

HOSPITALITY MARKET SNAPSHOT

# Oil Economies Accra / Lagos / Luanda 2015



Hospitality & Tourism Industry Specialists



## In this issue

3 | Introduction

4 | Luanda

*Economic Overview* 4  
*Current Room Supply* 5  
*Future Room Supply* 5  
*Market Performance & Outlook* 5

6 | Accra

*Economic Overview* 6  
*Current Room Supply* 7  
*Future Room Supply* 7  
*Market Performance & Outlook* 7

8 | Lagos

*Economic Overview* 8  
*Current Room Supply* 9  
*Future Room Supply* 9  
*Market Performance & Outlook* 9



# Introduction

*Between 2011 and 2012 the annual basket price for oil (as indicated by OPEC) was at its highest levels at approximately US\$107 and US\$109 respectively. By the end of 2014 an oversupply of oil (driven by a number of factors) saw the price drop below US\$100 per barrel. In 2015 prices reached US\$49 and year to date March 2016, prices were approximately US\$30 per barrel.*

The profitable production of oil will be challenging in many oil economies given current low prices. Off the back of these prices major companies such as BP, Chevron and Total have reduced their capital spend across the globe. Such cuts will have a knock-on effect for African oil economies across diverse sectors including hospitality.

In Sub-Saharan Africa, Angola, Nigeria and Ghana are likely to be the most affected. The level of impact will depend on:

- *The size and quality of the hospitality sector;*
- *The level of economic diversity;*
- *The future pipeline for new hotel development; and*
- *The length of time oil prices remain depressed.*

HTI Consulting have recently undertaken research in the economic capitals of Luanda, Lagos and Accra. Our goal was to understand the potential impact of the oil price on hospitality markets and how this will affect investment going forward.

## Economic Overview

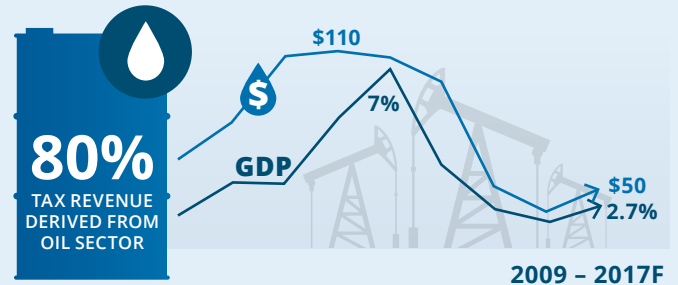
An estimated 90% of Angola's exports are oil related whilst 80% of tax revenue is derived from this sector. Angola's economy is thus highly dependent on oil contributing over 36.0% to GDP in 2014 (down from 46.9% in 2012). Continued decline in oil prices have therefore significantly reduced Government budgets and GDP growth estimates have been cut from 6.0% to 2.6% for 2015. Projections for 2016 are also subdued at 2.2%.

The Kwanza has also devalued against the dollar off the back of lower oil prices. Since July 2014 the currency has lost an estimated 60.0% of its value. Measures have been put in place to reduce fund repatriation.

The exchange rate has fuelled higher inflation. Already considered one of the most expensive countries in the World, inflation was estimated to close at 10.2% in 2015 (up from 7.3% in 2014) and is forecast to reach 19.5% in 2016. Interest rates have been raised in an attempt to curb inflation and are likely to continue to increase into 2016.

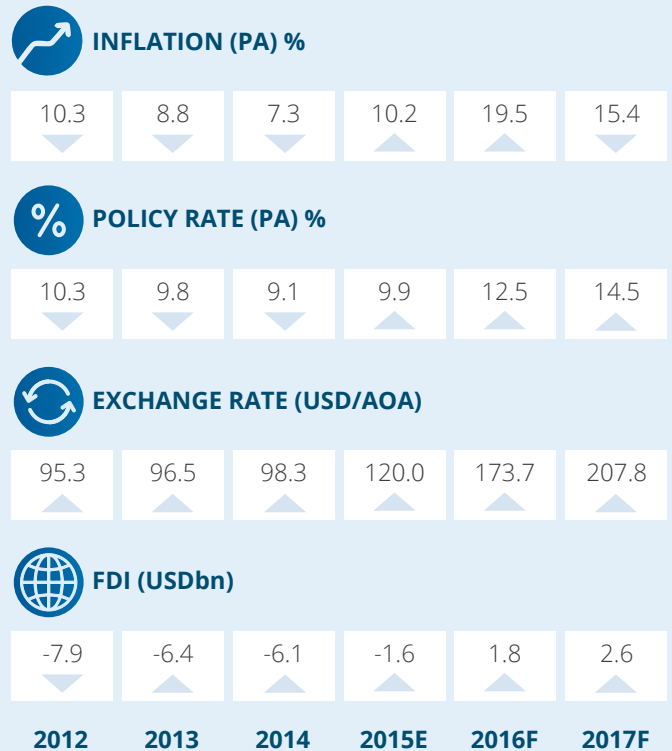
Although the current economic outlook is weak, the Angolan Government will focus on economic diversification with renewed momentum. In particular steel is being viewed as an opportunity to boost future economic growth. In addition, projections for FDI are also likely to be more favourable going forward which will have a knock on effect for the economy and sectors such as hospitality.

