

African insights

Hotels outlook: 2017–2021

South Africa – Nigeria – Mauritius – Kenya – Tanzania





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Hotels outlook: 2017–2021

South Africa – Nigeria – Mauritius – Kenya – Tanzania

7th edition

PwC's team of hotel specialists provide an unbiased overview of how the hotel industry in South Africa, Nigeria, Mauritius, Kenya and Tanzania is expected to develop over the coming years. It details the key trends observed and discusses the challenges facing the sector as well as considering its future prospects. The Outlook also includes PwC's view on the hotel industry for two emerging markets.

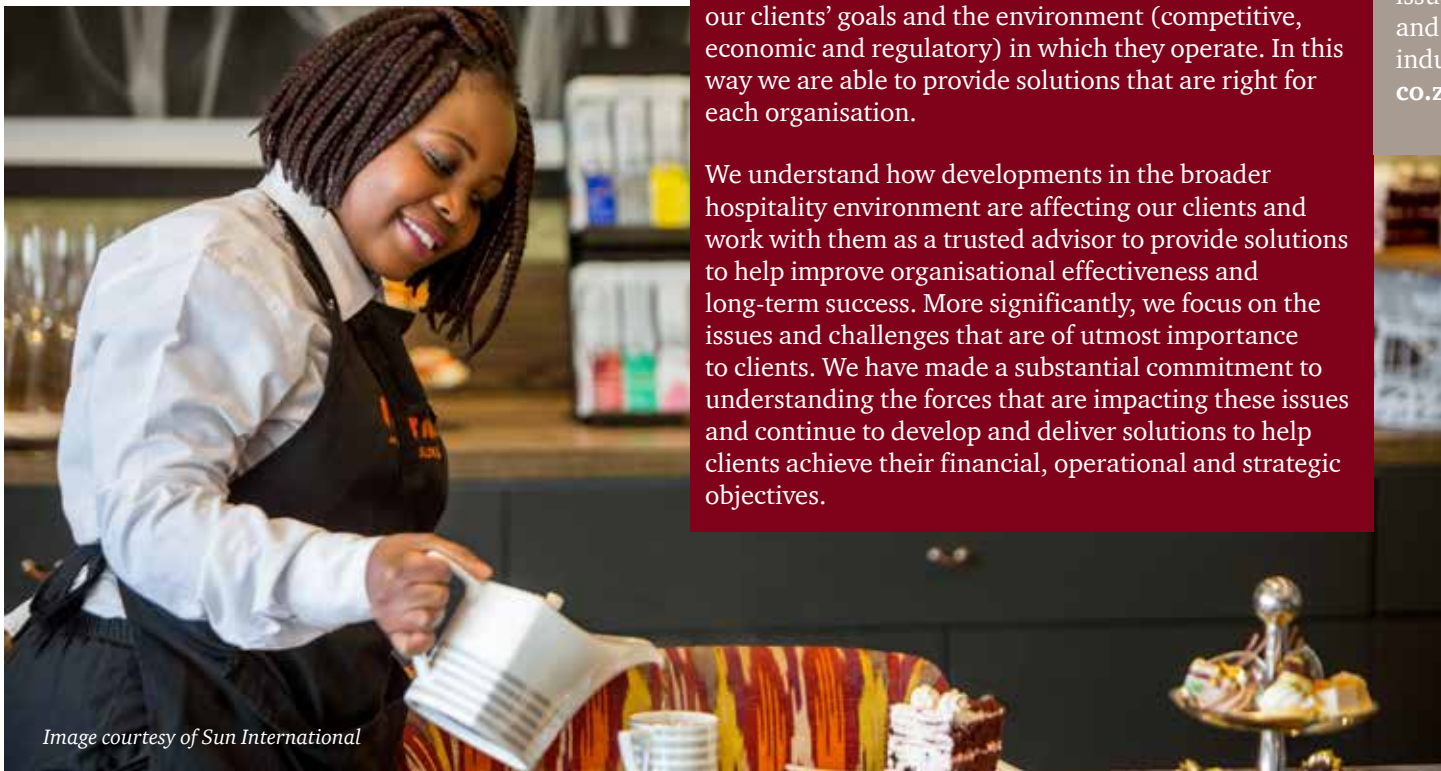


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Every day, PwC plays a significant supporting role in hospitality businesses across the world. With our local knowledge of culture, laws and business needs, we help clients make the most of changing market scenarios and assist them to deliver on special projects and their organisational growth aspirations.

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Hotels outlook: 2017-2021 demonstrates deep knowledge of the local hotel market and is a powerful tool for understanding critical business issues. To learn more about the challenges and opportunities that lie ahead for the hotels industry in South Africa, please visit www.pwc.co.za/hospitality-and-leisure



Acknowledgements



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Historical data was derived from our analysis of Smith Travel Research (STR) data and local country data combined with other information on industry trends. As some of the historical data was generated through surveys, year-to-year swings sometimes occur because of entities of different sizes being sampled rather than because of underlying industry trends.

Historical data from STR may also differ from one year to the next, reflecting differences in the make-up of the participating sample of hotels. We applied a harmonising model to smooth out these swings in order to better reflect underlying market trends.

We then developed forecasting models based on the historical performance of the hotel sector, economic prospects for each country and the rest of the world, and estimates of domestic and international overnight travel. We also took into account announced plans for expansion by hotel operators, as well as competition, pricing trends and the expected reaction of proprietors to changing occupancy rates.

Quantitative research and analysis was provided by Wilkofsky Gruen Associates Inc., a provider of global research and analysis of the hotel industry. See www.wilkofskygruen.com for more information.



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The hotels market

This report covers hotels in South Africa, Nigeria, Mauritius, Kenya and Tanzania. The market consists of spending generated by renting rooms.

Figures for South Africa are expressed in rand; figures for Nigeria, Kenya and Tanzania are shown in US dollars (US\$); and figures for Mauritius are expressed in euros (€). Tables showing comparisons between countries are in rand. We use a constant exchange rate for the 2010-2021 period.

Rand: US dollar	14.7134
USD: Naira	257.7164
Rand: Euro	13.2994
Euro: Mauritian rupee	39.3250
Euro: US dollar	0.9039
US dollar: Kenyan shilling	101.5168
US dollar: Tanzanian shilling	2 185.9738



Use of Outlook data

Information in this publication is drawn from data in the Hotels outlook 2017-2021: South Africa – Nigeria – Mauritius – Kenya – Tanzania, a comprehensive source of hotels' data available at www.pwc.co.za/hospitality-and-leisure. PwC continually seeks to update the online Outlook data; therefore, please note that the data in this publication may not be aligned with the data found online.

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At PwC, our purpose is to build trust in society and solve important problems. We're a network of firms in **157** countries with more than **208 000** people who are committed to delivering quality in assurance, advisory and tax services.

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Our in-depth knowledge and understanding of African operating environments enable us to offer tailored tax, assurance and advisory solutions for every business challenge.



Editor's letter



Hotels industry – So much potential

We are pleased to bring you our annual *Hotels outlook: South Africa – Nigeria – Mauritius – Kenya – Tanzania 2017-2021*.

Over the past seven years, PwC's Hotels outlook has been providing expert commentary and insights on the hotels segment of the hospitality market, with detailed forecasts and analysis. We take an in-depth look at the key trends observed in the vibrant hotel industry as well as challenges and future prospects for the various African markets.

Navigating the industry

Despite unprecedented levels of political and economic uncertainty, tourism has proven to be resilient; there are opportunities for industry players to work with government to further grow the market. In 2016 we saw many of these factors at play, be it safety and security concerns, global economic factors and changing visa regulations.

In the South African market, overall revenue from hotel room accommodation rose 12.2% to R15.8 billion.

International visitor numbers to South Africa rebounded significantly with a 12.8% increase, compared to the 6.8% decrease in 2015. This was mainly due to the relaxation of visa requirements that contributed to the growth in foreign tourism. SADC countries contributed 73% of visitors, with travellers from China and India increasing by 38% and 21.7% respectively. The outlook for 2017 is positive, with growing numbers of foreign visitors and domestic tourism increasing by 2.2% in 2017. We forecast that hotel room revenue will grow by 10.1% in 2017 to R17.5 billion.

It is promising to see a growing number of new hotels planned for the South African market over the next five years. We expect the overall number of available rooms to increase at a 0.9% compound annual rate, thus adding 2 700 rooms over this period.



This publication also features information about hotel accommodation in Nigeria, Mauritius, Kenya and Tanzania. We take our African view a step further this year by looking at the emerging hotel markets in Ethiopia and Ghana.

Many destinations have invested in improving and promoting the quality of their tourism offering and are reaping the benefits. We are also seeing technological disruption impact the industry in certain countries.

The hotel market in Nigeria rebounded in 2016 with a 5.2% increase in total room revenue. This exceeded our expectations.

Hotel room revenue in Mauritius increased by 15.3% in 2016 and benefited from double-digit growth in foreign visitors. Hotel room revenue is projected to grow at 6.2% compounded annually to 2021.



Image courtesy of Protea Hotels by Marriott

The Mauritian market is becoming more competitive owing to the arrival of online platform AirBnB.

Kenya benefited from the lifting of travel advisories to that country and growth in domestic tourism in a strong economic environment, as well as a series of incentives introduced by the government.

Tanzania's hotel room revenue amounted to US\$224 million in 2016, a growth of 7.7% over 2015.

The hotel market in each country is affected by both the local and global economy, with some countries being more dependent on foreign visitors than others. The growth forecast is therefore dependent on how well both the local and global economy performs and grows over the next five years, as well as other factors. For example, we are seeing some governments implementing plans to help realise the substantial potential the industry has to offer.

In 2017 we are forecasting growth in the majority of the countries in this report driven by continued economic growth.



I hope you enjoy this edition of the Outlook. Our PwC hotels professionals continue to stay on top of trends and developments that may impact hospitality companies, now and in the future, and look forward to sharing our thoughts further with you.

If you would like to discuss anything covered in this report, please contact us.

Finally, we thank you for your support and wish you an exciting and rewarding year ahead.

Sincerely,

Pietro Calicchio

Hospitality Industry Leader
PwC Southern Africa

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Image courtesy of Sun International

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Overview



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Overall room revenue in South Africa, Nigeria, Mauritius, Kenya and Tanzania rose 12.2% in 2016, the biggest increase since 2013. Mauritius and South Africa had the largest gains at 15.3% and 12.2%, respectively, each benefiting from double-digit growth in foreign tourism.

South Africa's relaxation of visa requirements contributed to its growth in foreign tourism, while Mauritius benefited from an increase in direct flights to that country.

The emergence of peer-to-peer inventory from entities such as AirBnB, has facilitated growth in non-hotel accommodation. However, ongoing growth in the peer-to-peer sector over the next few years will make the market more competitive, which may limit room-rate growth for hotels.

Nigeria and Kenya both exceeded expectations in 2016. Guest nights had been decreasing in both countries in recent years, but in 2016 they held steady in Nigeria and turned upward in Kenya.

In Nigeria, growth in domestic tourism, in part stemming from a weak economy and the falling value of the Nigerian naira, which discouraged foreign travel, helped offset a decline in foreign visitors.

Further devaluation of the naira will have a positive impact on the underlying market, although spending figures expressed in US dollars may appear to be lower because of the devaluation.

In this report we show spending using a constant exchange rate to reflect trends in the underlying market. Kenya benefited from the lifting of travel advisories to that country and growth in domestic tourism in a strong economic environment.

We projected a decline in stay unit nights in Tanzania because of the imposition of an 18% VAT on tourism services that was expected to lead to a drop in foreign tourists, but an increase in bookings in advance of the new tax led to an increase in foreign tourism and guest nights held steady in 2016. Slower average daily rate (ADR) growth, however, led to slower growth in room revenue.

Because of economic weakness in Nigeria and South Africa, and a moratorium on new construction and hotels under construction in Mauritius, a number of projects have been delayed or postponed and we now expect a smaller expansion in the number of available rooms than we predicted in last year's *Outlook*. Nevertheless, there are still new hotels scheduled to open in each country that will expand overall hotel capacity.



Nigeria is projected to be the fastest-growing market from a revenue perspective over the next five years with a projected 14.7% compound annual increase in revenue, benefiting from an improving economy, continued growth in domestic tourism, and expansion in the number of available rooms, which will keep average room rate growth lower than the rate of inflation.

We project South Africa to be the next-fastest growing market with a 9.3% compound annual increase in room revenue, most of which will be generated by rising room rates and continued but moderating growth in tourism.

We project Kenya to expand at a 7.5% compound annual rate, helped by a strong domestic economy, government investment in infrastructure, and growth in available rooms that will limit room rate growth.

We project a 6.9% increase in room revenue in Tanzania. We expect that the full impact of the new VAT on tourism services will lead to a decline in 2017, followed by large increases during the subsequent three years. Infrastructure investments, improved air access in Tanzania with improvements at Air Tanzania and a strong economy that will support growth in domestic tourism will contribute to the expected rebound.

Mauritius is projected to be the slowest-growing of the five countries with a 6.2% compound annual increase in room revenue. Ongoing growth in tourism and rising room rates stemming from high occupancy rates, in large part due to the 18-month moratorium on new hotel projects, will drive the market in the coming years.

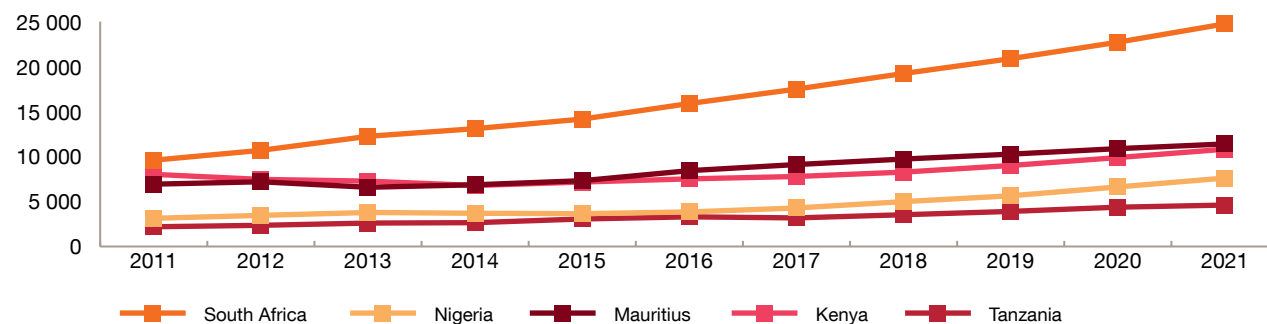
The revenue for the five markets as a group will increase at an 8.7% compound annual rate to R59.2 billion in 2021 from R39 billion in 2016.

Hotel room revenue in South Africa, Nigeria, Mauritius, Kenya and Tanzania (R millions)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2017-21 CAGR
South Africa	9 594	10 688	12 249	13 100	14 165	15 892	17 500	19 234	20 880	22 712	24 750	
% change	-7.0	11.4	14.6	6.9	8.1	12.2	10.1	9.9	8.6	8.8	9.0	9.3
Nigeria	3 134	3 458	3 781	3 693	3 649	3 840	4 282	4 988	5 635	6 621	7 607	
% change	23.1	10.3	9.3	-2.3	-1.2	5.2	11.5	16.5	13.0	17.5	14.9	14.7
Mauritius	6 929	7 195	6 583	6 862	7 315	8 432	9 110	9 722	10 267	10 879	11 398	
% change	8.5	3.8	-8.5	4.2	6.6	15.3	8.0	6.7	5.6	6.0	4.8	6.2
Kenya	8 019	7 460	7 268	6 783	7 165	7 519	7 783	8 269	9 005	9 887	10 814	
% change	30.4	-7.0	-2.6	-6.7	5.6	4.9	3.5	6.2	8.9	9.8	9.4	7.5
Tanzania	2 192	2 354	2 604	2 648	3 060	3 296	3 178	3 531	3 899	4 370	4 605	
% change	31.8	7.4	10.6	1.7	15.6	7.7	-3.6	11.1	10.4	12.1	5.4	6.9
Total hotel revenue	29 868	31 155	32 485	33 086	35 354	38 979	41 853	45 744	49 686	54 469	59 174	
% change	10.4	4.3	4.3	1.9	6.9	10.3	7.4	9.3	8.6	9.6	8.6	8.7

Sources: PricewaterhouseCoopers LLP Wilkofsky Gruen Associates

Fig. 1 Hotel room revenue in South Africa, Nigeria, Mauritius, Kenya and Tanzania (R millions)



Sources: PricewaterhouseCoopers LLP Wilkofsky Gruen Associates



Image courtesy of Sun International

South Africa



Image courtesy of Protea Hotels by Marriott

Travel and tourism in South Africa

Foreign tourism rebounded in 2016 with a 12.8% increase in the number of foreign overnight visitors to South Africa more than recovering from the 6.8% decline in 2015.

A factor cited as contributing to the 2016 recovery was the amendment of visa requirements that required foreign visitors from certain countries to provide biometric material in person.

China and India were particularly affected by these requirements because there are only a few South Africa visa processing centres in those countries. With the easing of these requirements, visitor numbers from those two countries increased; travellers from China to South Africa jumped 38.0% in 2016 and India recorded a 21.7% increase.

Latin America and the Middle East had the largest regional percentage increases at 34.3% and 34.1%, respectively, followed by Asia-Pacific at 24.1%, Europe at 15.8%, North America at 14.9% and Africa at 11.2%.



*Foreign overnight visitors
increased by 12.8% in
2016*



Source markets

Foreign overnight visitors by continent

	2015	2016	% change
Africa	6 746 114	7 501 512	11.2
Europe	1 317 291	1 525 836	15.8
Asia-Pacific	370 605	459 940	24.1
North America	353 450	406 192	14.9
Middle East	53 338	71 532	34.1
Latin America	50 304	67 546	34.3
Unspecified	12 671	11 605	-8.4
Total	8 903 773	10 044 163	12.8

Sources: Statistics South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Of the non-African countries, eight of the top ten in terms of overnight visitors to South Africa posted double-digit increases in 2016, with the United Kingdom and Canada showing high single-digit gains.

Foreign overnight visitors from top-ten non-African sources of travel to South Africa

	2015	2016	% change
United Kingdom	407 486	447 840	9.9
United States	297 226	345 013	16.1
Germany	256 646	311 832	21.5
France	128 438	154 226	20.1
Netherlands	121 883	147 973	21.4
China	84 878	117 144	38.0
Australia	99 205	109 146	10.0
India	78 385	95 377	21.7
Canada	56 224	61 179	8.8
Italy	52 377	60 774	16.0
Total	1 582 748	1 850 504	17.0

Sources: Statistics South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Of the African countries, the largest number of foreign visitors to South Africa in 2016 came from Zimbabwe at two million, followed by Lesotho at 1.8 million and Mozambique at 1.3 million.

