Knight Frank

H1 2022 Kampala Market Performance Review

July 2022

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KEY INSIGHTS

- An uptick in office and leasing activity observed.
- Headline inflation increased.
- The Uganda Shilling depreciated.
- The Landlord and Tenant Bill was assented into law.
- Residential pipeline activity increased.
- Prime office rents remained relatively stable.

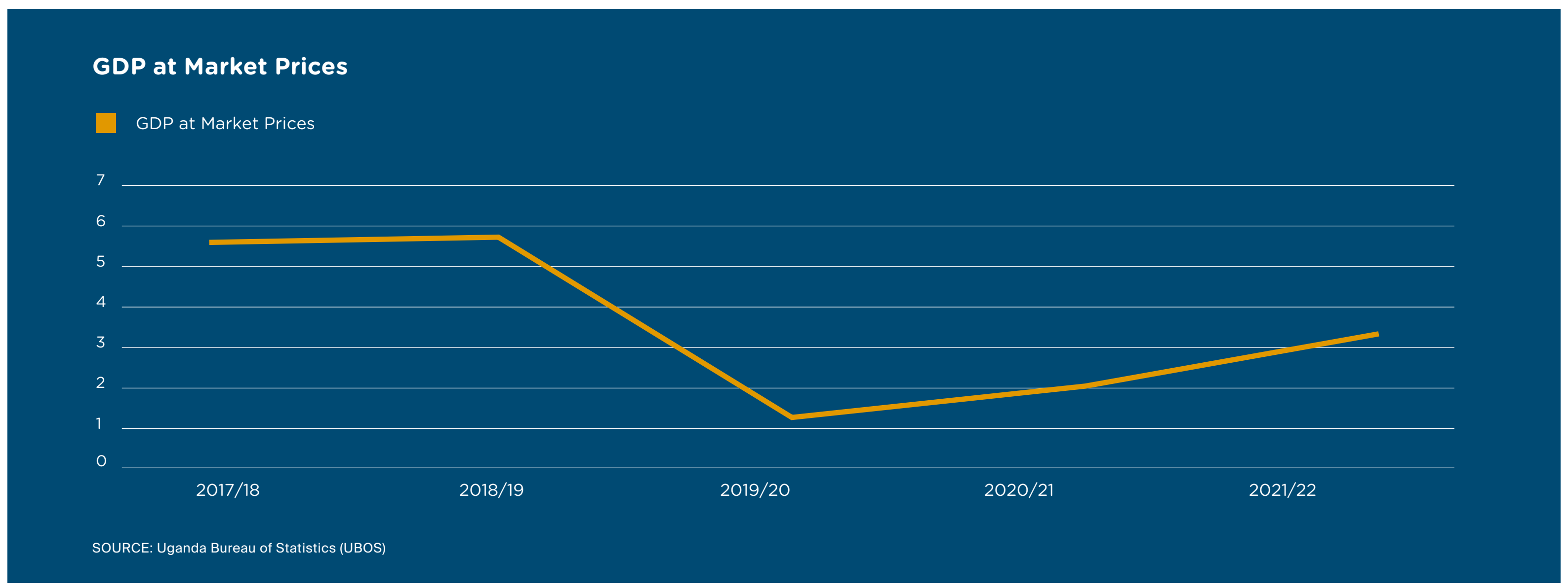
Windsor Apartments, Kampala

THE ECONOMY

GDP

Preliminary GDP estimates from the Uganda Bureau of Statistics indicate that the economy grew by 4.6% in FY 2021/22, compared to a revised growth rate of 3.5% in FY 2020/21. The full reopening of the economy in January 2022, along with economic recovery-driven government policy initiatives to boost private sector activity, are credited with the improvement in economic activity.

The initial projections by the Bank of Uganda indicated a strong recovery for 2022, with estimates of 5.5-6.0% positive growth after easing Covid-19 restrictions, the revival of the services sector and growing activity in the oil and gas sector. However, difficult times as a result of global supply disruptions, and rising inflation have dampened prospects for domestic economic growth and increased uncertainty. Despite the slow but gradual recovery recorded for the most part of H1 2022 in different sectors of the economy, these events have culminated in varying results, with particular effects on growth projections which were revised downwards by 20% to rest at 4.5-5.0% as of June 2022.



