

**A STUDY ON COMMERCIAL PROPERTY PRICING IN UGANDA**

**By**

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## **DEDICATION**

This thesis is dedicated to God who made it possible for me to pursue the PhD studies.

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## LIST OF ABBREVIATIONS

<b>AREA(U)</b>	- Association of Real Estate Agents (Uganda)
<b>CAQDAS</b>	- Computer Aided Qualitative Data Analysis Software
<b>CBD</b>	- Central Business District
<b>CEO</b>	- Chief Executive Officer
<b>EiR</b>	- Ethics in Research
<b>GDP</b>	- Gross Domestic Product
<b>GDPI</b>	- Country's Gross Domestic Product
<b>GRETI</b>	- Global Real Estate Transparency Index
<b>IPD</b>	- Internally Displaced Persons
<b>JLL</b>	- Jones La Salle
<b>KACITA</b>	- Kampala City Traders Association
<b>KAFO</b>	- Kampala Arcaders Forum
<b>LRA</b>	- Lord's Resistance Army
<b>MNC</b>	- Multinational Companies/Corporations
<b>NGO</b>	- Non-Government Organisation
<b>NIE</b>	- New Institutional Economics
<b>Rei</b>	- Country's investible commercial value
<b>REITs</b>	- Real Estate Investment Trusts
<b>SAPOA</b>	- South African Property Owners Association
<b>SME</b>	- Small and Medium Enterprises
<b>TCE</b>	- Transaction Cost Economics
<b>UBOS</b>	- Uganda Bureau of Statistics
<b>UCC</b>	-Uganda Communication Commission
<b>UK</b>	-United Kingdom
<b>USA</b>	- United States of America

**USE**

- Uganda Securities Exchange

## ABSTRACT

Property developers and investors seek to understand the drivers of prices for office and retail space. Through literature, we learn that size and age, locational attributes, physical features of the properties, and economic variables are significant determinants of commercial property prices. However, previous work has narrowly focused on aspects akin to formal structures and ignored the role of institutions, especially conventions and social norms incredibly, and what influences the behaviour of the property developers and investors while making the pricing decision. Therefore, the goal of this study was to understand how prices for commercial properties are determined in Uganda. The objectives of the study were to understand the role of conventions and social norms found in the property market environment on price determination and to explore the behaviour tendencies/heuristics exhibited by the players during the pricing decision-making process.

The study was qualitative in nature. The researcher interviewed property owners, developers, institutional investors, and key informants to understand the conventions and social norms that exist in the property market and how they ultimately influence the pricing decision of commercial buildings. This study reveals that conventions exist in the Ugandan property markets. The conventions signal a price to the players in the property environment. However, due to information asymmetry and irrationality, each player interprets the price signals differently, using heuristics to develop the final price.

This study helps researchers understand the role of individual behaviour/heuristics in advancing our understanding of institutions and the effects of the two on commercial property pricing, the economy at large and its consequences on economic policy.

**Keywords:** Commercial property, price determination, office space, retail space, conventions, social norms, New Institutional Economics, and Heuristics.

## CHAPTER ONE

### GENERAL INTRODUCTION

#### 1.1 Introduction

Real estate is one of the primary drivers of economic activity in any country. In Uganda, it accounts for one of the largest and most rapidly growing sectors, yet there are difficulties within the industry. For one, there is uncertainty around how local property players (property owners, property developers, and institutional investors) arrive at the prices that they charge tenants for the use of space (retail and office). Literature on property pricing is dominated by analysis within a subjective neoclassical framework. Neoclassical economics suggests that markets are efficient and that actors can rely on market signals to ensure price discovery. However, markets function in an institutional context (Ball et al., 1999), and a question arises as to whether a change in institutional arrangements has an impact on the behaviour of the players in the property market and, ultimately, their pricing decision. Nevertheless, it has been argued that pricing models based upon equilibrium and rational behaviour have notably failed to account for observed behaviour in contexts such as Uganda (Hodgson, 1998; Keogh & D'arcy, 1999; Kjosavik, 2003; Seabrooke & How, 2004; Arvanitidis, 2004; Agboola, 2015). Therefore, this study aims to understand the role of institutions, in particular conventions and social norms, on commercial property price determination and how property players' behaviour leads to the final price charged to tenants in Uganda.

The study examines the different conventions and social norms that exist in Uganda; or what North (1990) refers to as the "rules of the game". Furthermore, this study seeks to understand the influence that conventions and social norms have on players in the property market and how their influence ultimately impacts players' behaviour in making pricing decisions.

The study uses New Institutional Economics (NIE) as a theoretical framework. NIE discredits the classical assumption of rationality among actors and replaces it within a bounded rationality whereby the choice criteria are more likely to be satisficing than maximising (Agboola, 2015). Satisficing economic behaviour is driven by the limited information available but also due to the complexity of the problem and defective problem-solving software possessed by the individual (Arvanitidis, 2004). As a result of these elements, an uncertainty arises for property actors; one that is only reduced with cooperative human interaction and developing institutions. Institutions can be formal or informal. Unlike the formal institutions of the market that are well stipulated in regulations, laws, or statutes, informal institutions are the unwritten rules/traditions/social norms/ conventions that players in the market use to develop their commercial buildings' prices. The absence of any of these institutions (whether formal or informal or both) would increase uncertainty. Ultimately,

transaction costs would also increase for property players. To minimise these costs, conventions and norms emerge to solve complex issues like price determination. These conventions and norms form part of the foundation of the informal institutions of Uganda. This study therefore uses this concept and defines institutions as the "rules of the game ... the humanly devised constraints that shape interaction" (North, 1990:3).

## 1.2 The Background of the Study

Internationally, there is robust literature on what determines the prices of commercial properties such as office and retail. Some scholars have looked at price in commercial properties by considering property attributes; the internal and external characteristics of the space (Hui et al., 2007; Bond et al., 2008; Nase et al., 2013; Ke & Wang, 2016). In contrast, other scholars argue that the size and the age of the property will determine the price (Benjamin et al., 1990; Sirmans & Guidry, 1993; Kirkup & Rafiq, 1994; Clapp & Giaccotto, 1994; Dunse & Jones, 1998, Bello, 2012). Furthermore, there is agreement among various scholars for example Mejia & Benjamin, 2002; Ke & Wang, 2016, that the location and accessibility of the property will determine the price. Location in both instances can take different forms; including but not limited to the proximity of a transport route or central business district (CBD). Lastly, scholars such as Karley (2016) attribute commercial property prices to market and economic conditions such as the level of Gross Domestic Product (GDP). Low GDP increases vacancy rates and in turn lower property prices. Other economic conditions include economic development, rate of local employment, size of disposable income, vacancy rates as well as supply and demand (Karley, 2016).

Blank & Winnick (1953) developed the first relational model for property price and vacancy rates in the US housing market. The model revealed that unoccupied space should impact the price that property owners charge to their tenants. This model has since been applied and corroborated by authors Shilling et al. (1987) and Wheaton et al. (1987). The basic concept developed by Blank & Winnick (1953) has been used in more recent studies of determining office prices (Hendershott et al., 2002; Francesco, 2008; Brounen & Jennen, 2009a; Brounen & Jennen, 2009b; Hendershott et al., 2013; Ibanez & Pennington-Cross, 2013). All of these studies contend that the level of vacancy in commercial property will determine the price.

The above price determinants for commercial properties have been attributed to several theories. Firstly, urban theory of price determination stresses the importance of agglomerated externalities (Alonso, 1964; Mills, 1967; Muth, 1969). This theory predicts that property prices increase as one

moves closer to the CBD. Properties prices in the CBD are relatively higher compared to their counterparts in the suburbs given their distance from the CBD. This price variance is due to a greater concentration of benefits and lower transportation costs within the city (Richards, 2011). The second theory of property price determination is a hedonic model. With hedonic models, analysts estimate each property's attributes implicit price by relating the property's price to its unique attributes (Dunse & Jones, 1998). Property attributes can include but are not limited to the height of the ceiling or building, iconic views, state of the art lobby, and design of the building, and many more. Thus, each property attribute contributes to the price but cannot be separated and traded independently. Lastly, equilibrium theory, states that the point where demand is equal to supply can be used to determine the price of commercial property (Arrow & Debreu, 1954).

The above theories and literature, suggest that commercial property prices, in practice, are heavily dependent on demand and supply factors. Secondly, all the above studies have been carried out in developed countries. Therefore, its of little wonder that demand and supply factors are very effective in these countries( developed and efficient markets) with perfect information, rational consumers, and where demand and supply are known and fixed (Agboola, 2015). In less mature and inefficient markets, demand and supply factors alone are limited in explaining how commercial property pricing occurs. In these markets, property players do not have full and complete information about the supply and demand of property as well as potential transactions and prices which in turn leads to high transaction costs. Furthermore, consumers are found to be generally irrational in this context. The combination of these attributes renders the property market imperfect (Roberts & Henneberry, 2007).

Thus, analysing price determination in the Ugandan property market, using demand and supply alone is inadequate. According to the Global Real Estate Transparency Index (GRETI), the Ugandan property market is inefficient (JLL, 2020). GRETI measures real estate transparency among property markets using six indicators: investment performance, market fundamentals, listed vehicles, regulatory and legal framework, transaction processes, and sustainability. GRETI classifies countries as highly transparent with scores from 1 to 1.7, transparent from 1.7 to 2.6, semi-transparent from 2.6 to 3.76, low transparency from 3.76 - 4.2 and opaque above 4.2. A score of 5 indicates total market opaqueness. Mature markets are those that have high levels of the above indicators (1 to 1.7), while the reverse is true for immature markets (3.76-4.2 and below), commonly referred to as opaque in the GRETI. Figure 1 below shows the real estate transparency of different countries in the world.

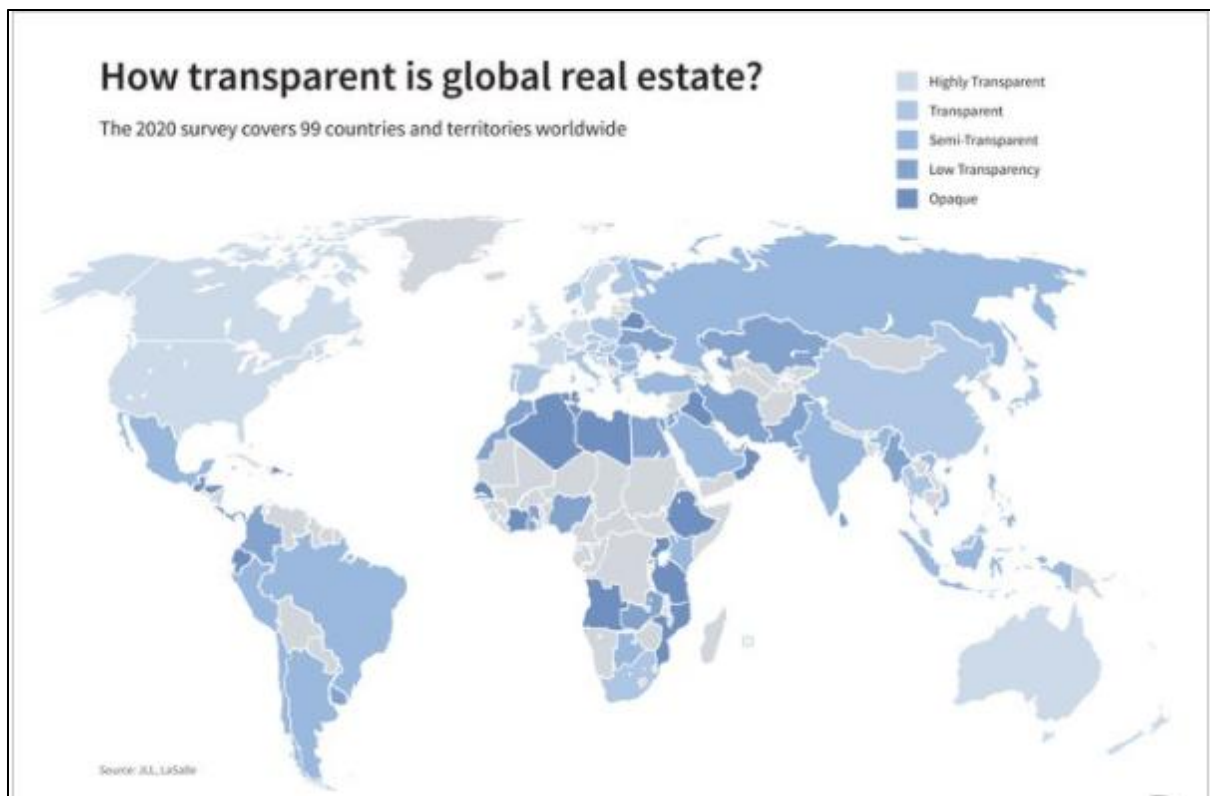


Figure 1: The Global Real Estate Transparency Index for the Entire World

*(Source: JLL ,2020, Pg:16)*

As seen above, on the GRETI, the Ugandan property market is opaque. This means that the market does not have a free flow of high-quality market information but instead has a weak regulatory enforcement and fair transaction process. The country's property market is less attractive in the form of economic activity and has weak capital markets or domestic and international corporate base. Lastly, the country's commercial buildings are not environmentally sustainable or resource efficient.

Therefore, to fully understand how property prices are determined in Uganda, apart from demand and supply, analysts ought to understand the institutional environment in which the market exists. Property markets are by nature institutional (Ball et al., 1999). The institutional environment within which the property market operates and the institutional mechanism by which it operates contribute to how efficiently the market functions (Keogh & D'arcy, 1999). Thus, to understand property markets better and the pricing decisions, property analysts need to understand the markets' processes. Secondly, it is vital that they recognize the social environment, the habits of the players in that environment: why they do what they do, in the way they do (Ball et al., 1999). McMaster & Watkins (2000) support this argument, emphasising that property analysts must examine the role of different players in the market, the consumer decision-making process, and the

flow of market information, among others. The socio-economic and institutional environment has a significant influence on the kind of information agents receive, their cognition of it and their preference, and thus it affects much of their behaviour (Kjosavik, 2003). Furthermore, given that inefficient markets are more dynamic and uncertain than those of normative literature, it is imperative that analysts look to the institutional environment of these markets to identify the kind of information that the property players receive and how the players interpret the information from the environment to determine prices (Kjosavik, 2003). Additionally, analysts should be aware that the biases that form the pricing behaviour of property players is not entirely rational (Levy & Frethey-Bentham, 2010; Roberts & Henneberry, 2007; Watkins & McMaster, 2011; Ploegmakers & de Vor, 2015). Due to these biases, property players will adopt heuristics they use in price determination with the little information at their disposal (Tversky & Kahneman, 1974). It is important to note that a heuristic can be defined as a shortcut used by a property owner to process information (Black & Diaz, 1996).

Hence, different from all the previous studies(that were in developed countries), this study investigates how landlords determine property prices for commercial buildings in a developing country. As mentioned earlier, property markets in developing countries differ in that they are informationally inefficient due to a lack of data and transparency, market participants are less sophisticated, and business is often done differently from American or European practices (e.g., with regards to contracts). Furthermore, developing markets have informal sectors of the economy, in which participants often don't have bank accounts or sign contracts. Conventions and social norms are likely to have an impact on the property prices charged by landlords to the tenants. While this study uses Uganda as a case study, findings from this study are relevant to other developing countries in Asia, Africa, and Latin America as these differences from developed countries exist there as well. The study focuses on commercial real estate; office and retail because previous studies on property pricing have been more on residential real estate given the fact that information about residential space is deemed to be more readily available. And lastly, property price in this study is used to mean rental rates.

### **1.3 Towards the Research Problem**

Uganda is largely a real property economy where individuals rarely invest in financial instruments like shares and bonds or even banks but rather in physical structures, for example, land and buildings (Kangave et al., 2018). This scenario has led to increased construction, with a significant

number of commercial properties coming onto the market in recent years. This can be evidenced by the many shopping malls, plazas and arcades that are mushrooming in the country, especially in the capital city Kampala. Examples of these commercial properties include the Equatorial Shopping Mall, Aponye Shopping Centre, Senena Shopping Centre, Bugolobi Village Mall, Twed Plaza, Twed Towers, UAP building in Nakawa, to mention but a few. As a result, the Ugandan property market has been oversupplied, and the vacancy rates have increased in commercial buildings, especially in Kampala's city centre (Knight Frank Report, 2018). Various newspapers and reports have been published about the matter (Mbabazi, 2016; Lubowa, 2017, Knight Frank report, 2017); however, the market remains oversupplied with vacancy rates increasing as well as the prices of commercial buildings (Musobozi & Lucian, 2016; Knight Frank Reports, 2015, 2016, 2017, 2018, 2019).

While the literature suggests that when demand decreases, supply will reduce and hence prices will decrease (Achour-Fischer, 1999; Colwell, 2002; Du Toit & Cloete, 2004; Leung & Wang, 2007; Chow et al., 2009; Lisi, 2015), prices for commercial properties in Uganda continue to increase as does supply, despite the low demand.

Uganda is a developing country with a low standard of living due to its GDP per capita (UBOS, 2019). And the people in Uganda are entrepreneurial and often establish small businesses in commercial buildings in an attempt to make a living. However, if the commercial properties remain highly priced, the population (tenants) will not be able to afford the prices charged for spaces in the commercial buildings. Moreover, for foreign investors and companies, investments will bring in lower returns due to the high transaction costs. Worse still, the high transaction costs will lead to less foreign direct investment because the would-be investors are discouraged, resulting in lower transactions in the property market and less economic growth.

**Hence the problem statement is:**

There is an inexplicable increase in property price rates in a market where the demand for property is low. This signifies that the market is imperfect, yet the process through which prices are determined is not well understood in such an imperfect market.

#### 1.4 Research Questions

The principal question to be explored in this study is:

How are commercial property prices determined in developing countries?

The following additional questions will be used to direct the principal question:

1. How do conventions and social norms influence price determination?
2. How does the behaviour of the property players influence the final price charged to the tenants?

### 1.5 Research Objectives

1. To understand how conventions and social norms influence price determination.
2. To understand the role of the behaviour of the property players in the price determination process.

### 1.6 Research Significance

Previous research on commercial property pricing is concentrated on urban, hedonic, and equilibrium models to explain how price is determined. All these models look at demand and supply factors to help arrive at property prices. While these theories/models are excellent and applicable, especially in the more mature countries with close to perfect markets, in less mature imperfect markets, demand and supply factors alone cannot explain how prices of commercial properties are determined. Thus, to better understand this subject, it is crucial to explore the institutional environment within which the property markets like Uganda exist and the players' behaviour while pricing their properties. Theoretically, demand and supply factors alone are not enough to explain how decisions are made in property pricing in immature and less developed countries, instead institutions, incredibly conventions and social norms, will impact the property market environment.

Much research has been done on understanding institutions and the role they play in economic development. Various studies (Barro, 1991; Pejovich, 2003; Acemoglu et al., 2005; Acemoglu & Robinson, 2008; 2010; 2012) have found robust results for the impact of formal institutions on the growth and investment. Similarly, numerous studies have been carried out on informal institutions and their role in economic growth (Knack & Keefer, 1997; Williamson, 2009; Tabellini, 2010; Spranz et al., 2012; Voigt, 2013; Bostan et al., 2016). All these studies have been executed using quantitative methods. However, quantitative methodology fails to provide a valuable tool for understanding the rich details inherent in institutional analysis. Therefore, this study used qualitative methodology as suggested by Ostrom (2010) and Ménard & Shirley (2014) to understand how informal institutions influence the property market environment and ultimately influence the pricing decision.

This study will also contribute to the literature by providing empirical evidence on price determination in developing countries, especially given that previous studies tend to focus on

developed countries. As such, this research will enrich the available literature on commercial property pricing in developing countries and illustrate that what works for the developed markets (demand and supply) may be limited to the imperfect markets in some developing countries.

Behavioural biases are one of the significant reasons for mispricing in the property sector, as players cannot adjust sufficiently to arrive at a fair market price (Pandey & Jessica, 2018). This study brings out the different behavioural biases that players exhibit while pricing in Uganda. Thus, this study provides empirical evidence to policymakers, enabling them to put in place measures to minimise these biases in their strategies for implementing more formal institutions. Ultimately, mispricing in this sector can be controlled to some extent, which will help the well-being of society, hence leading to the country's economic development.

Informal institutions like conventions and social norms play a crucial role in identifying the driving forces of economic development. Therefore, this research is beneficial to policymakers. It highlights the behaviour and rules that govern the decision-making of property players in Uganda. These “rules of the game” can then be used to build or in policy formulation to enhance future growth. Additionally, policymakers can use this empirical data to reposition the property market in the country for global competitiveness.

## **1.7 Research Methods Overview**

The study is positioned in the property research domain. The study adopted a constructive research paradigm and an interpretivist epistemological assumption. This would help the researcher to understand how price is determined by having dialogues or interaction with the different research participants in the property industry. Qualitative data was collected to establish some fundamental parameters, such as the players in the markets, the regulations that exist regarding the property market, the informal institutions for example conventions and social norms that exist in the market, and how rental price is determined in the property market in Uganda. It has been argued that instead of using mathematical models which generalise findings, like previously done, it is better to use qualitative methods like case studies (Ostrom, 2010; Kozenkow, 2013; Ménard & Shirley, 2014). The qualitative methods offer a better understanding of conventions and social norms; how they function and change, and the inherent behavioural, and sociological aspects (Strauss & Corbin, 1998).

Identifying the research methodology and the instruments to be used in the study started with an extensive literature review on how property prices have been determined in the past, a review of the commercial property market of Uganda, its institutions (both formal and informal), behavioural heuristics, and NIE. Thereafter, the researcher developed the interview guide that was used to

interview property players and key informants. The interview with property owners, developers and institutional investors aimed to understand the conventions and social norms that exist in the property market environment and how they signal prices to commercial property players. Key informants in the property industry were interviewed to understand what they know about the price determination of commercial properties in Uganda and for triangulation purposes. More details on the methods used for this study are presented in Chapter Three.

## 1.8 Research Scope and Limitations

The first objective of the research focuses on the informal institutions and their influence on the property price determination of commercial buildings in Uganda. While conventions and social norms were observed during the data collection process, it was difficult to establish whether the rules (social norms) were punishable if not adhered to by members of the property society. Ostrom (1995) and Voigt (2016) both mention that social norms may be hard to identify during data collection, especially if they are well accepted in the society and when the interviewer is an outsider in this community. Voigt (2016) suggests that this occurs given that rules are not written down often, so this informality makes them very hard to observe. Despite this, the researcher overcame this limitation by interviewing key informants in the sector who voluntarily opened up and gave all the information regarding the informalities that exist in the industry.

## 1.9 Thesis Outline

Chapter One starts with an introduction to the research and the background to the study. Then the research problem is defined. This is followed by the research question, research aim, the objectives of the study, and the limitations. Lastly in this chapter is the justification for the study, and the scope of the research.

Chapter Two presents the conceptual and theoretical bases of the study. An extensive literature review on commercial property pricing, institutions, conventions and social norms, and behavioural heuristics was reviewed. Furthermore, the chapter reviews the theories significant to price determination in the commercial property markets.

Chapter Three explains the research methodology adopted for study. The chapter further explains the data collection methods and analysis used. This includes the determination of the research paradigms, epistemology, ontology, axiology used. It then defines the research approach, and design, scope, and limitations of the research design.

Chapter Four presents the findings from the qualitative data analysis. The chapter discusses each case in detail giving the situation and context, and the pricing behavior. It then presents the emergent themes derived from the data, highlighting the similarities and differences.

Chapter Five compares the findings to existing literature.

Chapter Six presents a summary of the study's findings, conclusions, and the contributions of the study to the real estate body of knowledge. More still, the chapter discusses the practical and policy implications of the results and finally makes recommendations to future researchers on areas of further studies.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 Introduction**

This chapter reviews the theoretical and empirical literature on commercial property pricing. The chapter comprises of literature on commercial property price determination in office and retail spaces. This is followed by literature on institutions, and their varying definitions. This study takes on the definition of institutions according to North (1990:3). The chapter then focuses on informal institutions stating how they are formed and sustained in a community and lastly explores literature on behavioural heuristics, including anchoring and adjustment, availability bias, representativeness, overconfidence, and optimism and lastly, gambling. The above literature is then substantiated with NIE as the theoretical framework relating to property pricing in Uganda.

#### **2.1 Commercial Property Pricing**

There is robust literature on commercial property price determination. Nevertheless, most scholars agree that price determination varies considerably across the different segments of property, such as office, retail, industrial, and residential. Relating to office and retail property, which is the focus of this study, many scholars have agreed that their price depends on locational variables, property-specific factors, size and age, and general market conditions. Early research on price determination for commercial properties started in the 1980s. These formative studies included scholars like Eaton & Lipsey (1982), Mulligan (1984), Ghosh (1984) for retail space and Clapp (1980), Hough & Kratz (1983) and Cannaday & Kang (1984) for office space. Since then, various authors have carried out price determination research on both property types.

##### **2.1.1 Retail Property Pricing**

Early studies by Hough & Kratz (1983), Sirmans & Guidry (1993), O’Roarty et al. (1997), Brown (1999) and Mejia & Benjamin, (2002) agree that the role of design is a significant factor in price determination for shopping centres. Enclosed malls charge higher prices than the U-shape, L-shape, and cluster shopping centres (Vernon, 2012). This is because the enclosed malls offer a more comprehensive range of services and goods, including entertainment, dining, leisure, compared to their counterparts.

The literature also suggests that shopping centres with physical features such as higher ceilings will be charged a higher price compared to their counterparts without these features. Hui et al. (2007) similarly studied the rental price of 151 shopping malls in Hong Kong and found this to be true. They argue that shopping centres with taller ceiling heights were able to draw more attention from the customers. This is echoed by Ke & Wang (2016), who got the same results when investigating the factors that affect the retail rent of shopping centres in Wuhan, central China. The scholars found that in shopping centres with higher ceilings, customers spent more time there because they felt more comfortable than in shopping centres with lower ceilings. Furthermore, in shopping centres with multiple levels (floors), the rental price decreases with ascending levels (Dunse & Jones, 1998). This is because in some countries, especially the low developed countries, upper floors do not come with facilities like lifts. So, it makes the navigation of the space somewhat harder. More still, basements may not be very desirable because of the natural lighting difficulties (Dunse & Jones, 1998). As a result, the price for these floors is usually less than the ground floor or first floor.

Size is another variable that plays a role in pricing of commercial space in shopping centres. Often shoppers are more willing to choose larger shopping centres for shopping and spend more time there (Kirkup & Rafiq, 1994). Eaton & Lipsey (1982) and Mulligan (1983) suggest that large shopping centres charge higher prices for their space than the smaller ones. This is because larger shopping centres attracted more customers than their counterparts and easily form tenant and customer spatial concentration (Gatzlaff et al., 1994). Thus, the size of the shopping centre allows for more retail sales compared to smaller centres. Additionally, shopping centres that restrict or prevent the similar stores in a close proximity charged higher prices. Restricting the entry of similar stores meant that the existing ones would earn higher profits because of less competition (Ghosh, 1986). Hence, property owners share in the tenant's monopoly.

Additionally, the style and design of shopping centres has changed over time, therefore the age of a shopping centre will affect the price charged to tenants (Tay et al., 1999). Newer shopping centres are leased at a higher price compared to older ones (Benjamin et al., 1990). Older shopping centres are predisposed to issues like inappropriate tenant mix, physical neglect, and older facilities. This is emphasised by Sirmans & Guidry (1993), who conclude that older shopping centres need more daily maintenance, therefore becoming problematic to the tenants that have signed leasing contracts. However, this may not always be the case as some older shopping centres have certain advantages like customer awareness and loyalty since they have been in place for a long time.

