

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 annual inflation rate accelerated to 34.72% in March of 2022 from 33.63% in the previous month, the highest reading since last December (35.14%).¹ This increase occurred despite the recent administrative measures to control inflationary pressures, namely the introduction of a temporary price cap for food items as well as a three-month ban on rent increases by landlords.

Upward pressure came from both prices of food (43.4% vs 41.8% in February) and non-food items (23.5% vs 22.9%). On a monthly basis, consumer prices surged 4.21%, the largest rise in six months.

Regarding exchange rates, the National Bank of Ethiopia has slowed down the devaluation rate in February and March, up to USD 1 for ETB 50.92 in March 2022. On the parallel market, USD 1 was exchanged for ETB 64 in February 2022.

While rising external debt levels further weigh on the outlook is focused on the economy to grow 4.94% in FY 2022, which is down 0.1 percentage points from last month's forecast, and 5.51% in FY 2023.²

As we keep on increasing our inventory in the Central Business District (CBD) from 360 (H2 2021) to 422 surveyed buildings (Q1 2022), the vacancy has significantly increased to 1.42% which is higher than the previous period of 0.45%, while prices remain reasonably flat across categories.

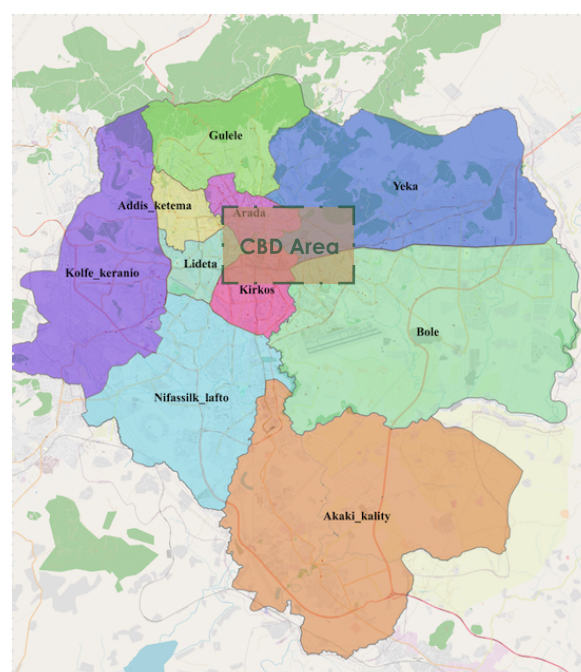
On February 13th, the Commercial Bank of Ethiopia inaugurated its HQ, CBE Tower, in the Sangatera area of Addis Ababa. With 48 floors and Built on an area of 165,476 sqm, the construction took five year, costing USD 303 million. While substantial, it didn't bring relief to the market as expected due to Commercial Bank of Ethiopia using the office spaces for their own use.

Class A buildings average at ETB 502.44 per sqm, +8.12% above all classes average of ETB 461.21 per sqm.

As completed CBD buildings in our stock total 2.15 million sqm, the volume of sqm under construction reaches 1.78 million sqm, with an estimate of 1.21 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. National Bank of Ethiopia, Second Quarter Report, March 12th, 2022.
2. Focus-Economics.com, (link), May 3rd, 2022.



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	Q1_2022	H2_2021
Vacancy Rate		
CBD Previous Stock	1.42%	0.45%
CBD New Stock	4.66%	0.83%
Under Construction (In sqm)		
Total Inventory	1,778,408.00	1,586,462.40
Asking rent (ETB/sqm/month)		
All Classes	461.21	431.86
Class A	502.44	484.86

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.

PAVING THE WAY

Addis Ababa City Administration announced in March 2022 that it has inaugurated road projects all over the city, built at a cost of over 1.95 billion ETB.

The completed road projects in Addis Ababa are roads connecting Qusquam to Entoto, Shiro Meda to Qusquam, Wello Sefer to Urael, La Gare to Washington DC Square, Gerji Roba to Mebrat Hayil, Woyira to Bethel, CMC Michael overpass, Ras Desta to Qechenei and Haile Garment to Jemo.

As the interconnection of accessibility from office buildings to roads plays a significant role in the rental prices and the demand of office buildings, we have noticed a rental value increase of office buildings located around those new roads of 1.02%-5.12%.

