Research

Zimbabwe Market Update

H12020

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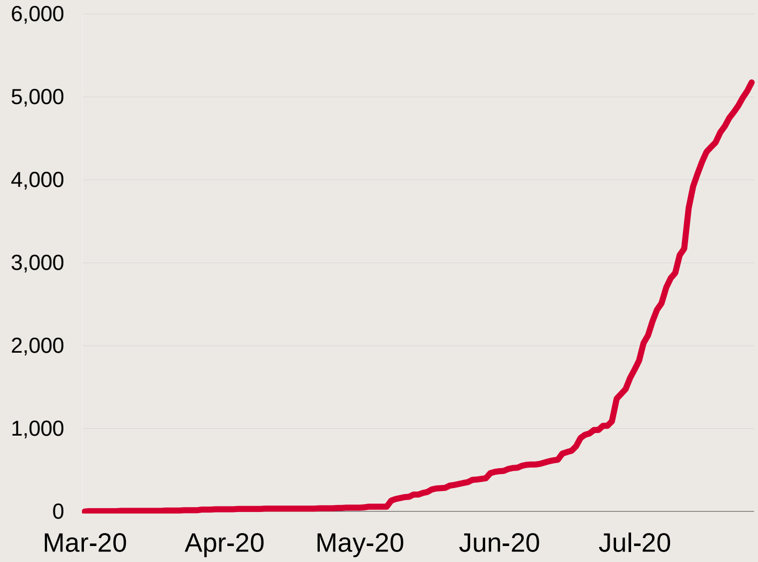
Zimbabwe Market Update

H1 2020

Key Insights

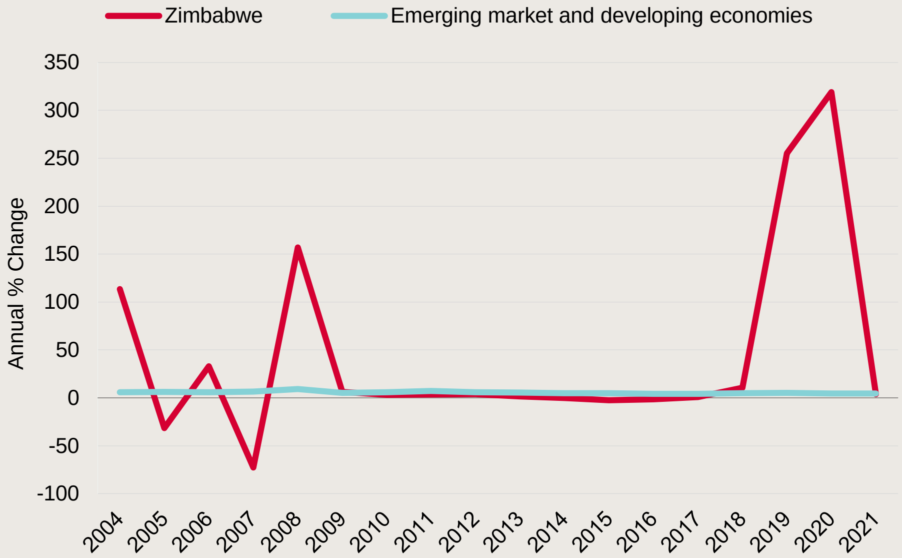
- Zimbabwes economic outlook negative for 2020
- 5,176 COVID-19 Cases confirmed by 16th August 2020
- Annual inflation reached an all time high of 837.53% in July 2020 from 737.3% in June 2020
- Inflation was driven by a depreciating local currency against US dollar
- Government announced a ZWL 18 billion stimulus package in the economy to support companies affected by COVID 19 lockdown operations
- To manage foreign currency supply and demand, the fixed exchange rate regime was replaced by a weekly foreign exchange auction trading system starting from the 23rd June 2020.
- To discourage speculative borrowing overnight lending bank rate was increased to 35% resulting in the minimum lending rate increasing to 50%
- Prime residential prices and rents decline

