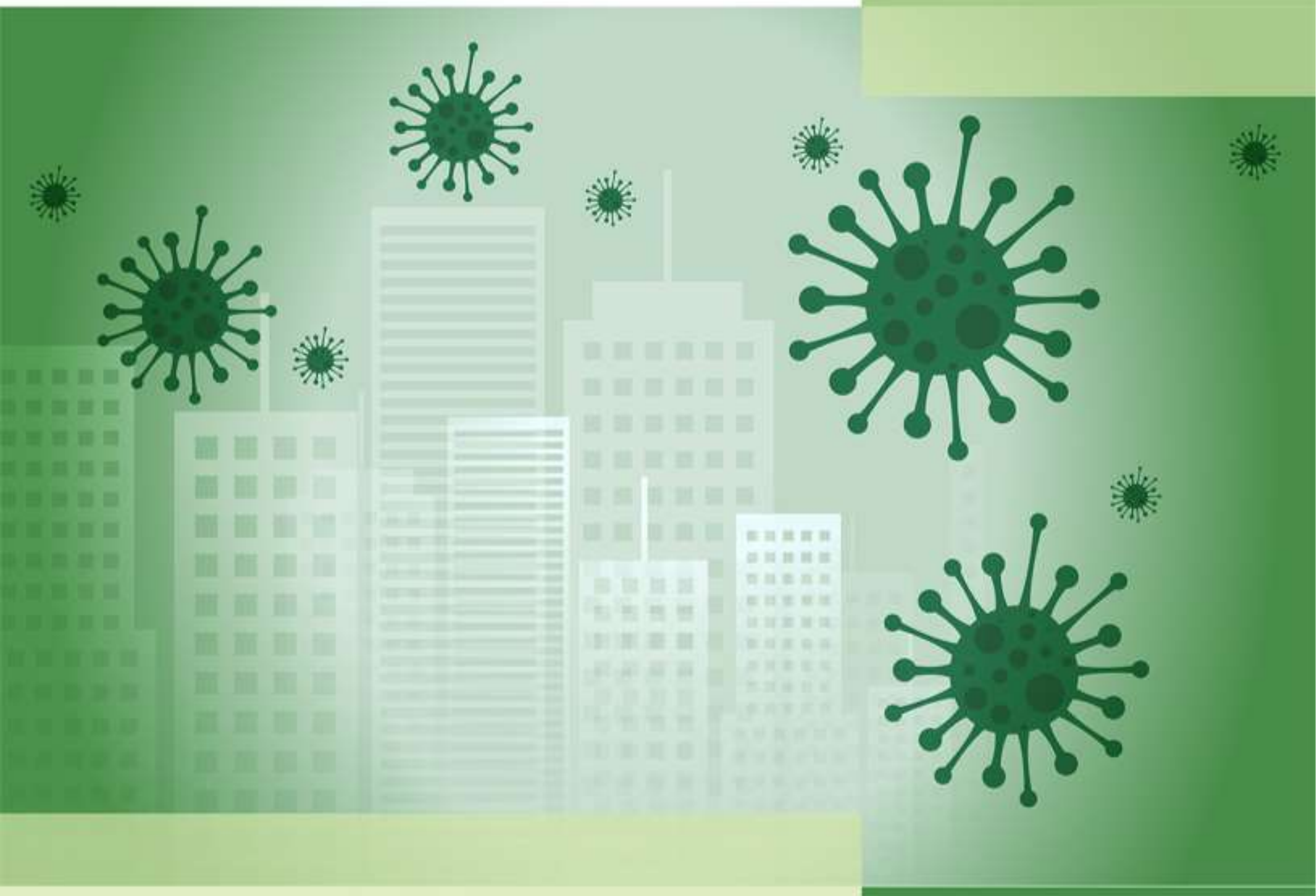
2020-Q1 PROPERTY MARKET REPORT



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General overview

"Economic effects of the pandemic are undeniable and certainly cannot be ignored"

The year 2020 started on positive vibes with the government and World Bank projecting economic growth and the situation took an about-turn and retreated to get stuck in a myriad of challenges owing to the unfolding negative development of the Covid19 pandemic which brought even the world economy to a standstill. The economic effects of COVID-19 on all sectors of the economy are undeniable and cannot be ignored as it has totally changed the landscape of developed economies let alone developing economies, businesses operations, and livelihood. Uncertainty continues to loom redirecting the growth trajectory and operations of many if not all businesses to the negative. It has been projected that the world economy will shrink at about 7%.

