EFFECT OF REAL ESTATE INVESTMENT TRUSTS CHARACTERISTICS ON UPTAKE BY REAL ESTATE DEVELOPERS IN NAIROBI, KENYA

BY

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DECLARATION

I declare that this research project is my original work and has not been previously published or submitted elsewhere for the award of a degree. I also declare that this contains no material written or published by other people except where due reference is made and author acknowledged.

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I dedicate this work to my family and friends who have inspired, supported and encouraged me in the preparation of this research project. You have been my pillar of strength God bless you a lot.

ABSTRACT

Kenyan real estate sector has been vibrant for the past decade with the market having resilience to the competitive international property markets. The real estate industry is one of the main contributors to the country's GDP; however, it faces barriers that limit its expansion, like illiquidity and financial insufficiency. Real Estate Investment Trusts were introduced in Kenya as alternative financial instruments to unlock the value and promote the growth of the real estate sector. The main objective of this study was to determine the effect of Real Estate Investment Trusts (REITs) characteristics on their uptake by real estate developers in Nairobi Kenya. Specifically, the study sought to determine the effect of the regulatory framework on the uptake of REITs by real estate developers in Nairobi Kenya, to establish the effect of the operational structure on the uptake of REITs by real estate developers in Nairobi Kenya and to ascertain the effect of REIT income structure on the uptake of REITs by real estate developers in Nairobi in Kenya. The study population comprised of Real Estate Development firms based in Nairobi and currently registered with the Kenya Property Developers Association. As such a census approach was employed in order to include all the 67 firms with the respondents being the top management officials. The study used primary data which was collected using a questionnaire as the research instrument. Quantitative analysis (descriptive statistics) techniques were used to analyze the collected data. This was analyzed by use of statistical package for social sciences (SPSS) and will be analyzed through the use of descriptive statistics which include frequencies, percentages, standard deviation and arithmetic mean. Also, the qualitative data from the open ended questions was analyzed using content analysis because the focus was on interpretation of the results rather than quantification. The analyzed data was then represented in tables. The study found that when combined, the three characteristics studied, namely, REITs Income Structure, Regulatory Framework and Operational Framework have a positive and significant effect on REITs uptake. The study concluded that REITs Income Structure, Regulatory Framework and Operational Framework have positive and significant effect on the uptake of REITs in Kenya. Individually, regulatory framework, operational framework and income framework had a positive influence on uptake of REITs. This study shows that to enhance the REIT integration and uptake in the real estate sector, it paramount to have an appropriate and functional regulatory framework. Further, having an effective operational framework will lead to improved uptake and overall performance of REITs. The study also recommended that investors establishing REIT firms ought to consider the preference of the target market in reference to income inclinations. The income differences between a Development REIT and an Income REIT affect the uptake of the REITs. Stakeholders seeking to improve REIT integration should collectively consider the three characteristics namely; REITs income structure, regulatory framework and operational framework since they have a positive and significant effect on REITs uptake. Having a befitting legal framework, efficient operational framework matching the income preference of investors to the market will significantly improve uptake of REITs. Further study was recommended on other characteristics affecting REIT uptake not included in this study.

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ACRONYMS AND ABBREVIATIONS

CBK : Central Bank of Kenya

CMA **:** Capital Markets Authority

CFAH : Centre for Affordable Housing Finance

GDP : Gross Domestic Product

KNBS : Kenya National Bureau of Statistics

KPDA **:** Kenya Property Developers Association

NSE : The Nairobi Securities Exchange

REIT : Real Estate Investment Trust

NAREIT : National Association of Real Estate Investment Trusts- Washington.

OPERATIONAL DEFINITION OF TERMS

Economic Development:	This is the growth of various aspects of the economy. It may be assessed using measures such as GDP (Graff, 2001).
Mortgage Financing:	The process by which a person or an entity buys either a home or an immovable property devoid of making the full payment in advance (Kitavi, 2013).
Real Estate Investment Trust (REIT)	This is a Trust arrangement established with the aim of collective investment in real estate projects for the purpose of earning profits, income and capital gains from the real estate portfolio for the benefit of the unit holders (CMA Regulations, 2013).
I- REIT	This is an Income based REIT that primarily targets acquisition of long term investments in real estate for income generation for its beneficiaries (CMA Regulations, 2013)
D-REIT	This refers to a Development and Construction oriented REIT with undertakings mainly in construction and development of real estate projects for profit purposes and it may extend loan or mortgages to end buyers to facilitate acquisition of its projects (CMA Regulations, 2013)
Islamic REIT	This is a REIT that is Sharia compliant and adheres to Sharia Law principles that are applicable in Kenya (CMA Regulations, 2013)
REIT Uptake	This entails the acceptance and integration of the REIT as an investment product into the real estate industry as an alternative financing method of real estate projects (Gumbs, 2010).

Close Ended REIT Fund	This form of REIT is highly liquid and subscribers are at liberty to exit the investment by selling their units in the secondary market (CMA Regulations, 2013)
Open Ended REIT Fund	The investor only exits the scheme through redemption of the REIT units or securities by the Trustee **(**CMA Regulations, 2013)
Restricted REIT	Refers to a REIT offering through a memorandum where the units are only available to professional investors who must meet the minimum subscription of Kshs. 5 million (CMA Regulations, 2013)
Unrestricted REIT	Refers to a REIT offered through an initial public offering (IPO) through a prospectus and is governed by the NSE listing regulations (CMA Regulations, 2013)
Trustee	This is a company, a bank or subsidiary of a bank authorized and licensed by the CMA to hold and manage the REIT assets on behalf of the beneficiaries or unit holders (CMA Regulations, 2013)
REIT Manager	This is a company licensed by CMA to provide management services to a REIT under the control and supervision of the Trustee (CMA Regulations, 2013)
Real Estate	This refers to land and immoveable properties including, all the natural attachments above and beneath the land, developments including residential and commercial premises (Muli, 2013).

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The real estate sector is one of the main drivers of the Kenyan economy and the industry is reported to have contributed 7.4% of the GDP, while the related construction industry contributed 5% of the GDP in the year 2016 (KNBS, 2017). The sector has not optimized its role in economic growth and investors attribute this due to capital inadequacy and illiquidity of the underlying property assets and this has also been echoed by Gumbs (2010) that securing financing for acquisition and development of real estate is difficult. Direct investments in real estate market requires high capitalization, relevant performance measurement and efficiency and this limits the amount of private investors willing to take the risk (Mwithiga, 2010) however, Real Estate Investment Trusts are uniquely structured not only as a source of funding but they are a constant source of income generated by the underlying assets which are managed by professionals for the benefit of the unit holders (Olanrele, 2014).

A REIT is a company that is modeled after mutual funds and it finances, acquires, manages and operates income producing real estate such as residential premises, shopping malls, office complexes, hotels, warehouses and timberlands (CAHF, 2017). REITs provide individual and institutional investors with regular income streams, diversification and long terms capital gains from the underlying assets. A REIT is multi-faceted and it not only mobilizes funds for real estate projects it also generates income from short and long term investments and by facilitating trading of property securities in the stock exchange it creates liquidity and diversification of investments portfolio.

REITs have been in operation globally since 1960 as a source of mobilization funding for the capital intensive real estate sector (CAHF, 2017). In Kenya they were introduced in the year 2013 as an alternative financing instrument structured to raise capital from various average investors (retail and institutional) who jointly through the REIT own and operate various income producing real estate's projects (Kamau 2016). Prior to the introduction of REITs property investors were limited to the debt market for funding however under the REITs dispensation the investors can trade properties in the stock market thus enhancing availability of funds, liquidity and diversification of investment portfolios (Chan 2002). REITs companies capitalize real estate assets by trading company shares in the securities markets (Kroszner& Shiller, 2011) and thus enabling pooling of resources and acquisition of real estate assets that individuals cannot afford (Ong, 2012).Existing study (Sada 2016) shows that in Kenya there is a strong demand and a cultural bias towards property investments and the introduction of REITs will facilitate the mobilization and allocation of resources to develop various types of real estate since the demand is strong.

REITs were pioneered in the United States of America (USA) in 1960 in response to problems in the property market whereby banks had large portfolios of properties from defaulting mortgages and offloading them to the traditional property investors market was not easy and thus REITs were conceived with the aim of attracting a large pool of average investors to collectively raise capital (CAHF, 2017). As an incentive the USA regulators introduced preferential tax treatment for REITs (Han Chan, Ericsson & Wang, 2003). This tax treatment has characterized many REITs structures in many jurisdictions where corporate tax, income tax and capital gains tax are remotely levied or exempted altogether rendering REITs more competitive and attractive to investors. Since then the popularity of REITs increased immensely especially during the 1980s

(Imperiale, 2006) and to-date REITs in developed countries have advanced and they provide a steady fixed income and an alternative to fixed deposit investments and also a source of funding for development of real estate (Graff, 2001).

In Europe, REITs were first introduced in Netherlands and France, followed by the UK and Germany in 2007 and the sector contributes for just 21.8% of the global REITs market capitalization indicating potential for growth (Mazurczak, 2011). On the other hand, the development of REITs in Africa is not wide-spread, however South Africa has the highest listed REITs in Africa (Ayemoba, 2017) and also the most developed REITs market where REIT market capitalization is 6.85%, compared to that of USA at 5.92% and UK at 2.52% while Kenya is at 0.06% (Cyntonn, 2017). In Kenya, REITs are governed by the Capital Markets (Real Estate Investment Trusts) (Collective Investment Schemes) Regulations, 2013 and this legislation enabled Kenya to join its peers in Africa including Ghana, Nigeria, South Africa and Tanzania that have progressive REITs (CAHF, 2017) by listing the first income REIT at the Nairobi Securities Exchange in 2016 by Stanlib dubbed as the 'Fahari-I-REIT'. Fusion Capital's endeavor to register a DREIT to raise Kshs. 2.3 billion failed to take off after missing the minimum subscription requirements and only managed 38% subscriptions raising a paltry of Kshs.873 million Cyntonn (2017).

While the introduction of REITs was meant to enhance financial inclusion by providing various investors the opportunity to invest in large-scale real estate projects and also pool funds their uptake has been dismal hence the need for this study to establish the effect of REITs characteristics on the their uptake by real estate developers since their introduction in the country in the year 2013.

1.1.1 Real Estate Sector in Kenya

According to Sada, (2016) in Kenya there is a strong demand and a cultural bias towards property as an investment option and thus real estate rank highly as the investment of choice. The sector is currently the 5th highest contributor to the country's GDP with a growth rate of approximately 5.0% per year (Economic Outlook, 2016). The high growth rate may be attributed to improved infrastructural developments initiated by the government and the increased demand for real estate triggered by population growth. This increase in growth makes its contribution as much as or even more so than the traditional dominant sectors such as agriculture by generating returns of 25% per annum (Kamau, 2016).

Investing in real estate market entails the purchase, ownership, management, rental or sale of real estate with intentions of getting returns. Every government is keen to meet the demand of affordable housing however, investing in real estate market requires high capitalization, relevant performance measurement and efficiency and this limits the amount of private investors willing to part take the risk (Mwithiga, 2010). Most developers opt for funding from financial institutions and according to CBK (2016), market volatility and inflations have negative impacts in the mortgage market leading to an increase in non-performing loans (NPLs) and also mortgage facilities are accessible to only a minority hence the solution is to create alternative forms of indirect real estate investments, among which Real Estate Investment funds or trust play crucial role (Mazurczak, 2011).