Other scholars have considered location and accessibility as determinants of the price that property owners charge for commercial properties (Clapp, 1980; Cannaday & Kang, 1984; Ke & Wang, 2016;

Bera & Kangalli Uyar, 2019). Location can take the form of proximity to the main transport route, the taxi park, metro station, central business district, visibility on the main road. Within any CBD, there is likely to be a price pinnacle associated with a prestigious location/neighbourhood from which rental price declines with distance (Dunse & Jones, 1998). This is emphasised by Ball et al. (1999) who argue that accessibility of a commercial property will affect the price that is charged for a commercial property. Scholars argue that with accessibility comes agglomeration economies like access to a common pool of services, labour, and ease of movements in an area. Shopping centres situated at desirable sites will be charged higher prices than those who are not in an ideal location (Tay et al., 1999). A highly visible location for a shopping centre or inside a shopping centre will result in higher prices charged to the tenants because the space is accessible to the customers (Mejia & Benjamin, 2002). When shopping centres are visible, primarily located on main roads or intersections, customers travelling on adjacent roadways can easily reach or access them (François et al., 2005). The high visibility of the space will automatically translate into a higher rental price charged for the space. According to Ordway et al. (1988), satisfying visibility performs positively to lower vacancy rates.

Lastly, the price that is charged to tenants of a shopping centre will be high where there is a dense population or substantial human traffic (Ke & Wang, 2016). Shopping centres that are built near metro entrances, taxi parks/ranks/ bus stations, and train stations will charge higher prices for rent to their tenants because they can attract more customers daily (Hui et al., 2007). From an economic perspective, shopping centres built in rich neighbourhoods, with high incomes and purchasing power, will charge higher prices to the tenants (Ke & Wang, 2016). These shopping malls attract a large volume of consumers daily.

### **2.1.2 Office Property Pricing**

The issue of property attributes has also been considered within the literature for office space. However, unlike shopping centres that are not graded, office quality is usually measured according to the grades/classes in which they belong (Nase et al., 2013). The South Africa Property Owners Association (SAPOA) categorises buildings as a Grade P, A, B, C (SAPOA Report, 2020). “Grade P” is the best, while “Grade C” grade is the worst. “Grade P” buildings are office buildings of top quality, modern space, prime buildings often considered iconic and a flagship in its market. These buildings have the latest building services, ample parking, prestigious lobby finish, high ceiling heights, flexible floor plans and columns spacing, and usually 4-star (and above) green certified. “Grade A” office buildings are high-quality properties with modern finishes, air conditioning, adequate on-site parking, and high ceilings. “Grade B” are generally older buildings with finishes that are close to the modern

standard, while “Grade C” buildings are typically in fair condition but with older style finishes, services and building systems.

"Grade P" offices charge higher rentals than A, B, C because of the high-quality finish, which usually portrays or reflects the high image that the occupier is trying to project. The rental prices of the offices decrease as the quality/grade decreases; hence “Grade C” have the lowest rental price. Important to note is that Uganda does not have the official grading system of buildings but has adopted such grading as that from SAPOA. (Bond et al., 2008) use a slightly different classification (from Class A to Class C) and find that the prices charged to tenants are lower for office buildings that have a “Class B” compared to “Class A” and “Class C” in comparison with class B.

Furthermore, in office spaces, tall buildings are usually associated with panoramic views and a potential landmark status (Fuerst, 2011). Hence, leases in tall buildings are more expensive (Ozus, 2009). Koster et al. (2014) similarly, explores the impact of building height on the level of rental price for Dutch firms in three major Dutch cities: Amsterdam, Rotterdam, and Utrecht. The study reveals that firms are willing to pay on average 4 per cent more for a building that is 10 metres taller.

In addition, the space that a tenant takes up is an essential factor when determining office rental prices. Usually, larger organisations require greater space because of the size of their operations, while smaller organisations require less (Clapp & Giaccotto, 1994). Dunse & Jones (1998) examine the effect of floor size on the charged rental. The authors conclude that the effect of floor size on the price charged is highly statistically significant, but its effect size is relatively small.

The length of the lease is also an essential factor in determining the price charged for office space. Property owners will often charge lower prices for tenants with longer leases than tenants with shorter leases (Brown & Teernstra, 2008; Bond et al., 2008). Conversely, tenants who prefer shorter leases for flexibility, experience higher rental prices (Chau & Wong, 2016).

Apart from location, size, lease length, design, and property attributes, several studies suggest that office rental prices depend on the vacancy rate, economic factors, and generally macroeconomic factors. The influence of the vacancy rate on the property price has been studied since the 1950s. Unoccupied space impacts the rental prices charged by property owners in the surrounding area (Blank & Winnick, 1953; Shilling et al., 1987). When the vacancy rates are high, property owners will have to lower the rental price for the space to retain the remaining tenants (DiPasquale & Wheaton, 1992; Eppli & Benjamin, 1994).

Internationally, various authors have begun to unpack the economic factors surrounding these pricing patterns. Hendershott et al. (2002) uses the error correction model of office prices to capture the long-run equilibrium relationships of demand and supply and their short-term corrections in the United Kingdom. Francesco (2008) uses the same model to distinguish between permanent and temporary effects of modelling office property markets in the context of the rental price adjustment mechanism and the demand–employment relationship in the Australian market. The findings reveal that allowing natural vacancy rates and the workspace ratio to be endogenously determined offered richer model specifications that permitted a partitioning between long-run and short-run influences. Brounen & Jennen (2009a) similarly captured long-run equilibrium relationships of demand and supply variables and their short–term corrections in a two-equation error correction model. However, the duo incorporated economic variables on two different levels of geographic aggregation; that is, the national and local level. Unlike the previous studies, Brounen and Jennen 2009a test whether the local nature of office markets make a model based on national economics inaccurate, if local and national markets do not move in tandem for ten major European office markets. These include London, Madrid, Paris, Frankfurt, Amsterdam, Glasgow, Barcelona, Lyon, Dusseldorf, and Rotterdam. The results from this study reveal that international office rental prices adjust to short-run changes in office-related economic activity, lagged rental price changes and the deviations of rental prices from their long-run values. Brounen & Jennen (2009b) extends the error correction model by examining whether office rental prices react to positive changes in employment conditional on vacancy rates. They tested this on 15 U.S. Metropolitan areas from 1990 to 2007. These areas include Atlanta, Boston, Chicago, Dallas, Denver, Detroit, Houston, Los Angeles, Minneapolis, New York, Philadelphia, Pittsburgh, San Francisco, and Washington DC. The results reveal that office rental prices in all cities react positively to a rise in office employment and lagged rental price changes. In contrast, lagged deviations from equilibrium price levels exhibit a slow and partial adjustment over time.

Many other scholars have studied the effect of vacancy rates and economic conditions on office space rental prices. For instance, Chi Man Hui & Ka Hung Yu (2006) simulate the dynamics of office space price adjustments in Hong Kong. The findings from this study suggest that the office rental prices in Hong Kong are more volatile and uncertain under better economic conditions. Further, Ng & Higgins (2007) study the dynamics of the commercial real estate market in Singapore by using the macro variables of the GDP, unemployment rate and office employment as the main determinants of the space market (demand side) and office floor stock, construction orders and vacancy rate as the supply-side determinants of the office markets. Results from this study indicate that changes in previous year vacancy rates, contemporaneous construction costs, prime lending rate and

contemporaneous office sector employment were identified in this study as the critical determinants for the variation in office rental prices in the central region of Singapore.

Unlike all the above studies that considered office space, Ibanez & Pennington-Cross (2013) investigated price dynamics for 34 large metropolitan areas in the U.S. from the second quarter of 1990 through the second quarter of 2009 for retail office space. This study established that there is substantial heterogeneity in both the long and short-run responses to changing demand and supply conditions. Furthermore, office markets are slower to adjust back to equilibrium, while retail markets adjust quickly to the long-run equilibrium. The slow adjustment process is consistent with a property type that takes a long time to build or renovate and has long lease terms spanning three to five years.

### **2.1.3 Commercial Property Pricing in Africa**

There is limited literature in Africa on how commercial property prices are determined. Messah (2011) investigates the factors that determine property prices in Meru Municipality in Kenya. The factors studied include income of investors, location, demand, and realtor influence. The findings reveal that incomes of investors contributed to property rental price variations, followed by demand. Bello (2012) examines the determinants of shopping centre rental price in Akure, Nigeria. The study tests the relationship between rental price and age, area of the shop, location, vacancy of the shop, the gross turnover of sales, population of customers, and retail mix like previous studies in developed countries. These variables have a significant impact on the rental price of the shopping centres in the study area. Similarly, Ezeokoli et al. (2012) examine the factors that cause vacancy rates in selected shopping centres in Akure, Nigeria. The study confirms that demand and supply are significant determinants of shopping centre vacancy rates. Other studies that investigate how commercial property price is determined include Udoekanem et al. (2014) and Udoekanem et al. (2015). The findings of both of these studies reveal that real GDP growth and vacancy rates are significant determinants of rental growth in the studied areas of Nigeria. Karley (2016) examines the determinants of office rental prices in Accra, Ghana. She concludes that apart from the market fundamentals of demand and supply for space, other unexplained factors contribute to higher office prices. These are oligopolistic tendencies among suppliers and speculation.

The review of the studies on commercial property price determination illustrates that while there are extensive studies on the factors which determine price, all these factors originate from traditional economic models where demand and supply factors are emphasised. The factors discussed above are based on the neoclassical economic perspective. Neoclassical economics

consists of several interwoven theoretical threads: methodological individualism, utility maximisation, and equilibrium economics (Agboola, 2015). Methodological individualism, centres human agents rather than structures hence it assumes individuals to be rational and operate within the confines of rational choice (Kjosavik, 2003). The second of the theories suggests that rational choice behaviour is guided by the perceived outcome of an action and a preference for satisfaction maximising. Lastly, equilibrium economic theory argues that forces in the economy, such as demand and supply, drive the system to a state where economic forces are at an equilibrium (Achour-Fischer, 1999). Thus, the neoclassical approach ties these strands together and relies on the following assumptions: the existence of perfect competition, complete information about prices, and free participation in the market transactions.

Furthermore, neoclassical economic theory assumes that markets are made up of rational actors and that tastes, preferences, and technology are a given (Orr et al., 2003; Lewis, 2008). However, the Ugandan property market is subject to imperfections resulting from the legal characteristics and the operational features of market activity (Agboola, 2015). The Ugandan property market is an imperfect market consisting of imperfect players using imperfect information. s. More still, information asymmetry is still a problem in the Ugandan property market, and thus, the typical drivers of demand and supply are inadequate to explain price determination (Quan & Quigley, 1991).

Given the imperfect nature of property markets like Uganda's (Roberts & Henneberry, 2007), it is important to understand the institutional aspects involved in the pricing process (Watkins & McMaster, 2011) as well as the institutional mechanism by which the players in the market operate (Keogh & D'arcy, 1999). Furthermore, it is vital that the interactions and relationships between different players (property owners, developers, institutional investors, tenants) are studied in relation to price-setting behaviour (Ball et al., 1999). In Uganda, property price determination, other than demand and supply, involves social conventions and norms reinforced by rules and embedded in the property market environment (Hodgson, 1998). Such conventions and norms are varied and reflect how players calculate and arrive at the prices that they charge their tenants. The property market environment will dictate the price formation process, either knowingly or unknowingly.

## **2.2 Institutions**

### **2.2.1 Definition of Institutions**

Scholars have defined institutions in different ways. However, to date, there is no universal definition of institutions. Some define an institution as an organisation (such as a bank) while others allude to rules of economic interactions or even document (Afshari-Mofrad et al., 2020).

Theoretically, old institutional economics suggest that institutions are defined by the habits of a group, while NIE emphasise aspects of social behaviour (Hodgson, 1998). As previously mentioned, this study uses North's definition to understand institutions. North (1990:3) defines institutions as the “rules of the game ... the humanly devised constraints that shape interaction”. This definition is selected for this study because it depicts rules of the game in society hence social behaviour. Members of society come up with these rules for social reasons. The rules may guide or inform human behaviour and thought, but they are not the same as actual behaviour and thought.

It is important to note that all institutions exhibit similar characteristics, as explained by Hodgson (1998:179). These characteristics include:

1. All institutions will have several agents who interact together with crucial information
2. All institutions will have common conceptions and routines
3. Institutions sustain, and are sustained by, shared conceptions and expectations
4. Institutions have values and processes of normative evaluation. They reinforce their own moral legitimation: that which endures is often rightly or wrongly seen as morally just
5. As much as institutions are neither immutable nor immortal, they have relatively durable, self-reinforcing, and persistent qualities

Institutions can be formal or informal. Formal institutions include constitutions, statute, common laws, regulations, and property rights. Informal institutions include unwritten traditions, socially sanctioned norms of behaviour, internalised ethical codes, and conventions. Also, informal institutions can include extensions, elaborations, and modifications of formal rules that frame the socially shared values of people and coordinate human interactions. Some scholars distinguish institutions based on who sanctions individuals if the prescribed behaviour is not followed (Voigt, 2013). When the state sanctions actions of individuals, then that is a formal rule. Contrastingly, if private individuals or members of society enforce sanctions, then that institution is considered informal.

### **2.2.2 Institutions and the Property Market**

The property market's institutional hierarchy has three levels according to Ball et al (1998). The topmost level is the institutional environment, the middle level is the institution itself and the bottom level is the organisation as shown in Figure 2 below.

The institutional environment (topmost level) consists of the political, social, economic, and legal rules and conventions. Economic institutions such as banks are key in creating the institutional environment of the property market. By supplying property buyers and investors with capital for property investment, they create a demand for commercial property, and thus create appropriate rental price incentives to supply property through development (DiPasquale & Wheaton, 1992). If economic institutions withhold their support to the buyers, there will be less money to invest in commercial property. As a result, all other factors being constant, supply would be low while demand remains high and the rental prices increase (Chow et al., 2009). The reverse happens if economic institutions give financial support to the buyers in terms of mortgages and loans. Additionally, the social environment generates distinct requirements for property development, and influences the significance attached to the function of property development for specific purposes (Ball et al, 1998). The laws and regulations which make up legal institutions such as property rights, lease agreements and the way they are defined and enforced; have a significant impact on the development market. Weak legal institutions will give rise to informal rules and vice versa. Politically, the property market is affected either positively or negatively by the ruling government. Some governments will encourage property development by coming up with policies and regulations that enhance the sector while others will discourage property development.

At the next, middle, level, the property market itself can be considered as an institution with a range of characteristics which determine its structure, scope, and function (Ball et al., 1998). Institutions at this level may not mean a company or government but rather a network of rules, conventions and relationships which collectively represent the system through which property is used and traded (D'arcy & Keogh, 2005; Kozenkow, 2013). Institutional characteristics vary from one national property market to another and over time. These differences are important to the analysis of market outcomes.

Finally, at the bottom level, the main organisation or institution of the property market are the stakeholders themselves. The property market is made up of stakeholders/individuals who operate and run the market (Ball et al., 1999). They can be the users, investors, developers, financial institutions, property service providers, government, professional bodies. The stakeholders are involved directly and indirectly in the property market.

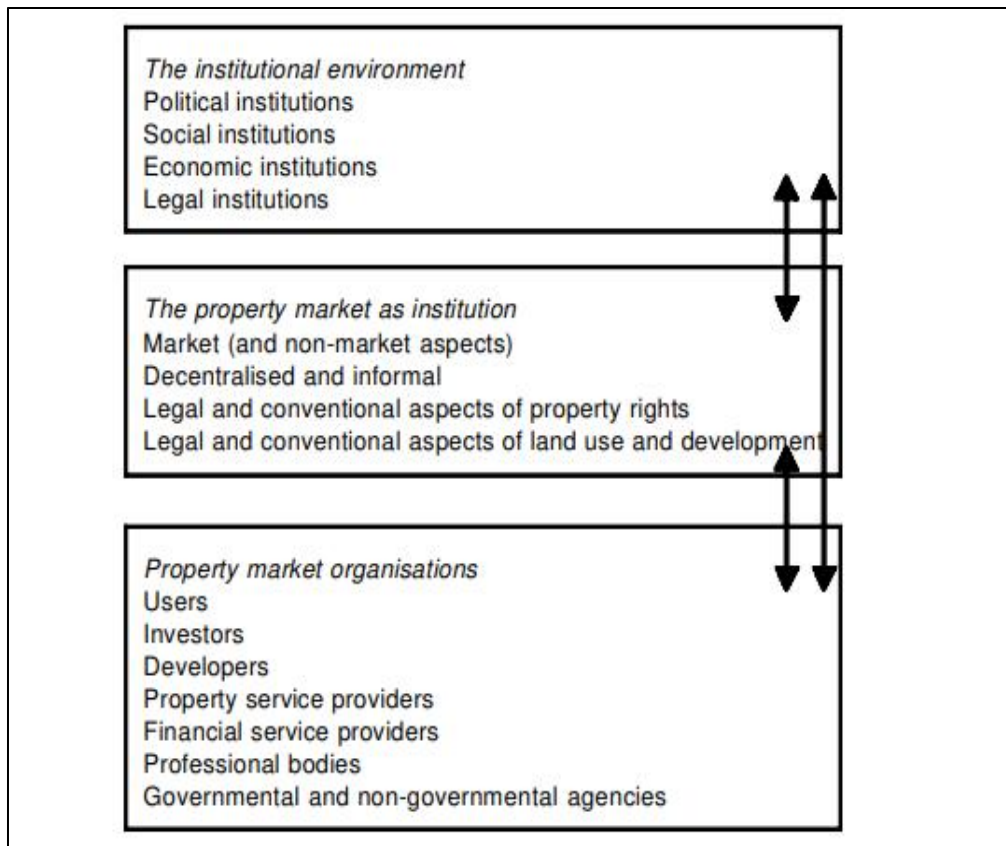


Figure 2: The Institutional Hierarchy in Property Markets as suggested by Ball et al. (1998)

The relationship between the three levels of institutions can best be described as interactive. What happens at one level directly impacts on the other two levels. For example, the broad institutional environment will frame the perceptions and expectations of stakeholders (property owners, institutional investors, property developers) in the property market. In turn, the experience of the stakeholders (property owners, institutional investors, property developers) may feedback upon, and effect change in, the institutional environment (D'arcy & Keogh, 2005). The role of the stakeholders and the interrelationships between these stakeholders, the property market environment, and institutions, is central to the dynamics of the property market and how prices are finally determined or arrived at (Agboola, 2015).

### 2.2.3 Informal Institutions

The "rules of the game" in Uganda are mainly the unwritten traditions, socially sanctioned norms of behaviour, internalised ethical codes, and conventions as well as extensions, elaborations, and modifications of formal rules that frame the socially shared values of the people and coordinate

human interactions (Arvanitidis, 2004). The rules of the game that exist in Uganda are a result of the weak regulatory framework in the country (World Bank Report, 2015). In this study, the rules of the game that are considered are the conventions and social norms of behaviour enforced by a second party (retaliation) or a third party (social sanctions).

### **a) Conventions**

Conventions are a socially shared pattern of thought unique to a community or society. Individuals within that community or society follow this rationale given their membership. According to North (1990:3) conventions are also the “unwritten down rules of the game”. Dequech (2003) provides six reasons for individuals following social conventions:

1. The lack of information
2. The assumption that individual judgement is not as valuable as that of a social group may be better informed
3. There is an argument that majority opinion may represent an expectation about the future values of a pertinent variable
4. The safest course of action is to follow the crowd. Hence, it is a defence mechanism
5. Induction is an excellent guide to follow when facing uncertainty
6. To avoid social disapproval

Dequech (2017) contends that individuals will abide by conventions because of legitimacy (the extent that numbers influence a certain ideology). In addition, neutrality and conformity tend to make individuals abide by the rules (Dequech, 2017).

Therefore, with conventions, members are expected to behave or think per the rule (Dequech, 2009). This may not require the individual to be aware that the shared rule is a convention. As mentioned earlier, there is a general lack of information regarding the commercial property market of many developing countries. Furthermore, the knowledge that individuals have in these markets is vague and insufficient. As a result, players question their judgment and ability to make informed decisions. Thus, players adhere to convention and follow what others are doing when determining the prices to charge for their properties. For example, if property owner A, a very well-known and respected player in the market, determines the price of his property using criteria A. Given these social attributes of the individual and the desired outcome, it is most probable that other property owners in the market will follow suit.

Dequech (2017) further explains this scenario using practices of economic scholars. He argues that many scholars accept mainstream economic ideas simply because they believe the ideas to be correct (Dequech, 2017). This belief stems from the prestige of the people who defend these ideas and the universities they are associated with. Naturally, human beings tend to value the views of those who have more status and power in the community; those who are recognised as having more expertise on the topic. Similar to this example, the situation of developing property markets creates conventions or rules as property owners start to assume some hypothesis about the future and conform to the behaviour other players (Oreiro, 2013).

Conventions are built and solidified through human interaction, and their formation can be short-lived or sometimes long-lived. Because conventions are products of human activity, they are not free from individual will and interests involved in their formation. Sometimes, groups of individuals will shape a convention, although they cannot impose their will on the whole set larger associated community. For example, a prominent property owner (probably because he owns most of the buildings or is politically well connected in the city) can contribute to the building of a convention that speculative pricing for properties is the best for the economy given the prevailing circumstances. Because of his legitimacy in that community, other property owners are likely to adhere to the convention. In such scenarios, the influential groups tend to be more successful in building the rule. Therefore, a convention is never neutral: while some groups may benefit from it, others may lose. However, where following a rule is punishable (directly or indirectly), the convention becomes a norm.

## **b) Social Norms**

Similarly, social norms are rules determined a society or community. However, they differentiate from conventions given the failure of an individual to act according to this set standard of behaviour or thought, results in sanctions. An unspecified group of people or stakeholders survey the compliance by way of automatic control. If an individual in the market is non compliant, a group of people in that community will inform others about the behaviour to diminish the person's reputation (Voigt, 2013). It can also be feelings of embarrassment, anxiety, guilt, shame, and emotions such as anger and indignation on the part of the defiant party (Azar, 2004). Similarly, rewards are granted to those that comply with the rules thus positive sanctions. Hence, sanctions can either be positive or negative. A good example of the positive and negative sanctions is illustrated by Dequech (2017). He notes that academics in economics will be punished by being excluded from the most prestigious journals, universities, and awards. Furthermore, they will not get funding from the leading research foundations and suffer reputational sanctions if they are not

simply ignored. Those who conform with the norms in academia are published in prestigious journals, receive funding for research, to mention but a few. He concludes that when individuals in a group/society/community are afraid of the negative sanctions, they are likely to obey them. In a nutshell, positive sanctions are rewarded to individuals who comply with the rules while negative sanctions or punishments are served for noncompliance.

Social norms are therefore created or they evolve. They are created as a result of the actions of associated players or as a deliberate design. They often reflect the power and interests of a few players within a given community, working to reduce transactional costs for those elite members (Seabrooke & How, 2004; Arvanitidis, 2004; Eggertsson, 2013). Social norms created within a group have horizontal transmission whereby they are internalised from peer interactions (Azar, 2004). Another type of social norms that evolve is usually through vertical transmission (from parents to children) or oblique transmission (through socialisation institutions such as secular and religious rituals, schools, and communication media) (Azar, 2004). The social norms that are most likely to be seen in the property market will be the horizontal transmission arising from peer interactions.

Because of the existing conventions and social norms in each community, the decision-making process of the property owner/stakeholder is affected. It will not be typically demand and supply to determine price as neo-classic economics previously suggested. But it will be a combination of other factors such as conventions and social norms on top of the demand and supply because of the context. Thus, to say that institutions influence the pricing decision making. Ultimately, the conventions and social norms influence the property owners' behaviour as they undertake the pricing decision.

### **2.3 Heuristics**

Heuristics are rules of thumb, used by individuals faced with decision making challenges to arrive at a solution in a complex, and uncertain environments (Waweru et al., 2014). Individuals usually do not behave rationally when faced with decision making challenges (Kahneman & Tversky, 1979). Additionally, players in the property market may not have the means of collecting all the relevant information (or the information is not available) and objectively evaluating it. Thus, players, lacking information and thus the ability to act rationally, take mental shortcuts in their reasoning (Watkins & McMaster, 2011). Depending on the time when the decision is made, mental shortcuts are not necessarily bad. However, heuristic decision processes may result in flawed decisions. Behavioural biases resulting from heuristics are anchoring and adjustment, representativeness, availability bias,

overoptimism and confidence, and gambler's fallacy (Kahneman & Tversky, 1979). These will be explained in the sections below.

In the field of property, behavioural heuristics have been studied in three different segments. First, is literature on behavioural heuristics and the appraisal or valuation process. This is the most researched field. Second, is the literature on behavioural heuristics in house pricing or residential space. This of late has gained momentum. Third and lastly, is the literature on heuristic-driven bias in property investment decision-making (Lowies et al., 2016). Unlike these schools of thought, this study looks at heuristics and pricing decisions on commercial properties (office and retail space) and therefore unpacks Kahneman & Tversky's (1979) framework.

### **2.3.1. Anchoring and Adjustment**

Anchoring and adjustment mean that property owners make rental price estimates by starting from an initial value (judgement by other experts or price of comparable spaces) and then adjust this estimate as more information is obtained to reach a final rental price. The price of the last recent lease is then adjusted to yield the final rent. So, the most recent lease price serves as the anchor or heuristic used to judge the rental price of the space (Bokhari & Geltner, 2011). Alternatively, property players will study the market and the prices other players have been charging as a means to adjust and determine the price for their property (Pandey & Jessica, 2018). This anchoring and adjustment process plays a part in the property owner's behaviour while determining the rental price for the property.

Northcraft & Neale (1987) were the first to demonstrate the effect of anchoring on property. The authors carried out an experiment where local real estate agents were taken to a house and asked to appraise it. Each group of agents was given the same information about the house for their appraisal; however, they were presented with different asking prices. The appraised values were positively related to the asking price anchor. Interestingly, most participants reported that the asking price should be irrelevant to the appraised value, yet they were nonetheless influenced by it.

In recent years, anchoring and adjustment have been studied in residential properties as reference points for sales. Studies seem to agree that there is a linear relationship between previous prices paid and subsequent prices. Kristensen & Gärling (2000) use two simulations to prove that proposed selling prices operate as anchor points. In both scenarios, university students play buyers of condominiums who were presented proposed selling prices and asked to give a counteroffer which a hypothetical seller would accept or reject. The estimated market prices affected the reservation prices (reference points) so that the selling prices and estimated market prices jointly impacted the

counteroffers. Haurin et al. (2010) using eight suburbs in the US, study whether the ratio of the listed price (anchor price) to the expected sales price increases at a decreasing rate with increases in the variance of buyers. The results confirm their hypothesis. Similarly, Bucchianeri & Minson (2013) found that higher starting prices are indeed associated with higher selling prices, consistent with anchoring.

Wiltermuth et al. (2020) argue that the anchoring effect of prior sales prices on subsequent housing prices is discontinuous at round numbers, such that it matters disproportionately whether a previous sales price reached a round number. The authors contend that buyers who pay amounts that fall just under round numbers may create disproportionately large sacrifices in future resale prices. Moreover, buyers who eventually resell their goods might be better off paying more when elevating the initial sales price to or just above a round number. This bias remains uncorrected by the market or negotiation process and creates economically meaningful market inefficiencies.

