

Spotlight on Ethiopia

Hotel Market Overview

July 2020



Introduction

Ethiopia has experienced economic growth and is undergoing rapid political reforms. Since taking office in 2018, Ethiopia's prime minister Dr. Abiy Ahmed has introduced a wide range of initiatives to achieve peace and international cooperation, including releasing thousands of political dissidents, formalising ties with long time foe Eritrea, and working for peace and reconciliation with neighboring countries.

This follows Ethiopia's ratification of the African Continental Free Trade Area in April 2019 and the signing of the Single African Air Transport Market. Addis Ababa, due to its regional political status, and host of the African Union headquarters, is often referred to as the political capital of Africa.

These events have been significant for the hotel sector, which is expected to be a beneficiary of these tailwinds, albeit there are considerable headwinds in the short term.

Ethiopia registered its first case of coronavirus on March 13, 2020 and has since initiated a state of emergency to curb the spread of the disease. International travel in and out of the country is still possible, however, limited flights are being operated. All travelers to Ethiopia were required to enter a mandatory 14 day quarantine at specific hotels and facilities in the capital city. As of the end of June, the quarantine period has been reduced to seven days.

Along with the cancellation and postponement of corporate travel and Meetings, Incentives, Conferences, and Exhibitions (MICE) events, the situation is expected to severely impact tourism and hotel performance in Ethiopia.

The impact of the coronavirus is likely to compound the decline in arrivals that the sector has seen in the last few years.



The path of reforms

Strategically located in the Horn of Africa, Ethiopia has the ability to expand relationships to neighboring markets, specifically in East Africa and the Middle East. As a land-locked nation, Ethiopia has historically depended on Djibouti for access to the sea. However, a new port development partnerships with Sudan, Somalia and Kenya, as well as, formalized ties with Eritrea, has meant that Ethiopia will be able to diversify its trade routes to the world.

With a burgeoning population, estimated at over 110 million people as of 2019, Ethiopia is the second most populous

nation in Africa and has one of the fastest growing economies in the region. However, it's also one of the poorest, with GDP per capita estimated at USD 953 compared to USD 4,195 for the rest of Sub-Saharan Africa. Ethiopia is striving to become a middle income country by 2025.

In the past, Ethiopia's economic growth has been driven by public sector investment. This stimulated the construction and service sectors primarily the construction of industrial parks and other infrastructure investments.



New reforms will steer the economy

The new Home Grown Economic Reform program introduced by the government of Ethiopia in 2019 should alleviate some of the challenges facing the economy; specifically, the foreign exchange imbalance, limited access to finance, bureaucratic inefficiencies, and poor internet services. These factors have been the most detrimental to conducting business in the country.

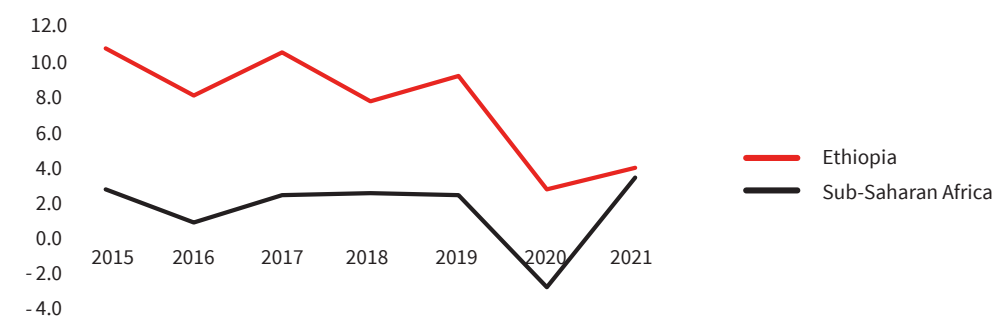
The International Monetary Fund (IMF) has approved upwards of USD 2.9 billion to finance the Home Grown

Economic Reform program with the objective of maintaining macroeconomic stability and improving living standards.

