Africa Industrial Market Dashboard

Q4 2022

INDUSTRIAL MARKET OVERVIEW

Government-led interventions bolstering the African industrial sector

Governments throughout the continent are striving to enhance their respective countries' industrial productivity. This objective is being pursued by implementing policies that aim to foster local production of goods, as well as providing incentives to domestic manufacturers, among other measures.

In Zambia, for instance, the government is currently implementing 'The Zambia National Agricultural Policy,' aimed at developing a competitive and diversified agricultural sector by promoting a sustainable increase in agricultural productivity of major crops with comparative advantage. We believe this is contributing to the rising demand for the warehouse and logistics space our teams are recording.

In Nigeria, in a move to encourage greater production of locally manufactured goods, the government has introduced policies such as the Nigeria Industrial Revolution Plan (NIRP) and the Nigeria Economic Recovery and Growth Plan (NERGP), aimed at transforming the country's economy by increasing industrialisation and diversifying the country's revenue base. To date, this has resulted in the opening of several factories in Lagos state, with a significant concentration in the Oshodi, Ikeja, and Apapa areas.

Egypt and Kenya are undertaking similar initiatives, including lowering land acquisition costs and promoting consumption of locally produced goods through the "Buy Kenya Build Kenya" campaign, respectively. The government is pursuing self-sufficiency and industrialisation through its Malawi Growth and Development Strategy in Malawi.

All that being said, governments around the continent are also moving to address energy shortfalls, with the demand for clean energy continuing. In fact, according to the International Renewable Energy Agency (IRENA), Africa's renewable energy capacity has grown by more than 50% since 2015, with a total installed capacity of over 50 GW. This growth is expected to continue, with an estimated additional 100GW of renewable energy capacity to be installed by 2030.

Shortage of quality warehouses despite the heightened demand

Elsewhere, despite the rising demand for storage facilities to accommodate the distribution of goods, the scarcity of Grade A warehousing remains a persistent challenge across Africa. In Egypt, for example, the logistics industry is experiencing notable expansion, propelled by substantial investments in infrastructure, such as state-of-the-art ports and logistics hubs. Despite their limited supply, the country's warehouse space demand is primarily focused on top-tier facilities, with Grade-A properties emerging as the favoured option for most occupiers.

In Kenya, a similar pattern has been observed whereby there is a heightened need for quality warehousing facilities in Nairobi, Mombasa, and Kisumu. This trend has been linked to the expanding e-commerce sector in the country, which has prompted a surge in demand for storage space to accommodate online retail operations. Presently, the e-commerce market in Kenya is thriving and expected to generate a revenue of US$3,238.00m by 2023.

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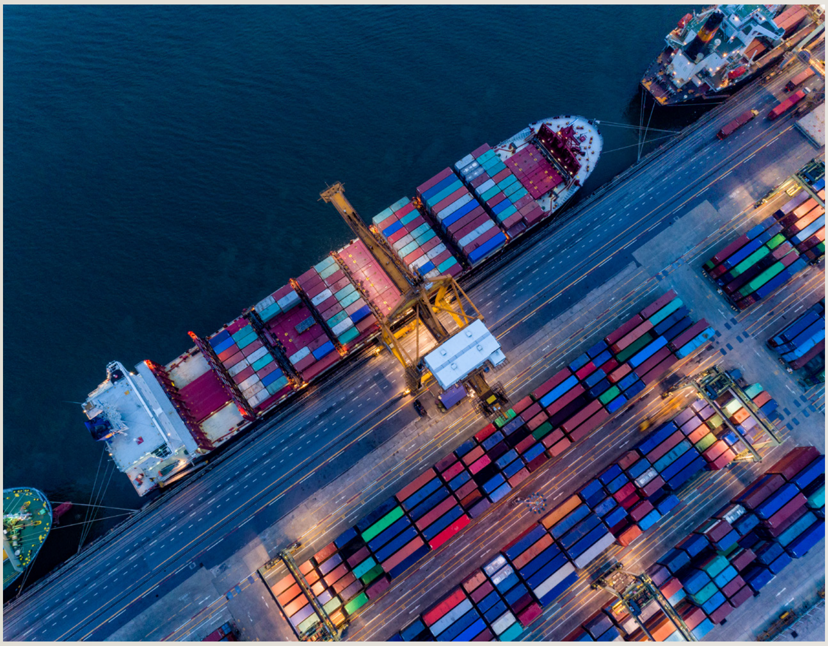


BOTSWANA

In Botswana, as in other African countries, the industrial sector is sustained through government initiatives. One such effort is the National Export Development Strategy (NEDS) policy, which is aimed at enhancing the country’s competitiveness in a dynamic market environment and consolidating its position as a leading competitor in the region. These initiatives have generated a persistent demand for warehouse facilities. Indeed, according to the Central Statistics Office of Botswana, industrial production experienced a remarkable rise of approximately 2% in the last quarter of 2022 compared to the same period in 2021 due to the heightened demand for logistics and warehouse facilities. Particularly, high-quality warehouses have seen more inquiries, resulting in a substantial increase in average occupancy rates from 60% at the start of 2022 to nearly 80% by the end of the year.

