



FEBRUARY 2014 | PRICE £200

IN FOCUS: LUANDA, ANGOLA

Luisa Pott
Associate

Sophie Perret
Director



Luanda – the city of contrasts – is Angola’s capital. Located on the Atlantic coast, the city is marked with severe poverty on one hand with its vast shanty towns, and great economic growth on the other. It is one of the most expensive cities to live in, in the world. When Angola’s civil war came to an end in 2002, following decades of war, the country’s economy opened up and started exploiting its vast natural resources, notably oil. This article provides an overview of the currently strong hotel market in Luanda and explores tourism development in the city.

Setting the Scene

Angola is bordered by Namibia to the south, the Democratic Republic of the Congo to the east and north, and by Zambia to the east. It had been an overseas territory of Portugal from the 16th century and only gained independence in 1975 after a protracted liberation war, followed by a civil war until 2002. In addition to the loss of human life, the conflict resulted in the displacement of millions of people and the destruction of much of the country’s infrastructure.

Angola is the second largest oil producer in Africa after Nigeria, with oil accounting for some 75% of government revenue. It is also the third largest economy. Since the peace settlement in 2002, the country has been experiencing a construction boom. It has further benefitted from billions of US dollars in credit primarily from China and European countries to rebuild its infrastructure.

According to the Economist Intelligence Unit, GDP is forecast to grow by approximately 6% annually until 2018. In addition to oil, the country is rich in diamonds and other natural resources such as iron, copper, gold

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Source: www.theguardian.com

ANGOLA



and phosphates. Manufacturers are benefitting from the dynamism in the oil sector and construction is booming throughout Luanda, with cranes visible throughout the skyline. Infrastructure redevelopment is taking place after most of it was destroyed during the war.

The country is, however, still riddled by high levels of corruption, ranking at 153 out of 177 countries according to Transparency International in 2013. The current president, José Eduardo dos Santos, has been in power since 1979, and having won the last election in 2012, will be for a further five-year period. There has been an increasing level of opposition against the current government and the authoritarian character of the regime.

Luanda is Angola’s largest city with a population of approximately 5.1 million (2011). It is the seat of government and administrative centre, as well as having the chief seaport. The city’s economy is mainly driven by the manufacturing of textiles and foods and petroleum refineries. Its port is a main gateway for exports (mainly coffee, cotton, sugar, diamonds and iron) as well as the many goods that need to be imported because they are not produced or manufactured locally. Most of the oil industry is in places offshore and in the northern Cabinda province.

Crucially, the ministry of tourism has put together a **tourism master plan** – *Plano Director do Turismo* – which includes guidelines such as attracting 4.5 million tourists by 2020, with improvements in nationwide infrastructure and the development of some 285 hotels. The tourism plan's primary focus lies on developing domestic tourism, then attracting visitors from the ADC countries, followed by Europe and international tourism. The aim is to position Angola as a destination for fun and excitement in Africa, leveraging on its heritage, pristine beaches and sports on offer.

Tourism revitalisation projects are currently happening in the northern Zaire province. The plan has further singled out certain areas that will receive special attention and development in nature tourism, cultural tourism and, sea and sun tourism development throughout the country, making Luanda an ideal starting point for safaris, and so forth.

Demand

Luanda is benefiting from the vast growth that Angola is currently experiencing. The city attracts business travellers and expatriates predominantly, most of which are working in the oil and oil service related industries. The city enjoys relatively good international connectivity with a number of domestic and international flights arriving at Quatro de Fevereiro Airport. A new airport – Angola International Airport – is currently under construction some 40 km to the southeast of the city centre and is designed for around 13 million passengers per year,

