



Q2 2012

Zambia

Market Update

Knight Frank

HIGHLIGHTS

- Bank of Zambia SI 33 means all contracts must be in Zambian Kwacha
- Retail development slows as tenants gauge market activity
- Supply of available quality office space declining rapidly
- Kwacha gains against US dollar over Q2
- Interest rates continue to slide as banks become more aggressive
- Foreign interest remains strong for large farms



Statutory instrument 33

- **Existing contracts must be converted to ZMK at the spot selling rate rate of 18 May 2012**
- **Requires simple amendment to existing contacts**
- **All new contracts must be written in ZMK**

The recent Statutory Instrument Number 33 (SI 33) as issued by the Bank of Zambia (BoZ) on 18 May 2012 will have an effect on real estate transactions in Zambia on several levels.

From quoting valuation reports; residential rentals; sale of property to existing property management contracts, all financial aspects of these existing contractual agreements must now be converted into Zambian Kwacha (ZMK), using the applicable conversion rate of the spot selling rate as of 18 May 2012.

This does not mean that all contracts must be re-written in their entirety; it simply means that a one-page amendment to a specific clause or clauses indicating that all financial aspects of the contract must be quoted in ZMK should suffice the requirements of SI 33.

For the quotation of services, fees or goods, all amounts must be quoted in ZMK. This will apply to all transactions going forward, as well as any transactions signed prior to 18 May 2012 which have not been completed to date.

It should be noted that real estate transactions in Zambia currently involve several foreign currencies.

For those contracts signed prior to 18 May 2012, they will have to be converted to ZMK as of the rate used on 18 May 2012. For those signed after 18 May 2012, they will have to express the value in Kwacha.

For commercial and residential sales, all asking prices must be quoted in ZMK, and all currently listed properties and all associated marketing information must be changed to reflect pricing in ZMK. For those companies with global websites advertizing property in Zambia in a foreign currency, the posting of a conversion rate to ZMK, or a link to a website indicating conversion rates should satisfy BoZ requirements.

Currency Conversion Rates – Selling Rate
18 May 2012

EUR	6,661.46
GBP	8,295.90
USD	5,241.95
ZAR	629.85

Bank of Zambia

All existing commercial and residential lease agreements must be converted to ZMK with conversion rates used as of 18 May 2012. Again, this does not mean that any other clause or portion of the Lease can be altered, as it is simply an amendment to an existing lease agreement with respect to financial transactions, and no other clause.

As for new lease agreements, all must be quoted in ZMK, regardless of the client's residence, or location of their bank account, because if the property is located in Zambia, all financial transactions associated with it must be quoted in ZMK.

For these new lease agreements, we expect to see clarification on annual escalation rates, as the official Zambian inflation rate as indicated by the Central Statistical Office of Zambia could be utilized as the official benchmark for inflation rates going forward in all contractual agreements.

As for general property values going forward, many property owners have mortgages/property loans in foreign currencies for properties in Zambia. Property values may be affected in the short-term, as generally higher interest costs associated with new Kwacha based loans impacting on demand. Furthermore, mortgagors with pre-existing foreign currency based loans will shoulder an exchange rate risk on repayments, with future income being Kwacha based.

Tenants will pay their rent in ZMK as per SI 33, and according to their existing lease agreements. As leases expire or new leases are written, landlords will have the ability to change the terms and conditions of their lease agreements to reflect these changes set out by BoZ.

This change in policy by BoZ may cause some short-term discomfort for landlords and tenants, but in the long run the effects of this policy should be to strengthen the ZMK in international markets.

This Statutory Instrument does not begin to address the potential complications and confusion surrounding of re-basing the currency planned for some time this year.



Residential

- **Rental rates for high end housing declining**
- **Quality available property remains elusive**
- **Increased demand for stand-alone housing**

Rental rates for high end housing continue to slide as demand remains low, and vacant units are coming to the market. As some of this can be attributed to normal temporal conditions, the market is slowly shifting from a landlords market to a tenants market as more choice of availabilities in affordable price ranges are coming to the market.

High-end quality housing remains elusive for occupiers as most trophy properties are being purchased as investment properties, or as redevelopment sites which enjoy good locations, large plots and small existing structures.

Sales of high end single family homes have remained slow, however leasing activity has been buoyant. Demand for units in newer up market areas further away from the city centre has increased. These areas provide better value as rentals are generally lower, but housing product is new, and often in secure complexes.



The market is seeing increased demand for stand-alone housing as international based groups look for increased security offered by stand alone housing compared to cluster developments.