1.1.2 Real Estate Investment Trusts Characteristics

A REIT refers to an investment vehicle that owns and operates a portfolio of income producing residential or commercial real estate developments which include detached houses, apartments, shopping malls, office complexes, industrial premises amongst others (Kamau, 2016). A REIT is multifaceted and it is not just an investment vehicle for investors who yearn for constant income it is also a financial instrument that enables developers to source for funding for real estate developments. REITs as investment vehicles mobilize resources to finance real estate development which are capital intensive (Chan 2015) and in this regard, REITs have risen in popularity and they are a successful investment tool in most developed states such as the United States and Australia (Hamzah and Rozali, 2010).Globally, their importance has been established to mitigate macro-economic factors such as inflation rates, interest rates as well as exchange rates (Ogedengbe and Adesopo 2003). Property investments are generally illiquid compared to other classes of assets, however, REITs achieve liquidity through the trading platform at the stock market (Gumbs, 2010; Kamau, 2016, Sada, 2016) and this endears REITs to investors as it makes property investments channeled through the REIT very competitive.

A REIT firm must operate within a defined legal framework and adhere to the regulatory framework for the investors to enjoy the benefits and status of a REIT which are not available to other the traditional property companies (CMA, 2013). Globally, real estate investments trusts are generally classified into two; namely the Equity REITS and Mortgage REITs (CFAH, 2017). The Equity REITs invest in and own properties and their revenue is linked to the rental yield. On the other hand the Mortgage REITs deal in investment and ownership of property mortgages and their revenue is primarily linked to the interest they earn on the mortgage loans (Yong, 2009). In Kenya however REITs are classified in terms of activity whether they are development and construction (Development REIT) type or income or rental oriented (Income REIT) and also the Sharia compliant one known as Islamic REIT.

For a company to qualify to be classified as REIT, it must fulfill four main aspects. The legal structure must comply with the regulatory framework where it must be organized as a business trust with the REIT owning a majority of the total asset value. On the core activity, the income should be obtained from real estate or investments related to real estate. On the income distribution, majority of the revenue (at least, 75%) on an annual basis must be equally distributed to shareholders also known as unit holders. In addition, the REIT's ownership by various investors as a collective investment vehicle must meet the minimum subscription numbers prior to licensing approval.

REITs are restricted from venturing outside real estate producing income and they achieve liquidity and transparency through regulation and listing in the stock market in many jurisdictions (Chan 2015). Income distribution is regulated and it must be paid to unit holders on annual basis ranging from 75% to 100%. REITs also enjoy preferential tax treatment and various jurisdictions have tax incentives that are relevant to their economy exempting capital gains tax, income and corporate tax (Chan 2015). The Capital Market Authority regulations(2013) requires that a REIT must be set up through a Trustee Deed which appoints the Trustee with the overall responsibility to administer and operate the REIT assets and who in turn appoints other professionals to work with including the REIT manager who must also be approved and licensed by the regulatory authority.

There are three types of RIETs that can operate in Kenya namely the income REITs, development REITs and Islamic REITs although Islamic REITs are not developed. Under income REITs, over 70% of income earning is generated from rental income, license fees, usage and access rights. All the assets are held in the name of and under the control of trustee for the benefit of unit holders. A Trustee (must either be a bank or a subsidiary) with demonstrated financial and technical capacity and must independently have an issued and paid up capital reserves of at least Ksh.100 million (CMA, 2013). The REIT manager is appointed by the Trustee for the day to day operations and they are assisted by a valuer and a property manager. 80% of net income should be distributed to unit holders; however capital gains can be reinvested. Cash deposits, bonds and money market instruments should not be more than 5% of the total assets value except for government securities and fixed deposits placed with a licensed commercial bank and various taxes are exempted like the Stamp Duty on the transfer value of property; capital gains and income tax are presently not applicable to REIT properties **(**CMA, 2013).

Development REITs are required to invest atleast 30% of total assets value in development and construction projects or incoming producing developments. Any external borrowing is limited and should not exceed 60% of total assets, however with consent of REIT security holders it can borrow up to a maximum of 75% for a period of six months. They also extend retail Mortgage loans to enable end buyers acquire the projects offering. Details of REIT characteristics in Kenya are presented in Appendices IV, V and VI.

1.1.3 Structure of REITs in Kenya

In setting up a REIT, the promoter is required to establish a Trust through a Trust Deed which is the document that outlines the objective of the REIT and it also governs the relationship between the investors and the REIT as well as the relationship between the Trustee, the investors and the REIT. The REIT structure as envisaged by the CMA (2013) regulations can either take the form of a D-REIT, an I-REIT and/or an Islamic REIT.

An I-REIT is an Income based REIT that primarily targets acquisition of long term investments in real estate for income generation and the initial minimum assets should be atleast Kenya Shillings three hundred million . On the other hand a D-REIT is a Development and Construction oriented REIT with undertakings mainly in construction and development of real estate projects and it is the only form of REIT that is allowed to extend secured loans or mortgages to end buyers to facilitate acquisition of its projects. To qualify for registration it must have an initial net assets of Kenya shillings one hundred million. Lastly an Islamic REIT must be Sharia compliant and adhere to Sharia principles that are applicable in Kenya.

The promoter must determine the method of investor mobilization either through a private or public offering in order to raise the minimum subscription requirements. The public offer is known as an Unrestricted Offer and it is open to all investors' participation through an initial public offering (CMA, 2013).The Stanlib Fahari IREIT was an unrestricted offer and it was open to all investors. On the other hand a Restricted Offer is not open to the public, however it is inform of a private placement where only professional investors are invited through a Memorandum Offering and currently, the CMA (2013) regulations require that each professional investor must raise a minimum of Kshs. 5 million to participate. The day to day operations of a REIT are managed by skilled professionals including a Trustee and a Manager who are accountable to and owe a fiduciary duty to the unit holders. Currently, only the Fahari I-REIT is traded at the Nairobi Securities Exchange. The real estate development is prone to limitations which may hinder its progression such as finances and illiquidity however the REIT market comes in handy as an alternative financing vehicle for the supply of real estate properties.

Capital is the lifeblood of any development concern and access to funds is critical and REITS are touted to bridge this need and since REITs operations cut across the property and stock markets an understanding of both markets is paramount and this has been echoed by Gumbs (2010) who posits that REIT structure are an effective facilitator of real estate development by addressing the issue of capital crunch, illiquidity and diversification of investments however he cautions that skilled management is vital to exploiting its inherent potential and optimize the REIT as an investment vehicle.

1.2 Statement of the Problem

The acquisition and development of real estate ventures is capital intensive and most property developers encounter capital insufficiency as they heavily rely on the debt market for projects finance. The cost of accessing funding negatively affects the turnaround time for the projects and it is against this background that REITs were introduced to bridge the financing gap (Ayemoba, 2017) however since their introduction by the government through the Capital Market Authority in 2013, their uptake has been dismal. Currently there is only one licensed REIT, known as the Stanlib Fahari I-REIT and the attempt to launch a second REIT, a D-REIT failed to get the minimum subscriptions and investor requirements (Cyntonn, 2017) hence demonstrating that the introduction of REITs has not been successful as expected.

The Stanlib Fahari I-REIT has taken advantage of REITs as an investment vehicle and an instrument for mobilizing funds not only for funding their real estate projects but also at a relatively better cost than the traditional mortgage lenders. REITs also offers other benefits to investors because they are multifaceted investment instruments and other than funding property developers and providing regular income to investors they offer liquidity and diversification of investments hence greater competitive advantage for real estate developers. Further, because the REITs units are traded in the stock market they enhance liquidity and diversification of investments across the property matrix since REITs can invest in any type of income producing real estate ranging from residential, commercial, industrial premises as well as agricultural and timberland concerns (CAHF 2017). REITs differ from traditional property companies that invest directly in property in that they enjoy special tax treatment (Chan 2003) like corporate tax, income tax and stamp duty tax on transfer of property. The investors must be paid at least 75% to 100% dividends on an annual basis and this endears REITs as a good investment option. Despite this attributes, there seems to be hindrances of integrating REITs into the real estate market translating into a very low demand. Despite the fact that Fusion Capital launch of a D-REIT failed while the Stanlib Fahari I-REIT, is still in its nascent phase, the performance of REITs based on the two companies is deemed as wanting (Cyntonn 2017). This shows that there exist certain factors which undermine the uptake of REITs in Kenya as a form of investment and also as a source of real estate funding and currently these factors are not well established by the available literature in the industry.

The studies conducted have not also been fully conclusive on the effect of REIT characteristics affecting REITs uptake by developers in Kenya. Ong, (2002) conducted a study on the investment performance of conventional and Islamic Real Estate Investment Trusts listed in Malaysia and established that they were underperforming. This relates to Konagai (2009) who did a research on Japan-REIT performance and found out that REITs in Japan were not yet recognized. Kamau, (2016) on the other hand investigated the various challenges and prospects of REITs financing of real estate sector in Kenya and the study established that REITs have not yet taken root in the Country. Waithaka, (2013) conducted a study on the mortgage market in Kenya and determined there was a hindrance for middle class income earners to access mortgage loans. This concurs with Loyford and Moronge, (2014) who investigated the effects of economic factors on performance of real estate in Kenya and established the same.

This shows that although numerous studies regarding REITs as well as their performance have been carried out, many of these researches conducted were based on other variables and not the specific REITs characteristics. There is scarcity of studies conducted locally as the concept is still new as most studies are conducted in the developed countries. REITs have the potential of redefining the real estate market and as such the characteristics influencing their uptake by the target market: the real estate developers have to be identified and corrective measures put in place so as to optimize developments and growth in the real estate sector. In this regard, this study intends to bridge and fill in the research gap and answer the research question; what is the effect of REITs characteristic‘s on their uptake by real estate developers in Kenya?

1.3 Research Objectives

The main objective of the study was to determine the effect of Real Estate Investment Trusts characteristics on their uptake by real estate developers in Kenya. The study was guided by the following specific objectives;

i) To determine the effect of the regulatory framework on the uptake of Real Estate Investment Trusts by real estate developers in Nairobi, Kenya.

ii) To establish the effect of the operational structure on the uptake of Real Estate Investment Trusts by real estate developers in Nairobi, Kenya.

iii) To establish the effect of income structure on the uptake of Real Estate Investment Trusts by real estate developers in Nairobi Kenya.

1.4 Research Questions

The study aim was to address the following research questions;

i) What is the effect of the regulatory framework on the uptake of Real Estate Investment Trusts by property developers in Nairobi, Kenya?

ii) What is the effect of the operational structure on the uptake of Real Estate Investment Trusts by property developers in Nairobi Kenya?

iii) What is the effect of the income structure on the uptake of Real Estate Investment Trusts by property developers in Nairobi Kenya?

1.5 Justification of the Study

REITs have proven to be not only popular but also successful investment vehicle in most developed countries such as United States, however in Kenya they are yet to be optimized as investment instruments for real estate funding. This study aims at investigating more into this concept and by doing so it will be of importance to various sectors and individuals.

To Real Estate Development Firms, the findings of the study will enable them to be aware of the REITs characteristics that hinder growth and integration in the industry. This will enable them to align their business strategies in tandem with the positive factors while mitigating the negative ones. This understanding will also help the REIT managers to anticipate any problems that are likely to arise and how to counter them so as to ensure they thrive. This will increase their acceptance towards the REITs as an alternative source of finance other than the traditional financing channels which might be less accessible and reliable.

To the government and policy makers, the study will provide useful data concerning REITs as financing and investment tools in the Kenyan real estate market. This will help them to formulate appropriate policies and programs that will facilitate the growth and uptake of the REITs. These initiatives will provide a more conducive environment through which the REITs are set up. To regulators, the findings of the study will enable them to enforce favorable regulatory laws.

