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2015 AFRICAN HOTEL VALUATION INDEX

Sophie Perret
Director – HVS London

Tim Smith
Managing Partner – HVS Cape Town

Tshepo Makhudu
Senior Consultant – HVS Cape Town





HVS.com

HVS London | 7-10 Chandos St, London W1G 9DQ, UK

HVS Cape Town | The Gateway 3rd & 4th Floor, Century City, PO Box 1955, Cape Town, SA

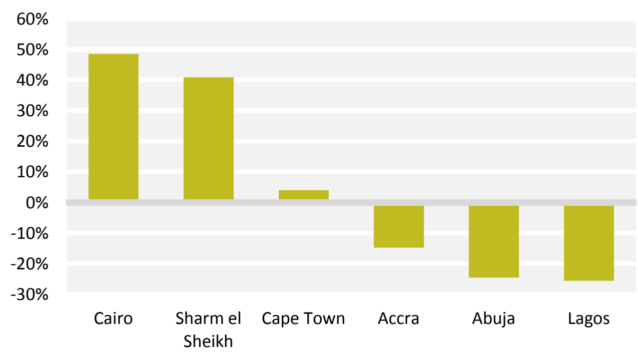
Highlights

Welcome to the second edition of the African Hotel Valuation Index (HVI). As the saying goes, 'a week is a long time in politics' and the past 12 months have proven that a year is a very long time in African hotel investment! Last year we commented that the availability of data was improving, and this has continued into 2015 for most markets; however, sufficient data were not available for Luanda and Windhoek, so unfortunately we have had to omit them from this year's publication. Hopefully they will return in 2016. On a positive note, we have added Addis Ababa, Dakar, Dar es Salaam and Algiers, and we are also reporting values for the Egyptian markets for the first time this year.

Overall demand and investor appetite is growing; with an increasing transparency in transactions, more companies and individuals are overcoming doubts about risk and are investing in hotels. Similarly, many major brands have signed new developments in the last year – another sign of the robust health of the African hotel industry. We hope that this publication will continue to add to the visibility of the sector and help generate further investment across the continent.

- Currency fluctuation continues to be a challenge. The South African rand has lost more than 20% of its value against the US dollar so far this year. It is not alone, as several other currencies are in the same situation. Where the devaluation of a currency has a dramatic impact, we comment on values in local currency and US dollars;

CHART 1: TOP AND BOTTOM THREE – PERCENTAGE CHANGE IN HOTEL VALUE PER ROOM 2014 (US$)



Source: HVS London and HVS Cape Town

- Terrorism also continues to blight certain markets. Last year we chose not to report values for the Egyptian markets because of the political and security uncertainty in the country; whilst Cairo and Sharm el Sheikh have been included this year, security is still an issue in this country. Kenya and Nigeria suffer similar challenges and, whilst the main cities are not too badly affected, it has been a hard year for the regions;
- The HVI is based on a standard four-star internationally branded hotel. As the markets in our sample develop, the available data for such a specific type of hotel improves. This year and over the next few years we expect to see the samples evolve and become more standard. This will allow a greater reliability for comparison of like products across the markets. This is likely to result in changes to some markets, even in regards to historical data (as is the case this year with Seychelles), as the sample broadens and includes a larger number of properties. This typically results in changes to historical aggregate occupancy and average rate data; impacting some of the values we have reported in the past;
- The values and operational performances of the Egyptian markets look spectacular, but it should be noted that these are coming from an extraordinarily low base. The actual values need to be compared to historical levels and in doing so we can see that recovery is not yet complete;
- All of the North African countries have found 2014 and year-to-date 2015 challenging. The terrorist attack in Paris deterred visitors from the core French destinations, and the beach attack in Tunisia more recently impacted visitation from the UK. Unfortunately this may have a devastating impact on the tourism industries in these countries;
- Nigeria has recently had relatively peaceful elections, which coupled with the last (also peaceful) elections in Kenya should give further confidence to investors in key markets across the continent. However, as West Africa is still recovering from the impact of Ebola it is difficult to see this positive trend emerging yet and it

is not surprising that the three worst-performing markets in terms of year-on-year percentage drops in value are all in West Africa;

- Ebola had a dramatic impact on many markets. Although the outbreak initially affected visitation to the entire continent, as news became more reliable and it became clearer which countries were affected by the epidemic, the impact was reduced in some areas; nevertheless, some tourists are still deterred from visiting any country in Africa;
- The list of emerging markets continues to grow and, in addition to welcoming back Luanda and Windhoek in 2016, it would be great to also include Kigali, Kinshasa, Maputo, Zanzibar and Juba, to name just a few.