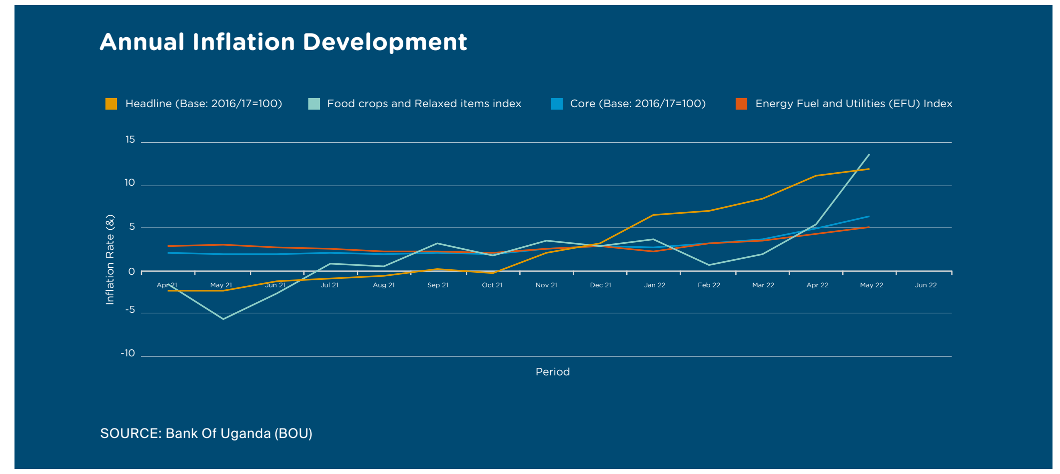
INFLATION

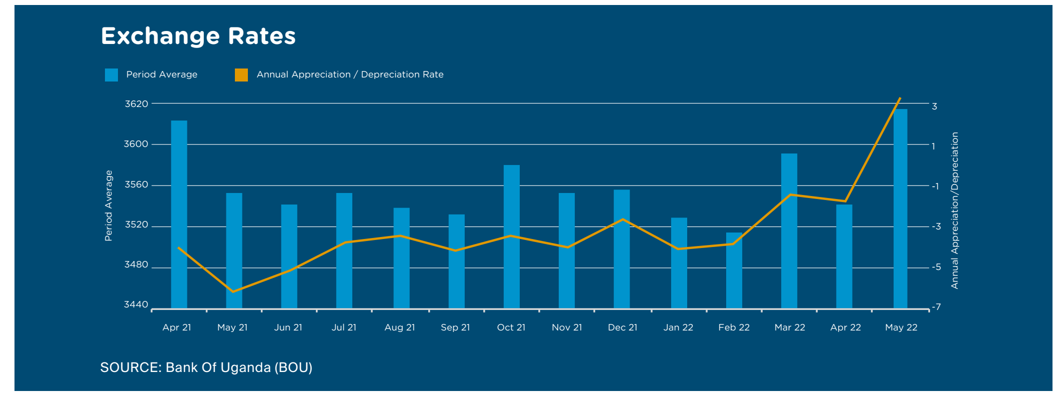
Inflation rose systematically in H1 2022, owing to increased demand against low supply following the re-opening of various economies globally, and aggravated by supply bottlenecks as a result of global tensions induced by the Russian-Ukraine conflict. Due to rising commodity and energy costs, inflation scaled up by 0.5% in June 2022. The Monetary Policy Statement for July 2022 forecasts average annual headline inflation at 7.4% in 2022.

The Business Tendency Index, which measures optimism about the business environment, showed positive sentiments for the 12 months to April 2022, but fell marginally by 0.54% in the year ended May 2022.

The Uganda Shilling, which had strengthened against the US$ by 4.2% in the year ended February 2022, experienced depreciation pressures in March, May and June 2022. This has worsened the inflation forecasts, with projections pointing to a persistent rise, until Q2 2023 when it is expected to peak, before gradually declining to stabilize around the 5% medium term target in mid-2024.

Average annual headline inflation forecast at 7.4% for 2022.





INTEREST RATES

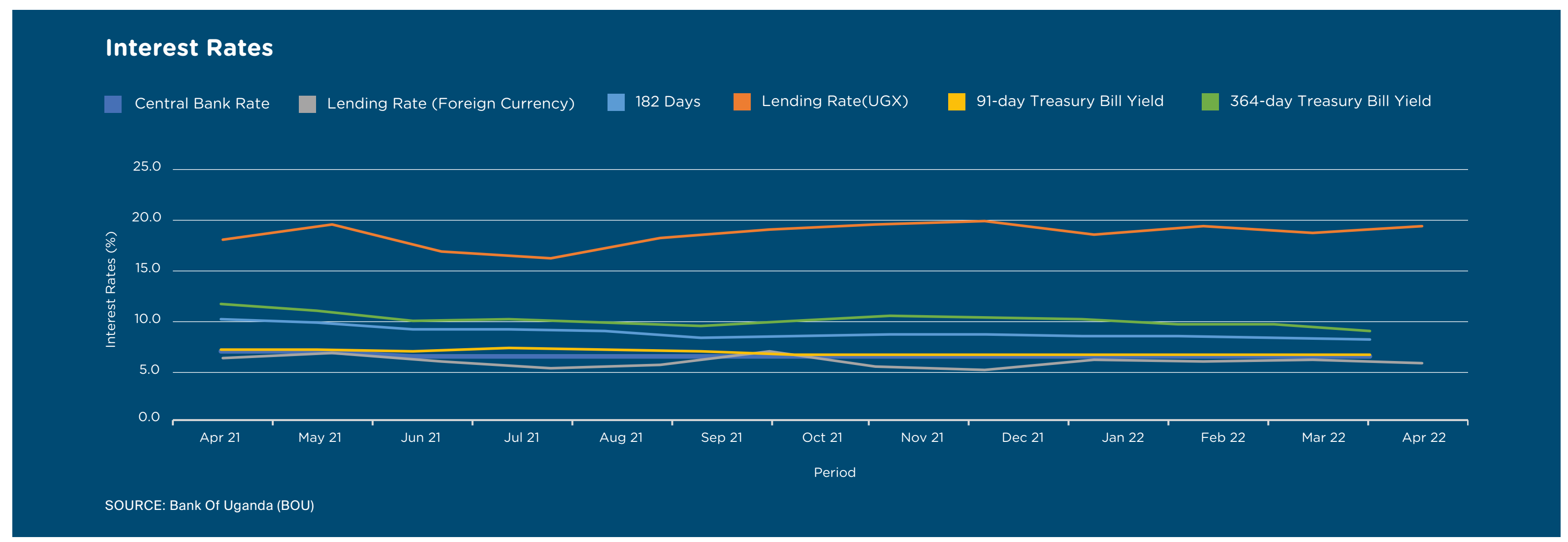
The Monetary Policy Committee tightened monetary policy measures in response to escalating inflation brought about by; external cost pressures, persisting global production and distribution bottlenecks, and rising domestic food crop prices. In July 2022, Bank of Uganda(BOU) increased the Central Bank Rate(CBR) by 100 basis points for the second month in a row to 8.5% in a bid to stabilise inflation around the 5% target. This will likely push up lending rates that had declined marginally by 0.6% to 18.8% in May 2022 from 19.4% in April 2022. BOU also increased the Cash Reserve Requirement by 2% effective June 2022 in an effort to curb the rising inflation, and it will continue with the tight monetary measures until inflation is maintained within the medium-term target.