### **2.3.2 Representativeness**

Unlike in the stock market where representativeness is demonstrated when investors seek to buy 'hot' stocks (Waweru et al., 2014), in the property market, representativeness is manifested where property players tend to relate events to the good things that have happened and to over emphasise the importance of such good events. Representativeness is a tendency for people to try to categorise events as typical of a well-known class. It is upon this that players make probability estimates to overstress the importance of such a categorisation, disregarding evidence about the underlying probabilities. One consequence of this heuristic is a tendency for people to see patterns in data that are genuinely random and to feel confident in this belief. A property owner will decide on property price using the most recent data he has got (Pandey & Jessica, 2018). When investors mistake the most recent price as the best rental price for the entire distribution of return, that is representative heuristics. It is also called "stereotyping heuristics" (Black & Diaz, 1996:pg 288). Representativeness bias as past performance of the property plays a decisive role in determining property rental prices in developing countries like Uganda.

### **2.3.3 Availability Bias**

Further, property markets are not efficient. As a result, they suffer from a challenge of a high degree of information asymmetry and a lack of transparency. In imperfect markets, players may take informational cues from their peer groups in pricing decisions (Bayer et al., 2016). It does not matter whether the information got is correct or not correct. Such behaviour by property market players ushers in the availability bias (Adair et al., 1994). Availability bias refers to a situation where property

players over-rely on the most available information to make decisions (Waweru et al., 2014). Property owners will give more weight to readily available information than the macroeconomic, market, and property specific data (Salzman & Zwinkels, 2017). Often, property owners will take decisions concerning property prices using the readily available information within their reach. They use the information that is readily available to them to determine the rental price. This is because information like that of the quality of the building is readily available compared with macroeconomic, market, and property specific data (Salzman & Zwinkels, 2017). Thus, price determination will be based on their recent experiences (Tversky & Kahneman, 1974).

For example, property owner A may assess the probability that his commercial building will earn him \$20 per square metre in the CBD given that his acquaintances have been able to earn the same. Similarly, property owner A may evaluate the probability that his commercial building will not earn him that return by imagining various difficulties that it may encounter. The judgement heuristics is called availability. Availability is a valuable clue for assessing frequency or probability because events of large classes will be recalled better and faster than events of less regular classes (Tversky & Kahneman, 1974).

#### **2.3.4 Over Optimism and Overconfidence**

Similar to the availability bias, players in the property market often overestimate the reliability of their knowledge (De Bondt\_Thaler, n.d.). Thus, property owners typically believe that the rental price that is earned from the property will increase annually hence more profits/returns. This is called over-optimism. Rising prices in the property market are strongly associated with optimistic expectations (Glaeser, 2013). Over-optimism refers to an overly optimistic view of future returns, while overconfidence refers to underestimating risk (Salzman & Zwinkels, 2017).

Overconfidence is, as with over-optimism, is a bias that originates from a mental illusion of control. Players are usually self-assured in areas where they have some knowledge, for example, in coming up with the prices for their properties that they underestimate the risk involved in the process (Waweru et al., 2014). Overconfidence may also be traced to the Tversky & Kahneman's representativeness heuristic.

Related to over optimism in property studies is work on speculation and residential pricing. Most of the studies explain how speculation leads to booms and busts (Glaeser, 2013; Bayer et al., 2016; Repetto & Solís, 2020; Bayer et al., 2020).

### **2.3.5 Gamblers' fallacy**

Gamblers' fallacy is associated with the situation in which property owners predict the reverse of a trend. This assumption leads property owners to anticipate a change in good or bad market performance in most situations. Thus, when an investor has a particular decision to make and he/she also has a preference regarding that decision, he/she will always choose the alternative he prefers regardless of whether the choice is optimal (Waweru et al., 2014). The gambler's fallacy fails to understand statistical independence and will lead property owners and developers to believe that they can surpass previously successful property market participants (Rottke et al., 2003).

### **2.3.6 Conclusion**

Because stakeholders in the property market lack information and thus the ability to act rationally, they have opted to using rules of thumbs while determining property prices as discussed above. These include anchoring and adjustment, representativeness, availability bias, over optimism and confidence and gambler's fallacy.

## **2.4. Theories Relating to the Study.**

Several theories have been used to explain commercial property price determinants. Among them are: Urban Models of Alonso (1964), Mills, (1967), and Muth (1969); Hedonic Price Theory; Equilibrium Theory; and New Institutional Economics (NIE). Each of these are discussed below however only NIE is applicable to this context.

### **2.4.1. Urban Models of Alonso (1964), Mills, (1967), and Muth (1969)**

The urban theories tend to stress the importance of agglomeration externalities. The theories predict that CBD property prices should be higher in larger and more prosperous cities with more significant agglomeration benefits and cities where transportation to the CBD is less costly (Richards, 2011). The urban models rest on the following assumptions. First, individuals are assumed to be identical in terms of income and preferences. It is, of course, self-evident that real-world cities are characterised by heterogeneity in incomes and housing. However, the fundamental insights of the model remain even in models that allow for these kinds of heterogeneity (Anas, 1990). Secondly, the city is assumed to be monocentric, with individuals travelling only to work in a central location. Accordingly, the model does not allow for other business districts within the city. However, literature has proved that polycentric cities exist (Giuliano & Small, 1991; Wheaton, 2004), and sometimes locations are considered desirable based on other attributes like the proximity to schools, hospitals, cultural facilities, beaches, etc. (Schirmer et al., 2014). Thirdly, the equilibrium is partial

because it abstracts from developments in other markets, like the labour or capital markets. So, the wage rate and the rental rate on capital are taken as exogenous. Finally, the model is static. It does not account for the long-lived nature of the housing stock, the process of urban change and phenomena such as filtering or gentrification, or the role of changes in the availability of finance (Smith, 1987; Smith & Smith, 2007). Instead, the model is best viewed as providing insights into the longer-run determinants of the urban equilibrium.

#### **2.4.2 Hedonic Price Theory**

Hedonic price theory is usually traced back to a paper by Sherwin Rosen (1974). Commercial properties such as offices and shopping centres are heterogeneous goods (Dunse & Jones, 1998). In hedonic price theory, heterogeneous goods are valued for their utility-bearing attributes or characteristics (Rosen, 1974). This enables analysts to estimate each attribute's implicit price by relating the property's rental price to its attributes. Individual attributes can take the form of air condition, heating, security systems, lighting, internal sound insulation, cooking, toilet and washing facilities, carpeting, availability and quality of lifts, double glazing, cladding, location, business environment, and tenure rights (Hough & Kratz, 1983; Dunse & Jones, 1998; Deschermeier & GmbH, 2015; Lieske & Pettit, 2021). This implies that the hedonic price is the implicit price of each attribute associated with that good (Dunse & Jones, 1998). Thus, the hedonic model or theory is a multi-variable regression that uses property price as a dependent variable and the property attributes as the independent variable (Lieske & Pettit, 2021). Hence, with information on property prices and attributes, using regression analysis, it is possible to derive the implicit price of each attribute, the hedonic price, and the relative importance each attribute has in determining the overall price of the property. Much as the hedonic model has been applauded for its ability to account for the diversity of properties (Deschermeier & GmbH, 2015), it has also been criticised on the grounds that it assumes equilibrium throughout the property market (Dunse & Jones, 1998).

#### **2.4.3 Equilibrium Theory**

This theory stipulates that demand and supply forces drive the system to a state where economic forces are balanced (Arrow & Debreu, 1954). It is at the point where demand equals supply that property prices will be determined. This theory rests on the following assumptions: there is free competition, demand and supply are known, buyers and suppliers have perfect information about prices in the market, and rationality or free participation in market transactions (Agboola, 2015). However, in reality most, if not all, of those assumptions will not hold. This is because property markets are imperfect where demand and supply are not known. An example of this is seen in the recent global response to the COVID-19 pandemic. Property demand (office space) has substantially

decreased as clients were mandated or prefer to work from home rather than offices. Furthermore, e-retailing has seen a significant increase (JLL Report, 2020).

The above three theories are not applicable in the context of this study. The above theories are based on general equilibrium pioneered by Walras, (1874) and formalised during the post-war period by theorists such as Arrow & Debreu (1954). They assume that tastes and preferences, along with technology, are given. The three theories further assume that the economy is always moving towards an equilibrium position in all markets and determining a complete final vector of prices. However, the property market in Uganda does not meet these characteristics. As mentioned in Chapter One, the property market in Uganda is imperfect and inefficient, with inaccessible and unreliable property information, high transaction costs and weak formal institutions. The study, therefore, introduces the NIE theory to explain how property prices in Uganda are determined.

#### **2.4.4 New Institutional Economics (NIE)**

New Institutional Economics emerged at the turn of the 20th century. It replaced the old institutionalism approach which failed to provide a systematic and viable economic theory after World War II (Hodgson, 1998). Old institutionalism claimed that institutional economics alone could unify economic science by showing how parts of the economic system related to the whole (Hodgson, 2000). The old institutionalism was a theory of economics not defined to pass judgement upon practical proposals but used as a basis for policy. Given these shortfalls, the old institutional theory was replaced by the NIE.

NIE scholars have introduced institutional content into neoclassical economics but have done so without challenging its fundamental assumptions of methodological individualism and maximising economic rationality (Agboola, 2016). NIE extends neoclassical theory by considering how property rights structures and transaction costs affect incentives and economic behaviour (Kozenkow, 2013). It seeks to demonstrate that institutions truly matter and are regarded as legitimate objects of economic analysis (Kozenkow, 2013). Hence the NIE reiterates that information available to individuals as incomplete, that individual's mental capacity to process information is limited, and that an individual's preference is subjective and less stable than assumed in neoclassical economics (Agboola, 2015).

NIE theory intends to explain the emergence of institutions by referencing a model of rational individual behaviour, tracing out the unintended consequences in terms of human interactions (Hodgson, 1998). Hodgson (1998) illustrates this point by giving the example of traffic congestion. He argues that when the majority drivers stick to the right-hand side of the road, it is rational for all

drivers to follow the same rule. The theory discredits the classical assumption of rationality among actors. Rather, NIE replaces rationality with the notion of bounded rationality; where the choice criteria is likely to be satisficing rather than maximising (Agboola, 2015). Satisficing economic behaviour is more likely given the limited information available but also due to the complexity of the problem to be solved and defective problem-solving software possessed by the individual (Arvanitidis, 2004). As a result, uncertainty arises and the only solution to reduce uncertainty and achieve cooperative solutions to human interaction is by developing institutions (North, 1990).

The NIE theory highlights that instead of being constructed through rational choice and utility maximisation, society creates its own rationality by building a social order based on the definition and reorganisation of rights and rules. The rights or rules (institutions), organic or designed, create order and structure for the exchange of relations (North, 1990). They permit collective action and empower individuals, but are neither in any specific end, stable final state or equilibrium (Kozenkow, 2013).

NIE also looks at how property rights are structured and how transaction costs affect incentives and economic behaviour (Kozenkow, 2013). Furthermore, NIE emphasises cultural factors such as norms and conventions in solving economic phenomena, unlike mainstream economic theory (Moya & Cloete, 2007). It emphasises the importance of the inherent behavioural attributes of human agents and their consequences on human exchange and interactions (Agboola, 2015). The theory combines various economic theories with explicit human psychological assumptions to better understand economic phenomena (Hodgson, 2007).

NIE speaks to this study because it assumes that the property market environment is more dynamic and chaotic than is suggested in the neoclassic theories. In such an imperfect operational context, the pricing process is not assumed to be entirely rational due to limited information availability. Moreover, property players mental capacity to process information is limited, their motivation is more complicated, and their preferences subjective and less stable than assumed by the first three theories (Agboola, 2015). Hence in the property market, transaction costs will exist (Kozenkow, 2013). Therefore, NIE introduces the role of human agents and their decision-making behaviour within the pricing process, and in turn provides key insights into the dynamics of the market. This is confirmed by Watkins & McMaster (2011), who mention that institutions enable, constrain, and constitute the individual players; hence influencing their human emotions and vice versa.

## **2.5 Summary**

This chapter reviewed literature on commercial property pricing. The literature selected is based on the hedonic, urban and equilibrium literature and theories relating to commercial property prices. Those three theories seem to suggest that commercial property prices are a result of demand and supply. However, the above theories do not efficiently explain how property prices are determined in Uganda. If one looks at Uganda contextually, there are far more variables at play than supply and demand. For one, institutions, especially informal ones, influence how property pricing decisions are made by the stakeholders.

This chapter therefore suggests further research into institutional price determinants given that property markets are imperfect with imperfect players. The chapter further suggests the use of NIE theory to understand property pricing in less mature markets, facing information asymmetry challenges, and are imperfect.

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

Chapter Three highlights the methodological approach of this study. It begins by presenting the philosophical foundations of this study and describes the research paradigms, epistemology, ontology, and axiology used. It then defines the research approach, and design, scope and limitations of the research design and situates the study within existing property economics research. This chapter also specifies the research design and discusses the research strategy that was followed, and the research instrument used. It then elaborates on the layout of the data collection, analysis, and interpretation. Lastly, discussions of the limitations of the data collection and trustworthiness of the research are presented. Qualitative methods were used to answer the main question raised in this study: how price is determined for commercial properties in Uganda?

### **3.2 Research Philosophy**

A research philosophy can be defined as the hypothetical roots that guide the pursuit for knowledge in a study (Ponterotto, 2005). A philosophy guides the researcher on how to choose the best research method(s) for the study (Creswell, 2013). The research methods to be chosen or decided upon usually include formulating underlying assumptions and beliefs which are usually termed as “paradigms” (Creswell, 2013). Underlying assumptions and beliefs include research objectives, questions to be answered, theoretical concepts to use, and research designs which direct the study (Creswell & Plano Clark, 2011). All these (research objectives, questions, theories, and designs) are interrelated (Ponterotto, 2005) and revolve around the ontology (what can be known about the phenomenon), epistemology (the relationship between the researcher and the respondent), and the social world (Creswell, 2013).

This study adopts a constructive research paradigm to explain how the price for commercial properties is determined. A constructive research paradigm helps define pricing and relates to the neoclassical approach that has been traditionally used to determine price in property research. Furthermore, this paradigm helps identify unknowns about property pricing such as the role of conventions and social norms and property owners behaviour during the pricing process. The constructive approach suggests that meaning is hidden and must be brought to the surface through deep reflection (Ponterotto, 2005). This reflection can be quickened through interaction or dialogue between researchers and participants (Michel, 2008). The researcher and the participants jointly create findings from their engagement and interpretation. The constructive approach therefore allows this study to investigate price determination through dialogues with research participants in the Ugandan property market. Hence creating knowledge. The process through which knowledge is

created is called the epistemology. This study uses the interpretivist epistemology which are based on the individuals and their surrounding (Amaratunga et al., 2002). Interpretivist scholars argue that to understand people and their surroundings, the researcher ought to obtain information concerning these people/surrounding from the very people/individuals. As a result, the individuals/people must be intimately involved in the data collection as respondents. Therefore, in understanding how commercial property prices are determined, one must seek the perspective of its stakeholders in the real estate industry including the property owners, property developers, institutional investors and key informants who have worked in the industry for a long time and hence understand it thoroughly. Stakeholders share their experiences with the researcher through interviews (Easterby-Smith et al., 2008).

The constructivist approach and the interpretivist epistemology are well suited philosophies for this study because they both provide a means to answer the research question: why stakeholders in the real estate industry of Uganda price their commercial properties the way they do? They both seek to understand a given phenomenon (pricing behaviour) in a specific setting such as Uganda. Because the stakeholder's beliefs and experience about commercial property pricing will influence the research decisions, this study is value laden and therefore subjective research (Pathirage et al., 2008).

Figure 3.1 below depicts the flow chart of the research strategy employed in this study.

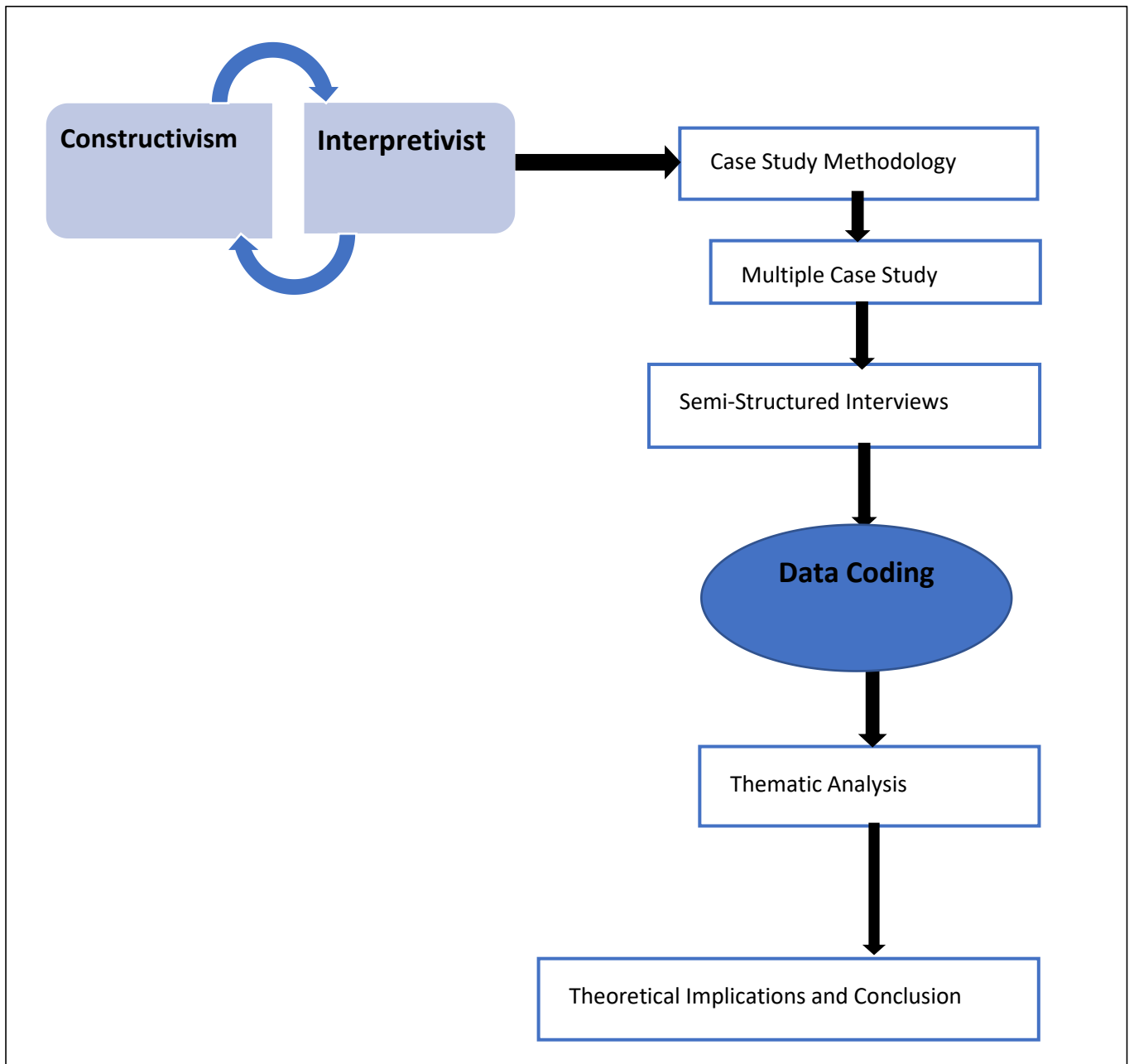


Figure 3.1: Flow Chart Showing the Research Strategy

### 3.3 Research Approach

This study chooses a qualitative approach. This means that the study draws on the perspective of those who have experienced certain phenomena and seeks to understand and expand on the meanings that individuals assign to their experiences (Higgins et al., 2013). Qualitative approach

requires an extensive analysis of the obtainable information to acquire exhaustive knowledge on the specific subject (Creswell, 2013). Qualitative approach places a lot of emphasis on the examination of documentations, which could include images for example from newspapers, written information, and conversations (Neuman, 1997). Using the qualitative approach, the researcher will understand commercial property pricing through sharing with the stakeholders in the Ugandan real estate industry, their views, experiences, and personal understanding of the pricing process (Stiles, 2003; Blythe et al., 2008).

Strauss & Corbin (1998) contend that qualitative research provides both depth and breadth for a particular phenomenon. In this case, a qualitative approach allows for a deeper understanding of the inner workings of Uganda's informal property market and its process for price determination in the commercial sector. This research draws on a diverse set of stakeholders for example property owners, developers, institutional investors as its data source. Thus, a qualitative approach offers the required instruments to collect, assemble, and synthesise the substantial amount of data that is usually generated in this process.

Furthermore, this study chooses a qualitative approach given that the nature of the research questions is subjective: *how do informal institutions influence price determination? And how does the behaviour of the property players influence the final price charged to the tenants?* Furthermore, various researchers who have used NIE have suggested that a qualitative approach is better in understanding institutions, their functioning, and the changes compared to the quantitative approach (Hodgson, 1998; Smith et al., 2006; Munro & Smith, 2008; Ostrom, 2010; Ménard & Shirley, 2014; Öhman et al., 2013; Parker, 2016). Additionally, qualitative research has the potential to generate rich detail, which is key in institutional and behavioural analysis, especially if it is informed by theory and conducted with rigour (Ménard & Shirley, 2014).

Qualitative research can be conducted in the following ways:

1. Narrative analysis – This involves studying an individual's life (Riessman, 2008).
2. Phenomenology method – this involves bringing out the individual's experience of (Marshall & Rossman, 2011).
3. Grounded theory – involves the researcher acquiring a general explanation of the phenomenon being studied generated from many participants (Johnson, 2015).

4. Ethnography – the researcher spends a lot of time learning about participants language, understanding their(participants) behaviours and way of life, through participation over a long period (Rashid et al., 2015).

5. Case studies – This involves obtaining in-depth, all-round information from the investigation of few units of multiple variables (Krusenvik, 2016).

This study uses the case study method. A case study is defined as “an empirical inquiry that investigates a contemporary phenomenon (the ‘case’) in depth and within its real-world context” (Yin, 2015: 16). This argument is supported by Krusenvik (2016) who argues that the case study’s strength lies in its ability to obtain detailed and relevant data. Furthermore, the information is contextual, and the study includes multiple variables and runs deep. The internal validity is therefore high, which makes these studies very valuable. Furthermore, case studies connect the different views from the various respondents (Chetty et al., 2014) and contexts (Van Burg & Romme, 2014) in a study. Therefore, case study method will allow the researcher to get an in-depth understanding of commercial property prices in the Ugandan context (Yin,2012).

### **3.4 Research Design**

#### **3.4.1 Multiple Case Studies**

The study’s overarching research question is: *how is rent for commercial properties determined in Uganda?* It was based on an explanation building analysis. The purpose of the research question was to obtain a detailed explanation of the pricing process in a developing country context. Multiple cases were used for this study. These included Kampala, Mbarara, Gulu, and Mbale all found in Uganda. Multiple case studies enabled the researcher to understand the similarities and differences that exist between the various cases when it came to pricing of commercial properties in Uganda. Multiple case studies were the best for this study, rather than a single case, because they highlighted the different institutional systems in the different towns and cities, which facilitated understanding of pricing dynamics in developing countries (Eisenhardt, 1989; Eisenhardt & Graebner, 2007; Gibbert et al., 2008). This method enables the researcher to analyse the cases within and across the different cases. Furthermore, multiple cases allow wider engagement with the research question and a theoretical evolution (Eisenhardt & Graebner, 2007).

### **3.4.2 Case Selection**

The cases that are selected for the study should be credible (Yin, 2009; Rule & John, 2011) and with an ideal number of four to eight cases being taken up for any study (Eisenhardt, 1989; Onwuegbuzie & Leech, 2007). Four cases have been selected for this study, with the first case being Kampala (Case A). Kampala is in central Uganda and is also the capital city where most real estate developments are taking place. The second case is Mbarara town (Case B). Mbarara is a town in the western part of Uganda and has been upgraded to city status given that it is a regional hub with many real estate developments. The third case is Mbale (Case C). Mbale is a town in eastern Uganda that has also been upgraded to city status. It is also a regional hub for trade and real estate development. The fourth case is Gulu (Case D). Gulu town is in northern part of Uganda. It has also been upgraded to city status for its regional hub. Most of the real estate developments in Gulu have been done, especially after the war that lasted for over 20 years. The map below shows the four cities which form part of the multiple case study.



Figure 3.2: Map of Uganda Showing the Four Districts Selected as Cases (Kampala, Mbarara, Gulu and Mbale) Source: *Uganda maps and regions*, (2022) pg:1

### 3.4.3 Semi-Structured Interviews

Interviews provide a means to understand why people behave in certain ways as they allow individuals to attach meaning and significance to their answers (Jones, 1985). In social science research, Interviews are the most regular data collection instrument used (Yin, 2009). They are unequivocal way for data collection. They also provide detailed information about participants' experiences and viewpoints on a phenomenon (Eisenhardt & Graebner, 2007; Turner, 2010). Moreover, for newer discourses such as property studies, it is urged that interviews should be used to collect primary data to get all the details. Given the value of this data sourcing technique for the research as well as the broader field, this study uses semi-structured interviews with the individual respondents.

Semi-structured interviews are best suited for this study given that the research question focuses on 'how'. Therefore, the interview required open-ended questions, prompts and, in many cases, follow-up queries. Furthermore, the questions aimed to create space for respondents to express their independent thoughts and opinions. Thus, through semi-structured interviews, the researcher aims to understand why stakeholders in the Ugandan property industry behave the way they do when it comes to price determination for commercial properties.

A semi-structured interview guide was composed of a few open-ended questions of 'how', 'what', and 'why' to stimulate further discussions with the respondents. The open-ended questions were also to capture experiences and clarify details. The approach allowed the researcher to moderate the whole interview process with a lot of flexibility while maintaining the focus of the discussions (Turner, 2010). Resultantly, the respondents freely expressed their views and contributed a lot of information.

The interview guide was divided into sections. The first section asked for who the respondent was and his/her background and experience in commercial buildings. The second part of the interview focused on understanding the factors behind building supply in the market. The third section was a discussion on how property price is determined. This involved a conversation about the criteria used for price determination for tenants using space. It was dependent on the need to understand the pricing behaviour and the institutions involved in this process, as suggested by Hodgson (1998). The institutions for example conventions and social norms if they exist. The fourth section discussed the legal framework governing price determination and the real estate industry at large. These four sections formed the interview structure, however there was no particular order for covering these areas. The researcher first established rapport with the respondents. Thereafter, any of the four sections would be handled according to the situation. This approach gave the researcher the flexibility to follow the flow of the conversation. Some questions had to be improved upon or added during the interview to capture unanticipated areas of interest that were overlooked when developing the instrument (Gioia et al., 2013). For example, the concept of 'goodwill' arose during the interviews. This concept was added to the interview questions.

Each interview lasted between thirty to seventy minutes. The interviews were stopped when the researcher realised no new insights were being given (Johnson, 2015). The information recorded from each interviewee was kept anonymous. This was to ensure discretion. A copy of the interview guide is attached as Appendix C.

#### **3.4.4 Sampling Strategy**

Sampling is one of the most critical factors which determine the accuracy of a study (Bhardwaj, 2019). Usually, it's too expensive and time consuming to survey a whole population in a research study. Therefore, researchers will have to take samples out of the entire population (Taherdoost, 2016). There are different sampling techniques however the major ones are categorized under two: probability sampling and non-probability sampling. Probability sampling techniques include simple random sampling, systematic random sampling, and stratified sampling. Nonprobability sampling techniques include quota sampling, self-selection sampling, convenience sampling, snowball sampling, and purposive sampling. Nonprobability sampling is often associated with a case study research design and qualitative research (Taherdoost, 2016). The study used purposive sampling to select key informants. The key informants were selected according to their knowledge and experience in the subject matter and the number of years they have worked in the property industry in Uganda. Due to the purposive sampling method, the researcher was assured of getting real-time results, as respondents had appropriate knowledge and understanding about pricing in Uganda.