CHART 2: HOTEL VALUES – PERCENTAGE CHANGE 2010-14 (US$)

		2010	2011	2012	2013	2014	CAGR [1] 2009-14 [2]
1	Cairo	1.6	-40.6	-43.3	-24.3	48.5	-17.4
2	Sharm el Sheikh	15.9	-61.9	20.3	-5.2	40.9	-6.6
3	Cape Town	19.8	-8.7	3.1	3.9	4.0	4.0
4	Mauritius	—	—	-0.5	6.9	3.8	3.3
5	Seychelles	-11.2	14.2	-20.0	-9.8	2.2	-5.7
6	Marrakech	9.7	16.0	-6.3	21.7	-0.1	7.7
7	Addis Ababa	—	—	—	3.8	-2.4	0.6
8	Dar es Salaam	-14.0	23.9	12.6	-1.5	-4.8	2.4
9	Nairobi	-13.6	31.4	-14.2	9.4	-6.7	-0.1
10	Dakar	—	13.8	-4.9	5.2	-6.8	1.5
	AFRICAN AVERAGE	**-5.3**	**6.4**	**-2.8**	**2.2**	**-7.9**	**-1.6**
11	Casablanca	—	—	5.4	-3.9	-9.4	-2.8
12	Algiers	—	—	—	2.5	-9.9	-3.9
13	Johannesburg	15.1	-0.9	-10.7	-2.4	-10.1	-2.2
14	Lusaka	—	13.3	-4.7	-4.8	-12.4	-2.6
15	Durban	—	—	-10.9	6.2	-12.5	-6.1
16	Accra	—	—	-2.4	6.1	-14.8	-4.1
17	Abuja	8.7	7.5	-4.8	9.3	-24.6	-1.7
18	Lagos	—	—	1.5	-0.6	-25.6	-9.1

Source: HVS London and HVS Cape Town

[1] Compound annual growth rate
[2] CAGR from 2009 or closest year

The African Sun Shines Brightest On...

- The luxury resorts of the Seychelles continue to drive value and, despite challenges in airlift through the Middle East, demand remains strong from South and East Asia, with both China and India supplying guests to the islands. However, this has impacted ancillary spend in many hotels, as these guests choose not to spend as much on food and beverage as European visitors;
- Tourism is a vital source of revenue for some markets, but not all. Corporate demand for hotels in the business hub of Abuja continues to drive value there, despite all of the challenges affecting the markets in Nigeria;
- The recovery of tourism in Egypt is very encouraging, and although hotel values are not yet back to the levels recorded prior to the recent political challenges faced by the country they are well on the way. The growth in values of almost 50% in Cairo is impressive;
- Given the extraordinary economic growth in Ethiopia and the development taking place in Addis Ababa, it is not surprising that this city made the top three in absolute value terms. Based upon average rate growth in Dar es Salaam after the openings of more branded hotels, it is reasonable to expect further growth in Addis Ababa when those hotels under construction come on line;
- Further growth in visitation to the island of Mauritius is largely due to increased flights. In 2013, visitor numbers exceeded 1 million for the first time and have continued to rise;
- South Africa is starting to show a steady recovery in all markets, to varying degrees (albeit only in local currency). Economic challenges and over supply have suppressed these markets, but it would appear a slow and steady recovery is underway.

Market Overviews

Algeria – Algiers

The Algerian Government launched the Horizon 2025 project to help accelerate tourism development in the country, as Algeria has become unpopular with incoming tourists on account of the political instability in the region and in the country. According to the World Travel and Tourism Council, the project aims to increase visitation to 3,673,000 tourist arrivals in 2025 compared to 3,180,000 in 2015.

Algeria has traditionally lagged behind its neighbours Egypt and Tunisia in terms of tourism numbers. North Africa suffers from terrorism attacks from time to time, with varying levels of impact on individual countries' tourism industries. The recent attacks in Tunisia were widely reported and the impact on the tourism industry was felt quite significantly.

Investment in the Algerian hospitality product is building, but should be further stimulated by infrastructure development. With the rise of the oil industry, much needed infrastructure is expected to be developed and this will benefit other industries, including tourism.

Both occupancy and average rate grew in 2013, resulting in an increase in value. Unfortunately, concerns over the region as a whole and a reduction in the price of oil resulted in a 4% fall in revenue per avilable room (RevPAR) in the **Algiers** market in 2014. Encouragingly, however, occupancy rose to 69% in 2014.

Egypt – Cairo and Sharm el Sheikh

Egypt's tourism market is recovering well from the sharp declines seen from 2011 to 2013, which followed in the wake of large political uprisings, the subsequent changes of government and the decline in internal security. With the return of growth in visitor numbers, there is renewed interest from international hotel developers, and a number of new projects are coming to the market. According to a COMESA report on tourism investment, six hotel renovation and management projects have commenced within **Cairo** and are now at an advanced stage.

