MAKERERE UNIVERSITY

MAKERERE UNIVERSITY BUSINESS SCHOOL

FINANCING OF REAL ESTATE INVESTMENTS: A CASE OF STANBIC BANK (U) LTD

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A RESEARCH REPORT SUBMITTED TO MAKERERE UNIVERSITY BUSINESS SCHOOL (FACULTY OF GRADUATE STUDIES AND RESEARCH) IN PARTIAL FULFILMENT OF THE REQUIREMENT FOR THE AWARD OF A DEGREE OF MASTER IN BANKING AND INVESTMENT MANAGEMENT

PLAN B

NOVEMBER, 2023

DECLARATION

I **Matsiko Isaac** hereby declare that dissertation is original and has never been submitted to any university or college for any award for a degree or its equivalent.

Signature.. Date 13-11-2023

Matsiko Isaac

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APPROVAL

This is to certify that this dissertation has been submitted with our approval as university supervisors.

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ABSTRACT

This study was about assessing the impact of financing real estate investment within Stanbic Bank. The study was initiated as a result of the over-accumulation of non-performing loan assets within the bank related to real estate investment financing. To get to the bottom of the problem research was initiated with the following specific objectives which were i) to examine the financing practices of real estate investment within Stanbic Bank Uganda, ii) to assess the challenges of financing real estate investments by Stanbic Bank Uganda and iii) To identify strategies of improving real estate investments financing by Stanbic bank Uganda.

To achieve the above objectives a sample of employees from the Stanbic bank credit section was used. These constituted both lower and top-level managers in the bank. Out of the 103 administered, 90 questionnaires were successfully filled and returned and 13 were not filled, implying a response rate of 87.4%. Questionnaires and interview guides were administered in addition to 7 interviews conducted. A cross-sectional research design was employed and it included respondents in two categories level and managers.

On the practices, it was established that the bank offered specialized credit targeting real estate investments, and land acquisition loans, provided both residential and commercial mortgage. Besides that, they offered construction finance to real estate investment firms and formed partnerships with real estate investment firms. The challenges facing banks in financing real estate investments, included inadequate collateral, high levels of non-performing assets, and failure to attend to other non-real estate investments by the bank because of concentrating on real estate financing. The solutions operating under a sound credit-granting process; maintaining an appropriate credit administration, measurement and monitoring process; and ensuring adequate controls over credit risk were identified. Based on the findings it was recommended that the bank management should review its credit policy and establish a specialized real estate investment portfolio.

CHAPTER ONE

INTRODUCTION

1.0 Background to the Study

Globally real estate investment involves the purchase, ownership, and management of real property with the expectation of generating income or capital appreciation. It typically includes various property types such as residential, commercial, industrial, or land (Cole & Sokolyk, 2018). Real estate investment financing options are diverse, catering to different investor preferences and property types. Besides that, global perspectives on real estate investment financing are shaped by economic conditions, regulatory frameworks, cultural factors, and market dynamics (Calomiris, Heider, & Hoerova, 2018). Debt financing is a common source of funding, with investors obtaining mortgages or loans from banks, financial institutions, or private lenders (Wang, & Lu, 2015). In the U.S., JPMorgan Chase and Wells Fargo are key players in real estate financing, with JPMorgan offering diverse lending for commercial and residential projects. In the UK, Barclays plays a significant role in real estate financing through Barclays Real Estate, providing tailored solutions to support property development and investments, boosting the country's real estate sector (JPMorgan Chase, Wells Fargo, and Barclays, 2022)

In Africa, real estate financing in commercial banks encompasses a range of key products. Mortgage loans are a fundamental offering, that enables individuals to purchase homes. Additionally, commercial real estate loans support property development and investment projects (Beattie', 2022). Real estate investment trusts (REITs) are gaining popularity, allowing investors to access real estate assets through equity shares. Many African banks, such as Standard Bank and Absa Group, provide specialized real estate financing divisions, offering diverse products tailored to the unique needs of investors and developers, contributing to the growth of the real estate sector on the continent (Standard Bank Group, 2022; Absa Group, 2022).

In East Africa Real estate financing within commercial banks in the East African region is an essential component of the financial sector, contributing to economic growth and property development. Key players in the region, such as Equity Bank and KCB Group, offer various real estate financing options. Equity Bank provides mortgage and construction financing, supporting homebuyers and property developers in Kenya, Uganda, and other East African countries.

Real estate financing in Uganda's commercial banks encompasses mortgage loans for homebuyers and developers, along with construction loans. Stanbic Bank Uganda and Centenary Bank offer these services. Challenges in the sector include high-interest rates, land title disputes, and the need for better credit risk assessment, potentially impacting borrowers' access to real estate financing (Cole & Sokolyk, 2018; Stanbic Bank Uganda, 2022).

Stanbic Uganda Holdings Limited (SUHL) entered the real estate investment sector through its subsidiary, Stanbic Properties Limited, and a partnership with Housing Finance Uganda. Stanbic Properties offers 100% financing for existing house purchases and construction. Challenges include units remaining unsold, leading to delayed loan payments as developers shift to rentals. Approximately 40% of units originally for sale are now offered as rentals, impacting the bank's financial performance (Stanbic Properties Baseline Report, 2022). As a result, at least 40% of the apartment units that were originally built for sale were being offered for rent by the landlords (Stanbic Properties Real Estate Baseline Report, 2022). The result of this has been disruptions in the bank's income thus affecting the financial performance of the bank.

1.2 Statement of the Problem

Stanbic Bank's foray into the Ugandan real estate industry was initially motivated by the aim to enhance its financial performance. However, the actual outcome has fallen below the bank management's expectations, primarily due to challenges associated with real estate investment financing (Wasike, 2021). A significant concern has been the surge in non-performing assets within the real estate investment portfolio, which escalated by a substantial 110% between 2020 and 2021, as revealed in the Real Estate Baseline Report of 2022. This increase in non-performing assets has had a profound and adverse impact on the bank's projected income (Pang, 2016). Consequently, what was once anticipated as a lucrative business venture has become one of the problematic units within the bank. As a result, the bank has initiated an investigation into the financing of real estate investments, aiming to understand the underlying issues and implement remedial measures to restore the expected profitability and mitigate disruptions in the bank's income streams.

1.3 Purpose of the Study

The purpose of this study is to examine the financing of real estate investments by Stanbic Bank Uganda as a case study

1.4 Objectives of the study

i) To examine the financing practices of real estate investment within Stanbic Bank Uganda

ii) To assess the challenges of financing real estate investment by Stanbic Bank Uganda

iii) To identify strategies for improving real estate investment financing by Stanbic Bank Uganda

1.5 Research Questions

i) What are the financing practices of real estate investments of Stanbic Bank Uganda?

ii) What are the challenges of financing real estate investment by Stanbic Bank Uganda?

iii) What are the strategies for improving real estate investment financing by Stanbic Bank Uganda?

1.6 Scope of the Study

The scope of this study will be confined to geographical, subject and time scope

1.6.1 Geographical Scope

This study will be conducted at the head office of Stanbic Bank (U) Limited**.** Stanbic Bank Uganda is located at 17 Hannington Road Crested Towers. The reason for this is that the bank's venture into the real estate sector and its subsequent challenges in real estate investment financing represent a significant case study. These challenges are highly relevant to the broader financial industry and may provide valuable insights for other financial institutions operating in a similar context. Besides that, the dramatic 110% increase in non-performing assets within the real estate investment portfolio between 2020 and 2021 indicates a substantial problem that demands attention and analysis. Understanding the root causes of such a drastic shift is not only relevant to Stanbic Bank but can also inform industry practices and risk management strategies.

