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Kampala Market Update H2 2019

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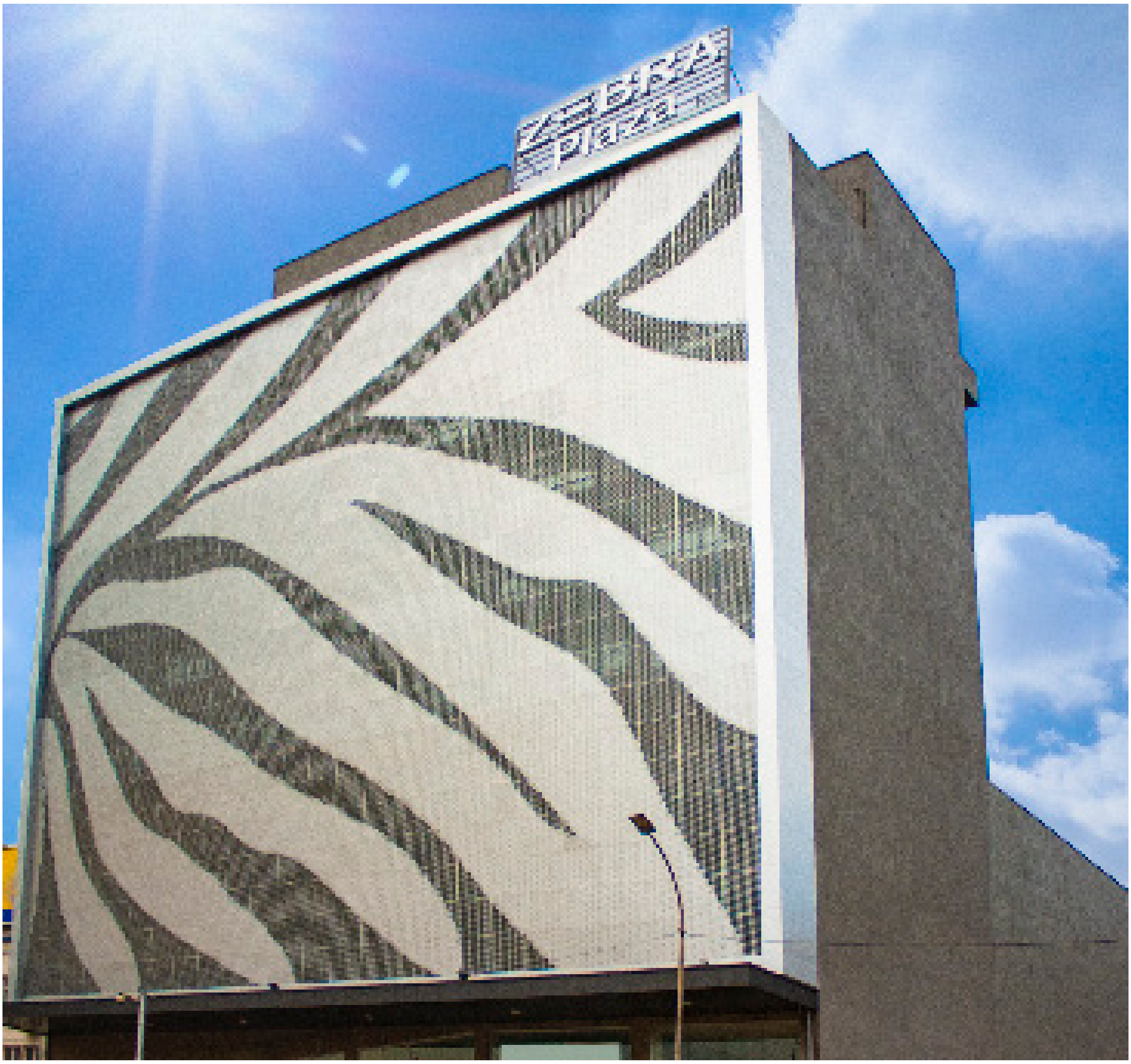
Research, December 2019



The Key Insights

- Inflation increased to 3.0% in November 2019
- The Central Bank Rate reduced to 9% in October 2019
- Residential occupancy rates declined by 9%
- Prime office occupancy rates declined by 3%
- Bank lending instructions to the commercial sector increased by 31%
- Warehousing leasing activity dropped by 50%
- Foot traffic increased by 15.7% at malls that traded Black Friday

Acacia Mall, Cooper Road - Kisementi. Office space available to let

ECONOMIC OVERVIEW

Latest statistics from Uganda Bureau of Statistics (UBOS) reveal that there has been a noticeable improvement in Uganda's economy over the past 12 months evidenced by a 5.4% growth in GDP registered in Q4 of financial year 2018/19 compared to 5% registered for the same period in 2017/18.

