

Uncovering the Dynamics of Office Rent Prices in Addis Ababa

Miles Africa | Addis Ababa Desk

Commercial office properties play a significant role in the nation's economy, serving as vital working environments for businesses and contributing to the urban landscape. Understanding office properties, their markets, and the factors influencing them is crucial for equity investors, lenders, appraisers, urban planners, and other stakeholders.

The rental yield, which measures the cash generated by a property as a percentage of its price or market value, is a key indicator. In Addis Ababa, the rental yield for prime office spaces is comparatively low, ranking the least among 33 African countries. This lower yield may discourage investors from developing office properties, impacting supply and demand dynamics. Delays in construction, influenced by material cost instability, further affect rental rates due to supply shortages. Economic, contractual, building-specific, and location-specific factors also influence rental rates in Addis Ababa.

Assessing the office rental market is crucial for both investors and tenants. This research report focuses on analyzing past and current trends and spatial variations in Addis Ababa's office rental market. It provides indicative rent prices for tenants and offers insights for developers by assessing supply and demand for office spaces. The analysis incorporates 729 primary data points classified into A, B, and C categories based on location, facilities, structural design, and amenities.

The results of data analysis indicate that rent prices per square meter have increased each quarter, with the highest increment observed in the most recent quarter (H2-2022). The average rent price for H2-2022 is 575 ETB/sqm, a 15.30% increase from the previous quarter (Q3-2022). Class B and Class A office spaces experienced the highest increments, while Class C saw a relatively minimal increase. The steep slope in the trend line reflects the significant rent price increment in the final quarter of 2022, driven by various factors, including a decrease in vacancy rates.

Rent prices vary across classes, with Class A commanding higher prices compared to Class B and C. However, the quarterly rent price rise for Class B exceeded that of Class A, indicating a shifting demand towards more affordable lower-class properties that are accessible to tenants.

Understanding the dynamics of the office rental market in Addis Ababa is crucial for making informed investment decisions and ensuring a balanced market that meets the needs of both tenants and developers.

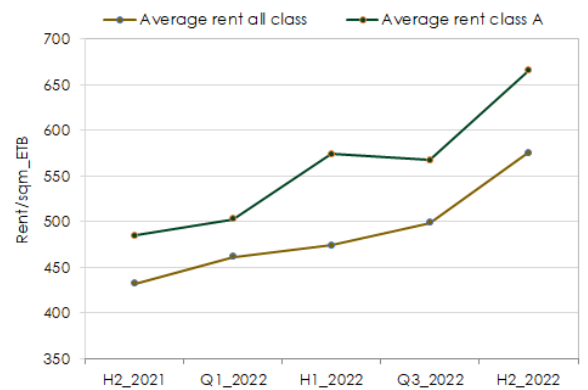
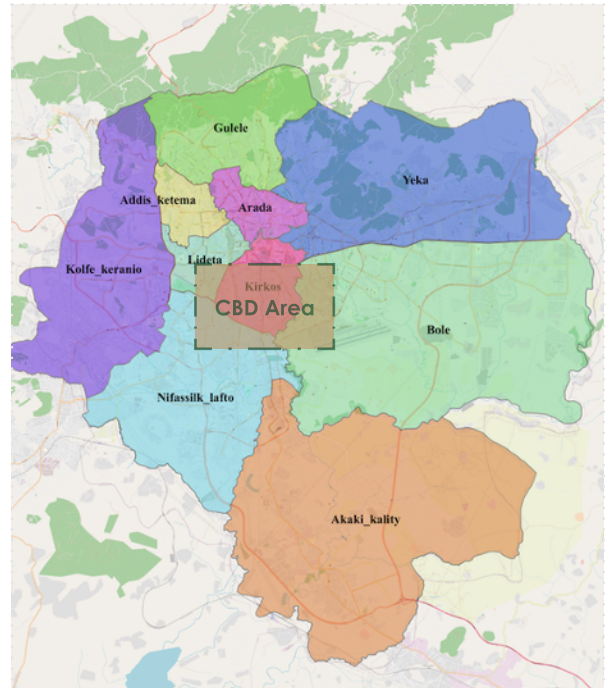


