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Asset Financing and Financial Performance of Real Estate Firms in Kisumu County, Kenya

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ABSTRACT

In Kisumu County, the financial performance of real estate firms has been hampered by limited access to affordable asset financing, high borrowing costs, and inadequate mortgage penetration, exacerbating the housing deficit and stunting sectoral growth. The main objective of the study was to assess the influence of asset financing on financial performance of real estate firms in Kisumu County, Kenya. The study was anchored on the Pecking order theory and Trade-off theory. The study adopted a causal research design. The unit of analysis was 32 real estate agencies operating in Kisumu County. The unit of observation comprised of 32 finance managers, 64 accountants and 32 managing directors. Therefore, the total target population was 128 respondents. Since the target population was manageable the study adopted a census technique to incorporate all the targeted respondents in the study. Primary data were collected using structured questionnaires. Quantitative data were analyzed using descriptive statistics (means and standard deviations) and inferential statistics (correlation and regression analysis) to test the relationship between asset financing and financial performance. Results were presented in tables and charts for clarity. The study established a positive and statistically significant correlation between asset financing and financial performance of real estate firms in Kisumu County ($r = 0.443$; $p < 0.05$). The study concluded that asset financing plays a significant role in enhancing the financial performance of real estate firms in Kisumu County. Mortgage facilities with repayment schedules aligned to long-term financial strategies were found to support effective financial planning and stability. The study recommends that financial institutions in Kisumu County develop more competitive and affordable mortgage and equipment financing products with flexible repayment terms to stimulate real estate investment and expansion. By offering financing structures that align with the revenue cycles of real estate projects, lenders can help firms maintain stability, reduce the risk of default, and improve overall financial performance

Key Words: *Asset Financing, Financial Performance and Real Estate Firms*

1.0 INTRODUCTION

1.1 Background of the Study

Asset financing refers to the use of a company's assets as collateral to secure loans or other forms of credit to fund operations, expansion, or capital investments. It encompasses various financing options such as mortgages, loans, and lease financing, which allow firms to leverage their assets to access capital while managing cash flow (Ross et al., 2019). In the context of real estate firms, asset financing is critical due to the capital-intensive nature of the industry, where substantial investments are required for land acquisition, property development, and infrastructure, (Mwengei, 2020).

Real estate firms often rely on asset-backed financing, such as mortgages or secured loans, to bridge the gap between project initiation and revenue generation from sales or rentals (Bodie et al., 2020). However, the financial performance of real estate firms, measured through metrics like profitability, return on investment (ROI), and revenue growth, can be significantly influenced by the terms, availability, and cost of asset financing. A key problem justifying this study is the vulnerability of real estate firms to fluctuating interest rates, high debt burdens and liquidity constraints, which can erode financial performance, particularly in emerging markets where access to affordable financing is limited (Mwengei, 2020).

Globally, the United States provides a pertinent example of how asset financing impacts real estate firms' financial performance. In the U.S., real estate firms heavily rely on mortgage financing and real estate investment trusts (REITs) to fund large-scale projects. According to Geltner et al. (2020), favorable financing terms, such as low interest rates and flexible repayment schedules, have enabled U.S. real estate firms to achieve consistent profitability and high ROI, particularly during periods of economic stability. However, during the 2008 financial crisis, over-leveraging through asset financing led to significant financial distress, with many firms facing insolvency due to high debt servicing costs (Shiller, 2021). This highlights the dual-edged nature of asset financing, where strategic use can enhance performance, but mismanagement can lead to financial instability.

In Africa, Nigeria's real estate sector illustrates the challenges of asset financing in a developing economy. The Nigerian real estate market has experienced growth driven by urbanization and population increases, but access to affordable asset financing remains a significant barrier. According to Oyedele (2021), high interest rates, often exceeding 20% annually, and stringent collateral requirements limit the ability of real estate firms to secure

adequate financing. This has resulted in stalled projects and reduced profitability, with many firms struggling to meet the demand for housing, which is estimated at 17 million units annually (World Bank, 2023). The reliance on short-term, high-cost loans further exacerbates financial performance issues, underscoring the need for innovative financing solutions in African markets.

