

**DETERMINANTS OF INVESTMENT DECISIONS ON UPTAKE OF  
COMMERCIAL PROPERTIES: A CASE OF WESTLANDS AREA IN  
NAIROBI – KENYA**

**BY  
HASSANALI, JUZER YUNUS**

**UNITED STATES INTERNATIONAL UNIVERSITY – AFRICA**

**SPRING 2019**

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Fulfillment of the Requirement for the Degree of Master of Business Administration  
(MBA)**

**UNITED STATES INTERNATIONAL UNIVERSITY – AFRICA**

**SPRING 2019**

## 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 - Africa for academic purposes.

**Signed:** \_\_\_\_\_

**Date:** \_\_\_\_\_

**(ID No: 636366)**

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

**Signed:** \_\_\_\_\_

**Date:** \_\_\_\_\_

**Prof. Paul Katuse**

**Signed:** \_\_\_\_\_

**Date:** \_\_\_\_\_

**Dean, Chandaria School of Business**

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## ABSTRACT

This study sought to examine the determinants of investment decisions on the uptake of commercial properties in Westlands area in Nairobi – Kenya. This study set to determine the impact of prices on the uptake of commercial properties within Westlands area in Nairobi – Kenya, establish the impact of econometric factors on the uptake of commercial properties within Westlands area in Nairobi – Kenya, and determine the challenges facing investors on the uptake of commercial properties within Westlands area in Nairobi – Kenya.

This study adopted a descriptive research design that enabled the study findings to be generalized to the larger population. The population was 50 commercial real estate landlords that operated in Westlands - Kenya. The sample frame was obtained from onsite building managers working in Westlands - Kenya. The study applied a census sampling technique; thus, the sample size were 50 commercial real estate landlords that operated in Westlands - Kenya. A questionnaire was developed by the researcher based on the specific objectives of the study for data collection. A pilot test was done using ten respondents. Later, the refined questionnaires were distributed in person by the researcher to determine the target population. The data analysis methods that were used in the study were descriptive and inferential analysis. Descriptive analysis involved measures of central tendency (percentages, means and standard deviations). Inferential analysis involved correlation and regression analysis, and the study results were presented in the form of tables and figures.

The study revealed that prices are determined by market conditions and price changes are related to changes in macroeconomic variables. Loans are not the largest flow of investment capital since mortgage loans are illiquid and indivisible. Interest rate determines the lenders interest income on assets while credit risk carries the potential for bankruptcy since credit risk in mortgages involves the risk of defaulting, thus, potential losses create significant burdens for financial institutions, however, as lenders they are not reluctant to grant mortgage loans.

The study indicated that the rate of employment is not directly related to office rent even though, econometric factors affect savings and investment power. The building's appeal

has a close relation with its rental market performance and its occupancy is lured by the physical appeal. Property location has an effect on its market value and rent, for instance, proximity to complementary business and support services are valuable inputs to property uptake. A lease defines the privileges of tenants and landlords and lease options influence the tenant's decision of space occupation.

The study showed that developers in the country do not face restrictions to raise money for development, however, the real estate business has the potential to bring unpredictable losses. There are laws in place governing the real estate market, and the economic climate of a region affects the decision to invest. For instance, stringent mortgage demands impact supply. The study revealed that population growth is not a great challenge to real estate industry.

The study concludes that rental value is based on comparable leases and a well-drawn rent review clause affects the uptake of commercial properties. It also concludes that, security is considered by investors when making investment decisions, since real estate investment requires huge capital injection, and the laws of nature dictate the conceivable uses of real estate. This shows that price and econometric factors are significant to real estate uptake.

The study recommends all landlords to improve on their skills necessary to manage the complex risks associated with finances. This would facilitate their ability to create financial related securities that would provide them multiple instruments by which they can access finances.

## **ACKNOWLEDGEMENT**

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## **LIST OF ABBREVIATIONS**

<b>CBD:</b>	Central Business Districts
<b>GDP:</b>	Gross Domestic Product
<b>IPF:</b>	Investment Property Forum
<b>NIESV:</b>	Nigerian Institution of Estate Surveyors and Valuers
<b>REITs:</b>	Real Estate Investment Trusts
<b>SPSS:</b>	Statistical Package for Social Sciences
<b>SA:</b>	South Africa
<b>SSA:</b>	Sub-Saharan Africa
<b>UK:</b>	United Kingdom
<b>US:</b>	United States

## CHAPTER ONE

### 1.0 INTRODUCTION

#### 1.1 Background of the Study

The property market is one of the major segments of the investment market. The commercial property market is an important sector of the property market. Investors in the commercial property market expect return on their investments in the form of rent (Boon and Higgins, 2014). The commercial property market is also defined by some fundamental concepts. These concepts provide the basis for the determination of commercial property rental values. Contributors to the early conceptualization of rent theory believed that rent is a differential caused mainly by distance and cost of transportation and attributed differences in rent-earning capacity of land to differences in location and transport cost. Archer and Ling (2014) established a three-market framework, illustrating the relationships between the space market, the property market and the capital market. Thus, in the commercial property market, rental value is a function of demand and supply factors. The composition of the individual characteristics of these demand and supply factors varies in the context of national, regional and local commercial property markets.

Real property is an important component of the wealth of nations (Karakozova, 2015). Real property also constitutes nearly one-half of the wealth in the world, and thus, in terms of value, represents the most significant investment class. According to Corgel, Smith and Ling (2015), real property comprises 49% or \$21.41 trillion of the world's wealth (\$44 trillion) whereas stocks and bonds comprise 25.5% and 18.8% respectively. Real property has a number of characteristics which make it different from other investment assets including fixed location, heterogeneity, high unit value, illiquidity and the use of valuations to measure performance (Hoesli and MacGregor, 2015).

Commercial property investments constitute a substantial proportion of real property investments worldwide. There is about £762 billion worth of commercial property in the United Kingdom (UK) (IPF, 2014). Also, the commercial property sector is of considerable importance to the British economy (Scott and Judge, 2015). McWilliams (2012) asserted that real property forms a substantial element of the cost-base of the service and manufacturing sectors, accounting for around 44% of the non-financial assets of UK companies. The character and quality of commercial property also has an

important influence on the technological and organizational flexibility of the work environment which in turn has a substantial impact on efficiency in many service sector industries (Scott and Judge, 2015). Houlder (2012) concluded that real property constitutes a major source of collateral security for loans. He further estimated that three quarters of all UK bank lending is dependent on real property. Scott and Judge (2015) argued that real property represents a substantial slice of the investment portfolios of long-term institutional investors in the UK.

In Finland, most institutional investors mainly invest in offices and retail properties (Karakozova, 2015). In a study conducted by Jones Lang LaSalle and the Institute for Real Estate Economics on prime office yields in selected cities in the world, the actual rate of return on office property investments was found to be lowest in London and highest in Moscow.

In Africa, the real estate market varies considerably among nations. For instance, the formal introduction of Real Estate Investment Trusts (REITs) in 2013 by South African listed property sector has consistently performed well in terms of international standards (Anderson and Cloete, 2016). South Africa's listed property market has traditionally invested in the office, retail and industrial sectors. Unlike many developed and developing property markets, there has been very little investment in the residential property sector by the South African listed property sector (Anderson and Cloete, 2016). This is possibly due to certain barriers that are unique to the South African residential sector which are not experienced by the other three traditional property sectors. Furthermore, the South African REIT market is relatively young, and therefore relatively little research has been conducted in this area in comparison to more mature REIT markets.

In Nigeria, the commercial property market in particular has remained relatively under-researched in the past five decades due to the absence of reliable and standard property market database. Most of the property market studies in Nigeria within this period have been focused on the residential property market with little empirical relevance to the commercial property market in the country (Wyatt, 2014). In 2012, the Nigerian Institution of Estate Surveyors and Valuers (NIESV) sponsored a research on the valuation methods in Nigeria with special reference to the years purchase. On the

average, commercial property yields in Nigeria are comparable to that obtainable elsewhere in the world. Generally, commercial property investments are associated with low yields globally. These low yields have been found to imply rental growth (Wyatt, 2014; IPF, 2014). This rental growth expectation substantiates one of the important characteristics of commercial property investments which is income (rental) and capital growth (Karakozova, 2015; Udo, 2013; Kivilahti and Vitanen, 2012; IPF, 2014). Rental growth itself has been a major expectation of property investors from 1960 onwards after the appearance of the reverse-yield gap, due to the advent of inflation into the property markets worldwide (Wyatt, 2014).

The real estate sector in Kenya has seen a boom that begun somewhere in the mid to late 2000's because the property market is responding to demand that has been created by the expanding middle class with disposable income and in which people have become able to service their mortgages (Muiru, 2014). Turner (2014) also suggested that the middle-class desires and demands quality infrastructure; they want well designed properties with great finishing and in safe and secure locations and they are willing and have the ability to pay premium prices for their choices.

A recent report titled Hot spots 2025 which benchmarking the future competitiveness of cities by the Economist's, Economic intelligence Unit ranked Nairobi fifth out of seven African cities that made it to a list of 120 most competitive cities in the world. The ranking reflects the city's appeal as a magnet for capital, business and talent. According to a report by Muiru of Gimco limited (2014) Kenya's Gross Domestic Product (GDP) was estimated at about US\$ 40.7 billion in 2013 thus placing Kenya among the five biggest Economies in Sub-Saharan Africa (SSA), and that, over the years there has been a tremendous growth in the construction industry.

In Nairobi, the capital and largest city of Kenya, there is one of the largest expatriate communities in the continent due to the significant number of multinationals who have chosen Nairobi as either their African hub or East and Central African hub. According to a report by Muiru (2014), who considered the other plus for the property market in Kenya has to do with the GDP. Kenya has for the past five years been registering an average GDP of about 5%. The result of this is that investors have been more anxious to invest because of the promise of lucrative returns. He continues to say Kenya being the largest



economy in East and Central Africa has benefited to a great extent out of this GDP bolstered investor confidence. A recent trend has emerged where foreign investors are increasingly delving into the Kenyan property market. Such investments have come not only in the form of foreign developers venturing into the local market but also foreign owned real estate agencies and property portals working to create a niche for themselves in Kenya (Muiru, 2014).

Real estate investments and prices are good measures for reflecting expected real estate demand, and serve as good predictors of economic growth (Knight Frank Report, 2012). The “real estate” market and industry will be considered here to include land and improvements, their selling and rental prices, the economic rent of land and returns on buildings and other improvements, and the construction industry. Economic growth leads to an increase in the middle class of a society. GDP growth, inflation, and unemployment show significant correlations with composite property returns and given the importance of the real estate sector, it is important and paramount to interrogate the relationship between the sector and economic growth (Knight Frank Report, 2013).

According to Muiru (2014), Nairobi is a prime market especially because of infrastructural development and market interest. Investors are being attracted by the city’s potential to offer high returns on the property market. There is also a notable high demand especially in the high-end market, which is expected to grow even more as interest rates come down. But with the formation of county governments, there’s bound to be more keen interest in real estate development in other towns.

Investment in real estate is one of the most trusted investment options amongst many investors. This has been attributed to the high returns associated with investment in land and landed properties all over the world. After all investment in land has a hedge against inflation (Turner, 2014). In most major towns in Kenya the lure for investing in commercial entities is quite high due to the existing and growing demand for commercial space in Kenya. According to Nzomo (2011), investors in commercial properties have an obligation to ensure these properties are sufficiently and effectively managed. This is because commercial properties are usually capital intensive and investors usually expect high returns to compensate for high acquisition or construction costs and have a surplus income to enjoy. Thus, this study aimed at investigating the determinants of investment

decisions on uptake of commercial properties in Westlands area located in Nairobi – Kenya.

## **1.2 Statement of the Problem**

Real estate market performance in one geographic area is different from market performance in another area. Thus, local market analysis is required to accurately assess real estate investment performance, including rental trend analysis (Born and Pyhrr, 2014). Hekman (2015) found that office market rents change in response to changes in economic conditions at the local, regional and national levels and are strongly affected in both the Central Business Districts (CBD) and the suburbs by vacancy rates. Grissom, Hartzell and Liu (2017) identified that regional markets exist for industrial real estate. They further suggested that constructing real estate indices, including rental growth indices according to property type may be valid since each city has a unique economic base.