And though we have seen the increment of rental rate in Q1, the completion of these projects as stated by the city administration were completed in March but have not been fully opened for public use. Hence we are expecting a delayed impact on the market and a more substantial increase of the rental price in the next coming quarters, mostly over 2022 and 2023.

VACANCY & AVAILABILITY

We have increased the inventory from H2 2021 to Q1 2022 from 2 million sqm to 2.15 million sqm. As a result, the average vacancy across all grades of CBD increased from 0.45% to 1.42%. 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 over 47 new buildings that have been under construction with a total of 664,337.60 sqm.

The completion of these constructions has greatly influenced the net absorption that took a negative trend in Q1 2022 at -3.83% from the previous quarter at (-6.02%), indicating a lesser demand in the market than the previous quarter.

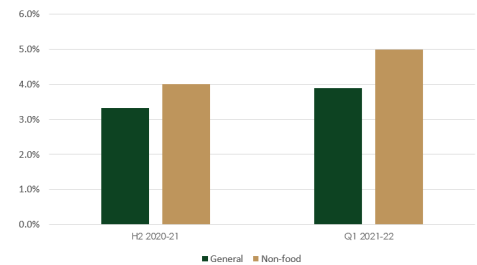
The demand has decreased from the previous quarter by 0.45%. We notice that the vacancy rate (1.42% on average) is a sign of adequate absorption across all classes and the completion of many constructions all over Addis Ababa has not affected the net absorption of the market as it did in the previous quarter. We anticipate that demand is still driven by small transactions under 1,000 sqm.

RENTAL FEES

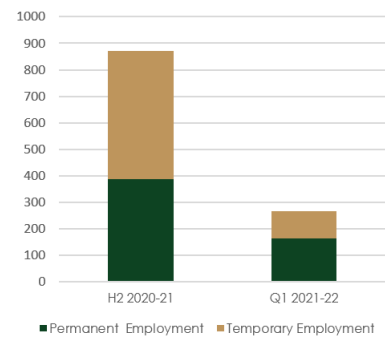
While deepening our identified inventory in both CBDs (Previous Stock / New Stock), price differences are deepening in the Previous CBD stock with a spread between Grade A and Grade B of +7.40% vs. a 4.77% Grade B / Grade C spread hence showing uniform pricing between the two classes.

The New CBD shows a price differences with a spread between Grade A and Grade B, but on a limited stock (76 buildings, including 2 in Grade A and 12 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.

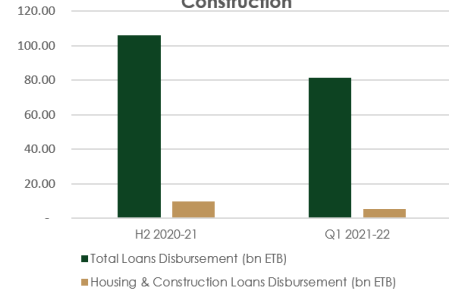
General Inflation - Ethiopia



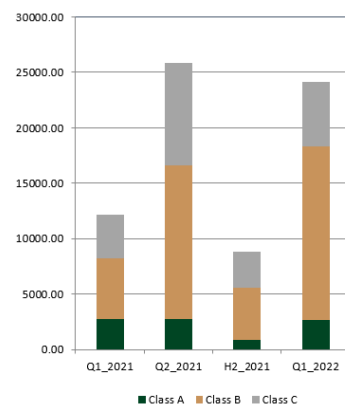
Employment Creation in Ethiopia



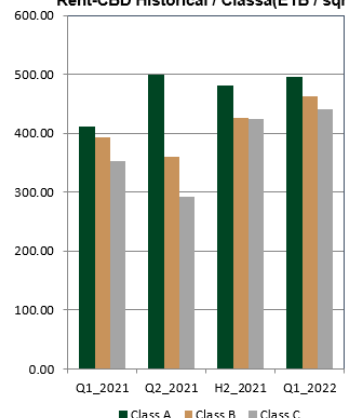
Loan Disbursement - Total vs. Construction



