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Effect Of Private Asset Financing Loans On Financial Performance Of Real Estate Investment Firms In Nauru Town, Kenya

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Abstract: *There has been an ever-growing demand for housing in Kenya. Though this may spell booming business for real estate financing investments, this has not been the case, at least in in relation to financial performance. The study examined the effect of private asset financing loans on financial performance of real estate investment firms specifically in Nakuru town, Kenya. In particular, the study analyzed the effect of asset-to-loan ratio on financial performance of the said entities. The study population consisted of 80 real estate developers (real estate investment firms). Due to the relatively small size of the study population, a census design was adopted. A structured questionnaire was used to facilitate data collection. The instrument was pilot tested in order to determine both its validity and reliability before it was used to aid in collection of data for the main study. The Statistical Package for Social Sciences Version 24.0 programme was used in data analysis. Data analysis involved both descriptive and inferential statistics. The results of the analysis were presented in tables. The null hypothesis was tested at 95% confidence level. It was established that asset-to-loan ratio substantively influenced financial performance of the stated firms ($\beta_0 = 0.327$). The null hypothesis was rejected ($p < 0.05$). It was concluded that asset-to-loan ratio significantly affected financial performance of real estate investment firms in Nakuru town. It was concluded that a substantive proportion of financial performance of the stated firms could be attributed to private asset financing loans, as depicted by the ratio of assets to loans. The study recommended that the real estate investment firms should minimize their reliance on the assets already owned by the borrowers as one of the major conditions for extending applied loans to them.*

Key words*: Asset-to-loan ratio, financial performance, private asset financing loans, real estate investment firms*

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I. Introduction

The development of the housing sector is widely recognized as an integral part of economic development. In addition to the large share that the housing sector occupies in the economy, its importance also arises from the positive externalities and spillover effects and its impact on the social and political climate, issues of particular importance in developing countries. In most countries and increasingly so in emerging economies, housing represents a large proportion of a household's expenditure and takes up a substantial part of lifetime income. Usually, it is the largest asset owned by households. The backward and forward linkages to land markets, durable goods manufacturing and development of labor markets with depth and mobility further underscore the significance of this sector, particularly in the process of economic transition [1].

Real estate financing has over the years been a preserve of mortgage financing companies but with time, commercial banks have started engaging in mortgage financing. An efficient housing finance system has significant importance both in meeting the housing needs of individuals and in reinforcing the development of the construction, finance and other related sectors of an economy. International experience suggests that, the widespread availability of residential mortgages has favorable impact on poverty alleviation, quality of housing, infrastructure, and urbanization [2]. Developed countries currently have very advanced housing finance systems in which funds flow from people with fund surpluses to the ones that have deficits and need the funds through the various channels provided by the mortgage markets.

It is postulated that commercial real estate development in Africa, specifically, Sub-Saharan Africa is on an upward trajectory [3]. On the same vein, it is stated that demand for housing is catalyzed by rapid urbanization, increased wealthy population particularly middle-class, re-location of business ventures, and also travel to Africa for both business and tourism. The identified factors have resulted in increased demand for modern offices, hotels, and retail malls among other real estate facilities. It is further argued that real estate development is not uniform across the continent. Ghana, Nigeria and Kenya are stated to be the most active

jurisdictions in real estate development. Development in these countries is largely centred on urban areas with Accra, Lagos, and Nairobi respectively leading in construction of modern malls [3].

In Kenya, real estate industry in is one of the leading indicators of development [4]. Economy growth is used to measure the economic growth and health of a country. Kenyan mortgage businessmen invest in real estate and on return, they expect return. Performance of real estate market is measured in terms of rental income, risks of occupancy level and return on investments. It is stated that that property rental income relates to the return gained out of the investment while risks are measured by the level of variability of income [5]. Before investment, mortgage players gauge both expected risks and returns to ascertain the prices of real estate property. Increase in mortgage loans lead to improvement in liquidity and profitability levels in real estate industry.

As more rural urban migration occurs more well-constructed houses must be built to mitigate the rise of informal settlements. This is against the backdrop of a widening housing gap particularly in urban areas which had reached two million units by 2015 coupled by underdevelopment of the real estate sector in Kenya [6]. In this regard, it is imperative to investigate how private asset financing loans influence financial performance of firms in real estate investments in Kenya.