1.6.2 Subject Scope

In terms of subject, the study covers mainly three aspects, the bank financing practices for real estate investments, the challenges of financing real estate investment by commercial banks and the strategies for improving real estate investment financing by commercial banks

1.6.3 Time Scope

The study will analyze the financing practices of Stanbic Bank (U) Limited for real estate investments for two years that is 2021 and 2022.

1.7 Significance of the Study

The study will assist bank management in identifying challenges and solutions for improving real estate investment financing by commercial banks.

To future researchers, the study findings will be documented in the report form so that those researchers who may be interested in the same topic can use some of the information.

The study will be used to fulfil the academic requirements of the university as it is a requirement for every master’s student to write a report on a given topic. So, this study will be significant in that manner.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Under this chapter the review of literature is done on the financing practices of real estate investments by commercial banks, the challenges of financing real estate investment by the banking sector and the identifying the strategies for improving the financing of real estate investments by the banking sector

2.2 Financing Practices of Real Estate Investment

Financing is the process of providing funds for business activities, making purchases, or investing. Zhang, and Mayes, (2018) revealed that there are four major types of mortgages issued (residential, commercial, land purchase, and construction finance to property developers), compared to only one (residential) in 2020. Cole and Sokolyk (2018) revealed that business financing is one of the main commercial banks business and funding options for business owners from banks include all kinds of loans. There are several different types of business financing available, but each type of financing may be better for some purposes than others. According to Beck, *et al*, 2013) commercial banks offer specialized real estate development loans, to real estate investment companies.

Real estate development loans from financial institutions are capital advancements issued to borrowers who need funds to break ground on a project, build, and hold the finished product through the leasing stage (Bonini, and Capizzi, 2019). He further indicates that real estate investors typically rely on real estate development financing to do one of two things: buy raw land to eventually build on or tear down an existing building, only to build a new one. Sheila (2011) identified four (4) real estate development loans, that is acquisition loans, development loans, acquisition and development loans and construction loans.

Acquisition for Loans**,** Zhang and Mayes (2018) explained acquisition loans as the names suggest, acquisition loans are specifically used to finance the purchase of undeveloped land. Acquisition loans will often be used to buy land with no intention of developing it. While common, acquisition loans provide little room for action and must typically be accompanied by subsequent loans to develop the land further. Of the real estate development loans made available to investors, this offers the least amount of freedom (Bonini, and Capizzi, 2019).

Alperovych, Hübner, and Lobet (2015), identified development loans**,** whereby they are acquired if borrowers want to develop the land they recently acquired, they may need a loan to move forward with such plans. Development loans are traditionally borrowed to do just that. Borrowers will take out development loans to make improvements on the land. Levelling, building roads, and running water lines may all be accomplished by taking out a development loan. On top of that, development loans are necessary to turn raw land into a building site. Acquisition and Development Loans, Walthoff-Borm, *et al*, (2018) reveal that sometimes borrowers want to acquire raw land and develop it at the same time. Fortunately, there's a loan for that: acquisition and development loans. As their names suggest, these loans enable borrowers to buy raw land and turn it into a building site. However, he further revealed that of the real estate development loans made available, this one is the most versatile.

Loan was identified by Rupasingha, and Wang, (2017) as construction Loans, which are used to finance the building or renovation of a respective real estate project. According to Links Financial, "It differs from other loans in that the developer receives the money in monthly draws as development progresses rather than in one lump sum at the beginning of the project, however, Sheila (2021) reveals that monthly loan payments increase as real estate investor draw out more money. Traditional loans are those real estate investments companies receive from a bank or an institutionalized lender (Mann, 2018). Their interest rates are relatively low in an attempt to remain competitive. However, their lengths are typically long, and their underwriting is extensive (Guenther, Johan, and Schweitzer, 2018). Most traditional loans last anywhere from 15 years to 30 or more and come with an interest rate somewhere in the neighbourhood of four per cent

Ferrando, Popov, and Udell, (2017) identify another type of financing arrangement as mortgage which is a type of loan used to purchase or maintain a home, land, or other types of real estate. The borrower agrees to pay the lender over time, typically in a series of regular payments that are divided into principal and interest (Mann, 2018). The property then serves as collateral to secure the loan. In some banks, mortgage loans are medium-to-long-term credit facilities targeting specific types of customers, for example, salary earners as well as economically active rural and urban low, middle and high regular-income earners engaged in self-employment. The loan can be used to finance housing needs through purchase, construction or completion (Ayoub, Gottschalk, and Müller, 2017).

According to Oketch (2019), every business which secures banking facilities will be required to sign a contract with the bank. These are sizeable documents, with numerous covenants, terms and conditions. It is important to note that these are also standard documents and it is extremely rare for businesses to be able to renegotiate the contract terms. Not every covenant indicates that the business is in distress or that the business's loan will be terminated as a result of a breach (Bititci, Bourne, Cross, Nudurupati and Sang, 2018). They are merely intended to be flags in the system to give the bank the ability to monitor the business' performance and discuss potential issues. Evidence received as part of this reporting process suggests that in some instances, these covenants are being used to put the business into default and transfer them out of local management (Oketch, 2019). In some cases, the breach could be as insignificant as being one day late in providing nonvital information on accounts (Claire, Lefebvre, and Rondeau, 2019). The business could be operating well, there could be no change in profit or turnover, and the business is up to date with all repayments, but the breach is used to trigger the move of the business out of local management (Ayyagari, *et al*, 2016). The use of covenants in this manner goes beyond what is expected by the business as the reaction of the bank is so utterly disproportionate.

Overdrafts are a very capital-intensive form of lending for banks, especially under the latest capital requirements (Oketch, (2019). Bititci et al, (2018) indicate that loans which were negotiated a few years ago may have less security than the bank now requires for their risk assessments. Whilst it may be reasonable for the banks to want to change facilities or renegotiate terms and personal guarantees, there are instances where the bank is not acting fairly when doing so and the resulting outcome has severe consequences for the business (Claire, Lefebvre, and Rondeau, 2019).

Bank of Uganda (2016) indicates that essentially the business is pushed into a corner given the speed and lack of ability to move to a different lender. The business is thus forced to accept terms they otherwise would not. As a whistle-blowing ex-banker previously told us, the internal process in the bank is to "…lend as little as you have to remain ahead of your competitors to make sure you got as much out of the customer's wallet as possible."

According to Ayyagari, *et al*, (2016) when you take into account swaps, many of which outstrip the length of the loan preventing the customer from moving to another lender due to the contingent liability to the bank. In this instance, the bank has free rein on where to set the terms of the new loans, or whether to even renew at all. The business performance and growth potential may not have changed, but the bank's decision to change lending criteria has meant that the business is unable to meet the new terms and thus has to make up the equity gap themselves, seek other finance, or downsize their business (Ayyagari, *et al*, 2016).

According to the CAO report (2018), another practice includes requiring personal guarantees, to provide themselves with more security over the loans; banks ask for personal guarantees (PG) and cash injections into the business. Whilst it is fair to ask for security over loans and to ask the business owner to demonstrate their confidence in the business, it is not fair to do so if the bank has no intention of supporting or helping the business.

