A biannual review of the main industrial markets in Africa

Knight Frank

Africa Logistics & Industrial Review

H2 2021

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MARKET ROUNDUP

New space requirements increased by 13% q-o-q

Nairobi has recorded the highest increase in prime rents

Average prime industrial yields stand at 12%

Backdrop

The prime warehousing and logistics market across Sub- Sahara Africa has been limited to Nairobi and Johannesburg. That said, over the past five years we have seen increased activity in pockets of Lagos, Lusaka, Maputo, Addis Ababa, and Abidjan. Overall, Nairobi has remained the best performing market over the past year, recording the highest increase in rents between 2019 and 2021. Furthermore, evidence of the city's rising profile is reflected in the fact that it accounts for 50% of new space requirements.

Mixed rental performance

Across the 29 Africa cities we monitor, a huge disparity in rents exists. At USD 10 psm and USD 9.80, Kinshasa and Dakar, for example, rank as some of the most expensive cities for prime warehouses in Africa, while Blantyre (USD 2.50 psm) is the cheapest. Luanda, on the other hand, experienced the most substantial fall in average warehouse lease rates, which currently stand at USD 5.50 psm; down from USD 10 psm in 2018. Furthermore, prime rents have remained stable in some of the cities such as Cairo, Algiers and Maputo.

Despite this varying performance, anecdotal evidence suggests occupier activity in the sector is increasing across the continent. For example, new warehousing and logistics requirements were up 13% q/q in Q2. These requirements have been underpinned by the agriculture, FMCG and manufacturing sectors with overall requirements ranging between 5,000 – 10,000 sqft size bracket.

Demand is eclipsing supply in some markets

Demand for the best warehouses continues to eclipse supply across most cities we monitor. In Nigeria, for example, the long-term scarcity of quality warehousing has led to most multinational blue-chip occupiers, operating out of purpose-built, owned facilities around Ikeja, Sagamu and Agbarawe. This well entrenched trend means that demand for purpose built prime warehousing space remains robust. We estimate total requirements of approximately 1 million sqm across the south-west region of Nigeria and within proximity to Lagos, underpinned by the agriculture, retail and manufacturing sectors. For context, the total size of the purpose-built warehousing market in Nigeria currently stands at approximately 300,000 sqm. Already, developers such as Agility are leveraging on this opportunity with plans underway to develop 270,000 sqm of warehousing space. Furthermore, Agbara Logistics Parks are set to develop an additional 35,000 sqm to their already existent stock.

In sharp contrast to the dearth of stock in Nigeria, developers in Kenya have been responsive to growing demand, delivering over 170,000 sqm of speculative prime warehousing over the last five years, prior to which the prime market was confined to a very limited number of developments. A further boost to supply is expected to materialise in the form of developers such as Improvon and Africa Logistics Properties' plans to deliver over 400,000 sqm of speculative space to the market by the end of 2024.

H1 2021 Industrial Rents and Yields

CITY	PRIME RENTS (USD/PSM)	PRIME YIELDS(%)
ABIDJAN	7.40	12
ACCRA	5.00	10
ADDIS ABABA	4.50	9
ALGIERS	10.00	13
ANTANANARIVO	5.00	9
BAMAKO	4.00	14
BLANTYRE	2.50	12
CAIRO	5.00	10
CAPE TOWN	4.80	10
CASABLANCA	5.60	12
DAKAR	9.80	13
DAR ES SALAAM	7.00	10
DOUALA	3.50	12
GABORONE	5.60	8.5
HARARE	3.25	11
JOHANNESBURG	5.50	10
KAMPALA	6.00	13
KINSHASA	10.00	15
LAGOS	4.38	12
LIBREVILLE	8.00	15
LILONGWE	3.50	12
LUANDA	5.50	12
LUSAKA	4.50	13
MAPUTO	7.50	10
NAIROBI	6.00	8.5
PORT LOUIS	5.00	10
TUNIS	5.00	14