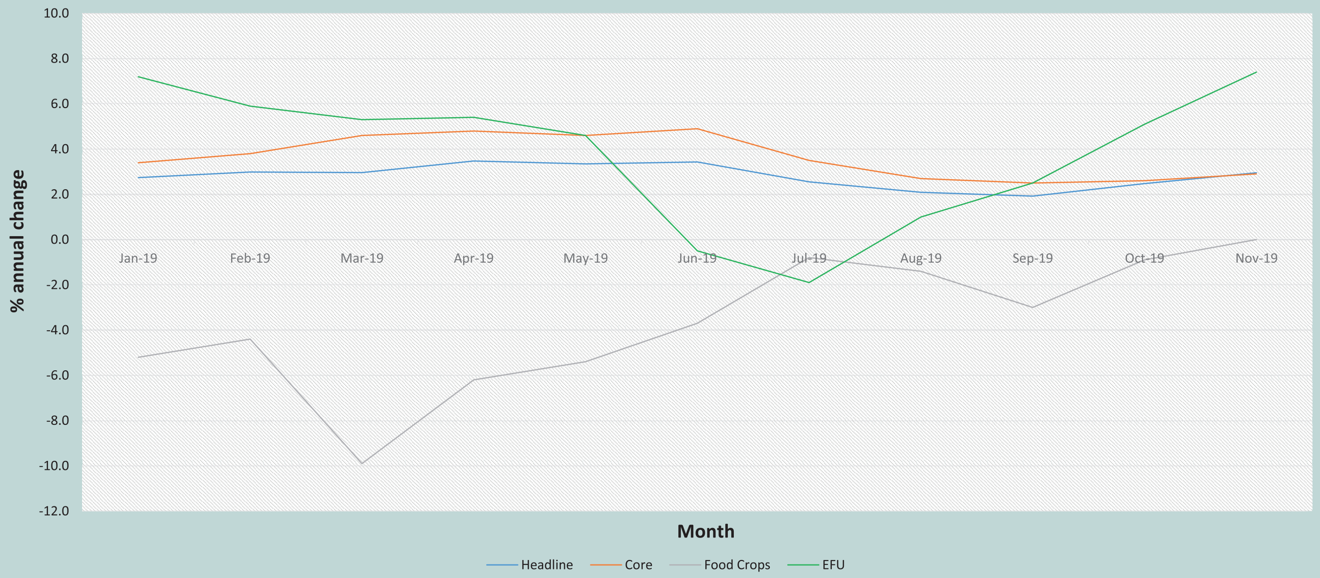
Additionally, the annual headline inflation increased to 3.0% for the year ended November 2019, up from 2.5% registered for the year ended October 2019. The increment was primarily credited to a 2.9% increase in core Inflation for the year ended November 2019, up from 2.6% in the previous month.

Bank of Uganda reduced the Central Bank Rate (CBR) by 1% to 9% in October 2019, a rate that was maintained up to December 2019. This is lower compared to 10% recorded during the same period last year, indicating a year on year lower cost of capital for the last quarter of 2019 vis a vis Q4 2018. Commercial bank interest rates were recorded at a weighted average of 20.32% and 6.85% for UGX and USD denominated loans respectively for the period July-October 2019. Treasury bill yields continued to decline for all tenors in November, 2019, with the average weighted yields on treasury bills for 182-day and 364 day tenors being recorded at 9.82% and 10.36%, down from 11.47% and 11.61% registered in during the same period last year respectively.

On an annual basis, the Uganda Shilling (UGX) appreciated against the United States Dollar (USD) by 1.9% for the period July-November 2019. As at December 10th , 2019, this UGX was trading at a mid-rate of 3,685.42 per USD. The appreciation of the UGX is mainly attributed to increased supply of the US Dollar due seasonal festive holiday remittances from the diaspora.

