

LOAN FINANCING, LEASE FINANCING AND THE FINANCIAL PERFORMANCE OF REAL ESTATE DEVELOPERS IN NAIROBI COUNTY, KENYA

BY

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Abstract

Kenya's real estate sector contributes between 7% and 10% of the national Gross Domestic Product and has registered a consistent annual growth rate of approximately 6% to 8% over the past decade. Despite this expansion, real estate developers in Nairobi County continue to face significant financial challenges, including high interest rates exceeding 12% per annum, limited access to affordable long-term capital, and an excessive dependence on traditional debt instruments. These constraints have constrained operational flexibility, eroded profitability, and exposed developers to systemic financial shocks. This study examined the impact of loan financing and the influence of lease financing on the financial performance of real estate developers in Nairobi County, Kenya, with financial performance operationalised through Return on Assets (ROA) and Return on Equity (ROE). Anchored on Agency Theory and the Resource-Based View (RBV) Theory, the research adopted an explanatory research design and a cross-sectional survey approach, targeting 470 real estate developers registered by the Estate Agents Registration Board. A sample of 141 developers was selected through simple random sampling, and structured questionnaires were complemented by secondary data drawn from financial statements. The pilot study was conducted in Kiambu County, with reliability confirmed through Cronbach's Alpha values of 0.933 for loan financing, 0.897 for lease financing, and 0.964 for financial performance. Data were analysed using SPSS Version 27 through descriptive statistics, Pearson correlation, and multiple linear regression. Findings revealed that loan financing ($r = 0.536$; $\beta = 0.31$, $p = 0.001$) and lease financing ($r = 0.601$; $\beta = 0.42$, $p = 0.000$) both exerted positive and statistically significant effects on financial performance, with lease financing emerging as the stronger predictor. Both null hypotheses were rejected. The study concludes that structured loan facilities and well-negotiated lease agreements substantially enhance ROA and ROE among Nairobi real estate developers, and recommends a balanced financing portfolio supported by enabling regulation.

Keywords: Loan Financing, Lease Financing, Financial Performance, Real Estate Developers, Return on Assets, Return on Equity, Nairobi County.

1. Introduction

1.1 Background of the Study

The financing models play a pivotal role in shaping the financial performance of firms as they directly impact their operational capacity, strategic flexibility, and long-term sustainability. The consequences of debt financing, equity financing, lease financing, venture capital, and

crowd funding are distinct in terms of the organisations, markets, and firms that result, which ultimately affect efficiency, profitability, and risk exposure (Hayes, 2024; Doe & White, 2024). Firms with financing decisions that are consistent with their developmental goals and resources endowment are likely to have better financial stability and firms with incorrect

financing decisions continue to be exposed to market uncertainties. This relationship is especially relevant in capital heavy industries like real estate, where investments have significant durations and high capital expenses (Brown & Green, 2021).

World Bank (2022) reveals that globally, financing instruments have been seen to have an impact on liquidity, profitability and risk exposure of real estate companies. Structured financing instruments like Real Estate Investment Trusts (REITs) have enhanced market resilience and asset liquidity in high income economies especially in the U.S. (NAREIT, 2022). Conversely, markets with high interest rates and weak fiscal fundamentals have suffered substantial pressure on real estate performance, due to an overreliance on debt-based financing. Overall, real estate in Africa remains to face issues of lack of access to affordable long-term financing, complicated regulations, and weak financial systems (African Development Bank, 2021). While debt financing is the most prevalent model, developers have started to consider equity instruments, joint ventures, public-private partnerships and various innovative financial instruments (UN-Habitat, 2020). According to Odongo and Mwangi (2021), African real estate companies that are financed through a diversified financing arrangement have been able to achieve better financial performance.

The real estate industry in Kenya has witnessed significant growth, accounting for a substantial part of the nation's Gross Domestic Product (GDP) and employment. Nonetheless, the real estate developers still struggle to access financing at affordable rates as the interest rates are often above 12% per annum (Central Bank of Kenya, 2022). The regulatory environment is limiting equity financing, as is the uncertainty prevailing in the market, whereas structural inefficiencies in capital markets are reducing developers' immunity to market shocks (Kenya Bankers Association, 2021). Joint ventures and public-private

partnerships have been considered as alternative mechanisms for large-scale projects, but come with governance issues, regulatory requirements, and operational complexity (Ombati & Mwenda, 2023). The current study is informed by Muigai and Maina (2022) who highlight that diversification of funding portfolios not only brings about liquidity to the developer but also offers cushioning against economic shocks.

