Kampala Real Estate Investment Opportunity, & Cytonn Weekly #38/2017

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Executive Summary

Fixed Income: T-bills were undersubscribed during the week, with the overall subscription rate coming in at 41.2%, compared to 91.8% recorded the previous week due to reduced liquidity in the money market; liquidity in the money market reduced due to remittance of taxes by commercial banks of Kshs 34.9 bn. Yields on the 91 and 182-day papers remained unchanged from the previous week at 8.1% and 10.3%, respectively, while the yield on the 364-day papers rose to 11.0% from 10.9% the previous week. Meanwhile, the Monetary Policy Committee (MPC) met on Monday 18th September 2017, and maintained the Central Bank Rate (CBR) at 10.0%, in line with our expectation, as per our MPC Note;

Equities: During the week, the equities market recorded mixed trends with NASI and NSE 25 gaining 0.9% and 0.8%, respectively, while NSE 20 lost 0.5%, taking their YTD performance to 24.4%, 22.9% and 18.2% for NASI, NSE 25 and NSE 20, respectively. The Insurance Regulatory Authority (IRA) has delisted nine insurance brokerage firms for failure to comply with the Insurance Act, barring them from handling any old or new business;

Private Equity: BSP Fund LLC, a Canadian venture capital firm has acquired 100.0% stake in iHub Limited, a Kenyan company that runs an innovation incubation laboratory for technology enthusiasts and entrepreneurs. Shortlist, a Nairobi-based employment tech start-up, has received Kshs 103.0 mn seed funding from US-based private equity firm University Ventures, Indian angel investor Samir Shah of Sattva Capital, Kenya-based seed fund Zephyr Acorn, global impact investor FARM Ventures, and US-based investor Bodley Group;

Real Estate: During the week, Nakumatt announced a proposed merger with Tuskys; details remain scanty but the intention is for each of the retailers to remain separate but have a common holding company about them. The Pan-African real estate lending firm, Shelter Afrique, received negative news headlines and may incur potentially huge losses following structural design issues with one of its housing developments, Everest Park, in Athi River;

Focus of the Week: In line with our regional expansion strategy we conducted research in Kampala and its environs. From our research and analysis, the market offers an attractive investment opportunity with average rental yield of 6.8% in residential, 10.6% in commercial office and 10.2% in retail with investment opportunity being in middle income residential housing and Grade A office spaces in the city.

Company Updates

- Our Managing Partner and C.E.O, Edwin H. Dande, discussed recent initiatives such as (i) the planned listing of Cytonn, (ii) the acquisition of a significant stake in KCB Group where Cytonn is now the 5th largest local institutional investor, (iii) the acquisition of a stake in NIC Bank where Cytonn is now the 9th largest shareholder, and (iv) the setting up of Cytonn Education Services to provide the education component of Cytonn's mixed use developments. He said, "Cytonn is focused on acquiring great assets at an attractive price at a time when the market is distracted". Watch Edwin H. Dande on CNBC here

- Cytonn Investments sponsored a golf day at Muthaiga Golf Club on the 23rd of September, 2017 as an initiative to appreciate and engage its clients and potential investors. In attendance were Cytonn's Board of Directors and Management. In addition to participating in a fun round of golf, prospecting investors got to interact with Cytonn's Real Estate Financial Advisors on real estate investments solutions. See Event Note
- Ms Doreen Onwonga, the Legal Associate for Cytonn Investments, trained at this week's Cytonn Entreprenuers Hub, Cytonn e-Hub Season 2. The training was on the legal aspects to consider when starting and running a business. See Event Note. Cytonn eHub focuses on training and mentoring young and upcoming entrepreneurs to enhance their knowledge and capabilities on how to run and grow successful enterprises. It is an initiative of the Cytonn Foundation that encompasses three pillars, namely: Entrepreneurship, Financial Literacy, and Training and Mentorship
- Our Investments Manager, Maurice Oduor, discussed thetrends of Kenyan brands including the merger between Tuskys and Nakumatt, Chase Bank, Imperial Bank, Uchumi, Eveready, Kenya Airways among other local brands. Watch Maurice on KTN here
- Our Investments Manager, Maurice Oduor, discussed the double taxation agreement between Kenya and China, and the effects of the prolonged elections on the investment environment. Watch Maurice Oduor here
- Our Investments Analyst, Patrick Mumu, discussed the H1'2017 performance of Kenyan listed banks, which reported a 13.8% decline in core earnings per share compared to a growth of 15.5% in H1'2016. Watch Patrick Mumu on K24 here
- We continue to showcase our real estate developments by our real estate development affiliate, Cytonn Real Estate, through weekly site visits. Watch progress videos and pictures on The Alma, Amara, The Ridge and Taraji Heights. The site visits target both investors looking to invest in real estate directly and those interested in high yield investment products to familiarize themselves with how we support our high yield returns. To deliver high yield returns, our cost of capital is priced off the loan markets where all-in pricing ranges from 16.0% to 21.0% and our yield on real estate developments ranges from 23.0% to 25.0%, hence our top-line gross spread is about 6%. If interested in attending the site visits, kindly register here
- We continue to see very strong interest in our Private Wealth Management training (largely covering financial planning), which is at no cost, and is held bi-weekly, but is open only to pre-screened participants. We also continue to see institutions and investment groups interested in the trainings for their teams, if interested in the training for your employees or investment group please get in touch with us through our Client Services team at clientservices@cytonn.comTo view the wealth management training topics click here

- For recent news about the company, see our news section here
- We have 10 investment-ready projects, offering attractive development and buyer targeted returns of around 23.0% to 25.0% p.a. See further details here: Summary of investment-ready projects
- To invest in any of our current or upcoming real estate projects, please visit Cytonn Real Estate

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    - The Alma, which is over 55.0% sold, has delivered an annualized return of 55.0% p.a. for investors who bought off-plan. See The Alma
    - Amara Ridge is currently 100.0% sold and has delivered over 20.0% p.a. returns to investors. See Amara Ridge
    - Situ Village is currently 15.0% sold. See Situ Village
    - The Ridge (Phase 1) is currently 31.0% sold. See The Ridge
    - Taraji Heights is currently 10.0% sold. See Taraji Heights
    - RiverRun Estates (Phase 1) is currently 8.7% sold after the recent launch. See RiverRun Estates

