



Kampala Real Estate Investment Opportunity

"A pearl of Opportunity"

25th September 2017



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I. Introduction to Cytonn Investments

What We Stand For



Our Mission

We deliver innovative & differentiated financial solutions that speak to our clients' needs



Our Vision

To be Africa's leading investment manager by consistently exceeding clients' expectations



Our Values

People

Passionate and self-driven people who thrive in a team context

Excellence

Delivering the best at all times

Client Focus

Putting clients' interest first at all times

Entrepreneurship


Using innovation and creativity to deliver differentiated financial solutions

Accountability

We take both corporate and personal responsibility for our actions

Integrity

Doing the right things



**Strategy is
straightforward –
just pick a general
direction and
implement like hell**

— Jack Welch

About Us

Cytonn Investments Management Plc is an alternative investment manager with presence in East Africa, Finland and the US. We provide investors with exposure to the high growth East Africa region. Our investors include global and local institutional investors, individual high net-worth investors and the diaspora. We also service retail investors through our Cytonn Co-operative

82 bn

Over Kshs. 82 billion worth of projects under mandate

5

Five offices across 2 continents

250

Over 250 staff members

10

10 investment ready projects

A unique franchise differentiated by:

Independence & Investor Focus

Focused on serving the interest of clients, which is best done on an independent platform to minimize conflicts of interest

Alternative Investments

Specialized focus on alternative assets - Real Estate, Private Equity, and Structured Solutions

Strong Alignment

Every staff member is an owner in the firm. When clients do well, the firm does well; and when the firm does well, staff do well

Committed Partners

Strong global and local partnerships in financing, land and development affiliate

Why We Exist

Africa presents an attractive investment opportunity for investors seeking attractive and long-term returns. Despite the alternative markets in Africa having high and stable returns, only a few institutional players serve the market. Cytonn is focused on delivering higher returns in the alternative markets, while providing the best client service and always protecting our clients' interests.

WE SERVE FOUR MAIN CLIENTS SEGMENTS:

- Retail segment through Cytonn Co-operative membership
- High Net-worth Individuals through Cytonn Private Wealth
- East Africans in the Diaspora through Cytonn Diaspora
- Global and Local Institutional clients

WE INVEST OUR CLIENT FUNDS IN:

- Real Estate
- Private Equity
- Fixed Income Structured Solutions
- Equities Structured Solutions



Our Business

Where We Operate



Our Business Lines

Investments

Alternative investment manager focused on private equity and real estate

RealEstate

We develop institutional grade real estate projects for investors

Diaspora

We connect East Africans in the diaspora to attractive investment opportunities in the region

Technology

We deliver world-class financial technology solutions

Co-operative

Provides access to attractive alternative investment opportunities for members

Our Solutions

To unearth the attractive opportunity that exists in alternative markets in Africa, we offer differentiated investment solutions in four main areas:

HIGH YIELD SOLUTIONS

Our expertise in the alternative markets enables us to offer investors high yielding investments. Our robust credit analysis coupled with our quick dealing capabilities, our extensive research coverage and our innovative structuring helps to ensure consistent and above market returns to investors.

REAL ESTATE INVESTMENT SOLUTIONS

Our comprehensive real estate capabilities enable us to find, evaluate, structure and deliver world-class real estate investment products to our investors in the East African region. Our capabilities include fundraising, market research and acquisition, concept design, project management and agency and facility management.

PRIVATE REGULAR INVESTMENT SOLUTIONS









Attractive returns in the alternative segments have typically been accessible to institutional and high net-worth investors. Our regular investment solutions provide access to the alternative investments to members of the Cytonn Co-operative.

PRIVATE EQUITY

We seek to unearth value by identifying potential companies and growing them through capital provision, partnering with management to drive strategy and institutionalizing their processes. Our areas of focus are Financial Services, Education, Renewable Energy and Technology Sectors.

Our Products

We serve three main types of clients namely, high net-worth individuals, institutions and retail, each with diverse needs. Below are the suitability criteria for the various products.

	INSTITUTIONAL CLIENTS	HIGH NET WORTH INDIVIDUALS (HNWI)	RETAIL CLIENTS
Cash Management Solutions			
Regular Investment Plan <ul style="list-style-type: none">• Education Investment Plan• Regular Investment Solution• Co-op Premier Investment Plan• Land Investment Plan			
Real Estate Development <ul style="list-style-type: none">• Real Estate Developments• Sharpland			

Our People



If you could get all the people in an organization rowing the same direction, you could dominate any industry, in any market, against any competition, at any time.

— **Patrick Lencioni**

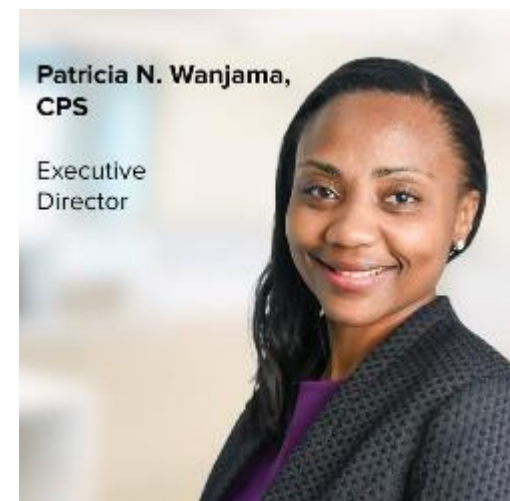
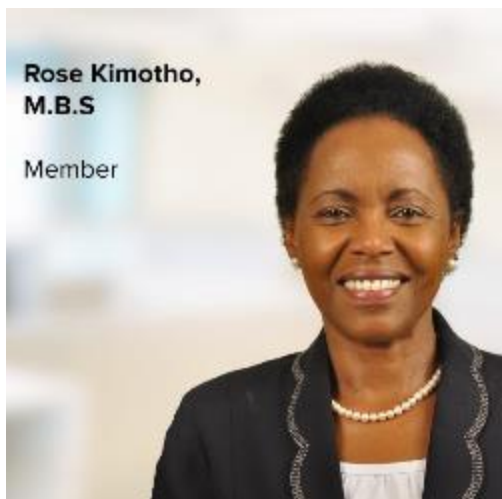


Board of Directors

To ensure that we remain focused on the clients' interests, we have put in place proper governance structures. We have a board of directors consisting of 11 members from diverse backgrounds, each bringing in unique skill-sets to the firm.



Board of Directors, continued ...



