Operator selection for hotels in Sub-Saharan Africa

International arrivals to Africa surpassed the 50 million level for the first time 2012 as per UNWTO data. The following year, local group Protea was acquired by Marriot for $200 million. This set in motion the move of international operators to this emerging hospitality region, which has for decades served tourists looking for safari vacations. In 2014 international arrivals amounted to $36 billion in receipts, within which the Sub-Saharan Africa segment grew by 3 percent. The number of international visitors to Africa is forecast to reach the 85 million mark by 2020.

By Manika Dhama 30 May 2016

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Hotel chain development over the past few years is mirroring this growth in travelers. As per W Hospitality Group, in terms of hotel chain development pipelines in Africa in 2016, West Africa will witness the maximum number of rooms coming up (45 percent of total), with Southern Africa and East Africa seeing 2 percent and 24 percent of room development respectively.

The cities of Lagos, Abuja, Nairobi, Addis Ababa and Dakar are expected to be the top five cities by the number of planned rooms. Branded hotel chain openings will see a spike in 2016 and 2017, with 16,934 a 16,540 rooms being developed over the course of these two years. New supply will taper thereafter, with hotels openings being approximately 4,989 rooms in 2020. This is reflected in the timelines as per deal signing, with maximum hotel deals during 2006 to 2015 being signed last year (for 121 hotels).

Routes hotel chains can choose

Hotel chains looking to enter the region can choose from the management, franchise or acquisition routes Given the limited hotel developments available for acquisition, hotel management companies have shown preference for entering into management agreements, with almost 79 percent of deals signed in 2016 bei under this category, according to W Hospitality Group. Currently, AccorHotels leads in hotel room pipeline with 8,794 rooms under construction. Hilton is a close second at 8,501 rooms.

Investors also stand to benefit from the growth in the number of travelers and are closing deals in the regi for hotels that are managed by international chains. In a $35.9 million deal in March this year, QG Africa Hotel, a Mauritius-based fund, acquired 100 per cent interest in the InterContinental Hotel Lusaka from Kingdom Hotel Investments. The acquisition of the 244 room hotel is the first acquisition of QG Africa Hot "It (the acquisition) underlines our commitment and investment strategy for the hotel sector in Sub-Sahara Africa. The InterContinental Lusaka is strongly established locally and will benefit from the planned

refurbishment that will expand and reposition the asset, thereby generating value added returns for our investors," said Jean-Claude Bastos de Morais, founder of Quantum Global.

Challenges remain

Challenges within the region still remain and could limit the growth of the sector unless addressed. "Touris initiatives by the government are the exception in countries such as Nigeria, Kenya, and Tanzania, rather th being the norm across the region.

Hurdles posed by cross-border restrictions can also delay or disrupt entry of operators who wish to expan their portfolio in the region", says Charles Bott, head of hotels, hospitality and leisure at property consultan Cavendish Maxwell. "On their part, the owners/developers need to be in readiness when it comes to negotiating contracts. Often the commercial terms of a contract are weighted heavily in favour of the management company. Owners stand to lose ground during negotiations unless they seek advice from professionals who understand the key aspects and details of the clauses and can help ensure no avenues for future returns are lost at the contract stage."

The fragmented nature of the continent, with diversity in languages, ethnic groups, etc., also presents a unique challenge to operators, as does the infrastructure limitations. Akinwumi Adesina, president of the African Development Bank (AfDB) recently highlighted that nearly 645 million people lack access to electricity and this is the greatest hindrance to Africa's growth and development.

Investing in 'smart-cities' through public-private partnerships can help overcome the common challenges c red tape, gaps in infrastructure development, steep capital costs, security issues and inconsistencies in regulations from one country to the next. A regionally relevant strategy that involves mitigating risks pertain to the sector can become the drivers for change in the future.

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