ANGOLA INTERNATIONAL AIRPORT

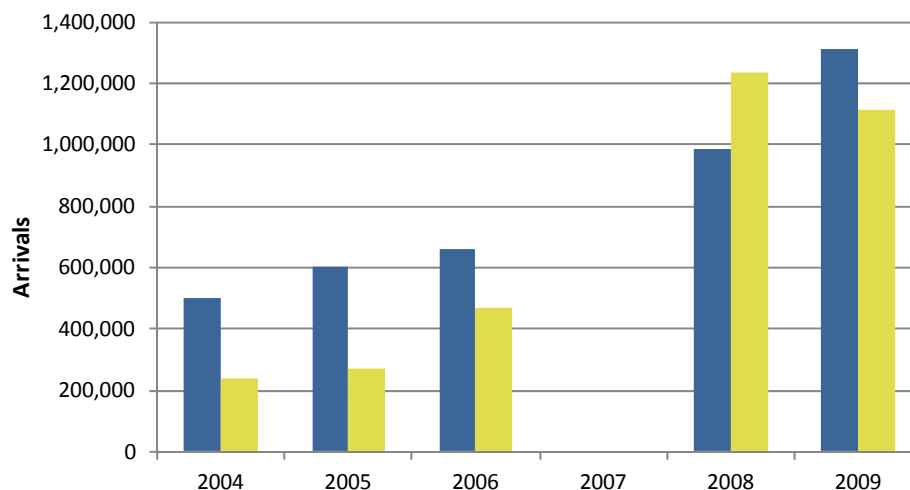


Source: www.chinainternationalfund.com

with two runways and cargo facilities. The total area of the airport will be approximately 50 km². Further developments are planned in the area, which include shopping areas, hangars, offices, restaurants and a hotel near the airport. The government would like to develop this airport into a local hub, similar to South Africa's O.R. Tambo Airport, with the view that total traffic at the airport could go over 10 million per annum.

Quatro de Fevereiro Airport is located within the city of Luanda. The airport has experienced strong growth between 2004 and 2009 as shown in Figure 1. No more recent data was available for our review other than anecdotal evidence suggesting around 2 million passengers in the first half of 2010. We have been unable to confirm this. The airport has seen an increase in domestic passenger movements over the last few years with the overall share increasing from 33% in 2004 to 46% in 2009, indicating the

FIGURE 1: ARRIVALS AT QUATRO DE FEVEREIRO AIRPORT



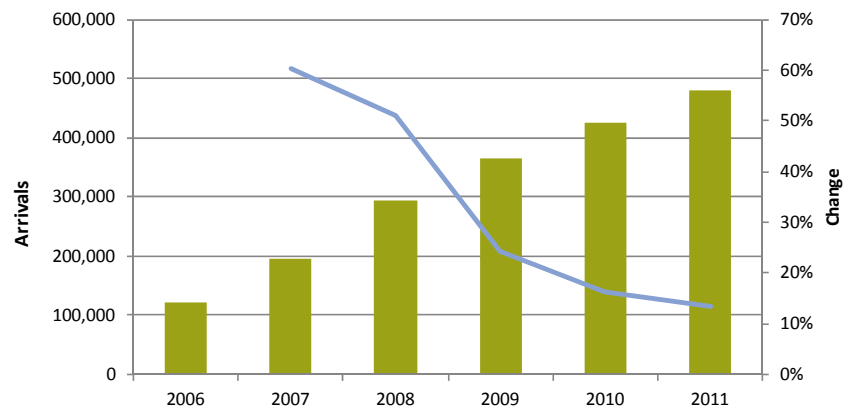
Source: Airport Council International ■ International ■ Domestic

importance of the improvements in the infrastructure developments and the rebuilding of the country. The airport already benefits from international flights from the major European airlines such as British Airways, Lufthansa, Iberia and Air France which offer direct flights to major European cities. We consider that with further infrastructure improvements and the new airport development the city is well set to attract an increasing number of business travellers, as the economy continues to prosper.

Albeit from a small base, visitation to Angola has seen notable increases with a compound annual growth rate of approximately 32% between 2006 and 2011 (we were unable to obtain more recent data). This is a further indicator of the country's booming economy. However, even Angola experienced a slowdown in growth in 2009 (though still an increase) owing to the worldwide economic crisis.

