RESEARCH

Knight Frank

UGANDA MARKET UPDATE

H2 2014

ECONOMIC UPDATE | SECTOR BY SECTOR ANALYSIS | OUTLOOK

HIGHLIGHTS

Property market in general showed signs of recovery across sectors but still remains relatively slow. Office take up showed signs of recovery on the back of falling rents.

Easing of bank credit restrictions continues to revive activity within the residential housing sector.

Demand for prime residential accommodation for apartments and town houses reduced significantly towards the last half of the year.

Bank lending rates remain high at 18% - 22% on shilling denominated loans.

UGANDA MARKET UPDATE **H2 2014**

Economic Update

Average Gross Domestic Product (GDP) in Uganda was at 5.40% in the last quarter of 2014. According to a recent IMF Report, economic performance proved resilient amidst low inflation which dropped to 1.4% in November but is projected to rise to 6% in 2015.

Interest rates remained relatively stable, with short term Treasury Bills at 12% and bank lending rates ranging between 18-22%. The CBR rate maintained its level at 11%. The Shilling continued to weaken against the US Dollar currently at 2,860. The Trade Gap continues to widen as imports exceed exports, which will continue to impact on the currency exchange rate. [Figure 1.0]

Residential

'Low to middle-income' housing sector has seen steady activity as credit restrictions continued to ease up. Demand for prime residential rental accommodation (apartments and town houses) reduced significantly in 2014. 2014 registered steady demand for middle income housing 250,000,000 – 500,000,000 Shillings either for owner occupation or investment purposes.

There has been a noticeable market increase in residential property prices, and demand remained strong for redevelopment properties in this sub sector.

The prime residential rental sector continued to remain slow throughout 2014, and where there was demand, it was on the back of more flexible terms for the tenants. Demand derived from the oil and gas and Telecoms sector continued to decline as many of the expatriate staff relocated from Uganda.

The rental market picked up slightly in the 4th quarter as a result of demand derived from the agriculture, finance and insurance sectors which increased lettings, albeit with most of the tenants taking up apartments within the US$1,000-1,500 per month range.

Interestingly however, there remains a shortage of good quality/prime detached houses for the high income blue chip tenants like expatriates, head of missions and other senior corporate executives in the prime residential areas of Kampala. This shortage is projected to increase as properties in these suburbs rapidly convert from residential to commercial.

Figure 1.0
Q4 2014 economic statistics:

Annual core inflation		2.7%
Real GDP growth		4.7%
Annual Headline inflation		1.8%
Real GDP per Capita growth		1.1%
CBR January 2015		11%
Average Exchange Rate: 1 USD		Ugx 2,854
Treasury bills	91 day	10.56%,
	180 day	12.31%
	364 day	12.09%

Source: Knight Frank Uganda. Dec. 2014

The prime residential sales market has seen increased activity over the last quarter with prices paid meeting and in some cases exceeding the expectations of the sellers. However, these have all been unique properties with good redevelopment potential in terms of plot size, visibility and location.

The growth areas for residential housing, for both rent and sale, still remain in the Greater Kampala suburbs, mainly in Nakawa division, Wakiso District, and Kira Town. Land values in these areas are also steadily appreciating in line with this demand.

As KCCA continues with its road improvement programs, many residential suburbs are being upgraded and property prices and rentals are being enhanced as a result.

There has been a noticeable increase in interest and enquiries for residential accommodation in the middle-income bracket coming from Ugandans in the Diaspora. This seems to be driven by the strengthening dollar against the shilling, which they are taking advantage of.
[Figure 1.1]

Industrial

Construction of factory premises relocating to KIBP in Namanve continued in earnest throughout 2014, and many are now completed.

Kampala–Jinja Industrial corridor continues to attract interest from purchasers who are relocating from the industrial areas in the CBD.

