rates as they can only invest a maximum of 20% of their annual profits back into the business

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disagree</td>
<td>5</td>
<td>25.0</td>
<td>25.0</td>
<td>25.0</td>
</tr>
<tr>
<td>Agree</td>
<td>15</td>
<td>75.0</td>
<td>75.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Seventy five percent of the respondents agreed with this statement, while only 25% of the respondents disagreed with it. Perhaps there is a need to research more on how an REIT can hasten its growth rate given the current legislation in place in regards to the fact that 80-85% of the profits made must be distributed to the investors.
4.4.6 In a close-ended REIT the investor cannot seek to redeem his investment before expiry of the investment period unless there is an arrangement with the Trustee’s consent for the sale of the Investor’s units.

Table 4.17 In a close-ended REIT the investor cannot seek to redeem his investment before expiry of the investment period unless there is an arrangement with the Trustee’s consent for the sale of the Investor’s units

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disagree</td>
<td>8</td>
<td>40.0</td>
<td>40.0</td>
<td>40.0</td>
</tr>
<tr>
<td>Agree</td>
<td>7</td>
<td>35.0</td>
<td>35.0</td>
<td>75.0</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>5</td>
<td>25.0</td>
<td>25.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Forty percent of the respondents disagreed with this statement, with 60% agreeing with it.

4.4.7 Lower occupancy rates in underlying properties lead to lower income for REITs

Table 4.18 Lower occupancy rates in underlying properties lead to lower income for REITs

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agree</td>
<td>10</td>
<td>50.0</td>
<td>50.0</td>
<td>50.0</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>10</td>
<td>50.0</td>
<td>50.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

All the respondents agreed with this statement, further proving the positive correlation between occupancy rates in underlying properties to the subsequent expected income for REITs investors.

4.4.8 Cyclical downturns in the real estate market could make REITs’ business unstable

Table 4.19 Cyclical downturns in the real estate market could make REITs’ business unstable

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disagree</td>
<td>9</td>
<td>45.0</td>
<td>45.0</td>
<td>45.0</td>
</tr>
<tr>
<td>Agree</td>
<td>6</td>
<td>30.0</td>
<td>30.0</td>
<td>75.0</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>5</td>
<td>25.0</td>
<td>25.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Forty five percent of the respondents disagreed with this statement, with 55% of the respondents agreeing with it.
Table 4.20 Descriptive Statistics-Risks Associated with REIT Introduction and Development in Kenya

A summary of the descriptive statistics of each of the questions relating to the risks associated with REIT introduction and development in Kenya are presented below:

| Risk 1: Investment in REITs requires the investor to have adequate knowledge of both the stock market and the property market, in order to get the most out of their investment | 20 | 2.6500 | 1.53125 | 1.00 | 5.00 |
| Risk 2: REITs amplify the problem of valuation as well as a lack of understanding of the actual value of the underlying property | 20 | 2.8000 | 1.28145 | 2.00 | 5.00 |
| Risk 3: REITs present borrowing risks in that investors must be vigilant in assessing the amount of debts in an REIT's books before delving into the investment | 20 | 1.9500 | .82558 | 1.00 | 3.00 |
| Risk 4: The economic and political environment of a country affects the value of the underlying property which in turn affects returns from investment in an REIT | 20 | 4.0000 | .00000 | 4.00 | 4.00 |
| Risk 5: REITs exhibit low growth rates as they can only invest a maximum of 20% of their annual profits back into the business | 20 | 3.5000 | .88852 | 2.00 | 4.00 |
| Risk 6: In a close-ended REIT the investor cannot seek to redeem his investment before expiry of the investment period unless there is an arrangement with the Trustee's consent for the sale of the Investor's units | 20 | 3.4500 | 1.27630 | 2.00 | 5.00 |
| Risk 7: Lower occupancy rates in underlying properties lead to lower income for REITs | 20 | 4.5000 | .51299 | 4.00 | 5.00 |
| Risk 8: Cyclical downturns in the real estate market could make REITs' business unstable | 20 | 3.3500 | 1.30888 | 2.00 | 5.00 |
Table 4.21 Test Statistics-Risks Associated with REIT Introduction and Development in Kenya

