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2014 AFRICAN
HOTEL VALUATION INDEX

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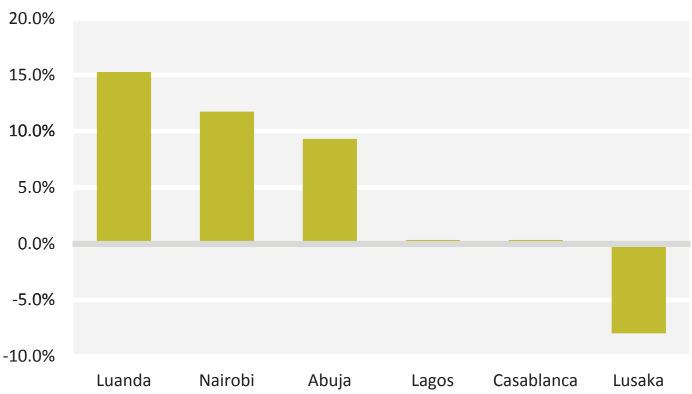
Highlights

Welcome to the inaugural African Hotel Valuation Index (HVI), an index studying the relative values of hotels in 14 markets throughout Africa. We consider 2014 to be the ideal time to launch the study as data are now more readily available, allowing a more reasoned analysis of the recent trajectory and the growth in performance and values. As the number of investors considering African markets increases and interest in African real estate generally grows, the launch of this publication is ideally timed to be of most assistance to existing and potential hotel owners, investors, developers, banks and operators.

- Despite the relative lack of historical information, we have now gathered enough data to be able to prepare an HVI for 14 markets across the whole continent. We expect data availability to improve year-on-year, and as this happens we will be glad to increase the number of markets covered in our survey;
- We have intentionally left out the two most significant Egyptian markets, Cairo and Sharm el Sheikh, from our survey, owing to the exceptional circumstances in the country. These have had a major impact on values, and as such we do not consider current values to be appropriate for inclusion;
- It is important to remember that the samples we have used for our analysis are typically composed of internationally branded properties, which by definition tend to be positioned at the higher end of their respective markets. Hence, the values presented are more representative of the branded supply, rather than a broader sample that incorporates smaller, independent properties. As with all our other HVI publications, it is the value trend, rather than the absolute value, which is most significant;
- As confidence has grown in each market, the valuation parameters have improved; we expect further improvements in the coming years as markets become more established and data more readily available;
- Similarly, as confidence grows in the accuracy of data, investors will be prepared to accept the information as accurate and base their investment decisions on it, and thus the role of STR Global in farming the data of more and more operators will be crucial in the growth of the African hotel market;
- The improvement of investment parameters in conjunction with better visibility of the trading situation has resulted in significant growth in values of 33% across the continent from 2009 to 2013 (although our sample of values for 2009 was only five markets);
- Over this period, markets such as Marrakech, Windhoek and Abuja have experienced compound annual growth of 5-7%;
- As presented later in this survey, markets such as the Seychelles, Abuja and Luanda are at the top of the ranking in terms of value per room, and development costs in these locations also remain exceptionally high;
- Unfortunately, recent events in Kenya and Nigeria (amongst other countries) have reminded us of some of the unique challenges investors face when owning and operating hotels in even established markets in Africa. It is certainly not for the faint hearted, but the returns available can compensate for the higher risks;
- As an example of such challenges, many commentators were talking about Juba (South Sudan) as the next important market to emerge, but the ongoing civil war and impending famine will have put the newest world capital back down the list of potential sites for many investors and operators in the short term, although the long-term dynamics continue to look positive;

CHART 1: TOP AND BOTTOM THREE – PERCENTAGE CHANGE IN HOTEL VALUE PER ROOM 2013 (US$)



Source: HVS – London Office

- All values in this survey are presented in US dollars and, owing to strong currency fluctuations which in some cases prevents us from making a meaningful comparison, we have refrained from presenting similar conclusions in local currencies.

CHART 2: HOTEL VALUES – PERCENTAGE CHANGE 2010-13 (US$)

		2010	2011	2012	2013	CAGR [1] 2009-13 [2]
1	Luanda	—	1.5	-5.6	**15.3**	3.4
2	Nairobi	-13.6	31.4	-20.9	**11.7**	0.1
3	Abuja	8.7	7.5	-4.8	**9.3**	5.0
4	Marrakech	9.7	16.0	-4.4	**7.4**	6.9
5	Mauritius	—	—	-0.5	**6.9**	3.1
6	Windhoek	—	12.3	2.4	**6.5**	7.0
7	Durban	—	—	-10.8	**6.3**	-2.6
8	Accra	—	—	-2.4	**6.1**	1.8
	AFRICAN AVERAGE	**11.1**	**7.6**	**5.0**	**5.7**	**7.3**
9	Cape Town	19.8	-8.7	3.1	**3.9**	4.1
10	Seychelles	—	—	—	**2.4**	2.4
11	Johannesburg	18.3	0.0	-9.5	**0.6**	1.9
12	Lagos	—	—	6.1	**0.5**	3.2
13	Casablanca	—	—	-2.4	**0.3**	-1.0
14	Lusaka	—	13.3	-5.8	**-8.0**	-0.6

Source: HVS – London Office

[1] Compound Annual Growth Rate
[2] CAGR from 2009 or closest year

And The Winners Are...

