

Zambia Market Update

H2 2021

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York Commercial Park, Lusaka

Key Insights

- The Zambian economy strengthened on the back of the 12th of August general election.
- Zambian Kwacha made gains against all major currencies in the months following the election. The Kwacha appreciated by approximately 15% within two weeks of the election.
- The economy is forecast to grow at a stronger pace in 2022.
- President Hichilema’s election should usher in more business-friendly policies and see investor relations improve, while upbeat copper prices should buoy the external sector.
- Government removed withholding tax for rental income in 2022 budget and replaced it with Turnover Tax. For rental income up to K800,000, the TOT rate is 4% while for rental income above K800,000, it is 12.5%.
- At the end of the 2021 inflation had decreased to 19.9%.
- Zambian property market begins to show early signs of revival.
- Prime office rentals have remained stable after a period of decline. Already, anecdotal evidence from Knight Frank Zambia points to increased enquiries from occupiers.
- Prime residential rental transactions have increased with an influx of expatriates and executives of multinational companies.

COVID-19

The Ministry of Health (MOH) reports that since the onset of the pandemic there have been 221,880 infections and 3,691 coronavirus-related deaths.

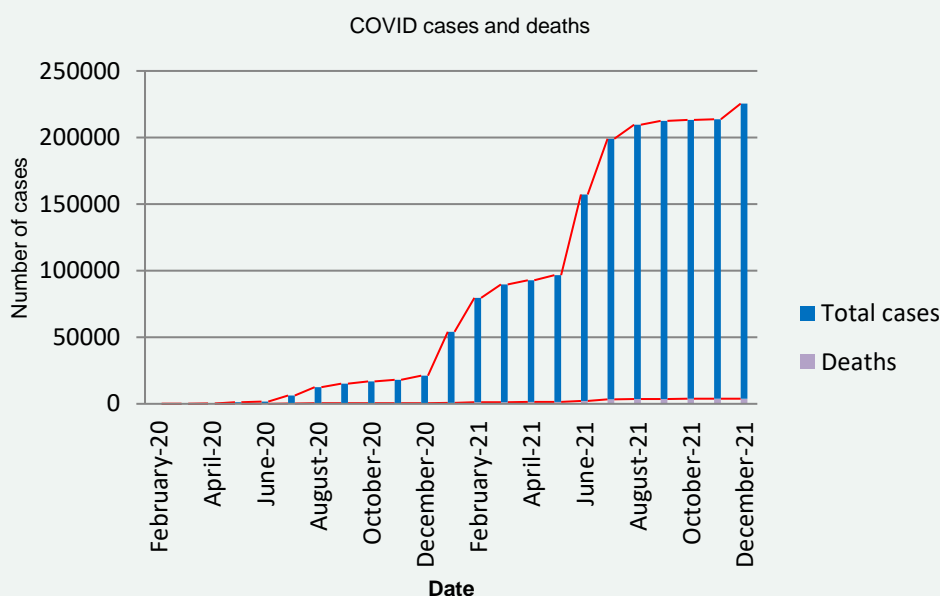
The end of Q4 2021, saw the onset of the Omnicron variant resulting in a fourth wave. Despite this, government implemented limited COVID 19 restrictions enabling the economy to run as normal. Whilst vaccine uptake increased in Q3, in the period under review, Zambia had administered 871,881 doses of COVID vaccines.

