

*South African hospitality outlook: 2013-2017  
(featuring analysis of Nigeria and Mauritius)  
3rd annual edition  
June 2013*

# *Destination Africa*





# *South African hospitality outlook: 2013-2017*



## *Third 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 sectors as well as considering their future prospects.

South African hospitality outlook: 2013-2017 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.co.za/hospitality-and-leisure](http://www.pwc.co.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.



## ***Prepared and edited by:***

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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 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 occurred because of entities of different sizes being sampled rather than because of underlying industry trends. Historical data from STR also differs 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](http://www.wilkofskygruen.com) for more information.

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Johannesburg  
13 June 2013



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

Welcome to the 3rd edition of the *South African hospitality outlook: 2013-2017*. 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 global economy slowed in 2012 to 3.2% from 4.0% in 2011 and the local hospitality industry was fortunate that this did not have an adverse impact on visits to South Africa. Going forward, we expect global GDP to improve with projected growth at 4.1% compounded annually.

South African real GDP moderated to 2.5% in 2012 from 3.5% in 2011, and we expect real GDP in South Africa to grow at somewhat faster rates, averaging 3.2% compounded annually during the next five years.

Overall spending on rooms in all categories rose 13.4% in 2012 to R15.2 billion, reflecting an increase in stay unit nights and a 5.3% rise in the average

room rate. We project total room revenue in South Africa to grow at a compound annual rate of 9.2% by 2017.

For the first time in this edition, we are very excited to feature information about hotel accommodation in Nigeria and Mauritius

The hotel market in Nigeria grew 10.3% in 2012 and by a cumulative 45.7% since 2009. Growth has been fuelled by a surging economy, large increases in the number of rooms and growth in the number of foreign visitors.

Hotel room revenue in Mauritius is expected to increase from R5.6 billion in 2012 to a projected R9.2 billion in 2017, growing at a 10.4% compound annual rate.

Mauritius' accommodation profile is at the other end of the spectrum from Nigeria. It is a resort market featuring a tropical climate, beaches, water sports and natural beauty. Because most of the business is generated by holiday travellers, the global economy plays a much more important role than the local economy. This contrasts with

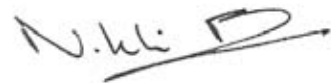
Nigeria where domestic and business travellers account for most of the market.

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 61 of this report.

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

Sincerely,



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



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# The market

## South African hospitality outlook: 2013-2017

This report covers South Africa, Nigeria and Mauritius. 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 and Mauritius, we present information on hotels only.

Figures for South Africa are expressed in rands; figures for Nigeria are shown in US dollars (\$); and figures for Mauritius are expressed in euros (€). Tables showing comparisons between countries are in rands. We have used a constant exchange rate for the 2006-2017 period.

## Currency conversion rates

- Rand: US\$ 9.2491
- Naira: US\$ 157.99624
- Rupee: € 12.07612
- Euro: US\$ 0.7659



# Overview

South Africa, Nigeria and Mauritius 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 primarily a resort market with most travellers coming on holiday. Here, five-star hotels constitute a significant component of available rooms and total spending.

These differences are reflected in spending patterns. As a resort market, Mauritius is affected by international global economic conditions, while the local economy has relatively little impact. Over the past five years, despite a relatively healthy local economy, the weak global economy contributed to a decline in spending on hotel rooms. Hotel room revenue in Mauritius was 5% lower in 2012 than in 2008.



As business destinations, the economic climate is an important attraction in Nigeria and South Africa. Nigeria's economy is booming, buoyed in large part by regional and international investment, and hotel room revenue rose 35% between 2008 and 2012. Although South Africa's economic growth is not nearly as strong as Nigeria's, it has outperformed the global economy. South Africa's hotel and accommodation market, in terms of capacity and room revenue, expanded rapidly between 2006 and 2008, slowed in 2009 reflecting the global recession, and then picked up in 2010, boosted by visitors to the FIFA World Cup.

Without the FIFA World Cup in 2011, the market declined. In 2012, however, hotel room revenue increased by 11.4%, helped by exposure related to the 2010 FIFA World Cup. Hotel room revenue in South Africa rose by 50% between 2006 and 2012 and total spending on all accommodation, including guest houses, game lodges, camping sites and other accommodation, increased 66% over the same period.

### Room revenue in South Africa (R millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2013-17 CAGR (%)
South Africa (Total)	9 158	10 936	12 312	11 867	13 850	13 368	15 159	16 828	18 181	19 758	21 576	23 495	
% change	15.1	19.4	12.6	-3.6	16.7	-3.5	13.4	11.0	8.0	8.7	9.2	8.9	9.2
South Africa (Hotels only)	7 134	8 446	9 533	8 829	10 317	9 594	10 688	12 104	13 020	14 138	15 402	16 827	
% change	15.3	18.4	12.9	-7.4	16.9	-7.0	11.4	13.2	7.6	8.6	8.9	9.3	9.5

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

An indicator of differences in the market is epitomised by the profile of visitors from Europe. Europe's weak economy in 2012 led to an 8% decline in visitors from that region to Mauritius. At the same time, visitors from Europe to South Africa increased by nearly 10%, in part coming for international conferences, exhibitions, business meetings and other events, as well as for holidays.

In South Africa, there was a large increase in available hotel rooms between 2007 and 2010 with supply significantly exceeding the level of demand. We expect relatively little incremental growth in capacity during the next five years, as demand rises to fill the supply.

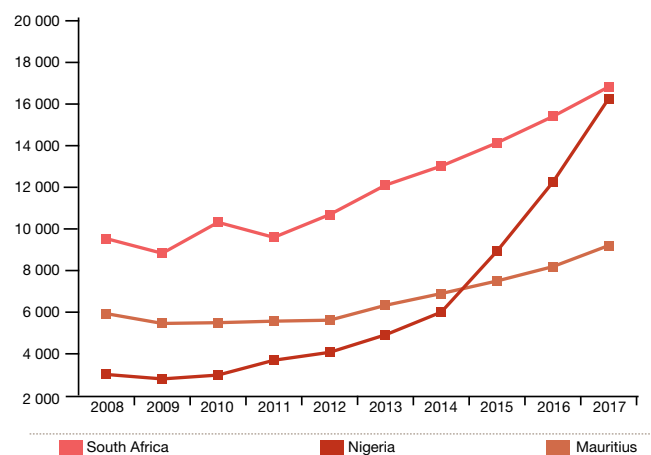
South Africa will also benefit from improved growth in its local economy as well as a healthier global economy. We project room revenue for all accommodation in South Africa to increase at a 9.2% compound annual rate and hotel room spending, which accounts for 70% of the total market, to expand by 9.5% compounded annually.

Nigeria will be the fastest-growing market over the next five years, far outpacing growth in South Africa and Mauritius. Nigeria is currently handicapped by inadequate infrastructure and unreliable power supply. The government is taking steps to improve the situation and a number of international hotel operators, including Rezidor, Sheraton, Tsogo Sun, Protea Hotels Group, Sun International, Best Western, InterContinental and Golden Tulip, have hotels or have recently opened hotels in Nigeria.

Many other hotels are either currently under construction or being planned. More than 40 hotels are currently being built in Nigeria with more than 7 000 rooms. We expect the number of available rooms to nearly triple over the next five years and room revenue to grow at a 31.9% compound annual rate.

Slow growth in Mauritius over the past five years was in part due to price discounting, particularly by five-star hotels, to sustain business. With global economic conditions improving, we expect foreign tourism to increase, prices to rise, and spending on hotel rooms to grow by 10.4% on a compound annual basis.

**Figure 1: Room revenue in South Africa, Nigeria and Mauritius**



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

**Room revenue in South Africa, Nigeria and Mauritius (R millions)**

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2013-17 CAGR (%)
South Africa (Total)	12 312	11 867	13 850	13 368	15 159	16 828	18 181	19 758	21 576	23 495	
% change	12.6	-3.6	16.7	-3.5	13.4	11.0	8.0	8.7	9.2	8.9	9.2
South Africa (Hotels only)	9 533	8 829	10 317	9 594	10 688	12 104	13 020	14 138	15 402	16 827	
% change	12.9	-7.4	16.9	-7.0	11.4	13.2	7.6	8.6	8.9	9.3	9.5
Nigeria*	3 006	2 793	2 978	3 690	4 070	4 911	6 002	8 935	12 246	16 260	
% change	27.5	-6.9	6.6	23.7	10.3	20.7	22.2	48.9	37.1	32.7	31.9
Mauritius*	5 929	5 458	5 495	5 568	5 615	6 329	6 895	7 499	8 188	9 202	
% change	2.7	-7.9	0.6	1.3	0.8	12.7	9.1	8.6	9.3	12.3	10.4
Total	21 247	20 118	22 323	22 626	24 844	28 068	31 078	36 192	42 010	48 957	
% change	11.4	-5.3	10.9	1.3	9.8	13.0	10.8	16.4	16.1	16.5	14.5

\*Hotels only

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates



# Travel and tourism in South Africa

Spurred by a jump in foreign overnight visitors in 2012, stay unit nights rose 7.7%, the largest increase during the past five years. The number of foreign overnight visitors rose 10.2% in 2012 to 9.2 million, an all-time high, although the increase did not match the 15.1% rise in 2010, which reflected the impact of the FIFA World Cup.

This increase was particularly impressive given that global economic conditions were generally weaker in 2012 than in 2011. Despite stagnating economies in most countries, there was a 9.7% increase in visitors to South Africa from Europe, while the number of North American visitors rose 13.9%.

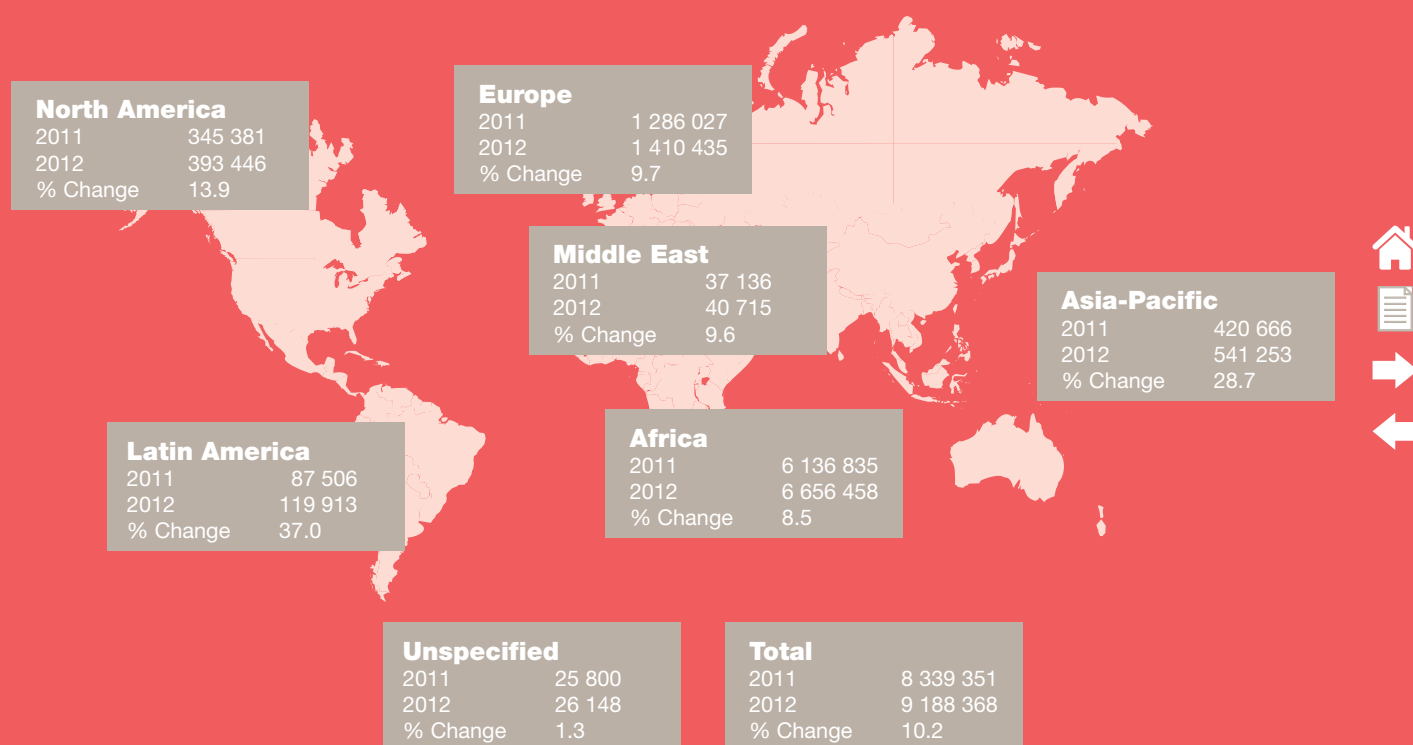
From Latin America and Asia-Pacific, where economic conditions were relatively healthy, travel to South Africa surged in 2012, rising by 37.0% from Latin America, albeit off a low base, and 28.7% from the Asia-Pacific region.

Not surprisingly, most foreign visitors to South Africa, 72.4% in 2012, come from other countries in Africa and those visits rose 8.5%. The number of visitors from countries outside of Africa rose 15.0% in 2012.



## Source markets

### Foreign overnight visitors by continent



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

Of non-African countries, the United Kingdom is still the largest source of visitors to South Africa at 438 023 in 2012, up 4.2% from 2011. There were more than 325 000 visitors from the United States in 2012 and more than 260 000 from Germany. South Africa also received more than 100 000 visitors from France, the Netherlands, China, Australia and India. For a small country, the Netherlands is a major source of visitors to South Africa, reflecting the cultural ties and shared history between the two countries.

For the first time in 2012, South Africa attracted more than 200 000 visitors from China (132 327) and India (106 774). The number of visitors from China increased 55.9% and 18.2% from India. The jump in visits from China is especially lucrative since the average Chinese visitor spends R15 000 per trip, compared with the overall average spend per visitor of R9 000. There was also a 44.7% surge in visitors from Brazil to more than 78 000 in 2012.



## Foreign overnight visitors to South Africa from leading non-African countries

	2011	2012	% change
United Kingdom	420 483	438 023	4.2
United States	287 614	326 644	13.6
Germany	235 774	266 333	13.0
China	84 862	132 327	55.9
France	105 420	122 244	16.0
Australia	103 506	120 315	16.2
Netherlands	113 846	117 935	3.6
India	90 367	106 774	18.2
Brazil	54 183	78 376	44.7

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

Building on the large increases generated from China, India and Brazil, South African Tourism is looking to expand its presence in the BRIC (Brazil, Russia, India and China) countries. Its first office is opening in Brazil during the course of 2013. It is also looking to expand into Russia in 2014. Currently, visits from Russia are not yet significant, largely because there are no direct flights between the two countries. South African Tourism is developing relationships with travel agencies in Russia, which, if successful, could lead airlines to establish direct flights.

## Foreign overnight visitors to South Africa from SADC (Southern African Development Community)

	2011	2012	% change
Angola	39 217	47 714	21.7
Botswana	477 937	452 158	-5.4
DRC	32 582	32 956	1.1
Lesotho	1 526 597	1 618 223	6.0
Madagascar	2 962	4 813	62.5
Malawi	135 577	142 063	4.8
Mauritius	16 545	18 233	10.2
Mozambique	1 076 753	1 104 404	2.6
Namibia	197 835	200 841	1.5
Seychelles	3 182	3 302	3.8
Swaziland	700 119	768 727	9.8
Tanzania	28 645	35 928	25.4
Zambia	160 302	169 555	5.8
Zimbabwe	1 553 008	1 847 974	19.0
<b>Total SADC</b>	<b>5 951 261</b>	<b>6 446 881</b>	<b>8.3</b>

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

Zimbabwe, at 1.8 million in 2012, Lesotho at 1.6 million and Mozambique at 1.1 million, followed by Swaziland at nearly 770 000 are the major sources of African foreign visitors to South Africa. Together, they comprised 58% of the total number of foreign visitors to South Africa in 2012. The SADC countries in total accounted for 70% of South Africa's foreign visitors. Visits from SADC were up 8.3% in 2012 to 6.4 million.

From East and Central Africa, Kenya with nearly 63 000 and Uganda with more than 15 500 were the leading sources of visitors to South Africa in 2012. Overall, the number of visitors from East and Central Africa increased 7.9% to 81 271.

