



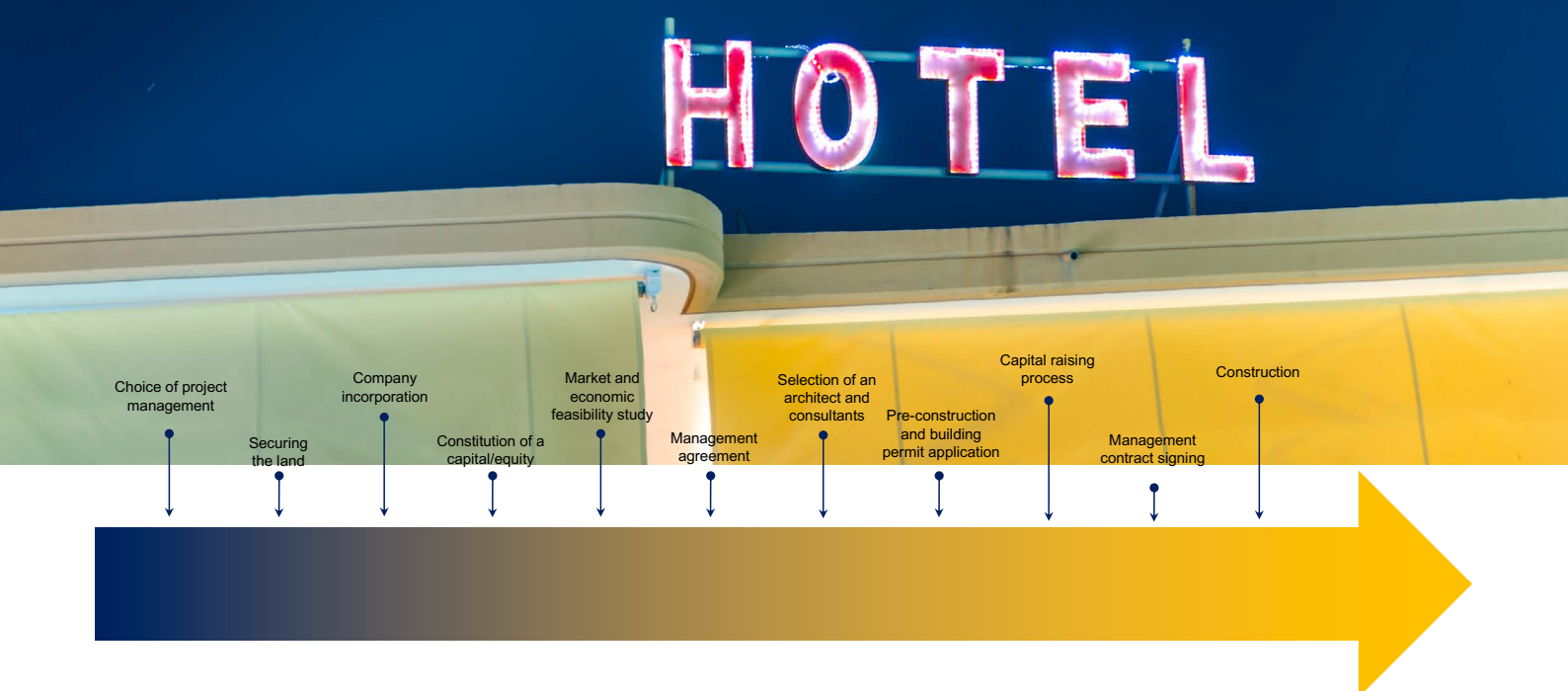
Horwath HTL

Hotel, Tourism and Leisure

INDUSTRY REPORT

*Africa: The Hotel
Development
Process*

JULY 2020



Introduction

The coronavirus crisis is particularly affecting the tourism and hospitality sector. As the consequences of the spread of the virus are evolving day by day, it is difficult at this stage to make reliable predictions on future performance in African markets.

While the current crisis is hitting the establishments in operation, it does not necessarily call into question the hotel projects under development on the continent. It should be remembered that a pre-crisis deficit in quality hotel rooms is estimated at around 22,000 rooms across the continent.