Governance Committees

We have four main board committees to ensure all of Cytonn's functions are done in a fair and transparent manner:

Investments and Strategy Committee

The committee oversees and provides strategic investment direction, including the implementation and monitoring process. The members are:-

- James Maina (Chair)
- Antti-Jussi Ahveninen, MSc
- Madhav Bhalla, LLB
- Edwin H. Dande, MBA
- Elizabeth Nkukuu, CFA

Audit, Risk and Compliance Committee

The committee establishes and oversees risk and compliance, including the implementation and monitoring process. The members are:-

- Madhav Bhalla, LLB (Chair)
- Nasser Olwero, Mphil
- Madhav Bhandari, MBA
- Dr. Nancy Asiko Onyango, DBA
- Patricia N. Wanjama, CPS

Governance, Human Resources and Compensation Committee

The committee establishes, oversees and implements governance structure, human resource policies and firm wide compensations. The members are:-

- Antti-Jussi Ahveninen, MSc (Chair)
- Prof. Daniel Mugendi Njiru, PhD
- Michael Bristow, MSc (Chair)
- Edwin H. Dande, MBA

Technology and Innovation Committee

The committee establishes, oversees and implements technical expertise and innovative processes as a driver towards competitiveness. The members are:-

- Nasser Olwero, Mphil (Chair)
- Michael Bristow, MSc
- Patricia N. Wanjama, CPS

II. Kampala Real Estate Investment Opportunity

Executive Summary

Real estate market in Kampala attractive with average rental yields of 6.8%, 10.6% and 10.2% in residential, office and retail themes, respectively

- We carried out a research in Kampala covering the residential, commercial office and retail themes. The report aims to inform on the performance and the investment opportunity in the real estate sector in Kampala in 2017
- In terms of performance, on average the residential in Kampala has an average rental yield of 6.8%, commercial office 10.6% and retail 10.2% in Kampala compared to Nairobi's 5.6%, 9.3% and 10.0% for residential, office and retail, respectively
- In the residential sector, the upper middle income zones of Naguru, Lubowa, Ntinda have the highest returns with average rental yields of 7.4%
- For commercial office, Grade A office space have the highest returns with average rental yields of 11.4% driven by high demand and low supply, from our sample they account for only 25% of the total office stock in Kampala
- In retail, the market has a large supply with community malls having the highest returns with average rental yields of 11.8%
- The residential and office markets are developers markets driven by strong demand, high pricing and limiting supply while the retail market is a tenants market driven by low demand and increased vacancies
- **The opportunity in the sector is thus in:**
 - ❖ **Residential – high end apartments in Kololo (2 and 3-bed), for upper middle income areas 3-4 bedroom houses in Naguru, Ntinda and Lubowa and for middle income areas and affordable housing 2 and 3 bed apartments in Naalya**
 - ❖ **Commercial Office – Grade A offices in Kololo area**

Kampala Real Estate Investment – “A Pearl of Opportunity”

Huge housing deficit and low supply of Grade A office space create demand for the residential and commercial office themes in Kampala leading to attractive returns of 6.8% and 10.6%, respectively and increased real estate development

Value Area	Summary	Effect
Demand	<ul style="list-style-type: none"> Uganda has a housing deficit of 1.6mn units as at 2016, according to the Ministry of Lands with Kampala having an annual deficit of 100,000 houses p.a Grade A offices are also in high demand though are in short supply accounting for only 25% of total office space 	<ul style="list-style-type: none"> Increased supply of housing in the middle income segments in suburbs such as Naalya which record high sales rates with near 100% sales off plan in this markets High returns being recorded in Grade A office blocks with rental yields of 11.4% and high occupancy rates of 87.3%
Returns	<ul style="list-style-type: none"> Real estate sector in Kampala recording attractive returns with average rental yields of 6.8%, 10.6% and 10.2% for residential, office and retail themes compared to Nairobi's 5.6%, 9.3% and 10.0% for the same themes 	<ul style="list-style-type: none"> Kampala provides an attractive investment opportunity in specific markets with high uptake especially in the middle class segment Increased development activity being witnessed with real estate contribution to GDP increasing from 4.3% in 2012 to 4.6% in 2016
Opportunity & Outlook	<ul style="list-style-type: none"> The opportunity in high end areas is in 2 and 3 bed apartments in Kololo, for upper middle income areas its is in 3-4 bedroom houses in suburbs such as Naguru, Lubowa and Ntinda and for affordable and middle income estates the opportunity is in 2 and 3 bed apartments in Naalya, Namugongo Kiwatule areas 	<ul style="list-style-type: none"> We expect increased investment in high performing areas such as Kololo, Naguru, Naalya There will also be an increase in development of apartments which are affordable as compared to standalone houses

Kampala real estate market has attractive returns with average rental yields of 6.8%, 10.6% and 10.2% in residential, office and retail themes

a). Introduction

Introduction: Maps

Kampala is the capital and largest city in Uganda, it is divided into five divisions administratively

