Africa Industrial Market Dashboard

Q1 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

Data centres emerging as a new alternative assets class of choice

FOREWORD

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As African consumer habits shift and business environments evolve, data centres are emerging as the alternative real estate investment of choice. Indeed, according to Knight Frank's Wealth Report 2023, data centres have emerged as one of the top four favoured alternative asset classes, with Hotels & Leisure, Healthcare, and Student accommodation topping the list.

Investors have taken note of the increasing demand for data centres in Africa and are directing their investments towards this sector.

Agility Logistics Parks, a global real estate industrial and logistics developer, recently launched four master-planned data centre campuses in Egypt, Ghana, Saudi Arabia, and Kuwait.

Agility also announced plans to open additional data centres in other rapidly growing markets such as Nairobi, Casablanca, and Lagos.

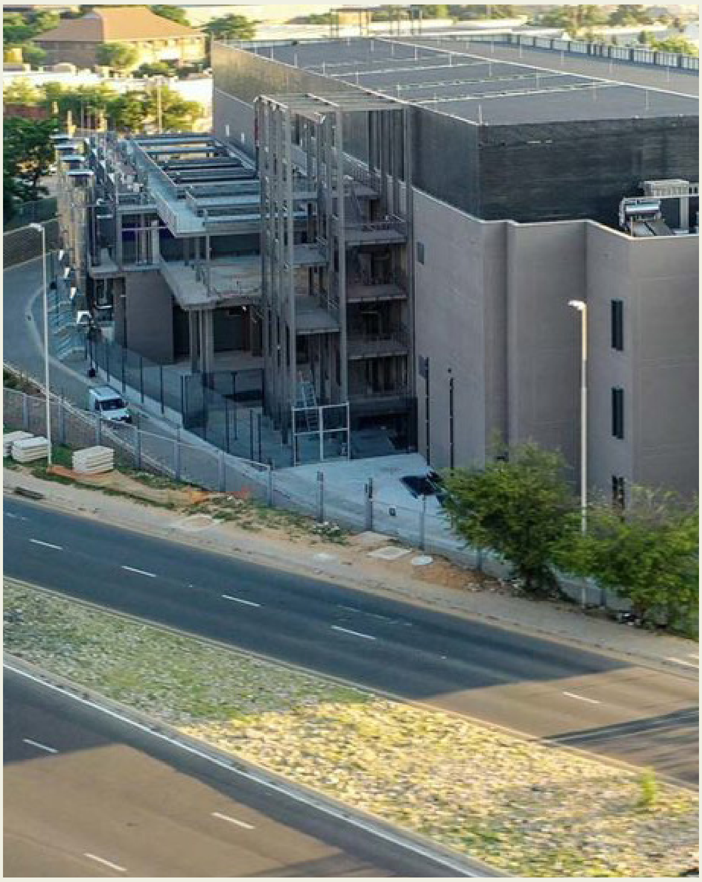
With a current live capacity of 174MW and a planned expansion of 105MW, Africa presents a unique opportunity for the growth of this asset class across the continent. According to the Africa Report 2022/23, Egypt, Kenya, Morocco, Nigeria, and South Africa are particularly promising markets for data centre development.

With a current live capacity of **174MW** and a planned expansion of **105MW**, Africa presents a unique opportunity for the expansion of this asset class across the continent.

Map: Africa Data Centre distribution by country.
Source:
>>>>>>>>

Photo Credit:

