Africa Offices Market Dashboard

Knight Frank

Q2 2023

Knight Frank's ultimate guide to real estate market performance and opportunities in the world's most exciting continent.

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MARKET OVERVIEW

Oversupply, economic challenges stifling rental growth in most African markets

KNIGHT FRANK AFRICA RESEARCH

The African office market faces challenges from oversupply, changing work patterns, and unfavourable economic conditions, factors which have contributed to prolonged vacancy rates, decreased sales of offices, and a notable decline in rental returns. In the Nairobi Metropolitan Area, for instance, an excess supply of office space of over 740 sqm has led developers to put a hold on new construction projects until the extra office space in the market is absorbed.

As a result of this oversupply, the Nairobi office market has experienced a decrease in occupancy levels down to approximately 72%, in part caused by companies adopting remote working and leasing co-working spaces. This trend reflects the prevailing global pattern, wherein major multinational corporations are reducing their office space by approximately 10-20% in the foreseeable future. This is according to our global survey, [(Y)OUR SPACE], which gathers insights from over 350 companies across the globe.

A similar situation is seen in Botswana, where the office market has experienced poor performance since Q3 2022, primarily due to an increase in office supply resulting from completed projects such as the PwC head office, Prime Plaza 2, and the Kgwebo @Fairgrounds, which have together added approximately 6,000 sqm of office space. According to the Bank of Botswana Monetary Policy Report, office supply is expected to increase further due to ongoing construction projects and planned office buildings in the Central Business District (CBD), including those by the Botswana Housing and Water Utilities Corporations.

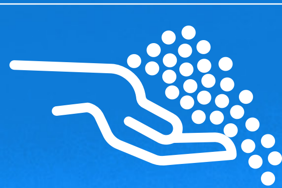
This additional supply will exert downward pressure on rental prices, particularly in decentralised office locations. Despite this looming downside risk, rental rates for prime offices have remained steady at US$10.60 psm per month.

Another example is South Africa, where the office market also faces significant challenges due to oversupply. The outlook for this market is further worsened by a poor economic forecast and the rising trend of remote working, with hybrid work models now a permanent feature for many businesses. Furthermore, the energy supply crisis has reduced economic prospects and is dampening the demand for offices. As long as there is an overall surplus of office space, rental growth will remain severely affected. However, office demand is forecast to grow once the country achieves sustained economic growth of 3% or higher, along with improved unemployment levels, which stand at 32.6% at present.

In general, the oversupply of offices around the continent has caused landlords and property managers to reduce rents and offer incentives to attract tenants. The transition to remote work arrangements, in addition to causing a reduction in office demand, has significantly impacted the commercial real estate sector in other ways in relation to design, construction, and furnishings, all with a view to enhancing the workplace experience. This trend has been further amplified by organisations' sustainability targets, including any ESG considerations.

~72%

Decrease in occupancy levels in Nairobi



General oversupply of office space across the continent

Source: Knight Frank

Photo: Nairobi CBD

Botswana

The supply of offices is expected to increase further with ongoing construction projects and planned office buildings in the CBD.

The Gaborone office market has remained subdued due to an influx of new stock, which is underpinning an oversupply. Unsurprisingly, market dynamics now mean tenants are firmly in the driving seat, with many negotiating lower rental rates. Prime office rents in Gaborone, currently at US$10.60 psm per month, are more than 10% lower than at the end of 2020.

The most recent Bank of Botswana Monetary Policy report highlights that the construction of new developments, such as the PwC head office and the Prime Plaza 2, have contributed to the oversupply of offices, with both adding more than 4,400 sqm of space in the last ten months alone.

"We expect these new buildings to compound the oversupply situation currently gripping the market."

We expect these new buildings to compound the oversupply situation currently gripping the market. However, with tenants gravitating towards best-in-class, grade-A buildings, the more modern stock is expected to fare better, with more secondary buildings likely to experience rising voids and falling rents, with a distinctive two-tiered market likely to emerge.

US$10.60 psm

Prime office rents per month

4,400 sqm

Added office space in the last 10 months

Source: Knight Frank

Photo: Gaborone CBD

Egypt

There is expected to be a greater emphasis on repurposing existing office stock to meet the ESG requirements of tenants.

