Horwath HTL

Hotel, Tourism and Leisure Celebrated 100 years in 2015

Special Market Reports

Issue 74 - DEMOCRATIC REPUBLIC OF THE CONGO

September 2016

Market Report: Democratic Republic of the Congo

General environment

With an estimated population of 77.2 million in 2015, Democratic Republic of Congo (DRC) is the fourth most populated country in Africa. DRC is still recovering from one of the deadliest conflicts in the continent, which officially ended in 2003. In 2006 Joseph Kabila won first democratic presidential elections and was further re-elected in 2011.

The peace process remains fragile as conflicts persist in eastern regions where multiple armed groups are threatening security.

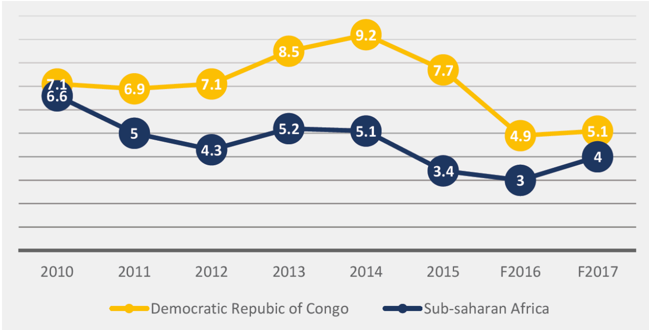
Despite improvements in the regulatory environment and corruption, the country ranks only 184 (out of 189 economies) in terms of ease of doing business (World Bank, 2016), moving up however in the ranking versus 2015 (187).

Due to its natural wealth and massive mineral resources, the country benefits from a significant potential for growth. DRC has significant untapped reserves of diamonds, cobalt, high quality copper (10% of the world's resources), tantalum and is also one of the world's largest producer. It also produces some gold, tin, iron, nickel. The country accounts for 17% of the world forest resources and also benefits from oil and gas deposits, mainly located in the western coastal areas.

Since 2010, the country has enjoyed an average GDP growth mainly over 7%, well above Sub-Saharan average, driven by the extractive industries and public investment. As a consequence of the drop in commodity prices and the deterrence of foreign investment in a context of high political uncertainty, growth is expected to slow down in 2016 and 2017, but should remain around 5%.

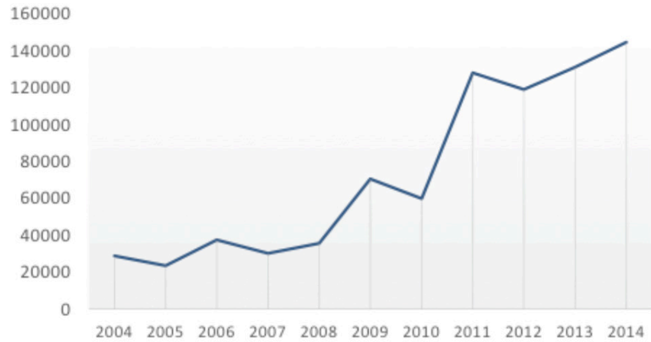
DRC should benefit from large-scale infrastructure projects, such as the Grand Inga hydropower project, the largest dam in the world, which should solve Congo's energy problems and allow the country to export electricity. Construction of the first phase should start in June 2017.

GDP Growth - IMF



The tourism industry has suffered from the political and social crises in the country. Nevertheless, business travellers' inflows have been gradually increasing (Kinshasa and Katanga region), boosted by the current economic dynamic. The government aims to develop the attractiveness of the destination capitalizing on the cultural and natural heritage, supported by the development of relevant infrastructure.

International Tourists



Overall, the hotel supply in DRC remains poorly developed with the exception of Kinshasa, the capital city and to a lesser extent, Lubumbashi.

