The Kampala Property Market Performance Review

Knight Frank

Q1 2024

Knight Frank Uganda's performance review of Kampala's property market over the first quarter of 2024

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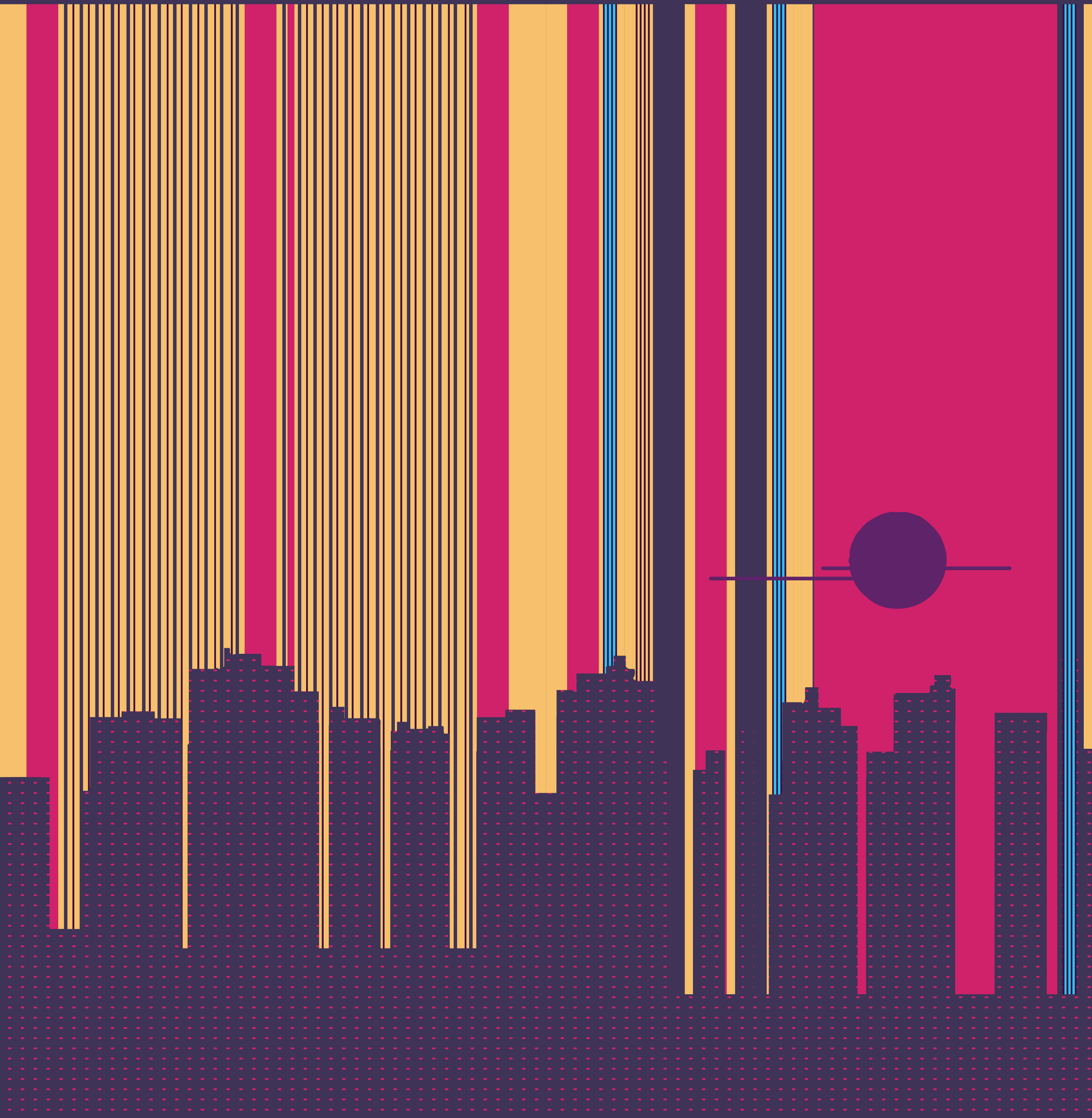

The Economy

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Economic Activity

Uganda's economic recovery slowed down in the first quarter of 2024 due to stringent economic conditions. Factors such as heightened government borrowing leading to private sector displacement in the credit market, depreciation of the exchange rate, and a global economic deceleration have contributed to this slower momentum[1]. Projections indicate a growth rate of 6% for the financial year 2023/24, with expectations ranging between 5.5% and 6.5% for the ensuing years.[2]

In a bid to maintain the inflation rate within the medium target of 5% and minimise currency depreciation while supporting sustainable growth, the Bank of Uganda has tightened its monetary policy.