The gradual depreciation of the Egyptian pound and the hyperinflationary environment appear to be expediting lease deals as businesses look to quickly secure terms in the relatively fluid economic environment. According to a Reuters poll in July, economists predict that the value of the Egyptian pound will decline against the US dollar to EGP 34 by the end of December 2023, from its current value of EGP 31. This expectation is also prompting some landlords to adopt more flexible lease models and display a preference for leasing offices in US dollars rather than the Egyptian pound to counter the impact of currency devaluation.

While on the small side by historical levels, 200-500 sqm offices remain in most demand, particularly among international tenants who have permanently adopted hybrid working. The same applies to start-ups operating with minimal space and prefer serviced offices and co-working options over traditional shell and core leases, particularly in and around Greater Cairo. This operational model has proven highly attractive as it offers flexibility, reduced rental fees, and relieves the burden of space maintenance. Popular co-working brands in Egypt include AlMaqarr Co-working Space, Urban Station, Woork Hub, and 302 Labs.

“High demand for offices ranging from 200 to 500sqm.”

“An anticipated decline in value of the Egyptian pound against the US dollar to EGP34 by the end of December 2023 from its current value of EGP31.”

In line with global trends, multinational corporations are actively pursuing sustainable practices by aiming to establish sustainable and eco-friendly offices. Certified projects align with ESG goals by addressing decarbonisation, enhancing building efficiency, maximising utility savings, and creating healthy environments that prioritise occupant well-being and social value. There is expected to be a greater emphasis on repurposing existing office stock to meet the ESG requirements of tenants. Consequently, office developments that offer collaborative spaces, fully integrated and automated Building Management Systems (BMS), good ventilation systems, and amenities continue to experience high demand.

Photo: Cairo

Kenya

Overall, new office development in Nairobi for 2023 is anticipated to remain subdued compared to previous years due to the current oversupply situation in the sector,

During Q2 2023, monthly prime office rents in Nairobi remained unchanged at US $13 psm, supported by the prolonged period of oversupply that has persisted since at least Q2 2022. The market remains tenant-driven, as has been the case for the last six quarters, as landlords and developers grapple with increased inflation, the cost of capital, and the depreciating local currency.

"The increased supply is primarily in the Westlands office district, which remains the most sought after office location, especially by multinational companies. "

Office occupancy levels in Nairobi have also experienced a decline of over 4%, dropping to 71.5% from the 74.9% recorded last year. This is largely linked to the approximately 5,5800 sqm of Grade A office space delivered during 2022. The increased supply is primarily in the Westlands office district, which remains the most sought after office location, especially by multinational companies.

600,000 sqft

Oncoming grade A office supplied onto the market in 2022

4%

Decline in occupancy levels

US$13 psm

Prime Office Rents

Source: Knight Frank

Photo: Nairobi

Malawi

Unlike other locations on the continent, Blantyre has a minimal office supply pipeline, suggesting that the slightest increase in demand will lead to higher prime rents.

The Malawian office market is largely being driven by an ongoing flight to quality, especially among international occupiers. Consequently, older office buildings in Blantyre and Lilongwe are experiencing lower occupancy rates, ranging from 40% to 60%. In contrast, Grade A offices have seen increased occupancy rates of almost 80%. However, the pipeline of new stock remains limited, suggesting Grade A rents will likely remain stable or, at best, edge upwards.

A further significant demand dampener remains the country's unreliable energy supply, escalating utility prices, and inflationary pressures, all of which are inflating operational costs. According to the Malawi Consumer Price Indices Dashboard, the y-o-y inflation rate for July 2023 was 28.4%, up from 27.3% % in June 2023.

Overall, the prime office market in Malawi remains relatively subdued. Unlike other locations on the continent, Blantyre has a limited office supply pipeline, offering a silver lining to landlords as any increase in demand will undoubtedly boost rents. Prime office rentals in Blantyre and Lilongwe are approximately US$7 psm and US$10 psm, respectively.

Photo: Lilongwe Capital Street

27.3% - 28.4%
Increase in inflation recorded from June to July 2023

US$7 psm
Prime office rental rate in Blantyre

US$10 psm
Prime office rental rate in Lilongwe

Source: Knight Frank

Nigeria

The emergence of hybrid working patterns within the Lagos office market has caused a shift in occupier requirements, with the majority showing a preference for flexibility, quality, or affordability.