### GDP GROWTH VS OIL PRICE



Source: Standard Bank Research, World Bank and OPEC

### KEY ECONOMIC INDICATORS



Source: Standard Bank Research





# LUANDA

## Current Room Supply

Since 2005 the Luanda hotel market has been in a growth phase with hotel supply increasing by 155.0%. As the market becomes more competitive the quality of new supply continues to improve. However there is still a significant gap in the price/quality ratio for many properties in the market. There are currently only four "true" international standard properties in the market. Global hospitality brands are notably lacking, with Portuguese brands dominating (Sana, TD Hotels).

## Future Room Supply

New hotel development planned in Luanda is well over 1,600 rooms. Not all hotels planned will be realised, as developments are prone to delays even under positive market conditions. Given the current oil crisis, many projects will be put on hold. The VIP Grand Luanda and the Intercontinental are likely to open in 2016, increasing supply by approximately 750 rooms. Accor have signed a deal to open 52 new hotels in Angola, 28 of which will be based in Luanda. The first of these, the Sofitel, is currently under construction. In the short term supply is likely to increase at a faster pace than demand.

## Market Performance & Outlook

Despite supply increases the hotel market was resilient prior to the reduction in oil prices. Current economic conditions and oil related demand contraction have resulted in low occupancy and stagnant ADR. Properties with a large gap between price and quality are experiencing declining ADR. This trend will continue as new, quality supply enters the market. Dampened oil prices will also contribute to market pressures. The short term outlook for Luanda is therefore negative. In the medium and long term, opportunity for branded, international standard properties exists. Timing of entry will be critical given the pipeline for development.

### INCREASE IN QUALITY ROOM SUPPLY



Source: HTI Consulting

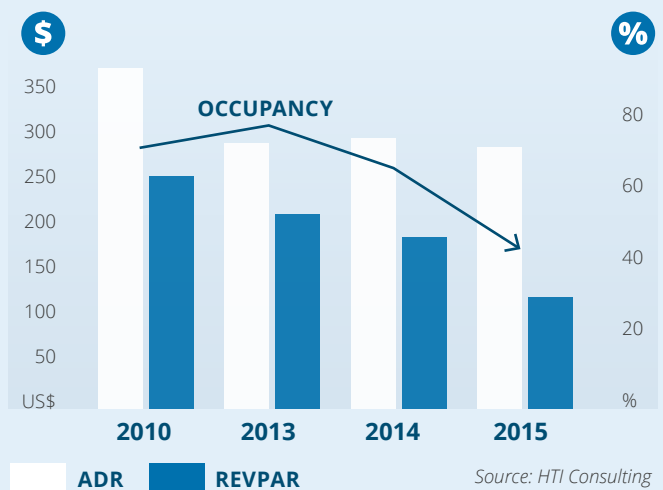
### PLANNED HOTEL DEVELOPMENTS

AS OF JANUARY 2016



Source: HTI Consulting

### MARKET PERFORMANCE



Source: HTI Consulting

## Economic Overview

Considering the recent discovery of oil in Ghana (2007), its economy is more diverse than those of Nigeria and Angola. Oil contributes 6.3% of GDP whilst the services sector contributes over 50.0%. Agriculture (which employs up to 45.0% of the work force) remains an important economic contributor.