A study by Hartzell, Shulman and Wurtzebach (2017) established eight regions in the United States (US) based on similar underlying economic fundamentals and evaluated regional real estate returns. They found significant differences between correlation coefficient of returns among the areas. This suggests that there are real estate market differences between locations and local real estate market research is a significant element in real estate performance analysis. In their study, Corgel and Gay (2017) examined the potential for the diversification of regional investments in the thirty largest metropolitan areas in the US and found significant differences in their economic vitality.

McCartney (2012) examined the short and long-run rent adjustment in the Dublin office market in Ireland. The study estimated a rent determination model for the office market in Dublin based on a two-stage error correction mechanism which involved estimation of a long-run equilibrium rent equation and a short-run rent adjustment process. The result of the long-run analysis indicated that office demand is relatively inelastic in Dublin while the short-run model indicated a relatively slow rate of rent adjustment in the Dublin office market. The preponderance of findings from contemporary empirical studies suggests that different locality is subject to different rental growth factors (McCartney, 2012).

In South Africa (SA), Corcoran (2017) established the economic relationships between office rents, vacancy rates, asset prices, user costs and reproduction cost and found that the linkages between the rental market (tenants) and the asset market (investors) are through opportunity cost (user cost) of competing investments and replacement cost of real property. He argued that rising vacancy rates in the face of strong growth in demand in the asset market for rental properties in the 1980s was due to extra incentives in the asset market. He further explained that office building acquisition prices rose more rapidly than reproduction costs and that encouraged new construction that led to overbuilding and high vacancy rates in the study areas. Shilton (2015) evaluated office market cycles in a framework designed to promote an understanding of the cyclic characteristics of office employment demand. He found that the economic base of a city influenced the rate of overall growth in office employment. He also established the link between cyclic office employment and market volatility and concluded that markets experiencing higher volatility in office employment are more likely to experience higher levels of office vacancy.

Direct application of rental growth parameters developed elsewhere to the analysis of the commercial property market in any city in Kenya would produce spurious results due to variations in key property uptake determinants. There are no studies that have been conducted in the country on the uptake of commercial properties, and thus, there was need to identify leading determinants of investment decisions on the uptake of commercial properties in Kenya.

### **1.3 General Objective**

This study sought to examine the determinants of investment decisions on the uptake of commercial properties in Westlands area in Nairobi – Kenya.

### **1.4 Specific Objectives**

The study sought to:

**1.4.1** Determine the impact of prices on the uptake of commercial properties within Westlands area in Nairobi – Kenya.

**1.4.2** Establish the impact of econometric factors on the uptake of commercial properties within Westlands area in Nairobi – Kenya.

**1.4.3** Determine the challenges facing investors on the uptake of commercial properties within Westlands area in Nairobi – Kenya.

## **1.5 Significance of the Study**

### **1.5.1 Real Estate Investors**

This study may be of importance to potential real estate investors. The study may enable them to analytically analyze the various opportunities and challenges that exist in the real estate industry in the country with regards to determinants of investment decisions on the uptake of commercial properties in the country, thus arming them with information that may be crucial in their investment decision.

### **1.5.2 Government and Policy Makers**

This study on the determinants of investment decisions on the uptake of commercial properties in the country may help various government as well as real estate industry regulators with information that may facilitate their ability in coming up with sound policies that may guide the real estate industry positively.

### **1.5.3 Future Scholars**

This study forms a solid foundation of determinants of investment decisions on the uptake of commercial properties in Kenya. The study results may enable future academicians that will focus on real estate to better understand the crucial determinants of investment decisions of commercial properties uptake in the country.

## **1.6 Scope of the Study**

The study focused itself on the determinants of investment decisions on the uptake of commercial properties in Kenya. The study limited itself geographically, thus it focused on Westlands area in Nairobi – Kenya. The study also focused on 50 commercial real estate landlords within the area, and eliminated tenants. It was carried out between the months of January 2019 and April 2019.

## **1.7 Definition of Key Terms**

### **1.7.1 Commercial Properties**

Commercial property usually refers to buildings that house businesses, but it can also refer to land that is intended to generate a profit, as well as larger residential rental properties (Scott and Judge, 2015).

### **1.7.2 Investment Decisions**

Investment decision relates to the decision made by the investors or the top-level management with respect to the amount of funds to be deployed in the investment opportunities (Karakozova, 2015).

### **1.7.3 Real Estate**

Real estate is defined as property consisting of land and the buildings on it, along with its natural resources such as crops, minerals or water; immovable property of this nature; an interest vested in this (also) an item of real property, (more generally) buildings or housing in general (Wyatt, 2014).

## **1.8 Chapter Summary**

This chapter introduces the reader to the study background. The chapter then discusses the statement of the problem, whilst providing the general objective of the study together with the specific research objectives. The chapter also provides the importance of the study and the various stakeholders that would benefit from the study as well as the scope of the study focus. The chapter finalizes with definition of key terms used in the study. The second chapter provides the literature review, while the third chapter presents the research methodology. Chapter four presents the results and findings and chapter five focuses on the discussions, conclusions and recommendations of the study.

## **CHAPTER TWO**

### **2.0 LITERATURE REVIEW**

#### **2.1 Introduction**

This study sought to examine the determinants of investment decisions on the uptake of commercial properties in Westlands area in Nairobi – Kenya. This chapter provides literature based on the specific objectives that were to: determine the impact of prices on the uptake of commercial properties within Westlands area in Nairobi – Kenya, establish the impact of econometric factors on the uptake of commercial properties within Westlands area in Nairobi – Kenya, and determine the challenges facing investors on the uptake of commercial properties within Westlands area in Nairobi – Kenya.

#### **2.2 Impact of Prices on the Uptake of Commercial Properties**

##### **2.2.1 Price Risk**

Prices are determined by macroeconomic and credit market conditions and by the behavior of the individuals buying and selling properties. In the property market there is risk of sharp fall or increase in housing prices. This is a major concern not only to the owner of the property but also to lending institutions and to investors of structured products backed by residential mortgage loan (Brueggeman and Fisher, 2016).

The average change in prices is related to changes in fundamentals such as national and local macroeconomic variables, or market wide bubbles but not all properties in a market are affected at the same rate (Glower, Donal and Hendersholt, 2016). Multiple studies have found that the relationship between a home's original value and the rate of appreciation varies over time according to the prevailing economic climate for example, lower-priced houses are more likely to appreciate as interest rates fall while income and employment rise. On the contrary increase in taxes would have a negative effect on prices (Li and Resenblatt, 2015). If the cost of rental housing should increase relative to house prices demand for owning should increase this is because individuals would prefer to take a loan and own if it is cheaper to own than rent and also if there is price appreciation of real estate property.

At the time the loan is originated, the lender will ensure that the appraised value of the property is greater than the amount of the loan (Claurietie and Sirmans, 2016). Lenders want assurance concerning the price of the property because it will be serving as security

for repayment of the mortgage debt and over time it must remain sufficiently high to repay the outstanding loan balance in the event of default. Lenders usually require that an estimate value be made by an independent fee appraiser (Brueggeman and Fisher, 2016). Lenders give out loans based on a ratio known as loan to value ratio, this ratio enables the lender to be cushioned from the high risk involved in the longer payback period.

### **2.2.2 Liquidity Risk**

Loans are the major items on a bank's balance sheet and generate the largest flow of revenue income. However, loans are also the least liquid asset item and the major source of credit and liquidity risk for most banks (Saunders and Marcia, 2011). With the instability of poor households' incomes, high foreclosure costs, and liquidity risk of longer-term loans, many developing countries, causes lenders to prefer shorter-term loans which are often less risky than long-term loans (Oriaro, 2010).

Mortgage loans tend to be rather illiquid because they are large and indivisible. Although Rose (2013) asserts that a liquid financial asset is readily marketable. In addition, it is reversible meaning the holder of the asset can usually recover their funds upon resale with little risk of loss. Hence liquid assets carry lower interest rates than illiquid assets. Therefore, investors strongly interested in maximum profitability try to minimize their holding of liquid assets.

Lenders face the liquidity problem because loans being a long-term asset are financed largely by depository institutions that obtain their funds through deposits that are primarily if not entirely of short-term nature. These institutions engage inevitably in a higher speculative activity: borrowing short and lending long; that is, they mismatch the maturity of assets (mortgages) and the liabilities raised to fund these assets (Marshall, 2009). A depository institution's balance sheet typically has a large amount of short-term liabilities, such as demand deposits and other transaction accounts which fund relatively long-term, illiquid assets such as mortgages (Saunders and Marcia, 2011). Speculation of this sort provides a losing proposition if interest rates rise as is bound to happen in the presence of significant inflation. The institution may be earning the contractual rate but to attract the deposits needed to finance the loan it must pay the current higher market rate (Brueggeman and Fisher, 2016). On the other hand, Marshall (2009) argues that lenders originating mortgage loans by the use of deposits and holding them, has the great merit

that solvent lenders have strong incentives both to underwrite mortgages carefully and, if necessary, to modify them.

### **2.2.3 Interest Rate Risk**

According to Coong (2015) interest rate risk is the exposure of a financial institution's current or future earnings and capital to interest rate change. Most financial Institutions suffer losses in profits or asset value when the general level of interest rates rises. According to Kolbe, Gaylon and Rudner (2013) a financial institution potentially exposes itself to interest rate risk in mismatching the maturity of its assets and liabilities. The lender is exposed to interest rate risk if interest rate on assets and liabilities is adjusted at different times or its subject to different contractual maturities (Bangkok Bank, 2016). Interest rate is a major factor that determines the lenders interest income on assets and interest expense on liabilities thus affecting the net interest income of the lender. Also changes in interest rate affects the refinancing and reinvestment decision of a borrower. In addition, a financial institution faces economic or present value uncertainty as well when interest rates change (Kolbe, Gaylon and Rudner, 2013).

The fair market value of an asset or liability is conceptually equal to the present value of the current and future cash flows on that asset and liability. Therefore, rising interest rates increases the discount rate on future asset cash flows and reduce the market price or present value of that asset or liability (Coong, 2015). Moreover, mismatching maturities by holding long term assets than liabilities mean that when interest rates rise, the present value of the financial institution's assets fall by a larger amount than its liabilities (Fabozzi *et al.*, 2014). This exposes the financial institution to the risk of economic loss and potentially to the risk of insolvency.

The increased globalization of financial markets flows has made the measurement and management of interest rate risk a prominent concern facing many modern financial institution managers (Saunders and Marcia, 2011). In a low interest rate volatility environment, the risk exposure to financial institution from mismatching the maturity of its assets and liabilities tends to be small. On the other hand, high volatility of interest rates increases the risk exposure of a financial institution. Kenya being susceptible to inflationary pressure both internally and externally generated it is vulnerable to highly volatile interest rate changes (World Bank, 2011). The movement of interest rates affects



lenders cost of funds and return on assets exposing it to interest rate risk. Lenders protect themselves against this risk by matching the maturity of their assets and liabilities. However, matching is not consistent with an active transformation function for institutions. Although it does reduce the interest rate risk exposure it reduces the financial institution's profitability (Saunders and Marcia, 2011).

#### **2.2.4 Credit Risk**

Credit risk is one of the oldest forms of risk faced by financial institutions (Broll, Pausch and Welzel, 2012). Credit risk arises because of the possibility that promised cash flow on financial claims held by financial institutions such as loans and bonds will not be paid in full. If the principal on all financial claims held by financial institutions were paid in full on maturity and interest payments were made on their promised dates, financial institutions would always receive back their original principal plus interest-that is they would not face credit risk (Saunders and Marcia, 2011). Credit risk carries the potential of wiping out enough of a financier's capital and forcing it into bankruptcy, thus managing this kind of risk has always been one of the predominant challenges in running a financial institution (Broll *et al.*, 2012). The potential loss a firm can experience from lending suggests that institutions need to collect information about borrowers whose assets are in their portfolio and to monitor those borrowers' overtime. Thus, managerial efficiency and credit risk management strategies directly affect the risk and returns of the portfolio (Saunders and Marcia, 2011). Credit risk in mortgages involves the risk that the interest and principal amount will not be paid when due. According to Lea (2010) it is risk brought about when the market value of the property falls below the market value of the mortgage.