## Foreign overnight visitors to South Africa from East and Central Africa

	2011	2012	% change
Burundi	1 010	1 472	45.7
Cameroon	5 357	6 234	16.4
Central African Republic	143	191	33.6
Chad	339	414	22.1
Comoros	198	276	39.4
Congo	3 337	3 868	15.9
Djibouti	97	92	-5.2
Equatorial Guinea	319	406	27.3
Eritrea	666	904	35.7
Ethiopia	9 125	7 863	-13.8
Gabon	6 199	7 168	15.6
Kenya	30 279	62 992	108.0
Réunion	3	0	-100.0
Rwanda	2 841	3 429	20.7
São Tomé and Príncipe	120	234	95.0
Somalia	829	206	-75.2
Uganda	14 453	15 522	7.4
Total East and Central Africa	75 309	81 271	7.9

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



Most visitors from West Africa come from Nigeria and Ghana. Visitors from Nigeria totalled more than 73 000 in 2012 and from Ghana, nearly 23 000. The two countries accounted for 84% of visitors from West Africa. West Africa also showed the largest increase among the African regions in 2012 with a 17.2% increase. The number of visitors from Nigeria rose 13.8% and 23.9% from Ghana.

North Africa is not a major source of visitors to South Africa. The number of visitors totalled only 14 277 in 2012, with Egypt at 7 308 the only country with more than 1 700 visitors.

## Foreign overnight visitors to South Africa from West Africa

	2011	2012	% change
Ascension	0	1	-
Benin	1 299	1 553	19.6
Burkina Faso	697	816	17.1
Cape Verde	534	635	18.9
Cote D'Ivoire	1 781	2 415	35.6
Gambia	805	1 142	41.9
Ghana	18 538	22 963	23.9
Guinea	2 127	2 990	40.6
Guinea-Bissau	198	212	7.1
Liberia	586	708	20.8
Mali	1 192	1 268	6.4
Mauritania	269	241	-10.4
Niger	296	369	24.7
Nigeria	64 402	73 282	13.8
Saint Helena	80	52	-35.0
Senegal	2 965	3 600	21.4
Sierra Leone	930	991	6.6
Togo	592	800	35.1
Total West Africa	97 291	114 028	17.2

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

## Foreign and domestic visitors

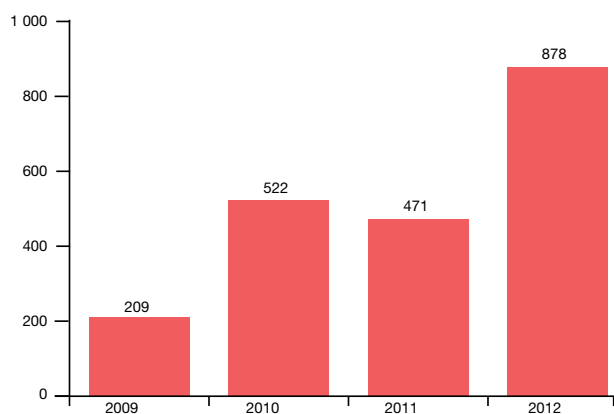
The increase in foreign visitors has been led by an upswing in business travellers to South Africa for events, meetings, exhibitions and conferences. South Africa has become a popular destination for international conferences and there are more than 200 major conferences scheduled in the country over the next five years.

Marketing Conference 2013, International Conference on Financial Services, and the Academy of World Finance, Banking, Management and Information Technology Conference are among the many conferences scheduled in South Africa in 2013.

South Africa has also become a destination for trade shows. The Johannesburg International Motor Show, the Africa Health Exhibition and Congress 2013, and the IFE Africa, International Food, Drink and Hospitality Exhibition are among the trade shows to be held in South Africa in 2013.

While business travel constitutes less than 10% of total foreign overnight visitors, it has been a rapidly growing component of the market. The number of non-holiday foreign visitors to South Africa more than doubled between 2009 and 2011 and nearly doubled again in 2012.

**Figure 2: Non-holiday foreign overnight visitors (thousands)**



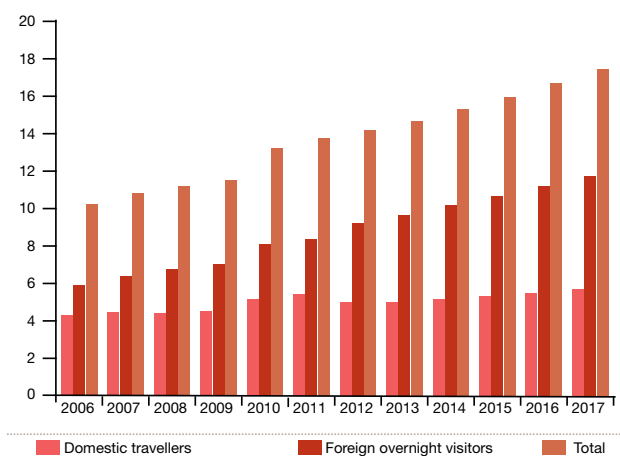
Sources: Statistics South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

We expect ongoing growth in business travel from abroad and increases from the other BRIC countries to sustain growth in the number of foreign visitors. While we do not expect double-digit annual increases to be sustainable over the long run, we do anticipate mid-single-digit advances averaging 5.0% compounded annually to 11.8 million in 2017.

Domestic travel, by contrast, fell 8.5% in 2012, possibly reflecting a slower-growing economy. Nevertheless, domestic travel in 2012 was still higher than during the 2006-2009 period and some hotel groups have seen increases in the domestic corporate and leisure market.

With economic conditions expected to rebound, we look for a recovery in domestic travel and project a 2.8% compound annual increase over the next five years, rising to 5.7 million from 5 million in 2012.

**Figure 3: Domestic and foreign visitors (millions)**



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

The total number of travellers in South Africa will reach a projected 17.45 million by 2017, a 4.3% compound annual increase from 2012. Growth in travel and tourism will fuel growth in the accommodation industry during the next five years.

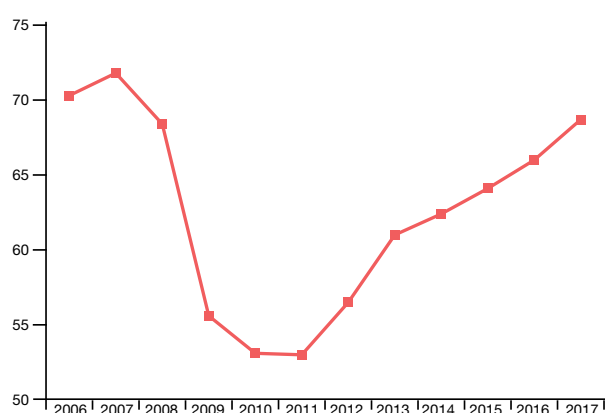
## Travel and tourism to South Africa (millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2013-17 CAGR (%)
Domestic travellers	4.32	4.45	4.42	4.49	5.13	5.43	4.97	5.00	5.15	5.30	5.50	5.70	
% change	104.7	3.0	-0.7	1.6	14.3	5.8	-8.5	0.6	3.0	2.9	3.8	3.6	2.8
Foreign overnight visitors	5.91	6.39	6.75	7.01	8.07	8.34	9.19	9.65	10.15	10.65	11.20	11.75	
% change	13.2	8.1	5.6	3.9	15.1	3.3	10.2	5.0	5.2	4.9	5.2	4.9	5.0
Total	10.23	10.84	11.17	11.5	13.2	13.77	14.16	14.65	15.30	15.95	16.70	17.45	
% change	39.6	6.0	3.0	3.0	14.8	4.3	2.8	3.5	4.4	4.2	4.7	4.5	4.3

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

The growth in foreign visitors contributed to an increase in occupancy rates for hotels in 2012, the first gain since 2007, and prospects for continued growth in visitors suggest further gains in occupancy rates. We project the average hotel occupancy rate to increase to 68.7% in 2017 from 56.5% in 2012.

Figure 4: Hotel occupancy rates in South Africa (%)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

There has been continued investment in hotels in South Africa with Sun International opening the Boardwalk Hotel, Convention Centre & Spa in Port Elizabeth and upgrading the Boardwalk Casino & Entertainment World at a total cost of R1 billion. Sun International also spent R250 million to upgrade the Maslow Hotel, previously The Grayston, in Sandton.

Tsogo Sun is spending R220 million to renovate and relaunch the Southern Sun Elangeni and the Southern Sun Maharani as a unified complex on Durban's Golden Mile.

The Rezidor Hotel Group, which currently operates six hotels in South Africa, is planning to open three more – the Radisson Blu in the Kruger National Park, the Park Inn in Cape Town (Radisson Cape Town Newlands), and another Radisson Blu in Cape Town.

## Real GDP growth (%)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2013-17 CAGR (%)
South Africa	5.6	5.5	3.6	-1.5	3.1	3.5	2.5	2.8	3.3	3.4	3.3	3.1	3.2
Global	5.3	5.4	2.8	-0.6	5.2	4.0	3.2	3.3	4.0	4.4	4.5	4.5	4.1

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

Figure 5: Real GDP growth (%)



Source: International Monetary Fund

## Gross domestic product

After moderating to 2.5% in 2012 from 3.5% in 2011, the IMF expects real GDP in South Africa to grow at somewhat faster rates, averaging 3.2% compounded annually during the next five years.

The global economy also slowed in 2012 to 3.2% from 4.0% in 2011, although this did not have an adverse impact on visits to South Africa. Over the next five years, the IMF expects global GDP to improve with projected growth at 4.1% compounded annually.





## Total accommodation market in South Africa

- Overall spending on rooms in all categories rose 13.4% in 2012 to R15.2 billion, reflecting an increase in stay unit nights and a 5.3% rise in the average room rate.
- Stay unit nights were up 7.7% in 2012, the largest gain during the past five years. With room availability up 1.5%, the average occupancy rate increased to 50.2%, the highest average since 2008.
- We project spending to rise an additional 11.0% in 2013, fuelled by a 5.7% increase in stay unit nights and a 5.2% escalation in the average room rate. We then expect high single-digit gains over the remainder of the forecast period, reflecting ongoing increases in tourism and business travel.
- We project stay unit nights to grow by 3.5% compounded annually to 25.1 million in 2017 from 21.1 million in 2012.
- The number of available rooms will grow at a 1.5% compound annual rate, matching the increase in 2012. As in 2012, demand for rooms will continue to grow faster than supply, and the overall occupancy rate will increase to a projected 55.6% by 2017.
- We expect room rates to continue to grow at mid-single-digit rates, roughly in line with the overall rate of inflation. The average room will cost R936 in 2017, up 5.4% on a compound annual basis from R718 in 2012.
- Total room revenue will reach R23.5 billion in 2017, a 9.2% compound annual increase from 2012.

### Total accommodation market in South Africa

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2013-17 CAGR (%)
Available rooms (thousands)	101.9	104.6	106.2	110.7	113.4	113.2	114.9	116.5	117.9	119.7	121.7	123.7	
% change	3.1	2.6	1.5	4.2	2.4	-0.2	1.5	1.4	1.2	1.5	1.7	1.6	1.5
Stay unit nights (millions)	19.4	20.4	20.2	19.1	19.8	19.6	21.1	22.3	22.9	23.5	24.3	25.1	
% change	3.7	5.2	-1.0	-5.4	3.7	-1.0	7.7	5.7	2.7	2.6	3.4	3.3	3.5
Occupancy rates (%)	52.2	53.4	52.0	47.3	47.8	47.4	50.2	52.4	53.2	53.8	54.5	55.6	
Average room rates (R)	472	536	610	621	699	682	718	755	794	841	888	936	
% change	11.1	13.6	13.8	1.8	12.6	-2.4	5.3	5.2	5.2	5.9	5.6	5.4	5.4
Total room revenue (R millions)	9 158	10 936	12 312	11 867	13 850	13 368	15 159	16 828	18 181	19 758	21 576	23 495	
% change	15.1	19.4	12.6	-3.6	16.7	-3.5	13.4	11.0	8.0	8.7	9.2	8.9	9.2

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

# *Hotel accommodation in South Africa*



The number of available rooms dipped 0.2% in 2012, reflecting the drop in new construction in prior years following the plunge in occupancy rates between 2007 and 2010.

**Figure 6: Occupancy rates (%)**



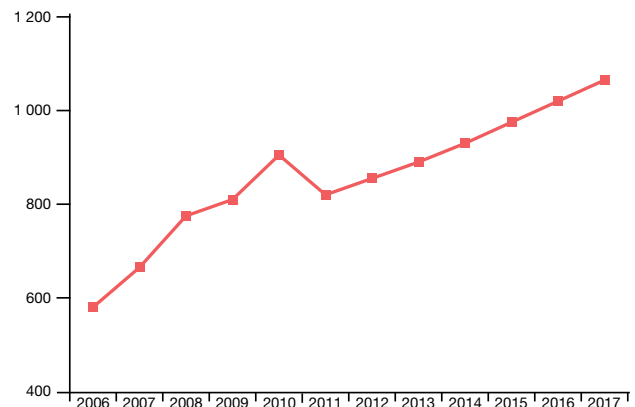
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

With new hotels now opening and others being upgraded, we expect the number of rooms to increase by 1.2% in 2013 and to then grow at rates averaging just below 1% annually through to 2017. By 2017, there will be an estimated 63 000 hotel rooms available, up 0.8% on a compound annual basis from 60 400 in 2012.

Stay unit nights rose 6.8% in 2012 and continued to be strong in the first quarter of 2013. We project an 8.8% increase for 2013 as a whole followed by more moderate gains as growth in foreign visitors moderates. We project growth in stay unit nights to average 4.8% compounded annually to reach 15.8 million in 2017 from 12.5 million in 2012.

The average room rate increased 4.3% in 2012 and we expect a 4.5% compound annual increase to R1 065 in 2017.

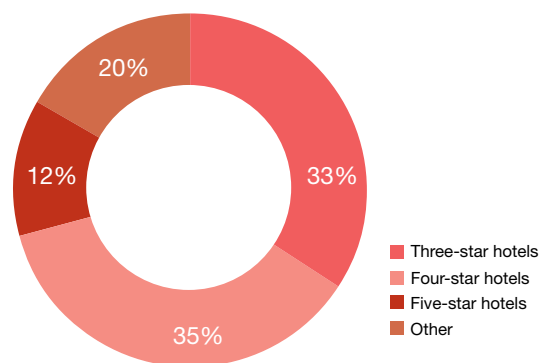
**Figure 7: Average room rates (R)**



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Hotel room revenue is expected to expand to R16.8 billion in 2017, up 9.5% compounded annually from R10.7 billion in 2012.

**Figure 8: Total room revenue by category (2012)**



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

## Hotels in South Africa

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2013-17 CAGR (%)
Available rooms (thousands)	48.0	48.5	49.1	53.7	58.8	60.5	60.4	61.1	61.5	62.0	62.5	63.0	
% change	1.1	1.0	1.2	9.4	9.5	2.9	-0.2	1.2	0.7	0.8	0.8	0.8	0.8
Stay unit nights (millions)	12.3	12.7	12.3	10.9	11.4	11.7	12.5	13.6	14.0	14.5	15.1	15.8	
% change	3.4	3.3	-3.1	-11.4	4.6	2.6	6.8	8.8	2.9	3.6	4.1	4.6	4.8
Occupancy rates (%)	70.3	71.8	68.4	55.6	53.1	53.0	56.5	61.0	62.4	64.1	66.0	68.7	
Average room rates (R)	580	665	775	810	905	820	855	890	930	975	1 020	1 065	
% change	11.5	14.7	16.5	4.5	11.7	-9.4	4.3	4.1	4.5	4.8	4.6	4.4	4.5
Total room revenue (R millions)	7 134	8 446	9 533	8 829	10 317	9 594	10 688	12 104	13 020	14 138	15 402	16 827	
% change	15.3	18.4	12.9	-7.4	16.9	-7.0	11.4	13.2	7.6	8.6	8.9	9.3	9.5

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates



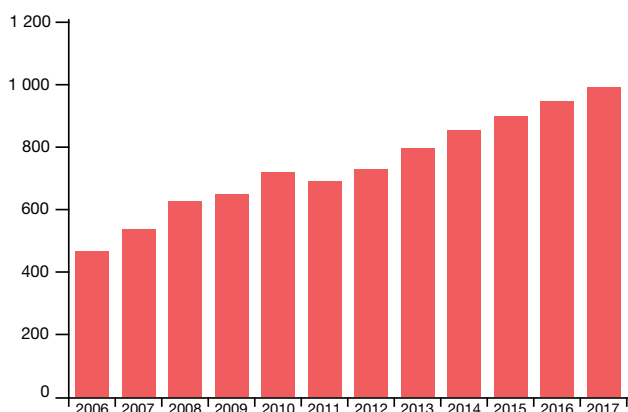
## Three-star hotels

We consider three-star hotels to be in the midscale and upper midscale classes. Three-star hotels accounted for 36% of all available hotel rooms in South Africa and 33% of total hotel room revenue. The room rate of R730 was 15% below the overall average of R855 for all hotels.

