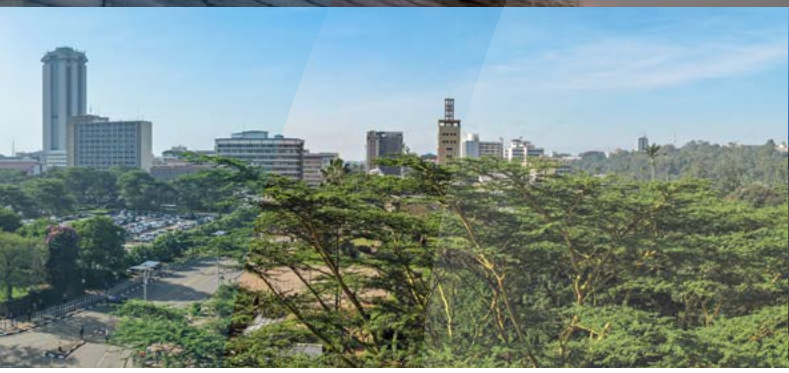
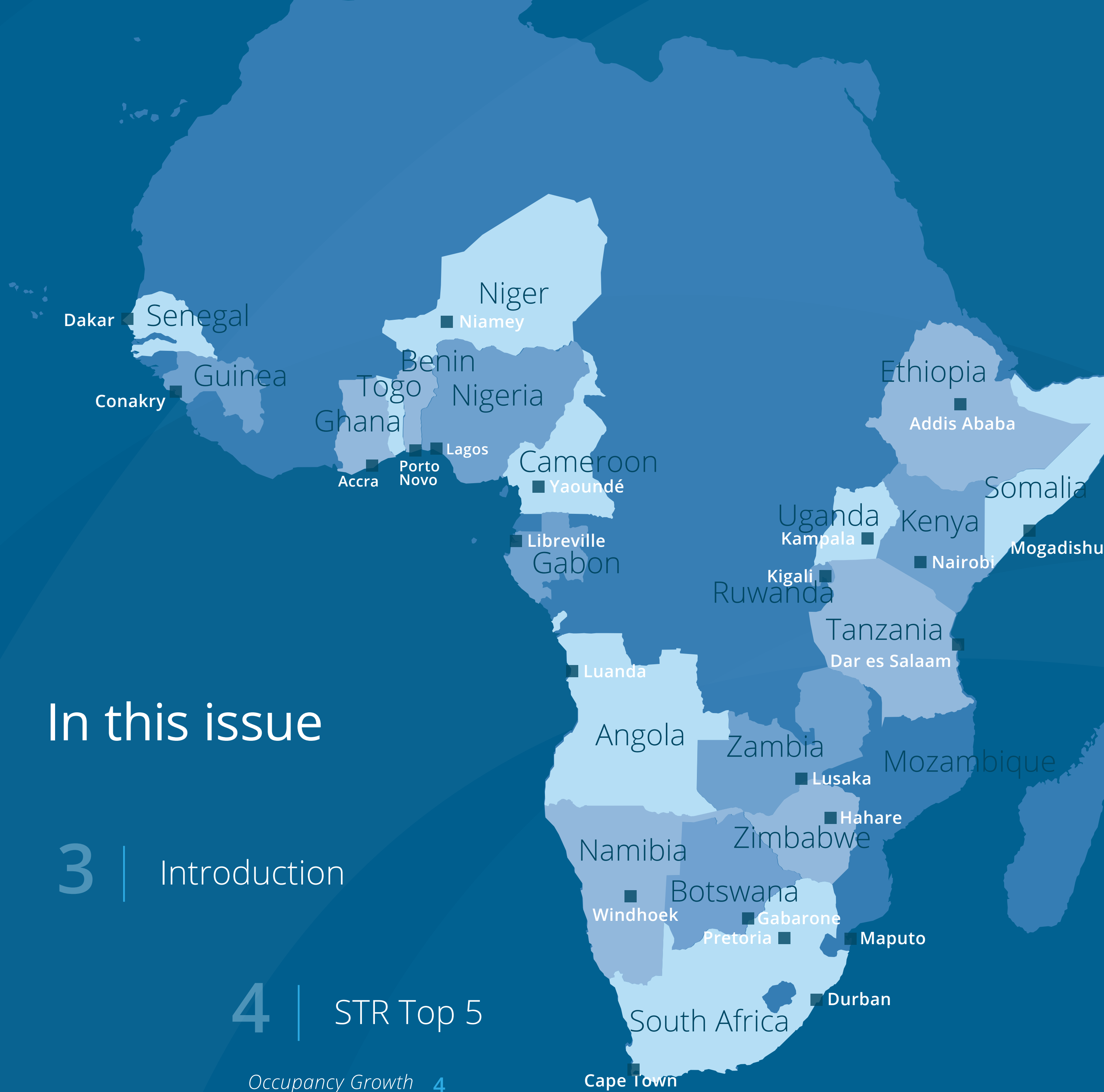
AFRICA'S HOSPITALITY MARKET

