

## Accelerated inflation and rising demand drive AA CBD's office market; 2022 construction completions bring adequate relief to market

### Miles Ethiopia | Addis Ababa Desk

Ethiopia's economic freedom score is 49.60%, making its economy the 150<sup>th</sup> freest in the 2022 Index. Ethiopia is ranked 35<sup>th</sup> among 47 countries in the Sub-Saharan Africa region, and its overall score is below the regional and world averages.<sup>1</sup>

The annual inflation rate in Ethiopia eased for the fourth straight month to 30.7% in September of 2022, from 32.5% in the previous month. It was the lowest reading since August of 2021.<sup>2</sup> This decrease occurred by the recent administrative measures to control inflationary pressures, namely the introduction of a temporary price cap for food items as well as a six-month ban on rent increases by landlords and the letter of credit which has named 32 major items of import to be banned for an unnamed period of time.

Still, consumer-price growth remains high with the Covid pandemic and Russia-Ukraine conflict-related challenges adding risks to price hikes in fuel, edible oil, and fertilizer supply line.

Downward pressure came from both prices of food (31.00% vs 33.20% in August). On a monthly basis, consumer prices surged 5.30%, the largest rise in six months.<sup>3</sup>

Regarding exchange rates, the National Bank of Ethiopia has slowed down the devaluation rate in August and September, up to USD 1 for ETB 53.03 in October 2022. On the parallel market, USD 1 was exchanged for ETB 92 in October 2022.

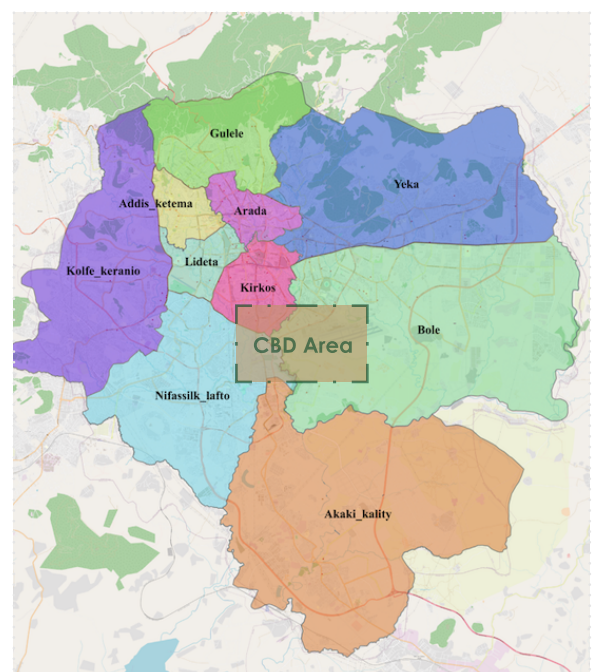
As we keep on increasing our inventory in the Central Business District (CBD) from 422 (Q1 2021) to 525 surveyed buildings (H1 2022), the vacancy has slightly increased to 1.69% which is higher than the previous period of 1.42%, while prices remain reasonably flat across categories.

Class A buildings average at ETB 573.98 per sqm, +21.01% above all classes average of ETB 474.31 per sqm.

As completed CBD buildings in our stock total 1.47 million sqm, the volume of sqm under construction reaches 0.66 million sqm, with an estimate of 0.81 million sqm to be delivered by the end 2022. This could ease the pressure on the current stock; however we can expect delays in delivery due to the construction material prices and shortage.

#### References:

- 1.Heritage.com,(Link),September 20<sup>th</sup>,2022.
2. National Bank of Ethiopia, Third Quarter Report, September 20<sup>th</sup>, 2022.
- 3.tradingeconomics.com,(Link),September 29<sup>th</sup>, 2022.



Summary Statistics	Q2_2022	Q1_2022
<b>Vacancy Rate</b>		
CBD Previous Stock	1.69%	1.42%
CBD New Stock	2.64%	4.66%
<b>Under Construction(In sqm)</b>		
Total Inventory	969,541.60	1,586,462.40
<b>Asking rent (ETB/sqm/month)</b>		
All Classes	474.31	461.18
Class A	573.98	502.44

#### 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.

## NEW INDUSTRIAL PARK -AKAKI-KALITY SUB-CITY

ADDIS ABABA – City administration of Addis Ababa on August 2022, signed a 7.70 billion ETB agreement with two private construction firms to build an industrial park in the capital.

