

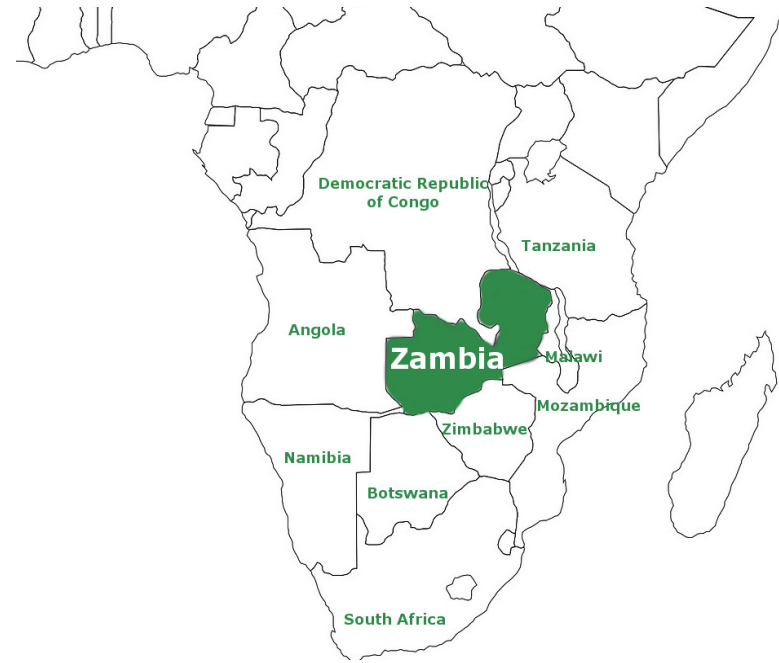


A Focus on **ZAMBIA**

“A New Era”

Presented & Moderated by

Sonny M. Mulenga, BSc (Hons), MRICS, MIVSA, CEA



Presentation - Team Summary

Property Expert - Presenter



Sonny Mulenga, BSc(Hons), MRICS, MIV(SA)

Executive Director & Head of Valuations
McBright Africa Real Estate

- BSc (Hons) Land (Real Estate) Management (UK)
- RICS Chartered Surveyor (UK)
- Registered Valuation Surveyor (ZM)
- Professional Associated Valuer (SACPVP)
- Professional Member SA Institute of Valuers (SA)
- Certified Estate Agent (CEA) - EAAB

+20 years of real estate practice

Has worked in various countries in SADC and MENA regions and carried out strategic advisory and valuation work with assets collectively worth in excess of USD 10 billion over career.

Panel of Experts



Inutu Zaloumis-Kalumba

Co-Founder & Managing Director
Pam Golding Properties Zambia
BBA (Hons) – CBU
Registered Estate Agent (ZM)

+17 years of real estate practice

Has worked with a wide spectrum of investors, developers, financiers, and end-users with experience in all asset types.



Jacqui Chilonga

Managing Partner
Stoneridge Property Group
Registered Estate Agent (ZM)

+20 year of real estate practice

Has worked in South Africa and Zambia for major property franchise groups such as Chas Everitt International before embarking to setup Stonebridge Property Group in Zambia.



Roy Mabingo

Senior Sales Manager
NHEF Empowerment Fund – (Developer)
BBA (Hons) – Cavendish

+12 year of real estate agency practice

Focused on residential and commercial properties. Working on large residential estate development in Zambia.

Overall Topics



Politics & Macro-Economic - Update

Political elections and its impact on expected policy direction/changes
Macro-economic indicators such as inflation, exchange rate and Debt.



Real Estate Market - Update

The “real state” of the real estate market taking into account the impact of
COVID pandemic.



Questions / Answers

Local Expert Panelists.

National Election Results – 12 August 2021



- **Hakainde Hichilema**
- New President of Zambia
- Successful private businessman & farmer
- Studied Economics at University
- Has promised fiscal discipline from government and to transform economy to the bread basket of the region as well as tackle corruption.

Voter Turnout	71%
Registered Voters	7,023,499
Votes Cast	4,959,332
Votes Rejected	126,569

Hakainde Hichilema	2,852,348
Edgar Lungu	1,870,780
Others	109,635
Total Valid Votes	4,832,763

Source: ECZ

Overall the elections and transfer of power were peaceful and this has boosted investor confidence.



