

Challenges facing Real Estate Investment for Economic Growth in Arusha

Paluku Kazimoto, PhD
Faculty of Business Administration
Asia Pacific International University
P.o. Box 4 Muak Lek, Saraburi 18180, Thailand
E-mail: kazimoto@apiu.edu, palukukazimoto@gmail.com

Abstract

Today real estate investments are seen as foundation for wealth creation and economic growth in many countries. This study was based on analyzing the challenges facing real estate investments in relation to economic growth in Arusha. The study was based on Markowitz theory stating that individuals are for utility maximization, always switching from one investment to another that has the same expected return but less risk or one that has the same risk but greater expected return, or one, which has both greater expected return, and less risk. The study used descriptive approaches. Questionnaire was used and purposive sample method was used to collect data from 87 respondents. The findings revealed that there exists abundant opportunities for the rapid economic growth in Arusha city which has catalyzed the demand for real estate development. There is relationship between challenges facing real estates investment and economic growth in Arusha. The study recommends reforms and improvement on land laws for requisition and registration and communication infrastructure. There is need to regulate action on real estate pricing, rental values to attract more local participations/clients to facilitate capital accumulation and financial sustainability for economic growth.

Key words: Real Estate challenges, Investment, Economic growth and Arusha City.

Introduction

Real estate investment is one of the very important factors for country's economy. It is an interesting field of research both at macro and micro levels. On the macro level, the real estate is closely connected with financial and real sector of economic development (Wang, 2003). In developed countries, real estate is used for investment portfolio diversification, with closer connection with the stock market, and investment portfolio information. According to Glascocla, et al. (2002) and Hilbers et al. (2001) macro factors that influence real estate investment include: economic growth, population growth, income level and interest rate. It was observed that Real Estate is among the 75% responding activities investment of companies in Tanzania (Tanzania Investment Report, 2012).

The Tanzania Real Estate Report (2008) ascertains that over ten recent years, the

Tanzania real estate sector has not made significant contributions to the Gross Domestic Product (GDP). The recent and planned projects development encourage the government of Tanzania to remain optimist that real estate will contribute to the country economic growth and creation of investment opportunities to up lift the GDP of the people.

Case, Clapp, Dubin and Rodriguez (2004) argued that markets for investors in the real estate sector have opportunities for the office building and businesses, multi-family properties, distribution and warehouses facilities, lodging properties, medical office building and healthcare related facilities and triple-net single use properties. Tanzania Real Estate Report (2008) indicates that the pending passage of legislation that would govern estate agencies that already was amended by the Land Act and the Court of Tanzania to arbitrate the land disputes and plans to institutionalize housing financing. Further the report ascertains

that the government continues hoping that the real estate sector in Tanzania will begin to actively contribute to economic growth. The development in construction services as well as increment in the overall population growth of the country have created a demand for real estate and the sector is therefore primed for investment.

The real estate industry is now a fact of economic life. Cross-border investments are increasingly common, both in physical assets and in portfolio investments; off shoring part of the supply chain is being increasingly resorted to; and variables from the field of international economics, such as openness, international capital flows, exchange rates and so-forth have an increasing impact on real estate markets (Bardhan and Kroll, 2007). There is a steadily increasing supply of townhouses, business premises and apartments in urban areas in Tanzania that put the real estate investment sector under tremendous pressure (Knight-Frank, 2008). In the years that have passed since then, mining policy has been strongly related to structural adjustment and the opening up for investors. According to the homepage of Tanzania Investment Center (TIC), the center is the government's "investment promotion agency" and where potential investors in mining should make their first contact (Lange, 2008).

Most of the lands in the country do not have value for real estate investment because they lack accessibility, which make difficult to surveyors to determine land's value for investment for consideration by the real estate development. Brown and Oppong (2012) sated that the land is a fixed asset, developers choose the optimal time to convert or redevelop because Land is valued as an option, for which building as an underlying asset would be potentially built on. This pa- per highlights a combination of findings that appear to have impacted teardowns and redevelopment in one way or the other; there is more pressure on urban land. The real estate investment needs long term planning. Lack of unity in pricing in Tanzania is another obstacle to the development of real estate investment sector (Machira,

2011). Therefore there is a need to analyze factors and challenges facing real estate investment hindering the economic growth of the urban area in Tanzania. This study attempts to explore challenges facing real estate investment for economic growth in Arusha in Tanzania.

