

RESEARCH



UGANDA MARKET UPDATE

H1 2017

Cover Image: Riffa Residence, Nakasero

ECONOMIC UPDATE

SECTOR BY SECTOR
ANALYSIS

2017 OUTLOOK

HIGHLIGHTS

- Economy contracts by 0.8% year on year in June 2017
- Inflation slows to 6.4% in June 2017
- Central Bank Rate declines to a six year low of 10% in June 2017
- Demand for office space picks up

UGANDA MARKET UPDATE H1 2017

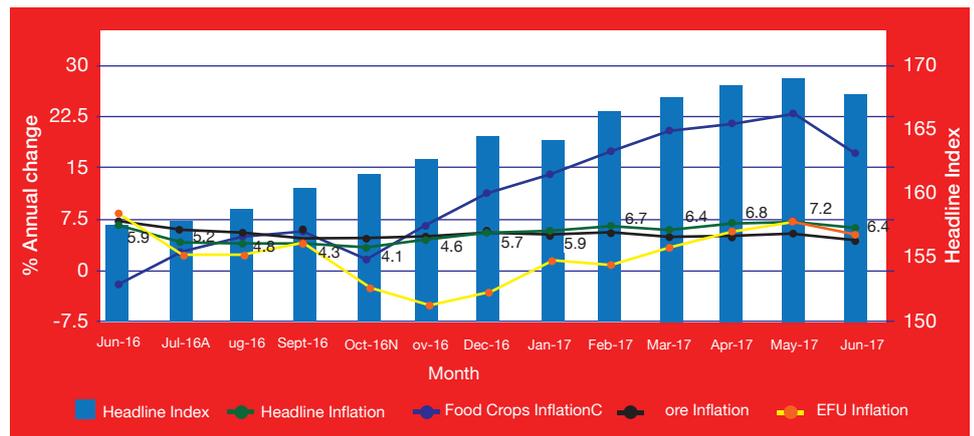
Economic Update

Inflation

The annualised headline inflation rate stood at 6.4% for the year ending June 2017 compared to the 7.2% registered during the year ended May 2017.

The main reason for the CPI reduction is an 18.1% year-on-year drop in food crops prices compared to 23.1% recorded for the year ended May 2017. The decline in annual food crops inflation is attributed to a reduction in vegetables inflation to 9.6% in June 2017 from 15.5% registered in the year ended May 2017. [Figure 1]

Figure 1:
CPI and Inflation for core, food crops and EFU June -16 to June -17



Source: Uganda Bureau of Statistics

Money Market Developments

Bank of Uganda reduced the central bank rate (CBR) from 11% to 10% at the Monetary Policy Committee meeting in June 2017, despite rising headline inflation above the 5% target. The CBR is now at its lowest since the start of the inflation targeting lite (ITL) in July 2011. According to the central bank the main reason for easing the monetary policy is because the core inflation is forecast to remain around the medium term target of 5%.

At the end of May 2017, Commercial Bank Lending rates (weighted average) in UGX were at 21.04%, down from 22.72% recorded in December 2016. On the other hand, lending rates in US \$ averaged at 8.22% in May, down from 9.15% recorded in December 2016.

Above all, interest rates on short term (6 months) and one year (364 days) Treasury Bills were at 10.88% and 12.00% respectively as of June 2017.

[Figure 2]

Cover Image: A section of Riffa Residence
Photo by Mugwanya Ronald

Figure 2:
Interest Rate structure for the period (June -16 to June -17)



Source: Bank Of Uganda

Foreign Exchange Market

After months of losing value against the US Dollar, the Uganda Shilling has in the last month of the first half of 2017 strengthened against the US Dollar, appreciating by 0.5% to an average rate of UGX 3,591.1 per US\$ in June from UGX 3,609.5 per US\$ recorded in January 2017.

The Uganda shilling has benefited from low corporate sector demand, especially from manufacturing, oil and telecom sectors as well as improved dollar supply from exporters.

As of June 30th, 2017, the US\$ was trading at a mid-rate of UGX 3,590.9, having opened the month of June at a mid-rate of UGX 3,596.11 [Figure 3]

Figure 3:
Period average rate for UGX against US \$ (June -16 to June -17)

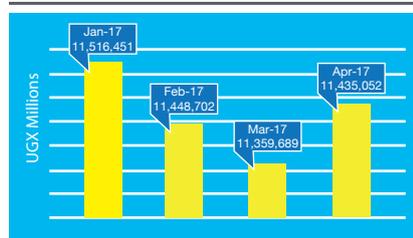


Source: Bank Of Uganda

Private Sector Credit

In April 2017, total credit extended by commercial banks to the private sector increased to UGX 11.44 trillion up from UGX 11.36 trillion registered in March 2017.