II. Statement of the Problem

Kenya has a large housing gap which is growing every year and is increasingly prevalent in urban areas due to differences in income levels in the economy. The annual increase in demand for housing in Kenya is 206,000 units annually with 82,000 units required in urban areas. In 2015, the Ministry of Housing estimated that the formal supply of houses to the market reached 50,000 creating a 156,000 shortfall which added up to the 2 million units existing deficit. While Kenya's mortgage market is growing, the industry is dominated by the large commercial real estate firms. Real estate sector has remained largely under-developed despite the fact that sector players recognize the economic and social importance of the sector. This has been attributed to the unstable inflation rates experienced and the high level of unemployment [7]. According to Cytonn Investments [6], the financial performance of real estate in Kenya slowed down by 18.4% in 2017. The slowdown could have stemmed from among others, reduced credit to the private sector by banks emanating from the enactment of the Banking Amendment Act 2015. It has not been determined whether private asset financing loan enhances or diminishes the rate of return (indicator of financial performance) of real estate investments. Poor financial performance of real estate firms has far-reaching implications. This is underscored by the fact that it is an important industry that makes enormous contribution to the Kenyan economy. The hitherto empirical studies have failed to address the aforestated themes adequately. Scarcity of empirical evidence particularly in respect of private asset financing and financial performance of real estate firms in Kenya further necessitated conducting of this study.

III. Study Objective

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

IV. Research Hypothesis

H_0: There is no statistically significant effect of asset-to-loan ratio on financial performance of real estate investment firms in Nakuru town.

V. Literature Review

5.1 Theoretical Review

The study was guided by the financial intermediation theory which was proposed by Modigliani and Miller [8] but has been advanced by other scholars [9]. The theory states that intermediaries serve to minimize transaction costs and informational asymmetries. Financial intermediaries that are active in the real estate industry include commercial banks, mutual savings bank, savings and loan associations and life insurance companies. The financial intermediaries act as a link between lenders of property asset financing loan (the depositors) and borrowers of mortgage loans. They also help distribute funds in a nation by transferring funds from those parts that have surplus to the areas that need to borrow [10]. A qualitative research on the assessment of the role of government agencies in public-private partnerships in housing delivery in Nigeria revealed formal partnerships between government agencies and commercial private housing developers to be the prevailing type of PPP housing provisions in the country [11]. However, this exists also in other countries and relies on negotiations and MOU between the partners and is centered on dealing with the needs of the middle and high income instead of the low income earners.

Research on financial intermediation forms a central part of the theoretical literature in corporate finance. We test the relevance of several intermediation theories in a novel setting using data from commercial

real estate transactions. There are several reasons for considering the commercial real estate market. First, it is a large and important asset market.' It is therefore of significant economic interest to have theories that explain empirical regularities in property financings. Second, broker intermediation is an unusual form of financial intermediation. Our study shows that brokers serve an important role in providing their clients with access to finance. Brokers intermediate be-tween firms and the bank. This form of intermediation is different from that previously discussed [11]. Finally, the commercial, as opposed to the residential, real estate brokerage industry has received very little attention in the literature [11].

According to this theory, mortgage finance can only be obtained through financial intermediaries due to the risk involved in direct borrowing. This is because; the financial intermediaries can assess the viability of projects to be invested in as well as their location and advice investors accordingly. They also look at the credit position of the borrower before advancing the credit to minimize cases of default in payment. Therefore, financial intermediaries have established some strict measures for borrowers to ensure that depositors' money is put into most useful projects that yield a reasonable return. This paper examines a novel form of financial intermediation by studying the role of professional property brokers in the commercial real estate market. Brokerage is an important agency activity, yet the economic function of brokers is not well understood. The foregoing assertion corroborate the statement that there generally exists a highly organized and broad system of financial intermediation that facilitates the flow of loanable funds between borrowers and lenders [12]. In the context of the present study, borrowings are in form of private asset financing loans.

5.2 Empirical Review

This section entails a review of past empirical studies in relation to private asset financing loans and financial performance of real estate investment firms. A study conducted in India looked into the prospects and problems of real estates in that country [7]. The study describes the asset-to-loan ratio as a financial term that is used by lenders to express the ratio of a loan to the value of an asset purchased. The term is commonly used by banks and building societies to represent the ratio of the first mortgage line as a percentage of the total appraised value of real property. According to the study, the loan amount the private asset financing loan lender is able to lend is determined by the ratio of loan amount divided by the value of property. In addition, the study indicated that, with a private asset financing loan, a borrower can borrow 65% to 75% of the property value. With most private asset financing loan lenders, asset loan ratio is determined through either an appraisal or a broker opinion of value. Moreover, the study indicated that one of the biggest misconceptions in respect of private asset investors was that they charge very high interest rates for making very small loans.

