

ZAMBIA PROPERTY MARKET UPDATE 2nd HALF 2015



HIGHLIGHTS

- GDP growth expected to slow to 4% in 2015
- Inflation jumps to 19.5%
- Office supply still increasing in Lusaka
- Opportunities for medical and educational facilities
- Weakening of local currency
- Increasing competition between retail schemes in Lusaka but opportunity for new malls countrywide
- Improved roads and better access to new industrial and warehouse nodes around Lusaka.
- Agricultural sector attracting increasing investment

ZAMBIA PROPERTY MARKET UPDATE

2ND HALF 2015

Economic Update

Zambian GDP in 2014 was 7.1%, but forecasts expect the growth to be below 4% in 2015 and to move back above 5% in 2016.

Recent inflation figures are at 19.5% (average) and the Kwacha fell by about 50% against the US dollar in 2015.

Depreciation of the Zambian Kwacha since June has contributed to the rise in inflation and higher rental and operating costs.

Short term concerns with power shortages and the mining industry but significant gains to date when viewed over the last decade and overall the longer term growth and business prospects remain positive.

Decline in the price of copper and appreciation of dollar globally contributed to weakening of the local currency.

Continued investment in infrastructure especially in roads (Link 8000 project) and power generation.

Stable exchange rate is key to the growth of the real estate industry particularly as a large amount of building materials are imported.

Importance of demographic trends and urbanisation driving growth and property market expansion in all the major towns around the country.

UN forecasts suggest that the population of Lusaka will double during the period 2010 – 2025.

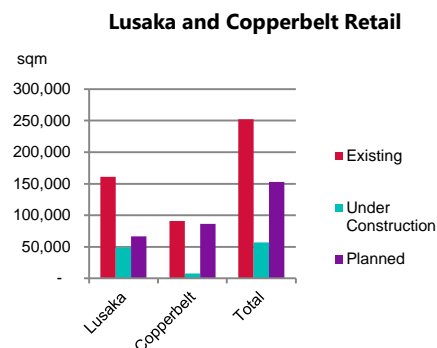
Property Transfer Tax is 10% (reduced to 5% with effect from 1.01.2016) paid by seller, on the sale price.

Withholding Tax at 10% on rental income.

Retail

The population of Africa is not only growing, but it is increasingly urban; urban dwellers are projected to be the majority by 2040.

Figure 2



Cities such as Kampala, Dar es Salaam and Lusaka are among the fastest growing metropolitan areas in the world.

Increasing supply of new malls in Lusaka will result in competition between retailers and pressure on retail rentals.

Lusaka has approximately 160,000 sqm of existing mall space, with another 50,000 sqm under construction and a further 60,000 sqm planned.

Out of almost 275,000 sqm of existing mall space around Zambia, close to 85% is concentrated in Lusaka and the Copperbelt towns.

Figure 3



As the sector grows and competition between retail schemes intensifies, developers will increasingly look for opportunities outside of the current hotspots and turn their attention to second and third tier cities.

Selecting the right micro locations for development will become increasingly crucial to the success of new schemes.

Continued demand for space from South African and regional retailers, however the capacity of local retailers to expand out of Lusaka and the Copperbelt or into new provincial towns is limited and the sector needs structured economic support to grow.

Demand for new malls in suburban areas and growing provincial towns.

Offices

The traditional locations in Lusaka for upscale offices are in the following areas:

- Thabo Mbeki Road/Great East Road
- Addis Ababa Roundabout
- Embassy Triangle

Figure 1

Graph showing the Zambian Kwacha against the US dollar, June to December 2015

ZAMBIAN KWACHA



Figure 4



**Pangaea Office Park,
Great East Road Lusaka**

The positive aspects of this type of development are as follows:

- Decentralisation of the Central Business District;
- Supply of modern open plan office space;
- De-congestion and better parking;
- Support to the growth of commerce in the local economy.

However the continuing supply of office development in these areas is now creating CBD type pressures from traffic for access and parking.

The international corporate market has expanded, especially in the financial banking and mobile phone sectors.

Figure 5



**York Commercial Park Warehouse,
Kafue Road Lusaka**

REGUS the global corporate serviced offices group have taken 750sqm in the new Blue House to be launched Q1 2016.

With an increasing number of new prime offices in supply on the market, there may be pressure on rentals from Q2 2016.

Demand for startup economical office space, from 50 to 200 square metres in Lusaka now increasing in the other towns.

Industrial

Improved roads and better access allowing for the expansion of industrial and warehouse nodes around Lusaka such as the Government promoted Multi Facility Economic Zones and private sector driven Roma Park and York Commercial Park.

There is increasing demand for logistics and storage solutions to support growing distribution businesses around the country.

Demand for better occupier facilities meeting international standards has stemmed from the growth of road transport into Zambia, as products are imported to support the mining, construction, retail and agricultural sectors.

The new 40 hectare York Commercial Park launching Q1 2016 offers modern logistics solutions previously unavailable in the market, with options to lease, design-and-build properties or to purchase serviced sites for owner-occupation.

Investment

Recent high profile commercial property investment transactions in Lusaka and the Copperbelt giving developers an exit strategy previously not available.