Objectives of the Study

This study aimed to explore the challenges affecting real estate investment for economic growth in Arusha. The researcher was guided by the following specific objectives:

- To determine the challenges facing real estate investment in Arusha.
- To analyze the contribution of real estate investment for the economic growth in Arusha.
- To analyze the relationship between challenges facing real estate investment and economic growth in Arusha.

Review Of Related Literature

Investment theory

According to Markowitz (1952), investors base their decisions to buy or sell on the expected return and risk, they are concerned only with the utility of their terminal wealth, and not with the state of the portfolio beforehand, and this terminal time is the same for all investors making process namely the mean, variances and correlations of returns on various investments and tem financial assets are arbitrarily fungible. The central idea in this theory is that individuals are utility maximizes, they will always switch from one investment to another which has the same expected return but less risk, or one which has the same risk but greater expected return or one which has both greater expected return and less risk. Although this theory provides challenges facing real estate investment, it does not provide a clear solution and how stakeholders in real estate market can make the business viable for economic growth.

Cheng, Lin Zhenguo and Liu (2008) developed a theory that states fundamental characteristic differentiating real estate from financial assets is its illiquidity. The degree of illiquidity is measured by the time it takes to sell a property,

or the so-called time-on-market (TOM). Given the heterogeneous nature of the real estate market investor faces not only uncertain transaction price (price risk), but also uncertain TOM (Marketing period risk), whereas in the financial market, because assets can be sold instantaneously investors do not bear the marketing period risk (Cheng and Liu, 2007). Ong and Koh (2000) find that longer TOM is associated with higher capital gains. Levitt and Syverson (2005) investigate the sales of properties owned by real estate brokers and found broker owned houses tend to stay longer in the market and sell at higher prices when a wide range of property features are controlled. Also they said that the real estate seller with different holding costs face different investment period risk and receive different price distribution upon a successful sale. In other words, real estate price and risks is investor specific. In addition, higher investment period risk is always associated with a high return and lower price risk.

Real Estate Investment

Real estate as the physical land and appurtenances affixed to the land structures as immobile and tangible. Real estate includes tangible components such as land, all things that are natural part of land, such as trees and minerals, and all things that are attached to land by people such as buildings and site improvements (Appraisal Institute, 2001). The real estate investment on the other hand is the market that encompasses all transactions, which involve dealings in rights or interests in land and buildings. Dealings refer to the transfer of a right temporarily or permanently from one part to another in return for a consideration, usual country's economic development as a result of a corresponding growth in the demand for materials, labor inputs and backward and forward linkages effects in the economy.

Real estate investment exists everywhere in developing countries. Each country's real estate investment is conditioned, amongst other things, by landlord and tenant law, planning law, and urban policy, which in turn provide a context for the activities of those who

participate in the market to develop, use, or invest in property. Sheuya (2010) states that the taking of movable and later immovable property. In many ways, this is an additional security measure to take care of shortfalls, should these occur. Household preferences and requirements: Access to reasonably priced funding; adopt incremental building processes; opportunity to earn additional income through sub-letting; repayments to be matched to income; treatment with dignity and respect by the financial institutions. The report had other suggestion on top of those enumerated above: Individual as against group loans; simplified terms and conditions and user- friendly documentation; reduction of interest; provision of technical assistance to facilitate access to land, acquisition of building plans and permits; ways to make payments easily; and incentive to good payers

Economic growth

There are marked differences in the stages of real estate investment between the various countries as well as the attractiveness of real estate investment opportunities particularly for institutional investors and vary from country to country. eProp Commercial Property News (2004) reported that the economies that are relatively well performing with serious business opportunities and sufficient guaranteed security for expatriates are likely to be comparatively attractive to expatriates for investment to mature faster. It also shows that though the indigenes of Africa representing a considerable segment from the population, investors are effectively priced out of real estate markets to satisfy customer preferences. In sub-Saharan Africa, with the exception of few countries, most of the countries are characterized by very weak and ill developed financial and mortgage markets. As a result, the majority of Africans tend to rely on funds from informal credit, remittances, personal savings, rotating credit associations, social clubs and institutions (Rakodi, 2005) to buy a house or raw land to construct their own houses incrementally.

