Hotels outlook: 2019–2023
Future resilience

South Africa – Nigeria – Mauritius – Kenya – Tanzania

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Hotels outlook: 2019–2023

South Africa – Nigeria – Mauritius – Kenya – Tanzania
9th edition

PwC's team of hotel specialists provide an unbiased overview of how the hotel industry in South Africa, Nigeria, Mauritius, Kenya and Tanzania is expected to develop over the coming years. The outlook details the key trends observed and those taking place within the market. The publication discusses the challenges facing the sector, as well as considering its future prospects. It also takes a brief look at the new Tourism Amendment Bill.

Our report this year includes a summary of the hospitality and tourism market in Namibia and the challenges being faced.

Unparalleled experience

Every day, PwC plays a significant supporting role in hospitality businesses across the world. With our local knowledge of culture, laws and business needs, we help clients make the most of changing market scenarios and assist them to deliver on special projects and their organisational growth aspirations.

Our professionals have financial and operational experience, knowledge of business processes, and industry insight that enables us to listen and understand our clients' goals and the environment (competitive, economic and regulatory) in which they operate. In this way we are able to provide solutions that are right for each organisation.

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 clients. We have made a substantial commitment to understanding the forces that are impacting these issues and continue to develop and deliver solutions to help clients achieve their financial, operational and strategic objectives.

Hotels outlook: 2019–2023 demonstrates deep knowledge of the local hotel market and is a powerful tool for understanding critical business issues. To learn more about the challenges and opportunities that lie ahead for the hotel industry in South Africa, please visit *www.pwc.co.za/hospitality-and-leisure.*

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Cover photograph courtesy of Tsogo Sun

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Many other PwC professionals across five countries reviewed and added local insights to this publication.

Research methodology

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

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

We then developed forecasting models based on the historical performance of the hotel sector, 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 hotel industry. See *www.wilkofskygruen.com* for more information.

The market

This Outlook covers hotels in South Africa, Nigeria, Mauritius, Kenya and Tanzania. For the first time this year, we are also analysing the accommodation market in Namibia. The market consists of spending generated by renting rooms.

Figures for South Africa are expressed in rand; figures for Nigeria, Kenya and Tanzania are shown in US dollars (USD); and figures for Mauritius are expressed in euros. Figures for Namibia are not available at this time. Tables showing comparisons between countries are in rand. We use a constant exchange rate for the 2013–2023 period.

Rand: USD	13.2549
USD: Naira	360.9310
Rand: Euros	11.2349
Euros: Rupees	40.2652
Euros: USD	0.8476
USD: Kenyan shilling	101.3139
USD: Tanzanian shilling	2 275.1000

Image courtesy of LUX Grand Gaube*

Namibia

For the first time in the Outlook, this year we provide an overview of the hospitality and tourism industry in Namibia. As with many emerging markets, accessing adequate and up-to-date information is a challenge. Consequently, the latest hotel and tourism figures we have been able to access are from 2017. However, in coming years, we hope to be able to present a fuller analysis and include Namibia in our Outlook forecast. Research and commentary on Namibia was provided by rainmaker digital, a travel and digital marketing consultancy based in Windhoek. See www.rainmaker.travel for more information.

Use of Outlook data

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At PwC, our purpose is to build trust in society and solve important problems. We're a network of firms in 158 countries with more than 250 000 people who are committed to delivering quality in assurance, advisory and tax services.

PwC in Africa

PwC has a presence in 34 Africa countries with an office footprint of more than 50 offices. With a single Africa leadership team and more than 400 partners and 9 000 professionals across Africa, we serve some of the continent's largest businesses across all industries.

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Our in-depth knowledge and understanding of African operating environments enable us to offer tailored tax, assurance and advisory solutions for every business challenge.

Editor's letter

We are pleased to bring you our annual Hotels outlook: South Africa – Nigeria – Mauritius – Kenya – Tanzania 2019-2023.

Over the past nine years, PwC's Hotels outlook has been providing expert commentary and insights on the hotels segment of the hospitality market, with detailed forecasts and analysis. We take an in-depth look at the key trends observed in the vibrant hotel industry as well as challenges and future prospects for the various African markets.

Tourism remains one of the focus areas of a number of African governments given the potential this sector has to contribute to the growth of economies. The industry has been resilient despite a number of challenges.

In the South African market, overall revenue from hotel room accommodation rose 0.5% to R16.7 billion in 2018. International visitor numbers to South Africa continued to grow albeit at just 1.7% over 2017. We forecast that hotel room revenue will grow by 0.4% in 2019 to R16.8 billion with a compound annual growth rate of 3.3% over the forecast period.

The growth in hotel rooms in South Africa will continue, with an additional 3 800 rooms to be added over the next five years. We also forecast occupancy rates to continue to grow over the forecast period and to reach 61.1% in 2023.

This publication also features information about hotel accommodation in Nigeria, Mauritius, Kenya and Tanzania. The hotel markets in Nigeria, Kenya and Mauritius continued to perform well in 2018 with all achieving double-digit growth and Tanzania returning to growth in room revenue. The Nigerian market grew by 20% in 2018 and we forecast that it will continue to grow at a 12% compound annual growth rate over the next five years. Hotel room revenue in Mauritius increased by 11.7% in 2018 and the island continues to experience growth in foreign visitors. Hotel room revenue is projected to grow at 5.7% compounded annually to 2023.

Kenya experienced an increase in visitors resulting in a 37.3% overall growth in visitor numbers for 2018. However, a terrorist incident in Nairobi early in 2019 may impact on visitor numbers for the remainder of 2019. Tanzania's hotel room revenue amounted to US$222 million in 2018, an increase of 9.4% over 2017 due to an increase in guest nights and the average daily rate.

In this year's Outlook we also take a broad look at the Namibian hospitality and tourism environment.

While the hotel and tourism markets in each of the countries in our report are all displaying signs of continued growth over the forecast period, they continue to be affected by both local and global factors. With changes in consumer behaviour, possible changes in government regulations and changes in distribution channels, it is important that all stakeholders continue to work together to ensure that they derive the maximum benefit.