- **Edgar Chagwa Lungu**
- Former President of Zambia
- Studied Law at University
- During his rule there was lack of fiscal discipline from government.
- Lost elections due to adverse economic conditions and perceived lackluster approach to tackle corruption.

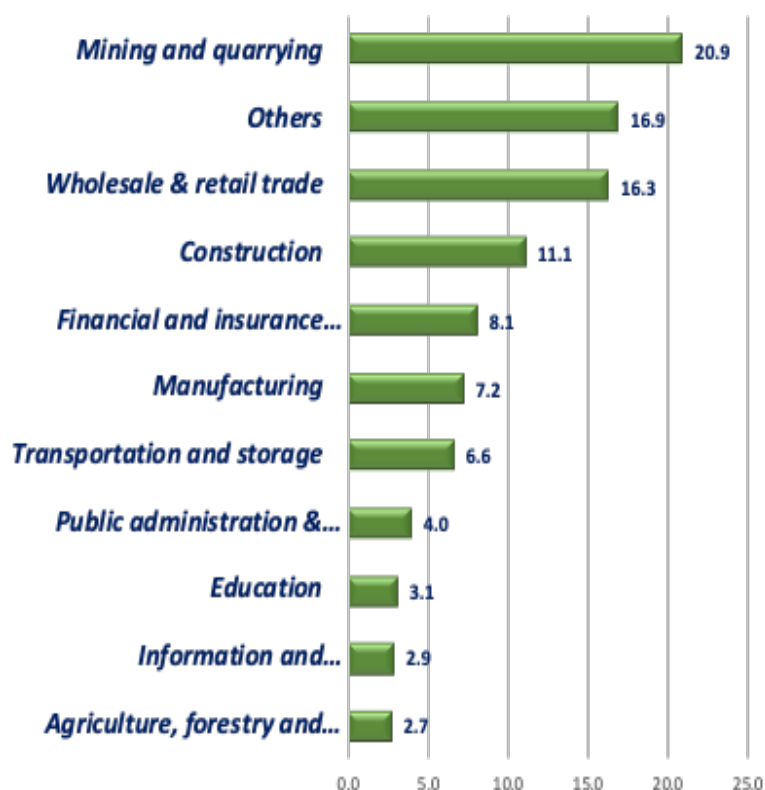
Inflation Rates & GDP Growth

- Population estimated 17.89 million. GDP US\$ 19.6bn for Year-End 2020.
- GDP growth rate **-3.0%** and inflation **15.7%** in 2020 which is Zambia's first recession since 1998.
- Tourism, wholesale and retail trade, construction and manufacturing sectors contracted largely due to COVID-19 pandemic and travel restrictions.
- Unemployment rate still very high. (Official figures reported it to be around **12.5%** which appears unrealistic).

