Africa Office Market Dashboard

Q3 2022

MARKET REVIEW

Q3 KEY TAKE AWAYS

US$ psm
55
LAGOS IS THE MOST EXPENSIVE CITY TO RENT AN OFFICE

US$ psm
20
AVERAGE PRIME RENTS HELD STEADY Q-Q

US$ psm
7
TUNIS IS THE LEAST EXPENSIVE CITY TO RENT AN OFFICE

Source: Knight Frank

As is the trend globally, demand is concentrated on best-in-class and ESG-compliant offices in many locations across the continent. However, the supply of such stock remains low, and there is an opportunity for landlords and investors to capitalise on this demand.

With the abating of Covid-19 restrictions, many businesses have made a full return to the office, which has helped to lift occupancy levels in all the 29 African markets we track. Occupancy rates have also been boosted by the influx of returning expatriates, many of whom left during the pandemic predominantly due to job losses.

Separately, Africa has also enjoyed a relatively stable political environment despite several key General Elections around the continent this year.

For instance, Kenya and Angola held a peaceful General Election in August. This has boosted confidence amongst investors and occupiers who are slowly ramping up activities in these two markets. Further detail on the post-Covid real estate trends is detailed in our [2022/23 Africa Report.]

A noteworthy trend during Q3 has been the upward creep in demand for smaller offices (under 300 sqm) in markets such as Tanzania, Uganda, and Zambia.

This may, in part, be linked to rising global inflationary pressures, curtailing occupiers' expansion plans, particularly those of the international variety.

Despite the spiking inflation and repeated currency devaluations, Africa's office markets remain buoyant, with the demand for prime offices outpacing supply in several cities.

> **"A noteworthy trend during Q3 has been the upward creep in demand for smaller offices in markets such as Tanzania, Uganda, and Zambia"**

Scan to explore the full 2022 Africa Report

COUNTRY SNAPSHOTS

BOTSWANA

Botswana's office market is steadily recovering from the Covid-19 pandemic. Compared to other African office markets, the Botswanan market is relatively small, which will aid its recovery.

As has been the case for several quarters, demand is concentrated on Gaborone's highest-quality buildings. Developers are responding to the increased demand by building more quality stock in the new CBD, with prime rents holding steady at US$ 10.60 psm since Q4 2021.

Older offices have continued to experience increased vacancy rates, driven by most international organisations' shift to working from home due to the pandemic. In some locations, landlords respond by exploring the change of use options.

EGYPT

Many international occupiers exited the Cairo market during the pandemic, which fueled high vacancy rates.

However, with global travel restrictions easing, businesses have begun to return, with New Cairo proving particularly popular due to its high concentration of new, high-quality offices, which remain the focus of occupiers' attention globally. Occupancy levels are hovering at around 70% overall.

More occupiers are expected to be drawn to the New Administrative Capital as new office schemes are completed.

KENYA

Market activity remained subdued in Q3 2022, primarily due to the uncertainty in the lead-up to and following the General Election held in August. This was further exacerbated by the challenging macroeconomic conditions. Unsurprisingly, there was a decline in leasing activity during Q3; however prime monthly office rates remained stable at US$ 12.90 psm.

The continued depreciation of the Kenyan shilling, driven partly by the increased demand for the US dollar, has increased landlords' preference for rent payments in US dollars.

Nevertheless, our outlook for Q4 2022 is for an improvement in conditions, with renewed occupier confidence following the decisive conclusion and acceptance of the General Elections and expected renewed demand for Grade A offices.

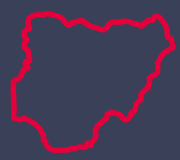
NAIROBI, KENYA

COUNTRY SNAPSHOTS

MALAWI

Older offices in Blantyre and Lilongwe continue to experience increased vacancy rates as an occupier flight to quality persists. The high demand for best-in-class stock has improved the rental growth profile at the top of the market, particularly as the supply of such stock remains limited.

Since the previous quarter, there has also been an increase in operational costs, driven by the high cost of electricity, which some landlords are passing on to tenants, further driving up occupancy costs. That said, office occupancy is yet to reach pre-COVID levels as many businesses reduced their office footprints and/or moved to relatively cheaper suburban locations.



NIGERIA

While office rental rates in Lagos have held steady at US$ 55 psm since Q4 2021, they remain the highest on the continent.

Nigeria appears to have fully recovered from the pandemic, with occupancy levels for Grades A and B standing at close to 100%.

Grade A offices continue to attract the highest demand, despite their low supply. One of the reasons why rents have remained stable in the Lagos market is due to the declining pipeline of new projects.

