

## Rising of the construction cost and Addis Ababa's office rent market: trends and current status.

### Miles Ethiopia | Addis Ababa Desk

Rising costs have left Addis Ababa peppered with unfinished buildings at various stages of construction. Private developers are becoming increasingly discouraged, and contractors are avoiding public projects due to rigid contracts.

While escalating prices are a major factor, a foreign currency shortage is also contributing to the problem by making imports difficult to acquire. Over the past two years, the cement price in Ethiopia has remained uncertain for multiple reasons, including alleged economic conspiracies.

The government has attempted to address the issue by overseeing sales processes, assigning government development organizations to deliver cement directly to users, and fixing sale prices. However, these measures have not provided significant relief.

Recently, the Ethiopian government granted cement factories the freedom to supply their products to wholesalers and retailers of their choice, while the Ministry of Trade and Regional Integration (MoTRI) will determine factory prices every six months. Following these new directives, cement prices have shown a decline, and availability has increased.

This research report examines office rental market trends, current status, and spatial variations in Addis Ababa to provide indicative rent price information for tenants. It also assesses supply and demand for office space in the city to offer insights for developers. The analysis uses 659 primary data points and classifies offices into A, B, and C categories based on location, facilities, structural design, and amenities. Additionally, secondary data from published articles, websites, and relevant organizations have been gathered to validate the primary data.

Data analysis reveals that rent prices (ETB/sqm) have increased each quarter. The current average rent price for Q3-2022 is 498.88 ETB/sqm, a 5.20% increase from the previous quarter (H1\_2022), which was 474.31 ETB/sqm.

When examining each class, the highest increments were observed for Class B and C, with increases of 6.05% and 4.71% respectively. In contrast, Class A experienced a minimal increase of 0.57% (as illustrated by a nearly horizontal curve between H1\_2022 and Q3\_2022 in Figure 1).

Rent prices for Class A are, on average, 7.86% and 20.05% higher than those for Class B and C, respectively. However, the quarterly rent price growth for Class B and C is higher than that of Class A. This suggests that demand is shifting towards the more affordable lower-class properties, as they are more accessible for tenants.

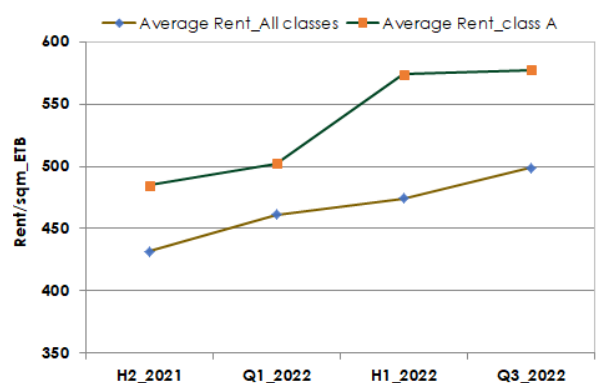
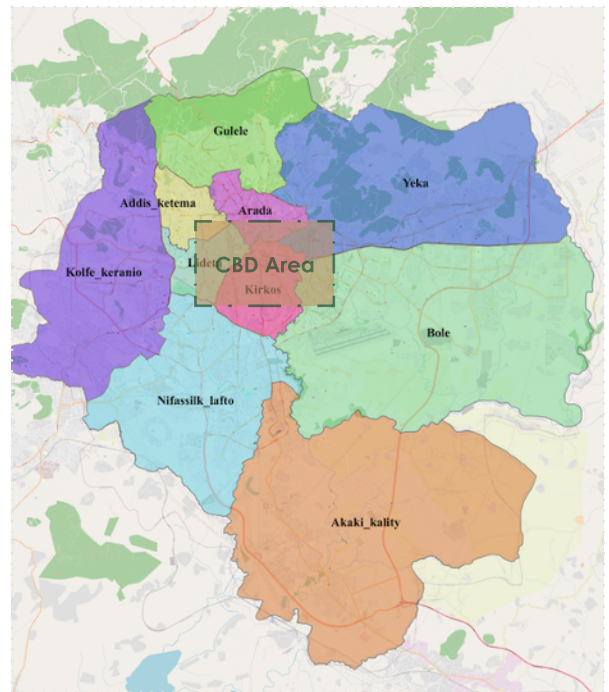