Source: Knight Frank

Despite most stock being built speculatively, absorption rates remain high, driven by the agriculture and FMCG sectors. Unsurprisingly, average occupancy stands at 80%. The buoyancy of demand is clearly reflected in the active development pipeline, but also in the performance of rents. In comparison to pre-pandemic rates, Nairobi recorded the highest increase in average prime rents across Africa, from USD 4.70 psm in 2018 to USD 6 psm

Despite South Africa's weak economic climate and outlook, demand remains stable for prime warehouse and logistics assets. The delta between rents for prime and secondary space continues to widen, with diminished demand for poorer quality stock. Still, logistics facilities remain the best performing commercial asset class in South Africa. Most occupier activity is confined to lease renewals and the consolidation of space, which is in turn linked to a flight to quality. As a result, prime rents have remained stable at approximately USD 5.50 in Johannesburg, with this trend expected throughout the year. Furthermore, anecdotal evidence indicates that demand for prime warehousing sector is set to increase underpinned by the vibrant e-commerce sector leading to the emergence of a distinct two-tier market.

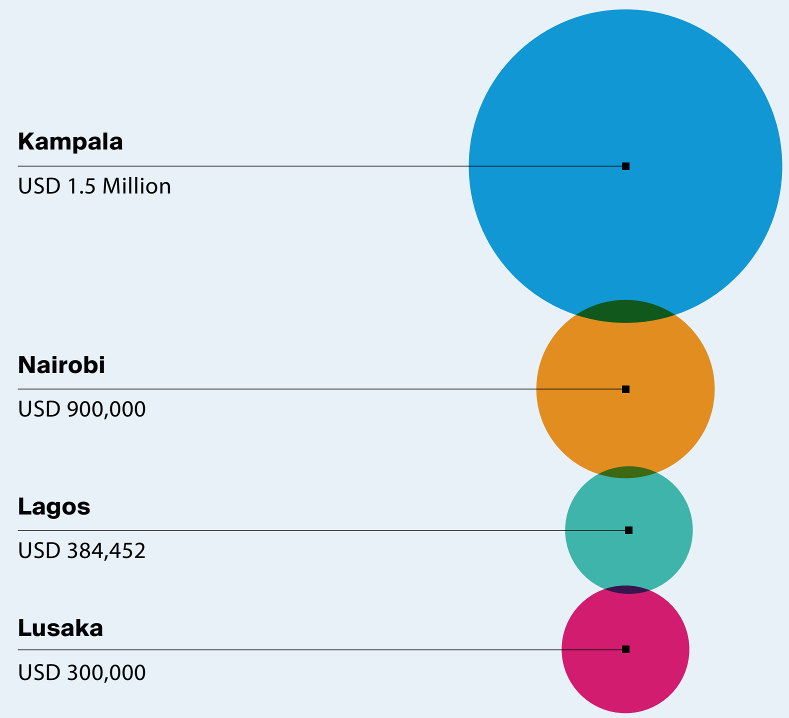
Demand for urban locations driving up land values

Across the continent, declining land supply coupled with increased demand is putting upward pressure on land prices, as owner occupiers compete with institutional investors for the best locations. Indeed, in some cities land values in established industrial nodes have grown by 58%(Lagos) and 42%(Nairobi) between 2015 and 2021. In addition, infrastructure developments such as the Chinese-built ring-road network in Nairobi are prompting some occupiers to explore areas beyond traditional industrial hotspots. As a result, these areas in the periphery of some cities have seen industrial land values appreciate by as much as 35% in the Namanve (Uganda) region and 34% in Nairobi between 2015 and 2021. With access to urban industrial land expected to remain a key barrier in the sector due to competing land uses, the value of prime industrial land in some cities appears set to continue rising for the foreseeable future.

