MYRTLE
CONCEPTS & PROPERTIES LTD

MYRTLE REAL ESTATE

PROPERTY MARKET REPORT

Issue V - Feb 2024

Cottages (9 self contained units) for sale in Mukono at UGX 500M

OUR CORE BUSINESS

Consultancy in Research & Investment Analysis

We provide up-to-date market based real estate information and advise clients on the best viable options to facilitate decisions in the life cycle of real estate projects.

We provide investment and feasibility analysis, lifecycle costing and creative market-oriented design support.

Real Estate Advisory Services

We have a collaborative team that handles legal services for property related matters and can provide support at the purchase and sale of property.

We also provide services for the sub-division of land for sale in organized estates.

Agency & Leasing Services

As agents, we work to facilitate the buyer and seller in the process of property acquisition and disposal. Our work is to find the buyer and connect them to the seller.

Property & Facilities Management

To provide services to manage the property business financially and technically. Our team focuses on creating systems to make the collection of all dues easy for the landlord to track his investment. We provide support in the taxation and management of council and municipal dues.

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LIST OF ACRONYMS

AGM	Annual General Meeting
BoU	Bank of Uganda
BTI	Business Tendency Indicator
CBR	Central Bank Rate
CIEA	Composite Index of Economic Activity
D-REIT	Development & Construction REIT
FY	Financial Year
GDP	Gross Domestic Product
I-REIT	Income REIT
JT	Joint Tenancy
JV	Joint Venture
LLC	Limited Liability Company
LLP	Limited Liability Partnership
PMI	Purchasing Managers' Index
REITs	Real Estate Investment Trusts
TIC	Tenancy/Tenant in Common
UGX/Shs	Uganda Shilling
USD	United States Dollar

DEFINITION OF TERMS

Beneficiary	The beneficiary, either an individual or a charitable organization, is the designated recipient of the trust's benefits, outlined in the trust document.
Closed ended REIT	A closed-ended REIT issues fixed shares through an initial public offering, with a predetermined capital structure, limiting direct redemption with the sponsor or fund manager.
Core Inflation	A measure of inflation that excludes certain items that are considered to be volatile and can distort the overall trend.
Equity REIT	An equity REIT invests in income-producing real estate properties, generating income through tenant leasing and distributing a significant portion to shareholders through dividends.
Exchange Rate	The value of one currency expressed in terms of another currency.
Fiscal policy	The use of government spending and taxation to influence the economy.
Headline Inflation	Headline inflation refers to the overall inflation rate, including all goods and services in the Consumer Price Index (CPI) basket.
Hybrid REIT	A Hybrid Real Estate Investment Trust (REIT) is an investment strategy that combines elements of both equity and mortgage REITs, thereby diversifying investments.
Investment Portfolio	A collection of financial assets owned by an individual, institution, or investment fund.
Lending Rate	The rate of interest charged by a financial institution for lending money.
Monetary Policy	Set of actions to control a nation's overall money supply and achieve economic growth
Mortgage REIT	A Mortgage Real Estate Investment Trust (REIT) invests in residential or commercial mortgages, generating income through originating, purchasing, or investing in mortgage loans or securities.

Open-ended REIT	An open-ended Real Estate Investment Trust (REIT) is a type of REIT that allows for the continuous issuance and redemption of its shares to investors.
Property Market	State of all the transactions (buying, selling and transferring) and the activities (e.g property development) which relate to real estate, whether in the residential, rental, retail, commercial, industrial or other sectors.
REITs	A Real Estate Investment Trust (REIT) is a company that owns, operates, or finances income-generating real estate across various sectors like residential, commercial, retail, or industrial properties.
Trust	A trust is a legal arrangement in which one party, known as the trustor or settlor, transfers property or assets to another party, known as the trustee, for the benefit of a third party, known as the beneficiary.
Trustee	A person or entity manages trust assets and administers the trust, fulfilling their fiduciary duty to act in the best interest of beneficiaries, prudently and in accordance with the trust document and applicable laws.
Trustor/Settlor	An individual who creates the trust. He/she transfers ownership of assets, such as cash, real estate, stocks, or other investments, into the trust.

01. INTRODUCTION

The real estate industry is thriving and picking up momentum. The market is experiencing a robust resurgence, with increased demand and a flurry of activity.

New developments are emerging, and the overall outlook is optimistic, reflecting a resilient industry that adapts and evolves. The upswing in the real estate market can be seen as a positive sign of economic recovery, providing hope for homeowners, investors, and industry professionals alike. The residential real estate market remains dominant, boasting an estimated market value of USD 305.9 Billion in 2023.

This substantial figure presents a staggering contrast when compared to the commercial real estate market, which is valued at USD 32.73 Billion.

02. ECONOMIC OUTLOOK

The economic activity and business conditions have shown consistent improvement, with indicators like Purchasing Managers' Index (PMI), Business Tendency Index (BTI) and specifically Composite Index of Economic Activity (CIEA) rising by 0.65%, indicating a sustained positive trend.

The Ugandan private sector's Purchasing Managers' Index (PMI) increased from 52.4 in October 2023 to 53.4 points in November 2023, indicating a continuous improvement in business conditions. This increase is partly due to a surge in customer numbers, leading to increased output and new orders, and increased hiring across four sectors.

Economic Activity (CIEA)

Source: BOU

The Ugandan private sector's Purchasing Managers' Index (PMI) increased from 52.4 in October 2023 to 53.4 points in November 2023, indicating a continuous improvement in business conditions. This increase is partly due to a surge in customer numbers, leading to increased output and new orders, and increased hiring across four sectors.

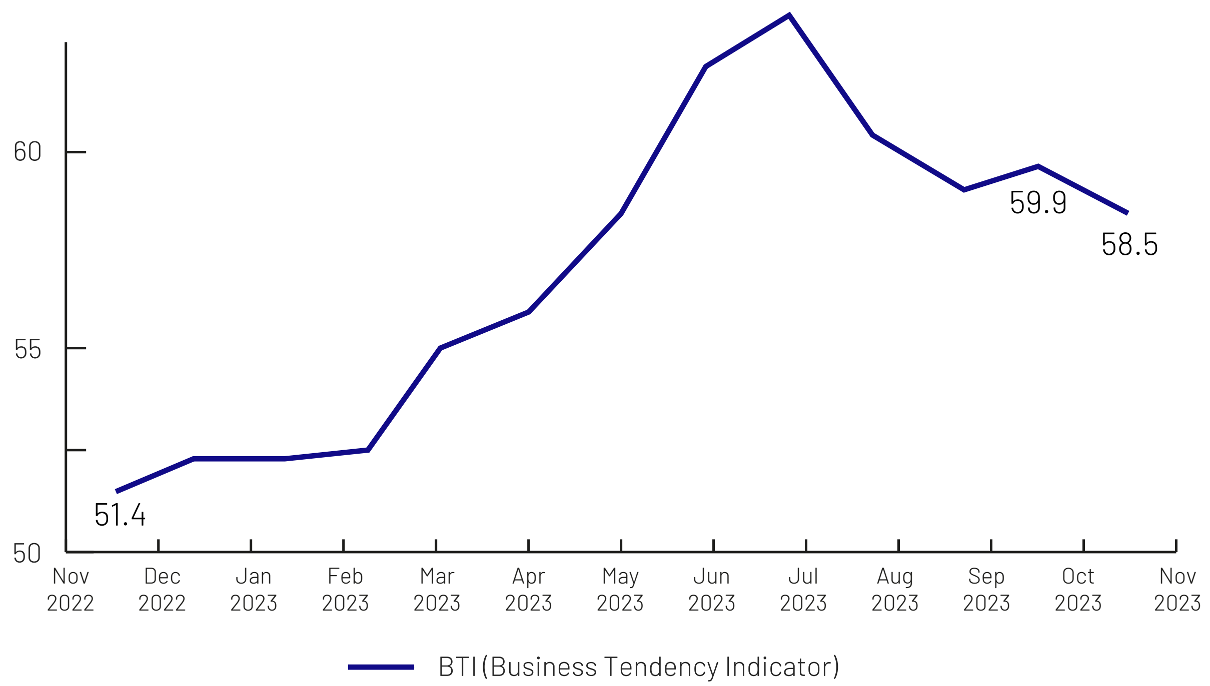
Economic Activity (PMI)
(Source: Stanbic Bank Uganda)

Economic Activity (PMI)

Source: Stanbic Bank Uganda

Uganda faces challenges in sustaining economic growth and reducing poverty due to increased shocks and less policy reform momentum, necessitating structural transformation and productive employment (world Bank).

Economic Perceptions (BTI)



Source: BOU

GDP GROWTH

In the fiscal year 2023, Uganda's economy demonstrated a robust recovery, witnessing a GDP growth of 5.3%, an improvement from the 4.7% recorded in 2022. This upturn was primarily driven by resilient expansion in the agriculture, industry, and services sectors.
Inflation declined due to lower international commodity prices, ample rain, a stable exchange rate, and tight fiscal and monetary policies.

Economic growth was bolstered by tourism recovery, export diversification, Agro-industrialization, and oil and sector investments, leading to increased household real incomes and thus increasing consumer spending on property.