- For both 2012 and 2013, the **Seychelles** hotels achieved the highest values per room among our sample at US$522,000 in 2013. This honour comes on the back of exceptional quality of product, as well as relatively high barriers to entry, and the established reputation of the market as a luxury leisure destination;

- Irrespective of where the values may start, it is often the level of growth that really illustrates the success of an economy. With the rapid growth of Nigeria, it is unsurprising that the capital, **Abuja**, is on the podium at US$492,000 per room. We expect this market to retain its place as one of the top performers across the continent, partly owing to its relatively more limited hotel supply and expected pipeline as compared to, say, Lagos;

- A lack of supply (with practically no branded hotels in the city), huge natural resources and therefore international demand have pushed **Luanda** into third place in 2013 with US$471,000 per room. Fundamentals are unlikely to change, and barriers to entry are likely to remain significant in the years to come, thereby constraining supply. Luanda may therefore remain a winner for some time, depending on changes to the political context and any subsequent ripple effect;

- As highlighted earlier, circumstances are such that not only are values per room for Luanda the third highest in our sample, but increases in value in 2013 have put it on the very top of the list, with an impressive double-figure increase of more than 15%. We are likely to see a repeat of this situation over the next few years if high demand continues, mainly related to the oil industry, and is coupled with only modest changes in supply;

- **Nairobi** has experienced a real rollercoaster in values per room over the last few years. Since the troubled elections of late 2008, the market has witnessed double-figure changes in values, driven by changes in hotel performance, as demand either dries up or quickly recovers, on the back of political changes or terrorist activities. Whilst values per room have remained virtually unchanged from 2009 to 2013 at around US$160,000 (and have even eroded if inflation is accounted for), 2013 was another year of recovery, following the presidential elections in March. The current upheaval makes us doubt that such a positive trend can repeat itself in 2014;

- As with Luanda, strong demand and limited changes in supply (despite a significant pipeline) result in Abuja also gaining value strongly in 2013. Values per room for this market declined a little in 2012, following security concerns for the market that drove demand to Lagos instead, but otherwise this market, well known for its very high average rate performance, has also been a top performer in our chart since 2009.

Market Overviews

Nigeria – Abuja and Lagos

Nigeria is rightly referred to as an African superpower: the country benefits from vast oil reserves and has the largest population on the continent. Although Nigeria is now officially the largest economy in Africa, the country's economic performance, with GDP growth averaging about 7% over the last few years, is likely to remain below its potential, given the political instability and the chronic infrastructure deficit.

As the administrative capital of a vast country, **Abuja** benefits from substantial demand from both government-related sources and the private sector. The seasonality of this market is pronounced and constrains occupancy to the low to mid 60s, depending on the branding, location and condition of a hotel, which vary greatly. Occupancy decreased in 2012 owing to some security concerns in the market linked to Boko Haram, the militant organisation based in northern Nigeria, which saw a number of events relocated to Lagos. This resulted in a slightly higher average rate for that year, but RevPAR still declined. A good performance in both occupancy and rate in 2013 resulted in a RevPAR recovery of more than 10%, showing the potential of a market which remains broadly starved of branded supply. The pipeline of new projects for this market is amongst the highest in Africa (although it is vastly surpassed by that of Lagos), with at least 2,000 branded rooms rumoured. However, projects tend to take a very long time to build in Nigeria, and many of the developments currently in the pipeline might never materialise.

Whilst Abuja is Nigeria's administrative capital, **Lagos** is considered to be its commercial capital. Statistics about its population are contested, ranging from 17 to 21 million. If 21 million is the right number, then this would be the largest city in Africa after Cairo. Lagos is the centre of Nigeria's modern economy, and it is estimated that it generates about a quarter of Nigeria's total gross domestic product. Various initiatives regarding energy, infrastructure and transport, to name but a few, set this city apart from the poor governance that characterises most of the rest of Nigeria. The city has a number of internationally branded hotels, with the recently opened 352-room InterContinental being the latest significant addition.

With GDP growth averaging about 7% over the last few years, Nigeria is an African superpower

Also, Lagos is one of Africa's hottest spots in terms of hotel development, so the pipeline for the market is impressive, at more than 4,000 rooms (of which we estimate that less than 20% might materialise in the next few years). In the meantime, performance is strong, with occupancy consistently in the high 60s for the last few years, in spite of the arrival of the InterContinental. Average rates also remain strong, at around US$250 for the market as a whole, and with further increases expected as no new hotels are expected to open before 2016.