Of the visitors from the Southern African Development Community (SADC) countries, Angola and Madagascar were the only countries to record decreases in 2016. SADC countries accounted for 73% of all South Africa's foreign visitors in 2016. Although visits from SADC were up 11.2% to 7.3 million, SADC lost share as the rest of the world posted larger gains.

Foreign overnight visitors to South Africa from SADC countries

	2015	2016	% change
Zimbabwe	1 900 791	2 028 881	6.7
Lesotho	1 394 913	1 757 058	26
Mozambique	1 200 335	1 268 258	5.7
Swaziland	838 006	893 618	6.6
Botswana	593 514	679 828	14.5
Namibia	212 514	214 664	1
Zambia	161 259	174 767	8.4
Malawi	135 260	154 017	13.9
Angola	48 416	43 608	-9.9
Tanzania	35 817	38 032	6.2
DRC	28 503	29 586	3.8
Mauritius	17 020	19 237	13
Seychelles	6 253	9 710	55.3
Madagascar	2 643	2 420	-8.4
Total	6 575 244	7 313 684	11.2

Sources: Statistics South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Visits from East and Central Africa also rose 11.2% in 2016. Kenya is the leading source of visitors to South Africa from that area at 29 319, up 8.3% from 2015. Uganda was the next highest source at 13 680, 18.0% more than in 2015.

Foreign overnight visitors to South Africa from East and Central Africa

	2015	2016	% change
Kenya	27 077	29 319	8.3
Uganda	11 561	13 640	18
Gabon	7 730	9 340	20.8
Ethiopia	7 210	8 688	20.5
Cameroon	5 122	5 366	4.8
Congo	3 722	3 591	-3.5
Burundi	1 021	983	-3.7
Rwanda	933	956	2.5
Eritrea	619	646	4.4
Equatorial Guinea	606	507	-16.3
Chad	402	332	-17.4
Somalia	241	329	36.5
Comoros	184	219	19
Central African Republic	139	153	10.1
Djibouti	120	104	-13.3
São Tomé and Príncipe	112	90	-19.6
Réunion	41	71	73.2
Total	66 840	74 334	11.2

Sources: Statistics South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Visitors from West Africa were up 8.7%, the smallest gain from any of the African regions as declines in Burkina Faso, Cape Verde, Gambia, Guinea, Mauritania, Niger and Togo partially offset increases in the rest of the region.

Nigeria and Ghana were the largest source of visitors from the region, making up 85% of the total. Visitor numbers from these countries rose 11.2% and 6.0%, respectively, in 2016. Together, they accounted for 97% of the total increase from West Africa in 2016.

Foreign overnight visitors to South Africa from West Africa

	2015	2016	% change
Nigeria	59 002	65 599	11.2
Ghana	16 184	17 152	6
Cote D'Ivoire	2 354	2 566	9
Senegal	2 417	2 463	1.9
Benin	2 047	2 073	1.3
Guinea	1 565	1 508	-3.6
Mali	1 221	1 289	5.6
Sierra Leone	453	754	66.4
Liberia	477	709	48.6
Burkina Faso	816	621	-23.9
Cape Verde Island	640	558	-12.8
Gambia	563	470	-16.5
Togo	610	461	-24.4
Niger	394	300	-23.9
Saint Helena	189	195	3.2
Mauritania	208	190	-8.7
Guinea-Bissau	109	127	16.5
Total	89 249	97 035	8.7

Sources: Statistics South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

North Africa is not a major source of visitors to South Africa, accounting for only 0.2% of total visits from Africa, but it was the fastest-growing region in Africa in percentage terms with a 13.2% increase in 2016.

Foreign overnight visitors to South Africa from North Africa

	2015	2016	% change
Egypt	7 210	8 688	20.5
Sudan	1 725	2 182	26.5
Morocco	1 606	1 711	6.5
Algeria	1 286	1 491	15.9
Tunisia	1 164	1 107	-4.9
Libya	702	811	15.5
South Sudan	1 088	740	-32
Total	14 781	16 730	13.2

Sources: Statistics South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Foreign and domestic visitors

While double-digit growth will be difficult to sustain as the benefits of relaxing the visa requirements have largely been realised, tourism to South Africa remains popular.

Tourist attractions posted record numbers of visitors in December 2016, with visitor numbers at Cape Point in Table Mountain National Park up 15%, Robben Island up 4%, Kirstenbosch National Botanical Gardens up 6%, and the Aerial Cableway at Table Mountain up 0.3% over a record year in 2015.

In addition to the amendment of certain visa regulations, the devaluation of the rand made South Africa a more attractive destination, while added routes from London, Frankfurt, Doha and Addis Ababa, among other countries accommodated more visitors.

The government is supporting its tourist industry with increased funding, including R494 million for tourism promotion, and R120 million for the Department of Tourism to attract more business conferences.

Business tourism has increased, benefiting in part from the creation of the National Convention Bureau in 2012. South Africa has been successful in converting business visitors to tourists, as according to research conducted by the National Convention Bureau, 40% of people who come to South Africa for a business convention or conference return within five years as tourists. Tourism contributed 10% to South Africa's GDP in 2016, up from 9% in 2015.

We project the number of foreign overnight visitors to South Africa to increase an additional 5.6% in 2017 and then grow at rates below 4% annually beginning in 2018, averaging 3.9% compounded annually to 12.15 million in 2021.

The economy has a dual impact on domestic travel. On the one hand, a weakening economy limits spending on leisure and entertainment, including domestic tourism. At the same time, a weak economy may lead some vacationers to forego an international trip and travel domestically, a trend supported by a depreciating currency that makes foreign travel more expensive.

Domestic travel edged up 1.5% in 2016, below the 1.7% increase in 2015, as economic growth slowed.

We look for domestic tourism to increase by 2.2% in 2017 and average 3.0% compounded annually over the entire forecast period, rising to an estimated 6.35 million in 2021 from 5.48 million in 2016.



Tourism contributed 10% to South Africa's GDP in 2016

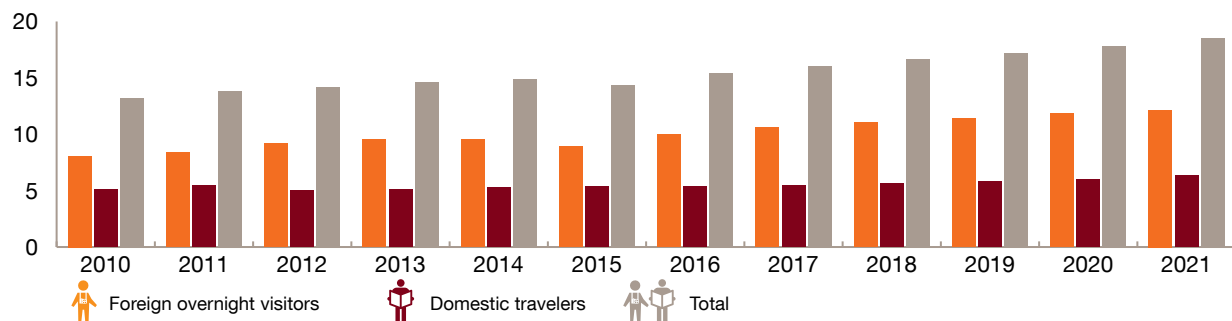
The total number of travellers in South Africa will reach a projected 18.5 million by 2021, a 3.6% compound annual increase from 15.5 million in 2016.

Travel and tourism to South Africa (millions)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2017-21 CAGR
Foreign overnight visitors	8.07	8.34	9.19	9.53	9.55	8.90	10.04	10.60	11.00	11.38	11.75	12.15	
% change	15.1	3.3	10.2	3.7	0.2	-6.8	12.8	5.6	3.8	3.5	3.3	3.4	3.9
Domestic travellers	5.13	5.43	4.97	5.09	5.31	5.40	5.48	5.60	5.75	5.93	6.13	6.35	
% change	14.3	5.8	-8.5	2.4	4.3	1.7	1.5	2.2	2.7	3.1	3.4	3.6	3.0
Total	13.20	13.77	14.16	14.62	14.86	14.30	15.52	16.20	16.75	17.31	17.88	18.50	
% change	14.8	4.3	2.8	3.2	1.6	-3.8	8.5	4.4	3.4	3.3	3.3	3.5	3.6

Sources: Statistics South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Fig. 2 Domestic and foreign visitors, 2010-2021 (millions)



Sources: Statistics South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates



Domestic tourism to increase by 2.2% in 2017

Hotel accommodation

There has been relatively little growth in the number of available rooms over the past five years with a cumulative increase of only 700 rooms between 2011 and 2016. In the run-up to the FIFA World Cup in 2010, there was a large increase in available rooms that led to a decline in occupancy rates, which dampened investment following the event.

Over the past five years, the occupancy rate has edged up, surpassing the 60% level and reaching 61.2% in 2016. This gain has stimulated interest and a number of new hotels are expected to open in the next five years.

Openings in 2017 include Radisson Blu Hotel & Residences and Radisson Red V&A Waterfront, both four-star hotels; the four-star Maslow Time Square Hotel in Pretoria; the three-star hotel Tsogo Sun Stayeasy Cape Town; and the Tsogo Sun Sunsquare Hotel Cape Town and the Silo Hotel, also in Cape Town.

Marriott Executive Apartments and Marriott Melrose Arch, both four-star hotels in Johannesburg, are expected in 2019 along with the Radisson Blu Hotel Umhlanga in Durban and the four-star AC Hotel by Marriott in Cape Town.

Marriott Cape Town Foreshore, Hilton Garden Inn, and Residence Inn Cape Town Foreshore are four-star hotels with planned openings in 2020. We expect the overall number of available rooms to increase at a 0.9% compound annual rate to 63 900 in 2021 from 61 200 in 2016.

The South African economy has been weakening in recent years, falling to 0.3% growth in 2016.

Economic growth is expected to pick up marginally in 2017 with a projected 0.8% increase followed by a 1.6% gain in 2018. The economy is then expected to grow at annual rates in excess of 2% over the 2019-21 period.

Growth for the entire forecast period will average an estimated 1.8% compounded annually for South Africa, slower than the 2.9% projected compound annual increase for the global economy.

Consumer price inflation dropped to 4.6% in 2015, its lowest level since 2010, but then rose to 6.4% in 2016, the largest increase in the past seven years. Over the forecast period, inflation is projected to average 5.8% compounded annually.

Real GDP growth and consumer price inflation (%)

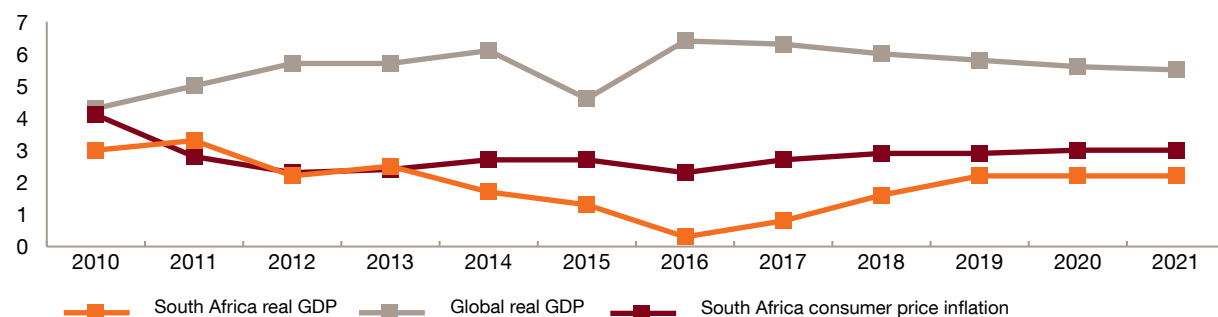
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2017-21 CAGR
South Africa real GDP	3.0	3.3	2.2	2.5	1.7	1.3	0.3	0.8	1.6	2.2	2.2	2.2	1.8
Global real GDP	4.1	2.8	2.3	2.4	2.7	2.7	2.3	2.7	2.9	2.9	3.0	3.0	2.9
South Africa consumer price inflation*	4.3	5.0	5.7	5.7	6.1	4.6	6.4	6.3	6.0	5.8	5.6	5.5	5.8

*Annual averages.

Sources: International Monetary Fund, World Bank, Statistics South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates



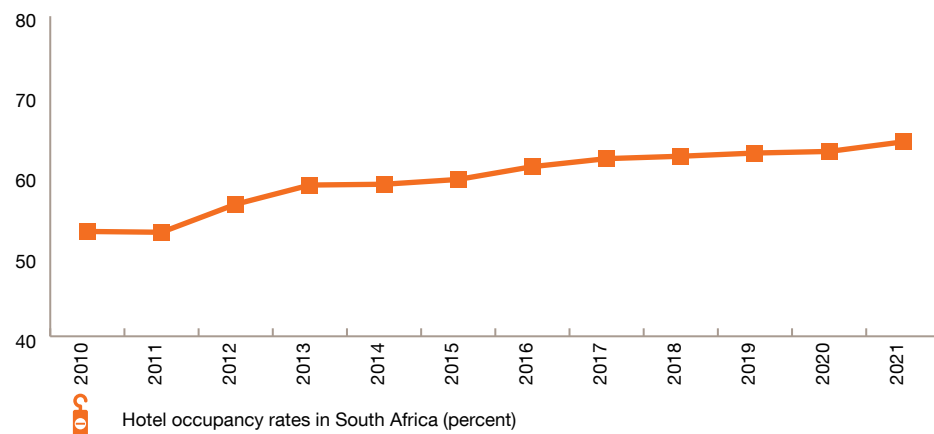
The occupancy rate has edged up, surpassing the 60% level and reaching 61.2% in 2016

Fig. 3 Real GDP growth and consumer price inflation (%)

Source: International Monetary Fund, World Bank, Statistics South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Guest nights increased 3.0% in 2015, benefiting from growth in international tourism. With moderating growth in tourism, we look for slower growth in guest nights that will average 1.8% compounded annually through 2021.

Even with the expected slowdown, we project guest nights to grow faster than room supply and the occupancy rate for hotels will rise to a projected 64.3% in 2021.

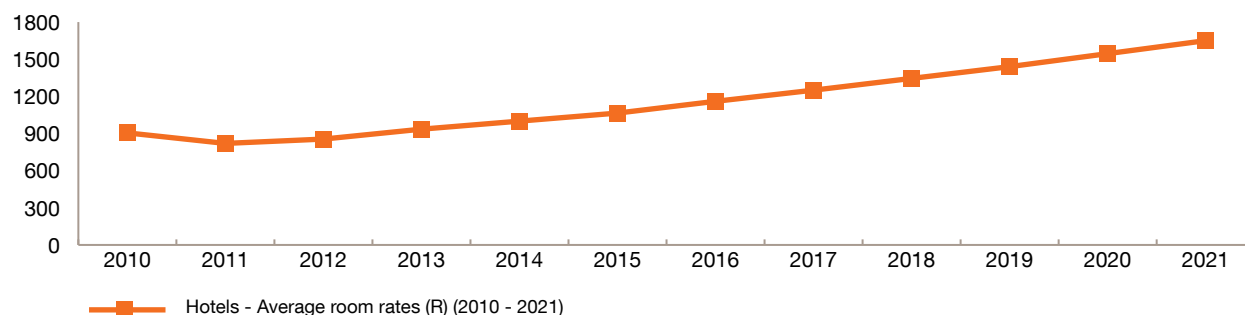
Fig. 4 Hotel occupancy rates in South Africa (%)

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

The average daily rate (“ADR”) increased 8.9% in 2016, buoyed by growth in demand and the increase in the occupancy rate. With slower growth expected in demand and smaller gains in occupancy rates, we look for moderating growth in the average room rate. The average rate will rise from R1 160 in 2016 to a projected R1 650 in 2021, a 7.3% compound annual increase.



Image courtesy of Protea Hotels by Marriott

Fig. 5 Hotels: Average room rates, 2010-2021 (R)

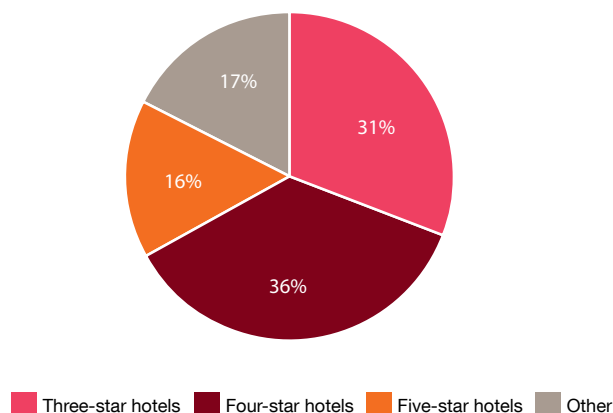
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Hotel room revenue is expected to expand to R24.8 billion in 2021, up 9.3% compounded annually from R15.9 billion in 2016.

Hotels in South Africa

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2017-21 CAGR
Available rooms (thousands)	58.8	60.5	60.4	60.9	60.8	61.1	61.2	61.7	62.7	63.2	63.6	63.9	
% change	9.5	2.9	-0.2	0.8	-0.2	0.5	0.2	0.8	1.6	0.8	0.6	0.5	0.9
Guest nights (millions)	11.4	11.7	12.5	13.1	13.1	13.3	13.7	14.0	14.3	14.5	14.7	15.0	
% change	4.6	2.6	6.8	4.8	0.0	1.5	3.0	2.2	2.1	1.4	1.4	2.0	1.8
Occupancy rates (%)	53.1	53.0	56.5	58.9	59.0	59.6	61.2	62.2	62.5	62.9	63.1	64.3	
ADR (R)	905	820	855	935	1 000	1 065	1 160	1 250	1 345	1 440	1 545	1 650	
% change	11.7	-9.4	4.3	9.4	7.0	6.5	8.9	7.8	7.6	7.1	7.3	6.8	7.3
Total room revenue (R millions)	10 317	9 594	10 688	12 249	13 100	14 165	15 892	17 500	19 234	20 880	22 712	24 750	
% change	16.9	-7.0	11.4	14.6	6.9	8.1	12.2	10.1	9.9	8.6	8.8	9.0	9.3

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Fig. 6 Total room revenue by category, 2016

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Three-star hotels

Three-star hotels accounted for 36% of all available hotel rooms in South Africa and 31% of total hotel room revenue. The ADR of R950 in 2016 was 18% below the overall average rate of R1 160 for all hotels.