According to the 2024/25 Budget Framework Paper, the report reveals a GDP expansion from $45.6b in 2022/23 to $49.5b in the same fiscal year. The projected economic growth for FY2023/24 is 6%, with a medium-term increase to between 6% and 7% (BOU)

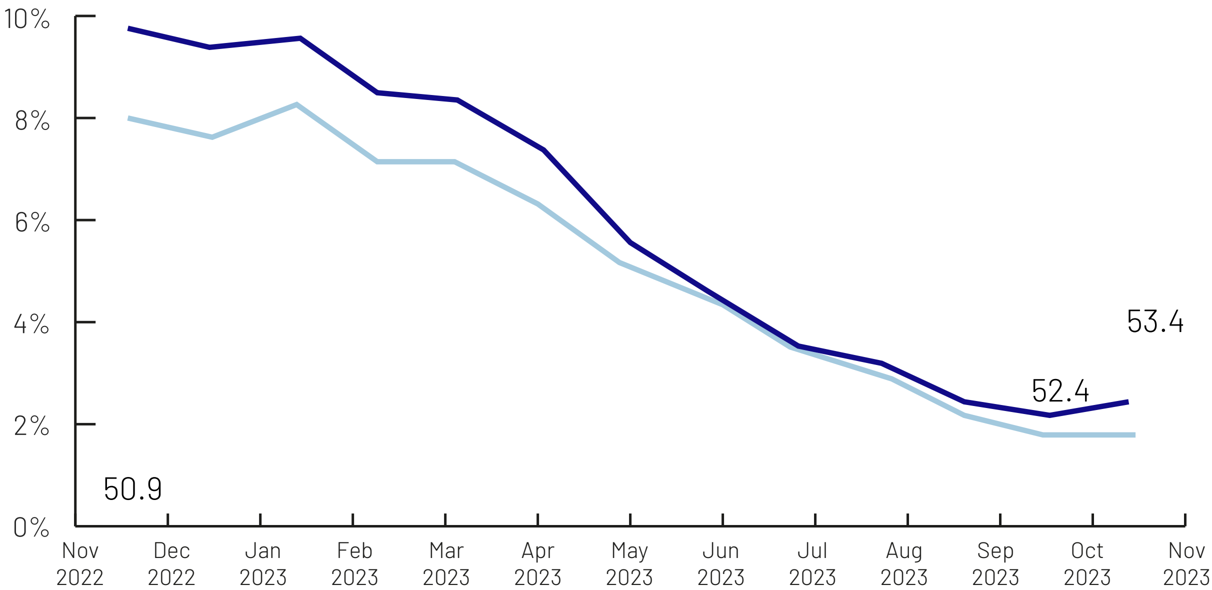
INFLATION

2023, citing moderate inflation, good crop harvests, and declining global inflation. However, headline inflation slightly increased.

Inflation is expected to remain below 5% in the near term and return to target in the medium term, with core inflation expected to average 2.5%-3.5% in FY2023/24.

Condominium Houses for Sale each at $170K

Inflation (Headline & Core)



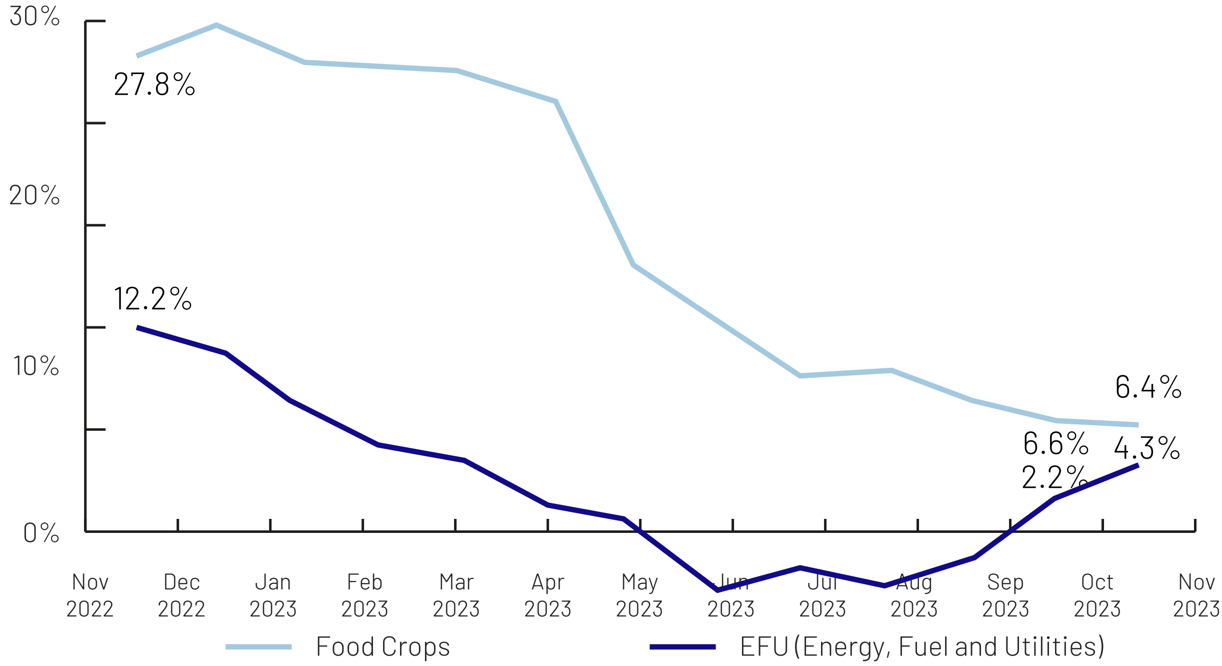
Source: UBoS

In November 2023, the annual inflation for food crops and related items decreased to 6.4% from 6.6% in October 2023.

Inflation (Food & EFU)
Source: (UBoS)

3 bedroom house in Namugongo at UGX 240M

Inflation (Food & EFU)



Source: UBoS

Annual Energy, Fuel, and Utilities inflation increased to 4.3% in November 2023, primarily due to increased prices for Kerosene, firewood, and charcoal due to policy suspension.

Stand alone house for sale in Jomayi Estate - Kulambiro at UGX 400M

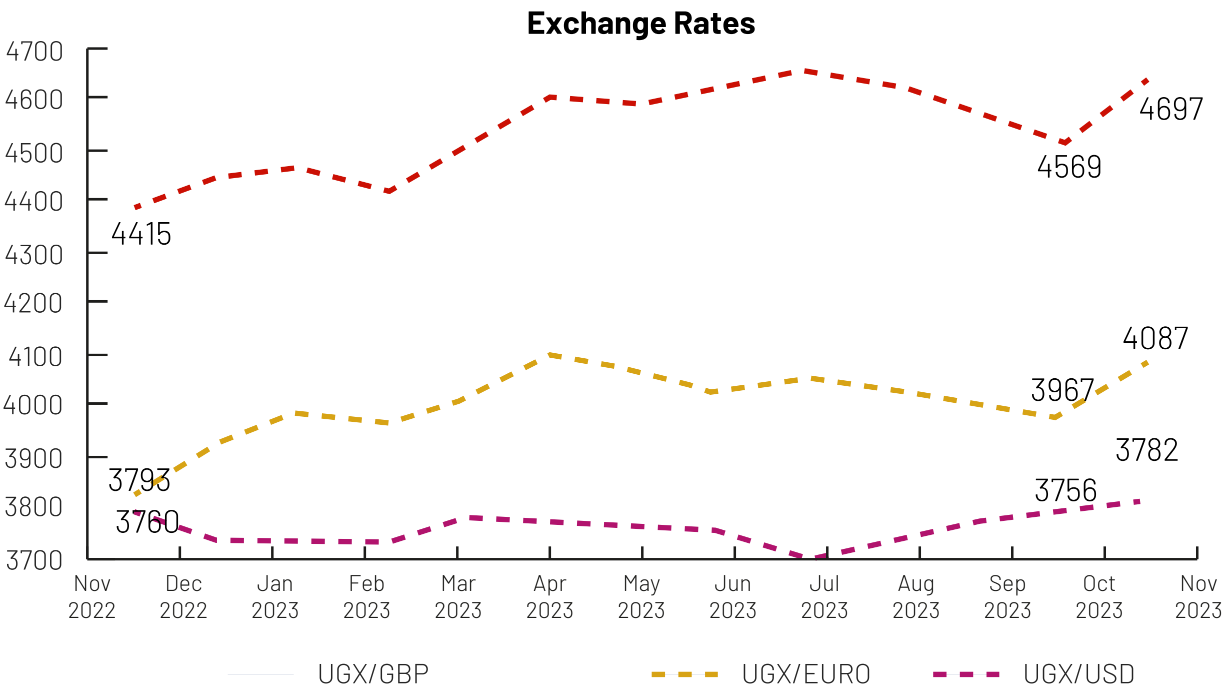
03. MONEY MARKETS

Money Supply M2 in Uganda reached an all-time high of 29327.70 UGX Billion in November 2023, a record low of 138.70 UGX Billion in June 1991.

In the Construction sector, the GDP derived rose to 2226.50 UGX Billion in the third quarter of 2023, marking an increase from 2197.65 UGX Billion in the previous quarter. Over the period from 2008 to 2023, the average GDP from construction stood at 1437.50 UGX Billion (UBoS).

EXCHANGE RATES

The Uganda Shilling depreciated 0.7% against the US Dollar in November, driven by strong corporate demand. It also depreciated 2.8% against the Pound Sterling and 3.0% against the Euro.



Source: UBoS

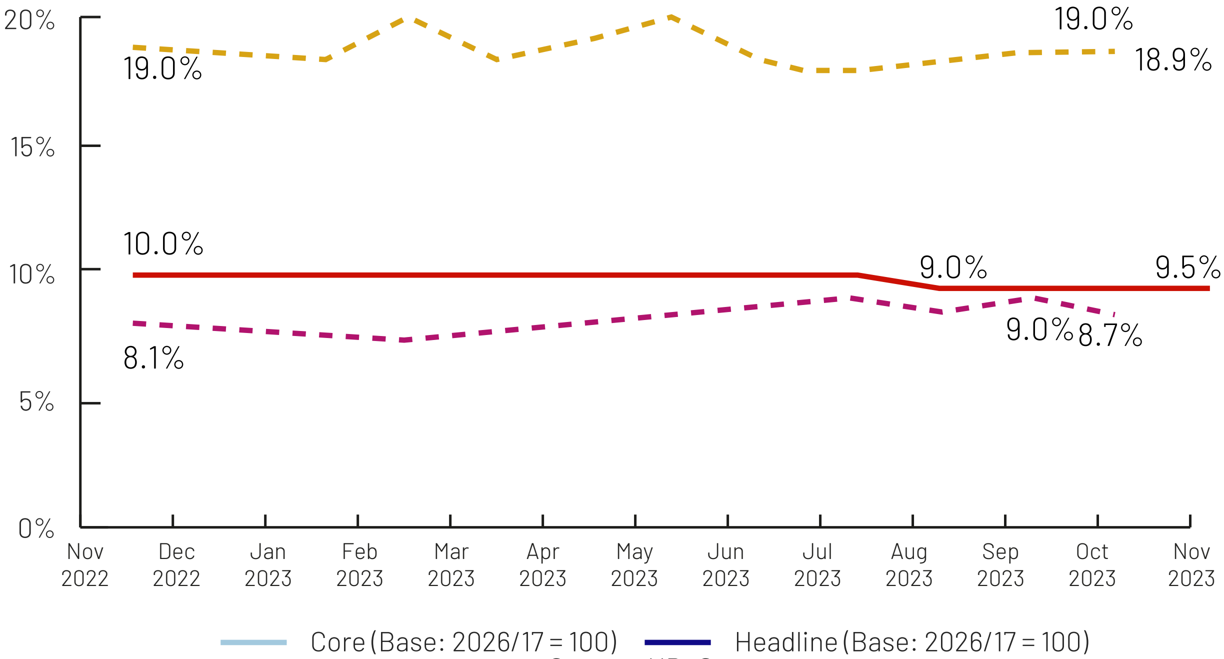
INTEREST RATES

In November 2023, the CBR remained unchanged at 9.5%, aiming to maintain inflation below 5% and promote economic stability through saving, investment, growth, competitiveness, and socio-economic transformation.