Any recovery is welcome and although the figures may be arbitrary they remain incredibly low: the values per room reported for Cairo are still US$100,000 lower than the peak in 2010. The value of any hotel is only what someone is prepared to pay for it, and at this level there may well be interested parties from across the globe looking opportunistically.

Hotel values in **Sharm el Sheikh** are steadier compared to Cairo, as the Red Sea resort was not as badly affected by the challenges faced by Egypt after 2011 and tourism has been slowly returning to the area.

Ethiopia – Addis Ababa

We are pleased to be able to include this exciting market in our index. The increasing rate of inbound tourist arrivals and planned events/conferences is widening an already huge gap between demand for international-standard hotels and the supply of accommodation in **Addis Ababa**, Ethiopia's capital. Anecdotes about delegates attending meetings at the African Union's headquarters having to travel up to 60 miles to find a bed for the night are not unknown. According to research carried out by Awash International Bank, the projected unsatisfied demand for hotel nights in Ethiopia in 2015 will be 1.3 million, rising to more than 3 million by 2020 if new hotels are not built. Until recently, Ethiopia was not considered to be attractive to investors on account of the country's relatively low number of tourists and planned events and conferences. However, this is changing as Ethiopia's economy is growing by more than 7% a

Ethiopa's economy is forecast to be the third largest in Africa by the end of the year

CHART 3: HOTEL VALUATION INDEX

		2009	2010	2011	2012	2013	2014
1	Seychelles	2.811	2.495	2.849	2.279	2.054	2.100
2	Abuja	1.786	1.941	2.087	1.986	2.171	1.637
3	Addis Ababa	0.000	0.000	0.000	1.283	1.331	1.299
4	Mauritius	0.000	0.000	1.079	1.074	1.148	1.191
5	Algiers	0.000	0.000	0.000	1.282	1.315	1.184
6	Lagos	0.000	0.000	1.574	1.598	1.588	1.181
7	Marrakech	0.757	0.830	0.963	0.902	1.098	1.098
8	Accra	0.000	0.000	1.158	1.130	1.200	1.022
9	Dakar	0.000	0.862	0.981	0.933	0.981	0.915
10	Dar es Salaam	0.773	0.665	0.823	0.926	0.913	0.868
	AFRICAN AVERAGE	**1.000**	**0.947**	**1.008**	**0.981**	**1.002**	**0.922**
11	Nairobi	0.706	0.610	0.801	0.687	0.752	0.701
12	Cape Town	0.573	0.687	0.627	0.647	0.672	0.699
13	Casablanca	0.000	0.000	0.755	0.796	0.765	0.693
14	Lusaka	0.000	0.588	0.666	0.635	0.604	0.530
15	Durban	0.000	0.000	0.586	0.522	0.554	0.485
16	Johannesburg	0.524	0.603	0.598	0.533	0.521	0.468
17	Cairo	0.700	0.711	0.422	0.239	0.181	0.269
18	Sharm el Sheikh	0.370	0.429	0.163	0.196	0.186	0.262

Source: HVS London and HVS Cape Town

year and is forecast to be the third-largest economy in Africa by 2015. Addis Ababa now has the fourth-largest international diplomatic community in the world, partly due to the fact that it is the seat of the African Union, which was launched in 2002. Also, according to The African Development Bank, Africa's middle class is expected to grow from 355 million to 1.1 billion in the next 50 years and these people will have an appetite to travel.

In Addis Ababa both occupancy and average rate have been steady in recent years, although there was a peak in average rate in 2013. Given the unaccommodated demand mentioned previously, the new supply due to enter the market is likely to have a limited impact on occupancy, and RevPAR should increase as more branded assets enter the market and push up average rate, resulting in rising values.

Ghana – Accra

Ghana has faced many challenges, namely falling oil prices and Ebola. Whilst these issues are out of the hands of the Ghanaian Government, general concerns over the economy, as well as corruption, have also impacted the performance of the country's hotels. This combination resulted in a 9% decline in RevPAR for hotels in **Accra**. It is hoped that this is a short-term trend and that the city's hotel market will bounce back to previous levels. There are plenty of reasons to be optimistic, as many hotel chains not represented in Accra have plans to open properties in the city, including Marriott, Hilton and Shangri-La, and some groups want to launch multiple brands. Accra is also in the process of re-positioning itself – the airport is undergoing a major refurbishment and extension and Airport City is rapidly expanding; this development includes modern office facilities as well as hotels and is seen as a major demand driver for the future. Accra is likely to remain focused on corporate and MICE business with limited leisure demand.