In addition, the opening of several key sectors to competition most notably the transport, logistics, telecommunications and manufacturing sectors will help attract private investment and catalyze high value added services. The state owned telecommunications company, Ethio Telecom, is selling off 49% of its ownership to private sector investors. In addition, new licenses will be provided to two new players.

Ethiopia has sustained rapid economic growth over the last decade and has averaged real GDP growth of 9.1% per year during 2015 - 2019 outperforming Sub-Saharan Africa. Growth forecasts for Ethiopia in 2020 have been revised to 3.2% as a result of COVID-19.

GDP growth at constant prices



Source: IMF, 2020

“If you can change Addis, definitely you can change Ethiopia.”

Abiy Ahmed, Prime Minister of Ethiopia

The opening of the economy is likely to offer significant opportunities for the hotel sector, with the associated activity leading to hotel demand far outstripping GDP growth.

Ethiopia's new talisman

In late 2019, upon approval from Ethiopia's EPRDF ruling coalition, Abiy Ahmed passed a political party reform that introduced the Ethiopian Prosperity Party (EPP). The EPP is comprised of three of the four parties that made up the EPRDF as well as other affiliate parties.

The nation was preparing for elections in August 2020, but due to the coronavirus, these have been postponed. What was supposed to be a test of democracy has now plunged the nation into a constitutional dilemma.

There are concerns that instability will draw Ethiopia into a state of emergency, similar to those in 2016 and 2018.

Regional tensions are high

Furthermore, ongoing disputes with Egypt and Sudan over the Grand Ethiopian Renaissance Dam (GERD) project has put a strain on regional geopolitical ties. Mediation efforts by the United States Treasury Department and World Bank have yet to bear any fruit and there are concerns that tensions might escalate between the two nations.

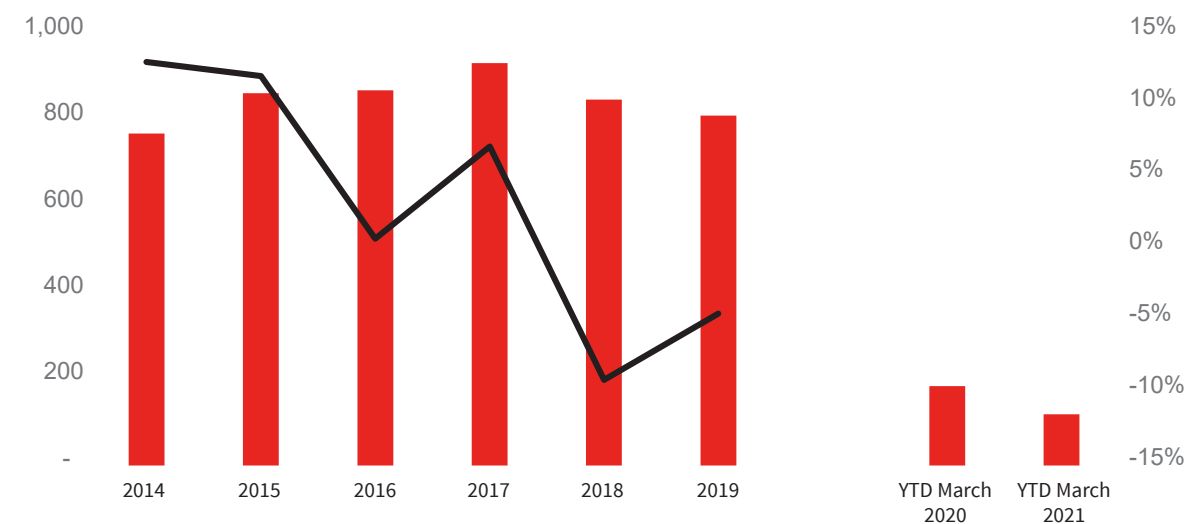
The USD 4.6 billion GERD project is seen as an important catalyst in providing the country with much needed electricity and economic regeneration. The dam is projected to provide upwards of 6,450MW of electricity to Ethiopia and regional countries.

