

Exploring Challenges faced by International Real Estate Companies in Developing Countries: A case study of Uganda

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Abstract: *This study explores the challenges encountered by international real estate companies operating in Uganda, a developing country in East Africa. It investigates the impact of the political environment, cultural differences, and the broader environmental context on these company's operations. The research draws upon a content analysis methodology, utilizing secondary data from various sources, including articles, journals, and online references. The political environment in Uganda, characterized by land reforms and political stability, significantly influences land acquisition and operational efficiency for international real estate companies. Cultural differences, such as collectivism and communication styles, underscore the importance of building relationships and local adaptability. Uganda's diverse natural environment presents opportunities but requires careful environmental planning. The complex regulatory framework governing land ownership poses challenges that necessitate meticulous compliance efforts. To address these challenges, recommendations are provided, including the importance of building strong relationships with local stakeholders conducting due diligence, investing in infrastructure development, and advocating for improved transparency in land administration systems. This research contributes to a better understanding of the multifaceted challenges faced by international real estate companies in Uganda and offers practical insights for navigating this dynamic market. It is valuable for policymakers, investors, and researchers seeking to enhance the contributions of real estate companies to sustainable urbanization and economic development in developing countries.*

Keywords: Challenges ; Companies ; International Real Estate Companies ; Developing Countries ; Uganda ; Real Estate Companies

1.0 Introduction

According to James Chen (2023), the term real estate can be best defined as the land and any permanent structures like houses including any improvements attached to the land. These improvements attached to the land can either be natural or man made. Their activities encompass property development, sales, leasing, property management, and investment opportunities. Understanding the dynamics and impact of real estate companies is essential for policymakers, urban planners, investors, and researchers alike. Uganda is located in the Eastern part of Africa and it has a growing real estate sector and it plays a crucial role in the country's economy. In recent years, the sector has experienced robust growth which is driven by the increasing demand for housing and commercial spaces. The contribution of the real estate sector to Uganda's GDP has been significant and it accounted for approximately 13.3% (UBOS, the financial year 2019/20). It's worth noting that this percentage includes both formal and informal activities in this sector including; property duty, sales, rentals, property management, and related services. The contribution of the real estate sector to the country's GDP is expected to continue as per the increase in the population.

It's important to note that the real estate industry in Uganda is diverse, with numerous small and medium-sized companies and individual developers also contributing to the sector's growth. The real estate companies represent a mix of well-established and recognized players in the Ugandan real estate market. This sector involves several important issues and those challenges hinder the sector from developing and competing in the international market.

International real estate companies are facing numerous challenges in the current market scenario and these are not limited to political instability, economic uncertainty, cultural differences, legal complexities, and technological advancements. Despite the increasing interest in this topic by different scholars, there is a lack of comprehensive research that examines the specific challenges faced by international real estate companies in developing countries and the strategies employed to overcome these challenges. Therefore, this research is intended to identify and understand these challenges and develop effective strategies

for international real estate companies operating in developing countries like Uganda.

2. Literature Review

2.1 Theoretical review

In the exploration of challenges encountered by international real estate companies operating in developing countries, various theoretical perspectives have been employed to shed light on the complex interplay between company characteristics and the unique contexts of these nations. Prior research has drawn upon theories such as institutional theory, transaction cost economics, and resource dependency theory to comprehend the dynamics at play in international real estate operations within developing countries. In this study, the theoretical framework will primarily incorporate institutional theory and transaction cost economics to elucidate the challenges faced by international real estate companies in Uganda.

According to the Institutional theory, valuable insights into how organizations adapt and respond to the socio-political and cultural settings in which they operate (Scott, 1995). In the context of international real estate companies in developing countries, the institutional theory posits that these firms navigate challenges stemming from differences in formal and informal institutions between their home countries and the host nations. For instance, local regulations, property rights, and land tenure systems in Uganda might significantly differ from those in the companies' home countries, leading to challenges in property acquisition, ownership, and development.

