East African hospitality sector set for positive growth

HTI Consulting recently undertook extensive market and feasibility studies, due diligence, finance raising and hotel operator selection assignments in several EAC countries. Wayne Troughton, CEO of HTI Consulting says, "East Africa is expected to deliver the strongest real GDP growth in Sub-Saharan Africa over the next decade, according to BMI Research."

Wayne Troughton

Greater integration, reduction of trade barriers and improved infrastructural links are expected to be the region's key economic drivers, with the introduction of an EAC passport (proposed for January 2017) expected to facilitate trade, growth and freer movement of people. EAC countries have also implemented key projects to raise annual tourism earnings to $16 billion from $7 billion by 2020.

"This indicates a positive outlook for the hospitality and tourism sector in the region, with a number of new projects and international brand entrants lined-up for the coming years," explains Troughton. "If international companies are successful in exploiting the region's wealth of natural resources, including oil in Kenya and Uganda and gas in Tanzania, it will also serve as a significant economic boost to these countries," he continues. "Such resource development will complement the diverse economic base of EAC members and will not place reliance on single commodities. This will have a significant role to play in reducing investment risk and boosting East African tourism and hotel industries," says Troughton.

Dar es Salaam

In Dar es Salaam, room supply has increased consistently over the past 15 years and is currently sitting at around 2,400 rooms. Peaks occurred in 2009 when the Holiday Inn and Hilton Double Tree entered the market, as well as in 2015 when supply grew by 26%.

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Comments Troughton, "Brand penetration is strong with Hyatt, Best Western, Protea by Marriot, Southern Sun, Serena, Ramada and Golden Tulip also represented in the market. New hotel developments planned in Dar es Salaam exceed 1,300 rooms. A City Lodge is planned to open in September 2017," he says. "Most hotels are in the advanced planning stage, however, some projects have been delayed as adjustments to visa laws have negatively impacted market demand, notably from the lucrative oil and gas sectors. Those projects are likely to remain on hold until clear direction from Government is provided," he states.

"Occupancy in Dar es Salaam has reduced from 68% in 2013 to 63% in 2015. YTD June 2016 occupancy is down an estimated 10% YOY (58%). explains Troughton. "2016 property performance has largely declined, owing to government activity, however, some of the high quality, high demand properties have been able to maintain their occupancy. Hoteliers are confident that the market slump is temporary," he says. "Investments such as the proposed LNG plant should drive high levels of future hotel demand in Dar es Salaam - and the medium to long-term view is, therefore, optimistic."

Kampala

Kampala's current hotel market is small with a total of 1,436 quality rooms. The market grew significantly in 2007 when 847 new rooms entered the market including Protea by Marriott and the Serena Kampala. Prior to this, Sheraton was the only branded property in the market. Since then the only new supply has been the extension of an existing property by 70 rooms and entry of the City Blue in 2014.

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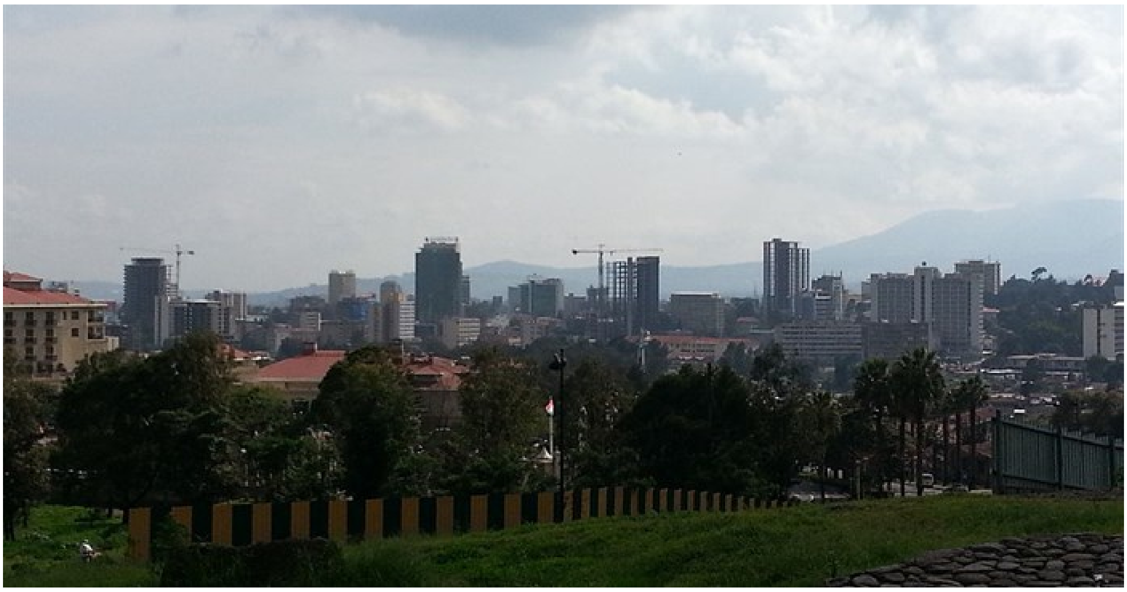
"Lack of hotel investment in Kampala, combined with oil-driven opportunity has encouraged new hotel development with over 1,900 new hotel rooms now planned," says Troughton. "31% of this is currently under construction with one 300-roomed property almost complete. Potential brands include Radisson Blu, Four Points by Sheraton, Onomo and Protea and Residence Inn by Marriott," he comments. "Should levels of demand associated with oil production be realised new room supply could be more quickly absorbed."