The signing ceremony of the agreement between the city's Mega Projects Construction Office, the owner of the project, and the two local firms – Primary Contractor MCG Construction Plc, and TNT Construction & Trading.

The construction companies will be built the industrial complex on 94 hectares of land in the Akaki-Kality sub-city within 24 months.

The park will serve as a manufacturing hub for agro-processing, wood and metal works, leather and garment, and construction materials. It will also incorporate plastic, chemical, electronics, and pharmaceutical manufacturing firms.

The industrial park will have 21 major buildings to serve as shade for manufacturers including four 4,500 sqm G+4 blocs and 4,500 square meters G+0 blocs, as well as 200 mega stores for input suppliers and product display shops.<sup>1</sup>

## VACANCY & AVAILABILITY

We have increased the inventory from Q1 2022 to H1 2022 from 2.15 million sqm to 2.68 million sqm. As a result, the average vacancy across all grades of CBD increased from 1.42% to 1.69%. This confirms the overall low availability of offices.

Grade A represents the highest vacancy rate (4.62% - CBD Previous stock / 2.63% - CBD New Stock). We now hold a total of 1.2 million sqm poised to be delivered by end of 2022, a lower number than the previous quarter recorded, being 56.02% of the total inventory, expected to bring some level of relief to the market.

## ABSORPTION & DEMAND

During the year of 2022 we have observed the completion of new buildings that have been under construction with a total of 812,758.40 sqm.

The completion of these constructions has greatly influenced the net absorption that took a positive trend in H1 2022 at +2.02% from the previous quarter at (-3.83%), indicating a significantly lesser demand in the market than the previous quarter.

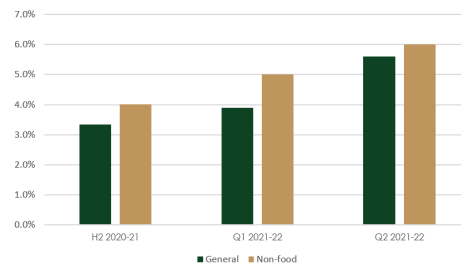
The demand has decreased from the previous quarter by 1.42%. We notice that the vacancy rate (1.69% on average) is a sign of adequate absorption across all classes and the completion of many construction all over Addis Ababa has affected the net absorption of the market as it did in the previous quarter. We anticipate that demand is still driven by small transactions under 900 sqm.

## RENTAL FEES

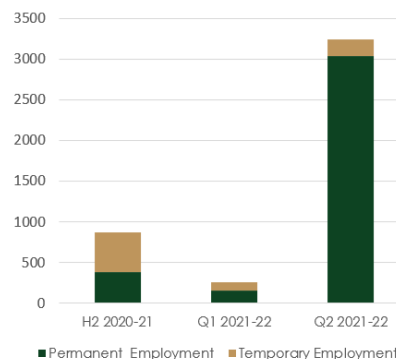
While deepening our identified inventory in both CBDs (Previous Stock / New Stock), price differences are deepening in the Previous CBD stock with a spread between Grade A and Grade B of +14.70% vs. a 4.68% Grade B / Grade C spread hence showing uniform pricing between the two classes.

The New CBD shows a price differences with a spread between Grade A and Grade B, but on a limited stock (10 buildings, including 50 in Grade A and 44 in Grade C). This could be explained by the current focus of businesses on the Previous CBD stock for rental, where there is more interest in higher grades buildings.