In Singapore, a study titled, a tale of two sectors, that is, upward mobility and private housing was conducted [1]. According to the study, experienced property developers with a successful investment history, assets and a strong credit score give lenders some additional confidence. Moreover, the study established that asset-to-loan ratio is one of the important factors which are employed by lenders to assess borrowers when qualifying them for mortgages. In the same perspective, it was found that the default risk was always at the forefront when making lending decisions. When the foregoing are considered, the likelihood of a lender absorbing a loss increases as the amount of equity reduces. Moreover, the study observed that, as the asset loan ratio of a loan increases, the qualification guidelines for certain mortgage programs become much stricter.

A local study examined the effects of global financial crisis on the financial performance of commercial banks offering mortgage financing in Kenya [2]. The study found that private asset financing loan lenders are more concerned with the investment potential of an individual business venture. Furthermore, it was established that, there are many factors that could affect asset loan ratio due to the fact that private asset financing loan lenders comprehensively evaluate the investment potential of a property and the likelihood of a successful outcome. The study advises that there ought to thorough documentation of the construction plan and consultancy with the lender in order to agree on the best possible arrangement. The study noted that, the higher the asset loan ratio, the more risky a bank may be to higher defaults.

VI. Conceptual Framework

A conceptual framework is defined as a diagrammatic representation of study variables and how they are perceived to relate with each other. It can be accompanied by pertinent narrative to explain the operationalization of the study constructs and also their relationships. In relation to the conceptual framework shown in Figure 1, the independent variable was uptake of private asset asset-to-loan ratio. The dependent variable was financial performance. Each of the stated variables has been operationalized by measurable parameters. The framework presumed that there existed a relationship between each asset-to-loan ratio and financial performance of real estate investment firms in Nakuru town. This study was conducted premised on this hypothesis.

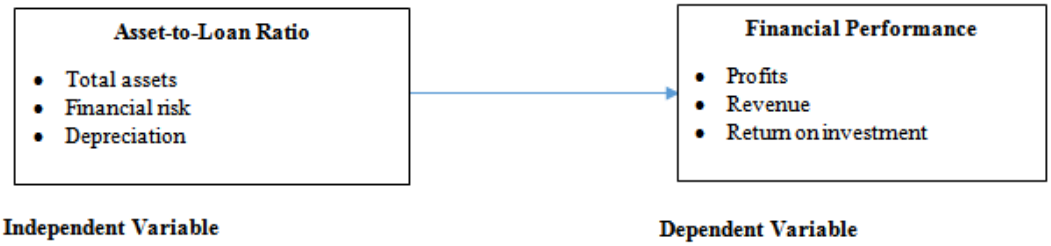

Figure 1: Conceptual Framework

VII. Methodology

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

7.1 Research Design

Research design refers to the overall strategy that is chosen to integrate the different components of the study in a coherent and logical way, thereby, ensuring that the researcher effectively address the research problem. The study adopted descriptive research design [13]. Descriptive research determines and reports things the way they are and is intended to produce statistical information about aspects of interest to policy makers and educators [14]. The choice of this design was supported further by the fact that there was no attempt made to alter the state of affairs in respect of the unit of analysis [13].

7.2 Target Population

Target population describes the aggregate of entities, subjects or individuals sharing similar or related characteristics [13]. In this respect, the target population comprised of all real estate developers in Kenya. Under the target population, is the study population which is defined as the population that a researcher can access given prevailing logistical and time constraints. As such, the study population constituted all the 80 real estate developers operating in Nakuru town.

7.3 Census Design

Given the fact that the study population was relatively small ($N = 80 < 100$), all the members of the study population constituted the unit of analysis [13]. This implies that a census design was adopted. This approach, besides being necessitated by the relatively small population ($N = 80$), it enhanced the generalization of the findings to both the study and target populations. This was due to the fact that there was absolute elimination of both sampling error and sampling bias.

7.4 Research Instrument

A research instrument is described as a tool that enables collection of data from the unit of analysis. By considering several factors, including the number of projected respondents (80), and quantitative approach, the study employed a structured questionnaire to facilitate collection of data [14]. The questionnaire was structured in that it consisted of close-ended items that facilitated collected of categorical (quantitative data). Items in respect of study constructs, that is, uptake of private asset financing loans, interest rates, loan processing time, asset-to-loan ratio, and financial performance, were on a 5-point Likert scale.

