The Kampala Property Market Performance Review

H1 2024

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

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Executive Summary

The H1 2024 report documents the current state of Kampala's real estate market, the opportunities therein and provides a short-term outlook within the sector.

The economy has grown at a rate of 6% in FY 2023/2024 and is projected to accelerate, reaching a growth rate of 6.4% to 7% in the FY 2024/25, above the pre-COVID-19 growth rate, and potentially reaching double-digit growth in the medium term.

The 2024 population census preliminary results from the Uganda Bureau of Statistics (UBOS) indicate that the country's population has grown to 45.9 million in 2024, up from 34.6 million counted in 2014, representing an increase of 11.3 million persons since 2014 and 2.9% growth rate.

The prime residential and prime commercial office markets exhibited a slowdown in performance in H1 2024, marked by a low volume of sales and lettings and a minimal 1% decrease in occupancy levels compared to H1 2023.

The residential rental prices remained stable and there is a noticeable increase in pipeline activity with over 1,000 units expected to be released onto the market over the next 12-24 months.

Prime office space demand persisted, with prime net rents recorded at $16.5 and $15.0 per square metre per month for Grade A and Grade AB, respectively. There has been a slight decline in occupancy levels for Grade A and AB properties, with vacancy rates increasing by 1% compared to H1 2023.

The retail sector registered notable performance in the first half of 2024, benefitting from a resilient economy, increased occupancy levels resulting from new entrants, the expansion of existing retailers within the sector, and strong product and tenant-mix offerings within the various Malls.

H1 2024, registered a slow take-up of warehouse space while a slight increase in industrial land for sale was noticed. Bank of Uganda announced the start of a Domestic Gold Purchase Program to build the country's foreign reserves and minimize risks on reserves investments, a program that will impact the livelihood of artisanal and small-scale miners directly, with positive spillover effects on other economic sectors.

The H1 2024 report documents the current state of Kampala's real estate market, and the opportunities therein and also provides a short-term outlook within the sector.

KNIGHT FRANK UGANDA RESEARCH

H1 2024 refers the period of property market study within the Kampala city area in the period between January and June 2024.

The Economy

Highlights

Source: Bank of Uganda and Uganda Bureau of Statistics

6% Economic Growth Rate FY 2023/24

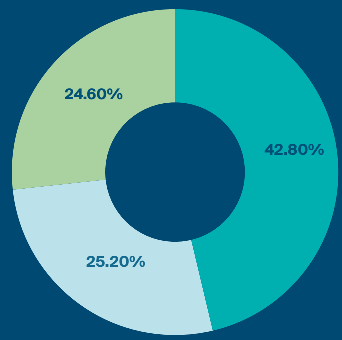
1.1% Annual Shilling Depreciation June 2024

Stable Exchange Rates

10.25% CBR JUNE 2024

3.8% Headline Inflation June 2024

Figure 1: Sectoral Contribution to GDP



Economic Activity.

As per the revised annual GDP estimates from the Uganda Bureau of Statistics, the economy grew by 6.0% in FY 2023/24 compared to 5.2% in FY 2022/23. The services sector remains the biggest GDP contributor at 42.8%, followed by the industry sector at 25.2% and the agriculture sector at 24.6%. Growth in the services sector was mainly driven by strong recovery in retail and wholesale trade, tourism, Information Communication Technology (ICT) and real estate activities.

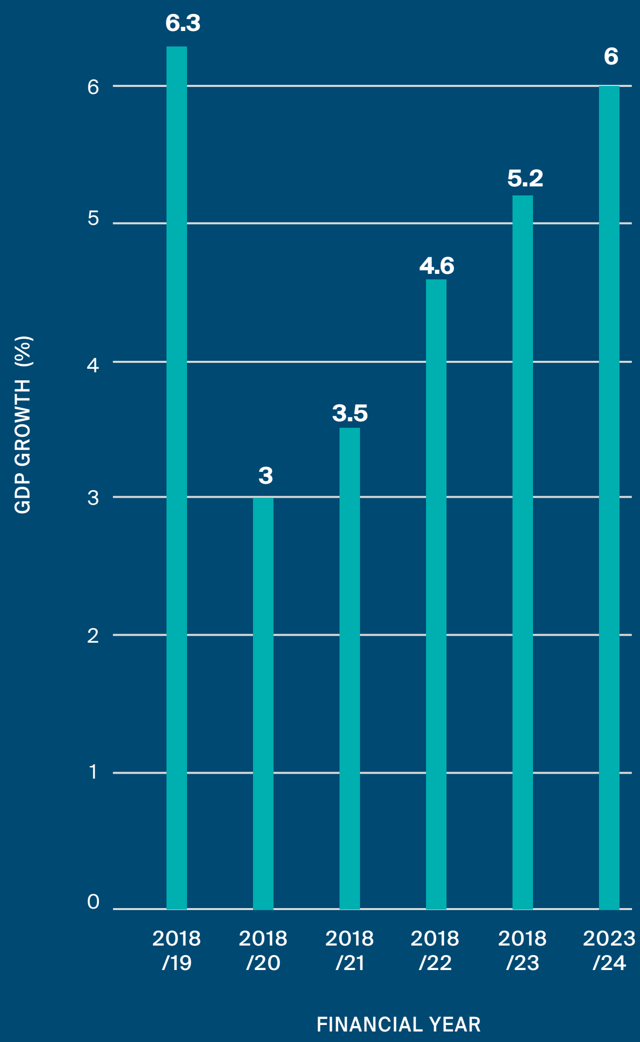
The economy is projected to grow by 6.4% to 7% in the FY 2024/25 above the pre-covid-19 growth rate and increase to a double-digit in the medium term. The projected economic growth is hinged on increased investment in the oil and gas industry, increased tourism activities, remittances inflows and private investment growth supported by foreign direct investment (FDI) according to the Uganda Bureau of Statistics.

Inflation

Inflationary pressures exhibited a sustained increase albeit at a slower rate driven by geopolitical tensions in the Middle East, unfavourable weather conditions that affected food supply and increasing energy prices. Headline inflation increased from 2.4% in January 2024 (the lowest level since December 2023) to 3.8% in June 2024.

In response to the increasing inflationary pressures, the Bank of Uganda Monetary Policy Committee at its April 2024 sitting increased the Central Bank Rate (CBR) from 10.0%, a rate it had held for only March 2024 to 10.25% and has maintained the same to date. As per the Bank of Uganda projections, inflation is expected to average between 5% and 5.4% within the next 12 months and return to the medium term (below 5%) by July 2025.

Figure 2: GDP Growth Trends



Source: Bank of Uganda

Exchange Rates.

