

Hospitality outlook: 2015-2019
South Africa – Nigeria – Mauritius – Kenya
5th edition
May 2015

The African Traveller



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Hospitality outlook: 2015-2019

Fifth edition

PwC's team of hospitality specialists provide an unbiased overview of how the hospitality industry in South Africa, Nigeria, Mauritius and Kenya is expected to develop over the coming years. The publication focuses on the following major industry segments: hotels, guest houses and farms, caravan/camping sites, bush lodges and other accommodation. It details the key trends observed and discusses the challenges facing these sectors as well as considering their future prospects.

Hospitality outlook: 2015-2019 demonstrates deep knowledge of the local hospitality market and is a powerful tool for understanding critical business issues. To learn more about the challenges and opportunities that lie ahead for the hospitality industry in South Africa, please visit www.pwc.com/za/hospitality-and-leisure

About PwC's hospitality industry group

Every day, PricewaterhouseCoopers (PwC) plays a significant supporting role in hospitality businesses across the world. With our local knowledge of culture, laws and business needs, we help clients make the most of changing market scenarios.

We understand how developments in the broader hospitality environment are affecting our clients and work with them as a trusted advisor to provide solutions to help improve organisational effectiveness and long-term success. More significantly, we focus on the issues and challenges that are of utmost importance to our clients. These include restructuring, talent management, changing revenue models, compliance, changing guest requirements and managing capital spend. We have made a substantial commitment to understanding the forces that are impacting these issues and continue to develop and deliver solutions to help our clients achieve their financial, operational and strategic objectives.



Hospitality Outlook: 2015-2019

Prepared and edited by:

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Research methodology

Historical data was derived from our analysis of Smith Travel Research (STR) data and local country data combined with other information on industry trends. As some of the historical data was generated through surveys, year-to-year swings sometimes occur because of entities of different sizes being sampled rather than because of underlying industry trends.

Historical data from STR may also differ from one year to the next, reflecting differences in the make-up of the participating sample of hotels. We applied a harmonising model to smooth out these swings in order to better reflect underlying market trends.

We then developed forecasting models based on the historical performance for each category, economic prospects for each country and the rest of the world, and estimates of domestic and international overnight travel. We also took into account announced plans for expansion by hotel operators, as well as competition, pricing trends and the expected reaction of proprietors to changing occupancy rates.

Quantitative research and analysis was provided by Wilkofsky Gruen Associates Inc., a provider of global research and analysis of the hospitality industry. See www.wilkofskygruen.com for more information.

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Johannesburg

14 May 2015



To our clients and friends both in and beyond the hospitality industry:

Welcome to Hospitality outlook: 2015-2019, the 5th edition in this series. This publication focuses on segments within the hospitality industry with detailed forecasts and analysis. It discusses the key trends observed in each segment as well as critical challenges and future prospects.

The accommodation market in South Africa enjoyed its third consecutive year of strong growth with a 9.1% advance following two years of double-digit gains.

Nigeria is forecast to be the fastest-growing market over the next five years with a projected 10.5% compound annual gain. Virtually all of that gain is expected during the latter three years of the forecast period.

Mauritius posted a modest 1.8% advance in 2014, helped by rising tourism, but declining room rates held down revenue growth.

Kenya's hotel market has been declining for three years and we expect a further drop in 2015 and for as long as security concerns in East Africa persist.

We at PwC continue to stay on top of trends and developments that may impact hospitality companies, now and in the future, and look forward to sharing our thoughts further with you.

We appreciate your feedback and ask that you continue to tell us what we can do to make our publications more relevant and useful to you.

If you would like clarification on any matters covered in this publication, or you believe we can be of service to your business in any way, please contact one of our hospitality specialists listed on page 57 of this report.

Finally, we thank you for your support and wish you an exciting and rewarding year ahead.

Sincerely,



Nikki Forster

Director
Hospitality Industry Leader
PwC Southern Africa

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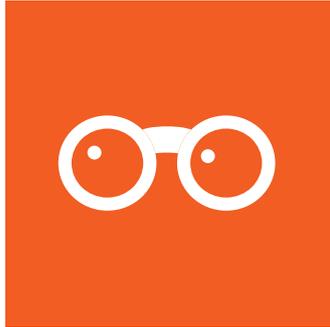
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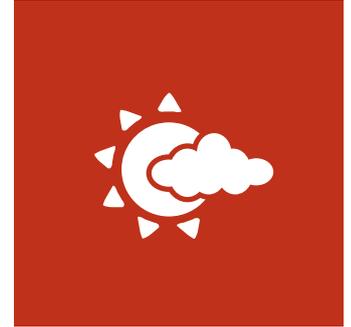
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The Market





This report covers South Africa, Nigeria, Mauritius and Kenya. The market consists of spending generated by renting rooms. Accommodation sectors in South Africa consist of hotels, guest houses and guest farms, game lodges, caravan sites, camping sites and other overnight accommodation. For Nigeria, Mauritius and Kenya, only information on hotels is presented.

Figures for South Africa are expressed in rand; those for Nigeria and Kenya are shown in US dollars (US\$); and figures for Mauritius are expressed in euros. Tables showing comparisons between countries are in rand. We use a constant exchange rate for the 2008-2019 period.

Exchange rates used in this report

Rand: US\$	10.8352
US\$: naira	163.5910
Rand: euros	14.3798
Euros: rupees	39.1907
Euros: US\$	0.7535
US\$: shilling	86.5624

Overview

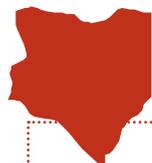
South Africa, Nigeria, Mauritius and Kenya have very different markets. South Africa attracts a mix of business and holiday travellers and offers a wide range of hotel classes and accommodation.



Nigeria is principally a business market with relatively little holiday tourism.



Mauritius is principally a resort market with most travellers coming on holiday and where five-star hotels constitute a significant component of available rooms and total spending.



Kenya has a mixed market, predominately attracting tourists through its beaches and safari offerings as well as business travellers, principally to Nairobi. Growing trade between Kenya and China is supporting the business market.

These differences are reflected in spending patterns. As a resort market, Mauritius is affected by international global economic conditions through its impact on disposable income and from competition from The Maldives, Sri Lanka and Seychelles, which compete for the same market.

As business destinations, the domestic economic climate is an important attraction in Nigeria and South Africa.

Nigeria's economy had been booming, buoyed in large part by regional and international investment, but the sharp decline in oil prices in the latter part of 2014 has hurt Nigeria. South Africa's economy has weakened, but the hotel market benefited from an 8% increase in foreign visitors to 10.3 million in 2014.

8%
increase
in foreign
visitors

10.3
million in
2014

The hotel markets in Nigeria and Kenya were both adversely affected by terrorist activity in 2014 and Nigeria was also hurt by the outbreak of Ebola in West Africa. Both countries recorded declines in hotel room revenue in 2014. Fears over the Ebola outbreak appeared to discourage some people from travelling to South Africa.

Mauritius posted a modest 1.8% advance in 2014, helped by rising visitor numbers. However, declining room rates held down revenue growth.



Much of the growth in South Africa was generated in Cape Town.

Cape Town is a major tourist destination, attracting visitors for its beauty and sophistication. Film companies are using Cape Town for its natural beauty as well as a strong infrastructure of skilled labour and facilities. Total room revenue in South Africa rose 9.1% in 2014 and hotel room revenue increased 6.9%, principally generated by rising room rates. South Africa had the best-performing market among the four countries in 2014.

Nigeria is forecast to be the fastest-growing market over the next five years with a projected 10.5% compound annual gain.

Virtually all of that gain is expected during the latter three years of the forecast period. An increase in available rooms, a strong economy and a rebound from the adverse effects of terrorism, provided the terrorism threat is reduced, will account for the increase. In the near term, however, the market will remain weak.



Kenya's hotel market has been declining for three years and we expect a further drop in 2015.

The coastal resorts have been most affected by the drop in tourism and a number of hotels have closed. The Q2 2015 Kenya Tourist Report from BMI expressed concerns that the security situation and the perceived threat of Ebola are hurting the hotel and restaurant industries. The business component of the market, however, is picking up and we expect expansion in that sector to lead to an overall increase beginning in 2016. Growth for the forecast period as a whole will average **4.7%** on a compound annual basis.

*We expect total room revenue in South Africa to expand at an **8.0%** compound annual rate overall and by **8.1%** compounded annually for hotels.*

Growth in room rates will be the principal driver of revenue growth in South Africa, with new hotels in Cape Town leading the expansion.

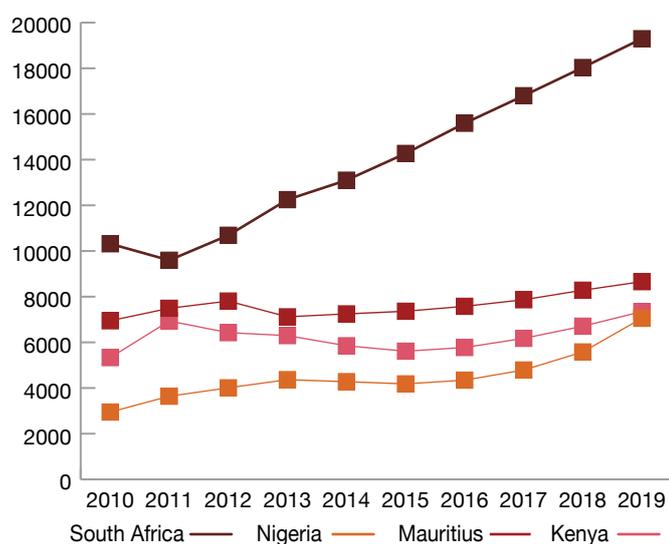
Total room revenue in Mauritius will grow at a projected **3.6%** compound annual rate, helped by an improving global economy and growth in foreign travel, but competition will keep room rates from expanding at any meaningful degree and we expect Mauritius to be the slowest growing of the four countries over the next five years.

Room revenue in South Africa, Nigeria, Mauritius and Kenya (R millions)											
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2015-19 CAGR
South Africa (total)	13 850	13 368	15 159	17 279	18 859	20 541	22 314	24 106	25 852	27 734	
% change	16.7	-3.5	13.4	14.0	9.1	8.9	8.6	8.0	7.2	7.3	8.0
South Africa (hotels only)	10 317	9 594	10 688	12 249	13 100	14 271	15 594	16 800	18 034	19 296	
% change	16.9	-7.0	11.4	14.6	6.9	8.9	9.3	7.7	7.3	7.0	8.1
Nigeria*	2 947	3 641	4 009	4 367	4 280	4 182	4 345	4 789	5 580	7 054	
% change	7.1	23.5	10.1	8.9	-2.0	-2.3	3.9	10.2	16.5	26.4	10.5
Mauritius*	6 945	7 492	7 808	7 118	7 247	7 362	7 578	7 866	8 283	8 657	
% change	-0.6	7.9	4.2	-8.8	1.8	1.6	2.9	3.8	5.3	4.5	3.6
Kenya*	5 331	6 935	6 425	6 295	5 851	5 613	5 775	6 176	6 707	7 346	
% change	5.6	30.1	-7.4	-2.0	-7.1	-4.1	2.9	6.9	8.6	9.5	4.7
Total hotel revenue	25 540	27 662	28 930	30 029	30 478	31 428	33 292	35 631	38 604	42 353	
% change	8.1	8.3	4.6	3.8	1.5	3.1	5.9	7.0	8.3	9.7	6.8

*Hotels only

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 1. Hotel room revenue in South Africa, Nigeria, Mauritius and Kenya (R millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates



South Africa



Total accommodation market in South Africa

The accommodation market in South Africa enjoyed its third consecutive year of strong growth with a 9.1% advance following two years of double-digit gains. Spending rose to R18.9 billion in 2014 with rising room rates being the principal driver with a 5.4% increase. This gain, however, was less than the 8.4% increase in 2013.

ROOMS AVAILABLE

Stay unit nights were up **3.6%** in 2014, also a smaller increase compared with the **5.2%** and **7.7%** increases in the prior two years. Nevertheless, with room availability virtually flat over the past three years, the occupancy rate increased to **54.4%**, its highest level over the past seven years.

We now believe the market can sustain mid-single-digit price rate increases in room rates without adversely affecting stay unit nights. We project increases to average **5.7%** compounded annually, roughly in line with the rate of inflation. The average room will cost **R1 083** in 2019 from **R820** in 2014.



The number of available rooms will grow at a **0.7%** compound annual rate with the bulk of that gain coming from new hotels. With stay unit nights increasing at a faster rate than room supply, the overall occupancy rate will increase to a projected **58.3%** by 2019.

Total room revenue will reach **R27.7** billion in 2019, an **8.0%** compound annual increase from 2014.

We project somewhat faster increases in average room rates over the next few years, as the underlying market is now showing sustained strength following a difficult period when large increases in supply coupled with a weak economy led to a drop in occupancy rates that put downward pressure on pricing. We expect the largest increases in guest houses/guest farms and hotels. Within the hotel sector, we expect five-star hotels to be the fastest growing.

Stay unit nights

rose 3.6% in 2014 with most of that growth generated by a 10% increase in caravan/camping sites and other accommodation. We do not expect that pace to be maintained and look for the overall market to expand at a more moderate 2.2% compound annual rate to 25.6 million stay unit nights in 2019 from 23 million in 2014.

Total accommodations market in South Africa

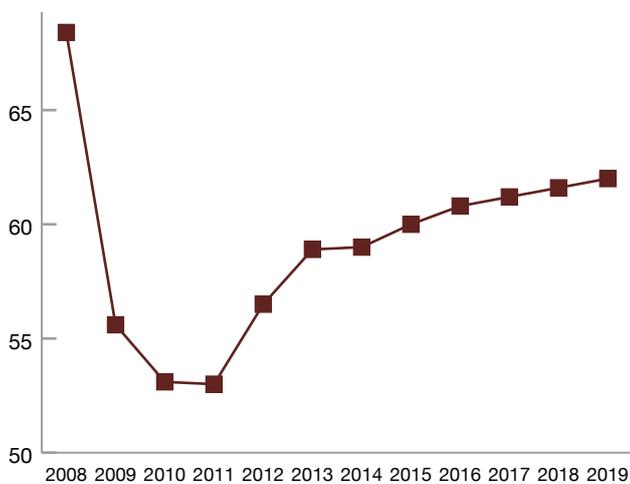
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2015-19 CAGR
Available rooms (thousands)	106.2	110.7	113.4	113.2	114.9	115.7	115.9	116.7	117.8	118.8	119.6	120.3	
% change	1.5	4.2	2.4	-0.2	1.5	0.7	0.2	0.7	0.9	0.8	0.7	0.6	0.7
Stay unit nights (millions)	20.2	19.1	19.8	19.6	21.1	22.2	23.0	23.6	24.2	24.7	25.1	25.6	
% change	-1.0	-5.4	3.7	-1.0	7.7	5.2	3.6	2.6	2.5	2.1	1.6	2.0	2.2
Occupancy rates (%)	52.0	47.3	47.8	47.4	50.2	52.6	54.4	55.4	56.1	57.0	57.5	58.3	
Average room rates (R)	610	621	699	682	718	778	820	870	922	976	1 030	1 083	
% change	13.8	1.8	12.6	-2.4	5.3	8.4	5.4	6.1	6.0	5.9	5.5	5.1	5.7
Total room revenue (R millions)	12 312	11 867	13 850	13 368	15 159	17 279	18 859	20 541	22 314	24 106	25 852	27 734	
% change	12.6	-3.6	16.7	-3.5	13.4	14.0	9.1	8.9	8.6	8.0	7.2	7.3	8.0

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Hotel accommodation

Between 2008 and 2010, the number of available rooms increased by 20% and there was an additional 2.9% increase in 2011 as rooms that entered the market in 2010 enjoyed a full-year of availability. This increase was far faster than the market could bear and occupancy rates dropped from 68.4% in 2008 to 53.0% in 2011.

