



MAKERERE UNIVERSITY

**COLLEGE OF ENGINEERING, ART DESIGN AND
TECHNOLOGY**

SCHOOL OF BUILT ENVIRONMENT

**DEPARTMENT OF CONSTRUCTION MANAGEMENT AND
ECONOMICS**

**RESEARCH TOPIC: ASSESSING THE VIABILITY OF THE
TURNOVER RENT MODEL IN THE RETAIL COMMERCIAL
REAL ESTATE OF POST-COVID-19 ERA IN KAMPALA**

BY

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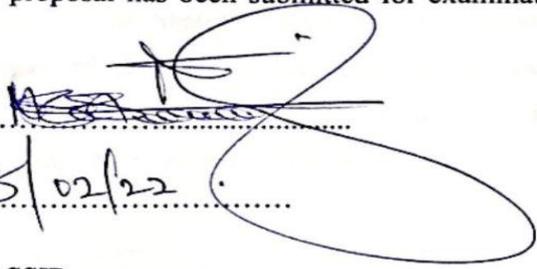
**A RESEARCH REPORT SUBMITTED TO THE DEPARTMENT AS PARTIAL
FULFILLMENT FOR THE AWARD OF A BACHELOR'S DEGREE OF SCIENCE
IN LAND ECONOMICS.**

DATED ON 14TH JANUARY 2022

APPROVAL

This Research proposal has been submitted for examination with my approval as the university supervisor.

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DECLARATION

I OPIO ELIAS HEZRON hereby declare that this research proposal is my own work and that neither all nor part of it has been submitted for the award of any academic qualification in Makerere University or any other institution of higher learning, except where due acknowledgement has been made in the text.



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ACKNOWLEDGEMENT

Above all, I am most great full to Almighty God who unconditionally protected me during this adverse times of the covid-19 pandemic and provided graciously to my health and wellbeing.

I am also grateful to my supervisor Mr. Mwanje Nassir for the tremendous guidance and encouragement during the course of the research. Despite his busy schedule, he managed to offer assistance where necessary from the drafting of the research proposal to this point. Thank you so much sir.

I am also grateful to my parents for their financial support to carry out this research but most importantly their encouragement during this entire process.

I would also like to thank my fellow classmates for their invaluable contribution to my research though support and discussion of the topic at hand whenever called upon.

Finally, I would like to thank myself for the perseverance and grit to continuously seek excellence and improvement in whatever challenges I have come across.

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LIST OF ACRONYMS

CBD – Central Business District

MV – Market Value

UBoS – Uganda Bureau of Statistics

KCCA – Kampala Capital City Authority

ABSTRACT

This research is meant to assess how viable is the turnover rent model in the post covid era of Kampala.

The main objective is to assess the viability of the turnover rent model in Uganda in the post covid era with a case study of shopping malls within Kampala central division. The specific objectives include to assess the acceptability by tenants to adopt the model, the forecasted challenges and the how this model will affect the landlord tenant relations.

The research involved both qualitative and quantitative analysis and was exploratory in design. The survey population included all tenants and landlords/tenants of shopping malls in the Kampala however the sample population focused on a selected number of malls within Kampala central division, their tenants and property managers made up the sample space. The sample was obtained using judgment sampling to select ten shopping malls and the number of participants to participate in the research. Stratified and random sampling was used to select the tenants to participate in the research. The data collection techniques used where online questionnaires generated on google forms to collect responses from the tenants and face to face interviews with the researcher having an interview guide to collect responses from the property manager.

In summary, analysis made by the researcher observed a correlation between the effects of covid-19 virus mainly the rent paid under lockdown to the willingness of the tenants to adopt the turn over rent model. The dependence of adoption of turnover rent on effects of the covid-19 lockdown gives a glimpse of hope for the turnover rent adoption in the post covid-19 era in Uganda.

However, for the proper execution of this model, the research recommended and few ways to overcome the possible pitfalls of this method forexample increased landlord- tenant trust to ensure smoothing operation of the model, proper accounts keeping by the tenants and transparency to disclose their financial records to landlords and educating the tenants and landlords about the turnover rent model among others.

CHAPTER ONE: INTRODUCTION

Turnover rentals are a reality, and as the Kampala retail market grows and matures at the rate it is, it can only be a matter of when and not if it will be fully adopted by all landlords, and tenants – Mr. Marc du Toit ‘head of retail Knight Frank, Uganda’

Retail, in general, was buoyant (Knight Frank, 2020) and the sector was anticipating a great year ahead. Then as the world succumbed to the Covid-19 Pandemic, with manufacturing closed, supply chains affected, retailers struggled to get the product on shelves, and stay in business, the restriction of movement and the mandatory quarantine and curfew meant a reduced footfall and sales.

Despite the lifting of most of the restrictions on movement and most retailers allowed to operate, retailers are burdened with accumulated debt that accrued during the lockdown period since most landlords were not willing to completely waive the rent dues except those that have a Force Majeure clause included in their rental agreements. A "force majeure" clause (French for "superior force") is a contract provision that relieves the parties from performing their contractual obligations when certain circumstances beyond their control arise, making performance inadvisable, commercially impracticable, illegal, or impossible. (WorldBank.org, 2021). Force Majeure is not a common law right, and where it is not present in a tenancy agreement, the parties need to discuss a way forward regarding commercial terms, as the rent is payable from a contractual perspective

1.1 BACKGROUND OF THE STUDY

Uganda’s economy remained subdued against the backdrop of strict lockdown measures imposed in March 2020. According to the Uganda Bureau of Statistics (UBOS), GDP growth was recorded at 2.9% for FY 2019/20, largely due to the mitigation strategies that were undertaken to curb the spread of the virus. Growth is further anticipated to remain under pressure until FY 2022/23 due to disruptions to the economy caused by the pandemic. The economic slowdown in 2020 resulted in revenue deficits and an increase in expenditure to deal with health interventions in response to the pandemic and

in an attempt to contain the transmission of the virus. As a result, public debt stock is projected to increase to 49.9% of GDP in FY 2020/2021 from 41.2% in FY 2019/2020. (Knight Frank, 2021)

However, in Q3 2020, different real sector indicators recorded improvements according to the Bank of Uganda. This was largely attributed to easing of the lockdown restrictions which started in June. The month-on-month Composite Index of Economic Activity (CIEA) increased by 5.3% in June and 3.5 % in July, against the backdrop of a 3.0% and 3.6% decline in the months of May and April respectively, indicating an improvement in economic activity relative to the contraction registered in Q2 2020. (Knight Frank, 2021)

The retail activity saw a sharper fall than workplace activity due to the disruptions and extreme restrictive government measures adopted to curb the spread of COVID-19. However, average turnover, footfall, and occupancy recorded significant improvement in the second half of the year 2020, demonstrating the sector's resilience and increased demand for formal retail in Uganda. Several landlords considered incentives for their tenants and reviewed lease agreements in order to attract new tenants, and retain existing ones. Some of the incentives included; rent reductions for a specified time frame especially for the months during and after the lockdown, deferred payments, and rent-free months to tenants on a case-by-case basis, among others such as purely turnover-based rentals. (Knight Frank, 2021)

The pandemic saw an economic and financial strain on both landlords and tenants and thus the need to adopt new alternative methods of charging rent. The old rent model of upward only leases seemed inapplicable given that the tenants were constrained by an '*a superior force*' and thus could not meet their rent obligations. The turnover rent model is slowly being adopted as an alternative since this model relies on the sales or level of business by the tenant. This therefore means that in scenarios such as a pandemic, the tenant is guided against unfair rent charges for periods where they were not operating. The landlord also has a guaranteed financial relief since most models require a base rent usually at 80% of the market rent.

A turnover rent model is a fairly new concept in the Ugandan retail industry and this research is aimed at assessing how viable this model is in an economy like Uganda. This type of model requires a proper and standard accounting system by retailers and landlords/property managers in order to properly execute it. In this research proposal, I reference past literature written on the turn-over rent model and relate it to the Ugandan market. I also outline some of the possible problems we could face with its execution and give recommendations basing on both the subjective and objective analysis carried out after analysing the data collected from the case study.

1.2 PROBLEM STATEMENT

The current and most predominant lease model is an upward-only lease, this involves periodic reviews that either keep the rent constant or increase it. This type of rent sometimes is usually unfair as we have seen with the covid 19 pandemic that devastated retail traders and landlords alike.

However, the turnover rent model is considerate of the fluctuating business environment since rent is dependent on sales/turnover of the business, unlike the upward-only lease.

1.3 RESEARCH OBJECTIVES

1.3.1 Main Objective

To assess the viability of the turnover rent model in the post covid era of Uganda with a case study of shopping malls within Kampala central division

1.3.2 Specific objectives

1. To investigate the acceptability of the turnover rent model among the tenants and landlords.
2. To find the relationship between the effects of the covid-19 lockdown and the acceptability of the turnover rent model
3. To identify what possible challenges would be faced with this model.
4. To establish how the turnover rent model would affect the landlord-tenant relations.

1.4 RESEARCH QUESTIONS

- i. What is the current rent model?

- ii. What are the tenant's views on turnover rent?
- iii. What is the landlord's view on turnover rent?
- iv. How shall the turnover rent model be executed?
- v. What challenges might the tenant and landlord face with this model?