Furthermore, snowballing sampling was adopted to select property owners, property developers and institutional investors (Clark & Creswell, 2014). The snowballing technique involves the researcher accessing additional respondents through the original respondents' contact information (Flick, 2008). The next person to be interviewed is recommended or proposed by the current interviewee. The recommended respondent (interviewee to be) is usually a person who might be important to the study in answering the research questions and objectives (Bhardwaj, 2019). Snowball sampling method was to ensure that the most important and appropriate individuals were interviewed in check with the underlying assumptions of the study. The researcher started by identifying the two respondents, whom she had met and worked with previously in the property industry. They were asked to suggest to the researcher other respondents that met the reason for the study. As such, many of the respondents selected for this study were high-profile, busy, individuals who had little time available for interviews. As a result, snowballing allowed one respondent to suggest the next respondent that they thought met the criteria to participate in the study. Moreover, the method helped the researcher to get to know of characteristics about the population that she never knew existed previously; for instance, it was discovered that the property owners operate in groups and were able to recommend me to their colleagues accordingly.

### 3.4.5 Respondent Selection

26 respondents were purposely selected across the four city cases. These (respondents) included property owners, property developers, institutional investors and key respondents. It is important to note how these professions are defined in the context of Uganda. Property owners are the individuals who own commercial properties, for example, the shopping malls, shopping arcades, offices, buildings with shops. The property owners in Uganda build their own commercial properties using local engineers and workforce. They rarely use the help of property developers. Property developers in Uganda are few, especially when it comes to commercial properties. Most of the property developers in the country are in residential properties and are only found in the capital city, Kampala. Institutional investors are the different companies like insurance companies and pension funds who buy the buildings from property developers. According to the Association of Real Estate Agents AREA Report (2018) Uganda has five institutional investors and ten property developers (for commercial properties dealing in office blocks and retail space). Other participants, such as key informants were selected to add richness and greater descriptions (Ponterotto, 2006). Burgelman (1983) recommends that in the process of data collection, if interviewing any other individual (previously not on the list of the respondents) becomes important, then this new individual should be approached and interviewed. In this way, the data is triangulated, and this helps to complete and verify the information by contradicting or confirming the insights from the other respondents. During the data collection, as the issue of goodwill repeatedly came up from the property owners, property investors and property developers, the researcher had to interview other key respondents to verify the claim. Indeed, after the interview with key respondents, it was confirmed that goodwill is existent in the market as explained in chapter four in detail. This process of adding new respondents and verifying information helped add richness and rigour to the data (Gibbert et al., 2008; Guest et al., 2006).

Interviews for Case A (Kampala) were conducted with three property owners, three property developers, three institutional investors and eight key informants in Kampala. There are very few institutional investors in Uganda who are based in Kampala or have portfolios in office and retail properties. Similarly, there are very few property developers in Uganda, and these few are found in Kampala. The scarcity of these professionals or portfolios is due to a culture whereby individuals who are interested in building a commercial property will acquire funds and get local engineers and builders on the market to execute the task. It is important to note that property developments in the three other cases (Mbarara, Gulu and Mbale) are not as established as in Kampala, as explained in

Chapter Four. However, they were selected given their role as regional hubs and their upgraded city status as of 2020. Since there were no institutional investors nor property developers in these cases, only three interviews were conducted with the property owners in each case. Furthermore, all the key informants were also found in Kampala. Kampala had seventeen interviews; Mbarara three interviews; Mbale, three interviews; and Gulu three interviews.

**Table 1a: Details of the Respondents (Property Owners, Property Developers, and Institutional Investors) for the Study**

Case	Respondent	Category	Nature of Building	No of Shops/ Offices in building	No of floors	Ave size of the shops/ office	Average Price per Shop
<b>Kampala (Case A)</b>	A4	Property Owner	Shopping Arcade	86 shops	4	20sqm	5M(UGX)
	A9	Property Owner	Shopping Arcade	15,000 shops	4	10sqm	2 M(UGX)
	A21	Property Owner	Shopping Arcade	200shops	5	15sqm	4 M(UGX)
	A1	Institutional Investor	Office building	16,550sqm	20	30sqm	15 \$/ sqm
	A10	Institutional Investor	Office building	2375sqm	7	50sqm	14 \$/sqm
	A12	Institutional Investor	Office Building	14,000sqm	20	50sqm	18 \$/sqm
	A13	Property Developer	Office Building	5,600sqm	8	20sqm	16\$/sqm
	A15	Property Developer	Shopping Mall	2,500sqm	3	30sqm	30\$/sqm
	A20	Property Developer	Office/Retail Building	18,000sqm	8	22.5sqm	70\$/sqm
	<b>Mbarara (Case B)</b>	B1	Property Owner	Office Block	30 offices	4	20sqm
B2		Property Owner	Shop	2 shops	3	300sqm	10M(UGX)
B3		Property Owner	Shopping Arcade	200 sqm	1	100sqm	15M(UGX)
<b>Mbale (Case C)</b>	C1	Property Owner	Office/retail	50 shops	3	25sqm	10\$/sqm
	C2	Property Owner	Shopping Arcade	10 shops	5	20sqm	0.4M(UGX)
	C3	Property Owner	Lock up shops	3 shops	1	10sqm	0.8M(UGX)
<b>Gulu (Case D)</b>	D1	Property Owner	Lock up shops	3 shops	1	10sqm	0.2M(UGX)
	D2	Property Owner	Office Block	10 offices	2	100sqm	10\$/sqm
	D3	Property Owner	Shops-L-shape	4 shops	1	25sqm	0.5M(UGX)

**Table 1b: Key Informants Interviewed – Their Experience in the Industry and the Criteria Upon which they were Selected for the Study**

Respondent	No. of Years in Industry	Criteria for being interviewed
A2	10	The respondent is the Public Relations Officer of an organisation that brings together all tenants for the shopping arcades and hears their views and grievances
A5	20	The respondent is the CEO of the oldest real estate company in Uganda
A11	15	The respondent is the Executive Director of all traders in Kampala city. The traders are the majority tenants in the commercial buildings especially the retail section in Kampala
A16	10	The respondent is the country manager for one of the real estate companies with vast knowledge and experience in the industry
A17	25	The respondent has held many top positions in the industry; first as an employee in the first real estate company, to the President of real estate associations and to now owning his own real estate company
A22	14	The respondent is an Economics Don at the best university in the country. His vast knowledge of macro and microeconomics and the real estate industry at large was the motivation for the interview
A23	15	The respondent is a head, mortgage section in one of the banks in the country
A24	12	The respondent is the CEO for the lobby group /association for real estate and the Managing Director of one of the top real estate firms in the city and country

### 3.4.6 Observations

Interviews were conducted at the premises (commercial buildings of the property owners), allowing the researcher to observe some of the behaviour (Guest et al., 2006). For example, how the property owners behaved or responded when the tenants brought the cash(rent) and paid it to the managers. Notes were written down by the researcher before the interview, during the interview and after the interview. The notes were comprised of any informal discussions that the researcher had with the respondents but was not recorded and what she observed as the interview progressed (Mulhall, 2003).

### 3.4.7 Documentary Review

Secondary data was collected from newspapers and media reports (Morrow & Smith, 2000) about the property owners and their pricing behaviour (see Appendix E). These sources enabled the triangulation of data to address recall bias and added richness to the data (Eisenhardt 1989a; Yin, 2003, 2009).

### **3.4.8 Field Notes**

The researcher also kept field notes that described her feelings about conducting the research and accompanying notes for each interview. An extract of these is shown in Appendix F. The notes that the researcher wrote down before, during and after the afterview were used in the data analysis (Bernard, 2011; Campbell et al., 2013). Morrow & Smith (2000) argue that the use of field notes adds rigour to the qualitative inquiry as the researcher can record his or her reactions, assumptions, expectations, and biases regarding the research process. Ortlipp (2008) further argues that keeping a journal of one's field notes creates transparency in the research process.

A multi-faceted account of the price determination process was collected through interviews, observations, and other secondary sources. The data from the interviews capture the interactions amongst the different stakeholders, the pricing process, the "rules of the game" and the rules-of-thumb considered during pricing. Such accounts contribute to the explanations of the pricing process in a developing economy context.

### **3.5 Data Analysis Process**

Thematic Analysis was used for the study together with content analysis (Braun & Clarke, 2006; Selvi, 2019). Thematic analysis is usually appropriate for conducting exploratory research (Green & Thorogood, 2004). Thematic analysis involves identifying and examining documents and reports. That is then followed by analysing and reporting patterns within the data (Braun & Clarke, 2006). Lastly, a summary for presentation is developed (Joffe, 2012). Thematic analysis approach allows the researcher to focus on people's social well-being (Ayres et al., 2007). Thematic analysis also has been said to be one of the most orderly and explicit forms of analysis in qualitative methodology (Joffe (2012). This is because thematic analysis partly accounts for the number of times that the themes appear without ignoring the detail of the analysis. Thus, thematic analysis emphasises themes that are both reoccurring and key in the description of the phenomenon under study (Daly et al., 1997). Additionally, content analysis approach enables the researcher to focus on selected aspects of the topic which related to the overall question. Furthermore, this approach reduces the amount of material for the study (Schreier, 2013).

#### **3.5.1 Data Preparation**

The data collected was organised, put together, and transcribed by the researcher after every interview before going for another interview. After transcribing the qualitative interviews, the researcher had to become familiar with the data by reading through the transcript a number of times (i.e., the interview, notes made during data collection, and the secondary documents that

were acquired), while also taking note of first impressions (Maguire & Delahunt, 2017). The data was stored and backed up using hard drives, Dropbox and one drive to maintain safe, virtual copies of the data, just in case of any unplanned outcome.

### **3.5.2 Coding and Categorisation of data**

The transcribed transcripts were read repeatedly so that the researcher understood the data well and that proper codes were assigned (Hsieh & Shannon, 2005; Saldana, 2009). The data was then organised through a system of actual coding. Through this process, the researcher generated initial codes to reduce the data into smaller meaningful pieces (Saldaña, 2009; Maguire & Delahunt, 2017). Coding was done directly after transcribing each interview before another interview was scheduled. The first few data codes were developed by just listening to the interview audios. Thereafter, the other codes were identified with the assistance of CAQDAS (computer-aided qualitative data analysis software programme) (See Appendix F). The CAQDAS used in this study was of NVivo 12. CAQDAS was selected for this study because it is quick and unlike manual coding which can be used to code a few transcripts, CAQDAS can be used to code many transcripts with a lot of ease. Hence data analysis quality is greatly improved by using CAQDAS (Basit, 2003). Further, using software in data analysis adds rigour to qualitative research, with functions such as 'search' helping to find evidence about how relationships were established between the cases (Richards & Richards, 1995).

During coding, labels were assigned to each code to define what each code meant (Bryant, 2003). The pace at which new codes were developed kept on declining as the coding process continued. The researcher ensured that the codes developed were close in meaning to the terms they represented (Miles & Huberman, 1984). 111 codes were developed for this study (See Appendix F). The number of codes developed (1m 11) was adequate for the study as it lies within the 80-120 codes as suggested by scholars (Saldana, 2009).

### **3.5.2 Categorisation of Data**

The codes were scrutinised, regrouped, and renamed with more conceptual and abstract terms. After setting aside codes that were similar, a new name which described all the similar codes was developed. In some cases, codes that had similar meanings were merged. Each group of similar codes was given a name that suits or describes all the codes in that segment.

These different groups of similar codes, each with a new name eventually made up what is called categories. This enabled analysis to move from a descriptive to a conceptual level (Campbell et al., 2013). Some categories were named using literature drawn from urban, hedonic and equilibrium

pricing literature. Others were generated from institutional and behavioural heuristics literature. Codes from literature included physical attributes, size, age, location, demand and supply, informal institutions, representativeness, gambling, overconfidence. These codes helped in the coding but didn't limit the process. Since transcription and coding took place after every interview, there was a back and forth between coding and data analysis process. The contents of each category were then set side by side with other groups to develop themes (Gioia et al., 2012).

The above process was then followed by searching for themes. A theme captures exciting and significant perceptions or even experiences of the respondents, got from the data collected, that the researcher sees as relevant to the underlying assumption of the study (Maguire & Delahunt, 2017). Searching for themes process was followed by reviewing the themes. The reviewing process dealt with evaluating, modifying, and developing initial themes that had been recognised to establish whether they were applicable (Maguire & Delahunt, 2017). Thereafter, all the data was thematically grouped. The researcher then defined the themes that would be used for the final analysis and write up.

### **3.6 Presentation of the Case**

In this study, each case was first presented and analysed in detail with the aid of photographs. It started with the researcher describing the situation and context for each case, followed by the pricing behaviour and the heuristics. The analysis portrayed the issues emerging in each case concerning the pricing process and the behavioural heuristics that property owners exhibited during the process. Also, the analysis highlighted the nuances at distinct phases of the pricing process as it attached importance to the respondent's voices while building the sections (Eisenhardt, 1989a). As a result, contextual dependent attributes were exposed (Easterby-Smith et al., 2008).

After presenting each case, a discussion between the different cases bringing out the similarities and differences was done (Miles & Huberman, 1984; Yin, 2009). The codes which later became categories and lastly themes were illustrated in visual aids using Gioian (2012) method of data structuring. These images illustrated the progression of raw data to categories and then themes. At this point, emerging themes were discussed in detail.

This order of presentation of the cases was important because it brought out the critical issues in each case as well as adding scientific and logical rigour by providing evidence across cases.

### **3.7 Trustworthiness of the Research**

Just as validity and reliability are to quantitative research, trustworthiness is the term used when it comes to qualitative research. Validity is the extent to which a concept is accurately measured. Reliability is the uniformity with which a method gives consistent results. Validation took place during the entire process of data collection and analysis to track the level of thoroughness adopted by the study (Short et al., 2010). The methods mentioned below highlight the various areas, tools, and decision that the researcher made to ensure the trustworthiness of the study.

Before conducting interviews, a pilot study was undertaken to enable the researcher to identify and rectify weaknesses in the data collection tools and develop interview questions that elicited meaningful and accurate responses (Lincoln & Guba, 1985). The researcher conducted two pilot interviews with property owners to understand how the research process could generate the necessary data to answer the research questions (Slavin, 2007). The pilot data was included in the analysis. As a result of this pilot study, some questions were removed from the interview guide. The interview guide that the study used is exhibited in Appendix C.

To ensure the clarity of questions, the researcher liaised with peers and supervisors on whether the language used was appropriate and easy to understand by the respondent. As such, theoretical language was avoided (Patton, 1990). In preparation for the interviews, the researcher contacted the administrator for the Association of Real Estate Agents (AREA, U) for advice, guidance, and contacts of the property owner/developers/institutional investor information. This was because all these categories of respondents were members of AREA(U).

Further, during data collection and analysis, memo-ing was done to help the researcher shed light on issues that were important for analysis. Initially, discussions were put down, and later issues for further queries were written down. The issues to be queried were checked and confirmed against various filters that had been created in the coded data using the query tool in NVivo 12.

Field notes were another tool used throughout the interview process to ensure the accuracy of representation. Furthermore, all the interviews were recorded and accurately transcribed as to not distort what was heard and seen. The transcribed data was then checked for correctness. This was done by the researcher and the researchers peers. The results of the report from the peer analysis are attached in Appendix G. The checking for accuracy was done to improve the reliability of the analysis (Bryman & Burgess, 1994).

During the data analysis, definitions for each code was written. In the definition, there was a description of what that code meant according to the data set (refer to the Code list in Appendix F).

Triangulation was also used to ensure that the theory explained the confirmability of concepts and their relationships. Two forms of triangulation were adopted: data and respondent triangulation. For data triangulation, both primary and secondary data were used. Primary data was collected from interviews with respondents. Secondary data was obtained from newspapers. These multiple data sources helped validate the findings by exposing different views of the situation under investigation (Taylor et al., 2007). Respondent triangulation was attained by collecting data from more than one respondent category (Taylor et al., 2007). For example, to understand how price is determined in Uganda, property owners/developers and institutional investors were interviewed. However, additional interviews were conducted with key informants such as the AREA(U), KACITA who are the majority tenants on the shopping arcades (retail space), and KAFO to validate whether the information obtained from the property owners was true and was in sync with these other respondents.

### **3.8 Ethical Considerations**

Ethics are the principles or virtues that distinguish between good and bad behaviour while carrying out research (McNamee, 2001). Hence, obtaining ethics clearance and following good ethical conduct improve the trustworthiness of one's results while concealing the participants' identity (Shah, 2011). Ethical principles and virtues are guided by the principles of honesty, integrity, informed consent, confidentiality, care, and the right to privacy (Leedy & Ormrod, 2005; Shah, 2011). The researcher applied for and received approval of the Ethics in Research (EiR) Committee of the Faculty of Engineering and the Built Environment at the University of Cape Town for this study on 14th June 2019, before data collection and compilation. A copy of the approved ethics clearance form may be found in Appendix A.

After receiving ethical approval, the interviews began. Participation in the interviews was voluntary. Appendix B shows the consent forms that were given to the respondents before interviews began. This was done by sending out consent letters to the interviewees days before the interview could take place. These letters stipulated that, respondents voluntarily participated, and could pull out their involvement in the research at any moment they deemed it fit. It can, therefore, be concluded that there was voluntary participation. The details of the respondents were only known to the researcher and the Doctoral supervisors and remained concealed in the entire study. The letters that were used to differentiate one participant from another were kept anonymous, in line with keeping

strict confidentiality. The researcher ensured that the respondent granted permission to be recorded. Twenty-five interviews were recorded in audio while one was not since the respondent was uncomfortable having the interview recorded.

### **3.9 Summary**

This chapter has elaborated on the research methods and approaches used for the study. To understand the influence of informal institutions in commercial property pricing and the role of behaviour heuristics in the pricing process, a qualitative research approach was used. Data was collected using semi-structured interviews. Purposive and snowball sampling were employed in the selection of interview respondents. Thematic and content analysis were used in analysing the interview transcripts. The research questions and literature informed the work and the methodological approach taken. Chapter Four will present and discuss the findings of the data analysis.

## CHAPTER FOUR: PRESENTATION OF FINDINGS

### 4.0 Introduction

This chapter consists of two parts. Part one describes the real estate industry in Uganda. Part two analyses the four towns/cities (cases) that were looked at in the data collection. These include Kampala, Mbarara, Mbale and Gulu. The researcher looks at the context of each case and describes the setting of the city. This is followed by pricing behavior, and lastly a conclusion for each case. Finally in this chapter, the emergent themes in the data are discussed.

### PART ONE

#### 4.1 Uganda's Real Estate Industry

As a result of the data analysis, results reveal that the real estate industry in Uganda is still immature. This is explained by respondent A5 and A24, who were key informants. When asked about the current state of the real estate industry in Uganda, they respectively stated:

**A5:** *"...Because you see, the real market of real estate market of the economy as you know it globally started here in about 1990. From 1960 to 1990 there was really nothing. It was the same mood as in the past. And the past 1986 and 1966, the economy had everything else loosened like all that term of turmoil in Uganda. It was a time of war. 1966, the Buganda crisis and 1986 Museveni coming in. In between there, everything else stood still. Uganda did not develop. Now economically speaking, 30 years or 25 years for that matter is a very short time..."*

**A24:** *"So, you can summarise and say that our industry is as young as less than 35 years in terms of real estate activity."*

Due to the immaturity of the real estate industry in Uganda, information remains insufficient. There is no central place in Uganda where you can get data about the real estate industry such as past sales and performance, what is demanded in the market, what is supplied in the market, the amount of floor space in different sectors of real estate for example office, retail or even residential. There is disorganised information on how many real estate companies exist in the country and their areas of specialisation for example is it brokerage, property management, facility management, etcetera.

**A12:** *"Like I mentioned, you want to pick it from the disorganisation you see in the sector. Who knows who is going to develop what? Why is there a mismatch between demand and supply? Who determines the demand? Who gives us facts and information on the projected demand of a period? Because there should be forecast at least. This is left to the business entrepreneur. It is you to say I have the money and I am ready to risk forecast. You do your little bit of*

*feasibility, but these feasibilities are not going to add up because they are not in sync with what else has been planned...”*

During the data collection, the researcher noted that most of the country’s commercial real estate developments have been situated in Kampala, and surrounding areas of greater metropolitan Kampala. This is supported by key respondent A24 as he explains below:

**A24:** *“Real estate is an urban activity, majorly in the Metropolitan. So majorly in Kampala, Wakiso, Mukono and Entebbe...”*

This is probably because Kampala is the capital city of Uganda, and for a long time, it has been the only city in the country except for a few new cities (Mbarara, Mbale, Gulu, Jinja) that have been recently created. Unlike in Western countries where real estate investments are owned by institutional investors, companies, and foreign investors, commercial real estate investments are owned by majorly private Ugandan individuals.

The data also reveals that the real estate sector in Uganda is characterised by a lack of professionalism. Professionalism can be explained in so many ways such as the education acquired, existing professional bodies in the real estate sector or the ethical behaviour of the stakeholders in the industry (Keogh, 1996). The majority of the real estate brokers and agents have not gone to school (Mirembe et al., 2015). Even those that went through formal education did not study real estate studies. Only two universities are offering real estate studies in Uganda, of which one started real estate studies in 2007, and the other started in 2018. The majority of the real estate agents and brokers are ‘briefcase agents. This means that they don’t have permanent addresses in the form of office locations. They carry out their businesses in their briefcases. The problem that arises with being mobile is in case of any fraud or ill behaviour by the agents, it is difficult to trace them. As a result, many unsuspecting clients have been cheated by fraudulent real estate agents and brokers.

**A20:** *“...The other day , someone came reporting to me that she paid for a house of 500million. She had deposited 350m and was to pay the last deposit in a weeks time and take possession of the property. After a week, the buyer of the house got the balance of 150m and looked for the broker to connect with the landlord so that she pays the remaining balance. All the brokers phones were off. The fake landlord was no where to be seen. All the details concerning the landlord, his identification were all wrong and forged. The poor lady had been robbed and she was crying contemplating of suicide...”*

Further, the data reveals that there are no professional, ethical standards for the real estate industry in Uganda. Furthermore, there are no professional bodies for the real estate industry and

no entry requirements for joining the industry. It is a free entry and free exit industry. The lack of professionalism is elaborated on by respondent A16, a key informant, when asked about the professionalism of the real estate industry in Uganda:

**A16:** *"I think on a scale of 1-10, I will put it at 2 at most. We are still very far away. We have just been going through some systems and we said guys, what are property managers doing here in terms of reporting for the landlord? I mean the landlord wants to see more than a getters schedule on a proper report. They want to see PR, balance sheet. So even the reporting is wrong. Most of the people we have in this market doing property management are basically debt collectors."*

The data also showed that the real estate industry is not regulated. There is no formal law controlling the industry directly apart from a few like the Rent Restriction Act (Cap 231) of 1959 and the Distress for Rent (Bailiff's) Act (Cap 76) of 1933. These laws were enacted during the colonial period, and so many things have changed since then. The laws are obsolete, as one of the key informants explains:

**A16:** *"I think we don't have any, and I want to say it is deliberate..."*

**A11:** *"...No. The one that used to exist was the rent restriction act of 1949 but when we refereed this matter when we were struggling, we were told that yes, this law existed but it is in abeyance... the law is not dead, but it can't be used for our jurisdiction. The other law that would be referred to is the law of contract... It does not only mention the tenant and landlord. It goes beyond all these contracts we have been looking at like valuer, construction of a house. All contracts..."*

Due to the absence of regulation in the industry, property owners evict tenants as and when they want without prior notice or just a few days' warnings (Mbabazi, 2016). This is how one of the respondents elaborated when asked whether there was an article on the issue of tenancy agreements in any of the real estate laws governing the industry

**A11:** *"They are very rare. Most of these tenants feel they are at the mercy of the landlords.... "*

## **PART TWO**

### **4.2 Case A: Kampala**

#### **4.2.1 Situation and Context**

Kampala is the capital and largest city in Uganda. It covers a total area of 72.8 square miles and has a total population of 1.5 million people at night and 4 million during the day (UBOS, 2019). Central,

Nakawa, Makindye, Kawempe and Rubaga are the five districts that make up Kampala. The figure below shows the map of Kampala City with its surrounding districts/subdivisions.

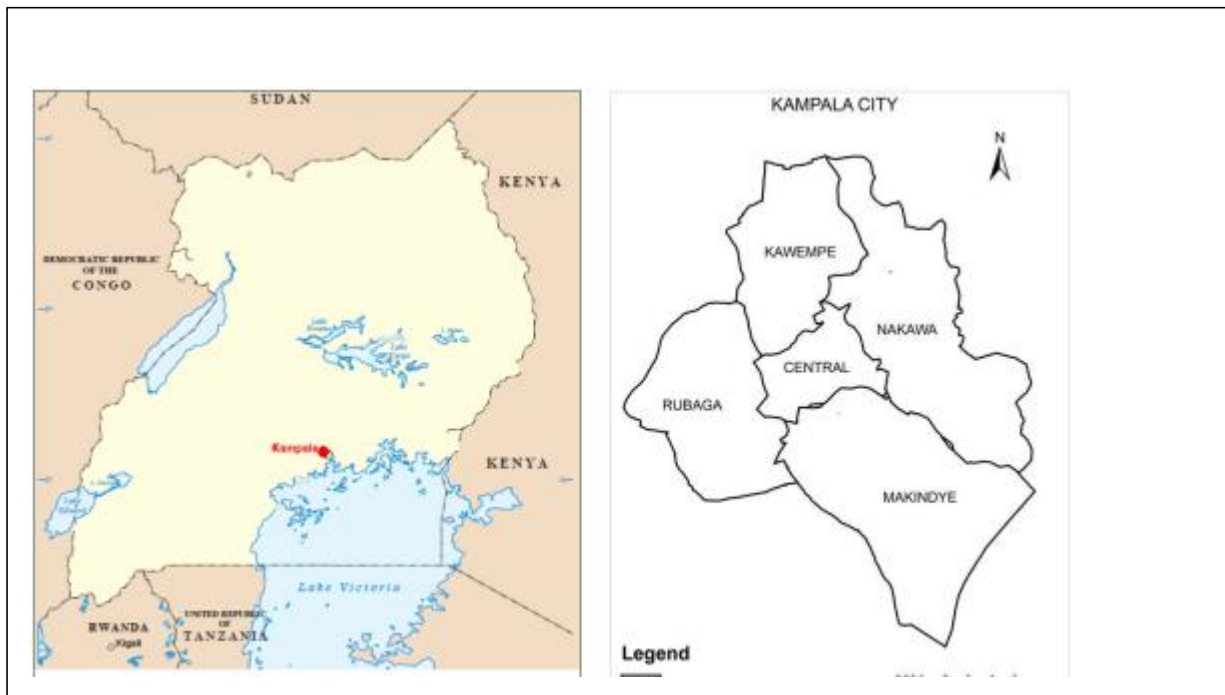


Figure 4.1: Map showing Kampala City

(Source: Muinde, 2013, pg:9)

Several highways serve the city of Kampala. These include Entebbe Road linking Entebbe International Airport. Jinja road connecting to Jinja, then Kenya. Bombo road connecting to Gulu and then to South Sudan. Masaka road connects to Masaka, Mbarara and then to Rwanda, among others.

There are many commercial buildings coming up with lots of cranes in the space (Knight Frank Report, 2016). The boom in the real estate sector has been major because of the high population growth, rural-urban migration. Everyone wants to come to the city for better facilities, resources, and opportunities, increased multinational operations in the city and infrastructural development.

The findings of the study reveal that Kampala has over 783 arcades/shopping centres. There are mainly regional shopping centres in the central business district (CBD), while in the outskirts, there are community shopping centres.