Figure 2. Hotel occupancy rates in South Africa (%)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Over the past three years, room availability has been essentially stable and with stay unit nights increasing, occupancy rates picked up, rising to 59.0% in 2014.

With the market now improving, there is renewed activity. There are 11 hotel projects in the pipeline in Cape Town alone, with eight currently under construction. The increase in activity in Cape Town is in response to a surging market with hotel revenue growing by more than 50% between 2011 and 2014 and the occupancy rate increasing from 57% to 68% over that period. These projects will add more than 2 000 rooms over the next four years. Marriott International plans to open 30 hotels across Southern Africa by 2020, with several planned for South Africa.

Hotel room availability in South Africa was relatively stable in 2014, edging down 0.2%, but we expect new projects to expand the market beginning in 2015. A relatively new development is an increased focus on next-generation facilities. The Carlson Rezidor Hotel Group, for example, introduced a next-generation (nexgen) hotel, the Park Inn by Radisson, in Newlands, Cape Town. Nexgen hotels feature high-speed wireless Internet access, HDTV, interactive lobby displays that provide a guide to cultural attractions, in-room interactive tablets that provide information on hotel restaurants, hotel bars and concierge services, along with other amenities appealing to an evolving market.

We expect the number of available rooms to increase by 0.7% in 2015 and to average 0.9% compounded annually to 63 600 in 2019 from 60 800 in 2014.

Stay unit nights were flat in 2014 following three years of growth. The market was adversely affected by slower economic growth in South Africa and fears of Ebola, although the disease did not directly affect South Africa. The market in 2014 was also affected by an adverse comparison to 2013 when South Africa hosted the African Cup of Nations soccer tournament, which boosted stay unit nights by approximately 11% during January/February 2013. Stay unit nights were flat during the comparable period in 2014.

We expect stay unit nights to rebound in 2015, helped by an improving global economy and a pickup in economic growth in South Africa. Growth, however, will be limited by the imposition in May 2014 of two new requirements needed to obtain a visa. One requirement mandates that foreign visitors must appear in person at a South African consulate to apply for visas to have biometrics taken. A second policy requires that parents and guardians travelling with minors must have an unabridged birth certificate that shows the names of both parents. If a minor is travelling with one parent, an affidavit from the other parent is required granting consent for the trip. The purpose of the latter policy is to stop child trafficking. Tourism industry commentators in South Africa say this has already adversely affected travel from China and India, as potential visitors from these countries may have to travel long distances to a large city to obtain the necessary documentation before travelling to South Africa. Consequently, we project stay unit nights to grow more slowly over the forecast period compared with increases during the 2010-13 period.

While the underlying economy is improving in South Africa, load shedding by Eskom to conserve electricity could dampen economic activity and limit growth in the near term. We look for real GDP growth in South Africa to improve to 2.1% in 2015 from only 1.4% in 2014, but this increase will be less than the annual gains over the 2010-13 period. We do not expect growth to exceed 3% until 2018-19.

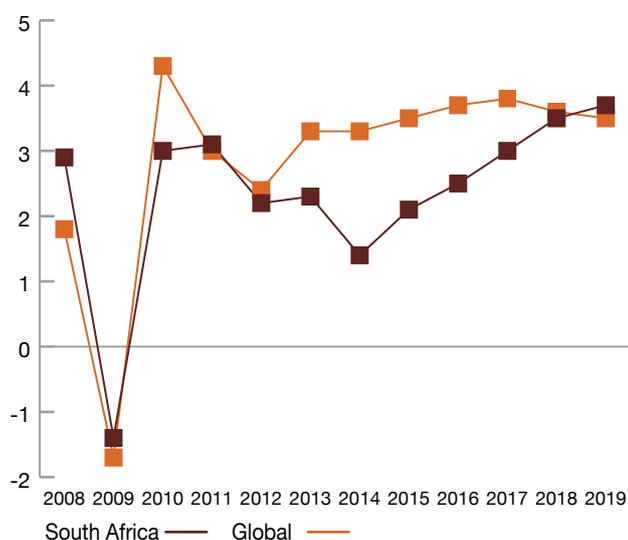
For the next four years, South Africa is projected to grow more slowly than the overall global economy. Growth for the entire forecast period will average an estimated 3.0% compounded annually. We expect the global economy to average 3.6% on a compound annual basis. These gains will contribute to growth in local government and corporate travel as well as increases in foreign tourism and business travel.

Real GDP growth (%)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2015-19 CAGR
South Africa	2.9	-1.4	3.0	3.1	2.2	2.3	1.4	2.1	2.5	3.0	3.5	3.7	3.0
Global	1.8	-1.7	4.3	3.0	2.4	3.3	3.3	3.5	3.7	3.8	3.6	3.5	3.6

Sources: International Monetary Fund, World Bank, Statistics South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 3. Real GDP growth (%)



Source: International Monetary Fund, World Bank, Statistics South

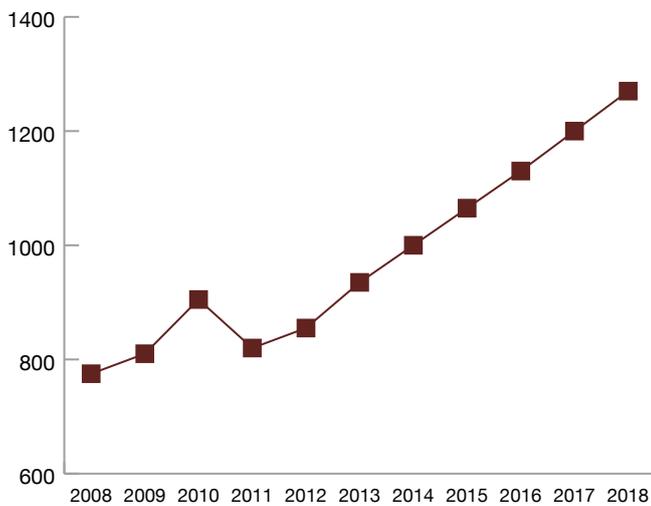
In another positive development, Qatar Airways introduced a new non-stop service between Doha and Cape Town in late 2014, which should boost travel from Qatar to South Africa. On the other hand, South Africa Airways (SAA) has cancelled its Beijing and Mumbai routes, which could cut into visitor growth from China and India. However, SAA will be starting flights to Abu Dhabi and Emirates also introduced a fourth daily flight between Johannesburg and Dubai in 2014, reflecting growing travel to and from the United Arab Emirates.

We project stay unit nights to increase by 2.3% in 2015 and by an additional 3.0% in 2016 with more moderate gains expected in subsequent years. For the forecast period as a whole, we project stay unit nights to average 1.9% compounded annually to 14.4 million in 2019 from 13.1 million in 2014.

With stay unit nights growing faster than room supply, the occupancy rate for hotels will rise from 59.0% in 2014 to a projected 62.0% in 2019.



Figure 4. Hotels: Average room rates, 2008-2019 (R)



The average room rate increased 7.0% in 2014, down from a 9.4% rise in 2013. We look for increases to moderate further over the forecast period with the average rate climbing to R1 340 in 2019, a 6.0% compound annual increase from R1 000 in 2014, slightly faster than the projected 5.5% inflation rate.

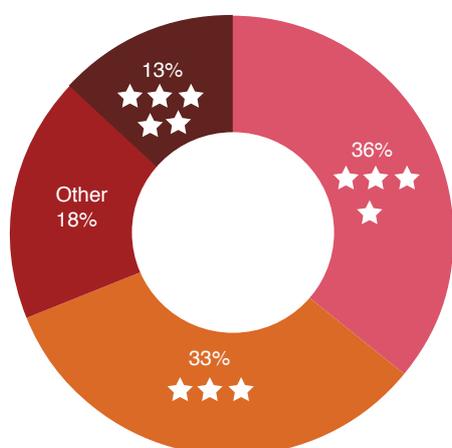
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Hotel room revenue is expected to expand to R19.3 billion in 2019, up 8.1% compounded annually from R13.1 billion in 2014.

Hotels in South Africa													
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2015-19 CAGR
Available rooms (thousands)	49.1	53.7	58.8	60.5	60.4	60.9	60.8	61.2	62.0	62.7	63.2	63.6	
% change	1.2	9.4	9.5	2.9	-0.2	0.8	-0.2	0.7	1.3	1.1	0.8	0.6	0.9
Stay unit nights (millions)	12.3	10.9	11.4	11.7	12.5	13.1	13.1	13.4	13.8	14.0	14.2	14.4	
% change	-3.1	-11.4	4.6	2.6	6.8	4.8	0.0	2.3	3.0	1.4	1.4	1.4	1.9
Occupancy rates (%)	68.4	55.6	53.1	53.0	56.5	58.9	59.0	60.0	60.8	61.2	61.6	62.0	
Average room rates (R)	775	810	905	820	855	935	1 000	1 065	1 130	1 200	1 270	1 340	
% change	16.5	4.5	11.7	-9.4	4.3	9.4	7.0	6.5	6.1	6.2	5.8	5.5	6.0
Total room revenue (R millions)	9 533	8 829	10 317	9 594	10 688	12 249	13 100	14 271	15 594	16 800	18 034	19 296	
% change	12.9	-7.4	16.9	-7.0	11.4	14.6	6.9	8.9	9.3	7.7	7.3	7.0	8.1

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 5. Total room revenue by category, 2014



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Three-star hotels

Three-star hotels accounted for 36% of all available hotel rooms in South Africa and 33% of total hotel room revenue. The average room rate of R855 was 15% below the overall average of R1 000 for all hotels.

Stay unit nights for three-star hotels were flat in 2014 but the 6.9% increase in the average room rate resulted in an equivalent increase in revenue.

We expect an increase in stay unit nights, but moderating growth in average room rates over the forecast period. With stay unit nights expanding at a 3.0% compound annual rate, the occupancy rate will rise to 70.9% in 2019 from 63.1% in 2014.

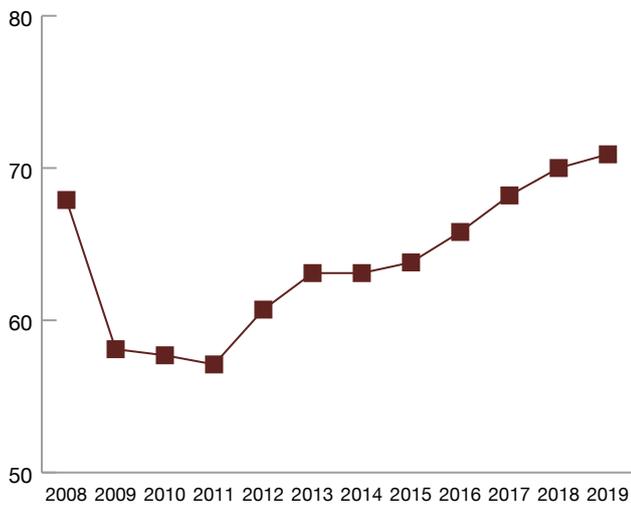
The average room rate will rise to a projected R1 125 in 2019, growing at a 5.6% compound annual rate, comparable to the projected 5.5% rise in consumer prices over that period. Room revenue in three-star hotels will expand at a projected 8.8% compound annual rate to R6.5 billion in 2019 from R4.3 billion in 2014.

Three-star hotels in South Africa

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2015-19 CAGR
Available rooms (thousands)	16.9	18.4	20.4	21.6	21.6	21.7	21.7	21.9	22.0	22.1	22.3	22.4	
% change	2.4	8.9	10.9	5.9	0.0	0.5	0.0	0.9	0.5	0.5	0.9	0.4	0.6
Stay unit nights (millions)	4.2	3.9	4.3	4.5	4.8	5.0	5.0	5.1	5.3	5.5	5.7	5.8	
% change	0.0	-7.1	10.3	4.7	6.7	4.2	0.0	2.0	3.9	3.8	3.6	1.8	3.0
Occupancy rates (%)	67.9	58.1	57.7	57.1	60.7	63.1	63.1	63.8	65.8	68.2	70.0	70.9	
Average room rates (R)	625	650	720	690	730	800	855	915	970	1 020	1 075	1 125	
% change	16.8	4.0	10.8	-4.2	5.8	9.6	6.9	7.0	6.0	5.2	5.4	4.7	5.6
Total room revenue (R millions)	2 625	2 535	3 096	3 105	3 504	4 000	4 275	4 667	5 141	5 610	6 128	6 525	
% change	16.8	-3.4	22.1	0.3	12.9	14.2	6.9	9.2	10.2	9.1	9.2	6.5	8.8

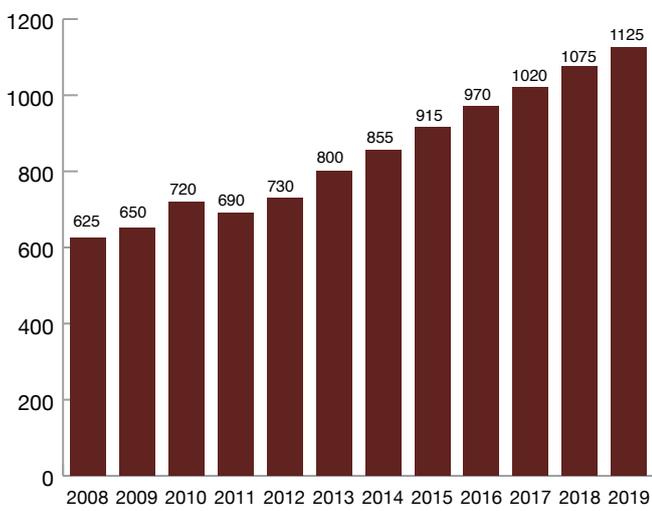
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 6. Three-star hotels: Occupancy rates (%)

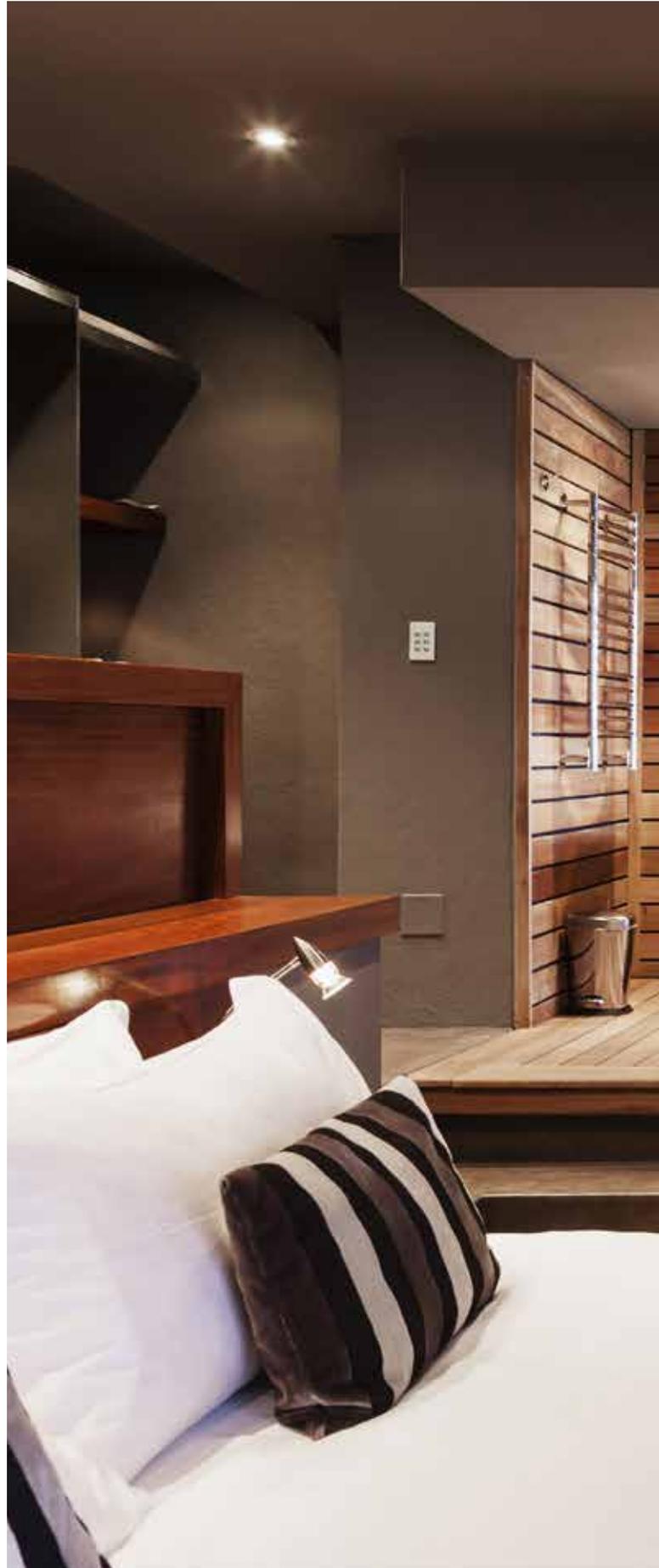


Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 7. Three-star hotels: Average room rates (R)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates



Four-star hotels

Available rooms and stay unit nights were both flat for four-star hotels in 2014. As with three-star hotels, revenue growth for four-star hotels was generated by an increase in the average room rate, which rose 5.3% to R4.7 billion.