Figure 4:
Stock of Commercial Banks' total outstanding loans in UGX Millions (Jan 17' - Apr 17')



Source: Bank Of Uganda

On a year-on-year basis, credit growth rose by 6.34% in April 2017 following a 6.1% growth in March 2017.

Overall, there has been an increase in credit extended to the private sector in H1 2017 compared to H1 2016. This is partly attributed to the continued gradual falling of the commercial bank lending rates following the reduction in the central bank rate over the 12 months period. [Figure 4]

Economy

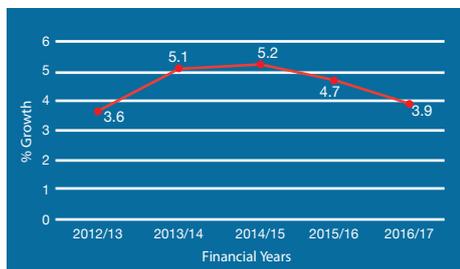
In 2017, Economists had forecast a strong expansion of East Africa's third-largest economy - Uganda, spurred by a recovery in exports and increased public infrastructure spending. According to the IMF, this growth was expected to be primarily driven by public investments, with private investments still constrained by a lack of business confidence, uncertainty about regional markets as social unrest persists in South Sudan, one of Uganda's biggest markets and trade partners, and the high cost of credit.

Preliminary data from the Uganda Bureau of Statistics reveals that Uganda's economy is estimated to grow by 3.9% in the current fiscal year 2016/17, which is a weaker growth compared to the growth of 4.7% that was registered in the previous financial year.

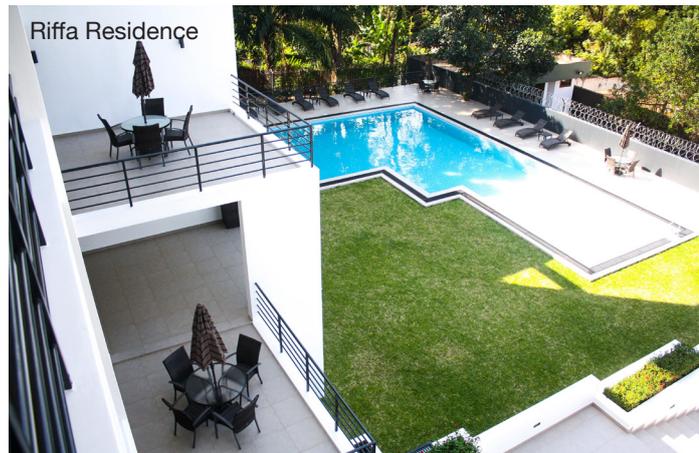
According to the IMF, the decline in GDP growth is mainly attributed to the drought held back activities that affected the agricultural sector during the first half of FY 2016/17, slow execution of externally-financed public investment as well as reduction in private sector credit. With growth estimates for the fourth quarter currently around 4%, the economy appears poised for its worst financial year performance since 2012.

Despite a slow-down in growth in the current FY 2016/17, this represents a relatively good performance when compared with the 1.4% for Sub-Saharan Africa economies in 2016/17, the lowest level of growth in more than two decades.

Figure 5:
Economic Growth at Market Prices



Source: Uganda Bureau of Statistics



Residential

We have witnessed an increase in the supply of prime residential stock for rent on the market over the past 12 months. This supply is in the prime suburbs of Kololo, Nakasero Bugolobi, and Naguru. Kololo and Nakasero is seeing increasing redevelopment of old residential plots of between 0.50 – 1.00 acres, in line with the zoning regulations of these locations. Most of these residential developments are 2, 3 and 4 bedroom apartments, all rooms ensuite, and some with a house help’s room. Additionally, swimming pools, gyms, and children’s play areas have become standard facilities provided at the new residential developments.

There has been a noticeable increase in take up of residential apartments over the past 6 months, however this is not purely new demand, but mainly from tenants whose tenancy agreements have come to an end and are moving to newer and more modern accommodation, at nearly the same or just slightly higher rentals.

This is also as a result of rental budget cuts by many organisations, which has compelled their expatriate staff to move out of stand alone houses into apartments where overheads are perceived to be lower. Knight Frank is receiving increased enquiries for residential accommodation in the suburbs of Naguru, Mbuya and Bugolobi. The major drivers of this demand is coming from private organisations, corporate companies, and oil and gas consultancies and other related services.

