



HOTELS AFRICA 2018

AFRICA HOTELS: ROOMS FOR GROWTH

The growth potential of Africa is increasingly recognised by international hotel operators, investors and developers.

Global and local hotel chains have targeted Africa as a growth region, due to both its relative undersupply of international-quality hotels, and the expectation of increased demand for rooms. Underpinning this are Africa's long-term economic and demographic growth prospects, which have continued to attract hotel groups' interest despite a slowdown in overall African economic growth in recent years.

Pan-African GDP growth dropped to 2.1% in 2016, its lowest level in more than two decades, primarily due to the impact of lower commodity prices on its major oil-dependent economies. However, growth is estimated by the International Monetary Fund to have recovered to approximately 3.5% in 2017. The large oil-driven economies of Nigeria and Angola are gradually moving out of recession, while growth rates have remained resilient in less resource-dependent countries such as Kenya, Ethiopia, Tanzania, Côte d'Ivoire and Senegal. These countries are forecast to maintain annual GDP growth in the 5-8% range over the next five years.

Africa's population is growing at a faster rate than that of any other global region; it is currently home to around 1.2 billion people, but UN projections suggest that this figure will more than double by 2050 and that it will pass 4 billion by the end of the century. Growth will be increasingly concentrated in the large cities of Sub-Saharan Africa, with the populations of cities such as Luanda, Lagos, Dar es Salaam, Nairobi and Addis Ababa forecast to grow by more than 80% during the 2015-2030 period.

Africa's fast-growing, economically developing cities will need increased numbers of hotel rooms to accommodate both business travellers and rising tourist demand. Over the long term, the UN World Tourism Organization forecasts that international tourist numbers in Africa will grow at one of the fastest rates globally. Africa received 57 million international tourist arrivals in 2016, but the UNWTO projects that this will reach 134 million by 2030. At present, Morocco is the top destination with over 10 million arrivals, but future growth is forecast to be strongest in the East, West and Central regions of Africa.

AFRICA IN 2030

POPULATION GROWTH
By 2030, Africa's population will increase by **36%** to **1.7 billion**

URBANISATION
By 2030, Africa's urban population will rise by **63%** to **770 million**

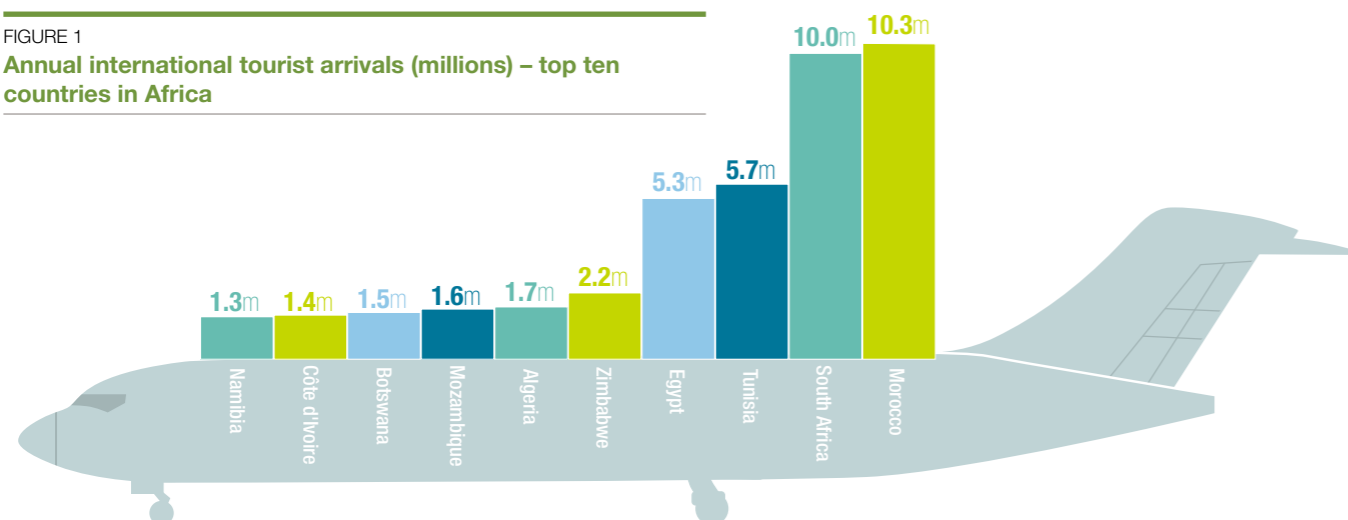
CITY GROWTH
Africa will have **15 cities** with populations over **5 million** in 2030, compared with 7 cities today

ECONOMIC GROWTH
Africa's economy will be worth **US\$3.8 trillion** in 2030, more than **60%** bigger than today

TOURISM GROWTH
Annual international tourist arrivals will more than **double** by 2030 to reach **134 million**

Source: UN Population Division, USDA Economic Research Service, UN World Tourism Organization

FIGURE 1
Annual international tourist arrivals (millions) – top ten countries in Africa



Source: United Nations World Tourism Organization. 2015 or 2016 data, depending on availability

HOTEL MARKET OVERVIEW

Hotel supply levels vary greatly across Africa.

The distribution of Africa's current supply of branded and chain hotels is illustrated by the hotel density map on pages 4-5. The current hotel stock is heavily concentrated in a small number of markets. South Africa has the largest supply, with almost 30% of the continent's chain hotels. The largest hotel markets in South Africa are Johannesburg and Cape Town, but chain hotels are spread widely across the country, due in large part to the extensive hotel networks of local brands such as Protea Hotels, Tsogo Sun and City Lodge.

