Research

Zimbabwe Market Update

H2 2020

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Trust Towers Building

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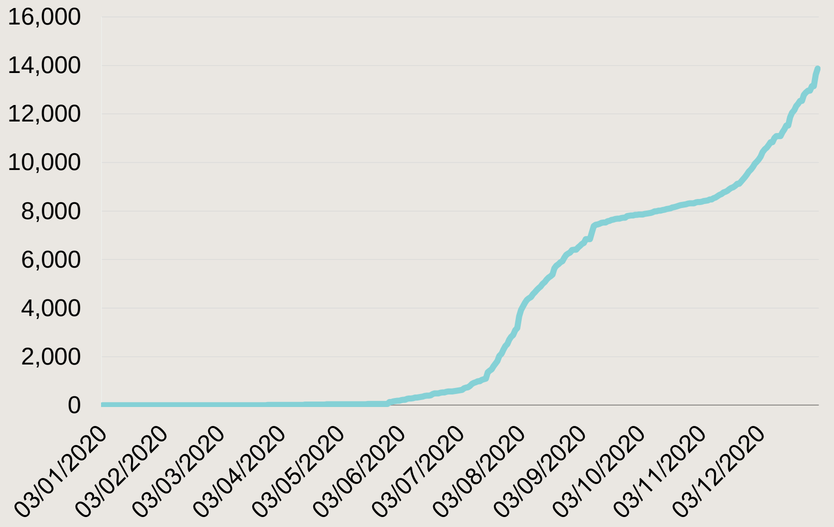
Key Highlights

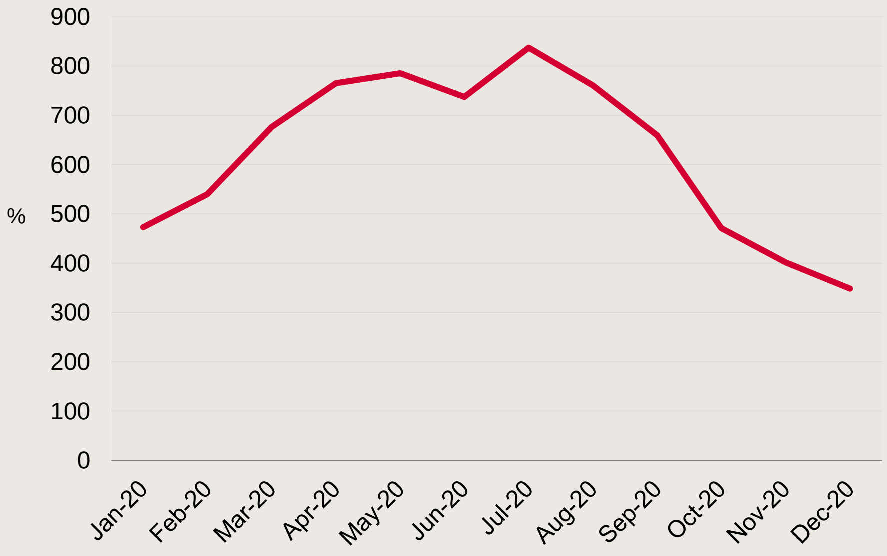
- 13 867 confirmed aggregate Covid-19 cases were reported as at 31st December 2020.
- Annual inflation decreased from 857.53% in July 2020 to 384.59% in December 2020.
- Since the introduction of the Foreign Exchange Dutch Auction System the exchange rate stabilised at ZWL80.225: US$1.
- The stability in the exchange rate arrested rising inflation and speculative demand for foreign currency in the black market.
- Government kept a tight Monetary Policy by not printing money to finance government expenditure and this helped keep inflation under control.
- Overall the economy contracted by 4.10%.
- The previous lockdown measures were gradually relaxed as new Covid 19 cases and associated deaths flattened while the patient recovery rate improved For example, schools opened, gatherings of up to 50 people were permitted and restaurants were allowed to open up to 7pm. Masks and social distancing measures were also enforced
- However, towards the end of the period there was a spike in the number of new cases.