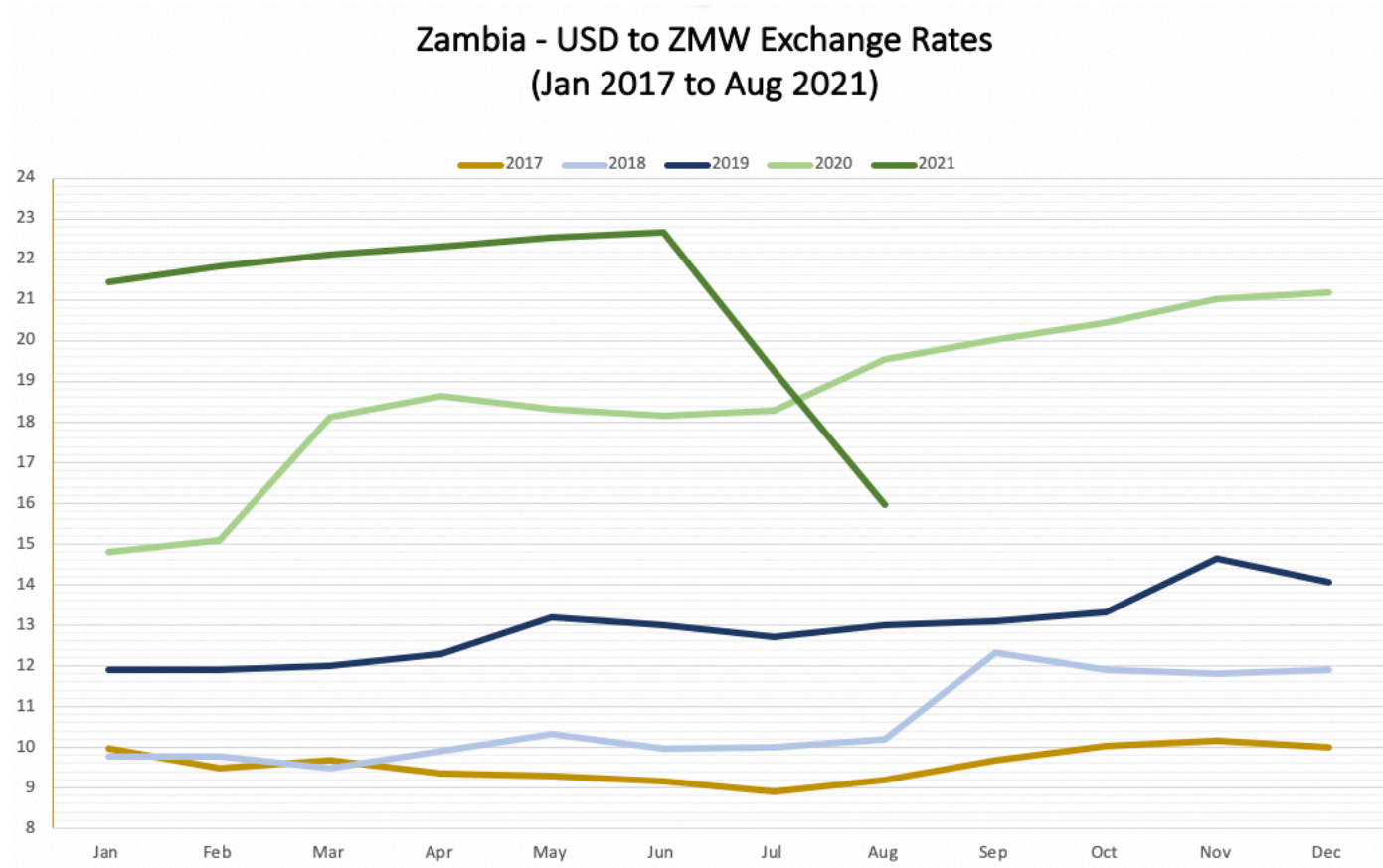


Real GDP Growth Rate & Sectors

- Mining sector continues to account for highest share of GDP and foreign exchange inflow.
- 2020 copper production was 882,061 tons up by 13.6% from 2019.
- Copper prices on LME averaged USD 9,433 / ton in July 2021. Production and current revenue indicators show 2021 will be a record revenue year from copper exports.