Kenya – Nairobi

A decline in the security situation is having a heavy impact on Kenya's tourism market, particularly along the coast, and deterring potential investors and visitors alike. Although we expect to see a return to growth now travel advisories have been lifted, it will be some time before Kenya regains previous inbound tourism levels.

HOTEL VALUES IN CAIRO GREW BY ALMOST 50% IN 2014, ALBEIT FIGURES PER ROOM ARE STILL LOWER THAN THE PEAK IN 2010

Kenya's hotel market currently presents a mixed picture. While hotels along the coast are suffering (23 closed in the first quarter of 2015), hotels in the capital and in safari destinations are starting to see more positive results (although performances are still down on previous years).

Despite the weak security situation, Kenya continues to attract foreign investment and several international hotel groups are expanding in **Nairobi**. The hotel market in general offers significant scope for expansion owing to Kenya's underlying tourism potential and importance as a regional hub for finance, commerce and government.

Room supply in Nairobi continues to be a challenge, with many new hotels under construction and due to open within the next two years. It will be several years before this new supply is absorbed and occupancy returns to historical levels. Nairobi saw a drop of 7% in hotel values in 2014; this was partly due to a 2% fall in RevPAR and fears over future performance, owing to new supply, but also partly because the city is a victim of its own success – the economy has matured to a point where demand for MICE facilities is now mainly from local, rather than international, businesses. The local businesses do not provide the same demand for rooms or food and beverage outlets as international business travellers do. Therefore, although demand for meeting rooms remains strong, the impact on overall hotel income and profitability is reduced.

Mauritius

Mauritius enjoys a well-developed tourism industry, which is forecast to expand further in the coming years. With strong domestic and regional government support and a stable political and economic environment, Mauritius is the strongest tourism market in Sub-Saharan Africa. Whilst a continued downturn in the Eurozone would damage the Mauritian tourism industry to some extent, the country's source markets are diverse enough to withstand asymmetric economic shocks. The country has a strong financial industry and ties to major countries such as India, which has allowed the island to grow corporate demand over the past few years.

In 2015, Mauritius is projected to enjoy a rising level of inbound arrivals, mainly driven by an increase in tourists from the Asia Pacific region. The country is beginning to see changes in visitation demographics with the emphasis moving away from high-spending Western Europeans towards visitors from China and India. Visitor numbers from France, the country's largest single source market, are expected to decrease by around 8% in 2015, as economic uncertainty in the Eurozone hits consumer confidence. By comparison, Chinese visitor numbers should rise by more than 10%, owing to increased economic ties and a successful marketing campaign by the Mauritian Government.

In the longer term, we expect inbound arrivals to continue to grow, on account of growing demand from India and China but also owing to the increasing cooperation of regional airlines, making visiting the country easier. Mauritius is actively looking to increase the amount of air traffic to the island, and it has also been lobbying for increased cruise trips to the region. As the source markets diversify, we expect to see international hotel chains seeking to leverage their brand recognition. Shangri-La Hotels and Resorts has already entered the market, and it is likely that other Asia Pacific companies will do the same.

DEMAND FOR ROOMS HAS FALLEN IN ABUJA, BUT THE LONG-TERM OUTLOOK IS POSITIVE

Morocco – Marrakech and Casablanca

Benefiting from a stable political environment and increasing levels of foreign investment, over the longer term we expect to see healthy growth in hotel values as Morocco continues to attract greater numbers of visitors from a range of different markets. However, in the short term the North African markets are facing significant challenges, as outlined previously; 2015 is turning out to be particularly difficult, as French and British visitor numbers significantly dropped after the attack on staff of the Charlie Hebdo magazine in Paris and the more recent attack in Tunisia.