Investment appetite high but stock is limited

Appetite for industrial stock across Africa remains strong, with investors attracted to the sector's strong income profile and positive market fundamentals such as rising urbanization levels, which is driving demand for urban logistics facilities. In addition, industrial assets, command attractive yields of approximately 12% on average compared to 9% for both retail and offices and 6% for residential.
Overall, South Africa remains the largest and most sophisticated warehousing and logistics market across the continent.
The country recorded over 5 million sqft of sales transactions in 2020(RCA). For the rest of the continent, attracting global institutional capital has been a challenge due to the lack of investible grade assets. However, this is changing with some developers seeking to plug this gap. For instance, Kuwait-based Agility is developing over 1 million sqm of warehousing across Lagos, Abidjan, Maputo and Accra, with plans to expand into other cities. Agility Logistics Parks' Senior Director of Strategic Planning, Ronald Philip, details their plans for Africa in an exclusive interview on page 7 and 8.
In addition, regional developers such as South-African based Improvon and Africa Logistics Properties are set to deliver over 100,000 sqm of purpose-built warehousing space in Nairobi by 2024. As a result, anecdotal evidence suggests that investor interest is steadily growing. This has been demonstrated by key transactions over the past 5 years with a recent example being GRIT's landmark sale and leaseback deal with Orbit Africa in July 2021.

2021 Main Industrial Areas Land Prices in Select Cities (USD/Acre)



Source: Knight Frank

3 KEY DRIVERS FOR PRIME WAREHOUSING DEMAND

1 ECOMMERCE TO DRIVE FUTURE UPTAKE

While the penetration of e-commerce was already rising pre-Covid, online sales revenues increased by over 28% to USD 27 billion in 2020 compared to 2019 across Africa. This uptick in online retail sales is set to continue, with e-commerce revenue expected to almost double to USD 46 million by 2025 (Statista). As a result, we expect this will bolster demand for warehouse and distribution space.

In South Africa for example, requirements for new, modern, and efficient distribution centres remains stable and demand has outperformed all other asset classes and industrial sub-segments resulting in an overall income return of 9.2% and capital growth of 0.8% over the last 12 months.

A good example of the focus on prime warehousing space has been Takealot's recent leasing of approximately 11,000 sqm of space in Montague Park in Montague Gardens. In addition, global e-commerce giants are also fuelling this flight to quality trend. This has been evidenced by Amazon's inauguration of the largest logistics centre in Africa against the backdrop of their formal entry into Egypt.

2 OVER USD 400 BILLION IN INFRASTRUCTURE DEVELOPMENT SET TO BOOST INDUSTRIAL ACTIVITY

The fast-paced development of major industrial corridors (see map below) in recent years has played a significant role in transforming the warehousing and logistics sector which has long been held back by poor infrastructure. According to the 2018 Logistics Performance Index (LPI) — a World Bank survey of operators providing feedback on the logistics 'friendliness' of countries, logistics infrastructure across Sub-Sahara Africa scored 2.20 out of 5, highlighting the need for increased investment in the sector. This compares to a score of 4.37 in Germany- the highest ranked nation in the LPI.

At present, we estimate that there are over USD 400 billion worth of rail and road developments taking place across the continent. These developments are set to drive increased intra-Africa trading. In Eastern Africa, for example, increased infrastructure development along the northern corridor that links Kenya to Uganda and the Democratic Republic of Congo (DRC) has resulted in over 150,000 sqm of prime warehousing being developed in Nairobi alone in less than six years; almost 90% of all the stock delivered in this period.

Furthermore, due to improvements along the north-south corridor that links South Africa to other Southern African countries, anecdotal evidence shows 3PL's in Johannesburg are relocating to the eastern and north-eastern parts of the city, attracted by the superior and extensive road network infrastructure. In addition, infrastructure development along the West Africa Growth Ring that links countries such as Ghana, Côte d'Ivoire and Burkina Faso is set to unleash in excess of 1 million sqm of purpose built prime warehousing according to our estimates. We forecast that cities such as Lagos, Accra and Abidjan are likely to be prime beneficiaries.

At a more macro level, alongside increased infrastructure developments, the implementation of the African Free Trade Agreement will also be key lynchpins for the growth of prime industrial sector.