- We continue to beef up the team with ongoing hires: Careers at Cytonn

Fixed Income

During the week, T-bills were undersubscribed, with the overall subscription rate coming in at 41.2%, compared to 91.8% recorded the previous week due to reduced liquidity in the money market, as investors attention shifted towards the primary bond auction market where two government bonds issues were on offer this week. The subscription rates for the 91, 182 and 364-day papers came in at 64.5%, 35.3%, and 37.7% compared to 103.0%, 95.5% and 83.5%, respectively, the previous week. Yields on the 91 and 182-day papers remained unchanged from the previous week at 8.1% and 10.3%, respectively, while the yield on the 364-day papers rose marginally to 11.0% from 10.9% the previous week. The overall acceptance rate came in at 89.6% compared to 94.1% the previous week, with the government accepting a total of Kshs 8.9 bn of the Kshs 9.9 bn worth of bids received, against the Kshs 24.0 bn on offer in this auction. Despite this, the government is behind its domestic borrowing target for the current fiscal year, having borrowed Kshs 32.7 bn, against a target of Kshs 73.3 bn (assuming a pro-rated borrowing target throughout the financial year of Kshs 317.7 bn budgeted for the full financial year). The deficit has been covered by an overdraft from the Central Bank, which currently stands at Kshs 19.8 bn. We expect the government to meet its domestic borrowing target for the fiscal year, as banks and institutions channel funds more actively towards government securities following the enactment of the law on capping of interest rates.

Market liquidity was relatively tight during the week due to remittance of taxes by commercial banks. There was a net liquidity withdrawal of Kshs 4.0 bn this week, compared to a net withdrawal of Kshs 5.9 bn the previous week, with the bulk of the liquidity reduction coming from transfer of taxes from commercial banks and T-Bill primary issues at Kshs 34.9 bn and Kshs 20.7 bn, respectively. Despite the tight liquidity position in the money market, the average interbank rate declined to 4.2% from 4.8% the previous week. The average volumes traded in the interbank market increased by 56.5% to Kshs 23.6 bn from Kshs 15.1 bn the previous week, an indication that the liquidity distribution among the banks must have improved over the recent weeks. The Central Bank also disclosed that smaller banks would soon be allowed to pool collateral in the interbank market through a centralized security facility, thus reducing market segmentation to improve liquidity distribution in the banking sector.

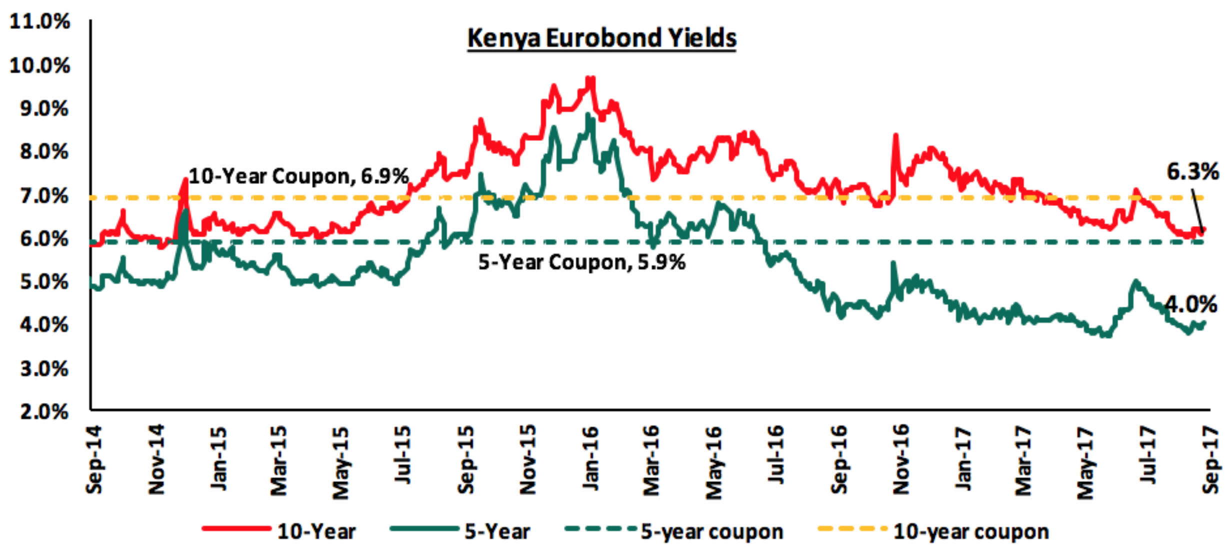
Below is a summary of the money market activity during the week:

all values in Kshs bn, unless stated otherwise

Weekly Liquidity Position – Kenya			
Liquidity Injection		**Liquidity Reduction**	
Government Payments	14.3	Transfer from Banks - Taxes	34.9
T-bill Redemption	22.9	T-bill (Primary issues)	20.7
T-bonds Interest	4.3	Reverse Repo Maturities	1.6
Reverse Repo Purchases	1.7		
Repos Maturities	10.0		
Total Liquidity Injection	**53.2**	**Total Liquidity Withdrawal**	**57.2**
		Net Liquidity Injection	**(4.0)**

Last week, the government issued a new 2-year bond (FXD 1/2017/2) and re-opened a 10-year bond (FXD 1/2017/10), with effective tenors of 2.0 years and 9.9 years, respectively, in a bid to raise Kshs 30.0 bn for budgetary support. The bonds issue received a 147.7% subscriptions rate, with the market average rates for the bids coming in at 11.8% and 13.2%, slightly above the accepted rates of 11.6% and 13.1%, for the 2.0 year and 9.9 year bonds, respectively. Just as was the case with other previous bond auctions held this year, in which the government only accepted 71.3% of total bids on average, the government did not accept expensive bids, accepting only Kshs 27.0 bn out of the Kshs 44.3 bn worth of bids received, translating to an acceptance rate of 60.9%. We expect the government to continue rejecting expensive bids on government securities while maintaining interest rates low to prevent further crowding out of the private sector by banks as they channel more funds towards government securities.

According to Bloomberg, yields on the 5-year Eurobond remained unchanged at 4.0% from the previous week while yield on the 10-year Eurobond rose by 10 bps to close at 6.3% from 6.2% the previous week. Yields on these two bonds have been on a downward trend since July, and this can be attributed to the political stability that has prevailed during the general election period and the slight increase lately is due to political uncertainty ahead of the presidential elections rerun. Since the mid-January 2016 peak, yields on the Kenya Eurobonds have declined by 4.8% points and 3.3% points for the 5-year and 10-year Eurobonds, respectively, due to stable macroeconomic conditions in the country. The declining Eurobond yields and stable rating by Fitch Ratings, are indications that Kenya's macro-economic environment remains stable and hence an attractive investment destination.