In 2011, Portugal and China were Angola's primary source markets, accounting for 18% and 14% of international visitor arrivals, respectively. Not surprisingly, Portugal is one of the main source countries owing to the colonial history and the link with Portuguese speaking countries such as Brazil. Other main source markets include Brazil (6%), the UK (7%) and France (4%). China is one of the biggest source markets, owing to the great involvement in projects and construction workers that are based in Angola.

FIGURE 2: VISITATION TO ANGOLA



Source: Ministerio da Hotelara e Turismo

We consider that the country will continue to benefit from further increases in visitation owing to the economic prosperity and the wealth in natural resources.

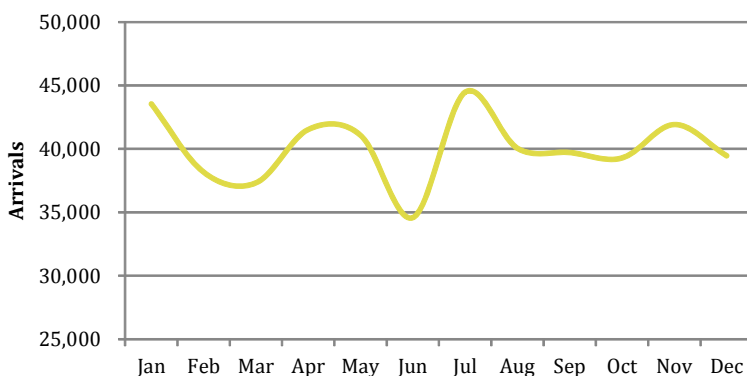
The country benefits from moderate seasonality in terms of arrivals, with demand being lowest during the holiday season starting in mid December to January when most of the expats travel home. Figure 3 shows seasonality in Angola.

Supply

Hotel supply in Luanda has seen a great increase in four- and five-star hotels since 2009. The 121-room HCTA Hotel, said to be Luanda's first five-star hotel, opened in 2009, followed by the 138-room Hotel Baia in 2011 and finally the 287-room Epic Sana hotel in 2012. However, none of the main international brands are yet present in Luanda and the market is still somewhat undersupplied with good quality international hotel products. This results in high occupancies and average rates, even more so given

that a large majority of room demand is generated by the oil industry which often books groups of rooms throughout to ensure availability for its employees. The market is characterised by local hotel operators, with only the Epic Sana representing an international brand. However, the city is becoming a much sought after market by the big international hotel firms which are all keen to expand in Africa and especially robust markets such as Luanda.

FIGURE 3: SEASONALITY ANGOLA 2011



Source: Ministerio da Hotelara e Turismo

Angola, however, still remains a place that is troubled by corruption and challenging for international investments. These are some of the difficulties faced by international operators keen to establish themselves in this market. We are aware of a few rumoured **hotel developments** including: the upscale, 450-room, Blue Diamond Hotel already under construction; the five-star, 370-room, VIP Grand Luanda; the four-star, 174-room, Diamond Hotel; and the five-star, 273-room, Pestana hotel, rumoured to be opening in 2017 in the Boavista neighbourhood which is part of a mixed-use development. We are further aware of another 500 rooms that are set to enter the market, but no confirmed details were available for review at this point.

We highlight that development costs in Angola are amongst the highest in Africa, and that the development of a hotel can take two or three times longer than the 2-3 year period that would be considered normal in other destinations. Due to both of these reasons, delays in construction make it challenging to accurately estimate expected opening times. However, we have included the above-mentioned projects in our future projections for the market, as presented below.

Historical and Forecast Hotel Performance

Luanda's hotel market has benefitted from the economic growth that has been occurring in the country since the end of the civil war. Until the newest hotels opened in 2009, the city was experiencing very

high occupancies and hence was able to yield very high rates, especially from the oil companies.

As shown in Figure 4, we forecast occupancy to be impacted by the new hotel developments that are poised to enter the market over the next few years. We have forecast lower occupancy than achieved in the past owing to the approximately 1,300 rooms entering the market over the next four years (as per estimated opening dates) and potentially having adverse effects on marketwide occupancies on the medium term. We expect overall occupancy levels, however, to remain high for this market in the long term, due to the strength of the economy. We consider that average rate could potentially be affected as well, due to the impact of current demand and supply dynamics on average rates. However, we note that some of these developments are still uncertain, hence, performance may alter depending on new supply.

