



Horwath HTL™

Hotel, Tourism and Leisure

MARKET REPORT

Cape Verde

FEBRUARY 2018



Cape Verde Data Profile - 2016

Size (Sq Km)	4,000
Population (thousand)	539.56
Demographic growth (%)	1.24%
Urban area > 100 thousand	150,000 (Praia)
Last presidential elections	2016
Next presidential elections	2021

Source: IMF and World Bank

Cape Verde is an archipelago of 10 islands located along the western coast of the African continent.

It enjoys a particularly advantageous geography as it is located at the crossroads of Europe, Africa and South America being only about 1 hour from Dakar, about 4 hours from Fortaleza in Brazil and Lisbon.

Cape Verde Archipelago



Source: Horwath HTL



Political & Economic Environment

Cape Verde is a democratic and parliamentary republic, recognized as one of the most stable governments in Africa and as a model in terms of governance. In the last 25 years, the two main parties (the PAICV and the MpD) have been regularly alternating mandates through free and general elections.

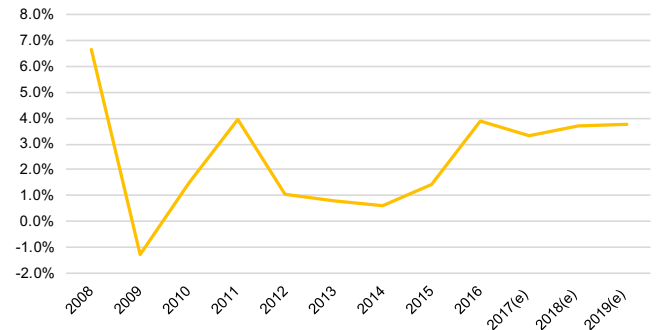
In 2016, President Jorge Carlos of the Movimento Para Democracia, secured a second term in the presidential election, reaffirming his focus on reducing the public debt, attracting new FDI, developing the private sector and improving the overall business environment through the new National Development Plan 2017-2022.

On the macroeconomic level, Cape Verde is considered as a middle-income country, successfully managing its economic transition. Despite its limited natural resources, its economy has been steadily growing over the past 10 years with a GDP of \$1.62 billion in 2016. After experiencing low growth due to the impact of the global financial crisis, the economy recovered to about 4% in 2016 and is expected to continue along the same trajectory in 2017, 2018 and 2019, with GDP growth rates estimated at 3.3%, 3.7% and 3.7%, respectively.

In 2016, the GDP structure was divided among agriculture and fishing (7%), industry and construction (17%) and services (76%). Economic growth is propelled by the services sector, tourism being the main driver and contributing to 45% of the national GDP.

The inflation rate is controlled by the government and forecasts predict a trend at 2.1% for 2020.

Evolution of GDP growth rates: 2008 - 2019



Source: World Bank, 2017

The World Bank's Doing Business 2017 report ranks Cape Verde 129th among 190 economies on the ease of doing business, with financing, taxation and bureaucracy as the main constraints affecting business.

The country's main economic difficulties remain its constant trade deficit and its dependence to European countries due to its poor natural resource base. The country thus greatly relies on imports for food, fuel and machinery which renders it vulnerable to external shocks. The economy is also characterized by high unemployment rates, low economic diversification and rising public debt, further explaining the country's external dependency and its reliance on development aid and remittances.

Tourism

Tourism has been the country's growth engine, contributing to about 45% of GDP in 2016. The 10 Cape Verdean islands offer an ideal yearly climate, with 350 days of sunshine, a 1,020 km long coastal line and mountain sceneries, positioning the country as an attractive leisure destination with diversified ranges of offered activities.

Cape Verde has four international airports in Praia, the country's capital, Boa Vista, Sal and São Vicente. The country's airport traffic has steadily increased in the last ten years despite external factors such as the Ebola crisis and the global financial crisis. In 2016, the country received over 598,000 tourists, representing an increase of 15% compared to 2015. By 2020, the government predicts that more than 1 million tourists will visit the archipelago.

At this stage, tourism has mainly relied on the "sun & beach" model, concentrated in two islands, Sal and Boa Vista, which account for 75% of hotel overnights in 2016.

To date, the tourism sector has been dominated by international tour operators (TUI, Thomas Cook and Thomson) and local independent players. Tour operators propose all-inclusive destinations with packages often including air fare, room fare as well as board fare, permitting them to apply competitive prices and rely on economies of scale to create value.