Political stability, paired with a less command economy will be critical for the hotel sector in Ethiopia and provided these two factors can occur, there will be significant opportunities for new hotels in the medium term.

The impact of Covid 19

As of April 2020, Addis Ababa has seen 88% of its hotels either partially or fully close.

Ethiopia's international visitor arrivals are yet to surpass one million



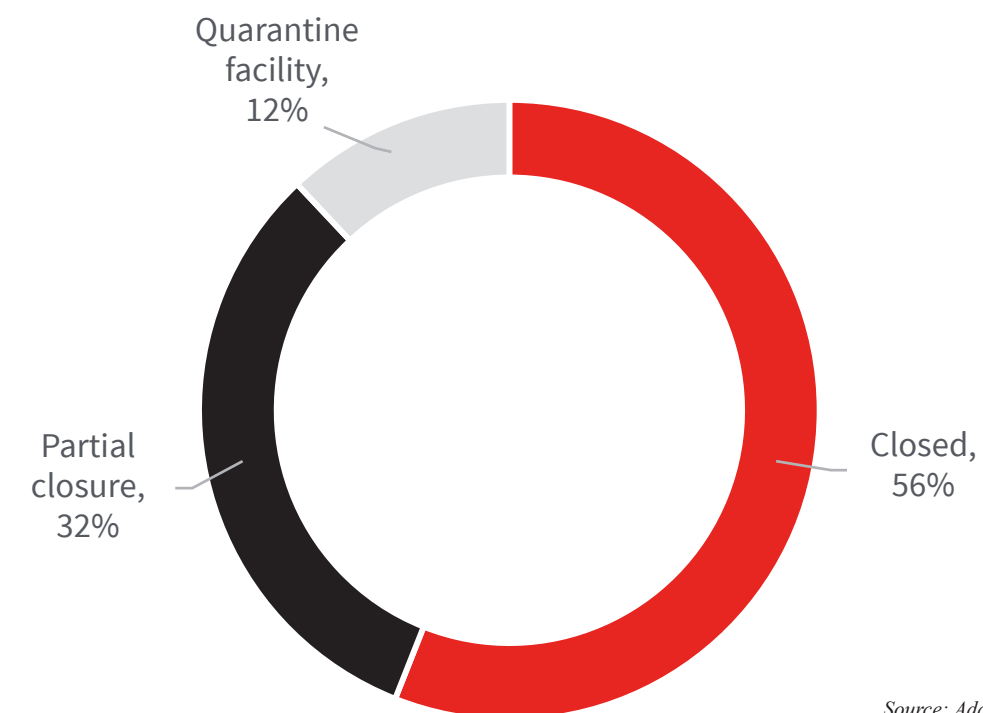
Source: Ministry of Culture and Tourism, Ethiopia



Visitor Arrivals

As of YTD March 2020 international tourist arrivals to Addis Ababa decreased by 35.5% year-on-year to 118,950, mainly due to reduced flights Ethiopian Airlines has cancelled flights to over 80 destinations worldwide from its hub in Addis Ababa.

Operational status of hotels in Addis Ababa



Source: Addis Ababa Hotel Owners Association, April 2020

As of mid-July 2020, the number of coronavirus cases in Ethiopia surpassed 10,000. The Government of Ethiopia has implemented measures to slow the spread of the virus and promote safety, including a five month state of emergency which was introduced on April 11th.

It is safe to assume that Ethiopia's tourist arrivals for 2020 will be severely impacted, with figures potentially falling lower than the 500,000 level. This is in large part a result of Ethiopian Airlines (one of a limited number of carriers flying into Addis Ababa) suspending flights to over 80 destinations.

Naturally, the impact on the hospitality and hotel industry will be substantial.

These ramifications will impact the ability of properties to cover debt obligations and operational costs.

Although Africa accounts for a fraction of global cases of the disease, its countries will feel an economic impact. Ethiopia yet to reach its peak in coronavirus cases will likely endure the full effects in the coming months, thus prolonging any quick recovery in travel and tourism until at least 2021.



