Kampala Market Outlook
Quarterly Dashboard, Q3 2022

Knight Frank

KEY Q3 TAKEAWAYS

HEADLINE INFLATION - 10.0% SEPTEMBER 2022

CBR RATE -9.0% SEPTEMBER 2022 (STABLE)

LENDING RATE AT 17.3% (INCREASED)

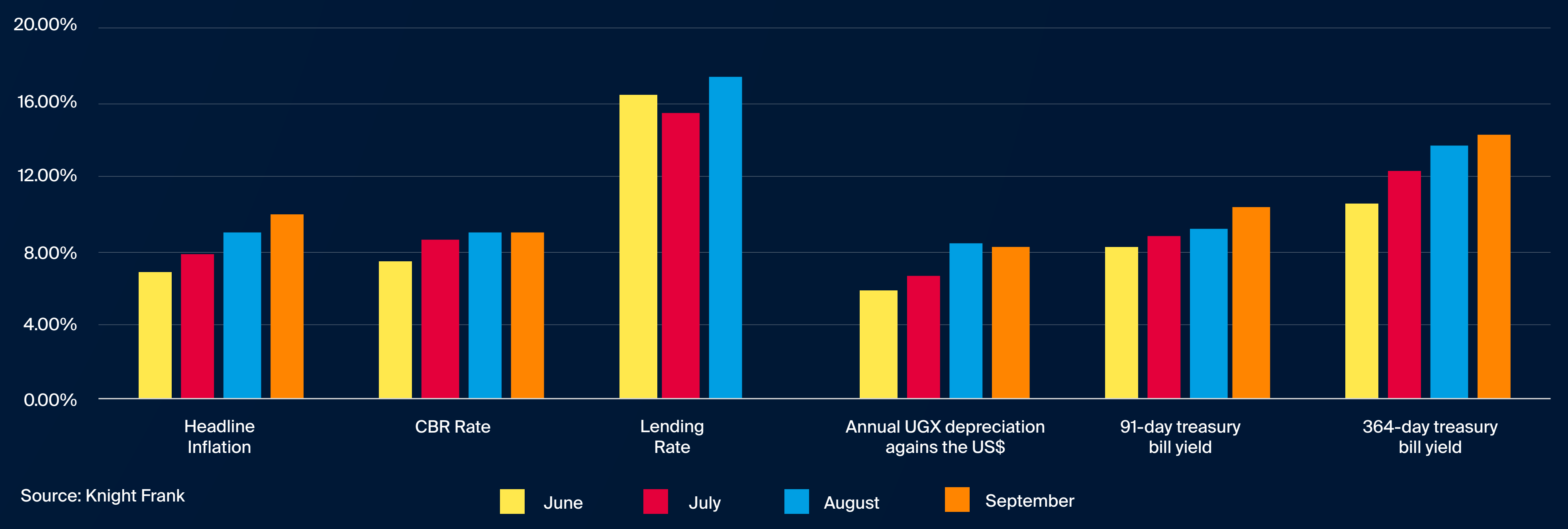
ANNUAL UGX DEPRECIATION AGAINST THE US$ 8.3%

ECONOMIC HIGHLIGHTS

The national economic situation remained tepid for most of Q3 2022 owing to the persistent rise in inflation, changing weather conditions, the pandemic's effects and global tensions. The rise in food and energy prices, impacted costs of living as well as, disposable incomes and called for strict monetary control measures.

Annual headline inflation increased to 10.0 % in September 2022 up from 9.0% in August 2022 owing to a rise in annual core inflation from 7.2% in August 2022 to 9.0% in the same period. As a result, Bank of Uganda revised the Central Bank Rate (CBR) upwards by 50 basis points from 8.5% in July 2022 to 9.0% in August and September 2022 in a bid to hedge against the persistent rise in inflation. This has resulted in an increase in the lending rates from 15.5% in June 2022 to 17.3% in August 2022 while Yields on treasury bills have also increased with the 91-day treasury bill yield increasing from 8.2% in June 2022 to 10.4% in September 2022.

