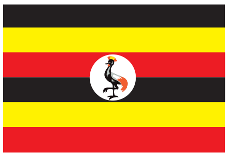
Uganda



KEY FIGURES

Main urban centres	Kampala Entebbe
Exchange rate: 1 US$ = [a] 20 Sept 2018	3 884.75 Ugandan shilling
PPP Exchange rate (Local currency/PPP$) 1 Ugandan shilling = [b]	1 143.50
Inflation 2016 [c] | Inflation 2017 [c] | Inflation 2018 [c]	5.50 | 5.6 | 3.6
Population [b] | Urban population size [b]	42 862 958 | 7 198 405
Population growth rate [b] | Urbanisation rate [b]	3.26% | 5.50%
Percentage of the total population below National Poverty Line [d]	23.0%
Unemployment rate [d]	9.2%
GDP (Current US$) 2017 [b] | GDP growth rate annual 2017 [b]	US$25 891 million | 3.96%
GDP per capita (Current US$)2017 [b]	US$604
GNI per capita (Current US$) 2017 [b]	US$600
Gini co-efficient [d]	37.10
HDI global ranking [f] | HD country index score [f]	163 | 0.493
Is there a deeds registry? [g]	Yes
Number of residential properties that have a title deed	630 000
Lending interest rate [a]	20.03%
Mortgage interest rate | Mortgage term (years)	18% | 25
Downpayment	15%
Mortgage book as a percentage of the GDP	3.00%
Estimated number of mortgages	5 000
Price to Rent Ratio in City Centre [h] | Outside City Centre [h]	55.86 | 8.45
Gross Rental Yield in City Centre [h] | Outside City Centre [h]	1.79% | 11.8%
Construction as a % of GDP [i]	5.00%
What is the cost of standard 50kg bag of cement?	US$8.15
What is the price of the cheapest, newly built house by a formal developer or contractor? (Local currency)	76 000 000 Ugandan shilling
What is the price of the cheapest, newly built house by a formal developer or contractor? (US$)	US$20 000
What is the size of this house (m²)?	60m²
What is the average rental price for this unit (US$)?	n/a
What is the minimum stand or plot size for residential property?	300m²
Ease of Doing Business Rank [g]	122
Number of procedures to register property [g]	10
Time to register property (days) [g]	42 days
Cost to register property (as % of property value) [g]	3.10%

NB: Figures are for 2018 unless stated otherwise.

[a] Bank of Uganda
[b] World Bank World Development Indicators
[c] Worldometers
[d] Uganda Bureau of Statistics
[e] IMF World Economic Outlook Database
[f] UNDP Development Indicators
[g] World Bank Doing Business
[h] Numbeo
[i] Uganda Ministry of Lands , Housing and Urban Development

Overview

Uganda's economy has achieved a strong performance, with a 5.2 percent growth rate reported in 2018, up from 4.6 percent in 2017.[1] This has been largely attributed to high levels of public infrastructure developments and investment in a wide range of sectors, including housing and construction, manufacturing and the service sector.

On the monetary front, the central bank has continued with the drive to reduce borrowing interest rates to encourage private sector credit for enhanced economic growth. Headline inflation has continued on the downward trend to 1.7 percent[2] in May 2018 compared to 7.2 percent in May 2017.[3] The success in controlling inflationary pressures to well within the target rate of 5 percent has been recognized by monetary authorities as a catalyst for low-priced debt for private sector investments. However, despite these successes, the debt-to-GDP ratio has increased from 34.6 percent in 2016 to 37 percent in 2018 and is projected to reach 47.8 percent in 2021.[4]

The government has announced measures aimed at reducing the debt burden in the short to medium term. These are largely focused on expanding the tax base and increasing domestic funding for the recurrent budget. The tax-related measures have had a considerable impact on housing developments, with likely constraints on rental housing developments within the tax period. Uganda's tax revenue to GDP ratio is still low at 14 percent, an improvement from the decade-long position of approximately 10 percent, although still below the 16 percent average for economies in sub-Saharan Africa.[5] This points to an increasing need for widening the tax base in the medium term if the development objectives are to be achieved.

The country's foreign sector has posted a weak performance with deteriorating balance of payments mainly as the result of external economic factors, including slow growth in Europe and China, and tightening financial and monetary conditions globally. Coupled with a low interest rate regime, deterioration in export performance has exacerbated the depreciation of the local shilling against the US dollar by 8.4 percent from USh3 582 in June 2017 to USh3 884 in June 2018.

