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

Q3 2021

KEY Q3 2021 TAKE-AWAYS

49%

q-o-q increase in new space requirements

9%

Nairobi recorded the highest increase in rents

USD62.50 psm

Lagos is most expensive city to rent an office

USD7 psm

Harare is the least expensive city to rent an office

Source: Knight Frank

Backdrop

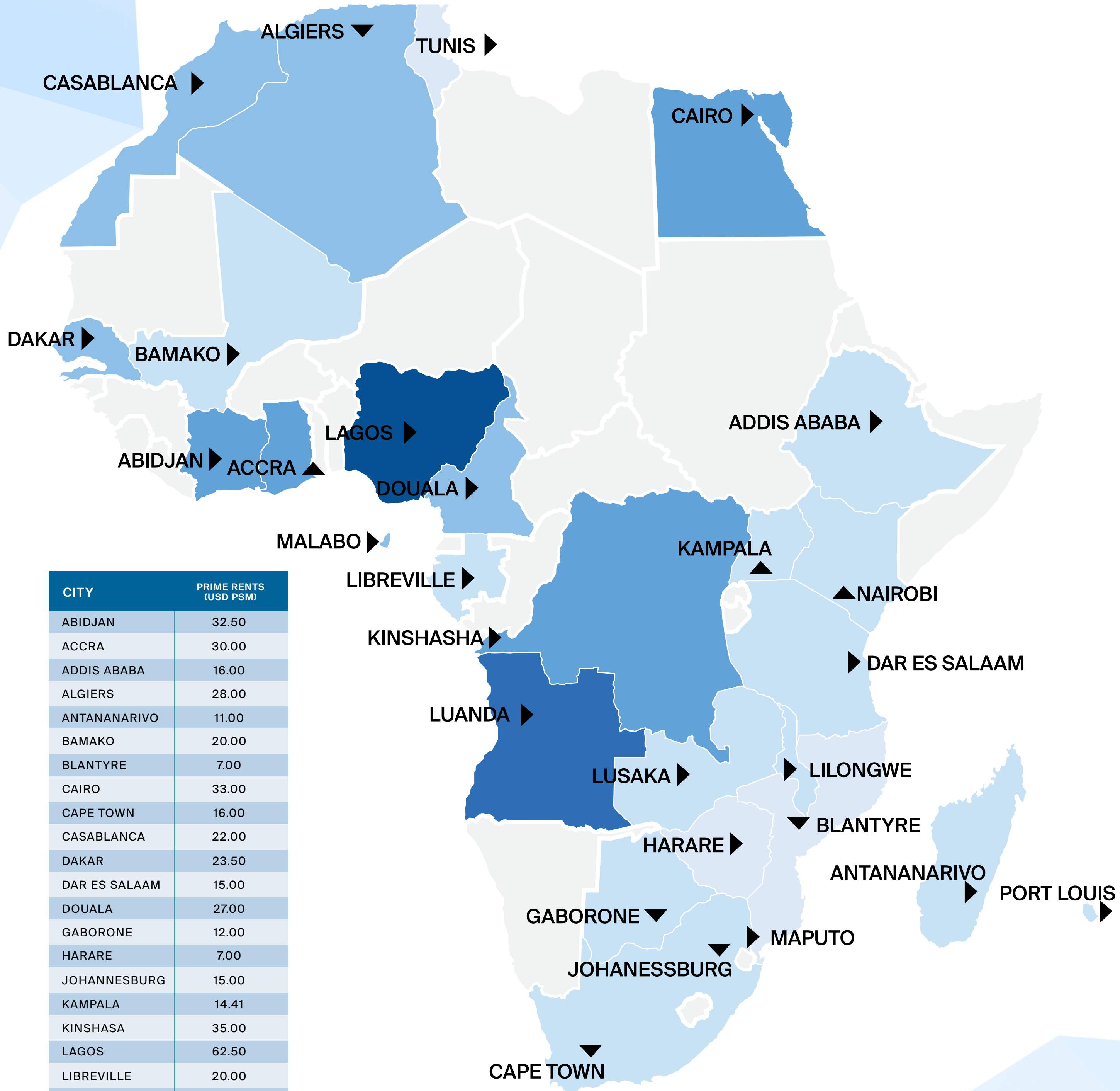
Occupier requirements across Africa are up sharply, driven by the return to business confidence in cities such as Nairobi and Lagos. Indeed, Q3 2021 has emerged as the best quarter for new office space demand since the start of the pandemic. Of the 297,000 sqft of new requirements registered, the professional services sector (30%) accounted for the lion's share. This was closely followed by financial services (22%) and industrial and logistics businesses (11%). Overall, new space requirements rose by 49% q-o-q from 199,000 sqft recorded in Q2.

