HOTELS AFRICA 2018

Accommodating growth in Africa
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 80% 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$3.6 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

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


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 Citylife, a chain owned by UAE investor Dar 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 Teylom International, has opened three hotels in West Africa and has ten pipeline projects in this region. Azalai 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 Emaar Hospitality, which has projects in Egypt under its Address brand. 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.
### Major Hotel Chains in Africa

#### Marriott International

- **Key Brands in Africa:** Protea by Marriott, Sheraton, Four Points by Sheraton, Le Méridien
- **Selected Opening, 2017:** Four Points by Sheraton N’Djamena, Chad
- **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 2015. It has a target of having over 200 hotels with Starwood in 2016. The group was further expanded by its merger with Starwood. Accra Marriott Hotel, Accra, Ghana was due to open in 2018.

#### AccorHotels

- **Key Brands in Africa:** Ibis, Mercure, Novotel, Sofitel, Fairmont
- **Selected Opening, 2017:** Ibis N’Djamena, Chad
- **Pipeline Highlight, due in 2018:** Fairmont Windhoek, Namibia

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. As of December 2017, three hotels have opened under the Ibis Styles brand.

#### City Lodge

- **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

As of December 2017, the City Lodge group is new to the African market and is expanding into other markets in East and Southern Africa.

#### Radisson Hotel Group

- **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 Kambja, 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.

#### Hilton Hotels & Resorts

- **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.

#### InterContinental Hotels Group

- **Key Brands in Africa:** InterContinental, Holiday Inn, Crowne Plaza
- **Selected Opening, 2017:** Holiday Inn Mutare, Zimbabwe
- **Pipeline Highlight, due in 2018:** Crowne Plaza N’Djamena, Chad

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

- **Key Brands in Africa:** Best Western, Best Western Plus, Best Western Premier, Best Western Plus
- **Selected Opening, 2017:** Best Western Plus, Ibadan, Nigeria
- **Pipeline Highlight, due in 2018:** BW Premier Collection The Alba, Abuja, Nigeria

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.

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**Figure 5:** Africa hotel numbers by chain

**Source:** Knight Frank Research. Data as at December 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.
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 is majority-owned by CDC Group, an investment management firm. Another major player in the sector is the Hospitality Property Fund (HPF), which is majority-owned by the Mara Delta, which was rebranded as Saharan Africa.

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