The impact of the pandemic has not only sent shockwaves on the global market but locally in Zimbabwe as well. Exports and imports greatly slowed down, the tobacco selling season could kick-off, production has been stopped, limited trading for essential services taking place, and many other factors only mean, the survival of many companies during these trying times is now heavily dependent on the viability of their crisis management strategies, strong business continuity plans, and adeptness of the business models.

In response to the COVID-19 pandemic, Government on the 26th of March 2020 authorized the use of free funds along with the following interventions which are aimed at facilitating the public in fighting the pandemic:

- Downward adjustment of lending rates from 35% to 25% (initially decreased from 70% in November 2019)
- Suspension of bank charges increment
- Reduction of mobile banking charges to promote electronic banking in line with social distancing
- Reduction of statutory reserve from 5% to 4.5% to free funds to banks to enhance lending activities

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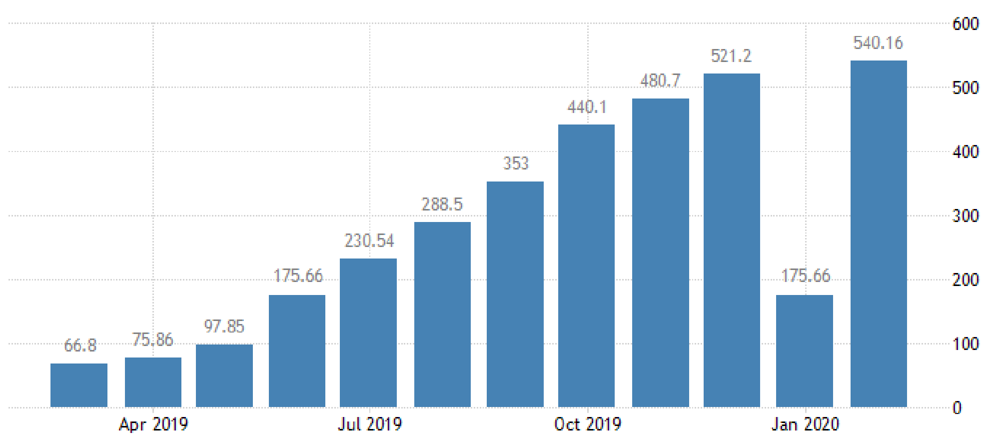
Economic growth for the year 2020 was optimistic as indicated by government initial projections of 3% whilst The World Bank estimated 2.7%. The African Economic Outlook 2020 predicted a positive growth of 4.6% and 5.6% for 2020 and 2021 respectively, provided that corrective measures that restore macroeconomic stability are taken. On the other hand, tradingeconomics.com published a growth of 4%, inflation rate of 540.16% which is expected to ease down to 80% by year-end. Figure 1 below provides a summary of the 2020 key statistics:

Figure 1: Key economic statistics

Overview	Actual	Q2	Q3	Q4	Q1	2021
GDP Annual Growth Rate (%)	4.00	-12	-12	-12	-5	-5
Unemployment Rate (%)	4.90	5.6	5.6	5.6	6.4	6.4
Inflation Rate (%)	540.16	285	130	80	60	45
Interest Rate (%)	25.00	25	25	25	25	25

