# DURBAN UNIVERSITY OF TECHNOLOGY

## THE INFLUENCE OF PROPERTY VALUATIONS ON REAL ESTATE INVESTMENT DECISIONS BY BUSINESSES IN UGANDA

**BENON OKUMU**

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# THE INFLUENCE OF PROPERTY VALUATIONS ON REAL ESTATE INVESTMENT DECISIONS BY BUSINESSES IN UGANDA

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**BENON OKUMU**

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**APPROVED FOR FINAL SUBMISSION**

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|---|---|
| Supervisor: Dr. S.H.P. Chikafalimani | Date: 05.06.2024 |
| Co-Supervisor 1: Prof. S. Moyo | Date: 05.06.2024 |
| Co-Supervisor 2: Prof. M. Musinguzi | Date: 05.06.2024 |
| Co-Supervisor 3: Dr. N. Kibwami | Date: 05.06.2024 |

## Abstract

Real estate, like other investment options, is associated with risks. As such, real estate business investors strive to reduce these risks associated with the investment in order to maximise returns. Reducing the risks entails analysis of the various factors that may affect the potential investment opportunity before deciding on which investment to pursue. Accurate property valuations play a significant role by influencing real estate business investment decisions. Whereas the tolerable margin of valuation accuracy globally, is between +/- 10%, concerns have been raised by businesses in Uganda about the increasing margin of the property valuation inaccuracy that have led to several businesses making poor real estate investment decisions, resulting into severe financial losses and at times, bankruptcy. As such, this research, which focusses on the influence of property valuations on real estate investment decisions by businesses in Uganda, was undertaken to address concerns about the increasing valuation inaccuracies in the country. The study adopted a mixed method research design based on literature review, focus group discussions and an online questionnaire survey. A total of 196 real estate business investors and practicing property valuers comprising members of the Association of Real Estate Agents Uganda and the Institution of Surveyors of Uganda were purposively sampled. A narrow understanding of the choice and application of property valuation methods was ranked as the highest cause of valuation inaccuracies (Mean = 4.03), followed by poor property market information dissemination (Mean = 3.8). The erosion of public trust in property valuations, misallocation of resources, financial losses and bankruptcy were found to be the main consequences of inaccurate property valuations in Uganda. These findings confirmed that property valuations can influence real estate business investment decisions. A thematic analysis of recommendations by the respondents led to the development of a comprehensive valuation model for Uganda, focused on the candid interaction between the real estate business investor and the property valuer, as well as the contributions by key stakeholders such as the government, valuation organisation, education institutions and the valuation client. The study recommends enhancement of property valuation

data availability, accessibility and reliability, development and promotion of relevant CPD programs for valuers, creation of public awareness on property valuation, enactment of a specific law for valuation and a law for real estate agency, development and enforcement of valuation standards and promotion of further research for the development of the valuation profession. The study further recommends that specific research be conducted to establish the extent of valuation variance in Uganda. In addition, the ongoing interventions to improve property valuation accuracy in Uganda should be aligned to the proposed property valuation model for the assurance of their effectiveness, efficiency, credibility, accuracy and accountability to support real estate investment decisions by businesses in Uganda.

**Keywords**: Inaccurate Property Valuations, Causes, Consequences, Interventions, Uganda

## Declaration by student

I, Benon Okumu, hereby declare that this work contains no material which has been accepted for the award of any degree in my name, in any university or other tertiary institution and, to the best of my knowledge and belief, contains no material previously published or written by another person except where due reference has been made in the paper.

Signed Date 05.06.2024

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## Dedication

This achievement is dedicated to Mr. and Mrs. Opar Alex's family and the entire Panyidwar clan of Angal Olyeko, Nyaravur-Angal Town Council, Nebbi District, as well as valuers and real estate business investors in Uganda.

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## List of Abbreviations and Acronyms

| | |
|---|---|
| AREA | Association of Real Estate Agents of Uganda |
| BOU | Bank of Uganda |
| CGV | Chief Government Valuer |
| CPD | Continuous Professional Development |
| e.g. | For example |
| etc. | Etcetera (and so on) |
| i.e. | That is to say |
| IREC | Institutional Research Ethics Committee |
| ISU | Institution of Surveyors of Uganda |
| IVS | International Valuation Standards |
| IVSC | International Valuation Standards Council |
| KCCA | Kampala Capital City Authority |
| MFPED | Ministry of Finance, Planning and Economic Development |
| MLUHD | Ministry of Lands, Housing and Urban Development |
| NCHE | National Council for Higher Education |
| NDP III | National Development Plan 3 of Uganda |
| NDPB | National Development Planning Board |
| NEMA | National Environment Management Authority |
| NPA | National Planning Authority |
| NVS | National Valuation Standards |
| RIA | Regulatory Impact Assessment for valuation law of Uganda |
| R.E | Real Estate |
| SRB | Surveyors Registration Board of Uganda |
| UACE | Uganda Advance Certificate of Education |
| UBA | Uganda Bankers' Association |
| UBOS | Uganda Bureau of Statistics |
| UBS | Uganda Bureau of Statistics |
| UIA | Uganda Investment Authority |
| ULC | Uganda Land Commission |
| UPPC | Uganda Printing and Publishing Corporation |

# CHAPTER 1: INTRODUCTION

## 1.1 Introduction

In this chapter, the background to the study, the research problem and its setting, research aim and objectives, research questions, justification of the study, scope of the study, brief on methods used to address the research questions, definition of key terms, the structure of the thesis and study contribution are presented.

## 1.2 Background

Business investors are primarily motivated by profit (Baum *et al.*, 2000). In terms of real estate investment, business investors comprise entities that hold land and buildings for sole purpose of capital appreciation, rental growth or both (Crosby *et al.*, 2019:143). As such, real estate business investors constantly scout for the highest and best use of their property investment. In addition, Crosby *et al.* (2019:143) noted that real estate business may be solely owned or owned in association with others; and the holding structure may also be through listed and privately owned corporations, partnerships, investment clubs and trusts. In order to properly guide on which real estate business is more profitable, Baum *et al.* (2000) observed that real estate investors rely on a number of professionals. One of such professionals is a property valuer. It is further observed in Appraisal Institute (2020) that a property valuer is required to assess the value of the real estate and advise whether it is worth investing in. A valuer may use one or more valuation techniques to assess the value of the real estate property. The valuer's selection of valuation method or technique is informed by the nature of the investment, the purpose of valuation and professional judgment at a given point in time (Appraisal Institute, 2020).

The most common property valuation methods for real estate investments are the income approach, market approach and the cost approach (RICS, 2022). In addition, residual and profit methods can also be used (Syagga, 1994: 33). The first three valuation approaches are the core methods from which other techniques have been developed. For example, the income approach relies on cash flows from the investment property which are then capitalised for the foreseeable business period.

Additionally, some property valuation literatures consider investment method of valuation as babies of the income approach, while others consider it as part of the profit method. Regardless of the valuation method adopted, the market approach which is also referred to as the comparable method of valuation plays a centre role in moderating the rates that valuers adopt in valuation of investment properties.

As noted in Syagga (1994:17), the uniqueness of real estate as an investment class requires a deeper understanding of how it operates. Real estate business performance varies greatly according to the investor's expectations, location, property type, legal aspects, and quality of business operations management, real estate market forces and real estate investment timing among others. It is not surprising that concerns have been raised by businesses in Uganda and globally about the increasing trend of inaccurate property valuations (Abidoye and Chan, 2017:36; Nwosu, 2019:92). Rearich (2021:5) also agreed with this observation by noting that in Uganda, just like in other countries in the world, inaccurate property valuations were on the rise. Property valuation inaccuracy is a serious problem for real estate business investors since it influences businesses to make poor decisions for real estate investments. The wrong real estate business investment decisions based on inaccurate valuation negatively impacts business performance and lead to financial losses and bankruptcy.

This finding is supported by the Bank of Uganda (2017:4) when it reported that the country was experiencing high numbers of non-performing loans, high default rates among borrowers and failure of commercial banks in Uganda to sell and dispose collateral repossessed in the form of real estate due to inaccurate property valuations that were submitted. This state of affairs was unacceptable as it had the potential of causing collapse of the financial sector and the overall economy (Okumu *et al.*, 2023:42). As such, research on the influence of property valuations on real estate investment decisions by businesses in Uganda was undertaken to address concerns about the increasing inaccurate property values that have influenced businesses to make wrong real estate investments decisions which have resulted into business financial losses and bankruptcies (Abidoye and Chan 2017:1; Nwosu 2019:93; Syagga 1994:33).

As mentioned in the previous paragraph, real estate investors are required to make critical investment decisions (Baum *et al.*, 2000). Real estate business investment decision is defined in Griswold and Tyson (2020) "as the analysis of various factors that may affect a potential investment opportunity, the risks and returns of alternative investment options and making informed decision on which investment to pursue". As a business investment, efforts are aimed at reducing risks associated with the investment in order to maximise returns. The different potential sources of risks include the property market conditions in terms of supply and demand, location, property characteristics including its type, design, maintenance cost and condition, financing options i.e. whether debt or equity financing, legal and institutional factors such as development planning and environmental approvals and taxes, uncertainty of cash flow streams as to when the investment will break-even, return on investment among others (Griswold and Tyson, 2020). Nwosu (2019:93) observed that the above risk factors should be captured to inform real estate investment decision making. The most common real estate investment decisions include whether to or not to completely sale, sale and lease back, lease, own and occupy, rent, sell now or hold on, buy now or hold on, build now or hold on, acquire fully or partially, terminate now or vary contract, secure a mortgage or use equity, lend or differ lending, lower or hike interest rate on secured lending, permit to develop, to remodel, to convert use, or demolish, float to potential investors, ask an amount, pay an amount, accept an amount, and so on (Okumu *et al*., 2023:43). The decisions are broad cutting and are taken across all the investment business management profile.

Drucker (1955 cited in Akrani 2010) defined decision making as "a course of action which is consciously chosen from among a set of alternatives to achieve a desired result". Akrani (2010) argued that decision making is a means to solving problems. In other words, it is a process resulting into a selection of a course of action among alternative possibilities. The selections are primarily informed by the values and preference of the decision maker. Drucker (1955) recommended the following six scientific steps of decision making: Defining or identifying the managerial problem, analysing the problem, developing alternative solutions, selecting the best solution

out of the alternatives, converting the decision into action and lastly ensuring feedback for follow-up.

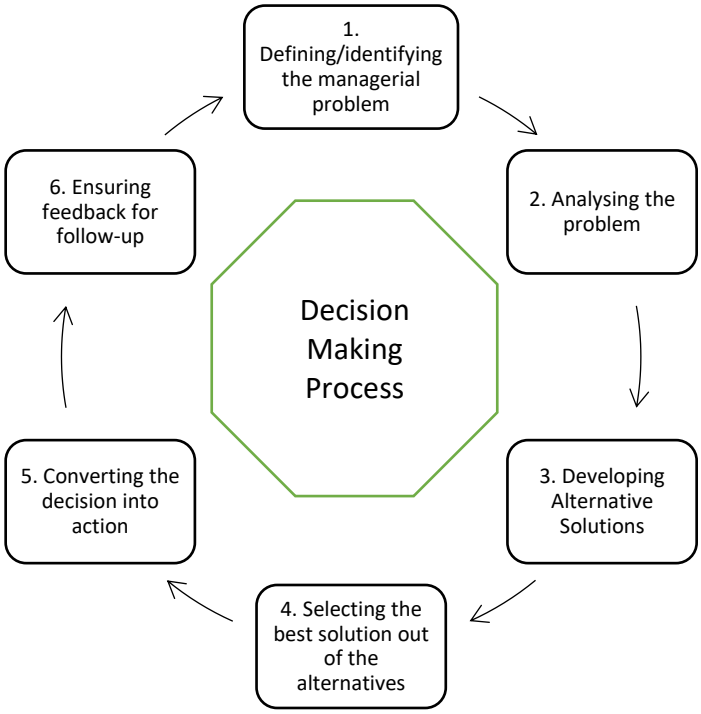


**Figure 1: Illustration of decision-making process**

Source: Adopted from Drucker (1955)

Drucker's steps fit well with real property investment decision criteria (Gary, 2008; Griswold and Tyson, 2020) which include the following:

i. Identification of the location for the investment: properties in desirable locations with good access to amenities, transportation, schools, and employment centres tend to have better long-term value and rental potential.
ii. Undertaking market analysis: this is done thorough market research to understand the local real estate market trends, supply and demand dynamics, as well as prospects for future growth is important. A promising real estate market growth leads to increased property values and rental income.
iii. Choosing the property type: by determining the type of property that suits the investment goals such as the categories in residential, commercial, industrial or specialised properties e.g. hotel or health facilities is required.

iv. Examining the physical condition of the property: whereas properties in need of renovation or improvements may be cheap to acquire and can offer better opportunity for growth in capital value and rental on completion, acquiring properties in good condition usually require less immediate investment in repairs and maintenance but are usually more expensive.
v. Consideration of rental income potential: the potential rental income based on the market rent should be evaluated to ensure positive cash flow for the property investment. Rental income should be in position to cover all expenses, taxes and rates required of the investment property.
vi. The potential of the capital appreciation: projection of capital growth viability of the property investment in medium to long term is crucial. Locations with stronger economic growth have a high potential for capital appreciation than those with lower economic growth.
vii. Calculating the costs and expenses associated with the property investment: acquisition cost, operational expenses, fixed and variable costs relating to the management of the investment property, as well as exit or disposal costs should be well analysed.
viii. How acquisition of the property investment will be financed: evaluation of favourable financing options such as mortgage rates and terms or personal equity is of importance as it can greatly impact the profitability of the investment.
ix. Assessment of the investment risks: factors such as market volatility, economic conditions, and potential vacancies, legal and regulatory risks have to be comprehensively evaluated.
x. The exit strategy: a clear exit plan and strategy is required, whether the plan is to hold the property for a longer term and sell it at a higher profit, or take advantage of real estate market cycles and time well the disposal should be known upfront.
xi. How the investment property will be managed: whether the property will be self-managed or outsourced to a property management company also should be evaluated for decision making since they both have pros and cons.
xii. Analysing all legal and regulatory factors that may affect the property investment: local zoning regulations, property taxes, levies, fees, environment, social and

governance issues that may affect the business performance of the property investment must be examined early.

xiii. Consideration of investment diversification: whether the property investment fits well within the overall investment portfolio in order to reduce risk exposure should be considered. Investing in different classes of assets and markets are known to safeguard against risk exposure.

xiv. Aligning property investment with long term goals: real estate investment is relatively illiquid in that it cannot easily be converted to cash as and when required. It takes considerable time, effort and cost to get the right purchaser for the desired profit. The investment timelines should therefore match the overall investment objectives.

xv. Inspecting of property and records: the investment property must be inspected before, during and after the acquisition for acquaintance and getting familiar with it. All records must be reviewed to confirm information provided by the seller. Inspections during the operation of the property are to monitor business performance, compliance and condition of the investment property.

Buchanan and O'Connell (2006) argued that risk is an undesirable part of every decision. Whereas most of the daily decisions seem to have very low risks, for serious organisations and investors, risks have to be well calculated and managed, more so in real estate investments (Buchanan and O'Connell, 2006). To achieve this, real estate investors ought to rely on professional advice of real estate practitioners including valuers to aid their decision making.

## 1.3 Problem statement

As noted in Baum *et al.* (2000) real estate investors are primarily profit oriented. As such, they expect to invest in real property that can earn them good return on investment at considerably minimal risk. Therefore, property valuation comes in to provide the much-needed advice that real property investors want for their decision making. However, in Uganda, just like in other countries in the world, an increasing trend of inaccurate property valuations has recently been reported (Rearich 2021: 2). Whereas Rearich (2021: 2) also argued in favour of practical knowledge gap identified by Müller-Bloch and Kranz (2014) that limited adaptability of existing

methods of property valuation, poor access to reliable property valuation data, and differences in real estate markets are some of the key factors responsible for the increasing trend of inaccurate valuations, it is unclear if the same factors are responsible for the property valuation inaccuracies in Uganda. In addition, Okumu *et al.* (2023: 1) observed that the challenge of inaccurate property values causes poor decision making for real estate investments by businesses, which then results into business financial losses and bankruptcy in many countries globally. Inaccurate valuations are known to have caused global economic crisis in developed countries such as the United States of America and countries in Europe in 2008 (Viral *et al.*, 2009). Similarly, Bank of Uganda (2017) reported on the high numbers of non-performing loans, high default rates among borrowers and failure of commercial banks in Uganda to sell and dispose collateral repossessed in the form of real estate due to inaccurate property valuation that was based on for the mortgage. As expressed in Okumu *et al.* (2023:4), there is knowledge gap about the causes of property valuation inaccuracies in Uganda and how the problem can be addressed. As advised in Miles (2017), this state of affairs is unacceptable and should be investigated further as it has the potential of causing collapse of the financial sector and the overall economy.

## 1.4 Aim and objectives of the study

In this section, the aims and objectives of the study are presented.

### 1.4.1 Aim of the study

The overall aim of the study is to examine the influence of property valuations on real estate investment decisions by businesses in Uganda.

### 1.4.2 Research objectives

The study has three main objectives as follows:

a. To identify causes of inaccurate property valuations in Uganda.
b. To identify the consequences of inaccurate property valuations in Uganda.
c. To identify interventions that can be introduced in order to improve accuracy of property valuations in Uganda.

d. To develop a locally acceptable comprehensive property valuation model in order to improve accuracy of property valuations which are used for real estate investment decisions by businesses in Uganda.

## 1.5 Research questions

To address the objectives, the following research questions were formulated for the study:

a. What are the causes of inaccurate property valuations in Uganda?
b. What are the consequences of inaccurate property valuations in Uganda?
c. What are the interventions that can be introduced to improve accuracy of property valuations in Uganda?
d. What is a locally acceptable comprehensive model to improve accuracy of property valuations which are used for real estate investment decisions by businesses in Uganda?

## 1.6 Justification for focusing on the research area

Property valuations play a significant role by influencing businesses globally in the processes of making critical decisions for their real estate investments (Nwosu 2019: 93) including: sale and lease back agreements, owner-occupier or renting, sell now or hold-on, acquisitions, terminations, securing mortgages, and annual financial statements. Property valuations contribute towards risk assessment and monitoring associated with a particular real estate investment (Appraisal Institute, 2020). The investor's major risk in real estate investment is whether the investment will yield the desired returns in terms of rent and capital appreciation in case of disposal whereby a progressive property value indicates low investment risk, while regressive value indicates high investment risk. However, the increasing valuation inaccuracies have the potential of causing collapse of the financial sector and the overall economy if it is not urgently addressed. Differences in the property industries globally, have also necessitated adjustment of existing property valuation methods, approaches and framework in order to meet needs of local conditions and improve their accuracy and sustainability in different countries including Uganda (Kucharska-Stasiak and Olbińska 2018:60).

## 1.7 Scope of the study

The scope in Simon and Goes (2013: 1) means the parameters under which the study will be operating as well as its geographical coverage, and is closely related to the framing of the problem. The scope of the study is split into geographical scope, content scope and time scope (Simon and Goes, 2013: 1). Geographically, the study was conducted in the Republic of Uganda. The Republic of Uganda is one of the countries making up the East African Community. Real estate investment in Uganda is open to both the local and foreign investors and across all the real estate sectors. Similarly, property valuers in Uganda operate in all parts of the country and provide valuation advice for different purposes to all clients including real estate business investors. The study therefore sampled from all real estate industry business investors and valuers who are registered members of Association of Real Estate Agents (AREA) Uganda, and the Valuation Chapter of the Institution of Surveyors of Uganda (ISU).

In terms of content, the study covers relationship between property valuations and real estate investment decisions. It examined how property valuations influence the real estate investment decisions by businesses in Uganda.

In terms of time scope, the study captured prevailing circumstances of property valuations and real estate investments in Uganda between March and June, 2023.

## 1.8 Theory to support research focus area

Systems theory supports the significance of this study. It insists that all parts of a system must interact in order to achieve its goals (Arnold and Wade, 2015: 669). The system theory according to Umit and Sayin (2015) is built on the presumptions that emphasis is on the importance of undistorted information in analysing and synthesising system components for efficient management. It aims to establish logical self-consistent models to explain interactions within closed or open systems (Ioan *et al.,* 2015). Eva Szabo (2023) adds that the system theory is advantageous in understanding the multi-faceted nature of real estate and its market environment. The theory offers a comprehensive, adaptable, and integrated approach to enables the research examine real estate complexities, predict market trends, leverage data

sources, policies and industrial standards to result into a practical model to support property valuation and real estate investments decisions (Eva Szabo, 2023).

In this study, property valuation and real estate investment environment, the roles of all relevant actors i.e. the property valuer, real estate business investor, government, the general public, valuation academic institution and the valuation organisation were identified in order to develop an appropriate property valuation model to support valuation accuracy for real estate business investment decisions in Uganda.

## 1.9 Methods used to address the research questions

The study adopted a mixed method design to address the research questions as highlighted below.

### 1.9.1 Mixed methods research design

The mixed methods adopt both quantitative and qualitative methods of data collection and analysis (Creswell, 2014: 11). The method is particularly useful when dealing with complex research questions that cannot be fully understood using one research method. The designs in mixed methods include convergent parallel mixed methods, explanatory sequential mixed methods and exploratory sequential mixed methods (Creswell, 2014: 14).This research adopted a convergent parallel mixed methods approach in order to overcome limitations of using a single approach (Bethlehem, 2009).

### 1.9.1 Quantitative data

This phase aims to test and validate findings using statistical rigor and generalization (Creswell. 2014: 224). In this study, questionnaire survey comprising both open and closed ended typed questions based on the set research objectives (a), (c) and (d) was used to collect primary data.

### 1.9.2 Qualitative data

Qualitative data was obtained by scoping literature review method and focus group discussions. Dijkers (2015: 1) and Peterson *et al.* (2017: 12) observed that the scoping literature review method is widely used for fast comparison of variables and critical terms of the review and their key literature sources. Focus group discussion

was adopted to address objective (b). Ochieng *et al.* (2018:21) defined focus group discussion as a research technique where a researcher assembles a group of individuals to discuss a specific topic; the purpose of which is to draw from the complex personal experiences, perceptions, belief and attitudes of the participants through a moderated interaction.

## 1.10 Contribution to the study field

The study has contributed to knowledge by developing a property valuation model which will improve the existing property valuation accuracy in Uganda. This study has also demonstrated to other countries on the African continent and in other parts of the world with evidence on how to develop a locally acceptable property valuation model to support real estate businesses in their respective countries. As part of the study, a journal article by Okumu *et al.* (2023) has been published to add to the body of knowledge on the subject. Lastly, the study identified and compiled all purposes of statutory valuations in Uganda along with their enabling laws and bases of value.

## 1.11 Definition of key terms

This section presents some of the key terms used in this thesis.

**Compulsory acquisition:** the right of government to compulsorily take private land, rights and interests upon prompt payment, fair and adequate compensation (The Uganda Constitution, 1995: 26).

**Eminent domain:** the right of government to take private property for public use upon the payment of just compensation (Appraisal Institute, 2020).

**Land tenure:** refers to the relationship, either formal or informal, between members of a society; as individuals or groups, and land. It also refers to the laws, policies, customs and institutions that define and govern people's rights to use, control and transfer land (FAO, 2002).

**Land:** according to the Limitations Act of Uganda (1959) land includes corporeal hereditaments and rent charges, and any legal or equitable estate or interest in them, including an interest in the proceeds of the sale of land held on trust for sale.

**Practical knowledge gap:** a gap arising out of knowledge versus practical disparity that can motivate new research in a given direction. In this case, the mismatch between actual performance and expectations of professional property valuers in providing accurate property valuations to guide real estate investment decisions is a classic example. Research is therefore conducted to examine the scope of the conflict and to uncover the reasons for the existence (Müller-Bloch and Kranz, 2014; Miles, 2017).

**Property investment financing:** is the amount of money that can be allocated for procuring property investment through secured lending is primarily determined by the market value of the property. The higher the property value, which is the loan security, the higher the amount of funds that an investor can obtain for his investment and the lower the property value, the lower the amount of funds that an investor can obtained for his investment. With the availability of investment funds, undertaking property investment becomes so easy (Appraisal Institute, 2020).

**Property investment value:** is the amount an investor is willing to pay for an investment based on the investor's expected return on the investment. A comprehensive valuation report will guide the investor's decision on whether the investment is worth undertaking or not (Appraisal Institute, 2020).

**Property valuation:** is defined as the process of estimating the value of a property for a specific purpose considering all relevant factors of the real estate market and features of the property on a specified date (Syagga, 1994:31; Crosby *et al.,* 2019: 141; IVS, 2022; RICS, 2022).

**Risk assessment:** refers to the reviewing, analysing and evaluating risks associated with investment alternatives and is critical for a sound investment decision making (RICS, 2022).

**Valuation:** is defined in RICS (2022:13) to mean an opinion of the value of an asset or liability on a stated basis, at a specified date.

## 1.12 Thesis structure

The thesis is structured in six chapters, whose contents are highlighted as follows.

**Chapter 1:** deals with the introduction of the study. This chapter presents the background to the study, the research problem and its setting, research aim and objectives, research questions, justification of the study, scope of the study, brief on methods used to address the research questions, definition of key terms, the structure of the thesis and study contribution.

**Chapter 2:** presents the definition of property valuation, purposes of valuation, the main bases of value, duties of a valuer, methods of property valuations, business investments, real estate business investments, real estate business investment decisions, real estate market, real estate business sector in Uganda, property registration in Uganda, property valuations in Uganda, property valuation inaccuracy, causes of property valuation inaccuracy, consequences of property valuation inaccuracy, and novel property valuation model development will be highlighted.

**Chapter 3:** presents the research methods and tools adopted in the study. This chapter describes the type of research approach and research design used, when and where the study was conducted, the study population, sampling technique used, sources of data, and the data-collection instruments used, as well as the valuation model development methodology. In addition, the method of data analysis, quality control, validity, reliability, and the ethical considerations of the study are presented.

**Chapter 4:** presents and discusses research findings. The presentation of both quantitative and qualitative data was in the form of descriptive statistics, text, tables and figures; arranged according to the research objectives. The discussions are made under each objective immediately after the presentation of the research results. The discussion is made by comparing the quantitative and qualitative results of the research with related studies and publications on the subject of this research.

**Chapter 5:** presentation of a new property valuation model to support real estate business investment decisions by businesses in Uganda. What informs the

development of the model, the model type, and roles of key stakeholders for the success of the model are further discussed.

**Chapter 6:** presents the research conclusions and recommendations of the study.

# CHAPTER 2: LITERATURE REVIEW

## 2.1 Introduction

In this chapter, the definition of property valuation, purposes of valuation, the main bases of value, duties of a valuer, methods of property valuations, business investments, real estate business investments, real estate business investment decisions, real estate market, real estate business sector in Uganda, property registration in Uganda, property valuations in Uganda, property valuation inaccuracy, causes and consequences of property valuation inaccuracy will be highlighted.

## 2.2 Definition of property valuation

Property valuation is defined as the process of estimating the value of a property for a specific purpose considering all relevant factors of the real estate market and features of the property on a specified date (Syagga, 1994:31; Crosby *et al.,* 2019: 141; IVS, 2022; RICS, 2022). In addition, Syagga (1994:31) observed a slight difference between real estate and real property albeit some judicial interpretations that considers them as one and the same. Appraisal Institute (2020:3) defines real estate to mean the physical land and appurtenances affixed to the land. It adds that real estate is immobile and intangible, for example, land, all things that are natural part of the land including trees and minerals, as well as all that are artificially attached to land, either on the surface, below or above the ground such as buildings, components of buildings and site improvements (Appraisal Institute, 2020:3). While real property includes the interests, benefits, and rights inherent in the ownership of the physical real estate (Appraisal Institute, 2020:3). It is emphasised that in property valuation, what is valued are the rights and interests inherent in the ownership of the real estate. It is these interests, benefits, and rights that either benefit or burden the real estate (Appraisal Institute, 2020:3). Real property examples according to Appraisal Institute (2020:4) include interests associated with encumbrances, covenants, ordinances, reservations, contracts, special assessments, declarations, easements, leases and restrictions among others. Abidoye and Chan (2017:36) emphasised the need for property valuations be conducted professionally and

accurately since they significantly influence the quality of real estate investment decisions made by businesses.

## 2.3 Purposes of valuation

Valuation is required for various purposes. Syagga (1994:33) and Appraisal Institute (2020:4) indicated that property valuations were required by businesses to guide business decisions under circumstances including: investment, mortgages, insurance, property tax, purchase and sale, expropriation, inventory for deceased estates, company assets, rental determinations, leases and servitudes. In the table below, the Appraisal Institute (2020:7) identified several reasons why valuation may be required. The purposes identified in Appraisal Institute (2020:7) were classified into four main purposes; for transfer of ownership, financing and credit, litigation, investment counselling, decision making and accounting as illustrated in table 1.

The examples in table 1 clearly show the relevance of property valuation for the efficient functioning of the economy. Additionally, the table shows that real estate investors globally including Uganda require property valuations for investment counselling by considering their investment goals, available alternatives, resources, constraints, and the timing of their activities to avoid and mitigate against potential losses. Nwosu (2019) also noted that property valuations played a significant role by influencing businesses globally in the processes of making critical decisions for their real estate investments including: sale and lease back agreements, owner-occupier or renting, sell now or hold-on, acquisitions, terminations, securing mortgages, and annual financial statements. More importantly, these decisions are normally binding for relatively long periods of time and involve huge sums of money to be paid out (Syagga, 1994:17). It is further observed in Appraisal Institute (2020: 8) that the decisions can have enormous impact on businesses' finances and profitability. Therefore, it was not surprising when Abidoye and Chan (2017: 42) requested property valuers to produce high quality and accurate property valuation reports in order to support businesses make good and correct decisions for real estate investments.

**Table 1: Purposes of property valuation**

| Main Purpose | Examples of scenarios |
|---|---|
| Transfer of Ownership | i. To help prospective buyers set offering prices<br>ii. To help prospective sellers agree on acceptable selling prices<br>iii. To establish a basis for real property exchanges<br>iv. To establish a basis for reorganising or merging the ownership of multiple properties<br>v. To determine the terms of a sale price for a proposed transaction |
| Financing and Credit | i. To develop an opinion of the value of the real property offered as collateral for a proposed mortgage loan<br>ii. To provide an investor with a sound basis for deciding whether to purchase real estate mortgages, bonds, or other types of securities<br>iii. To establish a basis for a decision to insure or underwrite a loan on real property |
| Litigation | **Eminent domain proceedings** (compulsory acquisition and compensation)<br><br>i. To develop an opinion of the market value of a property as a whole; i.e., before an acquisition<br>ii. To develop an opinion of the market value of the remainder after a partial taking<br>iii. To estimate the damages to a property created by a taking<br><br>**Property divisions**<br><br>i. To develop an opinion of the market value of a property in contract disputes<br>ii. To develop an opinion of the market value of real estate as part of a portfolio<br>iii. To develop an opinion of the market value of partnership interests<br><br>**Real estate litigation**<br><br>i. To estimate damages created by violations of environmental laws<br>ii. To estimate damages created by environmental accidents<br>iii. To estimate damages due to construction defects or defects in title<br>iv. To determine professional liability (of a broker, attorney, appraiser, or other professional)<br>v. To help settle bankruptcy cases and the dissolution of business partnerships and marriages<br>**Tax matters**<br><br>i. To develop an opinion of assessed value or another type of value<br>ii. To separate assets into depreciable (or capital recapture) items such as buildings and non-depreciable items such as land, and to estimate applicable depreciation (or capital recapture) rates<br>iii. To develop an opinion of the value of the real estate component of an estate plan that represents the foundation for future capital gains and inheritance taxes<br>iv. To develop an opinion of value used in determining gift or inheritance taxes<br>v. To develop an opinion of value of conservation easements |

**Table 1 (continued): Purposes of property valuation**

| Main Purpose | Examples of scenarios |
|---|---|
| Investment Counselling, Decision Making, and Accounting | i. To develop an opinion of fair value for financial reporting<br>ii. To set rent schedules and lease provisions<br>iii. To determine the feasibility of a construction or renovation program<br>iv. To help an investor trade an interest in a corporation that holds real property<br>v. To help corporations or third parties purchase homes for transferred employees<br>vi. To serve the needs of insurers, adjusters, and policyholders<br>vii. To facilitate corporate mergers, the issuance of stock, or the revision of book value<br>viii. To develop an opinion of liquidation value for forced sale or auction proceedings<br>ix. To counsel clients by considering their investment goals, alternatives, resources, constraints, and the timing of their activities<br>x. To advise zoning boards, courts, and planners, among others, on the probable effects of proposed actions<br>xi. To assist in arbitrating valuation issues<br>xii. To analyse supply and demand trends in a market<br>xiii. To identify the current status of real estate markets<br>xiv. To value fixed assets and assist in asset value allocations |

Source: Adapted from Appraisal Institute (2020:4)

## 2.4 Bases of value

Abidoye *et al.* (2021: 343) observed that property valuers when undertaking property valuations define the basis of value that will address the need of a real estate business investor. IVS (2022) and RICS (2022) define basis of value to mean the fundamental definition of the type of value to be returned by the valuer. In addition, Appraisal Institute (2020) strongly recommends that the basis of value must be consistent with the purpose of valuation shown in table 2 in any given circumstance. There are several bases of value a valuer can report on however the commonest and the most preferred basis of value is the market value (IVS, 2022). Others include market rent, investment value, fair value or equitable value, special value, synergistic value and liquidation value as defined in the (IVS, 2022). The main bases of value recognised by RICS (2022) Valuation Professional Standards (VPS) are briefly discussed below:

### 2.4.1 Market value

Market value is defined in the IVS (2022:104) as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a

willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion". RICS (2022) adds that market value as a basis of value means an exchange between parties that are unconnected and are operating freely in the marketplace. In other words, the market value represents the figure that would appear in a hypothetical contract of sale, or equivalent legal document, at the valuation date (RICS, 2022). The market value should reflect all those factors that would be considered in framing bids by market participants at large and reflecting the highest and best use of the asset (Syagga, 1994: 3). The highest and best use of an asset is the one that maximises its productivity where it is possible, legally permissible and financially feasible (IVS, 2022:140). Market value ignores any price distortions caused by for example a special purchaser (Geltner *et al.,* 2014). In assessing market value, the following assumptions are made (RICS, 2022):

i. Both the buyer and seller are economically motivated and are both acting prudently.
ii. The sale price is not affected by any undue influence.
iii. Both parties are well informed and well advised and are acting in what they consider to be their own best interest.
iv. A reasonable time is allowed for exposure in the open market

**2.42 Market rent**

IVS (2022) defines market rent as "the estimated amount for which an interest in real property should be leased on the valuation date between a willing lessor and a willing lessee on appropriate lease terms in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion". IVS (2022) adds that market rent is greatly affected by the nature of contract entered into between transacting parties i.e. landlord and tenant. It is observed in IVS (2022) that such terms as the duration of the lease, the review intervals, incentives or concessions, responsibilities of each party to the lease, as well as the conditions; be it by contract or law for example the taxes, fees, rates and dues imposed on the leased property will also affect or influence the rent for the leased interest in a particular property. Nevertheless, Geltner *et al.* (2014) notes that market

rent is expected to assume the prevailing rent for a similar real interest within the locality. RICS (2022:65) clarifies that market rent will normally be used to indicate the amount for which a vacant property may be let, or for which a let property may re-let when the existing lease terminates. Crosby *et al.* (2019: 143) urgued that market rent is not a suitable basis for settling the amount of rent payable under a rent review provision in a lease, where the definitions and assumptions specified in the lease have to be used.

### 2.4.3 Fair value

Fair value is defined by the International Accounting Standards Board (IASB) and the International Financial Reporting Standards (IFRS) 13 as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date". This definition overlaps with that of market value, which should not be the case. As such, IVS (2022) equated fair value to equitable value and redefined it as "the estimated price for the transfer of an asset or liability between identified knowledgeable and willing parties that reflects the respective interests of those parties''. IVS (2022) acknowledged the fact that fair value is still a key basis of value required in many statutory and non-statutory valuations including the International Accounting Standards (IAS). RICS (2022) further guides that fair value measurement will require an entity to determine the particular asset or liability that is the subject of the measurement, which must be consistent with its unit of account.

RICS (2022) adds that for a non-financial asset, the valuation premise that is appropriate for the measurement must be consistent with its highest and best use i.e. the principal or the most advantageous market for the asset or liability should be considered. Adrienne and Geltner *et al.* (2014) emphasises the need to adopt the most appropriate valuation technique(s) for the measurement of value of an asset by considering the availability of data with which to develop inputs. Adrienne and Geltner *et al.* (2014) added that the inputs should be that which represent the assumptions that market participants would use when pricing the asset or liability and the level of the fair value hierarchy within which the inputs are categorised.

### 2.4.4 Investment value

Investment value is defined in IVS (2022) as "the value of an asset to a particular owner or prospective owner for individual investment or operational objectives". This basis of value as noted by Geltner *et al.* (2014) does not envisage a hypothetical transaction but is a measure of the value of the benefits of ownership to the current owner or to a prospective owner, which may differ from those of a typical market participant. Crosby *et al* (2019) adds that investment value is often used to measure performance of an asset against an owner's own investment criteria, such as the target rate of return, expected payback period, the expected profitability index, the expected internal rate of return, expected return on investment and return of investment, and so on. This view was supported by Crosby *et al.* (2016: 332) while refining the real estate pricing model.

## 2.5 Duties of a valuer

A valuer who is also referred to as an appraiser is a professional responsible for determining the value of a real property (Appraisal Institute, 2020). The ISU constitution (2022) defines a valuer as an individual, group of individuals or firm who possesses the necessary qualifications, ability, and experiences to execute a valuation in an objective, unbiased and competent manner. While the Surveyors' Registration Act (1974) defines a person authorised to carry out valuation in Uganda as a valuation surveyor registered under the Act or simply a Registered Surveyor of Uganda. It is observed that the core duty of a valuer is to advise clients on the unbiased and accurate value of property (Appraisal Institute, 2020). Scarret (2014) and Appraisal Institute (2020) argued that unbiased, accurate and reliable property value is required for aiding decision making in property transactions such as sale, purchase, taxation, refinancing, mortgage lending, insurance coverage and investment strategies, among others. Scarret (2014) added that the unbiased and accurate value ensures that transactions and pricing decisions are fair and transparent. In addition, Syagga (1994: 34) noted that to achieve the unbiased and accurate property value, a valuer upon receiving instruction is required to analyse the

instruction, conduct property inspection, undertake market research, organise and analyse the data, form an opinion of the value of the property, compile a report, communicate the finding to the client. Scarret (2014) and IVS (2022) further argued that it is the duty of the valuer therefore to be updated with matters concerning his or her profession including adhering to the legal and ethical standards as well as participating in the events and programs of the valuation profession.

## 2.6 The five methods of property valuations

There are five main methods of property valuation used to determine values of real estate investments, namely: income approach, profits, replacement cost, direct capital comparison and residual methods (Scarret, 2014; Syagga, 1994:35; IVS, 2022; RICS, 2022). However, the International Financial Reporting Standards (IFRS) 13 recommends only three of the methods i.e. income approach, cost approach and market approach. In this chapter however all the five methods of valuation adopted by property valuers for valuing investment properties are explained since investors require different types of values in order to inform their real estate business investment decisions.

### 2.6.1 Income capitalisation method of valuation

The income method is used to value commercial and industrial property whereby the net annual income expected of a property is capitalised in order to calculate the value of the property (Appraisal Institute, 2020; Baum *et al.*, 2018; Scarret, 2014). This method combines both land and developments as a single unit of investment whose combined yield is captured as the net income per annum (Baum *et al*., 2018). Appraisal Institute (2020) further adds that when using this method of valuation, a valuer is required to obtain information on the property income and out goings which are the expenses as well as the capitalisation rate to be applied. The information collected must be compared with the similar property investments in the market for reliability (Appraisal Institute, 2020). Abidoye *et al.* (2019) noted that the accuracy of this method depends on the reliability of the variables that are applied in the method. The income capitalisation formula according to the Appraisal Institute (2020) and Baum *et al.* (2018) is derived from the following steps:

**Table 2: The income capitalisation formula**

| Steps | What is required |
|---|---|
| 1 | Sum up all income received from the property in a year (12 months) |
| 2 | Sum up all outgoings (operational expenses) from the property investments in a year. |
| 3 | Calculate the Net Operating Income (NOI) by subtracting the total operational expenses from the total income. |
| 4 | Determine the appropriate Capitalisation rate (Cap rate - R) to apply. |
| 5 | Calculate the Net Present Value (NPV) by dividing the NOI by the CAP rate. |
| | **Therefore:** If capital value is the same as the NPV, then, NPV = NOI/R |

Sources: Appraisal Institute (2020) and Baum *et al.* (2018)

The income method of valuation is criticised in (Scarret, 2014; Syagga, 1994:37; IVS, 2022; RICS, 2022) for its challenges that lead to inaccurate valuation including: unavailability of complete information on comparable properties to enable valuers makes the right adjustments on income, expenses and capitalisation rate or yields; comparable rents may lag behind market rents; incorrect records on outgoings such as management and operational expenses, taxes and rates levied on the investment properties; difficulty faced in adjusting income to reflect specific advantages and disadvantages of the comparable property in relation to the property being valued; when it is used to value real property which is not in its highest and best use; and where rent is fixed by either a law or contract. For example, a restriction on annual increment on rent in Uganda is not to exceed 10% of the previous year's rent as per the Landlord and Tenant Act (2022). Ground rent for government leases are usually fixed and revised at 0.5% of the prevailing land market value after ever ten years (Land Regulations, 2004). The same challenges are also reported by valuers in Uganda (Okumu *et al.,* 2023). As a practice in Uganda, valuers apply between 8% to 12% capitalisation rate for residential and commercial property; and between 12%

and 14% for industrial properties in the Kampala Metropolitan City (Knight Frank, 2023).

### 2.6.2 Profits method of valuation

Profits method of valuation is also known as the investment method of valuation in some valuation books (IFRS, 2021). The method is applied on certain types of property such as hotels and restaurants (Syagga, 1994:37). In this method, the valuation focuses purely on the net profit to be made by the property business investment (Scarret, 2014). Scarret (2014) adds that the net profit is capitalised at an appropriate rate of return to obtain the market value of the business. The process of calculating property value by the profits method is similar with the income capitalisation method except that an audit of the property business performance is required to inform the valuation (Syagga, 1994:40). According to Scarret (2014) the profit method of valuation assumes that: there is good business book keeping where all property business incomes and outgoings including property rates and tax levies are documented; only incomes and expenses which are directly linked to the real estate business are considered; there are audited books of account for a considerable period of at least three years for reliability of record on the performance of the business; there is a clear distinction between the ownership of the business and real estate; the business rate of return is reflective of similar type of businesses.

The profit or investment method of valuation is also criticised for its challenges that lead to inaccurate valuation. Geltner *et al.* (2014) observed that poor business record keeping and falsification of cash flows can hinder accuracy of property values to be determined by this method. In addition, valuers in Uganda and elsewhere have complained that the method is so complex since it requires deeper knowledge and skills in business financial management and analysis which most traditional property valuers lack (Chikafalimani *et al.,* 2020: 2169; Wesonga *et al.,* 2022: 108). Oyewale and Abiodun (2016) advised that the profits method of valuation should be carefully selected since it only considers the business interest in the real estate such as a shop, restaurant, clinic, solon, etc.

### 2.6.3 Cost method

Cost method is also referred to as the contractor's method (Syagga, 1994:38). It is a method of valuation used to value property with no income information such as public schools, prisons and hospitals (RICS, 2022; Appraisal Institute, 2020) on the assumption that an individual will not pay for a property more than it would cost to acquire. In this method, the cost to replace the property is calculated and used as its value (Abidoye *et al.,* 2018: 71; Oyewale and Abiodun, 2016). Syagga (1994:38) and Geltner *et al.* (2014) noted that cost method has three approaches:

i. Replacement cost, where the cost of a building constructed using current materials and technology is depreciated to determine its value.
ii. Reproduction cost, where the cost of a building constructed in a similar fashion using replica materials and technology is calculated to determine its value.
iii. Factored historical cost, which is commonly adopted for retrospective valuation whereby historical costs are indexed to reflect current prices.

The preferred approach of the three cost approaches for determining the market value of real property is the replacement cost (Geltner *et al.,* 2014). Syagga (1994) argued that the replacement cost approach is ideal for valuation purposes that require a separation of value contribution from the different aspects of the real estate such as land, buildings, plant and machinery, etc. For compensation assessments under eminent domain proceedings, the replacement cost method ignores depreciation since the aim of the compensation is to place the affected person in the state he or she was before displacement (International Finance Corporation Performance Standards, 2012:5). This is so because the affected building must be replaced using new building material at the current cost of labour, thus, depreciation is ignored (IFC, 20212:5).

Just like the previous methods, the cost method of valuation is criticised for its imperfection to deliver accurate valuation (Syagga, 1994:38; Geltner *et al.*, 2014). Geltner *et al.* (2014) noted that the method relies on so many assumptions such as the unit cost rate, depreciation levels i.e. physical depreciation, economic depreciation

and functional obsolesce. Syagga (19942) argued that cost and value do not necessarily mean the same thing, and the method does not reflect a true market position where there is a willing buyer and a willing seller; as such, the method is less accurate for market value determination.

Syagga (1994), Baum *et al.* (2021) and Scarret (2014) observed that the use of the cost method is prevalent in developing real estate markets including Uganda due to: limited market information, heterogeneous building designs which make finding true reliable comparable properties nearly impossible, limited exposure to other methods of valuation such as the sales comparison or income methods, the high client preference for the use of cost method which is partly attributed to the method returning higher figures compared to other methods, and the method is preferred for asset inventory (book value), compensation assessments and insurance premium calculations where there is need to separate the wasting assets such as buildings and leases from non-wasting assets such as land, and provide segregated values for real estate. In addition, Syagga (1994) noted that the adoption of different approaches for estimating depreciation, site or external works, and what to include or not to include such as professional fees and taxes, contribute to valuation inaccuracies and high variance among valuers.

