

## 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

Ethiopia's annual inflation rate inched down to 34.5% in January 2022, from 35.1% in December 2021 (the highest inflation rate since February 2012).

On a monthly basis, consumer prices increased of 1.2 %, after a 1.4% rise in the previous month (January), with the three main components of the consumer price index (CPI) being: Food and Non-Alcoholic Beverages (54% of total weight); Housing & Utilities (16.8%) and Clothing & Footwear (5.7%).

Despite a flaring inflation, economy is set to expand this fiscal year (8 July 2021 – 7 July 2022), in line with easing of Covid-19 restrictions and the ongoing recovery of key trading partners.

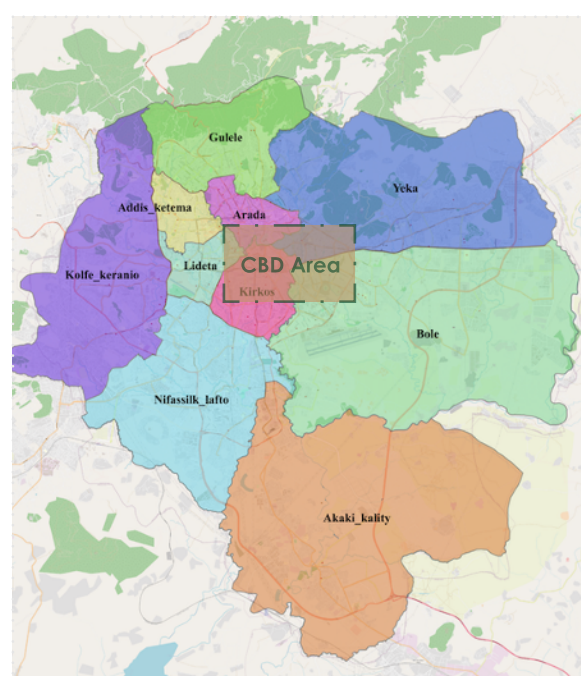
However, risks are heavily skewed to the downside: the conflict threatens to derail the recovery and cause irreversible damage to the economy, while rising external debt levels further weigh on the outlook. Focus Economics panelists see the economy growing 5.9% in FY 2021, which is up 0.3 percentage points from last month's forecast, and 6.1% in FY 2022.

As we keep on increasing our inventory in the Central Business District (CBD) from 316 (Q2 2021) to 360 surveyed buildings (Q3 2021), the vacancy remains very low (below 0.5%), even lower than the previous one (below 2%) and prices remain reasonably flat across categories.

Class A buildings average at ETB 484.86 per sqm, +36% above all classes average of ETB 431.96 per sqm.

As completed CBD buildings in our stock total 2 million sqm, the volume of sqm under construction reaches 1.58 million sqm, with an estimate of 1.4 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.

Please note that due the country political situation in Q4 2022, including a state of emergency, no data have been collected for this specific period.



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	Q3_2021	Q2_2021	Q1_2021
<b>Vacancy Rate</b>			
CBD Previous Stock	0.45%	1.93%	2.59%
CBD New Stock	6.85%	0.83%	-
<b>Under Construction (in sqm)</b>			
Total inventory	1,586,462	1,638,817	79,858
<b>Average Asking Rent (ETB/sqm/month)</b>			
All Classes	431.87	335.63	-
Class A	484.86	453.94	-

#### 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.

## BOLE - THE BUSINESS DISTRICT

Bole subcity is one of the largest subcities in Addis Ababa in terms of area. It hosts many mixed used buildings (office / retail), HQ of organizations, recreational sites (such as EDNA Mall), and the Bole International Airport. With its heart around the Bole Medhanyialem church, it is the center of the modern trade with the first retail franchises in beauty (M.A.C.) and food (Pizza Hut) as well as modern shops (such as Johnny Walker brand).

Each of the 16 private banks in Ethiopia, as well as the public owned Commercial Bank of Ethiopia, hold several branches located in this district.

This Business district has one of the biggest percentile of office inventory by 200 Buildings (55%) from our overall 360 buildings inventory.

With the overall space of 917,679 sqm of inventory, but with only 6,217.25 sqm available it shows that vacancy rate is 0.68%, the lowest vacancy available compared to other districts.

As Bole is considered the central area of urbanization in Addis Ababa, it has been growing exponentially in terms of being the downtown of Addis Ababa.

## VACANCY & AVAILABILITY

We have increased the inventory from Q2 to Q3 2021 from 1.68m sqm to 2m sqm. As a result, the average vacancy across all grades of CBD decreased from 1.93% to 0.45%. This confirms the overall lack of availability for offices.