Kinshasa : a major urban center

Administrative capital of the country, Kinshasa, is the 3rd megacity in Africa, with more than 11 million inhabitants and ranks as the world's largest French-speaking city. The city is located on the south shore of the Congo River, facing Brazzaville, the capital of the neighbouring Republic of Congo.

Kinshasa is a major political and economic player in the region as it concentrates most of the international and regional organizations including financing institutions, as well as foreign subsidiaries. The city hosts the general headquarter of the MONUSCO which amounts to a workforce of nearly 22,500 people (both militaries and civilians).

Ndjili International Airport is the country's main gateway. Around 10 airlines connect the airport to Western Europe, North and West Africa. In 2015, the airport has been renovated and equipped with a new terminal for international traffic. In addition, Kinshasa is the largest inland waterways port in Africa and benefits from regular waterways connexions to Brazzaville (3.5 km) and further connects to Bandaka and Kisangani (River Congo).

The Gombe district, located in the north of Kinshasa, is the city's Central Business District also clustering most of the institutional and political organizations (embassies, NGO, ministries). As a result it also hosts most of the hotel supply. The real estate market has been booming and Kinshasa has witnessed a surge in new developments over the recent years which mostly concentrate in Gombe (residential and office properties). As a result, prices have rocketed and Kinshasa is now one of the most expensive cities in Africa.

Impeded by the successive conflicts and crisis, the hotel market in Kinshasa has remained limited in size and is still immature. It has mainly developed over the last 10 years, with the openings of low to mid-scale independent hotels. International groups have returned recently. Kempinski and Accor (Pullman) entered the market in 2014 and 2015, as new operators of the Hotel Fleuve Congo and the historical Grand Hotel. Both units currently dominate the market, offering the best products and benefiting from an international visibility.

Overall we estimate that the qualitative supply is very narrow, provided by 10 hotels with a total of 1,200-1,300 hotel rooms. The two branded units, both in the upscale segment, represent 430 rooms and account for 1/3 of the quality hotel rooms.

The supply is complemented by around 700 rooms including 350 in the 4* segment, made of two historic units: the Memling Hotel and the Grand Hotel Kinshasa.

Occupancy has been slowing down over the last years, due to the recent opening of large size units (430 rooms). We estimate that in 2015, the quality hotel supply achieved an average occupancy of only 50% combined to a net ADR of US$155.

Lubumbashi

Lubumbashi is located in the southern part of the DRC and is the third largest city in the country with an estimated population of 1.8 million. It is the capital of the Haut-Katanga Province (created in 2015 from Haut-Katanga District and the independently administered cities of Lubumbashi and Likasi) which is the country's economic heart due to its huge reserve of mineral wealth and mining operations (copper and cobalt are the dominant ores). The region contributes more than half to GDP. The area has been impacted by the drop of commodities price, which has translated in a slow-down of the local economy since 2015.

As the nearest urban centre, Lubumbashi acts as a hub for many of the country's biggest mining companies and as a result hosts many offices and subsidiaries of mining Congolese or foreign companies as well as banks and related companies (traders, importers), which operate in the rest of the region.

After a slow decline, the city has experienced an economic rebirth since the 2000s. Lubumbashi is now a cosmopolitan city where many nationalities live together with a high number of expatriates.

The city benefits from road and rail connection to Katanga's main urban centers, as well as Maniema, South-Kivu and neighboring Tanzania, Zambia and Angola. Luano international airport was recently renovated and extended to meet international standards. Some 8 companies operate from Lubumbashi to other international destinations.

As Kinshasa, the city has experienced a fast development, supported by the demographic and economic growth and the presence of international companies and expatriates, with limited opportunity within its original infrastructure. This has led to a rising demand for housings as well as retail and offices buildings. As a result, the city has experienced a construction boom and spread in the outskirts.

Due to the scarcity of available plots in the city centre, residential developments have extended in the western part of the city (golf district) and the airport area, both benefiting from good road connexions. Luano city, a 220 ha significant mixed-use project, is currently under development near the airport.

