



*'It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of Light, it was the season of Darkness, it was the spring of hope, it was the winter of despair, we had everything before us, we had nothing before us, we were all going direct to Heaven, we were all going direct the other way...' – Charles Dickens, A Tale Of Two Cities.*

## Overview of Nairobi

Nairobi – one of the leading and most important hotel markets in Africa. Home to Kenya Airways, a true international airline, and an ever increasing number of multinational organisations, NGO's and the United Nations headquarters for Africa, the city suffered a turbulent 2013:

- A presidential election in March;
- Airport fire in August;
- Terrorism attack in September.

Any of these events could deter visitors to Kenya's capital. Combined, they must have had a dramatic affect on hotel performance. At first glance, this appears the case, with occupancy down 6.7% for the year, average rate down 0.1% and RevPAR down 6.8%.

However, a little more detailed analysis starts to paint a more positive picture. If a 0% change in RevPAR is assumed in March and April, thereby assuming there was no election, overall, RevPAR for the whole year was only down 0.1%. Making the same assumption for October, the month after the Westgate attack, and overall RevPAR for the full year is actually up 0.9%.

## What Does This Artificial Manipulation Of The Figures Teach Us?

It shows the resilience and strength of the Nairobi market and that with a period of stability and security the market could start to reach its true potential.

Terrorism had a minimal and only an immediate impact on the performance of the market. Of more consequence was the election. The performance of hotels in Nairobi has always been affected by elections, with both national and international travellers postponing their plans for fear of violence. The last election passed relatively free of trouble and the hotel markets returned to normal within two months.

Put simply, if the authorities can control the threat of attack and improve actual safety, and also the perception of safety for potential visitors, the fundamentals are there for the market to grow.

NAIROBI



## Other Issues Threatening Growth

There are still some challenges:

- Huge increase in new supply;
- VAT increases;
- Foreign tour companies are having difficulty arranging insurance for their customers so are moving their tours from Kenya to Tanzania;
- Re-issued travel warnings from the UK, the USA and various other governments.

## Supply

A success story for Nairobi is the volume of new beds entering the market. The table below shows some of the properties under construction in the main areas of the city. There are further additions to supply at the airport and there are other projects that are currently on hold that might still progress.

CHART 1: NEW SUPPLY

Proposed Property	Number of Rooms	Competitive Level	Estimated Opening Date	Development Stage
Proposed Budget Hotel	170	100 %	1 January 2017	Early Development
Kempinski Villa Rosa Nairobi	200	5	1 September 2013	Under Construction
Proposed Dusit D-2 Nairobi	101	25	15 July 2014	Under Construction
Proposed Grand Sapphire	196	25	1 January 2015	Under Construction
Proposed Golf View Hotel	200	5	1 March 2015	Under Construction
Proposed Radisson Blu	256	5	1 June 2015	Under Construction
<b>Total</b>	<b>1,123</b>			

Source: HVS Research

Such an addition to supply may not at first be seen as an illustration of success. However, neither investors nor operators would have progressed these projects if they were not confident in the longevity of the market. It will take a number of years for this new supply to be absorbed, but if the economic and population growth forecasts prove accurate the demand will quickly meet supply.

## VAT Increases

In September 2013, the VAT Act 2013 stated that some previously exempt goods and services are no longer exempt, including game drives and national park fees, which will now be liable for 16% VAT. Any increase in prices, from whatever source, without the subsequent increase in value for money is a deterrent for tourists, who can easily choose one of the surrounding countries.

Whilst this increase alone may not have a huge impact on visitor numbers, combined with security risks, it pushes tourists from Kenya towards rival destinations. As most safaris start and finish in Nairobi, with one or two nights in the capital, this will add to the challenges facing Nairobi hoteliers.

## Other Pressures on Average Rate

The Nairobi hotel market can be segmented into three main categories:

- Corporate;
- Leisure;
- MICE (meeting, incentive, conference and exhibition).

