RESEARCH

Q1 2013

Zambia

Market Update

Knight Frank

Celebrating 10 Years in Zambia

HIGHLIGHTS

- Zambia averages over 5% GDP growth each year for the past decade.
- High cost residential market witnesses a decline in rentals and softening of yields.
- Increasing demand for bespoke storage and logistics space.
- Opportunities for new retail malls away from the CBD as Lusaka expands into new nodes.
- Shortage of office space for lease predicted in 2013.
- Copperbelt region property market finally starts to take off.
- Agriculture and tourism attracting significant new investment.

Having successfully completed ten years in Zambia as Knight Frank, provides an opportunity to reflect on the rapid pace of change that has been experienced in the real estate sector over the period, considering the major markets of Lusaka and Copperbelt regions.

The economy is the major driver of growth in the sector, and it is no surprise that a decade of year on year GDP growth averaging over 5%, coupled with political and social stability has resulted in significant new development across most sectors.

At the end of 2002 inflation stood at 26.7% and it is now 7% whilst interest rates of below 10% are targeted by the Bank of Zambia, from 25% in 2002 and the current levels of 15%.

Residential

This sector has probably witnessed the most dynamic shift over the period, having been the most affected by the global economic crisis, particularly in Lusaka. Pre-2008 demand was greatest in the high cost rental market, where rentals in excess of $5,000 per calendar month could be achieved in the best areas. High rents resulted in a number of complexes being completed, only to witness a turnaround in market conditions subsequent to the downturn.

Retrenchment amongst companies and diplomatic missions, a surge in building, the emergence of new high cost areas and a reduction in housing allowances has created a tenant's market, which has resulted in a significant decline in rents, and a softening of yields. In early 2010 occupancy rates in some complexes were as low as 50%, where landlords had been slow to react to the market adjustment.

Now only houses in the best locations and offering quality facilities and services can achieve rentals in excess of US$4,000 per month.

One Sunningdale, Sunningdale, Lusaka

The impact of the global downturn was much less pronounced on the Copperbelt, where there has been minimal new supply, and steady demand for commodities have maintained the economy. Ndola has witnessed a softening of demand with the closure of FQML operations at Bwana Makuba. In general, low rental thresholds in most Copperbelt towns have constrained new supply in most towns, and limited investment in existing stock.

Peak demand is now found in the medium cost sector, where there is an acute shortage of well located rental stock. Properties at below $800 per month in Lusaka and $500 per month on the Copperbelt enjoy over 90% occupancy, and have been subject to rental increases of up to 10% per annum.

This has also attracted interest from developers to provide medium cost product to the owner occupier market. However, the affordability gap between real incomes and the cost of completed housing means that the self-build route remains the most accessible route to home ownership. There are number of site and service housing projects serving this sector. One large project selling 2,000 plots is Lusaka Heights, Lilayi.

Industrial

In comparative terms, real estate development in this sector has been much less pronounced. This is likely a result of manufacturing decline that has seen a large volume of factory space being offered out for storage. The sector is still mostly concentrated in the traditional industrial areas of the main centres, where vacancy rates are as high as 30% to 40% across stock in Ndola for example.

Despite this, there is evidence of increased demand for bespoke storage and logistics space, along the main transport routes, in particular the Kafue Road to the south of Lusaka and Chingola Road, north of Kitwe. There has been over 15,000 sqm of storage space added along Kafue Road over the last five years. Interest in these new areas is driven by better access to supply routes, and branch networks, reduced congestion, and greater availability of space. The market is still dominated by owner-occupiers, but there is evidence of tenant demand for a logistics park of a suitable specification.

Expanding retail industry, agricultural investment and new infrastructure development is also driving the need for distribution centres in Lusaka to support growth around the country.

Retail

Real estate development in this sector has arguably resulted in the greatest transformation of Lusaka, providing the first real examples of comprehensive development with purpose built retail centres, Manda Hill, Arcades, Crossroads, Levy Junction and Makeni Mall.

Development has been on the back of a consumer-led boom, that has been replicated across other parts of the continent. Real income growth, an emerging middle class, and greater confidence particularly amongst South African retailers seeking to expand into Africa (i.e. Pick n Pay, Food Lovers Market, Woolworths, Truworths, Jet, Edgars and PEP).

This has contributed around 90,000 sqm of new inventory to Lusaka over the last 10 years and over 50% in 2011. A similar transformation is being witnessed in Copperbelt, with Jacaranda Centre in Ndola, and Copperhill in Kitwe. Recent and planned space in the Copperbelt will contribute an additional 30,000 sqm of retail .

No new addition to existing stock in 2012 and some developments were put on hold whilst developers assessed the prospect of investment returns in Kwacha as opposed to US Dollars; following the introduction of SI33 – all contracts must be in Zambian Kwacha.

Figure 2 illustrates the Grade A retail space supply from 2006 to 2012.

Figure 1 Grade A Retail Supply (2006-2012)

Viable opportunities for development away from the CBD for new malls as the city expands into new nodes to the east and south, along established highways such as the Great East Road and Kafue Road, driven by self build residential development.

Office

The expansion of financial, communications, and professional services have created demand for new space, principally in the capital as the main commercial hub.

