

*South African hospitality outlook: 2012-2016*

*2nd annual edition*

*July 2012*

# *Unpacking hospitality trends*



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# South African hospitality outlook: 2012-2016

## *Second South African edition*

PwC's team of hospitality specialists provide an unbiased overview of how the hospitality industry in South Africa 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 challenges facing these industry sectors as well as considering their future prospects.

*South African hospitality outlook: 2012-2016* provides 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](http://www.pwc.com/za/hospitality-and-leisure).

## **About PwC's hospitality industry group**

Every day, 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 in South Africa and elsewhere 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.



## **South African hospitality outlook: 2012-2016**

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Many other professionals within PwC reviewed the text and contributed local expertise to this publication and we thank them for their assistance.

## **Research methodology**

Historical data were derived from our analysis of Smith Travel Research (STR) data and Statistics South Africa data combined with other information on industry trends. As some of the historical data was generated through surveys, there may be year-on-year fluctuations because of entities of different sizes being sampled rather than because of underlying industry trends.

We then developed forecasting models based on the historical performance for each category, economic prospects for South Africa and the rest of the world, and estimates of domestic and international overnight travel in South Africa. We also took into account unusual events such as the FIFA World Cup in 2010 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](http://www.wilkofskygruen.com) for more information.

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Johannesburg  
July 2012

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

Welcome to the 2<sup>nd</sup> edition of the *South African hospitality outlook: 2012–2016*. This publication focuses on segments within the hospitality industry with detailed forecasts and analysis. Each segment details the key trends observed as well as key challenges and future prospects.

In 2008, South Africa was affected by the global recession. Growth slowed sharply during the latter part of the year; the economy declined in 2009; and the recovery in 2010-11 was less robust than the growth rates recorded in the mid-2000s.

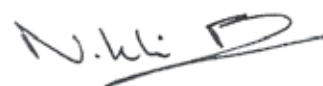
Beginning in 2012, we expect demand for rooms to again grow faster than supply and for the overall occupancy rate to begin to increase. We project that by 2016, occupancy across all accommodation sectors will average 53.9%.

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 37 in this publication.

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

Sincerely,



**Nikki Forster**  
**Director**  
Hospitality Leader  
PwC Southern Africa



# *Unpacking hospitality trends*





## South African hospitality outlook: 2012 – 2016

Hotels and other forms of accommodation operate in a volatile environment, with significant swings occurring in both supply and demand. On the demand side, customers consist of both business and recreational travellers from both domestic and foreign markets. The economic cycle plays a major role because travel is generally discretionary.

The accommodation market consists of hotels, guest houses, bed & breakfast establishments, bush lodges, caravan sites, camping sites, and other overnight accommodation.

In the business market, travel is often one of the first spending streams reduced when the economy is declining. Business opportunities are generally more limited during a recession, which reduces the need for business trips and business travel is vulnerable when companies are looking to lower costs.

Advances in telecommunications, particularly the development of sophisticated videoconferencing, create a credible substitute for business travel, which exacerbates its vulnerability to a recession.

When the economy is expanding, however, there is often a more than proportional increase in business travel. Opportunities for generating new business are greater, there is less pressure to reduce costs and travel to conventions and trade shows generally expands when the economy is growing. Face-to-face meetings are still preferred

notwithstanding the ability to communicate via videoconferencing.

Recreational or holiday travel is even more discretionary. People tend to go on more elaborate vacations when disposable income is rising, but tend to stay closer to home when disposable income is stagnating or there are concerns about future employment.

For these reasons, overnight travel requiring the use of hotels and other accommodation tends to expand rapidly when the economy is strong but contracts sharply when the economy is weak or declining.

The supply side has its own cycle, which is sometimes even more volatile. Hotels are expensive to build and there is a relatively long time lag between planning a hotel project, completing construction and generating revenue. Consequently, hotels, and major real estate projects in general, are among the more risky investments.

Developers look to marketplace signals to determine the potential rate of return. Trends in occupancy rates, room rates, and tourism are among the factors considered to determine if the market is growing fast enough to support an increase in supply. If those signals are favourable, there is an incentive for developers to plan or explore new projects.

Because developers and lenders are looking at the same market factors, favourable trends lead

many developers to simultaneously invest in new projects. While each individual decision may make economic sense, when too many developers are making those decisions, the overall result is often a jump in supply that exceeds the expected growth in demand. Economists refer to this phenomenon as the fallacy of composition. What may be a perfectly rational decision for an individual may not be rational for the market as a whole. Real estate is especially vulnerable to the fallacy of composition because of the time lag between planning a project and completing it. The longer the time lag, the more projects will be planned and the greater the likelihood that there will be an oversupply.

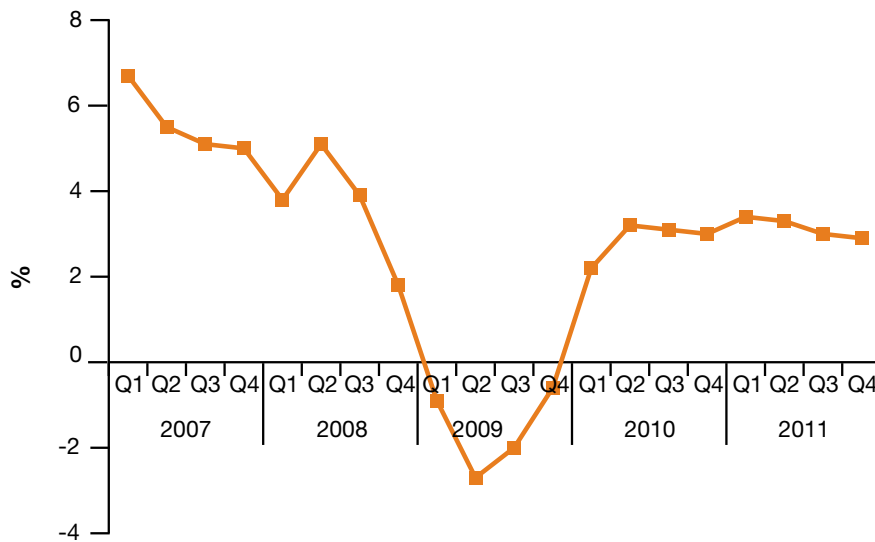
If an oversupply does occur, the same phenomenon works in reverse. Developers seeing falling occupancy rates, stagnating room rates, and struggling hotels, cancel plans for further expansion. Supply growth slows and the number of available rooms may even decline. Demand begins to catch up with supply, occupancy rates begin to increase and the next cycle of construction is launched.

In South Africa, an added dimension was introduced with the staging of the FIFA World Cup in 2010. The month-long tournament was expected to attract a large number of visitors, which further stimulated hotel construction to accommodate those visitors even though it was known that the impact would be temporary.

The dynamics described above characterized the hotel and accommodation market in South Africa in recent years. Economic expansion during much of the previous decade fuelled growth in travel and stimulated spending on accommodation. That growth, in turn, led to increased investment in hotels and accommodation.

In 2008, South Africa was affected by the global recession. Growth slowed sharply during the latter part of the year; the economy declined in 2009, and the recovery in 2010-11 was less robust than the growth rates recorded in the mid 2000s.

**Figure 1: Real GDP growth (year-on-year)**

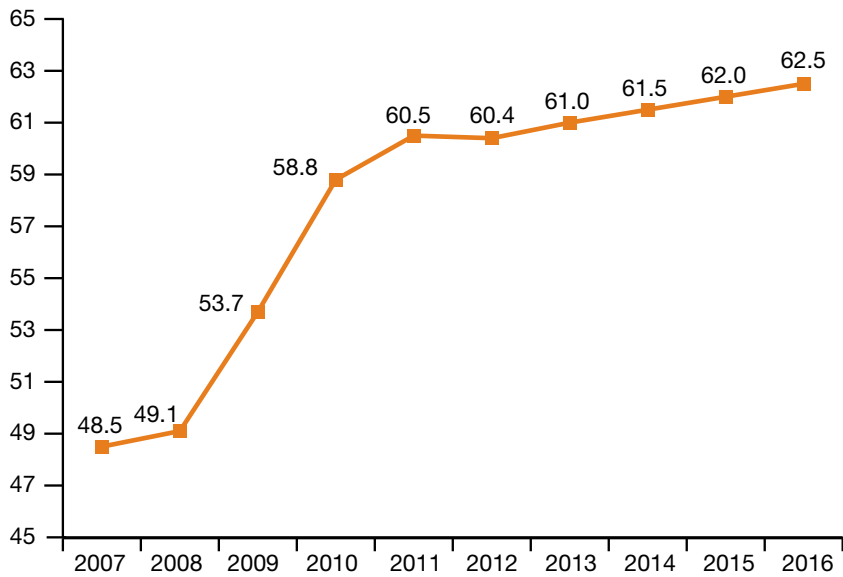


Source: Statistics South Africa

Unfortunately, the projects planned in the mid 2000s did not reach the market until the latter part of the decade, just when the economy was declining. Between 2007 and 2011, 12 000 hotel rooms were added to the market. Occupancy rates plunged, falling from 71.8% in 2007 to 53.0% in 2011, an 18.8-percentage-point decline.