2.3 Challenges of Financing Real Estate Investment by Commercial Banks

Bank Requisition for Collateral, as collateral, is a principal of sound banking practice and is one of the criteria for assessing risk under prudential guidelines (Oling, Workie and Nsereko, 2017). Most real estate investments in Uganda lack fixed assets which they can pledge as security for loan applications in banks. The bank's insistence on immovable assets as collateral locks out more real estate investment that has movable properties that they could pledge as security. Lenders have not been innovative in considering other forms of collateral (CAO report, 2018). There is a tendency to rely on traditional all-asset debenture and legal mortgages at the expense of less costly and more innovative financial products (Oling, Workie and Nsereko, 2017).

Notwithstanding the low penetrations, financing by banking institutions forms the most important source of external financing for businesses. This is due to the dominance of the banking sector as the main intermediary in the financial system of Uganda (CAO report, 2018). The business banking sector is best defined conceptually by its position between large corporations and mostly–informal micro-enterprises. According to Da Rin, and Hellmann (2020), indicates that the development of a commercial banking sector in many countries began with addressing the needs of large corporate clients. This model has historically consisted of managing very high-value transactions for a small number of low-risk clients. This locks our many viable real estate investments in the country.

Much of the real estate businesses are in the blanket of SMEs and their financing is provided primarily by banks with loans being backed by credit guarantees or collaterals (Ayoub, Gottschalk, and Müller, 2017). The theory of social capital emphasizes social networks and reciprocity arising from such networks (Da Rin, and Hellmann, 2020). In the absence of social networks, SMEs continue to grapple with scarcity of collateral to secure bank loans. Yet, there is evidence that inadequate collateral continues to cripple the financial needs of these SMEs (Bititci, Bourne, Cross, Nudurupati, and Sang, 2018).

Credit risk is another challenge commercial banks face in Uganda and it arises when a bank borrower or counterparty fails to meet its obligations following agreed credit terms (Bourne et al, 2018). The goal of credit risk management is to maximize a bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. Banks need to manage the credit risk inherent in the entire portfolio as well as the risk in individual credits or transactions. Banks should also consider the relationships between credit risk and other risks (Ivudria, 2021). The effective management of credit risk is a critical component of a comprehensive approach to risk management and is essential to the long-term success of any banking organization.

According to Aballey, (2019), loans are the largest and most obvious source of credit risk to commercial banks; however, other sources of credit risk exist throughout the activities of a bank, including in the banking book and the trading book, and both on and off the balance sheet. Banks are increasingly facing credit risk (or counterparty risk) in various financial instruments other than loans, including acceptances, interbank transactions, trade financing, foreign exchange transactions, financial futures, swaps, bonds, equities, options, and in the extension of commitments and guarantees, and the settlement of transactions.

There are many challenges highlighted by Aballey, (2019) among them include not making enough money. Despite all of the headlines about banking profitability, banks and financial institutions still are not making enough return on investment or the return on equity, that shareholders require. Another challenge facing banks in real estate investments includes consumer expectations**.**

These days it’s all about the customer experience, and many banks are feeling pressure because they are not delivering the level of service that consumers are demanding, especially in regards to technology. Increasing competition from financial technology companies. Financial technology (FinTech) companies are usually start-up companies based on using software to provide financial services. The increasing popularity of FinTech companies is disrupting the way traditional banking has been done. This creates a big challenge for traditional banks because they are not able to adjust quickly to the changes – not just in technology, but also in operations, culture, and other facets of the industry.

Regulatory pressure. Regulatory requirements continue to increase, and banks need to spend a large part of their discretionary budget on being compliant, and on building systems and processes to keep up with the escalating. Poor Strategies/Policies /Trust**.** Most banks in Uganda use strategies /products from parent companies that are not suit for the population here, CEOs /BOD fail to interact with branch management fully to understand the needs of customers, and many others.

According to Cao's report, (2018), some of these challenges continue to escalate, so traditional banks need to constantly evaluate and improve their operations to keep up with the fast pace of change in the banking and financial industry today. According to Singh (2016), large branch networks and the high cost of staff are major contributors to the high operating costs of banks. When the interest costs of deposits and provisions for bad debts are added to operating costs, banks’ annual costs as a per cent of their income-earning assets rise to almost 18 per cent, which constrains the extent to which average lending rates, can fall. For Ayyagari, Juarros, Peria and Singh (2016) the third challenge facing the Ugandan banking industry is how to reduce its high operating costs, without compromising service delivery or customers' access to services. Ayyagari, et al,(2016) assert that the structural factors, which underlie the high bank lending rates point to the inevitable consequences of any attempt to force banks to reduce their lending rates by legislation, as has happened in Kenya

2.4 Strategies for Improving Real Estate Investment Financing

The following are some of the strategies that can improve real estate financing by commercial banks, and these are ramped up in sound practices. According to Hagen and Hansen, (2018) the sound practices set out in this document specifically address the following areas: (i) establishing an appropriate credit risk environment; (ii) operating under a sound credit-granting process; (iii) maintaining an appropriate credit administration, measurement and monitoring process; and (iv) ensuring adequate controls over credit risk. Da Rin, & Hellmann (2020), revealed that although specific credit risk management practices may differ among banks depending upon the nature and complexity of their credit activities, a comprehensive credit risk management program will address these four areas. He further asserts that those practices should also be applied in conjunction with sound practices related to the assessment of asset quality, the adequacy of provisions and reserves, and the disclosure of credit risk, all of which have been addressed in other recent Basel Committee documents.

For the market to allocate capital efficiently it must have accurate measurements of risk and return (Warue, 2015). This is particularly the case for real estate, in comparison to other assets, as it is the least forgiving in regards to errors in design, manufacture, or location – for example, all the residential lots currently sitting vacant on the outskirts of many cities. One of the most significant risk management challenges by market participants and regulators is to make plausible projections about the performance of CRE loans in an extended economic downturn, like the current one, that is significantly outside of the experience of the data highlighted above (e.g. regulatory stress testing).

According to Warue, (2012) traditionally, the banking sector has adopted a risk mitigation approach, meaning businesses can be reluctant to embrace huge digital transformation projects. This hesitation leaves the market open to new disruptive competitors who have a versatile working model and can easily adopt innovations. Oketch, (2019) was of the view that lenders devise various institutional mechanisms aimed at reducing the risk of loan default. These include pledging of collateral, third-party credit guarantee, use of credit rating and collection agencies, etc.).

Nguta and Guyo, (2015), state that bad loans can be restricted by ensuring that loans are made to only borrowers who are likely to be able to repay, and who are unlikely to become insolvent. Credit analysis of potential borrowers should be carried out to judge the credit risk of the borrower and to reach a lending decision. Loan repayments should be monitored and whenever a customer defaults action should be taken. Thus, banks should avoid loans to risky customers, monitor loan repayments and renegotiate loans when customers get into difficulties (Hagen and Hansen, 2018). Financial institutions need a monitoring system that highlights repayment problems clearly and quickly so that loan officers and their supervisors can focus on delinquency before it gets out of hand (Nudurupati, and Sang, 2018).

Sheila, (2011) is of the view that proper and adequate appraisal is key to controlling or minimizing default. This is the basic stage in the lending process. According to Anjichi (1994), the appraisal stage is the heart of a high-quality portfolio. This includes diagnosing the business as well as the borrower. Before beginning the process of collecting information on the client to determine credit limits, the loan officer should have specific information available which will guarantee that the data and figures provided by the client will have a pro-margin error (Investment Property Forum, 2018).