The study's findings will increase the knowledge on REITs uptake in Kenya and help to fulfill the gaps that exist by providing empirical evidence. As such academicians will be able to understand what characteristics pre-determine whether a particular REIT will succeed or fail. The study will thus bring about a theoretical discussion on the characteristics affecting REITs uptake and in this regard provide useful data for comparative studies to be undertaken in the similar topic and build on the findings.

1.6 Scope of the Study

The research was based in Nairobi and particularly, the study population comprised of the Real Estate development firms involved in acquisition and development of real estate projects. The study examined how various characteristics of REITs influence their uptake in Kenya by the target market of property developers. The study determined which REITs characteristics affect their uptakes per respondents' knowledge at the time of data collection. However, data was collected at one point in time although the respondents was required to reference their responses to the period of involvement and/or participation in the real estate sector.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews the existing theoretical and empirical literature on the uptake of Real Estate Investment Trusts in Kenya. The chapter reviews the different theories relating to the study, discussing their proposition and implication to the research variables. It also reviews the empirical literature with emphasis on the objective of the study, methodology and the results. The chapter finalizes by giving the conceptual framework and Operationalization of variables

2.2 Theoretical Review

The study was guided by the following theories; trade off theory, theory of financial access and capital asset pricing model. Whereas the theories have not answered the research questions, they are important in providing the guideline on the expected factors affecting investments and the development of REIT market in Kenya.

2.2.1 Trade off Theory

The Tradeoff Theory was initially proposed by Kraus and Litzenberger (1973), who considered a balance between the dead-weight costs of bankruptcy and the tax saving benefits of debt. The theory holds that a company chooses how much debt finance and how much equity finance to use by balancing the costs and benefits. Hence profitable firms will have high gearing ratios. Otherwise, firms with risky and intangible assets will rely on equity financing hence low debt to equity proportion (Raviv and Harris, 1990).

The theory makes the assumption that organizations yearn to maximize their operations by opting to choose the financial source that brings the most benefit to their organization. The theory's proposition to the study is that REITs may be used an alternative financing means to the real estates and thus their uptake must be embraced. This is in line with Murray and Vidhan (2005) who conducted an empirical review on Trade-off Theory and enumerated its advantages such as providing alternative leverage plans. An important purpose of the theory is to explain the fact that corporations usually are financed partly with debt and partly with Equity due to inherent advantages. Real estate investments have both barriers to entry and exit due to their capital intensive requirements and the illiquidity of the underlying assets once acquired. Although the theory, particularly leans towards the advantage of financing with debt there are certain inherent limitations of access to Mortgage financing in funding real estate projects (Capozza & Seguin 2001). This is evidenced by the studies conducted by various researchers; Brent, Kelly, Taliefero and Price, (2011) examined the determinants of mortgage delinquency in the US from 2004 to 2009. During this period; there was a sharp rise in delinquency level by borrowers. From their research, they found out that economic health of a country, income of the borrower, the type of loan and interest rate fluctuations are among the critical factors that determine mortgage delinquency risks. This is an implication that fluctuating interest is a hindrance for middle class income earners to access mortgage loans due to rising speculative prices creating a bullish mortgage Market and hence REITs will act as a tool to tame this and bridge this gap and offer a reprieve to developers and individual buyers who can obtain cheaper funds for projects funding through the REITs market.

2.2.2 Theory of Financial Access

The Theory of financial access was proposed by Mc Kinnon (1973) and used in explaining various financial disciplines. The theory holds that an inclusive financial sector that provides 'access' to credit for all 'bankable' people and firms, to insurance for all insurable people and firms, to savings and payment services for everyone (United Nations, 2006). Financial access barriers are grouped into four main categories; physical barriers, lack of documentation barriers, affordability barriers and lack of appropriate products and services (World Bank 2008).

The theory holds that insufficient financing stagnates most developments in the country, the real estate sector inclusive. This mostly affects those sectors that require large financial capitalizations so as to operate. The theory's proposition to the study is that financial initiatives such as REITs will enhance financing sufficiency in the country and boost its economic progress. The theory therefore sensitizes the crucial role played by the REITs as a source of funding for the capital intensive real estate sector and proposes various measures in which their uptake may be enhanced.

2.2.3 Capital Asset Pricing Model

Capital Asset Pricing Model (CAPM) is a development from the original Modern Portfolio Theory which was proposed by Markowitz framework. The theory was formulated by Sharpe (1964), Lintner (1965) and Mossin (1966) simultaneously. This model is used to determine a theoretically appropriate required rate of return of an asset, and thus its price, if firms can estimate the expected cash flows from the asset. CAPM describes the relationship between risk and expected return that is used in the pricing of risky securities. This model makes the assumption that investors use the logic of Markowitz in forming portfolios.

But empirical evidence from literature suggests a deviation of the model from its formal theory. It has been observed that the stock return distribution is time variant in nature and hence, the subjective expectation of moment differ from one period to another. This implies that the investor expectations of moments behave like random variables rather than constant as assumed in the traditional CAPM for stock returns. They therefore include the listed REIT are theorized to provide better performance to the Real Estate Markets. The importance of the theory is that it helps in pointing out how REITs may be used by the Real Estate developers in avoiding risks brought about by financial constraints.

2.3 Empirical Review

REIT as an investment tool creates flow of funds between investors and real estate developers which act to enhance the property sector of the country (Ong, 2011). The concept is however a new phenomenon with only one REIT firm being available in the market. As such numerous studies have been conducted on the viability of Real Estate Investment Trusts in various economies. These studies are aimed at establishing what exactly determines whether a REIT will be well integrated and accepted in the market as a competitive investment option?

2.3.1 Regulatory Framework and Uptake of Real Estate Investments Trusts

The government has a mandate to enact enabling laws and policies regarding various aspects of the economy and business operations. The Capital Markets Authority (Real Estate Investments Trusts) (Collective Investments Scheme Regulations) 2013 provides the legal and operational framework for REITs in Kenya.

Laws and regulations can either be an incentive or a disincentive in enhancing performance of REITs and since REITs cut across both the property and the stock market, the prevailing laws can influence the level of integration of REITs into the Market. To establish the impact that government legislature has on REITs, Meng *et al*., (2015) isolated the performance of REITs in the United States during its infantile stage. He noted that United State is the oldest and the most experienced country to operate REITs in the world following an edict by the then President Dwight D. Eisenhower signing into law the REIT Act in 1960 contained in the Cigar Excise Tax

Extension of 1960. But, after ten years of the Act there were only 10 REITs in the whole of United States. After a germination period, REITs market began to fall into bubble crisis in 1970s and early 1980s. The main reason attributed to this was that the entire stock and investment market had plunged into chaos because of the big inflation in 1970s (Meng *et al*., 2015). Naturally, the REITs inevitably sank into despair. After the miserable period of bubble and low tide in the 70s and early 80s, the Tax Reform Act of 1986 became a turning point for recovery of American REITs. This Act lowered the entry criteria of real estate investment trusts and also allowed direct management by the owners and from that time, REITs could not only own real estate but also could manage real estate under certain conditions. Since then, many jurisdictions have adopted this model and in view of this it is evident that the regulatory framework can affect REITs performance either negatively or positively and the laws must be aligned to benefit REITs. Newell, Ting and Acheampong (2002) examined for the period March 1991 to March 2000 the performance of four listed property trusts in Malaysia, namely Maybank Property Trust Fund One, AmanahHarta Tanah PNB, First Malaysia Property Trust and Arab Malaysian First Property Trust. The findings indicated that the uptake of the REITs was relatively low due to the existing policies and regulations indicating low penetration levels and this study will aim at addressing this.

In a study conducted by Shrestha, (2011) on the Nepal Commercial Banks sectors it was established that Nepal Commercial Banks financed 60.9% of the total real estate properties. Growth in real estate market was due to lack of substitute investment opportunity in Nepal and citizens had a speculative mind of future increase in value of their property. This triggered an increase in demand for land leading to inelastic supply pattern. The investments in Nepal were entirely by the government, hence the regulatory framework constitute a great factor on the uptake of REITs. Similarly, Sada, (2016) conducted a study on the development of Real Estate Investment Trusts (REITs) in Kenya. The research was conducted during the months of May through to July 2016 through the use of questionnaires distributed to the subject population, while the analysis of both the quantitative and qualitative data was done using the SPSS data analysis software. The findings showed that there is a high level of justification for the introduction of REITs in the Kenyan market due to the massive array of benefits associated with investing in them. The study however was not able to establish the factors which will facilitate the growth of REITs in Kenya such as appropriate legislation. The hypothesis for the study will therefore be that;

$H0_1$: *There is no significant influence between Regulatory Framework and the uptake of REITs in Kenya.*

2.3.2 Operational Structure and Uptake of REITs

The CMA regulations (2013) provide the organizational and operational framework of all REITs registered in Kenya. unlike other regimes where REITs are constituted as companies, in Kenya REITs are registered as Trusts corporation through a Trust Deed which is the document that outlines the objective and category of the REIT and it also defines the relationship between the investors, the Trustee and the REIT.

Globally, REITs management can either be internally or externally managed and this issue of management has been the bane of several studies each seeking to establish the best suited model Ambrose and Lineman (2015) noted that REITs were to be passive investment vehicles however traditional property developers struggled with losing direct control over their investments once they converted to REITs formats and this created dismal performance in the US REITs market in the 1960 to 1980 period. The finding had also been echoed by Meng *et al* (2015). Conflicts between advisors, managers and the REIT owners was also another stumbling block and it was not until the REITs were allowed to self manage through the Tax Reform Act of 1986 that performance improved, in view of this, the option to internally manage and operate a REIT according to Capozza and Seguin (2000) strengthened REITs performance in the United States with shareholders having greater participation on the decision making. In Kenya, the organizational structure is through external management where the REIT is managed by a Trustee and other professional managers. Real Estate assets require active management to acquire, lease, operate and maintain and thus having a competent manager is prerequisite. However, the apparent inefficiencies of external management and conflicts of interest if not addressed can affect the performance of a REIT (Ambrose and Linneman 2001). Cappozza and Seguin (2000) concurs with the findings of Ambrose and Linneman and states that externally managed REITs consistently underperformed internally managed REITs due to high financing expenses and other moral hazards like conflicts of interests. These findings call for proper corporate governance structures if the externally managed REITs are to remain competitive and profitable and in Kenya the strict regulations on appointment, disqualification and duty of care by all professionals managing REITs is targeted to achieve it.

The promoter of a REIT must outline the method of investor mobilization either through a private or public offering in order to raise the minimum subscription requirements. The public offer is known as an Unrestricted Offer and it is open to the public participation through an initial public offering (CMA Regulation 2013).The Stanlib Fahari IREIT was an unrestricted offer and it was open for participation by all investors (both individual and institutional investors). On the other hand a Restricted Offer is not open to the public, however it is a private placement where only professional investors are invited through a Memorandum Offering and currently, the CMA Regulations (2013) require that each professional investor must raise a minimum of Kshs. 5 million to participate. Currently, only the Fahari I-REIT is traded at the Nairobi Securities Exchange. Chan *et al*., (2003) notes that investments in REITs cut across both the property and the stock market and REITs investors need to understand the operations of both markets to make sound investments decisions and he notes that the price of a stock can vary every minute however that of an underlying property does not and smart investors should move between the two markets to arbitrage the profits. Before the creation of REITs investors would only purchase property from the property markets however the introduction of REITs as trade-able securities has enabled property to be traded like other stocks and also for average investors to participate in large scale commercial real estate ventures which would be impossible to undertake as individuals investors.