Outside of South Africa, the largest concentration of chain hotels is in the North African countries of Egypt, Morocco and Tunisia. Resort locations such as Sharm El Sheikh, Hurghada and Marrakesh are among the biggest markets in these countries, but international hotel chains also have a reasonably large presence in commercial cities such as Cairo and Casablanca, where demand is driven by business travellers in addition to tourism.

Elsewhere in Africa, the tourist islands of Mauritius, the Seychelles and Zanzibar all have a significant presence of branded hotels and resorts. In contrast, some of Africa's largest cities, including Kinshasa, Khartoum and Addis Ababa, have only a handful of international branded hotels. Across Africa, more than half of the continent's capital cities have fewer than five chain hotels each.

The distribution of pipeline projects varies significantly compared with the existing supply, reflecting the increased focus of international chains on markets currently perceived as being undersupplied. Most strikingly, 35% of projects under development in the continent are in West Africa, which is home to only 9% of the current supply. The greatest concentration of these projects is in Nigeria, primarily in Lagos and Abuja, where multiple hotels are under development for international brands including Hilton, Sheraton and Marriott.

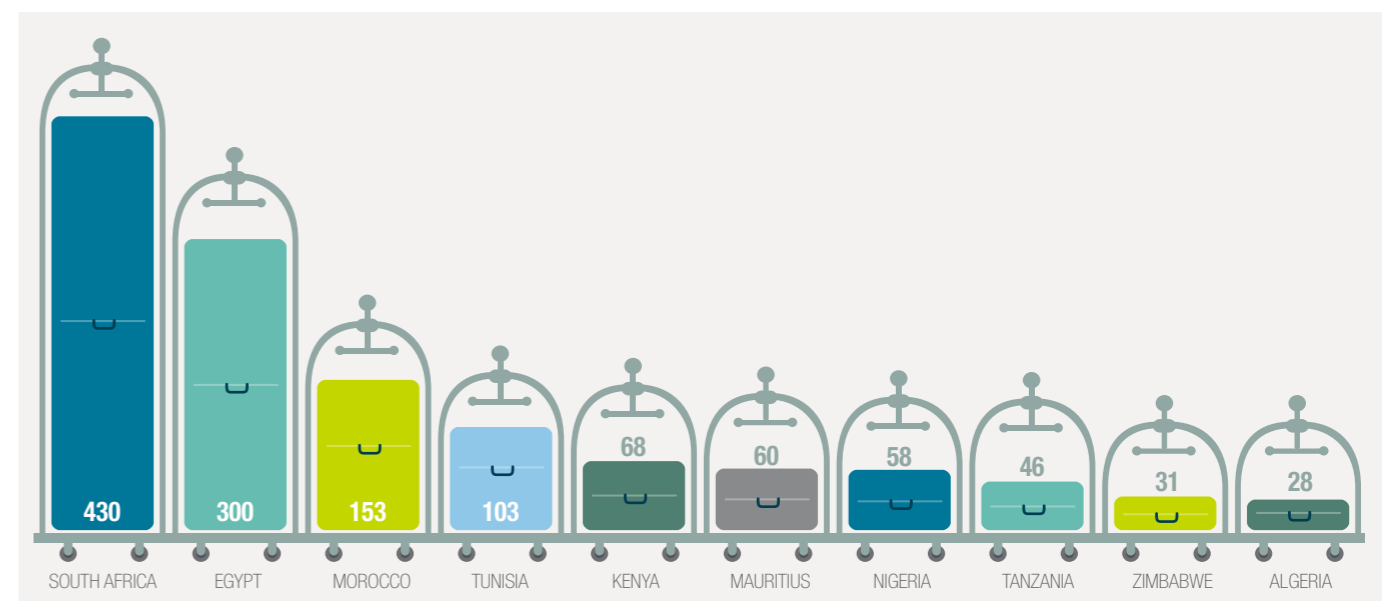
The East Africa region also accounts for a significant share of pipeline projects, with 26% of the projects under development.

Hotel development hotspots in East Africa include the major cities of Kenya, Ethiopia and Tanzania.

Although it is a comparatively well-supplied region, North Africa continues to see new development, accounting for around 29% of pipeline projects. This stems from the expansion of major multinational chains, and from Middle Eastern hotel developers and chains entering North Africa.

Across the continent, development activity is being driven primarily by the expansion plans of the larger multinational hotel groups. All of the major global players have multiple hotels under development across Africa, and several of them have made eye-catching announcements about their future African plans. Hilton, for example, launched its US\$50 million Africa Growth Initiative in late 2017, with the aim of adding 100 African properties to its portfolio over the next five years. The activities of other major hotel groups are outlined on pages 6-7.

FIGURE 2
Number of chain and branded hotels – top ten countries in Africa



Source: Knight Frank Research. Hotel numbers exclude lodges, safari camps, chalets and cruise-hotels. Data as at December 2017.

In addition to the well-known international hotel operators, several brands operating solely in Africa are actively growing their businesses. These include CityBlue, a chain owned by UAE investor Diar Capital, which has opened hotels in four East African countries and has signed pipeline deals in a further eight countries in East and West Africa. Mangalis Hotel Group, a subsidiary of Teyliom International, has opened three hotels in West Africa and has ten pipeline projects in this region. Azalaï Hotels Group has grown from its homeland of Mali to have projects opened or under construction in most major West African capital cities.

Other groups that are growing in prominence in Africa include Germany's Deutsche Hospitality, Spain's Meliá Hotels International and Switzerland's Mövenpick Hotels & Resorts. Asian hotel operators with projects under development in Africa include Thailand's Dusit International and Minor Hotels Group. Middle Eastern groups active in the region include Rotana and Emaar Hospitality, which has projects in Egypt under its Address brand.