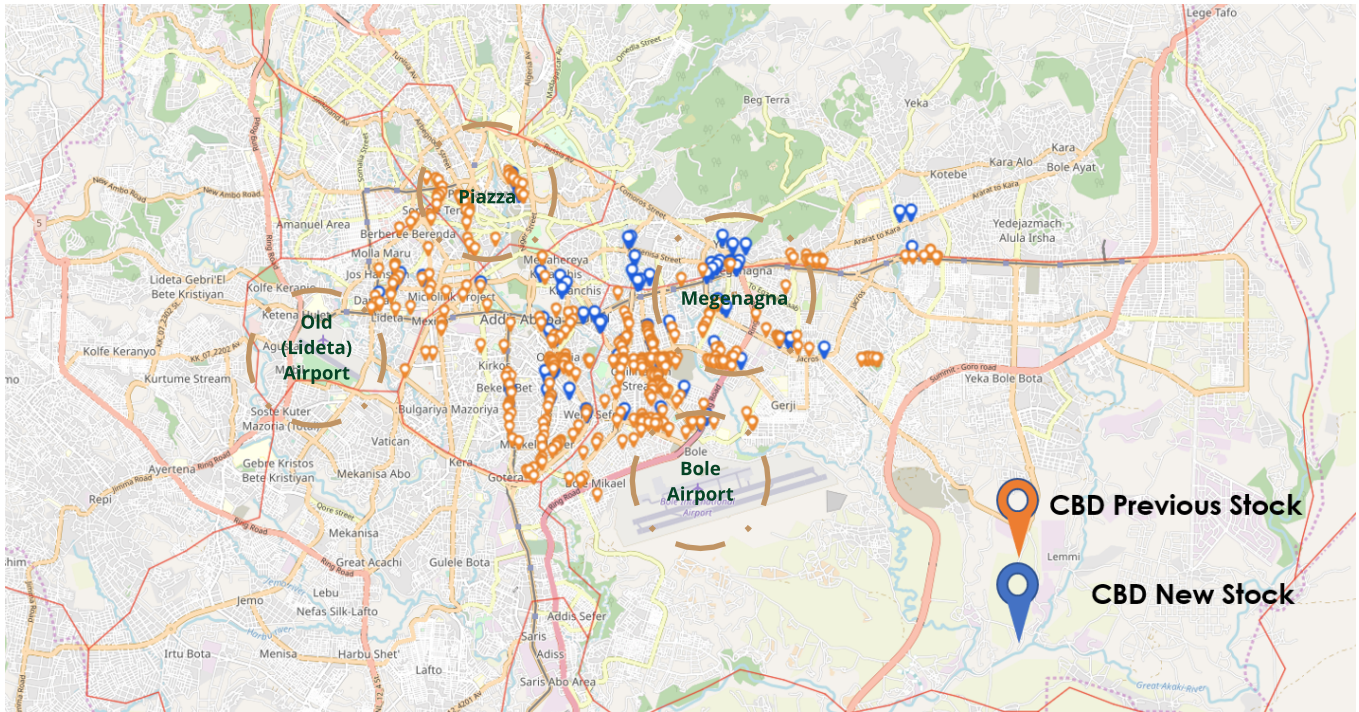
Vacancy-CBD Historical / Classa(sqsm)



Rent-CBD Historical / Classa(ETB / sqm)



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 Avg (ETB)
				Volume (sqm)	Rate (%)	Q1 - 2022	H2 - 2021	Q1 - 2022	H2 - 2021	
CBD - Previous Stock	346		1700511.60	24100.85	1.42%	1.42%	0.45%	-0.97%	1.48%	457.72
A	16	4.62%	174784.80	2685.00	1.54%	1.54%	0.39%	-1.14%	1.94%	496.49
B	229	66.18%	1320849.60	15606.35	1.18%	1.18%	0.30%	-0.88%	1.02%	462.28
C	101	29.19%	204877.20	5809.50	2.84%	2.84%	1.62%	-1.21%	3.71%	441.25
Total CBD - Previous Stock	346		1700511.60	24100.85	1.42%	1.42%	0.45%	-0.97%	1.48%	457.72
CBD - New Stock	76		452704.00	21076.00	4.66%	4.66%	0.83%	-3.83%	-6.02%	477.07
A	2	2.63%	23040.00	90.00	0.39%	0.39%	0.16%	-0.23%	-15.60%	550.00
B	62	81.58%	397299.20	19952.00	5.02%	5.02%	0.89%	-4.13%	-5.68%	481.00
C	12	15.79%	32364.80	1034.00	3.19%	3.19%	1.75%	-1.44%	0.23%	444.64
Total CBD - New Stock	76		452704.00	21076.00	4.66%	4.66%	0.83%	-3.83%	-6.02%	477.07
Grand Total	422		2153215.60	45176.85	2.10%	2.10%	1.71%	-0.39%	1.17%	461.21