Industrial

- **Increased foreign interest in large industrial developments**
- **Improved infrastructure remains critical to future development**
- **Zambia as distribution centre makes sense for retailers**

Zambia is witnessing increased interest levels from industrial developers as the market is perceived as under-serviced and does not cater to 21st century requirements of international corporations. The development of new facilities in key areas will assist in securing new industry and manufacturing business for Zambia.

Inhibitors to foreign investment in this market range from a lack of a clear economic policy going forward; perceived issues with land ownership and its associated rights; and continued delays at the improvement of roads and infrastructure. Although some road works have taken place across the country, it has done little to entice new industrial development in Zambia.

Interest centres around Lusaka as it is viewed as an entry point from South Africa into the centre of the sub-Saharan market. With potential improved connections to Tanzania and Namibia by rail and road, Zambia is well located to service the seven neighbouring countries in the SADC region.

Retail

- **International retailers looking for sales to improve prior to further expansion**
- **Most new developments focusing on servicing existing neighbourhoods**
- **Re-basing the Kwacha may cause problems for retailers and consumers alike**

Now that Zambia has witnessed the invasion of South African retailers in the three new malls to Zambia, they seem to be resisting further expansion until their new locations can prove they can meet revenue expectations for these new locations. All three new malls are seeing some tenants looking to leave because of poor sales and the inability to cover rental commitments.

In more traditional retail locations, tenants are seeing a general slow down in sales as customers seem to be more careful with cash and unwilling to commit to larger purchases.

Re-basing the Zambian Kwacha

Old Notes	New Notes
	100
50,000	50
20,000	20
10,000	10
5,000	5
	2

Bank of Zambia

Uncertainty in the Kwacha may create issues for tenants as trading in foreign currencies has stopped and confusion in the re-basing of the Kwacha has both retailers and consumers alike looking for clarification on process. Once the re-basing has been explained and implemented, we expect to see a return to normal spending patterns as the holiday season approaches.



Office

- **Only one office project started in Lusaka in 2012**
- **Vacancy rates dropping as speculative space leased**
- **Infrastructure will determine next office development node**

With only one new office development under way in Lusaka, we are quickly moving towards a market that will favour landlords more heavily than ever before. The days of tenants having choice when looking to upgrade their office space in Lusaka will soon be over, as the majority of speculative space has been leased at competitive rates.

Tenants may be forced to accept unfavourable terms to satisfy their requirements for updated/larger space as flexibility and available options evaporate. This lack of new space will force office tenants to plan more carefully for future expansion and staffing needs, and begin this planning process at least eighteen months prior to their current lease expiry date.

One of the issues facing developers of new office space is finding the next development node in Lusaka. As the Mass media area behind Arcades reaches capacity, developers and users alike look to see where the next development node will be located, and how to act quickly to achieve the most affordable price for new office space.

All indications point to the provision of infrastructure to draw tenants to new locations: good roads, sufficient electrical power, public transit, fibre optic cable availability, and plenty of parking.

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.

Consulting

- **Is indexation an answer to SI 33 for construction contracts?**

Like many other sectors which rely on the import of materials from outside the country, the development industry is in a quandary about the abrupt introduction of SI 33.

Amongst issues such as increased transaction costs in having to deal with forex intermediaries, one of the main risks for contractors relate to the monetary value of future contract payments in Kwacha for goods and services that a contractor has to pay for from outside in foreign currency, or for future repayment of foreign currency based loan facilities, (which are not impacted by the SI).

The matter relates to confidence in the strength of the Kwacha, and the exchange rate risk posed by Kwacha denominated contracts. A response of contractors to hedge contract values based on a weaker exchange rate, ironically may result in higher inflation and perpetuate a weakening of the currency.

One potential solution is to use indexation, (i.e. pegging the value of a Kwacha based contract against its prevailing rate with a foreign currency) however there is still significant uncertainty over the lawfulness of this approach. This stems from the clarifications paper

sent by BoZ, which states that existing foreign denominated contracts have to be converted into a Kwacha value based on the prevailing spot rate as at 18 May.

The SI and the clarification is silent however on new domestic contracts, clearly because these should be based on Kwacha values. Does this present a green light for the use of indexation, and maintaining the status quo where the end-user shoulders the burden of exchange rate losses?

It appears that this principle is being market tested, with some property owners already charging their tenants in Kwacha equivalent based on the prevailing spot rate. Ultimately clarification may come from a challenge from a payee, but until then most people are adopting a 'wait and see' approach.

Farms and Estates

Ongoing investment in, and interest for commercial farming land throughout Zambia. Additional investment is generally required on top of the land purchase price in order to achieve the required power and irrigation facilities for profitable and modern commercial farming.

Recent significant overseas investment in Mpongwe and Mkushi farming areas and continued investor interest in Zambia for new agricultural projects, from both overseas and local investors. Most enquiries are looking for a minimum land size of 2,000 hectares.

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