Transaction cost economics offers a lens through which to examine the challenges arising from the costs incurred in transactions between firms and their external environment (Williamson, 1985). In the context of international real estate companies, this theory highlights challenges related to information asymmetry, opportunism, and uncertainty in developing countries like Uganda. These challenges could manifest in difficulties in establishing reliable market information, negotiating contracts, and safeguarding against potential breaches of contract, ultimately impacting project feasibility and profitability.

2.2 Characteristics of International Real Estate Companies in Developing Countries

In the context of this study, an international real estate company is defined as an entity engaged in property development, investment, and management across national borders. In the specific case of Uganda, international real estate companies operating within the country exhibit distinct characteristics that influence their interaction with the local environment.

- a) International real estate companies in Uganda often need to tailor their strategies to align with the local socio-cultural norms, regulatory frameworks, and market conditions. This adaptation may involve collaborating with local partners, employing local talent, and accommodating traditional land-use practices to gain acceptance and navigate institutional complexities. (Olatunji and Oladapo, 2023)
- b) Resource availability and allocation play a pivotal role in the success of international real estate companies. In the Ugandan context, companies may encounter challenges in accessing reliable data, skilled labor, infrastructure, and financing options, potentially impeding project development and operational efficiency.
- c) Engaging with diverse stakeholders is crucial for international real estate companies in Uganda to build trust, gain legitimacy, and manage potential conflicts. Engaging with local communities, government agencies, and nongovernmental organizations may present challenges due to differences in expectations, communication barriers, and conflicting interests.
- d) Navigating risks associated with political instability, regulatory changes, and economic volatility in Uganda demands a proactive approach from international real estate companies. Challenges may arise in obtaining comprehensive risk assessments, securing insurance, and formulating contingency plans to mitigate potential disruptions. (Olatunji and Oladapo, 2023)

2.3 Challenges Faced by International Real Estate Companies in Developing Countries

The challenges faced by the different real estate companies in developing countries include;

- International real estate companies often face challenges related to navigating complex and evolving regulatory environments in developing countries. This includes obtaining permits, adhering to property rights regulations, and complying with zoning laws, which can be arduous and time consuming.

- Property rights and land tenure systems in developing countries can be ambiguous and subject to competing claims. International real estate companies may encounter difficulties in confirming legitimate land ownership, leading to conflicts with local communities and legal disputes. The complexity of land ownership can hinder the acquisition of suitable properties, delay project timelines, and increase overall project costs. Moreover, unclear land ownership can also result in disputes with local communities who rely on the land for their livelihoods, leading to social tensions and reputational risks for the companies. (Olatunji and Oladapo, 2023)
- Inadequate infrastructure, such as reliable utilities and transportation networks, can significantly impede international real estate projects in developing countries. Challenges in accessing basic services can escalate project costs, hinder development timelines, and undermine project viability. For instance, inadequate road networks and electricity supply can limit the accessibility and functionality of real estate projects, impacting their attractiveness to potential investors and occupants. Additionally, the absence of proper infrastructure can hinder companies' ability to attract tenants or buyers, and may also increase maintenance costs over the project's lifecycle.
- Developing countries like Uganda may experience political instability and economic volatility, leading to unpredictable operating conditions for international real estate companies. Fluctuations in exchange rates, inflation, and changes in government policies can pose challenges to project financing, profitability, and overall business sustainability. Political instability can result in sudden policy changes that affect the investment climate, and economic volatility can erode property values and rental income, making financial planning and risk management complex for international real estate companies.
- Engaging with local communities is paramount to securing a social license to operate. Challenges can arise from misunderstandings, resistance to land acquisition, and disputes over compensation for displaced communities, potentially leading to project delays and reputational damage. International real estate companies often need to navigate cultural differences, address community concerns, and ensure that their projects align with the needs and aspirations of the local population. Failures in community engagement can lead to protests, legal challenges, and negative media coverage, all of which can impact the companies' projects and reputation. (Olatunji and Oladapo, 2023)
- Securing financing for real estate projects in developing countries can be intricate due to perceived risks by lenders and investors. International real estate companies may encounter challenges in accessing favorable financing terms, as lenders may demand higher interest rates or collateral due to the perceived uncertainties. This can inflate the cost of capital for the projects and reduce their overall profitability. Additionally, the limited availability of long-term financing options for real estate development can constrain companies' ability to undertake larger and more ambitious projects.