Overall, there are indications of private investment activity as reflected in the growth of foreign direct investment, which increased by 18.5 percent[6] in 2017 compared to a decline of 30.5 percent in 2016, and in the growth in local currency private sector credit by 10.8 percent in December 2017 compared to 7.9 percent in December 2016. This has also been augmented an increase of imports of raw materials and capital goods. The economy is expected to grow at an improved rate of 5.8 percent in the financial year 2017/2018 compared to 3.6 percent in 2016/2017. This will be achieved on the back of improvements in the agricultural sector by 3.2 percent, the industrial sector by 6.2 percent, and the service sector by 7.3 percent. GDP is expected to strengthen further to 6.0 percent[7] in the financial year 2018/2019.

Moody's credit rating for Uganda in March 2018 was maintained at B2, and at par with Kenya after Kenya's down grade from B1.[8] The rationale for the B2 grade is Uganda's small economic size and low wealth levels, pointing to limited shock absorption capacity from external shocks, limited institutional capacity posing challenges in managing the 38 percent rising debt associated with infrastructure investment, and an elevated susceptibility to event risk. The outlook is however stable, reflecting a broad balancing of credit risks and expected gains from infrastructure investment alongside continued structural reforms in cooperation with the IMF to support the growth outlook.

Access to finance

The financial sector in Uganda has remained strong, resulting in the improved performance of financial institutions in 2017 and an increase in credit facilities extended to the private sector. The Central Bank Rate, a policy benchmark rate, has remained at its all-time low of 9.0 percent in June 2018, since the last reduction from 9.5 percent in February 2018.[9] The country has also posted an improvement in shilling credit extension by 10.8 percent in December 2017 compared to 7.9 percent in December 2016. Total lending in the local currency has risen by 7.4 percent from USh11 972 040 million in April 2017 to USh12 925 983 million in April 2018.[10]

Credit to the building and construction sector has improved very slightly from 20.8 percent to 21.0 percent of the total credit outstanding in the country. Other leading sectors include trade at 19.2 percent, personal credit at 18.3 percent, agriculture at 12.4 percent and manufacturing at 12.0 percent. Energy, transport, mining and other services are all under 10 percent each.[11]

The provision of development finance represents 7.1 percent of the 21 percent real estate sector allocation, followed by residential mortgages at 5.7 percent, commercial mortgages at 3.5 percent and land purchase at 0.6 percent. The biggest lender for building and construction projects is still Housing Finance Bank, which leads the mortgage market in Uganda with approximately 55 percent of the total mortgage portfolio in the country. Other banks involved in housing-related finance include Stanbic Bank, Standard Chartered Bank, DFCU Bank, KCB Bank and Centenary Bank. The total mortgage portfolio, comprising both residential and commercial mortgages, has increased by 8 percent from USh2.492 trillion in April 2017 to USh 2.711 trillion in April 2018.The increment is attributed to a drop in mortgage interest rates from an average of 19.5 percent in April 2017 to 17.5 in April 2018. Mortgage rates vary from bank to bank, the lowest being 17 percent and the highest being 19.5 percent.

The rate of non-performing loans as a percentage of gross loans, has declined from a peak of 10.5 percent in December 2016 to 5.6 percent in December 2017.[12] This has further supported credit extension. The noted improvement in the quality of loan portfolio over the year is attributable to an industry-wide effort to book quality loans and enhance recovery efforts, as demanded by the banking regulator following the shake-up and eventual closure of the third largest lender, Crane Bank Limited, whose non-performing loans were in excess of 12 percent of the bank's loan book. This industry-wide improvement in loan quality has resulted in stricter credit underwriting standards, also coming with the adoption of International Financial Reporting Standard (IFRS) 9, requiring banks to be more prudent when making provisions for their loan book. The actual eventual impact of IFRS9 on bank performance will be examined when banks release their final 2018 financial results.

On the other government side, investment in public infrastructure relating to the transport sector has opened up new areas for development and is likely to substantially raise output and credit extension for greenfield projects in such areas.[13] Infrastructure projects opening new areas include the Kampala-Entebbe Expressway (commissioned June 2018) and Kampala-Jinja Expressway (planned for 2020).