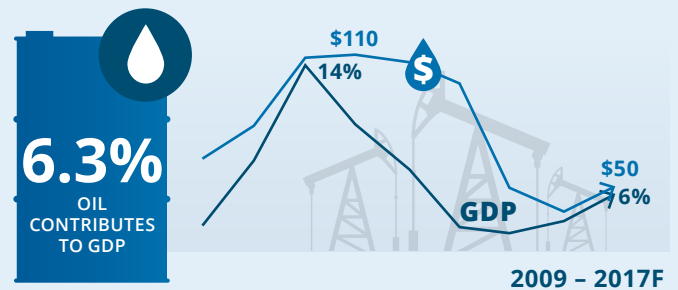
Despite the limited reliance on oil, the economy of Ghana has faced recent challenges. A severe energy crisis, an unsustainable external and domestic debt burden and depreciation of the Cedi has seen growth slow from 7.5% in 2013 to an estimated 3.6% in 2015.

Positive GDP growth is anticipated going forward with a projected 4.5% in 2016 and 6.0% in 2017. The extent that the economy grows will however be reliant on resolution of the energy crisis. The imbalance between demand and supply has had a significant impact on business growth. Government are taking pro-active measures to address the issue and it is hoped that from 2016 greater capacity will positively influence the economy.

Inflation is also expected to reduce slightly in 2016. Inflation has increased from 9.2 % in 2012 to 17.0% in 2015. Price adjustments in petroleum and utilities as government removed subsidies, as well as the sharp depreciation of the Cedi have driven inflation upwards. From 2017 inflation is expected to be 12.0%.

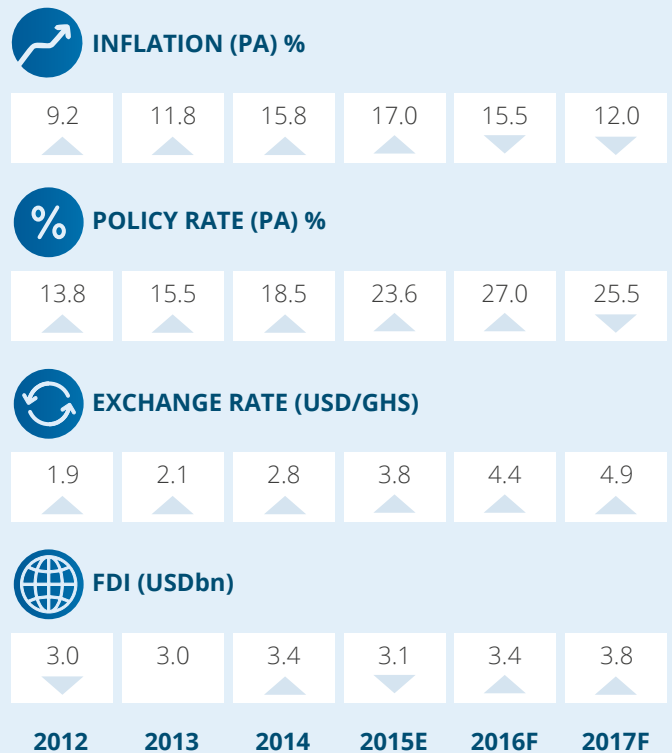
Despite the more challenging economic conditions the hospitality sector in Accra has remained resilient and opportunity for new hotels does exist.

