Hotels and Hospitality: Trends & Impacts of Current Macroeconomics

Trevor Ward
W Hospitality Group
About Us

- Hospitality and leisure industry in SSA
- Lagos-based since 2003
- Over 25 years’ experience in Africa
- Across the lifecycle of a hotel venture in Africa
- Feasibility studies, valuations, development management, procurement, asset management and asset sales
Overview of Presentation

- A Growth Story About the Hotel Industry in Africa
- Trends and Impacts on the Hotel Industry in Nigeria
- Challenges for the Industry
- What the Future Holds
Hotel Industry: Africa in Focus

- Hotel industry as an important contributor to the tourism and real estate industries in Africa
- Strong growth in the hotel industry across Africa
- From 2013, sub-Saharan Africa has overtaken North Africa in the number of hotels and rooms in the pipeline
Hotel Industry Growth: Africa in Focus

Hotel Chain Development Pipelines in Africa 2016
Regional Summary

- North Africa
- Sub-Saharan Africa
Status Overview

- West Africa dominating hotel development
- Increasing growth in Southern Africa – mostly Angola
Developments in the “on-site construction” phase

Top 5 countries with the highest number of hotels in their pipeline (2016 figures):

<table>
<thead>
<tr>
<th>Country</th>
<th>Hotels</th>
<th>Rooms</th>
<th>On-Site Construction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nigeria</td>
<td>61</td>
<td>10,222</td>
<td>4,041 rooms – 40%</td>
</tr>
<tr>
<td>Angola</td>
<td>56</td>
<td>7,560</td>
<td>6,778 rooms – 90%</td>
</tr>
<tr>
<td>Egypt</td>
<td>19</td>
<td>6,660</td>
<td>5,517 rooms – 83%</td>
</tr>
<tr>
<td>Morocco</td>
<td>33</td>
<td>5,681</td>
<td>4,268 rooms – 75%</td>
</tr>
<tr>
<td>Algeria</td>
<td>15</td>
<td>3,263</td>
<td>2,720 rooms – 83%</td>
</tr>
</tbody>
</table>

Of the top 5, Nigeria has the lowest proportion of pipeline rooms on site, some of which have stalled.
Hotel Chains

Several big players

Kempinski
HOTELIERS SINCE 1897

starwood Hotels and Resorts

Carlson Rezidor Hotel Group

Golden Tulip Hotels • Inns • Resorts

Mangalis Management Group

Hilton Hotels & Resorts

Several other chains are also active in the African hotel market
The Hotel Industry in Africa

- Lagos and Abuja represent 32% of the rooms in the top 10

![Hotel Chain Development Pipelines in Sub-Saharan Africa 2016](chart)

- Top 10 Cities by Number of Planned Rooms
  - Lagos: 4,047
  - Abuja: 3,722
  - Nairobi: 2,666
  - Addis Ababa: 2,293
  - Luanda: 1,665
  - Dakar: 1,585
  - Kigali: 1,367
  - Kampala: 1,248
  - Abidjan: 1,200
  - Accra: 1,168
The Impact of the Economy

- Low growth profile for Nigeria
- The five-horned monster!:
  - Slow-down in GDP growth
  - Oil price crash
  - Currency devaluation
  - Foreign exchange shortage
  - Uncertainty

What do all these mean for the hotel industry in Nigeria?
Slow-down in GDP growth:

- 2015 GDP growth is estimated to have been 3%, compared to 6.3% in 2014

- Hotel accommodation and other offerings such as events, meeting spaces, food and beverage components

Decrease in demand
Trends and Impacts: The Hotel Industry in Nigeria

Oil Price Crash

- Oversupply of oil by OPEC countries
- 8-year low of US$30 per barrel, from over US$100 per barrel in early 2014
- Reduction in government spending
- Reduction in corporate spending

Decrease in demand
Trends and Impacts: The Hotel Industry in Nigeria

Exchange rate

- Devaluation of the Naira, mainly due to drop in oil price
- For the hotels, Naira prices are stable or going up
- Absolute Dollar prices are reducing

Decrease in $ revenue

- Effects on foreign debt service and other commitments
Trends and Impacts: The Hotel Industry in Nigeria

