

HOSPITALITY MARKET SNAPSHOT

# Nairobi & Its Suburbs June 2016



Hospitality & Tourism Industry Specialists



Kenya

■ Nairobi

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## Economic Overview

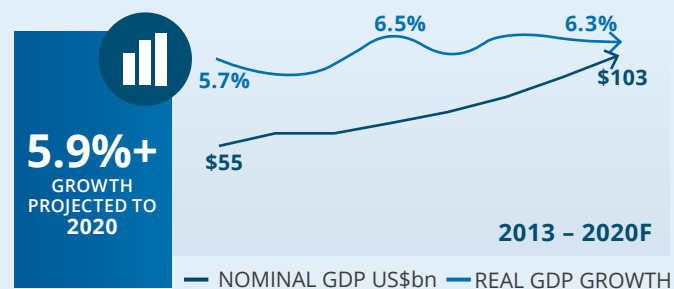
Kenya remains one of the strongest economies in East Africa despite the challenges faced in recent years. The deteriorating security situation in the country has slowed growth to an extent, notably within the tourism economy.

Although terror threats persist, investor confidence in the market is once again evident given higher GDP growth in 2015 and the projected growth of 6.5% for 2016. Lower oil prices, a return to growth in tourist arrivals, infrastructure development opportunities, a relatively stable currency and low inflation are expected to positively influence the economy in 2016.

The elections planned for August 2017 are expected to dampen the short term outlook. The medium to long term view for Kenya is however positive. BMI Research has identified Kenya as one of the ten emerging markets of the future provided political stability continues. The presence of oil in the country (production is anticipated in 2020), a significant pipeline of renewable energy projects and greater trade opportunities, through the completion of the Lamu Port South Sudan Ethiopia Transport corridor, are key factors that position the country favourably for investors.

As the political and economic capital and gateway to the country Nairobi will be a primary beneficiary of existing and future economic opportunities. This will have a positive knock-on effect for the hotel sector which has struggled to recover from continued increases in supply and the demand contraction that resulted from the 2013 and 2014 terror attacks.

### NOMINAL GDP & REAL GDP GROWTH



Source: BMI Research

### KEY ECONOMIC INDICATORS



#### INFLATION (Y-O-Y AVERAGE) %

5.7	6.9	6.6	7.2	6.8	7.0	7.0	7.0
▼	▲	▼	▲	▼	▲	▲	▲



#### LENDING RATE (PA) %

16.6	15.5	15.5	14.5	12.9	11.5	11.1	11.1
▼	▼	▼	▼	▼	▼	▼	▼



#### EXCHANGE RATE AVE (KES/USD)

86.1	87.9	98.2	101.6	103.3	105.5	106.9	106.4
▲	▲	▲	▲	▲	▲	▲	▼



#### FDI (USD MN)

3 390	4 440	5 877
▲	▲	▲



#### TOTAL TOURISM ARRIVALS GROWTH (%)

-11.7	-21.0	-2.7	4.1	5.6	6.4	7.6	8.9
▼	▼	▲	▲	▲	▲	▲	▲

2013 2014 2015 2016F 2017F 2018F 2019F 2020F

Source: BMI Research



# NAIROBI

## Current Quality Room Supply

Nairobi's hotel market is mature with an estimated 4,800 quality rooms. Approximately 80% of supply is concentrated in Upper Hill, Westlands and the CBD. In 2008 a growth cycle of investment occurred as the CBD began its expansion to areas such as Upper Hill and Westlands. Room supply is estimated to have increased by 70%+ over a seven year period. Of the new supply 59% were international brands including Best Western, Sarovar, Kempinski, Radisson Blu and Crowne Plaza. These properties compliment an already strong brand base including Hilton, Intercontinental and Fairmont (Accor).

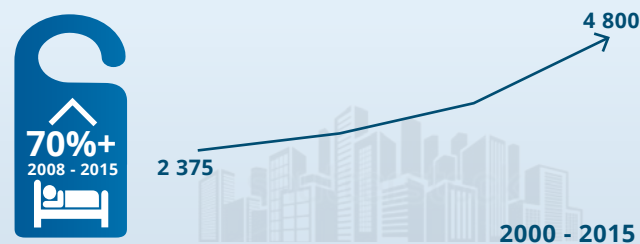
## Future Room Supply

Approximately 3,000 rooms are planned for Nairobi. Of the new supply planned, 44% is for Westlands, 22% for Upper Hill and the remainder for the airport and Gigiri areas. This excludes recent openings such as the Tune Hotel (280 rooms) and Golden Tulip (90 rooms). Of the rooms planned 45% are under construction and 6% are in the advanced planning stages. Properties under construction will enhance brand penetration as new brands will include Mövenpick, Park Inn by Radisson, Pullman, Sarovar, JW Marriott, Four Points by Sheraton, Hilton Garden Inn and City Lodge. A further 49% of properties are in the early planning stages. Given the increasingly competitive environment, it is questionable as to how many of these will be realised.

