



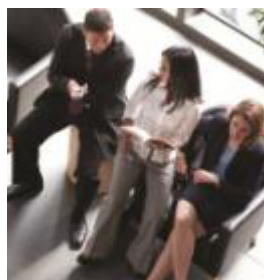
JUNE 2014 | PRICE £350

IN FOCUS: ABUJA AND LAGOS

HOT AND GETTING HOTTER

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Nigeria, known as 'the Giant of Africa', is the most populous country in Africa (with an estimated 175 million inhabitants in 2013) and the seventh most populous country in the world. Despite being faced with high-profile threats to economic and political stability, Nigeria is a genuine present-day 'land of opportunity', with a booming middle-class providing burgeoning demand and a queue of international companies looking to invest in the newly-crowned 'biggest economy in Africa'.

This article provides an overview of the buoyant hotel markets of Abuja and Lagos, and explores the underlying dynamics that impact hotel development and growth in each city and the country as a whole.

Setting the Scene

Nigeria has been a federal constitutional republic since 1963, comprising 36 states and the Federal Capital Territory, which is home to the capital, Abuja. Located in West Africa, Nigeria is bordered by Benin to the west, Niger to the north, Chad to the northeast and Cameroon to the east.

Nigeria holds elections every four years and has a large number of political parties. Goodluck Jonathan is the current president and leader of The People's Democratic Party, a party that previously held the majority of seats in parliament, but has broken apart and lost its majority as two factions vie for influence ahead of the 2015 poll. Nigeria's militant Islamist group Boko Haram continues to cause pockets of havoc in the north of the country; however, the Federal Government has accepted international assistance from other countries, including the USA, France and the UK, and is working to try and find a long-term solution to the threat posed by this group. The country has historically suffered from instability during election periods and the risks are intensified for 2015 by the increasing threat of Boko Haram.

From an economic perspective, Nigeria can point to many recent success stories. Most significantly, its GDP has been revised sharply upwards following a re-benchmarking by the National Bureau of Statistics. As a result, Nigeria overtook South Africa as Africa's biggest economy in early April 2014 and now ranks as the 26th largest economy in the world. The rebasing

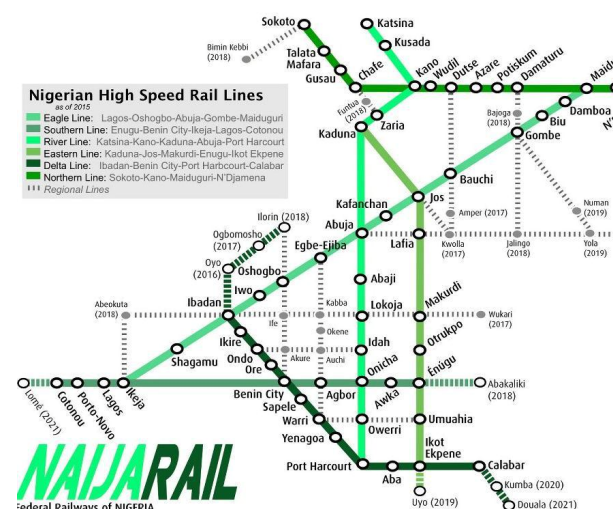
process revealed that the country's economy is now more diversified, and less oil-dependent, with sectors

NIGERIA



like telecommunications and manufacturing contributing proportionally larger amounts to growth than in the past. The World Travel Tourism Council (WTTTC) indicates the Nigerian travel and tourism sector was expected to grow by 13.5% in 2013 and is forecasted to average 6.2% annual growth until 2023, equivalent to 1.7% of GDP. Nigeria's long-term economic performance is expected to remain positive, supported by a large and young population – 40% of whom are under 15 – and driven by gradually rising oil and gas production and private-sector dynamism. Critical to future progress is the realisation of several high-profile infrastructure projects across the major cities, one of the most significant of which has recently begun. Nigeria's multibillion dollar national high-speed rail project will take 25 years to build, with key lines connecting cities such as Lagos, Kano, Kaduna, Warri, Bauchi, Abuja and Harcourt.