Zimbabwe COVID-19 Cases



Source: Knight Frank Research, Macrobond

Inflation Rate, Average Consumer Prices



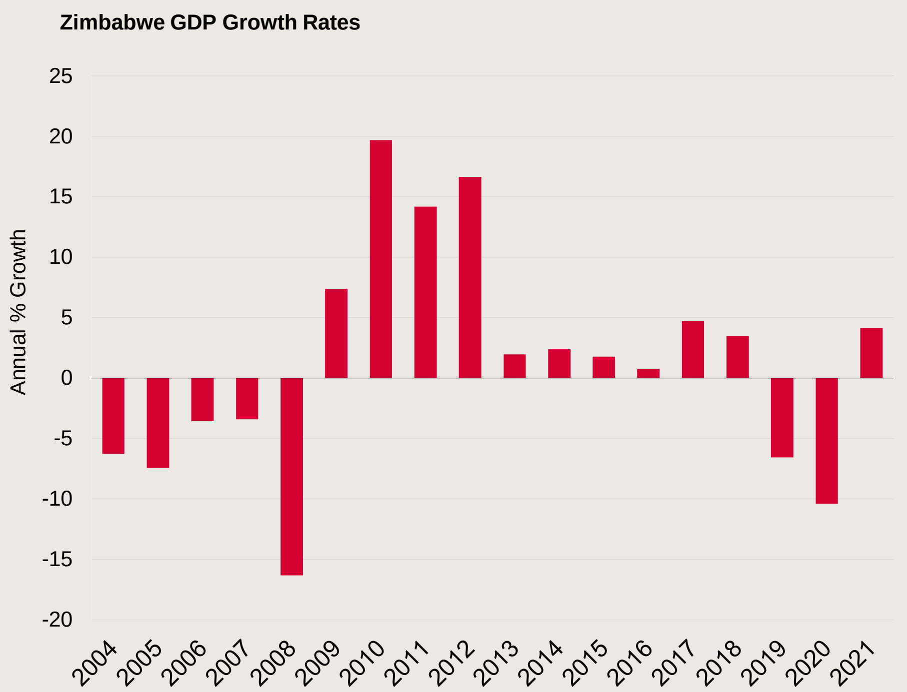
Source: IMF, Knight Frank Research

COVID-19

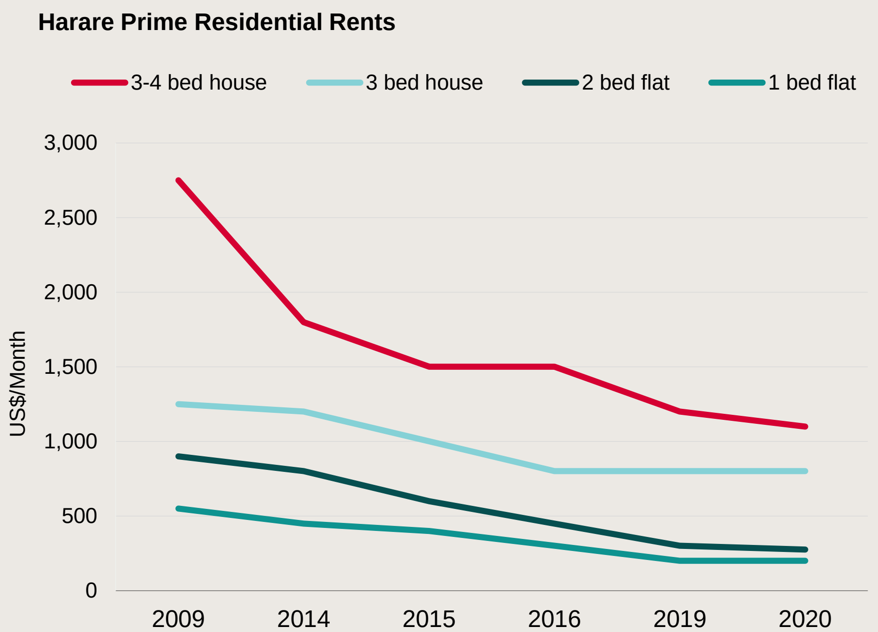
The first four weeks of lockdown was announced on 27th March 2020, came into effect on 29th March 2020 and was extended indefinitely on 16th May 2020. All non-essential businesses were closed and operators required to work from home, public gatherings were banned e.g. (Churches, funerals), bars, gyms were closed, wearing of masks and social distancing were made mandatory while all borders were closed except for residents.

