

Zambia Market Update

H1 2022

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KEY INSIGHTS

STOP PRESS UPDATE

The IMF Board approves US\$1.3 billion 38 month ECF arrangement for Zambia.

Zambian Kwacha continues to strengthen, trading between 16 and 17 against the US Dollar during the first half of 2022, from 21 in October 2021.

Annual inflation at the end of June 2022 decreased to 9.7% from 10.2% recorded in the preceding month, and 16.4% in December 2021.

However, concerns over the possibility of increased inflation due to fuel as well as grain/wheat price increases, due to the Russian-Ukraine war.

The Bank of Zambia maintained its Policy Rate at 9%, in view of the continued reduction in the inflation rate.

Zambian property market continues to show early signs of revival.

Attractive agricultural investment opportunities.

Prime office rentals continue to remain stable from the start of the recovery period last year.

Prime residential rental transactions have increased with an influx of expatriates and executives of multinational companies.

New opportunities in the emerging property sectors such as medical and education as well as niche opportunities in hotels and leisure.

SOURCE: KNIGHT FRANK

ECONOMIC OVERVIEW

COVID-19

The Ministry of Health (MOH) reports that since the onset of the pandemic there have been 332,104 infections and 4,016 coronavirus-related deaths.

Following the spike in active covid cases from December 2021 to February 2022, Zambia experienced a major reduction from March onwards.

ENVIRONMENT SOCIAL CORPORATE GOVERNANCE (ESG)

Generally defined, ESG is the application of environmental, social and corporate governance factors to assess a company or investment project to determine its level of sustainable development. Worldwide, ESG

issues have taken centre stage with regard to real estate and the degree to which property developers are responding to the issues of climate change, carbon emissions, renewable energy uses and other environmental friendly aspects that their properties possess. Developers, landlords and tenants are collaborating on the development and operation of buildings that will promote environmental sustainability.

ESG in Zambia remains at its infancy stage, with a few developers taking the initiative to incorporate green building techniques in their property assets. The Ministry of Green Economy and Environment, formulated in 2021 aims to promote the matters of climate change and environmentally conscious processes and technologies. The Ministry will be key in formulating legislation that promotes ESG.

Foxdale Court Lusaka, one of the first sustainable commercial buildings in Zambia



THE ECONOMY

As of the beginning of Q1 2022, the Zambian economy is steadily recovering. At the end of June 2022 inflation had decreased to 9.7%. An agreement has been reached between the Zambia government and the International Monetary Fund for the release of US\$ 1.3 billion.

CAPITAL MARKETS

Major market transactions have been very limited over the past three to four years due to a worsening economy and the Covid Crisis. However, with the steady macro economic improvements, growth forecasts and the need for some businesses to raise cash, investors and owners are starting to consider the market again. The local market is relatively mature and surprisingly still in its infancy so there are some long-term opportunities.

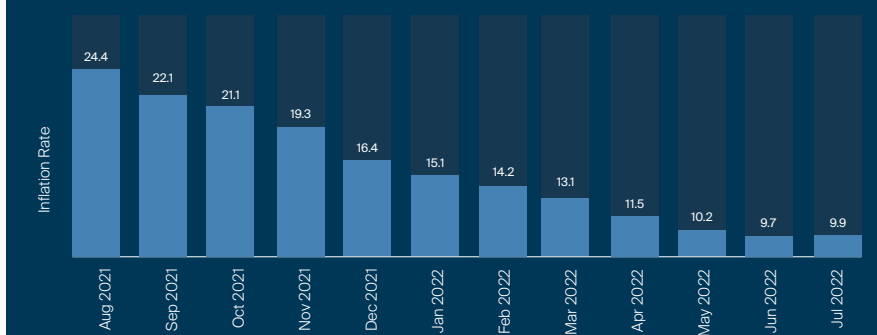
The Zambian Kwacha is the best performing currency in the world against the US Dollar rallying over 18.5% from January 2022.