As with the rest of the market, we look for a pickup in stay unit nights beginning in 2015 and project mid-single-digit growth in average room rates. We expect a 3.4% compound annual increase in stay unit nights, while the number of available rooms is expected to grow only 0.8% compounded annually, resulting in an increase in the occupancy rate from 62.5% in 2014 to 70.8% in 2018.

We project average room rates to increase at a 5.5% compound annual rate, keeping pace with projected inflation, to an estimated R1 565 in 2019. Room revenue will increase from R4.7 billion in 2014 to R7.2 billion in 2019, a 9.0% compound annual gain.

Four-star hotels in South Africa

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2015-19 CAGR
Available rooms (thousands)	14.1	15.1	16.1	16.7	16.6	17.1	17.1	17.2	17.3	17.5	17.7	17.8	
% change	1.4	7.1	6.6	3.7	-0.6	3.0	0.0	0.6	0.6	1.2	1.1	0.6	0.8
Stay unit nights (millions)	3.6	3.2	3.2	3.3	3.6	3.9	3.9	4.0	4.2	4.3	4.5	4.6	
% change	-5.3	-11.1	0.0	3.1	9.1	8.3	0.0	2.6	5.0	2.4	4.7	2.2	3.4
Occupancy rates (%)	69.8	58.1	54.5	54.1	59.3	62.5	62.5	63.7	66.3	67.3	69.7	70.8	
Average room rates (R)	1 015	1 050	1 175	1 030	1 055	1 140	1 200	1 265	1 335	1 410	1 490	1 565	
% change	19.4	3.4	11.9	-12.3	2.4	8.1	5.3	5.4	5.5	5.6	5.7	5.0	5.5
Total room revenue (R millions)	3 654	3 360	3 760	3 399	3 798	4 446	4 680	5 060	5 607	6 063	6 705	7 199	
% change	13.1	-8.0	11.9	-9.6	11.7	17.1	5.3	8.1	10.8	8.1	10.6	7.4	9.0

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Five-star hotels

Five-star hotels had the highest occupancy rates in the market at 70.7% in 2014. Five-star hotels accounted for only 5% of all hotel rooms – with availability dipping 3.1% or by just under 100 rooms in 2014. As with the rest of the market, stay unit nights for five-star hotels were flat in 2014. The average room rate, however, jumped 12.8%, which made five-star hotels the fastest-growing segment of the hotel market in South Africa in 2014.

Average room rates for five-star hotels in Cape Town, the largest market for five-star hotels, rose 18% in 2014 as that market is booming. Most of the growth was generated in Cape Town. Five-star hotels as a whole in South Africa accounted for 13% of total hotel room revenue in 2014, well above their share of available rooms.

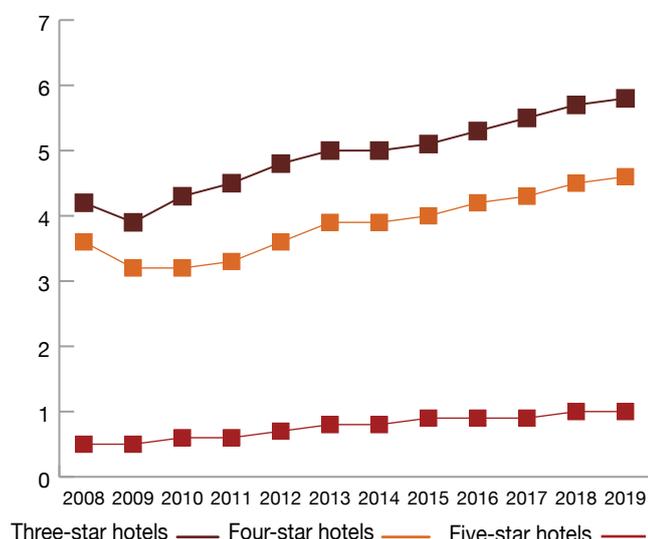
We expect five-star hotels to continue to grow faster than the rest of the market, in large part reflecting above-average rate increases of 7.2% compounded annually. With occupancy rates above 70% and expected to surpass 80% during the forecast period, five-star hotels can be, and have been, more aggressive in raising rates. The occupancy rate for five-star hotels will rise to a projected 80.6% in 2019 and the average room rate will reach R3 110.

Room revenue will expand at a 12.1% compound annual rate to R3.1 billion in 2019 from R1.8 billion in 2014. Five-star hotels will increase their share of the market to 16% by 2019.

Five-star hotels in South Africa													
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2015-19 CAGR
Available rooms (thousands)	2.4	2.5	3.1	3.2	3.2	3.2	3.1	3.1	3.2	3.2	3.3	3.4	
% change	-4.0	4.2	24.0	3.2	0.0	0.0	-3.1	0.0	3.2	0.0	3.1	3.0	1.9
Stay unit nights (millions)	0.5	0.5	0.6	0.6	0.7	0.8	0.8	0.9	0.9	0.9	1.0	1.0	
% change	-16.7	0.0	20.0	0.0	16.7	14.3	0.0	12.5	0.0	0.0	11.1	0.0	4.6
Occupancy rates (%)	56.9	54.8	53.0	51.4	59.8	68.5	70.7	79.5	76.8	77.1	83.0	80.6	
Average room rates (R)	1 875	1 920	2 115	1 750	1 780	1 950	2 200	2 440	2 650	2 790	2 945	3 110	
% change	24.6	2.4	10.2	-17.3	1.7	9.6	12.8	10.9	8.6	5.3	5.6	5.6	7.2
Total room revenue (R millions)	938	960	1 269	1 050	1 246	1 560	1 760	2 196	2 385	2 511	2 945	3 110	
% change	3.9	2.3	32.2	-17.3	18.7	25.2	12.8	24.8	8.6	5.3	17.3	5.6	12.1

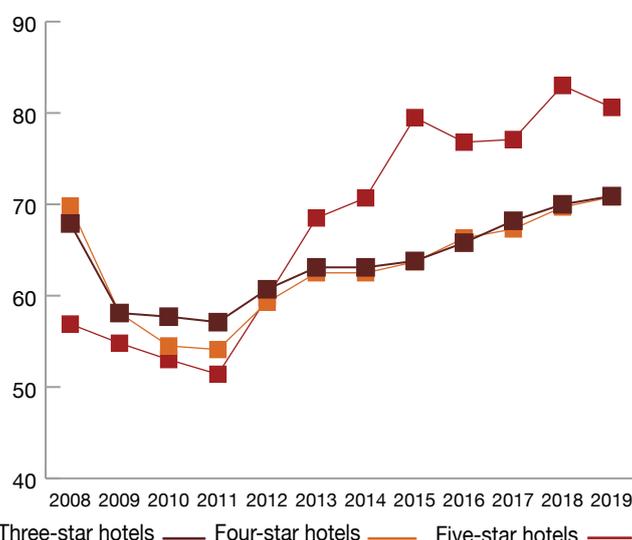
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 8. Stay unit nights: Three-, four- and five-star hotels (millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 9. Occupancy rates: Three-, four- and five-star hotels (%)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Johannesburg

Johannesburg is the leading business destination in South Africa. Johannesburg hosts numerous conventions that attract both domestic and international participants.

Hotels in Johannesburg lagged the overall hotel market in 2014. Stay unit nights fell 2%. Average room rates did increase, but the 3% gain was below the overall increase and below the 6.1% rate of inflation. The occupancy rate declined in Johannesburg in 2014, reflecting a decline in stay unit nights, which led to a softening in room rates. Hotel revenue in Johannesburg edged up just 1%, compared with 6.9% for the market as a whole.

The weak market in Johannesburg was principally in four- and five-star hotels where revenue fell 6% in 2014, principally reflecting a 10% drop in stay unit nights. Stay unit nights at three-star hotels were flat and revenue rose 5% from an increase in average room rates.

With the overall market expected to improve, Johannesburg should benefit as well, but we expect most of the growth in South Africa to be generated in Cape Town.

Durban

Durban is a much smaller market than either Johannesburg or Cape Town and appeals to tourists looking for sandy beaches, waterfront hotels, game and nature reserves, casinos, as well as art galleries and museums, as well as a stopping off point for tourists looking to explore nature. Durban also is an international conference centre that attracts international business travellers. However, Durban is a more popular destination for domestic tourists than for international tourists.

The hotel market in Durban was comparable to that of Johannesburg in 2014. Stay unit nights fell 2%, average room rates rose 3% and revenue was up 1%.

Durban is redeveloping its coastline, which should attract more visitors. There are also plans for a new cruise terminal, which will benefit cruise occupancy more than hotels. Durban's hotels should benefit from these upgrades as well as from an improved economic environment and growth in tourism, but we do not expect increases to match the market in Cape Town.

Cape Town

Cape Town is the dominant tourist destination in South Africa and hotels in the city flourished in 2014. Room revenue was up 17% on the strength of a 5% rise in stay unit nights accompanied by a 12% rise in average room revenue. The gain in 2014 was on top of the 18% rise in 2013.

Growth occurred in all segments of the market with five-star, four-star and three-star hotels each expanding at comparable rates.

The strong showing in Cape Town is attracting investors. A total investment of R3.5 billion is planned for new hotels in Cape Town over the next four years, which will result in adding 2 100 rooms to the overall market.

We expect most of the growth in the overall hotel market in South Africa over the next five years to be generated in Cape Town.

Guest houses and guest farms

The guest house and guest farm market was the best-performing sector in 2014. Room revenue rose 19.5% driven by a 14.1% increase in the average room rate and 4.8% growth in stay unit nights.

Stay unit nights rebounded from a drop in 2013 while average room rates continued to grow at double-digit rates.

We look for continued but modest growth in stay unit nights averaging 2.6% compounded annually with most of the revenue growth continuing to come from rate increases. However, we do not expect double-digit room rate growth to be maintained and we project increases at a more modest 7.1% rate compounded annually, rising to R1 200 in 2019 from R850 in 2014.

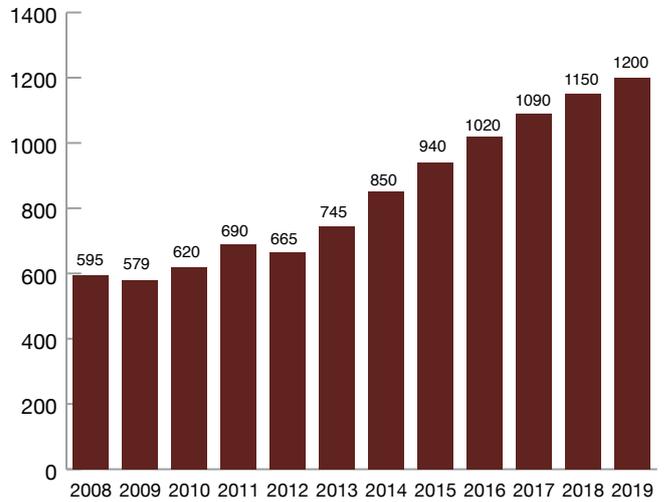
Overall room revenue will rise from R1.9 billion in 2014 to R3 billion in 2019, a 9.9% gain compounded annually.

Guest houses/farms in South Africa													
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2015-19 CAGR
Available rooms (thousands)	10.4	10.1	9.8	9.1	9.2	9.5	9.6	9.7	9.8	9.9	10.0	10.1	
% change	8.3	-2.9	-3.0	-7.1	1.1	3.3	1.1	1.0	1.0	1.0	1.0	1.0	1.0
Stay unit nights (millions)	1.6	1.6	1.7	1.8	2.2	2.1	2.2	2.3	2.3	2.4	2.4	2.5	
% change	6.7	0.0	6.3	5.9	22.2	-4.5	4.8	4.5	0.0	4.3	0.0	4.2	2.6
Occupancy rates (%)	42.0	43.4	47.5	54.2	65.3	60.5	62.9	65.0	64.1	66.5	65.8	67.8	
Average room rates (R)	595	579	620	690	665	745	850	940	1 020	1 090	1 150	1 200	
% change	1.7	-2.7	7.1	11.3	-3.6	12.0	14.1	10.6	8.5	6.9	5.5	4.3	7.1
Total room revenue (R millions)	952	926	1 054	1 242	1 463	1 565	1 870	2 162	2 346	2 616	2 760	3 000	
% change	8.4	-2.7	13.8	17.8	17.8	7.0	19.5	15.6	8.5	11.5	5.5	8.7	9.9

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

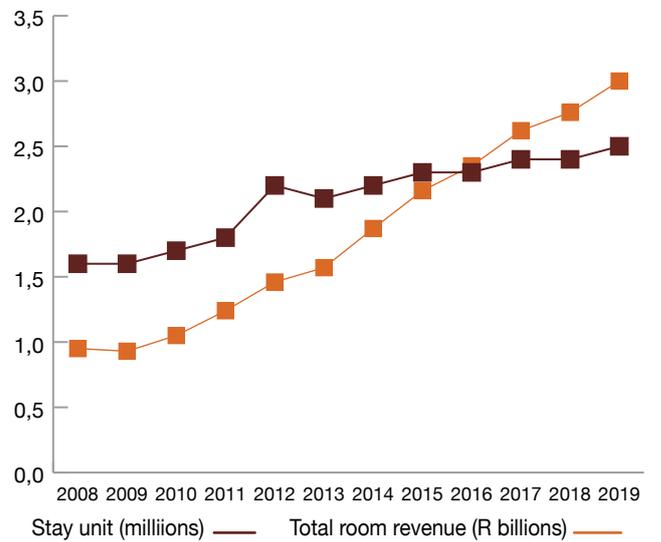


Figure 10. Guest houses/farms: Average room rates (R)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 11. Guest houses/farms: Stay unit nights and total room revenue



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

***Caravan/camping sites, bush lodges
and other accommodation***



The caravan/camping site, bush lodges and other (which includes bed and breakfast, lodges and self-catering establishments) accommodation market attracts tourists interested in wildlife, game reserves and eco-tourism, which are some of the most significant attractions in South Africa.