NTTJohannesburg 1 Data Centre at Centralpoint



Heightened demand for quality warehouses despite low supply

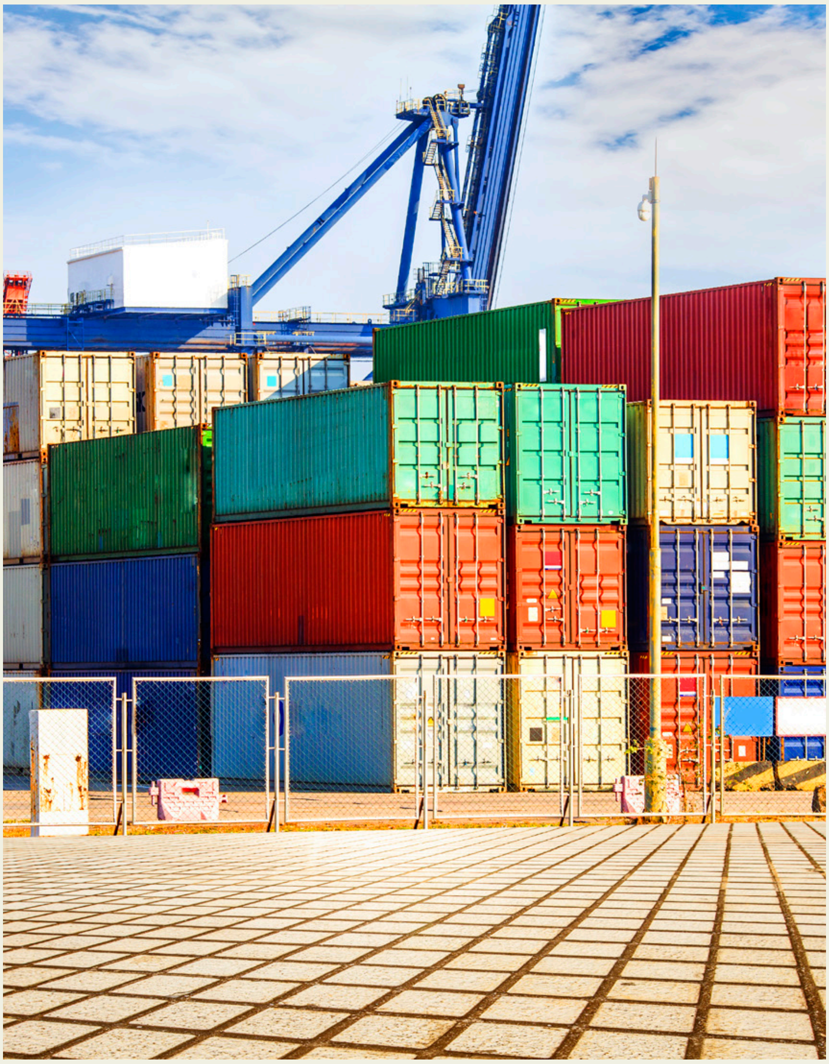
The demand for high-quality warehouses to facilitate the storage of goods for last-mile deliveries in Africa remains unmet, surpassing the available supply.

In Nigeria, for example, the inadequacy of high-quality warehousing has persisted for some time, leading many multinational corporations to prefer self-owned, purpose-built facilities in Ikeja, Sagamu, and Agbarawe.

This trend underlines the robust demand for prime warehousing space, which currently stands at 300,000 sqm.

The Kenyan market has been more responsive to the growing demand for prime warehousing space, with developers delivering over **170,000 sqm** of speculative warehousing in the past five years.

Photo Credit: Container Yard at Mombasa



Conversely, the Kenyan market has been more responsive to the growing demand for prime warehousing space, with developers delivering over 170,000 sqm of speculative warehousing in the past five years.

Developers such as Improvon and Africa Logistics Properties plan to deliver over 400,000 sqm of speculative space to the market by the end of 2024, indicating a further improvement in warehousing supply.

Despite speculatively constructing most warehouses, absorption rates remain high, mainly driven by the agriculture and Fast-Moving Consumer Goods (FMCG) sectors.

Unsurprisingly, the current average occupancy rate is about 80%, which shows the strong demand for prime warehousing space. This demand is evident not only in the active development pipeline but also in the rent performance, indicating a thriving market.

400,000 sqm

Speculative space that developers such as Improvon and Africa Logistics Properties plan to deliver to the market

Botswana

The country expects its budget deficit for 2023/24 to be 3.06% of its gross domestic product (GDP), compared to 2.1% for 2022/23.