The market suffered, with some establishments struggling and even closing, such as the Grace Hotel in Rosebank, and further expansion plans being curtailed. South Africa is now at a point in the supply cycle where little growth in room number is expected. By 2016 we project that there will be only 2 000 more hotel rooms than there were in 2011.

**Figure 2: Number of hotel rooms (thousands)**



Source: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Through mid 2011 the hotel markets in Johannesburg, Cape Town and other areas where many of the newer upscale hotels opened, were struggling and it was expected that it would take several years before tourism would recover and the market would improve.

Then in late 2011, the hotel market suddenly began to show signs of improvement. A depreciating rand lowered prices for foreign travellers, as shown by the increase in the number of total foreign visitors over 2010 by 265 000, with the number of foreign visitors from China and India increasing by 28.7% and 26.2% respectively over the prior year. This aided the summer 2011-12 season in being the strongest it has been in the last few years.

China named Cape Town the most preferred tourist attraction for the Chinese in 2011. Boutique hotels in Cape Town led the list for TripAdvisor Travelers' Choice Awards Best Hotels.

The National Convention Bureau (NCB) began operations in April 2012 to coordinate national business tourism and to promote South Africa as a global convention destination. South Africa has already signed up 200 international conferences during the next five years, which will attract approximately 300 000 visitors.

The number of travellers increased 14.8% in 2010, largely reflecting the impact of the FIFA World Cup. We had expected that in the absence of the tournament in 2011, the number of travellers would decline. This was not the case. The number of travellers continued to increase, rising by 4.3% to 13.77 million. Foreign overnight visitors rose 3.3% to 8.34 million, while domestic travel increased 5.8% to 5.43 million. Foreign travellers from other African countries comprised 73.5% of total foreign visitors during 2011.

South Africa had previously relied on visitors from Germany, the United Kingdom and other countries in Europe. The weak economy in Europe has limited tourist and business travel from those countries but strong economies in China and India are boosting tourism to South Africa. The number of visitors from China rose 62% in 2010 and by an additional 18% in 2011. Tourism from India rose even faster in 2011, growing by 29%.

In 2012, South Africa opened visa application centres in Beijing and Shanghai. Together with the introduction of flights from Beijing to Johannesburg by South African Airways, this should facilitate greater travel to South Africa. Travel from China has been helped by the construction of 45 new airports during the past five years. During the next decade, another 52 airports are planned.

South African Airways now schedules four direct flights a week between India and South Africa and Jet Airways of India has five direct flights between the two countries.

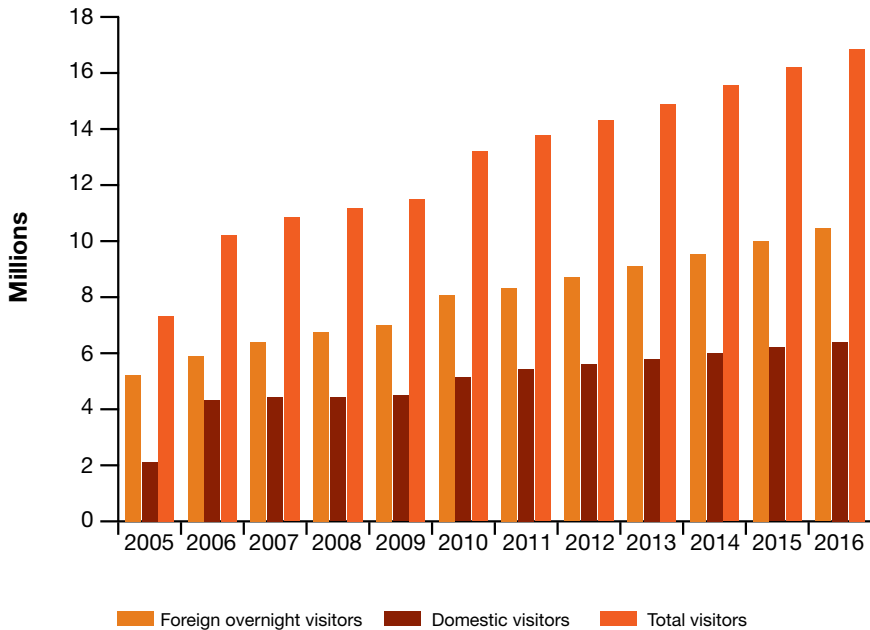
Growth in tourism from Asia and from Brazil, Colombia and Chile in South America, where economic growth for 2011 has ranged between 9.8% and 14.9%, are offsetting declines from Europe.

The number of foreign overnight visitors is projected to increase at a 4.6% compound annual rate to reach 10.45 million in 2016.

We anticipate somewhat slower growth in domestic travel, reflecting moderate growth in real GDP. The number of domestic travellers will increase by a projected 3.3% compounded annually to 6.4 million in 2016.

The total number of travellers in South Africa will rise to 16.85 million by 2016, a 4.1% compound annual increase from 2011. Growth in travel and tourism will fuel growth in the accommodation industry during the next five years.

**Figure 3: Domestic and foreign visitors (2005-2016)**

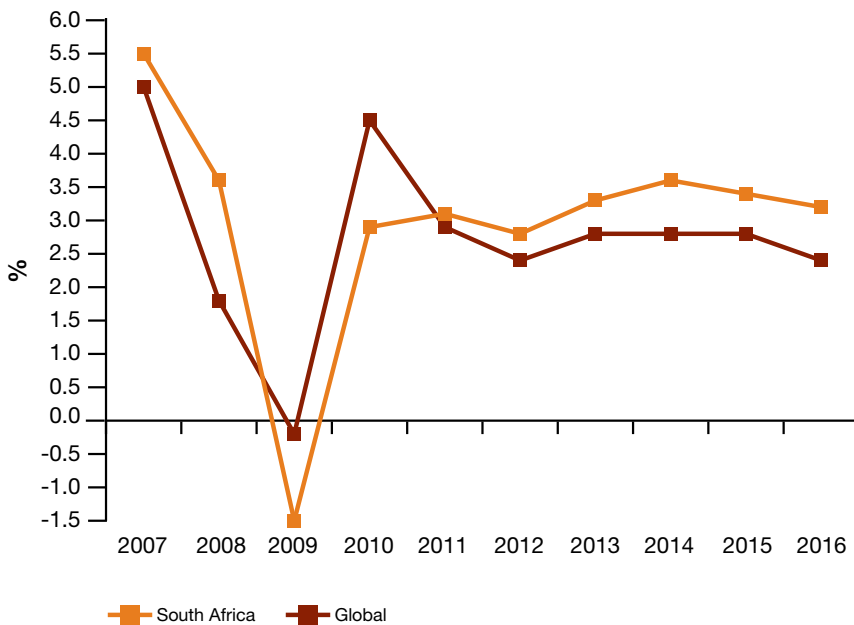


Source: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

We expect real GDP growth in South Africa to moderate to 2.8% in 2012 from 3.1% in 2011. We then look for somewhat faster increases, but do not expect a return to the large gains achieved in the mid 2000s when the economy was less developed. We project real GDP to expand at a 3.3% compound annual rate during the next five years.

The global economy grew more slowly than South Africa during 2007-08, but outperformed South Africa in 2009-10. In 2011, South Africa again grew faster than the global economy.

**Figure 4: Real GDP growth (%)**

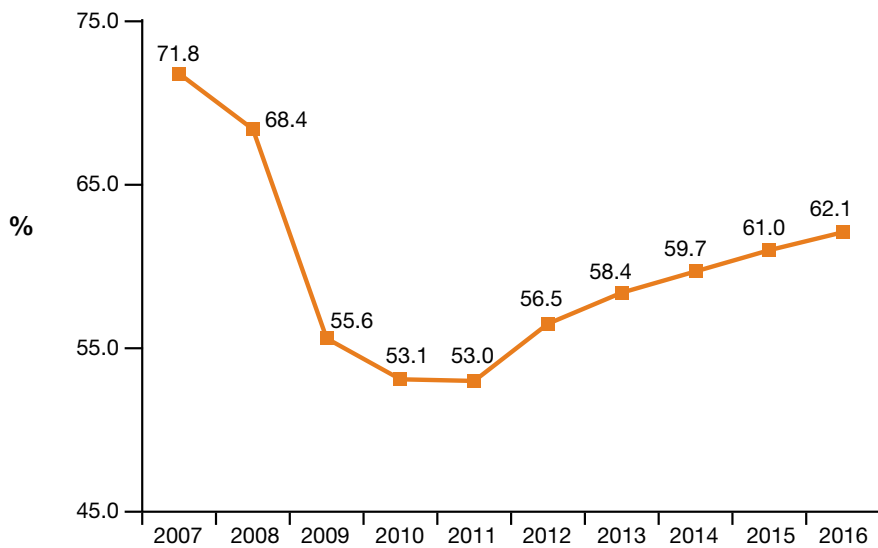


Source: Statistics South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Going forward, we expect global GDP to continue to grow more slowly than South Africa's economy, largely reflecting continued weakness in Europe. Global economic growth is expected to average 2.6% compounded annually during the next five years.

Continued economic growth, rising tourism and slower growth in the number of available rooms will lead to a recovery in hotel occupancy rates. We expect the average hotel occupancy rate to improve in 2012 and to increase by 9.1 percentage points to 62.1% in 2016.

