Africa Industrial Market Dashboard

Q2 2023

Knight Frank's ultimate guide for the prime industrial markets' performance in major African cities

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MARKET OVERVIEW

Africa's Manufacturing Potential

Africa has huge potential to industrialise and make its manufacturing industry one of the most vibrant in the world. In spite of this opportunity, however, the continent's manufacturing sector is still relatively immature and relies heavily on imports to meet its needs.

According to the United Nations Industrial Development Organization (UNIDO), Africa's manufacturing output grew at an average annual rate of 4.6% between 2005 and 2018. However, the sector still accounts for a relatively small share of Africa's GDP, with manufacturing value added representing only 11% of total GDP, compared to 22% in Asia and 15% in Latin America in 2019.

There are significant variations in manufacturing performance across different African regions and countries. According to the African Development Bank, North Africa is the most industrialised sub-region, with manufacturing accounting for over 20% of GDP in some countries. Manufacturing, value added (% of GDP) in South Africa is reported at 12%, and East Africa has also made significant progress in industrialisation, with manufacturing accounting for around 10% of GDP in some countries. West and Central Africa, however, lag behind, with manufacturing contributing less than 5% of GDP in most countries.

One of the major obstacles to the growth of a nascent manufacturing industry is lack of access to affordable and reliable energy, with the high cost of energy making it difficult for manufacturers to operate competitively. Inadequate infrastructure is another challenge that the manufacturing sector faces in Africa; poor transportation systems and inadequate storage facilities increase production costs, limit market access, and often discourage international businesses from entering the market.

Despite these challenges, several positive developments are driving the growth of the manufacturing industry in Africa and many African countries have adopted policies to attract foreign investment to the manufacturing sector.

Governments are implementing policies that encourage local entrepreneurs to invest in manufacturing with African countries working together to create a conducive environment for investment in the manufacturing industry. One such initiative is the African Continental Free Trade Area (AfCFTA) agreement, which aims to create a single market for goods and services, making it easier for African countries to trade with each other.

The manufacturing sector in Africa is also benefitting from the advancement of technology, with the adoption of new technologies African manufacturers can compete more effectively with their global counterparts. Digital technologies such as the Internet of Things (IoT) and Artificial Intelligence (AI) are transforming the manufacturing industry, making it more efficient and productive. The rise of e-commerce in Africa has also made it easier for local manufacturers to promote and sell their products to a wider customer base.

Overall, the manufacturing industry in Africa has huge potential for growth and development. With the right policies in place, we expect to see the international investment taps open further, and the continent retains the capacity to emerge as one of the fastest-growing manufacturing regions in the world.

20% Contribution of manufacturing to GDP in most North African Economies

Photo: Top Industries, Egypt

Botswana

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The industrial market in Botswana has seen minimal growth in rental rates, with prime rents still stagnant at US$ 4.60 since the last quarter. Due to a limited supply of serviced industrial land within Gaborone, new developments are concentrated in the new industrial nodes on the city's outskirts, although the development pipeline is limited, possibly due to increased development and finance costs.

The Government has identified manufacturing as one of the key sectors with the potential to drive the national transformation agenda, to propel the country's economic diversification and create employment and business opportunities for the country.

"More policy focus on manufacturing and import substitution in a push for economic diversification"

According to data from Oxford Economics, Botswana has witnessed a substantial 9.5% increase in industrial production during the first quarter of 2023 compared to the same period in the previous year. In the fiscal year 2022, the manufacturing sector made a notable contribution of 5.4% to the national Gross Domestic Product (GDP), reflecting a distinct rise compared to the preceding figure of 5.2% registered in 2021.

Elsewhere, Botswana's recent Local Manufacturing Summit emphasised critical themes, including resilience, sustainable development, innovation, and partnership. These factors have been identified as essential elements for nurturing the growth of the manufacturing sector within the country. The summit's core objective was to provide tangible support to governmental endeavours to enhance economic diversification, foster growth, empower citizens, and generate employment opportunities.

