EFFECT OF PRIVATE ASSET FINANCING LOANS ON FINANCIAL PERFORMANCE OF REAL ESTATE INVESTMENT FIRMS IN NAKURU TOWN, KENYA

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DECLARATION

Declaration by student

I declare that this research project is my original work and has not been presented for any award of any diploma/degree/masters in any University.

Sign..   Date: ....

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HD335-C007-7881/2015

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

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DEDICATION

I dedicate this project to my family, classmates and to Jomo Kenyatta University of Agriculture and Technology library staffs. Thank You all for your Support throughout my studies.

ACKNOWLEDGMENT

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LIST OF ABBREVIATIONS

APP: Africa Progressive Panel

ARV: After Repair Value

CBK: Central Bank of Kenya

EMH: efficient market hypotheses

EMT: efficient-market theory

KIM: Kenya Institute of Management

MOU: Memorandum of Understanding

MPT: Modern Portfolio Theory

PAFL: private asset financing loan

PPP: Public Private Partnership

REIT: Real Estate Investment Trust

DEFINITION OF TERMS

Asset loan ratio: A measurement representing the percentage of a corporation's assets financed with loans or other financial obligations lasting more than one year (Jia, 2016).

Financial performance: This is the output of a firm in monetary value and can be operationalized using such parameters as liquidity, profitability, return on assets, return on investments, return on equity, among others (Saxton, (2015)

Interest rate: The proportion of a loan that is charged as interest to the borrower, typically expressed as an annual percentage of the loan outstanding (Ngugi, 2016).

Loan processing time: This refers to the time taken to determine the credit worthiness of a borrower, and crediting their account with the amount of loan applied for having satisfied the lender (Owiti, (2016)

Private asset financing loan: A specific type of asset-based loan financing through which a borrower receives funds secured by real property (Carey, 2016).

Real estate investment firms: These are firms that are engaged in purchasing, ownership, management, rental and/or sale of real estate for profit (Poghosyan, 2016)

Uptake rate of private asset financing loans: The action of taking up or making use of private asset financing loan that is available (Owiti, (2016)

ABSTRACT

There has been an ever-growing demand for housing in Kenya. Though this may spell booming business for real estate financing investments, this has not been the case, at least in relation to financial performance. The study examined the effect of private asset financing loans on financial performance of real estate investment firms specifically in Nakuru town, Kenya. In particular, the study analyzed the effect of uptake of private asset financing loans, interest rates, loan processing time, and asset-to-loan ration on financial performance of the said entities. The study was guided by several pertinent theories. The study population consisted of 80 real estate developers (real estate investment firms). Due to the relatively small size of the study population, a census design was adopted. A structured questionnaire was used to facilitate data collection. The instrument was pilot tested in order to determine both its validity and reliability before it was used to aid in collection of data for the main study. The Statistical Package for Social Sciences Version 24.0 programme was used in data analysis. Data analysis involved both descriptive and inferential statistics. The results of the analysis were presented in tables. The research hypotheses were tested at 95% confidence level. It was established that increasing the uptake of private asset ($\beta_0 = 0.010$), interest rates ($\beta_0 = -0.195$), and loan processing time ($\beta_0 = -0.132$) marginally affected financial performance of real estate investment firms in Nakuru town. However, asset-to-loan ratio was found to substantively influence financial performance of the stated firms ($\beta_0 = 0.327$). The second and fourth null hypotheses were rejected ($p < 0.05$). However, the first and third null hypotheses failed to be rejected ($p > 0.05$). It was concluded that increased uptake of these loans was bound to result in improvement financial performance. The interest rates were concluded to marginally affect financial performance of the aforestated firms. Increasing loan processing time was inferred to result in a decline in financial performance of the aforementioned companies. The study also concluded that asset-to-loan ratio significantly affected financial performance of real estate investment firms in Nakuru town. It was concluded that a substantive proportion of financial performance of the stated firms could be attributed to private asset financing loans, where the ratio of assets to loans was concluded to be the most important factor. The study recommended that all real estate investment firms should ensure that there is continuous uptake of private asset financing loans. It is advisable for regulations to be put in place in respect of interest rates charged by these firms. It is recommended for reduction in the time taken to process private asset financing loans. It is recommended that the real estate investment firms to minimize their reliance on the assets already owned by the borrowers as one of the major conditions for extending applied loans to them.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The development of the housing sector is widely recognized as an integral part of economic development. In addition to the large share that the housing sector occupies in the economy, its importance also arises from the positive externalities and spillover effects and its impact on the social and political climate, issues of particular importance in developing countries. In most countries and increasingly so in emerging economies, housing represents a large proportion of a household's expenditure and takes up a substantial part of lifetime income. Usually, it is the largest asset owned by households. The backward and forward linkages to land markets, durable goods manufacturing and development of labor markets with depth and mobility further underscore the significance of this sector, particularly in the process of economic transition (Bardhan & Edelstein, 2015).

In today's fast-paced business environment, where opportunities come and go in an instant, there has been a need for lenders to move as fast as the opportunities do. Private asset financing loan, sometimes also referred to as private money, is the term used for loans secured for real estate that are funded by private parties and are typically offered at higher interest rates. Kaliser (2015) defines private asset financing loan (PAFL) as a specific type of asset-based loan financing through which a borrower receives funds secured by the value of a parcel of real estate. Private asset financing loan lending has become a staple of the mortgage industry, as residential and commercial investors seek new ways to access liquid capital when an opportunity arises. With interest-rate increases impending, many real estate investors are learning that the Private asset financing loan marketplace can help them close deals fast; an imperative in today's market where purchasing decisions and the subsequent acquisition of funds must be made quickly.

Private asset financing loan, sometimes referred to as bridge loans, are short-term lending instruments that real estate investors can use to finance an investment project (Jia, 2016). This type of loan is often a tool for house flippers or real estate developers, whose goal is to renovate or develop a property, then sell it for a profit.

Private asset financing loan are issued by private lenders rather than mainstream financial institutions such as banks. Unlike traditional bank loans, the ability to obtain private asset financing loan financing isn't determined by the borrower's creditworthiness. Instead, Private asset financing loan lenders use the value of the property itself in determining whether to make the loan. Specifically, lenders focus on the after repair value, or ARV, which is an estimate of what the property will be worth once the renovation or development phase is complete. Developers and house flippers, amongst others, will use it to fund deals because a borrower can often borrow up to 100% of the purchase price to use or uptake (Carey, 2016).

1.1.1 Global Perspective of Private Asset Financing Loans and Financial Performance

Real estate financing has over the years been a preserve of mortgage financing companies but with time, commercial banks have started engaging in mortgage financing. An efficient housing finance system has significant importance both in meeting the housing needs of individuals and in reinforcing the development of the construction, finance and other related sectors of an economy. International experience suggests that, the widespread availability of residential mortgages has favorable impact on poverty alleviation, quality of housing, infrastructure, and urbanization (Erbas, 2015). Developed countries currently have very advanced housing finance systems in which funds flow from people with fund surpluses to the ones that have deficits and need the funds through the various channels provided by the mortgage markets.

The situation in the developing countries is however very different in that real estate has remained largely under-developed despite the fact that sector players recognize the economic and social importance of the sector. This has been attributed to the unstable inflation rates experienced and the high level of unemployment (Dolde, 2014). Real estate financing is the provision of finance or capital for purchase of housing or for own construction. Dymski, (2015) defines real estate finance as the capital required for construction of housing or the resources required to acquire or access housing project by household or the credit supplied by housing finance institutions against some collateral. Internationally, there are various institutions that are involved in the lending of money for real estate projects and these include:

commercial banks, mortgage finance firms, saving and loans co-operatives, insurance companies, government parastatals, pension funds, trusts and other real investment institutions (Lwali, 2016). Unlike unsecured loans, real estate financing is a form of a secured loan whereby the mortgaged property acts as the security for the loan extended by the lending institution (Macharia, 2016).

Private asset financing loan underwriting guidelines are almost always less invasive and time consuming than the guidelines followed by a traditional bank or financial institution. Borrowers seek private asset financing loan when they are unable or do not have the luxury of time to wait for financing from more conventional sources. According to Gerson (2015), today's private asset financing loan has become for many, the bridge loan or equity substitute of choice among developers in California and other parts of the United States. Though interest rates have been declining, private asset financing loan lending is on the rise. There may well be a correlation between the development and marketing by institutional lenders of mezzanine and equity products, and the rapidly rising entrepreneurial interest in the simple, privately placed private asset financing loan.

1.1.2 Regional Perspective of Private Asset Financing Loans and Financial Performance

According to Africa Progressive Panel (APP), poor infrastructure has been a major stumbling block to home grown entrepreneurship and foreign investor alike on the continent (APP, 2018). In this respect, therefore, in order for Africa to become more competitive globally, it must bridge infrastructural gaps. Impliedly, obstacles that should be addressed include lack of access to formal financial services, weakness in Africa's infrastructure, and lack of funds for public investment. It is imperative to post that real estate is part of the infrastructure that Africa as a whole should strive to address.

It is postulated that commercial real estate development in Africa, specifically, Sub-Saharan Africa is on an upward trajectory (Metcalfe, 2014). On the same vein, it is stated that demand for housing is catalyzed by rapid urbanization, increased wealthy population particularly middle-class, re-location of business ventures, and also travel to Africa for both business and tourism. The identified factors have resulted in

increased demand for modern offices, hotels, and retail malls among other real estate facilities. Metcalfe (2014) further argues that real estate development is not uniform across the continent. Ghana, Nigeria and Kenya are stated to be the most active jurisdictions in real estate development. Development in these countries is largely centred on urban areas with Accra, Lagos, and Nairobi respectively leading in construction of modern malls.

1.1.3 Local Perspective of Private Asset Financing Loans and Financial Performance

In Kenya, Real estate industry in is one of the leading indicators of development (Mary, 2014). Economy growth is used to measure the economic growth and health of a country. Kenyan mortgage businessmen invest in real estate and on return, they expect return. Performance of real estate market is measured in terms of rental income, risks of occupancy level and return on investments. Dymski, (2015) states that property rental income relates to the return gained out of the investment while risks are measured by the level of variability of income. Before investment, mortgage players gauge both expected risks and returns to ascertain the prices of real estate property. Increase in mortgage loans lead to improvement in liquidity and profitability levels in real estate industry.

Saxton, (2015) documented that financial markets have been revolutionized over the past two decades by Kenyan real estate developers due to existence of mortgage brokers in the county, increase in risk based pricing of mortgage properties and growth of secondary mortgage market. The financial markets in Kenya experience increase in mortgage lending thus development of new emerging products at affordable rates. Mortgage boom and bust in the financial markets have been due to mortgage delinquencies where by potential homeowners took mortgage loans without any capacity to finance.

It has been reported that the performance of the investment in real estate in Kenya is affected by interest rate charged on private asset financing loan (Sanders, 2015). Most lenders used interest charged on private asset financing loan as a proxy for real estate investment since it raised funds from borrowers to purchase real properties and rent them for income to be distributed back to investors. These real properties might

be sold sometimes to make profit for investors. Real Estate Investment Trust (REIT's) cash flows are highly predictable. Most of its income is from rental income which is highly stable and at least 90% of income is required to distribute back to investors. Few retained earnings are left to reinvest. Therefore; the change in value of Equity REIT is dependent on interest rate which is its discount rate. Its return, hence, should be sensitive to the change in interest rate like a bond's return.

In general, higher interest rate in Kenya makes investors need more return from their investment and pay less today money to buy the same expected future cash flow In addition, if the increase in interest rate is caused by inflation, the real properties price will increase too. Hence, REIT's income will increase together with its discount rate. Sanders (2015) also confirmed that real estate investment return could be affected by interest rate. Garmaise & Moskowitz (2014) observed that there exist significant correlation between information and prices of real estate properties. Mortgage institutions and commercial banks in Kenya are the key pillars in mortgage financing. The Kenyan government through Central Bank of Kenya (CBK) has made tremendous amendments to the banking act to boost mortgage financing from 2015.