**Figure 5: Hotels – Occupancy rates (2007-2016)**



Source: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates





## Summary

Overall spending on rooms in all categories fell 3.5% in 2011 to R13.4 billion, reflecting a drop in stay unit nights in the non-hotel categories and a 2.4% decrease in the average room rate. The average room rate increased 12.6% in 2010 as premium fees were levied during the FIFA World Cup.

The average occupancy rate dipped to 47.4% in 2011, barely ahead of its level in 2009.

We project spending to recover in 2012 with an 11.2% increase, fuelled by an 8.2% rise in stay unit nights and a 2.8% rise in the average room rate.

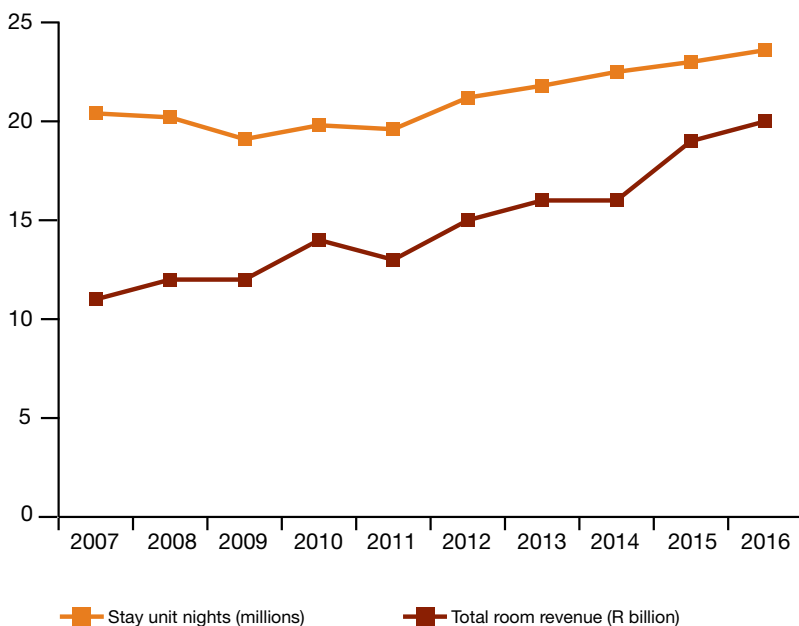
We then expect to see high single-digit gains during 2013-16, reflecting ongoing gains in tourism and business travel.

We project stay unit nights to increase by 3.8% compounded annually from 19.6 million in 2011 to 23.6 million in 2016.

The overall number of available rooms decreased 0.2% in 2011 due to a decline in the number of rooms at guest houses and in other accommodation categories. We expect another 0.2% decline in 2012 due to a slight decrease in the number of hotel rooms and other accommodation categories. We then expect that rising occupancy rates will lead to modest, but accelerating growth in the number of rooms. The number of available rooms across all sectors will increase to an estimated 119 700 by 2016, a 1.1% compound annual increase from 2011.

Stay unit nights fell 1.0% in 2011 reflecting an underlying weak market that was still suffering from the lingering effects of the global recession.

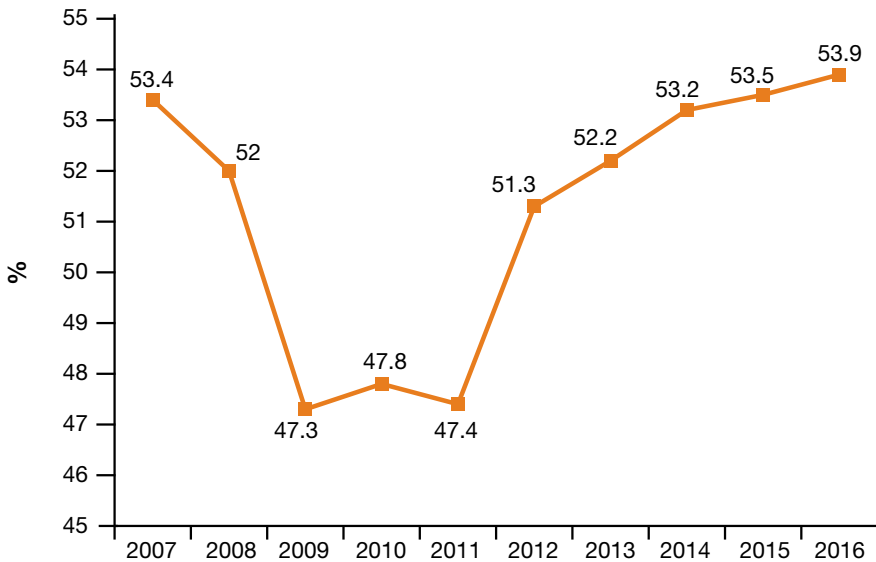
**Figure 6: Stay unit nights and total room revenue (2007-2016)**



Source: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Beginning in 2012, demand for rooms will grow faster than supply and the overall occupancy rate will begin to increase. We project that by 2016, occupancy will average 53.9% across all sectors, with hotels faring best with a 62.1% average occupancy rate forecast.

**Figure 7: Occupancy rates (2007-2016)**

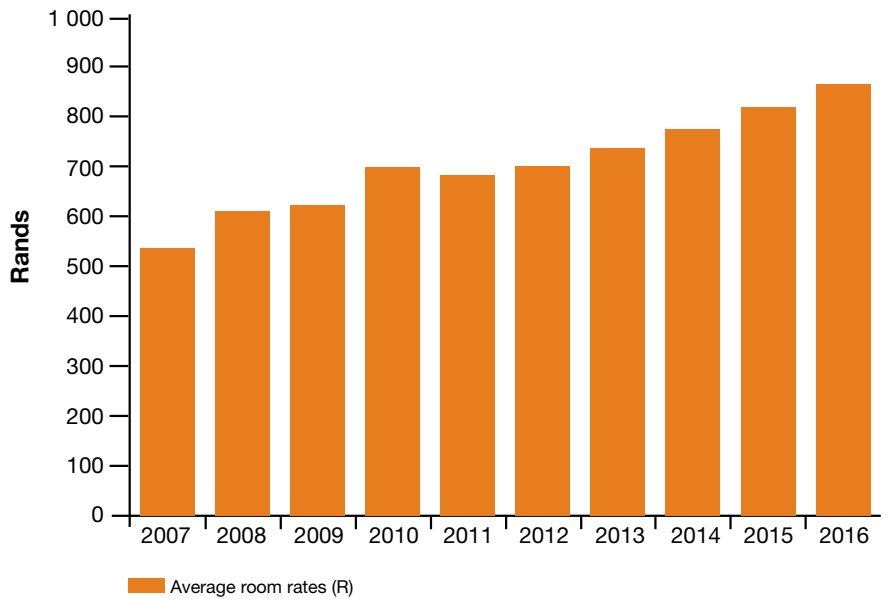


Source: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

**Figure 8: Average room rates (2007-2016)**

As occupancy rates increase, we expect room rates to rise at mid-single-digit rates beginning in 2013, roughly approximating the overall rate of inflation. The average room will cost R864 in 2016, up 4.8% on a compound annual basis from 2011.

Total room revenue is expected to reach R20.4 billion in 2016, an 8.8% compound annual increase from 2011.



Source: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

## Total accommodation market

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR*
Available rooms (thousands)	104.6	106.2	110.7	113.4	113.2	113.0	114.3	115.9	117.7	119.7	
% change	2.6	1.5	4.2	2.4	-0.2	-0.2	1.2	1.4	1.6	1.7	1.1
Stay unit nights (millions)	20.4	20.2	19.1	19.8	19.6	21.2	21.8	22.5	23.0	23.6	
% change	5.2	-1.0	-5.4	3.7	-1.0	8.2	2.8	3.2	2.2	2.6	3.8
Occupancy rates (%)	53.4	52.0	47.3	47.8	47.4	51.3	52.2	53.2	53.5	53.9	
Average room rates (R)	536	610	621	699	682	701	737	774	819	864	
% change	13.6	13.8	1.8	12.6	-2.4	2.8	5.1	5.0	5.8	5.5	4.8
Total room revenue (R millions)	10 936	12 312	11 867	13 850	13 368	14 863	16 057	17 408	18 836	20 379	
% change	19.4	12.6	-3.6	16.7	-3.5	11.2	8.0	8.4	8.2	8.2	8.8

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

\* Compound annual growth rate

# *Hotel accommodation*



Most of the new construction and ensuing volatility in the market have been centred on hotels, which have the longest lead times and the largest revenue potential.

After rising at rates in excess of 9% annually during 2009-10, growth in available rooms slowed to 2.9% in 2011, largely reflecting projects already in place that were completed in 2011. We expect the number of rooms to dip by 0.2% in 2012 and to then grow at modest rates of 1% or less during 2013-16 as occupancy rates begin to increase. By 2016, there will be an estimated 62 500 hotel rooms available, up 0.7% compounded annually from 60 500 in 2011.

There is not much new activity planned, but some hotels are being upgraded. Three Cities, for example, is spending R10 million to upgrade Hotel on St Georges and The Inn on the Square. Tsogo Sun has reopened The Grace Hotel in Rosebank in July 2012 as '54 on Bath' and Sun International has commenced refurbishment of the Grayston Hotel in Sandton, which will be opening in early 2013. These groups have completed or are completing other expansion and refurbishment projects at their existing properties. Protea Hotels has also announced a refurbishment of some of its South African properties.