"Occupancy declined marginally from 61% in 2013 to 59% in 2015. Depressed oil prices and delays to the start of oil production reduced oil-related demand and ADR has remained stagnant at USD 140," explains Troughton. "YTD June 2016 occupancy and ADR are down due to the elections in February 2016. A return to normal operating conditions is anticipated in 2017. "Oil production is also expected to have a significant positive impact for hotels and the long-term outlook is positive. "

Addis Ababa

In Addis Ababa, room supply has more than doubled over the last 13 years, with growth driven by demand from the AU and UNECA headquarters as well as the success of Ethiopian Airlines and its creation of a dynamic airline hub with significant transit related demand.



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“Quality supply is limited to an estimated 1,600 rooms with approximately 1,900 new rooms planned for Addis Ababa. 84% of the planned supply is in advanced stages of construction,” says Troughton. “Of those under construction, 65% are expected to enter the market by 2018. New international brands are planned to include Best Western, Hyatt, Pullman, Ramada (recently opened), Crowne Plaza, Novotel and an additional Radisson Blu,” he says. “New supply in 2015 and 2016 included Marriott, Golden Tulip and Ramada – which together with the extensive pipeline will place some pressure on the market,” he explains.

“New developments in 2012 and 2013 have already increased market pressure - and occupancy and ADR declined. Occupancy in 2010 was estimated at 71% vs 54% in 2015. ADR in 2010 was USD 227 vs USD 207 in 2015,” states Troughton. “Rates of most properties have remained stagnant whilst some experienced rate declines of up to 24%. He concludes, “The ability of the market to absorb future supply looks positive but will be largely dependent on growth from the corporate market.”

Nairobi

Nairobi’s hotel market is mature with an estimated 4,800 quality rooms. In 2008 a growth cycle of investment occurred as the CBD began its expansion to areas such as Upper Hill and Westlands. Room supply is estimated to have increased by approximately 70% over a seven-year period. Of the new supply, 59% were international brands including Best Western, Sarovar, Kempinski, Radisson Blu and Crowne Plaza. These properties complement an already strong brand base including Hilton, Intercontinental, and Fairmont (Accor)."

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“Approximately 3,000 rooms are planned for Nairobi,” says Troughton. “This excludes recent openings such as the Tune Hotel (280 rooms) and Golden Tulip (90 rooms). 45% of planned rooms are under construction and 6% are in the advanced planning stages. New international brands will include Mövenpick, Park Inn by Radisson, Pullman, Novotel, Ibis, Sarovar, Four Points by Sheraton, Hilton Garden Inn and City Lodge. A further 49% of properties are in the early planning stages. But, given the increasingly competitive environment driven by increased supply, it is questionable as to how many of these will be realised,” he states.

“STR reported occupancy and ADR for Nairobi at 68.8% and USD 152 in 2011. Increases in supply combined with a contraction in demand (terror attacks, Ebola) have seen occupancy reduce to 55% in 2015. Whilst ADR declined to USD 144 in the same year, the decline was limited considering the challenges in the market,” comments Troughton. “Planned future supply will place pressure on performance in the short term,” he admits.

“But the country has a favourable tourism outlook and the rate at which leisure and business tourism recovers from factors such as terror threats and the Ebola outbreaks, will determine the pace at which new supply is absorbed. The expected return of tourism growth along with potential future growth in high yielding sectors will ensure a positive future long-term forecast for the hotel market,” he concludes.