The data also shows that Kampala city has two real estate worlds: the upmarket and the downtown market. Real estate activities in these two worlds are totally different, as one of the property owners in Kampala explains:

**A9:** *“...yes. I also have buildings uptown, and I measure them in square meters where I have facilities like Tuskys supermarket, banks, health facilities, formal corporate entities. Like MTN on Ham towers in Makerere. That is completely formal. The determinant factors are different, but they are all from prevailing circumstances. Here downtown is where we have a lot of common people. The market this side is different from the market uptown. We have the formal and informal sector...”*

As mentioned by respondent A9, the upmarket is more formal and well-structured in terms of real estate activities. Mainly, institutional investors own up properties in this part of Kampala like National Social Security Fund (NSSF), UAP/Old Mutual, National Housing and Corporation (NHCC), among others. Professional property managers are employed to run the buildings. Lease agreements are given to clients before they sign up for the properties and pricing of properties is done per square metre, and the tenants are usually charged in USD dollars.

Findings also reveal that the upmarket tenants are usually international tenants, multi-national companies (Shoprite and Mr. Price), retail and professional services like the legal firms, airline companies, high-end designer shops, and shopping malls. These shopping malls in Kampala are a relatively large indoor spaces with departmental stores, beautifully decorated and a high-class customer base. In terms of classification, the shopping malls in Kampala are community shopping malls.

Further, findings also show that the upmarket is made up of mainly office buildings. Most of the office buildings are Grade B, with very few Grade A offices and no Grade P. Grade B buildings are those with are generally older buildings, but finishes are close to modern standards, while Grade P buildings have the latest generation of building services, ample parking, prestigious lobby finish, high ceilings, flexible floor plans and columns spacing. They usually have a 4-star rating or higher. Grade A office buildings are high-quality properties, with modern finishes, air conditioning, adequate on-site parking, and clearly high ceiling heights. Grade C buildings are typically in fair conditions but with older style finishes, services and building systems.



Figure 4.2: Acacia Mall –A High-End Shopping Mall in Kololo, Kampala

*(Source: The East African, 2016, pg:26)*

From the interviews, it became apparent that the downtown market is where the hustle and bustle of everyday life takes place. Findings show that the commercial buildings in this part of town are structured along main transport lines like taxi parks and bus parks. These are points where people get into the city. For example, around the old and new taxi park. The commercial buildings in this part of town are mainly retail. The shops are found in arcades or what is commonly known by the inhabitants as “plazas”. From the results of the study, it is apparent that arcades are similar to shopping malls however they differ given that many tenants share space in a shop. In terms of classification, arcades are the destination shopping malls but are crowded. They attract customers from far away with many clients arriving from other districts of Uganda like Jinja, Mbale, Mbarara, Gulu, Lira and even from neighbouring countries such as Kenya, Rwanda, South Sudan, and Burundi. While carrying out the data collection, the researcher observed that in the arcades, there is no psychology trading or room for display given that shops are enclosed, with substantial human traffic and congestion. As such, clients do not browse but rather come in looking for a specific good.



Figure 4.3: A picture of Downtown Kampala showing Arcades located next to the Old Taxi Park

*(Source: New vision, 2020, pg:1)*

From the interviews, various sources suggested that the downtown market is informal and lacks proper structures in terms of how real estate activities are carried out. Results show that high-net-worth individuals in Kampala own the buildings in this part of town. Unlike the upmarket, where professional property managers run the buildings, downtown property owners usually get a relative in most cases to collect the rent and manage the premises. Results from the data analysis also reveal that it is not common to get a lease agreement or tenancy agreement on the part of the tenants when taking up space in downtown Kampala. This can be seen from the response of one of the property owners when asked during the interview whether he gives tenancy agreements to his tenants:

**A9:** *"...Now you are going a little deep because you are going into management. Just take it that what binds me, and the tenant, is the ability to pay. Every time you paid my rent then I have no problem with you. When you stop paying the rent, then the agreement ceases to exist. So, our agreements are implied and practical. So, your ability to pay rent is what determines your stay..."*

Findings from the interviews reveal that due to lack of lease/tenancy agreements, the property owners can evict a tenant anytime, whenever they deem it fit. This usually happens when a new tenant is willing to pay a higher rent than that which the current tenant pays. Sometimes, property owners will evict tenants when the tenant is 'making too much money' from occupying his/her space. So, the property owner will evict the tenant and replace them with the same business which is owned by the property owner. Further still, when the property owner has financial problems and wants money to bail them out, they will increase the rental price. If the current tenant does not have the required money, she/ he will be evicted so that the property owner gets someone else with a better offer, especially if the shop is in a prime location. Thus, property owners increase the rental price as and when they want and on short notice. It is up to the tenant to pay the increased price or leave the building. This was highlighted by one of the key informants during the interview, as explained below:

*A2: "...when the landlord feels like now, he wants to develop another structure and he needs more money then, he will increase..."*

As a result of the above informal institutional environment, stakeholders in the real estate industry have established behaviour regarding decision-making for property prices.

#### **4.2.2 Pricing Behaviour**

Results from the analysis show that because Kampala city has two worlds, the formal upmarket and the informal down market, pricing in the two worlds is also different. In the formal upmarket, price determination of properties is first assessed by neoclassical determinants as literature has suggested in Chapter Two. For example, price is determined by the size and age of the property, location and accessibility, economic and market conditions, cost, etc. These are factors that previous literature has suggested (Benjamin et al., 1990; Sirmans & Guidry, 1993; Dunse & Jones, 1998; Ke & Wang, 2016).

Secondly, prices in the formal upmarket have also been influenced by conventions and social norms. As mentioned earlier in Chapter Two, conventions and social norms are unwritten rules that members of a given community will follow. For example, price determination in upmarket Kampala is carried out by the nature of the firm. Kampala is the administrative capital in Uganda housing many government organisations and Non-Governmental Organisations (NGOs). Therefore, government organisations and NGOs in Kampala are priced higher than Small and Medium Enterprises (SMEs) and Multinational Companies (MNCs) because the former run on budgets and the latter are profit-driven as key informants A24 elucidates below:

**A24:** *"...I have seen buildings whereby an organisation wants to come to rent a building but the officer who runs that building also wants a commission. Am telling you. So, if that is happening, if a building was at 12\$ and someone says our organisation has a budget of 15\$, you understand what I'm talking about, our organisation can pay 15\$, that's our deal, you will make some commission, but this person is tilting the markets, it's not demand and supply, no. Because this person is working for an organisation which is financed by an institution or government, so they are pushing the market..."*

So, the decision to price a property is not really based on demand and supply as the literature has previously mentioned but on the institutional arrangement in this community. The institutional arrangement being the stakeholders and how they influence the prices, and the unwritten 'rules of the game' which form the institution as an organisation. More still, the use of behavioural heuristics was also evidenced in the upmarket. Pricing of properties using speculation was evidenced in this part of town. Comparative behaviour with similar buildings and among the property owners or developers was evidenced. As such, when property owner A prices his building at price A, then his colleague B, who happens to be in the same social group of property owners in Kampala, will price his building at the same rate. These factors are elaborated on by one of the key informants:

**A24:** *"...When it comes, we look at competitive analysis? This leads to competitive analysis; I have seen your building because you are all networked to those guys who have those budgets. Then you are building similar characteristics, you have rented it at 15\$, the same location, even me I will put mine at 15\$. Because now you are comparing. That is how we come up with prices..."*

Results from the data analysis reveal that with the comparison of similar buildings comes market intelligence. This is done by property owners sending out teams to see and analyse the market within a given radius, say one kilometre. This process involves finding out what prices their competitors are charging, the vacancy rates, what is being supplied on the market, and by who? The team will then sit down with these answers and determine price. However, market intelligence is already being done in a distorted market, so whatever output they get is already biased and not determined by demand and supply. Market intelligence is behavioural, and it is bent towards representativeness bias. This is illustrated in the statements that these two property owners said when asked how they came up with the price they charge to their tenants:

**A13:** *"... We do a brief market survey for anything within a kilometre. Within the project, we do a market survey. And our sales team also do a feeder survey ..."*

**A10:** *"...Even in the document there is market intelligence to know what property we are bringing to the market and property of the same range what they are charging, we bring on real estate consultants to guide through the process..."*

This kind of price determination has been prevalent in office space because the government and large parastatals are the primary tenants. However, when it comes to informal Kampala (downtown), findings reveal that property prices are mainly determined by conventions in terms of rules such as goodwill, origin of the owners, market perfection of the investor or owner of the property and heuristics.

Goodwill is money an individual pays for acquiring space on top of the rental price that you are to pay. Many of the downtown shops are owned by one tenant but subdivided to many other tenants. Therefore, goodwill plus the rent is added up together and then subdivided among the subtenants to determine the price each tenant will pay according to the shelves they have in the shop. This can be seen in a statement that one of the key informants mentions during the interview when asked about goodwill:

**A11:** *“Goodwill, I think is a misconception and misinterpretation. In the natural business sense, would mean the capacity to attract and build a customer. The capacity to attract an old customer and to bring a new customer would be a good one and you build it over time. But in Kampala, it means the money you pay if you want to take up premises.”*

A typical shop in the arcades downtown has between six and ten tenants, who all sub-rent from the initial tenant. So, the initial tenant pays the goodwill to the owner. When he subdivides the shop using shelves for the subtenants, the subtenants pay the actual rental price for space/shelves plus the goodwill which the initial tenants pass on to the subtenants hence determining the actual rent that they each pay as explained by respondent A23, who was a key informant in the interview:

**A23:** *“...So, if I say you are paying goodwill, it means you are taking your rent directly to the owner of the building. Otherwise, Thomas will own the building, Rachael will be the manager, a one John will come and get a contract to use one of the rooms, but this John has no business completely. And he gets someone interested in the shop, and he puts a margin on the rent. He is also there to earn money. So, if rent is 2Million, he will say mine is 3.5million. So, this person is paying John and not Rachael. This John will tell the new person who wants to use the shop that if you want to go directly to Rachael and I get out completely, you pay me 20million and I get out of the deal...”*

NVivo 12 was able to identify the word goodwill as a variable as shown in the diagram below, which shows how the term goodwill was used.



Figure 4.4: An extract from NVivo 12 showing how the Word Goodwill was Used in the Interview Process

Due to the existing informal institutions, goodwill alone is not the only price determinant. There are other determinants that influence the property owners' decision-making process for example the origin of the tenant. Data analysis results show that foreigners, especially Chinese nationals, are renting out buildings at a higher price than natives. Foreigners are perceived to have lots of money, in dollars (USD) and are willing to pay whatever price they are asked for a long period of time, say one year and above, as one of the key informants elaborates:

**A11:** *"...a foreigner like Indian or what. Sometimes they come with bigger money than the locals and usually what happens when beginning to occupy a new premise you are asked to pay 3 months in advance and later start paying monthly. But with these Chinese when coming, they can even pay for a whole year or two..."*

More still, the findings show that property owners in Kampala (downtown) had some rules-of-thumb that they use to come up with prices to charge their tenants. Rules-of-thumb or what literature calls heuristics, mean that property owners will first use what they know (already existing information)

and then build on that to come up with the price. They have what is called 'the gauge', as the landlord explained:

**A9:** *"...There is already a gauge from the places around. For example, shops downtown range from 2 million to 10 million in small areas. They are not specific guidelines like you say we can have a statute on how to charge rent, no..."*

Therefore, results reveal that the property owners in this part of Kampala use that gauge described above to either adjust prices downwards or upwards and finally come up with the final price. It is important to note is that property prices in Kampala rarely decrease and tend to increase.

Another rule-of-thumb that is commonly used by property owners in Kampala for price determination is the use of past good occurrences. If some event happened and the property prices shot high, they rely on that past event to price the buildings in the current state as the key informant A17 below explains:

**A17:** *"...Because someone has been evicted because of the road or what, and people come rushing because they have nowhere to go and the owner because he was looking for people to occupy, he starts at 1000Ugx instead of 500 Ugx and they pay. Then when you build, you also think you will charge 1000 Ugx, yet the circumstances are not the same..."*

Furthermore, investors who perceive their own status or 'good' reputation, tend to charge higher prices for their property. This is because the property owner has already made a name and he /she will easily influence all the other property owners to follow the same pricing criteria. This relates to the literature on informal institutions which says individuals who have a strong brand will be followed by others because of the belief that their ideas are correct (Dequech, 2017). Naturally, human beings will tend to put more weight on people's views who have more status in the community and are recognised as having more expertise on the topic.

#### **4.2.3 Conclusion of the Case**

In Kampala, evidence of conventions and social norms within the property market is evidenced. These include using rules of the game in pricing which took the form of goodwill, nature of the firm and nationality of the tenant to determine price. Due to the institutional environment, the price signals that are sent to the stakeholders were interpreted differently. This formed the behaviour of the stakeholders when pricing the properties. Stakeholders used heuristics like a specific gauge for a specific location, comparison, speculation and using good occurrences of the past to determine the current price. Thus, the rules of the game and the rules of thumb influenced how pricing decisions for properties were made.

### 4.3 Case B: Mbarara

#### 4.3.1 Situation and Context

Mbarara town is in Southwestern Uganda, 270 kilometers southwest of Kampala. It lies along Kabale road near Lake Mburo National Park. The town is the largest urban centre in Western Uganda, also commonly known as the land of 'milk and honey'. Mbarara is covered in green with dark, fertile soils and many people thrive on agriculture. Most wealthy people, including the president of the Republic of Uganda, come from Mbarara. According to the Uganda Bureau of Statistics (UBOS) census reports of 2014, Mbarara city had 472,625 people. Figure 4.5 below shows the map of Mbarara Town.



Figure 4.5: Map showing Mbarara Town

*(Source: Bwanika, 2016, pg:4)*

The people who live in Mbarara are often referred to as the 'Ankole' people. The 'Banyankole' were historically cattle keepers and remain the second largest ethnic group in Uganda after the Baganda in central Uganda. Below is aerial picture of Mbarara town.



Figure 4.6 Aerial View of Mbarara Town

*(Source: Independent, 2021: pg.30)*

The town is quiet as one goes through the high street, Kabale road, Mbaguta street, Buremba road, Kijungu and Kisenyi areas. Majority of the buildings are designed in an Asian style apart from a few new buildings like Adit Mall, Balya Mall and Plaza, Day to Day supermarket, and the building that used to house Nakumatt Supermarket. The Adit mall building is one of the largest in Mbarara and Western Uganda. It houses a big supermarket which belongs to the owner of the building. The second to fourth floor includes a hotel and conference space, mainly to host events such as conferences and parties. These three levels have big conference halls (about 200 square feet each) but have been under utilised. The rest of the shops on the ground floor seem empty and deserted. The building has not been used to its total capacity. The photograph below shows Adit mall in Mbarara.



Figure 4.7 Adit Mall in Mbarara Town

*(Source: Facebook)*

Mackison Street is where many of the offices are found. On this street there are clinics and stationery shops too. As you proceed on this road, there is a secondhand clothes and shoes market. The district headquarters is found in Kamukuzi, where most of the district and government offices are located. In downtown Mbarara, the areas of Kisenyi and Kijungu, there are mainly retail spaces. The Mbarara bus and taxi park are also found here. There are also garages and hardware shops, to mention but a few. The buildings here are mainly L-shaped with lockups (small rooms of about 10 square metres). Most of Mbarara is made up of residential spaces with a few roads hosting commercial buildings. Fewer buildings are being constructed here in comparison to Kampala.

Originally, the city was not as developed as its counterparts of Entebbe, Masaka, Gulu, and Jinja. However, the city's development has been high in the last two decades and as a result it has surpassed all the other cities mentioned. It is second to Kampala in importance, industry, and infrastructure. It is also the fastest growing town in Uganda with about 2000 modern buildings, including malls, arcades, and hotels. One of the factors responsible for Mbarara's steady growth has been the fact that it is situated at the Kampala-Kabale -Fort Portal crossroads which is the nerve centre of numerous feeder roads linking all parts of the Ankole territory. The opening up of Rwanda and the Congo has tripled Mbarara's logistical importance. The city is now the faucet to Kigali, Bujumbura, Tanzania, and several towns in the Eastern Congo.

There are no institutional investors in Mbarara. High-net-worth individuals own most of the commercial buildings in the area. Other owners are civil servants, born in the area, but who work in Kampala and travel to Mbarara every weekend. Thus, many have built country homes here as investments. They have lots of money from the government and usually prefer to invest it in real estate, as the landlord below explain during the interview:

**B1:** *"You can't tell where people get the money they use to build. That is the problem, and it is causing inflated tenancies(prices)."*

**A15:** *"So when you get illicit money, you get free money and free space to offer. In economics you can't hold something that you can't sustain itself... It means they have free money, corruption. Everything is based on that."*

#### **4.3.2 Pricing Behaviour in Mbarara**

In Mbarara, the data reveals that due to the above institutional set-up, commercial buildings owned and used by the owners pay lower prices for space than what other tenants on the building pay, as illustrated in the quote below:

**B2:** *"We pay but we pay comfortably, but not that we are paying an external person, we are paying ourselves. I account for it..."*

The interview results also show that the prices of buildings owned by rich civil servants who work in Kampala and return to Mbarara only on weekends, were usually high. One could argue that these buyers do not mind these prices nor renting at a high rate due to the fact that many of these individuals reappropriate funds from corrupt activities rather than hard work to afford property. One of the property owners in Mbarara explains this when asked whether landlords have extra funding not from hard work:

**B1:** *“Yes, that is what I am saying that you wouldn’t know how people make their money. Because I was talking to the man of XXX (this is a secret between me and you) and he told me he bought the land at a million dollars. At that time a dollar was about 2800, which means he bought it at 2.8 billion and he told me, he had his money and wanted to put it somewhere. So such a response you will see why he built and doesn’t mind whether it is 70% empty because he wanted to put his money somewhere. But if you are having money genuinely and you put up a structure for people to rent it at 300,000 it does not make sense.”*

Apart from the above, the interviews suggest that property owners in Mbarara also use heuristics like the available information within their reach to price the commercial buildings. The use of available information was done through comparing prices of similar buildings in their vicinity to determine how much their building should be priced. As seen below:

**B3:** *“...We also look at the market price of the surrounding buildings...”*

Moreover, property owners in Mbarara also tend to price their commercial buildings by predicting that times are going to get better as shown in the quote below:

**B1:** *“...Sometimes I first test the waters to see what they(tenants) have to say. I can say I am putting an increment of 50,000 to see their reaction. They first complain but later they pay. Of course, it is a small percentage of about 10% increment...”*

#### **4.3.3 Conclusion of the Case**

Compared to Kampala, Mbarara has fewer property developments though it comes second after Kampala in terms of development. In Western Uganda, it is the town with the most property development. Given the institutional context of Mbarara, the behaviour with which stakeholders price their buildings largely depend on the type of property owner. Moreover, behaviour heuristics like comparison with existing establishments, speculation and trial and error method, were also exhibited among the property owners while pricing.

### **4.4 Case C: Mbale**

#### **4.4.1 Situation and Context**

Once known as the cleanest town in East Africa, Mbale is approximately 225 Kilometres from Kampala. The city also lies on the railway from Tororo to Pakwach. The city lies at the western foot of the extinct volcano, Mount Elgon. According to the population census of 2014, Mbale has about 488,960 people. Figure 4.9 below shows the map of Mbale City while Figure 4.10 shows Mbale Town.

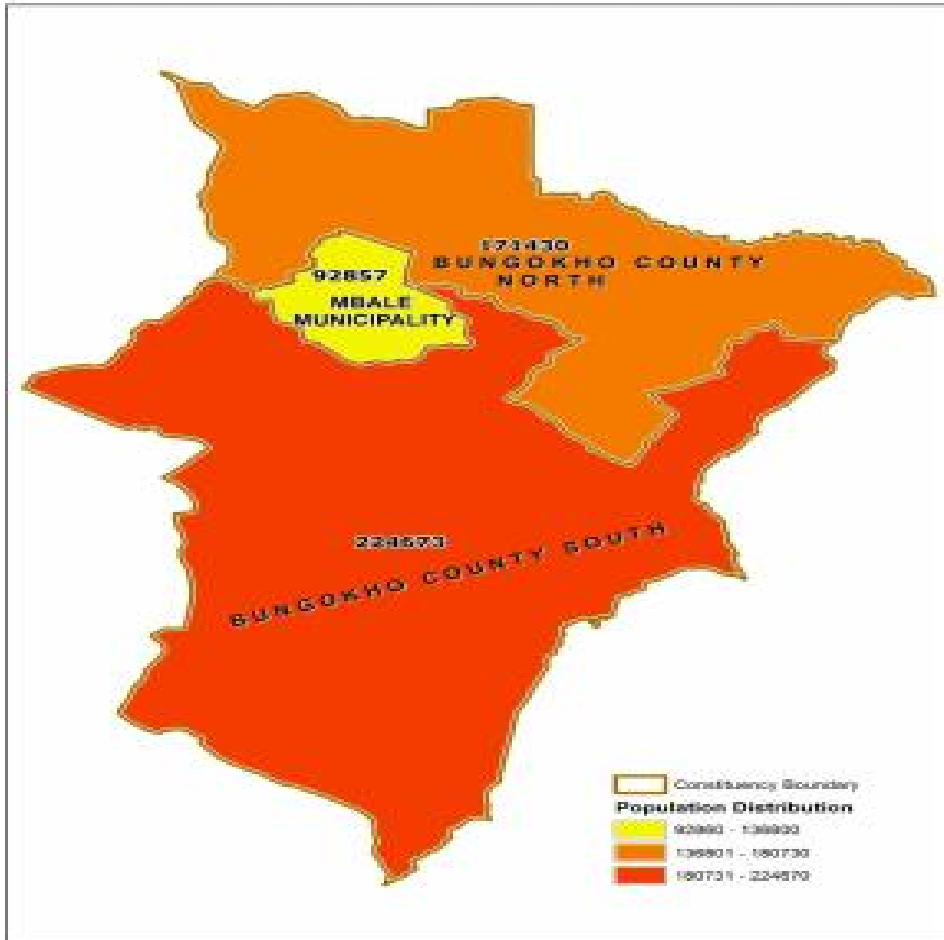


Figure 4.8: Map of Mbale City

(Source: National population and housing census, 2017, pg :8)

The town is also commonly known as the capital city of Eastern Uganda, the land of Malewe (a food delicacy) and the land of Ibalu (the traditional custom of circumcising all the teenage boys). The people who live in Mbale are mainly Bagisu (an ethnic group in Uganda), and the town is home to many foreigners for example Indians. The steady cash crop in this region is Arabic coffee which is internationally in demand.

Mbale is a town bordering Kenya, and hence there is a lot of trade between the two countries of Kenya and Uganda. The foreigners live and do business in Mbale. They sell merchandise to the locals and are involved in border trade between Uganda and Kenya. Republic Street is the main street in the town with lots of old Asian buildings. There are few new recent developments on this street and in Mbale generally. The street has mainly retail stores and a few supermarkets. Other streets like Naboa Road, Kumi Road, Pallisa Road, Nabuyongo Road, Cathedral Road, and Sunray's Road, are

similarly populated. Ssaima Complex has some office space while Bam Shopping Centre is the largest shopping centre in Mbale.



Figure 4.9: Picture Showing Republic Street in Mbale town

(Source: Independent, 2020, pg:23)

#### 4.4.2 Pricing Behaviour in Mbale

As mentioned earlier, Mbale is on the border of Uganda and Kenya and acts as a site of trade between the two countries. As such, the town has attracted various businesses including foreigners of Indian nationality who sell merchandise. The study reveals those Indian nationals are usually preferred tenants by the property owners and hence are charged higher prices compared to the natives who do not even have the money to pay for space. This is elaborated by property owners in Mbale when asked why they would prefer to leave their buildings empty rather than lower the price and get tenants:

**C2:** *"...And now the biggest issue is the target group. There are the local people sometimes you'd fought so much, especially those with ordinary people who want to find a place of 100,000 or 200,000. That class of people. That class can be very difficult. We are now looking at middle people. We are looking at people who come here like the Asians, and the construction is looking at such people who are caring, and they fear to get ashamed..."*

**C3:** *".... foreigners that are paying in dollars because Africans might refuse because if you rush rush, you may get someone to give you little money and dirties your whole building, I don't want that."*

More still, the findings reveal that in Mbale, owners of buildings will price their properties higher when organisations require the space. For example, when A14 was asked how he prices his buildings, this is how he responded:

**C1:** *"...If you have your own prices people don't come. Like your own prices they can come like this big companies like banks because also banks are there. I have about two banks and one microfinance on my buildings. Different buildings..."*

Just like other towns, Mbale property owners use heuristics in determining price. For instance, the property owners compare the price of neighbouring properties to determine at what rate they should price their properties as shown in the quote below:

**C1:** *"...The market. This one shop is how much compared to that one and the office space is how much..."*

When asked how he determines price for his buildings and whether he uses experts to help him arrive at the final price, this was the property owner's response:

**C3:** *"... No! (Laughs) No, I can say by virtue of what's around..... according to what others are rating. That is how you determine the rent. you cannot say you sit in a committee and determine the rent; you can't manage..."*

#### **4.4.3 Conclusion of the Case**

In Mbale, the conventions in the area have shaped the behaviour of the property owners while carrying out pricing decisions. Due to the border trade between Kenya and Uganda, there is a lot of retail trade, which has also attracted corporate bodies like banks and insurance companies to the town. As a result, retail space, especially that which is let out to the Indian nationals, is priced much higher than that given out to the natives. Organisations are preferred tenants and are charged higher prices for office space. Furthermore, property owners' behaviour while making pricing decisions tends to lean towards comparison with other surrounding properties in terms of how much prices those buildings are going for.

## 4.5 Case D: Gulu

### 4.5.1 Situation and Context

Gulu town is found in Northern Uganda. It is the commercial and administrative centre of the northern part of Uganda and a hub for education, culture, regional trade, and commerce for the greater Acholi region. It is approximately 340 Kilometers from Kampala. According to the population census of 2014, Gulu town has 152,276 people. Figure 11 below shows a map of Gulu District.

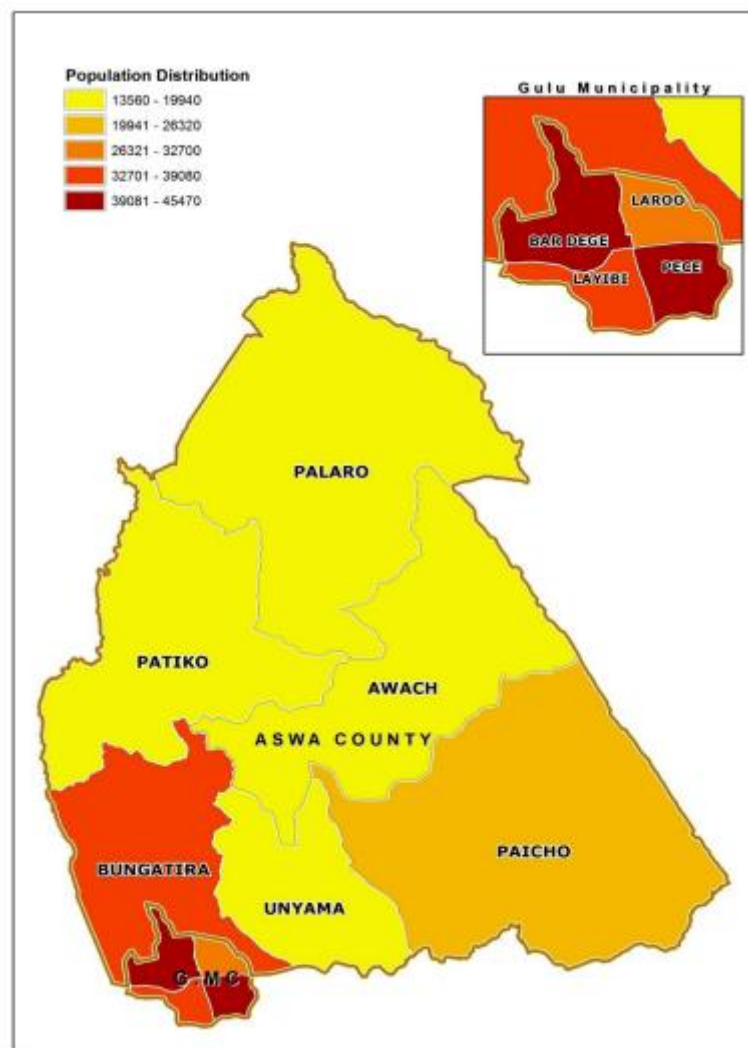


Figure 4.10 Map of Gulu District

(Source: National Population and Housing Census, 2014, pg :19)

During British colonial rule in the 18th and 19th centuries, Northern Uganda was less developed than the rest of the country. The people in this area were conscripted into the army and the police. Many were sent to fight in the first and second World Wars.