4.60%

Prime industrial rents

5.4%

Contribution of the manufacturing sector to the national GDP

9.5%

Increase in industrial production according to the Oxford Economics 2023

Source: Knight Frank

Photo: Industrial Park Gaborone

Egypt

To revitalise industrial exports and achieve a targeted increase of at least 15%, reaching US $30 bn during the fiscal year 2022/2023, the strategy places significant emphasis on continuing the export support program for enterprises.

Egypt's ambitious 2022/2023 plan focuses on revitalising the manufacturing sector, electricity and environmental improvement. One of the goals within this blueprint is to achieve a real growth rate of circa 7.7% in the manufacturing sector within the designated year. This strategic effort is anticipated to elevate the industrial output's contribution to the GDP to approximately 21%.

According to the plan, investments directed to the manufacturing sector are estimated at EGP 93.5 bn, ($3m) an increase of 6% over the previous year's investments, with approximately 80% of them relating to non-petroleum industries.

The overarching developmental strategy for the sector is centred on enhancing domestic manufacturing capabilities, thereby reducing reliance on imported goods susceptible to disruptions caused by international crises. This objective entails a comprehensive review of import lists for intermediate components, emphasising fostering local production.

To improve the sector's competitiveness, the plan aims to improve the quality of industrial products by developing a system of specifications, quality, inspection, tests, and qualifying facilities to obtain quality certificates and develop workers' skills by developing the industrial training system.

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National Initiative for Strategic Food Warehousing.

As an example of this potential being realised, Egypt has launched a national project to establish strategic food warehouses with the initial phase set to commence in Suez. The planned Suez warehouse will encompass an expansive area of 10 feddan (42,000 sqm), attracting investments totalling approximately EGP 1.5 bn. This facility is slated to serve the governorates within the Suez Canal region.

Photo: Business Park - Egypt

Kenya

The Kenyan Government remains committed to focusing on EPZs and SEZs as part of its strategy to drive industrial growth in the country.

The Kenyan Government remains committed to focusing on EPZs and SEZs as part of its strategy to drive industrial growth in the country. This approach involves establishing County Aggregation Industrial Parks (CAIPS) in all 47 counties. These Industrial Parks and SEZs will host a variety of industries, including light industries such as warehousing and logistics, as well as supporting medium and heavy industries, such as manufacturers of fertilisers, iron and steel, plastics and packaging, and fabricated metal products. SEZs enjoy special electricity tariffs, tax incentives, and infrastructure facilitating various activities, including storage, export, and re-exports. They also offer industrial parks, free trade zones, and auxiliary services such as tourism, conferencing, and exhibitions.

To support the establishment of CAIPS, the national Government has pledged US$1.7 million to each county, with the respective counties required to match or exceed this amount.

Separately, businesses, particularly those dealing with perishable or delicate merchandise such as medicine, agricultural products and retail commodities, continue to demand more efficient storage facilities to reduce operational costs. Like elsewhere, Kenya's warehousing sector faces a shortage of quality A-grade temperature-controlled storage facilities. Addressing this demand, Cold Solutions, a private equity-backed cold storage provider, has recently completed a state-of-the-art 15,000 sq m. facility at Tatu City. This LEED-certified investment is estimated to cost US$70 million.

"SEZs enjoy special electricity tariffs, tax incentives, and infrastructure facilitating various activities, including storage, export, and re-exports."

Alternative asset class: Affordable Housing

The provision of affordable housing is recognised as a constitutional right according to Kenya's 2010 constitution. To fulfil this constitutional commitment, the Kenyan Government continues to pursue its affordable housing agenda, allocating Ksh 35.2 bn in the 2023/2024 Budget up from the Kshs. 27.7 bn that was set aside for the Housing Programme last year. Several such housing projects have already been launched, including Shauri Moyo, Homa Bay Affordable Housing, Ruiru Affordable Housing, and Starehe Point 1.