Despite a decline in domestic travel in 2012, stay unit nights for three-star hotels were up 6.7% in 2012 and combined with a 5.8% increase in the average rate, revenue increased 12.9%.

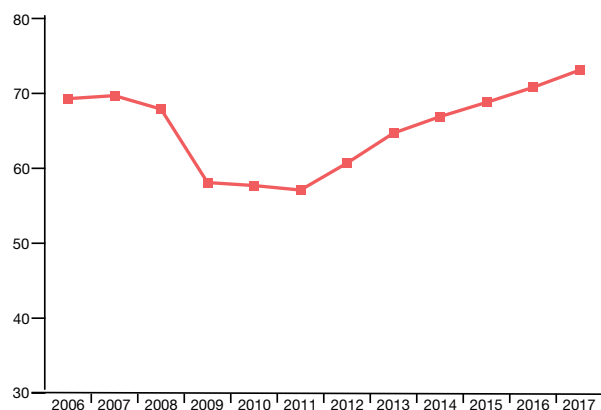
As with the hotel market as a whole, we expect moderating growth in stay unit nights, with increases averaging 4.2% compounded annually. This will raise the occupancy rate to 73.1% in 2017 from 60.7% in 2012, and be accompanied by a 6.3% compound annual increase in the average room rate to R990 in 2017. Room revenue in three-star hotels will expand at a projected 10.8% compound annual rate to R5.8 billion in 2017 from R3.5 billion in 2012.

Figure 9: Three-star hotels: average room rates (R)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 10: Three-star hotels: occupancy rates (%)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

## Three-star hotels in South Africa

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2013-17 CAGR (%)
Available rooms (thousands)	16.2	16.5	16.9	18.4	20.4	21.6	21.6	21.6	21.7	21.9	22.0	22.1	
% change	3.2	1.9	2.4	8.9	10.9	5.9	0.0	0.0	0.5	0.9	0.5	0.5	0.5
Stay unit nights (millions)	4.1	4.2	4.2	3.9	4.3	4.5	4.8	5.1	5.3	5.5	5.7	5.9	
% change	5.1	2.4	0.0	-7.1	10.3	4.7	6.7	6.3	3.9	3.8	3.6	3.5	4.2
Occupancy rates (%)	69.3	69.7	67.9	58.1	57.7	57.1	60.7	64.7	66.9	68.8	70.8	73.1	
Average room rates (R)	465	535	625	650	720	690	730	795	855	900	945	990	
% change	9.4	15.1	16.8	4.0	10.8	-4.2	5.8	8.9	7.5	5.3	5.0	4.8	6.3
Total room revenue (R millions)	1 907	2 247	2 625	2 535	3 096	3 105	3 504	4 055	4 532	4 950	5 387	5 841	
% change	15.0	17.8	16.8	-3.4	22.1	0.3	12.9	15.7	11.8	9.2	8.8	8.4	10.8

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

## Four-star hotels

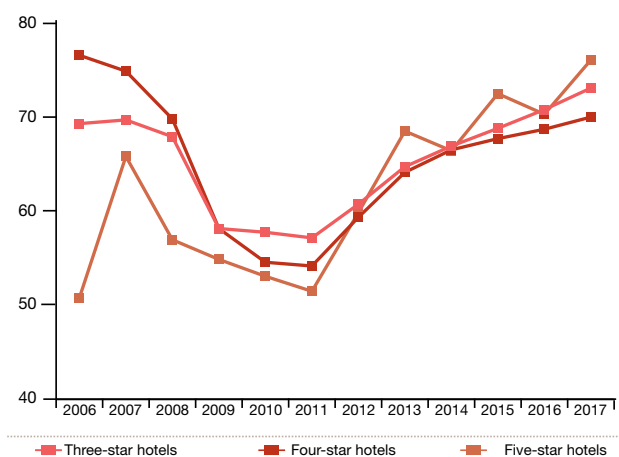
Four-star hotels accounted for 27% of hotel rooms in South Africa and 35% of hotel room revenue in 2012, which is in line with previous year. The average room rate of R1 055 was 23% above the overall average hotel room rate.

Revenue for four-star hotels rebounded in 2012 with an 11.7% increase, reversing the 9.6% decline in 2011.

We expect a 4.6% compound annual increase in stay unit nights, about half the increase of 2012, which will raise the occupancy rate from 59.3% in 2012 to a projected 70.0% in 2017.

The average room rate will increase at a 4.7% compound annual growth rate to a projected R1 325 in 2017, about twice the 2012 increase, to boost revenue from R3.8 billion in 2012 to R6 billion in 2017, a 9.4% compound annual gain.

**Figure 11: Occupancy rates: three-, four-, and five-star hotels (%)**



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

## Four-star hotels in South Africa

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2013-17 CAGR (%)
Available rooms (thousands)	13.6	13.9	14.1	15.1	16.1	16.7	16.6	17.1	17.3	17.4	17.5	17.6	
% change	1.5	2.2	1.4	7.1	6.6	3.7	-0.6	3.0	1.2	0.6	0.6	0.6	1.2
Stay unit nights (millions)	3.8	3.8	3.6	3.2	3.2	3.3	3.6	4.0	4.2	4.3	4.4	4.5	
% change	5.6	0.0	-5.3	-11.1	0.0	3.1	9.1	11.1	5.0	2.4	2.3	2.3	4.6
Occupancy rates (%)	76.6	74.9	69.8	58.1	54.5	54.1	59.3	64.1	66.5	67.7	68.7	70.0	
Average room rates (R)	745	850	1 015	1 050	1 175	1 030	1 055	1 140	1 180	1 225	1 275	1 325	
% change	12.9	14.1	19.4	3.4	11.9	-12.3	2.4	8.1	3.5	3.8	4.1	3.9	4.7
Total room revenue (R millions)	2 831	3 230	3 654	3 360	3 760	3 399	3 798	4 560	4 956	5 268	5 610	5 963	
% change	19.1	14.1	13.1	-8.0	11.9	-9.6	11.7	20.1	8.7	6.3	6.5	6.3	9.4

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates



## Five-star hotels

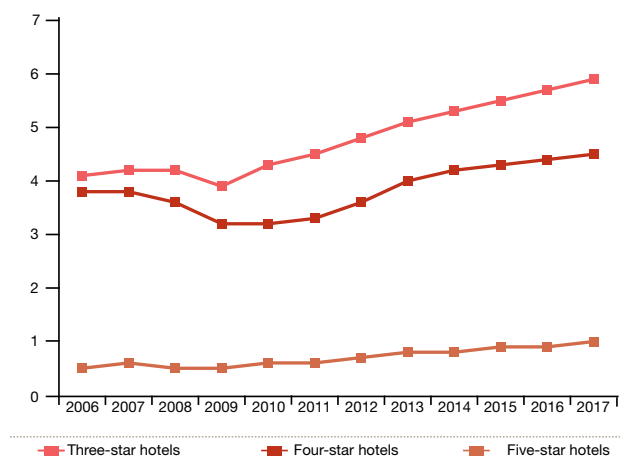
Five-star hotels accounted for only 5% of available hotel rooms, but generated 12% of total hotel room revenue in 2012, a 1% increase on 2011. The average room rate of R1 780 was more than twice the overall average.

The increase in foreign overnight visitors in 2012 benefitted five-star hotels more than any other sector with room revenue rising by 18.7% to R1.2 billion. We expect five-star hotels to continue to benefit more than three- and four-star hotels from the increase in tourism during the next five years, the result of continued growth in business travel and an increase in tourism from other BRIC countries. We expect a 7.4% compound annual increase in stay unit nights. The occupancy rate for five-star hotels will rise to a projected 76.1% in 2017 from 59.8% in 2012.

We look for average room rate growth to be comparable to other categories, with a projected 5.3% compound annual increase to R2 300 in 2017.

Room revenue will expand at a 13% compound annual rate to R2.3 billion in 2017 from R1.2 billion in 2012. As in 2012, we expect five-star hotels to continue to be the fastest-growing hotel category.

**Figure 12: Three-, four- and five-star hotels: stay unit nights (millions)**



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

## Five-star hotels in South Africa

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2013-17 CAGR (%)
Available rooms (thousands)	2.7	2.5	2.4	2.5	3.1	3.2	3.2	3.2	3.3	3.4	3.5	3.6	
% change	0.0	-7.4	-4.0	4.2	24.0	3.2	0.0	0.0	3.1	3.0	2.9	2.9	2.4
Stay unit nights (millions)	0.5	0.6	0.5	0.5	0.6	0.6	0.7	0.8	0.8	0.9	0.9	1.0	
% change	0.0	20.0	-16.7	0.0	20.0	0.0	16.7	14.3	0.0	12.5	0.0	11.1	7.4
Occupancy rates (%)	50.7	65.8	56.9	54.8	53.0	51.4	59.8	68.5	66.4	72.5	70.3	76.1	
Average room rates (R)	1 290	1 505	1 875	1 920	2 115	1 750	1 780	1 890	1 990	2 090	2 190	2 300	
% change	8.4	16.7	24.6	2.4	10.2	-17.3	1.7	6.2	5.3	5.0	4.8	5.0	5.3
Total room revenue (R millions)	645	903	938	960	1 269	1 050	1 246	1 512	1 592	1 881	1 971	2 300	
% change	8.4	40.0	3.9	2.3	32.2	-17.3	18.7	21.3	5.3	18.2	4.8	16.7	13.0

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

# *Guest houses and guest farms in South Africa*

Room revenue for guest houses and guest farms rose 17.8% in 2012, the third consecutive double-digit increase. A 3.6% drop in the average room rate in 2012 was offset by a 22.2% jump in stay unit nights.

With stay unit nights growing since 2009, more rooms were put on the market and the three-year decline in available rooms was reversed in 2012 with a 1.1% increase. We expect that the general improvement in the overall accommodation market will lead to

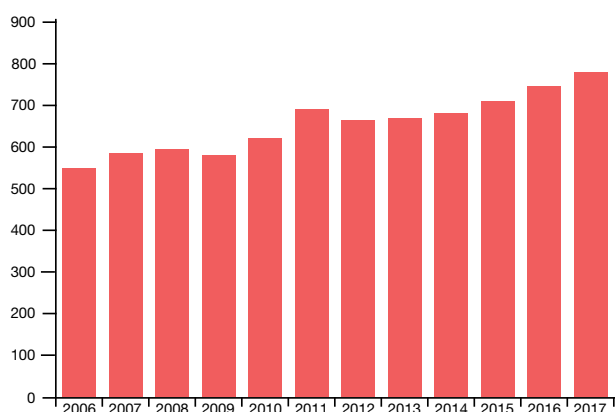
continued growth in room availability with increases averaging 3.6% compounded annually to 11 000 in 2017 from 9 200 in 2012.

The average room rate for guest houses was R665 in 2012, R65 lower than the average rate for a three-star hotel as this sector offers a better value alternative to hotels. We expect that price growth will be the principal driver of room revenue over the next five years, reversing the pattern in 2012.



We forecast stay unit nights to increase by 1.8% compounded annually, while the average room rate will trend up at a 3.2% compound annual rate. With rates rising more slowly for guest houses than hotels, the average room rate for guest houses in 2017 will be 21% lower than for the average three-star hotel.

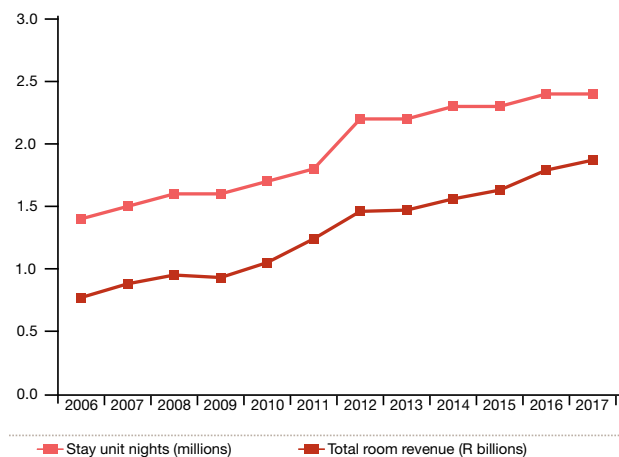
**Figure 13: Average room rates (R)**



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Overall room revenue will rise from R1.5 billion in 2012 to R1.9 billion in 2017, a 5.1% gain compounded annually.

**Figure 14: Stay unit nights and total room revenue**



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

### Guest houses/farms in South Africa

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2013-17 CAGR (%)
Available rooms (thousands)	8.5	9.6	10.4	10.1	9.8	9.1	9.2	9.4	9.7	10.1	10.6	11.0	
% change	1.2	12.9	8.3	-2.9	-3.0	-7.1	1.1	2.2	3.2	4.1	5.0	3.8	3.6
Stay unit nights (millions)	1.4	1.5	1.6	1.6	1.7	1.8	2.2	2.2	2.3	2.3	2.4	2.4	
% change	0.0	7.1	6.7	0.0	6.3	5.9	22.2	0.0	4.5	0.0	4.3	0.0	1.8
Occupancy rates (%)	45.2	42.9	42.0	43.4	47.5	54.2	65.3	64.1	65.0	62.3	61.9	59.7	
Average room rates (R)	550	585	595	579	620	690	665	670	680	710	745	780	
% change	7.8	6.4	1.7	-2.7	7.1	11.3	-3.6	0.8	1.5	4.4	4.9	4.7	3.2
Total room revenue (R millions)	770	878	952	926	1 054	1 242	1 463	1 474	1 564	1 633	1 788	1 872	
% change	7.8	14.0	8.4	-2.7	13.8	17.8	17.8	0.8	6.1	4.4	9.5	4.7	5.1

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates



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



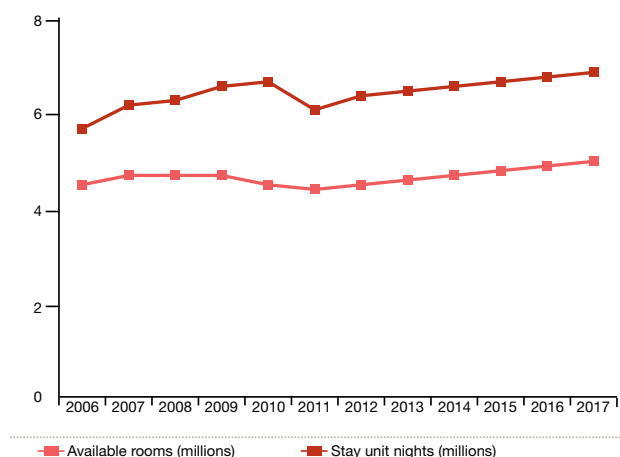
The caravan/camping site, bush lodges and other accommodation market participated in the overall expansion in 2012, posting an 18.8% increase in room revenue, its largest gain during the past five years. This sector clearly appeals to cost conscious travellers.

After falling by 9.0% in 2011, hurt by poor summer weather, stay unit nights rose 4.9% in 2012, helped by a good summer and a 3.9% increase in available rooms. Available rooms are much more flexible in this category and providers sometimes adjust the number of rooms they offer depending on demand. Without predicting weather patterns, we expect steady gains in stay unit nights during the next five years, averaging 1.5% compounded annually.

This category has the lowest average room rate at R470 per night, 45% lower than the average hotel room rate. The average rate, however, has risen by double-digits over the past five years, including a 13.3% increase in 2012. We expect more modest increases in the future, with rate hikes averaging 8.1% compounded annually.

We expect room revenue to increase at a 9.8% compound annual rate to reach R4.8 billion in 2017 from R3 billion in 2012.