### GDP GROWTH VS OIL PRICE

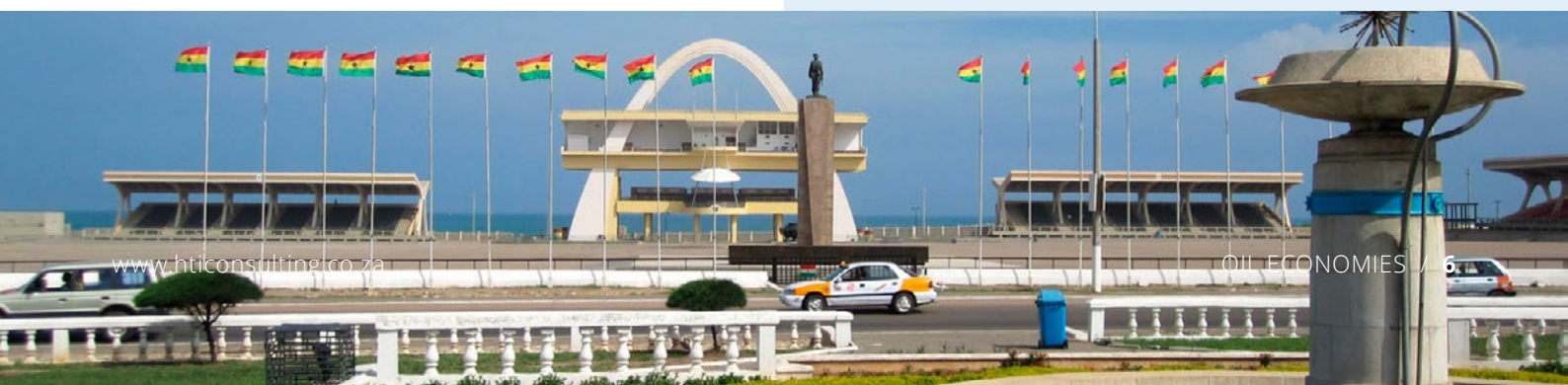


Source: Standard Bank Research, World Bank and OPEC

### KEY ECONOMIC INDICATORS



Source: Standard Bank Research



## Current Quality Room Supply

Within the last five years, quality hotel supply in Accra has doubled. Of the quality supply that entered the market between 2010 and 2015, 58.0% were internationally branded (Best Western Premier, Kempinski, Movenpick and Ibis Styles). Four star supply dominates (56.0%), however greater brand penetration at the three star (13.0%) and five star (24.0%) levels is evident.

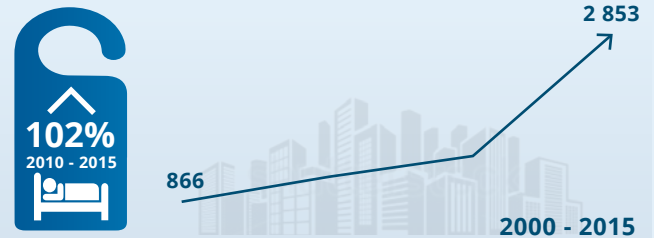
## Future Room Supply

Of the 2,500 rooms planned in Accra, 31.0% are under construction, and 27.0% are in the advanced stages of planning. A further 42.0% of rooms planned are mooted, however some of these projects could materialise in the longer term. An estimated 72.0% of the rooms under construction and in advanced planning have signed management agreements with international brands including Marriott and Hilton Garden Inn. The continued growth in supply, brand penetration and increased segmentation is indicative of a market moving towards maturity.

## Market Performance & Outlook

Occupancy and ADR in Accra have remained strong despite increased competition. In 2014 the impacts of Ebola, combined with slower economic growth saw occupancies inch below 70.0% whilst ADR declined slightly. Occupancy and ADR remained stagnant in 2015, despite increased supply and the depreciation of the Cedi against the dollar, highlighting the resilience of this market. Hoteliers envisage increased competition will result in rate stagnation in the medium term. Occupancies are expected to continue to grow gradually. Accra represents a good opportunity market. Location, brand and positioning must be prioritised in this maturing market.

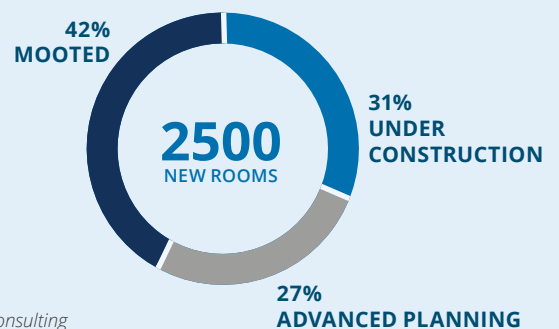
### INCREASE IN QUALITY ROOM SUPPLY



Source: HTI Consulting

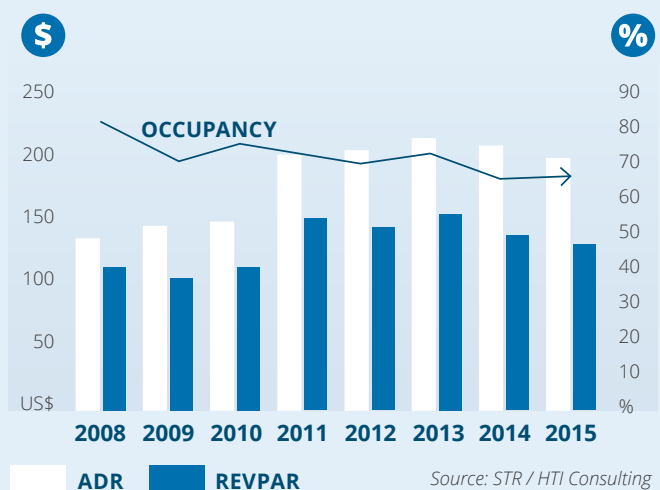
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Source: HTI Consulting