The Economy

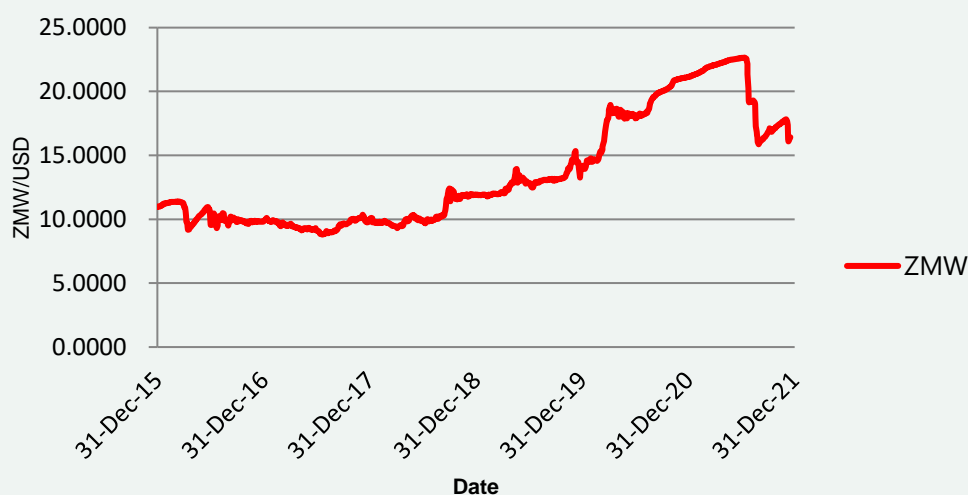
As of the beginning of Q4 2021, the Zambian economy had shown early signs of recovery from the effects of the pandemic. Annual inflation for at the end of the year has decreased to 19.9% from 21.1% recorded in the preceding month.

In December the Zambia government concluded talks with International Monetary Fund for a lending programme. In the long-term, the Zambia GDP Annual Growth Rate is projected to trend around 2.20 percent in 2022 and 2.60 percent in 2023.

COVID cases and deaths graph



6 Year Average Exchange rate



Capital Markets

The market saw an increased number of investment properties coming onto the market in both the commercial and residential sectors during 2021. While opportunities to purchase investment properties increased we are yet to see any real appetite from prospective buyers, but it is certainly an area that must be monitored closely with increased transactions more likely as a result of an improved economy in the longer term. The last transaction of note in this sector occurred in 2018 when REIT Growthpoint Investec African Properties purchased Manda Hill.

Residential Market

The first half of 2021 saw an increase in the sale of prime residential properties, with a number of transactions being recorded during this period. In contrast to 2020, it was noted that in some transactions, client's achieved their asking price or even slightly higher, which goes against the trends seen in the last 2 years.

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 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.

Office Market

The market recorded an increase in enquiries and take-up activities underpinned by an increase in demand from various international organisations. The office market at the beginning of Q4 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 approximately 65% in the period under review.

In the last 3-4 years we have seen a differentiation in Office space between Grade A and B. This is largely due to the introduction of the new Standard Chartered Bank House, Evexia and ZEP-RE Office Park.

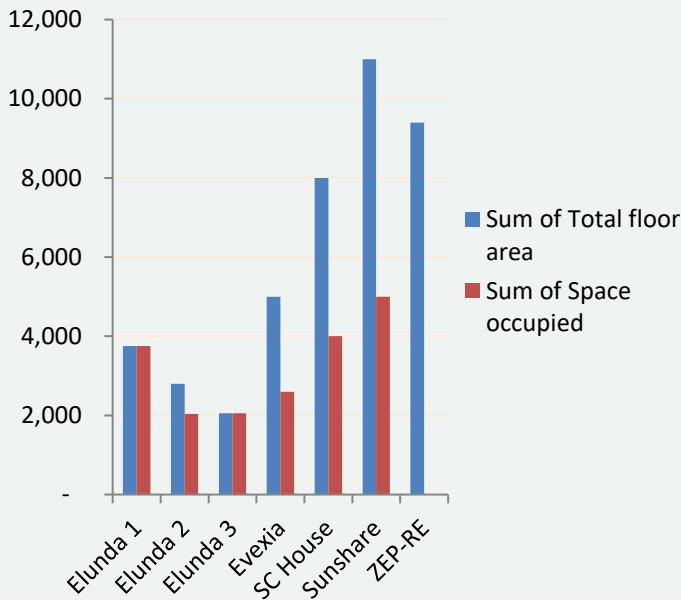
Q4 2021 also saw the emergence of serviced offices as an alternative to the traditional long-term lease and office layout. Tenants are looking for flexible solutions as result of the uncertainty created by COVID 19, with Latitude 15 degrees, Bongo Hive and No.4 Bishops Road all recording occupancy's of 80% and above.