Uganda Map

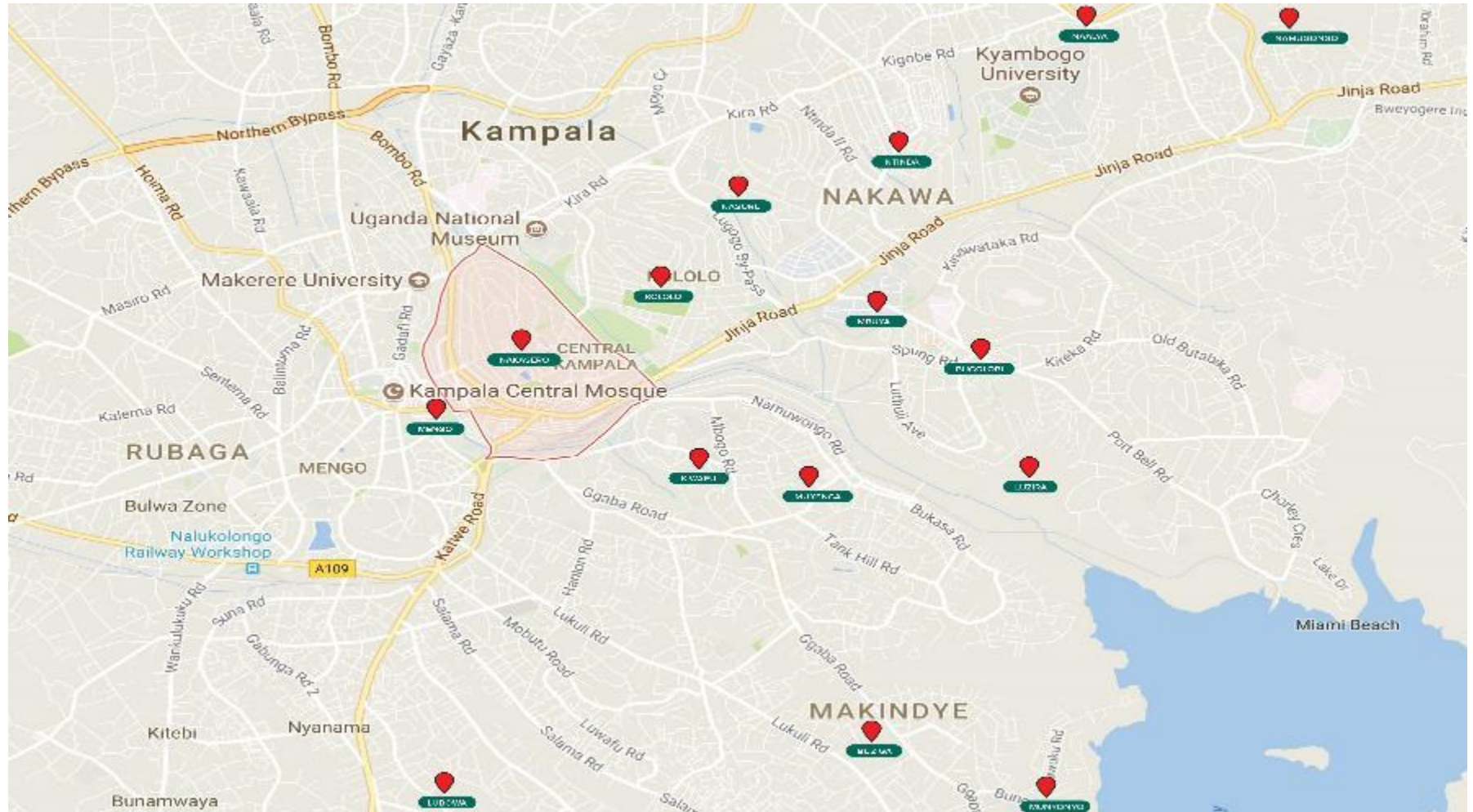


Kampala Map



Introduction: Maps, continued...

Kololo, Nakasero, Lubowa, Naguru, Ntinda and Naalya are some of the areas covered in our research



Introduction: Administrative Divisions and Amenities

There is inadequate implementation of zoning regulations in Kampala and it is common to find high rise apartments in a low density neighborhood

Introduction

- The Republic of Uganda is located in East Africa neighbouring Kenya, Rwanda, South Sudan and Tanzania
- It has a population of approximately 41 mn people and covers 93,065 square miles of area
- Our research focuses on Kampala, the capital and largest city in Uganda. Kampala has a surface area of 72.97 square miles and a population of 1.5mn people in 2016 according the Uganda Bureau of Statistics

Administrative Areas

- Kampala is divided into five districts that is:
 - i. Central** - constituting of areas such as Kampala CBD, Nakasero, Kololo and Kisenyi, these are the high income areas in Kampala
 - ii. Nakawa** - which has neighbourhoods such as Nakawa, Bugolobi, Luzira and Ntinda mostly the upper middle income areas
 - iii. Makindye District** - with areas such as Muyenga, Munyonyu, Kibagalagala and Buziga which are mid to upper middle income areas
 - iv. Kawempe** - consisting of Bwaise, Mulago, Kawempe and Kazo among others which are mid to low income areas and
 - v. Rubaga** - District consisting of Rubaga, Mengo and Kasubi and is the home to the Kabaka it is a middle to low income area
- There is inadequate implementation of zoning regulations in Kampala and it is common to find high rise apartments coming up next to stand alone buildings

Introduction: Kampala Real Estate Market Performance Summary

Commercial office theme in Kampala has the highest returns with average rental yields of 10.6% attributable to a mismatch between demand and supply

Theme	Rental Yield	Occupancy
Commercial Office	10.6%	86.0%
Retail	10.2%	71.2%
Upper Middle Residential	7.4%	84.9%
Middle Class Residential	6.8%	88.1%
High-End Residential	6.1%	83.9%

- Commercial office theme in Kampala has the highest returns with rental yields of on average 10.6% and 86.0% occupancy levels
- The returns are mainly as a result of relatively low supply of quality office space hence enabling the developers to charge prime rents,
- The retail theme, though having an attractive yield of 10.2%, has witnessed increased supply and hence increased vacancy rates with average occupancy rates of 71.2%, the lowest across all themes
- Residential market in Kampala has an average rental yield with the highest being 7.4% in the upper middle class mainly due to high rents charged in these locations most of which are prime

Introduction: Trends in the Kampala Real Estate Market

Conversion of residential units to offices, infrastructural developments opening up areas for development, off plan sales and fractional sales of office spaces are some of the key trends in the Kampala real estate market

- **Conversion of residential building to offices** – Due to the low supply of office space, congestion in the CBD and inadequate parking, corporates are increasingly taking up space in residential zones and in units and using them for office spaces
- **Infrastructural developments opening up areas for development** – The government has invested in infrastructural developments which has led to development of new residential areas. The Northern Bypass has for instance led to the development of Naalya and the Kampala Entebbe Highway is expected to lead to developments of Suburbs in the areas it will traverse including Lubowa and Munyonyo
- **Increased off-plan Sales** – The market initially a purely cash market is witnessing an increase in off plan sales especially in the middle class market which has high demand, is relatively lower priced and has high demand
- **Fractional sale of offices and sale of semi fitted office spaces** - Fractional sale of office spaces in Kampala is in its nascent stages as developers seek to exit commercial buildings faster

b). Residential Market Performance

i). Introduction

Introduction to the Residential Market in Kampala

60% of Kampala residents live in informal settlements

Introduction

- Uganda has a housing deficit of 1.6mn housing units largely concentrated in the low to mid income segment according to the Ministry of Lands, Housing and Urban Development
- Kampala has the bulk of this deficit with the city in need of 100,000 houses, the deficit is expected to grow given the high urbanization rate of 5.2%, a majority of Kampala residents (60%) live in informal settlements
- The residential zones can be categorized largely into three bands in Kampala
- **High Income areas** – These are zones closest to the CBD they include; Nakasero, Kololo and parts of Bugolobi. Initially they were characterized by colonial style maisonnettes and Bungalows but these are being replaced with high end apartments, mostly furnished attracting rents of between USD 2,000-4,000(200,000-400,000 Kshs) per month with exit prices of more than USD 200,000 (Kshs 21mn). They serve the expatriate population in Kampala and the high net worth individuals
- **Upper Middle Income** – These are the zones neighboring the high income areas, they have grown mainly as a result of improved infrastructure and expansion or emigration of the high income areas. They are characterized by standalone houses in gated compounds with a few apartments coming up. They include Mbuya, Luzira, Muyenga, Ntinda, Naguru and Nagira. They serve high net worth individuals, corporates and military personnel. House prices range from USD 160,000 to 450,000(Kshs 16-46mn)
- **Middle Income areas** include the Kampala suburbs of Nalya, Kira, Namugongo, Kira and Kintintale. These areas have a high demand for apartments and they are coming up in large quantities. Developments have been boosted by improved infrastructure in the areas such as Northern Bypass. The price range from Ugx 87.5mn to Ugx 400 mn (Kshs 2.5mn to Kshs 11mn)