Most international hotel groups have asset-light business models in Africa whereby they usually operate, but do not own, their branded hotels. This creates opportunities for developers and investors to either build or acquire properties operated by the major chains. Long construction times can be a significant challenge to brands seeking to grow their African portfolios. To circumvent this, some groups are pursuing growth strategies that prioritise the rebranding of existing hotels, rather than the development of new hotels.

As is the case in the rest of the world, the growth of the Airbnb market has presented a disruptive challenge to traditional hotel operators in Africa. While still a very small part of its global presence, Airbnb says that it now has 100,000 listings in Africa, accommodating 1.2 million guests in the last year. With the hotel supply in many African cities being limited and slanted towards the luxury end of the market, Airbnb accommodation provides a cheaper alternative, particularly for younger travellers. The rise of the Airbnb market has yet to have a discernible impact on African hotel performance, but it has demonstrated that there is demand for new, flexible and affordable accommodation types across the continent.

AFRICA HOTEL DENSITY MAP

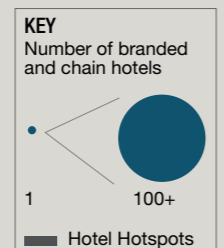
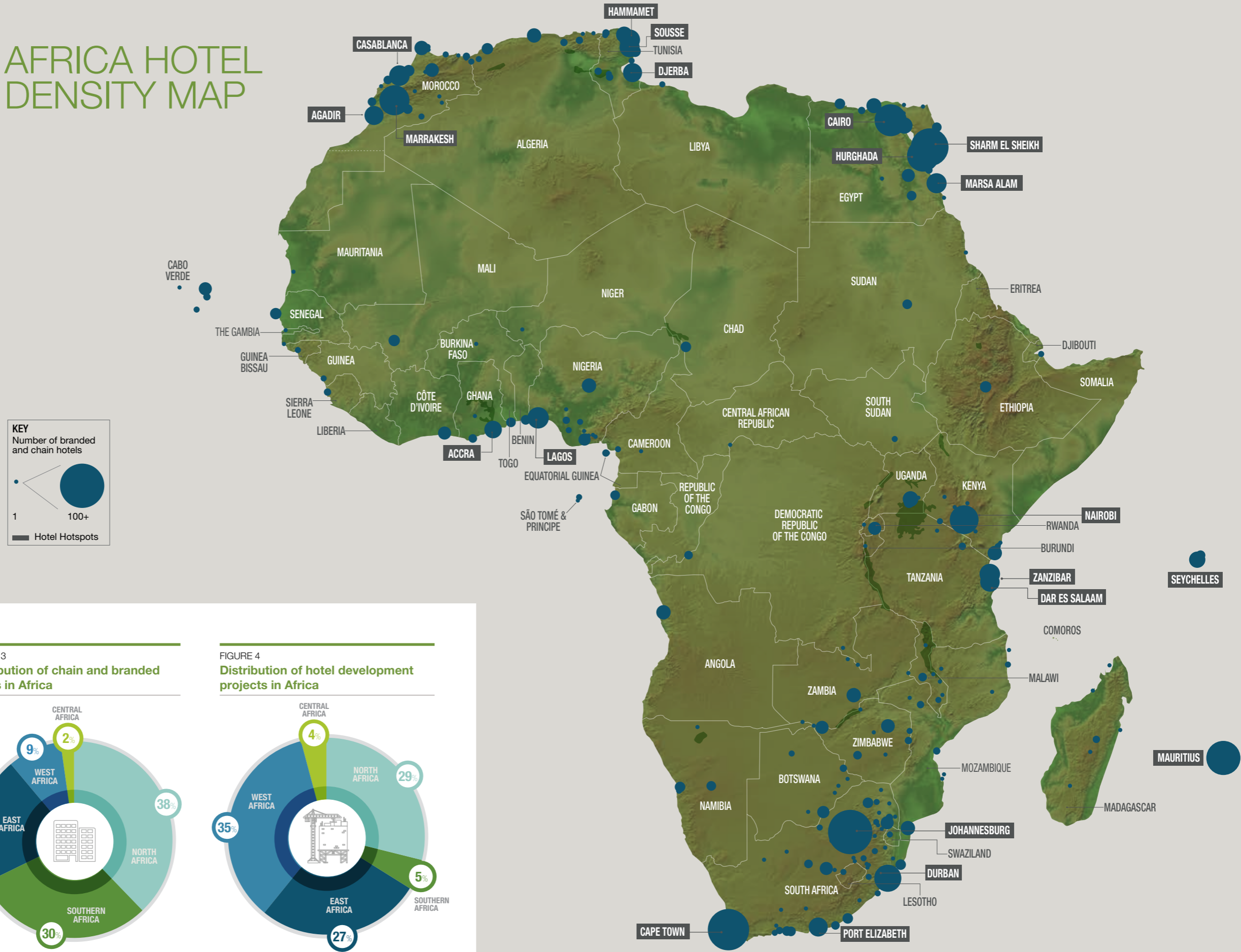
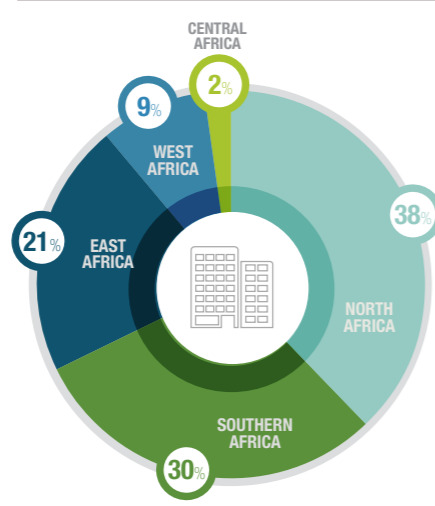
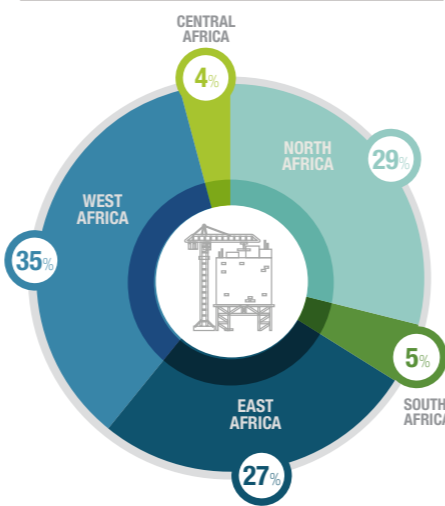