2.4 Variability of Challenges with Company Performance

The challenges faced by international real estate companies in developing countries can significantly impact their operational and financial performance. The nature and severity of challenges can vary based on company-specific attributes, market conditions, and the strategies employed to address them.

- Companies that effectively adapt to local contexts and build strong relationships with stakeholders may gain a competitive advantage in navigating challenges. Successful engagement with local partners, communities, and governments can lead to smoother project implementation and enhanced legitimacy.
- Companies that invest in understanding the local regulatory landscape and proactively manage risks can enhance their operational efficiency. By identifying potential hurdles early and devising effective risk mitigation strategies, companies can minimize disruptions to project timelines and costs.
- Challenges often stimulate innovation and resilience among international real estate companies. Firms that invest in local capacity-building, technology adoption, and sustainable development practices may emerge better equipped to address challenges and capitalize on emerging opportunities.
- Companies that successfully navigate challenges and build a positive reputation for responsible business practices may be better positioned to penetrate the local market and establish a long-term presence in Uganda. This can lead to enhanced brand recognition and increased market share.
- Companies that take a holistic approach to addressing challenges, considering economic, social, and environmental factors, may enhance their long-term viability. By demonstrating commitment to ethical practices and contributing to sustainable development, international real estate companies can secure the trust of stakeholders and foster enduring relationships. This means that challenges faced by international real estate companies in developing countries like Uganda are multifaceted and influenced by both company characteristics and the local context. Drawing from institutional theory and

transaction cost economics, this study seeks to elucidate the intricate dynamics that shape the experiences of international real estate firms operating in Uganda. Understanding these challenges and their implications is crucial for formulating effective strategies that facilitate successful and sustainable operations in such complex environments.

3. Methodology

3.1 Research Design

To comprehend the challenges that real estate companies face in Uganda, this study implemented a content analysis design. (From Berelson, 1952) Content analysis is a research technique for the objective, systematic, and quantitative description of the manifest content of communication. This analysis is most suitable since knowledge can be found in written documents, videos, and other records. This made me understand particular concepts through analysis.

3.2 Study area

The study was in Uganda a landlocked country located in East Africa, This choice was based on the specific challenges faced by real estate companies operating in Uganda such as regulatory issues, infrastructure limitations, and economic factors, By focusing on this particular context, the study aimed to provide insights and recommendations that are relevant and applicable to the challenges in Uganda's real estate sector

3.3 Sampling

Purposive sampling under the content analysis was used to establish the cases to be included in this study such as articles, newspapers, and documentation this gave the researcher a sense of selected data by systematically analyzing its content and identifying meaningful patterns or themes.

3.4 Data type

In this study, secondary data was applied and the secondary data was gathered from existing sources such as published articles by various authors, journals from researchers, and documentaries. Online conferences were also used for example news published by TV stations such as NTV, NBS, and CNBC among others.

3.5 Data collection method

The method of data collection was through documentation and it was gathered during online conferences such as the NBS housing Baraza 4th edition in 2022, news published by television stations such as NTV and NBS, and various documentations by different authors all helped comprehend the challenges real companies face.

3.6 Data analysis

Once data was collected, a systematic analysis was conducted to identify the patterns, themes, and trends quantitative analysis techniques were employed. In the study, this analysis helped uncover the underlying causes of the challenges in Uganda and provide valuable insights for addressing them.

3.7 Ethical consideration

Throughout the research process, ethical considerations were of utmost importance, and all data obtained for the use of these sources to uphold copyright and intellectual property rights. The research will adhere to and ensure that the findings are reported accurately and objectively and also for academic motives.

