Africa Offices Market Dashboard

Q3 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

Among the 29 cities monitored by Knight Frank, a significant portion recorded a slowdown in rental growth.

The second half of 2023 has proven challenging for most African economies, with the office real estate market experiencing a sustained period of subdued performance. Among the 29 cities monitored by Knight Frank in this dashboard, a significant portion recorded a slowdown in rental growth, primarily attributed to oversupply issues and currency devaluation against the US Dollars. For example, in Kampala, the oversupply situation has resulted in monthly prime rents remaining static at US$ 16 psm for Grade A offices and US$ 14 psm for Grade B offices for three consecutive quarters.

Over the review period, occupier activity has been driven by office relocations aimed at consolidating space and strategic acquisitions to capitalize on the softer market conditions. The demand for smaller, fitted-out office spaces, ranging from 50 to 300 sqm, has continued to increase due to the growing prevalence of flexible working patterns.

Landlords are proactively exploring strategies to enhance the occupancy of their properties, such as offering more flexible lease terms and rental discounts.

In spite of the shockwaves caused by the collapse of WeWork across the shared office space sector globally, we continue to see growth in this sub-sector of the property market right across the continent.

This model works particularly well in Africa, where tenants seek flexibility and cost savings in markets with an uncertain future and where the hybrid working model has taken off following the global pandemic. This flexible and dynamic approach challenges traditional office setups and offers businesses substantial cost savings, increased flexibility, and heightened productivity. For instance, in Lagos, many businesses are shifting away from rigid long-term leases and upfront costs associated with conventional offices in favour of the flexibility and cost-efficiency inherent in coworking spaces.

Furthermore, there is a rising interest in best-in-class and Environmental, Social, and Governance (ESG) compliant offices. This trend aligns with the increased focus on sustainability in the post-pandemic world, appealing to investors, corporations, and individuals. The scarcity of ESG-compliant assets across the continent is expected to boost rental growth at the top of the office sector, with occupiers willing to pay premiums for such assets. Currently, Africa hosts only approximately 1,000 green-rated buildings, with over half concentrated in South Africa.

Overall, occupiers are seeking maximum flexibility, considering that the future of office space requirements remains uncertain. Corporates are increasingly striving to optimize both the cost and the size of their office requirements.

Source: Knight Frank

Key Findings

50-300 sqm
General increase in demand for smaller offices spaces

Co-shared Offices
Increase in demand for co-shared offices

ESG
Rise in demand for Environmental Social and Governance (ESG) compliant offices

HIGHEST / **LOWEST**
Rental Rates
Lagos US$ 56 / Blantyre US$ 7.20

Botswana

A notable trend shaping the office market landscape is the increasing emphasis on sustainability and green building practices

The Gaborone office market is experiencing a period of subdued activity attributed to an influx of new stock, resulting in an oversupply that has shifted market dynamics. Consequently, tenants find themselves in a favourable position, actively engaging in negotiations to secure lower rental rates. Currently, prime office rents in Gaborone stand at US$ 10.60 psm per month, reflecting a notable decline of 3.6% compared to the corresponding period last year.

A notable trend shaping the office market landscape is the increasing emphasis on sustainability and green building practices. Occupiers exhibit a heightened environmental consciousness, seeking commercial properties that align with energy-efficient and environmentally friendly principles. In response to this demand, developers are incorporating sustainable features such as solar panels, rainwater harvesting systems, and efficient insulation into their projects. This trend reflects a local shift and aligns with global initiatives to curtail carbon emissions and address the challenges posed by climate change, given that over 40% of emissions emanate from the real estate sector.

Source: Knight Frank **Photo:** Gaborone CBD

US$ 10.60 psm

Prime office rents per month

3.6%

Decline in Prime Office Rents from last year's

Egypt

The supply of office space is anticipated to increase to approximately 3.6 million sqm by 2025

According to our estimates, there are currently 3.2 million sqm of office spaces in Egypt within the Greater Cairo area. The supply is anticipated to increase to approximately 3.6 million sqm by 2025, based on announced ongoing development projects. Assessing the market gap for unfulfilled office spaces in relation to the white-collar labour force, Greater Cairo can absorb up to 5.5 million sqm by 2025. This supply deficit has led to a 19% increase in rental rates for Grade A offices in Cairo over the past two years, increasing from US$ 31 in H2 2022 to US$ 37 in H2 2023.