LENDING RATES

Commercial banks' lending rates slightly decreased to 18.9% in September 2023, reflecting inflation reduction, and foreign currency denominated rates decreased from 9.0% to 8.7% in October 2023.

Interest & Lending Rates

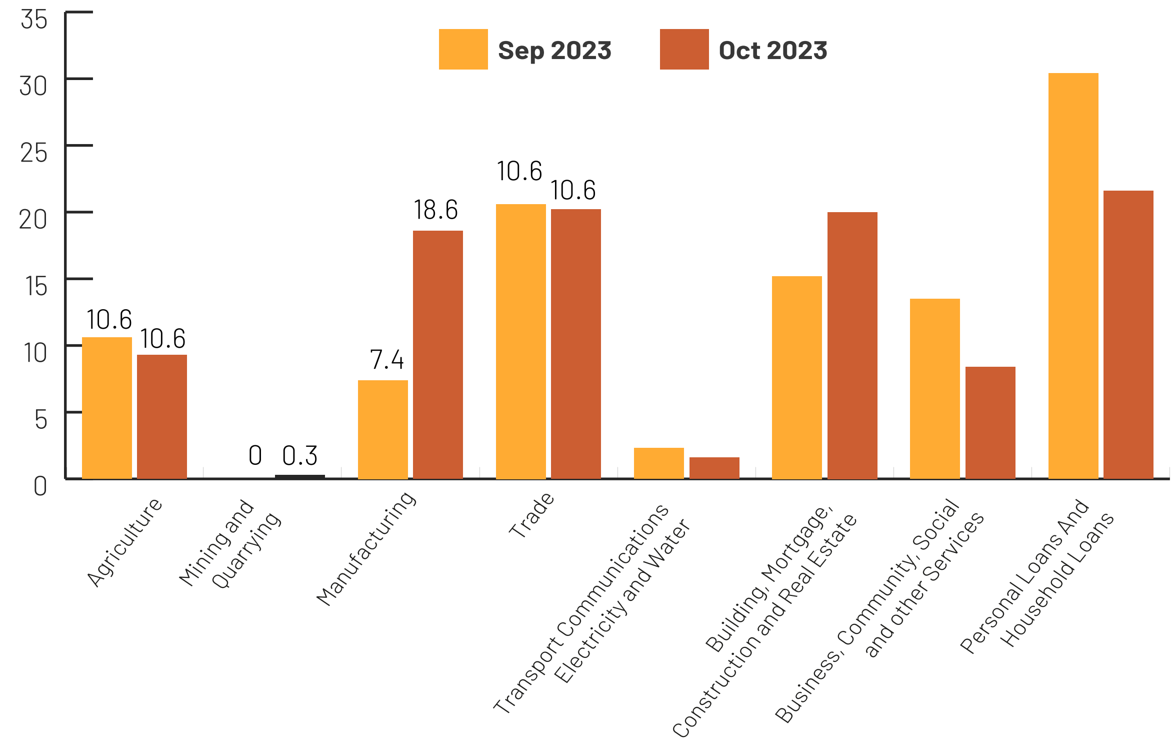


Source: UBoS

The credit approved in October 2023 increased from Ushs 1094.2 billion to Ushs 1384.5 billion due to economic activity improvement. Loan approval rates also improved, with personal and household loans dominating at 21.6%. The manufacturing sector's share also increased significantly, from 7.3% in September to 18.6% in October 2023.

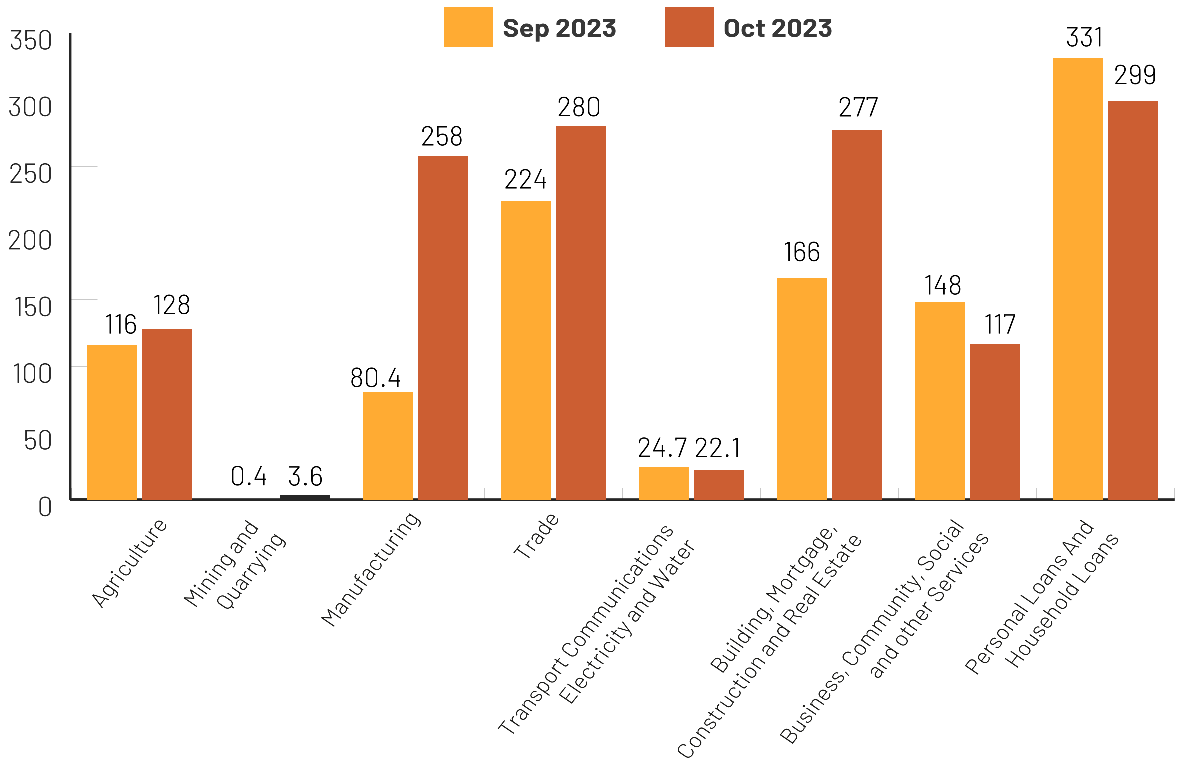
New Credit Extensions Approved (UShs Billion) Source: (UBoS)

New Credit Extensions Approved (UShs Billion)



Source: UBoS

New Credit Extensions Approved – Sectoral Share



Source: UBoS

7.6 acres in Namasuba - Entebbe at $11M

04. KAMPALA'S PROPERTY MARKET PERFORMANCE.

The market performance analysis for 2023 indicates a strengthening in economic activity, leading to an increase in the occupancy of commercial, residential, and industrial spaces.

The prime residential market in Kololo, Nakasero, and Naguru experienced a 6% growth from June-December 2023, driven by newly completed units offering larger living spaces and better amenities. This growth is attributed to expatriate staff seeking community living and landlords disappointed with actual demand falling short of projected levels.

Prime suburbs like Muyenga, Buziga, and Munyonyo are experiencing increased construction activity.

Greater Kampala's secondary suburbs saw sustained demand for middle-income homes, leading to increased multi-storey construction and integration of residential and commercial elements. Additionally, the report indicates a 14% increase in prime residential pipeline activity in Nakasero, Kololo, and Naguru over the next two years.
In H2 2023, demand for condominium apartments in 10-12km radius from the city centre was high.

Demand for grade A prime office space increased by 10% YoY to Ugx 6300 ($16.5) per square meter and by 12%YoY to Ugx 5700($15) per square meter for Grade AB, while vacancy rates reduced by 1%, compared to H2 2022.

The report also established 47% of tenants inquired for office space under 200m2, with demand for larger spaces decreasing due to reduced foreign direct investments and oil and gas sector demand.

The average selling and letting period in grade A offices in prime locations like Nakasero, Kololo, and Naguru is 3-6 months, whereas less prime areas have longer letting periods.

In H2 2023, the commercial sector experienced growth, with turnover increasing by 14% due to promotions like black Friday and festive season sales.