The Uganda Shilling maintained relative stability against the US dollar despite the increasing inflationary pressures. This was due to the tight monetary policy maintained by the Central Bank through increasing the Central Bank Rate (CBR) and inflows from robust coffee exports.

The Uganda Shilling depreciated by 0.64%, 1.8%, and 0.6% for the years ending January, February and March 2024 while appreciating by 1.9% 0.8% and 0.7% for the years ending April, May and June 2024 respectively.

Quarterly, the Ugandan Shilling depreciated by 1.01% in Q1 2024 and appreciated by 1.35% in Q2 2024. The currency appreciation in the second quarter of H1 2024 was driven by remittance inflows and earnings from commodity exports like coffee.

Business Activity

Sentiments about the business environment pointed to reduced optimism for Q1 2024 however this changed in Q2 with executives becoming positive about the current and future business conditions. The Business Tendency Index (BTI) was recorded at 56.9 for Q1 2024 down from 59.5 for Q3 2023 and has increased to 57.7 for Q2 2024 pointing to improving business optimism.

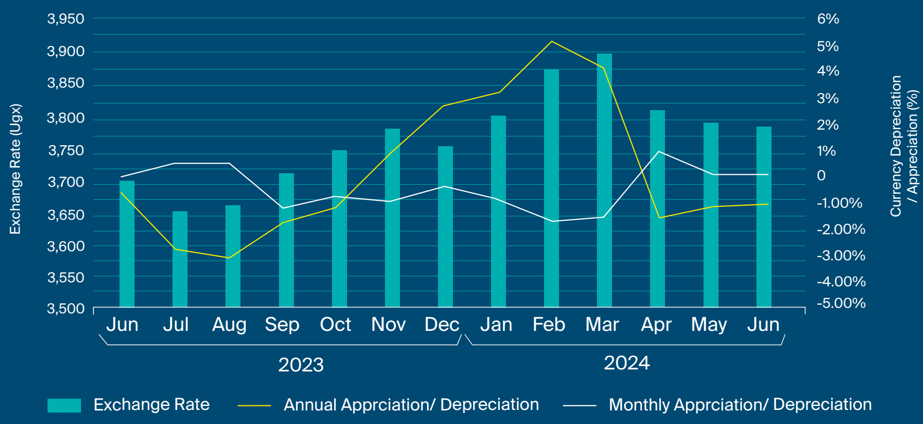
Similarly, the Stanbic Bank headline Purchasing Managers Index (PMI) dropped to 49.3 in March 2024, below the 50-threshold from 54.8 in December 2023 indicating a decline in the business operating conditions in the economy. This downturn in business was attributed to a reduction in output and new orders, rising input costs, purchase prices, and wage bills.

However, it increased to 52.6 and 54.1 for the months of April and May 2024 and decreased to 51.9 in June 2024 pointing to an improvement in business conditions.

Figure 3: Annual Inflation Trend

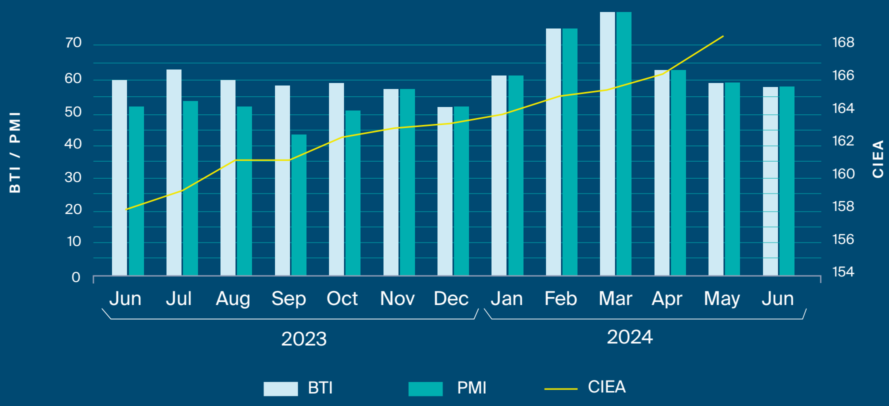
Source: Bank of Uganda

Figure 4: Monthly currency Appreciation/ Depreciation



Source: Bank of Uganda

Figure 5: Real Sector Indicators



Source: Bank of Uganda

BTI

The Business Tendency Index was recorded at 56.9 for Q1 2024 down from 59.5 for Q3 2023 and has increased to 57.7 for Q2 2024 pointing to improving business optimism

45.9Mn

Current national population from the 2024 census.

Source: Uganda Bureau of Statistics

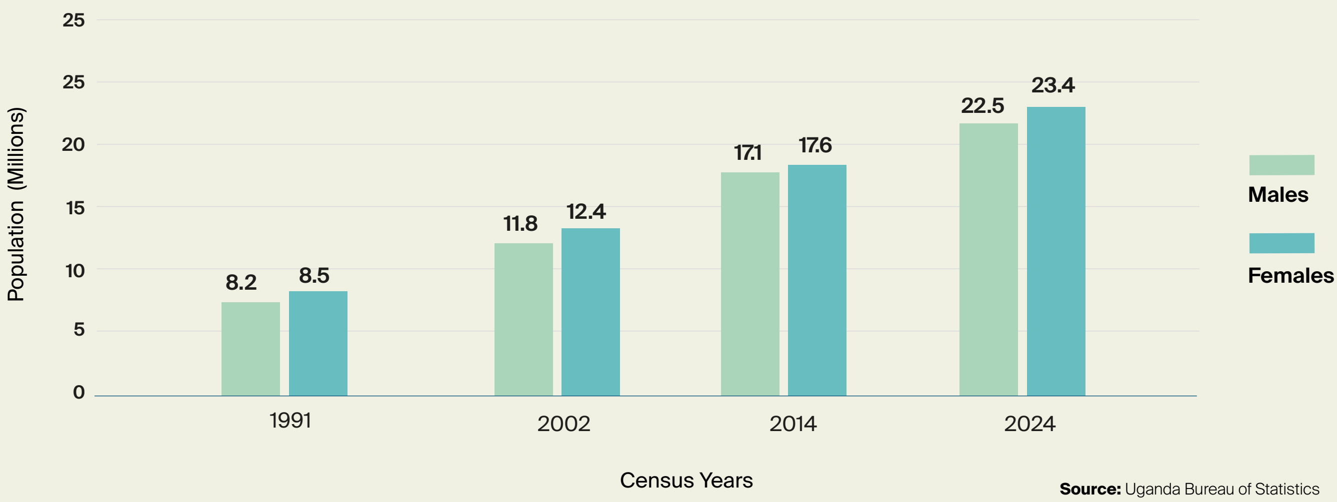
Efris Strikes

In an attempt to increase the tax base of Uganda, the Uganda Revenue Authority (URA) designed the Enforcement Fiscal Receipting and Invoicing Solution (EFRIS) which was meant to monitor the payment of Value Added Tax (VAT) and facilitate accurate record keeping for business transactions. Despite the intended benefits of the intervention, the implementation of this system in 2024 met with resistance from the business community. Major protests erupted, with traders closing shops and declaring a "4-day strike" in Kikubo and downtown Kampala with major concerns about the system being a form of double taxation. This brought the activities of most of the retail businesses in downtown Kampala to a standstill for close to a week negatively affecting the Business Sector.