Figure 1: Average rent price for class A (as a case) and all classes

Table 1: Vacancy (sqm) per quarter and under construction volume

|                               | H2_2021 | Q1_2022     | H1_2022     | Q3_2022     |
|-------------------------------|---------|-------------|-------------|-------------|
| Vacancy Rate -Hist.           | 0.45%   | 1.42%       | 1.69%       | 1.59%       |
| Vacancy Rate -New             | 0.83%   | 4.66%       | 2.64%       | 9.12%       |
| Vacancy rate (His.+New)       | 1.71%   | 2.10%       | 1.91%       | 2.48%       |
| <b>Under Const. (mln-sqm)</b> | -       | <b>1.59</b> | <b>0.97</b> | <b>0.80</b> |

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.

## ADDIS ABABA BUILDING: PROPERTY TAXATION

In African countries, including developing countries, property tax contributes less than 0.5% to GDP. Policy makers are now eager to increase the share of property tax in GDP.

In Addis Ababa, the city administration is preparing to impose property tax, and the Building Permit and Control Authority has started counting buildings to facilitate this process.

The office market in Addis Ababa is volatile due to various factors, such as inflation, exchange rates, and the rising cost of construction materials. Implementation of the property tax may further contribute to landlords increasing rent prices in the future.

However, landlords are generally unpopular with the idea of property tax as it is charged on their wealth and may not correspond to their income. This understanding affects their resource allocation and investment decisions in the 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.

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 (Q3\_2022) total inventory volume reached to 3.25 mln sqm with 21.20% rise from previous (H1-2022) quarter.

In parallel the vacancy (Historical + New) raised to 80,567.13 sqm from the previous quarter which was 51,343.53 sqm. The vacancy rate showed some decline from 1.69% (H1\_2022) to 1.59 (Q3\_2022) for historical inventory while it increased to 9.12% for new inventory.

The overall, combined historical and new, vacancy increased to 2.48% in Q3\_2022 (Table 1). Thus the more vacant space is expected to bring relief from rapid rise of rent price.

## ABSORPTION & DEMAND

With periodic updating of the status of underconstruction office buildings, the volume of finalized offices ready for the market were assessed in each quarter. In line with this the volume of underconstruction was about 1.59 mln sqm in the first quarter (Q1\_2022) decreased to 0.97 mln sqm in H1\_2022 and 0.80mln sqm in Q3-2022 (Table 3).

This result in reverse indicated that 0.81 mln sqm and 0.32 mln sqm were injected to the office market in H1\_2022 and Q3\_2022 respectively which causes more availability of office space.

The completion of many construction all over Addis Ababa has affected the vacancy rate and net absorption. Thus as compared to the previous quarter (H1\_2022), increased vacancy rate (Table 1) and less absorption was observed in the current quarter (Q3\_2022). Significant change of rent price was not also observed between the two consecutive quarter (H1\_2022 & Q3\_2022).

## RENTAL FEES

The office market in Addis Ababa, due to uneven distribution of facilities and business are concentrated to specific districts, significant spatial variation was observed. Districts with the highest rent prices were Bole, Kirkos and Arada with average rent price 633 ETB, 507.41 ETB and 502.37 ETB per sqm respectively. The least rent price was around Nifas Silk Lafto (411.26 ETB/sqm). Nifas Silk Lafto area is currently becoming as business district and thus the office market may rise significantly in the future.

Office market in Addis Ababa also varied across classes. The price decreases as we go from from class A to Class B & C with an average deepening of 7.86% (A/B) and 11.43% (B/C).