Guest nights for three-star hotels rose 2.0% and, combined with the 5.6% increase in the ADR, room revenue rose 7.6%.

We expect guest nights to increase at a 1.5% compound annual rate, faster than the 0.2% compound annual gain in available rooms. The occupancy rate will increase to a projected 69.1% in 2021 from 64.6% in 2016.

The ADR will rise to a projected R1 230 in 2021, growing at a 5.3% compound annual rate. Room revenue in three-star hotels will expand at a projected 6.9% compound annual rate to R6.9 billion in 2021 from R4.9 billion in 2016.



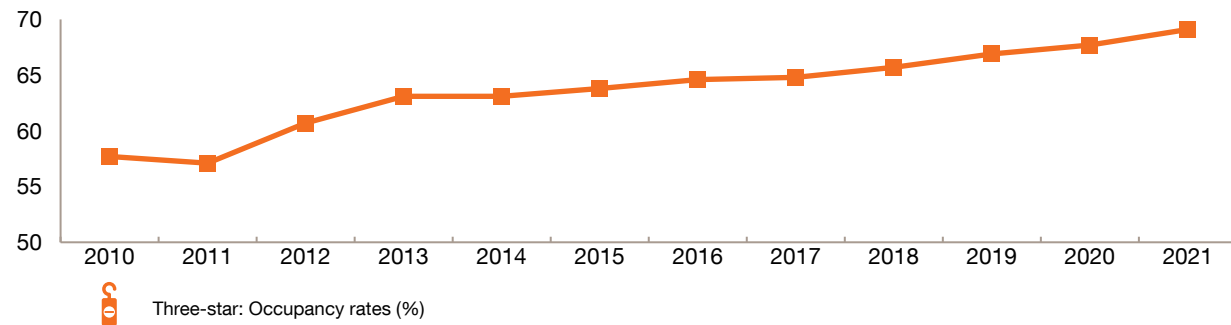
Three-star hotels accounted for 36% of all available hotel rooms in South Africa

Three-star hotels in South Africa

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2017-21 CAGR
Available rooms (thousands)	20.4	21.6	21.6	21.7	21.7	21.9	22.0	22.0	22.1	22.1	22.2	22.2	
% change	10.9	5.9	0.0	0.5	0.0	0.9	0.5	0.0	0.5	0.0	0.5	0.0	0.2
Guest nights (millions)	4.3	4.5	4.8	5.0	5.0	5.1	5.2	5.2	5.3	5.4	5.5	5.6	
% change	10.3	4.7	6.7	4.2	0.0	2.0	2.0	0.0	1.9	1.9	1.9	1.8	1.5
Occupancy rates (%)	57.7	57.1	60.7	63.1	63.1	63.8	64.6	64.8	65.7	66.9	67.7	69.1	
ADR (R)	720	690	730	800	855	900	950	1 000	1 055	1 110	1 170	1 230	
% change	10.8	-4.2	5.8	9.6	6.9	5.3	5.6	5.3	5.5	5.2	5.4	5.1	5.3
Total room revenue (R millions)	3 096	3 105	3 504	4 000	4 275	4 590	4 940	5 200	5 592	5 994	6 435	6 888	
% change	22.1	0.3	12.9	14.2	6.9	7.4	7.6	5.3	7.5	7.2	7.4	7.0	6.9

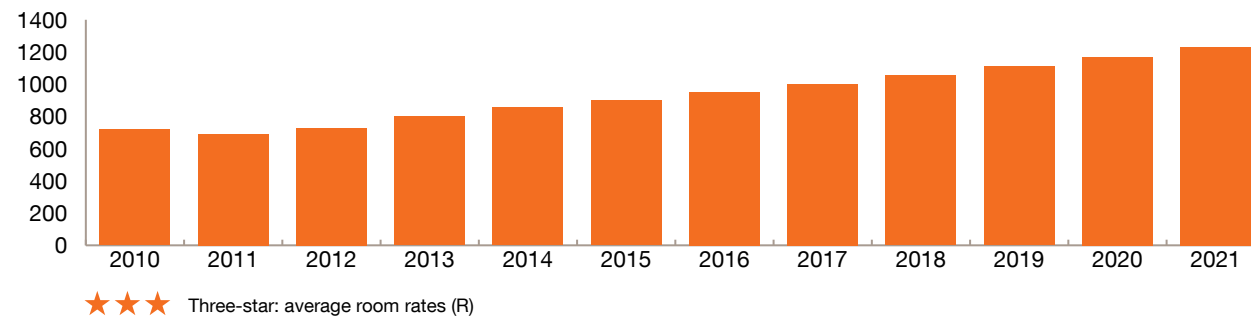
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Fig. 7 Three-star: Occupancy rates (%)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Fig. 8 Three-star: Average room rates (R)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates



Image courtesy of Tsogo Sun

Four-star hotels

Available rooms were flat for four-star hotels over the past three years, but guest nights rose 5.1% in 2016. The ADR rose 8.5% to R1 400, the largest increase since 2010 reflecting a strong demand.

We expect more moderate increases in guest nights as growth in tourism slows with increases averaging 2.8% compounded annually. Most of the new hotels expected to open in the next few years will be four-star hotels and they will account for 85% of the total increase in available rooms over the next five years. Room availability will increase at a 2.6% compound annual rate. The occupancy rate will increase from 65.5% in 2016 to a projected 66.4% in 2021.



Guest nights rose
5.1% in 2016

Four-star hotels in South Africa

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2017-21 CAGR
Available rooms (thousands)	16.1	16.7	16.6	17.1	17.1	17.1	17.1	17.5	18.3	18.7	19.1	19.4	
% change	6.6	3.7	-0.6	3.0	0.0	0.0	0.0	2.3	4.6	2.2	2.1	1.6	2.6
Guest nights (millions)	3.2	3.3	3.6	3.9	3.9	3.9	4.1	4.2	4.3	4.5	4.6	4.7	
% change	0.0	3.1	9.1	8.3	0.0	0.0	5.1	2.4	2.4	4.7	2.2	2.2	2.8
Occupancy rates (%)	54.5	54.1	59.3	62.5	62.5	62.5	65.5	65.8	64.4	65.9	65.8	66.4	
ADR (R)	1 175	1 030	1 055	1 140	1 200	1 290	1 400	1 490	1 585	1 680	1 765	1 850	
% change	11.9	-12.3	2.4	8.1	5.3	7.5	8.5	6.4	6.4	6.0	5.1	4.8	5.7
Total room revenue (R millions)	3 760	3 399	3 798	4 446	4 680	5 031	5 740	6 258	6 816	7 560	8 119	8 695	
% change	11.9	-9.6	11.7	17.1	5.3	7.5	14.1	9.0	8.9	10.9	7.4	7.1	8.7

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

We expect more moderate growth in the ADR as growth in demand moderates. The average rate for a four-star hotel will rise from R1 400 in 2016 to an estimated R1 850 in 2021, a 5.7% compound annual increase. Room revenue will increase to R8.7 billion in 2021, growing at an 8.7% compound annual rate from R5.7 billion in 2016.

Five-star hotels

Five-star hotels have the highest occupancy rates in the market at 79.3% in 2016. Available rooms have been flat during the past two years and are expected to remain so during the next five years as no new five-star hotels are expected during the forecast period. Guest nights were also flat in 2016, but a strong festive season suggests an increase in 2017.

The high occupancy rate for five-star hotels is putting upward pressure on pricing. The ADR rose 14.8% in 2016 and we look for an additional two years of double-digit increases followed by high single-digit gains.

The average five-star room in 2021 will cost R4 200, up 9.1% on a compound annual basis from R2 270 in 2016, nearly twice the average for all hotels. Five-star hotels as a whole in South Africa accounted for 15% of total hotel room revenue in 2016, three times their 5% share of available rooms.

Room revenue will expand at an 11.4% compound annual rate to R4.2 billion in 2021 from R2.4 billion in 2016. Five-star hotels will account for 17% of overall hotel room revenue in 2021.



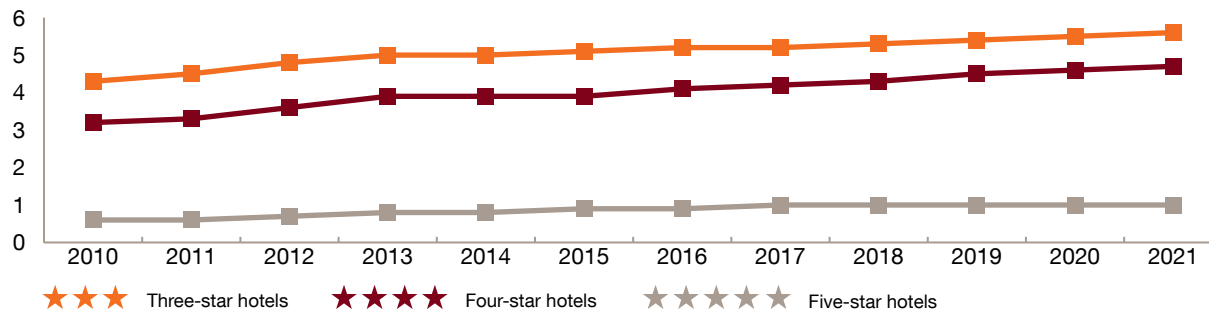
Five-star hotels had the highest occupancy rates in the market at 79.3% in 2016

Five-star hotels in South Africa

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2017-21 CAGR
Available rooms (thousands)	3.1	3.2	3.2	3.2	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	
% change	24.0	3.2	0.0	0.0	-3.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Guest nights (millions)	0.6	0.6	0.7	0.8	0.8	0.9	0.9	1.0	1.0	1.0	1.0	1.0	
% change	20.0	0.0	16.7	14.3	0.0	12.5	0.0	11.1	0.0	0.0	0.0	0.0	2.1
Occupancy rates (%)	53.0	51.4	59.8	68.5	70.7	79.5	79.3	88.4	88.4	88.4	88.1	88.4	
ADR (R)	2 115	1 750	1 780	1 950	2 200	2 370	2 720	3 025	3 330	3 625	3 900	4 200	
% change	10.2	-17.3	1.7	9.6	12.8	7.7	14.8	11.2	10.1	8.9	7.6	7.7	9.1
Total room revenue (R millions)	1 269	1 050	1 246	1 560	1 760	2 133	2 448	3 025	3 330	3 625	3 900	4 200	
% change	32.2	-17.3	18.7	25.2	12.8	21.2	14.8	23.6	10.1	8.9	7.6	7.7	11.4

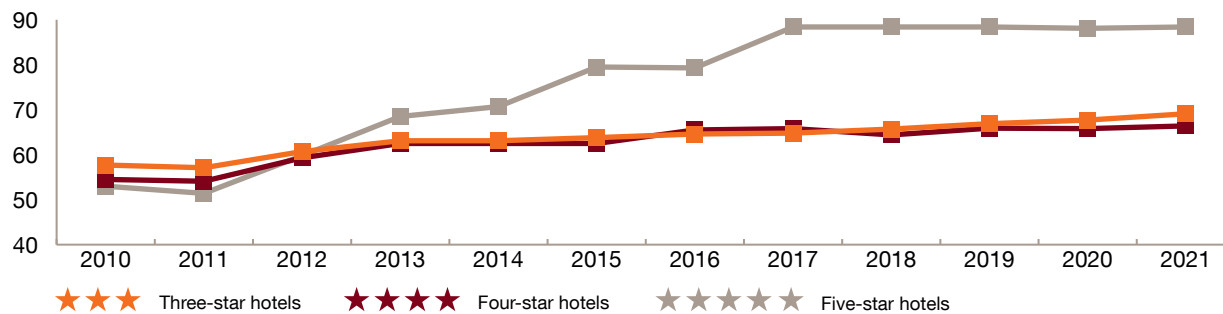
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Fig. 9 Guest nights: Three-, four- and five-star hotels (millions)

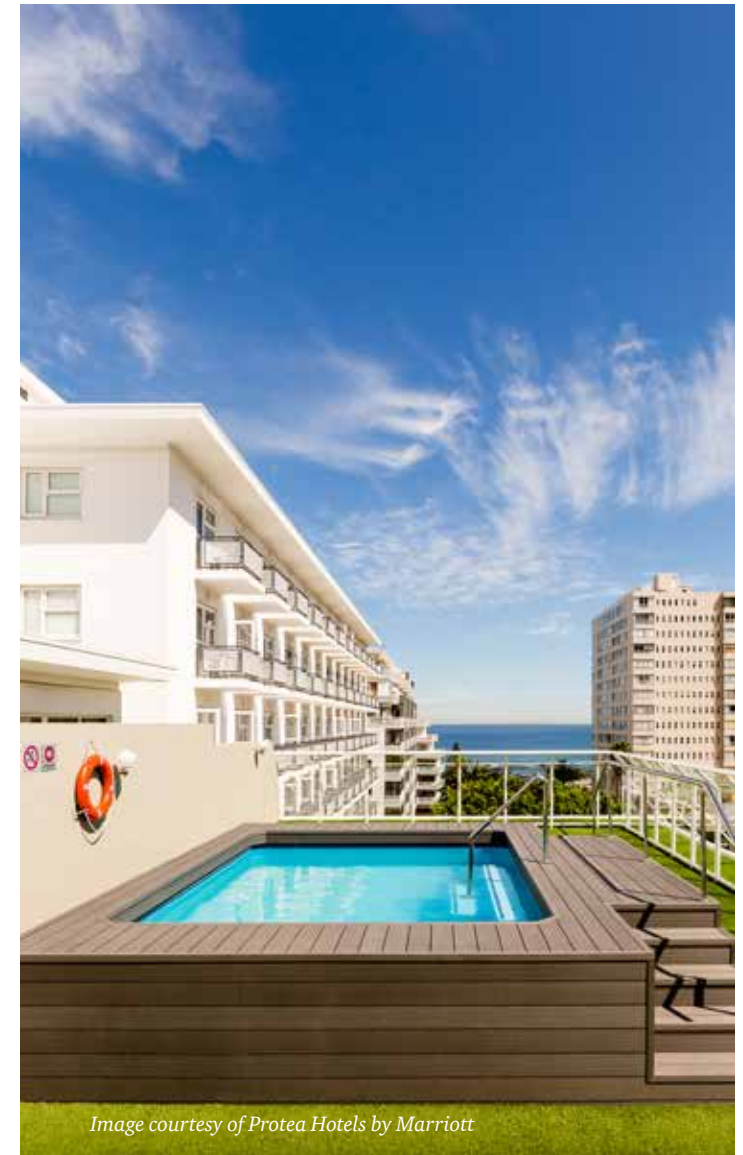


Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Fig. 10 Occupancy rates: Three-, four- and five-star hotels (%)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates



Johannesburg

After rebounding in 2015 following several years of decline, guest nights at Johannesburg hotels decreased by nearly 4% in 2016, principally reflecting weakness at three-star hotels and in the economy market. Rising room rates, however, offset the decline in stay unit nights and overall room revenue rose nearly 5%.

The growth in tourism in 2016 benefited Cape Town and Durban, which are principally tourist destinations. Johannesburg, by contrast, is primarily a business destination and fluctuations in tourism generally have little impact in Johannesburg. The weakening domestic economy together with more foreign direct flights to Cape Town and Durban, may however have contributed to the sluggish performance in Johannesburg in 2016.

Four- and five-star hotels did relatively well in 2016. Guest nights rose 5% and room revenue increased more than 13%. The three-star segment fared less well in 2016 with stay unit nights down nearly 6% and room revenue up only 1%.

Hotels in Johannesburg are not off to a good start in 2017 with guest nights down 10% and revenue down 6%. If this pattern continues, Johannesburg is likely to experience a decline in hotel room revenue for 2017 as a whole.

Cape Town

Cape Town, by contrast, flourished in 2016 as it is the dominant tourist destination in South Africa and the jump in visitor numbers benefited hotels. Guest nights rose 7% in 2016, rebounding from the 1% decline in 2015, mirroring the rebound in foreign tourism, and room revenues soared by 20%.

With tourist attractions in the Cape Town area recording record visits during the 2016-17 festive season, Cape Town hotels are off to a promising start in early 2017 with guest nights up 2% on top of a strong 2016 and room revenues up 14%.

Four-star hotels, which fared the worst in 2015 with a 4% drop in guest nights, recorded the largest rebound in 2016 as guest nights increased 8%.

Five-star hotels posted the largest room revenue increase in 2016 with a 24% rise, principally reflecting a 20% increase in the average room rate as Cape Town became a prized destination for luxury travellers in 2016. Room rates for three-star hotels rose by a more modest 8% and guest nights were up 5%.

Over the next five years, 55% of all the rooms expected to be added in South Africa will be in Cape Town. Radisson Blu Hotel & Residences Cape Town, Radisson Blu Blaauwberg Cape Town,

Radisson Red V&A Waterfront Cape Town, Marriott Cape Town Foreshore, AC Hotel by Marriott, Residence Inn Cape Town Foreshore, Tsogo Sun Stayeasy, Tsogo Sun Sunsquare Cape Town, and The Silo, which opened in early 2017, will collectively add nearly 1 500 rooms over the next five years.

Durban

Durban's hotel market attracts more tourists than Johannesburg, but fewer than Cape Town. Durban benefited from the pick-up in tourism in 2016, but a weak business market held down overall growth. Guest nights rose 4% and room revenue increased 12%. These gains were less robust than in 2015, and less robust than Cape Town in 2016, but stronger than Johannesburg.

Durban in early 2017 appears to be doing better than Johannesburg but not as well as Cape Town, with guest nights up 3% and room revenue up 7%, benefiting from the ongoing strength in tourism, but dampened by a struggling business market.



Cape Town flourished in 2016 with a 7% increase in guest nights and 20% increase in revenues



Looking back: 2016

In last year's *Outlook*, we forecast the occupancy rate to rise to 61.2% in 2016 and we were on target. Overall guest nights slightly exceeded expectations, rising to 13.7 million, a bit higher than our 13.6 million projection.

Average room rates rose 8.9%, slightly below the 9.4% projected increase, but that shortfall was offset by stronger guest nights and total room revenue increased 12.2%, slightly higher than the 11.9% projected.

Occupancy

Occupancy rates for five-star hotels and three-star hotels were both lower than forecast, but four-star hotels were higher than we expected. While the mix was different, the overall projection was on target.