In Kenya, the real estate sector is a key contributor to economic growth, accounting for approximately 7-10% of GDP (Kenya Mortgage Refinance Company, 2023). However, real estate firms face significant challenges in accessing asset financing due to high borrowing costs and limited mortgage penetration, with only 26,000 mortgages recorded in a population of over 50 million (Central Bank of Kenya, 2023). In Kisumu County, rapid urbanization has increased housing demand, yet real estate firms struggle with inadequate financing options, leading to project delays and reduced financial performance (Mwengei, 2020). The government's Big Four Agenda, aiming to construct 500,000 housing units by 2022, was not fully realized in Kisumu due to financing constraints, highlighting the need to examine how asset financing impacts the financial health of real estate firms in this region (Njeru, 2023).

The financial performance of real estate firms is typically evaluated through indicators such as revenue, net profit margins, ROI, and asset turnover ratios. In Kenya, real estate firms have faced challenges in maintaining consistent financial performance due to high financing costs, regulatory hurdles, and market volatility (Kioko, 2022). For instance, the Cytonn Strategic Financial Sustainability of Kenyan REITs Report (2023) notes that limited investor knowledge and low trading volumes hinder the performance of REITs, which are critical for financing real estate projects. In Kisumu, real estate firms have reported declining profit margins due to high interest rates on loans and mortgages, which increase the cost of capital and reduce competitiveness (Mwengei, 2020). This study sought to explore how asset financing strategies can enhance financial outcomes for real estate firms, particularly in underserved regions like Kisumu County.

1.2 Statement of the Problem

In Kisumu County, the financial performance of real estate firms has been hampered by limited access to affordable asset financing, high borrowing costs, and inadequate mortgage penetration, exacerbating the housing deficit and stunting sectoral growth. According to the Kenya National Bureau of Statistics (2023), Kisumu's real estate sector recorded a housing demand of 50,000 units annually between 2022 and 2024, yet only 10,000 units were completed each year due to financing constraints. A report by the Central Bank of Kenya (2024) indicates that the average interest rate on real estate loans in Kisumu was 15.5% in 2023, compared to 13.8% in Nairobi, making it costlier for firms to borrow.

Kenya Mortgage Refinance Company, (2024) reported that only 1,200 mortgages were issued in Kisumu, compared to 18,000 in Nairobi, reflecting low mortgage uptake of 6.25%. The number of stalled real estate projects in Kisumu reached 120, with an estimated financial loss of KSh 8 billion, as reported by the National Construction Authority (2024). Projections for 2025 suggest that without intervention, the housing deficit could widen to 60,000 units, with real estate firms facing increased risks of insolvency due to high debt burdens (World Bank, 2025). The reliance on costly short-term loans and limited alternative financing options, such as REITs or savings-based financing, further undermines profitability and ROI, threatening the sustainability of real estate firms in Kisumu. This study aimed to investigate how asset financing can address these challenges to improve the financial performance of real estate firms in Kisumu County.

1.3 Objectives of the Study

The main objective of the study was to assess the influence of asset financing on financial performance of real estate firms in Kisumu County, Kenya.

1.4 Hypothesis of the Study

$H0_1$: Asset financing has no statistically significant influence on financial performance of real estate firms in Kisumu County, Kenya.

2.0 LITERATURE REVIEW

2.1 Theoretical Review

The study was anchored on the Pecking order theory and Trade-off theory. The Pecking order theory, proposed by Myers and Majluf (1984), posits that firms prioritize their sources of financing based on the principle of least resistance, preferring internal financing (retained earnings) first, followed by debt, and issuing new equity as a last resort due to information asymmetry between managers and investors. This theory suggests that firms opt for asset financing, such as debt secured by assets, when internal funds are insufficient, as it minimizes the costs associated with asymmetric information and reduces the need to disclose sensitive information to external investors (Myers, 1984).

