The Next Invasion of Africa – Recolonising the Dark Continent?

By David Harper

Recently Marriott announced that it plans to to acquire Protea Hotels, both the brands and the management company, and as such will become the most significant hotel operator in sub-Saharan Africa in terms of hotel numbers.

Protea Hotels (the single largest management company in the country), manages, franchises and leases hotels across the Protea Hotels brand (104 hotels), with 80 hotels in South Africa, a country Marriott has been trying unsuccessfully to enter for a number of years. In addition Protea has a significant presence in Malawi, Namibia, Nigeria, Tanzania, Uganda and Zambia, again countries where Marriott has been unable to secure an operational platform until this deal.

Although the terms of the deal have not been finalised, industry analysts expect the best quality hotels in the portfolio to be rebranded under one of the Marriott brands, while the Protea brand will remain on those that do not conform to such brand standards. David Harper, head of property services for Hotel Partners Africa, who is currently undertaking a research degree into the impact of brands upon hotel real estate, stated: “The benefits of branding these properties with an easily recognisable internationally renowned name, with the benefits of one of the strongest central reservations systems, could be immense. I was involved in a similar portfolio transaction where a local brand was taken over by an international name, and RevPAR across the portfolio rose by 14%, due to this single factor alone.”

The logic behind the deal for Marriott is clear cut. Sub-Saharan Africa is the economic hotspot in the world, with most commentators comparing it to the South Asian market just before the rapid rise in fortunes in that region. The estimate by Renaissance Capital is that by 2050, Africa will “produce more GDP than the US and Eurozone combined today, and that Africa can build its economy more quickly and has a greater “room to boom” potential than any other area. What has taken many economies centuries will take Africa decades and what this means, with a growing

Protea Hotel Ikeja

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middle class, is that there will be an estimated one billion Africans on the move in the same time-frame. Africa has been the second-fastest-growing region in the world over the past 10 years, with average annual growth of 5.1% over the past decade. This has been driven by greater political stability and economic reforms which have unleashed the private sector in many countries. Poverty is also on the retreat.

A new consuming class has taken its place: since 2000, 31 million African households have joined the world's consuming class. At the point when household incomes exceed $5 000, measured at purchasing power parity, consumers begin to direct more than half their income to things other than food and shelter. The continent now has around 90 million people who fit this definition. That figure is projected to reach 128 million by 2020. Contrary to conventional wisdom, the majority


Protea Hotel Select Emotan Benin

of Africa's growth has come from domestic spending and non-commodity sectors, rather than from the resources boom.

Hotels are leading the way in investment, albeit the continent is under-supplied as a whole in terms of international standard hotel rooms: Africa has only 6% of the supply found in Europe, and less than 1% of that found in the USA, and is seriously under-supplied in terms of population supply.

Sub-Saharan Africa is the least well-supplied region, accounting for only 23.3% of branded bedrooms on the continent, whilst having almost 73% of the total population. Almost 49% of all bedrooms are located in the five countries of North Africa, with the remaining 28% located in Southern Africa (RSA, Namibia, Lesotho, Swaziland, Angola and Mozambique). The deal will ensure Marriott has more flags in the region than any other hotelier, although it will still trail Accor in terms of bedrooms, according to W Hospitality Group, the Nigerian-based hospitality consultants, headed by Trevor Ward. "In recent years there has been a tremendous amount of development activity in sub-Saharan Africa, with the main hotel brands clamouring to enter into some of the most under-supplied and potentially profitable hotel markets in the world. Marriott has struggled to break into the region until now. At a stroke it has become one of the most significant operators in the market."
The traditional way for operators to enhance their market share is through developments, but in Africa these are particularly fraught with potential issues, and almost certain delays. Mark Martinovic, head of Hotel Spec, a specialist procurement and project management company based in South Africa stated: "This year the Intercontinental in Lagos, Nigeria finally opened its doors –seven years late. Such delays are not unusual,

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indeed we know of many hotel projects that are delayed a similar length of time with quite a few that may never be completed." Harper concurs. "Issues relating to land ownership are the leading problem with hotel development in 35 of the 49 countries in sub-Saharan Africa, followed by funding difficulties, generally the developer not being able to raise adequate development funding." Trying to leverage a hotel development based on a management contract is more difficult than on a lease, as banks and investors will generally feel less secure in their investment when the returns are subject to operational risk. This is one of the reasons that companies such as Protea and Lonhro have had some success in growing faster than has been typical on the continent, as they have traditionally been prepared to offer leases. However, the purchase by Marriott is likely to change this willingness to lease properties, as the American- based company is financially penalised for fixed future liabilities. This change in strategy is likely to have an adverse impact on the number of new hotels that the group becomes involved in over the next few years, unless a structure with Marriott is agreed upon that allows them to enter into new leases.

Arne Sorenson, president and CEO of Marriott International, said: "Africa has significant untapped potential for travel and tourism, both as a destination and source of new global travellers. The continent's GDP is anticipated to grow at over five percent annually over the next several years which we expect will raise more people into the emerging middle class. With the Protea Hotels acquisition, our expanded footprint should allow us to become the first choice of Africa's rapidly growing population of young, sophisticated travellers, and drive loyalty to our Marriott Rewards programme both within Africa and globally. Protea Hotels enjoys unparalleled brand