I hope you enjoy this edition of the Outlook. Our PwC hotels professionals 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. If you would like to discuss anything covered in this report, please contact us. Finally, we thank you for your support and wish you an exciting and rewarding year ahead.

Sincerely,

Pietro Calicchio
Hospitality Industry Leader
PwC Southern Africa

Contents

1. Key trends 9
2. Overview 10
3. South Africa 12
4. Nigeria 30
5. Mauritius 37
6. Kenya 51
7. Tanzania 58
8. Namibia 63

Image courtesy of Tsogo Sun

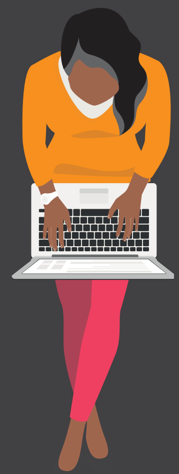
1 Key trends

The growing tendency toward valuing experiences over possessions, particularly by millennials, will benefit the hospitality industry in Africa

Governments are taking steps to enhance their MICE (meetings, incentives, conferences and exhibitions) infrastructure to attract more business tourists

Improvements in air connectivity will expand intra-Africa and international tourism

A development in recent years has been the growing preference by consumers for memorable experiences and waning demand for material possessions. The hospitality industry in the five countries analysed here are well-positioned to benefit from this trend as each country offers opportunities for unique experiences. Wildlife, safaris and adventure will attract visitors, which will have a positive impact on tourism.



While Africa is already an established adventure destination, governments are increasingly looking at the business market to boost tourism. To this end governments have set up agencies to more aggressively promote their countries as MICE destinations. They are also stepping up bidding for conferences and events and encouraging the enhancement of their MICE infrastructure. Efforts in this area are expected to lead to growth in business tourism.

An impediment to tourism is limited air connectivity. This has been easing as flights have been added, capacity increased, and direct non-stop flights to key cities have been introduced. The increase in airline capacity has also made domestic flying in some countries less expensive, stimulating domestic tourism. Added airline capacity will allow burgeoning demand to translate into growing tourism.

2 Overview

Image courtesy of Tsogo Sun

Overall room revenue in South Africa, Nigeria, Mauritius, Kenya and Tanzania rose 7.4% in 2018, up from the 1.9% increase in 2017, principally reflecting a 28 percentage point turnaround in Kenya, a 15.4 percentage point turnaround in Tanzania, as well as a 7.2 percentage point improvement in Nigeria. Mauritius continued to grow at double-digit rates in 2018 but room revenue growth in South Africa fell to only 0.5%.

The hotel market in Kenya benefited from an increasing number of foreign tourists as travel advisories were lifted and the country enjoyed a period of peace and security. In Tanzania, the impact of the 18% VAT on tourist services and rising visa costs for business visitors that hurt the market in 2017 was largely absorbed in 2018 and guest nights rebounded. Nigeria was helped by a pickup in the economy during the latter part of the year and an increase in guest nights.

Nigeria, Kenya and Mauritius had the fastest-growing markets with increases of 20.0%, 14.6%, and 11.7%, respectively, in 2018. Growth in Mauritius was due to a large increase in ADR that offset a drop in guest nights.

In Nigeria, the growth in guest nights, helped by an improvement in the economy following a weak first quarter, drove revenue in 2018.

In South Africa, concerns about the water shortage in Cape Town contributed to a drop in guest nights and slower growth in ADR, continuing the trend from 2017.

During the next five years we expect Nigeria to be the fastest-growing market with a projected 12.0% compound annual increase. A number of new hotels are scheduled to open in the next five years, which will accommodate further growth in guest nights, without putting upward pressure on ADR.

We project Tanzania and Kenya to be the next fastest growing with compound annual increases of 8.2% and 7.4%, respectively. Increased room capacity, a strong economy, growth in tourism from India and China, and Tanzania's appeal as an exotic destination will fuel growth over the next five years.

In Kenya, the period of peace and security was interrupted in early 2019 by a terrorist attack that may lead to a drop in tourism and guest nights in 2019. Thereafter, assuming confidence in overall security is not impacted, Kenya's appeal as an adventure destination, with more flights, and new hotels will continue to grow.

The growth in the Mauritian market has been principally fuelled by growth in ADR. We expect that with new hotels entering the market, following the end of the moratorium on hotel development, price pressure will ease and we project slower growth in ADR.

We project South Africa to be the slowest-growing market with a 3.3% compound annual increase in room revenue. This relatively modest increase will reflect the expectation of low ADR growth, as growth in online booking and the increasing use of travel sites that promotes price shopping. At the same time, we look for an improvement in guest night growth as tourism increases during the latter part of the forecast period.

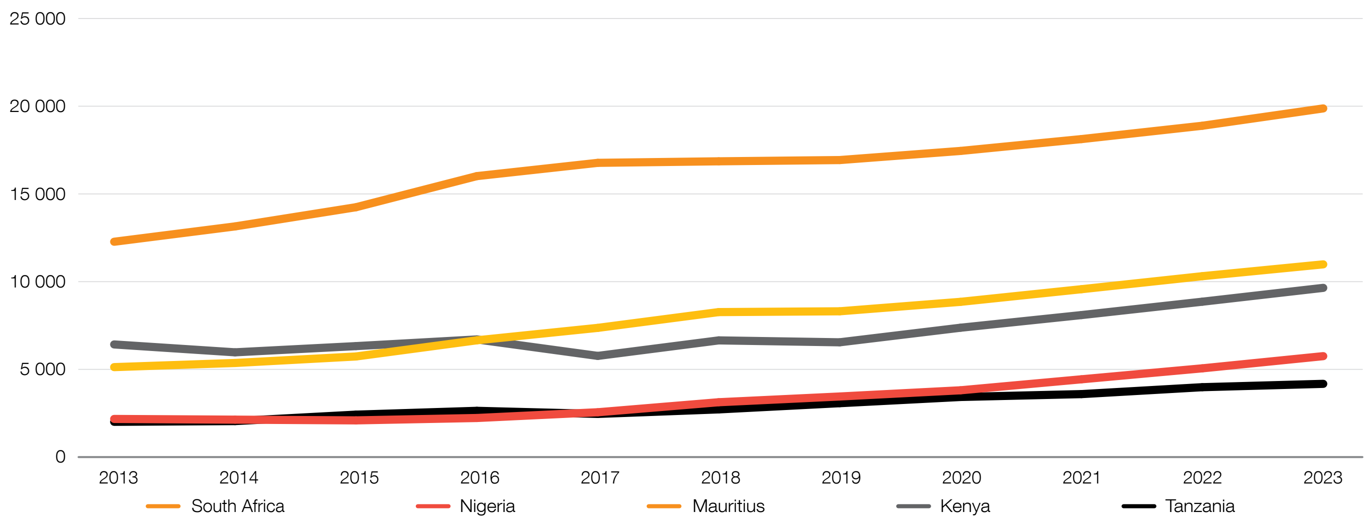
Hotel room revenue for the five markets as a group will increase at a 5.8% compound annual rate to R50.6 billion in 2023 from R38.1 billion in 2018.