Empirical studies, such as those by Leary and Roberts (2015), confirm that firms adhering to the pecking order achieve better financial performance by avoiding the dilution of ownership and high costs of equity issuance. Additionally, the theory's applicability to emerging markets is supported by research showing that firms in developing economies, like Kenya, rely heavily on debt financing due to limited access to equity markets (Bekaert & Harvey, 2017). This is particularly relevant for real estate firms, which face high capital requirements and use assets as collateral to secure loans, thereby enhancing their financial performance through strategic financing choices.

Critics argue that the Pecking order theory oversimplifies financing decisions by assuming a universal preference for internal funds and debt, ignoring firm-specific factors such as growth opportunities or market conditions. Jensen (2018) highlights that the theory fails to address agency problems, where managers may over-leverage to pursue risky projects, potentially harming financial performance. In the context of Kisumu's real estate sector, where high interest rates and limited debt capacity are prevalent, the theory's assumption of easy access to debt may not fully hold, limiting its explanatory power in highly constrained financial environments.

In the context of real estate firms, this theory is particularly relevant because these firms often rely on debt financing, such as mortgages or asset-backed loans, to fund capital-intensive projects like property development. The theory emphasizes that firms' financing decisions are driven by the need to maintain financial flexibility while minimizing external financing costs. The Pecking Order Theory provides a lens to understand why real estate firms in Kisumu prioritize debt financing, such as mortgages or asset-backed loans, over equity due to limited internal funds and high information asymmetry in a developing market.

The Trade-Off Theory, advanced by Kraus and Litzenberger (1973), suggests that firms balance the benefits of debt financing, such as tax shields, against the costs, including bankruptcy risks and agency costs, to determine an optimal capital structure. In the context of asset financing, this theory implies that real estate firms strategically use asset-backed loans to leverage tax advantages while managing the risks of over-indebtedness, which directly impacts their financial performance (Kraus & Litzenberger, 1973).

The Trade-Off Theory is particularly strong in explaining how real estate firms optimize their capital structure to enhance financial performance by leveraging assets to secure favorable loan terms. Research by Graham and Harvey (2016) demonstrates that firms using debt strategically benefit from tax shields, which can improve net income and return on equity, critical metrics for real estate firms in Kisumu facing high financing costs. The theory's emphasis on balancing debt costs and benefits is supported by studies like Hovakimian, Li and Titman (2017), which show that firms with moderate leverage achieve higher financial performance due to reduced bankruptcy risks.

Opponents of the Trade-Off Theory argue that it assumes firms can precisely determine an optimal capital structure, which is challenging in practice due to market uncertainties and information asymmetries. Fama and French (2019) critique the theory for overlooking dynamic market conditions, such as fluctuating interest rates which can disrupt the balance between tax shields and bankruptcy costs. Additionally, Baker and Wurgler (2015) argue that the theory underestimates the role of market timing, where firms may issue debt or equity based on market conditions rather than a static trade-off.

For real estate firms, the theory is relevant as it explains how firms decide on the level of debt financing for property acquisition or development, balancing the cost of borrowing against the potential for increased profitability and return on assets. Trade-Off Theory is pertinent in analyzing how firms balance the benefits of asset financing (tax shields) against risks (high interest rates), directly influencing profitability and financial stability. By applying these theories, the study can explore how strategic financing decisions mitigate the financial constraints highlighted in Kisumu's real estate sector.

2.2 Empirical Review on Asset Financing and Financial Performance

Brueggeman and Fisher (2019) conducted a study on the impact of asset financing on operational efficiency in small manufacturing enterprises in the United States. A cross-sectional research design was adopted. Stratified random sampling was used to select 236 SMEs from industrial regions in Illinois, Ohio, and Texas. Data was collected through structured questionnaires and company financial reports, then analyzed using descriptive statistics and multiple regression analysis. Descriptive findings indicated that firms with higher asset financing access were able to modernize equipment faster and maintain consistent production schedules. Inferential results revealed a strong positive relationship between asset financing and operational efficiency, with significant coefficients for investment in automated equipment. The study concluded that asset financing plays a vital role in improving operational efficiency for manufacturing SMEs.

