Hotels Recovery Guide

Seychelles, Mauritius

JLL's Hotels & Hospitality Group | October 2020

Seychelles

Pre-COVID-19 trend

Tourist arrivals to the Seychelles grew by 9% per annum since 2014, fuelling hotel performance, with a similar level of ADR growth per annum during the same period. The market was subsequently able to achieve a notable RevPAR growth of between 11% and 24% between 2015 and 2018.

Hotel performance was buoyed by little new supply entering the market (in part due to the moratorium), and this trend is likely to support the recovery once international travel returns in full form.

The Seychelles typically achieves a higher ADR than many other Indian Ocean destinations, yet it still falls short of the Maldives, which signals further room to grow rates as guest source markets diversify.

Whilst the Seychelles achieves a comfortable premium over other destinations like Mauritius, development and operational costs are notably higher, hence impacting investor returns. Within the Seychelles, there is a distinct difference between private islands that achieve a very strong rate premium (and higher operational costs) and resorts on the main islands of Mahé and Pralin, which tend to achieve a lower ADR, albeit this is offset by a lower operational cost environment.

Seychelles has seen limited transactional liquidity driven by high net worth individuals interested in trophy resorts. Despite assets being tightly held and stock limited, strategic disposals are still likely. Luxury assets that do come to market should achieve high selling prices due to scarcity and demand.

Notable hotel transactions in Seychelles

Year	Property Name	Price	Price per Key
2019	Le Reef Complex	USD 6M	USD 60K
2018	Banyan Tree Seychelles*	USD 70M	USD 1.2M

Source: JLL

**Purchase consideration is for hotel and land for future hotel and residential development.*

COVID-19 impact

YTD August 2020 (year-on-year)

-43.4%	+9.4%	-38.0%
Occ	ADR*	RevPAR*

**USD Currency*
Source: STR

Occupancy in the first eight months of 2020 averaged around 40%, with very few hotels open in the second quarter. ADR recorded a YOY increase as at YTD August 2020, as hotels that remained open are positioned in the higher tiers with demand supported by the Middle Eastern business.

The growth in ADR was also supported by profile of guests amidst the reopening of private jet travel. As of 30 September, Seychelles is open for travel from low risk countries, but visitor numbers are nominal. We expect ADR to remain high in Q4 2020, although occupancy will remain low for the rest of the year.

#1 Island Destination in Africa & Middle East

World Travel Awards 2019

+8.6% YOY
384, 000
Total Visitor Arrivals to Seychelles in 2019

66%
European Visitors

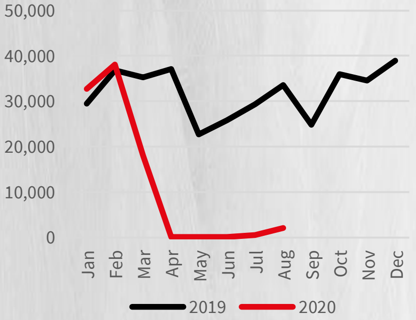
5,900
Rooms as at end-2019

Notable recent openings:
Four Seasons Desroche (2018)

Tourism accounts for 30% of GDP of the Seychelles.

COVID-19 IMPACT

Monthly Arrivals for the Seychelles in 2019 and 2020



Source: NBS, 2020

Seychelles' road to recovery

Apr to May 2020

Seychelles announced its first cases of COVID-19 in mid-March, and has managed to contain the spread relatively well. It is one of the few countries not to report any COVID-19 related deaths as of 30 September 2020. However, all hotels remained closed during April and May as part of the containment measures.

Jun to Jul 2020

The Seychelles has embarked on a phased re-opening of the country from June, which saw travel permitted by private and charter flights. Subsequently, the market's premier luxury hotels on some of the outer islands saw some respite in June and July.

Whilst a few new COVID-19 cases emerged in late-June, the reopening has continued largely as planned.

Aug 2020

Seychelles International Airport reopened in August for commercial flights, with Emirates being the first carrier to resume flying, followed by Etihad and Ethiopian Airways shortly after.