1.2 Statement of the Problem

The Kenya Mortgage Refinance Company Research Insights, April 2023 indicate that Kenya's real estate sector accounts for about 7% to 10% of Kenya's GDP, which was valued at KES 8.82 trillion in 2018 and rose to KES 11.5 trillion in 2022 (Cowling, 2024). However, the industry has suffered due to high cost of capital, high interest rates and failure to obtain low-cost long-term financing from developers (Kenya National Bureau of Statistics, 2021). The cash flow pressures are very strong as developers rely on conventional loans with high interest rates of over 12% per annum (Central Bank of Kenya, 2022). This overdependence has restricted the ability to reinvest and jeopardized long-term financial sustainability.

Adding to the problem, real estate developers in Kenya are not readily turning to other financing alternatives due to limited awareness, regulatory uncertainty and market instability. According to Muigai and Maina (2022), over 60% real estate companies in Nairobi have reported that they do not have the financial resources to undertake their projects, which leads to project postponements, loss of investor confidence and increased business risks. While previous research by Karuntimi (2022) and Kimaru (2018) has touched on some issues of real estate financing in Kenya, these studies have been narrowly targeted at conventional financing methods, lacking theoretical foundations or not establishing any relationship between financing structures and financial performance indicators like Return on

Assets and Return on Equity. This study seeks to fill this gap by looking in particular at the effects of loan financing and lease financing on the financial performance of real estate developers in Nairobi County.

1.3 Purpose and Specific Objectives

The purpose of this article is to examine the relationship between two key financing models and the financial performance of real estate developers in Nairobi County, Kenya. Specifically, the article addresses the following objectives:

- i. To determine the impact of loan financing on the financial performance of real estate developers in Nairobi County, Kenya.
- ii. To investigate the influence of lease financing on the financial performance of real estate developers in Nairobi County, Kenya.

1.4 Research Hypotheses

The study tested the following null hypotheses at the 5% significance level:

H₀₁: Loan financing has no significant effect on the financial performance of real estate developers in Nairobi County, Kenya.

H₀₂: Lease financing has no significant effect on the financial performance of real estate developers in Nairobi County, Kenya.

1.5 Significance of the Study

The Nairobi real estate market is experiencing rapid growth, driven by the increasing need for residential and commercial buildings. However, there are few empirical examples of the effectiveness of particular financing models in this market. This article uses a comparison of loan financing and lease financing, as demonstrated by measurable financial performance indicators, to provide evidence-based insights to support developer strategic decision making, to improve financial institution product design, and to inform financial regulation policy. The results also help to fill gaps in the academic literature on real estate

finance in emerging markets that were previously uncovered in the literature.

2. Literature Review

2.1 Theoretical Framework

2.1.1 Agency Theory

The Jensen and Meckling (1976) Agency Theory deals with the relationship between principals (shareholders or lenders) and agents (managers) and the conflicts that arise when the agents' goals differ from the principals' goals. It is the alignment of incentives that is the primary mechanism for controlling agency costs, as noted by Fama and Jensen (1983) and moral hazard and shirking can occur if monitoring is weak, as noted by Eisenhardt (1989). Shapiro (2005) builds on the theory by differentiating between monitoring and bonding costs, while Hillman and Dalziel (2003) highlight performance-based incentives as governance mechanisms. Jensen (1986) also believes that debt securities help to discipline managers as they must make interest and principal payments.

However, the theory has been criticized for its limited rationality assumptions and neglect of cooperation aspects in principal-agent relations (Pepper & Gore, 2015; Cuevas-Rodríguez et al., 2012). In spite of these drawbacks, Agency Theory offers a strong perspective on the effects of loan financing on financial performance. Debt commitments force managers to use borrowed funds efficiently in order to pay off the debt according to the set time line, hence making their actions consistent with shareholders' goals (Jensen, 1986). But, if debt levels rise above optimal levels, agency costs of financial distress and bankruptcy risk (Myers, 1977) increase. Omondi and Muturi (2019) and Kamau, Muturi, and Gachanja (2021) show that good lending practices and systematic monitoring have a positive impact on firm performance in Kenya. The theory thus supports the first objective of this study, which is to connect loan financing with the disciplining effect of debt, and with ROA and ROE outcomes.

2.1.2 Resource-Based View (RBV) Theory

As expressed by Wernerfelt (1984) and further developed by Barney (1991), the Resource-Based View (RBV) suggests that competitive advantage and superior firm performance are the result of the combination of resources and capabilities which a firm controls. Barney (1991) states that for resources to provide sustainable competitive advantage they must be valuable, rare, inimitable and non-substitutable (VRIN). The theoretical bases were given by Penrose (1959) who studied firm growth, Peteraf (1993) and Grant (1991) who both underlined the value of resource heterogeneity and good management practice. The RBV is also well suited for capital intensive industries as it highlights the importance of asset endowments at the strategic level.