Year in Review 2017



Hti Consulting

Hospitality & Tourism Industry Specialists



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Introduction

In 2017 HTI Consulting conducted 45 studies across 20 cities in Africa. Our activity was widely spread between Franco and Anglophone West Africa and East Africa. Our consultants ventured into new territories including Senegal, Guinea, Niger and Benin as well as old such as Nairobi, Accra, Dar es Salaam, Kigali, Liberia and Addis Ababa. Our Lagos office has kept us busy with transaction advisory services as well as brokerage opportunities in Nigeria's commercial hub.

There were upward and downward trends across the continent in 2017 with more positive conditions in West Africa as oil economies gear up in light of the recovering oil price. Politics in some East African countries has served to dampen some of the markets in the area, albeit on a temporary basis.

We are pleased to highlight some key market trends in our 2017 year in review which focuses on 14 African cities as covered by STR. Occupancy, ADR, rooms sold, rooms available and future supply have all been taken into account in our assessment.

GROWING & DECLINING MARKETS

STR Top 5: Occupancy Growth

Lagos and Accra lead the 14 African cities assessed in terms of occupancy growth vs Cape Town and Lusaka in 2016. Gradual economic recovery in Ghana and Nigeria has seen both cities benefiting from increased business demand. Growth in Lagos comes off a very low base and higher levels of growth will be required to boost occupancy to former highs. This is anticipated in light of more positive economic projections. The strong growth in Accra has taken occupancies to a healthy level just above 60%.

Other markets showing moderate growth included Pretoria, Windhoek and Durban. The growth in both Windhoek and Durban is off a strong occupancy base of just below 65%. Namibia's economy is also recovering after the poor economic growth experienced in 2016.

STR Top 5: Occupancy Decline

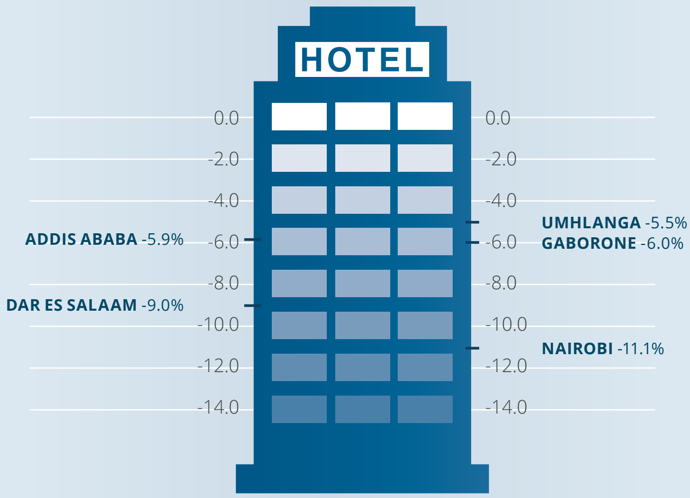
Nairobi's occupancy performance was the weakest of the 14 cities assessed with a decline in occupancy of 11.1%. The high levels of growth in new supply (8.7% increase in rooms available) coupled with a decline in demand due to the violence surrounding the August 2017 elections has reduced accommodation demand. Supply grew by 478 rooms of which 334 were internationally branded (Four Points Sheraton, Park Inn).