However, stabilization is anticipated for the US dollar from 2024, as currency devaluation counteracts increases in Egyptian pounds.

There is a noticeable upsurge in the provision of business parks in Greater Cairo, mainly concentrated in the emerging suburbs of East and West Cairo.

Developers are prioritising the establishment of anchor administrative or mixed-use projects in New Cairo due to its proximity to the airport and enhanced accessibility to major residential hubs. Some notable business parks in Cairo include the Cairo Business Park, Cairo Festival City, 1Ninty, and HeartWork, which have collectively added 575,000 sqm of office space.

Source: Knight Frank **Photo: Cairo**

US$ 37 psm
Prime Rental Rates

3,200,000 sqm
Office space within the greater Cairo area.

5,500,000 sqm
Business park office space added

575,000 sqm
Office space added by the new business parks

Kenya

A key trend is the surge in demand for ESG-compliant offices driven by multinational corporations.

The monthly prime office rents have remained unchanged at US$ 13.00 throughout the last half of 2023. This stagnation can be attributed to an enduring oversupply of offices and the prevailing challenging macro-economic environment.

As a result of these economic challenges, many organisations are putting their office space requirements on hold, diverting their focus towards operational priorities rather than capital expenditure. The oversupply situation has, consequently, led to a reduction in the average occupancy rates, from 75% during the same period last year to the current rate of 72%.

Like global trends, Nairobi has witnessed a burgeoning tendency towards coworking spaces. The drive for cost-efficiency has caused a notable surge in the demand for coworking facilities, a trend further amplified by the prevailing economic downturn. This downturn has witnessed a local currency depreciation of nearly 24% against the US dollar in the past year, intensifying the need for cost-effective workspace solutions. The collaborative nature of coworking arrangements aids in distributing office space expenses across multiple occupants, thereby reducing overheads.

Another key trend is the surge in demand for ESG-compliant offices driven by multinational corporations. Westlands continues to maintain its status as the most sought-after location for such office spaces. This preference can be attributed to its abundant supply of Grade A offices, making it an ideal hub for businesses looking for ESG-compliant space.

Source: Knight Frank **Photo:** Nairobi Dusk Skyline

75% - 72%
Reduction in average occupancy rates

24%
Currency depreciation against the US dollar

US$ 13 psm
Prime Office Rents

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.

Photo: Lilongwe Capital Street

A notable trend is the ongoing migration towards high-quality office spaces, particularly among international occupiers. This has led to a decrease in occupancy rates in older office buildings in Blantyre and Lilongwe, which typically range from 40 to 60 percent. However, the Grade A offices have seen a surge in occupancy rates, reaching nearly 80% in Lilongwe and 85% in Blantyre.

A contrasting dynamic is observed between the two cities. Lilongwe is experiencing an increase in the construction of new offices, largely driven by the relocation of government entities and large corporations from Blantyre. On the other hand, Blantyre is facing spatial limitations, with scarce opportunities for new developments unless they involve the reconstruction of existing sites.

Currently, prime office rentals in Blantyre and Lilongwe hover at approximately US$ 7.20 psm and US$ 8.60 psm, respectively, positioning these two cities as some of the cheapest places for renting offices in Africa.

Source: Knight Frank

80% Lilongwe | **85%** Blantyre

Increase in occupancy rates

US$7.20 -8.60 psm

Prime office rental rate in Blantyre and Lilongwe

Nigeria

The prevailing office landscape has undergone notable transformations driven by the emergence of hybrid working patterns.

The prevailing office landscape has undergone notable transformations driven by the emergence of hybrid working patterns. This shift has fuelled a growing preference for greater lease flexibility, with a spotlight on quality and affordability as pivotal considerations for businesses. Notably, a heightened demand for smaller office spaces, typically ranging from 100 to 300 sqm, reflects a shift in workspace preferences.

In Lagos, this surge can be attributed to the increasing demand for flexible and cost-effective alternatives to traditional office setups, aligning with the desire to foster community and collaboration among professionals. Many businesses are now veering away from the constraints of rigid long-term leases and the burden of upfront costs associated with conventional office spaces, opting instead for the dynamic flexibility and cost-efficiency inherent in coworking environments.

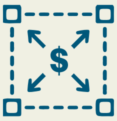
However, despite the evident shift in workspace preferences and the dynamic growth of coworking options, the prime monthly rents within the Lagos office market have remained stagnant at approximately US$ 56 since the previous quarter. This price stagnation can be attributed to the oversupply of office spaces in the market as a whole, which is anticipated to persist into the upcoming year.