The CBK (2014) reported that mortgage institutions operate current accounts to increase mobilization of financial deposits and financial institutions have increased their level of loans advanced from 25 percent to 40 percent of total liabilities for acquisition and improvement of land. Moreover, mortgage institutions provide various mortgage loans that include owner occupier, investment residential, construction loans, equity release and residential plot purchases. For owner occupied mortgages, banks offer up to 90 percent or 100 percent of the value of the property and it is intended for buyers to live in their respective houses. Investment mortgage are meant for buyer purposes (investment) but not for home construction. Construction loans entail provision of loan for purpose of construction of property only. The lender supervises the professionals e.g. engineers and architects. The loan is disbursed to the contractor on arrears basis. Lastly, residential plot purchase is advanced to citizens who are willing to acquire plots for the purpose of construction of their own residential property.

A private asset financing loan lender can be an individual, a self-directed IRA, a group of individuals, a corporation, a limited liability company; a business, and so on.

None of these are regulated depository institutions. According to a report by the Kenya Institute of Management (KIM), by the year 2030, it is estimated that over 80% of Kenyan population will have migrated from rural areas (KIM, 2015), meaning that shelter will be one of their basic needs. Presently, slum dwellers constitutes a third of the urban population in Kenya whereby Kibera slums which is located at the outskirts of Nairobi City, is one of the largest urban dwelling in Africa. Hence as more rural urban migration occurs more well-constructed houses must be built to mitigate the rise of informal settlements. This is against the backdrop of a widening housing gap particularly in urban areas which had reached two million units by 2015 (Republic of Kenya, 2015) coupled by underdevelopment of the real estate sector in Kenya (Cytonn Investments, 2018). In this regard, it is imperative to investigate how private asset financing loans influence financial performance of firms in real estate investments in Kenya.

1.2 Statement of the Problem

Kenya has a large housing gap which is growing every year and is increasingly prevalent in urban areas due to differences in income levels in the economy. The annual increase in demand for housing in Kenya is 206,000 units annually with 82,000 units required in urban areas. In 2015, the Ministry of Housing estimated that the formal supply of houses to the market reached 50,000 creating a 156,000 shortfall which added up to the 2 million units existing deficit (Republic of Kenya, 2015). While Kenya's mortgage market is growing, the industry is dominated by the large commercial real estate firms. Real estate sector has remained largely under-developed despite the fact that sector players recognize the economic and social importance of the sector. This has been attributed to the unstable inflation rates experienced and the high level of unemployment (Dolde, 2014). According to Cytonn Investments (2018), the financial performance of real estate in Kenya slowed down by 18.4% in 2017. The slowdown could have stemmed from among others, reduced credit to the private sector by banks emanating from the enactment of the Banking Amendment Act 2015. It has not been determined whether private asset financing loan enhances or diminishes the rate of return (indicator of financial performance) of real estate investments. Poor financial performance of real estate firms has far-reaching implications. This is underscored by the fact that it is an important industry that makes enormous contribution to the Kenyan economy. The hitherto empirical studies

(Mwangi, 2015) have failed to address the aforestated themes adequately. Scarcity of empirical evidence particularly in respect of private asset financing and financial performance of real estate firms in Kenya further necessitated conducting of this study.

1.3 Research Objectives

The study sought to achieve the following objectives:

1.3.1 General Objective

The general objective of the study was to assess the effect of private asset financing loans on financial performance of real estate investment firms in Nakuru town, Kenya.

1.3.2 Specific Objectives

The specific objectives of the study included:

i. To determine the effect of private asset financing loan uptake on financial performance of real estate investment firms in Nakuru town

ii. To assess the effect of interest rates on financial performance of real estate investment firms in Nakuru town

iii. To establish the effect of loan processing time on financial performance of real estate investment firms in Nakuru town

iv. To analyze the effect of asset-to-loan ratio on financial performance of real estate investment firms in Nakuru town

1.4 Research Hypotheses

The study sought to test the following hypotheses:

H_{01}: There is no statistically significant effect of private financing loan uptake on financial performance of real estate investment firms in Nakuru town.

H_{02}: There is no statistically significant effect of interest rates on financial performance of real estate investment firms in Nakuru town.

H_{03}: There is no statistically significant effect of loan processing time on financial performance of real estate investment firms in Nakuru town.

H_{04}: There is no statistically significant effect of asset-to-loan ratio on financial performance of real estate investment firms in Nakuru town.

1.5 Significance of the Study

This study is expected to be important to the financial management policy and practice. It will seek to reveal both negative and positive effects of private asset financing loan that property developers should adopt in order to enhance their financial performance. The study will provide insight information on various mortgage opportunities available in Nakuru town for the property developers.

The study will provide insight knowledge for the government and regulators on how to meet the demand gap. The government will be able to pass policies and assess the current initiatives that are aimed at boosting private asset financing loan. To regulators, the findings of the study will enable them to enforce regulatory laws such as property price index and interest rate amount.

The lender also has advantage of determining if the project will likely yield enough profit and if not the lender may decline. The borrower will be able to complete their project and repay the loan within that time frame. Competitiveness in real estate investment will also increase as the Real Estate Developers as well as potential property buyers will have an insight of how their agents run their business thus will engage with agents that have the best marketing strategies that will give them value for their investment.

Finally the study will contribute to the body of knowledge and identity areas for further research. The study will also act as a source of reference material for future researchers and scholars who may opt to study related topics or even prompt further in private asset financing loan effect of performance of real estate and also to enhance their knowledge. Financial institutions will also need this information for future reference. The researcher will also put theoretical work learnt into class into practical.

1.6 Scope of the Study

The study was carried out in Nakuru town where it was delimited to real estate investment firms in the town. The unit of analysis comprised of real estate developers, that is, the persons in charge of the aforesaid entities. The study was guided by a set of variables categorized into two; predictor and dependent. Predictor variables, otherwise referred to as independent variables include uptake of private asset

financing loans, interest rates, loan processing time, and asset-to-loan ration, while financial performance of real estate investment firms constituted the dependent variable. The study was conducted over a period of approximately three months and had been allocated a budget to the tune of Ksh 120,000.

1.7 Limitations of the Study

There was no assurance that the respondents were to return all the questionnaires duly completed. Being a sensitive study in matters of performance of their real estate investments, some of the respondents were not willing to participate in the Study for fear that it would expose their real estate company. However, this limitation was mitigated by promising confidentiality to the respondents and by constantly following up on the questionnaires. The study focused on real estate developers in Nakuru town. In this regard, it was quite difficult to access some of them given that these firms are engaged in so many activities outside the offices. This challenge was addressed by seeking information from the persons who acted on behalf of these developers on day-to-day basis.

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

This chapter contains a review of literature relevant to the study. The specific areas covered here include; theoretical review of theories informing the Study, rate of uptake of private asset financing loan, sources and terms of private asset financing loan, effects of private asset financing loan interest rates on performance of real estate investments, speed of processing of private asset financing loan influence performance of real estate investments, effects of asset loan ratio of private asset financing loan on performance of real estate investments and performance of real estate investments, summary of the literature and conceptual framework.

2.2 Theoretical Review

In this section, theories in relation to private asset financing and performance of real estate investment firms are reviewed and discussed.

2.2.1 The Theory of Financial Intermediation

The financial intermediation theory was proposed by Modigliani and Miller (1958) but has been advanced by other scholars including Fama (1980), Gertler (1988), and Allen and Santomero (1998) among others. The theory states that intermediaries serve to minimize transaction costs and informational asymmetries (Scholtens & van Wenseveen, 2003). Financial intermediaries that are active in the real estate industry include commercial banks, mutual savings bank, savings and loan associations and life insurance companies. The financial intermediaries act as a link between lenders of property asset financing loan (the depositors) and borrowers of mortgage loans. They also help distribute funds in a nation by transferring funds from those parts that have surplus to the areas that need to borrow (Coles & Boleat, 2012). A qualitative research done by Ibem, (2010) on the assessment of the role of government agencies in public-private partnerships in housing delivery in Kenya revealed formal partnerships between government agencies and commercial private housing developers to be the prevailing type of PPP housing provisions in Kenya. However, this exists also in other countries and relies on negotiations and MOU between the partners and is centered on dealing with the needs of the middle and high income instead of the low income earners.

Research on financial intermediation forms a central part of the theoretical literature in corporate finance. We test the relevance of several intermediation theories in a novel setting using data from commercial real estate transactions. There are several reasons for considering the commercial real estate market. First, it is a large and important asset market.' It is therefore of significant economic interest to have theories that explain empirical regularities in property financings. Second, broker intermediation is an unusual form of financial intermediation. Our study shows that brokers serve an important role in providing their clients with access to finance. Brokers intermediate be-tween firms and the bank. This form of intermediation is different from that discussed by Ibem, (2010)). Finally, the commercial, as opposed to the residential, real estate brokerage industry has received very little attention in the literature (Ibem, 2010).

According to this theory, mortgage finance can only be obtained through financial intermediaries due to the risk involved in direct borrowing. This is because; the financial intermediaries can assess the viability of projects to be invested in as well as their location and advice investors accordingly. They also look at the credit position of the borrower before advancing the credit to minimize cases of default in payment. Therefore, financial intermediaries have established some strict measures for borrowers to ensure that depositors' money is put into most useful projects that yield a reasonable return. This paper examines a novel form of financial intermediation by studying the role of professional property brokers in the commercial real estate market. Brokerage is an important agency activity, yet the economic function of brokers is not well understood. The foregoing assertion corroborate the statement that there generally exists a highly organized and broad system of financial intermediation that facilitates the flow of loanable funds between borrowers and lenders (Claus & Grimes, 2003). In the context of the present study, borrowings are in form of private asset financing loans.

2.2.2 The Pecking-Order Theory of Capital Structure

The pecking order theory of capital structure was proposed by Myers and Mailuf (1984). The theory states that financing follows a hierarchy, and that firms prefer internal over external financing and debt over equity. The theory further postulates that the more asymmetry of information, the higher the costs of the sources of

financing (Brounen et al., 2003). In regard to this theory, debt financing is encouraged when a firm experiences insufficient profits, and also when equity is undervalued.

In respect of Myers and Mailuf's (1984) assertion, financial leverage is the notion of using debt to fund an investment. Basically, projects are financed by the use of debt and equity including real estate projects. The best way to show financial leverage is by looking at the relationship between the return in general on the project and the return on equity. For instance, a certain real estate asset providing a 12.5 percent return. Meaning, the annual after tax cash flow is 12.5 percent of the cost of the asset. Where the asset is financed by all equity, the return to the equity investor is equal to the overall return on the asset, 12.5 percent. Where a debt can be taken at a favorable rate, that is less than 12.5 percent, it can be used to enhance the return on the equity.

A portion of an asset that gives up 12.5 percent is financed by lower cost debt, the difference going through to the equity holder. This is to mean that, favorable financial leverage will result in an equity yield greater than 12.5 percent. Unfavorable financial leverage will occur if the cost of borrowing exceeds the return on the investment, resulting to a decline in the return on the equity, resulting in a financial risk. According to this theory, the investor's equity position increases with leverage, hence the irrelevance of capital structure (Clauretie & Sirmans, 2010). The pecking order theory is, therefore, crucial in explaining the extent to which real estate firms should go for debt financing with the view of posting positive financial performance.

2.2.3 Portfolio Theory

Portfolio theory was advanced by Markowitz (1952). This theory states that, "when assets are combined to form a portfolio, the expected return on the portfolio will be equal to an average of the expected returns on the individual assets, weighted by the relative amount of each asset included in the portfolio." A portfolio of several assets has expected return and expected risk (as measured by the variance in returns) after private asset financing loan has been issued. A portfolio helps in reduction of risk that is present in an individual asset, without a sacrifice in expected returns. There is a greater benefit in diversifying through portfolio construction of real estate assets. Properties of different types (hotels, warehouses, office building, and farmland) and/or different geographical regions are combined for maximum benefit. The

greatest reduction in risk is through geographical diversification, where regions are defined in terms of their economy (Clauretie & Sirmans, 2010).