1.5 SIGNIFICANCE OF THE STUDY

The study hopes to suggest an alternative to the upward-only lease model giving landlords a possibility of actually collecting more in times of economic prosperity. The study hopes to provide a deeper insight into what turnover rent is and how it can be executed. The information and data collected by this study can be used as a reference to future studies along the area of turnover rent.

1.6 JUSTIFICATION OF THE STUDY

With the changing economic landscape in the world, there is a need for new alternative ways that were previously not being considered. covid 19 has shade light on the prerequisite need of a force majeure contact in any business dealing. The study hopes to elucidate more on the turnover rent alternative as a future solution to force majeure incidences and as a present alternative to the upward only leases.

1.7 SCOPE OF THE STUDY

1.7.1 Geographical scope

The research was be focused on the case study of shopping malls within the Kampala central division. This area has been preferred by the researcher because of convenience and proximity.

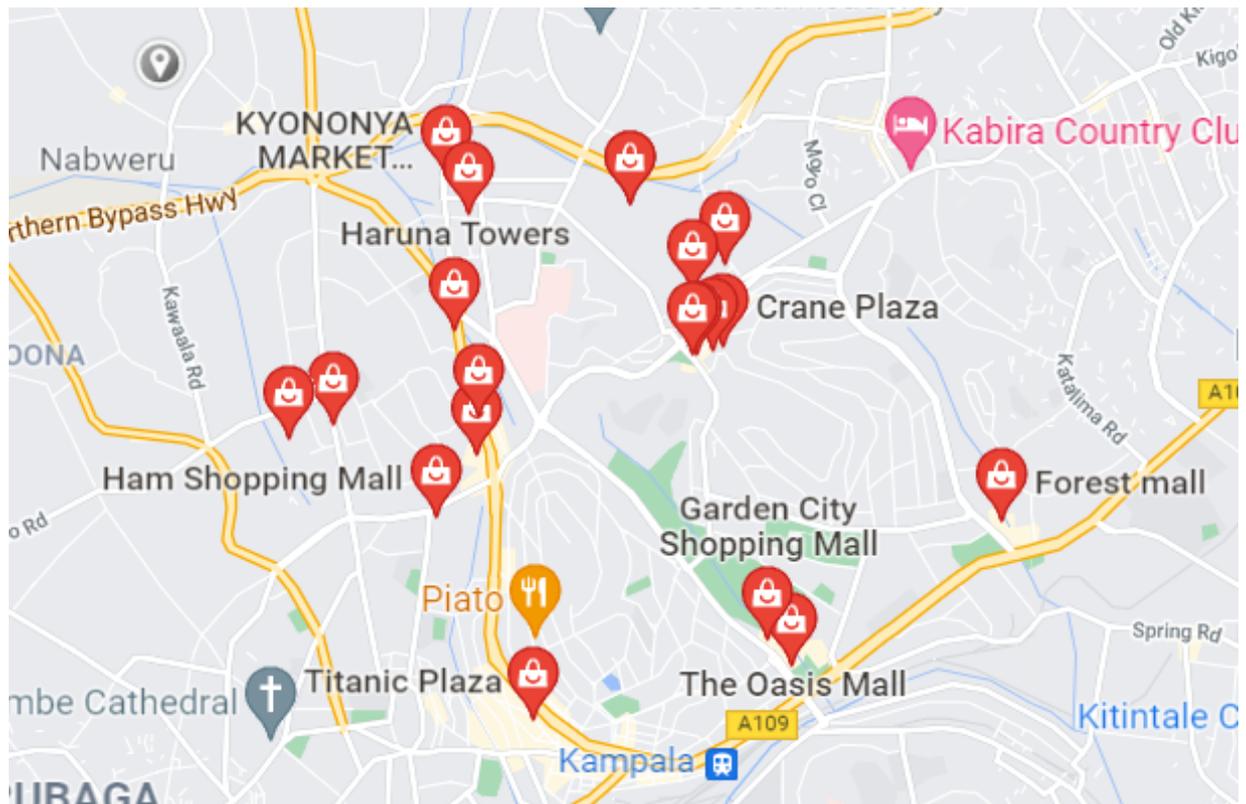


Figure 1source: Google maps

1.7.2 Academic Scope

The study took on the approach of reviewing literature related to the subject topic. From published and unpublished reports, conference papers, textbooks, journals, statute law, and government policy documents

1.8 CONCEPTUAL FRAMEWORK

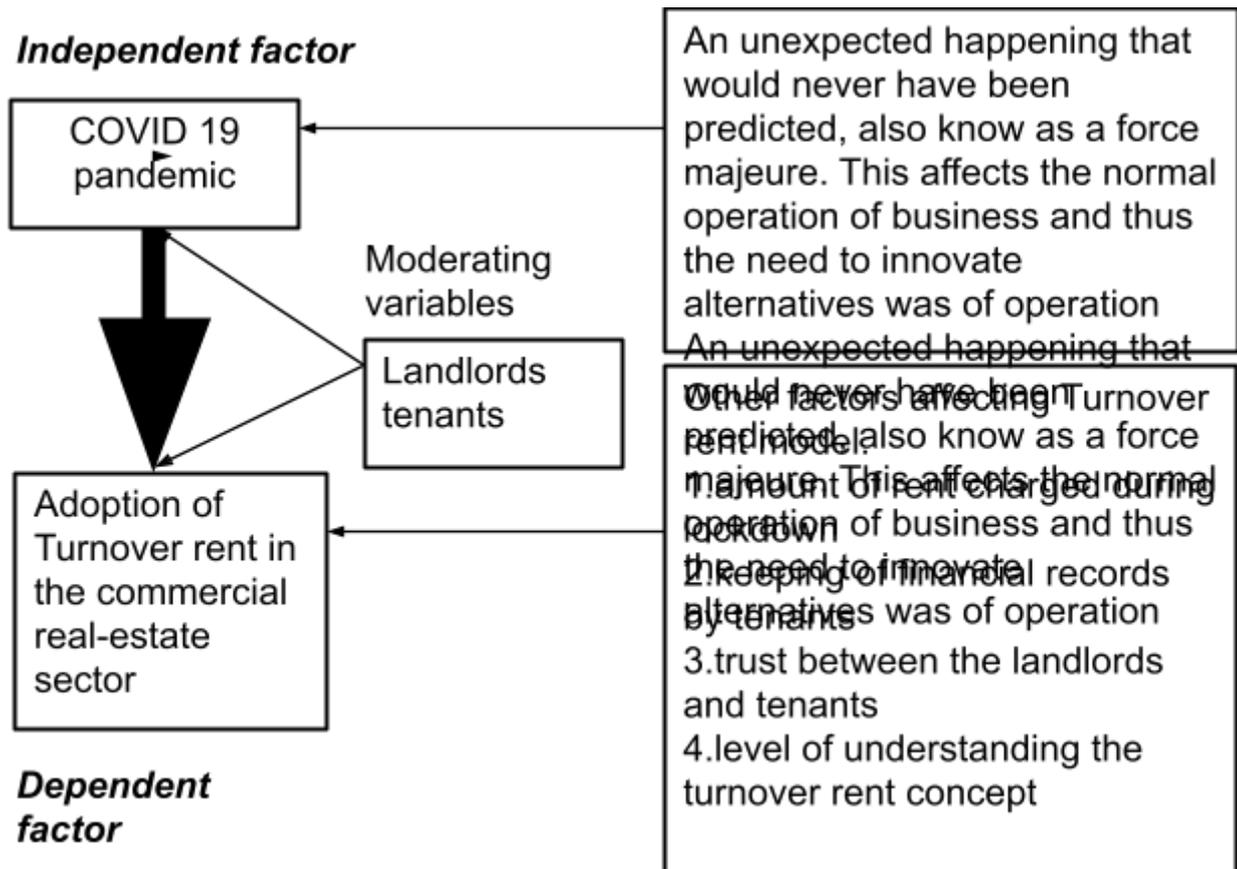


Figure 2 conceptual framework

CHAPTER TWO: LITERATURE REVIEW

2.1 INTRODUCTION

This chapter critically reviews the existing literature on turnover rent models and how it is implemented in more developed economies, the chapter defines and explains turnover rent and its components in greater detail. Most of the literature reviewed in this chapter was cited from studies carried out in Europe and the United States.

2.2 THEORETICAL FRAMEWORK

The theory behind a turnover rent is extremely simple: the tenant pays a lower fixed annual rent, but in exchange, they will also pay to the landlord rent on a certain percentage of their turnover made from the premises above a given threshold. If its turnover exceeds the given threshold, this should therefore be a 'win-win' situation for both parties. The landlord may also use a base rent which is a percentage of the prevailing market rent and this is a safeguard to the landlord and a guarantee that he receives a rent for his property.

2.3 COMMERCIAL REAL ESTATE

The term commercial real estate is a broad term. It refers generally to any non-residential property used for commercial profit-making purposes. Commercial real estate consists of the space market and asset market. The space market is the market for the usage of (or right to use) real property (land and built space). This type of market is also often referred to as the real estate usage market or the rental market. On the demand side of this market are individuals, households, and firms or institutions that want to use space for either consumption or production purposes. For example, a student renting an apartment is using space for housing consumption. A law firm renting an office is using space for production. Both these types of users are on the demand side of the space market. On the supply side of the space market are real estate owners who rent space to tenants. (David M. Geltner, 2007) . The real estate asset market is the market for the ownership of real estate assets. Real estate assets consist of real property, that is, land parcels and the buildings on them. Therefore, this market is often referred to as the

property market. (David M. Geltner, 2007). The main focus of the proposal shall be on the space market.