Grade A represents the lowest vacancy (5.33% - CBD Previous stock / 9.76% - CBD New Stock). We have now a total of 1.37m sqm poised to be delivered by end of 2022, a higher number than previously recorded, being 69% of the total inventory, expected to bring great relief to the market.

## ABSORPTION & DEMAND

On February 13th, the Commercial Bank of Ethiopia inaugurated its HQ, CBE Tower, in the Sangatera area of Addis Ababa. With 48 floors, the building becomes the tallest building in Ethiopia and the third one in Africa. Built on an area of 165,476 sqm, the construction took five year, costing USD 303 million. This construction has greatly influenced the net absorption that took a negative trend in Q3 at -6.02%, indicating a boost in space availability on the market.

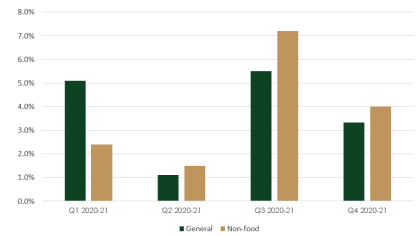
Even though the demand has increased from the previous quarter by 1% , we can notice that the low vacancy rate (below 3% on average) is a sign of fast absorption across all classes and the joining of the tallest building to have affected the net absorption of the market. We anticipate that demand is driven by small transactions under 1,000 sqm.

## RENTAL FEES

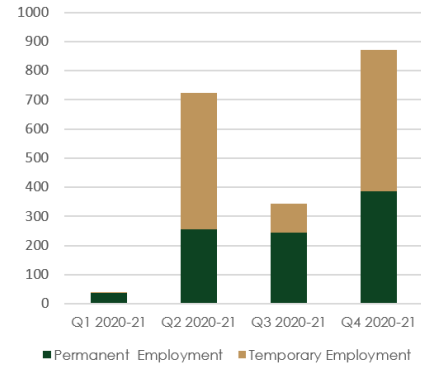
While deepening our identified inventory in both CBDs (Previous Stock / New Stock), price differences are deepening in the Historical CBD with a spread between Grade A and Grade B of +13% vs. a 0% Grade B / Grade C spread (uniform pricing between the two classes).

The New CBD shows a price differences with a spread between Grade A and Grade B , but on a limited stock (41 buildings, including 4 in Grade A and 5 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.

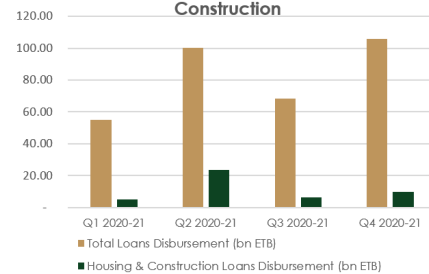
General Inflation - Ethiopia



Employment Creation in Ethiopia

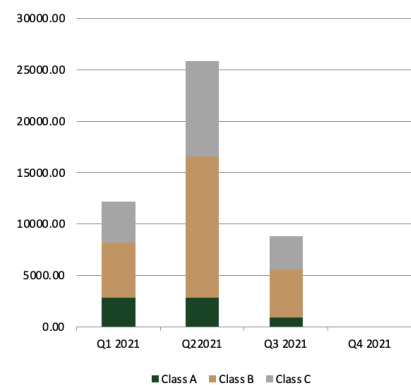


Loan Disbursement - Total vs. Construction

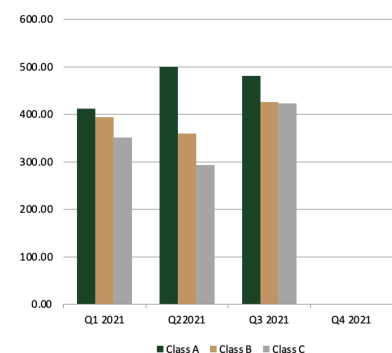


Source: National Bank of Ethiopia

Vacancy-CBD Historical / Class (sqm)



