Knight Frank

H2 2020 Kampala Market Performance Review and H1 2021 Outlook.

January 2021

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The Arena Mall, Nsambya.

Key Insights

- Inflation averaged at 3.6% by financial year ended December 2020
- The Central Bank Rate reduced to 7% in June 2020
- Supply of residential apartment units increased by 6%
- Office space vacancy increased by 6%
- Prime residential occupancy declined by 8%
- Grade A passing rents declined by 7%

Cover Image: The Arena Mall, Nsambya. Space available to let.

Turkish Fashion brand, LC Waikiki, opens at Acacia Mall.

ECONOMIC OVERVIEW

The Economy

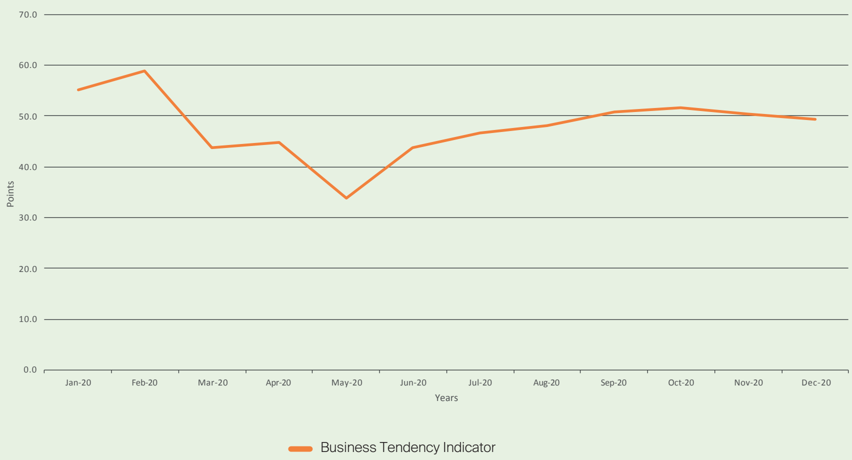
Uganda's economy remained subdued against the backdrop of strict lockdown measures imposed in March 2020. According to the Uganda Bureau of Statistics (UBOS), GDP growth was recorded at 2.9% for FY2019/20, largely due to the mitigation strategies that were undertaken to curb the spread of the virus. Growth is further anticipated to remain under pressure until FY2022/23 due to disruptions on 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.

However, in Q3 2020, different real sector indicators recorded improvements according to 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.

The Business tendency indicator greatly improved in the months of September, October, and November 2020, signifying an increase in business confidence and optimism for the future as the economy slowly continues to recover towards pre-COVID-19 times.

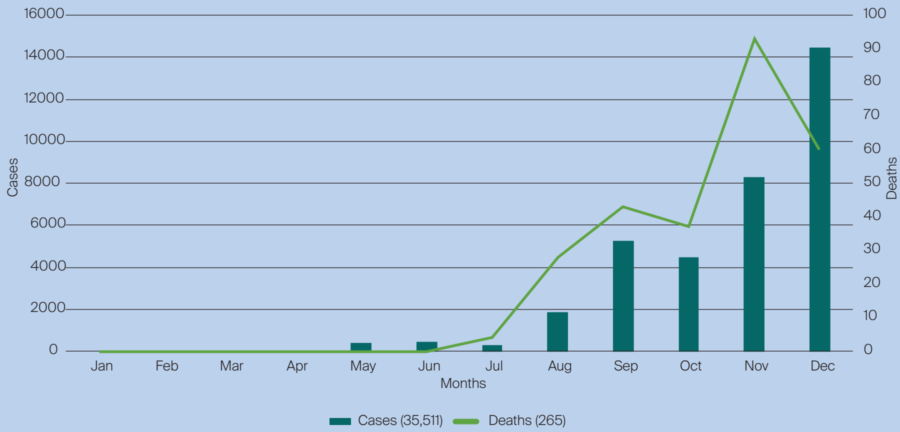
According to the Uganda Bureau of Statistics (UBOS), GDP growth was recorded at 2.9% for FY2019/20