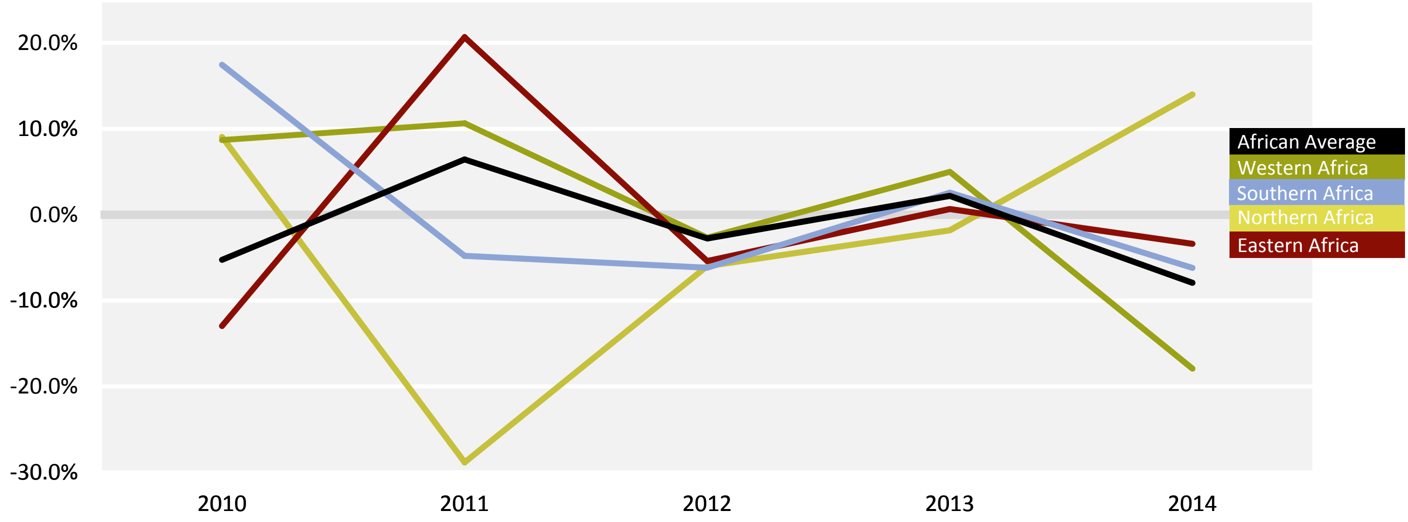
Interestingly, the performances of **Marrakech** and **Casablanca** vary significantly. Whilst Casablanca saw a 6% decline in RevPAR in 2014, Marrakech experienced a gain of 3%. The hotel values in both markets are currently subdued by investor concerns over security in the region.

In the long term, however, Morocco is expected to keep up with the anticipated increases in demand, and we see a bright future for the country's tourism market.

Nigeria – Abuja and Lagos

Infrastructure and property development continue in the main cities of this West African powerhouse, although the past few months have provided anything other than ideal investment conditions. The Ebola epidemic continues to affect the region, despite tremendous success in eradicating the disease in many countries, and, although Nigeria was only affected for a short period of time and soon declared Ebola free, the impact on the hotel sector is still being felt. RevPAR in 2014 was down 22% and 26% in **Abuja** and **Lagos**, respectively, and is expected to contract further in 2015. The Nigerian economy relies heavily on the oil

CHART 4: YEAR-ON-YEAR CHANGE IN VALUES PER ROOM BY REGION 2010-14



Source: HVS London and HVS Cape Town

sector, and as oil prices continue to fall on the back of weaker demand from China and potential new supply from Iran, demand for hotel rooms has fallen. On a more positive note, the presidential elections and transfer of power were relatively peaceful and there have been successes against Boko Harem, indicating a more positive longer-term economic outlook and potential for the country.

Senegal – Dakar

President Macky Sall, who was elected in March 2012 under a reformist policy agenda, inherited an economy with high energy costs, a challenging business environment and a culture of overspending. Senegal received technical support from the International Monetary Fund from 2010-14 under a Policy Support Instrument to assist economic reform through sound macroeconomic and fiscal policies to reduce the fiscal deficit, increase transparency and facilitate private investment. President Sall unveiled an ambitious economic plan, the Emerging Senegal Plan, which aims to implement priority economic reforms and investment projects to increase economic growth. Investors have signalled confidence in the country through Senegal's successful Eurobond issuances in recent years, including in 2014.

The inflow of foreign investment into Senegal has remained at around US$300 million annually

World Travel & Tourism Council research has found that tourism in Senegal had a direct contribution of 11.3% to GDP and 9.9% to employment in 2014. However, only 3.3% of the country's total investment was spent on developing tourism and travel. A shift is needed in order for **Dakar** to compete in the international market. Tourism arrivals are expected to rise from just over 1,100,000 in 2015 to 1,500,000 in 2025. The Ebola virus had an adverse impact on the industry in 2014 and the effects of the outbreak are expected to last for months before a major turnaround is seen in visitor numbers. According to industry sources, the Senegalese Government is displaying an increasing commitment to building the country's reputation as a tourism destination.

Mangalis Hotel Group selected Senegal as one of its target development pipeline countries in 2013. Additionally, we understand that Club Med has announced a second luxury resort for Senegal, which is expected to open in 2017.

Occupancy in Dakar is relatively stable, at around 70%, but every other year average rate grows by US$10. The city's hotel values are close to the African average.