FIGURE 3
Distribution of chain and branded hotels in Africa



Source: Knight Frank Research

FIGURE 4
Distribution of hotel development projects in Africa



Source: Knight Frank Research

Source: Knight Frank Research. Hotel numbers exclude safari camps and lodges, chalets and cruise-hotels. Data as at December 2017.

MAJOR HOTEL CHAINS IN AFRICA

MARRIOTT INTERNATIONAL



149 20

Key Brands in Africa: Protea by Marriott, Sheraton, Four Points by Sheraton, Le Méridien

Selected Opening, 2017: Four Points by Sheraton Nairobi Airport, Kenya

Pipeline Highlight, due in 2018: Accra Marriott Hotel, Accra, Ghana

Marriott's 2014 acquisition of the South Africa-based Protea Hotels gave it the largest hotel network in Africa, which was further expanded by its merger with Starwood in 2016. The group has a target of having over 200 hotels either open or in the pipeline by 2022 and is looking to enter new markets including Benin, Botswana, Côte d'Ivoire, Madagascar, Mauritania and Senegal.

ACCORHOTELS



116 20

Key Brands in Africa: ibis, Mercure, Novotel, Sofitel, Fairmont

Selected Opening, 2017: ibis Casa Voyageurs, Casablanca, Morocco

Pipeline Highlight, due in 2018: Fairmont Citystars Sharm El Sheikh, Egypt

AccorHotels' presence in Africa is spread across 13 brands, ranging from midscale and economy operations such as ibis and ibis Budget, to luxury brands including Fairmont and Raffles. In 2015, the group announced plans to open 50 hotels in Angola in partnership with the local investor AAA Activos LDA; so far, three hotels have opened under the ibis Styles brand.

TSOGO SUN



96 7

Key Brands in Africa: Southern Sun, SUN1, Garden Court, StayEasy

Selected Opening, 2017: SunSquare & StayEasy Cape Town City Bowl, South Africa

Pipeline Highlight, due in 2018: StayEasy Maputo, Mozambique

Tsogo Sun is one of South Africa's largest hotel and leisure groups. Its portfolio is largely concentrated in South Africa, but it has been expanding into the rest of the continent and the Middle East. The group also operates several Holiday Inn and InterContinental-branded hotels in South Africa.

CITY LODGE



58 4

Key Brands in Africa: City Lodge, Road Lodge, Town Lodge, Courtyard

Selected Opening, 2017: Town Lodge Windhoek, Namibia

Pipeline Highlight, due in 2018: City Lodge Hotel, Dar es Salaam, Tanzania

One of South Africa's large hotel chains, the City Lodge group is now expanding into other markets in East and Southern Africa.

RADISSON HOTEL GROUP



42 20

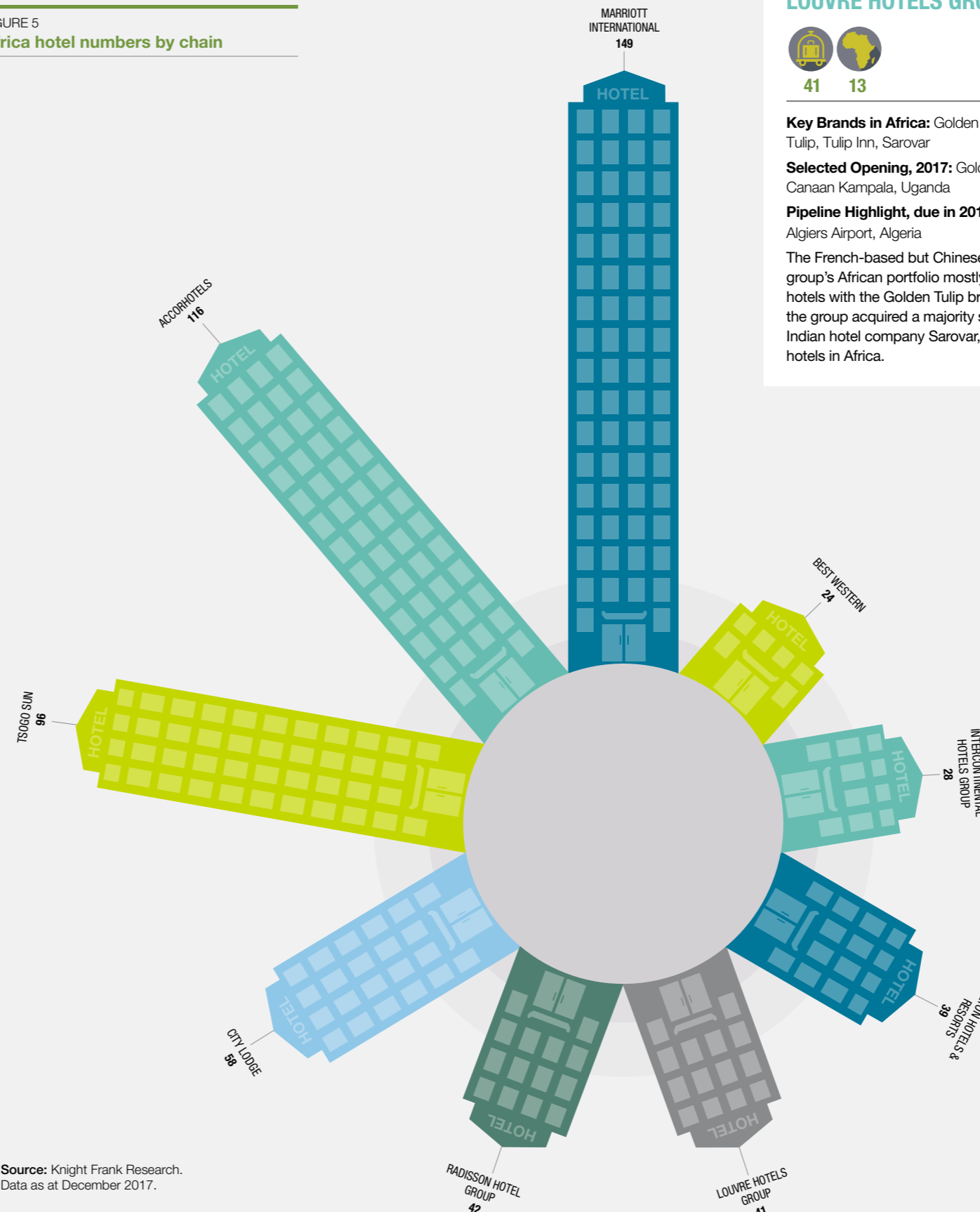
Key Brands in Africa: Radisson Blu, Radisson RED, Park Inn by Radisson