For instance, *Osondu and Middleton (2004)* estimated that in Enugu, Nigeria about 78

percent of housing stock is built by the owners directly and of this only 35 percent had access to formal institutional credit. The comparatively long gestation period of property development particularly when funded this way means that at the end, given the time value of money, the real costs of construction tends to be higher than it would normally have been. This is contrary to what is expected of a poor country where money is difficult to come by. Most of these indigenes invest in such real estate for their use and occupation rather than for direct investment returns to enable economic growth.

To date, the relatively small classes of residential estate development companies in these countries rely on funds usually obtained from a combination of sources ranging from bank credit, informal credits, personal savings or inheritance. As a consequence, there is a wide variation in the proportion of residents in respective countries who are able to achieve home ownership. This depends on their personal circumstances and hindrances posed by government policies (eProp Commercial Property News, 2004). *UNCHS/World Bank (2003)* showed that the number of residents who achieve home ownership varies from around two-thirds in Tunis, Johannesburg, Ibadan, and Dakar to under half in Algiers, Rabat, and Harare, one third in Lilongwe and Cairo, little more than a quarter in Dar es Salaam, Nairobi, and Accra, and only one-fifth in Abidjan. At such rates, it will take several decades for many of these markets to attain internationally efficient performance levels. Those who cannot afford to own houses, as is the case everywhere, rent to meet their housing needs.

Real Estate and Economic growth

Lack of appropriate policies on housing development could have contributed to overcrowding in housing and poor housing conditions. Among them are those, which concern the acquisition of building plots, land title, building permit, housing credit facilities and the operation of the main stakeholders in housing development in the country. The process of acquiring a building plot and a building permit takes very long time and in most times it is discouraging. Similarly getting a title

is costly and tiresome. Land title is necessary for mortgaging in order to get credit facilities for housing development. There are no formal housing credit facilities for housing in the country and main actors in housing development have not been playing their roles as expected (*Seleki, 2006*).

According to Machira (2011), currently investments in office buildings form the bulk of real estate works in the country, and industry players say large opportunities also exist in the areas of retail, industrial and residential houses construction. But the experts have also cautioned that for the overall industry to prosper, a number of challenges need to be tackled, among them the issues of land registration and acquisition. Inter capital Group says that, for example, most of the lands in the country do not have value for real estate investment because they lack accessibility, and the issue needs to be addressed in order to attract more real estate investors. Most of the land in Tanzania is not surveyed, making it difficult to determine its value for investment, especially for real estate development (The Citizen, April 2, 2011).

Ongoing dynamics of urban oriented economic growth in Tanzania is likely to reinvigorate and sustain investors' interests in real estate works in a foreseeable future, but the right policies and institutions are needed to enable the sub-sector to realize its huge potential. Currently, investments in office buildings from the bulk of real estate works in the country and industry players say large opportunities also exist in the areas of retail, industrial and residential houses construction (Mgwabati (2011), Nehemia (2007) and Ngowi (2010)).

The formal financial intermediaries distorting macroeconomic, policies, and lack of economic, political power to boost entrepreneurship have largely neglected as real estate investment. However, financial services when properly targeted and implemented, makes a remarkable contribution in the achievement of economic growth, inclusion and participation of all members of the rural population in economic development and in reducing the vulnerability of the rural poor to

economic, physical and natural vagaries and shocks (Nair, Kloeppinger- Todd Mulder, 2004).

RESEARCH METHODOLOGY

Research Design and population

This research used descriptive research design to analyze challenges facing real estate investment for economic growth in Arusha city. The city is composed of 12 wards with a population of 187,419 people as per 2012 census. Specifically four wards were concerned for the study: Egutoto (5,067), Themti (8,818), Levulosi (11,287), and Kaloleni (11,651). The researcher visited real estate listings to get registered companies, local gatherings for local agents and brokers as well as owners of real estate who do not use companies or local agents but carrying out real estate investment from reports. The researcher also visited those individuals renting as consumers real estate investment services and 150 people were interested with the study that formed our population.