### 2.6.4 Comparable sales method

This method is also referred to as direct capital comparison method or market approach (Appraisal Institute, 2020; Baum *et al*., 2018; Scarret, 2014). It is a method of valuation whereby the property to be valued is compared with prices of similar properties that have sold recently in the open market (RICS, 2022). In other words, it is a method where the purchase prices or rental values of similar properties that have been sold of recent are converted to a rate per unit area (Scarret, 2014). The rate is adjusted based on predetermined parameters in terms of the subject property such as its accessibility, building designs and specific amenities (RICS, 2022). The adjusted rate is then used to value the subject property (IVS, 2022). Abidoye *et al.* (2019) noted that this method is popular for the valuation of residential real estate investments since it is easy for businesses to obtain prices of similar and comparable properties in the property market.

Abidoye *et al.* (2019) and Syagga (1994) however observed that there is scarcity of reliable data sources for direct capital comparison method in some countries including Uganda, which affects accuracy of this method. For example, the Uganda Revenue Authority (2022) decried of the opaqueness of real property market in Uganda where there is rampant falsification of prices captured in the property sale agreements, and as a result value of property for transfer tax is under assessed. ISU (2019) had also observed that there was no central data base for property transactions, the information obtained from some sources was unreliable and more often speculative, and the parameters and the relative weights attached to the parameters for valuation adjustment were not standardised. In addition, RICS (2022) amplified the increased concern among valuers about incorporating non-market-based parameters such as Environment and Social Governance (ESG) into the parameters for property value adjustment. However, the Appraisal Institute (2020) recommends that parameters and weights attached should depend on the purpose of valuation and basis of value to be communicated by the valuer. The more similar the comparable properties are to the subject property of valuation, the lesser the adjustments required and the more accurate the resultant value will be (Syagga, 1994:36).

### 2.6.5 Residual method

Syagga (1994:41) explained that the residual method of property valuation is used to value property with development or redevelopment potential. Syagga (1994:41) added that the method is preferred for valuation of property which is either undeveloped or partly developed. The main principle applied in residual method of valuation is to estimate the value of the property as if developed to its best advantage, then deduct the cost of development to remain with the value of the property in its existing state (Geltner *et al*., 2014). This method Scarret (2014) argued that requires thorough and in-depth analysis of the proposed real estate investment in order to improve its accuracy.

The above five methods of property valuation notwithstanding, differences of the real estate industries globally, have necessitated adjustment of existing valuation

methods to meet needs of local conditions and improve their accuracy and sustainability in their respective countries including Uganda (Okumu, *et al*., 2023; Kucharska-Stasiak and Olbińska, 2018; Sayce and Connellan, 2002).

## 2.7 Property valuation process

The valuation process is defined in RICS (2022) as the systematic approach or steps followed by a valuer to return a value of property. In generic terms, the process of valuation can be categorised into the following steps:

### 2.7.1 Instruction

Instruction is the service of valuation requested for by a client. RICS (2022) adds that valuation is required of different interests in different types of assets for a range of different purposes. The request according to IVS (2022) can be made orally or in writing, clearly mentioning the property to be valued, the purpose of the valuation and providing the client's contacts for further inquiry.

### 2.7.2 Planning

Baum *et al.* (2006) and IVS (2022) advised that on receipt of the instruction letter, the valuer should examine the completeness of the instruction in order to understand the location of the property, purpose and scope of the valuation, the basis of value to be returned, the required resources in terms of manpower, tools, equipment, skills, budget, the means to reach the property and duration of work, the legal document required such as proof of ownership of property and plot boundary survey report, external assistance that may be required, what type of data should be collected, from which source the data should come, and when inspection will take place.

In Uganda, confirmation of land size, shape, delineation and all land survey services are provided by certified Surveyors of Uganda (The Surveyors Registration Act, 1974). While proof of ownership is by a certificate of title in either freehold, mailo, leasehold or by a certificate of customary ownership (The Land Act, 1998), a memorandum, covenants, a will, letter of administration (Administrator General Act, 1997), or sale agreement (Contract Act, 2010). To confirm registration status, a

search on the register is conducted and a report certified by the Registrar of titles is issued to that effect (Registration of Titles Act, 1924).

### 2.7.3 Execution

Once the valuer has made sufficient preparations for the valuation, the next step is to inspect the property. Inspection of property is done by either the valuer or trained data collectors under the supervision of the valuer (IVS, 2022). The data collected are both physical and location-based attributes of the property, termed as the internal variables (Appraisal Institute, 2020). These attributes according to RICS (2022) include the description of the land i.e. whether it is developed or not, the nature of development on the land, the purpose for which the property is used or could be used, physical measurement to determine the area of the building, construction description in terms of the type of building, and the number of rooms or accommodation. In addition, attributes such as the external and internal material used in the construction and finishes, types, quality and condition of fittings, installations and services such as fire safety equipment, air conditioning, gas supply, internet service security management system, water, electricity, and mobility within the building e.g. elevator and lift services are documented (RICS, 2022).

Similarly, Griswold (2020) and Caleb *et al*. (2011) added that data is collected on the existing occupants, and their relationship or arrangement with the property owner in terms of contract rent and incentives, special obligations relating to fixed and variable management costs such as taxes, fees, dues, wages, bills and fares, etc. RICS (2022) adds that data collected on the neighbourhood is termed as the external variables and is categorised as either positive or negative externalities that may affect the property value or use. For example, accessibility to the property in terms of infrastructure available such as public transport by train, trump, bus or taxis; legal or statutory requirement such as conformity with zoning and planning of the area, sustainability commitments, other interests and rights over the property which are either real or perceived, for which the valuer must conduct due diligence (Appraisal Institute, 2020). Finally, market data is collected on comparable property preferably within the neighbourhood in terms of rental rates, discount rates, occupancy rates,

and vacancy and collection losses, the general demand and supply of similar property within the neighbourhood, upcoming interventions by either private or government that may impact on the performance of the property (Appraisal Institute, 2020; Cheloti and Mooya, 2023: 77).

### 2.7.4 Data analysis

The data collected is analysed using one or a combination of various tools (Clive, 2015) such as SWOT analysis (strengths, weaknesses, opportunities and threats), PESTEL (political, economic, social, technological, environmental and legal), a rate per unit area, using models and tools such as regression model, Discounted Cash Flow (DCF) techniques, Net Present Value (NPV), Accounting Rate of Return (ARR), Payback period, Internal Rate of Return (IRR), and Property Price Index (PPI) using Hedonic pricing model (RICS, 2022). There are available software tools in the market that can help valuers analyse data accurately if the required valuation data is accurate (French, 2015).

### 2.7.5 Reporting

RICS (2022) guides that although reports may often commence with identification of the asset (or liability) and confirmations of the purpose of the valuation, valuers are strongly advised where possible to consider and follow the headings when reporting to ensure that all relevant matters are covered. The relevant matters to be covered in the valuation report as set out in RICS (2022) and IVS (2022) include: identification and status of the valuer, identification of the client and any other intended users, purpose of the valuation, identification of the asset or liability valued, basis of value adopted, valuation date, extent of investigation, nature and source of the information relied upon, assumptions and special assumptions, restrictions on use, distribution and publication of the report, confirmation that the valuation has been undertaken in accordance with IVS or RICS standards. In addition the report should contain the valuation approach and reasoning, the value determined, date of the valuation report, commentary on any material uncertainty in relation to the valuation where it is essential to ensure clarity on the part of the valuation user, and statement setting out any limitations on liability that have been agreed (RICS, 2022; IVS, 2022).

Comparatively, the valuation process is summarised under eight steps in Appraisal Institute (2013:37) as shown in figure 4 as follows: **Step 1:** The identification of the valuation problem. At this stage, the valuer identifies the valuation client and the intended users. The valuer identifies the intended use, type and definition of value, the effective date of the opinion, the relevant characteristics of the property, and any conditions pertinent to the valuation assignment. **Step 2:** Scope of work determination. **Step 3:** Data collection and property description. This includes collection of market area data which involves the general characteristics of a region, city, and neighbourhood, collection of the subject property data which involves the subject characteristics of land use and improvements, personal property and business assets, etc., collecting data on comparable property which entails sales, listings, offerings, vacancies, cost and depreciation, incomes and expenses, capitalisation rates, etc. **Step 4:** Data Analyses. At this stage, the valuer conducts market analyses on the demand, supply and marketability of the property. The valuer may also consider highest and best use analysis assuming if the land was vacant, what could be the ideal improvement? And what if it were improved? **Step 5:** Land or property value opinion. **Step 6:** The application of the approaches to value the property. The valuer considers which valuation approach to adopt i.e. sales comparison, income capitalisation, or cost approach. **Step 7:** Reconciliation of value indication and final opinion of value. **Step 8:** Report on the defined value. The valuer pronounces his or her opinion of value having regard to all the relevant factors affecting the property market in the locality.

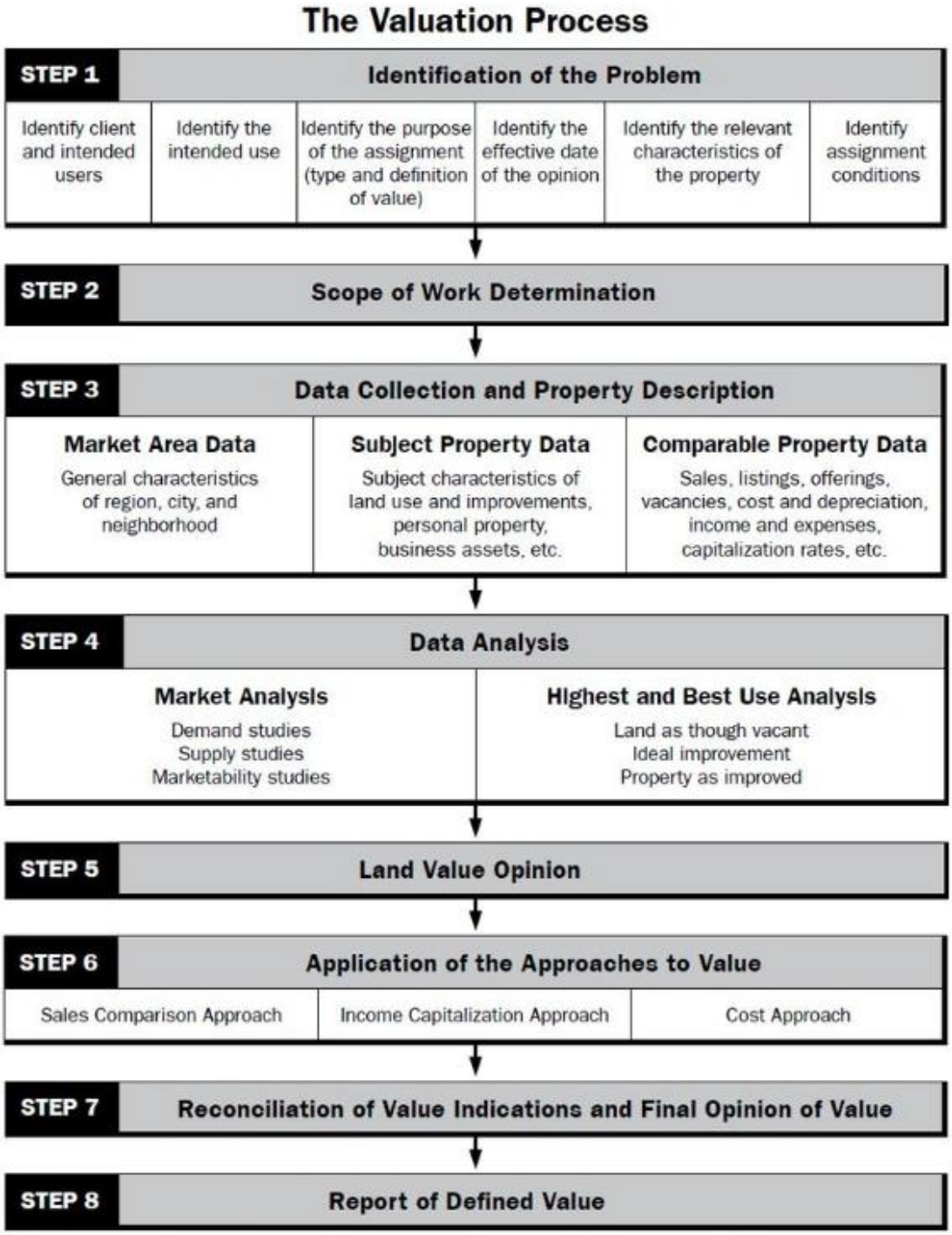


**Figure 2: Summary of property valuation process**
Source: Adopted from Appraisal Institute (2013)

## 2.8 Contents of property valuation report

Valuation as a profession has standards that must be followed to ensure uniformity and to avoid chances of misleading clients and stakeholders including real estate business investors (RICS, 2022). As such, there is a minimum standard of reporting

valuation opinion provided in the IVS (2022:18). However, Baum *et al*. (2006) argued that the valuer and the client must agree on the content scope of the report. However, Baum *et al.* (2006) proposed a more comprehensive list than the IVS (2022) as follows: Identification of the client; purpose of the valuation; subject of the valuation; interest to be valued, the type of property and how it is used, or classified, by the client; basis, or bases, of the valuation; date of valuation-which could be different from inspection date; status of the member and disclosure of any previous involvement; currency to be adopted; any assumptions, special assumptions, reservations, and special instructions or departures; extent of the valuer's investigations; nature and sources of information to be relied on by the valuer; any consent to, or restrictions on, publication; any limits or exclusion of liability to parties other than the client; confirmation that valuation accord to a specified standard e.g. the IVS or RICS; opinion of value in figures and words; signature and date of the report; and appendices. In addition, Baum *et al.* (2006) emphasised that valuation property inspection must capture the location, description and construction, accommodation and floor areas, condition, site, services, planning, rating (taxes) on property, other taxes, dues and fees, tenure, occupation lease detail, market commentary, market rental value, market yields, reinstatement cost (if required) and classification (grading) of the building.

Omokhmion *et al.* (2019) argued that a real estate business investor will be interested in knowing whether the investment will yield profit or not and as such, the information provided by the value must be detailed enough to support real estate business investment decision making. Similarly, Okumu *et al.* (2023: 42) also agreed that all the above components are vital for the determination of property value for real estate investment decisions.

## 2.9 Business investments

Investment simply means foregoing of a capital sum in return for a regular income over a period of time (Syagga, 1994:17). While investopedia defines an investment as an asset or item acquired with the goal of generating income or appreciation in value of the asset. In all, Baum *et al.* (2006) simply put it that investing requires putting capital to work in the form of time, money, effort, and so on in hopes of

greater payoff in the future than what was originally put in. Omokhmion *et al.* (2019) further argued that investment can be any medium or mechanism used for generating future income for example, purchasing bonds, stocks, real estate property, or alternative investments. Therefore, a risk adverse person with a lot of money may decide to keep the money on a saving account or at home but the right thing is to invest that money so as it can earn more money in the near future (Omokhmion *et al.*, 2019; Syagga, 1994).

Baum *et al*. (2006) added that all investments have some levels of risks, but some are riskier than others. An investor may not achieve the target goal or may actually supersede it. It is therefore important to compare the different alternative investments before investing ones' money (Baum *et al.,* 2006). An ideal investment has the following qualities (Appraisal Institute, 2020; Thilini *et al.*, 2020); security of capital which is the assurance of capital against potential risks and losses, liquidity of capital which is the ability to quickly access and convert assets into cash, cost of capital which is the cost incurred to generate returns on investments, tax concessions which are the special tax benefits, incentives, or exemptions granted by the government to specific individuals, businesses, industries, or activities. Baum *et al*. (2006) added divisibility of capital which means the extent to which the available capital can be divided into smaller units or amounts to provide flexibility and allows for more diverse investment opportunities as another quality of a good investment. Syagga (1994) and Scarret (2014:10) preferred to call them the main attributes desired in an investment but put them in another nomenclature i.e. the ease and speed with which it can be bought and sold, without restrictions on access and with low dealing and transfer costs, one that brings positive cash flow or income, one that is homogeneous and divisible, one which is well and fully definable and documented, one for which there is a demand, one which requires minimal management, one which is not politically sensitive, and one with prospects of increase in capital value.

### 2.9.1 Types of business investments

Thilini *et al.* (2020) observed that investors have several options for their investments. A prudent investor will spend time to examine the risk profile of every

type of investment and then choose the options with the appropriate risk level he or she is willing to take, and also examine the characteristics and returns of the investment asset before committing to any option (Thilini *et al.,* 2020). Examples of investment options available to the investor include the following;

#### 2.9.1.1 Treasury bills

Syagga (1994:21) defines treasury bills as short-term debt financial instruments issued by the government to the general public. Syagga (1994:21) explained that the government issues the treasury bills in order to finance its short-term financial needs. The treasury bills have a short maturity period not exceeding one year. Treasury bills are one of the safest investment options since they are backed by government securities.

Baum *et al.* (2006) added that when government issues treasury bills to the public, it is a form of borrowing with a promise of an attractive fixed interest rate at the end of the holding period. At the end of the maturity period, the government pays the investor both the principal and the interest on the principal. The interest earned is the difference between the value of the treasury bill at maturity which is also known as face value and the principal which is also known as the purchase price. In terms of liquidity, treasury bills are so liquid. Baum (2015) advised that treasury bills can be traded in secondary market even before they have reached maturity. Unlike Uganda, Baum *et al.* (2006) observed that most countries exempt treasury bills from any form of taxation in order to make them more attractive to tax averse investors. However, interests and dividends from treasury bills are taxed in Uganda (URA, 2023).

#### 2.9.1.2 Bonds

Baum (2015) defines bonds as interest backed loans issued to the general public by either a company or government. Baum (2015) further explained that bonds issued by government are referred to as treasury bonds. He added that bonds are issued for various reasons including to obtain funds to finance strategic investments, and to control inflation caused by oversupply of money in the economy. And those bonds

have a longer maturity period than treasury bills. The maturity period of a bond ranges from one year and above. Bank of Uganda issues treasury bonds with maturity periods of 2,3,5,10,15 and 20 years with varying fixed interest rates (BOU, 2023). Baum *et al.* (2006) earlier on argued that treasury bonds are very secure compared to other investment options however they offer lower fixed interest rates. This means that the returns on investment in purchasing bond security are low (Syagga, 1994:21). Comparatively, companies tend to offer better interest rates than the sovereign backed bonds (Thilini *et al.*, 2020).

Baum *et al.* (2006) and Appraisal Institute (2020) explained that both treasury bills and bonds are traded in primary and secondary markets. They added that the primary market is where newly issued securities are sold to the public for the first time through what is referred to as initial public offer, while the secondary market is where previously issued securities are transacted among investors in publicly traded companies. Appraisal Institute (2020) explained that in a primary market, the focus is to raise capital for the issuer; while in the secondary market, the focus is to provide liquidity to investors who want to trade in securities they already own. Syagga (1994:21) revealed that the return on treasury bills or bonds is referred to as redemption yield or yield to maturity. He added that the redemption yield equates the current market price of the bond to the present value of its future cash flows including the interest payment and the principal at maturity. Baum (2015) emphasised the key variables to consider for calculating the redemption yield as the coupon rate, bond's price, face to value of the bond, and the time up to maturity. Baum (2015) added that the redemption yield enables investors compare between investment options available, and make concise investment decisions.

#### 2.9.1.3 Exchange traded funds

Baum *et al.* (2006) and Appraisal Institute (2020) explained that exchange traded funds are designed to track specific market index or sector on stock exchanges. They added that exchange traded funds offer investors a way to gain exposure to a diversified portfolio of assets including stocks, bonds, commodities, or financial

instruments without having to buy each security individually. However, the exchange traded funds have similarities with mutual funds (Baum, 2015).

#### 2.9.1.4 Mutual funds

Appraisal Institute (2020) defines mutual funds as investment vehicles that pool funds from investors to invest in diverse range of investment options including treasury bills, bonds, stocks, etc. It is worth observing that interest earned in an investment fund is tax exempt in Uganda (URA, 2023).

#### 2.9.1.5.6 Stocks

Appraisal Institute (2020) observed that stocks are ownership rights in a company which can be traded on stock exchanged. Syagga (1994:21) argued that trading in stocks is linked to high returns but also high risks that need to be well managed.

#### 2.9.1.6 Commodities trade

Baum *et al.* (2006) explained that commodities trade refer to trading in raw materials which can be transacted through commodity exchange platforms. The common commodities traded are oil, agricultural produce and minerals (Appraisal Institute, 2020).

#### 2.9.1.7 Crypto currencies

Appraisal Institute (2020) noted that crypto currencies are a new development in the global financial sector. Bitcoin and Ethereum are examples of crypto currencies considered as digital assets which are operated outside of the Central Bank and can be transacted through digital exchanges. Crypto currencies are yet to be embraced in Uganda since there is no law regulating them.

#### 2.9.1.8 Real estate

Real estate as an investment option range from indirect which is based on paper assets backed by property e.g. investing with Real Estate Investment Trusts (REITs), to direct property holdings such as the freehold or leasehold interest in offices, retail, industrial, warehousing, residential, leisure property and so on (Appraisal Institute,

2020). Similarly, Baum (2015) described real estate investment as one which involves the purchase, ownership, management, rental, or sale of real estate properties for income or profit generation purposes. Since real estate investment is the gist of this thesis, it is explored in detail in the following sections.

## 2.10 Real estate as a type of business

Real estate business can be defined as "the acquisition, holding, leasing or disposing of real property which is land and buildings as an investment for sole purpose of maximizing profit through rental income and or capital appreciation" (Okumu *et al.*, 2023: 44). As a type of business, Geltner *et al.* (2014) notes that it directly targets commercial, residential and industrial properties as well as activities associated with property transactions. Examples of activities associated with property transactions according Geltner *et al.* (2014) are acquisition, development, marketing, financing, property management, real estate education, as well as real estate advisory services including valuation and legal services. Blumenfeld (2022) observed that real estate business had expanded greatly from the original confines observed in Geltner *et al.* (2014), and identified top fifteen types of real estate investments for 2023 in the United States of America (USA).

The fifteen types of real estate investments for 2023 in the USA according to Blumenfeld (2022) were single family homes, vacation rentals (summer residences), retail venues, office buildings, multifamily units, industrial lots, mixed-use spaces, raw land (to hold, divide, or develop), house flipping, house hacking, hotels (offering; full-service, limited service, budget and extended stay), Real Estate Investment Trusts (REITs), Crowd funding platforms, Real Estate Investment Groups (REIGs), and Health Care Facilities e.g. veterinary clinic, 24-hourr urgent care, primary care physician's office, physical therapy clinics, cosmetic surgery canters.

As discussed earlier in this chapter, real estate as a business can be done either directly or indirectly through third parties (Appraisal Institute, 2020). Richardson (2023) explained that direct real estate investment involves the actual owning and

managing of the real property by the investor, while for the indirect real estate investment, Richardson (2023) adds is where an investor invests in a pooled real estate investment vehicle such as real estate crowd funding, real estate funds or Real Estate Investment Trusts (REITs) that own and manage the property on behalf of the investor. Richardson (2023) added that some literatures use active and passive to mean direct and indirect real estate investment options respectively. Whereas active investments such as in flipping houses and managing residential property are more lucrative, Richardson (2023) noted that they are likely to require more initial capital. Blumenfeld (2022) also noted that the risks associated with active investments are also more than of passive real estate investments. Some of the real estate businesses identified by Blumenfeld (2022) for equity multiple clients are new to the Uganda's real estate market. Rotimi *et al.* (2018) noted that whatever the type and mode of real estate business an investor chooses, there ought to be a valuation report to facilitate the decision. A good valuation report should be detailed enough to enable the investor compare the available real estate investment options in the market (Baum *et al*., 2006).

## 2.11 Real estate business investment decisions

Real estate business investment decision is defined in Griswold (2020) "as the analysis of various factors that may affect a potential investment opportunity, the risks and returns of alternative investment options and making informed decision on which investment to pursue". Griswold (2020) explained that the factors include the property market conditions in terms of supply and demand, location, property characteristics including its type, design, maintenance cost and condition, financing options; whether debt or equity financing, legal and institutional factors such as development planning and environmental approvals and taxes, cash flow streams as to when the investment will break-even, return on investment and its Net Present Value among others. Nwosu (2019: 92) and Okumu *et al.* (2023: 43) observed that the above factors should be captured to inform real estate investment decision making such as whether to or not to completely sale, sale and lease back, lease, own and occupy, rent, sell now or hold on, buy now or hold on, build now or hold on,

acquire fully or partially, terminate now or vary contract, secure a mortgage or use equity, lend or differ lending, lower or hike interest rate on secured lending, permit to develop, to remodel, to convert use, or demolish, float to potential investors, ask an amount, pay an amount, accept an amount, and so on.

Geltner *et al.* (2014) and Syagga (1994:18) observed that real estate investment is a highly preferred form of investment by businesses due to some of the following reasons: real estate is a tangible asset, which offers better sense of security and control to investors; there is a greater expectation of steady cash flow stream from rental properties; real estate offers higher potential for capital value and rental growth over time; investing in real estate is a better hedge over inflation; and it is a long term inheritable investment. However, Crosby *et al.* (2019) observed that real estate investments unlike other types of investments possessed several unique and complex characteristics. These characteristics require competent analysis by well qualified property valuers in order to accurately determine the values of real estate investments (Abidoye and Chan, 2017: 36). As observed in Okumu *et al.* (2023: 44) the unique real estate investment characteristics include the following: there are few well knowledgeable participants in real estate sector, which made it easy for businesses to make wrong real estate investment decisions (Crosby *et al.*, 2019); it is so complex and highly regulated sector thus a justification for several professionals that support the real estate investment processes including property valuers, lawyers, engineers, quantity surveyors, land surveyors, town planners and architects (Syagga, 1994:17); real estate market is locality determined and immobile (Crosby *et al.*, 2019); Real estate is durable and its acquisition or investment is considered as long-term (Tsolacos and Andrew, 2021); real estate investment is capital intensive and its acquisition also involves high costs for technical consultancies and advisory fees, taxation and brokerage fees (Syagga, 1994:17); lastly, real estate is highly illiquid and requires so much time and resources in its disposal processes (Crosby *et al.*, 2019).

### 2.11.1 Real estate investment decision making dependencies

Syagga (1994:17), Baum *et al.* (2007: 246) and Geltner *et al.* (2014) observed that when property is purchased as an investment, it is purchased for its present and future income as well as capital growth. They added that occasionally other factors such as prestige may enter into the decision, but for the rational investor such factors should not override decisions based on sound appraisal. Griswold (2020) and Appraisal Institute (2020) further observed that prudent real estate investors will need the following information to guide their investment decisions:

i. Location: where the property is located or its geographical location in relation to other major towns, municipalities or cities, population and economic base as well as the ranking of the property within the locality.
ii. Description of the property: if developed, information is required on the design, age, construction detail, accommodation and condition of the property as well as its running costs.
iii. Planning: Inquire with the local planning authority whether the intended investment is permissible in the locality.
iv. Accessibility: How the property is accessed, whether there are potential berries to access e.g. highway access restriction, one-way drive lane, pedestrian footprint for retail and shopping centres.
v. Rates, taxes, dues and fees: amount of property rates, rental income tax, ground rent and fees for development or plan approval paid or ought to be paid to the controlling authorities.
vi. Tenure: whether legal or equitable; whether registered or unregistered; whether freehold, leasehold, customary or mailo; or unregistered interests such as lawful and bonafide occupancy rights; or an informal arrangement for the case of Uganda. Terms and conditions stipulated in the tenure document are of interest to an investor.
vii. Details of occupational tenancies: subleases and other forms of occupancy arrangements are detailed.
viii. Insurance: insurance against fire, the amount of premium, responsibility for payment and mode of recovery; or a running mortgage repayment. If it is the investor to meet the cost, this must be known.

ix. Management issues: the management arrangement whether in-house or out-sourced, the skill-set and equipment required, cost of management and how the cost will be met.
x. Market analysis and context: the current and probable immediate state of the market, current activities, yields, rate of return, market rents, current income and potential income growth for the permitted use, economic projection of the town, municipality, city and country.
xi. Other fees: professional and transactional fees for legal service, survey, valuation, stamp duty, withholding tax as a percentage of acquisition prices.

A comprehensive valuation report must capture the above information as guided in Griswold (2020) and Appraisal Institute (2020), and relay to a real estate investor how they may affect the property investment value and performance in the immediate, mid to long-term depending on the holding period of the investment.

### 2.11.2 Types of real estate investments

Richardson (2022) while exploring types of real estate investments for Rocket Mortgage prospective investors advised that understanding the different types of real estate investments, and how they work, is the first step before one decides where to invest money. Richardson (2022) added that whereas buying to rent an investment property is usually the first option for prospective real estate investors in developed economies, buying to hold or to develop are the top preferences for investors in developing economies. Syagga (1994:8) identified five main types of real estate investments in East Africa including Uganda as follows:

#### 2.11.2..1 Residential real estate investments

Richardson (2022) observed that residential real estate investments consist of single-family homes and sectional title schemes. Residential real estate is used for occupation, and includes bungalows, apartments, duplexes and condominiums among others. The units may be owner-occupied or rental properties. The Landlord and Tenant Act (2022) defines residential premises in Uganda to mean (a) premises which are used solely as a home, residence, sleeping place by a tenant and includes

housing estates, tenements, apartment buildings, mobile homes; (b) mixed use premises which are used simultaneously for both residential purposes and to carry out a home-based business. Most residential units in Uganda are owner occupied and mostly built using owners' equity. In cities and major towns across the country there is shortage of decent affordable housing for both rental and owner occupation (MLHUD, 2020).

#### 2.11.2.2 Commercial real estate investments

Commercial real estate investments comprise offices and shops (Richardson, 2022). Knight Frank (2022) splits commercial real estate into offices and retail real estate business. According to Landlord and Tenant Act, 2022 commercial real estate in Uganda include office buildings of all types, retail and shopping centres. Syagga (1994:9) argued that office buildings for long have been known to provide comfortable premises for business operations in towns and cities. In order to help real estate stakeholders and participants categorise them in terms of quality as a justification for pricing, they are classified or graded (Knight Frank, 2022). Amidu (2023) observed that the grading systems of office premises vary from country to country across the world. Amidu (2023) added that reasons for the different grading system mainly stem from the local legislation on real estate, market preference, the location of the offices, levels of countries' development and the people's culture.

TXRE Properties (2023) identified four critical factors to evaluate when grading office premises i.e. location of the office building in terms of distance in comparison with alternative buildings with the same grade. TXRE Properties (2023) advanced that the nearer the office buildings to the Central Business District (CBD), the higher its effective demand and rent will be. TXRE Properties (2023) added that the further away the office building is from the CBD, the lower its effective demand and rent will be. The other factor is the age and condition of the building in that old and poorly maintained buildings tend to have lower classification. Also, the amenities and aesthetics in terms of extra services available within the building which include sport and fitness facilities, day care, banking, parking, restaurant and retail shops; as well as the general appearance, landscaping and interior of the building. Based on

those four factors, TXRE Properties (2023) proposed the following office building classification:

**Table 3: Office building classes**

| Factors | Class A | Class B | Class C |
|---|---|---|---|
| Location | Best | Better | Good |
| Building Age & Condition | New or recently renovated | Old, but in great condition | More than 20 years old or not in great shape. |
| Amenities | Top quality, abundant | Average | Outdated or non-existent |
| Aesthetics | Beautiful, pristine, modern, landscaped | Average looks | Unattractive |

Source: TXRE Properties (2023)

There is a similarity in the way TXRE Properties and Knight Frank properties Uganda classified offices. Office building premises in Uganda are also classified in terms of grades A to C based on the property age, location, parking, access, number and speed of elevators, security, construction, nearby or onsite amenities (Knight Frank, 2022). The office building grading system is as shown in the table below.

**Table 4: Classifications of commercial office buildings in Uganda**

| Office Grade | Specifications |
|---|---|
| A | The highest quality ranking. Accorded to a brand new, well-maintained or redeveloped building based on very high specifications, using modern materials, commonly high rise, spacious, naturally lit, with extra sustainability feature, located strategically, has good access and is professionally managed. They are pricier in the market. |
| B | Considered an average and perfectly usable building, less strategic location, less maintained, less incorporation of sustainability features, |
| C | Is the lowest level specification, mostly old buildings, less attractive in terms of design, has outdated technology, poorly serviced, offer lowest yields, prime for redevelopment. |

Source: Knight Frank (2022)

The two tables although presented differently have some similarities in their description. However, it is unclear if valuers in Uganda are aware of office building classification and to what extent the classification affects their determination of values for investment advisory.

### 2.11.2.3 Industrial real estate investments

Industrial real estate investments can be categorised into workshops and warehouses. Industrial real estate is used for production, storage and distribution for example factories, mines, industrial parks, among others (Appraisal Institute, 2020). Uganda's strategic policy for transformation in the National Development Plan III is through industrialization and value addition (National Planning Authority, 2020). By this policy, there is promotion of investment in industries. Industrial parks have been identified and are being developed across the country to spur development into this sector (Uganda Investment Authority, 2022). The valuation department in the MLHUD reported increased requests for valuation services by private investors interested in taking up slots within the identified serviced industrial parks (MLHUD Ministerial Policy Statement, 2021). The same increased level of request is reported by Knight Frank Uganda (2022) for secured lending purposes by the private sector players.

#### 2.11.2.4 Agricultural real estate investments

Agricultural real estate investments refer to farms and mostly located in the rural areas of the country (Syagga, 1994:8). More than 80% of land in Uganda is arable (NPA, 2020). Like industrial real estate, the government of Uganda's policy is on modernization of agriculture through commercialization and value addition (NPA, 2020). Valuation for agricultural real estate investments is not so common in Uganda except for purposes of compensation in eminent domain proceedings and for mortgage or secured lending. There is vast idle arable land across the country especially in regions dominated by customary land tenure (National Land Policy, 2013).

Government through the Uganda Land Commission (ULC) has been leasing out government land to private investors who want to engage in commercial agriculture such as for palm oil production in Sango Bay and Kalangala, for ranches in Singo, Buruli, Bunyoro and Aswa, sugarcane growing in Kiryandongo and Amuru Districts, etc. (MLHUD, 2022). Similarly, the National Forest Authority (NFA) licenses land for commercial and conservation tree growing to private investors in Uganda. As such, valuers advising on agricultural real estate investments are expected to have

profound knowledge of the type of agriculture and its market chain so that the valuation is accurate and reliable.

#### 2.11.2.5 Special properties

Syagga (1994:11) advanced that special properties comprised of all other types of real estate investments which have unique characteristics. These include; hotels, petro filling stations, cinema, theatres, places of worship, museums, amusement parks and schools among others. With expansion of the Uganda's economy through privatization, it is observed in NDP III that there had been a significant growth of special properties in the country (NPA, 2020). As such, demand for valuation services for this real estate investment category has also increased (Knight Frank Uganda, 2022).

## 2.12 The real estate market

Syagga (1994:13) argued that in a free market economy, demand and supply dictate prices of goods and services. This view is supported by the Appraisal Institute (2020) where in real estate property, consumers and suppliers are constantly striving to reach an equilibrium level. Crosby *et al.* (2019) observed that economic factors such as inflation, interest rates, economic growth or decline, fluctuations in local or global real estate markets can influence valuations of real estate investment property. It is further noted in Crosby *et al.* (2019) that undertaking valuation in a buoyant market is so difficult and prone to high variance. Market volatility affects selection of market and investment value determinants such as demand and supply estimates, target rate and rate of inflation (Abidoye, 2017: 36).

At a micro level, Fisher *et al.* (2003: 269) argued that in a sale and purchase price determination, the disposal price of a real estate investment is primarily determined by its demand, the prices of substitute investments, the time allowed for the sale, and the target market segment among others. Crosby *et al.* (2019) further observed that property valuations influence sale price of real property by triggering the investor to increase the asking price if the valuation is high, and lower the asking price if the

valuation is low. Similarly, Crosby *et al.* (2019) argued that a prudent real estate investor will not pay much more than the market value of the real property, or where the investment price will not equate to the expected returns. Therefore, at any one point there is a mismatch in expectations of both the buyer and seller of real estate (Crosby *et al.*, 2019). However, Geltner *et al.* (2014) had argued that there would always be a point when both the buyer and seller have to agree on a price in order to close the transaction in a free and fair market. And the measurement of this expected price is what is precisely determined by a valuer to guide the market participants (Fisher *et al.*, 2003: 269). Baum *et at.* (2000) observed that the valuation variance will most likely be in the region of negative or positive 10% to 15% deviation from the actual sale price. The process of negotiation is well illustrated by Devaney (2021) based on Fisher *et al.* (2003) as shown in Figures 4 and Figure 5 below.

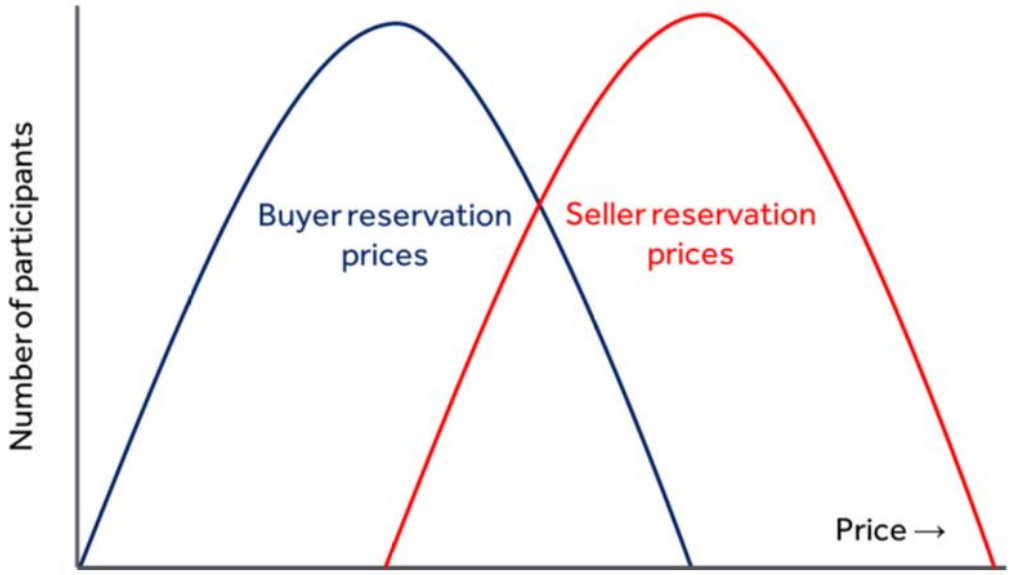


**Figure 3: Transaction price, focusing on concepts rather than statistics part 1**
Source: Adopted from Fisher (2003)

In Figure 3, Fisher *et al.* (2003) illustrates how buyers and sellers behave when confronted in a transaction. Depending on the number of participants in the market, Fisher *et al.* (2003) argued that the buyer will always intend to offer a lesser price for the real estate. Meanwhile, the seller hopes to sell it at the highest price possible

hence a triangle created by the two normal curves illustrates the intersection of their expectations (Fisher *et al.*, 2003).

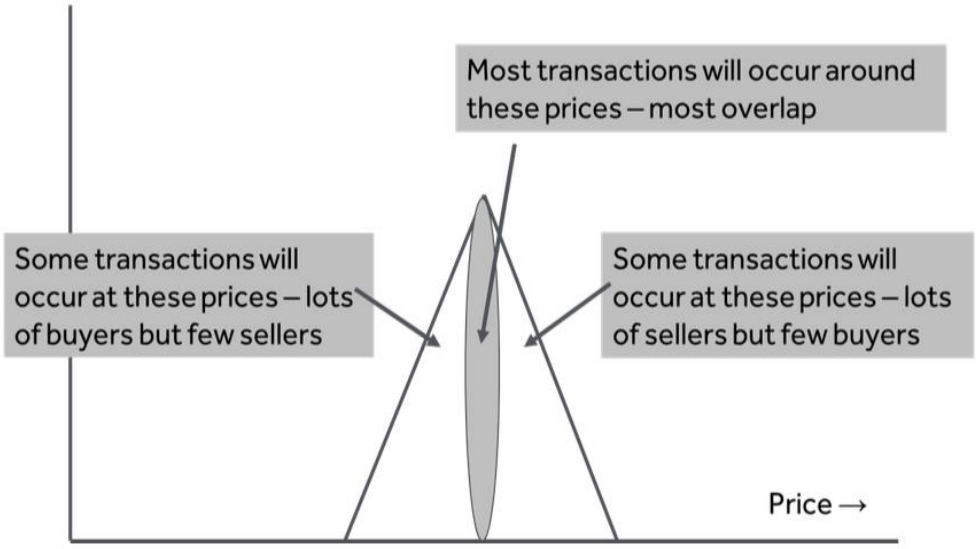


**Figure 4: Transaction price, focusing on concepts rather than statistics part 2**
Source: Adopted from Fisher (2003)

Fisher *et al.* (2003) added that as the negotiation continues, both the buyer and seller will agree to a price to close off the transaction. However, the value of the property lies in the region of the triangle, and the most precise valuation will be that which is closer to the selling price (Fisher *et al.*, 2003).

Tsolacos and Andrew (2020) while reviewing risk assessment techniques in real estate investment acknowledged that real estate market interacts with the macro-economic and broader investment environment, particularly the financial sector. For instance, at a macro level, French (2020) observed that the global economy Uganda inclusive has been so unpredictable in the recent years partly due to the Covid-19 global pandemic but also due to fluctuation in fuel prices, impact of climate change drought and political insecurity in some key nations. Similarly, Bank for International Settlements (2012), Gaspar (2015) and Khezr (2023: 205) questioned the extent to which volatility in real estate property prices interacts with the micro and macro-economy leading to financial stability challenges as consumers and suppliers constantly strive to reach an equilibrium level. Knight Frank (2023:38)

reported that the real estate market of Uganda had picked up after the Covid-19 disruptions in especially the residential, industrial (warehousing) and office.

### 2.12.1 Real estate business cycle

Wilkinson *et al.* (2018: 333) in a study about the future of Australian valuation profession argued that absorption and vacancy rates are so important in market analysis for real estate investment development. Wilkinson *et al.* (2018: 333) added that absorption rate refers to the speed at which vacant space is taken up by the market, while vacancy rate refers to how much vacant space is available in the market. Prominent research by Barras (1994) on UK business cycle, starting with the upturn found the following occurrences:

i. When there was strengthening demand, rising rents and capital values, the situation would trigger the start of the new development cycle upswing.
ii. If credit expansion accompanied the business cycle upswing, it led to a full-blown economic boom. The banks could also fund a second wave of speculative development activity.
iii. However, because of the long lead times in bringing forward new development, supply remained fairly tight and values would continue to rise.
iv. By the time the development cycle reached its peak, the business cycle would have already moved into a downswing, accompanied by a tightening of monetary policy to combat the inflationary effects of the economic boom.
v. As the economy subsided, the demand for the property would decline; rents and values would fall as a result, and vacancy stock would increase in supply.
vi. As the economy moved into recession, the fall in the rents and values would continue, property companies would be hit by the credit squeeze, bankruptcies would increase and the development cycle would be chocked off.

Alternating periods of growth and decline in real estate markets can have serious implications for property valuations and real estate investments (Renigier-Biłozor and Wiśniewski, 2014). Thus, Barras (2004) made general observations on the implications of the real estate cycle which he described as the economic upturn, economic boom, economic downturn and recession as follows:

i. **Economic upturn:** this phase follows a recession and is marked by a gradual improvement in economic conditions. Economic indicators such as the Gross Domestic Product (GDP) growth, employment rates, and consumer confidence start to rise. Demand and supply of real estate begins to increase, leading to higher property prices and rental rates. Developers start new projects, although cautiously, and there is an uptick in construction activity. Investors begin to enter the market, capitalising on low property prices and potential for future growth.

ii. **Economic boom:** during this phase, the economy experiences strong growth, high employment levels, and increased consumer spending. There is high hope and the economic indicators are at their peak. The demand for real estate surges, leading to rapid increase in property prices and rental rates; which also known as a seller's market. There is a significant rise in new construction projects as developers aim to meet the demand. The high investor confidence drives substantial investment in real estate, often leading to speculative buying. As such, the market becomes highly competitive, and properties can become overvalued.

iii. **Economic downturn:** this phase signals the end of the boom, marked by slowing economic growth and the beginning of declining economic indicators. Consumer confidence starts to wane, and spending decreases. Demand for real estate begins to drop, leading to slower increases or stabilisation in property prices and rental rates. New construction projects slow down as developers anticipate reduced demand. Investors become more cautious, and the focus shifts towards managing existing assets rather than acquiring new ones. Some investors may start to liquidate holdings in anticipation of further declines.

iv. **Recession:** there is significant decline in economic activity across the economy. Key indicators such as the GDP, employment and consumer spending decrease sharply. The demand for real estate falls markedly, resulting in lower property prices and rental rates, construction activity slows down significantly, and some projects are halted. Investors face increased risk and uncertainty. Distressed sales and foreclosures may become more common, representing opportunities for bargain purchases which is also knowns a buyer's market. However, overall investment activity is subdued due to the negative economic outlook.

Understanding the mismatch in demand and supply of real estate as illustrated by Barras (1994) and the implications further explained in Barras (2004) is so vital in projecting market trends and determining accurate value of a real estate business investment. In addition, real estate policy makers, investors and developers are informed to make cautious decisions that navigate the market.

### 2.12.2 Real estate demand factors

Demand in this context refers to effective demand which is the desire, backed by the ability and willingness to spend on real estate (Appraisal Institute, 2020). It is further observed in Syagga (1994: 11) that demand, unlike want, responds to fluctuation in price which is based on the principle of affordability. The principle states "at a lower price, more of the goods will be bought by a consumer; while at a higher price, less of the goods will be bought by the consumer" (Syagga, 1994:11). Syagga added that demand for real estate is derived from a need to be met by the real estate product. For example, a residential is required to meet housing needs, a commercial retail building is required to meet commodity trading needs, and ware housing is required to meet storage need and so on (Appraisal Institute, 2020). Assuming that the supply and price of a real estate product remains constant, its demand may be affected by several other factors including the following:

#### 2.12.2.1 The population size

Crosby et al. (2019) observed that an increase in population leads to a rise in demand while a decrease leads to a fall in demand. Uganda has one of the fastest growing populations globally. Uganda Bureau of Statistics (2020) put the population at 41.6 million people, and was growing at a rate of 3.4% per annum. The demographic characteristic showed that Ugandans aged 0 to 14 was 45.19%; 15 to 64 years were 53.13% and 65 years and above were 1.68%. The census report revealed that majority of the youth prefer living in urban to rural. Recent report by Worldometer (2023) showed the population of Uganda had clocked 48.96 million people in October, with a density of 243 people, a median age of 16.3 years and an urban population of 28.6%. This is an indication of a high rate of population growth and

rapid urbanization which has pushed pressure on land and housing in Uganda. Uganda National Land Policy (2013) reported increased, uncontrolled and unsustainable land fragmentation in most parts of the country which is partly attributed to the population pressure on land. Housing shortage is estimated at 2.4 million housing units (MLHUD, 2021). The Housing Directorate had reported that Uganda would need 20,000 housing units annually to meet the housing demand from the fast-growing population (MLHUD, 2020). For example, Kampala Capital City which was planned for a population of 150,000 people had a population of 1,680,600 people (Uganda Bureau of Statistics, 2020). The Word Population Review statistics in Figure 8 puts the population of people in Kampala at 3,846,102 in 2023 and ranked Kampala City in the 126$^{th}$ position out of 778 Cities across the world. This information is so vital for analysing a sustainable and profitable real estate investment for Uganda as a destination.