Although the number of corporate companies setting up in Nairobi is growing, given the increase in supply and therefore availability of beds, hoteliers are unable to increase the rate charged. There is a limit of US\$200 that corporate bookers are unwilling to pass, and unless all hoteliers hold their nerve and push for higher rates, this will continue.

Leisure demand is wavering for Nairobi and Kenya as a whole. Mombasa is no longer deemed safe so the long-held advantage of safari and beach tours in one country is reduced. Combined with the growth and immergence of tourism in surrounding countries, such as Tanzania, Uganda and Rwanda, the pressure on the tourism sector in Kenya has never been greater.

According to the Kenya Bureau of Statistics, there has been a substantial growth in the number of conferences and delegates in the nine years to 2012. Although the numbers for 2013 are not yet available, we expect them to show a decline on the previous year.

These data demonstrate the importance of MICE business to Nairobi hotels. The growth in local delegates is interesting, as this shows the growth in the local economy. It also suggests that the number of overnight stays at hotels on the back of MICE business is not as important as it once was.

CHART 2: NAIROBI CONFERENCES

Number of Conferences	2004	2005	2006	2007	2008	2009	2010	2011	2012	CAGR* 2004-12
International	145	186	209	234	189	196	254	309	328	10.7%
Local	912	1,553	2,120	2,528	2,107	2,258	2,529	2,995	3,388	17.8%
<b>Total Conferences</b>	<b>1,057</b>	<b>1,739</b>	<b>2,329</b>	<b>2,762</b>	<b>2,296</b>	<b>2,454</b>	<b>2,783</b>	<b>3,304</b>	<b>3,716</b>	<b>17%</b>
<i>Growth</i>	—	65%	34%	19%	-17%	7%	13%	19%	12%	

Number of Delegates	2004	2005	2006	2007	2008	2009	2010	2011	2012	CAGR* 2004-12
International	18,604	42,170	45,063	52,318	12,024	29,025	30,554	33,566	35,663	8.5%
Local	75,148	269,116	285,991	372,569	135,833	228,165	383,441	408,596	413,037	23.7%
<b>Total Delegates</b>	<b>93,752</b>	<b>311,286</b>	<b>331,054</b>	<b>424,887</b>	<b>147,857</b>	<b>257,190</b>	<b>413,995</b>	<b>442,162</b>	<b>448,700</b>	<b>22%</b>
<i>Growth</i>	—	232%	6%	28%	-65%	74%	61%	7%	1%	

\* Compound annual growth rate

Source: Kenya National Bureau of Statistics

## 2014: The Story So Far....And the Future

The first few months of the year have been challenging for hoteliers with RevPAR down significantly. The recent increase in bombings has also led some tour operators to repatriate their guests and cancel all flights until October.

What is needed is a period of calm to foster stronger confidence in the security in the country. Whilst it is easy to criticise over-reaction to events and sensationalist journalism, no-one will travel to a country or city in which they feel unsafe. Many of the recent events in Nairobi have centred around the Eastleigh area of the city; an area few tourists would visit. Yet at first glance the media reports suggest the whole of Nairobi is off limits. Of course, all visitors must take sensible precautions and heed advice from government and security sources, but now is a time for all parties to hold their nerve and continue to support the somewhat beleaguered Nairobi hotel industry.

The national government recently announced a number of policies aimed at helping the Kenyan tourism industry; these were principally focussed at promoting domestic tourism. Any assistance will be gratefully received and it is reassuring that the government has acknowledged the importance of tourism and the size of the potential problem. If these policies are successful promoting local and regional tourism, the issues may even be a blessing in disguise; when the international visitors return, hoteliers across the country could have another source of business!

Kenya's tourist attractions are well documented, as is the friendly hospitable nature of the Kenyan people. This coupled with forecast GDP growth in excess of 5% per annum in 2014, after below-target growth of 5.1% in 2013, gives compelling reasons to visit the country and the city of Nairobi.

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