Occupancy: Actual vs forecast results for 2016

	2016 projected occupancy (%)	2016 actual occupancy (%)
Five-star hotels	85.4	79.3
Four-star hotels	63.9	65.5
Three-star hotels	64.9	64.6
All hotels	61.2	61.2

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates



Image courtesy of Tsogo Sun



Guest nights

Guest nights for three-star hotels matched our projection, while five-star hotels performed slightly below our forecast and four-star hotels slightly above.

Guest nights: Actual vs forecast results for 2015 (million)

	2016 projected stay unit nights	2016 actual stay unit nights
Five-star hotels	1.0	0.9
Four-star hotels	4.0	4.1
Three-star hotels	5.2	5.2
All hotels	13.6	13.7

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Average room rates

Average room rates rose more slowly than we projected for five-star and four-star hotels, but matched our projection for three-star hotels.

ADR: Actual vs forecast results for 2016 (%)

	2016 projected average room rate growth	2016 actual average room rate growth
Five-star hotels	20.9	14.8
Four-star hotels	10.5	8.5
Three-star hotels	5.6	5.6
All hotels	9.4	8.9

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Total room revenue

Revenue growth fell short of expectations for five-star hotels, but exceeded projections for four-star hotels and were on target for three-star hotels.

Total room revenue: Actual vs forecast results for 2016 (%)

	2016 projected total room revenue growth	2016 actual total room revenue growth
Five-star hotels	34.3	14.8
Four-star hotels	13.3	14.1
Three-star hotels	7.6	7.6
All hotels	11.9	12.2

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

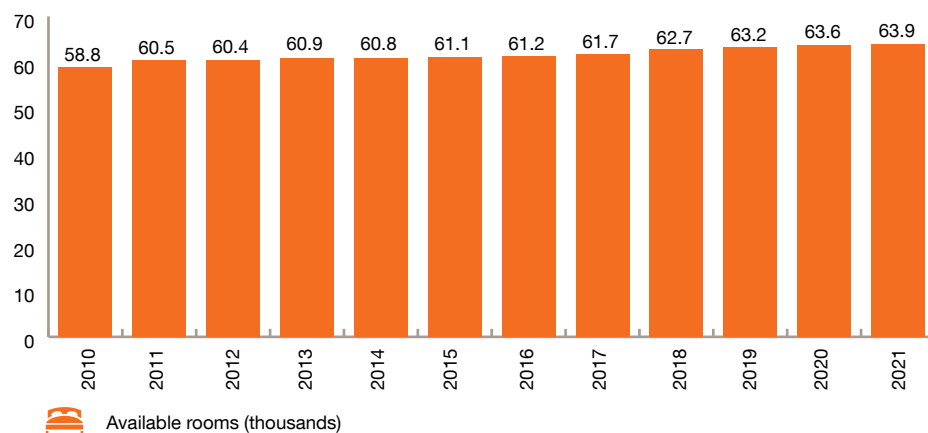
Outlook: 2017-2021

The number of available hotel rooms will rise at a 0.9% compound annual rate to 63 900 in 2021 from 61 200 in 2016.

We project guest nights to increase at a 1.8% compound annual rate to 15.0 million in 2021 from 13.7 million in 2016, with occupancy increasing to 64.3% in 2021 from 61.2% in 2016.

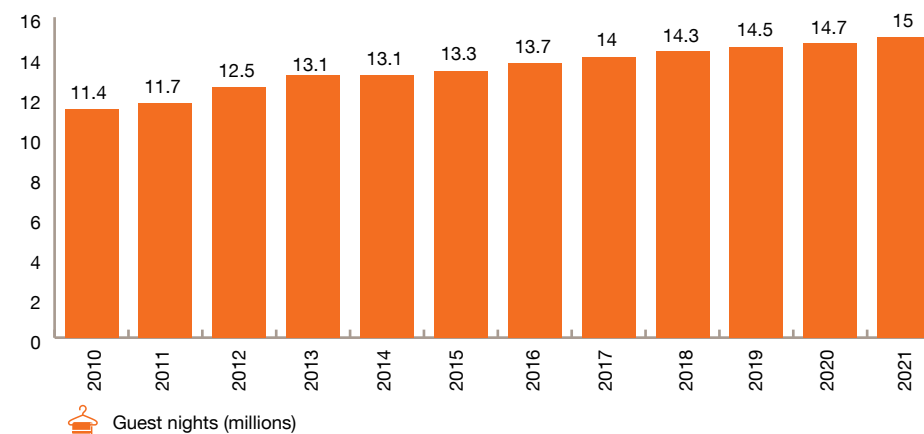
Overall hotel room revenue is expected to expand at a 9.3% compound annual rate to R24.8 billion in 2021 from R15.9 billion in 2016.

Fig. 11 Available rooms (thousands)



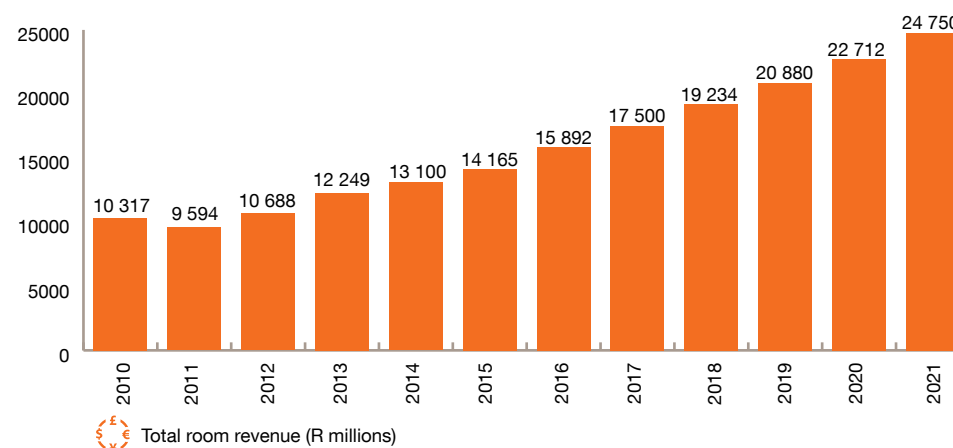
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Fig. 12 Guest nights (millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Fig. 13 Total room revenue (R millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Nigeria



Image courtesy of Sun International

Hotel accommodation

Guest nights held steady in 2016 following two years of decline as growth in domestic tourism offset a decline in foreign tourist visits. Room revenue rose 5.2%. While terrorist activity in the north-eastern region remained a concern, the government has clamped down on Boko Haram and the insurgency has been largely contained.

The rapidly devaluing naira has, however, led to some policy uncertainty and administrative controls to repatriate foreign exchanges, which have had the effect of reducing foreign investment in Nigeria and reducing foreign visits.

Domestic tourism has benefited in part from the recession, which reduced the number of people travelling abroad, but boosted the number vacationing in Nigeria. The combination of a declining economy and growth in domestic tourism boosted tourism's contribution to GDP to 4.8% in 2016 from only 1.7% in 2015.

While this improvement was the largest of any of the countries covered in this report, tourism remains a minor industry in Nigeria overall, with 97% of tourist spending in 2016 being generated by domestic tourists.

After growing at a 5.2% compound annual rate between 2010 and 2014, real GDP growth slowed to 2.7% in 2015 before contracting by 1.7% in 2016.

The value of the naira dropped by more than 20% in 2016, which made foreign travel by Nigerians more expensive and contributed to the growth in domestic tourism, but made imports much more expensive, which contributed to the spike in inflation. Consumer price inflation averaged 15.7% in 2016, the largest in years.

With oil prices stabilising, Nigeria's economy is expected to show modest growth in the coming years. Real GDP is projected to edge up 0.7% in 2017 and to expand at rates exceeding 3% annually in 2019-21. Growth for the next five years is projected at 2.5% compounded annually.



97% of tourist spending was generated by domestic tourism in 2016



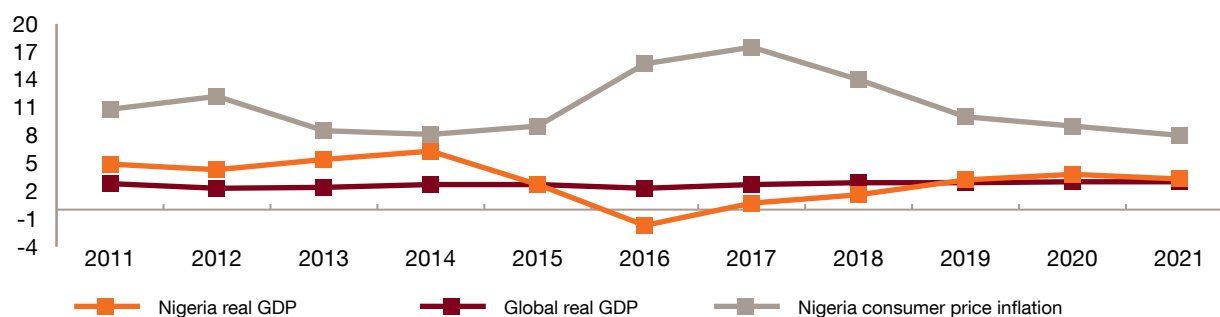
Real GDP growth and consumer price inflation (%)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2017-21 CAGR
Nigeria real GDP	4.9	4.3	5.4	6.3	2.7	-1.7	0.7	1.6	3.2	3.8	3.3	2.5
Global real GDP	2.8	2.3	2.4	2.7	2.7	2.3	2.7	2.9	2.9	3.0	3.0	2.9
Nigeria consumer price inflation*	10.8	12.2	8.5	8.1	9.0	15.7	17.5	14.0	10.0	9.0	8.0	11.6

*Annual averages

Sources: International Monetary Fund, World Bank, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Fig. 14 Real GDP growth and consumer price inflation (%)



Source: International Monetary Fund, World Bank, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Nigeria's strong economy through 2014 made the country an attractive market for international investors, including international hotel brands. In early 2016, 15 international hotel brands had plans to build more than 50 hotels in Nigeria, many of which are outside our forecast horizon, such as the Hilton Lagos Airport Hotel scheduled to open in 2023.

In 2016, however, the economy contracted in real terms, inflation and interest rates soared, and a number of hotel projects were delayed or postponed. In last year's report, we predicted there would be 13 900 available rooms in Nigeria in 2020.



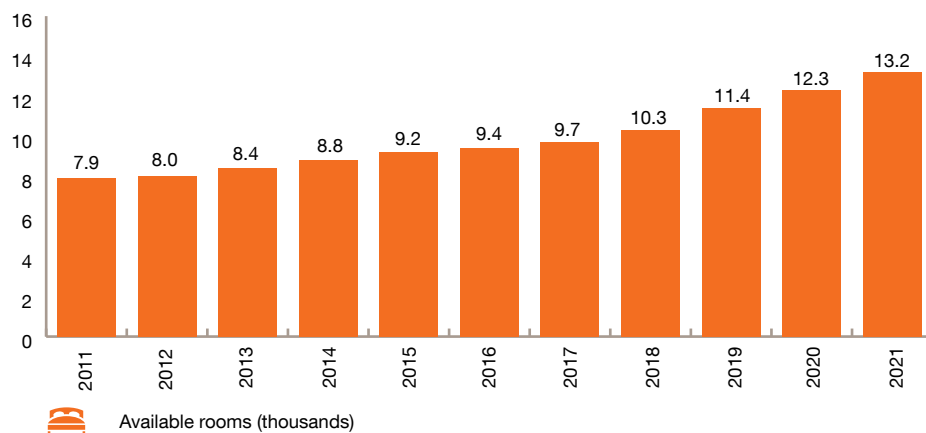
Image courtesy of Tsogo Sun

We now project 12 300 available rooms in 2020, 11.5% fewer than last year's expectation.

Nevertheless, there is still a lot of activity in Nigeria. Within the next five years we expect six planned hotels by Hilton and two each by Fairmont, Marriott, Radisson, and Best Western. Of those, six will be in Lagos, three in Abuja, two in Port Harcourt and one each in Onitsha and Owerri.

Even with the scaling back in projects, available rooms in Nigeria, including other brands and independents, will rise from 9 400 in 2016 to 13 200 in 2021, a 7.0% compound annual increase over the next five years, the largest expansion of any country in our analysis.

Fig. 15 Available rooms (thousands)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates



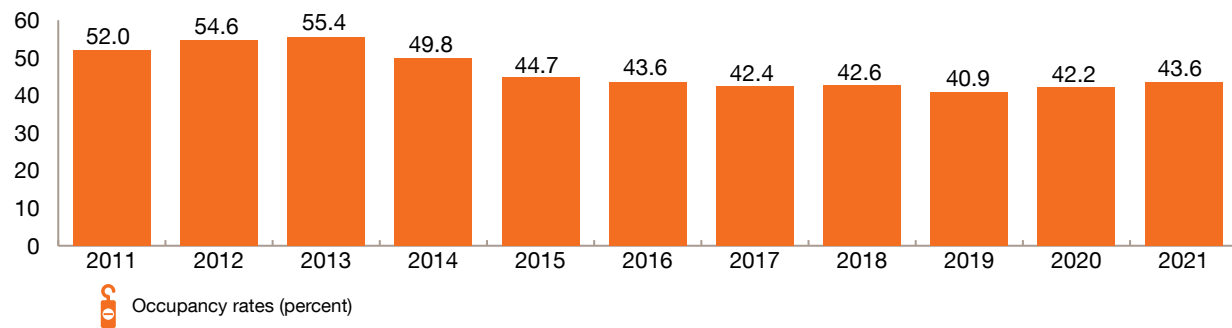
We look for guest nights to be steady in 2017 and then to increase beginning in 2018 as economic growth picks up, with increases accelerating in 2020 and 2021.

Growth for the five-year forecast period will average 7.0% compounded annually, which is also highest among the five countries covered in this report, matching the increase in available rooms. The occupancy rate will fall to 40.9% in 2019 as additional rooms are introduced, before edging back up to 43.6% in 2021.

Hotels in Nigeria

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2017-21 CAGR
Available rooms (thousands)	7.9	8.0	8.4	8.8	9.2	9.4	9.7	10.3	11.4	12.3	13.2	
% change	11.3	1.3	5.0	4.8	4.5	2.2	3.2	6.2	10.7	7.9	7.3	7.0
Guest nights (millions)	1.5	1.6	1.7	1.6	1.5	1.5	1.5	1.6	1.7	1.9	2.1	
% change	15.4	6.7	6.3	-5.9	-6.3	0.0	0.0	6.7	6.3	11.8	10.5	7.0
Occupancy rates (%)	52.0	54.6	55.4	49.8	44.7	43.6	42.4	42.6	40.9	42.2	43.6	
ADR (US\$)	142	147	151	157	165	174	194	212	225	237	246	
% change	6.8	3.5	2.7	4.0	5.1	5.5	11.5	9.3	6.1	5.3	3.8	7.2
Total room revenue (US\$ millions)	213	235	257	251	248	261	291	339	383	450	517	
% change	23.1	10.3	9.4	-2.3	-1.2	5.2	11.5	16.5	13.0	17.5	14.9	14.6

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Fig.16 Occupancy rates (%)

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates



Three and four-star hotels

We have combined data for three and four-star hotels in Nigeria. These hotels accounted for 47% of total available rooms and 53% of guest nights in 2016. The average room rate was US\$182 (R2 678) in 2016, 5% higher than the overall average, reflecting the fact that there are only a few five-star hotels in Nigeria.

Most of the growth in available rooms (84%) will be in three- and four-star hotels, which will increase at an 11.6% compound annual rate, raising their share of total hotel room capacity to 58% by 2021.

We project stay unit nights to rise by 8.4% compounded annually, which will not keep pace with capacity growth, leading to a decline in occupancy rates to 43.3% in 2021 from 49.7% in 2016.

Fuelled in part by rising inflation, the average room rate is projected to increase by 9.2% compounded annually to US\$283 (R4 164) and total room revenue will reach US\$340 million (R5 billion) from US\$146 million (R2.1 billion) in 2016, an 18.4% gain compounded annually.

Three and four-star hotels in Nigeria

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2017-21 CAGR
Available rooms (thousands)	4.2	4.3	4.3	4.3	4.3	4.4	4.6	5.2	6.2	6.8	7.6	
% change	10.5	2.4	0.0	0.0	0.0	2.3	4.5	13.0	19.2	9.7	11.8	11.6
Guest nights (millions)	0.9	0.9	1.0	0.9	0.8	0.8	0.8	0.9	1.0	1.1	1.2	
% change	12.5	0.0	11.1	-10.0	-11.1	0.0	0.0	12.5	11.1	10.0	9.1	8.4
Occupancy rates (%)	58.7	57.2	63.7	57.3	51.0	49.7	47.6	47.4	44.2	44.2	43.3	
ADR (US\$)	156	159	164	168	173	182	206	227	248	268	283	
% change	7.6	1.9	3.1	2.4	3.0	5.2	13.2	10.2	9.3	8.1	5.6	9.2
Total room revenue (US\$ millions)	140	143	164	151	138	146	165	204	248	295	340	
% change	20.7	2.1	14.7	-7.9	-8.6	5.8	13.0	23.6	21.6	19.0	15.3	18.4

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates



Image courtesy of Tsogo Sun

Looking back: 2016

Largely on the strength of growth in domestic tourism, Nigeria's hotel market outperformed our expectations. Guest nights held steady at 1.5 million instead of declining, the occupancy rate of 43.6% was higher than the 40.3% expected as fewer rooms were added and guest nights were stronger.

Room revenue rose 5.2% in 2016, much better than the projected 2.2% decline. We had projected three and four-star hotels to do better than the overall average, which proved to be the case, but the 5.8% increase in the sector was still higher than the 3.3% projected increase.