During a special monetary policy sitting in March 2023, the Bank raised the Central Bank Rate (CBR) from 9.5% which it had been maintaining since August 2023 to 10% and has further increased the CBR to 10.25% at its April 2024 sitting. The annual headline inflation was recorded at 3.3% for March 2024, up from 2.6% as of December 2023. This represents a slight drop from the 3.4% recorded for February 2024, the highest rate since August 2023. Inflation is projected to rise to between 5.5% and 6% within the next 12 months before returning to the medium-term target of 5% by the second half of 2025. The rise in inflation has been attributed to rising servicesn and energy prices, and exchange rate depreciation.

The Ugandan shilling continued to depreciate against the US Dollar, depreciating by 3.0%, 5.1% and 4.0% for the years ending January, February, and March 2024 respectively. Strong domestic demand from corporations and the exodus of short-term foreign investor funds from the domestic market in quest of attractive yields in other markets have both contributed to the depreciation of the shilling.

The Business Tendency indicator, which reduced from 59.8 in December 2023 to 55.5 in March 2024 points to reduced optimism among executives about the current and future business conditions. Similarly, the Stanbic Bank headline Purchasing Managers Index (PMI) dropped to 49.3 in March 2024, below the 50-threshold from 54.8 in December 2023 indicating a decline in the business operating conditions in the economy. This downturn in business is the first since July 2022, attributed to a reduction in output and new orders, rising input costs, purchase prices, and wage bills. Nonetheless, firms remain confident in the outlook as employment grows.

Table 1: Annual Economic Parameters

Parameter	December 2023	March 2024
Annual Headline Inflation	2.6%	3.3%
Core Inflation	2.3%	3.4%
Exchange Rate (UGX/US$) -annual Depreciation	2.4%	4.0%
Central Bank Rate	9.5%	10.0%
Business Tendency Indicator	59.8	55.5
Stanbic Bank headline PMI*	54.8	49.3

6% Economic Growth Rate FY 2023/24

10.0% CBR Rate March 2024

4.0% Annual Shilling Depreciation Increased in March 2024

3.3% Headline inflation March 2024

Slowdown in economic performance

Figure 1: Annual Inflation Developments

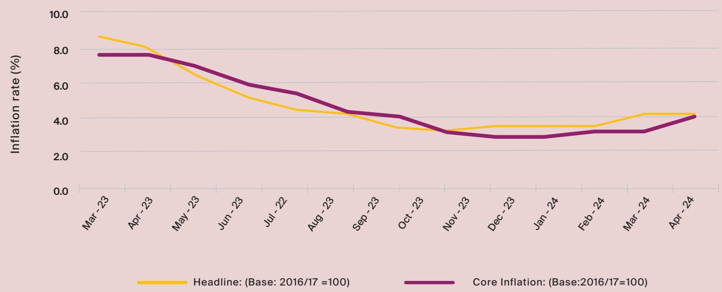
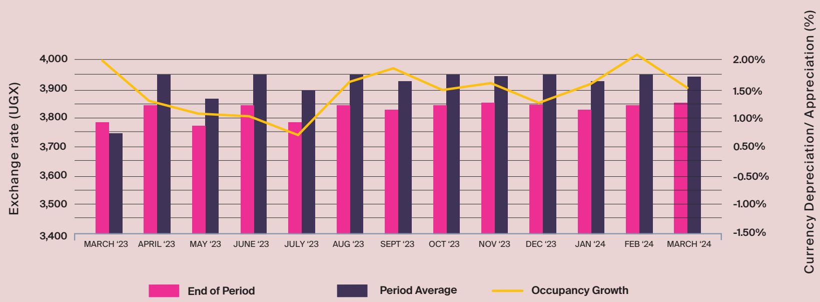


Figure 2: Monthly Currency Appreciation/Depreciation



Source: Bank of Uganda

Q1 refers to the period of data colection and study between 1st January and 30th March

[1]State of the Economy Report-March 2024 -BOU

[2]Monetary Policy Statement –April 2024 -BOU

The Real Estate Sector

The occupancy and rental rates for apartment units have held stable, similar to rates observed in Q4 2023 with occupancy rates above 80%.

Residential Sector

The residential sector's performance was sluggish in Q1-2024 marked by a low volume of sales and lettings as compared to Q1 2023. The market has been strained, characterized by supply of housing stock outstripping demand creating a buyers' market. Even the few available buyers are hesitant to commit, thus prolonging the marketing period for the properties. The slow market performance can be attributed to a liquidity squeeze given the tight market conditions, high-interest rates, and high inflation thus affecting disposable incomes.