PROPOSED NATIONAL RAIL NETWORK



Source: www.industrytap.com

This article focuses on Nigeria's two main cities, **Abuja** and **Lagos**. Abuja, the capital city, is the political hub of the country. The movement of government agencies and international embassies helped to accelerate the initial development of the city and is now being furthered by the continuous stream of many other domestic and international headquarters. Lagos, the commercial capital, is the face of modern Africa and the country's chief port. This city is an enthralling cocktail of traditional cultures, colonial heritage, skyscrapers, shopping centres and beaches, and is famous for its nightlife.

Abuja Overview

Abuja, Nigeria's capital, is in the centre of the country within the Federal Capital Territory. It has an estimated population of about 1.4 million (2006 Census) and a surface area of about 8,000 km².

The initial decision to make Abuja the new capital of Nigeria was made in 1976. The move from the former capital Lagos was necessitated by political pressure due to ethnic division. Owing to its centrality within the country, the ethnic and religious neutrality of the territory and the availability of natural resources such as water and land for expansion, Abuja was chosen from a list of 34 towns that were possible capital city candidates. The region benefits from a fairly constant climate throughout the year. The relocation of the capital took place 15 years after the initial decision and Abuja started officially operating as the new capital in 1991.

The city is the headquarters of the Economic Community of West African States (ECOWAS) and the regional headquarters of OPEC. More than 40 embassies and some 14 consulates are based in the city. Abuja and the Federal Capital Territory have

PROPOSED ABUJA METRO COMPLEX



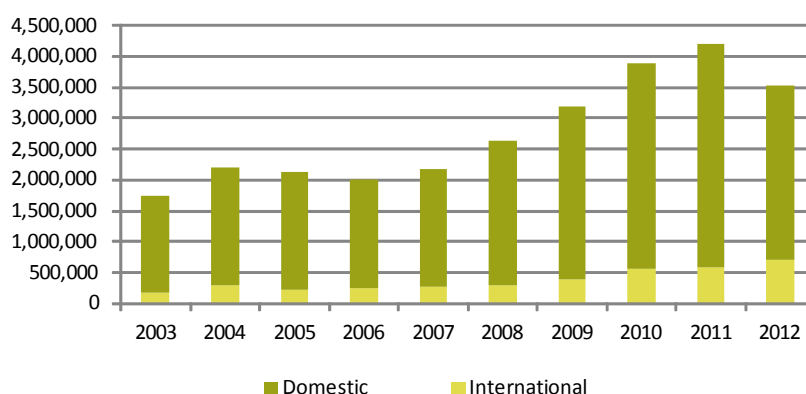
Source: www.industrytap.com

experienced huge population growth; it has been reported that some areas around Abuja have been growing at 20% to 30% per year.

Abuja hosts a number of annually occurring festivals and conferences, such as the Upstream & Downstream Oil and Gas Exhibition and Conference; the Annual Electricity, Steel, Modern Homes and Offices Expo; and the British Council Education UK Exhibition. Of great significance to the global conference market, Abuja successfully held the recent World Economic Forum on Africa. The event was also an opportunity for Abuja to showcase the ability to provide adequate security that does not impose upon proceedings.

Total **airport arrivals** at Nnamdi Azikiwe International Airport more than doubled from 2003 to 2012 (data for 2013 are not yet available). Domestic passenger movements, which make up the majority of total movements (80% in 2012), recorded some level of volatility over the period under review: following three years of strong increases of about 20.0% per annum from 2008 to 2010, and a further 9.2% growth in 2011, movements fell by 22.6% in 2012. This drop in numbers is likely to have been impacted by the perceived security threat in the aftermath of the 2011 Boko Haram terrorist attacks on the Abuja Police Headquarters and United Nations building. We understand that many meetings took place in Lagos rather than Abuja as a result of these attacks. Despite this decrease, domestic passenger numbers in 2012 were almost 80.0% higher than 2003 figures.

