



Dar es Salaam Market Research
Cautious investment
January 2018



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I. Introduction

Introduction

The research focuses on real estate in Dar es Salaam, Tanzania

- This study aims to provide insight into the Dar es Salaam real estate market and its surroundings, specifically for residential development, commercial sector, land and hospitality sectors
- The objective of this study is to carry out a market survey in the subject area and provide an opinion of the following;
 - Market selling price
 - Current market rentals
 - Comment on occupancy and sales uptake
 - Comment on market trends and provide the appropriate recommendations for investment
- The survey was based on information supplied to us by;
 - Professional experience in real estate matters in Dar es Salaam
 - Observations and various comparable properties
 - Interviews with real estate practitioners in Tanzania
 - Secondary Sources e.g. Tanzania National Bureau of Statistics, Ministry of Natural Resources and Tourism
- We have analyzed the data we collected and presented in the form of:
 - Tables
 - Photographs
 - Qualitative data as narrative
- We have used the analyzed data to draw up conclusions and make recommendations on the highest and best use of the subject property and to provide guidance for similar investments in this market
- The exchange rates used are 1 USD= Tshs 2,233, 1 USD=103.4 Kshs, 2017 average

Executive Summary

Real Estate sector in Dar Es Salaam has attractive rental yields with average yields of 5.2%, 6.4% and 9.3% for residential, office and retail sectors, respectively

- We, in January and February 2018, carried out market research in Dar Es Salaam which is Tanzania's main economic hub and the second largest port city in Eastern Africa after Mombasa. The research focused on the real estate performance in the residential, hospitality and commercial sectors thus providing us with a general overview of the market
 - In terms of performance, the average dollarized rental yield across all themes was 6.9% with 5.2%, 6.4% and 9.3%, for residential, office and retail sectors, respectively
 - The retail sector recorded the most attractive yields of 9.4%, 2.5% points higher than the consolidated real estate yields, driven by foreign retailers and increasing consumerism. The opportunity for retail is in community malls in prime areas such as Masaki and Upanga with occupancies of above 90.0% and yields of 10.9% and 10.3%, respectively
 - The residential market has average yields of 5.2% but characterised by a negative price growth by 4.2% due to slowed uptake. However, the sector has pockets of value in detached unit sales for the low end segment which has the highest uptake at 53.7% and in rental apartments for the mid end segment which has the highest yields at 7.8%
 - The office sector performance was subdued most attributable to an increasing office stock with stagnated demand as multi-nationals scale back operations and government bodies transfer operations to Dodoma. Grade A office space had the highest yields with an average of 8.6% against the office market's 6.4%, which we attribute to the high recorded occupancy rates averaging at 92.9% against the market's 72.1%
 - The hospitality sector has retained an average room occupancy of 63.9% over the last 5-years and is expected to grow further driven by leisure travel and the governments' commitment to improve infrastructure, one of the main challenges in the sector
- The opportunity in the sector is in:
 - Low-end detached units for **sale** and mid-end apartments for **rent**
 - High quality retail outlets in parts of Dar es Salaam such as Upanga, Masaki and Oysterbay
 - Luxury hotels which have low supply

Dar es Salaam Real Estate Investment- "Cautious Investment"

We see an opportunity for investment in low-end, mid-end residential, retail sector and hospitality while investors should hold out on the commercial office sector and high-end residential where performance has slowed

Value Area	Summary	Effect
Demand	<ul style="list-style-type: none"> Positive demographics such as a population growth rate of 3.1% and urbanisation at 5.0% have resulted in residential, land and retail real estate demand mainly Increasing supply, high cost of credit and transfer of government operations to Dodoma has resulted in subdued demand for office space 	<ul style="list-style-type: none"> Continued efforts by government bodies such as NSSF, NHC in provision of housing with priority for the low-income segments of the population The formal retail sector has grown with at least 0.9 MN SQFT to be complete in the next 5 years The commercial office sector has seen an increase in increase in vacant office space stock
Returns	<ul style="list-style-type: none"> The retail sector has the highest yields at 9.4% compared to office sector at 6.4% and the residential sector at 5.2% The real estate sector is dominated by government bodies who retail flat rates thus minimal appreciation Subdued demand in the private sector has led to an overall 4.2% depreciation 	<ul style="list-style-type: none"> The retail sector maintained relatively high rental rates and occupancy at USD 20.0 per SQM and 87.1%, respectively The declined performance in residential and office sector has resulted has caused a slow down in the contribution to GDP from real estate and construction by 1.0% and 1.4% points, respectively
Opportunity & Outlook	<ul style="list-style-type: none"> The opportunity is in the retail sector and the hospitality sector due to sustained demand There are also pockets of value in the residential sector in rentals for the mid-end sector and sales in the low-end sector 	<ul style="list-style-type: none"> We expected continued investment in retail, hospitality, the mid-end and low-end residential sector We expect a slow-down in investment in office and the high-end residential sector

We expect reduced activity in the commercial office sector and high-end residential sector given the increasing supply stock against subdued performance with developers shifting their focus to retail and housing for rent in the mid-end segment and for sale in the low-end sector.

II. Tanzania Macro-economic Analysis

Tanzania Macro-economic Analysis: Country Profile

Tanzania, located in East Africa has an estimated population of 56.9 mn as at 2017

Tanzania Demographics and Systems	
Political System:	Multi-Party Democracy
Capital:	Dodoma
Other common cities:	Dar es Salaam, Arusha, Mwanza
Current President:	H.E John Pombe Magufuli (from 2015)
Population (2017):	56.9 mn
Popn. Growth Rate:	3.1%
Urban Population:	32.3% of total population
Urbanization:	5.0%
Currency	Tanzania Shilling
National Language:	Kiswahili
Other Languages:	English
Main Exports:	Minerals, coffee, cotton, cashew nuts
GDP (2017):	USD 51.2 bn
GDP per Capita (2017):	USD 1,032
Religious Groups:	Christian (61.4%), Muslim (35.2%) & Others (2.0%)
Country size:	947,303 sq. km.
Immediate Neighbors:	Kenya, Uganda, Rwanda, Burundi, DRC



Tanzania Macro-economic Analysis

Tanzania's GDP is expected to grow by 6.7% in 2018 driven mainly by infrastructural development

Factor	Details
GDP Growth	<ul style="list-style-type: none">Tanzania has had one of the fastest growing economies with GDP growth averaging at 6.6% annually since 2012 driven mainly by growth in mining, construction, financial services, information and communication sectorsThe main contributor to GDP growth is the services sector accounting for 42% of GDP compared to agriculture, forestry and fishing at 31% and Industrial and Construction sectors at 27%In 2017, however, GDP growth slowed down during H1 at 6.8% growth compared to a 7.7% growth during the same period in 2016 and was estimated at 6.6% by the IMF for the full year, attributed to reduced government spending amid government policy reforms to curtail corruption and wasteful spendingAccording to the AfDB, however, growth is expected to remain strong at 6.7% in 2018 and 6.9% in 2019 driven by infrastructural development and a tightening trade deficit with drop in imports
Currency	<ul style="list-style-type: none">The Tanzania Shilling remained relatively stable in 2017 trading at Tshs 2,233 to the dollar on average albeit depreciating against the dollar by 2.5% y/y in 2017 compared to a 1.0% decline in 2016The Tshs is expected to go through gradual depreciation in Q1 2018 due to increased pressure from imports. However, overall, the currency is expected to remain steady given the governments' measures to reduce importation and boost exports
Interest Rates	<ul style="list-style-type: none">Interest rates in Tanzania have averaged at 16.1% over the last 5 years with 2017 recording 16.6% averageThe Bank of Tanzania kept the monetary policy rate at 12.0% during the first half of 2017 but lowered it to 9% to boost credit growth after it fell from 24.8% in 2015 to 7.2% in 2016 and to 0.3% in August 2017This has however not improved credit growth as there has been a rise in risk premium associated with more non-performing loans. Currently bank lending rates range from 17.0%-21.0%
Inflation	<ul style="list-style-type: none">Inflation in Tanzania has remained relatively low averaging at 5.4% over the last 3 years near the government's medium-term target of 5.0%.Inflation as at January 2018 stood at 4.0% mainly due to a slowdown in housing and utilities prices