Introduction to the Residential Market in Kampala – Key Drivers

High population growth rate, urbanization and improved infrastructure are the key drivers of the residential real estate market in Kampala

- **High population growth rate and urbanisation rate** – Uganda has a high population growth rate of 3.2% which is higher in cities at 4.3% and a high urbanisation rate of 5.2% creating demand for housing units especially in urban areas
- **Increased multinational operations** –Following the discovery of oil as well as in the technology and financial services sector who are demanding for high end residential units
- **Increasing disposable income** – Driven by an increase in GDP which has on average grown by 5.1% p.a in the last five years hence increasing the population's capacity to demand for housing
- **Improved infrastructure** – the government has improved trunk infrastructure especially roads in the suburbs which have opened up the areas for development. They include Naalya, Namugongo area due to the Northern Bypass
- **Government initiatives** - Such as the enactment of the condominium titling system facilitating fractional sales of property hence making it affordable. The National Housing cooperation has also opened up areas for development by developing in those areas and the National Social Security Fund(NSSF) which provides off taker financing for developments. Uganda has a relatively stable political and governance environment

Introduction to the Residential Market in Kampala - Challenges

Inadequate funding, high cost of capital and high construction costs are some the key challenges facing the residential real estate market in Kampala

- **Inadequate funding** – There is very little off taker finance in the Kampala Market hence buyers have to finance using their savings. The problem is compounded by the fact that most sales transactions are cash payments with clearance periods of between 1-6months hence little time to fundraise. Mortgage activity is also subdued with analysts estimating that only 250 mortgages were issued in 2016
- **High cost of capital** – Uganda is currently experiencing a high interest rate environment with banks lending at between Kshs 22-28% making it expensive to borrow to construct or buy houses
- **Exit of some multinationals** – due to the delay by the government in issuing of trading licences has led to the exit of some multinationals such as Tullow hence reducing the demand for prime property
- **High land construction costs** - High costs of construction inputs, high costs of transportation from ports and high land costs in some suburbs such as Nakasero and Kololo where an acre of land sells for Kshs 2.5mn on average also raise development costs reducing the attractiveness and affordability of the housing market
- **Culture** – Ugandans prefer living in large palatial homes which they cannot afford hence affecting the uptake of apartments which are mainly bought for investment, this culture is however changing as people seek affordability and convenience

ii). Residential Market Performance Summary

Residential Market in Kampala – High End Areas Performance

High end apartments are mostly furnished and two bedroom apartments having the highest returns with average rental yields of 10.0%

Typology	Average Size SQM*	Monthly Rent USD	Price Per Unit in USD	Price Per SQM in USD	Price Per SQM in UGX	Rental Yield	Occupancy
2 Bed Apartments	130	1,900	237,500	2,083	7,498,800	10.0%	82.3%
3 Bed Apartments	192	2,522	343,000	1,786	6,429,600	8.9%	85.5%
3 Bed Villas	325	2,500	825,000	2,595	9,342,000	2.9%	
Stand Alone Bungalows	650	3,250	1,400,000	1,343	4,834,800	2.8%	
Average High End				1,952	7,026,300	6.1%	83.9%

High end residential areas covers Nakasero, Kololo and Bugolobi suburbs in Kampala, and these consist of exclusive serviced and furnished apartments and villas and Bungalows

- Apartments are the best performing in this market with average rental yields of 10.0% for two bedroom apartments and 8.9% for 3 bedroom apartments. They have high occupancy rates of averagely more than 80% and charge prime rents averaging at USD 1,900 for two bed and USD 2,522 for 3 bed
- The apartments are spacious and charge the prime rents as the clients are the top end of the market seeking luxury more than just functionality
- The stand alone houses are on land parcels of between 0.2 - 1 acre
- These can be sold for values as high as a 1mn USD but are increasingly reducing in numbers as the parcels are redeveloped into either apartments or commercial office blocks
- The villas attract low yields averaging at less than 3.0% indicating that investors are not willing to pay a premium for the gardens and privacy missing in apartments and are hence likely to be done away with altogether as investors seek higher returns

Residential Market in Kampala – Upper Middle Areas Performance

In Upper middle areas, three bedroom apartments have the highest returns with average rental yields of 8.9%

Typology	Average Size SQM*	Monthly Rent USD	Price Per Unit in USD	Price Per SQM in USD	Price Per SQM in Ugx	Rental Yield	Occupancy	Uptake
3 Bed Apartments	142	1,240	175,298	1,370	4,932,000	8.9%	91.7%	92.9%
3 Bed Standalone	166	1,050	145,500	908	4,352,400	8.6%	80.0%	
4 Bed Apartments	188	1,444	230,714	1,209	3,268,800	7.1%	79.1%	82.2%
4 Bed Standalone	237	1,467	262,222	1,136	4,089,600	6.8%	82.5%	75.1%
5 Bed Standalone	297	1,983	346,667	1,166	4,197,600	5.8%	91.2%	82.4%
Average Upper middle				1,158	4,168,080	7.4%	84.9%	83.2%

The upper middle residential area covers Naguru, Mbuya, Luzira, Muyenga and Ntinda among other suburbs in Kampala. These consist of:

- Apartments, mostly three and four bedroom units. On average three bedroom apartments have the highest yields of 8.9% and high occupancy levels of 92.9%. This is as they are in high demand from expatriates and high net worth locals seeking convenience and relative affordability as they are cheaper than housing units in the high end areas. Four Bedroom units have lower returns with average rental yields of 7.1% and uptake and occupancy levels of 82.2% and 79.1%. This is as they mostly have similar amenities and features like the three bedrooms but are more expensive with absolute prices of on average USD 230,714 against USD 167,500 for 3 bedroom apartments
- Standalone Units are mostly 3, 4 and 5 bedroom units. These have lower returns on average compared to apartments with 3 bedroom standalone having rental yields of 8.6% against 9.5% for apartments and four bedroom standalone having average yields of 5.8% against an average of 7.6% for apartment. They have decent occupancy rates of more than 80% across all the typologies. They attract individuals seeking space and size but in a gated community to share on security, water and other amenities as well as for the community feel