Ghana – Accra

Ghana's economy continues to leap forward, driven by oil revenues, the service sector and strong exports of cocoa and gold. Ghana, which Transparency International ranks as one of the least corrupt countries in Africa, has further consolidated its democracy with the successful inauguration of President John Mahama in January 2013. **Accra**, its capital city, is in the midst of a real estate boom, and demand for accommodation is part of the reason: lettings of all types are in short supply and are very expensive. In this context, hotel supply is increasing at a slower pace than demand, as the performance data reflect: whilst the market achieved an occupancy of close to 70% in 2011, the

CHART 3: HOTEL VALUATION INDEX

		2009	2010	2011	2012	2013
1	Seychelles	—	—	—	2.609	2.671
2	Abuja	2.072	2.252	2.422	2.304	2.519
3	Luanda	—	2.181	2.214	2.091	2.410
4	Lagos	—	—	1.826	1.938	1.946
5	Accra	—	—	1.344	1.311	1.392
6	Mauritius	—	—	1.252	1.246	1.332
	AFRICAN AVERAGE	**1.000**	**1.111**	**1.196**	**1.256**	**1.327**
7	Marrakech	0.878	0.963	1.117	1.068	1.147
8	Casablanca	—	—	0.876	0.855	0.858
9	Nairobi	0.820	0.708	0.930	0.736	0.822
10	Cape Town	0.665	0.797	0.728	0.751	0.780
11	Windhoek	—	0.634	0.713	0.730	0.777
12	Lusaka	—	0.682	0.773	0.728	0.670
13	Durban	—	—	0.680	0.607	0.645
14	Johannesburg	0.565	0.669	0.669	0.605	0.609

Source: HVS – London Office

opening of the 260-room Mövenpick Accra that year did not seem to dent performance in any significant way, and occupancy dropped only marginally in 2012, as did average rates. However, both recovered in 2013, bringing occupancy back to almost 70% with just a minimal drop in rate. Our research indicates that at least 1,400 internationally branded rooms could be constructed in the coming years in this market.

Egypt – Cairo and Sharm el Sheikh

The socio-political instability in Egypt is likely to remain until a more permanent government takes over from the military, and hopefully the appointment of el Sisi as president is the first step. The new constitution will pave the way for fresh presidential and legislative elections, but forecasts for GDP growth remain modest, at 2.0-3.3% for the next couple of years. Inflows from tourism normally comprise about a quarter of Egypt's economy, and they have been badly diminished since the revolution in 2011. The rebound experienced since has suffered a backlash with the events in June/ July 2013.

The city of **Cairo** dates back to the tenth century and has long been a centre of the region's political and cultural life, not only for Egypt, but also for the wider Middle East area. Cairo has experienced a volatile performance, as would be expected in such difficult circumstances. By the end of 2013, RevPAR for this market was 55% lower than it was over 2009-10, before the revolution.

Sharm el Sheikh is a renowned leisure destination. Owing to its proximity to Europe, sunny climate and pristine beaches, its major industry is foreign and domestic tourism. In addition to leisure tourism, the city is well known for having hosted a number of international peace conferences over the years, which have won it the nickname 'City of Peace'. Similarly to what has happened in Cairo, hotel performance in Sharm has been badly impacted by the revolution and its aftermath, which has resulted in occupancies dropping from 79% in 2010 to 56% in 2013, and average rates fell by almost 30% over this period. Given the country's unique tourism attributes, a strong recovery is expected as soon as a stable political situation resumes. However, violence continues at the time of writing and, as such, it is impossible to predict when the conflict will end. On this basis, we have chosen not to provide an indication of value for the Egyptian markets in our survey, as we consider that it would be difficult to reflect a fair value per room given both the current performance and the risk profile of the markets.

AVERAGE RATES IN LAGOS ARE STRONG, AT AROUND US$250 FOR THE MARKET AS A WHOLE

South Africa – Cape Town, Durban and Johannesburg

South Africa's economy is the second largest in Africa (it was the biggest until it was overtaken by Nigeria in April 2014) and is the most developed in Africa. Although poverty and inequality remain widespread, with a quarter of the working-age population unemployed, the country has been identified as a middle power in international affairs (often included as part of the BRICS countries), and maintains significant regional influence. South Africa's GDP expanded by 2.0% in the fourth quarter of 2013 and annual GDP growth averaged 3.2% from 1994 until 2013, showing overall steady and reasonable growth. South Africa struggled to absorb significant hotel supply increases during the aftermath of hosting the 2010 FIFA World Cup and on the back of the economic recession. The South African rand has collapsed on the international foreign exchange markets, losing nearly 40% of value between August 2011 and February 2014, which has had a dramatic impact on our study as we report average rate and values in US dollars. But demand is recovering, and by the end of September 2013 international arrivals had increased by almost 6% on the same period in 2012.