Figure 1.0: Business Tendency Indicator



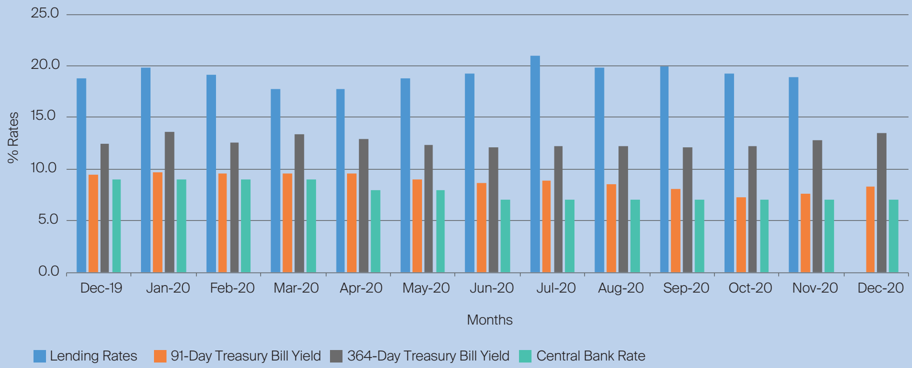
Source: Bank of Uganda

Figure 2.0: Uganda Covid-19 Cases and Deaths from Jan to Dec 2020



Source: WHO/MOH

Figure 3.0: The Money Market Dec-19 to Dec-20



Source: Bank of Uganda

Ministry of Health (MOH) reported a surge in the number of COVID-19 cases and deaths in H2-2020, with over 90% of the total confirmed 2020 cases reported in the last four months of the year, largely due to the election campaigns and preparations for the festive season. The recent approval of several vaccines provides hope for a quicker return to normalcy, although there remains a long and uncertain lag before vaccine acquisition and deployment may be achieved.

As of 31st December 2020, the country had recorded 35,511 cases and 265 deaths, with the highest daily case tally (1,199) recorded on 8th December 2020. Kampala is currently the District with the highest number of COVID-19 cases.

The government instituted various interventions with the aim of mitigating the social and economic effects of the pandemic on the economy, key of which included increasing access to credit through the provision of affordable loans with reduced interest rates for small, medium, and large-scale enterprises through Uganda Development Bank. Others included provision of seed capital to organized special interest groups, rolling out of the Social Assistance Grant for the Elderly to cater for relief food, expediting the payment of arrears owed by Government to private sector firm, and different forms of loan restructuring to encourage spending and re-ignite business activity

As of 31st December 2020, the country had recorded 35,511 cases and 265 deaths

Money Market

Month-on-month commercial bank lending rates on shilling denominated loans that had reduced at the start of the year, from 19.88% in January 2020 to 17.73% in April 2020 increased in July 2020 to 20.93%. However, since August, the lending rates were relatively stable, averaging at 19.5 % between August and November 2020. The Central Bank Rate was maintained at 7% from June 2020 to sustain liquidity support to supervised financial institutions amid the slow economic conditions caused by the effects of COVID-19.

Above all, 91 days government securities, which had declined for the larger part of H2 2020 increased to 8.3% for the year ended December 2020 from 7.6% recorded for the year ended November 2020, while yields on long term (364 days) treasury bills remained relatively stable in the quarter to October but increased to 13.5% in December 2020 from 12.8% in November 2020. The decline in yields for short-term securities was attributed to subdued loan demand by the private sector and increased appetite for less risky and liquid assets due to negative sentiments caused by COVID-19.

The annual headline inflation rate was recorded at 3.6% for the year ended December 2020 compared to the 3.7% registered for the year ended November 2020

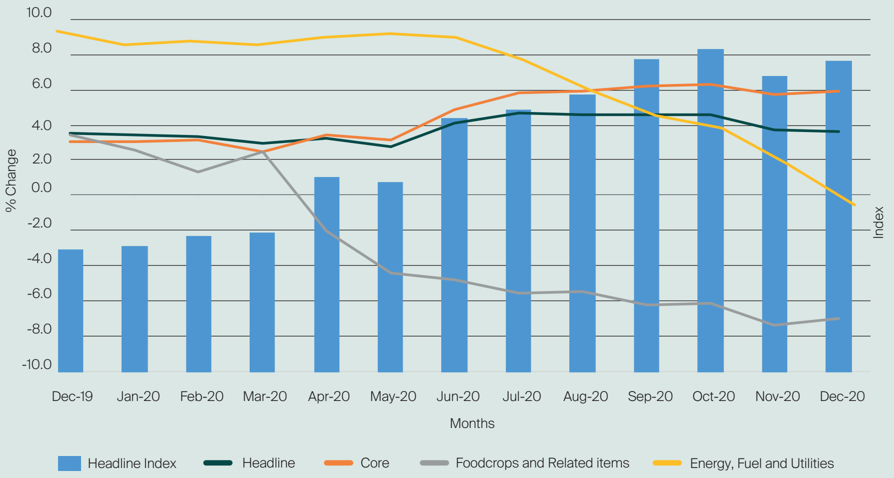
Inflation

The annual headline inflation rate was recorded at 3.6% for the year ended December 2020 compared to the 3.7% registered for the year ended November 2020. This was attributed to a decline in the annual Energy Fuel and Utilities (EFU) inflation that decreased to -4.6 % in December 2020 relative to -1.4% registered for the year ended November 2020. Annual Core Inflation which had dropped by 0.5% in November to 5.8% increased to 5.9% for the year ended December 2020. Food crops and related items inflation was recorded at -7.0% for the year ended December 2020.