The Kenya Shilling depreciated against the USD by 0.4% during the week to close at Kshs 103.3 from Kshs 102.9 the previous week due to high dollar demand from oil importers and manufacturers amidst heightened political activity in the week. On a year to date basis, the shilling has depreciated against the dollar by 0.8%. According to the International Monetary Fund (IMF), the dollar is overvalued by between 10.0% and 20.0%, based on near-term economic fundamentals. In our view, the shilling should remain relatively stable to the dollar in the short term, supported by both the weakening of the USD in the global markets and the CBK's activity as they have sufficient forex reserves, currently at USD 7.5 bn (equivalent to 5.0 months of import cover). However, we have seen forex reserves decline significantly from USD 8.3 bn at the peak in April this year, but not to an alarming level, as import cover currently stands at 5.0 months.

We are projecting the inflation rate for the month of September to remain stable at a range of between 7.7% - 8.0%, compared to 8.0% in August, mainly due to relatively stable food prices, despite an increase in fuel prices during the month. Going forward to the end of 2017, we expect inflationary pressures to be subdued given food prices are expected to continue to decline because of the rainfall witnessed during the long rains period. We expect inflationary pressures to ease in the last quarter of 2017, but average 8.7% over the course of the year, which is above the upper bound of the government target range of 2.5% - 7.5%.

The Monetary Policy Committee (MPC) met this week, on Monday 18th September 2017, to review the prevailing macroeconomic conditions and give direction on the Central Bank Rate (CBR). The MPC maintained the CBR at 10.0%, which was in line with our expectations as per our MPC Note . The Committee indicated that the decision was on the back of a relatively stable macroeconomic environment, given:

i. A relatively stable foreign exchange market, despite the current account deficit widening to 6.4% of GDP in July, from 6.2% in May,

ii. A resilient banking sector, with the average commercial banks liquidity ratio and capital adequacy ratio at 45.6% and 19.0%, against statutory limits of 20.0% and 14.5%, respectively, as at August 2017, despite the gross NPL ratio rising to 10.7% in August, from 9.9% in June,
iii. Inflation is expected to continue declining supported by lower food and fuel prices and to remain near the government target range of 2.5% - 7.5%, despite rising to 8.0% in August from 7.5% in July due to temporary food shortage following the election period, and
iv. The current account deficit is expected to narrow to 5.8% of GDP by December 2017, as the bulk of the Standard Gauge Railway (SGR) related imports are complete, while the expected favorable weather conditions will improve food production and reduce reliance on imports.

We are keen to note that private sector credit growth improved slightly to 1.6% in August, from 1.4% in July, a change of trend since the start of a downward slope in August 2015, which we believe will be a key driver in future monetary policy decisions.

The US Federal Reserve's Open Market Committee (FOMC) met during the week to assess the state of the US economy and agree on a path for the US monetary policy. The Fed decided to maintain the Fed rate at a band of 1.00% - 1.25%, citing low inflation at 1.7% in August, remaining below the set target of 2.0%. The labour market was relatively stable despite job creation declining to 156,000 jobs in August, compared to 209,000 jobs created in July bringing the unemployment rate to 4.4% in August from 4.3% in July. The Fed also stated that in October it will start unwinding its quantitative easing efforts, by implementing its balance sheet normalization program, which would see it fail to reinvest the principal of maturing securities bought during the financial crisis. This move could have the effect of strengthening the dollar against other major global currencies, with foreign flows into the US debt market and the scarcity in dollars that will arise from the program, as highlighted in our report here. The committee highlighted that it expects one more rate hike before the end of the year and further three hikes next year but dependent on economic performance over the near-term. Going forward, we expect the Fed to take keen note of inflation and labour market performance in the near-term, amid weakening economic fundamentals, which we believe will be key in future monetary policy decisions.

Rates in the fixed income market have remained stable, and we expect this to continue in the short-term. However, a budget deficit that is likely to result from depressed revenue collection creates uncertainty in the interest rates environment as any additional borrowing in the domestic market to plug in the deficit could lead to upward pressures on interest rates. Our view is that investors should be biased towards short-to medium term fixed income instruments to reduce duration risk.

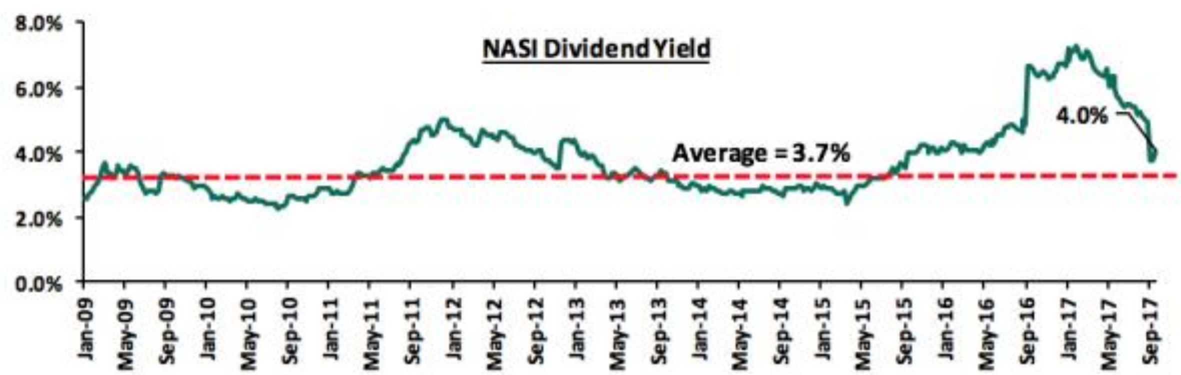
Equities

During the week, the equities market recorded mixed trends with NASI and NSE 25 gaining 0.9% and 0.8%, respectively, while NSE 20 lost 0.5%, taking their YTD performance to 24.4%, 22.9% and 18.2% for NASI, NSE 25 and NSE 20, respectively. This week's performance is attributable to gains by select large cap stocks such as KCB Group, Co-operative Bank and

Safaricom, which gained 2.4%, 2.4% and 2.0%, respectively. Since the February 2015 peak, the market has lost 6.5% and 31.6% for NASI and NSE 20, respectively.