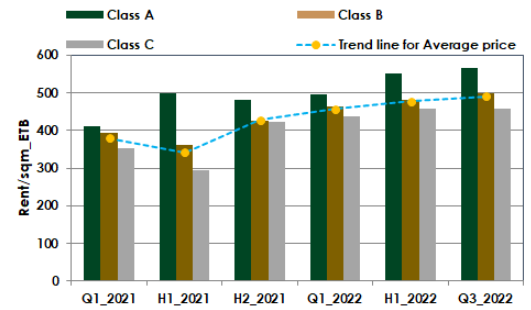


Figure 2: Rent price for historical CBD/Class (ETB / sqm) and trends

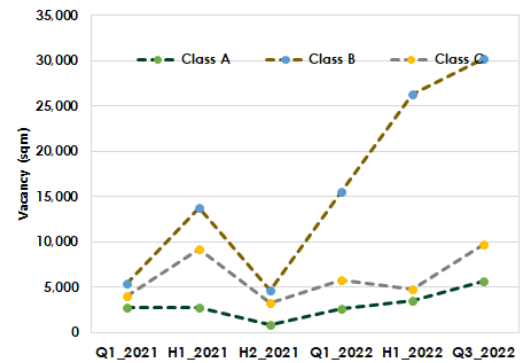


Figure 3: Vacancy (sqm) for historical inventory

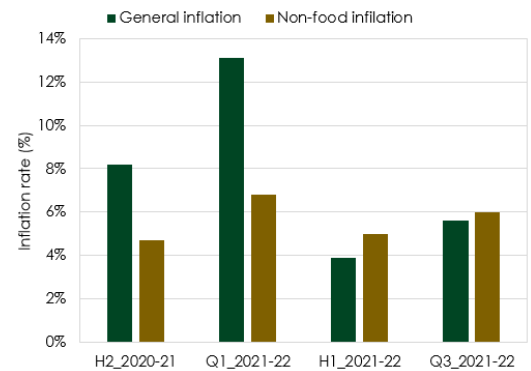


Figure 4: Quarterly national general and non-food inflation

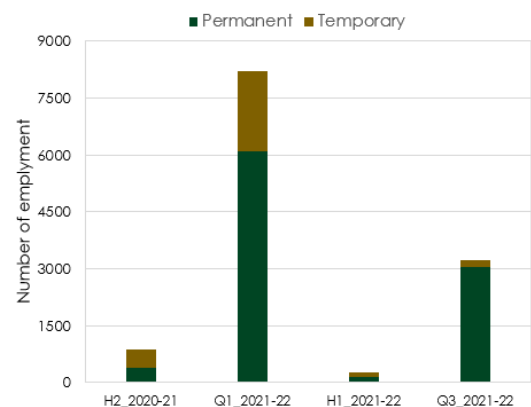


Figure 5: Employment creation in Ethiopia

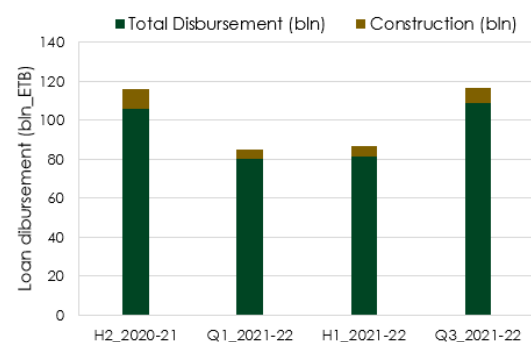
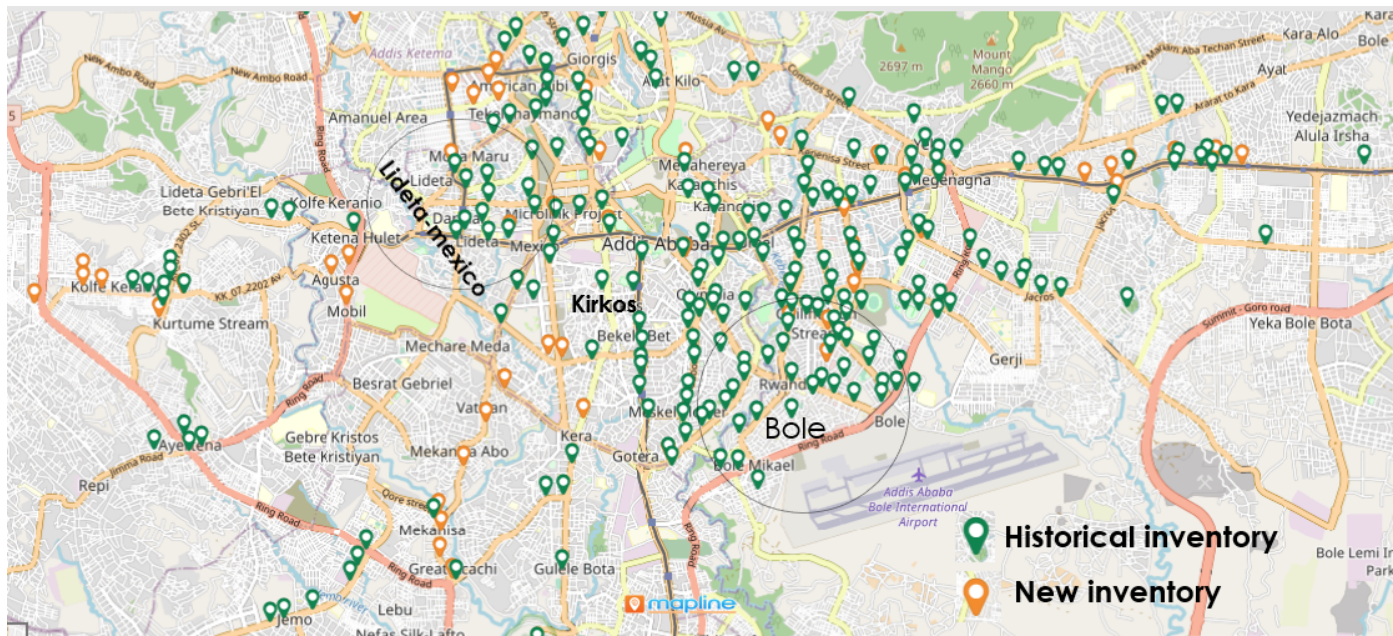