Bititci, et al, (2018) assert that the majority of the information is obtained by the loan officer through direct interaction with the client in such a way that each loan analysis provides valuable insights for evaluating the application for the future client. However, most clients withhold a great deal of information making the evaluation a difficult and unreliable exercise. Furthermore, the loan officer should visit the home or the workplace of the client with the main objective of determining whether the client needs the loan program or not. This information will help the loan officer to assess the ability to effectively utilize the loan. Oling, Workie and Nsereko (2017) observed that the time to assess the applicant's creditworthiness also matters. He argues that the longer it takes to assess the applicant, the better for the bank.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology that was used in the study. It includes the research design, study population, sample size and selection, sampling techniques and procedure, data collection methods, data collection instruments, validity and reliability of instruments, data processing and analysis and measurement of variables explaining how each was used in the study.

3.2 Research Design

The descriptive cross-sectional study and both qualitative and quantitative methods of data collection were used. The qualitative data was used to back the quantitative data to make a good discussion. Besides that, the above design was chosen because of its proven applicability by other researchers in the same field.

3.3 Study Population

The study population was comprised of lower employees and managers of Stanbic Bank from the credit section. The lower employees from the credit section were considered and according to bank records, a total of 140 accessible employees split into 24 managerial and 116 lower-level employees are at the head office (Stanbic Bank Human Resource Records, 2022). All those employees targeted knew issues concerning the financing of real estate investments.

3.4 Sample Size and Sampling Techniques

The sample size was 103 and was determined using Krejcie and Morgan's (1970) sample table. In picking individual sample points a stratified random sampling method was used as the population had two strata that is managers and lower level employees. This was used because the method gives equal chances to all elements in the population to constitute a sample and this removes bias within the sample selected. Names were written on pieces of paper folded and then picked one after the other till the sample size of 103 was reached.

Table 1: Sample Size

Sub-group	**Population**	**Sample**
Manager	24	19
Lower employees	116	84
Total	**140**	**103**

Source (Stanbic Bank Records, 2021)

3.5 Data sources

Primary data is firsthand information that was obtained using primary data collection instruments from the bank employees.

3.6 Data Collection Instrument

Questionnaires and interview guides were designed to guide the researcher while collecting data. Questionnaires: the questionnaires were self-administered. Questions were categorized in both structured (cross-ended) and unstructured (open-ended) to address specific objectives. Interview guides: interview guides were also structured and unstructured questions, as well as semi-structured to enable flexibility.

3.7 Validity and Reliability of Instrument

To ensure the validity and reliability of the data collection instruments, the researcher after designing the instruments, used the experienced judgment of supervisors for comments so that possible amendments are done. Besides that, even a Content Validity Index CVI was used to ensure that the validity was ensured.

Content Validity

CVI establishes whether the research instrument measures what it intended to measure. In this study therefore to determine CVI, the instrument was given to an expert who scored it. Then, valid scales were compared with the total on the instrument time's 100 i.e. valid scales/total x 100%. The target was to have CVI ≥ 0.5

Reliability

The reliability of instruments was ensured using a test and pre-test of the instruments, whereby before questionnaire real administration they were first pre-tested in an environment similar to where it was to be administered. Then the pre-test results were input in SPSS and Cronbach Alfa-coefficient was calculated and any result below ≥ 0.7 rendered the researcher to review the instrument. The details of the validity and reliability are presented in the table below

Table 2: Showing Cronbach alpha coefficient and Content Validity Index.

Objective	**No. of Items**	**Cronbach Alpha**	**CVI**
Financial practices	8	.990	.969
Challenges of Financing	8	.882	.885
Strategy for improving	8	.765	.702
Average		.879	.852

Source (Primary Data)

The table presents information about the Cronbach alpha coefficient and Content Validity Index (CVI) for different objectives or constructs. These indices are commonly used in research and survey development to assess the reliability and content validity of the items or questions used to measure a particular construct. The Cronbach alpha for the "Financial Practices" construct is very high, indicating a strong level of internal consistency among the items in this category. A value of 0.990 is close to 1, suggesting that the items are highly reliable in measuring the same underlying concept. The CVI is also high at 0.969, indicating that the items have a high level of content validity, meaning they effectively measure what they are supposed to measure.

The Cronbach alpha for the "Challenges of Financing" construct is relatively high at 0.882, suggesting a good level of internal consistency among the items. While not as high as in the "Financial Practices" construct, it still indicates a reasonable level of reliability. The CVI for this construct is 0.885, which is also reasonably high, indicating that the items effectively measure the challenges related to financing. The Cronbach alpha for the "Strategy for Improving" construct is lower at 0.765, indicating a somewhat lower level of internal consistency among the items compared to the other constructs. This suggests that the items may be less reliable in measuring the concept. The CVI for this construct is 0.702, which, while still reasonable, is relatively lower than the other constructs, indicating somewhat lower content validity.

3.8 Measurement of Variables

Financing practices in banks are measured using metrics such as Return on Assets (ROA) and Return on Equity (ROE) (Bank of Uganda, 2020). It is defined as the ratio of a firm's current assets to current liabilities, with a higher liquidity ratio indicating a higher likelihood of meeting projected arrears and maintaining prudent financial management (Kimondo et al., 2016). Proper financing is critical for sustaining adequate liquidity in day-to-day business tasks to enable effective business operations and fulfilment of commitments when they are due (Awais et al., 2016). However, for this study, the variables were measured using a 5-point Likert scale, on which statements were made and responses were scaled on the same.

3.9 Data Processing, Analysis and Presentation

After collection, data was edited, coded and inputted in SPSS for analysis. For data analysis statistical variables like frequencies, mean and standard deviations were computed for each item of objectives. After analysis data was presented in frequency tables with means and standard deviation. Then the interpretation followed that. Qualitative data analysis involves a systematic and rigorous approach to extracting meaningful insights from non-numerical information. In this study, therefore, techniques such as thematic analysis or content analysis to identify recurring patterns, themes, and concepts within the qualitative data.

CHAPTER FOUR

ANALYSIS, PRESENTATION AND INTERPRETATION OF FINDINGS

4.0 Introduction

The purpose of the study was to examine the financing of real estate investments in Stanbic Bank (U) Ltd. This was based on data collected from managerial staff from Stanbic Bank headquarters in Kampala. The presentation of findings starts with bio-data and follows with presentation according to research objectives: i) to examine the financing practices of real estate investment within Stanbic Bank Uganda, ii) to assess the challenges of financing real estate investment by Stanbic Bank Uganda and iii) to solutions for improving real estate investments financing by Stanbic bank Uganda**.**

4.1 Response Rate

In this study, the researcher designed 103 questionnaires which were administered. Out of the 103 administered, 90 questionnaires were successfully filled and returned and 13 were not filled, implying a response rate of 87.4%. The details of the same are shown in the table 2 below.

Table 4. 1: Showing Response Rate

Nature of response	**Frequency**	**Percent (%)**
Response	90	87.4
Non-response	13	12.6
Total	**103**	**100.0**

Source (Primary Data)

4.2 Bio Data

This section presents the background variables of the study. The background variables provided in the study are: gender, age of respondents, category of respondents and year respondents had worked with the Bank.