III. Overview of Real Estate in Tanzania

Overview of Real Estate in Tanzania

Real estate has yields of 5.2%, 6.4% and 9.4% for residential, office and retail sectors, respectively

Macro-economic Contribution

- The real estate sector contributed to 3.8% of Tanzania's GDP in H1 2017, a decline from 4.0% contribution during the same period in 2016. The sector grew by 2.3% compared to 2.4% growth during the same period in 2016
- The construction sector contributed to 11.1% of Tanzania's GDP in H1 2017, compared to 10.9% contribution in 2016. The sector grew by 8.6% compared to 10.0% growth during the same period in 2016
- The slowed growth in real estate and construction activity has been due to tight liquidity, reduced credit growth, inadequate infrastructure and slowed real estate uptake mainly in the high end market in the last 2 years

Returns

- The real estate sector has rental yields averaging at 5.2%, 6.4% and 9.4% in the residential, office and retail sectors, respectively
- The market has witnessed a decline in the residential and office sector since 2015 due to implementation of policies that have resulted in lower purchasing power of residents and scaling back of multinationals who were a significant market for real estate

Key Players

- Tanzania's real estate market is dominated by individual home-builders and the public sector through the National Housing Corporation, Tanzania Building Agency and pension bodies such as NSSF and Watumishi Housing
- The private sector which caters for approximately 3.9% of the supply, is still at nascent stages and comprises of players such as Avic, Nevada Properties, Estim, Group 4 and Quality Group

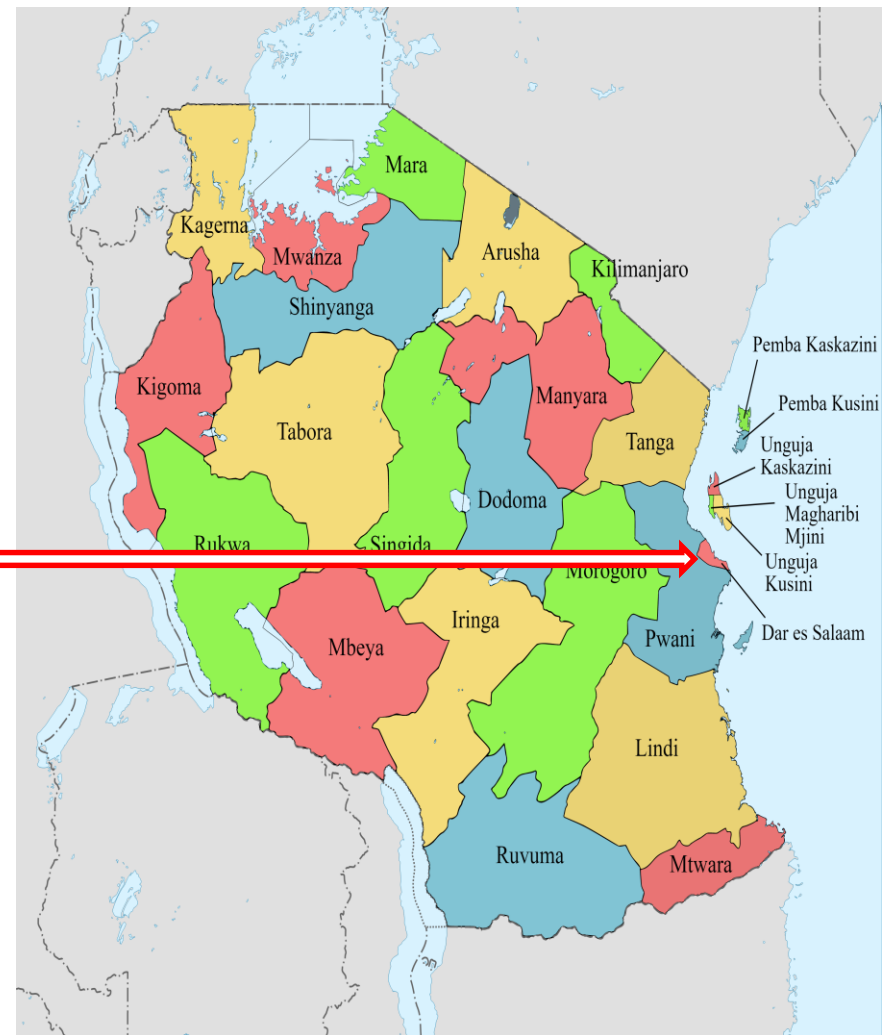
Market Outlook

- The outlook is positive for the retail sector driven by demand by international retailers but negative in the office sector due to increasing supply and the scaling back of multi-nationals
- The outlook for residential sector is neutral given the subdued performance in the high-end sector while demand remains high in the low-end sector

IV. Subject Area, Dar es Salaam

Subject Area: Dar es Salaam

Dar es Salaam is the main commercial city of Tanzania, one of the East African Countries



Subject Area: Dar es Salaam

Dar es Salaam comprises of areas such as Mbezi, Mikocheni, Ilala, Kigamboni, Masaki and Kariakoo



Subject Area: Dar es Salaam, Overview

Dar es Salaam has a population density of 3,661 persons per sqkm

- Dar es Salaam is the largest city and main commercial hub of Tanzania
- It was the capital city of Tanzania before Dodoma became the capital in 1996
- It has an estimated population of 5.1 Mn persons as at 2018 and a density of 3,661 persons per sqkm

Services

- For road travel, Daresalaam is served by main highways such as Ali Hassan Mwinyi, Nyerere, Bagamoyo, Morogoro and Kilwa roads which are in a good state of repair
- In addition to the local bus transport, the government, in 2016, implemented Phase 1 of Mass Rapid Transit system to cater for the transport needs of the growing population, stretching from Kimara to Kivukoni with 5 terminals and 29 stations
- Dar es salaam hosts the country's main sea port handling approximately 90% of the country's cargo
- Residents rely on ferry services and the newly constructed Kigamboni bridge to access Kigamboni area
- It is served by the Julius Nyerere International Airport area for air travel
- The Dar es Salaam Water & Sewerage Corporation (DAWASCO) is the main provider of water and sewerage disposal services in Dar es Salaam
- The city is served with electricity from the Tanzania Electric Supply Company Ltd
- It is also well served with telecommunication lines with the main mobile service providers being Airtel, Vodacom & Tigo

Economic Services

- The main economic activities are in the financial, manufacturing, transport, trade and tourism sectors
- The town is the main educational center of Tanzania with schools at the primary, secondary and tertiary levels including the University of Dar es Salaam and Brae burn group of Schools

V. Residential Research

Residential Research: Overview

The residential sector in Dar es Salaam is dominated by the individual-home builders and the National Housing Corporation as the main developer

- The residential sector is dominated by individual home builders and the public sector either through the National Housing Corporation or the Tanzania Building Agency (TBA) who cater for Tanzanians or government employees

Key Players in the Residential Sector		
	Players	Contribution
1	Individual Unsurveyed Dwellings	70.00%
2	Individual Surveyed Dwellings	13.50%
3	National Housing Corporation	5.10%
4	Real Estate Developers	3.90%
5	Central Government	3.00%
6	Pension Institutions such as NSSF	2.40%
7	Local Government	2.10%