A summary of the test statistics of each of the questions relating to the risks associated with REIT introduction and development in Kenya are presented below:

<table>
<thead>
<tr>
<th>Risk</th>
<th>Chi-Square</th>
<th>df</th>
<th>Asymp. Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk 1: Investment in REITs requires the investor to have adequate knowledge of both the stock market and the property market, in order to get the most out of their investment</td>
<td>10,000.0</td>
<td>3</td>
<td>.019</td>
</tr>
<tr>
<td>Risk 2: REITs amplify the problem of valuation as well as a lack of understanding of the actual value of the underlying property</td>
<td>12,400.0</td>
<td>2</td>
<td>.002</td>
</tr>
<tr>
<td>Risk 3: REITs present borrowing risks in that investors must be vigilant in assessing the amount of debts in an REIT's books before delving into the investment</td>
<td>.100.0</td>
<td>2</td>
<td>.951</td>
</tr>
<tr>
<td>Risk 4: REITs exhibit low growth rates as they can only invest a maximum of 20% of their annual profits back into the business</td>
<td>5,000.0</td>
<td>1</td>
<td>.025</td>
</tr>
<tr>
<td>Risk 5: In a close-ended REIT the investor cannot seek to redeem his investment before expiry of the investment period unless there is an arrangement with the Trustee's consent for the sale of the Investor's units</td>
<td>.700.0</td>
<td>2</td>
<td>.705</td>
</tr>
<tr>
<td>Risk 6: Lower occupancy rates in underlying properties lead to lower income for REITs</td>
<td>.000.0</td>
<td>1</td>
<td>1.000</td>
</tr>
<tr>
<td>Risk 7: Cyclical downturns in the real estate market could make REITs' business unstable</td>
<td>1.300.0</td>
<td>2</td>
<td>.522</td>
</tr>
</tbody>
</table>

4.5 Measures to Enhance REIT Development in Kenya

4.5.1 Need for public education on REITs

Table 4.22 Need for public education on REITs

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agree</td>
<td>6</td>
<td>30.0</td>
<td>30.0</td>
<td>30.0</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>14</td>
<td>70.0</td>
<td>70.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

All the respondents agreed with this statement, further demonstrating the importance of public awareness and sensitization on any new investment offering by the capital markets.
4.5.2 Need for the land ministry to address challenges surrounding land ownership and issuance of title deeds

Table 4.23 Need for the land ministry to address challenges surrounding land ownership and issuance of title deeds

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agree</td>
<td>8</td>
<td>40.0</td>
<td>40.0</td>
<td>40.0</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>12</td>
<td>60.0</td>
<td>60.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

All the respondents agreed with this statement, further reiterating the fact that there is need to address land ownership issues by the land ministry, in order to enhance REIT development in the country.

4.5.3 Need for property owners and developers to raise funds through the capital markets

Table 4.24 Need for property owners and developers to raise funds through the capital markets

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agree</td>
<td>16</td>
<td>80.0</td>
<td>80.0</td>
<td>80.0</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>4</td>
<td>20.0</td>
<td>20.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

All the respondents agreed with this statement, perhaps demonstrating the need for property owners and developers to turn to alternative sources of funding, more so and in particular, the capital markets.

4.5.4 Need for enabling legislation

Table 4.25 Need for enabling legislation

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agree</td>
<td>10</td>
<td>50.0</td>
<td>50.0</td>
<td>50.0</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>10</td>
<td>50.0</td>
<td>50.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

All the respondents agreed with this statement, perhaps drawing attention to the need for enabling legislation for the development of any new product in the market. In addition to this, 30% of the respondents went on to offer further suggestions on what can be done to enhance RET development in Kenya in the final part of the question below.
Table 4.26 Descriptive Statistics- Measures to Enhance REIT Development in Kenya

A summary of the descriptive statistics of each of the questions relating to the measures required to enhance REIT development in Kenya is presented below:

<table>
<thead>
<tr>
<th>Suggestion</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Suggestion 1: Need for public education on REITs</td>
<td>20</td>
<td>4.7000</td>
<td>.47016</td>
<td>4.00</td>
<td>5.00</td>
</tr>
<tr>
<td>Suggestion 2: Need for the land ministry to address challenges surrounding land ownership and issuance of title deeds</td>
<td>20</td>
<td>4.6000</td>
<td>.50262</td>
<td>4.00</td>
<td>5.00</td>
</tr>
<tr>
<td>Suggestion 3: Need for property owners and developers to raise funds through the capital markets</td>
<td>20</td>
<td>4.2000</td>
<td>.41039</td>
<td>4.00</td>
<td>5.00</td>
</tr>
<tr>
<td>Suggestion 4: Need for enabling legislation</td>
<td>20</td>
<td>4.5000</td>
<td>.51299</td>
<td>4.00</td>
<td>5.00</td>
</tr>
</tbody>
</table>

Table 4.27 Test Statistics- Measures to Enhance REIT Development in Kenya

A summary of the test statistics of each of the questions relating to the measures required to enhance REIT development in Kenya is presented below:

<table>
<thead>
<tr>
<th>Suggestion</th>
<th>Chi-Square</th>
<th>df</th>
<th>Asymp. Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Suggestion 1: Need for public education on REITs</td>
<td>3.20a</td>
<td>1</td>
<td>.074</td>
</tr>
<tr>
<td>Suggestion 2: Need for the land ministry to address challenges surrounding land ownership and issuance of title deeds</td>
<td>.800a</td>
<td>1</td>
<td>.371</td>
</tr>
<tr>
<td>Suggestion 3: Need for property owners and developers to raise funds through the capital markets</td>
<td>7.20a</td>
<td>1</td>
<td>.007</td>
</tr>
<tr>
<td>Suggestion 4: Need for enabling legislation</td>
<td>.000a</td>
<td>1</td>
<td>1.000</td>
</tr>
</tbody>
</table>
4.5.5 What Else Can Be Done to Enhance REITs in Kenya

The last section of the questionnaire was an open question whose main objective was to find out from the industry experts themselves what they thought needed to be done in order to enhance REIT development in Kenya. For purposes of easier interpretation of the data on SPSS, I decided to categorize the responses into two groups: those who answered the question, and those who left it blank. As per the data presented in the above table, only 30% of the respondents answered the question, of which all the answers fell into the need for enabling legislation and regulation.

The specific answers are presented below:

**Respondent 1:**
- Listed investment firms with real estate divisions should easily register and be listed as REITs on the Exchange.
- More clear guidelines and process of REITs registration (should be put in place).

**Respondent 2:**
- REITs are a new product in Kenya and in the larger East Africa (n) region. Kenya, as a proactive country has actually laid down regulations and legislation surrounding REITs. With any new product, especially a regulated one, there are teething challenges. However, the market is ripe for such a product. With time, they will grow.

**Respondent 3:**
- Harmonization of the relevant policies and regulations-tax, CMA, and IRA mainly on operations and classification of REITs.
- Increase in capacity of REIT related professionals to be able to roll out faster and more efficiently and affordably.
- Review of statutory fee requirements to be able to help in managing fund level costs to boost income returns.

4.6 Chapter Summary

This chapter presented the findings of the study, with frequency tables presented for each of the questions that were used in the survey. Brief explanations were given after the tables as a presentation of the meanings of the numbers and percentages displayed by the frequency tables. Chi square goodness of fit test was used to determine the relationship between the study variables. The next chapter summarizes these findings, and presents a discussion on the objectives, conclusion, and recommendations of the study.
CHAPTER FIVE

5.0 DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction
This chapter concludes the study. The chapter aims to present in detail the findings from the research, and to further present the limitations of the study, as well as recommendations for additional studies on REITs.

5.2 Summary
The main aim of this research was to determine the impact of REIT introduction and development on the property markets in Kenya. The research aimed to establish: the impact of REIT introduction on the Kenyan property market in terms of the benefits to key stakeholders, the risks associated with developing REITs in Kenya, and subsequently, what can be done to enhance their development in the Kenyan market.