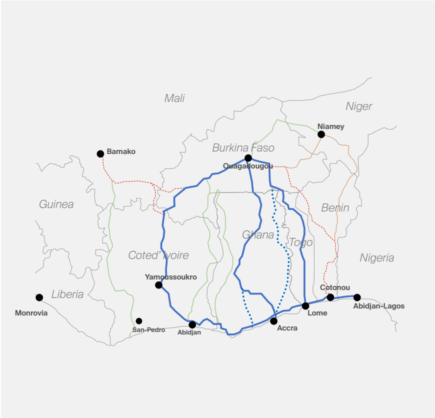
3 GOVERNMENTS ARE SETTING THE STAGE FOR GROWTH

Across Africa, most governments have ramped up initiatives on manufacturing and industrialisation as part of measures to boost economic activity in the wake of the pandemic. Increased competition for international investment has sparked a wave of new industrial policies and subsequently, a boom in the creation of special economic zones (SEZs) has ensued across Africa. The UN Centre for Trade and Development (UNCTAD) estimates that there are currently over 180 SEZs in Africa, with a further 51 SEZs under development. Kenya (61) has the highest concentration of SEZs, followed by Nigeria (38) and Ethiopia (18).

In addition, several governments are facilitating the development of industrial parks within these zones to drive foreign direct investment. In Ethiopia, for example, the establishment of the Ethiopian Industrial Parks Development Corporation has aided the delivery of over 15 million sqm of warehousing in just six years. This initiative has been instrumental in generating over USD 735 million in government revenue and creating over 80,000 jobs.

Furthermore, Uganda's government has ramped up its industrialisation efforts by unveiling plans to expand the Kampala Industrial and Business Park (KIBP). The 4 million sqm park expansion will take the total number of companies at KIBP to 500 with a total investment capacity of USD 3.5 trillion. Once fully completed and occupied, KIBP is expected to increase the total number of people employed on the estate to 200,000 and generate USD 540 million in taxes per annum.