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 (%)	Q1 - 2022	H2 - 2021	Q1 - 2022	H2 - 2021	
CBD - Previous Stock	346		1,700,511.60	24,100.85	1.42%	1.42%	0.45%	-0.97%	1.48%	457.72
Bole	179	51.73%	632,087.60	11,883.25	1.88%	1.88%	0.51%	-1.37%	1.23%	478.98
Kirkos	97	28.03%	613,375.20	9,046.60	1.47%	1.47%	0.38%	-1.09%	1.90%	433.72
Yeka	9	2.60%	25,944.00	380.00	1.46%	1.46%	0.38%	-1.08%	1.35%	395.37
Lideta	29	8.38%	147,464.80	879.00	0.60%	0.60%	0.34%	-0.26%	-	457.72
Arada	32	9.25%	281,640.00	1,912.00	0.68%	0.68%	0.47%	-0.21%	-	-
Total CBD - Previous Stock	346		1,700,511.60	24,100.85	1.42%	1.42%	0.45%	-0.97%	1.48%	457.72
CBD - New Stock	76		454,224.00	21,076.00	4.64%	4.64%	6.85%	2.21%	-	477.07
Bole	30	39.47%	156,376.00	7,980.00	5.10%	5.10%	16.62%	11.52%	-	485.33
Kirkos	23	30.26%	184,683.20	9,614.00	5.21%	5.21%	9.25%	4.05%	-	479.27
Yeka	14	18.42%	76,240.00	866.00	1.14%	1.14%	2.05%	0.91%	-	444.21
Lideta	6	7.89%	26,124.80	1,868.00	7.15%	7.15%	3.61%	-3.54%	-	475.00
Arada	3	3.95%	10,800.00	748.00	6.93%	6.93%	1.30%	-5.62%	-	450.00
Total CBD - New Stock	76		454,224.00	21,076.00	4.64%	4.64%	6.85%	2.21%	-	477.07
Grand Total	422		2,154,735.60	45,177	2.10%	2.10%	0.54%	-1.55%	-	461.21

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

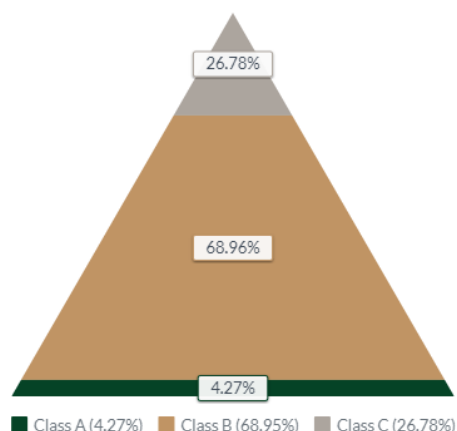
SubCity	Total # Floors	Total Inventory	Total#sqm		
			2022	2023	2024
Bole	1856	1,133,709.60	734,858.40	398,851.20	-
Kirkos	848	497,084.80	363,179.20	133,905.60	-
Yeka	100	45,748.80	28,882.40	16,866.40	-
Lideta	46	41,425.60	41,425.60	-	-
Arada	98	60,439.20	44,112.00	16,327.20	-
Total (His.+New)	2948	1,778,408.00	1,212,457.60	565,950.40	-

Note

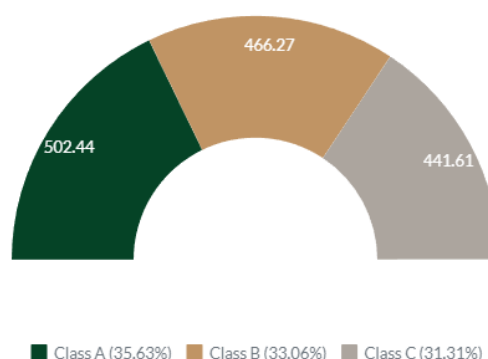
Delivery time of construction has been estimated on the basis of stages of construction, including foundation, superstructure, roof / heat protective coatings, interior design, plastering, initial plumbing, painting, flooring, interior works and/or final cleanup.

Q1 2022 - Highlights

CBD Total Inventory / Class



CBD Average Prices / Class



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