4.0 Presentation and Analysis of Findings

This section delves into a thorough presentation and extensive analysis of the findings, meticulously addressing the research objectives and questions concerning challenges faced by international real estate companies in Uganda. The research journey embarked upon a quest to identify these challenges and provide comprehensive recommendations for enhancing the challenges.

This section presents and extensively analyses the findings of the research study, addressing the research objectives and questions incorporating insights from the secondary source of data.

4.1 Impact of the political environment on international real estate companies in Uganda

The political environment in Uganda can significantly impact international real estate companies operating in the country. Political stability, government policies, and regulations play a crucial role in determining the business climate and investment attractiveness for these companies.

One major example of the impact of the political environment on international real estate companies in Uganda can be seen in the implementation of the Land Act of 1998. This act introduced reforms to the land tenure system and aimed to provide secure land rights for both nationals and foreigners. However, the implementation of these reforms faced challenges, including inconsistencies in the interpretation and application of the law, which affected the ease of land acquisition and ownership for international real estate companies (Okaka, 2016), and civic space TV.

Additionally, political stability is a crucial factor for international real estate companies. A stable political environment ensures predictability and fosters a conducive business climate, allowing companies to make long-term investment decisions confidently (Agarwal, 2015). For instance, during periods of political instability, real estate projects may face delays, uncertainty, and potential disruptions, which can hinder the operations and profitability of international companies (CNBC Africa).

Furthermore, changes in government policies and regulations can also impact international real estate companies for example, alterations in tax laws, foreign investment regulations, or property ownership restrictions can have direct implications on the operations and profitability of these companies. International real estate companies must navigate and adapt to these changing policy frameworks to remain competitive and compliant with the local legal requirements.

4.2 How cultural differences impact international real estate companies in Uganda

Cultural differences can have a significant impact on international real estate companies operating in Uganda. These differences can influence business practices, communication styles, and customer preferences, ultimately shaping the strategies and operations of these companies in the local market.

One important aspect of cultural differences is the concept of collectivism, where individuals prioritize group harmony and interdependence over individual interests (Hofstede Insights, 2021). In Uganda, collectivism is a prominent cultural trait, and business relationships are often built on personal connections and trust (Oloo, 2015). This can influence international real estate companies in terms of building and maintaining relationships with local stakeholders, including clients, investors, and government officials.

Communication styles are another area where cultural differences impact international real estate companies. Uganda has a diverse linguistic landscape with over 40 different languages spoken (World Bank Group, 2021). English is the official language, but local languages are commonly used in everyday interactions (Oloo, 2015). International real estate companies must consider language barriers and cultural nuances while communicating with clients and stakeholders. This may involve hiring bilingual staff or partnering with local agents to ensure effective communication.

Cultural preferences and preferences can also affect the development and design of real estate projects. For instance, traditional Ugandan architectural styles and preferences for open spaces may influence the layout and design of residential or commercial developments (Oloo, 2020). International real estate companies must consider local cultural aesthetics, spatial preferences, and building materials to align their projects with local market demands. Moreover, cultural factors influence business practices and decision-making in Uganda. Relationship building, respect for hierarchy, and consensus-based decision-making are important cultural values (Hofstede Insights, 2021). International real estate companies need to adapt their negotiation and decision-making processes to align with these cultural norms and build trust with local stakeholders (Okaka, 2016).

4.3 How to examine the environment and its effects on international real estate companies in Uganda

The environment plays a crucial role in shaping the operations and success of international real estate companies in Uganda. This includes both the natural environment, such as the climate and geography, as well as the socio-economic and regulatory landscape. This is a detailed analysis of these various factors.

Firstly, the natural environment, particularly the climate and geography, significantly impacts real estate companies in Uganda. The country experiences a tropical climate with regions of high rainfall and others with prolonged dry seasons (Aber, 2018). This has implications for the construction and maintenance of properties. Heavy rainfall can lead to flooding, erosion, and damage to buildings if proper drainage systems are not in place. On the other hand, extended dry periods can cause water scarcity, impacting the ability to meet the water demands of occupants and maintain landscaping.

