

Addis Ababa current CBD office market is saturated, but holds opportunities for tenants

Miles Ethiopia | Addis Ababa Desk

The last quarter witnessed a sustained level of inflation at above 20% (General Inflation - National Bank of Ethiopia). This has been the standard in country recently, but it is interesting to focus on the prices of construction materials such as cement that has now an informal exchange (Ethiopian Birr (ETB) 330.00 on official market - ETB 700.00 on informal market, or +112% on official).

This means that, despite limited job creation and investment capital in Addis Ababa in the past few months, we can expect building under construction to stale, vacancy to remain very low (<3%) and rental prices to increase.

This trend will be reinforced in the coming months by a foreign currency black market remaining at +20% above the official market, in a country where a lot of base and finishing materials remain imported.

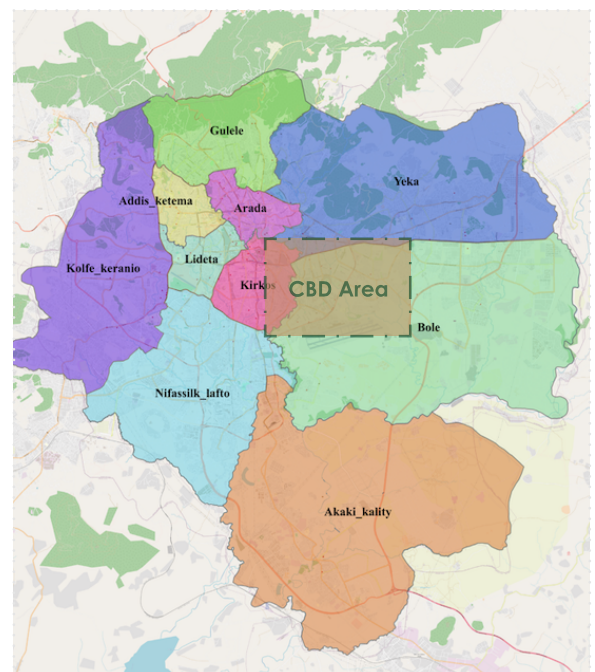
Knowing that Addis Ababa is poised to be one of the 10 megalopolis of Africa, with a change in urbanisation rate of +4.63% a year, the challenges in developing a relevant inventory will put immense pressure on Addis Ababa City Government.

One key finding of our study is that the spread in pricing in existing stock is extremely low, the average price per sqm of a Class A building (ETB 411) being very close to the average of a Class C building (ETB 352). This shows the lack of transparency of quality, location and added value that buildings may have over others, and the fact that pricing is set by word of mouth more than by careful study of the above mentioned parameters.

Consequently, in such an inefficient market, arbitrage opportunities arise for tenants looking for good Class B to top Class A buildings and locking prices in ETB over the next 3 to 5 years.

It shall prove to be smart strategy while the market segments further in prices and in classes, while the currency continues its devaluation course and prices are pushed up by the macroeconomic environment.

It is to be noted that our data collection focuses on office building and not on residential property converted to offices.



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

Summary Statistics

CBD - Historical	Q3 2020	Q4 2020	Q1 2021
Vancancy Rate	n/a	n/a	2.59%
Net Absorption <i>in sqm</i>	n/a	n/a	n/a
Under Construction <i>in sqm</i>	n/a	n/a	79,858
Asking Rents			
Per sqm / month in ETB			
Average (all classes)	n/a	n/a	379.81
Class A	n/a	n/a	411.59

CBD: FROM HISTORICAL TO NEW

Addis Ababa does not currently have a clearly defined Central Business District (CBD). Mercato and Piazza represent the traditional trading areas, while Kasanchis and Edna Mall hold the largest stock of hotels in the City. Retail, in its current form between traditional and modern trade, lies in the Bole area, more specifically in Bole Medhanealem (Diageo – Johnnie Walker and M.A.C. Cosmetics shops being the premises of a franchise / modern trade in this area).

