RESEARCH

RWANDA MARKET UPDATE

H1 2016

ECONOMIC UPDATE | SECTOR BY SECTOR ANALYSIS | H2 2016 OUTLOOK

HIGHLIGHTS

Economy grows by 7.3% in Q1 of 2016.

Inflation remains subdued below the medium term objective of 5%.

Hotels and prime residential apartments register full occupancy for African Nations Championship (CHAN) and the World Economic Forum on Africa (WEF) events.

Footfall at M.Peace Plaza increases by 167% during the WEF week.

Cover Image:
A section of Acacia Property Developers Ltd

RWANDA MARKET UPDATE H1 2016

Economy

Information from the National Institute of Statistics of Rwanda (NISR) reveals that Rwanda's economy grew by 7.3% in the first quarter of 2016, down from 7.6% recorded for the same period last year. Furthermore, the Gross Domestic Product (GDP) increased by 11% from RWF 1.384 trillion recorded in Q1 2015 to RWF 1.536 trillion recorded in Q1 2016 at current market prices.

Despite the drop in global commodity prices, Rwanda's growth remained strong in 2015, with a GDP growth rate of 6.9%. The International Monetary Fund (IMF) projects that the Rwandan economy will slow down from 6.9% growth registered last year to 6% in 2016. The decline in real GDP growth is attributed to shocks experienced by the economy such as a strong US dollar which has resulted in the Rwandan Franc depreciating, the falling export revenues and a ballooning import bill, putting pressure on external reserves as well as a decline in commodity prices exacerbated by a slowdown in the Chinese economy.

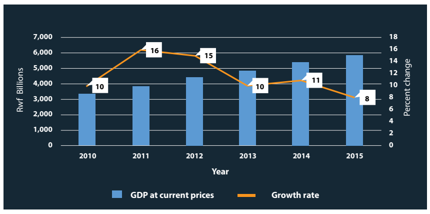
Despite a slow-down in growth in the current FY 2015/16, this represents a credible performance which is significantly higher than the 3.2% and 3.4% growth projected for the world and Sub-Saharan Africa economies respectively in 2016.

In Q1 of 2016, agriculture contributed 2.1% of the overall GDP growth with a growth of 7%, the industry sector grew by 10% and contributed at least 1.5% of the overall GDP and the service sector contributed 3.4% of the overall GDP growth, with a 7% growth during Q1 of 2016.

Estimates of Gross Domestic Product (GDP) from the National Institute of Statistics Rwanda show that Rwanda's GDP at current market prices was estimated to be RWF 5,837 billion, up from RWF 5,395 billion in 2014.The Services sector contributed 47% of GDP while the agriculture sector contributed 33 % of the GDP in FY 2014/15.Drivers of growth include the Agriculture sector which expanded by 5%, the Industry sector which grew by 7% as well as the Service sector that expanded by 7% respectively, compared to the financial year 2013/14.

Overall, Growth in 2015 was buoyed by strong construction and services activity, while inflation remained contained.

Figure 1
The Trend of GDP at Market Prices (RWF Billion) and the Percentage Growth Rates.



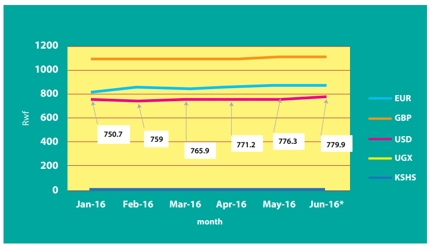
Source: National Institute of Statistics Rwanda

The economy is projected to maintain a GDP growth of approximately 6% in both 2016 and 2017.

Exchange Rate

In the money market, the Rwandan Franc weakened against most currencies during the first half of 2016. As of June 13th, 2016, the Rwandan franc had depreciated by 4.1% to an average of RWF 781.4 per USD from an average of RWF 750.7 per USD recorded in mid-January 2016.

Figure 2
Period Average exchange rate for Rwanda Franc per US dollar.