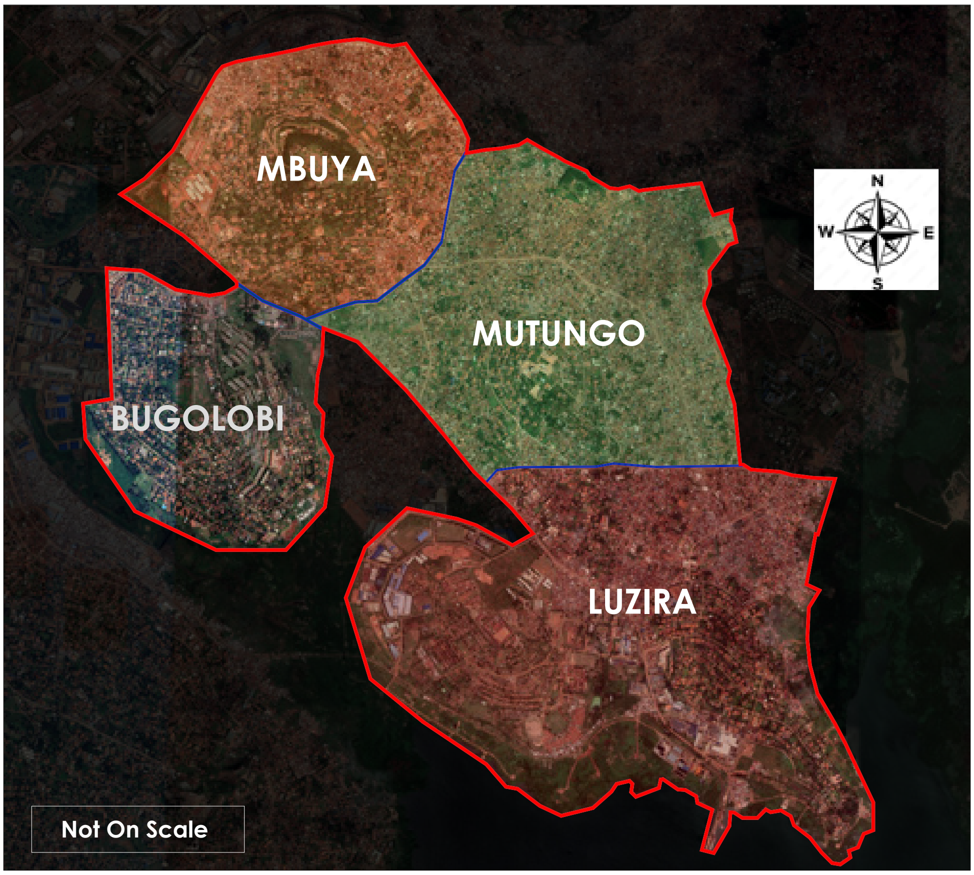
On the other hand, under manufacturing sector, rental rates for warehouse space remained stable in H2 2023, with highest demand for 300-1000m2 spaces. While demand for larger spaces declined, because Industrial players are opting to buy their own premises for operational control, long-term growth plans, and capital availability.

Overview of the property market in Mutungo, Bugolobi, Mbuya, and Luzira.

The burgeoning growth of the property market in Mutungo, Mbuya, Bugolobi, and Luzira is attributed to a confluence of factors that collectively contribute to their desirability and economic viability. Their strategic locations play a pivotal role in driving the real estate market; the close proximity to key urban centers (such as Kampala Central Business District, Nakawa and the like) provide residents with convenient access to employment opportunities, commercial districts, and essential services such as education among others. The geographical advantage of these neighborhoods enhances their attractiveness to both homebuyers and property investors.
Support services in these areas, such as efficient public transportation (that is affordable), wide roads, and other essential utilities like electricity and water enhance their appeal, thus providing convenience for residents and businesses, thereby promoting real estate growth.

Additionally, factors such as security, community development initiatives (i.e health campaigns, government Infrastructural projects and a conducive regulatory environment also help in shaping the positive trajectory of the property market. The assurance of safety and community well-being fosters a sense of belonging, attracting potential investors and residents alike.

The report offers a comprehensive understanding of the real estate dynamics in these areas, to provide a nuanced perspective for various stakeholders, offering insights that can shape strategic decisions and contribute to sustainable development.



A. MUTUNGO

Mutungo is a rapidly developing residential area near Biina and Kitintale, characterized by posh houses. Mutungo hill's summit offers a stunning view of Lake Victoria to the south, Mandela Sports Stadium-Namboole in the North, Luzira, Bugolobi, and Kitintale trading center to the East.

Mutungo has experienced rapid growth in the last decade, emerging as a middle-class residential area with luxurious houses mushrooming.

The residential real estate landscape in Mutungo is characterized by variations in house size, design, and cost as one descends from the hill. The residential nature of the area is predominant, with housing options ranging from spacious and luxurious dwellings at higher elevations to more affordable and varied structures as one descends down the hill. This gradient of housing types not only reflects the topographical layout but also serves as an indicator of the varied economic statuses or levels of the residents in the area. Findings reveal that factors contributing to the upswing in real estate activities in Mutungo are multifaceted, encompassing crucial elements that enhance both the quality of life and the appeal of the neighborhood.

Security is a key driver, with the area being recognized for its relatively low crime rates, providing residents with a sense of safety and well-being. The robust affordable transportation network ensures convenient connectivity, making Mutungo an attractive location for those seeking accessibility to commercial centers and urban amenities.

The high occupancy rate in Mutungo compared to the vacancy rate underscores the strong demand for housing in the area. This demand is fuelled by the positive living conditions, security measures, and well-developed social services. Meanwhile, the educational and healthcare facilities are highly rated, ensuring residents have access to top-notch services, albeit at a higher cost. However, Mutungo has insufficient social infrastructure. Issues such as inadequate street lighting, drainage channels, and limited recreational spaces pose challenges to the overall livability of the area. The absence of sufficient secondary and tertiary education options and the need for improved road maintenance highlight areas that require attention for investment as well as sustained community development.

Apartment Rental Rates in Mutungo

Apartment Rental Rates		
Size	**Furnished (UGX)**	**Unfurnished (UGX)**
Single room	-	150,000 - 650,000
1 Bedroom	2M	350,000 - 1M
2 Bedroom	2.5 - 3M	800,000 - 2M
3 Bedroom	3.5 - 5M	1.5 - 3M
4 Bedroom	4 - 9.5M	3 - 4.5M
Bungalow	5 - 11.5M	1.5 - 4.5M

Source: Myrtle Concepts and Properties Ltd

Commercial Rental Rates	
Size (flat)	**Rate ($) per square**
Ground floor	20.00
1st floor	15.00
2nd floor	10.00
3rd floor	5.00

Source: Myrtle Concepts and Properties Ltd

Property Selling Rates

Condominium Apartments	
Size	**Rates (UGX)**
2 Bedroom	180 - 250 Million
3 Bedroom	280 - 800 Million
4 Bedroom	500M - 1.2 Billion
Bungalows	500M - 4 Billion

Land Selling Rates	
Size/Description	**Rates (USD)**
Residential	
1 decimal	8,000.00-10,000.00
Commercial	
1 decimal	12,000.00

The real estate landscape in Mutungo is characterized by a dynamic and ever-evolving nature. This dynamism is evident in the continuous changes and adaptations within the local property market;
Apartment prices both for sale and rent in Mutungo vary based on location, aesthetics and visual appeal of an apartment, size and space, level of furnishings and fixtures provided in an apartment, with higher rates in elevated terrains and moderate rates in lower-lying areas catering to diverse residents' preferences and financial considerations.

Prospective buyers and tenants can choose apartments based on their individual preferences; scenic location, architectural aesthetics, spaciousness, or the level of furnishings. The nuanced pricing structure accounts for the various features and characteristics that contribute to the overall desirability and livability of apartments in Mutungo.

In the commercial sector, the report shows focus on premium spaces whereas the local commercial spaces are rented based on the size and location. where, prices range from UGX 250,000 to UGX1.5Million and above.
However, the rates for renting land in Mutungo are determined through negotiations between the landowner and the tenant. The report indicates that there are no established fixed land rental rates in Mutungo.

Land pricing in Mtutngo is based on decimals which determines the overall parcel size desired by the buyer. Besides, the hillside land comes with a title and downside land lacks one hence affecting transaction value and nature.

Mutungo Lower

B. BUGOLOBI

Bugolobi is a suburban neighborhood in Kampala, well developed area with valuable properties.

Bugolobi's real estate landscape reflects a diverse and dynamic environment, with upscale commercial real estate catering to various preferences and needs of expatriates and the natives. The commercial sector includes different grades of properties, from modern office complexes to high-end retail spaces, providing a conducive environment for diverse enterprises.

Turning on the residential sector, as one ascends Bugolobi hill, larger homes become more prominent, reflecting a tiered hierarchy of residences. The elevation gradient influences the grandeosity of homes, creating a dynamic residential environment where residents can choose from a spectrum of housing options based on their preferences and lifestyle.

The influx of expatriates has increased demand for office and residential spaces, resulting in slight changes in property values for example, Old office spaces are rented between $1,500.00 -2,000.00, while new ones are between $2,500.00 – 4,000.00. New developments in the neighborhood on the contrary, may absorb the current demand. The occupancy rates for both residential and commercial spaces are high due to this surge.

Bugolobi faces challenges such as inadequate road infrastructure, high living costs, social stratification, and limited public transport accessibility. These issues can be strategic for investment and development, as addressing road infrastructure, improving public transportation, and reducing living costs can contribute to community development and foster inclusiveness.
Apartment rental rates in Bugolobi

Apartment Rental Rates in Bugolobi

Apartment Rental Rates		
Size	**Furnished (USD)**	**Unfurnished (USD)**
Single room	65.00 - 185.00	-
1 Bedroom	200.00 - 300.00	400.00 - 600.00
2 Bedroom	700.00 - 900.00	1,000.00 - 1,200.00
3 Bedroom	1,200.00 - 1,500.00	1,700.00 - 2,000.00
Bungalows	1,000.00 - 3,000.00	1,500.00 - 4,000.00

Source: Myrtle Concepts and Properties Ltd

Commercial Rental Rates	
Size/Description	**Rate (USD) per Sqm**
Ground floor	25.00
1st floor	20.00
2nd	25.00
3rd	15.00
Warehouse/Showroom	5.00 -12.00

Source: Myrtle Concepts and Properties Ltd

Property Selling Rates

Condominium Apartments	
Size	**Rates (USD)**
2 Bedroom	35,000.00 - 55,000.00
3 Bedroom	60,000.00 - 100,000.00
4 Bedroom	150,000.00 - 250,000.00
Bungalows	100,000.00 - 1,500,000.00

Source: Myrtle Concepts and Properties Ltd

Land Selling Rates	
Size/Description	**Rates (USD)**
Residential	
1 decimal	10,000.00 - 12,000.00
Commercial	
1 decimal	13,000.00 - 15,000.00

Source: Myrtle Concepts and Properties Ltd

The pricing structure for both residential and commercial real estate is intricate, residential pricing is influenced by the location, size, space, appearance, furnishings, accessibility, views, and neighborhood ambiance. Larger homes with appealing aesthetics and quality furnishings command higher prices and vice versa.