## Market Performance & Outlook

STR reported occupancy and ADR for Nairobi at 68.8% and USD 152 in 2011. Increases in supply combined with a contraction in demand (terror attacks, Ebola) has seen occupancy reduce to 55% in 2015. Whilst ADR has declined to USD 143 in the same year, the decline is limited considering the challenges in the market. Future supply planned will continue to place pressure on performance in the short term. The rate at which leisure and business tourism recovers will determine the pace at which new supply is absorbed. The expected return of tourism growth along with potential future growth in high yielding sectors will ensure a positive long term outlook for the hotel market.

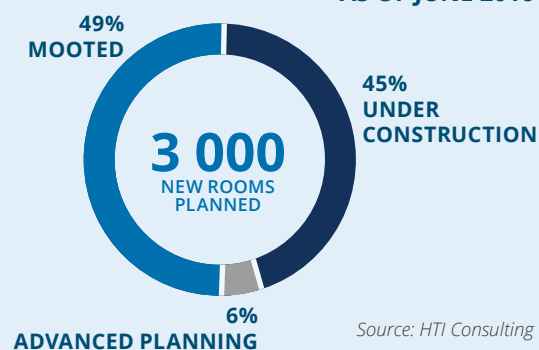
### INCREASE IN QUALITY ROOM SUPPLY



Source: HTI Consulting

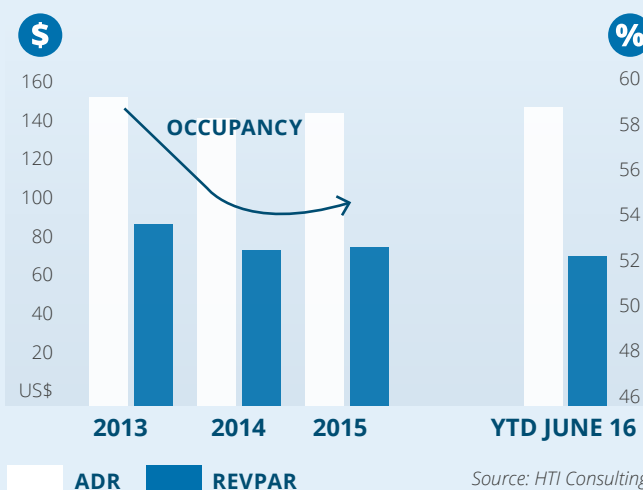
### PLANNED HOTEL DEVELOPMENTS

AS OF JUNE 2016



Source: HTI Consulting

### MARKET PERFORMANCE



Source: HTI Consulting

# NAIROBI - CBD & SURROUNDS

## Current Quality Room Supply

The CBD node of Nairobi includes internationally branded properties such as the Intercontinental, Hilton, Fairmont (Accor) and Serena, amongst others. Investment in the CBD has been limited since 2005 and HTI Consulting are not aware of any new quality, international standard hotel entrants. Currently there are an estimated 1,800 rooms in the CBD of which approximately 1,200 represent international standards of quality. Most supply assessed is concentrated at the upper end of the market.

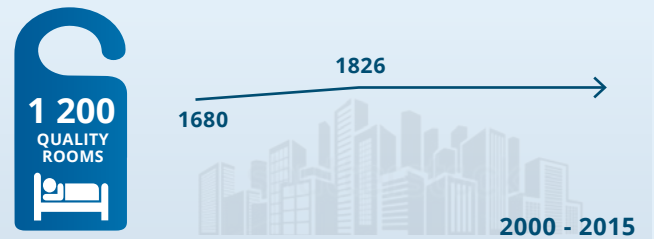
## Future Room Supply

HTI Consulting are not aware of any internationally branded supply entering the CBD node in the short to medium term. The decentralisation of the CBD has seen new corporate investment occurring in areas such as Westlands and Upperhill. These new commercial nodes and their surrounding areas are the primary beneficiaries of new hotel supply.

