Africa Office Market Dashboard

Q2 2022

MARKET REVIEW

Q2 KEY TAKE AWAYS

Source: Knight Frank

Demand for office space in many African cities is rebounding as businesses return to workplaces on a full-time basis. There remain however some international companies that have permanently adopted hybrid working patterns. Indeed, in markets such as South Africa, Kenya and Egypt, some businesses have reduced their office footprints, following right-sizing exercises. Further detail on the post-Covid real estate trends is detailed in our recently published 2022 Africa Report.

Another significant fall-out of the pandemic is the sharpened focus on best-in-class office space, which is supporting rental growth and high occupancy levels across many of the continent's prime office buildings, which remain in short supply in several markets.

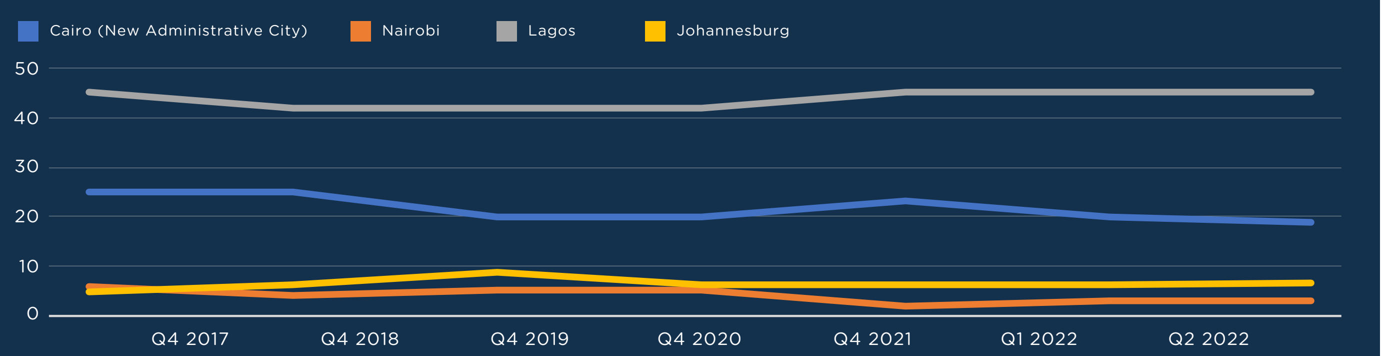
Businesses are actively targeting higher quality space in an effort to mitigate against talent attraction and retention challenges, as well to meet increasing ESG considerations, which for now appears to be largely confined to international businesses.

Despite this emerging stability, many countries are struggling with spiking inflation and repeated currency devaluations, which is in turn stalling economic recoveries and making some occupiers nervous about pursuing expansion plans. The war in Ukraine is adding to economic woes, with global growth expected to slow from an estimated 6.1% last year to 3.6% in 2022 and 2023 (IMF).

Overall, prime office rents across all the 29 markets we track have held steady once more during Q2, the third consecutive quarter of stability.

Scan to explore the full 2022 Africa Report

Monthly office rent (US$ psm)



Source: Knight Frank

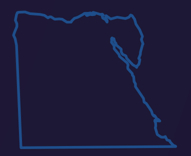
COUNTRY SNAPSHOTS

BOTSWANA

The office market is currently experiencing cyclical slow down due to a weak-underlying demand from occupiers resulting from economic downturn, Covid-19 ripple effects and an oversupply, with a resultant downward pressure on both the rental and capital values. Although most occupiers have returned to the office, companies across the spectrum have reduced their work force resulting in downward readjustment of their office requirements.

As a result, the secondary accommodation increased, putting downward pressure on rentals. Landlords have moved to offer concessions and rent reprieves in an effort to sustain occupancy levels.

All that being said, with the lifting of Covid travel restrictions, business activity and office demand are expected to improve gradually.



EGYPT

The development of the New Administrative Capital (NAC) continues to draw occupiers out of traditional locations in Cairo. Tenants are being attracted to the new smart city due to the relatively higher concentration of prime space. In addition to office occupiers, the NAC has also attracted Egypt's new parliament, government ministries and foreign embassies.