However, this theory to a large extend favors large developers and not individuals, like life insurance companies and pension funds as a lot of capital outlay is required. Messah (2011) employed a descriptive survey aimed at providing a picture of the relationship between the income of the real estate owners, demand of real estates and the location of real estate properties and the extend of the realtors contribution on the real estate prices. Modern Portfolio Theory (MPT) has increasingly gained general acceptance as a preferred method for intelligently diversifying pools of real estate assets. Long and widely used in the creation of portfolios in and across the public markets, MPT did not find a room in private real estate investment until the late 1990s. Since then, real estate investors have recognized the role of cycles in the performance of individual assets and portfolios of assets, and as a result, MPT has become a well-accepted framework to construct or rebalance real estate portfolios.

MPT assumes investors are risk-averse, meaning that given two assets that offer the same expected return, investors will prefer the less risky one. Thus, an investor will take on increased risk only if compensated by higher expected returns. It is possible to create a real estate portfolio that will generate a desired return at the least possible risk. The major limitation of applying MPT in private real estate portfolios is that it uses the returns of average assets in a market not actual asset level return. According to Messah (2011), actual returns on individual assets in a market may differ (for better or for worse) based on the occupancy, rollover schedule, quality of the tenants, location, etc. However, a large portion of an asset's performance is influenced by the market in which the building is located because of market pressures on rents, occupancy, and pricing.

2.2.4 Efficient Market Theory

This is the conception that an assets trades in a market where its value reflects all available information about that asset. As such, the asset is priced "efficiently" in the sense that no one individual is able to trade on the basis of information available to all other market participants and in the process make excess returns. The concept of an efficient market prevents an investor from taking advantage of information that is generally available to all investors to make abnormal returns. However, market

imperfections, asymmetric information and the high fixed cost of small scale lending do exist leading to market failures which are a primary reason for poverty and financial market failures (Stiglitz, 2006). Ebrahim, (2009) in his research, sought to establish a framework to increase the affordability of formal housing. His motivation was based on ad-hoc practice of clans in Oman to fund the purchase of houses for their poor brethren by use of interest free loans. Ebrahim, (2009) remarked that an informal financial system focused on funding homes through mitigating adverse selection, moral hazard, administrative costs and transaction costs is likely to promote development by providing access to financial services to many who are shunned by the formal system.

The efficient-market theory (EMT) is a theory in financial economics that states that asset prices fully reflect all available information. The EMT was developed by Professor Eugene Fama who argued that stocks always trade at their fair value, making it impossible for real estate developers to either give financial asset long or not. The semi-strong form of the EMT claims both that interest charged on loan reflect all publicly available information and that prices instantly change to reflect new public information. This is in agreement with Emmons and Mueller (1997), Buijs (1998), Hart & Moore (1998) and Smets (2000). Callier (2003) also affirmed that informal finance systems prevails for the reason that it resolves fundamental problems that are not handled accordingly by most financial systems in developing countries.

A market can be described as a place in which people and firms trade financial securities and commodities at low transaction costs at prices that reflect supply and demand. A property market, more specifically, is a place in which people and firms trade real estate at prices that reflect supply and demand. Efficient market theory also known as efficient market hypotheses (EMH) is a theory based around the concept that participants in the market obtain and act on all the relevant information as soon as possible. Thus, according to EMH, markets are informationally efficient and represent the sum of information available and the choices made by traders and investors the basis of EMH relies heavily on the principle of homo economics. The main reason for the development of homo economics lies in the complex and unpredictable nature of human behavior.

2.2.5 Agency Theory

Agency theory was proposed by Jensen and Meckling (1976). The theory also known as principle-agent theory involves the use of game theory to the analysis of a particular class of social interactions. In this case, one individual (the agent) acts on behalf of another (the principal) and is required to advance goals of the principal. In this sense, the agent is entitled to negotiate on behalf of a principal or bring the principal into a contractual relation with a third party. However, these relations results in to agency conflicts due to conflicting objectives of the individual parties. The theory of the firm explains how the conflicting objectives are brought to equilibrium in order to yield profit maximization. Nevertheless, agency theory has its shortcoming in that, the relationship maybe used as an excuse for unethical conduct, as agents seek to avoid responsibility claiming to be following orders or serving the client (Boatright, 2010). This therefore brings out a challenge in acquiring mortgage finance as it is likely to result in to higher transaction costs. It also poses the question of the effectiveness of mortgage brokers.

Mortgage is the most prevalent method of borrowing for the purchase of real estate the world over, a fact that makes critical the accessibility to and availability of mortgage finance to the development of housing and real estate. A research by Fang and Jie (2008) showed that the Chinese real estate market has made a significant progress since 2008, as a result of economic reforms that lead to home market liberalization. This has seen expansion of home mortgages loan which has become the primary financing tool for Chinese citizens. According to the People's Bank of China, the balance of home mortgage enlarged by more than 20 times, from 126.0 billion yuan in 1999 to 29.83 trillion yuan in 2008. However, the challenge highlighted was increasing house prices due to development of home mortgage service, whereas the income of the citizens remained constant.

Agency theory looks at the conflicts of interest that exist between parties with different interest in the same asset. Usually this refers to the conflict between real estate developers and borrowers. Real estate agency theory refers to the conflict a real estate agent is in when looking after the interests of the seller or lessor, the buyer or lessee and themselves. As a developer, you would do well to remember that your interest on the loan will probably always be last on the list. The problem with this sort

of attitude from agents is that in any property transaction you actually need a developer. But during the property boom, demand outstripped supply and the buyer / lessee group was huge. A Research publication by Thomas (2009) suggests that the advancement of industrialization, trade and international trade supported by cheaper transportation in the 19th century led to the emergence of large urban populations, in Europe and North America. It highlights the case of the USA which presents the best example of a country whose enlarging economy was rapidly fueling demand for housing through the escalation of immigrants, growth of industrial employment as well as rapid urbanization.

2.3 Conceptual Framework

A conceptual framework is defined as a diagrammatic representation of study variables and how they are perceived to relate with each other. It can be accompanied by pertinent narrative to explain the operationalization of the study constructs and also their relationships. In relation to the conceptual framework shown in Figure 2.1, the independent variables included uptake of private asset financing loans, interest rates, loan processing time, and asset-to-loan ratio. The dependent variable was financial performance. Each of the stated variables has been operationalized by measurable parameters. The framework presumed that there existed relationships between each of the indicated independent variables and financial performance of real estate investment firms in Nakuru town. This study was conducted premised on this general hypothesis.

```
┌──────────────────────────┐
│   Uptake of Private Asset│
│       Financing Loans    │
│  • Amounts               │
│  • Frequency             │
│  • Bottlenecks           │
└──────────────────────────┘

┌──────────────────────────┐
│       Interest Rates     │
│  • Levels                │                    ┌──────────────────────────┐
│  • Fluctuation           │                    │   Financial Performance  │
│  • Ceiling               │                    │  • Profits               │
└──────────────────────────┘                    │  • Revenue               │
                                                 │  • Return on investment  │
┌──────────────────────────┐                    └──────────────────────────┘
│     Loan Processing Time │
│  • Efficiency            │
│  • Reliability           │
│  • Paperwork             │
└──────────────────────────┘

┌──────────────────────────┐
│      Asset-to-Loan Ratio │
│  • Total assets          │
│  • Financial risk        │
│  • Deprecation           │
└──────────────────────────┘
     Independent Variables                            Dependent Variable
```
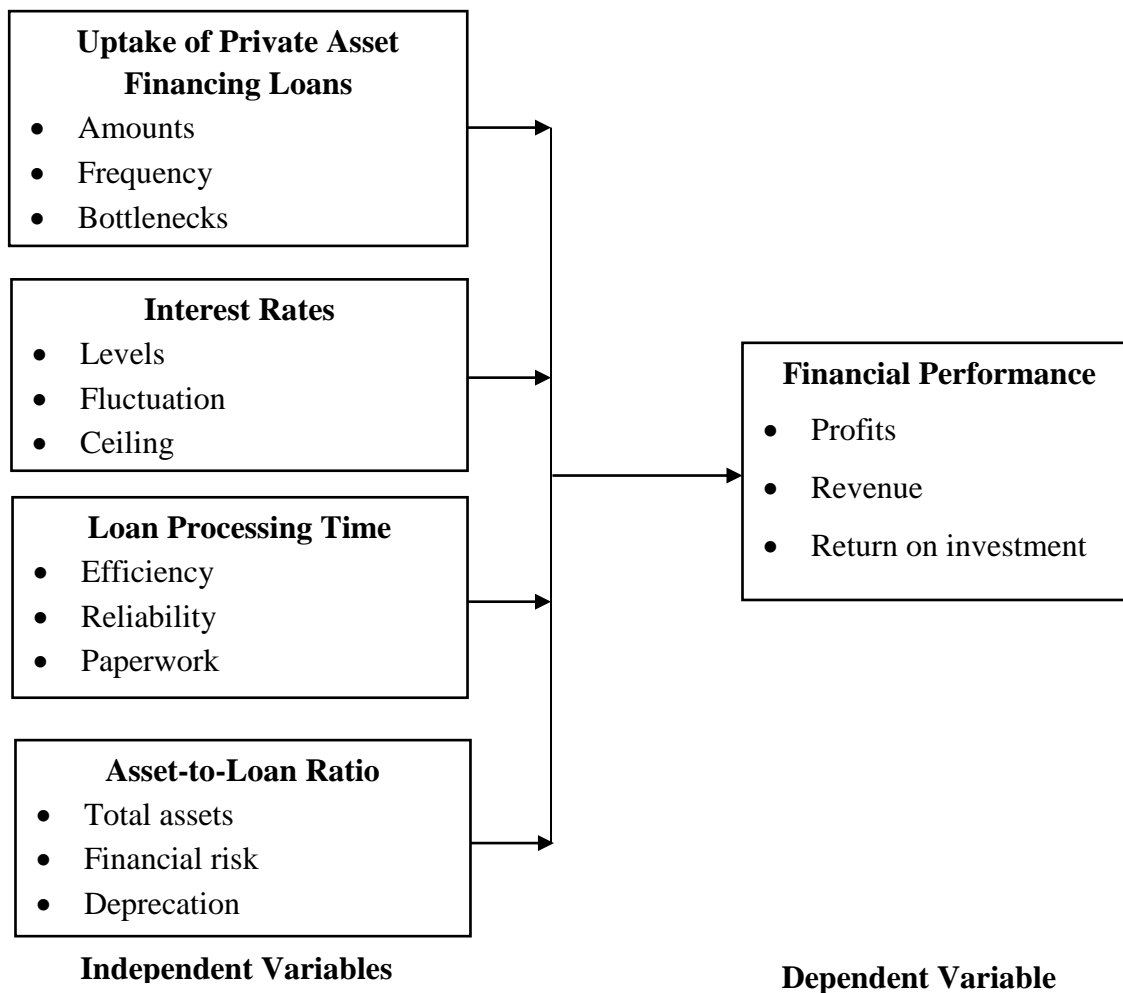
Figure 2.1: Conceptual Framework

2.4 Empirical Review

This section entails a review of past empirical studies in relation to various components of private asset financing loans and financial performance of real estate firms.

2.4.1 Rate of Uptake of Private Asset Financing Loans

A study conducted in Europe by Cappiello, Kadareja, Sorensen and Protopapa (2010) sought to know whether bank loans and credit standards had an effect on output. The study adopted a panel approach for the Euro area. The study presented empirical evidence regarding the existence of a bank lending channel of monetary policy transmission in the Euro area. In contrast to previous findings from the United States, the study revealed that the Euro area changes in respect of supply of credit, both in terms of volumes and credit standards.

A study focusing on the banking systems across Africa conducted by Beck and Cull (2013) examined recent developments including innovations which could enable

Africa to leapfrog more conventional banking models. The study adopted an array of various data to document the fact that African banking systems are shallow albeit stable. The study revealed that banks in Africa are adequately capitalized and over-liquid, however, they are less inclined to lend to the private sector when compared to banks in non-African developing nations.