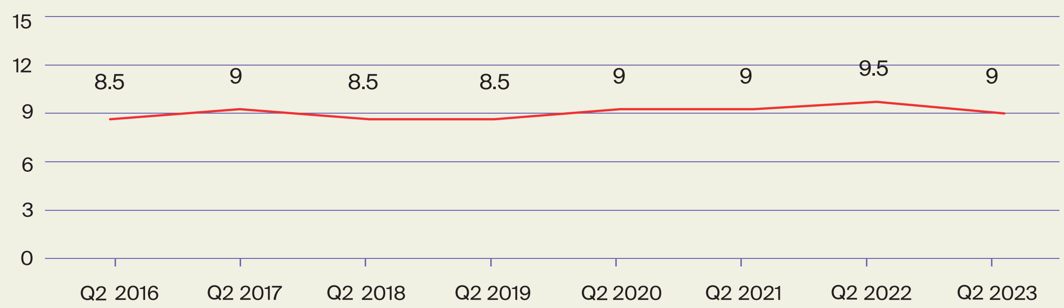
Like elsewhere in the world, hybrid working patterns are fueling a preference for greater lease flexibility, while both quality and affordability also remain key considerations for businesses. As a result, there has been heightened demand for smaller offices ranging from 100-300 sqm.

Curiously, Grade B+ offices currently boast the highest occupancy levels at 78%, while Grade A (71%) and Grade B (75%) offices trail. We believe this anomaly is largely linked to occupational cost sensitivities.

Meanwhile, co-working operators have gained significant popularity in the Lagos office market, driven by the demand for flexible and cost-effective alternatives to traditional offices and the desire to foster a sense of community and collaboration. Developers have responded to this increased demand by establishing new co-working brands and offerings; notable recent additions to the co-working sector include Walure Capital in Ojodu Berger, the new Regus location known as The Zone in Gbagada, and The Adrenalina in Yaba.

Overall, the supply of office space continues to outstrip existing demand, as recent completions have introduced additional space into the market, such as Famfa Oil Tower (18,500 sqm). Due to this oversupply, the market remains tenant-driven, resulting in monthly prime rents stagnating at US$ 56 psm.

Lagos office Yields (%)



Source: Knight Frank

Other upcoming prime office properties include

NAME	LOCATION	SIZE(M2)	EXPECTED DATE OF COMPLETION
Ulesh Ikoyi	Ikoyi	16,390	2024
Dangote Industries HQ	Ikoyi	17,000	2024
40 Adetokunbo Ademola Street	Victoria Island	14,000	2023
The Phoenix	Lekki	8,000	2023
Stanbic IBTC HQ	Victoria Island	12,208	2023
Crystal Tower	Victoria Island	12,000	2024
Aerobell Towers	Victoria Island	7,000	2023
Leadway Tower	Victoria Island	9,343	2023
18C Glover Road Ikoyi	Ikoyi	2,100	2023
Mansfield Office	Lekki Phase 1	4,280	2023

Source: Knight Frank

South Africa

The monthly prime office rents in Johannesburg range from US $10.82 psm to US $12.44 psm with estimated office vacancy rates in the City currently standing at approximately 17%.

In Johannesburg, the office market is characterized by weak demand, declining rental performance, and rising vacancy rates. Rather than being driven by business growth, the uptake of offices is primarily being influenced by relocation and consolidation activities.

Furthermore, the outlook in the City appears unfavourable due to an ongoing energy crisis in the country, with most tenants now seeking energy-efficient buildings with reliable power and water backup systems to ensure business continuity. According to the Central Bank, South Africa's energy crisis may have reduced the nation's economic growth rate by as much as 3.2 percentage points in 2022 and is likely to dampen output until at least early 2024. Companies are being forced to purchase diesel for running generators to cope with the incessant blackouts, exacerbating the already high operational costs and further suppressing office demand.

Monthly prime office rents in Johannesburg range from US $10.82 psm to US $12.44 psm. The estimated office vacancy rates in the City currently stand at approximately 17%.

"Conversely, Sandton maintains its reputation as Africa's premier corporate office location, attracting local and global occupiers."

Conversely, Sandton maintains its reputation as Africa's premier corporate office location, attracting local and global occupiers. The Western Cape region is witnessing an increase in demand for office space, driven by semi-migration. This trend is a result of the superior governance within the Western Cape, compelling individuals to relocate in pursuit of an enhanced quality of life, improved career prospects, and superior living conditions. Corporations are following suit, chasing the newly formed pool of talent in this part of South Africa. This growing level of new office requirements is centred predominantly on Grade A offices, aligning with the prevailing global flight to quality trend.