*=June 13th, 2016
Source: National Bank of Rwanda

The depreciation of the Rwandan Franc against the US dollar may be attributed to the increased demand for the dollar in order to pay for increased imports bill during the first half of 2016.

Inflation

For the first half of 2016, headline inflation has remained subdued, below the medium term objective of 5%. Inflation for the year ended June 2016 increased to an average of 5.5 % from 4.6 % recorded in May 2016. The main drivers of inflation were rising prices of food and non-alcoholic beverages of 9.4 %, rising prices of housing, water,

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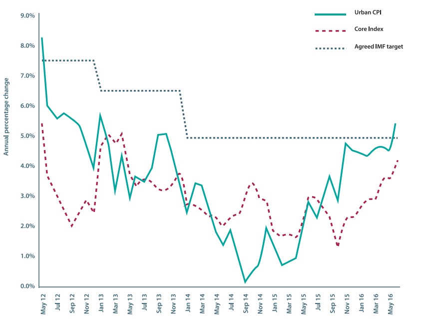
electricity, gas and other fuels by 2.9 % and a 7.0 % increment in transport prices.

Figure 3
Annual Changes in Urban CPI (May 2012 –June 2016)



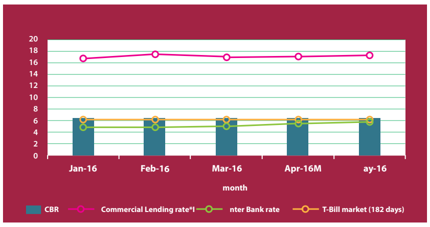
Source: National Institute of Statics of Rwanda

Interest Rates

The National Bank of Rwanda (BNR) kept its repo rate, (the rate at which it lends money to commercial banks in the event of any shortfall of funds) on hold at 6.5% for the first half of 2016. The current monetary stance continues to yield expected positive results, as inflation stays below the medium-term 5% target, and the financial sector remains sound and stable.

Despite a stagnation of the repo rate, average weighted interest rates on commercial bank loans and advances, increased by 3.9% to average at 17.34% in May 2016 from 16.69% recorded in January 2016 with short term (6 months) Treasury Bills at 6.3% by end of May 2016. Overall, lending rates have remained very stable over the last 6 months, reflecting increasing competition within the banking sector.

Figure 4
Interest Rate Structure Jan - May 2016



Source: National Bank of Rwanda

Private Sector Credit and Housing Finance

Information from BNR reveals that credit to the private sector increased by 26.3% year on year in November 2015 from 17. 5% registered for the same period in 2014. In absolute terms, Commercial Banks injected RWF 673.20 billion into the economy in 2015, compared to RWF 595.65 billion in 2014. This implies that private sector credit has increased on account of improved loan affordability.

Information from the Rwanda Development Board (RDB) reveals that there has been an increase in the provision of mortgage finance in Rwanda since 2004. The level of mortgage finance was estimated between RWF 64.7billion and RWF 84 billion in 2012. In 2012, the number of banks providing mortgage financing had increased and these included Commercial Bank of Rwanda (BCR), Kenya Commercial Bank, Bank of Kigali (BK), and Rwanda Development Bank (BRD). A few micro finance institutions such as Zigama CSS were also actively growing their mortgage loan portfolio.

According to the Housing Finance in Africa report, financial inclusion in Rwanda has steadily been improving. The report further reveals that the number of accounts opened in Microfinance Institutions (MFIs) increased by 13.4% from 2.3 million in June 2014 to 2.7 million as of June 2015; 75% of which were opened in Savings and Credit Co-operatives (SACCOs) created under UMERENGE SACCOs program.

Rwanda amended its mortgage laws in 2011 to facilitate access to home loans. As a result banks reduced down payments from 70% to 30%. In addition, banks also extended the tenor to a maximum 20 year period. By the end of 2015, commercial banks were charging an average interest rate of 16% for a 20 year mortgage term.