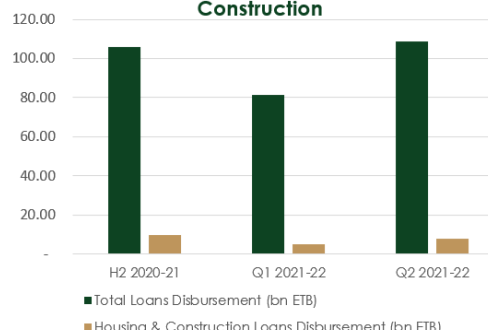
## General Inflation - Ethiopia



## Employment Creation in Ethiopia

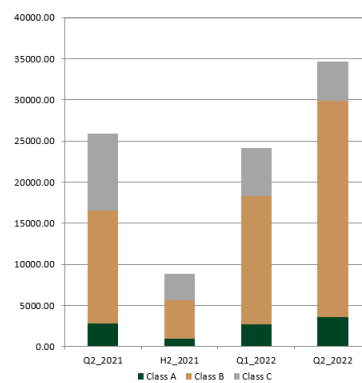


## Loan Disbursement - Total vs. Construction

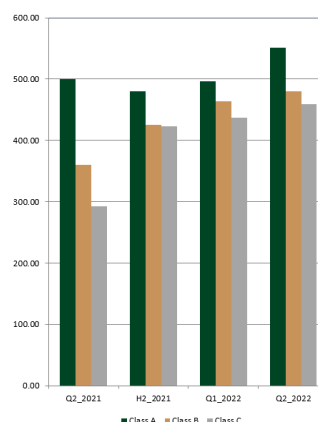


Source: National Bank of Ethiopia

## Vacancy-CBD Historical / Classa(sqm)



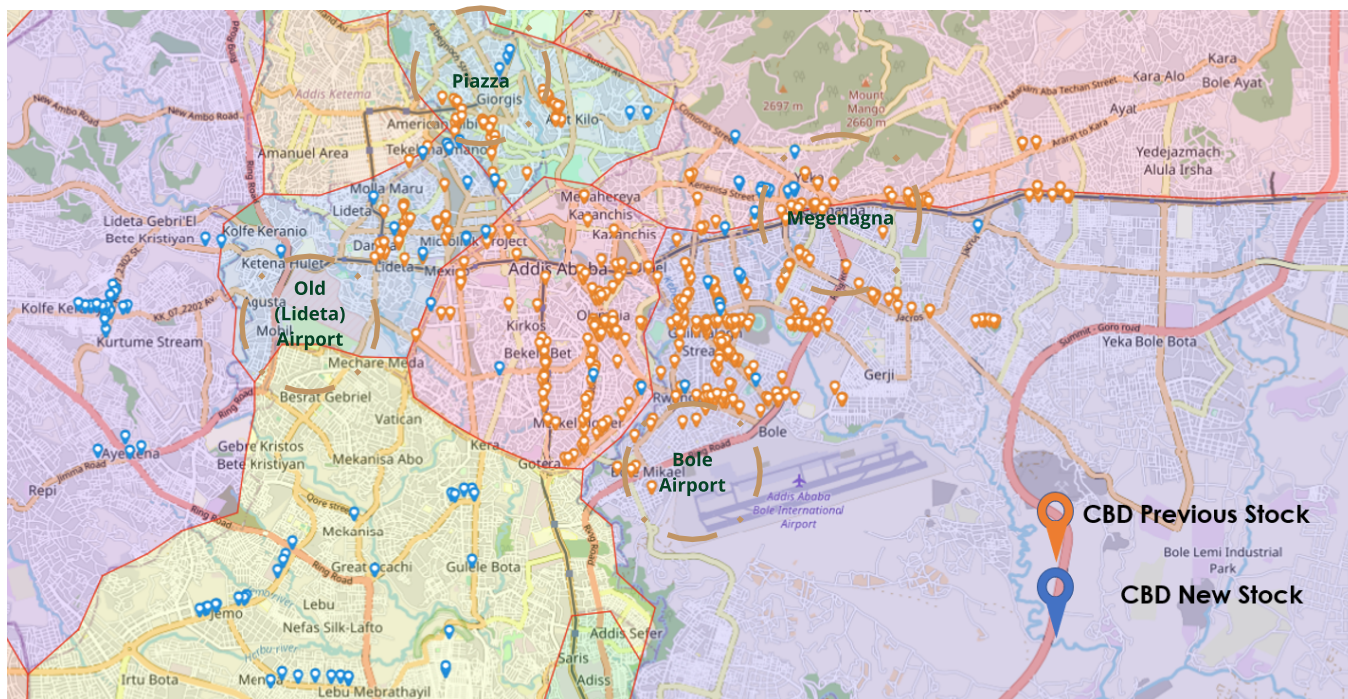
## Rent-CBD Historical / Class(ETB / sqm)



Source: Miles data



## Map of CBD Previous Stock vs. CBD New Stock



### Note

What we have defined the "CBD - Previous Stock" (Blue pins on the map) and the "CBD - New Stock" (Brown pins on the map) as defined and based on our inventory.

