

Research Report ADDIS ABABA | OFFICE H1_2023



Office Rental Landscape in Addis Ababa: Trends and Insights for Investors and Tenants

Miles Africa | Addis Ababa Desk

Investing in office real estate in Addis Ababa presents a promising opportunity within the realm of commercial property investment. Addis Ababa, known for its bustling economy and vibrant culture, has been experiencing significant growth and development in recent years, making it an attractive destination for real estate investors seeking to diversify their portfolios. The city's strategic location, along with its status as the political and commercial hub of Ethiopia, has contributed to a thriving business environment that continues to draw both local and international enterprises.

With a growing economy supported by sectors such as manufacturing, services, and telecommunications, Addis Ababa has witnessed a surge in demand for premium office spaces. This demand is fueled by the influx of multinational corporations, diplomatic missions, and various governmental organizations seeking to establish a presence in the region. Moreover, the government's commitment to infrastructure development and urban renewal initiatives has enhanced the city's overall appeal for commercial real estate investment.

Investors exploring the office real estate market in Addis Ababa can capitalize on the city's evolving landscape by acquiring or developing modern, state-of-the-art office buildings equipped with essential amenities and advanced technological infrastructure. The growing need for high-quality office spaces that meet international standards presents an opportunity for investors to cater to the requirements of both established businesses and emerging startups looking for conducive work environments.

Notwithstanding the opportunities at hand, it is crucial for investors and tenants to consider the historical and current trajectory of the office rental market. This report places its main emphasis on the evaluation of past and present trends, alongside spatial discrepancies within Addis Ababa's office rental market. The analysis is supported by 850 primary data points, which are classified into A, B, and C categories based on location, facilities, structural design, and amenities.

During the initial six months of 2023 (H1-2023), the rent prices demonstrated a relatively stable trend, in contrast to the notable surge witnessed in the latter half of 2022. In the first half of 2023, there was a 1.10% uptick in rent prices compared to the second half of 2022. Notably, historical data reveals that the most substantial increment of rent price occurred in the latter half of 2022 (H2-2022), with a 15.30% increase compared to preceding quarters.

Rent prices vary across classes, with Class A commanding higher prices compared to Class B and C. The average price of class A was found as 677ETB/sqm, while for class B and C, it was 597 ETB/sqm and 540 ETB/sqm, respectively.

Overall, comprehending the dynamics of the office rental market is essential for making informed decisions, managing risks, and leveraging opportunities in the commercial real estate sector.

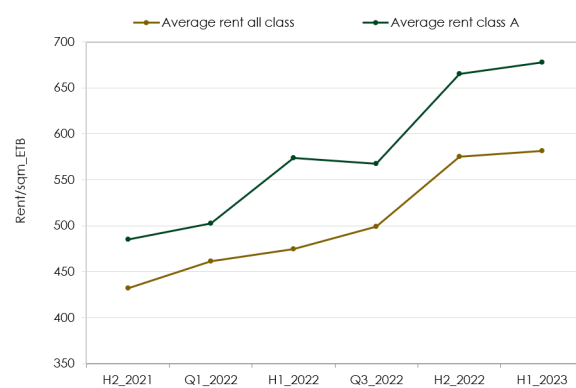
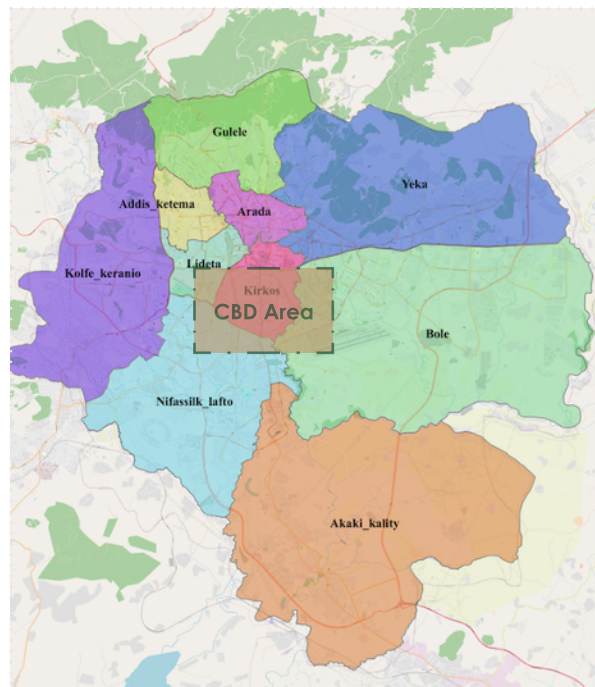