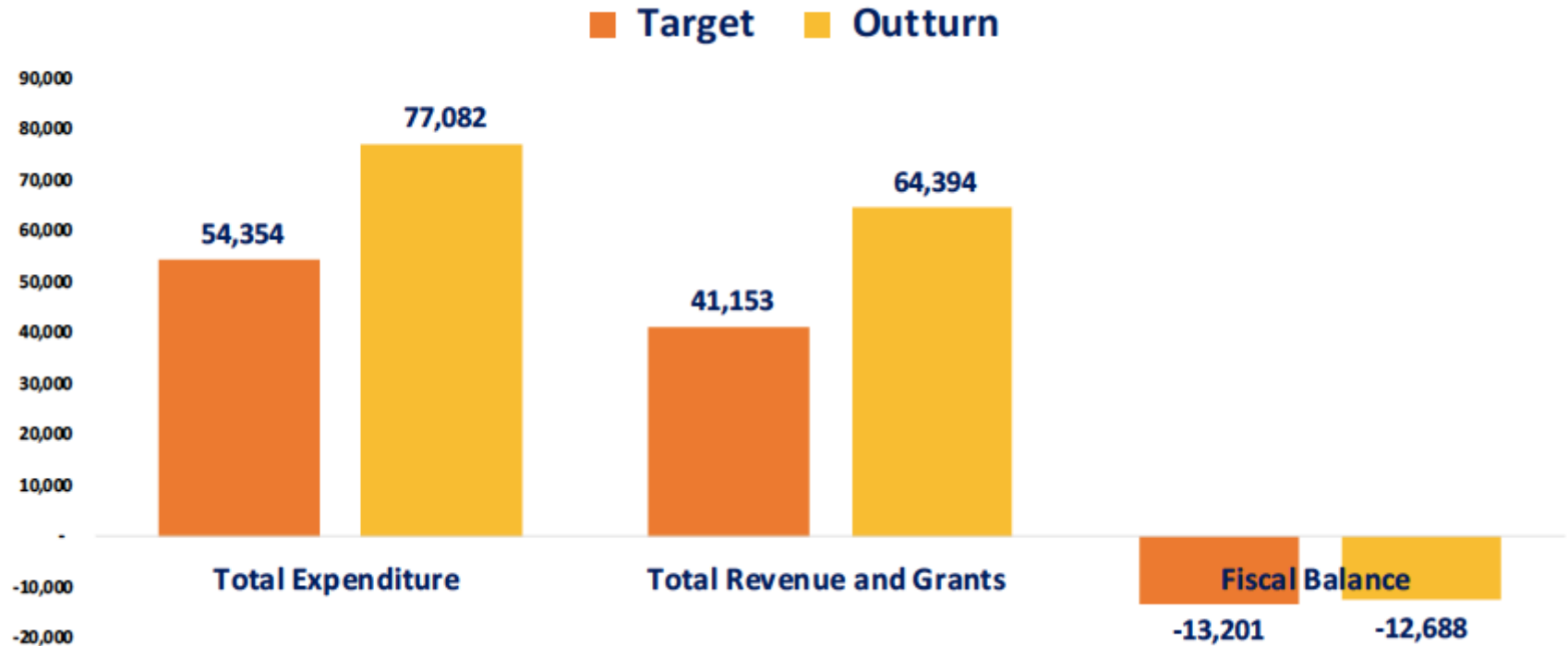


Zambia – Exchange Rate Performance



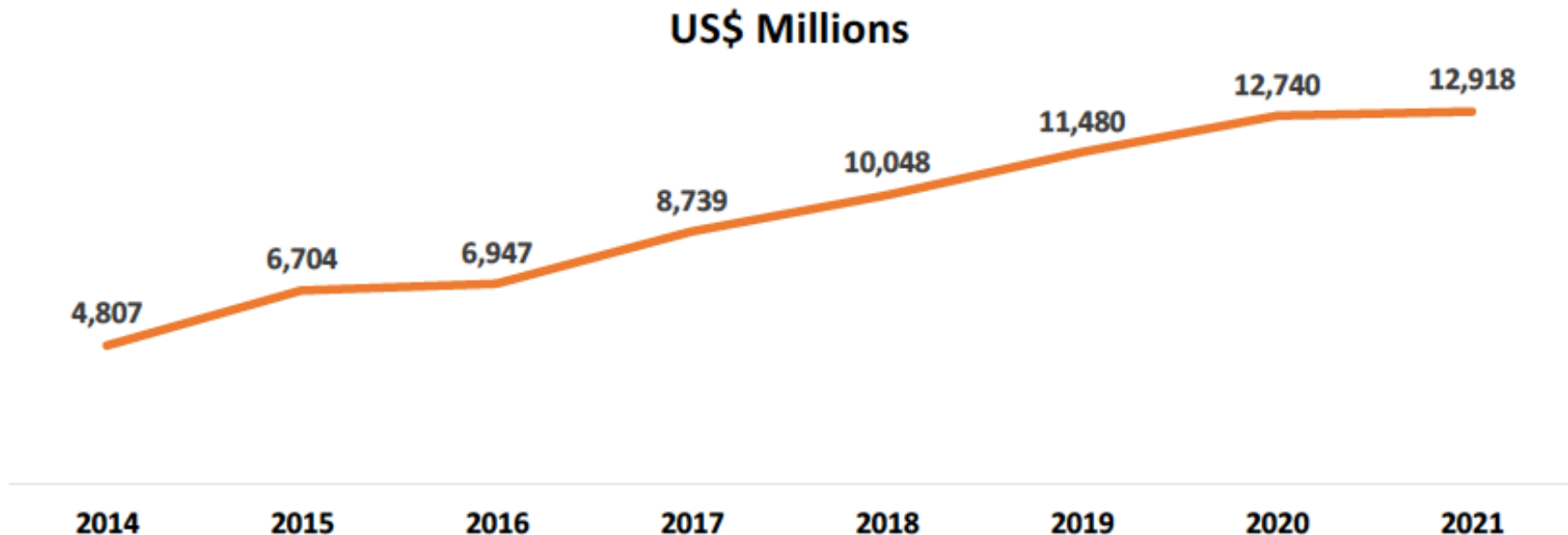
- Jan 2019 to Jun 2021 the ZMW depreciated by 90% against USD.
- Jun 2021 to Aug 2021 the ZMW appreciated by 30% against USD.
- USD supply increased due to foreign investors purchase of GRZ Bonds and BOZ injection of USD 358m obtained from mining tax receipts “to support exchange rate”.

