



THE VILLAGE MALL, BUGOLOBI COMPLETION DATE - AUGUST 2013

**QUARTER 1 & 2, 2013
MARKET UPDATE
KNIGHT FRANK UGANDA**

HIGHLIGHTS

- Kampala's retail sector take up remains steady.
- Less risk averse developers continue with office development plans.
- There has been a correction in the market with regards to prime rents across sectors.
- In February 2013, the Shilling depreciated by 14.0 per cent on an annual basis.
- Residential house sales continue to decrease as lending rates remain high.
- Local currency lending remains weak and on a declining trend, which may eventually limit aggregate demand growth.

ECONOMIC UPDATE

THERE ARE MIXED VIEWS ABOUT THE PERFORMANCE OF THE ECONOMY OVER THE PAST YEAR TO DATE, BUT WHAT IS IN AGREEMENT IS THAT ECONOMIC ACTIVITY HAS GENERALLY BEEN “SLUGGISH” WITH THE PROPERTY SECTOR BEING BADLY AFFECTED BY HIGH LENDING RATES, TEMPORARY CLOSURE OF THE LANDS REGISTRY, AND OVERSUPPLY IN THE OFFICE SECTOR. REASONS FOR THIS ECONOMIC SLOWDOWN ARE MANY AND OFTEN DEBATABLE HOWEVER, IMPEDIMENTS TO ECONOMIC GROWTH SUCH AS NEGATIVE SENTIMENTS AND UNCERTAINTY ARE HOLDING BACK INVESTMENT ACTIVITY AND WILL TAKE A COMBINATION OF FISCAL AND MONETARY POLICIES TO BOLSTER THE RESILIENCE AND VIBRANCY OF THE ECONOMY.

2013 ECONOMIC STATISTICS:

- Core and headline Inflation - 6.8%.
- Real Gdp growth - 4.9%.
- Annual Headline inflation -4.0%.
- Real Gdp per Capita growth - 5.7%.
- CBR March 2013 - 12%.
- Average Ugx. denominated lending rates March 2013 - 25%.
- 91 day T-bills - 9.31%, 180 day - 14.73% and 364 day - 14.42%

RESIDENTIAL

- Continued high Lending Rates (25%) and closure of the lands registry office slow down residential take up.
- Residential property supply increases as repossessions continue and donor funded projects downsize.
- Residential rents for prime property remain high but steady.
- Demand for prime residential rental accommodation slows down.

Despite the steady decrease in the cost of local currency borrowing from Q4 2012 to date, Uganda's interest rates remain high compared to both the global economy and the East African Community. And as the Bank of Uganda April economic outlook states "Persistently high lending rates on Shilling denominated loans are not only a threat to private investment, and thus a downside risk to economic activity, but also pose a risk of dollarization to the economy."

The temporary closure of the land registry offices also contributed to a slow down in residential sales as a result of reduced domestic currency lending since banks were unable to register mortgages on titles held as security. At the end of February 2013 there were over 400 pending

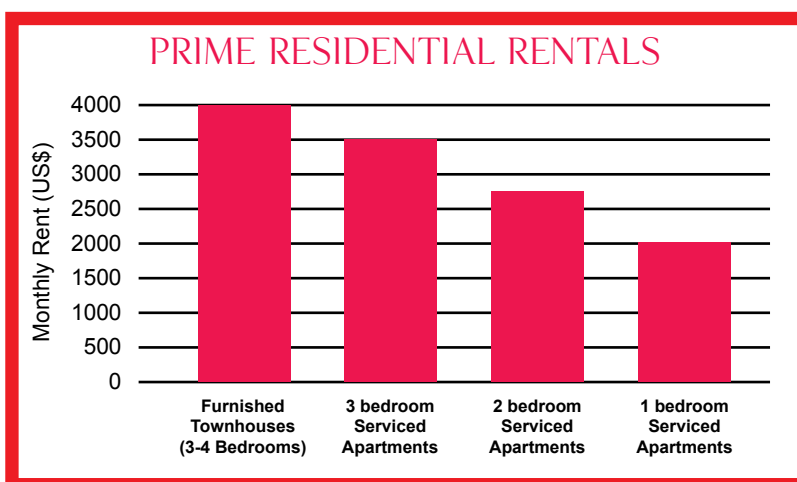
mortgage loan applications resulting from the closure. BOU March 2013 Report.

As a result of the above factors, house prices are steadily falling, for the mid income bracket of the housing sector, with a less acute correction in the prime bracket but sales are taking on average between 5 - 7 months to conclude from the start of the marketing period.

pipeline scheduled to be completed in 2013 /14, and approximately 50% of that number proposed to constructed in the next 12 - 18 months.