CHART 1: ARRIVALS AT NNAMDI AZIKIWE INTERNATIONAL AIRPORT, ABUJA



Source: Airports Council International

CHART 2: PROPOSED NEW SUPPLY, ABUJA

Future Openings	Category	Number of Rooms	Opening Date	Status
The Jasper	Upscale	28	2015	Under Construction
Grand Pela	Upscale	48	2015	Under Construction
Radisson Blu Abuja	Upscale	240	2017	Approved
Park Inn Abuja	Midscale	125	2017	Approved
Airport Business Hotel	Upscale	200	2017	Approved
Corinthia Hotel	Luxury	150	2017	Under Construction
Centenary City Hotel	Upscale	200	2017	Under Construction
Marriott Executive Apartments Abuja	Upscale	100	2018	Rumoured
Courtyard by Marriott	Midscale	250	2018	Rumoured
Total		1,341		

Source: HVS Research

International visitation, on the other hand, has shown even more exponential growth over this period, albeit from a much lower base. International passenger numbers increased almost fourfold from 2003, to 2012, with a compound annual growth of 16.4%. The proportion of international travellers has been on the increase since 2003, from 10.5% to around 14.0% in 2010/11. (We note that the 20.4% international share recorded in 2012 might not be a true representation, owing to the sharp drop in domestic travellers). With sustained levels of growth, international passenger numbers could reach the 1 million mark as soon as 2016.

Key infrastructure projects are planned for the capital over the coming years including several that are part of the 'Vision 20:2020' initiative, the goal of which is for Nigeria be one of the 20 largest economies in the world by 2020. There are extensive reforms ongoing in the power, ports, ICT (information and Communications Technology) and domestic air transport sectors. In 2012, the government of Nigeria announced plans to upgrade Nnamdi Azikiwe International Airport. This will include restructuring to

increase the size of the domestic and international aprons, as well the road infrastructure within the perimeter of the airport compounds. Currently scheduled to open in 2015, construction of a light railway is underway in Abuja. This aims to provide an affordable way for the city's workers to commute from the surrounding satellite towns, as well as improve transport around the city centre itself. Centenary City is a private-sector driven initiative of the Federal Government to provide qualitative houses for Abuja's rapidly growing population, as well as to commemorate the centenary celebration of Nigeria. The objective is to build a smart-city along similar lines to Dubai, Singapore and Monaco.

The main **source markets** for Nigeria have consistently been the UK, the USA, Canada and South Africa. No significant changes in the proportion of visitation from these countries has taken place between 2006 and 2011, with the UK remaining fairly constant at about 12% of total visitation, followed by the USA with 7%, Canada with 5.2% and South Africa with almost 5%. International visitation is driven primarily by corporate travel. The importance of the regional markets is increasing and we expect the importance of other African markets to continue to grow.

Historical levels of midscale and upscale **hotel supply** in Abuja have been relatively flat over the last few years, representing just over 2,000 rooms (as presented in more detail later in Chart 5). Of these, the main two branded properties (Hilton and Sheraton) account for well over half of the rooms.

The prominent position of Nigeria in Africa, but increasingly also at international level, coupled with its strong economic prospects, mean that Abuja and Lagos hold strong appeal to most international hotel brands. However, complex, protracted design, planning and construction phases mean that most properties will

LAGOS, NIGERIA



Source: www.siemens.com

take at least five years to be completed, if at all. The issues surrounding construction costs and project periods remain a major obstacle to supply, development and, ultimately, progress in Nigeria. However, those projects that are completed are in a prime position to reap the benefits of this thriving market. On this basis, many of the projects currently in the pipeline seem to remain at the speculative stage. We have selected the few that either have a signed management contract in place or other attributes that make them seem more likely to happen (See Chart 2). We are aware of other projects in the market, but we have not included them within the scope of this article as they are considered too speculative at this point.