Government – Fiscal Performance 2021



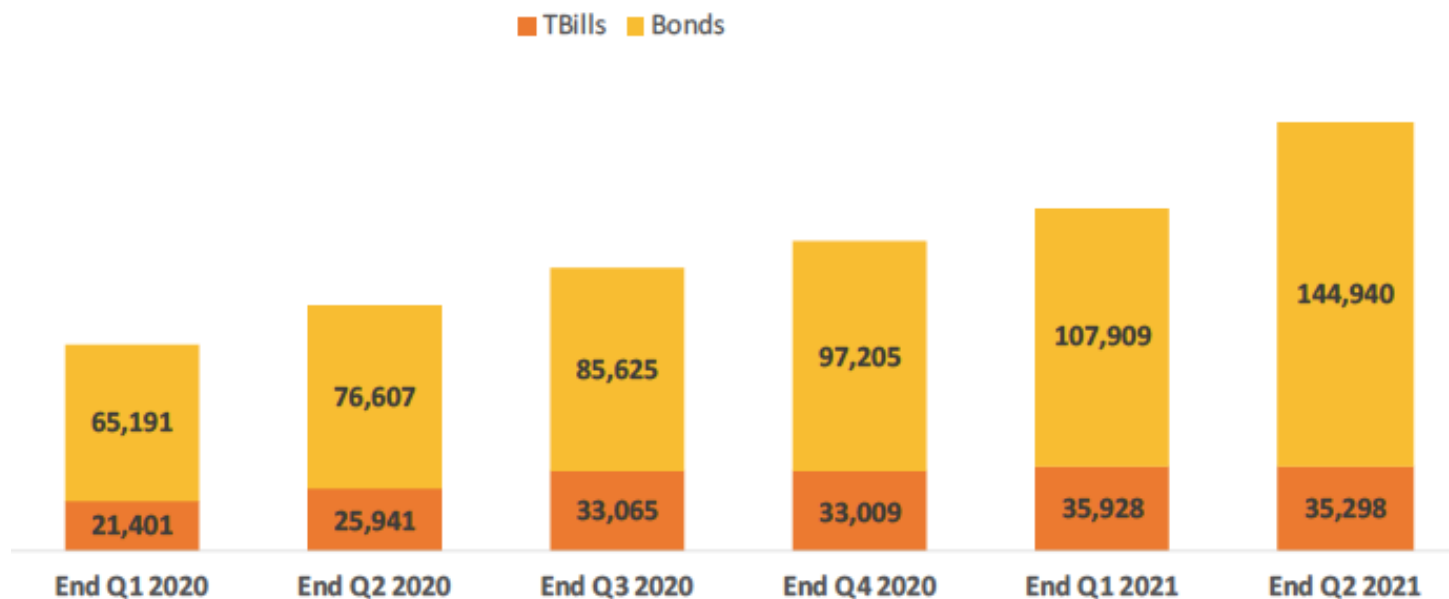
- The fiscal balance stood at negative ZMW13.2 billion compared to the budgeted ZMW 12.688.
- The government also did not make most of the interest repayments from various external debt (e.g. Euro Bonds) and some domestic debt.