Selected Opening, 2017: Radisson Blu, N'Djamena, Chad

Pipeline Highlight, due in 2018: Park Inn by Radisson Luanda Kilamba, Angola

Radisson Hotel Group rebranded from Carlson Rezidor in early 2018. Its Radisson Blu brand has over 30 hotels in Africa, while the first African hotel using the Radisson RED brand opened in Cape Town in 2017. Among its pipeline projects, the group has signed an agreement to operate five new Park Inn by Radisson hotels in Angola.

FIGURE 5
Africa hotel numbers by chain



Source: Knight Frank Research.
Data as at December 2017.

LOUVRE HOTELS GROUP



41 13

Key Brands in Africa: Golden Tulip, Royal Tulip, Tulip Inn, Sarovar

Selected Opening, 2017: Golden Tulip Canaan Kampala, Uganda

Pipeline Highlight, due in 2018: Tulip Inn Algiers Airport, Algeria

The French-based but Chinese-owned group's African portfolio mostly comprises hotels with the Golden Tulip brand. In 2017, the group acquired a majority stake in the Indian hotel company Sarovar, which has five hotels in Africa.

HILTON HOTELS & RESORTS



39 14

Key Brands in Africa: Hilton, DoubleTree by Hilton, Curio, Conrad

Selected Opening, 2017: Hilton Cabo Verde Sal Resort, Cabo Verde

Pipeline Highlight, due in 2018: DoubleTree by Hilton Kigali City Centre, Rwanda

Hilton is pursuing growth in Sub-Saharan Africa through the conversion of existing hotels into Hilton-branded properties. In 2017, it announced that it will invest US\$50 million over five years to support the conversion of around 100 properties.

INTERCONTINENTAL HOTELS GROUP



28 10

Key Brands in Africa: InterContinental, Holiday Inn, Crowne Plaza

Selected Opening, 2017: Holiday Inn Mutare, Zimbabwe

Pipeline Highlight, due in 2018: Crowne Plaza Nairobi Airport, Kenya

The InterContinental Hotels Group has a relatively modest African pipeline. Recent expansion has come through the opening of the rebranded Holiday Inn in Mutare, Zimbabwe, a franchised property owned by African Sun Limited.

BEST WESTERN



24 9

Key Brands in Africa: Best Western, Best Western Plus, Best Western Premier

Selected Opening, 2017: Best Western Plus, Ibadan, Nigeria

Pipeline Highlight, due in 2018: BW Premier Collection The Alba, Nairobi, Kenya

The comparatively small size of Best Western's African footprint partly reflects the fact that its business model is uncommon in Africa. It does not own or manage hotels; instead, independent hotel owners operate Best Western-branded hotels under licence agreements.

KEY

Number of hotels in Africa

Countries present in Africa

AFRICA HOTELS PERFORMANCE REVIEW

At a pan-African level, the hotel sector recorded a steady improvement across all key performance indicators in 2017.

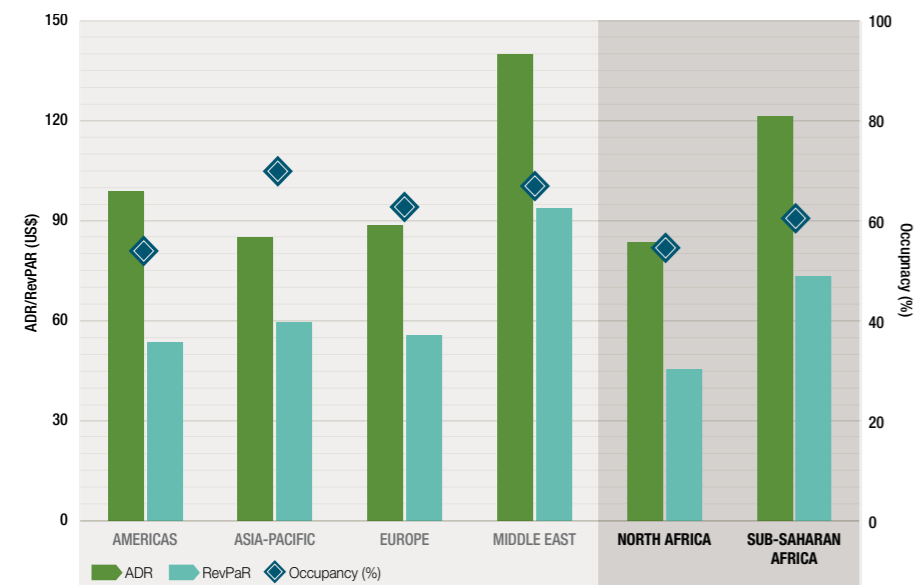
The overall African hotel occupancy rate, as reported by hotel data provider STR Global, was 58.0% in 2017, up from 54.9% in 2016. This was primarily driven by an improvement in the North African occupancy rate, which rose by more than seven percentage points to 54.6%. Occupancy rates across North Africa have been depressed in recent years, partly due to the impact of heightened security concerns on tourism. However, the performance of 2017 indicates that the sector is gradually recovering; occupancy was at its highest level since 2010, but it remained substantially below the levels of a decade ago.