## Addis Ababa Office Market Summary - CBD Previous Stock, CBD New Stock, Overall

Inventory	# of Buildings	% Inventory	Total (sqm)	Direct Vacancy		Vacancy Rate (%)			Net Absorption			Q1 Rental Rate (ETB)
				Volume (sqm)	Rate (%)	Q2 - 2022	Q1 - 2022	H2 - 2021	Q2 - 2022	Q1 - 2022	H2 - 2021	
<b>CBD - Previous Stock</b>	<b>421</b>		<b>2,050,746.80</b>	<b>34,689.00</b>	<b>1.69%</b>	<b>1.69%</b>	<b>1.42%</b>	<b>0.45%</b>	<b>-0.27%</b>	<b>-0.97%</b>	<b>1.48%</b>	<b>477.75</b>
A	19	4.51%	204,064.80	3,549.00	1.74%	1.74%	1.54%	0.39%	-0.20%	-1.14%	1.94%	551.11
B	286	67.93%	1,602,340.80	26,372.00	1.65%	1.65%	1.17%	0.30%	-0.47%	-0.87%	1.02%	480.48
C	116	27.55%	244,341.20	4,768.00	1.95%	1.95%	2.94%	1.62%	0.99%	-1.32%	3.71%	459.02
<b>Total CBD - Previous Stock</b>	<b>421</b>		<b>2,050,746.80</b>	<b>34,689.00</b>	<b>1.69%</b>	<b>1.69%</b>	<b>1.42%</b>	<b>0.45%</b>	<b>-0.27%</b>	<b>-0.97%</b>	<b>1.48%</b>	<b>477.75</b>
<b>CBD - New Stock</b>	<b>104</b>		<b>631,261.60</b>	<b>16,654.53</b>	<b>2.64%</b>	<b>2.64%</b>	<b>4.66%</b>	<b>0.83%</b>	<b>2.02%</b>	<b>-3.83%</b>	<b>-6.02%</b>	<b>460.35</b>
A	10	9.62%	277,291.20	2,893.00	1.04%	1.04%	0.39%	0.16%	-0.65%	-0.23%	-15.60%	617.44
B	50	48.08%	191,612.00	6,688.53	3.49%	3.49%	5.02%	0.89%	1.53%	-4.13%	-5.68%	458.97
C	44	42.31%	162,358.40	7,073.00	4.36%	4.36%	3.19%	1.75%	-1.16%	-1.44%	0.23%	426.23
<b>Total CBD - New Stock</b>	<b>104</b>		<b>631,261.60</b>	<b>16,654.53</b>	<b>2.64%</b>	<b>2.64%</b>	<b>4.66%</b>	<b>0.83%</b>	<b>2.02%</b>	<b>-3.83%</b>	<b>-6.02%</b>	<b>460.35</b>
<b>Grand Total</b>	<b>525</b>		<b>2,682,008.40</b>	<b>51,343.53</b>	<b>1.91%</b>	<b>1.91%</b>	<b>2.10%</b>	<b>1.71%</b>	<b>0.18%</b>	<b>-0.39%</b>	<b>1.17%</b>	<b>474.31</b>