Low corporate tax, absence of trade restrictions favourable for investors

Other contributing factors to the country’s continued growth in the industrial sector include a low corporate tax rate of 15% and the absence of restrictions on foreign ownership of companies. Additionally, inflation remains stable at an average of 12.4% as of December 2022.

2%

Increase in industrial production in 2022

EGYPT

One significant effort underway is the implementation of a comprehensive plan to establish ports in the Red Sea and the Mediterranean Sea as leading logistics centres

The Government of Egypt has implemented strategic initiatives to boost the utilisation of domestically manufactured products and reduce dependence on imported goods. As a result, the nation is witnessing the positive outcomes of this intervention, reflected in the industrial sector's contribution of approximately 12% to the national Gross Domestic Product (GDP) and the employment of 28% of the Egyptian labour force. Some of these policies include imposing tariffs and quotas on imported items, which increases their cost, and providing subsidies and tax incentives to local manufacturers to lower production costs and enhance competitiveness.

Heightened demand for logistic facilities

The logistics industry continues to experience remarkable growth, driven by significant investment in infrastructure, including the development of cutting-edge ports and logistics hubs. This demand is largely focused on high-quality warehouse space, with Grade-A facilities now the preferred choice for occupiers.

One significant effort underway is the implementation of a comprehensive plan to establish ports in the Red Sea and the Mediterranean Sea as leading logistics centres in the Middle East and Africa, a move that is expected to solidify Egypt's position in the global trade arena.

Moreover, the growing need for logistics facilities to handle the storage and distribution of goods is further accentuated by the rapid expansion of the e-commerce sector, which reached an impressive $4 billion in 2020.

Utilisation of renewable energy sources on the rise:

As is the case with various African countries, Egypt has embraced the utilisation of renewable energy sources. Negotiations are currently taking place between The Sovereign Fund of Egypt (TSFE), the Public Investment Fund (PIF), the Abu Dhabi Investment Authority (ADIA), and the Qatar Investment Authority regarding investment in water-powered desalination projects with a total value of US$3 billion. The Egyptian fund is expected to hold a stake of 10-25%. The agreements are slated to be signed during the first half of 2023. Additionally, UAE's renewables platform, Masdar, has partnered with Egypt's Infinity company to construct a large-scale 10GW wind farm valued at US$11 billion, set to be completed in 2024.

12%

industrial sector's contribution to GDP

KENYA

Low corporate tax, absence of trade restrictions favourable for investors

Increased Demand for Quality Warehouses

There is a surge in demand for high-quality warehouses in Nairobi, Mombasa and Kisumu, attributed to the growing e-commerce sector in Kenya. The need for warehousing space to support online retail operations has grown as e-commerce continues to thrive in the country. Currently, Kenya is the 58th largest market for eCommerce, with a predicted revenue of US$3,238.00m by 2023. According to ecommerceDB Country Report, fashion represents the largest segment in Kenya's e-commerce sector, accounting for 40% of the country's revenue, followed by electronics and media with 38%, toys, hobby and DIY with 10%, furniture and appliances, with 8%, and food and personal care with 4%.

Several warehouse completions recorded

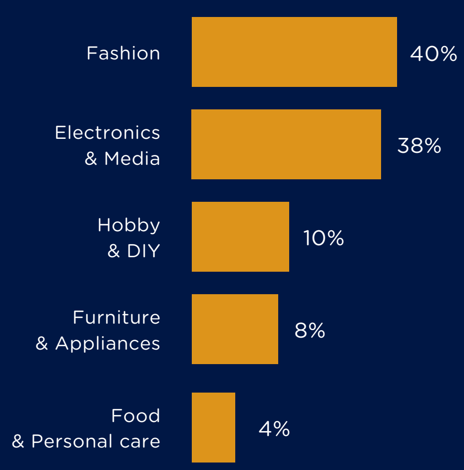
Numerous warehouse developments have been completed in response to the increasing demand for quality facilities. One noteworthy example is the Africa Logistics Properties (ALP), which has completed the fourth phase of their Nairobi West Logistics Park in Tilisi along the Nairobi – Nakuru Highway. ALP has recognised a market opportunity in Kenya where there is a shortage of modern warehouses and has responded by offering well-specified industrial units. For example, in November 2022, Twiga Foods occupied 20,000 sqm in ALP North, resulting in a 90% occupancy rate for the park.