Source; Ndunduma, 2009

- We have collected information on housing in both public and private sectors, analyses and summarised the findings
- For the purposes of this research, we have divided Dar es Salaam into the following segments;
 - **High End-** Areas such as Oyster Bay, Masaki, Morocco and Msasani
 - **Mid End-** Areas such as Mbezi, Kunduchi, Kinondoni, Mikocheni, Mwenge, Upanga, Kariakoo and Kisutu
 - **Low End-** Areas such as Mbagala and satellite locations such as Kigamboni and Bunju

Residential Research: Factors Driving the Sector

Positive demographics, government initiatives, infrastructural development and multi-nationals are the main drivers of the sector

Key Drivers

- **Demographics**
 - Tanzania has a population of 57 Mn people growing at 3.1%, compared to the global average of 1.2%. This translates to a density of 60.5 people per Sqkm (Kenya has 87 people per Sqkm)
 - 32.3% of its population is urban and growing at 5.0% annually compared to the global average of 2.1%, thus creating demand for housing
 - According to the National Housing Corporation 2010, Tanzania has a housing deficit of 3 mn units, growing at 200,000 units annually showing the increasing housing requirement
- **Government Initiatives**
 - The government through institutions such as the National Housing Corporation, the Tanzania Building Authority and pension bodies such as NSSF are actively involved in development, selling and renting of houses for the Tanzania residents in order to address the housing shortage thus boosting the growth of the sector
- **Entry of Multinationals**
 - The discovery of gas in 2015 and the presence of a sea port has attracted multi-national companies in the transport, manufacturing and mining sectors, who demand for institutional grade real estate including housing
 - Investors therefore develop houses in the upper and mid-end segment of the market, furnish them and rent out to expatriates
- **Infrastructural Development**
 - The government has invested in infrastructure through construction of roads to areas such as Kigamboni, construction of the Kigamboni bridge, implementation of the Bus Rapid Transit system and ongoing construction of a standard gauge railway to ease accessibility, thus boosting real estate growth in out of town areas

Residential Research: Challenges Facing the Sector

The main challenges are relatively high financing costs, unfavourable government policies and undeveloped infrastructure in some areas

Key Challenges

- **Financing Costs**
 - Costs of borrowing in Tanzania are relatively high ranging from 17%-21% per annum limiting the uptake of mortgages
 - The Mortgage to GDP ratio stands at 0.53% as at 2016 compared to Kenya at 2.7% as at 2016 and Uganda at 0.9%
- **Taxation**
 - The government imposes 18% VAT on all property purchases which increases the cost of buying a house, limiting affordability, compared to countries such as Kenya where VAT is not imposed on properties
- **Undeveloped Infrastructure**
 - Various parts of Dar es Salaam such as Kigamboni lack requisite infrastructure such as water connection, sewers, electricity and proper road access hindering growth of real estate as developers have to incur extra costs to provide these services
- **Foreign Exchange Volatility**
 - Currency volatility especially between 2015 and 2017 has resulted in depreciation of the Tanzania Shilling, causing renters to pay more rent as properties were initially charged in USD
 - Recently, however, property managers are required to value their properties in Tshs to protect tenants' interests
- **Government Policies**
 - The implementation of austerity measures such as a strict new tax regime by the new government since 2015 has resulted in reduced spending which has led to low purchasing power of real estate consumers
 - It has also resulted in closure of firms, and scaling back of multi-national firms who are a main market for high and mid end real estate. This has forced stakeholders to reduce rents and prices and thus lower returns

A. Residential Research

Residential Research: High End

Detached units in the high-end market have higher yields due to high rental charges

Apartments

Typology	Unit Plinth (SM)	Price (USD)	Price (Tshs)	Price per SM (USD)	Rent per SM (USD)	Occupancy %	Annual Uptake %	Rental Yield %
1 Bed	75				4.7	100.0%		4.0%
2 Bed	168	266,667	580.7m	1,377	6.4	90.6%	23.3%	4.9%
3 Bed	228	254,050	567.4m	1,402	6.3	87.4%	20.0%	4.7%
4 Bed	256	370,375	827.2m	1,403	6.8	92.7%	16.7%	5.2%
Average				1,394	6.0	92.7%	20.0%	4.7%

Detached

Typology	Unit Plinth SM	Price (USD)	Price (Tshs)	Price per SM (USD)	Rent per SM (USD)	Occupancy %		Rental Yield %
2 Bed	216				8.1	83.3%		7.6%
3 Bed	323				8.9	71.1%		8.2%
4 Bed	430				8.0	91.7%		9.1%
5 Bed	560	600,000	1,340.1m	1,071	5.6	100.0%		6.3%
Average				1,071	7.7	86.5%		7.8%

- The high-end market comprises of developments in areas such as Masaki, Msasani, Oyster Bay, Morocco and parts of Kisumu
- In this sector, detached units have the highest yields at 7.8% as they are relatively lower in supply thus able to charge premium rents

Residential Research: Mid End

Apartments in the mid-end segment have higher yields of 7.8% compared to detached at 3.4%

Apartments

Typology	Unit Plinth (SM)	Price (USD)	Price (Tshs)	Price per SM (USD)	Rent per SM (USD)	Occupancy %	Annual Uptake %	Rental Yield %
2 Bed	73	134,648	300.7m	1,750	10.5	82.2%	18.3%	8.7%
3 Bed	136	143,097	319.6m	1,026	6.9	81.0%	25.6%	6.9%
4 Bed	181	151,231	337.8m	835	5.4	75.0%	18.5%	7.8%
Average				1,204	7.6	79.4%	20.8%	7.8%

Detached

Typology	Unit Plinth (SM)	Price (USD)	Price (Tshs)	Price per SM (USD)	Rent per SM (USD)	Occupancy %	Annual Uptake %	Rental Yield %
2 Bed	110	136,500	304.9m	1,281			27.8%	3.2%
3 Bed	171	224,814	502.1m	1,303	4.3	75.0%	13.0%	2.8%
4 Bed	327	311,848	696.5m	1,143	4.9	67.5%	18.4%	4.2%
Average				1,243	4.6	71.2%	19.7%	3.4%

- The mid-end sector comprises of developments in Mbezi Beach, Kawe, Mikocheni, Mwenge, Upanga and parts of Kisutu
- In this sector, apartments have the highest yields at 7.8% and annualized uptake at 20.8% compared to detached units with a yield of 3.4% and annual uptake of 19.7% driven by demand from the growing middle class who seek quality developments with relatively affordable prices/rents

Residential Research: Low End

Detached units in the low end segment have relatively high uptake at 53.7% annually

Apartments

Typology	Unit Plinth (SM)	Price (USD)	Price (Tshs)	Price per SM (USD)	Rent per SM (USD)		Annual Uptake %	Rental %
2 Bed	76	30,331	67.7m	402	1.5		8.3%	3.2%
3 Bed	101	57,028	127.4m	379	1.6		8.3%	3.5%
Average				390	1.6		8.3%	3.3%

Detached

Typology	Unit Plinth (SM)	Price (USD)	Price (Tshs)	Price per SM (USD)	Rent per SM (USD)	Occupancy %	Annual Uptake %	Rental Yield %
2 Bed	61	23,477	52.4m	361	1.6	70.0%	66.7%	4.1%
3 Bed	104	43,242	96.6m	414	1.9	70.0%	40.7%	3.8%
Average				388	1.7	70.0%	53.7%	3.9%

- The low-end market comprises of developments in satellite areas such as Kigamboni and Bunju
- In the low-end sector, apartments have relatively slow uptake at 8.3% annually compared to detached units with 53.7% due to preference to own-compound houses
- Rentals in the low-end sector are relatively low ranging from USD 1.5-USD 1.9 per SQM indicating low demand and thus is more suited for a buyer intending to live in, as opposed to an investor