Cape Town is the legislative capital of South Africa. As with most South African markets, it experienced a steep increase in supply ahead of the 2010 FIFA World Cup, with upscale hotel supply increasing by more than 50% from 2008 to 2010. As a result of this rise in supply and the difficult economic context on a global scale, hotel performance has been quite volatile over the last few years: whilst RevPAR increased by almost 20% in 2010 (mostly rate driven) on the back of the FIFA World Cup, 2011 and 2012 saw RevPAR decline and stagnate, respectively. A slow recovery started in 2013 and an improvement in performance is expected going forward, as the new supply has now been absorbed. Encouragingly, STR Global report RevPAR growth of more than 15% in the first half of 2014.

Durban is famous for its port – which is the busiest in South Africa and, indeed, Africa – and its subtropical climate and large beaches. As a result of the latter, the city's tourism sector is very strong. Durban benefits from a good balance of both leisure and commercial demand. Whilst yearly occupancy for this market has remained at 60-65% over the last few years, average rates have suffered a continuous decline since 2011. Increases in occupancy (with a rebound in 2013 to 65%) have mitigated the damage and helped stem falls in RevPAR, but a clear recovery was not yet in sight at the end of 2013.

Johannesburg is South Africa's largest city, with a population for the metropolitan area of more than 7 million. One of its two international airports, O.R. Tambo, is the largest and busiest airport in Africa and a gateway for international air travel to and from the rest of southern Africa and beyond. Preliminary figures for 2013 indicate an increase in passenger numbers of 4.5% compared to 2012. As for the previous two markets, hotel supply and economic woes have impacted hotel performance in Johannesburg: whilst occupancy slightly declined in 2010, rates experienced an increase of more than 30%. Occupancy has generally been steady at around 60%, but average rate has fluctuated significantly over the last five years and was just below US$80 for 2013.

