Knight Frank

Africa Industrial Market Dashboard

Q3 2022

INDUSTRIAL MARKET OVERVIEW

Across the continent, the industrial sector has maintained excellent performance, with agriculture-linked activities, data centres, and logistics facilities underpinning rising demand.

Demand has been further bolstered by government initiatives designed to spur growth, such as Uganda's 100% tax exemption on income from agro-processing and tax holidays for the first 10 years on the export of finished consumer and capital goods. Another example is the work by the government of Kenya to encourage the consumption of locally produced goods through initiatives such as 'Buy Kenya – Build Kenya.'

Alongside domestic manufacturing, agricultural activities remain the backbone of demand in many locations.

Some countries, such as Zambia, are making moves to reinvigorate the sector by refurbishing the old agro-processing facilities, which is helping to create new supply.

Countries such as Malawi, Egypt, and South Africa are tapping alternative energy sources, such as solar power, to plug the energy deficit.

Away from agricultural activities, data centres and modern logistics facilities are fast emerging as significant new demand drivers in Kenya, Nigeria and South Africa. Investors, landlords, and developers are responding to rising requirements by expanding existing data centres and building high-quality warehouses, which remain in short supply.

Scan the code below to find out how data centres define the African industrial market in our 2022/23 Africa Report.

> **Logistics facilities are emerging as significant new demand drivers in Kenya, Nigeria and South Africa**

COUNTRY SNAPSHOTS

BOTSWANA

Like other nations on the continent, the government of Botswana has introduced tax incentives to private international investors in an effort to boost FDI. This includes the introduction of the Development Approval Order – Tax Holiday (zero corporate tax) available to investors for five to ten years. At the same time, the government has also embarked on several road improvement projects to enhance the country's transport infrastructure, aimed at supporting and boosting the logistics and local manufacturing sectors.

Reliable energy infrastructure has also been another key focus for the government, particularly as it has, in our view, been a critical barrier to the growth and expansion of the industrial sector.

Botswana has historically been a net importer of electricity; however, the coal-fired power station Morupule B, built by the China National Electric Engineering Corporation, is quickly helping to reduce the dependency on imported energy. Indeed, since the summer, Morupule A and B power stations have been fully operational, producing well above what is being demanded locally. Unsurprisingly, plans are progressing to start selling the excess electricity to neighbouring South Africa.

Tax incentives and transport and energy infrastructure improvements point to a positive future for demand in the country's industrial sector, especially as these issues appear insurmountable in many other sub-Saharan nations.

EGYPT

Demand for warehouses and last-mile logistics facilities continues to increase, driven by rapid expansion in e-commerce platforms as online shopping beds in as a legacy of the COVID-19 pandemic. Recent new e-commerce entrants into the Cairo market include Noon, Amazon, and Jumia, which acquired 26,000 sqm of space in East Cairo in October.

Like elsewhere, demand is concentrated on quality warehouses, with grade-A space now the target of most occupiers.

Separately, many developers and occupiers are exploring solar power options to guard themselves against the hiking cost of electricity, which is also expected to aid the country's 2050 net-zero pledge.

Strong demand, coupled with near 100% occupancy levels in the best industrial estates, is rapidly driving up rents which are, on average, up 14.3% on this time last year. Given this backdrop, investors are also increasingly active. Orascom has, for instance, announced plans to build, lease and operate cutting-edge warehouses in Fayoum governorate in partnership with the Internal Trade Development Authority (ITDA). Construction is expected to begin imminently and will take 15 months to complete.

Looking ahead, the planned US$ 400mn Cairo to Alexandria freight train, scheduled to begin operations by 2030, which also includes connections to Upper Egypt and the Red Sea coast, is forecast to underpin industrial demand, especially around new rail hubs.

COUNTRY SNAPSHOTS

KENYA

Mirroring Nigeria, e-commerce platforms have continued to expand rapidly in the wake of the pandemic, underpinned by a boom in online shopping. This has increased demand for warehouses in Nairobi, Mombasa, and Kisumu, in particular, with requirements focused on best-in-class space.