Untapped tourism potential

Policy Development

Home to nine World Heritage sites, Ethiopia has tremendous potential to develop its tourism industry.

The government of Ethiopia has highlighted tourism as a key contributor to economic growth and plans to improve the investment landscape to address hurdles faced by investors. The Home Grown Economic Reform program aims to maintain historical and cultural assets to increase tourist arrivals.

Limited accessibility, poor market perception, insufficient marketing and branding, as well as weak supporting institutions have been identified as key hurdles.

In 2019, international arrivals decreased by nearly 4% to 811,000, according to the Ministry of Culture & Tourism. This represented a return to pre 2015 figures when the country was hit with several crippling states of emergencies that significantly affected inbound travel.

The government has relaxed its visa policies in 2018 with nationals and residents of all African Union countries now able to obtain visas on arrival. Furthermore, the e-Visa platform has enabled visitors from 36 countries to apply for visas through the government's online visa platform.

According to the Africa Visa Openness Index, Ethiopia moved up 32 places into the top 20 in 2019.

A task force led by the World Bank and International Finance Corporation is assisting the Ethiopian tourism board and tourism promotion body in developing strategies to drastically improve Ethiopia's tourism potential. Two of the projects are focused on developing MICE and stopover strategies, driven by the fact that nearly 70% of Ethiopian Airlines passengers transit through Bole International Airport in Addis Ababa.

Sites & Products

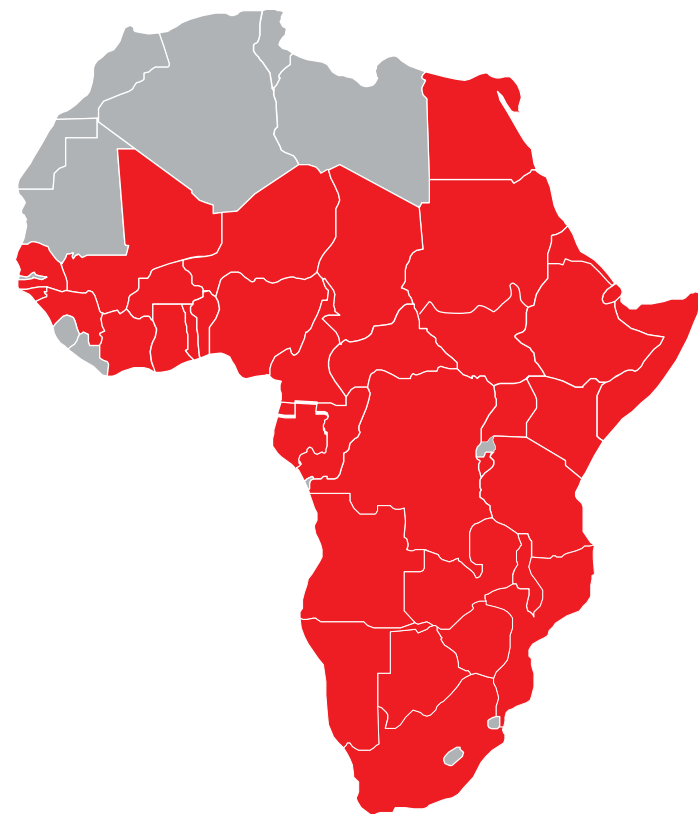
The development of new projects, such as Unity Park and the Entoto Development Project, aims to add quality sites and products for travelers. Unity Park, which opened in

2019, is located in the National Palace of Addis Ababa, a compound that has housed the head of government for more than a century. The 40 acre renovation project includes access to the Throne Hall, Banquet Hall, Menelik Palace, the gardens and the zoo, highlighting the history and culture of Ethiopia.

The Entoto Development Project will bring life to the hills that overlook Addis Ababa. Once finished, the densely covered eucalyptus tree forest will include tourist information centers, cultural centers, athletics training centers, museums, lodges and a range of outdoor recreational activities.

Ethiopia is still an unknown tourism destination and tourism arrival figures have been declining since 2017.