Stay unit nights rose 2.6% in 2011, albeit off a low base, benefiting from a late surge in tourism and from favourable comparisons to a weak market in 2010 before and after the FIFA World Cup.

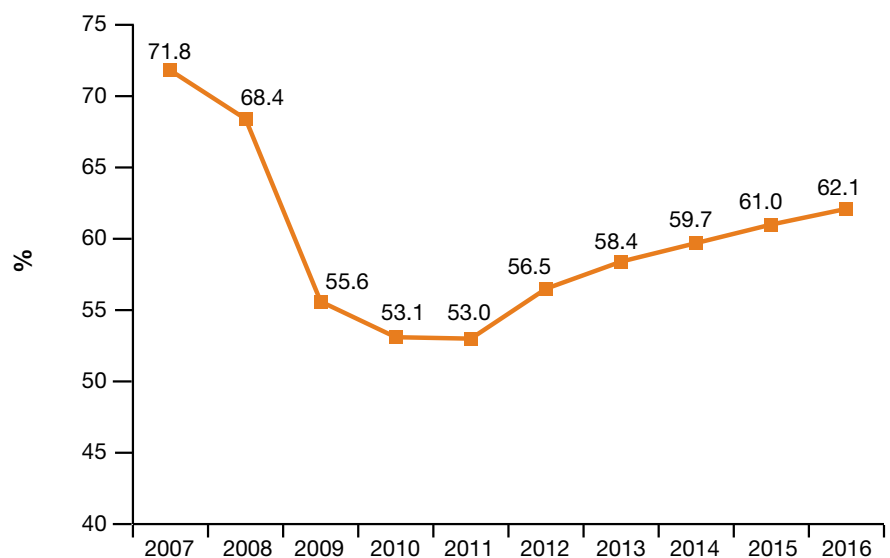
The most significant impact of the FIFA World Cup was on average room rates, which rose 11.7% in 2010 and then fell 9.4% in 2011.

The decline in the average room rate led to a 7.0% decrease in overall hotel room revenue to R9.6 billion in 2011.

Based on a strong 2011/2012 summer season, we expect stay unit nights to increase by 6.8% in 2012. We then predict ongoing gains at more modest rates approximating growth in tourism and travel. We expect stay unit nights to average 3.9% compounded annually to reach 14.2 million in 2016, up from 11.7 million in 2011.

The pickup in stay unit nights combined with the slowdown in room availability growth will lead to a turnaround in occupancy rates beginning in 2012. By 2016, the occupancy rate will average 62.1% across all hotels, up from 53.0% in 2011.

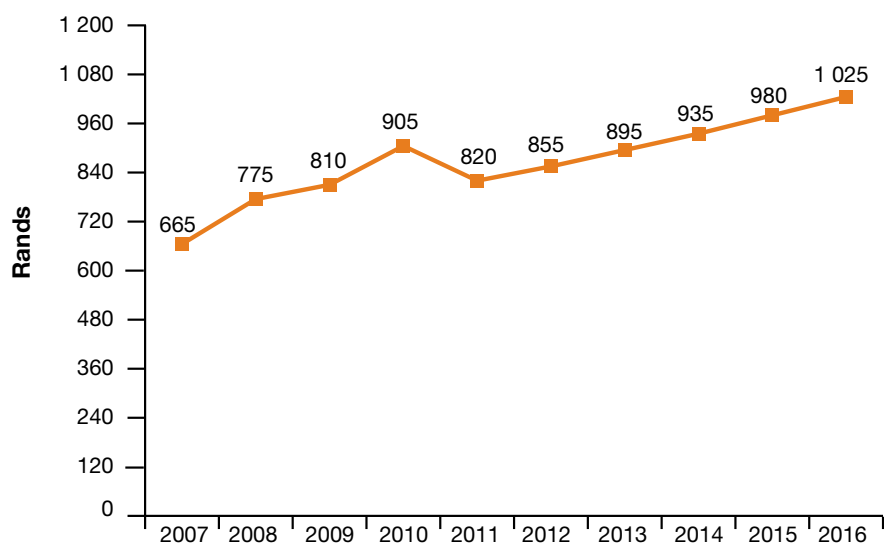
**Figure 9: Hotels – Occupancy rates (2007-2016)**



Source: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates



**Figure 10: Hotels – Average room rates (2007-2016)**



The average room rate will increase at a 4.6% compound annual rate to reach R1 025 in 2016.

Hotel room revenue is forecast to expand to R14.6 billion in 2016, up 8.7% compounded annually from 2011.

Source: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

## Hotels

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR*
Available rooms (thousands)	48.5	49.1	53.7	58.8	60.5	60.4	61.0	61.5	62.0	62.5	
% change	1.0	1.2	9.4	9.5	2.9	-0.2	1.0	0.8	0.8	0.8	0.7
Stay unit nights (millions)	12.7	12.3	10.9	11.4	11.7	12.5	13.0	13.4	13.8	14.2	
% change	3.3	-3.1	-11.4	4.6	2.6	6.8	4.0	3.1	3.0	2.9	3.9
Occupancy rates (%)	71.8	68.4	55.6	53.1	53.0	56.5	58.4	59.7	61.0	62.1	
Average room rates (R)	665	775	810	905	820	855	895	935	980	1 025	
% change	14.7	16.5	4.5	11.7	-9.4	4.3	4.7	4.5	4.8	4.6	4.6
Total room revenue (R millions)	8 446	9 533	8 829	10 317	9 594	10 688	11 635	12 529	13 524	14 555	
% change	18.4	12.9	-7.4	16.9	-7.0	11.4	8.9	7.7	7.9	7.6	8.7

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

\* Compound annual growth rate

## Three-, four- and five-star hotels

As a group, three-, four- and five-star hotels comprised 69% of available hotel rooms in 2011, 72% of stay unit nights, and 79% of total hotel room revenues.

**Figure 11: Stay unit nights comparison (2007-2016)**



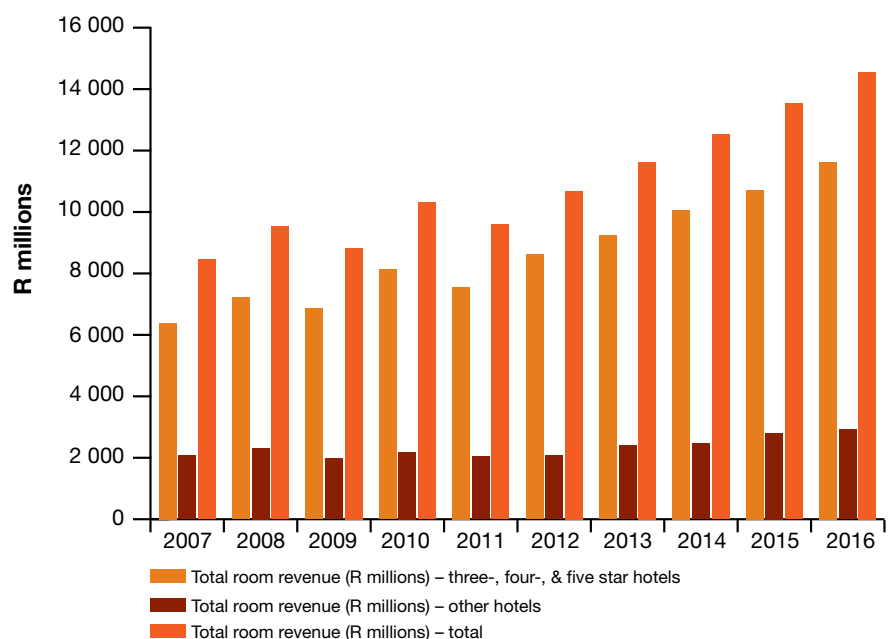
Source: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

The major swings in the hotel market occurred in the four- and five-star hotels where double-digit declines in the average room rate led to decreases in revenue in 2011.

The average room rate for the top hotel classes was R899 in 2011, 10% above the overall hotel average. The average room rate declined 10.4% in 2011 and room revenues fell 7.0%.

During the next five years, revenue growth for three-, four and five- star hotels is expected to average 9.0% compounded annually, comparable to the projected 8.7% compound annual increase for all hotels.

**Figure 12: Total room revenue comparison (2007 – 2016)**



Source: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

## Three-, four- and five-star hotels

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR*
Available rooms (thousands)	32.9	33.4	36.0	39.6	41.5	42.1	42.6	43.1	43.4	43.7	
% change	1.2	1.5	7.8	10.0	4.8	1.4	1.2	1.2	0.7	0.7	1.0
Stay unit nights (millions)	8.6	8.3	7.6	8.1	8.4	9.2	9.6	10.0	10.3	10.7	
% change	2.4	-3.5	-8.4	6.6	3.7	9.5	4.3	4.2	3.0	3.9	5.0
Occupancy rates (%)	71.6	68.1	57.8	55.9	55.5	59.9	61.7	63.4	65.0	67.1	
Average room rates (R)	742	870	902	1 003	899	937	962	1 006	1 041	1 087	
% change	15.8	17.3	3.7	11.2	-10.4	4.2	2.7	4.6	3.5	4.4	3.9
Total room revenue (R millions)	6 380	7 217	6 855	8 125	7 554	8 622	9 239	10 063	10 719	11 632	
% change	18.5	13.1	-5.0	18.5	-7.0	14.1	7.2	8.9	6.5	8.5	9.0

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

\* Compound annual growth rate



## Three-star hotels

Among three-star hotels, the average room rate fell by a relatively modest 4.2% and revenue rose 0.3% in 2011.