The traditional industrial locations between 1st and 8th Street have seen increased activity as many of these properties have been marketed for sale. Supply of Industrial warehousing and storage space continues to outstrip demand, as this sector continues to experience a slowdown in activity.
There has been increased demand for warehousing and storage space from the region, especially Kenya and Tanzania for both rental and purchase. This has tended to be for lot sizes of between 1,000 - 2,000 sq m on average.

Prime industrial redevelopment plots within close proximity to the CBD are also attracting demand from purchasers trading across borders as they take advantage of the soft market conditions which are favouring buyers.

Prime industrial rents are currently between US$ 6.50-7.50 per sq m for the newer/modern space, and US$ 4.00-5.00 per sq m for the older warehouses with limited parking and hard standing areas where industrial yields are currently between 11 - 13%.

Figure 1.1
Prime residential rentals

3-4 bed furnished townhouses	$2,800 - $3,500
3 bed serviced apartments	$2,750 - $3.250
2 bed serviced apartments	$2,000 - $2750
1 bed serviced apartments	$1,000 - $1,500

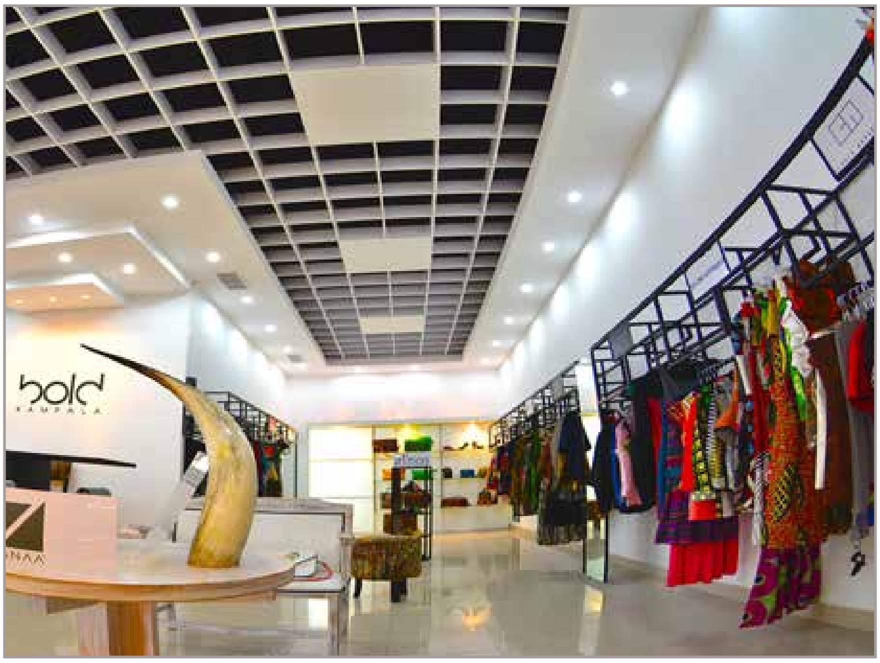
Source: Knight Frank Uganda. Dec. 2014

Retail

Retail sector performance continued to be vibrant throughout 2014, peaking towards the Christmas season.
Food and entertainment continue to drive retail performance at shopping centres. There is increasing interest being shown in the East African retail sector by South African retailers as they look to roll out Northwards in search of better returns and margins as the Rand continues to weaken, their retail market saturates, consumer confidence decreases and pressure on consumer spending increases due to lack of available consumer credit.

Retail sector performance has exceeded expectations, and trade is showing month on month improvement across the prime shopping centre niche. The weakening Shilling against the US Dollar may negatively impact on the retail sector however, as local currency incomes struggle to keep up with US Dollar expenses.

What is becoming increasingly clear to us in our day-to-day management of shopping malls is that product alone is not enough. Shoppers are going to shopping malls to be entertained, as part of their shopping experience. Soon, there will be a demand for more "retailtainment" – which is a combination of retail and entertainment, or a fuller shopping experience where shops are



partnered with restaurants and leisure experiences such as bowling and cinemas.