Occupiers in this sector take up the majority of the space in the new commercial quadrant framed around Thabo Mbeki, Great East and Addis Ababa Roads. Occupiers are either new entrants over this period, (e.g. FNB, Eco Bank, Access, MTN, Airtel) or existing operators expanding or undertaking head office relocations from Cairo Road, (e.g. Stanbic Bank and Citibank). Knight Frank estimate that there is around 46,900 sqm of space in this new commercial quadrant, which is around 90% occupied. This represents an absorption rate of around 11,000 sqm per annum, since the first developments were undertaken in 2006. Most of the occupiers are tenants, indicating a shift in the preference of corporates to rent over owning their own premises, although this may also be a factor of availability.

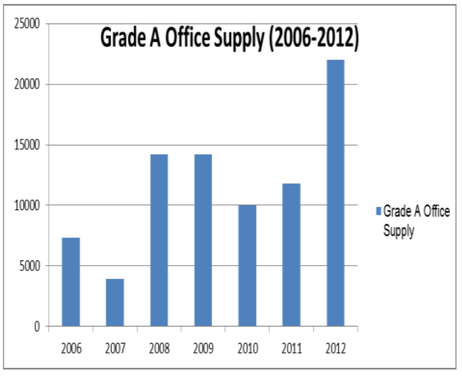
With only one or two new developments underway, 2013 will witness a shortage of office space for lease, with new stock only coming to the market in 2014, such as Blue House offices.

Tenants will need to plan more carefully and longer term for their future expansion and staffing needs.

In addition to an increase in corporate space requirements, the SME sector is also a significant generator of demand, which has manifested itself in the central low density suburbs such as Rhodes Park, Fairview, Longacres and Kabulonga, either through occupying existing dwellings, or smaller scale grade b developments, by local developers.

With continued development in the Mass Media area reducing the amount of developable land, office developers are now looking for the location of the next node of new office development. The earlier the better as development and speculative interest in the new node renders projects unviable for latecomers. Early indications favour Great East Road over Kafue Road.

Figure 2 Grade A Office Supply (2006 - 2007)



Up until now leasing has been the only option for office occupiers however 2013 will witness a significant change. The Garden City office project, located at the airport roundabout along the Great East Road, will offer the opportunity to purchase office units in blocks of 200, 400 or 600 sqm. Phase 1 is due to complete mid 2013.

Blue House office development, adjacent to Arcades Shopping Centre, also offers options to purchase on a floor by floor basis.

Copperbelt

The Copperbelt province real estate market has long been the poor cousin of Lusaka. Whereas Lusaka has experienced close to a decade of consumer-led development across most sectors, the volume of new inventory in the Copperbelt market has been limited, and relatively small scale.

The real estate sector has experienced a number of false dawns, in particular promises of larger regional commercial developments such as Freedom Park, Copperbelt City and Kitwe Zoo site.

Retail and Office

Since 2010/2011, there appears to have been a turn-around in the region's fortunes, with a number of retail-led developments having been completed, or in the pipeline. Competed projects include Jacaranda, Z-mart and Neighbourhood Centre in Ndola, and Copperhill in Kitwe. Pipeline projects include Nkana Mall, and albeit the slow to progress, Freedom Park.

Perhaps more surprising is that development has continued unabated in spite of the impact of SI33, which in Lusaka, resulted in a number of projects being temporarily halted whilst developer's considered alternative funding options, and ways to hedge exchange rate losses.

These new projects have been successful with occupancy rates over 90%, rental rates of ranging from around ZMW 75 ($25) to ZMW 150, ($25) / sqm / month, and often anchored by new SA entrants to the region including Pick n Pay and Woolworths. The banks have also been aggressively seeking new space, to expand or optimise existing branch networks

There are new mixed-use projects including a 3,000 sqm plus office development, and five warehouse units, (c. 1,000 sqm each) at Chambishi Multi-Facility Economic Zone, (MFEZ), and the Citygate development off Presidents Avenue, Kitwe.

There is also a shift in focus to smaller urban centres, where existing retail space can often attract similar rental rates as Lusaka, due to the shortage of space.

These include: the proposed redevelopment of Nchanga Hotel in Chingola; Pick n Pay in Luanshya, and two retail centres for Chililabombwe.

A number of projects are proposed for Solwezi, ('New Copperbelt'), including the proposed redevelopment of the Showgrounds by Heriot Properties, a recent EOI on the Council Rest House near the bus station, and the 300+ hectare commercial / retail node proposed on land owned by FQML's development company, Kabitaka Hills.

In addition, decentralisation and provision of local services within the regions will also likely result in an increased office space requirement. We have already seen space requirements for new RTSA and immigration offices.

Farms, Lodges and Estates

Agriculture and tourism, two of the four priority sectors for government, have experienced significant new investment and promotion. New investors are developing former bush land for irrigated cropping, on a large scale in areas to the west and south of the country as well as expanding established farming blocks of Mkushi and Mpongwe.

It is expected that tourism related projects will also attract new investment this year, particularly following the recent implementation of SI69. This allows the importation of duty free tourism products for business offering services in this sector.

Hotel operators are also responding to a shortage of high end bed spaces, and a lack of existing penetration of international brands. A number of feasibility studies have been undertaken, and earmarked projects include a Protea near the Stadium, Ndola, and a Holiday Inn, Freedom Park, Kitwe.

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