AT JUST OVER 60%, HOTEL OCCUPANCY IN MARRAKECH HAS RECOVERED FROM THE DEPTHS OF THE 2009 RECESSION

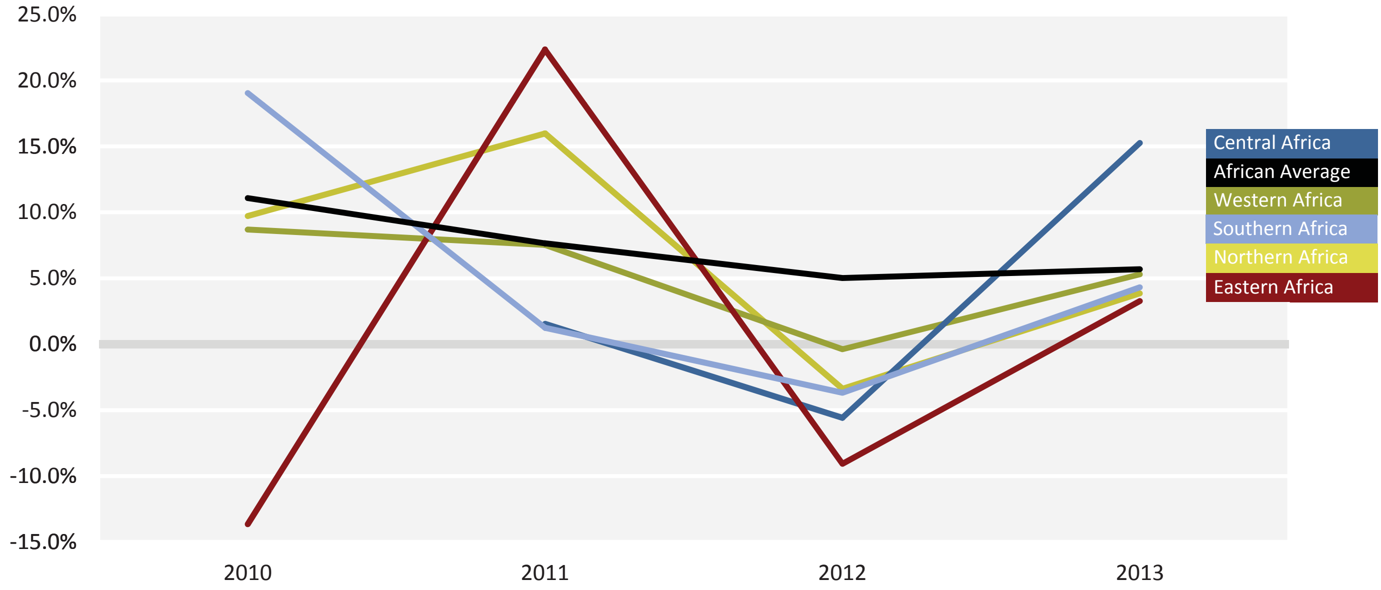
Morocco – Casablanca and Marrakech

Political reform in Morocco has moved rapidly, especially in the aftermath of the Arab Spring. Since ascending to the throne in 1999, King Mohammed VI has spearheaded a series of democratic reforms. The King is expected to continue to guide policy whilst promoting modest political and economic reforms over the next few years. Morocco has excellent tourism resources including wide beaches along the Atlantic and Mediterranean coasts; the architectural treasures of the four Imperial cities of Fez, Rabat, Meknes and Marrakech; and its pre-Saharan oases within sight of the snow-capped Atlas Mountains. Morocco's Vision 2020 strategy aims at increasing the number of visitors to the country to 20 million by 2020 (travel and tourism contributed to more than 18% of GDP in 2012, according to WTTC), and indeed the country is now third in Africa in terms of volume of hotel rooms planned, with more than 5,000 in the pipeline.

Casablanca is the largest city in Morocco and a strong business destination. Its airport is the fourth busiest in Africa, with more than 7 million arrivals a year. Interestingly, budget hotels generally perform better than the upscale properties as demand for the city remains generally price sensitive. On aggregate, occupancy has remained strong over the last three years, at just over 70%, with minimal changes in rate over this period at around US$106. More than 1,500 (mostly branded) rooms are expected to enter this market in the coming years, ranging from budget to luxury.

In contrast to Casablanca, **Marrakech** is the epitome of a leisure destination. As such, it exhibits strong leisure demand during the

CHART 4: YEAR-ON-YEAR CHANGE IN VALUES PER ROOM BY REGION 2010-13



Source: HVS – London Office

high season and increased MICE demand during the shoulder and low seasons. Hotel occupancy has recovered from the depths of the 2009 recession, and has remained at just over 60% since. Average rates have grown by around 10% over the five years to 2013, albeit in real terms they remained relatively flat, reflecting the slow return of leisure guests to the market.

Angola – Luanda

Angola is the second-largest oil producer in Africa after Nigeria, with oil accounting for some 75% of government revenue. It is also the third-largest economy. The economy rebounded strongly after experiencing slow growth during the oil and financial crises. Angola's long-serving president, José Eduardo dos Santos, may step down in the next few years and hand over power to either his son or the current vice president. The late 2013 deferral of planned licensing has done little to improve the country's reputation for financial management. The business environment remains challenging in terms of institutions and infrastructure. Nonetheless, a steady rise in oil output and a public expenditure programme designed to encourage economic diversification are expected to help drive annual real GDP growth of 6.2% in 2014-15. **Luanda** is one of the hot spots in terms of potential hotel development, with very limited quality hotel supply in place, and significant appetite from most international brands. Owing to strong demand from the oil sector and the limited supply, both occupancy and rate in Luanda remain strong. Occupancies have remained at above 70% over the last few years, with rate fluctuations between US$320 and US$365 depending largely on the opening of the few new hotels in the city.

Luanda is one of the hot spots in terms of hotel development; occupancies have remained at above 70% for the last few years

Zambia – Lusaka

Zambia's economy is primarily based on the copper-mining industry, with agriculture also playing an important part. The country continues to invest in new mines and the expansion of capacity at the existing plants, but growth in other sectors is also expected to remain robust, supported by infrastructure development and improvements in the business environment. President Michael Sata and the Patriotic Front are expected to stay in power until at least the 2016 polls, despite waning support for the government because of its suppression of the opposition, broken campaign promises and intensifying factionalism within the ruling party. GDP growth is expected to average 7.3% in 2014-16 as large mining projects come on stream, easing to 5.3% in 2018 as the copper boom winds down. **Lusaka** is both the commercial and political capital of the country, with a population estimated at approximately

CHART 5: HOTEL VALUES PER ROOM 2009-13 (US$)

		2009	2010	2011	2012	2013
1	Seychelles	—	—	—	509,683	521,781
2	Abuja	404,811	439,991	473,101	450,182	492,181
3	Luanda	—	426,000	432,552	408,431	470,758
4	Lagos	—	—	356,731	378,542	380,270
5	Accra	—	—	262,564	256,211	271,902
6	Mauritius	—	—	244,692	243,371	260,259
	AFRICAN AVERAGE	**195,368**	**217,003**	**233,599**	**245,314**	**259,265**
7	Marrakech	171,514	188,191	218,273	208,741	224,124
8	Casablanca	—	—	171,228	167,137	167,694
9	Nairobi	160,107	138,259	181,606	143,720	160,587
10	Cape Town	129,953	155,719	142,223	146,677	152,404
11	Windhoek	—	123,949	139,247	142,629	151,868
12	Lusaka	—	133,296	151,069	142,314	130,986
13	Durban	—	—	132,821	118,496	125,986
14	Johannesburg	110,455	130,615	130,677	118,254	118,909

Source: HVS – London Office

1.7 million. Its significance as a transport hub and financial centre for the country, combined with a limited hotel supply and a stable political and social environment, are expected to continue to drive demand for hotels. The fluctuations in occupancy for this market in recent years, decreasing from the mid 60s in 2010 to the mid 50s by the end of 2013, are mainly the result of the opening of the 130-room Radisson Blu in September 2012. Owing to the size of this market, this opening had a large impact on the existing supply. Average rates, in contrast, did not decrease and remain at around US$135, although growth has been modest over the last few years. New supply is expected to be very limited in the coming years.