The average room rate for three-star hotels was R690 in 2011, which was 16% below the overall hotel average.

Three-star hotels rely more on volume and less on price than four- or five-star hotels.

During the next five years, room revenues in three-star hotels will expand at a projected 7.9%

compound annual rate to R4.5 billion in 2016 from R3.1 billion in 2011.

Occupancy is expected to increase from 57.1% in 2011 to 68.8% in 2016 which is slightly higher than the occupancy experienced in 2008 of 68.1%.

## Three-star hotels

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR*
Available rooms (thousands)	16.5	16.9	18.4	20.4	21.6	22.0	22.3	22.5	22.6	22.7	
% change	1.9	2.4	8.9	10.9	5.9	1.9	1.4	0.9	0.4	0.4	1.0
Stay unit nights (millions)	4.2	4.2	3.9	4.3	4.5	4.9	5.1	5.3	5.5	5.7	
% change	2.4	0.0	-7.1	10.3	4.7	8.9	4.1	3.9	3.8	3.6	4.8
Occupancy rates (%)	69.7	68.1	58.1	57.6	57.1	61.0	62.7	64.4	66.7	68.8	
Average room rates (R)	535	625	650	720	690	700	715	745	770	795	
% change	15.1	16.8	4.0	10.8	-4.2	1.4	2.1	4.2	3.4	3.2	2.9
Total room revenue (R millions)	2 247	2 625	2 535	3 096	3 105	3 430	3 647	3 949	4 235	4 532	
% change	17.8	16.8	-3.4	22.1	0.3	10.5	6.3	8.3	7.2	7.0	7.9

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

\* Compound annual growth rate

## Four-star hotels

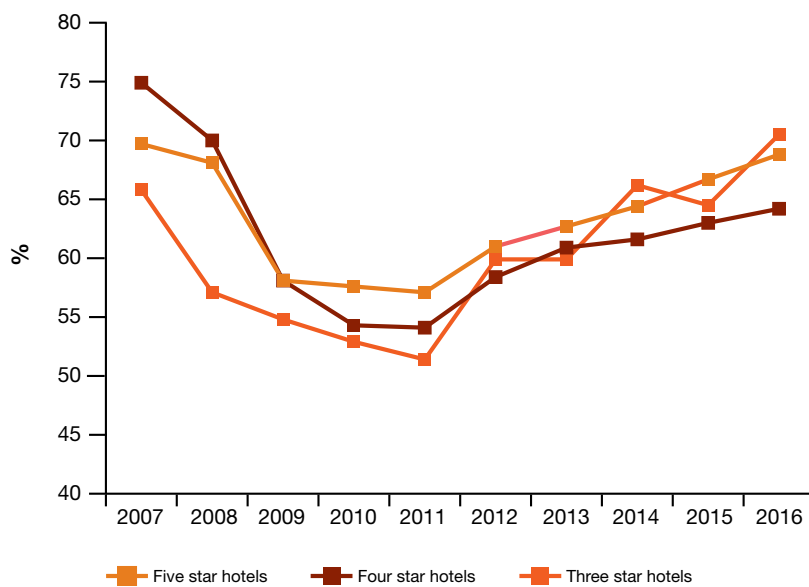
Four-star hotels comprised 28% of hotel rooms and stay unit nights in 2011, and 36% of hotel room revenue. The average room rate for four-star hotels was 26% higher than the overall hotel average in 2011. The average room rate fell 12.3% in 2011 and revenues declined 9.6%.

Given the increased number of foreign visitors in 2011 and the forecast growth in foreign visitors, we expect four-star hotels to benefit more from the increase in tourism than three-star hotels and project revenues to grow at a 9.0%

compound annual rate to R5.2 billion in 2016 from R3.4 billion in 2011.

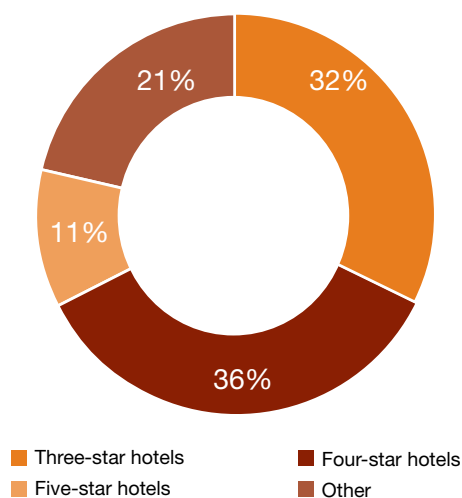
The occupancy rate in the four-star sector is expected to increase from 54.1% in 2011 to 64.2% in 2016. The level forecast for 2016 is still below the boom period of 2007 and 2008, which experienced occupancy rates of 74.9% and 70% respectively.

**Figure 13: Occupancy rates – three, four and five-star hotels**



Source: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates, Smith Travel Research (STR)

**Figure 14: Total hotel room revenue by category (2011)**



Source: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates



## Four-star hotels

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR*
Available rooms (thousands)	13.9	14.1	15.1	16.1	16.7	16.9	17.1	17.3	17.4	17.5	
% change	2.2	1.4	7.1	6.6	3.7	1.2	1.2	1.2	0.6	0.6	0.9
Stay unit nights (millions)	3.8	3.6	3.2	3.2	3.3	3.6	3.8	3.9	4.0	4.1	
% change	0.0	-5.3	-11.1	0.0	3.1	9.1	5.6	2.6	2.6	2.5	4.4
Occupancy rates (%)	74.9	70.0	58.1	54.3	54.1	58.4	60.9	61.6	63.0	64.2	
Average room rates (R)	850	1 015	1 050	1 175	1 030	1 100	1 140	1 180	1 225	1 275	
% change	14.1	19.4	3.4	11.9	-12.3	6.8	3.6	3.5	3.8	4.1	4.4
Total room revenue (R millions)	3 230	3 654	3 360	3 760	3 399	3 960	4 332	4 602	4 900	5 228	
% change	14.1	13.1	-8.0	11.9	-9.6	16.5	9.4	6.2	6.5	6.7	9.0

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

\* Compound annual growth rate



## Five-star hotels

Five-star hotels made up only 5% of available hotel rooms and stay unit nights in 2011, but generated 11% of total hotel room revenues and 13.9% of the three-, four- and five-star category.

The average room rate was R1 750 in 2011, with the average rate varying from R1 575 in August 2011 to R1 975 in December 2011. The average rate for the year is more than twice the overall hotel average.

Five-star hotels generated the largest increase in room revenues of the hotel categories in 2010 with a 32% increase and experienced the steepest decline in 2011 with a 17% drop. This swing reflected the impact of the FIFA World Cup, which benefited five-star hotels more than other categories in 2010 and led to a steeper decline in 2011.

Five-star hotels will benefit even more than four-star hotels from the increase in tourism over the next five years and we expect five-star hotels to be the fastest-growing hotel category. We believe hotel room revenues will expand at a 12.3% compound annual rate to R1.9 billion in 2016 from R1.1 billion in 2011. However, three- and four-star hotels will still make up the bulk of revenue in the hotels sector with expected revenue of R4.5 billion and R5.2 billion in 2016 respectively.

The fast-pace of growth in the five-star sector is also expected to be seen in occupancy, which is forecast to increase from 51.4% in 2011 to 70.5% in 2016. The 2016 forecast rate is higher than the 2007 occupancy rate of 65.8%.

## Five-star hotels

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR*
Available rooms (thousands)	2.5	2.4	2.5	3.1	3.2	3.2	3.2	3.3	3.4	3.5	
% change	-7.4	-4.0	4.2	24.0	3.2	0.0	0.0	3.1	3.0	2.9	1.8
Stay unit nights (millions)	0.6	0.5	0.5	0.6	0.6	0.7	0.7	0.8	0.8	0.9	
% change	20.0	-16.7	0.0	20.0	0.0	16.7	0.0	14.3	0.0	12.5	8.4
Occupancy rates (%)	65.8	57.1	54.8	52.9	51.4	59.9	59.9	66.2	64.5	70.5	
Average room rates (R)	1 505	1 875	1 920	2 115	1 750	1 760	1 800	1 890	1 980	2 080	
% change	16.7	24.6	2.4	10.2	-17.3	0.6	2.3	5.0	4.8	5.1	3.5
Total room revenue (R millions)	903	938	960	1 269	1 050	1 232	1 260	1 512	1 584	1 872	
% change	40.0	3.9	2.3	32.2	-17.3	17.3	2.3	20.0	4.8	18.2	12.3

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

\* Compound annual growth rate



# *Guest houses and guest farms*







The guest house and guest farm market can quickly react to changing circumstances by adding or removing rooms from the market. During the past three years, the number of available rooms fell by a cumulative 12.5% reflecting softening in the market.

With the underlying market now settling after the highs and lows of the FIFA World Cup, we expect room availability to increase slightly in 2012 and to rise to 11 200 by 2016,

a 4.2% compound annual increase from 9 100 rooms in 2011. This equates to an average increase of 420 rooms per year to 2016.