Ethiopian airlines Africa route network



Source: Ethiopian Airlines, 2020



Air Connectivity

Ethiopian Airlines has cemented its status as Africa's leading airline over the last decade. Ethiopian Airlines is the continent's only profitable national airline and has embarked on a project of assisting other African airlines to return to the sky.

Ethiopian Airlines transported over 13 million passengers in the 2018 fiscal year an 11.6 increase on the previous year. It also added 18 new aircraft and boasts a network of over 120 international passenger and cargo destinations worldwide.

In Africa, the airline flies to 62 cities and it is currently working on partnerships with several African governments to restart their respective national airlines.

Ethiopian Airlines Group opened its new terminal at Bole

International Airport and its first 373 key hotel in 2019. The USD 363 million terminal expansion will double its capacity to 22 million passengers annually, making it the largest airport in Africa. The new terminal offers better facilities, gates, lounges, shops and restaurants to cater to its seven million transit passengers.

Ethiopian Airlines hopes to grow to an annual capacity of 100 million passengers in the future and is currently planning a new mega airport near Bishoftu, about 40 km from the capital city of Addis Ababa.

The airline is also currently building another 650 key five star hotel adjacent to its first hotel in Addis Ababa and plans to expand its cargo and maintenance services.

Hotel market overview

Demand

Positive economic growth and the increase in foreign investment will positively impact corporate demand. Addis Ababa is expected to see an increase in corporate, NGO and diplomatic demand over the next few years. The privatization of state held assets to foreign investors and the influx of international players will see corporate demand increase in Addis Ababa and Ethiopia.

Currently, most four to five star branded properties cater to the diplomatic and donor markets. The balance of demand is concentrated in unbranded or branded 3 star properties in the city. With MICE and corporate travel expected to increase, demand for these mid tier hotels.

Occupancy rates decreased from 58% in 2018 to 54% in 2019. Average Daily Rates (ADR) also decreased by 6% from USD 164 in 2018, to USD 149 in 2019. This downward pressure on rates can be attributed to the increase in supply over the year with the opening of the Hyatt Regency and the Ethiopian Skylight Hotel, which added 561 rooms to the city. This resulted in hotels discounting their rates to maintain competitiveness and occupancy levels.

Supply

The Addis Ababa hotel market is estimated to have 9,130 keys across 152 hotels, most of which are unbranded. From 2016 to 2019, room supply has increased by 7% per annum on average with the midscale segment experiencing the most significant growth.

Ethiopia currently has upward of 21 internationally branded hotels under development which in theory could add around 4,300 rooms. The limited supply of quality branded rooms has encouraged brands to maximize their presence in Ethiopia.

Despite this impressive pipeline, only 50% of these hotels are expected to be realized due to constraints in foreign currency, access to financing and other factors. This will result in the supply cycle being spread out over several more years. This is a positive, while we have noted several upside drivers for demand, there is unlikely to be the required demand to sustainably absorb all 4,300 hotel rooms. This is highlighted by the reasonably high impact (400 bps) on occupancy in 2019 following the entry of 561 new rooms.

Outside of the capital, there is development activity in Bahir Dar, where the rebranding of the Grand Hotel into a Radisson Hotel and the construction of the Hilton Bahir Dar are currently underway.

Investment Outlook

Investment in the Ethiopian hotel market has primarily been driven by local entrepreneurs looking to diversify their personal investments. They are mostly new entrants to the hotel industry and in the past have preferred to operate independently branded properties, which has shaped most of the supply in the market. Recently, there has been a shift with developers opting to select global brands to operate their properties. The service expertise and access to global distribution systems provided by global brands has driven this change.

Availability of financing

Access to finance continues to be difficult in Ethiopia where local banks are hesitant to invest in projects that are likely to face delays. Furthermore, the inability to provide foreign currency makes it nearly impossible for developers to import the necessary finishing materials for hotel projects.

Interest rates with Ethiopian private banks range between 7 - 15 %. Coupled with short loan terms and delayed loan disbursements from private banks, it can be extremely difficult to see immediate returns from an owner's standpoint.