Photo: Infinity Industrial Park Kenya

Malawi

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Insufficient energy infrastructure has seen increased power outages between 8 to 12 hours daily, negatively impacting industrial operations. Responding to this challenge, the Government is actively promoting the adoption of alternative energy sources, including solar energy, while concurrently embarking on endeavours to establish long-lasting solutions for the nation's energy predicaments.

"High production costs from insufficient energy infrastructure."

Photo: Bwengu Solar Park Project - Malawi

In Focus: The Malawian Cement Industry

The Malawian cement industry is facing challenges arising from low-cost imports. Anticipated trends in demand for cement remain strong, driven by the ongoing urbanisation and increased population growth, which are likely to escalate the need for housing. Additionally, the surge in government infrastructure projects, particularly in civil road development, is expected to fuel this demand further.

Currently, cement consumption is relatively low in the country compared to the rest of sub-Saharan Africa due to slow urbanisation, poor infrastructure and high poverty levels. Malawi's cement market is small but expected to grow, and industry players continue to invest in upgrading plant and machinery and expanding distribution networks.

However, there is a lack of new investment in the industry as stakeholders continue to face constraints, including electricity blackouts, a shortage of foreign currency to import raw materials for production, and unfair competition from cheap imports, which have flooded the Malawian market and threatened local cement manufacturers.

12 hours

Daily power outages

Low consumption of cement in Malawi compared to the rest of Africa

Source: Knight Frank

Nigeria

A notable trend is the increased inquiries for grade-A warehouses, despite the relatively low supply of such top-tier properties.

National Development Plan 2021-2025: The National Development Plan 2021-2025 provides an ambitious agenda to enhance the nation's industrial productivity. The construction industry is expected to register an annual average growth rate of 4.3% from 2023 to 2026, supported by investments in transport, electricity, water and sewage, and housing infrastructure projects as part of the National Development Plan 2021-2025.

The plan focuses on economic rejuvenation, including strengthening industrialisation and alleviating poverty. The Government plans capital expenditure of approximately US $119.7 bn for infrastructure projects during the period.

It also plans to attract foreign direct investment (FDI) of approximately $4.8 bn by 2025, compared to US $1.5 bn in 2020. By 2025, the Government also aims to boost the contribution of non-oil exports by introducing effective trade policies and strategies

Elevated investments in infrastructural development: Increased investments from the public and private sectors in infrastructural development have consequently fostered the expansion of industrial facilities in key industrial hubs such as Lagos. For instance, the recent inauguration of the Lekki Deep Seaport, one of Africa's largest ports, alongside the US $19 bn Dangote petroleum refinery, is a pivotal milestone that has significantly enhanced market fundamentals within the Lekki-Epe corridor.

The manufacturing sector has equally received a substantial boost this year with the unveiling of the 32-metric ton-per-hour Lagos Rice Mill in Imota, Ikorodu, a suburban enclave of Lagos. The Mill, spanning an expansive 8.5-hectare land parcel, is expected to support the rice revolution in Nigeria. The project's annual paddy demand, exceeding 240,000 metric tons, facilitates the production of 2.5 million 50kg bags of rice annually.

Heightened Demand for Grade A Warehouses: Another notable trend is the increased inquiries for grade-A warehouses, despite the relatively low supply of such top-tier properties. The increased e-commerce landscape has prompted retailers, wholesale distributors, and third-party logistics providers to seek suitable warehouse facilities.

Photo: Bwengu Solar Park Project - Malawi

South Africa

Despite the weakened economic climate, stable demand for prime warehouse and logistics facilities persists, with most occupier activity confined to lease renewals and space consolidation linked to quality.