PRIME RESIDENTIAL RENTALS:

- 3-4 bedrooms)Furnished Townhouses - \$4,000
- 3 bed Serviced Apartments - \$3500



Source: Knight Frank Uganda Research

There demand for good quality serviced rental accommodation within a 5 km radius of the CBD has slowed down. Initial demand was derived mainly from the oil and gas, telecoms and other corporate sectors. However, we are seeing an increase in housing supply as expatriates from other sectors down size as a result of budget cuts, or find cheaper accommodation further away from the CBD.

With the ever increasing traffic congestion, expatriates are preferring to live closer to their children's schools to reduce the commute time for them.

According to the Knight Frank database, there are currently 400 prime / Grade A apartments and town houses in the development

- 2 bedroom serviced apartments - \$2750
- 1 bedroom serviced apartment - \$2,000

INDUSTRIAL

- Development of the KIBP picks up as UIA threatens to cancel and re-allocate un-developed land.
- Kampala-Jinja Industrial corridor continues to attract interest from Chinese developers / investors.
- Demand for good quality warehousing / storage space has slowed down.
- Lot Sizes of stores being taken up has reduced to between 500sq.m - 1000 sq.m's.

Land purchases along the Kampala – Jinja highway are slow but steady and mainly from Chinese investors of which the most recent inquiry was for 300 acres. However even they are driving a hard bargain as they take advantage of the “bearish” market at present.

Prices for land fronting onto the highway between Banda and Namanve have also seen a correction and are currently between 450,000,000/- and 350,000,000/- per acre and reducing as you move further away from Namanve.

Prime Industrial rents are currently between \$7.00 - \$10.00 psmpr for the newer / modern space, and \$4.00 - \$6.50 for the older warehouses with limited parking and hard standing areas.

RETAIL

- 3 retail malls on scheduled for completion in November 2013 .
- Regional retailers have continued to take advantage of Kampala's increasing consumer society after Nairobi.
- Let up rates for retail malls have met expectations given the current economic climate.
- Kampala's indigenous retailer supply remains relatively shallow.
- Tenant Mix, design and layout and location of the malls continue to determine successful lettings and occupancy rates.

Christmas shopping this year promises to be special and exciting for both shoppers and retailers, in light of the retail brands who have been signed up by Letting agents Knight Frank at 3 of Kampala's top malls all anchored by Nakumatt - Acacia Mall,

The Village Mall – Bugolobi, and Victoria Mall. The malls promise shopping at its best in terms of the experience, the quality of shopping, and value for money, and yet each brings with it a very unique tenant mix, ambience and exclusivity in terms of facilities on offer. It will be retail at its best.

RETAIL RENTS:

- Anchors - \$9.00 - \$13.00 per sq.m plus s.c and VAT
- Line Shops - \$18.00 - \$25.00 plus s.c and VAT
- Food Courts \$30.00 - \$35.00 plus s.c and VAT
- Retail Yields: 13% - 15%

OFFICE

- Prime office take up remains slow.
- Grade B office supply continues to put downward pressure on Grade A rentals.
- Office voids currently at 40% plus for Grade A and higher for Grade B.
- Proposed office developments have stalled or been put on hold.
- Government becoming an increasingly big source of demand for office space.

The office sector of the property market has been hardest hit by the slow down in economic activity, which has led to reduced investor confidence and thus reduced take up of office space.

We are experiencing downsizing of office space taking place within the telecoms and financial sectors of the economy, and this is also the case with private professional practices like lawyers and accounting firms. The Oil and gas sector have maintained a steady demand for office space but nowhere near levels initially anticipated.

OFFICE SUPPLY STATISTICS:

1. AVAILABLE SPACE

- Grade A– 35,000 sq.m's
- Voids – 30%
- Grade AB – 100,000sq.m's
- Voids – 45%

- Grade B– 55,000sq.m's
- Voids – 75%

2. DEVELOPMENT PIPELINE / UNDER CONSTRUCTION

- Grade A – 95,615 sq.m's
- Voids – 90%
- Grade B – 55,063 sq.m's
- Voids 81%

PROPOSED SCHEMES –
NOT YET CONSTRUCTED –
32,000sq.m's

Source: Knight Frank Research

PRIME OFFICE RENTS:

- Grade A - \$16.50 - \$18.00 plus s.c and VAT.
- Grade B - \$13.00 - \$ 15.00 plus s.c and VAT.
- Prime Office Yields: 9% - 11%

CONSULTING

Re-development plots in prime areas have also experienced a market price correction with prices steadily falling, and longer marketability periods. Please see the table below.

PRICE INDICATORS (US\$)

Location	Price per Acre	Price per sq.m
Kololo	1,500,000 - 2,200,000	370 - 543
Nakasero	1,500,000 - 2,500,000	370 - 617
Nagguru	650,000 - 950,000	160 - 234
Mbuya	650,000 - 1,000,000	160 - 247
Luzira	400,000 - 550,000	98 - 173
Ntinda	500,000 - 600,000	123 - 135
Muyenga	500,000	123
Munyonyo	500,000 - 650,000	123 - 160

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