If real estate makes money, is rented out, is for investments, or falls into a number of other categories other than being residential, it can be considered commercial real estate. (Harris, 2009) The term commercial property (also called investment or income property) refers to buildings or land intended to generate a profit, either from rental income or capital gain.

2.4 THE COMMERCIAL REAL ESTATE CATEGORIES AND SUBCATEGORIES

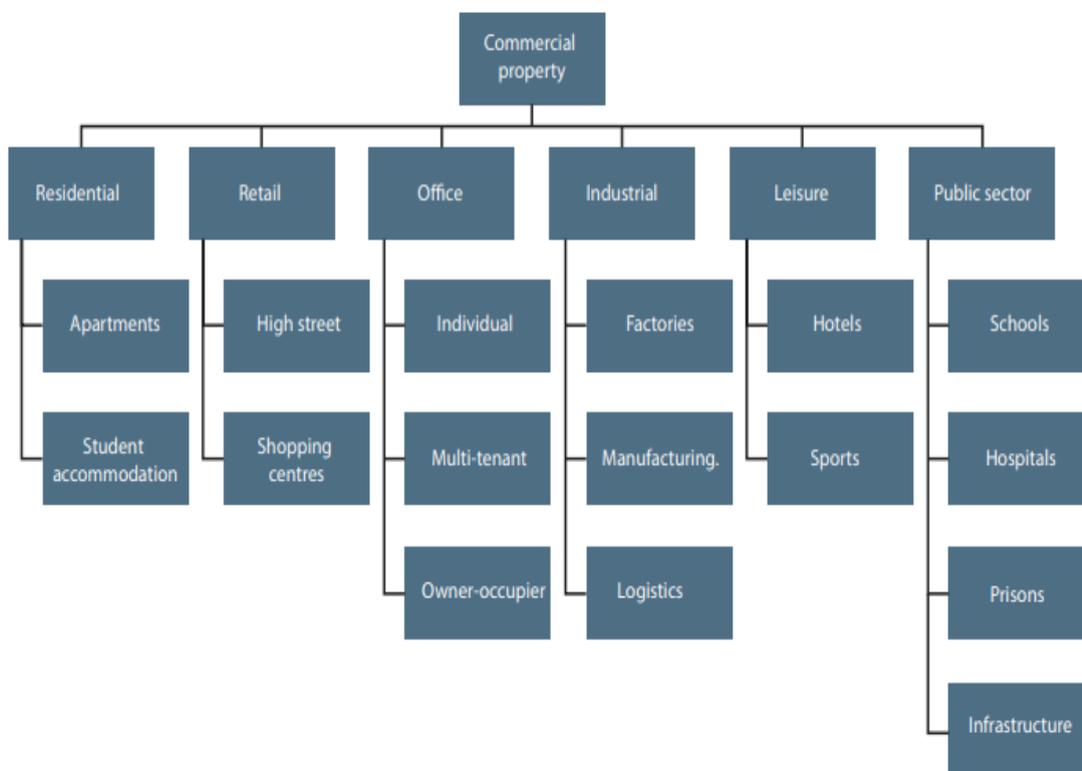


Figure 3 source: (Tagg, 2009)

2.5 RETAIL REAL ESTATE

Retail real estate includes property used to market and sell consumer goods and services. These properties include single-tenant retail buildings, small neighbourhood shopping centers, and shopping malls also considered as power centers with 'anchor tenants. Anchor tenants are those tenants that draw in customers. They are surrounded by small retail tenants who benefit from the presence of anchor tenants. Indoor malls generally have several anchor tenants, which are spread out on the edges of the property.

The anchor tenants are strategically placed on the edges of the mall property to maximize foot traffic in between them, giving smaller tenants a better chance to make sales.

Competing retailers benefit from concentrating under a shopping mall because more consumers visit the mall to economize on search costs. Consumers would also benefit from concentration if retailers cut prices to attract more of the incoming consumers. (Gokhan Guven, 2019)

The most predominant lease type in Uganda's retail sector is the upward-only adjusting lease.

2.6 UPWARD-ONLY LEASES

These involve a 100% base rent with no additional performance metric, usually subject to either stepped increases over the duration of the lease, or to periodic review (ICSC, 2016),

Upward-only contracts specify that tenants will pay a fixed rent for five years, but thereafter will pay a higher rent if the rent on new contracts in the sixth year, the 11th year, and so on is higher. The periodic adjustments are known as rent reviews. (Hendershott, 2002). Rent review refers to the mechanism enabling the adjustment of rent payable for commercial premises to the current market level at the review date (RICS, 2021). Rent review enables the rent payable under a lease to be varied at intervals during the course of that lease.

The value of the lease at origination is the present value of the guaranteed initial rent over the entire life of the lease plus the value of the options on additional rent owing to expected inflation, and the value of the 'pure' option on additional future rents. (Hendershott, 2002).

However, due to the effects of the pandemic, an upward-only lease model is rendered ineffective and obsolete considering the advanced effects of Covid 19 on the economies of countries across the world. The turnover rent is seen as a possible viable option to the upward-only leases.

2.7 TURNOVER OR PERCENTAGE LEASE

A turnover lease is any lease where the rent payable for a term is dependent on a fraction of the store's turnover. In (Hamilton, 2007) Turnover rent is defined as the term used to describe rent payments which are calculated by adopting an agreed percentage of the retailer's gross sales turnover.

Turnover rent can be paid either monthly in arrears, based upon actual sales turnover, or monthly in advance based upon the estimated sales turnover, with periodic reconciliations based upon actual sales turnover. (Hamilton, 2007)

Gross turnover means the aggregate of all sums of money or other consideration received or receivable for all goods sold or otherwise disposed of and for all services sold or performed and from all business of any nature whatever conducted at in from or upon the Premises or any part of the Premises by the Tenant during the relevant Turnover Period. (Society of Chartered Surveyors Ireland, 2020)

“Account Records” means all books and other documents or records which are or ought in the reasonable opinion of the Landlord to be kept by the Tenant for the purpose of ascertaining and verifying the Gross Turnover or which are or may in the reasonable opinion of the Landlord be relevant for such purpose, including the results of electronic interfacing which may be installed on the Tenant's cash register; (Society of Chartered Surveyors Ireland, 2020)

“Broken Turnover Period” means the period from the last anniversary of the Rent Commencement Date within the Term to the expiry or sooner determination of the Term;

Gross Turnover may or may not take into consideration the following: -

- a) All amounts received or receivable from orders which originated or are received or accepted at or from the Premises notwithstanding that delivery or performance is made at or from any place other than the Premises and notwithstanding that payment is made to a person other than the Tenant;
- b) All amounts received or receivable from orders solicited off the Premises by persons operating from or reporting to the Premises;

- c) All amounts received or receivable from sales made or services provided by means of mechanical or vending devices at the Premises;
- d) All amounts received or receivable from sales and services which the Tenant in the normal and customary course of the Tenants operations would or should credit or attribute to the Tenant's business on the Premises;
- e) All grants' subsidies and fees of a revenue nature paid to the Tenant by national or local government or any public authority in consideration of or to defray in whole or part the cost of the supply of goods or services at or from the Premises but only to the extent that such grants, subsidies, and fees actually defray costs, and provided that such grants, subsidies, and fees are directly related to the supply of the actual goods and services being sold or supplied by the Tenant.
- f) All amounts received from or receivable from the mail, telephone, or similar orders received or fulfilled at or from the Premises.
- g) The value of all gift vouchers redeemed from the Premises.

PROVIDED THAT:

- I. every sale on credit terms or on an instalment basis shall be deemed to be a sale for the full cash price at the date when the same is made irrespective of the time or times at which the Tenant receives payment;
- II. every hiring of goods to a customer with an option to purchase shall be deemed to be a sale of the goods for the full cash price at the date when the hiring is made (irrespective of the time or times at which the Tenant receives payment) and there shall be excluded from Gross Turnover any hiring charges in respect of such hiring;
- III. every deposit by a customer shall be included in the Gross Turnover at the time of receipt and shall only be deducted from Gross Turnover if and when repaid or credited.