Table 4. 2: Showing Bio Data

Category	Frequency	Percentage (%)
Gender		
Male	60	66.7
Female	30	33.3
Age Distribution		
20-30	18	20.0
31-40	52	57.8
41-50	20	22.2
Category of Respondents		
Manager	32	35.6
Lower employee	58	64.4
Period Worked with Stanbic Bank		
1-10	59	65.6
11-20	31	34.4

Source: Primary Data

From the table above, the Gender of respondents was investigated. The results were males were 60 (66.7%) and females were 30 (33.3 %). This implies that the males dominated the study; this is in line with other findings of employment in Uganda which indicates that there is still dominance of males in employment in Uganda.

The age of respondents was investigated and the results are shown in the table above, it is indicated that different age groups participated in the study such that those who were between 20 and 30 years were 18 (20.0%), 31-40 age class were 52 (57.8%), those within the age class of between (41-50) were 20 (22.2%). Since this is a mature age and the respondents were fairly represented meaning that views obtained are representative of different age groups**.**

The category of respondents was investigated and the results are shown in the table above the distribution of the category of respondents indicates that 32(35%) of the respondents were managers and lower employees in the credit section that participated in the study were 58(64.4%). This means that the study had a good mix of different categories as managers and lower-level credit employees.

The researcher was interested in establishing how long the respondents had worked with the bank to judge the credibility of their answers. Table 4.2 above indicates the results of the respondents who had worked for a period between 1 and 10 years. Of those who had worked between 11 and 20 years were 31(34.4%). This implies that, on average employees had worked in the bank for a reasonable period. Thus their information is worth depending on.

4.3 Findings of the Study.

There were three objectives of interest in this study and these were specifically to examine the financing practices of real estate investment within Stanbic Bank Uganda, to assess the challenges of financing real estate investment by Stanbic Bank Uganda and to suggest solutions for improving real estate investments financing by Stanbic bank Uganda. Analysis of findings as per objective was done using mean. As highlighted in the questionnaire mean value close to 1 represents strongly disagreed, a mean value close to 2 means disagree, a mean close to 3 indicates a state of uncertainty about the statement presented, for a mean close to 4 means a state of agreement and those close to 5 means strongly agree. The results from the field exercise on different statements are summarized in the Tables that follow.

4.3.1 Financing of Real Estate Investments

The first objective of the study was to examine the financing practices of real estate investment within Stanbic Bank Uganda. The results from the data analysis are presented in Table 4.3 below

Table 4. 3: Showing Response to Financing Practices of Real Estate Investment

Descriptive Statistics					
Statements	**N**	**Min**	**Max**	**Mean**	**Std. Dev**
The bank offers specialized credit targeting real estate investments within Stanbic bank	90	1	5	3.34	1.265
The bank offers land acquisition loans for real estate investments	90	1	5	3.41	1.421
Availability of appropriate Residential mortgages targeting real estate investment customers	90	1	5	3.54	1.423
The bank provides suitable commercial mortgages for investments	90	1	5	3.54	1.423
The bank provides construction finance to real estate investments in Uganda	90	1	5	3.40	1.413
The bank offers asset financing loans for real investments	90	1	5	3.76	1.546
The bank offers an asset hire credit facility for real estate investments	90	1	5	3.26	1.488
Stanbic Bank Uganda has formed partnerships with real estate investment firms	90	1	5	3.88	1.606
Valid N (listwise)	90				

Source: Primary Data

From Table 4.3 above response was sought on the real estate financing practices by commercial banks. The results on whether the bank offers land acquisition loans to real estate investments (Mean=3.41 and Std. Dev=1.421). On average majority of respondents confirmed that the bank offered land acquisition loans as a main practice in real estate investment portfolios. Whether there was a residential mortgage targeting real estate investment customers (Mean=3.54 and Std. Dev=1.423). On average majority of respondents agreed that the bank offered residential mortgages targeting real estate investment customers.

The bank provides commercial mortgages to real estate investments (Mean=3.54 and Std. Dev=1.423). On average majority of respondents offered the bank provides commercial mortgages to real estate investments, so it’s a practice.

On whether the bank offered construction financing to real estate investments in Uganda (Mean=3.40 and Std. Dev=1.413). On average majority of respondents agreed that the bank offered construction financing to real estate investments. Besides that the result on the question of whether the bank offered asset financing loans to real investments (Mean=3.76 and Std. Dev=1.546).

On average majority of respondents agreed that the bank offered asset financing loans to real investments. On average majority of respondents were indifferent on whether the bank offered asset hire credit facility to real estate investments (Mean=3.26 and Std. Dev=1.488). It was further agreed by the majority of respondents on average that Stanbic Bank Uganda formed partnerships with real estate investment firms (Mean=3.88 and Std. Dev=1.606).

Results according to the interview guide, interviews further revealed that other practices included the bank offering home purchase loans, land acquisition loans, completion of both residential and commercial property loans, also offered credit on the purchase of commercial structures and these are allowed on freehold, leasehold and Buganda land board titles. The respondents further indicated that the practice of banks financing real estate investments in Uganda is governed by a combination of legal and regulatory frameworks, and it's essential for both banks and borrowers to navigate this landscape while complying with the law and ensuring responsible lending practices. Real estate financing in Uganda plays a crucial role in the development and growth of the real estate sector and the broader economy. In Uganda, banks follow a structured framework for financing real estate investments. The process starts with due diligence, where borrowers' creditworthiness and project feasibility are assessed. Upon approval, banks and borrowers collaborate to structure the loan, considering aspects like loan amount, interest rates, and collateral. Regulatory compliance is paramount, with the Bank of Uganda overseeing adherence to local and international regulations. Interest rates are market-driven, and borrowers receive *disbursements for their real estate projects, with continuous monitoring, repayment, and risk mitigation throughout the investment lifecycle. Banks also maintain loan servicing departments and have established processes for loan recovery in case of default. This comprehensive framework aligns with Uganda's economic and regulatory landscape.*

4.3.2 The Challenges of Financing Real Estate Investment by Stanbic Bank Uganda

The second objective of the study was to examine the challenges of financing real estate investment by Stanbic Bank Uganda. The results from the data analysis are presented in table 4.4 below

Table 4. 4: The Challenges of Financing Real Estate Investment by Stanbic Bank Uganda

Descriptive Statistics					
Statements	**N**	**Min**	**Max**	**Mean**	**Std. Dev**
Liquidity is a challenge to the bank because of financing real estate investments	90	1	4	2.29	0.939
Risk management practices are a challenge within commercial banks because of financing real estate investments	90	2	5	2.84	1.180
Collateral from real estate investors is a challenge to commercial banks	90	3	5	4.12	0.362
Investment firms failing to honour their credit obligation is a challenge for commercial banks	90	4	5	4.34	0.478
High levels of non-performing assets in commercial banks are a challenge within commercial banks because of real estate financing	90	3	5	3.89	0.880
Failure to attend to other non-real estate investments is a challenge to commercial banks	90	1	4	3.38	1.023
Low demand for real estate investments demanding credit from the bank is a challenge to commercial banks	90	1	4	2.77	0.794
Relating with the real estate investment customers is a challenge to commercial banks	90	1	4	2.90	1.102
Valid N (listwise)	90				

Source: Primary Data

From the table above it has been established that there quite many challenges faced by the bank in the business of providing finance to real estate investments. On average majority of the respondents disagreed that inadequate liquidity is a challenge to the bank because of financing real estate investments (Mean=2.29 and Std. Dev=0.939). This implies that liquidity is not a challenge in Stanbic Bank. Even inadequate risk management practices were a challenge within commercial banks because of financing real estate investments (Mean=2.84 and Std. Dev=1.180). On average majority of respondents disagreed meaning that inadequate risk management was not a challenge to the bank. However, it was established that inadequate collateral from real estate investments was a challenge to commercial banks (Mean=4.12 and Std. Dev=0.362). On average it was established that high levels of non-performing assets in commercial banks are also challenged within commercial banks because of real estate financing (Mean= 3.89 and Std. Dev=0.880). On average majority of respondents were not sure whether failure to attend to other non-real estate investments was a challenge to commercial banks (Mean=3.38 and Std. Dev=1.023).