Photo: Sandton South Africa

Tanzania

As in other locations across the continent, tenants remain in the driving seat in the country's office space market due to oversupply in the sector.

As in other locations across the continent, tenants remain in the driving seat in the country's office market, a dynamic filled primarily by an oversupply in the sector. An example of a major pipeline development in the country is the US$ 2bn Morocco Square Project by the National Housing Corporation (NHC), which will contribute nearly 50,000 sqm of additional space once completed.

Landlords appear acutely conscious of the market's challenges and are demonstrating considerable flexibility around lease terms and offering rent reductions to existing tenants. Some are also preemptively renegotiating rents in a bid to protect occupancy levels. Other landlords are now offering extended fit-out periods as well as an added lease incentive. Office occupancy levels in Tanzania are currently hovering at around 70%.

Prime rents (US$ 15 psm), while 12% lower than in 2020, are likely to be positively influenced by the country's improved economic prospects. According to the African Development Bank, real GDP growth will accelerate to 5.3% in 2023, up from 4.7% in 2022, underpinned by an expected influx of private sector investments due to the robust government-backed infrastructure program, which includes the US$ 10.04bn Tanzania SGR Project. Together, these factors are expected to help boost office demand in the near to medium term.

"As stipulated in the SIDP, manufacturing must contribute a minimum of 40% of the GDP for the country to attain semi-industrialisation."

US$ 2 Bn

Morocco Square Project by the National Housing Corporation (NHC)

~50,000 sqm

Additional space the NHC project will bring onto the market

4.7% to 5.3

Expected GDP growth in 2023 compared to 2022

Source: Knight Frank

Photo: The Morocco Square Project by the National Housing Corporation, Tanzania

Uganda

The current increase office supply can be attributed to the introduction of approximately 25,000 sqm of additional office space in the last 12 months.

Office leasing activity in Kampala, particularly for Grade A offices, has remained relatively stable as occupiers continue to reassess their office needs in the wake of the pandemic. Requirements primarily stem from NGOs, professional services, industrial and logistics occupiers, and oil and gas occupiers.

Like other African markets, Kampala also faces an oversupply of office space, particularly in the Grade B segment. The market has witnessed a 10% increase in available office space, which has driven the vacancy rate to 14%. 25,000 sqm of additional office space has been added to the market in the last 12 months, including Walakira House, Insurance Tower, Uganda Business Facilitation Centre, and NDA Laboratory Tower.

"Average vacancy rate of 14%."

"US$16 per sqm for Grade A offices and US$14 per sqm for Grade AB offices."

The oversupply situation has caused prime rents to stagnate at US$ 16 psm for Grade A offices and US$ 14 psm for Grade B offices.

Elsewhere, the flight-to-quality trend persists in the market, with multinational occupiers gravitating towards new and modern offices for the same reasons as other global markets: talent attraction and retention and meeting ESG requirements. This trend is particularly notable in the Nakasero and Kololo office markets, where demand levels are strongest. Due to the limited availability of Grade A office stock, tenants seeking new offices are settling for less than their ideal space, which is supporting rents and occupancy levels in this segment of the market.

S/N	PROPERTY	LOCATION	APPROXIMATE BUILT-UP-AREAS (SQM)
01	Pearl Business Park	Yusuf Lule Road	27,000
02	IGG Offices	Yusuf Lule Road	19,000
03	Pension Towers	Lumumba Avenue	75,000
04	Twed Heights	Kyadondo Road	12,000
05	Justice Center/ JLOS House	Naguru	60,000

Source: Knight Frank

Photo: Kampala, Uganda

Zambia

This rising demand for suburban offices has resulted in rezoning adjacent residential areas such as Fairview, Rhodes Park, Longacres, Prospect Hill, Mass Media, Northmead, and Kalundu

The Lusaka office market is undergoing significant changes as businesses adjust to evolving workplace dynamics. One notable trend is the increasing demand for high-quality offices ranging from 100-300 sqm. Local and international companies are driving this demand, seeking modern and well-equipped offices to accommodate their expanding teams.