Residential Research Summary

The residential sector has yields of 5.2% with 80.0% occupancy

Segment	Type	Price per SM	Rent per SM	Occupancy	Annual Uptake	Rental Yield	Price Appreciation	Total Returns
High End	Apartments	1,394	6.0	92.7%	20.0%	4.7%	(6.2)%	(1.5)%
High End	Detached	1,071	7.7	86.5%		7.8%	(6.2)%	1.6%
Mid End	Apartments	1,204	7.6	79.4%	20.8%	7.8%	(9.2)%	(1.4)%
Mid End	Detached	1,243	4.6	71.2%	19.7%	3.4%	(9.2)%	(5.8)%
Low End	Apartments	390	1.6		8.3%	3.3%	1.4%	4.8%
Low End	Detached	388	1.7	70.0%	53.7%	3.9%	1.4%	5.4%
Average		948	4.9	80.0%	24.5%	5.2%	(4.2)%	0.5%

- The residential market in Tanzania has an average rental yield of 5.2%
- Detached units in the high end sector have the highest yields at 7.8% as they charge a premium on rent due to the relatively low supply given the increasing land prices in their locations
- Apartments in the mid end sector have the highest yields at 7.8% due to their relative affordability for the growing middle class
- Detached units in the low-end sector have a relatively high annual uptake of 53.7% due to their relative affordability. They, however, have low yields of 3.9% and are thus more suitable for prospective residents as opposed to investors
- The Dar es Salaam real estate sales sector is dominated by public bodies such as NHC and other pension bodies projects who retain flat prices throughout the sales period thus minimal price appreciation
- In the private sector due to the reduced purchasing power in the market, prices have either stagnated or declined indicating that the market is more suitable for investors who are building to rent as opposed to selling. The average price depreciation in the market is 4.2% per annum

VI. Commercial Office Sector

Commercial Office Sector: Overview

Fractional sales of office space is a new trend with prices ranging from USD 2,000- 2,400 per SQM

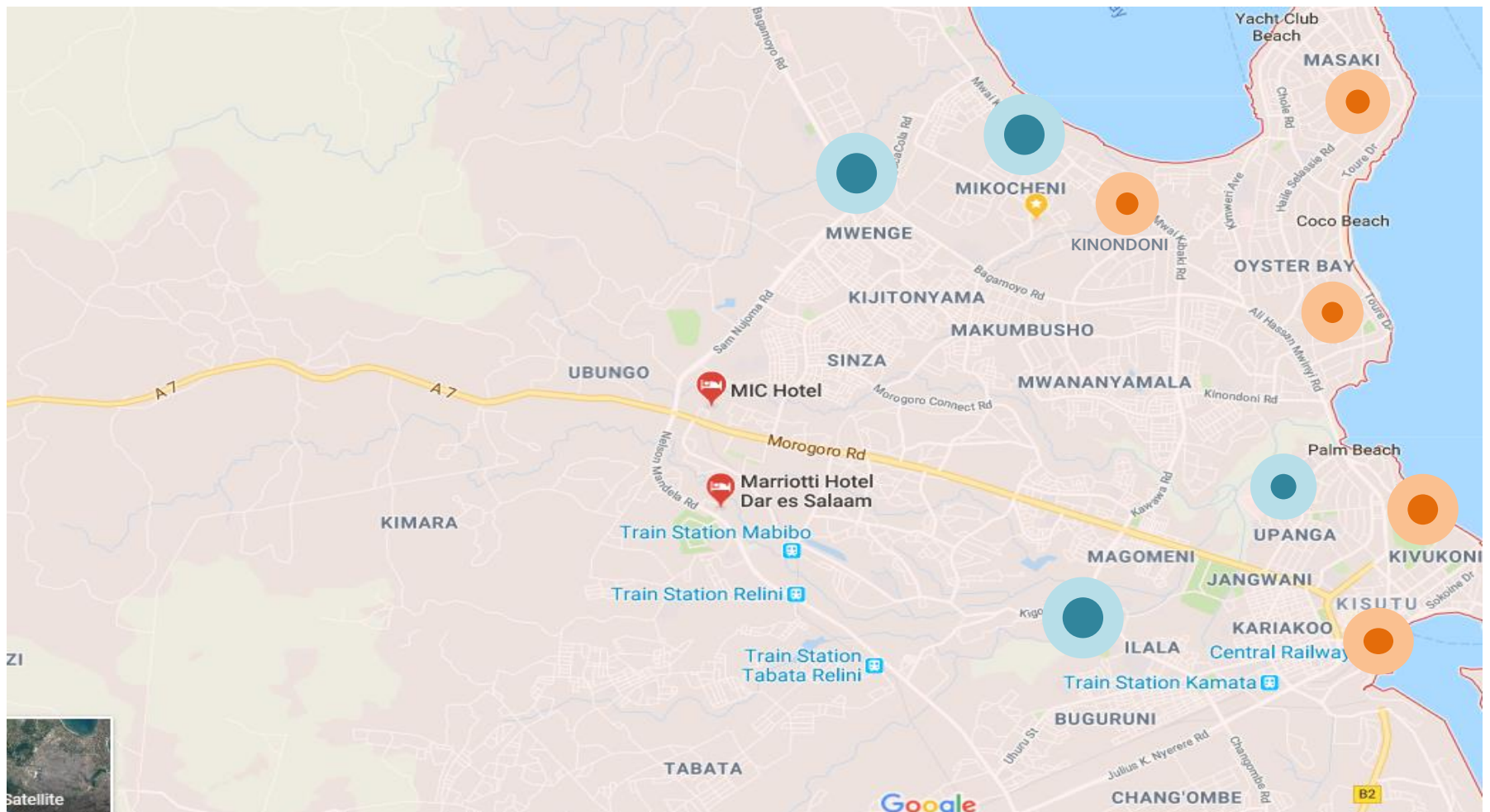
- The Commercial office sector in Tanzania has been on a steady growth path especially as Dar es salaam evolves into one of the leading economic hubs in Eastern Africa
- The growth has been supported by an influx of foreign investors in the area from Kenya, South Africa, UK, India and the Netherlands mainly in the financial services, gas and tourism sectors
- According to Cytonn Research, office stock in Dar es Salaam stands at approximately 350,000-450,000 SQM, and another 100,000-150,000 SQM expected to be delivered in 2018/19. Major developments under construction currently include Morocco Square, Noble Victoria, Mzizima Towers, 711 and MNF Square

OFFICE SALES

- Fractional sales of office space is a new trend in the market, albeit, with slow uptake mainly due to the high prices
- Sale prices in Dar es Salaam range from USD 2,000- USD 2,400 per SQM which is relatively high compared to Kenya's USD 1,350 per SQM
- ***For office yield calculations, we used a price of USD 2,400, 2,200 and 2,000 for grades A, B and C, respectively***

Commercial Office Sector: Key Office Nodes

The key commercial office nodes in Dar es Salaam are the CBD, Masaki, Oysterbay and Kinondoni



Commercial Office Sector: Overview

Main Office nodes are CBD, Kinondoni, Masaki, Oysterbay, Mikocheni and Mwenge

CLASSIFICATION

We used the following criteria to classify the office buildings in Dar es Salaam:

A-grade

- These are buildings located in prime locations and have high quality facilities, mechanical and electrical installations. These properties also offer ample parking space and good security. As a result, they attract high end clientele resulting in high rental rates

B-Grade

- These are properties that have are 10-20 years, have standard finishes, necessary amenities such as security, lifts and good ample parking space

C-grade

- These are offices in less attractive locations and are older than 20 years. They also lack requisite amenities such as ample parking space, CCTV and other services such as proper maintenance, landscaping and security
- For the purposes of this research, we classified the primary office nodes in Dar Es Salaam into:
 - i. CBD;** which for the purposes of these research comprises of Upanga, Kisutu, Kivukoni, Ilala and Posta
 - ii. Kinondoni;** comprising of areas along Ali Hassan Mwinyi Road, Bagamoyo Road to the Mwenge intersection
 - iii. Masaki & Oysterbay**
 - iv. Mwenge & Mikocheni**