RESIDENTIAL MARKET

The first half of 2022 saw a continued increase in the sale of well located older residential properties, with a number of transactions consisting of redevelopment projects into apartments and fuel stations in growing local neighborhoods and major roads, often with increasing traffic following road expansion and rehabilitation unto the link 8000 project, L 400 and C 400 in Lusaka and the Copperbelt. In the period under review, overall prime residential rents remained stable underpinned by an increase in expatriates and executives of multinational companies into the country after Covid and a decline in rentals in the preceding year. The market continued to attract incentives from landlords which included lowering rentals or reverting to Kwacha rentals in order to obtain tenants. The demand for housing in general is expected to remain high for the long term, with a high population growth averaging close to 3% per annum.

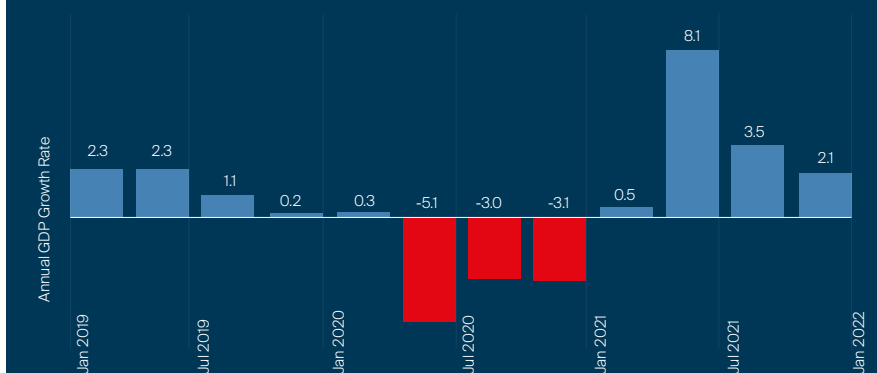
Whilst we expect the dominance of self-build to continue, with the majority of first time home owners buying a plot and developing their house over a period of years due to the historic cost of financing, developers and funders are still exploring the best model for the low-cost market including new fast track prefab methods versus the traditional concrete block. Significantly lower interest rates, which are starting to be offered, could change market dynamics. Lusaka continues to expand outwards and not upwards.

INFLATION RATE



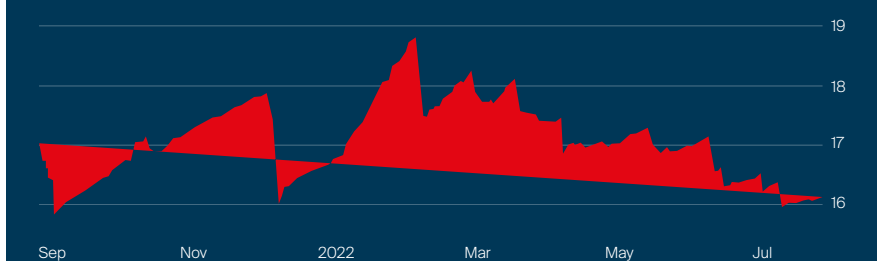
SOURCE: KNIGHT FRANK, CENTRAL STATISTICS OFFICE, ZAMBIA

GDP - ANNUAL GROWTH RATE



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GDP - ANNUAL GROWTH RATE



SOURCE: KNIGHT FRANK, TRADINGECONOMICS

Makeni Heights - New housing project



LUSAKA CONTINUES TO EXPAND OUTWARDS

OFFICE MARKET

The market saw space up take in the 150 – 500 sqm range, stemming from demand from various international organisations. The office market during H1 2022 remained stable with grade A and grade B rentals ranging between US\$15 – US\$18 and US\$10 – US\$14 per square metre per month respectively. Average occupancy rates for prime office space were still at around 65% in the period under review, with a continuing lag of oversupply.

▼ Roma Park



Corporate business occupiers to continue to relocate to new emerging areas; particularly in the hotel and embassy area, the location around the Showgrounds, Manda Hill / Arcades Shopping Centres and Mass Media and further away to Kabulonga, Roma Park, Ngwerere and Leopards Hill as traffic congestion and lack of parking force prime office tenants to the new emerging residential and commercial areas. The Zambian Kwacha is the best performing currency in the world against the US Dollar rallying over 18.5% from January 2022.