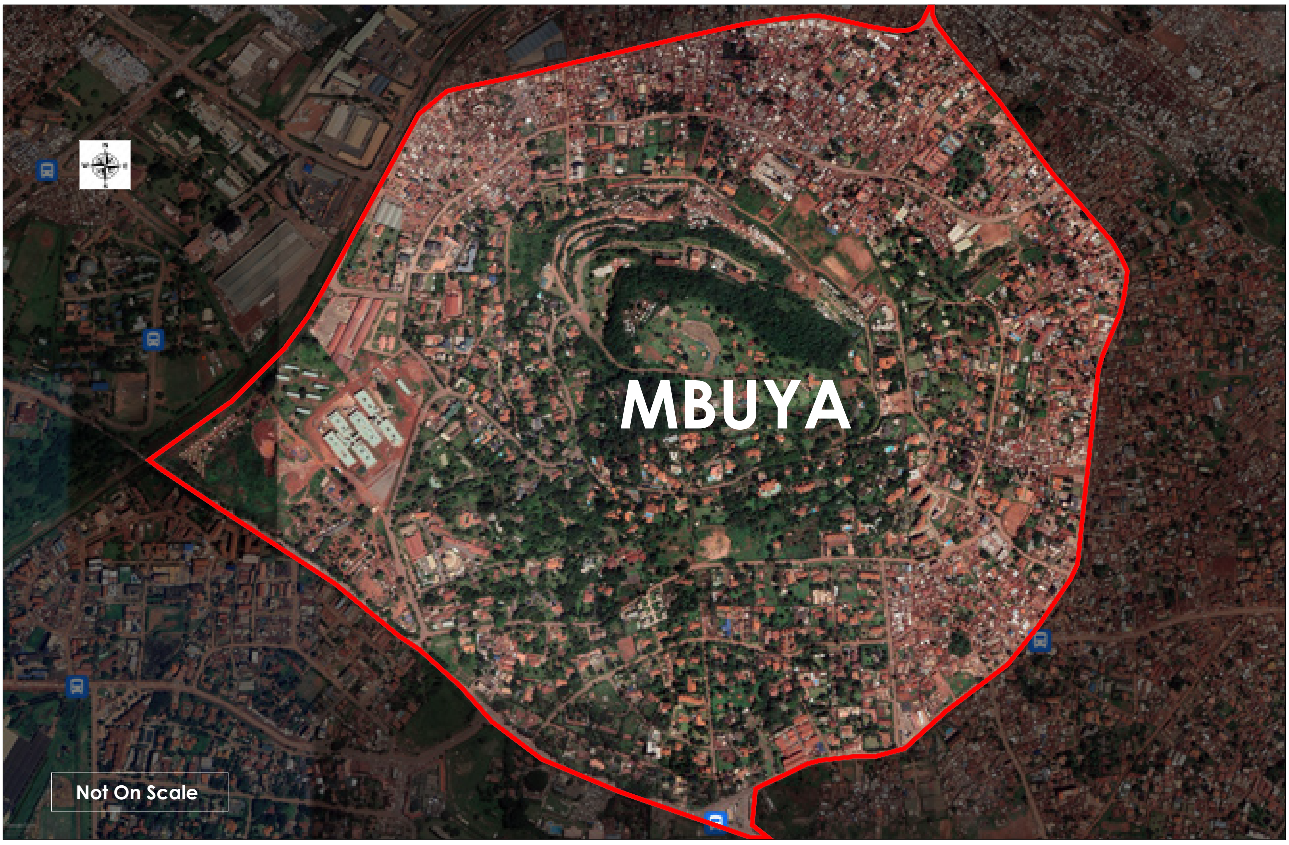
On the contrary commercial real estate pricing is shaped by the quality of the space. Commercial spaces with modern amenities, cutting-edge infrastructure, and premium features often come with higher price tags. Proximity to the central business district (CBD) is another critical factor influencing pricing, with spaces in close proximity to the CBD being priced highly due to enhanced accessibility and visibility. Additionally, the same factors affect the industrial space in Bugolobi whether renting or selling.

The influx of expatriates in Bugolobi is another factor influencing pricing dynamics, potentially increasing demand for properties.

Village Mall Bugolobi

C. MBUYA

Mbuya is an upscale residential, commercial, and administrative area with a rich history of the central region.
Mbuya is located 9 kilometers east of Kampala's central business district, bordered by Kyambogo to the north, Kinawataka and Kireka to the northeast, Luzira and Biina to the east, Mutungo to the southeast, Port Bell, Kitintale, Bugoloobi to the south.



The property landscape in Mbuya is intricately shaped by several factors that collectively influence property values, contributing to the area's dynamic and diverse housing market.
Well-developed and accessible roads enhance the overall convenience and desirability of the area, positively impacting property values. Additionally, efficient transport infrastructure often attracts property developers and investors, fostering real estate growth. Additionally, residents and businesses often prioritize locations with better security measures, and Mbuya's security profile adds to the overall attractiveness of the real estate market.

Mbuya's proximity to Kampala's CBD enhances the desirability of properties, making it an attractive location for those seeking accessibility to business, employment, and urban services.

The unique terrain has led to the development of upper and lower residential areas, with upper Mbuya offering scenic views and exclusivity, and lower Mbuya catering to a diverse range of residents, resulting in a varied real estate landscape.

The mixed economic status, encompassing high and low-income individuals, significantly influences the real estate market, resulting in varied housing demand and property transactions periodically.

Despite Mbuya's allure, faces several concerns that have discernible impacts on its property landscape. These include; poor road maintenance in lower Mbuya, limited land transactions due to land tenure system (Mailo Land), inadequate drainage channels in often result in flooding, insufficient security lighting, social segregation and activity disparities between the lower and upper sides of Mbuya impact the community's cohesion, scarcity of parking spaces, absence of top-notch commercial spaces.

However, each concern presents an opportunity for strategic investments that can contribute to the improvement of the property landscape. Addressing such issues not only enhances the overall quality of life for residents but also creates a more attractive and sustainable environment for property development and investment.

Apartment Rental Rates in Mbuya

Apartment Rental Rates		
Size	**Unfurnished (UGX)**	**Furnished (UGX)**
Single room	150,000 - 700,000	-
1 Bedroom	500,000 - 1.2 Million	1.8 - 2.5 Million
2 Bedroom	1 - 2.7 Million	2.8 - 3.5 Million
3 Bedroom	1.5 - 3 Million	3.8 - 4.5 Million
Bungalows	1.5 - 5 Million	6 - 12 Million

Source: Myrtle Concepts and Properties Ltd

Commercial Rental Rates	
Size/Description	**Rate (USD) per Sqm**
Ground floor	25.00
1st floor	20.00
2nd floor	15.00
3rd floor	10.00

Source: Myrtle Concepts and Properties Ltd

Property Selling Rates

Condominium Apartments	
Size	**Rates (USD)**
2 Bedroom	30,000.00 -50,000.00
3 Bedroom	55,000.00 -100,000.00
4 Bedroom	120,000.00 -250,000.00
Bungalows	100,000.00 -1,500,000.00

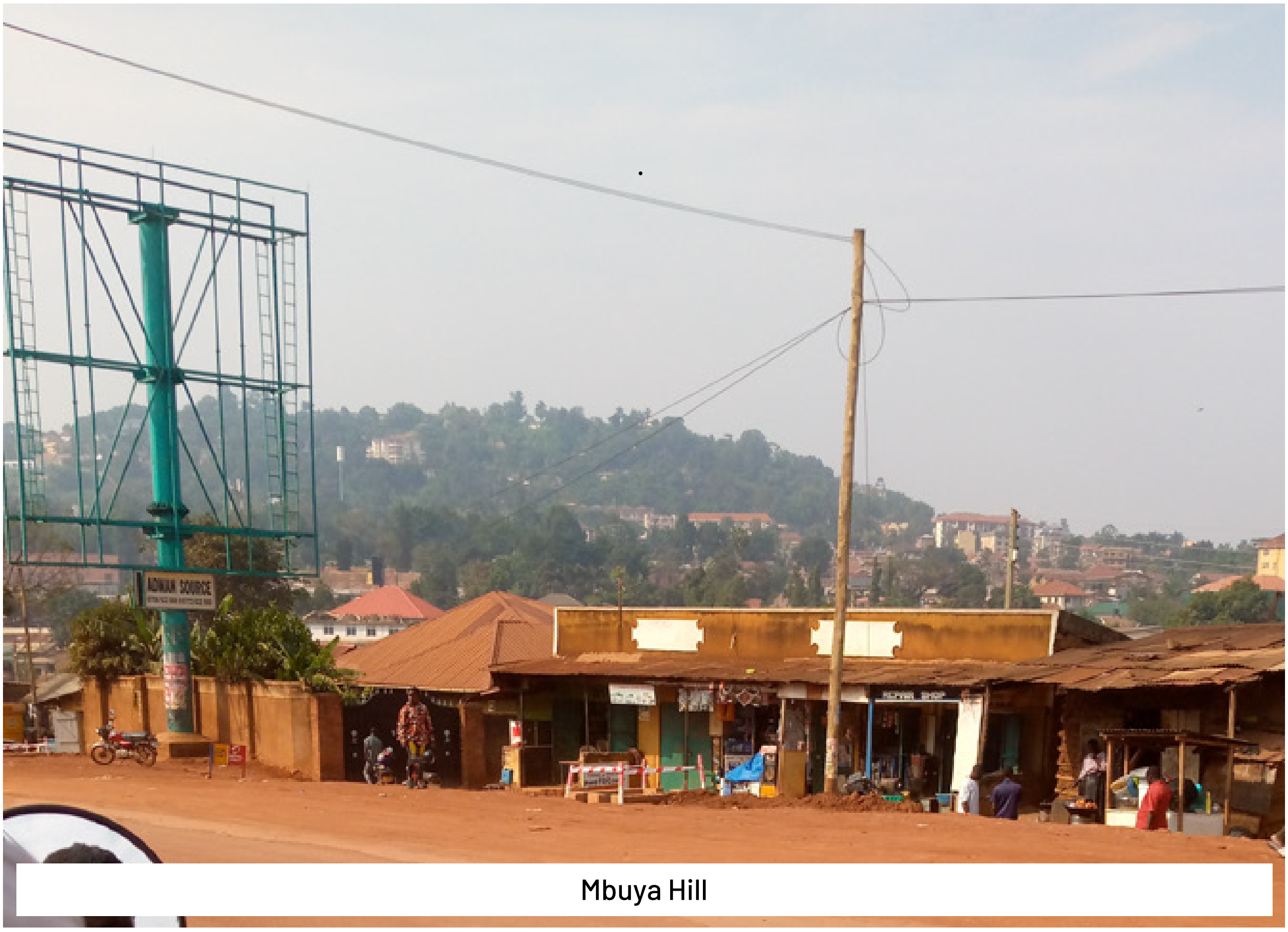
Source: Myrtle Concepts and Properties Ltd

Land Selling Rates	
Size/Description	**Rates (USD)**
Residential	
1 decimal	10,000.00 - 12,000.00
Commercial	
1 decimal	15,000.00

Source: Myrtle Concepts and Properties Ltd

The property market in Mbuya shares similar characteristics with Bugolobi, especially concerning the pricing of properties for both renting and selling. However, notable distinctions arise in terms of land use, defining the unique features of each location.