SOUTH AFRICA

With the abating of Covid-19 restrictions, many businesses have made a full return to their offices in Cape Town, Johannesburg, and Durban. This has contributed to improving occupancy levels over the last six months. On average, the office occupancy rate currently stands at 84%, an improvement from the 70% reported in Q2 2022.

Vacancy rates, however, remain above the long-term average. This has been fuelled by the decision of some international businesses to permanently incorporate working-from-home policies into their occupational strategies.

Lower-grade offices continue to experience high vacancy rates, prompting some landlords to redevelop these sites into alternative land uses, such as student accommodation.

Overall, the South African office market appears firmly on the path to recovery, with the return of expatriates and international businesses hinting at a continued improvement in demand and occupancy levels. Like elsewhere in the world, demand remains centred on best-in-class space, with ESG requirements growing in importance, especially for international businesses.

CAPE TOWN, SOUTH AFRICA

COUNTRY SNAPSHOTS

TANZANIA

High-quality offices within the CBD and other suburban areas, such as the Msasani Peninsula belt has experienced an improvement in occupancy levels this quarter. This is fuelled by the focus of occupiers on Grade A offices. In addition, new market entrants are also contributing to an improving demand pool, albeit the bulk of requirements is centred on smaller suites of 20-100 sqm.

Furthermore, new government initiatives to attract investment, such as the relaxation of trade barriers, fewer restrictions on issuing work permits, tax exemptions on capital goods, and the relaxation of pandemic restrictions are also aiding the rise in occupancy rates.

> “New government initiatives to attract investment, such as relaxation of trade barriers, fewer restrictions on issuing of work permits, and tax exemptions on capital goods, are aiding the rise in occupancy rates”

DAR ES SALAAM, TANZANIA

COUNTRY SNAPSHOTS

UGANDA

Like elsewhere, there has been a noticeable improvement in Grade A and B office occupancy rates, especially in Kampala. Sectors driving demand include financial services, fintech, oil-affiliated organizations, start-ups, and professional services.

The increased demand has driven rents to US$ 15psm from US$ 14.50 psm during Q2. The upward trajectory in rents, combined with rising inflation, is also contributing to increased demand for smaller offices in the region of 50-100 sqm. since they are relatively cheaper

While there has been an improvement in conditions, the recent outbreak of Ebola and the subsequent reintroduction of travel restrictions, while too early to assess, could curtail economic growth and occupier activity and is a risk we are monitoring closely.

ZAMBIA

Office leasing activity in Lusaka continues to grow, aided by the return of expatriates and the resumption of physical office operations.

Most occupiers are focussed on suites of up to 300 sqm, although there are some larger corporates on the market looking for in excess of 1,000 sqm of space.

We have also recorded an upturn in organisations looking to buy rather than rent offices, a trend likely underpinned by the rising cost of occupation.

While the rising demand for best-in-class offices has helped to support improving rents, new stock in Rhodes Park, Kalundu, and Long Acres, expected in late 2023, will help to satisfy this rising demand.