A REIT must primarily invest in income producing real estate products through an I-REIT, D-REIT or the Islamic REIT. An I-REIT primarily targets acquisition of long term investments in real estate for income generation and the initial minimum assets should be atleast Kenya Shillings three hundred million . On the other hand a D-REIT is a Development and Construction oriented REIT with undertakings mainly in construction and development of real estate projects and it is the only form of REIT that is allowed to extend secured loans or mortgages to end buyers to facilitate acquisition of its projects. To qualify for registration it must have an initial net assets of Kenya shillings one hundred million. Lastly an Islamic REIT must be Sharia compliant and adhere to Sharia principles that are applicable in Kenya. The real estate development is prone to limitations which may hinder its progression such as finances and illiquidity however the REIT market comes in handy as an alternative financing vehicle for the supply of real estate properties. Development REITs are allowed to extend mortgage facilities to individuals buying into their projects thus earning interest income. Mortgages financing is the alternative source of financing for real estate projects, where the financier holds the title documents as security for deferred debt financing and the D-REIT can compete with traditional mortgage offerings by commercial banks by filling the high demand for mortgage which is still unmet following Waithaka (2013) study on the mortgage market in Kenya. The study established that Kenya had lagged behind her counterparts in Sub – Saharan Africa in the mortgage market due to high interest rates charged by the banks. Kenyan mortgage market is dominated by five main participants that control 71 percent of the real estate lending. These five participants include Housing Finance Company of Kenya, CFC Stanbic Bank, StanChart Limited KCB Group and the Co-operative Bank of Kenya. This is an implication that fluctuating interest is a hindrance for middle class income earners to access mortgage loans due to rising speculative prices creating a bullish mortgage market.

Brent, Kelly, Taliefero and Price, (2011) examined the determinants of mortgage delinquency in the US from 2004 to 2009. During this period; there was a sharp rise in delinquency level by borrowers. From their research, they found out that economic health of a country, income of the borrower and the type of loan are among the critical factors that determine mortgage delinquency risks. Delinquency is expensive both to the borrower and lender. This indicates that mortgages may not be a reliable source of financing to the real estate markets, indicating an opportunity to the REITs.

Gumbs (2010) conducted a study on the variance of the REIT structure as a tool for real estate development. The paper reviewed company articles, past empirical studies on the effect of development on REIT performance. The study established that the REIT format is an effective vehicle for real estate development although skilled management was vital to exploiting its inherent potential. Though the study identifies REITs as an investment that could be used in financing real estate sector, it does not consider its determinants. REITs were found to act as a tool that can be used to tame this and bridge this gap and offer a reprieve to developers and individual buyers to obtain direct financing. The hypothesis for the study will therefore be that;

$H0_2$: *There is no significant influence between REITs Operational Structure and the uptake of REITs in Kenya.*

2.3.3 REIT Income Structure and the Uptake of REITs

REIT Income structure refers to how the REITs income is earned and distributed. A REIT can either an income based REIT (I-REIT) or Development based REIT (D-REIT). In I-REIT, 70% of income earning should be generated from rental income, License fees, usage and access rights. However, a D-REIT, owing to the nature of the projects to be developed after an initial offer the funds can be held in bank deposits for a maximum period of 6 months thereafter 30% of total assets value must be invested in development and construction projects or incoming producing developments (Ayemoba,2017).

Kamau (2016) investigated the various challenges and prospects of REITs financing of real estate sector in Kenya. The study adopted an exploratory study research design approach due to the fledgling status of REITs in Kenya. The population of the study was 156 developing firms within Nairobi and a sample of 70 was selected for a representative of the population. Critical review by the study indicated that income distribution features affected how good the REIT performed in the market. Investors were found to pay attention to the money they received from the REIT at specific times as opposed to the property appreciation and hence growth in value of the REIT. This could be so since I-REIT and D-REITs exhibit different income structures where 80% of net income should be distributed to unit holders; however capital gains can be reinvested. D-REITs income distribution is subject to the trust deed rules based on capital gains realized in a financial year or resolution of shareholders. Thus, their income distribution is not certain or assured despite the REIT being profitable.

Ong (2002) conducted a study on the investment performance of conventional and Islamic Real Estate Investment Trusts (REITs) listed in Malaysia over the 2005–10 time period. Analysis reveals that both conventional and Islamic REITs experienced negative monthly return during 2008 global financial crisis (GFC) period, and positive monthly return post GFC period. The study observed that most REITs under-performed before GFC compared to market indices. The study explained the differing performance to the nature of income expected to be received from the REITs.

Konagai (2009) did a research on Japan-REIT performance which intended to recognize the performance of REITs in Japan (J-REITs).The first study employed the Fama-French three-factor model for monthly J-REIT returns from September2001 to September 2008. The study established that the market matures with more time. The performance of REITs was concluded to mature with a good history background on the same. The study's importance was that it gives insight to the REITs uptake being highly dependent on expected income. Loyford and Moronge, (2014) investigated the effects of economic factors on performance of real estate in Kenya. To obtain the study's sample, stratified sampling technique was employed giving the study a sample population of 44 respondents from the target population. The study's findings were that interest rate, inflation, transactions cost and demand for housing highly influences the performance of real estate industry. Notably, economic variables affect the income of the REIT and would affect REIT performance. The study however did not indicate whether REITs may be used in providing solutions to these macroeconomic variables variations.

Public Perception on REITs refers to the view or standpoint of the general public concerning the entire ideology of REITs and the perceived income benefits and risks levels will affect the uptake of REITs.. This entails the understanding of REITs as investment tools, the perceived risks, the sanctity of title and inviolability of property ownership rights, returns and credibility of the company issuing the REIT. A REIT positively perceived will be expected to perform better than one with a contrary view. This shows that enhancing the public perception will highly increase the REITs' penetration levels (Muchuki, 2013).

Muchuki (2013) did a study on real estate as an important investment asset class. This study investigated whether there are REITs investment opprotunities needs among institutional investors trading at Nairobi Stock Exchange. A sample of 30 institutional investors consisting of pension fund managers and unit trusts was used. The findings showed that investors would invest in REITs if they were to be introduced at the bourse and therefore confirmed that REITs were needed among institutional investors at the NSE as investment options. This shows that lack of awareness can be a barrier to the uptake of REITs in Kenya.

The CAHF commissioned a study in 2016 on the potential of residential REITs to increase access to affordable housing and they considered existing studies on the investor confidence benefits and characteristics of REITs in more mature and stable markets like Canada, USA and Australia. The findings noted that investing in residential REITs was perceived to be associated with certain disadvantages and thus institutional investors were reluctant to enter into the residential market due to perceived risks including; poor and greater costs of housing management relative to commercial housing; insufficient market size; illiquidity; reputational and political risk. The hypothesis for the study will therefore be that;

$H0_3$: *There is no significant influence between REITs income structure and the uptake of REITs in Kenya.*

2.4 Conceptual Framework

The conceptual framework refers to a systematic presentation that illustrates the variables when put together to explain the research objectives. It is a description of the phenomenon under study accompanied by a graphical or visual depiction of the major variables of the study (Makori and Memba, 2015). In line with the objectives of the study conceptual framework is shown by Figure 2.1. The independent variables were REITs regulatory framework, the operational structure and the income structure. The dependent variable was the REIT uptake by real estate developer's in Kenya. It is expected that the independent variables had direct effect on the dependent variable.

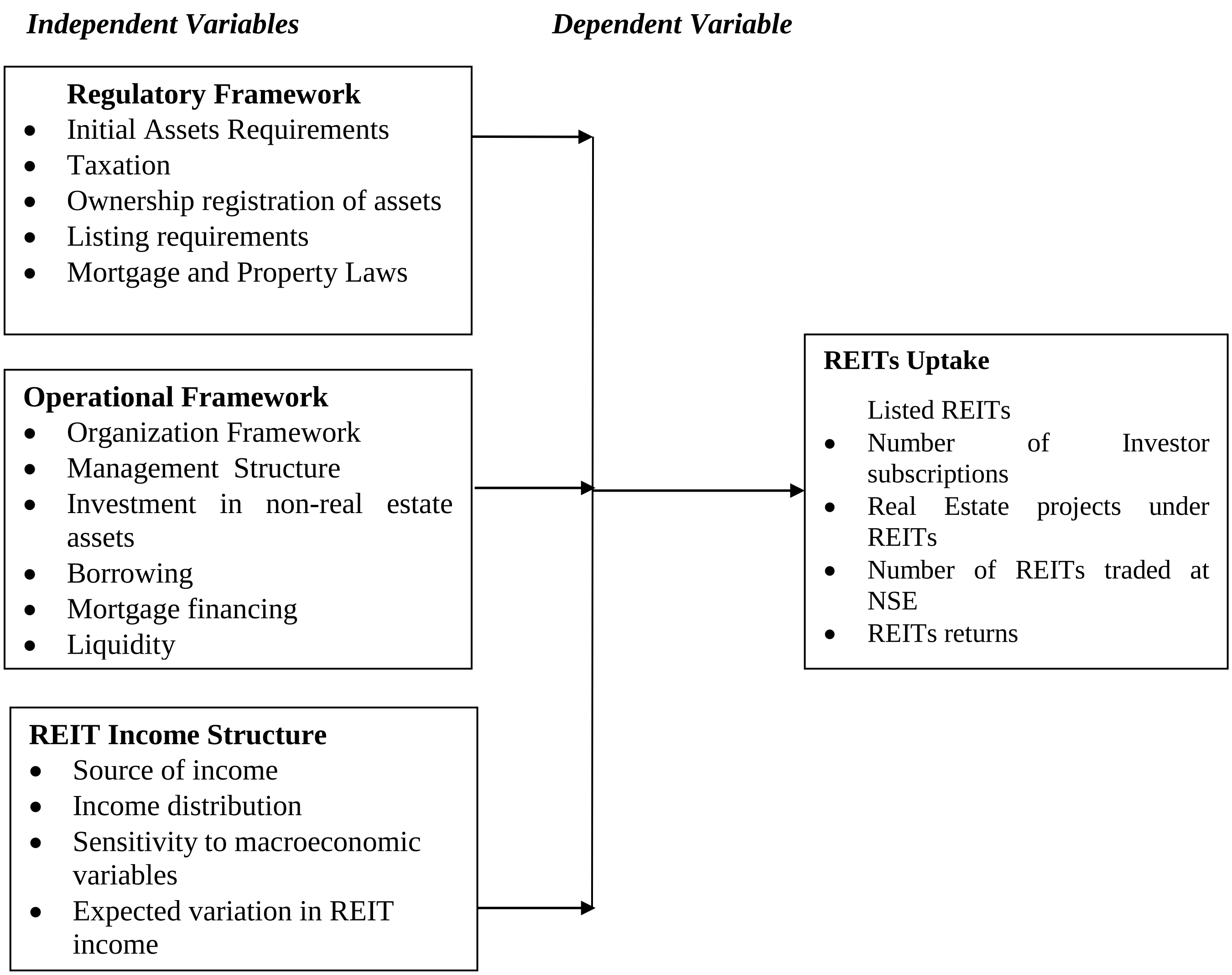

Figure 2.1: Conceptual Framework

2.5 Operationalization of Variables

This section defines the criterion, predictor, mediating and moderating variables used to operationalize this study as well as the measures used in their assessment. Table 2.1 presents a summary of the different variables, their indicators and their operational definitions.