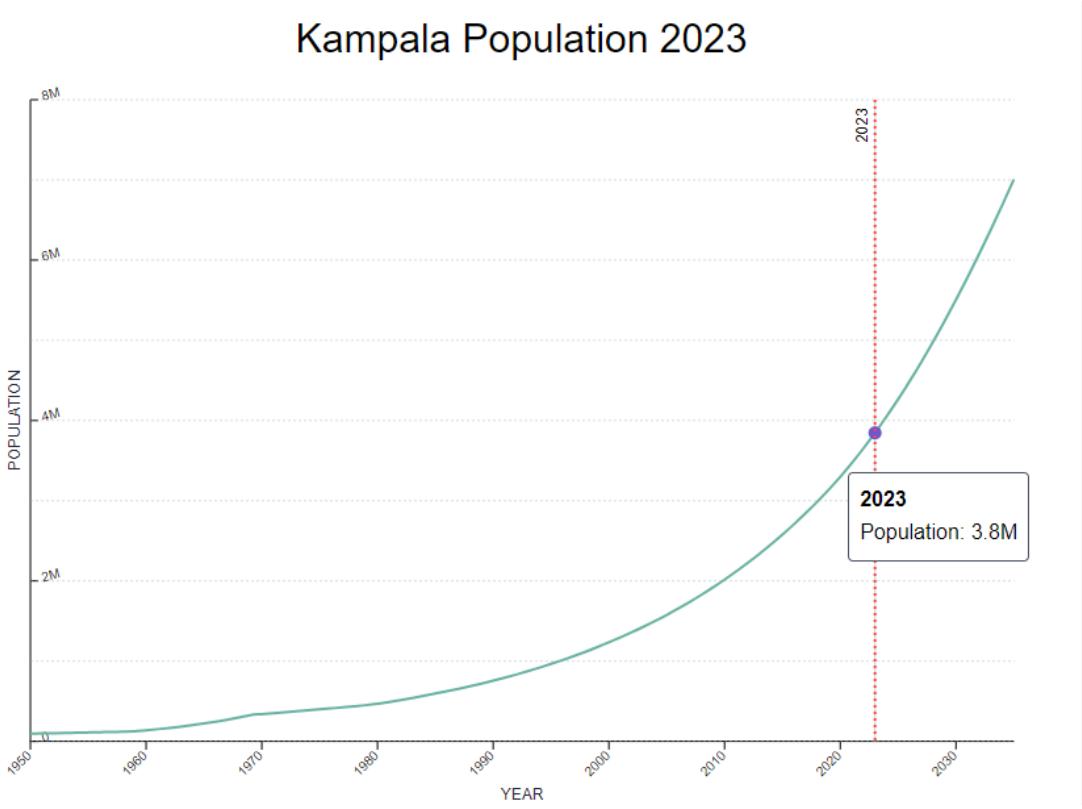


**Figure 5: Population of Kampala Capital City 2023**
Source: Word Population Review Statistics (2023)

The population explosion has resulted into an acute shortage of land and housing in Kampala. The spill-over effect is seen from the mass expansion of towns around the

City into the Districts of Wakiso, Mukono, Mpigi and Luwero, which are now made part of the Kampala Metropolitan City for proper administration. Housing is used as a generic term to mean any accommodation offered by real estate (MLHUD, 2022).

### 2.12.2.2 The level of per capita income

It is observed in Appraisal Institute (2020) that demand increases with the increase in per capita income, and also falls with a decrease in the per capita income. World Bank (2016) classifies countries by income status in United States Dollars (USD) as shown in Table 5.

**Table 5: Classification of countries by income status (in USD) as at July 2016**

| No. | Category | Income Threshold (USD/Capita) |
|---|---|---|
| 1 | Low-income | 1,025 or Less |
| 2 | Lowe Middle Income | 1,026 – 4,035 |
| 3 | Upper Middle Income | 4,036 – 12, 475 |
| 4 | High Income | 12, 476 – or more |

Source: World Bank (2016)

The World Bank (2016) adds that the low-income group may also be referred to a category of people with unreliable sources of income, are unable to save, who live on hands to mouth, mainly engaged in subsistence agriculture and unable to access basic amenities for human dignity including decent housing. Kampala Capital City is overburden by high population of residents living in slums (Adong and Kabonesa, 2017: 85). The rise in slum is due to high income inequality in Kampala. Adong and Kabonesa (2017: 85) observed that despite the poor living condition in slums, the low-income earners have no alternatives but to resort to informal settlements where they can afford the price of land and housing. Settlement patterns in Kampala show that the low-income earners are settled within short commutable distance from the centre and just behind urban centres. Muinde (2013) noted that majority of the informal settlements are temporary, semi-permanent and permanent in nature; and they either lack or have limited access to basic social amenities required by legal standards. Muinde (2013) also found that being an informal settlement, the security of tenure in regard to ownership of land or property on the land is also questionable as most of the occupiers are illegally settled on the land.

The NPA (2020) estimated that Uganda would attain lower middle-income status by the year 2020 with an income per capita of USD 1,039 if the economy grew at an average rate of 6% per annum. This was to be achieved by strengthening the country's competitiveness for sustainable wealth creation, employment and inclusive growth. Attainment of lower middle-income status would have ranked Uganda with countries such as Kenya, Vietnam, Nigeria, Swaziland, Zambia, Angola and Ghana. It is also argued that many countries that had attained middle income status in 2016 had higher poverty levels than Uganda which stood at 19.5% (World Bank report, 2016).

Nabejja (2021) reported an estimated 22% of the population in Uganda to be in the middle-income class group. The middle-income class of Uganda are believed to have sufficient disposable income, own private cars, are mostly educated (Nabejja, 2021). Nabejja (2021) further argued that the middle-income category preferred better housing and amenities of life since they can afford it. Therefore the growth of this category of income group is expected to increase the demand for better housing with security of tenure.

#### 2.12.2.3 The availability of substitute commodities

Syagga (1994:18) argued that the more the available alternative commodities to meet the same needs are, the lower will be the demand for the particular commodity, and vice versa. For example in real estate, Griswold and Tyson (2020) explained that the need for a residential property could be met by selecting either a standalone building or a condominium apartment. Knight Frank (2021) observed that from the year 2000, Uganda has seen a rise in alternative real estate products offered by the market. The commercial real estate office sub-category has offers from grades A to D; from the best to the worst (Knight Frank, 2021). Knight Frank (2021) added that commercial retail accommodation can be found on high streets of all major towns and cities on ground floor (lower or upper ground floor) or upstairs, in shopping malls, mini-supermarkets, in shared shops, etc. Similarly, Stanbic properties (2021) also found that residential real estate in Uganda comes in many types i.e. high-end apartments

(furnished or unfurnished), affordable housing (low price, medium grade), standalone bungalows, and tenements (detached or semi-detached) units. For hotels, available products range from ungraded to graded, from one star to five-star ranking (Stanbic properties, 2021). For industrial, Uganda Investment Authority (2021) listed over 15 serviced and non-serviced government industrial parks across the country. In addition, there are many privately-owned industrial parks across the country if an investor preferred this category (Uganda Investment Authority, 2021).

#### 2.12.2.4 Changes in consumer taste and preferences

Crosby *et al.* (2019) opined that the presence of alternative or substitute commodities means consumers have a range of choices to make from. Syagga (1994:18) added that when consumer tastes and preferences change from a given commodity, less will be demanded of it, while more of the substitutes will be demanded. In real estate, Fisher *et al.* (2003) noted that taste and preference could be out of a better design or amenities the alternative building offers or a comparison based on concessions offered by the landlord. With advances in technology, transportation, increased direct foreign investment and import substitution strategies in Uganda, more and better-quality real estate products are introduced to the Ugandan market on a daily (UIA, 2021).

Similarly, Knight Frank Uganda (2021) reported that there was a shift in consumer taste and preference from cellular offices to open flow layout within the CBD of Kampala. Knight Frank Uganda (2021) added that there was also increased demand for commercial retail space in the suburbs of Kampala where trading conditions are friendlier. In terms of residential, the shift in demand was more associated with the demographic curve (Stanbic properties, 2021). Stanbic properties (2021) observed that the younger employees and those with small families preferred to live in apartments and tenements closer to the CBDs; while older employees preferred to move far away from the CBDs to standalone houses where there was more space, privacy and freedom. Increasingly, Knight Frank (2021) noted that attention was being given to the quality of building design, finishes, installations and fittings as well as the neighbourhood security. In the same way, UIA (2021) reported that there

was more demand for serviced industrial parks compared to non-serviced industrial parks. However, there was no statistical evidence to show magnitude of the effects of consumer taste and preferences in Uganda's real estate market.

#### 2.12.2.5 Availability of credit

Syagga (1994:19) observed that the availability and the ease to which consumers can access cheap funds to pay for a commodity increase its demand. Appraisal Institute (2020) added that the demand for a commodity decreases when either the cost of credit is high; it is unavailable or difficult to access. As noted by Crosby *et al.* (2019), investing in real estate is so costly. As such, Crosby *et al.* (2019) noted several financing options available to achieve it. Commonly, the credit may be accessed by use of private equity or counter funding through financial institutions such as a mortgage from a bank (Crosby *et al.*, 2019). Mutabazi (2022) emphasised that the inaccessibility and high cost of capital remained the most important bottlenecks affecting the appetite for borrowing in Uganda.

Mutabazi (2022) added that the bottlenecks were the causes of the eventual slow growth of real estate market in the country. Mutabazi (2022) observed that housing mortgage market in Uganda is less than 2% of the country's Gross Domestic Product (GDP). He further added that mortgage terms were so restrictive and with scandalous interest rates. The average interest rates for secured lending by all the twenty-five (25) commercial banks in Uganda were between 16% and 23% of the total mortgage (BOU, 2017). Mutabazi (2022) also noted that banks were reluctant to commit to long term loans and high capital-intensive real estate investments in Uganda. Aware of the high unemployment rate and the low wage in the country, one can only expect that local investors are not able to finance real estate by use of private equity alone; hence leveraging would be an alternative.

#### 2.12.2.6 General level of infrastructure provided in a locality

Geltner *et al.* (2014) argued that provision of basic social economic and administrative infrastructure such as hospitals, schools, sports facilities, places of worship, markets, shopping centres, police and government administrative units,

good transport and communication, extension of services such as piped water and electricity to remote areas are known to spur demand for real estate. The absence of which limits the demand (Geltner *et al.,* 2014). The Uganda real estate demand is expanding to new locations where such services have been extended by either government or through the private sector (Knight Frank Uganda, 2019).

Abet (2022) observed in Sunday Monitor newspaper that the concept of serviced land for development in the private sector was first introduced by Dr. Anatoli Kamugisha of Akright Project Limited in 2006 with his signature Kakungulu satellite city project along Entebbe road. Abet (2022) revealed that Dr. Anatoli Kamugisha bought approximately 2 square miles of land in Bwebajja along Entebbe road- which is about 20 kilometres from the Central Business District (CBD) of Kampala, planned and serviced it, subdivided and acquired land titles for different sizes based on the satellite city master plan. Dr. Anatoli Kamugisha then sold out the plots of land at affordable prices to private and institutional investors. The amazing demand for investment land unlocked by this concept spurred demand for affordable land (plots) and the eventual expansion of private sector participation in the real estate market. Similarly, government followed by tarmacking roads and extending piped water and electricity across the country in order to unlock the potential of rural land and demand for land for various purposes including investment (UIA, 2021).

In all, it can be summarised that real estate demand is influenced by among others, the general changes in the population and the economy, disposable income, general standards of leaving, technology, taste and preference, migration, transport and communication, and the general level of infrastructure provided in a locality.

### 2.12.3 Real estate supply factors

Syagga (1994:13) argued that supply must meet demand for a price or value to be realised. Syagga added that the supply and demand intersection is called the equilibrium point. In real estate Syagga explained that supply of property is generally inelastic in the short run. However, gradual adjustments can be made in the medium to long term through conversion of use, new developments, use of technology, policy

changes in spatial and physical planning, gentrification, and urban renewal, and so on to either increase or decrease the supply of real property. Syagga (1994:13) further observed that whereas the supply of real estate as a whole is inelastic, the supply of land for a particular use is elastic.

Geltner *et al.* (2014) observed that factors affecting supply of real property globally including Uganda are the availability and ease of access to land whereby the more available and accessible the land is for development, the more the investors will be attracted to the sector to bridge the demand-supply gap, and vice versa. Mutabazi (2022) observed that shortage of land for development, low appreciation of land market, and the bureaucratic process of accessing land drive property prices and slows development process. Ling and Archer (2019) added the cost of development which is made up of several factors including cost of the acquisition of land, construction material, labour cost, financing cost, taxes and fees paid, obligations under corporate social responsibilities, etc. to affect supply of real estate. If the costs are high, fewer investors will be interested in venturing into real property investment which will lead to low supply. On the other hand, it is observed in Appraisal Institute (2020) more investors will be encouraged to invest in real property if the investment cost is low or moderate in comparison with substitute investment options. Geltner *et al.* (2014) added the general economic conditions including economic variables such as levels of interest rates on secured lending, availability of investment credit or capital, rates of inflation and employment levels as factors that can have serious effect on supply of and investment in real property as well as the property values. For instance, Ling and Archer (2019) observed that at a lower interest rate, investors can afford to acquire more credit facility to invest in real estate since it is capital intensive, and vice versa.

Syagga (1994: 13) explained that legal restrictions in real estate development make it impossible for supply to respond to demand in the short-run. Therefore, demand side will respond to the scarcity by limiting the amount of space required for a particular purpose amidst the escalating rent (Syagga, 1994: 13). An important legal instrument used to control real estate development in Uganda is the Physical Planning Act

(2010). The Act declared the entire country a planning area. Any real estate development in Uganda must be approved by the Physical Planning Committees who are spread throughout the country - up to the sub-county local government level. The National Physical Planning Board over sees the development and implementation of physical development plans across the country. The board comprises key professionals including a Land Surveyor, Planner, Architect, Engineer, and Lawyer. Application for a development plan approval to the physical planning committee must be in accordance with the spatial planning approved for the locality. Be it on a freehold, or leasehold tenure, a developer must conform to the approved area development plan. The National Physical Planning Board had so far approved twenty-five (25) physical development plans, and nine (09) land use changes (MLHUD, 2022).

In summary, real estate supply factors are multi-faceted and interconnected. Therefore, real estate market cycle, prevailing economic indicators, regulatory frameworks, political and technological advancement affect real estate supply and should be considered by property valuers. Thus, both demand and supply market of real estate need to be analysed by the property valuer in order to project the soundness of a real estate investment in the short term, medium and long term respectively. Real estate business investors can then use this information to guide their decision on the identified real estate investment property.

## 2.13 Real estate business sector in Uganda

NDP III (2020) reported that real estate is one of the fastest growing business sectors in Uganda. In addition, the Uganda Bureau of Statistics (2021) put the contribution of the real estate sector to the Uganda Gross Domestic Product (GDP) at 6.3 percent. As a business sector, real estate includes property development, property agency which is also known as property brokerage, property management, property financing, leasing, buying and selling of property. Bank of Uganda (2020) projected the real estate business sector to grow at an average annual rate of at 8.1% for the next 10 years. While the third National Development Plan attributes the projected growth of the real estate sector to the rapid population growth rate projected at 3.3%

per annum, high urbanization rate at 5.4%, increased disposable income, increased direct foreign investments and migrant remittances, regional integration, peace and stability, national and cross-border trade, positive externalities from the oil and gas sector investment interventions (NPA, 2020).

Whereas the real estate business in Uganda is dominated by the informal sector players, Knight Frank (2022) and Stanbic Properties (2021) painted a brighter future for the real estate investment opportunities in the country. They cited government interventions in the areas of infrastructure development, opportunities in the new cities and relative security as key drivers for the real estate investment. They also added the enactment of core legislations such as the Landlord and Tenant Act (2022), the Condominium Act (2010), the Anti-Money Laundering Act (2022) and the Physical Planning Regulations (2022) as well as the fiscal stability championed by Bank of Uganda as key pointers to a great investment environment for Uganda. It is expected that the enactment of the Real Estate Agency law for Uganda will professionalization of real estate agency, promote transparency and accountability of members which will then attract more foreign investment into the real estate business sector (MLHUD, 2022).

In terms of strategic regional comparative advantage Mwebaze (2017) and UIA (2021) observed that Uganda has a wealth of investment opportunities across the country due to its strategic centrality with neighbouring countries. Uganda borders Republic of South Sudan to the North, Republic of Kenya to the East, the People's Republic of Tanzania to the South, the Republic of Rwanda to the South – West, and the Democratic Republic of Congo to the West. Internally, the key drivers for real estate business investments in Uganda include; Kigezi region is mountainous and triumphs in farming and tourism due to its all year-round temperate climate. In addition, the proposal to make Kabale its regional city is opening up more opportunities for real estate business in the region; the Ankole region is traditionally known for pastoralism, commercial cattle keeping and farming however there is immense real estate business opportunities as a result of the creation of Mbarara city; the Toro region triumphs in farming, cattle keeping, salt mining and tourism

however the creation of Fort Portal regional city has spiked the appetite for real estate investments in the region; the Bunyoro region formerly known for farming, cattle keeping, tourism now has new opportunities for real estate investments as a result of petroleum development activities and the creation of Hoima city; the Buganda region is a historic and most advantaged region for business and real estate investments dating from the colonial era of 1900s. The region thrived in farming, fishing, tourism, pastoralism and trade.

Until the year 2020, Kampala was the only city Uganda had, the most developed, the capital and the administrative city of Uganda. Similarly, the Busoga region's comparative advantage is in farming, fishing and tourism. With the construction of the first hydroelectricity power station in Uganda at the Nalubaale (Owen Falls Dam) dam near the source of River Nile in the early 1950s, Jinja became a strategic industrial town for the country and is the regional city of Busoga. Mwebaze (2017) and UIA (2021) added that the Lango region's comparative advantage has been in farming, fishing and animal keeping. However, the creation of Lira as the regional city has opened up more real estate business opportunities. While in Teso region, the comparative advantage which has been in farming, fishing and cattle keeping is also drifting to trade and real estate business is taking a centre stage with its new Soroti city. In the Western arm of River Nile tuned its comparative advantage in farming, fishing, tourism and animal keeping. With the recent creation of Arua as its regional city, there is an influx of people into the city, hence the high opportunity for real estate business sector.

Meanwhile the Acholi region had had had a comparative advantage in farming, cattle keeping and trade however the creation of Gul city has given it a boost for real estate investments. The Karamoja region traditionally known for pastoralism is becoming popular for mining and tourism due to mineral discoveries and the proposal to make Moroto its regional city. This comes along with demand for real estate in the region. In Bugishu region farming, tourism and trade gave its comparative advantage however with the creation of Mbale city and the industrial boom, there is increased demand for real estate in the region. Like Karamoja region, the Sebei region had a

comparative advantage in farming, tourism, trade and nomadic pastoralism however the proposed regional city in Kapchorwa has propelled demand for real estate investment in the region. Lastly the Bukedi region which had a comparative advantage in farming, tourism and trade is slowly revamping its position power as Tororo Municipality is earmarked for promotion to a city status.

The fourteen colonial towns and cities discussed above are the main real estate investment hotspots in Uganda. Government has made possible effort to extend infrastructure and social services to all the fourteen towns and cities in order to spur productivity and private sector investments across the country (UIA, 2021).

## 2.14 Property registration in Uganda

This section examines land and property rights (interests), and how they are recognised and protected in Uganda.

### 2.14.1 Property interests in Uganda

Crosby *et al.* (2019) observed that property valuation is anchored on the rights and interest held in an asset or property. A total range of private ownership interests in real property is termed as the bundle of rights (Mugambwa, 2007). The bundle of rights may include the right to use the real estate, sell it, lease it, enter it, and give it away (Appraisal Institute, 2020:4). Property interests may be enjoyed subject to certain limitations and restrictions. They may be granted for a defined period referred to as terminal or undefined period known as perpetual in term (Crosby *et al.*, 2019). The rights may either be registered or unregistered which are also referred to as either legal or equitable rights. The Uganda National Development Plan III recognised that the main problem for the successful implementation of the country's strategic infrastructural investment plans is delay in land acquisition. The delay is partly caused by land tenure disputes and contestation over compensation value to project affected persons (NPA, 2020). This finding is similar to that of Muyinde (2013) on the effects of land tenure on urban developments in Kampala. The Uganda National Land Policy (2013) observed that since the 1900, harmonisation of land ownership had taken a central place in Uganda's political agenda. There had

been land reforms in 1908, 1922, 1928, 1950s, 1962, 1969, 1975, 1995, 1998, 2000, 2008 and 2010.

The reforms were meant to correct the historical injustices that brought about multiple, conflicting and often overlapping land rights but the problem still persists. The policy identified the registrable land tenure types mentioned in Article 237 of the Constitution (1995) and the Land Act (1998) to include customary, freehold, leasehold and private mailo. It also mentions the equitable rights protected by law to include the lawful and bonafide occupants on land. The map in Figure 6 shows a rough distribution of land tenure across Uganda.

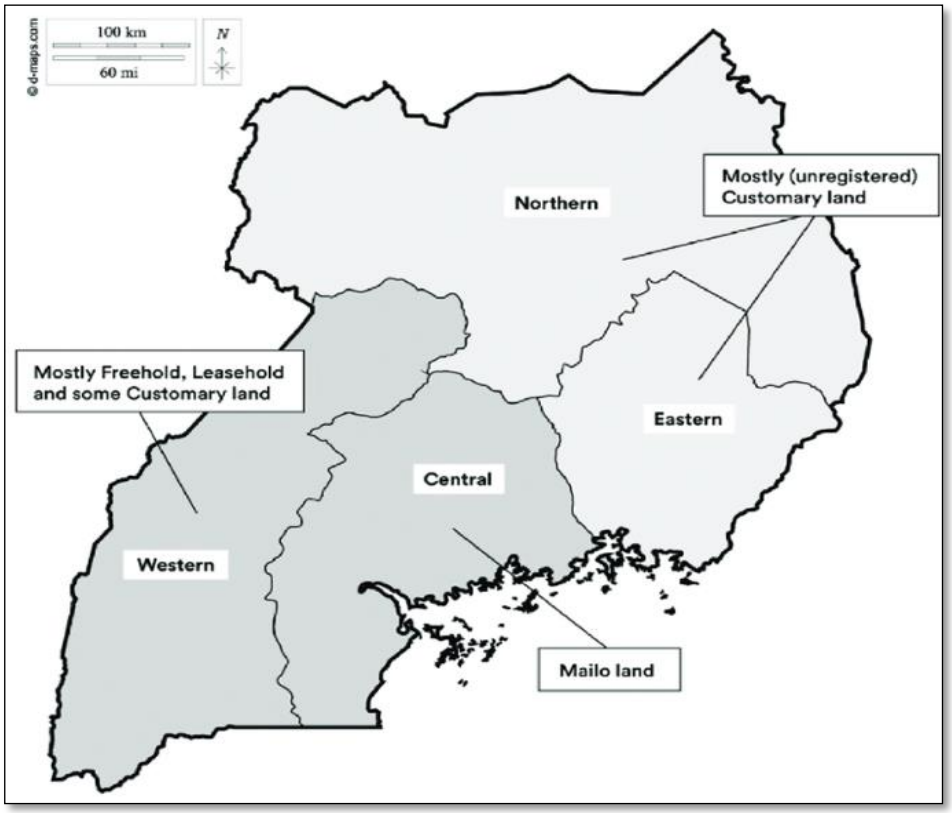


**Figure 6: Distribution of land tenure across Uganda**
Source: Adopted from Dieterle (2021)

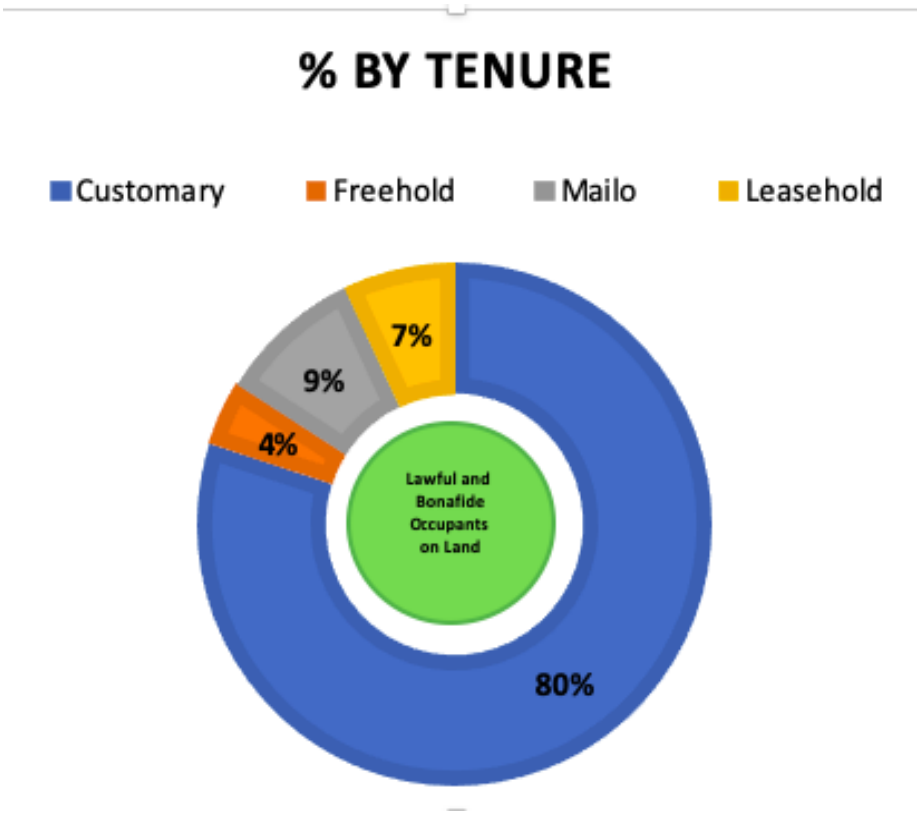


**Figure 7: Uganda by tenure as a proportion of the national land size**
Source: Adapted from Uganda National Land Policy (2013)

As shown in Figure 7, customary accounts for 80%, freehold 4%, Mailo 9% and leasehold 7% of the national land size (Uganda National Land Policy, 2013). The lawful and bonafide occupants may be found on all interest land where the registered owners are absent. Wherever the lawful and bonafide occupants appear, they cause another layer of land right in perpetuity that valuers and real estate business investors should be cognizant of. The relationship between the registered land owners and the lawful occupants is less harmonious, which is illustrated by the white gap between. Squatters have also taken advantage of this poor relationship to claim adverse possession on registered land (Uganda National Land Policy, 2013).

### 2.14.2 Customary land tenure

According to the Uganda National Land Policy (2013), customary tenure is governed by rules generally accepted as binding and authoritative by the class of persons to which it applies. Customarily, land can be held in perpetuity or less than perpetuity. In the customary system, cultural leaders such as Kings and Chiefs manage and administer land through oligarchy systems (Uganda National Land Policy, 2013). Historically, the native Ugandans put emphasis on land use and control as the only way an individual could protect his or her land. It was done in such a way that an individual could only claim that piece of land he or she has put to use through agriculture or construction, and the rest would either be held by family, clan (community) or tribe for the greater good. The Uganda National Land Policy (2013) confirmed that there existed a system to manage common user resources such as water wells, hunting, foraging and grazing grounds, play grounds and places of worship among others under the customary land tenure.

Uganda National Land Policy (2013) observed that the ownership and allocation of customary land also takes several administrative hierarchies such as tribes, clans, families and the individuals within families. Decision making over customary land is clearly dependent on the management and control hierarchy i.e. either top bottom or bottom up approach. For instance, in places with kingship such as the Teso in the North East and the Alur in the North West of Uganda, traditionally, the king oversaw the entire kingdom territorial land. The king's powers over customary land were then executed by delegation to the Chiefs, then to the clan heads, to the family heads and finally to the individual users. Transfer or sale of customary land is usually limited to members within the tribe, and following the hierarchies illustrated in Figure 5 below.

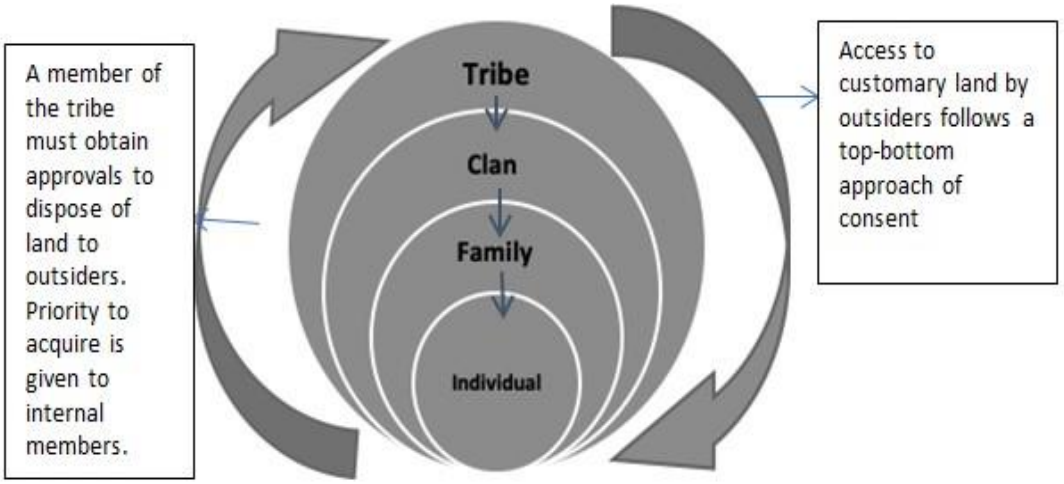


**Figure 8: Conceptualising traditional customary land rights administration in Uganda**
Source: Adapted from National Land Policy (2013)

To date the rural North and North Eastern parts of Uganda still embrace customary form of land tenure which constitutes about 80% of land holding (The Uganda National Land Policy, 2013). However, the traditional land rights administration is slowly changing due to migration, urbanisation and favourable laws that allow any Ugandan citizen to own property in any part of the country (Constitution of the Republic of Uganda, 1995). Unlike in Kenya where land is either private or public owned, in Uganda land belong to the people as guaranteed by the national constitution. The Land Act (1998) further provides for two mechanisms in which rights held under customary tenure can be formally recognised. The recognition is by either acquiring a Certificate of Customary Ownership (CCO) or registering Communal Land Association (CLA). The Land Act (1998) provides that any person, family or community holding land under customary tenure on former public land may acquire a certificate of customary ownership.

### 2.14.3 Freehold land tenure

The Land Act (1998) defines freehold tenure as the holding of registered land in perpetuity or for a period less than perpetuity which may be fixed by a condition, and enables the holder to exercise, subject to the law, full powers of ownership. A freehold may arise from a grant by a District Land Board (DLB) or Uganda Land Commission (ULC) or by conversion from customary ownership or leasehold (Land Regulations, 2004). The Land Act (1998) and Registration of Titles Act restrict freehold ownership of land only to the citizens of Uganda.

### 2.17.4 Mailo land tenure

The Land Act (1998) defines mailo tenure to involve the holding of registered land in perpetuity. Mailo land tenure is predominantly in the central region of Uganda. It permits the separation of ownership of land from the ownership of developments on land made by a lawful or a bona fide occupant. It also enables the holder and his or her successors in title, to exercise all the powers of ownership, subject to the customary and statutory rights of those persons lawful or bona fide in occupation of the land at the time that the tenure was created.

Under 'mailo' land ownership, there exist another informal right called the 'kibanja' in singular and 'bibanja' in plural. The 'bibanja' holders are tenants who settled on 'mailo' land with either full knowledge of the mailo owner, by succession or purchase from the former bibanja holders. The bibanja holders were made tenants and subject of the mailo owners by the colonial treaty known as 1900 Buganda Agreement. The Buganda Agreement allocated land between the Buganda Kingdom (the official mailo) and the Central Government (crown land), the Chiefs and the loyal subjects of the king who obtained private mailo (Uganda National Land Policy, 2013).

Mugambwa (2007) argued that the creation of 'mailo' and crown land undermined the position of customary occupants who became tenants at sufferance. After the successful treaties with the Buganda Kingdom, Mugambwa (2007) added that similar land treaties were extended to other parts of the country including Toro, Bunyoro, Busoga and Ankole. The crown land is administered by the Uganda Land Commission (ULC), the official mailo by the Buganda Land Board while the private mailo land is privately managed by the owners. Rifts and uncertainty of rights between the registered land owners, and the lawful occupants on mailo land is a major challenge faced by valuers advising real estate business investors in the central region.

### 2.14.5 Leasehold land tenure

The Land Act (1998) defines leasehold tenure as one created either by contract or by operation of law. It adds that leasehold tenure is where the landlord or lessor grants the tenant or lessee exclusive possession of land usually, but not necessarily, for a defined period, and usually, but not necessarily, in return for a rent, and, or premium. Leases created out of government land are usually for initial period of 5 years, extendable to full term of 49, then 99 years on application to the controlling authority and upon fulfilling the terms and conditions of the lease. Holders of lease created out of public land may be allowed to convert to freehold upon application to the relevant authority. Premium on grant of a lease is charged at 10% of the market value of the land as assessed by the Chief Government Valuer. The ground rent charged on government leased land is usually nominal, and is calculated at 0.5% of the market value of the land (Land Regulations, 2004).

A standard lease covenant of Uganda Land Commission in clause 3 indicates how much ground rent should be paid in the first 5 years before the revision. It usually adds that the ground rent should be revised to the market rent i.e. at 0.5% of market value within a ten-year interval. It is also observed that some ground rents are set at peppercorn rent. The term peppercorn is defined as the lowest rent possible to fulfil the condition of the lease contract. It is the nominal or symbolic rent charged for the use of property or an asset (Syagga, 1994:101). Additionally, leasehold is the only formal land tenure that non-citizens can hold in Uganda (Land Act, 1998:40). A non-citizen can acquire leasehold property from either government or private citizens. Leases can be curved out of any of the three land tenure types already discussed; i.e. customary, freehold and mailo tenures. Government leases are granted either by the District Land Board, City Land Boards or the Uganda Land Commission (Land Act, 1998). Grant of private leases on land follows the Contracts Act (2010).

In the case of leasehold interest obtained from the official mailo estate of Buganda, (BLB, 2023) noted that there are special procedure, terms and conditions that accompany it. The official mailo estate is under the administration of Buganda Land Board. The leaseholder from this estate enjoys quiet possession, use and transferable rights on the land for the period of the lease in accordance with the conditions therein. The leaseholder is expected to pay to the board a lump sum ‘‘premium’’ and

terminal ground rent for the leased period which is usually per annum. The premium paid is usually assessed by the board at 10% of the market value of land. For petrol stations, it is up to 30% of the market value of land as determined by the in-house Valuer of the board. From January, 2016, the annual ground rent was revised from 1% down to 0.5% of the market value of the leased land. The ground rent revision was at a ten-year interval based on the same principle of first deriving the rent from market value. Apparently, the ground rent revision is at a five-year interval with a 20% incremental value on the previous rent (BLB, 2023).

A standard full-term lease is considered to be 49 years. The leaseholder is first given an offer of 5 years within which to fulfil specific development conditions before the term can be extended by another 44 years. Prior to the offer, the leaseholder is expected to compensate for any other rights subsisting on the land including that of a 'kibanja' holder. Kibanja holder, who obtains a lease, does not lose the rights owned prior to the acquisition of the lease when the lease expires. In other words, upon expiry of the lease, a kibanja holder retains his or her right of a kibanja (BLB, 2023).

### 2.14.6 Government land

Former public land now referred to as Government land is a special category of land vested in Government for public investments and conservation (Constitution 1995: Articles 237(2) & (6)). Although this land is not strictly defined under the known land tenure, it is actually derived from any of the four land tenure already defined. The land is held by Uganda Land Commission (ULC) as provided for by the Land Act (1998: Sec.49) and the Constitution (1995: Art.239). In essence, all land acquired by government is held by ULC, and the government entity that acquires the land is reflected in the land title as the user entity. In case of a disposal or reallocation of the land, ULC is required to obtain consent from the land user entity. Examples of such land includes educational and health facilities, government owned premises, right-of-way and similar linear corridors used by utility companies, environmental reserves such wetland, lakes, rivers, forests, national parks, game reserves and mountains. National Environment Management Authority (NEMA) restricts private ownership and alienation of land in protected or conservation areas (NEMA Act, 2000; Constitution, 1995).

Valuation and any real estate investment in such locations must consider the NEMA regulations. One big challenge in valuation of land in central Uganda is the lack of information about the exact location of the different land tenure. As such, Muinde (2013) while assessing the effects of land tenure on urban development in Kampala tried to identify and demarcate the location of mailo, freehold, leasehold and public land in Kampala to help property valuers, estate developers and real estate investors identify them easily. This is as shown on the map in Figure 9.

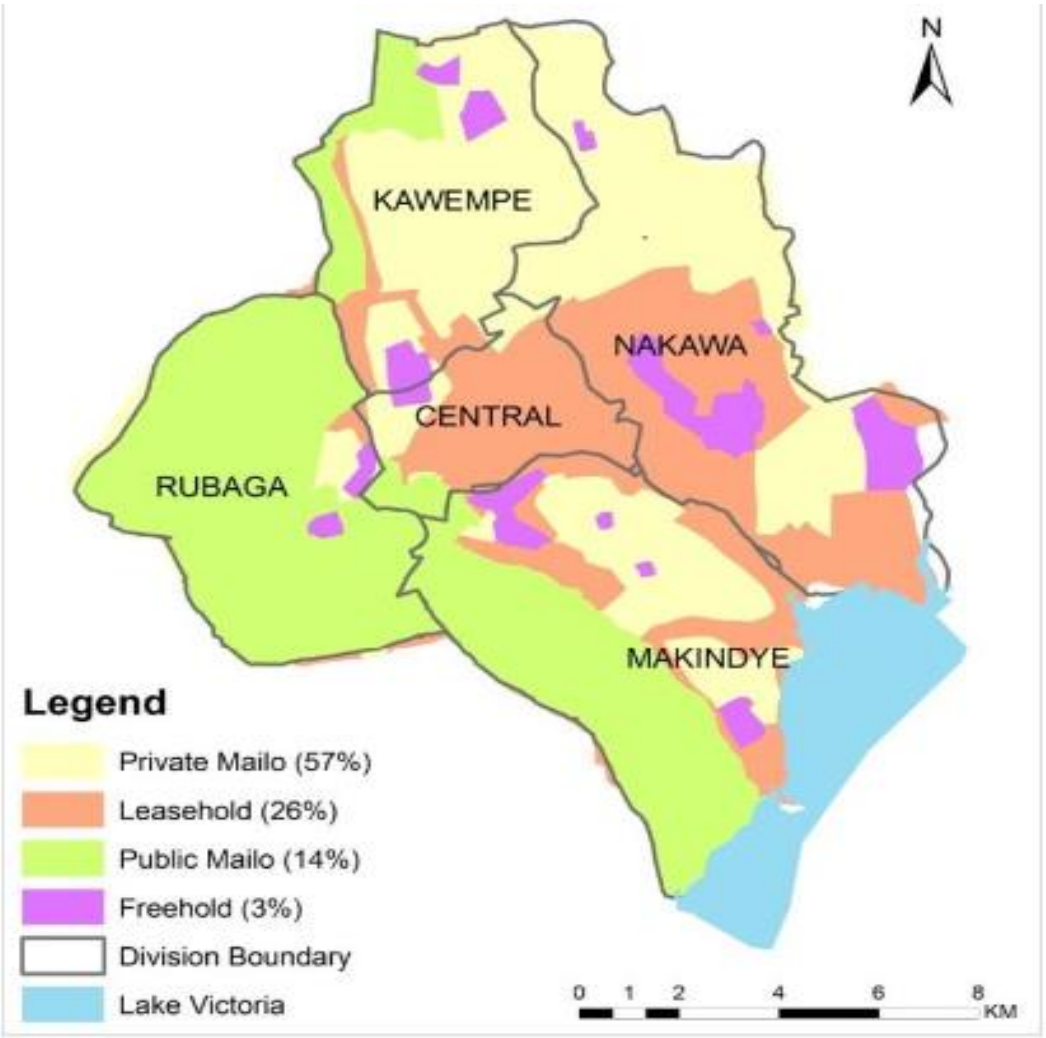


**Figure 9: Land holdings in the five divisions of Kampala**
Source: Adopted from Muinde (2013)

### 2.14.7 Lawful and 'bonafide' occupants on 'mailo', freehold or leasehold land

The Constitution in Article 237(8) protects the tenure rights of lawful and 'bonafide' occupants on 'mailo', freehold or leasehold land. The Constitution guarantees their enjoyment of security of occupancy on the land as "lawful occupants". In addition,

tenants by occupancy are also protected by the Land Act (1998). Section 29 of the Land Act specifies that lawful occupants are either persons occupying land by;

i. Virtue of the repealed Busuulu and Envujjo Law (1928), or
ii. The Toro Landlord and Tenant Law (1937), or
iii. The Ankole Landlord and Tenant Law (1937); or
iv. Persons who entered land with the consent of the registered owner, and includes a purchaser; or
v. Persons who had occupied land as customary tenants, but whose tenancy was not disclosed or compensated for by the registered owner at the time of acquiring a leasehold certificate of title.

Land Act (1998) defines bonafide occupants as persons who before the coming into force of the Constitution of the Republic of Uganda (1995) had occupied and utilised or developed any land unchallenged by the registered owner or agent of the registered owner for twelve years or more; or had been settled on land by the government or an agent of the government, which may include a local authority. The Act adds that a tenant by occupancy on registered land shall enjoy security of occupancy on the land, subject to terms and conditions set in the Land Act. The terms and conditions are for the tenant by occupancy to look for the registered land owner pay busulu and nominal ground rent for the land. Muinde (2013) in her thesis illustrated the land rights and required documents for proof of ownership under the mailo tenure as shown in Figure 10.

Based on the literature discussed above, property valuers and real estate business investors should be aware of the complexities in the land tenure system of Uganda in order to incorporate them in the valuation for effective real estate investment planning and decision making.

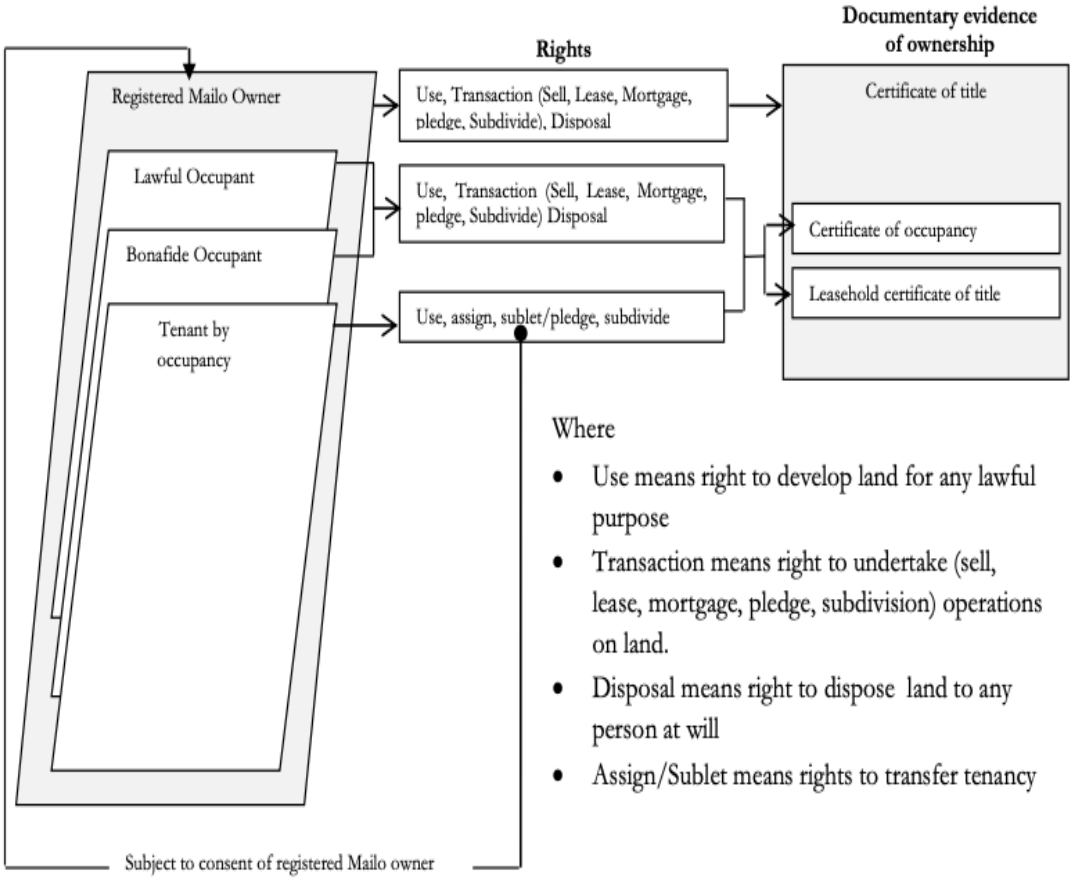


**Figure 10: Rights and the required documents for rights under Mailo land tenure**
Source: Adopted from Muinde (2013)

## 2.15 Property valuations in Uganda

As noted by Awuah (2016) for any profession to exist, there must be a body that registers the members and regulates their practice. Kiconco (2018: 131) and Wesonga *et al.* (2022: 100) observed that valuation in Uganda is performed by registered and licensed practitioners. The Surveyors Registration Act (1974) restricts valuation practice in Uganda to be performed by only members who are registered and licensed by the Surveyors Registration Board (SRB) of Uganda. According to the Surveyors Registration Act (1974), the Board is appointed and supervised by the Minister of Lands, Housing and Urban Development. Okumu *et al.* (2023:3) noted that property valuers in Uganda belong to an umbrella body known as the Institution of Surveyors of Uganda (ISU). The roles of the two institutions are further discussed below.