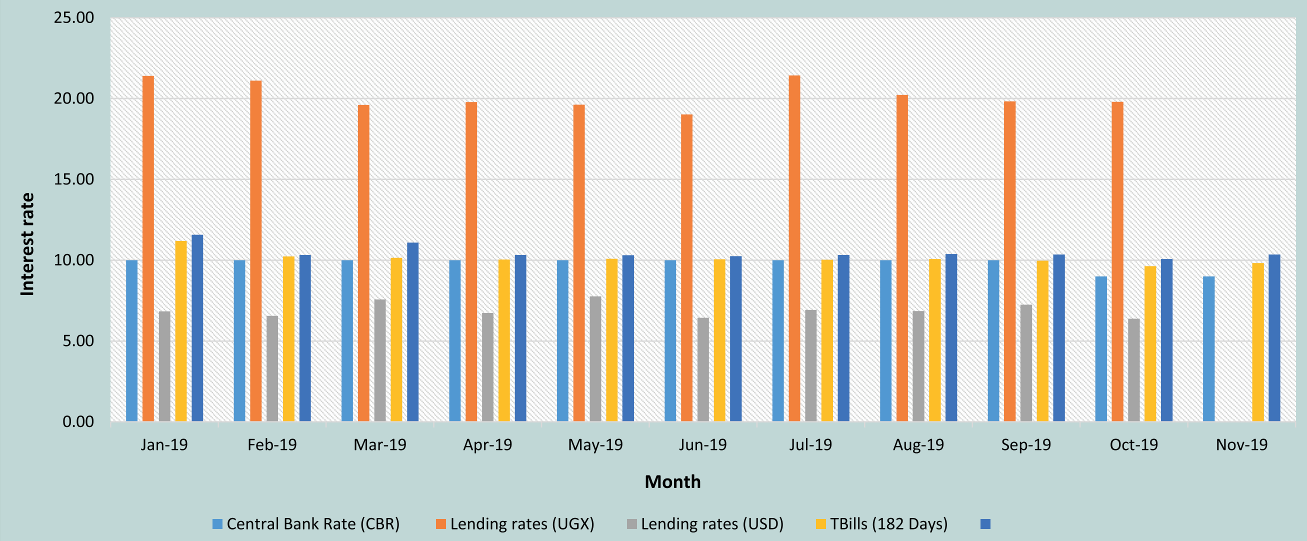
Domestic credit to the private sector extended for mortgages registered a year on year growth of 11.9% during the first three months (July-September) of the current fiscal year (2019/20), with commercial and residential mortgages accounting for 60% and 40% respectively. This annual increment is an indicator of deposit growth leading to increased liquidity and decreased government borrowing from commercial banks.

Figure 1.0: Inflationary rate developments for the period Jan-Nov 2019



Source: Uganda Bureau of Statistics

Figure 2.0: Money market developments for the period Jan-Nov 2019



Source: Bank of Uganda

Residential

The last 12 months have seen an 8.5% year on year increase in supply of apartment units coming onto the market particularly in the prime residential areas of Kololo, Nakasero and Naguru. Knight Frank registered a 9% year on year average decline in occupancy for the same suburbs from 81% recorded in H2 2018 down to 72% registered in H2 2019. The increase in stock has forced some landlords particularly for the newer stock to discount their rents in order to be more competitive, allowing tenants who would have chosen to live in secondary suburbs particularly Muyenga, Mutungo and Ntinda to opt for prime areas.

Overall rental rates have declined by 1.25% on average annually. Additionally, we have registered an increase in enquiries for 2 bed apartment units which expatriates who are single and young couples are showing a preference for. Generally, the variance between asking and achievable rents for apartments in the prime residential sector is widening in response to the increase in supply of private rented accommodation, putting downward pressure on rents. Gross rental yields have remained stable ranging from 7% - 9% for the prime residential

Lubowa Courts, Lubowa. Available for rent.

suburbs, with the highest yields currently being recorded for 2-bed room units.

On the other hand, Knight Frank has not registered any change in the prime residential sales market with sellers and buyers adopting a "wait and see" strategy dependent on the macro-economic conditions and thus leading to stagnation of absorption rates of properties available for sale.

Table 1: Average rents and selling prices for residential units by type in Kampala's prime areas.

