# AFRICAN HOTELS AND RESORTS: INVESTORS' HIDDEN TREASURES

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In 2015 the latest of the biannual reports by Hotel Partners Africa outlined the huge opportunity that was available for hotel investors in sub-Saharan Africa, echoing many earlier reports by a whole series of academic and professional luminaries. Everyone knows about Africa's potential, created by the population explosion, the demographic profile of the population and the commodities "lottery win". However, the shortage of hotel bedrooms provides one of the best opportunities for traditional property investors anywhere in the world. To set this opportunity into context it is useful to look at some of the key facts. In the USA, one of the most mature hotel markets in the world there are approximately 15,000 branded hotel bedrooms per million people in the population. Across sub-Saharan Africa there are only 89 bedrooms per million population. That is 168 times less; purely in terms of supply, the opportunities are huge. If a hotel is built in the right place, at the right time, without delays or cost overruns, and the right hotel is developed, then the returns can be huge. Many projects at feasibility stage show geared investment returns at 30% and above, and we have even seen hotels pay back the initial investment after less than three years.

This article provides our insight into some of the potential investment hotspots across sub-Saharan Africa, where opportunities may be at the most ripe, for intelligent investors. Please note, each opportunity will need careful consideration, on aa project by project basis. Just because an opportunity is located in one of the identified "hotspots" does not mean it will automatically work. It is still essential to look local market dynamics compared with the proposal, if the best returns are to be made; there is no substitute for detailed due diligence. Our hotspot analysis focuses on business hotels, and is heavily weighted to key cities in each country, albeit we refer to the country as the hotspot. Our analysis looks at GDP per head capita and compares it with branded bedroom supply. A country that has a strong economy, with limited supply of bedrooms is looked at carefully, in terms of the market dynamics. We have concentrated on countries that have the opportunity for more than one hotel, so investors can create natural scale efficiencies, by developing more than one property. As such certain very promising markets are not listed here, when using a different base methodology they would qualify as a hotspot.

### Ghana

Ghana is the darling of property investment in West Africa, attracting significant commercial investment from experienced "Africa hands", and until the currency crisis it seemed to be growing strongly. In terms of hotels, it is the second most significant market in West Africa with 1,530 branded bedrooms already operational across 3 different cities. 9 brands are represented and the Ease of Doing Business rating (67 out of 198) and Property Rights Protection rating (60 out of 144) have resulted in a strong pipeline of a further 1,080 bedrooms over 6 projects. The population of almost 26m growing by an estimated 2.2% has the highest GDP per capita in the region at USD 3,500 (GDP/ Capita PPP).

In terms of branded bedrooms per million population it has a low 59 bedrooms, whilst the average bedroom is worth $351,411. Over the last six years, hotel values have risen at an average of 6.5%, which compares favourably with offices (5.4% per annum increase), retail (a 7% per annum drop in value) and industrial properties (which showed a 7.4% per annum drop in value).

### Nigeria

Nigeria is the most important economy on the continent, and arguably the most important country, given its huge size, trading power, and potential for growth. It is by far the most significant hotel market in West Africa with over 6,000 branded rooms across 41 hotels, with 21 brands (and 14 hotel companies) represented in 9 cities. With a population of almost 180m, growing at an estimated 2.5% per annum and with the largest economy on the continent, it is unsurprising that more hotel projects (40) and more branded bedrooms (6,614) are proposed here than in any other country on the continent. The last 2 years have been difficult, with the decline in oil prices and the devaluation of the local currency, but with 37 state capital cities, all of which arguably could accommodate new hotel bedrooms, this country will always provide interesting opportunities.

In terms of branded bedrooms per million population it has a low 34 bedrooms, whilst the average bedroom is worth $433,674. Over the last six years, hotel values have risen at an average of 5.5%, which compares with offices (1.4% per annum decrease), retail (a 14.5% per annum increase in value) and industrial properties (which showed a 16.5% per annum increase in value).

### Ethiopia

Ethiopia presents one of the clearest opportunities on the continent. The existing supply consists of just 3 existing branded hotels with 879 rooms, meaning it really is the "sleeping giant" in East Africa. With a population of just under 100 million it is woefully under supplied in terms of branded bedrooms, with nothing outside of Addis Ababa. Even when taking into account the 6 new hotels in the pipeline (which would more than double the existing supply at 19 rooms per million population) significant development potential exists across the country.