Another noteworthy trend is the shift of occupiers from the CBD offices to suburban locations. This rising demand for suburban offices has resulted in rezoning adjacent residential areas such as Fairview, Rhodes Park, Longacres, Prospect Hill, Mass Media, Northmead, and Kalundu; these areas have now been designated as mixed residential and commercial zones. The decision to move away from CBD offices is influenced by several factors, including limited parking space and severe traffic congestion, particularly during peak hours. Consequently, many private firms and banks, such as First National Bank (FNB), First Capital Bank, and Ecobank, have relocated their offices to these mixed-use areas. This relocation has exerted downward pressure on monthly prime office rents in the CBD, which currently stand at US$ 18 psm, representing a reduction of 5.3% compared to 2020 levels.

"Increasing demand for high-quality offices ranging from 100 to 300 sqm"

"Prime office rents per month in the CBD at US$18 psm"

Furthermore, the concept of serviced offices is gaining popularity. Serviced offices come fully furnished with internet connectivity, ensuring convenience for businesses seeking affordable and flexible office solutions. This trend particularly appeals to start-ups and small businesses looking to avoid the complexities of setting up their office infrastructure. Start-ups also prefer co-working spaces, which offer a blend of community and flexibility, providing an environment conducive to growth. Co-working spaces are also favoured for their amenities, including high-speed internet, printing services, and networking events, allowing occupiers to save on relatively expensive office lease rates. Notable co-working offices in Zambia include The Works at Latitude 15 Degrees, Kinda Pods, and BongoHive.


Photo: Lusaka Zambia

Zimbabwe

Conversely, suburban offices are experiencing a boom in demand, leading to an average occupancy rate of 90% to 100% and rental prices ranging from US$8 to US$13 psm, with relatively higher yields averaging 8%.

Harare's office sector is categorised into the central business district (CBD) and the suburban office market, with the latter outperforming the CBD, owing to the policy position allowing residential suburbs in proximity to the CBD to host businesses. As a result, many occupiers have migrated from the CBD to these residential suburbs, which offer advantages such as ample parking and reduced congestion. Residential suburbs such as Eastlea, Hillside, Milton Park, Belvedere, Belgravia, Avondale, and Alexandra Park have benefited from the shift in occupiers' focus.

"Rental prices range from US$8 to US$13 psm for suburban offices

Relatively higher yields of up to 8%"

Average occupancy rates of 90-100% are common in these areas, with rents hovering between US$ 8-13 psm.

This migration towards suburban locations has unsurprisingly created an oversupply of offices in the CBD, resulting in high vacancy rates and low lease rates, ranging between US$ 4-8 psm. To improve occupancy rates, some property owners are re-purposing their CBD office buildings for alternative uses, such as hotels, lodges, and long-stay apartments.