Mkhize and Dlamini (2021) examined the relationship between asset financing and service delivery in public transport cooperatives in South Africa. A descriptive survey research design was employed. Cluster sampling selected 129 transport cooperatives across Johannesburg, Durban, and Cape Town. Data was gathered through interviews with cooperative managers and passenger feedback forms, and analyzed using correlation analysis and ANOVA. Descriptive findings showed that cooperatives with financed modern buses experienced fewer breakdowns and improved timetable adherence. Inferential analysis confirmed a significant positive effect of asset financing on service delivery metrics. The study concluded that asset financing significantly enhances service quality in public transport cooperatives.

Adewale and Yusuf (2020) studied the influence of asset financing on agricultural productivity among smallholder farmers in Nigeria. The study adopted an explanatory research design. Multistage sampling was used to select 319 farmers from Kaduna, Kano, and Benue States. Data collection involved field surveys and agricultural production records, analyzed using descriptive statistics and linear regression models. Descriptive results indicated that farmers with financed assets cultivated larger areas and reduced post-harvest losses. Inferential findings revealed a statistically significant positive relationship between asset financing and agricultural productivity. The study concluded that asset financing directly boosts agricultural output and profitability for smallholder farmers.

Appiah and Quartey (2021) investigated the effect of asset financing on financial sustainability of rural microfinance institutions in Ghana. A cross-sectional design was applied. Purposive sampling was used to select 120 rural microfinance institutions from the Eastern and Ashanti regions. Data was collected through structured questionnaires and audited financial statements, then analyzed with descriptive statistics and hierarchical regression. Descriptive results showed that institutions with financed technological tools improved client outreach and reduced transaction errors. Inferential

findings indicated that asset financing significantly predicted financial sustainability measures. The study concluded that asset financing supports long-term viability of rural MFIs.

Mutua and Wanjiru (2021) explored the relationship between asset financing and service quality in private hospitals in Nairobi County, Kenya. The study employed a descriptive correlational design. Systematic random sampling selected 30 private hospitals from the county registry. Data collection involved questionnaires for hospital administrators and service quality assessments, analyzed using Pearson correlation and regression models. Descriptive findings indicated that hospitals with financed diagnostic equipment recorded faster turnaround times and higher patient satisfaction. Inferential results showed a significant positive correlation between asset financing and service quality indicators. The study concluded that asset financing is essential in upgrading healthcare service delivery.

Kiprotich, Chege and Langat (2023) assessed the impact of asset financing on operational performance of dairy cooperatives. The study used a descriptive survey research design. Stratified random sampling was applied. Data was collected through structured interviews with cooperative managers and review of production records, analyzed using descriptive statistics and multiple linear regression. Descriptive findings revealed that cooperatives with financed assets had more consistent supply chains and better market penetration. Inferential analysis indicated a significant positive impact of asset financing on operational performance metrics. The study concluded that asset financing strengthens dairy cooperatives' operational capacity and market presence.

2.3 Conceptual Framework

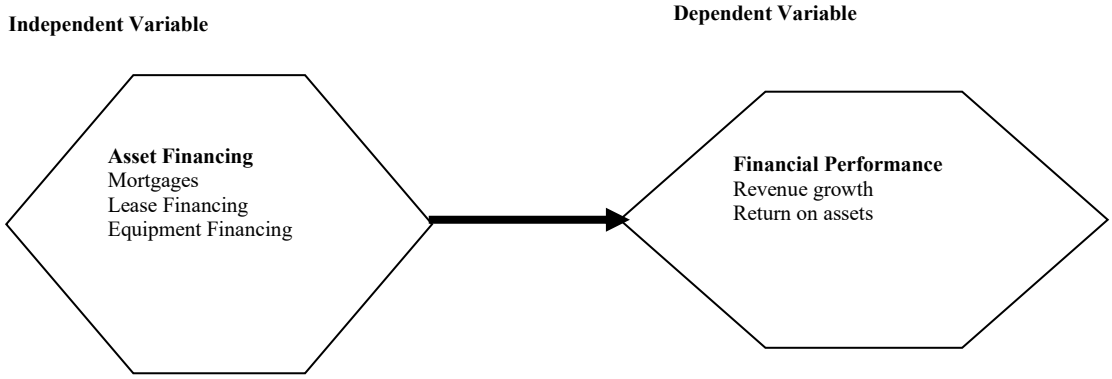

Figure 1: Conceptual Framework

3.0 RESEARCH METHODOLOGY

Research Design: The study adopted a causal research design to establish the effect of asset financing on the financial performance of real estate firms in Kisumu County. This design was appropriate as it allowed examination of cause effect relationships between the independent and dependent variables.