Critics of the RBV argue that it cannot fully explain dynamic market conditions and/or external environmental conditions (Priem & Butler, 2001; Barney & Arikan, 2001), and that the identification of VRIN resources is inherently difficult (Eisenhardt & Martin, 2000). However, there is strong support in the framework for the second objective. Lease financing allows companies to access necessary assets for operations without committing significant upfront capital, which helps maintain liquidity and flexibility in operations (Modgil, Gupta, & Tomar, 2023). When used as strategic assets, leased assets can bring the benefits of financing to support organisational goals, provide optimal capital allocation and sustainable growth (Barney, 1991; Peteraf, 1993). According to Kinyua, Muturi and Omondi (2021), companies in Kenya have been increasingly turning to lease financing, especially to acquire cutting-edge technology and enhance their competitive edge. Thus, directly the RBV is the basis of the analytical treatment of lease financing in this study.

2.2 Empirical Review

2.2.1 Loan Financing and Financial Performance

The empirical work in the literature on the relationship between loan financing and firm performance is varied, and mostly supports a positive relationship. Giang et al. (2019) analyzed the impact of bank loan access on productivity of small and medium manufacturing enterprises in Vietnam and found that bank loan access positively and significantly contributes to enterprise productivity. Aziz and Abbas (2019), on the other hand, used the panel least squares approach and examined fourteen non-financial sectors in Pakistan during 2009-17, and concluded that the negative impact of increasing debt financing was significant due to the increase in interest expenses and the burden of debt servicing. These divergent results indicate that financing with loans is subject to very important dependent conditions such as the terms of loans, the market situation, and managerial discipline.

With a similar context in emerging markets like Kenya, Manyanga, Kanyepe, Chikazhe and Manyanga (2023) employed a positivist cross-sectional survey of 210 SMEs in Zimbabwe and found that trade credit, long-term borrowing and short-term loan all had a positive net effect on financial performance. The authors concluded that, SMEs are leveraging loan financing as a tool for performance enhancement with limitations from the single design and no triangulation of the study. Okelo (2021) studied the effect of debt financing on the financial performance of SMEs in Homa Bay Town with a sample of 296 retail enterprises and found that the financing significantly boosted financial performance of the retail enterprises. This evidence was further corroborated by Kyengo, Roche, and Kavale (2023) who used stratified sampling and inferential statistics in their survey of 109 SMEs in Mombasa County and found that the financing of SMEs through bank loans significantly improves their performance. While these studies made a contribution, they had limitations in terms of the SMEs studied were in retail and general business sectors, the financial performance

measures used were not as specific as ROA and ROE and the use of primary and secondary data was often not combined. They also did not target on Nairobi's real estate sector, which this study helps fill.

Mugisha, Omagwa and Kilika (2020) investigated the level of short term debt financing of SMEs in Buganda region of Uganda and found that over dependence on short term debt financing had high cost implication, reducing returns on assets and crippling sustainable growth. Similarly, Ophelia et al. (2021) found that short-term borrowing tends to restrict the size of projects for SMEs in Ghana, as it negatively affects their financial performance. These findings focus the argument with respect to the inclusion of loan tenure, interest rates and collateral terms as conditioning factors in the loan-performance relationship.

2.2.2 Lease Financing and Financial Performance

Evidence of the effect of lease financing on financial performance has been overwhelmingly positive, especially in capital-intensive industries. Yusuf and Isa (2021) studied the impact of lease financing on the financial performance of twelve Islamic banks listed in Malaysia from 2004 to 2018, and they concluded that lease financing had a positive effect on ROA, NPM and TAT. Shams uddeen, Bishir, and Khalid (2024) employed robust ordinary least squares regression in the examination of six oil and gas firms listed on the Nigerian Stock Exchange and discovered that lease financing has a significant impact on ROA. While these studies produced strong positive evidence of the link between lease performance, their sample size and industry scope was limited and the data was merely secondary.

In Kenya, Tanu and Oluoch (2021) investigated the 102 microfinance institutions operating in Nairobi County and concluded that flexible lease financing resulted in improved cash flow and financial position. Olweny and Muthoni (2019) investigated the impact of lease finance conditions

on the performance of 102 SMEs in Nairobi County and found that flexible lease conditions positively affected cash flow, liquidity and budgetary planning, all of which are key determinants of financial success. Aremo and Ayorinde (2022) also reported the benefits of lease financing for listed manufacturing firms in Nigeria and Hameed and Bello (2023) found the same effect on conglomerates listed on the Nigerian Stock Exchange. Luqman and Oluwaseun (2020) found that leasing minimizes risk of financial problems and better facilitates scaling up in competitive situations. Mary and Charles (2017) also examined the determinants of lease financing in the manufacturing industry of Kenya, and offers some contextual evidence about the dynamics of leasing operations.