Commercial Office Sector: Factors Driving the Sector

Foreign Direct investment and growth of SMEs has led to demand for office space

Stable Economic Growth

- Tanzania has been one of the fastest growing countries in Sub-Saharan Africa with a relatively high rate of GDP growth averaging at 6.6% between 2012 and 2016. This along with the relatively stable political climate has made it a suitable investment location

High FDI

- Foreign direct investments have been on the rise in Tanzania especially in the telecommunications industry, energy infrastructure as well as natural gas, resulting in growing demand for grade A & B office spaces. According to EY, the country was the leading FDI recipient in the East Africa region in 2016, with USD 1.4 bn compared to Kenya's USD 1.1 bn and Uganda's USD 541 mn

Growth of SMEs

- Growth of SMEs, especially in the technology, communication and financial sectors, has contributed to a growing demand for office space
- According to World Bank, Tanzania has more than 30 mn enterprises, contributing 27% of the country's GDP. Measures such as the USD 150 mn programme by AFDB is expected to grow local enterprises thus raising the demand for affordable office space

Infrastructure development

- Infrastructural development has given impetus to the commercial real estate sector in the region. This is largely due to enhanced accessibility in other regions leading to rapid development along major routes such as Bagamoyo, Sam Nujoma and Ali Mwinyi Roads

Domestic funds

- Pension funds such as Government Employees Provisional fund (GEPPF), Local Authority Pensions Fund (LAPF) and Public Service Pension Fund (PSPF) have been at the forefront in supplying commercial office spaces as they are mandated to invest 30% of their funds in the real estate sector as per Bank of Tanzania's guidelines

Commercial Office Sector: Challenges Facing the Sector

Increasing office stock and the transfer of government operations to Dodoma are straining the performance of the sector

Increasing Supply

- Previously, the discovery of natural gas and increased foreign investments resulted in increased office stock in Dar es Salaam leading to an estimated office stock of 400,000 SQM. However, recently, effective demand has stagnated and is not sufficient to take up the growing supply which is expected to increase by at least 125,000 SQM in 2018/19

Accessibility/ Infrastructure

- Frequent congestion and traffic snarl-ups in the Posta, Kisutu and Ilala areas have become a challenge to investors in these areas as firms are now pushing businesses to other decentralized nodes
- In addition, some locations such as Mwenge lack the requisite infrastructure hindering growth as opposed to areas that are more accessible such as the Kinondoni node which is also served by a BTR station and thus has higher demand

Rental Rates

- Dar Es Salaam has high rental rates with averages of USD 16.1 per SQM, compared to other countries such as Kenya and Uganda, whose average rental rates are USD 9.8 and 15, respectively. This is partly attributed to distortion driven by high demand in some areas such as Kinondoni and Masaki as well as the introduction of VAT on property rents in 2015
- Developers also face high financing costs, especially with high interests rates of up to 26%, which is passed down to the clients

Transfer of government operations City to Dodoma

- The transfer of political headquarters and government ministries such as The Ministry of Tourism to Dodoma has resulted in reduced demand for office space in the former capital city leading to a rise in vacancy rates

A. Comparables

Office Sector Performance by Node - Summary

Kinondoni was the best performing node with rental yields of 7.3%

Node	Monthly Rent Per SQM (USD)	Monthly Rent Per SQFT (Kshs)	Monthly Rent Per SQFT (Tshs)	Service Charge per SQM (USD)	Service Charge per SQFT (Kshs)	Occupancy %	Rental Yield %
Kinondoni	15.8	161	35,288.4	1.9	18	79.0%	7.3%
Masaki/Oyster Bay	20.4	211	45,562.2	2.6	25	66.3%	7.2%
CBD	15.9	167	35,511.7	2.3	22	76.0%	6.3%
Mwenge/Mikocheni	11.9	123	26,577.9	2.2	21	60.1%	4.3%
Average	16.0	165.5	35,288.4	2.2	22	70.4%	6.3%

- Kinondoni is the best performing node with average rental yields of 7.3%, 1.0% points higher than the market average of 6.3%, attributable to good infrastructure, proximity to key upscale neighbourhoods such as Masaki, Oysterbay and Msasani Peninsula as well as its proximity to the CBD and the fact that firms are increasingly relocating here away from the congestion of the city centre thus raising its occupancy rates
- Mwenge area has the lowest yields at 4.3% being the node with most grade C office stock thus the lowest rents. In addition, firms are increasingly moving to more prime nodes such as Kinondoni thus resulting in lower occupancies at 60.1%

Office Sector Performance by Grade - Summary

Grade A offices are the best performing with average rental yields of 8.6%

Grade	Monthly Rent SQM (USD)	Monthly Rent Per SQFT (Kshs)	Monthly Rent Per SQFT (Tshs)	Occupancy	Rental Yield
A	17.0	193	37,968.5	92.9%	8.6%
B	16.0	186	35,735.0	70.7%	6.7%
C	12.0	135	26,801.3	68.4%	5.2%
Average	15.0	167	33,501.6	72.1%	6.4%

- Grade A offices have the most attractive yields in the market with average yields of 8.6%, 2.2% points higher than the market average of 6.4%. They also have the highest occupancy rates indicating demand for the same as the incoming foreign investors demand for top notch quality office stock and the short supply of the same in the market

VII. Retail Sector

Retail Sector: Overview

Tanzania's retail market has a deal pipeline of at least 84,000 SQM of retail space

- Tanzania's formal retail activity is centered in Dar es Salaam, the main economic hub of the country
- As per JLL Dar es Salaam Report 2017, current retail stock stands at 153,000 SQM. The main premium malls are Mlimani City Mall, Aura Mall and Mkuki mall
- At least 84,000 SQM is expected to be complete in the next 5 years with malls such as Peninsula Plaza in Masaki, AICC Shopping mall and Ngorongoro Towers in Arusha as well as shopping plazas in the upcoming MNF Square and Morocco Square in Dar es Salaam
- Other malls in the country include Aim Mall in Arusha and Rock City Mall in Mwanza, measuring 15,454 SQM and 5,000 SQM, respectively

Classification

- For research and analysis, 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	>300,000	2+
Community Center	100,001 - 299,000	0-2
Neighborhood Center	50,000 - 100,000	0-1

Retail Sector: Factors Driving Growth in Dar Es Salaam

Positive demographic dividend and a widening middle class has led to demand for retail space

Demographics

- Tanzania has one of the highest urbanization rates in the world at 5.0% p.a, compared to a global average of 2.1% p.a. Additionally, Dar Es Salaam has a relatively high population density at 3,661 persons per SQKM, compared to Kigali and Accra at 1,780 and 2,685, respectively and a generally higher urban population at 32.3% compared to Nairobi's 26.5% leading to demand for retail stores such as shopping outlets as well as entertainment joints. Notable outlets include KFC, Sub-Way, Century Cinemax, Manix stores, Splash, among others

Increased Consumerism

- The growing middle class has led to emergence of prime residential neighborhoods as well as a growing consumer class which has led to demand for retail outlets across the region. The stable economy, growing at a 5-year average of 6.6% since 2012, has sustained the rate of consumerism

Foreign Investment

- Wholesale and retail trade has been one of the top drivers of the stable economic growth which has given impetus to foreign investors into the sector, such as Game, Splash stores, Choppies, Mr Price, Max, Spurr and Century Cinemax

E-commerce

- Tanzania's internet penetration has gained traction increasing from 12% in 2011 to 36% in 2015, according to the Tanzania Investment Centre thus leading to e-commerce gaining momentum. Main online shopping sites include Kivuko, Kupatana, Jumia, Kikuu among others

Performance Summary by Location

Masaki and Oysterbay had the highest yields in the retail sector with an average of 10.9%