Actual vs forecast results for 2016

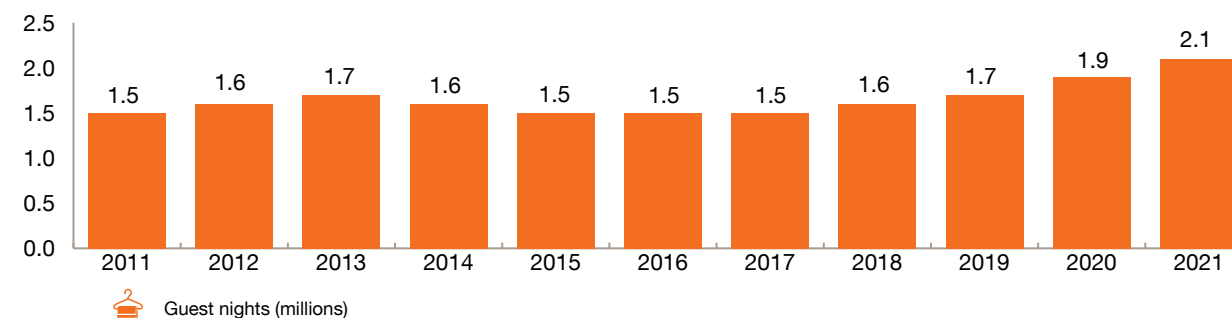
	2016 projected	2016 actual
Occupancy (%)	40.3	43.6
Guest nights (millions)	1.4	1.5
Total hotel room revenue growth (%)	-2.2	5.2
Three/four-star hotel room revenue growth (%)	3.3	5.8

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Outlook: 2017-2021

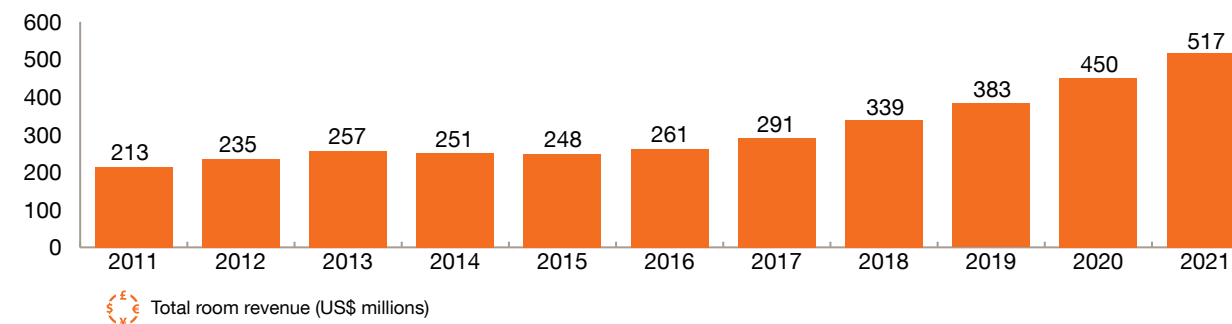
Guest nights will begin to increase in 2018 and will rise at a 7.0% compound annual rate to 2.1 million in 2021 from 1.5 million in 2016. Average room rates had been growing at moderate rates in recent years but we expect this to change from 2017 as rates are spiking. We look for an 11.5% increase in 2017 with growth averaging 7.2% compounded annually through the entire forecast period. Overall hotel room revenue is expected to expand at a 14.6% compound annual rate to US\$517 million (R7.6 billion) in 2021 from US\$261 million (R3.8 billion) in 2016.

Fig. 17 Guest nights (millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Fig. 18 Total room revenue (US\$ millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Mauritius



Image courtesy of LUX Hotel and Resorts

Hotel accommodation

The number of tourist arrivals to Mauritius increased by 10.8% in 2016, matching the gain in 2015 and significantly exceeding growth rates over the 2010-14 period.

Mauritius has benefited from an increase in direct flights and government investment in tourism.

Mauritius also has a healthy and stable economy, a strong infrastructure and low inflation. In the World Bank 2016 *Ease of Doing Business Report*, Mauritius was ranked first in Africa.

We expect an improving global economy to help sustain tourism to Mauritius and project global real GDP to rise at a 2.9% compound annual rate. Consumer price inflation is low in Mauritius at only 1.0% in 2016. Inflation is expected to pick up a bit in the next few years, but it will remain low at 1.6% compounded annually through 2021. Meanwhile, the Mauritian economy will continue to expand, growing at a projected 3.9% compound annual rate, slightly better than the 3.7% increase in 2016.



The number of tourist arrivals to Mauritius increased by 10.8% in 2016



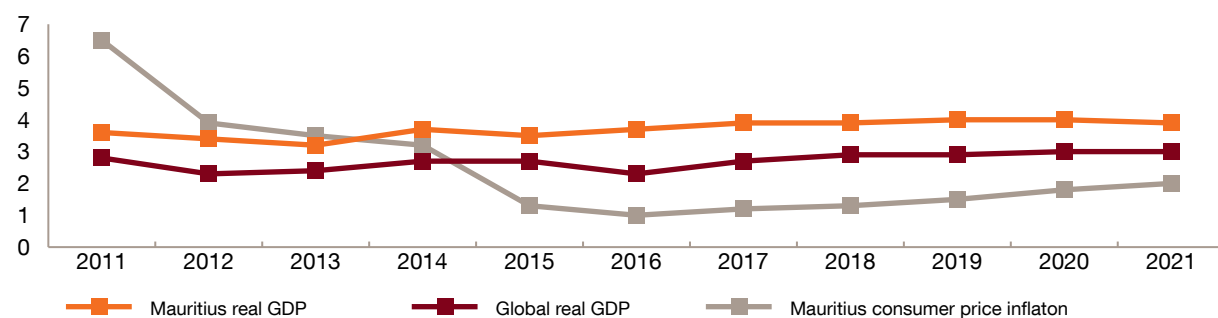
Real GDP growth and consumer price inflation (%)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2017-21 CAGR
Mauritius real GDP	3.6	3.4	3.2	3.7	3.5	3.7	3.9	3.9	4.0	4.0	3.9	3.9
Global real GDP	2.8	2.3	2.4	2.7	2.7	2.3	2.7	2.9	2.9	3.0	3.0	2.9
Mauritius consumer price inflation*	6.5	3.9	3.5	3.2	1.3	1.0	1.2	1.3	1.5	1.8	2.0	1.6

*Annual averages

Sources: Statistics Mauritius, International Monetary Fund, World Bank, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Fig. 19 Real GDP growth and consumer price inflation (%)



Source: Statistics Mauritius, International Monetary Fund, World Bank, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

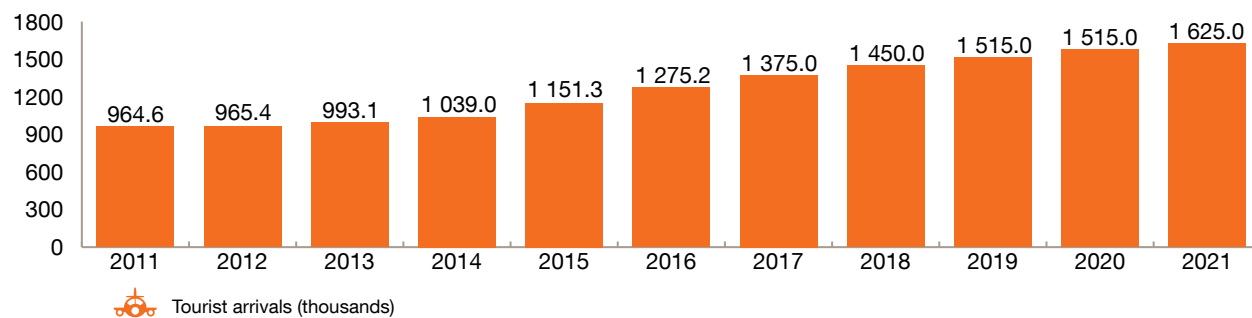
We do not expect double-digit growth in tourist arrivals to be maintained and look for growth to drop to mid-single-digit increases beginning in 2018 and to average 5.0% growth compounded annually to 1.6 million in 2021 from 1.3 million in 2016.

Tourist arrivals to Mauritius (thousands)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2017-21 CAGR
Tourist arrivals	964.6	965.4	993.1	1 039.0	1 151.2	1 275.2	1 375.0	1 450.00	1 515.0	1 575.0	1 625.0	
% change	3.2	0.1	2.9	4.6	10.8	10.8	7.8	5.5	4.5	4.0	3.2	5.0

Note: Figures include arrivals from non-specified countries

Sources: Ministry of Finance and Economic Development, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Fig. 20 Tourist arrivals (thousands)

*Arrivals from Europe
increased 16.3% in
2016*

Sources: Ministry of Finance and Economic Development, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates



Image courtesy of Veranda Resorts

France continues to be the largest source of tourists to Mauritius, accounting for 21% of all tourist arrivals in 2016. Europe as a whole accounted for 58% of total arrivals in 2016.

Arrivals from Europe increased 16.3% in 2016. Spain, the Netherlands and Germany recorded the largest percentage increases in 2016 at 52.8%, 45.5% and 37.9%, respectively.

Double-digit increases were also recorded from Sweden, Switzerland, the Czech Republic and Belgium, with the United Kingdom up 9.4%.

Visitors from Russia, however, continued to decline in 2016, falling 18.5% due to its weak economy and the devaluing currency which is making foreign travel more expensive.

Tourist arrivals from Europe

	2015	2016	% change
France	254 323	271 963	6.9
United Kingdom	129 754	141 904	9.4
Germany	75 237	103 761	37.9
Switzerland	30 680	36 272	18.2
Italy	29 185	31 337	7.4
Austria	11 425	16 643	45.7
Belgium	14 223	15 675	10.2
Spain	10 013	15 304	52.8
Sweden	11 634	14 551	25.1
Netherlands	6 926	10 080	45.5
Russia	11 406	9 295	-18.5
Czech Republic	7 265	8 503	17.0
Other	39 556	59 218	49.7
Total	631 627	734 506	16.3

The next largest source of tourists, 23%, comes from Africa, led by nearby Réunion at 146 203 in 2016, up 1.6%, and South Africa at 104 834, 2.8% above 2015. Overall tourist arrivals from Africa increased 2.5% in 2016.

Tourist arrivals from Africa

	2015	2016	% change
Réunion	143 845	146 203	1.6
South Africa	101 943	104 834	2.8
Madagascar	12 215	11 740	-3.9
Seychelles	5 652	6 393	13.1
Kenya	3 376	3 185	-5.7
Zimbabwe	1 892	2 047	8.2
Nigeria	1 474	1 715	16.4
Namibia	1 474	1 715	16.4
Mayotte	1 024	1 189	16.1
Mozambique	927	1 144	23.4
Botswana	817	1 088	33.2
Zambia	867	999	15.2
Other	9 176	9 638	5
Total	284 682	291 890	2.5

Source: Ministry of Finance and Economic Development

The number of visitors from Asia rose 5.3%, a figure that would have been higher were it not for the 11.4% decrease from China. Excluding China, visits from Asia were up 17.1% in 2016.

India overtook China in 2016 to be the largest source of tourists to Mauritius from Asia. Visits from India increased 14.6% in 2016. Double-digit increases were also recorded for visitors from Japan, Malaysia, South Korea, Singapore, the Philippines, and Saudi Arabia.

Tourist arrivals from Asia

	2015	2016	% change
India	72 135	82 670	14.6
People's Republic of China	89 584	79 374	-11.4
Australia	17 835	18 559	4.1
United Arab Emirates	9 049	9 614	6.2
South Korea	3 494	6 025	72.4
Malaysia	2 557	4 628	81
Saudi Arabia	2 854	3 164	10.9
Singapore	1 779	2 840	59.6
Japan	1 415	2 655	87.6
Philippines	2 017	2 488	23.4
Indonesia	2 270	2 375	4.6
Hong Kong	1 327	1 342	1.1
Other	10 503	12 570	19.7
Total	216 819	228 304	5.3

Source: Ministry of Finance and Economic Development

Arrivals from the Americas rose 10.5% in 2016 on the strength of a 49.6% increase from Brazil and 26.8% growth from the rest of Latin America.

Visits from North America, by contrast, were up only 3.0% as an 8.1% gain in Canada offset a 0.3% decline from the United States.

Tourist arrivals from the Americas

	2015	2016	% change
United States	8 546	8 524	-0.3
Canada	5 608	6 060	8.1
Brazil	1 947	2 912	49.6
Other	1 790	2 270	26.8
Total	17 891	19 766	10.5

Source: Ministry of Finance and Economic Development

There were 13 605 available hotel rooms in Mauritius in 2016, down 0.1% from 2015. In November 2015, the Mauritius Tourism Ministry agreed to an 18-month moratorium on new hotel projects proposed by the Association of Hotels and Restaurants as the industry had been plagued by overcapacity that led to declining daily rates.

In addition, the drop is also associated with punctual hotel renovations. We anticipate a further 1.2% decline in room availability in 2017 before new hotels again enter the market in 2018.

Only a few hotel openings are expected in the next five years—the Ritz Carlton and Park Inn by Radisson Mauritius in 2018, a Sheraton Hotel and Hilton Garden Inn in 2020, and the Anantara Le Chaland Hotel.

All told, only 470 rooms are expected to be added during the forecast period, a 0.7% compound annual increase. The recent growth of other forms of inventory such as Airbnb and other tourist residences is impressive.

Hotel rooms now make up 62% of total available rooms when including other forms of accommodation. As such we anticipate demand to be matched by these other forms of accommodation in the short term.



It is apparent that peer-to-peer digital platforms such as Airbnb are driving a lot of the growth in the non-hotel room inventory.

Guest nights rose 9.0% in 2016, helped by the growth in foreign tourism. With tourism growth slowing, we expect growth in guest nights to moderate as well, increasing at a 1.8% compound annual rate through 2021.

After falling between 2012 and 2015, the average daily room rate increased 5.6% in 2016, reflecting a jump in the occupancy rate to 75%. While there is a moratorium on new projects in place in the near term and relatively few rooms expected to be added through 2021, growth in the non-hotel room inventory will ease pressure on room rates.

We project the ADR will rise at a 4.3% compound annual rate over the next five years. Room revenue rose 15.3% in 2016, by far the largest gain in recent years.

With mid-single-digit growth in the average daily rate combined with modest increases in guest nights, we project room revenue in Mauritius to increase at a 6.2% compound annual rate from €634 million (R8.4 billion) in 2016 to a projected €857 million (R11.4 billion) in 2021. The impact of Brexit and volatility of foreign exchange rates may impact future revenue growth.

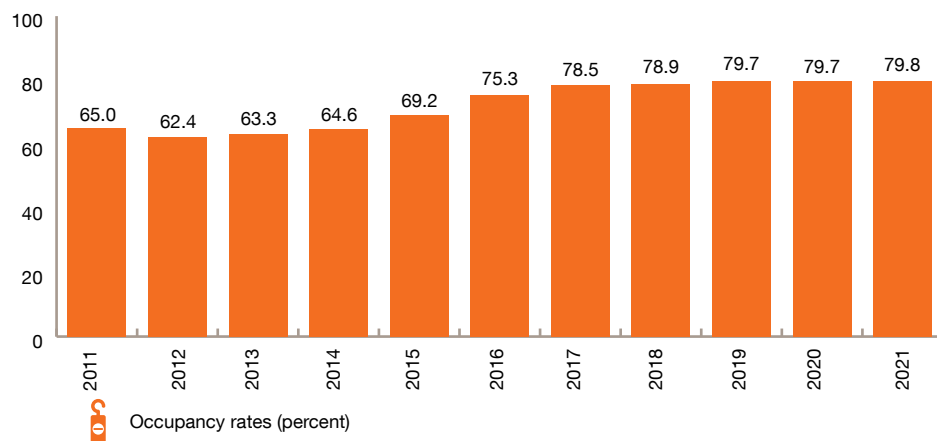
Hotels in Mauritius

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2017-21 CAGR
Available rooms (thousands)	11.9	12.5	12.4	12.8	13.6	13.6	13.4	13.7	13.8	13.9	14.1	
% change	-1.2	5.0	-1.2	3.4	6.4	-0.1	-1.2	1.6	0.7	1.4	0.9	0.7
Guest nights (millions)	2.83	2.86	2.86	3.02	3.44	3.75	3.85	3.93	4.00	4.07	4.10	
% change	-1.0	1.1	0.0	5.6	13.9	9.0	2.7	2.1	1.8	1.8	0.7	1.8
Occupancy rates (%)	65.0	62.4	63.3	64.6	69.2	75.3	78.5	78.9	79.7	79.7	79.8	
ADR (€)	184	189	173	171	160	169	178	186	193	201	209	
% change	9.5	2.7	-8.5	-1.2	-6.4	5.6	5.3	4.5	3.8	4.1	4.0	4.3
Total room revenue (€ millions)	521	541	495	516	550	634	685	731	772	818	857	
% change	8.5	3.8	-8.5	4.2	6.6	15.3	8.0	6.7	5.6	6.0	4.8	6.2

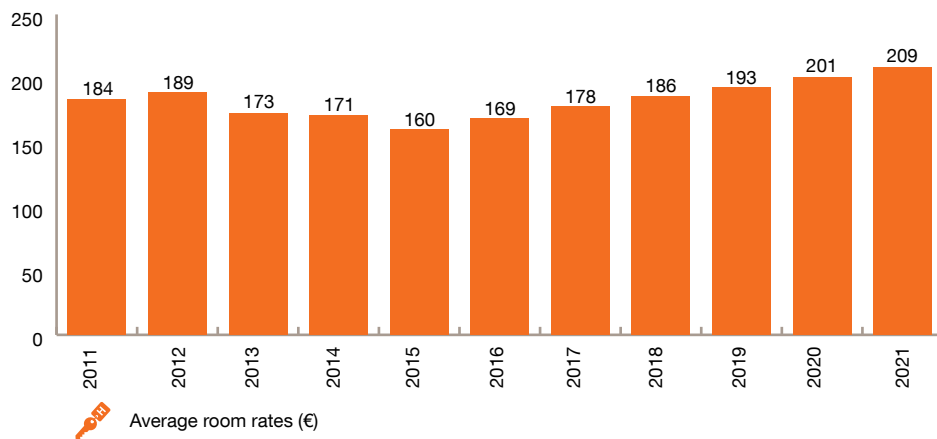
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates



*Guest nights rose 9.0%
in 2016*

Fig. 21 Occupancy rates (%)

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Fig. 22 Average room rates (€)

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates



Image courtesy of Veranda Resorts

Five-star hotels

Room revenue for five-star hotels increased 8.9% in 2016, a significant improvement from the 1.9% gain in 2015, the result of a turnaround in the average room rate following a 6.6% decline in that rate in 2015.

Guest nights were flat in 2016. With continued growth in foreign tourism, however, we look for guest nights to increase over the next three years and remain steady in 2020-21 as growth in foreign tourism slows. For the forecast period as a whole, we expect guest nights to increase at a 4.6% compound annual rate.

With occupancy rates on the rise, we look for continued growth in the average room rate to €294 (R3 910) in 2021 from €245 (R3 258) in 2016, a 3.7% compound annual increase.