Despite these contributions, literature has so far mainly focused on banking; microfinance; manufacturing and oil and gas industries, with Nairobi's real estate sector largely under-explored. Most studies have also used cash flow or single performance measures instead of a dual ROA/ROE method as used in this study. These gaps are the rationales for the following empirical investigation.

2.3 Knowledge Gaps

A considerable number of empirical studies have focused on financing models and their performance consequences, but there are four pertinent gaps. In context, previous research efforts have focused on SMEs, manufacturing companies, or specific sectors in Ghana, Nigeria, Uganda, Zimbabwe, Vietnam, Pakistan, Malaysia and Italy with little interest in the real estate developers in Nairobi (Okelo, 2021; Kyengo et al., 2023; Tanu et al., 2021). Existing literature has tended to use a single framework such as Pecking Order Theory and Resource Dependence Theory and ignored Agency Theory and Resource-Based View as integrative lenses. In terms of concept, financial performance has been measured broadly or narrowly, with the combined

ROA and ROE indicators central in this study often not part of the measurement. In methodological aspect, previous studies were only based on one source data without any data triangulation process, used small samples or did not do instrument validation. The present article seeks to fill these lacunae and adopt a multi-theoretical study with a specific focus on REALTORS in Nairobi, a mixture of primary and secondary data and validated instruments calibrated to ROA and ROE.

3. Research Methodology

3.1 Research Design

This study was conducted using the explanatory research design that is suitable for discovering the causal relationship between variables and testing the hypotheses that the independent variable has an impact on the dependent variable (Creswell & Creswell, 2018). While descriptive research designs are used to describe the phenomena, explanatory research designs are used to explain how and why of the observed relationship. The design was translated into a cross-sectional survey approach to collect quantitative data from real estate developers at a specific point in time. Inferential statistics were used to test the study hypotheses (Babbie, 2020), and multiple linear regression was used to determine the strength and direction of the relationships between the variables of financing models and financial performance.

3.2 Target Population

The population of interest consisted of 470 real estate developers who were registered by the Estate Agents Registration Board (EARB) in Nairobi County (Estate Agents Registration Board, 2022). Nairobi was identified as the focal area as it is the economic hub and also the most prominent real estate market in Kenya. By limiting the sample to EARB registered developers, the composition of companies was limited to firms where financial behaviour is

public and practice is representative of the formal sector and that are formally regulated. The developers themselves were used as units of observation as well as units of analysis.

3.3 Sample Size and Sampling Procedure

The study followed the recommendation of Gay et al. (2011), that 10% to 30% of the target population is sufficient for descriptive research, and sampled 141 developers, which is 30% of the registered developers in Nairobi County. To minimize selection bias and/or maximize representativeness, the list of the EARB was sampled using simple random sampling, where every other number starting from two was selected: 2, 4, 6, 8, etc.

3.4 Data Collection Instruments and Procedure

The data collection instrument used was the structured questionnaire which consisted of the Likert scale items and closed-ended items related to the objectives of the study. Secondary data were collected from the financial statements of the developers, published reports from the Kenya National Bureau of Statistics and the Central Bank of Kenya in addition to the data gathered through the self-questionnaire. These financial statements were then used to calculate ROA and ROE to triangulate primary responses. Data was collected after an introductory letter was granted from the university and a research permit from the National Commission for Science, Technology and Innovation (NACOSTI). Questionnaires were implemented with the help of trained research assistants, respondents were provided one to two weeks to complete the questionnaires and follow-up calls were made to maximize response rate.

3.5 Pilot Study, Validity and Reliability

14 real estate developers (10% of the sample) were sampled from Kiambu County for a pilot study. Prior to data collection the pilot tested the questionnaire for clarity, structure, and consistency, which resulted in minor refinements

in the questionnaire before data collection. The validity of the contents and the face was obtained from expert opinion and consultation with the supervisor. The internal consistency of the instruments was determined by Cronbach's Alpha, where the values between 0.7 and 0.9 are acceptable based on the criterion proposed by George and Mallery (2019). Pilot results revealed good internal consistency for the two focal constructs.

3.6 Data Analysis Procedures

Quantitative data were analysed using SPSS Version 27. Descriptive statistics including means, frequencies, percentages, and standard deviations summarised respondents' demographic profiles and the distributions of the focal variables. Inferential analysis comprised Pearson correlation and multiple linear regression. The regression model is specified as:

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

where Y denotes financial performance (operationalised through ROA and ROE), X_1 denotes loan financing, X_2 denotes lease financing, X_3 and X_4 denote the additional financing models examined in the parent study, and ε is the residual error term. For purposes of this article, attention is restricted to β_1 and β_2 .