The Lord's Resistance Army (LRA), a rebel group under the leadership of Joseph Kony, sprang up in the area in 1990s after Lakwena, another rebel group in Northern Uganda fled to Kenya in the 1980s. The people of Gulu and neighbouring towns were forced into internally displaced camps. Gulu was at the epicentre of a vicious conflict between the Ugandan government against the rebel LRA. Gulu was a town of the displaced. Fearful of attacks by rebels and bandits, throngs of people flocked to the town, seeking refuge and safety in public places such as hospitals, schools, and bus parks. As a result, the town's infrastructure was put under immense pressure.

However, this changed in 2006 when the Ugandan government entered peace talks with the LRA in Southern Sudan's capital of Juba. The talks ended inconclusively but brought much sought-after peace to Gulu and Northern Uganda. Foreigners for example Indian traders who had fled the area came back with gusto and occupied the town centre, opening shops that sell sportswear, phones, computers, generators and even tractor spare parts. Banks rushed to establish branches in Gulu town, and there are now 15 banks. Traffic on a strategic route, linking Uganda via Gulu to South Sudan, has also increased, along with the volume of goods transported. As a result, South Sudan has been Uganda's leading trade partner since 2007. Gulu town has the presence of many NGOs who came to help the natives after the war.



Figure 4.11: Main Road in Gulu Town showing Commercial Buildings

*(Source: Uganda Travel Guide, 2021, pg:40)*

Property development in Gulu town is mainly focused on residential properties. Most of the existing commercial buildings were mainly built in the 60s and 70s. Hence, many are designed in an old-style Indian architecture given that Indian nationals owned the buildings and trading. Most of the local community were involved in agriculture and lived in villages rather than towns. It was only until the mass departure of the Indian community in 1972 that the local people started taking up these buildings. It was not the culture of the Acholi people to build and improve on the building. Even when they got these structures, they left them the way they were. So, most of the buildings in Gulu town are old Indian style buildings. Even the new ones built in the outskirts of Gulu are still copying the old Indian design. There are about three to five storied commercial buildings in Gulu occupied by banks, NGOs, and other corporate entities. It was only in 2000 that people started putting up storied buildings. The rest of the commercial buildings are horizontal structures and are considered to be 'lockups.

#### 4.5.2 Pricing Behaviour in Gulu

Due to the above environment, characterised by war and displacement, prices for office and retail space shot up after the insurgency. This was mainly because many corporates and NGOs were rushing to get space in the peaceful Gulu. Foreign nationals especially the Indians who had fled the town because of fear of war returned and started to open shops to sell their merchandise to the local people. Many NGOs and refugee offices were set up in Gulu to help displaced locals resettle. As a result, prices for office and retail space in Gulu town are high. This can be evidenced by respondent D1's response:

**D1:** *"... I want to tell you that from 1991 to 1996/1997, the properties in Kabale were very high in terms of rent. Reason, there was war across in Rwanda, so people were coming in from across. Refugees from other side and international side. The same happened to Gulu from the war time. People left villages and came to town. The NGOs and people were crossing over from the other side..."*

Here, the respondent tries to compare the war situation that occurred in Gulu to that which occurred in Kabale many years ago. Kabale is another border town in Uganda, on the border between Uganda and Rwanda. Additionally, it is observed that buildings rented out to foreign nationals, like the Indians in Gulu, are priced higher compared to the buildings rented out to the nationals. There is a perception that foreign nationals have more money compared to the natives and that they are always willing to pay.

Furthermore, due to demand and supply, coupled with institutional factors, stakeholders in Gulu town have interpreted price signals in different ways. As a result, they have come up with heuristics that influence their pricing behaviour. Given the size of Gulu's market, property owners are familiar with each other and work together. When it comes to pricing their properties, it is a common for owners to inquire from with their colleagues about the prices and how they should price their commercial space. Property owner D1 elaborates:

**D1:** *"...I think most landlords just share information between themselves. Yes, they do. The big property owners are very close friends... what I know is that they just sit together and share information. Not just businessmen but the landlords..."*

Furthermore, where property owners are not sure about the prices they are getting from their fellow colleagues, they consult property consultants like the brokers and agents who can advise based on the information from previous transactions they carried out. This brings in the availability bias:

**D1:** “... And us the real estate practitioners, we share information from our previous experiences, of similar properties and the prices they are going for...”

### **4.5.3 Conclusion of the Case**

In Gulu town, conventions exist especially in the property market because of the LRA conflict between 1980s and early 2000s. It has become common practice in this regions that foreign nationals and NGOs are charged higher prices for buildings than the citizens of Uganda and the local companies. Using reference points during pricing has also been seen among the stakeholders as seen in previous city cases. For instance, owners share available information among each other to aid with pricing decisions in the region.

## **4.6 Emergent Themes**

Various themes emerged during the data analysis. This section of Chapter four presents the themes that resulted from the coding process as shown in Appendix H (list of codes). To understand how the emergent themes arose and evolved, a few hand-picked quotes from the interview transcripts are included.

### **4.6.1 Emergent Theme One: Existence of Informal Institutions (conventions and social norms) in the Property Markets**

The interview analysis suggests the existence of informal institutions(conventions and social norms) within the property market of Uganda. Conventions and social norms have emerged due to the weak laws and regulations that exist in the property market. Hence the market operates with a few or no formal institutions. This can be seen in the response of respondent A16 when he was asked whether there exist formal regulations/statutes governing the industry:

**A16:** “I think we don't have any, and I want to say it is deliberate...”

The above quote emphasises that there is no regulation (formal institutions) from the government or statutes hence leaving the industry to informal institutions(conventions and social norms). In this study, much evidence of conventions and social norms is provided across the different cases of the existence of these social groups.

#### **a. Social Groups**

In the data analysis, the researcher found out that stakeholders in the property market, especially the property owners had formed social groups/communities as mentioned in the quotes below.

**D1:** “...The big property owners are very close friends...”

**A23:** “...There is Kwagalana, Tulikimu, Twezimbe. Now, depending, you will find that there are those who acquired buildings historically, and they call themselves the landlords of Kampala. Then there are those that from a particular area like Kikubo and are selling general merchandise, rice, and have also got money and have also built or got some buildings. And those ones like Tulikimu. And the youths making money now, which is Twezimbe. But all those have buildings. To me, they are the big players...”

The interview findings reveal that there are four social groups within the property market of Kampala. *Kwagalana* which translates from the local language to mean *love* makes up the first group. Furthermore, there is the *Twagalane* (meaning *let us love each other*) group, the *Twezimbe* (meaning *let's build each other up*) group and the *Tulikimu* (meaning *oneness*) group.

The *Kwagalana* group is the oldest group which is an exclusive club of Kampala's wealthiest tycoons. The average net worth of each member is about \$15m (30b Uganda Shillings) and own businesses and real estate. Many own prime buildings and land in downtown Kampala and the Central Business District (A23). This group lives like one family: gathering in both good and bad times. A few of the members went through the formal education system or are employed by the State. Furthermore, the 40-member club is exclusive, and no one can become a member regardless of their status (A23). In this group, you will find that members abide by the conventions or unwritten rules because of the status that the members have (Dequech, 2017). It's because of legitimacy.

Out of *Kwagalana* emerged another club, *Twagalane*, which comprises of young 'tycoons', mainly sons and daughters of the *Kwagalana* members (A23). The young professionals sought the blessing of their seniors and started their own club. Top on the young club's agenda is charity work and investing in real estate. All the 50 members, who are mainly businessmen or women, are worth \$3m (about 6b Uganda shillings). The other groups in Kampala are *Twezimbe* and *Tulikimu*, who originate from the famous business corridor known as *Kikubo*. These are businessmen and women who sell general merchandise and bails of old clothes in *Kikubo* (one of the shopping centres in Kampala). They have been working for so many years and consequently have built or bought commercial buildings in the city. Similarly, in Gulu, Mbarara and Mbale, the property owners rely on their social group for support, as property owner D1 explains:

**D1:** ...The big property owners are very close friends...

## **b. Informal Deeds**

Due to the existence of the conventions and social norms, a lot of informalities exist in the real estate industry of Uganda. For instance, property owners will increase prices as and when they want. This was highlighted by one of the respondents in the interview.

**A2:** *“...when the landlord feels like now, he wants to develop another structure and he needs more money then, he will increase...”*

Data analysed revealed that there were many tenants in one shop. They share shelves. The number of tenants can range from 6-10 all sub renting from one person (the tenant whom the property owner knows). This is done to ease the rent burden that one tenant would have incurred.

**A5:** *“...Downtown you can go to Ovino. Ovino is a winning formula. The man built for that group of people where 6 guys can sit in this room, and each will pay 2million a month. That is 12 million for this room. This room is 20 square metres. If you divide it, you will get 150\$(600,000) Uganda shs per square metres. That is out of this world...”*

**A23:** *“...and so the owner of the shop goes around and puts shelves, so you come and start paying rent by shelves. So maybe tenant X is on shelf 1, tenant Y is on shelf 2. He may ask for 1million from each...”*

Others who are not able to pay the rent inside the shop are given small spaces to sell their merchandise under the staircase, corridors and doorsteps as stated in the quote below:

**A2:** *“...For example, I will give you the Qualicell bus terminal arcade downtown. It is a small structure, but people even go ahead to rent the door. There are tenants on the door of the shop and at the entrance there is also a tenant paying 1 million plus and there is a tenant inside the shop that has also divided shelves and each buying a shelf. Meaning if one graduates from being a tenant at the door or entrance, he becomes a tenant inside the shop.”*

Figure 4.13 below shows the progression from codes to informal institutions( conventions and social norms).

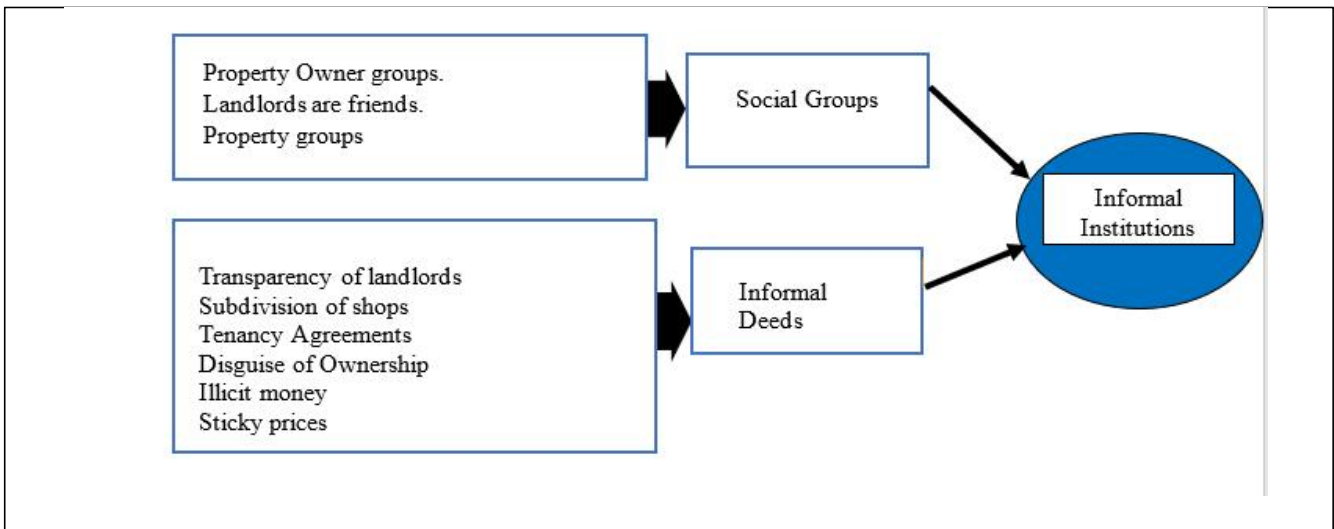


Figure 4.12: Progression from Codes to Informal Institutions

#### 4.6.2 Emergent Theme Two: Rules of the Game

From the literature review in Chapter Two, several factors have been shown to determine commercial property pricing. However, during the interviews, it was discovered that due to the informal institutions that exist in the Ugandan real estate market, especially the conventions, property owners in these groups have come up with their own rules. These are the unwritten rules for the members of the group for carrying out real estate business including the pricing of their buildings. They are socially sanctioned norms of behaviour that have been put in place by members of the property market to help coordinate price determination. This is because of information asymmetry in the market and the need to reduce transaction costs. Members of the group follow the unwritten rules not out of coercion but freely, and failure to follow the rules does not amount to punishment. According to Dequech (2017), members of the group usually follow these rules for several reasons, including but not limited to a lack of information, the assumption that individual judgement is not as valuable as that of a social group that may be better informed. Others believe that the safest course of action is to follow the crowd. Some of the rules in the groups are outlined below.

##### 1. **Nationality of the Business Owners**

The data suggests that the nationality of the tenant determines how much they are made to pay. The results also show that foreigners of Indian and Chinese nationality (mainly the foreigners in Uganda) are willing and able to pay whatever price they are asked (by the property owner) and in USD dollars. The foreign nationals are mainly in retail trade operating supermarkets, hardware shops,

merchandise. Property owners have therefore (informally) agreed to set a high price for foreign national tenant given bias and assumption of wealth. Native tenants cannot afford to pay high rentals even if they were interested in taking up space. Therefore, many property owners would rather have their buildings empty as they wait for a foreign national tenant who will pay them what they want for the space rather than give out space to a native at a lower price and have the space occupied. Furthermore, foreigners are more likely to have longer lease periods, typically a year or two and in USD dollars, as key informant A11 elaborates below:

**A11:** *"...a foreigner like Indian or what. Sometimes they come with bigger money than the locals and usually what happens when beginning to occupy a new premise you are asked to pay three months in advance and later start paying monthly. But with these Chinese when coming, they can even pay for a whole year or two..."*

From the above quote, it is evident that in Kampala, Chinese nationals pay a higher price for the space occupied. Furthermore, property owners in Mbale town confessed to the fact that they preferred Indian nationals because they were willing to pay higher prices for the space occupied compared to Ugandan nationals who did not have money to pay for space:

**C3:** *"... foreigners that are paying in dollars because Africans might refuse because if you rush rush, you may get someone to give you little money and dirties your whole building, I don't want that".*

In Gulu, property owners confirmed the same thing about the Indian nationals who own many businesses and sell merchandise. Three of the four cases agree that when pricing rentals for foreign nationals, the prices are substantially higher compared to local tenants. This sub-theme was mainly found in the retail space.

## **2. Nature of the Firm**

The data from the interview suggests that the nature of the firm (government-owned, NGOs or SMEs or MNCs) results in different rental prices for the use of space. Property owners will price high when a government organisation or NGOs are the tenants. This is because such organisations and institutions are budget-driven rather than profit-oriented. Their budgets for space are set high (again because of the institutional nature). Moreover, property owners like it when the budgets for space are set high by government officials because their profit margin increases. The government also finances the budgets through taxpayer's money or through funding from abroad for the sake of NGOs. The budgeted rent expense is usually higher than the market rate. Because the property environment is unregulated, full of unprofessional personnel, the players in the market will price the properties at the budget rate and not at the market rate, as key respondent A24 below explains:

**A24:** *“I have seen buildings whereby an organisation wants to come to rent a building but the officer who runs that building also wants a commission. Am telling you. So, if that is happening, if a building was at 12\$ and someone says our organisation has a budget of 15\$, you understand what I'm talking about, our organisation can pay 15\$, that's our deal, you will make some commission, but this person is tilting the markets, it's not demand and supply, no. Because this person is working for an organisation which is financed by an institution or government, so they are pushing the market.”*

However, MNCs and SMEs are given lower prices for space because, unlike the former, which depend on budgets from government and funders, the latter generates revenues from sales and are profit driven. Proprietors of MNCs and SMEs pay for space from what they have earned.

Kampala's office space is mainly rented out to government institutions. Property owners and developers note that pricing according to the budget was a common phenomenon. In Mbale, the property owners state that organisations pay higher rent and can pay for a more extended period, say one or two years ahead, compared to the SMEs who pay monthly:

**C3:** *“... It depends on somebody may get six months, we only agree one year, two years like that. you see if you get organisations are better because for them, they say one year.... but individuals, one year two years like that...”*

In Gulu, property owners priced NGOs higher and in dollars. This sub theme was mainly found in the pricing of office space. Three out of the four cases confirmed that pricing of office space depended on the nature of the firm.

### 3. **Goodwill**

The data further reveals that there is an unwritten rule of paying for goodwill. As earlier mentioned in Chapter Four, section 4.2.3, goodwill is money a prospective tenant pays for acquiring space on top of the rental price that he/she has to pay. In Kampala, one shop of 20 square meters can have between six to ten subtenants, all of them paying rent to the main tenant who paid goodwill to the property owner(A23). The sub-tenants in the shop will have shelves on where they put their merchandise and sell to clients. This arrangement is common in the retail section of shopping arcades that are found in downtown Kampala. So, the primary tenant-paid goodwill to acquire that space and pay rent to the property owner; sums up the goodwill plus rent and divides it among the subtenants, usually with a profit margin (Lubowa, 2017). So, the final price is charged per space (shelves) in the shop.

**A23:** *“This is a charge you pay for directly linking you to the owner of the building and the tenant. Otherwise, so many middlemen in between. So, if I say, you are paying goodwill, it means you are taking your rent directly to the owner of the building. Otherwise, Thomas will*

own the building, Racheal will be the manager, a one John will come and get a contract to use one of the rooms, but this John has no business completely. And he gets someone interested in the shop and he puts a margin on the rent. He is also there to earn money. So, if rent is 2m, he will say mine is 3.5m. So, this person is paying John and not Racheal.”

**A2:** "Maybe I'm bringing in phones and the shop has created mileage on the market like Nokia, and it is a big brand. You say I need 300m of good will."

Figure 4.14 below shows progression from codes to rules of the game.

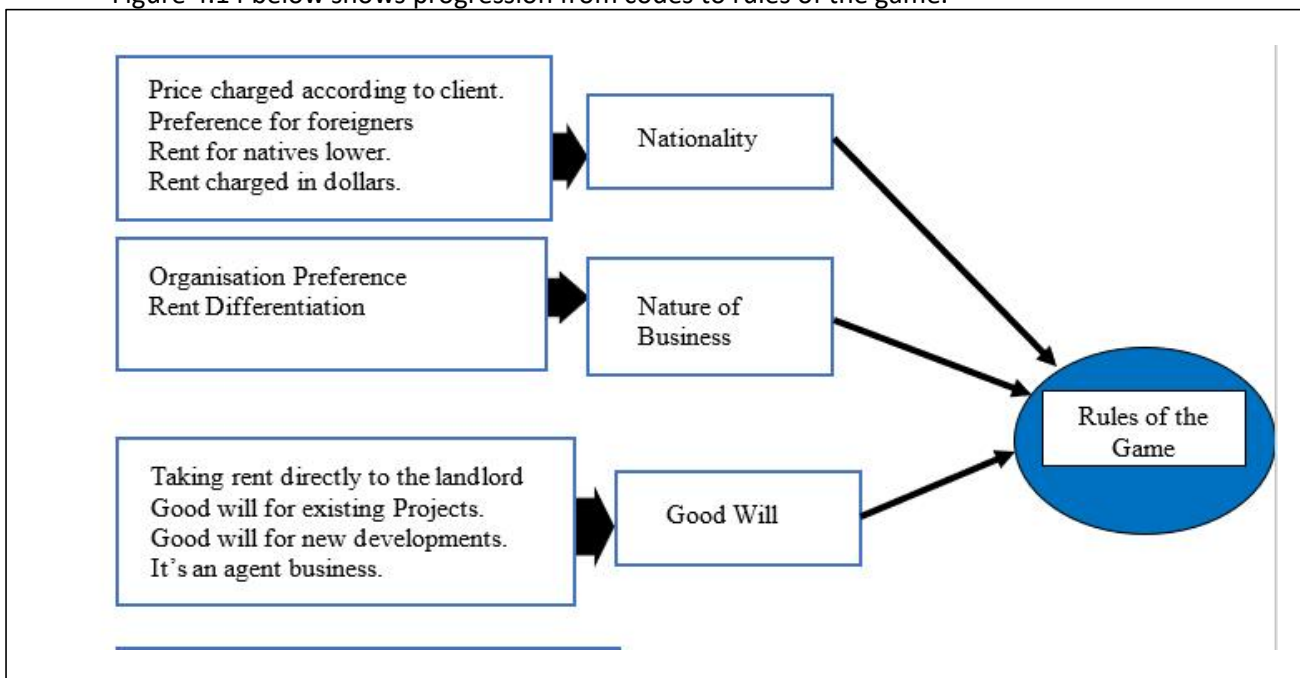


Figure 4.13 The Progression from Codes to Rules of the Game

The sub theme of good will was mainly found in Kampala and in the downtown market.

#### 4.6.3 Emergent Theme Three: Owners Will use Heuristics to Interpret the Price Signals Sent

From the analysis of the interviews, the data reveals that when property owners make decisions regarding price determination, they use the available information as well as heuristics to derive property prices for their buildings. This process reflects the complex and uncertain environment in which they operate. Furthermore, the analysis revealed the following rules-of-thumb or heuristics that property owners use while pricing their properties.

##### 1. Comparison

Property owners and developers will compare prices of similar properties in a radius of one kilometer in determining their property's rental price:

**B1:** "...We also look at the market price of the surrounding buildings..."

In all the cases studied; property owners used a comparative method. However, in Gulu, while property owners used a comparison methodology, they also contacted brokers and agents to advise them on how to price their properties:

**D1:** *"...And also, us as real estate practitioners we share information from our previous experiences of similar properties and the prices they are going for. And we also have information on what tenants are happy to pay. We also share with the landlords. So that kind of information helps landlords to determine what kind of rent he can charge..."*

Again, because of lack of information, the brokers and agents used their previous experience in the industry to come up with prices. In Mbale, property owners compared similar properties within the exact location to come up with prices for their properties and used their experience in the industry:

**C3:** *"...Experts for what?... No!(Laughs) No, I can say by virtue of what is around, this building may be 3 bedrooms flats, may be \$1000 per month, according to what others are rating. That is how you determine the rent. You cannot say you sit in a committee and determine the rent; you can't manage..."*

In Kampala, many developers and property owners confessed to studying the market and then comparing their properties with similar properties within a one-kilometre radius:

**A10:** *"...We do a brief market survey for anything within a kilometre..."*

This sub theme was common across all the 4 cases of the study and in both retail and office space.

## **2 . Good Occurrences**

From the interviews it was evident that, property players were always stuck to good events that occurred in the past and thought that those good events would influence the present circumstances. One of the stakeholders (A 17) explains how, for example, when a building is demolished or because there is road construction occurring nearby. All the tenants in that building leave, and this causes high demand for the neighbouring buildings in that location hence high prices. Because he has money, an investor, or individual buys a plot in that vicinity and starts to build another commercial property. After it is complete, he charges a high price depending on the past event where prices in that location were high because of the road construction. But road construction in that area was completed. Hence the prevailing circumstances changed. This scenario is called representativeness. It is a behavioural bias that was seen in Kampala. Some property owners priced their buildings because of a good occurrence in the past, as the respondent below explains:

**A17:** *"...Because someone has been evicted because of the road or what, and people come rushing because they have nowhere to go and the owner because he was looking for people to*

*occupy, he starts at 1000 instead of 500 and they pay. Then when you build you also think you will charge 1000 yet the circumstances are not the same..."*

### **3 . Anchor Price**

Property players sometimes will price their properties by starting from an initial price and then adjust this initial value as they get more information. In Kampala, property owners downtown said that they have a gauge (which meant initial price) for properties in that area. And that gauge is about 2-10million Uganda Shillings, however, property owners adjust this price with additional available information towards a higher price. Respondent A9 elaborates:

*A9: "...there is already a gauge from the places around. For example, shops downtown range from 2 million to 10 million in small areas. There are not specific guidelines like you say we can have a statute on how to charge rent, no..."*

Anchor price was seen only in the case of Kampala.

### **4 . Over-Optimism and Overconfidence**

Over-optimism refers to a situation where property players believe that the rent earned from the property will increase annually, hence more profits or returns. Overconfidence refers to a mental illusion where property owners believe that they know the market very well and are aware when the prices will rise or fall. In this case, they typically believe that the prices will work in their favour; hence increase. Over-optimism and overconfidence were mainly represented in the property owner's speculative behaviour. Property owners and developers price their properties with the belief that prices will increase annually. For the case of Kampala, this could be attributed to the much-anticipated oil that was discovered in Uganda in 2006. Thus, property owners believe that oil operation companies like Total and Shell will need office space in Kampala (capital city); hence the prices going up because these are MNCs:

*A12: "there is speculation, especially with the recent hype on oil and the likely oil flowing on the streets." People think there is going to be a need for space as investors come into the country and we see them putting up structures..."*

In Mbarara, commercial property owners are civil servants who work in Kampala but have their investments in Mbarara. This category of individuals has lots of money acquired fraudulently from

government institutions. They come home to have the 'money washed' or legitimised into the economy as one of the respondents from Mbarara explained during the interview:

**B1:** *"...Sometimes there is a building there called XXX and XXX. The owner stays in Kampala. He will set the price and go away. If you can't afford it, you go away... You cannot tell where people get the money, they use to build..."*

So, for the property owners who did not work hard to get the money but need to legitimise it into the economy are optimistic that prices will be high for the next season and hence over-value buildings. If tenants do not take up the space, they do not mind because they used equity and not debt, hence having no financial obligations. Thus, property players in Kampala and Mbarara price their properties with the belief that prices will increase annually.

## **5 . Trial and Error**

Property owners will price the building at a higher price and wait to see if tenants object. This usually happens for already existing tenants. In Mbarara, one of the property owners revealed that he set the price high while reviewing prices for his existing building and waited for tenants to respond. If a tenant object, the owner will reduce the price accordingly, but if no one rejects the price, that will be final rental amount:

**B1:** *"Sometimes I first test the waters to see what they have to say. I can say I am putting an increment of 50,000 to see their reaction. They first complain but later they pay. Of course, it is a small percentage of about 10% increment."*

The Figure 4.15 below shows progression of codes to heuristics.