Location	Monthly Rent Per SQM (USD)	Monthly Rent Per SQFT (Kshs)	Monthly Rent Per SQFT (Tshs)	Occupancy Rate	Rental Yield
Masaki & Oysterbay	20.0	206.7	44,668.8	96.1%	10.9%
Upanga	19.8	205.1	44,222.1	91.9%	10.3%
CBD	17.0	171.6	37,968.5	71.1%	6.9%
Average	18.9	194.5	42,212.0	86.4%	9.4%

- The Masaki and Upanga regions offer the highest retail yields to investors with 10.9%. This is attributable to the high upper mid end populations as well as expatriates that reside in the neighborhood which drives demand for retail space

Performance Summary by Classification

Retail sector has average rental yields of 9.3%

Type	Monthly Rent Per SQM (USD)	Monthly Rent Per SQFT (Kshs)	Monthly Rent Per SQFT (Tshs)	Occupancy Rate	Rental Yield
Community	14.7	151.5	32,831.6	85.7%	7.5%
Neighborhood	19.7	204.1	43,998.8	87.0%	9.8%
Regional	39.6	409.8	88,444.2	95.0%	11.1%
Average	19.4	201.1	43,328.7	87.1%	9.4%

- The regional mall has the highest returns in terms of yield with an average of 11.1%, this is due to the high rental rates it attracts averaging at USD 39-40 per SQM as well as high occupancy rates of 95%

VIII. Land Sector

Land Sector: Overview

Land in Tanzania is owned by the government with leases available to nationals only

Land Ownership

- In Tanzania, all land is owned by the government, and leases are available to nationals only
- Land is divided into 3 categories; **general land**, **village land** and **reserved land**. The Land Act provides for rights of occupancy for between 33 years and 99 years for general land and reserved land
- The Village Land Act recognizes the rights of villages to land held collectively by village residents under customary law
- Non-Tanzanians are not allowed to own land, unless for investment purposes
- Under the TIC (Tanzania Investment Centre), a foreigner can be allocated land designated for investment purposes and which is already listed, or can look for desirable land owned by a Tanzanian national, and after agreeing on the acquisition of such land with the owner, the owner will submit the existing title deed to the Ministry of Lands whereby it will be re-issued as a land designated for investment purposes under the name of TIC and thereafter derivative rights issued to the investor (foreign entity)

Land Use and Zoning

- The Ministry of Land in Tanzania is mandated to administer land and human settlement
- Zoning regulations are provided by the municipal councils of locations
- In Oysterbay and Masaki areas, for example, the Kinondoni Municipal Council has provided allowance for 1 to 6 floors depending on the proximity to the ocean

Land Sector: Prices

The average price per acre in prime residential areas around the CBD is USD 3.4 mn

CBD

Location	Year	Size	Price (USD)	Price per SQM	Price per Acre (USD)	Price per Acre (Kshs)	Price per Acre (Tshs)
Upanga	2017	4000	2,238,699	560	2,238,699	231,481,481	5,000,000,000
Upanga	2017	300	250,000	833	3,333,333	344,666,667	7,444,800,000
Upanga East		1700	850,706	500	2,001,660	206,971,678	4,470,588,235
Kivukoni	2018	2900	3,000,000	1,034	4,137,931	427,862,069	9,241,820,690
Average				732	2,927,906	302,745,474	6,539,302,231

Oysterbay& Masaki

Location	Year	Size	Price (USD)	Price per SQM	Price per Acre (USD)	Price per Acre (Kshs)	Price per Acre (Tshs)
Masaki	2017	1700	1,700,000	1,000	4,000,000	413,600,000	8,933,760,000
Masani	2017	1777	1,400,000	788	3,151,379	325,852,560	7,038,415,307
Masaki	2017	800	773,694	967	3,868,472	400,000,000	8,640,000,000
Masaki	2017	2000	1,934,236	967	3,868,472	400,000,000	8,640,000,000
Average				931	3,722,081	384,863,140	8,313,043,827

Victoria

Location	Year	Size	Price (USD)	Price per SQM	Price per Acre (USD)	Price per Acre (Kshs)	Price per Acre (Tshs)
Victoria	2016	2800	3,000,000	1,071	4,285,714	443,142,857	9,571,885,714.29

Grand Average				858	3,431,740	354,841,924	7,664,585,550
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- For purposes of this research, **CBD** includes areas like Kisutu, Kivukoni and Upanga. These are the major middle class areas and are dense with residential apartments, Mixed-Use Developments and commercial properties
- Oysterbay and Masaki** are the prime neighbourhoods with high end residential and commercial properties. The price per acre has increased approximately by a CAGR of 5.6%
- Victoria**, is located along the old Bagamoyo Road, one of the major arterial routes and is a major commercial office node also doubling up as an upper mid end residential area
- Land has the highest price in areas like Victoria, Masaki and Upanga which are mid to high end income areas, have good infrastructure and are also in close proximity to the coastline and other amenities

Land Sector: Prices

The average price per acre in areas outside the city is USD 963,508

Bagamoyo Road

Location	Year	Size	Price (USD)	Price per SQM	Price per Acre (USD)	Price per Acre (Kshs)	Price per Acre (Tshs)
Mbezi	2017	372	150,000	403	1,612,903	166,774,194	3,602,322,580
Mikocheni	2018	4400	2,978,723	676.98	2,707,930	280,000,000	6,048,000,000
Ali Mwinyi Rd, Mwenge	2017	18000	6,500,000	361	1,444,444	149,355,556	3,226,080,000
Kawe	2017	11200	3,000,000	268	1,071,429	110,785,714	2,392,971,428
Bagamoyo Road	2017	1600	400,000	250	1,000,000	103,400,000	2,233,440,000
Average				392	1,567,341	162,063,093	3,500,562,802

Goba, Mbezi Beach

Location	Year	Size	Price (USD)	Price per SQM	Price per Acre (USD)	Price per Acre (Kshs)	Price per Acre (Tshs)
Bunju B	2017	1617	22500	14	22,500	2,326,500	50,252,400
Bagamoyo Rd	2017	*	17,014	4	17,014	1,759,259	38,000,000
Goba, Mbezi Beach	2017	2881	55,000	19	76,362	7,895,869	170,550,781
Average			31,505	12	38,625	3,993,876	86,267,727

Kurasini

Location	Year	Size	Price (USD)	Price per SQM	Price per Acre (USD)	Price per Acre (Kshs)	Price per Acre (Tshs)
Kurasini	2017	3350	800,000	239	955,224	98,770,149	2,133,435,223
Kurasini	2017	2090	380,000	182	727,273	75,200,000	1,624,320,000
Average				210	841,248	86,985,075	1,878,877,612
Grand Average			1,430,324	242	963,508	99,626,724	2,151,937,241

- **Bagamoyo Road** is the major arterial route connecting Mwenge to the city centre and is dotted with grade b and c office building while **Mbezi Beach** is one of the leading tourist areas evidenced by the concentrated hotel facilities such as White Sands, Ramada Resort, Seascape Hotel among others
- In areas around the outskirts of the city centre is USD 963,508 with areas far from the city centre going for as low as USD 38,625

IX. Hospitality Sector

Hospitality Sector : Trend Analysis

International arrivals have been growing at an 8.2% CAGR creating demand for hospitality services

Hospitality Sector Performance (Tanzania)								
Factor	2011	2012	2013	2014	2015	2016	2017f	2016/17F
Accommodation and food services contribution to GDP	1.6%	1.6%	1.5%	1.5%	1.4%	1.4%	1.3%	(0.1)%
Growth of GDP from Accommodation and food services	4.1%	6.7%	2.8%	2.2%	2.3%	3.7%	2.0%	(1.7)%
International Visitor arrivals ('000)	867	1,077	1,096	1,140	1,137	1,284	1,389	8.2%
Earnings in USD Mns	1,353	1,713	1,853	2,006	1,902	2,132	2,300	7.9%
Hotel Bed Occupancy				32.9%	30.7%	27.4%	27.8%	0.4%
Hotel Room Occupancy				71.0%	66.0%	58.9%	59.8%	0.9%