AFRICA'S INDUSTRIAL CORRIDORS MAPPED



West Africa Growth Ring

Main Port(s)
San Pedro, Abidjan, Takoradi, Tema, Lome, Cotonou, Lagos

Countries
Ghana, Côte d'Ivoire, Togo, Burkina Faso

Railway
Abidjan - Ouagadougou railway

Djibouti - Addis Ababa Corridor

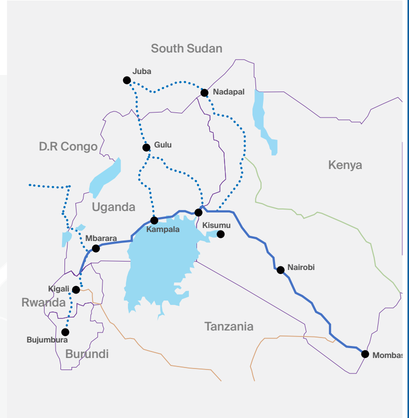
Value
USD 5.1 Bn

Main Port(s)
Doraleh Port

Countries
Djibouti, Ethiopia

Port Capacity (TEUs)
1.2 million TEUs

Railway
Djibouti- Ethiopia Railway



Northern Corridor

Value
USD 1.87 Bn

Main Port(s)
Mombasa Port

Countries
Kenya, Uganda, Rwanda, DRC

Port Capacity (TEUs)
1.1 Million

Railway
Standard Gauge Railway

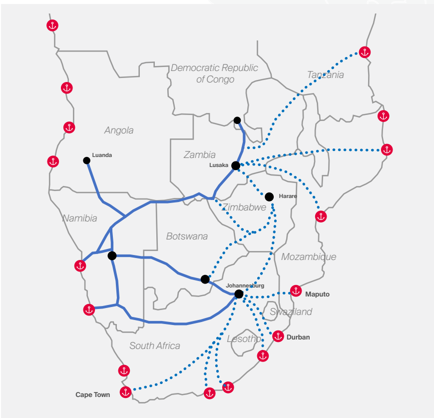
Walvis Bay Corridor

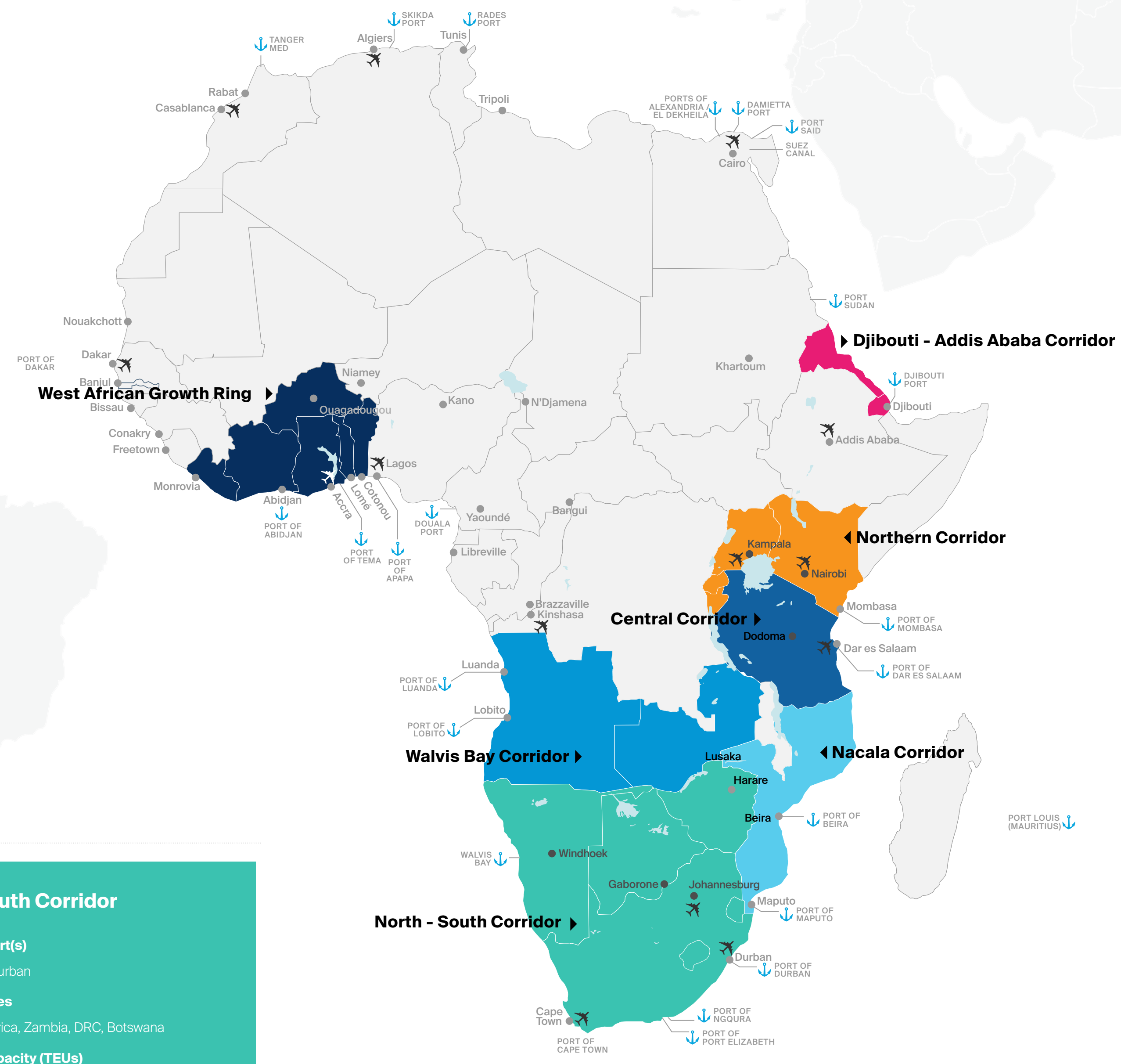
Main Port(s)
Walvis Bay

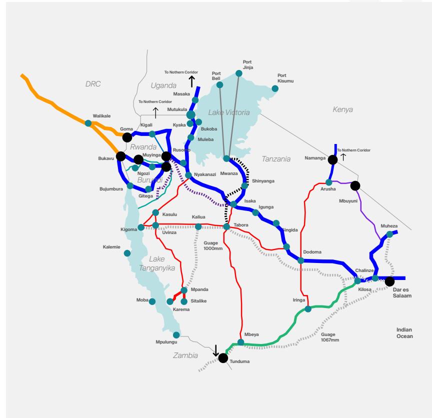
Countries
Namibia, Botswana, DRC, Zambia, Zimbabwe