The number of hotels meeting international standards is still insufficient, particularly in terms of depth of range, in most of the sub-region's capitals. In the secondary cities, this offer is almost non-existent. The hotel projects under development are therefore not called into question. On the other hand, even greater robustness will be expected in the hotel project dossiers that will be presented to investors and banks.

With this in mind, Horwath HTL, Archetype and Fieldstone propose, through this article, a return to the fundamentals of hotel development and a reminder of the main stages in the development of a project.

NB: These steps are indicative; their order may differ according to the specificity of a project.

Development of a hotel project

- 1 The choice of project management:** the investor must determine from the start of the project who will be responsible for project management. 2 options are available to him: entrust the management of the project to an internal team or call on a Project Management Assistance.
- 2 Securing the land:** without a land title, it is impossible to initiate the launch of a hotel project. If the investor does not have a land title, he will have to make sure that the construction lease is long enough and that the land is not mortgaged.
- 3 Company incorporation:** obtaining the necessary certificate of incorporation for the company in charge of carrying the project's assets. The time required to obtain the certificate of incorporation should be anticipated; it may take several weeks depending on the country.
- 4 Constitution of a capital/equity:** it is not enough to have a land and to take charge of studies to hope to be able to launch a hotel project. These are necessary but not sufficient elements. The project promoter will also need to have other guarantees and equity dedicated to the construction of the project.

5 Realization of a market and economic feasibility study by an independent firm (1 to 2 months):

this document will allow to certify the market opportunity for the hotel, to validate its positioning or to issue recommendations for positioning, and to obtain the financial projections of the project. It will highlight the profitability of the project. The market and feasibility study will also recommend forms of development to limit operating risks. In the post-covid period, mixed-use projects comprising 2 or 3 components (hotel/apart-hotel - offices - retail/leisure) will show some resilience. The "business model" of budget hotels (2 to 3 stars) will also be more resilient.

6 Management agreement: an over-the-counter agreement can be made with a manager (independent operator, international hotel group, or third-party operator). Most of the hotels meeting international standards in the sub-region are managed by international hotel groups. The owner will therefore often entrust the management of his hotel to a specialized group that will also ensure high commercial visibility and greater credibility with banks.

The project owner may choose to select one of them through a competitive bidding process. Three key documents govern the contractual relationship with an operator: The Letter of Intent, the Memorandum of Understanding and the Management Contract.

Negotiations cover several points such as management fees, performance fees, royalties, contract duration, territorial restriction, performance tests, conditions for exiting the contract, etc. In the context of a search for financing, obtaining a Memorandum of Understanding is sufficient, as some operators only wish to commit to a contract once financing for the project has been obtained. In addition, the terms and conditions of the management contract will have to be approved by the banks.

As operators have very complete specifications, it is important to select one as far in advance as possible. If the choice of manager is made when the design of the hotel has already been launched, there is a risk that the operator's expectations cannot be integrated without calling into question the work already done.

7 Selection of an architect and choice of consultants accompanying the investor in his project (1/2 month)

A. The choice of an architect

When choosing the architect with whom he wishes to work, the investor must bear in mind that the success of the project will also depend on the proper implementation of the services which are complementary to the architectural design, namely: the technical design, the project management, the quantity survey and the construction management.

2 options are available to the investor:

- work with a group of independent service providers from each other;
- work with a company that is able to perform all of the services mentioned above.

B. Other specialized consultants

Apart from the architect, it is important to note that many consultants are involved in the design of a hotel.

The higher the standing of the hotel, the greater the number of consultants. The interior designer plays a key role¹. His choice is often dictated by the future hotel operator insofar as he must be accredited by the latter.

Certain disciplines usually managed by the architect or interior designer when it comes to 2-star hotels are entrusted to specialized companies for 5-star hotels projects.

These include the following areas:

security, landscaping - which is particularly important when it comes to leisure hotels/resorts; interior and exterior lighting; the laundry; kitchens; restaurants; spas and beauty salons; acoustics; audio and video equipment; building intelligence systems.