Despite this surge in demand, the average office size being sought remains small. 72% of requirements are for space under 5,000 sqft, while the largest requirement is around 80,000 sqft in the professional services sector.

Landlords remain cautious in the face of rising demand, with many opting to hold rents stable. In fact, across the 29 cities tracked by Knight Frank, prime rents are unchanged from Q2, buoyed in part by improving economic conditions. At USD 13 psm, Nairobi (9%) has experienced the fastest rate of rent rises in Q3. This was closely followed by Kampala (7%) and Dakar (4%). Lagos remains the most expensive city at USD 62.50 psm and Harare the least expensive at USD 7 psm.

Away from the leasing market, anecdotal evidence points to a resurgence in investor activity in the sector, as evidenced by the 30% increase in the number of office transactions recorded in Q3. With economies on the continent emerging from the debilitating impact of COVID-19, we expect to see investment levels rise, particularly as we head to the end of the calendar year and investors race to deploy capital amassed throughout the course of the pandemic.

AFRICA OFFICE MARKET PERFORMANCE AT A GLANCE



CITY	PRIME RENTS (USD PSM)
ABIDJAN	32.50
ACCRA	30.00
ADDIS ABABA	16.00
ALGIERS	28.00
ANTANANARIVO	11.00
BAMAKO	20.00
BLANTYRE	7.00
CAIRO	33.00
CAPE TOWN	16.00
CASABLANCA	22.00
DAKAR	23.50
DAR ES SALAAM	15.00
DOUALA	27.00
GABORONE	12.00
HARARE	7.00
JOHANNESBURG	15.00
KAMPALA	14.41
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	13.00
PORT LOUIS	19.50
TUNIS	9.00

Source: Knight Frank

Prime headline rents

USD psm

<10

10 - 20

20 - 30

30 - 40

40 - 50

>50

COUNTRY SNAPSHOTS

Botswana

9.2%
2021 GDP growth forecast

Botswana's government has revised its 2021 GDP growth forecast to 9.7% from an earlier estimate of 8.8%. This growth is set to be underpinned by increased diamond sales, (diamond sales rebounded by 41% in H1 2021), as well as a recovery in economic activity as COVID-19 restrictions are eased.

However, the pandemic continues to have far reaching effects on the prime office market in Gaborone. Occupiers remain focused on rightsizing, with some exploring a reduction of up to 25% of their existing space. Furthermore, businesses continue to centre their searches on best in class offices. These are predominantly located in the suburbs and as a result, more secondary stock in the CBD is seeing further downward pressure on rents as vacancy rates edge upwards. So, while prime headline rents remain stable at approximately USD 12 psm, it does mask a growing disparity in the performance of Grade A and Grade B rents.

Kenya

5.6%
2021 GDP growth forecast

Office leasing activity in Nairobi accounted for 30% of the overall requirements recorded across Africa during Q3, highlighting the post-COVID bounce currently underway in Kenya. This increased occupier activity has been fuelled by a reactivation of searches that had previously been put on hold. In addition, there has been a stable, but steady return of multinational occupier enquiries.

This buoyancy in demand has driven occupancy levels up by three percentage points to 77% in Q3. In addition, prime office rents increased by approximately 9% in Q3 from USD 11.80 psm in Q2. We expect upward pressure on rents to persist over the course of Q4, catalysed by growing demand from the finance and banking, co-working and TMT sectors.

Nigeria

2.6%
2021 GDP growth forecast

Dollar-based office rents have remained stable at USD 62.50 psm. However, increased currency fluctuations continue to impact on Naira rents. As a result, Naira-based rates rose by 5% to approximately 23,000 Naira psm.

Furthermore, a persistent and strong level of occupier requirements is helping to drive up rents further. The growing tech sector, in particular, remains a core piece of the demand equation. Indeed, Nigeria recorded the second highest tech start-up density in Africa and was valued at more than USD 2 billion in 2020. The number of fintech start-ups too, for instance, grew by 43% y-o-y in H1 2021, making Nigeria the second largest fintech market on the continent after South Africa. This suggests that not only is new office space demand being created, but it is set to remain strong. The supply pipeline of Grade A stock meanwhile, remains weak, hinting at a continued period of rent increases.