Despite the growth and the potential demand generated by the mining industry, the hotel market in Lubumbashi has remained quite limited and under-equipped. Following the growing demand, local supply has developed anarchically, initiated by local investors opening mostly small independent hotels or guest houses.

We estimate that the acceptable supply amounts to 15 hotels, for a total of 800 rooms, mostly provided by independent, small units (under 50 rooms).

Branded supply is limited to only one unit (197 rooms) operated under the Pullman flag. Accor entered the market earlier in 2016 to operate the Grand Karavia hotel (initially awarded to Lonrho, the property was entirely refurbished in 2010). It is currently the only large-scale accommodation in Lubumbashi, in the upscale segment (5*). The rest of the supply is made of 100 rooms roughly providing 4* products and services, and some 500 rooms in the midrange segment (almost 60% of the rooms). Overall, the supply remains below the international standards expected for these categories.

The hotel supply concentrates in the city centre, along the main structuring road as a second cluster is to be found around the golf and the Kipopo Lake where the Karavia is located.

It has to be noted that a share of the supply includes furnished/self-catering apartments to cater to the need of long-stay business travellers and expatriates working for mining companies, whereas some private mining companies are reported to have built their own apartment building to accommodate their staff.

Overall performances remain lower than Kinshasa, as occupancy has registered a decreasing trend since 2014, due to the economic slow-down as the demand is mainly driven by the mining activity.

Other regional hotel markets remain limited in size.

Outlook

The country's dependency on commodities questions the sustainability of its growth while posing significant challenges to the government to reduce vulnerability and diversify economy.

Despite an anticipated slow down, economic prospects for 2016 and 2017 remain favorable. The IMF forecast a GDP growth of respectively 4.9% and 5.1%, below past levels, but above the average for Sub-Saharan Africa.

Presidential and legislative elections initially planned for 2015 have been delayed to 2016 and might be delayed further, while growing tensions are threatening stability, which might also affect demand temporarily.

The security context remains uncertain following the recent political turmoil (September 2016) as opponents led street demonstrations to put pressure on the current president to step down in December and protest over delayed elections.

As a result, the market is currently undergoing a wait and see phase due to the current political context. This should last until 2016 and 2017. However, a favourable outcome could trigger further investments.

The branded hotel pipeline remains limited. In Kinshasa, a Double Tree by Hilton (~100 rooms) has been announced. Other international operators are also considering market. Potentially, 300-350 branded rooms could enter Kinshasa market by 2019. No project has been confirmed in Lubumbashi.

Due to the current political context, we expect hotel demand to grow moderately, with a premium in Kinshasa (5-6%), which benefits from the economic growth, political/ institutional activities and where projects are located. The city's influence on the regional scene is relatively recent (late 2000s), but it has gained visibility and benefits from the increasing regional trade supported by a favorable central location.

We estimate that the market potential of Kinshasa and Lubumbashi, combined with the limited number of confirmed projects and an economic upturn should eventually translate in an increase of occupancy in the mid-term, offering opportunity for investors, especially after 2018.

WRITTEN BY:

BEATRICE MONTAGNIER
Director
Horwath HTL West & Central Africa
email: bmontagnier@horwathhtl.com

Béatrice Montagnier worked as a research manager for a hospitality consulting company before working as a consultant for a tourism & leisure consulting company for five years. During her career, Béatrice both conducted and participated in numerous feasibility, market, territorial strategy and economic impact studies.
She joined Horwath HTL in 2006 as a senior consultant and then as director. Béatrice specialized in market and programming studies and hotel strategies, especially for urban or resort projects. Her international experience includes Maghreb, the Mediterranean region and more specifically Sub- Saharan Africa, where she has been working since 2008. In charge of Horwath HTL Dakar (Senegal) for 4 years, she is now based in Yaoundé (Cameroon).