Hospitality

Rwanda has embarked on growing the MICE (Meetings, Incentives, Conferences & Exhibitions) subsector in a bid to boost her economic growth and development. The first half of 2016 saw an increase in the number of international hotel chains operating in the country. In March 2016, Swiss International Hotels took over the management of Villa Portofino Hotel, located in Nyarutarama. This move saw the hotel undergo re-branding to Swiss International Villa Portofino Kigali. Swiss International Hotels joined a long list of international brands that have joined Rwanda's hospitality sector which include Golden Tulip Hotels, Serena Group of Hotels, Marriot Hotels, Radisson Blu and The Acacia Property Developers Ltd among others. Hotel des Mille Collines has rebranded to Mickor Investment Holdings Ltd, who own the hotel and have taken over management from Kempinsky Hotels.

During the first half of 2016, Rwanda hosted the African National Championship (CHAN) and the World Economic Forum on Africa (WEF) in the months of January - February and May respectively. The hospitality industry largely benefitted with hotels, bars and restaurants recording higher than normal sales. For instance, Lemigo Hotel registered 98% occupancy, from the usual 60 to 70% during the CHAN tournament. Likewise, during the CHAN and WEF events, the hotel-apartment suites managed by Knight Frank registered 100% occupancy rates from monthly averages of 65%.

For the second half of 2016, three additional five star hotels will be opened. The Marriot hotel with 254 rooms (including 24 Suites) and The Radisson Blu Hotel & Convention Centre with 292 rooms. It's anticipated that both Hotels will officially be launched in July 2016. Lastly, Acacia Towers with a 134 roomed hotel and 90 serviced apartments will also be opened.

The recently completed Kigali Convention Centre (KCC) is located in Kimihurura, and is a development by the Rwanda Investment Group (RIG), the National Social Security Fund (NSSF) and the Rwanda Government. The convention centre has a capacity of 2,600 delegates, and 24,000 square metres of office and retail space. The first event to be held at the convention centre will be the AU summit scheduled to take place from the 10th to the 18th of July 2016.

We expect the hotels and high-end apartment buildings in and around Kigali city to be fully booked for the forthcoming African Union Heads of State Summit due to the high number of delegates expected to attend this summit in July 2016. Government of Rwanda's aggressive drive and promotion of the MICE sub-sector has led to growth of Rwanda's tourism industry to phenomenal levels. The Government of Rwanda are to be applauded for promoting tourism as part of their national policy, because it is clearly yielding positive results. Tourism is the country's top income earner bringing in USD 304.9 million (about RWF 223 billion) since 2014 and its potential continues to grow with more initiatives being put in place by the government through Rwanda Development Board (RDB). The direct contribution of Travel & Tourism to GDP is expected to grow by 4.1% pa to RWF 297.8bn (2.9% of GDP) by 2025. This has in turn made Kigali an attractive destination for investors in the hospitality sector and raised the profile of Kigali from the exposure to the big events being hosted there.

According to a report released by the World Travel and Tourism Council in 2015, Travel & Tourism generated 66,000 jobs directly in 2014 (3.0% of total employment) and this is forecast to grow by 2.9% in 2015 to 68,000 (3.0% of total employment). This includes employment by hotels, travel agents, airlines and other passenger transportation services (excluding commuter services). It also includes, for example, the activities of the restaurant and leisure industries directly supported by tourists. By 2025, Travel & Tourism will account for 73,000 jobs directly, an increase of 0.7% per annum over the next ten years.

The government has also devoted further efforts on promoting new tourism offerings including religious convocations, and the Musanze Caves Tourism near Volcanoes National Park in Rwanda's Northern Province, as another initiative to grow revenues. In order to maintain this momentum, government of Rwanda has embarked on a global marketing campaign and has opened liaison offices in various countries around the globe.