The biggest challenge for local lenders (tasked with financing these projects) lies in their inability to raise long-term funds, due to the nature of the deposit base of commercial banks. Most banks still rely on retail and wholesale deposits to support up to 80.4 percent of bank lending. Such deposits support very short-term operations, with less than 15 percent available to issue credit. In addition to a marginal portion of retail deposits that are stretched to create long-term assets, banks continue to rely heavily on pension funds available on a one-year recurrent basis. Existing pension sector regulations still restrict the use of pension assets for long-term credit by banks.[14]

Recent innovations in the financial sector have increased access levels to financial services. Financial sector deepening initiatives in Uganda, including Agent Banking and mobile-based payments, have been aligned to support the changing demography, technology, and attitudes in the country. Uganda has a youthful population with 47.9 percent between 0-14 years of age, 49.2 percent between 15 – 64 years, and 2.9 percent above 65 years. Furthermore, approximately 75 percent of the population reside in rural areas, with limited access to financial services, while only 25 percent of the population resides in urban areas. Based on this market information, financial services providers have introduced a wave of digital financial services aimed at improving proximity and bringing harder-to-reach clients into the formal financial space at relatively lower costs. These innovations include agent banking, mobile money and electronic payments. Most banks are now accessible through mobile phones and local bank agents. Bank of Uganda released new Agent Banking Regulations in July 2017, paving way for the appointment by banks of agents for the conduct of financial institution business on behalf of the appointing bank. Currently, most banks are rolling out agents across the country to enhance access to their services, including deposits, withdrawals, balance checks, bill payments and collection of documents for account opening and loan applications.

On the regulatory front, the government has introduced amendments to the taxation law in a bid to widen and deepen the tax base. As from July 2018, mobile phone-based cash transactions, including depositing, withdrawing and sending money held a one percent tax. Additionally, excise duty on banking services has been increased from 10 percent to 15 percent. Such measures are likely to result in a slight decline in the use of the affected services and restrict access to affordable financial services.

Affordability

Although the demand for housing units is high among Uganda's middle class with aggregate monthly household incomes ranging between US$400 (USh1 553 600) to US$1 000 (USh 3 884 000), effective demand is perceived to be modest, because of the low levels of regular verifiable income as evidenced by adequate income documentation. The situation has been further exacerbated by an increase in the prices of building materials. The limited capacity of cement manufacturers to boost production levels in response to demand has affected housing affordability in the early part of 2018. In March and April 2018, cement prices increased by over 79 percent from an average of USh28 000 to more than USh50 000 for a 50kg bag. This was attributed to increased demand from infrastructure developments, including road construction and the Karuma hydroelectric power plant construction. This price movement greatly reduced individual households' capacity to continue with construction projects already started and called for additional loan financing for houses that were being constructed on relatively fixed approved amounts.

To reduce these pressures, Hima Cement is expected to start production on its US$40m plant within the second half of 2018. The new plant, which has a capacity of approximately 800 metric tonnes, could help to bring down prices as well as stabilise supply in the market. Additionally, three new cement plants are expected to open this year in Tororo, including Hima Cement, Tororo Cement (a new 1.8 million metric tonnes plant) and Simba Cement. The three are projected to increase cement production to 6.8 million metric tonnes a year, almost double the current 3.6 metric tonnes. With local demand currently at 2.4 million metric tonnes a year, the likely oversupply is expected to drive down the cost of cement.[15] Other construction materials such as sand, stones, bricks and tiles have increased by approximately 15 percent on account of high inflation in fuel costs which was 10.3 percent for May 2018 and 15.1 percent for June 2018. The result has been a noted deterioration of housing affordability among the low and middle-income segments of the population.

On the demand side, a notable decline in interest rates to an average of 17.5 percent and persistent decline in inflation to 3.4 percent,[16] down from 5.7 percent a year ago, have combined to raise households' disposable income, thereby boosting affordability.

