

# Research Report ADDIS ABABA | OFFICE H1 2021



## Inefficiencies in prices & low vacancy drive AA CBD's office market, 2021 under construction stock is not expected to bring relief

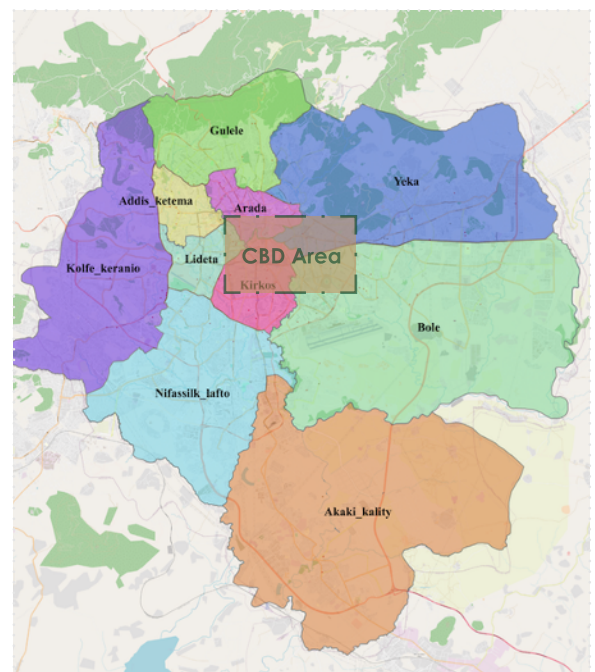
### Miles Ethiopia | Addis Ababa Desk

In the first half of 2021, general inflation rate remains high, reaching 24.5% in June, while the non-food inflation ranges between 14.5% in January to 19% in June and July (*General & Non-Food Inflation, Central Statistical Agency*). Shortage of construction materials translates in constant pressure on products availability and costs. Following the development of a black market, the Government decided to deregulate prices and ordinary Portland cement (OPC) from Mugar went from ETB 420 (May 2020) to ETB 720 (+71%) per quintal, matching the black-market price (2Merkato).

With a foreign currency black market of USD at +26% vs. official bank rate, imported construction materials are not competitive on the local market. In the 3rd quarter 2020-21 (January to March 2021) the National Bank of Ethiopia recorded ETB 81.3 million of investment in Ethiopia, out of which 33% (ETB 26.6 million) went to construction projects. Over the same period, out of the total loan disbursement, 10%, or ETB 6 billion (USD 130 million), was for housing and construction projects.

As we keep on increasing our sample base in the Central Business District (CBD) from 279 (Q1 2021) to 316 surveyed buildings (Q2 2021), the vacancy remains very low (>2%) and prices reasonably flat across categories. Class A buildings average at ETB 454 per sqm, +32% above all classes average of ETB 343 per sqm. As finished CBD buildings in our stock total 1.7 million of sqm, the total number of projects under construction reaches also 1.6 million sqm, with an estimate of less than 200,000 sqm to be delivered in 2021. Hence, pressure on availability and prices shall continue throughout 2021. 2022 is poised to bring a much larger inventory of new buildings (1.2 million sqm) on the market. This could ease the pressure on the current stock; however we can expect delays in delivery due to the construction material prices and shortage.

Despite the challenges, real estate remains a viable investment to hedge against devaluation of the Birr against foreign currencies and the inflation. As such, we anticipate to see more and more projects to be started and then stall during when cash run out or raw material prices hike again.



Addis Ababa main administrative structure: 10 sub-cities. Our report focuses on parts of Arada, Bole, Kirkos, Lideta and Yeka - Source: map by Miles

Summary Statistics	Q2 2021	Q1 2021
Vacancy Rate - CBD Hist.	1.93%	2.59%
Vacancy Rate - CBD New	0.83%	-
Under Construction in sqm	1,638,817	-
<b>Asking rent (ETB/sqm/month) Per sqm/month in ETB</b>		
Average Rent - All Classes	343.30	-
Average Rent - Class A	453.94	-

## A BANKING DISTRICT RISES

The area called "Sangatera" located between National Theatre and Mexico has been selected to be the main banking area, the "financial district" of Addis Ababa, in a short distance from the National Bank of Ethiopia and in the footsteps of Awash bank, the first one to settle its headquarters there.

Now, three of the largest Ethiopian banks will hold their main offices in front of the historical Commercial College and Awash current main office (Awash Bank / Awash Insurance buildings). All are expected to be delivered in 2021, starting with NIB (37 floors - 2021) and then United (35 floors) and Zemen (30 floors).