### 2.15.1 Surveyors Registration Board (SRB)

The Surveyors Registration Act (1974) in section 19 (3) restricts valuation practice in Uganda to be performed by only members who are registered and licensed by the Surveyors Registration Board (SRB) of Uganda. The SRB under the Act is responsible for regulating and controlling the profession of surveyors and the activities of registered surveyors within Uganda, and to advise the government in relation to those functions. In the Act, valuers are clumped up with several other professions which operate within the built environment. The Act defines surveyor to include land surveyors, valuation surveyors, quantity (building) surveyors, mining and hydrological surveyors. It also incorporates land agents and other professionals responsible for the management of land or buildings.

Members of the SRB are appointed by the Minister responsible for lands on the recommendation of the Institution of Surveyors of Uganda (ISU) for a term of two years. The board issues annual practicing license to members upon their application for the license, and on payment of an annual subscription fee. The official stamp of every registered surveyor is designed with a special logo of the Board which contains personal details such as name, registration number, and the chapter such as valuation are incorporated in the logo. In addition, the number of surveyors seeking registration has grown over the years however there are still so many out there who have not yet considered it. Table 6 shows the number of registered surveyors of Uganda.

**Table 6 Number of registered surveyors of Uganda by chapters**

| **Surveying Chapters** | **Number** | **Percentage** |
|---|---|---|
| Land surveying | 216 | 50.1% |
| Valuation surveying | 119 | 27.6% |
| Quantity surveying | 93 | 21.6% |
| Mining and Hydrological surveying | 3 | 0.7% |
| **Total** | **431** | **100%** |

Source: Surveyors Registration Board of Uganda (2023)

From Table 6, out of the 431 registered and licensed Surveyors in Uganda as of 27$^{th}$ July, 2023, Valuers were 119 accounting for 27.6%. Land Surveyors are the majority at 50.1%.

In addition, less number of valuers was registered per annum since 2017 with Valuers at only 46 during this period.

The Valuation Regulatory Impact Assessment (2022) observed that there is often time lag in the transition of the SRB, inadequate funding to enable it operate efficiently and limited mandate to enforce its decisions on errant members. The board lacks sufficient legal capacity to dispose of disciplinary cases. Wesonga *et al.* (2022: 102) observed that the board's decisions to suspend practicing license of some errand members was challenged in the High Court of Uganda for lack of jurisdiction on the matter.

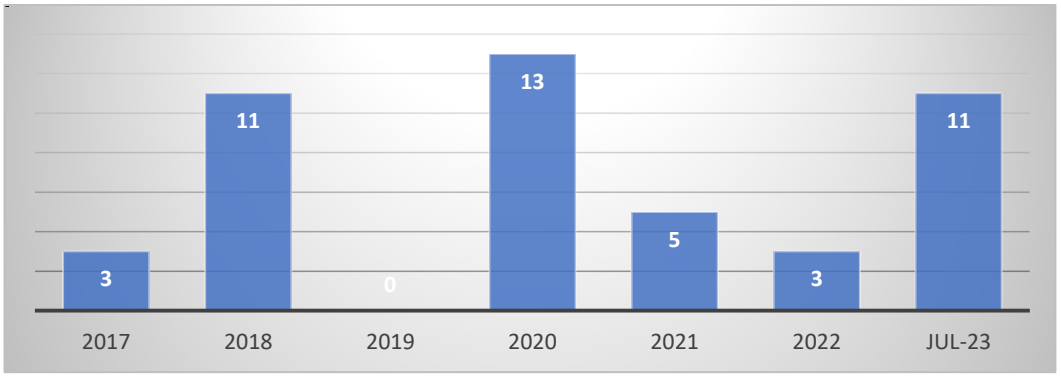


**Figure 11: Number of valuers registered per year from 2019 to 2023**
Source: Surveyors Registration Board of Uganda (2023)

Wesonga *et al.* (2022: 102) added that there were conflicting mandates and roles between SRB and ISU in terms of the readiness of valuation candidates for registration by the board. Nonetheless to be registered as a valuer, the process ISU (2022) guides as follows.

i. One must have an undergraduate qualification in valuation fields from a recognised university,
ii. Then registers to be a graduate member of ISU.
iii. The candidate undergoes competence training under the supervision of a registered valuer and a counsellor for a mandatory period of two years.
iv. Candidate applies to sit for a professional competence interview with ISU.
v. When successful, the candidate applies to SRB for registration.
vi. The candidate is then subjected to another interview to examine his or her suitability for registration as a professional valuer.

vii. Even after registration, a valuer must apply and obtain annual renewable practicing certificate from the SRB.

The board issued practice guidance notes requiring all members to accumulate mandatory annual continuous professional development (CPD) 30 points and be in good standing with ISU before being issued with annual practicing certificates (SRB, 2023).

### 2.15.2 Institution of Surveyors of Uganda (ISU)

For any profession to exist there must be a body that registers the members and regulates their practice (Awuah, 2016). Professional bodies are there to foster excellence, maintain standards, promote collaboration and advance the interests of the professional members (Onyike, 2013: 1). RICS (2022) required its members to act with integrity, always provide a high standard of service, act in a way that promotes the trust in the profession, treat others with respect and take responsibility for their actions and decisions regarding professionalism. Some professional bodies such as the Royal Institution of Chartered Surveyors (RICS) and the Federation of International Surveyors (FIG) boast of international membership while others such as the Institution of Surveyors of Kenya, Ghana Institution of Surveyors and the Nigerian Institution of Estate Surveyors and Valuers are localised (Onyike, 2013: 1). Most valuation professional organisations in countries including Uganda are called by different names. And others including in Uganda are combined with other professionals. The Institution of Surveyors of Uganda (ISU) was started in Kampala City in 1971 by Mr. Kaija Katuramu as a self-regulating umbrella organisation of surveying professionals in Uganda (ISU, 2023).

The institution currently has four chapters; land surveying, valuation surveying, quantity surveying, and a recent chapter of hydrological surveying and mining (ISU, 2022). ISU engages in activities such as setting and maintaining of professional standards, conduction continuing professional development, advocating for and representing members' interests, fostering knowledge sharing and networking and promoting capacity building of the profession. ISU is established with the following objectives:

i. To secure the advancement and facilitate the acquisition of that knowledge which constitutes the profession of a surveyor.
ii. To promote the general interest of the profession and the Institution, and to maintain and extend their usefulness for public advantage;
iii. To consider and determine matters of professional practice and conduct;
iv. To act as the voice of the profession in matters affecting its relationship with Government and Public bodies and with the public generally, and particularly to advise Government before the issue of work-permits to foreign surveyors:
v. To nominate representatives of the profession to Boards and Committees on which representation of the profession is required and desirable;
vi. To organize professional meetings and activities.

Wesonga *et al.* (2022: 102) noted that ISU had suffered similar challenges just like the SRB. Some of the challenges included inadequate funding to be able to implement its activities, rising number of errant and quack practitioners, and rising complaints of valuation variance (ISU, 2021). In addition, the valuation chapter had particularly been misconceived by the public due to confusion about who a valuer is since ISU defines all its members as surveyors (ISU, 2021). With that confusion, a land surveyor could purport to be a valuer and perform the functions of a valuer for a client who was unaware of the different specializations within ISU and vice versa. In addition, Okumu *et al.* (2023) also reported a low number of registered and licensed valuers in Uganda when it that there were only 119 at the end of July, 2023. It was also noted in Kiconco (2018: 132) that the property valuation practice in Uganda had faced some challenges. For example Okumu *et al.* (2023: 44) further noted that the SRB had processed about six (6) disciplinary cases of valuers annually. This showed that the regulatory framework for the property valuation practice in Uganda needed to be strengthened. If ISU and SRB fail to reign on its errant members, and tightened the certification and licencing process of valuers in Uganda, the problem of valuation inaccuracies are bound to continue. This problem has serious consequences to real estate investors' confidence in Uganda as already observed in (Bank of Uganda, 2017: 9).

## 2.16 Types of valuations practiced in Uganda

Fundamentally there are two types of valuations performed in East Africa, i.e. statutory and non-statutory valuations (Syagga, 1994:85). Both types of valuations impact real estate business investments. As such, it is important to examine how each of them impacts on real estate business investments in Uganda.

### 2.16.1 Statutory valuations

Queensland Land Valuation Act (2010) defines statutory valuation as one which is performed as a requirement of an enabling law; while the Uganda draft Valuation Bill (2023) defines statutory valuation to mean valuation conducted in fulfilment of a legal requirement, or as a result of a request from government. It adds that statutory valuation is performed for a particular purpose and in a manner prescribed by law, regulation, policy or guidelines (Uganda draft Valuation Bill, 2023). In essence, it follows a prescribed basis or bases of value, method, or methods of valuation and is performed by a person or persons mentioned in the law (Queensland Land Valuation Act, 2010). In addition, statutory valuations also follow principles of valuation and judicial interpretation in cases brought before appellant Courts (Queensland Land Valuation Act, 2010). For clarity, the public officer mandated to advise government on statutory valuations in Uganda is the Chief Government Valuer (CGV) who also doubles as the Commissioner Valuation (Uganda draft Valuation Bill, 2023). The Commissioner Valuation heads the department of valuation in the Ministry of Lands, Housing and Urban Development. In some cases, registered Valuers with valid practicing certificates from the Surveyors' Registration Board of Uganda may also perform some of the statutory valuations e.g. for property rating by Local Governments and compensation under compulsory land acquisition. Private valuers advising government agencies on compensation purpose require approval of their reports by the CGV before they become implementable and binding on government of Uganda (Uganda draft Valuation Bill, 2023).

Table 7 presents examples of statutory valuations performed in Uganda. The presentation is summarised by purpose of valuation, basis of value, preferred method(s) or approach of valuation, who undertakes the valuation and the relevant enabling laws.

**Table 7: Statutory Valuations in Uganda**

| No. | Purpose of valuation | Basis of value | Valuation Methods/ Approaches | Performed by | Laws applicable |
|---|---|---|---|---|---|
| 1 | Determination of stamp Duty on transfer of immovable property | 1.5% of Market value of property | Sales comparison, cost and income approaches | Chief Government Valuer | Stamps Act, Cap 342 and the Public Finance and Accountability Act (2003) |
| 2 | Determination of probate or estate duty when registering on titles the administrators or heirs to the estates of a diseased person. | 1% of Market value of property | Sales comparison, cost and income approaches | Chief Government Valuer | Stamps Act, Cap 342, Succession Act Cap 162 |
| 3 | Determination of rental values of premises occupied or rented out by government | Rental market value, usually per month. | Comparison approach and income approach | Chief Government Valuer | Public Finance and Accountability Act (2003), and Public Procurement and Disposal Assets Act (2003), Land Lord and Tenant Act (2022) |
| 4 | Determination of premium and ground rent for government leases | Premium at usually 10% but at times 20%; ground rent usually at 0.5% but at times 1% of fair market value of bare land. | Sales comparison and investment (short-cut DCF) approaches | Chief Government Valuer | Land Act (1998) Cap. 227 |
| 5 | For sale of government property | Market value | Sales comparison, cost and income approaches | Chief Government Valuer | Public Finance and Accountability Act (2003) and Public Procurement and Disposal Assets Act (2003) |
| 8 | Determination of price for purchase of property by government | Market value and equitable value | Sales comparison, cost and income approaches | Chief Government Valuer | Public Finance and Accountability Act (2003) and Public Procurement and Disposal Assets Act (2003) |
| 9 | Determination of fees payable on government land on conversion from leaseholds to freeholds by individuals or companies. | Market value of land in excess of 100 hectares | Comparison approach, income approach, cost approach | Chief Government Valuer | Land Act (1998) Cap. 227 |

**Table 7 (continued): Statutory Valuations in Uganda**

| No. | Purpose of valuation | Basis of value | Valuation Methods/ Approaches | Performed by | Laws applicable |
|---|---|---|---|---|---|
| 10 | Determination of fees on grant of freehold by government | Fair value of land | Comparison approach | Chief Government Valuer | Land Act (1998) Cap. 227 |
| 11 | Assist District Land Boards in compiling and annually reviewing District Compensation rates. | Fair value (equitable value) of interest to be lost | Cost approach without depreciation | District (Valuer, Natural Resources Officers (forest and fisheries), Land Officer, Engineer and Land Surveyor) | s.59 (e-f) of Land Act (1998) Cap. 227 |
| 12 | Financial reporting (Book value) | Market value and Fair value | Comparison approach, depreciated replacement cost of wasting assets | Registered Valuer, Chief Government Valuer | Public Finance and Accountability Act (2003) and Public Procurement and Disposal Assets Act (2003) |
| 13 | Determination of Local Government property rates. | Market rent and Fair value | Comparison approach, income approach | Registered Valuer, Chief Government Valuer | Local Governments (Rating) Act (2005) |
| 14 | Determination of court pecuniary jurisdiction based on value of property | Market value of property | Sales comparison, income and cost approaches | Registered Valuer, Chief Government Valuer | Magistrate Courts Act Cap 16 (s.207) |
| 15 | Determination of court awards based on property value. | Market value, market rent and equitable value | Sales comparison, income and cost approaches | Registered Valuer, Chief Government Valuer | S.2b and s.98 of Civil Procedure Act Cap 71. S.9 of Magistrate Courts Act Cap 16, and s.33 of Judicature Act Cap13 |
| 16 | Determination of value of government contribution under public private partnership (PPP) investment arrangements in terms of land or any other asset. | Market value of property and Equitable value | Comparison, investment, income and cost approaches | Chief Government Valuer | Public Private Partnership Act (2015) |
| 17 | Determination of assurance of title fee, and facts of possession for re-entry into the register | % of Market value of bare land | Comparison approach | Chief Government Valuer | S.34 of Registration of Titles Act (1924) Cap. 230 |

**Table 7 (continued): Statutory Valuations in Uganda**

| No. | Purpose of valuation | Basis of value | Valuation Methods/ Approaches | Performed by | Laws applicable |
|---|---|---|---|---|---|
| 18 | Determination of capital gains tax | Market value | Comparison approach | Chief Government Valuer | Income Tax Act Cap 340 (As amended in 2005). Public Finance and Accountability Act (2003) |
| 19 | Determination of rent indices for levying of rental income tax by Uganda Revenue Authority (URA) | Market rent | Comparison and income approaches | URA Registered Valuers, Chief Government Valuer | Income Tax Act Cap 340 (As amended in 2005), Public Finance and Accountability Act (2003), Landlord and Tenant Act (2022), Tax Amendment Act (2022). |
| 20 | Determination of development value in case of mortgaging government land by private investors | Development value | Comparison and cost approaches | Chief Government Valuer | Cabinet directive (2019). |
| 21 | Determination of property value for distribution in case of demise of an intestate spouse (a spouse who dies without a will). | Market value | Comparison, income and cost approaches | Registered Valuer, Chief Government Valuer | The Succession (Amendment) Act (2022) |
| 22 | Compensation on compulsory acquisition of land | Market value of property, Equitable value | Comparison, investment, income and cost approaches | Chief Government Valuer | Constitution of Uganda (1995) Articles 26 and 237, read together with the Land Acquisition Act (1965) Cap. 226, and Land Act (1998) Cap. 227. *(as primary laws)*, Guidelines on Compensation Assessment under Land Acquisition (2017) |

**Table 7 (continued): Statutory Valuations in Uganda**

| No. | Purpose of valuation | Basis of value | Valuation Methods/ Approaches | Performed by | Laws applicable |
|---|---|---|---|---|---|
| 23 | Determination of easement fees over land | Easement value usually a diminution value derived from the market value of the land. But it can also be a market rent for the duration of the easement. | Rental comparison approach, investment approach (discounted value of land), District compensation rates | Chief Government Valuer | Constitution of Uganda (1995) Articles 26 and 237, read together with the Land Acquisition Act (1965) Cap. 226, and Land Act (1998) Cap. 227. *(as primary laws)*, Guidelines on Compensation Assessment under Land Acquisition (2017) |
| 24 | Disturbance compensation for temporary occupation of land | Rental market value, Easement value | Rental comparison approach, investment approach (discounted value of land), District compensation rates | Chief Government Valuer | Constitution of Uganda (1995) Articles 26 and 237, read together with the Land Acquisition Act (1965) Cap. 226, and Land Act (1998) Cap. 227. *(as primary laws)*, Guidelines on Compensation Assessment under Land Acquisition (2017) |

Source: Adapted from MLHUD (2022)

There is increasing recognition of the registered and licensed valuers by both government and the private sectors. Some statutory valuations such as the Local Government (Rating) Act (2005) recognise registered valuers as professionals to be engaged to determine values for the levying of property rates in towns, municipalities and cities in Uganda. The Land Acquisition Act (1965) recognises valuers as assessors for the purpose of determining compensation payable to project affected persons under compulsory acquisition or expropriation of land, the Stamp Duty Act (2014) recognises the role of valuers in the assessment of stamp duty tax on transfer of registrable interests in immovable property such as land.

Similarly, the Mortgage Act (2012) on the determination of property values for secured lending by commercial banks, the Public Finance Management Act (2015)

and Public Procurement and Disposal of Public Assets Act (2003 last amended in 2017) on the determination of property value for acquisition and disposal, leasing or letting by government, the Land Act (1998 last amended in 2010) and the Land Regulations on assessments of premiums and ground rents for leases on government land, the Registration of Title's Act (1924) on the market value of land for the determination of assurance of title's fee, Physical Planning Act (2010 as amended) among other laws. There are also government directives such as one on Condition for mortgaging government land by investors (2019). The condition mandates the Chief Government Valuer, or under his or her supervision a licensed valuer, to advise government on the development value the investor could have made on the land.

#### 2.16.1.1 Examples of statutory valuations explained

The examples below show that where statutory valuation is concerned, the basis of value, the method or approach to use for valuation is legally prescribed and a valuer is duty bound to strictly follow it. The IVS and RICS professional practice standards also acknowledge this fact and dynamics associated with statutory valuations and therefore advised valuers to follow the provisions of their country's laws when advising on statutory valuation (IVS, 2022). As noted earlier, statutory valuations have significant impact on real estate business investments in terms of determining property taxation, acquisition and purchase price, variation of terms, land use and construction plans, among others. In Tanzania, Mwasumbi and Tarimo (2019) in a survey of valuation firms reported that all valuations for secured lending are supervised and approved by the Chief Government Valuer. However, valuation for secured lending or mortgage in Uganda is a non-statutory valuation (Mortgage Act, 2012).

**Example 1: Statutory valuation for compulsory acquisition of land**

An example of the impact of statutory valuations to real estate investments in Uganda can be seen from Public Private Partnership (PPP) investment arrangements where a public authority in Uganda may adopt compulsory acquisition as a method of accessing land for a public investment. First of all, section 71 of the Land Act (1998) provides for the absolute protection of public rights of way over private property. However, section 42 of the Act reiterates Article 237(2) (a) of the Constitution which states that, ‘‘the Government or a Local Government may acquire land in accordance

with articles 26 and 237(2) of the Constitution''. Article 26 of the constitution, gives every person in Uganda a right to own property, and against any deprivation save for compulsory acquisition in public interest on condition that there is prompt payment of fair and adequate compensation. Section 77 of the Land Act (1998) gives guidance on what is to be considered while computing amount of compensation for land acquired under Section 42 of the Act. Section 77(1) (a) recommends that in the case of a customary owner, "the value of land shall be the open market value of the unimproved land; (b) the value of the buildings on the land, which shall be taken at open market value for urban areas and depreciated replacement cost for the rural areas; (c) the value of standing crops on the land, excluding annual crops which could be harvested during the period of notice given to the tenant.

The assessment is based on the updated compensation rates of the particular District in respect to section 59(e-f) of the Land Act (1998)". 77(2) In addition to compensation assessed under this section, there shall be paid as a disturbance allowance 15% or, if less than six months' notice to give up vacant possession is given, 30% of any sum assessed under subsection (1). Guidelines on Compensation Assessment under Land Acquisition (2017) provides for the apportionment of land value at either 40:60 or 30:70 per cent between a registered land owner and a bonafide or lawful occupant on the land respectively, in case of an opaque land market. The apportionment is based on the holding strength of the occupant - well aware of the principles of compensation, and a comparison on the possible offers the registered land owner may attract if the land was listed for sale. Further steps on the process of land acquisition are in the Land Acquisition Act (1965).

**Example 2: Statutory valuation for property rates assessment**

Another example can be drawn from property rates assessment as per the Local Government (Rating) Act (2005 as amended in 2006). The Local Government (Rating) Act (2005) "provides for the levy of rates on property by local governments within their areas of jurisdiction; provides for the valuation of property for the purpose of rating and for the collection of rates". The amendment in 2006 was to provide that no rates shall be levied in respect of a residential building in an urban area where the owner resides in that residential building; and to provide for the Minister's approval of the draft valuation list before certification of the list by the

Chairperson of the valuation court. Section 8 provides that Valuers for the Local Governments shall be persons qualifies and registered as valuation surveyors and who hold a valid practicing certificate under the Surveyors' Registration Act. Particulars of valuation list under section 10 of the Act shall include; "serial number, detailed description of property including plot number, street or road, name of property and other relevant information, owner's name and address, village and parish local council, category of property use, gross value of property, and rateable value of property".

Gross value is defined in the Act as "the rent at which the property might reasonably be expected to let, from year to year, if the tenant undertook to pay conservancy fees, water rates and all other usual tenants' rates and taxes and the landlord undertook to bear the cost of repairs and any other expenses necessary to maintain the premises in a state to command that rent". In addition, section 2(2) of the Act emphasises that "in estimating the annual rental value of any property to the tenant, no account should be taken of the value of any services which the landlord renders or procures to be rendered to the tenant; either alone or in common with other tenants, other than the provisions of, or repairs to or maintenance of, the property".

On the other hand, section 11 on ascertainment of rateable provides that "rateable value shall be ascertained as follows: (a) if the property is one other than an industrial or commercial building, there shall be deducted from the gross value of the property such amount as the Minister may, by statutory order, determine; and the gross value so reduced shall be taken to be the net annual value; (b) if the property is an industrial or commercial building, there shall be estimated the rent at which the property might reasonably be expected to let from year to year if tenant undertook to pay conservancy fees, water rates and any other usual tenants' rates and taxes and to bear the cost of repairs and insurance and any other expenses necessary to maintain the property in a state to command that rent; and the amount of the rent as so estimated shall be taken to be the net annual value; (c) if the net annual value of any property includes a fraction of a currency point i.e. 20,000/=, the local government may direct that it shall be rounded up to the nearest figure upward or downward or that it shall be disregarded".

The Act in section 12 allows for the adoption of mass valuation method other than those explained in section 11. It defines mass valuation to mean "valuation based on the general features of the properties in the area of jurisdiction of a local government or based on the general features of properties in any part of that area or the general features of particular categories of properties in the area or part of that area". A draft valuation roll is displayed for a period of thirty days to allow rates payers to correct their particulars and also lodge appeals on the rateable values assessed.

Property rates in Uganda are primarily billed on the landlord. However, the Local Government (Rating) Act mandates the Local Government (LG) to recover arrears from tenants and occupiers in case the landlord is in default. The property rates are finally determined by the Local Government as a percentage, ranging between 2% and 12% of the rateable value of the property. Usually, the LG charges between 4% and 8%. In addition, the LG is required by the Act to obtain approval of the Minister in charge of LGs in case they want to charge 12% of the rateable value of the property. The use of mass valuation method has been criticised for its simplicity that it ignores peculiar market and operational issues relating to each property such as vacancy and collection losses as well as the outgoings. A buyer of a rateable property is required by law to satisfy him or herself about the arrears since the rates liability is transferred to the new owner.

**Example 3: Statutory valuation for the assessment of rental income tax**

Section 5 of the Income Tax Amendment Act (2022) is on rental income tax. The tax is charged for each year of income and is imposed on every individual that has rental income for the year of income. The tax payable by an individual for a year of income is calculated by applying the relevant rates of tax determined under section 6(2) to the rental income derived by the individual for the year. The rental income of the individual is not included in the gross income of the individual for any year of income for other tax levies. Expenditures and losses incurred by the individual in production of the rental income are allowed as a deduction under the Act for any year of income. The Tax Amendment Act (2022) emphasises that the tax payable by a resident individual or business shall not be reduced by any tax credits allowed to the individual under the Act. The revised tax regime of 2022/2023 Financial Year provides that rental income tax for individuals is charged on any annual rental

income in excess of UGX.2, 820,000 at a rate of 12%. Companies are required to separate their other business incomes from rental income.

The taxable income is taken as the net income after allowing for expenditures and losses incurred in the process of realising the income by non-individuals. For companies, this deduction is capped at 50% of the gross rents and the corporate tax rate is 30%. In addition, excess expenditures are not transferable to the following year. It should be noted that the Tax Amendment Act (2022) also empowers the Minister of Finance to prescribe estimates of rent based on the rating of the rental property in a specific location in respect of persons who fail to file a return of rental income or whose return is misleading on the face of it and has been contested by the Commissioner URA. The Uganda Revenue Authority (URA) is the government body entrusted with the responsibility of collecting taxes in Uganda. Whereas valuers in Uganda have argued against capping the annual deductible allowance since real property investment performance varies from one property to another (ISU, 2022), URA have advised real estate business investors to regularly file accurate returns to enable correct assessment of their rental income tax levies.

**Example 4: Statutory valuation for the assessment of withholding tax on purchase of real property**

The Income Tax Act (2019) imposed a 6% withholding tax on purchase of real property in Uganda. The tax is a percentage of the purchase price of the property which the buyer is required to retain and remit to the Uganda Revenue Authority. In other words, the 6% is the tax levy imposed on the seller based on the purchase price of the real estate. All businesses including financial institutions are also required to meet this tax when they sell off business assets or property such as those placed as security for secured lending. In principle, withholding tax is imposed on suppliers of goods and services where a person is either earning generating income from a business venture. The responsibility to withhold the tax is on the purchaser of the service or a good because it is presumed that the seller or the vendor of the service or a good may either avoid or under declare the income earned to the tax authority. Real estate investment advisors and valuers are required to factor in this tax when advising their clients to avoid costly penalties from the tax authority.

**Example 5: Statutory valuation for the assessment of capital gains tax for immovable property**

Bahiizi (2018) examined the effects of capital gains tax on real estate development in Uganda. He defined capital gains tax as a tax chargeable on the gains that accrue to either an individual or a company on the transfer of property situated in Uganda. The tax is charged at a rate of 30 per cent (30%) of the capital gains made on the sale of the property. The study found that the tax rate was prohibitive rather than incentive to real estate development and property market transaction in Uganda. The study advocated for a reduction in the tax rate to incentivise private sector real estate development and stimulate real estate market transparency. In assessing capital gains tax, section 166 (11) of the Income Tax Act requires that where the asset is an immovable property, the cost base of the property as at 31st March 1998, is equal to the market value of the property as determined by the Chief Government Valuer.

**Example 6: Valuation for mortgaged property**

The Mortgage Act (2009) is an Act to consolidate the laws relating to mortgages. The Act is operationalised by the Mortgage Regulations (2012). Regulation 11 is about valuation of mortgaged property. It provides that:

1) The mortgagee shall before selling the property, value the property to ascertain the current market value and the forced sale value of the property.
2) For the purposes of sub regulation (1), the valuation report shall not be made more than six months before the date of sale.
3) The valuation report shall contain the current pictures of the property, including: -

a) The front view of the property;
b) The side view of the property; and
c) The detailed description of the property.

The need for access to the property for valuation and inspection is provided for under regulation 12. Clause (1) provides that "where the mortgagor is in possession of the mortgaged property at the time of sale, the mortgagor shall, upon notice, give access to the mortgaged property to: a) the person authorised by the mortgagee to value the property; b) persons inspecting the property after advertisement for the purpose of purchase. (2) a person inspecting the property for the purposes of purchase shall be accompanied by the mortgagee or his or her representative. (3) Where the mortgagor

refuses to give access to the property, the mortgagee shall take possession of the property for the purposes of valuation and inspection at the cost of the mortgagor".

**Example 7: Statutory valuation on rental properties**

The Landlord and Tenant Act (2022) is an Act to "regulate the relationship of landlord and tenant; to reform and consolidate the law relating to the letting of premises; to provide for the responsibilities of landlords and tenants in relation to the letting of premises; and for related matters". It is clarified in section 1 that the Act does not apply to the following arrangements: "… (a) residence at an institution, whether public or private, where the residence is merely incidental to detention or to the provision of medical, religious, educational, recreational or similar service; (b) residence in a hotel, motel, or other transient lodging; or (c) occupancy of premises under a tenancy created or arising under the terms of a contract of employment or any premises entered into in relation to such a contract".

In addition, Landlord and Tenant Act (2022) allows a landlord to notify the tenant of the rent due and cause an eviction of the tenant who is in rent arrears of 30 days and above. The eviction must be witnessed by the area Local Council 1 Chairperson. In addition, the area police must be notified of the eviction and notices served to the tenant who is in rent default. The Act also caps annual rent increment at 10% of the prevailing rent but upon the landlord giving 60 days' notice to the tenant. The Act also makes it compulsory for a landlord and a tenant to execute a formal rental agreement for monthly rent of UGX.500,000 and above. Unless it is agreeable by both the landlord and tenant, rent shall be executed in Uganda Shillings (UGX). In cases where the premises are in a City, a Municipality or a town, the landlord is obliged to avail a bank account into which the tenant will deposit the rent. Unless it is specified in the tenancy agreement, it is provided in the landlord and Tenant Act (2022) that the landlord is responsible for all taxes, levies, external repairs and maintenance of common areas and insurance. The landlord is also allowed to withhold one month's rent as security deposit for repairs of the premises. Whereas the tenant is responsible for internal maintenance, the tenant may claim a refund of the security deposit if the premises were kept in a good condition.

**Example 8: Statutory valuation for premium and ground rent assessments**

Determination of premium and ground rent for government leases is government by the Land Act (1998) and Land Regulations (2004). The premium is charged at either 10% or 20% of fair market value of bare land while ground rent is assessed at either 0.5% or 1% of fair market value of bare land, all primarily depending on how prime Government considers the land to be. However, it has become a norm to always apply the lower rate regardless of the location of the land, whether in rural or urban areas. Government land lease covenants contain clauses on restriction of use of the land, the value of development to be made on the land as condition for extension of the lease from usually an initial 5 years to a full term of 49 years. Upon application for extension to a full term, a new annual ground rent is determined by the CGV. Depending on the revision intervals indicated under clause 3 of the lease covenant which is usually at every 10 years, the CGV is required to re-assess the ground rent at the 0.5% or 1% of the of fair market value of the bare land.

Some institutions such as the Buganda Land Board which is a private company that manages the official estate of the Kingdom of Buganda, and the major religious institutions in the country such as the Roman Catholic, Anglican and Muslim approach the premium and ground rent assessment differently. For example, the Buganda Land Board (2023) increased ground rent (for land) at 20% every 5 years, while premium is assessed at 10% except for an application for petrol station land which is assessed at 20% of the market value of land. However, all the formulae explained above have been criticised for lack of merit since they depart so much from the modern methods of assessing leasehold interests in property (ISU, 2022). They have also brought confusion since the ground rent assessed is usually nominal as opposed to economic or market rent (ISU, 2019). It was further observed in ISU (2019) that reliance on the rates used for the assessment of premium and ground rent as proxy comparable for valuation of land for other purposes led to valuation inaccuracies. In addition, enforcement of compliance with lease terms in Uganda is week; as such there is a big challenge on the interpretation and application of the market comparable data obtained from leasehold properties (Okumu *et al.,* 2023; Syagga, 1994; Mwasumbi, 2014).

### 2.16.1.2 Other relevant laws for property valuation in Uganda

Other key laws to consider in valuation of property in general include the following; Registration of Titles Act, Cap 230 (1924 last amended in 2000) relates to the transfer and registration of titles in Uganda. The amendment of the Act in 2000 introduced conditions for registering a mortgage on matrimonial homes. Generally, valuation is required under the Act for purposes such as determination of assurance of title fee, facts of possession for re-entry into the register, stamp duty on transfer of interest in property, and determination of premium and ground rent.

Another critical law is the Condominium Property Act (2001). This is an Act "to provide for the division of buildings into units and common property; to provide for the individual ownership of those units by issuance of certificates of title in relation to the units; to provide for ownership of common property by proprietors of units as tenants in common; to provide for the use and management of the units and common property and for other connected matters".

### 2.16.2 Non-statutory valuations

Non-statutory valuations are valuation assessments of assets and liabilities, whether tangible or intangible, and that are not a requirement of law or regulation (Queensland Land Valuation Act, 2010). The Uganda draft Valuation Bill (2023) defines non-statutory valuation to mean "valuation which is not conducted in fulfilment of a legal requirement, or as a result of a request from government". The valuation is conducted by mainly property valuers in the private sector for various purposes. Common purposes of non-statutory valuations include for sale, purchase, tax planning, investment planning, secured lending (mortgage), financial reporting, court settlements and private compensation arrangements (Syagga, 1994). Whereas any professional is an expert in his or her field, and may purport to be conversant with valuation of assets and liabilities within his or her field, the valuations performed by unregistered valuers cannot be relied on as legally binding in Uganda (Surveyors Registration Board Act, 1974). Non-statutory valuations may be performed using any of the five methods of valuation i.e. the investment, income, sales comparable, cost and residual methods (Okumu *et al.* 2023: 43; Appraisal Institute, 2020; Baum *et al.*, 2018; Scarret, 2014). In Uganda, the ISU adopted the IVS for conducting valuation by its members however complaints about valuation

inaccuracies still persist especially by real estate business investors in Uganda. The reasons for the persistence are discussed in the following sections of this thesis.

## 2.17 Sources of property valuation information

Information asymmetry is one of the characteristics of real estate property market (Geltner *et al.,* 2014). Therefore, in order to improve valuation accuracy, valuers in Uganda and other parts of the world rely on several sources of information to inform their valuation decisions. Some of the sources according to Mwasumbi and Terimo (2019: 6), Mwasumbi (2014: 225), Geltner *et al.* (2014) and Caleb (2011) include: Relying on property brokers, comparing with other valuers in the private practice, comparing with the Chief Government Valuer's office, asking local leaders such as Local Council one Chairpersons about property transactions in their localities, checking private listings and property databases i.e. both electronic and print media sources, relying on personal experiences about the property market segment, adjusting from own previous valuation records by indexing of values and adopting value anchoring as a short-cut to decision making on property values. However, Mwasumbi (2014: 225) noted that some of the sources of valuation information are less reliable and contribute to the causes of property valuation inaccuracies in East Africa including Uganda.

## 2.18 Property valuation inaccuracy

Property valuation inaccuracy is the discrepancy between the appraised value of a real estate property and its actual market value (Ibiyemi and Adenipekun, 2013a: 639). In other words, Ibrahim *et al* (2022: 87) defined it as the lack of precision or correctness in determining the value of a property. In addition, Olufolahan *et al*. (2016) observed that valuation inaccuracy occurs when the estimated value of the property does not accurately reflect its true market value. The main causes and consequences of inaccurate property valuations and the interventions that can be implemented to improve accuracy of property valuations in Uganda are reviewed in this section.

## 2.19 Causes of inaccurate property valuations

This section generally presents and examines the main causes of inaccurate property valuations in relation to Uganda.

### 2.19.1 Unavailability of market data

Adegoke (2016: 276) argued that property valuers require sufficient quality market data such as property sales transactions, rental rates, construction costs, occupancy rates, and the performance perspective of the local, regional and national economy, etc. in order to arrive at accurate opinion of value for an investment property. However, there is limited data availability especially in small towns and rural areas which makes it challenging to determine accurate property values (Adegoke, 2016; Kiconco, 2018; Eziukwu, 2019 and Eziukwu, 2019). Unavailability of data was attributed to lack of centralised databank (Awuah *et al.*, 2016). With insufficient or incomplete market information, Awuah *et al.* (2016) added that property valuers resort to making assumptions about the property market in order to bridge the information gap which unfortunately leads to valuation inaccuracy. Also, within East Africa, Cheloti and Mooya (2023: 76) examined why valuation problems in Kenya persist despite efforts to minimise them and found limited market information as the main cause. This challenge is made worse by the fact that real estate transactions in Uganda are mainly informal and approximately 80% of land is customarily held and unregistered (National Land Policy, 2013).

### 2.19.2 Use of outdated property valuation data

Reliance on outdated valuation data or historical heuristic as a major cause of property valuation inaccuracy was identified in (Mutema, 2016; Mwangi, 2016; Kiconco, 2018; Eziukwu, 2019; Okoh *et al.,* 2023 and Cheloti and Mooya, 2023). Use of historical heuristic is as a result of unavailability of reliable data sources. This challenge was also observed in the Uganda Regulatory Impact Assessment (RIA) report for the valuation bill (2022). Okoh *et al.*(2023) noted that outdated data is in the form of old sale agreements, previous valuations, outdated lease contracts, outdated construction rate indices, outdated plans, and outdated district compensation rates. For example, the Uganda district compensation rates as it is in section 59 (e-f) of the Land Act (1998) are compiled and annually reviewed by the District Land Boards with the assistance of the technical officers of the districts. The rates are used

in assessment of compensations for crops, trees, temporary and semi-permanent structures affected by compulsory acquisition of land. The rates in most districts countrywide are either not compiled or not updated as required (MLHUD, 2023).

Many mix-use residential and commercial property in Kampala Capital City such as Namuwongo, Muyenga and Mutungo are traversed by planned roads which were never opened, yet are currently occupied and built on by people who are also unaware of the existence of the old physical and spatial plans of their areas (UNRA, 2019). Reliance of such information i.e. old plans and rates can only lead to inaccurate valuation of property for the various purposes including investments.

### 2.19.3 External clients' influence

Valuers are expected to be objective at all times when undertaking valuation assignments RICS (2022). However, Wasumbi and Tarimo (2019: 1) observed a considerable proof that valuers globally including Uganda have experienced some level of influence. Wasumbi and Tarimo (2019: 1) added that the influence aim at either increasing or decreasing the value of property depending on the purpose for which the valuation is being conducted. Wasumbi and Tarimo (2019: 1) also identified enormous amount of literature about the impact of external influence on valuation. Wasumbi (2014: 224), Kiconco (2018: 131) and Eziukwu (2019: 92) equally opined that external client influence or pressure significantly impact on the accuracy of property valuations by introducing biases and compromise which lead to inaccurate valuation.

External clients influence on property valuers has been reported in Uganda (ISU, 2019) especially on valuation for taxation i.e. stamp duty, ground rent and rating assessments; for secured lending or mortgage valuations as well as valuation for compensation purposes. Mwasumbi (2014: 224) conducted an industrial survey among valuers in Tanzania and also found that valuers were biased when it came to valuation for secured lending. In addition, Mwasumbi (2014: 224) found that private valuers relied so much on valuation opinions from the government valuer's office than the market in order to be on the safer side with the valuation variance. Mwasumbi (2014: 224) argued that external clients' influence should be avoided if

property valuations are to reflect the objective and unbiased opinion of the valuer in support of a real estate investment decision.

Achu (2013: 24), Oyewale and Abiodun (2016) and Crosby *et al.* (2019) noted that external clients' influence on property valuations manifests itself in the following ways: Client being so eager to know the outcome of the draft valuation, client agreeing on a transaction price but pending a confirmation from a valuer, client promising to establish a long-term working relation with the valuer, client using threats and intimidation on the valuer to comply and return the expected value, client taking advantage of a personal relationship with the valuer, client promising a reward or a financial token if the valuation is returned in his or her favour, client withholding vital information or deliberately furnishing the valuer with incorrect information to bias the valuer's analysis and opinion of value, client manipulating valuation data in their favour, client giving the valuer very short timelines to conclude the valuation, and valuer's opinion being subjected to approval by third parties such as funders of a project other than the valuation client. The external influence is made worse if the valuer lacks integrity (Achu, 2013: 24 and Mwasumbi, 2014: 224).

### 2.19.4 Unethical behaviour, negligence and professional misconduct of property valuers

Kayonde and Omirin (2012), Wasumbi and Tarimo (2019: 1) and Cheloti and Mooya (2021: 1) found that unethical behaviour, negligence and professional misconduct of property valuers were major causes of valuation inaccuracies. According to RICS (2022) these causes manifest in the following ways: for ethical behaviour, what stands out are bribery and kickbacks, undue influence, conflict of interest and data manipulation. For negligence what stands out according to RICS (2022) include not doing adequate research, ignoring market trends and poor inspection. And for professional misconduct what stands out according to RICS (2022) includes failure to disclose relevant information, lack of objectivity in valuation, and conducting fraudulent valuations. In addition, unethical behaviour, negligence and professional misconduct of property valuers have also been reported in Uganda (ISU, 2019 and ISU, 2021). It is not therefore surprising that there is a big concern about valuation inaccuracies in Uganda (BOU, 2017). Similarly, Frank Mugisha and Robert Wafula showed concern about the low morals in the surveying profession and described it as

a pandemic that should be wrestled down (ISU, 2021). The same view was shared by Otto Martin in the ISU (2021:22) magazine on ethics, corruption and professionalism that, "we must endeavour to recognise that some actions should be performed, some actions should not be performed, and some actions may be performed, or, not as we choose, but according to the established principles of professional conduct". It can be seen that unethical behaviour, negligence and professional misconduct of the registered surveyors of Uganda including valuers is a big concern and a possible cause of valuation inaccuracies in the country.

### 2.19.4 Lack of skills, poor education and training of property valuers

Property valuers globally undergo comprehensive education and skilling in order to understand real estate dynamics (Appraisal Institute, 2020). It is also observed in Chikafalimani *et al.* (2020: 2167) that real estate education must keep at pace with the changing nature of real estate markets. However, Olusegun (2004), Idowu *et al*. (2016), Adegoke (2016), Bank of Uganda (2017), Eziukwu (2019), Chikafalimani *et al.* (2020) and Wesonga *et al.* (2022) observed the low level of skills exhibited by university graduate valuers and the inadequate post graduate training of practicing property valuers on emerging developments in the real estate industry including valuation as a key cause of valuation inaccuracy in Africa including Uganda. Wesonga *et al.* (2022) added that the challenge of inadequate training of valuers in Uganda is manifested through insufficient market analysis, limited property assessment abilities, and inability to identify comparable sales, lack of attention to detail and inadequate professional judgement, all of which led to inaccurate property valuation. Woga and Akujuru (2016: 58) made a similar argument but also added that poor property valuation skill, experience and training are manifested through inadequate knowledge of valuation methods and approaches.

Wesonga *et al.* (2022: 100) further noted that there were only two Universities offering an undergraduate course in Bachelors' of Science Land Economics in Uganda i.e. Makerere University Kampala (MUK) and Kyambogo University (KYA). The universities started the course in 2004 and 2006 respectively. The BSc Land Economics is the basic course for one to be registered to practice valuation surveying in Uganda. It is called by other names such as BSc Land Management and Valuation at the University of Dar-es Salaam in Tanzania, BSc Valuation and Estates

Management at the University of Reading UK, as BSc Property Valuation elsewhere. Table 5 below shows student enrolment for BSc Land Economics in Uganda between 2015/2016 and 2022/2023 academic year. The result shows an average of 50 and 55 students per academic year for MUK and KYA respectively between 2015/2016 and 2021/2022. This level of enrolment is surprisingly over given the projected high rate of economic and population growth of Uganda. In 2022/2023 there were no students for direct entry in to the universities due to the COVID-19 pandemic interruptions that led a one-year lag in completion of high school candidates. The few students were from mature entry program and the diploma holders in valuation program from the Institute of Survey and Land Management Entebbe.

**Table 8: University Enrolment for BSc Land Economics in Uganda from 2015-2023**

| Period (Years) | Makerere University Kampala | Kyambogo University |
|---|---|---|
| 2015/2016 | 41 | 63 |
| 2016/2017 | 62 | 98 |
| 2017/2018 | 49 | 50 |
| 2018/2019 | 38 | 51 |
| 2019/2020 | 60 | 35 |
| 2021/2022 | 50 | 33 |
| 2022/2023 | 30 | 8 |
| Totals | 330 | 338 |
| Average enrolment per year | 47 | 48 |

Source: Adapted from Makerere and Kyambogo Universities (2023)

Chikafalimani *et al.* (2020) reviewed the BSc Land Economics university curriculum for MAK and found that it met international quality and contents standards requirement for the program. However, Wesonga *et al.* (2022: 99) conducted an industrial survey among practitioners in the country and found that the existing valuation curriculum at MUK did not match the skills needed by the industry. Wesonga *et al.* (2022: 99) recommended for a review of the MUK curriculum to be able to meet the needs of the industry. Table 9 shows the existing BSc Land Economic curriculum of MUK as identified by Chikafalimani *et al.* (2020).

**Table 9: Contents for Bachelors' of Science Degree Land Economics of MUK**

| Semester I | CU | Semester II | CU |
|---|---|---|---|
| **Year 1: Core Courses** | | | |
| Computer Literacy | 4 | Law of Contract for Surveyors | 3 |
| Engineering Mathematics | 4 | Macroeconomics for Surveyors | 3 |
| Land Plan Drawing | 3 | Land Economics I | 4 |
| Basic Law and Governance Structures | 3 | Construction Technology I | 4 |
| Microeconomics for Surveyors | 3 | Construction Drawing | 3 |
| Communication Skills | 4 | Measured Drawing | 2 |
| | | Real Estate Valuation I | 4 |
| **Year 2: Core Courses** | | | |
| Construction Materials | 4 | Commercial Law for Construction | 3 |
| Construction Technology II | 4 | Land Economics II | 4 |
| Law of Torts for Construction | 3 | Principles of Accounting | 3 |
| Real Estate Valuation II | 4 | Building Services | 3 |
| Sociology for Technology | 3 | Land Registration | 3 |
| Building Finishes and Fixtures | 3 | Land Measurement Sciences | 3 |
| | | Industrial Training | 2 |
| **Year 3: Core Courses** | | | |
| Administrative and Local Government Law | 4 | Real Property Law II | 4 |
| Real Property Law I | 3 | Entrepreneurship | 4 |
| Maintenance Management | 3 | Property Economics | 4 |
| Investment Appraisal I | 3 | Investment Appraisal II | 4 |
| Real Estate Development | 3 | Real Estate Finance and Taxation | 3 |
| Real Estate Valuation III | 3 | Research Methods and Statistics | 3 |
| | | Industrial Training | 2 |
| **Year 4: Core Courses** | | | |
| Real Estate Valuation IV | 3 | Final Year Project I and II | 5 |
| Professional Practice, Procedures and Ethics | 4 | Facilities Management | 3 |
| Property Management | 3 | Urban and Regional Planning | 3 |
| Building Surveying | 3 | Geographical Information Systems | 4 |
| Land Policy Studies | 3 | Property Investment Analysis | 3 |
| | | Property Marketing | 3 |
| **Key:** CU = Credit Units | | | |

Source: Adopted from Chikafalimani *et al.* (2020)

### 2.19.5 Inadequate regulatory framework for the property valuation profession

Regulatory framework for property valuation is vital in ensuring that property valuations are accurately and consistently conducted with integrity (Abidoye and Chan, 2018; Anim-Odame, 2018; Cheloti and Mooya, 2021; Asnakew and Amogne, 2021). It was argued in the Regulatory Impact Assessment for valuation bill of Uganda (2022) that without a sound regulatory framework, the quality of the valuation is compromised, cases of valuation inaccuracies increase and as a result there is loss of confidence in the valuation as a profession. Abidoye and Chan (2018)

and Anim-Odame (2018: 11) argued that quality of a regulatory framework for a professional body such as valuation is viewed mainly from these angles. These according to Anim-Odame (2018) are the existence, quality and effectiveness of a law of the profession, existence and effectiveness of the institutional body for the profession, and existence and effectiveness of policies that promote the profession.

