

# **Africa Offices Market Dashboard**

**Q4 2022**



MARKET REVIEW

Q4 KEY TAKE AWAYS



AVERAGE OCCUPANCIES INCREASED TO 80%



SUSTAINED DEMAND FOR GRADE A OFFICES

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SOURCE: Knight Frank

The African office market is currently facing challenges related to currency depreciation, particularly in light of the global inflationary environment. This trend is evident in many countries and is causing confusion and a two-tier rental situation where landlords and developers are increasingly seeking USD rents. This is a major market issue and is particularly notable in Kenya, where it impacts the overall market dynamics.

Another good example is South Africa, where occupier productivity continues to be negatively impacted by the current energy crises, with its soaring electricity costs and ongoing electrical load-shedding. Occupiers are looking towards modern premium-grade facilities to take advantage of their newer, more modern energy-efficient systems to mitigate rising utility

costs. While carbon footprint, ESG, and environmental considerations remain essential factors to occupiers in building selection, more emphasis is placed on backup systems (both electrical and water), critical to staying operational and productive

Despite these challenges, the African office market continues to offer significant opportunities for investors and developers, particularly in the context of a growing economy and increasing demand for commercial space. For instance, despite the ongoing market recovery in Nigeria, there has been a notable uptick in the utilisation of Grade A offices and an increase in rental rates and occupancy levels. This has been driven, in part, by rising demand for offices from the oil, gas, and technology sectors.



Lilongwe, Malawi

## COUNTRY SNAPSHOTS



## BOTSWANA

During the last three months of 2022, there was a significant increase in office inquiries in the Gaborone area, particularly in the Central Business District (CBD). As a result, the estimated vacancy rates for office space in Q4 2022 fell by 2-3% to around 11%. Despite the increased demand for offices largely driven by the finance, government, and mining sectors, rental rates have remained unchanged for the last three quarters.

A major contributor to the static office rents has been the decline in the pula's value relative to the US dollar. Overall, yields have decreased slightly due to continued economic weakness in the country.



## EGYPT

In Cairo, there has been a significant increase in the demand for prime office spaces from local and international businesses. For example, high-quality office buildings in areas with strong retail and food and beverage options, such as 5A By the Waterway and Cairo Festival City, experienced strong leasing activity throughout 2022.

The sale of office spaces in Cairo were especially active in the third and fourth quarters of 2022, as buyers sought to protect themselves from inflation and currency devaluation by investing in real estate. However, these buyers were selective and mostly chose to purchase properties from reputable developers with stable financial records. Additionally, there was an increase in the demand for smaller office spaces, ranging from 100 to 600 sqm, as information and communication technology companies began outsourcing operations to Cairo.

When it comes to leasing, the devaluation of the Egyptian Pound has led many landlords to lease their office spaces in U.S. dollars. Still, occupiers prefer to work with landlords willing to accept the Egyptian Pound and are flexible in their terms.



## KENYA

Over the review period, average monthly prime rents stabilised at US \$13 psm, similar to Q3, 2022. This is mainly attributed to completing A-grade office developments and the continued uptake of quality stock. There has been increased preference from investors to have rent in dollar payments due to the ongoing depreciation of the Kenyan Shilling.

In Nairobi, Westlands remains the most sought-after office location as it has the largest share of A-grade commercial offices compared to other competing nodes such as Upperhill, Kilimani, and Mombasa Road.

Grade A offices have experienced increased demand from ICT-oriented enterprises, non-governmental organisations (NGOs), and multinational corporations (MNCs). This is in tandem with Kenya Vision 2030, which aims to leverage technological developments.

Co-working is gradually gaining a foothold in Africa, and Kenya is no exception. The country is progressively embracing this concept of shared workspaces. For example, the Nairobi Garage, a co-working space provider, recently opened a 1,100 sqm location in the CBD, bringing their total office space to around 9,290 sqm. Another co-working space provider, Kofisi, expanded by opening a new branch called "Kofisi Square," with approximately 4,600 sqm of space. With remote working emerging as a permanent legacy of the COVID-19 pandemic, businesses continue to right-size, and co-working is emerging as a crucial part of occupational strategies, particularly amongst international businesses.



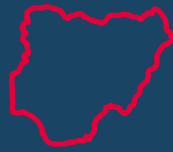
## COUNTRY SNAPSHOTS



## MALAWI

Q4 2022 saw a decline in the number of new office developments breaking ground in Blantyre, which has the potential to influence the supply-demand equation in the future. Some developers have cited high lending rates, including an increase in the bank reference rate from 16.6% to 17.3%, as a reason for curtailing new projects in the city.

Recently, the Reserve Bank of Malawi devalued the kwacha by 25%, driving an immediate increase in the cost of living. Indeed, the annual inflation rate stood at 25.8% as of November 2022. Subsequently, some occupiers have begun to seek out cheaper suburban offices. The devaluation has also contributed to rising operational costs, which some landlords are passing on to tenants, leading to higher rental prices.



## NIGERIA

Although the market is in a recovery phase, there has been an increase in the uptake of prime offices, asking rents, and occupancy levels. Most prime offices are fully occupied largely due to rising demand from the oil and gas and technology sectors.