Target Population: The unit of analysis was 32 real estate agencies operating in Kisumu County. The unit of observation comprised of 32 finance managers, 64 accountants and 32 managing directors. Therefore the total target population was 128 respondents. Since the target population was manageable the study adopted a census technique to incorporate all the targeted respondents in the study

Data Collection Instruments: Primary data were collected using structured questionnaires containing closed-ended questions on components of asset financing (mortgages, lease financing, and equipment loans) and indicators of financial performance (revenue growth and return on assets).

Validity and Reliability: Content validity was ensured through expert review of the questionnaire by academic supervisors and industry practitioners. Reliability was tested using Cronbach's alpha, with a coefficient of 0.7 or higher considered acceptable.

Data Collection Procedure: Questionnaires were administered physically and electronically to respondents, with follow-up reminders made to maximize the response rate.

Data Analysis and Presentation: Quantitative data were analyzed using descriptive statistics (means and standard deviations) and inferential statistics (correlation and regression analysis) to test the relationship between asset financing and financial performance. Results were presented in tables and charts for clarity.

The following linear regression Model was adopted

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

Where:

Y = Financial Performance

β_0 = Constant Term

X_1 = Asset Financing

ε = Error Term

4.0 RESEARCH FINDINGS AND DISCUSSION

4.1 Response Rate

The study issued 128 questionnaires to respondents out of which 98 responses were represented this represented 76% response rate. According to Mugenda and Mugenda (2019), a response rate of 50% is adequate, 60% is good, and 70% and above is excellent for social science studies.

4.2 Asset Financing on Financial Performance

The researcher sought to assess the influence of asset financing on financial performance of real estate firms in Kisumu County, Kenya. The findings were as indicated in table 1.

Table 1: Asset Financing on Financial Performance

Statement on Asset Financing	SA	A	N	D	SD	Mean	STD
The terms and repayment schedules of our mortgage facilities align with our long-term financial strategies.	39	33	9	13	6	3.860	1.233
Mortgage financing options available to our firm are competitive compared to other funding sources.	35	33	11	13	8	3.740	1.278
The interest rates on mortgages have influenced the pace of our real estate project development.	33	35	9	13	10	3.680	1.318
Lease agreements we enter into provide cost advantages compared to outright asset purchases.	31	37	7	15	10	3.640	1.323
Lease financing has influenced the timing and scope of our real estate developments.	29	35	7	17	12	3.520	1.375
Our decision to lease rather than purchase assets is driven by tax and accounting considerations.	27	33	9	19	12	3.440	1.373
Availability of equipment financing impacts our ability to undertake specialized construction project	29	33	11	19	8	3.560	1.299
The repayment terms of equipment financing align with the revenue cycles of our projects.	27	31	11	23	8	3.460	1.315

According to the results, 39% of the respondents strongly agreed, 33% agreed, 9% were neutral, 13% disagreed, while 6% strongly disagreed that the terms and repayment schedules of mortgage facilities align with their long-term financial strategies, with a mean of 3.860 and a standard deviation of 1.233. This suggests that well-structured repayment schedules enhance financial planning, consistent with the findings of Brueggeman and Fisher (2019), who noted that mortgage terms aligned to strategic goals improve stability and profitability in real estate ventures. The study further established that 35% strongly agreed, 33% agreed, 11% were neutral, 13% disagreed, and 8% strongly disagreed that mortgage financing options available to their firms are competitive compared to other funding sources, with a mean of 3.740 and a standard deviation of 1.278. This indicates that competitive mortgage financing provides firms with cost-effective capital, in line with Mkhize and Dlamini (2021) who found that affordable mortgage rates can significantly improve investment returns in the property sector.