ZIMBABWE

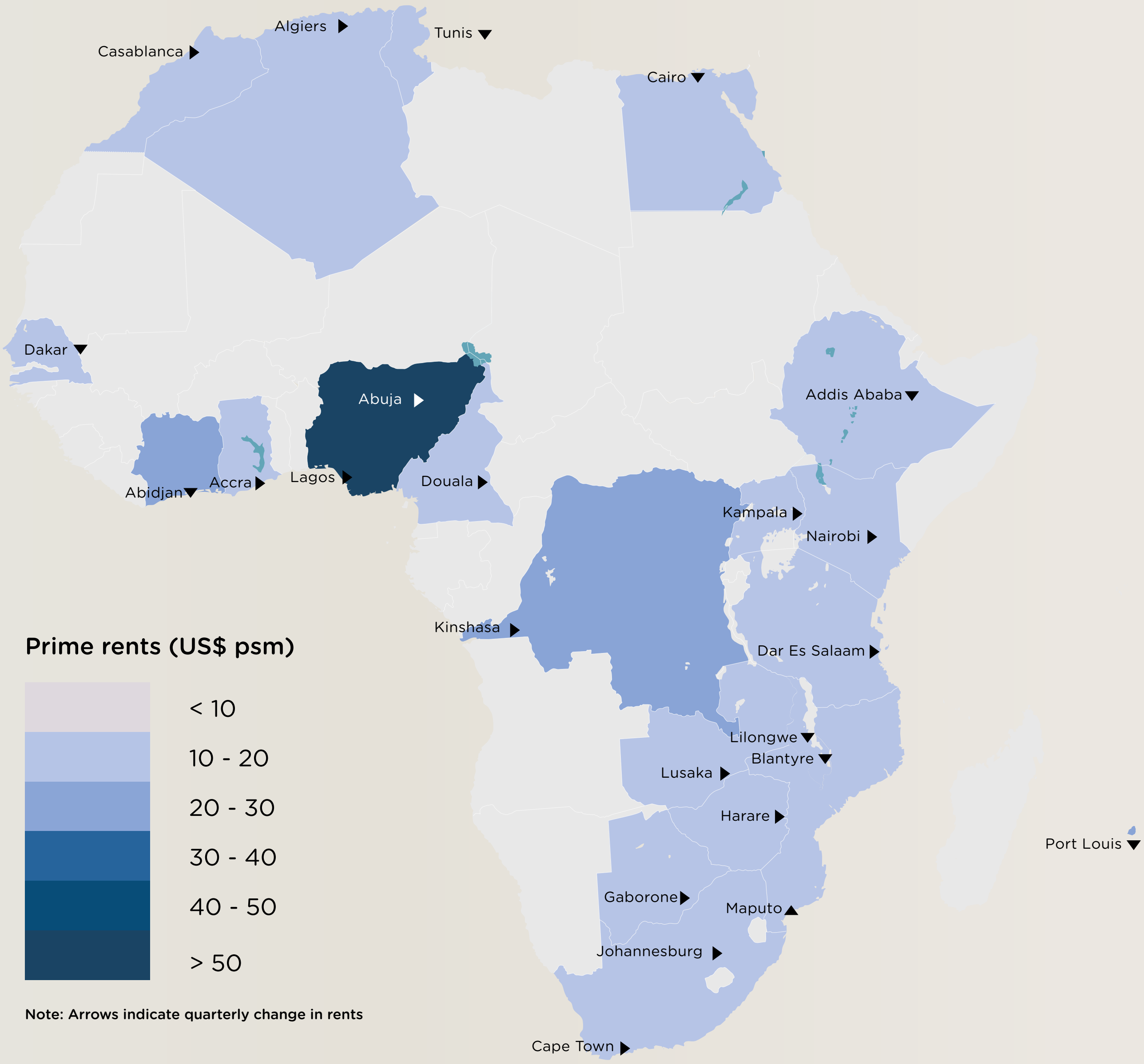
Occupier migration to suburban locations remains an ongoing trend, negatively affecting occupancy levels of CBD offices in Harare.

Less congestion and easy access to parking are the two dominant factors influencing businesses that are choosing to leave the centre of Harare.

Like elsewhere, the focus is also on the highest quality offices available. Unsurprisingly, older offices needing refurbishment in Harare CBD have reported increased vacancy levels as occupiers gravitate to modern, Grade A offices.

HARARE, ZIMBABWE

Q3 2022 OFFICE RENTS AND YIELDS



Note: Arrows indicate quarterly change in rents

	Prime Rents (US$/psm)	Prime Yields (%)
ABIDJAN	33.00	9.00
ABUJA	25.00	8.00
ACCRA	28.00	9.00
ADDIS ABABA	16.00	6.00
ALGIERS	20.00	10.00
BLANTYRE	9.00	9.00
CAIRO	29.00	8.00
CAPE TOWN	15.20	8.80
CASABLANCA	20.00	8.50
DAKAR	21.50	9.50
DAR ES SALAAM	15.00	9.00
GABORONE	11.00	9.00

	Prime Rents (US$/psm)	Prime Yields (%)
HARARE	12.00	8.00
JOHANNESBURG	16.00	9.50
KAMPALA	15.00	9.00
KINSHASA	35.00	10.00
LAGOS	55.00	8.00
LILONGWE	13.50	11.00
LUSAKA	18.00	9.50
MAPUTO	32.00	8.50
NAIROBI	13.00	9.00
PORT LOUIS	20.00	9.00
TUNIS	7.00	7.00

Source: Knight Frank

CONTACTS

Agency:

Steve Rennie

Steve.Rennie@rennieknightfrank.co.za

Charles Onyenze

charles.onyenze@ng.knightfrank.com

James Charnaud

james.charnaud@knightfrank-emc.com

Anthony Havelock

anthony.havelock@ke.knightfrank.com

Research:

Faisal Durrani

faisal.durrani@me.knightfrank.com

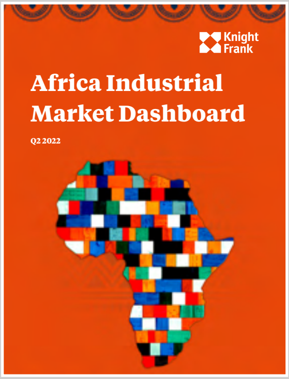
Boniface Abudho

boniface.abudho@ke.knightfrank.com

RECENT PUBLICATIONS

The Africa Report - 2022

Africa Office Market Dashboard Q2 2022



Africa Office Industrial Dashboard Q2 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.