Hotel room revenue in South Africa, Nigeria, Mauritius, Kenya and Tanzania (R millions)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2019-23 CAGR
South Africa	12 249	13 100	14 165	15 892	16 629	16 714	16 783	17 290	17 947	18 688	19 650	
% change	*14.6*	*6.9*	*8.1*	*12.2*	*4.6*	*0.5*	*0.4*	*3.0*	*3.8*	*4.1*	*5.1*	*3.3*
Nigeria	2 412	2 373	2 333	2 465	2 784	3 340	3 658	4 003	4 613	5 222	5 898	
% change	*8.3*	*-1.6*	*-1.7*	*5.7*	*12.9*	*20.0*	*9.5*	*9.4*	*15.2*	*13.2*	*12.9*	*12.0*
Mauritius	5 289	5 519	5 880	6 778	7 468	8 344	8 388	8 913	9 614	10 337	10 994	
% change	*-8.7*	*4.3*	*6.5*	*15.3*	*10.2*	*11.7*	*0.5*	*6.3*	*7.9*	*7.5*	*6.4*	*5.7*
Kenya	6 548	6 111	6 455	6 826	5 912	6 773	6 667	7 476	8 178	8 921	9 689	
% change	*-2.6*	*-6.7*	*5.6*	*5.7*	*-13.4*	*14.6*	*-1.6*	*12.1*	*9.4*	*9.1*	*8.6*	*7.4*
Tanzania	2 253	2 293	2 651	2 863	2 691	2 943	3 287	3 632	3 791	4 175	4 361	
% change	*11.1*	*1.8*	*15.6*	*8.0*	*-6.0*	*9.4*	*11.7*	*10.5*	*4.4*	*10.1*	*4.5*	*8.2*
Total hotel revenue	**28 751**	**29 396**	**31 484**	**34 824**	**35 484**	**38 114**	**38 783**	**41 314**	**44 143**	**47 343**	**50 592**	
% change	***4.7***	***2.2***	***7.1***	***10.6***	***1.9***	***7.4***	***1.8***	***6.5***	***6.8***	***7.2***	***6.9***	***5.8***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

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



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

3 South Africa

Key trends

- **Online travel sites are allowing visitors to become more price conscious, which will dampen ADR growth.**
- **South Africa is becoming more aggressive in bidding for MICE business, supporting growth in international tourism.**
- **Growth in domestic tourism and adventure tourism will benefit mid-market hotels appealing to millennials.**
- **Airbnb growth will compete at the low end of the market but will not have much of an impact at the high end.**

Google travel estimates that 74% of travellers plan and book their trips online where price comparisons are easy to obtain, allowing travellers to reduce the cost of their trips. As the Internet allows for easy price comparisons and late switching when free cancellation is an option, consumers are encouraged to price shop and hold back on advance billings in order to take advantage of late deals.

This continued pressure on pricing of rooms and the increase in room supply has affected the average daily rate (ADR). Between 2012 and 2016, ADR growth averaged 7.9% compounded annually. In 2017, ADR growth dropped to 3.9% and in 2018 the average room rate edged up only 1.2%. We expect ADR growth to remain modest over the forecast period.

South Africa is already established as the leading convention destination in Africa led by Cape Town, which is among top-50 conventions cities in the world. Cape Town is also known as the Events Capital of Africa. Nevertheless, the South Africa National Convention Bureau sees opportunities for improvement and in 2016 established a Bidding Support Programme to help attract conventions to South Africa. Over the April 2017 to March 2018 period, South Africa submitted 94 bids for conventions. An expanding MICE (meetings, incentives, conferences and exhibitions) sector will contribute to growth in international tourism.

Domestic tourism was up in 2018, helped by greater competition among airlines, which is lowering the cost of travel. According to a study by GfK South Africa, 50% of South Africans would select spending money on a memorable experience over acquiring possessions. The trend toward valuing experiences over possessions is benefiting South Africa which offers attractions such as the V&A Waterfront, which attracted 1.2 million visitors in 2018, Cape Point, which was visited by 940 000 visitors, and Table Mountain, where nearly 800 000 visited in 2018. The Kruger Park, Apartheid Museum, Robben Island, Mandela House and Constitution Hill also attracted more than 100 000 visitors in 2018. The increase in youth travel will principally benefit mid-market hotels and we project three-star hotels to be the fastest growing category over the next five years, bearing in mind that Airbnb will also be attractive to this market group.

The Airbnb market has been growing rapidly in South Africa in recent years. In Cape Town, for example, Airbnb rentals increased from around 10 000 in 2015 to around 40 000 in 2018. Some guest houses are also using Airbnb as another distribution channel. It does not appear, however, that this increase has come at the expense of hotels in Cape Town. It is believed that much of the Airbnb traffic occurs at peak periods when hotels are full. Hotels also tend to be in prime locations and offer amenities such as spas, swimming pools, and restaurants that are not available at Airbnb locales. For these reasons, an expanding Airbnb market is not likely to have a significant impact on four- and five-star hotels. At the lower end of the market, however, moderately priced hotels will face growing competition from Airbnb outlets.