Additionally, 33% strongly agreed, 35% agreed, 9% were neutral, 13% disagreed, and 10% strongly disagreed that interest rates on mortgages have influenced the pace of their real estate project development, yielding a mean of 3.680 and a standard deviation of 1.318. This implies that mortgage interest rates directly affect project timelines. The analysis revealed that 31% strongly agreed, 37% agreed, 7% were neutral, 15% disagreed, and 10% strongly disagreed that lease agreements provide cost advantages compared to outright asset purchases, with a mean of 3.640 and a standard deviation of 1.323. This demonstrates that leasing can reduce upfront capital requirements, supporting the work of Adewale and Yusuf (2020), who found that lease financing improves liquidity and operational efficiency in capital-intensive industries.

Furthermore, 29% strongly agreed, 35% agreed, 7% were neutral, 17% disagreed, and 12% strongly disagreed that lease financing has influenced the timing and scope of their real estate developments, resulting in a mean of 3.520 and a standard deviation of 1.375. This shows that leasing arrangements can accelerate project initiation. In addition, 27% strongly agreed, 33% agreed, 9% were neutral, 19% disagreed, and 12% strongly disagreed that decisions to lease rather than purchase assets are driven by tax and accounting considerations, with a mean of 3.440 and a standard deviation of 1.373. This implies that leasing decisions are often guided by financial policy benefits, a view supported by Omondi and Appiah and Quartey (2021), who observed that tax incentives and balance sheet advantages often motivate asset leasing in the real estate sector.

It was also found that 29% strongly agreed, 33% agreed, 11% were neutral, 19% disagreed, and 8% strongly disagreed that the availability of equipment financing impacts their ability to undertake specialized construction projects, with a mean of 3.560 and a standard deviation of 1.299. This underscores the role of financing accessibility in enabling project diversification. Finally, 27% strongly agreed, 31% agreed, 11% were neutral, 23% disagreed, and 8% strongly disagreed that repayment terms of equipment financing align with the revenue cycles of their projects, with a mean of 3.460 and a standard deviation of 1.315. This indicates that synchronized repayment schedules support cash flow management, a finding supported by Mutua and Wanjiru (2021) who reported that financing aligned with income streams minimizes default risk in project financing.

4.3 Financial Performance of Real Estates

The researcher sought to assess the influence of financial performance of real estate firms in Kisumu County, Kenya. The findings were as indicated in table 2.

Table 2: Financial Performance of Real Estates

Statement on Financial Planning	SA	A	N	D	SD	Mean	STD
Our company has consistently recorded an increase in annual revenue over the past three years.	9	14	8	38	31	3.421	1.829
The rate of revenue growth in our company meets or exceeds our strategic targets.	8	13	7	39	33	3.413	1.831
Our revenue growth has remained stable despite fluctuations in the economic environment.	7	12	6	41	34	3.397	1.827
Our firm has achieved a high return on assets over the past three financial year	10	16	9	37	28	3.517	1.735
The efficiency of our asset utilization has improved our ROA over time.	11	18	10	35	26	3.597	1.631
Our ROA performance is above the average of similar firms in our industry	13	20	9	34	25	3.671	1.493

According to the findings, 9% of the respondents strongly agreed, 14% agreed, 8% were neutral, 38% disagreed while 31% strongly disagreed that their company had consistently recorded an increase in annual revenue over the past three years, with a mean of 3.421 and a standard deviation of 1.829. This suggests that most real estate firms have faced revenue declines, possibly due to reduced market demand, rising construction costs, and unfavorable economic conditions. The results also show that 8% strongly agreed, 13% agreed, 7% were neutral, 39% disagreed, and 33% strongly disagreed that the rate of revenue growth in their company meets or exceeds strategic targets, with a mean of 3.413 and a standard deviation of 1.831. This indicates that most firms have been unable to achieve their planned revenue goals, possibly due to prolonged recovery periods after market downturns. Similar findings were reported by Mwangi (2020), who established that real estate firms in Kenya often miss revenue targets due to unpredictable interest rates and inflationary pressures.