Exchange Rate

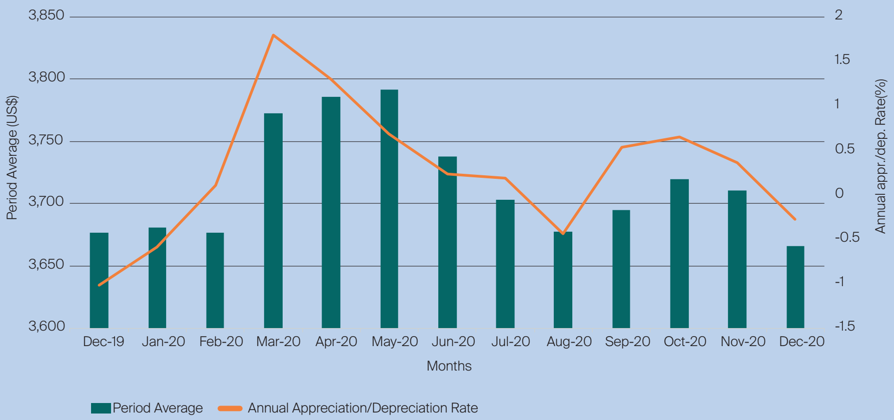
The Uganda shilling recorded relative stability against the USD in the second half of 2020, appreciating by 1.2% month-on-month in December 2020 to an average rate of 3,666.5 to USD. This was attributed to subdued aggregate demand, and a weaker USD against other international currencies. According to Bank of Uganda, the exchange rate is likely to remain stable on account of matched corporate activity; and a projected USD depreciation against other reserve currencies.

Figure 4.0: Headline Index and Annual Inflation Developments: Dec-19 to Dec-20



Source: Source: Bank of Uganda

Figure 5.0: Exchange Rates: Dec-2019 to Dec-20



Source: Bank Of Uganda

Shoprite, Acacia Mall.

The Real Estate Sector

Retail

The period under review saw spas and salons being allowed to trade from July onwards. Cinemas and gyms were opened up from mid-November albeit with restrictive standard operating procedures emanating from the COVID-19 pandemic, and curfew from 9pm to 5am still being enforced. The impact of these measures on retail as a whole, is that trade in Uganda is still under severe pressure, and is further impacted by lack of consumer spending on the back of a slowdown in the economy. That said, retail activity saw a sharper fall than workplace activity in the first half of the year, on the back of supply chain disruptions and extremely restrictive government measures adopted to curb the spread of COVID-19.

However, average turnover, footfall and occupancy levels recorded significant improvement in the second half of the year, demonstrating, the sector's resilience and increased demand for formal retail in Uganda. The pandemic has prompted new innovative thinking around the retail sector moving forward in regards to space utilization, rent models and interactions with customers. Hand sanitizing, social distancing, wearing of masks and temperature checks are now accepted as part of the "new normal". Several landlords considered incentives for their tenants and review of lease agreements in order to attract new tenants, and retain existing ones. Some of the incentives included, rent reductions for specified timeframes 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.

The sector registered expansions and new entrants into the market in 2020, with Carrefour growing its presence in Uganda (Metroplex Mall store being fitted in this period and due to open in February 2021), Shoprite set to expand its store number to 6 with the anticipated opening of the Arena Mall in 2021, and LC Waikiki, a Turkish based international fashion chain opening its 2000m² Africa flagship store at Acacia Mall in December 2020.

Year-on-year retail occupancy remained relatively stable with a slight increase in H2-2020 as compared to the same period last year, mainly attributable to landlord interventions on agreements and the opening of LC Waikiki Uganda.

Average year-on-year footfall reduced by 30% in H2 2020 as compared to H2-2019. This is directly correlated to the effects of the ongoing curfew, and continued restrictions on specific retail segments such as bars and nightclubs still under lockdown. However, monthly averages showed major improvements, recording an 8% month-on-month average growth in H2-2020, with July registering the highest record in the half year at 22% as consumers got to grips with the new normal.

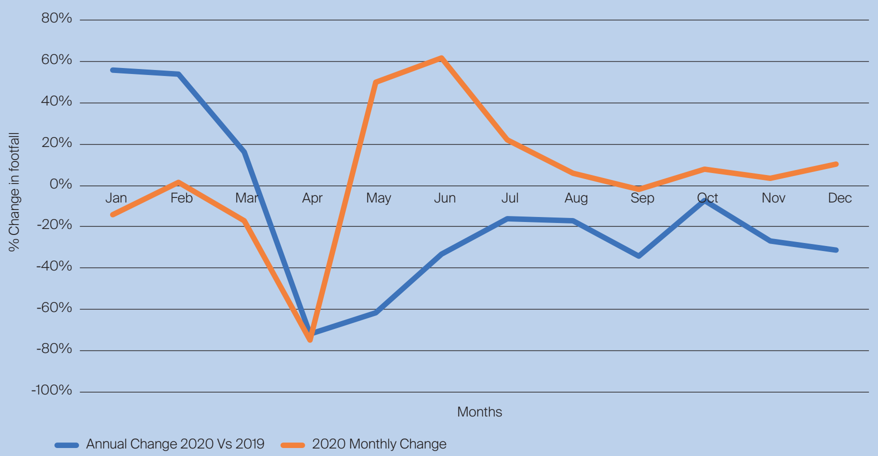
Average turnover was largely affected in 2020 due to the lockdown measures imposed to curb the spread of the COVID-19 virus. Several formal retail stores were closed for the months of April and May and some up until the end of the year. Shoppers were forced to change shopping patterns due to curfew and restrictions on travel, so they opted for neighborhood shopping centers as compared to the formal shopping centers. Year-on-year turnover figures in H2-2020 reduced on average by 20%.