The economy

The South African economy weakened in 2018 with real GDP edging up only 0.8%, down from the 1.4% rise in 2017, which was itself a lacklustre performance. The economy continued to falter in early 2019 and we expect economic growth to drop to 0.4% for the year as a whole. We then expect modest improvements but the economy will remain sluggish. Growth for the entire forecast period will average an estimated 1.1% compounded annually, matching the 2014-18 period.

Consumer price inflation moderated to 4.7% in 2018, down from increases of 6.4% and 5.3%, respectively, in 2016 and 2017. With the economy remaining relatively weak, we look for inflation to drop to 4.0% in 2019. Then, as economic growth picks up a bit, we look for inflation to pick up as well, although price increases will remain moderate compared with recent years. For the forecast period as a whole, we project consumer price inflation to average 4.4% compounded annually.

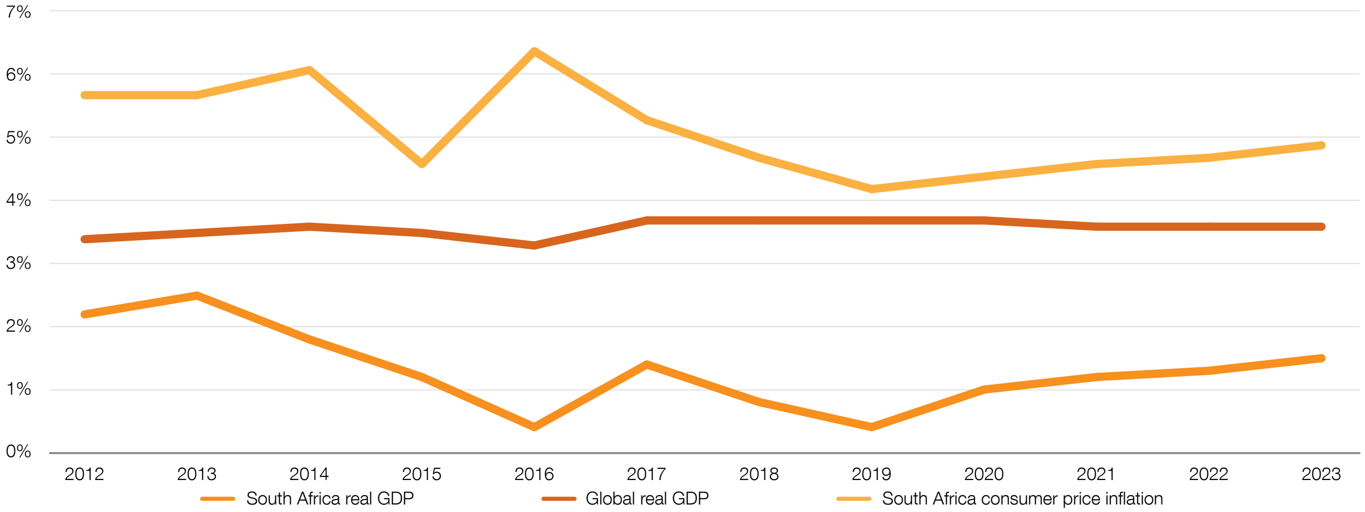
Image courtesy of Sun International

Real GDP growth and consumer price inflation (%)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2019-23 CAGR
South Africa real GDP	2.2	2.5	1.8	1.2	0.4	1.4	0.8	0.4	1.0	1.2	1.3	1.5	1.1
Global real GDP	3.4	3.5	3.6	3.5	3.3	3.7	3.7	3.7	3.7	3.6	3.6	3.6	3.6
South Africa consumer price inflation*	5.7	5.7	6.1	4.6	6.4	5.3	4.7	4.2	4.4	4.6	4.7	4.9	4.6

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

Figure 2: Real GDP growth and consumer price inflation (%)



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

Tourist arrivals

Growth in foreign tourism dropped to 1.7% in 2018, down from the 2.4% gain in 2017 and the 12.8% increase in 2016. The slowdown in large part reflected concerns about the drought in Cape Town and the possible approach of Day Zero when Cape Town would run out of water. It turned out that citizens of Cape Town did a remarkable job in conserving water, reducing city usage per day to 507 million litres in 2018 from 600 million litres in 2017. That effort, together with the good rains in 2018 helped avert Day Zero, however the drop in tourist numbers was felt throughout the rest of 2018 and early 2019.

The rainy season in 2018 produced good rainfall and reservoirs have risen to 70% capacity. Although the threat of a Day Zero has been alleviated, we don't expect a rebound in foreign tourism in 2019.

Another development in 2018 was the increase in tourism from Africa, which offset declines from Europe and Asia-Pacific. More flights and visa waivers that went into effect in late 2017 made it easier for people in the rest of Africa to visit South Africa. The number of visitors from Africa rose 3.0% in 2018, while visits from Europe fell 2.5% and Asia-Pacific was down 1.9%. Declines from the UK, Germany, France and the Netherlands contributed to the drop from Europe, while India, China, and Australia posted decreases from Asia-Pacific.

On a percentage basis, Latin America recorded the largest increase with an 8.3% advance, while visits from North America edged up 1.5%.

Foreign overnight visitors by continent

	2017	2018	% change
Africa	7 559 342	7 786 357	3.0
Europe	1 660 848	1 618 762	-2.5
Asia-Pacific	450 894	442 330	-1.9
North America	437 903	444 671	1.5
Latin America	107 582	116 516	8.3
Middle East	55 906	49 867	-10.8
Unspecified	12 722	13 602	6.9
Total	**10 285 197**	**10 472 105**	**1.8**

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

Of the top ten non-African countries, Brazil recorded the largest percentage increase with a 4.0% gain and visitors from the United States and Canada rose 1.7% and 0.9%, respectively. The remaining countries among the top ten all declined in 2018.