Equities turnover decreased by 58.8% to close the week at USD 18.3 mn from USD 44.4 mn the previous week. Foreign investors remained net sellers with a net outflow of USD 5.1 mn compared to a net outflow of USD 18.7 mn recorded the previous week. We expect the market to record subdued activity over the coming few weeks as market players remain cautious of the renewed political uncertainty in the country. Despite this, we expect the market to remain supported by improved investor sentiment once the country takes to the polls for the presidential elections scheduled for end-October, and fears and uncertainty dissipates, as investors take advantage of the attractive stock valuations in undervalued sections of the market.

The market is currently trading at a price to earnings ratio (P/E) of 13.3x, versus a historical average of 13.4x, and a dividend yield of 4.0%, compared to a historical average of 3.7%. Despite the valuation nearing the historical average, we believe there are pockets of value in the market, with the current P/E valuation being 21.5% below the most recent peak in February 2015. The current P/E valuation of 13.3x is 36.9% above the most recent trough valuation of 9.7x experienced in the first week of February 2017, and 59.8% above the previous trough valuation of 8.3x experienced in December 2011. The charts below indicate the historical P/E and dividend yields of the market.



The Insurance Regulatory Authority (IRA) has delisted nine insurance brokerage firms for failure to comply with the Insurance Act barring them from handling any old or new business. Reasons for which a broker can be deregistered include, (i) having inadequate capital, (ii) undergoing liquidation, (iii) being part of an illegal merger or liquidation, (iv) dormancy, and (v) conducting business against public interest as determined by the finance minister. IRA also deregistered eleven insurance investigators and nine insurance motor assessors in a move to curb fraud that results from collusion among these service providers and has resulted in losses for most insurers. According to the IRA 2016 annual report, the insurance industry had 204 licensed insurance brokers, 146 insurance investigators and 121 motor assessors. The insurance sector has been registering minimal profits in its core business of underwriting with the industry recording a loss ratio and combined ratio of 58.5% and 89.5%, respectively, as at Q1'2017. Motor vehicle insurance reported one of the highest loss ratios in the industry at 53.0% and 76.0% for commercial and private motor segment, respectively. We view this move by the IRA as key to restoring ethical practice in the industry that has for long been marred by fraudulent claims and will get insurers back to profitability in their core business.

According to the Central Bank of Kenya (CBK), the banking sector recorded an increase in the ratio of gross non-performing loans (NPLs) to gross loans in August 2017, with the ratio coming in at 10.7% from 9.9% in June, mainly concentrated in the manufacturing, real estate and trade sectors. The total bad loans in the manufacturing sector in the month of August amounted to Kshs 5.0 bn while those for the real estate and trade sector amounted to Kshs 3.9 bn and Kshs 2.8 bn, respectively. The increase in NPLs in these sectors is attributed to failure by the national and county governments to pay bills, a trend, which the CBK expects to improve going forward. The increase in NPLs comes at a time when there has been a slight increase in private sector credit growth to 1.6% in August from an eight-year low of 1.4% in July, reversing the downward trend since August 2015.

Banks globally are expected to adopt a new reporting standard, International Financial Reporting Standard (IFRS) 9, effective January 2018, switching from the 13-year old International Accounting Standard (IAS) 39. The new standard will not only look at the history of the customer to calculate the risk of default but will also consider the current business conditions and future forecasts, which is expected to make banks increase their level of provisioning, therefore making them more selective in lending and effectively crowding out the risky borrowers. Key data requirements under the IFRS 9 standard include (i) macro-economic indicators, (ii) delinquency information, (iii) product characteristics, (iv) contractual cash flow prepayments, (v) ratings data, (vi) borrower-specific information, and (vii) risk parameters. These will be used by banks to determine the sufficient level of provisioning. According to KPMG Kenya Advisory Services, IFRS 9 could result in a 50% to 100% increase in provisions affecting profitability, hence a possible need to raise the capital base of banks. As at H1'2017, loan loss provisioning had increased to 54.0% from 48.8% in H1'2016. As highlighted in our Cytonn Weekly #6/2017, we are of the opinion that the new standard will lead to a more stable and safe banking sector, however the increased provisioning will put pressure on capital ratios of smaller banks and may result in capital raisings and mergers.

In an effort to keep our rankings of companies on the Cytonn Corporate Governance Ranking (Cytonn CGR) Report up-to-date, we continually update the rankings whenever there are changes on any of the 24 metrics that we track, and how this affects the company ranking. This week, Britam Holdings appointed Ms. Marianne Loner as a director. Britam's score has remained unchanged at 62.5%; the reduction in score due to an increase in board size to an even number 8 from an odd number 7, was offset by an improvement in ethnic diversity to 50.0% from 42.9%. Britam has therefore retained its ranking at position 33.

Below is our Equities Universe of Coverage:

all prices in Kshs unless stated otherwise

No.	Company	Price as at 15/09/17	Price as at 22/09/17	w/w Change	YTD Change	Target Price*	Dividend Yield	Upside/ (Downside)**
1.	NIC***	40.0	39.5	(1.3%)	51.9%	58.2	3.2%	50.5%
2.	KCB Group***	42.0	43.0	2.4%	49.6%	57.1	4.7%	37.4%
3.	HF Group***	11.1	10.9	(1.4%)	(22.1%)	14.2	2.0%	32.3%
4.	Barclays	10.4	10.4	0.0%	22.6%	12.5	9.6%	29.8%
5.	DTBK	182.0	184.0	1.1%	55.9%	234.1	1.4%	28.6%
6.	I&M Holdings	129.0	125.0	(3.1%)	38.9%	149.6	2.4%	22.1%
7.	Co-op Bank	16.6	17.0	2.4%	28.8%	17.5	5.4%	8.4%
8.	Equity Group	39.0	39.5	1.3%	31.7%	40.5	5.1%	7.6%
9.	Stanbic Holdings	80.0	79.5	(0.6%)	12.8%	79.1	5.2%	4.7%
10.	Jubilee Insurance	475.0	480.0	1.1%	(2.0%)	490.5	1.8%	4.0%
11.	Kenya Re	20.8	21.5	3.6%	(4.4%)	20.5	3.5%	(1.2%)
12.	Liberty	13.0	13.4	3.1%	1.5%	13.0	0.0%	(3.1%)
13.	Britam	14.1	15.0	6.4%	49.5%	13.2	1.8%	(9.9%)
14.	Standard Chartered	240.0	238.0	(0.8%)	25.9%	199.8	4.3%	(11.7%)
15.	Safaricom	25.3	25.8	2.0%	34.5%	19.8	4.7%	(18.5%)
16.	Sanlam Kenya	29.8	29.5	(0.8%)	7.3%	21.1	1.0%	(27.6%)
17.	CIC Group	5.6	5.6	0.9%	47.4%	3.7	1.8%	(32.0%)
18.	NBK	11.0	10.2	(6.8%)	41.7%	5.2	0.0%	(49.2%)