Agro-processing:
While South Africa has a well-developed agricultural sector, it relies on imports to meet its domestic demand for key agricultural products and inputs, which exposes the country to global commodity-price fluctuations. For instance, South Africa covers about 50% of its wheat demand and about 80% of its fertiliser demand through imports. This high import dependency on certain food items and agricultural inputs, rising international prices, and a weak local currency have led to spiralling inflation. While South Africa is self-sufficient in maize, a critical staple for many in the country, maize prices have experienced an increase of 37% between May 2021 and May 2023, caused in part by the devaluation of the South Africa Rand.

Stable demand for prime warehouses and logistical assets:
Despite the weakened economic climate, stable demand for prime warehouse and logistics facilities persists, with most occupier activity confined to lease renewals and space consolidation linked to quality. As a result, prime rents have remained stable at approximately US $ 5.00 psm per month in Johannesburg, with this trend expected to continue.

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Overall, against a backdrop of an unfavourable local economic perspective, alongside surging construction and inflationary costs, speculative development has come to a standstill. Factors such as rental affordability and initial return requisites demanded by developers have further exacerbated this inactivity.

Photo: Grain storage and processing

Tanzania

The agricultural domain stands to gain from enhanced access to cost- effective credit, a factor set to revitalise consumer-driven economic activities further.

Economic growth in Tanzania is expected to accelerate, with real GDP projected to increase by 5.7% y-oy in 2023, up from 5.3% in 2022. This growth will be driven by investments in large-scale infrastructure projects, increasing wages and elevated consumer consumption. Furthermore, the agricultural domain stands to gain from enhanced access to cost-effective credit, a factor set to revitalise consumer-driven economic activities further.

In Focus: Tanzanian Government's 2023/2024 Budget

The Confederation of Tanzanian Industries (CTI) has provided its analysis and response to key highlights from the Tanzanian Government's 2023/2024 Budget Speech, lauding its commitment to economic growth and industrial development. The budget includes tangible investments and new measures to promote industry growth, stimulate entrepreneurship, and create jobs. Key highlights include substantial reforms in tax structure, fees, levies, and amendments to laws and regulations to improve the business environment. While these endeavours represent commendable strides towards the overarching goals, the CTI expresses concerns regarding certain facets of the budget that could impede industrial advancement. Notably, implementing a 20% excise duty hike on alcoholic beverages and tobacco products and introducing excise duty on cement stand as measures that might exert unfavourable repercussions on key industries within Tanzania. If executed properly, the 2023/2024 budget will significantly support the initiatives taken by the Government to build a sustainable industrial economy

5.7% 2023 Projected increase in GDP

Photo: Sahara Group Oil storage facility

Uganda

Despite the stable prime industrial rents at US $6.00 psm per month, there has been a notable shift in warehouse-size requirements, with a preference for smaller spaces ranging from 250 to 500 sqm.

Stable Rents Amidst Decrease in Space Requirements:

Despite the stable prime industrial rents at US $6.00 psm per month, there has been a notable shift in warehouse-size requirements, with a preference for smaller spaces ranging from 250 to 500 sqm. Some construction activity has been observed in traditional industrial areas, with notable pipeline projects like the Henley Business Park facility spanning an impressive 16,340 sqm along Mulwana Road. Additionally, the 5,000 sqm Enterprise Park construction in Nakawa has garnered attention.

Digital Infrastructure Enhancing Growth:
The technology sector in Uganda has experienced significant growth, leading to rising demand for a robust digital infrastructure capable of accommodating critical computer systems, managing substantial data volumes, and providing improved user speeds.

The Parliament of Uganda has approved loan financing for the Uganda Digital Acceleration Project (UDAP), with the National Information Technology Authority - Uganda (NITA-U) spearheading implementation. As part of this project, NITA-U aims to enhance Uganda's digital infrastructure by expanding in-country data centre hosting capacity. This expansion will increase access to high-speed internet, improve digital service delivery in select public sectors, and enhance digital inclusion. Uganda's commitment to advancing its digital infrastructure underscores its dedication to leveraging technology for accelerated growth and development.