3.7 Diagnostic Tests

Before performing the regression, the data set was checked for linearity (scatter and partial regression plots), independence of errors (Durbin–Watson statistic), homoscedasticity of errors (residuals-versus-predicted plots), normality of the error terms (P–P plots and the Shapiro–Wilk test), and multicollinearity of the independent variables (Variance Inflation Factors and tolerance values). The results of these tests indicated that the assumptions of ordinary least squares regression were met.

3.8 Ethical Considerations

The study obtained ethical clearance from the CUEA Research Ethics Review Committee (CUEA-RERC) and from NACOSTI before the work was done. Respondents who were asked to participate did so voluntarily and were told the purpose of the research. Identifying data was kept off questionnaires in order to maintain anonymity and confidentiality was ensured during all stages of data analysis and reporting.

4. Results and Findings

4.1 Response Rate and Respondents' Profile

A return rate of 73.8% was recorded – that is, 104 questionnaires were completed and returned from 141. If you want to be able to generalize your survey results to the community you're trying to reach, you need a response rate higher than 70% (Cresswell, 2018). The 66.3% males and 33.7% females respondents were seen as support for both males and females being part of the real estate development business in Nairobi. Educational Qualifications showed that 29.8% was a Bachelor's Degree, 27.9% was a Master's Degree, 22.1% was a Diploma, 11.5% was a Postgraduate Degree, 6.7% was a Certificate and 1.9% had no formal qualifications. The expected number of respondents includes those with enough information to be well informed about financial and operational decisions and 42.3 % have more than 16 years of experience in the sector, 26.0 % have an experience of 11 to 15 years and 17.3 % have 6 to 10 years of experience, while 14.4 % have five years or less.

4.2 Reliability of the Instrument

The reliability score of the focus variables was more reliable than the 0.7 reliability level recommended by Vaske, Beaman and Sponarski (2017). This high level of internal consistency with scores of “Cronbach's Alpha” at 0.933 for loan financing, 0.897 for lease financing and 0.964 for financial performance indicate that the questionnaire was valid for collecting data.

4.3 Descriptive Statistics

4.3.1 Loan Financing

Table 1: Descriptive Statistics for Loan Financing

Statement	n	Mean	Std. Dev.
Interest rates offered by lenders are affordable for my real estate projects	104	2.20	1.041
I regularly compare interest rates from different lenders to secure favourable terms	104	4.06	1.314
The loan tenure provided by lenders is sufficient to complete real estate projects	104	2.57	1.586
The length of the loan tenure significantly affects the profitability of my projects	104	3.94	1.486
Collateral demands often restrict access to necessary financing	104	3.88	1.426
The collateral valuation process by lenders is fair and transparent	104	2.42	1.206
Overall		3.18	1.569

Source: Research Data (2025)

Real estate developers typically consider existing interest rates to be too high, as indicated in real estate developers' responses to the question, "How costly are current interest rates to your real estate business?" ($M = 2.20$, $SD = 1.041$; see Table 1). The results are consistent with Aziz and Abbas (2019), who have observed that in Pakistan non-financial firms are negatively affected by financing their operations with the help of high interest loans; and Mugisha et al. (2020), who have shown that for small and medium-sized enterprises (SMEs) in Uganda, short-term debt imposes a burden. Despite these restrictions, developers are obviously sensibly placing their money where it will create the greatest amount of interest rate savings when taking out a loan ($M = 4.06$, $SD = 1.314$). This fits the report of Giang et al. (2019) which confirmed that selective borrowing strategies can greatly increase productivity.

There is a risk of project failure and poor performance with shorter repayment periods and

loan tenure is felt to be too short ($M=2.57$, $SD=1.586$), in line with Ophelia et al (2021). Although long-term financing is found by manyanga et al. (2023) to relieve financial stress and enhances project performance, developers unanimously agree that the loan duration has a significant impact on the project profitability ($M = 3.94$, $SD = 1.486$). A score of smaller enterprises, in line with Kyengo et al. (2023), see collateral requirements as binding $M = 3.88$ $SD = 1.426$). As is common with Okelo (2021), the developers are less enthusiastic about the transparency of borrowers' systems to value borrower collateral. When it comes to fund their projects, real estate developers in Nairobi County are not at the same level as the conventional lending facilities. The overall score is 3.18 with a fairly high standard deviation of 1.569, indicating some variance in experiences based on the size, capital base and bargaining power of the firms.