This segment of the market attracts young people in the leisure market who often spend more time in South Africa than other tourists. This segment also appeals to families who go camping and to people from lower income levels, as room rates are relatively low at R505 on average.

Stay unit nights rose 10.0%, accounting for most of the growth in overall stay unit nights for the accommodation market as a whole. Average room rate growth, however,

was only 2.0% in 2014, much lower than room rate growth in other sectors. Revenue increased 12.2%, the third consecutive year of double-digit growth. This segment of the market has done relatively well in the face of a slowing economy.

Relatively modest price increases averaging 4.4% compounded annually will hold down growth in this segment, as we do not expect stay unit night growth to match the increases of the past two years. We look for stay unit nights to expand at a 2.5% compound annual rate and room revenue to increase at a 6.9% rate compounded annually to R5.4 billion in 2019 from R3.9 billion in 2014.

Caravan/camping sites, bush lodges and other accommodation

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2015-19 CAGR
Available rooms (thousands)	46.7	46.9	44.8	43.6	45.3	45.3	45.5	45.8	46.0	46.2	46.4	46.6	
% change	0.4	0.4	-4.5	-2.7	3.9	0.0	0.4	0.7	0.4	0.4	0.4	0.4	0.5
Stay unit nights (millions)	6.3	6.6	6.7	6.1	6.4	7.0	7.7	7.9	8.1	8.3	8.5	8.7	
% change	1.6	4.8	1.5	-9.0	4.9	9.4	10.0	2.6	2.5	2.5	2.4	2.4	2.5
Occupancy rates (%)	36.9	38.6	41.0	38.3	38.6	42.3	46.4	47.2	48.1	49.2	50.2	51.1	
Average room rates (R)	290	320	370	415	470	495	505	520	540	565	595	625	
% change	11.5	10.3	15.6	12.2	13.3	5.3	2.0	3.0	3.8	4.6	5.3	5.0	4.4
Total room revenue (R millions)	1 827	2 112	2 479	2 532	3 008	3 465	3 889	4 108	4 374	4 690	5 058	5 438	
% change	13.3	15.6	17.4	2.1	18.8	15.2	12.2	5.6	6.5	7.2	7.8	7.5	6.9

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Looking back: 2014

In last year's Outlook, we forecast the occupancy rate to rise to 52.8% in 2014 for all accommodation sectors, but it increased at a faster rate to 54.4%. Hotel occupancy, however, did not reach the expected 61.1%, coming in at 59.0%. Overall stay unit nights exceeded expectations, rising to 23.0 million, higher than the projected 22.4 million. Room revenue growth, on the other hand, rose only 9.1%, slower than the 12.4% increase projected for 2014.

Accommodation market: Actual vs forecast results for 2014

	Projected growth	Actual growth
Occupancy: All sectors (%)	52.8	54.4
Occupancy: Hotel sector (%)	61.1	59.0
Stay unit nights (millions)	22.4	23.0
Room revenue growth (%)	12.4	9.1
Total room revenue (R millions)	19 430	18 859

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Occupancy

Our occupancy forecast for five-star hotels of 70.7% was on target but four-star and three-star hotels were lower than we expected.

Occupancy: Actual vs forecast results for 2014

	Projected occupancy (%)	Actual occupancy (%)
Five-star hotels	70.7	70.7
Four-star hotels	63.7	62.5
Three-star hotels	64.4	63.1
All hotels	61.1	59.0
All	52.8	54.4

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Total room revenue

Room rates did not increase as much as we expected, with the result that revenue growth fell short of expectations in each category.

Total room revenue: Actual vs forecast results for 2014

	Projected total room revenue growth (%)	Actual total room revenue growth (%)
Five-star hotels	17.7	12.8
Four-star hotels	14.7	5.3
Three-star hotels	11.6	6.9
All hotels	15.5	6.9
All	12.4	9.1

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Stay unit nights

Stay unit nights for five-star hotels matched our projection but they fell a bit short for four-star and three-star hotels. Stay unit nights for all hotels came in at 13.1 million in 2014, lower than the projected 13.6 million. That shortfall was more than compensated by greater than expected stay unit nights for the rest of the accommodation market.

Stay unit nights: Actual vs forecast results for 2014

	Projected stay unit nights (millions)	Projected stay unit nights (millions)
Five-star hotels	0.8	0.8
Four-star hotels	4.0	3.9
Three-star hotels	5.1	5.0
All hotels	13.6	13.1
All	22.4	23.0

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Average room rates

Average room rates rose much slower than we projected in each category, reflecting continued cautiousness in the market.

Average room rates: Actual vs forecast results for 2014

	Projected average room rate growth (%)	Actual average room rate growth (%)
Five-star hotels	17.7	12.8
Four-star hotels	11.8	5.3
Three-star hotels	9.4	6.9
All hotels	11.2	7.0
All	11.4	5.4

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Outlook: 2015-2019

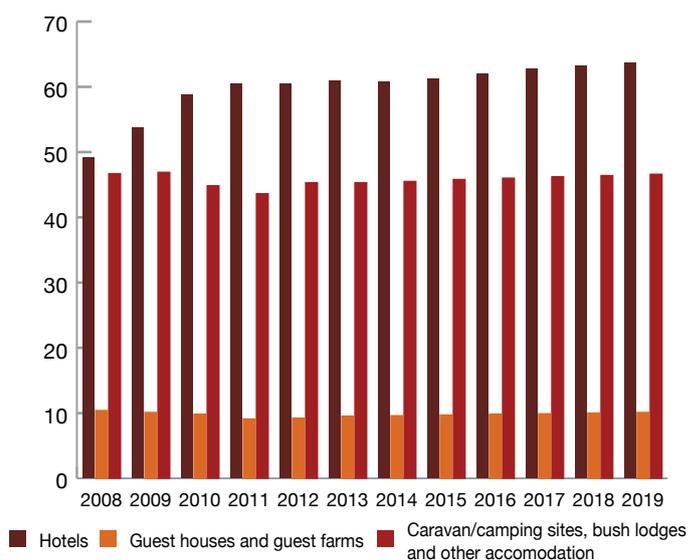
Available rooms

The overall number of available rooms rose 0.2% in 2014, down from the 0.7% increase in 2013.

We expect room availability to increase at modest rates for each category with guest houses projected to be the fastest-growing category averaging 1.0% compounded annually. Hotels will increase at a projected 0.9% compound annual rate while caravan/camping sites, bush lodges and other accommodation expected to rise by only 0.5% on a compound annual basis. Demand is not beginning to fill excess capacity but the market remains cautious.

Overall room availability is projected to increase at a 0.7% compound annual rate to 120,300 in 2019 from 115,900 in 2014.

Figure 12. Available rooms (thousands)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Available rooms (thousands)													
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2015-19 CAGR
Hotels	49.1	53.7	58.8	60.5	60.4	60.9	60.8	61.2	62.0	62.7	63.2	63.6	
% change	1.2	9.4	9.5	2.9	-0.2	0.8	-0.2	0.7	1.3	1.1	0.8	0.6	0.9
Guest houses/ guest farms	10.4	10.1	9.8	9.1	9.2	9.5	9.6	9.7	9.8	9.9	10.0	10.1	
% change	8.3	-2.9	-3.0	-7.1	1.1	3.3	1.1	1.0	1.0	1.0	1.0	1.0	1.0
Caravan/ camping sites, bush lodges and other accommodation	46.7	46.9	44.8	43.6	45.3	45.3	45.5	45.8	46.0	46.2	46.4	46.6	
% change	0.4	0.4	-4.5	-2.7	3.9	0.0	0.4	0.7	0.4	0.4	0.4	0.4	0.5
Total	106.2	110.7	113.4	113.2	114.9	115.7	115.9	116.7	117.8	118.8	119.6	120.3	
% change	1.5	4.2	2.4	-0.2	1.5	0.7	0.2	0.7	0.9	0.8	0.7	0.6	0.7

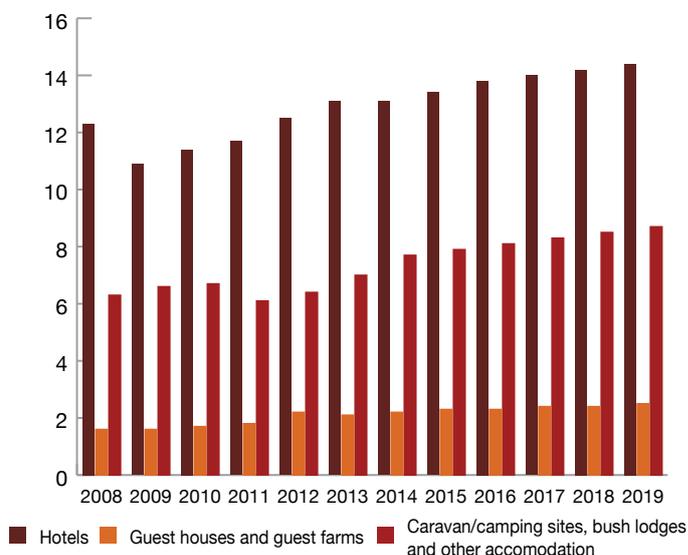
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Stay unit nights

Stay unit nights rose 3.6% in 2014, led by a 10.0% increase for caravan/camping sites, bush lodges and other accommodation. Stay unit nights for guest houses and guest farms rose 4.8%, but hotels were flat.

We project hotels to increase at a 1.9% compound annual rate with the other categories rising at more than 2% annually. The market as a whole will expand by 2.2% compounded annually to 25.6 million in 2019.

Figure 13. Stay unit nights (millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Stay unit nights (millions)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2015-19 CAGR
Hotels	12.3	10.9	11.4	11.7	12.5	13.1	13.1	13.4	13.8	14.0	14.2	14.4	
% change	-3.1	-11.4	4.6	2.6	6.8	4.8	0.0	2.3	3.0	1.4	1.4	1.4	1.9
Guest houses/ guest farms	1.6	1.6	1.7	1.8	2.2	2.1	2.2	2.3	2.3	2.4	2.4	2.5	
% change	6.7	0.0	6.3	5.9	22.2	-4.5	4.8	4.5	0.0	4.3	0.0	4.2	2.6
Caravan/ camping sites, bush lodges and other accommodation	6.3	6.6	6.7	6.1	6.4	7.0	7.7	7.9	8.1	8.3	8.5	8.7	
% change	1.6	4.8	1.5	-9.0	4.9	9.4	10.0	2.6	2.5	2.5	2.4	2.4	2.5
Total	20.2	19.1	19.8	19.6	21.1	22.2	23.0	23.6	24.2	24.7	25.1	25.6	
% change	-1.0	-5.4	3.7	-1.0	7.7	5.2	3.6	2.6	2.5	2.1	1.6	2.0	2.2

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Occupancy rates

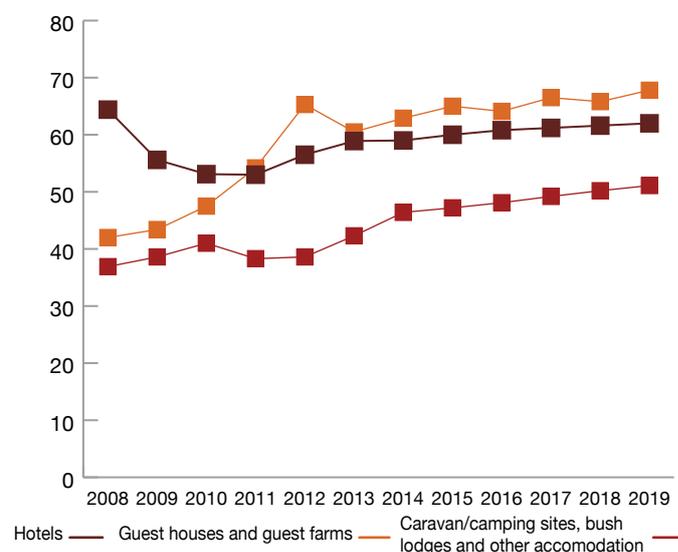
The overall occupancy rate rose to 54.4% in 2014 with each category increasing. Guest houses/guest farms had the highest occupancy rate at 62.9%.

We expect occupancy rates to continue to increase for each category over the next five years. The hotel occupancy rate reached its highest level in 2014 since 2008. We expect hotel occupancy to increase to 62.0% by 2019 but still remain lower than the 68.4% achieved in 2008.

For guest houses, we project occupancy rates to increase to 67.8% in 2019, while occupancy rates for caravan/camping sites, bush lodges and other accommodation will rise to an estimated 51.1% by 2019.

The overall occupancy rate will climb to 58.3% in 2019 from 54.4% in 2014.

Figure 14. Occupancy rates (%)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Occupancy rates (%)												
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Hotels	68.4	55.6	53.1	53.0	56.5	58.9	59.0	60.0	60.8	61.2	61.6	62.0
Guest houses/ guest farms	42.0	43.4	47.5	54.2	65.3	60.5	62.9	65.0	64.1	66.5	65.8	67.8
Caravan/ camping sites, bush lodges and other accommodation	36.9	38.6	41.0	38.3	38.6	42.3	46.4	47.2	48.1	49.2	50.2	51.1
Total	52.0	47.3	47.8	47.4	50.2	52.6	54.4	55.4	56.1	57.0	57.5	58.3

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Average room rates

Average room rates increased 5.4% in 2014, down from the 8.4% rise in 2013 and below the 6.3% rate of inflation. In 2013, room rate growth exceeded the 5.8% increase in overall consumer prices.

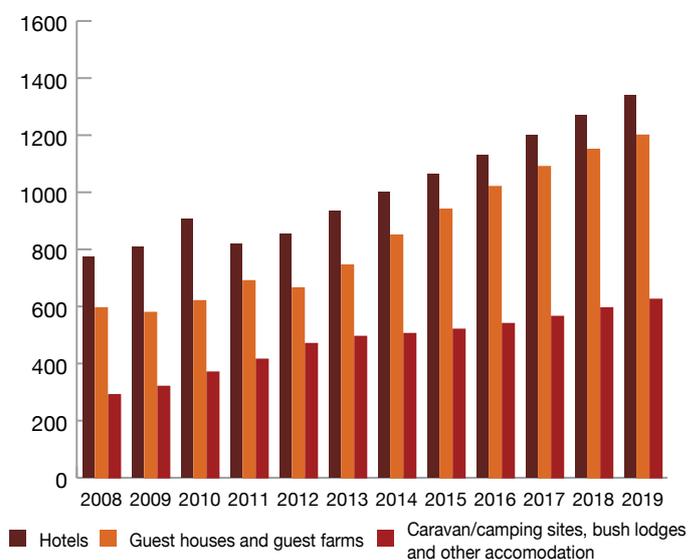
There is a large disparity in average room rates between the three categories. Each component occupies a niche and targets different visitors.