The industrial market in Botswana is currently stable, although there has been minimal growth in rental rates, with prime rents still at US$ 4.60 since the last quarter. Due to a limited supply of serviced industrial land within Gaborone, new developments are primarily concentrated in the new industrial nodes on the city's outskirts.

However, the development pipeline is limited, possibly due to increased development and finance costs.

In the first quarter, the mining sector performed well and continues to attract significant interest from new entrants. According to the IMF, Botswana is among the few sub-Saharan African countries benefiting from its mineral wealth.

The industrial market in Botswana is currently stable, with **heightened demand**, although there has been minimal growth in rental rates.

(I). Photo Credit Diamond Industrial Park, Gaborone

Combined with sound economic policies, revenue from diamond mines has supported infrastructure development and maintained economic stability. Botswana relies on diamonds for about 30% of its revenue and 70% of its foreign exchange earnings. The country anticipates economic growth of around 4% this year and aims for medium-term growth of 5.7%, with the government planning to increase infrastructure investment.

Furthermore, a government ICT agency is constructing a data centre, with completion expected by early Q2. This development could be a significant milestone in the country's data centre space.

US$4.60

Prime rents psm since the last quarter

Egypt

Looking ahead, the planned US$ 400mn Cairo to Alexandria freight train, scheduled to begin operations by 2030, including connections to Upper Egypt and the Red Sea coast, is forecast to underpin industrial demand, especially around new rail hubs

The Egyptian government is preparing to establish a sprawling industrial city project that will span an area of 5 million sqm in the new 6th of October City. The project will encompass a range of activities, including industrial, logistical, commercial, administrative, and service-related functions. Strategically located in close proximity to the 6th of October dry port, the city will be directly linked to Alexandria Port via rail.

The government is eager to accelerate the development of the proposed industrial zone, emphasising its good transport connectivity and constructing and operating factories.

This proactive approach is seen as a means of promoting the growth of productive sectors in which Egypt possesses a robust comparative advantage, such as engineering industries. Additionally, the project will serve as a powerful engine for export growth and a means of reducing reliance on imports through the import substitution program.

Africa Data Centres (ADC) has announced the launch of a **new data centre** in Nairobi, with completion scheduled for the first quarter of 2024.

(Ii). Photo Credit
Cairo, Egypt

Looking ahead, the planned US$ 400mn Cairo to Alexandria freight link, scheduled to begin operations by 2030, including connections to Upper Egypt and the Red Sea coast, is forecast to underpin industrial demand, especially around new rail hubs.

US$400 MN

Planned Cairo to Alexandria freight link, scheduled to begin operations by 2030

5 MN sqm

Area of the industrial city project yet to be established by the Egyptian Government

Kenya

The expansion is part of ADC's broader African expansion strategy, which involves investing US$500 million in data centres across approximately ten African countries.

Investors are increasingly turning their attention to data centres due to the growing demand for Internet and e-commerce.

In response to this trend, Africa Data Centres (ADC) has announced the launch of a new data centre in Nairobi, with completion scheduled for the first quarter of 2024. This facility will provide up to 15 MW of additional IT load to expand ADC's existing infrastructure and meet the growing demand for digital services in East Africa.

The expansion is part of ADC's broader African expansion strategy, which involves investing US$500 million in data centres across approximately ten African countries.

The increased capacity will enable ADC to better serve businesses in Kenya specifically and East Africa generally while strengthening its position in a market with growing competition from companies such as Huawei, Google, Microsoft, Teraco, OADC, Raxio, and Amazon.

Elsewhere, there is a growing demand for quality industrial facilities (Grade A) due to the outdated nature of the existing stock that does not meet modern warehouse standards. Africa Logistics Properties (ALP) is capitalising on this market niche by completing the fourth phase of their Nairobi West Logistics Park in Tilisi, along the Nairobi-Nakuru Highway.

As a result of this expansion, Twiga Foods has recently occupied 20,000 sqm in ALP North, resulting in a 90% occupancy rate for the park.