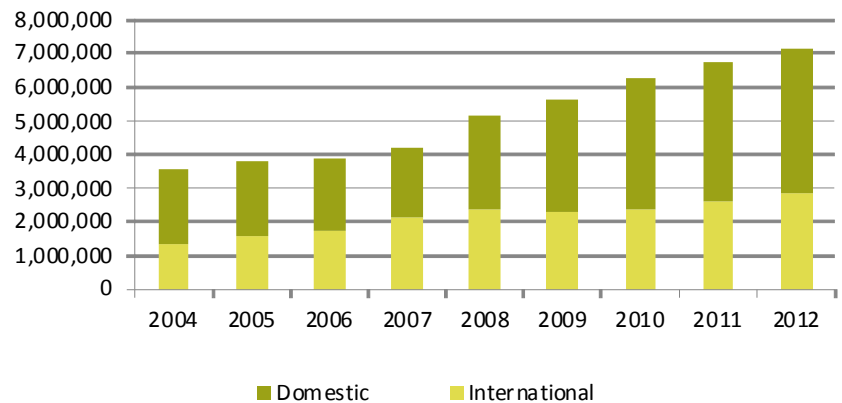
Proposed supply in Abuja, in terms of branded midscale, upscale and luxury branded supply, represents over 1,300 rooms (with a further 600 rooms in rumoured projects not included in our list). Hence, there is potential for an increase in rooms of 65% should all the listed projects materialise.

Lagos Overview

Lagos is Nigeria's largest city, its administrative and economic centre, and its chief port. Industries include entertainment, finance, railroad repair, motor vehicle assembly, food processing, and the manufacture of metal products, textiles, beverages, chemicals, pharmaceuticals, soap and furniture. The city is a road, sea and rail terminus and has an international airport.

Until 1975 it was the capital of Lagos state, and until December 1991 it was the federal capital of Nigeria, at which point Abuja replaced Lagos. However, Lagos remained the unofficial seat of many government agencies and it is still considered to be the 'commercial capital' of Nigeria. The city's population is centred on

CHART 3: ARRIVALS AT MURTALA MUHAMMED INTERNATIONAL AIRPORT, LAGOS



Source: Federal Airports Authority of Nigeria & ACI

Lagos Island, in Lagos Lagoon, on the Bight of Benin in the Gulf of Guinea. Lagos is one of the largest cities in Sub-Saharan Africa.

Murtala Muhammed International Airport is the nation's busiest airport. Total **passenger volumes** doubled from 2004 to 2012. Domestic passenger movements, which again make up the majority of total movements (60% in 2012), have shown strong compound annual growth of 8.5%, with double-digit growth from 2008 to 2010. International passenger movements reflect a similar trend whereby, aside from relatively static growth in 2008-09, there have been consistent year-on-year increases resulting in compound annual growth of close to 10%. This growth is particularly impressive when considering that the number of international passengers is four times higher in Lagos than in Abuja. Overall compound annual growth for both international and domestic passengers stood at 9% from 2004 to 2012.

Key developments in infrastructure are planned in the coming years. The Lagos State Government has proposed a new international airport in Lagos to complement the existing federal-owned Murtala Mohammed International Airport in Ikeja. The new airport would be close to Epe along the Lekki-Eti-Osa-

CHART 4: PROPOSED NEW SUPPLY, LAGOS

Future Openings	Category	Number of Rooms	Opening Date	Location	Status
African Pride, Lagos	Luxury	135	Q4 2014	Ikeja	Under Construction
Ramada Lekki	Midscale	164	Q2 2015	Lekki	Under Construction
Mantis Ikeja	Boutique	65	Q2 2015	Ikeja	Under Construction
Mantis Ikoyi (The George)	Boutique	64	Q4 2015	Ikoyi	Under Construction
Marriott Twin Towers	Upscale	150	2017	Victoria Island	Under Construction
Marriott Ikeja	Upscale	250	2017	Ikeja	Under Construction
Fairmont Lagos	Luxury	225	2018	Unconfirmed	Approved
Hilton Transcorp	Upscale	316	2018	Ikoyi	Approved
Hilton Garden Inn	Midscale	142	2018	Unconfirmed	Approved
Total		1,511			

