

# Africa's hotel market resilient despite challenges

Earlier this month, HTI Consulting held its first 'Virtual Hotel Club' - an informal Pan-African platform for hospitality industry stakeholders - held earlier in July, which explored the way forward during this unprecedented time of crisis...



Image Supplied - Luanda, Angola

A survey conducted by HTI Consulting on hotel owners and operators within the African continent, covered 14 regional and international operators active in the African hotel space (41 hotel brands and 219 projects currently under development) – these included the likes of Hilton Worldwide, Marriot International, Radisson Hotel Group and Accor Hotels, amongst others.

## Development sentiment largely positive

According to Troughton, while the African hospitality industry is facing extraordinary and unprecedented challenges and obstacles in light of the global pandemic, he notes that development sentiment remains optimistic amongst the majority (57%) of hotel owners as reported by operators on the continent.

"Despite closures and significant performance declines, long-term investment fundamentals for the sub-Saharan region remain positive despite significant short to mid-term challenges currently impacting the sector," he says.

"Of a total 219 hotel projects currently In Sub Saharan African pipeline a large proportion (68%) of these projects are

proceeding as planned, with only 18% currently on hold for a limited period, and 13% on hold indefinitely," he states.

"Concerns amongst hotel owners are, of course, still apparent and, for several, a 'wait and see' approach relates to factors such as uncertainty around travel ban lifts in various markets, how to restore guest confidence and the impact of Covid-19 on hotel valuations. However, the optimism displayed by many owners generally relates to an understanding of the sector and adoption of a longer-term outlook," he explains.

## **Outlook geared to opening doors**

Despite the current environment, construction related businesses in several countries resumed activity as early as possible after lockdowns eased, comments Troughton.

"Encouragingly, this has resulted in 21 projects (representing 2946 hotel rooms in 15 African countries) still expected to open in 2020, with 52% of projects expecting short-term delays of 3 - 6 months," he said. "Longer-term delays (9-12 months or 12 months+) are typically being seen on those projects that were in earlier (or planning) phases of development," he states.

"These delays can generally be attributed to uncertainty around how long travel lockdowns will continue. However, around 30% of projects under construction don't expect Covid-19 to cause any delays to their ongoing development," he says.

Hotel owners are clearly taking a long-term investment outlook and are expecting Covid-19 to be largely neutralised prior to their hotels opening. This relates particularly to those in the early stages of planning.

## **Development pipeline remains healthy**

Of the overall sub-Saharan Africa Development pipeline, there are 219 branded hotels (representing 33,698 hotel rooms) across 38 markets.

"East Africa remains the region with the strongest hotel pipeline, followed by West and then Southern Africa. East Africa has 88 branded hotels currently in the pipeline, West Africa sees 84 branded hotels in its pipeline with Southern Africa sitting on 47 hotels," stated Troughton.

Of the 21 hotels total projects expected to open doors in 2020, East Africa (40% of total supply), will see 1,134 rooms come on board, with the top cities being Antananarivo (22%), Dar es Salaam (20%) and Addis Ababa (20%).

West Africa (47% of total supply) sees 719 rooms planned to enter in 2020 across major cities including Accra (28%), Bamako (28%) and Cape Verde (24%).

Southern Africa (23% of total development pipeline) sees 963 rooms planned to enter in 2020, with South Africa - Johannesburg (71%) and Durban (21%) - seeing the predominance of activity, followed by Zambia.

Over the past three months, HTI Consulting has engaged in numerous discussions with hotel owners who, Troughton states, have navigated different cycles during Covid-19 from survival (as hotels closed) to cost containment, defining hygiene safety protocols, staffing plans and ultimately, reopening strategies.

As several economies slowly start to open, so too have many hospitality businesses who are remaining positive and committed to the industry and demonstrating the determination necessary to overcoming current adversities.

## **Doing the deals**

"Despite pressured economic environments and tough decisions, many hotel operators have, been able to successfully conclude and sign deals with owners during the lockdown period. A total of 15 new hotel deals were concluded by seven

operators in eight countries, from the period March - June," statesa Troughton.

Feedback indicates these deals were close to fruition prior to the Covid crisis, with owners showing strong sentiment to continue with the projects. Further feedback from operators indicates these deals were also typically signed in primary African cities such as Abidjan, Accra, Lagos and Durban that boasted strong and diverse hospitality markets prior to the crisis. These locations are also likely to recover at a quicker rate than secondary nodes, believes Troughton.

"Select operators who indicated that no deals were signed during this period pointed out that opportunities remain rife and that new enquiries are continuing to come through," he says.

"It is anticipated that a lag will occur, with new owners typically being more cautious and awaiting to see how recovery unfolds," he says. "Concerns have also been raised by owners around access to finance going forward as well as the willingness of the banks and financial institutions to fund hospitality projects at this point in time," he continues.

"While we haven't seen any distressed sales at this point, with banks largely keeping hotels afloat, this may well change depending on the timeframes we're looking at to a return to 'new normal' as well as the potential resurgence of the virus in certain areas. The next two to three months will prove to be crucial, as many hospitality businesses do not have plans in place to ensure sustainability post this period."

## **Opportunity sees operators doing it differently**

"In several instances, feedback from large operators indicates a distinct shift towards conversions over greenfield development going forward, with a more flexible approach to the renovations and PIP costs.

"Some operators are viewing this time as an opportunity to finalise forward planning during the lockdown," says Troughton. "In several instances, they have been able to take advantage of government support during this period in order to ensure they are able to streamline and accelerate internal approval processes, create more flexibility around brand stance, enhance their ability to pitch their products correctly to the local market and offer greater value and affordable experiences along with analysing fee structures over a select period."

"While lockdowns have placed many hospitality businesses and investors in a stalemate position over the past few months, we've noticed a positive change over the past few weeks as more as more hospitality businesses resume activities and we see a significant uptick in the commissioning of hospitality advisory assignments," notesTroughton.

### **Future Outlook**

"It is reasonable to assume that a more cautious approach will be taken by hotel owners and investors in evaluating their investment strategy," he says.

"Independent hotel owners may indeed find it more difficult than the larger international brands to weather this current scenario. This too because branded hotels, and their new highly publicised hygiene protocols, may make for a more secure market and therefore allow them to see a more effective bounce-back and recovery."

"Additionally those markets that are strongest in the area of domestic business travel (and then domestic leisure) should be amongst the first to recover. Indeed, focusing on the local market is what helped Asia recover from the SARS epidemic in the early 2000s."

"For those owners and operators taking the time to understand the changing markets we are facing, and willing to adapt to drive new demand, the medium to long-term outlook remains good," stressesTroughton. "At HTI Consulting, for example, we continue to believe in the tourism potential in the region and strongly encourage further support from governments and brand managers to allow owners to minimise further losses and support recovery,"

"Despite current challenges and the overall uncertainty that trouble us all, there will be better times ahead and the travel market will eventually emerge stronger and more resilient. As governments slowly roll back travel restrictions and prepare to reopen society, the future winners are those that build a future based on a strong risk mitigation approach and display flexibility and innovation," he concludes.

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