

Research Report

ADDIS ABABA | OFFICE

H2_2023



Insight into Addis Ababa's Office Scene: Comprehensive Market Assessment.

Miles Africa | Addis Ababa Desk

The growing economy of Addis Ababa, supported by thriving sectors like manufacturing and services, alongside the expansion of prominent entities such as Ethio-telecom and massive Safaricom and both national and international NGOs, has led to a notable surge in the requirement for high-quality office spaces. This demand surge is also driven by the influx of multinational corporations, diplomatic missions, and governmental organizations eager to establish their foothold in the region. On the other hand, the government's unwavering dedication to infrastructure enhancement and urban renewal projects has significantly amplified the city's attractiveness for commercial real estate investment.

Investors who are diving into the office real estate area in Addis Ababa have a prime opportunity to tap into the city's dynamic evolution. This can be achieved through either acquiring existing modern office buildings or embarking on the development of cutting-edge structures. These properties should be equipped with essential amenities and state-of-art technological infrastructure to meet the demands of the contemporary workspace. The increasing demand for top-tier office spaces that align with international standards provides generative ground for investors to fulfill the needs of established enterprises as well as burgeoning startups in search of conducive work environments.

However, despite the promising prospects, it is imperative for both investors and potential tenants to carefully assess the historical trends and current trajectory of the office rental market. This report places significant emphasis on analyzing past and present patterns, while also highlighting any spatial disparities within Addis Ababa's office rental landscape. To support the analysis, a comprehensive dataset comprising 930 primary data points has been gathered. These data points are categorized into A, B, and C classifications based on factors such as location, facilities, structural design, and amenities.

The analysis revealed contrasting trends in rent prices between the first and second halves of 2023. During the first half of the year, rent prices experienced a modest increase of 1.10% compared to the latter half of 2022. However, a significant surge in rent prices occurred during the latter half of 2023, with a remarkable 15.37% increase compared to preceding quarters. This spike indicates a notable shift in market dynamics, potentially influenced by various factors such as changes in demand, supply constraints, and economic conditions.

The analysis of rent price variance among different property classifications highlights the importance of considering property class when assessing rental prices. The analysis revealed notable variance in rent prices among different property classifications. Class A properties commanded the highest average rent price, with an average of 780 ETB/sqm. In comparison, Class B and Class C properties had lower average rent prices, with averages of 690 ETB/sqm and 625 ETB/sqm, respectively.

Obtaining comprehensive insights into the market dynamics of office spaces is crucial for both tenants and developers alike. Tenants can gain clarity on rental prices across various categories and locations, aiding them in making informed decisions based on affordability. Additionally, for investors, this information underscores the importance of focusing on investment opportunities in office real estate and to surge the supply.

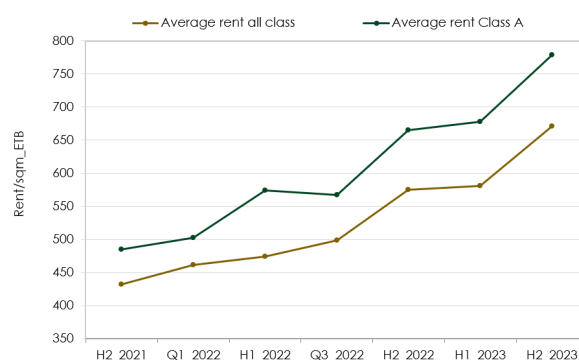


Figure 1: Average rent price for class A(as a case) and all classes

Table 1: vacancy (sqm) in each quarter and under construction volume							
	H2_2021	Q1_2022	H1_2022	Q3_2022	H2_2022	H1_2023	H2_2023
Vacancy Rate -Hist.	0.45%	1.42%	1.69%	1.59%	1.88%	1.85%	1.83%
Vacancy Rate -New	0.83%	4.66%	2.64%	9.12%	3.71%	5.68%	7.78%
Vacancy rate (His.+New)	1.71%	2.10%	1.91%	2.48%	2.04%	2.43%	2.15%
Under Const. (min-sqm)	-	1.59	0.97	0.80	0.70	0.57	0.51

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.

CONSTRUCTION DELAY: IMPACT ON OFFICE SUPPLY, DEMAND & RENT PRICE

Construction delay is one of the many driving forces for shortage of supply in Addis Ababa. Construction delays can significantly impact the office real estate market, influencing both supply and demand dynamics, as well as rent prices. When construction projects experience delays, it prolongs the time it takes for new office spaces to become available in the market. This delay in supply can lead to a shortage of available office spaces, especially in areas where demand is high.

As a result, businesses seeking office space may face limited options, potentially leading to increased competition among tenants vying for the same spaces. Landlords, aware of this increased demand, may capitalize on the situation by raising rent prices.

Overall, construction delays can create a ripple effect throughout the office real estate market, causing fluctuations in supply, heightened competition among tenants, and potentially inflated rent prices in Addis Ababa.