Foreign overnight visitors from top-ten non-African sources of travel to South Africa

	2017	2018	% change
United Kingdom	447 901	430 708	-3.8
United States	370 747	376 892	1.7
Germany	349 211	343 229	-1.7
France	196 165	186 251	-5.1
Netherlands	159 621	146 925	-8.0
Australia	116 257	115 846	-0.4
China	97 271	96 915	-0.4
India	97 921	93 428	-4.6
Brazil	67 797	70 539	4.0
Canada	67 156	67 779	0.9

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

Image courtesy of Tsogo Sun

Of the African countries, the largest number of foreign visitors to South Africa in 2018 came from Zimbabwe at 2.2 million, followed by Lesotho at 1.7 million and Mozambique at 1.4 million. Of the visitors from the Southern African Development Community (SADC) countries, Lesotho, Namibia, Zambia, Tanzania and Seychelles each recorded declines in 2018. Angola, DRC, and Malawi each recorded double-digit increases in 2018 with Zimbabwe up 8.3%. The total number of visitors from the SADC countries rose 3.0%.

Foreign overnight visitors to South Africa from SADC countries

	2017	2018	% change
Zimbabwe	2 039 932	2 208 930	8.3
Lesotho	1 747 211	1 739 188	-0.5
Mozambique	1 339 245	1 360 896	1.6
Swaziland	876 992	883 735	0.8
Botswana	681 379	688 566	1.1
Namibia	208 747	200 367	-4.0
Malawi	175 014	197 317	12.7
Zambia	173 033	165 968	-4.1
Angola	49 299	64 859	31.6
Tanzania	36 306	36 473	0.5
DRC	29 675	35 356	19.1
Mauritius	19 528	19 928	2.0
Seychelles	8 152	6 091	-25.3
Madagascar	2 446	2 571	5.1
Total SADC	**7 386 959**	**7 610 245**	**3.0**

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

Visits from East and Central Africa fell 1.3% in 2018 as the market was characterised by large swings, both positive and negative. Double-digit decreases from Gabon, Congo, Djibouti and Réunion, offset double-digit increases from Rwanda, Comoros, Central African Republic, and São Tomé and Príncipe, while visits from Somalia nearly tripled in 2018. Kenya, the leading source of visitors to South Africa from that region, rose 0.9% in 2018.

Foreign overnight visitors to South Africa from East and Central Africa

	2017	2018	% change
Kenya	28 944	29 193	0.9
Uganda	14 097	13 686	-2.9
Ethiopia	8 598	9 031	5.0
Gabon	7 982	6 388	-20.0
Cameroon	5 094	5 098	0.1
Congo	3 364	2 716	-19.3
Rwanda	947	1 068	12.8
Burundi	878	816	-7.1
Eritrea	665	680	2.3
Somalia	566	1 536	171.4
Equatorial Guinea	450	407	-9.6
Chad	343	328	-4.4
Comoros	219	295	34.7
Central African Republic	147	167	13.6
Djibouti	129	100	-22.5
São Tomé and Príncipe	72	113	56.9
Réunion	68	24	-64.7
Total East and Central Africa	**72 563**	**71 646**	**-1.3**

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

On a percentage basis, visits from West Africa recorded the largest gain in 2018 with a 6.3% increase. Nigeria, the largest source of visitors to South Africa from that area, rebounded in 2018 with a 5.6% increase. Ghana was up 18.6% and Côte D'Ivoire rose 9.7%. Visa problems that curtailed visits in 2017 were largely alleviated in 2018.

Foreign overnight visitors to South Africa from West Africa

	2017	2018	% change
Nigeria	50 921	53 769	5.6
Ghana	17 705	20 999	18.6
Senegal	2 609	2 360	-9.5
Côte D'Ivoire	2 457	2 696	9.7
Benin	1 707	1 520	-11.0
Mali	1 572	1 418	-9.8
Guinea	1 539	1 572	2.1
Burkina Faso	773	707	-8.5
Liberia	695	671	-3.5
Sierra Leone	695	659	-5.2
Cape Verde Island	595	367	-38.3
Gambia	581	509	-12.4
Togo	553	600	8.5
Niger	328	320	-2.4
Mauritania	248	212	-14.5
Saint Helena	243	136	-44.0
Guinea-Bissau	152	147	-3.3
Total West Africa	**83 373**	**88 662**	**6.3**

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

Visits from North Africa fell 3.9% in 2018, principally reflecting an 8.3% decline from Egypt.

Foreign overnight visitors to South Africa from North Africa

	2017	2018	% change
Egypt	8 500	7 798	-8.3
Sudan	2 107	2 206	4.7
Morocco*	1 704	1 925	13.0
Algeria	1 202	1 083	-9.9
Tunisia	1 146	1 026	-10.5
Libya	956	898	-6.1
South Sudan	832	868	4.3
Total North Africa	**16 447**	**15 804**	**-3.9**

**Including Western Sahara*
Sources: Statistics South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Despite Day Zero no longer being a concern, foreign tourism declined in the first quarter of 2019 and we expect it will remain weak through the year with a 0.2% decrease. We then look for foreign tourism to rebound beginning in 2020 with gains in excess of 3% annually in subsequent years, boosted by growth in MICE tourism, competitive pricing, and South Africa's ongoing appeal as an experience destination.

For the forecast period as a whole, foreign tourism will increase at an estimated 2.9% compounded annually to 12.1 million in 2023 from 10.5 million in 2018.

Domestic tourism rose 4.6% in 2018, up from the 4.2% increase in 2017 and the largest gain during the past five years, helped by the cost of domestic travel coming down as flights have been added. Going forward, a somewhat healthier economy will have a positive impact on domestic tourism. We expect the recent trend in domestic travel to continue with a projected 4.7% compound annual increase over the next five years. The number of domestic travellers will rise to an estimated 7.50 million in 2023 from 5.97 million in 2018.