Figure 1: Average rent price for class A (as a case) and all classes

Table 1: vacancy (sqm) in each quarter and under construction volume

| | H2_2021 | Q1_2022 | H1_2022 | Q3_2022 | H2_2022 | H1_2023 |
|-------------------------|---------|---------|---------|---------|---------|---------|
| Vacancy Rate -Hist. | 0.45% | 1.42% | 1.69% | 1.59% | 1.88% | 1.85% |
| Vacancy Rate -New | 0.83% | 4.66% | 2.64% | 9.12% | 3.71% | 5.68% |
| Vacancy rate (His.+New) | 1.71% | 2.10% | 1.91% | 2.48% | 2.04% | 2.43% |
| Under Const. (mln-sqm) | - | 1.59 | 0.97 | 0.80 | 0.70 | 0.57 |

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.

INTERNATIONAL TELECOM CORPORATION SUCH AS SAFARICOM & UPCOMING NEW CORPORATION: IMPACT ON OFFICE DEMAND & SUPPLY IN ADDIS ABABA

In line with Ethiopia's initiative to open up its telecommunications market to foreign investment, Safaricom has been providing services for a year now and the new service provider is under the way.

The burgeoning influence of international corporations, characterized by their robust financial capacities and aggressive expansion strategies, has fundamentally altered the office space requirements. As a result, the commercial real estate market is experiencing a pronounced shift, marked by a heightened competition for prime office locations and a corresponding surge in rent prices. The implications of this trend are impacting not only the real estate sector but also the broader economic and urban development landscape.

VACANCY & AVAILABILITY

As we move progressively from the Central Business district (CBD) to other areas of Addis Ababa, our inventory has been steadily increasing. Consequently, there has been a notable rise in both the overall volume of inventory and the amount of vacant spaces.

According to Figure 3, there has been a clear uptake in vacancy rates within the historical inventory, whereas Table 2 outlines the combined volumes of both historical and new inventories, presenting the total inventory and vacancy volumes. As of the first half of 2023 (H1_2023), the total inventory volume has reached 4.00 million square meters, indicating a 12.76% increase from the previous quarter (H2_2022).

Similar to the increase in total inventory, the combined vacancy (Historical + New) has also seen a surge, rising from 72,388 square meters in the second half of 2022 (H2_2022) to 97,252 square meters in the first half of 2023 (H1_2023). The vacancy rate demonstrates an upward trend, climbing from 3.71% in the second half of 2022 (H2_2022) to 5.68% in the first half of 2023 (H1_2023) for new inventory, while decreasing slightly from 1.88% to 1.85% for historical inventory. Consequently, the overall vacancy rate for both historical and new inventory combined increased from 2.04% in the second half of 2022 (H2_2022) to 2.43% in the first half of 2023 (H1_2023), as indicated in Table 1, aligning with the overall increase in total vacancy.

ABSORPTION & DEMAND

With periodic updating of the status of underconstruction buildings, the volume of finalized buildings ready for the market were assessed in each quarter. In the first quarter (Q1_2022) the volume of underconstruction was 1.59 mln sqm decreased to 0.97 mln sqm in H1_2022, 0.80 mln sqm in Q3_2022 and 0.70 mln sqm in H2_2022. In the current quarter (H1_2023) the volume of under construction were 0.57 mln sqm (Table 1).

The decrease in underconstruction volume in reverse indicated that additional spaces are injected to the market. As referred to the previous quarter, the volume of finalized buildings injected were nearly 0.13 mln sqm in this quarter (H1_2023). Thus the increase in vacancy rate (Table 1) in H2_2023 might be attributed due to increased injection of new offices to the market.