Mauritius

Mauritius enjoys the rare benefit of being one of the few privileged tourism destinations within Africa. The Mauritian economy held up well over the last few years, despite the recession denting external demand. Its growth momentum, however, seems to have eased, with GDP growth picking up slightly to about 3.7-3.8% for 2013-14, in line with the modest recovery in the Eurozone. The government's narrow parliamentary majority is expected to cause continued political bickering and early elections cannot be ruled out. International tourist arrivals in Mauritius more than tripled between 1990 and 2013, to more than 1.0 million in 2013, above the 2008 peak. The economic crisis did slow growth, as it impacted demand from the country's main source markets in Europe. Occupancy has remained at around the mid 60s over the last three years. Rate growth picked up in 2013, resulting in a healthy RevPAR recovery for that year of US$150. The majority of new projects over the next few years will be in the luxury segment and therefore will underpin the status of Mauritius as a luxury destination in the future. However, the continuing growth of hotel supply in the market, potentially outpacing growth in demand, is likely to result in increased competition and lower levels of occupancy whilst the new supply is absorbed.

Kenya – Nairobi

The economy of Kenya is the largest in terms of GDP in east and central Africa. Agriculture is a major employer, although the service industry is also a major, growing economic driver. Kenya is a member of the East African Community and, compared to other African countries, enjoys relatively high political and social stability. As underscored by the mid-May explosions in Nairobi, security risks associated with terrorism persist in the wake of the Westgate shopping centre attack, claimed by militant group al-Shabab. Security threats and a downturn in the tourism sector will serve as a constraint to the economy in 2014, although growth is expected to accelerate in 2015-18 as more foreign companies use Nairobi as their base for Africa. Kenya is one of the few countries

INTERNATIONAL TOURIST ARRIVALS IN MAURITIUS TRIPLED BETWEEN 1990 AND 2013, TO MORE THAN 10 MILLION

NAIROBI IS ONE OF THE MOST PROMINENT AFRICAN CITIES, BOTH POLITICALLY AND FINANCIALLY, AS THOUSANDS OF DOMESTIC AND INTERNATIONAL COMPANIES HAVE HEADQUARTERS THERE

in Africa where leisure tourism is meaningful. The tourism sector has exhibited steady growth in most years since independence and by the late 1980s had become the country's principal source of foreign exchange. Tourists, with the largest numbers coming from Germany and the UK, are attracted mainly to the game reserves. The capital, **Nairobi**, is a regional commercial hub. It is the most populous city in eastern Africa, with a population estimated at approximately 3 million. It is one of the most prominent African cities, both politically and financially, as thousands of domestic and international companies have headquarters there, including the UN. Nairobi's performance has been affected over the last few years by the political upheavals in the country. In particular, elections have a significant impact on the hotel sector, as travellers expect violence and are therefore reluctant to visit Kenya. Violence has occurred during/after each of the past presidential elections, although demand bounced back almost immediately.