DFI's have been reasonably active in the market, although many have found the market difficult to operate in due to interest rate caps.

Developers who have made hard currency investments have had no challenges repatriating proceeds, however, foreign investment into existing assets would benefit from a clearer policy around how this is treated for an acquisition versus a development.

Government support for hotel industry

Ethiopia's government has long supported the development of hospitality assets, going as far as providing tax incentives and duty free privileges for new buildings. However, given the unappealing financing market, it has been difficult for most of these properties to open their doors

Growth in secondary cities

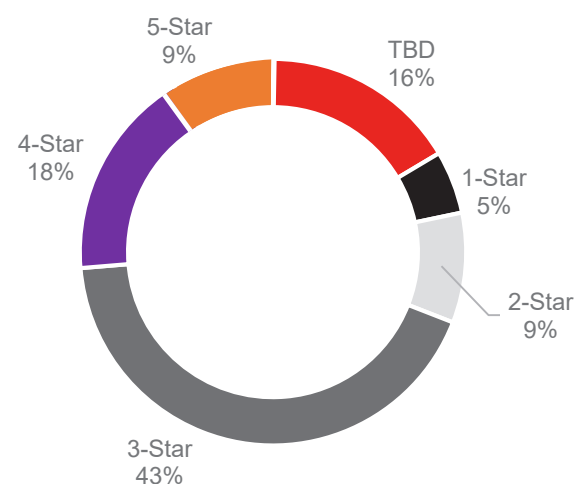
Moving forward, there is an expectation for more deals to be signed in secondary markets, such as the cities of Hawassa, Bahir Dar and Mekele . These markets are regional capitals where government investment in industrial parks has seen international corporations setting up their manufacturing hubs.

Political stability

With the country entering constitutional limbo over the postponed national elections, there are fears that political unrest might reoccur. In addition, ongoing tensions over the Nile River dam continue to stir headlines. Ethiopia will start filling the dam in July 2020 despite pressure from Egypt.

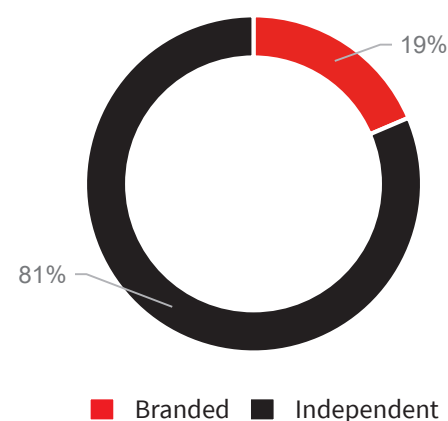
Supply positioning and Branded penetration - Addis Ababa, 2020