In the latter part of 2022, the newly-formed government officially declared to transfer the Mombasa port operations back to their original location from Nairobi and Naivasha's Inland Container Depot. This decision has been widely interpreted as an effort to enhance the industrial capacity of the coastal region.

Solar power gaining popularity

Like Egypt, solar power is gaining popularity in Kenya's industrial sector as the call for clean energy and the need to cut costs become necessities. For instance, Toyota Kenya recently acquired a 35% stake in one of the leading solar panel installation service providers in East Africa with the aim of mitigating its carbon footprint. Another example is the proposed Solar One Limited power plant in Kisumu, slated for completion by the end of 2023. The facility is expected to contribute 105.3 MWh of solar energy to the national grid annually.

Kenya's Ecommerce Segments



Source: Kenya's ecommerceDB

MALAWI

MGDS to the rescue of the country's industrial production

The Malawi Growth and Development Strategy (MGDS) has been introduced by the government to transform the country into a self-sufficient, industrialised upper middle-income nation and enhance industrial production. The MGDS aims to create a productive, competitive, and resilient nation while prioritising the improvement of education, energy, agriculture, health, and tourism sectors. The strategy has significantly increased agricultural productivity through advanced farming techniques. According to the Ministry of Agriculture, approximately 16% of Malawi's maize production originates from irrigated farms. However, the ministry also projects that irrigation production will face a decline by nearly half in central and northern districts due to elevated input costs.

Industrial outlook remains subdued

Elsewhere, unfavourable trade regulations, inconsistent electricity supply, and a volatile business climate are hindering investment and commercialisation efforts in the country. Coupled with macroeconomic instability and the recent cholera outbreak, which prompted the temporary closure of schools in the cities of Lilongwe and Blantyre, the industrial outlook for the first quarter of 2023 remains subdued.

16%

of Malawi's maize production originates from irrigated farms

NIGERIA

The demand for manufactured goods is concentrated in various sectors, such as household goods

In 2022, the manufacturing sector in Nigeria accounted for approximately 10% of the overall GDP. The majority of the industrial activity is located in major cities such as Lagos, Port Harcourt, and Ibadan in the southern region of the country. The demand for manufactured goods is concentrated in various sectors, such as household goods, consumer products, automobiles, agriculture, mining, cement, and building materials. Notably, the food and beverage, cement, and textile industries represent a significant proportion, accounting for approximately 77% of the total manufacturing output

Unreliable power supply

The increase in diesel prices has had a negative impact on the manufacturing sector, as manufacturers allocate approximately 40% of their operating expenses towards diesel. This is due to the unreliable power supply in the country, which has necessitated their reliance on generator-powered production plants.

Government promoting consumption of domestically produced goods.

In keeping with the trend throughout the continent, the government is actively promoting the use of locally sourced goods. To incentivise greater production within the manufacturing industry, the government has implemented measures to make local products more accessible to consumers. This has been achieved through a combination of import restrictions, favourable funding options, and preferential exchange rates. The result has been a heightened demand for domestically produced goods, driving the establishment of new factories. To date, several factories have been established in the Lagos state regions of Oshodi, Ikeja, and Apapa, showcasing a concentrated effort towards local production.

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.

Industrial sector top performing asset class

As in the past quarter, the industrial sector continues to outperform other asset classes, with the demand for warehousing and logistics facilities remaining the strongest. The demand for warehouse and logistic facilities is largely driven by the efficiencies derived from modern warehouse designs. Unsurprisingly, warehouse facilities currently enjoy low vacancy rates of approximately 5%. Prime rentals and yields in Johannesburg stand at about US$ 5 psm per month and 8.25%, respectively.

Overall, net industrial rental growth has slowly returned to a favourable position, albeit marginally, as landlords continue to feel the effects of inflationary factors, which continue to push operating costs higher.

Load shedding affecting production, increased vacancies reported for manufacturing facilities.

However, the energy crisis in the country is presenting significant challenges for the sector, with escalating electricity costs and frequent power outages. These challenges have had a detrimental impact on local manufacturing industries, leading to a heightened level of vacancies in manufacturing facilities, which have reached the highest levels recorded since 2002.

TANZANIA

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.