In parallel, rising demand for cloud storage requirements as businesses rapidly expand their online platforms is driving a surge in data centre requirements. In turn, investors are increasingly active in this space, with Africa Data Centre (ADC), for instance, announcing an investment of US$200+M for data centres in Nairobi at the end of last year and a third planned soon. Nairobi currently has seven data centres owned and operated by Telkom Kenya, PAIX Data Centre, Safaricom, Icolo, SimbaNET Comm, and ADC.

Away from data centres, the government has committed to expanding Kenya's agricultural potential. Plans are underway to set up agro-processing zones in Kisumu, Meru, Galana, Nakuru, and Kwale to process local commodities, such as avocados, mangoes, cassava, passion fruit, and potatoes. A food processing hub in Mombasa is also being developed to process imported agro-based products, such as wheat, palm oil, and rice.

In parallel and as a boost to local manufacturers, the government is planning to restrict the import of various mechanical and industrial spare parts to encourage the consumption of locally produced goods.

These initiatives are expected to attract international and local agro-industries and manufacturers, further contributing to the demand for warehouses.

MALAWI

Inadequate energy infrastructure continues to contribute to protracted power outages, which is, in turn, curbing the appetite for expansion by existing industrial occupiers while at the same time deterring new market entrants.

Nationwide blackouts that last up to 12 hours are negatively impacting business continuity. The government is responding by encouraging the use of alternative energy sources, such as solar energy, as it works to identify permanent solutions to the country's energy challenges.

Unsurprisingly, demand for new warehouse space is limited across Malawi, with rents hovering between US$ 2.50-3 psm, making Malawi one of the cheapest locations in Africa to lease warehousing.

COUNTRY SNAPSHOTS

NIGERIA

The demand for high-quality warehouses persists, driven by the domestic logistics companies' ongoing expansion plans, mirroring the behaviour of logistics operators in Egypt.

The Fast-Moving Consumer Goods (FMCG) sector, which includes food and beverages, groceries, personal care, cleaning products, and stationery, is also contributing to demand, especially in the form of strategically located storage facilities to store substantial inventories, returned goods and to also manage last-mile deliveries. This demand has been spurred by the growth in online shopping in Nigeria, with many retailers rushing to bolster their online presence. Most e-retailers are on the hunt for large and centrally located warehouses in excess of 1000 sqm.

The rush to expand or establish an online presence by retailers is, in parallel, driving a surge in cloud storage requirements, which is underpinning demand for data centres.

Despite the apparent shortage of high-quality warehousing, investors remain wary of entering the market due to the poor transport and energy infrastructure. Indeed, the unprecedented floods during October, which has impacted 27 out of 36 states in the country, displacing 1.3 million people, underscores the need for significant infrastructure resilience improvements in the country.

In addition, the high land cost is a significant deterrent to international developers and investors. For instance, the average price of land in Ikeja has grown at a rate of almost 9% per annum over the past five years.

That being said, away from e-commerce-linked demand, Dangote Group's refinery and Petrochemical Park, which is set to be completed this year and is expected to meet all of Nigeria's needs for refined hydrocarbon products, with a surplus for exports, is expected to boost requirements from supporting industries.

SOUTH AFRICA

Warehousing demand continues to strengthen, with occupancy levels in Johannesburg, for instance, standing at 95%. The high demand is placing upward pressure on rents, which have risen to US$ 7 psm, representing an increase of 29.4 % on Q3 2020.

A significant pillar of demand is the country's strengthening manufacturing sector. While consumer preferences have historically centred on imported goods, rising global inflation is driving up importation costs, with local manufacturers rapidly seizing on the opportunity to establish factories in cities such as Cape Town and Johannesburg.

Data centre requirements are also growing, and developers are responding by launching new projects as well as expanding existing data centres. For instance, Africa Data Centres, a business of Cassava Technologies, a pan-African technology group, announced in September that it has broken ground on expanding its Samrand Facility in Johannesburg from 10MW to 40MW. The expansion plan is regarded as the most ambitious in Africa to date.