Overall, office rents continue to remain weak due to ongoing consolidation activity amongst occupiers. There is also a distinct focus on best-in-class space, which is driving a widening two-tiered market, with prime rents continuing to edge upwards, while more secondary stock experiences ongoing rent declines.

Indeed, this is reflected in the high level of demand for prime offices in the NAC, where monthly office rents have risen to US$ 30 psm, when compared to just US$ 12 psm for older buildings in Cairo.

KENYA

There is increased preference from investors to have rent in dollar payments due to the continually depreciating Kenyan Shilling, which has been exacerbated by the high demand of dollar vis-a-vis its short supply. ESG considerations remain high on the agenda for many businesses, but the availability of such stock remains low.

As pandemic restrictions ease, occupancy rates in Nairobi are recovering and many businesses are returning to the office on a full-time basis. The majority of demand stems from international tenants returning to the Kenya market after leaving the country during the pandemic.

Overall, the office market continues to be a tenants' market because of the oversupply of commercial space in major commercial nodes.

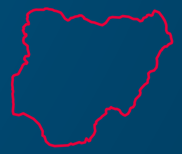
COUNTRY SNAPSHOTS

MALAWI

Occupier interests are mainly centered on best-in-class offices. However, the supply of such offices is generally low. Landlords have responded to the rising demand by increasing rental charges in Blantyre by 10% to 15% for prime properties. Rising rents have also been fuelled by an increase in operational costs (such as utility costs and general maintenance costs), which some landlords are passing on to tenants.

The operational costs registered an increase of between 20% and 25%, and is linked to erratic energy supplies, utility price escalations and inflationary pressures. The migration to prime offices has negatively affected the older offices' occupancy rates and rental charges. For instance, in Lilongwe, the rents have remained largely stable due to an oversupply.

Another emerging market dynamic is the ongoing weakness of the kwacha, which has fallen by 25% against the dollar over the last 2 months. As a result, domestic occupiers have found their occupational costs in kwacha to have risen substantially, which is driving some businesses to downsize. In turn, this is contributing to rising vacancy rates even in some prime buildings.



NIGERIA

Generally, Nigeria's office market has recovered from the effects of the pandemic, with demand and rents now back at pre-pandemic levels, particularly in cities such as Lagos. Most occupiers are focused on purpose-built or grade A office buildings. The shift in focus has boosted demand for grade A offices in Lagos, with monthly prime rents at US$ 55 psm.

Businesses linked to the technology, finance, and banking sectors top the list of most active occupier groups. While grade A properties attract upscale and international clientele and prospects, grades B & C still sway for a mix of other local and global space occupiers and seekers, thus maintaining occupancy. We expect demand and rents to retain their upward momentum in the lead-up to the 2023 General Elections in February.

SOUTH AFRICA

Some international organisations in Cape Town and Johannesburg continue to persist with hybrid working patterns, while some have completely adopted remote working. This has led to increased office vacancy rates in these cities at 20% and 21% respectively, which is higher than the all-time high of almost 18% nationally, which was registered at the end of Q1 2022. This trend is however not uniform across the board.

Like elsewhere on the continent and indeed, in office markets globally, prime office space is in high demand, which is sustaining low vacancy rates in South Africa's best office buildings. Elsewhere, Grade B and C offices continue to see vacancy rates edge upwards. Some landlords are responding to this by converting older office buildings into student accommodation, while others are acquiring permission for a change of land use altogether.

COUNTRY SNAPSHOTS

TANZANIA

Many of the international organisations which adopted hybrid working patterns during the pandemic have maintained the status quo during Q2. This has contributed to a general oversupply of offices in the country. Despite this, landlords remain stubborn and are holding rents steady at US$15 psm. In contrast, smaller offices (20-100 sqm) have been experiencing high demand as they are relatively cheaper to occupy.

Some organisations are still downsizing to keep their businesses operational in the wake of the pandemic. Looking ahead, government initiatives to boost investment activity in the country are expected to eventually contribute to an overall improvement in demand as more businesses are drawn to Tanzania.