1. The interior designer fees are, for a 4-star hotel for example, equivalent to those of the architect.

8 Pre-construction phases

A. The design phase (around 4/5 months)

Design services are performed in the following order:

A1. Architectural brief: 2 weeks

The architectural brief (or specifications), prepared by the investor, is an essential step since it allows the architect to collect and then analyze the needs of the investor, with any consultant engaged by the latter, in order to define the program, functions, priorities, services, quality of finishes, budget and expectations in terms of environmental certification and interior design.

This document shall also include the overall budget that could be allocated to the operation and its possible constraints on the design and the project as well as the expectations of potential hotel operators who will be responsible for the management of the hotel. Finally, the brief must take into account the urban planning constraints linked to the plot imposed by local regulations.

Taking into account the environmental and energy impact of the project is a fundamental point. The certification of the project is most of the time a prerequisite, all the more if the project is financed by international donors. The selected architect will have to know the specifics of the different environmental certifications (EDGE, HQE, LEED ...).

A2. Preliminary technical studies: 6 weeks

The Client must quickly appoint, in conjunction with the architect, the geotechnical consultant who will carry out the soil studies and the other studies necessary to launch the design phase. The investor must also, in conjunction with the consultants, collect information concerning the site's electrical supply, available telecommunications systems, water supply, and in general the level of existing infrastructure.

A3. Concept design: 4 weeks

On the basis of the approved architectural brief, the architectural firm produces the architectural concept design. The investor then has a preliminary master plan, typical floor plans for each main area, key figures of the project, but also the main elevations of the project and external perspectives of the project².

A4. Basic design: 4 weeks

As soon as the concept design is validated, the architect will then be able to produce the drawings and design documents. It is on the basis of these documents that the investor will apply for the building permit³. At this stage, the investor will have a refined budget (range +/- 10%).

A5. Detailed design: 10 weeks

The architect will then work on preparing the necessary documents for the contractors to allow them to bid for the construction of the project. This detailed design will include the following elements: architectural design / structural design / mechanical, electrical, and plumbing design.

B. Tender management (4/5 months minimum)

At this stage, the project manager in collaboration with the investor defines a purchasing strategy for the project and launches the tender process (pre-qualification, invitation, submission, analysis, interview, evaluation).

On the basis of the final technical and financial evaluation of the offers, the project manager assists the investor in negotiating contracts and awarding contracts. Once the contractors have been selected and the offers negotiated, the investor has a very detailed budget for his project.

2. The key figures of the Project including: ratio and density of land occupancy, construction area for each part of the Project, total floor area and the size of the Project identifying the number of stories and heights of the separate parts of the Project.

3. It is important to anticipate the time to obtain the permit (several weeks in general) in the general project schedule.

9 Investment costs: in addition to construction costs - which can be quite high in the sub-region due to the non-availability of certain products and the need to import - other costs must be included to obtain the total investment cost. Construction costs only contribute to about 50% of the total project cost. It is essential to be familiar with the standards of the brand in question in order to assess investment costs.

Key important budget items include:

- Land acquisition cost or its appraised value;
- Development, demolition and connection costs;
- Fees of the various service providers involved in the project: more than a dozen service providers are involved at different stages of development;
- Landscaping costs, which vary according to the size of the project, its environment and its positioning⁴;
- Financing costs: these include lenders' fees, interest during construction, commitment fees, and a debt service reserve account holding 3 to 12 months of interest and principal;
- FF&E (Furniture, Fixtures and Equipment) and OS&E (Operating Supplies & Equipment);
- Pre-opening expenses;
- Initial working capital requirement;
- Contingencies.

10 Capital Raising Process: a significant equity contribution required to raise debt financing

The financial model, which can be built by a financial advisor, makes it possible to simulate various sources of financing to determine the most appropriate financing structure for the project's economics, return on equity and debt service coverage.

As part of their assessment of a project, lenders carry out several sensitivity analyses of the financial model, which make it possible to assess the resilience of the project in the face of possible but uncertain events and thus to determine the parameters with high elasticity in relation to the overall economics of the project.

The prevailing covid-19 pandemic is one of the most unfavourable event scenarios that lenders are going to integrate into their analysis going forward. This will most likely lead to (i) an increase in the equity contribution required from investors, which could be raised up to 50% of the total investment cost and (ii) a strengthening of the guarantees required from project sponsors.