"Raxio Group is also evaluating other site options for a second data centre with 3MW IT power capacity to accommodate up to 800 racks."

Investors are equally actively responding to this increased demand. For instance, the Raxio Group has unveiled its enterprise-grade data centre, offering a secure and reliable environment for colocation services with a capacity of up to 400 racks. These racks provide dedicated spaces for housing servers, networking devices, and cables, ensuring efficient and organised data management.

The data centre's 1.5MW of IT power ensures optimal equipment operation. Raxio Group is also evaluating other site options for a second data centre with 3MW IT power capacity to accommodate up to 800 racks. This initiative by Raxio Group aims to support industries facing intricate and distinctive IT and regulatory challenges by addressing their evolving needs.

S/N	ENTITY	LOCATION	CORE INDUSTRIES	
01	Raxio	Namanve Industrial Park	• Tier III Standard • Up to 400 Racks • 2-21 KW power	• Nine local and international fibre carriers
02	NITA-U - National Data Centre (NDC)	Kampala	• Tier III standard	• Government entities • Private Entities
03	NITA-U - Disaster Recovery (DR)	Jinja	• Disaster Recovery	• Government entities • Private Entities
04	Mutundwe switch and data centre	Mutundwe	• MTN Data Servers	• MTN Uganda

Source: Knight Frank

Zambia

Zambia accounts for 4% of global copper production, with the largest producers being Chile, Peru, China and the Democratic Republic of Congo.

Copper production in Zambia boosts the industrial sector, but there is a need for improved infrastructure.

Zambia accounts for 4% of global copper production, with the largest producers being Chile, Peru, China and the Democratic Republic of Congo. Exports of copper from Zambia increased by 0.17% in 2022 over 2021, with the highest share being exported to China. However, according to GlobalData, Zambia's copper exports are expected to drop at a CAGR of 0.1% between 2022 and 2026.

This prospective trajectory aligns with the broader economic context, wherein Zambia's anticipated growth for 2023 is a modest 2.7%, marking a decline from the 4.7% witnessed in 2022.

"Insufficient infrastructure poses a significant constraint to its mining sector."

The pullback can be attributed to contractions within the mining and energy sectors, exerting a drag on overall economic expansion.

The country's insufficient infrastructure poses a significant constraint to its mining sector and, by extension, its overall economic vitality. For example, in the 2019 World Economic Forum's Global Competitiveness Index, Zambia's infrastructure was ranked a modest 124th out of 141 countries evaluated.

Due to fiscal constraints, analysts believe Zambia should strategically harness donor funding and concessional financing avenues. A good example is the Partnership for Global Infrastructure and Investment (PGII), an initiative spearheaded by the G-7. In collaboration with the private sector, this partnership aims to inject US $600 bn into infrastructure development across low- and middle-income countries in the next five years.

Photo: York Commercial Park - Lusaka, Zambia

Zimbabwe

There is a heightened demand for compact industrial park-style units to facilitate wholesaling, warehousing, distribution, and logistics operations.

Heightened demand for Grade A warehouses:

Increased demand for quality warehousing units has driven the growth experienced in the country's industrial sector. Despite the increased demand, there have been no significant warehouse completions recently, and most new developments are owner-occupied. The positivity in the sector continues to be tempered by power outages, low capitalisation, poor water supply and deteriorating infrastructure. Despite the increased demand, it is noteworthy that prime warehousing rental rates have remained relatively flat at US $3, making Harare one of the most affordable places in the continent for warehouse leasing.

