

Hilton Leads Rush to Africa in Fastest Boom: Real Estate

By Nadja Brandt - Jul 23, 2013 3:47 PM GMT+0200



Hilton Worldwide Inc. via Bloomberg

A swimming pool is pictured at the Hilton Worldwide Inc. Alexandria Corniche, located in Alexandria, Egypt.

Marriott International Inc. (MAR), Starwood Hotels & Resorts Worldwide Inc. (HOT) and Hilton Worldwide Inc. are turning to [Africa](#), where a growing middle class and rising travel are fueling the fastest pace of hotel development in the world.



The Conrad Pezula, by Hilton Worldwide Inc., is located on South Africa's famous coastal Garden Route. Source: Hilton Worldwide Inc. via Bloomberg

Marriott has increased the number of hotel rooms it plans on the continent by 55 percent from last year. For Starwood, revenue per available room in Africa and the [Middle East](#) is the highest of any region worldwide. The high-end Transcorp Hilton Abuja, in [Nigeria's](#) capital, commands some of the steepest management fees in the world for its operator, according to Lagos, Nigeria-based hotel-consulting firm W Hospitality Group.

Hotel investors and operators, finding growth slowing in mature European and U.S. markets, are expanding in Africa as the continent is buoyed by increasing trade with countries



People look at clothes on sale at the Kariokor market in Dar es Salaam, Tanzania. Photographer: Simon Maina/AFP via Getty Images

including [China](#) and rising demand for services such as lodging. More than half of Africa's countries probably will post gross domestic product growth of 5 percent annually through 2016, [Economist Intelligence Unit Ltd.](#) said.

"Africa's middle class is almost as large as the entire populations of Russia and Brazil combined," Hassan Ahdab, Starwood's regional vice president for the African and Indian Ocean region, said in an e-mail. "The boom in sub-Saharan Africa is attracting business talent from the rich world."

The sub-Saharan region includes Kenya and Tanzania in the east, Nigeria in the west, [Angola](#) in the southwest, and [South Africa](#) and Botswana in the south.

Young Population

Urbanization in Africa is being driven by one of the world's youngest populations, said Trevor Ward, principal at W Hospitality, citing data from the [International Monetary Fund](#). People of working age moving to cities has resulted in 40 percent of Africa's population living in urban centers today, compared with 30 percent in India, he said.

The median age in [Ethiopia](#) and Nigeria is 18, compared with 37 in the U.S. and almost 46 in Japan and Germany, according to the Central Intelligence Agency's World Factbook. Forty-nine African cities have populations of more than 1 million, with five of those home to more than 7 million, according to a 2012 study by London-based research firm Economist Intelligence.

Those demographic trends, combined with rising exports of oil and minerals from such countries as Nigeria and Angola, are lifting domestic and international business demand for lodging, according to Ahdab.

"Business schools, including the [London Business School](#), are now getting in on the game and offering Africa-specific seminars, training and clubs," he said. "For many of these business students, Africa is like India and China 10 years ago."

Outperforming Asia

Growth on the continent is most dramatic in sub-Saharan Africa. Planned developments, which

include new properties by luxury-hotel operator [Kempinski](#) in Nairobi, Kenya, are up 23 percent from last year by number of rooms, compared with a 9 percent increase in North Africa, which is a bigger, more mature lodging market with such tourist draws as Morocco and [Egypt](#), Ward said.

In the Asia-Pacific region, planned hotels are up 8.5 percent, while in Europe the increase is 4 percent, according to Hendersonville, Tennessee-based research company STR.

Rising numbers of leisure travelers from abroad to eastern and southern Africa also are boosting demand for hotel rooms. In [Rwanda](#), tourism income probably will grow to \$440 million in 2014 from a projected \$317 million this year, the Rwanda Development Board said in May.

Tourism Growth

Tourism revenue in Kenya is forecast to rise to more than 100 billion shillings (\$1.15 billion) this year from 96 billion shillings in 2012, the country's tourism authority said last month. In South Africa, tourist arrivals rose 10 percent to a record 9.19 million last year, driven partly by an increase in visitors from Asia, President [Jacob Zuma](#) said in April.

"When it comes to Africa, many people have tended to focus on the negative -- the wars, the corruption," Ward of W Hospitality said in a telephone interview. "But there is not that much opportunity left in the more-developed markets like Europe and in the U.S. for new hotel developments. Today, Africa is seen as a big blank block on the map where hotel companies need a presence in."

With seven of the 10 fastest-growing countries in the next five years likely to be in Africa, average growth on the continent probably will outpace Asia's, according to IMF data.

Northern Africa

In northern Africa, a region that includes Egypt, Morocco, and Algeria, hotel revenue per available room, an industry measure of occupancies and nightly rates, surged 16 percent in the first five months of 2013 from a year earlier, the biggest gain after southeastern Asia among 15 regions tracked by STR.

Limited competition, which allows hoteliers to charge high room rates, coupled with low labor costs are driving lodging profitability in Africa, Ward said.