CHART 5: HOTEL VALUES PER ROOM 2009-14 (US$)

		2009	2010	2011	2012	2013	2014
1	Seychelles	637,293	565,609	645,760	516,486	465,644	476,093
2	Abuja	404,811	439,991	473,101	450,182	492,181	371,166
3	Addis Ababa	—	—	—	290,759	301,739	294,478
4	Mauritius	—	—	244,692	243,371	260,259	270,040
5	Algiers	—	—	—	290,673	298,022	268,383
6	Lagos	—	—	356,731	362,213	359,901	267,806
7	Marrakech	171,514	188,191	218,273	204,550	249,000	248,788
8	Accra	—	—	262,564	256,211	271,902	231,747
	AFRICAN AVERAGE	**226,676**	**214,752**	**228,576**	**222,261**	**227,118**	**209,103**
8	Dakar	—	195,499	222,414	211,428	222,414	207,384
10	Dar es Salaam	175,123	150,652	186,590	210,012	206,853	196,830
11	Nairobi	160,107	138,259	181,606	155,748	170,418	158,938
12	Cape Town	129,953	155,719	142,223	146,677	152,359	158,447
13	Casablanca	—	—	171,228	180,485	173,495	157,195
14	Lusaka	—	133,296	151,069	143,951	136,986	120,027
15	Durban	—	—	132,821	118,292	125,664	109,964
16	Johannesburg	118,770	136,715	135,452	120,921	118,015	106,111
17	Cairo	158,677	161,213	95,681	54,207	41,042	60,960
18	Sharm el Sheikh	83,832	97,131	37,018	44,535	42,223	59,490

Source: HVS London and HVS Cape Town

Seychelles

The islands of the Seychelles archipelago attract more than 200,000 tourists annually, with most visitors staying an average of ten nights, substantially more than many other destinations. The tourism sector contributes to more than 20% of the country's GDP and 60% of total foreign exchange receipts, making it the largest earner of foreign exchange in the economy.

The islands have suffered with airlift in recent years, with the traditional markets of Western Europe struggling to find suitable flights through the Middle East. Hoteliers therefore turned to new markets, such as Russia, India and China, and although Russian guest numbers have been affected by the economic sanctions on Russia there has been a substantial increase in Indian and Chinese visitors to the islands. The rise in visitation resulted in steady growth in average rate, but this was counterbalanced by a fall in occupancy. Overall RevPAR and hotel values rose by 2% in 2014.

South Africa – Johannesburg, Durban and Cape Town

Despite the continued fall of the South African rand against other world currencies, including the US dollar, in local currency terms all three South African markets are enjoying relatively strong performances. **Johannesburg** and **Durban** both recorded falls in occupancy, but achieved increases in average rate, and **Cape Town** experienced substantial rises in occupancy and rate, at 5% and 12%, respectively. Such growth suggests that the imbalance in supply and demand that has plagued the markets since 2010 is coming to an end.

The first five months of 2015 recorded further growth in RevPAR for all three markets in local currency terms. Unfortunately, since June, when new visa restrictions came into force, anecdotal reports suggest a significant fall in visitors, particularly to Cape Town, so the full-year figures may be less impressive.

There are challenges to overcome: the national economy, the impact of Ebola and power supply issues to name but a few. However, the outlook is positive, with local and international investors looking to expand. African group City Lodge is announcing investments and existing and new international brands, such as Marriott, are keen for further hotels in key markets.

OCCUPANCY AND AVERAGE RATE ROSE SUBSTANTIALLY IN CAPE TOWN'S HOTEL MARKET

THE LUXURY RESORTS OF THE SEYCHELLES CONTINUE TO DRIVE VALUE, DESPITE THE CHALLENGES IN AIRLIFT THROUGH THE MIDDLE EAST

Tanzania – Dar es Salaam

Operators see significant opportunity in **Dar es Salaam** (Tanzania's business hub and former capital). Recently, the city has enjoyed political stability and significant increases in airport arrivals, and it has established itself as a regional hub. Future growth in Tanzania is likely to be concentrated in Dar es Salaam and Arusha and on the island of Zanzibar.

Occupancy in Dar es Salaam has been steady at around 70% since 2011, whilst average rate in local currency has grown by circa 13% over the same period. Such a strong and steady performance, combined with limited branded competition, is encouraging further development. Since 2014, two Ramada properties (totalling 255 rooms) and a 90-room Best Western hotel have entered the market. The new supply has barely depressed occupancy in the short term, but increased average rate by 17.5%; thereby showing the potential in the market.

Hotel values in Dar es Salaam dropped by just under 5% to US$197,000 in 2014. In local currency, values decreased by less than 2% over the same period and have shown an increase of more than 50% in the past five years.