Whether investment firms fail to honour their credit obligation is a challenge for commercial banks (Mean=4.34 and Std. Dev=0.478). The majority of respondents agreed that it was a big challenge. On average majority of respondents disagreed on the point that low demand for real estate investments demanding credit from the bank was a challenge to commercial banks (Mean=2.77 and Std. Dev=0.794). it was further revealed that keeping a good relationship with the real estate investments amidst defaulting on their obligation was a challenge to commercial banks (Mean=2.90 and Std. Dev=1.102).

Interview results revealed some challenges some real estate investors did not have adequate collateral to back their loan requirements, and real estate investments had a challenge with inadequate cash flows, and insufficient paperwork especially from foreign real estate investment firms was a challenge faced by the bank. Banks face several challenges when financing real estate investments, which can impact their lending practices and risk management. First, credit risk is a significant concern. Banks must carefully assess borrower creditworthiness and project viability *to minimize the risk of non-performing loans. Inaccurate risk assessment can lead to defaults, especially in markets with fluctuating property values or economic instability. Moreover, the cyclical nature of the real estate market can expose banks to market risk. Economic downturns can lead to declining property values, negatively affecting the collateral securing the loans, and increasing the risk of loan defaults. Therefore, banks need to adapt their lending strategies to navigate these market fluctuations effectively.*

Another challenge is liquidity risk. Real estate investments often involve long-term financing, but banks typically rely on short-term deposits to fund these loans. Mismatches in the maturity of assets and liabilities can lead to liquidity problems, especially during economic crises when depositors may withdraw funds, affecting a bank's ability to meet its obligations. Additionally, regulatory compliance presents challenges, as banks must navigate a complex web of local and international regulations governing real estate financing. Non-compliance can lead to legal and reputational risks, making it crucial for banks to stay abreast of evolving regulatory requirements.

4.3.3 Solutions for Improving Real Estate Investment Financing

The 3rd objective of the study was to identify solutions for improving real estate investment financing by Stanbic Bank Uganda. The results from the data analysis are presented in the table below

Table 4. 5: Strategies for Improving Real Estate Investments Financing

Descriptive Statistics					
Statements	N	Min	Max	Mean	Std. Dev
Operating under a sound credit-granting process by the bank can solve credit risk management challenges within banks	90	1	5	4.30	0.589
Maintaining an appropriate credit administration, measurement and monitoring process	90	3	5	4.54	0.523
Ensuring adequate controls over credit risk, especially in real estate investments	90	4	5	4.54	0.501
Borrowing by the bank to reinforce its liquidity position to meet the demands of other non-real estate borrowers	90	1	4	2.76	0.952
The introduction of special supervision of the real estate investment finance within the bank can solve some credit risk management issues	90	4	5	4.34	0.478
Establishing an appropriate credit risk environment with the bank can Solve the real estate financing challenges facing banks	90	4	5	4.34	0.478
Improving product marketing can increase the demand for real estate financing from real estate investments	90	3	5	4.32	0.493
Training the employees in the bank in special real estate portfolio management can improve real estate financing in the bank	89	4	5	4.55	0.500
Valid N (listwise)	89				

Source: Primary Data

On the solutions of improving the practice of financing real estate financing by the bank. On whether operating under a sound credit-granting process by the bank can solve credit risk management challenges within banks(Mean=4.30 and Std. Dev=0.589). On average majority of respondents agreed that maintaining an appropriate credit administration, measurement and monitoring process (Mean=4.54 and Std. Dev=0.523). On average majority of respondents ensured adequate controls over credit risk, especially to real estate investments (Mean=4.54 and Std. Dev=0.501). On average the bank should borrow to reinforce its liquidity position to meet the demands of other non-real estate borrowers (Mean=2.76 and Std. Dev=0.952). The introduction of special supervision of the real estate investment finance within the bank can solve some credit risk management issues (Mean=4.34 and Std. Dev=0.478). Establishing an appropriate credit risk environment with the bank can Solve the real estate financing challenges facing banks (Mean=4.34 and Std. Dev=0.478). On average majority of respondents agreed that improving product marketing can increase the demand for real estate financing from real estate investments (Mean=4.32 and Std. Dev=0.493). Another solution for improving real estate investment financing training the employees in the bank in special real estate portfolio management can improve real estate financing in the bank (Mean=4.55 and Std. Dev=0.500).

The qualitative results regarding strategies for improving real estate investment financing with the bank involve strategic planning and actions to enhance access to capital and secure favourable terms. Banks can bolster real estate financing while minimizing risks through a multifaceted approach. First, they should conduct rigorous due diligence to assess borrowers, project viability, and market dynamics meticulously, reducing the likelihood of non-performing loans. Additionally, banks can diversify their real estate portfolios by financing various property types, locations, and developers, effectively spreading risk and diminishing exposure to fluctuations in any single market. To further mitigate risks, it's essential to establish prudent Loan-to-Value (LTV) limits, ensuring that borrowers have a substantial stake in their projects, thereby reducing the risk of default. Conducting stress tests is crucial for banks to evaluate the impact of adverse scenarios on loan portfolios, aiding in their preparedness for economic downturns.

Continual portfolio monitoring is key to identifying early warning signs of potential issues, allowing banks to take prompt corrective actions. Furthermore, banks can offer risk mitigation tools such as interest rate swaps and credit enhancements to help borrowers manage interest rate and credit risks effectively. Banks must adhere to local and international regulations, ensuring responsible lending practices and robust risk management. Providing financial literacy and risk management guidance to real estate borrowers can improve their ability to manage their obligations effectively. Lastly, utilizing independent, qualified appraisers for accurate collateral valuation helps reduce the risk of overvalued collateral. Staying informed about market trends and adapting lending policies accordingly is essential for mitigating exposure during market fluctuations. These measures collectively empower banks to fortify their real estate financing practices and promote responsible lending while minimizing inherent risks in their real estate portfolios.

CHAPTER FIVE

SUMMARY OF FINDINGS, RECOMMENDATIONS AND CONCLUSIONS

5.1 Introduction

The study evaluated the practice of financing Real Estate Investments within Stanbic Bank (U) Ltd. This chapter presents the summary, discussions, conclusions and recommendations. All such is presented based on the findings and revelations from the previous chapters. The objectives were to examine the financing practices of real estate investment within Stanbic Bank Uganda, to assess the challenges of financing real estate investment by Stanbic Bank Uganda and to strategies for improving real estate investment financing by Stanbic Bank Uganda.

5.2 Summary of the Findings

5.2.1 The financing practices of Real Estate Investment within Stanbic Bank

The first objective was to establish financing of real estate investment practices within Stanbic Bank Uganda. The findings concerning that was that within the bank there was a specialized credit targeting real estate investments, it was revealed that the bank offered land acquisition loans which are related to real estate investments. Besides that, it was further revealed that the bank had a product known as residential mortgage which targeted real estate investment customers, it was also established that commercial mortgage was also offered to real estate investments. Besides that, it has been established that the bank also offered construction finance to real estate investment firms in Uganda.