Outside of the Sangatera "strip" but less than 500 meters from the Awash HQ and adjacent to the National Theatre, the Commercial Bank of Ethiopia, the largest bank in the country, state owned, is expected to also open in 2021. The building of 48 floors, expected to be the tallest building in the country at delivery, is strategically placed on a crossroad down the street from the Ministry of Foreign Affairs and the Hilton, a prestigious location. In the same radius, Dashen bank is located on Sudan street, in front of Ministry of Culture and Tourism. Wegagen main offices (23 floors), was completed in 2017 and is located off the strip, but facing the Addis Ababa Stadium, on the main artery going from Meskel Square to Mexico Square.

While Dashen, Wegagen and Awash buildings have already been accounted for in the current sqm inventory, the delivery of NIB, United and Zemen buildings, with Grade A offices and retail platforms, may change the current dynamics of the city retail and CBD, tilting it from its historical location west of Meskel Square to its eastern part.

## VACANCY & AVAILABILITY

We have increased the inventory from Q1 to Q2 2021 from 942k sqm to 1.68m sqm. As a result, the average vacancy across all grades of CBD decreased from 2.59% to 1.71%. This confirms the overall lack of availability for offices.

Grade A represents the lowest vacancy (2.33% - historical CBD / 0.16% - new CBD). We have now a total of 195K sqm poised to be delivered by end of 2021, a higher number than previously recorded, but a mere 12% of the total inventory, expected to bring limited relief to the market.

## ABSORPTION & DEMAND

We maintain that despite the lack of historical data collected, we can notice that the very low vacancy rate (below 3% on average) is a sign of fast absorption across all classes. We anticipate that demand is driven by small transactions under 1,000 sqm. It is noted that such demand is also a result of the requirement from the Ministry of Trade & Industry and Ethiopian Investment Commission to make individual offices per commercial registration of companies mandatory.

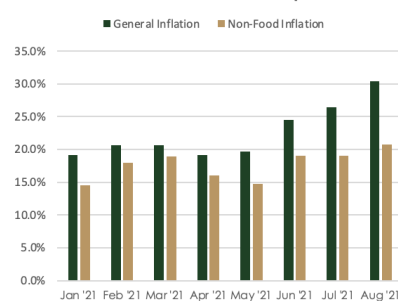
## RENTAL FEES

While deepening our identified inventory in both CBDs (Historical / New), price differences are deepening in the Historical CBD with a spread between Grade A and Grade B of +39% vs. a Grade B / Grade C spread of +23%.

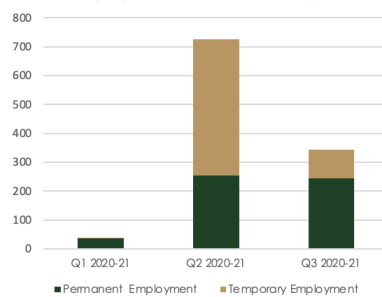
The New CBD shows a more uniform pricing with a mere ETB 20 between the higher and lower classes, but on a limited stock (66 buildings, including 6 in Grade A and 7 in Grade C). This could be explained by the current focus of businesses on the Historical CBD for rental, where there is more interest in higher grades buildings.



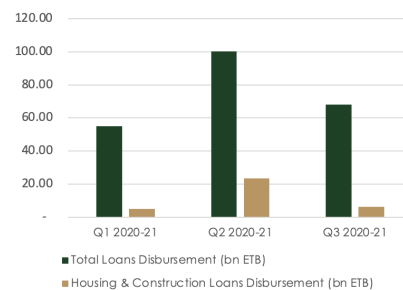
General Inflation - Ethiopia



Employment Creation in Ethiopia

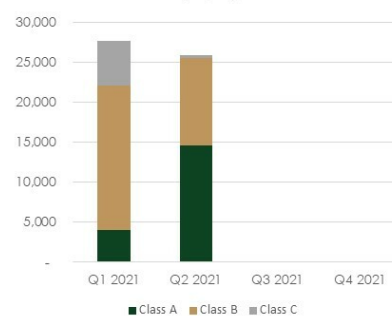


Loan Disbursement - Total vs. Construction

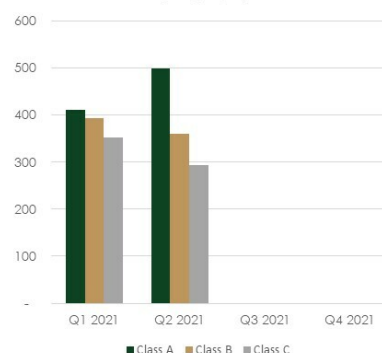


Source: National Bank of Ethiopia

Vacancy - CBD Historical / Class (sqm)