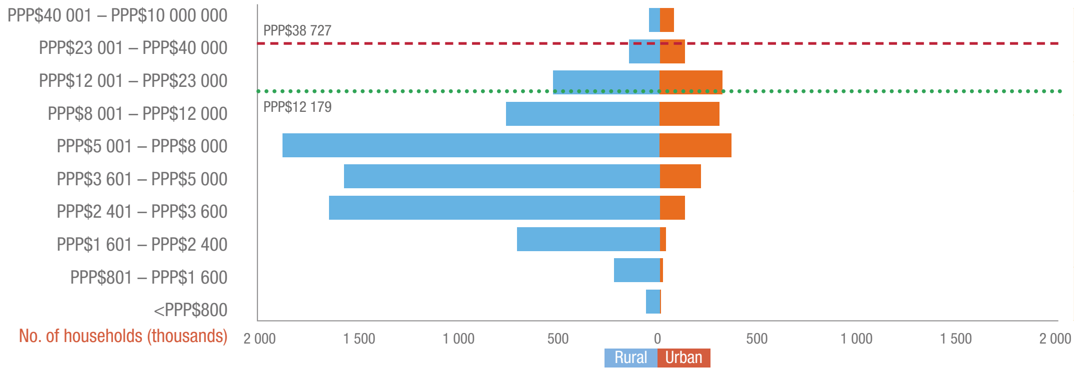
Of course, these developments do not address the housing affordability of the most poor, nor of the growing refugee population in Kampala and other city centres. Recent research[17] has found that the majority of refugee households rent their housing, and that this housing is generally of poor quality with poor access to services. Even so, about a third of those surveyed also reported that housing constituted their largest expense.

Housing supply

Uganda's current housing stock is estimated at about 8 021 000 housing units with an average household size of 4.7 persons for the 37.7 million residents.[18] A minority of urban Ugandans own however: an estimated 71 percent of households

UGANDA

Annual income profile for rural and urban households based on consumption (PPP$)



Population:	42 862 958
Urbanisation rate:	5.50%
Cost of cheapest newly built house:	76 000 000 UGX PPP$66 463
Urban households that could afford this house with finance:	4.42%
1 PPP$:	1 143.5 Ugandan shilling

- - - Average annual household income needed for the cheapest newly built house by a formal developer, 2017
•••• Average annual household income using expenditure, 2017 (PPP$)

Source https://www.cgidd.com/

in Kampala, rent their dwellings.[19] Nationally, just over one fifth of all households rent. Even within formal housing, access to services is a serious issue. Less than 60 percent of urban renter households have access to electricity; less than 30 percent have piped water in their dwellings or on site; and only 8 percent say that they have a flush toilet.[20]

The private sector provides most of the formal housing supply. Several private developers including Jomayi Property Consultants, Canaan Sites, Hossana, Heritage Sites, Sema Properties and Zion Construction do purchase large chunks of land and partition it into small affordable plots measuring approximately an eighth of an acre.

The National Housing and Construction Company (NHCC) has dominated the housing landscape in Uganda for over four decades. They are still the largest developer in terms of housing units. Prior to the incorporation of the mid-sized developers (Comfort Homes, Universal, et al), NHCC was delivering mid-value homes at about US$100 000. These were typically standard size three bedroom bungalows and flats, with significantly spacious balconies and vehicle parking spaces.

New developers have are now redefining the affordable housing concept, however, with their introduction of one bedroom apartments which optimise free space. A one-bedroom house can go for between USh 47 million (US$12 000) and USh 85 million (US$22 000). Two-bedroom and three-bedroom units are being offered for USh 150 million (US$39 000) and USh 200 million (US$51 000) respectively. Small-scale developers build between two and 10 housing units ranging from two to three bedrooms and sell them off to individual buyers. New properties are then developed with the proceeds of the sales and sold as the business cycle continues. In total, however, scale is still low (under 150 units) and does not compare well with the relatively large-sized NHCC units so far delivered. This leaves NHCC in the driving seat in terms of scale of delivery, but lagging behind in its definition of and approach to affordability.

High demand is putting pressure on prices, however: Universal Multipurpose Enterprises, a mid-sized property development company launched its first one-bedroom apartment project at an offer price of USh70 million per unit in 2017. The price for the second project apartments is now in 2018 at USh86 million per unit.

Uganda has launched significant initiatives to reduce the housing deficit. The initiatives aim to bring together key stakeholders to increase supply of affordable housing units. The Uganda Housing Finance Conference championed by Housing Finance Bank – the biggest mortgage bank in the country – is one such initiative that brings together policy-makers, government ministries, housing funders, developers, real estate dealers, architects, think-tanks and research institutions. The annual conference runs under different themes all aimed at forging and enhancing synergies amongst stakeholders.

