The Africa Office Market Dashboard details the performance of prime office markets in major cities across Africa.

Knight Frank

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Africa Office Market Dashboard

Q2 2021

KEY Q2 2021 TAKE-AWAYS

USD62.50 psm

Lagos is most expensive city to rent an office

USD7.0 psm

Harare is the least expensive city to rent an office

7%

Accra recorded the highest increase in rents q-o-q

Source: Knight Frank

Backdrop

A fresh wave of lockdown restrictions following a resurgence in Covid-19 infections, increased currency fluctuations and political uncertainty have characterised the second quarter of the year, with the nascent economic recovery that began to take hold in Q1 stalling. Despite this, prime headline office rents remained relatively resilient across the 28 cities we monitor, with 16 out of the 28 cities we track experiencing no change during Q2.

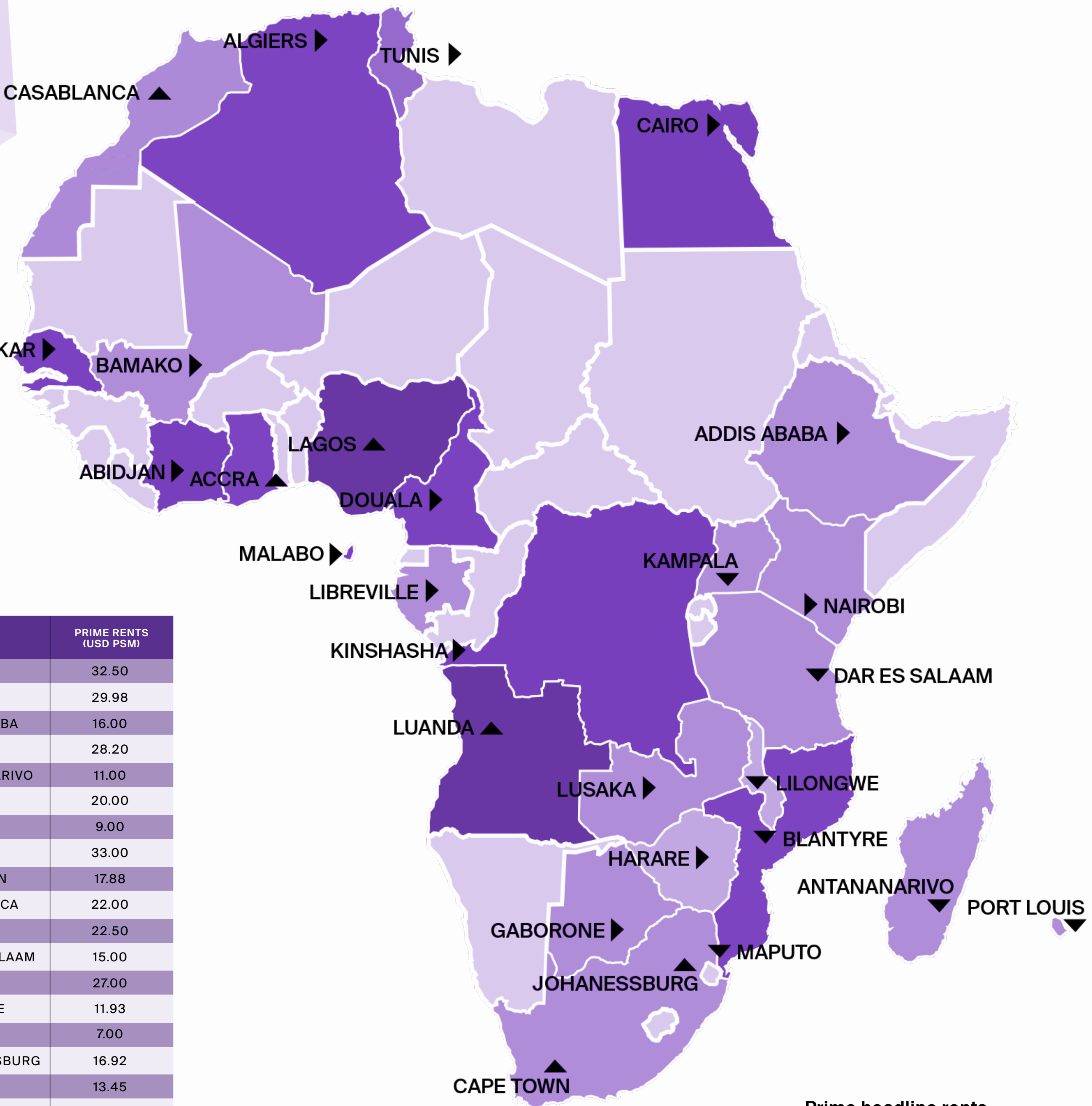
This resilience was underpinned by rising office requirements, particularly at the start of Q2, with businesses in some locations reactivating searches that were previously put on hold. Furthermore, the flight to quality by occupiers continues to intensify, with some businesses using the weakness in rents as an opportunity to consolidate operations, as well as occupy space that places employee wellbeing above all else. This trend is supporting the rising demand for prime offices in some locations. New office requirements increased by 29% in Q2 compared to Q1 in the nine countries we operate in. The professional services sector was notably active, accounting for 28% of new requirements recorded in the period under review.

