SEPTEMBER 2013

A TIME FOR NAIROBI

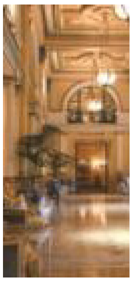
IS A TIME FOR AFRICA

Samantha Muna
Business Developer, Nairobi

Amir Lababedi
Associate Director, Dubai

Tim Smith
Director, London





www.hvs.com

HVS London | 7-10 Chandos Street, London W1G 9DQ, UK
HVS Dubai | Liberty House Building, DIFC, 7th Floor, Office 715, Dubai

Summary

To truly grow and prosper, a country requires stable political and economic fundamentals. Whilst Kenya is not perfect, as witnessed by the recent political demonstrations, it is well on the way to achieving these milestones. Given the importance of Kenya, and Nairobi in particular, to the region, when Kenya flourishes the ripple effect to the surrounding countries will be substantial. A time for Nairobi is a time for Africa.

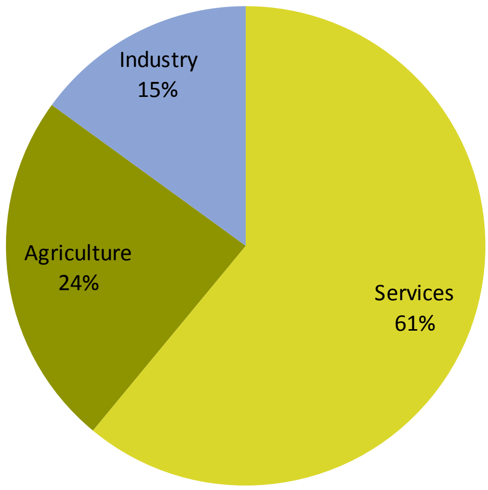
This article highlights the strength of the Kenyan economy and the hotel market in Nairobi, including a forecast of average rate, occupancy and RevPAR for the next five years.

The Kenyan Economy

With a GDP of US$37.2 billion and a population of 43.2 million (as at 2012), Kenya remains the economic powerhouse of the East African Community. Kenya is the fifth-largest economy of all African countries, and the largest economy of East Africa in terms of GDP. Among the key goals of the Vision 2030 plan is to achieve an annual GDP growth of 10% over the next 25 years via the promotion of tourism, trade and infrastructure. Kenya's GDP sources are more diversified in comparison to other economies in the region. The agriculture sector accounted for 24% of GDP in 2012 and employs about 80% of the workforce. Services, including finance, banking, transport, communications and tourism, accounted for more than 60% of Kenya's GDP. Industry's contribution towards the country's GDP was 15% in 2012.

The total contribution of Travel & Tourism to Kenya's GDP was KES448.4bn (US$5.3bn), which accounted for 12.5% of the country's GDP in 2012. This is forecast to grow by 2.2% in 2013, and rise by a compound annual rate of 4.5% to KES714.8bn (US$8.46bn) by the year 2023, according to the WTTC.