Total room revenue for five-star hotels will increase by a projected 8.4% compounded annually to €441 million (R5.9 billion) in 2021 from €294 million (R3.9) billion in 2016.

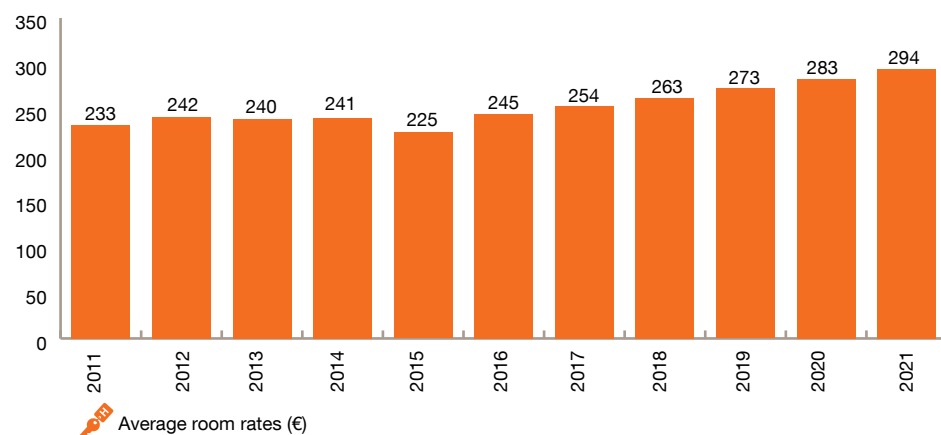


Total room revenue for five-star hotels will increase by a projected 18.4% compounded annually to €441 million

Five-star hotels in Mauritius

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2017-21 CAGR
Available rooms (thousands)	4.8	5.0	5.1	5.1	5.0	5.1	5.1	5.2	5.3	5.3	5.3	
% change	6.7	4.2	2.0	0.0	-2.0	2.0	0.0	2.0	1.9	0.0	0.0	0.8
Guest nights (millions)	0.9	1.0	1.0	1.1	1.2	1.2	1.3	1.4	1.5	1.5	1.5	
% change	12.5	11.1	0.0	10.0	9.1	0.0	8.3	7.7	7.1	0.0	0.0	4.6
Occupancy rates (%)	51.4	54.6	53.7	59.1	65.8	64.3	69.8	73.8	77.5	77.3	77.5	
ADR (€)	233	242	240	241	225	245	254	263	273	283	294	
% change	-4.1	3.9	-0.8	0.4	-6.6	8.9	3.7	3.5	3.8	3.7	3.9	3.7
Total room revenue (€ millions)	210	242	240	265	270	294	330	368	410	425	441	
% change	8.2	15.2	-0.8	10.4	1.9	8.9	12.2	11.5	11.4	3.7	3.8	8.4

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Fig. 23 Average room rates for five-star hotels (€)

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Three and four-star hotels

We have combined data for three and four-star hotels in Mauritius. After declining between 2011 and 2014, room revenue for this component of the market rebounded in 2015 with a 10.7% increase and rose an additional 14.1% in 2016.

Guest nights rose 7.7% and the ADR increased 5.8%. It appears that three and four-star hotels were the principal beneficiaries of the growth in foreign tourism during the past two years, and we expect this to continue. We expect guest nights to increase at a 5.2% compound annual rate over the next five years.

We expect room rates to continue to grow as occupancy rates rise. The average rate is expected to increase from €110 (R1 463) in 2016 to €134 (R1 782) in 2021, a 4.0% compound annual increase.

Overall room revenue for three and four-star hotels is projected to increase at a 9.4% compound annual rate to €241 million (R3.2 billion) in 2021 from €154 million (R2.0 billion) in 2016.



Three and four-star hotels in Mauritius

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2017-21 CAGR
Available rooms (thousands)	6.6	6.6	6.8	7.0	7.2	7.2	7.2	7.2	7.2	7.3	7.4	
% change	4.8	0.0	3.0	2.9	2.9	0.0	0.0	0.0	0.0	1.4	1.4	0.5
Guest nights (millions)	1.3	1.2	1.2	1.1	1.3	1.4	1.4	1.5	1.6	1.7	1.8	
% change	18.2	-7.7	0.0	-8.3	18.2	7.7	0.0	7.1	6.7	6.3	5.9	5.2
Occupancy rates (%)	54.0	49.7	48.3	43.1	49.5	53.1	53.3	57.1	60.9	63.6	66.6	
ADR (€)	111	112	107	111	104	110	116	121	125	130	134	
% change	5.7	0.9	-4.5	3.7	-6.3	5.8	5.5	4.3	3.3	4.0	3.1	4.0
Total room revenue (€ millions)	144	134	128	122	135	154	162	182	200	221	241	
% change	24.1	-6.9	-4.5	-4.7	10.7	14.1	5.2	12.3	9.9	10.5	9.0	9.4

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Looking back: 2016

Our forecasts for the market as a whole underestimated the actual growth in each category except five-star hotels. Guest nights were a bit higher than we expected, occupancy rates increased more than our projections, and total room revenue growth of 15.3% was above our 12.7% projection. Five-star hotels grew more slowly than we expected, however, three and four-star hotels did much better.

Actual vs forecast results for 2016

	2016 projected	2016 actual
Occupancy (%)	73.0	75.3
Guest nights (millions)	3.70	3.75
Foreign & domestic visitors (thousands)	1 265.0	1 275.2
Total hotel room revenue growth (%)	12.7	15.3
Five-star hotel room revenue growth (%)	16.2	8.9
Three and four-star hotel room revenue growth (%)	6.7	14.1

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Outlook: 2017-2021

We project the number of available hotel rooms to increase at a 0.7% compound annual rate, rising to 14 075 in 2021.

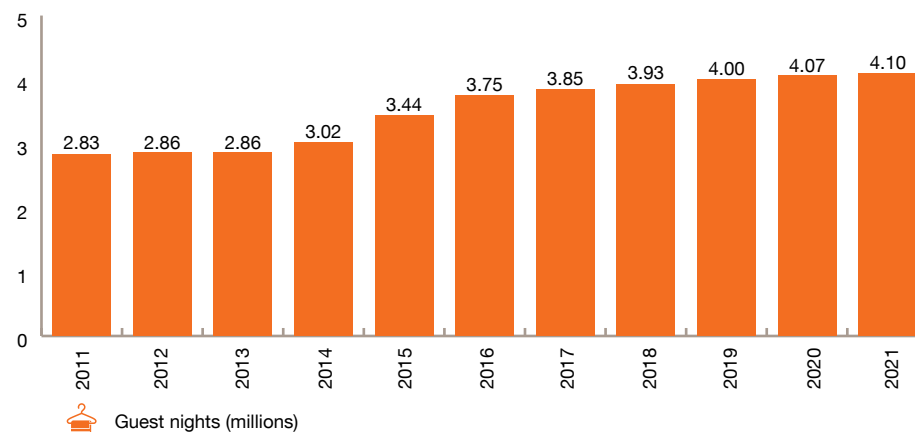
The average occupancy rate will rise from 75.3% in 2016 to 79.8% in 2021.

We project guest nights for the forecast period as a whole to rise from 3.75 million in 2016 to 4.1 million in 2021, a 1.8% compound annual increase.

We project that average room rates will increase by 4.3% compounded annually to 2021.

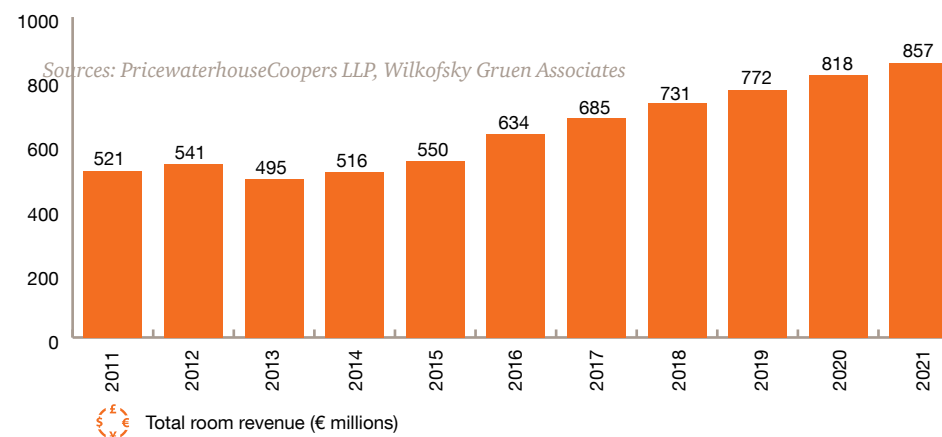
Hotel room revenue in Mauritius is expected to grow at a 6.2% compound annual rate to 2021.

Fig. 24 Guest nights (millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Fig. 25 Total room revenue (€ millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates



Average occupancy
will rise to 79.8% in
2021

Kenya



Image courtesy of Tsogo Sun



Foreign visits to Kenya rose to 1.31 million in 2016 from 1.18 million in 2015

Hotel accommodation

The tourist market in Kenya rebounded in 2016 following four years of decline. International arrivals fell from 1.82 million in 2011 to 1.18 million in 2015 as terrorist attacks and travel advisories issued by a number of countries curtailed visits to Kenya.

In 2016, however, the United States, the United Kingdom and France lifted their travel advisories on Kenya and foreign visits to Kenya rebounded, rising to 1.31 million in 2016.

The Kenyan Government introduced a series of incentives to make Kenya a more competitive destination for safari tourism. Kenya also hosted major global events, including the Tokyo International Conference on African Development, the United Nations Conference on Trade and Development, and the Africa Academy of Management Biennial Conference.

Kenya's security sentiment has improved significantly with the capital city hosting major global events on trade and investment and hosting key global figures such as former US president Barrack Obama.

Kenya was also named the ninth top destination in the world and the top destination in Africa by *Rough Guides* in

the United Kingdom. Helped by these developments, foreign visits to Kenya rebounded in 2016, rising to 1.31 million.

Kenya's domestic economy, which has been healthy in recent years, further improved with a 5.8% rise in real GDP, its largest increases since 2013. This increase contributed to a 33% rise in domestic tourism.

Guest nights, which declined a cumulative 15% between 2011 and 2015, also rebounded with a 2.9% increase in 2016. The average room rate edged up 2.2% in 2016 and room revenue grew 4.9%.

Kenya's economy is expected to remain strong, growing at a 6.3% compound annual rate over the next five years, more than twice the expected growth in global GDP.

Consumer price inflation, however, is accelerating. After averaging 6.4% over the past four years, inflation topped 11% in April 2017 and averaged 9.4% for the first four months of the year.

We project inflation to increase to 12.0% in 2017 and to average 11.4% compounded annually during the next five years.

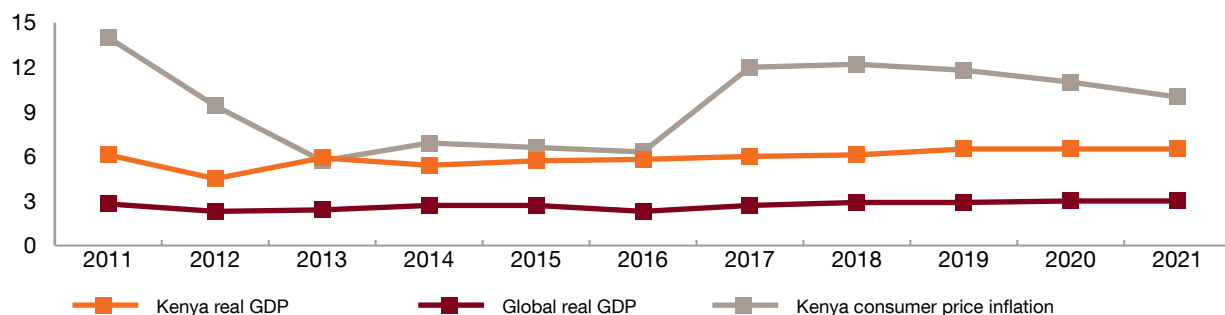
Real GDP growth and consumer price inflation (%)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2017-21 CAGR
Kenya real GDP	6.1	4.5	5.9	5.4	5.7	5.8	6.0	6.1	6.5	6.5	6.5	6.3
Global real GDP	2.8	2.3	2.4	2.7	2.7	2.3	2.7	2.9	2.9	3.0	3.0	2.9
Kenya consumer price inflation*	14.0	9.4	5.7	6.9	6.6	6.3	12.0	12.2	11.8	11.0	10.0	11.4

*Annual averages

Sources: International Monetary Fund, Kenya National Bureau of Statistics, World Bank, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Fig. 26 Real GDP growth and consumer price inflation (%)



Sources: International Monetary Fund, Kenya National Bureau of Statistics, World Bank, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

The government is helping to boost Kenya's tourism. The 16% VAT on park entrance fees has been eliminated, visa fees for children have been removed, and Kenya Wildlife Service park fees have also been reduced. The government also waived the landing fees for charter flights at the Mombasa and Malindi airports and authorised 4.5 billion Kenyan shillings (US\$44 million) in the national budget to promote tourism.

In addition, the government is investing in transport infrastructure, including the expansion of airports to accommodate more travellers and a new road, the Dogo-Kundu Road, which will allow tourists to access the south coast by land, as well as improved and increased conference facilities in Nairobi, which is becoming a popular business conference destination.

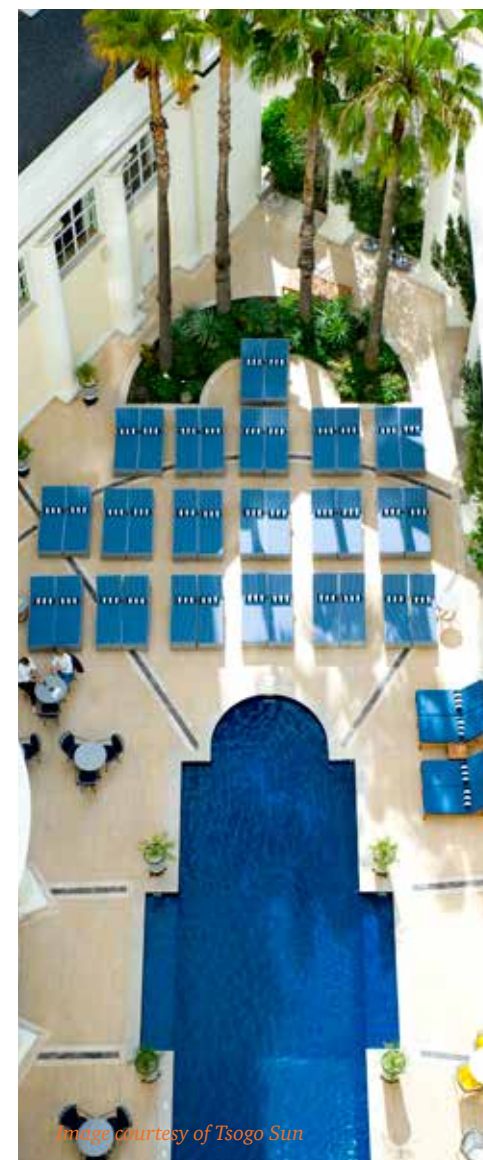


Image courtesy of Tsogo Sun

These developments, along with a stable local economy, are attracting international hotels to Kenya. Sheraton, Ramada, Hilton, Best Western, Radisson, Marriott, and Mövenpick are among the international brands scheduled to open hotels in Kenya during the next five years.

A total of 13 new hotels are expected to open by 2021, adding 2 400 rooms and expanding the hotel capacity by 13% with a 2.5% compound annual increase in available rooms over the next five years.

Helped by an increase in flights to Kenya, lower park fees, a stable economy, and ongoing growth in domestic tourism, we project guest nights to build on their recent momentum and rise at a 4.1% compound annual rate during the next five years.

Average room rate growth slowed in 2016, which contributed to the rebound in stay unit nights. With new hotels expanding supply, we expect room rates to continue to grow at relatively moderate rates as hotels look to sustain their recent expansion in the face of growing competition. We project room rate growth to average 3.3% compounded annually through 2021.

Occupancy rates will decline over the next two years before edging up from 2019. The hotel occupancy rate will rise to 57.4% in 2021, up from 52.9% in 2016, but still well below the 66.1% rate achieved in 2011.