**Target Price as per Cytonn Analyst estimates*

***Upside / (Downside) is adjusted for Dividend Yield*

****Banks in which Cytonn and/or its affiliates holds a stake*

For full disclosure, Cytonn and/or its affiliates holds a significant stake in KCB Group and NIC Bank, ranking as the 5th largest local institutional investor and the 9th largest shareholder, respectively

We remain "neutral with a bias to positive" for investors with short to medium-term investments horizon and are "positive" for investors with a long-term investment horizon.

Private Equity

BSP Fund LLC, a Canadian venture capital firm, has acquired 100.0% stake in iHub Limited, a Kenyan company that runs an innovation incubation laboratory for tech entrepreneurs for an undisclosed amount. iHub was previously owned by Mr Erik Hersman and Mr Josiah Mugambi, who owned 49.95% stake each while Ms Juliana Rotich and David Kobia each owned 0.05%. iHub Limited currently owns iHub Research, iHub Consulting and the UX Lab, which provides user experience design and consulting services. The acquisition will enable iHub to easily access funding, and expand their incubation business for technology companies. The continued interest by investors in technology-driven companies is catalyzed by the rising need for tech products as more businesses seek to enhance efficiency and reduce costs. The rising number of tech hubs in Africa, which support the growth of tech startups by providing mentorship has also provided a platform through which investors can easily identify opportunities to invest in. According to the

World Bank, tech hubs in Africa have increased from 117 in 2015 to 173 in 2016, with South Africa and Kenya leading with 32 and 16 tech hubs, respectively.

On the fundraising front, Shortlist, a Kenyan-based employment tech start-up, has received Kshs 103.0 mn seed funding in both equity, for an undisclosed stake, and debt from US-based private equity firm University Ventures, Indian angel investor Samir Shah of Sattva Capital, Kenya-based seed fund Zephyr Acorn, global impact investor FARM Ventures, and US-based investor Bodley Group. The tech start-up offers talent sourcing, screening and shortlisting services to corporates and has offices in Nairobi, Mumbai and India. Shortlist will use the funding to (i) enhance the technology used for its data-driven talent-screening product, and (ii) actively market the platform in order to increase its client base.

Just this year, several tech backed businesses have received funding from both local and international investors, including: (i) Bamba Group a company providing SMS based solutions and data collection software for companies, raised USD 1.1 mn, (ii) BitPesa, a Kenyan digital currency payment platform closed a USD 2.5 mn funding round, (iii) Mobile credit firm, Tala, raised more than USD 30.0 mn, and (iv) Kenya's Twiga Foods Ltd, a mobile based food supply platform raised USD 12.78 mn (Kshs 1.3 bn). We remain optimistic about investment in technology and tech-backed businesses, as the Sub-Saharan African region continues to witness increased integration of technology in businesses as well as increased automation of business processes by SMEs.

Private equity investments in Africa remain robust as evidenced by the increased deal flow and fundraising activity in sectors such as technology. The increasing investor interest is attributed to (i) rapid urbanization, (ii) a resilient and adapting middle class and increased consumerism, (iii) the attractive valuations in Sub Saharan Africa's private markets compared to its public markets, (iv) the attractive valuations in Sub Saharan Africa's markets compared to global markets, and (v) better economic projections in Sub Sahara Africa compared to global markets. We remain bullish on PE as an asset class in Sub-Sahara Africa. Going forward, the increasing investor interest and stable macro-economic environment will continue to boost deal flow into African markets.

Real Estate

The retail sector is set to experience a shakeup in the coming months with Nakumatt finally exiting Thika Road Mall. This follows its recent closures of other branches such as Nextgen mall, Haile Selassie Avenue and its Ugandan branches. The closures are a result of the retailer's financial constraints with heavy debts that stood at Kshs 15.0 bn as of 2015. As a result, Nakumatt announced a proposed merger with Tuskys Supermarkets, in a multibillion-shilling deal signed between the two businesses. Details remain scanty but the intention is for each of the retailers to remain separate but have a common holding company about them. This merger with Tuskys is expected to aid Nakumatt in their quest to end their financial distress and restore the retailer to full operations and inventory levels.

On the other hand, Naivas and French-based Carrefour, are eyeing retail space that was previously taken up by Nakumatt at Thika Road Mall; market talk is that Naivas is the frontrunner for the space. The keen interest shows that the retail sector is still poised for growth as more investors seek to expand with formal retail penetration in Kenya approximated at 30.0%. Naivas is one of the leading retail brands in Kenya with more than 20 outlets across the country while Carrefour operates through the franchise international Majid Al Futtaim Group, and currently has two branches in Kenya, the Hub in Karen and Two Rivers Mall. The growth in the sector is supported by:

i. Increased disposable income, specifically in the growing middle class,
ii. A robust macroeconomic environment, which has seen an average GDP growth rate of above 5.0% for the last 5 years, and,
iii. Continued foreign investment into Kenya by foreign retailers and international organizations as they seek to tap into what is the region's renowned economic hub,

During the week, Kenya was ranked as the 6th best investment destination by South Africa's Rand Merchant Bank report, with Egypt, South Africa, Morocco, Ethiopia and Ghana leading in that order. The report themed 'Where to invest in Africa in 2018' ranked Kenya number six, a drop from last year's fifth position. The decline is due to Ethiopia's rise to fourth position from last year's seventh position mainly due to its budding economy supported by (i) a young population, (ii) low labor charges, and (iii) thriving manufacturing sector, as per the RMB Report for 2017. The report focuses on main sources of revenues as well as a nation's investment opportunities and the measures effected to enhance business. According to the report, Kenya has maintained a diverse economic structure, pro-market policies and a sharp growth of consumer spending and thus one of the best investment destinations in the continent.