DESCRIPTION	RENT (PER MONTH)	SALE
2 BEDROOM	$ 1,750.00	$ 225,000.00
3 BEDROOM	$ 2,750.00	$ 325,000.00
4-5 BEDROOM HOUSE (0.25-0.5 ACRES)	$ 5,000.00	$ 1,000,000.00

*=Furnished

Source: Knight Frank Research

Table 2: Average land prices per sq. m for specified residential suburbs (H2 2019)

LOCATION	US $ PER SQM
TIER 1 (KOLOLO, NAKASERO, NAGURU, BUGOLOBI & MBUYA)	$198-$741
TIER 2* (NTINDA, LUZIRA, MUTUNGO, MUNYONYO & MUYENGA)	$33-$200

*prices usually quoted in UGX and thus susceptible to foreign exchange volatility

Source: Knight Frank Research

NB: These figures vary depending on the exact location, accessibility and land tenure system

Office

Knight Frank has registered a 3% year on year decline in occupancy rates (from 86% recorded in H2 2018 down to 83% as at December 2019) for prime office space (Grade A and B+) .

This is mainly on account of a 6% decline in demand by large space occupiers (>500 sqm) particularly multi-nationals and large corporates as well as the addition of approx. 18,000 sqm of prime office space during the first half of 2019, with the market absorbing only 20% of this space during H2 2019.

As a result, Knight Frank has observed a 4% increase in leasing activity for smaller office occupiers (<200sqm) particularly start-ups, who prefer flexible office terms and solutions (including shared and serviced offices) which best suit their requirements.

The biggest percentage of office space was leased to government funded projects in the road sector, start-ups particularly ICT and insurance firms accounting for 40%, 20% and 15% of the leased space respectively.

With regards to rents, the increasing void rates in the leased office space sector has led to softer lease terms and conditions being achieved by tenants during lease renewals. In light of this, prime rents have fallen by approximately 10% as has been illustrated in table 3.0 below.

Yields for Grade A office space were recorded at 9%-10% while those for Grade B+ office space varied between 10%-11% through H2 2019.

Table 3.0: Office rents (USD) per sqm excl. S/C & VAT.

BUILDING GRADE	AVERAGE RENT IN H2 2019
GRADE A	15.0
GRADE B	11.7

Source: Knight Frank Research

Trust Tower, Kyadondo Road, Nakasero. Office space available to let

Industrial

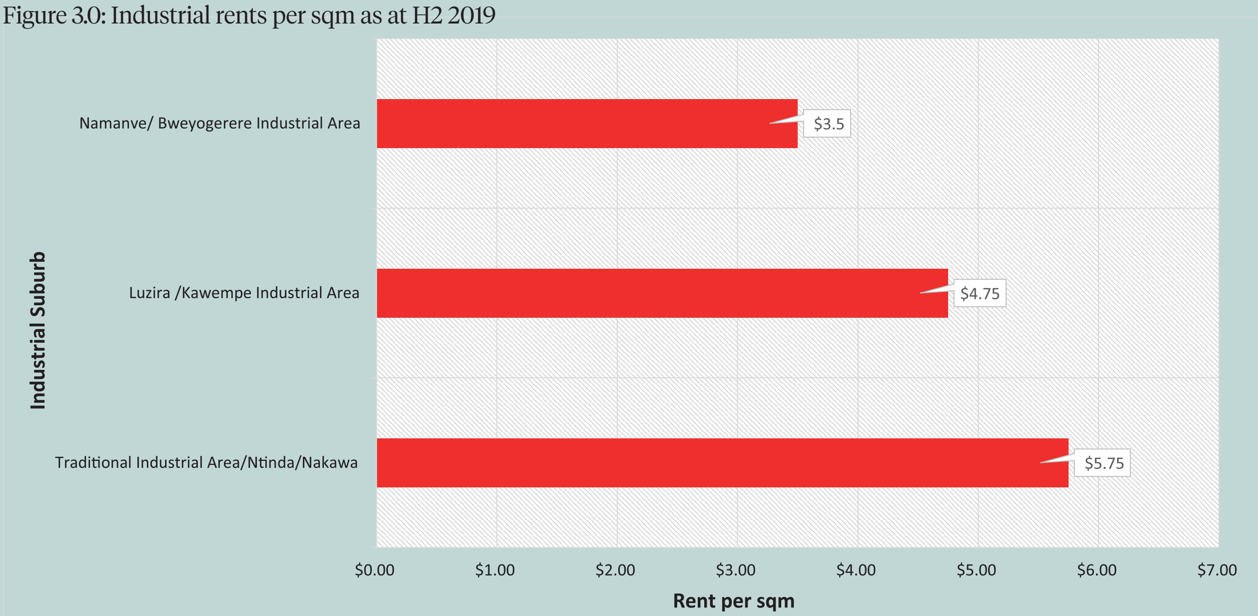
H2 2019 has registered slow leasing activity compared to H2 2018 with a 50% year on year decline in take up of space from 26,000 m^2 to approx. 13,000 m^2 in H2 2019. Approx. 80% of the leasing activity was registered in the traditional industrial areas of 1st - 7th Street, Ntinda, Banda and Luzira that are closer to the CBD and was driven by e-commerce particularly Jumia, furniture stores, logistics, FMCGs, and auto-mobile companies.