However, month-on-month improvements were recorded as restrictions on lockdown were eased during the year, with December 2020 registering the highest monthly growth in turnover due to increased shopping in preparation for the festive season and the Knight Frank Black Friday Sales which was run in all our managed Malls in the last week of November. The sale this year was held over 5 days and not the traditional one day so as to take into account social distancing guidelines. A few branded fashion retailers improved their sales turnover post lockdown compared to pre-COVID-19 levels largely due to redirected demand as a result of the international travel ban that lasted over 6 months until October 2020, with a significant portion of this demand favoring international brands.

The lockdown resulted in the increased use of online retail shopping platforms by consumers, and e-commerce retailers saw trade spike significantly during the lockdown period. This consumer transition to online retail however, was temporary and significantly declined after easing up of lockdown measures. Instead, consumers gravitated back to bricks and mortar shopping. This trend was noticed across several markets internationally and has put an end to the debate on online trading taking over from bricks and mortar. The theory now is that online trade will eventually end up being a support to traditional retail, accounting for approximately 20% of all retail trade.

Average year-on-year footfall reduced by 30% in H2 2020 as compared to H2-2019

Figure 6.0: Annual and Monthly Growth in Footfall in Knight Frank Managed Malls



Source: Knight Frank Research

Table 1: Year-on-Year and Month-on-Month Turnover Growth in Knight Frank Managed Supermarkets

Month	Annual Change (2020 VS 2019)	Monthly Change (2020)
July	-21%	-19%
August	-24%	2%
September	-32%	21%
October	-22%	-12%
November	-15%	-0.4%
December	-8%	111%

Source: Knight Frank Research

Table 2: Prime Retail Rental Rates in Kampala (COVID-19 Impacted)

Size	Rates
<10m2	$200
<50m2	$36
<100m2	$22
<500m2	$17
1000m2	$15

Source: Knight Frank Research

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.

Retail rental rates were impacted in the past half year due to the COVID-19 pandemic and the concern over the future which is unpredictable hinges on the majority of the population being vaccinated. At current projections, this might only be achievable in late 2022. The rental rates in table 2 are inclusive of various landlord interventions to ensure sustainability in the sector and are short term rates, being revised monthly based on trading patterns and lockdown measures.

Office

Just like the other real estate sectors, the office sector was not spared the adversities of the effects of COVID-19. The sector started off well, with an increase in inquiries and interest in office space, until March when the lockdown was announced. The period during the lockdown saw a drastic decline in the number of leasing inquires since most businesses were not operational. However, the progressive easing of the lockdown ignited a start of office leasing activity, with inquiries from both individuals and organisations looking to downsize, relocate or sell their properties. Similarly, requests for rent reductions and early terminations were rife, as tenants did not foresee an improvement in their financial situation in the near future and working from home looked like a suitable semi-permanent option moving forward.

A major trend that was observed in H2-2020 was a renewed focus on health and well-being of office occupiers, be it staff or tenants. When the lockdown was initially lifted in June 2020, the reality of having to rethink ways of supporting business continuity while keeping the workforce safe was a priority for many landlords and corporate organizations.

Several re-occupancy strategies were adopted including 2-meter distancing between desks in offices, thus requiring a review of office configurations and staff capacity levels in several offices, regulated access (one way traffic flows) to specified areas within the office, temperature testing, hand sanitizing, increased cleaning frequency, disinfecting and safety signage display at the workplace. Shift work in offices was adopted by several organizations due to the inability to accommodate all staff members in current office premises, while adhering to set SOPs. The binary option of working from home and or the office has become the preferred solution for many and will most likely carry on for the foreseeable future.

Similarly, several corporate organisations were forced to rethink their business strategies to remain afloat. Some of these included; downsizing their space requirements, relocations, lease reviews and renegotiations, and postponing occupancy plans, among others, which had a great impact on the office sector in the period under review.