The lockdown measures had adverse effects on consumer income impacting various real estate sectors. This was especially witnessed in the retail sector where businesses rely on walk in customers..

Industrial tenants were also required to close their operations for the period of the lockdown impacting on tenant's ability to pay rent.



Source: IMF



Source: Knight Frank Research

As a form of relief to residential tenants, the government issued three months window for tenants to settle rent that was due during the lockdown period.

Most Commercial tenants negotiated discounts of between 25% and 50%. These were granted by landlords in a bid to retain tenants and attract new ones. However, operating costs were not discounted and remained fully payable

Residential Market

Demand for residential property for sale softened in the first half of 2020 due to the increased shortage of US$ currency which was mainly preferred by sellers as opposed to local currency payment which had been instituted as the legal tender in 2019 . This was further exacerbated by the non-availability of mortgage finance in United States dollars.

As a result, there was a limited number of transactions in the first half of the year. In terms of prices, local currency prices remained largely unstable as they responded to daily movements in the exchange rates while US$ prices were generally stable

Residential rents paid in local currency remained unstable due to the weakening currency. Landlords pegged the rents to the parallel market exchange rate. This resulted in local currency rents changing every day as the local currency rents also changed.

In order to retain a steady flow of income, landlords were forced to accept up to 25% US$ discounted rents.

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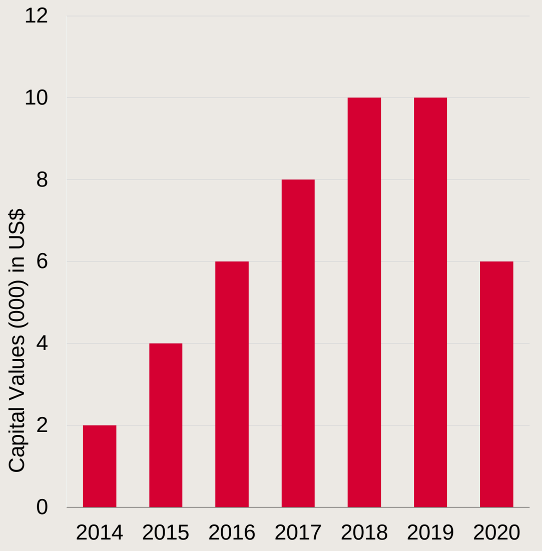
In the period under review, prime residential rents declined by between 20% and 25% on average. Rents on 1-2 bedroomed units however remained stable due to an increase in demand in these units.

Prime Office Rentals



Source: Knight Frank Research

Office Market

The office market remained largely unchanged since 2019 with most CBD office buildings recording huge voids. The COVID-19 pandemic has further dampened demand for office space due to a surge in remote working. Most office tenants are now working remotely from their offices and have virtual meetings away from the office.

In the period under review, rents declined sharply in real terms as value of the local currency continued to decline. Tenants also sought rent relief measures from their respective landlords with landlords granting discounts mainly to US$ rent payers as opposed to the local currency.