Africa Data Centres (ADC) has announced the launch of a **new data centre** in Nairobi, with completion scheduled for the first quarter of 2024.

(Iii). Photo Credit EA's Data Center, Nairobi

US$500 MN

ADC's investment in data centres across 10 African countries

90%

Occupancy rate at ALP Park

15 MW

Additional IT load at ADC to expand the exisiting infrastructure

Malawi

The expansion is part of ADC's broader African expansion strategy, which involves investing US$500 million in data centres across approximately ten African countries.

Insufficient energy infrastructure is persistently causing extended power outages, lasting up to 12 hours, negatively affecting business continuity. This makes Malawi an unattractive investment destination for new entrants to the market.

As a response, the government is promoting the adoption of alternative energy sources, such as solar energy, while simultaneously seeking permanent solutions to the country's energy challenges.

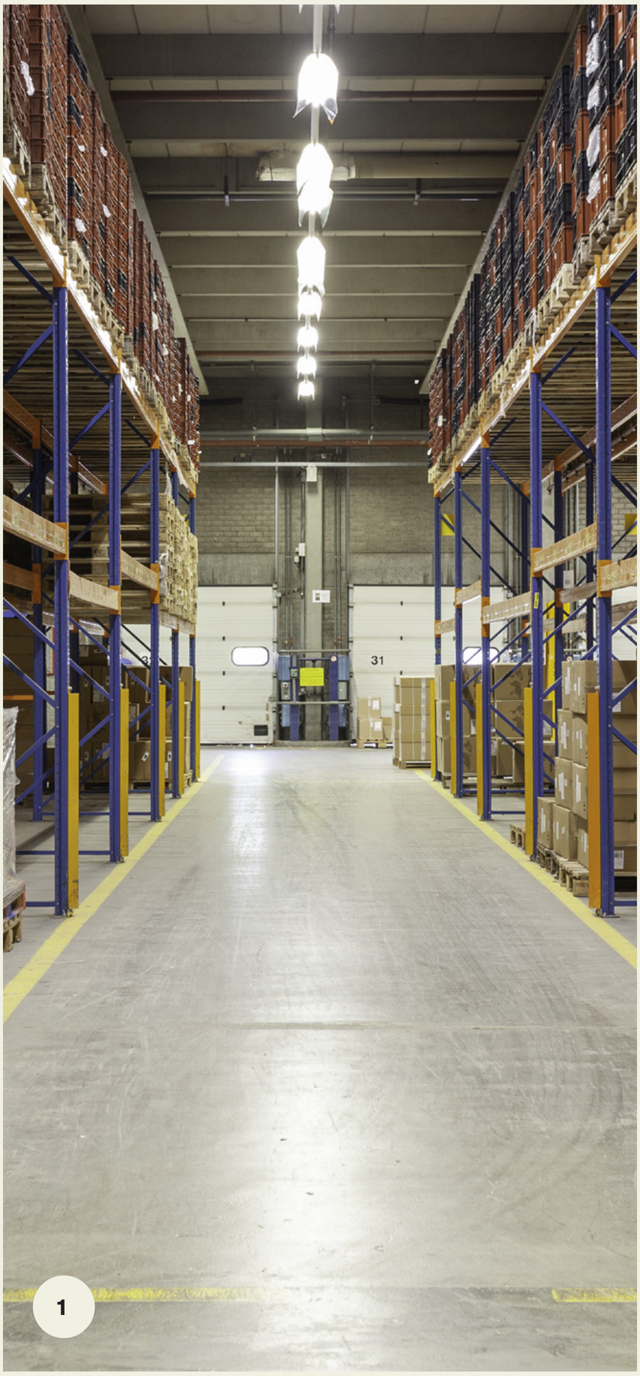
This situation was exacerbated in March when Malawi was hit by a tropical cyclone, causing significant damage to the southern region. The catastrophe is expected to further hinder the growth of Malawi's industrial sector in the short and mid-term.