**Figure 15: Stay unit nights vs available rooms (millions)**



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

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

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2013-17 CAGR (%)
Available rooms (thousands)	45.4	46.5	46.7	46.9	44.8	43.6	45.3	46.0	46.7	47.6	48.6	49.7	
% change	5.8	2.4	0.4	0.4	-4.5	-2.7	3.9	1.5	1.5	1.9	2.1	2.3	1.9
Stay unit nights (millions)	5.7	6.2	6.3	6.6	6.7	6.1	6.4	6.5	6.6	6.7	6.8	6.9	
% change	5.6	8.8	1.6	4.8	1.5	-9.0	4.9	1.6	1.5	1.5	1.5	1.5	1.5
Occupancy rates (%)	34.4	36.5	36.9	38.6	41.0	38.3	38.6	38.7	38.7	38.6	38.2	38.0	
Average room rates (R)	220	260	290	320	370	415	470	500	545	595	645	695	
% change	12.8	18.2	11.5	10.3	15.6	12.2	13.3	6.4	9.0	9.2	8.4	7.8	8.1
Total room revenue (R millions)	1 254	1 612	1 827	2 112	2 479	2 532	3 008	3 250	3 597	3 987	4 386	4 796	
% change	19.1	28.5	13.3	15.6	17.4	2.1	18.8	8.0	10.7	10.8	10.0	9.3	9.8

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

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# *Looking back: 2012*







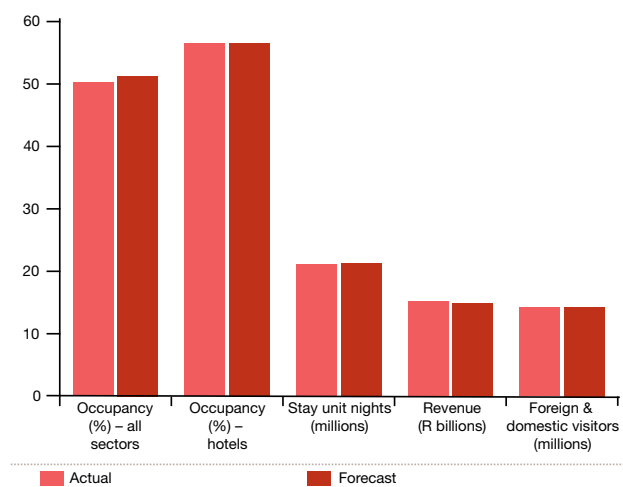
In our previous *Hospitality Outlook*, released in July 2012, we forecast an occupancy rate of 51.3% for all accommodation sectors in 2012. However, given that the actual number of foreign and domestic travellers in 2012 (14.2 million) was marginally less than our forecast number of visitors (14.3 million), the industry achieved an occupancy rate slightly below this of 50.2%.

The decreased occupancy translated into 21.1 million stay unit nights for 2012 versus our forecast of 21.2 million stay unit nights.

There was no difference in the occupancy rate forecast of 56.5% for the hotel sector.

Total room revenue for the industry was R15.2 billion, compared to our forecast of R14.9 billion. This slight improvement is due to the actual average room rate being R718 as opposed to our forecast room rate of R701.

**Figure 16: Actual vs forecast results for 2012**



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

# Outlook: 2013-2017

## South Africa

### Available rooms

The overall number of available rooms rose 1.5% in 2012 as the decline in hotels was offset by gains in the other categories.

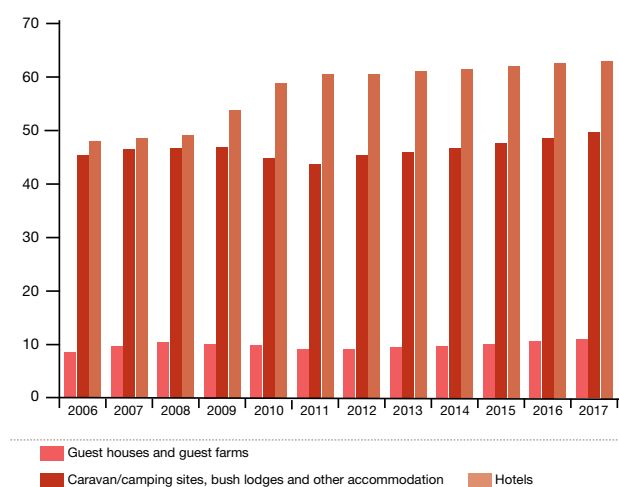
Beginning in 2012, we expect guest houses to be the fastest-growing category, averaging 3.6% compounded annually.



We expect more modest increases in the other categories as rising occupancy rates spur cautious expansion.

Overall, room availability is projected to increase at a 1.5% compound annual rate to 123 700 in 2017 from 114 900 in 2012.

**Figure 17: Available rooms (thousands)**



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

**Available rooms in South Africa (thousands)**

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2013-17 CAGR (%)
Hotels	48.0	48.5	49.1	53.7	58.8	60.5	60.4	61.1	61.5	62.0	62.5	63.0	
% change	1.1	1.0	1.2	9.4	9.5	2.9	-0.2	1.2	0.7	0.8	0.8	0.8	0.8
Guest houses/ guest farms	8.5	9.6	10.4	10.1	9.8	9.1	9.2	9.4	9.7	10.1	10.6	11.0	
% change	1.2	12.9	8.3	-2.9	-3.0	-7.1	1.1	2.2	3.2	4.1	5.0	3.8	3.6
Caravan/ camping sites, bush lodges and other accommodation	45.4	46.5	46.7	46.9	44.8	43.6	45.3	46.0	46.7	47.6	48.6	49.7	
% change	5.8	2.4	0.4	0.4	-4.5	-2.7	3.9	1.5	1.5	1.9	2.1	2.3	1.9
Total	101.9	104.6	106.2	110.7	113.4	113.2	114.9	116.5	117.9	119.7	121.7	123.7	
% change	3.1	2.6	1.5	4.2	2.4	-0.2	1.5	1.4	1.2	1.5	1.7	1.6	1.5

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

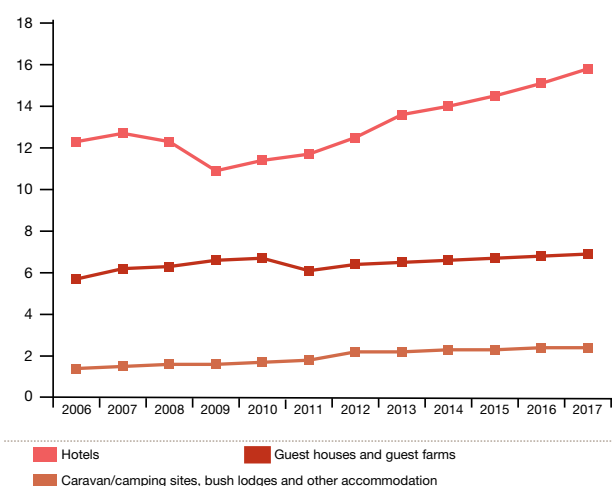
## Stay unit nights

Stay unit nights rose in each category in 2012 and we expect continued gains over the next five years.

However, we do not anticipate the rate of increase to match 2012, in line with a slower growth rate in foreign visitors.

We project hotels to be the fastest-growing category over the next five years with a 4.8% compound annual increase. We predict increases in the other categories to average less than 2% annually.

Figure 18: Stay unit nights (millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

## Stay unit nights in South Africa (millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2013-17 CAGR (%)
Hotels	12.3	12.7	12.3	10.9	11.4	11.7	12.5	13.6	14.0	14.5	15.1	15.8	
% change	3.4	3.3	-3.1	-11.4	4.6	2.6	6.8	8.8	2.9	3.6	4.1	4.6	4.8
Guest houses/ guest farms	1.4	1.5	1.6	1.6	1.7	1.8	2.2	2.2	2.3	2.3	2.4	2.4	
% change	0.0	7.1	6.7	0.0	6.3	5.9	22.2	0.0	4.5	0.0	4.3	0.0	1.8
Caravan/ camping sites, bush lodges and other accommodation	5.7	6.2	6.3	6.6	6.7	6.1	6.4	6.5	6.6	6.7	6.8	6.9	
% change	5.6	8.8	1.6	4.8	1.5	-9.0	4.9	1.6	1.5	1.5	1.5	1.5	1.5
Total	19.4	20.4	20.2	19.1	19.8	19.6	21.1	22.3	22.9	23.5	24.3	25.1	
% change	3.7	5.2	-1.0	-5.4	3.7	-1.0	7.7	5.7	2.7	2.6	3.4	3.3	3.5

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

## Occupancy rates

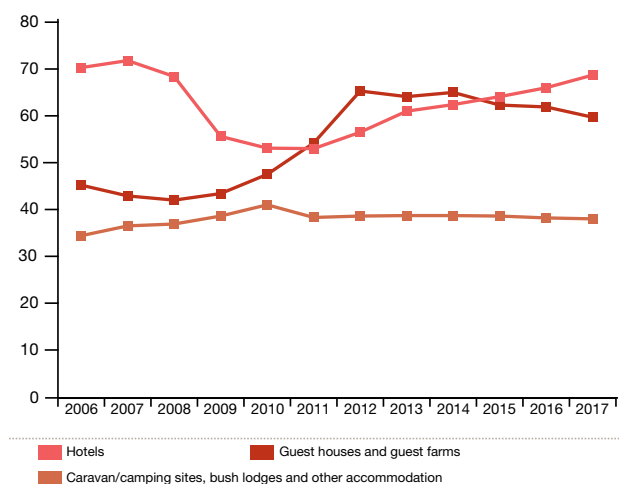
Occupancy rates increased in each category in 2012, reflecting the increase in stay unit nights.

We expect occupancy rates to continue to increase for hotels, rising to 68.7% by 2017. Hotels historically had the highest occupancy rates among the three categories, but because of the decrease in available guest house rooms, the occupancy rate for guest houses exceeded that of hotels in 2011 and will remain higher through to 2014. Beginning in 2015, we expect hotels once again to attain the highest occupancy rates.

For guest houses, we project occupancy rates to edge downward from 2013 although they will remain higher than they were during 2008-2010.

We expect occupancy rates for caravan/camping sites, bush lodges and other accommodation to be relatively steady over the next five years.

Figure 19: Occupancy rates (%)

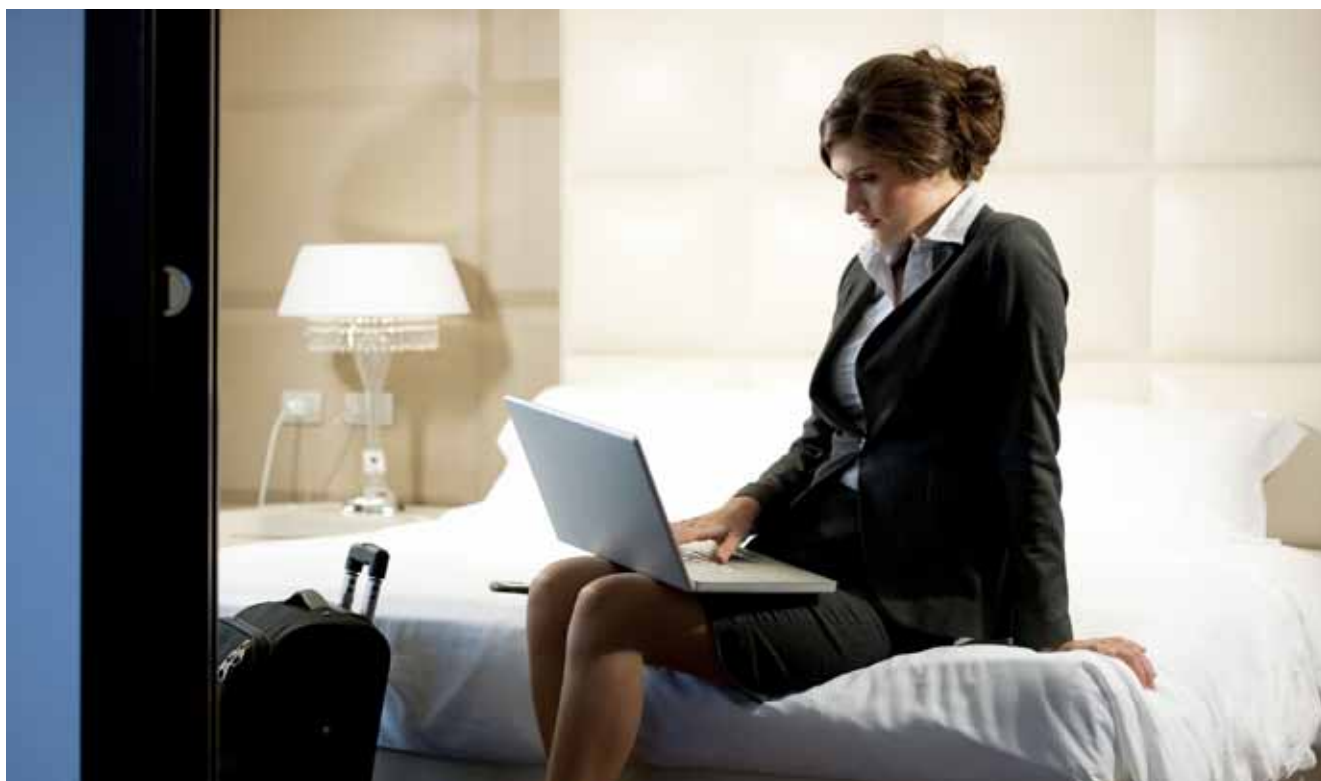


Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

## Occupancy rates in South Africa (%)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Hotels	70.3	71.8	68.4	55.6	53.1	53.0	56.5	61.0	62.4	64.1	66.0	68.7
Guest houses/ guest farms	45.2	42.9	42.0	43.4	47.5	54.2	65.3	64.1	65.0	62.3	61.9	59.7
Caravan/ camping sites, bush lodges and other accommodation	34.4	36.5	36.9	38.6	41.0	38.3	38.6	38.7	38.7	38.6	38.2	38.0
Total	52.2	53.4	52.0	47.3	47.8	47.4	50.2	52.4	53.2	53.8	54.5	55.6

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates





## Average room rates

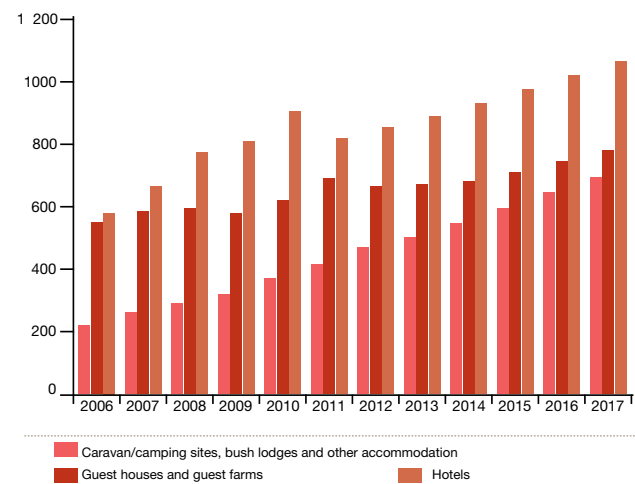
There is a large disparity in average room rates between the three categories of accommodation, as each component occupies a niche and targets different visitors.

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. They also attract many budget conscious business travellers. Caravan and camping sites market to people looking for inexpensive accommodation, while game/bush 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 8.1% compounded annually, but this growth will represent a slower increase compared with the double-digit annual gains seen during the past five years.

Average rates for hotels are expected to rise at a 4.5% compound annual rate, while guest houses will be the slowest-growing category, with a projected 3.2% compound annual increase.

Figure 20: Average room rates (R)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

## Average room rates in South Africa (R)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2013-17 CAGR (%)
Hotels	580	665	775	810	905	820	855	890	930	975	1 020	1 065	
% change	11.5	14.7	16.5	4.5	11.7	-9.4	4.3	4.1	4.5	4.8	4.6	4.4	4.5
Guest houses/ guest farms	550	585	595	579	620	690	665	670	680	710	745	780	
% change	7.8	6.4	1.7	-2.7	7.1	11.3	-3.6	0.8	1.5	4.4	4.9	4.7	3.2
Caravan/ camping sites, bush lodges and other accommodation	220	260	290	320	370	415	470	500	545	595	645	695	
% change	12.8	18.2	11.5	10.3	15.6	12.2	13.3	6.4	9.0	9.2	8.4	7.8	8.1
Total	472	536	610	621	699	682	718	755	794	841	888	936	
% change	11.1	13.6	13.8	1.8	12.6	-2.4	5.3	5.2	5.2	5.9	5.6	5.4	5.4

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates



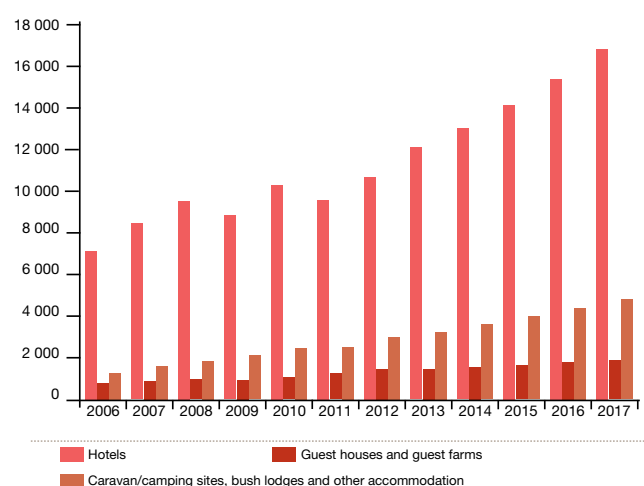
## Total room revenue

Hotels will continue to generate the majority of accommodation revenue during the next five years. Growth will average 9.5% compounded annually. It is estimated that hotels will comprise 71.6% of spending in 2017.