Looking ahead, notable office developments are poised to shape the landscape in 2024. Key projects on the horizon include Aerobell Towers, The Phoenix, No 40 Adetokunbo Ademola, and the Sunshine Plaza. The completion of these developments is projected to add approximately 27,300 sqm of additional office space to the existing market.

Source: Knight Frank **Photo:** Koyi with leki in the background

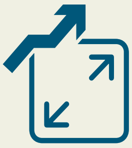
100 - 300 sqm

Heightened demand for smaller office spaces



US$ 56

Lagos Prime Office Rents



27,300 sqm

Pipeline space projected in 2024

South Africa

The monthly prime office rents in Johannesburg range currently stand at US$13psm representing a 10% decline from last year.

The monthly prime office rents in Johannesburg have reduced by 10% from last year, with rates now at US $13 psm. This decline is attributed to a fundamental shift in working patterns. A growing majority of professionals have transitioned to remote work, with some opting for the flexible environment offered by coworking spaces.

Concurrently, the hybrid working model, originally embraced during the COVID-19 pandemic, is making a resurgence among several employers. Allowing staff to spend more time working from home aims to mitigate the impacts of inflation and escalating fuel prices.

These factors have collectively contributed to an increase in office vacancy levels, which currently hover at approximately 17%.

The trend towards hybrid working is expected to persist according to the findings of a recent Cisco Global Hybrid Work study, which found that 86% of South African employees believe hybrid and remote working practices positively impact their overall well-being. This figure surpasses the global average of 78%, signifying a strong preference for flexible and remote work arrangements among South African professionals.

86%

Percentage of employees that prefer remote / hybrid office arrangements

10%

Reduction in Monthly Prime Office Rents

US$ 13

Monthly Prime Office Rents in Johannesburg

~17%

Office vacancy levels

Source: Knight Frank **Photo:** Cape Town, South Africa

Tanzania

Coworking spaces are gaining popularity in Dar-es-Salaam, with many organizations preferring to operate within smaller, shared office environments.

In line with the broader African office market trends, monthly rents in Tanzania have remained stagnant at approximately US$ 15 psm throughout the year. This stagnation is likely a consequence of the oversupply of office spaces in Dar-es-Salaam, which has created a tenant's market. In response, many landlords have been compelled to explore innovative strategies to maintain reasonable occupancy levels, including offering rent concessions.

This proactive approach seems to have yielded results, with the current office occupancy rate in the country ranging between 75 and 80%, representing a 5% increase from the figures recorded at the beginning of the year.

Coworking spaces are also gaining popularity in Dar-es-Salaam, with many organizations preferring to operate within smaller, shared office environments. The appeal of these shared workspaces lies in their effectiveness, flexibility in terms of tenure, and suitability for start-up businesses. Key players in the coworking industry in Tanzania include Link Space Tanzania, The Train's House, and KOFISI.

Looking ahead, our forecasts for Tanzania's office sector remain positive. This optimism is driven by the country's favourable global economic environment and the government's timely execution of structural reforms to enhance the economy's competitiveness. These reforms also focus on improving the overall business and investment climate and reducing the cost of regulatory compliance. According to the World Bank, despite facing global challenges and regional droughts, Tanzania's economy is anticipated to grow by 5.1% in 2023, with further expansion expected to reach approximately 6% in the medium term.

As a result, we anticipate an increased demand for Grade A offices, which is expected to positively impact the country's prime office rental growth.

Source: Knight Frank **Photo:** Dar Es Salaam, Tanzania

75 - 80%
Current range of occupancy

US$ 15
Monthly Prime Office Rents

6%
Expected economic growth in the medium term

Uganda

A notable sense of stagnation has prevailed, with prime Grade A office rents remaining at a consistent US$ 16 psm.

A notable sense of stagnation has prevailed, with prime Grade A office rents remaining at a consistent US$ 16 psm. Occupiers in this market have exhibited a sense of caution when deciding about their office space acquisitions. The demand for smaller office spaces, ranging from 50 to 150 sqm, has remained persistent, albeit with extended decision-making periods.

Simultaneously, there is a robust demand for premium, state-of-the-art offices. This heightened demand is attributed to a diverse range of sectors, including NGOs, renewable energy, oil and gas, embassies, and financial institutions, all actively seeking to expand their existing offices in Kampala or establish new ones. The increased demand has resulted in a notable 7% y-o-y reduction in prime office vacancy rates, down from 17% in 2022.