Among other products offered by the bank included asset financing loans, asset hire credit facility to real estate investments. Besides that, it was revealed that in the process of engaging in real estate financing the bank formed partnerships with real estate investment firms. It was further established that the bank offered home purchase loans, land acquisition loans, and completion of both residential and commercial loans. Others include the purchase of commercial structures and these are for freehold and Buganda land board titles.

5.2.2 Challenges Faced by the Bank in Real Estate Investment Financing

The second objective of the study was to establish the challenges faced by the bank in real estate investment financing and the results were that of inadequate collateral from the real estate investments, high levels of non-performing assets in commercial banks because of real estate financing, failure to attend to other non-real estate investments by the bank because of concentrating on real estate financing. Investment firms failing to honour their credit obligation resulted in defaulting on their obligations and it was established that keeping a good relationship with the real estate investments customer amidst such challenge was quite challenging as well. Besides that, it was also established that customers faced inadequate cash flows, some of them experienced insufficient paperwork especially foreign estate investors (Oling, Workie and Nsereko, 2017)

Another challenge highlighted was the delayed length of the process from third-party partners, for example, valuers, bills of quantities quotes and the lengthy legal process. Other challenges identified by the respondents were high levels of non-performing assets as a result of real estate financing and overvalued properties by brokers.

5.2.3 Strategies for Improving Real Estate Investment Financing Within Stanbic Bank

The third objective was to identify the solutions for improving real estate investment financing within Stanbic Bank. It was revealed that operating under a sound credit-granting process by the bank can solve credit risk management challenges within banks. Besides that, it was identified that maintaining an appropriate credit administration, measurement and monitoring process. It was also solving the challenge of loan default resulting in high non-performing assets. Ensuring adequate controls over credit risk, especially in real estate investments

The introduction of special supervision of real estate investment finance within the bank can solve some credit risk management issues. Establishing an appropriate credit risk environment with the bank can solve the real estate financing challenges facing banks. Besides that, it was established that the bank had to develop a specialized loan processing team specifically real estate investment firms. It was further established that regularizing the monitoring of investments and mentoring of the real estate investors the bank. It was further established that the bank should establish a flexible credit evaluation process for real investment. The findings revealed that improving product marketing can increase the demand for real estate financing from real estate investments. Training the employees in the bank in special real estate portfolio management can improve real estate financing in the bank.

5.3 Discussion of Findings

5.3.1 Financing Practices of Real Estate Investment within Stanbic Bank

From the literature it was established that financing is the process of providing funds for business activities, making purchases, or investing. Zhang and Mayes (2018), identified the practices of financing in four categories which include among other different types of mortgages (residential, commercial, land purchase, and construction finance to property developers), compared to only one (residential) in 2020. Cole and Sokolyk (2018) revealed that business financing is one of the main commercial banks business and funding options for business owners from banks include all kinds of loans. There are several different types of business financing available, but each type of financing may be better for some purposes than others. As revealed from the field According to

Beck, et al, 2013) commercial banks offer specialized real estate development loans, to real estate investment companies. This is in agreement with the findings from the field which identified practices like asset financing loans, asset hire credit facility to real estate investments. Besides that, it was revealed that in the process of engaging in real estate financing the bank formed partnerships with real estate investment firms. It was further established that the bank offered home purchase loans, land acquisition loans, and completion of both residential and commercial loans. Others include the purchase of commercial structures and these are for freehold and Buganda land board titles.

Other types of real estate development loans from financial institutions are capital advancements issued to borrowers who need funds to break ground on a project, build, and hold the finished product through the leasing stage (Bonini, and Capizzi, 2019). He further indicates that real estate investors typically rely on real estate development financing to do one of two things: buy raw land to eventually build on or tear down an existing building, only to build a new one. As it was established that acquisition of loans**,** Zhang and Mayes (2018) explained acquisition loans as the names suggest, acquisition loans are specifically used to finance the purchase of undeveloped land. Bonini, and Capizzi, (2019) also indicated that acquisition loans will often be used to buy land with no intentions of developing it. While common, acquisition loans provide little room for action and must typically be accompanied by subsequent loans to develop the land further.

5.3.2 Challenges of Financing Real Estate Investment within Stanbic Bank

The findings from the field survey revealed several challenges facing commercial banks in providing finances to real estate investments. Some of the challenges identified include inadequate collateral from the real estate investments, high levels of non-performing assets in commercial banks because of real estate financing, and failure to attend to other non-real estate investments by the bank because of concentrating on real estate financing. These were supported by a report from the Bank of Uganda that highlighted similar challenges.

Investment firms failing to honour their credit obligation resulted in defaulting on their obligations and it was established that keeping a good relationship with the real estate investments customer amidst such challenge was quite challenging as well. These were supported by Oling, Workie and Nsereko, (2017) in the literature review when they asserted that banks require collateral, as collateral is a principal of sound banking practice and is one of the criteria for assessing risk under prudential guidelines. However, most real estate investors don’t have sufficient collateral required by banks. The study further indicated that most real estate investments in Uganda lack fixed assets which they can pledge as security for loan applications in banks (Oling, Workie and Nsereko, 2017). The banks' insistence on immovable assets as collateral locks out more real estate investment that has movable properties that they could pledge as security. Lenders have not been innovative in considering other forms of collateral (Cao, 2018). There is a tendency to rely on traditional all-asset debenture and legal mortgages at the expense of less costly and more innovative financial products (Oling, Workie and Nsereko, 2017).

Da Rin, and Hellmann, (2020) revealed that in the absence of social networks, SMEs continue to grapple with the scarcity of collateral to secure bank loans. Yet, there is evidence that inadequate collateral continues to cripple the financial needs of these SMEs. This confirms inadequate collateral as a major challenge facing commercial banks in real estate financing. Although credit risk was highlighted as a challenge the field survey revealed otherwise. Another challenge commercial banks face in real estate financing and it was found out that it arises when a bank borrower fails to meet their obligations following agreed credit terms (Bourne et al, 2018).

As Ivudria, (2021) states that the goal of credit risk management is to maximize a bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. He further indicated that banks need to manage the credit risk inherent in the entire portfolio as well as the risk in individual credits or transactions. The effective management of credit risk is a critical component of a comprehensive approach to risk management and essential to the long-term success of any banking organization irrespective of the nature of the business being involved in. Other challenges highlighted by Aballey (2019) among them include not making enough money. Despite all of the headlines about banking profitability, banks and financial institutions still are not making enough return on investment or the return on equity, that shareholders require.

5.3.3 Strategies for Improving Real Estate Investment Financing Within Stanbic Bank

The third objective was to identify the solutions for improving real estate investment financing within Stanbic Bank. The literature revealed that according to Hagen and Hansen, (2018), the sound practices that can solve the challenges facing banks in real estate financing include among others establishing an appropriate credit risk environment; operating under a sound credit-granting process; maintaining an appropriate credit administration, measurement and monitoring process; and ensuring adequate controls over credit risk. From the field, it was revealed that operating under a sound credit-granting process by the bank can solve credit risk management challenges within banks. Besides that, it was identified that maintaining an appropriate credit administration, measurement and monitoring process. It was also solve the challenge of loan default resulting in high non-performing assets. Ensuring adequate controls over credit risk, especially in real estate investments.