A key highlight of H1 2022 was the signing of the long-awaited Final Investment Decision (FID). This reignited stakeholder engagements and oil operations across different segments, including awarding of engineering, procurement, and logistics contracts to both local and foreign companies. A build-up in investor confidence was observed over the half-year owing to the FID signing and we envisage an increase in activity and transactions in the services and construction industry, particularly in supply and logistics, manufacturing, specialised tools & equipment, technology services, and financial services.

H1 2022 also witnessed the opening of the Rwanda-Uganda border at Gatuna/Katuna, following a three-year closure due to an impasse between the two countries. The re-opening of the border is anticipated to increase the volumes of traded goods and cargo across the two East African nations, steadily boosting revenues in the long run.

8.5%

CBR as of July 2022



COVID-19

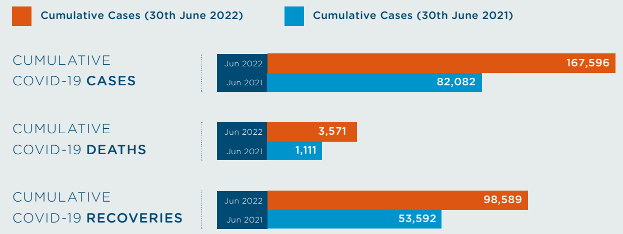
COVID-19 restrictions that had been in place for about two years were lifted in January 2022, resulting in a steady increase in activity in previously hard-hit sectors like the Education, Leisure & Hospitality, and Tourism. Furthermore, following the 5th EAC Extraordinary Sectoral Council of Ministers of Health, the decision to eliminate mandatory COVID-19 tests for travelers, including truck drivers who had already undertaken tests and had PCR results from EAC accredited laboratories within a 72-hour validity window was reached.

The subdued Covid-19 situation in H1 2022 resulted in the suspension of the requirement for negative PCR tests done within 72 hours for all outbound travelers who are fully vaccinated, except where it is a requirement of the destination country. Travelers with partial or no vaccination are required to present a negative PCR test done within 72 hours of travel.

A COVID surge was however witnessed in June 2022, with a rise in daily number of COVID-19 cases. This prompted the Ministry of Health to ramp up vaccination drives in different locations within the country and re-echo Covid-19 SOPs and guidelines.

COVID-19 UPDATES

Cumulative cases as of June 2022 compared to June 2021



On an annual basis, Cumulative Covid 19 cases increased by 104% and Cumulative deaths by 226% as of June 2022

SOURCE: Ministry of Health covid19.gou.go.ug/statistics.html

EMERGING TRENDS:ESG

Environmental, Social, and Governance (ESG) criteria is a trending topic both globally, and in Uganda. With growing expectations from investors, occupiers, and employees and the increasing emphasis on green development strategies, ESG criteria will play an increasingly vital role in investment decisions moving forward. ESG criteria focuses on companies making commitments to deliberately integrate their operations and products with pro-environment and climate solutions, while ensuring human rights and labour protection practices within their organizational culture and overall, building a strong, equitable and transparent governance structure.

In the real estate market, assessments take into account factors like the social and community benefits a building possesses, the nature of tenant operations, etc. while assessing environment-based aspects like carbon emissions, energy and utility management, external lighting, waste management, technology use, etc. In developed markets, ESG-driven tenants are willing to pay a rental premium for a building that is compliant.

While Uganda is still in the nascent stage of the ESG adoption, finance and banking institutions have become the front runners in the adoption of the criteria through strategies to provide financing for sustainability-driven investments and businesses. Green solution initiatives and environment-based tech innovations have also been earmarked for financing by Stanbic Bank Uganda especially towards young entrepreneurs and SME's.

REGULATORY ALERTS

Uganda Retirement Benefits Regulatory Authority (Assignment of Retirement Benefits for Benefits and Loans) Regulations, 2022.

The Retirement Benefits Regulations were launched on May 10, 2022, at the Uganda Media Center in Kampala by the Minister of Finance, Planning, and Economic Development and the URBRA Chief Executive Officer.

The Regulations aim to provide for procedures that a member shall follow in order to use a portion of their benefits to secure a mortgage or loan for the purchase of a residence. This applies to members of pension schemes that are licensed by the Uganda Retirement Benefits Regulatory Authority (URBRA). The regulations give members the right to pledge their accrued benefits as collateral for a mortgage or loan from an accredited financial institution for the purchase of a residential home, provided that they meet the strict eligibility requirements outlined in the Regulations.