When compared to Uganda, first, there is no law establishing the valuation profession; instead, the valuation profession is regulated under an amorphous Surveyors Registration Act (1974). Without a specific law for the valuation profession, it is not surprising that the umbrella body of valuers i.e. the Institution of Surveyors of Uganda is weak and unable to fully meet its objectives (RIA for the valuation bill, 2022). Similarly, effective policies must be backed by law. Therefore, in the absence of a comprehensive legal framework for the valuation profession in Uganda, standards are difficult to enforce, there is a rise in the number of people who masquerade as valuers, and there is weak oversight on the profession, increased fraud and poor-quality valuation (Bank of Uganda, 2017).

### 2.19.6 Outdated property and land laws

Appraisal Institute (2020) observed that valuation is primarily anchored on the rights and interests subsisting in real estate. The recognised rights and interests are majorly enshrined in law, contract or are generally accepted as a norm in a given locality especially where customary land tenure is dominant (Syagga, 1994:1). Unfortunately, land laws are not frequently updated to catch up with the rapid changes in real estate property valuation and investment today (Mutema, 2016). Mwesigye and Kahuma (2016), Mutema (2016), Kiconco (2018) and Eziukwu (2019) also found that outdated property and land laws contribute highly to valuation inaccuracies in Africa including Uganda. The type of valuation which is so much affected by outdated property and land laws is the statutory valuation. Examples of outdated property and land laws that are not progressive to reality of change in property and land market include the following:

i. The Land Acquisition Act (1965) which affects valuation assessment for compensation purpose in compulsory acquisition of land.

ii. Some sections of the Land Act (1998, last amended in 2010) such as sections 77 on computation of compensation, rights of lawful and bonafide occupants on titled land in section 29 of the Act, leaving titling and registration of land optional hence escalating land conflicts in a capitalistic economy, the criteria for assessing premium and ground rent for government leases contradicts modern methods of valuation of leasehold property.

iii. Registration of Titles Act (1937) which strictly identified four registrable tenure interests in land i.e. freehold, leasehold, customary and mailo. The Act does not consider registration of other rights such as of lawful and bonafide or users of the land, but considers them as an encumbrance on the land. The Act does not also recognise the digital register, meaning that search statements printed from the digital register must be confirmed with information in the physical register. More often obtaining the manual record is time consuming and therefore increases the cost and turnaround time of valuation exercise.

iv. The Survey Act (1939) which does not recognise the use of modern survey tools. This is coupled with lack of uniformity and standard of surveying in Uganda. Lack of standards for land surveying has affected the quality of cadastral surveys in Uganda. Another problem with the existing land surveying system is the poor maintenance and vandalism of Continuous Operating Reference Station (CORS) which are used as real time reference points for surveying work in Uganda. At times they are vandalised and not repaired or replaced immediately. This has also affected the quality of surveying in Uganda, which in turn, has compromised the accuracy of property valuations. Lastly, there are so many unregistered surveyors who are still operating in the country. The unregistered surveyors are reported to be buying authentic stamps from registered land surveyors. More often their survey work is not supervised and is prone to errors and at times fraudulently done. This has been reported in ISU annual report (2019) and UBA annual report (2022).

## 2.20 Consequences of inaccurate property valuations

In this section, the main consequences of inaccurate property valuations in relation to Uganda are presented.

### 2.20.1 Over and under-pricing of real estate

Over-pricing and under-pricing of real estate occur when the listed price of a property is significantly either higher or lower than its actual market value (Fisher *et al.,* 2003). Common causes of over-pricing of real estate according to Chung *et al.* (2010) and Oyewale and Abiodun (2016) include having strong emotional attachment to the property due to sentimental reasons, misguided perceptions about property value based on incorrect assumptions about the property market and speculation in the hope of making significant profit. Mutema (2016) also noted pressures from neighbours who without fundamental economic reasons have listed their properties at higher prices. Additionally over valuation according to Fisher *et al.* (2003) could be to allow for a margin of negotiation and discounts if buyers offer lower prices, or when the seller is under immense debt pressure or financial obligation and without any other property that can be used to redeem the debt burden. Lastly, Fisher *et al.* (2003) argued that reliance of inaccurate valuation report can also bring about over pricing of real estate.

Similarly, Chung *et al.* (2010) and Oyewale and Abiodun (2016) found that under-pricing may be caused by either the seller's intention to promote quick sales, to out compete competitors in competitive bidding or not having sufficient information about the property market. In addition, Fisher *et al.* (2003) observed that under-pricing may be caused by the urge to quickly sell or being aware of some negative issues with the property such as poor condition of property. Lastly, Fisher *et al.* (2003) added that there can be fear that property prices may decline further in the short and medium term and therefore sellers prefer to dispose of at the prevailing low market price. Real estate investors in Uganda have also complained about the unsustainably over pricing of land in Kampala Capital City especially where government is interested in the acquisition of private land (NPA, 2020). Similarly, UBA (2022) reported that real estate investors in Kampala had complained over government land acquisitions being overpriced; that the same price paid by government for such land in the City cannot be achieved if the land was sold to private investors.

The Uganda National Development Plan (NPA) identified that some government infrastructure projects such roads and power line constructions have stalled as a

result of project affected persons demanding abnormally high compensations for literally ‘sentimental’ attachments they have to their land (NPA, 2020). Therefore, as noted by Chung *et al.* (2010) and Oyewale and Abiodun (2016) it can be summarised that overpaying for a property can erode potential returns and impact an investor’s profitability; while underestimating market value can lead to missed opportunities to negotiate a better purchase price or leverage the property’s value for financing other investment purposes.

### 2.20.2 Under and over-capitalisation of real estate

Olusegun (2004) observed that under capitalisation occurs when real property investment does not have sufficient capital or financial resources to adequately support its operations or obligations. Olusegun (2004) found in Nigeria that when an investment property was undervalued, it would be under capitalised. As expected, Cheloti and Mooya (2023a: 303) observed that routine maintenance would be deferred, and necessary upgrades would be ignored since it was considered not to be a good investment. Therefore, fewer tenants would be attracted to unmaintained property which then would result into poor performance of the property investment and declining property value (Olusegun, 2004 and Geltner *et al.,* 2014).

Syagga (1994:26) explained that over capitalisation of real estate occurs when real property investment has an excessive amount of capital or financial resources invested in it as compared with its income generating potential. Woon *et al.* (2023: 239) asserted that when valuers over value a property’s potential, investors and developers over capitalise it because of relying on the valuation report. Woon *et al.* (2023: 239) added that under and over-capitalisation of real estate leads to lower returns on investment and reduces profitability. Oyewale and Abiodun (2016) while examining the forms of valuation inaccuracies in Nigeria and their implications on real estate development finance found that overvaluation is the most prevalent form of valuation inaccuracy which put lenders at high risk in case of default; while undervaluation denied borrowers the required amount needed for property development. Okumu et al. (2023) remarked that under and over-capitalisation of real estate is a serious matter that can be remedied by promoting accurate valuation practices in the country; amidst the shrinking resource envelopes from both the private sector and government investors.

### 2.20.3 Inaccurate calculations of rentals

Oyewale and Abiodun (2016) noted that property valuation is required for various purposes including rent determination whose basis of value is usually market rent. As noted in this thesis, property valuation is supposed to be undertaken by a qualified, licensed and experienced valuer (IVS, 2022; RICS, 2022 and Appraisal Institute, 2020). It is observed that when rental valuations are inaccurate, rent determination also become inaccurate (IVS, 2022). Appraisal Institute (2020) further notes that with higher rental values, landlords expect higher rent from a rental property and therefore set rent which is higher than the prevailing market. As such, the landlord finds difficulty in attracting tenants to the rental property thus the property remains vacant for a longer period, which leads to lost rental income and higher cost of managing the property and the eventual poor performance of the property as an investment (Appraisal Institute, 2020). Similarly, Woon *et al.* (2023: 240) noted that undervaluation leads to lower determination of rent in relation to the prevailing market. Woon *et al.* (2023: 240) added that undervaluation also weakens the landlord's bargain margin in favour of the tenant who might even offer lower rent.

Syagga (1994) noted that lower rent paid does not only lower the capital value of the property but also negatively affects the landlord's position to attract sufficient financing for real estate investments where the property is used as a collateral. In East Africa and Uganda inclusive, Syagga (1994) observed that there was no legal requirement for valuation prior to real estate acquisition or disposal for investors in the private sector, save when it is specifically provided for in a company's policy. However, according to the Public Finance and Accountability Act (2005) and the Public Procurement and Disposal of Assets (PPDA) Act (2003), the public sector is duty bound to seek the services of the Chief Government Valuer (CGV) for all statutory valuations including rental valuations prior to making any financial commitment on rented premises. Even then, government entities have also complained of inaccurate rental valuations returned by the CGV which makes it difficult for them to negotiate tenancy agreements with landlords (NDP III, 2020). This is further evidenced by the increased frequency of rental valuation review requests made to the CGV (Uganda Regulatory Impact Assessment for the Valuation Bill, 2022).

### 2.20.4 Inaccurate calculations of mortgage repayments

Syagga (1994:119) explained that a mortgage is a type of loan from a mortgage lending financial institution such as a commercial bank, and is specifically obtained for purchasing real estate without needing to pay the full purchase price upfront using personal savings or equity. Appraisal Institute (2020) added that in a mortgage, the loan amount given is a ratio of the market value of the collateral as advised by a valuer. Appraisal Institute (2020) further notes that the collateral serves as security for the duration of the mortgage in that should the borrower default on the loan repayment obligations, the property is auctioned or sold to recover the outstanding loan balance and related costs and charges such as legal fees, taxes, administrative fees and stamp duty among others. Wasumbi and Tarimo (2019) argued that over valuation leads to higher loan to value ratio which may lead to higher loan being given, higher interest, higher repayment sum and higher insurance premium calculated. Meanwhile Bilkisu *et al.* (2018) noted that overvaluation has a potential of impacting on the borrower's ability to meet repayment obligations along with the taxes and fees, whose calculations are based on the initial market value of the collateral property.

On the other hand, Wasumbi and Tarimo (2019) observed that undervaluation of a collateral property leads to lower loan to value ratio calculations, lower amount of loan given to the borrower but at a higher interest rate because it will be considered a riskier venture, and limiting the borrower's financing opportunities or ability to benefit from other financing offers available. The experiences elsewhere are not so different from Uganda. Bank of Uganda (2017) observed that there was high mortgage loan default rate in Uganda which was attributed mainly to the inaccurate property valuations in the country.

### 2.20.5 Inaccurate property tax bills

Idowu *et al.* (2016: 4) observed that property tax is one of the revenue sources for governments. Idowu *et al.* (2016: 4) further noted that there are many taxes that can be levied on property for example property rates, rental income tax, stamp duty tax, premium and ground rent, among others. The taxes on property are assessed based on

so many factors including a percentage of rateable value, market value, rental income, among others (Idowu *et al.,* 2016). The government of Uganda has complained of low revenue collection from taxes and some of the reasons cited have been reliance on outdated valuation rolls and undervaluation of property for taxation purposes (URA, 2023). On the other hand, tax payers have complained of overbilling due to over valuation of their property (KCCA, 2021). Leaseholders on government land have also complained of high ground rent assessment which is based on the market value of the land regardless of the yields realised from the land by the leaseholder (Uganda Land Commission, 2023). Therefore, interventions are required to make valuations for taxation more accurate and reliable for billing and revenue collection for the government while also protecting the integrity of the real estate property investment for the investors (Caleb *et al.,* 2011b and Rearich, 2021).

### 2.20.6 Under or over payment of building insurance premiums

Building insurance premium is explained by Syagga (1994) as the amount of money a property investor or property owner pays to an insurance company in order to secure coverage for the real estate specifically the building component against insurable risks such as damage caused by fire, vandalism, explosion, etc. or financial loss during the unforeseen occurrence of the risk. Nwosu (2019) noted that building insurance may be a matter of legal requirement for some types of buildings and it also depends on the location of such buildings. Onyike (2013) added that building insurance can also be a requirement for a mortgage facility to ensure that the collateral remains safe and operational to service the loan, or it is a matter of safety needs for the property owner or a real estate investor. Whatever the risk insured, valuation is required to enable the insurance company calculate the amount of premium to be paid by the property owner or investor (Oyewale and Abiodun, 2016). A valuer is required to determine the replacement cost or value of the buildings as they are, for insurance purposes (RICS, 2022). The insurance premium of the collateral property is calculated as percentage of the total sum insured which is based on the valuation (Oyewale and Abiodun, 2016). Oyewale and Abiodun (2016) emphasised that if the replacement cost or value is inaccurate, it would be obvious that the insurance premium calculations will also be inaccurate hence misleading the investor and the insurer.

### 2.20.7 Wrong court decisions for real estate investments disputes

Real estate investments like many other investment options is prone to risks, some of which arise from contractual or legal disputes which may require court intervention (Asnakew and Amogne, 2021). Abidoye *et al*.(2021) identified common disputes that affect valuation accuracy to include ownership and boundary disputes, claims of equitable rights by adverse possession and misrepresentation of facts by any party to the investment. In addition, Oyewale and Abiodun (2016) observed that landlord and tenant disputes over obligations of parties, terms and conditions of a tenancy agreement, meeting financial obligations such on tax remittance to the authorities, paying mortgage or insurance premiums as stipulated in a contract are some of the common disputes.

Blumenfeld (2022) added disputes arising from compulsory acquisition of the investment property by government, property sharing through a legal proceeding, and upon liquidation of an investment company holding real investment portfolio etc. More often, Courts in Uganda require that the valuation of the disputed property be first determined in order to guide court decisions however Courts are within their discretionary powers to choose an independent valuer to undertake the valuation (MLHUD Ministerial Policy Statement, 2022). Depending on the nature of the case and the outcome of the valuation, Courts have awarded damages, costs, etc. to the party that wins the case, while the looser is penalised (Syagga, 1994). In some cases, a middle ground of sharing the properties based on their values is also ordered or parties are referred to seek mediation. Contestations over inaccuracy of property values for compensation and taxation are common in Uganda; some of which have ended up in courts of law (Draft No.3 Land Acquisition, Resettlement and Rehabilitation Policy, 2018). Appeals on court decisions have affected delivery of critical investment projects in Uganda (NPA, 2020; MLHUD, 2022).

### 2.20.8 Financial losses and bankruptcy

Anim-Odame (2018: 11) found that inaccurate property valuations can lead to financial losses and even bankruptcy for property owners, investors, lenders and other partners. Adegoke (2016: 276) also examined the effects of valuation variance and inaccuracy on Nigerian commercial property market and found that valuation

variance and inaccuracy cause fluctuation in the price of property which sends wrong signal to the market participants. In addition, Adegoke (2016: 276) found that overvaluation can lead to higher property taxes, overcapitalisation of property, failing to attract buyers or renters in time, law suits over extortions and corruption while undervaluation can lead to low rental cash in-flow to meet financial obligations; or as noted in Olusegun (2004), lowers the compensation paid to the investor in case of dispute settlement, etc. Unfortunately, all those challenges directly or indirectly lead to poor performance of the investment in the medium to long term, which then lead to financial losses, bankruptcy and reputation damage (Adegoke, 2016; Anim-Odame, 2018). Jomayi Properties Limited is one of those real estate businesses that suffered financial losses, bankruptcy and reputation damage in Uganda partly due wrong valuation of their land for sale and mortgage acquisition purposes (Abet, 2022).

### 2.20.9 Real estate market collapse and failure

Eziukwu (2019: 92) noted that real estate market collapse and failure occur when the growth in rent and capital values of real property are not supported by economic fundamentals of effective demand and supply or consumption backed by productivity. In other words, property values are superficial and unsustainable (Eziukwu, 2019: 92). French and Gabrieli (2018a: 391) argued that inaccurate property values lead to excessive market speculation, which also leads to short sightedness form of investment such as ambitious overinvestment and overleveraging the property portfolio, which also leads to financial distress due instability and reduced confidence in the property market. For example, Appraisal Institute (2020) recalled that the 2008 credit crunch in the United States of America (USA) and the United Kingdom (UK) was greatly attributed to unrealistic rise in property values and failure of the borrowers to service existing loans.

As a result, Appraisal Institute (2020) reported that financial lending institutions became hesitant to offer new credit to real estate sector investors hence stifling the demand for real estate which had an effect of reducing property value and stabilising the real estate market in the long run. As rightly observed in Appraisal Institute (2020) the construction sector, real estate related industries, employees and employers, financial market, landlords, real estate investors and tenants had to face

the consequences of real estate bubble and bubble bust. Whereas less than 10% of Ugandans depend on mortgage for real estate investments as observed in Nakiwala *et al*. (2022), their contribution to the proper functioning of the sector cannot be understated.

### 2.20.10 Declining confidence in property valuers

Building a solid professional reputation and winning clients' confidence is what the International Valuation Standards Council (IVSC), the Appraisal Institute and the Royal Institution of Chartered Surveyors (RICS) stand for at the international level (IVS, 2022 and RICS, 2022). Ayodo (2012) underscored the importance of winning and maintaining clients' trust and confidence for a healthy valuation profession. Wesonga *et al.* (2022: 99) noted common signs that point to reduced confidence level of the valuation profession in Uganda to include: increased demand for legal and regulatory framework for the profession, entities employing in-house valuers they can have control over, reduced demand for valuation services, investors relying more on market signals and automated valuation approaches than professional valuations, negative feedback and sentiments about the profession, and increased law suits against valuers. In addition, Wesonga *et al.* (2022: 99) noted that clients engaging more than one valuer to independently value the same property for the same purpose also referred to as valuation shopping, mortgage lending institutions demanding for professional indemnity cover for valuers, insurance firms charging higher premiums for professional indemnity cover for valuers, fewer students taking up the valuation profession, and lastly, government not recognising the need for the profession through low budget support are some of the signs of declining confidence in property valuers in the country.

The Uganda Bankers Association (UBA) also observed in their annual report that there had been increased cases of lawsuits preferred against valuers for misadvising financial institutions on the quality and market value of collaterals pledged for mortgage purposes (UBA, 2022). As such, UBA (2022) reported that banks required valuers to have sufficient professional indemnity insurance cover to be able to get assignments of high value properties. Abidoye and Chan (2018: 71) noted this development as so unfortunate as it tainted valuation professional reputation for

misadvising clients including investors and financial institutions through inaccurate property valuations.

When the consequences of inaccurate property valuations were analysed, Okumu *et al.* (2023: 48) noted that most of them are detrimental and can have negative impact on businesses including business financial losses and bankruptcy, and as such, they should be avoided to safe guard businesses dealing with real estate investments. They added that the last consequence on the list which is "the declining confidence in property valuers" is even more serious since it can reduce demand for property valuation services or even entirely kill property valuation profession.

## 2.21 Interventions to improve property valuation accuracy

This section of the literature review provides interventions that can be implemented in order to improve the accuracy of property valuations in Uganda and elsewhere.

### 2.21.1 Strengthening of property valuation curricula

Due to the wide knowledge and intellectual roundness required of a valuer, Mooya (2015: 245), Woga and Akujuru (2016: 58) and Chikafalimani *et al.* (2020: 2167) emphasised the need for valuers to obtain comprehensive training to enable them provide sound valuation to clients. Similarly, RICS (2022) emphasises the need for valuers to undergo mandatory training in key competence areas before being registered as members. In addition, Wilkinson *et al.* (2018: 333) underscored the need for continuous professional development for valuation professionals in order to keep a brace with new knowledge, emerging trends and constantly changing practice requirement. A recent study on education and training of valuation surveyors in Uganda by Wesonga *et al.* (2022: 99) observed that the valuation profession had evolved significantly and is getting more complex today due to globalisation, the impact of e-commerce and information technology as well as the emergence new asset classes.

Wesonga *et al.* (2022) observed that in terms of training curriculum, higher institutions of learning such as Makerere University Kampala must employ the appropriate methods and holistic programmes that will prepare graduate valuers to

provide sound advice on important investment decisions in the real estate market. In addition, Wesonga *et al.* (2022: 99) found that the undergraduate curriculum for Land Economics program offered at both Makerere and Kyambogo universities which were founded in 2004 and 2006 respectively to train property valuers in Uganda were outdated. The study recommended for a curriculum review, improvement in the training delivery and assessment methods to enable universities channel out competent valuers. From the research, Wesonga *et al.* (2022:99) also recommended for a change of course name to a Bachelor's of Science in Valuation instead of a Bachelor's of Science in Land Economics so as to clarify to the general public what the students will do after studies. Wesonga *et al.* (2022: 99) also argued that the change was necessary since valuation encompasses both tangible and intangible assets identified in (IVS, 2022).

Other recommendations by Mooya (2015: 245), Woga and Akujuru (2016: 58) and Chikafalimani *et al.* (2020: 2167) included removal of irrelevant course units and introduction of business and financial assets valuation, valuation in information technology and Artificial Intelligence (AI), Environmental, Social and Governance (ESG) standards, etc. Wesonga *et al.* (2022: 105) advocated for a specialisation of valuation at master's level in areas such as plant and machinery valuation, and valuation of natural resource. The findings and proposals by Wesonga *et al.* (2022) are in tandem with Olaleye and Adama (2018) on the need for adaptive training, innovation and critical thinking for graduate valuers; Hidagoda and Gunawardhana (2020) on incorporating sustainable building features into property valuation; and the aspirations of African Real Estate Society - Afres (2023) on the adoption of artificial intelligence (AI) for the next generation of real estate in East Africa.

Lastly, Chikafalimani *et al.* (2020) recommended universities in Uganda to hire well qualified and experienced lecturers, introduce guest lecturers to boost the learning experiences of students through gainful exposure and making comparison on trends with other universities globally. It is expected that when property valuation curricula are strengthened, valuers will have the required competences to comfortably undertake property valuations and return accurate and reliable values that can support real estate investment decisions by businesses in Uganda (Chikafalimani *et al.*, 2020).

### 2.21.2 Registration of well qualified property valuers

As noted earlier, property valuers are required to be registered and well-regulated either by self or by government if they are to be recognised as trusted professionals (Olusegun, 2004; Mutema, 2016; Cheloti and Mooya, 2023; Bank of Uganda, 2017; Wesonga *et al.,* 2022; Okoh *et al.,* 2023). Cheloti and Mooya (2023: 76) noted that registration of a professional valuer is a rigorous process that involves a set criterion or a standard process. Cheloti and Mooya (2023: 76) added that the process involves vetting the qualification, training and competence of the applicant by the professional registration body if the applicant meets the minimum requirement for registration. In addition, the regulator is required to confirm that the applicant for registration understands and can apply valuation ethics and code of conduct, professional standards and guidelines (Cheloti and Mooya; 2023: 76). Mutema (2016) added that the valuation applicant must be conversant with and meet all the legal requirement of the profession, such as on payment of fees and taxes. Bank of Uganda (2017) and UBA (2022) added that a valuer must obtain professional indemnity (PI) insurance cover. Wesonga *et al.* (2022) noted that a valuer must undertake continuous professional development studies to improve and update oneself with the profession.

Whereas it is observed that a lot of effort is being made by the valuation regulatory bodies i.e. ISU and SRB, there is still need to make the registration process more transparent but rigorous enough in order to ensure that the problem of valuation inaccuracy is significantly reduced in Uganda (Wesonga *et al.,* 2022). Okumu *et al.* (2023) observed that reducing valuation inaccuracy in Uganda can be achieved when only competent valuers are registered, since the registered valuer will adhere to ethical and practice standards of the profession, and be able to understand the need for quality service and client care, which will ultimately restore clients' confidence in the profession as was also noted in (Okoh *et al.,* 2023).

### 2.21.3 Improvement of regulatory framework for the property valuation profession

Having in place a comprehensive regulatory framework for the valuation profession was recommended by Wasumbi (2014: 244); Idowu *et al.* (2016); Bank of Uganda (2017); Asnakew and Amogne (2021) and Wesonga *et al.* (2022: 99) as critical to

enhancing professionalism, credibility and accuracy of property valuations. As noted earlier, the valuation profession in Uganda is legally regulated by the SRB under the Surveyors Registration Act (1974). However, it has been noted that the law is limited in scope and is outdated. Similarly, ISU which is the professional association of valuers does not also fully provide for growth of the valuation profession (ISU, 2021). Therefore, Wesonga *et al.* (2022: 99) recommended that the existing regulatory and institutional framework of valuation in Uganda be improved to comprehensively provide for a general and specialised valuation curriculum, apprenticeship and training curriculum, examination and registration of candidates, the valuation practice, and professional growth of members.

Wesonga *et al.* (2022: 99) further added that the regulatory framework should provide for the conduct and discipline of the members in all phases of the profession from student to profession membership. Also, the Uganda Regulatory Impact Assessment for Valuation Bill (2022) recommended development of a comprehensive valuation legal framework to define the valuer and the valuation scope, provision of valuation practice standards, qualification and certification requirements, licensing revocation and enforcement regulations, code of ethics, continuing education and professional development policy, quality control and oversight regulations, consumer protection clauses, transparency, reporting and accountability code, mandatory requirement for property market monitoring and tracking in collaboration with other stakeholders, global acceptance and recognition through membership affiliations. Wesonga *et al.* (2022: 99) observed that the above recommendations will promote efficiency and reliability of property valuations in Uganda.

Annual report of ISU (2021) revealed that the institution was already a member or an affiliate of several regional and international valuation and surveying professional organisations such as the IVSC which publishes the IVS, FIG which is an International Federation for Geomatics surveyors, RICS which is an umbrella body for the Royal Institution of Charted Surveyors based in the United Kingdom, Afres which is African Real Estate Society - an umbrella society for real estate practitioners of Africa, CASLE which is the Commonwealth Association of Surveying and Land Economy for countries of the commonwealth such as Uganda, and EARES which is

East African Real Estate Society for the member states of East Africa, etc. MLHUD (2021) observed in their advert for consultancy services for the valuation professionalisation framework for the country that being a member of the above-mentioned valuation professional organisations should be able to shape the formation of an independent valuation organisation through knowledge and experience sharing to improve accuracy of valuation in Uganda. Based on the above issues, Wesonga *et al.* (2022: 99) further recommended that valuers in Uganda should urgently develop a comprehensive law and a national valuation standard to address its unique valuation challenges such as lack of uniformity in selection and application of valuation methods and the unique land tenure to ensure uniformity, accountability, efficiency and reliability of the valuation services by real estate investors in in the country.

### 2.21.4 Promoting accessibility of affordable new technology to improve accuracy of property valuations

Abidoye and Chan (2017: 36) and Anim-Odame (2018: 11) observed that adoption of modern technology can improve efficiency and precision of property valuations which in turn improves the accuracy and reliability of values for real estate investment decisions. However, Bank of Uganda (2017) and Wesonga *et al.* (2022: 99) found that there was low adoption of modern valuation technology in Uganda which would have improved property valuation accuracy. Valuers in Uganda heavily relied on either manual approach such as use of tape measures, notebooks and pens to collect property data, or use basic tools such as MS-Word and MS-Excel to analyse and report on valuation (Wesonga *et al.,* 2022: 99). The reasons for the low adoption ranged from lack of knowledge about the availability and the capacity of modern and affordable technologies to solve valuation accuracy to high cost associated with their acquisition and maintenance (Wesonga *et al.,* 2022: 100).

Anim-Odame (2018: 11) further observed that with increased research and continuous improvement, there were several valuation tools both in open source and off-shelf that have been made available to complement the work of valuers. Given the uniqueness of real property and real estate, Abidoye and Chan (2017: 36) recommended that the best valuation technology tool for any country should be that which is built from scratch by considering the country's specific legal, policy and

administrative framework or is organic to the industry of locality. Table 10 shows some of the available technologies for property valuation.

**Table 10: Examples of modern technology tools for property valuation**

| No. | Technology | Support functions |
|---|---|---|
| 1 | Artificial Intelligence (AI) | Is relatively new. AI uses AI powered algorithms to predict future values of property based on historical data and market dynamics. |
| 2 | Automated valuation models (AVMs) | Use algorithms to estimate property values based on data inputs e.g. property characteristics, recent sales and market trends. |
| 3 | Remote Sensing | Uses satellite imagery, drones, etc. to gather up to date information about property conditions, land use changes, property movements, etc. |
| 4 | Geographical Information System (GIS) | Enables creation of detailed maps and spatial analyses of properties and their surroundings e.g. proximity to amenities, transportation, schools and environmental features among others. |
| 5 | Big Data Analytics | Is capable of accessing vast amount of data e.g. historical sales data, property records, zoning information, market trends, etc. Using algorithms, it can process the data to identify patterns and correlations that may not be apparent through manual approach. |
| 6 | Property Valuation Software | There are many software tools which incorporate valuation models, market analysis and report generation capabilities to assist valuers. |
| 7 | 3D Scanning and Virtual Reality | Allow creation of virtual property tours and more accurate assessment of condition and features of property, and can assist in remote inspection. |
| 8 | Real-time Market Data | Allows monitoring of changes in property values and market trends in real time. |
| 9 | Data Integration | Facilitates integration of various data sources e.g. property records, mortgage data, and market trends to provide a holistic view of past and present market condition of a property. |
| 10 | Mobile Apps | Is ideal for field data collection e.g. photographs, measurements, condition assessment, etc. to streamline data collection and reduce the risk of transcription errors. |
| 11 | Environmental and Sustainability Assessment Tools | Is ideal for assessing environmental concerns. |
| 12 | Block chain Technology | Is considered to provide a more secure and tamper proof records of ownership and transaction history of property in order to guarantee transparency which is critical for information fraud risk reduction. |

Source: Adapted from Appraisal Institute (2020)

Mohamed and Bello (2021: 63) examined the potentials of information and communication technology in real estate management and valuation practice and found that there was increased use of application of software, geographical information system, drone technology and wireless sensor networks. Mohamed and Bello (2021: 63) further found cloud computing, artificial intelligence and robotics, and the internet of things as common technology tools used among real estate managers and property valuers globally. Similarly, it was observed from the MLHUD Ministerial Policy Statement of (2022) that the ministry was supporting the valuation department to secure some modern technologies in order to improve its valuation functions. Table 11 shows the modern technologies which are being procured to improve valuation accuracy and efficiency in Uganda. There is no doubt the adoption of affordable modern relevant technologies will aid and improve the accuracy and reliability property valuations for real estate investment decisions by businesses in Uganda (Okumu *et al.,* 2023).

**Table 11: Technologies to improve valuation accuracy and efficiency in Uganda**

| No. | Technology | Function |
|---|---|---|
| 1 | Land value databank | To reduce land value speculation, facilitate land-based taxation and financing, improve transparency and accountability as well as reliability in land valuation. |
| 2 | Land Valuation Management Information System (LAVMIS) | To digitise the entire valuation workflows as well as integrating with supporting departments and agencies of government and private sector. To be the main backbone infrastructure for property valuation in Uganda. |
| 3 | Valuation Infrastructure Project (VIP) | To provide a platform for both valuers in public and private sectors to share valuation progress and development. |
| 4 | Land Value Indices | To provide regular periodic information about changes in land values countrywide. |
| 5 | Compensation Rates Database and App | To aid the compilation and speed up annual review of District Compensation Rates for 135 Districts across the country. |

Source: Adapted from MLHUD (2022)

However, it can be seen that the interventions by the MLHUD as presented in Table 8 are not harmonised. They are isolated systems that are not linked or do not speak to each other. Perhaps more attention and resources should be directed to the development of the Land Valuation Management Information System (LAVMIS) which appears to be more comprehensive, effective and efficient in aiding valuation accuracy, credibility and reliability for all purposes including real estate investments. LAVMIS seems to incorporate most of the modern technology tools highlighted in Table 11 and is scalable according to the latest valuation industrial requirement. Therefore, the valuers in the private sector may consider linking with MLHUD to benefit from those modern technologies in the short run as they find their own footing.

### 2.21.5 Reforms of outdated property and land laws

The importance of having progressively sound property and land laws to support valuation function was underscored by (Mutema, 2016: 14). The land laws that significantly impact on property valuations as observed by Mutema (2016: 14) are those relating to the management and registration of land rights, physical planning, surveying and mapping, property valuation itself, real estate agency, landlord and tenant relations, and environmental protection as discussed in the previous section. As already observed in the previous sections of this thesis, some of the land and property laws are so outdated in that they are also an impediment to adopting progressive methods and methodology of valuation in Uganda e.g. the Land Act (1998) on determination of premium and assessment of ground rent for government leases where method in the law conflicts with standard valuation methodology. MLHUD acknowledged in their Ministerial Policy Statement (2022) that there were several land laws lined up for amendment to enable them come to speed with the current changes in the land sector.

For example, the national Constitution in Article 237 as implemented by the Land Act (1998) provides protection to lawful and bonafide occupants on private land. The Act defines a bonafide occupant as a person who before the coming into force of the Constitution of the Republic of Uganda (1995) had occupied private land for a period of twelve (12) years undisturbed by the registered owner of land. Such a person

enjoys possession of the land in perpetuity alongside a registered owner in fee simple or freehold. This situation creates two parallel perpetual rights over the same land which is a challenge to the valuer. In addition, the Limitation Act (1959) protects any squatter who has settled on private land for twelve years undisturbed from being evicted from the land without compensation by the legitimate owner of the land. Reforms in all the land and property laws will clarify property rights, ownership and planning restrictions which are so important for accurate determination of property values for real estate investment decisions (Mutema, 2016: 14).

### 2.21.6 Encouragement of research to increase accuracy of property valuations

Mutema (2016: 14) advanced that having in place robust research led professional body is at the gist of the modern-day survival. As noted before, property valuation is dependent on so many factors which are constantly changing (Mutema, 2016; Wasumbi and Tarimo, 2019). Mutema (2016) added that the changes may occur in the property legal requirement, the property market, economic and demographic dynamics, social and environment. Or technologies and tools, bases of value, methods and approaches of valuation, professional ethics, and code of conduct, institutional structures and policies of the profession (Mutema, 2016). Or in general knowledge and perception about valuation, changes in property rights, impact of court decisions, curriculum, property investments, management, monitoring and evaluation of major valuation projects such as project induced displacement and mass land acquisitions, property tax appeals and performance of mortgages, and so on (Mutema, 2016: 15); all of which have significant abilities to cause positive change in the valuation practice of Uganda.

Chikafalimani *et al.* (2020: 2167) and Wesonga *et al.* (2022: 100) noted that research led valuation profession can be achieved by establishing a committee in charge of research and development within the professional association, encouraging members to conduct research and publishing the research papers in the association news bulletins and magazines and collaborating with key stakeholders of valuation such as government ministries, departments, agencies and local governments, education institutions, finance lending institutions to support research activities. IVSC also encourages collaborative research with regional and international researchers in order

to draw comparisons with valuation performance in other countries. Mwasumbi and Tarimo (2019: 2) argued that the research findings can only be useful if they are disseminated appropriately and as such, key stakeholders including the professional members, the general public and the valuation clients should be informed of the findings.

### 2.21.7 Development of novel property valuation models

Models according to Uskali and Mäki (2005) are simplified presentation or abstraction of a complex phenomenon or system. Jeffrey *et al.* (2014) adds that models are essential tools to conceptualise, understand, and analyse various aspects of the world. Development of a novel property valuation model as noted in Bastian *et al.* (2023) can improve valuation accuracy by incorporating advanced valuation methodologies, valuation data from several sources, and use of technologies such as machine learning and artificial intelligence, and spatial data analysis tools. However, Glumac and Rosiers (2021: 481) argued in their publication on, "Practice briefing-Automated valuation models (AVMs): their role, their advantages and their limitations" that the critical role of a professional valuer in interpreting the auto-generated property value cannot be substituted by any machine. For all intent and purposes, the property valuer's ability to understand the AVM model is critical in facilitating correct reporting about the property value including for investment decision making. The studies in this section highlighted the possibility of developing a locally acceptable property valuation model to improve accuracy of property valuations which are used for real estate investment decisions by businesses in Uganda.

## 2.22 The conceptual framework of the study

A conceptual framework includes key concepts, variables, relationships, and assumptions that guide the academic inquiry (Creswell, 2014; Saunders *et al.*, 2019). Conceptual frameworks can be written or visual and are generally developed based on a literature review of existing studies about a study topic. A conceptual framework illustrates the expected relationship between the study variables (Creswell, 2014; Saunders *et al.*, 2019). The literature reviewed in this study reveals that property valuations have influence on real estate investment decisions as shown

by the conceptual framework in Fig.12. The relationship is guided by the dependent variable, an independent variable and moderating variables.

The dependent variable Creswell (2014) is the variable of primary interest in the research. It is the variable which is influence by the independent variable; in other words, it is used to describe or measure the problem under study. In this conceptual framework, the dependent variable is the real estate investment decisions such as the decision whether to sell property, rent property, secure a mortgage or use equity, own and occupy, lease, buy or hold, etc.

The independent variable Creswell (2014) and Saunders *et al.* (2019) refers to the variable that is used to describe or measure the factors that are assumed to cause or at least influence the problem. It is further noted in Saunders *et al.* (2019) that the independent variable influences the dependent variable in either positive or negative way, and also helps to explain variance in the dependent variable. In this conceptual framework, the quality of property valuation is the independent variable. Literature reveals that property can be either undervalued or overvalued (Appraisal Institute, 2020).

Lastly, the moderating variables in Creswell (2014) and Saunders *et al.* (2019) refer to those variables that have strong contingent effect or influence on the relationship between the independent variable and the dependent variable. They explained that moderating variables modify relationship between the two variables. In this conceptual framework, client's type and character, property attributes, real estate market dynamics, regulations on property, business and the profession, valuation data quality, valuation methods and methodologies, valuation standards valuer's competence in terms of education, ethics, experience, etc. have been reported to have strong influence on the quality of property valuations consumed by the real estate investor to aid real estate investment decisions (Appraisal Institute, 2020; RICS, 2022). Thus, the moderating variables will be investigated further in this research.

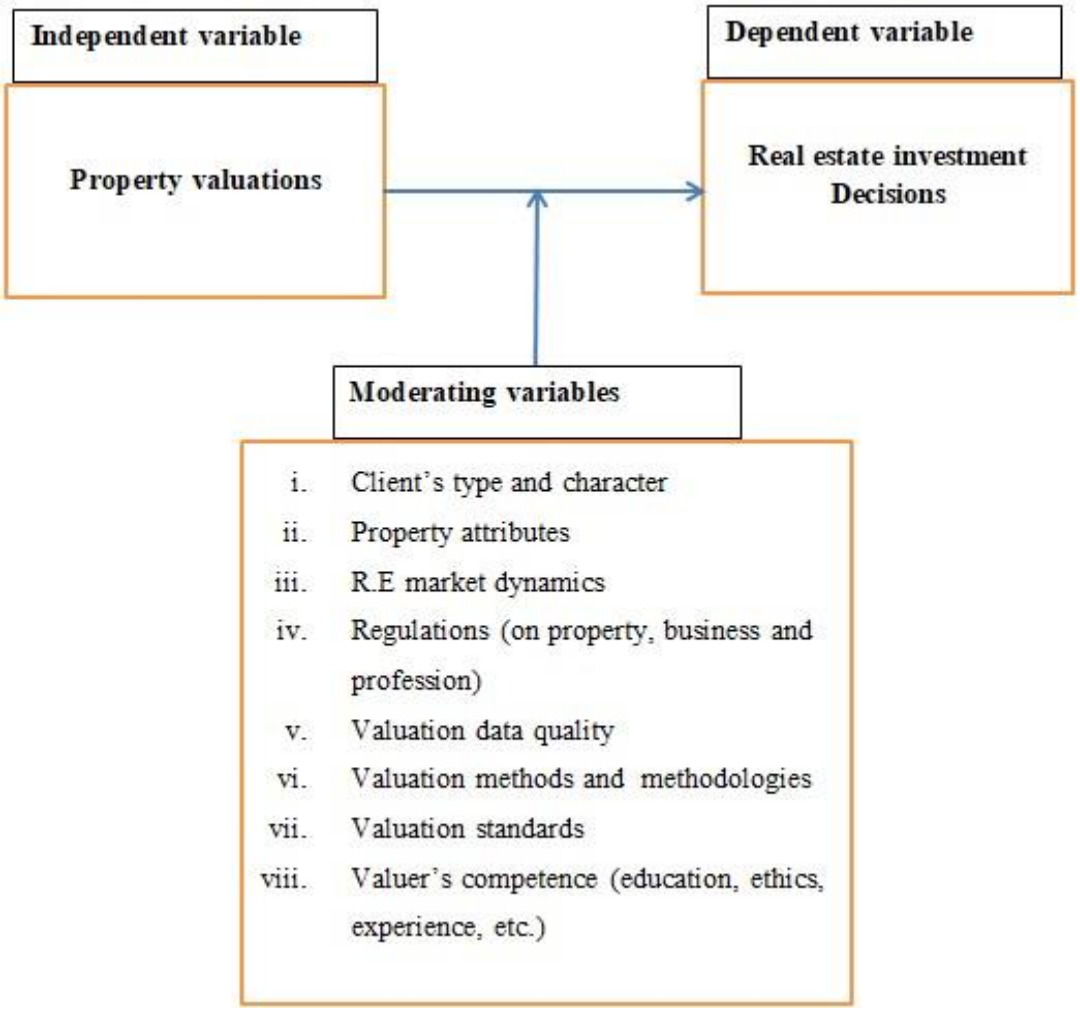


**Figure 12: The influence of property valuations on real estate investment decisions**

*Source: Own illustration 2023/24*

## 2.23 Chapter summary

This chapter reviewed literature relating to the definition of property valuation, purposes of valuation, the main bases of value, duties of a valuer, methods of property valuations, business investments, real estate business investments, real estate business investment decisions, real estate market, real estate business sector in Uganda, property registration in Uganda, property valuations in Uganda, property valuation inaccuracy, causes and consequences of property valuation inaccuracy, interventions, the need for novel property valuation models development and the conceptual framework guiding the study were highlighted. In the next CHAPTER 3, the research design for the study is discussed.

# CHAPTER 3: RESEARCH DESIGN

## 3.1 Introduction

In CHAPTER 2, theories on inaccurate property valuations, causes, consequences, and interventions in relation to Uganda were presented. In addition, property valuation model development is highlighted. This chapter therefore presents the methodological approach used to carry out the entire study. Particularly, it is focused on the design, approaches, sampling method used, data analysis and ethical considerations.

## 3.2 Research design

Research design is described in Saunders *et al.* (2019: 85) as a comprehensive description of the procedures followed in a research study such as the research methods adopted in data collection and analysis. Leedy and Ormrod (2019: 17) and Creswell (2014: 11) add that the research design is critical and determines the success of any research study. The three most common types of research designs are: qualitative, quantitative and mixed methods research designs. Similarly, Creswell (2014: 3) described research approach as plans and procedures for research. It is a step-by-step plan that includes broad assumptions to detailed methods of data collection, analysis, and interpretation. The three commonly used research approaches are qualitative, quantitative and mixed research approaches as identified in (Saunders *et al.*, 2007: 1; Creswell, 2014: 3). The mixed approach is a combination of the qualitative and quantitative research approaches.

Creswell (2014: 4) further observed that quantitative research approach is one in which objective theories are tested by examining the relationship among variables. The approach according to Saunders *et al.* (2019: 85) deductively analyses statistical results for generalised conclusions and replicable findings. Examples of quantitative research designs approaches Saunders *et al.* (2019) are experimental designs where the investigator determines whether an activity or materials make a difference in results for participants; correlational designs to measure degree of association between two or more variables using statistical procedure of correlational analysis; and survey designs where a survey or questionnaire is administered to a small group of people referred to as a sample to identify trends in attitudes, opinions, behaviour, or characteristics of a large group of people called the population.

On the other hand, qualitative research approach involves exploring and understanding the meaning of individuals or groups that ascribe to a social or human problem through inductive analysis of data (Creswell, 2014: 4). Examples of qualitative research designs according to Creswell (2014) are grounded theory designs to generate a general explanation that explains a process, action, or interaction among people; ethnographic designs to describe, analyse and interpret a cultural group's shared patterns of behaviour, beliefs, and language that develop over time; and narrative research designs to describe the lives of individuals, collect and tell stories about these individuals' lives, and write narratives about their experiences. Others include case study and phenomenology (Creswell, 2014: 13).

Finally, the mixed research approach which is adopted in this study involves the use of both quantitative and qualitative research approaches in data collection and interpretation by using distinctive designs which are informed by both philosophical assumptions and theories to provide a more complete understanding of a research problem, than using only one research approach (Creswell, 2014: 14 and Saunders *et al.,* 2019: 85). Creswell (2014: 3) and Saunders *et al.* (2019: 85) emphasised that the selection of an appropriate research approach is dependent on the philosophical assumptions of the researcher, the procedures of inquiry such as the designs and specific methods of data collection, analysis and interpretation, as well as the nature of the research problem being addressed. In the mixed methods research designs the researcher needs to decide on the emphasis to give each form of data, which form of data to collect first, how the data will be mixed, and whether theory will be used to guide the study (Creswell, 2014). Other factors determining the selection of a research approach according to Creswell (2014: 3) are the researcher's personal experiences, and the audience for the study.

