



MAY 2012

NAIROBI, KENYA

# HOTEL MARKET SNAPSHOT

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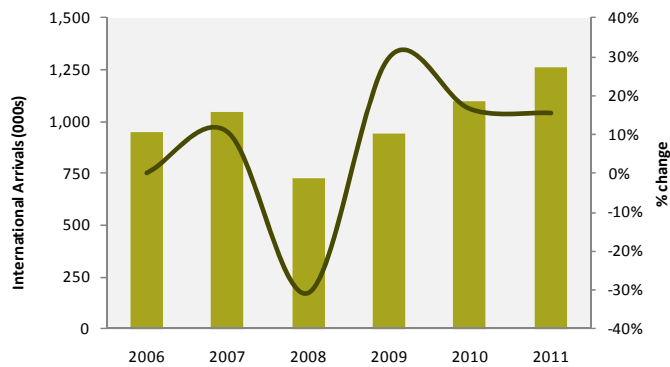


## Summary

Nairobi is one of the key markets in Sub-Saharan Africa. Home to Kenya Airways, one of only three, truly international African airlines, and a substantial UN base, it is seen by many as an important gateway to the region. This article discusses the Nairobi hotel market in terms of supply and demand. After analysing Nairobi's main tourism trends the article explores future hotel developments. Additionally, the article evaluates hotel performance between 2009 and 2011 before providing five-year forecasts of occupancy, average rate and revenue per available room (RevPAR).

## Demand

CHART 1: INTERNATIONAL ARRIVALS – NAIROBI



Source: Kenya Economic Survey 2011

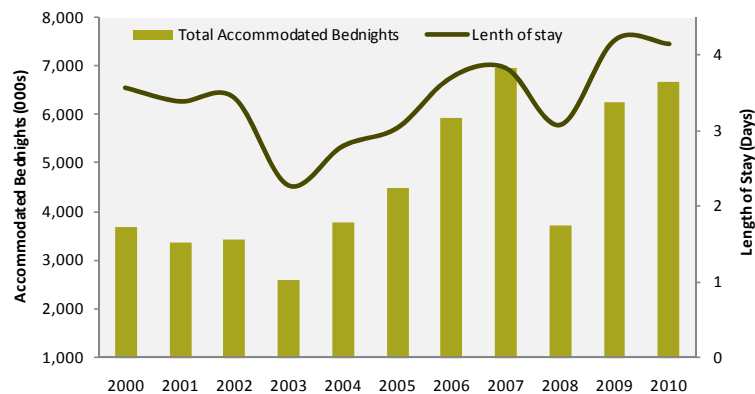
In Nairobi, total international arrivals have registered a compound annual growth rate (CAGR) of 5.9% in the period of 2006 to 2011. Arrivals declined a significant 31% in 2008 following the post-election violence in December 2007. As the country recovered from this, three consecutive years of recovery took place, and in 2011 total international arrivals stood at 1.26 million. Chart 1 shows total international arrivals from both Jomo Kenyatta International Airport and Moi

International Airport Mombasa. A new terminal is anticipated to open by the end of 2012 at Jomo Kenyatta International Airport as arrivals continue to grow.

The number of bednights saw a CAGR of 6.1% during the period of 2000 to 2010. Similar to arrivals, a significant increase of 69% was experienced in 2009 following the drop of 47% witnessed in 2008 following the post-election violence. Despite the remarkable increase, bednights failed to reach the peak levels seen before the post-election violence in 2009 and 2010, a likely result of the economic crisis. Figures for 2011 are currently unavailable but it is anticipated that bednights have continued to grow in line with tourist arrivals. Chart 2 shows international and domestic bednights combined; it is estimated that international demand accounts for approximately 80% of total bednights in Nairobi.

In terms of length of stay, it is interesting to note that the average number of nights spent in Nairobi has steadily increased over the last ten years with a CAGR of 1.5%. In 2010 the average length of stay was 4.14 nights compared to 3.56 in 2000.