Despite the apparent pockets of stability and resilience in the continent's office markets, we expect headline rents to remain subdued for the remainder of 2021. That said, there will be some bright spots. Nairobi, for instance, is seeing a gradual return in business confidence. Company registrations increased by 20% in July compared to a 7% decline in June. We anticipate this will result in increased demand for offices later in the year.

Elsewhere, Dar es Salaam is also expected to experience a rise in enquiries from occupiers seeking to enter the market, following the stability injected into Tanzania by its new leadership.

Over on the west coast, in Accra, the rapidly progressing USD 1.2 billion Marine Drive project, scheduled for completion in 2027, which is expected to a create over 150,000 jobs, is adding to the much-improved business confidence levels. Furthermore, international businesses are expected to continue zeroing in on the city in the footsteps of Twitter as it positions itself as a rival gateway to West Africa, alongside Lagos.

AFRICA OFFICE MARKET PERFORMANCE AT A GLANCE



CITY	PRIME RENTS (USD PSM)
ABIDJAN	32.50
ACCRA	29.98
ADDIS ABABA	16.00
ALGIERS	28.20
ANTANANARIVO	11.00
BAMAKO	20.00
BLANTYRE	9.00
CAIRO	33.00
CAPE TOWN	17.88
CASABLANCA	22.00
DAKAR	22.50
DAR ES SALAAM	15.00
DOUALA	27.00
GABORONE	11.93
HARARE	7.00
JOHANNESBURG	16.92
KAMPALA	13.45
KINSHASA	35.00
LAGOS	62.50
LIBREVILLE	20.00
LILONGWE	12.00
LUANDA	50.00
LUSAKA	18.00
MALABO	30.00
MAPUTO	28.00
NAIROBI	11.84
PORT LOUIS	19.50
TUNIS	9.00

Prime headline rents
USD psm

- <10
- 10 - 20
- 20 - 30
- 30 - 40
- 40 - 50
- >50

Source: Knight Frank
*arrows indicate quarterly change

COUNTRY SNAPSHOTS

7.5%
2021 GDP growth forecast

Botswana

Data from Google's Mobility Index, which monitors changes in visitation and time spent at various locations compared to a pre-pandemic baseline shows that travel to and from offices remains below pre-Covid levels. Most employees continue to work remotely due to the ongoing Covid-19 restrictions. Unsurprisingly, occupier activity remains limited.

Tenant release space continues to grow as businesses remain focussed on rightsizing, creating nervousness amongst many landlords. That said, in assessing the quality of space being returned, we have found this trend to be mainly prevalent in grade B office buildings. Prime office rents on the other hand remain stable at approximately USD 12 psm, as the flight to quality persists. Looking ahead, the extension of pandemic restrictions is likely to leave the market in an effective state of suspended animation for the remainder of the year.

7.6%
2021 GDP growth forecast

Kenya

Prime office rents in Nairobi dropped marginally by 1% q-o-q due to lockdown restrictions imposed at the start of Q2. However, occupier activity is increasing, fuelled by an improving economic outlook. This increased occupier activity is being underpinned by the reactivation of searches that had previously been put on hold, as well as increased flexibility by landlords. Some landlords are now offering discounted rents and other lease concessions, such as rent-free periods, in a bid to attract and retain occupiers.