A study conducted by Owiti (2016) examined the determinants of mortgage uptake in Kenya using the capital markets approach. The study revealed that the uptake of private asset financing loans in Nakuru is on the rise. In tandem, the study concluded that return on stock and savings are inversely related to mortgage uptake in Kenya while interest rate and inflation are significantly related to mortgage uptake in Kenya. It was further indicated that the number of private asset financing loan transactions was higher than previous years.

A study conducted by Lwali (2016) analyzed the relationship between real estate and stock price. According to the findings of the study, private asset financing loan lenders will frequently require you to back up your loan with real assets. The study exemplifies that if an investor is in the know that they can buy a property and turn it quickly at huge profit and cannot get a standard mortgage, it might be one option to go for. The study further indicated that some investors use private asset financing loan to get into the property, do some quick fixes to raise the property value, and then get a new loan (based on the property's new, improved value) from a bank to pay off the private asset financing loan lender. The study findings concurred with conclusions drawn by a study conducted by Mburu and Owiti (2016) that return on stock and savings are inversely related to mortgage uptake in Kenya while interest rate and inflation are significantly related to mortgage uptake in Kenya.

2.4.2 Interest Rates and Financial Performance

A study carried out by Carey (2016) investigated economic factors that affected financial ratios. The study focused on real estate investment trusts (REITs), specifically the case of ISE. The study established that a borrower must be prepared for the interest fee charged on a private asset financing loan prior to taking up that asset. It was also revealed that private asset financing loan lenders charge between 2% and 10% of the principle loan amount, as a loan fee or interest rate. In comparing the foregoing results with Henry's (2015) observations, more often than not, loans,

especially private asset financing loans attract interest rates in the region of 8% to 18%. However, there are several factors that a lender considers before attaching a give rate of interest on a private asset financing loans. For instance, the borrower's credit score, the property and the experience of the borrower. It was further noted that, those used to bank loans that have 1% interest fee or less, this interest fee charged by a private asset financing loan lender can have a little sticker shock. What affects the interest fee charged by the private asset financing loan lender. Most of the time interest fee is set in stone and can't be affected by credit, experience, or characteristics of the property. One more factor that should be given importance would be the time it takes for a private asset financing loan lender to fund the loan.

A study on the case of the metropolitan markets in the United States carried out by Saxton (2015) analyzed office rent processes. The study established that, while conventional lenders may take weeks or months to approve a loan, private asset financing loan lenders can approve the same in a matter of hours or days of the loan application. This is regarded to be a business advantage for a real estate or property developer which, by far, surpasses the cost of the higher interest rate charged on loans applied. Additionally, the study revealed that having cash in hand from the private asset financing loan at the bargaining table could be advantageous for developers as they are closing on development properties.

An empirical study carried out by Muthaura (2012) examined the relationship between interest rates and real estate investment in Kenya. The study was necessitated by the statistics that interest rates in the real estate sector largely fluctuated. The study employed data drawn from 18 mortgage lending banks that offered the mortgage product between 2007 and 2011. The findings of the study indicated that interest rates affected prices of houses. As a result, borrowers and real estate investors alike were obliged to increase house prices in order to address the cost of borrowing and also be able to break even. The study recommended that there should be regulations on interest rates by the Central Bank of Kenya since many commercial banks fleeced borrowers.

A study by Obondy (2013) examined the effect of interest rates on the supply of real estate financing in Nairobi County. The study analyzed secondary data from the financial reports, mortgage reports and management reports from Hass Consult

Limited. A descriptive research method was adopted. It was found that there existed a strong positive relationship between lending rates and the total sales of real estate in the short term. In effect, the interest rates were found to have significant effect on the mortgage sales. In addition, it was established that more people were likely to borrow money when the interest rates were lower since the borrowing cost would be relatively lower.

A study conducted by Ngumi (2014) analyzed the effect of lending interest rates on financial performance of deposit taking microfinance institutions (MFIs) in Kenya. The objective of the study was to examine whether there exists a relationship between lending interest rates and financial performance of the aforestated financial institutions. The study relied on data of nine deposit taking MFIs for the period between 2009 and 2013. The study established that there existed a strong relationship between lending interest rates and financial performance of the aforestated financial entities.

Another study conducted by Kariuki (2015) assessed the relationship between interest rates and profitability of motor vehicle financing in Kenya. The study involved all the 43 commercial banks operating in the country. A descriptive survey research design was adopted. According to the findings of the study, it was confirmed that indeed interest rates and liquidity had varying strengths of relationship with the profitability of motor vehicle financing of the surveyed commercial banks. Moreover, it was established that interest rates positively influenced the profitability of the motor vehicle financing realized by the studied banks. The study led to the recommendation that macroeconomic policies should be handled more appropriately since macroeconomic changes such as interest rates were bound to impact on the profitability of local commercial banks.

2.4.3 Loan Processing Time and Financial Performance

A regional study by Mwangi (2015) analyzed the determinants of stock market development in emerging economies. The study took the case of South Africa. It was established that moving quickly is necessary when finding a great investment property. This is the advantage of using a private asset financing loan lender. In this regard, it is a good move to build rapport with private asset financing loan lenders for

future loans, particularly if you are an active real estate investor. It was also revealed that real estate market moves quickly, and as such, successful developers rely on private asset financing loan for the quick approval process that can set their project in motion.

A local study by Jia (2016) examined the measuring methods of real estate speculative bubble. The study found that private asset financing loan lenders in Kenya offer many advantages to their customers when compared with traditional lending institutions. One of the greatest advantages is the speed at which transactions can be executed. This is in cognizant of the fact that time is of great essence when searching for a loan to re-invest in a business, addressing a temporary financial shortfall, or when the intention is to capitalize on a new opportunity. While concurring with Dymski's (2015) assertion, the study pointed out that with traditional lending institutions sometimes taking months to even start the loan process, it is possible that by the time the loan facility is availed, the targeted opportunity will already be lost. The study also found that, private asset financing loan lenders offer much faster processing. A case in point is closing loans in as little as 7 to 14 days. This is against the backdrop of the fact that processing loan applications requires appraisal report orders, title insurance, and other necessities of the trade, yet the dedicated lending experts are able to streamline this process and ensure that borrowers spend very little time for feedback.

Lwali (2016) did an empirical research study on the relationship between real estate and stock price. The study established that the goal of lenders of private asset financing loan is to have a smooth, efficient lending process that keeps borrowers feeling informed and empowered. The study also found that the only major complication that can arise in processing a private asset financing loan is a lien, judgment, or title issue on the property. In this respect, there is need to either handle pertinent issues before the loan is issued, or handle them during the escrow phase of the loan. In addition, it is observed that private asset financing loan lending is all about flexibility (Lwali, 2016).

Another study by Ngugi (2016) evaluated the factors affecting access to mortgage finance. The study was conducted in Nairobi, the capital of Kenya. According to the results of the study, because the lender is mostly focused on collateral (and less

concerned with the borrower's financial position), private asset financing loan can be closed more quickly than traditional loans. It was further revealed that lenders would rather not take possession of borrowers' property, yet they do not need to spend as much time going through a loan application with a fine-toothed comb verifying borrower's income, reviewing their bank statements, and so on. In the same light, the study revealed that, once a relationship is established between the borrower and the lender, the loan process can move quickly, giving the lender ability to close deals that others are unable to close (that's especially important in hot markets with multiple offers).

2.4.4 Asset-to-Loan Ratio and Financial Performance

A study conducted by Dolde (2014) looked into the prospects and problems of real estates in India. The study describes the asset-to-loan ratio as a financial term that is used by lenders to express the ratio of a loan to the value of an asset purchased. The term is commonly used by banks and building societies to represent the ratio of the first mortgage line as a percentage of the total appraised value of real property. According to the study, the loan amount the private asset financing loan lender is able to lend is determined by the ratio of loan amount divided by the value of property. In addition, the study indicated that, with a private asset financing loan, a borrower can borrow 65% to 75% of the property value. With most private asset financing loan lenders, asset loan ratio is determined through either an appraisal or a broker opinion of value. Moreover, the study indicated that one of the biggest misconceptions about private money lenders is that they charge very high interest rates for making very small loans.

In Singapore, Bardhan and Edelstein (2015) conducted a study titled a tale of two sectors; that is upward mobility and private housing. According to the study, experienced property developers with a successful investment history, assets and a strong credit score give lenders some additional confidence. Moreover, asset loan ratio is one of the key risk factors that lenders assess when qualifying borrowers for a mortgage. The risk of default is always at the forefront of lending decisions and the likelihood of a lender absorbing a loss increases as the amount of equity decreases. Therefore, the study observes, as the asset loan ratio of a loan increases, the qualification guidelines for certain mortgage programs become much stricter. Lenders

can require borrowers of high loan to buy mortgage insurance to protect the lender from the buyer's default, which increases the costs of the mortgage.

A local study by Erbas (2015) examined the effects of global financial crisis on the financial performance of commercial banks offering mortgage financing in Kenya. The study found that private asset financing loan lenders are more concerned with the investment potential of an individual business venture. Furthermore, it was established that, there are many factors that could affect asset loan ratio due to the fact that private asset financing loan lenders comprehensively evaluate the investment potential of a property and the likelihood of a successful outcome. The study advises that there ought to thorough documentation of the construction plan and consultancy with the lender in order to agree on the best possible arrangement. The study noted that, the higher the asset loan ratio, the more risky a bank may be to higher defaults.

2.5 Summary of the Reviewed Literature

There is evidence regarding the existence of a bank lending channel of monetary policy transmission in the Euro area. It is revealed that banks in Africa are adequately capitalized and over-liquid, however, they are less inclined to lend to the private sector. It has been established that the uptake of private asset financing loans in Nakuru is on the rise. Studies have indicated that return on stock and savings are inversely related to mortgage uptake while interest rate and inflation are significantly related to mortgage uptake in Kenya.

The reviewed studies revealed that private asset financing loan lenders charge between 2% and 10% of the principle loan amount, as a loan fee or interest rate. There are several factors that a lender considers before attaching a give rate of interest on a private asset financing loans. Studies have established that, while conventional lenders may take weeks or months to approve a loan, private asset financing loan lenders can approve the same in a matter of hours or days of the loan application. It is indicated that interest rates affected prices of houses. It was established that more people were likely to borrow money when the interest rates were lower since the borrowing cost would be relatively lower. It has locally been established that there existed a strong relationship between lending interest rates and financial performance of the aforestated financial entities. Moreover, it is indicated that interest rates

positively influenced the profitability of the motor vehicle financing realized by the studied banks.

It has been established that moving quickly is necessary when finding a great investment property. It was also revealed that real estate market moves quickly, and as such, successful developers rely on private asset financing loan. One of the greatest advantages of private asset financing is the speed at which transactions can be executed. It was found that the goal of lenders of private asset financing loan is to have a smooth, efficient lending process that keeps you feeling informed and empowered. Moreover, it was found that private asset financing loan can be closed more quickly than traditional loans.

The asset-to-loan ratio has been described as a financial term that is used by lenders to express the ratio of a loan to the value of an asset purchased. With most private asset financing loan lenders, asset loan ratio is determined through either an appraisal or a broker opinion of value. It has been revealed that asset loan ratio is one of the key risk factors that lenders assess when qualifying borrowers for a mortgage. Locally, it has been found that private asset financing loan lenders are more concerned with the investment potential of an individual business venture.

2.6 Research Gaps

Local empirical studies in regard to private asset financing and performance of real estate financing firms have been critiqued and research gaps identified. A study by Owiti (2016) examined the determinants of mortgage uptake in Kenya using the capital markets approach. A study conducted by Lwali (2016) analyzed the relationship between real estate and stock price. These studies, however, did not investigate how uptake of private asset financing loans was related to financial performance.