COUNTRY SNAPSHOTS

TANZANIA

The recently established Export Processing Zones (EPZs) and the Special Economic Zones (SEZs) have led to a boost in warehouse requirements within these zones, with occupiers drawn in by the high-quality of space available as well as incentives that include no restrictions on foreign investment, participation, or control.

Outside these zones, however, the legacy of socialist policies endures in certain sectors, with some government departments suspicious of foreign investors and free competition, which continues to curb demand and activity from international occupiers in these areas.

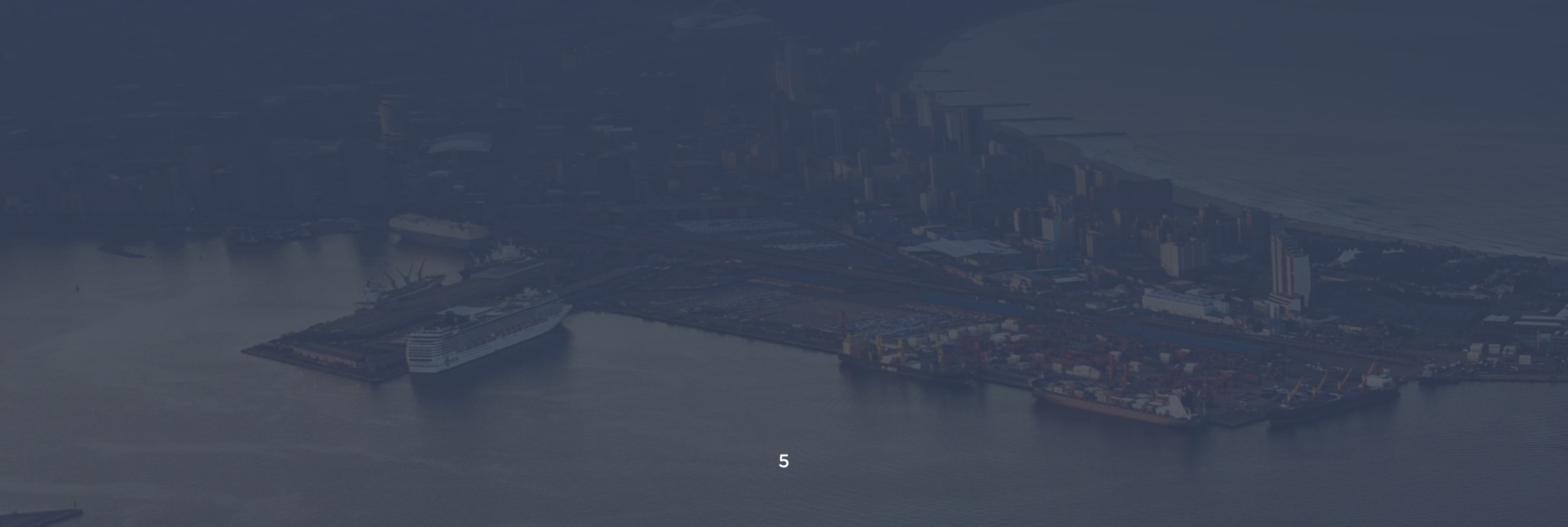
Our view for the industrial sector remains bright, with ongoing transport infrastructure improvements expected to set the country apart from many other African nations. For instance, the Dar-es-Salaam to Morogo standard gauge railway line opened in late April, and plans are progressing on the 1,200 km rail network that will connect the ports of Dar-es-Salaam and Mwanza, creating a seamless link for the movement of goods around the country; something we believe will contribute to a rise in manufacturing and logistics activity in Tanzania.

UGANDA

Across Kampala, industrial space requirements have slowed, with inflation, dry weather conditions, currency depreciation, weak domestic demand, and rising costs of finance forming a potent cocktail of demand dampeners. The recent outbreak of Ebola, while too early to fully assess, is likely to curb activity further should the spread of the disease persist.