## 3.3 Research paradigms

Research paradigm is defined by Guba (1990: 17) as "a basic set of beliefs that defines action". In other words, it is a collection of common beliefs and agreements shared between scientists about how problems should be understood and addressed (Kuhn, 1962). Research paradigms Saunders *et al.* (2019) are characterized into four broad philosophies i.e. ontology, epistemology, methodology and axiology. These are further explained in Saunders *et al.* (2019) as follows; Ontology is concerned with

the nature of relativity in that it concentrates on finding what reality is and its form. Epistemology on the other hand is concerned with how one gets to know something. Methodology is about how to go about finding out something. It relates to the tools used in acquiring knowledge about something. Lastly axiology which is concerned with the nature and roles of values, and usually the kinds of things that are valuable. These research paradigms have informed the development of the research methodology.

## 3.4 Philosophical worldview

Crotty (1998) and Saunders *et al.* (2019) define research philosophy as how different scholars or researchers view the world to generate and construct knowledge about reality, perceive and interpret it. Creswell (2014: 16) also defines philosophy of research to mean "the use of abstract ideas and beliefs that inform our research". The four common worldviews according to Creswell (2014: 6) and Saunders *et al.* (2019) are positivism, constructivism (interpretivism), pragmatism and realism as further discussed below.

**Positivism:** according Crotty (1998) and Creswell (2013) is a philosophical school that holds that all genuine knowledge is either true by definition or positive; meaning a posteriori facts derived by reason and logic from sensory experience. Simply put, the positivists believe in knowledge being objective, tangible and there is a known truth about a thing. Saunders *et al.* (2019) adds that positivists reject and consider as meaningless other forms of acquiring knowledge such as intuition, introspection, or religious faith i.e. they are not interested in individual views, opinions, perspectives or beliefs but rather in studying patterns and larger trends that are relatively universal to the population (Creswell, 2014). The positivists use mainly quantitative data collection and analysis methods for objectivity and generalisation of findings. All knowledge, beliefs and attitudes are turned into variables which can be isolated and explored in terms of relationships between them using tools such as questionnaires. Positivism philosophy is cherished for its objectivity but criticised for not accounting for the highly subjective experiences in the population (Saunders *et al.*, 2019).

**Constructivism:** also known as interpretivism in Saunders *et al.* (2019) is a social science paradigm asserting that reality is subjective, emphasising understanding phenomena from the perspective of individuals. Interpretivists also believe that

reality is subjective and multiple, constructed and interpreted by individuals based on their experiences. Interpretivists according to Saunders *et al.* (2019) use qualitative methods of data collection such as interviews and focus group discussions, and interpretation such as themes. To increase the validity of qualitative research under the interpretism paradigm, Saunders *et al.* (2019) advised researchers demonstrate comprehensively the steps undertaken to minimise their influence on the study context or the participants. Nevertheless, Saunders *et al.* (2019) argued that the views of the researcher are still manifested both in the focus of the analysis, where exploring and understanding the individual perspectives, and in the process of analysis, since the researcher makes use of own interpretations when making sense of the collected data.

**Pragmatism:** is a philosophy that seeks to integrate multiple perspectives and approaches to solve complex problems by adopting mixed research design methods to complement each other. A pragmatism worldview arises out of actions, situations, and consequences. In other words, it concerns itself with the applications of "what works" type of solutions to problems (Creswell, 2014: 10). Pragmatism requires research designs that incorporate practical operational decisions that enables researchers conduct research in an innovative and dynamic manner in order to find solutions to a research problem.

**Realism:** is a research philosophy where a researcher believes that a scenario is accepted as it is and dealt with accordingly (Saunders *et al.*, 2019).

A general knowledge of all the research philosophies is vital in selecting which of them gives a clear direction in the research. As noted earlier, the choice of the worldview in a study is dependent on the problem statement, study objective, data collection and analysis methods, and the type of data required. Therefore this research adopted a pragmatism worldview as the most appropriate paradigm for this study. This is because it enables the integration of multiple perspectives and approaches to solve this complex problem by adopting mixed research design methods using semi structured questionnaire and focus group discussion guide in order to understand the influence of property valuation on real estate investment decisions by businesses in Uganda.

Similarly, there are three main approaches to theory development i.e. deduction, induction and abduction as explained in (Saunders *et al.,* 2019). “In deduction approach, a theory and hypothesis (or hypotheses) is developed and a research strategy designed to test the hypothesis; while in deduction approach, data is collected and a theory is developed as a result of the data analysis. Whereas in abduction approach, data are used to explore a phenomenon, identify themes and explain patterns, to generate a new or modify an existing theory which is subsequently tested, often through additional data collection” (Saunders *et al.,* 2019: 160). In this research, the abduction approach to theory development as explained by (Saunders *et al.,* 2019) is considered the most appropriate thus adopted.

## 3.5 Mixed methods research design

The mixed methods adopt both quantitative and qualitative methods of data collection and analysis (Creswell, 2014: 11). The method is particularly useful when dealing with complex research questions that cannot be fully understood using one research method. The designs in mixed methods include convergent parallel mixed methods, explanatory sequential mixed methods and exploratory sequential mixed methods (Creswell, 2014: 14). This research adopted a convergent parallel mixed methods approach (see Figure 13) in order to overcome limitations of using a single approach (Bethlehem, 2009).

Creswell (2014: 15) observed that convergent parallel mixed methods research approach is one where the researcher collects both quantitative and qualitative data, analyses them separately, and then compares the findings to confirm or disconfirm each other based on the assumption that both quantitative and qualitative data prove different types of information. In this approach, detailed views of participants are obtained qualitatively, while scores on the views are obtained quantitatively. It is generally accepted that qualitative data provides a rich, context specific understanding of the research problem, while the quantitative data offers statistical rigor and generalisability of the research findings (Creswell, 2014: 220; Bryman, 2006:97).

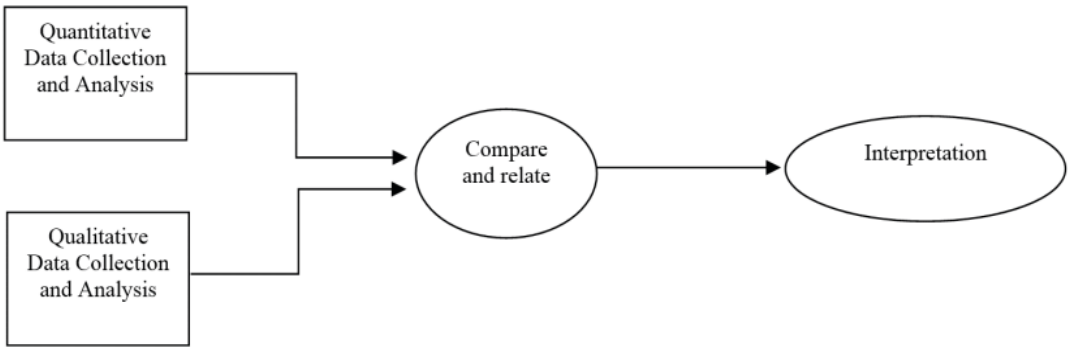


**Figure 13: Convergent parallel mixed methods**
Source: Creswell (2014: 220)

### 3.5.1 Quantitative phase

This phase aims to test and validate findings using statistical rigor and generalization (Creswell. 2014: 224). In this study, questionnaire survey comprising both open and closed ended typed questions based on the set research objectives (a), (c) and (d) was used to collect primary data. Further detail on questionnaire design is provided in this chapter under measurement instruments.

### 3.5.2 The qualitative phase

The qualitative phase entailed the review of literature and conducting of a focus group discussion.

#### 3.5.2.1 Literature and documentary review

The researcher used content analysis from literature and documentary review based on identified thematic areas i.e. inaccurate property valuations, causes, consequences, and interventions in order to gather in-depth information and insights about the research. Scoping literature review method was adopted for this purpose. Dijkers (2015: 1) and Peterson *et al.* (2017: 12) observed that the scoping literature review method is widely used for fast comparison of variables and critical terms of the review and their key literature sources. This view was supported by O'Brien *et al.* (2016: 305) who added that the scoping literature review method is used to comprehensively map evidence across a range of study designs in an area, in order to inform future research practice, programs and policy. Munn *et al.* (2018: 2) re-emphasised that scoping reviews are useful for examining emerging evidence when it is still unclear what other more specific questions can be posed. It is worth noting that the search for relevant literature was not only limited to Uganda but across the globe. English language publications from different sources including: Google

Scholar, Emerald Insight, Taylor and Francis, and Research Gate were used for the study. Additional literature such as reports, laws and policy documents about Uganda were obtained from government and private institutional websites. The main themes and findings that emerged from the literature research are discussed in chapter two of this thesis, and further used to compare and contrast the findings from the quantitative study as recommended in (Creswell, 2014: 29).

#### 3.5.2.2 Focus group discussion

Ochieng *et al.* (2018:21) defined focus group discussion as a research technique where a researcher assembles a group of individuals to discuss a specific topic; the purpose of which is to draw from the complex personal experiences, perceptions, belief and attitudes of the participants through a moderated interaction. To further complement the survey and literature review findings in addressing objective (b), a focus group comprising members of the target population was asked during a stakeholder's workshop to comment on the consequences of inaccurate property valuations in Uganda. The interactive focus group discussion provided a further insight into the research problem and pointed to a direction on how best the problem of valuation inaccuracies can be solved in Uganda.

## 3.6 Target population

A target population is a particular group of elements or individuals with similar characteristics that a researcher aims to study and draw conclusions about based on the research objectives (Creswell, 2014: 158). Ochieng *et al.* (2018) argued that identifying a target population is crucial for refining the research focus, ensuring validity, optimising resources, and maintaining ethical standards in the research process. The study found that real estate business has a broad spectrum of investors. In addition, real estate business in Uganda is unregulated thus anyone can claim to be a real estate business investor in Uganda. Nonetheless, the Association of Real Estate Agents (AREA) Uganda and the Institution of Surveyors of Uganda (ISU) are the two most recognised organisations providing advisory services on matters of real estate business investments in Uganda (MLHUD, 2022). Meanwhile, participants in the focus group discussion on the consequences of inaccurate property valuations in Uganda comprised all valuers employed in government and the private sector who attended a consultative meeting on the proposed National Valuation Standards and

Manuals which was held on 12th and 13th April, 2023 respectively, at the Imperial Royale in Kampala. The valuers were purposively chosen for the focus group discussion because of the critical role they play in advising real estate business investors in Uganda.

## 3.7 Sample size

Hanlon and Larget (2011: 1) and (Creswell, 2014: 158) denote sample size as the number of individuals, elements or observations to be included in a research study. A sample size selected should be able to yield reliable and generalisable results (Hanlon and Larget 2011: 1). They add that in selecting a sample size, a balance should be drawn between obtaining enough data to draw meaningful conclusions and managing the practical constraints of the research.

### 3.7.1 Sample size for the questionnaire survey

Since it was found that real estate business in Uganda is unregulated and therefore anyone can claim to be a real estate business investor in the country, there was no definitive target population and sampling frame that could be adopted in determining the sample (Saunders *et al.,* 2019). Therefore, the researcher based on Krejcie and Morgan (1970:607) to purposively construct a sample. Only the registered and active members of AREA Uganda and the ISU Valuation Chapter as at 1st March 2023 were selected for the study. The rational of choosing the two organisations as observed earlier is because they are the most recognised organisations providing advisory services on matters of real estate business investments in Uganda. They are specialised in real estate business and are knowledgeable about property valuation in Uganda. All registered members of the two organisations had equal chance of selection to participate in the study.

Whereas the accessible population in the study was approximately 400, and by simple random sampling Saunders *et al.* (2019) the questionnaire was electronically sent to all of them, a sampling frame (Krejcie and Morgan 1970:607) was adopted to arrive at a realistic sample expected for generalisation. As such, a sample size of 196 real estate business investors out of the 400 was drawn to participate in the study. This sample size met acceptable and reliable outcomes for the study by allowing only a 5% margin of error in the results of the study and confidence level of 95% as per the formula below:

$$n = \frac{X^2 * N * P * (1-P)}{(ME^2 * (N-1)) + (X^2 * P * (1-P))}$$

**Equation 2: Sampling frame**
Source: Adopted from Krejcie and Morgan (1970:607)

Where: n = Sample size; $X^2$ = Chi-square for the specified confidence level at 1 degree of freedom; N = Population size; P = Population proportion (0.50 in the table); ME = Desired Margin of Error. Figure 14 shows the sampling frame adopted for the questionnaire survey of real estate business investors and valuers.

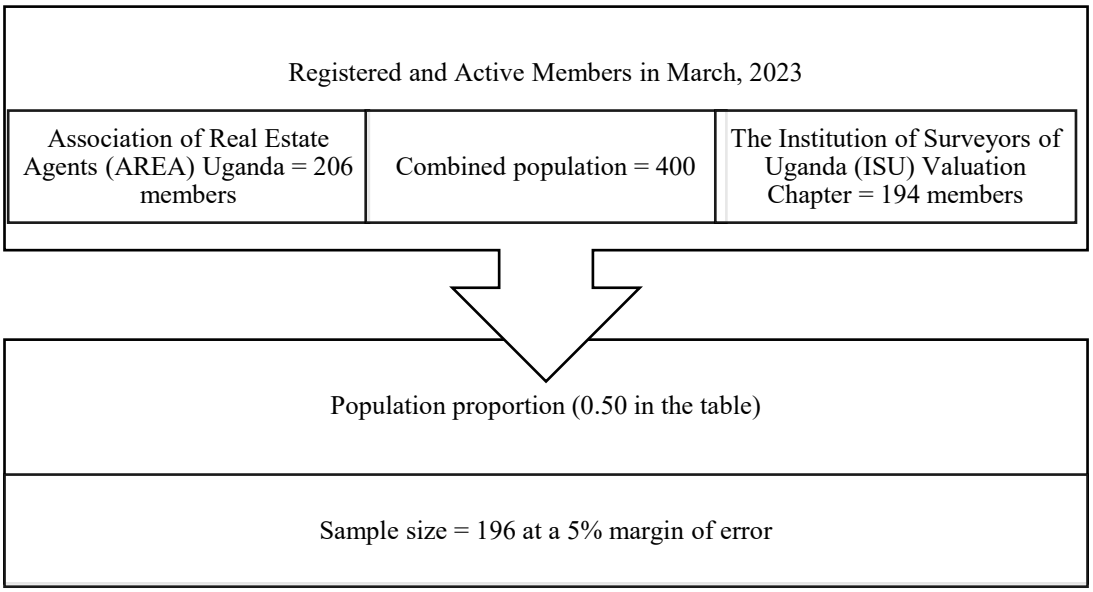


**Figure 14: Sampling frame adopted for the questionnaire survey**
Source: Adapted from Krejcie and Morgan (1970:607)

### 3.7.2 Sample size for focus group discussion

For the focus group discussion, purposive sampling Saunders *et al.* (2019) was adopted. The participants comprised valuers employed in government and private sector who attended a consultative meeting on the proposed National Valuation Standards and Manuals on 12th and 13th April, 2023 at the Imperial Royale in Kampala. 62 participants on day one were valuers employed in government, while 53 were valuers from the private sector on day two according to the attendance register. The valuers were purposively chosen for the focus group discussion because of the critical role they play in advising real estate business investors in Uganda. Selection of participants within the sample was by simple random sampling Saunders *et al.* (2019) because they were all knowledgeable about the research subject thus were

capable of providing representative views. The data collection was limited to 15 minutes for each of the days allotted to the researcher i.e. 15 minutes just after the morning break time. This means only participants who were present at that time had an equal opportunity to voice their opinions. Nevertheless, the researcher kept around to allow more interaction with the participants regarding the research topic. This abled the researcher to gather quality information on the consequences of inaccurate property valuations on real estate investment decisions by businesses in Uganda.

## 3.8 Recruitment procedure

Research recruitment procedure is the process of identifying, selecting and enrolling participants for a research study (Saunders *et al.*, 2019: 89). Commonly used recruitment methods according to Saunders *et al.* (2019: 89) include advertising, use of social media platforms such as WhatsApp, Facebook or Twitter, through community outreach, or email lists. In addition, a researcher is required to develop clear and compelling recruitment materials that provide essential information about the study. The information according to (Creswell, 2014: 177) should include the purpose of the study, eligibility criteria and the benefits of participation among others.

Following a procedure approved by the Institutional Research Ethics Committee (IREC), the researcher emailed the letter of information and consent (Appendix 3) to the secretaries of ISU and AREA Uganda, requesting for their permission to have the research conducted on their members (Appendix 4). The association secretaries acknowledged receipt and emailed back the letter of consent and their own letter of acceptance to the researcher (Appendix 5). The researcher then requested the secretaries to email the letter of information and consent to their registered and active members. The email specifically requested for their consent to participate in the study. Through the secretaries of the institutions, only members who consented to the request were emailed the link to the questionnaire. The researcher was copied in the emails to the members of the institutions in order to assist those who needed help during the process. In addition, secretaries of the two organisations posted the questionnaire link to the exclusive WhatsApp groups of their members as a way of making it convenient for the respondents to fill. For the purpose of providing

clarification to respondents when needed, the researcher was temporarily added to the exclusive WhatsApp groups for the period of data collection.

For the focus group discussion, the researcher requested the organisers of the workshops to be allowed 15 minutes after the break to collect views from the workshop participants of the proposed National Valuation Standards and Manuals held at the Imperial Royale in Kampala. The participants comprised valuers employed in government on day one, who were 62 in number, and valuers in the private sector on day two, who were 53 in number according to the attendance register.

## 3.9 Inclusion criteria

Inclusion criteria define who must participate in the study (Saunders *et al.*, 2019). The inclusion criteria ensure that the recruited participants align with the research objectives (Kumar, 2019: 10). For the questionnaire survey, participation in this study was limited to key players in the real estate industry business in Uganda. Participation was for adults only, preferably aged 21 years and above. Only participants knowledgeable about and familiar with real estate investments and the role of valuation in Uganda were targeted. It was a requirement that participants must be registered and active members of either Association of Real Estate Agents (AREA) Uganda or the Institution of Surveyors of Uganda (ISU) and specifically the Valuation Chapter.

For the focus group discussion, only valuers employed in government and private sector who attended the consultative meeting were included in the study. The data collection was also limited by the 15 minutes allowed to the researcher just after the break time. This means only participants who were present at that time gave in their views.

## 3.10 Exclusion criteria

Exclusion criteria define who must not participate in the study (Kumar, 2019: 10). For the questionnaire survey, non-registered and Non-active members of either the Association of Real Estate Agents (AREA) Uganda or the Institution of Surveyors of Uganda (ISU) – Valuation Chapter were not eligible to participate in the study.

For the focus group discussion, non-valuers such as administrative staff of the Ministry of Lands, Housing and Urban Development as well as those from the Institution of Surveyors of Uganda and the Surveyors Registration Board were excluded from the study. Also, workshop participants who were not present at that time of the discussion (15 minutes after the morning break) could not give in their views.

## 3.11 Measurement instruments

Measurement instrument refers to a data collection tool in research (Kumar, 2019: 10). The tool according to Kumar (2019: 10) is used to collect particular variable or construct of interest. Examples of measurement instruments include a questionnaire, interview guide, observation schedule, tests and assessments, biological measures, rating scales, physiological instruments, and focus group discussion guide among others Kumar (2019: 10) argued that a valid and reliable measurement instrument should be carefully selected and developed, based on the research objectives, the nature of the variables being measured and the characteristics of the study population. For this research, the measurement instruments adopted were a questionnaire and a focus group discussion guide.

### 3.11.1 The questionnaire

A questionnaire was used to collect primary data from the selected participants in the survey (Appendix 1). The questionnaire survey tool was designed to collect both qualitative and quantitative data Kumar (2019: 10.2), and approved by the Institutional Research Ethics Committee (IREC) prior to deployment (Appendix 6). The questionnaire was structured into the preliminary and main parts as follows:

#### 3.11.1.1 The preliminary part

The preliminary part provided a brief introduction of the study including the topic, the purpose, the name and address of the researcher, the target participant, how long it would take to complete the questionnaire, how the participant would be protected, how data will be safely managed, and right of not to participate in or withdraw from the study. In addition, participants were required to either accept or decline to participate in the study. Only those that accepted to participate were led to the next section of the questionnaire.

#### 3.11.1.2 The main part

The main part of the questionnaire was of both open and closed ended type questions. The open-ended questions required the participants to provide their own views on the questions. While the close ended were designed using a Likert scale (Likert, 1932), where participants were required to select from the available options provided by the researcher. Part 1 of the questionnaire was on information about the respondent which is also referred to as demographic information. This part captured information that may influence the response of the respondent. Respondents were required to indicate their main type of business from a list provided, to state how old their businesses were, the level of business experience they had, which geographical region of Uganda they came from, the main nature of their businesses, their area of real estate investment involvement, their highest level of education, their real estate investment decisions that had been influenced by property valuations, and to select from a five point Likert score (Not at all=1, Not sure=2, Rarely rely on=3, Rely on=4, Fully rely on=5) the extent to which they relied on valuations for their real estate investment decisions.

Part 2 of the questionnaire was on objective number one i.e. to identify causes of inaccurate property valuations in Uganda. Options were provided from which participants were required to select from a five-point Likert score i.e. Strongly disagree=1, Disagree=2, Not sure=3, Agree=4, Strongly agree=5). Part 3 of the questionnaire was to aid in achieving objective number three i.e. to develop a locally acceptable comprehensive property valuation model in order to improve accuracy of property valuations which are used for real estate investment decisions by businesses in Uganda. Respondents were asked to rank from a five-point Likert score i.e. strongly disagree=1, Disagree=2, Not sure=3, Agree=4, strongly agree=5) to what extent they agreed or disagreed that the listed interventions could improve property valuation methods in Uganda. Lastly, part 4 of the questionnaire was also to aid in achieving objective number three. In an open-ended question, respondents were asked to propose a maximum of 5 ways to improve property valuation accuracy for real estate investment decisions by businesses in Uganda.

### 3.11.2 Focus group discussion guide

To further complement the survey and literature review findings in addressing objective (b) a FGD guide was developed. The FGD guide (Appendix 2) was for soliciting views from the participants in the focus group discussion (Ochieng *et al.*, 2018: 20). Participants were asked only one question; to give their views on the consequences of inaccurate property valuations in Uganda. Part one of the interview guide required the researcher to briefly introduce himself, tell the participants what the study is about, how they stand to benefit from the study as well as how their information will be managed, analysed and reported. The participants were instructed to give brief and concise comments.

### 3.11.3 How long the questionnaire and the focus discussion took

A participant took about fifteen (15) minutes to complete the questionnaire. Similarly, the focus group discussion also lasted 15 minutes on each of the days and each participant was required to take not more than two minutes to make a precise submission.

## 3.12 Pretesting

Kumar (2019: 10.1) asserts that a pilot study is a small, preliminary research conducted to assess the duration, feasibility, cost and adverse events that may affect the main study, as well as to improve study design prior to the execution of the comprehensive project. As such a pilot version of the questionnaire i.e. manual and digital copies were pretested to a group of individuals that had similar characteristics with, but were not part of the target population. The manual copy of the questionnaire was first distributed by the researcher to twenty (20) graduate valuer members of ISU who were undergoing training with the Valuation Department of MLHUD. All the twenty (100%) questionnaire copies were filled, returned to the researcher and analysed. After approval by the Durban University of Technology (DUT) research ethics committee - IREC, the digital version was also pretested to the same group. This time the researcher directly emailed the questionnaire link to the pilot study group. The purpose of the first and second pilot studies were to ensure that appropriate and clear questions were asked, and the time allocated was adequate. In addition, digitising the questionnaire using Kobo Toolbox software was to maximise distribution, completion and retrieval rates. The tool allowed a link to be

created with the introductory part of the questionnaire well displayed for the target respondent to read through and accept to participate in the study.

### 3.13 Dissemination and retrieval of the questionnaires

Dissemination and retrieval of the questionnaires is about how the questionnaires reach the target participants, and how they are returned to the researcher (Saunders *et al.,* 2019). The questionnaire survey was conducted between March and April, 2023. In terms of dissemination, the Kobo Toolbox link to the digital questionnaire was emailed to the administrative Secretaries of AREA Uganda and ISU for circulation to their registered and active members following procedure in 3.11 above. The completed responses were automatically stored by the Kobo Toolbox software. With the assistance of a qualified statistician (Appendix 7), the records were then downloaded from the system for analysis.

The research achieved a significant valid response rate of 57% (112) and 4% (04) blank responses out of the 196 samples surveyed. Even though the response rate when compared to Wasonga *et al.* (2022) of 72% in Uganda appears low, it is much sufficient to enable generalization of the results to the target population if compared to the average online response rate of 33% recommended by (Nulty, 2008: 301; Nair and Adams, 2009) and 31% valid rate achieved in Kenya by (Cheloti and Mooya, 2021). The rejected response rate of 4% out of the received 116 responses is quite low compared to 34% out of 166 responses recorded by (Cheloti and Mooya, 2021). Achieving this high response rate is attributed to clarity of the questions in the questionnaire, the fact that the researcher made follow up reminders on the respondents, and resent the link with the questionnaire by both email and WhatsApp of the target group members.

### 3.14 Dissemination and retrieval of information from focus group discussion

There are various ways of disseminating and retrieving information from focus group discussion (Ochieng *et al.,* 2018:20). The researcher with the help of the FGD guide directly moderated the discussion. Participation was by show of hands, where the first five participants were selected. Each participant was allotted not more than two minute to precisely make their point in order to allow more participation. The researcher engaged a rapporteur to record the views of the participants. In the last

two minutes, the rapporteur made a recap of the key consequences mentioned in the discussion to allow participants to validate the record. Several responses on the consequences of inaccurate property valuation in Uganda were received and recorded verbatim by the rapporteur. The responses were then grouped into major themes.

## 3.15 Data analysis

Babin and Zikmund (2016: 60) defined data analysis to mean the process by which data is cleaned, reviewed, transformed and modelled to present valuable details to facilitate decision making and suggests conclusions. Data analysis also refers to the process of organising research data in a structured way (De Vaus, 2014: 203). The data analysis for this research was as follows:

### 3.15.1 Quantitative data analysis

Quantitative data analysis according to Elliott (2021) is about data that can be simply converted into numbers without losing its meaning. They are either descriptive statistics or inferential statistics. Creswell (2014: 162) explained that descriptive statistics help researchers to describe the dataset and understand the sample details, while inferential statistics aim to make predictions or generalisations about the whole population. Descriptive statistics were considered appropriate because the researcher did not intent to measure the level of significance or strength of the relationships between the research variables since it was confirmed by literature. Quantitative data according to Elliott (2021) is analysed using statistical systems such as Excel and Statistical Package for the Social Sciences (SPSS) software which can automatically generates tables, graphs and charts for further analysis of the findings. Statistical Package for the Social Sciences (SPSS) version 16.0 and MS Excel were used to analyse questionnaire survey data. This was achieved by grouping and assigning values to responses from the survey.

Descriptive statistics such as frequencies, percentages and mean were used to analyse the data. Where, frequency denotes the number of times a variable occurs in a dataset. It also means the sum of respondents giving the same answer. A percentage denotes the proportion of the results out of the total expectations multiplied by 100. And a statistical mean refers to the average score or result obtained in a dataset. It is calculated as their total divided by the number of values in the dataset. The decision to adopt descriptive statistics was informed by the need to understand the attitudes

and opinions of the respondents in the study for the purpose of arriving at generalised conclusion. As recommended in Locharoenrat (2017: 96), the results were then presented in tables and graphs for the purpose of aiding further analysis. Open-ended questions were qualitatively assessed through thematic analysis of major themes that emerged from the dataset.

### 3.15.2 Qualitative data analysis

Qualitative data analysis is described in Harding (2013: 45) as a system that uses among others, interviews transcripts that includes audio recordings, videos and documentation. In qualitative analysis, data is gathered and converted into useful information through themes (Harding, 2013: 45). The use of themes to analyse qualitative data is supported by Warren (2020) since it allows large bodies of data to be grouped according to their similarities or major themes emerging from the datasets. Thematic data analysis is able to show people's experiences, views and opinions about the topic of research Creswell (2014: 194). Theme analysis procedure was hybrid on specific objectives, data and theory driven. In this qualitative part of the study, the researcher obtained data from open ended questions in the questionnaire and focus group discussions, and the datasets were separately and manually analysed based on literature, to give themes following a process recommended by Clarke and Rance (2015: 188) which include:

i. Familiarising with the dataset and identifying items of potential interest;
ii. Generating initial codes that identify important features of the relevant data for answering the research questions, and applying the codes consistently to the dataset by segmenting and tagging, and collating codes across segments of the dataset;
iii. Searching for themes by examining the codes and collated data to identify broader patterns of meaning;
iv. Reviewing themes by applying the potential themes to the dataset to determine if they tell a convincing story that answers the research question(s). Some themes were refined, split, combined or discarded;
v. Defining and naming the themes by developing a detailed analysis of each theme;

vi. Producing a report by weaving together the analytic narrative and data segments, relating the analysis to extant literature.

#### 3.15.2.1 Analysis of literature review and focus group discussion

Creswell (2014: 27) defines literature review as a data collection and analysis method involving examining, summarising, and synthesising existing research and literature on a particular topic or research question. Drawn from the specific objectives in this research, content analysis from literature and documentary review was based on identified thematic areas i.e. inaccurate property valuations, causes, consequences, and interventions in relation to Uganda. The dataset was reviewed, analysed, summarised and grouped into the major themes; then compared with datasets from the questionnaire survey and focus group discussions. The analysis of results from focus group discussion on the consequences of inaccurate property valuations in Uganda also took a thematic approach since the question and the responses were so precise. Combining the analysis enabled the researcher to highlight areas of agreement, controversy, or unresolved questions as recommended in (Creswell, 2014: 27).

## 3.16 Property valuation model development

One of the objectives of this research is to develop a locally acceptable comprehensive property valuation model in order to improve accuracy of property valuations which are used for real estate investment decisions by businesses in Uganda. As such, the rationale of the model selection is presented in this section.

### 3.16.1 What are models?

Models according to Uskali and Mäki (2005) are simplified presentation or abstraction of a complex phenomenon or system. Jeffrey *et al.* (2014) adds that models are essential tools to conceptualise, understand, and analyse various aspects of the world. Uskali and Mäki (2005) noted that there are different types of models used across various disciplines. Their nature depends on the specific research question, field of study and objectives. Common types of models according to Uskali and Mäki (2005), Mor and Peleg (2011), Maria, Franca and Norese (2016) are conceptual models which illustrate abstract representations of theoretical concepts and their relationships; mathematical models which is represented by mathematical

equations to describe the relationships between variables; statistical models which use statistical techniques to analyse relationships and patterns in data; simulation models which are computer based models that simulates the behaviour of a system over time. The authors add that there are also physical models which are physical replicas or representations of real world objects or systems; agent-based models that simulate interactions among individual agents whereby each of them follows specific rules; econometric models which are used in economics that combine economic theory with statistical methods;. Additionally, there are conceptual frameworks which are structured frameworks that provide a foundation for understanding a specific research problem; graphical models which represent relationships between variables or entities using visual elements such as graphs or diagrams; network models which represent relationships or connections between entities as a network; and process models which represent the sequential flow of activities and tasks within a system or a process.

### 3.16.2 Selecting the appropriate model

There exist several mathematical and statistical models and tools aimed at improving property valuation accuracy (Camilo *et al.,* 2023; Helga, Flavia and TothAfzan, 2022; Bastian *et al.,* 2023; Juergen *et al.,* 2023; John *et al.,* 2022). However, there is still a missing link between the valuer and the client's expectations which negatively impact the resultant accuracy of property values (Okumu *et al.*, 2023: 49). Okumu *et al.* (2023) further argued that the automation of property values alone does not replace the professional judgement of a qualified valuer since not every factor affecting valuation accuracy can be resolved by automation. A study by Kerley *et al.* (2009: 217) in the Engineering field found that understanding the purpose of each interaction between participants in the modelling process is vital in achieving the end goal. Okumu *et al.* (2023: 49) also emphasised that "all stakeholders responsible for property valuation in Uganda and elsewhere should work together as a system so as to reduce causes of property valuation inaccuracies". Similarly, review of existing literature indicates that the process model is best suited in addressing the identified challenges associated with achieving property valuation accuracy such as in Uganda (Michael *et al.*, 2015. In this study therefore, the roles of all relevant actors i.e. the property valuer, real estate business investor (valuation client), government, the valuation academic institutions and the valuation organisation are identified in order

to develop the appropriate property valuation model to support valuation accuracy for real estate businesses in Uganda. This process model development links perfectly well with the proposition of the system theory which insists that all parts of a system must interact in order to achieve its goals (Arnold and Wade, 2015: 669).

## 3.17 Validity and reliability

According to Haradhan (2017: 14) reliability and validity are concerned with the quality of the research instrument used and faith of the researcher in the data to be obtained i.e. relevance and correctness of questions. A qualified statistician was engaged prior to data collection to comment on the research tools and to ensure that results derived from the dataset during analysis are consistent and reliable. The statistician used SPSS Cronbach Alpha co-efficient tests to test the reliability of the research instruments. Haradhan (2017) identified face validity, content validity, construct validity; criterion related validity, predictive validity, concurrent validity, convergent validity, and discriminant types of validity and explained them in detail. However, this research adopted face validity through the pilot survey to ensure that the questionnaire met all requirements to be able to conveniently measure the intended purpose as guided in (Creswell, 2014). Reliability is by ensuring that the research instrument used gives the same results in the same situation on repeated occasions (Creswell, 2014). Respondents were advised to give their honest views while responding to the questionnaire.

For focus group discussion, the researcher used an interview guide and an independent rapporteur to record views of participants. This avoided bias that could arise from self-recording by the researcher (Haradhan, 2017: 14). In addition, the rapporteur made a recap of the key consequences mentioned in the discussion to allow participants to validate the record. This ensured correctness and integrity of the data. Since every participant was given an equal chance, the result is representative enough for generalization.

## 3.18 Ethical considerations

Ethical considerations are principles such as voluntary participation, informed consent, anonymity, confidentiality, potential for harm and communication of results, which guide research designs and practices (Kumar, 2019: 13.1). Ethical

considerations for the research included obtaining ethical study clearance certificate from IREC (Appendix 6), acknowledging sources of information imported into the study (Appendix 8 Turnitin report), not forcing survey participants to participate in the study, conducting the study strictly during the day, making prior introduction of the research to the survey participants on the purpose of the study and how the data would be used, and providing opportunity for participants to freely express their views in open ended questions, among others. In addition, anonymity, confidentiality, data storage and disposal, and the right of participants to withdraw from the study were also accorded ethical consideration as explained below.

### 3.19 Anonymity and confidentiality

Anonymity involves keeping participants' identities secret whereas confidentiality refers to keeping private what is said by the participants and the participants' identities (Saunders and Kitzinger 2015: 617). These were achieved by keeping respondents details private through coding of the questionnaires in the Kobo Toolbox software. No personal information was collected from the focus group discussion.

### 3.20 Data storage and disposal

Saunders and Kitzinger (2015: 617) argued that proper storage of data obtained in the process of research is a critical aspect of academic ethics. Online data collected using Kobo Toolbox software tools are protected using the company policy. The researcher created strong passwords to avoid unauthorized access to the systems' information. Data retrieved from the system were processed and stored in a personal computer (PC) and Google drive. Unauthorized access to information in the PC and Google drive are protected using strong password. Hard paper copies of all answers and results from the questionnaires were kept safely in a secure lock-up cabinet. The papers will be destroyed by shredding after 5 years in line with the University data management policy. Electronic data will be completely deleted from the storage hard drive once it is no longer required by the researcher.

### 3.21 Right to withdraw from study

Participants were informed prior to their consent that they were allowed to withdraw from the study at any time either prior to or in the process of the exercise. There was no harm to any participant who for any reason withdrew from the study.

## 3.22 Chapter summary

This chapter presented the methodological approach used to carry out this research study. Particular focus was on the research design, tools, and approaches, sampling method used, data analysis and the ethical considerations as guided by IREC. Convergent parallel mixed research design approach informed by a pragmatism worldview was adopted for the study. Questionnaire was adopted for quantitative study phase, literature review and focus group discussion provided data for qualitative study phase. Results of quantitative dataset were statistically analysed while datasets from the qualitative phase was presented in themes and used to expound on the findings from the quantitative study. The methodology for property valuation model development was also highlighted. The results are further elaborated in CHAPTER 4.

# CHAPTER 4: PRESENTATION OF RESULTS AND DISCUSSION

## 4.1 Introduction

This chapter presents and discusses results from the study focusing on the demographic characteristics, the extent of influence of property valuation to real estate business investment decision making by businesses in Uganda, the causes of inaccurate property valuation to real estate business investment decisions in Uganda, its consequences, and the interventions that can be introduced in order to improve property valuation accuracy for real estate business investment decisions in Uganda.

As stated in CHAPTER 3, this study adopted a mixed method design research i.e. quantitative and qualitative. Questionnaire was adopted for quantitative study phase, literature review and focus group discussion provided data for qualitative study phase. Results of quantitative dataset are hereby presented in tables; statistically analysed in terms of frequency, percentage and mean. Meanwhile, datasets from the qualitative phase are grouped into themes and used to expound on the findings from the quantitative study.

## 4.2 Demographic characteristics of survey respondents

The demographic information enables the researcher to understand the characteristics of the population being studied (Creswell, 2014). The characteristics presented in this section are education, the main types of business involved in, age of business and years of business experience, geographical location of the real estate business, the nature of real estate businesses and lastly the area of real estate involvement. It is worth noting that no demographic information was sought from participants of focus group discussion. This was because only graduate valuers employed in government and private sector who attended a consultative meeting on the proposed National Valuation Standards and Manuals held on 12$^{th}$ and 13$^{th}$ April, 2023 at the Imperial Royale in Kampala participated.

### 4.2.1 Result and discussion on education level

#### 4.2.1.1 Results

Table 12 below contains categories of levels of education possessed by the respondents.

**Table 12: Highest Level of Education**

| Highest Level of Education | Frequency (f) | Percent (%) |
|---|---|---|
| Master's degree | 65 | 58 |
| Bachelor's degree | 42 | 37.5 |
| UACE | 2 | 1.8 |
| No education | 2 | 1.8 |
| Doctorate degree | 1 | 0.9 |
| Total | 112 | 100 |

#### 4.2.1.1 Discussion

Assessing the educational background of the respondents provides insights into their qualifications and knowledge base. The findings indicate that a significant proportion of respondents (58%) hold master's degrees, reflecting a highly educated sample. Bachelor's degrees are held by 37.5% of respondents, while doctorate degrees represent a smaller percentage (0.9%). The high level of education of the respondents, more so at the Master's degree level signifies that their responses can be accurate and reliable. The distribution of the respondents' level of education is presented in Table 12. To be a professional in Uganda, the minimum level of education is a relevant degree in the profession. However, real estate business is so broad that even uneducated investors with funds can start up a real estate business. It is not surprising therefore to see from the result that some respondents 2% had no education background and a similar percentage have Uganda Advance Certificate of Education (UACE) only. The undergraduate course in Bachelors of Arts in Real Estate Business being offered at Makerere University Business School to professionalise the real estate agency players is relatively new and not well known to the real estate players in the informal sector (MLHUD, 2022).

### 4.2.2 Main type of business

#### 4.2.2.1 Results

Table 13 contains the main types of business operated by the respondents.

**Table 13: Distribution of the business types**

| Main type of business | Frequency (f) | Percent (%) |
|---|---|---|
| Sole proprietorship | 45 | 40.2 |
| Partnership | 24 | 21.4 |
| Limited liability company | 22 | 19.6 |
| Corporation | 11 | 9.8 |
| Limited partnership | 5 | 4.5 |
| Non-profit organisation | 5 | 4.5 |
| Total | 112 | 100 |

#### 4.2.2.2 Discussion

The main type of business is an essential factor in understanding the composition of the respondent pool. From the results, there are six types of business for real estate in Uganda i.e. sole proprietorship, partnership, Limited Liability Company, corporation, limited partnership and non-profit organisations. Out of the 112 successful responses, the majority of businesses in the sample are sole proprietorships (40.2%), followed by partnerships (21.4%) and limited liability companies (19.6%). Corporations (9.8%), limited partnership (4.5) and non-profit organizations (4.5%) constitute a smaller proportion. This finding that sole proprietorship is the main business type in Uganda is consistent with Muhwezi and Kiliman (2023: 100) who also found that sole proprietorship was highest, accounting for 93.4% of business types in the central region in Uganda.

The results were further interrogated based on the Surveyors Registration Board (SRB) policy for registering surveying businesses in Uganda. The policy requires members to only register either sole proprietorship or partnership businesses. The SRB Chair emphasised in the recent ISU annual general meeting held at Entebbe that the spirit behind professionals not operating under other types of businesses was to ensure their professional accountability to clients. It can therefore be deduced that most valuers in Uganda operate sole proprietorship businesses. It can also be deduced that there is a growing number of valuers registering partnership businesses. SRB

policy notwithstanding, members of AREA Uganda are free to trade under any type of real estate business. However, it can be seen from the results that Limited Liability Company and corporation are the most preferred business types by AREA Uganda members.

### 4.2.3 Results and discussion on age of the business and years of business experience

#### 4.2.3.1 Results

Table 14 shows how the duration of business experience possessed by the respondents.

**Table 14: Years of the business and business experience of the owners**

| Variables | Number | Minimum | Maximum | Mean |
|---|---|---|---|---|
| Age of business | 112 | 0 | 62 | 10.45 |
| Years of business experience | 112 | 0 | 36 | 11.30 |

#### 4.2.3.2 Discussion

The age of the businesses and the owners' years of business experience shed light on the level of maturity and expertise within the surveyed population. The average age of the businesses is 10 years, indicating a diverse range of established enterprises. Additionally, the average years of business experience among owners is 11.3 years, suggesting a wealth of industry knowledge. The descriptive statistics for both variables are provided in Table 14. A study by Muhwezi and Kiliman (2023: 96) revealed that average survival period of small and medium size businesses in Uganda is 4.85 years, and exiting rate of 60.95% due to several underlying challenges. Having an average business age of 10.45 years and experience of 11.3 years means the participants are resilient to the Uganda's business environment.

### 4.2.4 Geographical location of the real estate businesses

#### 4.2.4.1 Results

Table 15 shows regional concentration of real estate business in Uganda.

**Table 15: Concentration of real estate businesses in Uganda**

| Geographical location of business | Number | Percent |
|---|---|---|
| Central | 105 | 80.20% |
| East | 8 | 6.10% |
| West | 8 | 6.10% |
| North | 6 | 4.60% |
| South | 4 | 3.10% |
| Total | 131 | 100.00% |

#### 4.2.4.2 Discussion

Understanding the geographic distribution of businesses is crucial for analysing regional trends and potential variations in real estate business decisions in Uganda. The survey reveals that the majority of businesses (80.20%) are located in the Central region, followed by smaller proportions in the East (6.10%), West (6.10%), North (4.60%) and South (3.10%) regions. This finding agrees with Muhwezi and Kiliman (2023: 96) who argued that the higher business concentration in the central region points to the fact that Kampala had until the year 2020 been the only City in Uganda. Kampala doubles both as the administrative and capital City of Uganda. As it is the case across the world, real estate businesses tend to concentrate more in areas with higher demand for real estate services. These areas are mostly urban centres, towns and cities. Real estate vibrancy in Uganda is expanding radially from the Kampala Central Business District (CBD) to the suburbs and the neighbouring towns of Mukono, Entebbe, Wakiso, Mpigi and Luwero hence forming a concentric ring of the Metropolitan City of Kampala. The result also showed that some respondents had real estate businesses in more than one region. This explains possibility of an expansion of real estate businesses to other parts of the country especially to the new cities of Mbarara, Arua, Hoima, Gulu, Jinja, Mbale, Fort-portal, among others. The 11 new cities are considered to be the emerging destinations for real estate business investors in Uganda.

### 4.2.5 Results and discussion on nature of the real estate businesses in Uganda

#### 4.2.5.1 Results

Table 16 shows specialisation in the nature of real estate businesses in Uganda.

**Table 16: Nature of the real estate businesses**

| Nature of business | Frequency (f) | Percent (%) |
|---|---|---|
| Professional advisory services | 69 | 61.6% |
| Construction | 20 | 17.9% |
| Retail | 7 | 6.2% |
| Financial services | 6 | 5.4% |
| Tourism | 3 | 2.7% |
| Manufacturing | 2 | 1.8% |
| Transport | 2 | 1.8% |
| Health | 2 | 1.8% |
| Communication | 1 | 0.9% |
| Total | 112 | 100% |

#### 4.2.5.2 Discussion

Examining the nature of businesses provides insights into the industry composition of the respondent pool. There was representation from all the nine pre-determined options which means that investors in Uganda are engaged in all the nine sectors of business. However, professional advisory services emerged as the predominant business sector, accounting for 61.6% of the sample. These is so because the majority i.e. property valuers and property managers who participated in the survey are either viewed as professional advisors to or agents of the actual real estate investors. Other notable sectors include a growing construction (17.9%), retail (6.2%), and financial services (5.4%). The distribution of business nature is presented in Table 16.The result could mean that there is a high demand for professional real estate advisory services including valuation in Uganda. At the same time, it could mean there is a significant opportunity for investment in real estate support infrastructure such as communication, health, transport, manufacturing, tourism, financial services, retail and construction in Uganda as seen from their low scores.

### 4.2.6 Results and discussion on type of real estate business involvement

#### 4.2.6.1 Results

Table 17 shows the type of real estate in Uganda the respondents are involved in.

**Table 17: Type of real estate involvement**

| Type of real estate involvement | Number (N) | Percent (%) |
|---|---|---|
| Residential | 97 | 54% |
| Commercial | 57 | 32% |
| Industrial | 27 | 15% |
| Total | 181 | 100 |

### 4.2.6.2 Discussion

Exploring the respondents' involvement in different types of real estate allows for a comprehensive understanding of their interests and activities. The analysis reveals that the majority of respondents (54%) are involved in residential real estate, indicating a strong focus on housing. Commercial real estate encompasses 32% of the respondents, while industrial real estate represents 15% of the sample. Some of the participants are involved in more than one type of real estate which points to diversification of investment within real estate as seen in Table 17.