Table 2. 1: Operationalization of Variables

Variable	Indicators	Nature	Operationalization	Hypothesized direction
REIT Uptake	• REITs licensed by CMA • REITs traded at NSE • Real estate projects funded and owned by REITs • new Breed of REITs investors • Competitive price discovery for residential and commercial housing	Dependent	REITs facilitate the flow of funds between investors and property developers which act to enhance the property sector of the country. Their uptake will be assessed by the initiatives they have undertaken in the country.	Various factors affect development of REITs.
Regulatory Framework	• Set up and licensing Requirements by CMA • Taxation obligations • NSE Listing & trading requirements • Governing property laws	Independent	The government enacts laws and policies regarding business operations and this significantly impacts the REITs operational framework	Positive
Operational Framework	• Organization Framework • Management structure • Borrowing limitations • DREIT and IREIT investment options	Independent	The uptake of a REIT is expected to be influenced by the decision making organs, the investment options and the strategic approaches adopted.	Positive
REIT Income Structure	• Knowledge of real estate matters • Knowledge of the stock Market operations • Income distribution • Sensitivity to macroeconomic variables	Independent	These are the specific income features of a particular REIT. These factors are expected to affect how well the REIT performs and the returns generated.	Positive

2.7 Summary of Research Hypotheses

Below is the summary of the Research Hypotheses;

$H0_1$: *There is no significant influence between Regulatory Framework and the uptake of Real Estate Investment Trusts by real estate developers in Nairobi. Kenya.*

$H0_2$: *There is no significant influence between operational structure and the uptake of Real Estate Investment Trusts by real estate developers in Nairobi, Kenya.*

$H0_3$: *There is no significant influence between income structure and uptake of Real Estate Investment Trusts by real estate developers in Nairobi, Kenya.*

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter describes the methodological approach that was used in collecting, analyzing, presenting and interpreting the findings of the proposed study. Particularly, the chapter describes the research design, study population, sampling, data collection and the analysis methods.

3.2 Research Design

Research design refers to the scheme or outline adopted by a study in addressing various research questions. This proposed study employed the descriptive research design. As explained by Saunders et al., (2003) descriptive design is an approach used so as to seek more insights into the phenomena, by assessing the information on phenomena and various variables related to it. This research design is chosen since the concept of Real Investment Trusts in Kenya is relatively new and has not been well understood in the country although some literature exists. The study facilitated the understanding of the research problem through the collection and presentation of information about the uptake of REITs in Kenya.

3.3 Target Population

The study population was the real estate development firms. This population is chosen as they are directly involved in matters pertaining to real estate market in Kenya hence the most conversant for the study. As at 30th April 2017, there were 67 real estate developers registered by Kenya Property Developers Association (KPDA, 2017) as per the annexed appendix and this is the population that will be targeted. As such a census approach was employed in order to include all the 67 firms with the respondents being the top management officials. This was line with

Mugenda and Mugenda (2008) who holds that where the population is small and manageable, the entire population is to be used so as to enable generalization of the results. The study's target population is represented by Table 3.1.

Table 3. 1: Target Population

Category	**Population**
Real Estate/ Property Developers	67
Total	**67**

Source: Kenya Property Developers Association (KPDA, 2017)

3.4 Instrumentation and Data Collection

The study used primary data which was collected using the questionnaires as the research instruments. Questionnaires are preferred because of their ability to collect a wide range of data while saving time and maintaining the anonymity of the respondents. The questionnaires were semi structured comprising close ended questions. The close ended questions provided structured responses so as to enable recommendations. These closed ended questions were used to test the rating of various attributes.

A five point Likert scale questionnaire was used to rate the responses. The period under study was to determine the uptake and growth of the REITs since their introduction in 2013. The questionnaires were divided into sections in line with the study’s objectives. The questionnaires were administered through drop and pick later technique to the various firms in Nairobi so as to give the respondents an ample time in filling them. On ethical issues, the researcher sought consent from the respondents before distributing the questionnaires and approval from the university to collect required data. All the respondents were informed before had that that the study is purely academic. Confidentiality of information, integrity and honesty adhered to throughout the research period.

3.5 Validity and Reliability

The questionnaire was pre-tested and necessary adjustments made before the actual study is conducted to ensure validity and reliability. Validity is the degree to which result obtained from the analysis of the data actually represents the phenomenon under study. Reliability on the other hand is the measure of degree to which research instruments yield consistent results (Mugenda and Mugenda, 2008). Validity assessed content validity of the research instruments. This is the extent to which the questionnaire contents are appropriate in addressing the research questions. To achieve this, a draft questionnaire was developed in close coordination with the study supervisor.

Reliability on the other hand was tested through Cronbach Alpha. Cronbach's alpha was used to determine the internal consistency of research instruments and consequently gauge its reliability to assess and improve upon the reliability of variables. The Cronbach’s alpha coefficient ranges between 0 and 1 were used to measure the extent to which the instrument consistently measures the study variables. The benchmark relied on was 0.7 where questions with Cronbach’s of less than 0.7 would be amended or removed.

3.6 Data Analysis and Presentation

Data analysis represents the process of obtaining information from the data collected and presenting them. The data will then be coded to enable analysis of the responses. Quantitative analysis (descriptive statistics) techniques were used to analyze data. This was interpreted by use of statistical package for social sciences (SPSS) and was analyzed through the use of descriptive statistics which include frequencies, percentages, standard deviation and arithmetic mean. The analyzed data was then represented in figures and tables. Regression model was used to determine the relationship between the variables. To achieve this, data was coded and analyzed by Statistical Package for Social Science (SPSS Version 20.0) program.

A multiple regression model was used to determine the relationship between the various factors influencing REITs' uptake in Kenya. The multiple regression model used the following format:

$$\mathbf{Y=\beta_0+ \beta_1X_1+ \beta_2X_2+ \beta_3X_3+\varepsilon}$$

Where:

Y= Dependent Variable (Real Estate Investment Trusts uptake)

$ß_0$= Constant (REITS uptake when all other factors affecting its uptake are held constant)

$ß_1$…………$ß_3$= Coefficient of the independent variable

X_1, X_2, and X_3, are the research independent variables and represent:

X_1=Regulatory Framework

X_2= Operational Framework

X_3= REIT Income Structure

ε = error term

3.6.2 Diagnostic Tests

The f and t-significance from ANOVA was used to establish whether there is a significant relationship between the dependent and independent variables. ANOVA was used as it compares group means by analysing comparisons of variance estimates; that is, whether or not the means of several groups are all equal. Significance of the variables was tested using the t-test whereas significance of the overall model was measured through the f-test. The analyzed data was then presented using tables.

CHAPTER FOUR

DATA ANALYSIS AND DISCUSSION

The chapter presents the data analysis results and discussions of the results based on the reviewed literature. The chapter contains the response rate, test for reliability, descriptive statistics and inferential statistics.

4.1 Response Rate

The study targeted 67 real estate developers. Out of the total questionnaires administered, 87% of the respondents filled and returned the questionnaires while 13% did not respond. This represented a response rate of 87.

4.2 Reliability Test Results

Reliability was tested using Cronbach Alpha. The results of the reliability test results are presented in table 4.2.

Table 4.2: Cronbach Alpha

Variable	No of items	Cronbach Alpha
Regulatory Framework	0.730	8
Operational Framework	0.866	8
REITs Income Structure	0.808	8
REITs Uptake and Market Integration	0.82	8

Regulatory framework had a Cronbach alpha of 0.730, operational framework 0.866, REITs income structure 0.808 and REITs uptake and market integration 0.82. Thus the variables were reliably measured since Cronbach alpha was greater than 0.7. The variables were therefore consistently measured.

4.3 Descriptive Analysis

4.3.1 Gender of Respondents

The study also sought to determine the gender of the respondents with the aim of understanding more about the respondents. The findings obtained are presented in Table 4.3.

Table 4.3: Gender of Respondents

Gender	Frequency	Percent
Female	19	32.8
Male	39	67.2
Total	58	100

The findings in Table 4.3 indicate that majority at 67.2% were male while 32.8% were female. The findings therefore implied that the both genders were studied although male respondents were more hence the study points out that the majority of the respondents were male therefore they dominate the real estate development business.

4.3.2 Position of the Respondents

The study also sought to determine the position which was being held by the respondents. This was vital in determining the ability of the respondents to provide accurate information. The findings are presented in Table 4.4.

Table 4.4: Position of the Respondents

Position	Frequency	Percent
Senior Level Manager	15	25.9
Middle Level Manager	22	37.9
Lower level Management	8	13.8
Professional Staff	13	22.4
Total	58	100

The findings in Table 4.4 indicate that majority of the respondents at 37.9% were middle level managers, 25.9% were senior level managers, 22.4% were professionals while 13.8% were middle level managers. The findings indicate that senior level and middle level managers were the majority and therefore the information obtained could be relied upon.

4.3.3 Interaction with the Industry

The study also sought to determine the number of years the respondents had interacted with the industry and thus assess their ability to provide reliable information.

Table 4.5: Interaction with Real Estate Industry

Interaction with the industry	Frequency	Percent
Less than 1 year	3	5.2
Between 1 and 5 years	19	32.8
Between 6 to 10 years	24	41.4
Over 10 years	12	20.7
Total	58	100

The findings indicated that majority of the respondents at 41.4% had worked for the industry for 6-10 years, 32.8% for 1-5 years, 20.7% for over 10 years and 5.2% for less than 1 year. Since majority of the respondents had worked for the industry for over 5 years, they were well experienced and hence able to understand and provide accurate information.

4.3.4 Interaction with REITs

The study also sought to determine the interaction the respondents had with the REITs and hence establish whether they could provide reliable information.

Table 4.6: Interaction with REITs

Interaction with REITs	Frequency	Percent
Never	1	1.0
Less than 1 years	21	36.2
Between 1 to 3 years	10	17.2
Between 4 to 6 years	21	37.9
Over 6 years	5	8.6
Total	**58**	**100**

The findings indicated that majority of the respondents at 37.9% had interacted with REITs for between 4 to 6 years, 36.2% less than 1 year, 17.2% between 1 to 3 years, 8.6% for over 6 years and 1% had never interacted with REITs. Since most of the respondents had interacted with REITs, they were adequately knowledgeable to provide reliable information.

4.3.5 Regulatory Framework

The study sought to determine the extent to which regulatory framework had affected the uptake of REITs by using a five scale likert scale. The findings are presented in Table 4.7.

Table 4.7: Regulatory Framework

Regulatory Framework	N	Min	Max	Mean	Std. Dev
Investors must raise the prescribed capital (Kshs. 100-300 Million) before setting up a REIT firm	58	2	5	4.05	0.76
Minimum number of investors required by Capital Markets Authority is 7	58	1	5	3.76	1.03
A REIT firm must comply with the initial public offering (IPO) regulations of the Nairobi Securities Exchange	58	1	5	3.41	1.17
Stamp duty tax on properties purchased by a REIT firm from a third party is exempted	58	1	5	3.69	1.22
Capital gains tax for properties transferred by a REIT firm to a third party is exempted	58	1	5	3.41	1.44
All properties Purchased by a REIT firm are subject to Land Laws	58	1	5	3.62	1.07
All properties sold/disposed of by a REIT firm are subject to the Land Laws	58	1	5	3.17	1.43
Core investment activities for REITs firms are limited in real estate activities	58	1	5	3.24	1.32
Mean				3.55	

Investors must raise the prescribed capital (Kshs. 100-300 Million) before setting up a REIT firm had a mean of 4.05 and standard deviation of 0.76. This finding indicated that to a large extent, obtaining the prescribed capital affected the REIT uptake. The low standard deviation indicates that the respondents agreed more with this position.

Minimum number of investors required is 7 had a mean of 3.76 and deviation of 1.03. This implied that minimum number of investors before approval was granted affected uptake of

REITs to a large extent. The standard deviation indicated that the respondents more agreed on this.