Sampling and Sample Size

Respondents were selected using purposive sampling method. The selection took into consideration the kind of real estate investment in each ward. The sample size of 150 was selected. 87 turned up for the study and filled the questionnaire. Result shows that 52% (45) of respondents were females and 48% (42) of them were male. It was also established that more women were available and more accessible at various real estate property visited such as hotels thus they are perceived to be key players in the development and management of the real estate investments. The study established that majority of respondents had attained 40 years old and few 37. 23% of respondents' attained ordinary level education, 16% attained high school and 13% of respondents had first degrees.

Data collection and analysis

The questionnaire was designed in such a way that gives responses that address the research objectives. The data collected were subjected to content analysis based on opinion on the challenges facing real estate investment in

urban Tanzania. The data was screened, coded and entered in the computer for analysis using the statistical Package for Social Sciences (SPSS). Descriptive analysis and statistical inferences were applied to generate result.

Data Analysis, Presentation Of Findings Challenges facing Real Estate Investment

Opportunities for development

Findings indicate that 36% of respondents reported that opportunities are seldom part of real estate challenges, 20% of them reported that opportunities are sometimes part of challenges, 16% of the respondents had never experienced opportunities for development as real estate investment challenge, only 8% of respondents reported that always and 7% stated that frequently opportunities were experienced as challenge to invest in real estates in Arusha.

Land Acquisition and Registration

The study revealed that land is still a big issue in Arusha region. Land appears to be vague with key unsettled issues pertaining to rights of ownership, which is publicly owned and remains vested on the head of state (president) as trustee and allocated on 33, 66, or 99-years of leases. Given the fact that real estate is long-term investments, such ambiguous rights of ownership seem to discourage and scare investors. Result from the study shows that 69% of respondents always have been accounting land requisition as challenge, 17% frequently, 9% sometimes, and 7% seldom and 1% never faced land requisition as challenge for real estate investment. 38% of respondents sometimes accounted challenges in land registration, 20% seldom, 16% always, 15% frequently and only 8% of respondents never faced challenges in land registration for real estate investment. The findings align with the land issues that appear to be ambiguous with major unresolved issues concerning ownership, which is publicly owned and remains vested on the president as trustee and allocated on 33, 66, or 99-year leases. This frustrates innovations and investments prospects in the real estate industry since investment cannot have long-term business commitments, which could lead

to sustainable development.

Accessibility and Communication

As accessibility and communication are concerned, findings show that 30% of respondents seldom faced challenges of accessibility and communication to do real estate investment, 29% sometimes, 16% always, 13% frequently, and only 7% never accounted accessibility and communication as challenge for real estate investment in Arusha.

Pricing variation

Result shows that 36% of respondents sometimes faced pricing variation as challenge for real estate investment, 23 % never faced that challenge, 17% seldom, 10 % always and only 7% frequently faced that challenge for real estate investment in Arusha. This implies that real estate investment seemed to secure the current economic growth in Arusha city with a corollary high demand for real estate property for housing and accommodation, commercial building, hotels and other service related property facilities.

Population growth

More than half (58%) of respondents never faces population growth as a challenge for real estate investment, 17% seldom faced that challenge, 8% sometimes, 6% frequently, and only 5% of respondents always faced population growth as a challenge for real estate's investment in Arusha. This shows how the growth in population is one of the motivating factors that have led the current state of urbanization witnessed in Arusha.

Interest Rates, Government Policies and Economic Growth

Findings indicate that 60% of respondents always faced challenges of interest rates for real estate investment in Arusha, 21% frequently, 9% sometimes, 3% seldom, and only 2% never faced interest rates as challenge. This makes it harder for real estate investors to plan for the future because the investors cannot predict the demand for their facilities and set higher prices to charge in order to cover their costs. This creates uncertainty about future real estate prices, interest rates and exchange rates, which

increases the risks among potential investors and discourages development within the sector. 61% of respondents always faced Government policies as challenge for real estate investment, 16% frequently, 10% sometime, 6% seldom and only 5% never faced that challenge. It is important to note that regulation refers most broadly to a set of enforceable rules that restrict or direct the actions of investors and as a result alter the outcomes of those actions. In this sense stiff government regulation such as land acquisition and registration process, business registration among other issues seem to discourage potential investors from starting up their business or expand their real estate operations. Further, result shows that 58% of respondents never economic growth as challenge for real estate investment, 16 % seldom, 14% sometimes, 5% frequently, and only 2% of respondents' never economic growth as challenge for real estate investment.