Performance of selected economic indicators



Source: Knight Frank

Q4 OUTLOOK

High inflation rate – Review of escalation clauses though on a case-by-case basis.

High operation costs - Persistent increase in inflation is projected to result in high operational costs, which will be reflected in increased service charges, hence increasing total occupancy costs.

Increase in cost of Finance - Tight monetary policy will likely affect lending rates thus increasing development finance costs.

Reduced domestic demand - The current high commodity and fuel prices will likely affect consumers' disposable incomes thus negatively affecting turnovers.

Agile office solutions – Incorporating flexible office options and smaller spaces (50 to 100 sqm) in office buildings.

RESIDENTIAL MARKET

Q3 2022 experienced an increase in rental enquiries for apartments and bungalows in the prime areas as well as a notable increase in the uptake of vacant land, as developers are eager to meet the increased demand for affordable housing. There was a modest 2% increase in prime average occupancy rates as well from H1-2022 and this was mostly for the 2 and 3-bed apartments while rental asking prices maintained relative stability. Prospective purchasers are also taking advantage of the increasing number of distressed properties to bargain for lower offers.

INCREASED DEMAND FOR 1- & 2-BEDROOM APARTMENTS UNITS

OCCUPANCIES INCREASED

OFFICE MARKET

Average Prime office rents for grade-A and AB remained Stable in Q3, with average occupancies increasing slightly by 1% to 93% q-o-q. Demand was supported by oil-affiliated companies and banks that have been relocating their head offices to prime grade A/AB locations to benefit from better visibility and positive externalities that come with being located in the prime office areas.

The limited availability of Grade A space for immediate occupation remains a challenge, at least until pipeline supply is offloaded onto the market.

Small space occupiers of 50-100sqm dominated the enquiries in Q3 while existing and new occupiers showed increased interest in shorter lease terms between 1-2 years though 2-3 years leases remained common in the market. Yields remained stable at 9%.

Prime office rents

Average monthly passing rent (US$ PSM)

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

INCREASED DEMAND FOR GRADE A OFFICE SPACE

INCREASED OCCUPANCIES

RETAIL MARKET

The retail market performance as measured by footfall and turnover improved by 13% and 7% respectively in Q3 2022 as compared to Q2 2022, attributed to the growing confidence of shoppers and new retail entrants in the market plus increased retail activity by students on holiday. Average occupancies increased slightly by 1% to 89% q-o-q. Turnover growth for general grocery retail remained subdued, owing to the high costs of business as a result of high transportation costs triggered by rising inflation.

South African top fashion retailer Woolworths, opened its fourth store at Village mall and Danish sports brand Hummel opened a store at Acacia Mall.

There is also a noticeable increase in retail activity in the suburbs, driven largely by subsidized rents in comparison to the core retail business area of downtown Kampala, preference for newer retail spaces with better display layouts and sizes, ample parking, and a surging shift from brick-and-mortar business to newer techniques of online marketing and sales that offer flexible points of sale. Average yields remained stable at 8%.

FOOTFALL INCREASED

OCCUPANCIES REMAINED STABLE

TURNOVERS REMAINED SUBDUED

AVERAGE YIELDS REMAINED STABLE AT 8%.

INDUSTRIAL MARKET

Demand for industrial space has persisted, driven by rising economic activity, following the relaxation of lockdown restrictions, growth in the oil and gas and e-commerce sectors, and a wave of new industrial parks being established to both localize production and address supply shortages. The performance of the sector has been boosted by the government's initiatives to boost local production and industrialization

Location continues to be a crucial deciding factor, with the strongest demand recorded in warehouses in strategic locations. The supply of quality warehouses in Kampala is generally scarce, prompting many occupiers to consider suburban locations such as Namanve.

Average warehouse rents (US$ PSM)

TRADITIONAL KAMPALA INDUSTRIAL	$5.0-$7.0
KAMPALA INDUSTRIAL AND BUSINESS PARK (KIBP)	$3.0-$5.5

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