In addition, business tourism is growing in Praia and individual leisure tourism in the other Cape Verdean islands such as Sao Vicente, Santo Antao and Fogo, which are increasingly attracting tourists thanks to their cultural and eco-touristic options.

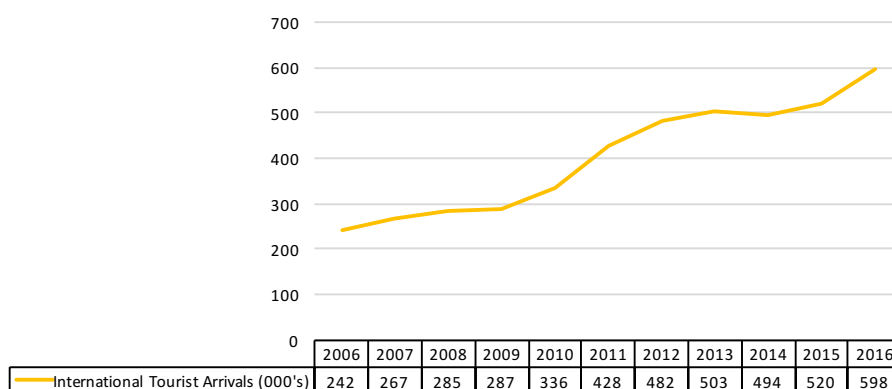


Today, circulation between the country's islands is facilitated thanks to international and national airlines: Binter Canarias and TACV. Regular maritime connections between islands are not yet proposed in Cape Verde due to the high petrol prices and strong sea currents. However, Cabo Verde Fast Ferry is planning on providing connections between the archipelago's most frequented islands in the midst of 2018.

Water supply, electricity distribution, internet connection and road networks remain the major constraints for further development of the sector. As a result, the Cape Verdean Government has recently dedicated significant funds and efforts in an attempt to further stimulate its development and has launched an ambitious construction program of transportation networks as well as an attractive investment incentive program for tourism investors.

The country wishes to develop a higher-value tourism and plans on branding the archipelago as a global destination, composed of multiple islands with diverse offerings under the "one country, ten islands" umbrella brand.

International Tourist Arrivals: 2006 - 2016



Source: UNWTO, 2017

Hotel Market



Source: Hotel Riu Funana

Hotel Facts & Figures

Number of hotel units	233
Number of hotel rooms	11,435
Number of hotel beds	18,382

The Cape Verdean tourism industry is one of the country's fast-growing sectors. The country has experienced a boom in hotel construction in the last decade.

From 2010 to 2016 the number of rooms in the country rose by 94% (from 5,891 to 11,435 rooms). This has led to an increase in interest from leading international operators (TUI, Thomas Cook, Look Voyages, Solférias, etc.) who have gradually programmed the archipelago as a top leisure destination, thus generating substantial arrivals by charter flights.

The majority of hotel supply has been developed on Sal, concentrating 46% of hotel room supply, and on Boa Vista, representing 27% of hotel room supply.

Large foreign-owned hotel complexes and mixed-use resorts have been built to cater to the needs of the rising demand and have been mainly marketed through all-inclusive packages.

The only international brands currently operating in the country are Riu Hotels & Resorts, Melià Hotels, Iberostar and Pestana Hotels, the market is however still in a structuring phase and supply is anticipated to further increase and diversify within the next years.

The remaining room supply is located on Santiago island, in Praia (10%), as well as on the islands of Sao Vicente (7%), Santo Antao (4%) and Fogo (2%). It is mostly dominated by independent units with limited capacity providing unequal level of services.

Hotel Performances



Source: Meliá Dunas

In 2016, as per market data, the country's average occupancy reached 55%, of which the main destinations presented the following average occupancy rates:

Sal	58%
Boa Vista	82%
Santiago	20%
Sao Vicente	23%
Santo Antao	20%
Fogo	13%

The country's average occupancy slightly increased compared to 2015, thanks to the destination's increasing popularity, and is expected to slightly increase again in 2017.

ADRs of qualitative hotel units in Cape Verde vary for each island destination and depend on unit types, categories and location. In the main destinations of Boa Vista, Sal and Praia, the ADRs stand at about 100 € (excluding taxes). It should be noted that these rates remain low because of important discounts practiced by tour operators and aggressive prices offered during the low season.