As a result, the demand for new warehouse space is limited, with rents ranging between US$ 2.50-3 psm, making Malawi one of the cheapest locations in Africa to lease warehousing.

US$ 2.5-3 psm

Malawi is one of the most affordable locations in Africa to lease warehousing.

The government is promoting the adoption of alternative energy sources, such as solar energy, while simultaneously seeking **permanent solutions** to the country's energy challenges.



1. Photo Credit
A warehousing facility

Nigeria 

The redesigning of the Nigerian Naira has resulted in cash shortages that have severely impacted the economy and the industrial and manufacturing sectors.

The redesign of the Nigerian Naira has resulted in cash shortages that have severely impacted the economy, including the industrial and manufacturing sectors. This shortage led to the slowing down of production lines in the country's major cities of Lagos and Abuja. According to Stanbic IBTC, the headline PMI fell from 53.5 in January to 44.7 in February, marking the first contraction in private sector business conditions in over two years.

Fuel scarcity has also had a significant impact, leading to steep reductions in output and new orders, longer delivery times for suppliers, and a substantial increase in purchase prices.

Despite these challenges, investment prospects exist in the industrial sector, particularly in areas surrounding Lagos, where land prices have decreased, resulting in increased public and private expenditure on infrastructure. This sector has consequently emerged as a significant force driving land prices, with investors demonstrating more interest in regions that ensure ease of connectivity to their distribution network coupled with affordable land prices.

The redevelopment of the Lagos-Ibadan expressway and the 42-kilometre Sagamu Interchange-Abeokuta dual carriageway has had a direct link with the Lagos-Ibadan Expressway notable impact on the Lagos-Ibadan industrial node. Another noteworthy road project is the Oba Erinwole dual carriageway, unlocking access to the Sagamu-Ogijo-Ikorodu industrial hub.

Furthermore, the opening of the Lekki Deep Sea Port, a $1.5 billion Chinese-funded project, is a positive step for local authorities who predict the facility will boost the West African nation's ailing economy. According to the Lagos Governor, the port, one of the largest in West Africa, is expected to create hundreds of thousands of jobs and ease cargo congestion, currently costing billions of dollars in lost revenue.

At the same time, Acasia Ventures, an Egyptian venture capital firm, has joined a $1 million seed investment round in Fez Delivery, a last-mile delivery platform based in Lagos.

Fez reports that Nigerian consumers generate more than 120 million e-commerce orders annually, with limited options for international logistics providers to deliver outside major cities, relying on local companies such as Fez to fill the gap. Small and medium-sized enterprises (SMEs) contribute approximately 48% of Nigeria's GDP, yet international couriers charge high delivery fees with fixed rates.

53.5 - 44.7

The headline PMI from January to February - According to Stanbic IBTC

120 MN

Number of orders Nigerian consumers make on e-commerce platforms annually.

- Fez reports

South Africa

Overall, rising construction costs, inflation and energy security will continue to put pressure on new build supply relative to rental affordability and the initial return required by developers.

The industrial sector remains a top performer against other non-residential asset classes, particularly in the warehousing and logistics segments. Low vacancy rates of around 5% are currently being enjoyed due to sustained demand, with prime gross rentals and yields in Johannesburg at approximately US$ 5.00 psm per month and 8.25%, respectively.

However, the prevailing energy crisis is exerting a detrimental influence on the productivity of industrial occupiers, leading to escalated electricity expenses and persistent occurrences of load-shedding. Furthermore, landlords continue to grapple with inflationary pressures that drive up their operational expenditures.

In spite of these challenges, the net rental growth within the industrial sector has gradually regained a favourable stance.

The current **energy crises** in South Africa are negatively impacting industrial occupier productivity

2. Photo Credit: West Africa´S Largest Deep Sea Port: Badagry!

3. Photo Credit: Zutari's Halaal Industrial Park project, Western Cape South Africa

Occupiers are still in demand for multi-park warehousing and logistics estates as they seek to consolidate shared services and achieve financial and operational savings through modern warehouse design efficiencies.