Sales transactions registered are still not at the pace they were at 2 – 3 years ago. We are seeing numerous enquiries for houses in the UGX350million – UGX650million price range, but very few follow through to conclusion after the mortgage application stage. Potential purchasers are citing unaffordable interest rates when they go through with the loan application process.

That said however, there is a lot of stock for sale on the market (both residential and commercial) albeit very few buyers with the financial capability to conclude sales in good time at acceptable prices.

Buyers are taking advantage of the “slow-down” in the performance of the residential sector over the past 24 – 36 months, and are driving hard bargains with a view to paying highly discounted prices for properties. However, vendors are also holding on for as long as they can in the hope that they will get an acceptable price before they are forced to sale.

Lastly the period January - June 2017 has seen Buganda Kingdom launch a campaign to issue a special lease called “Kyapa mu ngalo”, loosely translated as “a title in your hands” to all tenants on Buganda kingdom owned land. Information from Buganda Land Board reveals that the proposed lease agreements will incorporate an automatic renewal clause in the lease after the expiry of 49 years, and gives lessees an option of reverting back to *kibanja* holding if they fail to renew their lease.

Office Sector

During H1 2017, we have noticed a slight increase in office take up for Grade A / AB office space. Knight Frank research has registered an increment of 8% year on year growth in occupancy rates for Grade A/AB buildings in Kampala from 80% registered in H1 2016 to 88% in H1 2017.

Approximately 16,000 m² of prime commercial Grade A/AB office space has been leased during H1 of 2017 in Kampala. Office take up has been driven, by enquiries which rolled over from H2 2016, and is coming from government ministries, departments & agencies who are relocating to better quality space, the oil and gas sector who are taking up some of the space they relinquished

Table 1: Prime Residential Rentals and Sales

Description	Rental Charge	Sales
5 bed furnished detached houses on 1.00 acre plots	\$3,500 - \$4,500	\$1.8 - \$2.0 million
4 bed furnished detached houses between 0.20 - 0.50 acre plot	\$3,000 - \$4,000	\$1.2 - \$1.8 million
3 bed furnished town houses (in a gated community)	\$3,000 - 3,500	\$350,000 - \$375,000
3 bed serviced apartments	\$2,000 - \$2,500	\$300,000 - \$350,000
2 bed serviced apartments	\$1,500 - \$2,000	\$200,000 - \$250,000

Source: Knight Frank Uganda

2 years ago, professional services (lawyers, accountants etc), the medical/ pharmaceutical as well as insurance sectors all accounting for approximately 65%, who are moving from older buildings to more modern space.

Tenants are still driving hard bargains in rent, and other lease terms, but the better quality buildings have held their rental and occupancy rates. The new properties which were completed 2 – 3 years ago and had heavily discounted their rental rates to attract tenants are now full or filling up and have incorporated escalations to allow them attain market rentals in the near future.

The comparative advantages for properties which are attracting tenants and or maintaining high occupancy rates, are intelligent buildings which are energy efficient with adequate parking space, usually out of the core CBD areas, i.e North East of Kampala Road towards Yusuf Lule Road, Kololo and Lugogo By Pass. However, the ongoing road network improvement by way of the Kampala flyover construction and Road upgrading Project (KFCRUP) by UNRA, will change the dynamics of the city immensely, with regards to accessibility, and ease of movement.

This will redefine the location parameters for commercial property developers and occupiers. Yields for Grade A office space have remained stable between 10% - 11%, and asking rentals are between US \$15– US \$17 per m² per month while grade B office rentals are averaging between US \$9 - US \$12 per m² per month.

Development opportunities in the “built to suit niche” for multinational companies and other global and regional agencies continue to grow, as the emphasis on efficient Corporate Real Estate Services continue to take priority in most of these international organizations.

With the anticipated oil production preparatory activities taking shape and conclusion of the Front End Engineering Design (FEED) of the oil refinery, the commercial office space outlook for the next three years looks optimistic against a backdrop of renewed interest by the Oil and Gas companies. This is likely to positively impact the demand for prime office space in the medium to long term.

Table 2: Prime Office Rentals

Property Type	Rate(@ \$ sqm)
Grade A	\$15 - \$17
Grade AB	\$13- \$15
Grade B	\$9 - \$12

Source: Knight Frank Uganda

Retail

In the first half of 2017, the retail sector has experienced a slow down in leasing activity due to the negative outlook from local media which in turn generated a lack of consumer and business confidence in this sector. The slowdown of growth in the local economy and the hangover from the escalated conflict in South Sudan has all made for a trying retail trading performance during this period.