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

Inventory	# of Buildings	% Inventory	Total (sqm)	Direct Vacancy		Vacancy Rate (%)			Net Absorption			Rental Rate Avg (ETB)
				Volume (sqm)	Rate (%)	Q2 - 2022	Q1 - 2022	Q2 - 2022	Q1 - 2022	H2 - 2021		
<b>CBD - Previous Stock</b>	<b>421</b>		<b>2,041,226.80</b>	<b>34,323.00</b>	<b>1.68%</b>	<b>1.68%</b>	<b>1.42%</b>	<b>-0.26%</b>	<b>-0.97%</b>	<b>1.48%</b>	<b>477.75</b>	
Bole	202	47.98%	735,799.60	16,023.00	2.18%	2.18%	1.88%	-0.30%	-1.37%	1.23%	479.97	
Kirkos	114	27.08%	676,488.80	9,989.00	1.48%	1.48%	1.47%	0.00%	-1.09%	1.90%	485.91	
Yeka	27	6.41%	131,904.00	1,510.00	1.14%	1.14%	1.46%	0.32%	-1.08%	1.35%	436.88	
Lideta	41	9.74%	199,714.40	4,485.00	2.25%	2.25%	0.60%	-1.65%	-0.26%	-	485.02	
Arada	37	8.79%	297,320.00	2,316.00	0.78%	0.78%	0.68%	-0.10%	-0.21%	-	463.78	
<b>Total CBD - Previous Stock</b>	<b>421</b>		<b>2,041,226.80</b>	<b>34,323.00</b>	<b>1.68%</b>	<b>1.68%</b>	<b>1.42%</b>	<b>-0.26%</b>	<b>-0.97%</b>	<b>1.48%</b>	<b>477.75</b>	
<b>CBD - New Stock</b>	<b>104</b>		<b>631,261.60</b>	<b>16,754.53</b>	<b>2.65%</b>	<b>2.65%</b>	<b>4.64%</b>	<b>1.99%</b>	<b>2.21%</b>	<b>-</b>	<b>460.35</b>	
Bole	9	8.65%	60,877.60	1,478.00	2.43%	2.43%	5.10%	2.68%	11.52%	-	572.22	
Kirkos	4	3.85%	18,040.00	3,961.53	21.96%	21.96%	5.21%	-16.75%	4.05%	-	468.75	
Yeka	13	12.50%	62,771.20	1,813.00	2.89%	2.89%	1.14%	-1.75%	0.91%	-	468.45	
Lideta	11	10.58%	110,024.00	3,401.00	3.09%	3.09%	7.15%	4.06%	-3.54%	-	545.45	
Arada	7	6.73%	145,992.00	1,293.00	0.89%	0.89%	6.93%	6.04%	-5.62%	-	487.50	
Nifas Silk Laffo	31	29.81%	155,434.40	1,705.00	1.10%	1.10%	-	-	-	-	-	
Kolfe Keranyo	29	27.88%	78,122.40	3,103.00	3.97%	3.97%	-	-	-	-	-	
<b>Total CBD - New Stock</b>	<b>104</b>		<b>631,261.60</b>	<b>16,754.53</b>	<b>2.65%</b>	<b>2.65%</b>	<b>4.64%</b>	<b>1.99%</b>	<b>2.21%</b>	<b>-</b>	<b>460.35</b>	
<b>Grand Total</b>	<b>525</b>		<b>2,672,488.40</b>	<b>51,077.53</b>	<b>1.91%</b>	<b>1.91%</b>	<b>2.10%</b>	<b>0.19%</b>	<b>-1.55%</b>	<b>-</b>	<b>474.31</b>	

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

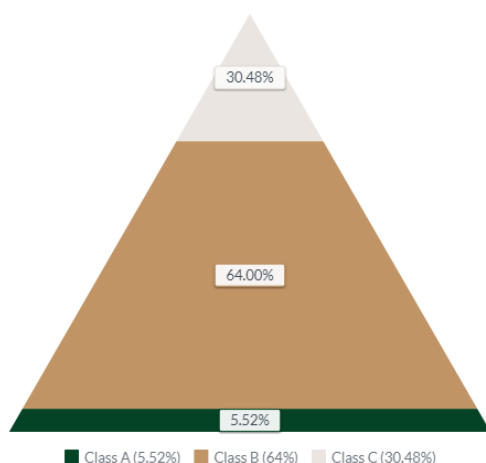
SubCity	Total # Floors	Total Inventory	Total #sqm		
			2022	2023	2024
Bole	1,856.00	593,596.00	194,744.80	398,851.20	-
Kirkos	848.00	248,058.40	114,152.80	133,905.60	-
Yeka	100.00	29,198.40	12,332.00	16,866.40	-
Lideta	46.00	41,425.60	41,425.60	-	-
Arada	98.00	57,263.20	40,936.00	16,327.20	-
<b>Total (His.+New)</b>	<b>2,948.00</b>	<b>969,541.60</b>	<b>403,591.20</b>	<b>565,950.40</b>	<b>-</b>

### Note

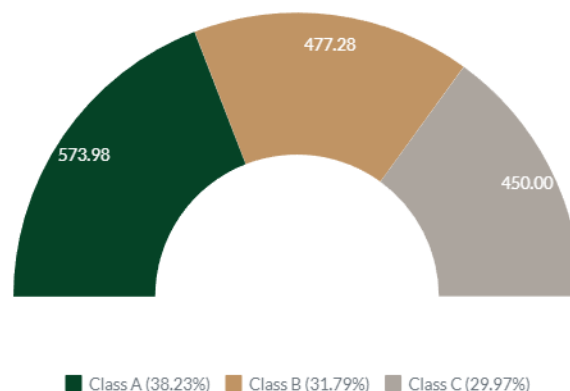
Delivery time of construction has been estimated on the basis of stages of construction, including foundation, superstructure, roof / heat protective coatings, interior design, plastering, initial plumbing, painting, flooring, interior works and/or final cleanup.

## H1 2022 - Highlights

CBD Total Inventory / Class



CBD Average Prices / Class



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