UGANDA

The absorption of prime office space in Kampala continues to improve, with occupancy levels for Grade A space recovering to pre-COVID rates. This is largely due to the full re-opening of the economy and increasing activities in the oil and gas sector, off the back of record high global prices.

Some landlords are however being cautious, opting to maintain the prevailing rents, while others have taken advantage of the recovery in demand, adjusting rents upwards. With prime supply likely to remain tight for at least another 12 months, prime rents are expected to rise further. There is an additional 100,000 sqm of office space that are expected to be completed between now and the end of 2024.

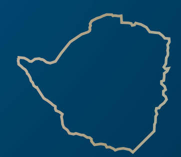
Prime office yields currently range from 9-10%, while average occupancy rates have steadily increased to pre-covid numbers.

ZAMBIA

With the abating of pandemic restrictions, the uptake of offices is on the rise. Many international businesses are gravitating toward grade A buildings, as has been the case across the continent. The average occupancy rate in prime buildings stands at approximately 65%, which suggests that there will be no significant rental growth in the short term.

Due to the high inflation rate and the weaking of the local currency against the dollar, the majority of occupiers are seeking smaller offices (50-100 sqm), that are relatively cheaper. As the 'New Dawn Government' continues to introduce new policies designed to improve the economy, we expect that local and international businesses, many of which remained dormant during the election period, will resume their investment activities, creating demand for more office space.