Stamp duty tax on properties purchased by a REIT firm from a third party is exempted, had a mean of 3.69 and standard deviation of 1.22. These finding indicated that to a large extent, stamp duties on REITs to a large extent affected uptake of REITs. The standard deviation indicated the extent to which respondents agreed on this component of regulatory framework.

All properties bought by a REIT firm are subject to the Land Laws governing acquisition of properties in Kenya had a mean of 3.62 and standard deviation of 1.07. This implied that all properties bought by a REIT firm being subject to the prevailing Land Laws had an effect on uptake of REITs to a large extent. The standard deviation indicated the extent to which respondents agreed on this component of regulatory framework.

A REIT firm must comply with the initial public offering (IPO) regulations before it can trade at the Nairobi Securities Exchange had a mean of 3.41 and standard deviation of 1.17. The findings therefore implied that to a moderate extent, compliance to IPO regulations had a moderate extent. The standard deviation indicated the extent to which respondents agreed on this component of regulatory framework.

Capital gains tax for properties transferred by a REIT firm is exempted had a mean of 3.41 and standard deviation of 1.44. The findings therefore indicated that to a moderate extent, capital gains affected REIT development. Regulation on investment choices for REITs firms where had a mean of 3.24 and deviation of 1.32. This implied that regulations on investment choices had an effect to a moderate extent. All properties sold by a REIT firm are subject to the Land Laws governing disposal of properties in Kenya with a mean of 3.17 and deviation of 1.43. This implied that laws governing disposal of REITs had a moderate effect on REIT uptake. The overall mean was 3.55 implying that regulatory framework affected REITs development to a large extent.

4.3.6 Operational Framework

The study sought to determine how operational framework affected REITs uptake. The findings are presented in Table 4.8.

Table 4.8: Operational Framework

Operational Framework	N	Min	Max	Mean	Std. Dev
REITs are registered as a Trust Corporation under a Trust Deed document	58	2	5	3.95	0.89
REITs operational matters are headed by an independent Trustee	58	1	5	3.38	1.14
REITs are externally managed by an independent Manager	58	1	5	3.24	1.25
REITs unit owners must authorize any external borrowing exceeding the prescribed limit	58	1	5	3.55	1.33
Acquisition of shares of publicly traded REITs is through an Initial public offering (IPO)	58	1	5	3.36	1.47
Changes in REIT operational structure must be approved by the Capital Markets Authority	58	1	5	3.24	1.25
Only a Development REIT can offer mortgage loans to buyers	58	1	5	3.55	1.33
All assets of a REIT are held in the name of the Trustee for the benefit of all unit holders	58	1	5	3.36	1.47
Mean				3.45	

REITs are registered as a Trust Corporation had a mean of 3.95 and deviation 0.89. This implied that to a large extent REITs established as Trust Corporation had an effect on REIT uptake to a large extent. REITs unit owners must authorize any external borrowing exceeding the prescribed limit had a mean of 3.55 and deviation of 1.33. This meant that REITs unit owners requirement to authorize any external borrowing to a large extent affected REIT uptake.

Only a Development REIT can offer mortgage loans had a mean of 3.55 and standard deviation of 1.33. Thus, to a large extent a Development REIT offering mortgage loans to interested buyers affected REIT uptake to a large extent. REITs operational matters are headed by an independent Trustee had a mean of 3.38 and deviation of 1.14. This finding indicated that the REITs being headed by an independent Trustee had a moderate extent on REIT uptake.

Acquisition of publicly traded REITs shares can be purchased through Initial Public Offering (IPO) had a mean of 3.36 and deviation of 1.47. This therefore meant that the purchase of REITs shares from IPO to a moderate extent affected REIT uptake. Similarly, all assets of a REIT are held in the name of the Trustee for the benefit of all unit holders had a mean of 3.36 and deviation of 1.47. REITs are externally managed by an independent Manager who makes day to day decisions affecting REITs operations had a mean of 3.24 and deviation of 1.25. Changes in the operational structure of a REIT must be approved by the Capital Markets Authority had a mean of 3.24 and standard deviation of 1.25. The overall mean was 3.45 indicating that to moderate extent, REIT operational structure affected their uptake.

4.3.7 REITs Income Structure

Table 4.9: REITs Income Structure

REITs Income Structure	N	Min	Max	Mean	Std. Dev
REITs Investor's require general knowledge on real estate matters	58	1	5	3.88	0.82
REITs Investors need to have an understanding Stock Market operations	58	1	5	3.43	1.22
REITs should distribute income annually	58	1	5	3.45	1.19
An investor can exit a public traded REIT through disposal at the stock Market	58	1	5	3.12	1.33
REITs firms have the discretion to diversify the property investments portfolio.	58	1	5	3.28	1.24
REITs have ability to increase income earned over time from the capital gains on investments	58	1	5	3.38	1.34
Ability to maximize income is based on the type of REIT	58	1	5	3.09	1.45
Sensitivity of the REIT income to macroeconomic variables	58	1	5	3.38	1.34
Average				3.38	

REITs Investor's require general knowledge on real estate matters had a mean of 3.88 and deviation of 0.82. The findings meant that to a large extent, REITs Investor's requiring general knowledge or understanding of the real estate matters had a large effect on the uptake of REITs. REITs should distribute income annually had a mean of 3.45 and standard deviation of 1.19. REITs Investors need to have an understanding on the operations the Stock Market had a mean of 3.43 and deviation of 1.22. Ability of REITs to increase income earned over time due to capital gains on investments had a mean of 3.38 and deviation of 1.34. Sensitivity of the REIT income to macroeconomic variables had a mean of 3.38 and deviation of 1.34. REITs firms have the ability to diversify the property portfolio to generate higher income had a mean of 3.28 and deviation of 1.24. An investor can exit a REIT through disposal of shares at the stock exchange had a mean of 3.12 and deviation of 1.33. Ability to maximize income based on the type of REIT had a mean of 3.09 and deviation of 1.45. The overall mean was 3.3 indicating that to a moderate extent, REIT income structure affected uptake of REITs.

4.3.8 REITs Uptake and Market Integration

The study sought to determine the extent of REITs uptake and market integration. The findings obtained by the study are presented in Table 4.10.

Table 4.10: REITs Uptake and Market Integration

REITs Uptake and Market Integration	N	Min	Max	Mean	Std. Dev
There has been increase in number of listed REITs by Capital Markets Authority (CMA)	58	1	5	3.79	0.85
There has been increase public traded REITs	58	1	5	3.67	1.13
There has been rise in the number of projects funded by a REITs firm	58	1	5	3.31	1.17
There has been increased competitive price discovery for residential housing	58	1	5	3.50	1.34
There has been increased competitive price discovery for commercial housing	58	1	5	3.05	1.50
There is increased affordable housing funded under REITs mortgage Scheme	58	1	5	3.71	0.79
There has been an increase in the number of investors participating in REITs	58	1	5	3.40	1.24
There has been growth in market capitalization	58	1	5	3.16	1.31
Average				3.45	

The findings indicated that overall, REIT uptake had a mean of 3.45 hence indicating REIT market had uptake to a moderate extent. There has been increase in number of listed REITs by Capital Markets Authority (CMA) had a mean of 3.79 and deviation of 0.85. There was increased affordable housing funded under REITs mortgage Scheme had a mean of 3.71 and deviation of 0.79. There was increase in the Number of publicly traded REITs had a mean of 3.67 and deviation of 1.13. There has been increased competitive price discovery for residential housing occasioned by REITs backed real estate projects had a mean of 3.5 and deviation of 1.34. There had been an increase in the number of investors participating in REITs had a mean of 3.4 and deviation of 1.24. There had been rise in the number of projects funded and managed by a REITs firm with a mean of 3.31 and deviation of 1.17. There has been growth in listed REIT firms' market capitalization with a mean of 3.16 and deviation of 1.31. There has been increased competitive price discovery for commercial housing occasioned by REITs backed real estate projects had a mean of 3.05 and deviation of 1.5. The findings indicated that the REIT market was not adequately developed since most of the respondents indicated that the market had developed to a large extent.

4.4 Diagnostic Tests

The study used correlation and linear regression to achieve the specific and general objectives of the study. Prior to the use of correlation and regression analysis, assumptions of the model were tested to ensure that the data was appropriate for analysis.

4.4.1 Normality Tests

Regression and correlation analysis requires that the data is normally distributed. The findings obtained are presented in Table 4.11.

Table 4.11: Normality Tests

Variable	N	Min	Max	Mean	Skewness	Kurtosis
Regulatory Framework	58	2.62	5	3.55	0.70	-0.72
Operational Framework	58	1.62	5	3.45	-0.05	-0.95
REITs Income Structure	58	1.38	5	3.38	0.07	-0.02
REITs Uptake	58	1.75	5	3.45	0.15	-0.60

Regulatory framework had a skewness statistic of 0.7 and kurtosis of -0.72. Operational Framework had a skewness statistic of -0.05 and kurtosis of -0.95. REITs Income Structure had a skewness statistic of 0.07 and kurtosis of -0.02. REITs Uptake had skewness statistic 0.15 and kurtosis of -0.6. Therefore, the data was normally distributed since kurtosis and skewness were between -2 and 2.

4.4.2 Test for Multicolinearity

Multi-collinearity refers to the independent variables being related such that the relationship obtained is as a result of the independent variables being strongly related. The findings obtained are presented in Table 4.2.

Table 4.12: Test for Multicollinearity

Variable	Tolerance	VIF
Regulatory Framework	0.657	1.521

Operational Framework	0.575	1.739
REITs Income Structure	0.486	2.057

The findings in Table 4.12 indicates that regulatory framework had a tolerance of 0.657 and VIF of 1.521. Operational framework had a tolerance of 0.575 and VIF of 1.739. REITs income structure had a tolerance of 0.486 and VIF of 2.057. Therefore, multicollinearity was not a problem since tolerance was greater than 0.1 and VIF less than 10.

4.5 Inferential Statistics

The study used correlation and linear regression to achieve the specific and general objectives of the study.

4.5.1 Correlation Analysis

Correlation analysis was used to determine the relationship between the study variables while regression analysis was used to determine the combined relationship between the study independent and dependent variable.

Table 4.13: Correlation Analysis

		REITs Uptake	Regulatory Framework	Operational Framework	REITs Income Structure
REITs Uptake	Pearson Correlation	1			
	Sig. (2-tailed)				

Regulatory Framework	Pearson Correlation	.559**	1		
	Sig. (2-tailed)	0.000			
Operational Framework	Pearson Correlation	.615**	.455**	1	
	Sig. (2-tailed)	0.000	0.000		
REITs Income Structure	Pearson Correlation	.704**	.575**	.643**	1
	Sig. (2-tailed)	0.000	0.000	0.000	
	N	58	58	58	58

***. Correlation is significant at the 0.01 level (2-tailed).*

4.5.1.1 Influence of Regulatory Framework on the Uptake of REITs in Kenya

The study sought to determine the effect of regulatory framework on REIT uptake. The findings obtained indicated that regulatory framework had a Pearson correlation of 0.559 and $p<0.05$. The positive coefficient indicated that regulatory framework positively affects REITs uptake in Kenya. This implied that having the right regulatory framework will lead to improved uptake of REITs in Kenya. The findings compared with those of Sada, (2016) conducted a study on the development of Real Estate Investment Trusts (REITs) in Kenya. The findings showed that there is a high level of justification for the introduction of REITs in the Kenyan market due to the massive array of benefits associated with investing in them. The study however was not able to establish the factors which will facilitate the growth of REITs in Kenya such as appropriate legislation.