Supply Positioning



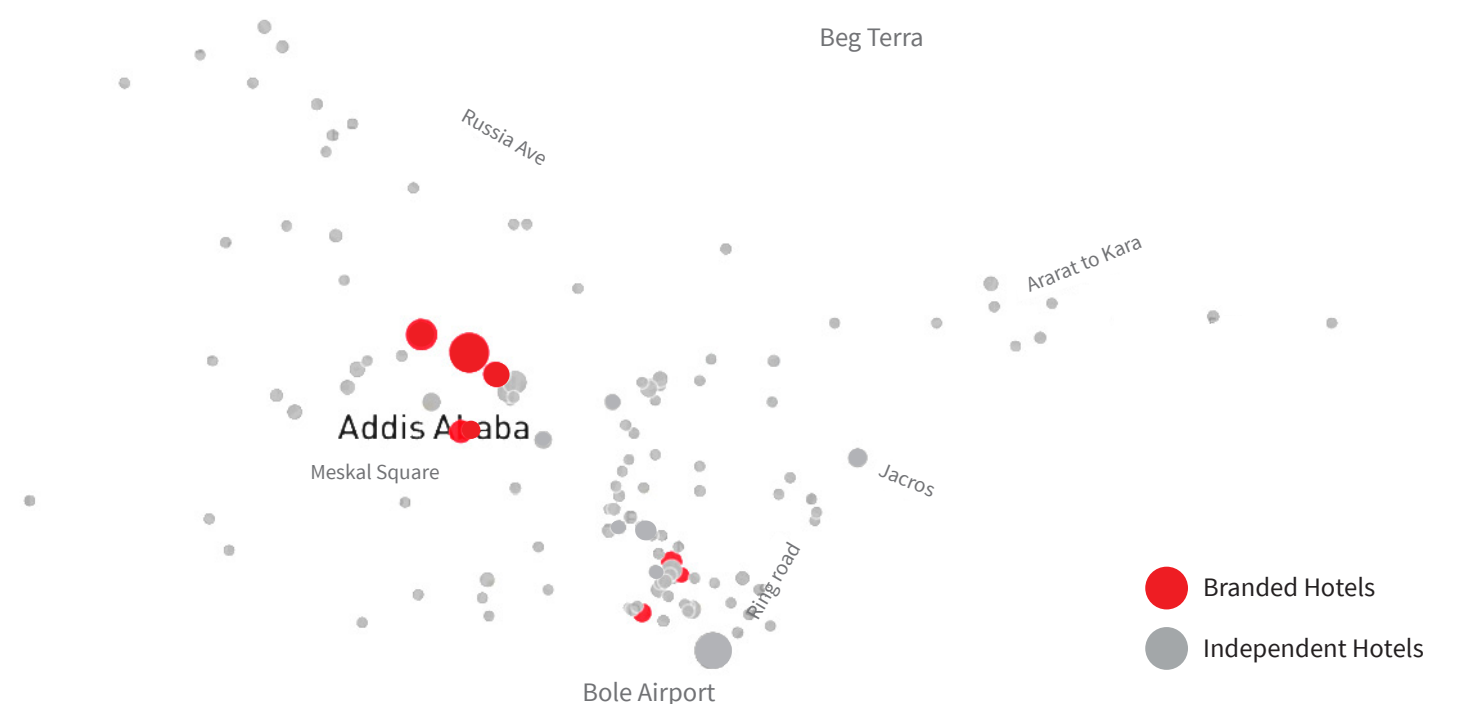
Source: JLL Research, 2020

Brand Penetration



Source: JLL Research, 2020

Addis Ababa city hotels map, 2020



Looking ahead

The government's more progressive approach to the tourism and travel industry will likely result in opportunities for new developments in secondary markets throughout the country.

Domestic tourism

The government has invested heavily in the redevelopment of several parks in Addis Ababa. The Unity Park, Entoto Park, Meskal Square and "Beautifying Sheger" projects will provide the city with a much needed facelift that could motivate residents to explore the capital city of Addis Ababa.

On a national scale, domestic tourism is likely to recover first as residents refrain from travelling abroad with the coronavirus pandemic affecting international travel.

Ethiopia's diverse, yet untapped, tourist offerings in the north and south can be accessed through Ethiopian Airlines' domestic network. However, expensive tour packages and hotel rates once targeted to foreigners remain prohibitive for many local tourists.

If local businesses are able to revisit their pricing strategies, it will encourage locals and residents to travel domestically.

This will provide many hotels, lodges, and small and medium sized enterprises vital income to overcome lost business due to COVID 19.

Hotel development in secondary cities

It is anticipated that local investors will start looking further afield (than just major markets such as Addis Ababa) as some lesser known cities show development opportunities.

With poor hotel infrastructure in major tourism destinations throughout the country, opportunities could likely be found to develop hotels and lodges in these areas to attract domestic and international travelers.