Retail Market

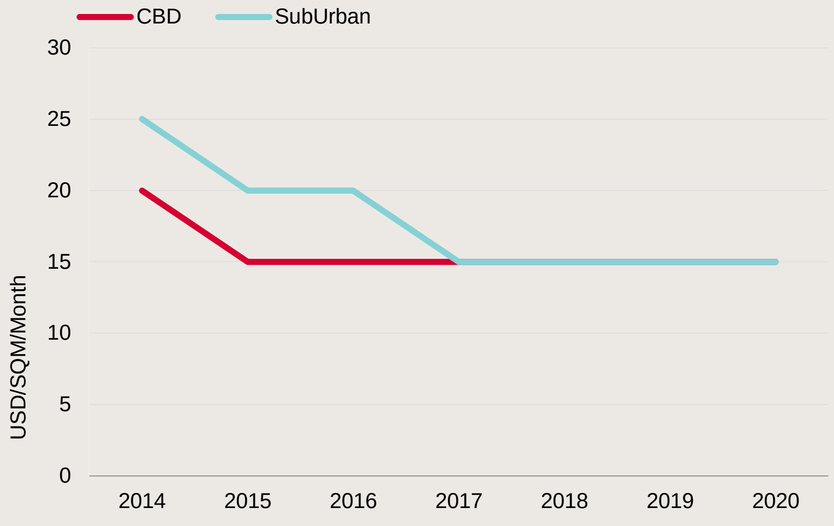
Local currency retail rents remained volatile to the exchange rate and were reviewed monthly in line with the parallel market rates. Prime retail rents remained relatively stable at around US$15 per square metres per month while yields were stable at approximately 6% to 7%.

As a way to ensure stable income, landlords offered discounts to tenants paying in hard currency leading to US$ rents declining marginally.

In the period under review, no voids were observed as tenants continue to retain a positive outlook despite the current economic downturn.

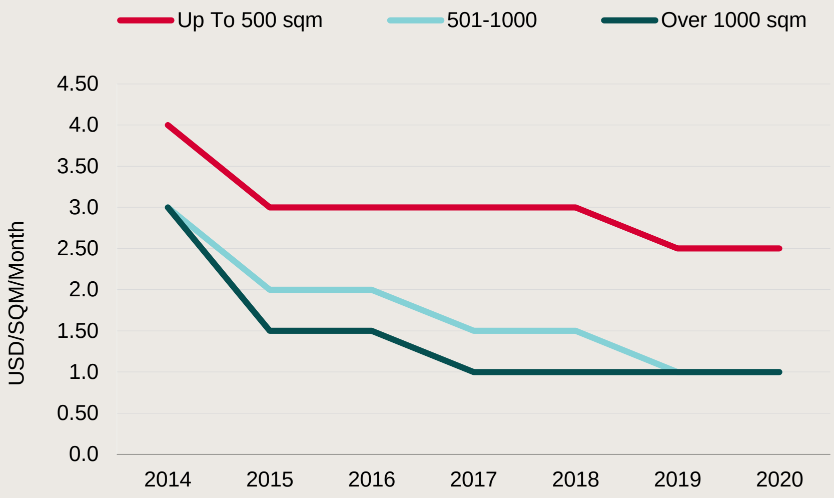
Development has also slowed down in the sector with no major development recorded this year.

Harare Prime Retail Rents



Source: Knight Frank Research

Prime Industrial Rents



Source: Knight Frank Research

Industrial Market

Industrial market growth in the period under review was curtailed by the current economic downturn., shortage of foreign currency and high interest rates.

Industrial rents remained stable with industrial space of up to 500 square metres achieving US$2.50 per square metre per month while larger spaces achieved US$1 per square metre per month.

H2 2020 Outlook

The property market is likely to remain subdued with limited investor interest due to the current economic conditions in the short to medium term. Statutory Instrument 85 of 2020 which allowed the pricing of goods and services to be done in both US dollars and in local currency will result in most businesses, including landlords, demanding US dollar settlements. This may lead to an unofficial dollarisation of the economy.

In the long term the situation is expected to turn around if low inflation and local currency stabilization.

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