As of 17 August, visitors from 19 low risk countries can travel to the Seychelles with proof of a negative COVID-19 test. Some of the most notable low risk countries in terms of source markets to the Seychelles are UAE, Germany, Italy, China, Switzerland and Canada.

Approximately 15% of population are employed directly in the tourism sector.

Recovery likely to take up to two years

Seychelles Recovery Outlook

Strong owner base likely to weather conditions

A large number of assets are held by high net worth individuals with deep enough reserves to weather the current conditions. Cash flow stress will be more prominent in the upscale segment, although this is unlikely to lead to highly discounted sales.

Limited pipeline supply to support recovery

The supply moratorium that helped fuel strong performance growth has shown some signs of easing, although we do not expect the market to see an influx of new supply due to a lack of suitable sites. We anticipate this trend to support the recovery and investors to focus on acquiring any existing assets that do come to market.

Recovery likely to take up to 18 to 24 months

The Seychelles receives a relatively small number of visitors compared to other destinations in the region, with many markets untapped. A proactive tourism and air route development strategy will be the most ideal approach to a quick recovery off the back of a strong global reputation and good product in the market. Nevertheless, we expect the impact to last at least 18-24 months before recovery.

Mauritius

Pre-COVID-19 *trend*

Tourist arrivals to Mauritius grew at a compound annual growth rate (CAGR) of 5.3% over the last decade, with this increasingly flowing into both the hotel and villa/holiday accommodation sector. The supply moratorium implemented in 2015 and growth in arrivals improved the market's occupancy from 64% in 2014 to 71% in 2019. The ADR and RevPAR increased at a CAGR of approximately 9% and 7% per annum during this period, respectively.

In 2019, occupancy was down by 6% and ADR was 2% lower YOY, a trend that continued into the first two months of 2020. Numerous factors were attributed to this decline, including increased competition from beach destinations and the rise in home sharing and villa programmes locally.

Mauritius has a reasonable amount of transaction activity. Most notably from Mauritian hotel groups divesting their real estate in recent years through sale-and-lease-back transactions. Liquidity is supported by a strong local banking sector, reasonable lending terms, local institutional investors, and a well regulated corporate governance framework.

Notable hotel transactions in Mauritius

Year	Property Name	Price	Price per Key
2017	Club Med La Pointe Aux Canonniers	USD 37.2M	USD 132K
2017	Tamassa Resort	USD 39.7M	USD186K

Source: JLL

COVID-19 *impact*

YTD August 2020 (year-on-year)

-56.4%	+18.4%	-48.4%
Occ	ADR*	RevPAR*

**USD Currency*
Source: STR

Following exceptionally pro-active government measures early in the pandemic, Mauritius began easing its lockdown measures on 30 May 2020, ahead of most countries. This presents an advantage and also a challenge for the tourism and hotel sectors, as the Government remains reluctant to open up borders and risk new infection cases.

The hotel sector is under unprecedented strain with high expenses and limited government support. To add further pressure on the tourism economy, the tragic MV Wakashio oil spill had created ecologic and reputational damage to tourism in Mauritius.

Most local hotel groups have opened up one or several hotels to locals with limited impact on trading due to a lack of spending power. Other hotels have benefited from government quarantine business, and volumes will be closely linked to border policy and quarantine requirements.

Whilst a phased opening of borders is in place from 1 October, the continued quarantine requirements make leisure tourism impractical. It is nevertheless an important first step in a (hopefully) further easing of tourist arrivals.