Thus as compared to the previous quarter (H2_2022), increased vacancy rate (Table 1) and lower absorption rate was observed in the current quarter (H1_2023). This in turn could be a driving factor for the non-significant increment of rent price in H1_2023.

RENTAL FEES

The office market in Addis Ababa, due to uneven distribution of facilities and businesses concentrated to specific districts, significant spatial variations were observed.

In terms of rental rates, Bole emerges as the top contender, commanding the highest price of 650 ETB/sqm among the different areas. It is closely trailed by Arada, Kirkos, Lideta, and Yeka, where the average rental prices span from 580 to 600 ETB/sqm.

Conversely, Nifas Silk Lafto and Akaki Kality are known for providing relatively more budget-friendly office rental options, with average rates of 460 and 370 ETB/sqm, respectively.

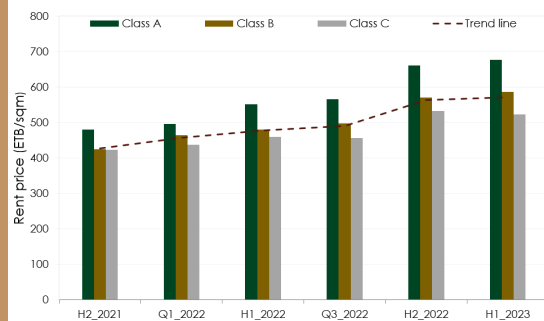


Figure 2: Rent price for historical CBD/class and general trend line

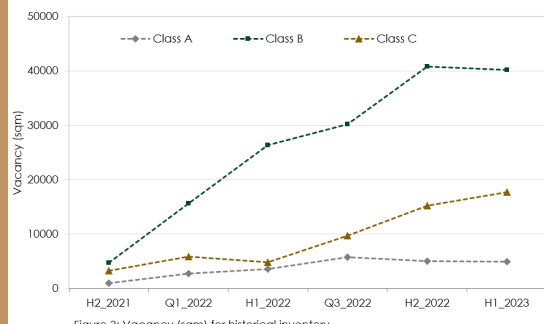


Figure 3: Vacancy (sqm) for historical inventory

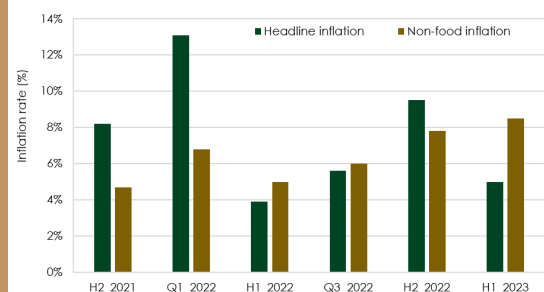


Figure 4: Quarterly national general and non-food Inflation

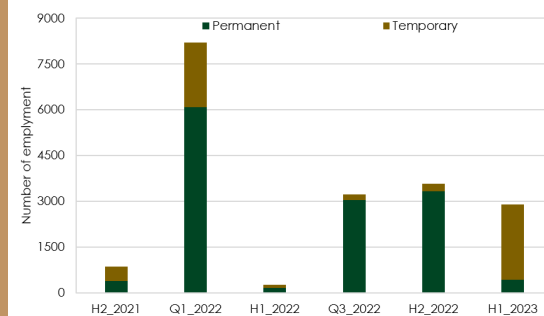


Figure 5: Employment creation in Ethiopia

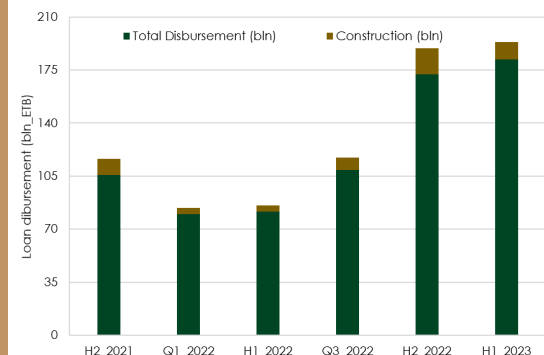
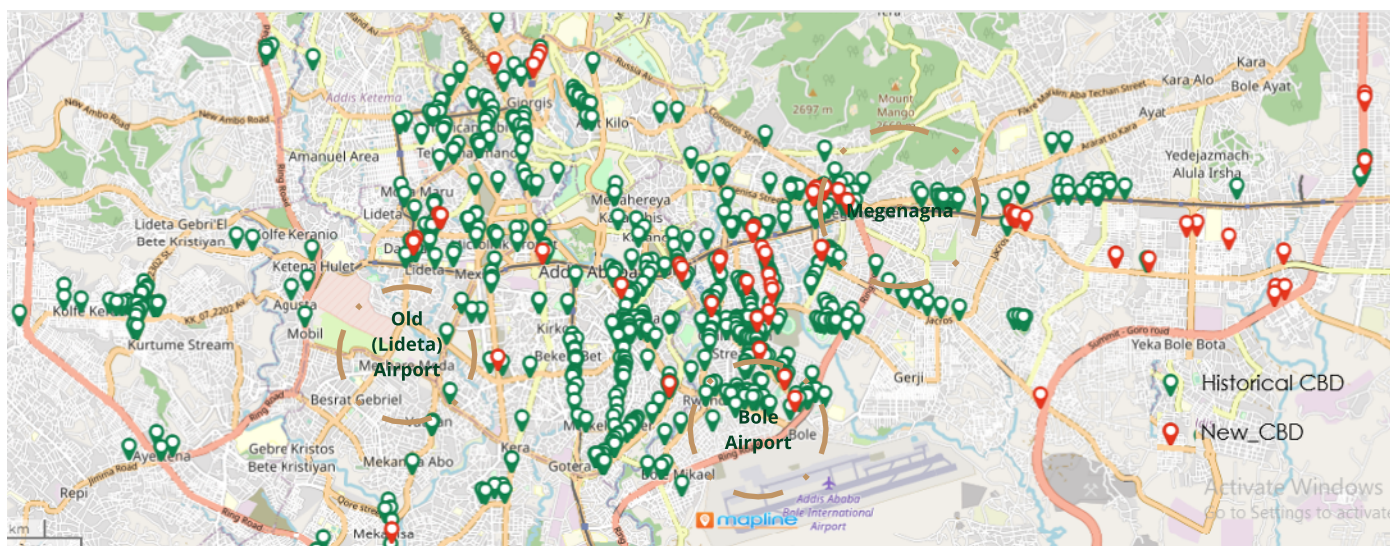


Figure 6: Loan disbursement total vs construction

Sources: Miles data & National Bank of Ethiopia