Hotel demand predominantly originates from Europe, representing 77% of international arrivals. The main European clientele originates from the United Kingdom, Germany, Portugal, France, the Netherlands and Spain, which is consistent with the profile of tour operators present in the destination.

This international tour operator driven market is thus characterized by low priced packages and regular charter flights, and notably in Sal and Boa Vista.



Source: Hotel Riu Funana

Projects

Recent openings in the country include the renovation and reopening of two all-inclusive units under RIU Hotels & Resorts branding in 2016: the 500-room Riu Palace Cabo Verde and the 572-room Club Hotel Riu Funana, both located in Santa Maria, on the island of Sal. Eleven hotels and 3,478 guestrooms have been officially declared to be in the Cape Verdean pipeline in 2017.

Hotel development in Cape Verde is mainly concentrated in Santiago, Sal and Boa Vista with the prominence of the Resort Group which is developing multiple international brands: Hilton, Melià and Steigenberger. The international tour operator TUI is also building a hotel under the RIU brand in Boa Vista, as well as the Spanish operator Barcelo.

A 600-room New Horizons resort is also being built in Sal, and is planned to be managed under Thomas Cook brands. A 240-room Radisson Blu Beach resort has been announced in Sal. Finally, Macau Legend Development Limited has also announced the construction of a mixed-use complex including a hotel, a marina and a casino. It is estimated that about 80% of this additional supply positions as upscale all-inclusive resort units.



Prospects

Short term hotel development opportunities in Cape Verde are today majorly located in Sal, Boa Vista and Praia. Sal and Boa Vista are expected to remain major leisure group destinations, however, clientele is due to further diversify with the evolution of MICE and individual leisure clients.

In the medium to long term, the Cape Verdean hotel market is predicted to become increasingly structured around the following destinations which are all bound to present particular features:

- Taking into account the numerous resort and hotel development projects in Boa Vista, this island is expected to grow as a major leisure market for leisure groups as well as individual tourists, with the future establishment of non-all-inclusive resorts and the development of Boa Vista's leisure activities (turtle/ bird/whale watching, hiking, kite surfing, diving...). MICE clients are expected to be more sparsely represented on the island, even though opportunities for the opening of convention centers are not to be overlooked. This will be further aided by the awaited night opening of the island's airport.
- The island of Santiago is bipartite: on one side: the capital city, Praia, is expected to develop as an administrative and business hub, thus attracting a dominant corporate and MICE clientele, and on the other side: northern and central parts of Santiago island are expected to attract an individual leisure clientele motivated by increasing eco-tourism focused activities.
- Finally, the island of Sao Vicente, today known as the country's cultural capital, is expected to take advantage of this reputation in order to attract individual leisure clients interested at the same time by cultural, natural and beach tourism.

Thus, thanks to these development paths, the Cape Verdean government plans on receiving more than one million tourists by 2020. This will however greatly depend on the government's actions in terms of creating appropriate infrastructure (roads, electricity, running water, airline and boat connections...) and facilitating administrative procedures.

In addition, such demand is not achievable with the country's current supply in rooms, thus explaining the increasing interest of international investors, also motivated by the country's economic stability and growth.

Finally, reserves must be taken in terms of future hotel openings in the country as demand and infrastructure development must follow, and more notably in terms of increasing international airline connections as well as inter-island boat connections in the mid-term.

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Charlotte joined Horwath HTL in 2013 is in charge of business development in West and Central Africa and opened Horwath HTL's regional office in 2016, based in Abidjan.

Charlotte has specialized in Market and Feasibility studies for hotel development in the region, from the territorial analysis to the definition of the global concept and its operating conditions.

Her other business skills include Due Diligence services, Appraisals and Hospitality Strategy. She had the opportunity to work with a large panel of hotel industry actors, including international and regional investors, institutions, developers and operators and has a good understanding of every actor's challenges. Charlotte regularly participates to hotel industry publications such as Hotel Yearbook.



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Graduated from McGill University with a Major in International Management, Marion started her career in hospitality in the Revenue Management department of the Fairmont Hotel in Singapore.

She then gained strong financial and analytical skills as a finance and internal control assistant at Schneider Electric in Hong Kong.

Having joined Horwath HTL in 2015, Marion mainly works on hotel market and feasibility studies and hotel valuations in Central and Western Africa.



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