The national carrier, RwandAir is one of the fastest growing airline on the African continent, and has made the country a regional hub, by opening it up to the rest of the world. RwandAir has become a formidable force to reckon with in the aviation Industry, and is growing its market share through competitive pricing, frequent and timely flights. RwandAir, which operates from Kigali as its hub serves all the East African capitals and many regional cities such as Nairobi, Entebbe, Mombasa, Bujumbura, Dar es Salaam, Kilimanjaro and Mwanza with daily flights. The airline also serves Johannesburg, Dubai, Lagos, Libreville, Brazzaville and other cities.

Residential

During the first half of 2016, we have observed an increase in the number of apartments and residential houses coming onto the market for rent. Notable developments include Nas Apartments in Nyarutarama, executive suites in Nyarugenge, Lemigo Suites and M.Peace Plaza Apartments which were finished in time for the World Economic Forum (WEF). Average prices for short stay accommodation took advantage of this demand which outstripped supply and charged premiums of up to 20% above the rack rate. A single suite serviced apartment rack rate varied from USD 150- USD 200 with a double suite charging between USD 200 - USD 220.

The second quarter of this year also registered new enquires for mid – income accommodation for rent on a long term basis in the prime areas of Nyarugenge, Nyarutarama, Kagugu and Kibagabaga. Interest was mostly from the corporate expatriate community who were opening up new businesses in Kigali.

High demand was also registered from the hotel sector which had an influx of expatriates who were taking up their positons and focused on meeting the opening deadlines for the new hotels like Marriot Hotel, Radisson Blu Hotel & Convention Centre and Radisson Park Inn all in time for the WEF conference. Typical rentals for these 1 and 2 bed apartments respectively were between USD 1,500 to USD 2,000 per month. Enquiries for residential accommodation in the prime areas of Kigali like Kiyovu, Kimihurura, Kacyiru and Nyarutarama was dominated by expatriates, and consultants on short term stays, with embassies and foreign missions for longer periods.

Table 1
Typical Prime Residential Rentals.

Description	Rental Charge
5 bed furnished detached houses on 1.00 acre plots	\$3,000 – \$4,000
4 bed furnished detached houses on between 0.20 –0.50 acre plot	\$2,000 – \$3,000
3 bed furnished town houses (in a gated community)	\$1,500 – \$2,500
3 bed serviced apartments	\$2,500 – \$3,000
2 bed serviced apartments	\$2,000 – \$2,500
1 bed serviced apartment	\$1,500- \$2,000

Source: Knight Frank Rwanda

In terms of residential property sales, the Kigali market has seen an increase in supply of housing stock coming onto the market over the past six months, in the suburbs of Kibagabaga, Nyarutarama and Kicukiro. This stock mainly comprises 2 and 3 bed apartments being sold off plan and some completed and ready for occupation. These properties include the Ridgeview Courts, Century Park Apartments, and Vision city housing estate with over 500 units consisting of apartments /houses and Karibu Homes.


Larubibi Apartments - Nyarutarama

New buyer enquires for affordable properties increased in Q1 and Q2 with interest from both the middle income earners and foreign / diaspora buyers looking to acquire property in the prime residential suburbs of Kigali. The Knight Frank Rwanda residential property website indicated typical budgets for properties ranging between RWF 40 million to 80 million for a 3 to 4 bedroom houses and the foreign interest to purchase properties was for prices between USD 50,000 to USD 150,000 for 2 to 3 bedroom apartments. Prime yields for residential property in Kigali are in the range of 8 – 10%.

Table 2
Supply of Prime Residential Properties for Sale.

Area	No. bedrooms	SQM	Approx. Price
Nyarutarama	1 bedroom apartment	60-70 sqm	\$50,000 - \$60,000
	2 bedroom apartment	100- 130 sqm	\$90,000 - \$120,000
	3 bedroom apartment	120-150 sqm	\$150,000 - \$200,000
Kibagabaga	2 bedroom apartment	110-120 sqm	\$100,000 - \$110,000
	3 bedroom apartment	130-150 sqm	\$120,000 - \$130,000
Kicukiro	2 bedroom apartment	120-140 sqm	\$110,000 - \$130,000
	3 bedroom apartment	130-150 sqm	\$120,000 - \$140,000

Source: Knight Frank Rwanda

The prime residential pipeline in Kigali is active with a number of developments scheduled for completion over the next 1-2 years. These include Vision City, Century Park, Ridgeview Courts, Karibu Homes and Albert Supply Apartments.