Hotels in Kenya

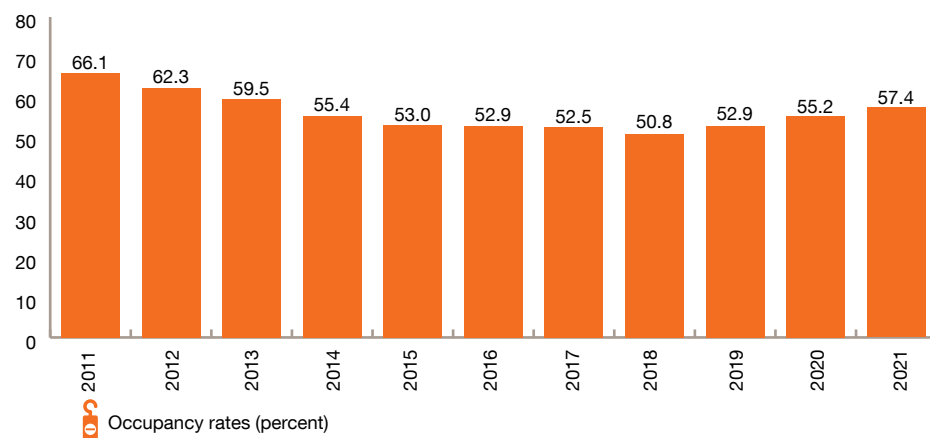
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2017-21 CAGR
Available rooms (thousands)	17.0	17.1	17.5	17.8	18.1	18.6	19.3	20.5	20.7	20.8	21.0	
% change	0.6	0.6	2.3	1.7	1.7	2.8	3.8	6.2	1.0	0.5	1.0	2.5
Guest nights (millions)	4.1	3.9	3.8	3.6	3.5	3.6	3.7	3.8	4.0	4.2	4.4	
% change	10.8	-4.9	-2.6	-5.3	-2.8	2.9	2.8	2.7	5.3	5.0	4.8	4.1
Occupancy rates (%)	66.1	62.3	59.5	55.4	53.0	52.9	52.5	50.8	52.9	55.2	57.4	
ADR (US\$)	133	130	130	128	139	142	143	148	153	160	167	
% change	17.7	-2.3	0.0	-1.5	8.6	2.2	0.7	3.5	3.4	4.6	4.4	3.3
Total room revenue (US\$ millions)	545	507	494	461	487	511	529	562	612	672	735	
% change	30.4	-7.0	-2.6	-6.7	5.6	4.9	3.5	6.2	8.9	9.8	9.4	7.5

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates



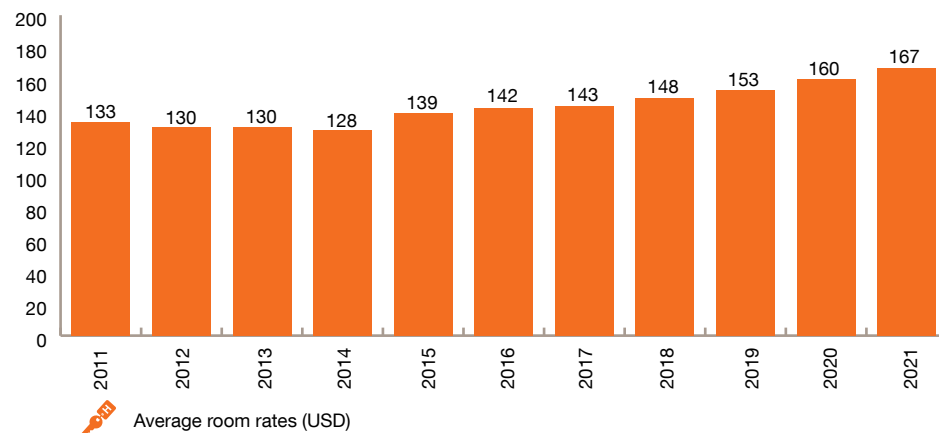
Image courtesy of Tsogo Sun

Fig. 27 Occupancy rates (%)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Fig. 28 Average room rates (US\$)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Looking back: 2016

We expected that security concerns would continue to adversely affect the hotel market in 2016, but that was not the case as guest nights increased, occupancy rates rose, and room revenue grew faster than expected. The occupancy rate of 52.9% was higher than our 48.73% projection, guest nights rose to 3.6 million instead of falling to 3.3 million, and the 4.9% increase in room revenue was above our 1.6% expectation.

Actual vs forecast results for 2016

	2016 projected	2016 actual
Occupancy (%)	48.7	52.9
Guest nights (millions)	3.3	3.6
Total hotel room revenue growth (%)	1.6	4.9

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates



Image courtesy of Tsogo Sun

Outlook: 2017-2021

We project the number of available rooms to increase from 18 600 in 2016 to 21 000 in 2021, a 2.5% compound annual increase.

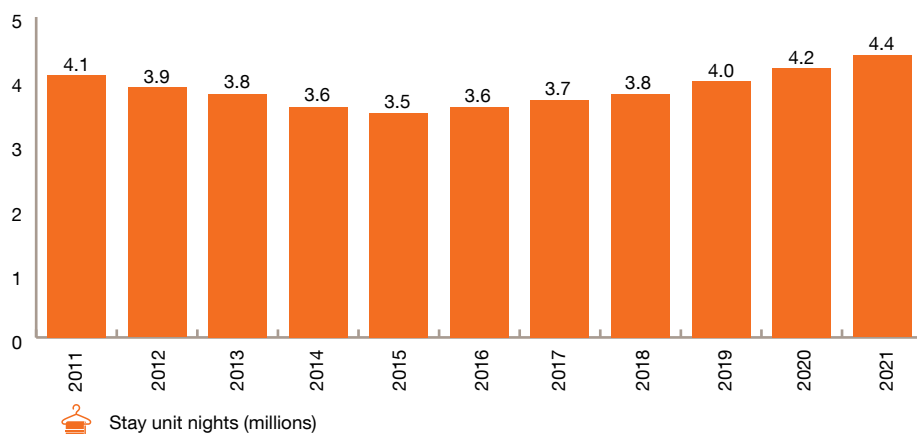
Guest nights will total an estimated 4.4 million in 2021, a 4.1% compound annual increase from 3.6 million in 2016.

The occupancy rate will fall during the next two years as we are projecting capacity to grow faster than demand in the near term, but grow more slowly over the 2019-21 period. For the forecast period as a whole, stay unit nights will grow faster than capacity and hotel occupancy will rise to an estimated 57.4% in 2021 from 52.9% in 2016.

We project the ADR to increase from US\$142 (R2 089) in 2016 to US\$167 (R2 457) in 2021, a 3.3% compound annual increase.

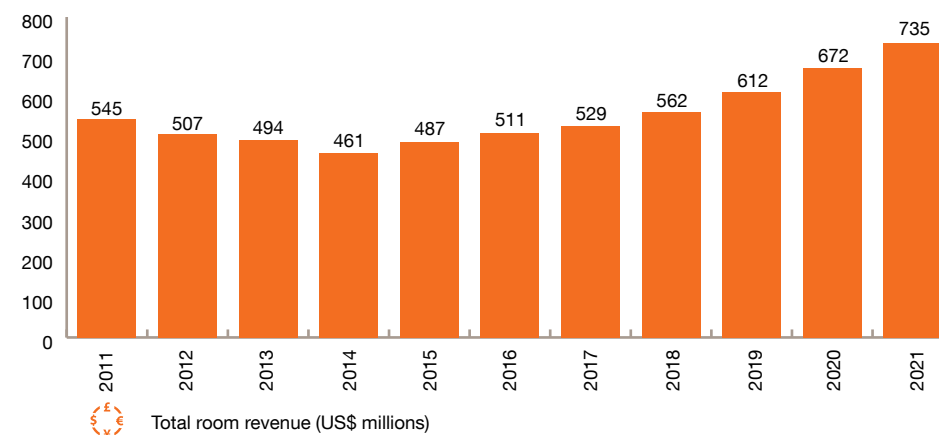
Total room revenue will expand by 7.5% compounded annually, rising to US\$735 million (R10.8 billion) in 2021 from US\$511 million (R7.5 billion) in 2016.

Fig. 29 Guest nights (millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Fig.30 Total room revenue (US\$ millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates



Image courtesy of Tsogo Sun

Tanzania



Image courtesy of Tso go Sun



Tourism accounts for more than 17% of GDP



Hotel accommodation

Tourism is the largest industry in Tanzania, accounting for more than 17% of GDP. The imposition of an 18% VAT on tourism services in 2016, with the proceeds used to improve infrastructure, was expected to reduce foreign tourism in the short run and lead to a drop in stay unit nights.

This did not happen as many tourists had booked their holidays before the VAT was introduced. Tourism actually increased in 2016 and stay unit nights held steady. In early 2017, however, the market appears to be weakening and we expect a drop in stay unit nights this year.

Inadequate infrastructure remains an issue for the tourist market. Poor roads, particularly to national parks, and power outages and power shortages have an adverse effect on the tourist experience. Improvements in basic infrastructure should help tourism in the long run.

Meanwhile, Air Tanzania is upgrading its infrastructure and acquiring new aircraft from Boeing, which will increase its capacity and enable it to add more routes. The government is also upgrading regional airports to make them more accessible.

Tanzania has a vibrant economy with real GDP growing at rates of 7.0% or higher over the past four years. Real GDP is projected to grow by 7.2% in 2017 and then moderate to increases of 6.5% or higher, averaging 6.8% compounded annually through 2021. Even with this moderation, Tanzania will still have one of the fastest growing economies in the world.

At the same time, consumer price inflation is moderating in Tanzania. The 5.5% inflation rate in 2016 was the lowest in years and a marked improvement compared with the double-digit increases in 2011-12. Consumer price inflation is expected to remain moderate, averaging 5.5% compounded annually over the next five years.

A strong domestic economy will help support the government focus on expanding domestic tourism. While global GDP is growing at a much slower rate than Tanzanian GDP, it is improving.

Global GDP growth is projected to rise to 3.0% in 2020-21 and to average 2.9% compounded annually over the entire forecast period, an improvement compared with the 2.3% increase in 2016. A stronger global economy will have a positive impact on foreign tourism.

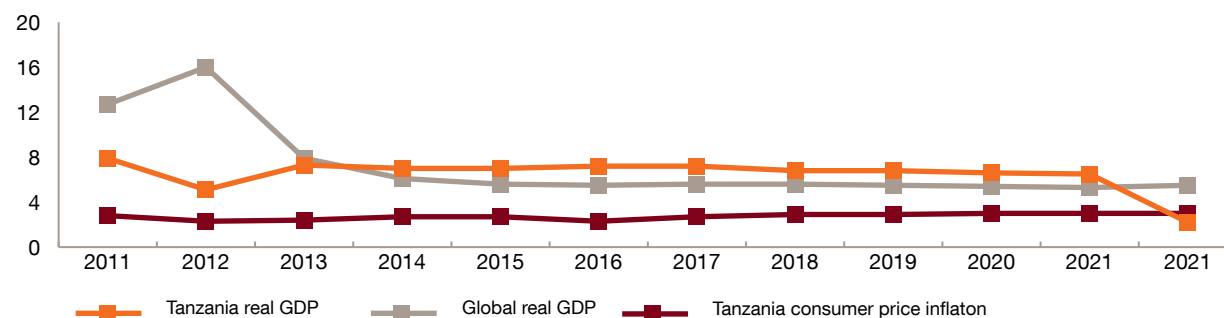
Real GDP growth and consumer price inflation (%)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2017-21 CAGR
Tanzania real GDP	7.9	5.1	7.3	7.0	7.0	7.2	7.2	6.8	6.8	6.6	6.5	6.8
Global real GDP	2.8	2.3	2.4	2.7	2.7	2.3	2.7	2.9	2.9	3.0	3.0	2.9
Tanzania consumer price inflation*	12.7	16.0	7.9	6.1	5.6	5.5	5.6	5.6	5.5	5.4	5.3	5.5

*Annual averages

Sources: International Monetary Fund, World Bank, Tanzania Bureau of Statistics, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Fig. 31 Real GDP growth and consumer price inflation (%)



Sources: International Monetary Fund, World Bank, Tanzania Bureau of Statistics, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

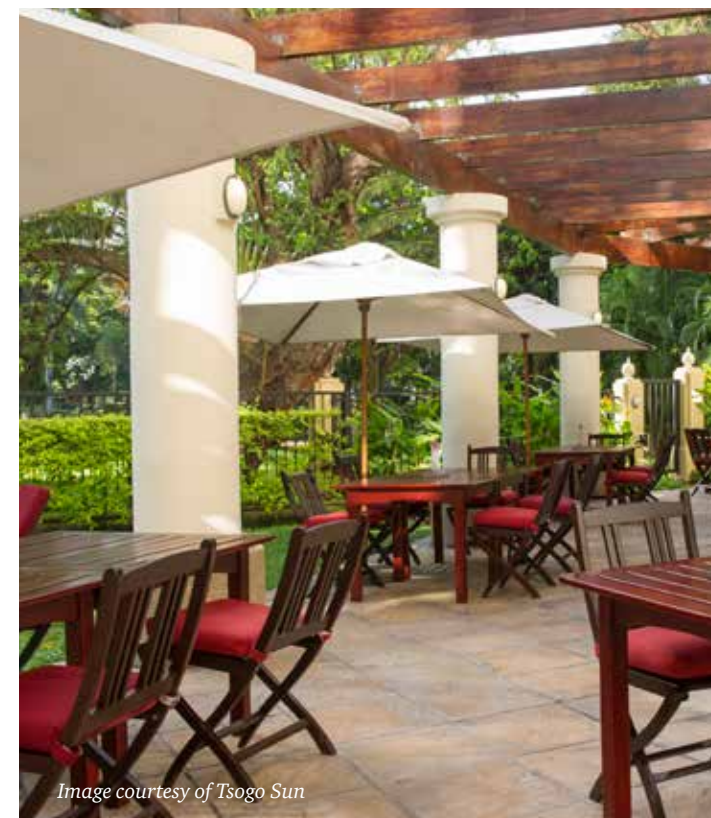


Image courtesy of Tsogo Sun



Over the next five years, five new major hotels from Anantara, Rotana, Element, Melia and City Lodge are scheduled to open—three in Dar es Salaam and one each in Zanzibar and Serengeti—collectively adding nearly 800 rooms. Growth in available rooms will average 2.0% compounded annually with a 14% cumulative increase over the forecast period.

After rising by 22.6% in 2015, average room rate growth moderated to 7.7% in 2016. The large increase in the average room rate in 2015 may have contributed to the drop in guest nights, while slower room rate growth in 2016 may have helped keep guest nights steady.

Room revenue rose 7.7% in 2016, down from the 15.6% increase in 2015, as slower room rate growth in 2016 offset the impact of the drop in guest nights in 2015.

Hotels in Tanzania

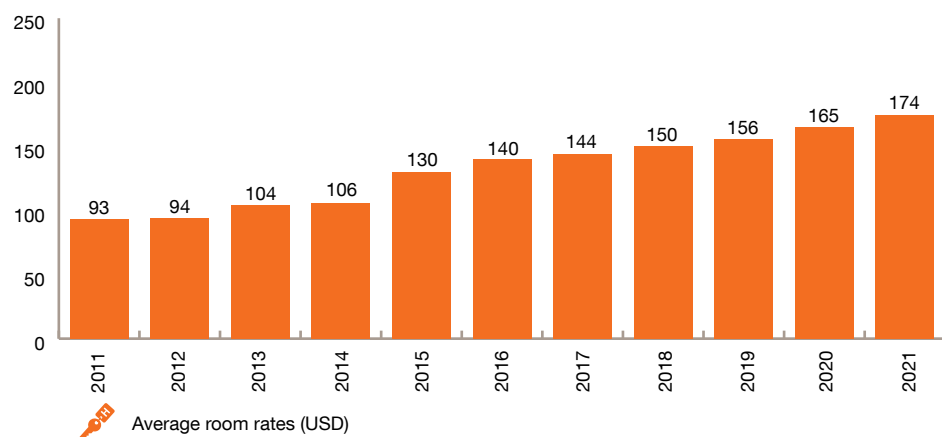
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2017-21 CAGR
Available rooms (thousands)	7.1	7.2	7.2	7.4	7.7	7.7	7.9	8.1	8.3	8.5	8.5	
% change	0.0	1.4	0.0	2.8	4.1	0.0	2.6	2.5	2.5	2.4	0.0	2.0
Guest nights (millions)	1.6	1.7	1.7	1.7	1.6	1.6	1.5	1.6	1.7	1.8	1.8	
% change	23.1	6.3	0.0	0.0	-5.9	0.0	-6.3	6.7	6.3	5.9	0.0	2.4
Occupancy rates (%)	61.7	64.5	64.7	62.9	56.9	56.8	52.0	54.1	56.1	57.9	58.0	
ADR (US\$)	93	94	104	106	130	140	144	150	156	165	174	
% change	6.9	1.1	10.6	1.9	22.6	7.7	2.9	4.2	4.0	5.8	5.5	4.4
Total room revenue (US\$ millions)	149	160	177	180	208	224	216	240	265	297	313	
% change	31.9	7.4	10.6	1.7	15.6	7.7	-3.6	11.1	10.4	12.1	5.4	6.9

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

We expect ADR growth to be more moderate going forward, in part to counteract the impact of the new VAT legislation, and project a 4.4% compound annual increase over the next five years.

We look for guest nights to increase again in 2018 and to rise at a 2.4% compound annual rate through 2021, leading to a projected 6.9% compound annual increase in room revenue.

Fig. 32 Average room rates (US\$)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Looking back: 2016

We had expected guest nights to continue to decline in 2016, but they actually held steady, which contributed to a stable occupancy instead of the projected decline. Guest nights totalled 1.6 million in 2016 instead of 1.5 million, and the occupancy rate averaged 56.8% compared to the 53.2% projection.

We anticipated a much larger increase in the ADR, but the smaller rise in the average room rate resulted in lower room revenue growth than we expected. We had projected a 12.2% increase in room revenue in 2016, but growth was actually 7.7%.

Actual vs forecast results for 2016

	2016 projected	2016 actual
Occupancy (%)	53.2	56.8
Guest nights (millions)	1.5	1.6
Total hotel room revenue growth (%)	12.2	7.7

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates



Image courtesy of Tsogo Sun

Outlook: 2017-2021

Growth in available rooms will average 2.0% compounded annually with the number of available rooms increasing from 7 700 in 2016 to 8 500 in 2021.

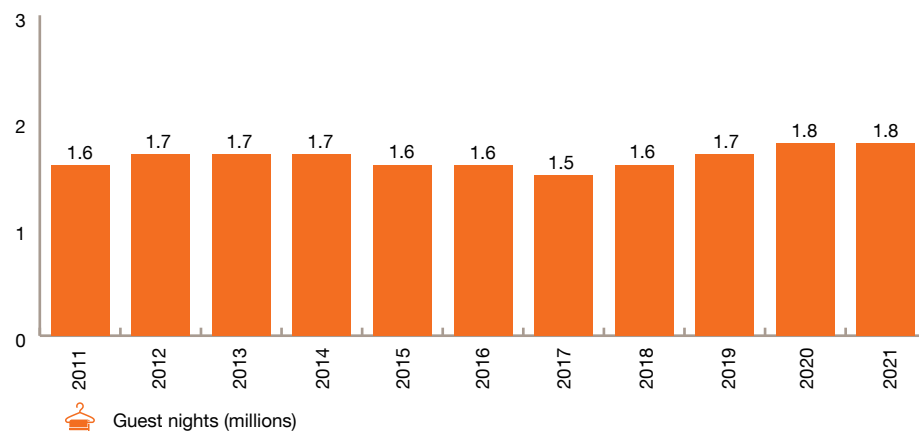
We project guest nights to rise from 1.6 million in 2016 to 1.8 million in 2021, a 2.4% compound annual increase.

Guest nights will rise a bit faster than available rooms and hotel occupancy will edge up to 58.0% in 2021 from 56.8% in 2016.

We project the ADR to increase from \$140 (R2 060) in 2016 to \$174 (R2 560) in 2021, a 4.4% compound annual increase.