- The hospitality sector is growing as seen through the growth in international arrivals by a 6-year CAGR of CAGR of 9.9% while earnings have grown by 11.2% during the same period
- The sector, however, declined in 2015 evidenced by the reduction in international visitor arrivals and reduction in bed occupancy from 32.9% to 30.7% . This is because 2015 was an election year in Tanzania and may have resulted in security concerns due to the annulment of elections in Zanzibar. In addition, there may have been a spill-over effect of reduced tourist arrivals to Africa due to terrorism activities in Kenya and the Ebola pandemic in West Africa that resulted in issuance of negative travel advisories
- The performance remained low in 2016 due to increased room supply through opening of hotels such as Ramada Encore and introduction of VAT to tourism services making Tanzania a more expensive tourism destination
- The sector however recorded slight improvement in performance in 2017 especially during Q1 and is expected to sustain growth due to political stability and government efforts to improve infrastructure

Hospitality Sector: Key Drivers

Travel tourism and security are the main drivers of hospitality in Tanzania

Factor	Characteristics
Travel Tourism	<ul style="list-style-type: none">Holiday travelers are they main drivers of Tanzania’s hospitality sector accounting for 78.0% of international arrivals over the last 5-years attracted mostly by key attractions such as wildlife, coastal beaches and mountain climbing. Between 2012 and 2016, holiday travelers increased by 2.7% to 0.9 mn from 0.8 mn
Security	<ul style="list-style-type: none">Tanzania has enjoyed political and social security in the last few years making it a preferred destination in East Africa compared to countries such as Kenya that suffered a set back between 2013 and 2015 due to terrorism and negative travel advisories
Marketing	<ul style="list-style-type: none">The tourism board launched an e-marketing campaign focused on increasing tourism from markets such as the US, Germany, Italy and the UKThe Board also signed agreements to partner with Mauritius and travel companies in Germany to increase tourist arrivals to the region
Infrastructure	<ul style="list-style-type: none">The Government has been increasing focus on improvement of infrastructure to ease accessibility and availability of services. These include the construction of Kigamboni Bridge easing access to the South Beach, construction of Terminal 3 at Julius Nyerere Airport to increase the capacity of passengers it can handle

Hospitality Sector: Challenges

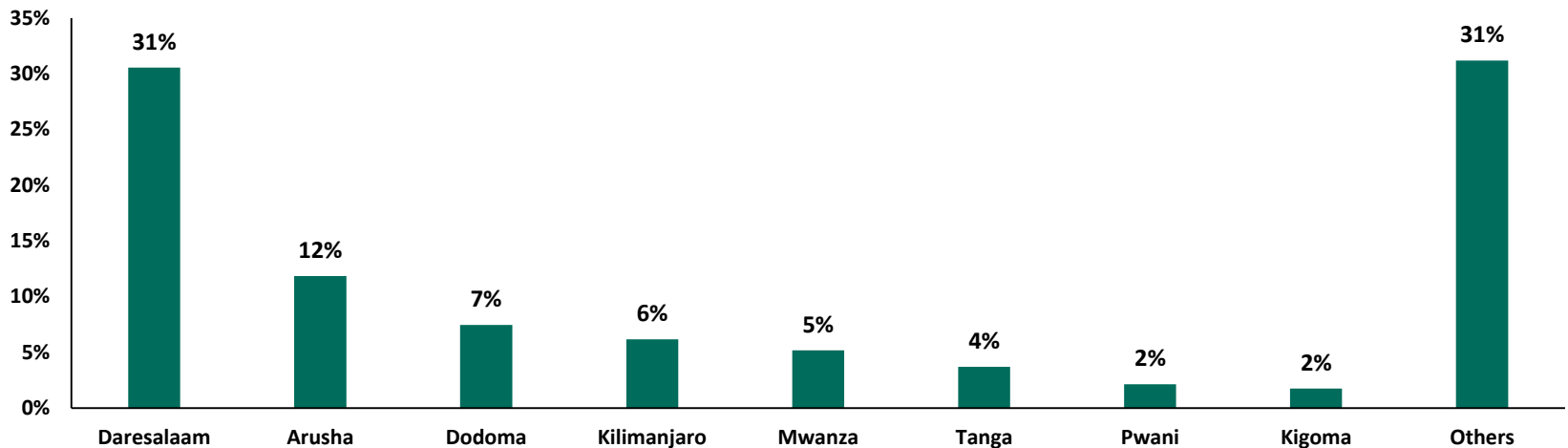
Poor infrastructure at national parks and imposition of VAT on tourism services are the key challenges

Factor	Characteristics
Infrastructure	<ul style="list-style-type: none">According to the International Visitors Exit Survey report by the TBS, 40% of international visitors expressed concerns on the conditions of roads and other infrastructure especially to National Parks and traffic jams to and from the airport
Increased Cost of Tourism due to VAT charges	<ul style="list-style-type: none">The Tanzania government in 2016 imposed taxes on tourism services as a means of increasing revenues from the sector. This resulted in a drop in the number of tourists visiting due to the increased cost of tourism. However, this may reverse should the funds be utilized for infrastructural development as intended
Political Instability	<ul style="list-style-type: none">Zanzibar has in the past experienced political instability, e.g. in 2015/16 when the country held a presidential election rerun due to disputed elections, which resulted in increased caution among tourists leading to a 0.26% decline in international arrivals

Hospitality Sector: Rooms Supply

Daresalaam region has the highest hotel room supply in Tanzania

Hotel Rooms Regional Distribution

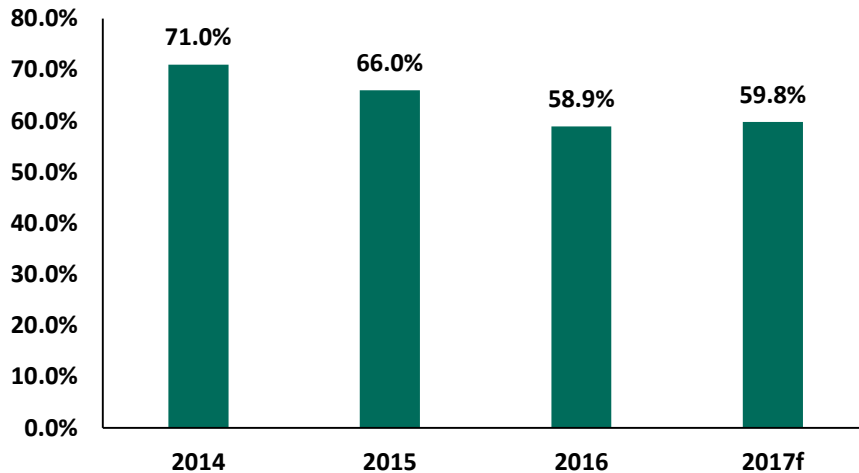


- In terms of room supply, Dar es salaam has the highest market share at 31% compared to other regions such as Arusha and Dodoma at 12% and 7%, respectively
- This is due to its location adjacent to the Indian Ocean, which makes it a key destination for tourists. In addition, Daresalaam is the main commercial city of Tanzania making it the main address for business travellers
- According to the Ministry of Natural Resources, it has 291 hotels out of a total of 1,424 in the country as at 2016