Defining a CBD today has therefore been empirical, based on our data collection of the largest inventory of key office buildings in the City. We eventually identified a zone going from Addis Ababa Bole Airport in the South to Haile Gebre Selasie St. (Megenagna to Mexico axis), and from the ring road on the east side, to Meskel on the west side.

However, the Government of Addis Ababa has now defined a future CBD that is centered around the axis La Gare (South) to the City Hall (North), expanding between Meskel (East) to Mexico (West). The plan for this "new CBD" is to integrate a "large boulevard" type of development, with large sidewalks (up to 10m depth), high end shopping area, modern high-rise housing (La Gare Project by Eagle Hills), a financial district already under construction (Sangatera Financial District), spilling offices over La Gare central station. Adjacent to that, Arada-Piazza and Merkato would become tourist attraction centers.

This new CBD will be the subject of a following report to start monitoring its development.

VACANCY & AVAILABILITY

Compared to international standard, vacancy rates are extremely low, with an average of 2.59% for all classes based on similar individual rates in each class (A: 2.53%, B: 2.59%, C: 2.65%). With a total of 16,167 sqm under construction over 48 buildings poised to be delivered by Q4 2021, equivalent to 1.5% of the existing inventory, we can expect that the vacancy remains low in the coming months, despite a slowdown in the economy in 2021.

ABSORPTION & DEMAND

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.

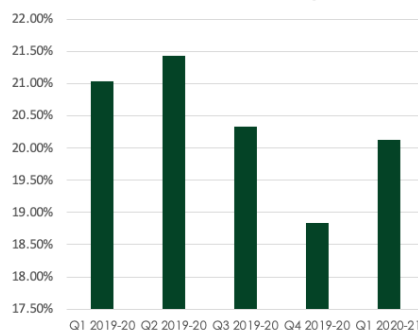
RENTAL FEES

The current CBD market is characterized by a low spread in prices, where top Class A building such as NOC on Bole is only a third above the average price of a Class B, and 41% above average price of Class C. This provides opportunities for tenants looking for premium locations that would remain affordable against lower classes prices.

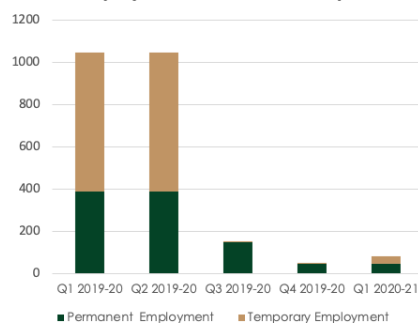
However, it is to be noted that even Class A buildings remain as such relative to the local standards, i.e. they can have multiple pillars limiting the flexibility of use of open plans, lack of modern insulation of outer shell, lack of friendly common areas or sufficient parking spots.



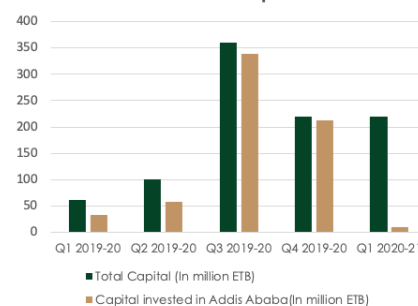
General Inflation - Ethiopia



Employment Creation in Ethiopia

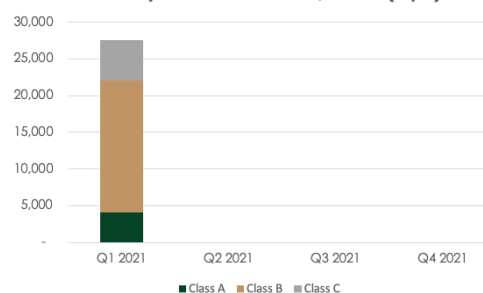


Investment in Addis Ababa and the rest of Ethiopia

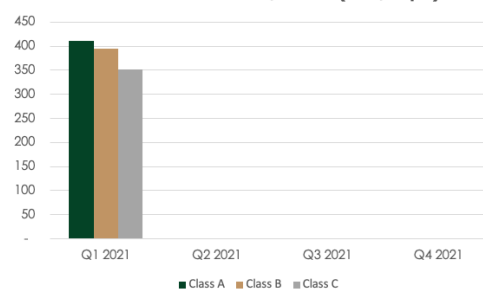


Source: National Bank of Ethiopia

Vacancy - CBD Historical / Class (sqm)