COUNTRY SNAPSHOTS

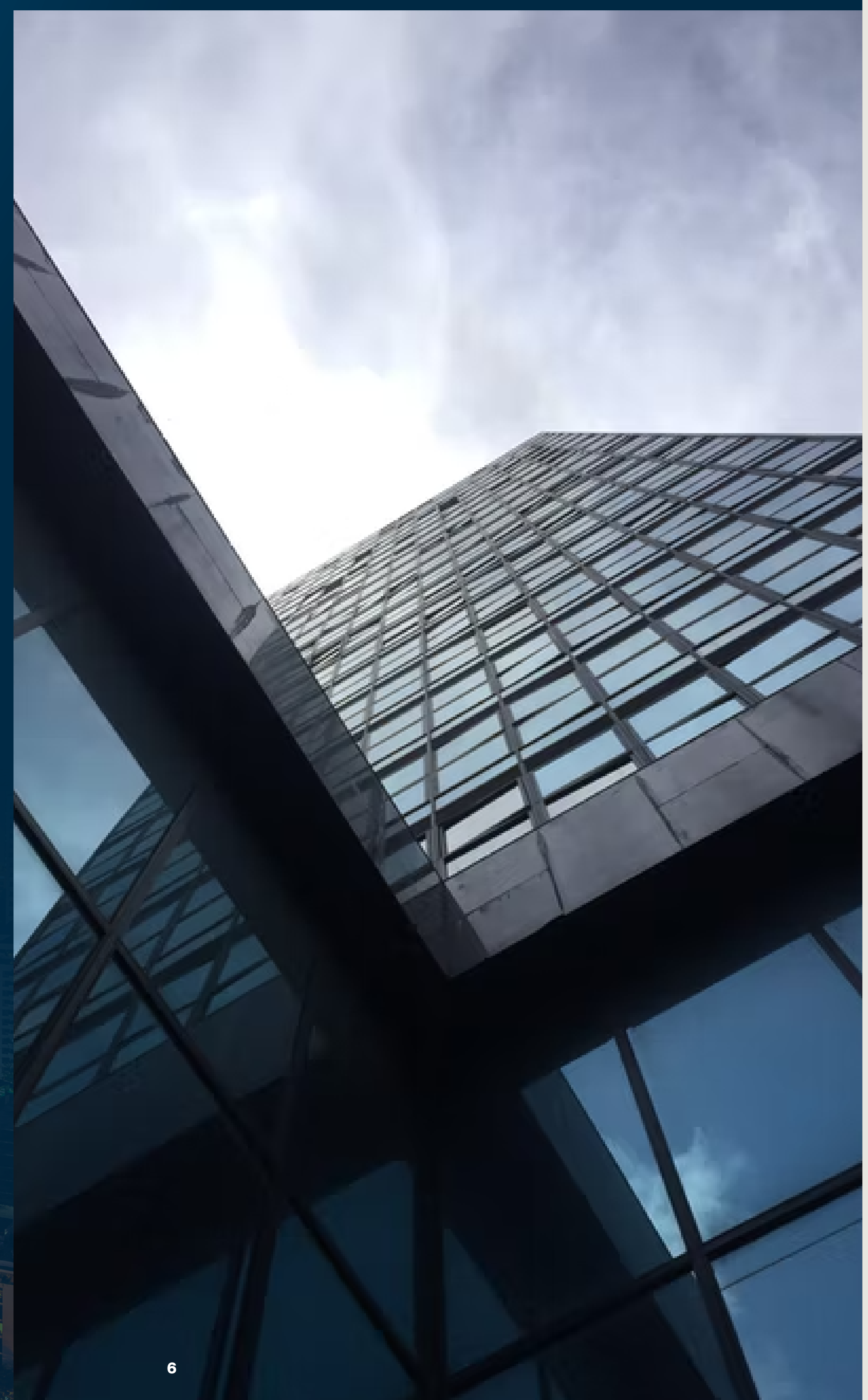


ZIMBABWE

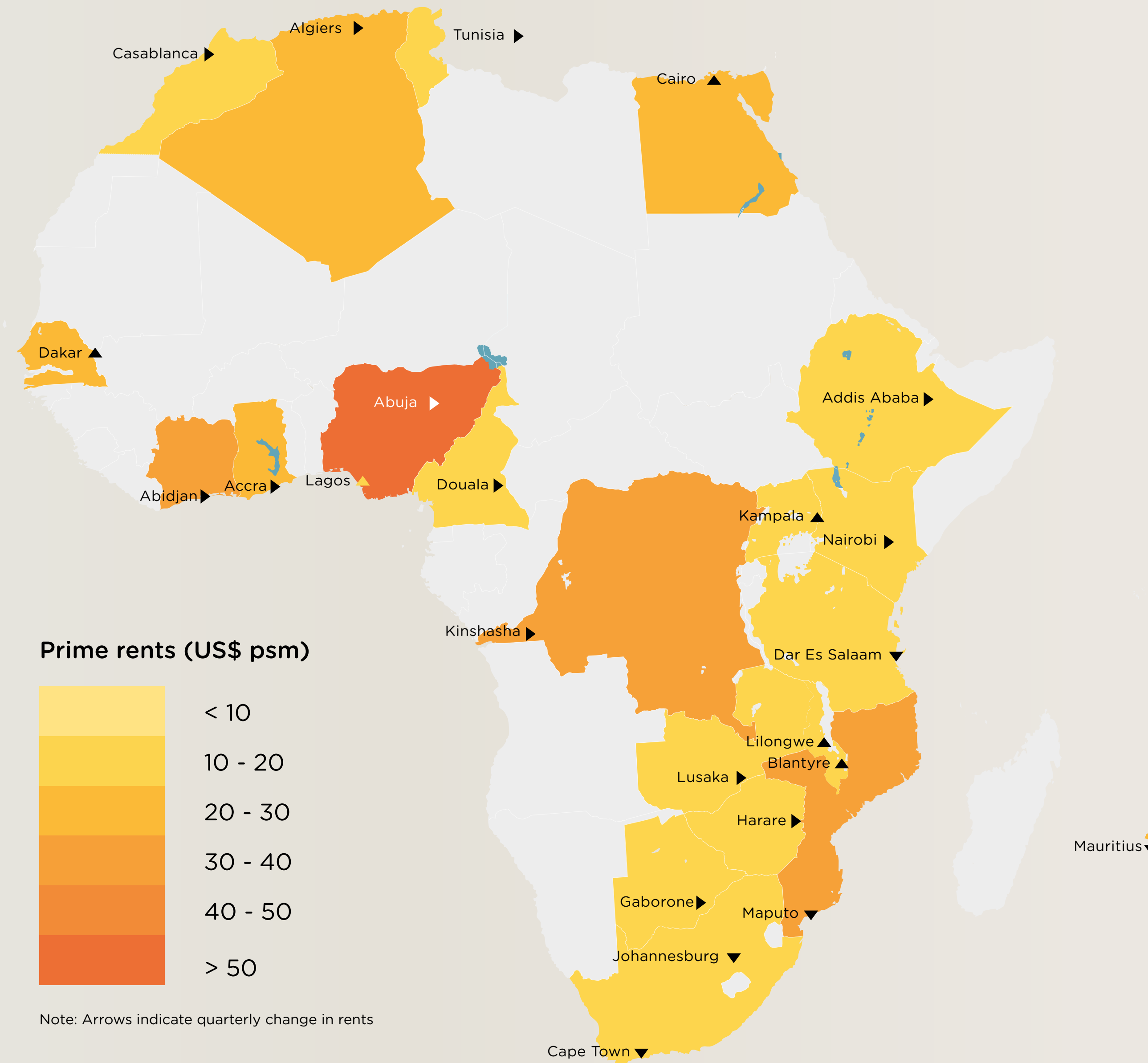
Occupiers' focus on suburban locations has left big voids in the CBD, where the vacancy rate is hovering at an astonishing 60%. The situation is being driven by high inflation, which is forcing many occupiers to migrate to relatively cheaper offices in the suburbs. Less congestion and free parking spaces are contributing to this outflow of tenants from the CBD. In response to this high demand for suburb offices, landlords with residential properties in suburbs such as Eastlea are converting homes into offices.