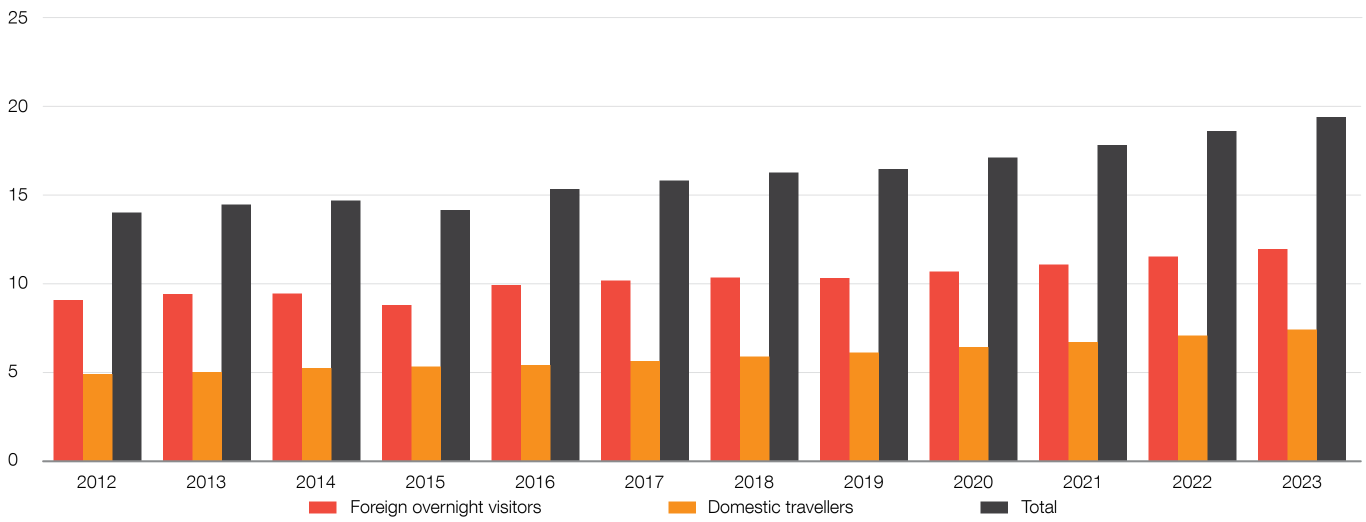
The total number of travellers in South Africa will reach a projected 19.60 million by 2023, a 3.6% compound annual increase from 16.44 million in 2018.

Travel and tourism to South Africa (millions)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2019-23 CAGR
Foreign overnight visitors	9.19	9.53	9.55	8.9	10.04	10.29	10.47	10.45	10.8	11.2	11.65	12.1	
% change	*10.2*	*3.7*	*0.2*	*-6.8*	*12.8*	*2.5*	*1.7*	*-0.2*	*3.3*	*3.7*	*4*	*3.9*	*2.9*
Domestic travellers	4.97	5.09	5.31	5.4	5.48	5.71	5.97	6.2	6.5	6.8	7.15	7.5	
% change	*-8.5*	*2.4*	*4.3*	*1.7*	*1.5*	*4.2*	*4.6*	*3.9*	*4.8*	*4.6*	*5.1*	*4.9*	*4.7*
Total	**14.16**	**14.62**	**14.86**	**14.3**	**15.52**	**16**	**16.44**	**16.65**	**17.3**	**18**	**18.8**	**19.6**	
% change	***2.8***	***3.2***	***1.6***	***-3.8***	***8.5***	***3.1***	***2.8***	***1.3***	***3.9***	***4***	***4.4***	***4.3***	***3.6***

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

Figure 3: Domestic and foreign visitors, 2012-2023 (millions)



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

Recent developments

Guest nights dipped 0.7% in 2018, principally reflecting a decline in visitors to Cape Town due to the drought, although Johannesburg and Durban also recorded modest declines. We expect guest nights to stabilize in 2019 and to grow at somewhat faster rates in subsequent years as tourist arrivals pick up. For the forecast period as a whole, we look for the number of guest nights to increase at a 1.8% compound annual rate.

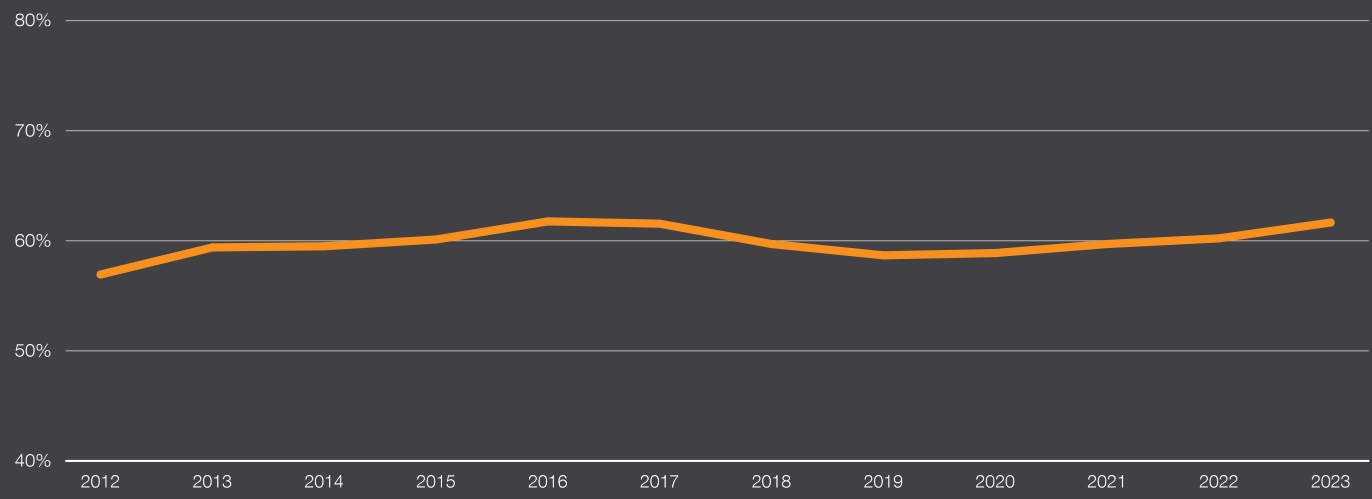
The number of available rooms rose 2.3% in 2018, the largest increase during the past six years. This increase was the result of a full-year's benefit of the 13 hotels that opened in 2017, including three Radisson hotels, two Sun International hotels, an AHA, a StayEasy and Sun Square by Tsogo Sun, an Onomo and The Silo Hotel, among others. There were eight additional hotels that opened in 2018, including a Marriott, a Sun International, and an Onomo hotel.