Saunders and Marcia (2011) asserts that residential mortgages are the most important loan assets to banks and saving institutions, hence these applications are the most standardized of all credit applications. Two considerations dominate a financial institutions' decision as to whether to approve a mortgage loan application or not: First the applicants' ability and willingness to make timely interest and principal repayments. This is established by application of qualitative and quantitative models such as credit scoring model. The loan officer must also establish whether the applicant has sufficient income. Secondly, the borrower's collateral is considered after determining the creditworthiness of the borrower. The lender should make sure that the collateral that secures the loan is free and clear from

other claims. Some institutions require a borrower to make a down payment of the property before issuing the loan to prevent the borrower from defaulting.

### **2.2.5 Mortgage Market Risk**

Risk is the possibility of a loss or the uncertainty associated with future events. According to Nyandemo and Sigh (2013) uncertainty is a situation when decision makers do not have full knowledge about the future of a product, demand, factor costs and other relevant variables. Financial institutions will try as much as possible to avoid the risk associated with loss in order to minimize negative consequences. The risk surrounding potential losses creates significant economic burdens for financial institutions. On the other hand, the investment principle says that the largest potential returns are associated with the riskiest ventures (Trieschmann, Hoyt and Sommer, 2015). Financial Institutions have an objective to increase returns for its owners, this often comes at the cost of increased risk. These risks affect the profitability and performance of institutions as a result it is important to understand and manage risks to which an institution in a given market is exposed to (Nyandemo and Sigh, 2013).

In a study done by Renaud and Jaffe (2016) they noted several factors that hinder development of mortgage markets in developing economies and proposed a strategy to expedite that development. They noted that lenders in developing economies are reluctant to make mortgage loans because of the risks in mortgage lending (credit, liquidity, interest and price). Together with required improvements in the primary market, a secondary market is likely to help solve the problem.

In mortgage financing, there are different customers from different backgrounds, and this exposes a lot of risk to both the borrower and the lender (Scanlon and Whitehead, 2014). Lewis and Neave (2016) noted that the major risks include credit risk to the lender, that the borrower will default on loan obligations and investment risk on the owner-occupier that the value of the home will fall, and with it the value of the owner-occupier's equity will also fall. Further there is interest-rate risk to either party to a loan that the interest rate will move against them and finally prepayment risk to the lender that the borrower will repay a loan (particularly a fixed-rate loan) before the end of its term (Agada, Murumba and Besigiroha, 2009). According to World Bank (2011) some Kenyan lenders are liquidity constrained as the market is characterized by relatively liquid banking sector as a

result of mismatch between short term deposits and the long-term mortgage loans. Also, credit bureaus do not yet offer comprehensive credit histories on loan applicants and the value of collateral is tampered by deficiencies in the foreclosure process.

In spite of these risks the advent of institutional investors has given rise to skills necessary to manage the complex risks associated with housing finance. The creation of mortgage related securities provides the multiple instruments by which housing lenders can access these important sources of funds and better manage and allocate part of their risks (Central Bank, 2013; World Bank, 2013).

## **2.3 Impact of Econometric Factors on the Uptake of Commercial Properties**

### **2.3.1 Econometric Factors**

Since rent is form of market price that is the cost of tenancy, econometric factors are based on analysis of supply and demand. Variables of both microeconomic and macroeconomic nature that characterizes the office market are this study's concern. Sivitanidou (2014) identified the factor of average un-let duration of the office in the region i.e. the rate of office space absorption, as a major factor. He noted that the space absorption rate is directly and positively related to the market rental values. The annual consumption expenditure per person in the subject market, and the annual depreciation rate of the building were identified as major office rent determinants by Hendershott (2012).

Macroeconomic factors of growth in employment rate in the subject location, is of considerable influence. The rate of employment is directly related to office rent in typical industries as it means growing demand. According to D'Arcy, McGough and Tsolacos, (2012) the target demographic demand character, the GDP growth rate and the annual interest rate are all of close and influential relation with office rent. They noted that these variables affect savings and investment power of a population and consequently the space demand and supply.

Hendershott, Macgregor and Tse (2012) identified annual manufacturing output in the subject area; the annual office construction investment rate in the location and its comparable environs; the office stock in the market and the replacement cost of building as major econometric factors affecting the rental values from supply point of view. The

supply side of the market will affect the quality and quantity of space available in the market. This consequently affects the consumer's choice, satisfaction and economic surplus of the rental prices paid (Hendershott, 2012). On the other hand, demand factors will influence the consumption levels and effective demand of such created space.

### **2.3.2 Building and Building Services Factors**

The building's appeal to the prospective market has a close relation with its rental market performance (Wheaton and Torto, 2014). The truth is that despite tenancy being a contractual subject, the enjoyment of rights to a property and the corresponding tenancy price is based on the physical asset (the improvement). The choice of occupancy is lured by the physical appeal of the structure (D'Arcy, McGough and Tsolacos, 2012).

Mills (2012) and Wheaton and Torto (2014) have in their works, analyzed and discussed at length the relationship between the building's characteristics of design and use, and its rental market performance. They identified the factors of age of the building, were old buildings may be popular with users but in modern day case they may attract less rent considering their lack of modern amenities. The presence of banks as an anchor tenant attracts more office tenants which mean competition and rent will be high. The building being part of a complex like a mall, availability of conference room and technologically advanced amenities in the building as being key determinants of office rent.

Frew and Jud (2018) identified the percentage of common space and the percentage of unused space in the office building as aspects having considerable influence on office rental values. They noted that where rent is inclusive of common area and service management charge, the rental levels would be in direct proportion to the amount of such shared spaces common costs. The availability and size of a garage and parking space for person in the building, knowing that a considerable proportion of office users frequently use cars, has a great bearing on office rent amounts payable (Glasscock, Johanian and Sirmans, 2010).

The relative consideration of office being situated in a prestigious location in the building like mezzanine or a penthouse has a direct bearing on the rent of such office. The office building containing a restaurant or a shop is also of considerable influence to office choice and occupation decisions among tenants (Frew and Jud, 2018). The office floor

area occupied by the office and the number of floors in an office building are strong variables. The storey level the office is situated in the building and the total usable area of the office building is also factor with considerable influence on market rent of the subject office building (Glasscock, Johanian and Sirmans, 2010).

### **2.3.3 Location Factors**

Location is the prime consideration for any real estate decision. The location of office property has an effect on its market value and rent. Those buildings that are situated in a business center have higher rent compared to those that are in the outskirts of a city center (Hendershott, 2012). This is simply because they are more accessible by clients and usually imparts a higher business potential. The proximity to complementary business and the support services suppliers are valuable inputs to location choice decision making (Sivitanidou, 2014). The factors of production availability, cost and access are key considerations in office location choice as they bear direct impact on your operating costs and consequently the purchase power for such office space (Glasscock, Johanian and Sirmans, 2010).

Of great consideration to the office location choice is the proximity to investors, the corporate headquarters, financiers and specialized service and government authorities related to the subject business. This will affect the business control and coordination costs (D'Arcy, McGough and Tsolacos, 2012). It therefore, translates to the fact that business location preference will bear direct impact on office space demand and the market rent. Accessibility to public transport terminal, major trunk roads, accessibility to public transportation, by private vehicle and proximity to other sub -urban centers will influence the office demand and rent accordingly (Wheaton and Torto, 2018).

The market size and visibility or exposure to clients; as it relates to the size and possibility of business and proximity to competitors in similar business will bear great influence on market rent (Mills, 2012). The externalities of crime levels, the degree of pollution, the traffic condition, and the state of service sector in the subject area are all of close and influential relation with office rent. The clustering of similar activities in the subject area are of great consideration as it translates to market exposure and pooled demand which is directly related to office rental values (Sivitanidou, 2014).

### **2.3.4 Contractual Considerations**

Lease as a covenant define the cash flows, rights and privileges of tenants and landlords. In doing so, leases create a governance structure affecting the value of leased real estate assets (Mills, 2012). Wheaton and Torto (2014) identified an array of considerations that tenants make in leasing up office space. The use of premise permissible under the lease, the availability of indemnity cover to the tenants, the extent of compliance to law and in-house regulations, the fitting out clauses, and alteration and renovation clause provisions, are among the lease variables with considerable influence to the office rent (Mills, 2012).

The rent payment clause provisions, the termination clause terms, the rent review/renewal terms and the provisions on repair and insurance responsibility are clauses of great bearing to the lease rental amount (Sivitanidou, 2014). The assignment or sublet terms and provisions, the lease- break options, the lease/contract length, the incentives and obligations of operational expenses (electricity, water, insurance, security) and lease options are of great influence to the occupancy cost and tenant's decision of space occupation (Wheaton and Torto, 2014).

### **2.3.5 Rent and Rent Payment**

Rent is payable as frequently as stipulated in the lease agreement. This may be monthly, annually quarterly or any other agreed period. The rent due date in common law is the first day of the beginning of new tenancy period or as may be stipulated in the tenancy covenant (Mills, 2012). At the face of common law, rent is payable by the tenant of leased premises when its due, the payments need to be made in the prescribed or most reasonable form and manner to the landlord or his authorized agent. The tenant's liability of rent is not waived away by destruction of the leased property as the argument is that rent arises from land and not improvements thus there is need for a promise to be made in writing that rent payments will only be suspended in case the subject is destroyed by fire or an act of God (Omoró, 2012).

The fair market rental value assessment will generally be based on comparable leases of comparable space. Where various methods are used as: First by reference to the actual rent paid for the subject property where the evidence from the latest and recent lease rent is used as the bench- mark rent (Omoró, 2012). In resorting to this method, you need to ensure that the rent so being used was a true and fair market price at arm's length

transaction. Secondly comparison with rents of comparable properties where market evidence of prevailing rent of similar properties considering proximity of time, market conditions, and nature of transaction is used to form the basis of rent analysis of the subject property. Third, rent determined as a proportion of the profits where the rent is composed of two parts, the fixed basis plus a stipulated percentage of net profits of the tenant's operations. Lastly rent as a percentage of cost where cost incurred by the landlord is apportioned among tenants on pro-rata basis (Syagga, 2014).

Rent under lease is subject to reviews. The frequency, procedures and considerations of such review being stipulated in rent review clauses of lease agreement. A well-drawn rent review clause should; clearly define the rent review period; indicate with clarity the formula for ascertaining the rent in the review; state the scope, limitations and assumptions on factors to be considered during the rent assessment, and finally state the duration of the term and stipulate the persons that will qualify to assess the rent for review either a valuer or an arbitrator (Wellings, 2016).

In common law rent arrears in default are actionable. There are two direct and usually mutually exclusive methods of enforcing rent arrears payment; by court action or by levying distress for rent. Where the landlord has chosen to pursue court action against the tenant, he cannot distress for the same rent, and where the court rules in favor of the tenant the landlord loses his right to levy distress, altogether. Where the landlord starts by levying distress, he cannot take legal action against the tenant for the same rent unless it is proven that the distress is less than the rent in default (Omorogun, 2012).

## **2.4 Challenges Facing Investors on the Uptake of Commercial Properties**

### **2.4.1 Challenges Facing Investors**

The constraints to invest in real estate industries have continued to be experienced in many global states. In China, for instance, the developers face higher requirements for land reserves and development loans with restrictions to raise money (Bett and Ely, 2015). Identified constraints slowing the growth of this industry in China are: lack of transparency in the market, lack of accurate transaction data, lack of historical or current market statistics on demand and supply, lack of centralized data and reliable performance benchmark, property acquisition with inadequate compensation, complexity with

transaction process and several factors affecting the liquidity of real estate market (Richard, 2014).