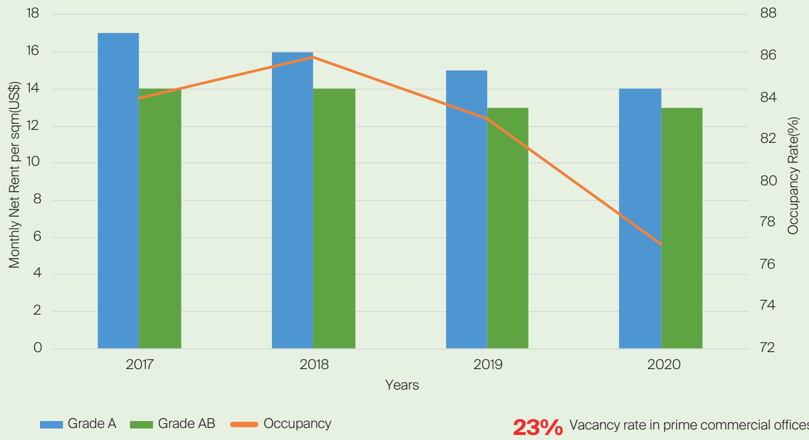
Knight Frank registered a 6% year on year increase in vacancies for prime commercial office space (Grade A and AB) from 17% in H2 2019 to 23% in H2 2020. This was as a result of downsizing of office space, relocating to more affordable offices and postponing take up of new office premises because of constrained cashflows attributed to the slow economic conditions caused by the pandemic. However, the anticipated rebound in office activity expected in 2021/2022 on the back of the much-anticipated Final Investment Decision on oil production, coupled with the anticipated rollout of the COVID-19 Vaccine will go a long way in improving performance of this sector.

The increasing vacancies in the leased office sector experienced in H2 2020 led to softening of office rents as tenants continued to drive harder bargains for lenient lease terms during lease renewals. Grade A passing rents declining by 7%. It must be noted however, that this decline was for rents which were considered “over - rented” (where the passing rent is higher than the market rent for new leases at reversion). This was mainly as a result of contractual escalations which were being marked to market at review or renewal. Prime office yields averaged between 8% and 10% in the period under review.

In general, office sector Landlord and tenant relationships in H2 2020 were dominated by conversations and increasing pressure for rent concessions. In other instances, these conversations wound up in vacancies across various buildings. As a result, our outlook is that prime rentals (which had already seen a correction in 2019) will likely remain stable or fall depending on the bargaining strength of each tenant, as landlords strive to fill current vacancies resulting from relocations and downsizing.

Most of the new office stock are developments which had started in 2018-2019, with limited if any new construction that commenced in 2020 due to a halt in construction activity during the lock down, causing delays and postponement in delivery. Most of the new developments coming up are for owner occupation with the majority ranging between 1,500-4,000sq.m while the bigger pipeline developments are for both owner occupation and investment purposes.

Figure 7.0: Monthly Average Net Rent (US$) per square meter in Kampala's Prime Office Market.



23% Vacancy rate in prime commercial offices

7% Decline in rents for Grade A offices

Source: Knight Frank Research

Office Sector Trends to watch out for in 2021

1

We envisage flexibility in the choice of workplace whereby organ izations assume 2 – 4 days a week in office, for those who have not opted to have their teams working in shifts. Working from home to supplement working from the office will continue to be a viable option as businesses establish ways to promote health and safety while accommodating staff without necessary increasing their space requirements.

2

Downsizing and sub – leasing of office space will dominate the market in 2021 as occupiers seek to do more with less. There will be increase in demand from smaller office occupiers (<80 – 100 sq.m's) particularly SME's, NGOs, and professional firms, who prefer smaller space now that working from home is a semi-permanent option. This comes on the back of low space utilization as a result of a lower headcount and daily attendance in office.

3

Flexible lease terms to characterize several tenancies for the next 12 – 18 months. Knight Frank observed that tenants are increasingly requesting for flexibility in the duration of their tenancies as opposed to fixed lease periods, with typical lease terms now between 2 – 3 years, as opposed to 5 years that were common pre-Covid.

4

Smart buildings to play a vital role in ensuring health and wellbeing. Contactless technology integrated into commercial developments will be a key trend moving on. This will include motion and voice activated and facial recognition technology and sensors to monitor occupational density and air quality as is already happening in various markets and becoming an expectation of global occupiers.

5

Flexible office space will become increasingly sought by occupiers in the short to mid-term as companies decide on their occupancy strategies. Flexible and co-working space will play an important role as a feasible option which can be scaled up and down as required.

6

Tenant expectations regarding office space quality and building services along with other soft services will increase as a result of office supply available on the market. Space which does not meet expected standards will become redundant particularly as vacancies increase in 2021.

7

Landlords are less likely to offer any further subsidies on rent or lease terms in 2021 with particular reference to those who made generous offers and took a hit last year. As bank restructuring and other concessions come to an end, it is also expected that landlords will adopt a firmer stance towards any discussions on rent discounts.

8

The office will remain key in collaboration, training and cohesion of teams as self-isolation is no longer mandatory, and the realization that it is very difficult to build teams virtually. Whilst technology is a great facilitator of workflow processes, it cannot be at the total cost or replacement of human-to-human interaction.