Stay unit nights will increase at rates comparable to growth in room availability, rising by 4.1% compounded annually to 2.2 million in 2016 from 1.8 million in 2011.

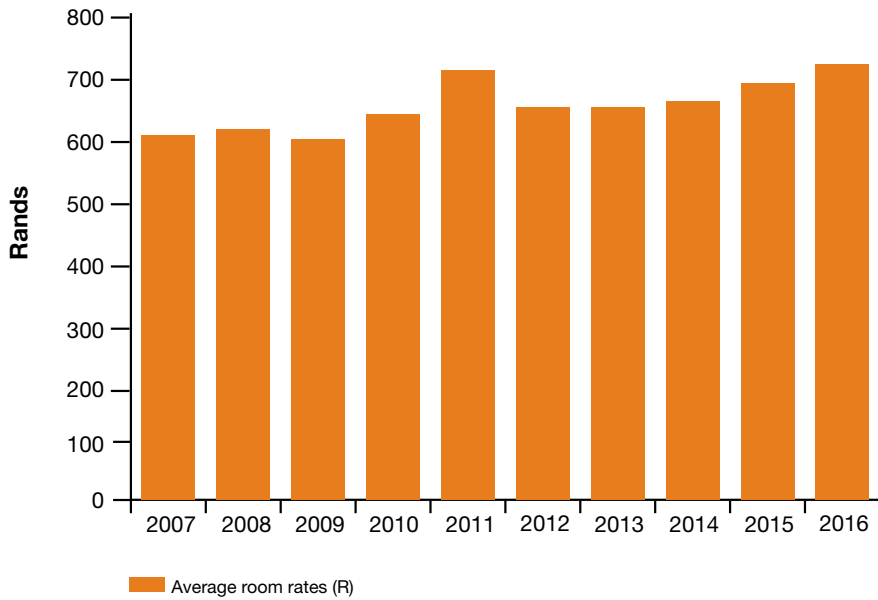
Guest houses were the only category in which the average room rate rose faster in 2011 than in 2010.

Guest houses did not raise their room rates as much as other categories in 2010 and growth in demand and rising occupancy rates allowed them to post a larger increase in 2011.

We do not expect this increase to hold up in 2012 as room availability increases. We expect a decline in 2012, flat rates in 2013 and mid-single-digit gains during the latter part of the forecast period.

**Figure 15: Guest houses/farms - Average room rates (2007-2016)**

The average rate of R700 in 2016 will be 0.3% higher on a compound annual basis compared with R690 in 2011.

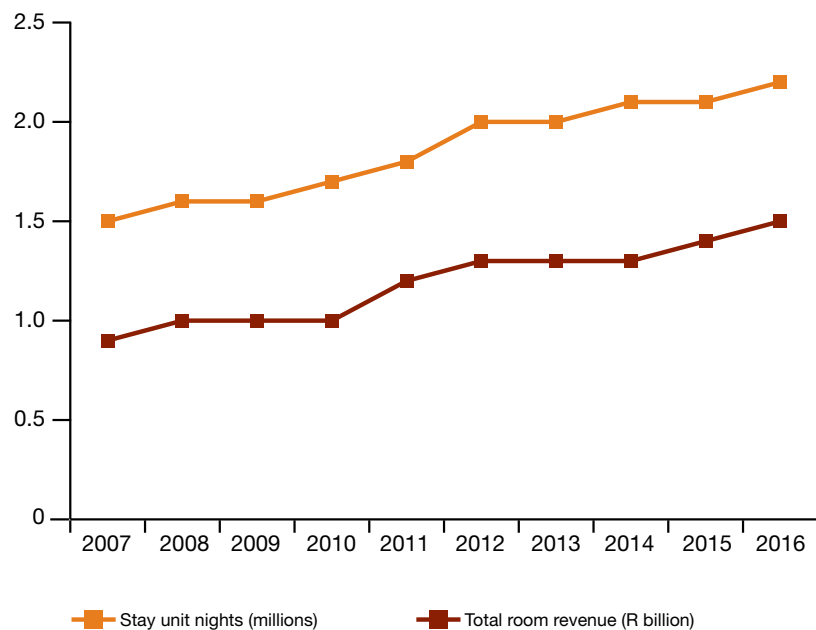


Source: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Room revenue rose at double-digit rates during each of the past two years. Slower growth in average room rates will lead to slower growth in revenues.

Spending is predicted to increase to R1.5 billion by 2016, a 4.4% gain compounded annually from 2011.

**Figure 16: Guest houses/farms - Stay unit nights and total room revenue (2007-2016)**



Source: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

## Guest houses/farms

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR*
Available rooms (thousands)	9.6	10.4	10.1	9.8	9.1	9.5	9.8	10.2	10.7	11.2	
% change	12.9	8.3	-2.9	-3.0	-7.1	4.4	3.2	4.1	4.9	4.7	4.2
Stay unit nights (millions)	1.5	1.6	1.6	1.7	1.8	2.0	2.0	2.1	2.1	2.2	
% change	7.1	6.7	0.0	6.3	5.9	11.1	0.0	5.0	0.0	4.8	4.1
Occupancy rates (%)	42.9	42.0	43.4	47.5	54.2	57.5	55.9	56.5	53.7	53.7	
Average room rates (R)	585	595	579	620	690	630	630	640	670	700	
% change	6.4	1.7	-2.7	7.1	11.3	-8.7	0.0	1.6	4.7	4.5	0.3
Total room revenue (R millions)	878	952	926	1 054	1 242	1 260	1 260	1 344	1 407	1 540	
% change	14.0	8.4	-2.7	13.8	17.8	1.4	0.0	6.7	4.7	9.5	4.4

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

\*Compound annual growth rate





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





The caravan/camping sites, bush lodges and other accommodation category provided 39% of all rooms or units in 2011, but only 19% of revenue. The average rate of R415 in 2011 was 39% lower than the overall average as this category targets an economy-minded clientele. However, average rates have risen at double-digit annual rates during the past five years.

We expect somewhat more modest increases averaging 7.5% compounded annually during the next five years, which will still exceed the overall average of 4.8% compounded annually for all accommodation. At lower price points, there is generally less resistance to increases than at higher price points.

A poor 2011/2012 summer season led to a 9.0% decrease in stay unit nights. We expect that a strong summer will lead to a reversal of that decline in 2012. We then expect modest growth in subsequent years.

We estimate that room revenue will increase at an 11.1% compound annual rate to R4.3 billion in 2016 from R2.5 billion in 2011.

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

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR*
Available rooms (thousands)	46.5	46.7	46.9	44.8	43.6	43.1	43.5	44.2	45.0	46.0	
% change	2.4	0.4	0.4	-4.5	-2.7	-1.1	0.9	1.6	1.8	2.2	1.1
Stay unit nights (millions)	6.2	6.3	6.6	6.7	6.1	6.7	6.8	7.0	7.1	7.2	
% change	8.8	1.6	4.8	1.5	-9.0	9.8	1.5	2.9	1.4	1.4	3.4
Occupancy rates (%)	36.5	36.9	38.6	41.0	38.3	42.5	42.8	43.4	43.2	42.8	
Average room rates (R)	260	290	320	370	415	435	465	505	550	595	
% change	18.2	11.5	10.3	15.6	12.2	4.8	6.9	8.6	8.9	8.2	7.5
Total room revenue (R millions)	1 612	1 827	2 112	2 479	2 532	2 915	3 162	3 535	3 905	4 284	
% change	28.5	13.3	15.6	17.4	2.1	15.1	8.5	11.8	10.5	9.7	11.1

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

\* Compound annual growth rate



# *Looking back: 2011*



In our previous report, released in July 2011, we forecast a 2011 occupancy rate of 45.2%. However, given the increased number of foreign and domestic travellers in 2011, the industry achieved an occupancy rate of 47.4%, with hotels and guest houses performing better than expected.

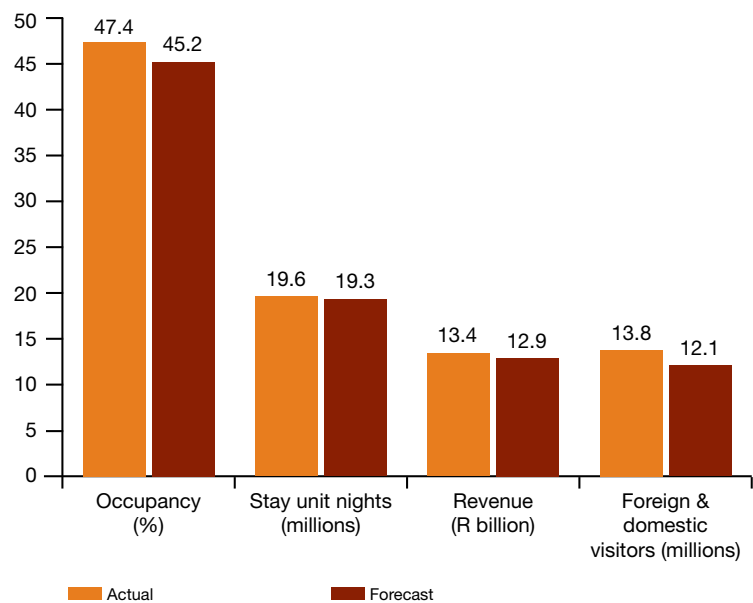
Hotels occupancy for 2011 was 53% compared to our forecast of 48.3%, while guest houses had an occupancy rate of 54.2% compared to the forecast of 45.7%.