Furthermore, the growth in healthcare, economic expansion, and foreign investment have significantly contributed to the rising demand for new office spaces in the cities of Lagos and Abuja. For instance, according to the Nigerian Investment Promotion Commission (NIPC), the real estate sector attracted the highest level of foreign investment in 2022 (US\$ 2.1 bn), representing about 12% of the total foreign investment.



## SOUTH AFRICA

Overall, the office market is characterised by weak demand, regressing rental performance, and increasing vacancies. That said, take-up activity has been noted in the Grade A office sector as occupiers seek more modern and energy-efficient buildings to mitigate rising utility costs and to take advantage of their supporting backup and redundancy systems due to the local electricity load shedding crisis. Overall demand continues to be driven by 'shifting' and consolidation rather than much-needed economic and business growth.

Office landlords continue to feel the effects of inflationary factors pushing operating costs higher. Likewise, speculative development within this sector has ground to a halt as rising construction costs and inflation continue to put pressure on new build supply relative to rental affordability and the initial return as required by developers.

While carbon footprint, ESG, and environmental considerations remain essential factors to occupiers in building selection, more emphasis is placed on backup systems (both electrical and water), which are critical to remaining operational and productive.



## COUNTRY SNAPSHOTS



## UGANDA

Throughout 2022, the Ugandan office market has proven to be highly resilient. As outlined in our [Africa Offices Market Dashboard - Q3 2022](#), office demand remains diverse, with financial services, oil and gas businesses and professional services accounting for the bulk of requirements. This has resulted in a slight (1%) increase in occupancy rates for Grade A offices, which now stand at 95%. Demand has also been fuelled by corporate entities, particularly commercial banks, moving their headquarters to newer, high-quality premises. Rents for Grade A offices have remained stable at between US\$ 14-16 psm.

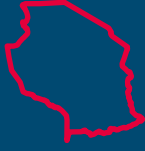
Across Kampala, newer buildings with higher-quality facilities and fit-outs, adequate parking provisions, and professional management contracts remain more attractive to blue-chip occupiers. This is encouraging some landlords to upgrade (or refurbish) existing buildings to meet the growing demand for higher-quality offices.

**DTB Building in Kampala, Uganda. ►**





## COUNTRY SNAPSHOTS



## TANZANIA

The office market in Tanzania is predominantly a tenants' market. On average, offices in the Dar-es-Salam CBD maintain an occupancy rate of approximately 60% as occupiers remain reluctant to commit to US dollar-denominated leases, instead preferring more affordable suburban office locations.

The average rental rates for prime office locations range from US\$ 10-15 psm, depending on various factors such as accessibility, available amenities and services, the quality of the building, and proximity to the CBD.

At the same time, there has been a growing demand for sustainability accredited office buildings, however, the supply of green buildings remains limited. A lack of awareness and knowledge about sustainable building practices and technologies, as well as limited access to financing for sustainable building projects, remains a key dampener to unlocking more ESG-rated developments. However, some efforts have been made to promote sustainable building practices and raise awareness about the benefits of green buildings. Legislation to boost green development includes the establishment of the Tanzania Green Building Council (TGBC), which aims to promote sustainable building practices and the National Environmental Management Council (NEMC), which has developed guidelines for green building design.



## ZAMBIA

The kwacha has improved from being the worst-performing currency in 2021 to being the second-best against the US dollar in 2022. This has boosted investor confidence and led to an influx of new businesses in the Lusaka office market, including a rising number of global businesses that remain focused on Grade A offices.

There is also a growing trend towards fully serviced and furnished offices in Lusaka, especially from international occupiers. This aligns with our findings in our Africa Report 2022/23, which details our projections for 30% growth in Africa's serviced office market over the next five years.

Separately, there has been an increase in inquiries from businesses looking to purchase offices rather than rent, driven largely by rising occupational costs.

**Zambia is among the few markets in Africa which reported an overall improvement in economic growth in 2022. The government has successfully managed to reduce inflation from 25.6% in August 2021 to 9.7% in June 2022.**