The National Social Security Fund (NSSF), however, does not currently have an enabling provision that operationalizes the spirit of the Regulations. The Fund is the quasi-government agency in charge of collecting, storing, investment, and distributing retirement funds from Ugandan employees of the private sector who are not covered by the Government Retirement Scheme. In particular, S.34(4) of the NSSF Act conflicts with the Regulation by voiding any assignment of or charge on the account of a member of the fund or any benefit payable out of this account or any agreement to assign or charge any such account or benefit.

However, there is no cause for alarm as NSSF has gone on public record to allay public fears. The fund has commenced consultations with key stakeholders with a view to amend the conflicting clauses in the NSSF Act.

KEY TAKEAWAYS

According to Regulation 6 (2), a member may assign:

1. A maximum of 50% of his or her accrued benefits under the retirement benefits scheme at the time of the application for the facility.
2. A portion of his or her accrued benefits equivalent to the market value of the residential house, whichever is less.

SOURCE: Uganda Retirement Benefits Regulations

THE LANDLORD AND TENANT ACT, 2022.

The Landlord and Tenant Bill was assented into law in April, 2022. The Act is intended to; regulate the relationship of landlords and tenants, reform and consolidate the law relating to the letting of premises; provide for the responsibilities of landlords and tenants in relation to the letting of premises; and govern the relationship between landlords and tenants. Additionally, the Act is Uganda's first comprehensive piece of legislation that addresses the relationship between landlords and tenants.

KEY HIGHLIGHTS FROM THE LANDLORD AND TENANT ACT, 2022

SECTION 1	PARTICULARS	**Application - This Act applies to the letting of residential and business premises.** The Act does not apply to (a) residence at an institution, whether public or private, (b) residence in a hotel, motel, or other transient lodging; or (c) occupancy of premises under a tenancy created or arising under the terms of a contract of employment or any premises entered into in relation to such a contract.
	EFFECT	The exceptions would in this case be catered for by the provisions of the Contracts Acts.
SECTION 3(5)	PARTICULARS	**Requirement for Identification and incorporation documentation prior to entering into a tenancy agreement.** A landlord is prohibited from entering into a tenancy agreement with a person unless that person presents their national identification card, alien identification card, or any other form of identification, or with a legal person unless that person presents information regarding their registration or other form of incorporation.
	EFFECT	This shall ensure that landlords make informed decisions relating to the identification and beneficial owners of the entities with whom they are contracting.
SECTION 5	PARTICULARS	**Pecuniary value** A tenancy agreement of UGX 500,000/= (Uganda Shillings Five Hundred Thousand) or more is not to be enforceable unless it is in writing or in form of a data message; or the party against whom enforcement is sought admits that the agreement was entered into.
	EFFECT	This cements the requirement for tenancy agreements to be duly signed by the relevant parties so as to ensure that it is enforceable
SECTION 10	PARTICULARS	**Taxes and rates** The Act recognizes the responsibility of the landlord for the payment of all taxes and rates imposed by law in respect of the premises.
	EFFECT	Landlords therefore need to be cognizant of this and make provision for and arrange for settlement of the rates and taxes.
SECTION 22	PARTICULARS	**Currency for rent** The Act permits the Parties to determine by mutual agreement the currency in which the rent will be paid in the absence of this, all rent obligations or transactions are provided to be expressed or settled in Uganda shillings.
	EFFECT	We anticipate that the currency shall be a major point of negotiation between landlords and tenants.

SECTION 26	PARTICULARS	**Increase of rent** A landlord is precluded from increasing rent at an annual escalation rate of more than 10%. Further, the Landlord is obliged to give a tenant at least sixty days' notice, of a proposed increase in rent. Additionally, a landlord under a fixed term tenancy shall not increase the rent before the term ends, unless the parties agree to a rent increament within the fixed term. The Act also prohibits a landlord from increasing the rent payable under a tenancy at intervals of less than twelve months.
	EFFECT	Landlords and tenants shall need to structure the tenancy agreements to ensure that they are in tandem with the requirements of this section.
SECTION 27	PARTICULARS	**Rent escalations to take effect if tenant does not object or negotiate** The Act provides that where a tenant does not object to a rent increase or reach an agreement with the landlord on the increase to be effected and the rent increase is in accordance with this Act, the tenant is taken to have accepted the rent increase.
	EFFECT	At the lapse of the sixty days' notice, the landlords and tenants are expected to have arrived at a mutually binding position.
SECTION 29	PARTICULARS	**Failure to pay rent by tenant and claims for rent arrears** The Act entitles the landlord to apply to a court of competent jurisdiction to recover rent arrears owed by a tenant. Further, where the default continues for a period of more than thirty days, the landlord is entitled to re-enter the premises and take possession in the presence of an area local council official and the police.
	EFFECT	There shall be greater involvement of area local council officials and the area police in the relationship between the landlords and tenants.
SECTION 30	PARTICULARS	**Security deposit** The Act limits security deposit payable by the tenant to the landlord to the lesser of one month's occupancy of the premises to which the agreement relates or one-twelfth of the rent for one year's occupancy of the premises to which the agreement relates.
	EFFECT	Property Owners will be precluded from requesting for security deposit beyond the statutory limit.
SECTION 33	PARTICULARS	**Invalid assignment and subletting of premises lead to automatic termination** The Act provides that subletting or assignment by a tenant without the consent of the landlord is invalid and immediately terminates the tenancy.
	EFFECT	Parties entering into agreements or subletting and assignment shall need to ensure that prior landlord consent is sought in order to have binding and enforceable agreements.
SECTION 34-40	PARTICULARS	**Termination of tenancy by landlord or tenant.** The Act expressly provides for termination notice periods dependent on the term of the tenancy with seven days, thirty days and sixty days' notice for a weekly, monthly and year to year tenancy respectively.
	EFFECT	The law offers Parties numerous ways in which they are able to terminate the landlord-tenant relationship therefore parties have to be deliberate about how the tenancy agreement is structured to ensure that it is in compliance with the Act.
SECTION 38(4)	PARTICULARS	**Termination notice period** The Act expressly provides for termination notice periods dependent on the term of the tenancy with seven days, thirty days and sixty days' notice for a weekly, monthly and year to year tenancy respectively.
	EFFECT	Parties will be required to ensure that any agreed termination notice periods meet or are longer than the notice periods specified in the Act.
SECTION 49	PARTICULARS	**Landlord and tenant may act through agent.** The Act entitles a landlord or tenant to appoint an agent to effect any transactions that may be required under this Act.
	EFFECT	Increased engagement of real estate professionals that provide tenant representation and property management services is anticipated, which will eliminate the need for landlords and tenants to negotiate directly when disclosed agents are present.