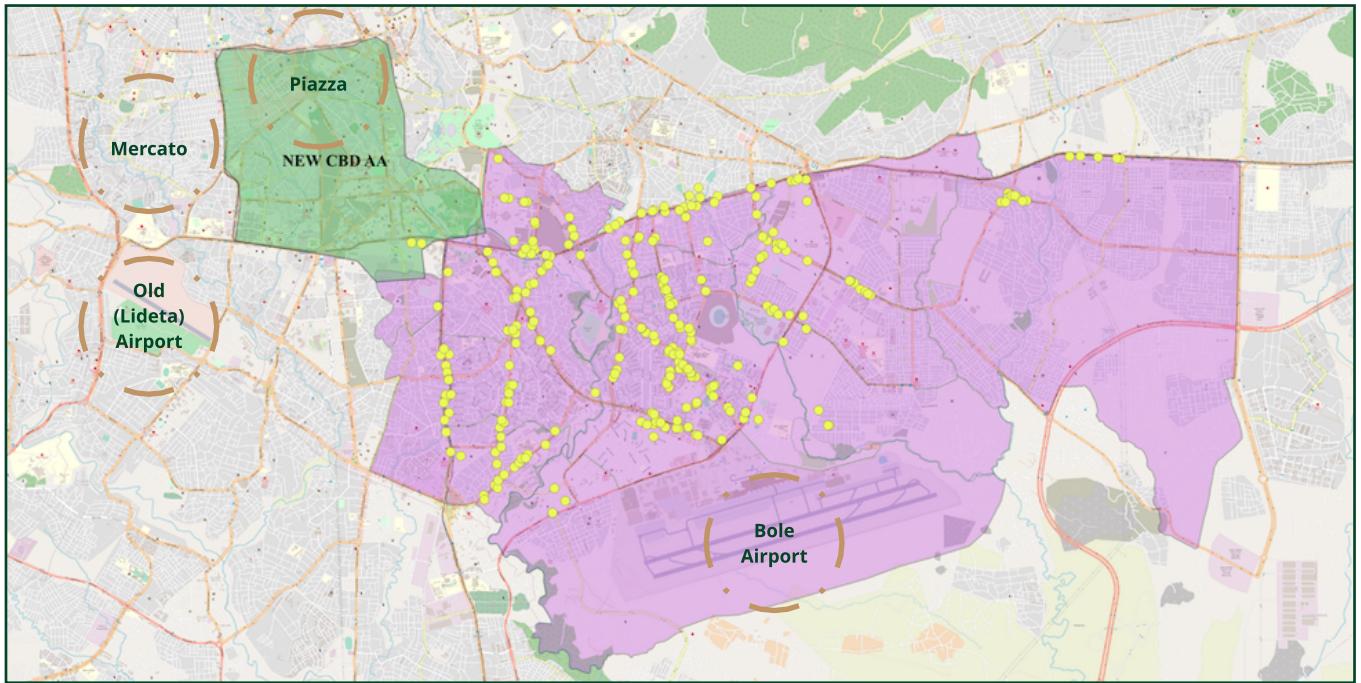


Rent - CBD Historical / Class (ETB / sqm)