Confidence in this sector was further dampened by the challenges of Nakumatt, East Africa’s largest retailer by size, number of stores and area occupied. These challenges resulted in substantial financial liabilities to banks, suppliers and landlords alike. Major suppliers stopped supplying them towards the end of 2016, which led to further losses for the group, increased debts and loss of market share due to empty shelves from lack of stock in the stores.

The status of Nakumatt and its possible demise is of great concern to the East African market as it will have repercussions on financial institutions, FMCG manufacturers and distributors, property investors and most importantly and unfortunately, job losses.

In spite of the Nakumatt woes, primary data from Knight Frank managed malls in Uganda reveals that footfall traffic grew by 20% in H1 2017 compared to the same period last year. With an anchor tenant not stocked and trading, this can only lead us to believe that the “retailtainment” strategy of Knight Frank managed malls is being embraced by local consumers, and the transitioning from traditional high street retail units into shopping malls is gaining momentum in Uganda. This is further strengthened by a strong tenant mix of ancillary retailers to the anchor tenant who are finding favour with the local consumer.

Knight Frank proceeded to close Nakumatt stores at Acacia Mall – Kololo, Village Mall – Bugolobi and Victoria Mall – Entebbe towards the end of H1 2017. The anchor tenant space at these malls will undergo re-development for new tenants, and should be open for trade by the first quarter of 2018. These re-tenanting strategies will add value to the existing tenant mix of the malls and enhance the consumer experience created by having a strong anchor, and will also take retailing to a new level in the Ugandan market.

With regards to the development pipeline, the retail sector has been boosted by the formal announcement of The Arena Mall, a 14,000m² convenience, fashion and leisure mall to be built in Nsambya. The development by Chestnut Uganda limited will open for trade in the first quarter of 2019.



**New Office Space at Rume Towers with ample parking along Lumumva Avenue
To Let: Contact Knight Frank Uganda**

Knight Frank have acted as development consultants and leasing agents for the mall which is already pre-let to 60% prior to construction commencement.

Table 3: Prime Retail Rentals

Size	Rate
<10m ²	\$185
<50m ²	\$45
<100m ²	\$25
<500m ²	\$22.5
>500m ²	\$10

Source: Knight Frank Uganda

**These figures above are average rentals for ground floor space in Kampala shopping Malls but do not take shop front to depth ratios into account and exclude service charge.*

Industrial and Logistics

The first half of 2017 is seeing increased demand for large space users in the industrial sector, looking to set up distribution centres, and specialised logistics accommodaton. This demand has mainly been driven by clients in the retailing, FMCG, and import / export trade sectors. We are also witnessing a trend of large space users occupying premises in new, modern warehouses with up to 9m eaves heights which tend to be in the new industrial areas of Kampala like the Kampala Industrial Business Park (KIBP), Luzira Industrial area, and Nalukolongo.

The KIBP is also taking shape and the landscape is changing everyday as developers of owner occupied premises complete their factory / industrial premises. Most of these factories are being built to a very high specification and standard of finishes and installations, with state of the art health and safety equipment and standards being adhered to. Kyagalanyi Coffee, Steel and Tube, Sadolin Paints, Roofings Ltd and Nice House of Plastics are such examples to name but a very few.

Table 4: Industrial Property Rentals per m² per month

Size	Rate
Luzira	\$5.5 - \$8
Industrial Area	\$5 - \$7
Namanve	\$4.5 - \$7

Source: Knight Frank Uganda



Retail Space at Imperial Mall Entebbe To Let: Contact Knight Frank Uganda

As the logistics sector becomes an emerging focus for property development in Sub-Saharan Africa, we are seeing interest from large scale Industrial developers who are looking at specialising in the development of modern logistics parks in Uganda. The KIBP is fast becoming Uganda's flagship Industrial park. It has 2,200 acres of land which has been fully allocated to 260 investors, many of who have completed their developments and the rest are in the development pipeline.