Caravan/camping sites, bush lodges and other accommodation was the slowest growing category in 2014 with a 2.0% increase. Over the past two years room rate growth for this category has lagged the overall industry. This is in sharp contrast to the 2008-12 period when double-digit annual gains comfortably exceeded the industry average. We expect somewhat faster increases averaging 4.4% compounded annually, but still believe this category will grow more slowly than the industry average, in line with recent experience.

Average rates for hotels are expected to rise at a 6.0% compound annual rate, a bit faster than the 5.5% projected rate of inflation, while guest houses will increase at a 7.1% compound annual rate, in both cases growing more slowly than in 2014.

For the market as a whole, the average room rate will rise at a 5.7% compound annual rate to R1 083 in 2019.

Figure 15. Average room rates (R)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Average room rates (R)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2015-19 CAGR
Hotels	775	810	905	820	855	935	1 000	1 065	1 130	1 200	1 270	1 340	
% change	16.5	4.5	11.7	-9.4	4.3	9.4	7.0	6.5	6.1	6.2	5.8	5.5	6.0
Guest houses/ guest farms	595	579	620	690	665	745	850	940	1 020	1 090	1 150	1 200	
% change	1.7	-2.7	7.1	11.3	-3.6	12.0	14.1	10.6	8.5	6.9	5.5	4.3	7.1
Caravan/ camping sites, bush lodges and other accommodation	290	320	370	415	470	495	505	520	540	565	595	625	
% change	11.5	10.3	15.6	12.2	13.3	5.3	2.0	3.0	3.8	4.6	5.3	5.0	4.4
Total	610	621	699	682	718	778	820	870	922	976	1 030	1 083	
% change	13.8	1.8	12.6	-2.4	5.3	8.4	5.4	6.1	6.0	5.9	5.5	5.1	5.7

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

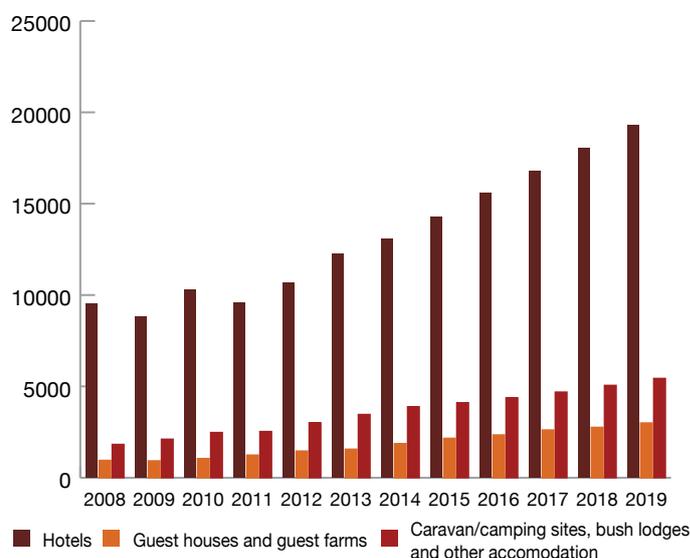
Total room revenue

Guest house and guest farms are projected to be the fastest-growing category with a 9.9% compound annual increase over the next five years.

Hotels will expand by a projected 8.1% compounded annually and will be the only category where we expect faster growth compared with 2014.

Caravan/camping sites, bush lodges and other accommodation is projected to grow at a 6.9% compound annual rate.

Figure 16. Total room revenue (R millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Total room revenue (R millions)													
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2015-19 CAGR
Hotels	9 533	8 829	10 317	9 594	10 688	12 249	13 100	14 271	15 594	16 800	18 034	19 296	
% change	12.9	-7.4	16.9	-7.0	11.4	14.6	6.9	8.9	9.3	7.7	7.3	7.0	8.1
Guest houses/ guest farms	952	926	1 054	1 242	1 463	1 565	1 870	2 162	2 346	2 616	2 760	3 000	
% change	8.4	-2.7	13.8	17.8	17.8	7.0	19.5	15.6	8.5	11.5	5.5	8.7	9.9
Caravan/ camping sites bush lodges and other accommodation	1 827	2 112	2 479	2 532	3 008	3 465	3 889	4 108	4 374	4 690	5 058	5 438	
% change	13.3	15.6	17.4	2.1	18.8	15.2	12.2	5.6	6.5	7.2	7.8	7.5	6.9
Total	12 312	11 867	13 850	13 368	15 159	17 279	18 859	20 541	22 314	24 106	25 852	27 734	
% change	12.6	-3.6	16.7	-3.5	13.4	14.0	9.1	8.9	8.6	8.0	7.2	7.3	8.0

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates



Hotel accommodation in Nigeria

The Nigerian hotel market has been boosted by a strong economy. The economy expanded in real terms by 6.3% in 2014, its best showing since 2010. Following the GDP rebasing exercise carried out in 2014, Nigeria has the largest GDP in Africa surpassing South Africa.



Nevertheless, stay unit nights in 2014 declined by 5.9%, the first drop in many years, and the average occupancy rate fell to 49.8% from 55.4% in 2013. With average room rates increasing 4.2% however, the decrease in revenue was a more modest 2.0%. This decline may have been due to the increase in terrorist activities and Ebola outbreak recorded in 2014.

Boko Haram attacks in the north-eastern and western regions of the country led to sharp declines in visitors to those areas. Tourist areas such as the Yankari game reserve in Bauchi experienced sharp declines in patronage, but they represent a relatively small component of the hotel industry.

The Nigerian hotel market was also hit by health concerns following the Ebola outbreak in West Africa in July 2014. However, in October 2014, the World Health Organization declared Nigeria to be Ebola-free.

Nevertheless, the Nigerian hotel market continues to thrive despite the challenges faced. It is almost entirely corporate driven, as Nigeria remains a favourite destination for business in Africa. If it were more reliant on tourism, the adverse effects on hotels would likely have been greater.

Also, the Government has done a relatively good job in protecting Abuja and Lagos, where most of the major hotels are located, from terrorist attacks, which limited the impact.

Political uncertainty due to the 2015 presidential elections, which were postponed until 28 March, raised security concerns and discouraged travel and tourism. While the elections led to the peaceful transfer of power from incumbent president Goodluck Jonathan to former military ruler Muhammadu Buhari, the Foreign and Commonwealth office has advised against travel to certain parts of the country. This situation could mean a drop in occupancy rates from international visitors.

A number of initiatives have been put forward to promote tourism and positively impact the Nigerian hotel market.

In a bid to promote domestic travel and tourism, the Nigeria Tourism Development Corporation (NTDC) has been engaging the private sector and rebranding domestic tourism products and packages. There are also plans to create land and sea transportation hubs to encourage domestic travel.

Online booking portals have provided ease of payment (online or mobile money) and opportunities for hotels to increase sales. Now, people can book accommodation in any hotel in multiple states and countries on just one hotel booking portal. Online booking portals (e.g., hotels.ng, booking.com, tripadvisor.com and jovago.com) have thousands of hotel listings across Nigeria. Other online merchants like Dealdey also feature hotel deals.

Because of its strong economy, the hotel industry in Nigeria has attracted significant investment, over US\$3 billion in the past five years. The Nigerian Bureau of Statistics (NBS) estimates Nigeria's rebased GDP at US\$510 billion compared to US\$269.55 billion prior to the rebasing. This is attracting global investors and spurring the formation of local angel investor and venture capital networks in Nigeria.

The hotel market has also been helped by strong economic growth. The economy expanded by 6.3% in real terms in 2014, its best showing since 2010.

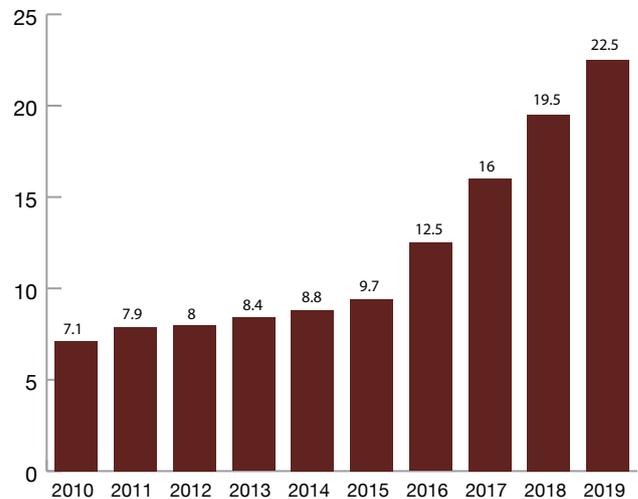
The number of available rooms has increased a cumulative 24% since 2010, including a 4.8% rise in 2014. Openings in 2014 included the Eko Hotel (121 suites), Protea Select Ikeja (126 rooms), Mantis Ikoyi (64 rooms), African Pride Ikeja (200 rooms), Louvre Golden Tulip Ikoyi (42 rooms) and Louvre Tulip Inn Ikeja (100 rooms).

Planned openings in 2015 include Le Méridien Ikoyi Towers, Four Points by Sheraton in Ikot Ekpene (146 rooms), Mantis Ikeja GRA (65 rooms), Wyndham with Ramada Lekki Ikota (164 rooms), Sun International Victoria Island (200 rooms), and Carlson Rezidor Park Inn by Radisson (150 rooms).

In addition to Le Méridien Ikoyi Towers and Four Points Sheraton in Ikot Ekpene, the Starwood Group plans to open an additional three hotels by 2017 – Four Points by Sheraton in Edo, Four Points by Sheraton in Oyo, and Four Points by Sheraton in Ikeja.

Other openings for which plans have been announced during the next five years include Best Western Premier Ikeja GRA (65 rooms), Hilton Ikeja MMIA (250 rooms), Hilton Ikoyi (350 rooms), IHG Holiday Inn Victoria Island (300 rooms), Hilton Garden Inn Ikeja (120 rooms),

Figure 17. Available rooms (thousands)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Fairmont Victoria Island (230 rooms), and Marriott Victoria Island (150 rooms).

We expect growth in available rooms to continue rising by 10.2% in 2015 and at a 20.7% compound annual rate through to 2019.

Stay unit nights declined by 5.9% in 2014, the first drop in many years, and the average occupancy rate fell to 49.8% from 55.4% in 2013. With average room rates increasing 4.2%, however, the decrease in revenue was a more modest 2.0%.

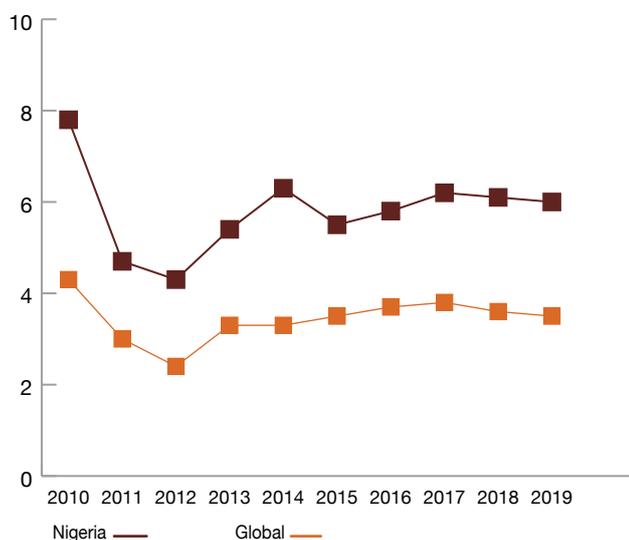
Nigeria has an energy-based economy – oil and natural gas production – that has grown rapidly in real terms. With energy prices falling, however, we look for somewhat slower economic growth. The hospitality industry is at risk of losing investments or experiencing delays in investments between 2015 and 2017 due to the falling oil price and the devaluation of the naira.

Despite the challenges to its resource sector, Nigeria will continue to be one of the fastest-growing economies in the world with growth averaging 5.9% compounded annually through 2019.

Real GDP growth (%)											
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2015-19 CAGR
Nigeria	7.8	4.7	4.3	5.4	6.3	5.5	5.8	6.2	6.1	6.0	5.9
Global	4.3	3.0	2.4	3.3	3.3	3.5	3.7	3.8	3.6	3.5	3.6

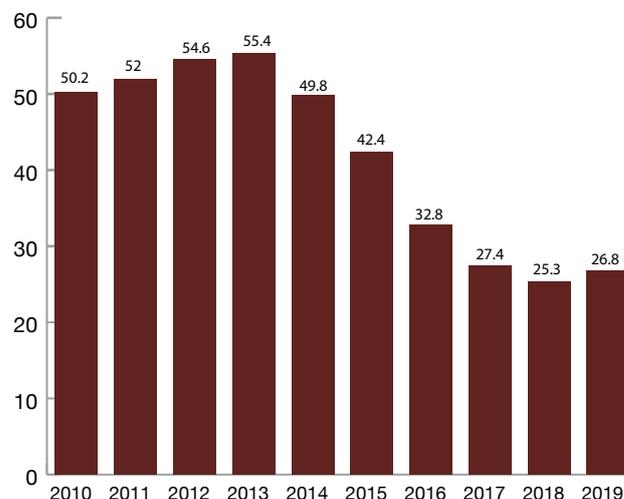
Sources: International Monetary Fund, World Bank, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 18. Real GDP growth (%)



Source: International Monetary Fund, World Bank, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 19. Occupancy rates (%)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

While the long-term outlook for Nigeria is bright, we expect ongoing concerns about terrorism to continue to hurt the hotel market in the near term and project stay unit nights to fall by an additional 6.3% in 2015.

We expect stay unit nights to stabilise in 2015 and then resume an upward expansion with double-digit increases projected for 2018-19. These gains, however, will not match the explosive growth in available rooms and we expect occupancy rates in the near term to fall and to keep declining through to 2018 before beginning to recover in 2019.

Hotels											
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2015-19 CAGR
Available rooms (thousands)	7.1	7.9	8.0	8.4	8.8	9.7	12.5	16.0	19.5	22.5	
% change	12.7	11.3	1.3	5.0	4.8	10.2	28.9	28.0	21.9	15.4	20.7
Stay unit nights (millions)	1.3	1.5	1.6	1.7	1.6	1.5	1.5	1.6	1.8	2.2	
% change	8.3	15.4	6.7	6.3	-5.9	-6.3	0.0	6.7	12.5	22.2	6.6
Occupancy rates (%)	50.2	52.0	54.6	55.4	49.8	42.4	32.8	27.4	25.3	26.8	
Average room rates (US\$)	209	224	231	237	247	257	267	276	286	296	
% change	-1.4	7.2	3.1	2.6	4.2	4.0	3.9	3.4	3.6	3.5	3.7
Total room revenue (US\$ millions)	272	336	370	403	395	386	401	442	515	651	
% change	7.1	23.5	10.1	8.9	-2.0	-2.3	3.9	10.2	16.5	26.4	10.5

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Three- and four-star hotels

We have combined data for three- and four-star hotels in Nigeria. These hotels accounted for 49% of total available rooms and 56% of stay unit nights in 2014. The average room rate was US\$265 (R2 871) in 2014, 7% higher than the overall average, reflecting the fact that there are still few five-star hotels in Nigeria. The price, however, was 31% higher than the average rate for a five-star hotel in South Africa.

With a number of five-star hotels opening in Nigeria, we expect the three- and four-star market to grow more slowly than the overall market. Available rooms will increase at an 11.2% compound annual rate, and stay unit nights will rise by 5.9% compounded annually, resulting in a decline in occupancy rates to 45.0% in 2019 from 57.3% in 2014.

The average room rate is projected to increase by 2.8% compounded annually to US\$304 (R3 294) and total room revenue will reach US\$365 million (R4.0 billion) from US\$239 million (R2.6 billion) in 2014, an 8.8% gain compounded annually.