In contrast to the volatility of the North Africa region, occupancy in Sub-Saharan Africa has been steadier over recent years, staying close to 60%. The Sub-Saharan region also consistently records higher room rates than North

Africa, according to STR data. The Sub-Saharan Africa Average Daily Rate (ADR) was US\$121.35 in 2017, a level which compares well with most other global regions. However, this belies a large variation in ADR across the countries of Sub-Saharan Africa, and it reflects the relative absence of budget and midscale hotels in the sample data.

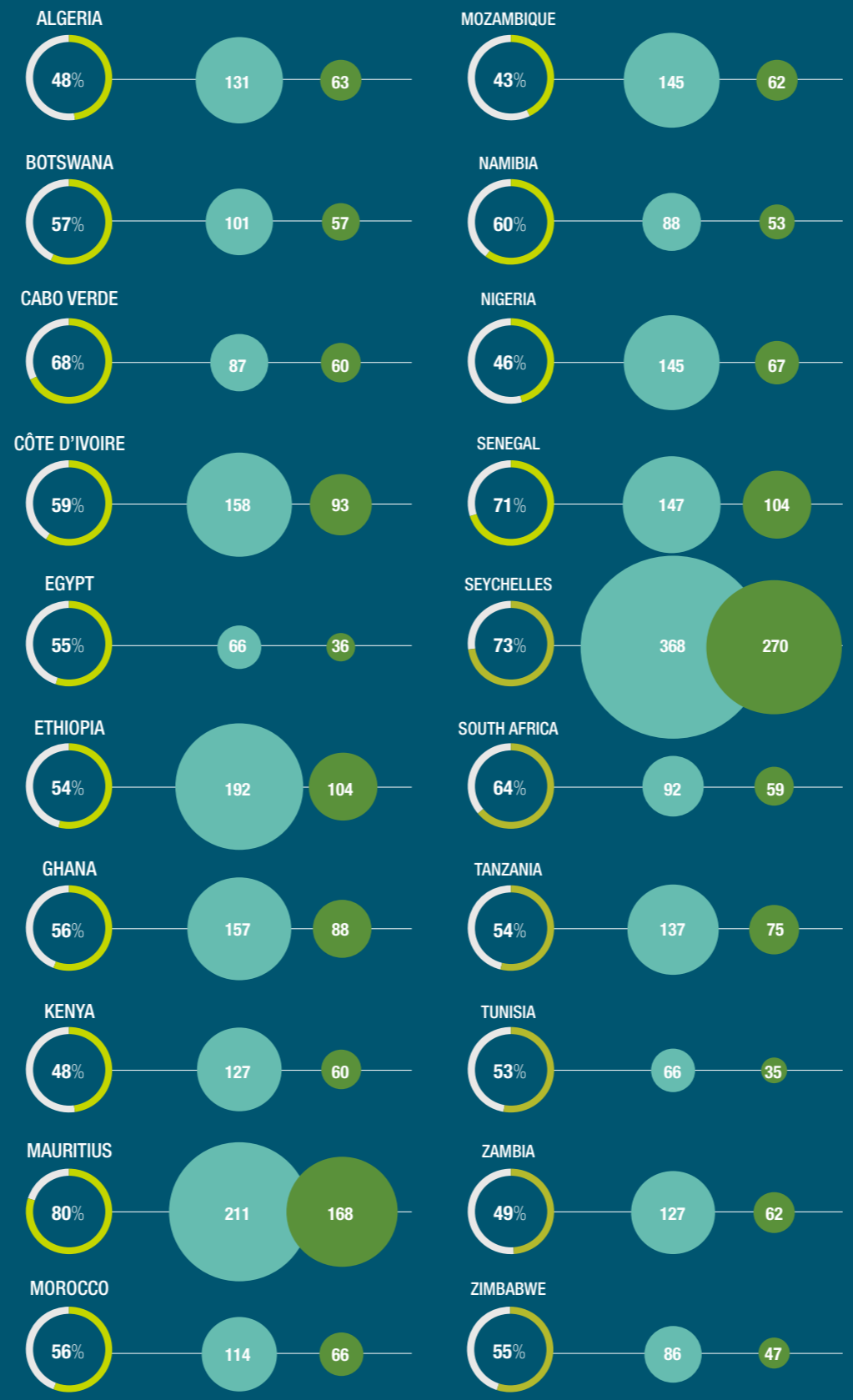
At a country level, Mauritius and Seychelles were 2017's top-performing markets, in terms of both occupancy and room rates. Both markets are dominated by luxury resort hotels, and have been relatively immune to the security concerns that have impacted resort locations elsewhere in Africa. These two markets are expected to remain the continent's top performing markets in 2018, and they are increasingly popular targets for investors.

