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Acacia Mall, Kisementi - Completion Date October 2013

HIGHLIGHTS

- Kampala's retail sector takes off.
- Anticipated New Office Development projects put on hold
- Tenants are driving a harder bargain for prime office space as they take advantage of the oversupply.
- Shilling continues to make steady gains against US dollar
- Noticeable decreases in residential house sales

Residential

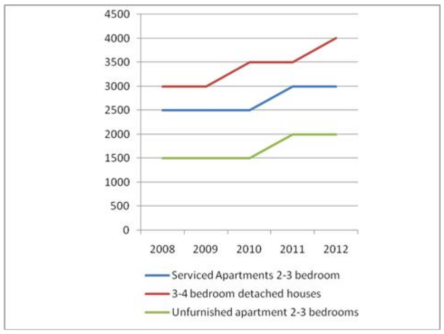
- **High Lending Rates slow down residential take up.**
- **Residential property supply increases as repossessions loom.**
- **Increased demand for prime residential rental accommodation.**

Bank lending rates which started off at an all time high of nearly 30% at the beginning of the year and are steadying at between 27% - 30% currently, have led to a noticeable slow down in house purchases. This is hardly surprising since a large percentage of residential houses are purchased on mortgages. The mortgage debt in Uganda is at only one per cent of the country's GDP, which is relatively low compared to 2.5% in Kenya and 33% in South Africa.

This sharp increase in interest rates which has also led to more stringent lending requirements and pre-qualifications has resulted in sharp reductions in house purchases particularly within the mid income bracket.

In addition, we have noticed an increase in housing supply from owners who have failed to meet their mortgage repayments which have nearly doubled from their original levels by preempting the inevitable and opting to sell their properties before the banks put them up for repossession. This often results in slightly longer marketing periods and thus higher prices achieved.

There has been an increase in demand for good quality serviced rental accommodation within a 5 km radius of the CBD. This is mainly coming from the oil and gas, telecoms and other corporate sectors. Stand alone houses are usually let unfurnished. See below for rental levels.



Industrial

- **KIBP yet to take off 6 years after being commissioned.**
- **Kampala – Jinja Industrial corridor fast developing.**
- **Industrial Rentals for good quality space remains high and steady.**

2,214 acres of land was identified and allocated for development as an Industrial park by various industrialists 6 years ago. However, to date, there are only a handful of landowners who have developed their plots. Reasons for the stagnation in development of the KIBP are cited as double allocation and sub-division of this land amongst others. This has left many "owners" without titles because of the incomplete nature of the offers to the industrialists.

The decentralization of the traditional industrial areas of 1st – 8th Street through the successful development of the KIBP was intended to alleviate traffic congestion and lack of parking for trucks by limiting the axle loads coming into the city and future regeneration and upgrading of these streets to modern showrooms / commercial type developments.

Industrial land values along the Kampala - Jinja highway have steadily appreciated in value off the back of the proposed KIBP, and also as big manufacturers like Riley Packaging, APDL, and Chinese Companies have built state of the art factories on vast plots of land to accommodate their future re-development plans.

Prices for land fronting onto the highway between Banda and Namanve are currently between 650,000,000/- and 450,000,000/- per acre and reducing as you move further away from Namanve. Needless to say however, the market is "bearish" at the moment, and buyers few and far between as landlords resist adjusting their prices in response to this.

Prime Industrial rents are currently between $7.00 - $10.00 psmpm for the newer / modern space, and $4.00 - $6.50 for the older warehouses with limited parking and hard standing areas.

Retail

- **4 retail malls scheduled for completion between 2013 – 2014.**
- **Regional retailers take advantage of Kampala's ever increasing consumer society.**
- **Design, location and convenience become the catchphrases for successful malls.**

Between December 2013 – October 2014, Kampala will be spoilt for choice between 3 ultra modern shopping malls and one in Entebbe.

• Acacia Mall, Kisimenti – GLA 16,192sq.m (Approx. 60% Let)

•Chestnut Hills Mall , Nsambya – GLA 25,009 sq.m (EOI's for 30% Received)

•The Village Mall ,Bugolobi – GLA 9,707 sq.m (Received EOI's for 30% of the area)

•Victoria Mall, Entebbe – GLA 19,197sq.m (40% Let)

The retail sector developers (all indigenous) responded to the demand from established national and international tenants who were becoming frustrated with the lack of quality retail space in Kampala. They believe high street shopping is being over taken by one stop shopping centres, and the take up in the new malls which have all been designed by retail mall specialists and will be Let and managed by Knight Frank is testimony to this sentiment.

Kampala has for a long time missed out on good quality shopping as a result of limited choice and caliber of retailers. Excellent tenant mixes, location and smart retail mall design are the guiding principle for new developments in Kampala and Entebbe, as tenants seek to optimize expansion plans with growing consumption levels, projected disposable incomes and fill the retailer gap in this market.

Retail Rents:
• Anchors - $9.00 - $13.00 per sq.m plus s.c and VAT

• Line Shops - $18.00 - $25.00 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 but steady.**
- **International standards being placed on premises selection**
- **Proposed Office Developments stall / put on hold.**

On the contrary to what was anticipated / speculated by many developers, prime office space in Kampala has remained slow but steady, with the better built and designed office spaces letting fastest. The oil and gas, and telecoms sector still remains the biggest source of demand for office space, but not to the levels first expected.

Good covenant tenants looking for space in Kampala are constrained in their selection process by their requirements to adhere to international standards regarding construction, with safety, accessibility, security, and professionally managed properties being minimum standards and requirements.

The majority of inventory including most new designs do not fully adhere to international standards, rendering them disqualified from any search by these quality tenants.

At the turn of 2011, proposed office developments scheduled for completion in 2013 totaled 150,000sq.m's .This figure has since reduced as many projects are put on hold, and others have stalled in response to the high bank lending rates.

Prime Office Rents:

• Grade A - $18.50 - $16.50 plus s.c and VAT.

•Grade B - $13.00 - $ 15.00 plus s.c and VAT.

• **Prime Office Yields:** 9% - 11%

Consulting

- **Satellite town developers increase their appetite for development in Kampala.**
- **Basic servicing of plots assist sales process**

We have seen increasing interest from both private and PPP developers who are keen to address the insatiable housing demand in Uganda, with specific reference to the greater Kampala suburbs. This interest is being stalled however by the lack of infrastructure and services in many of the identified or preferred locations, and thus the final cost to the developer if they were to bear it.

As Kampala becomes increasingly saturated, there is an urgent need for structured and controlled urbanisation of the suburbs to avoid the sprawl of new slums and squatter housing clusters.

The most practical response to the above issue is pro-active government led infrastructure development, which will then open up new nodes for development along these axis.

Agricultural Land

As food security becomes an agenda item at nearly every global summit, we are receiving increasing international interest for large tracts of land of 10 square miles and above in single holdings, and large existing farms in established farming blocks, with the key factor being water supply, good accessibility, and minimal squatters. The land is required for large scale commercial farming and cultivation of wheat, grain and other commodities for export to the European, Chinese and Other markets.

The increasing appetite of banks to lend to the commercial farming sector has led to an increase in land values for farming land in nearly all districts of Uganda. This is further exercabated by the demand for food and livestock from neighbouring countries like Southern Sudan , Congo and Rwanda which has resulted in many commercial poultry and livestock farms being set up in response to this demand.

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