Despite tremendous progress in the globalization of real estate investment, many challenges still remain. Overseas real estate can offer developers surprise unpredictable losses. Global property developers are still overwhelmed by differences in foreign cultures, traditions, regulations and markets (Tony *et al.*, 2016). Mastering the complexity and diversity of instruments available worldwide, unique investment processes and varying tax treatments are also daunting. Other challenges include lack of local information, illiquidity and fluctuation of foreign currencies (Appraisal Institute, 2015).

#### **2.4.2 Legal and Institutional Constraints**

There are various laws in place governing real estate market that are implemented through various institutions to ensure they are followed to the letter. Policies are usually recommended on a paper but institutional capacity and framework is marked with bureaucracy and bottlenecks (Karirah, 2016). These institutional constraints include: building by laws/building codes, zoning regulations and planning regulations. The characteristics of these constraints are their rigidity and outdated nature, bureaucracy in approving plans is expensive and time consuming (Richard, 2014).

Changes in legislation occurs when there is change in the law relating to the real estate investment. These changes may adversely affect the returns on the investment. For instance, in Kenya any changes on the Landlord and Tenants Act, Public Health act, Rating Act, Stamp Duty Act, Income Tax Act, Local Government Act amongst others may impose certain restrictions and encumbrances on the property that may leads to losses in returns (Murigu, 2015).

The planning systems in Kenya are similar to the UK model. An established planning system with statutory development plans is in place but the city planning authority often lacks the capacity to enforce development control (Karirah, 2016). Detailed zoning systems are in place but these can or do respond to commercial and or political pressure. The resulting allocation of land in development plans ultimately reflects the priority given to competing claims that are normally determined by political objectives. In contrast



scanty or no regard is paid to the behavior of the market and to the allocation of building land in accordance with market demand (Murigu, 2015).

Real estate properties are influenced by physical planning laws and regulations. They influence the power to allocate land for particular purpose, the power to restrict changes in the use of the building where planning permission must be obtained and this permission will not be forthcoming unless the change is in accordance with the provisions of planning policy in the area (Bett and Ely, 2015). Planning also has power to restrict the intensity of land use and any permission is subject to further restrictions of building regulations which may negate or limit that which the planners would. These complexities in planning restrictions affect real estate decisions (Tony *et al.*, 2016).

### **2.4.3 Economic Challenges**

The prevailing economic climate of a region will affect the decision to invest (Otiende, 2014) points out that factors such rate of inflation, rate of interest rate, taxes, commercial and industrial trends, wage levels, employment trends, money demand and supply all affects the current economic situations and affects the returns on an investment (Stephen, 2011).

Capital in real estate is needed for: land acquisition, development, funding soft costs and in-site infrastructure. Limited access to finance is a major challenge in real estate development which is characterized by few sources of funds whereas the existing lending institutions have not been in a position to reach majority of middle-income earners. The stringent qualifications demand for mortgage has impacted in low developments hence low housing supply against the demand (Ventollo and Williamson, 2011).

Availability of capital is an important consideration for any investor to avoid delays and incomplete projects usually witnessed when projects have already started. Lack of capital is a challenge that the real estate investors faces. People do not have enough money to pay as a down payment for these houses. Others on the other hand are not willing to put their money into this kind of business. The result that is obtained from these actions is that the industry gets fewer finances that cannot propel its growth (Danny, 2012).

Investments differ in degrees of management. They vary in the amount inconvenience and cost of collecting or obtaining income. An investor or a developer would require minimum inconvenience and expense in management as it has significant effects in the level of income. Investment in banks and other financial institutions may be easily and cheaply be converted to cash, whereas conversion of an investment in real estate will prove to be more costly and time consuming (Murigu, 2015). The illiquidity nature of real estate coupled with less efficient local characteristics of real estate creates problems when attempting to measure the performance of the investment, therefore measuring annual or quarterly returns of a portfolio can be difficult given the lack of market information (Stephen, 2011).

Ventollo and Williamson (2011) noted that over the years few buyers of real estate could afford, or would prefer to pay all cash to avoid property interests paid on a loan used to purchase real estate which is the cost of credit to borrowers. When cost of borrowing is high borrowers cannot qualify to buy property that would be affordable when it is expensive to finance. Interest rates affect the cost and availability of financing, the cost of construction, and the financial viability of a real estate project.

Infrastructure is the substructure or underlying foundation or network used for providing goods and services; especially the basic installations and facilities on which the continuance and growth of a community depend. Examples include roads, water systems, communications facilities, sewers, sidewalks, cable, wiring, schools, power plants, and transportation and communication systems (Global Report, 2014). Falling infrastructural investment is closely related to falling property values. They go so far as to hold that decaying or neglected infrastructure is a major determinant of economic decay and recession. Infrastructural developments are therefore important facets of real estate developments in that they open access routes exposing different areas to investors and in turn raising of property values (Tony *et al.*, 2016). The value of properties depends on neighborhood influences. Lack of better transportation networks, water services, drainage systems and electricity services have a major impact on the marketability and value of the property (Stephen, 2011).

#### **2.4.4 Social Challenges**

The human population growth poses a great challenge to real estate industry. Though population increase provides a large market to this sector, different people have different tastes and preferences. It is therefore hard to meet all the requirements that they want (Stephen, 2011). Due to this reason, some homeowners have suffered many losses as they were not able to sell their properties because they have been turned down by the buyers. It is therefore advisable for investors to carry out a thorough research on people's likes and dislikes (Danny, 2012).

The problem of crime and violence in cities has been long recognized as a growing and serious challenge in all parts of the world. According to Global Report (2014), crime and violence is one amongst the three threats to the safety and security of towns and cities. Crime and violence results to fear and insecurity in a city. Residents of cities in developing, transitional and developed countries have to contend with increasing levels of domestic violence, child abuse, and proliferation of youth gangs, corruption and various forms of organized crime (Global Report, 2014).

The level of security is one of the factors that investors consider when making investment decisions (Murigu, 2015). Tenants tend to move where their security is guaranteed and move away from insecure areas to look for alternative accommodation. Nothing has gripped psyche as much as the violent crime levels experienced in cities. Most of the crimes in the country are supported by the black-market that exist in electronic cars, guns and drugs. Crime is considered to be the most single problem that faces citizenry of urban Kenya today (Danny, 2012).

Real estate investment requires huge amount of capital injection, during economic crisis the level of unemployment rises. When unemployment rises and wage levels of the employed stagnate or decrease, the rate of mortgage loans foreclosures will increase, as more properties become available fewer persons are able to afford them hence their market values declines (Ventollo and Williamson, 2011).

The land physical characteristics and the laws of nature dictate that many conceivable uses of real estate are difficult or impossible to achieve. For instance, a mansion of 120ft by 150ft cannot be built on a 100 ft by 150 ft tract of land. Furthermore, it is not practical

to build houses, raise crops, or construct office buildings in many places on the earth surface. Land with irregular topography, earthquake fault areas, wetlands, flood plains, areas with potential and excessively cold or hot areas have limited utility for residential users. Physical areas affect the engineering and design of a building. Physical characteristics of land are not only influenced by natural conditions but also by manmade conditions (Global Report, 2014). Proximity to roads and highways and access to shopping centers, workplaces and recreational facilities can affect how a given parcel of land is used. Physical restrictions can make certain uses impossible or difficult (Appraisal Institute, 2015).

These restrictions can be imposed through private easements and contracts, for instance the owner could grant to another party an easement for an electric power transmission one which restrict building any structure under the power lines (Danny, 2012). An easement for a buried gas pipe could restrict future owners of the land from building over the pipelines. A mortgage deed, note or trust document could also contain provisions limiting the uses of the property (Bett and Ely, 2015).

## **2.5 Chapter Summary**

This chapter has provided literature on the determinants of investment decisions on the uptake of commercial properties. It has provided literature on the impact of prices on the uptake of commercial properties, impact of econometric factors on the uptake of commercial properties and the challenges facing investors on the uptake of commercial properties within Westlands area in Nairobi – Kenya. The next chapter focuses on research methodology.

## **CHAPTER THREE**

### **3.0 RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This section of the study examines the methodology of research that was employed during the study. This section presents the research design and study population of the study. It also clarifies the sample and sampling procedures, while providing the data collection methods. The chapter states the research procedures and finally the data analysis methods that were employed.

#### **3.2 Research Design**

A research design entails the general plan of how the researcher intends to go about answering research questions (Saunders, Lewis and Thornhill, 2012). A research design acts as a guide on the sources of data for data collection purposes, how the data is collected and analyzed, the ethical issues and constraints that may be encountered and the different research activities that are undertaken and their corresponding timelines (Cooper and Schindler, 2014).

This study adopted a descriptive research design that enabled the study findings to be generalized to the larger population. Sekaran and Bougie (2013) state that, descriptive research can be qualitative or quantitative and the objective is to collect data that describes the characteristics of a person an event or a situation. Cooper and Schindler (2014) observed that, a descriptive research design is one where the objectives of the study are on finding out who, where, what, when and how of the research topic.

The descriptive research design was ideal for this study because it clearly outlined and allowed for the systematic analysis of the study variables. This design was used because it helped in reducing bias, as well as offer a deeper understanding of the above study variables. The independent variable was measured in the study by observing its individual constructs of determinants of investment decisions (price, econometric and challenges facing investors) and the dependent variable which was the uptake of commercial properties in Westlands – Kenya.

### **3.3 Sample and Sampling Design**

#### **3.3.1 Population**

A population is described as a collection of all the concerned units that researchers would like to study within a given problem area (O’Gorman and MacIntosh, 2014). Cooper and Schindler (2014) define a population as the total collection of elements about which the researcher intends to make some inferences. Since this study focused on the determinants of investment decisions on the uptake of commercial properties in Westlands – Kenya, the population was 50 commercial real estate landlords around Westlands - Kenya.

#### **3.3.2 Sampling Design**

##### **3.3.2.1 Sample Frame**

A sampling frame is a complete list of all the cases in the population from which a sample is drawn (Saunders, Lewis and Thornhill, 2012). O’Gorman and MacIntosh (2014) state that a sample frame constitutes a list of elements from which a sample is derived. The sample frame (landlords) for the study was obtained from onsite building managers working in Westlands - Kenya.

##### **3.3.2.2 Sampling Technique**

The study applied a census sampling technique. Lavrakas (2016) states that, a census is an attempt to list all elements in a group and to measure one or more characteristics of those elements. Creswell (2014) notes that, a census can provide detailed information on all or most elements in the population, thereby enabling totals for rare population groups or small geographic areas. This technique is preferred for the study because a census produces a complete coverage of the entire population. The technique was used because it also facilitated the production of useful information for populations or small geographic areas. The census data was collected from the target population and it was processed and disseminated in the subsequent chapter.

##### **3.3.2.3 Sample Size**

The sample size of a survey most typically refers to the number of units that are chosen for a study and from which data will be gathered (Sekaran and Bougie, 2013). However, Lavrakas (2016) states that, sample size can be defined in various ways: there is the designated sample size, which is the number of sample units selected for contact or data collection; and there is also the final sample size, which is the number of completed

interviews or units for which data is actually collected. Since the study employed a census survey technique, the sample size for the study was 50 commercial real estate landlords that operated in Westlands - Kenya.

### **3.4 Data Collection Methods**

In this study, a questionnaire was developed by the researcher based on the specific objectives of the study for data collection. Hard copies of this questionnaire were printed and circulated to respondents. O’Gorman and MacIntosh (2014) define a questionnaire as a general item in which each person is asked to respond to the same set of questions in a predetermined order. The study’s questionnaire consisted of closed-ended questions and it provided a five-point Likert scale that ranged from 1 = strongly disagree to 5 = strongly agree. This data collection method was used because it was accurate, convenient to use, inexpensive and provided anonymity for the respondents.