This is an important aspect of retail, which needs to be considered as local retail picks up this popular global trend.

The market outlook for the retail sub sector is encouraging especially if the economy continues to grow as projected. This will positively impact household incomes and disposable income for the benefits of retail.

However, the retail space will be increasingly dominated by malls, which appreciate the fact that the function of shopping has moved from the traditional "one stop shop" to more of a lifestyle and entertainment one. This is in response to the expectations of the shoppers whose increasing exposure is making them more aware of what is trending elsewhere.
The centers that can keep their patrons engaged and entertained at each shopping experience will be the ones, which survive the test of time.
[Figure 1.2]

Office

Rents for Grade A/AB shell and core offices have continued to trend down over the last 6 months.
Approximately 40% of lettings in 2014 for office space were relocations of offices from older standing stock, to newer premises at same or better rates.

Finished office space is increasingly becoming a "pull factor" for tenants in their choice of office space, and continues to let faster than "shell and core" space across office classes.

Tenants bargaining strength for lower rents and favorable lease terms are stronger than ever before given the current state of the office market.

Electricity tariffs continue to be the highest and most unpredictable cost of occupancy to tenants apart from rent.

Office rents have continued to fall as they compete for the limited demand for space available in the market. Lease terms being agreed are favoring tenants, as an incentive to draw them to available properties.

Quality of office space is still a determining factor in how quickly it is let. The quality of finishes and fittings, and standard of workmanship is key in what lets and what remains vacant.

In summary, the office sector has been the most affected by the prevailing "property market depression". It is imperative however, that landlords do not force the market to "over correct" by offering unrealistic leasing terms in a desperate attempt to attract tenants and fill up space. There must be some form of regulation or benchmark which will ensure that bargains being offered on rents and other conditions, are kept to a level which can be easily clawed back again once the market stabilizes. Office sector outlook for 2015 is that rents will continue to remain flat and in most cases reduce as landlords try to fill up vacancies, and as supply continues to outstrip demand. [Figure 1.4]

Figure 1.2
Retail Rents

Anchors	US$10.00 - $13.00 per sqm plus s.c and VAT
Line shop	US$20.00 - $35.00 per sq.m plus s.c and VAT
Food courts	US$30.00 - $35.00 per sq.m plus s.c and VAT
Retail yields	13 - 15%

Source: Knight Frank Uganda. Dec. 2014

Outlook

Despite the slow down in the property market, there is still a reasonable amount of residential development in the pipeline. This is mainly for prime and middle-income residential apartments, and town houses.

There are also increasing inquiries from developers targeting the mixed-use commercial sector, and the Hotel Industry. The more risk averse developers are positioning themselves to complete these developments as the property market recovers as is projected it will do in the next 2 years.

The economy is projected to grow in the short to mid term, which can only bring good fortunes for the property sector also. There is also an increasing attraction towards Africa in general and East Africa specifically as a promising real estate investment destination.

Figure 1.4

Prime office rents

Grade A	$12.00 - $15.00 per sq m per month excl. VAT
Grade AB	$9.00 - $12.00 per sq m per month excl. VAT
Grade B	$8.00 - $ 10.00 per sq m per month excl. VAT
Prime office yields	8% - 10%

Source: Knight Frank Uganda. Dec. 2014

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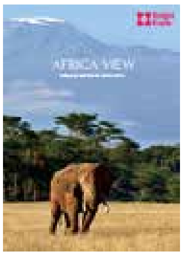

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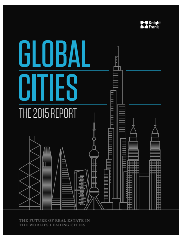

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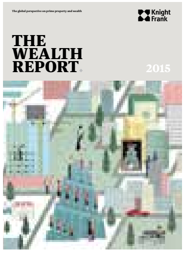

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