## Market Performance & Outlook

The CBD node of Nairobi is under performing when compared to the city as a whole. Both occupancy (50%-56%) and ADR (USD 132 – 148) have been consistently below the Nairobi market average between 2013 and YTD June 2016. All nodes in Nairobi have experienced a dampened performance, however, levels of demand for the CBD as a whole appear to be declining as key corporates relocate. In addition, international conference related demand, on which many CBD properties rely, has weakened in line with Kenya's deteriorating security situation. Finally, the CBD is an established area with a greater amount of supply and a greater proportion of older out-dated hotels. The CBD is not viewed as a priority investment node in the medium term.

### INCREASE IN QUALITY ROOM SUPPLY



Source: HTI Consulting

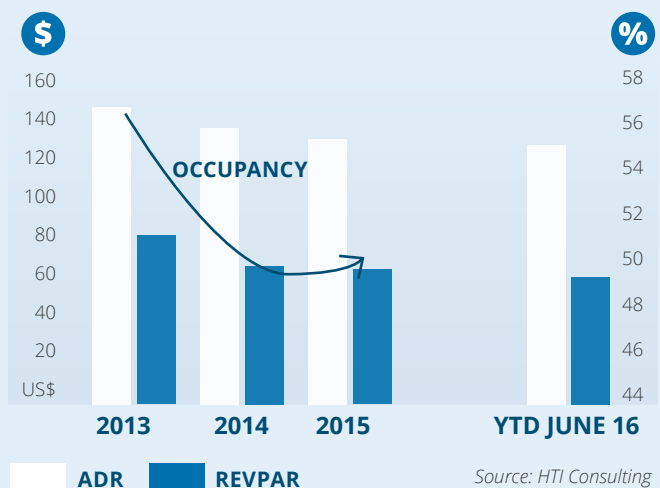
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AS OF JUNE 2016



Source: HTI Consulting

### MARKET PERFORMANCE





# NAIROBI – WESTLANDS & SURROUNDS

## Current Quality Room Supply

The Westlands area has an estimated 900 quality rooms, excluding the recently opened Tune Hotel (280 rooms) and the Golden Tulip (94 rooms). Supply in the luxury and upper upscale sector makes up 40% of rooms. The repositioning of Westlands as a corporate hub has seen room supply increase by 67% over 10 years. Key brands that have penetrated this market include Kempinski, Sarovar, Southern Sun, Dusit Thani and the aforementioned, Tune and Golden Tulip.

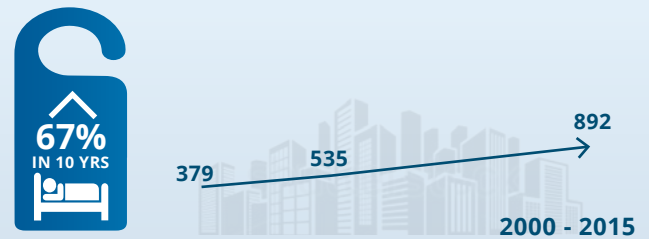
## Future Room Supply

Of the almost 1,300 rooms planned in Westlands, 87% are under construction whilst the remainder are in the early planning phases (mooted). Supply under construction will see key international brands enter the market including Pullman, JW Marriott, Park Inn and Mövenpick. Much of the supply planned is concentrated in the upscale and upper upscale segments. Only two internationally branded properties, the Park Inn by Radisson and the recently opened Tune Hotel, will cater to the midscale segments.

## Market Performance & Outlook

Westlands is the strongest performer of the nodes assessed, achieving the highest RevPAR between 2013 and YTD 2016. The predominance of higher end hotels drives a higher ADR supporting RevPAR performance. Occupancy declined between 2013 (63%) and 2014 (57%) as terror attacks and Ebola reduced tourism arrivals. New supply in 2015 and 2016 did not however, impact occupancy which remained at 57% over the period. A slight dip in ADR occurred in 2014, however rates have also remained relatively stagnant at USD 186 – USD 195. The market has been relatively resilient despite new supply and contracted demand. As business and leisure tourism to Nairobi recovers, Westlands is likely to see performance growth. Future supply will dampen the short term outlook, particularly at the higher end of the market. Westlands is however likely to remain the strongest hospitality node in the medium term as its role as a commercial node expands.