Foreign Debt Stock – Jan 2014 to June 2021



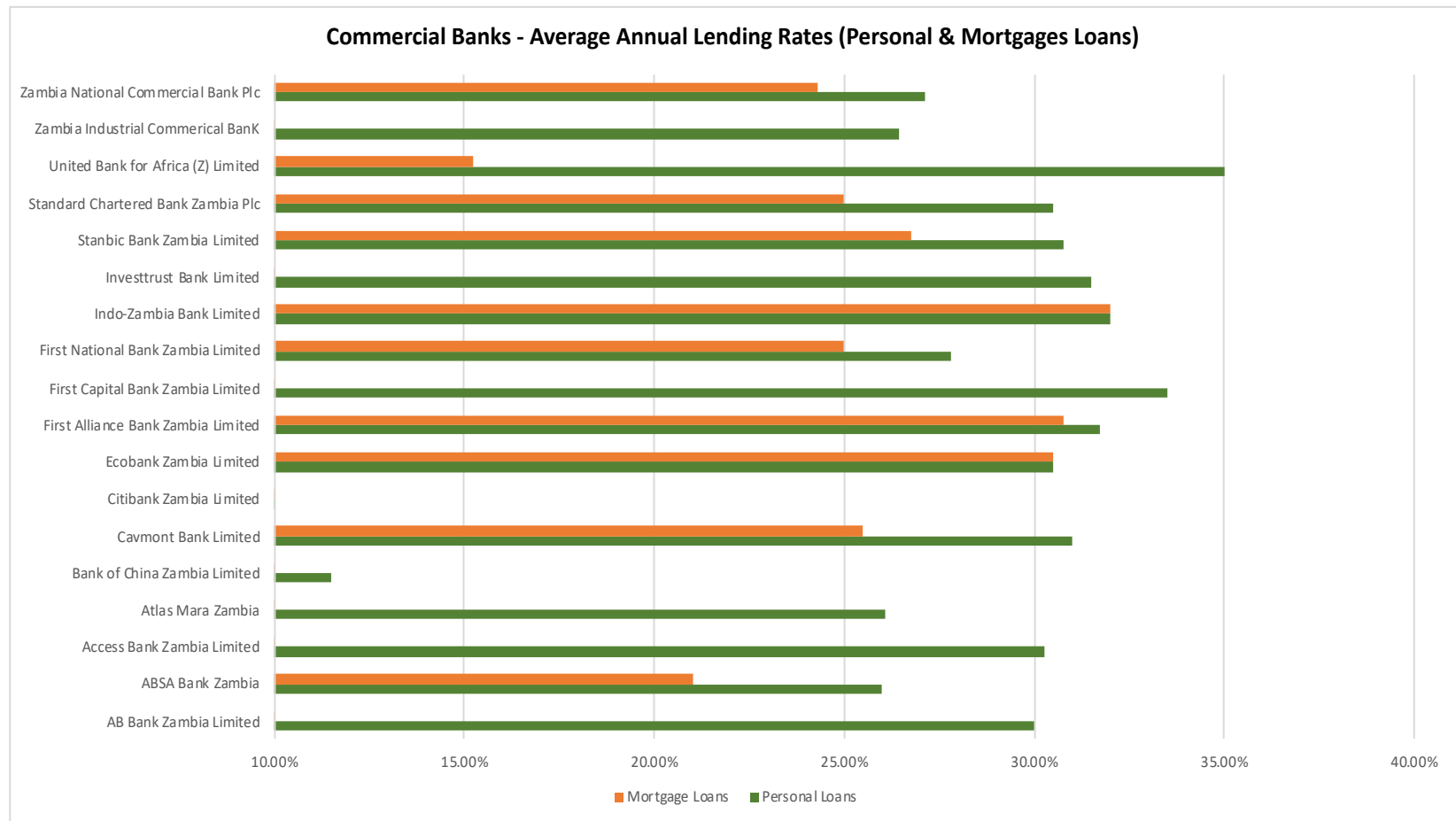
- External Debt rose to USD 12.918 billion at end June 2021 on account of existing foreign financed projects.
- The government did not make most of the interest repayments from various external debt (e.g. Euro Bonds) and some domestic debt.
- External Debt is likely to increase with the IMF SDR receipt allocation of USD1.33 billion received in August 2021.