Furthermore, 7% strongly agreed, 12% agreed, 6% were neutral, 41% disagreed, and 34% strongly disagreed that revenue growth had remained stable despite fluctuations in the economic environment, with a mean of 3.397 and a standard deviation of 1.827. This reflects a general instability in revenue streams, as the sector is heavily affected by shifts in market conditions. On return on assets (ROA), 10% of the respondents strongly agreed, 16% agreed, 9% were neutral, 37% disagreed, and 28% strongly disagreed that their firm had achieved a high ROA over the past three financial years, with a mean of 3.517 and a standard deviation of 1.735. This shows that many firms have struggled to maintain strong asset returns, possibly due to underutilization or declining asset values. These findings agree with the conclusions of Otieno and Kamau (2020), who reported that low occupancy rates and stalled projects reduce asset returns in the real estate industry.

Similarly, 11% strongly agreed, 18% agreed, 10% were neutral, 35% disagreed, and 26% strongly disagreed that efficiency in asset utilization had improved their ROA over time, with a mean of 3.597 and a standard deviation of 1.631. This implies that most firms have not realized significant improvements in asset efficiency, possibly due to slow adoption of cost-reduction strategies. Finally, 13% strongly agreed, 20% agreed, 9% were neutral, 34% disagreed, and 25% strongly disagreed that their ROA performance was above the industry average, with a mean of 3.671 and a standard deviation of 1.493. This suggests that most real estate firms underperform compared to industry benchmarks, a trend also noted by Muli and Nthambi (2021), who observed that only a small proportion of Kenyan real estate companies outperform the market due to competitive pricing and superior management practices.

4.4 Correlation Analysis

The study sought to establish the correlation between asset financing and financial performance of real estate firms in Kisumu County, Kenya. The findings are presented in Table 3

Table 3: Asset Financing and Financial Performance

Asset Financing		**Financial Performance**
	Pearson Correlation	.443*

	Sig. (2-tailed)	.000
	N	98

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

As shown in Table 3, the study established a positive and statistically significant correlation between asset financing and financial performance of real estate firms in Kisumu County ($r = 0.443$; $p < 0.05$). This implies that increased access to and utilization of asset financing is associated with improved financial performance in these firms. In practical terms, firms that leverage asset financing are better able to acquire essential properties, equipment, or infrastructure that enhance operational capacity and revenue generation. These findings are consistent with those of previous studies, such as Mkhize and Dlamini (2021) who found that asset financing plays a critical role in boosting profitability and competitiveness in the real estate sector. Similarly, Adewale and Yusuf (2020) reported that firms that adopt strategic asset financing approaches tend to achieve better returns due to improved productivity and cost efficiency. This suggests that effective use of asset financing can be a key driver for strengthening financial stability and growth in the real estate industry.

4.5 Regression Model

The researcher sought to determine the value of R^2. The R-Squared is the proportion of variance in the dependent variable which can be explained by the independent variables.

Table 4: Model Summary

Model	R	R Square	Adjusted Square	RStd. Error of the Estimate	Sig. F Change
1	.878[a]	.770	.749	.3873	.000

As indicated in Table 4, the R^2 value was 0.770, implying that asset financing explains 77.0% of the variation in financial performance of real estate firms in Kisumu County, Kenya, while the remaining 23.0% is attributed to other factors not captured in the model. This high explanatory power suggests that asset financing is a critical determinant of financial performance in the sector.

The analysis of variance in this study was used to determine whether the model is a good fit for the data. The finding is indicated in Table 5

Table 5: Analysis of Variance

Model		**Sum of Squares**	**df**	**Mean Square**	**F**	**Sig.**
1	Regression	28.563	1	28.563	321.655	.000[b]
	Residual	8.532	96	.0888		
	Total	37.095	97			

a. Dependent Variable: Financial Performance of Real Estate Firms in Kisumu County, Kenya

b. Predictors: (Constant), Asset Financing.

The researcher sought to determine the value of R^2, which represents the proportion of variance in the dependent variable (financial performance) that can be explained by the independent variable (asset financing). As indicated in Table 4, the R^2 value was 0.770, implying that asset financing explains 77.0% of the variation in financial performance of real estate firms in Kisumu County, Kenya, while the remaining 23.0% is attributed to other factors not captured in the model. This high explanatory power suggests that asset financing is a critical determinant of financial performance in the sector.