VACANCY & AVAILABILITY

As we expand the scope of area from the Central Business District (CBD) into other parts of Addis Ababa, we've been consistently adding more items to our inventory. This has led to a noticeable increase in both the total amount of inventory we have and the amount of vacant spaces available.

Figure 3 depicts the fluctuation in vacancy rates across different class categories over time. While the rate of increase varied periodically, there has been a noticeable overall rise in vacancy rates within the historical inventory. Moreover, Table 2 presents a comprehensive overview of combined volumes from both historical and new inventories, delineating total inventory and vacancy volumes. In the first half of 2023 (H1_2023), the total inventory volume reached 4.00 million sqm, marking a 12.76% increase from the preceding half-year (H2_2022). This volume further rose to 4.24 million sqm in H2_2023, indicating a 5.71% increase from the prior half-year.

Unlike the increase in total inventory, the combined vacancy (Historical + New) decreased from 97,252 sqm in the first half of 2023 (H1_2023) to 90,991 sqm in the second half of 2023 (H2_2023). For the new inventory, the vacancy rate demonstrates an upward trend, climbing from 6.68% in the H1_2023 to 7.78% in H2_2023, while for historical inventory vacancy rate decreased slightly from 1.85% to 1.83%. The overall vacancy rate for combined historical and new inventory decreased from 2.43% in H1_2023 to 2.15% in H2_2023, as indicated in Table 1. The decrease in vacancy rate signaling a higher occupancy/demand rate during H2_2023 which in turn causes the escalating in rent price

ABSORPTION & DEMAND

Periodically updating the status of buildings under-construction, the quantity of completed buildings available for the market was evaluated. In H1_2023, the volume of under-construction buildings stood at 0.57 million sqm (Table 1). By the end of the same period (H2_2023), this volume decreased to 0.51 million sqm, indicating that 10.53% of the total volume had been finalized and entered the office market.

Despite the introduction of a certain volume of finalized office spaces into the market, the vacancy rate decreased during the same period (Table 1), suggesting an uptick in demand for office spaces.

Thus, as compared to the H1_2023, decreased vacancy rate (Table 1) and higher absorption rate was observed in H2_2023. This in turn could be a driving factor for the higher increment of rent price in H2_2023.

RENTAL FEES

Addis Ababa office market exhibits notable spatial variations due to the concentration of facilities and businesses in specific districts.

Bole stands out as the premier location, commanding the highest average rental rates at 720 ETB/sqm across all classes. For prime office (class A) in Bole, the rent price ranged from 800 ETB/sqm to 2300 ETB/sqm with average price of 985 ETB/sqm. Following Bole are Kirkos, Lideta, Addis Ketema, Arada, Kolfe Keranyo and Yeka, with average rental prices across all classes ranging from 630 to 680 ETB/sqm. In contrast, Nifas Silk Lafto and Akaki Kalitay offer more budget-friendly office rental options, with average rates of 545 and 425 ETB/sqm, respectively.