National Population Census- Preliminary Findings

The 2024 population census preliminary results from the Uganda Bureau of Statistics (UBOS) indicate that the country's population has grown to 45.9 million in 2024 up from 34.6 million counted in 2014 representing an increase of 11.3 million persons since 2014 and a 2.9% growth rate.

Figure 6: Intercensal Population by Sex (1991 -2024)



Source: Uganda Bureau of Statistics

Other Economic Highlights

Uganda hosted three key global conferences in January 2024. These included; the **Non-Aligned Movement (NAM) summit, the 27th Conference of Speakers and Presiding Officers of the Commonwealth (CSPOC2024), and the Group of Seventy-Seven (G-77) and China Conference**. These conferences bolstered local businesses, especially in the hospitality and tourism sectors and paved the way for bilateral trade agreements which are projected to lead to increased investment and trade in the medium term.

The Minister of Finance in November 2022 signed a statutory instrument increasing the minimum capital requirements for Tier 1 commercial banks in Uganda to shs120 billion ($ 32.3 million) and shs150 billion ($40.4 million) by December 31, 2022, and June 30, 2024, respectively. The new minimum capital requirements have led to some of the institutions being liquidated, acquired by new investors, downgrading their licenses, and others seeking additional share capital.

Table 1: Affected Banks and the Decisions Taken during H1 2024

NAME OF THE INSTITUTION	ACTION TAKEN
EFC	Liquidated by the Bank of Uganda
Mercantile Credit Bank Limited (MCBL)	Liquidated by the Bank of Uganda
Finance Trust Bank	Acquired by Access Bank PLC (80% of the shares)
UBA Bank	Received additional UGX 57 billion from UBA Nigeria (Parent Company)
Bank of Africa	Received additional capital from Parent Company
Opportunity bank	Downgraded from Tier-1 commercial bank to Tier-2 Microfinance Deposit-taking Institution

Source: Knight Frank Uganda

Legal Alert

The Competition Act

INTRODUCTION

The real estate sector has in recent years gained significant importance in Uganda's economy. As the sector continues to grow and attracts new actors, there could not be a better time to further streamline its activities through proper regulation; to protect both investors and consumers. The recent enactment of the Competition Act is a step in the right direction. The Act serves as a comprehensive legislative framework to promote and maintain fair competition across Uganda's economy and could play a pivotal role in regulating the real estate sector by preventing monopolistic practices, fostering competitive markets, and protecting consumer interests. Here is a look at the key aspects of the Competition Act with the potential to regulate the real estate sector in Uganda:

PREVENTION OF MONOPOLIES AND DOMINANCE

One of the primary objectives of the Competition Act is to prevent the formation of monopolies and the abuse of market dominance. In the real estate sector, this means ensuring that no single entity or a small group of entities can control the market to the detriment of competition. The Act restricts dominant players from engaging in practices such as predatory pricing or exclusive agreements that would stifle competition. By enforcing these provisions, the Act promotes a diversified market where multiple players can compete, offering a variety of choices to consumers.

REGULATION OF ANTI-COMPETITIVE AGREEMENTS

The Act prohibits agreements that restrict competition. This includes price-fixing, market allocation, and bid-rigging. In the context of real estate, this ensures that companies do not collude to set property prices, divide territories among themselves, or manipulate tenders and bids for property development projects. Such regulations are critical in ensuring that real estate prices are determined by market forces rather than by anti-competitive practices.

MERGER CONTROL

Another significant aspect of the Competition Act is its oversight of mergers and acquisitions. Any merger or acquisition that could substantially lessen competition in the real estate sector is subject to review and approval by the regulatory authorities. This control is crucial in preventing market consolidation that could lead to monopolistic conditions. By scrutinizing and potentially blocking harmful mergers, the Act ensures that the market remains competitive.

CONSUMER PROTECTION

The Act also includes robust provisions for consumer protection, which are highly relevant in the sector. It mandates transparency in transactions, fair dealing, and the prohibition of deceptive practices. Real estate companies are required to provide clear and truthful information about their properties and services. This protects consumers from fraudulent practices, hidden costs, and false advertising, ensuring that they make informed decisions.

ENCOURAGEMENT OF INNOVATION AND MARKET ENTRY

The Act automatically encourages innovation and the entry of new players into the market. By preventing anti-competitive practices, the Act creates a level playing field where new and smaller companies can compete with established players. This can lead to the introduction of innovative business models, technologies, and services in the real estate sector, benefiting consumers with better choices and improved services.

ENFORCEMENT AND COMPLIANCE

The effectiveness of the Competition Act in regulating the real estate sector depends significantly on the enforcement and compliance mechanisms. The Uganda Competition Authority, established under the Act, is tasked with investigating, and addressing anti-competitive practices. Effective enforcement requires adequate resources, expertise, and independence of the Authority. Continuous monitoring, regular audits, and strict penalties for violations are essential for the Act to have a meaningful impact on the real estate sector.

CONCLUSION

The Competition Act of Uganda has a substantial role in regulating the real estate sector. It curbs monopolistic and anti-competitive practices, ensures transparency and fairness, and promotes a competitive market environment. While the Act provides a strong regulatory framework, its success hinges on the diligent enforcement by the Competition Authority and the willingness of market participants to comply with the rules. If effectively implemented, the Competition Act can significantly enhance the efficiency, fairness, and dynamism of Uganda's real estate sector, benefiting consumers, businesses, and the overall economy.

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RESIDENTIAL SECTOR

Demand for prime residential units continues to be driven by the expatriate community working in Uganda and Ugandans in the diaspora.