The study’s questionnaire was divided in four sections: Section one focus was on the demographics of the respondents, section two determined the impact of prices on the uptake of commercial properties, section three examined the impact of econometric factors on the uptake of commercial properties, and section four determined the challenges facing investors on the uptake of commercial properties.

### **3.5 Research Procedures**

A pilot testing of the questionnaire was done using ten respondents and they were distributed in person by the researcher to determine the reliability and validity of the tool. Cooper and Schindler (2014) state that, pilot test, or pilot experiment is a small-scale preliminary study conducted in order to evaluate feasibility, time, cost, adverse events, and improve upon the study design prior to performance of a full-scale research project. The pilot test in this study provided the researcher with an opportunity to learn the various weaknesses of the questions.

The Cronbach Alpha Test was used to ascertain that the questionnaire variables were able to meet the required threshold which is set at  $>0.7$  for 7-10 items, and  $>0.5$  for 3-5 items (Cooper and Schindler, 2014). Questionnaire items/ variables that had  $<0.5$  were not considered for the study. This scientific measure was used to guarantee that the study made use of a credible and reliable questionnaires that validated the study results.

### **3.6 Data Analysis Methods**

The data analysis method that was used in this study was descriptive analysis and inferential analysis. These methods were used because Saunders, Lewis and Thornhill (2012) state that descriptive and inferential analysis indicate the frequency of occurrence through establishing statistical relationships between variables. According to Cooper and Schindler (2014), data analysis is the process of editing and reducing accumulated data to a manageable size, developing summaries, looking for patterns and applying statistical techniques.

In this study, the first step involved reviewing all the questions to see if the respondents had answered all the questions. Incomplete questionnaires were discarded. The second step involved data coding onto the analysis software tool which was the Statistical Package for Social Sciences (SPSS) for analysis. The descriptive analysis involved measures of central tendency (percentages, means and standard deviations). Inferential analysis involved correlation and regression analysis. The results were presented in the form of tables and figures. The regression model used was:

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \varepsilon$$

Where:

Y = Uptake

$\beta_0$  = Beta coefficient

X1= Price

X2= Econometric

X3 = Challenges

$\varepsilon$  = Error Term

### **3.7 Chapter Summary**

This chapter has discussed the study's research design, population and sampling procedures and techniques that were used for this study. It has also clarified the data collection methods. The chapter has also stated the research procedures and the data analysis methods that were employed. The next chapter provides the study's results and findings.



## CHAPTER FOUR

### 4.0 RESULTS AND FINDINGS

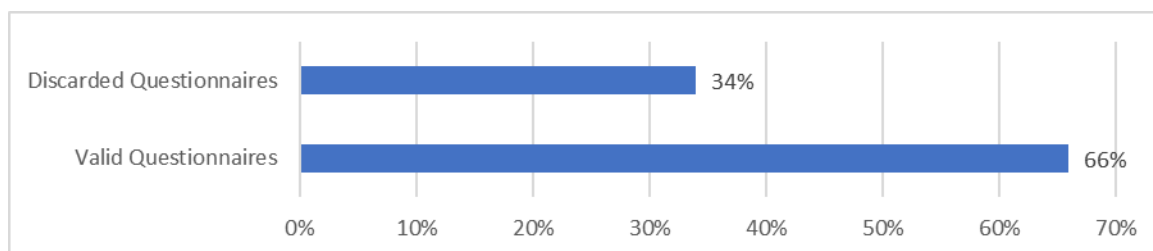
#### 4.1 Introduction

This chapter presents the results and findings of the study. The collected data was analyzed using descriptive and inferential analysis and have been presented in this chapter. The chronology of the chapter follows the used questionnaire and explanations of the results have been presented.

#### 4.2 General Information and Response Rate

##### 4.2.1 Response Rate

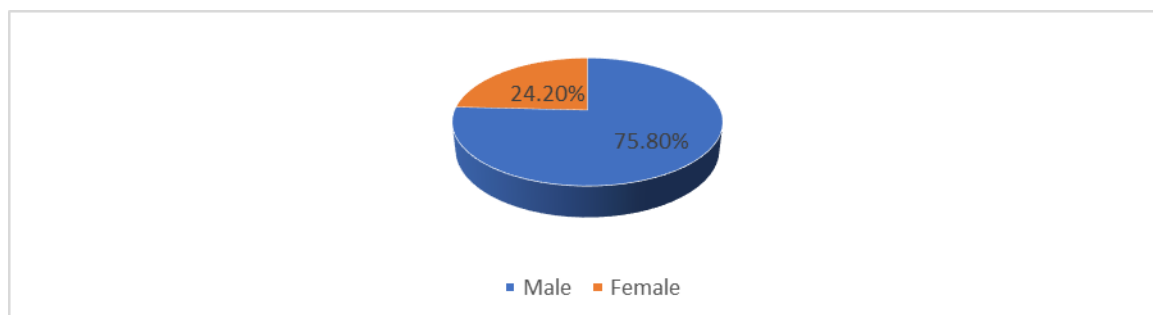
All 50 questionnaires were distributed to the landlords and only 33 were completely filled. This meant that the study had a response rate of 66% which according to Cooper and Schindler (2014) was above the required threshold of the required 51%.



**Figure 4.1 Response Rate**

##### 4.2.2 Gender

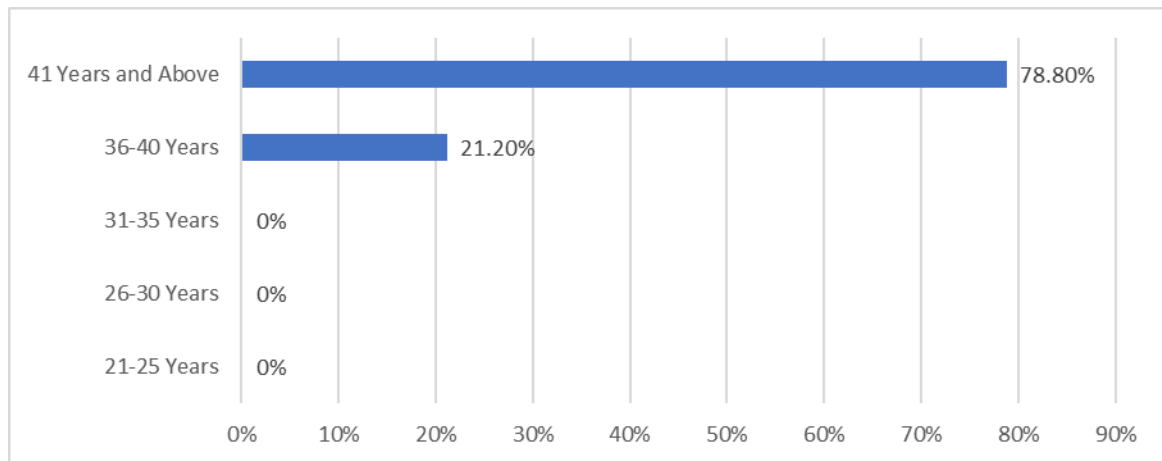
Figure 4.2 shows the gender response of the population and it indicates that 75.8% were male and 24.2% were female. This means that most landlords in Westlands – Kenya are male and this may be attributed to the nature of the real estate industry.



**Figure 4.2 Gender**

### 4.2.3 Age

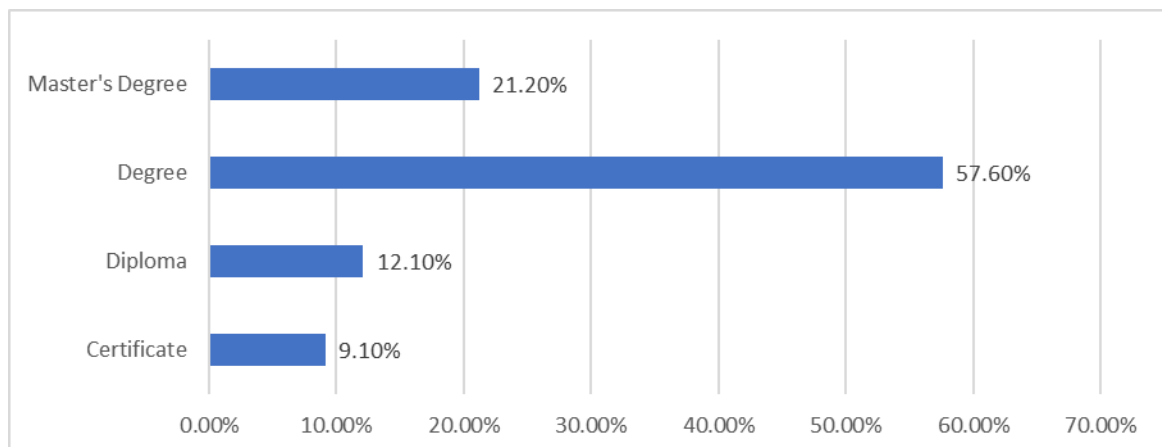
Figure 4.3 shows the age response of the population and it indicates that 78.8% were 41 years and over, 21.2% were aged between 36-40 years and none was below the age of 36 years. This shows that most landlords in Westlands are above the age of 36 years showing that real estate business in Kenya is owned by the older generation.



**Figure 4.3 Age**

### 4.2.4 Education

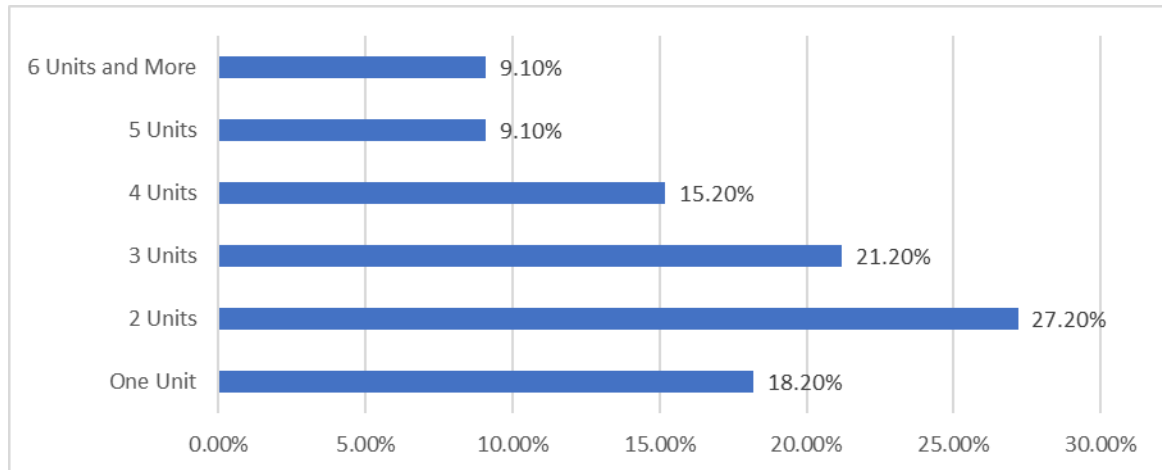
Figure 4.4 shows the education response of the population and it indicates that 57.6% had attained university degrees, 21.2% had master's degrees, 12.1% had diplomas and 9.1% had attained certificates. This indicates that all the respondents had a good educational background.



**Figure 4.4 Education**

#### 4.2.5 Number of Units

Figure 4.5 shows the number of units the respondents had and it indicates that 27.2% of the respondents had 2 units, 21.2% had 3 units, 18.2% had one unit, 15.2% had 4 units and 9.1% had 5 units and 6 units and above respectively.



**Figure 4.5 Number of Units**

### 4.3 Impact of Prices on the Uptake of Commercial Properties

#### 4.3.1 Scores for Prices and Uptake of Commercial Properties

Table 4.1 shows that prices are determined by market conditions; and this is agreed to by 66.7% of the respondents and strongly agreed to by 33.3% with a mean of 4.33 and a standard deviation of 0.479. Price changes are related to changes in macroeconomic variables; and this is strongly agreed to by 36.4% of the respondents, 33.3% agreed, 21.2% disagreed and 9.1% were neutral with a mean of 3.85 and a standard deviation of 1.149. Loans are not the largest flow of investment capital; this is disagreed to by 33.3% of the respondents, 42.4% were neutral, and 12.1% equally agreed and strongly agreed with a mean of 3.03 and a standard deviation of 0.984.