4.3.2 Lease Financing

Table 2: Descriptive Statistics for Lease Financing

Statement	n	Mean	Std. Dev.
Long lease terms provide financial stability for real estate development operations	104	4.17	1.25
I carefully evaluate the lease term before entering into a lease financing agreement	104	4.37	1.12
I find the total cost of ownership for leased assets reasonable compared to outright purchase	104	4.10	1.31
I consider lease financing a cost-effective solution for acquiring real estate assets	104	4.01	1.37
I prefer operating leases due to their lower upfront costs compared to capital leases	104	4.42	1.05
Operating leases reduce the financial risks associated with asset ownership	104	4.34	1.15
Overall		4.24	1.21

Source: Research Data (2025)

As can be seen in Table 2 there is a high degree of consensus that extended lease periods will give financial stability ($M = 4.17$, $SD = 1.25$) – this implies providing stable and predictable financing will contribute to business staying in business and engaging in the market. This lines up with the Resource-Based View's tenet that companies may boost their competitiveness by acquiring and making good use of strategic resources. Developers have meticulous cost and benefit analyses before they enter into lease agreements, with the high mean for prudent lease evaluation ($M = 4.37$, $SD = 1.12$) corroborated with the findings of Aremo and Ayorinde (2022) that well-structured lease agreements offer the optimum balance for risk exposure, investment and performance.

Moreover, in agreement with the results obtained in Yusuf's and Isa (2021) research on the ability of lease financing to improve asset utilisation, the total cost of ownership (TCO) of leased assets is also seen as more equitable by the developers ($M = 4.10$, $SD = 1.31$). As mentioned earlier, people often think that leasing is more cost effective

because it allows them to manage cash flow and it lowers capital expenditures upfront ($M = 4.01$, $SD = 1.37$). Similarly, Shamsuddeen, Bishir and Khalid (2024), Luqman and Oluwaseun (2020) among other authors have reported that operating leases are greatly preferred ($M = 4.42$, $SD = 1.05$) and the use of operating leases reduces ownership risk ($M = 4.34$, $SD = 1.15$). With an average score of 4.24 ($SD = 1.21$) developers see lease finance as a strong tool to help capital-intensive real estate projects stay afloat, make a profit, and expand sustainably.

4.3.3 Financial Performance

Generally, developers agreed that return on assets (ROA) is a suitable measure of operational efficiency and financial health with the mean score of 4.12 ($SD = 1.02$). The relationship between sensible financing techniques and profitability seems obvious to respondents; both the overall financial performance assessment ($M = 4.35$) and the effective management of shareholder equity ($M = 4.33$) confirm that it is. The standard deviations are quite low for most of

the items, indicating that the members of the financial performance construct are rated fairly consistently and thus adding further support for the reliability of the construct.

4.4 Diagnostic Test Results

Multiple regression criteria were validated, and the diagnostic findings confirmed that the data satisfied these criteria. No imputed variables were identified as having high variance inflation factors (VIF) as all the VIFs for the four predictors were well below the value of 10, being between 1.9 and 2.5. A positive linear relationship was established

on the basis of scatter plot and Pearson correlation between the financial performance and financing models. The nearly random scatter around zero in the residual-versus-predicted scatter plot and the near-normality of the residuals confirmed homoscedasticity. The P-P plot and Shapiro-Wilk test confirmed near-normality of the residuals. Both independence of observations with respect to errors and the Durbin-Watson statistic confirm the independence of errors (mistakes). These results provide support for reliability of the inferential outputs and for the use of ordinary least squares regression technique.

4.5 Inferential Statistics

4.5.1 Correlation Analysis

Table 3: Pearson Correlation Coefficients (Selected)

Variable	Loan Financing	Lease Financing	Financial Performance
Loan Financing	1	0.421	0.536
Lease Financing	0.421	1	0.601
Financial Performance	0.536	0.601	1

Source: SPSS Output (Research Data, 2025). Correlations significant at $p < 0.01$.

The correlation study is inversely associated not only to be positive but also statistically. There is the fairly good positive relationship between the accessibility and structure of loan facilities and financial performance ($r = 0.536$, $p < 0.01$). 일 에 improvement of the accessibility and structure of the loan facilities correlate well with higher financial result. The four financing models that

are part of the main study, showed the greatest positive correlation in Lease financing ($r = 0.601$, $p < 0.01$). This validates that making profit, having adequate liquidity and operating efficiently are more achievable for Nairobi real estate developers when they have flexible lease agreements.

4.5.2 Regression Analysis

Table 4: Model Summary

Model	R	R ²	Adjusted R ²	Std. Error	F	Sig.
1	0.819	0.670	0.658	0.412	48.12	0.000

Source: SPSS Output (Research Data, 2025).

When combined, the four finance models explain 67.0% of the financial performance ($R^2 = 0.670$; Adjusted $R^2 = 0.658$), as indicated in the model summary presented in Table 4. High level of significance is supported by an F statistic of 48.12 ($p < 0.001$) for the overall significance of the regression model. The remaining 33% is due to things other than the financial structure, like management behaviour, macroeconomic developments, and regulatory developments.