Muthaura (2012) carried out an empirical study on the relationship between interest rates and real estate investment in Kenya. A study by Obondy (2013) examined the effect of interest rates on the supply of real estate financing in Nairobi County. Moreover, a study conducted by Ngumi (2014) analyzed the effect of lending interest rates on financial performance of deposit taking microfinance institutions. Yet, neither

of these studies analyzed the effect of interest rates on financial performance of real estate investment firms.

A local study conducted by Lwali (2016) established that the goal of lenders of private asset financing loan is to have a smooth, efficient lending process. However, the study did not analyze how loan processing time was linked to financial performance. Another study by Ngugi (2016) evaluated the factors affecting access to mortgage finance. However, this study did not find the link between loan processing time and financial performance. In a study conducted by Erbas (2015) noted that, the higher the asset loan ratio, the more risky a bank may be to higher defaults. Yet, this study did not assess the relationship between asset-to-loan ratio and financing performance. The present study addressed the identified research gaps by examining the effect of various components of private asset financing loans on financial performance of real estate financing firms in Nakuru Town, Kenya.

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

This chapter comprises of the research design, the target and study populations, unit of analysis determined using census design, data collection instrument, pilot testing capturing both validity and reliability tests, data collection procedure, and how data were analyzed and resultant findings presented.

3.2 Research Design

Research design refers to the overall strategy that is chosen to integrate the different components of the study in a coherent and logical way, thereby, ensuring that the researcher effectively address the research problem. The study adopted descriptive research design. Descriptive research determines and reports things the way they are and is intended to produce statistical information about aspects of interest to policy makers and educators (Mugenda & Mugenda, 2003). The choice of this design was supported further by the fact that there was no attempt made to alter the state of affairs in respect of the unit of analysis (Kothari, 2004).

3.3 Target Population

According to Kothari (2004), target population describes the aggregate of entities, subjects or individuals sharing similar or related characteristics. In this respect, the target population comprised of all real estate developers in Kenya. Under the target population, is the study population which is defined as the population that a researcher can access given prevailing logistical and time constraints. As such, the study population constituted all the 80 real estate developers operating in Nakuru town.

3.4 Census Design

Given the fact that the study population was relatively small (N = 80 < 100), all the members of the study population constituted the unit of analysis (Kothari, 2004). This implies that a census design was adopted. This approach, besides being necessitated by the relatively small population (N = 80), it enhanced the generalization of the findings to both the study and target populations. This was due to the fact that there was absolute elimination of both sampling error and sampling bias.

3.5 Research Instrument

A research instrument is described as a tool that enables collection of data from the unit of analysis. By considering several factors, including the number of projected respondents (80), and quantitative approach, the study employed a structured questionnaire to facilitate collection of data (Mugenda & Mugenda, 2003). The questionnaire was structured in that it consisted of close-ended items that facilitated collected of categorical (quantitative data). Items in respect of study constructs, that is, uptake of private asset financing loans, interest rates, loan processing time, asset-to-loan ratio, and financial performance, were on a 5-point Likert scale.

3.6 Pilot Testing

A pilot study is a minor study which normally precedes the actual study and is often intended to determine presence of any weaknesses in the research instrument. The pilot study was conducted amongst randomly selected real estate developers operating in Naivasha town mainly due to the fact that the participants in this minor study were to be excluded from the main study. The respondents in the pilot study were 8, which was 10% of the unit of analysis (Kothari, 2004). The probable weaknesses in the research instrument were determined by testing both the reliability and validity of the stated data collection tool.

3.6.1 Validity Testing

Validity refers to the accuracy and meaningfulness of inferences which are based on the research results (Mugenda & Mugenda, 2003). If such data are true reflection of the variables, then inferences based on such data was accurate and meaningful. To ascertain the validity, the researcher used content validity through supervisor assistance. Content validity of the instrument was ensured through the development of the items with the help of the University supervisors. The resolve for consulting the supervisor was premised on the argument that content validity cannot statistically be determined (Kimberlin & Winterstein, 2008).

3.6.2 Reliability Testing

Reliability measures the degree of accuracy in the measurements an instrument provides (Grinnell, 2015). The researcher further noted that to remove possible errors, each instrument was tested before it was formally administered. To ensure reliability or internal consistency, Cronbach alpha coefficient (α) was used for this study

because it helps to establish and show consistency of the responses from respondents in respect of each of the study constructs. The results of reliability testing are as shown in Table 3.1. As indicated, it is very clear that all the individual study constructs met the reliability threshold since all of them return Cronbach alpha coefficients greater than the recommended threshold of 0.7. Expectedly, the overall reliability of the research instrument was also achieved. Therefore, having met both the validity and reliability, the research questionnaire was considered suitable for use in collection of data from the projected respondents.

Table 3.1: Reliability Test Results

Constructs	No. of Items	Alpha Coefficient
Uptake of private asset financing loans	6	0.790
Interest rates	6	0.831
Loan processing time	6	0.782
Asset-to-loan ratio	5	0.801
Financial performance	9	0.851
Overall reliability		**0.811**

3.7 Data Collection Procedure

The researcher first sought the consent of the University to collect data relevant to the study. This was followed by obtaining the consent of the real estate developers operating in both Nakuru and Naivasha towns where both the actual and pilot studies respectively were projected to be conducted. Questionnaires were administered by the researcher to all the respondents. The respondents in the main study were allowed approximately 5 working days to fill in the questionnaires after which they were duly collected.

3.8 Data Analysis

The collected filled questionnaires were subjected to thorough screening in determine their completeness and appropriateness in respect of how they had been filled. This procedure was intended to address the issue of outliers, which ordinarily compromise the reliability of the results of the study. The statistical Package for Social Sciences (SPSS) Version 24.0 tool was used to facilitate data analyses. Descriptive statistics that included frequencies, percentages, means, and standard deviations were used in the analysis. Moreover, inferential statistics that encapsulated both Pearson's

correlation and multiple regression analyses were used, particularly to enable drawing of inferences pertinent to private asset financing loans and financial performance of real estate investment firms operating in Nakuru town. The following regression model was adopted.

$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$

Where:

Y	=	Financial Performance
β_0	=	Constant
X_1	=	Uptake of Private Asset Financing Loans
X_2	=	Interest Rates
X_3	=	Loan Processing Time
X_4	=	Asset-to-Loan Ratio
ε	=	Error Term
$\beta_1, \beta_2, \beta_3, \beta_4$	=	Regression Coefficients of Predictor Variables

The null hypotheses were tested using the T-statistics and at 0.05 precision level ($p = 0.05$). This meant that any hypothesis that returned p-value less than 0.05 was rejected while any values greater than the indicated p-value led to failure to reject pertinent null hypotheses. The results of the analyses were presented in form of tables.

CHAPTER FOUR
FINDINGS AND DISCUSSIONS

4.1 Introduction

This chapter presents the results of data analysis; both descriptive statistics and inferential statistics. In the first section, the response rate is indicated. The descriptive results in line with study variables are then presented and discussed. The last section outlines the results of inferential analysis and relevant discussions. The last section is in line with the study objectives and the results are juxtaposed against the findings made in previous empirical studies.

4.2 Response Rate

Response rate refers to the number of respondents who successfully filled the research instruments (questionnaires) against the total number of respondents. In survey studies, Nulty (2008 postulates that the response rate is deemed sufficient when it reaches 75%. In the present study, 80 respondents were issued with questionnaires. Seventy-two respondents filled the questionnaires successfully. Therefore, the response rate was found to be 90.0%, which according to Nulty was considered sufficient.

4.3 Demographic Information of Respondents

The study analyzed various demographics about real estate investment firms in Nakuru town. The demographics studied include duration of operation of the surveyed firms, the extent to which the firms extended private asset financing loans, and also the borrowers given preferential treatment in giving of the aforementioned loans.

4.3.1 Operation Duration of Real Estate Investment Firms

The study examined the period which the real estate investment firms in Nakuru town had been in operation. The results of descriptive analysis as shown in Table 4.1 revealed that majority of the firms had been in operation for a period of between 6 to 10 years (38.9%), and more than 10 years (38.9%). Only 5.6% of the firms were found to have been in operation for duration of less than 2 years. According to the illustrated findings, it is absolutely evident that almost all real estate investment firms in Nakuru town have been in operation for a significant duration of time. This was interpreted to mean that the surveyed firms were highly likely to have dispensed many

personal asset financing loans over the years, and as such were at a vantage position to know the extent to which the stated loan facilities influenced their financial performance.

Table 4.1: Firms' Duration of Operation

	Frequency	Percentage
6-10 years	28	38.9
More than 10 years	28	38.9
2-5 years	12	16.7
Less than 2 years	4	5.6
Total	**72**	**100.0**

4.3.2 Private Asset Financing Loans

The study examined the extent to which the real estate investment firms in Nakuru town extended private asset financial loans to borrowers. As shown in Table 4.2, it was found that the stated firms extended these kind of loans to borrowers at least to a moderate extent. It was indeed established that majority of real estate investment companies advanced private asset financing loans to a large extent (72.2%). The findings underscored the fact that the core objective of these entities is to give requisite loans to individual borrowers for purchase of pieces of land, putting up housing infrastructure, renovation of buildings, or generally for mortgage purposes.

Table 4.2: Extending Private Asset Financing Loans to Borrowers

	Frequency	Percentage
Large extent	52	72.2
Moderate extent	20	27.8
Total	**72**	**100.0**

4.3.3 Private Asset Financing Loans' Borrowers

The study further sought to know the constituent of borrowers who the real estate financing firms preferentially extended to private asset financing loans. In tandem with the results indicated in Table 4.3, it was found that the aforestated firms mainly advanced private asset financing loans to not only registered members, but the members who had savings (66.7%). This implies that in order for a borrower to

adequately qualify to be awarded a private asset financing loan, they ought to register with the concerned real estate financing firm and make considerable savings with the entity. The fact that all registered members and all members regardless of their status in reference to the real estate investment firms constituted the least preferred borrowers (5.6% apiece), is a clear justification, that the stated firms considered the seriousness and commitment of borrowers, as manifested in their activeness and savings, prior to considering them for qualification of private asset financing loans.

Table 4.3: Private Asset Financing Loans' Borrowers

	Frequency	Percentage
Members with savings	48	66.7
Active members	16	22.2
Registered members	4	5.6
All members	4	5.6
Total	**72**	**100.0**

4.4 Descriptive Statistics

The study analyzed various descriptives in reference to private asset financing loans and financial performance of real estate investment firms in Nakuru town, Kenya. The descriptive statistics the espoused the views of the respondents (proprietors of the stated firms) included percentages, means, and standard deviations. Various parameters were examined under the following study constructs: uptake of private asset financing loans, interest rate, loan processing time, asset loan ratio, and financial performance. The results to this effect emanated from analysis of data that were on a 5-point Likert scale where integers 1 to 5 represented 'strongly disagree', 'disagree', 'neutral', 'agree', and 'strongly agree' respectively.

4.4.1 Uptake of Private Asset Financing Loans

The study examined various issues regarding uptake of private asset financing loans in respect of real estate investment firms. As shown in Table 4.4, the study found that all the respondents (100.0%) agreed that there was frequent uptake of private asset financing loans. Expectedly, there was a strong general agreement amongst the respondents regarding frequent uptake of the stated loans (mean = 4.50) while the respondents held largely similar opinions regarding this assertion (std dev = 0.505).

Majority of the respondents constituting the unit of analysis were found to admit (88.9%) that macroeconomic factors such as inflation and cost of living affected uptake of private asset financing loans. On average, the respondents were in agreement about this issue and also their views were largely similar (mean = 4.11; std dev = 0.883).

It was further revealed that, according to most of the respondents (88.9%), age was a determining factor in uptake of private asset financing loans. In general, respondents admitted to this argument (mean = 3.83) while holding closely related opinions on the same (std dev = 0.787). In the same vein, respondents were found to largely admit (83.3%) that there were bottlenecks in accessing private asset financing from real estate investment firms. On this issue, respondents were generally in agreement and their views varied insignificantly (mean = 3.83; std dev = 0.906).