Foreign Exchange Shortage

- Effects on overseas payments for spare parts, FFE, and to service debt

Problems in terms of maintenance and debt service
Uncertainty

- Buhari’s government took 5 months to form cabinet
- Uncertainty about currency situation means little or no overseas investment

Low investor confidence
Yet, the hotel industry in Nigeria continues to grow

Driven by private sector involvement in the economy and political stability

Key Locations: Lagos and Abuja
The hotel market can be divided into:

- **north (Ikeja)** – 3,600 rooms in 81 hotels
- **south (VI, Ikoyi, Lekki, Lagos Island)** – 4,300 rooms in 81 hotels
- **the mainland** – no significant hotel there
- **and the west (Apapa, Festac, Badagry)** – 720 rooms in 6 hotels

- **Growth in Lagos since 2003 mostly of internationally branded hotels** – currently 20 branded hotels.
The Lagos Hotel Market
Annual Hotel Rooms Supply

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Rooms</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>2,427</td>
</tr>
<tr>
<td>2004</td>
<td>2,968</td>
</tr>
<tr>
<td>2005</td>
<td>3,307</td>
</tr>
<tr>
<td>2006</td>
<td>3,632</td>
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<td>2007</td>
<td>4,237</td>
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<tr>
<td>2008</td>
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<td>2009</td>
<td>5,669</td>
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<tr>
<td>2010</td>
<td>6,896</td>
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<tr>
<td>2011</td>
<td>7,955</td>
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<tr>
<td>2012</td>
<td>8,530</td>
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<td>2013</td>
<td>9,213</td>
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<tr>
<td>2014</td>
<td>10,299</td>
</tr>
<tr>
<td>2015</td>
<td>10,361</td>
</tr>
</tbody>
</table>
Hotel Industry in Nigeria

Abuja:

- Hilton and Sheraton - and the others!
  - Large locally managed hotels: NICON Luxury, Barcelona, Bolingo and Rockview
  - Smaller locally managed hotels
- Branded hotels under construction – Fraser Suites and Hilton Garden Inn
Hotel Industry in Nigeria

- Just under 6,000 rooms in Abuja
- Little addition to supply in Abuja compared with Lagos
- Main areas:
  - Wuse (35%), Garki (16%), Maitama (16%), CBD (13%)
- Largest increase was in 2013 - Ibeto and Barcelona
Hotel Industry in Nigeria

The Abuja Hotel Market
Annual Rooms Supply

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Rooms</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>2,544</td>
</tr>
<tr>
<td>2004</td>
<td>3,282</td>
</tr>
<tr>
<td>2005</td>
<td>3,366</td>
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<tr>
<td>2006</td>
<td>3,572</td>
</tr>
<tr>
<td>2007</td>
<td>3,573</td>
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<td>2008</td>
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<td>2009</td>
<td>3,923</td>
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<tr>
<td>2010</td>
<td>4,261</td>
</tr>
<tr>
<td>2011</td>
<td>4,611</td>
</tr>
<tr>
<td>2012</td>
<td>4,941</td>
</tr>
<tr>
<td>2013</td>
<td>5,432</td>
</tr>
<tr>
<td>2014</td>
<td>5,893</td>
</tr>
<tr>
<td>2015</td>
<td>5,989</td>
</tr>
</tbody>
</table>
What the Future Holds: Hotels

Africa

- Around 47,500 rooms in 303 new hotels set to open in the next 3 years
- Increase in provision of serviced apartments
  - Stronger returns for investors: IRR 21 per cent compared to 17 per cent for full-service hotels.
  - Best of both worlds for business travellers
- Not without its challenges
What the Future Holds

- Challenges include lack of finance, bureaucracy
- Need for stronger policymaking
- More investment and reforms in infrastructure provision
- Recovery in 2016, albeit slow
What the Future Holds

- Optimism of the private sector about the future of Africa
- Investments in key sectors including the hotel industry, as we move towards more diversified economies.
- Multi-brand approach successful in Africa
- Opportunities abound in the midscale segment
- The future remains exciting for the hotel industry in Africa.
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