Highlights

▲ $200,000 - $ 300,000

Persistent demand for units within this price range in prime areas

▲ 67 %

Increase in pipeline activity

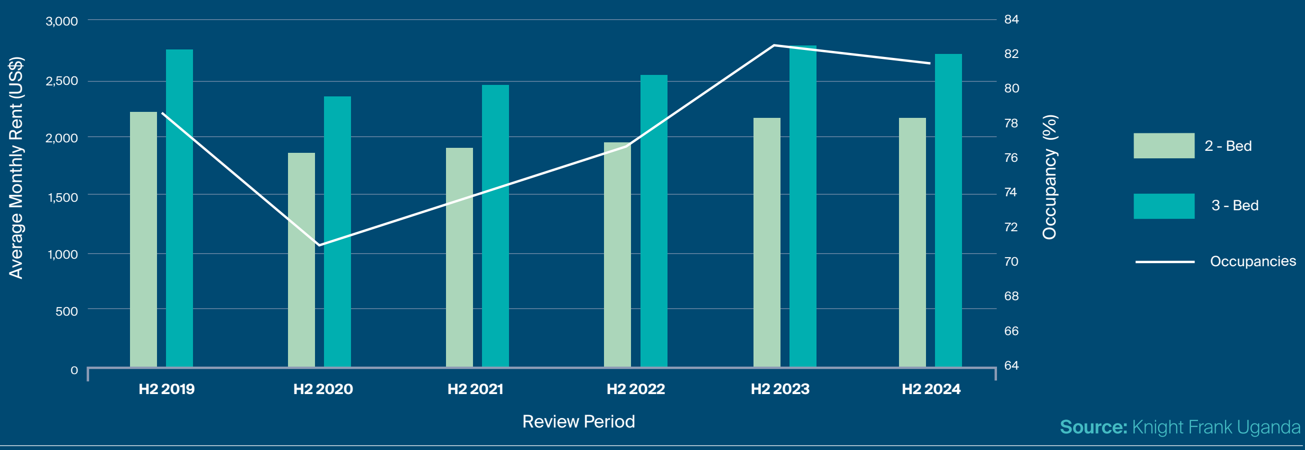
Increase in serviced apartment inquiries.

▼ 1% Decline in Occupancy levels.

Stable Rental prices

Source: Knight Frank Uganda

Figure 7: H1 2024 Rental and Occupancy Rates



Source: Knight Frank Uganda

The prime residential market exhibited a slowdown in performance in H1 2024, marked by a low volume of sales and lettings and a minimal 1% decrease in occupancy levels compared to H1 2023. The sluggish start witnessed at the start of the year persisted throughout the half year. In the period under review, the market was strained, with supply outstripping demand, thus creating a buyer's market. The increased residential properties supply was on account of stock from the development pipeline, off-loading properties through auctions and repossessions by banks and other credit institutions as well as individuals and companies disposing off properties to cater for their liquidity needs. The tight monetary conditions (CBR increased to 10.25%, the highest since May 2017), high interest rates (averaging 20.8%), and high inflation levels have affected disposable incomes negatively, creating a credit squeeze. The credit squeeze has led to a slow market performance worsened by the buyer's indecisiveness due to numerous options.

The average prime monthly rents for 2- and 3-bedroom apartment units in the review period remained stable compared to H1 2023, while occupancy levels declined marginally from 82% to 81%. Old, detached houses / re-development plots in the prime residential areas continue to be demolished and replaced with modern apartment blocks. Developers are taking advantage of economies of scale from the densification of brownfield sites with multi-let units, increased rental incomes, and shared operational costs. This trend has been observed in the prime areas of Nakasero and Kololo, where new developers are debuting in high-density residential developments. This trend has created a gap in the market for the supply of stand-alone houses, with tenants looking for stand-alone houses turning to the secondary residential areas of Mbuya, Munyonyo, Muyenga, and Bugolobi, among others.

Demand for prime residential units continues to be driven by the expatriate community working in Uganda and Ugandans in the diaspora, with a noticeable preference for 2 and 3-bedroom apartment units and standalone houses respectively. Naguru, Kololo, Nakasero, Mbuya, and Bugolobi dominate as the preferred prime residential areas; however, there has been increased interest in Lubowa, Kigo, and Muyenga areas. The increased interest is from developers looking to set up gated communities to compete against the continued supply of apartments in Kololo.

Canaan Apartments in Kololo

The noise levels caused by nightclubs within these prime areas, especially Kololo, and poor air quality have also contributed to the increasing interest for suburban locations. We have noticed an increasing trend of tenants driving hard bargains for all-inclusive rents in serviced apartments, including electricity, water, gas refills, internet, and cleaning services.

In response to tenants' demand for modern interior finishes and more amenities, developers are upgrading the specifications for developments in secondary residential suburbs, albeit at higher rental and sale prices. The dollar rental/sale market continues to grow to the secondary residential suburbs of Nalya, Kyanja, Bukasa, and Najera, among others, especially in newly constructed projects.

Access to fast and reliable internet continues to be an essential factor for tenants when selecting accommodation; this has resulted in the existing telecommunication companies expanding their optical fiber networks to the secondary residential suburbs with new players like Canal Box entering the industry. Several access roads to the commuter towns are being upgraded from murram to tarmac while others are being resurfaced under the Greater Kampala Metropolitan Area Development Program. Better quality road networks will have a positive impact on the marketability and land prices of these suburbs.

Pipeline activity in the prime areas increased by 67%, with over 1,000 apartment units expected on the market in the next 12 to 24 months. Some developers are setting up high-density projects of 1- and 2-bedroom apartment units. The increasing stock of apartments, especially in the prime suburbs of Kololo, Nakasero, and Naguru, is likely to contribute to the residential market oversupply, leading to downward pressure on rents to reduce vacancies. There is a new emerging trend in residential complexes incorporating mixed-used elements of offices, food and entertainment, and convenience retail areas in the same development.

There is a noticeable shift in landlord tenancy preferences from long to short stays for furnished apartments, in response to the lower occupancy levels in higher-density apartment blocks. This trend has been observed in Locations such as Kyanja, Kisaasi, Najjera, Bukoto, Mutungo, Muyenga, and Kigo, which tend to have large numbers of short-term renters. This has been further promoted by the use of online booking platforms which are being increasingly used by tenants and property owners alike.

The market remains sluggish, and oversupplied by stock from bank repossessions, and pipeline developments among others, with purchasers looking to acquire these distressed properties at bargain prices, and in some instances, succeeding. This has resulted in increased interest in distressed sales as buyers take advantage of the market skewed in their favour. The sales market for home ownership and investment properties continues to grow steadily in the affordable–middle–income segment of the commuter towns such as Kira, Mbalwa, Kyanja, and Kungu, among others, as developers strive to meet the continued housing demand from the growing population.

Increasing interest in suburban living siting noise and air pollution in the city scapes.

OFFICE SECTOR

The H1 2024 commercial office sales market has continued to experience a noticeable increase (25%) in properties available for sale compared to H1 2023.

Highlights

Persistent demand for prime office space.