Table 3
Prime Residential Properties in the Development Pipeline.

Location	Property	No. of units
Nyarutarama	Albert supply	17 apartments
Nyarutarama	Century Park	58 Apartments
Nyarutarama	Ridgeview Courts	21 Apartments
Kicukiro	Karibu Homes	64 apartments
Gacuriro	Vision City	500 units

Source: Knight Frank Rwanda

Office

Supply of office space in Kigali is outstripping demand, based on the void rates vis a vis take up. The office development pipeline is also active with

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numerous buildings under construction, and the majority scheduled to reach completion at around the same time.

Prime office headline rents (gross) range between USD 16 to USD 25 per square metre for Grade A and USD 15 to USD 19 per square metre for Grade B buildings.

Table 4
Prime commercial rentals.

Property Type	Rate (per sqm)
Grade A	\$19 - \$25
Grade B	\$15 - \$19

Source: Knight Frank Rwanda

Retail

During the first half of 2016, Knight Frank witnessed an average weekly footfall of 10,000 people per week in malls under our management. However, the footfall increased exponentially during the week when Kigali hosted the 26th World Economic Forum on Africa hosted in Kigali from 11th to 13th May, with increments of over 150% being registered during the week of the event. This had a significantly positive impact on the retail sector where we witnessed an increase in retail sales notably in arts, crafts and curios, as well as restaurants and leisure facilities.

The general retail market in Kigali is still based on historically dedicated retail offerings. Retail businesses are located in destination environments that are not necessarily conducive to convenient shopping outings for the majority of consumers. These environments tend to lack aesthetic appeal, public access and reticulation and are not conducive to alluring secondary and tertiary consumers and they also lack 'retailtainment' opportunities which increase dwell times and therefore revenue generation. The average space requirement of traders in the local market is smaller than the norm in emerging markets, and local retailers have been hesitant to expand both in size of stores and additional foot prints.

The advent of developments such as UTC, KCT, Market Plaza, MTN Centre, CHIC and M-Peace Plaza are starting to transition the general shopping environs of greater Kigali and obviously consumer habits.

These developed Malls / Shopping Centres are offering consumers the opportunity to engage in complexes that offer one stop shopping with a diverse variety of product and services available under one roof or in one centralized location. The majority of Malls in Kigali are anchored by a supermarket or fresh produce market. This is no different to malls in more sophisticated retail markets. The difference in Kigali however, with respect to more mature retail markets, is the lack of available fashion traders, departmental stores and an unusually large percentile of the tenant mix, in these developments, being focused on restaurants, bars, and fast food outlets.

The nature of this could be attributed to sophisticated local traders in this genre, who are expanding to grow market share, and entrepreneurial entrants to retail, usually finding food and leisure as the first entry point into the market. The lack of fashion trade and departmental type stores is attributed to international traders being hesitant to enter the Rwandese market due to not fully understanding the opportunities within the captive market, the unusually high penetration of second hand or previously owned clothing in the market and the offering of malls not having sufficient available parking to broaden the primary catchment areas of each development. These factors have been seen as deterrents to international traders entering the market.


CHIC Retail Shopping Centre

It must be noted though that the Rwandan government's impending ban on used clothing and the recently developed Kigali Heights, which is well situated with visible retail offerings and significant parking, are both seen as a catalyst to changing international traders' outlook on Kigali. Fusion Capital the owners of Kigali Heights recently announced new fashion entrants into the market such as Bossini and high take up rates of the available retail space in the development, which proves that well designed, conveniently situated retail space with ample parking will appeal and attract international retailers into the Rwandan market.