South Africa

5.0%
2021 GDP growth forecast

Leasing activity in Johannesburg and Cape Town increased by 135% in Q3, when compared to Q2, albeit this has been from a low base. This was mainly underpinned by the professional services sector (65%) driven, by a rebound in business activity across the country.

However, a supply glut is sustaining high vacancy levels in markets such as Sandton (24%). Coupled with the negative impact of the pandemic, Johannesburg and Cape Town have seen rents retreating by 12% this quarter leaving rents at USD 15 psm and USD 16 psm, respectively.

Looking ahead, South Africa's economy is expected to recover at a faster rate of 5% compared to the 4% previously forecast by the IMF. Combined with the ongoing vaccination drive, this improved economic outlook is set to increase business confidence in the market, boosting occupier activity for the remainder of the year, which we feel will help to begin injecting greater office rent stability.

Source: Knight Frank, IMF

SHARE OF NEW OFFICE REQUIREMENTS BY SECTOR - Q3 2021

- **30%** Business & Professional Services
- **30%** Financial Services
- **11%** Industrial & Logistics
- **9%** Healthcare
- **9%** Technology, Media, & Telecoms
- **4%** Automotive
- **4%** NGO
- **4%** Government (Public Sector)

Lugogo One, Kampala - Uganda

Tanzania

4.0%
2021 GDP growth forecast

Headline prime rents in Dar es Salaam remain stable at USD 15 psm. However, this stability in rents masks the diminished occupier activity, which is resulting in increased lease concessions by landlords, such as 3 to 6 month rent free periods, on five- and ten-year lease terms.

We expect increased foreign occupier enquiries from Q1 2022 against the backdrop of rising FDI. Indeed, at almost USD 3 billion, the country has already registered a six-fold increase in FDI in H1, when compared to the same period last year. In addition, renewed optimism towards the revival of the USD 30 billion LNG project in Lindi will likely impact positively on occupier enquiries from oil and gas affiliated firms in Dar es Salaam.

Uganda

4.7%
2021 GDP growth forecast

Requirements for prime office space remain stable in Kampala, underpinned by stable demand from oil-affiliated companies, tech businesses, as well as the professional services sector. As a result, landlords have begun to adjust rents upwards. In fact, average prime office rents increased by approximately 7% q-o-q, to USD 14 psm, while occupancy levels have climbed to 83%.

Demand for prime office space is expected to be sustained, catalysed by rising business confidence. Stanbic Bank's Uganda Purchasing Managers' Index reading for September climbed to 52.5, the highest reading since May, indicating a return in business confidence and growth amidst loosening lockdown restrictions.

In stark contrast and in line with global trends, demand for more secondary stock remains low. This is leading to increased rent-free periods for older stock. Rent free periods for such buildings are now at 2-3 months, up from the typical 1 month on a five-year term. In addition, to secure a tenant, some landlords are even offering spot discounts of up to 10%.

Zambia

1.0%
2021 GDP growth forecast

Headline prime rents remain stable at USD 18 psm. However, landlords are continuing to offer lease concessions such as longer rent-free periods of up to 2-3 months on a three-year lease, in addition to fit-out contributions. So, while prime headline rates in Lusaka remain stable, net effective rents are declining, mirroring the markets in Tanzania and Uganda.

Furthermore, occupiers are keen to secure high quality offices with greater lease flexibility and affordability – a tall order for many landlords with more secondary stock. This persistent demand for Grade A space has lifted occupancy levels to approximately 90% while the vacancy rate in the secondary market continues to rise and currently stands at 30%.

This is a dynamic we expect will become further entrenched, especially given the positive backdrop that has emerged as a result of the successful general election. We expect prime office rents will remain stable as occupier demand continues to recover. In addition, copper producers are set to expand their mining facilities by investing USD 2 billion in expansion projects in 2022, thereby lifting job creation rates and creating fresh demand for office space. Copper mining, production, and exports account for approximately 27% of government revenue.

Zimbabwe

5.1%
2021 GDP growth forecast

Office demand in Harare remains low due to the ongoing negative impact of pandemic related restrictions. In addition, local currency-based rents have remained volatile. For example, Zimbabwe dollar-based rents increased by 137% in August, however, dollar-based rents remained stable at USD 7 psm, highlighting the affordability challenges faced by local businesses.

In addition, occupier activity has been characterized by the flight to suburban offices from the CBD, with businesses keen on occupying high-quality, affordable space. As a result, vacancy levels in the CBD remain high at approximately 50%, with this trend expected to continue.

Source: Knight Frank, IMF

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