Negligible drop in Occupancy Levels

Increasing interest in smaller offices (50-200 sqm)

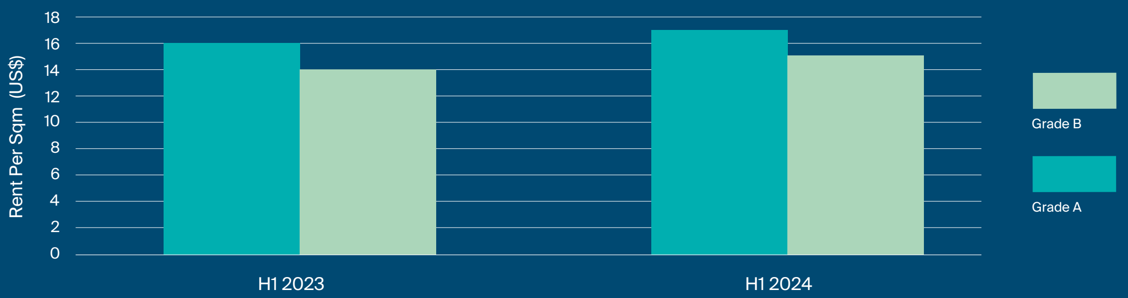
▲ 90,000 SQM
Pipeline office space

▲ 25%
Noticeable increase in H1 2024 commercial office sales

GRADE	NET RENT PER SQM (US$)	OCCUPANCY
Grade A	$16.5	89.8%
Grade AB	$15	84.0%

Source: Knight Frank Uganda

Figure 8 : H1 2024 Commercial Office Rental Trends



Source: Knight Frank Uganda

In the period under review, the commercial office sector performance was sluggish, marked by a low volume of sales and lettings compared to H1 2023. Prime office space demand persisted, with prime net rents recorded at $16.5 and $15.0 per square metre per month for Grade A and Grade AB, respectively. There has been a slight decline in occupancy levels for Grade A and AB properties, with vacancy rates increasing by 1% compared to H1 2023.

Demand for smaller office space (50 -150 sqm) has persisted from the IT/ Telecom, retail, legal services, business and professional services, energy, industrial, and financial service sectors. Deal conclusion for larger spaces (200-1,500 sqm) is taking an unusually long time to conclude, as a result of complex decision-making and due diligence processes in line with corporate governance requirements and increasingly stringent requirements from the Uganda Registration Services Bureau (URSB) and the Uganda Revenue Authority (URA). The demand for larger spaces is being driven by public entities, NGOs, financial institutions, telecommunications, and industrial & logistics organizations, among others.

Occupancy levels for less prime properties are being negatively impacted by organizations looking to downsize, relocate to more affordable or better facilities, and or close shop. The increased stock of high-specification, modern office buildings with higher parking ratios coming onto the market at rental levels which are comparable to current passing rents are offering better value for money to occupiers in older stock. Thus, we are seeing older properties being upgraded and refurbished given that they are in excellent locations and still able to achieve decent rental levels on account of this, Lease terms for small office occupiers (20-150 sqm) range between 2-3 years, with most requesting breakout clauses after 6-12 months while the lease duration for large office occupiers ranges between 3-5 years.

The H1 2024 commercial office sales market has continued to experience a noticeable increase (25%) in properties available for sale compared to H1 2023. This increase is attributed to the negative market sentiment and reduced appetite towards commercial property investment resulting from the punitive tax regime targeting the property sector like the rental income tax and allowable deductibles.

This, along with, investment strategy shifts, redevelopment opportunities, owner exit/retirement, and strategic business decisions, among others have negatively impacted sales activity.

Additionally, effective demand remains low, and where registered, buyers are making low offers to take advantage of the buyers' market. Like the sales market, the leasing market has experienced a low volume of lettings with fewer transactions concluded compared to H1 2023. Most landlords are now looking for good covenants at reasonable rentals, with most striving to retain their current tenants to avoid increased vacancies in their properties.

There has been a noticeable decline in new pipeline projects, especially for owner occupation, constituting 28% of the current pipeline projects, while 72% is for investment purposes. The evident decline in owner-occupied pipeline projects, mainly government-owned premises, could be attributed to the moratorium on the construction of new government offices as per the guidelines issued by the Ministry of Finance in its 2024/2025 budget guidelines. The government entered into an agreement with NSSF a few years ago to construct a government office campus in Bwebajja, with the construction expected to commence in 2025 and take 4 years to complete.

Pipeline projects have continued to experience significant delays for various unknown reasons, with most of the upcoming pipeline projects expected to come onto the market in late 2024, 2025, and 2026. This increased stock (over 90,000 sqm of office space are expected on the market between H2 2024 and 2025), coupled with the low uptake and construction of a government office campus, is likely to result in increased vacancies and downward pressure on rents in the long term.

Noticeable decline in new pipe line projects

Table 2: Examples of Pipeline Office Projects

S/N	PROPERTY	LOCATION	APPROXIMATE BUILT-UP-AREAS (SQM)
01	Pension Towers	Lumumba Avenue	32,000
02	Speke Business Park	Yusuf Lule road	16,660
03	Plot 5, Luthuli Avenue	Luthuli, Bugolobi	4,500
04	Saddler View Office Park (Mixed)	Saddler Ave, Naguru	8,329
05	IGG Building	Opposite Garden City	19,000
06	Twed Heights	Kyadondo	13,310
07	JLOS House	Naguru Police Campus	80,000

Source: Knight Frank Uganda

Lohana Tower - Lugogo Bypass

RETAIL SECTOR

Highlights

▲ 30% Notable growth in annual turnover

▲ 1,900 SQM Retail space leased in KFU Malls within the first six months of 2024

▲ 5% Increase in annual footfall

▲ 3% Growth in occupancy

Source: Knight Frank Uganda

The retail sector registered notable performance in the first half of 2024, benefitting from a resilient economy, increased occupancy levels resulting from new entrants into the market, the expansion of existing retailers within the sector, and strong product and tenant-mix offerings within the various malls.
This was further supported by key Retail Calendar events, such as back to school, Valentine's Day, Easter, and Eid which propped up the performance of the sector.