The following amounts shall not be included in the Gross Turnover or if included shall be deducted: -

- A. VAT, purchase tax, and any similar sales or excise tax imposed directly on the Tenant or charged by the Tenant to its customers in respect of the supply of goods or services;
- B. discounts customarily allowed to employees of the Tenant in respect of goods or services supplied to them by the Tenant;
- C. the amount reasonably and properly allowed on goods traded in by customers in the ordinary course of business;
- D. the amount of any cash refund or credit given to a customer when goods are returned provided that such cash refund or credit does not exceed the sale price of the goods included in the Gross Turnover;
- E. the sale price of goods returned by customers for the exchange provided that: -
 - i. such sale price has been included in the Gross Turnover; and
 - ii. the sale price of the goods given in exchange is included in the Gross Turnover
- F. allowances or refunds made in respect of defective or unsatisfactory goods or services provided that such allowances or refunds shall not exceed the sale price of the goods or the charge for the services included in the Gross Turnover;
- G. the value of goods transferred whether by way of exchange or otherwise from the Premises to other premises of the Tenant provided that such transfer is not made for the purpose of consummating a sale which has been made at in or from the Premises nor deprives the Landlord of the benefit of a sale which would otherwise have been made at in or from the Premises;
- H. the value of goods returned to shippers' wholesalers or manufacturers;
- I. tips or gratuities;
- J. the value of all gift vouchers sold from the Premises (but not their redemption);
- K. the price or the value of promotional items sold or given away whether wholly or in part and whether or not for charitable purposes;
- L. The value of or payment received for tailoring or alterations to merchandise (whether or not charged for as part of a free service to customers).

M. Interest charges, credit account services, or other such charges.

“Tenant” means the Tenant and any licensee franchisee or concessionaire of the Tenant and any other person in occupation of the Premises or any part of it but not, for the avoidance of doubt, assignees or sub-tenants;

“Turnover Period” means each period of one year commencing on the Rent Commencement Date and the Broken Turnover Period;

2.8 BASIS OF TURNOVER RENT/CALCULATION OF TURNOVER RENT

There are a number of ways in which rents with a turnover element can be structured. The most frequently used and best practice would be as follows: -

- 1) Pure Turnover Rent: x % of Sales
- 2) OMV plus Turnover Rent Top Up
- 3) Base Rent (% OMV) plus Turnover Rent (flat percentage or stepped percentage)
- 4) Base Rent plus Turnover Rent between varying thresholds

Note: OMV stands for open market value

All of the above can be exclusive or inclusive of other costs which may be included in the rent. The vast majority of turnover percentages are exclusive of VAT.

2.8.1 Pure Turnover Rent

Here, the rent paid is dependent on the turnover that the store achieves with no minimum base rent guaranteed for the landlord (ICSC, 2016). As shown in the scenarios below.

Table 1 Table showing calculation of pure turnover rent

pure turnover rent			
scenario	1	2	3
Market Rent			£ 100,000

	£	£	£
Sales	1,500,000	1,000,000	500,000
Base rent @% of the market rent	-	-	-
turnover rent @ 9% of the sales	135,000	90,000	45,000

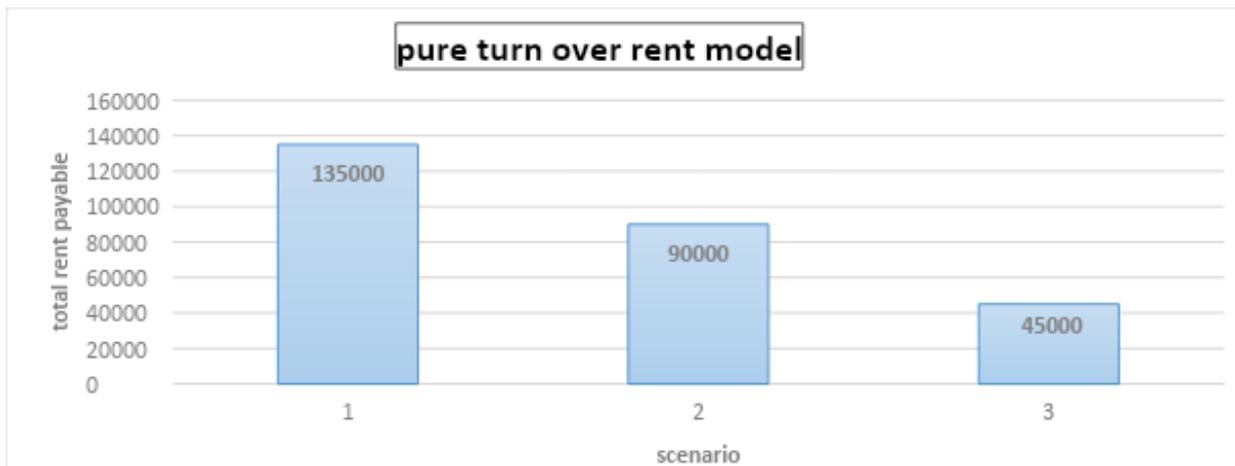


Figure 4 Pure Turnover Rent Model

2.8.2 MV plus Turnover Rent

The agreed Open Market Rental Value is applied to the property/unit with an additional agreed percentage of the turnover to be charged quarterly or yearly in arrears should the turnover exceed a stated cap.

Table 2 table showing the calculation of base rent plus turnover rent model

base rent plus turnover rent model			
scenario	1	2	3
Market Rent			£ 100,000
Sales	£ 1,500,000	£ 1,000,000	£ 500,000

Base rent @100% of the market rent	£ 100,000	£ 100,000	£ 100,000
sales threshold (cap)	£ 1,000,000	£ 1,000,000	£ 1,000,000
sales above the cap	£ 500,000	£ -	-£ 500,000
turnover rent @2% of the sales excess	£ 10,000.00	£ -	£ -

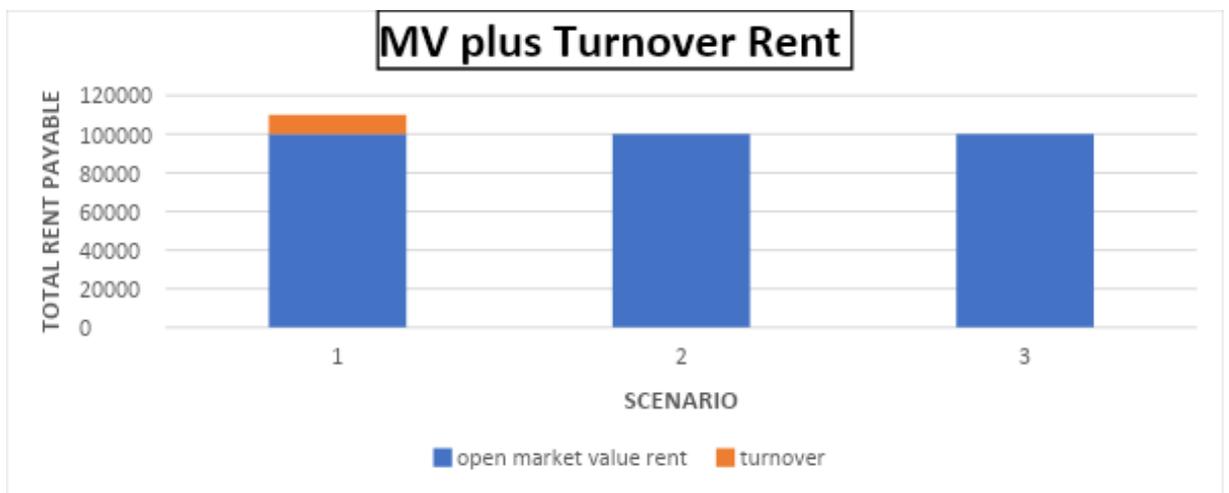


Figure 5 MV plus Turnover Rent model

2.8.3 Base Rent plus Turnover Rent

Base rent is agreed on the premises. This rent is paid quarterly or monthly in advance and is topped up by an agreed percentage of the turnover quarterly or yearly in arrears. The base rent can either be a fixed figure or a percentage of the agreed Open Market Rent on the unit as shown in the scenarios below

Table 3 Table showing the calculation of base rent plus turnover rent model

base rent plus turnover rent model			
scenario	1	2	3
Market Rent			£ 100,000
Sales	£ 1,500,000	£ 1,000,000	£ 500,000
Base rent @80% of the market rent	£ 80,000	£ 80,000	£ 80,000
turnover rent @ 3% of the sales	£ 45,000	£ 30,000	£ 15,000

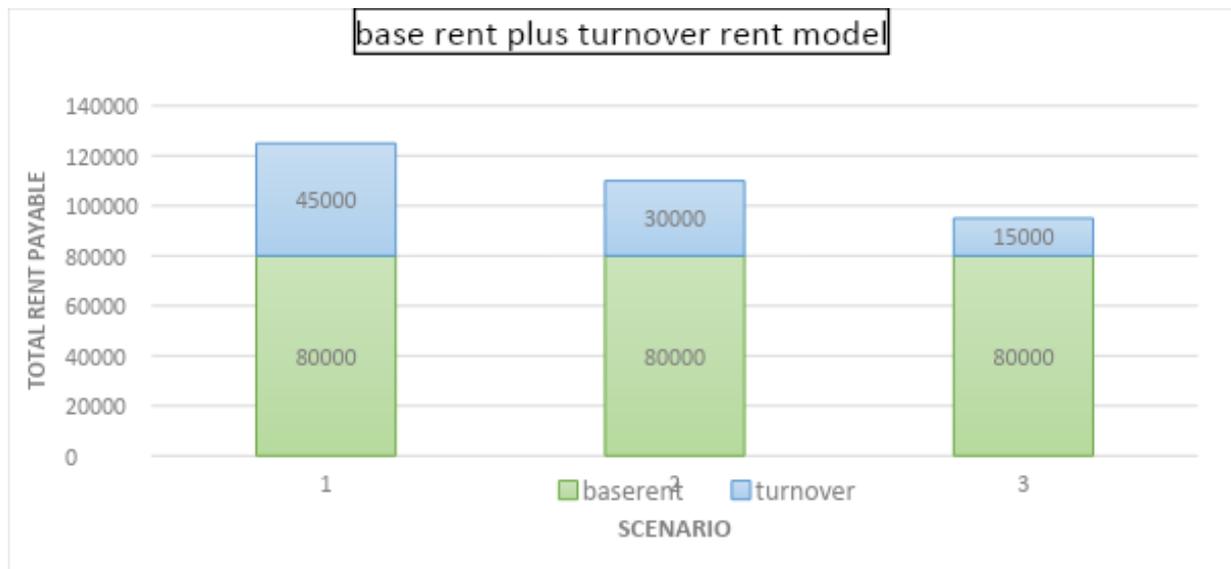


Figure 5 base rent plus turnover rent model

2.8.4 Base Rent plus Turnover Rent between varying thresholds

The Open Market Rental Value of the property/unit is established and reduced to a certain agreed percentage (usually not below 60% but this figure may vary)) once the

turnover exceeds an agreed level. Parties are also free to agree on turnover floors and ceilings before which and after which no turnover rent is paid or applies