The introduction of special supervision of real estate investment finance within the bank can solve some credit risk management issues. Establishing an appropriate credit risk environment with the bank can solve the real estate financing challenges facing banks. Besides that, it was established that the bank had to develop a specialized loan processing team specifically real estate investment firms. It was further established that regularizing the monitoring of investments and mentoring of the real estate investors the bank. It was further established that the bank should establish a flexible credit evaluation process for real investment. The findings revealed that improving product marketing can increase the demand for real estate financing from real estate investments. Training the employees in the bank in special real estate portfolio management can improve real estate financing in the banks

5.4 Conclusions

There is no single practice that can wholly explain financing of real estate investment financing by commercial banks but a combination of services. They offer specialized credit targeting real estate investments, the bank offers land acquisition loans which are related to real estate investments. Provision of residential mortgages which targeted real estate investment customers, it was also established that commercial mortgages were also offered construction finance to real estate investment firms in Uganda and in some instances forming partnerships with real estate investment firms.

The second objective was to identify the challenges facing banks in financing real estate investments, the following were identified as inadequate collateral from the real estate investments, high levels of non-performing assets, and failure to attend to other non-real estate investments by the bank because of concentrating on real estate financing.

The third objective was to identify solutions to the challenges, operating under a sound credit-granting process; maintaining an appropriate credit administration, measurement and monitoring process; and ensuring adequate controls over credit risk.

5.5 Recommendations

Based on the findings of the study the following are suggested as recommendations to improve financing of real estate investment by commercial banks**.**

Management of the bank should critically make sure that proper due diligence is done before financing real estate investments. This can be done by following the 5cs of lending.

Stanbic Bank should provide training to both internal employees in the bank about real estate management and monitoring. This would help in improving the performance and repayment from real estate investment

The decision-makers at Stanbic Bank should introduce a specialized real estate investments section purposely to deal with real estate customers. This would give them expertise and time to deal with them decisively.

The entire management of the bank should improve on supervision and monitoring of real estate investments. This would help in improving the internal management of these firms which results in defaults to the bank.

The management of the bank should also hire a strong legal team to deal with foreclosing of non-performing assets. This would reduce the challenge of accumulating non-performing assets.

5.6 Limitation

There was no proposed research project which is perfectly designed without any limitations. The researcher anticipated the refusal of some sources to give data while those willing might exaggerate information. This, however, was dealt with through a thorough explanation to target respondents of the purpose of the study.

The studies/research about the problem is not an interesting topic to many scholars in Uganda. This biases the literature to foreign studies which use unfamiliar examples. However, the researcher endeavoured to review the available local research first. Really as they feel about or perceive them, through probing and seeking further clarity on the questionnaire items, the researcher managed to get what he wanted.

5.7 Areas for Further Study

Basing on the gaps identified in the study the researcher identifies the following areas for further study

1. An assessment of the effect of commercial banks credit policy on performance of real estate sector.
2. The impact of real estate investments financing on the macroeconomics of a country

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APPENDICES

APPENDIX 1: QUESTIONNAIRE FORM

Questionnaire No.	

Dear respondents

This questionnaire is intended to facilitate the study on the topic ‘‘***Financing of Real Estate Investments by Commercial Banks in Uganda, A Case of Stanbic Bank.*** The study is for academic purposes and is carried out in partial fulfillment of the requirements for the award of a Masters of Banking and Investment Management of Makerere University Business School**. As a respondent**; your responses are highly important and will be treated with utmost confidentiality. Thank you very much for your valuable time in advance.

SECTION A: BACKGROUND INFORMATION

Demographic characteristics (Please do provide the following information. Indicate appropriate code in box)

No		Options	Enter the correct code
01	Gender	Male ……………….………..…1 Female ……………….……...…2	
02	Age of respondent	20-30 years ……….……. …..…1 31-40 years ……….……..…….2 41-50 years ……….…….……...3 51 and above years ….….…....4	
03	Category of respondent	Manager ………………………..1 Lower employees ……………...2	
04	How long have you worked with Stanbic bank Uganda	1-10 years …………………..….1 11-20 years ……..…………..….2 21 and above years …….….….3	

Use (x) or Tick (√) in the questionnaire boxes to indicate your preference/choice.

1	2	3	4	5
Strongly disagree	**Disagree**	**Uncertain**	**Agree**	**Strongly agree**

		Strongly disagree	Disagree	Uncertain	Agree	Strongly agree
SECTION B: Financing practices of real estate investment within commercial banks						
1	The bank offers specialized credit targeting real estate investments within Stanbic bank	1	2	3	4	5
2	The bank offers land acquisition loans to real estate investments	1	2	3	4	5
3	Availability of appropriate Residential mortgages targeting real estate investment customers	1	2	3	4	5
4	The bank provides suitable commercial mortgage for investments	1	2	3	4	5
5	The bank provides construction finance to real estate investments in Uganda	1	2	3	4	5
6	The bank offers asset financing loans to real investments	1	2	3	4	5
7	The bank offers asset hire credit facility to real estate investments	1	2	3	4	5
8	Stanbic bank Uganda has formed partnerships with real estate investment firms	1	2	3	4	5
SECTION C: The Challenges of Financing Real Estate Investment by Commercial Banks						

9	Liquidity is a challenge to the bank because of financing real estate investments	1	2	3	4	5
10	Risk management practices is a challenge within commercial banks because of financing real estate investments	1	2	3	4	5
11	Collateral from the real estate investors is a challenge to commercial banks	1	2	3	4	5
12	Investment firms failing to honor their credit obligation is a challenge with commercial banks	1	2	3	4	5
13	High levels of non-performing assets in commercial banks is challenge within commercial banks because of real estate financing	1	2	3	4	5
14	Failure to attend to other non-real estate investments is a challenge to commercial banks	1	2	3	4	5
15	Low demand for real estate investments demanding credit from the bank is a challenge to commercial banks	1	2	3	4	5
16	Relating with the real estate investments customers is a challenge to commercial banks	1	2	3	4	5
Section D: solutions to the challenges faced by banks in financing real estate investments						
17	Operating under a sound credit-granting process by the bank can solve credit risk management challenges within banks	1	2	3	4	5
18	Maintaining an appropriate credit administration, measurement and monitoring process	1	2	3	4	5
19	Ensuring adequate controls over credit risk especially to real estate investments	1	2	3	4	5
20	Borrowing by the bank in order to reinforce its liquidity position in order to meet the demands of other non-real estate borrowers	1	2	3	4	5

21	Introduction of special supervision of the real estate investment finance within the bank can solve some credit risk management issues	1	2	3	4	5
22	Establishing an appropriate credit risk environment with the bank can Solve the real estate financing challenges facing banks	1	2	3	4	5
23	Improving product marketing can increase the demand for real estate financing from real estate investments	1	2	3	4	5
24	Training the employees in the bank in special real estate portfolio management can improve real estate financing in the bank	1	2	3	4	5

Thank you for your time and I pray that God blesses you.

APPENDIX 2: INTERVIEW GUIDE

Position of the respondents ……………………………………………………

The practice of real estate investment financing in your bank ……………………………………………………………………………………………… ……………………………………………………………………………………………… ……………………………………………………………………………………………… ……………………………………………………………………………………………… ………………………………………………………………………………………………

Identify the challenges faced by your bank in real estate financing

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What do you think need to be done to improve the performance of real estate investment financing in Stanbic bank?

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Any comment on the above please indicate here?

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