Approx. 75% of the enquiries received were for space ranging from 100-500 m^2 with the biggest determinants of take up being; accessibility, eaves heights, ample parking (large yards), additional office space on the warehousing facility as well as high quality specifications with regards to floor loading requirements.

In order to remain competitive, rents for the older stock of warehouse space declined from an average rate of \$5.50 per m^2 registered during H2 2018 to \$4.75 per m^2 during H2 2019. However, rents for the newly built or refurbished industrial space have stagnated at an average rate of \$5.75 per m^2.

Above all, the Kampala Industrial Business Park (KIBP) remains a preferred location for owner occupiers and big space users looking to set up and as such has seen tremendous growth of purpose built warehouses for owner occupation as opposed to renting.

Figure 3.0: Industrial rents per sqm as at H2 2019



Source: Knight Frank Research

Valuation

Knight Frank has recorded a 31% year on year increase in commercial valuation instructions in H2 2019 compared to the same period last year.
This is majorly due to the fact that commercial properties are perceived to generate stable income streams for repayment of the loan as opposed to residential properties. This is in agreement with the latest statistics from Bank of Uganda which reveal that commercial mortgages registered a higher year on year growth of approx. 15.6% compared to 11.3% registered for residential mortgages.

Table 4: Breakdown of Bank instructions H2 2018 vs H2 2019

INSTRUCTION CATEGORY	H2 2018	H2 2019
RESIDENTIAL	74%	58%
COMMERCIAL	26%	42%

Source: Knight Frank Research

The 2017-2019 surveyors' governing body, the Surveyors' Registration Board (SRB) had its mandate renewed by government of Uganda in September 2019 for a second term up to 2021. The board is tasked with regulating all surveyors .i.e. Land, Valuation & Quantity surveyors in Uganda as per the Surveyor's Act. However, the Surveyors Registration Act 1974 in its current state only regulates registered Surveyors' in their individual capacities, and not the surveying firms as corporate entities. The SRB is developing a policy to regulate surveying firms. The changes which the SRB intend to put in place will encourage and raise the bar in professional standards, leaving no option but for members specifically and firms in general to adhere to the required ethical and professional standards based on internationally accepted standards.

Retail

H2 2019 has seen varied activity in the Uganda's retail sector. The biggest impact was statutory, with Uganda Revenue Authority (URA) issuing a list of goods that could no longer be eligible for customs warehousing at the point of entry. The net effect of this means that traders would have to import goods, clear taxes immediately and then transport to final destination.

The change in operations will no longer allow traders to keep certain items in bonded warehouses in Uganda, and draw on stock as needed. As such, an initial outlay of capital to clear the entire consignment upfront will be required and traders are concerned that this will negatively impact on their operating capital and cashflows, with a negative effect on their business viabilities due to the additional capital required upfront.

The list of goods includes but is not limited to: sugar, rice, wines and spirits, building materials, motor vehicle tyres and tubes, motor vehicles older than 14 years, all garments and footwear. This turn around in practice on top of the increase in tariffs on imported products as reported in our H1 2019 report is going to impact on pricing of product to end users and time will tell as to what impact this will have on consumer price inflation and jobs in the retail, clearing agents and importers sector.

Notably this will have a direct impact on the warehousing sector, bonded warehouses for items mentioned above will become obsolete.