Increased Rental Value and Consumer Preference

Result show that 48% of respondents indicated that always increased rent value and customer preference have been challenges for real estate investment, 28% frequently, 16% sometimes, and only 1% for seldom and 1% of respondent indicate that they never experienced that challenge. This shows the level of population and their preference.

Availability of vast un-surveyed land

This factor has been a challenge to real estates investors. 38% of respondents indicated that sometimes it has been a challenge for real estate investment in Arusha, 26 % frequently, 23 % always, 5% never, and only 3% of respondents indicated that seldom to have faced that challenge.

Lack of clear and proper real estate legislations Findings show that 30% of respondents stated that sometimes lack of clear and proper legislations are challenges for real estate investment and economic growth in Arusha, 29% stated that seldom these have been challenges, 23% never faced that as challenge, 10% frequently and only 1% always faced that as challenge for real estate investment in Arusha. Issues of real estate legislation are

important issues since it governs and forms the ownership and tenancy of real estate property and personal property within the legal system. Thus it is only prudent that legislation be made clear and proper especially those that are associated with rights and obligations in real estate investment as a stimulus to economic growth of the region and the country.

Land accessibility and acquisition

Result shows that 28% of respondents sometimes faced complexity to land accessibility and acquisition as challenge for real estate investment in Arusha, 18% stated that frequently, 17% never faced that as challenge, 16% seldom, and 12% always faced that as challenge for real estate in Arusha. From the findings the study can safely conclude that land acquisition, in particular, are complex and crosscutting and tend to paralyze attempts to reform real estate sector and economic development.

Bureaucracy in registering title deeds

Findings indicate that 28% of respondents reported that sometimes bureaucracy in registering title deeds has been a challenge for real estate, 24% never, 14% frequently, 10% always, and only 8% seldom that has been a challenge for real estate in Arusha. Moreover, the signing for a purchase and sale agreement in terms of title deed grants an investor the right to claim transfer of the property. Thus real estate investors become owners once the land is transferred and registered into his name.

Scarcity of Land

Half of respondents (50%) reported that scarcity of land never been a challenge to real estate investment, 16% always, it has been a challenge, 16% sometimes, 8% seldom, and only 3% stated that frequently it has been a challenge for real estate in Arusha. From the findings it can be said that in Arusha region like most parts of the country, land is available and investors concerned about availability of land attempts to buy as long as they can meet the cost of purchase of land. In principle this was considered to be one of the factors driving up land prices in Arusha region and creating speculative scarcity of land as a factor of production and economic development.

Land Value and Taxation Policies

68% of respondents reported that always Land value contributed to challenges of real estate for economic growth in Arusha, 13% frequently, 8% sometimes, only 6% never and 1% seldom of respondents faced these challenges for real estate in Arusha. Land holds a distinctive place in the development of economies. Thus land taxation is the type of socialization used to generate revenue from whole value of real estate, which combines land, buildings, and improvements made on the land. From the study result on a small proportion of the respondents disagreed with the proposition linking land taxation policies real estate marketing in economic development. 69% of respondents reported that have been always affected by Taxation policies, 17% frequently, and only 7% sometimes.

Real Estate Pricing

Kotler (2008) among the four marketing mix, product, distributing channels, promotion and price, only price creates income and the other three generate costs. Price, besides creating income, plays a major role as a strategic factor in developing competitive advantage in the market as presented. 28% of respondents stated that had never faced real estate pricing as a challenge, 26% sometimes, 20% seldom, 8% frequently and 8% always have been facing real estate pricing as a challenge for investment. The disparity in perception makes decision making for pricing a difficult task, which is affected by many factors. The reason for real estate investors who are so active for using price factors is that there exists a good market demand while at the same time there is a growing government supports structures including providing access to infrastructural services.