CHARLOTTE SPECHT
Senior Consultant
Horwath HTL West & Central Africa
email: cspecht@horwathhtl.com

Charlotte joined Horwath HTL in 2013 and currently serves as Senior Consultant in Horwath HTL. She is in charge of the 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.

HORWATH HTL WEST & CENTRAL AFRICA
7, Avenue Noguès – Abidjan Plateau 5th Floor,
SCI BROADWAY (BSIC) building
01 BP 5754 Abidjan
Ivory Coast
+225 20 30 49 71
+237 6 91 68 09 29

www.horwathhtl.com

Horwath HTL

Hotel, Tourism and Leisure

ASIA PACIFIC

AUCKLAND, NEW ZEALAND
auckland@horwathhtl.com

BANGKOK, THAILAND
ischweder@horwathhtl.com

BEIJING, CHINA
beijing@horwathhtl.com

HONG KONG, SAR
hongkong@horwathhtl.com

JAKARTA, INDONESIA
jakarta@horwathhtl.com

KUALA LUMPUR, MALAYSIA
kl@horwathhtl.com

MUMBAI, INDIA
vthacker@horwathhtl.com

SHANGHAI, CHINA
shanghai@horwathhtl.com

SINGAPORE, SINGAPORE
singapore@horwathhtl.com

SYDNEY, AUSTRALIA
rdewit@horwathhtl.com

TOKYO, JAPAN
tokyo@horwathhtl.com

AFRICA

ABIDJAN, IVORY COAST
cspecht@horwathhtl.com

KIGALI, RWANDA
fmustaff@horwathhtl.com

CAPE TOWN, SOUTH AFRICA
capetown@horwathhtl.com

EUROPE

AMSTERDAM, NETHERLANDS
amsterdam@horwathhtl.com

ANDORRA LA VELLA, ANDORRA
vmarti@horwathhtl.com

BARCELONA, SPAIN
vmarti@horwathhtl.com

BELGRADE, SERBIA
slovreta@horwathhtl.com

BUDAPEST, HUNGARY
mgomola@horwathhtl.com

DUBLIN, IRELAND
ireland@horwathhtl.com

BERLIN, GERMANY
germany@horwathhtl.com

ISTANBUL, TURKEY
merdogdu@horwathhtl.com

LISBON, PORTUGAL
vmarti@horwathhtl.com

LIMASSOL, CYPRUS
cmichaelides@horwathhtl.com

LONDON, UK
eheiberg@horwathhtl.com

MADRID, SPAIN
vmarti@horwathhtl.com

MOSCOW, RUSSIA
mohare@horwathhtl.com

OSLO, NORWAY
oslo@horwathhtl.com

PARIS, FRANCE
pdoizelet@horwathhtl.com

ROME, ITALY
zbacic@horwathhtl.com

SALZBURG, AUSTRIA
austria@horwathhtl.com

WARSAW, POLAND
dfutoma@horwathhtl.com

ZAGREB, CROATIA
stopalovic@horwathhtl.com

ZUG, SWITZERLAND
hwehrle@horwathhtl.com

LATIN AMERICA

BUENOS AIRES, ARGENTINA
cspinelli@horwathhtl.com

SÃO PAULO, BRAZIL
mschnurle@horwathhtl.com

MEXICO CITY, MEXICO
mjgutierrez@horwathhtl.com

DOMINICAN REPUBLIC
speralta@horwathhtl.com

SANTIAGO, CHILE
cspinelli@horwathhtl.com

BOGOTA, COLOMBIA
mjgutierrez@horwathhtl.com

NORTH AMERICA

ATLANTA, USA
pbreslin@horwathhtl.com

DENVER, USA
jmontgomery@horwathhtl.com

MIAMI, USA
acohan@horwathhtl.com

MONTREAL, CANADA
pgaudet@horwathhtl.com

NEW YORK, USA
pbreslin@horwathhtl.com

TORONTO, CANADA
pgaudet@horwathhtl.com

www.horwathhtl.com