Disclaimer

No information contained herein should be construed as legal advice from Knight Frank Uganda Ltd-Legal Department or the individual authors, nor is it intended to be a substitute for legal counsel on any subject matter.

SOURCE: Landlord and Tenant Act, 2022

UGX
500,000 /=
Uganda Shillings Five Hundred Thousand Only

Pecuniary value

All tenancy agreements involving rent above UGX 500,000 to be in writing.

10%

Maximum Annual Rent Escalation

Landlords and tenants shall need to structure the tenancy agreements to ensure that they are in tandem with the requirements of this section.

> Increased engagement by real estate professionals who provide tenant representation and property management services is anticipated, which will eliminate the need for landlords and tenants to negotiate directly when disclosed agents exist.

THE PROPERTY MARKET

OFFICE SECTOR

The prime office market marked an uptick in leasing activity in H1 2022. Enquiries increased, driven in part by the full reopening of the economy, increased start-up funding, improved activity in the services sector, and the signing of the FID in early February. Demand was from a wide range of sectors including; Financial Services, Technology/Telecoms, Oil & Gas, Health, NGOs, Business & Professional Services, start-ups, Industrial/Logistics, Legal as well as Government agencies. These were either new entrants or existing firms that were expanding or relocating.

Take-up was also registered from occupiers who had previously downsized at the onset of the pandemic and are currently seeking to reoccupy the spaces they had relinquished. As a result, enquiries increased by 20% in H1 2022 as compared to the same period in 2021. Similarly, Grade A office occupancies were up by 11% while grade AB occupancies improved slightly by 2% in the same period, largely attributed to existing occupiers increasing their space take-up.

Despite the positive trend in uptake, several landlords were cautious, opting to maintain prevailing rents. However, a few landlords who had discounted rents at the onset of the pandemic revised their rents upward, during contract renewals. This however had a marginal effect on average rents, which remained relatively stable. Prime yields were in the range of 9 - 10%. Q2 2022 saw a steady increase in occupancy levels which are being clawed back, some to pre-covid numbers. This comes as no surprise given the increased uptake of space and shrinking supply of good quality, functional space in strategically located properties in the prime office locations.

As prime-office occupancy levels increase, we anticipate prime rents to also rise accordingly driven in part by the growing oil and gas activities, at least until pipeline supply of high-quality space is offloaded onto the market. The office pipeline currently accounts for approximately 200,000 square meters of space, 20% of which is expected on the market in H2 2022 and approximately 62% is for owner-occupation.

The requirement for spaces that improve employees' well-being as well as augment collaboration has continued to remain one of the key factors for occupiers who are looking to relocate, start-up or expand.

The general outlook for the office market is positive for the short – mid-term, thanks to oil and gas activity and the resurgence of activities in the services sector. However, with approximately 90,000 square meters of office space expected in the next 12 to 24 months, pressure on occupancies especially in less prime, poorly managed buildings will intensify in the long run. This is especially true for offices that are currently occupied by government entities that have or will be moving to their new premises.

That said, the current uncertainty as a result of rising inflation and the weakening purchasing power of the shilling will affect operational costs and impact service charges accordingly in the short to medium-term. The increasing cost of living which is likely to continue having ripple effects across the board, will necessitate frugal business strategies to ensure businesses remain sustainable in the near future given the projected slower than anticipated pace of economic recovery.

Key aspects sought after by occupiers in their choice of office premises include the requirement for green outdoor spaces (currently minimal in existing premises), reliable and fast internet connection, and networking / collaborative spaces and convenient dining options. These will certainly inform pipeline developments and bodes well for the growing ESG requirements of different stakeholders.

A significant observation over the half-year was the growing demand for shorter lease periods averaging between 2 to 3 years unlike previously when 3-to-5-year leases were the market norm, and this is working both ways. On the one hand, it suits occupiers adopting a cautious stance, to minimise long-term commitments given the uncertainty brought about by the pandemic, and heightened by the effects of global tensions, while on the other hand it gives landlords the flexibility and option of replacing a tenant should they fail to meet their contractual obligations.