Zambia – Lusaka

Zambia has plenty to offer potential tourists (and investors). The country is home to Victoria Falls (an attraction it shares with Zimbabwe) as well as extensive nature reserves, cultural sites and museums. It is also developing a reputation as a top safari destination to rival more established markets such as South Africa and Kenya. Transport connections are gradually improving and, as Zambia raises its profile on the global tourism stage, tourist arrivals are expected to increase by more than 7% in 2015 to exceed 1 million.

Currently, much of the country's economy and hotel demand is focused on the copper mining industry. Owing to a fall in the value of copper, over concerns on future demand from China, demand for hotel rooms has fallen in recent months. In 2014, RevPAR in **Lusaka** fell by 12%, due partly to the relatively recent opening of the Radisson Blu hotel (2012) in this small market, but mainly due to global economic challenges. The market will only recover with growth in several sectors, including tourism.

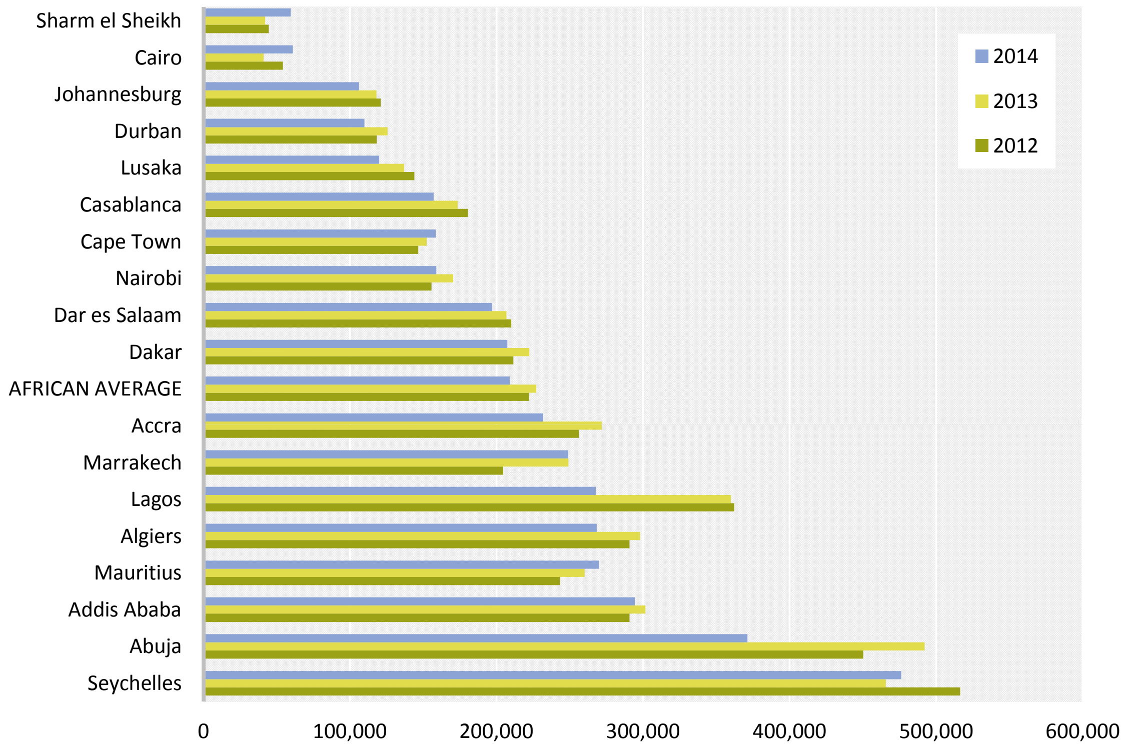
Hotel values in Lusaka dropped by 12.4% in 2014. In fact, this is the first double-figure drop in a string of depreciating values over the last three years.

Outlook

'Africa is not for wimps' is a phrase well known to Africans, particularly when foreigners suffer challenges. This phrase could equally be applied to hotel investment in the region, but with higher risk comes higher reward and, as the change in values of some of these markets shows, that reward can be substantial.

For many years, growth in demand depended on foreign visitors and investment; however,

CHART 6: HOTEL VALUES PER ROOM 2012-14 (US$)



Source: HVS London and HVS Cape Town

Africans are now doing it for themselves. The growth in demand from local businesses in Nairobi, for example, is changing the operational dynamics of the market. MICE demand is more locally based, ensuring strong occupancy of meeting rooms, but unfortunately it does not yet lead to demand for guest rooms. Hoteliers now have to adapt their businesses to reflect the changes in demand. Overall, we see this as a positive step towards the maturity of a hotel market that has suffered more than its fair share of challenges.