Caravan/camping sites, bush lodges and other accommodation is projected to grow at a somewhat faster 9.8% compound annual rate, and will be the fastest-growing category, raising its share of the market from 19.8% in 2012 to 20.4% in 2017.

Guest houses and guest farms is projected to be the slowest-growing component of the overall accommodation market with a 5.1% compound annual increase, dropping its share of total spending to 8.0% in 2017 from 9.7% in 2012.

Figure 21: Total room revenue (R millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

## Total room revenue in South Africa (R millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2013-17 CAGR (%)
Hotels	7 134	8 446	9 533	8 829	10 317	9 594	10 688	12 104	13 020	14 138	15 402	16 827	
% change	15.3	18.4	12.9	-7.4	16.9	-7.0	11.4	13.2	7.6	8.6	8.9	9.3	9.5
Guest houses/guest farms	770	878	952	926	1 054	1 242	1 463	1 474	1 564	1 633	1 788	1 872	
% change	7.8	14.0	8.4	-2.7	13.8	17.8	17.8	0.8	6.1	4.4	9.5	4.7	5.1
Caravan/ camping sites, bush lodges and other accommodation	1 254	1 612	1 827	2 112	2 479	2 532	3 008	3 250	3 597	3 987	4 386	4 796	
% change	19.1	28.5	13.3	15.6	17.4	2.1	18.8	8.0	10.7	10.8	10.0	9.3	9.8
Total	9 158	10 936	12 312	11 867	13 850	13 368	15 159	16 828	18 181	19 758	21 576	23 495	
% change	15.1	19.4	12.6	-3.6	16.7	-3.5	13.4	11.0	8.0	8.7	9.2	8.9	9.2

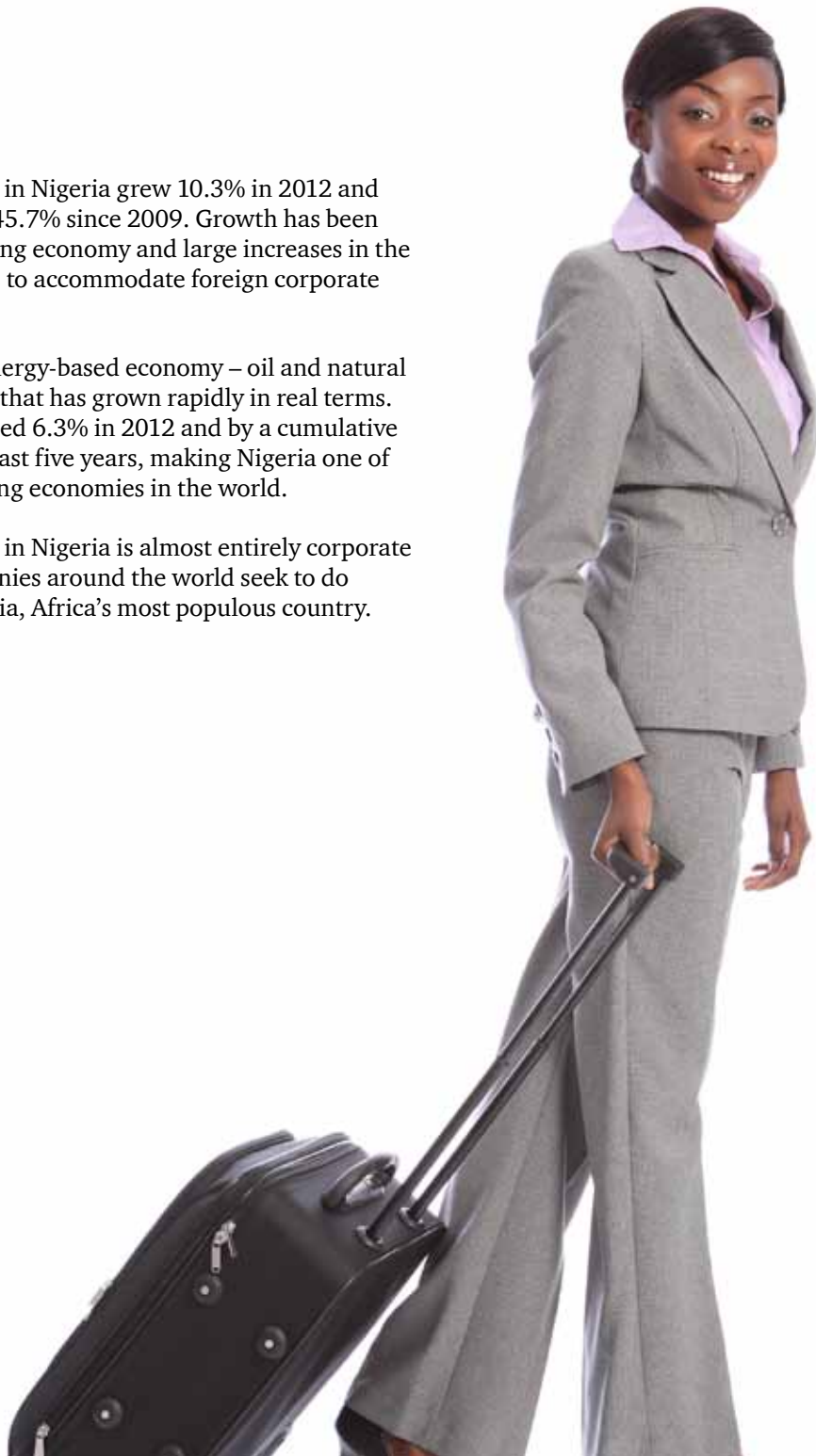
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

# Hotel accommodation in Nigeria

The hotel market in Nigeria grew 10.3% in 2012 and by a cumulative 45.7% since 2009. Growth has been fuelled by a surging economy and large increases in the number of rooms to accommodate foreign corporate visitors.

Nigeria has an energy-based economy – oil and natural gas production – that has grown rapidly in real terms. Real GDP increased 6.3% in 2012 and by a cumulative 39.8% over the past five years, making Nigeria one of the fastest-growing economies in the world.

The hotel market in Nigeria is almost entirely corporate driven, as companies around the world seek to do business in Nigeria, Africa's most populous country.



Recent hotel openings in Nigeria include the Radisson Blu Anchorage (Rezidor), Starwood's Four Points (Sheraton), Best Western, InterContinental, Ibis, Legacy and Golden Tulip.

Several hotel chains currently have hotels under construction or in the planning stage, including Accor, Hilton, IHG, Kempinski, Mantis, Marriott and Wyndham.

The Protea Hotels Group currently manages 11 hotels in Nigeria and is planning to increase this to 16 in the next three years.

Tsogo Sun entered into an agreement to acquire 75% of Ikoyi Hotels Limited, the holding company of the Southern Sun Ikoyi, which it has managed since 2009.

Over the past three years, the number of available hotel rooms in Nigeria has risen by 27%. Even with the increase in capacity, occupancy rates edged up as stay unit nights over the same period increased by a third.

Despite these gains, the hotel market in Nigeria is operating well below its potential. The infrastructure in Nigeria is inadequate, which raises costs and makes Nigeria a very expensive market, limiting business travel. There is also political instability, which creates security concerns and discourages tourists from visiting Nigeria.

With respect to the infrastructure, uncertainty regarding electricity is a major concern. While outages are common voltage fluctuations can be even more damaging as surges and brownouts can damage expensive equipment. Consequently, hotels have to have their own generators and approximately 30% of revenue is used for alternative power supplies.

Other problems include a limited supply of skilled labour and delays in getting government permits, which also adds to costs.

The government is taking steps to address this problem by improving the power supply and establishing an US\$2 billion fund to raise the hospitality sector to international standards.

Private equity funds also are being established to invest in mid-priced business hotels. Increased funding, more reliable power and improved quality will benefit the hotel market in Nigeria.

Improvements in infrastructure and continued economic growth are attracting investors. The IMF projects real GDP in Nigeria to increase at a 7.1% compound annual rate, well above the global average. Nigeria's strong economy makes it an attractive market for business travellers and for hotel operators.

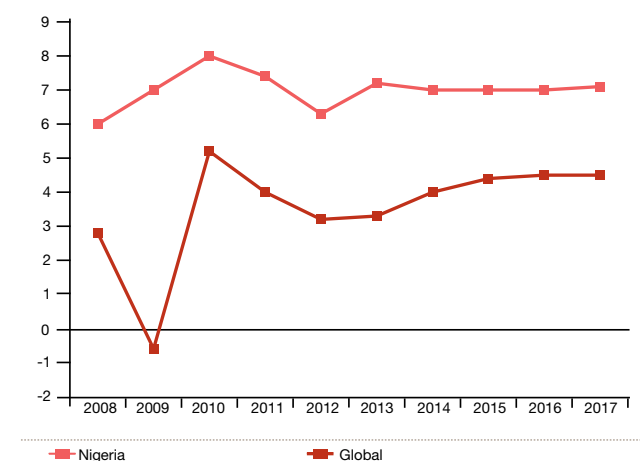


### Real GDP growth (%)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2013-17 CAGR (%)
Nigeria	6.0	7.0	8.0	7.4	6.3	7.2	7.0	7.0	7.0	7.1	7.1
Global	2.8	-0.6	5.2	4.0	3.2	3.3	4.0	4.4	4.5	4.5	4.1

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

Figure 22: Real GDP growth (%)



Source: International Monetary Fund

The average room rate in Nigeria was US\$275 (R2 544) in 2012, three times the average rate for all hotels in South Africa and 43% higher than the average rate for a five-star hotel in South Africa.

Hotel operators are flocking to Nigeria. Hawthorne Suites is in the process of building 49 hotels in Nigeria with a total of nearly 7 500 rooms. Marriott is building the Lagos Marriott Hotel with 150 rooms, which is scheduled to open in 2016.

Starwood is planning to open three new hotels, which will raise its total in Nigeria to nine. One of Starwood's new hotels is a 7-star hotel planned for Lagos at a cost of US\$350 million. Currently, Dubai has the only 7-star hotel in the world, the Burj Al Arab, although another one, Bahia Fenicia, is being built in Spain.

International financing will also spur hotel investment. The International Finance Corporation (IFC), a member of the World Bank Group, is understood to be lending approximately US\$12 million in investment funding to build two three-star hotels, one in Lagos and the other in Benin City, which are expected to be managed by the Protea Hotels Group.

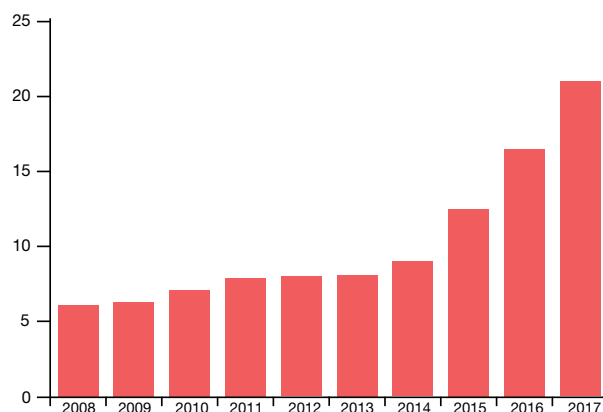
Over the past few years, stay unit nights have more than kept pace with the growth in room numbers and we expect this pattern to continue with stay unit nights rising at a 26.6% compound annual rate to 5.2 million in 2017 from 1.6 million in 2012.

We expect improvements in Nigeria's infrastructure to ease cost pressures and lead to slower growth in average room rates during the latter part of the forecast period. However, room rates in early 2013 were already showing a jump compared with 2012. The average hotel room in 2017 is projected to cost US\$338 (R3 126), a 4.2% compound annual increase from 2012.

These and other investments will lead to explosive growth in room availability in Nigeria. We project the number of hotel rooms to nearly triple during the next five years, growing from 8 000 in 2012 to 21 000 in 2017, a 21.3% compound annual increase.

Overall hotel room revenue is expected to expand at a 31.9% compound annual rate to US\$1.8 billion (R16.3 billion) in 2017 from US\$440 million (R4.1 billion) in 2012.

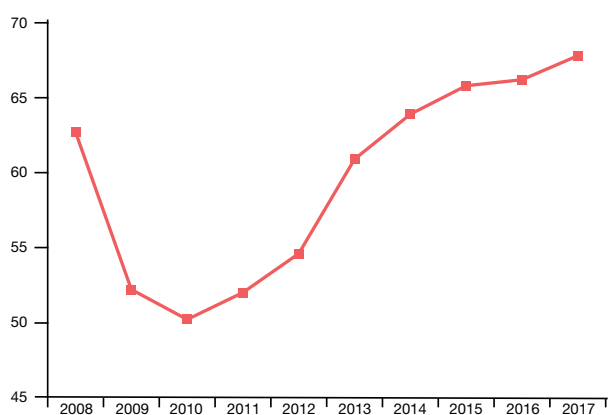
**Figure 23: Available rooms (thousands)**



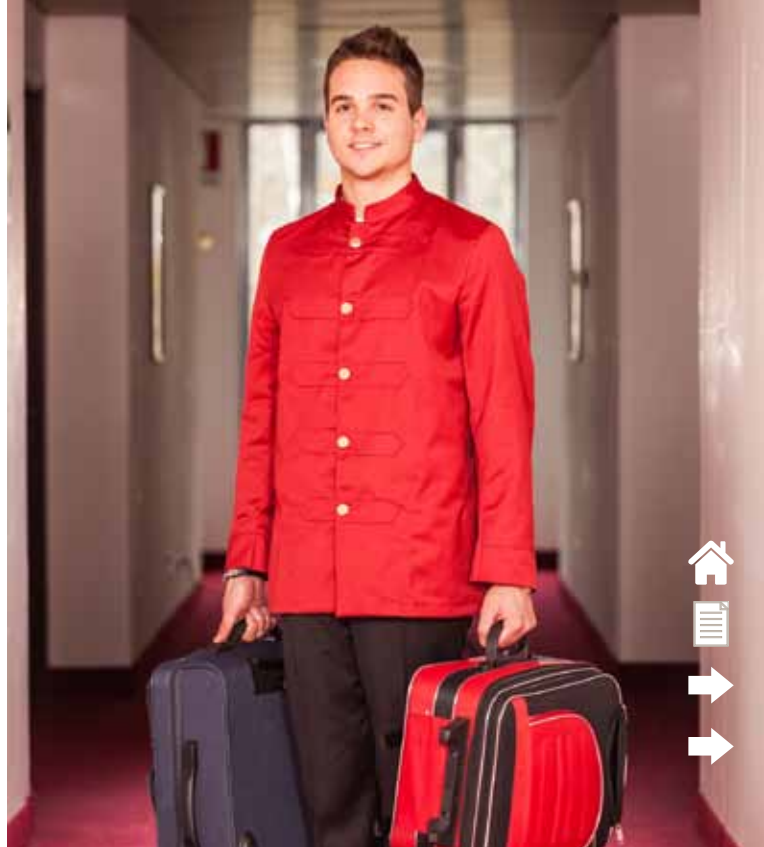
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Occupancy rates are expected to rise from 54.6% in 2012 to an estimated 67.8% in 2017.

**Figure 24: Occupancy rates (%)**



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates



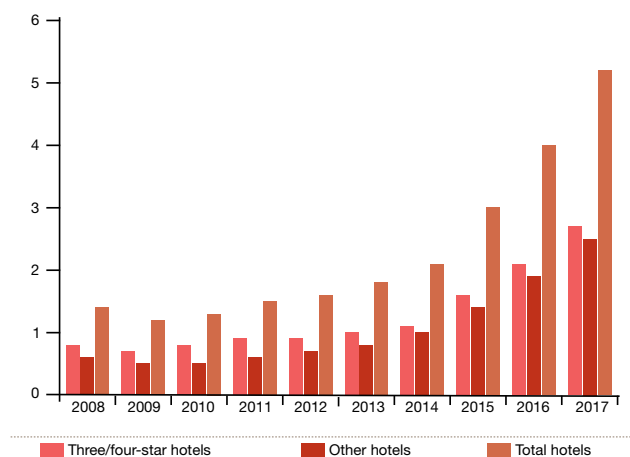
## Hotels in Nigeria

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2013-17 CAGR (%)
Available rooms (thousands)	6.1	6.3	7.1	7.9	8.0	8.1	9.0	12.5	16.5	21.0	
% change	5.2	3.3	12.7	11.3	1.3	1.3	11.1	38.9	32.0	27.3	21.3
Stay unit nights (millions)	1.4	1.2	1.3	1.5	1.6	1.8	2.1	3.0	4.0	5.2	
% change	7.7	-14.3	8.3	15.4	6.7	12.5	16.7	42.9	33.3	30.0	26.6
Occupancy rates (%)	62.7	52.2	50.2	52.0	54.6	60.9	63.9	65.8	66.2	67.8	
Average room rates (US\$)	232	252	248	266	275	295	309	322	331	338	
% change	18.4	8.6	-1.6	7.3	3.4	7.3	4.7	4.2	2.8	2.1	4.2
Total room revenue (US\$ millions)	325	302	322	399	440	531	649	966	1 324	1 758	
% change	27.5	-6.9	6.6	23.7	10.3	20.7	22.2	48.9	37.1	32.7	31.9

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

We have combined the data for three and four-star hotels in Nigeria. These hotels accounted for 54% of total available rooms and 56% of stay unit nights in 2012. The average room rate was \$297 (R2 747) in 2012, 8% higher than the overall average and comparable to the average rate for a five-star hotel in Mauritius.