Mortgage loans are illiquid and indivisible; and this is agreed to by 42.4% of the respondents, 24.2% were neutral, 21.2% strongly agreed, and 12.1% disagreed with a mean of 3.73 and a standard deviation of 0.944. Interest rate determines the lenders interest income on assets; and this is agreed to by 54.5% of the respondents, 33.3% strongly agreed, and 12.1% were neutral with a mean of 4.21 and a standard deviation of 0.650. Credit risk carries the potential for bankruptcy; and this is agreed to by 78.8% of

the respondents, 12.1% were neutral and 9.1% strongly agreed with a mean of 3.97 and a standard deviation of 0.467.

Credit risk in mortgages involves the risk of defaulting; and this is agreed to by 57.6% of the respondents, 30.3% strongly agreed and 12.1% were neutral with a mean of 4.18 and a standard deviation of 0.635. Potential losses create significant burdens for financial institutions; and this is agreed to by 57.6% of the respondents, 30.3% strongly agreed and 12.1% disagreed with a mean of 4.06 and a standard deviation of 0.899. Lenders are not reluctant to grant mortgage loans; and this is disagreed to by 33.3% of the respondents, 45.5% were neutral, and 21.2% agreed with a mean of 2.88 and a standard deviation of 0.740.

**Table 4.1 Scores for Prices and Uptake of Commercial Properties**

	<b>SD</b>	<b>D</b>	<b>N</b>	<b>A</b>	<b>SA</b>		
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>M</b>	<b>StD</b>
Prices are determined by market conditions	0	0	0	66.7	33.3	4.33	.479
Price changes are related to changes in macroeconomic variables	0	21.2	9.1	33.3	36.4	3.85	1.149
Loans are the largest flow of investment capital	0	33.3	42.4	12.1	12.1	3.03	.984
Mortgage loans are illiquid and indivisible	0	12.1	24.2	42.4	21.2	3.73	.944
Interest rate determines the lenders interest income on assets	0	0	12.1	54.5	33.3	4.21	.650
Credit risk carries the potential for bankruptcy	0	0	12.1	78.8	9.1	3.97	.467
Credit risk in mortgages involves the risk of defaulting	0	0	12.1	57.6	30.3	4.18	.635
Potential losses create significant burdens for financial institutions	0	12.1	0	57.6	30.3	4.06	.899
Lenders are reluctant to grant mortgage loans	0	33.3	45.5	21.2	0	2.88	.740

### 4.3.2 Correlations for Prices and Uptake of Commercial Properties

Table 4.2 shows that price risk was a significant factor on commercial property uptake in Westlands - Nairobi ( $r=0.358$ ,  $p<0.5$ ). Liquidity risk was an insignificant factor on commercial property uptake in Westlands - Nairobi ( $r=0.255$ ,  $p>0.5$ ). Interest rate risk was an insignificant factor on commercial property uptake in Westlands - Nairobi ( $r=0.171$ ,  $p>0.5$ ). Credit risk was a significant factor on commercial property uptake in Westlands - Nairobi ( $r=0.357$ ,  $p<0.5$ ). Mortgage market risk was an insignificant factor on commercial property uptake in Westlands - Nairobi ( $r=0.011$ ,  $p>0.5$ ).

**Table 4.2 Correlations for Prices and Uptake of Commercial Properties**

	Commercial Property Uptake	Price Risk	Liquidity Risk	Interest Rate Risk	Credit Risk	Mortgage Market Risk
Commercial Property Uptake	1					
Price Risk	.358*	1				
	.027					
Liquidity Risk	.255	.032	1			
	.152	.861				
Interest Rate Risk	.171	.405*	.310	1		
	.342	.020	.079			
Credit Risk	.357*	.177	.385*	.623**	1	
	.041	.342	.027	.000		
Mortgage Market Risk	.011	.181	.075	.434*	.164	1
	.953	.313	.679	.012	.363	

\*\* Correlations is significant at the 0.05 level (2-tailed)

\* Correlations is significant at the 0.01 level (2-tailed)

### 4.3.3 Regressions for Price and Uptake of Commercial Properties

Table 4.3 presents the model summary for price and its influence on the uptake of commercial property in Westlands - Nairobi. The results presented in the table indicates that prices account for 12% influence in terms of commercial property uptake.

**Table 4.3 Model Summary for Prices and Uptake of Commercial Properties**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.385	.148	.120	.27858

a. Predictors: (Constant), Prices

Table 4.4 presents the analysis of variance (ANOVA) for price and its influence on the uptake of commercial property in Westlands - Nairobi. The ANOVA presented in the table shows that the F value of 5.379 df (1,31) = 0.027 where the P value is <0.05 which indicates that the regression is appropriate for the study.

**Table 4.4 ANOVA for Prices and Uptake of Commercial Properties**

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	.417	1	.417	5.379	.027
Residual	2.406	31	.078		
Total	2.823	32			

a. Predictors: (Constant), Prices  
b. Dependent Variable: Commercial Properties Uptake

Table 4.5 presents the regression coefficients for price and its influence on the uptake of commercial property in Westlands – Nairobi. The results in the table has a P value of <0.05 for price, which means there is a significant relationship between price and commercial properties uptake. The table provides a simple regression model that is as follows: Commercial Properties Uptake = 2.592 + 0.27 Price + ε. This equation shows that a unit increase in price would result in a 20.7% increase in commercial properties uptake which is less significant.

**Table 4.5 Regression Coefficients for Prices and Uptake of Commercial Properties**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	2.592	.369		7.032	.000
Price	.207	.089	.385	2.319	.027

a. Dependent Variable: Commercial Properties Uptake

## **4.4 Impact of Econometric Factors on the Uptake of Commercial Properties**

### **4.4.1 Scores for Econometric Factors and Uptake of Commercial Properties**

Table 4.6 shows that the rate of employment is not directly related to office rent; and this is disagreed to by 57.6% of the respondents, 21.2% strongly disagreed, 12.1% agreed and 9.1% were neutral with a mean of 2.12 and a standard deviation of 0.893. Econometric factors affect savings and investment power; and this is strongly agreed to by 54.5% of the respondents, 24.2% were neutral and 21.2% agreed with a mean of 4.30 and a standard deviation of 0.847. A building's appeal has a close relation with its rental market performance; and this is agreed to by 45.5% of the respondents, 33.3% strongly agreed and 21.2% were neutral with a mean of 4.12 and a standard deviation of 0.740. Occupancy is lured by the physical appeal of a structure; and this is strongly agreed to by 66.7% of the respondents and 33.3% agreed with a mean of 4.67 and a standard deviation of 0.479.

Property location has an effect on its market value and rent; and this is agreed to by 63.6% of the respondents and 36.4% strongly agreed with a mean of 4.36 and a standard deviation of 0.489. Proximity to complementary business and support services are valuable inputs to property uptake; and this is strongly agreed to by 75.8% of the respondents and 24.2% agreed with a mean of 4.76 and a standard deviation of 0.435. A lease defines the privileges of tenants and landlords; and this is agreed to by 69.7% of the respondents, 21.1% were neutral and 9.1% strongly agreed with a mean of 3.88 and a standard deviation of 0.545.

Lease options influences the tenant's decision of space occupation; and this is agreed to by 54.5% of the respondents, 33.3% were neutral, and 12.1% disagreed with a mean of 3.42 and a standard deviation of 0.708. Rental value is based on comparable leases and this is agreed to by 57.6% of the respondents, 33.3% were neutral, and 9.1% disagreed with a mean of 3.48 and a standard deviation of 0.667. A well-drawn rent review clause affects the uptake of commercial properties; and this is agreed to by 69.7% of the respondents, 18.2% disagreed and 12.1% were neutral with a mean of 3.52 and a standard deviation of 0.795.

**Table 4.6 Scores for Econometric Factors and Uptake of Commercial Properties**

	SD	D	N	A	SA		
	%	%	%	%	%	M	StD
The rate of employment is directly related to office rent	21.2	57.6	9.1	12.1	0	2.12	.893
Econometric factors affect savings and investment power	0	0	24.2	21.2	54.5	4.30	.847
A building's appeal has a close relation with its rental market performance	0	0	21.2	45.5	33.3	4.12	.740
Occupancy is lured by the physical appeal of a structure	0	0	0	33.3	66.7	4.67	.479
Property location has an effect on its market value and rent	0	0	0	63.6	36.4	4.36	.489
Proximity to complementary business and support services are valuable inputs to property uptake	0	0	0	24.2	75.8	4.76	.435
A lease defines the privileges of tenants and landlords	0	0	21.2	69.7	9.1	3.88	.545
Lease options influences the tenant's decision of space occupation	0	12.1	33.3	54.5	0	3.42	.708
Rental value is based on comparable leases	0	9.1	33.3	57.6	0	3.48	.667
A well-drawn rent review clause affects the uptake of commercial properties	0	18.2	12.1	69.7	0	3.52	.795

#### 4.4.2 Correlations for Econometric Factors and Uptake of Commercial Properties

Table 4.7 shows that econometric factors were significant on commercial property uptake in Westlands - Nairobi ( $r=0.852$ ,  $p<0.1$ ). Building service factors were significant on commercial property uptake in Westlands - Nairobi ( $r=0.362$ ,  $p<0.1$ ). Location factors were insignificant on commercial property uptake in Westlands - Nairobi ( $r=0.077$ ,  $p>0.5$ ). Contractual considerations were insignificant on commercial property uptake in Westlands - Nairobi ( $r=0.252$ ,  $p>0.5$ ). Rent and rent payment were insignificant on commercial property uptake in Westlands - Nairobi ( $r=0.163$ ,  $p>0.5$ ).



**Table 4.7 Correlations for Econometric Factors and Uptake of Commercial Properties**

	Commercial Property Uptake	Econometric Factors	Building Service Factors	Location Factors	Contractual Considerations	Rent & Rent Payment
Commercial Property Uptake	1					
Econometric Factors	.852**	1				
Building Service Factors	.362*	.468**	1			
Location Factors	.077	.224	.090	1		
Contractual Considerations	.252	.010	.081	.607**	1	
Rent & Rent Payment	.163	.067	.470**	.390*	.399*	1
	.365	.713	.006	.025	.022	

\*\* Correlations is significant at the 0.05 level (2-tailed)

\* Correlations is significant at the 0.01 level (2-tailed)

#### 4.4.3 Regressions for Econometric Factors and Uptake of Commercial Properties

Table 4.8 presents the model summary for econometric factors and its influence on the uptake of commercial property in Westlands - Nairobi. The results presented in the table indicates that econometric factors account for 71.7% influence in terms of commercial property uptake.

**Table 4.8 Model Summary for Econometric Factors and Uptake of Commercial Properties**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.852	.726	.717	.15802

a. Predictors: (Constant), Econometric Factors

Table 4.9 presents the analysis of variance (ANOVA) for econometric factors and its influence on the uptake of commercial property in Westlands - Nairobi. The ANOVA presented in the table shows that the F value of 82.063 df (1,31) = 0.000 where the P value is <0.01 which indicates that the regression is appropriate for the study.

**Table 4.9 ANOVA for Econometric Factors and Uptake of Commercial Properties**

	<b>Model</b>	<b>Sum of Squares</b>	<b>df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig.</b>
1	Regression	2.049	1	2.049	82.063	.000
	Residual	.774	31	.025		
	Total	2.823	32			

a. Predictors: (Constant), Econometric Factors

b. Dependent Variable: Commercial Properties Uptake

Table 4.10 presents the regression coefficients for econometric factors and its influence on the uptake of commercial property in Westlands – Nairobi. The results in the table has a P value of <0.01 for econometric factors, which means there is a significant relationship between econometric factors and commercial properties uptake. The table provides a simple regression model that is as follows:

$$\text{Commercial Properties Uptake} = 1.762 + 0.522 \text{ Econometric Factors} + \epsilon.$$

This equation shows that a unit increase in econometric factors would result in a 52.2% increase in commercial properties uptake which is very significant.