Metroplex mall commenced with its redevelopment which will see an upgraded mall open in the first half of 2020, with new and improved access. The mall will be anchored by international traders being Carrefour Hypermarket (their second store in Kampala, the first is due to open at the time of writing this report at Oasis Mall in the CBD), Century Cinemax Cinemas, and a new and improved Woolworths amongst numerous local and multi-national retailers.

Acacia Mall saw the expansion of Woolworths from a 550m² store to an 830m² store, which is indicative of the trading potential in Kampala generally and Acacia Mall in particular, where international traders are expanding their premises and product offering. LC Waikiki, the Turkish departmental store has also confirmed its entry into Uganda and specifically Acacia Mall. They will open a 2000m² (the largest in East Africa) departmental store in the first half of 2019.

Village Mall, in Bugolobi saw the opening of East Africa's, home grown, Cafesserie and Lintons in the period under review. Both stores are part of the tenant mix redevelopment of the mall which will see new entries in the fashion and leisure sector in the first half of 2020. Victoria Mall has seen changes in the tenant mix of the line stores with more fashion and curio stores opening therein. Additionally and most notably, Ugandan Airlines are due to open their first dedicated ticketing office at the end of 2019. The Arena Mall in Nsambya is nearing completion as can be seen by the changing skyline in Makindye Division. The mall is due to open in the second half of 2020 and is to be anchored by Shoprite, Century Cinemax, MRP, Aristoc and numerous other brands.

There is a pipeline of formalized shopping centre development happening on the main arterial routes in and around the City. This is based on consumers demand for lifestyle and leisure offerings close to their residential suburbs and is transitioning the City over time. This transition will be aided by the commencement of the Kampala Jinja Highway which will see traffic bypass the city centre.

Pipeline developments are being done on a pre-let basis ensuring less risk for developers and conducive trading space for retailers as the developments are designed around their requirements. Metroplex Mall has been pre-let to over 50% and Arena Mall in excess of 60 %.

Retail rental rates have remained stable in the past half year and prime market related rentals in malls are as follows.

Table 5: Prime Retail Rental Rates in Kampala

SIZE	RATES
$10m^2$	$200
$50m^2$	$48
$100m^2$	$28
$500m^2$	$23
$1000m^2$	$20.00

Source: Knight Frank Research

NB: These figures are average rentals for ground floor space in Kampala Shopping Malls but do not take Shop front to depth ratio into account and exclude service charge.

Black Friday, the retail discount trading day in November, continues to impress. This year it was held in 5 of the Knight Frank managed malls up from 4 last year. Foot traffic increased year on year by approx. 15.7% on malls that traded Black Friday last year. Revenue growth in like for like Malls accounted for 19.8% reflecting a year on year growth in customer expenditure, indicating that consumers are now understanding the Black Friday concept and including it in their expenditure budgets. Similarly, this reveals the growth of customers that are transitioning from a high street to a Mall shopping culture. Knight Frank Malls recorded in excess of 100,000 consumers on the day with Victoria Mall registering the highest growth in footfall at 44% to a record daily total of 22,339 consumers.

Generally in the half year under review our malls showed footfall traffic increase by an average of 5% year on year, this growth in footfall needs to take into account the road disruptions on John Babiha for Acacia Mall and the road works on the Entebbe Expressway which impacted on Victoria Mall in this period.

H&G Chambers, Plot 29A, Lumumba Avenue, Nakasero. Office space availabe to let.

Outlook for H1 2020

According to the December 2019 monetary policy committee statement issued by Bank of Uganda, Uganda's GDP is projected to grow in the range of 5-6% in H1 2020. The growth is expected to be anchored by an accommodative monetary and fiscal stimulus leading to an increase in private sector investment.

Nevertheless, sentiment remains cautious due to the fact that growth remains subject to downward risks stemming from the global economy particularly geo-political tensions as well as trade policies.

Achievable residential rents are expected to drop further as landlords of recently completed apartment blocks compete for the limited pool of corporate and expatriate tenants who can afford prime residential properties.

The total volume of office space in the pipeline is increasing, hence prime office rents are expected to decline owing to increasing supply.

Above all, the current uncertainty associated with the Landlord-Tenant bill has continued to negatively affect new developments and leasing activity across the entire real estate market, as many international investors are still adapting a "wait and see approach" and monitoring the real estate market. We anticipate the same trend to be carried forward in H1 2020 with further reduction in the intensity of leasing activity and pipeline development completions in the entire real estate sector if the bill is signed into law in its current state.

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