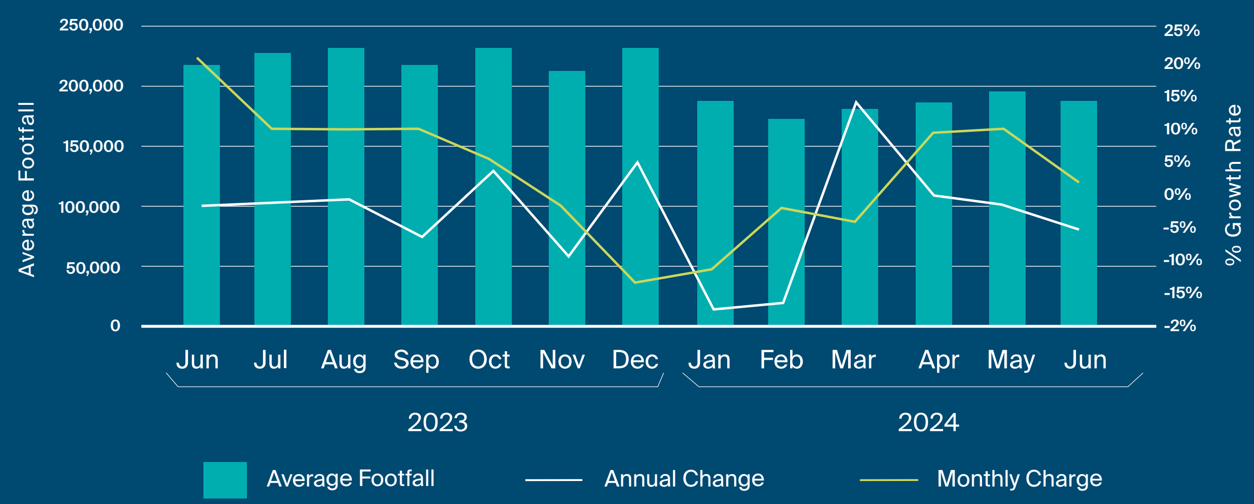
The performance improvement in footfall, turnover, and occupancy levels indicates an optimistic retail sector outlook. On an annual basis, general retail turnovers surged by 30%, while footfall figures showed 5.0% growth, with occupancy levels increasing by 3.0%.

The Kampala Flyover Project has taken shape. The roads around Arena Mall have been opened to the public, easing access to and from the mall. This has boosted footfall traffic to the mall, attracting new Retailers and positively impacting occupancy and turnover figures.

The H1 2024 retail sector performance was thriving, with approximately 1,900 sqm leased out to new retailers across Knight Frank-managed malls (7 of Kampala and Entebbe's prime Malls) in the last six months. Sweetly Defined, a restaurant /eatery, is expanding and opening into the Metroplex Shopping Centre, while Tecno, Bellazuri, GB Perfumes, Pakwa Bookstore, Black Drip Men, and Black Drip Women opened their doors at Arena Mall. MRP, an international fashion retailer is set to open its third store in Kampala at Arena Mall towards the end of H2 2024, with Numero Uno, a franchise operation dealing in fashion brands such as Stradivarius, Pull and Bear, and Zara home to mention but a few set to debut its first store in Kampala at the Acacia as will Skechers and USA Polo.

General Grocery Retail, Fashion, Cinema, and Food and beverage categories continue to drive retail demand, while retail rental rates have held stable compared to H2 2023 rates. H1 2024 also saw the expansion of local retailers into major shopping malls. New neighborhood Malls continue to develop and open in upcoming neighborhoods and commuter towns such as Kyengera, Kyanja, Najjera, Bulindo, and Buloba, amongst others.

Figure 9: Retail Footfall Performance across Knight Frank Managed Malls



Source: Knight Frank Uganda

However, the convenience of these developments is hampered by limited parking space and rental Levels still not showing justifiable returns on building costs mainly due to the "15% turnover taxation" imposed by the local tax regime based on limiting property expenses to 50% of income and then charging 30% taxation on the balance.These figures are average rentals for ground floor space in Prime Kampala shopping malls but do not consider the shopfront-to-depth ratio and exclude service charges.

Outlook

The retail outlook for H2 2024 remains optimistic, supported by the anticipated improvement in economic activity, the launch of new stores, with a further 1,606 m² expected to open within the various malls in Q4 of 2024, the reasonably stable currency, and upbeat investor sentiments.

Arena Mall- Nsambya at 79.5% Occupancy

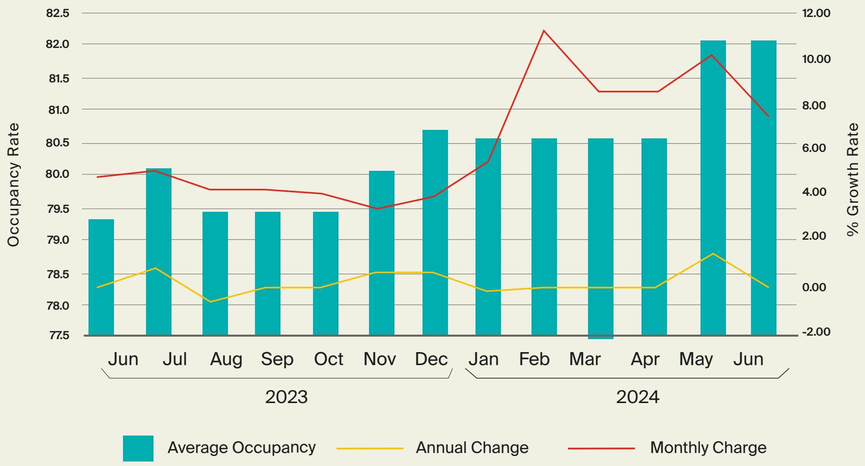
Emerging Trends

In line with international trends, the sector has seen the downscale of the bookstore footprint, with the growing trend of books being accessible online and stationary on the wane. The tech and electronics category continues to expand due to increasing brands operating in the sector, the fashion retailers are increasing their footprint and brand across the sector with both local and international retailers expanding.

Table 3: H1 2024 New Retail Stores at the different malls

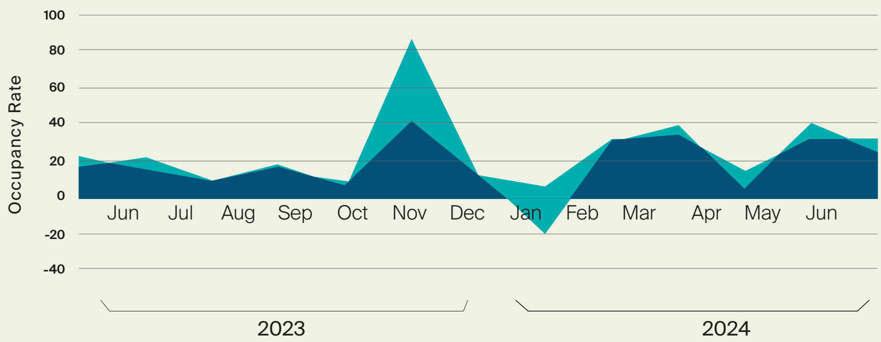
MALL	NEW STORES
Acacia mall	Numero Uno
Metroplex Shopping Centre	Sweetly defined
The Arena mall	Tecno, Bellazuri, GB Perfumes, Pakwa Bookstore, Black Drip Men, and Black Drip Women, MRP

Figure 10: H1 2024 Retail Occupancy Performance across Knight Frank Managed Malls



Source: Knight Frank Research

Figure 11: H1 2024 Turnover Growth across Knight Frank Managed Malls



Source: Knight Frank Research

Table 4: Prime Retail Rental Rates in Kampala

SIZE	RATES
<10m2	$250
<50m2	$48
<100m2	$40
<500m2	$32
>500m2	$20
>1000m2	$13

These figures are average rentals for ground floor space in Prime Kampala shopping malls but do not consider the shopfront-to-depth ratio and exclude service charges.