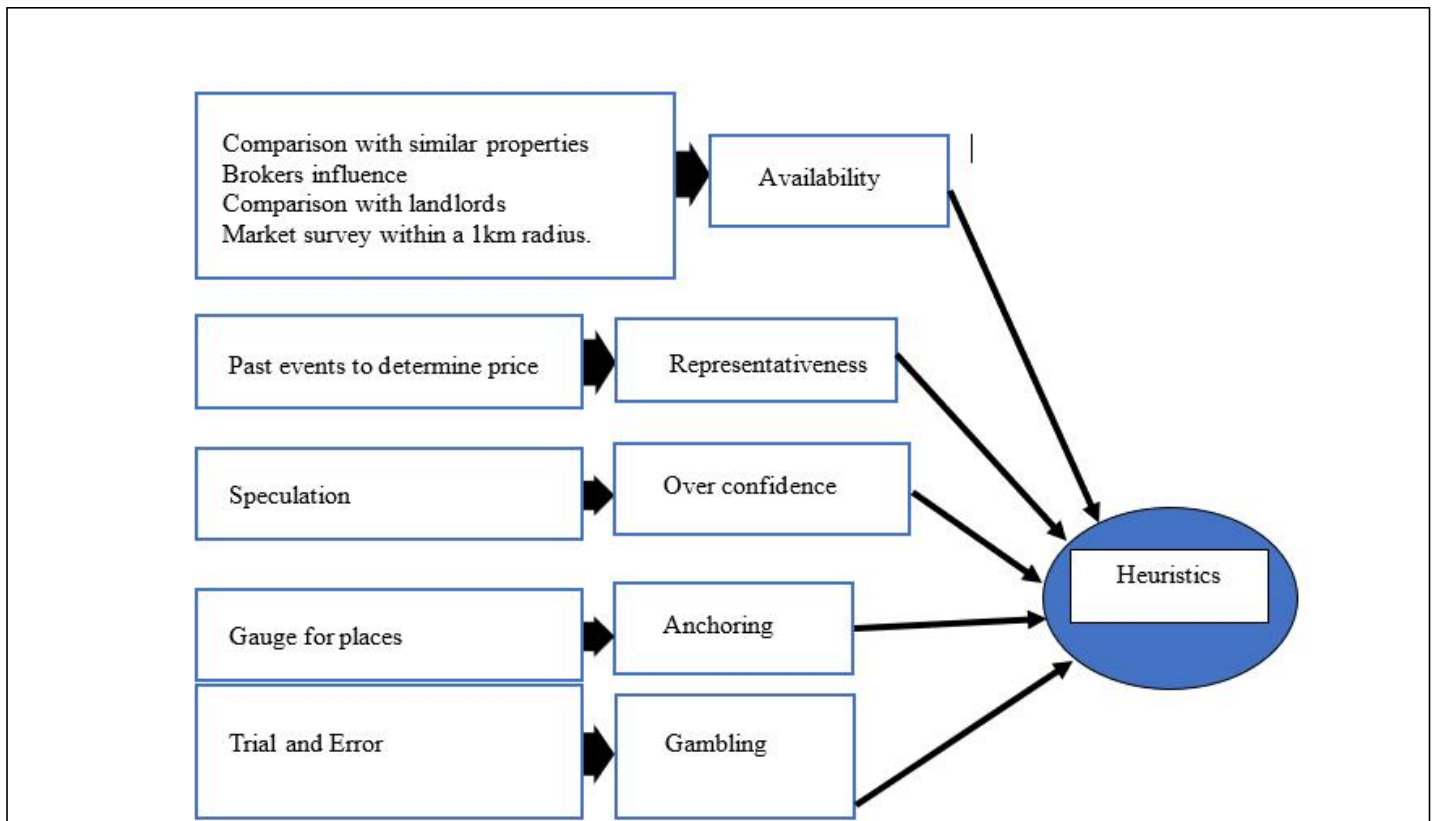


Figure 4.14 Progression from codes to Heuristics

#### 4.6.4 Emergent Theme four: Pricing is Context Specific

Pricing is done differently in different regions within the same country. This variance is due to contextual specific characteristics and local history. Thus, this study used a case study approach to underline the different institutional arrangements that vary between larger and smaller cities.

As mentioned previously Gulu's institutions and property market was impacted by the conflict with the LRA and subsequent human displacement camps and NGOs. This in turn has caused the price of commercial property to be substantially high especially for NGOs and foreign nationals who have settled in the now peaceful town.

Mbale Town has the unique context of its geographical placement. As a border town with Kenya, the prices charged are substantially higher given international trade and foot-traffic. Furthermore, there is a large Indian community here who are typically charger higher prices.

Mbarara Town is a stable region with a wealthy population, pricing is done according to the tenant. Because most of the retail space is used by the owners who operate their supermarkets and hardware shops, the prices for space are lower.

Finally in Kampala, because it has both formal and informal institutions, pricing is done differently. In the formal (upmarket), pricing is mainly due to the size and age of the building, physical attributes to the building, economic factors, and locational attributes. Whereas, in the informal market (downtown market), pricing of properties is determined by the rules of the game, rules of thumb, and property owners' behaviour at the time of pricing decision.

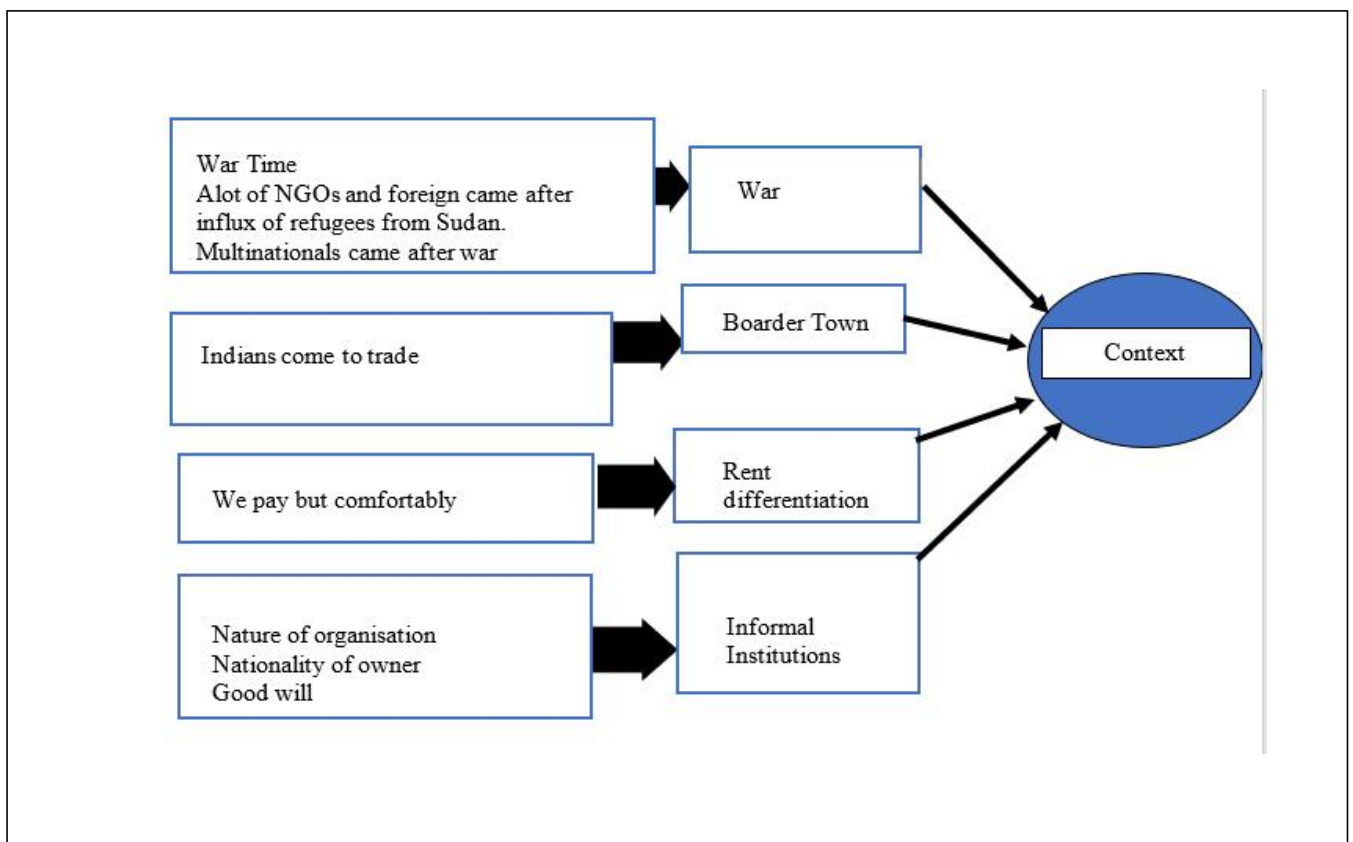


Figure 4.15: Progression from Codes to Specific Context

#### 4.7 Chapter Summary

This chapter presents the study's results. The results are arranged in four themes. The first two themes show how informal institutions (conventions and social norms) play a part in price determination. The third theme highlights the role of behavioural biases in the pricing decision of property owners. The fourth and last theme exposes the nuances in the pricing behaviour of property owners in the Ugandan context. These themes provide insights into the existence of

informal institutions in particular conventions and social norms in the Ugandan property market. The themes also provide evidence that there is a link between decision making, conventions and social norms, behavioural biases, and commercial property pricing. The themes focused less on neoclassical economics and more on the decision-making process within the context of institutional arrangements. As it is with qualitative research, many samples of quotations from participants are included in the chapter to enable the reader gain confidence. This is achieved by accurately representing the reality of the persons and situations studied.

## CHAPTER FIVE: DISCUSSION

### 5.0 Introduction

Chapter five provides an understanding of the study's results and creates a more comprehensive mastery of the subject matter using literature in support of or against these findings. The discussion of the findings of this study was undertaken and guided by the following research questions:

1. *How do conventions and social norms influence price determination?*
2. *What is the role of the behaviour of the property players in the price determination process?*

To improve our understanding of commercial property pricing, NIE theory was used. The results of this research show existence of conventions in the Ugandan property market and their impact on property owner's behavior. The results also provide evidence that there is a link between the decision-making process within the context of institutional arrangements and commercial property pricing.

### 5.1 How do conventions and social norms influence price determination?

Previous studies have discussed how property prices are determined. A number of these studies have shown that locational variables, property-specific factors, and general market conditions, among others, are very critical in determining the price. Previous studies have limited their focus to the demand and supply factors that a rational property owner solely drives. Karley (2016) states that the market fundamentals of demand and supply for space are not the only determinants for price. The author instead suggests oligopolistic tendencies among suppliers and speculation as the other determinants for price. However, the author does not bring out the institutional aspects in which property markets operate, yet they are critical in understanding how prices are arrived at. Property markets are institutional in nature, and because of that, they are not perfect markets (Ball et al., 1999; Roberts & Henneberry, 2007). The literature also suggests that price formation in reality is made up of a variety of institutional processes (Hudgson, 1998). Hudgson (1998), further suggests that to understand property markets better and the pricing decisions of owners, property analysts need to understand the market process. This involves understanding the social environment, the habits of the agents in that environment and why they do what they do in the way they do.

As mentioned in Chapter Two, property markets exist in three different institutional forms that is: the property market as the environment, an institution, and an organisation. The property market environment in Uganda is different in the different towns and cities because of the different informal institutions that exist. Furthermore, contextual regional elements impact the way in which

properties are priced. Pricing in Gulu is therefore different from how properties are priced in Kampala, Mbarara, and in Mbale. This heterogeneity can be attributed to the fact that different regions have different informal institutions (conventions and social norms) given geographical, economic, and social histories in the city.

Because of the property environment, the industry comes up with the institutions to follow while pricing. Institutions can be viewed as the set of rules governing the operation of that market (Keogh, 2009). Other scholars have called them the “rules of the game” (North, 1990). They can be formal or informal as explained in Chapter Two. The findings reveal that informal rather than formal institutions dominate the property market in Uganda. For example, because of the war that happened in Gulu previously (property environment), office and retail space prices are high since many NGOs, MNCs shifted to have a presence in Gulu after the war. This is different from Mbarara where commercial property prices are priced according to whether the owner is the one using the property for business. In Kampala, due to the property environment that exists (social environment) pricing is done according to the nature of business, nationality of the tenant and goodwill whereas in Mbale, because it’s a border town, nationality of the tenant is a big determinant for pricing.

The conventions and social norms in this study are those that have been created rather than those that came through evolution. They are created by stakeholders in the property market (organisation). The stakeholders in this study include the property owners, property developers and the institutional investors. Informal institutions evolved spontaneously as they are determined by the actions of individual property owners/developers or as a deliberate design. Thus, the property stakeholders in Uganda have come up with the “rules of the game” or conventions to mitigate information asymmetry and market inefficiencies in their context. The conventions reflect the power and interests within the property market, working to reduce transactional costs for members (property owners and developers) but not for non-members (tenants) (Seabrooke & How, 2004; Arvanitidis, 2004; Eggertsson, 2013). The conventions and social norms that constitute the property market in Uganda also act to provide structure and certainty to the pricing process (Keogh & Dárcy, 1999).

While literature on property market seems to suggest that property markets are institutional (D'arcy & Keogh, 1999), the researcher is unaware of any that suggests that some of the property markets, especially in developing countries, are dominated by conventions and social norms. Rather, most research highlights that property markets are institutional and have formal institutions that regulate the activities through the interaction of the different stakeholders (Ball et al., 1999). For example, Keogh & Dárcy (1998) examine six European cities (London, Paris, Milan, Budapest, Berlin, and

Madrid) to investigate the role of property markets' processes in terms of institutional form and structure of the market in shaping urban competitiveness. As much as this work looks at the institutional nature of property markets, the formal institutions were more dominant than the informal institutions like conventions and social norms. Furthermore, apart from Budapest, the other five cities are rated as mature with free flow of market information, offer a highly developed and open property investment market and a well-established professional base (Keogh & Dárcy, 1998).

Therefore, the study provides empirical evidence that suggests that property markets are institutional in nature and that some developing countries like Uganda have more dominant informal institutions (conventions and social norms) than formal institutions. Due to evidence of pricing being context based, this work extends the pricing theory by exposing the contextual nuances to the pricing process. The study further explains that property players in Uganda have developed unwritten rules which members of the groups know and follow diligently. The rules guide the property players on how to go about pricing dynamics.

## **5.2 What is the role of the behaviour of the property players in the price determination process?"**

This study reveals that the pricing of properties can be behavioural. Behavioural pricing was earlier emphasised by Diaz & Hansz (2007). The authors suggest that players will produce heuristics to solve complex problems such as the pricing of properties (Scott & Lizieri, 2012). The findings in the study are like those of Bayer et al. (2016) whose study found that players resorted to cues from their peer group to make investment decisions. The authors argue that players will resort to peer group cues due to a lack of information. These findings are also consistent with those of De Bondt & Thaler, and Barberis (2001), who noted that people tend to get stuck to good past events and to overstress the relevance of such events/occurrences. Other studies with similar findings are those of Lebaron (1999) and Evans (2002), who contend that investors assume that current prices are correct, and they refer to these before making investment decisions. Glaeser (2013) argues that speculation exists in property markets since the early years, and many times, such behaviour among property players will result in rising prices hence the booms and the busts.

Behavioural real estate has suggested biases during the pricing of stocks (Waweru et al., 2014; Pandey & Jessica, 2018) and during the valuation and appraisal process of real estate (Northcraft & Neale, 1987; Salman & Zwinkels, 2017). There is significant research on behavioural biases in residential pricing (Glaeser, 2013; Bayer et al., 2016; Repetto & Solís, 2020; Bayer et al., 2020), and

speculation of how this practice leads to booms and busts. Wiltermuth et al. (2020) argue that the anchoring effect of prior sales prices on subsequent prices of housing is discontinuous at round numbers, such that it matters disproportionately whether a previous sales price reached a round number. The authors contend that buyers who pay amounts that fall just under round numbers may consequently create disproportionately large sacrifices in future resale prices. As such, buyers who eventually resell their goods might be better off paying more when doing so by elevating the initial sales price to or just above a round number. This bias remains uncorrected by the market or negotiation process and creates economically meaningful market inefficiencies.

On the other hand, there is a gap in the literature relating to commercial property pricing (especially office and retail space) in developing countries and behavioural and context variables. While Levy & Frethey-Bentham (2010) argue that context might influence how property prices are arrived at by property players. However, in Uganda, where the markets are not transparent (Jones La Salle Report, 2020) and players have limited access to information, the players have no choice but to rely on shortcuts/heuristics. This is confirmed by Henneberry & Mouzakis (2014), who argue that players also make their pricing decisions based on previous experience and knowledge.

Behavioural biases seen in this study include anchoring and adjustment, representativeness, availability bias through comparison with similar properties, gambling fallacies, and over optimism and confidence. The most dominant of the five was the availability bias through comparison with similar properties. This is consistent with Waweru et al. (2014), where availability was one of the prominent heuristics among Kenyan property investors while taking investment decisions. However, unlike Waweru et al. (2014) where availability bias, anchoring and adjustment, and representativeness were also dominant, this study revealed gambling fallacy and overoptimism and confidence heuristics among the property owners while pricing. Many studies in property research agree that anchoring and adjustment heuristics are the most common behavioural heuristics (Diaz & Hansz, 2007; Levy & Frethey-Bentham, 2010; Scott & Lizieri, 2012). However, this study is different from all the above, as it traces all the five heuristics in different measures among the property players.

This study reveals that property players arrive at prices by either comparing their properties to others within a one-kilometre radius or what following the actions of other trusted owners. This result is similar to Ploegmakers & de Vor's (2015). The authors argue that asking prices of land in the Netherlands were like those of the neighbouring municipalities. Thus, in this study, it was established that players used comparable evidence in coming up with property prices.

Therefore, this study contributes to the commercial property pricing research discourse by revealing that in Uganda, the property pricing decision process especially for office and retail space involves a lot of behavioural biases/heuristics such as anchoring and adjustment, availability biases, representativeness, gambling fallacy, and over-optimism and confidence.

### **5.3 Contribution of the study**

This study uses the New Institutional Economics theoretical approach and moves away from the neoclassical perspective to explain price determination. The study suggests that conventions and social norms are dominant drivers of price determination in some developing economy contexts. The study further argues that it is important to understand the role of the behaviour of the property players in the price determination process as this may help explain how final property prices are arrived at in the absence of market data, as seen in the Ugandan property market.

### **5.4 Conclusion of the Chapter**

The findings indicate that apart from demand and supply, other factors were responsible for price determination. These include goodwill, nature of organisation, nationality of tenant, speculation of the property owners, group members influence, anchor prices, over representativeness, available information, to mention but a few.

The results from the interviews show that a weak regulatory framework characterises the environment in which the property industry in Uganda is placed. This has resulted in informal institutions which have influenced the behaviour of property owners. The findings indicate that apart from demand and supply, other factors were responsible for price determination. These include goodwill, nature of organisation, nationality of tenant, speculation of the property owners, group members influence, anchor prices, over representativeness, available information, to mention but a few.

In summary, commercial property pricing in Uganda is not driven by neoclassical notions of supply and demand but rather informal institutions (conventions and social norms) send signals to property players when making price determinations. Stakeholders interpret the price signals in whichever way they want, thus bringing about the behavioural heuristics such as anchoring and adjustment, availability bias, representativeness, over-optimism and confidence and gambling fallacy. Hence, this study reveals that property pricing in Uganda is less about negating neoclassical economics and more to do with the decision-making process within the context of institutional arrangements.

## CHAPTER SIX: RESEARCH CONTRIBUTION, CONCLUSION AND RECOMMENDATIONS

### 6.0 Introduction

This research examines how commercial property prices are determined in Uganda. Commercial property prices were conceptualised as the final amount of money paid to the property owner to use space in a building. This study uses the New Institutional Economics theoretical approach and moves away from the neoclassical perspective to explain price determination. NIE discredits the classical assumption of rationality among the actors and replaces it within a bounded rationality, where the choice criteria are more likely to be satisficing than maximising (Agboola, 2015). The first argument is that conventions and social norms are dominant drivers of price determination in some developing economy contexts. Informal institutions are defined as the “rules of the game”: humanly devised constraints that shape human interaction (North, 1990:3). Secondly, this study argues that in understanding the role of the behaviour of the property players in the price determination process, this may help explain how final property prices are arrived at in the absence of market data, as seen in the Ugandan property market.

A qualitative research approach was applied in the study, and four case studies were carried out in Kampala, Gulu, Mbarara and Mbale. Data was collected using semi-structured interviews. Purposive sampling and a snowball technique were employed in the selection of interviews respondents. In addition, the thematic and content analysis was used to analyse the interview transcripts, photographic material, and secondary data.

This chapter continues to review the research aims and objectives and discusses the theoretical contribution, implications, and recommendations for future research. It ends with a conclusion.

### 6.1 Review of Research Objectives

#### 6.1.1 Research Objective 1: How do informal institutions influence price determination?

Commercial property price determination is one of the complex tasks that a property owner will be faced with, especially in some developing nations like Uganda where market data is not readily available. As a result, risk increases in the form of transaction costs during price determination. The only solution to reduce risk is by developing institutions. In Uganda, conventions and social norms emerged to reduce the risk of transaction costs. The conventions and social norms in this study are also referred to as the rules of the game. They include good will, nature of the firm, and nationality of the business owner.

### **6.1.2 Research Objective 2: How does the behaviour of the property players influence prices charged to the tenants?**

The conventions and social norms signal a price to the players in the property environment. However, due to information asymmetry and irrationality, each player interprets the price signals differently, using heuristics to develop the final price. As a result, the players in the market have resorted to anchor prices which are a result of anchoring and adjustment, representativeness, available information hence availability bias, overoptimism, and confidence, and lastly gambling fallacies to make the pricing decision. These are the simple guidelines that players in the property market use in Uganda to arrive at commercial property prices. Thus, this dissertation shows the various ways in which conventions and social norms influence commercial property price and how the influence is interpreted by the property players, hence forming the behaviour with which the property players exhibit in the pricing process.

### **6.2 The main Research Question: How are commercial properties prices determined in developing countries?**

Commercial property markets in developing countries are less mature compared to those in developed countries (Dugeri, 2011; Rothacher, 2013; Olaleye & Adebara, 2019). They are characterised by lack of regulation, information asymmetry, low transparency levels and weak institutions. Hence, the markets are inefficient (JLL Report, 2020). Because of such characteristics, the forces of demand and supply are inadequate in explaining how property prices are determined in such economies. To understand how property prices are determined, this study focused on the institutional environment in which the property market of Uganda exists. This involved understanding the political, social, economic, and legal aspects of the context. Furthermore, the institutional environment and the institutional mechanism of the market contribute to how efficiently pricing decision is made (Keogh & D'arcy, 1999). Moreover, the socio-economic and institutional environment has a significant influence on the kind of information that stakeholders receive, their cognition of it and their preference, and thus it affects much of their behaviour (Kjosavik, 2003).

Furthermore, this study highlighted who the stakeholders in the Ugandan property market are, how they influence the decisions in the market, their role in the property market and why they do, what they do, in the way they do (Ball et al., 1999). This argument is supported by McMaster & Watkins (2000), who emphasise that property analyst ought to examine the role of different players in the market, the consumer decision-making process, and the flow of market information to understand

how markets operate. Lastly the research investigated institutions within the property market and rules by which they operate. This was explained in Section 6.1.2.

Furthermore, this study unpacks the kind of information that the stakeholders receive (Kjosavik, 2003) and how the stakeholders interpret the information they receive to set prices. Lastly, it focuses on the biases and heuristics that form the behaviour that stakeholders exhibit while pricing their properties since the pricing process is not assumed to be entirely rational (Roberts & Henneberry, 2007; Levy & Frethey-Bentham, 2010; Watkins & McMaster, 2011; Ploegmakers & de Vor, 2015). It was revealed that property players will adopt heuristics in price determination; using the little information at their disposal (Tversky & Kahneman, 1974).

### 6.3 Theoretical Contribution

Previous research on commercial property pricing has concentrated on urban, hedonic, and equilibrium models to explain how rental price are derived. However, all these models lean towards neoclassical economics, where stakeholders in the property market seek their own interests and maximise utility within constraints established by the existing organisational structures (Kozenkow, 2013). The stakeholders in this framework have a limited ability to acquire and process information. Hence, the neoclassical models do not consider the decision-making process or if they did, was from a highly theoretical or generalised theoretical perspective. This study considers the decision-making process in the price determination of commercial properties. This study emphasises the influence of institutions on the property market and how, in turn, this influence is interpreted by property players in processing rental price. NIE is key in this finding. Therefore, the study contributes to a deeper understanding of the relationship between decision-making, conventions and social norms, and commercial property pricing. The study introduces the role of social and individual behaviour in the creation and maintenance of institutions as well as the effects of the two on commercial property pricing.

Previous behavioural property research has focused on housing and pricing, valuations, and property investment as well as decision-making at the stock market. This study extends the literature by explaining how behavioural factors can influence property pricing in commercial properties. The findings of this study also reveal that apart from anchoring and adjustment, representativeness, and availability bias, over-optimism/confidence and gambling fallacy heuristics also play a role in property price determination in developing countries such as Uganda.

Furthermore, while research on institutions has been carried out quantitatively (Knack & Keefer, 1995; Williamson, 2009; Tabellini, 2010; Spranz et al., 2012; Voigt, 2013; Bostan et al., 2016), these

studies have been criticised as quantitative data fails to provide the details required for institutional analysis (Ménard & Shirley, 2014). Therefore, by using qualitative methodology, this study becomes one of the first to explore the ways in which conventions and social norms can influence price determination.

This study also contributes to the discourse by providing empirical evidence on price determination literature. Most published research has been done in developed countries rather than developing countries. Thus, this study will enrich the available literature on commercial property pricing in developing countries and provide insights into the limitations of developed markets (demand and supply) in relation to other contexts. Moreover, most available literature on the Ugandan property market could be categorised as a passive commentary of its property trends and forecasts. Thus, this academic literature is thin and highly fragmented. This study therefore contributes to the gap in academia relating to the property market in Uganda. Furthermore, given the evidence of pricing being contextually based, this work extends pricing theory by including the nuanced case-study of Uganda to the pricing process.

#### **6.4 Recommendations and Practical Implications**

Practically, understanding how rental prices for commercial properties are determined is key for investors, tenants, and the government. The study provides new insights into property pricing bringing out other determinants of pricing behaviour apart from demand and supply. The researcher recommends future studies on this subject matter to place more emphasis on understanding the social norms that exist within the informal institutions in the property market environment of developing countries.

#### **6.5 Policy Implications**

Behavioural biases are one of the significant reasons for mispricing in the property sector, as players cannot adjust sufficiently to arrive at a fair market price (Pandey & Jessica, 2018). This study brings out the different behavioural biases that players exhibit while pricing in Uganda. Thus, this study provides empirical evidence to policymakers, enabling them to put in place measures to minimise these biases in their strategies for implementing more formal institutions. Ultimately, mispricing in this sector can be controlled to some extent, which will help the well-being of society, hence leading to the country's economic development.

Conventions and social norms play a crucial role in identifying the driving forces of economic development. Therefore, this research is beneficial to policymakers. It highlights the behaviour and

rules that govern the decision-making of property players in Uganda. These “rules of the game” can then be used to build or in policy formulation to enhance future growth. Additionally, policymakers can use this empirical data to reposition the property market in the country for global competitiveness.

## 6.6 Areas of Further Research

During the data collection process, it was very hard to identify and separate social norms from conventions, as literature states (Ostrom, 1995; Voigt, 2016). Future studies should look at examining the issue of social norms and their impact on decision making in the property sector and its informal institutions.

## 6.7 Final Conclusion

Property developers and investors seek to understand the drivers of prices for office and retail space. Previous literature emphasised neoclassic factors as significant determinants of commercial property prices. However, this previous work has ignored the role of institutions, especially conventions and social norms incredibly, and what influences the behaviour of the stakeholders while making the pricing decision. This study reveals that informal institutions in the form of conventions exist in the Ugandan property markets. The conventions signal a price to the players in the property environment. However, due to information asymmetry and irrationality, each player interprets the price signals differently, using heuristics to develop the final price. This study helps researchers understand the role of individual behaviour/heuristics in advancing our understanding of institutions and the effects of the two on commercial property pricing, the economy at large and its consequences on economic policy.