50 -150 sqm
High demand for smaller offices

US$ 16
Monthly Prime Office Rents

7%
Y-O-Y reduction in prime office rates

State-of-the-art- offices
A robust demand for premium, offices

Source: Knight Frank **Photo:** Kampala Uganda

Zambia

In Lusaka, the office leasing activity has been characterized by a gradual yet consistent uptick throughout the year.

In Lusaka, the office leasing activity has been characterized by a gradual yet consistent uptick throughout the year. This resurgence has been majorly fuelled by both new entrants and existing businesses taking up office spaces that were previously vacated, largely in the wake of the COVID-19 pandemic, when expatriates abandoned their offices. As a result, the average occupancy levels have notably improved, hovering around the 80% mark. For instance, in Q3 2023, a noteworthy development emerged by introducing new sublease spaces totalling approximately 3,500 sqm. These sublease spaces became available from the First Capital Bank head office and The Credible Office building on the Addis Ababa roundabout.

The demand for office spaces in Lusaka has predominantly centred on small-sized units ranging from 100 to 350 sqm. These requirements have emanated from diverse sectors, including Insurance, Information Technology, Finance, Non-Governmental Organizations, and Infrastructure companies. For instance, one of the prime office spaces, the nine-story ZEP RE Office Park, has witnessed the arrival of three new tenants since the beginning of the year.

The market has also seen a rising preference for serviced offices in Lusaka. The continuous expansion of serviced office providers in the region exemplifies this trend. Notably, REGUS has partnered with the owner of the Sunshare Tower, securing the entire eighth floor, totalling 1,500 sqm. Furthermore, AFRICAWORKS is planning to acquire new office space at the AGORA Village in Mass Media, with the expansion slated to begin in Q1 2024.

Source: Knight Frank **Photo:** Lusaka, Zambia

80%
Average occupancy rate

US$ 18
Monthly Prime Office Rents

3,500 sqm
New sub-lease spaces in Q3 2023

100 - 300 sqm
Demand centered around small sized spaces

Zimbabwe

Evident departure of large corporations from the CBDs as they seek to establish new footholds in suburban areas.

A noteworthy trend has emerged within Harare and Bulawayo's Central Business Districts (CBDs), where property owners are strategically adapting their larger buildings to cater to Small and Medium Enterprises (SMEs). This strategic shift has been primarily driven by the departure of large corporations from the CBDs as they seek to establish new footholds in suburban areas.

As a direct result of this migration, residential suburbs such as Eastlea, Hillside, Milton Park, Belvedere, Belgravia, Avondale, and Alexandra Park have witnessed a substantial surge in demand.

Occupier preferences are transforming, favouring these suburbs over the once-dominant CBDs.

In these suburban areas, it has become common to observe consistently high occupancy rates, frequently exceeding the 90% mark. In stark contrast, the CBDs have experienced a notable decline in occupancy, with rates falling to 60%.

Moreover, the monthly prime rental rates for suburban offices have shown resilience and a promising upward trajectory. These rents stand at approximately US$ 13 psm, reflecting an 8% y-o-y increase.