4.5.1.2 Influence of Operational Framework on the Uptake of REITs in Kenya

The study also sought to determine the effect of operational framework on REITs uptake and obtained Pearson Correlation of 0.615 and p-value<0.05. The positive coefficient indicated that operational framework has a positive effect on uptake of REITs. The p-value indicated that the effect of operational framework is significant. Therefore, having an appropriate operational framework will lead to improved uptake of REITs. Ambrose and Lineman (2015) noted that REITs were to be passive investment vehicles however traditional property developers struggled with losing direct control over their investments once they converted to REITs formats and this created dismal performance in the US REITs market in the 1960 to 1980 period. Cappozza and Seguin (2000) found that externally managed REITs consistently underperformed internally managed REITs due to high financing expenses and other moral hazards like conflicts of interests. Gumbs (2010) also found that the REIT format was an effective vehicle for real estate development although skilled management was vital to exploiting its inherent potential.

4.5.1.3 Influence of Income Structure on the Uptake of REITs in Kenya

The study also sought to determine the effect of REITs income structure on REITs uptake. The study obtained a Pearson Correlation of 0.704 and p-value<0.05. The positive coefficient indicated that REITs income structure have a positive effect on REITs uptake. The p-value indicated REITs income structure had a significant effect on uptake of REITs. The study findings compared to those of Kamau (2016) who found that income distribution features affected how good the REIT performed in the market. Investors were found to pay attention to the money they received from the REIT at specific times as opposed to the property appreciation and hence growth in value of the REIT.

4.5.2 Regression Analysis

Regression analysis was used to determine the effect of the factors studied, when combined on the uptake of REITs. The results of the study model summary are presented in table 4.14.

Table 4.14: Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate
.753a	0.567	0.543	0.53554

a. Predictors: (Constant), REITs Income Structure, Regulatory Framework, Operational Framework

The findings in table 4.14 indicated a coefficient of 0.753. This meant that the three factors studied, namely, REITs Income Structure, Regulatory Framework and Operational Framework had a positive effect on REITs uptake. The coefficient of correlation was greater than 0.5 indicating that the relationship was strong. The study further obtained R2 of 0.567 and adjusted R2 of 0.543. This therefore meant that the three factors studied cumulatively explained 56.7% of the uptake of REITs. Adjusted for errors, the three factors accounted for 54.3% of changes in REITs market uptake.

To test the accuracy of the results obtained by the regression analysis, analysis of the variance was used. ANOVA results are presented in table 4.15.

Table 4.15: ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Regression	20.264	3	6.755	23.551	.000a

Residual	15.487	54	0.287
Total	35.751	57	

a. Predictors: (Constant), REITs Income Structure, Regulatory Framework, Operational Framework

b. Dependent Variable: REITs Uptake

The study obtained a p-value of 0.000<0.05 and F-statistic of 23.551. This indicated that the relationship between the factors studied (independent)and uptake of REITs (dependent) was significant at 95% confident level. Therefore, the factors studied significantly increase the uptake of REITs.

The study model coefficients which could be used in prediction are presented in Table 4.16 below.

Table 4.16: Model Coefficients

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	T	Sig.
(Constant)	0.509	0.386		1.319	0.193
Regulatory Framework	0.224	0.124	0.199	1.803	0.077
Operational Framework	0.213	0.102	0.247	2.093	0.041
REITs Income Structure	0.417	0.124	0.431	3.353	0.001

a. Dependent Variable: REITs Uptake

The findings in table 4.16 indicated that Regulatory Framework had a coefficient of 0.224, Operational Framework 0.213 and REITs Income Structure 0.417. Thus, the model that would be used to predict REIT uptake when factors studied are known is $Y = 0.509 + 0.224X_1 + 0.213X_2 +$

$0.417X_3$ where X1 is regulatory framework, X2 operational framework and X3 REITs income structure.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The chapter presents the summary of the findings, the conclusions drawn from the study and recommendations for further policy and further research.

5.2 Summary unbold

5.2.1 To determine the effect of the regulatory framework on the uptake of Real Estate Investment Trusts by real estate developers in Nairobi, Kenya

The study sought to determine the effect of regulatory framework on REIT uptake. The findings obtained indicated that regulatory framework had a Pearson correlation of 0.559 and $p<0.05$. The positive coefficient indicated that regulatory framework positively affects REITs uptake in Kenya. This implied that having the right regulatory framework will lead to improved uptake of REITs in Kenya. The findings compared with those of Sada, (2016) conducted a study on the development of Real Estate Investment Trusts (REITs) in Kenya. The findings showed that there is a high level of justification for the introduction of REITs in the Kenyan market due to the massive array of benefits associated with investing in them. The study however was not able to establish the factors which will facilitate the growth of REITs in Kenya such as appropriate legislation.

5.2.2 To establish the effect of the operational structure on the uptake of Real Estate Investment Trusts by real estate developers in Nairobi, Kenya

The study also sought to determine the effect of operational framework on REITs uptake and obtained Pearson Correlation of 0.615 and p-value<0.05. The positive coefficient indicated that operational framework has a positive effect on uptake of REITs. The p-value indicated that the effect of operational framework is significant. Therefore, having an appropriate operational framework will lead to improved uptake of REITs. Ambrose and Lineman (2015) noted that REITs were to be passive investment vehicles however traditional property developers struggled with losing direct control over their investments once they converted to REITs formats and this created dismal performance in the US REITs market in the 1960 to 1980 period. Cappozza and Seguin (2000) found that externally managed REITs consistently underperformed internally managed REITs due to high financing expenses and other moral hazards like conflicts of interests. Gumbs (2010) also found that the REIT format was an effective vehicle for real estate development although skilled management was vital to exploiting its inherent potential.

5.2.3 To establish the effect of income structure on the uptake of Real Estate Investment Trusts by real estate developers in Nairobi Kenya

The study also sought to determine the effect of REITs income structure on REITs uptake. The study obtained a Pearson Correlation of 0.704 and p-value<0.05. The positive coefficient indicated that REITs income structure have a positive effect on REITs uptake. The p-value indicated REITs income structure had a significant effect on uptake of REITs. The study findings compared to those of Kamau (2016) who found that income distribution features affected how good the REIT performed in the market. Investors were found to pay attention to the money they received from the REIT at specific times as opposed to the property appreciation and hence growth in value of the REIT.

5.2.4 To determine the effect of Real Estate Investment Trusts characteristics on their uptake by real estate developers in Kenya

The study obtained a coefficient of 0.753. This meant that the three characteristics studied, namely, REITs Income Structure, Regulatory Framework and Operational Framework had a positive effect on REITs uptake. The coefficient of correlation was greater than 0.5 indicating that the relationship was strong. The study further obtained R^2 of 0.567 and adjusted R^2 of 0.543. This therefore meant that the three factors studied cumulatively explained 56.7% of the uptake of REITs. Adjusted for errors, the three factors accounted for 54.3% of changes in REITs market uptake. The study obtained a p-value of $0.000<0.05$ and F-statistic of 23.551. This indicated that the relationship between the factors studied and uptake of REITs was significant at 95% confident level. Therefore, the factors studied significantly increase the uptake of REITs.

5.3 Conclusion

The study sought to determine the effect of regulatory framework on REIT uptake. The study concludes that regulatory framework has positive influence on uptake of REITs. Thus, having the right regulatory framework will lead to improved uptake of REITs in Kenya. The findings obtained indicated that regulatory framework had positively and significantly affected REITs uptake in Kenya.

The study also sought to determine the effect of operational framework on REITs uptake and obtained a positive and significant relationship. The study concludes that operational framework positively affects REIT market uptake. Therefore, having an appropriate operational framework will lead to improved uptake of REITs.

The study also sought to determine the effect of REITs income structure on REITs uptake. The study obtained a positive and significant effect between REIT income structure and uptake of the REITs. Thus, the income differences between a development REIT and an income REIT will affect uptake of the REITs. Investors who prefer regular income may prefer income REITs while those who seek to grow their wealth in long term will prefer development REITs.

The study also to determine the effect of Real Estate Investment Trusts characteristics on their uptake by real estate developers in Kenya. The study found that when combined, the three characteristics studied, namely, REITs Income Structure, Regulatory Framework and Operational Framework have a positive and significant effect on REITs uptake. Therefore, the study concludes that REITs Income Structure, Regulatory Framework and Operational Framework are significant ingredients to the uptake of REITs in Kenya.

5.4 Recommendations

The study concludes that regulatory framework has positive influence on uptake of REITs. The recommendation by this study is that to grow the REIT uptake and hence drive the real estate sector, it is important to have appropriate regulatory framework. The regulatory framework must be on raising of the prescribed capital before setting up a REIT firm, having minimum number of investors before approval is granted by Capital Markets Authority, REIT firm compliance with the initial public offering regulations before it can trade at the Nairobi Securities Exchange, stamp duty tax on properties purchased, capital gains tax for properties transferred, Land Laws and regulation on investment choices for REITs firms where core activities must be in real estate.

Further, having an appropriate operational framework will lead to improved uptake of REITs. Thus, to grow the uptake of REITs, REIT firms should streamline their operational framework by addressing the aspects of REITs registration, heading by an independent Trustee, REITs being managed by an independent Manager, REITs unit owners authorizing any external borrowing exceeding the prescribed limit, acquisition of REITs shares, approval by the Capital Markets Authority, offering of mortgage loans and assets of a REIT being held in the name of the Trustee for the benefit of all unit holders.

The study recommends that investors establishing REIT firms to consider the preference of the target market in reference to income preferences. The income differences between a development REIT and an income REIT will affect uptake of the REITs. Investors who prefer regular income may prefer income REITs while those who seek to grow their wealth in long term will prefer development REITs.

The study recommends that for the stakeholders who are seeking to improve the REIT uptake to collectively consider three characteristics namely; REITs income structure, regulatory framework and operational framework since they have a positive and significant effect on REITs uptake. Having appropriate legal framework, efficient operational framework and matching the income preference investors to the market will significantly improve uptake of REITs.

5.5 Limitations of the Study

The study explored three characteristics of REITs that were hypothesized to affect uptake of REITs. The factors studied were regulatory framework, operational framework and income framework. However, there may be other characteristics which also impact on the uptake of REITs in Kenya.

The study also studied property developers in Kenya. However, stakeholders in the REITs market are many and may include investment banks, regulators like the Capital Market Authority and Nairobi Securities Exchange. However, only real estate developers were studied and hence findings may not be generalized. The study also used primary data alone and excluded secondary data. Primary data may have challenge of accuracy of the information obtained.

5.6 Recommendation for further study

Further study is recommended where more characteristics of REITs would be studied. This study explored three characteristics of REITs that were hypothesized to affect uptake of REITs. The factors studied were regulatory framework, operational framework and income framework. However, there may be other characteristics which also impact on the uptake of REITs in Kenya.

Further study is also recommended where more respondents would be targeted. The current study only examined property developers in Kenya alone. However, stakeholders in the REITs market are many and may include investment banks, regulators like the Capital Market Authority and Nairobi Securities Exchange. However, only real estate developers were studied and hence findings may not be generalized. The study also used primary data alone and excluded secondary data. Primary data may have challenge of accuracy of the information obtained.

areas of further study+

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APPENDICES

Appendix I: Questionnaire

The study seeks to explore the characteristics affecting the uptake of Real Estate Investment Trusts (REITs) by real estate developers in Nairobi Kenya. Kindly respond to the questions as honestly as possible. The information provided will solely be used for academic purpose only and treated with outmost confidentiality.