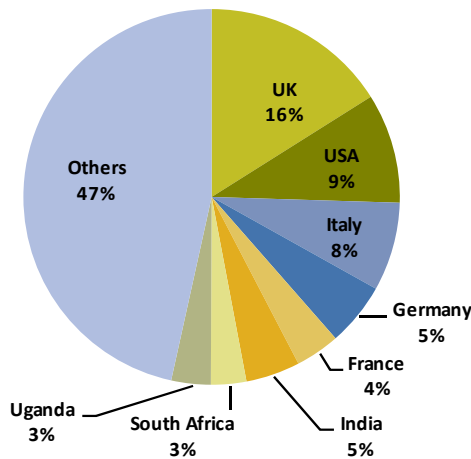
CHART 2: BEDNIGHTS AND AVERAGE LENGTH OF STAY – NAIROBI



Source: Kenya Economic Survey 2011

**CHART 3: MAIN SOURCE COUNTRIES 2011**

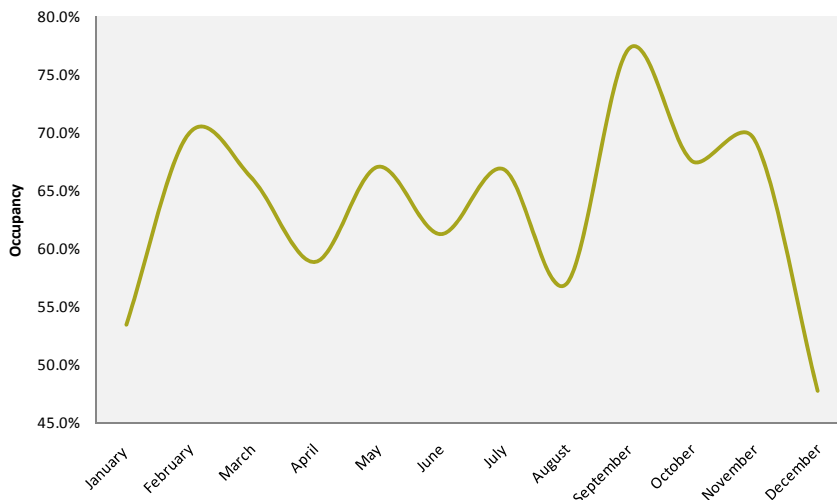
**2011**



Nairobi’s main source markets are the UK, the USA and Italy. Arrivals from these markets picked up significantly in 2011 by 17%, 11% and 10% respectively. Europe is the most important region accounting for 47% of total international arrivals in Nairobi. Despite this, arrivals from markets such as France and the Netherlands showed a decline compared to 2010. Arrivals from Asian markets are becoming increasingly important growing by 25% in 2011 compared with the previous year. In particular, arrivals from India and China grew by 24% and 31% respectively, due partly to large construction projects, such as roads, being undertaken by Chinese companies.

As illustrated in Chart 4, hotel occupancy falls to around 47-53% in December and January, when demand generated by both leisure and business diminishes. Seasonal fluctuations in occupancy are less intense in Nairobi than in other parts of the country, as Nairobi benefits from a more balanced and less leisure orientated business mix. Generally, Nairobi is a strong MICE destination with peak demand occurring from Tuesday to Thursday.

**CHART 4: SEASONALITY 2010**



Source : Kenya Economic Survey 2011

Conferences is one of the most rapidly growing subsectors in Nairobi, and indeed Kenya. After strong growth in the number of events and delegates from 2004 to 2007, the post-election violence resulted in a decline in the number of events and delegates in 2008. In 2010 the number of events stood at 2,783 with an estimated 413,995 delegates.

Leisure tourism has been impacted by the kidnappings which happen on the beaches of Kenya. These are covered heavily by the media and have resulted in several countries, including the UK and the USA, advising citizens not to visit certain parts of Kenya that are close to Somalia. On the other hand, Nairobi is able to generate demand from the many tourists staying for one night either before or after safaris in Kenya.

## Developments

Although detailed statistics are not available, the current total room count of the upscale Nairobi hotel market is estimated to be 5,000. This figure is rapidly growing, as the market has seen a significant amount of supply enter the market over the past few years. This supply has been welcomed, as many existing hotels in Nairobi are tired and in need of refurbishment. Recent additions to supply include 271 rooms opened in 2009, 421 rooms opened in 2010 and 70 rooms opened in 2011. New openings include the 162-room Crowne Plaza in Nairobi’s business district and the 156-room Sankara Hotel in Westlands; both hotels opened in 2010 to great acclaim and have proven popular and successful already. The development pipeline remains strong with a number of local and internationally branded properties set to enter the market over the next few years (see Chart 6).