2.9 ADVANTAGES OF THE TURNOVER RENT MODEL

2.9.1 To landlords/property managers

- a) In a slow market, it may help with the letting of a vacant property/unit
- b) Allows for pro-active management of the tenant mix in any scheme
- c) access to the in-store turnover information which can be crucial for the management of the shopping mall
- d) Ensures that a landlord is more proactive in marketing/driving footfall – particularly relevant in a shopping centre.
- e) a possibility of higher rent to be received in case the store does better than expected
- f) Any base rent is a fixed rent set at a lower rate than the Open Market Rent and thus the landlord is guaranteed of rent payments
- g) Allows a landlord to assess both his tenant and his centre's performance. Poor turnover figures might not necessarily be the failure of the tenant but maybe a lack of demand or oversupply in that particular sector of the market.

2.9.2 To tenants

- h) Alignment – brings the landlord and tenant working relationship closer. Both are dependent on strong/best results
- i) The tenant has the comfort of knowing that the rent payable is a component of the turnover achieved
- j) Fairness - in terms of the risk it is more equitable; the risk-sharing becomes more equal. Both are dependent on sales
- k) Responsive – rental growth is dependent on the return of the business and therefore more responsive
- l) Performance Orientation – business-led approach, performance, metrics.

m) a lower base rent relieves pressure on the store to perform immediately when first settling in and reduces the damage to the retailer if the business fails to perform as expected

2.10 DISADVANTAGES OF THE TURNOVER RENT MODEL

- a. Uncertainty – funding and valuation issues
- b. Volatility – market conditions/linked to consumer spend
- c. How to deal with periods of closure – refit etc
- d. Cash-flow – frequency, timing on account
- e. Potentially management-intensive – data collection, calculation, analysis, and reporting
- f. Data Reliability – audits, penalties
- g. Accuracy of Information provided – audited /unaudited accounts
- h. Electronic Point of Sale (EPOS) • Difficulty for the first time/start-up business
- i. Reporting Structures – weekly, daily, departmental basis, etc
- j. What is actually captured by turnover/Internet/wholesale sales etc
- k. Cost – Audited accounts may be required on a quarterly basis as against an individual annual audit.
- l. Assignments – Is the turnover provision personal to the tenant or can they assign it? Is there a mechanism for a fixed rent upon assignment? The tenant cannot pass on the benefit of the turnover.
- m. Trust – The landlord may have concerns over whether the tenant is declaring all turnover.

2.11 RESEARCH GAP

There have been multiple studies on the applicability of turnover rent in the post covid era, however none specifically carried out to analyse how applicable it would be in a country like Uganda. the research hopes to critically analyse it applicability in the Kampala with a case study of Kampala central division as a representation of the survey population

CHAPTER 3:RESEARCH METHODOLOGY

3.1 INTRODUCTION

This section lays down the procedures, methods, and techniques that will be employed during the research. It incorporates the study area, research design, survey population, sample size, sampling techniques, how data will be collected, presented, and analysed.

3.2 STUDY AREA

Kampala is the capital and largest city of Uganda. The city proper has a population of 1,680,000 and is divided into the five boroughs of Kampala Central Division, Kawempe Division, Makindye Division, Nakawa Division, and Rubaga Division. (WIKIPEDIA, 2021)

The study area for this research was Kampala central division. Which includes the areas of Nakasero, Kololo, Kamwokya, Kisenyi, old Kampala and Mengo region. (WIKIPEDIA, 2021). This malls for example Acacia mall house anchor tenants such as Absa Bank, MTN, Airtel, Stanbic Bank, and clothing brands such as Woolworths, Adidas, MRP, and Waikiki and franchises such as KFC, shopping chains such as Shoprite, diners, and many more. (theacacimall, 2021)

3.3 METHODOLOGY

This research involved a mixed approach both quantitative and qualitative approaches. A quantitative approach will be used to determine; firstly, the percentage of tenants keep books of accounts, those who prefer the turnover rent model over the upward-only leases and the current adoption rate of turnover rent model in the shopping malls sampled. A qualitative approach will be used to gather the opinions of the tenants and landlords on turnover rent on why they would adopt it and challenges they foresee with this kind of rent model.

3.4 RESEARCH DESIGN

This research was exploratory in design since it seeks to ascertain the possible adsorption of the turnover rent model in the post covid era as an alternative to the upward-only leases.

3.5 POPULATION AND SAMPLING

This section describes the target population, and sampling techniques used and any issues related to the population and sampling techniques.

3.5.1 SURVEY POPULATION

The survey population of this study consisted of the property managers/landlords and the tenants of all shopping malls within and around the outskirts of the Central Business District

of Kampala. The researcher observed that shopping malls have high-end business with proper financial records that would allow for a turnover rent model to be considered, shopping malls management also allows for a direct landlord/property manager - tenant relations and eliminates multiple middlemen. This is ideal for proper turnover rent negotiations between the parties.

3.5.2 SAMPLE DESIGN

A case study of shopping malls with in Kampala central division was used. There tenants and property manager was used as a representation of the survey population. The tenants and property managers were essential participants during collecting the of the data. The researcher used judgement sampling for ten shopping malls in Kampala central division. Below is the sample population used by the researcher.

Mall name	property managers
Acacia mall	Knight Frank
Garden city	Golf course Holdings
Forest mall	old Stanley hotel group
Kingdom Kampala	Crane management Services
Oasis mall	inhouse
Aponye City mall	inhouse
Ham Towers	ham property services and management
Lugogo	Knight Frank
ham shopping grounds	ham property services and management
Village Mall	Knight Frank

Table 4 Malls selected for the case study

3.5.3 SAMPLE SIZE

The sample included 100 respondents from 10 shopping malls and their respective property managers in Kampala central Division as shown in the table below.

Respondents	Expected Number
Tenants	60
Total	60

Table 5 Distribution of respondents in the sample

3.5.4 SAMPLING PROCEDURE

This study used stratified sampling, random sampling and convenience of tenants to participate in the study. Stratified sampling was used to select tenants to participate in the study. Stratified sampling is a probability sampling technique wherein the researcher divides the entire population into different subgroups or strata, then randomly selects the final subjects proportionally from the different strata. Random sampling was used to select participants from each sub-group based on convenience, business type and readiness to participate in the Research.

3.6 DATA SOURCES, METHODS, AND COLLECTION TOOLS

3.6.1 Secondary Data

This kind of data was collected from various textbooks, newspapers, articles, and research journals with vital information on this very topic. This helped the researcher know the issues pertaining to the topic so as to make informed judgments about the subject matter while going about the research, analysis, and compilation of information

3.6.2 Primary Data

This covers the forms of data collection while on the field. The researcher used the following methods

1. observation guides

This involved the researcher personally getting involved in making critical observations and noting down the data. The researcher personally notes down some of the details while at the shopping mall such as the brand's house, the occupancy levels, name of the property among others so as to ensure that the property qualifies to be included in the representative sample. this will help while verifying with the respondent's information

2. face to face interviews

An interview guide was used by the researcher to ask questions to the respondents and the responses carefully recorded down on paper or whatever devices the researcher may wish to use.

Face to face interviews were self-administered and targeted to the:-

Property managers

The researcher questioned the property managers with the aid of an interview guide and carefully recorded his findings.

3. Questionnaires

The questionnaires are designed in such a way that the researcher can ask selected respondents and fill in the questionnaires on their behalf especially for those who might not be able to comprehend the correct answer to the questions asked. This also involves the translation of the questions from English to the respondents' preferred local language so as the researcher does not draw out separate interview forms.

Detailed and well-designed questionnaires were issued to the respondents for the necessary information relating to the research. The information collected will strictly be kept confidential and for use by the researcher for the analysis and assessments to come up with a conclusion.

The questions were arranged in a logical sequence to address the research objectives. The questionnaires consisted of both open-ended questions which aim to get the respondent's view on the topic. Open-ended questions are included so as to encourage respondents to freely formulate their answers in a manner they consider most appropriate, in their own way, and in their own words. Close-ended questions will also be used for binary options questions and questions that involve getting the scale or magnitude of the research's view. Close-ended questions help to minimize the response time since the answers are fixed and only require making a choice (by ticking or sampling) rather than thinking of a response.