The research design employed was descriptive survey method that aimed at establishing the benefits and risks associated with REIT introduction in Kenya, as well as what can be done to enhance their development. The target population of the study was professionals in the real estate industry, drawn specifically from the listed REIT managers in the country. A non-probability sampling technique was used in the study, whereby all the participants in the survey comprised the sampling frame. Primary data was collected using semi-structured questionnaires. The procedure of data analysis involved the following stages: the completed questionnaires were edited for completeness, checked for errors and omissions and then coded into the Statistical Package for the Social Sciences (SPSS) tool for qualitative and quantitative analysis. Data was then analyzed using descriptive analysis such as mean scores, standard deviations, as well as frequency distributions and percentages. In addition to this, chi square goodness of fit test was used to identify the relationship between the study variables.
From the study findings, it is evident that there quite a number of benefits of REIT introduction and development in Kenya, especially for small scale investors. The study also demonstrates that the benefits outweigh the risks, and that with the right policies and regulations in place, REITs in Kenya are a viable and welcome investment vehicle.

5.3 Discussion of Results
5.3.1 Benefits of REITs

The results derived from the survey carried out strongly point to there being a high level of justification for the introduction of REITs in the Kenyan market. For instance, the findings agree with the observation by Miller and Eichholtz (2007) that REITs typically specialize in investing in and often actively developing and managing portfolios of commercial property equity.

The study also agreed with Larsen (2003) in regards to the fact that REIT investors may take advantage of diversification benefits both within the real estate market, and in a larger portfolio sense; as investors holding portfolios that contain no real estate investment can lower their portfolio risk by incorporating REIT shares into these portfolios.

Respondents of the questionnaire also agreed with the fact that REIT shares provide the typical investor with more liquidity than direct investment in privately traded underlying real estate assets, as they are usually publicly traded (Miller and Eichholtz, 2007).

The study further agreed with the fact that investing in REITs would grant small scale investors access to a professionally managed portfolio, as the job of managing a portfolio of REIT shares is usually conducted by the REIT’s professional management (Miller and Eichholtz, 2007).

In regards to reduced development costs, the results derived from the study point towards a gap in this area, as 35% of the respondents disagreed with this potential benefit, while more than half of the respondents (65%) were uncertain as to the viability of this benefit. This could be an indication that this perceived benefit may lack practicality in the actual market, and that further research needs to be conducted in this area.
The study also fully agreed with the fact that the tax exemption status enjoyed by REITs translates into further advantages for the investor, as they avoid the double taxation of earnings typically incurred by corporate shareholders, as well as limited legal liability (Larsen, 2003).

The findings also agree with the fact that REITs provide a regular income stream for the investor, via the dividends distributed from the income earned (Larsen, 2003).

5.3.2 Challenges of REITs

The challenges highlighted in this paper in regards to the introduction of REITs in the country were also examined, and while some were perceived to be of high concern, most were rendered teething problems that accompany any new type of investment vehicle in the market.

For instance, according to Chan (2002), investment in REITs requires the investor to have adequate knowledge on both the stock market, as well as property market, in order to get the most out of their investment. From the findings of the study however, 50% of the respondents agreed with this statement, while 50% disagreed with it. This therefore presents an opportunity for further research, in order to determine for sure whether there is any correlation between an investor’s knowledge on both markets and their resultant investment returns.

Further to the aforementioned challenge, REITs are also perceived to amplify the problem of valuation as well as a lack of understanding of the actual value of the underlying property, due to their unique fund-type organizational structure (Chan, 2002). From the study of the findings however, 70% of the respondents disagreed with this statement with 30% of the respondents agreeing with the same. This disparity in findings could be attributed to the fact that very little is known about the structure and performance of REITs in the stock market just yet, and as such further research into the workings of the stock market and its subsequent impact on REIT shares’ performance.

According to DLA Piper (2016), potential investors interested in REITs must be vigilant in assessing the amounts of debts in REIT’s books, before delving into the investment. The findings of the study however, disagreed with this statement demonstrating that there is very little need (if any) for a potential investor to examine a REIT’s books before making a final investment decision.
The study however agreed with the findings of Maydith Limited (2016) that economic growth is the major factor that determines REIT’s growth. On one hand, an uptick in economic fundamentals positively affects the REITs by increasing business growth (Maydith Limited, 2016), while on the other hand, hostile economic and political situations affect the value of the underlying property (Oraro et al., 2016).