Highlights include the entry of Delta Africa and SA Corp (Old Mutual) investing in retail malls, Mukuba Mall and Kafubu Mall in the Copperbelt and the portfolio of East Park, Acacia Park and Jacaranda Mall, respectively and the sale of the 10,000 sqm Pangaea Office Building, in Lusaka, to an East African investor.

Residential

The market is still dominated by self build due to the continuing high cost of borrowing with Kwacha interest rates ranging between 20% to 25%.

The country has a major shortage of housing. In 2012, UN – Habitat estimated a housing deficit of around 1.3 million units in Zambia.

Continued sub division of former agricultural farms around Lusaka into smaller plots for sale, on estates with varying levels of services and price entry points.

Schemes include Lusaka Heights, Roma Park, Bonanza, Sitalunga, Roan Park and Nkwashi, with locations shown in Figure 6. Plots ranging in size from 500 sq.m to 20,000 sq.m.

Slow take up of new houses for sale in planned developments.

The movement of employment to the eastern part of Lusaka will continue to have a significant impact on the direction of growth.

The dominance of residential districts in the east is likely to continue, along with the new development in areas along Kafue Road to the south.

The year saw the RDA accelerate the implementation of the accelerated National Roads Construction Programme, also known as Link Zambia 8000 Project, the Lusaka 400 (also known as L400), the Pave Zambia 2,000 and the upgrading of selected township roads across the country.

For lower and medium income groups, access to adequate sized loan amounts, at reasonable rates is limited. The situation is comparable with other countries in the region, where there is a large affordability gap between housing costs and real incomes.

Other Markets

Farms and Estates

Zambia offers some of the best wilderness, wildlife and agriculture land in Africa, with a unique range of lodge and agricultural opportunities for private and commercial investors.

Agriculture

Although the agricultural sector employs more than half of the total labour force, only 15 percent of the arable land is under cultivation.

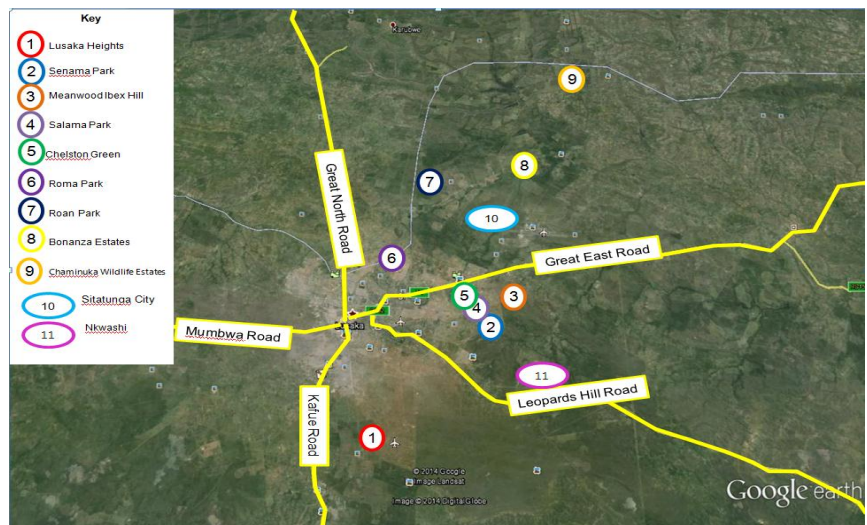
It is because of this potential that the government encourages investment in commercial farming and has established farm blocks to facilitate investments in agriculture.

This sector is expanding with many investors now looking at commercial farming opportunities.

Most investors are looking for well established farming areas with water and power, the main areas of interest to investors are:

- Mkushi \$1200 to \$2000 per acre.
- Mazabuka \$900 to \$1500 per acre
- Mpongwe \$1200 to 2500 per acre
- Chisamba \$900 to \$1500 per acre
- Choma / Kalomo \$900 to \$1250 per acre

Figure 6



Serviced Plot Schemes, Lusaka

These prices are for good fertile soils under irrigation.

Land values vary in all areas, depending on road access, power, water, infrastructure and soils.

Medical Facilities

In both rural and urban areas the health infrastructure remains inadequate.

The sector infrastructure includes both public and private facilities which have increased over the last decade in urban areas.

Opportunity for constructing new health infrastructure. Increasing private sector driven medical facilities in urban areas, and there is a requirement for more specialist services to meet a growing and predominantly young population.

Educational

This is a fast growing sector with an increasing number of new universities and colleges offering courses, with concurrent property requirements. For example Cavendish University, who recently launched their new administration and education centre along the Great North Road in Lusaka are presently searching for a 15 acre site for a new campus in Lusaka.

Figure 7



Kota Kota, Lake Kariba, Siavonga

Summary

There will be challenging short term concerns and uncertainty, however, a medium to long term focus and plan is needed to achieve success in the many property opportunities across Zambia but power shortages and mining retrenchments will have negative effects on some property markets.



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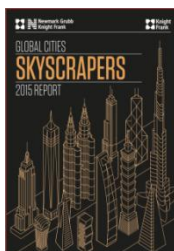
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