Domestic Debt Stock – 2020 to June 2021



- Stocks of government securities increased as at end June 2021 stood at K180,238 billion (equivalent to USD 11.265 billion) at current exchange rates.
- The rise was due to an increase in Farmer Input Support Program (FISP) and fuel financing done through private placements.
- Total External and Domestic Debt exceeds our total GDP.

Commercial Banks Lending Rates



- Commercial banks' nominal average lending rate has broadly remained between 25% to 26% p.a. over past 12 months. The average 180-day deposit rate remained broadly unchanged at 9.8% p.a. BOZ Monitor Policy Rate is 8.5%.

Yields on Government Bonds & T-Bills

No.	Description	Yields	Coupon Rate / Weighted Average Discount Rate
1.	Treasury Bills – 91 days	13.98%	13.51%
2.	Treasury Bills – 182 days	16.00%	14.81%
3.	Treasury Bills – 364 days	25.49%	20.32%
4.	Government Bonds – 2 years	23.00%	9.00%
5.	Government Bonds – 5 years	25.00%	11.00%
6..	Government Bonds – 10 years	26.99%	13.00%

- Yield rates on Treasury bills and on Government bonds have continued to decline post the national elections.
- By end August 2021, the weighted average yield rates on Government securities registered a marked decline buoyed by non-resident investors.

Macro-Economic Outlook

- Real GDP growth is forecast to recover to 1.6 % by end of 2021 and increase in 2022 on account of relaxed COVID-19 restrictions and improved performance mostly in the mining, manufacturing, ICT and energy sectors.
- Government tax revenue has increased beyond projected budgeted targets mostly on account of the mining sector that has continued to benefit from increased copper prices. However expenditure continues to outstrip revenue therefore expectations are that cost cutting measures will be implemented in the next Budget as well as expected reduced subsidies on fuels and energy.
- A formal IMF program is expected to be agreed and finalized in Q4 2021. Note also that the receipt of the IMF SDR allocation of USD 1,3billion in August 2021 immediately boosted reserves upwards. BOZ's policy going forward is to intervene in the market to help stabilise the currency. Market wide expectations are we are likely to have a more stable exchange rate.
- Inflation risks expected to reduce on account of more favourable exchange rate and lower cost-push inflation expectaions.
- The fiscal deficit is expected to narrow on account of an expected IMF approved program and agreement with external debtors on rescheduling and/or refinancing plans.

Real Estate Market – Transparency

- Zambia continues to be classified as having a “low-transparency” real estate market according to report from JLL’s Global Real Estate Transparency Index 2020.
- Zambia ranked No.64 out of 99 countries surveyed. South Africa is classified “transparent” and ranked No.1 among African countries.
- Zambia weighed down by most businesses not operating transparently and sustainably.
- Real Estate Transaction activity continues to be difficult to track due to non-disclosures.

Real Estate Market – Covid-19 Effects

- Covid-19 pandemic made massive business disruptions that have led to increased unemployment and/or salary reductions in most instances.
- Declines in incomes from consumers and businesses was also due to underlying macro-economic conditions such as high inflation and interest rates.
- Majority of institutional landlords have continued to face rental collection challenges with increasing provisions for bad debt, rent deferrals and concessions with vacancies rising.
- New and existing building are having challenges to fill up vacant spaces.
- Some tenants are now shying away from dollar denominated rentals due to rapid exchange rate depreciation in past as most of them have incomes denominated in local ZMW currency.
- Lease renewal by anchor tenants now limited to 5 years from previous 10 year terms.

Commercial & Industrial Market - Highlights

- Rentals have remained flat. Downward pressures on rentals persist. Demand for space down.
- Vacancy Rates continue creeping upwards with country wide office sector most impacted with vacancies stubbornly between 30% to 40%. Retail has the lowest average vacancy rates averaging 10% to 15%. The big retail shopping Malls have also seen a number of South African brands leave like Edcon (Edgars & Jet), Hifi Corp, Carnival Furniture, Spar, Wimpy, Subway etc.
- “Musical chairs” concept taking place in market as no material increase in demand but only existing tenants moving from one location or building to another competing asset.