Promising Industrial outlook

Tanzania has put forth a bold initiative for industrialisation, with the ultimate goal of achieving middle-income status by 2030. To achieve this objective, the government is directing its efforts towards the growth of local industries and making substantial investments in the development of infrastructure, energy, and agriculture. For instance, progress is being made on the development of a 1,200 km rail network that will facilitate the seamless transportation of goods throughout the country by connecting the ports of Dar-es-Salaam and Mwanza.

Government reaping big from FDIs

The government's endeavours to escalate Foreign Direct Investments (FDIs) are proving successful. The majority of the investments are directed towards the mining sector, oil and gas industry, and primary agricultural products sector (coffee, cashew nuts, and tobacco). The top contributors of FDI in Tanzania are South Africa, the United Kingdom, Kenya, Canada, and China. The government is implementing the Blueprint for Regulatory Reforms to enhance the business environment in the country. However, our local analysts believe that modifying some trade regulations, such as rigorous revenue collection methods and difficulties obtaining work visas for foreign investors, is imperative to attract more investments.

UGANDA

Demand for industrial spaces remains steady:

In the fourth quarter of 2022, the demand for industrial spaces in Uganda has remained steady, despite facing various challenges such as high inflation, arid weather, and depreciation of the currency. The demand for warehouses for rent has been the driving force behind this stability, with the logistics, cold storage, and agricultural processing industries leading the charge in terms of inquiries. The majority of warehouse occupiers have been in search of large spaces ranging from 500 to 2,000 sqm primarily for the purpose of supplying Fast Moving Consumer Goods, cold storage, and distribution.

Kampala Industrial Business Park (KIBP) preferred for its ideal location

Approximately 70% of inquiries were for warehouse leasing, with the remaining 30% for sales. 97% of all sales inquiries were for land, with a size range of 5-15 acres. Most of these inquiries were focused on the Kampala Industrial Business Park (KIBP) in Namanve, which offers ideal options for greenfield projects. The park's strategic location, close to Uganda's primary business hub and along the Kenya border corridor, makes it an attractive business option.

Stable rents:

Overall, warehouse rental prices have remained consistent, fluctuating between US$3 to US$5.5 psm in the Kampala Industrial Business Park - Namanve (KIBP). Meanwhile, warehouses in the traditional Kampala Industrial area had rental prices ranging from US$5 to US$7 psm.

Given the increased government initiatives to invest in infrastructure, innovation, and business incubation centres, emerging opportunities are evident for SME businesses, cold storage, agribusiness, and industrial research.

ZAMBIA

The manufacturing industry in Zambia contributes approximately 8% to the country's GDP and has been exhibiting steady growth, largely attributed to increased investment in the sector. Among the promising sub-sectors that present viable investment opportunities include engineering, textiles, wood and wood products, building materials, processed foods, chemicals, leather and leather products, electric vehicles, pharmaceuticals, rubber, plastic, paper, tobacco, and handicrafts.

Underutilisation in the Agricultural sector, despite the huge potential

In Zambia, despite having a favourable climate and abundant water resources, the agricultural sector has not realised its full potential. Only 15% of the 42 million hectares of land with medium-high potential production is cultivated. This is due to a lack of adoption of improved farming practices, limited access to advanced inputs and machinery, and low labour productivity on farms. However, the agricultural sector still presents investment opportunities, particularly in cold chain storage and food processing.

Escalated demand for renewable energy sources

At the same time, the country's electricity demand has increased by an annual rate of approximately 3%. There are investment prospects in electricity generation, particularly in the off-grid market, petroleum upstream and downstream, and renewable energy sources. Our Africa Report 2022/23 explores the growing demand for renewable energy in Zambia.

Nevertheless, the financial challenges Zambia Electricity Supply Corporation Limited (ZESCO) faces remain a major hindrance to the industry. ZESCO, being the main energy buyer, has built up substantial debts to independent power producers and is currently prioritising projects that promise high economic returns, thereby hindering the development of large-scale energy infrastructure.

Utilising the Copper mining industry

That said, the country is dedicated to utilising its copper mining industry as it maintains its position as one of the leading producers of the metal continentally. Copper mining constitutes approximately 70% of the country's export revenue and employs more than 100,000 individuals. The recent investment of $150 million in a Zambian copper and cobalt mine by a company supported by Bill Gates and Jeff Bezos is a testament to investors' confidence in the country's precious metal.

70%

Copper mining constitutes approximately 70% of the country's export revenue

ZIMBABWE

Economic crisis hindering industrial growth:

In the latter part of 2022, Zimbabwe witnessed a reduction in trade integration and only marginal Foreign Direct Investments (FDIs), as indicated by a decrease in the Real GDP growth rate, which was recorded at 3.5% in 2022 compared to 5.8% in 2021. This decline has hindered the infusion of modern technologies and impeded the progression towards industrialisation. The World Bank cites unsustainable debt levels and outstanding payments owed to International Financial Institutions (IFIs) as constraints to the country's industrial expansion potential. As of December 2022, the country's external debt was estimated at 76% of its Gross Domestic Product (GDP).

