Market Overview

Accra is the capital of Ghana, whose economy grew at 3.7% in 2015, down from 4.0% in 2014. The slowdown is due to a number of economic challenges that began in 2014, including the continuing power crisis, fiscal imbalances and the drop in global commodity prices, in particular oil, gold and cocoa that Ghana produces. Only the service sector has provided some level of growth for the country. Ghana’s poor fiscal management has resulted in the devaluation of the Cedi by almost 20% against the US dollar in 2015 and a markedly high increase in inflation rates from escalating food, fuel and utility costs.

To address these challenges, the government has taken concerted measures of economic reform through expenditure reductions, agreements with the International Monetary Fund for a three-year extended credit facility, and the introduction of five new taxes to increase revenues.

While the government has been committed to economic recovery, the outlook for the economy in general remains mixed. Accra’s fiscal consolidation and expenditure cuts are likely to intensify, and the related effects of continued high inflation will add pressure on businesses and consumers. On the other hand, positive contributors to the economy include the improvement in electricity supply due to the arrival of power barges, and the higher revenues from exports of oil (production from TEN oilfields) and cocoa.

The real estate sector in Accra has witnessed its first wave of investment-grade retail, office and hotel assets being developed six to eight years ago. The obvious attraction to the city has been, in comparative Africa terms, its strong ‘ease of doing business’ ranking and the high rates of GDP that the country has recorded. Developers who have taken time to understand and address local market needs have been well rewarded by continued consumer support.
Investor sentiment

Accra has remained an attractive foreign investment destination due to its well-established democracy, political stability, favourable demographic profile and ample natural resources. It is also a preferred investment destination when compared to other West African cities because of its accommodating business environment and highest ‘ease of doing business’ ranking in the region. Nevertheless, the economic challenges faced in the recent past have dampened investor confidence in the short term, with further development activity quite limited; however, concerted efforts to turn the economy around mean that Accra is poised for longer-term real estate growth.

Despide increased foreign investment into real estate development over the past six to eight years, transactional activity has been quite limited, partly explained by a market that is relatively small in comparison to hubs like Lagos and Nairobi. It is also because the first wave of investment-grade assets developed by private equity players with funds that have not yet reached their point of exit, while other quality assets, such as Accra Mall and Achimota, are held by the longer-term income fund, AttAfrica.

Notable transactions that have taken place include the sale of Actis’ 85% share in Accra Mall to Atterbury and Sanlam in 2012, and the pending office transaction of Stanbic Heights by Standard Bank, who is also the main tenant in the building.

Market drivers

- Recovery in economic growth
- High urban population (over 50%)
- Accommodative business environment in Africa
Overview

Key office nodes in Accra include the CBD and the Ridge Area situated in the southern and central areas of the city, while the new decentralised office nodes in the north are located close to the airport in the aptly named Airport City and Airport Residential.

The CBD extends from Accra Central towards the Tudu and High Street areas. This node has historically housed the head offices of many corporates, but the high levels of traffic congestion and informal vendor operations have changed the character of the area, prompting tenants to relocate to the Airport City area.

Airport City now holds the majority of the city’s Grade A stock and has become the commercial hub and preferred destination for corporate occupiers. The area is also host to a number of retail precincts, restaurants and other ancillary services, and is an attractive location for hotels due to its close proximity to the airport. Developments have been undertaken by both private equity developers and government affiliated companies, with most private developments boasting occupancy rates of 90% and higher by the end of 2015.

Airport Residential and the Ridge Area have emerged and gained market traction as a result of corporate office demand that cannot be accommodated in Airport City. A strong draw to the Ridge is the improved road networks and surrounding infrastructure. Rents are also more affordable in these areas with average net rents at US$30/m²/month and US$35/m²/month in Airport Residential and the Ridge Area respectively, an 8% discount to Airport City.

The office market received 49,000m² of new space in Airport City and the Ridge in the second half of 2015 with no new developments completed thus far in 2016. While the sluggish economic environment is expected to place pressure on rents, this has not really materialised, with rents only decreasing marginally and no evidence of a surge in vacancies, although this is expected to change as and when leases come up for renewal. As new space is delivered to the market, occupiers might elect to upgrade their accommodation in instances where landlords of newly-completed developments can offer incentives like rent-free periods and tenant allowances when competing for new occupiers.