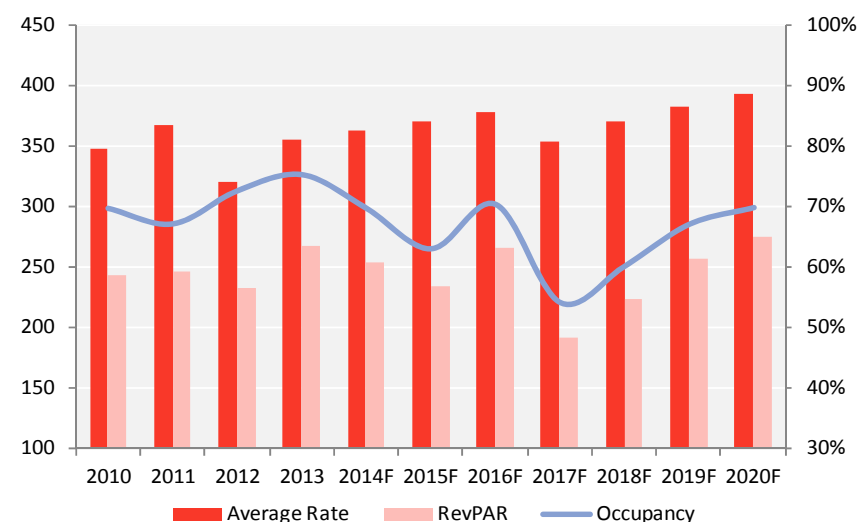
Conclusion

As one of Africa's fastest growing economies and having experienced double-figure economic growth, Angola is expected to continue to experience exponential growth on account of its vast quantities of natural resources and the reconstruction and redevelopment after the civil war.

Luanda benefits from a very strong corporate market and ever extending ancillary services to the oil industry. Currently, the market still lacks high-quality internationally branded hotel supply, although some projects are rumoured to be under development.

We also expect that should the proper infrastructure and measures be put in place, Angola should be able to develop leisure demand in the medium term, to capitalise on the vast natural areas that can attract tourism. This will translate into a positive outlook for Luanda in the medium to long term.

FIGURE 4: UPSCALE HOTEL PERFORMANCE 2009-13 ACTUAL AND 2014-20 FORECAST



Source: HVS London



About HVS

HVS is the world's leading consulting and services organisation focused on the hotel, mixed-use, shared ownership, gaming, and leisure industries. Established in 1980, the company performs 4,500+ assignments each year for hotel and real estate owners, operators, and developers worldwide. HVS principals are regarded as the leading experts in their respective regions of the globe. Through a network of more than 30 offices and 450 professionals, HVS provides an unparalleled range of complementary services for the hospitality industry. www.hvs.com

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About the Authors



Luisa Pott is an Associate in the London office of HVS. She joined the company in 2011 after completing her Bachelor of Science in International Hospitality Management at École hôtelière de Lausanne, Switzerland. Since joining HVS, Luisa has conducted various valuations and feasibility studies throughout Europe and Africa, and has written several market and industry related articles.

Tel: +44 (0) 20 7878 7758

lpott@hvs.com



Sophie Perret is a Director at the HVS London office. She joined HVS in 2003 following ten years' operational experience in the hospitality industry in South America and Europe. Originally from Buenos Aires, Argentina, Sophie holds a degree in Hotel Management from Ateneo de Estudios terciarios, and an MBA from IMHI (Essec Business School, France and Cornell University, USA). Since joining HVS, she has advised on hotel investment projects and related assignments throughout the EMEA region. Sophie is currently pursuing an MSc in Real Estate Investment and Finance at Reading University. She is responsible for the development of HVS' business in France and the French-speaking countries and also focuses on Africa.

Tel: +44 (0) 20 7878 7722

sperret@hvs.com