CHART 1: KENYA'S GDP COMPOSITION BY SECTOR 2012



Source: Central Intelligence Agency

CHART 2: KEY ECONOMIC INDICATORS – KENYA

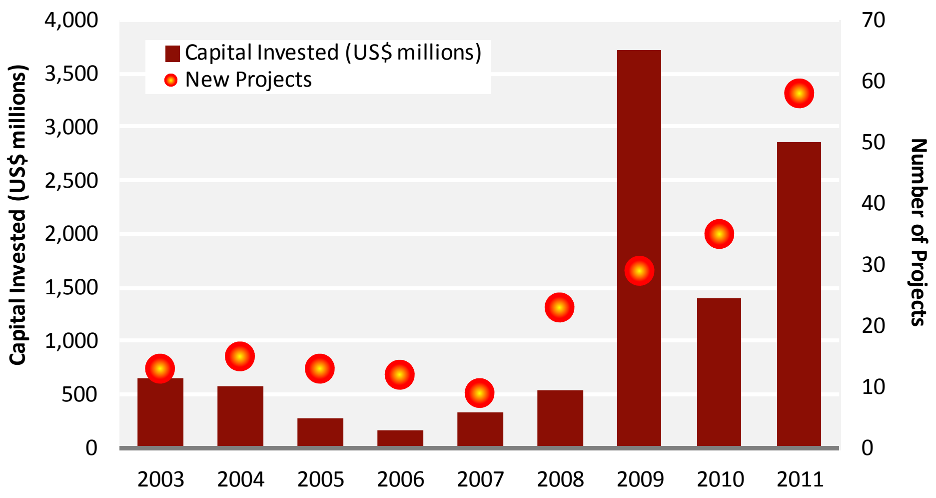
	Actual					Forecast				
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Real GDP growth (%)	1.7	2.5	5.6	14.4	4.6	4.8	5.1	5.4	5.7	6.0
Consumer price inflation (av %)	16.3	9.2	4.0	8.7	9.2	5.6	6.0	5.8	5.2	4.8
Budget balance (% of GDP)	(4.4)	(5.8)	(7.0)	(4.0)	(12.1)	(9.0)	(6.8)	(6.5)	(4.8)	(4.1)
Current-account balance (% of GDP)	(6.5)	(5.7)	(7.5)	(8.9)	(10.2)	(9.7)	(8.8)	(7.7)	(6.6)	(4.5)
Short-term interest rate (av %)	7.7	7.4	—	18.2	22.1	21.6	18.7	18.0	18.0	18.0
Exchange rate Ksh:US$	69.18	77.35	79.23	89.23	84.53	85.61	91.50	96.00	100.50	105.50
Exchange rate Ksh:€	101.98	108.29	105.19	126.18	109.04	112.47	116.21	120.96	126.63	133.99

Source: Economist Intelligence Unit, August 2013

Foreign Direct Investment

In comparison to East African benchmarks, Kenya has a substantial private business sector, which is supported by a significant number of foreign investors. The volume of foreign direct investment (FDI) since 2003 has reinforced Kenya's status as the gateway hub for East Africa, Chart 3 shows the significant increase in FDI projects since 2008, illustrating the growing confidence in the Kenyan economic and political situation.

CHART 3: KENYA'S INWARD FDI 2003-11



Kenya has been successful in diversifying its sources of FDI. Significant capital flows originate from emerging markets such as India, China, the Middle East and South Africa and are also complemented by traditional European sources including the UK, Germany and France.

The majority of FDI inflows from India primarily relate to communications. Investors from China have historically been involved in infrastructure development, manufacturing and agriculture. Capital investment from South Africa has also been aimed at improving Kenya's infrastructure, whereas Middle Eastern investors have tended to support the hotel and property development sectors.

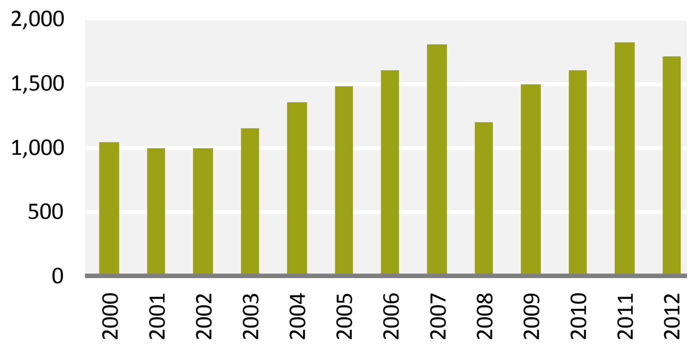
The Nairobi Hotel Market

Challenging economic times in most of the source markets and presidential elections hung like a cloud over the Nairobi hotel market in 2012.