Suburban office markets are expected to continue enjoying high levels of demand and this has also prompted the announcement of some new developments. For instance, UAE's Mulk International has commenced construction on a US$ 500m technology park in Mount Hampden, on the outskirts of Harare. The planned project is spread across more than 232,000 sqm of land and will include government, residential and commercial buildings, and will feature a special economic zone, dedicated to blockchain and digital assets.

> Harare's suburban office markets are expected to continue enjoying high levels of demand.



Q2 2022 OFFICE RENTS AND YIELDS



	Prime Rents (US$/psm)	Prime Yields (%)		Prime Rents (US$/psm)	Prime Yields (%)
ABIDJAN	30.00	9.00	HARARE	12.00	8.00
ABUJA	25.00	8.00	JOHANNESBURG	16.00	9.50
ACCRA	28.00	9.00	KAMPALA	14.50	9.00
ADDIS ABABA	16.00	6.00	KINSHASA	35.00	10.00
ALGIERS	20.00	10.00	LAGOS	55.00	8.00
BLANTYRE	9.00	9.00	LILONGWE	13.50	11.00
CAIRO	29.00	8.00	LUSAKA	18.00	9.50
CAPE TOWN	15.00	8.80	MAPUTO	32.00	8.50
CASABLANCA	20.00	8.50	NAIROBI	13.00	9.00
DAKAR	21.50	9.50	PORT LOUIS	20.00	9.00
DAR ES SALAAM	15.00	9.00	TUNIS	7.00	7.00
GABORONE	11.00	9.00			

Source: Knight Frank

CONTACTS

Steve Rennie

Steve.rennie@knightfrank.com

Charles Onyenze

charles.onyenze@ng.knightfrank.com

James Charnaud

james.charnaud@knightfrank-emc.com

Anthony Havelock, MRICS

anthony.havelock@ke.knightfrank.com

Research:

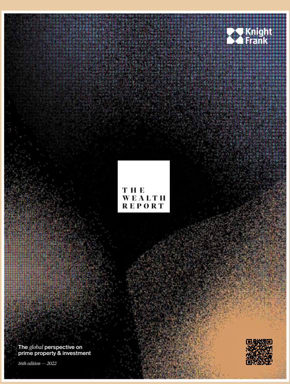
Faisal Durrani

faisal.durrani@me.knightfrank.com

Boniface Abudho

boniface.abudho@ke.knightfrank.com

RECENT PUBLICATIONS



The Wealth Report - 2022

The Africa Report - 2022

Scan to explore the full 2022 Africa Report

Important Notice

Knight Frank research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, funding organisations, corporate institutions and the public sector. All our clients recognise the need for expert independent advice customised to their specific needs.