RETAIL MARKET

The market now includes hybrid leases; a mixture of USD and Kwacha rentals; more turnover based rentals; shorter leases and negotiations on escalation rates. Occupancies have improved in the majority of malls around the country with retailers and landlords finding common ground for business. Depending on size and location, rents average US\$17.00 - US\$25.00/m² in the prime shopping centers with some achieving rents over US\$30.00 per m².

Continuing demand for smaller, good convenience centers achieving average rents in the US\$10.00-US\$15.00/m² while older, more poorly designed or maintained assets average rents closer to US\$8.00- US\$12.00/m², subject to size and location.

However, construction of new office space is still underway, with multi storey office blocks being developed in Rhodes Park, Kalundu and Long Acres. The upgrade of inner roads around Lusaka under the Lusaka Decongestion Project has improved access and circulation, resulting in the emergence of new commercial nodes such as Roma Park on Zambezi Road and the reinforcing of key existing nodes, as new links and routes open.

HOSPITALITY MARKET

The first half of 2022 saw slow but steady increase in occupancy rates as international travel rose coupled with economic recovery. However, levels have not yet matched pre-covid times. Government are considering or have introduced incentives to revamp the sector include visa fee reductions, waivers on customs duty on safari, buses and coaches for tourism, promotion of traditional ceremonies, and streamlining of visa processing and exemptions. The recently opened Urban Hotel in Kabulonga Lusaka introduced 75 rooms in Q1 2022 and the 249 room Protea Marriot Hotel is now Ciela Resorts and part of Tribute Portfolio Resorts in a tranquil scenic 100 hectare Bonanza Estate. Other new developments in the pipeline include the Urban Hotel Kasama, and the Radisson Hotel in Livingstone.

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▼ Ciela Resort - Bonanza Estate



INDUSTRIAL MARKET

From an oversupply and low rental scenario, this sector of the market moved quickly to see a take up of space in the 500-2000 Sq m range and full occupancy in the prime estates such as York and Krimanvi with rentals in the \$4 -4.50 per sq.m range. Rentals should steadily increase again as logistics will grow with local and regional business needs, and there will be continuing demand for new space.

There have been increased inquiries for logistics and storage space in this sector. In contrast manufacturing still experienced low interest.

US\$

4.25

AVERAGE MONTHLY INDUSTRIAL RENTS PER SQUARE METRE PER MONTH

FARMS AND ESTATES

Increasing agricultural investment opportunities which have always existed but are now more recognised due to improved government policies and a more attractive investment climate.

Zambia covers 75 million hectares (752,000 km²) out of which approximately 58% (42 million hectares) is classified as medium to high potential agriculture production. Only 15% is under cultivation.

Some of the best opportunities are in sugar cane, wheat, avocados, blueberries and nuts such as pecan, cashew and macadamia.

Knight Frank is presently marketing a mix of opportunities – winter wheat, summer soya, seed soya and seed maize farms, plus cattle ranch land and market gardening.

HECTARES

42m

OUT OF 75 MILLION HECTARES

CLASSIFIED AS MEDIUM TO HIGH POTENTIAL AGRICULTURE PRODUCTION

2023 OUTLOOK



Further economic recovery from Q4 2022 based on the staff level agreement reached between the Zambian government and the IMF, which will support growth and foundation for property investment and development.



Continued appreciation of the Kwacha, steady increase in investor confidence, more employment opportunities, funding for business start ups.



New opportunities in the emerging property sectors such as medical and education as well as niche opportunities in hotels and leisure.

“ Retailers and landlords finding common ground for business ”

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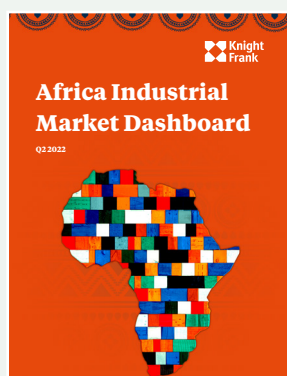
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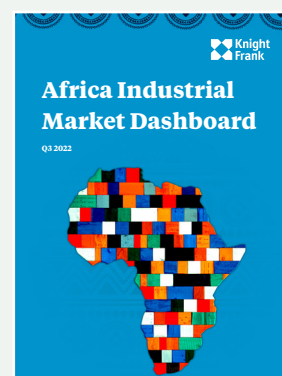
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