The government is working to mitigate these impacts through the improvement of transport infrastructure as well as incentivising investors. For instance, as noted above, the Uganda Investment Authority (UIA) is offering local investors incentives to develop the country's manufacturing sector. Incentives include a 100% exemption from tax on income from agro-processing, expenditure on scientific research, and training. There is also a tax holiday for the first 10 years on the export of finished consumer and capital goods.

Looking ahead, the planned US$ 15bn investment in the oil and gas sector as the country marches to first oil in 2025, led by Total's US$ 10bn investment, is expected to underpin an economic transformation, with significant growth in the hydrocarbon sector and related industries forecast to boost economic growth and demand for industrial assets.



COUNTRY SNAPSHOTS

ZAMBIA

Unlike the first half of 2022, which was characterised by an oversupply of warehouses and slow growth in rents, demand has returned, with a focus on warehouses sized between 500-2,000 sqm. Rents have responded to the rising activity, reaching US$ 5.0 psm at the end of Q3, reflecting an increase of 11.1% on the same time last year.

Prime estates such as York and Krimanvi are reporting full occupancy, driven by the increased demand for quality warehouses. Logistics and last-mile storage facilities are underpinning requirements, while the local manufacturing sector lags many other locations on the continent.

UNTAPPED OPPORTUNITY

Like many sub-Saharan nations, Zambia has an untapped agricultural and agro-processing sector. Indeed, 58% (or c.42 million hectares) of the country is classified as medium to high potential agriculture production areas. Of this total, just 15% is cultivated, highlighting the depth of the opportunity for Zambia to emerge as a global agricultural super hub. Government-led initiatives to support the development of agriculture-related industries were unveiled in the 2023 Budget in October.

ZIMBABWE

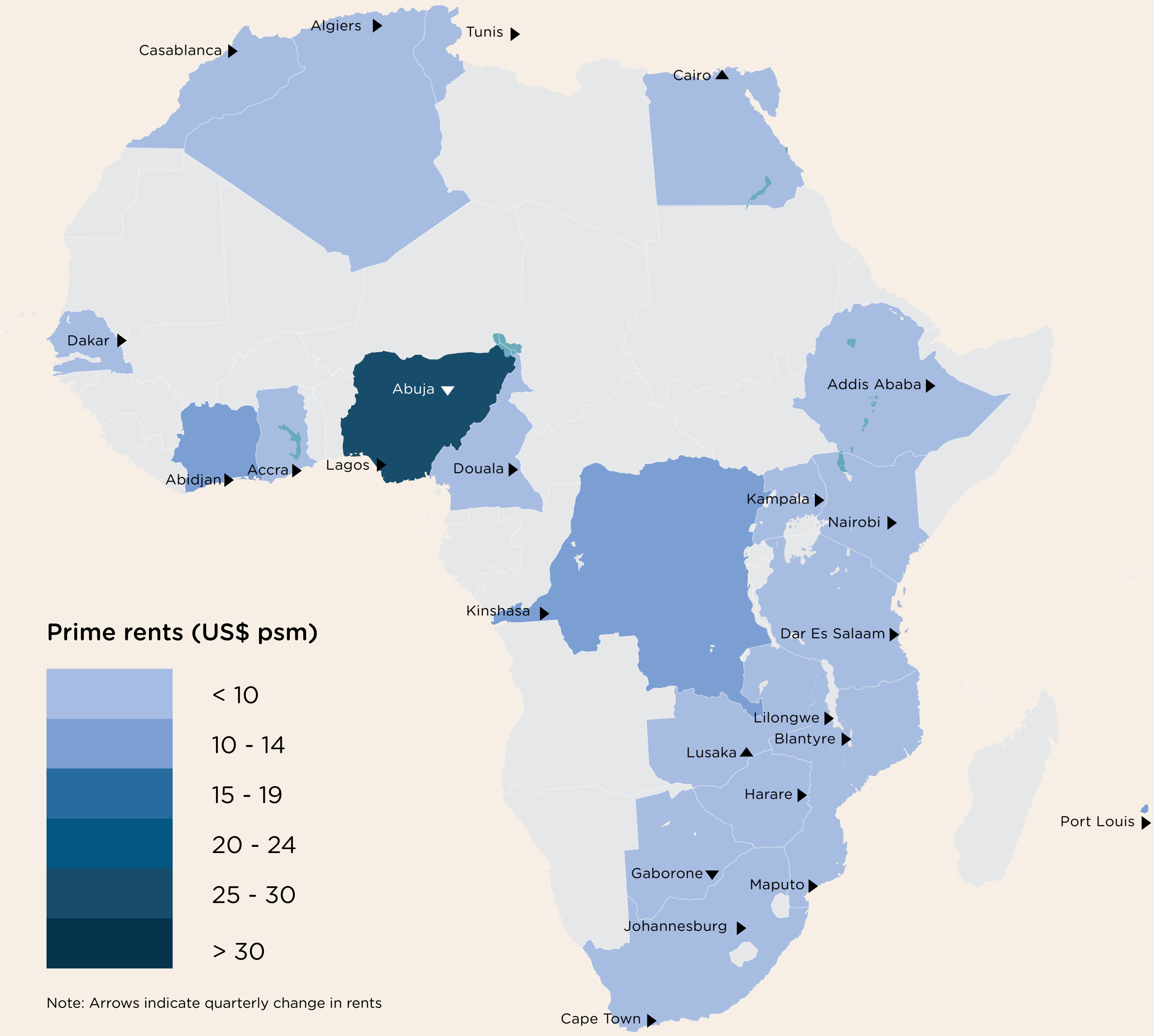
Zimbabwe's currency continues to depreciate against the US dollar, made worse by rampant imported inflation. As a result, the demand for industrial space has shifted towards smaller industrial units and warehouses as occupiers attempt to curb rising operational costs.