FIGURE 6 Global hotel performance comparison, 2017



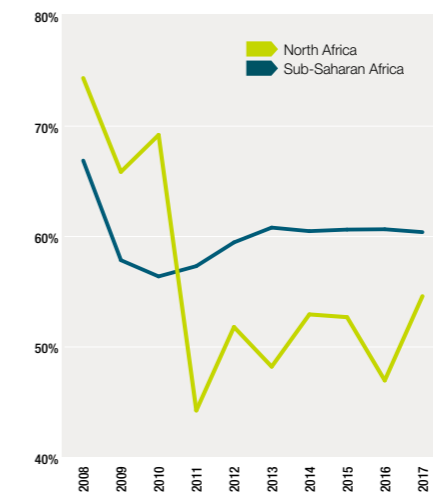
Source: STR Global

2017 KEY PERFORMANCE INDICATORS BY COUNTRY



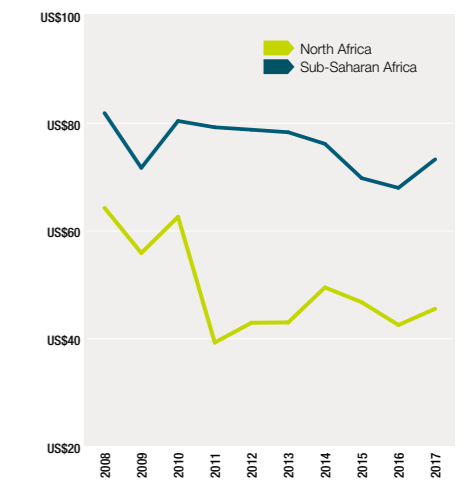
Source: STR Global

FIGURE 7 Historical occupancy rates



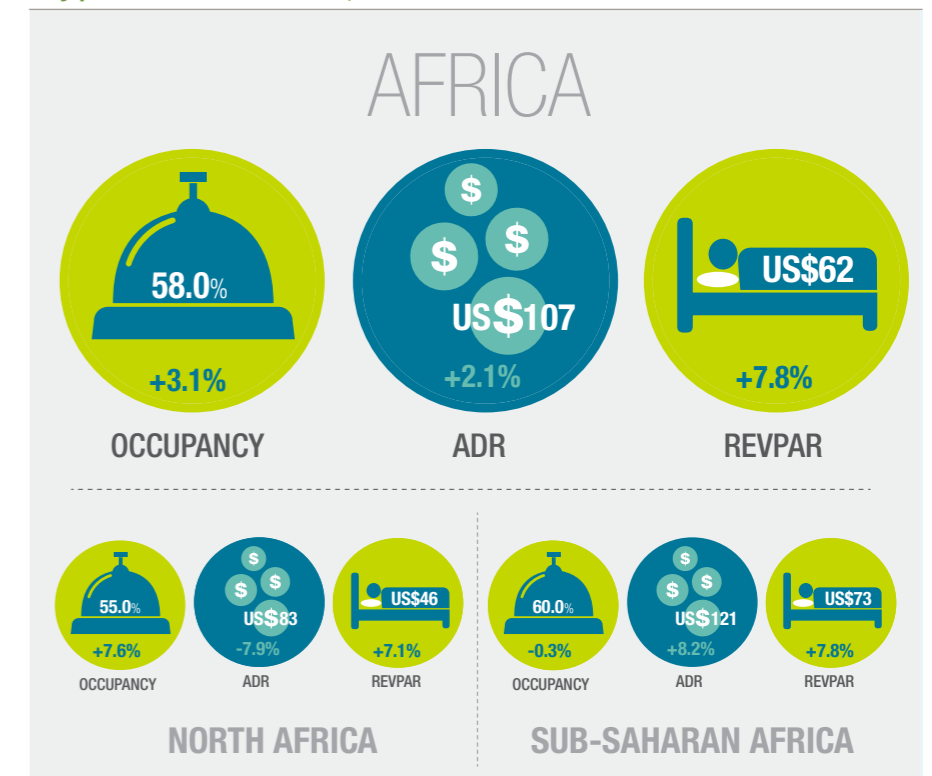
Source: STR Global

FIGURE 8 Historical RevPAR performance



Source: STR Global

FIGURE 9 Key performance indicators, 2017



Source: STR Global

GLOSSARY

Occupancy %: The number of rooms sold as a proportion of available rooms for a specified time period

Average Daily Rate (ADR): A hotel's total Rooms Revenue divided by the number of rooms sold during the period

Revenue Per Available Room (RevPAR): The total Rooms Revenue divided by the total number of available rooms during the period

CAPITAL MARKETS OVERVIEW

The hotel sector is one of the most active segments of the African real estate investment market.

A series of significant hotel transactions have been completed in recent years. These have involved a variety of investors including property funds building their African portfolios, international investors seeking exposure to the sector and hotel owner-operators growing or restructuring their African businesses.

One of the most visible investors in this sector is Quantum Global, whose US\$500 million investment vehicle QG Africa Hotel LP is targeting midscale to upscale business hotels in Africa. Its first two acquisitions were the InterContinental Hotel in Lusaka and the Mövenpick Ambassador Hotel in Accra. With a sale price of US\$100 million, the latter was the largest-ever single-asset hotel deal in Sub-Saharan Africa.

Mara Delta, which was rebranded as Grit Real Estate Income Group in 2017, has been highly acquisitive across all commercial property sectors over the last few years. It has gained exposure to the hotel and hospitality sector through its purchase of stakes in four resorts in Mauritius in two separate transactions.

Another major player in the sector is the South African REIT, Hospitality Property Fund (HPF), which is majority-owned by the Tsogo Sun hotel group. Following its purchase of 29 Tsogo Sun hotels in 2017, HPF owns 53 hotel or hospitality assets.

An example of a recent acquisition by a hotel operator is ONOMO's purchase of Inn On The Square in Cape Town, which was previously managed by aha Hotels & Lodges. ONOMO has hotels in eight African countries and has raised €106 million from two investors, CDC Group and CIC Capital, to support the expansion of its African portfolio.

