

ZAMBIA PROPERTY MARKET OUTLOOK Q1 2016

Economic Update

Uncertainty, power shortages, worse economic data and the national elections on 11 August 2016 continue to dominate the market. GDP growth of 3.6% last year was the lowest for 10 years.

The depreciation of the kwacha by more than 40% in the last two quarters of 2015 severely disrupted the property market, where prime properties traditionally lease in US Dollar based rentals causing real challenges for most tenants and in turn landlords.

The Kwacha recently gained, trading at around K9.5 to the US Dollar, inflation improved to 21.8% (14% above the target) and the copper price increased to above US\$4,900 per tonne in Q1 2016. This data will allay some of the fears and uncertainty for 2016 but it will be a slower and more difficult year for business owners, developers, investors and tenants especially with interest rates much higher at 35%.

In the medium to longer term , despite current challenges the overall outlook for the property market is mixed with some sectors such as residential in suburban neighbourhoods and provincial towns and the logistics / warehousing sector likely to perform better than others.

Office

Prime office supply in Lusaka is approximately 30,000sqm dominated by half a dozen new buildings of 2,000 – 4,000 sqm in the Arcades, Mass Media area and the new 12 storey 14,000sqm Sun Share Tower behind Radisson Hotel, due to open Q1 2017.

FIGURE 1

Zambian Kwacha against the US Dollar, January to April 2016



Source: www.tradingeconomics.com | OTC Interbank

Retail

New retail malls, particularly in Lusaka, dominate this sector with the 17,000 sqm Cosmopolitan Mall anchored by GAME and Shoprite opened in March 2016.

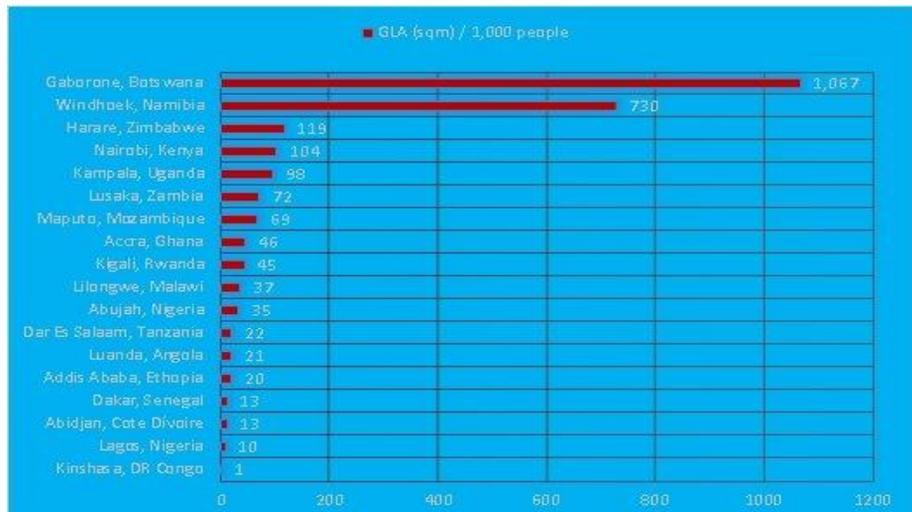
Lusaka retail is probably oversupplied at this time and combined with the economic downturn, this is causing stress for tenants and landlords. We expect tenant changes and vacancies in some of the prime malls such as East Park, Manda Hill and Levy Junction.

In the longer term however, the outlook is very positive, as the key drivers of urbanisation and population growth combined with better economic data will improve consumer demand.

In addition though developers will need to differentiate their malls from the competition by offering access to international brands, leisure facilities and upscale consumer experiences and refining tenant mix to suit different neighbourhoods, offering better car parking and access.

FIGURE 2

Shopping Centre Space per 1,000 people



Source: Knight Frank – Shop Africa Report 2016

Logistics

This sector will be key in supporting the growth of the Zambian economy over the next 5 years with the increasing need to supply expanding business around the country and the region, alongside better infrastructure.

Supply of prime well located warehousing in this sector in Lusaka is low but Actis, the pioneering UK investor and Improvon the largest South African logistics park developer have teamed up to develop logistics parks in key cities in Africa, the first of which is the York Commercial Park in Lusaka. The first phase is now available with purchase and lease options for occupiers.

FIGURE 3



York Commercial Park, Kafue Road, Lusaka

Residential

Worse economic fundamentals have slowed activity in the residential sector, which is still dominated by self build. Higher interest rates and increased building costs due to the kwacha devaluation and reliance on imported products have dragged the market back.

If more affordable mortgages are available the outlook will improve. Most purchasers are first time buyers who are building homes for the first time.

There is a wide choice of serviced and unserviced plots for sale on the outskirts of Lusaka and increasingly on the edge of other towns throughout the country, and this is the main growth area for this sector of the property market.

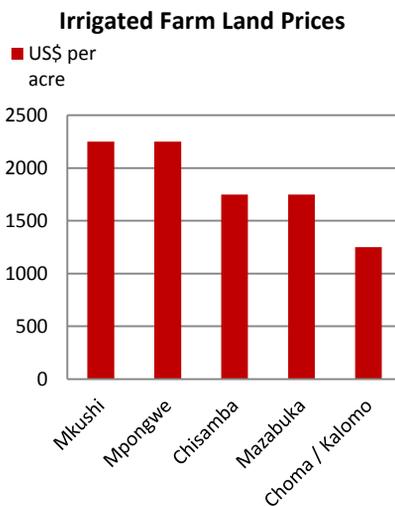
Prime residential in the best locations, such as Kabulonga and Sunningdale, still attract premium prices and remain an excellent long term investment as lack of supply and choice, combined with rising land values offers redevelopment and plot enhancement opportunities.

Farms and Estates

Zambia offers some of the best farmland on the continent. The agricultural sector is expanding as a result of favourable government policies with a focus on greater diversification of the economy, and growing investor interest and the outlook for this sector is as good as it has looked for years, despite the lower than average rainfall this season.

The main summer rain fed crops are maize and soya beans whilst irrigated winter crop is wheat; other crops are tobacco, sorghum, coffee, sunflower and cotton.

FIGURE 4



Zambia Farming Areas

Source: Knight Frank Research

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