

ROOM TO KEEP ON BUILDING



As hotel investment and demand slows in line with the downturn, **Trevor Ward** urges a longer term investment play despite excess supply

Having enjoyed several years of growth, the worldwide hotel industry is now experiencing a significant downturn, along with every other industry. Forecasts from PricewaterhouseCoopers suggest an 8% decline in both occupancies and prices in the USA in 2009, resulting in a reduction in yield of 16%. A decline of 12% is forecast for the UK in the same period. Some commentators say that all regions of the world will experience similar double-digit declines in performance this year. There are no data available for Africa, but we know that no one is immune from the global recession. And we also know, as reported in this column previously, that many markets in Africa are currently witnessing a building boom, so while demand is decreasing, supply is increasing – a double-whammy, some would say.

Different downturns

In Nigeria, we not only have our own banking crisis, caused by irresponsible lending, but also the downturn in the global economy has brought a reduction in demand for oil, the country's main export, and therefore demand for hotel accommodation from these two sectors (banking and the oil industry) is down some 20% on last year in central Lagos. Interestingly, however, this downturn is not uniform across the country – Ikeja, in the north of Lagos State, and the capital Abuja, are both experiencing high volumes of demand, with occupancies in the former regularly exceeding 90% on a monthly basis. And Calabar, in Cross River State, is also doing well, because the government has a clear focus on expanding the tourism industry in "the Nation's Paradise".

Elsewhere in Africa, Accra's hotel industry remains extremely strong, buoyed by the nascent oil industry, and the international attention following President Obama's visit. Luanda still presents problems to anyone wanting a hotel room, and Harare's hotel occupancies are edging higher, as investors seek more opportunities there.

The pig and the python

I foresee challenges for the industry ahead, as new hotels finally come on stream – 2010 openings include the Four Points by Sheraton and Radisson Blu in Lagos, the Marriott in Accra, and the Sana in Luanda. While growth in demand tends to be gradual, growth in supply is a one-off hit – a little bit like the pig swallowed


by the python, causing indigestion and an abnormal situation at first, but then slowly being absorbed until equilibrium is once again restored. Occupancies are likely to be lowered once new supply enters these markets, and there could also be pressure to lower prices. Although that is not inevitable, it is certainly undesirable for hotel owners with loans to service.

Investors must only invest for the long-term – build in periods of flat or declining demand into your forecasts, to see what impact that has on future debt service obligations. You will always lose

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market share to a new entrant to the market, at least in the early days of it being open, because of the curiosity factor, and the offer of introductory rates. How long that loss of business will last is down to management, the ability to win back lost clients, and attract new business.

Say no to ego

Investors must also seek their niche. More often down to ego than economics, entrepreneurs in emerging markets tend typically to want to build luxury hotels in the first instance, "gouging" the market of any acceptable alternative in times of short supply. That provides opportunities to fill in the gaps between the top of the market and the older, outdated stock, which has little or no future in a modern economy. Accor and Rezidor are leading the way in sub-Saharan Africa, the former with their Novotel and Ibis brands, and Rezidor with Park Inn. Others are following, as Hilton starts to introduce their Doubletree and Garden Inn products, and Holiday Inn Express makes a comeback in South Africa. Besides, new hotels are long-term projects, with a minimum of three years from inception to opening. By the time a new build opens, demand should be back to trend. 

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