The increased occupancy translated into 19.6 million stay unit nights for 2011 versus our forecast of 19.3 million.

Total room revenue for the industry was R13.4 billion compared to our forecast of R12.9 billion.

Actual room revenue for 2011 is, however, 3.5% lower than 2010, which included the revenue from the FIFA World Cup.

**Figure 17: Actual vs forecast results for 2011**



Source: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

# Outlook: 2012–2016



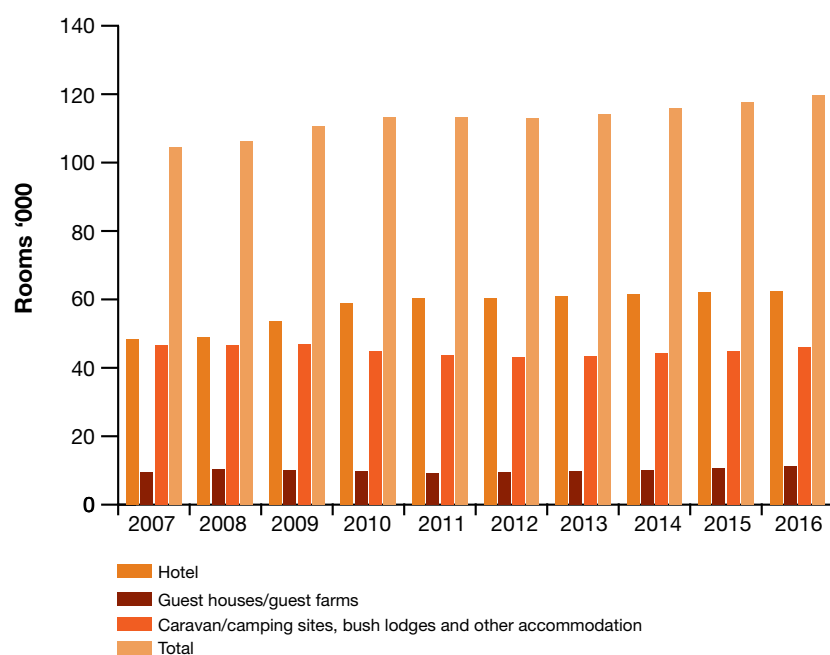
## Available rooms

The overall number of available rooms fell 0.2% in 2011 as gains in hotels were offset by declines in the other two categories.

Beginning in 2012, we expect guest houses to be the fastest-growing category, averaging 4.2% compounded annually. We expect minor declines in both hotels and caravan/camping sites, bush lodges and other accommodation in 2012 followed by modest increases in both categories in subsequent years in response to rising occupancy rates.

Overall, we forecast that room availability will increase at a 1.1% compound annual rate to reach 119 700 in 2016 from 113 200 in 2011.

Figure 18: Available rooms (2007-2016)



Source: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

## Available rooms (thousands)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR*
Hotels	48.5	49.1	53.7	58.8	60.5	60.4	61.0	61.5	62.0	62.5	
% change	1.0	1.2	9.4	9.5	2.9	-0.2	1.0	0.8	0.8	0.8	0.7
Guest houses/guest farms	9.6	10.4	10.1	9.8	9.1	9.5	9.8	10.2	10.7	11.2	
% change	12.9	8.3	-2.9	-3.0	-7.1	4.4	3.2	4.1	4.9	4.7	4.2
Caravan/camping sites, bush lodges and other accommodation	46.5	46.7	46.9	44.8	43.6	43.1	43.5	44.2	45.0	46.0	
% change	2.4	0.4	0.4	-4.5	-2.7	-1.1	0.9	1.6	1.8	2.2	1.1
Total	104.6	106.2	110.7	113.4	113.2	113.0	114.3	115.9	117.7	119.7	
% change	2.6	1.5	4.2	2.4	-0.2	-0.2	1.2	1.4	1.6	1.7	1.1

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

\* Compound annual growth rate

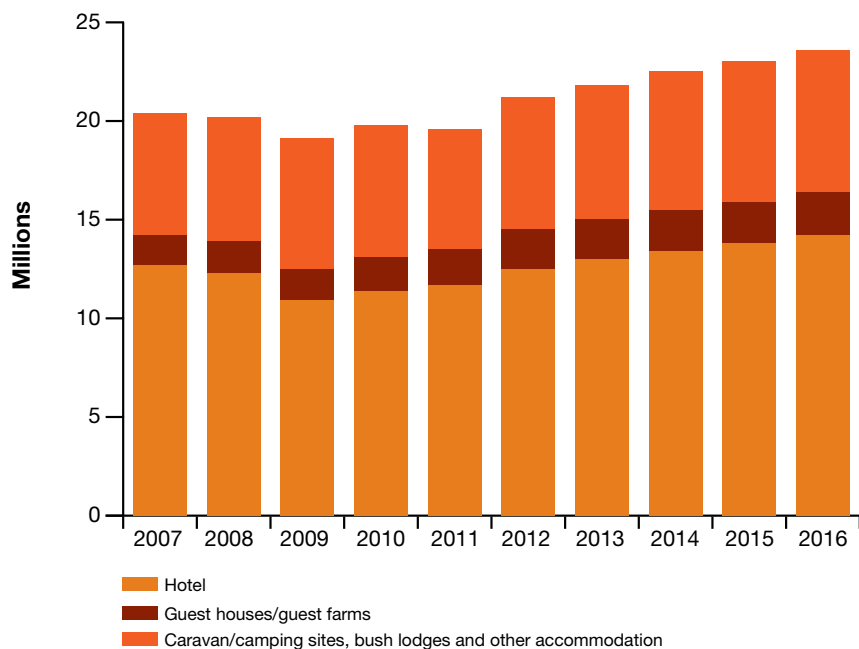


## Stay unit nights

Stay unit nights rose for both hotels and guest houses in 2011, but declined for caravan/camping sites, bush lodges and other accommodation.

Hotels are expected to have a compound annual increase of 3.9% in stay units to 2016, while guest houses and caravan/camping sites, bush lodges and other accommodation are forecast to record gains with compound annual increases of 4.1% and 3.4% respectively.

Figure 19: Stay unit nights (2007–2016)



Source: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

## Stay unit nights (millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012–16 CAGR*
Hotels	12.7	12.3	10.9	11.4	11.7	12.5	13.0	13.4	13.8	14.2	
% change	3.3	-3.1	-11.4	4.6	2.6	6.8	4.0	3.1	3.0	2.9	3.9
Guest houses/guest farms	1.5	1.6	1.6	1.7	1.8	2.0	2.0	2.1	2.1	2.2	
% change	7.1	6.7	0.0	6.3	5.9	11.1	0.0	5.0	0.0	4.8	4.1
Caravan/camping sites, bush lodges and other accommodation	6.2	6.3	6.6	6.7	6.1	6.7	6.8	7.0	7.1	7.2	
% change	8.8	1.6	4.8	1.5	-9.0	9.8	1.5	2.9	1.4	1.4	3.4
Total	20.4	20.2	19.1	19.8	19.6	21.2	21.8	22.5	23.0	23.6	
% change	5.2	-1.0	-5.4	3.7	-1.0	8.2	2.8	3.2	2.2	2.6	3.8

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

\* Compound annual growth rate

## Occupancy rates

During the past five years, occupancy rates declined for hotels, rose for guest houses (particularly in 2010 and 2011) and were relatively steady for caravan/camping sites, bush lodges and other accommodation.

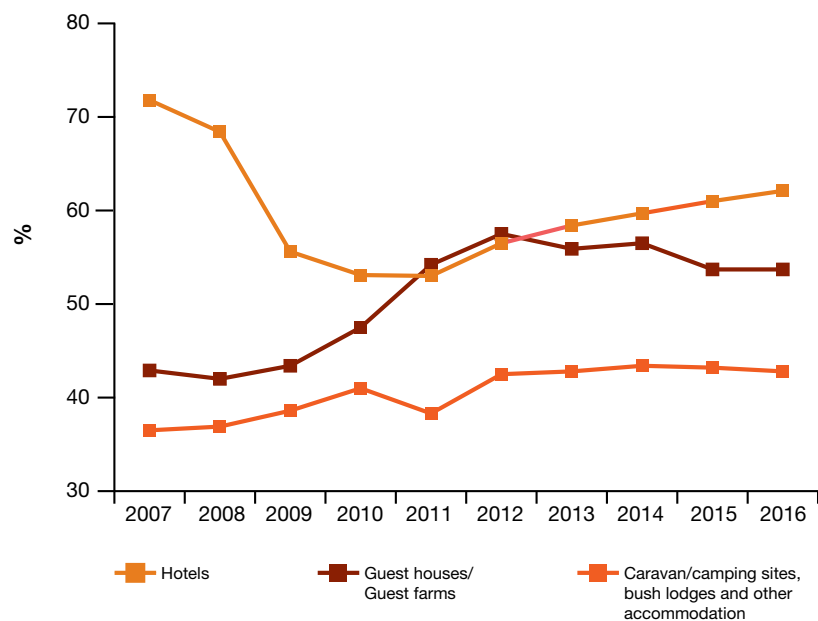
We expect occupancy rates in 2012 to turn around for hotels, increase for guest houses and rebound for caravan/camping sites, bush lodges and other accommodation. We foresee occupancy rates for hotels continuing to expand until 2016 as stay unit nights will grow faster than available rooms. Nevertheless, the projected occupancy rate for hotels in 2016 will still be 9.7% lower than in 2007.