Among the largest hotel operators in Africa is Hilton. The McLean, Virginia-based company, owned by U.S. private-equity firm [Blackstone Group LP \(BX\)](#), has the most rooms planned on the continent, with a pipeline of 6,230 at 23 hotels, according to a W Hospitality survey. That's up 84 percent from the number of rooms Hilton had planned last year.

The hotelier plans to eventually have properties in all of Africa's key cities, according to Rudi Jagersbacher, Hilton's president for the region. This year, the company opened its second hotel in Alexandria, Egypt -- the [Hilton Alexandria Corniche](#), which has ocean views and an infinity pool overlooking the property's private beach.

"Growth, particularly in the key business, government and commercial cities, is fueling the demand for quality hospitality," Jagersbacher said in an e-mail.

'Leading Hotel'

In Abuja, a shortage of high-end hotels combined with rising demand allows Hilton to charge more than \$400 a night for its rooms -- and lets the hotelier collect some of the highest management fees in the world.

"Transcorp Hilton Abuja is the leading hotel in Nigeria's capital city," with 670 rooms and the largest meeting and convention facilities in the country, said Jagersbacher, who declined to discuss how much his company is paid. "The management fees are set according to the quality and size of the property."

Groupe du Louvre, owned by an affiliate of [Barry Sternlicht](#)'s private-equity firm, Starwood Capital Group LLC, has a pipeline of 2,290 hotel rooms, more than doubled from last year, according to W Hospitality. Louvre owns such luxury brands as [Concorde Hotels & Resorts](#), which has two locations in Egypt. The hotelier has 17 African properties planned.

Ethiopian Hotels

Marriott plans 3,900 rooms at 22 hotels, W Hospitality said. The most recent transactions on the continent for the Bethesda, Maryland-based company -- the U.S.'s largest publicly traded hotel chain -- include a November agreement to open a 150-room luxury hotel in Lagos, and the May 2012 announcement of a management agreement for two hotels in Ethiopia being built and financed by local developer Sunshine Construction (Pvt) Ltd.

At Starwood Hotels, based in Stamford, Connecticut, average room rates at properties in Africa and the Middle East were \$209.87, and revpar was \$136.69, in the fourth quarter, the latest period for which the data are available, according to a quarterly filing. The figures were the highest among the five global regions Starwood Hotels breaks out.

Starwood Hotels, which is scheduled to [open](#) a new [St. Regis](#) in Cairo in March 2015, plans to increase its number of properties in Africa to 50 by 2016 from 38 today.

'Encouraging Signs'

“I saw encouraging signs during our recent market visit to South Africa, Angola, Nigeria and Gabon,” Chief Executive Officer Frits van Paasschen said during an earnings conference call with investors in February. “Africa is the one region that was left behind by global development in the last 20 years, but we see that changing.”

Nigeria, Africa’s biggest country by population, probably will overtake South Africa this decade as the largest economy on the continent, Ward said.

Already, hotel demand can overwhelm supply at times. In Tanzania, the Hyatt Regency Dar es Salaam, the Kilimanjaro, and the Dar es Salaam Serena Hotel both faced room shortages during U.S. President [Barack Obama](#)’s recent African tour, according to the properties’ reservation workers.

The continent is not without challenges for hoteliers. Not all African countries are growing at the same rate, with a lack of economic activity or political instability affecting some areas, Ward said.

Egypt Unrest

In Egypt, tourism has been hurt by the unrest that led to the military’s ouster this month of President Mohamed Mursi. Occupancy in the nation this year through May was the second-lowest among the 12 countries in the region STR tracks, at 52 percent. Bahrain was lowest at 49 percent.

Kenya’s economic growth rate was little changed in the first quarter as businesses were held back by the prospect of unrest and instability before elections, the Nairobi-based Kenya National Bureau of Statistics said on June 28.

“You have 54 countries, and the situations in each can vary greatly,” Ward said. “You’ve got so many small countries, land-locked countries with few natural resources and no access to any ports. The demand there will never be as great as in coastal areas or resource-rich countries.”

[Hyatt Hotels Corp. \(H\)](#), which has six high-end hotels on the continent and two under development, both in Morocco, is careful where it chooses locations for expansion with “intense competition” for the right opportunities, said [Peter Norman](#), senior vice president of acquisitions and development for Europe, Africa and the Middle East. The Chicago-based company plans to open hotels in cities such as Lagos; Nairobi; Addis Ababa, Ethiopia; [Accra, Ghana](#); and Cape Town, to capitalize on Hyatt’s customer base in China.

“Chinese business travelers are increasingly traveling in line with their investments, and as we know a lot of Chinese capital has been flowing into Africa recently,” Norman said in an e-mail. “Our strong development pipeline in China supports our expansion into Africa. By building preference amongst Chinese business travelers at home, we will encourage them to visit Hyatt hotels when they are

abroad.”

To contact the reporter on this story: Nadja Brandt in [Los Angeles](#) at nbrandt@bloomberg.net