Zimbabwe, Coronavirus Disease (COVID-19) Pandemic, Confirmed Cases, Aggregate



Source: Knight Frank Research

Zimbabwe, Consumer Price Index, Inflation, Change Y/Y



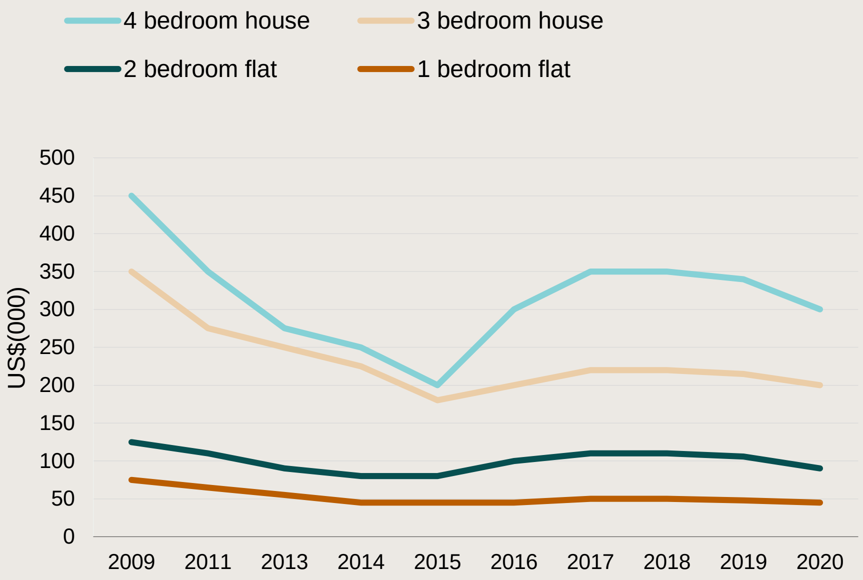
Source: Knight Frank Research, Macrobond

Real Estate Market Overview

Zimbabwe's real estate market was generally subdued during the second half of 2020 as a result of the lockdown measures imposed with non-essential sectors being more severely impacted. Moreover, Covid-19 safety protocols resulted in additional operating costs for landlords in the market.

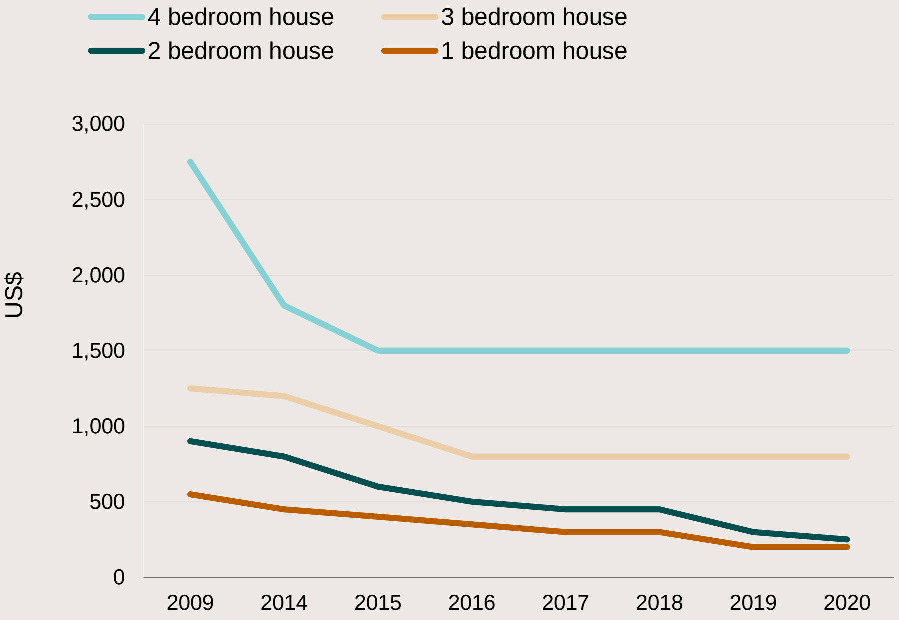
A combination of high inflation, low interest rates and lack of liquidity in United States dollars impacted on formal financing. Property is excluded from the foreign currency auction, and, as a result, all transactions are self-funded which negatively impacts aggregate demand.

Average Prime Residential Capital Values- Harare



Source: Knight Frank Research

Average Prime Residential Rent



Source: Knight Frank Research

Further, Statutory Instrument 85/20 legalised dual currency pricing. Landlords, especially retail and residential, are now seeking to obtain United States dollar rentals or, at least, the indexing of same on the basis of the exchange rate

Residential Market

Activity in the residential sector remained relatively resilient compared to other sectors such as commercial and industrial. However, poor liquidity in United States dollar terms, the preferred currency for transactions, negatively impacted demand levels. We estimate that house prices declined by about 10% in the period under review.