Hotels historically had the highest occupancy rates among the three categories, but guest houses passed the lower-graded hotels in 2011 and will remain higher than the total hotel occupancy rate in 2012. Occupancy rates in three-, four- and five-star hotels declined fractionally in 2011 and were only marginally above guesthouses. Beginning in 2013, we expect hotels to again have the highest occupancy rates.

For guest houses, we project occupancy rates to edge downward from 2013, although they are expected to remain higher than they were during 2007-10.

We expect occupancy rates for caravan/camping sites, bush lodges and other accommodation to be relatively steady over the 2012-16 period.

**Figure 20: Occupancy rates (2007-2016)**



Source: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates, Smith Travel Research (STR)

## Occupancy rates (%)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Hotels	71.8	68.4	55.6	53.1	53.0	56.5	58.4	59.7	61.0	62.1
Guest houses/guest farms	42.9	42.0	43.4	47.5	54.2	57.5	55.9	56.5	53.7	53.7
Caravan/camping sites, bush lodges and other accommodation	36.5	36.9	38.6	41.0	38.3	42.5	42.8	43.4	43.2	42.8
Total	53.4	52.0	47.3	47.8	47.4	51.3	52.2	53.2	53.5	53.9

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

\* Compound annual growth rate

## Average room rates

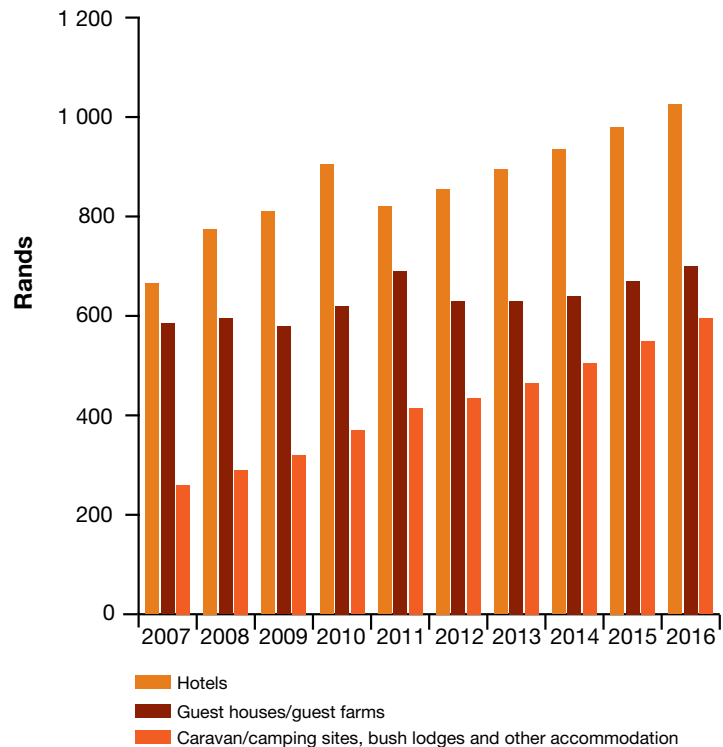
There is a large disparity in average room rates between the three categories. Each component occupies a niche and targets different visitors.

Hotels appeal to business travellers and the high-end vacation market. Guest houses and guest farms target consumers looking for comfortable accommodation and local flavour. Caravan/camping sites, bush lodges and other accommodation market to people looking for inexpensive accommodation, while game lodges appeal to visitors interested in outdoor activities.

Caravan/camping sites, bush lodges and other accommodation will continue to be the fastest-growing category, averaging 7.5% compounded annually, but this growth will be at a slower rate than the double-digit annual gains seen over the past five years.

Average rates for hotels will rise at a 4.6% compound annual rate, while guest houses will be the slowest-growing category with a projected 0.3% compound annual increase.

Figure 21: Average room rates (2007-2016)



Source: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

## Average room rates (R)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR*
Hotels	665	775	810	905	820	855	895	935	980	1 025	4.6
% change	14.7	16.5	4.5	11.7	-9.4	4.3	4.7	4.5	4.8	4.6	4.6
Guest houses/guest farms	585	595	579	620	690	630	630	640	670	700	0.3
% change	6.4	1.7	-2.7	7.1	11.3	-8.7	0.0	1.6	4.7	4.5	0.3
Caravan/camping sites, bush lodges and other accommodation	260	290	320	370	415	435	465	505	550	595	7.5
% change	18.2	11.5	10.3	15.6	12.2	4.8	6.9	8.6	8.9	8.2	7.5
Total	536	610	621	699	682	701	737	774	819	864	4.8
% change	13.6	13.8	1.8	12.6	-2.4	2.8	5.1	5.0	5.8	5.5	4.8

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

\*Compound annual growth rate

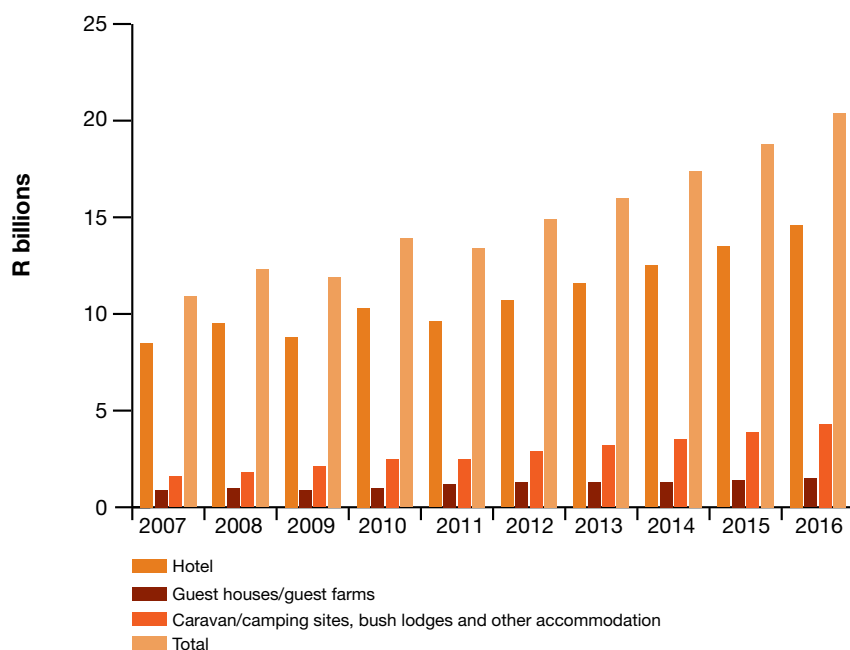
## Total room revenue

Hotels will continue to generate the majority of accommodation revenue during the next five years. Growth will average 8.7% compounded annually, comparable to the overall compound annual increase for all accommodation of 8.8%. We expect hotels to comprise 71.4% of spending in 2016.

Caravan/camping sites, bush lodges and other accommodation will be the fastest-growing category with a projected 11.1% compound annual increase, raising its share of the market from 18.9% in 2011 to 21.0% in 2016.

Guest houses and guest farms will be the slowest-growing category of the overall accommodation market with a 4.4% compound annual increase, dropping its share of total spending to 7.6% in 2016 from 9.3% in 2011.

Figure 22: Total room revenue (2007-2016)



Source: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

## Total room revenue (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR*
Hotels	8 446	9 533	8 829	10 317	9 594	10 688	11 635	12 529	13 524	14 555	
% change	18.4	12.9	-7.4	16.9	-7.0	11.4	8.9	7.7	7.9	7.6	8.7
Guest houses/guest farms	878	952	926	1 054	1 242	1 260	1 260	1 344	1 407	1 540	
% change	14.0	8.4	-2.7	13.8	17.8	1.4	0.0	6.7	4.7	9.5	4.4
Caravan/camping sites, bush lodges and other accommodation	1 612	1 827	2 112	2 479	2 532	2 915	3 162	3 535	3 905	4 284	
% change	28.5	13.3	15.6	17.4	2.1	15.1	8.5	11.8	10.5	9.7	11.1
Total	10 936	12 312	11 867	13 850	13 368	14 863	16 057	17 408	18 836	20 379	
% change	19.4	12.6	-3.6	16.7	-3.5	11.2	8.0	8.4	8.2	8.2	8.8

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

\* Compound annual growth rate

## ***Conclusion***

The hospitality industry will continue to face the challenge of lower occupancy rates and increased pressure on rates in the short term. There is, however, optimism in the market with some signs of recovery translating into improved occupancies in certain sectors.

The major players in the industry are continuing with their capital expansion and refurbishment programmes to keep their products current and to maintain their competitive edge.

Although visitor numbers from Europe are down, the increase in visitors from other African countries and the Asia-Pacific region are a boost to the industry and returns, albeit lower, are still to be had in the South African hospitality industry.





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