Figure 1: Average rent price for class A (as a case) and all classes

	H2_2021	Q1_2022	H1_2022	Q3_2022	H2_2022
Vacancy Rate -Hist.	0.45%	1.42%	1.69%	1.59%	1.88%
Vacancy Rate -New	0.83%	4.66%	2.64%	9.12%	3.71%
Vacancy rate (His.+New)	1.71%	2.10%	1.91%	2.48%	2.04%
Under Const. (mln-sqm)	-	1.59	0.97	0.80	0.70

Note: The term "CBD Previous stock" refers to the buildings that have been collected in previous Quarters, while the term "CBD New stock" refers to the new buildings that we have collected and added to our sample this Quarter.

DOUBLE TAXATION : HPR PASSED A DECISION TO RELIEF DOUBLE TAXATION

Double taxation is a tax principle referring to income-taxes paid twice on the same source of income. It can occur when income is taxed at both the corporate level and personal level. Double taxation also occurs in international trade or investment when the same income is taxed in two different countries.

Double taxation can lead to unfairness and discourage to investment and trade between different counties. As of 30 may 2023 House of Peoples' Representative (HPR) of Ethiopia passed decision to treat double taxation.

This kind of measure encourages both the national and international investors to invest in Addis Ababa including construction sector that can bring relief on rapid growth of rent price in office market.

VACANCY & AVAILABILITY

As our inventory increasing progressively from Central Business district (CBD) to other parts of Addis Ababa, the total volume of inventory and vacancy/availability also increased. In this quarter the area of inventory expanded to Kality.

Figure 3 indicated the vacancy increment for historical inventory and Table 2 showed the total inventory and vacancy volume for ensemble historical and new inventories. the current (H2_2022) total inventory volume reached to 3.55 mln sqm with 9.34% rise from previous (Q3-2022) quarter.

Unlike total inventory increment, the vacancy (Historical + New) decreased to 72,388 sqm from the previous quarter which was 80,567 sqm. The vacancy rate showed decline trend from 9.12% (Q3_2022) to 3.71% (H2_2022) for new inventory while it increased to 1.88% for historical inventory. The ensemble vacancy, however, decreased 2.48% (Q3_2022) to 2.04% (H2_2022) as shown in Table 1 which corresponded with decrease in total vacancy. thus the less vacant space outpace the rapid rise of rent price.

ABSORPTION & DEMAND

With periodic updating of the status of "under construction" office buildings, the volume of finalized offices ready for the market were assessed in each quarter. In the first quarter (Q1_2022) the volume of underconstruction was 1.59 mln sqm decreased to 0.97 mln sqm in H1_2022, 0.80mln sqm in Q3-2022 and 0.70 mln sqm in H2_2022 (Table 1).

The decrease in "under construction" volume in reverse indicated that additional office spaces are injected to the office market that can increase the supply and relief the rise of rent price. As referred to the previews three quarter, the least volume of finalized offices (nearly 0.1 mln sqm) were injected in this quarter (H2_2022). Thus the decrease in vacancy rate (Table 1) in H2_2022 might be reflected due to less injection of new offices to the market.

Thus as compared to the previous quarter (Q3_2022), decreased vacancy rate (Table 1) and high absorption was observed in the current quarter (H2_2022). This in turn could be a driving factor for the highest increment of rent price in H2_2022.

RENTAL FEES

The office market in Addis Ababa, due to uneven distribution of facilities and businesses concentrated to specific districts, significant spatial variation was observed.

Districts with the highest rent prices were Bole, Lideta, Arada with average rent price 614 ETB, 569 ETB and 568 ETB per sqm respectively. The least rent price was around Kality (370 ETB/sqm) and Nifas Silk Lafto (470.91 ETB/sqm). Nifas Silk Lafto area is ,however, currently becoming as business district and thus the office market may rise significantly in the future.