Current rental rates in the greater Kigali node are USD 10m² for big box users in excess of 1000m², USD 14 to USD 18 for users of 300m² to 1000m² and USD 18 to USD 25 for the smaller spaces. The rental levels for space under 300m² will and is starting to change dramatically, as both retailers and developers become more sophisticated in their requirements, and rental levels become pegged on the shop front to depth ratios, the floor level of the space and the nature of the retailers product and lastly the size of space taken.

Valuations

Kigali Rwanda's Capital and busiest commercial centre remains the most active property market in the country. However, foreclosures / auctions form a significant proportion of the sales stock on the market as Non-Performing Loans (NPLs) increase resulting in these restricted sales taking place. This is negatively impacting the banking and microfinance industry. By the end of Q3 of 2015, the Non-Performing Loans (NPLs) ratio of commercial banks and microfinance institutions was recorded at 6.3% and 7.8% respectively, against the National Bank of Rwanda's (BNR) prudential target of 5.0%, set under the regulator's strategic plan.

As part of their CSR (Corporate Social responsibility) drive, Knight Frank Rwanda recently concluded the first set of workshops given to numerous banks. These workshops were on Valuation Ethics and Code of Practice, with the aim of raising valuation standards, and sensitising the end users of valuation reports by highlighting what best practice from valuers should entail. It is hoped that increasing sensitisation and understanding by all stakeholders will mitigate risk to the lending institutions, and promote best practice amongst Valuers.

Outlook for Q3 and Q4 2016

We envisage increased demand in short term accommodation which will be bolstered by MICEs between July and September especially the African Union Assembly, attracting over 5000 delegates from outside Rwanda. In addition, new commercial developments will be fully operational including Acacia Property Developers Ltd and Kigali heights.

In February 2016, the World Bank projected Rwanda's GDP growth at 6.8% for the financial year ending June 2016. However, IMF's review of the country's economic performance in April 2016 released a projection of approximately 6.0%. We anticipate this growth trajectory to hold in the medium term. This consequently boosts the various sectors of the economic system, including the real estate sector.

With Rwanda announcing plans to develop rail links to the Indian Ocean ports through Tanzania, there will be increased interest especially by trading and logistics businesses in Kigali over the potential of increased trade using the Tanzania corridor as an option to the Kenyan corridor. This may set the path for new regional offices for these companies in Kigali, thereby increasing demand for office and residential space.

Kigali City was selected among cities that will showcase their investment opportunities at the African Real Estate Summit in Cape Town from 2nd - 3rd November, 2016. This is an opportunity for Rwanda to promote its Meetings, Incentives, Conferences and Exhibitions (MICE) tourism strategy. The real estate summit aims at supporting African cities and governments to secure new international investments to boost commercial real estate and infrastructure projects.

Rwanda will host the 27th Ordinary Session of the African Union Assembly of Heads of State and Government from July 10th - 18th in Kigali. The summit will see Rwanda host close to 54 Heads of state and their spouses, other senior government officials from different countries and heads of diplomatic missions. The hospitality sector will see its hotels holding their own, as Rwanda aims to become a regional Meetings, Incentives, Conference and Events (MICE) destination.

In October 2016, Rwanda will host the Aviation Development (AviaDev) Africa forum, a unique platform bringing together airlines, airports, hotels and hospitality investors. Furthermore, the Government of Rwanda through the Rwanda Development Board, will host the Africa Hotel Investment Forum (AHIF) in October 2016. AHIF brings together the leading international hotel investors in Africa with local operators, ministers, government officials and industry experts, to discuss all aspects of hotel investment and operation in Africa.

Above all, hosting these events will contribute to growth of Rwanda as a leading MICE destination in the region. A birds eye view of Rwanda's economic performance and progress over the past two decades sets the country strides ahead of its regional counterparts and aptly earns its well-deserved reputation as "Africa's Little Gem".

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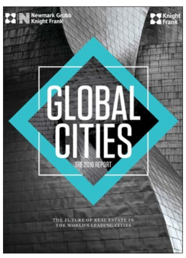

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