During the week, renowned Pan-African real estate industry player Shelter Afrique got a setback following news that there could be structural design issues with one of its flagship affordable housing projects, Everest Park, located in Athi River. The project, valued at more than Kshs 730.0 mn, was a joint venture between the financier and Everest Limited. It comprises of 120 one-bedroom units, 60 two-bedroom units and 60 three-bedroom units selling at Kshs 2.6 mn, Kshs 4.0 mn and Kshs 5.5 mn, respectively. The building developed cracks, which was attributed to structural design issues. However, the inspection report is set to be released in 10 days' time after an inspection took place on 18th September. Everest Park is already on its phase two of construction with project costs amounting up to Kshs 755.0 mn. Our view is that (i) this illustrates the need for developers to require sufficient Professional Indemnity (PI) from service providers – in our real estate affiliate, Cytonn Real Estate, we now require at least Kshs. 100 mn of PI cover from all our providers, and (ii) it is crucial for developers to have peer reviews for structural drawings.

As per a 2015 audit by Kenya's National Construction Authority, only 42.0% of Nairobi's buildings were safe for occupancy. This has been as a result of contractors flouting vital building codes and developers willingly bypassing construction rules in a bid to hasten the construction period. In 2015, the National Building Inspectorate Department was formed under the Ministry of Public Works with the sole mandate to inspect and audit buildings in Nairobi and other 46 Counties. The inspectorate expects to have audited 20,000 buildings in Nairobi by 2020. As per NCA, poor quality buildings are caused by (i) poor workmanship, and (ii) failure to enforce laws in regards to construction. As a result, property buyers should demand for certification, for instance a certificate of occupancy issued by the local government authorities, which shows the building of interest complies with the safety and other NCA-stipulated standards, before signing a Sale Agreement.

Other highlights during the week included;

1. The ministry of transport announced a dueling plan for the Eastern Bypass, which was completed in 2014 and is currently in talks with a Chinese firm regarding the same. The project, which is one of the 11 flagship projects for Kenya Vision 2030, is expected to take two-years once it is commissioned and is aimed at easing traffic congestion in the CBD and its periphery areas like Kangundo Road and Thika Road. This will be an addition to Kenya Urban Roads Authority's three road projects in Nairobi, which are set for completion by early 2018. They include; upgrading of the Upper Hill road, Outer Ring Road and Eastlands Road, which are at 98.0%, 80.4% and 97.0% completion levels, respectively
2. The Mombasa Beach Hotel, owned by Tourism Finance Corporation, announced plans for a facelift following a Kshs 150.0 mn cash injection by the government. The cash injection will be used to renovate its 150 rooms as well as the common areas, after years of neglect of the facility. The refurbishments are aimed at increasing occupancy levels, and thus more revenues for the government-owned hotel, especially following the 'bleisure' tourism popularity at the coast. According to a report by the Tourism Board, between January and May 2017, the number of international arrivals at Mombasa's Moi International Airport increased to 320,588 and 238,397 from 288,905 and 35,388, respectively. We expect the trend to continue following the recent measures by the government to market the country as the ultimate tourist destination, as well as improved security measures
3. The Lands Ministry announced the commencement of land processes digitalization, which will begin from 25th September in Nairobi. The services targeted for online registration include registration of caution, sub-lease caution, registration of leases, the power of attorney, and loss of title. The process is expected to improve accountability and efficiency in the ministry, and thus making the process less constraining for citizens and real estate developers especially due to the fact that ineffective land administration processes weigh heavily financially on both parties. The system is set to kick off at the Nairobi registry. Currently, only 14 Counties have been digitized.

We expect the real estate sector to remain stable despite the political jitters, supported by better pro-business policies especially with the expected revision of the CBK interest rates cap law, further infrastructural development as well as continued foreign direct investment.

Focus of the Week: Kampala Real Estate Investment Opportunity

With over Kshs 82 bn of projects under mandate, across 10 real estate projects all in Kenya, (see list of projects here), we are now looking to diversify to new markets in order provide investors with a diversified portfolio of investment grade real estate products.

Before making any investment, our Real Estate Research & Deal Origination (RDO) team spends time in the target market, collecting and analyzing data to make the best investment recommendation. As such, and in line with our regional expansion strategy, we have been carrying out research on various markets in the Sub Saharan African region. We started with Kigali - Rwanda in 2016, and between June and July 2017, we carried out a real estate market research in Kampala – Uganda, and we currently have ongoing research in Accra – Ghana. We have chosen Kigali, Kampala and Accra as the near-term regional expansion targets based on our ratings of the macroeconomic evaluations of the respective countries and on investor interest in exposure to those markets.

This week we look at our real estate findings in the commercial, residential and retail markets in Kampala. We start by a general overview of the area, then cover the key drivers and challenges for the real estate market in Kampala, followed by an analysis of the performance of the various themes including residential, commercial office, retail and give a direction on land prices, before finally concluding with our recommendations on the market and the investment opportunity therein.

Overview

Kampala is the capital and largest city in Uganda. It covers a total area of 72.8 square miles and has a total population of 1.5 mn in 2016, according to the Uganda National Bureau of Statistics. It is divided into five districts, that is:

i. Central - Consists of areas such as Kampala CBD, Nakasero, Kololo and Kisimenti. These are the high income areas in Kampala,
ii. Nakawa - Includes neighbourhoods such as Nakawa, Bugolobi, Luzira and Ntinda. These are mostly the upper middle income areas,
iii. Makindye District - Areas such as Muyenga, Munyunyu, Kibagalagala and Buziga. These are the middle to upper middle income areas,
iv. Kawempe - Consists of Bwaise, Mulago, Kawempe and Kazo, among others. These are the middle to low income areas, and,
v. Rubaga District - Consists of Rubaga, Mengo and Kasubi and is the home to the King of Buganda Kingdom - Kabaka. It is a middle to low income area.

Generally, across Kampala, there is inadequacy in implementation of town planning regulations and it is common to find high-rise apartments coming up next to single storied buildings.

