Funding Vital for Hospitality Industry Growth

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CEO, Hotel Partners Africa, Vernon Page

Head of Design and Construction, HPA, Mark Martinovic

Hotel Partners Africa (HPA), an alliance of three leading hospitality consultants in Africa, held the Hospitality Lending Conference 2013 at the Southern Sun Ikoyi Hotel, Lagos on October 29, 2013. Martins Hile, Editor, Financial Nigeria spoke with the partners, Vernon Page, CEO of HPA, Trevor Ward, Head of Consultancy Services, Mark Martinovic, Head of Design and Construction, and David Harper, Head of Property Services.

MH: According to a 2013 survey conducted by W Hospitality Group, there is rapid increase in new developments of international branded hotels in sub Saharan Africa. What link would you draw by the rise in development of assets in the hospitality industry to the fact that SSA is now home to a fair share of frontier emerging markets of the world?

HPA: Africa is now the place to be and is seen by the investing world as the foremost emerging market. With all the investment in Africa, the same trend is being seen in the hospitality industry as international standard hotels are needed for the growth in all the other sectors. However, there is still an enormous amount of scope for the hospitality industry. As part of a presentation by Mr. Trevor Ward of W Hospitality Group, contribution to Nigeria's GDP from the travel and tourism industry is 3 per cent. When you compare that to an international average of around 9 per cent, you realize that a lot of work has to be done in Nigeria in the sector and the scope is vast.

This is the same in all the other African countries too. Internationally, the hospitality industry contributes 1 in 11 jobs whereas, in Nigeria there are only 1.6 million people employed in the industry representing 2.6 per cent of the employed workforce. Globally, the tourism industry contributes around 6 per cent of the exports of a country; however, in Nigeria it is only 0.6 per cent. From these statistics, everyone can see the enormous potential that Africa presents within the hospitality industry.

MH: In which countries of sub Saharan Africa are we seeing the strongest interests in investing in hotels by the international franchises?

HPA: A first misconception that needs to be clarified is that the international and regional hotel chains are not investing in Africa. There are the exceptions but these are very few. The chains are only signing management agreements to operate the hotels on opening on behalf of developers and owners. East Africa is far more mature than the rest of SSA and thus we still see investment into that region. However, the strongest interest is in West Africa, especially Nigeria which has a huge population as well as an emerging middle class. Ghana also has shown a lot of interest in the region. In Southern Africa, Mozambique has shown the largest interest for investment.

MH: At sub-regional level, there is not one single international hotel franchise in DR Congo, while there are several international hotels in neighbouring countries. This scenario is also evident at country level where penetration of the hospitality industry is tenuous in some geopolitical zones in Nigeria. What does this mean for the profile and reputation of the hotel industry in Africa?

HPA: With the investment community first looking at major markets, which have very few internationally branded hotels themselves, the hotel industry in Africa is not being affected because of these countries. There are in fact a number of SSA countries who do not have an internationally branded hotel, notably Angola. The international chains are not ignoring these countries and will with time, find developers and investors willing to develop and invest. In many countries, a number of changes will be needed prior to investment flowing in.

MH: There are 49 branded hotels and 7,500 rooms in the development pipeline in Nigeria alone. But average room rates for international hotel franchises suggest that hotel supply is mainly for an upscale market. With Nigeria's vast population and growing income levels, does the market provide enough incentives for hotel chains to invest in other classes of accommodation and what are your recommendations for a deeper segmented market?

HPA: The chains are bringing in their upscale brands but there is a market for the midscale brands and brands like Park Inn by Radisson and Four Points by Sheraton are in the mix with a number of agreements being signed. Accor and Hilton have also signed deals for their midscale brands such as Ibis and Hilton Garden Inn.

What must also be taken into account is the fact that we do not know how many of the 49 hotels will ever be completed in the foreseeable future. Midscale hotels will still be able to provide superior returns to owners for a number of years as rates are going to remain high until sufficient supply is brought into operation in the market,

Participants at the HPA conference in Lagos

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remembering that demand is still growing and to open a hotel in Nigeria takes much longer than anywhere else. Owners are building expensive hotels as upper scale properties, whereas they could be building a midscale property for far less but still receiving a relatively high average rate thus making returns better. Many owners are building on emotion and not on pure economic terms.

MH: Characteristic of frontier markets, securing funding for projects in a number of sub Saharan African countries can be very difficult. That is why HPA held the Hospitality Lending Conference 2013, HPA's flagship conference, to look at the whole spectrum of project financing in the hospitality industry. Were there agreements on action plans that can improve funding for the sector?

HPA: The Hospitality Lending Conference was a first step in starting a more serious dialogue with the funding community as well as to assist in educating the industry into the intricacies of hotel funding and the whole development phase too. Funding is very difficult, and the support of the banking and larger funding community is vital to the expansion of the hospitality industry. The structure of the deals is crucial and needs to be right from the outset otherwise there would be problems even before development starts. What is also important is that the owners must look at their strategies and how long they intend to own the property. If they are going to sell, they need to start with an exit strategy from the beginning so that the asset can be managed to optimize the returns on exit.

MH: Hotel Partners Africa is a collaboration of a group of leading hospitality consultants. By leveraging its expertise, how does HPA proactively connect fund managers, developers, hotel chains and other key players in the provision of turn-key hotel solutions?

HPA: All the partners in Hotel Partners Africa have extensive experience in Africa and have built up their own reputation and networks over many years, both in Africa and in the rest of the world. But the continuous communication with all these groups of people and being present and networking at the many hospitality events in Africa is important to maintain these relationships. While working on an ad hoc basis previously, the coming together of the partners in HPA has been a tremendous success and our strength in the industry as a combined unit has already borne fruit. We already have a significant presence and reputation in Africa, while investors and developers from other continents are also approaching us now where previously they were looking at the better known international consultants.