Figure 6: Loan disbursement total vs construction

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    | H1_2022      |                     |                     | Q3_2022      |                     |                     |
|--------------|--------------|---------------------|---------------------|--------------|---------------------|---------------------|
|              | No.of Buldg. | Total (sqm)         | Vacant Volume (sqm) | No.of Buldg. | Total (sqm)         | Vacant Volume (sqm) |
| A            | 29           | 481,356.00          | 6,442.00            | 35           | 456,223.20          | 5,698.00            |
| B            | 336          | 1,793,952.80        | 33,060.53           | 426          | 2,197,465.92        | 59,884.13           |
| C            | 160          | 406,699.60          | 11,841.00           | 198          | 596,606.80          | 14,985.00           |
| <b>Total</b> | <b>525</b>   | <b>2,682,008.40</b> | <b>51,343.53</b>    | <b>659</b>   | <b>3,250,295.92</b> | <b>80,567.13</b>    |

**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               | 557,771.36        | 512,944.16        | 44,827.20        |
| Kirkos       | 644                 | 181,696.56        | 162,790.56        | 18,906.00        |
| Yeka         | 100                 | 26,746.80         | 22,052.40         | 4,694.40         |
| Arada        | 66                  | 24,514.40         | 24,514.40         |                  |
| Lideta       | 31                  | 8,285.12          | 8,285.12          |                  |
| <b>Total</b> | <b>2,416</b>        | <b>799,014.24</b> | <b>730,586.64</b> | <b>68,427.60</b> |

**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.

### Intellectual Property Rights

Unless otherwise indicated, this Report is Miles proprietary and all databases, designs, text, photographs, and graphics on this Report (collectively the "Content") and trademarks, service marks, and logo contains therein (the "Marks") are owned and controlled by Miles or licensed by Miles and are protected by copyright and trademark laws and various other intellectual property rights and unfair competition laws of the FDR Ethiopia, foreign jurisdictions and international conventions.

### Warranty Disclaimer

The information provided in this Report and our website is for general information purposes only. All information in this Report or our website is provided in good faith, however we make no representation or warranty of any kind, express or implied, regarding the accuracy, adequacy, validity, reliability, availability or completeness of any information on this Report or our website.

Want to know more,  
need an office or property,  
want to sell or lease,  
contact us @ [contact@miles-africa.com](mailto:contact@miles-africa.com)



Real estate search,  
simplified