**Table 4.10 Regression Coefficients for Econometric Factors and Uptake of Commercial Properties**

	<b>Model</b>	<b>Unstandardized</b>		<b>Standardized</b>	<b>t</b>	<b>Sig.</b>
		<b>Coefficients</b>		<b>Coefficients</b>		
		<b>B</b>	<b>Std. Error</b>	<b>Beta</b>		
1	(Constant)	1.762	.187		9.414	.000
	Econometric Factors	.522	.058	.852	9.059	.000

a. Dependent Variable: Commercial Properties Uptake

## **4.5 Challenges Facing Investors on the Uptake of Commercial Properties**

### **4.5.1 Scores for Investors; Challenges and Uptake of Commercial Properties**

Table 4.11 shows that developers in the country do not face restrictions to raise money for development; and this is disagreed to by 48.5% of the respondents, 42.4% agreed and 9.1% were neutral with a mean of 2.94 and a standard deviation of 0.966. Real estate can bring unpredictable losses; and this is agreed to by 42.4% of the respondents, 33.3% disagreed and 24.2% were neutral with a mean of 3.09 and a standard deviation of 0.879. There are laws in place governing the real estate market; and this is agreed to by 87.9% of the respondents while 12.1% were neutral with a mean of 3.88 and a standard deviation of 0.331.

Economic climate of a region affects the decision to invest; and this is agreed to by 54.5% of the respondents and strongly agreed to by 45.5% with a mean of 4.45 and a standard deviation of 0.506. Stringent mortgage demands impact supply; and this is strongly agreed to by 33.3% of the respondents, agreed to by 30.3%, 24.2% disagreed and 12.1% were neutral with a mean of 3.73 and a standard deviation of 1.180. Population growth is not a great challenge to real estate industry; and this is disagreed to by 24.2%, while 30.3% agreed, 24.2% were neutral, 21.2% strongly disagreed with a mean of 2.64 and a standard deviation of 1.141.

Security is considered by investors when making investment decisions; and this is strongly agreed to by 54.5% of the respondents and agreed to by 45.5% with a mean of 4.55 and a standard deviation of 0.506. Real estate investment requires huge capital injection; and this is agreed to by 69.7% of the respondents and strongly agreed to by 30.3% with a mean of 4.30 and a standard deviation of 0.467. The laws of nature dictate the conceivable uses of real estate; and this is agreed to by 33.3% of the respondents, 33.3% strongly agreed and another 33.3% were neutral with a mean of 4.00 and a standard deviation of 0.829.

**Table 4.11 Scores for Investors' Challenges and Uptake of Commercial Properties**

	SD	D	N	A	SA	M	StD
	%	%	%	%	%		
Developers in the country face restrictions to raise money for development	0	48.5	9.1	42.4	0	2.94	.966
Real estate can bring unpredictable losses	0	33.3	24.2	42.4	0	3.09	.879
There are laws in place governing the real estate market	0	0	12.1	87.9	0	3.88	.331
Economic climate of a region affects the decision to invest	0	0	0	54.5	45.5	4.45	.506
Stringent mortgage demands impact supply	0	24.2	12.1	30.3	33.3	3.73	1.180
Population growth is a great challenge to real estate industry	21.2	24.2	24.2	30.3	0	2.64	1.141
Security is considered by investors when making investment decisions	0	0	0	45.5	54.5	4.55	.506
Real estate investment requires huge capital injection	0	0	0	69.7	30.3	4.30	.467
The laws of nature dictate the conceivable uses of real estate	0	0	33.3	33.3	33.3	4.00	.829

#### 4.5.2 Correlations for Investors' Challenges and Uptake of Commercial Properties

Table 4.12 shows that investor challenges were significant on commercial property uptake in Westlands - Nairobi ( $r=0.621$ ,  $p<0.1$ ). Legal and institutional constraints were insignificant on commercial property uptake in Westlands - Nairobi ( $r=0.206$ ,  $p>0.5$ ). Economic challenges were significant on commercial property uptake in Westlands - Nairobi ( $r=0.570$ ,  $p<0.1$ ). Social challenges were insignificant on commercial property uptake in Westlands - Nairobi ( $r=0.288$ ,  $p>0.5$ ).

**Table 4.12 Correlations for Investors' Challenges and Uptake of Commercial Properties**

	Commercial Property Uptake	Investor Challenges	Legal and Institutional Constraints	Economic Challenges	Social Challenges
Commercial Property Uptake	1				
Investor Challenges	.621**	1			
Legal and Institutional Constraints	.206	.281	1		
Economic Challenges	.251	.113		1	
Social Challenges	.570**	.304	.439*	.001	1
	.288	.470**	.208	.377*	
	.104	.006	.245	.031	

\*\* Correlations is significant at the 0.05 level (2-tailed)

\* Correlations is significant at the 0.01 level (2-tailed)

#### 4.5.3 Regressions for Investors' Challenges and Uptake of Commercial Properties

Table 4.13 presents the model summary for investor challenges and its influence on the uptake of commercial property in Westlands - Nairobi. The results presented in the table indicate that investor challenges account for 36.6% influence in terms of commercial property uptake.

**Table 4.13 Model Summary for Econometric Factors and Uptake of Commercial Properties**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.621	.386	.366	.23648

a. Predictors: (Constant), Investor Challenges

Table 4.14 presents the analysis of variance (ANOVA) for investor challenges and its influence on the uptake of commercial property in Westlands - Nairobi. The ANOVA presented in the table shows that the F value of 19.486 df (1,31) = 0.000 where the P value is <0.01 which indicates that the regression is appropriate for the study.

**Table 4.14 ANOVA for Investor Challenges and Uptake of Commercial Properties**

	<b>Model</b>	<b>Sum of Squares</b>	<b>df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig.</b>
1	Regression	1.090	1	1.090	19.486	.000
	Residual	1.734	31	.056		
	Total	2.823	32			

a. Predictors: (Constant), Investor Challenges

b. Dependent Variable: Commercial Properties Uptake

Table 4.15 presents the regression coefficients for investor challenges and its influence on the uptake of commercial property in Westlands – Nairobi. The results in the table has a P value of <0.01 for econometric factors, which means there is a significant relationship between investor challenges and commercial properties uptake. The table provides a simple regression model that is as follows:

$$\text{Commercial Properties Uptake} = 1.684 + 0.531 \text{ Investor Challenges} + \epsilon.$$

This equation shows that a unit increase in investor challenges would result in a 53.1% increase in commercial properties uptake which is very significant.

**Table 4.15 Regression Coefficients for Investor Challenges and Uptake of Commercial Properties**

	<b>Model</b>	<b>Unstandardized</b>		<b>Standardized</b>	<b>t</b>	<b>Sig.</b>
		<b>Coefficients</b>		<b>Coefficients</b>		
		<b>B</b>	<b>Std. Error</b>	<b>Beta</b>		
1	(Constant)	1.684	.400		4.213	.000
	Investor Challenges	.531	.120	.621	4.414	.000

a. Dependent Variable: Commercial Properties Uptake

#### **4.6 Chapter Summary**

This chapter presents the results and findings of the study. The collected data was analyzed using descriptive and inferential analysis and have been presented in this chapter. The chronology of the chapter follows the used questionnaire and explanations of the results have been presented. The next chapter presents the discussions, conclusions and recommendations of the study.

## **CHAPTER FIVE**

### **5.0 DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter presents the discussions, conclusions and recommendations of the study. The chapter discusses the results obtained from the analyzed data in comparison to the literature review. The chapter provides the study's conclusions and provides recommendations for improvement and further studies as well.

#### **5.2 Summary of the Study**

This study sought to examine the determinants of investment decisions on the uptake of commercial properties in Westlands area in Nairobi – Kenya. This study set to determine the impact of prices on the uptake of commercial properties within Westlands area in Nairobi – Kenya, establish the impact of econometric factors on the uptake of commercial properties within Westlands area in Nairobi – Kenya, and determine the challenges facing investors on the uptake of commercial properties within Westlands area in Nairobi – Kenya.

This study adopted a descriptive research design that enabled the study findings to be generalized to the larger population. The population was 50 commercial real estate landlords that operated in Westlands - Kenya. The sample frame was obtained from onsite building managers working in Westlands. The study applied a census sampling technique; thus, the sample size were 50 commercial real estate landlords that operated in Westlands - Kenya. A questionnaire was developed by the researcher based on the specific objectives of the study for data collection. A pilot test was done using ten respondents. Later, the refined questionnaires were distributed in person by the researcher to determine the target population. The data analysis methods that were used in the study were descriptive and inferential analysis. Descriptive analysis involved measures of central tendency (percentages, means and standard deviations). Inferential analysis involved correlation and regression analysis, and the study results were presented in the form of tables and figures.

The study revealed that prices are determined by market conditions and price changes are related to changes in macroeconomic variables. Loans are not the largest flow of investment capital since mortgage loans are illiquid and indivisible. Interest rate



determines the lenders interest income on assets while credit risk carries the potential for bankruptcy since credit risk in mortgages involves the risk of defaulting. Thus, potential losses create significant burdens for financial institutions, however, as lenders, they are not reluctant to grant mortgage loans.

The study indicated that the rate of employment is not directly related to office rent even though, econometric factors affect savings and investment power. The building's appeal has a close relation with its rental market performance and its occupancy is lured by the physical appeal. Property location has an effect on its market value and rent, for instance, proximity to complementary business and support services are valuable inputs to property uptake. A lease defines the privileges of tenants and landlords and lease options influence the tenant's decision of space occupation. Rental value is based on comparable leases and a well-drawn rent review clause affects the uptake of commercial properties.

The study showed that developers in the country do not face restrictions to raise money for development, however, the real estate business has the potential to bring unpredictable losses. There are laws in place governing the real estate market, and the economic climate of a region affects the decision to invest. For instance, stringent mortgage demands impact supply. The study revealed that population growth is not a great challenge to real estate industry, and that, security is considered by investors when making investment decisions, since real estate investment requires huge capital injection, and the laws of nature dictate the conceivable uses of real estate.

### **5.3 Discussions**

#### **5.3.1 Impact of Prices on the Uptake of Commercial Properties**

The study found out that prices are determined by market conditions. This is confirmed by Brueggeman and Fisher (2016) who state that, prices are determined by macroeconomic and credit market conditions and by the behavior of the individuals buying and selling properties. In the property market there is risk of sharp fall or increase in prices.

The study indicated that price changes are related to changes in macroeconomic variables. The study by Glower, Donal and Hendersholt (2016) also indicates that, the average change in prices is related to changes in fundamentals such as national and local

macroeconomic variables, or market wide bubbles but not all properties in a market are affected at the same rate.

The study showed that loans are not the largest flow of investment capital. This study result contradicts the study carried out by Oriaro (2010) that showed that, the instability of poor households' incomes, high foreclosure costs, and liquidity risk of longer-term loans, many developing countries, causes lenders to prefer shorter-term loans which are often less risky than long-term loans.

The study revealed that mortgage loans are illiquid and indivisible. This is also established by Rose (2013) who states that mortgage loans tend to be rather illiquid because they are large and indivisible, and a liquid financial asset is readily marketable and reversible meaning the holder of the asset can usually recover her funds upon resale with little risk of loss.

The study indicated that interest rate determines the lenders interest income on assets. This is in tandem with Kolbe, Gaylon and Rudner (2013) that, interest rate is a major factor that determines the lenders interest income on assets and interest expense on liabilities, thus, affecting the net interest income of the lender and changes in interest rate affects the refinancing and reinvestment decision of a borrower.

The study revealed that credit risk carries the potential for bankruptcy. This result is also observed by Broll *et al.* (2012) who states that, credit risk carries the potential of wiping out enough of a financier's capital and forcing it into bankruptcy, thus managing this kind of risk has always been one of the predominant challenges in running a financial institution.