Sectional Office Space - A Growing Trend in Kampala's Prime Commercial Office Sector

With the current uncertainty caused by COVID-19, developers have been inquiring if now is the right time to invest. The cyclical nature of the real estate development process has proved that there is no such thing as 'the right time', but rather how bold and flexible one is to cease investment opportunities in the market.

One of the new opportunities currently in Kampala's prime commercial office sector is the ownership of sectional office space. Investors seeking long term returns, but unable to or uncertain of whether or not to develop themselves, are opting to buy on a sectional title basis for owner occupation or as an investment.

Sale of offices on a sectional basis is a relatively new concept in Uganda but steadily gaining popularity. The current practice is that a portion of the space is sold per square meter while the residual portion is leased out. Currently, a typical example of such a development is Lugogo One, a nearly completed

Lugogo One, Lugogo bypass. Space available to let.

Commonly known as a condominium title for residential properties, a sectional title describes separate ownership of units or sections within a commercial complex or development. When one buys into a sectional title building, they purchase a section or sections and an undivided share of the common property, collectively known as 'units'.

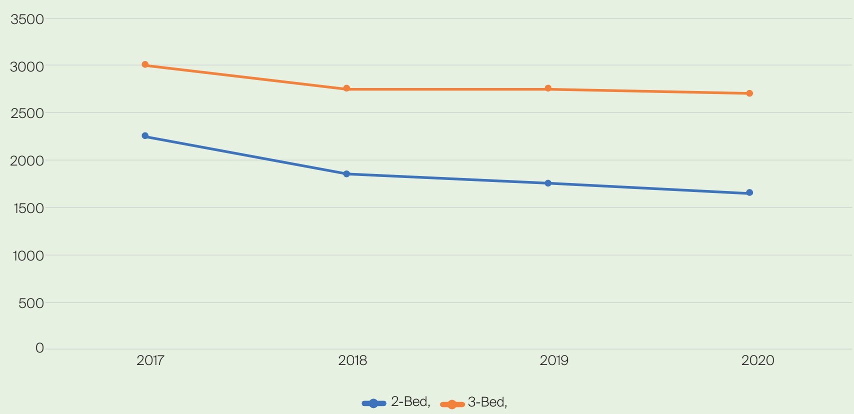
Sectional title developments are governed by a Body Corporate who are responsible for managing the property, setting and enforcing rules, and managing finances and budgets. Investors in a sectional title scheme own part of a development, meaning that the owner is part of a small community and will need to comply with the management and conduct rules as laid out by the Body Corporate. Unlike Freehold ownership, sectional title unit owners pay a monthly fee including maintenance of the common property, property manager' s fees and, utility bills required for the common property.

Residential

The definition of home took on a whole new meaning in 2020 when lockdown was announced. Overnight, homes became schools, offices, churches, stores, and many other uses since people were forced into confinement and self-isolation. This led to a rethink by many occupiers on the type of home they want and provoked questions and decisions between owning or renting, apartments or detached houses, and the importance of green space for families who found themselves in accommodation which as many have described it resulted in "cabin fever". The need for living and green space which was not as important pre-Covid was certainly amplified during the lockdown. These shifting trends will shape the Kampala housing market outlook over the next 18 months.

H2 2020 left landlords and tenants in uncharted waters, as both parties were forced to renegotiate their terms, from rent discounts to deferrals in a rapid sequence of events over a short period of time. In the first quarter of the year, foreign nationals, who form a large part of the tenant market repatriated to their home countries at the announcement of the lockdown, resulting in adverse effects on occupancy and rent levels. Average occupancy in prime residential apartments dropped by 8% year-on-year in H2 2020 as compared to H2 2019.

Figure 8.0: Monthly Net Rents($) for Furnished Apartments in Kampala's Prime Residential Areas



Source: Knight Frank Research

Knight Frank recorded a 6% year on year increase in supply of apartment units coming onto the market particularly in the prime residential areas of Kololo, Nakasero, Bukoto, Bugolobi, and Naguru. The increase in stock forced some landlords to discount their rents in order to remain competitive in an already oversupplied prime residential market, that had been affected by the effects of COVID-19. As a result, overall average prime rental rates for furnished apartments declined by 4% in H2 2020. Rental yields in prime residential suburbs averaged between 8% - 10%.

Table 3: Average Rents and Selling Prices of Residential Units in Kampala

Description	Rent (Furnished)	Sale
2-Bedroom Apartments	$1,650	$215,000
3-Bedroom Apartments	$2,700	$325,000

Source: Knight Frank Research

It is expected that approximately 110-150 housing units (mainly apartments and townhouses) will come onto the market over the next 12 months in Kampala's prime residential suburbs. Demand for prime residential rental accommodation is mainly driven by members of the diplomatic community and multinationals who prefer to stay in areas with good infrastructure, security and proximity to different services. There is higher demand for modern housing, thus forcing owners of older properties to reduce their asking rents or renovate their property so as to compete favorably with the newer stock.