Despite the similarities, Bugolobi and Mbuya differ in land uses, with Bugolobi incorporating industrial land, affecting property values and investment opportunities. Mbuya, on the other hand, has government infrastructure on top of a hill hence affecting property values.



Mbuya Hill

D. LUZIRA

Luzira is a suburb in Kampala, the capital of Uganda. It is best known for its proximity to Port Bell.

Luzira, a township located southeast of Kampala's central business district, is bordered by Butabika to the north, Mutungo and Kitintale to the northwest, Mpanga to the west, Port Bell to the south, and an inlet of Lake Victoria to the east.

The real estate landscape in Luzira is uniquely characterized by a blend of institutional, industrial, commercial, and residential land uses, each contributing to the diverse and dynamic property market in the area. Luzira stands out for its institutional character, hosting hospitals, offices, schools, and a prison. The property market is significantly influenced by this characteristic, as it attracts individuals seeking proximity to these institutions for work or services.

Despite the existing conditions in Luzira, the area grapples with unpaved and dusty roads, high living costs, underdeveloped port area, and insufficient food supplies due to inflated prices, and dilapidated buildings. Although, when these challenges are viewed through a strategic lens, Luzira can be transformed into a more vibrant, accessible, and sustainable community.

Apartment Rental Rates in Luzira

Apartment Rental Rates		
Size	**Furnished (UGX)**	**Unfurnished (UGX)**
Single room	100,000 - 650,000	-
1 Bedroom	300,000 - 1 Million	2 Million
2 Bedroom	700,000 - 2 Million	2.5 - 3 Million
3 Bedroom	1.5 - 3 Million	3.5 - 5 Million
Bungalows	1.5 - 5 Million	5 - 12 Million

Source: Myrtle Concepts and Properties Ltd

Commercial Rental Rates	
Size/Description	**Rate (USD) per Sqm**
Ground floor	20.00
1st floor	15.00
2nd	10.00
3rd	5.00
Warehouse/Showroom	4.00 - 8.00

Source: Myrtle Concepts and Properties Ltd

Commercial space is rented according to size and location of the space, however, rental rates for local commercial range from Ug.Shs 150,000 to UgShs 1million.

Property Selling Rates

Condominium Apartments	
Size	**Rates (UGX)**
2 Bedroom	150 - 280 Million
3 Bedroom	250 - 800 Million
4 Bedroom	450M - 2 Billion
Bungalows	500M - 5 Billion

Source: Myrtle Concepts and Properties Ltd

Land Selling Rates	
Size/Description	**Rates (USD)**
1 decimal	8,000.00 - 10,000.00

Source: Myrtle Concepts and Properties Ltd

The upscale nature, strategic location, and proximity to urban amenities contribute to a parallel range of prices for renting and selling properties in Luzira. A significant difference from its surroundings, lies in the land use mix. Luzira is characterized by industrial zones, civic land use, and institutions such as hospitals and schools. This Land use mix contributes to the overall property landscape, attracting a diversity of residents.

In the comprehensive analysis of the property market landscape in Mbuya, Bugolobi, Mutungo, and Luzira, it is evident that while these neighboring areas share geographical proximity, their individual characters are shaped by distinct land uses and strategic features.

While these neighborhoods exhibit differences, they encounter similar challenges. Issues such as inadequate road maintenance, lack of proper recreation facilities, and insufficient drainage systems are widespread in Mbuya, Bugolobi, Mutungo, and Luzira. Tackling these issues holds the potential to enhance the overall quality of life and positively influence the property landscape in these regions.

05. KNOW YOUR LEGAL RIGHTS

Did you know?

The Landlord and Tenant Act 2022 SECTION 3. Provides Making of tenancy agreements.

(I) A tenancy agreement may be;

(a) made in writing;
(b) by word of mouth;
(c) partly in writing and partly by word of mouth;
(d) in the form of a data message; or
(e) implied from the conduct of the parties,
provided that where the parties execute a tenancy agreement, the landlord-tenant relationship between the parties shall be governed by the terms of the tenancy

Luzira CDB

06. REITs (Real Estate Investment Trusts)

By Mr Francis Tukundane

Overview of REITs in the Real Estate Market in Uganda

The concept of Real Estate Investment Trusts (REITs) originated in the United States during the 1960s with the aim of fostering inclusivity in commercial real estate investment. The primary objective was to enable individuals with limited capital, who could not independently partake in income-producing properties, to collectively invest in such ventures. The focus was on regular people, not affluent investors who were already benefiting from commercial real estate.
To achieve this goal of collective investment and inclusivity, the legislation mandated a minimum of 100 participants to form a REIT. However, there lies a concern with Uganda's REIT, which appears to deviate from the core objective of catering to small investors. The Ugandan law, under the Collective Investment Schemes Act of 2003, requires a minimum of seven people to establish a REIT. This seemingly overlooks the essence of inclusivity and misses the opportunity to empower regular individuals who aspire to contribute collectively to income-producing real estate projects.
In essence, a REIT is designed to bring together small income investors, allowing them to pool resources and collectively invest in commercial real estate projects that generate rental income. The emphasis is on democratizing access to real estate investments and providing opportunities for regular individuals to participate in projects that might be beyond their individual capacities.

How REITs Operate

To participate in the income-producing property industry through Real Estate Investment Trusts (REITs), individuals have two primary avenues, which are the main types of REITs. The first is the Equity REIT, where the primary objective is for small investors to pool their resources and collectively manage funds to acquire income-generating properties. The focus here is on using the collective capital to benefit from rental income. In essence, the funds raised are specifically directed towards the acquisition of real estate properties that generate income.

The second major type is the Mortgage REIT. Recognizing that not all investors want to engage in the challenges of property management, this type of REIT allows individuals to earn from lending. The law encourages small investors to pool their resources and create a collective capital pool, which is then utilized to lend money specifically to individuals or entities involved in real estate activities. This creates the Mortgage REIT, emphasizing the lending aspect of real estate investment.

However, there is a noted concern that the framers of Ugandan REITs might be overlooking the original intent of these structures. The appreciation of the originality of REITs, particularly in recognizing the distinction between Equity REITs and Mortgage REITs, is crucial for their effective implementation in Uganda.

Within the broader classifications of REITs, variations exist, and one notable type is the hybrid REIT. In this configuration, individuals with different objectives come together to form a real estate investment trust. Among them, some seek to earn interest, aligning with the objectives of a Mortgage REIT, where lending generates profits through interest payments. On the other hand, there are those who prefer the Equity REIT approach, focusing on acquiring and managing income-generating properties to earn rental income. To address these diverse viewpoints, a hybrid REIT is created, combining elements of both Mortgage and Equity REITs. This allows participants to enjoy the benefits of lending while also capitalizing on income from property acquisition and management. The hybrid REIT provides a flexible structure that accommodates different risk appetites and investment objectives within a single investment vehicle.

The distinctiveness of this investment lies in its appeal to small income earners, as opposed to wealthier individuals who might opt for limited liability companies or partnerships. The key differentiator, and a significant motivator, is the array of tax benefits associated with Real Estate Investment Trusts (REITs) that comply with regulations and the law.

For compliant REITs, the most compelling aspect is the exemption from corporate income tax. Consider a scenario where individuals contribute varying amounts, collectively raising substantial capital to acquire a commercial building generating, let's say, 200 million per month. According to the law, if the REIT is in compliance, it is not obligated to pay corporate income tax. In practical terms, after deducting operational costs, let's say 20 million, the taxable income at the corporate level might be 180 million. Applying the corporate tax rate, which could be, for instance, 30%, the REIT would be spared from paying 54 million in corporate taxes. This tax benefit serves as a powerful incentive for individuals participating in compliant REITs, enhancing the overall attractiveness of such investments.

In essence, compliant REITs operate without incurring corporate income tax on their taxable income. When funds are pooled together and invested in income-generating properties, the resultant rental income or interest earned from lending is exempt from corporate tax obligations.