Residential Market in Kampala – Middle Class Areas Performance

Three bedroom apartments and standalone units have the highest returns in middle class areas with average rental yields of 7.2% and 7.0%, respectively

Typology	Average Size SQM*	Monthly Rent in UGX"000"	Price Per Unit in UGX"000"	Price Per SQM in UGX	Price Per SQM in USD	Rental Yield	Occupancy	Uptake
3 Bed Apartments	103	1,667	294,750	2,877,176	903	7.2%	75.0%	95.0%
3 Bed Standalone	156	3,163	575,000	3,239,024	799	7.0%	96.7%	87.5%
2 Bed Apartments	86	831	284,354	3,252,215	900	5.6%	83.3%	95.0%
4 Bed Standalone	205	2,000	732,500	3,517,698	977	3.8%	100.0%	97.5%
Average Middle Class				3,221,528	895	5.9%	88.8%	93.8%

The middle class residential area covers Bukoto, Kiwatule, Kira, Naalya, Namugongo, Buziga and Bunga suburbs in Kampala. These consist of:

- Apartments are mostly two and three bedrooms. There is massive construction ongoing in these markets with off plan sales driven by the high demand for the units as well as relative affordability and attractive price ranges in Ugandan Shillings. There is a huge demand for these apartments for rents by the middle class staying in Kampala hence the rush, while some buyers are owner occupiers developers sell more to investors seeking the attractive returns. Three bedroom units are the most popular recording on average 95% uptake and 7.2% rental yields
- Stand Alone – In these areas, stand-alone consist of three and four bedroom units. The supply for these units is declining but they still offer attractive returns with rental yields of 7.0% for 3 bedroom houses on between 0.12 and 0.30 acres of land. Four bedroom units have lower yields averaging at 3.8% as they charge similar rental rates to the three bedroom units though they have higher prices and similar amenities

Residential Market in Kampala – Affordable Housing Performance

Affordable housing units have high returns with average rental yields of 7.9%

Typology	Average Size SQM*	Monthly Rent in UGX"000"	Price Per Unit in UGX"000"	Price Per SQM in UGX	Price Per SQM in USD	Rental Yield	Uptake
2 Bed Apartments	73	675	104,667	1,473,769	409	8.2%	87.5%
3 Bed Apartments	80	900	146,500	1,831,250	509	7.5%	87.5%
Average Affordable Housing				1,652,510	459	7.9%	87.5%

- Consists mainly of 2 and 3 bed apartments in the middle income areas
- Have attractively low prices of on average UGX 104,667 mn for a two bed unit and UGX 146,500 mn for a 3 bed unit, making the houses popular and thus high uptake levels of on average 88%
- They have attractive rental yields, with three bedroom units having the highest yields of on average 8.2%
- Three bedroom units have average rental yields of 7.5%
- Due to their relative affordability, they have high uptake rates with cases of developments being 100% sold in just 10 months

Residential Real Estate Sector in Kampala – Performance Summary

Kampala residential market has average rental yields of 6.8% with middle income suburbs and affordable housing units having the highest returns with rental yields of on average 7.4% and 7.9%, respectively

Region	Suburbs	Price Per SQM USD	Price Per SQM UGX	Rental Yield	Occupancy	Best performing Typology
Upper Middle Income Areas	Naguru, Mbuya, Luzira, Muyenga, Lubowa and Ntinda	1,158	4,168,800	7.4%	84.9%	3 Bedroom Units
High End Areas	Kololo, Nakasero, Bugolobi	1,952	7,027,200	6.1%	83.9%	2 Bed Serviced Apartments
Middle Income Areas	Bukoto, Kiwatule, Kira, Naalya, Namugongo, Buziga and Bunga suburbs	895	1,652,510	5.9%*	88.8%	3 Bedroom Units
Affordable Housing	Middle Income Areas	459	3,221,528	7.9%*	92.5%	2 Bedroom Apartments
Average		1,116	4,017,510	6.8%	87.5%	

- The residential market in Kampala has an average rental yield of 6.8% and occupancy level of 87.5%
- The Affordable housing and Upper Middle income areas have the highest returns with average rental yields of 7.9% and 7.4%, respectively
- Middle income areas are however the most popular with average occupancy levels of 88.8% attributable mainly to the relative affordability of the zone compared to the others
- * Yield on the Uganda Shilling

c). Commercial Office and Retail Market Performance

Introduction to the Commercial Office Sector in Kampala

Kampala has few commercial buildings most of them located in Nakasero and Kololo

Introduction

- The commercial office sector in Kampala is fairly nascent
- The City has few commercial buildings most of them located in Nakasero, Kololo and few very in the outskirts in places like Bugolobi, Naguru and Ntinda
- Most of the buildings are grade B, with very few Grade A offices
- The city has as shortage of parking spaces and is congested this has led to some players taking up residential blocks in the prime suburbs and converting them to offices prime rents can go to as high as 18 dollars per square foot
- There is no fractional office sales market in Kampala and yields are computed based on valuations
- For letting, unlike in Kenya, in Kampala tenants demand fully fitted out offices and hence higher construction costs compared to Kenya

Classification

- In our analysis we classified office buildings into three categories that is Grade A,B and C whereby
- **Grade A** – Are the new office buildings in prime locations not less than 120,000 square feet and with ample natural good lighting, good views, prestigious finishing and on-site undercover parking
- **Grade B** - buildings with a total area ranging from 70,000 to 120,000 square feet. They have good (but lower than grade A) technical services and ample parking space
- **Grade C** - These are buildings of any size, usually older and in need of renovation, they lack lobbies and may not have on site parking space

Kampala Commercial Real Estate - Drivers and Challenges

Main occupiers of commercial office buildings in Kampala are the government and financial service providers

Drivers of the Commercial Office Sector in Kampala

- Government bodies and parastatals take up the largest amount of office space in the city
- Financial services and technology sectors that has been picking up has been a major demand driver for offices
- The oil industry led to the commencement of operations by several multinationals in Uganda increasing demand for commercial office
- Multinationals – other multinationals and NGO's also take up considerable amounts of space in Kampala

Challenges Facing the Sector

- Inadequate financing and high costs of borrowing for development
- The oil sector's failure to pick up operations has resulted in the exit of some players and hence increased vacancies
- Competition from residential housing converted to office spaces which have more parking and are not in congested areas

