Hospitality Sector Annual Markets Review Note 2021

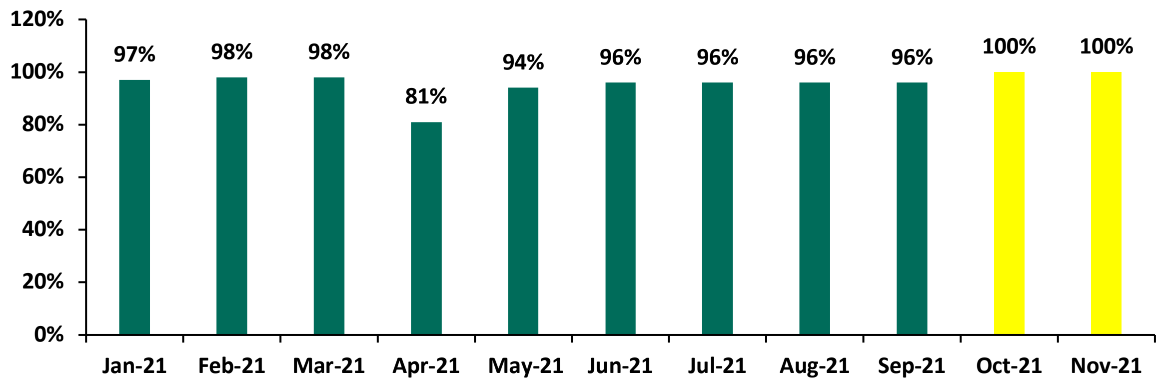
Serviced apartments' performance improved in 2021, with the occupancy rates increasing by 13.5% points to 61.5%, from 48.0% recorded in 2020

The hospitality sector has been on a recovery path in 2021, as evidenced by the increasing number of hotels in operation, hotel bookings and bed occupancies during the year. In 2020, the hospitality sector was among the worst hit sectors by the COVID-19 pandemic following the international travel ban, lockdowns and social distancing measures put in place to curb the spread of the virus. These measures led to the decline in hotel bookings and occupancies, and, the closure of many hospitality-affiliated businesses.

According to the Monetary Policy Committee Hotels Survey - November 2021, there was an overall improvement in the general operating environment of hotels evidenced by the increased number of hotels in operations, bed occupancy levels, and share of foreign clientele. The key take outs from the survey were;

i. Overall, all the sampled hotels indicated that they were in operation between October and November 2021, representing a 4.0% points increase from the 96.0% operation rate in September 2021. This was attributable to the reopening of some hotels that had previously been closed due to low business as a result of COVID-19 regulations. The graph below shows the overall percentage of the number of operating hotels in Kenya between January – November 2021;

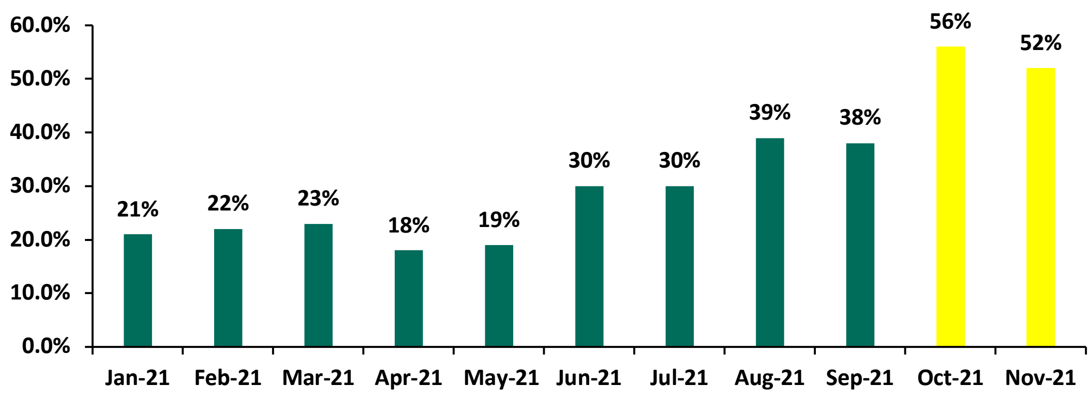
Overall Hotels in Operation in Kenya (Jan- Nov 2021)