Port Capacity (TEUs)
837,000

Railway
Walvis Bay - Kranzberg rail line







Central Corridor

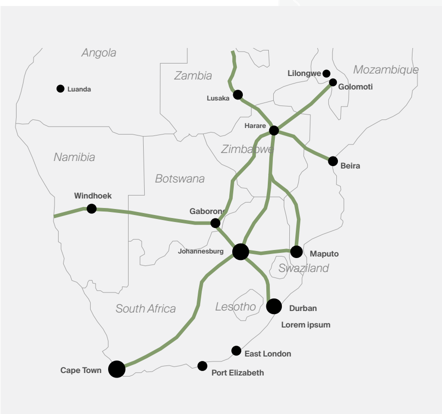
Value
Rehabilitation: USD 1.87 Bn

Main Port(s)
Port of Dar es Salaam

Countries
Tanzania, Rwanda, Burundi, Uganda, DRC

Port Capacity (TEUs)
400,000 TEUs

Railway
Central Rail line



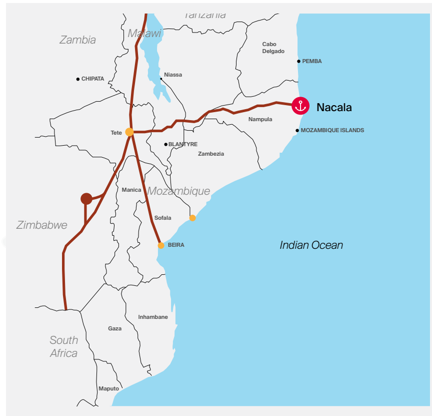
North - South Corridor

Main Port(s)
Port of Durban

Countries
South Africa, Zambia, DRC, Botswana

Port Capacity (TEUs)
2.9 Million

Railway
North- South Rail Line



Nacala Corridor

Value
Railway: USD 4.4 Bn

Main Port(s)
Nacala

Countries
Mozambique, Malawi, Zambia, Zimbabwe

Port Capacity (TEUs)
100,000TEU

Railway
Nacala Railway

Source: Knight Frank, Various Sources

IN CONVERSATION WITH AGILITY

Agility Logistics Parks is the largest developer of logistics and light industrial real estate across the Middle East and Africa, with multi-tenant, multi-sector, international standard warehouse parks across several countries in both regions. In Africa, the company has warehouse parks in Abidjan, Accra, Lagos and Maputo with more in the pipeline across the continent.
Ronald Philip is Senior Director of Strategic Planning for Agility Logistics Parks. In this opinion piece, he shares his perspective on the outlook for the logistics & light industrial warehousing sector for Africa by answering four questions.

01

WHAT IS THE OUTLOOK FOR DEMAND FOR GRADE A WAREHOUSING?

In terms of absorption and maturity stage of the warehousing market (how far a market has transitioned from sheds / godowns to Grade A warehousing), I see South Africa, Morocco, Egypt, Kenya and Nigeria having the most demand and potential for the right Grade A warehousing product at the right price at the right location, over the next few years.

The big drivers for growth in warehousing demand are generally consumption and manufacturing, so the megacities like Cairo, Lagos, Johanessburg, Casablanca, Nairobi etc are where you're likely to see the most growth in demand.

E-commerce, which is the biggest demand driver in developed markets and emerging markets like China and India, is starting to accelerate Grade A warehousing demand in Egypt and eventually will do the same in the other large consumer markets like South Africa, Morocco and Nigeria. The interesting new play that will come with the growth of e-commerce will be the increased need for inner-city "last mile" delivery facilities that complement the big boxes on the periphery of the big cities.