Table 5: Regression Coefficients

Predictor	β Coefficient	Std. Error	t-value	p-value
Loan Financing	0.31	0.08	3.87	0.001
Lease Financing	0.42	0.09	4.67	0.000

Source: SPSS Output (Research Data, 2025).

The unstandardized coefficients in Table 5 indicate that both of the predictors are positive and significant at the 5% level. The coefficient of the loan-financing index is 0.31 ($t = 3.87$, $p = 0.001$), suggesting that a one-unit increase in the index of the loan-financing component increases the financial performance component by 0.31 of a unit. Lease finance has the greatest effect on financial performance with a β of 0.42, t of 4.67 and p of 0.000. These results indicate that from the two factors discussed here, the financing by leasing is more important predictor.

4.6 Hypothesis Testing

Table 6: Summary of Hypothesis Testing

Hypothesis	t-value	p-value	Decision	Conclusion
H ₀₁ : Loan financing has no significant effect on financial performance	6.42	0.001	Reject H ₀₁	Significant
H ₀₂ : Lease financing has no significant effect on financial performance	5.87	0.003	Reject H ₀₂	Significant

Source: SPSS Output (Research Data, 2025).

The findings from the tests to determine the null hypotheses are presented in Table 6, and were rejected for both null hypotheses. The t -value is 6.42 ($p = 0.001$) with a value above the critical value of 1.96 for H₀₁, which implies that there is a statistically significant influence of loan financing on financial performance. Therefore, the alternative hypothesis is accepted. The lease finance is severely affecting real estate developers with the t -value equal to 5.87, with p value equal to 0.003 which is above the limit and the null is rejected.

5. Discussion of Findings

5.1 Loan Financing and Financial Performance

The results demonstrate that the provision of real estate loans in Nairobi County is appropriate to real estate developers and that they gain monetary

advantages. The relatively good correlation ($r = 0.536$, $p < 0.01$) and positive regression coefficient ($\beta = 0.31$, $p = 0.001$) for loan facilities demonstrates improvement in profitability, liquidity and asset utilization. This finding is in line with previous research that has shown that bank loan funding greatly increased business performance in the Kenyan SME setting (Okelo, 2021; Kyengo, Roche, and Kavale, 2023; Manyanga et al., 2023).

Theoretically, the results suggest that Agency Theory has explanatory power as it can explain the phenomenon in terms of capital-intensive real estate. Jensen (1986) relates that loan requirements can be instruments of good governance as managers are encouraged to use borrowed funds optimally to ensure the funds would be returned. That gets agent conduct closer

to that of the interests of shareholders. The disciplining impact of debt is particularly important in the fields of real estate, where the opportunity costs of relaxing capital expenditures to save one or two percentage points on borrowing rates can be significant, and where free cash flow may be high, making the temptation to underinvest in monitoring even stronger. As predicted by Myers (1977), the results of the descriptive analysis also indicate that discipline benefits of the use of debt financing can become a source of agency cost of financial distress owing to opaque collateral valuation, short loan tenures, and high interest rates. The emergence of a distinct trend towards convergence on the effect of loan duration on profitability and notable variation on the affordability of interest rates indicate that the efficiency of the link between loans and performance is dependent on loan conditions.

The results are in line with those of the Resource-Based View. Loan financing makes it easier to acquire land or construction equipment, or the latest construction techniques, which are strategic resources with which the developers could develop a competitive advantage. Financing, particularly favourable financing conditions can help developers to improve returns on assets and equity by acquiring VRIN resource bundles. On the other hand, high cost of capital or short time horizons will cause disruption in the channel through which the resources in question are acquired, thereby slowing down operational capacity. These findings extend Kamau, Muturi, and Gachanja's (2021) to the real estate segment and indicate that the link between loans and performance is not universal for all loans but rather hinges on the concurrent forces of the loan conditions and industry characteristics.

5.2 Lease Financing and Financial Performance

The results reveal that, out of these three factors, the lease financing is the largest with the regression coefficient of 0.42 and p value 0.000. It

also has the strongest correlation ($r = 0.601$, $p < 0.01$) and the highest descriptive mean (4.24), out of the four financing models that were considered in the original research. These findings agree with that of Yusuf and Isa (2021) which demonstrated that Return on Asset (ROA), Net Profit Margin (NPM) and Total Asset Turnover (TAT) all improved in Islamic banks in Malaysia following the adoption of lease financing and that of Shamsuddeen, Bishir and Khalid (2024) which revealed a significant positive of the adoption of leasing on ROA of oil and gas companies in Nigeria. The study results align with the observation of Olweny and Muthoni (2019) and Tanu and Oluoch (2021) which indicated improved cash flow and liquidity of Nairobi County institutions and SMEs due to flexible leasing arrangements.