Three- and four-star hotels in Nigeria											
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2015-19 CAGR
Available rooms (thousands)	3.8	4.2	4.3	4.3	4.3	4.5	4.9	5.5	6.3	7.3	
% change	2.7	10.5	2.4	0.0	0.0	4.7	8.9	12.2	14.5	15.9	11.2
Stay unit nights (millions)	0.8	0.9	0.9	1.0	0.9	0.8	0.8	0.9	1.0	1.2	
% change	14.3	12.5	0.0	11.1	-10.0	-11.1	0.0	12.5	11.1	20.0	5.9
Occupancy rates (%)	57.7	58.7	57.2	63.7	57.3	48.7	44.6	44.8	43.5	45.0	
Average room rates (US\$)	228	246	251	259	265	273	281	289	296	304	
% change	2.2	7.9	2.0	3.2	2.3	3.0	2.9	2.8	2.4	2.7	2.8
Total room revenue											
(US\$ millions)	182	221	226	259	239	218	225	260	296	365	
% change	16.7	21.4	2.3	14.6	-7.7	-8.8	3.2	15.6	13.8	23.3	8.8

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Looking back: 2014

The forecasts for Nigeria in last year's Outlook did not anticipate the impact of Ebola and overestimated market growth. Stay unit nights were lower than we anticipated, 1.6 million vs the 1.8 million projection. The occupancy rate averaged 49.8%, below our 54.8% projection. Room revenue declined by 2.0% in 2014, compared to the projected 8.5% increase. The three- and four-star hotel market was particularly hurt as revenue fell 7.7%. We had projected a 6.0% increase.

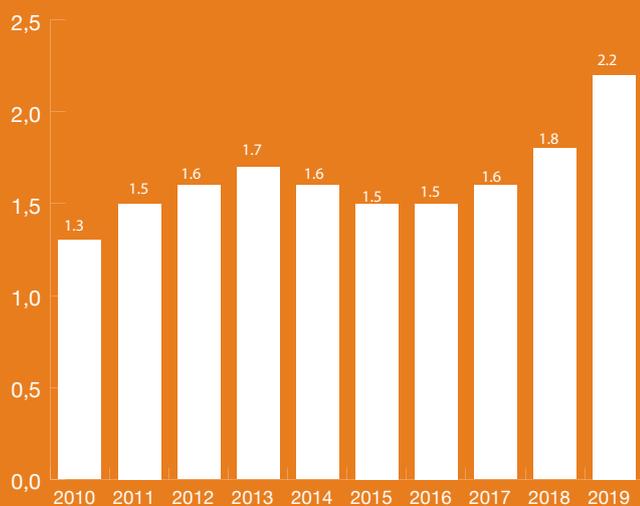
Actual vs forecast results for 2014

	Forecast	Actual
Occupancy (%)	54.8	49.8
Stay unit nights (millions)	1.8	1.6
Total hotel room revenue growth (%)	8.5	-2.0
Three- and four-star hotel room revenue growth (%)	6.0	-7.7

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Outlook: 2015-2019

Figure 20. Stay unit nights (millions)

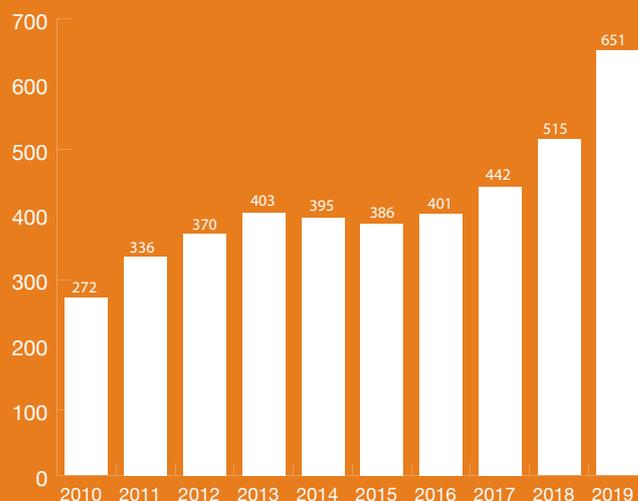


Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

The number of hotel rooms will more than double during the next five years with that growth occurring predominantly in Lagos. There will be an estimated 22 500 rooms in 2019, up from 8 800 in 2014, a 20.7% compound annual increase.

Although we expect double-digit increases in stay unit nights in 2018-19, we expect the near-term outlook to remain weak. For the forecast period as a whole, we project stay unit nights to increase at a 6.6% compound annual rate to 2.2 million in 2019 from 1.6 million in 2014. This increase will be well below the expected growth in room availability and occupancy rates will plunge, falling to 25.3% by 2018 before edging up to 26.8% in 2019.

Figure 21. Total room revenue (US\$ millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Average room rates have been growing at moderate rates in recent years and we expect this pattern to continue with projected increases averaging 3.7% compounded annually over the next five years.

Overall hotel room revenue is expected to expand at a 10.5% compound annual rate to US\$651 million (R7.1 billion) in 2019 from US\$395 million (R4.3 billion) in 2014.

Hotel accommodation in Mauritius

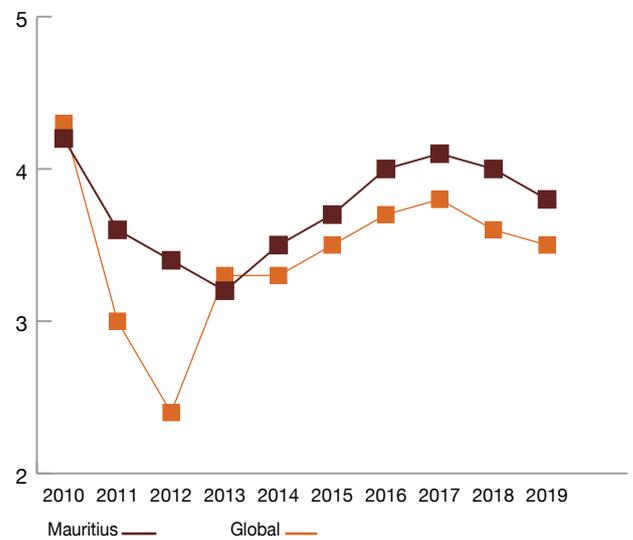
Mauritius attracts high-end leisure travellers that are looking for a tropical climate, beaches, water sports and natural beauty. There is relatively little business travel and Mauritius competes with The Maldives, Sri Lanka and The Seychelles for the tropical tourist market.



As Mauritius relies principally on foreign leisure travellers, the global economy plays an important role in tourist arrivals. Global real GDP rose 3.3% in 2014, matching the increase in 2013 and a stronger performance compared with 2011-12. Steady growth contributed to the increase in tourism to Mauritius in 2014.

We project global real GDP to rise by 3.6% compounded annually, which will support ongoing growth in tourism to Mauritius.

Figure 22. Real GDP growth (%)



Source: Mauritius Chamber of Commerce and Industry, International Monetary Fund, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Real GDP growth (%)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2015-19 CAGR
Mauritius	4.2	3.6	3.4	3.2	3.5	3.7	4.0	4.1	4.0	3.8	3.9
Global	4.3	3.0	2.4	3.3	3.3	3.5	3.7	3.8	3.6	3.5	3.6

Sources: Mauritius Chamber of Commerce and Industry, International Monetary Fund, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates



The number of tourist arrivals to Mauritius increased 4.6% in 2014, exceeding the one million level for the first time. Although we expect a somewhat stronger global economy in the coming years, Mauritius is facing growing competition as a tourist attraction from Sri Lanka, The Maldives and The Seychelles. Consequently, we expect a somewhat more moderate 3.3% compound annual increase in tourist arrivals to Mauritius in the coming years.

Tourist arrivals (thousands)											
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2015-19 CAGR
Tourist arrivals	934.8	964.6	965.4	993.1	1 039.0	1 070.0	1 100.0	1 135.0	1 175.0	1 220.0	
% change	7.3	3.2	0.1	2.9	4.6	3.0	2.8	3.2	3.5	3.8	3.3

Note: Figures include arrivals from non-specified countries

Sources: Ministry of Finance and Economic Development, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

In addition to the state of the global economy, a key factor in tourism is the convenience of airline travel. The increased availability of seats to Mauritius has been a key contributor to the increase in tourism. Air Mauritius added a third weekly direct flight to Shanghai in January 2014 and a second weekly direct flight to Beijing was added in July. These new flights contributed to the 51.2% increase in tourist arrivals from China in 2014.

Emirates added a twice-daily A380 flight; which commenced in October 2014. It must be noted that there has been an overall increase in the number of seats from 1 738 504 in 2013 to 1 817 667 in 2014.

TUI, Europe's largest tour operator, introduced regular direct flights from the United Kingdom beginning in May 2014. These new flights contributed to the 17.7% increase in visitors from the UK.

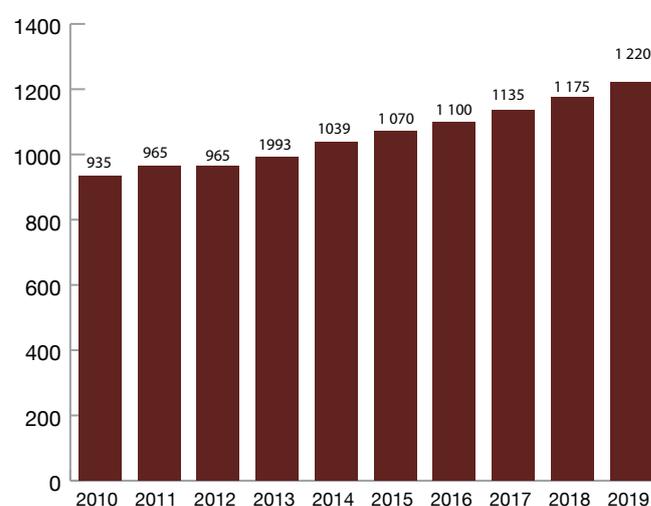
Air Mauritius is replacing its fleet of aircraft with A350-900 planes, which will provide greater passenger comfort and amenities. The first two planes are expected in 2017.

Europe is the principal source of tourist travel to Mauritius, accounting for 55% of total arrivals in 2014. Arrivals from Europe increased 4.3% in 2014. France is the leading country in travel to Mauritius with 243 665 visitors in 2014 making up 23% of all tourist arrivals.

The number of visitors from France dipped 0.4% in 2014. Travel from Italy declined 5.3% and Russia was down 10.8%, reflecting economic problems in those countries. Sweden recorded the largest increase in 2014 with a 41.0% gain. In addition to growth in the UK, the Netherlands, Austria, Switzerland, Germany and Spain all recorded increases.

The recent decline in the euro is not good for the majority of hotels, although growth in UK tourism helps. Tour operators are putting pressure on hotels to align rates in sterling with those in euros.

Figure 23. Tourist arrivals (thousands)



Sources: Ministry of Finance and Economic Development, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Tourist arrivals from Europe			
	2013	2014	% change
Austria	7 937	8 303	4.6
Belgium	11 566	11 465	-0.9
France	244 752	243 665	-0.4
Germany	60 530	62 231	2.8
Italy	31 205	29 557	-5.3
Netherlands	4 499	4 796	6.6
Spain	8 441	8 633	2.3
Sweden	4 577	6 454	41.0
Switzerland	27 756	29 285	5.5
United Kingdom	98 017	115 326	17.7
Russia	14 905	13 289	-10.8
Other	32 861	37 544	14.3
Total Europe	547 046	570 548	4.3

Source: Ministry of Finance and Economic Development

The next largest source of tourists is Africa, led by nearby Réunion at 141 665 in 2014, down 1.0%, and South Africa at 93 120, down 1.2%. Overall tourist arrivals from Africa fell 1.3% in 2014.

Tourist arrivals from Africa			
	2013	2014	% change
Comoros	1 147	938	-18.2
Kenya	2 865	3 266	14.0
Madagascar	13 943	13 039	-6.5
Réunion	143 114	141 665	-1.0
Seychelles	7 187	6 926	-3.6
South Africa	94 208	93 120	-1.2
Zimbabwe	1 526	1 735	13.7
Other	13 783	13 467	-2.3
Total	277 773	274 156	-1.3

Source: Ministry of Finance and Economic Development

The number of visitors from Asia-Pacific rose 16.5% with most of the increase coming from China and India. Arrivals from other Asia-Pacific countries collectively fell 0.5% in 2014. Although arrivals from India rose 6.8% in 2014, China overtook India to become the leading source of Asian tourists to Mauritius.

Arrivals from South Korea increased 14.5% in 2014 and Hong Kong registered a modest 0.4% gain. Australia, Japan, Malaysia, Singapore and the United Arab Emirates each recorded declines in 2014.

Tourist arrivals from Asia-Pacific			
	2013	2014	% change
Australia	18 393	17 529	-4.7
Hong Kong	1 449	1 455	0.4
India	57 255	61 167	6.8
Japan	1 768	1 659	-6.2
Malaysia	3 174	2 970	-6.4
China	41 913	63 365	51.2
Singapore	2 112	1 849	-12.5
South Korea	2 778	3 182	14.5
United Arab Emirates	8 161	8 001	-2.0
Other	14 911	15 840	6.2
Total	151 914	177 017	16.5

Source: Ministry of Finance and Economic Development

Arrivals from the Americas rose 6.9% in 2014 largely on the strength of a 26.5% increase from the United States and a 6.2% gain from Canada.

Tourist arrivals from Asia-Pacific			
	2013	2014	% change
United States	5 777	7 308	26.5
Canada	4 435	4 710	6.2
Other	5 261	4 530	-13.9
Total	15 473	16 548	6.9

Source: Ministry of Finance and Economic Development

There were 12 730 available hotel rooms in Mauritius in 2014, up 2.9% from 2013 (The available room totals do not include non-operational rooms). The Royal Palm Mauritius was renovated and Outrigger Resorts, which acquired Mövenpick in May 2013, undertook a six-month renovation of that property in time for reopening it as an Outrigger resort in 2014. This, together with the opening of the Holiday Inn Mauritius Airport and the reopening of the Grand Mauritian contributed to the increase in available rooms in 2014.

Stay unit nights increased 2.4% in 2014 to 2.93 million, helped by the increase in foreign arrivals.

In addition to competition from Sri Lanka, The Maldives and The Seychelles, hotels in Mauritius are facing competition from the mid-segment non-hotel accommodation market. The hotel market is also seeing shorter stays as the proportion of visitors from Asia increases. Within the hotel market itself, however, luxury hotels have been the best-performing segment of the market in recent years.

At the same time, an improving global economy should have a positive impact on overall tourism and Mauritius will benefit from that growth.

While Mauritius is not a traditional business destination, there has been an increase in travel for business purposes. Mauritius is repositioning itself as an offshore business and financial services centre.

As a resort, the average room rate in Mauritius is considerably more expensive than the typical hotel in South Africa. The average hotel room in Mauritius costs €172 (R2 473), 2.5 times higher than the level in South Africa.