Prime areas of Nakasero, Kololo, Naguru, Mbuya and Bugolobi remain the most preferred for expatriates, while increased pipeline activity has been observed in the areas of Ntinda, Muyenga, Mutungo, Kyambogo and Lubowa as developers continue to expand the catchment area for prime residential accommodation outside of the traditional areas in and around the CBD.

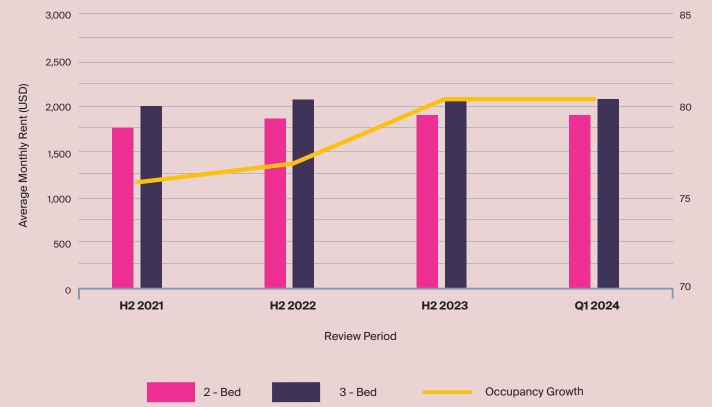
The semi-prime and secondary suburbs' housing stock has also seen a discernible improvement in the quality of units offered which has resulted in higher rental and sale prices with, and an emerging dollar-denominated market for some of the properties in the secondary areas of Kyanja, and Najjera to name but a few..

The commuter towns on the outskirts of Kampala city (30-km radius around the CBD) continue to gain traction, driven by the growing opportunities for both investors and home buyers. These include towns such as Gayaza, Nsangi, Nabbingo, Matugga, Bulenga, Busiika, Kasangati and Mukono among others., (Follow this link to access our recent publication on the Greater Kampala Commuter Towns

https://www.knightfrank.com/research/report-library/the-greater-kampala-commuter-towns-report-2024-11047.aspx)

The occupancy and rental rates for apartment units have held stable, similar to rates observed in Q4 2023 with occupancy rates above 80%. In the first quarter of 2024, the market witnessed the entry of a new developer, Vaal, offering off-plan sales. These developers are pioneering high-density developments in prime areas, thereby testing the market with this emerging trend.

Figure 3: Rental and Occupancy Growth Trend



Above 80%
Prime occcupancy rates

9.5%
CBR Rate as at December 2023

RENT
Low volume lettings & sales

Source: Knight Frank Uganda

Photo: Residence for rent in the upscale Kololo neighbourhood.

RETAIL SECTOR

The retail sector registered a performance improvement in the first Quarter of 2024 as measured by turnover, occupancy, and footfall performance. Annually, foot traffic increased by 2%, turnovers from general retail increased by 35%, and average occupancies increased by 8.85% across Knight Frank-managed malls. The improvement in the retail sector's performance was supported by return-to-school shopping and Valentine's Day promotions.

Q1 2024 saw the introduction of new retailers at different malls such as Black Drip and Tecno Bellazuri at Arena Mall among others, increasing the basket of commodities from which the shoppers can select their pick thus enhancing their shopping experience.

The Kampala Flyover Project is taking shape with the roads around Arena Mall opened hence easing access to and from the mall.

The Q2 2024 retail outlook remains optimistic supported by the anticipated expansion of retailers in the various malls, and the overall improvement of the economy. However, the increasing inflation level coupled with the Shilling depreciation pressures could negatively affect the outlook.