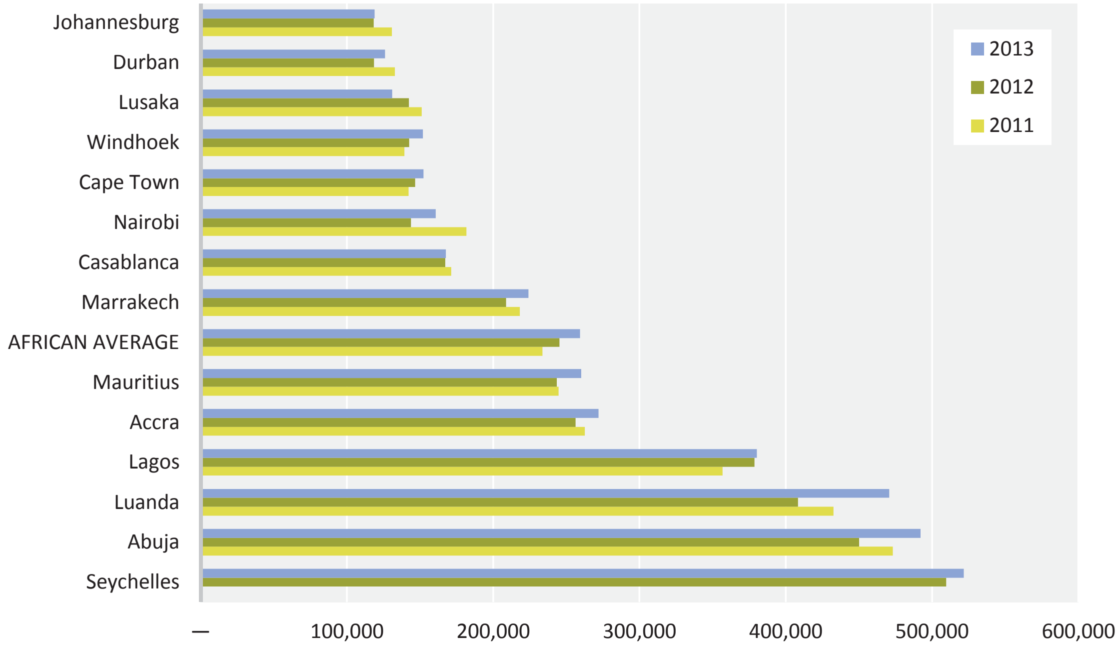
Seychelles

The economy of this archipelago of 115 islands is heavily reliant on its tourism industry. As a result of the recession, GDP growth shrank from about 5.0% in 2011 to about 2.5% in 2012. GDP then expanded by an estimated 3.6% in 2013 and growth should improve slightly in 2014-15, underpinned by reform and growth in non-European tourism markets. The next presidential vote is not due until 2016 and the incumbent, James Michel, is expected to be re-elected. Similarly, the ruling People's Party, which dominates parliament following an opposition boycott of elections in 2011, will remain firmly in charge. Occupancy in 2012 and 2013 hovered at around 65%, and rate has remained fairly flat over this period period at US$410. In 2013, visitation to the **Seychelles** rose by 11% on 2012, mainly on the back of increased visitation from Europe, its main source market. This resulted in a strong compound annual growth in visitation for this market of 8% from 2008 to 2013.

Namibia – Windhoek

Namibia has a population of 2.1 million and a stable multiparty parliamentary democracy. The Southwest Africa People's Organisation should continue to dominate the political scene. Prime Minister Hage Geingob should succeed Hifikepunye Pohamba as president, ensuring that the pro-business policy agenda is maintained. Agriculture, tourism and the mining industry form the basis of its economy. Economic growth recovered strongly in 2010, following the impact from the global economic crisis, but moderated in 2012. Growth is forecast to pick up to an average of 4.9% in 2014-18 on the back of strong construction-sector activity, the opening up of new mines, an upturn in manufacturing production and an expansion in tourism. **Windhoek**, Namibia's capital and largest city, is relatively small compared to the other capital cities covered in our study, with just over 320,000 inhabitants. Its hotel supply is small, proportionate to

CHART 6: HOTEL VALUES PER ROOM 2011-13 (€)



Source: HVS – London Office

the dimensions of the city, and occupancy performance for the most relevant and branded hotels over the last few years oscillated between the high 50s and low 60s. 2013 recorded an increase in occupancy to almost 65%, albeit this was somewhat to the detriment of rate, which dipped to just under US$100. The RevPAR trend, however, remains positive, and a limited pipeline also bodes well for the market. The most significant new development in the pipeline is Freedom Plaza, a mixed-use scheme on Independence Avenue which includes 35,000 m^2 of office space alongside retail, residential and hotel elements, and is expected to be built over the next five years.

Outlook

Africa, once known as the Dark Continent on account of so little being known about the region, is coming into the light. The opportunities offered by sub-Saharan Africa (SSA) have been well documented by financial commentators; natural resources leading to rapidly evolving economies and developing local wealth all lead to increased demand for hotels. There is an unaccommodated demand which has not been satisfied by the current stock and, in addition, economic growth has increased demand. Supply has historically struggled to keep up, and only recently has the deficit started to be addressed. There are of course exceptions, such as an oversupply of rooms in South Africa on the back of the FIFA World Cup 2010, and the new supply entering Nairobi likely to outstrip demand, but this overcompensation almost proves the point; there is enormous demand from operators and investors to add to the hotel supply across the continent as they see opportunities from increasing demand. As always, the trick is assessing where and when to open new hotels, and the African HVI is designed to help shed a little light.

One of the reasons for the lack of supply has been the limited transparency in the

SEYCHELLES HAS THE HIGHEST VALUE PER BEDROOM AT US$522,000

performance of the markets and the potential impact that political or economic instability could have on the hotel market. With more international hoteliers entering the market, reporting their performance using the uniform system of accounts and sharing their performance data with benchmark researchers (such as STR Global), it is now possible to track the performance of hotels and prepare publications such as a Hotel Valuation Index. It is interesting to note that back in 2009 we were only able to report on five of the 14 cities and we hope to continue to extend the index at this rapid rate.