Demand

In Nairobi, total international arrivals registered a compound annual growth rate (CAGR) of 4.3% between 2000 and 2012. Arrivals declined a significant 33% in 2008 following the post-election violence in December 2007, which marred the reputation of the political stability of the country and led to travel warnings, negative international press and a significant reduction in foreign direct investment. As the country recovered, it enjoyed three consecutive years of recovery. 2012 saw a drop of 6.1%, a significant 'improvement' on the previous election year. Chart 4 shows total international arrivals to Jomo Kenyatta International Airport

CHART 4: INTERNATIONAL ARRIVALS – NAIROBI (000s)

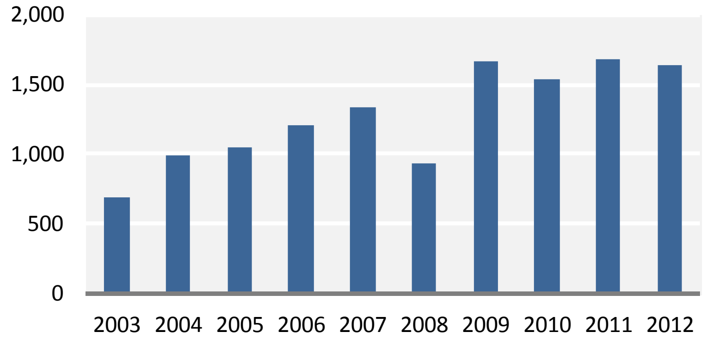


Source: Economic Survey 2013

The number of bednights saw a CAGR of 5% in the ten years to 2012. Similar to arrivals, there was a fall of 29% in 2008, but demand quickly bounced back, by 77% the following year. The number of bednights has been relatively stable in subsequent years, even in the election year of 2012, at on average 1.6 million bednights a year.

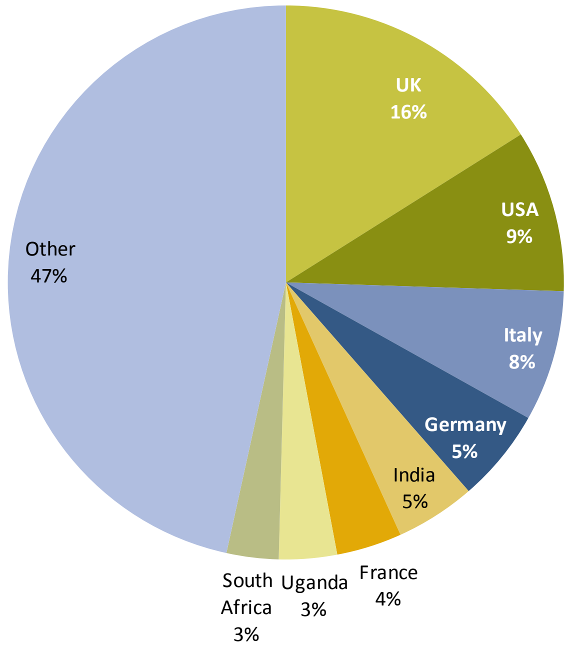
Nairobi's main source markets are the UK, the USA and Italy. Arrivals from these markets picked up significantly in 2011 by 17%, 11% and 10%, respectively. Europe is the most important region accounting for 47% of total international arrivals in Nairobi. Despite this, arrivals from markets such as France and the Netherlands showed a decline compared to 2010. Arrivals from Asian markets are becoming increasingly important, growing by 25% in 2011 compared with the previous year. In particular, arrivals from India and China grew by 24% and 31%, respectively, due partly to large construction projects, such as roads, being undertaken by Chinese companies.