The RBV views the benefit of leasing as enabling developers to gain immediate access to valuable assets in their operation without committing all their funds to acquiring those assets. Although there are several ways to make assets flexible, leasing changes the capital expenditure of acquiring a fixed cost asset to an operating expense (Modgil, Gupta, & Tomar, 2023). Luqman and Oluwaseun (2020) have stated that developers rely actively on the operating-lease structure to enable them to balance the access to assets and reduced ownership risk which is reflected by the high endorsement of operating leases ($M = 4.42$); and operating leases as risk-mitigating instruments ($M = 4.34$). The overall mean of 4.24 suggests that lease finance is not just a funding decision, but is considered as a strategic resource capable of giving the company liquids, profit and stability of growth.

Based on the Barney (1991) and Peteraf (1993) research, longer lease terms could offer financial stability ($M = 4.17$) and support the resource argument that technology is a VRIN lever with compounding effects when it comes to leasing agreements. The average score for the dimension of "Sensible Lease Assessment" ($M = 4.37$) is

high in accordance with the results of Aremo and Ayorinde (2022), which suggests that developers do utmost care in ensuring the arrangement of the lease is in line with project requirement. The findings indicate that lease financing would be a good option for capital-intensive real estate projects to alleviate a cash-flow burden due to the initial capital requirements and maintain access to those assets.

5.3 Practical Implications for Real Estate Developers in Nairobi

There are a number of practical implications of the results. First, by being more careful when choosing the financing, developers can enhance their financial results. This includes working with lenders that give transparent processes for the collateral and comparing interest rates before getting a loan as well as negotiating for a longer tenure period. The second is that developers should be using more operating leasing. This will minimize the risk for ownership, keep cash up and running and decrease in advance capital expenditure. Thirdly, the explanatory power of the finance models, as indicated by the coefficient of determination ($R^2 = 0.670$), substantiates the findings by Muigai and Maina (2022) that diversity in instruments is effective than relying on one instrument. The fourth argument, based on descriptive evidence of high interest rates and opaque collateral value, is that there is a need for cooperation among financial institutions, regulators and developers to show the design of instruments better adapted to the cash-flow characteristics of real estate projects.

6. Conclusion

To investigate the relationship between real estate developers' financial performance in Nairobi County, Kenya and the effects of loan and lease financing, this research was conducted. Two main findings are supported by the empirical data. To begin with, real estate developers' financial performance is positively and significantly impacted by loan financing ($\beta = 0.31$, $t = 6.42$, $p =$

0.001 ; $r = 0.536$). The combination of reasonable interest rates, longer payback and attractive collateral arrangements can provide developers with vital operational capital resources and turn them into higher return on asset and equity. It is a discipline that uses debt. So we accept the alternative hypothesis that loan financing has significant effect on financial performance.

Secondly, there is a substantial positive and statistically significant relationship between financial success and lease finance ($\beta = 0.42$, $t = 5.87$, $p = 0.003$; $r = 0.601$), making it the greatest predictor out of the two that were considered. Lease finance is also another critical VRIN asset that is instrumental for enhancing ROA and ROE as it retains the liquidity, reduces risk of ownership and provides access to critical assets for operations without having to sink a lot of money upfront. We thus reject the null hypothesis that Lease financing has no impact on Financial performance. The study indicates that loan terms and structures and leasing arrangements' designs and their frequencies affect the real estate developers in Nairobi County with the latter affecting their financial success.

7. Recommendations

These evidence-based suggestions are put out by the research based on the previous results. There is evidence that real estate developers may turn loan funding into meaningful performance improvements when they seek loan facilities with clear collateral assessment methods, long payback horizons that match project cycles, and competitive interest rates. Developers might further improve borrowing choices by instituting strict interest-rate comparison procedures and including financial literacy training into firm-level capacity-building programs.

Developers can increase the use of lease financing—the best indicator of financial performance—by focusing on operational leases, which reduce ownership risk and maintain liquidity, and by creating long-term, cost-

effective, and flexible lease arrangements. Developers may make better judgments with the help of lessors and financial institutions that create lease packages tailored to real estate projects' cash flows and make sure that developers have access to clear total cost of ownership information.

Smaller developers should have easier access to affordable long-term credit, more structured leasing market growth, and fewer obstacles to financial inclusion. Policymakers, such as the Central Bank of Kenya, the Capital Markets Authority, and the Estate Agents Registration Board, should work to create these frameworks. The correlation between availability of financing and financial performance should be strengthened by reforms that aim to increase disclosure of lease terms, standardize the value of collateral, and make interest rates more transparent. Developers should prioritize capacity-building, financial literacy, and smart resource management to make the most of loan and lease funding.

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