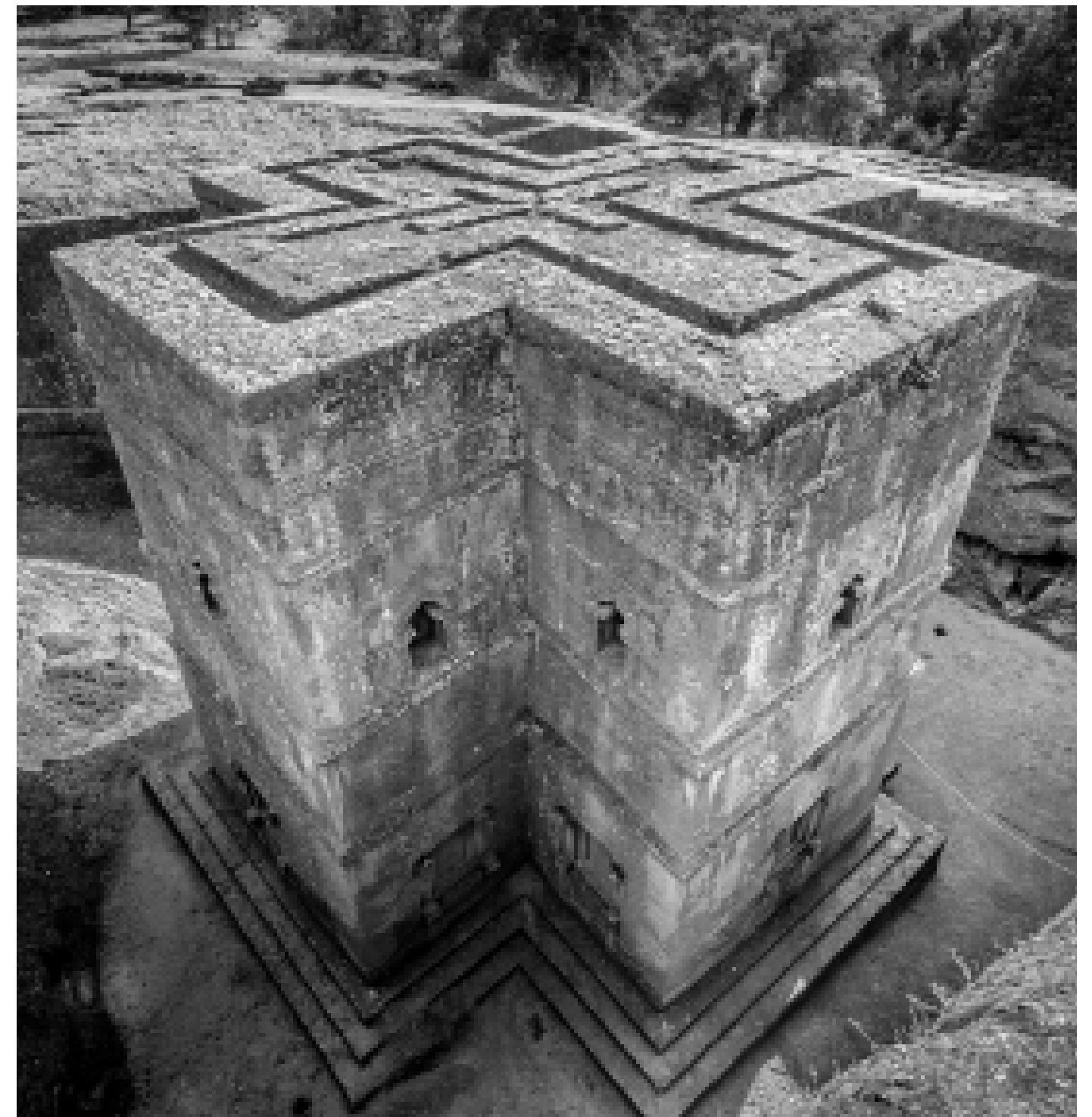
Privatization and opening of markets

Corporate, NGO and diplomatic travel will continue to be a driving force of demand in the country, especially with new investment laws and the entry of international conglomerates in the telecom, transport and energy sectors.

However, it will be interesting to see how much of the proposed pipeline will be realized given the challenges accessing foreign currency, which is expected to continue.



Ethiopia, the Land of Origins, has the cultural and historical assets to be a top performing tourist destination on the continent.



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