In addition, the country's poor road and energy infrastructure also continues to drag on demand, with international investors, developers, and occupiers wary of entering the market.

More positively, the availability of high-quality warehouses has helped to satisfy demand from the country's supermarkets, who continue to seek temperature-controlled, modern warehouses to store imported goods actively.

Separately, the government has also introduced regulations to strengthen the local industrial sector, including the 'Buy Zimbabwe' policy that encourages buying locally manufactured products.

AFRICA INDUSTRIAL MARKET IN NUMBERS - Q3 2022

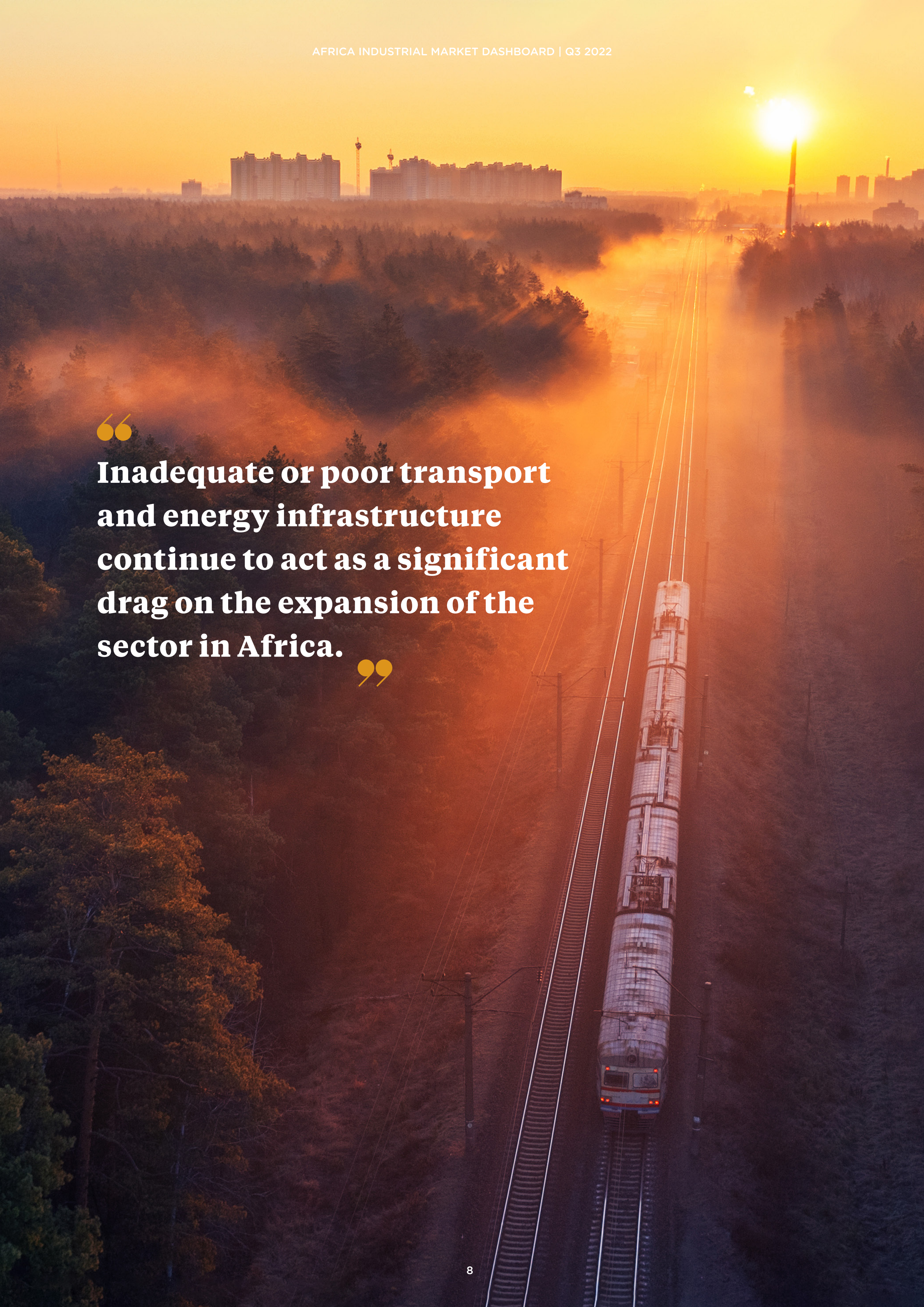


Note: Arrows indicate quarterly change in rents

	Prime Rents (US$/psm)	Prime Yields (%)
ABIDJAN	12.00	11.50
ABUJA	4.00	8.00
ACCRA	6.00	10.50