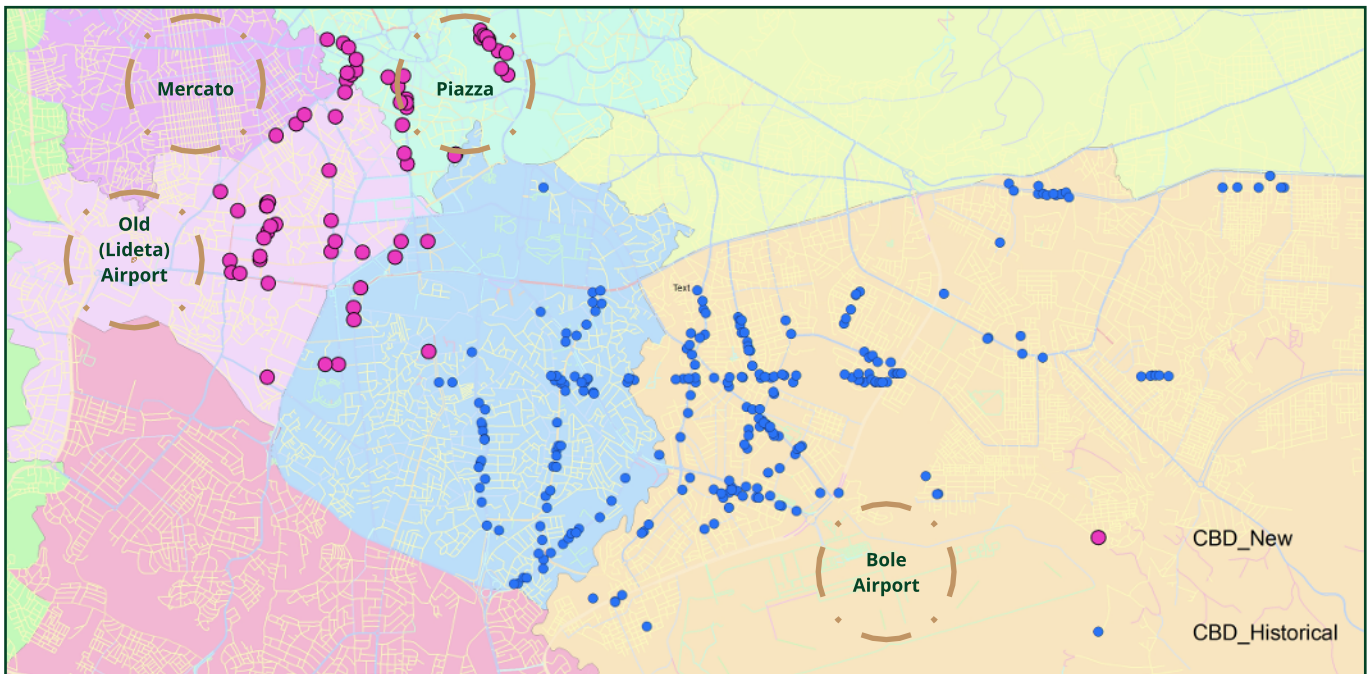


Rent - CBD Historical / Class (ETB/sqm)



Source: Miles data

## Map of CBD Historical vs. CBD New



### Note

What we have defined the "CBD - Historical" (purple points on the map) and the "CBD - New" (blue points on the map) as defined and planned by Addis Ababa City Government.

## Addis Ababa Office Market Summary - CBD Historical, CBD New, Overall

Inventory	# of Buildings	% Inventory	Total (sqm)	Direct Vacancy		Vacancy Rate (%)		Net Absorption		Rental Rate Avg (ETB)
				Volume (sqm)	Rate (%)	Q2 - 2021	Q1 - 2021	Q2 - 2021	Q1 - 2021	
<b>CBD - Historical</b>	<b>250</b>		<b>1,338,784</b>	<b>25,867</b>	<b>1.93%</b>	<b>1.93%</b>	<b>2.59%</b>	-	-	<b>341.37</b>
A	12	4.80%	120,306	2,800	2.33%	2.33%	10.94%	-	-	499.67
B	143	57.20%	1,044,202	13,773	1.32%	1.32%	2.59%	-	-	360.15
C	95	38.00%	174,276	9,294	5.33%	5.33%	2.65%	-	-	293.10
<b>Total CBD - Historicc</b>	<b>250</b>		<b>1,338,784</b>	<b>25,867</b>	<b>1.93%</b>	<b>1.93%</b>	<b>2.59%</b>	-	-	<b>341.37</b>
<b>CBD - New</b>	<b>66</b>		<b>343,102</b>	<b>2,857</b>	<b>0.83%</b>	<b>0.83%</b>	-	-	-	<b>350.61</b>
A	6	9.09%	43,641	70	0.16%	0.16%	-	-	-	362.50
B	53	80.30%	285,170	2,537	0.89%	0.89%	-	-	-	349.87
C	7	10.61%	14,290	250	1.75%	1.75%	-	-	-	346.05
<b>Total CBD - New</b>	<b>66</b>		<b>343,102</b>	<b>2,857</b>	<b>0.83%</b>	<b>0.83%</b>	-	-	-	<b>350.61</b>
<b>Grand Total</b>	<b>316</b>		<b>1,681,886</b>	<b>28,724</b>	<b>1.71%</b>	<b>1.71%</b>	<b>2.59%</b>	-	-	<b>343.30</b>