"Prime warehousing rental rates stable at at US $3"

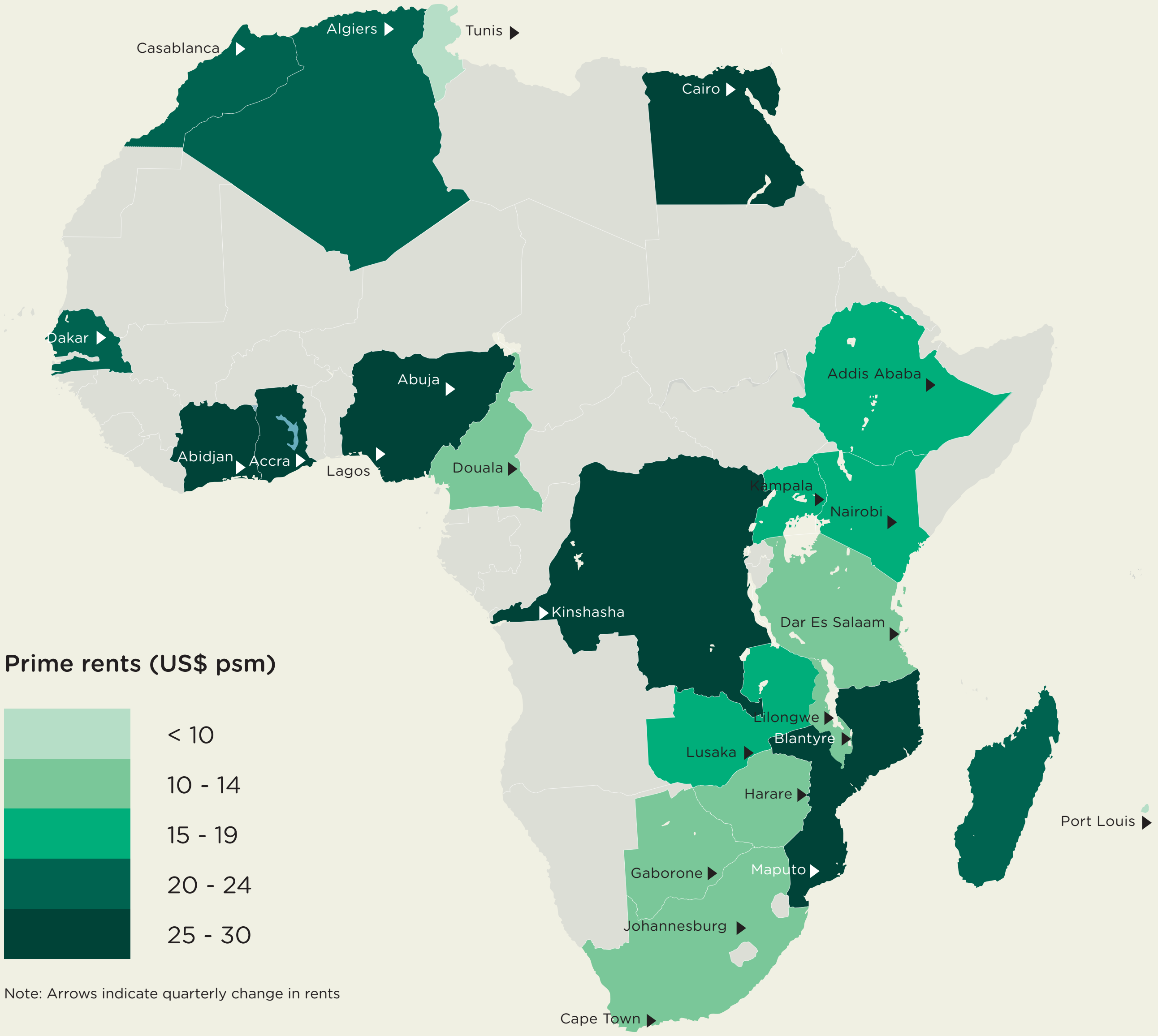
The Effects of a Multi-Currency Economy:

The reintroduction of a multi-currency economy has rendered locally produced goods uncompetitive, resulting in increased imports of cheap goods and commodities. This has negatively affected the industry and resulted in reduced capacity utilisation.