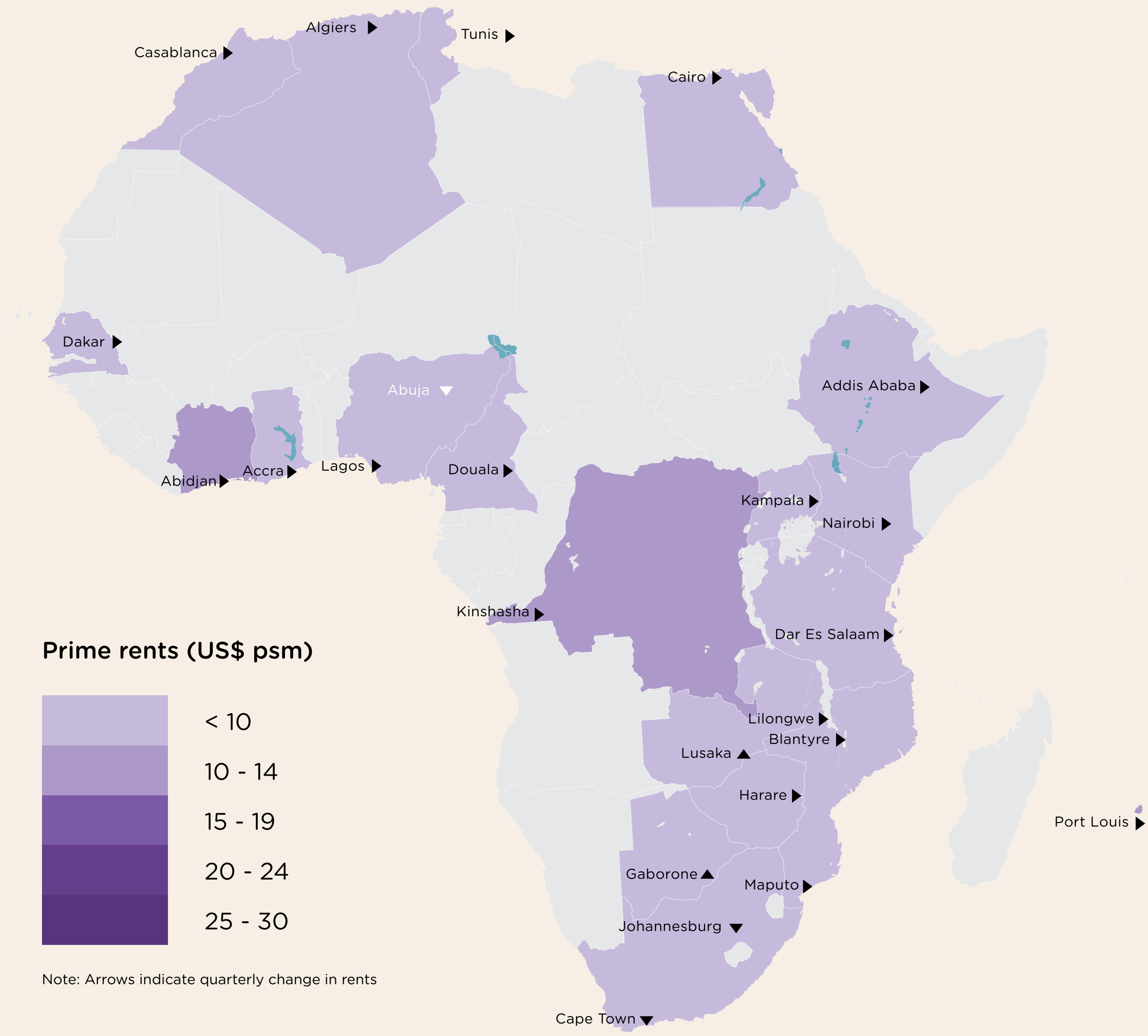
High demand for small-sized industrial units

Elsewhere, the introduction of a multi-currency system, specifically the adoption of the USD as a recognised currency, has negatively impacted the viability of locally manufactured goods. This shift has resulted in the economy becoming a hub for imported goods and a decrease in the need for large-scale manufacturing facilities. Instead, there has been an increase in demand for smaller industrial units found in industrial parks.

76%

The country's external debt was estimated at 76% of its Gross Domestic Product (GDP).

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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