The results shown in Table 4.4 further indicated that most of the respondents (61.1%) admitted that customers sought large amounts of private asset financing from real estate investment firms. Averagely, the respondents admitted to this assertion and their views returned minimal variance (mean = 3.72; std dev = 0.940). Moreover, it was established that though majority of the respondents were in agreement (66.7%) that gender influenced uptake of private asset financing loans, a significant proportion of respondents (33.3%) disputed this proposition. On average, respondents were indifferent (mean = 3.33), and their views were conspicuously varying (std dev = 1.259).

Table 4.4: Descriptive Statistics for Uptake of Private Asset Financing Loans

	N	SA	A	N	D	SD	Mean	Std. Dev.
There is frequent uptake of private asset financing loans	72	50.0	50.0	0	0	0	4.50	.505
Macroeconomic factors affect uptake of private asset financing loans	72	33.3	55.6	0	11.1	0	4.11	.883
Age is determining factor in uptake of private asset financing loans	72	16.7	72.2	0	11.1	0	3.94	.787
There are bottlenecks in accessing private asset financing from real estate investment firms	72	16.6	66.7	0	16.7	0	3.83	.906
Customers seek large amounts of private asset financing	72	22.2	38.9	27.8	11.1	0	3.72	.940
Gender influences uptake of private asset financing loans	72	11.1	55.6	0	22.2	11.1	3.33	1.259

4.4.2 Interest Rates

The study analyzed several issues in relation to interest rates charged on private asset financing loans extended by real estate firms in Nakuru town. According to the results shown in Table 4.5, majority of the respondents admitted that interest rates were dependent on the collateral attached to the borrowed funds (72.2%). Though respondents generally agreed with this statement (mean = 3.61), their views varied significantly (std dev = 1.352). Similar results were obtained in respect of interest rates being subject to the amount of loans applied (mean = 3.50; std dev = 1.397).

Yet, the respondents were generally uncertain whether high interest rate were charged on private asset financing loans by real estate investment firms in Nakuru town (mean = 3.22). This is in line with 50.0% of the respondents agreeing with this statement while the rest were either not sure (16.7%) or disputed it (33.3%). Though 38.9% of the respondents agreed that credit history of borrowers determined interest rates charged on loans, majority (61.1%) disagreed. Therefore, there was, on average,

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indifference and varying opinions regarding this statement (mean = 2.72; std dev = 1.571).

The study further observed that, majority of respondents disputed (88.8%) that interest rates charged on private asset financing loans often fluctuated before the advanced loans were repaid in full; and that there was a ceiling on the interest rates charged loans (94.4%). Expectedly, the respondents generally disputed the two assertions (mean < 2.00). Respondents also held close opinions regarding these assertions (std dev < 1.000).

Table 4.5: Descriptive Statistics for Interest Rate

	N	SA	A	N	D	SD	Mean	Std. Dev.
Interest rates are dependent on the collateral attached to the borrowed funds	72	27.8	44.4	0	16.7	11.1	3.61	1.352
Interest rates are subject to the amount of loans applied	72	22.2	50.0	0	11.1	16.7	3.50	1.397
High interest rate is charged on private asset financing loans by real estate investment firms	72	5.6	44.4	16.7	33.3	0	3.22	.984
Credit history of borrowers determines interest rates charged on loans	72	22.2	16.7	0	33.3	27.8	2.72	1.571
Interest rates charged on loan often fluctuate before the advanced loans have been repaid in full	72	5.6	0	5.6	44.4	44.4	1.78	.984
There is a ceiling on the interest rates charged loans	72	5.6	0	0	33.3	61.1	1.56	.965

4.4.3 Loan Processing Time

The study also analyzed several issues pertinent to loan processing time. As indicated in Table 4.6, it was admitted by most of the respondents that there was a lot of paperwork involved before a private asset financing loan is processed (94.4%). On average, respondents were equally in agreement (mean = 4.22) while their views were largely similar (std dev = 0-718). It was further revealed that 94.4% agreed that

private asset financing loans were processed promptly after application. None of the respondents disputed this, as further justified by the general admission and similar views of the respondents (mean = 4.17; std dev = 0.505).

A total of 88.9% respondents agreed that loan processing cycle time was short. Similarly, there was general admission of and close opinions regarding this statement (mean = 4.11; std dev = 0.572). In spite of the fact that 83.3% of the respondents admitted that the time taken to close a private asset financing loan varied with the type of loan, and that the respondents averagely agreed (mean = 4.06), their opinions were found to be significantly diverse (std dev = 1.036). Moreover, the study found that 83.3% respondents agreed that real estate investment firms in Nakuru town were highly reliable in processing loans. Equally, there was general agreement regarding this assertion, and also the respondents' views were largely similar (mean = 4.06; std dev = 0.627). Moreover, the study established that though 33.3% of the respondents were non-committal regarding the argument that loan officers working with real estate investment firms in Nakuru town were highly efficient, there was general agreement (mean = 3.83) and close views regarding the same assertion (std dev =0.694).

Table 4.6: Descriptive Statistics for Processing Time

	N	SA	A	N	D	SD	Mean	Std. Dev.
There is a lot of paperwork involved before a private asset financing loan is processed	72	33.3	61.1	0	5.6	0	4.22	.718
Private asset financing loans are processed promptly after application	72	22.2	72.2	5.6	0	0	4.17	.505
Loan processing cycle time is short	72	22.2	66.7	11.1	0	0	4.11	.572
The time taken to close a private asset financing loan varies with the type of loan	72	38.9	44.4	0	16.7	0	4.06	1.036
Real estate investment firms are highly reliable in processing loans	72	22.2	61.1	16.7	0	0	4.06	.627
Loan officers are highly efficient	72	16.7	50.0	33.3	0	0	3.83	.694

4.4.4 Asset-to-Loan Ratio

In addition, the study analyzed the ratio of assets to loans in respect of real estate investment firms in Nakuru town. The results of pertinent descriptive analysis as shown in Table 4.7 indicated that all the respondents (100.0%) were in agreement that asset-to-loan ratio influenced financial risk in asset financing. In the same perspective, there was general strong agreement (mean = 4.50) and similar opinions regarding the same (std dev = 0.505). It was also indicated that although 16.7% of the respondents disagreed that private asset financing loans extended to borrowers were subject to the assets owned and that the views of the respondents were found to vary significantly (std dev = 1.166), there was a general admission to this assertion (mean = 4.00).

In addition, it was revealed that the respondents were generally non-committal to, and that their views varied significantly in respect of the propositions that real estate investments firms established the total assets of prospective borrowers (mean = 3.17; std dev = 1.023); depreciation factor of assets was considered before advancing loans to borrowers (mean = 2.72; std dev = 1.204); and that value of assets used as collateral determined the interest rate charged on loans (mean = 2.50; std dev = 1.270).

Table 4.7: Descriptive Statistics for Asset-to-Loan Ratio

	N	SA	A	N	D	SD	Mean	Std. Dev.
Asset-loan ratio influences financial risk in asset financing	72	50.0	50.0	0	0	0	4.50	.505
The loan extended to borrowers is subject to the assets owned	72	38.9	44.4	0	11.1	5.6	4.00	1.166
Real estate investments firms establish the total assets of prospective borrowers	72	5.6	44.4	11.1	38.9	0	3.17	1.023
Depreciation factor of assets is considered before advancing loans to borrowers	72	5.6	33.3	0	50.0	11.1	2.72	1.204
Value of asset determines the interest rate charged on loans	72	5.6	27.8	0	44.4	22.2	2.50	1.270

4.4.5 Financial Performance

The study further analyzed the financial performance of real estate investment firms in Nakuru town for the past one year, that is, between 2016 and 2017. The various parameters of financial performance that were analyzed include revenue, profits, mobilized funds, return on investment, return on assets, return on equity, expenses, liquidity and also working capital. The descriptive results to this effect are as shown in Table 4.8.

The study revealed that, on average, respondents strongly admitted, and held largely similar views that revenue (mean = 4.50; std dev = 0.505), and profits (mean = 4.50; std dev = 0.505) had increased in the preceding one year. All the respondents (100.0%) were found to agree with this argument. It was also found that all the respondents (100.0%) admitted that the funds mobilized by the real estate investment firms in Nakuru town had increased between 2016 and 2017. On average, respondents were found to not only agree but also to hold similar opinions regarding this assertion (mean = 4.44; std dev 0.502).

Only 5.6% of the respondents disagreed that return on investment in respect of real estate investment firms had increased over the past one year. On the same perspective, respondents were generally in agreement (mean = 4.39%) and their views were largely similar (std dev = 0.763) that the stated financial performance indicator had increased over the stated period. Over the same period, it was found that all the respondents admitted that return on assets had increased. Similarly, they generally agreed with this assertion and their opinions were largely similar (mean = 4.28; std dev = 0.452). Although, 5.6% of the respondents were indifferent that return on equity had increased between 2016 and 2017, the respondents generally agreed with this proposition, and their views were equally largely similar (mean = 4.22; std dev = 0.538).

Though, majority of the respondents (77.8%) admitted that expenses had increased over the past year, their views varied significantly (std dev = 1.116). It was revealed that 66.7% of the respondents admitted that liquidity had increased over the same period. However, 27.8% of the respondents disputed this assertion. Consequently, there was general indifference regarding this proposition (mean = 3.33) which was

further supported by the significant variation in the views of the respondents regarding the same (std dev = 1.116). In respect of working capital of real estate investment firms in Nakuru town, a total of 50.0% of the respondents disagreed that it had increased between 2016 and 2017. However, a number of firms (44.4%) recorded increment in working capital over the same period of time. In general, the respondents were not sure regarding the increase of the working capital, and their opinions regarding this proposition were found to vary significantly (mean = 2.83; std dev = 1.129).

Table 4.8: Descriptive Statistics for Financial Performance

	N	SA	A	N	D	SD	Mean	Std. Dev.
Revenue	72	50.0	50.0	0	0	0	4.50	.505
Profits	72	50.0	50.0	0	0	0	4.50	.505
Mobilized funds	72	44.4	55.6	0	0	0	4.44	.502
Return on investment	72	50.0	44.4	0	5.6	0	4.39	.763
Return on assets	72	27.8	72.2	0	0	0	4.28	.452
Return on equity	72	27.8	66.7	5.6	0	0	4.22	.538
Expenses	72	16.7	61.1	0	16.7	5.6	3.67	1.116
Liquidity	72	5.6	61.1	0	27.8	0	3.33	1.116
Working capital	72	0	44.4	5.6	38.9	11.1	2.83	1.129

4.5 Inferential Statistics

The study further analyzed the relationship between various parameters under private asset financing loans, and financial performance of real estate firms in Nakuru town. In addition, the study examined the effect of the stated parameters singularly and in combination on financial performance of the aforementioned firms. In this regard, therefore, the results under this section are on Pearson's correlation and regression analyses.

4.5.1 Relationship between Private Asset Financing Loans and Financial Performance

The study evaluated how various indicators of private asset financing loans were related to financial performance of real estate investment firms in Nakuru town. The indicators under study included uptake of private asset financing loans, interest rates, loan processing time, and asset-to-loan ratio. The results of correlation analysis are illustrated in Table 4.9, Table 4.10, Table 4.11, and Table 4.12 respectively.

According to the results shown in Table 4.9, the relationship between uptake of private asset financing loans and financial performance was found to be positive, weak, but statistically not significant ($r = 0.156$; $p > 0.05$). The findings meant that increasing the uptake of private asset financing loans was likely to result in increased performance or real estate investment firms only to a small extent. This slightly differed from past findings by Owiti (2016) which had established an inverse relationship between mortgage uptake and return on stock (component of financial performance) in Kenya.

Table 4.9: Correlation between Uptake of Private Asset Financing Loans and Financial Performance

		Financial Performance
Uptake of Private Asset Financing Loan	Pearson Correlation	.156
	Sig. (2-tailed)	.260
	N	72

The correlation results shown in Table 4.10 indicated that there existed a negative, weak and statistically not significant relationship between interest rates charged on private asset financing loans and financial performance of real estate investment firms ($r = -0.195$; $p > 0.05$). As such, though interest rates hardly led to substantive change in financial performance of the stated firms, its increase was likely to result in a decline in financial performance particularly in the long run. The results mirrored previous findings (Muthaura, 2012) which had indicated that interest rates negated financial performance in real estate investments, such that pertinent firms were obliged to raise house prices in order to break even due to increased interest rates

charged on mortgage financing. The results further departed from previous findings by Ngumi (2014) where it was revealed that there existed a strong relationship between lending interest rates and financial performance. The present study established a weak relationship between these two constructs.