As general the office rent price in Addis Ababa varied from place to place with standard deviation of 69 ETB/sqm.

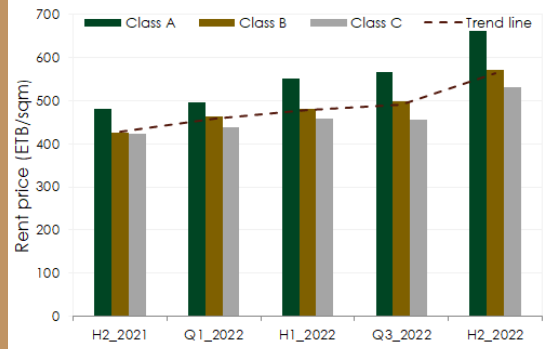


Figure 2: Rent price for historical CBD/class and general trend line

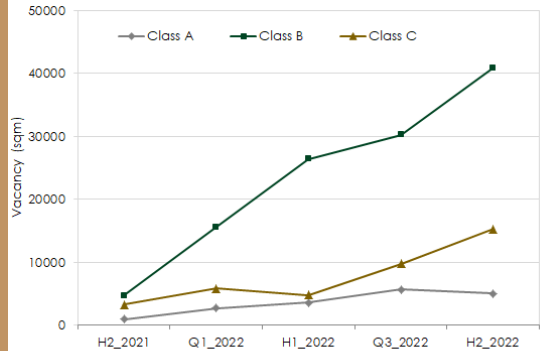


Figure 3: Vacancy (sqm) for historical inventory

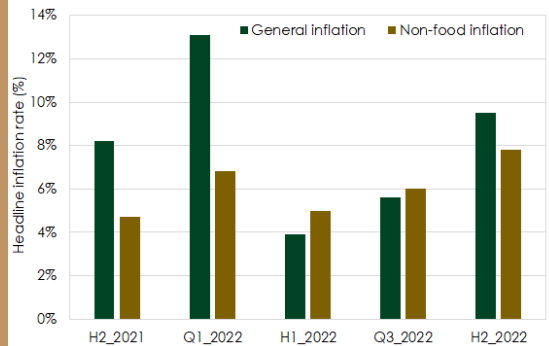


Figure 4: Quarterly national general and non-food Inflation

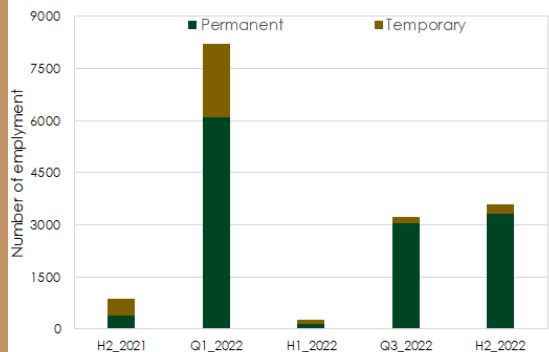


Figure 5: Employment creation in Ethiopia

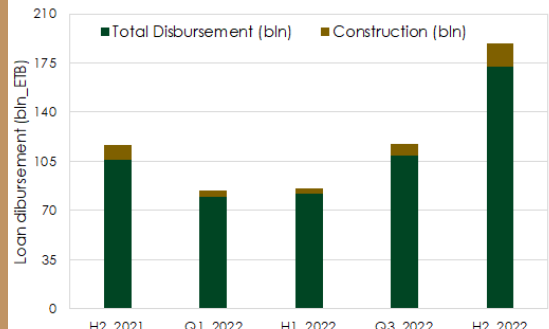
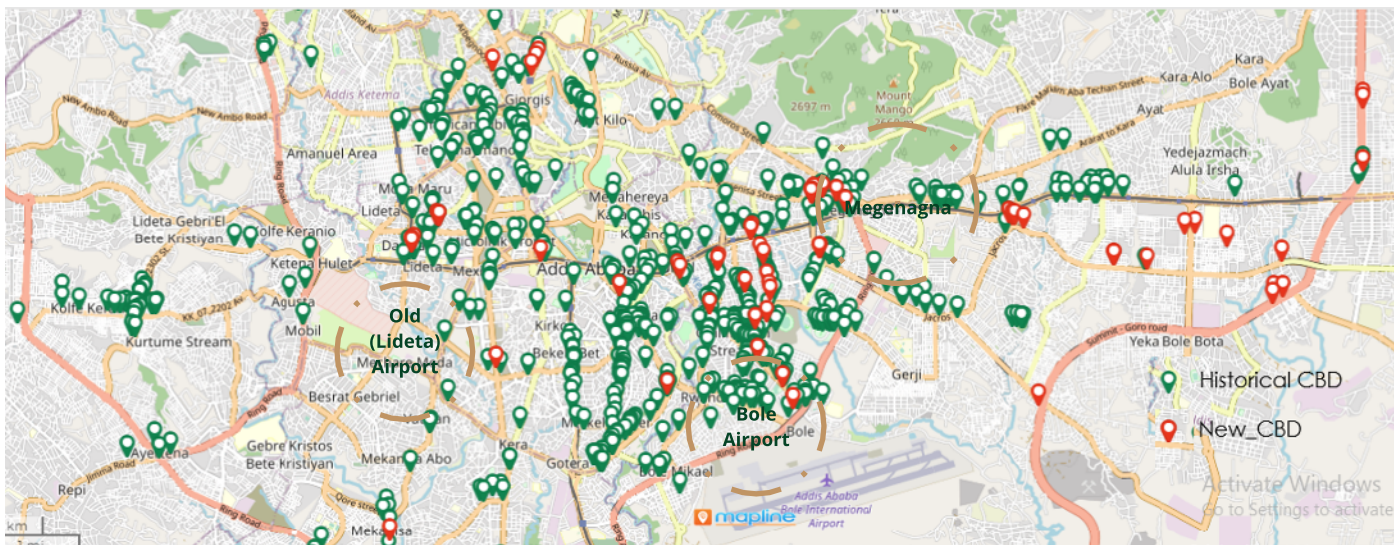


Figure 6: Loan disbursement total vs construction

Sources: Miles data & National Bank of Ethiopia

Map of Previous Stock vs. New Stock



Note: What we have defined the "Historical inventory" (dark green on the map) and the "New inventory" (Brown pins on the map) as defined and based on our inventory.

Table2: Addis Ababa office market summary (overall inventory and vacant volume)

Inventory	No.of Buldg.	Q3_2022		No.of Buldg.	H2_2022	
		Total (sqm)	Vacant (sqm)		Total (sqm)	Vacant (sqm)
A	35	456,223.20	5,698.00	36	474,143.20	5,835.00
B	426	2,197,465.92	59,884.13	476	2,435,322.72	49,285.63
C	198	596,606.80	14,985.00	217	644,548.40	17,268.00
Total	659	3,250,295.92	80,567.13	729	3,554,014.32	72,388.63

Table 3: Addis Ababa office market summary (office development pipe line per subcity)

SubCity	Total no. of Floors	Total (sqm)	2023	2024
Bole	1,575	488,049.94	448,826.14	39,223.80
Kirkos	644	158,984.49	142,441.74	16,542.75
Yeka	100	23,403.45	19,295.85	4,107.60
Arada	66	21,450.10	21,450.10	
Lideta	31	7,249.48	7,249.48	
Total	2,416	699,137.46	639,263.31	59,874.15

Note: Delivery time of construction has been estimated on the basis of stages of construction, including foundation, superstructure, roof / heat protective coatings, interior design, plastering, initial plumbing, painting, flooring, interior works and/or final cleanup.

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