7.5 Pilot Testing

A pilot study is a minor study which normally precedes the actual study and is often intended to determine presence of any weaknesses in the research instrument. The pilot study was conducted amongst randomly selected real estate developers operating in Naivasha town mainly due to the fact that the participants in this minor study were to be excluded from the main study. The respondents in the pilot study were 8, which was 10% of the unit of analysis [13]. The probable weaknesses in the research instrument were determined by testing both the reliability and validity of the stated data collection tool.

7.5.1 Validity testing

Validity refers to the accuracy and meaningfulness of inferences which are based on the research results [14]. If such data are true reflection of the variables, then inferences based on such data was accurate and meaningful. To ascertain the validity, the researcher used content validity through supervisor assistance. Content

validity of the instrument was ensured through the development of the items with the help of the University supervisors. The resolve for consulting the supervisor was premised on the argument that content validity cannot statistically be determined [15].

7.5.2 Reliability testing

Reliability measures the degree of accuracy in the measurements an instrument provides. The researcher further noted that to remove possible errors, each instrument was tested before it was formally administered. To ensure reliability or internal consistency, Cronbach's alpha coefficient (α) was used for this study because it helps to establish and show consistency of the responses from respondents in respect of each of the study constructs. The results of reliability testing are as shown in Table 1. As indicated, it is very clear that all the individual study constructs met the reliability threshold since all of them return Cronbach's alpha coefficients greater than the recommended threshold of 0.7. Expectedly, the overall reliability of the research instrument was also achieved. Therefore, having met both the validity and reliability, the research questionnaire was considered suitable for use in collection of data from the projected respondents.

Table 1: Reliability test results

Constructs	No. of Items	Alpha Coefficient
Asset-to-loan ratio	5	0.801
Financial performance	9	0.851
Overall reliability		**0.811**

7.6 Data Collection Procedure

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

7.7 Data Analysis

The collected filled questionnaires were subjected to thorough screening in determine their completeness and appropriateness in respect of how they had been filled. This procedure was intended to address the issue of outliers, which ordinarily compromise the reliability of the results of the study. The statistical Package for Social Sciences (SPSS) Version 24.0 tool was used to facilitate data analyses. Descriptive statistics that included frequencies, percentages, means, and standard deviations were used in the analysis. Moreover, inferential statistics that encapsulated both Pearson's correlation and multiple regression analyses were used, particularly to enable drawing of inferences pertinent to private asset financing loans and financial performance of real estate investment firms operating in Nakuru town. The following regression model was adopted.

$$\mathbf{Y= \beta_0 + \beta_1 X_1 + \varepsilon}$$

Where:

Y = Financial Performance
β_0 = Constant
X_4 = Asset-to-Loan Ratio
ε = Error Term
β_1 = Regression Coefficient of Predictor Variable

The null hypothesis was tested using the T-statistics and at 0.05 precision level ($p = 0.05$). The results of the analyses were presented in form of tables.

VIII. Results and Discussions

The results emanating from data analysis are presented in this section. The results are accompanied by pertinent discussions.

8.1 Response Rate

Response rate refers to the number of respondents who successfully filled the research instruments (questionnaires) against the total number of respondents. In survey studies, it is postulated that the response rate is deemed sufficient when it reaches 75% [16]. In the present study, 80 respondents were issued with questionnaires. Seventy-two respondents filled the questionnaires successfully. Therefore, the response rate was found to be 90.0%, which was considered sufficient [16].

8.2 Descriptive Statistics

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

8.2.1 Asset-to-loan ratio

In addition, the study analyzed the ratio of assets to loans in respect of real estate investment firms in Nakuru town. The results of pertinent descriptive analysis as shown in Table 2 indicated that all the respondents (100.0%) were in agreement that asset-to-loan ratio influenced financial risk in asset financing. In the same perspective, there was general strong agreement (mean = 4.50) and similar opinions regarding the same (std dev = 0.505). It was also indicated that although 16.7% of the respondents disagreed that private asset financing loans extended to borrowers were subject to the assets owned and that the views of the respondents were found to vary significantly (std dev = 1.166), there was a general admission to this assertion (mean = 4.00).

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

Table 2: Descriptive statistics for asset-to-loan ratio

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

8.2.2 Financial performance

The study further analyzed the financial performance of real estate investment firms in Nakuru town for the past one year, that is, between 2016 and 2017. The various parameters of financial performance that were analyzed include revenue, profits, mobilized funds, return on investment, return on assets, return on equity, expenses, liquidity and also working capital. The descriptive results to this effect are as shown in Table 3.