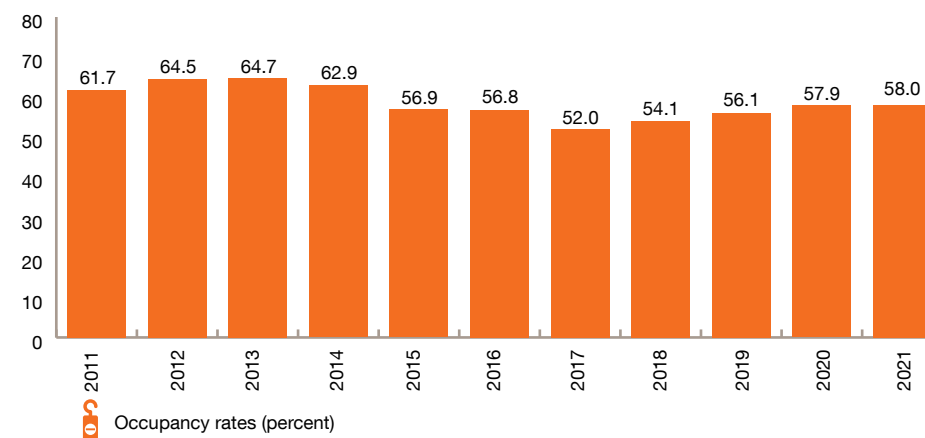
Total room revenue will expand by 6.9% compounded annually, rising to \$371 million (R4.6 billion) in 2021 from \$224 million (R3.3 billion) in 2016.

Fig. 33 Guest nights (millions)



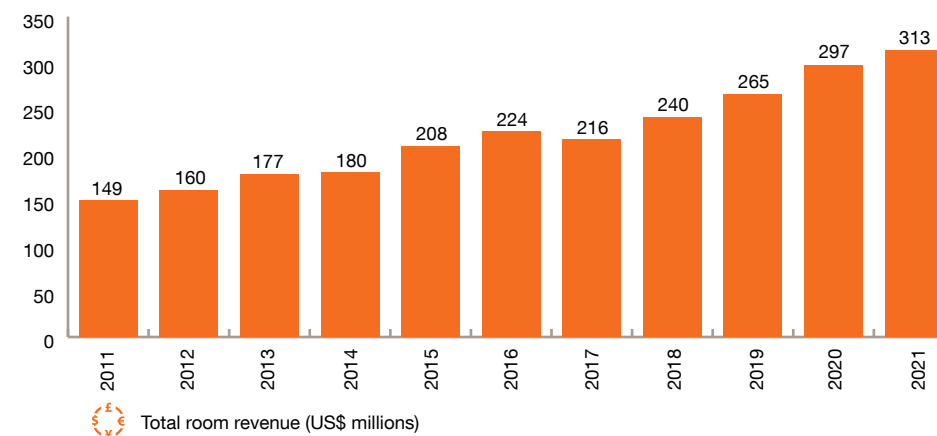
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Fig. 34 Occupancy rates (%)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Fig. 35 Total room revenue (USD millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Emerging Hotel Markets



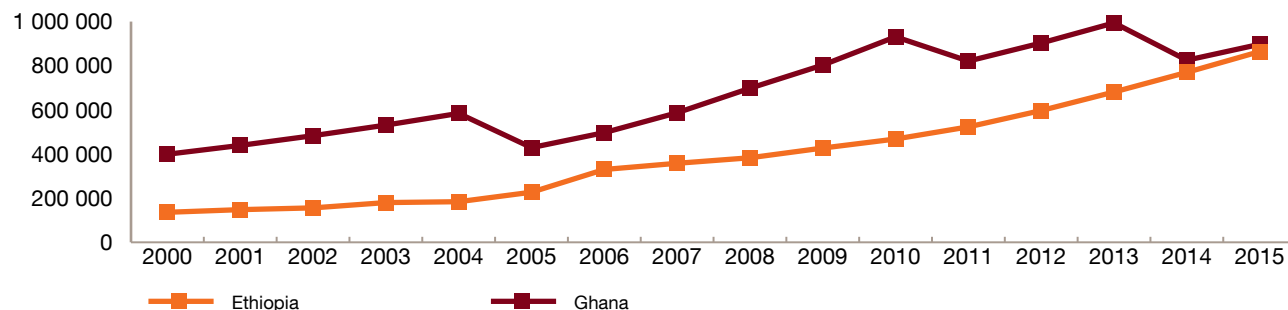
Image courtesy of Tsogo Sun

Ghana and Ethiopia

The tourism industry continues to be one of the fastest-growing sectors of Africa's economy. In spite of recent challenges, including the fall in oil prices and contraction of the global economy, the sector has significant potential to create jobs, promote inclusive economic growth and reduce poverty.

In this year's *Outlook*, we take a closer look at two emerging hotel markets, Ghana and Ethiopia. These two markets have seen an increase in international tourism over the past decade.

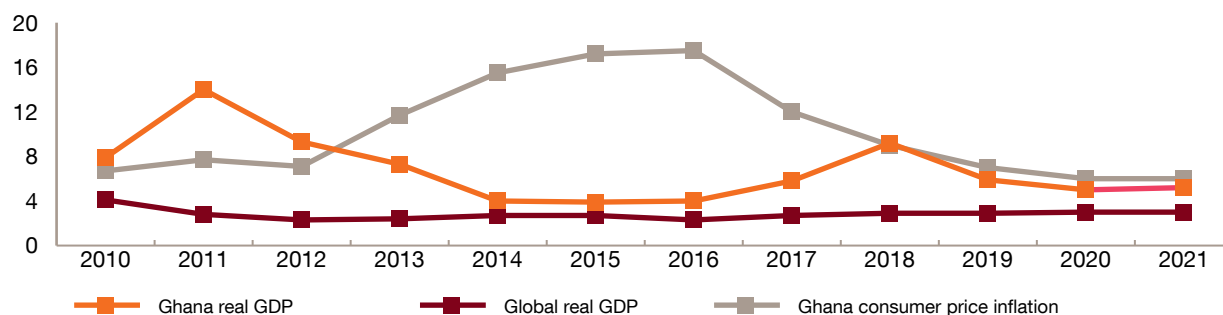


Fig. 36 Ghana and Ethiopia: Number of tourist arrivals, 2000-2015

Source: World Bank

Ghana

Ghana is the second-largest economy in West Africa and is regarded as one of Africa's most stable democracies. It has enjoyed significant economic growth since 2000, particularly with the commercialisation of its offshore oil and gas reserves, which saw GDP growth reach 14% in 2011.

Fig. 37 Real GDP growth and consumer price inflation (%)

Source: International Monetary Fund

Following the collapse in the oil price and that of other commodities since then, there has been a conscious effort to diversify the economy, including promoting the hospitality and tourism sector.

Ghana's hospitality industry grew 1.2% from 2015 to 2016. It is a key contributor to the national economy and ranked fourth for profitability and foreign exchange earnings after gold, cocoa and oil.

The World Travel & Tourism Council (WTTC) expects Ghana's tourism industry to expand by 5.6% in 2017 and maintain an annual growth rate of 5.1% per annum from 2017 through to 2027. The total contribution to GDP of the industry was 7.1% in 2016.

The US Government has recently partnered with the tourism sector stakeholders in Ghana to share knowledge in order to increase the tourism inflow in the country.

Political stability, economic growth and improving infrastructure has led to an increase in investments by multinationals, which has prompted an increase in business and leisure travellers. At the same time, the growth of the middle class in Ghana has led to the development of domestic tourism.

The Ghanaian Government has recognised the opportunity of investing in the tourism sector to facilitate growth and it is now implementing a detailed strategy emphasising public-private sector leadership and investment.

The most visible sign of this approach is the redevelopment of a stretch of coastline in the capital Accra, known as the Marine Drive Tourism Investment Project. This will include proposed amenities such as hotels, shopping malls, theme parks, office complexes and a casino.

Another area where the government is making improvements is in transport infrastructure. This has seen the construction of a third terminal at Accra's Kotoka International Airport. This will allow the airport to handle an additional five million passengers a year at a rate of 1 250 passengers per hour.

The Ho Airport Development Project, which was yet to be completed, will enable easy access to the Volta Region in the south-east. The region boasts numerous tourist attractions and a domestic airport will increase tourist visits.

The government is also allocating funds for the repair of roads to popular tourist attractions.

Since July 2016, Ghana has offered visas on arrival at its Kotoka International Airport, which makes it one of the 25 countries within the 54 African Union member states to do this.

Ghana's investment climate and political stability has made the hospitality sector a target for multinational hotel brands looking to expand their footprints into Africa.

Over the past six years, a number of hotel chains such as Kempinski, Marriott International, Mövenpick, Accor (Novotel) and Ibis Styles have set up subsidiaries in Accra. The influx of hotels have also been seen in other regions, especially in the Western region (e.g. Best Western Atlantic Hotel) and Northern regions (e.g. Zaina Lodge). As at May 2017, there are 2 723 hotels and lodges in Ghana. However, most of these have medium-to-low star ratings given their amenities, size of property and general quality of services offered.

As at October 2016, there was a decline of 2.2% in the number of guests as a result of the high rates charged to cover the rising cost of expenditure incurred by the hotels (e.g. cost of fuel and utility bills). The government has undertaken to look into these areas in the next phases of their development plans.

Threats

Ghana is currently facing the worst power crisis in its history. Power producers have been unable to meet demand for electricity for more than a decade, with periods of load shedding intensifying appreciably since 2012.

The crisis has seen the slowdown in industrial activity, job and income losses, which threatens the country's economic growth and transformation. The Institute of Statistical, Social and Economic Research (ISSER) in 2014 estimated the country lost between US\$320 million and US\$924 million per annum in productivity and economic growth due to the power crisis.¹

Ghana is in the second year of an almost \$1-billion debt bailout deal with the IMF after a slump in commodity prices slashed income from oil and gold and government debt spiralled.

In January 2017, the three-week-old government under new President Nana Akufo-Addo, revealed it had found a US\$1.6 billion hole in the budget. The undisclosed spending is believed to date back more than three years.

¹ Eshun, M and Amoako-Tuffour, J. 'A review of the trends in Ghana's power sector'. *Energy, Sustainability and Society*, SpringerOpen. <https://energysustainsoc.springeropen.com/articles/10.1186/s13705-016-0075-y#CR2>

The discovery doubles the size of Ghana's budget deficit and sent yields on Ghana's 2023 Eurobond up.

Opportunity and growth potential

Accra has internationally-branded hotels including Mövenpick, Holiday Inn, Golden Tulip, Novotel (Accor), Legacy Hotels & Resorts' Labadi Beach Hotel, Kempinski and Marriott International.

In 2015, Accra attracted 897 000 visitors and achieved 67% occupancy, average daily rate (ADR) of US\$201 and revenue per available room (RevPAR) of US\$134 (one of the highest in the region) according to STR Global.

In 2016, however, there was a decrease in RevPAR of 44.5% from that of 2015 due to the launch of Kempinski and the ibis Styles properties.

The improving economic situation and political stability in the country have the potential to boost the hotel industry. Considering the investment by foreign investors in the industry through the establishment of high-rated hotels, and increasing number of tourists and business travellers, it is expected that there would be continuous growth in the industry.



There is expected to be an increase in the number of business travellers to the country as the government embarks on programmes to stimulate economic growth. Key medium-term policy objectives include establishing a business-friendly and industrialised economy that creates jobs, enhances human capital, a modernised agricultural sector that focuses on value addition and efficiencies, and countrywide integrated infrastructure.

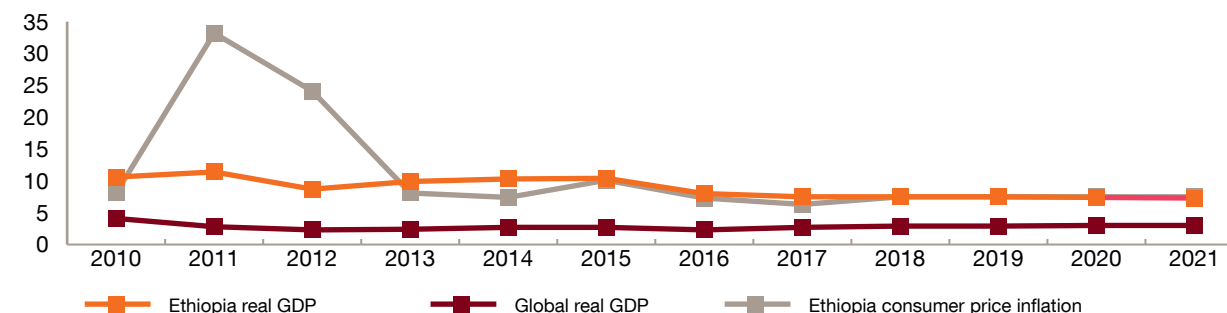
The hotel industry is expected to grow 1.1% in 2017, 2.1% in 2018 and 2.3% in 2019.

Currently, Hilton Worldwide is building its first modular hotel in Ghana (The Hilton Garden Inn Project), which marks its maiden entry into the Ghanaian hospitality sector. The project, which is scheduled to be completed in 2018, is in line with the company's plans to increase the number of hotels across Africa in the next three to five years.

Ethiopia

Ethiopia's economy is dominated by agriculture and the government is taking steps to address the country's continued reliance on this weather-dependant sector. The current Growth and Transformation Plan (GTP II), a long-term, large-scale infrastructure investment plan, including transportation networks and power generation, envisages 11% average annual economic growth with an improved trade balance and higher foreign reserves.

Fig. 38 Real GDP growth and consumer price inflation (%)



Source: International Monetary Fund

Sources in the Ethiopian business community suggest that certain markets such as banking and logistics will be open to foreign investors during the GTP-II period. This could ease the foreign exchange and project financing challenges facing the private sector, especially SMEs.

Government plans include expanding Ethiopian Airlines' footprint of regional and international routes. The aim is to increase the flow of travellers to over 20 local towns in different parts of the country. Routes to Moroni in the Comoros and Windhoek in Namibia have already been added.

Addis Ababa international airport is also undergoing expansion and will be able to service 20 million passengers a year by 2019. The government is also planning expansions in towns such as Jinka, Robe and Semera.

The government is committed to increasing foreign investment and has introduced tax incentives, such as importing capital goods free of tax, and land incentives through loan arrangements.

Threats

Ethiopia's national development plans place emphasis on promoting export-led industrialisation with a focus on light manufacturing. However, the contribution of the industrial sector to GDP, employment and exports remains very low.

Besides agriculture, forestry, fishing and hunting, which contributed 37.2% of GDP in 2015/2016, only construction (15.9%) and the retail and wholesale sector (19.2%) made a double-digit contribution to the economy. These figures highlight the need for economic diversification, including in the tourism sector.

The ruling Ethiopian People's Democratic Front won all the parliamentary seats in the 2015 national elections. Opposition groups and human rights activists have voiced concern about the democratic and political environment in the country.

Public protests broke out in 2016 in the Oromia and Amhara regions, which account for more than 60% of the population. Authorities declared a six-month state of emergency in October 2016, enacting a range of measures to restore peace, including restrictions on social and mainstream media.

A drought during 2015 led to rising food prices, which propelled consumer inflation above 10%. Since then, food prices have stabilised, but the implementation of import-dependent energy and road transport infrastructure projects continues to put pressure on the current account as export earnings continue to account for only about 30% of imports.

China is currently a dominant investment player in the Ethiopian economy. Chinese companies are under pressure regarding wages at home and are increasingly looking to move operations abroad. Ethiopia, with its large population, has ensured a sizeable supply of cheap labour. This has made Ethiopia highly-reliant on Chinese investment and the country will be exposed if this investment slows down.



Image courtesy of African Regent Hotel

Opportunity and growth potential

Real GDP growth is said to decrease from 8.0% in 2016 to 7.5% in 2017. Over the last decade, Ethiopia has had one of the fastest-growing economies in the world, with average annual growth rates ranging between 8% and 11.8%. This has been accompanied by the emergence of a growing middle class with increased purchasing power.

However, Ethiopia continues to face social unrest, and this has been aggravated by the government's aggressive use of force in subduing dissent amid accusations of committing human rights abuses.

Unrest has been seen in particular among the Ormo (the largest ethnic group in the country) and the Amhara groups as they have begun to express unhappiness over their perceived economic marginalisation.

The national tourism sector contributes less than 5% of Ethiopia's GDP and the government has taken action from a branding and marketing perspective to position Ethiopia as a tourist destination.

International arrivals come from a wide range of sources. It is a relatively diverse market catering for business

travellers and tourists. With vast natural attractions, a rich cultural history and archaeological finds dating back more than three million years, the government is actively promoting Ethiopia's nine UNESCO world heritage sites and intangible cultural heritage in its international marketing campaign.

Total arrivals in Ethiopia from 2015 to 2016 increased from 817 860 to 868 780. Provisional data from Ethiopia's Ministry of Culture and Tourism puts visitor numbers for the first three months of 2017 at over 200 000, while tourism receipts are reported to have exceeded US\$870 million.

Tourist arrivals in 2017 are forecast to increase by 5.7% on the previous year to 918 010.

Other East African countries are the main source of visitors to Ethiopia, followed by Europe. The European Council of Tourism awarded Ethiopia the World's Best Tourism Destination Award in 2015.

Addis Ababa will continue to grow as a regional business hub, supporting expansion in the hotel sector. Hotels in the city currently have a 60% occupancy rate.

Addis Ababa is host to numerous conferences owing to the fact that it has

the third-largest diplomatic community in the world, after New York and Geneva. Delegates to these events often seek high-end accommodation and there is ample opportunity for luxury hotel brands looking to establish themselves in the market.

In 2016, only two international hotel brands, Ramada Addis (Wyndham Hotel Group) and Marriott Apartment Hotel, joined the market. There are five international hotel brands under construction.

The Wyndham Hotel Group has announced plans to build three luxury properties over the next few years. Two are to be in Addis Ababa and one is aimed at nature-seeking travellers on the shores of Lake Lungano.

AccorHotels has also announced plans to build three hotels in Addis Ababa by 2021.

InterContinental Hotels Group as well as Carlson Rezidor have commenced construction of a Crowne Plaza and Radisson Blu Plaza Hotel in the capital city. Marriott International and Starwood Hotels and Resorts are also on track with their own developments.

The growing presence of international brands in the country demonstrates confidence in Ethiopia's tourism growth, particularly opportunities linked to business and diplomatic travel.



Image courtesy of Mövenpick Ambassador Hotel

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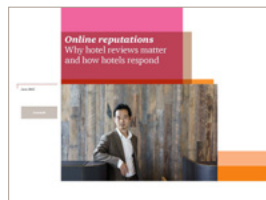
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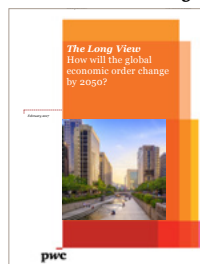
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