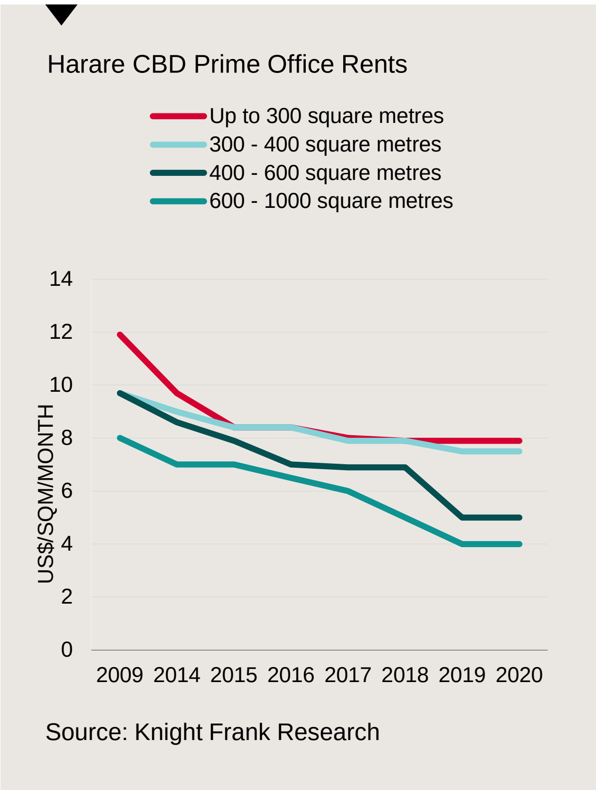
However, self-funded home construction remains strong in both high density locations and affluent suburbs of all the cities. In Harare, this trend has been evident in the areas near the new Parliament site in Mount Hampden, in Ruwa and the fringes of the southern suburbs.

Uptake of rental space remained subdued in the period under review with the United States dollar denominated rentals now significantly lower than the levels achieved between 2011 and 2015. As a result, rents are estimated to have softened in 2020 by about 10%.

Office Market

Office market demand remained subdued in the period under review with vacancy rates remaining high at between 30% and 40%. High vacancy rates have resulted in landlords being saddled with higher operating costs resulting in lower rental returns. Landlords have therefore resorted to re-purposing of space in old buildings for occupation by small enterprises and/ or individuals.

Notably development is now dominated by small office space projects suitable for small and medium size enterprises. Such development can be observed along the main roads leading out of the Harare's Central Business District e.g. Second Street Extension, Borrowdale Road and Enterprise Road.



The NMB head office which was under construction, appears to have now been completed adding 3,900 square metres to the prime office stock.

Rental rates for offices currently range from US$3.50 to US$8 per square metre depending on location, quality and size. Moving forward, we anticipate that remote working will continue to impact the sector leading to subdued demand for formal space.

Retail Market

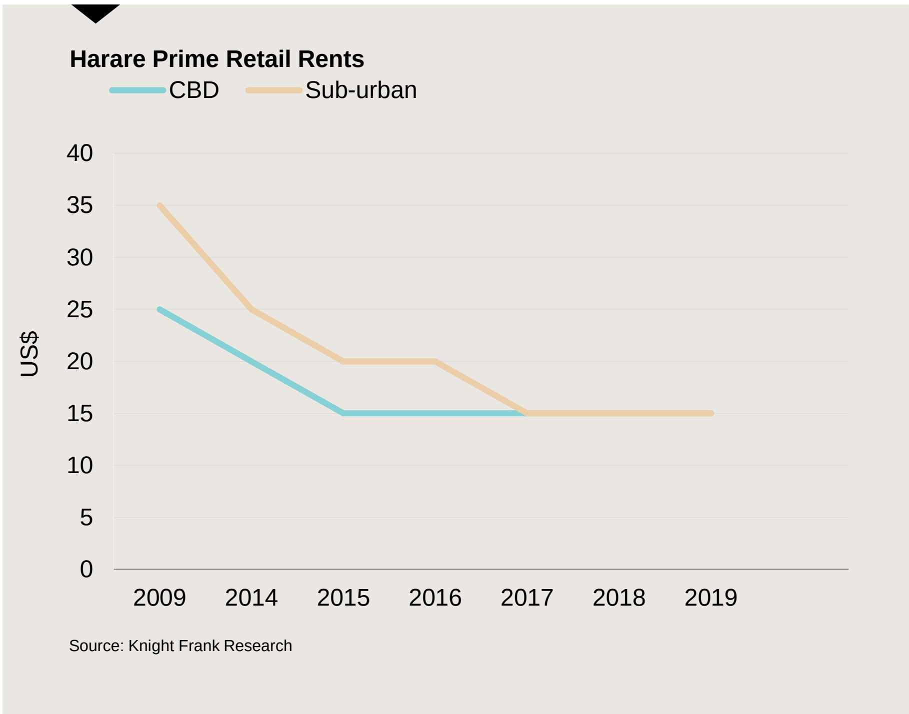
In spite of the Covid-19 related lockdowns the retail sector remained relatively active with a stable demand for space for rent. However, consumption was negatively impacted by high inflation and low consumer disposable incomes. As a result, prime rental rates declined to between $12 and $15 per square metre for suburban locations and between $8 and $10 for the Central Business District, depending on size.