Table 4.10: Correlation between Interest Rate and Financial Performance

		Financial Performance
Interest Rates	Pearson Correlation	-.195
	Sig. (2-tailed)	.159
	N	72

The study further revealed as shown in Table 4.11, that the relationship between loan processing time and financial performance was positive, weak and statistically not significant (r = 0.122; p > 0.05). The results implied that, though increasing time taken to process private asset financing loans was likely to enhance financial performance of real estate investment firms in Nakuru town, the likelihood was largely marginal. The results of this study underpinned previous findings which underscored the essence of time when processing loans (Jia, 2016).

Table 4.11: Correlation between Processing Time and Financial Performance

		Financial Performance
Loan Processing Time	Pearson Correlation	.122
	Sig. (2-tailed)	.380
	N	72

In addition, the study examined the relationship between the ratio of assets to loans and financial performance of real estate investment firms. The aforestated relationship as indicated in the correlation results shown in Table 4.12 was found to be positive, weak and statistically significant (r = 0.328; p < 0.05). Therefore, increasing the ratio of assets to loans was likely to substantially increase the financial performance of real estate investment firms in Nakuru town. The results of this study were found to be in agreement with previous findings that indicated that asset-to-loan ratio was essential in determining interest rates, and since interest rates are related to financial

performance, it was inferred that that aforestated ratio also affected financial performance (Dolde, 2014).

Table 4.12: Correlation between Asset-to-Loan Ratio and Financial Performance

		Financial Performance
Asset-to-Loan Ratio	Pearson Correlation	.328[*]
	Sig. (2-tailed)	.015
	N	72

*. Correlation is significant at the 0.05 level (2-tailed).

4.5.2 Effect of Private Asset Financing Loans on Financial Performance

The study analyzed the effect of various parameters characterizing private asset financing loans on financial performance of real estate investment firms in Nakuru town. Firstly, the relationship between private asset financing loans and financial performance was found to be positive and moderately strong ($R = 0.571$) as shown in Table 4.13. The results of coefficient of determination ($R^2 = 0.326$) presented in the same Table 4.13, indicated that 32.6% of variation in financial performance of real estate investment firms in Nakuru town could be explained by private asset financing loans. The remaining proportion (67.4%) of variation in financial performance could be attributed to other factors that did not constitute the present study.

Table 4.13: Regression Weights for Overall Model

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.571[a]	.326	.271	.20002

a. Predictors: (Constant), Uptake of Private Asset Financing Loan, Interest Rates, Loan Processing Time, Asset-to-Loan Ratio

The study examined the significance of the general regression model indicated below.
$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

The results shown in Table 4.14, indicated that the aforestated model was statistically significant ($F = 5.918$; $p < 0.05$).

Table 4.14: Significant Test Results

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	.947	4	.237	5.918	.001[a]
Residual	1.960	67	.040		
Total	2.907	71			

a. Predictors: (Constant), Uptake of Private Asset Financing Loan, Interest Rates, Loan Processing Time, Asset-to-Loan Ratio

b. Dependent Variable: Financial Performance

After determining the significance of the regression model as shown in Table 4.14, the study examined the effect of predictor (explanatory/independent) variables on the dependent variable. In essence, the objective was to assess the extent to which each of the constructs characterizing private asset financing loans (that is, uptake of private asset financing loans, interest rates, loan processing time, and asset-to-loan ratio) affected financial performance of real estate financing firms in Nakuru town.

As shown in Table 4.15, the results β_n are used to substitute the following regression model.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

$$Y = 3.859 + 0.010 X_1 - 0.195 X_2 - 0.132 X_3 + 0.327 X_4$$

As illustrated by the regression model, in order to increase financial performance by a single unit, the real estate investment firms were required to increase uptake of private asset financing loans, and asset-to-loan ratio by 0.010 unit and 0.327 units respectively, while at the same time reduce interest rates and loan processing time by 0.195 unit and 0.132 unit respectively while holding other factors constant (β_0 = 3.859). The results further indicated that among the four constructs, the ratio of assets to loans was the most important in regard to financial performance of real estate investment firms in Nakuru town.

Table 4.15: Results for Overall Model

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
1 (Constant)	3.859	.386		9.985	.000
Uptake of Private Asset Financing Loan	.010	.077	.019	.136	.892
Interest Rate	-.195	.049	-.577	-3.975	.000
Processing Time	-.132	.102	-.180	-1.298	.201
Asset Loan Ratio	.327	.078	.709	4.174	.000

a. Dependent Variable: Financial Performance

The results of this study are in tandem with a past study conducted by Owiti (2016) that had indicated that there was increased uptake of private asset financing loans in Nakuru. Given that the latter study did not link the stated loans to financial performance, could potentially have been as a result of the marginal effect of the loan uptake on financial performance of the concerned as indicated in the present study ($p > 0.05$).

4.5.3 Testing Null Hypotheses

The null hypotheses were tested at 95% confidence level (p-value = 0.05). This implies that any values that exceeded the indicated level of confidence or was less the indicated p-value, it was interpreted to mean the pertinent relationship was statistically significant, thus leading to rejection of the null hypothesis; while the reverse was equally true. The results of the T-statistics as shown in Table 4.15 were employed to test the null hypotheses.

Testing Null Hypothesis One (H_{01})

H_{01}: There is no statistically significant effect of uptake private asset financing loans on financial performance of real estate investment firms in Nakuru town.

H_a: There is statistically significant effect of uptake private asset financing loans on financial performance of real estate investment firms in Nakuru town.

Results of T-statistics indicated that (t = 0.136; p > 0.05).

This meant that the results were above the rejection threshold of p = 0.05.

Interpretatively, it was revealed that there was no statistically significant effect of uptake private asset financing loans on financial performance of real estate investment firms in Nakuru town.

This meant that the null hypothesis (H_{01}) failed to be rejected, and as such taken to be true.

Testing Null Hypothesis Two (H_{02})

H_{02}: There is no statistically significant effect of interest rates on financial performance of real estate investment firms in Nakuru town.

H_a: There is statistically significant effect of interest rates on financial performance of real estate investment firms in Nakuru town.

Results of T-statistics indicated that (t = -3.975; p < 0.05).

This meant that the results were within the rejection threshold of p = 0.05.

It was thus concluded that there was statistically significant effect of interest rates on financial performance of real estate investment firms in Nakuru town.

Therefore, that the null hypothesis (H_{02}) was rejected, and the alternate hypothesis (H_a) taken to be true.

Testing Null Hypothesis Three (H_{03})

H_{03}: There is no statistically significant effect of loan processing time on financial performance of real estate investment firms in Nakuru town.

H_a: There is statistically significant effect of loan processing time on financial performance of real estate investment firms in Nakuru town.

Results of T-statistics showed that (t = -1.298; p > 0.05).

Therefore, the results exceeded the rejection threshold of p = 0.05.

This led to the inference that there was statistically no significant effect of loan processing time on financial performance of real estate investment firms in Nakuru town.

Therefore, that the null hypothesis (H_{03}) failed to be rejected, and instead was taken to be true.

Testing Null Hypothesis Four (H04)

H04: There is no statistically significant effect of asset-to-loan ratio on financial performance of real estate investment firms in Nakuru town.

Ha: There is statistically significant effect of asset-to-loan ratio on financial performance of real estate investment firms in Nakuru town.

Results of T-statistics indicated that ($t = 4.174$; $p < 0.05$).

This implied that the results were within the rejection threshold of $p = 0.05$.

This led to the deduction that, there was statistically significant effect of asset-to-loan ratio on financial performance of real estate investment firms in Nakuru town.

Therefore, the null hypothesis (H_{04}) was rejected, and the alternate hypothesis (H_a) taken to be true.

CHAPTER FIVE
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The findings that were obtained from analysis of the data collected in respect of private asset financing loans and financial performance of real estate investment firms in Nakuru town are summarized in this chapter. Consequently, conclusions that rhyme with the study objectives are drawn from the summarized findings. The study has then suggested recommendations particularly in respect of policy makers and practitioners in real estate investment. Lastly, the study recommends areas that are worth further researching in line with the conclusions that the present study made from major findings.

5.2 Summary of Findings

The findings have been summarized according to the study constructs, that is, uptake of private asset financing loans, interest rates, loan processing time, asset-to-loan ratio, and financial performance.

5.2.1 Demographic Information

It was evident that almost all real estate investment firms in Nakuru town have been in operation for a significant duration of time. According to the study findings, the core purpose of real estate investment firms was to extend private asset financing loans to qualified borrowers. It was found that real estate investment firms in Nakuru town mostly preferred to extend private asset financing loans to registered members who had savings in those firms, followed by active members.

5.2.2 Uptake of Private Asset Financing Loans and Financial Performance

According to the study findings, it was revealed that there was frequent uptake of private asset financing loans by borrowers from real estate financing firms in Nakuru town. Macroeconomic factors such as inflation and cost of living affected uptake of private asset financing loans. Additionally, age was found to be a determining factor in uptake of private asset financing loans. The study also revealed that there were bottlenecks in accessing private asset financing from real estate investment firms. Large amounts of private asset financing were sought from real estate investment firms. Gender was found to influence uptake of private asset financing loans, though

this argument drew mixed reactions. It was also found that increasing the uptake of private asset financing loans was likely to result in increased performance or real estate investment firms only to a small extent.

5.2.3 Interest Rates and Financial Performance

According to the study findings, it was established that interest rates charged on private asset financing loans were dependent on the collateral attached to the borrowed funds. It was also found that the mentioned interest rates were subject to the amount of loans applied. There were varying opinions regarding high interest rate being charged on private asset financing loans by real estate investment firms in Nakuru town. The interest rates were not pegged on credit history of borrowers. Moreover, interest rates charged on private asset financing loans remained the same during the entire period of servicing the loans. The real estate investment firms were found to have a leeway in the rates of interest charged on private asset financing loans. This implies that the stated firms could arbitrarily decide on the interest rate they could peg on the aforementioned loan facilities. Though interest rates hardly led to substantive change in financial performance of the stated firms, its increase was likely to result in a decline in financial performance particularly in the long run.

5.2.4 Loan Processing Time and Financial Performance

There was a lot of paperwork involved before a private asset financing loan was processed by real estate investment firms in Nakuru town. However, loan processing was effected rather promptly upon application. It was also found that loan processing cycle time was short, which implies that there was reduced waiting time by borrowers after applying loans. In the same perspective, it was revealed that that the time taken to close a private asset financing loan varied with the type of loan applied. It was also established that the stated firms were highly reliable in processing loans. Most of the real estate investment firms had efficient loan officers, however, there were a couple of such firms that had inefficient loan officers. Though increasing time taken to process private asset financing loans was likely to enhance financial performance of real estate investment firms in Nakuru town, the likelihood was largely marginal.

5.2.5 Asset-to-Loan Ratio and Financial Performance

The study established that ratio of assets to loans among real estate investment firms in Nakuru town influenced financial risk in asset financing. In majority of the stated firms, private asset financing loans extended to borrowers were subject to the assets owned by such borrowers. There were diverse views regarding real estate investments firms established the total assets of prospective borrowers, consideration of depreciation factor of assets before advancing loans to borrowers, and the interest rate charged on loans being determined by value of assets used as collateral to secure those loans. Increasing the ratio of assets to loans was likely to substantially increase the financial performance of real estate investment firms in Nakuru town.