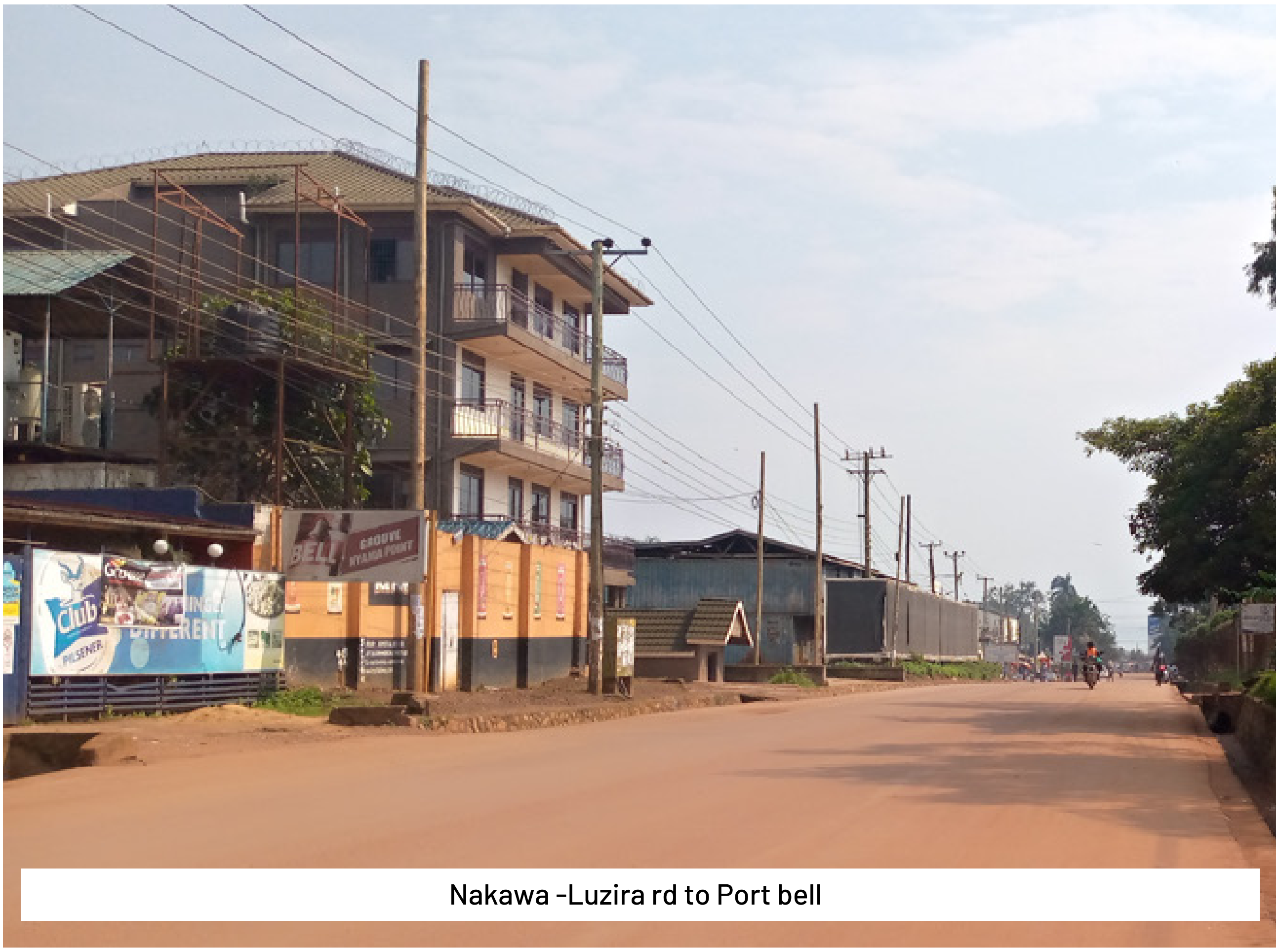
The Income REIT is designed for regular individuals to combine their resources, collectively invest, and acquire income-generating properties. The primary focus is on owning these properties and earning rental income. On the other hand,the D REIT emphasizes the pooling of funds by small investors to generate a substantial amount, which is then used for the purchase of land, development, and construction of commercial properties. In simpler terms, the D REIT is essentially geared towards developing, constructing, and subsequently realizing profits or capital gains. The motivation lies in the entire process of acquiring land, financing construction, marketing, selling, and, ultimately, sharing the profits after deducting costs.

n Uganda, the regulations primarily focus on Income REITs, and the Mortgage REIT aspect is not explicitly outlined in the collective investment schemes' regulations for Real Estate Investment Trusts as of 2017, based on the Collective Investment Schemes Act of 2003.

The Real Estate Investment Trusts (REITs) are further categorized into Income REITs and Development and Construction REITs, often referred to as D REITs. In a nuanced examination of the regulations, there are occasional complexities.

The Joint tenancy is another investment vehicle, where individuals unite with a common goal of pooling funds to invest in real estate, collectively owning and managing properties. However, joint tenancy operates under the principle of survivorship, meaning that regardless of individual contributions, costs and benefits are shared equally among all joint tenants. The significant disadvantage of joint tenancy lies in its inflexibility. If a joint tenant passes away, their share automatically goes to the surviving joint tenants, and no heir or next of kin can claim it. Moreover, joint tenants lack the right to mortgage, sell, or donate their interest, resulting in a high level of decision-making inflexibility. All investors must agree on decisions, and terminating one's interest or disposing of capital value is not possible outside predetermined conditions.

Moving into Indirect Real Estate Investment Vehicles, one option is ordinary partnerships, where individuals come together and form a partnership governed by a partnership deed. However, such partnerships have limitations, including a restriction on the number of members, often set at 14. This limitation poses challenges for small investors and those with limited capital, as the number of participants may not be sufficient to generate significant funds for substantial real estate investments.



Nakawa -Luzira rd to Port bell

Another indirect vehicle is the Limited Liability Company (LLC), regulated by the company act and involving shareholders. A promoter typically initiates the company with private equity, and the act specifies both the minimum and maximum number of people who can start an LLC. As the company grows and generates profits, dividends can be distributed among shareholders, serving as a potential motivation. Furthermore, if the company reaches a certain level of success, it may have the opportunity to become a listed company, attracting additional investors through a public initial offering of shares. The challenge with a Limited Liability Company (LLC) in the context of real estate lies in the separation of shareholders from day-to-day management, adhering to corporate governance procedures. Shareholders appoint the Board of Directors, who, in turn, appoint the management of the company. While managers are expected to operate in the best interests of shareholders and maximize shareholder value, the fundamental challenge arises from the nature of profitability.

The decision-making process is largely isolated from the owners (shareholders), who only have a say during the Annual General Meeting (AGM), with day-to-day decisions handled by the appointed management.
The amount of dividends received by shareholders in a Limited Liability Company (LLC) depends on the dividend policy, which is subject to management and board decisions. Dividend payments are not contractual, introducing uncertainty into the income stream and increasing volatility for investors.
Investing in real estate through an LLC involves tax implications, including corporate tax at the company level and income tax on dividends earned by individual shareholders, which can reduce overall earnings for investors.

Another real estate investment vehicle is the Limited Liability Partnership (LLP), often referred to as Limited Real Estate Partnerships. In an LLP, there are two types of partners – the general partner and the limited liability partner. The limited liability partner contributes money while limiting their risk, while the general partner assumes all risks and oversees operations and management. This structure may not effectively address the goal of involving small investors, as the limited liability partner is assumed to be financially well-off.
There is also a Joint Venture, where individuals mobilize their finances for real estate investment. This can involve borrowing money or using personal property as equity.

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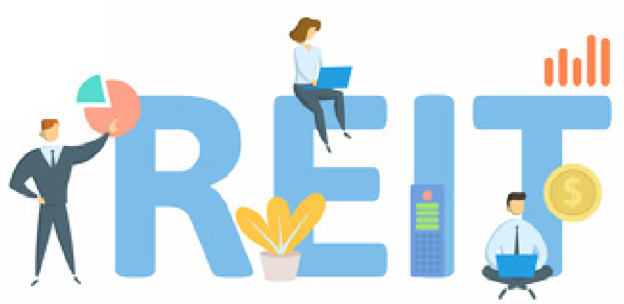

Real Estate Investment Trust

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JVs can be structured for financing arrangements or expertise sharing. For instance, one party may contribute land, another finances the project, and a third provides technical expertise. JVs can also involve variations similar to Public-Private Partnerships (PPPs), such as design, build, and operate models. While JVs are typically short-term, there may be a misalignment with long-term income-generating property goals. Additionally, real estate financing through mortgages is an investment avenue. In this scenario, a company is established to specifically lend money for real estate acquisitions or construction, earning interest along with loan origination and closing fees.
Syndication is another investment vehicle where a promoter or syndicator gathers investors to fund a real estate project. For instance, if a project demands 100 billion, and only 30 billion is available while the remaining 70 billion needs to be borrowed, syndication becomes a strategic approach. Here, multiple banks contribute varying amounts to mitigate concentration risks, presenting a short-term solution. The regulatory framework should consider and possibly reference these types of investment vehicles for a more comprehensive understanding.

Once again, the distinction of REIT from other vehicles lies in the stringent regulations governing its investment focus. The REIT law mandates that a minimum of 75% of the funds raised must be exclusively directed towards real estate-related activities. Unlike other investment vehicles, where decisions regarding fund allocation are subject to market conditions and managerial sentiments, yet the REIT framework universally enforces this real estate investment threshold.

Furthermore, when the real estate investments generate income, the REIT law stipulates that 90% of the generated income, having removed operation costs and managerial fees, should be distributed directly to the shareholders. Each investor receives a share of the distribution based on their individual contribution to the REIT.
Another distinguishing factor lies in the tax treatment of REITs compared to other investment vehicles. While individual investors may still incur taxes on their earnings, REITs, if compliant with regulations, enjoy exemption from corporate income tax. This tax advantage contributes to the attractiveness of REITs for investors seeking tax-efficient structures.

Uganda's Housing deficit vis a vis financing Modes

The persisting housing challenges, including the housing deficit and undeveloped prime sites, in Uganda are primarily attributed to the lack of favourable financing options. The predominant focus has been on equity mortgage financing, where individuals contribute their savings and borrow the remaining amount from financial intermediaries. The introduction of REITs could address these challenges by allowing people to identify prime sites and pool their small capitals to collectively finance either the development or ownership of real estate projects. REITs offer advantages such as tax exemption and the involvement of regular individuals, making projects more widely owned and appreciated.

As REITs prove to be successful and individuals experience the benefits, such as interest returns, there is a likelihood of increased satisfaction and participation. For example, if 100 contributors each invest 10 million, collectively raising 10 billion to purchase a commercial property in town, and the property generates a monthly income of 240 million, with operational costs deducted, resulting in a net income of 200 million. When this income is distributed among contributors, each earns 2 million per month, representing a substantial return of 20%. This demonstrates the significant returns achievable through collective investment compared to individual endeavors.