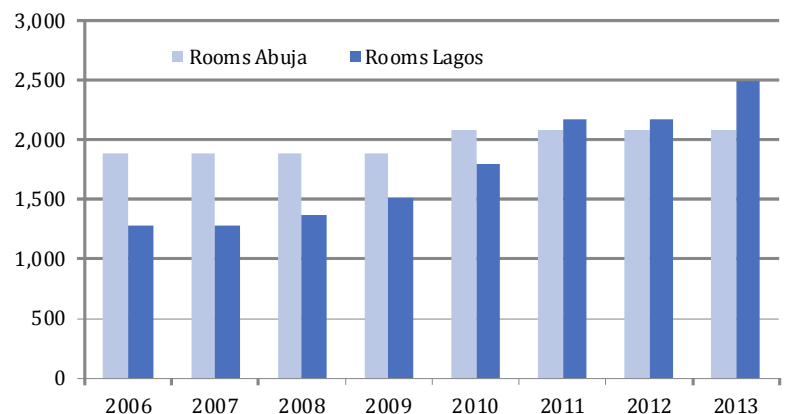
Source: HVS Research

Epe corridor. Alongside the proposal for a new airport in Lekki, several other planned infrastructure improvements have gained media attention. Work has commenced on the development of the Lekki Deep Seaport in Akodo, Ibeju. Reports suggest that the development of Lekki Deep Seaport (phase I) will cost US\$1.5 billion. When completed, the port is expected to support business activities at the expanding Lekki Free Trade Zone. Potentially the most significant of all developments, work has started in the city on the first of two light rail lines which will cost US\$3.8bn and eventually connect the four corners of the city.

As mentioned previously, the number of **international arrivals** to Nigeria has strongly increased over the last ten years. We note that visitor arrival statistics represent the whole of Nigeria, and are therefore not very illustrative of specific demand trends in Abuja or Lagos. However, it is evident that the increases in demand are not currently being met by substantial increases in supply. This alone should encourage further development and we are aware of many global and regional brands keen to secure a foothold in the country.

Historical **supply growth** in Lagos has been more dynamic than in Abuja (see Chart 5), and the market offers slightly more rooms, with about 2,500 midscale, upscale and luxury rooms available. Interestingly, the pipeline for this market is significantly larger. We have accounted for only about 1,500 new rooms in Chart 4, but we understand that there could be more than 4,000 rooms in various stages of development; although most of this supply is only rumoured and

CHART 5: HOTEL SUPPLY GROWTH PER MARKET



Source: HVS London research

might never be realised. However, the level of interest in this market is considerable.

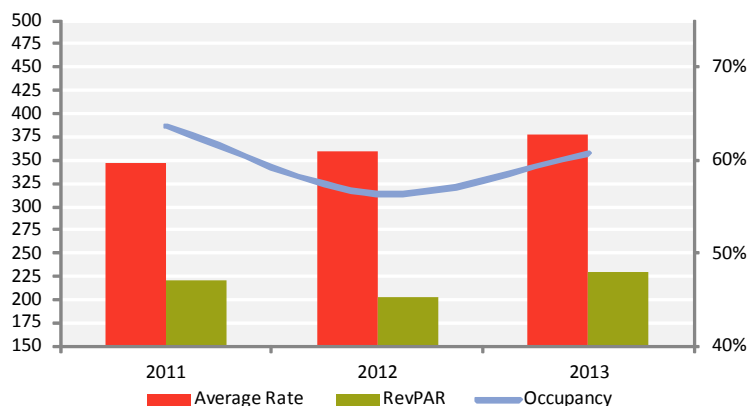
Comparative Performance

Chart 5 shows the growth in hotel supply for both markets.

Following the relocation of the capital to **Abuja**, the first internationally branded hotel in the city, the Transcorp Hilton, opened in 1987, followed by the Sheraton in 1990. Between them, these two properties have 1,207 rooms, representing the single most significant increase in supply for the market. A string of smaller properties then entered the market in later years, but increases in supply have since slowed down.

In **Lagos**, hotel room supply grew from 1,369 to 2,503 over 2008-13, an increase of nearly 100%. Occupancy and average rate have understandably declined since 2008, owing to this increase in supply, but there is evidence of recent year-on-year sustained RevPAR growth, reflecting continued growth in demand and a slowing of new rooms coming into the market. The last addition to the market was the 352-room InterContinental Lagos in mid 2013.