Uganda's biting housing shortage has led to more concentration on housing. As such, the Government of Uganda has come up with several incentives and concessions for housing investors in order to increase the house supply margin. Some of the incentives include partnerships where government allocates free land e.g. in Nakawa and Naguru for housing schemes, re-capitalisation of the Housing Finance Bank to increase lending to support housing, extension of utilities related activities (NPA, 2020). Knight Frank (2022) also reported an increase in supply of modern office space and industrial space in Uganda which both demand accurate property valuation services.

## 4.3 Results and discussions on influence of property valuations and real estate investment decisions

Understanding the influence of property valuations on real estate investment decisions allows for an assessment of the market dynamics and decision-making factors within the surveyed population.

### 4.3.1 Results

The respondents were asked to tick from the list provided the decisions that were influenced by property valuations. Multiple selections were permitted as shown in Table 18.

**Table 18: Real estate decisions that have been influenced by property valuations**

| Rank | Real estate investment decisions | Frequency (f) | Percent (%) |
|---|---|---|---|
| 1 | Sale | 54 | 16.20% |
| 2 | Rent | 50 | 15.00% |
| 3 | Secure a mortgage or use equity | 33 | 9.90% |
| 4 | Own and occupy | 26 | 7.80% |
| 5 | Lease | 25 | 7.50% |
| 6 | Buy now or hold on | 22 | 6.60% |
| 7 | Acquire fully or partially | 22 | 6.60% |
| 8 | Ask an amount | 19 | 5.70% |
| 9 | Pay an amount | 15 | 4.50% |
| 10 | Sell now or hold on | 14 | 4.20% |
| 11 | Accept an amount | 14 | 4.20% |
| 12 | Lend or differ lending | 8 | 2.40% |
| 13 | Build now or hold on | 8 | 2.40% |
| 14 | Permit to develop, remodel, convert use, demolish, etc. | 6 | 1.80% |
| 15 | Others (unspecified) | 5 | 1.50% |
| 16 | Float to potential investors | 4 | 1.20% |
| 17 | Terminate or vary contract | 3 | 0.90% |
| 18 | Lower or hike interest rates on secured lending | 3 | 0.90% |
| 19 | Sale and lease back | 2 | 0.60% |

### 4.3.2 Discussions

The study reveals that property valuations significantly influence real estate investment decisions in many ways. The respondents agreed with all the nineteen possible real estate investment decisions interrogated in the survey as being influenced by property valuation. However, greater influence in their decisions was seen in selling of property (16.2%) and renting property (15%) with frequencies of 54 and 50 respectively. Other influences include securing mortgages or using equity, own and occupy, leasing, buying or holding, and various other scenarios as shown in Table 18.

The finding of the industrial survey is consistent with literature review earlier discussed in Table 2 where property valuation was required for various purposes (Appraisal Institute, 2020: 4). In addition, the result confirms that sale, rent and financing options are the main purposes of property valuations demanded by real estate business investors in Uganda.

## 4.4 Results and discussions on the extent of relying on property valuations for real estate investment decisions

### 4.4.1 Results

Table 19 shows the extent to which respondents rely on property valuations for their real estate investment decisions.

**Table 19: Extent of relying on real estate valuations**

| Relying on Property Valuations | Frequency (f) | Percent (%) |
|---|---|---|
| Rely on | 54 | 48.2 |
| Fully rely on | 26 | 23.2 |
| Rarely rely on | 19 | 17.0 |
| Not sure | 8 | 7.1 |
| Not at all | 5 | 4.5 |
| Total | 112 | 100.0 |

### 4.4.2 Discussions

The majority of respondents (48.2%) place a significant reliance on property valuations when making real estate business investment decisions. It is noteworthy that 23.2% of the respondents fully rely on valuations, emphasizing their integral role in shaping strategic choices. This finding indicates the strong confidence real estate business investors in Uganda still have in property valuation for their decision making. The finding is contrary to the belief that there is low confidence level in property valuations in Uganda. However, the result also shows that a total of 28.6% of respondents either rarely rely on property valuations for real estate business investment decision making, are not sure, or do not consider valuations at all. This could mean that the real estate business investors are either unaware of the role of valuation in support of their investment decision making or have been disappointed before or simply not interested in valuation services. These findings underscore the criticality of accurate and reliable property valuations and valuation information dissemination for informed decision-making within the dynamic real estate landscape. In an industry driven by market fluctuations, leveraging precise property

valuations becomes instrumental in maximizing opportunities and mitigating real estate investment risks.

## 4.5 Results and discussions of causes of inaccurate property valuations in Uganda

This research intended to address objective number one. To identify the causes of inaccurate property valuations in Uganda, participants were asked to rank the extent to which they agree or disagree with identified factors to have made property valuations in Uganda less accurate in the determination of property values that are used for real estate investment decisions by businesses in Uganda. Understanding the causes of inaccurate property valuations in Uganda is expected to inform the interventions to be considered in addressing the problem. The presentation of results and discussions are as follows.

### 4.5.1 Results

Table 20 shows results of factors causing and limiting property valuation accuracy in Uganda.

**Table 20: Factors limiting property valuation accuracy in Uganda**

| Gaps | Mean | Std. Deviation | Rank |
|---|---|---|---|
| Narrow understanding of the choice and application of property valuation methods | 4.03 | .954 | 1 |
| Poor property market information dissemination Uganda | 3.90 | 1.022 | 2 |
| Selection of unreliable property valuation variables such as discount rate and yields | 3.87 | 1.246 | 3 |
| Existence of outdated laws hindering accuracy of property valuations | 3.79 | .912 | 4 |
| Lack of reliable property valuation data | 3.52 | 1.131 | 5 |
| Failure to distinguish different real estate interests in Uganda. | 3.38 | 1.225 | 6 |
| Few qualified property valuers in Uganda | 3.27 | 1.223 | 7 |
| Unpredictable changes in the property market in Uganda | 3.27 | 1.223 | 8 |

### 4.5.2 Discussions

The results revealed important insights. All the eight factors examined were found to contribute to inaccurate property value determinations for real estate investment decisions by businesses in Uganda, with a mean score ranging from 4.03 to 3.27 as shown in Table 20. In other words, the causes of inaccurate property valuations that are used for real estate investment decisions by businesses in Uganda are all statically

close to the mean, with an average mean of 3.63, and are acceptable and further discussed as follows:

#### 4.5.2.1 Narrow understanding of the choice and application of property valuation methods

While the International Financial Reporting Standards (IFRS) 13 recommends three methods of property valuation, i.e. the income approach, the cost approach and market approach, there are five main methods of property valuation used to determine values of real estate investments, namely: the income approach, the profits method, replacement cost method, direct capital comparison and residual methods (Scarret, 2014; Syagga, 1994:35; IVS, 2022; RICS, 2022). It is further noted in the literature review that property valuers in developing countries including Uganda prefer using the cost approach due to limitations of quality market data and the existing laws (Olusegun, 2004; Idowu *et al*., 2016; Adegoke, 2016; Bank of Uganda, 2017; Ziukwu, 2019). A property valuer is required to select the most appropriate approach or method of valuation to value a particular real property for a particular purpose. However, among the identified factors causing property valuation inaccuracies in Uganda, the most significant one is a narrow understanding of the choice and application of property valuation methods, with the highest mean of 4.03. This finding is not surprising since it corresponds with observations made by Olusegun (2004), Idowu *et al*. (2016), Adegoke (2016), Bank of Uganda (2017), Eziukwu (2019), Chikafalimani *et al.* (2020) and Wesonga *et al.* (2022) who observed that there was low level of skills exhibited by university graduate valuers. Similarly, Woga and Akujuru (2016: 58) made a similar argument but also added that poor property valuation skill, experience and training are manifested through inadequate knowledge of valuation methods and approaches. Woga and Akujuru (2016: 58) added that there was inadequate post graduate training of practicing property valuers on emerging developments in the real estate industry in Africa including Uganda.

Whereas the mean score of 4.03 obtained in this study is lower if compared with a study by Olufolahan *et al.* (2016) on key factors causing property valuation inaccuracy in commercial office buildings in Nigeria where the use of inappropriate methodology was ranked highest with a mean of 4.95, valuers are required to possess sufficient knowledge of property valuation methods. It is recommended by the

Appraisal Institute (2020) that property valuers undergo comprehensive education and skilling in order to understand real estate dynamics. Nonetheless it could be argued that by ranking a narrow understanding of the choice and application of property valuation methods first, the key stakeholders in Uganda are aware of this skill gap that greatly influences the real estate property values. Thus, self-awareness of the skill gap may be a positive sign for a possible self-improvement to ensure that property valuers understand the choice and application of property valuation methods to support real estate business decisions.

#### 4.5.2.2 Poor property market information dissemination Uganda

Poor property market information dissemination in Uganda came up second in the ranking of factors causing property valuation inaccuracies in Uganda with a mean score of 3.9. This attributed to the fact that property market in Uganda is so opaque and property transactions are mainly conducted informally. The situation is worsened by the huge informal sector which defines the country's economic sphere where approximately 80% of land is customarily held and unregistered (National Land Policy, 2013). It is therefore extremely difficult for property valuers and investors to obtain useful information required for property valuation and consequently real estate investment decision making. Adegoke (2016: 276) argued that property valuers require sufficient quality market data such as property sales transactions, rental rates, construction costs and indices, occupancy rates, performance perspective of the local, regional and national economy, etc. in order arrive at accurate opinion of value for an investment property.

Similar studies across Africa reported that there is limited data availability especially in small towns and rural areas which makes it challenging to determine accurate property values (Adegoke, 2016; Kiconco, 2018; Eziukwu, 2019 and Eziukwu, 2019). Unavailability of data was attributed to lack of centralised databank (Awuah *et al.,* 2016). With insufficient or incomplete market information, Awuah *et al.* (2016) added that property valuers resort to making assumptions about the property market in order to bridge the information gap which unfortunately leads to valuation inaccuracy. Also, within East Africa, Cheloti and Mooya (2023: 76) examined why valuation problems in Kenya persist despite efforts to minimise them and found limited market information as the main cause. Property market transparency not only

improves valuation accuracy but also attracts more investments into the real estate sector. This is confirmed by Razali and Adnan (2012) who found that Malaysian property companies have high transparency which increases investor confidence and attracts more investors in the property market.

#### 4.5.2.3 Selection of unreliable property valuation variables

The study ranked wrong selection of valuation variables three with a mean score of 3.87 on the list of factors causing property valuation inaccuracies in Uganda. This result is not surprising since it is closely linked to causes number 1 and 2 discussed above. Adegoke (2016: 276) argued that property valuation comparative data required for property valuation to support real estate investment decisions include comparative sales transactions, rental rates, construction costs, occupancy rates, vacancy levels, discount rates, property yields, rate of return, and performance perspective of the local, regional and national economy. In an opaque market characterised by informality and information asymmetry, property valuers in Uganda are unable to verify sources of information they rely on while valuing real property. Like in other countries, the study confirmed that wrong selection of valuation variables is a serious cause of property valuation inaccuracy in Uganda.

#### 4.5.2.4 Existence of outdated laws

Ranked number four with a mean score of 3.79 on the list of factors causing property valuation inaccuracies in Uganda is the existence of outdated laws. This score is higher if compared with Olufolahan *et al.* (2016) who obtained a mean score of 4.54 for ineffectiveness of regulatory framework in the survey of key factors causing property valuation inaccuracy in commercial office buildings in Nigeria. The finding means that outdated property laws such as Land Acquisition Act (1965), Land Act (1998, last amended in 2010), Registration of Titles Act (1937), Surveyors Registration Act (1974), and Survey Act (1939) significantly contribute to property valuation inaccuracies in Uganda.

As noted in Appraisal Institute (2020), valuation is primarily anchored on the rights and interests subsisting in real estate. It adds that the recognised rights and interests are majorly enshrined in law, contract or are generally accepted as a norm in a given locality especially where customary land tenure is dominant (Syagga, 1994:1).

Mutema (2016) further observed that it was unfortunate that land laws are not frequently updated to catch up with the rapid changes in real estate property valuation and investment today. Mwesigye and Kahuma (2016), Mutema (2016), Kiconco (2018) and Eziukwu (2019) also found in their studies that outdated property and land laws contribute highly to valuation inaccuracies in Africa including Uganda; more so on statutory valuations. For the case of Uganda, the situation is worsened by the fact that there is no law regulating the valuation profession in the country. In addition, real estate market is predominantly informal.

#### 4.5.2.5 Lack of reliable property valuation data

Lack of reliable property valuation data emerged number five with a mean score of 3.52 on the list of factors causing property valuation inaccuracies in Uganda. Comparatively, in a study by Olufolahan *et al.* (2016) on registered valuers in Nigeria, lack of relevant data recorded a mean score of 4.78 which means that the problem is significant. Similar studies in Tanzania, Ghana, Kenya and Uganda also revealed that property valuers in opaque property markets rely on outdated valuation data or historical heuristic (Mutema, 2016; Mwangi, 2016; Kiconco, 2018; Eziukwu, 2019; Okoh *et al.,* 2023 and Cheloti and Mooya, 2023). Outdated valuation data relied on by valuers are in the form of old sale agreements, previous valuations, outdated lease contracts, outdated construction rates indices, outdated spatial plans, and outdated district compensation rates.

Some of the sources according to Mwasumbi and Terimo (2019: 6), Mwasumbi (2014: 225), Geltner *et al.* (2014) and Caleb (2011) include: Relying on property brokers, comparing with other valuers in the private practice, comparing with the Chief Government Valuer's office, asking local leaders such as Local Council one Chairpersons about property transactions in their localities, checking private listings and property databases i.e. both electronic and print media sources, relying on personal experiences about the property market segment, adjusting from own previous valuation records by indexing of values and adopting value anchoring as a short-cut to decision making on property values. However, Mwasumbi (2014: 225) noted that some of the sources of valuation information are less reliable and contribute to the causes of property valuation inaccuracies in East Africa including Uganda.

#### 4.5.2.6 Failure to distinguish different real estate interests

In the sixth position with a mean score of 3.38 on the list of factors causing property valuation inaccuracies in Uganda was failure on the part of the property valuers to distinguish the different real estate interests subsisting in Uganda. Ranking it number six means that respondents are aware that some property valuers are unaware of the different interests and rights subsisting in real property, which then makes their valuations for real estate business decisions inaccurate.

Crosby *et al.* (2019) observed that property valuation is anchored on the rights and interest held in an asset or property. A total range of private ownership interests in real property is termed as the bundle of rights (Mugambwa, 2007). The bundle of rights may include the right to use the real estate, sell it, lease it, enter it, and give it away (Appraisal Institute, 2020:4). Property interests may be enjoyed subject to certain limitations and restrictions. They may be granted for a defined period referred to as terminal or undefined period known as perpetual in term (Crosby *et al.,* 2019). The rights may either be registered or unregistered which are also referred to as either legal or equitable rights. The registrable land tenure types mentioned in Article 237 of the Constitution (1995) and the Land Act (1998) to include customary, freehold, leasehold and private mailo. Similarly, equitable rights protected by law in Uganda include the lawful and bonafide occupants on land (Land Act, 1998).

#### 4.5.2.7 Shortage of qualified property valuers

Interestingly, shortage of qualified property valuers was ranked number seven with a mean score of 3.27 on the list of factors causing property valuation inaccuracies in Uganda. The Surveyors Registration Act (1974) restricts valuation practice in Uganda to be performed by only members who are registered and licensed by the Surveyors Registration Board (SRB) of Uganda. Out of the 431 registered and licensed Surveyors in Uganda as of 27$^{th}$ July, 2023, valuers were only 119, accounting for 27.6%. This number is significantly small to meet the ever-growing demands for valuation services in Uganda. It is also low compared to Kenya which has 641 registered valuers as of 2$^{nd}$ January, 2024 (Valuers Registration Board of Kenya, 2024). Wesonga *et al.* (2022) argued that the challenges of not having enough qualified valuers in Uganda is manifested through insufficient market analysis, limited property assessment abilities, inability to identify comparable sales, lack of

attention to detail and inadequate professional judgement, all of which lead to inaccurate property valuation. Wesonga *et al.* (2022: 100) further noted that there were only two Universities offering an undergraduate cause in Bachelors' of Science Land Economics in Uganda i.e. Makerere University Kampala (MUK) and Kyambogo University (KYA). The universities started the course in 2004 and 2006 respectively. The BSc Land Economics is the basic cause for one to be registered to practice valuation surveying in Uganda. It is called by other names such as BSc Land Management and Valuation at the University of Dar-es Salaam in Tanzania, BSc Valuation and Estates Management at the University of Reading UK, as BSc Property Valuation elsewhere. In addition, there is always low enrolment of students into the BSc Land Economics courses i.e. averaging at 95 students per year in the entire country. It is reported that the ISU is mandated to prepare candidates for professional registration while the SRB of Uganda is mandated to register them. However, there is a general concern about the low pass rate of valuation candidates at the SRB professionalisation registration interview compared to the other chapters (ISU, 2023). The low pass rate is majorly attributed to low level of preparation of candidates and low interest by potential candidates to apply for registration (SRB, 2023).

#### 4.5.2.8 Unpredictable changes in the property market

Lastly, volatility in the real property market was raked in the eighth position with a mean score of 3.27 on the list of factors causing property valuation inaccuracies in Uganda. Whereas this mean score is lower than the 3.87 Olufolahan *et al.* (2016) reported for unpredictability and lack of transparency for commercial office property valuations in Nigeria, the research result points to the fact that real estate property market in Uganda is volatile. The market volatility has a significant impact on the reliability of the valuation made for real estate investment decisions. The most volatile market in Uganda is that of development land. The price of land in Uganda is so unpredictable and highly speculative. As discussed in CHAPTER TWO of this thesis, a study in the United Kingdom property market by Barras (1994) observed a mismatch in demand and supply of real estate, and suggested pointers that can be used in projecting market trends and determining accurate value of a real estate business investment.

## 4.6 Results and discussions on the consequences of inaccurate property valuations in Uganda

Here the researcher intended to address research objective number two. Understanding the consequences of inaccurate property valuations in Uganda is expected to guide the researcher on the appropriate measures to be recommended to resolve the challenge of property valuation accuracies affecting real estate business decisions. Results and discussions on the consequences of inaccurate property valuations in Uganda are presented as follows.

### 4.6.1 Results

The results obtained from the focus group discussions on the consequences of inaccurate property valuations in Uganda are grouped into seven major themes as presented in Table 21 below.

**Table 21: Consequences of inaccurate property valuations**

| No. | Consequences |
|---|---|
| 1 | Erosion of public trust in property valuations |
| 2 | Misallocation of resources |
| 3 | Financial losses and bankruptcy |
| 4 | Increased disputes and litigation |
| 5 | Property market distortion |
| 6 | Reduced real estate investments |
| 7 | Miscalculation of property taxes and compensation payments |

### 4.6.2 Discussions

The major consequences of inaccurate property valuations to real estate investment decisions by businesses in Uganda are further discussed as follows.

#### 4.6.2.1 Erosion of public trust in property valuations

Ayodo (2012), Abidoye & Chan (2018), Wesonga *et al.* (2022) observed that winning public confidence is at the heart of every profession including property valuation. They added that is by public confidence that professionals find their relevance by delivering what they promise the public. It is not surprising that erosion of public trust in property valuers was mentioned as a major consequence of inaccurate property valuations in Uganda. This finding is supported by Wesonga *et al.* (2022: 99) who noted that when the public begins to lose trust in the profession, there are some common signs. For the case of Uganda, what points to reduced

confidence level of the valuation profession according to Wesonga *et al.* (2022: 99) include increased demand for legal and regulatory framework for the profession, public and private entities employing in-house valuers they can have control over, reduced demand for valuation services, real estate business investors relying more on market signals and automated valuation approaches than professional valuations to inform their investment decisions, negative feedback and sentiments about the profession, and increased law suits against valuers.

Similarly, Wesonga *et al.* (2022: 99) noted that clients are engaging more than one valuer to independently value the same property for the same purpose also referred to as valuation shopping, mortgage lending institutions are demanding for professional indemnity cover for valuers, insurance firms charging higher premiums for professional indemnity cover for valuers, fewer students are taking up the valuation profession at the universities, fewer valuers progressing to registration, and lastly, government is not allocating sufficient budget to support the SRB among others. As a sign of the erosion of public trust in valuation, Uganda Bankers Association (UBA) observed in their annual report that there had been increased cases of lawsuits preferred against valuers for misadvising financial institutions on the quality and market value of collaterals pledged for mortgage purposes (UBA, 2022). As such, UBA (2022) reported that banks required valuers to have sufficient professional indemnity insurance cover to be able to get assignments of high value properties. Abidoye and Chan (2018: 71) observed that this development was unfortunate as it tainted valuation professional reputation for misadvising clients including investors and financial institutions through inaccurate property valuations.

#### 4.6.2.2 Misallocation of resources

The participants reported that inaccurate property valuation causes misallocation in resources in Uganda in so many ways. For example, statutory valuations by the Chief Government Valuer impacts on both revenue generation and fiscal expenditure through compensation payments by the government. Based on inaccurate valuations, government resources are directed to undeserving interventions through either under or over allocation of public funds to meet obligations of government. In the private sector, property valuations impacts on real estate market by influencing decisions of potential investors. For example, overvaluation of commercial retail space in the

Central Business Districts of Kampala led to oversupply of the same. As a result, there is high vacancy level for especially the multiple floor commercial retail buildings. Similarly, many business investors have locked their capital in real property due to inaccurate property valuations that misinformed them of location preferences for their real estate business investments. Commercial lending institutions in Uganda have misallocated their loan to value ratios due to inaccurate property valuations offered for secured lending (BOU, 2017). Comparatively, Adegoke (2016: 276) also found that overvaluation led to overcapitalisation of property while undervaluation can lead to low rental cash in-flow to meet financial obligation. Similarly Olusegun (2004) added that undervaluation lowered the compensation paid to the investor in case of dispute settlement.

#### 4.6.2.3 Financial losses and bankruptcy

Participants argued that property market in Uganda is so unstable. Valuers are specifically challenged when interpreting land market trends because of the high speculation and unknown sources of investment capital permeating in the sector. Property valuations conducted based on the fragile market promises of high growth usually returned higher values, which have misled several loaning institutions in the country. As a result, there were several properties on foreclosure sales, but with fewer buyers; hence many of them progressing to disputes in the courts of law. Similarly, participants reported that high taxes arising from overvaluations have reduced survival chances of many start-up businesses in Uganda. Abet (2022) reported how Jomayi Properties Limited, a pioneer real estate business company in Uganda suffered financial losses, bankruptcy and reputation damage partly due wrong valuation of their land for sale and mortgage acquisition purposes. Anim-Odame (2018: 11) also found that inaccurate property valuations led to financial losses and bankruptcy for property owners, investors, lenders and other partners in Nigeria.

#### 4.6.2.4 Increased disputes and litigation

Inaccurate property valuations have triggered so many disputes because they cause misalignment of expectations. Participants explained that there were many cases in courts where parties including government entities, private individuals and companies are challenging the quantum of compensations for insurance claim with

the Insurance Regulatory Authority (IRA), compensation claims under compulsory acquisition of land, taxation with the Uganda Revenue Authority (URA), and distribution of property to beneficiaries of a deceased person or from company shares. Such disputes significantly affect market performance and business confidence in the country. Therefore, as observed by Caleb *et al.* (2011b) and Rearich (2021), property valuations that have impact on real estate business performance must be carefully and competently done.

#### 4.6.2.5 Property market distortion

Property market distortion was discussed from the angle of property market volatility and uncertainty as a result of inaccurate property valuations for real estate business investment decisions. Participants accused valuers in Uganda of over relying on the cost approach to value investment properties which have resulted into over pricing of commercial real estate in total disregard to the overall economic indicators. As a result of over valuation of real property, investors with high expectations of resale value appreciations were unable to find buyers, or even attract tenants to the buildings. Knight Frank (2022) reported about the high vacancy rates of commercial retail and grades 'A and B' office spaces in Kampala. A similar finding by Adegoke (2016: 276) examining the effects of valuation variance and inaccuracy on Nigerian commercial property market and found that valuation variance and inaccuracy cause fluctuation in the price of property which sends wrong signal to the market participants. In a distorted property market, speculation and corruption thrive. Effort should be to make property market more transparent for real estate business investments.

#### 4.6.2.6 Reduced real estate investments

Participants observed that inaccurate property valuations discourage potential investors and hinder the growth of the real estate market in Uganda. Potential real estate business investors consider Uganda a high-risk destination for investment despite the huge potential in the sector due to the uncertainty of the market in comparison with the neighbouring countries of Kenya, Tanzania and Rwanda. It is probable that the market uncertainty is as a result of incomplete valuation reports that informed their real estate business investment decisions. At times real estate business investors delay their decisions to allow them study the market longer since property

valuations in Uganda are somewhat insufficient and do not provide projections of future real estate market performance. This finding is not surprising since a similar study on valuation inaccuracy: implications on commercial property investments in Nigeria by Eziukwu (2019) also found that the high rate of valuation variance of ±11-15% returned by the valuers against the acceptable average of ±10% had lowered investors' trust in the real estate market and subsequently reduced real estate investment in the country. Eziukwu (2019) recommended for conscious use of assumptions in property valuations that are used for real estate investment decisions.

#### 4.6.2.7 Miscalculation of property taxes and compensation payments

Participants observed that inaccurate property valuations have resulted into miscalculation of property taxes and compensation payments as exhibited by the high level of contestations in Uganda. *"Undervaluation has led to assessment of low tax levies, and low compensations to individuals and companies; while overvaluation has led to assessment of high tax levies, and high compensations to individuals and companies"*. When businesses are overvalued for tax or undervalued for compensation purposes, they make losses, become bankrupt and even collapse (Eziukwu, 2019; Idowu *et al*., 2016). Property valuations must therefore be accurate to avoid business losses.

## 4.7 Results and discussions on interventions to improve property valuation accuracy in Uganda

Both quantitative and qualitative methods were used to address this objective in a convergent parallel mixed method design. As such three sets of results were obtained and discussed. From the questionnaire, respondents were asked to rank from an identified list to what extent they agree or disagree with the proposed interventions aimed at improving property valuation accuracy in Uganda. In addition, respondents were asked to propose interventions that can be introduced to improve property valuation accuracy in Uganda. Lastly, literature review also revealed some interventions that could be considered in addressing the same problem. The results were then compared and discussed as follows.

### 4.7.1 Results

The sets of results on interventions to improve the existing property valuation accuracy in Uganda are presented in this section i.e. the quantitative or statistical results in Table 22 and the qualitative or thematic results in Table 23 as shown.

**Table 22: Quantitative results on interventions to improve the existing property valuation accuracy in Uganda**

| Interventions | Mean | Std. Deviation | Rank |
|---|---|---|---|
| Promote use of reliable property valuation data | 4.49 | .735 | 1 |
| Develop an accurate and reliable valuation model to address challenges faced with application of existing property valuation methods in Uganda. | 4.24 | .883 | 2 |
| Create public awareness on the relevance of property valuations to real estate business decisions. | 4.23 | .849 | 3 |
| Develop a comprehensive professionalisation framework for property Valuers in Uganda to coordinate apprenticeship, registration, licensing, continuous professional development, rewards and sanctions, etc. | 4.22 | .846 | 4 |
| Develop a centralised system to in-take and monitor performance of property valuations that are required by businesses in Uganda | 4.22 | .846 | 5 |
| Develop national property valuation standards and guidelines for Uganda. | 4.17 | 1.003 | 6 |
| Review and amend existing laws that limit accurate application of property valuation methods in Uganda. | 4.01 | .925 | 7 |
| Streamline undergraduate and post graduate curriculum for property Valuers in Uganda to match the emerging global challenges and opportunities in property valuations. | 3.96 | .972 | 8 |

As presented in Table 22, the most crucial intervention is the promotion of the usage of reliable property valuation data (mean = 4.49). Developing an accurate and reliable valuation model specifically tailored to address the challenges faced with the application of existing methods was ranked second (mean = 4.24).Other recommended interventions include creating public awareness about the relevance of property valuations to real estate business decisions (mean = 4.23), establishing a comprehensive professionalization framework for property valuers (mean = 4.22), developing a centralised system to monitor the performance of property valuations (mean = 4.22), setting national property valuation standards and guidelines (mean = 4.17), reviewing and amending existing laws limiting accurate application of property valuation methods (mean = 4.01), and streamlining the curriculum for property valuers to align with emerging global challenges and opportunities in property valuations (mean = 3.96).

**Table 23: Qualitative results on interventions to improve the existing property valuation accuracy in Uganda**

| Based on literature review | Based on an open-ended question from questionnaire |
|---|---|
| Strengthen property valuation curricula | Foster professional development and ethics |
| Register well qualified property valuers | Strengthen policy and legal framework in property valuation |
| Improve regulatory framework for the property valuation profession | Emphasise data management and standardization |
| Promote accessibility of affordable new technology | Promote collaboration and networking |
| Reform outdated property and land laws | Encourage research and knowledge enhancement |
| Encourage research | Promote public awareness and education |
| Smoothly coordinate all relevant stakeholders in different sectors of the real estate | Adopt modern technology and tools |
| Customise property valuation models | Develop appropriate methodology and approaches for Uganda |

### 4.7.2 Discussions

The results of proposed interventions aimed at improving property valuation accuracy in Uganda summarised in Tables 22 and 23 are analysed, re-grouped and further discussed hereunder.

#### 4.7.2.1 Promote use of reliable property valuation data

Lack of reliable property valuation data was ranked among the key factors causing property valuation inaccuracies in Uganda. Similarly, participants recommended promotion of use of reliable valuation data as the main intervention for improving property valuations used for real estate investment decisions by businesses in Uganda. The intervention should enhance data availability, accessibility and reliability. Studies revealed that efforts should be directed towards the development of comprehensive databases to support valuation assignments. In addition, mass data collection and regular update and maintenance of the databases should be considered

in order to improve data quality. Lastly, there should a deliberate drive to promote collaboration between government, property valuers and real estate business investors to ensure proper functioning of and reliance on the valuation databases for property valuations.

#### 4.7.2.2 Develop an accurate and reliable valuation model for Uganda

For real estate businesses, valuers are required to adopt the right valuation methodology and valuation methods. As such, participants ranked development of an accurate and reliable valuation model second in an attempt to address the challenges with the application of the existing property valuation methods in Uganda. Arguably, the uniqueness of property ownership dynamics such as the multiplicities of property rights in Uganda should inform research into a fit for purpose methodology for property valuations in the country. Mutema (2016: 15) also recommended for customisation of the internationally known five valuation methods and approaches in order to address valuation challenges such as lack of relevant and reliable data in developing countries including Uganda. Similarly, developing countries such as Uganda should leverage technology to enhance valuation practices (Mutema, 2016: 15). Mooya (2015: 245), Woga and Akujuru (2016: 58) and Chikafalimani *et al.* (2020: 2167) opined that achieving valuation accuracy is a summation of several interventions including improving the skillset of the valuer in the application of the valuation methods and approaches to solve their local problems.

#### 4.7.2.3 Create public awareness on the relevance of property valuations to real estate business decisions

Creation of public awareness on the relevance of property valuations to real estate business decisions was ranked as the third key intervention to be considered in Uganda. Public awareness focuses on increasing public knowledge and understanding of property valuation, promoting transparency and informed decision-making, and ensuring that stakeholders are aware of the value and significance of valuation in the real estate sector.

Respondents explained that creation of public awareness can be achieved by conducting mass education and sensitization campaigns targeting various players in

the sector, such as land valuers, brokers, realtors, and the general public so as to create awareness regarding the role of valuation in the real estate and property market such as for acquisition and sale of real property, and highlighting the benefits of periodic asset valuation for informed investment decisions. In addition, publicity is required on the roles and responsibilities of valuation professionals. Empower the general public with knowledge about the valuation practice in general and the impact it has on the economy and individual business performance.

#### 4.7.2.4 Develop a comprehensive professionalisation framework for property valuers in Uganda

Shortage of qualified property valuers was ranked number seven with a mean score of 3.27 on the list of factors causing property valuation inaccuracies in Uganda. Similarly, erosion of public trust in property valuers was mentioned as a major consequence of the inaccurate property valuations in Uganda. As such, development of a comprehensive professionalisation framework for property valuers in Uganda was ranked forth key intervention (with a mean score of 4.22) that should be considered. The purpose of the professionalisation framework is to coordinate apprenticeship, registration, licensing, continuous professional development, rewards and sanctions of property valuers. Respondents further explained that there was need of having in place regular relevant valuation CPDs to keep valuers updated with current trends and to promote professionalism among practitioners.

To improve CPD attendance, respondents advised that the CPD training program be streamlined, and periodic reviews of registered valuers' competences be conducted prior to issuance of annual practicing certificates. The professionalisation framework is expected to address valuers' misconduct and strengthen professional discipline through its supervision and oversight functions. It further expected to reduce client influence in the valuation process through stakeholder engagements and information sharing with the general public. Several studies also observed that property valuers are required to be registered and well-regulated either by self or by government if they are to be recognised as trusted professionals (Olusegun, 2004; Mutema, 2016; Cheloti and Mooya, 2023; Bank of Uganda, 2017; Wesonga *et al.,* 2022; Okoh *et al.,* 2023). A comprehensive professionalisation framework for property valuers in Uganda will ensure that only qualified valuers are allowed to practice, the valuers

strictly follow the professional code and ethics of valuers; which will then improve property valuation accuracy required for real estate business investment decisions in the country.

#### 4.7.2.5 Develop a centralised system to in-take and monitor performance of property valuations

Lack of reliable property valuation data and property market information dissymmetry were ranked as some of the key causes of property valuation inaccuracy in Uganda. To address this problem, respondents agreed that developing a centralised system to in-take and monitor performance of property valuations that are required by businesses in Uganda should be considered. This proposal may have legal issues to do with confidentiality of information however it can be achieved if specific relevant information is extracted to aid aggregation of market-based analysis such as property location coordinates, valuation rates adopted, date of valuation, purpose of valuation and so on. A similar system called Land Valuation Information System (LaVMIS) is being developed by the government department of valuation to specifically facilitate storage and quick retrieval and analysis of valuation information in the department. It would be more useful if such a system is made available to also aid property valuations in the private sector. Studies have shown that making the system available to valuers in the private sector can be achieved by creating a public portal with specific rights and obligations for eligible users (MLHUD, 2022).

#### 4.7.2.6 Develop national property valuation standards and guidelines for Uganda

From this study, a narrow understanding of the choice and application of property valuation methods was ranked the main cause of valuation inaccuracy in Uganda and selection of unreliable valuation variables came in third. As such, respondents recommended that a national property valuation standards and guidelines be developed for Uganda to deal with valuation approaches required for specific purposes of property valuations such as for business investments. Coincidentally, Wesonga *et al.* (2022: 99) also recommended that valuers in Uganda should urgently develop a comprehensive law and a national valuation standard to address its unique valuation challenges such as lack of uniformity in selection and application of

valuation methods and the unique land tenure to ensure uniformity, accountability, efficiency and reliability of the valuation services by real estate investors in the country. The researcher also learnt that Ministry of Lands, Housing and Urban Development (MLHUD) was in the process of developing the national property valuation standards (MLHU, 2023). Therefore, this intervention will significantly reduce the rampant valuation variance in the country and also facilitate investors' confidence in property valuer's opinion of values required for real estate business decisions. This recommendation is also supported by Kucharska-Stasiak and Olbińska (2018:60) who argued that differences in the property industries globally, have necessitated adjustment of existing property valuation methods to meet needs of local conditions and improve their accuracy and sustainability in different countries including Uganda.

#### 4.7.2.7 Review and amend existing laws that limit accurate application of property valuation methods in Uganda.

In this study, existence of outdated laws in Uganda was ranked forth on the list of key factors causing property valuation inaccuracies in the country. As such, respondents recommend the review and amendment of existing laws that limit accurate application of property valuation methods in Uganda as one of the key interventions to be considered. Comparatively, the Appraisal Institute (2020) observed that valuation is primarily anchored on the rights and interests subsisting in real estate. The recognised rights and interests are majorly enshrined in law, contract or are generally accepted as a norm in a given locality especially where customary land tenure is dominant (Syagga, 1994:1). Unfortunately, land laws are not frequently updated to catch up with the rapid changes in real estate property valuation and investment today (Mutema, 2016). Mwesigye and Kahuma (2016), Mutema (2016), Kiconco (2018) and Eziukwu (2019) also found that outdated property and land laws contribute highly to valuation inaccuracies in Africa including Uganda.

The type of valuation which is most affected by the outdated laws is statutory valuation (Syagga, 1994:1). Examples of such outdated laws include the Land Acquisition Act (1965), sections of the Land Act (1998) such as sections 77 on computation of compensation, rights of lawful and bonafide occupants on titled land

in section 29 of the Act, leaving titling and registration of land optional hence escalating land conflicts in a capitalistic economy, the criteria for assessing premium and ground rent for government leases contradicts modern methods of valuation of leasehold property, Registration of Titles Act (1937) which strictly identified four registrable tenure interests in land i.e. freehold, leasehold, customary and mailo. The RTA does not consider registration of other rights such as of lawful and bonafide or users of the land, but considers them as an encumbrance on the land. And it does not also recognise the digital register, meaning that search statements printed from the digital register must be confirmed with information in the physical register. More often obtaining the manual record is time consuming and therefore increases the cost and turnaround time of valuation exercise.

Lastly, the Survey Act (1939) does not recognise the use of modern survey tools. As such, there is lack of uniformity and standard of surveying in Uganda. The lack of standards for land surveying has affected the quality of cadastral surveys and consequently compromised the accuracy of property valuations required for real estate businesses in the country (ISU annual report, 2019; UBA annual report, 2022).

Wesonga *et al.* (2022: 99) further reported that there is no law establishing the valuation profession in Uganda; instead, the valuation profession is regulated under an amorphous Surveyors Registration Act (1974). Without a specific law for the valuation profession, it is not surprising that the umbrella body of valuers i.e. the Institution of Surveyors of Uganda is weak and unable to fully regulate the profession (MLHUD, 2022). In addition to updating the existing laws, a new law for the valuation profession be enacted.

#### 4.7.2.8 Streamline undergraduate and post graduate curriculum for property valuers in Uganda

Shortage of qualified property valuers was ranked number seven on the list of factors causing property valuation inaccuracies in Uganda. As such, streamlining undergraduate and post graduate curriculum for property valuers in Uganda to match the emerging global challenges and opportunities in property valuations was recommended as a key intervention. Studies have shown that due to the wide knowledge and intellectual roundness required of a valuer, there is need for valuers to obtain comprehensive training to enable them provide sound valuation to clients

(Mooya, 2015: 245; Woga and Akujuru, 2016: 58; Chikafalimani *et al.*,2020: 2167). Similarly, RICS (2022) emphasised the need for valuers to undergo mandatory training in key competence areas before being registered as professional members of the institution. In addition, Wilkinson *et al.* (2018: 333) underscored the need for continuous professional development for valuation professionals in order to keep a brace with new knowledge, emerging trends and constantly changing practice requirement. A recent study on education and training of valuation surveyors in Uganda by Wesonga *et al.* (2022: 99) revealed that the valuation profession had evolved significantly and is getting more complex today due to globalisation, the impact of e-commerce and information technology as well as the emergence new asset classes.

## 4.8 Chapter summary

In this chapter, results of the research findings were presented and discussed. The study adopted a convergent parallel mixed method design i.e. quantitative and qualitative. Particularly, the demographic characteristics, the extent of influence of property valuation to real estate business investment decision making in Uganda, the causes of inaccurate property valuation to real estate business investment decisions in Uganda, its consequences, and the interventions that can be introduced in order to improve property valuation accuracy for real estate business investment decisions in Uganda were presented and discussed. Based on these findings, discussions and recommendation, a comprehensive model that addresses the challenge with property valuation accuracy required for real estate investment decisions by businesses in Uganda is presented and explained next in CHAPTER 5.

# CHAPTER 5: A NEW PROPERTY VALUATION MODEL TO SUPPORT REAL ESTATE BUSINESSES IN UGANDA

## 5.1 Introduction

This chapter presents the comprehensive property valuation model to improve accuracy of property values required for real estate investment decisions by business in Uganda.

### 5.1.1 Background of the model

The development of the comprehensive model (Figure 15) is informed by the research findings in literature review in CHAPTER 2 (Mutema, 2016: 15; Mooya, 2015: 245; Woga and Akujuru, 2016: 58; Chikafalimani *et al.*, 2020: 2167; Uskali and Mäki. 2005; Jeffrey *et al.*, 2014; Bastian *et al.*, 2023; Glumac and Rosiers, 2021: 481), the methodology highlighted in CHAPTER 3, and the real estate business industrial survey presented and discussed in CHAPTER 4 of this thesis. Respondents from the industry survey recommended for a development of a valuation model to comprehensively improve property valuation accuracy in Uganda, with a mean score of 4.24. Presentation of the new property valuation model follows a process model concept which is also informed by the research findings. The process model draws its strength from the systems theory (Arnold and Wade, 2015: 669) and aims to simplify valuation process interaction between the real estate business investor and the property valuer to ensure that valuation inaccuracies are minimised, correct real estate investment decisions are made and the real estate business performance is sustainably guaranteed.

### 5.1.2 Assumptions of the model

The practical model to support property valuation and real estate investments decisions in Uganda assumes the following:

i. Success of a real estate business is partly dependent on the accuracy of the valuation, which also depends on the candid interaction between the real estate business investor and the property valuer, as well as the contributions by stakeholders such as the government, valuation organisation, education institutions and the valuation client.

ii. There is undistorted information flow between the real estate business investor and the property valuer.

iii. Both the R.E investor and the valuer understand each other's role and expectations as well as what is required to meet such expectations.

iv. Both the R.E and the valuer operate through the system environment.

v. There is a comprehensive updated real estate database fully packed with information about property markets based on the investor's business portfolio interest.

vi. The model process is adaptable, and can be integrated with support systems to enhance its functionality.

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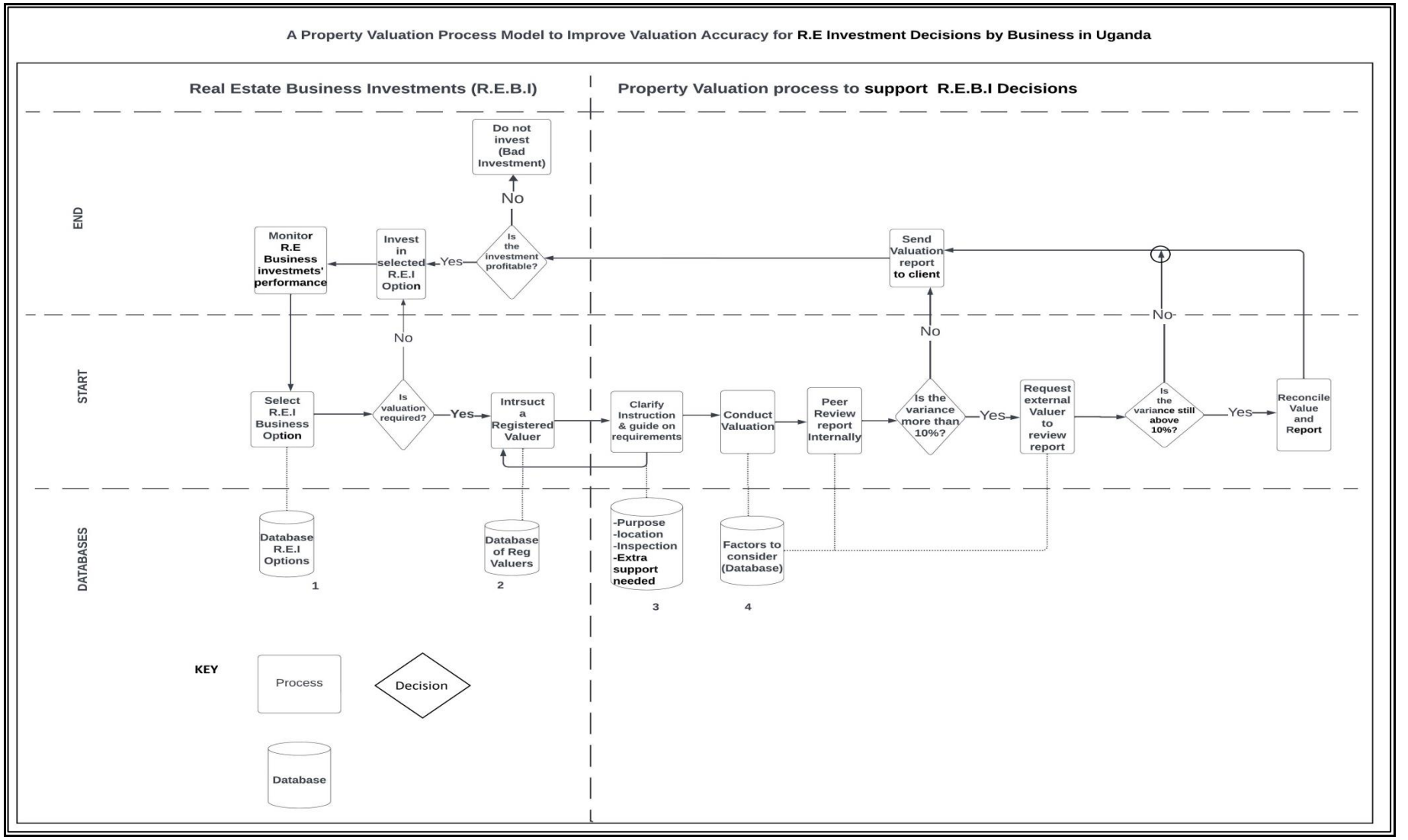


**Figure 15: Property valuation Real Estate (R.E) business investment process flow model for Uganda**

## 5.2 Explanation of the concept of the model

As stated before, the model assumes that the success of a real estate business is partly dependent on the accuracy of the valuation, which also depends on the candid interaction between the real estate business investor and the property valuer, as well as the contributions by stakeholders such as the government, valuation organisation, education institutions and the consumers of real estate valuation services i.e. the valuation client..

The model is split into the real estate business environment, the property valuation environment to supports the real estate business investment decisions, and the databases or information sources required supporting the business interaction and valuation. The process starts with the real estate business investor selecting a real estate investment option from a database (1) of the available real estate opportunities. As noted in Appraisal Institute (2020), property valuation is primarily focused on the rights and interests enshrined in real estate. There are several rights and interests that may exist in a single real estate as explained in CHAPTER 2. If the selected option does not require property valuation and is within the risk tolerable level of the investor, the investor may directly invest in it. If the selected option requires property valuation to inform the investment decision, the real estate business investor requests for valuation. In requesting for a valuation service, the real estate business investor instructs a registered valuer by selecting a professional valuer from database (2) of all licensed valuers as per the Surveyors Registration Board (SRB) annual published list.