Source: Miles data

Map of CBD Historical vs. CBD New



Note

What we have defined the "CBD - Historical" (purple zone on the map) is the focus of this report for Q1 2021. Following reports shall expand to integrate the "CBD - New" (green zone 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		Direct Vacancy		Vacancy Rate		Net Absorption		Rental Rate Avg (ETB)
	Total (sqm)	Volume (sqm)	Rate (%)	Q1 - 2021	Q4 - 2020	Q1 - 2021	Q4 - 2020		
CBD - Historical	279	1,065,107.09	27,587.60	2.59%	2.59%	n/a	n/a	n/a	379.81
A	14	36,950.80	4,044.00	10.94%	10.94%	n/a	n/a	n/a	411.59
B	151	695,667.60	17,994.44	2.59%	2.59%	n/a	n/a	n/a	393.86
C	114	209,657.89	5,549.16	2.65%	2.65%	n/a	n/a	n/a	352.01
Total CBD - Historical	279	942,276.29	27,587.60	2.59%	2.59%	-	-	-	379.81
CBD - New	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
A	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
B	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
C	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total CBD - New	-	-	-	-	-	-	-	-	-
Grand Total	279	942,276	27,588	2.59%	2.59%	-	-	-	380

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

Inventory by Sub-Cities	# of Buildings		Direct Vacancy		Vacancy Rate		Net Absorption		Rental Rate Avg (ETB)
	Total (sqm)	Volume (sqm)	Rate (%)	Q1 - 2021	Q4 - 2020	Q1 - 2021	Q4 - 2020		
CBD - Historical	279	1,065,107.09	27,587.60	2.59%	2.59%	n/a	n/a	n/a	379.81
Bole	204	688,108.69	18,761.18	2.73%	2.73%	n/a	n/a	n/a	386.00
Kirkos	75	376,998.40	8,826.42	2.34%	2.34%	n/a	n/a	n/a	362.85
Total CBD - Historical	279	1,065,107.09	27,587.60	2.59%	2.59%	-	-	-	379.81
CBD - New	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total CBD - New	-	-	-	-	-	-	-	-	-
Grand Total	279	1,065,107	27,588	2.59%	2.59%	-	-	-	380

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

Buildings under construction CBD - Historical

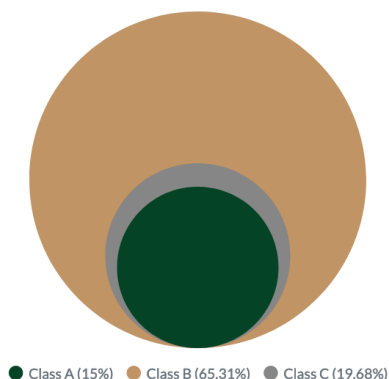
Sub-City	Kebele (former admin boundary, "ward")	Total # Buildings	Total # Floors	All Inventory	Total # sqm		
					2021	2022	2023
Bole	01, 02, 03, 04, 05, 08, 09, 10	95	1,005	46,831	8,654	35,184	2,994
Kirkos	01, 02, 03, 06, 07, 08, 09, 10	52	634	34,945	5,800	25,245	3,900
Yeka	05, 08, 09	9	76	2,604	1,714	890	-
Total		156	1,715	84,380	16,167	61,319	6,894

Note

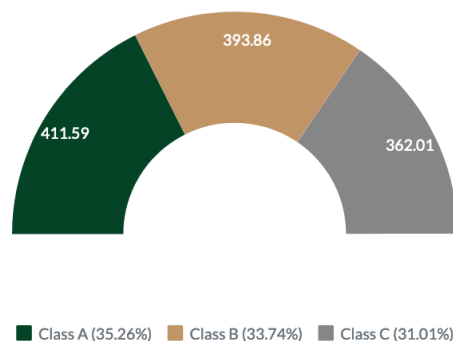
Delivery time of construction has been estimated on the basis of stages of construction, including foundation, superstructure, roof / heat protective coatings, interior design, plastering, initial plumbing, painting, flooring, interior works and/or final cleanup.

Q1 2021 - Highlights

CBD Total Inventory / Class



CBD Average Prices / Class



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