Table 4: Market sentiment Survey H2 2020

Market	Inquiries	Completed Transactions	Postponement of Deals	Achievable Rents	Market Conditions (Tenant, Landlord Favourable or Balanced)
Residential	↓	↓	↑	↓	Tenant
Commercial	↓	↓	↑	↓	Tenant

Source: Knight Frank Research

Industrial

Travel restrictions and closing of the border during the lockdown period resulted in noticeable increase in the need to repurpose production lines for manufacture of certain products most of which were essential and urgently required in response to the pandemic. The increase in e-commerce trade during lockdown increased the need for stock piling in a bid to meet the growing demand by online retailers for essential goods and services. This resulted in the short-term increase in demand for storage space in the traditional industrial areas (1st – 8th Street), Nalukolongo, and Ntinda / Nakawa Industrial areas. As a result, leasing activity in the industrial sector remained relatively stable for the period under review.

The biggest determinants of demand were; accessibility/proximity, size, eaves heights, ample parking (large yards), additional office space on the warehousing facility as well as high quality specifications in form of floor loading requirements. Average rents for warehouses remained relatively stable, ranging between US$4-US$6 per sqm for warehouses in the Kampala Industrial Business Park (KIBP), while the older stock especially those found outside the KIBP had rental rates of approximately US$2.5 to US$4.5 per sqm.

The Kampala Industrial Business Park (KIBP) continues to remain the preferred area for large industrial companies looking to construct their own premises and as such has seen tremendous growth of purpose-built warehouses for owner-occupation as opposed to renting.
There has been growth of several industrial areas within the country, championed by Uganda Investment Authority under its mandate to establish 27 industrial and business parks, aimed at creating jobs, easing accessibility to land for investment, introducing new research, technology and skill development as well as boosting exports therefore, increasing Uganda's revenue base. The Industrial Business Park locations include Kampala, Mbarara, Jinja, Kasese, Soroti, Moroto, Nakasongola, Bulisa, Gulu, Lira, Arua, Tororo, Iganga, Luwero, Bushenyi, Kabale, Kabarole, Rakai, Mubende, Hoima, Nakaseke, Kyankwanzi, Rubirizi, Pakwach, Kamuli, Mbale and Masaka.

The anticipated completion of the industrial parks will add value to locally available raw materials thus boosting agriculture, business growth and the industrialization agenda.

According to the Uganda Investment Authority, investors can apply for land in these industrial parks for as long as they have a registered company, an investment license, a comprehensive business plan, solid proof of financing, and a sketch map of land utilization. Satisfying these requirements accords an investor an initial lease of 5 years, which will be extended to 49 years upon completion of development.

Table 5: Average Net Rent (US$) for Warehouse

Description	Rent Per Square Meter (US$)
Within KIBP	4.0 - 6.0
Outside KIBP	2.5 - 4.5

Source: Knight Frank Research

Free Zones

The Uganda Free Zones Authority, a body corporate under the supervision of the Ministry of Finance, Planning and Economic Development, responsible for the establishment, development, management, marketing, maintenance, supervision and control of free zones within the country aims at creating 8 private and 2 public free zones with the aim of encouraging investment, increasing export earnings and creating jobs. The first public free zone, located in Entebbe whose construction was commissioned by the Minister of Finance will be the pioneer public free zone in the country. Upon completion, the zone will accommodate 7 production units and a trade house that will host different government offices to oversee business in the area.

Developing and/or operating in a free zone comes with various tax incentives among which include; tax holidays, exemption from payment of stamp duty for land owned by the Authority, unrestricted remittance of profit after tax, rent free land for a specified period, etc.

With supportive business policies coupled with the different tax incentives, development of industrial parks and free zones are anticipated to boost Uganda's industrial sector by attracting productive investment, ensuring economic growth and job creation.

Valuation & Advisory

Valuation & Advisory was affected by COVID-19 and the mode in which properties were inspected changed. To minimize transmission or contracting the virus, there was regulated access to areas within premises to be inspected, either because the clients were being cautious or Valuers were limiting exposure, resulting in increased time spent inspecting. In addition to the usual inspection equipment, Valuers incorporated hand sanitizers, face masks, and gloves as protective gear.

Real estate, as compared to other investments is known to be illiquid, and as such recording changes in value is not as immediate as other forms of investments. With leases running for three and more years and transactions that require long timelines, real estate values usually move at a slower pace. As such, impacts of the pandemic on property values may take a while to fully manifest and be quantifiable.