Overall, rising construction costs, inflation, and energy security challenges will continue to put pressure on new build supply, particularly in terms of rental affordability and the initial return expected by developers.

US$5 psm

Prime gross rentals in Johannesburg

8.25%

Monthly yields in Johannesburg

3

Tanzania

Overall, there has been a gradual improvement in the industrial market, particularly in demand for warehouses ranging from 2000 sqm to 8000 sqm, for leasing and purchasing.

The Tanzanian government has prioritised industrialisation to transform the economy, foster sustainable growth, and alleviate poverty. To this end, the Sustainable Industrial Development Policy (SIDP) has introduced a framework for industrialising the country and achieving semi-industrialisation status by 2025.

As stipulated in the SIDP, the manufacturing sector needs to contribute a minimum of 40% of the GDP for the country to attain semi-industrialisation. However, according to World Bank indicators, this target is far from being met, with the sector accounting for less than 10% of the GDP.

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

4. Photo Credit: The Bakhresa Business Group Food Processing Plant in Dar Es Salaam Tanzania

The government aims to attract Foreign Direct Investments (FDIs) to help achieve the targeted industrial development.

Overall, there has been a gradual improvement in the industrial market, particularly in demand for warehouses ranging from 2000 sqm to 8000 sqm, for leasing and purchasing. The average prime market rental rate remains at US$5.0 psm.

We are optimistic about the future growth of the industrial market, fueled by increased economic activity in the sector.

US$5 psm

Prime market rental rate

2000 - 8000 sqm

The demand in size of warehouses

for demand purchase

Uganda

Investment opportunities exist in various sectors, including agricultural and mineral value addition, oil and gas, construction, cold storage facilities, and logistics.

The leasing activity in Kampala's industrial sector has remained stable, with a notable increase in demand from Fast-Moving Consumer Goods (FMCG), agriculture, and logistics industries. Warehouse leasing continued to dominate, particularly in the traditional industrial areas of 1st to 6th Street. In Namanve, the demand for land for development remained high, with several occupiers opting for owner-occupied premises over renting.

To promote industrial investment in the country, the Uganda Investment Authority (UIA) has streamlined its investment process into a five-step process, with efficient turnaround times for issuing investment licenses. The Authority has also established a One-Stop Centre, a single access point for investors seeking information and services.

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5. Photo Credit: Works on the Joint EACOP Project

The government is committed to improving the country's infrastructure to open the industrial sector fully. Efforts are underway to enhance regional connectivity, encourage local growth centres, and reduce traffic congestion within the Greater Kampala Metropolitan Area (GKMA) and surrounding cities.

Over the Third National Development Plan (NDP III) period, the focus will be on increasing the stock of paved roads from 4,971 km to 7,500 km by 2025. In addition, the government will complete tarmacking tourism roads and provide the necessary infrastructure to enhance private sector engagements. Maintenance and rehabilitation of road and railway infrastructure will also be prioritised to reduce the cost associated with dilapidation.

Investment opportunities exist in various sectors, including agricultural and mineral value addition, oil and gas, construction, cold storage facilities, and logistics. These align with Uganda's priority agro-industrialisation, petroleum, tourism, and mineral development sectors.

4,971 to 7,500 km

The stock of paved roads is scheduled to increase from 4,971 km to 7,500 km by 2025.

Zambia

Looking ahead, we hold a positive outlook on the potential increase in rental rates for the upcoming quarter. Our optimism stems primarily from the growth of local and regional businesses throughout the country.

Towards the end of 2022, the industrial sector in Zambia encountered challenges of oversupply and low rental uptake. Nevertheless, during Q1 2023, the sector saw a recovery, leading to a notable surge in the adoption of logistics and storage facilities, specifically within the 500-3,000 sqm size range. This has led to almost 100% occupancy in prime estates such as York and Krimanvi.