Kampala Office Market Performance Summary

Commercial offices have an average rent of 15 USD per square meter with average rental yields of 10.6%

Office Grade	Market Share	Rent Per SQM USD	Rent Per SQM UGX	S.C/ SM	Rental Yield	Occupancy
Grade A	25.0%	16.5	59,400	3.5	11.4%	87.3%
Grade C	12.0%	13.4	56,160	2.0	10.5%	84.1%
Grade B	63.0%	15.6	48,240	2.5	10.1%	86.6%
Average		15.2	54,720	2.7	10.6%	86.0%

- From our sample, Grade B offices are the most common in the market with a 63% market share
- Grade A offices are the most popular in the market with the highest occupancy rates at 87.3% attributable to the demand for high quality space that is in short supply in the market
- Grade A offices have the highest rents and yields of 11.4% and occupancy rates of 87.3%
- The opportunity in this theme is thus in grade A offices in the market mainly in Kololo which is less congested as compared to Nakasero and has less supply of office space

Introduction to the Retail Sector Kampala

Kampala has a well developed retail market with 182,00 square meters of retail space

Introduction

- Kampala has a well developed retail sector with a mall supply of 182,000 square metres, 46.5% of the mall supply in Nairobi
- Most of the malls have come up in the last five years and are well distributed in the city and its environs
- The population has a very consumer oriented culture boosting the retail sector
- The main malls are Nakumatt Oasis and Garden City in Nakasero, Acacia Mall in Kololo, Lugogo Mall in Lugogo which has Game and Shoprite as anchors and Metroplex shopping complex in Nalya
- In 2017, the sector has been destabilized by Nakumatt, which closed shop in Uganda and was the anchor to more than 90% of the malls in the cities leading to a slow down in foot traffic

Classification

- We classified malls into three categories based on the sizes in square feet and number of anchor tenants as shown below:

Type	Size (SQFT)	No. of Anchors
Regional Center/ Destination	400,001 - 800,000	2+
Community Center	125,001 - 400,000	0-2
Neighborhood Center	20,000 - 125,000	0-1

Source: Cytonn Research, Knight Frank

Introduction to the Retail Sector Kampala

Retail sector in Kampala highly competitive due to increased supply

Key Drivers

- A consumerism culture amongst the people hence increased expenditure
- Government policy encouraging retailers to move from the high street to the malls hence increasing occupancy rates in malls
- Increased income as a result of increasing GDP

Challenges

- Increased competition as a result of increased supply the country has witnessed a mall boom with malls springing up next to each other for instance Garden City Mall and Nakumatt Oasis are right next to each other in Nakasero and Forest mall and Lugogo Mall are also next to each other hence cannibalising
- Overreliance and duplication of foreign retailers in malls, like Nakumatt whose closure has affected the retail sector in Uganda

Kampala Retail Market Performance Summary

The average rent for retail space in Kampala is USD 18 per square metre per month

Mall Typology	Average Rent Per SQM in USD	Occupancy	Yield
Community Malls	18	77.0%	11.8%
Destination Malls	23	80.0%	11.0%
Neighbourhood Malls	14	56.7%	7.7%
Average	18	71.2%	10.2%

- The average rent for retail space in Kampala is USD 18 per square metre per month an equivalent of Kshs 1,897 per square metre per month
- The occupancy rates are on average 71.2% which are low compared to the other themes with residential at 88.6%, office at 84.5% and even lower than the average occupancy of 83% in Kenya
- This can be attributed to the high supply in the market and the poor location of some of the malls
- The best performing malls are community malls which have an average rental yield of 11.8%

Performance Summary – Land in Kampala

Prime land in Kampala in suburbs such as Kololo and Nakasero sell for more than USD2.5mn an acre on average land prices have grown with a four year CAGR of 31.6% from 2013

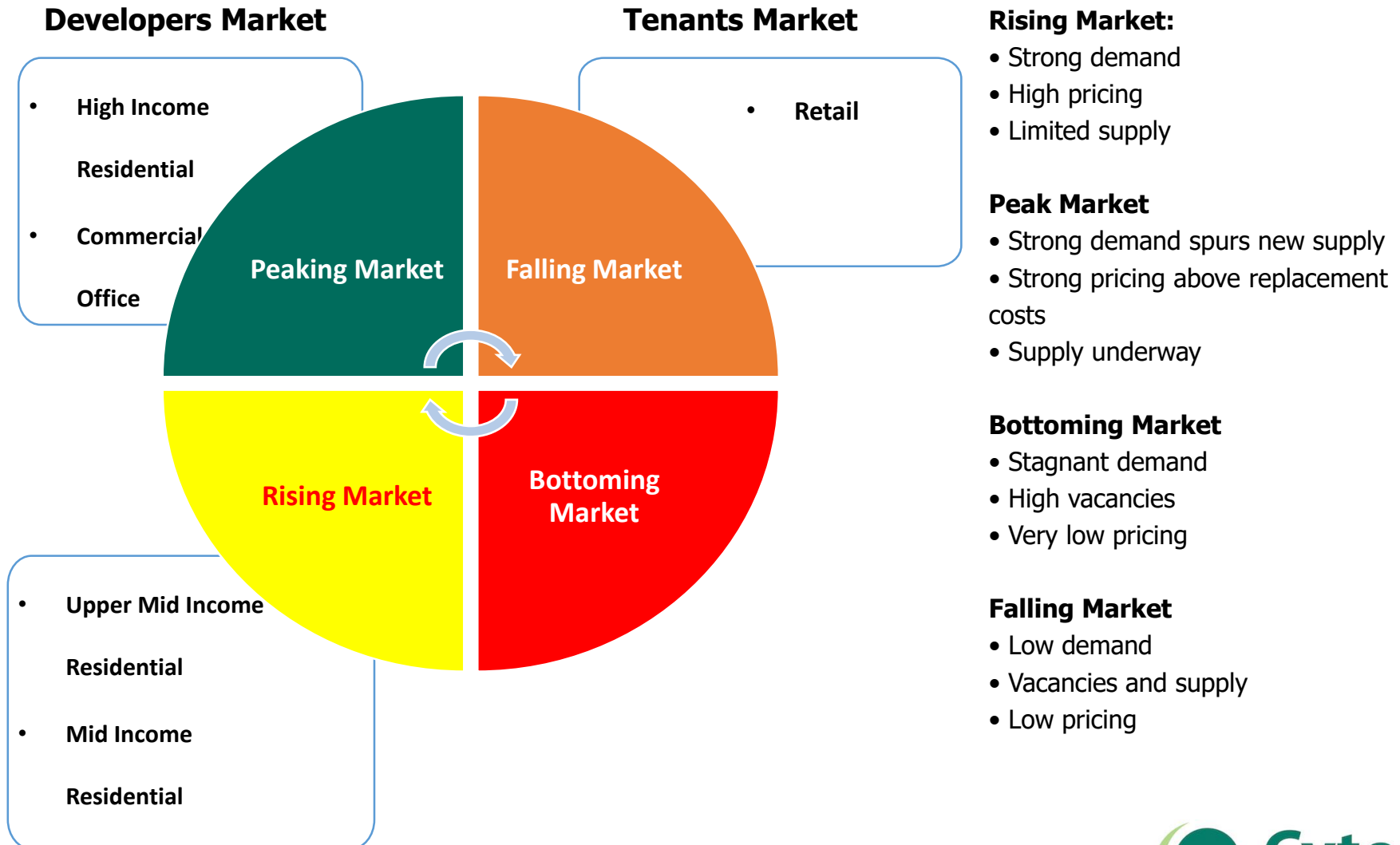
Area	Average Price 2017 USD Per Acre	Average Price 2017 UGX Per Acre
Nakasero	3,000,000	10,800,000,000
Kololo	2,500,000	9,000,000,000
Mbuya	1,500,000	5,400,000,000
Naguru	1,000,000	3,600,000,000
Bugolobi	1,000,000	3,600,000,000
Muyenga	277,778	1,000,000,000
Naalya	277,778	1,000,000,000
Makindye	222,222	800,000,000
Buziga	194,444	700,000,000
Lubowa	166,667	600,000,000
Ntinda	166,667	600,000,000
Mulago	166,667	600,000,000
Kulambiro	138,889	500,000,000
Kira - Namugongo	97,222	350,000,000
Namave	97,222	350,000,000
Seeta	83,333	300,000,000