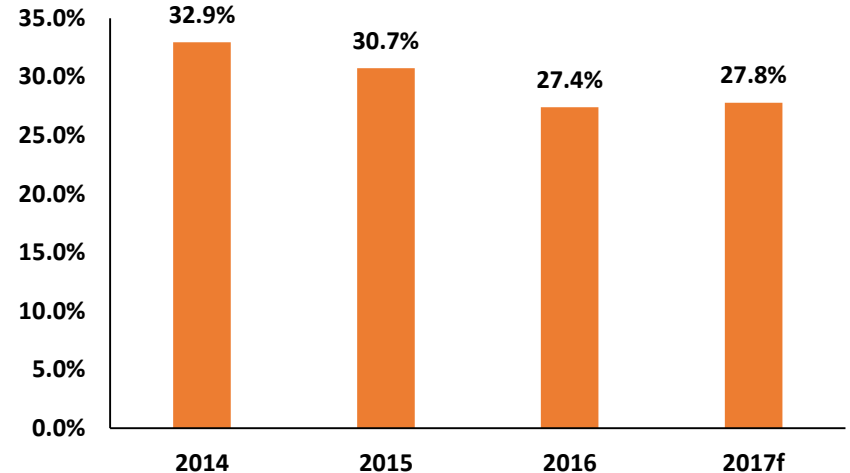
Hospitality Sector: Performance

Despite a slight decline in 2016, the sector recorded improvement in 2017 reaching 59.8% occupancy

Hotel Room Occupancy 2014-2017



Hotel Bed Occupancy 2014-2017



- The sector recorded a decline in occupancy in 2016 due to the implementation of unfavourable policies as well as the increase in room supply through opening of hotels such as Ramada Encore, Hyatt and Ramada Resort in 2015 and 2016
- The slight improvement in 2017 mainly during Q1 indicates sustained demand for hospitality services and is expected to continue given the governments' commitment to improve infrastructure, one of the main challenges facing the sector

X. Summary & Conclusion

Summary

The retail sector has the highest yields at 9.4% due to relatively high occupancy and rates

Theme	Rent per SQM (USD)	Price per SQM (USD)	Occupancy Rates	Rental Yield
Retail Sector	20.0	2,200	87.1%	9.4%
Office Sector	15.0	2,200	72.1%	6.4%
Residential Sector	5.3	902	79.4%	5.2%
Hospitality Sector			59.8%	
Average			74.6%	7.0%

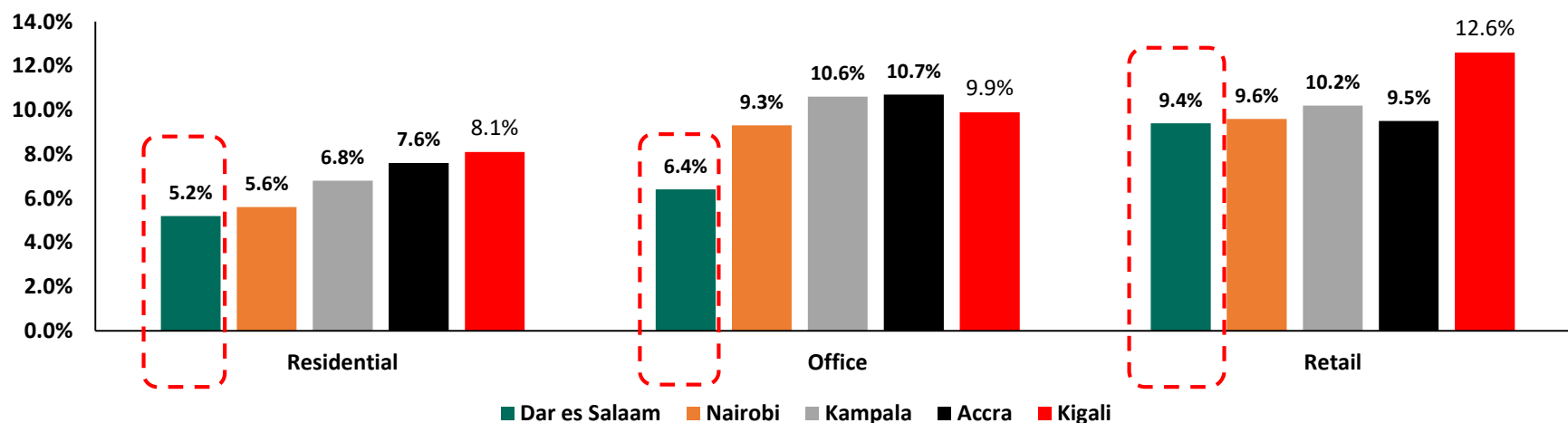
- The retail sector has higher returns to investors with an average rental yield of 9.4% compared to commercial office's 6.4% and the residential sector at 5.2%. This is due to the high occupancy rates of 87.1%, indicating demand for retail space
- The performance of the office sector has recorded increasing vacancy rates due to the exit of multi-nationals, migration of government offices to Dodoma and the increasing spaces supply thus relatively lower yields at 6.4% with 72.1% occupancy
- The residential sector has seen reduction in rents and prices due to reduced spending power, thus has yields of 5.2% as at 2017 and occupancy of 79.4%

Source: Cytonn Research 2018

Summary

The real estate sector in Dar es Salaam is underperforming compared to other Sub-Saharan cities



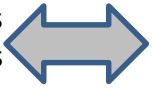

Sub-Saharan Africa Cities Dollarized Rental Yields Comparison



- In comparison with other cities in Sub-Saharan Africa, Dar es Salaam has low residential and office yields at 5.2% and 6.4%, respectively attributable to the shrinking demand resulting in reduced rents mainly in the residential and office sector
- The retail sector, however, has relatively competitive yields at 9.4% compared to Kenya's and Accra's at 9.6% and 9.5%, respectively

Recommendation

Our outlook is positive for the retail sector due to sustained demand, negative in the office sector with expected increase in vacancy rates, and neutral on residential where there are pockets of value

Theme	Performance (2017/18)	Recommendation/Outlook	Area of Focus	Outlook
Commercial Office	<ul style="list-style-type: none"> The office sector has average rental yields of 6.4% with average occupancy rates of 72.1%. The sector has been largely constrained by increased office stock against stagnated demand 	<ul style="list-style-type: none"> The office market is on a declining trend and vacancy rates are likely to increase due to i) increasing supply ii) firms increasingly taking up smaller office spaces iii) migration of government offices to Dodoma 	<ul style="list-style-type: none"> Affordable offices/co-working stations Investors should seek opportunities in other regions such as Arusha, Dodoma and Mwanza 	
Retail	<ul style="list-style-type: none"> The retail sector has the highest rental yield at 9.5%, with average occupancy rates of 87.1% 	<ul style="list-style-type: none"> The formal retail sector is gaining traction, with demand being driven by foreign retailers looking to set up shop in the region, and consumer's preference for international brands 	<ul style="list-style-type: none"> Good quality community malls in prime areas such as Masaki and Upanga, which are densely populated Growing cities; Dodoma, Arusha and Mwanza 	
Residential Sector	<ul style="list-style-type: none"> The sector has relatively low rental yields of 5.5% with average occupancy of 79.4%. The sector has been constrained by tight liquidity in the market and reduced purchasing power 	<ul style="list-style-type: none"> The best performing segment for rentals is the mid-end apartments with 7.4% yields and for sales being low-end detached units with 54.0% annual uptake. Demand remains strong for low-end affordable housing 	<ul style="list-style-type: none"> Mid-end apartments in areas such as Mbezi, Kawe and Mwenge for rent Low-mid end detached units in satellite areas such as Kigamboni Growing markets such as Dodoma 	
Hospitality Sector	<ul style="list-style-type: none"> The sector has been growing with international arrivals and earnings growing with a 6-yr CAGR of 9.9% and 11.2%, respectively 	<ul style="list-style-type: none"> Despite the slight decline recorded in 2016, the sector is expected to recover driven by growth in leisure tourism and government efforts to improve infrastructure 	<ul style="list-style-type: none"> Luxury hotel class developments which have low supply in Dar es Salaam 	

Q&A