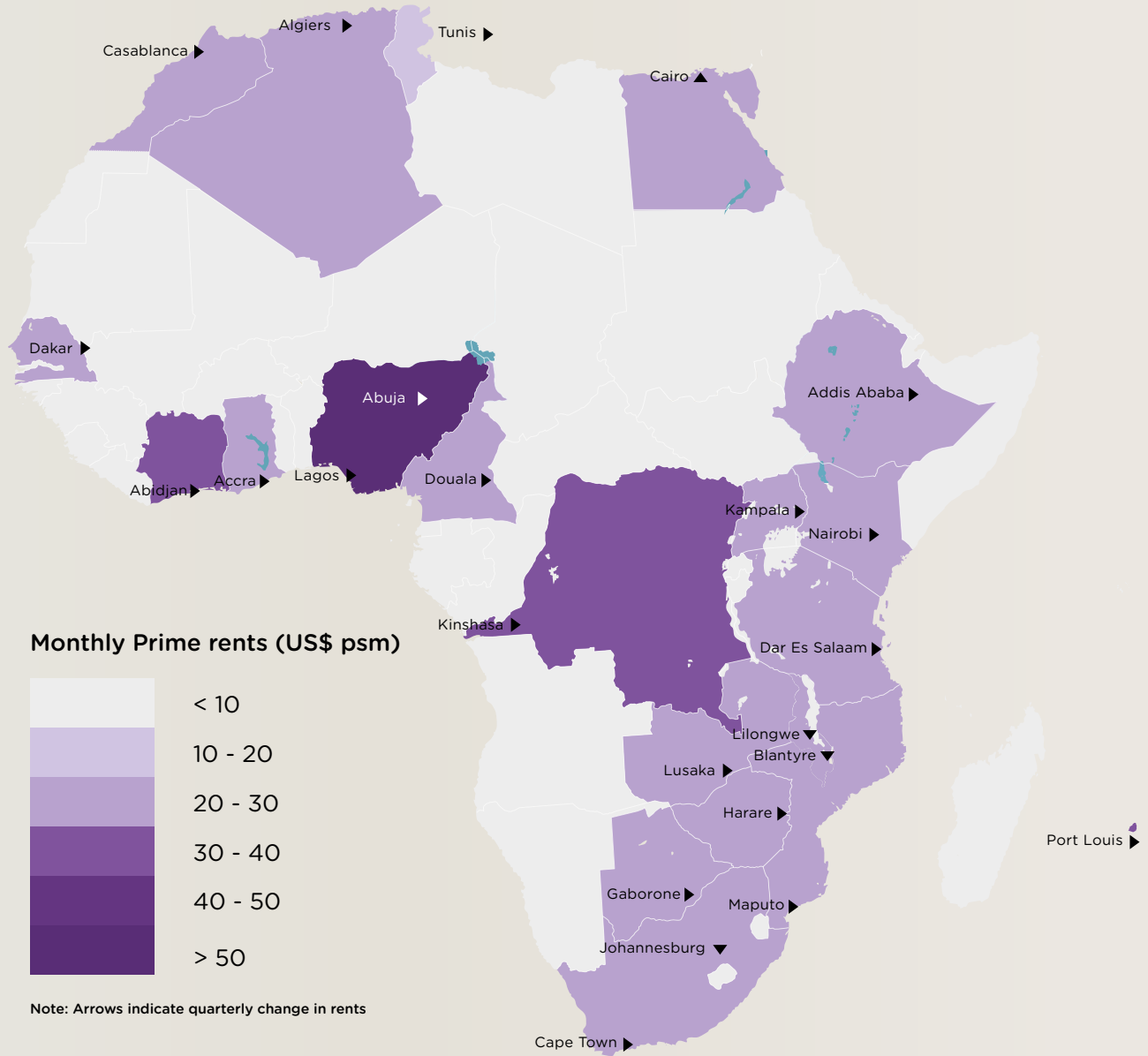


## ZIMBABWE

In contrast to Q3 2022, when there was an increase in office vacancies due to organisations relocating from the CBD of Harare, the final three months of 2022 have seen a decrease in vacancy rates as previously abandoned offices are being partitioned into smaller units and leased to SMEs.

Separately, satellite cities continue to attract more occupiers as businesses seek relatively affordable suburban offices, and developers are responding to this shift in geographic demand. The futuristic Cybercity, for instance, is projected to anchor the 'New Capital City' or the 'New Harare' in the Mount Hampden area, 26 kilometers northwest of Harare and will feature luxury homes and high-tech offices. The 2.5 million sqm project includes 250 townhouses, around 50 villas, several apartment buildings, state-of-the-art office facilities in a 15-story commercial tower, and landscaped gardens within a gated community.

Q4 2022 OFFICE RENTS AND YIELDS



	Prime Rents (US\$/psm)	Prime Yields (%)		Prime Rents (US\$/psm)	Prime Yields (%)
ABIDJAN	33.00	9.00	HARARE	12.00	8.00
ABUJA	25.00	8.00	JOHANNESBURG	14.50	9.50
ACCRA	28.00	9.00	KAMPALA	15.00	9.00
ADDIS ABABA	16.00	6.00	KINSHASA	35.00	10.00
ALGIERS	20.00	10.00	LAGOS	55.00	8.20
BLANTYRE	6.70	9.00	LILONGWE	9.60	9.50
CAIRO	30.00	10.00	LUSAKA	18.00	9.50
CAPE TOWN	15.20	8.80	MAPUTO	32.00	8.50
CASABLANCA	20.00	8.50	NAIROBI	13.00	8.50
DAKAR	21.50	9.50	PORT LOUIS	20.00	8.80
DAR ES SALAAM	15.00	9.00	TUNIS	7.00	7.00
GABORONE	10.60	8.80			

Source: Knight Frank

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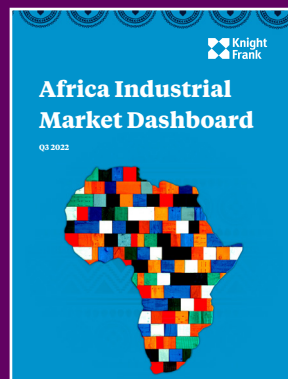
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