As Namanve fast develops into Uganda's modern Business and logistics park, we are seeing many of the older Industrial plots in the traditional locations of 1st – 8th Street being sold off and redeveloped with modern commercial structures, and or call centre type office parks in line with the zoning regulations in the physical development plan for Kampala and Greater Kampala Metropolitan area

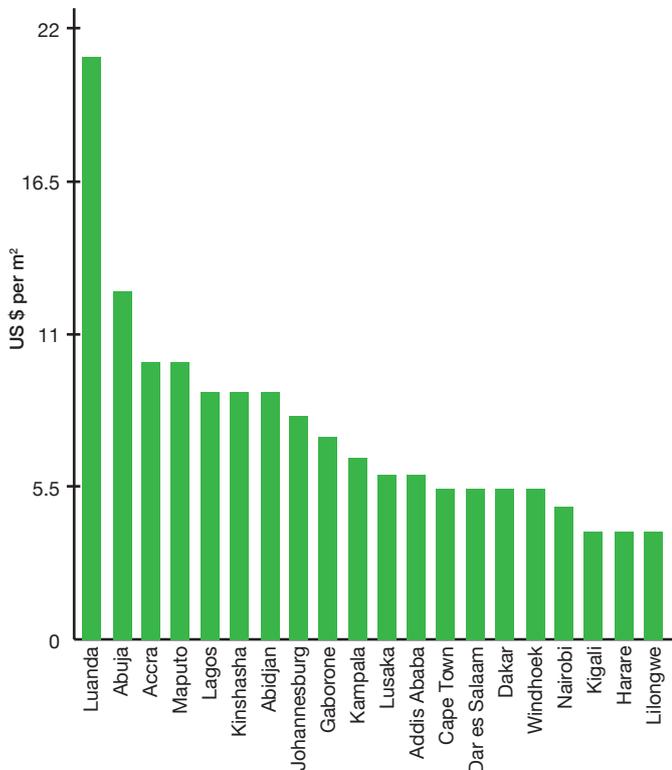
Rental levels have been stable for the past 2 years and are at the levels shown in table 4.

Table 5: Logistics Performance Index 2016, - Top 20 Countries in Sub-Saharan Africa

Sub-Saharan Africa Rank	Global Rank (Out of 160)	Country	LPI Score (Out of 5)
1	20	South Africa	3.78
2	42	Kenya	3.33
3	57	Botswana	3.05
4	58	Uganda	3.04
5	61	Tanzania	2.99
6	62	Rwanda	2.99
7	79	Namibia	2.74
8	81	Burkina Faso	2.73
9	84	Mozambique	2.68
10	88	Ghana	2.66
11	90	Nigeria	2.63
12	92	Togo	2.62
13	95	Cote d'Ivoire	2.60
14	98	Comoros	2.58
15	100	Niger	2.56
16	107	Burundi	2.51
17	109	Mali	2.50
18	114	Zambia	2.43
19	115	Benin	2.43
20	125	Republic of the Congo	2.38

Source: World Bank LPI Index

Figure 6:
Sub-Saharan Africa Prime Logistics Rents



Source: Knight Frank Research

Valuations

Overall, Knight Frank Uganda registered a 24% increment in valuations instructions in H1 2017 compared to the same period in 2016. This is partly attributed to a 27.5% increase in bank lending activity year on year in H1 2017 due to continued reduction of the Central Bank Rate which has forced financial institutions to reduce their lending rates. The Central bank further reduced their CBR rate to 10% in June 2017. This could mean a further reduction in bank lending rates by the more proactive banks to as low as 18%, which will renew interest in borrowing and subsequently house purchases and home ownership. That said however, Investor confidence with regards to large scale property development remains low and continues to dip, owing to the uncertain economic outlook.

Outlook For Q3 & Q4 2017

According to the IMF, economic growth is expected to accelerate to 5% in the next financial year (2017/18) buoyed by improving weather conditions and a recovery in private sector credit. Additionally, Infrastructure and oil sector investment are envisaged to lead recovery of growth to 6% over the medium-term.

The property market is becoming more sensitive to Uganda Shillings based rentals following the amendment of the income tax Act in 2017. The amendment proposes to abolish the charging of dollar denominated rentals which is bound to have a negative effect on the property market.

Whereas the effect of the same on the wider real estate market cannot be downplayed, one aspect that cannot be neglected is the impact this legislation, if passed in its current state will have on the real estate sector with regards to the stifling of external Institutional and local investors in the property sector of Uganda. We are of the strong opinion that this amendment is reconsidered with more haste and less speed to avoid the grave consequence which will drive the property sector to its knees in an already stressed market.

Above all, the World Bank has lifted suspension of funding to the Road sector in Uganda. As a result, we envisage an increase in public infrastructure spending which is expected to support economic growth in the second half of 2017.



Warehouse Space in Namanve
To Let: Contact Knight Frank Uganda



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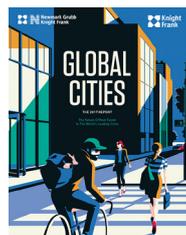
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The period "H1" refers to the calendar period 1st January to 30th June | Q1 refers to 1st January – 31st March and Q2 refers to 1st April – 30th June.