The questionnaires will be self-administered and targeted to the: -

Tenants

The questionnaires were online and the researcher asked the tenants the questions while he filled in the responses on the online platform. Google Forms was used to generate the questions since it also contains an easy-to-use analysis tool, the researcher found this method easy and fast means of collecting the responses. This also saved the researcher printing costs and thus an environmentally friendly technique.

3.7 DATA COLLECTION MATRIX

Table 6 Data collection Matrix Table

Research question	Specific information needed	Source of information	Data collection tool
What is the current rent model	How is rent negotiated	Tenants and property managers	Interview
	How is rent determined		
What are the tenants view on turnover rent	How well do tenants understand the turnover rent model	Tenants	Questionnaire and interview
	What are their opinions on the model		
What are the property managers' view on turnover rent	How well do they understand turnover rent	property managers	Questionnaire and interview
	What are their opinions on turnover rent		
How shall the turnover rent model be executed	Are there the tools in place to execute the turnover rent model	property managers and tenants	Questionnaire and interview
	Do the tenants keep sales records		
	Is there honest reporting of sales		
what challenges might the tenants and landlords face with this model	what are the obstacles to the execution of this model	property managers and tenants	questionnaire and interview
	do landlords and tenants trust each other		

3.8 VALIDITY AND RELIABILITY OF INSTRUMENTS

1. Questionnaires will first be tested on at least three respondents to check if the questions are understood and the responses given are according to the researcher's specific objectives.
2. Structured questionnaires and interview guides will be used in interviewing key informants or respondents so as to maintain consistency of different responses in relation to the specific objectives of the research.

3.9 DATA PROCESSING, PRESENTATION AND ANALYSIS

The response rate for each item in the questionnaire obtained from the sample population was tabulated and results obtained from the interviews were also be collected and tabulated. Data was be properly organized and entered using Microsoft Excel, google sheets, R-Studio and strata and then interpreted accordingly.

In the interpretation of the data, both descriptive statistics was used. For the descriptive statistics, data was summarized using frequency tables, bar graphs, measures such as mean, median, range and Shapiro test for normality were used for closed ended questions. Pearson correlation test and Pearson chi-squared test was used to test for correlation of non-categorical data. The open-ended questions were analysed by interpreting responses and coming up with valid analyses depicting the respondents' ideas

3.10 ETHICAL CONSIDERATIONS

According to Bryman and Bell (2007), protection of the privacy of research participants has to be ensured as well as any type of communication in relation to the research should be done with honesty and transparency (Bryman, 2007). Therefore, information to be released to the researcher will be treated with confidentiality and used for academic purposes only. Research will also be based on participants freely volunteered informed consent and therefore it will be role of the researcher to explain fully and meaningfully what the research is about and how it will be disseminated. Respondents will be made aware of their right to refuse to participate; understand the extent to which confidentiality will be maintained; be aware of the potential uses to which the data might be put; and in some cases, be reminded of their right to re-negotiate consent. Anonymity by the respondents will be observed and thus the researcher will ensure that only the respondent knows that he or she participated in the survey. This will be possible through removing face sheets containing identifiers e.g., names, addresses from the data collection instruments. And lastly, for any other similar studies done by other researchers, the research will avoid plagiarism through to some extent paraphrasing, and also the researcher will use his/her thoughts or statements for a situation where studies have been published in the different sources

3.11 RESEARCH LIMITATIONS

1. The researcher encountered a problem of respondents withholding information due to lack of trust in the researcher.

2. The researcher faced a bureaucratic problem within these property managers and tenants delayed the process of data collection
3. Time limitations to collect the data due to the adverse effects of covid-19 that cause a delay in the research period. The data collection also collided with the festive season and thus most respondents were unavailable to participate in the research.
4. Complacency of the expected respondents to participate in the research as they are busy or not interested.
5. Organizational policies that limit the amount of information to be shared with the researcher.

CHAPTER FOUR: RESEARCH FINDINGS, INTERPRETATION AND DISCUSSION

4.1 INTRODUCTION

This chapter lays down the findings of the study, data presentation interpretation of the collected data and the analysis to give the implication of the findings with regard to the objectives of the research. All the data that was used in this study was collected by use of questionnaires, observation and face to face interviews as well as secondary sources on the research topic. Questionnaires were used to data from the tenants while face to face interviews was used on the property managers and thus most of the findings of this research rely heavily on the information provided by these respondents.

respondents	expecte d	actualize d	percentage
tenants	80	67	83.75%
landlords	7	5	71.43%
total	87	72	77.59%

Table 7 the response rate of questionnaires and interviews by the respondents

4.2 RESULTS AND DISCUSSIONS

This section presents the analysis of the research findings. The quantative and qualitative analysis by the research and the interpretations made.

4.2.1 CURRENT RENT MODEL

From the research, the most prevalent rent model is quarterly in advance. This model requires that tenants pay for three months upfront. This model was being used by all the property managers that participated in the research. It's also worth noting that knight Frank was in the early steps of the adoption of the turnover rent models and its most recent contracts had a turnover clause attached for those interested in this model.

4.2.2 EXTENT TO WHICH TENANTS UNDERSTAND THE CONCEPT OF TURNOVER RENT

Extent to which tenants understand the concept of turnover rent affects their adoption of the model, the histogram shows the frequency and scale to which the respondents understand the concept of the turnover rent model

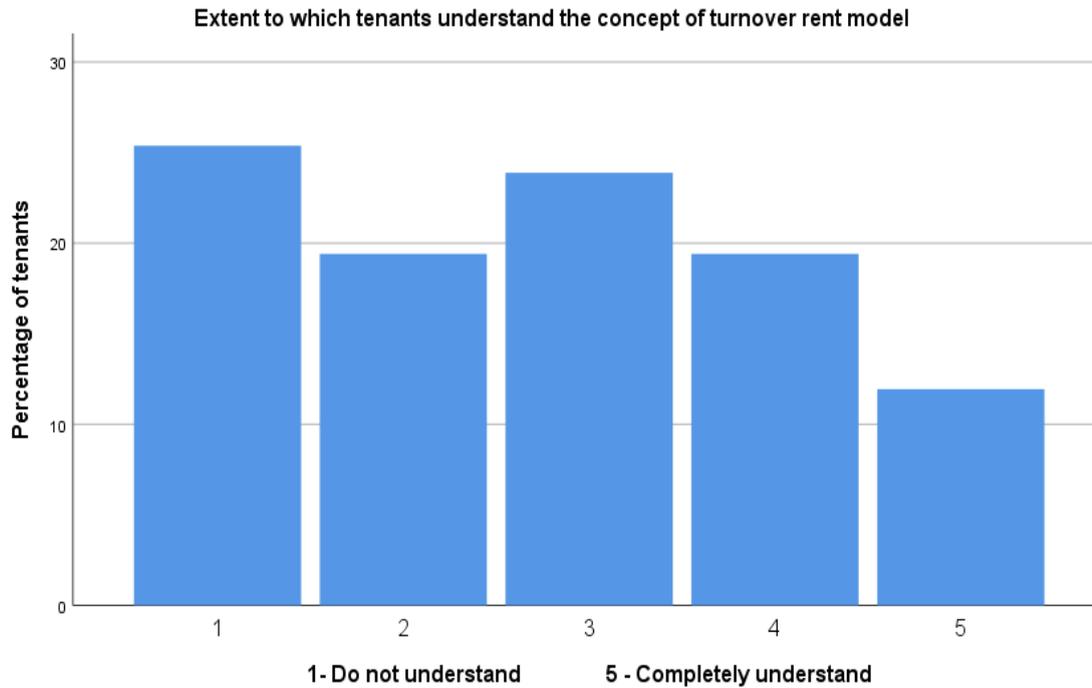


Figure 6 Extent to which tenants understand the concept of turnover rent

4.2.3 FINANCIAL RECORDS MANAGEMENT BY TENANTS

This refers to the process of stock taking and keeping of financial records/ sales made by the business while in the premises. The turnover rent model relies heavily on the keeping of financial records as this are used to access the due rent to be charged. The research found out that a large proportion of the sample population indeed did keep financial records as shown in the pie chart shown below.

Proportion of tenants that keep accounting records.

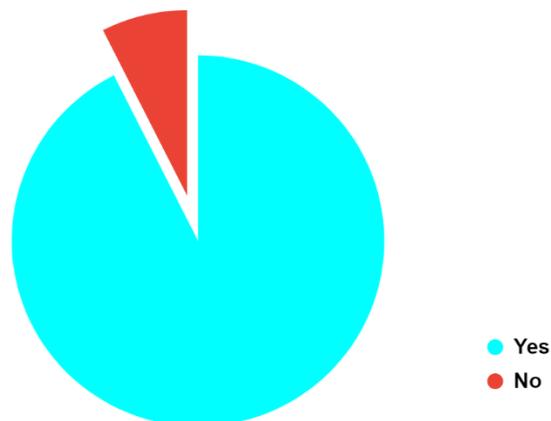


Figure 7 pie chart showing the proportion of those who keep accounting records

4.2.4 PREFERENCE OF TENANTS TO SHARE THEIR FINANCIAL RECORDS WITH PROPERTY MANAGERS

For there to be successful execution of the turnover rent model, the tenants must be willing to freely disclose their financial records with their property managers/ landlords. The research established that most respondents relatively understood the concept of turnover rent as per the scale of 1-10, most selected values between 4-6 as shown by the histograms. The mean value was 4.74 with a standard deviation of 2.24. As per the Shapiro-wilk test for normality, the P-value of 0.04368 does not differ significantly from that which is normally distributed.