A hotel's branding is crucial to its attractiveness to investors. Many have a preference for assets that can be rebranded after purchase, rather than hotels that are locked in to long-term management contracts. Investors may feel that they can gain value by moving a hotel to a higher-scale brand but, as the sector matures across Africa, there will also

be increased opportunities for investors and developers to target the budget and midscale hotel segments. Emerging formats such as apartment hotels, which are still in their infancy in most of Africa, are another potential target for investors.

As is the case across all property sectors, the scarcity of investible hotel assets presents a major challenge to global investors seeking to enter African markets. However, for those able to source the best quality stock, the sector offers opportunities to acquire international-standard properties. Hotel investments in Africa will be best suited to investors with long-term horizons, who can ride out any short-term volatility in the sector, and tap into its future growth potential.



Mövenpick Ambassador Hotel, acquired by Quantum Global for US\$100 million. Photo: © Mövenpick Hotels & Resorts

Selected recent African hotel transactions

Date	Property	Location	Seller	Buyer	Price (US\$)
Q2 2017	Tsogo Sun Portfolio	South Africa (29 locations)	Tsogo Sun Holdings	Hospitality Property Fund	276m*
Q4 2016	Mövenpick Ambassador Hotel	Accra, Ghana	Kingdom Holding Company	Quantum Global	100m
Q4 2016	Beachcomber Portfolio (44.4% stake)	Mauritius (3 locations)	New Mauritius Hotels Limited	Mara Delta (now Grit Real Estate Income Group)	53m
Q1 2017	Tamassa Resort	Bel Ombre, Mauritius	Néréide Limited	Mara Delta (now Grit Real Estate Income Group)	40m
Q1 2017	Hyatt Regency	Johannesburg, South Africa	Investec Property	Bin Otaiba Investment Group	36m
Q1 2016	InterContinental Hotel	Lusaka, Zambia	Kingdom Hotel Investments	Quantum Global	35.9m
Q2 2017	African Pride 15 On Orange	Cape Town, South Africa	Blend Property Group	Spear REIT	23m
Q1 2017	Umubano Hotel	Kigali, Rwanda	Rwandan Government/LAICO	Madhvani Group	20m
Q4 2016	Inn On The Square	Cape Town, South Africa	Hospitality Property Fund	ONOMO Hotel Group	11m

Source: Real Capital Analytics / Knight Frank Research *approx. US\$199m in shares + US\$77m in cash

THE VIEW FROM THE GULF



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In recent times, Africa's growing hospitality market has seen increased levels of investment from Middle Eastern hospitality groups. While some investors have been driven to diversify their holdings due to the slowdown in domestic markets, others continue to be active in both domestic and foreign markets.

Additionally, large family groups involved in the hospitality sector are increasingly looking at African countries – mainly concentrating on largely untapped markets within East and West Africa – as possible locations in which to deploy capital, as previously preferred regional markets have become unviable due to conflicts and geopolitical issues.

Overall, these investors are looking to take advantage of the undersupply of international grade hotels, Africa's population boom and the expected exponential growth in travel and tourism across the continent.

From a Middle Eastern perspective, we are beginning to see something of an uptick in the activities of renowned investors and developers building portfolios of properties across key hospitality hotspots, particularly Morocco and Egypt in North Africa, as well as emerging locations in Sub-Saharan Africa.

In the past, North Africa has been a firm favourite with Middle Eastern investors, due to historic and cultural ties, and this is likely to remain the case for the time being. As North Africa is one of the key outbound destinations for Middle Eastern tourists, recognisable brand names arguably offer easier market penetration. Prime examples include Abu Dhabi-based Eagle Hills' 184-key Fairmont property in La Marina Morocco in Rabat, the Kuwaiti United Real Estate Company's Assoufid golf resort development in Marrakesh and Qatari Diar's Anantara resort in south west Tunisia.

Finally, as the tourism profiles of East African countries continue to grow – alongside various private-public partnerships particularly with Middle Eastern behemoths such as DP World – we can expect increased investment from Middle Eastern investors into key markets in this region.

HOTEL MARKET OUTLOOK

Many of the continent's largest cities continue to be challenging markets for hotel operators entering or expanding in Africa. New hotel developments are regularly subject to protracted delays, and there is an ongoing disparity between the stated pipelines of major hotel groups in Africa and their ability to open these projects on time.

Nonetheless, there is considerable growth potential within the African hotel sector, particularly outside of the relatively well-supplied markets of South Africa and North Africa. Even in these markets, hotel supply levels are small compared with North American and European countries, indicating that there is room for growth over the long term.

While the long-term potential is evident, more transient trends such as the recent slowdown in the major

oil economies and heightened security concerns in North Africa, have shown that short and medium term risks can emerge. Developers, investors and hotel operators should weigh such risks against longer-term market prospects. New hotel developments need to be well-timed, correctly located and targeted at the right audiences.

Travel to and within Africa has historically been hindered by poor air connections, but these are gradually improving and low-cost African airlines are emerging. Over the long term, a growing number of destinations should become more accessible to international and intra-African travellers, driving demand for hotel rooms.

Tourism flows within Africa will also be boosted by the expansion of the continent's middle classes and reduced visa restrictions. As the current branded

hotel supply in many African cities is targeted primarily at affluent international travellers, there is space in the market for midscale and budget hotel brands catering more to regional and domestic demand.

Hotel operators will need to tailor the experiences that they offer to other emerging audiences. Africa's growing economic ties with China, for example, are creating demand for hotel styles that specifically appeal to Chinese tourists and business travellers. Experiential hotels, which aim to immerse visitors into local cultures, are another potential growth area.

As demand evolves and Africa's hotel industry matures, an increasingly diverse range of opportunities will arise in the sector.

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