Dar es Salaam follows Nairobi with a decline in occupancy of 9%. Uncertainty by investors in terms of new Government policy has limited business travel to the City. In addition direct flights to key tourism destinations has reduced leisure demand for Dar es Salaam. Lower occupancies in Addis Ababa and Gaborone continued into 2017 following a decline in occupancy growth of 10.% and 7.1% respectively in 2016. Although supply has increased in these cities, demand is declining due to political unrest (Addis Ababa) and economic challenges driven by mining (Gaborone).

TOP 5 OCCUPANCY GROWTH

Source: STR

TOP 5 OCCUPANCY DECLINE



Source: STR

GROWING & DECLINING MARKETS

STR Top 5: ADR Growth (USD)

Contrary to 2016 when only two of the cities reviewed were able to achieve ADR growth in US Dollar terms, 9 of the cities assessed achieved growth in USD. Windhoek was the market leader followed by Cape Town, Pretoria, Sandton and Umhlanga. The strong growth was driven by the strengthening of the rand against the US dollar (the Namibian dollar is pegged against the rand). In local currency terms only Windhoek (9.9% growth) and Cape Town (7.2% growth) were positioned in the top five. Local currency growth in the Pretoria, Sandton and Umhlanga markets was well below inflation (5.4% in 2017) with Pretoria leading the growth at 1.9%.

STR Top 5: ADR Decline (USD)

In USD terms Lagos showed the biggest decline in ADR of 19%. The Naira depreciated against the dollar by approximately 16.5% in July/August 2017 driving ADR in USD downwards. In local currency terms ADR increased by 5.4%.

Nairobi follows Lagos with an ADR decline of 8.4%. Increased supply coupled with a decline in demand forced hoteliers to compromise on rate with a knock on effect for ADR. A similar situation is apparent in Dar es Salaam where lower levels of demand and increasing competition has negatively impacted rates. Having been the leader in terms of ADR growth in 2016, in 2017 Lusaka was one of the weakest performers with negative ADR growth (in USD) of -6.2%. In local currency Lusaka's ADR declined by 13.4%. ADR in Accra reduced by 3.2% in terms of USD but grew by 7.6% in local currency.

TOP 5 ADR GROWTH (USD)

Source: STR

TOP 5 ADR DECLINE (USD)

Source: STR

GROWING & DECLINING MARKETS

STR Top 5: Rooms Sold and Rooms Available (Growth)

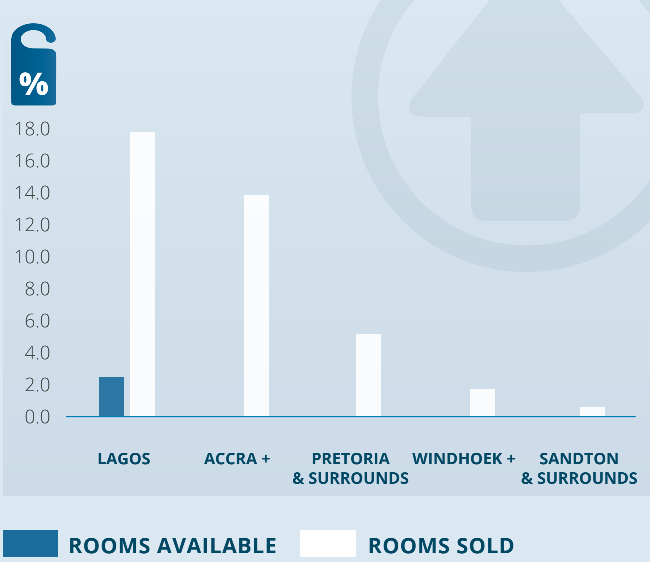
The economic recovery in Nigeria saw the number of roomnights sold in Lagos increase by 17.6%. The significant increase offset the 2.5% growth in supply which led to positive occupancy growth. A similar situation can be seen in Accra with roomnights sold growth of 13.7% as the economy emerged from its recent slump.