The pandemic affected FDI significantly. I'm perhaps biased but I think Grade A warehousing can be a silver bullet solution for FDI to come back in a nimbler and asset-light mode, where they lease instead of needing or wanting to build and own their own facilities in Africa, with all the attendant risks and delays. We have seen many of our MNC and local tenants appreciate the flexibility to scale up or down their space as their business needs, rather than be stuck with a single size facility of their own.

We are seeing a significant increase in construction costs currently, linked to global supply chain and transport challenges. This will potentially affect lease rates by higher construction costs being passed on partially or a delay in new stock leading to supply-demand gaps and rental increases due to demand outstripping supply.

The other interesting new tenant class we are seeing demand from is data centers. We are in talks with multiple data center operators to provide solutions within some of our parks that have good power and fiber connectivity.

I see the African Continental Free Trade Agreement as a potential medium to long term driver, though I hope it positively impacts demand for regional distribution centers and regional manufacturing and assembly hubs sooner.

Grade A warehousing can be a silver bullet solution for FDI to come back

02

WHAT ARE THE BIGGEST BARRIERS TO THE GROWTH OF THE GRADE A WAREHOUSING MARKET IN AFRICA?

There are many barriers but if I had to highlight two in particular, the first is finding land at attractive locations at prices that make sense for warehousing, given the rapid urbanization and escalation in land prices. The second is the speed at which local businesses transition to modern warehousing where they have to invest in racking and skills to be able to leverage the economics and benefits of vertical storage. MNCs are able to make the investment and understand the benefits but in any market, it takes time for the local SMEs and businesses to make the transition from sheds to modern Grade A warehousing. In India, where we operate, we have seen that transition accelerate in the last five years, with an explosion of demand. Each African country is at a different place on that continuum with South Africa and Morocco being most mature in terms of the transition to modern Grade A warehousing. Egypt and Kenya are making good progress too.

03

WHAT IS THE INSTITUTIONAL INVESTMENT OUTLOOK FOR GRADE A WAREHOUSING IN AFRICA?

On the demand side, similar to the global trend, there is a large amount of institutional capital that wants to invest in quality warehousing (logistics and light industrial real estate) in Africa. With the growth of REIT regimes across multiple African economies, the amount of capital looking for stock has increased dramatically. South Africa has had a well developed REIT regime for some time. We are now seeing markets like Morocco, Kenya, Nigeria and others develop their REIT ecosystems which is very positive.

On the supply side for logistics & industrial real estate in Africa, there has historically been limited supply of good quality stock, though it has been heartening to see at least four institutional quality portfolios / developers, outside South Africa, come to the private markets for growth capital in the last 12 months. Given the limited supply of institutional quality stock at the income stage, investors looking for yield may have to go upstream, to partner with developers and take on some development risk. That's not for the faint hearted but it's an exciting opportunity for those with experience and who can add value.

35-50%

SOLAR PPAS POWER SAVINGS FOR TENANTS

04

WHAT IS THE OUTLOOK FOR ESG IN AFRICA'S WAREHOUSING SECTOR?

Institutional developers will be the first adopters of ESG standards, including interventions like EDGE certifications and solar rooftop PPAs. Our solar PPAs in the Middle East and India have seen power savings of 35-50% for our warehouse tenants. I think there is a very exciting, economically attractive opportunity to decarbonize warehousing and light industrial manufacturing in Africa.

I think we will eventually also see the "green premium" for facilities and developers that score high on ESG. The problem statement for the development financial institutions (DFIs) is how to scale this though, by making green building certifications more accessible and less resource intensive from a reporting perspective for the vast non-institutional warehousing market. There's a similar opportunity and problem statement in solar rooftops for manufacturing facilities on the continent.

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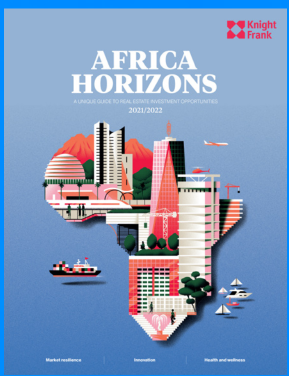

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