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## Appendix: A

Application for Approval of Ethics In Research (EIR) Projects  
Faculty of Engineering and the Built Environment, University of Cape Town

### APPLICATION FORM

**Please Note:**

Any person planning to undertake research in the Faculty of Engineering and the Built Environment (EBE) at the University of Cape Town is required to complete this form before collecting or analysing data. The objective of submitting this application prior to embarking on research is to ensure that the highest ethical standards in research, conducted under the auspices of the EBE Faculty, are met. Please ensure that you have read, and understood the EBE Ethics in Research Handbook (available from the UCT EBE, Research Ethics website) prior to completing this application form: <http://www.ebe.uct.ac.za/ebe/research/ethics/>

APPLICANT'S DETAILS		
Name of principal researcher, student or external applicant	Rachael Daley Miremba	
Department	Construction Economics and Management	
Preferred email address of applicant	mmrnc001@myuct.ac.za / rarinabwa1983@gmail.com	
If Student	Your Degree: e.g., MSc, PhD, etc.	PhD
	Credit Value of Research: e.g., 80/120/180/360 etc.	360
	Name of Supervisor (if supervised):	Associate Professor Francois Viruly and Associate Professor Kathy Michell
If this is a research contract, indicate the source of funding/sponsorship	N/A	
Project Title	Commercial Property Rent Dynamics In Uganda ,A case of Kampala	

I hereby undertake to carry out my research in such a way that:

- there is no apparent legal objection to the nature or the method of research; and
- the research will not compromise staff or students or the other responsibilities of the University;
- the stated objective will be achieved, and the findings will have a high degree of validity;
- limitations and alternative interpretations will be considered;
- the findings could be subject to peer review and publicly available; and
- I will comply with the conventions of copyright and avoid any practice that would constitute plagiarism.

SIGNED BY	Full name	Signature	Date
Principal Researcher/ Student/External applicant	Rachael Daley Miremba		06 Jun 2019

APPLICATION APPROVED BY	Full name	Signature	Date
Supervisor (where applicable)	Associate Professor Francois Viruly	<a href="mailto:Francois.viruly@uct.ac.za">Francois.viruly@uct.ac.za</a>	06 Jun 2019
HOD (or delegated nominee) Final authority for all applicants who have answered NO to all questions in Section1; and for all Undergraduate research (including Honours).	Click here to enter text.		Click here to enter a date.
Chair : Faculty EIR Committee For applicants other than undergraduates students who have answered YES to any of the above questions.	R.Bohrens		14 Jun 2019

## Appendix B: Consent Form



**UNIVERSITY OF CAPE TOWN**  
IYUNIVESITHI YASEKAPA • UNIVERSITEIT VAN KAAPSTAD

### Informed Consent Form

#### Commercial Property Pricing in Uganda.

You are invited to participate in an ongoing PhD (Construction Economics and Management) research project on Commercial Property Pricing in Uganda. The research is aimed at examining how office and retail rent is determined in Uganda. The purpose of the study is to provide new insights in addressing the rent determination problems among commercial properties in Uganda.

This research is being undertaken by Rachael Daisy Mirembe, a PhD student under the supervision of Associate Professor Francois Viruly and Associate Professor Kathy Michell of the University of Cape Town. The outcome of the study will be presented in the Department of Construction Economics and Management in fulfilment of the requirement for the award of a Doctor of Philosophy Degree (PhD) in Construction Economics and Management.

In order to gain a deeper understanding, information and relevant data will be gathered through interviews. The results obtained from this research will be aimed at improving the rent determination process among commercial properties in Uganda hence benefiting various stakeholders in the real estate industry.

Your participation in this research is entirely voluntary. It is your choice whether to participate or not. You may at any point decide not to continue participating in this research. But your participation will make an important contribution to my studies. All the information obtained in this research will be treated with utmost discretion and confidentiality and will not be used for any other purposes except for presentation in the form of a PhD dissertation at the University of Cape Town. This research does not pose any known risks and does not request for any sensitive information.

This study has been reviewed and approved by the University of Cape Town, Built Environment Ethics in Research Committee. Should you have any questions about the research in general or your role in the research, you may contact the researcher on [mrmrac001@myuct.ac.za](mailto:mrmrac001@myuct.ac.za) or 256777913407, the supervisor or the department on +2721650 3442. If you wish to have the copy of the research findings, you may contact me.

By signing below, you indicate that you have understood the nature of the study, all your questions regarding your role in the study and the study in general have been answered to your full satisfaction. You therefore voluntarily give your informed consent to be a participant in this study.

Thank you for your kind consideration.

Signature\_\_\_\_\_

Name of participant: \_\_\_\_\_\

### **Appendix C: Interview Guide**

**INSTRUCTIONS: Please answer the following questions**

1. Who is Mr/Mrs XXX and how long have you been in this industry?
2. What factors did you consider when /before building your commercial building/s?
3. How is rent determined in your building/s?
4. After how long do you adjust the buildings rent? (This can be in months or years)?
5. What factors do you consider before adjusting rent for the next period?
6. Is there any interaction/influence of other stakeholders (For example tenants, government, agents, brokers, fellow landlords, lawyers) in the process of setting up the rent?
7. Are there any regulations in relation to rent determination in Kampala (Uganda)?
8. Are there any laws or regulations in the constitution of Uganda which speak to the real estate industry? If Yes, which ones are those and could you explain more on them?
9. Do you sign /give tenancy agreements to your tenants?
10. What do you know and understand about good will when it comes to paying rent in Uganda?

..... **THANK YOU**.....

## Appendix D: Sample of Interview Transcript

Interviewer

I want to have a conversation with you about real estate but i have also been reliably told that you have been in Mbale for a very long time and could also help me understand Mbale town.

C1

But you see am not in that sector of real estate.

Interviewer

Yes, you may not actively be there but at least be there, but you own some properties that is why I got interested in you. But i have also been told that you have been in Mbale for a long time, so you understand where Mbale is coming from in terms of real estate.

Interviewer

How is the Mbale town? I have just arrived this morning. I am not familiar with this town very well. I grew up more in Jinja but currently now in Cape Town studying, but I grew up more in Jinja. Yes, am not very familiar with it, how is Mbale?

C1

Mbale is as you saw it. And you know during those days, is it Obote 1, It was the best, the cleanest town in East Africa

Interviewer

I remember when I was growing up, Mbale was the cleanest town, Yah, Mbale was the cleanest town

C1

Exactly, but these days, that is no longer there,

Interviewer

Why, what has Happened, what has changed

C1

The generation

Interviewer

The generation? The generation now does not value cleanliness and hygiene

C1

Exactly and another thing is that during that time, they were Asians, the population in town, there were few people. But now days, population is too much because of migration, people have left villages and come to town.

Interviewer

Ok, Mr C1, help me understand Mbale town from the time of the colonial period when the colonialists left and how people have been building or started building

C1

Sure Colonialists, Eh that was 1962, i was still young.

Interviewer

Okay when you do start understanding everything in Mbale

C1

That was after my OLEVEL, 1975, you see when Amin took overpower, I was still at school, i was still in senior 1, that was 1972, then understanding things is after my Olevel, from 78, 76, also coming to town because i was also in the village.

Interviewer

How was town looking like after 75?

the time when you started understanding, it does not matter maybe, after Amin, how was it looking like

C1

You know that time, Amin had just chased the Asians away, he gave them 90 days to leave

Interviewer

I have read about.

C1

Town was still clean, and the people now, Amin allocated the buildings to Africans

Interviewer

were there Africans owning shops before the Asian, Asian?

C1

NO purely Asians,

Interviewer

Okay. So, when Amin chased the Asians away, he gave the buildings to Africans and the shops?

C1

Yes, FREE, he comes, we have allocated to you, take over

Interviewer

What was the criteria, he would just get impressed with you and tell you i have given you take over

C1

Exactly, especially Muslims, you would just fill some forms, he just comes and says give that one, the minister goes away

Interviewer

(laughs), i wish i was born at that time.

C1

Now when i started understanding, that was the time we're trading here, now the Africans are taken over, they used to call them mufuta miji (means the people who had lots of money but mainly from illegal trading, or smuggling at the boarder), during Amins Regime

Interviewer

Okay. When do we start seeing Africans starting to buy some buildings in Mbale?

C1

You see Africans did not start buying, when Amin allocated them free, then these people started including in these properties, do when they started living in these properties, they were under custodian board, they started paying rents to custodian board. Then Some of us money, some of the people managed to get money but build buildings but most of them didn't. Me I was very lucky.

I bought after Amin Regime, in Obote 2, In 1980, we bought a building

Interviewer

In town? on which street,

C1

that is Naboa Road

Interviewer

You were among the first people who bought buildings in Mbale

C1

I don't know but that is, i dont know because we bought that building in 1980-82, we bought it at 7.2million. We both joined with my colleague who passed away.

Interviewer

Oh sorry, When Museveni comes in, what happens that is 1986 now

C1

NO, Obote 2 comes after Amin. Obote 2 comes, you see people had got free things and most of them had run bankrupt. Because they got free things, they didn't know how to manage them. Those things were not good for them. So, when those people came, they started again giving back the properties to the Asians their properties. They repossessed them.

Interviewer

Okay, That is Obote 2?

C1

Obote 2, now Tito Okello overtakes Obote, maybe three months like that, then Museveni comes in, Up to now.

Interviewer

Up to now we have seen Museveni now in power, at what time did Mbale start getting buildings of Africans because you've told me that was Indian property

C1

You see that building that we bought was for a moslem, an African called that was XXX. That was during Amins regime. You see some people were wise wise. So they had started building.

When Obote took over, he sold it to us. That was the only property. But you see there are some people who had built before us, only one. He was called XXX, from XXX during Asian Time.

Interviewer

During that time of Asians and Amin, were the Africans trading in the land like I can buy a plot of land from you or there was nothing. No one was buying and selling? selling

C1

no no by no one was buying or selling. this was the town council, Municipal allocating these,

Interviewer

Even in the village there was no transfer of land?

C1

No you see this people we Africans we were living in the village. That is it, that was our tradition. They come to town Here and go back. They did not see the value of living in town. They were mostly peasants. That is how most of them were living

Interviewer

So when do we start seeing Mbale with these modern buildings that it has?

C1

Anti now, When Museveni comes to power, these people through corruption steal money and put up building, just like we see in Kampala. That is it.

Interviewer

I have been told that you have some buildings on market street.

C1

Market street? that is a ka small lock up. Me i have buildings in Mbale.

Interviewer

Mbale, Where

C1

Sun rays, those are commercial, about 4, Plot 2 Naboia Road, Market Street, one lock up, more in senior quarters

Interviewer

What is the plot number of the lock up on market street?

C1

I dont even know.

Interviewer

What has been motivating you in putting up the buildings that you have, Naboia Road, Sunrays, the first one you bought in 1980? What was the motivation?

C1

The motivation was, that with time, money can get lost, but a building may be there, so it is better to invest than keeping hard cash.

Interviewer

ok.

C1

And then after some time, me i have been investing thinking that maybe after active business, that is where i can earn my retirement.

Interviewer

Oh, for retirement also, ok

C1

If i retire, i will not come to you my daughter, my son that give me 100.

Interviewer

You want to sustain yourself. Exactly. Not looking onto the children

C1

Oh Yes. i don't want to become a burden to anybody.

Interviewer

I also don't want to be a burden to anyone.

C1

Yes. That's why I invested in building. By the way I have some in Kampala.

Interviewer

You have some in Kampala, where in Kampala?

C1

You know Ntindaaaaaa, near.....you know Kenj..... Nanny. Near there..... they call it what.... you know where Sky Hotel is? Mine is just on the main road?

I bought it some time back. I have some flats there. That is where I stay when I am in Kampala. I have a bungalow and then storied flats, where they are paying me something like of about average \$600-\$800.

Interviewer

Oh, that is good. Who sets up the rent for your properties?

C1

Anti you see, setting up the rent depends on the location of the place. Location of the place first and then the way you have put up the building. That is, it

Interviewer

So then after looking at that, how do you determine? You sit down and determine yourself?

C1

I sit down and determine OK that this one is this.... that's how you determine. You cannot determine the rent in Mbale cannot be the same as in Kampala. By virtue of its...

Interviewer

Do you have experts who help you or you do it yourself?

C1

Experts for what?

Interviewer

Experts who help you count the books and set for you the price?

C1

No Haaaahaaaa No (Laughs)no, i can say by virtue of what's around, this building is may be 3 bedrooms flats, may be \$1000 per month, according to what others are rating. That is how you determine the rent. You cannot say you sit in a committee and determine the rent; you can't manage.

Interviewer

You can't manage? why?

C1

Because it is the surrounding and the people living in that area, by virtue of their standards that will determine.it is like you going to eat food in the market and somebody goes to Mbale resort. you see that there is a difference. you can't say let me put the price like Mbale resort. as People who go to Mbale resort have money. people who goes to the market have little money and they are many, of low income. So me when am putting up, i put that in consideration. Of low income, go for the expensive one. and you see there is nothing as bad as this real estate, for me to go there as a businessman because you can lack a tenant for a whole year.

Interviewer

Why?

C1

Because they are not there. they are not there, what do you do, the building just stays there vacant?

Interviewer

On your buildings what is the vacancy rate?

C1

Something like \$800-\$900

Interviewer

For example, on plot 2 Naboa Road, how big is that complex? how many shops are on that building?

C1

It has about 5 shops. But Mbale you cannot compare to Kampala. The rents we charge here are not the same as Kampala. By virtue of the standards. Because it has about 5 shops. Maybe the highest

we charge is 2 million per month per shop. Depending on the size, you see, in most cases, most cases these people wants to be small shops where they want to pay you 800 500 600.because those big shops Especially African they cannot afford those rents. you see in Kampala; you can find 10 people in 1 shop because one person cannot afford to meet that rent

Interviewer

Do you give tenancy agreements to your tenants?

C1

Yes, we agree..

Interviewer

You write it down or you agree by word of mouth?

C1

They write down.

Interviewer

So everyone of your tenants has a tenancy agreement?

C1

Yes

Interviewer

Do you mention in your tenancy agreement something like adjusting rent?

C1

YES they mention

Interviewer

After how long do you adjust the rent?

C1

Normally after one year because me in my buildings i want them to pay me yearly.

Interviewer

Eh, they have to pay one year ahead.

C1

Yes, (Receives a call)

Interviewer

So, your tenants are paying one year in advance of rent?

C1

Yes one year in advance, six months like that

Interviewer

How long are your Leases? how long are your periods of tenancy?

C1

It depends somebody may get six months, we only agree one year, two years like that. you see if you get organisations are better because for them, they say one year.... but individuals, one year two years like that....

Interviewer

Okay. So, you adjust your rent every year?

C1

Depending on the market and the dollar rate.

Interviewer

If the dollar rate goes high like it has been going, do you increase

C1

Yes, but Inflation also matters.

Interviewer

If the dollar rate were to go down would you decrease?

C1

No, we normally don't reduce. We stay where we are.

Interviewer

If the dollar rate went down, you would rather remain where you were than to reduce?

C1

Yes, you see the dollar is more stable it's not like our money. that is why we want to charge in dollars

Interviewer

So even in Mbale, you rent out in dollars?

C1

Yes i have two flats. one flat they are paying me \$1200 and another \$700 per month for the whole building, flat.

Interviewer

Those are organizations that are paying you in dollars because Africans might refuse

C1

YES

Interviewer

Now you talked about something that got me thinking. You said that sometimes those buildings can take a whole year without getting tenants.

C1

Yes, because if you rush rush you may get someone to give you little money and dirtens your whole building, i dont want that.

Interviewer

So tell me because when we are studying economics, we are told that if they tell us that when that demand is low, because you have no tenants, then you reduce the price so that people can come in.

C1

now you might reduce, and you get somebody who comes and wants to pay you a higher price. what do you do? will you chase him out? you better leave your property at a fixed price, say i need this. you don't have that money, you don't come.

Interviewer

and you wait for a whole year until you get someone who is giving you that money?

C1

Exactly. You give some who's giving you \$500? Now somebody comes in wants it. you will not chase this one away. but you see this depends whether you put up your property, you got a loan, If you use bank money you have to take whatever you are given.

Interviewer

In fact, I was going to ask you that do you use bank money in your properties? So, do you use bank money?

C1

No, me when i was building, I use my little money, than borrowing

Interviewer

Because I think I would think if you are using bank money, you would have pressure. So, you'd have to reduce, but now you're not under pressure. You have already worked you have your money.

C1

Even if it waits for one year. you do not mind, at the end of the day i will get a tenant. like that one of mine in senior quarters, it spent one year. some people were coming, \$500, \$700, i refused. I wanted \$1000, at last i got a tenant.

Interviewer

Okay, well that is interesting to Learn.

C1

But you see when it is bank money, then you have pressure because if you don't raise it, then they will take the property. Me I have been building using my own resources. no pressure because i do not have a loan, but if it is a bank loan you cannot relax. But you see many people are using bank money. they don't have the money. That's why you see they fail, and they are selling those buildings. Those are the challenges. those people who go there are under pressure; me i know them. Even the owner of XXX, i know him, he was under the same pressure.

Interviewer

So now I wanted to ask you how would you look at the real estate industry in Mbale? is it developed? Is it not developed?

C1

You see Mbale and real estate, it is very challenging?

Interviewer

Why?

C1

Because people do not have money. it is by virtue of the surrounding....

Interviewer

Do you have professionals who carry out these real estate activities for example your buildings people who manage them for you or they have they studied real estates?

C1

Me i manage them myself. If a tenant is to pay, they pay the money in the bank

Interviewer

Mr. A11 You have so many things you are doing? How do you manage this one then you go to that building with a several buildings you have? How do you do it?

C1

I have allocated some duties to some people. they collect the money, give out receipts.

Interviewer

That's why I was asking that are those people having qualifications in real estate?

C1

No, they're not. Okay.

Interviewer

But generally, how is the real estate industry back now?

C1

You see I told you it is just a side income. The money is coming from the manufacturing plants that I have. That is what I need to do business.

Interviewer

Okay.

C1

You see i have been working for the last thirty years, since i left school, that is 1975...

Interviewer

I think i have got what i wanted. you have helped me understand the real estate industry in Mbale.

# More city traders protest over hiked rent fees

MONDAY APRIL 08 2019



Intervention. Police officers arrest traders who were demonstrating at Nalule arcade in Nakasero, Kampala, on April 8, 2019. PHOTO BY ABUBAKER LUBOWA

**Kampala.** Traders at Nalule Arcade in downtown Kampala yesterday closed down their shops, protesting hiked rent fees.

The traders claim their landlord, Mr Guster Lule, aka Ntake, unfairly increased the rent charges three months ago. They allege that he increased the rent from Shs500,000 to Shs900,000 for smaller shops, while bigger ones, which used to pay Shs800,000, are now asked to pay Shs1.6m per month.

“Ntake has spent over eight years without increasing the rent fee but he has just doubled the charges, which we cannot afford,” said Mr Geoffrey Ssekabira, a trader.

Ms Margaret Nantandwe, another tenant, said the new rent charges have hurt their earnings.

“We want Ntake to reduce rent fees because we have tried and failed to raise all that he needs,” she said.

The traders said efforts to meet Mr Ntake over the high charges have hit a snag.

Mr Ntake was not immediately available for a comment. Police deployed heavily in case the protest turned violent.

The protest comes just days after a similar one staged by traders at Qualicel, Jamboree and Nabukera malls over rent demands by the landlords.

*editorial@ug.nationmedia.com*

### Appendices F: LIST OF CODES

Name	Description	Files	References
Accessibility	Nearness to CBD	4	5
Amenities	Other services that come with the building	6	10
Anchor Tenants	get a discount when determining rent	3	3
Anchoring Bias	Using a starting figure to determine a price	1	1
Availability Bias	landlords price according to available information	3	3
Bank Funding	Banks fund on individual balance sheet and not the project	4	5
Brokers influence	The landlords inquire from brokers about existing rents	1	1
Building for the future	Anticipation that there will be demand for space in future	5	6
Building regulation	Requirements for a commercial building	1	2
Business Environment	The atmosphere in which businesses operate	1	2
Change of space	Residential turned into office space due to demand	3	4
Class of Property	Grade A, B or C	2	2
Client determination	Rent charged according to the client in need	1	1
Collateral Security	Banks need RE before Loans are advanced	1	1
Comparison of similar properties	rent determination by looking at similar properties	7	7
Comparison with other landlords	rent is determined by what other landlords are pricing	2	2
Connectivity in terms of infrastructure	Availability of highways connecting	1	1
Copy Cut Building	Building because another rich man built and succeeded	2	4
Cost of Financing	How much do you incur to put up the development	4	5
Cost of Investment	Determinant of Price	6	9
Credit distortions	high interest rates from the banks	3	6

Name	Description	Files	References
Cultural factors	Determinant of Price	1	1
Demand for the building	The number of people who like to get space on that building	1	1
Disguise of Ownership	buildings don't belong to the so-called owners but politicians	3	4
Dollars	Landlords prefer to charge in dollars	8	11
Economic factors, rent determination	Macro-economic factors	12	20
Empty spaces	For retail due to structural designs	4	7
End User Requirement	Properties are built not according to client needs	2	5
Equity	Source of financing	6	11
Existence of professionals	People who went to school and studied real estate	6	11
Experts for Rent Determination	No need for Experts	5	7
Few Foreigners	Mbarara has less foreigners compared to other cities	1	1
Floor Level	Rent determination depending on the level of floor	5	7
Flow of information	Formal way of connecting buyers to sellers	1	2
Foreigners	The preferred choice for tenants by landlord	5	5
Formal Structures	Institutional investors carry out RE formally	3	4
Free Market	Its forces of demand and supply to apply	9	16
Gambling bias	Trial and error for rent determination	1	1
Good will	Rent determination	6	16
Government Distortions	Rent/Price Determination	1	1
Government Institutions	Rent is determined differently for government bodies	3	3
Government Ownership	Government owns some buildings	1	1
High Demand	Demand for space is high	5	6

Name	Description	Files	References
Illicit money	Landlords build to wash money	8	19
Incentives	Benefits that accrue from the tenancy	1	2
Informal Business	Companies not registered, more of brief case	3	3
Informed Decisions	Institutional investors research the market before rent is determined	2	5
Institutional Investor	Classification/ Kind of Property Owner	4	6
Investment for security	The confidence that comes with it	3	3
Landlord tenant bill	regulate the relationship between tenants and landlords	14	29
Landlords Behaviour	Sets prices according to what he wants, you don't have the money he wants, you don't come	11	19
Level of Demand	How much the space is needed	5	8
Limited Supply of space	Due to unfavourable government policies ie Landlord tenant bill	2	4
Liquidate	Sell off the property and clear the debts	1	1
Liquidifying	Change a property from dormancy to income generating	2	2
Loan	Source of financing for the building	10	19
Location of the property	Rent determination	12	20
Market determination	Rent is determined by forces in the market	9	15
Maturity of the Industry	How developed is the RE Industry	8	24
Mixed developments	Mixed use of space ie retail, office, hotel, residential	1	1
Nature of RE Business	How RE business operates	16	48
No rent differentiation	Buildings are used by owners to do their businesses	1	1
Office Space	Institutional investors adjust prices down if demand is low	3	6
Organisation Preference	Landlords prefer organisations for tenancy	2	3
Over supply	Available space is more than what is demanded	2	2

Name	Description	Files	References
Ownership of buildings	Local businessmen	11	16
People Management	When increasing rent for space	3	4
Physical features of the property	Property Attributes	5	7
Political Stability	One of the determinants of Price	4	4
Preference for ground floor retail	Upper levels on a building are disliked	1	3
Prestige	Landlords build for social status	3	4
Professional Services	Avail Professional services to all stakeholders	1	2
Property for personal use	Property owners using their buildings to do their business	5	7
Property groups	Property owners create groups to do business	2	5
Property owners' groups	Formation of groups of landlords within the market	6	11
Property Rights	Individual rights on how to use space	1	1
Psychological Retail Trading	Open and clear shops in shopping malls to draw customers	1	2
Quality in the building	Can be managers, equipment, facilities	4	7
Reason for Investment in Real Estate	For retirement purposes	3	5
Regulation	No rules for industry	13	37
Rent Determination	Landlord determines	10	15
Rent Differentiation	Rent is charged in Dollars	3	5
Rent for Natives	Pay in Shillings and lower amounts	1	1
Rent from previous experience	Landlords share rent information from previous experiences	1	1
Rent Restriction	A clause in the Landlord tenant bill	4	7
Representing Events	When landlords use the events to determine price	1	1
Returns	Investment for Returns	10	20

Name	Description	Files	References
Security of Title	Investigating the buyers of the property	1	1
Sentimental Investors	Because A has 10 arcades, let me also put 13 arcades	2	2
Side Income	Reason for investing in Real Estate	1	1
Size of the space	Rent determination by size	6	7
Speculation	They believe the market is going to be better	4	6
Stability of Law	Are the government policies encouraging investment in RE	2	4
Sticky Prices	Rent prices never go down	9	17
Storage	Empty upper floors turned into stores	2	2
Store of Value	Landlords invest to keep their money their	1	2
Strategic Facility Management	Thinking ahead/planning for properties before being put up	2	2
Structural design	The design of the building	1	2
Subdivision of shops	Dividing up the rooms to smaller spaces to ensure affordability	2	2
Tenancy Agreements	Given Leases	13	18
Tenant Selection	Differentiation in tenants to be given space	4	6
Tenants ability	What rent tenants are willing to pay	13	21
Traffic flow	The number of people who walk into the building	1	2
Transition of Retail Market	How the retail market spreads out from the CBD to the outskirts	1	1
Transparency of Landlords	Open about their receipts, incomes, and trade	1	2
Turnover	Tenants move from one building to another looking for better prices	1	1
Visibility of the Space	How visible is the shop in the mall	4	7
War	Presence of many NGOs and Organisation	4	13
Zoning	Different location for different RE business	2	5

## Appendices G: PEER TRANSCRIPTION/REVIEW

Kehinde Alade  
Room 4.03, Snape Building  
Upper Campus,  
University of Cape Town  
Rondebosch, Cape Town  
30/10/2021

Dear Madam/sir,

### **TRANSCRIBING CONFIRMATION**

I have reviewed the transcript document sent to me and confirm that it reflects the conversation between the interviewee and interviewer in the audio file. While some phrases were different, the content of the discussion was not changed at any point.

Yours faithfully,

Kehinde Alade

## Appendix H: Emergent Themes

Name	Sources	References
<b>Heuristics</b>		
Availability Bias		
Brokers influence	1	1
Rent from previous experience	1	1
Comparison with other landlords	2	2
Availability	3	3
Comparison with similar properties	7	7
Representative Bias		
Anchoring Bias	1	1
Over confidence and optimism		
Speculation	4	6
Trial and Error	1	1
<b>Rules of the Game</b>		
Nature of Business		
Organisation Preference	2	3
Rent Differentiation	3	5
Nationality of Owner		
Rent for Natives	1	1
Foreigners	5	5
Dollars	8	11
Good Will	6	16
<b>Informal Institutions</b>		
Informal deeds		
Transparency of landlords	1	2
Subdivision of shops	1	1
Business environment	1	2
Turn over	1	1
Storage	2	2
Informal business	3	3

Disguise of Ownership	3	4
Illicit Money	8	19
Sticky Prices	9	17
Rent Determination	10	15
Landlords Behaviour	11	19
Tenancy agreements	13	18
Nature of RE business	16	48
<b>Social Groups</b>		
Property groups	2	5
Property owner groups	6	11
<b>Pricing, Context Based</b>		
No rent differentiation	1	1
Few foreigners	1	1
Client Determination	1	1
War	4	13