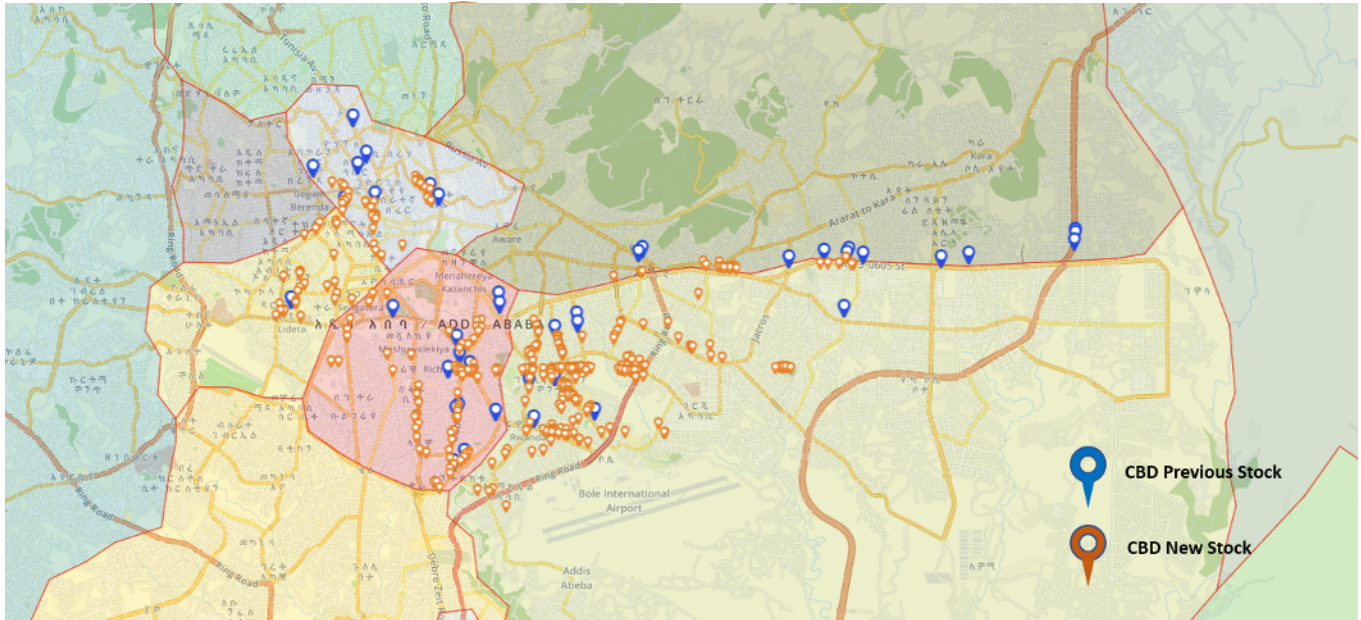
Rent-CBD Historical / Class (ETB / sqm)



Source: Miles data



## Map of CBD 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			Q3 Rental Rate Avg (ETB)
				Volume (sqm)	Rate (%)	Q3 - 2021	Q2 - 2021	Q1 - 2021	Q3 - 2021	Q2 - 2021	Q1 - 2021	
<b>CBD- Previous Stock</b>	<b>319</b>		<b>1,972,218.29</b>	<b>8842.75</b>	<b>0.45%</b>	<b>0.45%</b>	<b>1.93%</b>	<b>2.59%</b>	<b>1.48%</b>	<b>0.66%</b>		<b>427.72</b>
A	17	5.33%	234,267.20	920.00	0.39%	0.39%	2.33%	10.94%	1.94%	8.61%		480.42
B	198	62.07%	1,538,937.25	4690.25	0.30%	0.30%	1.32%	2.59%	1.02%	1.27%		425.39
C	104	32.60%	199,013.84	3232.50	1.62%	1.62%	5.33%	2.65%	3.71%	-2.68%		423.54
<b>Total CBD- Previous Stock</b>	<b>319</b>		<b>1,972,218.29</b>	<b>8842.75</b>	<b>0.45%</b>	<b>0.45%</b>	<b>1.93%</b>	<b>2.59%</b>	<b>1.48%</b>	<b>0.66%</b>		<b>427.72</b>
<b>CBD- New Stock</b>	<b>41</b>		<b>29,353.36</b>	<b>2012</b>	<b>6.85%</b>	<b>6.85%</b>	<b>0.83%</b>		<b>-6.02%</b>			<b>464.12</b>
A	4	9.76%	2,797.60	441	15.76%	15.76%	0.16%		-15.60%			503.75
B	32	78.05%	23,137.36	1519	6.57%	6.57%	0.89%		-5.68%			472.58
C	5	12.20%	3,418.40	52	1.52%	1.52%	1.75%		0.23%			378.33
<b>Total CBD- New Stock</b>	<b>41</b>		<b>29,353.36</b>	<b>2012</b>	<b>6.85%</b>	<b>6.85%</b>	<b>0.83%</b>		<b>-6.02%</b>			<b>464.12</b>
<b>Grand Total</b>	<b>360</b>		<b>2,001,571.65</b>	<b>10854.75</b>	<b>0.54%</b>	<b>0.54%</b>	<b>1.71%</b>	<b>2.59%</b>	<b>1.17%</b>	<b>0.88%</b>		<b>431.87</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 (%)	Q3 - 2021	Q2 - 2021	Q1 - 2021	Q3 - 2021	Q2 - 2021	Q1 - 2021	
<b>CBD- Previous Stock</b>	<b>319</b>		<b>1,972,218.29</b>	<b>8,843</b>	<b>0.45%</b>	<b>0.45%</b>	<b>1.93%</b>	<b>2.59%</b>	<b>1.48%</b>	<b>0.66%</b>		<b>427.72</b>
Bole	178	55.80%	908,341.49	4,665	0.51%	0.51%	1.74%	10.94%	1.23%	9.20%		445.82
Kirkos	73	22.88%	746,952.00	2,865	0.38%	0.38%	2.28%	2.59%	1.90%	0.31%		382.44
Yeka	10	3.13%	23,576.00	90	0.38%	0.38%	1.73%	2.65%	1.35%	0.92%		367.81
Lideta	28	8.78%	115,298.40	390	0.34%	0.34%						427.72
Arada	30	9.40%	178,050.40	833	0.47%	0.47%						
<b>Total CBD- Previous Stock</b>	<b>319</b>		<b>1,972,218.29</b>	<b>8,843</b>	<b>0.45%</b>	<b>0.45%</b>	<b>1.93%</b>	<b>2.59%</b>	<b>1.48%</b>			<b>427.72</b>
<b>CBD- New Stock</b>	<b>41</b>		<b>29,353.36</b>	<b>2,012</b>	<b>6.85%</b>	<b>6.85%</b>	<b>0.83%</b>		<b>-6.02%</b>			<b>464.12</b>
Bole	22	53.66%	9,338.16	1,552	16.62%	16.62%			-9.21%			528.21
Kirkos	2	4.88%	1,728.80	160	9.25%	9.25%	0.04%					422.50
Yeka	8	19.51%	6,593.60	135	2.05%	2.05%						376.45
Lideta	1	2.44%	554.40	20	3.61%	3.61%	0.74%		-2.87%			412.00
Arada	8	19.51%	11,138.40	145	1.30%	1.30%	1.18%		-0.12%			388.57
<b>Total CBD- New Stock</b>	<b>41</b>		<b>29,353.36</b>	<b>2,012</b>	<b>6.85%</b>	<b>6.85%</b>	<b>0.83%</b>		<b>-6.02%</b>			<b>464.12</b>
<b>Grand Total</b>	<b>360</b>		<b>2,001,571.65</b>	<b>10,855</b>	<b>0.54%</b>	<b>0.54%</b>	<b>1.71%</b>	<b>2.59%</b>	<b>0.88%</b>			<b>431.87</b>