“Most private developments boasted occupancy rates of 90% and higher by the end of 2015.”
Overview

While the Accra retail market remains predominantly informal, with formal retail penetration rates still less than 5%, there has been a wave of well-designed, investment-grade malls developing across the city over the past few years.

Quite similar to Lusaka, Accra has a remarkably high concentration of South African retailers led by developers such as Atterbury that have delivered West Hills, Achimota and the redevelopment of Accra Mall. International retailers with an operational presence in Ghana include Shoprite, Game, Mr Price, Woolworths, Mango, Samsung, Apple, KFC and Nespresso. Shoprite has a monopoly in the market as the favoured anchor for most malls, but may receive some future competition with Pick n Pay looking to enter the market. Game and local retailer Palace often fulfil the role of sub-anchor with a general merchandise and homeware offering.

The retail sector is facing strong headwinds due to a number of macro-economic forces at play. High rates of inflation, the energy crisis and currency depreciation have put consumer disposable income under pressure, resulting in significantly lower spending and, in turn, reduced trading densities for retailers. The apparel and homeware trading categories are expected to experience the highest drop in turnover with consumers limiting purchases to groceries and essential service offerings.

Vacancies remain stable but demand for formal retail has slowed amid overall lower trading performance and higher rents as a result of the Cedi devaluation. Rents in new shopping centres are likely to be a third lower than prevailing market rents, with retailers very cautious of signing leases on new schemes.

Approximately 42,000m² of supply has entered the market in the past 24 months, and with an additional 31,000m² of construction underway, the increase in supply is expected to place further pressure on the viability of new retail developments until current space is absorbed and trading conditions improve.

“Accra has seen a wave of well-designed, investment-grade malls developing across the city”
Accra is an important regional hotel market in West Africa, with high economic growth and a stable political environment fuelling investor interest over the last decade. The city centre and beachfront have witnessed much of the historical hotel development; however, a great deal of the new development has been focused on the Airport City node, with the construction of several offices in the area supporting this shift.

The tourism sector in Ghana is driven by leisure tourism, which is focused on historic sites and nature, and business and conference tourism. In 2014, leisure spending was 67.3% of Ghana’s Tourism GDP, while business and conferences represented 32.7%. The leisure tourism market is made up mainly of wildlife attractions and national parks, particularly Kakum National Park and Mole National Park. Other attractions include Elmina Castle and Kwame Nkrumah Mausoleum, to name but a few.

Accra has approximately 140 hotels with 5,836 rooms, with an average of 41 keys per hotel. The sector is characterised by small, locally-owned and managed hotels of relatively poor quality. Accra features nine internationally-branded hotels and this is limited to Mövenpick, Holiday Inn (IHG), Golden Tulip (Louvre), Novotel (Accor) and Labadi Beach (Legacy), as well as the recently-opened 269-key Kempinski. There are several development projects in the pipeline, with the new Marriott likely to be the first within this pipeline to open at the end of Q4 2016.

According to STR Global, hotels in Accra achieved 67% occupancy, US$201 ADR and US$134 RevPAR during 2015. The RevPAR achieved in Accra is one of the highest in the region.

“In 2014, leisure spending was 67.3% of Ghana’s Tourism GDP, while business and conferences represented 32.7%.”
The macro-economic environment in Ghana remains a significant driver of the performance of real estate and its growth in Accra. The government’s concerted efforts to steer the economy away from the decline that began in 2014 will bode well for improved investor confidence over the long term.

In the short term, rental market growth and space absorption is likely to slow down, with occupiers retaining their current space, while deferring expansion and contraction decisions due to uncertainties arising around GDP growth, currency volatility, high rates of inflation and government elections taking place towards the end of 2016. Sharing the same uncertainties and in light of the general oversupply in the market, it is also anticipated that developers across all commercial sectors will downsize the extent of their schemes or decide to delay construction on them.

Some opportunities for the development of logistics and warehousing may arise in Tema due to the port expansion project which has recently commenced. However, this is a long-term play and, in general, renewed momentum in the real estate sector will lag the economy following any material progress made in growth.
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