Government initiatives boosting the sector: There is a heightened demand for compact industrial park-style units to facilitate wholesaling, warehousing, distribution, and logistics operations. To boost and ensure the vitality of domestic industries, the Government has implemented an array of strategic measures and policies. These include establishing manufacturing and export processing zones strategically positioned to benefit from tax incentives. Within these SEZs, enterprises will enjoy exemption from duties on consumables and equipment utilised in the establishment phase, coupled with a tax-free status for the initial five years of operation. Subsequently, a modest tax rate of 15% will be applicable.

Photo: Madokero Business Part - Harare

PRIME INDUSTRIAL RENTS AND AVERAGE PERCENTAGE YIELDS



Note: Arrows indicate quarterly change in rents

		PRIME RENTS (%)	PRIME YIELDS (%)
ALGERIA	ALGIERS	5.50	13.00
BOTSWANA	GABORONE	4.50	9.00
COTE D'IVORE	ABIDJAN	12.00	11.50
DEMOCRATIC REPUBLIC OF CONGO	KINSHASA	10.00	15.00
EGYPT	CAIRO	4.00	10.00
ETHIOPIA	ADDIS ABABA	6.00	8.00
GHANA	ACCRA	6.00	10.50
KENYA	NAIROBI	6.00	9.50
MALAWI	LILONGWE	3.00	12.00
MAURITIUS	PORT LOUIS	7.00	10.00

		PRIME RENTS (%)	PRIME YIELDS (%)
MOROCCO	CASABLANCA	5.00	11.50
MOZAMBIQUE	MAPUTO	7.50	10.00
NIGERIA	LAGOS	5.00	8.00
SENEGAL	DAKAR	6.00	13.00
SOUTH AFRICA	JOHANNESBURG	5.00	9.00
TANZANIA	DAR ES SALAAM	5.00	10.00
TUNISIA	TUNIS	4.00	12.00
UGANDA	KAMPALA	6.00	13.00
ZAMBIA	LUSAKA	5.00	12.50
ZIMBABWE	HARARE	3.00	12.00

Source: Knight Frank

CONTACT US

Botswana
Eranse Mooki
Eranse.Mooki@bw.knightfrank.com

Egypt
Zeinab Adel,
Partner - Head of Egypt
Zeinab.Adel@me.knightfrank.com

Kenya
Mark Dunford, CEO
mark.dunford@ke.knightfrank.com

Anthony Havelock
Head of OLSS, Knight Frank Kenya
anthony.havelock@ke.knightfrank.com

London
Ben Woodhams
Partner, Africa Desk
ben.woodhams@knightfrank.com

Malawi
Desmond Namangale, Managing Director
desmond.namangale@mw.knightfrank.com

Middle East and Africa
James Lewis
Managing Director
james.lewis@knightfrank.com

Nigeria
Frank Okosun, Managing Director
frank.okosun@ng.knightfrank.com

Research
Boniface Abudho, Africa Research Analyst
boniface.abudho@ke.knightfrank.com

Faisal Durrani,Partner - Head of Middle East Research
faisal.durrani@me.knightfrank.com

South Africa
Steve Rennie, Managing Director
steve.rennie@rennieknightfrank.co.za

Susan Turner, Managing Director
Susan.Turner@za.knightfrank.com

Tanzania
Ahaad Meskiri, Managing Director
ahaad.meskiri@tz.knightfrank.com

Uganda
Judy Rugasira Kyanda, Managing Director
judy.rugasira@ug.knightfrank.com

Zambia
Tim Ware, Managing Director
tim.ware@zm.knightfrank.com

Zimbabwe
Siza Masuku, Managing Director
siza.masuku@zw.knightfrank.com

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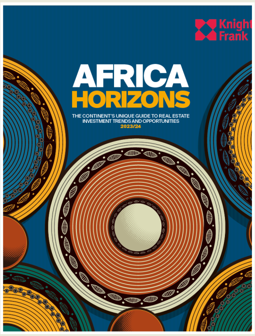

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