INDUSTRIAL SECTOR

Highlights

Source: Knight Frank Research

Bank of Uganda to buy Gold Domestically.

Uganda has been named the best investment destination in Africa

Increased funding for green industrial products

US $3 – US $7

Warehouse Rental rates

The Industrial Sector growth in the FY 2023/24 was mainly driven by manufacturing, construction, and mining. Foreign Direct Investment (FDI) inflows to the oil and gas sector, agriculture, infrastructure, mining, and green projects have increased. There is increasing investment in renewable energy and other green industrial projects in Uganda, like Nexus Green, 1MTN, and Sprouts of Water, attracting over US $ 400 million in FDI in the FY 2023/24.

The Annual Investment Meeting (AIM) Congress, sitting on 07th May 2024 in Abu Dhabi, United Arab Emirates, named Uganda as the best investment destination in Africa. Uganda has attracted over US $ 1.5 billion worth of Foreign Direct Investment (FDI) from the United Arab Emirates (UAE) in the past two years, while the flow of Foreign Direct Investment (FDI) to Uganda from global trade partners increased to an additional US $ 1.27 billion by December 2023/24 from US $ 2.46 billion that had been attracted in FY 2022/23.

H1 2024, registered a slow take-up of warehouse space due to the slowdown of demand for storage space by traders, manufacturers, and importers of goods. Demand for industrial rental property has been from the foods and beverages sector and coffee exporters, among others, with the occupiers looking for spaces to rent in the Industrial areas of Ntinda, Banda, Kawempe Industrial Area, and Namanve.

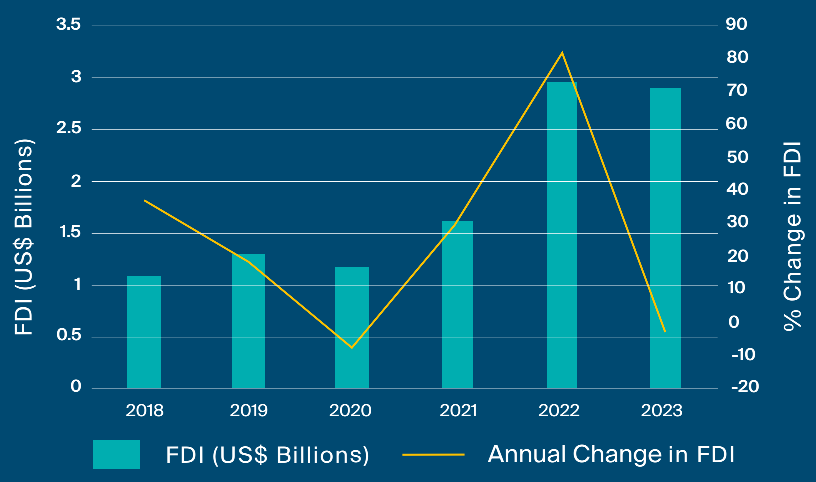
There has also been a slight increase in demand for industrial properties for sale. This has been mainly for industrial land instead of warehouses for sale, with most preferring to buy land and build their warehousing premises. The occupiers looking for industrial properties to buy have preferred areas of Ntinda Industrial area, Namanve, the Industrial area along Jinja road, and other areas close to the Northern bypass.

The industrial lettings market was sluggish in H1 2024, with most of the warehousing space leased out to start-ups, companies relocating to better facilities, and those expanding their distribution networks. The average letting period is between 3 and 12 months, depending on the location and size of the industrial property and the facilities provided.

Warehouse rental levels have remained stable, similar to the H1 2024 levels, ranging between US $3 and $7 sqm per month, depending on location attributes and other property-specific factors. Tenants continue to drive hard bargains due to the reduction in demand for space and landlords are offering flexible leases, to incentivize tenants.

The secondary Industrial areas of, Namanve, Nalukolongo, Nakawa, and Kawempe, remain the preferred locations for industrial developments, as opposed to the traditional areas of 1st – 8th Street, Industrial area. There has been a noticeable decline in pipeline activity, of industrial developments; however, over 40,000 square metres of industrial space is expected to be on the market within 2024.

Figure 12: Annual Trends in FDI Inflows



Source: Knight Frank Research

Table 5: Warehouse rent across the different industrial locations

LOCATION	RENT PER SQM
Traditional Industrial Area	US$5.0 –US$ 7.0
Kampala Industrial Business Park (Namanve)	US $3.0 – US $ 4.50
Ntinda-Nakawa	US $4.5 – US $ 6.5

Source: Knight Frank Research

In the June 2024 State of the Economy report, Bank of Uganda announced the start of a Domestic Gold Purchase Program to build the country's foreign reserves and minimize risks on reserves investments. The gold purchase program will help accumulate foreign currency reserves and address the associated risks in the international financial markets while supporting the government's ongoing value addition to minerals and the Import Substitution Strategy by reducing the imports of raw gold into the country. The program will directly impact the livelihood of artisanal and small-scale miners, with positive spillover effects on other economic sectors.

Ambitious Construction Warehouse Racking in Wankulukuku

Valuation and Advisory

We are steadily seeing interest in green building certifications from developers and landlords within the market.

EFFECT OF INFLATION & CBR ON CREDIT FINANCING

Inflation in Uganda has been volatile due to a combination of domestic and foreign shocks; in June 2024, headline inflation was 3.9% on average, according to the Uganda Bureau of Statistics (UBOS). The Central Bank Rate (CBR) was increased to 10.25% in April 2024, the highest level since May 2017, and has remained unchanged through June 2024. The CBR was increased to keep inflation within the medium target of 5%, minimize currency depreciation, and support sustainable growth.