CHART 6: ABUJA HOTEL PERFORMANCE 2011-13 (US\$)



Source: HVS London

Whilst average rates in Abuja are among the highest in Africa, its occupancy levels are somewhat constrained by a high Monday-to-Thursday corporate seasonality. This market is heavily reliant on government-related business. We forecast occupancy for Abuja should remain fairly aligned with past performance over the coming years. We anticipate occupancy peaking around 2016 at close to 70% before the arrival of new supply in the market. New rooms (as presented in Chart 2) are expected to result in declining occupancy and downward pressure on rate immediately after, but we predict occupancy levels will recover thereafter and stabilise at around the low 60s. We expect rate to continue to grow in the long term, owing to the somewhat limited pipeline, though it will also be subjected to downward pressure as new supply comes on stream.

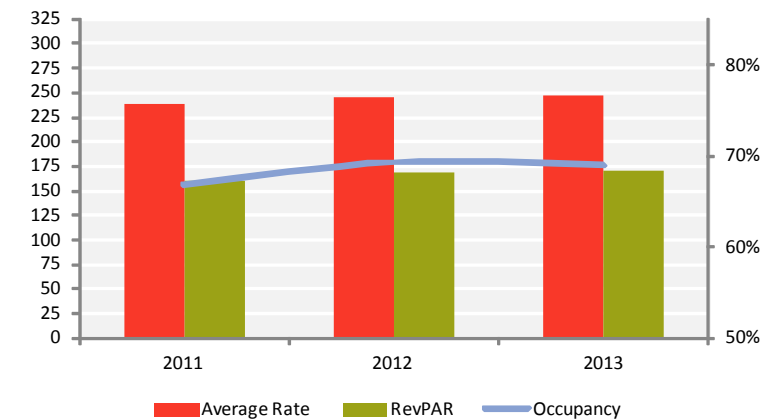
As previously mentioned, the **Lagos** market has experienced significant increases in supply over the last few years. Despite this, occupancy levels in this market remain remarkably high for the midscale and upper end of the branded market, with occupancies close to 70% over the last three years. We do expect fluctuations over the coming years, as new supply comes into the market on a fairly regular basis, but we consider it likely that stabilised occupancy for this dynamic market should remain at similar levels once new supply has been absorbed, considering the strength of demand. Despite higher occupancy levels, average room rates are lower than those in Abuja (historically about 45-50% higher than in Lagos); hence RevPAR also remains lower than that achieved by the midscale and upscale branded hotels in Abuja. However, given the strong and increasing demand for this market, we expect rates to continue to show real growth following the opening of the InterContinental hotel.

PROPOSED EKO ATLANTIC DEVELOPMENT



Source: www.gidi-it.com

CHART 7: LAGOS HOTEL PERFORMANCE 2011-13 (US\$)



Source: HVS London

Conclusion

As one of Africa's fastest growing economies and having experienced double-figure economic growth, Nigeria is expected to continue to experience exponential growth, as it diversifies its economy away from the oil industry. The key issues regularly reported regarding Nigeria are related to infrastructure and the threat to political and economic stability posed by the militant group Boko Haram.

Nigerian industry is thriving on several fronts, attracting increasing investment and visitation from international and domestic companies. Abuja is developing a reputation as a global conference destination whilst insatiable demand pushes Lagos firmly in to the global spotlight with commercial projects such as Eko Atlantic – the residential and commercial property development anticipated to become the new financial epicentre of West Africa by 2020.

Both Abuja and Lagos offer a strong, developing base of domestic demand with an ever-increasing international presence. The hotel market is currently under-developed and, despite a long list of pipeline projects, opportunities remain in abundance for the right product with, critically, the right project-management.

Abuja and Lagos are the leading lights of Nigeria's booming economy. Historical performance in both cities is reflective of limited supply and investment. Currently the economy is in the midst of diversification and the opportunities are being recognised globally as an increasing number of international companies acquire regional bases within these cities. Worried about a significant pipeline? No need: much more will be needed! © HVS 2014



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