Space size requirements varied based on occupier needs, with most multinationals, government, and financial institutions seeking spaces, ranging from 500 to 2000 square meters, while other occupiers, primarily in the technology, business, and legal sectors, seeking smaller spaces, ranging from 50 to 200 square meters.

> The recently completed PPDA-URF Towers, and the New ERA House added approximately 20,000 square meters of office space on the market.

Prime Office Rents (US$)

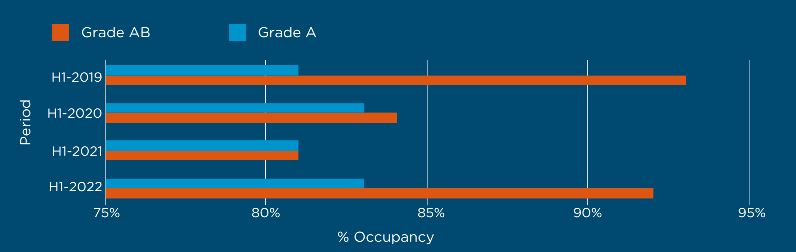
GRADE A	$14-$16
GRADE AB	$12-$14

SOURCE: Knight Frank Research

11%

Grade A office Occupancies increased by 11%.

Prime Office Occupancy



SOURCE: Knight Frank Research

RETAIL SECTOR

The retail market performance as measured by footfall and turnover improved by 6% and 8% respectively in H1 2022 as compared to a similar period in 2021, attributed to the full reopening of the economy in January 2022. While a noticeable uptick in retail activity was observed on a year-on-year comparison, turnover growth for general grocery retail and average footfall in malls remained subdued, showing a negative growth of 20% & 23% compared to pre-covid numbers respectively as of May 2022.

Positive growth in average turnovers was recorded on a monthly basis in the quarter to April 2022, but dipped by 5.8% in May 2022. This was on the back of rising commodity and fuel prices that affected affordability among consumers. A similar trend was observed with the monthly footfall figures which declined by -9% and -2% in April and May 2022 respectively.

The continuous rise in inflation in Q2 2022 affected consumers' disposable income and spending habits, necessitating prudent expenditure planning. This affected footfalls and had a correlated effect on the average turnovers in the same period. Our outlook is that this trend will likely persist in the short term as countries world over grapple with rising costs of commodities and fuel.

Retail rents (Covid-adjusted) remained stable in the last two years, owing to increasing flexibility among landlords who sought to protect retailers from the effects of the pandemic. As a result, average occupancies in Knight Frank managed malls maintained relative stability in H1 2022 at approximately 88% on the back of new retailers entering the Ugandan market and existing retailers expanding their footprint.

Hummel, an international fashion brand, entered the Ugandan market in H1 2022, and the retailer is presently onboarding two locations at two malls in Kampala, which are anticipated to open in Q3 2022. Century Cinemax, East Africa's well-known cinema operator, plans to open their third cinema in Uganda in Q3, following the full re-opening of the economy. Cafesserie, a well-known restaurateur, established both their third restaurant in Kampala, as well as Frango, their first chicken restaurant, at the Arena Mall.

The prime retail market was void of construction activity in H1 2022. The case was however different in the suburbs which have continued to witness an increase in the supply of neighbourhood shopping centers. This growing trend is slowly impacting occupancies in downtown retail centers as they compete with the suburbs to attract traders. The lower rents in the neighbourhood shopping centers as compared to rates charged in downtown retail centers have attracted tenants, who are striving to minimize operational and occupancy costs.

With the current rise in commodity and fuel prices, retail recovery to pre-pandemic performance still remains uncertain. Current statistics point to slow retail growth given the effects of high prices on affordability.

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

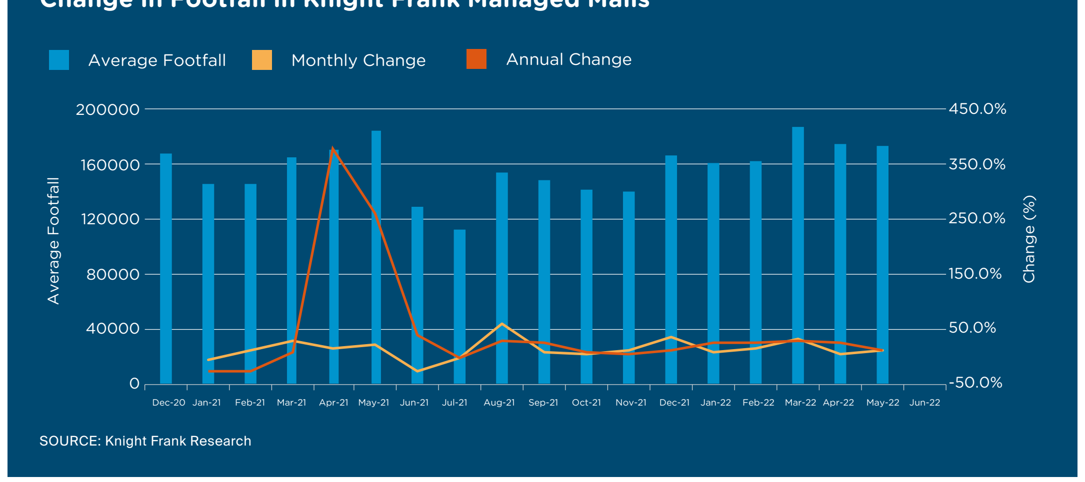
Size	Rates
<10M²	$200
<50M²	$36
<100M²	$22
<500M²	$17
>500M²	$15
>1000M²	$11

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.