Looking ahead, we hold a positive outlook on rental rates for the upcoming quarter, primarily from the growth of local and regional businesses throughout the country. Notably, the contract for constructing a new 327 km dual carriageway from Lusaka to Ndola was awarded to the China Jiangxi Corporation (CJIC) in March.

In addition, there has been a notable surge in demand for Grade A logistic facilities by corporate organisations entering the country.

6. Photo Credit:

Milling Plant in Zambia

This project involves reconstructing and expanding the existing 327 km dual carriageway from Lusaka to the Copperbelt and mineral-rich northwest provinces, serving as a vital road link to the Copperbelt mining province.

The road caters to approximately 42% of Zambia's road traffic volume and represents Southern Africa's only corridor to the DRC and a significant connection to East Africa.

However, grade A logistic facilities remain scarce, as the market is predominantly divided into two segments: a limited availability of higher-specification units preferred by corporate entities and an oversupply of secondary warehouse spaces. Currently, monthly prime rentals range from USD 4.50 to 5.0 psm.

US$ 4.5-5 psm

Montly prime rental range

327 Km

Existing 327 km dual carriageway from Lusaka to the Copperbelt and mineral-rich northwest provinces

York & Krimanvi

Prime estates at near 100% occupancy capacity

Zimbabwe

The Sunway City Special Economic Zone (SEZ), located in the Ruwa suburb of Harare, clearly indicates the shortcomings of the country's SEZ initiatives.

Adopting a multi-currency economy, specifically the inclusion of the US dollar, has caused locally produced goods to lose competitiveness, leading to an increase in imports of low-priced items and commodities. Consequently, the industrial sector has been negatively affected, reducing capacity utilisation.

Demand is concentrated on small industrial park units, mainly used for wholesaling, warehousing, distribution, and logistics.

The government has implemented various measures and policies to safeguard and enhance the domestic industry, including establishing manufacturing and export zones, which provide various tax benefits.

In addition, there has been a notable surge in demand for **Grade A logistic facilities** by corporate organisations entering the country.

7. Photo Credit:

Modokero Business Park

In addition, the sector's growth is presently impeded by poor road and energy infrastructure, which deters international investors, developers, and occupants from entering the market.