Source: Central Bank of Kenya (CBK)

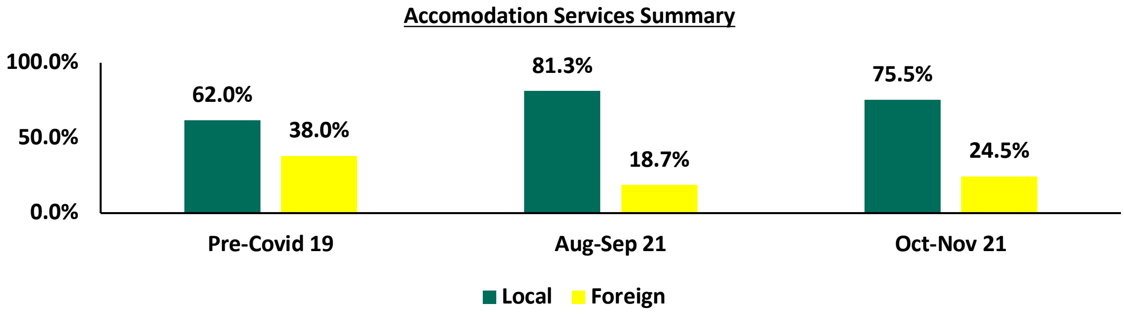
ii. The average bed occupancy in the month of October averaged at 56.0%, 18.0% and 4.0% points higher than 38.0% and 52.0% recorded in the months of September and November, respectively. This was attributable to increased demand for hotels during the school holidays in the first weeks of October, particularly in Mombasa and Nairobi. The graph below highlights the hotel bed occupancy rates in Kenya between January - November 2021;

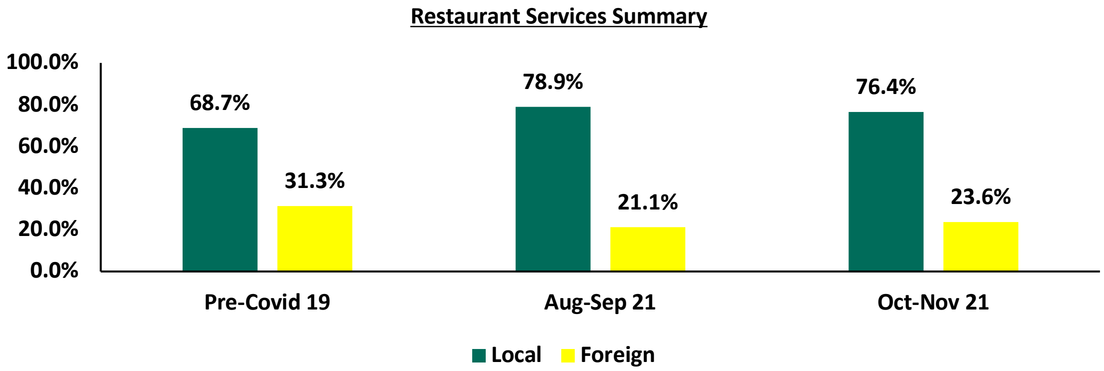
Overall Hotel Bed Occupancy Rate in Kenya (Jan - Nov 2021)



Source: Central Bank of Kenya (CBK)

iii. Overall, local guests continued to account for majority of clientele population at 75.5% of accommodation and 76.4% restaurant services between October and November 2021, compared to 62.0% and 68.7%, respectively, during the period before the COVID-19 pandemic. The share of foreign clientele in accommodation increased between August-September and October-November by 5.8% points to 24.5%, from 18.7%, respectively. Clients in the restaurant services also increased in the same period by 2.5% points to 23.6%, from 21.1%, following the increased tourist arrivals during the period. The graphs below indicate the summaries of accommodation and restaurant clients served by hotels in Kenya;