Due to the uncertainty surrounding valuations, the Royal Institution of Chartered Surveyors (RICS) issued a Valuation Practice Guideline, advising RICS regulated members to add a Material Valuation Uncertainty Clause, allowing values provided to be supported by a caveat, which serves as a precaution but does not invalidate the valuation. The current market conditions and valuation uncertainty have prompted valuers to advise banks to keep valuations under constant review given the unknown future impact COVID-19 might have on the real estate market.

There was a marked reduction in valuation instructions received from the banks in Q3 2020 mainly attributed to the lockdown instituted in March, which resulted in closure of business operations in the country, and in particular the Lands Office for two months. The market uncertainty caused by the pandemic forced a number of banks to lend cautiously as a way of mitigating the likelihood of increasing non-performing loans (NPL) which were initially anticipated to increase from 4.6% to 10%. Despite the pandemic, Knight Frank recorded an increase in commercial valuation instructions in Q4 2020 as compared to residential instructions, majorly due to the loan restructuring opportunities that banks availed to their borrowers, that seemed to appeal to commercial property owners than any other property type.

The current market conditions and valuation uncertainty have prompted valuers to advise banks to keep valuations under constant review

H1 2021 Market Outlook

According to the Bank of Uganda State of the Economy Report for December 2020, economic growth is projected to remain below expected levels until FY2022/23, with estimates of 5.5%- 6.5 % projected for FY2021/22. Growth will be hinged on monetary and fiscal policy stimuli as well as rebound in both foreign and domestic demand following the development of the Covid-19 vaccines.

The current property market uncertainty associated with the pandemic, heightened by the cautious approach to investment before and immediately after general elections, will affect new developments and leasing activity across all property sectors in 2021. We were already seeing potential investors adopting a "wait and see approach" to the anticipated increase in country economic and political risk. The recent development and anticipated rollout of vaccines, gives hope to a quicker recovery of the economy and real estate market in general.

There is going to be continued emphasis on health and safety especially in the office and retail markets, with contactless technology and continued social distancing measures as a major area of focus in the wake of the pandemic for new and existing prime developments. Technology will continue to play a major role in real estate, as a means to facilitate workflows, and reduce physical contact.

Office occupiers are still taking a cautious approach to office expansion even in response to social distancing requirements. Working from home and in shifts will continue through 2021 as employers and organisations establish and refine workplace strategies that favor their employee's welfare, health and safety. The traditional office however still remains the core of work and its environment, and is yet to be superseded by working from home, although some elements of flexible working will become more normalized.

It is evident that landlords across sectors are intent and more focused on recovering from the rent concessions and stimulus interventions they put in place for their tenants in 2020, and are less inclined or accommodating of any more requests for further rebates. This sentiment is reinforced by the banks and financial institutions who are also not open to further concessions to borrowers now that the initial period allowed for loan restructuring is over.

Prime residential leasing activity remains under pressure as expatriate numbers have dwindled in light of second lockdowns and restricted travel in Europe and United Kingdom. Since this remains the biggest driver of demand for this sector, we anticipate prime residential rents in turn coming under pressure and reducing further as vacancy rates also increase.

The industrial sector seems to have benefitted from the lockdown and restricted travel which forced manufacturers and traders to be innovative and find ways and means of responding to local demand for essential goods and services amidst a global shutdown of trade which led total stagnation of supply chain and distribution routes into the country. This led to a short-term increase in demand for storage space from the health sector, e-commerce, and pharmaceuticals.

Much as retail was quicker to rebound from the lockdown than any other property sector, the effects and impact will be felt for a long time to come.

There is an underlying level of uncertainty in the sector due to the possible negative effect of increased import duties on a range of products particularly processed foods, which could dampen the potential growth of retail sales as the associated costs will be passed on to the consumer. Additionally, pent up spending after lockdown was short lived as consumers are still being cautious in their spending habits, whilst others are still avoiding "crowded" places which include shopping malls. This is evident in the foot traffic numbers registered at shopping malls in H2 2020 compared to same time last year. The ongoing curfew and restrictions on bars will continue to impact on the sector until they are fully lifted. The reduction in numbers of outbound travelers from Uganda, may indirectly support and increase retail sales of children's clothing and footwear. Similarly, cosmetics and healthcare products will likely be the big winners until such a time as it is felt safe to travel abroad. The supply chain disruptions which plagued retailers last year seem to have eased up somewhat, though restocking of shops is still being impacted by cash flows and slow turnover.

The jury is still out as to whether 2021 will be a year of recovery from the total disruption and destabilization of the real estate sector in 2020. Whilst it is reasonable to forecast a gradual and modest improvement in the performance of the sector in general, it is important to bear in mind that momentum of this improvement will be determined by how quickly and positively the economy rebounds to reasonable growth levels. Similarly, it is hoped that the speed with which the vaccine is acquired and administered, will also play a big impact in curtailing the spread of the virus, and enabling a faster return to some semblance of normalcy all things remaining the same, and no new variants to further complicate the situation. We can only wait in hope, as we do our best to stay safe.

The Arena Mall, Nsambya. Space available to let.

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