Table 6: Regression Coefficients

Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
		B	Std. Error	Beta		
1	(Constant)	.078	.145		.260	.796
	Asset financing	.233	.081	.245	2.877	.016

The interpretations of the findings indicated follow the following regression model.

The regression coefficients presented in Table 6 indicate the relationship between asset financing and financial performance. The constant term ($\beta_0 = 0.078$) implies that when asset financing is held at zero, the predicted financial performance of real estate firms would be 0.078. The coefficient for

asset financing ($\beta_1 = 0.233$, $p = 0.016$) indicates that, holding other factors constant, a one-unit increase in asset financing leads to a 0.233 increase in the financial performance score of real estate firms in Kisumu County. This positive coefficient suggests that greater utilization of asset financing including mortgages, lease financing, and equipment financing improves a firm's ability to generate revenue, enhance return on assets, and strengthen competitive advantage.

The resulting regression model is therefore expressed as:

$Y = 0.078 + 0.233 X_1$ …….. 4.1

4.6 Hypothesis Testing

The study carried a hypothesis testing using p-values in Table 6

The study sought to test the hypothesis that: **$H0_1$:** Asset financing has no statistically significant influence on financial performance of real estate firms in Kisumu County, Kenya. From the regression results, the p-value for asset financing was 0.016, which is less than the 0.05 significance level. Based on the rule of significance, the null hypothesis (H_{01}) was rejected, and it was concluded that asset financing has a statistically significant positive influence on financial performance of real estate firms in Kisumu County. These findings align with those of Appiah and Quartey (2021) who found that asset financing significantly boosts profitability and operational efficiency in property development firms. Similarly, Mutua and Wanjiru (2021) established that firms that strategically use mortgages, leasing, and equipment financing achieve superior returns on assets and long-term sustainability.

5.0 CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions of the Study

The study concluded that asset financing plays a significant role in enhancing the financial performance of real estate firms in Kisumu County. Mortgage facilities with repayment schedules aligned to long-term financial strategies were found to support effective financial planning and stability. Competitive mortgage financing options provide firms with affordable capital, enabling them to undertake more projects and expand their portfolios. Interest rates on mortgages were shown to directly influence project timelines, where lower rates accelerate development, while higher rates slow down investment activities.

The study also concluded that lease financing emerged as a useful alternative to outright purchases, offering cost advantages that help maintain liquidity and operational flexibility. The ability to lease equipment and properties also influenced the timing, scope, and diversity of real estate projects. Furthermore, tax and accounting considerations often guided the decision to lease rather than purchase assets, reflecting the importance of financial policy in asset management. The study further concluded that equipment financing was also identified as a key enabler for specialized construction projects, with repayment terms aligned to revenue cycles improving cash flow management and reducing financial strain.

5.2 Recommendations of the Study

The study recommends that financial institutions in Kisumu County develop more competitive and affordable mortgage and equipment financing products with flexible repayment terms to stimulate real estate investment and expansion. By offering financing structures that align with the revenue cycles of real estate projects, lenders can help firms maintain stability, reduce the risk of default, and improve overall financial performance. In particular, lowering interest rates or providing fixed-rate options could safeguard firms against market fluctuations and ensure long-term project viability.

Real estate firms are encouraged to strategically adopt leasing arrangements as a means of reducing upfront capital expenditure and improving liquidity. Leasing provides flexibility in acquiring equipment or property without the heavy burden of immediate purchase costs, enabling firms to diversify their investments and undertake more projects. Firms should also seek to leverage the tax and accounting benefits associated with leasing and mortgage financing to maximize their financial efficiency and profitability.

It is further recommended that real estate firms diversify their sources of asset financing rather than relying solely on one option. A balanced mix of mortgages, leasing, and equipment loans can help mitigate financial risks and enhance resilience in a volatile market. Additionally, firms should adopt proactive risk management strategies such as interest rate hedging to cushion against potential rises in borrowing costs, thereby safeguarding profitability and sustaining growth in the sector.

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