Additionally, in 2021 we released the [Nairobi Metropolitan Area Serviced Apartments Report 2021]. Overall serviced apartments' year on year performance improved, with the occupancy rates increasing by 13.5% points to 61.5%, from 48.0% recorded in 2020. The monthly charges per SQM increased by 0.7% to Kshs 2,549 in 2021, from Kshs 2,533 recorded in 2020. The average rental yield increased by 1.5% points to 5.5% in 2021, from 4.0% recorded in 2020. This is mainly attributable to an increase in the number of local and international tourist arrivals following the lift of travel bans by countries such as the UK. This led to increased number of hotel bookings, occupancies and operational hotels during the period. The increase in the number of tourists is attributable to the; i) aggressive local marketing through price discounts, and, international marketing through the Magical Kenya platform in countries such as the Ukraine, ii) positive accolades for the Kenyan hospitality sector, iii) the return of international flights which had stalled from COVID-19 operational guidelines, and, iv) the mass vaccination currently underway in the country boosting confidence in the sector.

The table below shows the comparative analysis between 2020 and 2021;

All values in Kshs unless stated otherwise

Comparative Analysis-2020/2021 Market Performance

Node	Occupancy 2021	Occupancy 2020	Change in Occupancy	Monthly Charge/SQM 2021 (Kshs)	Monthly Charge/SQM 2020 (Kshs)	% Change in Monthly Charges/SQM	Rental Yield 2021	Rental Yield 2020	Change in Rental Yield
Westlands	68.8%	49.4%	19.4%	3,569	3,584	(0.4%)	8.3%	6.1%	**2.2%**
Kileleshwa & Lavington	57.1%	48.1%	9.0%	2,571	2,553	0.7%	6.4%	4.3%	**2.1%**

Nairobi CBD	66.6%	42.1%	24.6%	2,176	2,122	2.5%	4.9%	2.9%	**2.0%**
Kilimani	60.0%	48.4%	11.7%	2,815	2,783	1.1%	5.8%	4.8%	**1.0%**
Thika Road	56.4%	48.1%	8.3%	1,748	1,726	1.3%	3.5%	2.0%	**1.6%**
Upperhill	61.1%	48.9%	12.2%	2,109	2,121	(0.6%)	4.5%	3.6%	**0.9%**
Limuru Road	60.5%	51.4%	9.1%	2,853	2,839	0.5%	4.9%	4.5%	**0.4%**
Average	**61.5%**	**48.0%**	**13.5%**	**2,549**	**2,533**	**0.7%**	**5.5%**	**4.0%**	**1.5%**

- Average rental yield increased by 1.5% points to 5.5% in 2021 from 4.0% recorded in 2020 mainly attributable to an increase in the number of local and international tourists from the lift of travel bans

Source: Cytonn Research, 2021

- Westlands and Kileleshwa were the best performing nodes with a rental yield of 8.3% and 6.4%, respectively, compared to the market average of 5.5%. The submarkets recorded an increase in rental charges by 2.2% and 2.1% points, respectively, compared to an overall market increase of 1.5%. This can be attributed the strategic locations of these areas given its the proximity Nairobi CBD, availability of high quality serviced apartments, ease of accessibility, and proximity to most international organizations hence the demand.
- Thika Road was the least performing node with a rental yield of 3.5%, 2.0% points lower than the market average of 5.5% and we attribute this to the relatively low charge rates for apartments within the area given its unpopularity, the significant distance from main commercial zones, in addition to security concerns as the area is not mapped within the UN Blue Zone.

We have a NEUTRAL outlook for the hospitality sector and we expect the sector to be on an upward trajectory in terms of overall hotels in operations, hotel bookings, and hotel occupancy following the ambitious international marketing, positive accolades, the return of international flights and the mass vaccination currently underway in the country. However, the emergence of new COVID-19 variants continue to pose a risk on this recovery as stricter measures may be imposed in order to curb its spread.