2 bedroom to let in Kitezi at UGX 600K

On the contrary, the individualistic approach to construction in Uganda tends to be costly due to insufficient funds. In this scenario, funds are wasted, and the invested money ceases to be unproductive for an extended period. In contrast, with a REIT model, if an individual earns 2 million per month, it accumulates to 24 million annually, and the capital value of the collectively owned property remains intact. Assuming a 10-year lifespan for the investment, the cumulative returns could be substantial, providing a more efficient and productive use of funds compared to individual construction projects.

More Variations of REITs

As mentioned above, various types of REITs exist, including equity REITs, mortgage REITs, and hybrid REITs. For instance, in the UK, equity REITs are involved in owning university hostels, where individuals pool their resources to collectively own such properties, like the Carnegie hostels. However, Uganda's regulation, as drafted, is closely tied to a closed REIT structure, limiting the potential for variations like an equity REIT, D REIT, or I REIT.

In the UK, diverse types of REITs are established, such as hostel REITs and hospital REITs. These variations stem from defining specific property types or classes that are deemed lucrative and aligned with the objective of investing in real estate. The earnings from these REITs, generated through real estate investments, are then distributed to investors. Depending on the area, the profitability of commercial buildings, malls, hospitals, hostels, or hotels can vary. This flexibility allows for the creation of various REITs based on different asset classes or property types, including resort-based REITs or cultural REITs dedicated to promoting cultural centers.

Low exploitation of REITs opportunities

Lack of awareness and sensitization among the majority of people regarding these financial models. Worst of all, even among the educated population, the knowledge of REITs in Uganda is quite limited. This situation aligns with the saying that ***"if you want to hide something from a person, put it in writing".*** Therefore, there is a significant need for increased sensitization efforts. The capital market authorities have not sufficiently engaged in educating the public and fostering an understanding of how these financial models can effectively work.

The other issue is lack of trust amongst Ugandans. People think that they will be cheated. REITs although in our regulation, encourages foreigners, yet the objective of a REIT is inclusivity to look at the regular person (native) not foreigners.

The guidelines and regulations may need further refinement, considering issues such as the eligibility period for leased land. Sensitization efforts and addressing trust issues could play a crucial role in fostering acceptance and understanding of REITs among the Ugandan population. Additionally, aligning regulations with existing land laws may be necessary to avoid contradictions and facilitate a smoother implementation process.

The Income Distribution Mechanism of REITs and its benefits

The fundamental principle governing the distribution of income from REITs is consistent across the whole world. The regulation typically stipulates that a significant portion of the revenue, usually 90%, or in some cases, 80%, must be distributed among the investors as the principal income. The remaining 10% is allocated for operational and other associated costs. This distribution structure ensures that the majority of the generated income benefits the investors, aligning with the core objective of providing returns to those contributing to the REIT.

2 floors of office space for renting in Mukono town at UGX 6M

In essence, the tax implications between investing in a traditional limited liability company and a REIT can significantly impact individual returns. Let's consider a scenario where a limited liability company earns taxable income of 10 million and is subject to a 30% corporation tax. In this case, if the entire amount is distributed among shareholders, each individual would receive a reduced amount after the corporation tax is applied. On the other hand, with a REIT, where 90% of the income must be distributed, the tax burden is incurred at the individual level. Assuming the same 30% tax rate for individuals, the after-tax returns for an individual investor in a REIT could be higher compared to investing in a traditional company.

Therefore, the choice of investment model, whether a traditional limited liability company or a REIT, can significantly influence the after-tax returns for individual investors. This underscores the importance of understanding the distinct tax regimes associated with different investment vehicles.

By employing the REIT model, the distribution mechanism and benefits to investors become evident. Moreover, REITs contribute to making the real estate market more liquid. Traditionally, real estate is viewed as illiquid, requiring substantial time and effort for conversion into cash. However, with REITs, the ability to trade shares on the capital markets allows investors to quickly liquidate their real estate holdings. This contrasts with the traditional approach where individuals are limited to personal savings and loans from financial intermediaries, often burdened by high interest rates and fees. Therefore, the REIT framework has the potential to facilitate cheaper and more accessible financing, making the real estate market more dynamic.

Management and Decision-Making Process in a REIT Structure

A trust is a three-party system involving a Truster, trustee, and beneficiary, often used by property owners to maintain anonymity. Trustees handle day-to-day operations, with the Truster directing how to utilize income and deducting costs.

The other form is a land trust, which involves the Truster purchasing property, handing it over to a trustee, who retains rights like managing and operating it, and depositing rent into the Truster's account. In this case, the Truster is also a beneficiary.

Real investment trusts are structured based on the principles of land trusts. In these trusts, individuals pool funds to acquire a property, and a trust is established to manage it. Unlike intervivos trusts, participants in real investment trusts are not directly involved in the property's day-to-day management. Decision-making in such trusts follows corporate governance structures, including annual general meetings (AGMs) and a board of trustees. The AGM addresses property valuation, operational activities, and other pertinent matters, while day-to-day operations and decisions fall under the purview of the appointed manager. This structure introduces the principal-agent problem, where the trustee acts as an agent to the Truster.

Comparatively, the risks associated with REITs are primarily related to decision-making and limited control for individual investors. Withdrawals are constrained, and significant decisions are made by the appointed manager, with investor input limited to the Annual General Meeting (AGM) and the board of directors. The governance structure is stringent, offering minimal direct influence to individual

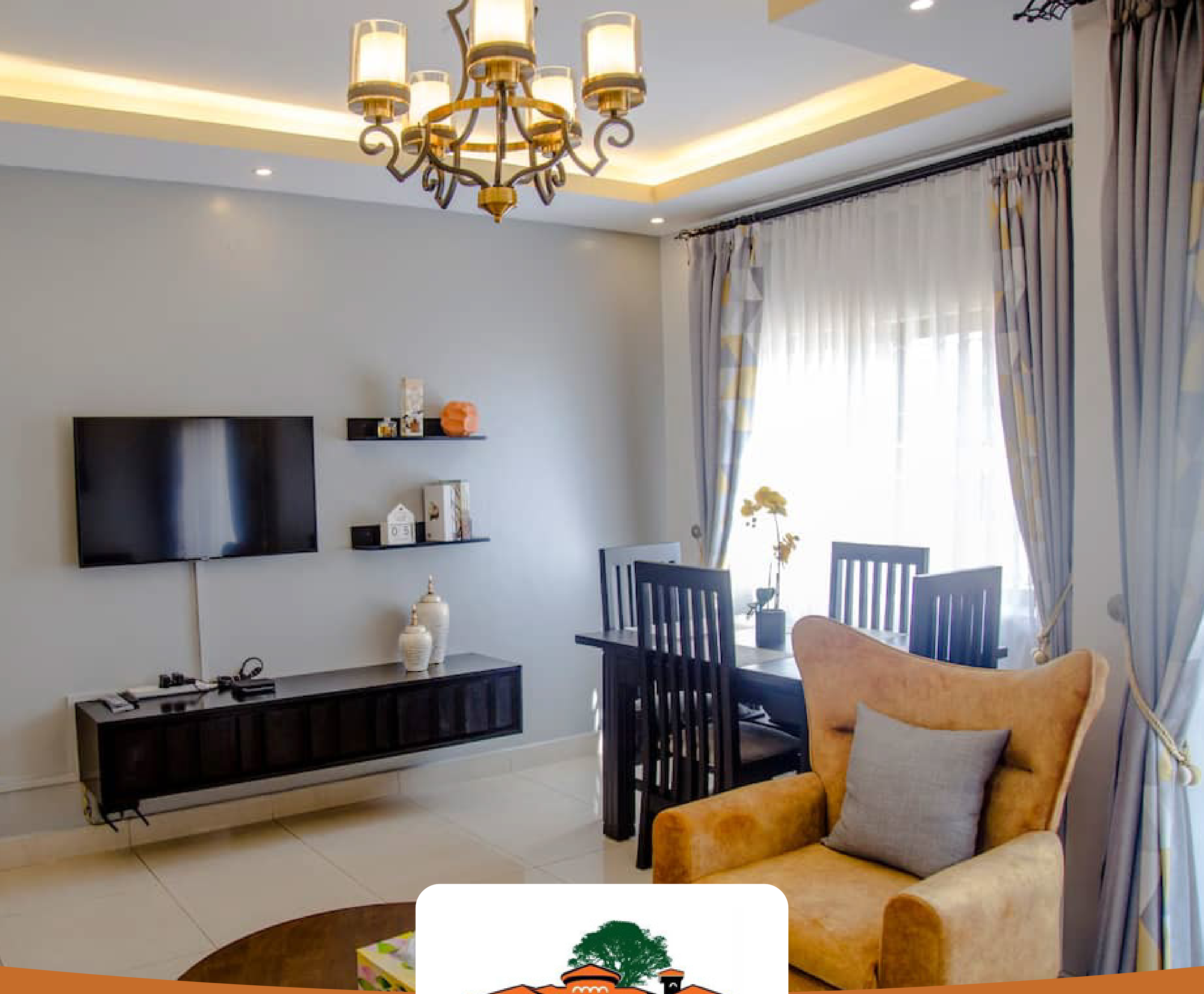
Keeping Track of the REIT investment Strategy

The prevailing challenge in the Ugandan real estate market lies in its opacity and the lack of international transparency standards. Transactions are often privately negotiated, leading to a lack of disclosure and truthfulness about the actual amounts involved in property deals. The market suffers from limited professional involvement, resulting in insufficient research, publications, and a lack of think tanks actively engaging in public discussions on the industry.

However, the legal framework governing REITs mandates the publication of financial reports. Tracking REITs can be approached through monitoring the general market conditions and referring to these published reports for insights into their performance.

In conclusion, a newcomer with limited capital, entering the real estate market through REITs is recommended, particularly with the optimistic expectation that the Capital Markets Authority of Uganda will promptly introduce regulations that operationalize open-ended REITs. This approach provides an opportunity for individuals with constrained resources to participate in real estate investment through the collective pooling of funds within a REIT structure.

4 bedroom house with 2 boys quarters for sale in Kulambiro at UGX 600M



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