Pretoria has also shown positive demand increases as investment in casino's and commercial office space in new nodes drove growth. As one of the growth leaders in roomnights sold in 2016, Cape Town has shown negative growth in 2017 (-0.2%). High levels of new supply in the market in 2017 has not yet been included in STR. Demand accommodated at these new hotels has therefore not been considered and given the strong performance of new market entrants, demand is anticipated to have increased.

STR Top 5: Rooms Sold and Rooms Available (Decline)

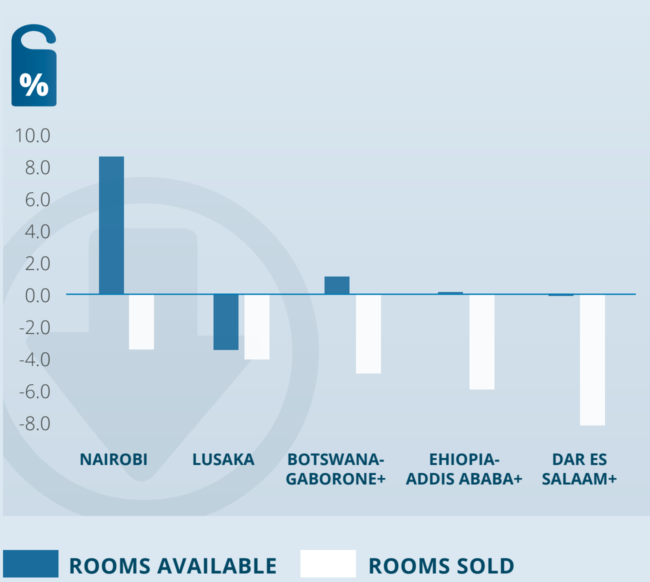
Dar es Salaam showed the biggest decline in terms of room nights sold growth in 2017. As stated the uncertain investment environment, coupled with a ban on the export of unprocessed gold and copper ore, deterred investors over the period. The State of Emergency in Ethiopia was only lifted in August of 2017 limiting opportunities for a recovery in visitor demand to Addis Ababa. Roomnights sold declined by almost 6.0%. The slow down in the mining sector in Botswana has negatively impacted demand in Gaborone whilst the continued election violence in Nairobi led to a 3.3% reduction in total number of rooms sold.

ROOMS SOLD & AVAILABLE (GROWTH)



Source: STR

ROOMS SOLD & AVAILABLE (DECLINE)



Source: STR

GROWING & DECLINING MARKETS

Future Supply Under Construction

Projects under construction remains the highest in Addis Ababa with a number of new projects under construction when compared to 2016. Projects expected to come online in 2017 have been delayed and are now expected to be realised during the course of 2018. The high levels of new supply, if all of it is completed, will increase pressure on an already struggling market and the medium term outlook is therefore subdued.

Planned supply in Lagos and Nairobi also remains high and will continue to place pressure on competitors. The nodal nature of competition in both cities will enable quality developments offering international standards and value for money to continue to outperform market trends.

Also nodal in nature, Accra is expected to experience an increase in supply of just under 900 new rooms. A large proportion of the supply will be positioned in the expanding airport node. The pace of growth in the City combined with new oil and gas related investment is expected to limit the impact of the new supply. Competitive pressure is therefore expected to be short term.