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

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

Though, majority of the respondents (77.8%) admitted that expenses had increased over the past year, their views varied significantly (std dev = 1.116). It was revealed that 66.7% of the respondents admitted that liquidity had increased over the same period. However, 27.8% of the respondents disputed this assertion. Consequently, there was general indifference regarding this proposition (mean = 3.33) which was further supported by the significant variation in the views of the respondents regarding the same (std dev = 1.116). In respect of working capital of real estate investment firms in Nakuru town, a total of 50.0% of the respondents disagreed that it had increased between 2016 and 2017. However, a number of firms (44.4%) recorded

increment in working capital over the same period of time. In general, the respondents were not sure regarding the increase of the working capital, and their opinions regarding this proposition were found to vary significantly (mean = 2.83; std dev = 1.129).

Table 3: Descriptive statistics for financial performance

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

8.3 Inferential Statistics

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

8.3.1 Relationship between private asset financing loans and financial performance

Under private asset financing loans, the focus was on asset-to-loan ratio. In this respect, the study examined the relationship between the ratio of assets to loans and financial performance of real estate investment firms. The aforestated relationship as indicated in the correlation results shown in Table 4 was found to be positive, weak and statistically significant ($r = 0.328$; $p < 0.05$). Therefore, increasing the ratio of assets to loans was likely to substantially increase the financial performance of real estate investment firms in Nakuru town. The results of this study were found to be in agreement with previous findings that indicated that asset-to-loan ratio was essential in determining interest rates, and since interest rates are related to financial performance, it was inferred that that aforestated ratio also affected financial performance [7].

Table 4: Correlation between asset-to-loan ratio and financial performance

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

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

8.3.2 Effect of private asset financing loans on financial performance

The study analyzed the effect of asset-to-loan ratio, as a major constituent of private asset financing loans, on financial performance of real estate investment firms in Nakuru town. The results of coefficient of determination ($R^2 = 0.108$) presented in the Table 5indicated that 10.8% of variation in financial performance of real estate investment firms in Nakuru town could be explained by private asset financing loans as characterized by asset-to-loan ratio. The remaining proportion (89.2%) of variation in financial performance of the studied firms could be attributed to other factors that did not constitute the present study.

Table 5: Regression weights for overall model

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.528[a]	.108	.091	. 22336

a. Predictors: (Constant), Asset-to-Loan Ratio

The study examined the significance of the general regression model indicated below.

$$\mathbf{Y = \beta_0 + \beta_1 X_1 + \varepsilon}$$

The results shown in Table 6, indicated that the aforestated model was statistically significant ($F = 6.276$; $p < 0.05$).

Table 6: Significant test results

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.313	1	.313	6.276	.015[a]
	Residual	2.594	52	.050		
	Total	2.907	53			

a. Predictors: (Constant), Asset-to-Loan Ratio

b. Dependent Variable: Financial Performance

After determining the significance of the regression model as shown in Table 6, the study examined the effect of predictor (explanatory/independent) variable on the dependent variable. In essence, the objective was to assess the extent to which asset-to-loan ratio affected financial performance of real estate financing firms in Nakuru town.

As shown in Table 7, the results are used to substitute the following regression model.

$\mathbf{Y = \beta_0 + \beta_1 X_1 + \varepsilon}$

$\mathbf{Y = 3.859 + 0.010 X_1}$

As illustrated by the regression model, in order to increase financial performance by a single unit, the real estate investment firms were required to increase asset-to-loan ratio by 0.151 unit while holding other factors constant ($\beta_0 = 3.468$).

Table 7: Results for overall model

		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	3.468	.222		15.631	.000
	Asset-to-Loan Ratio	.151	.060	.328	2.505	.015

a. Dependent Variable: Financial Performance

8.4Testing Null Hypothesis

The results of the T-statistics as shown in Table 7 were employed to test the null hypothesis as illustrated below.

$\mathbf{H_{01}}$: There is no statistically significant effect of asset-to-loan ratio on financial performance of real estate investment firms in Nakuru town.

$\mathbf{H_A}$: There is statistically significant effect of asset-to-loan ratio on financial performance of real estate investment firms in Nakuru town.

Results of T-statistics indicated that ($t = 2.505$; $p < 0.05$).

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

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

Therefore, the null hypothesis (H_{01}) was rejected, and the alternate hypothesis (H_A) taken to be true.

IX. Recommendations

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

The study recommends that real estate investment firms should maintain the right level of liquidity in order to be in a position of taking advantage of favourable investment opportunities that may present themselves. Being investments firms, it should be ensured that the return on investment is the overriding objective of real estate investment firms. The firms should also ensure they maintain sufficient working capital in order to address daily and short-term expenditure such as administrative and marketing costs.

X. Conclusions

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

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

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

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