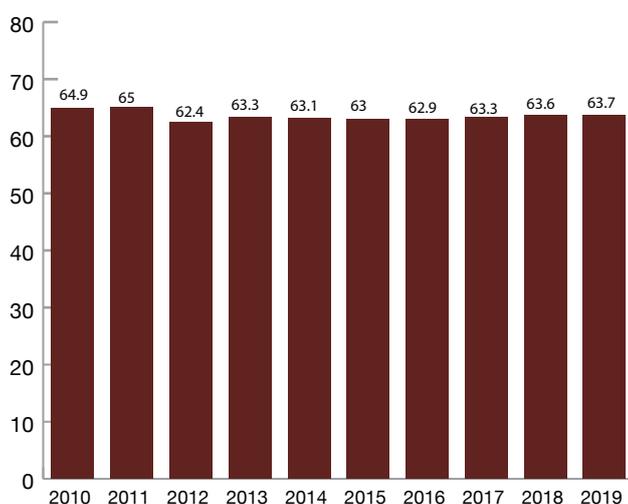
The average room rate fell 8.9% in 2013 and declined an additional 0.6% in 2014. We expect decreases to continue in 2015 with prices stabilising in 2016 and growing slowly in 2017-19.

Hotel room revenue in Mauritius is expected to increase from €504 million (R7.2 billion) in 2014 to a projected €602 million (R8.7 billion) in 2019, growing at a 3.6% compound annual rate.

Hotels											
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2015-19 CAGR
Available rooms (thousands)	12.075	11.925	12.527	12.376	12.730	13.100	13.470	13.850	14.250	14.630	
% change	5.4	-1.2	5.0	-1.2	2.9	2.9	2.8	2.8	2.9	2.7	2.8
Stay unit nights (millions)	2.86	2.83	2.86	2.86	2.93	3.01	3.10	3.20	3.31	3.40	
% change	10.0	-1.0	1.1	0.0	2.4	2.7	3.0	3.2	3.4	2.7	3.0
Occupancy rates (%)	64.9	65.0	62.4	63.3	63.1	63.0	62.9	63.3	63.6	63.7	
Average room rates (US\$)	169	184	190	173	172	170	170	171	174	177	
% change	-9.6	8.9	3.3	-8.9	-0.6	-1.2	0.0	0.6	1.8	1.7	0.6
Total room revenue (US\$ millions)	483	521	543	495	504	512	527	547	576	602	3.6
% change	-0.6	7.9	4.2	-8.8	1.8	1.6	2.9	3.8	5.3	4.5	3.6

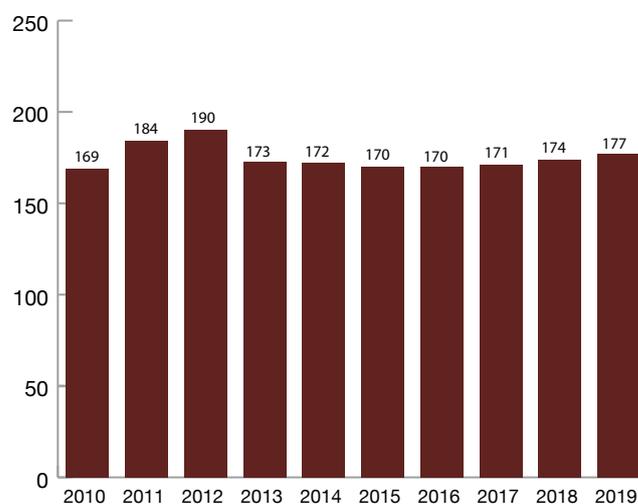
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 24. Occupancy rates (%)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 25. Average room rates (€)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Five-star hotels

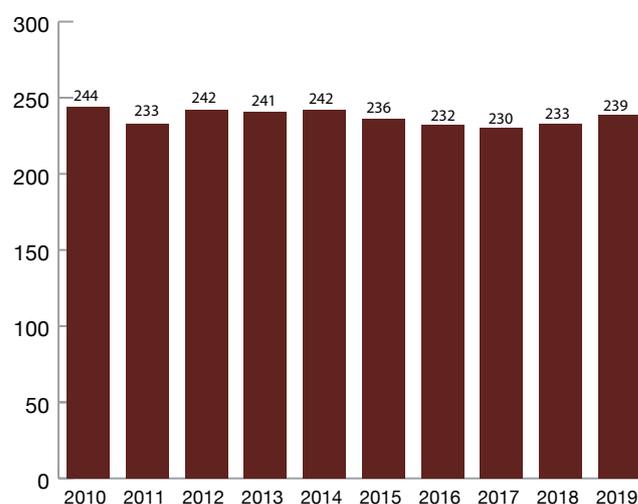
Average room rates for five-star hotels have been relatively steady in recent years, edging up 0.4% in 2014, but remaining 1% lower than in 2010. Faced with competition from The Maldives, Sri Lanka and The Seychelles, hotels have been reluctant to raise room rates in recent years.

We expect rates to edge down over the next three years and then rise at modest rates in 2018-19 as the underlying market improves. The average room rate of €239 (R3 437) in 2019 will be 0.2% lower on a compound annual basis than in 2014.

Stay unit nights rose 10% in 2014. We expect slower growth in the coming years as competition increases but the market will still benefit from improving global economic conditions and increases in foreign tourism. Growth will average 3.4% compounded annually.

Total room revenue for five-star hotels will increase by a projected 3.2% compounded annually to €311 million (R4.5 billion) in 2019 from €266 million (R3.8) billion in 2014.

Figure 26. Average room rates for five-star hotels (€)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Five-star hotels											
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2015-19 CAGR
Available rooms (thousands)	4.5	4.8	5.0	5.1	5.1	5.2	5.2	5.3	5.4	5.5	
% change	2.3	6.7	4.2	2.0	0.0	2.0	0.0	1.9	1.9	1.9	1.5
Stay unit nights (millions)	0.8	0.9	1.0	1.0	1.1	1.2	1.2	1.3	1.3	1.3	
% change	14.3	12.5	11.1	0.0	10.0	9.1	0.0	8.3	0.0	0.0	3.4
Occupancy rates (%)	48.7	51.4	54.6	53.7	59.1	63.2	63.1	67.2	66.0	64.8	
Average room rates (US\$)	244	233	242	241	242	236	232	230	233	239	
% change	-10.9	-4.5	3.9	-0.4	0.4	-2.5	-1.7	-0.9	1.3	2.6	-0.2
Total room revenue											
(US\$ millions)	195	210	242	241	266	283	278	299	303	311	
% change	1.6	7.7	15.2	-0.4	10.4	6.4	-1.8	7.6	1.3	2.6	3.2

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Three-and four-star hotels

We have combined data for three- and four-star hotels in Mauritius. Stay unit nights fell 8.3% in 2014 and room revenue declined 4.7% as the market favoured five-star hotels in 2014. We expect stay unit nights to be flat in 2015, followed by an increase in 2016, as foreign tourism grows. Stay unit nights will average 3.4% growth compounded annually for the forecast period as a whole.

The average room rate for three- and four-star hotels rose 3.7% in 2014, nearly reversing the 4.5% decline in 2013. We expect room rates to grow as the global economy improves and tourism increases. The average rate is expected to rise from €111 (R1 596) in 2014 to €132 (R1 898) in 2019, a 3.5% compound annual increase.

Overall room revenue for three- and four-star hotels is projected to increase at a 7.1% compound annual rate to €172 million (R2.5 billion) in 2019 from €122 million (R1.8 billion) in 2014.

Three-and four-star hotels											
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2015-19 CAGR
Available rooms (thousands)	6.3	6.6	6.6	6.8	7.0	7.2	7.4	7.6	7.8	8.0	
% change	1.6	4.8	0.0	3.0	2.9	2.9	2.8	2.7	2.6	2.6	2.7
Stay unit nights (millions)	1.1	1.3	1.2	1.2	1.1	1.1	1.2	1.2	1.3	1.3	
% change	10.0	18.2	-7.7	0.0	-8.3	0.0	9.1	0.0	8.3	0.0	3.4
Occupancy rates (%)	47.8	54.0	49.7	48.3	43.1	41.9	44.3	43.3	45.7	44.5	
Average room rates (US\$)	105	111	112	107	111	115	119	123	127	132	
% change	-13.2	5.7	0.9	-4.5	3.7	3.6	3.5	3.4	3.3	3.9	3.5
Total room revenue											
(US\$ millions)	116	144	134	128	122	127	143	148	165	172	
% change	-4.1	24.1	-6.9	-4.5	-4.7	4.1	12.6	3.5	11.5	4.2	7.1

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Looking back: 2014

Our forecast for stay unit nights proved to be on the low side as tourism grew faster than we projected and occupancy rates increased more than anticipated. Total room revenue, however, rose more slowly than we expected – 1.8% vs 2.7% – as the average room rate declined.

Five-star hotels performed in line with our forecast, rising 10.4%, which is comparable to our 10.6% projection. We anticipated a 1.6% increase in room revenue for three- and four-star hotels, but that category decreased by 4.7%.

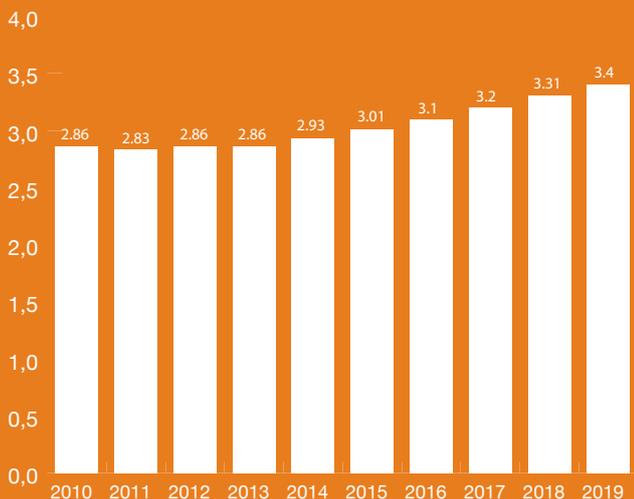
Actual vs forecast results for 2014

	Projected	Actual
Occupancy (%)	62.6	63.1
Stay unit nights (millions)	2.90	2.93
Foreign & domestic visitors (millions)	1,020.0	1,039.0
Total hotel room revenue growth (%)	2.7	1.8
Five-star hotel room revenue growth (%)	10.6	10.4
Three- and four-star hotel room revenue growth (%)	1.6	-4.7

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Outlook: 2015-2019

Figure 27. Stay unit nights (millions)

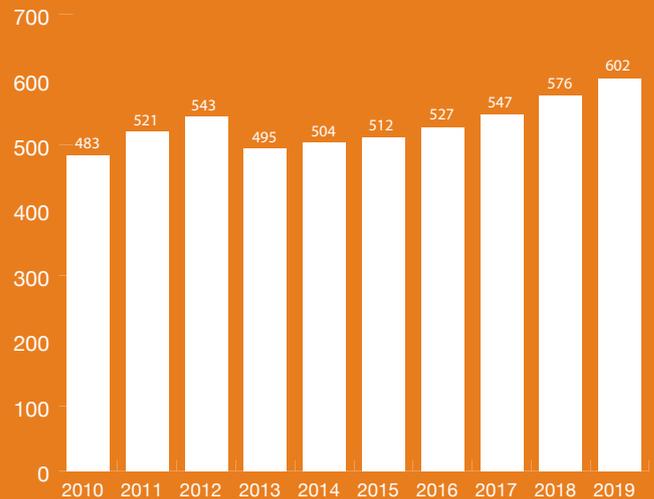


Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

We project the number of available hotel rooms to increase at a 2.8% compound annual rate, comparable to the increase in 2014, rising to 14 630 in 2019.

The average occupancy rate will be relatively steady, edging up from 63.1% in 2014 to 63.7% in 2019.

Figure 28. Total room revenue (€ millions)



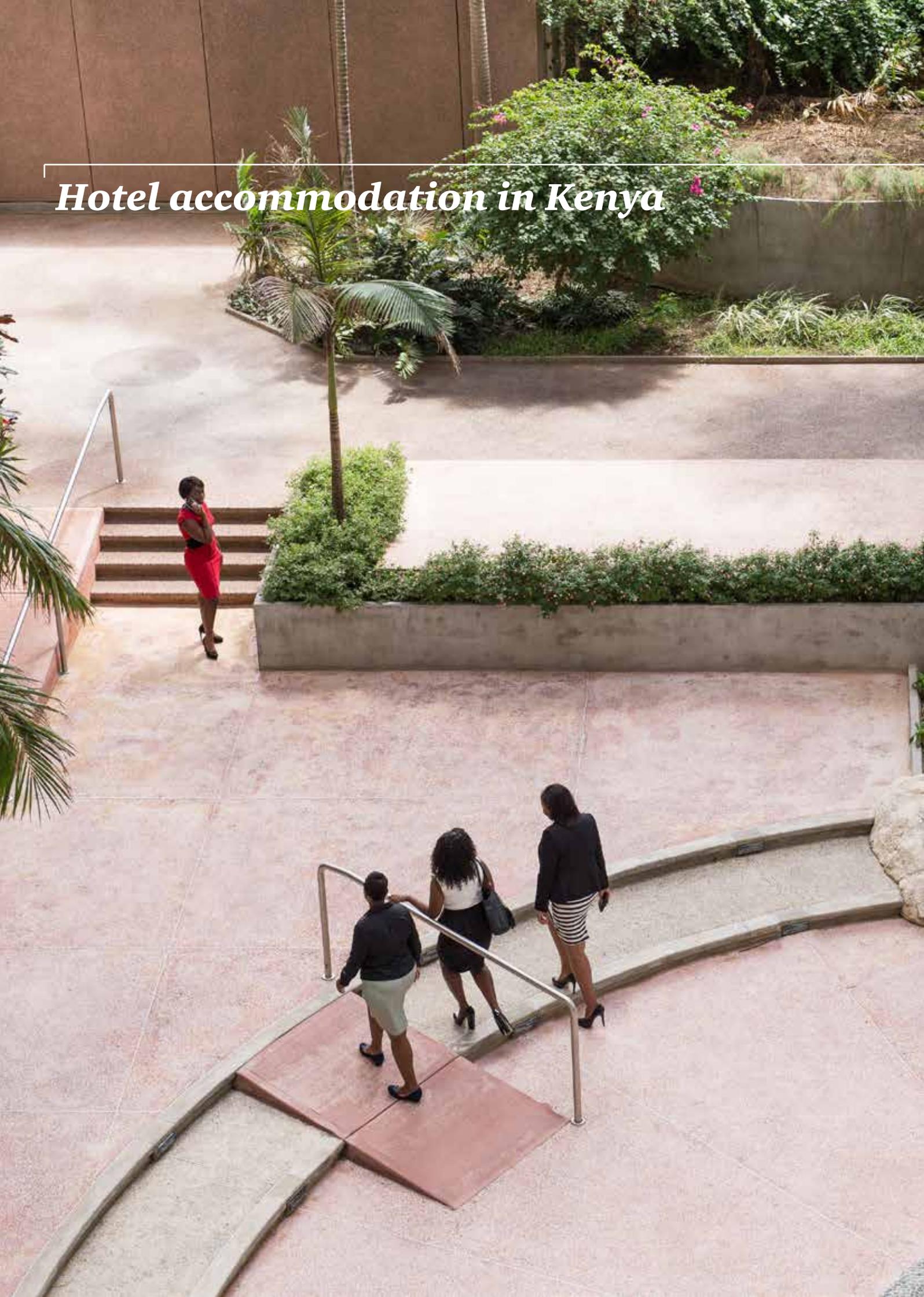
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

We project stay unit nights for the forecast period as a whole to rise from 2.93 million in 2014 to 3.4 million in 2019, a 3.0% compound annual increase.

We project that average room rates will increase by 0.6% compounded annually to 2019.

Hotel room revenue in Mauritius is expected to grow at a 3.6% compound annual rate to 2019.