The study also agreed with the observation by Maydith Limited (2016) that because REITs can only reinvest a maximum of 20% of their annual profits back into their core business lines each year, some of these REITs grow at a slower pace than a normal company.

The study further demonstrated a positive correlation between occupancy rates in underlying properties to the subsequent expected income for REITs investors, backing the observation by Maydith Limited (2016).

According to Maydith Limited (2016), cyclical downturns in the real estate market could make REITs’ business unstable. More than half of the respondents (55%) in the study agreed with the statement, with 45% disagreeing with the same. This could indicate a gap between this theoretical observation, and the reality in the actual real estate market.

Finally, the study agreed with the observation by Oraro et al. (2016), that REITs are commonly structured as closed ended trusts due to the illiquid nature of property; whereby the investor cannot seek to redeem his investment before expiry of the investment period unless there is an arrangement with the Trustee’s consent for the sale of the investor’s units.

5.3.4 Measures to Enhance REITs

While there were some risks associated with the introduction of and development of REITs in the country, the cross section of questionnaire respondents who were used in this study deemed the benefits far more extensive than the risks. In addition to this, it was also demonstrated that there are quite the number of steps that can be taken to mitigate the risks involved, as well as enhance the development of REITs in the country, key of which were: public education on REITs to ensure that Kenyans can take advantage of offers to come in the future (Kangethe, 2015), need for the land ministry to address challenges surrounding land ownership and issuance of title deeds in order to encourage growth of the REIT market which was launched to enable Kenyans invest affordably in the lucrative
real estate segment (Kangethe, 2015), need for property owners and developers to raise funds through the capital markets, and the need for enabling legislation.

5.4 Conclusion

5.4.1 Benefits of REITs

Kenyans have for a very long time been interested in investment in the real estate sector, and as such this modern investment vehicle will definitely serve this growing interest in real estate investment opportunities.

In fact to quote one of the questionnaire’s respondents, Kenya is a pro-active country that has taken steps to ensure that REITs as a new product are introduced and developed in a bid to spearhead the larger East Africa’s region’s acceptance of the same.

From the findings of the questionnaire, it is apparent that the real estate elite in the country have endorsed the product and intend on working closely with all stakeholders involved, to ensure that the investor is able to fully take advantage of the numerous benefits associated with REIT investment.

5.4.2 Challenges of REITs

The study concludes that while there are quite a number of risks associated with REIT introduction and development in the country, the benefits far outweigh the risks, and that these risks can be mitigated by a number of operational reforms and frameworks, more so by the regulatory bodies involved such as the CMA, NSE, RBA, IRA, KRA, and the government via the Land Ministry.

5.4.3 Measures to Enhance REITs

The study concludes that: there is a need to extensively educate the public on REITs, there is a need for the land ministry to address challenges surrounding land ownership and issuance of title deeds, there is a need for property owners and developers to raise funds through the capital markets, and there is a need for enabling legislation to aid in REIT development.
5.5 Recommendations

5.5.1 Suggestions for Improvement

5.5.1.1 Benefits of REITs

The benefits of REITs highlighted in the study can only be sufficiently experienced if the challenges presented are mitigated. The study also recognizes the fact that these benefits can only be felt gradually, as the required operational frameworks are put in place by the relevant stakeholders.

5.5.1.2 Challenges of REITs

The challenges highlighted in this study point towards the need for investor knowledge in REITs, the need for an understanding of the valuation of property, the fact that REITs generally exhibit low growth rates, and the fact that cyclical downturns in the real estate market as well as the economic and political environment of a country could make REITs’ business unstable.

These challenges can however be mitigated, and the ways in which REITs can be enhanced are provided in the next section of this paper.

5.5.1.3 Measures to Enhance REITs

The Capital Markets Authority will be required to carry out an intensive public awareness campaign on the introduction of this new phenomenon onto the Exchange and its massive array of benefits.

The Capital Markets Authority and the Nairobi Securities Exchange will also be required to partner with the country’s real estate elite in order to review the statutory requirements for the registration of REITs, so as to ensure that there is a sufficient number of REIT related professionals, more so in other major cities as well.