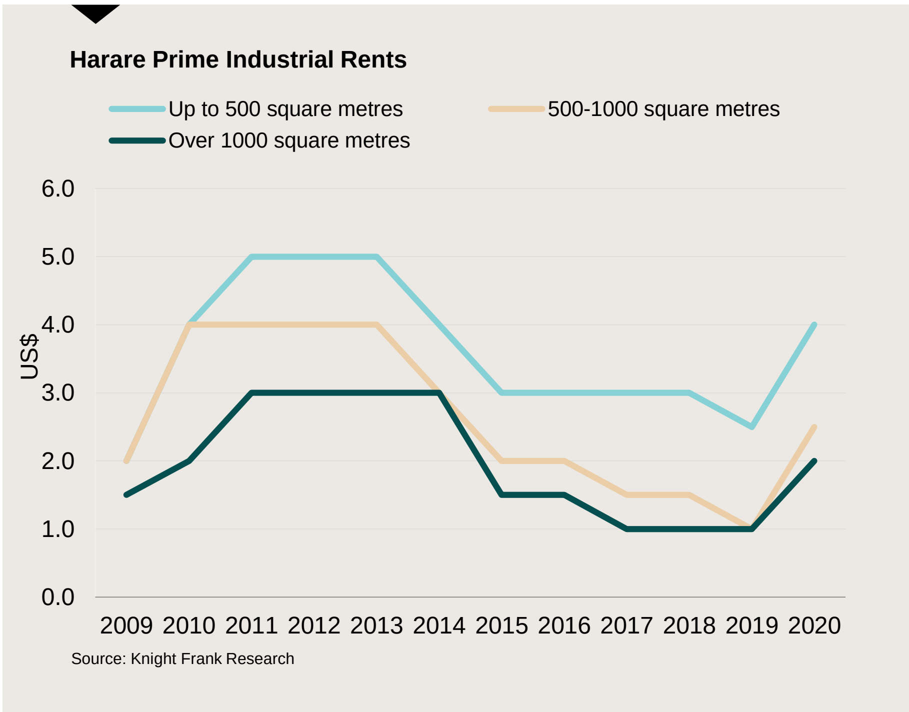
Notable retail developments that took place in the period under review include BJ Southgate Mall in Hillside, Pick n' Pay Aspindale, Metro Peach Wholesalers Sunningdale and OK Supermarket Sanganayi.

Industrial Market

The industrial sector remained strong with regards to warehousing and logistics. As a result, rental rates in Harare increased to between US$ 1 and US$ 4 per square metre depending on location and size of space.

In the period under review, development remained limited without any major construction project.





However, the sector continues to be impacted by the long time challenges of power outages, poor water supply and deteriorating infrastructure

Rental Defaults

The period under review saw a rise in the level of rent defaults across the market. Lockdown measures further exacerbated the situation resulting in some tenants completely shutting down and therefore unable to meet their rent obligations. Moving forward, we anticipate that the subdued state of the economy will result in the majority of these defaults being written off.

H2 2020 Outlook

We anticipate that the property market will remain subdued in the short to medium term, with limited movement in both supply and demand.

However, the elimination of hyperinflation and the achievement of exchange rate stabilisation are anticipated to result in further stability of the sector.

Further, we anticipate that the worldwide drive for Covid-19 vaccination will result in normalcy to international trading and lead to the stabilisation of supply chains

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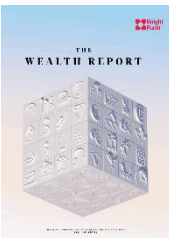

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