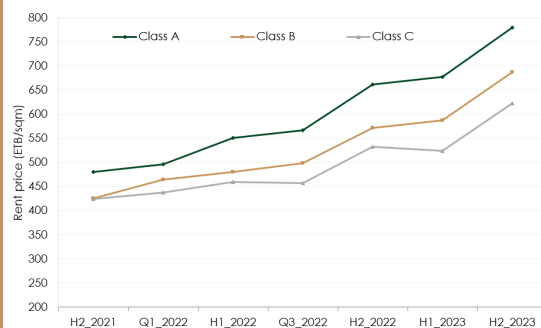


Figure 2: Rent price for historical CBD/class along the time period

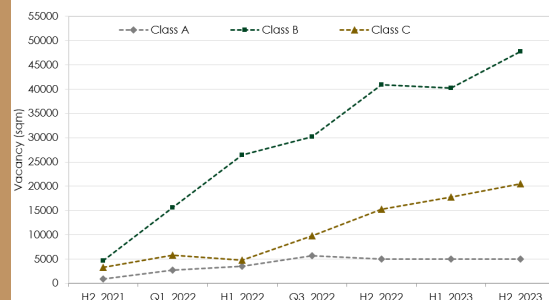


Figure 3: Vacancy (sqm) for historical inventory

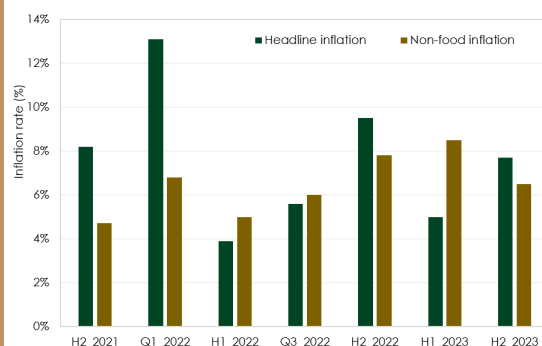


Figure 4: Quarterly national general and non-food Inflation

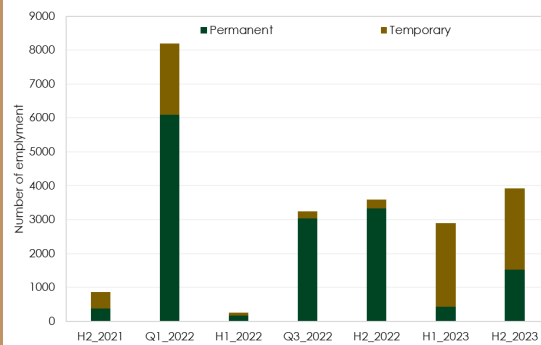


Figure 5: Employment creation in Ethiopia

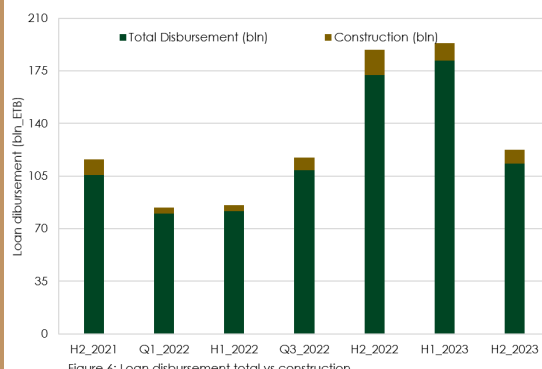
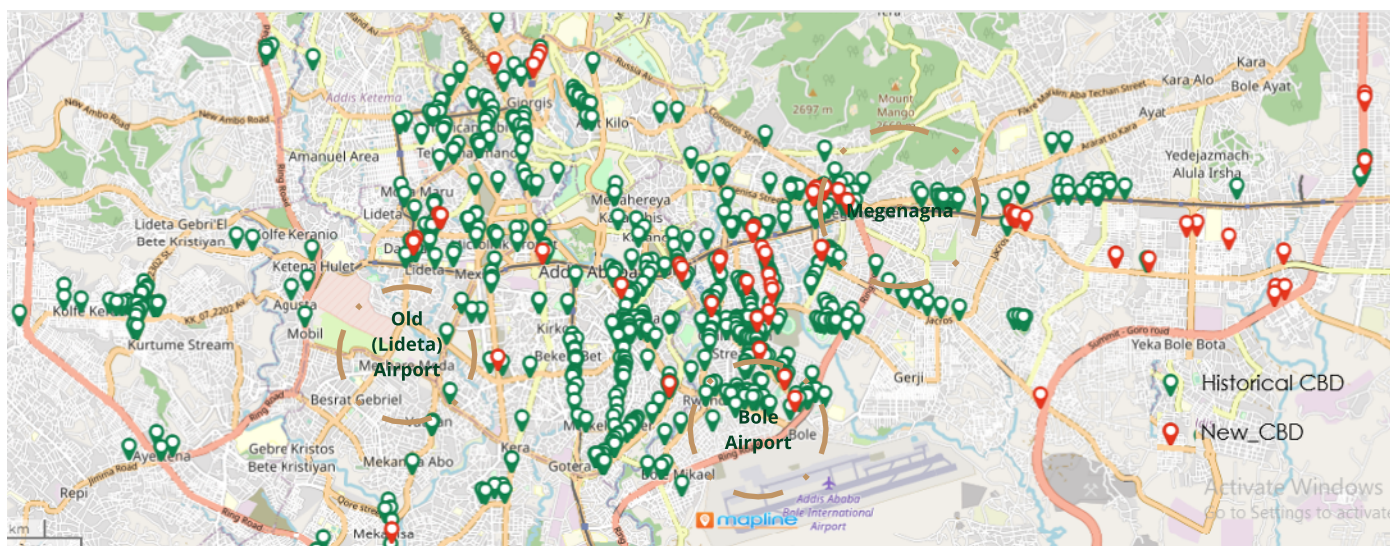


Figure 6: Loan disbursement total vs construction

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	H1_2023		No.Bldg	% Inventory	H2_2023	
			Total (sqm)	Vacant (sqm)			Total (sqm)	Vacant (sqm)
A	32	4%	448,983	4,945	32	3%	448,983	4,945
B	531	62%	2,754,508	71,816	577	62%	2,905,977	64,306
C	287	34%	803,997	20,491	321	35%	881,177	21,740
Total	850		4,007,489	97,252	930		4,236,138	90,991

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

SubCity	Total no. of Floors	Total (sqm)	2023	2024
Bole	1,127	360,583	321,360	39,224
Kirkos	461	118,531	101,988	16,543
Yeka	72	17,923	13,816	4,108
Arada	47	15,358	15,358	
Lideta	22	5,191	5,191	
Total	1,730	517,587	457,713	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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