## Kenya

The most developed hotel market in East Africa (and arguably all of Africa except Egypt and South Africa) is in Kenya, with 38 existing branded hotels with 4,200 bedrooms spread across 19 different brands. However, in the last few years the market has suffered badly because of terrorism and safety fears for travellers. High profile attacks, like the Westgate Siege in Nairobi or the massacre at Garissa University in Eastern Kenya, compounded by travel advisories warning against non-essential travel led to a drastic decrease in tourism visitation, trading and performance.

In terms of branded bedrooms per million population it has a relatively high 93 bedrooms, whilst the average bedroom is worth $227,629. Over the last six years, hotel values have risen at an average of 5.7%, which compares relatively unfavourably with offices (30.3% per annum increase), retail (an 11.7% per annum increase in value) and industrial properties (which showed a 22.2% per annum increase in value).

The market is ripe for opportunistic purchasers, with interest increasing the pressure on existing ownerst o reduce asking prices. Kenya will rebound in terms of leisure business and with an increase in corporate demand the medium to long term prospects look good.

## Tanzania

Tanzania's branded hotel stock showed the highest growth in the region over the last 6 years at 6.3% per annum and with 41 hotels and 3,150 bedrooms it is a very important regional market. 17 brands are represented in different locations with a further 10 new hotels and 945 bedrooms in the pipeline. With a population of just under 50 million, growing at 2.8% per annum, the expanding oil and gas sector are starting to reduce the significance of the travel and tourism sector to the country's economy as a whole (currently 11.5% of all jobs are in the wider travel and tourism segment).

Dar es Salaam remains the primary commercial market but leisure hotels at the beach (Zanzibar and Pemba) or the game reserves (Ngorongoro Crater and Serengeti) or at Kilimanjaro all have significant demand.

## Angola

In terms of value, Angola is the leading location in the region, in part down to Luanda being consistently rated the most expensive city in the world. Asking rates of about USD500 per person per night in Luanda compounded with huge tariffs for food (USD30 burgers), combined with low staff costs have led to strong hotel values. Even an increase in supply over the last five years of over 100% of the available (branded and nonbranded) hotel stock have not adversely impacted on performance. The existing branded market is small (4 hotels with 910 rooms), but a further 780 rooms (86% increase) are in the pipeline.

However, Angola remains a difficult place to do business. The Ease of Doing Business rating of 179 out of 189, and a Property Rights Protection rating (141 out of 145) tell a clear story, of just how much perseverance and careful due diligence is required to allow investors to take advantage of this lucrative market.

## How to review new opportunities

Two types of opportunities exist for hotel investors on the continent – the chance to buy an existing asset or the chance to develop new hotels. Both require expert advice if mistakes are to be avoided.

Most investors in Africa have concentrated on developing new hotels, and the simple way to ensure this is done well is to ensure you are building the most suitable hotel, and then to make sure you don't spend too much money, or encounter any undue delays. In a piece of research Hotel Partners Africa carried out earlier this year on actual hotel developments in key cities, it was shown that the typical delay in hotel openings was around 4 years across sub-Saharan Africa, with Lagos showing an average delay of 7 years, Accra and Dar es Salaam showing 3 years, Addis Ababa, Kigali and Kampala showing a 4-year delay, Lusaka showing a 5-year delay, and Nairobi and Abidjan showing and average delay of 2 years. These delays cost money – the returns on a development diminish rapidly if there are delays, and in one project the IRR dropped from an ungeared 15% to less than 7% on the back of a 4-year delay. Typical reasons for delay are not being prepared, changing your mind about the project during the process, not have an experienced development team, or not having enough money.

New developments do provide an opportunity to make excellent returns, if things go right. Buying an existing hotel minimises the risks of the process, as the property will usually already be operating, so a cashflow can be anticipated immediately. The key thing here will be to ensure you do not pay too much money – and as such a formal valuation by a hotel valuation expert is essential. Such a valuer will ensure you understand all the risks associated with the purchase, the state of the market currently, and anticipated movements in the market, both from an operational perspective and an investment perspective. They will advise on branding, the terms of the management contract, capital expenditure requirements as well as any "treasure hunting" opportunities.

The simple conclusion is that Africa is full of really exciting opportunities for hotel investors, but it is essential they understand the market place and get expert advice if mistakes are not to be made. There are risks, but for the right project the returns can be extraordinary, which is why so many investors are looking closely at the top locations, and if they are wise the "hotspots" listed above will form their starting point.