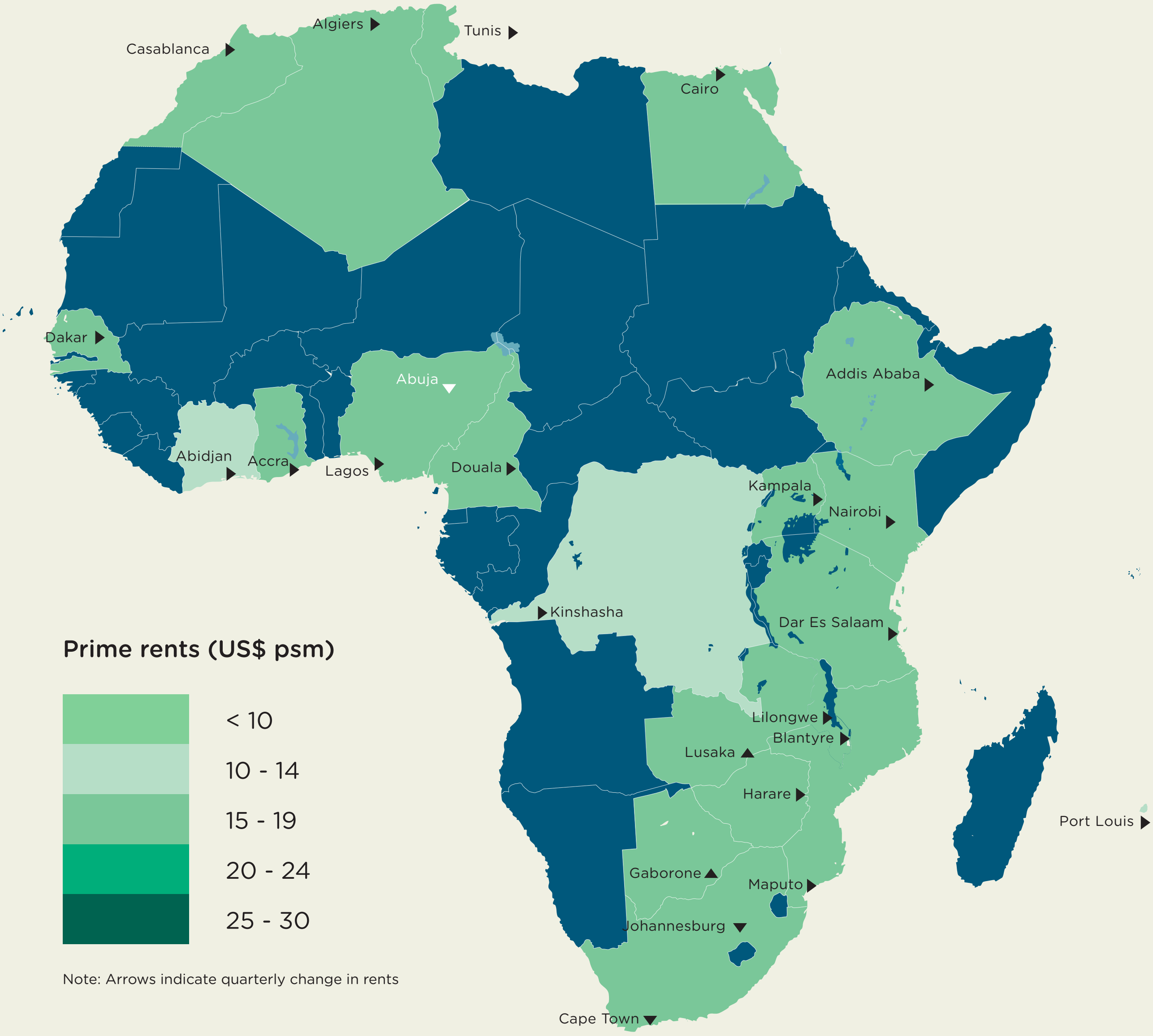
The empty lots and unfinished infrastructure in the Sunway City Special Economic Zone (SEZ), located in the Ruwa suburb of Harare, clearly indicate the shortcomings of the country's SEZ initiatives.

According to the Zimbabwe Investment Development Agency (ZIDA), the lack of basic infrastructure, ranging from power to water facilities, discourage investors from establishing businesses within the country's SEZs.

Demand is concentrated on small industrial park units, mainly used for wholesaling, warehousing, distribution, and logistics.

Adopting a multi-currency economy has had adverse effects on the economy

AFRICA INDUSTRIAL MARKET IN NUMBERS - Q4 2022



	Prime Rents (US$/psm)	Prime Yields
ABIDJAN	12.00	11.50
ABUJA	4.00	9.00
ACCRA	6.00	10.50
ADDIS ABABA	6.00	8.00
ALGIERS	5.50	13.00
BLANTYRE	2.50	12.00
CAIRO	4.00	9.00
CAPE TOWN	5.00	8.00
CASABLANCA	5.00	11.50
DAKAR	6.00	13.00
DAR ES SALAAM	5.00	10.00
GABORONE	4.50	9.50

	Prime Rents (US$/psm)	Prime Yields
HARARE	3.00	9.00
JOHANNESBURG	5.00	8.25
KAMPALA	6.00	13.00
KINSHASA	10.00	15.00
LAGOS	5.00	9.00
LILONGWE	3.00	12.00
LUSAKA	5.00	13.00
MAPUTO	7.50	10.00
NAIROBI	6.00	9.50
PORT LOUIS	7.00	10.00
TUNIS	4.00	12.00

Source: Knight Frank

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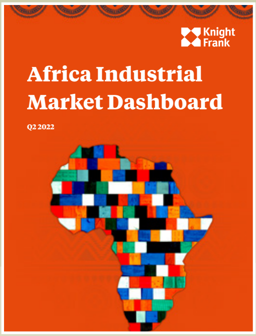

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