#1 Ease of Doing Business within Africa

World Bank, 2019

-1.1% YOY
1.38 Million
Total Visitor Arrivals to Mauritius in 2019

59%
European Visitors

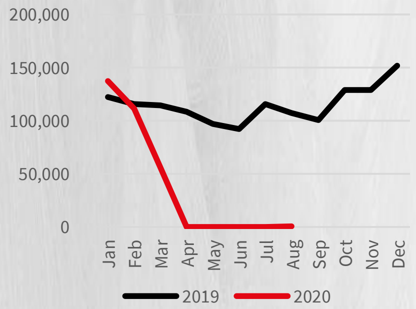
13,615
Rooms as at end-2019

Notable recent openings:
Anantara IKO Mauritius Resort & Villas (2019)

Notable upcoming supply:
Lux* Grand Baie (2020); AVANI Bel Ombre Mauritius Resort & Spa (2021); Mantis Collection De Palmyre (2022)

COVID-19 IMPACT

Monthly Arrivals for Mauritius in 2019 and 2020



Source: Statistics Mauritius, 2020

Mauritius' road to recovery

Mar to Jun 2020

Mauritius closed its borders to travellers after confirming the first three COVID-19 cases on 18 March. Since then, the country had successfully and impressively eradicated COVID-19, with Mauritius recording its last related death on 27 April.

The subsequent measures have meant a shutdown to the hotel sector, with low domestic spending power limiting hotel occupancy. Some hotel businesses were provided by government quarantine, yet not enough to move the needle on performance or group cash flow.

Jul to Aug 2020

In late-July, the MV Wakashio tragically ran aground at Pointe d'Esny creating an ecological disaster. The local community response was commendable, however, the ecologic and brand impact on Mauritius has yet to be fully assessed.

Oct 2020

A phased reopening of the borders is now in progress since 1 October, with a focus on return work permit holders and residents. The continued need for extended quarantine and limited source market access prohibits the recovery of the sector. The question is whether restrictions can be eased in time for hotels to benefit from any Q4 or even Q1 2021 bookings, which is traditionally a strong demand period.

Approximately 20% of all Mauritians are employed in the tourism sector.

USD 25M

Mauritius Transaction Volume Forecast 2020

Governments role in the sector

With 20% of the Mauritians employed in the tourism sector, tourism has been one of the focus areas for the government. This has resulted in a wage subsidies programme, reduced land lease rentals for hotels, working capital support and a moratorium on capital and interest payments on existing loans. This shows commitment by the government, however, various owners and groups in Mauritius had entered the global pandemic with weak balance sheets due to capital investments, as well as limited real growth in profitability of the sector.

"Big Six" Consolidation

Approximately half of all hotels in Mauritius are controlled by six local hotel groups, mostly public listed with close links to large conglomerates. There is potential for cost reduction, economies of scale and gaining negotiating power with wholesalers by consolidating, although it is unclear if this will materialise.

Recovery likely to take beyond 24 months

Mauritius faces a long road to recovery, with no real clarity on when leisure tourists can return. Hotels are also taking on high losses and more debt to cover cash flow. The tourism sector will need to work closely with public sector stakeholders to proactively drive tourism recovery, reverse any brand impact of the oil spill, and potentially open the sector after all its main resort destination competitors.

Seychelles and Mauritius

Optimising Performance and Value

Immediate solvency focus: Hotel groups and hotel owners need to be in constant contact with their lenders and shareholders to remain solvent during this period. Government programmes need to be carefully considered, and managing the balance sheet for prolonged pain is critical.

Reopening scenarios: With borders and air access policy in fluctuation, the approach to reopening hotels (especially in the case of portfolios) is ever evolving. Scenario planning and flexibility in booking terms allowing for consolidating guests in portfolio resorts can assist.

Undertake zero-based manning budgeting: Factor in gradual demand ramp up, with sensitivities around market demand and pick up.

Working with tour operating partners: Business on the books looks promising in various Indian Ocean markets, yet most of this is washing. Staying close to DMCs (Destination Management Companies)/TOs (Tour Operators) to manage this and to get a true reflection of likely wash (to the extent this is possible) is important to remain realistic.

Tourism sector collaboration: Long haul resort destinations will be the last to recover and it is more critical than ever for the public and private sector across the tourism sector collaborates effectively to create demand and lower barriers for tourism. Hoteliers need to play a key role in driving this agenda.

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