Table 8 Shapiro-wilk test for normality parameters

Parameter	Value
P-value	0.04368
W (66)	0.9625
Sample size (n)	66
Average (\bar{x})	4.7424
Median	5
Sample Standard Deviation (S)	2.2416

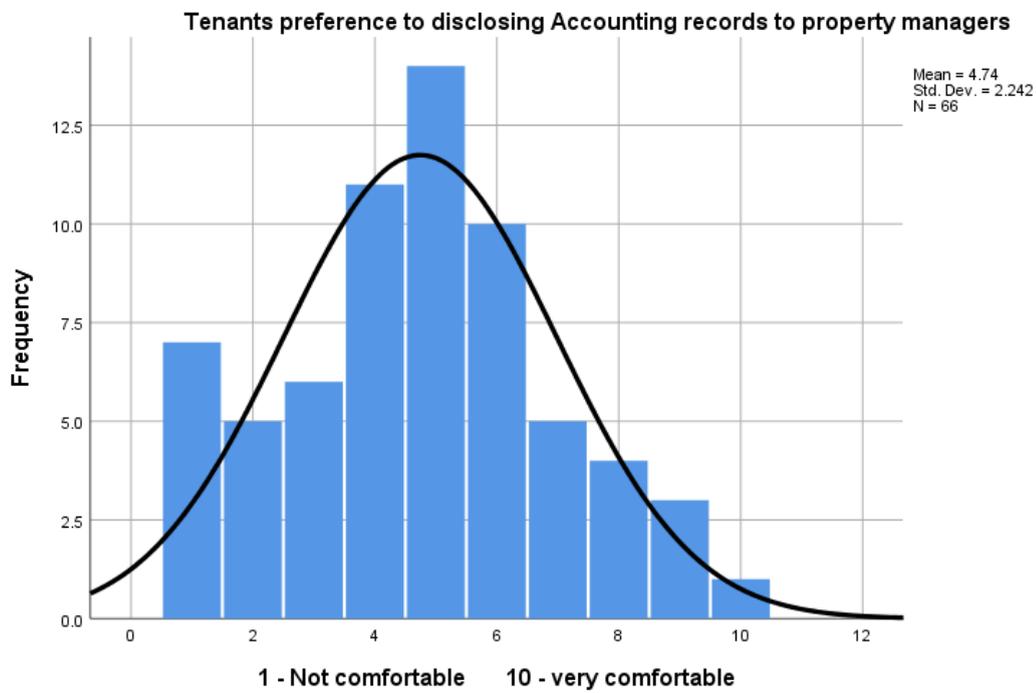


Figure 8 Tenants preference to disclosing their financial records

4.2.5 AMOUNT OF RENT PAID DURING THE LOCK DOWN PERIOD

The research established that most the respondents paid partial rent 58.2%, 4.5% had there rent waived and 37.3% paid full rent as shown in the pie chart bellow

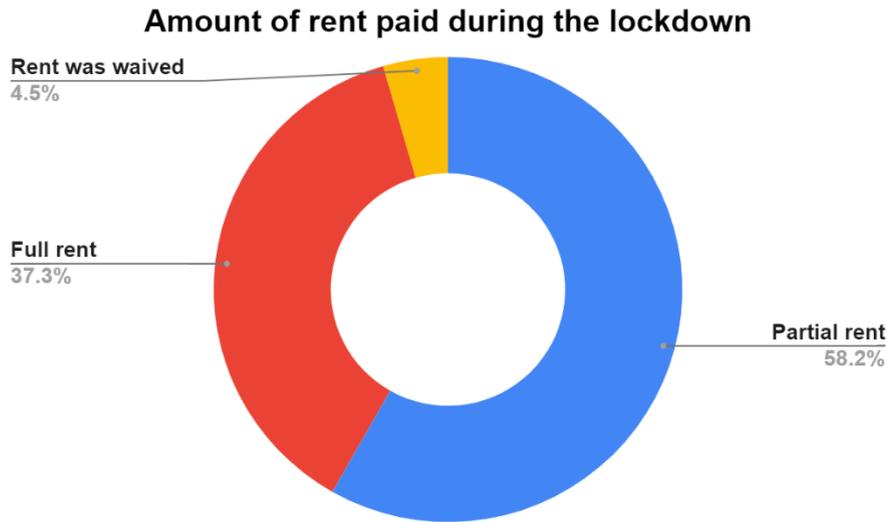


Figure 9 pie chart showing the amount of rent paid during months under lockdown

4.2.6 WILLINGNESS FOR TENANTS TO ADOPT THE TURNOVER RENT MODEL

The willingness for tenants to adopt the turnover rent model is a major determinant of the success of the turnover rent model as it all starts with the tenants. The research carried out found that the greater percentage of respondents would adopt the model the model, while 29.9% state uncertainty and 23.9% where completely unwilling to adopt the model.

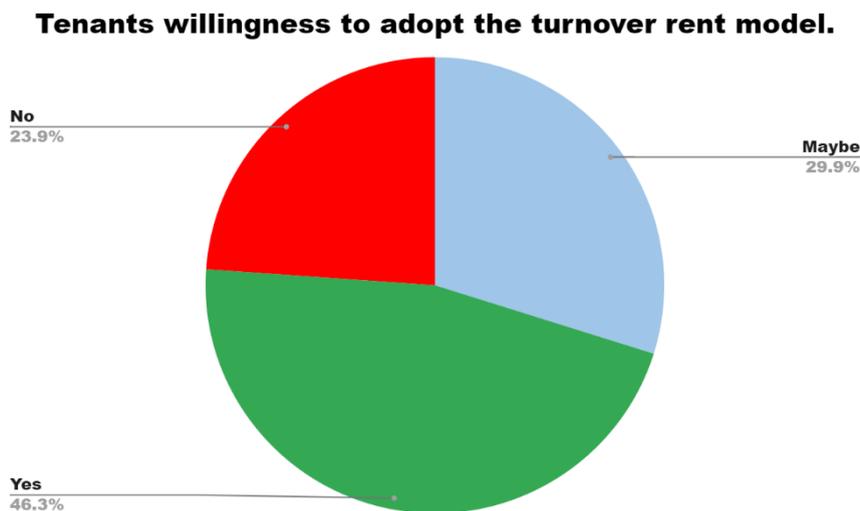


Figure 10 pie chart showing tenants willingness to adopt the turnover rent model

4.2.7 RELATIONSHIP BETWEEN COVID 19 RENT PAYMENTS AND TENANTS LIKELIHOOD TO ADOPT THE TURNOVER RENT MODEL

For the calculation of this, I used pearson correlation coefficient to determine whether the effects of the covid-19 lockdown (rent payments made during the lockdown period) indeed affected and caused the tenants to be more receptive to the adorption of turn over rent. The findings where that adorption of the turnover rent model was indeed affected by the effects of the lockdown to a 38.3% rate.

I also used the chi-squared test to determine the relationship between the two factors, a p-value of 0.032 thus we can conclude that the variables are not independent of each other and there is a stastical relationship between the two categorical variables

```
. correlate turnover_rent rent_paid
(obs=67)
```

	turnover_rent	rent_paid
turnover_rent	1.0000	
rent_paid	0.3828	1.0000

```
. tabulate turnover_rent rent_paid, chi2
```

turnover_rent	rent_paid			Total
	Full	Partial	Waived	
Yes	20	20	0	40
Maybe	3	8	1	12
No	2	11	2	15
Total	25	39	3	67

Pearson chi2(4) = 10.5413 Pr = 0.032

Figure 11 showing the correlation between lockdown rent payments and adoption of turnover rent

4.2.8 ADVANTAGES OF THE TURNOVER RENT MODEL

1. Flexible rent payments

‘I think the model best suits the current times because it's based on how much a business owner is earning. It puts less strain on a business that's struggling to stay afloat due to Unforeseeable circumstances and the landlord enjoys higher rental arrears in times of prosperity.’ One respondent stated.

2. Potential for higher gains to landlords

Landlords identified that the turnover rent model has a great potential to generate higher gains to the landlords in periods of business prosperity

3. Greater involvement of landlords to the success of the business

Tenants identified that this rent model would force landlords to be more involved to the success of the business. “You scratch my back, I scratch yours”. This way landlords will see to it that the business in their premises prosper.