5.8%

Average turnovers dipped by 5.8% in May 2022.



Change in Footfall in Knight Frank Managed Malls

SOURCE: Knight Frank Research

KAMPALA MARKET UPDATE H1 2022

RESIDENTIAL SECTOR

In the period under review, the prime residential market opened up to increased sale and rental activity, on the back of the return of expatriates to the country and growing activity in the oil and gas sector. Apartments in the upscale neighborhoods of Kololo, Naguru, and Nakasero were in high demand, with noticeable interest in 1- and 2-bedroom options. As a result, prime residential occupancies increased by 3%, while rents maintained relative stability,

We noted that despite rising demand for prime residential accommodation, (which is currently dominated by tenants in the oil and gas sector), tenants continue to drive harder rent bargains, and in most cases getting them. This is also coupled with the fact that they are taking up numerous residential units which further strengthens their bargaining position.

In terms of number of units, the residential apartment market in Kololo is the most robust in Kampala. Kololo makes up approximately 40% of all the housing units in the affluent suburbs and at least 60% of the prime construction pipeline.

Pipeline activity in prime suburbs increased by 13%, with at least 340 apartment units expected on the market in the next 12 to 24 months, 85% of which are 3-bedroom units. The increasing stock of apartments especially in the suburbs of Kololo and Naguru is likely to contribute to residential market over supply woes in the long term, resulting in landlords revising rents downwards in order to reduce vacancies.

Developers have been observed to include aspects of green buildings in their designs as a result of the growing interest in sustainability and ESG across different real estate sub-markets, with features such as solar power, sensor triggered lighting, rainwater harvesting, and enhancing natural light. This trend is anticipated to have an impact on future residential developments as the drive towards sustainable and green development gains momentum.

An extension in the geographical scope of the dollar market was observed in H1 2022. This market, which was historically concentrated in the affluent suburbs of Nakasero, Kololo, Naguru, Mbuya, and Bugolobi, stretching to Muyenga, Ntinda, Lubowa, Munyonyo, Mutungo, and Luzira has broadened. Dollar leases were observed in Naalya, Kiwatule, and Najjera, which were initially shilling denominated. This suggests that multinationals with lower rental allocations are now moving outwards to more affordable areas.

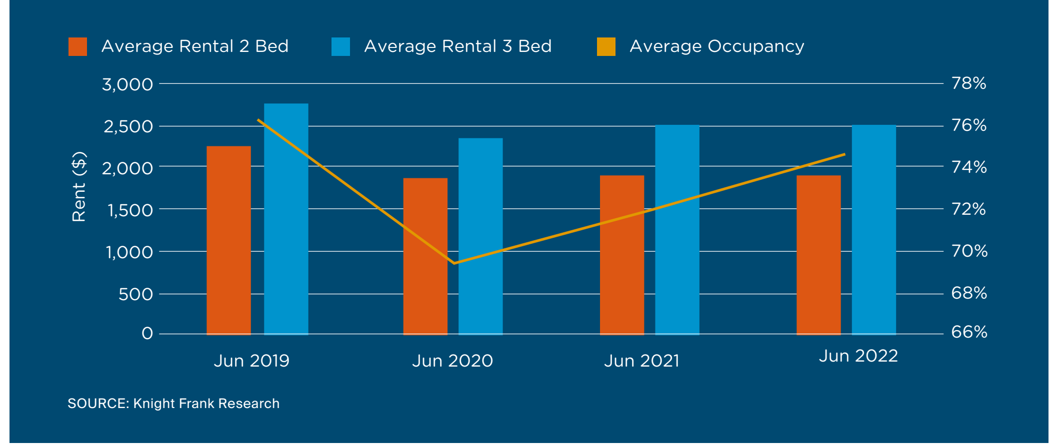
Demand for residential space in the suburbs has persisted, attributed to the slightly lower rentals and the high quality of the new available stock. Given the increasing demand in the affordable market segment, developers are now offering more affordable options. Investment in this housing market will be essential for fostering inclusive economic growth.

Market Sentiments

Market	Commercial	Retail	Residential
Occupier Requirements	↑	→	↑
Asking Rents	↑	→	↑
Passing Rents	→	→	→
Occupancy	↑	→	↑
Pipeline Projects	↑	→	↑
Outlook (H2 2022)	→	↓	→

SOURCE: Knight Frank Research

The period under review witnessed increased interest in furnished options, specifically for smaller units with one or two bedrooms.



Prime Residential Rents & Occupancy

SOURCE: Knight Frank Research

INDUSTRIAL SECTOR

The industrial market remained resilient in H1 2022, supported by government initiatives to boost industrialization in the country and the signing of the FID in February 2022. 2022 and 2023 have been highlighted by UIA as the years for enhancing domestic investment. The Authority, through a dedicated team (the Domestic Investment Directorate), focused on assisting small- and medium-sized businesses (SMEs) to scale-up will undertake to connect SMEs with significant local and international investors, offer them serviced workspaces in industrial parks, and provide training and other capacity-building programs.

Industrial space demand persisted in H1 2022, driven by increased economic activity following the relaxation of lockdown restrictions, growing movement in the oil and gas sector, growth of e-commerce, and the need to localize production in order to address supply shortages. Agriculture, fast-moving consumer goods, manufacturing, technology, logistics, retail, and energy are among the sectors that are driving demand.

