

Africa hotel market Q4 2019: Why investors are going at it alone

The last decade and a preference for control have shifted the focus among hotel investors targeting Africa away from local development partners. "After a strong period of hotel development, hotel investors are more seasoned and they are implementing new investment strategies," explains Xander Nijnsens, executive vice president of JLL Hotels & Hospitality Group in sub-Saharan Africa.



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"With an increase in experience, we are seeing regional and international investors opt for full control over their assets and they are moving away from the kind of partnering-up approach we saw earlier in the decade when the market was more nascent. Doing so increases control and exit option, as well as easing decision making."

Finding a model that works

Development rather than acquisition is still the main route into the sector among hotel investors and up-and-coming African chains, according to a sentiment survey carried out by JLL. The global hotel operators with an appetite for Africa have greatly improved their development support, and the design and construction sector has seen a lot of maturation, with strong local and regional options now available.

Radisson is rolling out quickly as it aims for more than 130 hotels and 23,000 rooms across Africa by 2025. Hilton now has 100 hotels trading or under development in the region, while regional operators such as Azalai, Onomo and Mangalis are expanding with their own capital.

"The big brands are increasing their value add by relooking at how they support development, improve operations and localise distribution channels," Nijnsens says. "Large technical service teams and support offices are now in place at the African arms of most major global hotel brands."

Whilst diverse partnerships at local level have reduced, portfolio and fund partnerships are on the rise; two major joint ventures have recently brought together expertise and capital in Africa. French hotel giant Accor

and Qatar's Katara Hospitality are jointly pushing into sub-Saharan Africa, while investment firm, Actis and Westmont Hospitality Group, are collaborating across the region.

Moreover, outright ownership without a local partner can come with its own challenges. Longer due diligence periods are one example, Nijdens explains, with tasks such as sourcing land, confirming land ownership, town planning approval, and accessing utilities requiring investors to "close out significant real estate risk".

Taking on a higher level of exposure to project management and delivery can be a challenge and getting planning permission without an influential partner on the ground can be harder," he adds. On the plus side, there's more control when looking at key asset management decisions, for example, to expand, reposition, reinvest or eventually divest. "It means less concern from day one about key issues relating to alignment; the only entity the investor needs to be aligned with is itself," Nijdens says.

A growing market

With the sub-Saharan African market continuing to grow, hotel investors have more options than ever before.

"The region continues to attract capital with investment in hotels set to hit \$1.8bn this year – up 4.2% on 2018," says Nijdens. "How that is invested and how it behaves will vary. But the maturation of the sector and an increase in platforms is making investing easier than a decade ago." Many new investors looking at sub-Saharan Africa are focusing on lower consumer price points to cater to a wider range of business and leisure travellers.

"The four- to five-star market aimed at international guests was really the first entry point for many investors and brands," says Nijdens. "But as the market matures, we're seeing business models adapt to cater to regional guests and concepts, such as budget accommodation, emerge."

He believes more investors will opt for majority ownership or portfolio level partnerships as the market matures. "In the space of a decade, the interest in the hotel sector has gone from private to local and regional, to global," concludes Nijdens. "But seeing major fund managers and institutional capital step in is still a 5-10 years' away."

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