- Prime land in Kampala in suburbs such as Kololo and Nakasero sell for more than USD 2.5mn an acre
- Land is relatively more affordable in middle income areas selling for between UGX 300mn to UGX 1 bn per acre
- According to real estate experts, land in the city has grown 3 fold on average over the last four years which is equivalent to an annual capital appreciation of 31.6%
- The capital appreciation has been boosted mainly by rapid infrastructural development

III. Performance Summary and Recommendation

Performance Summary and Recommendation: State of the Market

In Kampala, the residential and office markets are developers market with the retail market falling

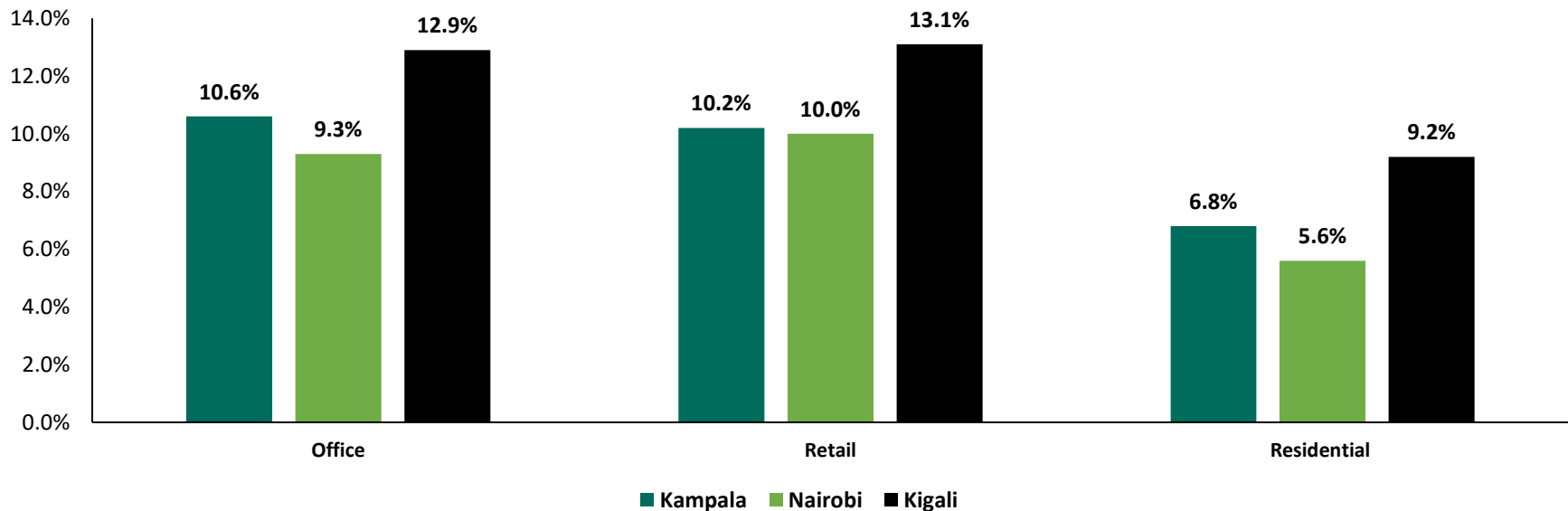


Source: Cytonn Research using JLL Clock

Performance Summary and Recommendation: East African Comparison

Kampala has higher rental yields than Nairobi but lower than Kigali

East Africa Rental Yields Performance Comparison



- In comparison with other East African cities, Kampala has higher yields than Nairobi with average rental yields of 6.8% 10.6% and 10.2% for residential, office and retail, respectively against Nairobi's 5.6%, 9.3% and 10.0% for the same themes
- Kigali however has the highest yields with on average yields of 9.2%, 12.9% and 13.1% for residential, office and retail themes, respectively
- The Kigali Market is however nascent and small as the City has a population of 1.1mn against Kampala's 1.5mn people and Nairobi's 3.6mn in 2016 according to the country's respective statistical bureaus

Performance Summary and Recommendation: Investment Areas

We ranked possible investment areas based on yields, land prices and ease of access

Yield	0.0%-3.0%	3.1%-6.0%	6.1-9.0%	>9.0%
Scores	1	2	3	4
Land Price UGX	200mn-500mn	501mn-800mn	800mn-1bn	>1bn
Scores	4	3	2	1
Infrastructure	Paved Rds	Paved Rds, Access to Tarmac	Tarmacked Rds	Tarmacked Rds, Major Highways
Scores	1	2	3	4

- To identify the specific areas we will go to invest in we ranked the areas based on yields, land prices and ease access judged by infrastructure
- We ranked from 1-4 with four being the best rank and 1 being the worst as above

Performance Recommendation: Investment Areas – 2-Bedroom

For two bedroom apartments, Kololo and Nakasero offer the best investment opportunity in high end areas