The study showed that credit risk in mortgages involves the risk of defaulting. This is supported by Lea (2010) who states that, credit risk in mortgages involves the risk that the interest and principal amount will not be paid when due and that, it is risk brought about when the market value of the property falls below the market value of the mortgage.

The study indicated that potential losses create significant burdens for financial institutions. This result is also braced by Trieschmann, Hoyt and Sommer (2015) who

state that financial institutions will try as much as possible to avoid the risk associated with loss in order to minimize negative consequences, because, the risk surrounding potential losses creates significant economic burdens for financial institutions.

The study showed that lenders are not reluctant to grant mortgage loans. This study result contradicts the study done by Renaud and Jaffe (2016) who noted that lenders in developing economies are reluctant to make mortgage loans because of the risks in mortgage lending (credit, liquidity, interest and price).

### **5.3.2 Impact of Econometric Factors on the Uptake of Commercial Properties**

The study found out rate of employment is not directly related to office rent. This study result contradicts the study done by D'Arcy, McGough and Tsolacos (2012) and observed that macroeconomic factors of growth in employment rate in the subject location, is of considerable influence, and that the, rate of employment is directly related to office rent in typical industries as it means growing demand.

The study revealed that econometric factors affect savings and investment power. The results are in pact with those of D'Arcy, McGough and Tsolacos (2012) that, the target demographic demand character, the GDP growth rate and the annual interest rate are all of close and influential relation with office rent, since these variables affect savings and investment power of a population and consequently the space demand and supply.

The study indicated that a building's appeal has a close relation with its rental market performance. This result is supported by Wheaton and Torto (2014) who state that, the building's appeal to the prospective market has a close relation with its rental market performance and that, the enjoyment of rights to a property and the corresponding tenancy price is based on the physical asset.

The study results showed that occupancy is lured by the physical appeal of a structure. The results are in pact with those of D'Arcy, McGough and Tsolacos (2012) that, the choice of occupancy is lured by the physical appeal of the structure. Wheaton and Torto (2014) also state that, the truth is that despite tenancy being a contractual subject, the enjoyment of rights to a property and the corresponding tenancy price is based on the physical asset.

The study showed that property location has an effect on its market value and rent. This is confirmed by Hendershott (2012) who observe that, the location of office property has an effect on its market value and rent, and those buildings that are situated in a business center have higher rent compared to those that are in the outskirts of a city center.

Proximity to complementary business and support services are valuable inputs to property uptake. This is supported by Sivitanidou (2014) who observed that, the proximity to complementary business and the support services suppliers are valuable inputs to location choice decision making.

The study indicated that, a lease defines the privileges of tenants and landlords. This is also established by Mills (2012) who states that, a lease as a covenant define the cash flows, rights and privileges of tenants and landlords. In doing so, leases create a governance structure affecting the value of leased real estate assets.

The study showed that lease options influences the tenant's decision of space occupation. This result is supported by Wheaton and Torto (2014) who state that, the assignment or sublet terms and provisions, the lease- break options, the lease/contract length, the incentives and obligations of operational expenses (electricity, water, insurance, security) and lease options are of great influence to the occupancy cost and tenant's decision of space occupation.

The study indicated that, rental value is based on comparable leases. This study result confirms the study carried out by Omoro (2012) that stated, the fair market rental value assessment will generally be based on comparable leases of comparable space. The study showed that a well-drawn rent review clause affects the uptake of commercial properties. A study by Omoro (2012) showed that, at the face of common law, rent is payable by the tenant of leased premises when its due, the payments need to be made in the prescribed or most reasonable form and manner to the landlord or his authorized agent.

### **5.3.3 Challenges Facing Investors on the Uptake of Commercial Properties**

The study found out that, developers in the country do not face restrictions to raise money for development. The results contradict findings of Bett and Ely (2015) who note that, the constraints to invest in real estate industries have continued to be experienced in many

global states. In China, for instance, the developers face higher requirements for land reserves and development loans with restrictions to raise money.

The study indicated that, real estate can bring unpredictable losses. This is supported by Tony *et al.* (2016) who noted that, overseas real estate can offer developers surprise unpredictable losses, and global property developers are still overwhelmed by differences in foreign cultures, traditions, regulations and markets.

The study revealed that, there are laws in place governing the real estate market. This result is supported by Karirah (2016) who states that, there are various laws in place governing real estate market that are implemented through various institutions to ensure they are followed to the letter. Policies are usually recommended on a paper but institutional capacity and framework is marked with bureaucracy and bottlenecks.

The study showed that the economic climate of a region affects the decision to invest. This observation is supported by Otiende (2014) that, the prevailing economic climate of a region will affect the decision to invest; Stephen (2011) points out that factors such rate of inflation, rate of interest rate, taxes, commercial and industrial trends, wage levels, employment trends, money demand and supply all affects the current economic situations and affects the returns on an investment.

The study revealed that, stringent mortgage demands impact supply. The study approves the findings of Ventollo and Williamson (2011) whose study showed that, the stringent qualifications demand for mortgage has impacted in low developments hence low housing supply against the demand. Thus, limited access to finance is a major challenge in real estate development which is characterized by few sources of funds.

The study showed that the population growth is not a great challenge to real estate industry. The findings of this study contradict those of Stephen (2011) who noted that, the human population growth poses a great challenge to real estate industry. Though population increase provides a large market to this sector, different people have different tastes and preferences. It is therefore hard to meet all the requirements that they want.

The study revealed that, the security is considered by investors when making investment decisions. These results concur with the study by Murigu (2015) that, the level of security is one of the factors that investors consider when making investment decisions. Tenants tend to move where their security is guaranteed and move away from insecure areas to look for alternative accommodation.

The study showed that, real estate investment requires huge capital injection. The study approves the findings of Ventollo and Williamson (2011) whose study showed that, real estate investment requires huge amount of capital injection, during economic crisis the level of unemployment rises and that when unemployment rises and wage levels of the employed stagnate or decrease, the rate of mortgage loans.

The study indicated that the laws of nature dictate the conceivable uses of real estate. This result confirms that of Global Report (2014) which states that, the land physical characteristics and the laws of nature dictate that many conceivable uses of real estate are difficult or impossible to achieve, and furthermore, it is not practical to build houses, raise crops, or construct office buildings in many places on the earth surface.

## **5.4 Conclusions**

### **5.4.1 Impact of Prices on the Uptake of Commercial Properties**

The study concludes that prices are determined by market conditions and price changes are related to changes in macroeconomic variables. Loans are not the largest flow of investment capital since mortgage loans are illiquid and indivisible. Interest rate determines the lenders interest income on assets while credit risk carries the potential for bankruptcy since credit risk in mortgages involves the risk of defaulting. Thus, potential losses create significant burdens for financial institutions, however, as lenders, they are not reluctant to grant mortgage loans.

### **5.4.2 Impact of Econometric Factors on the Uptake of Commercial Properties**

The study concludes that the rate of employment is not directly related to office rent even though, econometric factors affect savings and investment power. The building's appeal has a close relation with its rental market performance and its occupancy is lured by the physical appeal. Property location has an effect on its market value and rent, for instance, proximity to complementary business and support services are valuable inputs to property

uptake. A lease defines the privileges of tenants and landlords and lease options influence the tenant's decision of space occupation. Rental value is based on comparable leases and a well-drawn rent review clause affects the uptake of commercial properties.

### **5.4.3 Challenges Facing Investors on the Uptake of Commercial Properties**

The study concludes that developers in the country do not face restrictions to raise money for development, however, the real estate business has the potential to bring unpredictable losses. There are laws in place governing the real estate market, and the economic climate of a region affects the decision to invest. For instance, stringent mortgage demands impact supply. The study concludes that population growth is not a great challenge to real estate industry, and that, security is considered by investors when making investment decisions, since real estate investment requires huge capital injection, and the laws of nature dictate the conceivable uses of real estate.

## **5.5 Recommendations**

### **5.5.1 Recommendations for Improvement**

#### **5.5.1.1 Impact of Prices on the Uptake of Commercial Properties**

The study recommends all landlords to improve on their skills necessary to manage the complex risks associated with finances. This would facilitate their ability to create financial related securities that would provide them multiple instruments by which they can access finances.

#### **5.5.1.2 Impact of Econometric Factors on the Uptake of Commercial Properties**

The study recommends the landlords of Westlands – Nairobi to put into consideration the importance of econometric factors because they have a great impact for real estate business and this will provide them with an anchor to properly control and coordinate their business costs and ultimate profits.

#### **5.5.1.3 Challenges Facing Investors on the Uptake of Commercial Properties**

The study recommends the landlords of Westlands to consider planning because it has the power to restrict the growth and expansion of their businesses. The challenges of real estate also provide complexities in planning restrictions and the prevailing economic climate of a region affects the decision to invest.

### **5.5.2 Recommendations for Further Studies**

This study focused itself on the determinants of investment decisions on the uptake of commercial properties in Kenya. It limited itself geographically by focusing on Westlands area in Nairobi – Kenya and by focusing on 50 commercial real estate landlords in Westlands – Nairobi. Thus, for a comprehensive result, there is need for similar studies to be conducted in other regions in Nairobi area as well as its outskirts. There is also need for studies that should focus on tenants. More studies focusing on other factors like government policies should be conducted.



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## APPENDICES

### APPENDIX I: QUESTIONNAIRE

This study will seek to examine the determinants of investment decisions on the uptake of commercial properties in Westlands area in Nairobi – Kenya. Please fill the following questionnaire appropriately.

#### Section A: General Information

1. Gender

Male ( )      Female ( )

2. Age

18-20 Years ( )      21-25 Years ( )      26-30 Years ( )      31-35 Years ( )  
36-40 Years ( )      41 Years and over ( )

3. Level of education

Certificate ( )    Diploma ( )    Degree ( )    Master's Degree ( )    Doctorate ( )  
PhD ( )      Other ( ) \_\_\_\_\_

4. Number of commercial units owned in Westlands

1 ( )      2 ( )      3 ( )      4 ( )      5 ( )      >5

\_\_\_\_\_

## Section B: Impact of Prices on the Uptake of Commercial Properties

- 2 Please rate the following questions using the scale (1-strongly disagree, 2-disagree, 3-neutral, 4-agree and 5- strongly agree).

	1	2	3	4	5
Prices are determined by market conditions					
Price changes are related to changes in macroeconomic variables					
Loans are the largest flow of investment capital					
Mortgage loans are illiquid and indivisible					
Interest rate determines the lenders interest income on assets					
Credit risk carries the potential for bankruptcy					
Credit risk in mortgages involves the risk of defaulting					
Potential losses creates significant burdens for financial institutions					
Lenders are reluctant to grant mortgage loans					

## Section C: Impact of Econometric Factors on the Uptake of Commercial Properties

- 3 Please rate the following questions using the scale (1-strongly disagree, 2-disagree, 3-neutral, 4-agree and 5- strongly agree).

	1	2	3	4	5
The rate of employment is directly related to office rent					
Econometric factors affect savings and investment power					
A building's appeal has a close relation with its rental market performance					
Occupancy is lured by the physical appeal of a structure					
Property location has an effect on its market value and rent					
Proximity to complementary business and support services are valuable inputs to property uptake					
A lease defines the privileges of tenants and landlords					
Lease options influences the tenant's decision of space occupation					
Rental value is based on comparable leases					
A well-drawn rent review clause affects the uptake of commercial properties					



## Section D: Challenges Facing Investors on the Uptake of Commercial Properties

- 4 Please rate the following questions using the scale (1-strongly disagree, 2-disagree, 3-neutral, 4-agree and 5- strongly agree).

	1	2	3	4	5
Developers in the country face restrictions to raise money for development					
Real estate can bring unpredictable losses					
There are laws in place governing the real estate market					
Economic climate of a region affects the decision to invest					
Stringent mortgage demands impact supply					
Population growth is a great challenge to real estate industry					
Security is considered by investors when making investment decisions					
Real estate investment requires huge capital injection					
The laws of nature dictate the conceivable uses of real estate					

**THE END**