

RISK- RETURN RELATIONSHIP OF LISTED RESIDENTIAL REAL ESTATE
INVESTMENTS BY HASSCONSULT KENYA

by

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APPROVAL

RISK- RETURN RELATIONSHIP OF LISTED RESIDENTIAL REAL ESTATE INVESTMENTS BY HASSCONSULT KENYA

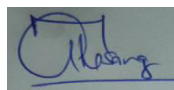
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DECLARATION

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I declare that this thesis is my original work and has not been submitted to any other college or university for academic credit.

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LIST OF ABBREVIATIONS AND ACRONYMS

ANOVA	Analysis of Variance
APT	Arbitrage Pricing Theory
CAPM	Capital Asset Pricing Model
CBK	Central Bank of Kenya
CPI	Consumer Price Index
CREFs	Coming Led Real Estate Funds
ETFs	Real Estate Exchange Traded Funds
GDP	Gross Domestic Product
HPI	House Price Index
KBA	Kenya Bankers Association
KNBS	Kenya's National Bureau of Statistics
LIMS	Land Information Management System
OECD	Organization for Economic Co-operation and Development
OLS	Ordinary Least Squares
REITs	Real Estate Investment Trusts
S&L	Saving and Loans
TOM	Time to Market
VIF	Variance Inflation Factor

ABSTRACT

The purpose of this research was to examine the risk-return relationship of residential real estate investment in Nairobi County. The research examined whether there was a significant relationship between betas and the expected return on residential real estate investment in Nairobi, Kenya. The study focused solely on residential property in Nairobi from 2010Q1 to 2021Q1, with an emphasis on selected systematic risks which are: liquidity risk, interest rate risk, income risk and inflation rate risk. The Capital Asset Pricing Model (CAPM), Arbitrage Pricing Theory (APT) and Tobin's q theory were used in this study to determine the relationship between risk and return on residential properties. The study's target population consisted of all listed residential property by HassConsult in Kenya from 2010 Q1 to 2021 Q1. The study relied on secondary data, and a census is used to collect information on the house price index and rent index from HassConsult, respectively. A quantitative design was used, with correlation, descriptive, and causal studies included. The collected data was analyzed with the help of Eviews12. The findings revealed that the house price index and the rent index had a volatile trend which is comparable on average. The highest and lowest points of the beta value corresponded to changes in the underlying risk factors, with the exception of inflation rate risk and income risk. Liquidity risk and inflation rate risk have a negative and significant effect on the house price index, whereas interest rate risk has a positive and significant effect. Only income risk had a negative and significant effect on the rent index. Findings from this study concludes that rental income is the most profitable component of return and is less exposed to systematic risk, whereas house price provides a lower return and is more susceptible to systematic risk. The study recommended that policymakers control these factors, and investors should estimate their expected return by taking risk premiums into account.

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