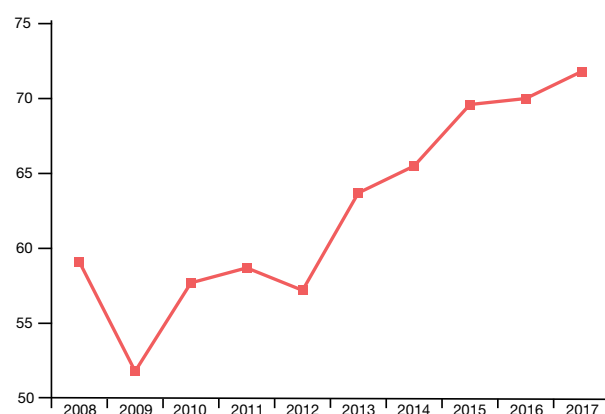
**Figure 25: Stay unit nights (millions)**



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

We expect the three and four-star market to mirror trends in the overall market. Available rooms will increase at a 19.1% compound annual rate to 10 300 from 4 300 in 2012. Stay unit nights is expected to triple from 900 000 in 2012 to 2.7 million by 2017. This is a 24.6% compound annual increase, which is expected to raise the average occupancy rate to 71.8% in 2017 from 57.2% in 2012.

**Figure 26: Occupancy rates: three-, and four-star hotels (%)**



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

### Three and four-star hotels in Nigeria

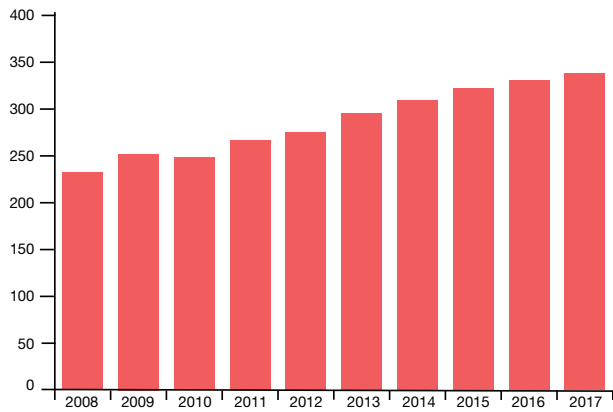
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2013-17 CAGR (%)
Available rooms (thousands)	3.7	3.7	3.8	4.2	4.3	4.3	4.6	6.3	8.2	10.3	19.1
% change	2.8	0.0	2.7	10.5	2.4	0.0	7.0	37.0	30.2	25.6	19.1
Stay unit nights (millions)	0.8	0.7	0.8	0.9	0.9	1.0	1.1	1.6	2.1	2.7	24.6
% change	0.0	-12.5	14.3	12.5	0.0	11.1	10.0	45.5	31.3	28.6	24.6
Occupancy rates (%)	59.1	51.8	57.7	58.7	57.2	63.7	65.5	69.6	70.0	71.8	
Average room rates (US\$)	232	264	271	292	297	315	330	343	354	361	
% change	17.2	13.8	2.7	7.7	1.7	6.1	4.8	3.9	3.2	2.0	4.0
Total room revenue (US\$ millions)	186	185	217	263	267	315	363	549	743	975	
% change	17.7	-0.5	17.3	21.2	1.5	18.0	15.2	51.2	35.3	31.2	29.6

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates



The average room rate is projected to increase by 4.0% compounded annually to \$361 (R3 339), boosting total room revenue to \$975 million (R9 billion) from \$267 million (R2.5 billion) in 2012, a 29.6% gain compounded annually.

**Figure 27: Average room rates (US\$)**



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates



# *Hotel accommodation in Mauritius*

Mauritius is a resort destination and most of its hospitality business is generated by holiday travellers. Consequently, the state of the global economy plays a much more important role than the local economy in the industry's success.

Tourism is a key element in the Mauritian economy and it provides a major source of foreign exchange for the country. While hotel infrastructure is well developed, hotels are facing growing competition from bungalows and guest houses that currently attract 30% of the tourist market.



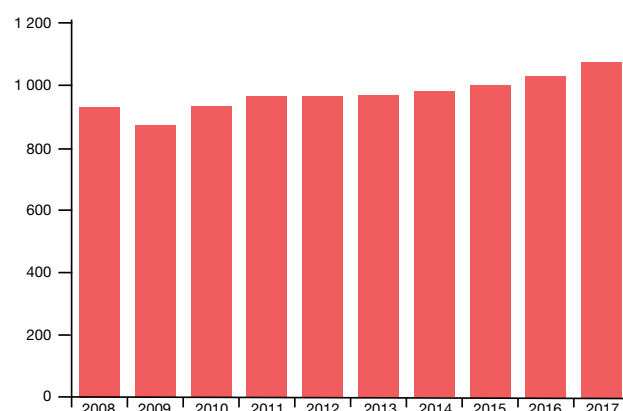
The cost of air travel and the distance between Mauritius and the markets of Europe, the Americas and the Asia-Pacific region is becoming an increasing challenge. The situation was exacerbated in 2012 by Air Mauritius' decision to discontinue some routes as a cost-saving measure. The decrease in flights hurt tourism and contributed to a drop in stay unit nights.

Mauritius is also facing increased competition from resort destinations in the Maldives, Sri Lanka and the Seychelles. In recent years, tourist arrivals to those three countries have grown much faster than those to Mauritius.

Flights from Europe to Mauritius are generally more expensive per air mile than flights to the Seychelles and the Maldives. Taxes and fees account for a large proportion of the ticket cost to Mauritius, contributing to the higher prices.

In 2012, tourist arrivals remained essentially flat and the 0.1% gain was the weakest growth over the past five years, except for the downturn in 2009. The slowdown in 2012 was caused by a sharp decline in arrivals from Europe, which was offset by double-digit gains from Africa, Asia-Pacific and the Americas.

**Figure 28: Tourist arrivals (thousands)**



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

#### **Tourist arrivals to Mauritius (thousands)**

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2013-17 CAGR (%)
Tourist arrivals	930.5	871.4	934.8	964.6	965.4	970.0	980.0	1 000.0	1 030.0	1 075.0	
% change	2.6	-6.4	7.3	3.2	0.1	0.5	1.0	2.0	3.0	4.4	2.2

Note: Figures include arrivals from non-specified countries

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

The majority of tourists to Mauritius come from Europe with more visitors coming from France than from any other country, reflecting the historical ties between the two countries. France alone accounted for 27% of all tourist arrivals in 2012, but this was down from 31% in 2011.

Double-digit decreases in arrivals in 2012 were also recorded from Italy and the Netherlands, while visitors from Austria and Belgium declined at high single-digit rates. The glaring exception was Russia, which, boosted by a strengthening economy, generated 59% more visitors in 2012 than in 2011, albeit off a low base.

#### *Tourist arrivals to Mauritius from Europe*

	2011	2012	% change
Austria	8 822	8 151	-7.6
Belgium	12 029	10 967	-8.8
France	302 004	262 100	-13.2
Germany	56 331	55 186	-2.0
Italy	52 747	40 009	-24.1
Netherlands	5 179	4 434	-14.4
Spain	9 801	9 473	-3.3
Sweden	4 325	4 295	-0.7
Switzerland	24 362	26 002	6.7
United Kingdom	88 182	87 648	-0.6
Russia	12 224	19 429	58.9
Other	33 642	33 005	-1.9
<b>Total Europe</b>	<b>609 648</b>	<b>560 699</b>	<b>-8.0</b>

Source: Ministry of Finance and Economic Development

The Mauritian experience in 2012 differed from that of South Africa where visitor numbers from Europe were up nearly 10%, highlighting the contrast between the resort and business markets.

After Europe, the next-largest source of tourists was from Africa, led by nearby Réunion with more than 139 000 visitors and South Africa with more than 89 000. Overall, tourist arrivals from Africa increased 14.7% in 2012.

#### *Tourist arrivals to Mauritius from Africa*

	2011	2012	% change
Comoros	969	1 076	11.0
Kenya	1 914	2 705	41.3
Madagascar	11 449	13 563	18.5
Réunion	113 000	139 169	23.2
Seychelles	8 485	6 779	-20.1
South Africa	86 232	89 058	3.3
Zimbabwe	1 495	1 568	4.9
Other	7 630	11 297	48.1
<b>Total</b>	<b>231 174</b>	<b>265 215</b>	<b>14.7</b>

Source: Ministry of Finance and Economic Development

There was a 13.3% increase in tourist arrivals from the Asia-Pacific region in 2012, with India, China and Australia being the leading countries. While growth from India was only 2.3%, the number of tourists from China rose 38.0%, a 5 752 increase. Visitors from Australia grew by 8.2% while more than 5 000 tourists came from the United Arab Emirates in 2012, a 42.9% increase.

#### *Tourist Arrivals to Mauritius from Asia-Pacific*

	2011	2012	% change
Australia	15 726	17 009	8.2
Hong Kong	593	1 269	114.0
India	53 955	55 197	2.3
Japan	1 545	1 641	6.2
Malaysia	1 989	1 967	-1.1
China	15 133	20 885	38.0
Singapore	2 461	2 078	-15.6
United Arab Emirates	3 780	5 403	42.9
Other	12 636	16 750	32.6
<b>Total</b>	<b>107 818</b>	<b>122 199</b>	<b>13.3</b>

Source: Ministry of Finance and Economic Development

The Americas are not a significant source of tourists to Mauritius, but 2012 saw a 21.8% increase from Canada, which was offset by a 7.2% decline from the United States.

The total number of tourists from the Americas rose 15.4% in 2012, including a 51.0% increase in visitors from Central and Latin America.

#### *Tourist arrivals to Mauritius from the Americas*

	2011	2012	% change
United States	6 870	6 374	-7.2
Canada	3 887	4 736	21.8
Central and Latin America	3 651	5 514	51.0
<b>Total</b>	<b>14 408</b>	<b>16 624</b>	<b>15.4</b>

Source: Ministry of Finance and Economic Development

Improving economic conditions in Europe, and globally in general, should limit declines in tourism from that region and lead to faster growth in tourist arrivals in Mauritius.

#### *Real GDP growth (%)*

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2013-17 CAGR (%)
Mauritius	5.5	3.0	4.1	3.8	3.3	3.7	4.4	4.7	4.6	4.5	4.4
Global	2.8	-0.6	5.2	4.0	3.2	3.3	4.0	4.4	4.5	4.5	4.1

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

Global real GDP is expected to rise by 4.1% compounded annually and we project tourist arrivals to Mauritius to increase at a 2.2% compound annual rate through to 2017.

*Figure 29: Real annual GDP growth (%)*



Source: International Monetary Fund

## Hotel performance

The number of available hotel rooms increased by 13% between 2008 and 2012, a slower gain compared with the 23% increase in South Africa and the 31% gain in Nigeria over the same period.

In 2012, the number of available rooms increased 5% and a number of projects currently underway mean there will further growth in room availability. We project the number of available hotel rooms to increase at a 4.3% compound annual rate to 15 400 in 2017 from 12 500 in 2012.

The slowdown in tourist arrivals contributed to a 3.4% decline in stay unit nights in 2012. With declines continuing in early 2013, we project a 3.6% drop for the year as a whole. We then look for the market to rebound as foreign tourist arrivals begin to pick up. We project stay unit nights for the forecast period as a whole to rise from 2.8 million in 2012 to 3.2 million in 2017, a 2.7% compound annual increase.

The average occupancy rate will drop from 61.2% in 2012 to 56.9% in 2017.

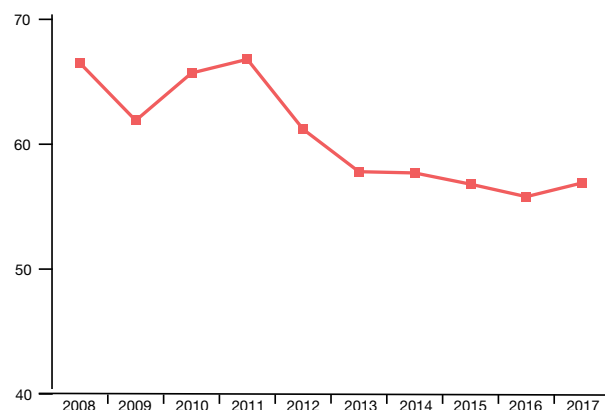
As a resort destination, the average room rate in Mauritius is much more expensive than the typical hotel in South Africa. The average hotel room in Mauritius costs €166 (R2 005), more than twice the level in South Africa and 13% higher than South Africa's average five-star room rate.

The average room rate in 2012 was 9% lower than in 2008, reflecting discounting, principally among five-star hotels, special holiday offers and combined packages with airlines that lead to reduced rates for hotels. These reductions were made in response to the recession and were intended to help sustain tourism in the face of falling demand.

Rates were up significantly in early 2013 and we project a 16.9% increase for the year as a whole. We then expect rates to grow by mid-single digits to €238 (R2 874) in 2017, a 7.5% compound annual increase from 2012.

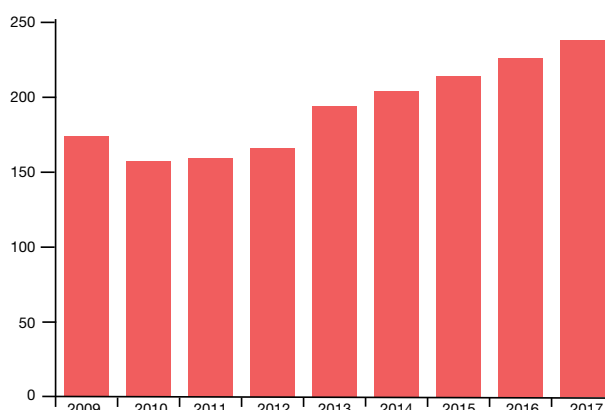
Hotel room revenue in Mauritius is expected to increase from €465 million (R5.6 billion) in 2012 to a projected €762 million (R9.2 billion) in 2017, growing at a 10.4% compound annual rate.

**Figure 30: Occupancy rates (%)**



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

**Figure 31: Average room rate (€)**



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates



## Hotels in Mauritius

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2013-17 CAGR (%)
Available rooms (thousands)	11.1	11.5	12.1	11.9	12.5	12.8	13.3	14.0	14.7	15.4	
% change	0.9	3.6	5.2	-1.7	5.0	2.4	3.9	5.3	5.0	4.8	4.3
Stay unit nights (millions)	2.7	2.6	2.9	2.9	2.8	2.7	2.8	2.9	3.0	3.2	
% change	3.8	-3.7	11.5	0.0	-3.4	-3.6	3.7	3.6	3.4	6.7	2.7
Occupancy rates (%)	66.5	61.9	65.7	66.8	61.2	57.8	57.7	56.8	55.8	56.9	
Average room rates (€)	182	174	157	159	166	194	204	214	226	238	
% change	-1.1	-4.4	-9.8	1.3	4.4	16.9	5.2	4.9	5.6	5.3	7.5
Total room revenue (€ millions)	491	452	455	461	465	524	571	621	678	762	
% change	2.7	-7.9	0.6	1.3	0.8	12.7	9.1	8.6	9.3	12.3	10.4

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates



## Five-star hotels

Compared with South Africa, relatively high room rates in Mauritius reflect the high concentration of five-star hotels, which in turn reflects the role of Mauritius as a resort destination. Five-star hotels accounted for 40% of the available rooms in Mauritius in 2012 and 49% of total hotel room revenue, compared with only 5% percent of available rooms in South Africa and 12% of total hotel room revenue.