This weakness in rents is prompting some businesses to upgrade where possible, underscoring the flight to quality trend being experienced globally. Despite the heightened focus on prime offices, prime rents are expected to remain stable as supply continues to eclipse demand.

2.5%
2021 GDP growth forecast

Nigeria

Prime office lease rates in Lagos remain stable, following on a period of recovery in Q1. Increased occupier activity is being driven by office relocations from the CBD to the suburbs, as occupiers gravitate to locations offering both better quality accommodation, as well as more affordable lease rates. In addition, anecdotal evidence shows rising enquiries for coworking space as occupiers revisit occupational strategies, with a view to occupying less traditional space.

Our view is that prime office rents in Lagos will remain stable as occupier demand continues to recover. In addition, with rising foreign investment interests, which hit USD 10.1 billion in H1 (up 100% on the same time last year), job creation rates are expected to rise, lifting office requirements further as the year progresses.

4.0%
2021 GDP growth forecast

South Africa

The prime office market in Gauteng and Western Cape remains tenant favourable as the supply glut continues, increasing vacancy levels by 31% and 28% respectively in the year to June 2021. In addition, landlords are offering a range of incentives, such as discounted rates for some occupiers, which is reducing net effective rents further. This weakness in rents is driving space upgrades, just as we are seeing in other global markets.

We expect occupier activity to remain weak as business confidence levels continue to ebb. Indeed, the South Africa SACCI business confidence index fell to a nine-month low of 93.2 in July due to the resurgence of Covid infections, as well as the rising political uncertainty stemming from unprecedented national tensions.

Source: Knight Frank, IMF

SHARE OF NEW OFFICE REQUIREMENTS BY SECTOR - Q2 2021

Protea place, Sandton

2.7%
2021 GDP growth forecast

Tanzania

Occupier activity is limited due to the negative impact of the pandemic on businesses. As a result, some landlords continue to offer lease concessions, such as rent reductions of between 20-50% for at least one quarter and in some cases, rent free periods of 3 and 6 months on five- and ten-year leases, respectively. So, while prime headline rates in Dar es Salaam remain stable at USD 15 psm, net effective rents are declining.

Looking ahead, we anticipate increased occupier activity, fuelled in part by the reopening of the country's trade corridors to international trading partners. In addition, Zanzibar's New Tax and Residency Investment Scheme is also expected to drive increased occupier activity. The scheme allows foreign investors who invest in real estate to live in Zanzibar.

6.4%
2021 GDP growth forecast

Uganda

Occupier activity in Kampala increased by 5% in Q2 q-o-q, underpinned by improved activity levels by oil and gas businesses. However, renewed lockdown restrictions have resulted in the loss of much of the market's momentum from earlier in the year. Furthermore, with weak trading conditions persisting, businesses are increasingly requesting downward rent renegotiations, which most landlords are accommodating. Unsurprisingly, prime rents are weakening and declined by 12% to USD 13 psm in Q2.

With lockdown restrictions expected to persist, demand for office space will remain weak. Furthermore, given the weak economic backdrop, the appetite to grow headcount remains low amongst businesses, as evidenced by Stanbic Bank's Uganda Purchasing Managers' Index, suggesting that requirements levels are unlikely to recover in a meaningful way this year.

0.6%
2021 GDP growth forecast

Zambia

High inflation rates and local currency fluctuations continue to undermine business confidence levels and therefore office space requirements. Most demand is centred on small requirements for space in the region of 50-300 sqm. Headline prime office rents have remained stable at USD 18 psm. However, landlords are now offering greater lease concessions such as one month rent free on four-year leases, break clauses after two years and no rent escalations through the lease term.

As the year progresses, we predict an improving picture. In the wake of a successfully managed and run general election and an anticipated easing of lockdown restrictions, activity is likely to rise, further stabilising rents.

3.1%
2021 GDP growth forecast

Zimbabwe

Liquidity challenges, pandemic restrictions, and unreliable utilities are weakening investor confidence and undermining new demand for office space in Harare. However, dollar based prime office rents remain stable at USD 7 psm due to the currency stabilisation measures introduced by the government at the end of Q2.

Should inflation continue trending downwards – headline inflation stood at 37% in July, down from almost 840% at this time last year – business confidence levels and occupier requirements will rise, helping to stabilise headline rents.

Source: Knight Frank, IMF

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