CHART 5: BEDNIGHTS IN NAIROBI (000s)



Source: Economic Survey 2013

CHART 6: MAIN SOURCE COUNTRIES 2011

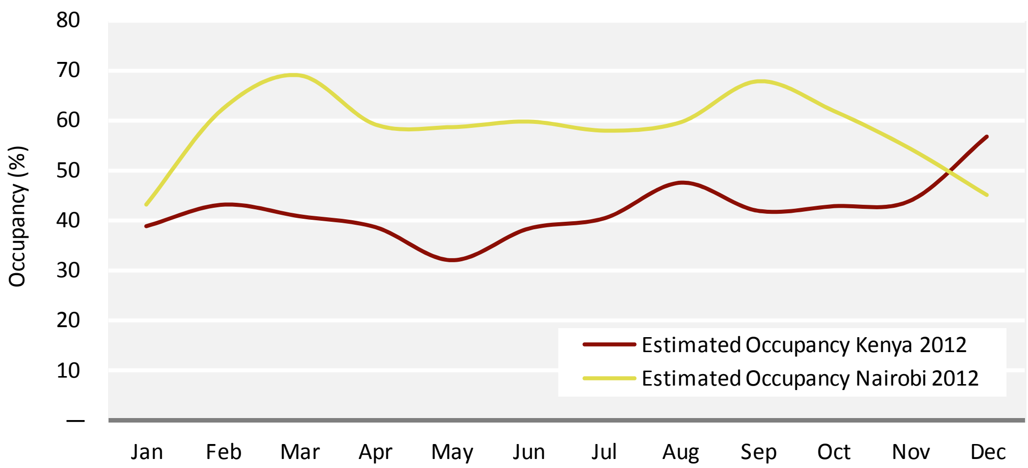


Source: Kenya Economic Survey

As illustrated in Chart 7, hotel occupancy in Kenya is relatively stable throughout the year, other than December. Although the reasons for visits to the country vary, with leisure being a significant driver, the market shows limited seasonality patterns.

Nairobi is again relatively flat in terms of occupancy, but given the input of the business and conference sectors there are spikes and troughs. March and September are popular months for conferences, hence the strong occupancy during these periods. Equally, Christmas and New Year celebrations in December and January reduce demand during those months.

CHART 7: SEASONALITY 2012



Sources: Kenya Economic Survey 2013, HVS Estimate

Kenya's tourism sector has been identified as one of the key drivers in achieving the goals of Vision 2030. The country's main vision for its tourism sector is to rank among the world's top ten preferred long-haul tourist destinations offering a high-end, diverse and more distinctive visitor experience than few of its competitors can offer.

Diversification of the tourism product includes development of resort cities, increasing the number of premium safari parks, the creation of niche tourism products (cultural, eco-sports and water-based tourism), golf course development, revitalising business tourism, and investing in new conference facilities. With regards to the latter, the focus is on the development of the Kenya International Conference Centre in Nairobi and on building other ultra-modern convention and conference centres with a focus on the coastal region.

Kenya currently offers a unique conference and incentive experience as many hotels, safari lodges, beach resorts, and tented bush camps offer world class conference facilities. The proposal within Vision 2030 is to market Kenya as a Conference Tourism destination within the continent and the region, owing to its strategic location within Africa and between the Middle East, Asia and Europe.

To attract even more tourists to the country, Kenya should place emphasis on developing and maintaining internationally accepted standards of tourist service and enhancing the safety and security of tourists.

Supply

Although detailed statistics are not available, the current total room count of the Nairobi hotel market is estimated to be around 6,000. This figure is rapidly growing, as the market has seen a significant amount of supply enter the market over the past few years. This supply has been welcomed, as many existing hotels in Nairobi are tired and in need of refurbishment. International hotel brands represented in Nairobi include Best Western, Crowne Plaza, Fairmont, Hilton, InterContinental, Kempinski and Southern Sun. There are, however, some surprising and significant omissions from the list, brands such as Accor, Hyatt, Marriott, Rezidor and Starwood are not yet represented in the city. Some of these brands have developments underway, but all are known to be searching for opportunities. In addition to these international operators, a number of regional hoteliers are present in Nairobi, such as Sarova.