FUTURE SUPPLY UNDER CONSTRUCTION

Source: HTI Consulting

CONCLUSION

Strongest Growth
LAGOS

- Growth in occupancy and roomights sold albeit off a lower base;
- ADR growth in local currency terms;
- Much of the new supply planned has been under construction for extended periods and may not be realised;
- Positive economic growth forecast for Nigeria in 2018 and 2019 (3.3% and 4.5% respectively) which is likely to result in continued increases in occupancy and roomnights sold

Greatest Opportunity
ACCRA

- Growth in occupancy and roomnights sold;
- Positive economic growth projected post an economic slowdown;
- Properties offering quality, value for money and service achieving strong performances;
- ADR growth in local currency terms;
- New supply planned but could be absorbed quickly if anticipated levels of growth realised.

Keep Watching
CAPE TOWN

- Strong occupancy levels for market as a whole;
- ADR growth in USD and local currency terms;
- Limited supply in the pipeline although approx. 1,000 rooms entered the market in 2017;

Keep Watching
HARARE

Although the Harare market has not demonstrated any notable changes in its current dampened position, the recent political changes in Zimbabwe could result in a number of new investment opportunities in the City.

SUMMARY – GROWTH MARKETS

OCCUPANCY

1	Lagos
2	Accra
3	Pretoria
4	Windhoek
5	Durban

AVERAGE DAILY RATE (US$)

1	Windhoek
2	Cape Town
3	Pretoria
4	Sandton
5	Umhlanga

ROOM NIGHTS SOLD

1	Lagos
2	Accra
3	Pretoria
4	Windhoek
5	Sandton

ROOM NIGHTS AVAILABLE

1	Lagos

FUTURE SUPPLY UNDER CONSTRUCTION

1	Addis Ababa
2	Lagos
3	Nairobi
4	Accra
5	Umhlanga

About the Authors

Hospitality and Tourism International Consulting "HTI Consulting" is a niche, specialist hospitality, mixed-use, real estate and leisure focused consulting company formed in 2003. To-date more than 400 assignments have been completed covering 43 countries in Africa and the Middle East. Our services include:

- Market & Financial Feasibility Studies
- Asset Management
- Operator Selection & Management Contract Negotiation
- Valuations
- Due Diligence
- Brokerage
- Finance Raising

HTI Consulting have recent experience in Addis Ababa, Accra, Cape Town, Dakar, Dar es Salaam, Lagos, Lusaka, Monrovia, Nairobi, Windhoek and diverse Francophone countries where we have recently undertaken Market and Financial Feasibility Studies, Market Assessment, Valuations, Due Diligence, Brokerage and Operator Selection. For additional information on these and other services please contact HTI Consulting: info@hticonsulting.co.za or +27 21 685 0635

WAYNE TROUGHTON
Chief Executive Officer

Wayne is Chief Executive Officer of HTI Consulting. He has a three year Hotel Management Certificate from the University of Johannesburg and an MBA from CASS Business School in London. Wayne has 9 years of middle management operational experience in leading 5-star hotels and resorts in South Africa and the United Kingdom. Wayne also has 19 years of specialist hospitality consulting experience with HTI Consulting and Grant Thornton covering 43 countries focusing on: feasibilities, due diligence, operator selection, finance raising and asset management.

KIRSTY DE GROOT
Vice President

Kirsty is Head of Research and Quality Control with HTI Consulting and has a BCOM degree in marketing from the University of South Africa. Kirsty has extensive experience in undertaking market and financial feasibility studies for stand alone hotel developments and integrated resorts. Kirsty has worked with HTI Consulting and KPMG (South Africa and Hungary) with a focus on hospitality consulting, for the past 17 years. Kirsty joined HTI Consulting in 2010 as an Associate Consultant, becoming a full-time employee in February 2012. Kirsty has worked on assignments in over 34 countries focusing on feasibility studies, market research and operator selection.