While we do not expect this frenzied pace to be maintained, there are still a number of planned openings in the next five years, which include three Marriott branded hotels, two ibis and two Novotel hotels, as well as Radisson, Hilton, Mantis, Protea by Marriott and Pullman hotels.

We expect the overall number of available rooms to increase at a 1.2% compound annual rate to 67 200 in 2023 from 63 400 in 2018.

With guest nights projected to grow faster than available rooms, the occupancy rate for hotels will increase to a projected 61.1% in 2023 from 59.2% in 2018.

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



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

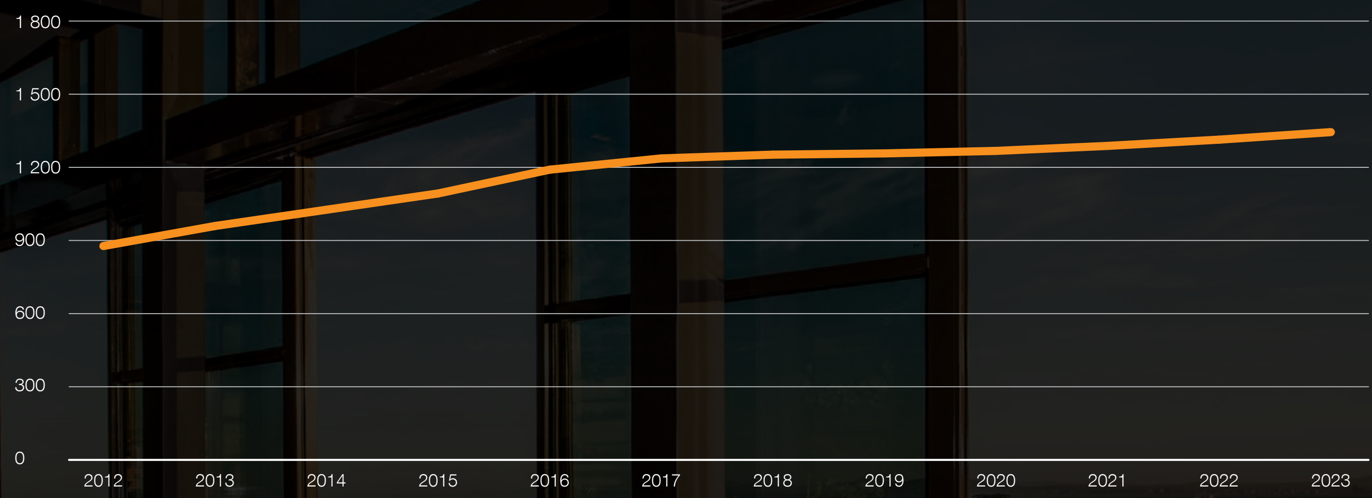
Image courtesy of Tsogo Sun

Hotels are seeing bookings made closer to the time of arrival, facilitated by online travel sites, with tourists able to get better rates in the process. In some cases, this leads to cancellations and switching to better last-minute deals. This trend will continue, putting continued pressure on overall average pricing. ADR rose only 1.2% in 2018, hurt by a drop in the occupancy rate.

Growth in available rooms during the next two years will hold down occupancy rates and in turn will lead to ADR increases of less than 1% annually during the next two years. Thereafter, as the occupancy approaches and exceeds 60%, we look for somewhat faster growth in ADR.

The average room rate will rise from R1 220 in 2018 to a projected R1 310 in 2023, a 1.4% compound annual increase.

Figure 5: Average room rates, 2012–2023 (R)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Image courtesy of Tsogo Sun

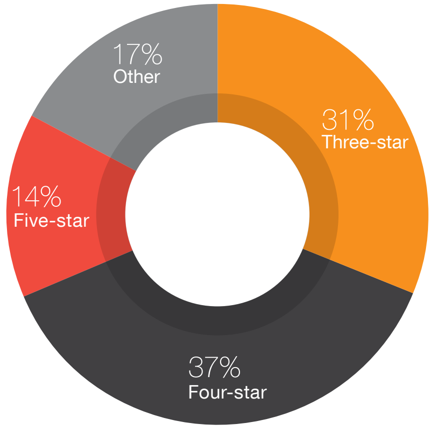
Hotel room revenue rose only 0.5% in 2018, its smallest increase during the past six years. We expect growth to pick up beginning in 2019 and to average 3.3% compounded annually through 2023.

Hotels in South Africa

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2019-23 CAGR
Available rooms (thousands)	60.4	60.9	60.8	61.1	61.2	62	63.4	64.5	65.5	66.2	67	67.2	
% change	*-0.2*	*0.8*	*-0.2*	*0.5*	*0.2*	*1.3*	*2.3*	*1.7*	*1.6*	*1.1*	*1.2*	*0.3*	*1.2*
Guest nights (millions)	12.5	13.1	13.1	13.3	13.7	13.8	13.7	13.7	14	14.3	14.6	15	
% change	*6.8*	*4.8*	*0*	*1.5*	*3*	*0.7*	*-0.7*	*0*	*2.2*	*2.1*	*2.1*	*2.7*	*1.8*
Occupancy rates (%)	56.5	58.9	59	59.6	61.2	61	59.2	58.2	58.4	59.2	59.7	61.1	
ADR (R)	855	935	1 000	1 065	1 160	1 205	1 220	1 225	1 235	1 255	1 280	1 310	
% change	*4.3*	*9.4*	*7*	*6.5*	*8.9*	*3.9*	*1.2*	*0.4*	*0.8*	*1.6*	*2*	*2.3*	*1.4*
Total room revenue (R millions)	**10 688**	**12 249**	**13 100**	**14 165**	**15 892**	**16 629**	**16 714**	**16 783**	**17 290**	**17 947**	**18 688**	**19 650**	
% change	***11.4***	***14.6***	***6.9***	***8.1***	***12.2***	***4.6***	***0.5***	***0.4***	***3***	***3.8***	***4.1***	***5.1***	***3.3***

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

Figure 6: Total room revenue by category, 2018



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Image courtesy of Tsogo Sun

Three-star hotels

Three-star hotels accounted for 36% of all available hotel rooms in South Africa and 31% of total hotel room revenue. The ADR of R980 in 2018 was 18% below the overall average rate of R1 220 for all hotels.