Infrastructure & Amenities

Typical of all developing country cities, Kampala has grown at a fast rate without commensurate growth in infrastructure, and hence is relatively congested with frequent and long traffic jams. It is served by several highways including (i) Entebbe Road linking Kampala to the Entebbe International Airport, (ii) Jinja Road connecting to Jinja, then Kenya, and (iii) Bombo and Ggaba Roads, The Lugogo and The Northern Bypass, which link it to various towns in Uganda. The city is served by the Entebbe International Airport and an airstrip in the Kololo Area. Roads within the high-end estates are well tarmacked, in the middle income areas most of the roads are paved with a few tarmacked roads. Electricity is distributed by Uganda Electricity Distribution Company (UEDCL) who have subleased to Umeme, a private company. The connection is fairly strong and regular and power outages are not common. Water is distributed by Uganda National Water and Sewerage, which has a Kampala arm. Most of the areas in Kampala are connected to the main sewer network.

Factors Driving the Real Estate Market in Kampala

There are several factors boosting real estate investment in Kampala, largely connected with population growth and infrastructural development opening up the city to institutional grade development as outlined below:

1. **Demographics** – Uganda has a high population growth rate of 3.2% compared to the Kenyan and Sub Saharan African average of 2.6% and 2.7% p.a., respectively, according to the World Bank. The growth rate is higher in cities at 4.3% and a high urbanization rate of 5.2% against a Sub Saharan African average of 3.5% p.a. creating demand for real estate, especially in urban areas and cities such as Kampala,
2. **Increased Multinational Operations** – Following the discovery of oil as well as increased investments in the technology and financial services sectors, multinationals such as C Squared and Africell have set up offices in Kampala and are demanding for high end residential units for their employees and taking up office space in the city for their operations which also leads to an increase in the footfall for retail space,
3. **Increasing Disposable Income** – Driven by an increase in GDP, which has on average grown by 5.1% p.a. in the last five years according to the Bank of Uganda, the population's capacity to demand for housing and expenditure has also grown, thus boosting the residential and retail market segments,
4. **Improved Infrastructure** – the government has improved trunk infrastructure, especially roads in the suburbs, which have opened up the areas for development. They include the Naalya and Namugongo Area due to the Northern Bypass. Currently the Kampala Entebbe Express Way is under construction, and it is expected to open up areas along the Entebbe Road including Lubowa and Munyonyo. The success of the Lamu Port South Sudan Ethiopia(LAPSSET) Corridor project will also play to increase the opening up of Uganda
5. **Government Initiatives** – The Ugandan Government is boosting real estate activities in Kampala and Uganda through initiatives such as:
    a. Enacting the condominium titling system facilitating fractional sales of property hence making real estate more affordable,
    b. Government bodies such as The National Housing and Construction Company (NHCC) has also opened up areas for development by developing in remote areas hence attracting population and subsequent development, with the National Social Security Fund (NSSF) providing off taker financing for developments hence increasing development activity,
    c. For commercial office, the government bodies and parastatals take up the largest amount of office space in the city according to Knight Frank, and in retail, the government has been encouraging retailers to move from the high street to the malls thus boosting occupancy rates in the malls, and,

d. Uganda is also experiencing a relatively stable political environment and good governance.

However, despite all the factors that have led to increased development of real estate in Kampala, there are still a number of factors, which if not properly addressed present challenges to real estate development:

1. **Increased Competition -** Commercial office blocks face competition from residential housing converted to office spaces, which have more parking and are not in congested areas. In retail, as a result of increased supply and development of retail space, Kampala has witnessed a mall boom with malls springing up next to each other; for instance Garden City Mall and Oasis Mall are right next to each other in Nakasero, and Forest Mall and Lugogo Mall are also next to each other. The city has a mall supply of 182,000 square meters with a pipeline of 128,000 square meters according to Knight Frank,
2. **Inadequate Funding & Expensive Capital** – There is very little off taker finance in the Kampala market, hence buyers have to finance using their savings. The challenge is compounded further by the fact that most sales transactions are cash payments, with clearance periods of between 1-6 months hence little time to raise capital. Mortgage activity is also subdued due to the high interest rates of between 22% - 28% to the Ugandan Shilling, with residential mortgage to GDP ratio being less than 1.0% according the Housing Finance Bank, against 4.2% in Kenya and more than 20% in South Africa,
3. **Exit of Some Multinationals** – Multinationals such as Tullow Oil scaled down their operations with others such as Engen and AIG exiting the Ugandan market recently. This was due to a delay by the Ugandan Government in issuing of trading licenses, as well as a tough operating environment characterized by a high interest rate environment, currency depreciation, and slower economic growth with the GDP growing by 3.9% in 2016 from 4.7% in 2015 due to a decline in commodity prices and drought. This has since reduced demand for prime residential property and commercial office blocks,
4. **High Construction Costs** - High costs of construction inputs as well as the high costs of transportation from ports, as Uganda is landlocked, reduce the attractiveness of the real estate market,
5. **Culture** – Ugandans prefer living in large palatial homes, which are unaffordable, hence affecting the uptake of apartments that are mainly bought for investment. This culture is however changing as people seek affordability and convenience,
6. **Overreliance and Duplication of Foreign Retailers -** The closure of Nakumatt has affected the retail sector in Uganda, as it was an anchor in a number of malls in Kampala including Acacia Mall, Oasis Mall and Village Mall Bugolobi.

Market Performance

1. Residential

Generally, the residential sector in Kampala is undergoing development, with most of the mega developments being less than 5-years old. Uganda has a housing deficit of 1.6 mn 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 p.a. The deficit is expected to grow given the high urbanization rate of 5.2%, as majority of Kampala residents, being a total of 60%, live in informal settlements.

The residential market in Kampala can be classified broadly into high income, upper middle income, middle income and affordable housing. The high-income market consists of areas closest to the CBD. They include Nakasero, Kololo and parts of Bugolobi. Initially they were characterized by colonial style maisonettes and bungalows, but these are being replaced with high end apartments, mostly furnished, attracting rents of between USD 2,000-4,000 per month with exit prices of more than USD 200,000. They serve the expatriate population in Kampala and the high net worth individuals.

The upper middle-income areas are the zones neighboring the high-income areas. They have grown due to improved infrastructure and expansion 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 - 450,000.

The middle-income areas include the Kampala suburbs of Nalya, Kira, Namugongo, Kira and Kintintale. These areas have a high demand for apartments and apartments are being developed up in large quantities. Developments have been boosted by improved infrastructure in the areas, which have opened them up for development including the Northern Bypass. For apartments, the price range from UGX 87.5mn to UGX 500 mn (USD 24,360 to 138,889).