Source: tradingeconomics.com

Figure 2: Inflation rate April 2019 - January 2020

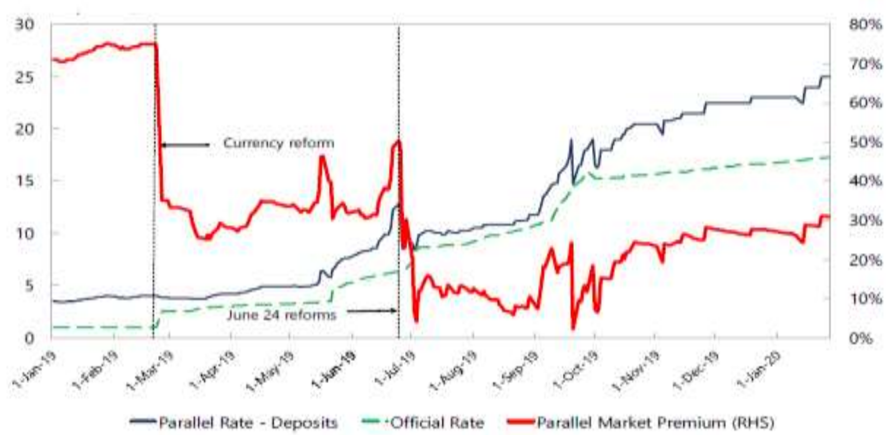


Source: tradingeconomics.com

The poverty rate in the country is estimated to remain stagnant throughout the year at 29% recorded in 2019 and 34% in 2018. Nevertheless, achievement of these key statistics is now dependent on the effects of the COVID-19 pandemic whether they remain short term or if they are sustained for a longer period. The International Monetary Fund Country report No. 20/82 March 2020 highlighted that with another poor harvest expected growth in 2020 is projected near zero at 0.8% owing to policy uncertainty and missteps.

The parallel market exchange rate, on one hand, slowed down from a point of 1:45 floating between 1:35 and 1:38 during the quarter ending 31 March 2020. According to the International Monetary Fund parallel market premium increased to over 30% from 10% in mid-2019 (see Figure 3 below) due to additional restrictions placed by the Reserve Bank of Zimbabwe on forex dealers, policy uncertainty and inadequate dissemination of information to guide market expectations. On the other hand, as the quarter ended government adopted a fixed interbank rate of US$1: ZW$25 although distortions in the foreign exchange market remain significant.

Figure 3: Exchange rate



Source: IMF Country Report No.20/82 March 2020

Generally, activity in the economy slowed down as the quarter ended due to the pandemic and the anticipated lockdown period. Uncertainty is likely to persist, and as such businesses need to focus on both short term and long term measures to counter the effects of COVID-19.

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Property Market Overview

Property market fundamentals in the period under review remained weak despite the government's anticipation of an economic rebound in 2020. This is mostly attributable to the multiple challenges faced in the previous year of 2019 among them being the introduction of SI142 of 2019 which resulted in the rapid erosion of rental revenues due to exchange rate induced inflation. Tenants continue to scale down operations reducing space occupied in a bid to manage business costs increasing void rates, especially for Harare CBD offices. Collection rates remain depressed owing to viability challenges being faced by many businesses.

A further slowdown was noticed as the quarter ended due to the COVID-19 pandemic. Although some argue that it is too early to confidently forecast the long term impact of the virus on performance, the Zimbabwe property market has already been paralyzed and brought to a halt. McKinsey & Company projected a GDP growth contraction of 3-8% for Africa resulting in a negative growth rate -3.9% if the virus is not contained. This is likely to result in a substantial downturn of the Zimbabwe property market which is already underperforming with high void rates and declining collection rates. In light of the above, property investors need to be prepared as the pandemic will further dent the sector's chances of recovering this including rent relief requests from tenants.

Office sector

The Zimbabwe office sector continues to underperform compared to all other sectors. The sector is characterized by high void rates over 60% for office CBD and low rental yields. Office parks, however, continue to record relatively high occupancy rates and rental revenues. Rentals in the sector have softened averaging US$5-US$6 per square metre. In view of the COVID-19 pandemic, the sector has already come to a standstill in response to Government's call for a 21 day lockdown period. Rental arrears will increase especially for buildings accommodating small to medium enterprises that are already incapacitated. Voluntary space surrenders will increase as companies try to cut on operational costs due to tight cash flows. Our projection is office utilisation rates will fall as remote working increases, and landlords with exposure to short-term leases will be

We project office utilisation rates will fall as remote working increases, and landlords with exposure to short-term leases are the most vulnerable.

vulnerable. Engagement of tenants by landlords is encouraged to ensure that a consensus is reached which will safeguard the long term net operating income.

Retail sector

Over the past years the retail sector has managed to withstand the economic pressures and recorded high occupancy rates averaging above 90%. Rentals in this subsector have remained relatively high compared to other sectors averaging between US$15 and US$20/sqm. The advent of Covid-19 has led to a slowdown in the sector just like in the tourism and hospitality sector as demand for goods and services will experience a sharp decline, due to lockdown and inability to trade and restock. Collection efforts may be fruitless leading to substantial loss of rental revenue considering that the retail sector is dominated by small to medium enterprises who are into clothing, hardware, groceries, cellphones and accessories, electronics and general supplies. Rental income for the sector will shrink in the short term as most retailers face stocking challenges since most of the products are imported and mostly from China. Property investors with small retail spaces will lose out more compared to those with major supermarket stores such as OK, TM Pick Pay, Spar, Bon Marche and Choppies as they are licensed to continue trading amid the pandemic and lockdown period. Overall, in the short run, there is going to be a decline in rental revenues.