Hotel accommodation in Kenya





Kenya's hotel market declined during each of the past three years, falling 7.1% in 2014 and by a cumulative 16% since 2011. Terrorism has been a major problem, leading a number of western countries, including the United States, the United Kingdom, France and Australia, to issue travel warnings that discouraged people from visiting Kenya.

In May 2014, two bombs set off in Nairobi killed ten people. In the coastal region, more than 100 people were killed in massacres with Somali jihadist group Al-Shabaab claiming responsibility. Crime is also a growing concern following the shooting of a Russian tourist by robbers. TUI cancelled tours to Mombasa for several months in 2014 leading to a plunge in tourism and the closing of hotels in the city. The net impact was a 5.3% decline in stay unit nights in 2014.

The Government and the private sector are taking steps to restore tourism. The Malindi Airport is being expanded with government assistance to allow larger planes to land. Travel agents have been exempted from VAT, which was introduced in 2013.

A conference centre is being built in Langata, Nairobi, which will be the largest in Africa. The Government is hosting conferences to attract business travel. The World Trade Organization Ministerial Conference and the World Conference on Public Relations are among the events scheduled for 2015.

The Kenya Tourist Board is visiting Australia, China and India to attract tourists who cancelled trips because of safety concerns. The Tourism Recovery Task Force began a drive to use social media to reach potential tourists.

Kenya Airways introduced new flights to China in 2014 and is considering adding a new destination in India. Kenya Airways also is working with Kenya Tourism to market and promote Kenya in South Africa as a tourist destination.

In addition to these initiatives, Kenya will benefit from a strong local economy. Real GDP grew 5.0% in 2014, its largest increase since 2010. The economy is expected to grow by 5.7% in 2015 with increases in excess of 6% annually expected from 2016.

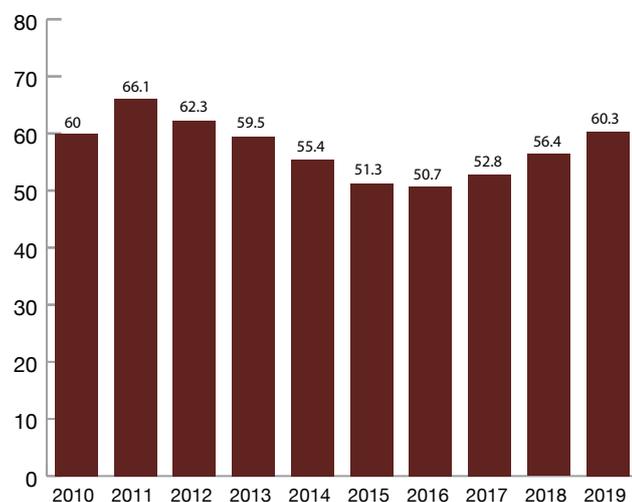
Real GDP growth (%)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2015-19 CAGR
Kenya	5.8	4.4	4.6	4.7	5.0	5.7	6.0	6.3	6.1	6.0	6.0
Global	4.3	3.0	2.4	3.3	3.3	3.5	3.7	3.8	3.6	3.5	3.6

Sources: International Monetary Fund, Rabobank, World Bank, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates



Figure 29. Occupancy rates (%)

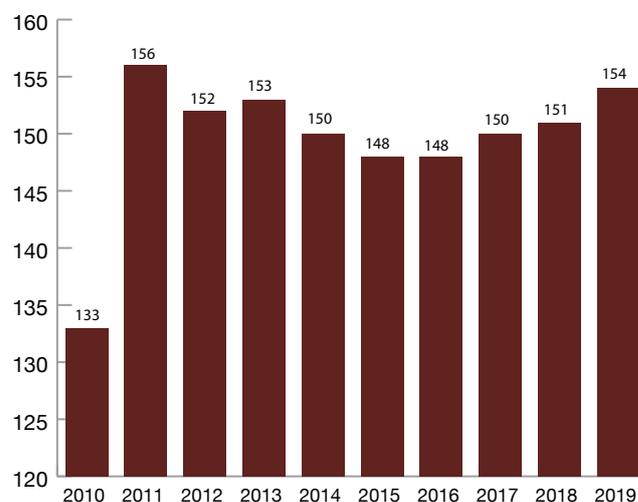


Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Despite recent problems, a number of new hotels are scheduled to enter the market. Five medium-sized hotels will be added in Nairobi, which will add more than 700 rooms in the next two years and the Simba Corporation is opening three mid-priced hotels.

At the upper end of the market, The Golf View Hotel (220 rooms), the Radisson Blu (256 rooms) and the Grand Sapphire (196 rooms) are scheduled to open in 2015. Over the next two years approximately 1 600 rooms are expected to be added with additional airport hotels expected in subsequent years.

Figure 30. Average room rates (US\$)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

In the near-term, however, we expect concerns about terrorism to remain an issue, exacerbated by the Garissa attack, and we project stay unit nights to decline by an additional 2.8% in 2015. We look for a recovery beginning in 2016, but it will not be until 2018 before stay unit nights return to the level seen in 2011.

Average room rates fell 2.0% in 2014. We look for a further drop in 2015 and only modest growth during the latter part of the forecast period.

Hotels	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2015-19 CAGR
Available rooms (thousands)	16.9	17.0	17.1	17.5	17.8	18.7	19.4	19.7	19.9	20.0	
% change	1.8	0.6	0.6	2.3	1.7	5.1	3.7	1.5	1.0	0.5	2.4
Stay unit nights (millions)	3.7	4.1	3.9	3.8	3.6	3.5	3.6	3.8	4.1	4.4	
% change	0.0	10.8	-4.9	-2.6	-5.3	-2.8	2.9	5.6	7.9	7.3	4.1
Occupancy rates (%)	60.0	66.1	62.3	59.5	55.4	51.3	50.7	52.8	56.4	60.3	
Average room rates (US\$)	133	156	152	153	150	148	148	150	151	154	
% change	5.6	17.3	-2.6	0.7	-2.0	-1.3	0.0	1.4	0.7	2.0	0.5
Total room revenue (US\$ millions)	492	640	593	581	540	518	533	570	619	678	
% change	5.6	30.1	-7.3	-2.0	-7.1	-4.1	2.9	6.9	8.6	9.5	4.7

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Looking back: 2014

We anticipated that safety concerns would adversely affect the hotel market in Kenya in 2014 and our projections were relatively accurate. Our expectation for stay unit nights was on target, the actual occupancy rate of 55.4% was slightly higher than our 55.1% projection, but the average room rate dipped in 2014 instead of remaining flat, which resulted in a 7.1% decline in total room revenue, a bit steeper than our projected 5.3% decrease.

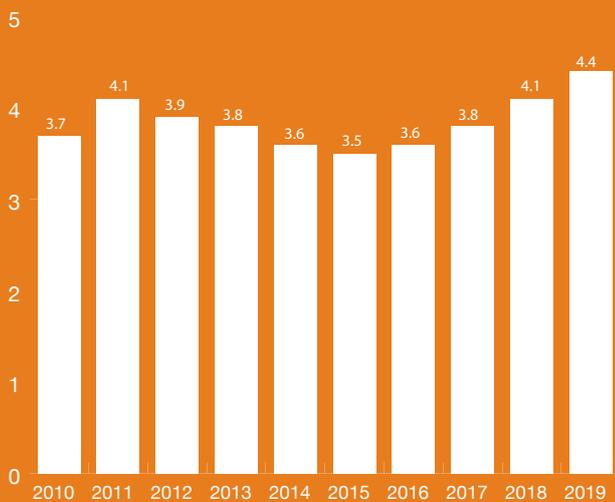
Actual vs forecast results for 2014

	Projected	Actual
Occupancy (%)	55.1	55.4
Stay unit nights (millions)	3.6	3.6
Total hotel room revenue growth (%)	-5.3	-7.1

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Outlook: 2015-2019

Figure 31. Stay unit nights (millions)



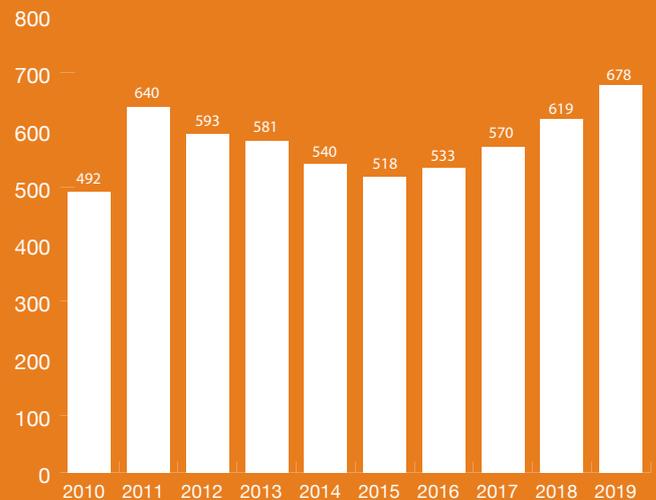
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

We project the number of available rooms to increase from 17 800 in 2014 to 20 000 in 2019, a 2.4% compound annual increase.

We project stay unit nights to decline for an additional year and then begin to recover in 2016. Stay unit nights will total an estimated 4.4 million in 2019, a 4.1% compound annual increase from 3.6 million in 2014.

The occupancy rate will fall during the next two years as we are projecting capacity to grow faster than demand in the near term, but then rebound, rising to an estimated 60.3% in 2019 from 55.4% in 2014.

Figure 32. Total room revenue (US\$ millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

We project the average room rate to increase from US\$150 (R1 625) in 2014 to US\$154 (R1 669) in 2019, a 0.5% compound annual increase.

Total room revenue will expand by 4.7% compounded annually, rising to US\$678 million (R7.3 billion) in 2019 from US\$540 million (R5.9 billion) in 2014.

How safe is your hotel network?

By Veneta Eftychis

The security of guest information and operational technology has emerged as an enterprise-wide business risk for the hotel industry. These cyber risks are influenced by the growing strategic importance of technology and the increased value of intangible assets, such as guest information, created and managed on hotel technology platforms.

With the volume of credit card swipes at check-in, as well as at hotel bars, restaurants and shops, hotels offer ample opportunities for cyberattacks. Not only do they transact business through credit cards, but those cards are kept on file and often accessed multiple times during a guest's stay. Each charge made at a spa, gift shop, bar or restaurant during the course of a stay is another opportunity for cybertheft.

Hackers have been infiltrating hotel networks over recent years and have infected both hotel-owned computers and guest computers in order to steal sensitive personal and confidential information. Hotel networks have been attacked using mathematical techniques and crypto-analytical offensive capabilities. Hackers typically wait for guests to check in and log on to the hotel Wi-Fi by usually submitting their room number and surname. Thereafter, the hotel guest gets tricked into downloading and installing a so-called backdoor file, which pretends to be an update for legitimate software, such as the Google Toolbar or Adobe Flash.

The unsuspecting guest victim downloads this hotel 'welcome package', only to infect his/her machine with spying software. Once on a network, the backdoor may be used further to download more advanced tools such as an advanced key logger. Downloaded software may also look for Twitter, Facebook and Google login credentials, as well as other private information.

The activities of hackers have been so strategic that they appear to have known the names, arrival and departure times, and room numbers of the targets in past attacks. After such attacks, the hackers delete their tools from the hotel network and go back into hiding.

The most widespread attacks experienced in the industry have been committed by the so-called DarkHotel group, believed to have been active for the past four years, which targets high-profile guests staying in hotels where there is free Wi-Fi that was assumed to be secure.

South Africa was hit by a massive cyber fraud attack during 2012 and 2013 in which the payment card systems of thousands of shops, restaurants and hotels were compromised. The attackers used malware known as Dexter and were linked to a series of attacks on point-of-sale systems worldwide. The malware skimmed and transmitted cards' magnetic-strip information, allowing clones to be made that were used for fraudulent purchases.

There are a number of safeguards guests can put in place in order to mitigate the risk of attack:

- They should avoid updating software or clicking files when not on trusted networks;
- They should keep their antivirus software up-to-date, before they leave home; and
- They should use a virtual private network (VPN) to establish an encrypted communication channel when accessing public or semi-public Wi-Fi
- Hotels can also do more to mitigate the risk:
 - Hotel executives should take the threat of computer security breaches seriously by implementing the most up-to-date prevention and risk management practices, creating an emergency response plan and securing sufficient insurance coverage.
 - Hotels should consider intentional acts of theft by employees. For example, food and beverage servers can use small devices, easily hidden in a pocket, to swipe customer credit cards over an extended period of time and then sell the data.
 - Hotels can define roles, responsibilities and oversight. Responsibility for data security may fall to a chief information officer, chief security officer or a new position being created called chief privacy officer. Whoever is responsible, the person's role should be clearly defined, including interactions with other

departments and relevant outside vendors. Board oversight should also be considered. Is there a board member or audit committee with the technical expertise to adequately review cybersecurity issues?

- Conduct a risk assessment. This assessment should be specific to guest privacy policies and data security. Hotels need to know how, why and where data is vulnerable and what safeguards are applied to each computer and device. You should see a network map that shows where data is stored and who controls it.
- Get expert help. These experts can offer valuable tools to help build the firewalls, data encryption and other safeguards necessary.
- Consider mobile and social media policies. Hotels can extend their policies across social media and mobile devices, and create enforceable employee policies.
- While effective safeguards can protect a hotel from many threats, hackers are becoming more sophisticated and often operate overseas. This makes it more difficult to investigate and prosecute suspected attacks – and essential to have privacy and data breach insurance coverage.

The impact of a cyberattack

Firstly, there is a financial impact when any type of computer security breach occurs. Costs can include:

- Forensic computer investigations to confirm the breach and identify whose information has been put at risk. This can be a costly endeavour;
- Costs to draft and deliver notifications to individuals, the payment card industry or a regulator;
- Credit or identity protection services for affected individuals; and
- Crisis management and public relations specialists to help mitigate the potential fallout from a breach event.

Secondly, history does not provide a consistent picture of the impact of cybersecurity on a company's performance. Until very recently, most of the long-term impact of cyber events was thought to be minimal. In most cases stock prices eventually recovered to pre-breach levels and very limited customer turnover occurred. More recent breaches have been seen to have an impact on customer loyalty and store traffic, which has the potential to have a more lasting impact on long-term profitability and share value.

Data breaches can also carry personal risk for hotel executives and board members. Attacks are drawing increased scrutiny from government regulators, including the US Securities and Exchange Commission (SEC), which want to ensure directors and officers are taking the necessary steps to prevent breaches.



How PwC help can you

PwC's holistic approach to cyber security helps clients establish security fundamentals, formulate an executable and agile cyber security strategy, implement tools for cyber security, help them respond to cyber incidents and ensure the effectiveness of controls to prevent cyberattacks:

Strategy & governance (policy, framework, certification)

We help clients formulate a cyber security strategy to meet business objectives in the near and long term; and monitor and guide alignment to keep up with the changing threat landscape.

Security architecture

We assist clients to develop a business-driven security architecture keeping in mind current capabilities and focusing on remediating identified gaps.

Threat and vulnerability management

We help assess exposures for clients through comprehensive tests of controls and solutions for preventing intrusions or attacks.

Security implementation

We help clients leverage technology optimally to enhance cyber security.

Security as a service

We provide clients with end-to-end operational cyber security support.

Risk and compliance

We assist clients to ensure the effectiveness of compliance management to firm policies, regulatory requirements and industry standards.

Identify and access management

We help clients improve controls around access to information and improve the confidentiality, integrity and availability of critical data.

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