4.2.9 FORECASTED CHALLENGES OF THE TURNOVER RENT

The tenants identified that despite the turnover rent being new in the Ugandan market, they sited that it would have a few challenges which include;

1) Trust between the tenants and the landlords

The tenants identified that the turnover rent model involves the direct involvement of the landlord in the business affairs of the tenant. However, many tenants do not trust the landlord with their accounting records as the landlords could not have their best interest

2) Dishonesty in reporting of financial accounts

Many tenants do not trust that they will honestly report their financial accounts to the tenants as they would be looking at getting reduced top-up chargers on their base rents

3) Fear to agreeing to a bad deal

With less information out there on turnover rent, a few tenants fear to agree to a bad deal with their landlords that would probably cost them more than if they were to pay market rent

4) Completely do not understand the turnover rent model

Some tenants identified that the turnover rent model is too complex to understand and thus would prefer to stick with the current rent model. It should also be noted that many shop owners aren't so literate and thus esoteric concepts of turnover rent would be hard to understand

5) Preference to the current rent model

Many tenants identified that even if the turnover rent model has its advantages, they prefer the current model and wish not to change to the turnover rent model, some even identified that the switching costs of the turnover rent model are too high for example many landlords would require audited books of accounts at the expenses of the tenants. This discourages many tenants from switching on to the turnover rent model.

6) Switching costs

Many landlords identified that the costs of educating the tenants and following them up to make sure they provide audited books of accounts are too high and thus would prefer to stick to the current rent model.

CHAPTER FIVE: CONCLUSION AND RECOMMENDATION

5.1 CONCLUSION

The advance effects of the Covid-19 pandemic saw some malls adopting the turnover rent model. Knight Frank in Uganda has pioneered this move rolling out the model in the malls under its management. The model is being studied closely and I believe the future of this model in Uganda is bright. Which changing technology trends and consumer behavior, its only a matter of time and many other malls will consider the adoption of this model.

The research also identified a correlation between the effects of the covid-19 lockdown under the propensity for tenants to consider the adoption of the turnover rent model.

5.2 RECOMMENDATIONS

Upon consideration of the possible challenges that may be uncounted with the execution of the turnover rent model, below are the recommendations by the research for the proper and efficient execution to the turnover rent model.

1. Proper financial taking and record keeping by the tenants to reflect their actual sales while on the premises.
2. Auditing of financial books of accounts to ensure that the tenants truthfully and justly report their finances
3. Educating of the tenants and landlords about the turnover rent model and how it can be implemented in their premises
4. Confidentiality by landlords to truthfully and honestly never reveal the financial records of their tenants so as to build trust between the landlords and tenants
5. More involvement of the landlords in the day-to-day running of the businesses of the tenants, this can be through diverse marketing of the property by the landlords to increase footfall in their premises which in turn will lead to an increase in sales of the tenants and thus higher turnover rent models
6. Trust building and compliance of the tenants to terms of agreement with the landlord so as to ensure smooth implementation of this model.

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<https://ppp.worldbank.org/public-private-partnership/ppp-overview/practical-tools/checklists-and-risk-matrices/force-majeure-checklist/sample-clauses>

APPENDIX I: PROPOSED BUDGET

Table 9 Proposed Budget

<i>Item</i>	<i>description</i>	<i>quantity</i>	<i>unit cost</i>	<i>amount</i>
Stationery	Ream of paper	2	30,000	60,000
	Notebook	1	5,000	5,000
	Pens	5	1000	5000
Transport	To the shopping malls and movements			100,000
Food	While carrying the survey			100,000
Services	Printing			100,000
	Photocopying			50,000
	Binding			20,000
Communication	Airtime			50,000
Miscellaneous				150,000
Sub total				640,000

APPENDIX II: ACTIVITY SCHEDULE

Table 10 Activity Schedule

Activity Schedule for carrying out the final year project											
ACTIVITY	Months of carrying out research (2021)										
	march	april	may	june	july	august	september	october	november	december	january
topic generation											
approval by supervisor											
proposal writing											
data collection											
data entry and analysis											
submission of draft final report											
final presentation											
report submission											

APPENDIX III: SAMPLE QUESTIONNAIRES



MAKERERE

UNIVERSITY

COLLEGE OF ENGINEERING, ART DESIGN AND TECHNOLOGY

SCHOOL OF BUILT ENVIRONMENT

DEPARTMENT OF CONSTRUCTION MANAGEMENT AND ECONOMICS

Dear respondent,

This questionnaire is presented to you by **Opio Elias Hezron** of Makerere University as a means for collecting data and information required for his research studies towards obtaining a **Bachelor's Degree in Land Economics from Makerere University**,

Your experience and general opinions are vital to explain the issue of

The study is strictly for academic purposes, thus the information you provide will be treated with utmost confidentiality and only used for the research purposes.

Your cooperation and response will be highly appreciated.

Yours truly,

.....

Opio Elias Hezron

BSc Land Economics

Department of Construction Economics and Management

College of Engineering, Design, Art and Technology.

Makerere University, Kampala

Introduction

Turnover rent is a rent model where Rent is charged on the turnover of the business. with changing times and emergence of Covid 19, there has been a need to also re-access the way rent is charged in Uganda. This model is highly dependent on a strong landlord- tenant relationship to increase tenant sales and thus also increase rent collections.

SECTION 1:

PERSONAL DETAILS (tick appropriate box)

1. Age

- 18-25 years
- 26-30 years
- 31-40 years
- Above 40 years

2. Gender

- Male
- Female

3. Level of education

- Tertiary
- Secondary education
- Primary education
- Bachelor's

FOR TENANTS

1. For how long have you been renting space in this mall?

- less than six months
- six months to one year
- more than one year

2. What category best describes the nature of your business/organisation/work?

- shopping mall
- boutique
- restaurant
- cosmetics
- art and culture
- health services
- tourism and hospitality
- media and communication
- pastry/ bakery
- others(specify)

3. Indicate with a tick using the scale below to what extent you understand the meaning of turnover rent.

- completely understand,
- understand,
- I know little about it.
- Do not understand
- I completely do not understand

4. Do you keep accounting records?

- Yes
- No

5. If yes, are you comfortable with disclosing your accounting records with the property manager? (Rate how comfortable you are on a scale of 1-10)

very comfortable 1 2 3 4 5 6 7 8 9 10 not comfortable



6. If not, why?

- I own the business so i trust that i'll manage the finance Appropriately
- I trust my employees will be truthful in report sales
- Its tiresome to keep accounting records
- I don't know how to keep financial records

7. What amount of rent did you pay for the months under lockdown?

- full rent
- partial rent
- rent was waived

8. Would you consider adoption of turnover rent if suggested by the property manager?

- Yes
- Maybe
- No

9. Given that the interviewer has explained turnover rent to you. What possible challenges do you foresee with this kind of model? (Briefly described you answer)

.....

.....

.....

.....

.....

.....

.....

.....

.....

THANKYOU

**APPENDIX III: INTERVIEW GUIDE
FOR PROPERTY MANAGER**

- 1. how long have you been managing the property?**
 - since inception
 - 0 - 1 year
 - 1- 5 years
 - more than 5 years

- 2. what is the current rent model being used on the property? (Briefly describe your answer)**

.....

...

- 3. What amount of rent did your tenants pay for the months under lockdown?**
 - full rent
 - partial rent
 - rent was waived

- 4. How well do you understand the turnover rent model?**
 - completely understand,
 - understand,
 - I know little about it.
 - Do not understand
 - I completely do not understand

- 5. Have you used the turnover rent model before?**
 - currently using it
 - used it previously
 - never used it
 - started using it after the covid-19 lockdown

- 6. If currently using it, describe what kind?**
 - pure turnover rent (in this model, rent is fully dependent on the turnover of the business)

- market rent plus turnover (here, the market rent is charged and beyond a given sales threshold, a turnover rent is charged)
- base rent plus turnover (here, a base rent at a percentage of the market rent is charged and topped up with a percentage of the sales turnover)
- Base Rent plus Turnover Rent between varying thresholds (here, a base rent at a percentage of the market rent is charged and topped up with a percentage of the sales turnover if it exceeds the specified thresholds)
- If other, please describe it?

.....
 ...

7. If currently using turnover rent, what advantages have you noticed with this kind of rent model? (Briefly describe)

.....
 ...

8. What are some of the setbacks you have noticed with the turnover rent model?

.....
 ...

9. What are your views on the adaptability of the model among different property managers in Kampala? (Briefly describe)

.....
 ...

Role of the respondent

signature of the respondent.....

THANK YOU

APPENDIX V: COVER LETTER



MAKERERE

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COLLEGE OF ENGINEERING, ART DESIGN AND TECHNOLOGY

SCHOOL OF BUILT ENVIRONMENT

DEPARTMENT OF CONSTRUCTION MANAGEMENT AND ECONOMICS

15th December 2021

Our Ref: CEM/RK/11/01

To Whom It May Concern

Dear Mr/Ms,

RE: INTRODUCTION OF OPIO ELIAS HEZRON.

I hereby write to you introducing and kindly requesting your institution to render the necessary help to one of our students Mr, **Opio Elias Hezron** Reg. No. **17/U/1026** who is a student of Bachelor of Science in Land Economics at the Department of Construction Economics and Management, School of Built Environment, College of Engineering, Design, Art, and Design.

As part of their curriculum, students in their final year are required to carry out research regarding topics of their own choice. Elias's research is ***"ASSESSING THE VIABILITY OF THE TURNOVER RENT MODEL IN THE RETAIL COMMERCIAL REAL ESTATE OF POST-COVID-19 ERA IN KAMPALA"***

The department will be much obliged for assistance accorded to him to complete his research.

Yours truly

Eng. Dans Naturinda
Coordinator Research & Graduate Programs