New Developments

The most recent addition to supply is the Kempinski Villa Rosa, which opened to much acclaim on 1 September. Other notable openings of branded hotels in recent years include the 162-room Crowne Plaza in Nairobi's business district and the 156-room Sankara Hotel in Westlands; both hotels opened in 2010 and have proven popular and successful already. Unbranded hotels have also entered the market to great acclaim: the Eka Hotel and Hemmingway Nairobi Hotel to name two. The latter is a 45-room über-chic hotel set to attract high-net-worth guests. The development pipeline remains strong, with a number of local and internationally branded properties set to enter the market over the next few years (see Chart 8).

CHART 8: HOTEL DEVELOPMENT PIPELINE

Future Openings	Category	Number of Rooms	Opening Date	Location	Status
14 Riverside Hotel Dusit D2	Boutique	98	Q3 2012	Riverside Drive, Westlands	Under Construction
Waterfront Gardens Hotel		61	Q4 2012	Waiyaki Way	Under Construction
Radisson Blu Hotel Nairobi	Luxury	244	2014	Upper Hill	Under Construction
Park Inn by Radisson Nairobi Westlands	Midscale	126	2014	Westlands	Under Construction
Leisure Park Hotel/Arboretum Park Hotel	Aparthotel	96	2014	Arboretum/State House	Under Construction
Serena Nairobi Expansion	Luxury	52	2014	Nairobi	Planning
The Premier Hotel	Limited Service	144	2015	Airport	Announced
Village Market Hotel	Limited Service	200	2016	Gigiri	Planning
UN Avenue	Limited Service	125		Gigiri	Planning
Total		**1,146**			

Source: HVS Research

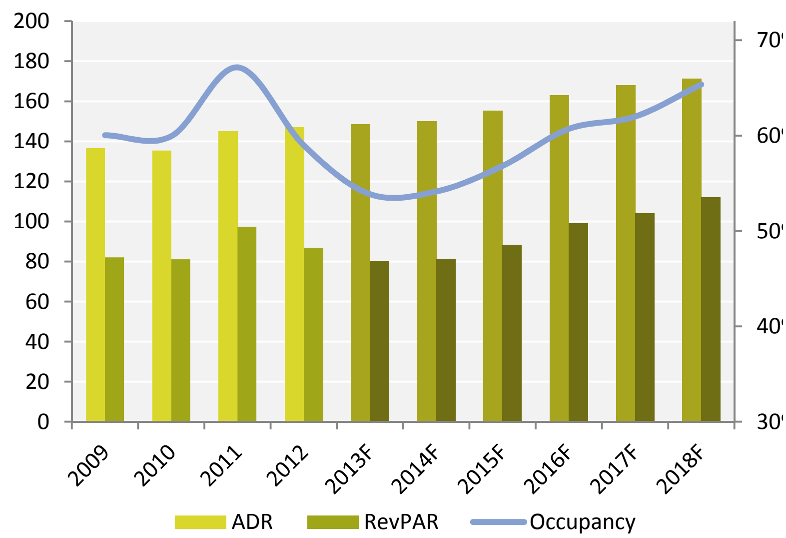
Several global hotel chains are expected to enter the market in the coming years as the number of tourists visiting Nairobi continues to grow, and the demand for accommodation and conferences therefore strengthens. In addition to those developments listed in Chart 8, seven significant hotel developments are rumoured to be entering the market in the next few years. These include two Marriott hotels and a second Hilton. In total these hotels may add a further 1,430 rooms.

Recent and Forecasted Hotel Performance

We have analysed occupancy and average rate performance between 2009 and 2012 for a sample of 13 hotels in Nairobi; our analysis takes into account the historical performance of a sample of approximately 2,500 rooms. Additions to the room inventory have been included in our forecast, with 1,015 rooms entering the market between 2013 and 2017. Chart 9 illustrates our research and conclusions.

Occupancy fluctuated over the four years, peaking at 67% in 2011, before falling back to 59% in 2012. However, the encouraging growth has been in average rate, which has grown from US$135 in 2010 to US$147 in 2012. Consequently, RevPAR was 6.85% higher in 2012 than 2010.