CHART 6: HOTEL DEVELOPMENT PIPELINE

Future Openings	Category	Number of Rooms	Opening Date	Location	Status
14 Riverside Hotel	Boutique	98	Q3 2012	Riverside Drive, Westlands	Under Construction
Kempinski Nairobi	Upscale	200	Q4 2012	Westlands	Under Construction
Best Western Hurlingham	Midscale	96	Q4 2012	Hurlingham	Under Construction
Radisson Blu Hotel Nairobi	Luxury	244	2013	Upper Hill	Under Construction
Park Inn by Radisson Nairobi Westlands	Midscale	126	2014	Westlands	Under Construction
Leisure Park Hotel/Arboretum Park Hotel	Midscale	128	2014	Arboretum/State House	Under Construction
Serena Nairobi Expansion	Luxury	52	2014	Nairobi	Planning
<b>Total</b>		<b>944</b>			

Source: HVS Research

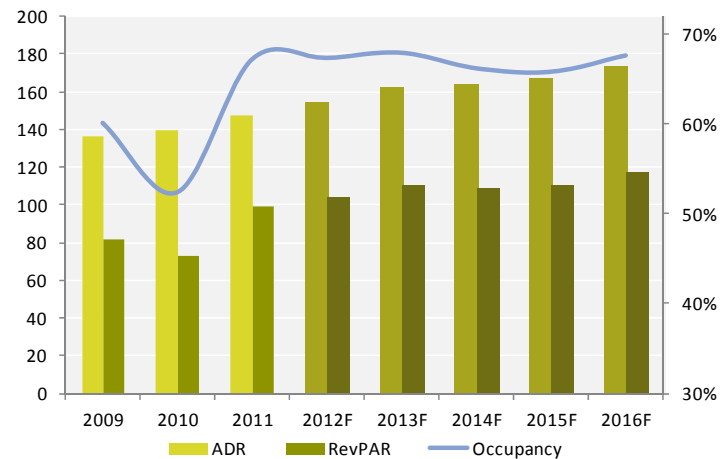
Several global hotel chains are expected to enter the market in the coming years as the number of tourists visiting Nairobi continues to grow, and the demand for accommodation and conferences therefore strengthens. Belgium-based Rezidor Hotel Group has announced plans for a 244-room **Radisson Blu Hotel Nairobi** which is scheduled to open in 2013 and a 126-room **Park Inn by Radisson Nairobi Westlands** which is expected to open mid-2014. In addition, the 96-room **Best Western Hurlingham** is scheduled to open by the end of 2012.

Furthermore, we are aware of more than 1,100 rooms which are scheduled to enter the market before 2014, including the 150-room Boma Hotel by Red Court, 172-room Eka Hotel and the 172-room Eastland Hotel. These independent properties are excluded from Chart 6 as they fall outside of the upscale market.

## Recent and Forecasted Hotel Performance

We have analysed occupancy and average rate performance between 2009 and 2011 for a sample of upscale hotels in Nairobi; our analysis takes into account the historical performance of a sample of approximately 2,000 rooms. The additions to the room inventory have been considered in our forecast, with a weighting of the rooms depending on their relevance to the upscale hotel market. On this basis, approximately 400 weighted proposed rooms have been accounted for in our analysis. These new rooms are expected to have a limited impact on occupancy levels and average rate growth for this competitive set. Chart 7 illustrates our research and conclusions.

CHART 7: HOTEL PERFORMANCE 2009-16



Hotel performance in Nairobi was impacted negatively in 2010 for a combination of reasons including the addition of the Sankara and Crowne Plaza hotels, and challenging economic conditions in its source markets. In 2011, as economic conditions improved and the market began to absorb new supply, a 28% increase in occupancy, and a 5% increase in average rate led to a significant increase of 35% in RevPAR.

Hotel performance is expected to improve steadily over the next two years, both in terms of occupancy and average rate, leading to further RevPAR recovery in 2012 and 2013. Following this, we anticipate small fluctuations in marketwide performance as a result of further new supply entering the market throughout the projection period (see Chart 6).

## Conclusion

Nairobi's significance as a transport hub and financial centre for the greater East African community is expected to support the growth of tourism over the medium term, spurred by the ongoing expansion of Jomo Kenyatta International Airport.

In addition, hotel performance trends have shown positive signs of recovery following the post-election violence and economic crisis. This upward spiral is likely to continue, albeit at a slower rate, as the city absorbs the numerous additions to supply anticipated to enter the market between now and 2014. The next elections are likely to be held in December 2012. The feeling in the country at present is that they will be peaceful. Providing the elections pass without negative media coverage, the growth and the importance of Nairobi should continue to increase.



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## About the Authors



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