Map of Previous Stock vs. New Stock



Note: What we have defined the "Historical inventory" (dark green on the map) and the "New inventory" (Brown pins on the map) as defined and based on our inventory.

Table2: Addis Ababa office market summary (overall inventory and vacant volume)

| Inventory Class | No.Bldg | % Inventory | H2_2022 | | No.Bldg | % Inventory | H1_2023 | |
|-----------------|------------|-------------|------------------|---------------|------------|-------------|------------------|---------------|
| | | | Total (sqm) | Vacant (sqm) | | | Total (sqm) | Vacant (sqm) |
| A | 36 | 5% | 474,143 | 5,835 | 36 | 4% | 448,983 | 4,945 |
| B | 476 | 65% | 2,435,323 | 49,286 | 531 | 62% | 2,754,508 | 71,816 |
| C | 217 | 30% | 644,548 | 17,268 | 283 | 34% | 803,997 | 20,491 |
| Total | 729 | | 3,554,014 | 72,389 | 850 | | 4,007,489 | 97,252 |

Table 3: Addis Ababa office market summary (office development pipe line per subcity)

| SubCity | Total no. of Floors | Total (sqm) | 2023 | 2024 |
|--------------|---------------------|----------------|----------------|---------------|
| Bole | 1,260 | 398,285 | 359,061 | 39,224 |
| Kirkos | 515 | 130,496 | 113,953 | 16,543 |
| Yeka | 80 | 19,544 | 15,437 | 4,108 |
| Arada | 53 | 17,160 | 17,160 | |
| Lideta | 25 | 5,800 | 5,800 | |
| Total | 1,933 | 571,285 | 511,411 | 59,874 |

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.

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