Property markets

The conventional, high-end property market in Uganda has been slow, with few large-scale projects over the 2017/2018 period. A limited number of new housing projects have been delivered to the market place on account of subdued demand for high-end units and higher than average cost of building. Although interest rates have significantly declined since 2017, property developers have remained cautious. With the observed success in the lower-middle income segment, more developers are likely to turn their attention to one or two-bedroom condominium units rather than the traditional family oriented three to four-bedroom units.

The secondary housing market has, however, been active with a few transactions being concluded. A significant portion of these houses has been acquired through mortgage arrangements with banks, due to the lower interest-rate regime. Additionally, a few housing units have been built incrementally with support from housing microfinance programmes.

The regulatory environment for property markets is quite liberal and supportive of land and property transactions. Many properties are traded under the traditional freehold title ownership system where property is held in perpetuity. Some transactions, largely in urban areas, are traded under lease arrangements with renewals set at 49 or 99 years. For most untitled land, simple sales agreements are concluded. These, however, do not guarantee true ownership and may be challenged, making such agreements unpalatable to banks as collateral.

Challenging relationships between landlords and tenants have accentuated the need for property management companies, as property investors seek solutions to maximize returns on their investments. In light of this, Knight Frank – a property management company – has grown to manage 160 815 m^2 of commercial and 32 516 m^2 of residential assets. Other big names in this market segment include Crane Management Services, Premier Property Management, Averts Housing Limited and Bageine Limited.

Despite the country's economic challenges, property markets are fast developing in towns adjacent to Kampala City. This is largely because of the construction of large infrastructure projects to catalyse industrial development and economic growth. Most notable, was the construction of several roads in Mukono (15km from Kampala City), Wakiso (20km from Kampala City) and Mpigi (30km from Kampala City). The improved road network in these towns has spurred development of several housing projects,[21] targeting low, middle and high income earners.

Policy and regulation

Transactions in Uganda's real estate industry are governed by the Land Act (1998) and the National Land Policy (2015). However, several issues have been excluded from the regulation and policy. Such omissions include guidance on transactions between the landlord and tenant. It is against this background that government drafted the Landlord and Tenant Bill in 2016. To many industry stakeholders, the bill is seen as an attempt to protect tenants, saving them from arbitrary rent and utility increments by landlords of both commercial and residential premises. The Bill is still under discussion with a wide range of stakeholders.

Opportunities

General interest rates have continued to decline over the past two years leading to a drop in housing loan rates from an average of over 22 percent to approximately 17.5 percent, indicating, in part, availability of mortgage finance for eligible borrowers. Most borrowers with bank and microfinance housing loans are individuals and companies with regular, verifiable income. On the whole, these borrowers constitute less than 38 percent of the working population. There is therefore a need to develop more inclusive housing finance products for prospective borrowers in the informal sector, as well as to develop mechanisms within the mortgage product for underwriting informal incomes.

Additionally, developers are constrained by the inadequacy of appropriately structured project finance for the sector. Lenders in the sector structure developer loans in such a way that repayments for the facilities must be made monthly. This is well aligned to the financial institutions' own funding obligations which may be monthly, quarterly or bi-annually. However, because developers derive their repayment funds from the sale of housing units, which may not be regular, defaults begin to emerge, as a result not of market failures but rather structuring deficiencies. Developer finance must be appropriately structured and tagged to the sale of the funded units rather than tagged to the expiry of the time period. With relative success in the single-bedroom housing units' segment, new developers are likely to turn their focus on this market for future projects.

On the regulatory front, the country is still waiting for enabling regulations to support the creation of pension-backed mortgages. The Uganda Retirement Benefits Regulatory Act-2011, provides for the creation of such mortgages for the benefit of pension-contributing members. However, the pension regulator has not yet released the governing regulations that would enable actual transactions between lenders and such members.

Overall, improvements in public infrastructure, the completion of new hydroelectric power dams in Karuma, and the production of more cement will most likely combine to increase reach for greenfield housing projects on affordable terms. To complement these developments, lenders will need to structure affordable facilities in their product catalogues to maximise the latent demand for affordable housing.

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21 These housing projects are delivered by individuals. A project comprises one or two blocks of 10 to 15 2-bedroom flats.