Nigeria's corporate travel boom

By Nick Hedley

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The Nigerian hotel market is experiencing a corporate travel boom and although a difficult market to operate in, it offers attractive opportunities for major operators, according to a report released by professional services firm PwC.

PwC's leader of hospitality and gaming Nikki Forster said last week that while SA's hotel groups were more upbeat about the outlook for the local industry, a cautious stance needed to be maintained about introducing new stock.

PwC projects that by 2017 average hotel occupancies in SA will have increased to 68.7% from 56.5% last year, while average room rates will have grown 5.4% compounded annually to R936 in 2017 from R718 last year.

There has been a steady improvement in occupancies and rates since 2011, when the industry was characterised by oversupply and weak demand.

Forster said while new developments were expected, SA was not likely to see "the excessive build of the past", and the industry needed to be cautious about where to add stock.

Nigeria has potential

North of SA's borders, the Nigerian market was "still operating below its potential" despite significant growth in room numbers. However, it was not an easy market to operate in. Some South African operators already have a presence in Nigeria, including the Protea Hotels Group, Tsogo Sun and Sun International.

PwC forecasts the number of available rooms in Nigeria will almost triple from 8,000 last year to 21,000 in 2017. Despite this, it expects occupancies to rise significantly and average room rates to continue climbing.

The chief executive of hospitality and property consultancy HTI Consulting, Wayne Troughton, said Nigeria was "a good long-term investment market" with opportunities in the three- and four-star hotel categories in particular.

An attractive aspect of the Nigerian market was that average room rates were second only to Angola in Africa only and this was driving top-line revenue and operating profit margins.

However, Troughton said the many hotels in the pipeline in Nigeria would likely not materialise as many had not been financially structured properly beforehand, and well-structured, experienced, professional teams had not been used on the projects, although this was changing.

Construction costs in tough market

A challenge in Nigeria was high construction costs and if supply did increase significantly, room rates would decline.

Coupled with high construction costs, this would make many projects less viable and many may be abandoned.

Troughton said that in the South African market, interest in developments had already started to pick up as a result of rising occupancies. Investors were "planning for three years' time" when occupancies would be at normal levels again.

Avior Research hotels and gaming analyst De Wet Schutte said Nigeria was "a rough market" to operate in and some SA hotel companies had decided not to pursue opportunities in the country.

"It's a rough market to get into if you are new to the region. Property developments are very tricky - it takes a long time to get things done and time is money," Schutte said.

He said global operators were leading the charge in Nigeria and were showing more interest than local groups. European operators had to look outside Europe for growth, while South African operators were working in an improving local environment.

"South African hotel groups are being very cautious about going into major African markets," he said. "There have been some developments but it certainly hasn't been a 'no holds barred' approach, which I think is the right thing," he added.

Source: Business Day via I-Net Bridge