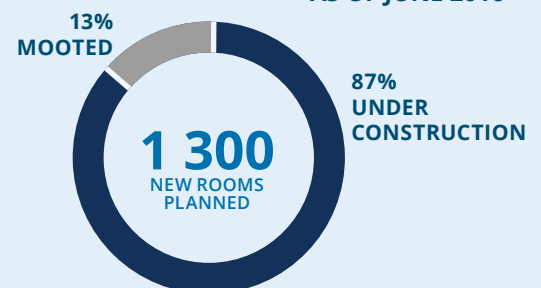
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Source: HTI Consulting

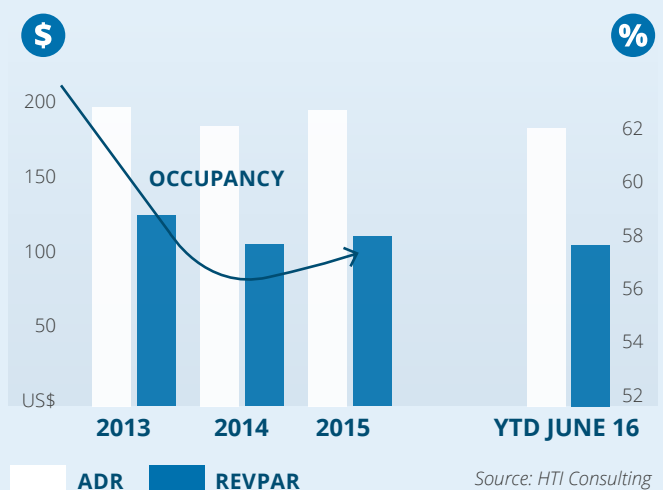
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Source: HTI Consulting

### MARKET PERFORMANCE



Source: HTI Consulting

# NAIROBI – UPPER HILL & SURROUNDS

## Current Quality Room Supply

Upper Hill has approximately 1,100 quality hotel rooms of which 72% is in the upscale and midscale sector. Supply has increased by 100% over the last five years as Upper Hill is increasingly positioned as a commercial node. Early supply was largely owner managed, however new supply has been driven by international brands which has included Crowne Plaza, Radisson Blu, Sarovar and Best Western Premier. Two existing properties were rebranded to the City Lodge and Town Lodge brands in 2014.

## Future Room Supply

When compared to Westlands the pipeline for development in Upper Hill is small with a total of 665 internationally branded rooms planned. Brands include a Novotel and Ibis as well as a Hilton branded property. All properties are in the early planning stages.

## Market Performance & Outlook

Occupancy (61% - 62%) and ADR (USD 107 to USD 117) in Upper Hill has increased marginally between 2014 and 2015. Rates are lower when compared to Westlands due to the higher concentration of midscale and upscale properties. Limited supply entered the market between 2013 and 2015 which promoted more stable market conditions. The entry of the Radisson Blu towards the end of 2015 is likely to impact the 2016 performance. YTD June occupancy was positioned at 48%. ADR has however increased to USD 132 given the entry of an upper upscale property into the market. Considering the small pipeline and the likelihood of a recovery in business and leisure tourism from 2016 onwards, the outlook for Upper Hill is positive, particularly as it has yet to maximise its role as a commercial node.

### INCREASE IN QUALITY ROOM SUPPLY



Source: HTI Consulting

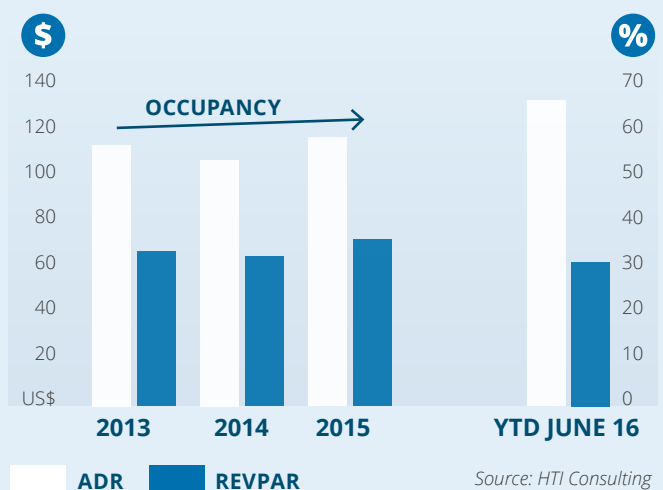
### PLANNED HOTEL DEVELOPMENTS

AS OF JUNE 2016



Source: HTI Consulting

### MARKET PERFORMANCE



Source: HTI Consulting

# About the Authors

Hospitality and Tourism International Consulting "HTI Consulting" is a niche, specialist hospitality, mixed-use, real estate and leisure focused consulting company formed in 2003. To-date more than 350 assignments have been completed covering 37 countries in Africa and the Middle East. Our services include:

- Market & Financial Feasibility Studies
- Asset Management
- Operator Selection & Management Contract Negotiation
- Valuations
- Due Diligence
- Brokerage
- Finance Raising

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

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

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