



Victoria Mall , Entebbe

Quarter 3 & 4, 2013 Market Update Knight Frank Uganda

HIGHLIGHTS

- Significant market correction in property prices and rents across sectors witnessed over the last 3 quarters.
- Retail sector take up slow but steady particularly after Westgate 2013.
- Significant easing of bank credit restrictions has revived activity within the residential housing sector.
- Bank lending rates remain high at 22% on shilling denominated loans.
- Shilling has remained stable at US\$1.00 : 2,500/- for most of 2013.
- Oversupply of Grade B office space continues to exert pressure on Grade A Space



Economic Update

There has been a significant improvement in economic performance over the past 9 months, when compared with the same period last year, and the property sector though nowhere near its peak performance is showing signs of slight recovery. This recovery is driven mainly by easing of credit restrictions in the mortgage financing sector, which has led to a revival of activity in the residential housing sector, though it still remains very much a “buyers market.”

Q4 2013 Economic Statistics:

- Core Inflation - 8.1%
- Real GDP growth – 5.1%.
- Headline inflation - 7.2% .
- Real GDP per Capita growth – 1.4%.
- CBR October 2013 – 12%.
- Average Ugx. denominated lending rates March 2013 – 22%.
- 91 day T-bills – 10.74%, 180 day – 11.5% and 364 day – 12.39%

Residential

- Steadily reducing though high Lending Rates (22%) have led to revived interest in the middle income home ownership sector.
- Demand for residential property is highest from the affordable houses and middle income earners.
- There is also a noticeable degree of market correction in residential rents for prime property.
- Demand for prime residential rental accommodation slows down.

The prime residential rental sector has been more active this year to date than it was for the same period last year. We are also noticing a market correction in prime residential rents whereby good covenant tenants within specific sectors of the economy like the oil and gas sector are not willing to pay premiums for properties anymore, but are driving harder bargains and in some instances, letting go of houses in their “pools” should landlords remain rigid on pricing.

Interestingly, highest demand for residential accommodation this year to date, is for mid income accommodation in the suburbs of Kampala where rents are slightly lower. The demand has been mainly from middle management staff of NGO’s and embassies who are downgrading to cheaper accommodation, or renewing at cheaper rents.

We have noticed increased demand for residential accommodation in areas where infrastructural projects are taking place, and premium rents are being paid in those locations because of the demand / supply disequilibrium.

House prices have remained static over the past 9 months, and this is from the forced correction that occurred as a result of the massive bank repossession and auctioning exercise which occurred early last year and still continues albeit at a reduced rate to date. As mentioned earlier, it is a “buyers market” and we have observed a 15% - 25% discount in house prices across the board over the past 2 years and prolonged marketing periods of up to 8 months for transactions to be closed.

The easing of credit restrictions for mortgage financing and reduced bank lending rates from 30%

last year to 22% currently has led to a revived interest in residential house purchases particularly within the affordable and middle income bracket, who are taking advantage of the market correction in prices.

Prime Residential Rentals:

- 3-4 bedrooms furnished townhouses - \$3,500 - \$4,000
- 3 bed serviced apartments - \$3,000 - \$3500
- 2 bedroom serviced apartments - \$2,500 - \$2750 • 1 bedroom serviced apartment - \$1,000 - \$1,800

Industrial

- Development of the KIBP continues in earnest with many industries planning to relocate to new premises next year.
- Kampala– Jinja Industrial corridor continues to attract interest from Chinese developers / investors.
- Industrial warehousing / storage space supply threatens to outstrip demand as the speculative development of Namanve KIBP gains momentum or owners lose their allocated plots.

The response to Uganda Investment Authority’s ultimate to withdraw land allocated to manufacturers in Namanve has been taken seriously as can be seen from the changing landscape of the park everyday as new factories / premises are constructed / completed.

There is also a lot of speculative development of warehouses / storage space from landowners who have decided to build investment properties as opposed to owner occupation.



Prime Industrial rents are currently between \$6.50 - \$8.50 psm/m for the newer / modern space, and \$4.00 - \$5.00 psm/m for the older warehouses with limited parking and hard standing areas.

Retail

- The Village Mall opened in October with Acacia Mall and Victoria Mall opening soon.
- The new retail malls have attracted and encouraged a very high specification of finish and fit out from tenants.
- The retail sector in general has seen reduced footfall as a result of the Westgate attack, but these are steadily improving.
- Security remains a top priority for retail malls.
- There are increasing inquiries from international retailers and fashion brands which is encouraging.

Retail trade particularly in shopping malls has taken a downward trend as a result of the Westgate Mall terrorist attack in Nairobi which has left the region feeling very insecure and shunning public and crowded places. Unfortunately, since shopping malls thrive on high footfalls, and longer dwell times in the Malls, this is unwelcome news for mall owners and tenants alike.