With the CBR at a record high over seven years, commercial Banks have also maintained the commercial lending rates considerably high at 17.74% in April 2024 compared to 16.70% in December 2023. However, according to the Bank of Uganda, this did not dampen mortgage lending activity as mortgages extended by commercial banks increased by 2.1% in April 2024 compared to December 2023. As reported in our previous market performance review, commercial banks continue their recent strategy of extending more credit to commercial mortgages than residential ones. As of April 2024, commercial banks extended 52.9% of their mortgages to commercial borrowers compared to 47.1% to residential borrowers. With the heightened risk environment, we expect this trend to continue.

TECHNOLOGICAL ADVANCEMENT

There is rapid technological advancement in valuation within the domain of ubiquitous computing. Technology being embraced includes Artificial Intelligence (AI). AI works well with enormous amounts of data, and valuations require data for accuracy. The latest edition of the International Valuation Standards (IVS), which will become effective on January 31, 2025, includes a chapter dedicated to data quality and selection, which will guide valuers in this area.

Another area of focus for the updated IVS is valuation models. As a precursor, we expect to see an increase in bid data analysis for greater Automated Valuation Models (AVMs) performance. We predict more efficient and influential real estate databases, allowing for accurate analysis with AVMs. We hope these models will help increase valuations by providing improved data analysis and informed multi-criteria decision analysis.

SUSTAINABILITY IN REAL ESTATE

Sustainability is becoming more popular by the day. The real estate sector is responsible for up to 40% of total greenhouse gas emissions, both embodied and operational carbon.

We are steadily seeing interest in green building certifications from developers and landlords within the market. One certification that has gained significant popularity in the region is IFCs-EDGE. As the adoption of green building certifications becomes more widespread, we can expect these certifications to impact the valuations of real estate in our market significantly. Furthermore, the growing emphasis on sustainability has also been recognized in the latest edition of the IVS.

CO_2

40%

Total greenhouse gas emissions the real estate sector is responsible for

52.9%

Mortgages extended to commercial borrowers As of April 2024 by commercial banks

2.1%

Increase in Mortgages advanced by commercial banks

Source: Bank of Uganda

Forward Perspective

SECTOR	OUTLOOK
ECONOMY	• Economic growth in FY2024/25 is projected between 6.0% and 6.5%, rising above 7% in the subsequent years driven by investment in the extractive industry and government programs targeted at boosting productivity. However, a weaker global economy should geopolitical conflicts escalate leading to further tightening of supply chain disruptions, higher freight costs, reduced export demand, and unfavourable weather conditions affecting domestic agricultural production could impact the outlook negatively. • Inflation is expected to rise and average between 5.0% and 5.4% in the next 12 months and converge to the medium-term target of 5.0% in the second half of 2025. • The Ugandan shilling is expected to remain stable against the United States dollar, supported by robust commodity exports and foreign direct investments, projected to exceed 5% of the GDP in the next two years. • Energy prices are expected to stabilize due to direct fuel imports by Uganda National Oil Company (UNOOC). • Increased infrastructure development in Kampala under the Greater Kampala Metropolitan Area Development Program. This is likely to positively affect all the sectors of the economy, including real estate.
RESIDENTIAL SECTOR	• Increased serviced apartment inquiries. • Increased number of houses/ units listed for sale. • Increased pipeline activity within the prime and semi-prime areas. • Reduction in rental levels for the prime areas as build quality in the secondary residential suburbs improves greatly. • Increased use of proptech in the marketing of residential property. Landlords are increasingly pivoting towards short stays (Air bnb) to minimise vacancy rates of their properties.
COMMERCIAL OFFICE SECTOR	• Decreased pipeline activity, especially for owner-occupied offices. • Persistent demand for smaller spaces • Increasing vacancy rates in lower-grade buildings due to flight to quality as occupiers move to state-of-the-art grade A office buildings. • Increased listing of commercial buildings for sale. • Decline in rental rates due to increased competition from newer properties.
RETAIL SECTOR	• Increase in neighborhood malls in semi-prime areas and commuter towns. • Increased occupancy levels from new tenants setting up shop at the different malls, thus positively impacting occupancy and turnover data.
INDUSTRIAL SECTOR	• Increased funding for green industrial projects • Decline in warehousing development pipeline activity. • Increased demand for industrial land

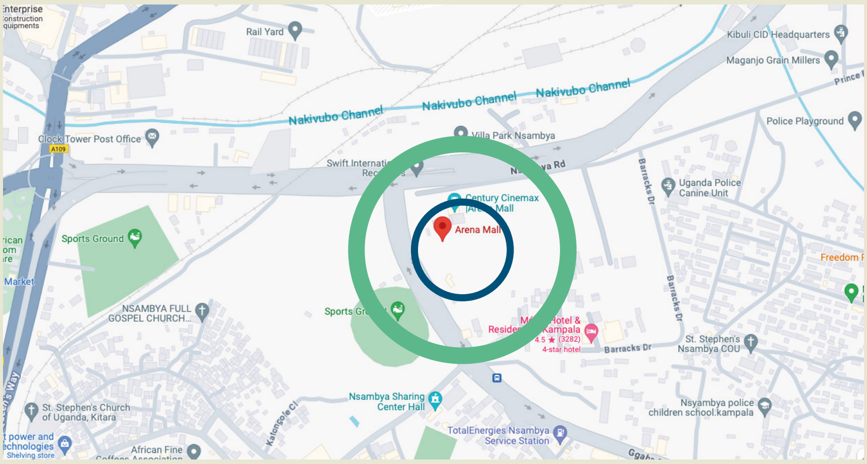
The Arena Mall

Photo: THE ARENA MALL.

3.8 KM From CBD

Gross Lettable Area
13,970.43 SQM

LOCATION



TENANTS

- LC WAIKIKI
- CENTURY CINEMAX
- CARREFOUR
- THE PATIO
- MIDDLE EAST RESTAURANT
- BLACK DRIP
- INTI LOUNGE
- U-HOME
- CAFESSERIE
- FRANGO
- MALUNGU
- WOOLWORTHS
- HUMMEL
- BATA
- YASHIKA
- US POLO
- BAGGI MEN
- LIFESTYLE TACTICAL
- DOZERBUILD
- PAKWA BOOKSHOP
- OPTICA
- MYAVANA
- TECNO SHOP
- GABRIELLA BA
- HISENSE
- BELLAZURI
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- MTN
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- SPOT CLEAN

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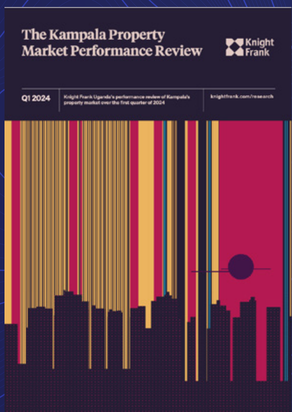

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KAMPALA PROPERTY MARKET REPORT - H1 2023

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