### MARKET PERFORMANCE



Source: STR / HTI Consulting





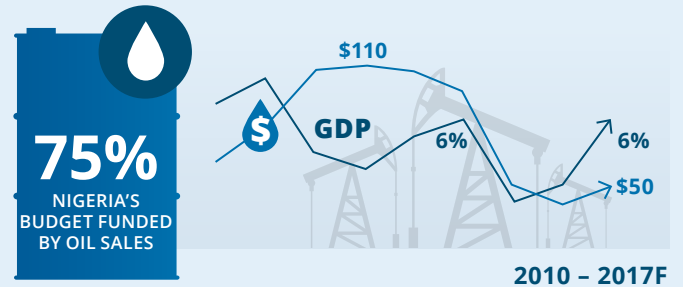
## Economic Overview

The contribution of oil to the GDP of Nigeria is, surprisingly, only 7.8%, down from 12.9% in 2013 (*National Bureau of Statistics and Standard Bank Research*). Why then has the decline in oil prices had such a significant impact on the economy of the country? The World Bank estimates that oil sales fund approximately 75.0% of the country's budget and over 90.0% of exports. Reduced oil prices therefore resulted in GDP growth slowing from 6.2% in Q3 2014 to 2.8% in Q3 2015. Forecasts for 2015 have been cut by the IMF from 7.0% to 3.0% whilst forward forecasts are subdued at 4.0% for 2016.

Between 2014 and 2015 the Naira lost approximately 23% of its value. For most of 2015 the currency was positioned just below NGN200 to US\$1. The Government has resisted devaluing the currency in line with lower oil prices. There is however increasing pressure to devalue the Naira and economists project that the currency will weaken in the short term. This will have a negative impact on inflation which is expected to increase slightly in 2016.

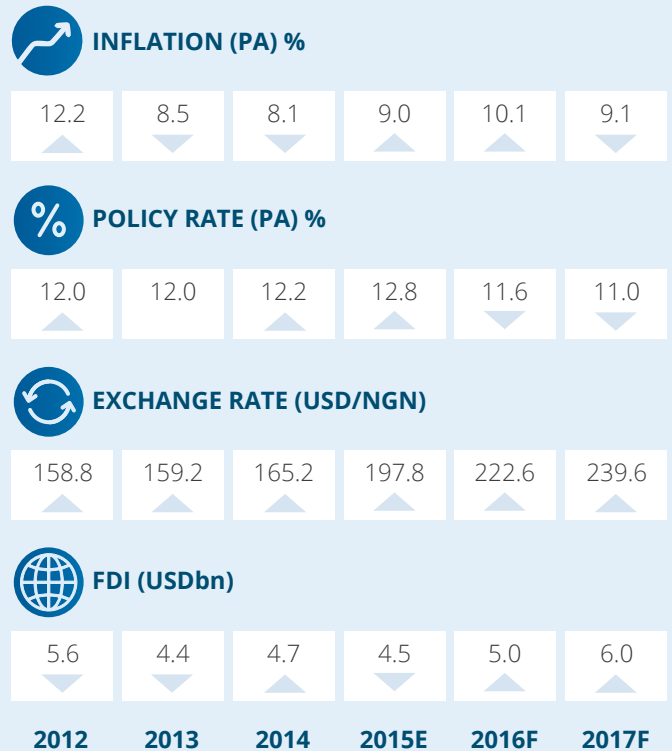
Weakened economic conditions in Nigeria will be cushioned, to an extent, by non-oil sector growth. The IMF projects that non-oil revenue will grow by 4.4% in 2017, up from growth of 3.9% in 2013. The long term outlook for Nigeria is therefore positive and although current conditions will place pressure on hotel demand, long term prospects are positive.

### GDP GROWTH VS OIL PRICE



Source: Standard Bank Research, World Bank and OPEC

### KEY ECONOMIC INDICATORS



Source: Standard Bank Research



## Current Room Supply

Prior to 2000 there were only three quality hotels available in the Lagos market. Supply remained limited until 2005, following which the number of quality rooms available has tripled. New growth has been driven by international brands including Intercontinental, Four Points Sheraton, Radisson Blu, M Gallery and Ibis. Currently there are in excess of 10,000 rooms in Lagos, of which approximately 4,000 represent international standards of quality.