Property Owners
Adapting to accomodate SMEs

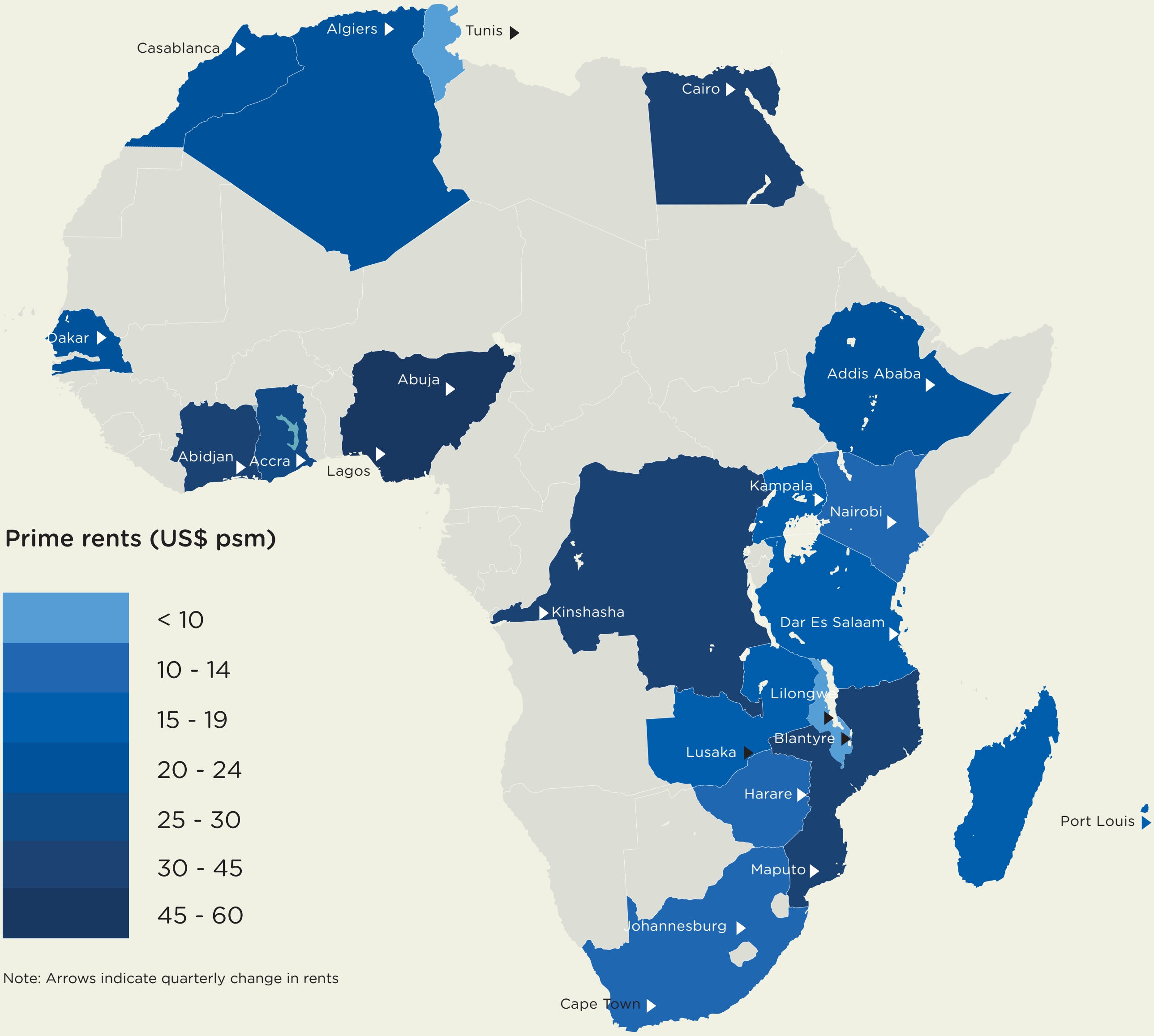
US$ 13
Monthly Prime Office Rents

90%
High Suburban Occupancy Rates

60%
Reduction in CBD Occupancy Rates

Source: Knight Frank **Photo:** Harare, Zimbabwe

PRIME OFFICE RENTS AND AVERAGE PERCENTAGE YIELDS



Note: Arrows indicate quarterly change in rents

COUNTRY	CITY	PRIME RENTS (%)	PRIME YIELDS (%)
ALGERIA	ALGIERS	20	10
COTE D'IVORIE	ABIDJAN	33	9
DEMOCRATIC REPUBLIC OF CONGO	KINSHASA	35	10
ETHIOPIA	ADDIS ABABA	20	-
EGYPT	CAIRO	37	10
GHANA	ACCRA	29	9.25
KENYA	NAIROBI	13	8.5
MALAWI	LILONGWE	8.6	8.0
	BLANTYRE	7.20	9.5
MAURITIUS	PORT LOUIS	15	8.75

COUNTRY	CITY	PRIME RENTS (%)	PRIME YIELDS (%)
MOZAMBIQUE	MAPUTO	32.00	8.50
NIGERIA	ABUJA	25.00	8.00
	LAGOS	56.00	9.00
SOUTH AFRICA	CAPE TOWN	12.00	8.80
	JOHANNESBURG	13.00	9.50
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

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

KENYA
Mark Dunford, CEO
mark.dunford@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

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

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

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

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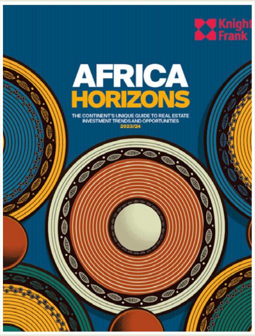

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