With regards to the strengthening of equity capital, sponsors may be more inclined to open their capital to private equity funds and/or to integrate from various investors subordinated debt products that have the benefit of presenting less risk than share capital.

In addition, in order to mitigate project completion risk on a certain contractual date, the most radical cover for banks is the use of a loan guarantee during the construction period provided by the shareholder(s) of the project company.

During the operational phase, the loan may thus become limited recourse or non-recourse to the shareholder(s) provided that the technical and operational completion tests, which confirm the timely completion of the construction works and allow debt service coverage during the first years of operation, have been successfully completed.

11 Signing a management contract with

a hotel operator: the project leader should contact a lawyer specializing in this type of contract. The terms will have been negotiated beforehand, so as to meet the expectations of the owner and the operator.

The owner will favor flexible exit conditions, visibility on the establishment's operating results and transparency on tariffs, while the operator will look for a long-term contract and cash flow stability.

12 Construction phase (24 months)

In the construction phase, the role of the project manager is to ensure, in collaboration with the various stakeholders on the site, that the schedule, budget and quality of construction are respected.

In the event of delay in the construction program, which is frequent in the context of hotel projects in Africa (linked for example to climate issues, or difficulties in supplying equipment), the project manager warns the investor of the possible financial impact.

4. An upscale resort will require much more landscaping work than a business hotel in an urban setting.



Archetype Group is a French group providing architectural, engineering and project management services, with offices in 15 countries and employing more than 1,000 people worldwide. Archetype is today active on 4 continents: Asia, Europe, Africa, and Latin America. In Africa, Archetype relies on a network of partners in the main African markets and has a representative office in Ivory Coast.

Archetype Group is specialized in the design and project management of hotel and resorts. Our reference portfolio contains such famous hospitality brands as Aman, Hilton, Raffles, Marriott, Accor, St Regis, Ritz Carlton, Taj, Hyatt, Intercontinental, Starwood, Mandarin Oriental, Shangri-La and Banyan Tree, as well as some smaller hotel and resort chains.

Guillaume Crouzet

France and Africa Business Development Director

guillaume.crouzet@archetype-group.com

Francois Magnie

Group Director of Real Estate & Hospitality

francois.magnier@archetype-group.com

FIELDSTONE

Fieldstone is a leading independent investment bank in energy and infrastructure. Fieldstone makes transactions happen in some of the most challenging markets in the developing world, a skill which has enabled it to become a market leader in Africa, and to increase its presence in Latin America. Fieldstone's team includes more than 40 professionals based in its offices in London, Johannesburg, Dakar, Berlin, Lima, Buenos Aires, Washington and Shenzhen. In Africa alone, Fieldstone has actively participated in mandates in 42 countries and has successfully closed over US\$ 13 billion worth of transactions. In the African market, Fieldstone is primarily involved in the structuring of large-scale financings in various industrial sectors to meet the dynamic needs of the market. Fieldstone's activities in this area are mainly carried out from the regional office in Dakar.

Taslimy Gassama, Director

tgassama@fieldstone.group



At Horwath HTL, our focus is one hundred percent on hotel, tourism and leisure consulting. Our services cover every aspect of hotel real estate, tourism and leisure development. Our clients choose us because we have earned a reputation for impartial advice that will often mean the difference between failure and success. Each project we help is different, so we need all of the experience we have gained over our 100-year history.

We are a global Brand with 47 offices, who have successfully carried out over 30,000 assignments for private and public clients. We are part of Crowe Global, a top 10 accounting and financial services network. We are the number one choice for companies and financial institutions looking to invest and develop in the industry.

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Our Expertise:

- Hotel Planning & Development
- Hotel Asset Management
- Hotel Valuation
- Health & Wellness
- Transactional Advisory
- Expert Witness & Litigation
- Tourism
- Leisure
- Hospitality Crisis Management

Horwath HTL has a permanent office -a subsidiary of the Paris office- in Abidjan since 2016. The team members carry out: project studies, territorial development, strategic and marketing consulting, project management assistance, asset management & valuations.

Philippe Doizelet

Managing Partner

pdoizelet@horwathhtl.com

Clémence Derycke

West & Central Africa Manager

cderycke@horwathhtl.com



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