Contribution of Real Estate Investment to Economic Growth

Real estate's contribution to employment

The most important factor of shifting poor people out of poverty is access to employment. This is supported by the findings from the study stating that 44% of respondents reported that real estate have been always contributing to the

economic growth for employment in Arusha city, 29% of responses indicated frequently, 9% sometimes, 9% never and only 6% indicated seldom real estate contributed to economic growth for employment in Arusha. Insufficient job opportunities are the result of inadequate levels of investment. A key developmental spill over of real estate's is local job creation. Given appropriate policies and basic levels of development, real estate marketing and investment can trigger benefits.

Real estate's contribution to increased income
 From the foregoing, it is clear that real estate is perceived to benefit more the investors than the consumers of the real estate products and services. Result shows that 38% of respondents reported that real estate investment never contribute to the increase of income in the economic growth, 30% of them stated that seldom, 21% sometimes, 7% always, and only 1% reported that frequently real estate contributed to the increase of income for economic growth in Arusha.

Real estate's contribution to economic growth of the country
 Result shows that 39% of respondents indicated that real estate always contributed to the economic growth always, 26% of respondents indicated that real estate frequently contributed to the economic growth, 24% sometimes, 3% seldom and 3% never. One of the primary objectives of economic development is to promote the standard of living and economic health of the people. In this regard economic growth is treated as the quantitative and qualitative changes in the economy and involves multiple areas including development of human capital, infrastructure, environmental sustainability, social inclusion, health and safety among other issues.

Opportunities for companies to grow
 Result shows that 31% of respondents indicated that real estate always contributed to the company's growth in Arusha, 23% sometimes, 18% frequently, 13% seldom and only 5% stated the real estate never contributed to the companies to grow in Arusha city.

Relationship between challenges facing real

estate investment and economic growth

The study sought to establish the relationship between challenges facing real estate investment and for economic growth in Arusha. The test hypothesis was that: There is no relationship between challenge facing real estate investment and economic growth in Arusha.

Table1:

Relationship between challenges facing real estate investment and economic growth

		Challenges facing real estate Investment	Economic growth
Challenges facing real estate Investment	Pearson Correlation	1	.369*
	Sig. (2-tailed)	.	.001
Economic growth	Pearson Correlation	.369*	1
	Sig. (2-tailed)	.001	.

* Correlation is significant at the 0.01 level (2-tailed)

The analysis used challenges facing real estate investment as independent variables, which was perceived to have either positive or negative effect on the economic growth, which was treated as the dependent variable in Arusha. The result of the correlation had a positive significant $r = .369$ and $p = 0.001$. This implies that there was a positive relationship between the two variables. The null hypothesis stated that there is no relationship between challenges facing real estate investment and economic growth in Arusha. From the result in the table above, the null hypothesis is rejected. The result shows that there is a relationship between

challenges facing real estate investment and economic growth in Arusha.

CONCLUSION AND RECOMMENDATIONS

Conclusions

Findings points out that the current development of real estates is making headway in particular in the residential infrastructure in Arusha. Result from the study shows that the Tanzanian policy on real estate policies has been highly controlled by political good will. It shows that the government is on record to be undertaking several measures to improve the investment climate in the country. Although the government is in control, the findings revealed that unfavorable policies, regulations and land issues are still prevalent accounting and are serious obstructions to the growth and development of real estate investment in Arusha. On the relationship to economic growth, the result shows that there is effect of challenges facing real estate investment and economic growth in Arusha.

Recommendations

Based on findings the following recommendations are made:

- There is a need for the government to expedite the ongoing land laws, regulations and policies from the land acquisition process to obtaining a title deed
- The study also recommends improving on the infrastructural development including roads, communication, energy resources, water resource and improved security among other important services that promote investment culture.
- There is need for an affirmative action to regulate real estate pricing, rental values to attract more local participations/clients thus be able to generate more revenue to facilitate capital accumulation, financial sustainability and economic growth.
- Improving real estate operations would demand use of modern technology in the context of use of modern information technology to enhance management and governance. Thus, consumer preferences and demand in the real estate sector should be taken care of investors.

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