SECTION A: BACKGROUND INFORMATION

1. Indicate your Gender.

   a) Female ( )
   b) Male ( )

2. Indicate the position you hold in the organization.
   a) Senior Level Manager ( )
   b) Middle Level Manager ( )
   c) Lower level Management ( )
   d) Professional Staff ( )

3. Indicate how long you have interacted with Real estate and property undertakings.
   a) Never ( )
   b) Less than 1 year ( )
   c) Between 1 and 5 years ( )
   d) Between 6 to 10 years ( )
   e) Over 10 years ( )

4. Indicate how long you have interacted with REITs.
   a) Never ( )
   b) Less than 1 years ( )
   c) Between 1 to 3 years ( )
   d) Between 4 to 6 years ( )
   e) Over 6 years ( )

SECTION B:

I. Section B (i): Regulatory Framework and the Uptake of REITs

This section aims to determine the extent to which Regulatory Framework by the government affects the uptake of REITs by developers in Nairobi Kenya. Please rate the following components of the regulatory framework in relation to how they affect the REITs uptake. Use the

5-point Likert Scale as follows; 1= To a Very Small Extent; 2 = Small Extent; 3 = Neutral; 4= Large Extent; and 5= To a Very Large Extent

Regulatory Framework		**1**	**2**	**3**	**4**	**5**
5.	Investors must raise the prescribed capital (Kshs. 100-300 Million) before setting up a REIT firm					
6.	Minimum number of investors before approval is granted by Capital Markets Authority is 7					
7.	A REIT firm must comply with the initial public offering (IPO) regulations before it can trade at the Nairobi Securities Exchange					
8.	Stamp duty tax on properties purchased by a REIT firm from a third party is exempted, not charged.					
9.	Capital gains tax for properties transferred by a REIT firm to a third party is exempted, not charged					
10.	All properties bought by a REIT firm are subject to the Land Laws governing acquisition of properties in Kenya					
11.	All properties sold by a REIT firm are subject to the Land Laws governing disposal of properties in Kenya					
12.	Regulation on investment choices for REITs firms where core activities must be in real estate					

II. Section B(ii) Operational Framework and the Uptake of REITs

This section aims to determine the extent to which Operational Framework has affected the uptake of REITs. Please rate the following in relation to how they affect REITs uptake. Use the 5-point Likert Scale as follows; 1= To a Very Small Extent; 2 = Small Extent; 3 = Neutral; 4= Large Extent; and 5= To a Very Large Extent

Operational Framework		**1**	**2**	**3**	**4**	**5**
13.	REITs are registered as a Trust Corporation established under a Trust Deed document					
14.	REITs are headed by an independent Trustee in charge of all operational matters					
15.	REITs are externally managed by an independent Manager who makes day to day decisions affecting REITs operations					
16.	REITs unit owners must authorize any external borrowing exceeding the prescribed limit					
17.	Acquisition of REITs shares(units) can either be purchased through a private placement or public offering (IPO)					
18.	Any change in the operational structure of a REIT must be					

	approved by the Capital Markets Authority					
19.	Only a Development REIT can offer mortgage loans to interested buyers for any of its projects					
20.	All assets of a REIT are held in the name of the Trustee for the benefit of all unit holders					

III. Section B(iii) The Income Structure and Uptake of REITs

This section aims to determine the extent to which the REIT Income Structure affects their uptake. Please rate the following in relation to how they affect REITs market uptake. Use the 5-point Likert Scale as follows; 1= To a Very Small Extent; 2 = Small Extent; 3 = Neutral; 4= Large Extent; and 5= To a Very Large Extent

REITs Income Structure		**1**	**2**	**3**	**4**	**5**
21.	REITs Investor's require general knowledge and trends of real estate matters					
22.	REITs Investors need to have an understanding on the operations the Stock Market					
23.	REITs should distribute income annually and reinvestment of profit is not allowed					
24.	An investor can exit a REIT through redemption of shares by the Trustee or disposal at the stock exchange					
25.	REIT's firms have the ability to diversify the property portfolio to generate higher income.					
26.	Ability of REITs to increase income earned over time due to capital gains from the existing portfolio of property investments					
27.	Ability to maximize income is based on the type of REIT					
28.	Sensitivity of the REIT income to macroeconomic variables					

SECTION C: REITS UPTAKE AND INTEGRATION IN THE REAL ESTATE SECTOR

This section aims to determine the extent to which REITs have been integrated in the real estate sector in Kenya. Please rate the following in relation to REITs market uptake. Use the 5-point Likert Scale as follows; 1= To a Very Small Extent; 2 = Small Extent; 3 = Neutral; 4= Large Extent; and 5= To a Very Large Extent

REITs Uptake by Developers in the real estate sector		**1**	**2**	**3**	**4**	**5**
29	There has been increase in number of listed REITs by Capital Markets Authority (CMA)					
30	There has been increase in the Number of REITs traded at Nairobi Securities Exchange (NSE)					

31	There has been rise in the number of projects funded and managed by a REITs firm					
32	There has been increased competitive price discovery for residential housing occasioned by REITs backed real estate projects					
33	There has been increased competitive price discovery for commercial housing occasioned by REITs' backed real estate projects					
34	There is increased affordable housing funded under REITs mortgage Scheme					
35	There has been an increase in the number of investors participating in REITs					
36	There has been growth in listed REIT firms market capitalization					

END.

-Thank you-

Appendix II: List of Real Estate Firms listed by Kenya Property Developers Association as at 30th April 2017

1. Acorn Management Services Ltd
2. AMS Properties Ltd
3. Parmalen Investments Ltd
4. Property Reality Company Ltd
5. The Epic Properties Ltd
6. Karibu Homes
7. Elm Ridge Ltd
8. Paradigm Projects Ltd
9. INFPAC Ltd
10. Coral Property International Ltd
11. Urban Nirvana Property Solutions Ltd
12. VAAL Real Estate
13. Blueline Properties Ltd
14. Lordship Africa
15. Natureville Homes
16. Pediment Developers
17. Manrik Holdings Ltd
18. Kzanaka Ltd
19. Chigwell Holdings Ltd
20. Pioneer Holdings (Africa) Ltd
21. Edifice Ltd
22. Simba Corporation Ltd
23. Enkavilla Properties Ltd
24. Hass Consult
25. Cytonn Investments
26. Mugumo Developments Ltd
27. Spartan Developers Ltd
28. Imaran Real Estate Ltd
29. PDM (Kenya) Ltd
30. Diamond Property Merchants Ltd
31. Dunhill Consulting Ltd

32. County Home Developers
33. Dream Homes Construction Company Ltd
34. Tilisi Development Ltd
35. Mentor Management Ltd
36. Camelot Consultants Ltd
37. Jabez Properties
38. Mwanzoni Ltd/Lavish Golf Ltd
39. Karume Holdings Ltd
40. Fedha (Management) Ltd
41. Ijenga Ventures Ltd
42. Bahati Ridge Development Ltd
43. Heri Homes Ltd
44. Leo Capital Holdings Ltd
45. HF Development Investment (HFDI)
46. Tatu City Ltd
47. Rozana Properties Ltd
48. Sigimo Entreprises Ltd
49. Optiven Ltd
50. Oakpark Properties Ltd
51. Kamhomes Investment Ltd
52. Homescope Properties Ltd
53. Thika Greens Ltd
54. Africa Reit Ltd
55. Actis Africa Ltd
56. Boleyn Magic Wall Panel Ltd
57. Century City Property Ltd
58. Daykio Plantations Ltd
59. Kings Developers Ltd
60. Nanyuki Mall Ltd
61. Pentagon Properties Ltd
62. Sayani Investments Ltd
63. Scion Real Estate Ltd
64. Superior Homes Kenya Ltd

65. Unity Homes Ltd
66. Glamart Properties Ltd
67. Vishwa Developers Ltd

Source: KPDA (2017)

Appendix III: Summary of the salient differences between a property company and a REIT company

TRADITIONAL PROPERTY DEVELOPMENT COMPANY	REAL ESTATE INVESTMENT TRUST
Permitted to invest in any type and class of assets	Restricted from venturing outside real estate producing income
Optional requirements for listing in the stock exchange	Achieves liquidity and transparency through regulation and listing in the stock market in many jurisdictions
Permitted to retain and reinvest net profits as they wish	Income Distribution is regulated and it must be paid to unit holders on annual basis ranging from 75%to 100%
Subject to payment of capital gains, stamp duty on transfer of property as well as income tax on profits/dividends	REITs enjoy preferential tax treatment and various jurisdictions have tax incentives that are relevant to their economy exempting capital gains, income and corporate tax.
Day to day management is at the discretion of shareholders and appointed directors.	Managed by professionals; the Trustee; REIT manger and property manager who must be licensed and approved by the regulatory authority in many jurisdictions.
Liquidity is not easily achieved especially for ongoing projects	Achieves liquidity through the trading platform at the stock market
Legal form can be a limited liability company either private or public	Legal form is in the Nature of a trust, and it is established through a trust deed which appoints a trustee for the purpose of holding the property and administering the assets funds and portfolio in a fiduciary capacity

Source: Author, 2017

Appendix IV: Summary of Kenyan REITs structure as provided under the CMA regulations 2013

PARTICULARS	I-REIT	D-REIT
Activity	70% of income earning to be generated from rental income, License fees, usage and access rights	After an initial offer the funds can be deposit in bank deposit for a maximum period of 6 months thereafter 30% of total assets value must be invested in development and construction projects or incoming producing developments
Initial Assets	Kes. 300 million	Kes. 100 million
Ownership	All assets are held by and under the control of the Trustee. a Trustee (must either be a bank or a subsidiary) with demonstrated financial and technical capacity	< Similar
No. of investors	Seven	Seven
Management	The REIT manager is appointed by the Trustee for the day to day operations and they are assisted by a valuer and a property manager.	
Distributions	80% of net income should be distributed to unit holders; however capital gains can be reinvested.	Subject to the trust deed based on capital gains realized in a financial year or resolution of shareholders
Non Real Estate investments	Cash deposits, bonds and money market instruments should not be more than 5% of the total assets value except for government securities and fixed deposits with a licensed commercial bank	<similar
Limitation on Borrowing	Should not exceed 35% of total assets value, however with consent of REIT security holders it can extend to 40% for a maximum period of 6 months	Should not exceed 60% of total assets, however with consent of REIT security holders it can borrow up to a maximum of 75% for a period of six months
TAX Treatment	Stamp duty, capital gains tax, corporate tax, presently not applicable	<similar
Mortgage loans	Not allowed	Allowed to enable end buyers acquire the projects offering
Liquidity	Close ended fund where units are traded and disposed at the stock market.	Open ended fund and redemption of shares is by the Trustee.
Public Offering	Mainly Unrestricted offer through an initial public offering.	Can either be a restricted (private) or unrestricted offer (public)

Appendix V:REITs Structure in other Jurisdictions

State	Minimum Investment In Real Estate	Dividend Payment	Tax Treatment
United States	75%	90%	• Only un-distributed income is liable to corporate tax rates • no withholding tax on domestic distributions • resident unit holders pay ordinary income tax on their distributions
Australia	50%	100%	• Undistributed income taxed at 46.5% • no withholding tax on domestic distributions
Canada	80%	85%	• Undistributed income liable to pay federal tax no withholding tax on domestic distributions • resident unit holders pay ordinary income and capital gains tax on their distributions
United Kingdom	75%	95%	• No tax on income earned or capital gains • Unit holders liable to pay 20% withholding tax on dividends derived
Netherlands	100%	100%	• Dividends and capital gains derived by domestic substantial interest holders are subject to 25%tax while the non-substantial holders is 1.2%
Singapore	70%	90%	• only undistributed income is subject to tax • no withholding tax • resident unit holders pay tax on distributions
Hong Kong	100%	90%	• distributions Exempt from tax • property are subject to applicable property tax

Source: Author, 2017