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

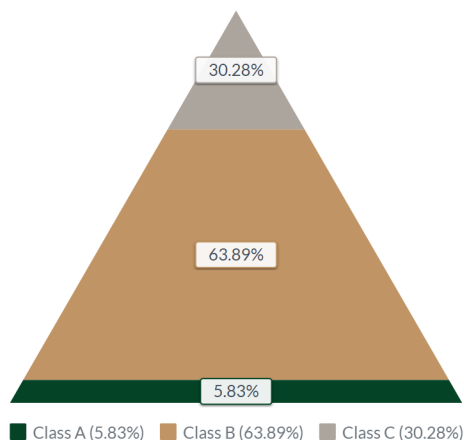
SubCity	Total # Floors	Total # sqm			
		Total inventory	2022	2023	2024
Bole	1,584	922,743.20	678,391.20	110,193.60	-
Kirkos	1,090	691,441.60	568,444.80	77,144.80	-
Yeka	58	21,268.00	19,488.80	-	-
Arada	161	86904.8	56,764.80	16,327.20	-
Lideta	46	41425.60	41,425.60	-	-
Nefasilk Lafto	20	18281.60	18,281.60	-	-
<b>Total</b>	<b>2959</b>	<b>1782064.8</b>	<b>1382796.8</b>	<b>203665.6</b>	<b>-</b>

### Note

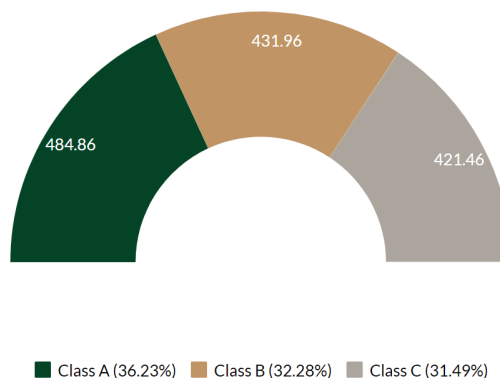
Delivery time of construction has been estimated on the basis of stages of construction, including foundation, superstructure, roof / heat protective coatings, interior design, plastering, initial plumbing, painting, flooring, interior works and/or final cleanup.

## H2 2021 - Highlights

CBD Total Inventory / Class



CBD Average Prices / Class



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