5.5.2 Recommendations for Further Research

Further studies need to be carried out in order to examine the policy changes that will propel REIT development in Kenya, as a majority of the respondents reiterated the need for enabling legislation.
An additional study is also required to examine the relationship between different stakeholders in the property as well as capital markets, for example, the CMA, RBA, IRA, KRA, and the Land Ministry, and how policies and regulations put in place by these bodies enhance REIT development in the country.
REFERENCES


APPENDICES

APPENDIX I – QUESTIONNAIRE

REITs and Their Impact on the Property Market in Kenya

SECTION 1: Background Information

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

1. For how long have you been working in the real estate industry?
   - Less than 3 years
   - 3-5 years
   - 6-10 years
   - More than 10 years

2. Level of management of the respondent
   - Senior management level
   - Middle management level
   - Supervisory level
   - Other

3. Number of years the company you work for has been in operation
   - 5-10 years
   - 10-20 years
   - 20-50 years
   - Above 50 years

4. How many branches do the company you work for have locally?…………………..

5. Does your company have business operations outside Kenya?
   - Yes
   - No
SECTION II: Benefits of REIT Introduction in Kenya

6. To what extent do you agree or disagree with the below pre-conceived benefits of REIT introduction in Kenya?

<table>
<thead>
<tr>
<th>REIT introduction in Kenya will facilitate:</th>
<th>Strongly Agree</th>
<th>Disagree</th>
<th>Uncertain</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access to investment in large scale real estate projects for small individual investors</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Diversification benefits for investors</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liquidity advantage over direct investment in privately traded underlying real estate assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Access to professionally managed portfolio for the investor</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reduced development costs for property developers, as bank financing will be forced to become more competitive</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax advantages and limited legal liability for the shareholders of a tax qualified REIT</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A regular income stream for the investor via the dividends distributed by the REIT</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
SECTION III: Risks Associated with REIT Introduction and Development in Kenya

7. To what extent do you agree or disagree with the below risks associated with the introduction and development of REITs in Kenya?

<table>
<thead>
<tr>
<th>Risks Associated with REIT Introduction and Development in Kenya</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Uncertain</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment in REITs requires the investor to have adequate knowledge of both the stock market, and the property market in order to get the most out of their investment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>REITs amplify the problem of valuation as well as a lack of understanding of the actual value of the underlying property</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>REITs present borrowing risks in that investors must be vigilant in assessing the amount of debts in an REIT’s books before delving into the investment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The economic and political environment of a country affects the value of the underlying property which in turn affects returns from investment in an REIT</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>REITs exhibit low growth rates as they can only invest a maximum of 20% of their annual profits back into the business</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>In a close-ended REIT the investor cannot seek to redeem his investment before expiry of the investment period unless there is an arrangement with the Trustee’s consent for the sale of the Investor’s units</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lower occupancy rates in underlying properties lead to lower income for REITs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cyclical downturns in the real estate market could make REITs’ business unstable</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
SECTION IV: What Can Be Done to Enhance REITs in Kenya

8. To what extent do you agree or disagree with the below suggestions to enhance REIT development in Kenya?

<table>
<thead>
<tr>
<th>What Can Be Done to Enhance REITs in Kenya</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Uncertain</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Need for public education on REITs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Need for the land ministry to address challenges surrounding land ownership and issuance of title deeds</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Need for property owners and developers to raise funds through the capital markets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Need for enabling legislation</td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

9. In your opinion, what else can be done to enhance REIT development in Kenya?

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3 June 2016

To whom it may concern

RE: Research Project by Tracy Sada Kahindi-Student ID: 628269

The bearer of this letter is a student at United States International University-Africa pursuing Master’s Degree in Business Administration (MBA).

As part of the program, she is required to undertake a research project on “Real Estate Investment Trusts and Their Impact on the Property Market.”; which requires her to collect data and information from various relevant institutions.

Kindly assist by enabling her access data, information and contact to respondents who can complete her questionnaires. I assure you that the information provided will be treated with the utmost confidentiality.

Should you have any enquiries regarding the student research please feel free to contact me on email at gachoki@usiuc.ac.ke or Tel: +254 730116414

Yours faithfully

Prof. George Achoki
Dean, Chandaria School of Business