## Future Room Supply

Research indicates that between 3,500 – 4,000 new hotel rooms are being planned in Lagos. A large proportion of which, based on history, are not expected to be realized. Delays to projects in the city are renowned and additional delays are likely given current economic conditions. Of the new supply planned approximately 23% is already under construction, with a high likelihood of entering the market. Amongst these is the Ramada Hotel and Marriott Victoria Island.

## Market Performance & Outlook

The quality hotel sector in Lagos is performing poorly. New supply, Ebola related demand contraction, delays in the appointment of a new cabinet post elections and challenging economic conditions reduced occupancies by 14 percentage points between 2012 and 2015. Currency pressures and increased discounting saw ADR decline by 24% over the same period. The removal of the Ebola threat and increased Government spend, due to cabinet appointments, should drive a rebound in demand in 2016. Without a parallel rebound in oil prices, the markets ability to absorb new supply planned is questionable.

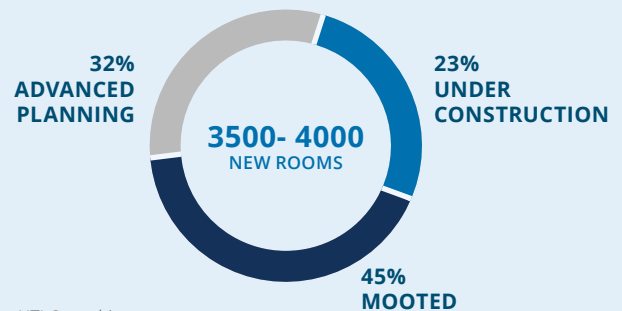
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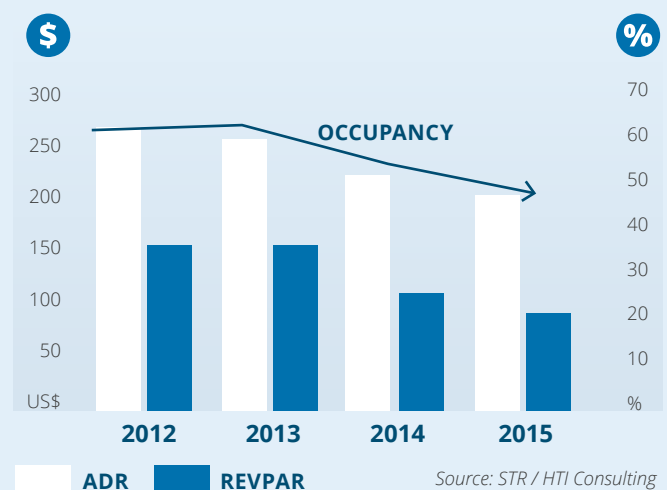
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### MARKET PERFORMANCE



Source: STR / HTI Consulting

# About the Authors

Hospitality and Tourism International Consulting "HTI Consulting" is a niche, specialist hospitality, mixed-use, real estate and leisure focused consulting company formed in 2003. To-date more than 300 assignments have been completed covering 36 countries in Africa and the Middle East. Our services include:

- Market & financial feasibility studies
- Asset Management
- Operator Selection & Management Contract Negotiation
- Valuations
- Due Diligence
- Brokerage
- Finance Raising

HTI Consulting have recent experience in Accra, Lagos and Luanda where we have recently undertaken Market and Financial Feasibility Studies, Due Diligence and Operator Selection. For additional information on these and other services please contact HTI Consulting: [info@hticonsulting.co.za](mailto:info@hticonsulting.co.za) | +27 21 685 0635

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*Wayne is Chief Executive Officer of HTI Consulting. He has a three year Hotel Management Certificate from the University of Johannesburg and an MBA from CASS Business School in London. Wayne has 9 years of middle management operational experience in leading 5-star hotels and resorts in South Africa and the United Kingdom. Wayne also has 18 years of specialist hospitality consulting experience with HTI Consulting and Grant Thornton covering 36 countries focusing on: feasibilities, due diligence, operator selection, finance raising and asset management.*

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## KIRSTY DE GROOT

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*Kirsty is Head of Research and Quality Control with HTI Consulting and has a BCOM degree in marketing from the University of South Africa. Kirsty has extensive experience in undertaking market and financial feasibility studies for stand alone hotel developments and integrated resorts. Kirsty has worked with HTI Consulting and KPMG (South Africa and Hungary) with a focus on hospitality consulting, for the past 16 years. Kirsty joined HTI Consulting in 2010 as an Associate Consultant, becoming a full-time employee in February 2012. Kirsty has worked on assignments in over 25 countries focusing on feasibility studies, market research and operator selection.*