ADDIS ABABA	6.00	8.00
ALGIERS	5.50	13.00
BLANTYRE	2.50	12.00
CAIRO	4.00	9.00
CAPE TOWN	7.00	8.00
CASABLANCA	5.00	11.50
DAKAR	6.00	13.00
DAR ES SALAAM	5.00	10.00
GABORONE	4.50	9.50

	Prime Rents (US$/psm)	Prime Yields (%)
HARARE	3.00	12.00
JOHANNESBURG	7.00	8.50
KAMPALA	6.00	13.00
KINSHASA	10.00	15.00
LAGOS	5.00	9.00
LILONGWE	3.00	12.00
LUSAKA	5.00	13.00
MAPUTO	7.50	10.00
NAIROBI	6.00	9.00
PORT LOUIS	7.00	10.00
TUNIS	4.00	12.00

Source: Knight Frank



“Inadequate or poor transport and energy infrastructure continue to act as a significant drag on the expansion of the sector in Africa.”

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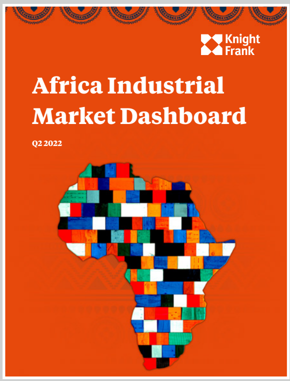

Africa Office Industrial Dashboard Q2 2022

Africa Office Market Dashboard Q3 2022

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