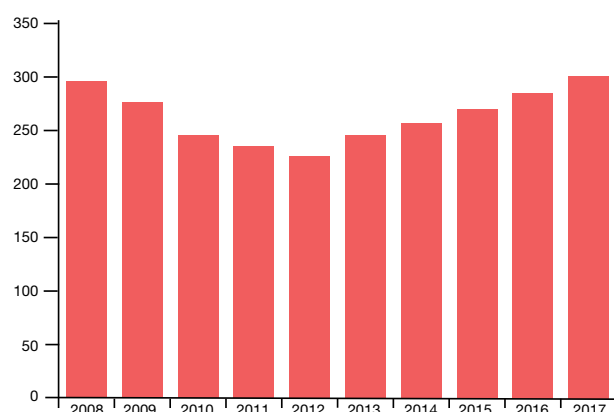
The average room rate for five-star hotels has declined as hotels have discounted rates to attract tourists. The average room rate for a five-star hotel in 2012 was €226, 24% lower than in 2008. With stay unit nights trending upward for five-star hotels in recent years, hotels began raising rates in early 2013. We expect that for the year as a whole, the average five-star hotel will cost €245 (R2 959) per night. The increase in five-star rates is driving the large gain in the overall average rate in 2013.

With economic conditions expected to improve over the next five years, we expect a return to mid-single-digit growth in the average room rate beginning in 2014. By 2017, the average five-star hotel will cost €301 (R3 635), up 5.9% compounded annually from 2012.

Helped by declining room rates, stay unit nights were up for five-star hotels over the past three years, including an increase in 2012. With room rates expected to increase, we look for smaller gains in stay unit nights averaging 5.4% compounded annually.

Total room revenue for five-star hotels will increase by a projected 11.6% compounded annually to €391 million (R4.7 billion) in 2017 from €226 million (R2.7 billion) in 2012.

**Figure 32: Average room rates for five-star hotels (€)**



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

### Five-star hotels in Mauritius

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2013-17 CAGR (%)
Available rooms (thousands)	4.3	4.4	4.5	4.8	5.0	5.2	5.4	5.7	6.0	6.3	
% change	4.9	2.3	2.3	6.7	4.2	4.0	3.8	5.6	5.3	5.0	4.7
Stay unit nights (millions)	0.9	0.7	0.8	0.9	1.0	1.0	1.0	1.1	1.2	1.3	
% change	0.0	-22.2	14.3	12.5	11.1	0.0	0.0	10.0	9.1	8.3	5.4
Occupancy rates (%)	57.2	43.6	48.7	51.4	54.6	52.7	50.7	52.9	54.6	56.5	
Average room rates (€)	296	276	245	235	226	245	257	270	285	301	
% change	-8.1	-6.8	-11.2	-4.1	-3.8	8.4	4.9	5.1	5.6	5.6	5.9
Total room revenue (€ millions)	266	193	196	212	226	245	257	297	342	391	
% change	-8.3	-27.4	1.6	8.2	6.6	8.4	4.9	15.6	15.2	14.3	11.6

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

## Three and four-star hotels

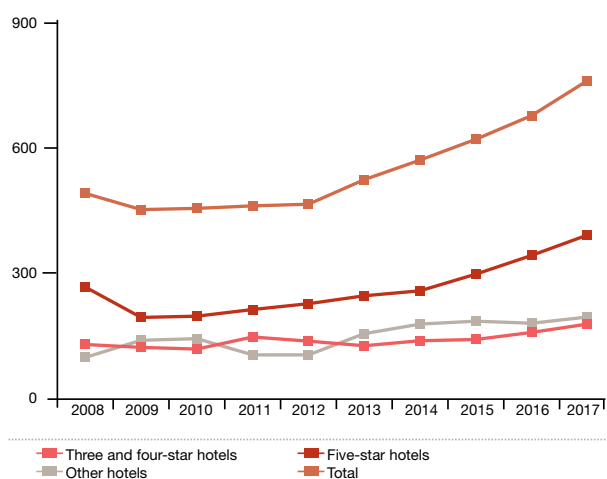
We have combined data for three and four-star hotels in Mauritius. Stay unit nights were down for this segment of the market in 2012. We expect a flat market in 2013 followed by modest increases as foreign tourism grows. Stay unit nights will average 4.6% growth compounded annually for the forecast period as a whole.

The average room rate for three and four-star hotels was also lower in 2012 than in 2008, although the decrease was much less severe than for five-star establishments. In early 2013, however, discounting led to an 8.0% drop.

We expect room rates to expand as the global economy improves and tourism increases. The average rate is expected to rise from €113 (R1 365) in 2012 to €118 (R1 425) in 2017, a 0.9% compound annual increase.

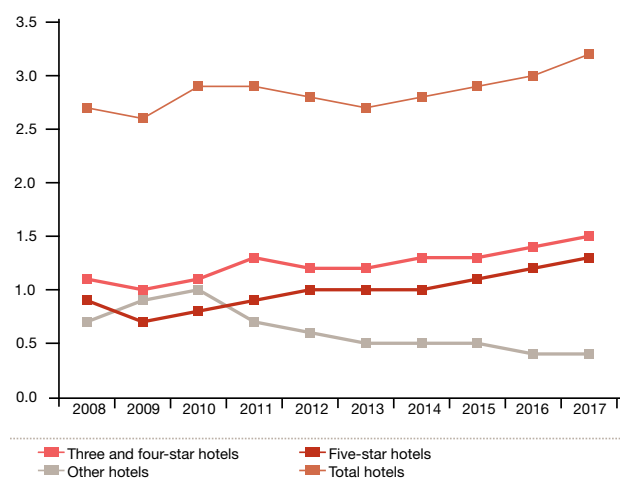
Overall room revenue for three and four-star hotels is projected to increase at a 5.4% compound annual rate to €177 million (R2.1 billion) in 2017 from €136 million (R1.6 billion) in 2012.

**Figure 33: Total room revenue comparison (€ millions)**



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

**Figure 34: Stay unit nights comparison (millions)**



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates



### Three and four-star hotels in Mauritius

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2013-17 CAGR (%)
Available rooms (thousands)	6.0	6.2	6.3	6.6	6.6	6.7	7.0	7.4	7.7	8.0	
% change	0.0	3.3	1.6	4.8	0.0	1.5	4.5	5.7	4.1	3.9	3.9
Stay unit nights (millions)	1.1	1.0	1.1	1.3	1.2	1.2	1.3	1.3	1.4	1.5	
% change	-8.3	-9.1	10.0	18.2	-7.7	0.0	8.3	0.0	7.7	7.1	4.6
Occupancy rates (%)	50.1	44.2	47.8	54.0	49.7	49.1	50.9	48.1	49.7	51.4	
Average room rates (€)	116	121	106	112	113	104	105	108	112	118	
% change	0.0	4.3	-12.4	5.7	0.9	-8.0	1.0	2.9	3.7	5.4	0.9
Total room revenue (€ millions)	128	121	117	146	136	125	137	140	157	177	
% change	-7.9	-5.5	-3.3	24.8	-6.8	-8.1	9.6	2.2	12.1	12.7	5.4

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates





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# *Outlook: 2013-2017*

## *Nigeria and Mauritius*

Mauritius is currently a much more developed market than Nigeria in virtually all categories. However, we expect Nigeria to overtake Mauritius over the next five years to become the larger market.





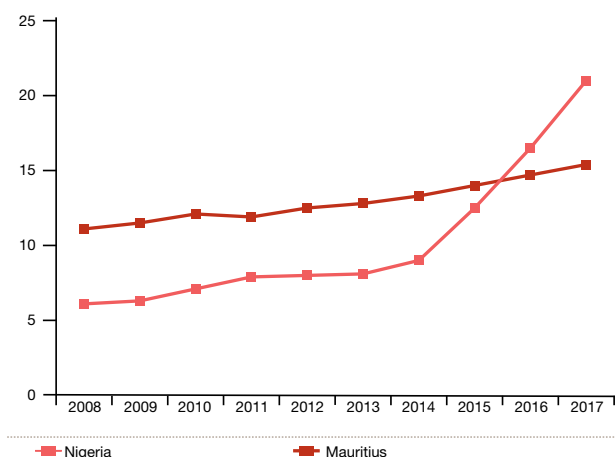
## Available hotel rooms

Mauritius had 56% more hotel rooms in 2012 than Nigeria. Because of the expected building boom in Nigeria, we expect its total number of hotel rooms to jump dramatically in the next few years, overtaking Mauritius in 2016 and having 36% more rooms than Mauritius by 2017.

Although we expect stay unit nights to more than keep pace with room availability, there is always the danger that a large increase in supply can lead to falling occupancy rates if economic conditions should change.

The market in Mauritius is mature and we expect much slower growth in available rooms over the next five years.

Figure 35: Available hotel rooms (thousands)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

### Available hotel rooms in Nigeria and Mauritius (thousands)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2013-17 CAGR (%)
Nigeria	6.1	6.3	7.1	7.9	8.0	8.1	9.0	12.5	16.5	21.0	
% change	5.2	3.3	12.7	11.3	1.3	1.3	11.1	38.9	32.0	27.3	21.3
Mauritius	11.1	11.5	12.1	11.9	12.5	12.8	13.3	14.0	14.7	15.4	
% change	0.9	3.6	5.2	-1.7	5.0	2.4	3.9	5.3	5.0	4.8	4.3

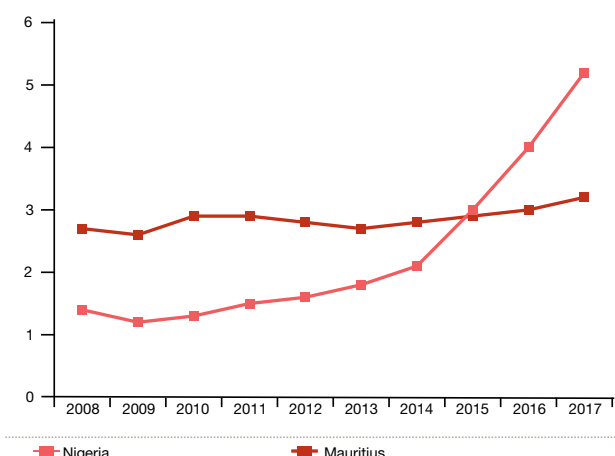
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

## Hotel stay unit nights

Mauritius had 75% more stay unit nights in 2012 than Nigeria. Nigeria's booming economy combined with the expected increase in hotel rooms will lead to large projected increases in stay unit nights. We project stay unit nights in Nigeria to surpass Mauritius in 2015 and to be 63% larger in 2017.

We expect the decline in stay unit nights experienced in Mauritius in 2012 to continue in 2013 before the market recovers. Growth, however, is expected to remain relatively modest.

Figure 36: Stay unit nights comparison (millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

## Hotel stay unit nights in Nigeria and Mauritius (millions)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2013-17 CAGR (%)
Nigeria	1.4	1.2	1.3	1.5	1.6	1.8	2.1	3.0	4.0	5.2	
% change	7.7	-14.3	8.3	15.4	6.7	12.5	16.7	42.9	33.3	30.0	26.6
Mauritius	2.7	2.6	2.9	2.9	2.8	2.7	2.8	2.9	3.0	3.2	
% change	3.8	-3.7	11.5	0.0	-3.4	-3.6	3.7	3.6	3.4	6.7	2.7

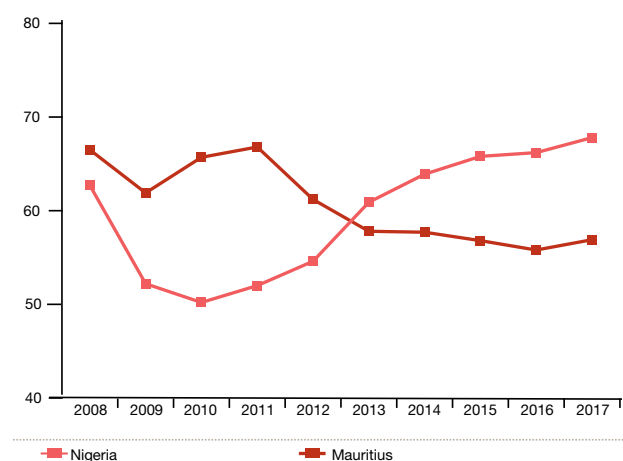
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

## Hotel occupancy rates

Occupancy rates in Mauritius have been higher than in Nigeria over the past five years, although they have declined in both countries since 2008.

We expect an increase in occupancy rates in Nigeria in 2013, which will put it ahead of Mauritius, where we anticipate a further decline. We expect occupancy rates in Nigeria to continue to be higher than in Mauritius throughout the forecast period.

Figure 37: Hotel occupancy rates comparison (%)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

## Hotel occupancy rates in Nigeria and Mauritius (%)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Nigeria	62.7	52.2	50.2	52.0	54.6	60.9	63.9	65.8	66.2	67.8
Mauritius	66.5	61.9	65.7	66.8	61.2	57.8	57.7	56.8	55.8	56.9

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

## Average room rates

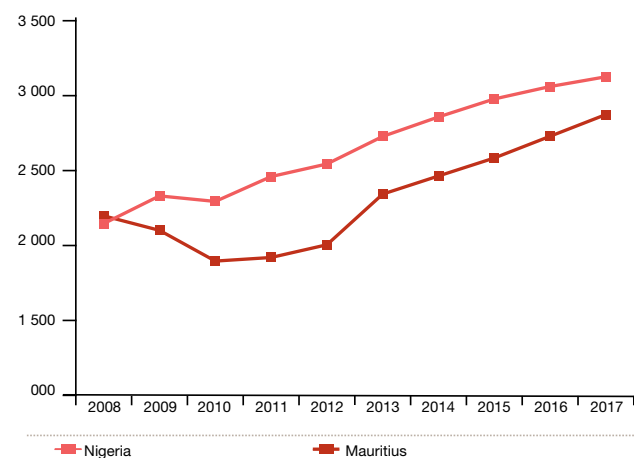
Despite the large number of five-star hotels in Mauritius, the average hotel room in Nigeria cost 27% more than in Mauritius in 2012, reflecting the high cost structure in Nigeria.

Five-star hotels in Mauritius have been cutting rates over the past five years to help sustain business in the face of a weak global economy. Nevertheless, we expect average room rates to now grow faster in Mauritius than in Nigeria.

We expect rates for five-star hotels in Mauritius to begin to increase in 2013, which will propel the overall average by 7.5% on a compound annual basis, compared with a projected 4.2% compound annual increase in Nigeria.

Despite a faster growth rate in Mauritius, we still expect Nigeria to be 8% more expensive than Mauritius in 2017.

Figure 38: Average room rates comparison (R)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

## Average hotel room rates in Nigeria and Mauritius (R)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2013-17 CAGR %
Nigeria	2 146	2 331	2 294	2 460	2 544	2 728	2 858	2 978	3 061	3 126	
% change	18.4	8.6	-1.6	7.3	3.4	7.3	4.7	4.2	2.8	2.1	4.2
Mauritius	2 198	2 101	1 896	1 920	2 005	2 343	2 464	2 584	2 729	2 874	
% change	-1.1	-4.4	-9.8	1.3	4.4	16.9	5.2	4.9	5.6	5.3	7.5

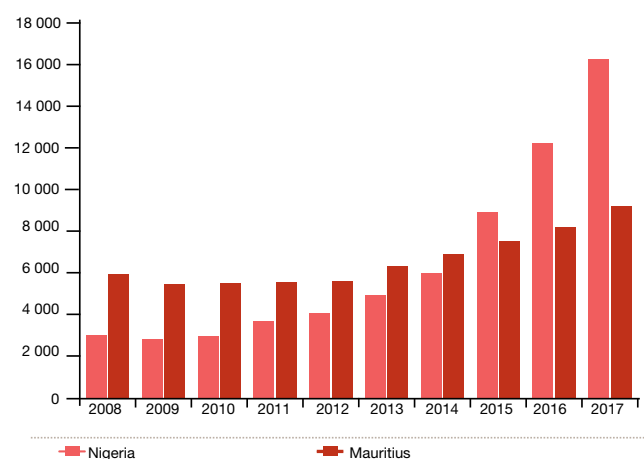
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

## Hotel room revenue

Hotels in Mauritius generated 37% more room revenue in 2012 than hotels in Nigeria. However, hotel room revenue in Nigeria is forecast to grow much faster than in Mauritius. We expect Nigeria to overtake Mauritius in 2015 and to be 76% larger in 2017.

Combined hotel room revenue is expected to increase from R9.7 billion in 2012 to a projected R25.5 billion in 2017, growing by 21.3% on a compound annual basis.

Figure 39: Total room revenue (R millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

## Hotel room revenue in Nigeria and Mauritius (R millions)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2013-17 CAGR(%)
Nigeria	3 006	2 793	2 978	3 690	4 070	4 911	6 002	8 935	12 246	16 260	
% change	27.5	-6.9	6.6	23.7	10.3	20.7	22.2	48.9	37.1	32.7	31.9
Mauritius	5 929	5 458	5 495	5 568	5 615	6 329	6 895	7 499	8 188	9 202	
% change	2.7	-7.9	0.6	1.3	0.8	12.7	9.1	8.6	9.3	12.3	10.4

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

# Conclusion

South Africa experienced encouraging growth in overall room revenue in 2012. As demand increased and supply remained unchanged, this gave rise to increased occupancy rates as well as higher average room rates being achieved during 2012.