US$4 and US$8 psm

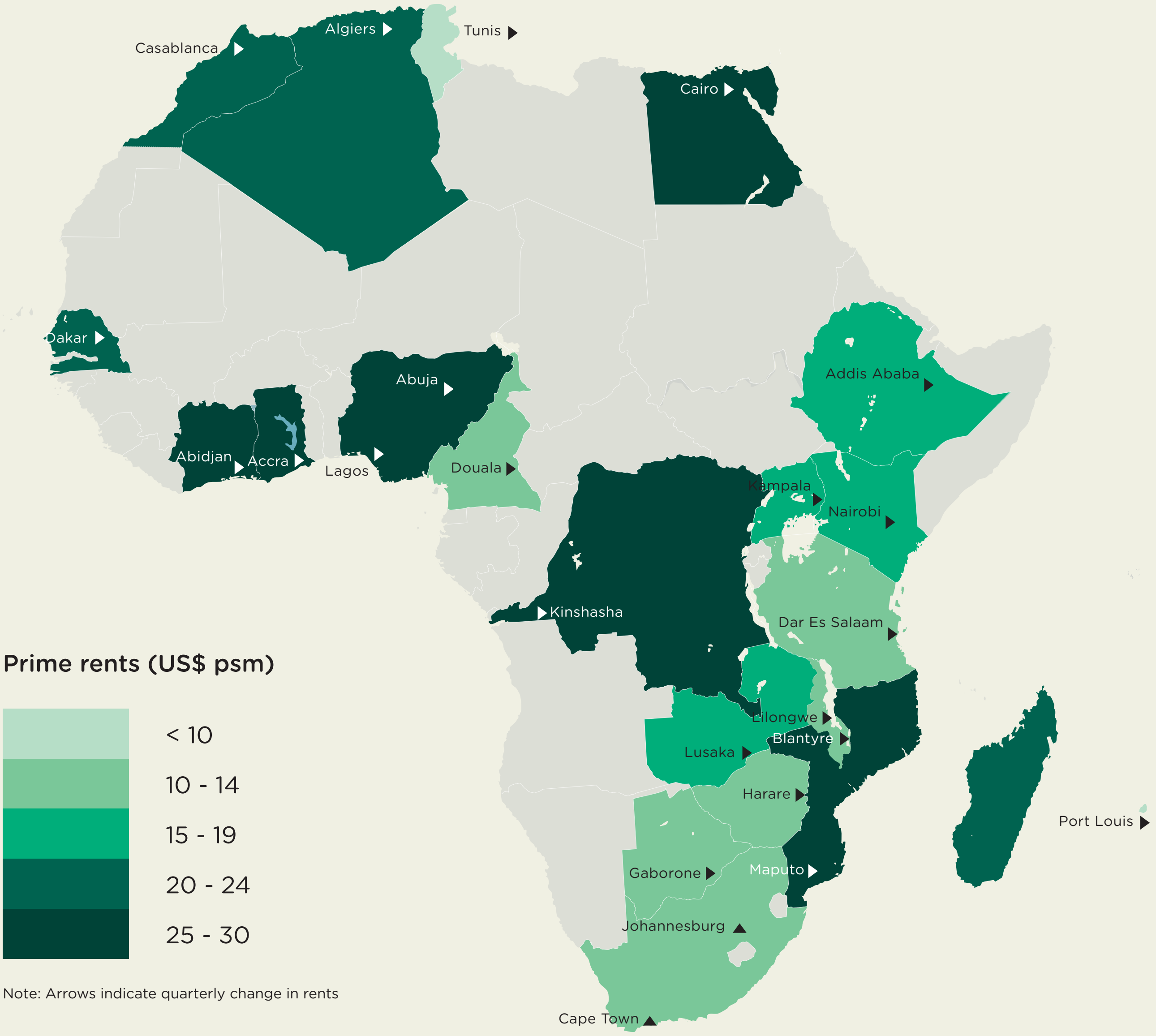
unsustainably low rental rates, ranging between

90% - 100%

Average occupancy rate

Source: Knight Frank

PRIME OFFICE RENTS AND AVERAGE PERCENTAGE YIELDS



Note: Arrows indicate quarterly change in rents

		PRIME RENTS (%)	PRIME YIELDS (%)
ALGERIA	ALGIERS	20.00	10.00
BOTSWANA	GABORONE	10.60	8.75
COTE D'IVORIE	ABIDJAN	33.00	9.00
DEMOCRATIC REPUBLIC OFCONGO	KINSHASA	35.00	10.00
ETHIOPIA	ADDIS ABABA	16.00	6.00
EGYPT	CAIRO	30.00	10.00
GHANA	ACCRA	28.00	9.00
KENYA	NAIROBI	13.00	8.50
MALAWI	LILONGWE	9.56	9.50
	BLANTYRE	6.69	9.00
MAURITIUS	PORT LOUIS	20.00	8.75

		PRIME RENTS (%)	PRIME YIELDS (%)
MOROCCO	CASABLANCA	20.00	8.50
MOZAMBIQUE	MAPUTO	32.00	8.50
NIGERIA	ABUJA	25.00	8.00
	LAGOS	56.00	9.00
SOUTH AFRICA	CAPE TOWN	12.00	11.00
	JOHANNESBURG	13.00	11.00
SENEGAL	DAKAR	21.50	9.50
TANZANIA	DAR ES SALAAM	15.00	9.00
TUNISIA	TUNIS	7.00	7.00
UGANDA	KAMPALA	16.00	9.00
ZAMBIA	LUSAKA	18.00	9.00
ZIMBABWE	HARARE	13.00	8.00

Source: Knight Frank

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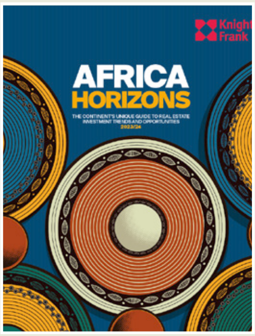

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