Industrial sector

Similarly to the office sector, the industrial sector continues to experience high void rates and low rental yields. Rentals continue to average between US$1.50 and $3 per square meter. Production capacity in Zimbabwe remains relatively low at 30%. Capacity will fall further as a result of disruptions in the global supply chain leading to shortages of inputs. If the impact of COVID-19 heightens, a drop in demand for industrial space will be witnessed. Landlords should prepare for an increase in voids and reduced rental revenues in the medium to long term due to cash flow distortions.

Residential sector

Rentals in the sector continue to soften owing to contraction of disposable incomes and affordability challenges being faced by many tenants. Rentals will further ease down as tenants negotiate for rental discounts during the COVID-19 period due to incapacitation.

Student accommodation

"Student accommodation has not been a recognized property asset class in Zimbabwe but with its promising benefits which assure investors of consistent yields this calls for institutional investors to consider Real Estate Investment Trusts"

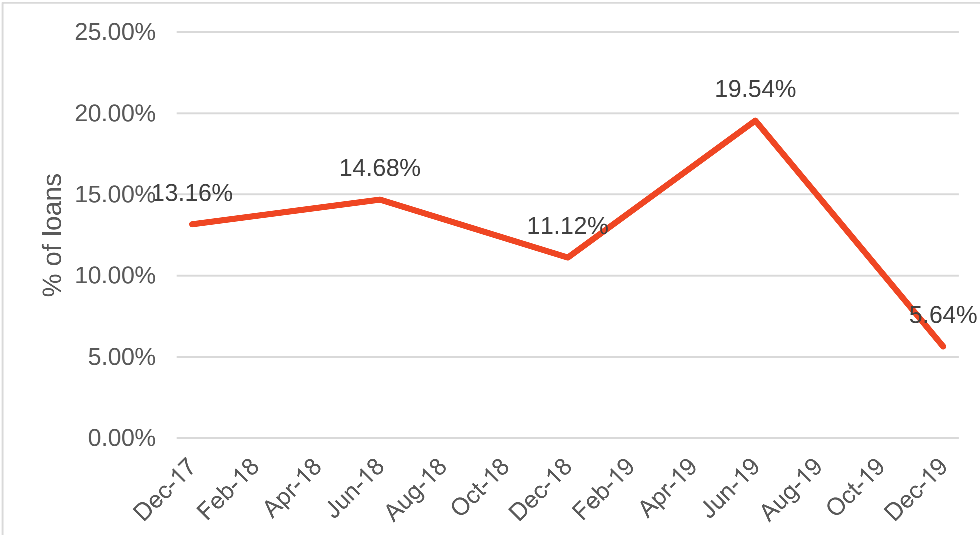
Zimbabwe property investors over the recent past years have been redirecting funds to boost higher tertiary education learning facilities and student accommodation. This is as a result of the growing need for accommodation facilities as only 10% out of over 200,000 students enrolled have access to on-campus accommodation. The real estate sector has witnessed Government's growing support through its first disbursement of US$23 million in mid-2019 from the US$150 million infrastructure development facility. Zimre Property Investments, a major property investor, refurbished one of its buildings in Bulawayo to cater for National University of Science and Technology students in a bid to alleviate the situation with a projected yield of 10% on its investment. In view of the COVI-19 virus, this sector will be highly exposed to risk threatening the viability of the investments in the short to medium term as universities are mandated to close down. Although globally, online education has become the mainstream, Zimbabwe is far much behind hence no major impact on the investment in the long run. Student accommodation has not been a recognized property asset class in Zimbabwe but with its promising benefits which assure investors of consistent yields, this calls for institutional investors to consider Real Estate Investment Trusts.

Mortgage sector

Mortgage loans from December 2017 constituted an average of 12-14% of the total productive sector lending. There was a sharp decline from a double-digit figure of 19.54% recorded in June 2019 before SI142 of 2019 5.65% in December 2019. This is because banks are increasingly adopting a cautious lending approach and thus not issuing out as much loans and further, the product seems greatly trailing behind inflation.