Furthermore, Ugandan's geographical landscape, which includes mountains, lakes, and diverse ecosystems, adds both opportunities and challenges for real estate companies. The presence of attractive natural landscapes can enhance property values in certain regions, such as those near scenic lakes. Real estate developers can capitalize on this by constructing luxury resorts or eco-friendly housing units that provide a unique living experience. However building in such areas requires careful consideration of environmental preservation and adherence to regulations to prevent harm to sensitive ecosystems (Baguma, 2019).

Secondly, the socio-economic environment influences international real estate companies in Uganda. Ugandan's population has a relatively low-income level, with a significant portion of the population living in poverty (Uganda Bureau of Statistics, 2020). This affects the demand and affordability of real estate. International companies need to adapt their offerings to cater to the local market, providing affordable housing options and flexible payment plans to attract customers (civic space TV and NBS TV).

Moreover, Uganda's urbanization rate is increasing rapidly, leading to a growing demand for real estate. This provides an opportunity for international companies to invest in residential and commercial properties. However, the pace of infrastructure development often lags behind the expanding urban areas, resulting in challenges such as inadequate road networks and limited access to utilities. Real estate companies need to consider these factors when selecting suitable locations for their projects, ensuring accessibility and availability of basic services (Armstrong and McGreal, 2016).

Lastly, the regulatory environment in Uganda significantly impacts international real estate companies. The government has implemented various policies and regulations to govern land ownership, property development, and construction standards. For instance, the Land Act of 1998 restricts land ownership by non-citizens, requiring them to lease land for specific periods (Government of Uganda, 1998). This regulation may pose obstacles for international real estate companies seeking to acquire prime land for long-term development. These companies need to navigate the legal framework and establish partnerships with local entities to secure land for their projects (Ninsiima, 2019).

5.0 Conclusion and Recommendations

5.1 Conclusions

The research focused on the challenges faced by international real estate companies in Uganda. The journey of international real estate companies in Uganda is a multifaceted endeavor, where success hinges on their adept navigation of the intricate web of political stability, cultural dynamics, and environmental considerations, all within the bounds of a complex regulatory landscape. The implementation of the land tenure reforms and the vagaries of political stability directly impact land acquisition and operational efficiency. Cultural nuances, including collectivism and communication styles, shape relationships and decision making, underlining the importance of cultural adaptation. Uganda's diverse natural environment planning. Compliant adherence to the regulatory framework governing land ownership is non-negotiable. In embracing these holistic insights, international real estate companies can unlock Uganda's potential and forge a sustainable and prosperous future within this dynamic market.

The findings revealed a complex and interrelated set of factors that shape the landscape for international real estate companies in Uganda. The political environment, marked by land reforms and political stability, plays a pivotal role in influencing land acquisition and operational efficiency. Cultural nuances, such as collectivism and communication styles, underscore the significance of personal relationships and local adaptability. Uganda's diverse natural environment, while offering opportunities, demands careful environmental planning. Additionally, the intricate regulatory framework governing land ownership imposes challenges, necessitating meticulous compliance efforts. These findings collectively emphasize the need for a holistic approach that integrates political acumen, cultural sensitivity, environmental responsibility, and regulatory diligence for international real estate companies to flourish in Uganda's dynamic market.

5.2 Recommendation

To address these challenges, it is recommended that international real estate companies take the following steps

To build strong relationships with local stakeholders, including government entities and community leaders. This can help navigate the regulatory environment and gain support for infrastructure development initiatives.

Conduct thorough due diligence and risk assessments before entering into any real estate transactions in Uganda. This includes verifying land ownership and ensuring compliance with legal requirements.

Furthermore, invest in infrastructure development to overcome the limitations in the existing infrastructure. Collaborating with local authorities and investing in road networks, water supply, and electricity can help attract more investors and improve the overall business environment.

In addition, advocates for improved transparency and efficiency in land administration systems. International real estate companies can work closely with relevant government agencies to streamline land titling processes and enforce proper land use regulations.

By implementing these recommendations, international real estate companies can mitigate the challenges they face and position themselves for success in Ugandan real estate market

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