Five years on from the financial crisis, there are signs that the world economic environment is beginning to stabilise in certain parts of the world and this is evidenced by the increase in foreign visitors to South Africa.

South Africa, with its wide range of hospitality offerings, attractions and history, is well placed to take advantage of these improving economic conditions in both the business and leisure tourism markets.

Nigeria's booming economy has led it to become an extremely attractive market for all major hotel operators and we expect to see faster growth in available rooms as the major industry players invest heavily in Nigeria on the back of the Nigerian Government's investment in infrastructure in the country.

While Mauritius has an established tourism sector, we expect to see further pressure on occupancy and room rates during 2013 before turning around in 2014.

Local and international hotel operators continue to extract value in Africa's developing economies with major developments planned in Nigeria.



# *The voice of the guest*

## *Stronger than ever in the online environment*

*The online environment has changed guest behaviour, placing significantly more importance on delivering an exceptional guest experience every time.*





In the past, discussion of people's experiences of business and leisure accommodation was limited to speaking to a few friends, either in-person or perhaps over the phone. Today, the voice of the guest reaches a lot further in the online environment and all classes of accommodation are experiencing the consequences of this.

With the proliferation of social media, platforms like Facebook, Twitter and personal blogs are now commonly used to comment on lifestyle experiences, including where they have stayed.

Both guests who had good experiences (promoters) and those who had bad experiences (detractors) can now comment, tweet or blog about them. Their views can be shared and passed on by a multitude of friends and followers.

Furthermore, in the online environment, sites such as TripAdvisor, with more than 200 million unique monthly visitors<sup>1</sup>, can be used to find recommendations of places to stay and view other guests' commentary on them.

## ***Why is it important to hear the voice of the guest?***

The challenge for hospitality businesses is to deliver a seamless customised guest experience to a variety of guests with a variety of preferences. Negative guest reviews and bad experiences cost business and tarnish hard-earned reputations.<sup>2</sup> Listening to the voice of the guest minimises this risk and provides an opportunity to read guests signals, react to their requests and redesign the experience to give guests what they are looking for.

Many guests leave comments and check reviews online before booking. The voice of an enthusiastic guest can therefore be turned into a powerful marketing force and enable an establishment to find the hidden sources of value that drive exceptional, differentiating guest experiences.<sup>2</sup>

It also helps to measure the experiences of guests in order to better understand what makes their experience exceptional, in order to build comprehensive, measurable, and actionable guest-centred solutions and memorable stays.

In order to optimise relationships with guests and define what they want, it is important to understand both why guests value what they do and their willingness to pay for it.

By analysing these experiences hospitality businesses can choose to either raise the floor (incremental improvement) or raise the roof (transformational change). Many bad experiences are driven by basics such as a lack of cleanliness, including bad odours, poor staff attitude and support and unacceptable noise levels. Despite these findings, many leading hotels are still spending mainly on renovation and upgrades.

## ***The power of the voices of promoters and detractors***

A positive experience can create a devoted guest, who in turn becomes a brand ambassador. Ambassadors are not only loyal, engaged guests, but can also be an establishment's best friends and marketers: buyers of services and active sellers of these services.<sup>3</sup> Promoters can now post comments on Facebook, tweet, blog and give excellent ratings on TripAdvisor. They can also defend hospitality businesses from brand detractors.<sup>2</sup>

Conversely, if guests have a negative experience, they can potentially become brand detractors. Most detractors share bad experiences with others within a month or less. If issues are not resolved before guests walk out the door, there can be negative repercussions since guests are not likely to come back after a bad experience. Furthermore, they will make sure to let their whole social network know of their bad experience.

In contrast, well-handled problem resolution at the time an issue arises has the potential to rescue the situation and convert a detractor into a promoter. It is therefore important to make it easy for guests to complain, so that problems can be addressed promptly and guests can be made to feel their concerns have been heard. The need to resolve issues as and when they happen has become even more important since the advent of digital technology that eliminates the check-out process.

<sup>3</sup> Source: <http://www.hospitalitynet.org/news/4056072.html>

<sup>1</sup> Source: Google Analytics, worldwide data, April 2013

<sup>2</sup> Source: <http://www.hospitalitynet.org/news/4060520.html>





## ***Preventative measures to avoid and minimise brand detractors***

### **Mapping guests' footsteps**

Guests' footsteps or path at each step of their interaction with a service or staff member can be tracked, starting from making a reservation (online or otherwise) to checking out. This provides a map of guests' interactions throughout their stay and provides discrete points of engagement to consider improvements in interpersonal and online processes.<sup>4</sup>

<sup>4</sup> Source: <http://www.haveringdata.net/research/tools.htm>

### **Analysing online data**

Accommodation owners can use tools to analyse online comments on an ongoing basis and respond to comments directly by addressing the root causes of problems reported to ensure non-recurrence of bad experiences and reinforcing those aspects for which positive feedback was received.

### **Leverage off promoters**

Owners can leverage off promoters to share promotional offers with their own social networks in order to boost revenues from restaurants, spas, events and even new renovations/additions at a property.<sup>5</sup>

<sup>5</sup> Source: <http://www.hospitalitynet.org/news/4060520.html>

*(By Veneta Eftychis and Marthie Crafford, PwC Revenue Growth and Assurance Services)*

# Corporate reporting in the hospitality sector

Corporate reporting is an ever-evolving field as companies strive to improve their communication with stakeholders. One of the most important ways of doing so is through the annual integrated report, which seeks to align relevant information about an organisation's strategy, governance systems, performance and future prospects in a way that reflects the economic, environmental and social environment within which it operates.

Integrated reporting guidelines advocate appropriate discussion of material sustainability issues. Sustainability risks and key performance areas are relatively easy to identify for sectors such as mining and construction, but more difficult to identify in sectors such as hospitality where material impacts and influence are, in the main, indirect. This raises the question of what the key sustainability risks and opportunities in the hospitality industry are.



Stakeholders require companies to share details of progress and challenges in all aspects of the business, beyond the traditional financial reporting indicators and through the entire value chain. In light of this, we investigated what risks, opportunities and issues have been identified as material to the hospitality sector through an analysis of the integrated reports of a selection of JSE-listed hospitality companies.

## ***A reporting landscape for the hospitality industry***

A reporting landscape for the hospitality sector soon began to emerge through our analysis, as the sustainability risks and key performance areas identified showed a clear consistency. As expected, people-related aspects received considerable attention, followed by economic and environmental aspects.

### ***Material issues***

The material issues summarised below form a basis for current performance reporting in the South African hospitality sector.

All companies report on these issues:

#### **Environment**

- Provision and disruption of essential services
- Water
- Energy
- Carbon emissions
- Waste and recycling
- Environmental savings initiatives

#### **Economic**

- Suppliers and business partners
- Investor and funding institutions
- Rise in the cost of services

#### **Social**

- Customer satisfaction
- Corporate social investment (CSI)
- Political concerns
- Transformation and diversity
- Union impact
- Employee relations
- Training and development
- Regulatory requirements
- Security (crime)
- Occupational health and safety
- IT (social media/marketing)
- HIV and Aids



## Other issues that should be reported

The review exercise highlighted various unique, but important risks and performance areas in the sector. It also revealed clear evidence of good practice regarding the types of issues addressed in the companies' daily activities and performance feedback.

To bring an international perspective to our analysis, we compared the integrated report of a leading international hospitality company to those of the three South African companies.

While our analysis revealed a sound alignment with the international case study selected, we found the case study effectively demonstrated that many of the material impacts in the hospitality sector take place beyond the immediate hotel setting and daily business activities that occur there. The results are presented in the form of a value chain in the figures that follow.

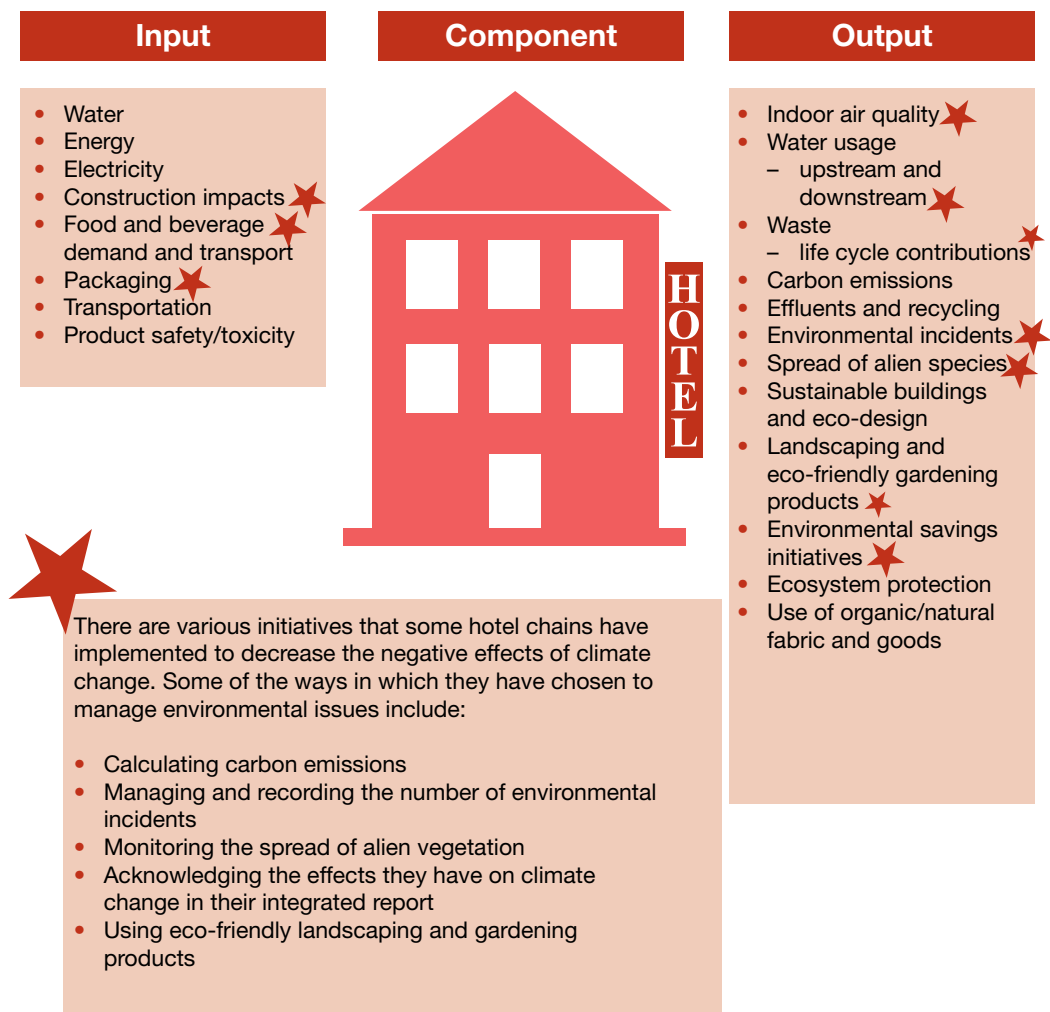
For every component of sustainability, including the environmental, social and economic aspects of a business, impacts can be experienced at the beginning of the value chain through a demand created by the hospitality company (an input).

Impacts can also be made at the end of the value chain through the activities of providing services (an output). It is therefore important to monitor and report on the impacts along the full length of the value chain.

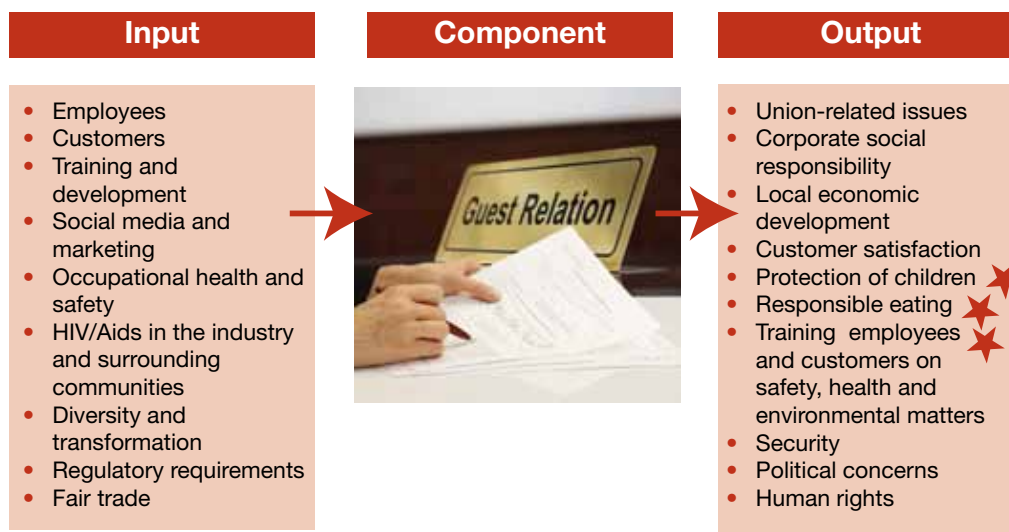
While South African hospitality companies have come a long way in reporting on their businesses in an integrated manner, our study shows that there is still room for improvement and we look forward to future developments in this area.



## Environmental material issues



## People material issues



### Protection of children

Over the years, there has been an increase in reports of child abuse and exploitation. As a result, some hotels have taken the initiative to ensure that their operations do not contribute to this problem.

### Responsible eating

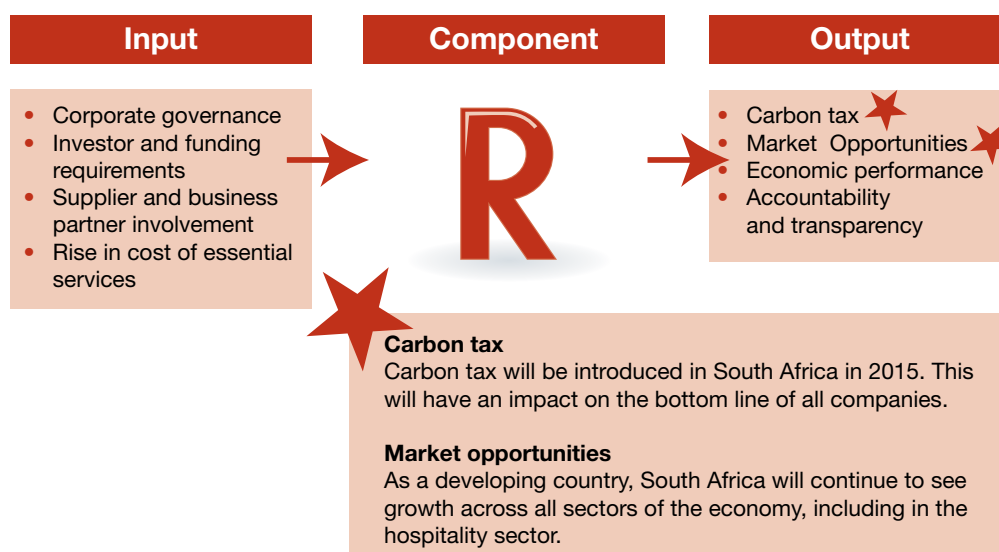
Obesity across all age groups has increased significantly over the years. The promotion of responsible eating at hotels is one way of tackling this issue.

### Training of employees in environmental matters

Everyone has a role to play in reducing the effects of global warming. At least one hotel chain has taken the initiative to educate its employees on how best to protect the environment.



## Economic material issues





## The importance of integrated reporting

Integrated management of economic, social and environmental sustainability issues, together with reporting in annual performance reports, will generate benefits to the reporting entity and its key stakeholders. Effective integrated reporting can promote changes in corporate behaviour, strategic planning and decision making that focus on value creation and preservation, both in the short and long term. It can also assist in enhancing accountability and stewardship with respect to a broader spectrum of assets and resources, while also promoting an understanding of the interdependencies between them.

It cannot be emphasised enough that sustainability material risks as well as opportunities must be aggressively managed in order to ensure the long-term viability of a business and sector. The learning of those leading integrated reporting in the South African hospitality sector, should continue to be shared with, and challenged by, other role-players in the industry, to ensure the sector as a whole manages its cumulative sustainability risks and opportunities wisely.

*(By Chantal van der Watt, PwC Sustainability and Integrated Reporting Services)*



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## Hospitality industry group contacts



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