The performance of these zones is as shown below:

High End Residential Market Kampala Performance

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:

i) Exclusive furnished and serviced apartments with average rental yields of 10.0% for two bedroom apartments and 8.9% for 3 bedroom apartments. These apartments have high occupancy rates of more than 80% in both cases 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.

ii) Villas and Bungalows standing on land parcels of 0.2 - 1 acre. These can be sold for values as high as 1 mn 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

**SQM- Square Meters*

Source: Cytonn Research

Exchange rate 1 USD= 3,600 UGX,

Upper Middle Market Kampala Residential Performance

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%
4 Bed Apartments	188	1,444	230,714	1,209	4,352,400	7.1%	79.1%	82.2%
3 Bed Standalone	166	1,050	145,500	908	3,268,800	8.6%	80.0%	
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:

1. *Apartments are mostly three and four bedroom units. On average three bedroom apartments, have high yields of 8.9% and high uptake and occupancy levels of 92.9% and 91.7.7%, respectively. 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*
2. *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*

**SQM- Square Meters*

Source: Cytonn Research

Exchange rate 1 USD= 3600 UGX

Middle Class Residential Market Kampala Performance

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
2 Bed Apartments	86	831	284,354	3,252,215	903	5.6%	83.3%	95.0%
3 Bed Apartments	103	1,667	294,750	2,877,176	799	7.2%	75.0%	95.0%

3 Bed Standalone	156	3,163	575,000	3,239,024	900	7.0%	96.7%	87.5%
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:

i. 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

ii. 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

**SQM- Square Meters*

Source: Cytonn Research

Exchange rate 1 USD= 3,600 UGX

Affordable Housing Market Kampala Performance

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
2 Bed Apartments	73	675	104,667	1,473,769	409	8.2%	92.5%	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 104.67 mn for a two bed unit and UGX 146.5 mn for a 3 bed unit. They have attractive rental yields 8.2% for a two bed unit and 7.5% for a 3 bed unit. Due to their relative affordability, they have high uptake rates with cases of developments being 100% sold in just 10 months

**SQM- Square Meters*

Source: Cytonn Research

Exchange rate 1 USD= 3,600 UGX

Kampala Residential Market Performance Summary

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	1952	7,027,200	**6.1%**	83.9%	2 Bed Serviced Apartments
Affordable Housing	Middle Income Areas	459	1,652,510	**7.9%***	92.5%	2 Bedroom Apartments
Middle Income Areas	Bukoto, Kiwatule, Kira, Naalya, Namugongo, Buziga and Bunga suburbs	895	3,221,528	**5.9%***	88.8%	3 Bedroom Units
Average		**1,116**	**4,017,510**	**6.8%**	**87.5%**	

- *On Average the residential market in a Kampala has a yield of 6.8% and an average occupancy level of 87.5%*
- *Upper Middle Income areas have the highest dollar yields of on average 7.4% with 3 bedroom units being the best performing typologies in these zones*
- ** Uganda Shilling yields*

2. Commercial Office

The commercial office sector in Kampala is fairly nascent. Kampala has a few commercial buildings, most of them located in Nakasero, Kololo and few 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, leading to some players taking up residential blocks in the prime suburbs and converting them to offices. Prime rents can go to USD 18 dollars per square meter, compared to about USD 14 in Nairobi. There is no fractional office sales market in Kampala due to the infancy of the condominium titling Act and lack of precedence and yields are computed based on building valuations and not prices. For letting, unlike in Kenya where tenants acquire shell and core office spaces, in Kampala tenants demand fully finished and fitted out offices and hence higher construction costs compared to Kenya.

The summary of the sector's performance is as below:

Commercial Office Performance Kampala

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

Grade B offices are the most common in the market with a 63% market share, they are also the most popular in the market with the highest occupancy rates at 86.6%
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
**Market share distribution based on the samples collected*
***SQM- Square Meter*

Source: Cytonn Research

Exchange rate 1 USD= 3,600 UGX, 103.5 Kshs, 1 Kshs = 34.64 UGX

3. Kampala Retail Market

Kampala has a well-developed retail sector with a mall supply of 182,000 square metres according to Knight Frank, which is 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 Oasis Mall 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 slowdown in foot traffic.

The summary of the sector's performance is as below:

Retail Market Performance Kampala

Mall Typology	Average Rent Per SQM* in USD	Occupancy	Yield
Destination Malls	23	80.0%	11.0%
Community Malls	18	77.0%	11.6%
Neighborhood Malls	14	56.7%	7.7%
Average	**18**	**71.2%**	**10.1%**

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

**SQM- Square Meter*

Source: Cytonn Research

Exchange rate 1 USD= 3,600 UGX

4. Land

Average Land Prices in Kampala Suburbs

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*

Source: Cytonn Research

Exchange rate 1 USD= 3,600 UGX

Comparative Analysis

On comparing Kampala with Nairobi and Kigali, Kigali recorded the highest yields with Kampala recording higher rental yields than Nairobi across all themes as shown below:

Comparative Analysis: Kampala, Nairobi and Kigali

City	Residential	Commercial Office	Retail
Kampala	**6.8%**	10.6%	10.2%
Nairobi	**5.6%**	9.3%	10.0%
*Kigali	**9.2%**	12.9%	13.1%

- 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 1.1 mn against Kampala's 1.5 mn people and Nairobi's 3.6 mn in 2016 according to the country's respective national statistical bureaus
- *2016 Performance

Recommendation:

To identify the specific areas investment areas, we ranked the areas based on yields, land prices and ease access judged by infrastructure and the recommendations area as below:

Recommendation: Investment Areas in Kampala

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
	Middle Income	Naalya, Ntinda, Kiwatule, Bukoto, Nagira	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 with rental yields of on average 11.4%
For residential, 3 bedroom apartments offer the best investment opportunity in both the upper middle income areas and in the middle income areas as they have high returns with yields of 9.0% and 7.2% and uptakes of 93% and 95%, respectively *The opportunity in Kampala is in Grade A commercial office blocks which have high yields of 11.4%, high occupancy of 87.3% and are in low supply*				

We have a positive outlook for the Kampala real estate market driven by the high demand and returns, a growing population, entry of multinationals and increased infrastructural development. And our preferred investment areas are commercial office, grades AB and mid to high end residential.

For comprehensive market research on residential, commercial and retail themes in Kampala and its environs, refer to the full report here: Kampala Real Estate Investment Opportunity.