5.2.6 Financial Performance

In respect of financial performance over the period between 2016 and 2017, real estate investment firms in Nakuru town were found to have largely recorded increased revenue, mobilized funds in terms of savings, return on investment, return on assets, and return on equity. Other parameters of financial performance that posted increment over same period of time included expenses, and liquidity. However, in respect of working capital, most of the real estate investment firms in Nakuru town recorded a decline between 2016 and 2017. It was also revealed that 32.6% of variation in financial performance of real estate investment firms in Nakuru town could be explained by private asset financing loans. The ratio of assets to loans was established to be the most important in regard to financial performance of the aforestated firms. The first and third null hypotheses were not rejected. However, the results of the study led to the rejection of the second and fourth null hypotheses

5.3 Conclusions

The study made several conclusions from the major findings; both descriptive and inferential. The conclusions tallied with the objectives of the study.

5.3.1 Conclusions on Uptake of Private Asset Financing Loans and Financial Performance

The study concluded that there was regular uptake of private asset financing loans. This was attributed to the fact that the core function of real estate financing firms was to extend credit facilities to borrowers mainly for purchase of land, housing, renovation, and other mortgage purposes. In addition, it was concluded that uptake of

private asset financing loans was affected by several factors including inflation, cost of living, age and gender of borrowers. It was further concluded that there were bottlenecks in accessing these loans. However, increased uptake of these loans was bound to result in improvement financial performance of real estate investment firms in Nakuru town.

5.3.2 Conclusions on Interest Rates and Financial Performance

The study concluded that there were a number of crucial factors that determined the interest rates charged on private asset financing loans. These factors included collateral attached to the loan facility, and amount of loans applied. However, the interest rates were not subject to the credit history of the prospective borrowers. It was also concluded that real estate investment firms arbitrarily decided on the interest rates to charge on private asset financing loans. This was largely due to the fact there was no legal framework that advised or put a ceiling on the interest rates charged on the stated loans. However, the interest rates were concluded to marginally affect financial performance of the aforestated firms.

5.3.3 Conclusions on Loan Processing Time and Financial Performance

In order to access private asset financing loans from real estate investment firms, the study concluded that there was a lot of paperwork that was involved. Though this would have been expected to lengthen the loan application time, it was, however, not the case since the study concluded that there was not only prompt loan processing upon application, but also there was reduced waiting time for borrowers to get the loan after application. The study concluded that the time taken to close the aforestated loans was subject to the type of loan applied. By and large, the study inferred that the loan officers working with real estate investment firms in Nakuru town were efficient. Conclusively, increasing loan processing time was bound to result in a decline in financial performance of the aforementioned companies.

5.3.4 Conclusions on Asset-to-Loan Ratio and Financial Performance

It was concluded that the ratio of assets to loans influenced financial risk of real estate investment firms in Nakuru town. The study found and concluded that private asset financing loans extended depended the assets owned by borrowers. The study concluded that although a number of firms considered total assets owned by borrowers, depreciation of assets used as collateral, and value of the stated assets prior

to extending credit facilities to borrowers, other did not consider these factors. The study also concluded that asset-to-loan ratio significantly affected financial performance of real estate investment firms in Nakuru town.

5.3.5 Conclusions on Financial Performance

The study inferred that real estate investment firms in Nakuru town recorded increased revenue, mobilized funds, return on investment, return on assets, return on equity, and liquidity. However, on the other hand, it was concluded that expenses equally increased in majority of the stated firms. In the same light, most of these firms were concluded to have posted a decline in their working capital. Premised on these factors, the study concluded that real estate investment firms in Nakuru town general posted improved financial performance over the period between 2016 and 2017. In the same light, it was concluded that a substantive proportion of financial performance of the stated firms could be attributed to private asset financing loans, where the ratio of assets to loans was concluded to be the most important factor.

5.4 Recommendations

The study suggested several recommendations in line with the conclusions drawn and the research objectives.

5.4.1 Recommendations on Uptake of Private Asset Financing Loans

The study recommended that all real estate investment firms in Nakuru town and all over Kenya should ensure that there is continuous uptake of private asset financing loans since this is their core function that underscores their very existence. It is recommended that the real estate investment firms should come up with a category of loan facility skewed to women borrowers, in order to encourage them to increase their borrowings. These firms are further advised to remove bottlenecks that have hitherto created barriers to accessibility of private asset financing loans.

5.4.2 Recommendations on Interest Rates

It is recommended that real estate investment firms should put more emphasis on the type, amount and value of collateral used to secure private asset financing loans. Borrowers responding more positively in respect of these factors, should be allowed to access loans at discounted interest rates. This is founded on the reasoning that loan security is paramount in reducing default risk. It is equally advisable for these firms to

continue pegging their interest rates on hitherto credit history of borrowers, by say, requiring all borrowers to submit their most up-to-date credit reports from licensed credit reference bureaus. It is important for relevant authorities to come up with a formula to be followed by real estate investment firms when charging interest on private asset financing loans in order to protect vulnerable borrowers from gluttonous firms.

5.4.3 Recommendations on Loan Processing Time

Imperatively, it is recommended to real estate investment firms to reduce the time take to process private asset financing loans. This should be effected by reducing paperwork without compromising assessment of creditworthiness of prospective borrowers. In this respect, it is recommended that these firms ought to be more innovative by, for example, digitizing the entire loan process. Moreover, in order to ensure there is improved efficiency in processing the stated loans, the firms are advised to computerize their operations and simultaneously reduce the number of loan officers.

5.4.4 Recommendations on Asset-to-Loan Ratio

Given that the private asset financing loans being sought by borrowers are aimed at purchasing assets, it is recommended that the real estate investment firms to minimize their reliance on the assets already owned by the borrowers as one of the major conditions for extending applied loans to them. Instead, the firms ought to hold the assets being purchased in lieu until the time the entire loan plus interest have been repaid. It is also important for real estate investment firms to prioritize assets that hardly depreciate (such as land) to be attached as collateral prior to extending private asset financing loans to qualified borrowers.

5.4.5 Recommendations on Financial Performance

The study recommends that real estate investment firms should maintain the right level of liquidity in order to be in a position of taking advantage of favourable investment opportunities that may present themselves. Being investments firms, it should be ensured that the return on investment is the overriding objective of real estate investment firms. The firms should also ensure they maintain sufficient

working capital in order to address daily and short-term expenditure such as administrative and marketing costs.

5.5 Suggestions for Further Studies

This study is expected to add to the body of knowledge by bringing forth more information in regard of private asset financing loans and financial performance particularly in respect of real estate sector. In addition to this, the study recommends other areas for further research. The study suggests investigation on determinants of uptake of private asset financing loans among real estate investment firms in Kenya. It is also recommended to evaluate the factors that determine interest rates charged on private asset financing loans by real estate investment firms in Kenya. Another theme is on the determinants of loan processing time among real estate investment firms. Lastly, the study recommends a study on the relationship between financial ratios and financial performance of real estate investment

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APPENDICES

APPENDIX I

LETTER OF INTRODUCTION

Dear Respondent,

I am a Master of Science in Finance at Jomo Kenyatta University of Agriculture and Technology. My course requires me to carry out a research study. In tandem with the foregoing, I am presently collecting data for a research study whose title is: ***Effect of Private Asset Financing Loans on Financial Performance of Real Estate Investment Firms in Nakuru Town, Kenya***

In view of the above, I'm kindly requesting you to assist with the data needed for this study by way filling in the questionnaire attached to this letter. The data and/or any information collected will be treated confidentially. You are also requested not to disclose your identity before, during and after this study is carried out.

Thank you in advance.

Yours faithfully,

_____

Benson Wafula Wataka

RESEARCH QUESTIONNAIRE

This questionnaire is purposed to facilitate collection of data in respect of a study titled: Effect of Private Asset Financing Loan on Financial Performance of Real Estate Investment Firms in Nakuru Town, Kenya. Your kind participation will go a long way in providing useful information required to complete this research. The information provided will be treated with utmost confidence. You need not indicate your name nor the name of your organization. Please answer the questions precisely and objectively.

Part One: Demographic Information

1. How long has your firm been in operation?

Less than 2 years   [   ] 2-5 years [   ] 6-10 years [   ] More than 10 years [   ]

2. To what extent does your firm extend private asset financing loans to borrowers?

Never	[ ]
Small extent	[ ]
Moderate extent	[ ]
Large extent	[ ]

3. Who constitute the bulk of borrowers in respect of private asset financing loans?

Registered members	[ ]
New members	[ ]
Old members	[ ]
Active members	[ ]
Members with savings	[ ]
All members	[ ]

Section B: Uptake of Private Asset Financing Loan

Please indicate the extent to which you agree or disagree with the following statements in line with the following scale:

Where (SD = strongly disagree, D = Disagree, N = Neutral, A = Agree, and SA = Strongly Agree)

	SA	A	N	D	SD
4. Customers seek large amounts of private asset financing.					

5. There is frequent uptake of private asset financing loans.					
6. There are bottlenecks in accessing private asset financing from real estate investment firms.					
7. Macroeconomic factors affect uptake of private asset financing loans.					
8. Age is a determining factor in uptake of private asset financing loans.					
9. Gender influences uptake of private asset financing loans.					

Section C: Interest Rate

Please indicate the extent to which you agree or disagree with the following statements in line with the following scale:

Where (SD = strongly disagree, D = Disagree, N = Neutral, A = Agree, and SA = Strongly Agree)

	SA	A	N	D	SD
10. High interest rate is charged on private asset financing loans by real estate investment firms.					
11. Interest rates are subject to the amount of loans applied.					
12. Interest rates charged on loans often fluctuate before the advanced loans have been repaid in full.					
13. There is a ceiling on the interest rates charged on loans.					
14. Interest rates are dependent on the collateral attached to the borrowed funds.					
15. Credit history of borrowers determines interest rates charged on loans.					

Section D: Processing Time

Please indicate the extent to which you agree or disagree with the following statements in line with the following scale:

Where (SD = strongly disagree, D = Disagree, N = Neutral, A = Agree, and SA = Strongly Agree)

	SA	A	N	D	SD
16. Private asset financing loans are processed promptly after application.					

17. Loan officers are highly efficient.					
18. Real estate investment firms are highly reliable in processing loans.					
19. Loan processing cycle time is short.					
20. The time taken to close a private asset financing loan varies with the type of loan.					
21. There is a lot of paperwork involved before a private asset financing loan is processed.					

Section E: Asset Loan Ratio

Please indicate the extent to which you agree or disagree with the following statements in line with the following scale:

Where (SD = strongly disagree, D = Disagree, N = Neutral, A = Agree, and SA = Strongly Agree)

	SA	A	N	D	SD
22. Real estate investments firms establish the total assets of prospective borrowers.					
23. The loan extended to borrowers is subject to the assets owned.					
24. Asset-loan ratio influences financial risk in asset financing.					
25. Depreciation factor of assets is considered before advancing loans to borrowers.					
26. Value of asset determines the interest rate charged on loans.					

Section F: Financial Performance

The following indicators of financial performance in respect of your real estate investment firms have recorded increment in the past one year:

	SA	A	N	D	SD
27. Profits					
28. Revenue					
29. Liquidity					
30. Return on investment.					
31. Mobilized funds.					
32. Expenses					
33. Return on equity					
34. Return on assets					
35. Working capital					

Thank you for your time and cooperation

APPENDIX III
LIST OF REAL ESTATE DEVELOPERS IN NAKURU TOWN

1. Bahama Real estate
2. Bokema
3. Bokema Real estate
4. Bondeni Real estate
5. Bozaak Real estate
6. Bukema Real estate
7. Cross Town Real Estates
8. Damka Real estate
9. Gaki Investors
10. Gakuo Real Estate developers
11. Gakuyo Real estate
12. Gilani Holdings LTD
13. Gold Africa Kenya Ltd
14. Green gates Real estate
15. Green Gates Commercial Agencies
16. Homes Shelter Africa
17. House link Real Agents
18. Hyrax Real estate
19. Jaguar Hi-tech Limited
20. Jamia Real estate
21. Jarik Real estate
22. Jojean Real estate
23. Keicophine East Africa
24. Kiamunyi Flats Real estate
25. Lisa Apartments
26. Mache Real estate