This study shows the relative volatility of the various markets, and highlights the potential gains and overall growth in each of the markets. Of the 14 markets reported herein, all bar two have increased in value from their first entry in the HVI. There has been an remarkable 33% increase in the average value in US dollar terms from 2009 to 2013, demonstrating the rapid growth in the hotel industry. Unsurprisingly, given the quality of room stock, hotels in the Seychelles have the highest value per bedroom, but what is perhaps more surprising is that the South African cities are at the bottom of the list. Being more developed economies, they have been more closely linked to the global financial crisis and have also suffered from the currency issues mentioned earlier. For the foreseeable future, we expect there to be dramatic shifts in each market, and the overall rankings are therefore bound to change annually. Equally, we expect each market to grow in value year-on-year, and those investing now should enjoy healthy returns, although they may have to endure a bit of a roller-coaster ride when new supply enters the market or an incident has a short-term impact on demand.

Overall, we look forward to the next few years as the sun continues to rise over Africa and casts an optimistic glow on the continent's hotel sector.

– HVS –

Understanding the HVI

The HVI is a hotel valuation benchmark developed by HVS. It monitors annual percentage changes in the values of typically four-star and five-star hotels in 14 major African cities. Additionally, our index allows us to rank each market relative to an African average (see Chart 3). The HVI also reports the average value per room, in US dollars, for each market (Chart 5). All data presented are in US dollars.

The methodology employed in producing the HVI is based upon actual operating data from a representative sample of four-star and five-star hotels. Operating data from the STR Global Survey were used to supplement our sample of hotels in some of the markets. The data are then aggregated to produce a pro forma performance for a typical 200-room hotel in each city. Using our experience of real-life hotel financing structures gained from valuing hundreds of hotels each year, we have determined valuation parameters for each market that reflect both short-term and longer-term sustainable financing models (loan to value ratios, real interest rates and equity return expectations). These market-specific valuation and capitalisation parameters are applied to the net operating income for a typical upscale hotel in each city. In determining the valuation parameters relevant to each of the 14 cities included in the African HVI, we have also taken into account evidence of actual hotel transactions and the expectations of investors with regard to future changes in supply, market performance and return requirements. Investor appetite for each city at the end of 2013 is therefore reflected in the capitalisation rates used.

The HVI assumes a date of value of 31 December 2013. Values are based on recent market performance, but the capitalisation rates reflect the expected future trends in performance, competitive environment, cost of debt and cost of equity. As our opinion of value remains an opinion of Market Value, when analysing transactions and in assessing the opinions of value we have attempted to remove all aspects of distress. The parameters adopted assume a reasonable level of debt and investor sentiment. Conversely, the values reported may not therefore bear comparison with actual transactions completed in the marketplace. However, this is the best approach to retain the integrity of the HVI as a rolling annual index over the longer term.

The HVI allows comparisons of values across markets and over time by using the 2009 average African value of US$195,368 per available room (PAR) as a base (2009=1.000). Each city's PAR value is then indexed relative to this base. For example, in 2013 the index for Seychelles was 2.671 (US$521,781/US$195,368), which means that the value of a hotel in Seychelles in 2013 was more than twice that of the African average in 2009.

HVS

About HVS

HVS is the world's leading consulting and services organisation focused on the hotel, mixed-use, shared ownership, gaming and leisure industries. Established in 1980, the company performs 4,500+ assignments each year for hotel and real estate owners, operators, and developers worldwide. HVS principals are regarded as the leading experts in their respective regions of the globe. Through a network of more than 35 offices and 450 professionals, HVS provides an unparalleled range of complementary services for the hospitality industry. www.hvs.com.

Superior results through unrivalled hospitality intelligence. *Everywhere*.

HVS LONDON serves clients throughout the EMEA region, including 170 projects in 21 different African countries in the past few years. Throughout the EMEA region, we have appraised some 4,000 hotels or projects in more than 50 countries in all major markets within the EMEA region for leading hotel companies, hotel owners and developers, investment groups and banks. Known as one of the foremost providers of hotel valuations and feasibility studies, and for our ability, experience and relationships throughout Africa, HVS London is on the valuation panels of numerous top international banks which finance hotels and portfolios. For further information about the services of the London office please contact Tim Smith, Director, on +44 20 7878 7729 (tsmith@hvs.com) or Sophie Perret, Director, on +44 20 7878 7722 (sperret@hvs.com).

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Tim Smith MRICS is director of valuations for the EMEA region and has a particular responsibility for work in Africa. Tim graduated from De Montfort University with a degree in Estate Management and has worked for firms of chartered surveyors in London since 1995, specialising in the valuation and sale of hotels and all forms of leisure properties. Tim has valued properties in 15 countries across Africa, including existing and proposed hotels and resorts. He has been involved with the valuation of some of the most important individual assets and portfolio transactions across the EMEA region.