Tenants have been observed to opt for quality warehouses and showrooms, with excellent amenities in strategic locations. The limited availability of such space in the traditional industrial areas within Kampala has prompted occupiers to seek locations in the suburbs such as Kawempe, Namanve, Bweyogerere.

Average warehouse rents remained relatively stable, ranging between US$5- US$7 per sqm for warehouses in the Traditional Kampala Industrial area, while rents in in the KIBP were approximately US$3 to US$5.5 per sqm.

A sustained growth in industrial market activities is projected, especially with the drive to ramp up local manufacturing. Agro-industrialization, one of the key priority sectors in line with the NDP III was emphasized as a key focus area for the upcoming fiscal year in the budget read in June 2022. Some of the intervention strategies to promote agro-industrialisation, standards and market-entry include; Expanding storage and processing capacity for agricultural commodities; Enhancing the use of the Warehouse Receipt System to improve commodity storage, Reduce post-harvest losses, Improve value chain management; Providing funds for private sector investment in key commodity agro-processing value chains through soft and patient debt from UDB, and equity from UDC; Establishing fully serviced industrial parks; and Strengthening of standards for quality assurance to improve access to markets.

The rise in inflation is projected to result in high cost of production for local manufacturers. The rising risk to local production will likely necessitate government intervention in form of incentives should inflation persist in the long run.

> "Tenants have been observed to opt for quality warehouses and showrooms, with excellent amenities in strategic locations."

VALUATION & ADVISORY

There have been continuous parallels drawn between the unforeseen risks caused by the pandemic and the climate crisis, which have both significantly affected the global economy. This has resulted in a need for greater investment and progress on matters relating to Environmental, Social, and Governance (ESG) by both investors and policy makers. This has also attracted the attention of lenders and other property stakeholders as ESG may affect prospects of rental and capital growth and would as a result influence investment approach. This prompted the RICS to develop and prepare a new guidance note entitled "Sustainability and ESG in Commercial Property Valuation and Strategic Advice", which focuses on commercial property valuations. The guidance note, which was effective from 31 January 2022 is partly aimed at relating commercial valuation practice to the wider ESG and sustainability landscape.

With the notion of ESG still in its infancy in Uganda, property deals are yet to reflect a measurable ESG premium on yields and rentals as is the case in other countries. However, with the increasing requirement for ESG compliance by occupiers and other sector players particularly multinationals world over, it is likely to be key in future property transactions in Uganda.

The proposed tabling of the valuation bill will be a milestone for the valuation profession, which has for long relied on global standards in the absence of local ones. The bill when passed into law will establish the office of the Chief Government Valuer and provide a backbone for the valuation of property in which government has an interest. It will add to the already existing legislations that guide survey-related activities though this one will be specific to valuation surveyors. Most importantly, the valuation bill will support the drafting of local valuation standards and guidelines which are currently anchored on the International valuation standards as best practice recommends, but yet to be formally adopted.

According to the Background to the Budget FY2022/23 issued by Ministry of Finance, Planning and Economic Development, the ratio of Non-Performing Loans (NPLs) to total loans increased by 0.4% year-on-year in Q1 2022. The sectors that saw the highest increase in NPLs were building/construction & real estate and business services, which increased from 5.7% and 5.2% to 10.1% and 9.8% respectively within the same period. This trend is consistent with the increase in instructions for foreclosures witnessed in the period under review.

LOOKING AHEAD

1. The office market will likely see a review of escalation clauses in lease agreements on the back of growing discussions among stakeholders on the topic as a result of constrained incomes. The reviews will likely incorporate biennial rates as compared to the annual escalation rates that were the market norm. This will however likely happen on a case-by-case basis rather than as a general rule.
2. The persistent rise in commodity and energy costs is projected to result in high operational costs, which will be reflected in increased service charges, hence increasing total occupancy costs.
3. In order to maintain agile office solutions and flexible portfolios, developers will continue to consider incorporating flexible office options and smaller spaces (50 to 100 sq m) in their buildings.
4. With the United Kingdom government's pledge to invest in Uganda's business parks, and the prioritization of industrialization in the 2022/23 budget, construction in many of the parks is projected to start & or continue in the medium to long term.
5. The current high commodity and fuel prices have affected consumers' disposable incomes. As customers prioritize their purchases, the ongoing price increase is anticipated to have an impact on domestic demand, causing a decline in foot traffic and turnover at various shopping centers.
6. Future developments are projected to take into account the growing need for 1-bedroom units given the limited supply and the fact that the bulk of current and upcoming projects offer 3-bedroom units.
7. The rising number of apartments, particularly 3-bed units in Kololo and Naguru's suburbs, is anticipated to exacerbate the problem of an oversupply of prime units in the long run, necessitating downward rent reviews in an effort to manage vacancy pressures.
8. The hospitality and tourism industry, which has been on a recovery trajectory following the reopening of boarders globally, will continue to see improvements thanks to higher COVID-19 immunization rates, loosened travel restrictions, and enhanced government support.
9. With Masindi earmarked as a supply terminal and logistical hub for the oil activities, and Luwero and Nakasongola designated as logistics and supply terminal's transit routes, increased infrastructure development in these areas to support the ongoing activities and provide accommodation for project staff and the expatriates is expected.

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