Retail Market

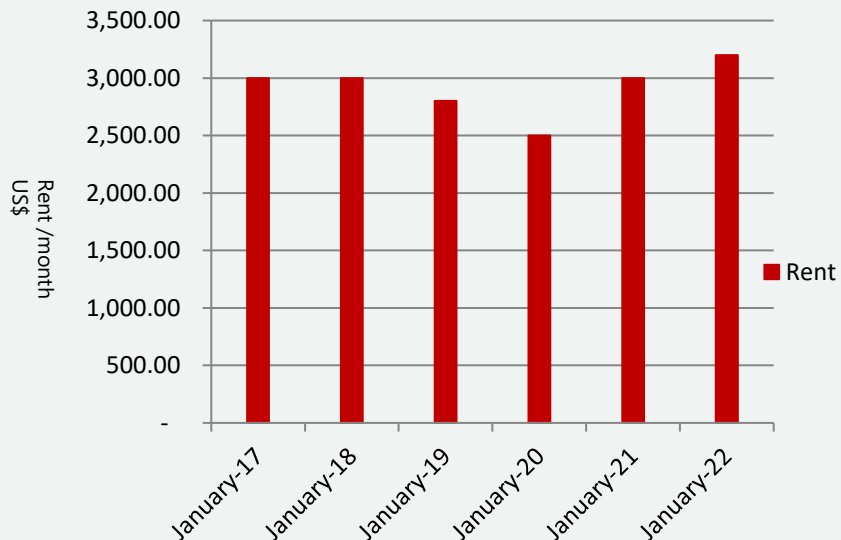
Landlords and tenants have continued to renegotiate their lease terms against the backdrop of a subdued economy. This includes hybrid leases; a mixture of USD and Kwacha rentals; more turnover based rentals; shorter leases and negotiations on escalation rates.

As a result of the pandemic, retailers such as Pick n Pay have resorted to reducing their floor space in various mall locations. However this effect has not

Prime office space occupancy graph



Average prime rents for 3-4 bedroom houses in Lusaka



been blanket and retailers such as KFC and Roman's Pizza have continued with their expansion plans. Overall, retail developments are likely to remain on hold in the near to mid term as the economy remains subdued.

Industrial Market

The prime industrial sector remains resilient but has been under increasing pressure from the large oversupply of warehouse space in the secondary market. This gives tenants a quick fix cheaper accommodation solution, even on a short term basis, unless landlords are willing to negotiate on rents and terms for prime space, currently in the order of US\$4.50 per sqm per month. However the recent successes of York Commercial Park, Zambia's flagship Industrial development, would suggest a turn of fortunes for this sector.

Farms and Estates

Local soya and wheat prices increased significantly for the 2021/2022 farming season. The rain forecast is better than the last season, with an expected average or above average rainfall, in different parts of the country.

Zambia is often viewed as a safe haven due to its relative stability – attracting private and institutional investors. Over 40 million hectares of the country, are classified as having medium to high potential for agriculture production; only approximately 1.5 million hectares are cultivated annually.

Significant volumes of water available for irrigation. Various traditionally grown crops include staples such as maize, wheat, soya, other grains and other higher value crops such as nuts/citrus are growing in importance.

Agriculture contributes about 35% to the country's non-traditional exports and about 10% of the total export earnings for the country. The agriculture sector employs more than half the total labour force in Zambia, bearing in mind that only 15% of arable land is under cultivation.

Zambia occupies a strategic trading position in sub-Saharan Africa, bordered as it is by the Democratic Republic of the Congo, Tanzania, Zimbabwe, Angola, Mozambique, Namibia, Botswana and Malawi and is a member of the SADC group of Southern African countries.

It is one of the few countries in the region to have an annual surplus of cereal crops, which is exported officially or informally to these eight countries.

Corporation Tax for agriculture is only

10% compared with 35% for other sectors.

2022 Outlook

Forecasts estimate GDP Annual growth rate in Zambia for 2022 is 2.20% with inflation forecast to trend in single figures in 2023. Economic recovery from Q1 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.

The end of the year witnessed a number of transactions agreed in principal across both the residential and commercial sector, the strongest indicator yet that we are likely to see a significant increase in activity. We are of the opinion that a prolonged period of economic stability will lead to an increase in transactions. We anticipate more market activity Q2 2022, however the ability of the government to address the historic debt issue may delay this until Q3 2022.

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