CHART 9: HOTEL PERFORMANCE 2009-18



Our forecast performance shows a drop in occupancy in 2013, after a very challenging first half of the year, owing to elections; the fire at the airport then slowed the recovery in quarter three. This was further compounded by 445 rooms entering the market. Overall, however, we expect there to be growth in the total room nights sold.

By 2017, we forecast occupancy to have recovered to 62% and total room nights sold to have risen by 65% from 2010. Our forecast of average rate shows modest growth in the first years as the market absorbs the new supply. By 2017, we forecast average rate to have risen to around US$168 and show a RevPAR growth of around 28% since 2010.

Conclusion

Nairobi enjoys substantial benefits that few other African cities can even dream of; it is a UN hub, home to one of the most important international African airlines and has a relatively stable economic and political outlook. As such, it is ideally placed to become the beacon for economic growth in Africa.

The Kenyan economy benefits from an expanding consumer market driven by a growing middle class. This, combined with the important international industries such as tea, tourism and agriculture should ensure demand for hotel rooms continues to grow. The latest estimates suggest an additional 10,000-15,000 hotel rooms will be needed in the next five to ten years to accommodate the expected increase in visitors to Kenya. With numerous international brands keen to enter the market, it is clear that they share the optimism over the future of Nairobi. However, the additional supply announced to date accounts only for a small percentage of the required bed stock, leaving plenty of room for others to join the party. The Time is Now for Nairobi.

HVS

About HVS

HVS is the world's leading consulting and services organization focused on the hotel, mixed-use, shared ownership, gaming and leisure industries. 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 30 offices and 450 professionals, HVS provides an unparalleled range of complementary services for the hospitality industry. www.hvs.com

HVS LONDON serves clients with interests in the UK, Europe, the Middle East and Africa (EMEA). We have appraised almost 4,000 hotels or projects in 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.

HVS Dubai has a team of Middle East experts that conducts its operations in the Middle East and North Africa. The team benefits from international and local cultural backgrounds, diverse academic and hotel-related experience, in-depth expertise in the hotel markets in the Middle East and a broad exposure to international hotel markets. Over the last six years, the team has advised on more than 400 hotels or projects in the region for hotel owners, lenders, investors and operators. HVS has advised on more than US$55 billion worth of hotel real estate in the region.

Superior Results through Unrivalled Hospitality Intelligence.
Everywhere.

Contact
Samantha Muna: +254 0 7265 34 344, **smuna@hvs.com**
Amir Lababedi: +971 4 354 4771, **alababedi@hvs.com**
Tim Smith: +44 20 7878 7729, **tsmith@hvs.com**

About the Authors

Samantha Muna has eight years' experience of hospitality investment advisory focusing on feasibility and market studies, facility planning and design, and hotel asset management, having practiced first in Boston, MA then in Nairobi, Kenya. Prior to that, Samantha worked for ten years in hotel operations. Samantha is an associate member of the International Society of Hospitality Consultants (ISHC) and the President of the Cornell Hotel Society, Kenya Chapter.

Amir Lababedi is an Associate Director with the Dubai office of HVS. He originally joined HVS in October 2005 after having worked in hotel operations for several years in management positions. Amir worked as hotel strategy and development manager for an Abu Dhabi-based sovereign wealth fund and in development and corporate finance managerial roles for an Abu Dhabi government-owned mixed-use tourism resort project. Amir holds a Bachelor of Science (Hons) in Hotel Management and an MSc in Global Banking and Finance. Amir has provided hotel investment advice and conducted valuations, feasibility studies and operator searches both as a consultant and an investor in numerous countries within the EMEA.

Tim Smith is a Director in the London office of HVS. He is responsible for valuations throughout EMEA and within the last year he has valued properties in numerous countries across the region. Throughout his career, Tim has advised the majority of European lenders, many of the leading brand owners and a wide variety of owners, operators and developers. Tim graduated from De Montfort University with a degree in Estate Management and has been valuing hotels and other leisure properties for 17 years. He is a member of the Royal Institution of Chartered Surveyors and is a Registered Valuer.