Two Bedroom Apartments Investment Areas Ranking					
Area	Yield	Land Price	Availability of Infrastructure	Overall Score	Rank
Nakasero	4.0	1.0	4.0	3.0	1.0
Kololo	4.0	1.0	4.0	3.0	1.0
Namugongo	3.0	4.0	2.0	3.0	1.0
Ntinda	2.0	3.0	4.0	3.0	1.0
Kira	3.0	4.0	1.0	2.7	5.0
Nagira II	3.0	3.0	2.0	2.7	5.0
Nalya	2.0	2.0	4.0	2.7	5.0
Bukoto	2.0	1.0	4.0	2.3	8.0
Kira	2.0	4.0	1.0	2.3	8.0
Kiwatule	1.0	4.0	1.0	2.0	10.0

- For high end areas, Kololo and Nakasero offer the best investment opportunity due to high yields and availability of infrastructure
- Kololo is however a better investment opportunity as it has a better environment and its less congested
- For middle income areas, Namugongo and Ntinda provide the best investment opportunity, Namugongo due to relatively lower land prices and better yields and Ntinda due to good infrastructure as compared with the other middle income estates

Performance Recommendation: Investment Areas – 3-Bedroom

For upper middle income areas, Naguru offers the best investment opportunity

Three Bed Apartments Areas Ranking					
Area	Yield	Land Price	Availability of Infrastructure	Overall Score	Rank
Nalya	3.0	3.0	4.0	3.3	1.0
Naguru	4.0	1.0	4.0	3.0	2.0
Nakasero	4.0	1.0	4.0	3.0	2.0
Kiwafu	4.0	4.0	1.0	3.0	2.0
Lubowa	3.0	3.0	3.0	3.0	2.0
Muyenga	4.0	2.0	2.0	2.7	6.0
Kiwafu	3.0	4.0	1.0	2.7	6.0
Nagira II	3.0	3.0	2.0	2.7	6.0
Kololo	3.0	1.0	4.0	2.7	6.0
Luzira	3.0	2.0	2.0	2.3	10.0
Bukoto	2.0	1.0	4.0	2.3	10.0
Bugolobi	2.0	1.0	3.0	2.0	12.0

- For three bedroom apartments, in middle income estates, Naalya offers the best investment opportunity as a result of high yields, good infrastructure given that the estate is traversed by the Northern Bypass and is well tarmacked and high yields of more than 6%
- For high income areas, Naguru offers the best investment opportunity

Performance Recommendation: Investment Areas - Standalone

For stand alone units, Ntinda offers the best investment opportunity due to high yields of more than 6%, relatively low land prices compared to Nakasero Kololo areas and good infrastructure including well tarmacked roads with access to main highways

Standalone Investment Areas					
Area	Yield	Land Price	Availability of Infrastructure	Overall Score	Rank
Ntinda	3.0	3.0	4.0	3.3	1.0
Kira	4.0	4.0	1.0	3.0	2.0
Kiwafu	4.0	4.0	1.0	3.0	2.0
Lubowa	3.0	3.0	3.0	3.0	2.0
Luzira	3.0	2.0	3.0	2.7	5.0
Nalya	2.0	2.0	4.0	2.7	5.0
Namugongo	2.0	4.0	2.0	2.7	5.0
Nagira II	2.0	3.0	2.0	2.3	8.0
Bugolobi	2.0	1.0	3.0	2.0	9.0
Kololo	1.0	1.0	4.0	2.0	9.0
Munyonyo	2.0	1.0	2.0	1.7	11.0

- For stand alone units, Ntinda offers the best investment opportunity due to high yields of more than 6%, relatively low land prices compared to Nakasero Kololo areas and good infrastructure including well tarmacked roads with access to main highways
- Kira, Kiwafu and Lubowa also rank high due to the factors above

Performance Summary and Recommendation: Investment Areas

Invest in Kololo, Naguru and Naalya for high income, upper middle and mid income areas in Kampala, respectively

Theme	Class	Areas	Specific Areas and Themes for investment	Reasons
Residential	High Income	Nakasero, Kololo, Bugolobi	Kololo - High End Serviced Apartments	High demand evidenced by the more than 85% occupancy, proximity to CBD
	Upper Middle	Naguru, Lubowa, Mbuya, Luzira, Munyonyo	Naguru - 3 bed apartments	High demand, low supply, proximity to CBD, ample supply of amenities including schools and hospitals
			Ntinda, Lubowa – Mid Income Stand Alone houses	Good performance with yields of more than 6%, improvement in infrastructure attracting population to these areas
			Naalya and Namugongo - 2 and 3 Bed Apartments	High demand and uptake, good infrastructure
Commercial Office	Grade AB	Kololo, Nakasero, Bugolobi	Kololo -Grade AB	High demand, low supply, proximity to CBD, ample supply of amenities, attractive returns

IV. Kampala Real Estate Investment Opportunity Conclusion

Residential Report Conclusion

The opportunity in the residential sector lies in specific submarkets that have higher uptake and returns to the investor

Measure	Sentiment
Factors influencing residential development	<ul style="list-style-type: none"> The key drivers for the real estate sector are mainly population growth at 3.2%, urbanisation at 5.2%, improved infrastructure and increased incomes as seen through economic growth with an average GDP growth rate of on average 5.0% over the last five years The key challenges remain to be high land costs, high construction and infrastructural costs and access to financing hindering provision of affordable housing
Real Estate Sector Performance	<ul style="list-style-type: none"> The average rental yields in the real estate market in Kampala are: 6.8%, 10.6% and 10.2% for residential, commercial office and retail, respectively
Demand	<ul style="list-style-type: none"> There is a housing deficit of approximately 1.6 mn units according to the Ministry of Lands Uganda Kampala has the bulk of this deficit with the City having an annual deficit of 100,000 houses p.a Grade A offices are in short supply in the market accounting for only 25% of the commercial office space from our sample
Outlook	<ul style="list-style-type: none"> We expect increased development in the middle income residential segment especially in the affordable to low income segment in suburbs such as Naalya and in middle income segments such as Naguru and Lubowa which is being opened up by infrastructural developments
Opportunity	<ul style="list-style-type: none"> For high end areas the opportunity is in provision of apartments in Kololo For middle income areas, Naguru, Ntinda and Lubowa offer an attractive investment opportunity for 3-4 bedroom houses in Naguru mainly apartments and in Lubowa stand alone houses For middle to low income areas affordable two bedroom units in areas of Namugongo, Kiwatule and Naalya have the best returns

Q&A