## Addis Ababa Office Market Summary - Inventory of Historical CBD by Sub-City

Inventory	# of Buildings	% Inventory	Total (sqm)	Direct Vacancy		Vacancy Rate (%)		Net Absorption		Rental Rate Avg (ETB)
				Volume (sqm)	Rate (%)	Q2 - 2021	Q1 - 2021	Q2 - 2021	Q1 - 2021	
<b>CBD - Historical</b>	<b>250</b>		<b>1,336,303</b>	<b>25,867</b>	<b>1.94%</b>	<b>1.94%</b>	<b>2.59%</b>	-	-	<b>341.37</b>
Bole	164	65.60%	836,244	14,578	1.74%	1.74%	10.94%	-	-	346.80
Kirkos	77	30.80%	476,039	10,873	2.28%	2.28%	2.59%	-	-	345.61
Yeka	9	3.60%	24,019	416	1.73%	1.73%	2.65%	-	-	280.00
<b>Total CBD - Historicc</b>	<b>250</b>	<b>100.00%</b>	<b>1,336,303</b>	<b>25,867</b>	<b>1.94%</b>	<b>1.94%</b>	<b>2.59%</b>	-	-	<b>341.37</b>
<b>CBD - New</b>	<b>66</b>		<b>343,102</b>	<b>2,857</b>	<b>0.83%</b>	<b>0.83%</b>	-	-	-	<b>350.61</b>
Arada	30	45.45%	178,790	2,116	1.18%	1.18%	-	-	-	339.01
Kirkos	9	13.64%	67,641	28	0.04%	0.04%	-	-	-	345.61
Lideta	27	40.91%	96,670	713	0.74%	0.74%	-	-	-	361.94
<b>Total CBD - New</b>	<b>66</b>	<b>100.00%</b>	<b>343,102</b>	<b>2,857</b>	<b>0.83%</b>	<b>0.83%</b>	-	-	-	<b>350.61</b>
<b>Grand Total</b>	<b>316</b>		<b>1,679,404</b>	<b>28,724</b>	<b>1.71%</b>	<b>1.71%</b>	<b>2.59%</b>	-	-	<b>343.30</b>

## Addis Ababa Office Market Summary - Office Development Pipeline / Sub-City

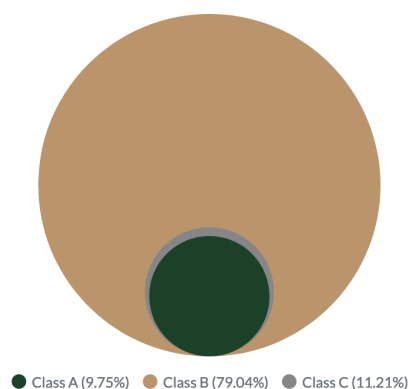
Sub-City	Total # of Floors	All Inventory	Total #sqm		
			2021	2022	2023
Arada	161	86,905	13,813	56,765	16,327
Bole	1,362	779,495	134,158	592,783	52,554
Kirkos	1,090	691,442	45,852	568,445	77,145
Lideta	46	41,426	-	41,426	-
Yeka	58	21,268	1,779	19,489	-
<b>Total</b>	<b>2,717</b>	<b>1,620,535</b>	<b>195,602</b>	<b>1,278,907</b>	<b>146,026</b>

### Note

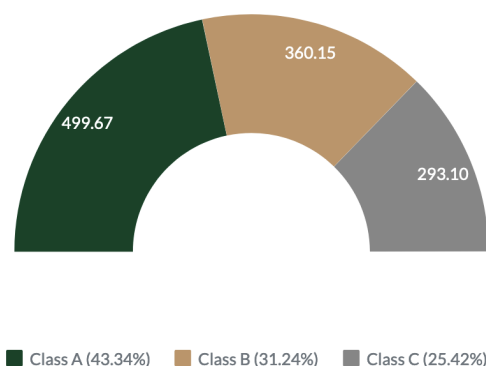
Delivery time of construction has been estimated on the basis of stages of construction, including foundation, superstructure, roof / heat protective coatings, interior design, plastering, initial plumbing, painting, flooring, interior works and/or final cleanup.

## H1 2021 - Highlights

CBD Total Inventory / Class



CBD Average Prices / Class



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