Several of the international brands are also reviewing changes in sources of demand and are keen to roll out their mid-market brands across the continent; appreciating that the price point is different between local and international guests. It is not just international brands that are showing changes and increases in demand, local brands such as Azalai, City Lodge and Protea continue to go from strength to strength.

Investors too are showing faith in the continent. Marriott purchased Protea last year and Accor announced plans to open 50 hotels across Angola. Both are exciting deals and proof that it is not just the operators but also investors that are growing in confidence.

It is not all good news of course: currency fluctuations, oil prices and terrorism remain challenges outside the control of operators

AFRICA'S TRAVEL AND TOURISM INDUSTRY HAS GREAT POTENTIAL TO HELP CREATE GROWTH

and investors, and provide huge barriers to entry to some. These problems are unlikely to go away, and all we can do is hope that they are controlled.

The discovery of oil and gas in many African countries has helped in the much-talked-about economic performance of the continent. The following quote is sourced from an EY Report, 'African Oil and Gas: Driving Sustainable Growth', April 2014.

'Africa is on an upward growth curve, and Africa's growth is both real and sustainable. Resources generally, and oil and gas specifically, have played an important role in this growth. While the majority of reserves and production remain concentrated in six countries – Nigeria, Libya, Algeria, Angola (oil), Sudan (oil) and Egypt (gas) – there have been ever-increasing discoveries of new oil and gas (for example, in Ghana, Tanzania, Mozambique and Uganda) and prospected fields in many countries (including Sierra Leone, Mali and Kenya). It is therefore not too surprising that investors are optimistic about the potential for growth in the African oil and gas sector.'

In its 'Top 10 tourism-ready countries in Africa' report, compiled in June 2015, the World Economic Forum commented that 'with a projected growth of 4.9% in and accounting for nearly 9% of the continent's GDP, Africa's travel and tourism industry has incredible potential to help generate growth, create jobs and enable development.' Hotel groups are now quickly aligning themselves to this economic growth by developing new hotels in markets in which they currently have a presence and entering new locations.

The sun continues to shine across Africa, and with improved airlift, confidence in democracy and economic growth all providing corporate and tourism demand, hotel investment in existing and new markets across the continent should be strong in the medium to long term. There will continue to be short-term challenges, but in the longer term, the future looks bright for an increasing number of African hotel markets.

– 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 18 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 18 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 2014 is therefore reflected in the capitalisation rates used.

The HVI assumes a date of value of 31 December 2014. 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$226,676 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 2014 the index for Seychelles was 2.100 (US$476,093/US$226,276), which means that the value of a hotel in Seychelles in 2014 was a little more than twice that of the African average in 2009.

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About HVS

HVS, the world's leading consulting and services organisation focused on the hotel, mixed-use, shared ownership, gaming, and leisure industries, celebrates its 35th anniversary this year. 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 more than 500 professionals, HVS provides an unparalleled range of complementary services for the hospitality industry. **HVS.com**

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With offices in London since 1990, HVS London serves clients with interests in the UK, Europe, the Middle East and Africa (EMEA). 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 Europe, 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 Sophie Perret, Director, on +44 20 7878 7722 or sperret@hvs.com.

For further information about the services of the Cape Town office, please contact Tim Smith, Managing Partner, on +27 797 342296 or tsmith@hvs.com.

About the Authors

Sophie Perret is a director at the HVS London office. She joined HVS in 2003 following ten years' operational experience in the hospitality industry in South America and Europe. Originally from Buenos Aires, Argentina, Sophie holds a degree in Hotel Management from Ateneo de Estudios Terciarios and an MBA from IMHI (Essec Business School, France and Cornell University, USA). Since joining HVS, she has advised on hotel investment projects and related assignments throughout the EMEA region. Sophie recently completed an MSc in Real Estate Investment and Finance at Reading University. She is also responsible for the development of HVS's business in France and the French-speaking countries.

Tim Smith MRICS is Managing Partner of our Cape Town office, focusing on the Sub-Saharan market. He graduated from De Montfort University with a degree in Estate Management and has worked for firms of chartered surveyors since 1995, focusing on the valuation and sale of hotels and other leisure property throughout the EMEA region.

Tshepo Makhudu is a senior consultant in our Cape Town office. He has many years of property industry experience in development, management, finance and strategic consulting. He has held employment at leading property, banking and telecommunications multi-national institutions. Most notably he worked in the hospitality industry during the most vibrant era of the industry in South Africa, with a responsibility for the efficient delivery of hotel and casino development projects. Tshepo studied commerce and property development at leading universities in South Africa and received leadership training in the USA.

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HVS London | 7-10 Chandos St, London W1G 9DQ, UK

HVS Cape Town | The Gateway 3rd & 4th Floor, Century City, PO Box 1955, Cape Town, SA