35%
Growth in annual turn over

8.85%
Growth in annual occupancy

2%
Increase in annual footfall

Source: Knight Frank Research

Photo: Arena Mall Nsmbya

Figure 4: Occupancy growth across Knight Frank managed malls

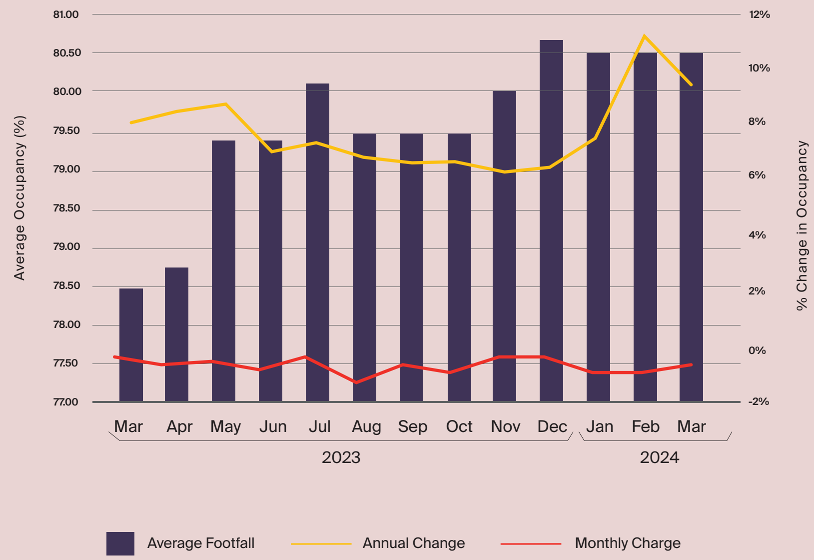
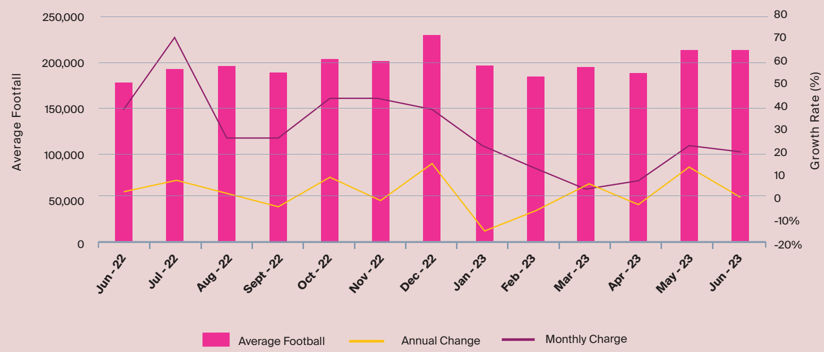


Figure 4: Footfall growth across Knight Frank managed malls



Source: Knight Frank Research

OFFICE SECTOR

Commercial office space has witnessed slow uptake characterized by a low volume of sales and lettings in line with the general state of the economy. Demand for smaller office units (40 to 150 sqm) has persisted similar to the trend witnessed in 2023. Interest in large office floorplates for rent has slowed down, and where present, tenants are taking longer to close the deals. This is attributed to prolonged decision-making processes which require input from multiple stakeholders, and budgetary considerations. This delay has led to longer marketing periods for large spaces (between 6 to 12 months).. There is also a noticeably limited supply of Grade-A office space for organizations looking for large office spaces (1000 sqm and above) with most now taking the wait-and-see approach in anticipation of improved economic performance.

There has been a tangible increase in the supply of commercial properties for sale. Some of the reasons that have led to this include the following: -

a)Strategic realignment and corporate restructuring– Streamlining their asset base and selling off surplus or underutilized properties.

b)Slowdown in Economic Performance - The current economic slowdown has impacted cashflows forcing businesses with declining business activity to downsize or even cease operations altogether.

c) Liquidity Shortage -Generating cash to pay off debts and invest in other assets.

Pipeline projects continue to face delays in terms of completion with most projects which were due to come onto the market in 2023/2024 expected in Q3/Q4 2024 and most in 2025/2026.

Prime office space rents have held stable, recorded at US$ 16.5 and US$ 15.0 psm per month for Grade A and Grade AB, respectively with average occupancy levels above 85%.

Persistent demand for premium, state-of-the-art offices.

Persistent demand for smaller offices (50-150sqm)

Low volume of lettings and sales

Figure 5: Prime Office Rentals

Source: Knight Frank Research

Photo: Mirembe Business Complex

INDUSTRIAL SECTOR

There has been a low uptake of warehouse space in Q1 with demand driven by firms in manufacturing, furniture, car dealerships, and textile sectors among others. Warehouse asking rental levels remained stable, ranging between US $3 to US$ 7 psm per month depending on location and property-specific attributes.

Good infrastructure, proximity to markets, availability of resources and supportive business environments continue to influence the industrial sector in terms of preferred location by different companies. The traditional industrial area (01st to 06th street), Namanve, Old Kampala, Nakawa and Kawempe remain the preferred locations for warehouse space.

Pipeline developments have continued, with over 40,000 sqm of warehouse space expected on the market in 2024 for rent and sale.

Table 2: Rent allocation across industrial locations

S/N	LOCATION	RENT (US$ per sqm)
01	Traditional Industrial Area (1st to 8th Street)	US$ 5.0 - US$ 7.0
02	Kampala Industrial Business Park (Namanve)	US$ 3.0 – US $4.50
03	Ntinda-Nakawa	US$ 4.5 - US$ 6.5

Low uptake of warehouse space

40,000sqm
Space expected in pipeline projects

US$ 3 - 7 psm
Warehouse Rental Rates

Source: Knight Frank Research

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