In the valuation environment, the property valuer receives the instruction and analyses it. The property valuer may seek clarification on the instruction from the real estate business investor to limit risks associated with making unrealistic assumptions that may negatively impact the valuation outcome. Clarification may be on the location of the property, purpose of the valuation in order to guide further on the requirement for valuation such as the need for additional support, or for inspection and the related cost based on database (3). The valuer then proceeds to conduct the valuation. During the valuation, the valuer collects data on key factors that may affect the property valuation from database (4). Based on the information

obtained, the property valuer prepares a comprehensive draft valuation report. The draft valuation report should be made in accordance with an internationally acceptable standard for valuation reporting IVSC (2022) covering the following key areas:

**The property attributes:** which includes the physical characteristics of the property such as the location, size, layout and accommodation, construction quality, condition, and the utility within the property; the legal characteristics such as the property rights, zoning regulations, restrictions, taxes, levies, fees, fines, and environment and social factors to be considered; economics characteristics such as the property demand and supply dynamics, the market trends and the overall economic climate that may affect the property business investment performance.

**The market analysis:** This includes comparable sales data collection criteria and analysis. Recent sales comparable data should be prioritised as they give a baseline clue on the property market value. Market analysis should consider collection and analysis of property market trends in the property location as well as external factors that may influence the property market.

**The property valuation method or approach adopted:** based on the purpose of valuation and basis of value selected, the valuer should explain the property valuation method used. The methods and approaches of valuation for real estate business investments such as income approach, cost approach, sales comparison approach, residual method, profit or investment method, are explained in CHAPTER 2 of this thesis should be explained. Where the property valuer uses more than one method or approach of valuation, all the methods or approaches must be explained in the report, alongside the rationale for choosing them.

**Documentation:** as the property valuer prepares a comprehensive valuation report, the data sources relied on and the extent of reliance on the reported valuation standards, laws and regulations should also be explained.

The draft valuation report is then subjected to an internal peer review. The peer review is based on expected quality of report, extent of investigation and analysis visa-viz client's expectation and information from database (4). The peer reviewer objectively passes the report if the valuation variance is less than 10%. Similarly, the

report is sent to an external peer reviewer if the valuation variance is more than 10%. The external peer reviewer must also be a registered and licensed valuer, and with vast competence in the type of valuation being conducted. The external peer reviewer may also consider the same criteria used by the internal peer reviewer. In the event the property valuation variance is less than 10%, the valuation report is communicated to the real estate business investor. If property value is still more than ±10%, the property valuer, internal and external peer reviewers, should meet to reconcile the property value. In the process of the property value reconciliation, the three valuers should openly and strongly argue their points, but be focused on the objective of the meeting. Once the property value is reconciled, the report is communicated to the client i.e. the real estate business investor.

The real estate business investor receives the property valuation report and then evaluates whether the investment will be profitable or not. The evaluation and selection are based on a predetermined decision criterion such as the initial cost of the investment, the expected return on investment, the payback period, the Profitability Index, the Internal Rate of Return (NPV), Net Present Value (NPV) (Appraisal Institute, 2020; RICS, 2022). The detail of these decision criteria are explained in CHAPTER 2 of this thesis. If the investment is found not to be profitable i.e. bad investment, it is either abandoned, disposed of, its management and ownership arrangement is reviewed, or any other action is taken to improve on its profitability. Where it is an investment by acquisition, the investor should not invest in the property since it will not be profitable. In the alternative, a cost benefit analysis should be made on the cost of turning the property into a profitable investment in comparison with available real estate investment options. If investing in the property is found to be profitable, the investor should go ahead to invests in it.

During the course of the investment, the real estate business investor is required to regularly monitor the business performance by repeat valuation requests (IFAS, 2023). Revaluations are expected to reveal if there is growth in capital value and rent or not. The revaluation will also account for changes in the market conditions, value change as a result of improvements made on the property, new legislations, restrictions, concessions, etc., which are all critical in determining the future of the business investment.

## 5.3 The main actors for property valuation accuracy

For the model to work, it is important to recognise that property valuation is practiced in an environment influenced by stakeholders. The roles of the property valuer, government, valuation organisation, training institution and the valuation client are critical for the accuracy of the values returned to support real estate investment decisions by businesses in Uganda (Okumu *et al.,* 2023:8). As such, the key stakeholders work collaboratively and in sync as explained below.

### 5.3.1 Government

For any profession to thrive in a country there must be support from the government. In this case, the government is responsible for creating an enabling environment such as by enacting law(s) for the valuation profession, spearheading the development of the valuation standards, and promoting transparency and accountability in valuation. On regulatory framework, the government must take lead in licensing and certifying qualified valuers who should be allowed to practice in order to weed out quacks from the profession. In addition, the government has a role in ensuring that the ethical code of conduct for the valuation profession is in place and strictly enforced, and adhered to in order to promote honesty, transparency, integrity and professionalism. Similarly, the government must ensure that the valuers in Uganda practice under a uniform standard by championing the development of the national valuation standards which must be consistent with internationally recognised standards such as the International Valuation Standards (IVS), in order to support international real estate business investments in the country.

At the operational level, the Chief Government Valuer should develop and disseminate guidelines for conducting statutory valuations to ensure consistency across government ministries, departments, agencies and local government countrywide. The government is also responsible for championing valuation data management by facilitating data collection and ensuring controlled access to it in line with privacy and data protection laws of Uganda. Government should roll out periodic surveys or use land registration processes to capture valuation data through collaboration with the relevant departments of government. For example, the Ministry of Lands, Housing and Urban Development (MLHUD) is the custodian of land tenure,

cadaster, valuation, physical planning, housing, and land use planning and valuation data; the Ministry of Finance, Planning and Economic Development (MFPED) together with its sister agencies such as the Uganda Bureau of Statistics (UBOS) and the National Development Planning Board (NDPB) are responsible for the local, national, regional and global economic data which are key for valuation; the Bank of Uganda (BOU) which is responsible for the micro and macroeconomic stability of the country and periodically publishing financial reports, etc.

In terms of education and training, the government is responsible for the accreditation of valuation programs offered by the training institutions to ensure that they meet acceptable minimum standards. Participation of government in the organised continuous professional development programs for the valuation professionals is essential in building trust in the profession and ensuring that government policies that affect valuation are integrated into the valuation profession. Through capacity building scholarships, the government can support quality education and training of valuers both locally and internationally to acquire skills lacking within the professionals in the country. Government has a role in protecting the general public from the negative consequences of valuation inaccuracies by ensuring quality assessments. The quality assurance should be done through peer review processes and compliance checks. For government valuations, this is done by the Chief Government Valuer. Currently, the Surveyors Registration Board of Uganda is mandated by law to ensure quality of the valuation produced by the registered members.

Finally, government is responsible for admitting international collaborations with the national valuation body to ensure global recognition of the professional valuers. Through the above roles, the government will ensure that property valuation in Uganda is transparently and professionally done in order to meet valuation clients' expectations and support real estate investment decisions by businesses in the country.

### 5.3.2 Valuation organisation

The valuation organisation is the professional body of valuers in the country. Currently, the Institution of Surveyors of Uganda (ISU) performs the functions of the valuation organisation in Uganda. The valuation organisation is envisaged to be responsible for setting standards and guidelines, promoting ethical code of conduct of valuers and championing continuous professional development of members to ensure

quality valuation services. This is to be achieved by developing and regularly updating the valuation standards and guidelines in collaboration with government for purpose of accuracy, consistency and reliability of valuations; establishing and running a certification program for valuation as proof of the valuer's competence to practice, providing input for valuation curricular in educational institutions so that they meet industrial standards and produce graduates with strong foundation in principles of valuation; organising Continuous Professional Development(CPDs) for members and conducting education seminars for valuation students to prepare them for the industry; appointing a quality assurance committee to review contested valuations and identify areas for improvement; representing the interest of valuers and advocating for the profession before all stakeholders; facilitating networking and collaboration with valuation industry stakeholders.

Additionally, the valuation organisation influences the valuation accuracy by conducting research and promoting innovations in topical areas of property valuation in Uganda such as indigenous valuation methodologies, approaches, tools, technologies, emerging issues, etc. to improve efficiency and valuation accuracy; conducting public sensitization on matters of valuation including the rights and obligations of the valuation client; and finally monitoring and evaluating the valuation practice in Uganda in order to cause or recommend corrective measures that ensure valuation accuracy in the country.

### 5.3.3 Training institutions

The training institutions are crucial in providing education, professional development, research and ensuring that valuers are equipped with the necessary knowledge and skills. The training institutions comprise universities and other tertiary institutions that offer valuation accredited causes at certificate, diploma, bachelors and masters levels. The training institutions in Uganda are required to have their programs accredited by the National Council for Higher Education.

To achieve valuation accuracy in Uganda, training institutions must develop and offer programs that are comprehensive. The curriculum must be regularly updated to cover essential topics in valuation such as the conventional and contemporary valuation methodologies, ethics, and legal framework for valuation in the country, market analysis, technologies and tools for valuation. Training institutions should offer

authentic certification on completion of the training that enables one to be eligible for admission into valuation practice. The certification should be after excelling in the rigorous examinations of the training institutions. The training institutions should recruit trainers with vast experience and knowledge of valuation, and to sponsor trainers for CPDs to keep alive with emerging industrial requirement so that the graduates from the institutions remain relevant in the workplace environment. Training institutions are also in charge of impacting students with the necessary technological skills required by the industry. New valuation software, Geographical Information Technology (GIS) tools and other relevant technologies must be introduced to the students early in their education journey so that they become part of their daily use. The existing position is that training institutions prepare valuers through internship training programs whereby the students acquire hands on training from practicing valuers. The internship training must however have clear indicators and expectations in order to remain relevant. It is the duty of the training institutions to introduce valuation students to ethical standards required of them in the industry.

The training institutions are also required to invite industrial experts to speak to the students about the opportunities, challenges and trends within the profession so that they are well prepared. In addition, training institutions are required to network with other stakeholders in the education sector in order to expose the students to national and global events, seminars, and conferences. Similarly, training institutions are required to encourage and conduct research on projects that contribute to the advancement of valuation knowledge and improve valuation accuracy. It is the duty of the training institutions to advertise and inform the general public about the valuation courses they offer so that anyone interested in practicing valuation can enroll and obtain the qualification required. This will ensure that property valuation is conducted by professionals who obtained the right training from recognised institutions. Collectively, the role of training institutions in ensuring an efficient and accurate property valuation in Uganda is very significant.

### 5.3.4 Valuation client

The valuation client may be an individual, a group of people, businesses, or government entities that solicit or require services of property valuation for their

decision making. The valuation clients impact valuation accuracy through their engagement with the valuer, their expectations of value and feedback (RICS, 2022).

To improve property valuation accuracy, the valuation client is required to communicate his or her or their objective(s) and requirement(s) to the valuer. A clear communication must state the purpose of valuation and the specific requirements to enable the valuer tailor the report to meet the client's needs. The valuation client must also provide complete and accurate information or data about the property being valued within the timeframe given to the valuer. It is the duty of the valuation client to be informed and appreciate the valuation process, familiarise himself or herself or themselves with the methodologies, assumptions, and limitation reported by the valuer in order to set realistic expectations and avoid misinterpretation of property value. The valuation client and the valuer must keep open but professional communication line throughout the valuation process in order to share insights and promptly address any concerns that may arise. It is the duty of the valuation client to appreciate and trust the valuer's expertise and ensure that the valuation exercise is transparently conducted in line with the valuation professional ethical code of conduct and regulatory provisions. The valuation client is also required to provide useful feedback for the improvement of the valuation service. Lastly, the valuation client is required to allocate adequate budget for the valuation and help in identifying potential risks during the valuation process and collectively develop a risk management tracker, and to inform other clients about the importance of property valuation in their real estate business investment decision making process.

### 5.3.5 Property valuer

The property valuer is the professional mandated to advice on property values (Surveyors Registration Act, 1934:19). The valuer acts on lawful instruction from the client to give advice on a value for a particular purpose. As such, the valuer is required to adhere to professional standards and practices and contribute to the overall credibility of the profession. To achieve valuation accuracy, the valuer is expected to comply with the national valuation standards and guidelines and the international best practices such as the International Valuation Standards for the purpose of consistency, predictability, reliability and accountability. It is the duty of the valuer to stay informed of the trends in the industry by attending and participation in CPD events. It

is also the duty of a valuer to acquaint himself or herself with the law, policies, regulations and guidelines affecting the valuation industry, as well as to maintain the professional code of conduct. A valuer is duty bound to strive for valuation accuracy more than any other actor since it directly impacts his or her trade and reputation. As such, the valuer must invest in skills enhancement measures and acquire modern technologies and tools which are approved for the local valuation industry.

Additionally, the valuer must improve his or her communication skills to effectively communicate methodologies, assumptions and limitations to clients and stakeholders in order to manage their expectations and ensure transparency in the valuation process. The valuer must be informed of the property market trends in the locality, regionally, nationally and internationally, analyse and communicate effectively to the client. The valuer must at all times remain independent and objective in conducting the valuation to avoid biases which would affect the accuracy of the valuation. Similarly, the valuer is required to identify and mitigate risks associated with challenges such as unavailability of market data, market volatility, legal and policy issues during the valuation process and correctly report about them. Lastly, the valuer is duty bound to represent the profession at any level when required, take on the leadership of the professional body, engage in sensitisation and community outreach programs, train internship valuation students and novices, and must champion continuous improvement of the profession to ensure efficiency and valuation accuracy across the board.

## 5.4 Chapter summary

This chapter presented and explained the new comprehensive property valuation model for Uganda. In addition, it focused on attainment of property value accuracy for real estate investment decisions by businesses in Uganda. It also identified the stakeholders and their roles in the aspiration for property valuation accuracy in Uganda. CHAPTER SIX gives the conclusions on and recommendations of the study.

# CHAPTER 6: CONCLUSIONS AND RECOMMENDATIONS

## 6.1 Introduction

In this chapter, the research conclusions are drawn and recommendations made.

## 6.2 Basis for conclusions

The conclusions are based on the experience gained from the study, the data analysis, discussions and the rationale for the new valuation model which is aimed to achieve property valuation accuracy required for real estate investment decisions by businesses in Uganda.

### 6.2.1 Conclusions

Therefore, the researcher concludes that property valuations influence real estate business decisions. In addition;

i. Inaccurate property valuations in Uganda is caused by the narrow understanding of the choice and application of property valuation methods, poor property market information dissemination, selection of unreliable property valuation variables such as discount rates and yields, existence of outdated laws on property valuations, lack of reliable property valuation data, failure to distinguish different real estate interests, having a few qualified property valuers and unpredictable changes in the property market. However, this presupposes that other causes such as external clients' influence, unethical behaviour and negligence of the valuers, 'silos' mentality, lack of a principal law on property valuation and professional misconduct of property valuers are not issues of concern in the country; which may not be true, since complaints have been raised about them before.

ii. The consequences of inaccurate property valuations in Uganda are mainly to do with erosion of public trust in property valuations, misallocation of resources, financial losses and bankruptcy, increased disputes and litigation, property market distortion, reduced real estate investments and miscalculation of property taxes, insurance premiums and compensation payments. This is because little or no measures have been established to comprehensively deal with the main causes of property valuation inaccuracies in the country. Some of the consequences such as property market distortion and financial losses and bankruptcy may not be seen in the short run

however the erosion of public trust in property valuations, misallocation of resources, and miscalculation of property taxes, insurance premiums and compensation payments are instantly impactful and should be taken seriously by property valuers.

iii. The existing interventions for improving property valuation accuracy in Uganda such as the proposed enactment of the valuation law and real estate agency laws, the ongoing development of the national valuation standards and valuation professionalisation framework, the ongoing systems developments e.g. the Land Valuation Management Information System (LaVMIS) and the Land Value Databank have had low concentration on the understanding of conscious interactions between the valuation client and the valuer as being the primary players, and the integral contribution by other key stakeholders to the valuation process such as the government, the training institutions, and the valuation organisation. As it is, the poor linkage among the key stakeholders in the property valuation process may not resolve the perennial problem of inefficiency and ineffectiveness of the property valuer in determining accurate value of property; leading to persistent property market distortion and poor real estate business investment decisions. New interventions should therefore focus on refining and reaffirming the roles of all key stakeholders in the property valuation process, and providing a good enabling environment for the valuers to perform valuation efficiently and accurately.

iv. A valuation process model fully packed with interventions, based on the systems theory has good potential for addressing the above mentioned problem. However for such a model to create the necessary impact, it should be embraced and supported by all the key stakeholders.

## 6.3 Recommendations

In this section, the researcher recommends actionable steps that should be undertaken in order to improve property valuation accuracy to support real estate investment decisions by businesses in Uganda, and for all purposes of valuation.

i. **Enhance property valuation data availability, accessibility and reliability:** To deal with inaccurate property valuations in Uganda, data availability, accessibility and reliability should be enhance. The Ministry of Lands, Housing and Urban

Development should lead in the development of a comprehensive valuation information management system, fully packed with databases such as the land value databank and property indices to support valuation function in the country. Ensure proper functioning of and reliance on the valuation system in collaboration with property valuers in private practice, the real estate business investors and agents. This should be achieved through mass data collection and regular system update and maintenance.

ii. **Develop and promote relevant CPD programs for valuers:** To improve the skillset of the valuer in the application of the valuation methods and approaches to solve local valuation problems, valuers must deliberately undergo training in areas of knowledge and skill gaps. The Universities offering valuation accredited courses together with SRB and ISU should design and regularly review the training curricular of valuers to be aligned with the emerging industrial requirements. In addition, valuers should acquire and adopt use of modern valuation techniques in order to improve their performance.

iii. **Create public awareness:** The government, academic institutions, the valuation organisation (ISU) and the individual property valuers should create public awareness using all available forms and means of communication, focusing on increasing public knowledge and understanding of property valuation, promoting transparency, accountability and informed decision-making, and ensuring that the general public is aware of the value and significance of valuation in their real estate businesses.

iv. **Enact a specific law for valuation and a law for real estate agency:** The government in consultation with all relevant stakeholders should urgently enact a specific law for valuation profession, a specific law for real estate agency, and to review all relevant laws that impede accuracy of valuation assessments for various purposes including property acquisition and disposal in order to professionalise the valuation practitioners and promote order and accountability in the real estate business sector.

v. **Develop and enforce standards of valuation:** The government in consultation with all relevant stakeholders should conclude development of a professionalisation framework, the national valuation standards, and ethical codes of conduct for valuers in Uganda.

vi. **Adopt the newly developed property valuation model:** The recommended valuation model in CHAPTER 5 should assist the property valuer in achieving accurate property valuation, and the real estate business investor in selecting and maintaining profitable real estate investment options.

vii. **Promote research and development of the profession:** Further studies for example, should investigate the acceptable level of valuation variance in Uganda since the global acceptance is between +/- 10%, and evaluate the effectiveness of this new valuation model in achieving property valuation accuracy for real estate investment decisions by businesses in Uganda.

viii. **Align all ongoing interventions with the model:** Lastly, all the ongoing interventions to improve property valuation accuracy in Uganda should be aligned to the newly developed property valuation model for the assurance of their effectiveness, efficiency, credibility, accuracy and accountability to support real estate investment decisions by businesses in Uganda.

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# Appendix 1: Questionnaire

## FINAL RESEARCH QUESTIONNAIRE

**RESEARCH TOPIC: THE INFLUENCE OF PROPERTY VALUATIONS ON REAL ESTATE INVESTMENT DECISIONS BY BUSINESSES IN UGANDA**

Greetings,

My name is **Benon Okumu,** a PhD student in Management Sciences at Durban University of Technology, South Africa. I am conducting a research on the above topic with an aim of improving the existing property valuation accuracy in Uganda. You have been carefully selected as a key participant in this survey. Your participation is purely voluntary and at your convenience. The information you will provide shall be considered confidential and not used against you. Would you like to participate?

1. Yes
2. No

**Instruction:** Simply fill or tick in the space provided to give your answer as you deem appropriate.

| **PART 1: INFORMATION ABOUT THE RESPONDENT** | | **TICK / FILL** |
|---|---|---|
| **1.1 Indicate the main type of your business** | | |
| 1 | Sole proprietorship | |
| 2 | Partnership | |
| 3 | Limited partnership | |
| 4 | Corporation | |
| 5 | Limited liability company | |
| 6 | Non-profit organisation | |
| 7 | Cooperative | |
| **1.2 How many years old is your business?** | | |
| **1.3 How many years of business experience do you have?** | | |
| **1.4 In which geographical region in Uganda is your business located?** | | |
| 1 | Central | |
| 2 | South | |
| 3 | North | |
| 4 | East | |
| 5 | West | |
| **1.5 Indicate the main nature of your business** | | |
| 1 | Manufacturing | |
| 2 | Retail | |
| 3 | Financial services | |
| 4 | Communication | |
| 5 | Transport | |
| 6 | Health | |
| 7 | Education | |
| 8 | Tourism | |
| 9 | Entertainment and functions | |
| 10 | Construction | |
| 11 | Professional advisory services | |
| 12 | Other (please specify) | |
| **1.6 Indicate the area of your real estate investment involvement** | | |
| 1 | Commercial | |
| 2 | Industrial | |
| 3 | Residential | |
| 5 | Others (please specify) | |

| | | |
|---|---|---|
| **1.7 Indicate your highest level of education** | | |
| 1 | Advanced Certificate of Education | |
| 2 | Bachelor's Degree | |
| 3 | Master's Degree | |
| 4 | Doctorate Degree | |
| 5 | Others (please specify) | |
| **1.8 Indicate your real estate investment decisions that have been influenced by property valuations** | | |
| 1 | Sale | |
| 2 | Lease | |
| 3 | Sale and lease back | |
| 4 | Own and occupy | |
| 5 | Rent | |
| 6 | Sell now or hold-on | |
| 7 | Buy now or hold-on | |
| 8 | Build now or hold-on | |
| 9 | Acquire fully or partially | |
| 10 | Terminate or vary contract | |
| 11 | Secure a mortgage or use equity | |
| 12 | Lend or differ lending | |
| 13 | Lower or hike interest rates on secured lending | |
| 14 | Permit to develop, remodel, convert use, demolish, etc. | |
| 15 | Float to potential investors | |
| 16 | Ask an amount | |
| 17 | Pay an amount | |
| 18 | Accept an amount | |
| 19 | Other (please specify) | |

| **1.9 To what extent do you rely on property valuations to make your real estate investment decisions?**<br><br>(Tick: Not at all=1, Not sure=2, Rarely rely on=3, Rely on=4, Fully rely on=5) | **1** | **2** | **3** | **4** | **5** |
|---|---|---|---|---|---|

| **PART 2: GAPS IN THE EXISTING PROPERTY VALUATION IN UGANDA** | | **Tick** | | | |
|---|---|---|---|---|---|
| **2.1 To what extent do you agree or disagree that the following factors have made property valuation in Uganda less accurate or inaccurate in the determination of property values that are used for real estate investment decisions by businesses in Uganda?**<br><br>(Tick: Strongly disagree=1, Disagree=2, Not sure=3, Agree=4, Strongly agree=5) | **1** | **2** | **3** | **4** | **5** |
| 1 | Selection of unreliable property valuation variables such as discount rate and yields | | | | | |
| 2 | Lack of reliable property valuation data | | | | | |
| 3 | Failure to distinguish different real estate interests in Uganda. | | | | | |
| 4 | Existence of outdated laws hindering accuracy of property valuations | | | | | |
| 5 | Narrow understanding of the choice and application of property valuation methods | | | | | |
| 6 | Poor property market information dissemination Uganda | | | | | |
| 7 | Unpredictable changes in the property market in Uganda | | | | | |
| 8 | Few qualified property Valuers in Uganda | | | | | |
| 9 | Other (please specify) | | | | | |

**PART 3: INTERVENTIONS TO IMPROVE THE EXISTING PROPERTY VALUATION METHODS IN UGANDA.**

**Tick**

| | | **1** | **2** | **3** | **4** | **5** |
|---|---|---|---|---|---|---|
| **3.1 To what extent do you agree or disagree that the following interventions can improve property valuation in Uganda?** | | **Strongly disagree** | **Disa gree** | **Not sure** | **Agree** | **Strongly agree** |
| 1 | Promote use of reliable property valuation data | | | | | |
| 2 | Develop national property valuation standards and guidelines for Uganda. | | | | | |
| 3 | Develop an accurate and reliable valuation model to address challenges faced with application of existing property valuation methods in Uganda. | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| 4 | Create public awareness on the relevance of property valuations to real estate business decisions. | | | | | |
| 5 | Streamline pre and post graduate curriculum for property Valuers in Uganda to match the emerging global challenges and opportunities in property valuations. | | | | | |
| 6 | Review and amend existing laws that limit accurate application of property valuation methods in Uganda. | | | | | |
| 7 | Develop a centralised system to in-take and monitor performance of property valuations that are required by businesses in Uganda. | | | | | |
| 8 | Develop a comprehensive professionalisation framework for property Valuers in Uganda to coordinate apprenticeship, registration, licencing, continuous professional development, rewards and sanctions, etc. | | | | | |

**PART 4: PROPOSALS**

**Propose ways to improve property valuation accuracy for real estate investment decisions by businesses in Uganda. (maximum 5 comments)**

| | |
|---|---|
| 1 | |
| 2 | |
| 3 | |
| 4 | |
| 5 | |

**Thank you for participating**

Contacts: Tel No. +256 779263202 e-mails: okumubenon1@gmail.com / 22065025@dut4life.ac.za

## Appendix 2: Focus Group Discussion Guide (FGDG)

# Focus Group Discussion Guide

**For workshop participants of the proposed National Valuation Standards and Manuals scheduled for 12th and 13th April, 2023 at Imperial Royale in Kampala**

**RESEARCH TOPIC: THE INFLUENCE OF PROPERTY VALUATIONS ON REAL ESTATE INVESTMENT DECISIONS BY BUSINESSES IN UGANDA**

Dear participants, my name is **Benon Okumu.** I am a PhD student in Management Sciences at Durban University of Technology, South Africa. I am conducting a research on the above topic with an aim of improving the accuracy of existing property valuations in Uganda. You have been carefully selected **to give your insights on the consequences of inaccurate property valuations in Uganda**. Your participation is purely voluntary and at your convenience. The information you will provide shall be considered confidential and not used against you.

**Instructions:**

1. This is an open discussion, moderated by the researcher.
2. Only property valuers are allowed to participate.
3. Participation is by a show of hands.
4. Only 15 minutes have been allowed for the interaction.
5. Each participant should give a precise submission in under 2 minutes.
6. A rapporteur will record all submissions.
7. After the session, the rapporteur will read the summary of what has been captured for your validation.
8. The summary submission will be incorporated into the research findings.

**Thank you for participating**

Contacts: Tel No. +256 779263202 e-mails: okumubenon1@gmail.com / 22065025@dut4life.ac.za

## Appendix 3: Letter of Information and Consent


### LETTER OF INFORMATION

**Title of the Research Study:**
The influence of property valuations on real estate investments decisions by businesses in Uganda

| | |
|---|---|
| **Principal researcher:** | Benon Okumu<br>DPhil Management Sciences: Business Administration |
| **Supervisors:** | Dr. Samuel HP Chikafalimani<br>Professor Sibusiso Moyo<br>Professor Moses Musinguzi<br>Dr. Nathan Kibwami |

**Brief Introduction and Purpose of the Study:**

I am a **PhD student in Management Sciences**, Department of Entrepreneurial Studies and Management, Durban University of Technology, South Africa. I am undertaking a research study on **‘‘The influence of property valuations on real estate investment decisions by businesses in Uganda’’.** Property valuations are critical in supporting businesses to make well-informed decisions for their real estate investments in Uganda. Direct comparison, investments, residual, profits and cost of replacement methods are the five main methods of property valuation that are being practiced internationally. However, complaints have been raised by businesses about the increased inaccuracies of these methods in the calculation of property values, leading to property undervaluation or overvaluation. This exposes businesses to risks including financial losses and bankruptcy. This study intends to address these challenges by developing a reliable and accurate property valuation model for Uganda.

**Inclusion Criteria**

Participation in this study is limited to key players in the real estate industry business in Uganda. Participants should be adults, preferably aged 21 years and above. Participants must be knowledgeable about and familiar with real estate investments and the role of valuation in Uganda. Participants must be registered members of either Association of Real Estate Agents (AREA) Uganda or the Institution of Surveyors of Uganda (ISU) – Valuation Chapter.

**Exclusion Criteria**

Non-registered members of either Association of Real Estate Agents (AREA) Uganda or the Institution of Surveyors of Uganda (ISU) – Valuation Chapter are not eligible to participate in the study.

**Outline of the Procedures:**

I have identified you as a real estate industry business investor or Valuer in Uganda, and therefore a key stakeholder in this study. I invite you to spare about 15 minutes of your time to respond to this questionnaire. The questions have been tailored to enable you provide your honest view, thoughts and suggestions in line with the gaps in the existing property valuation methods which influence real estate investment decisions by businesses in Uganda. There are no risks or discomfort anticipated during the study.

**Benefits:**

The research aims at developing a locally acceptable property valuation model by examining gaps in the existing valuation methods which influence property valuations on real estate investment decisions by businesses in Uganda. Note that there will be no monetary benefits to you as a participant during the survey. Nevertheless, presentation on key findings of the research will be available to those interested in the study. In addition, the research findings will be beneficial to real estate businesses and the economy of Uganda in the future, hence the importance for your participation in the survey.

**Reason/s why the Participant May Withdraw from the Study:**

As a participant you may withdraw from the study for any reason and at any time. Nonetheless, there will be no adverse consequences for you the participant should you choose to withdraw from the study.

**Remuneration:**

As a participant you will not receive any monetary or any other type of remuneration as a result of your participation in this survey. The research is purely for academic study purposes.

**Costs of the Study:**

As a participant, you will not be expected to cover any costs towards the study.

**Confidentiality:**

The survey will not mandatorily collect any identifying information of you as a participant. All personal or sensitive information you may provide will be treated confidentially. Information will be collected anonymously to ensure concealment. However, on your request, you may access an overview of the research findings from the researcher. It is important for you to know that your participation is purely voluntary and at your convenience and you can withdraw from the study at any time either prior to or in the process of the exercise.

**Research-related Injury:**

The survey will not expose you as a participant to injury. In addition, participant's personal information will be protected. Online data collected using Kobo Toolbox software are protected using the company policy. The researcher will create strong passwords to avoid unauthorized access to the systems' information. Data retrieved from the system shall be processed and stored in a personal computer and google drive. Unauthorized access to information in the PC and Google drive are protected using strong password. Hard paper copies of all answers and results from the questionnaires will be kept safely in a secure lock-up cabinet. The papers will be destroyed by shredding after 5 years. Electronic data will be completely deleted from the storage hard drive.

**Persons to Contact in the Event of Any Problems or Queries:**

Please you may contact any of the following: the researcher (PhD student): Benon Okumu, Tel: +256 779263202 and email: okumubenon1@gmail.com; 22065025@dut4life.ac.za and the Supervisors: Dr Samuel HP Chikafalimani, Tel: +27722098786; and Prof Sibusiso Moyo, Tel: +27 313733607 from DUT; Professor Moses Musinguzi, Tel: +256772511119; and Dr Nathan Kibwami, Tel: +256782429591 from Makerere University Kampala; the DUT-Institutional Research Ethics Administrator on 031 373 2375. Complaints can be reported to the Acting Director: Research and Postgraduate Support on researchdirector@dut.ac.za

I thank you for your participation.

Yours,

**PhD Research Student**
Contacts:
Telephone No. is +256 779263202
E-mail: okumubenon1@gmail.com

## Appendix 4: Gatekeeper permission request letter

DUT DURBAN UNIVERSITY OF TECHNOLOGY

**GATE KEEPER'S LETTER**

The Secretaries

Association of Real Estate Agents and Investors, Uganda

The Institution of Surveyors of Uganda

Date: **23rd January, 2023**

Dear Sir/Madam,

Your institution is a key player in the real estate industry business in Uganda. As such, members of your institution have been selected to participate in a research study I am conducting with my research committee from the Durban University of Technology (DUT). The research title is **"The influence of property valuations on real estate investment decisions by businesses in Uganda".** The study intends to develop a reliable and accurate property valuation model for Uganda.

With strict observance of COVID 19 standard operating procedures, your members will be requested to complete an online questionnaire in the link below. The survey will take only 15 minutes to complete and their participation is purely voluntary.

This survey has been approved by Durban University of Technology. There are no risks to participants by participating in the study. Similarly, the participants are free to withdraw their participation from this study at any time and there will be no consequences for doing so. There is no monetary benefit to participants however upon request, generalised result can be availed.

The survey does not require personal identifying information of any respondent. All of the responses in the survey will be recorded anonymously. Access to the online data you will provide is protected by the company end-to-end data protection policy and a strong password created I have created for the study. Hard copies of the data will be stored in a file cabinet under lock and key for a period of five years, thereafter it will be shredded in accordance with DUT policy. Electronic data will be completely deleted from the storage hard drive.

I hereby request you to complete and return the consent form herein attached to indicate your willingness to allow your members participate in the survey.

If you have questions regarding the survey, please contact me or any of the contact list provided below.

**Benon Okumu**

PhD Researcher Student

Contacts: +256 779263202 and email: okumubenon1@gmail.com; 22065025@dut4life.ac.za and the Supervisors: Dr Samuel HP Chikafalimani, Tel: +27722098786; and Prof Sibusiso Moyo, Tel: +27 313733607 from DUT; Professor Moses Musinguzi, Tel: +256772511119; and Dr Nathan Kibwami, Tel: +256782429591 from Makerere University Kampala. The DUT-Institutional Research Ethics Administrator on 031 373 2375. Complaints can be reported to the Acting Director: Research and Postgraduate Support on researchdirector@dut.ac.za

## Appendix 5: Gatekeeper's letter

Jumbo Plaza Ground Floor,
Plot 2, Parliamentary Avenue,
P.O. Box 36579, Kampala Uganda
M: +256 708575631/0779572037
E: ceo@areauganda.org
W: www.areauganda.org

30th January, 2023

The Chairperson
Institutional Research Ethics Review Committee (IREC)
Durban University of Technology (DUT)
P.O. Box 1334
Durban, South Africa.

Dear Sir/Madam,

**RE: GATEKEEPER'S PERMISSION TO MR BENON OKUMU TO CARRYOUT PhD RESEARCH STUDY ON THE INFLUENCE OF PROPERTY VALUATIONS ON REAL ESTATE INVESTMENT DECISIONS BY BUSINESSES IN UGANDA**

We are in receipt of a request dated **23rd January, 2023** from the research student Mr. Benon Okumu for permission to conduct an academic research on the Association of Real Estate Agents Uganda (AREA-Uganda).

We are grateful for the recognition the student has given the association. We are also grateful for the opportunity to be part of this great research topic as it fulfills one of the core mandates of the association.

The main goal of AREA-Uganda is to improve real estate business environment in Uganda. The association has a total of 650 members who are spread in all parts of the country. Its membership comprises individuals, corporate companies and government institutions whose functions are associated with real estate. Since its inception thirteen (14) years ago, the Association has successfully progressed through support and commitment of members, partnerships and collaborations with the government and the private sector. For instance, we now have the Real Estate Institute of East Africa that trains our members to be professional in their businesses and also provide capacity building. We have been able to introduce undergraduate courses in real estate and the same have been embraced by Makerere Business School and Uganda Martyrs University as we continue to engage other institutions. We are continuously engaging the government and other stakeholders on matters that affect the real estate sector in Uganda. These include policies, laws, taxes, financing and investment. In the same spirit we are engaging business stakeholders in order to increase business opportunities for our members. We are in the process of establishing safeguards to our practice in order to promote integrity in our industry by licensing, issuance of identity cards and establishing a tribunal that will enforce adherence to our code of conduct and community sensitisation. Our members and associates are encouraged to always support and participate in our activities.

Mr. Benon Okumu is therefore welcome to conduct his academic research with AREA Uganda.

Yours Sincerely,

**Linda Nabakka Medrine**
Chief Executive Officer (CEO)
**AREA-Uganda**.
C.c. Benon Okumu (The Research Student)

"Supporting our members' Business Success"

INSTITUTION OF SURVEYORS OF UGANDA

Our Ref: **ISU/31/02/01/2023/RW** 1st February, 2023


**Dr. Nathan Kibwami**
President
kibwami@gmail.com
+256 782 429591

**RSU Alozius Gonza**
Vice President
alozius@gmtconsults.com
+256 701 478636

**RSU Robert Wafula MRICS**
Honorary Secretary
robertwafula@gmail.com
+256 782 859665

**RSU Siras Nyonyintono**
Vice Hon. Secretary
njsiras@gmail.com
+256 774 478429

**RSU Eliot Ankunda**
Honorary Treasurer
eliotkampikaho@yahoo.com
+256 784 848484

**Mr. Joel Mawerere Mukisa**
Vice Hon. Treasurer
joelmukisa20@gmail.com
+256 783 806530

**RSU Okeny Geoffrey**
LS Chapter Chair
jokwarwot@gmail.com
+256 703 785108

**RSU Naome Kayondo**
VS Chapter Chair
yondos4@yahoo.com
+256 782 274951

**RSU Tom Ssenyondo**
QS Chapter Chair
ssenyondotom@gmail.com
+256 781 660910

**Mr. Noel Etimu**
Technician Representative
etimunoel72@gmail.com
0785486400

**Ms. Ahishibwe Priscilla**
Student Representative 22/23
ahishibwep@gmail.com
+256 774 357696

**Dr. Ronald Ssengendo**
Immediate Past President
r.ssengendo@yahoo.com
+256 784 614675


The Chairperson

Institutional Research Ethics Review Committee (IREC)

Durban University of Technology (DUT)

P.O. Box 1334

Durban, South Africa.

Dear Sir/Madam,

**RE: GATEKEEPER'S PERMISSION TO MR BENON OKUMU TO CARRYOUT PhD RESEARCH STUDY ON THE INFLUENCE OF PROPERTY VALUATIONS ON REAL ESTATE INVESTMENT DECISIONS BY BUSINESSES IN UGANDA**

Mr. Benon Okumu has requested us for permission to conduct an academic research on the above topic with the Registered Valuers of the Institution of Surveyors of Uganda (ISU).

We are grateful for the recognition the student has given the institution. We are also grateful for the opportunity to participate in this great research.

The Institution of Surveyors of Uganda (ISU) is an umbrella body of professional Valuers, Land Surveyors, Quantity Surveyors, Mining and Hydrological Surveyors. The institution is established with the following objectives:

i) To secure the advancement and facilitate the acquisition of that knowledge which constitutes the profession of a surveyor.
ii) To promote the general interest of the profession and the Institution, and to maintain and extend their usefulness for public advantage;
iii) To consider and determine matters of professional practice and conduct;
iv) To act as the voice of the profession in matters affecting its relation with Government and Public bodies and the general public, and to particularly advise Government before the issuance of work-permits to foreign surveyors:
v) To nominate representatives of the profession to Boards and Committees on which representation of the profession is required and desirable;
vi) To organize professional meetings and activities

Mr. Okumu's research topic fulfills objectives i-iv of the institution as bulleted above.

This is to acknowledge that Mr. Benon Okumu is unreservedly welcome to conduct his academic research with the ISU – Valuation chapter. As an institution, we shall greatly benefit from his research outcome. And hence we ask him to share a copy of his Thesis for the ISU library upon completion of his research.

Yours faithfully,

INSTITUTION OF SURVEYORS OF UGANDA
01 FEB 2023
P. O. BOX 2122, KAMPALA

Robert WAFULA
Honorary Secretary-ISU

C.c. Benon Okumu

## Appendix 6: Ethics Approval letter from IREC


**Institutional Research Ethics Committee**
Research and Postgraduate Support Directorate
2nd Floor, Berwyn Court
Gate 1, Steve Biko Campus
Durban University of Technology

P O Box 1334, Durban, South Africa, 4001

Tel: 031 373 2375
Email: lavishad@dut.ac.za
http://www.dut.ac.za/research/institutional_research_ethics

**www.dut.ac.za**

16 February 2023

Mr B Okumu
Department of Construction Economics and Management
Makerere University
Kampala
Uganda

Dear Mr Okumu

**The influence of property valuations on real estate investment decisions by businesses in Uganda**
**Ethics Clearance Number: IREC 193/22**

The DUT-Institutional Research Ethics Committee acknowledges receipt of your notification regarding the piloting of your data collection tool.

Kindly ensure that participants used for the pilot study are not part of the main study.

In addition, the DUT-IREC acknowledges receipt of your gatekeeper permission letter.

Please note that FULL APPROVAL is granted to your research proposal. You may proceed with data collection.

Any adverse events [serious or minor] which occur in connection with this study and/or which may alter its ethical consideration must be reported to the DUT-IREC according to the DUT-IREC SOP's.

Please note that any deviations from the approved proposal require the approval of the DUT-IREC as outlined in the DUT-IREC SOP's.

Yours Sincerely

Professor J K Adam
Chairperson: DUT-IREC

## Appendix 7: Statistician Certificate

The Chairperson,

Business Administration,

Durban University of Technology,

Tuesday 17 October 2023

**To whom it may concern.**

**STATISTICAL DATA ANALYSIS**

I, the professional Statistician, hereby declare that I have carefully studied the research protocol/data collection instrument of **Benon Okumu** (Student No. 22065025), a project **titled "The influence of property valuations on real estate investment decisions by businesses in Uganda."** I have performed all the appropriate statistical data analysis.

I have actively engaged with the student through two in-person meetings to discuss the statistical aspects of the protocol related to the data cleaning and other necessary preparations.

My qualifications include; Masters in Statistics (Makerere University), Postgraduate Diploma Monitoring and Evaluation (Uganda Management Institute) and Bachelor's degree in Quantitative Economics (Makerere University).

For any additional information or queries, please do not hesitate to contact me.

Yours Sincerely,

Walda Muganzi

Telephone No. +256 784 369504

## Appendix 8: Editor's Certificate

26 January, 2024

The
Chairperson,
Business
Administration,
Durban University of Technology,

**To whom it may concern.**

**ACADEMIC DOCUMENT EDITING CERTIFICATE**

I confirm that I have meticulously edited the thesis authored by **Benon Okumu** (Student No. 22065025) entitled **"The influence of property valuations on real estate investment decisions by businesses in Uganda."**
The editing focused on enhancing referencing clarity, refining language, and optimizing the overall layout of the thesis. I provided the student with the edited document, complete with tracked changes for their review and subsequent amendments. I have seven years of experience in excellent academic document editing services in Uganda.

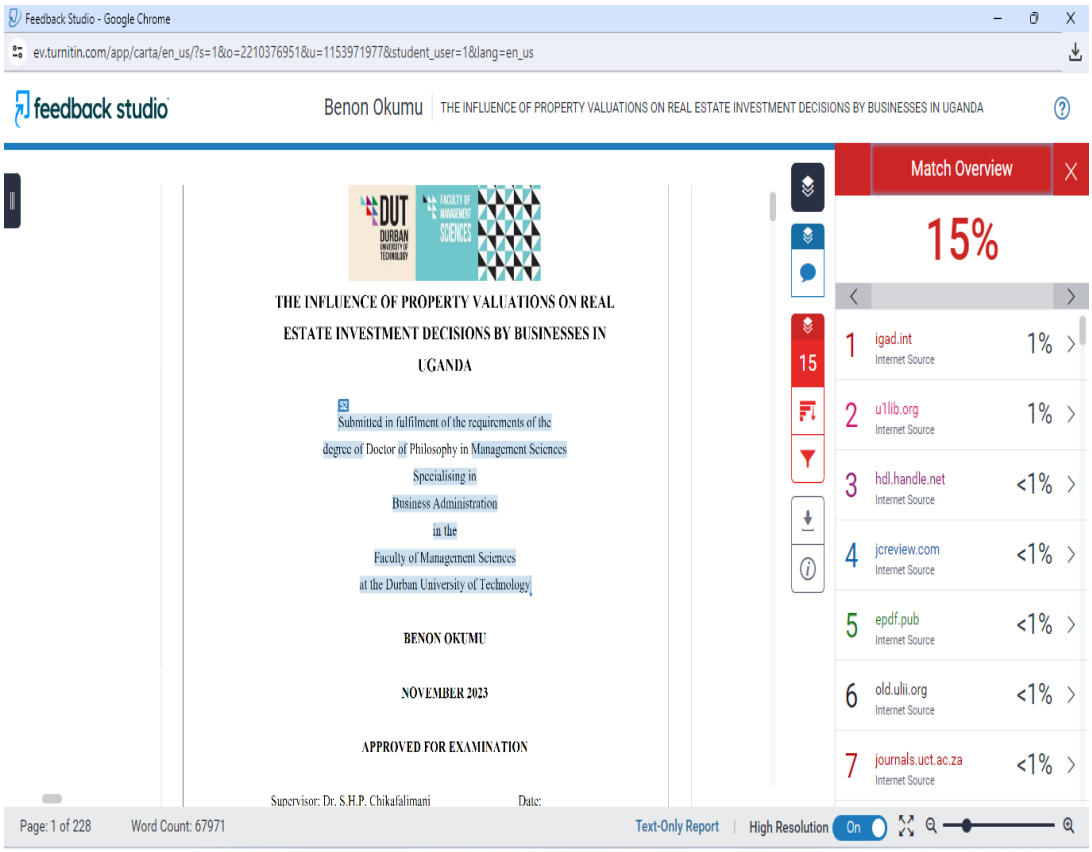
Should you require any further details, please feel free to contact me.

Yours sincerely,

Asaana Victor

Telephone No. +256 777607155

# Appendix 9: Turnitin Report




30.01.2024

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# Digital Receipt

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| | |
|---|---|
| Submission author: | Benon Okumu |
| Assignment title: | Chapter 1 to 5 |
| Submission title: | THE INFLUENCE OF PROPERTY VALUATIONS ON REAL ESTATE ... |
| File name: | on_real_estate_investment_decisions_by_businesses_in_Uga... |
| File size: | 4.5M |
| Page count: | 228 |
| Word count: | 67,971 |
| Character count: | 389,333 |
| Submission date: | 10-Feb-2024 04:40PM (UTC+0200) |
| Submission ID: | 2210376951 |

THE INFLUENCE OF PROPERTY VALUATIONS ON REAL ESTATE INVESTMENT DECISIONS BY BUSINESSES IN UGANDA

BENON OKUMU

NOVEMBER 2023

APPROVED FOR EXAMINATION

05.06.2024