Examples of Buildings with high vacancies



Carosel Shopping Mall - Lusaka



ECL Shopping Mall - Kitwe



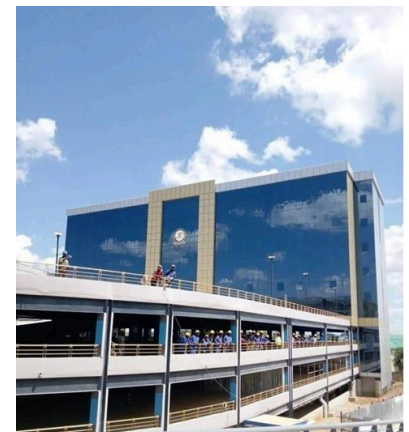
Society Business Park Office Tower - Lusaka



ECL Office Park - Kitwe



ZEPRE Office Building - Lusaka



Longacres Mall & Office Park - Lusaka

Commercial Property - Outlook

Outlook	Recommendations
<ul style="list-style-type: none">▪ Vacancies of office and retail space to remain high in short to medium term.▪ Rentals Rates in the short to medium term are expected to remain flat with little to no real growth in rental expectations.▪ Net Yield / Cap Rate expectations following re-pricing of property values expected to be in double digit territory with real estate investors looking at target of 10% to 12% for retail and office irrespective of size based on sustainable market rentals and strong covenants.	<ul style="list-style-type: none">▪ Adoption of Tenant Attraction Scheme and/or hybrid turnover and minimum base rental agreements to drive tenant retention.▪ New building development plans should be placed on hold in short-term till further clarity on expected IMF macro-economic stability plan with exception of pre-leased / pre-sold property or owner occupied.▪ COVID-19 is leading to higher environmental standards for buildings. Ventillation, air filtration and cleaning to take centre stage as well as technology incorporation into building management systems. Therefore LEED certification to become increasingly important for corporate investor grade tenants.

Residential & Housing Market - Highlights

- Zambia continues to have a two-tier system for the residential housing market. There is the formal urban sector and informal sector where the bulk is in unplanned settlements locally called “compounds” that have grown exponentially over the years.
- Low to medium cost residential units usually command rentals in local ZMW currency.
- High cost sector which attracts executives/expatriates mostly attracts US Dollars rentals for example, executive housing and high cost apartments favoured by most private investors.
- The residential land plot sales market some of which are in gated communities like Roma Park, Bonanza Estate, Chaminuka Wildlife Estates, Emerald Park etc. attract both USD/ZMW pricing.
- Residential sector continues to account for most property transactions in market.
- The bulk of housing development continues to take place in mostly unplanned settlements which is driven by self build.
- Private sector investors/developers have continued to invest in the land subdivision and servicing for residential plot sales and/or development of houses. Risks remain with associated land service infrastructure costs and uncertainty on absorption rates that could make the delivery process time consuming and return on investment uncertain.
- Residential Income Property Yields average 6% to 10% per annum.
- Vacancies in the high cost apartment sector has increased to around 40% due to a supply glut and lower demand. Rentals have also fallen by about 20% to 30% from peak levels in 2017.
- Occupancy Rates remain high in the low-cost to medium cost residential units where rentals are at an average of ZMW 6,500/pm or below. Sales of house units priced ZMW 1.5m or below threshold remain good.

Residential Developments - Examples

KINGS LAND CITY



EMERALD PARK



NKWASHI



SILVEREST GARDENS



Residential Property - Outlook

- National Housing Policy for Zambia has failed to be implemented due to lack of government funding and political will for its implementation.
- “Zambia’s housing deficit is estimated at around 1.539 million units of which 40% is urban and 60% is in rural areas” – source 2020 National Housing Policy.
- Mortgage lending rates remain high and qualifying terms are stringent (e.g. short loan tenures). Banks prefer to lend based on formal salary payslip. Result is less than 0.5% of population have formal mortgages due to high interest rates which is likely to continue into the medium term. Which provides opportunities for finding innovative financing options.
- The new government has opportunity to enter into Public Private Partnerships to speed track affordable low cost housing by becoming a partner or enabler while also providing tax incentives to speed track the land and housing ownership delivery process.
- Zambia has a large number of under-utilised land portions that can be used for new township development schemes for the development of housing or serviced plot to accommodate the whole spectrum of low to high net worth buyers to cater for a rapidly growing population.
- Government should intervene in market place and focus on supplying land (repossess idle farm land in national interest) that can be master planned and serviced incrementally as the population increases.



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Thank You!

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