We are optimistic however, that this situation will improve especially given the high tech. security and surveillance measures that some of the shopping mall landlords have invested in to ensure they secure the malls as best as is physically possible. What is noticeably impressive in all the 3 malls however, is the quality and calibre of tenants, and tenant spread which has been attracted to and

signed up at the malls.

This has in turn ensured a very high spec. of tenant fit out and finishes, which will enhance the shopping experience for the patrons.

The impending opening of the other malls with renown outlets such as KFC and The Nairobi Java House have elicited a massively positive responses from the public. This points to an increasing demand for franchised food and fine dining retailers in Kampala.

There is another proposed 67,000 sq.m's of retail space planned in 3 shopping malls in Kampala to be completed in the next 2 years should all go according to plan.

Retail Rents:

- Anchors - \$10.00 - \$13.00 per sq.m plus s.c and VAT
- Line Shops - \$18.00 - \$30.00 plus s.c and VAT
- Food Courts \$30.00 - \$35.00 plus s.c and VAT
- Retail Yields: 13% - 15%

Office

- Prime office take up remains slow.
- Grade B office supply continues to put downward pressure on Grade A rentals.
- Office voids currently at 40% plus for Grade A and higher for Grade B.
- Office rentals have seen the most significant market correction.

The office sector having been the hardest hit in the recent property market slump, is not yet showing signs of real recovery. Most of the office space take up and demand is not new but from tenants looking to relocate to new space with more parking, less congested areas, at equivalent or lower rents.

Prime Office Rents:

- Grade A - \$15.00 - \$17.00 plus s.c and VAT.
- Grade B - \$11.00 - \$ 14.00 plus s.c and VAT.

Prime Office Yields: 9% - 11%

Office Supply Statistics:-

Office Stock Statistics		
	Total Stock	Currently Vacant and To Let
Grade A	42,406 sq.m's	4,582 sq.m's
Grade AB	121,705 sq.m's	68,652 sq.m's
Grade B (Prime)	56,383 sq.m's	12,032 sq.m's
Sub Total	220,494 sq.m's	85,266 sq.m's
Pipeline Stock		
Grade A	63,000 sq.m's	63,000 sq.m's
Grade B (Prime)	29,578 sq.m's	24,400 sq.m's
Sub Total	92,578 sq.m's	87,400 sq.m's

Source: Knight Frank Research

Consulting

Greater Kampala suburbs are seeing increasing development activity from the “informal sector” of employment who use their own finances to build houses in their own time.

This is a niche yet potentially big market which is growing, and financial institutions are yet to harness this demand into tangible business opportunities given the processes and procedures required of borrowers, that cannot be satisfied by many in this category, and yet they have steady cash flows. This is why demand for and prices of “serviced” plots are the only sector of the property market that have remained unaffected by the current softening of the property market.

RESEARCH

Uganda Contacts



Americas

Bermuda
Brazil
Canada
Caribbean
Chile
USA

Australasia

Australia
New Zealand

Europe

Belgium
Czech Republic
France
Germany
Hungary
Ireland
Italy
Monaco
Poland
Portugal
Russia
Spain
The Netherlands
Ukraine
United Kingdom

Africa

Botswana
Kenya
Malawi
Nigeria
South Africa
Tanzania
Uganda
Zambia
Zimbabwe

Asia

Cambodia
China
Hong Kong
India
Indonesia
Macao
Malaysia
Singapore
Thailand
Vietnam

The Gulf

Bahrain
Abu Dhabi UAE

Judy Rugasira Kyanda
Managing Director -
+256 414 344 365
Judy.rugasira@ug.knightfrank.com

Geraldine Musinguzi
Head – Commercial Property Management
+ 256 414 344 365
Geraldine.musinguzi@ug.knightfrank.com

Clare Ruhweza
Head – Retail Property Management
+ 256 414 344 365
Clarek.ruhweza@ug.knightfrank.com

Alfred Zaki
Head - Valuations
+256 414 341382
Alfred.zaki@ug.knightfrank.com

Charlotte Nuwagaba
Head – Residential Agency
+ 256 414 341382
Charlotte.nuwagaba@ug.knightfrank.com

Sharon Kamayangi
Commercial Agency
+256 414 341391
sharon.kamayangi@ug.knightfrank.com

Knight Frank Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, funding organizations, corporate institutions and the public sector. All our clients recognize the need for expert independent advice customized to their specific needs.

Knight Frank Research Reports are also available at www.knightfrank.com

© Knight Frank Uganda2012

This report is published for general information only. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no legal responsibility can be accepted by Knight Frank Research or Knight Frank Uganda for any loss or damage resultant from the contents of this document. As the general report, this material does not necessarily represent the view of Knight Frank Uganda in relation to particular properties or projects. Reproduction of this report in whole or in part is allowed with proper reference to Knight Frank Research.

Knight Frank Uganda Limited
1st Floor
Course View Towers
Plot 21 Yusuf Lule Road
P.O. Box 24513
Kampala, Uganda

T +256 414 341391
F +256 414 344369