"*Commercial property values are dependent on the rental cash flows, as such the organizational capacities to pay rentals will be compromised which will affect property values*"

Figure 4: Percentage distribution of mortgage loans December 2017 - 2019



Source: RBZ Monetary Policy statements

Mortgages returns remain negative in real terms with inflation above 500% while interest rates now at 25%. Secured lending will remain viable either way as any default the borrower loses more and banks would benefit more from defaults when they repossess.

Property Values

There were no major movements in property values in USD terms from the previous quarter where property prices adjusted downwards by a 20-30% margin as the year 2019 closed. It is imperative to note that market values are dependent on the future benefits which include right to use, occupy, enjoy and rental income. Commercial property values are dependent on the rental cash flows, as such the organizational capacities to pay rentals will be compromised which will affect property values. In this regard, property values for commercial properties will decline in the short term as a result of distorted cash flows and disrupted rental incomes owing to restricted operational activity especially for the retail sector which is largely dependent on imports from China. Residential property values will remain resilient however this may change if the effects of the pandemic remain persistent. Property valuers need to remain vigilant to market changes especially in light of Government conditional green light to trade in USD terms during these trying times.

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Construction sector Overview

Zimbabwe`s construction industry remained in a precarious position during the first quarter of 2020 as the industry continues to suffer from minimum public and private participation across the country. The industry as according to CIFOS 2019 is operating below 30% of its total capacity and the major factors that continues to hinder the recovery of the industry being

- Foreign currency shortages
- Exchange rate induced inflation
- Lack of funding
- International competition

Construction projects have a "duration" component and businesses and investors are rightly questioning how and when projects that are currently under development will continue. With a projected -3.9% GDP growth post the Covid-19 pandemic and further not being enlisted on the essential services register, the sector will take time to recover depending on the severity and length of the crisis in Zimbabwe and globally. Uncertainty surrounding the duration and severity of this crisis makes it hard to anticipate how a recovery could unfold for the industry. Some construction projects may be delayed, or perhaps canceled, as a result of the impacts of COVID-19. Further, possible supply chain bottlenecks of equipment and material, including structural steel and glass particularly from Asia, Europe and the United States could cause project delays in currently funded projects, or reduced spending on future ones. If the repercussions of COVID-19 are sustained for a longer period coupled with no major economic turnaround strategies, the outlook for the industry remains gloomy.

On the other hand, Constructors have obligations to protect workers from hazards in the workplace as set out in the Factories and Works Act and the recently gazetted SI 77 OF 2020 on Public Health COVID-19 Prevention, Containment and Treatment Regulations. The health and safety of workers is a top concern amid the global COVID-19 pandemic. During this time, all parties must place an increased focus on health and safety in order to keep job sites open.

Major projects under construction in Zimbabwe

Figure 5: Projects currently construction

Investor	Project	Type	Stage
Public Sector	New Parliament House	Government institution	Construction stage
	Beitbridge- Harare Road	Infrastructure	Construction stage
	ZERA head office	Commercial	Construction stage
	NUST student accommodation	Student accommodation	Construction stage
Private Sector	NMB Head quarters	Construction stage	Construction stage
	Sakubva Urban renewal	Residential/commercial	Pre-construction stage
	PSMI head office	Commercial	Construction stage
	Chishawasha Urban development	Residential	Pre-construction stage

Below is table showing the construction rates for the period under review.

	Rates (US$/m2)			Rates (US$/m2)		
Development Type	**2019 (Q4)**			**2020 (Q1)**		
Residential Developments	**Standard Quality**	**High Quality**	**Average**	**Standard Quality**	**High Quality**	**Average**
High density	320-350	400-430	375	310-330	390-410	360
Medium density	460-510	560-680	570	460-505	565-660	560
Low density	710-800	850-1000	855	700-780	800-980	840
Low Rise Blocks of Flats (AC)	800-900	1000-1100	900	780-880	900-1000	890
High Rise Blocks of Flats (AC)	1200 - 1300	1400-1500	1350	1150 - 1300	1320-1480	1315
University Student Hostels	460-510	560-680	570	310-330	390-410	560
Commercial Buildings						
Value Centre Type Retail	455-500	590-660	558	450-500	550-655	553
Industrial developments						
Warehouse	650-970		810	650-950		800
Medium Duty Factory	1100-1410		1255	1050-1400		1225

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