Guest nights for three-star hotels fell 1.9% in 2018, reversing the gain achieved in 2017. With ADR rising a bit faster at 2.0%, room revenue edged up 0.1%.

We expect much of the overall growth in the market over the next five years to be generated by three-star and economy hotels. While three-star hotels accounted for 31% of total room revenue in 2018, we project they will generate 41% of the overall increase in room revenue during the next five years.

Guest nights will grow at a projected 1.9% compound annual rate as this segment of the market attracts millennials and economy-minded tourists. The number of available rooms will increase at a 0.9% annual rate, resulting in an increase in the occupancy rate to 65.9% in 2023 from 62.8% in 2018.

The ADR will rise to a projected R1 125 in 2023, growing at a 2.4% compound annual rate. Room revenue in three-star hotels will expand at a projected 4.3% compound annual rate to R6.4 billion in 2023 from R5.2 billion in 2018.

Three-star hotels in South Africa

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2019-23 CAGR
Available rooms (thousands)	21.6	21.7	21.7	21.9	22	22.2	22.7	22.9	22.9	23.2	23.6	23.7	
% change	*0*	*0.5*	*0*	*0.9*	*0.5*	*0.9*	*2.3*	*0.9*	*0*	*1.3*	*1.7*	*0.4*	*0.9*
Guest nights (millions)	4.8	5	5	5.1	5.2	5.3	5.2	5.2	5.3	5.4	5.5	5.7	
% change	*6.7*	*4.2*	*0*	*2*	*2*	*1.9*	*-1.9*	*0*	*1.9*	*1.9*	*1.9*	*3.6*	*1.9*
Occupancy rates (%)	60.7	63.1	63.1	63.8	64.6	65.4	62.8	62.2	63.2	63.8	63.8	65.9	
ADR (R)	730	800	855	900	950	980	1 000	1 015	1 035	1 060	1 090	1 125	
% change	*5.8*	*9.6*	*6.9*	*5.3*	*5.6*	*3.2*	*2*	*1.5*	*2*	*2.4*	*2.8*	*3.2*	*2.4*
Total room revenue (R millions)	**3 504**	**4 000**	**4 275**	**4 590**	**4 940**	**5 194**	**5 200**	**5 278**	**5 486**	**5 724**	**5 995**	**6 413**	
% change	***12.9***	***14.2***	***6.9***	***7.4***	***7.6***	***5.1***	***0.1***	***1.5***	***3.9***	***4.3***	***4.7***	***7***	***4.3***

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

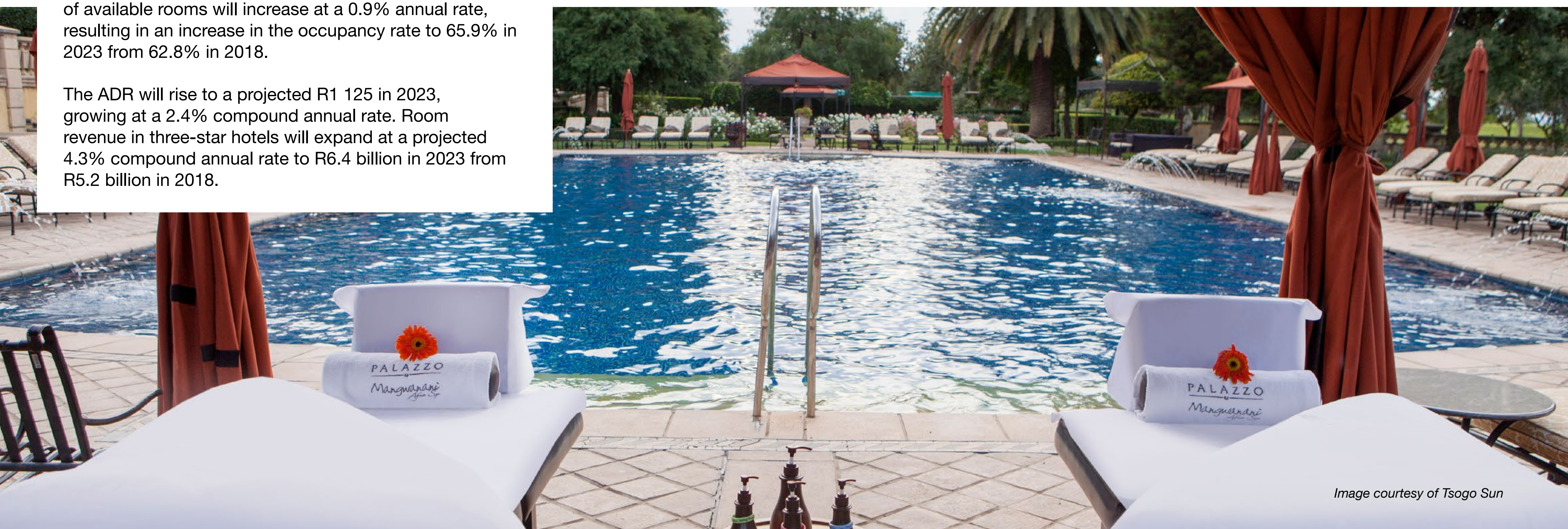
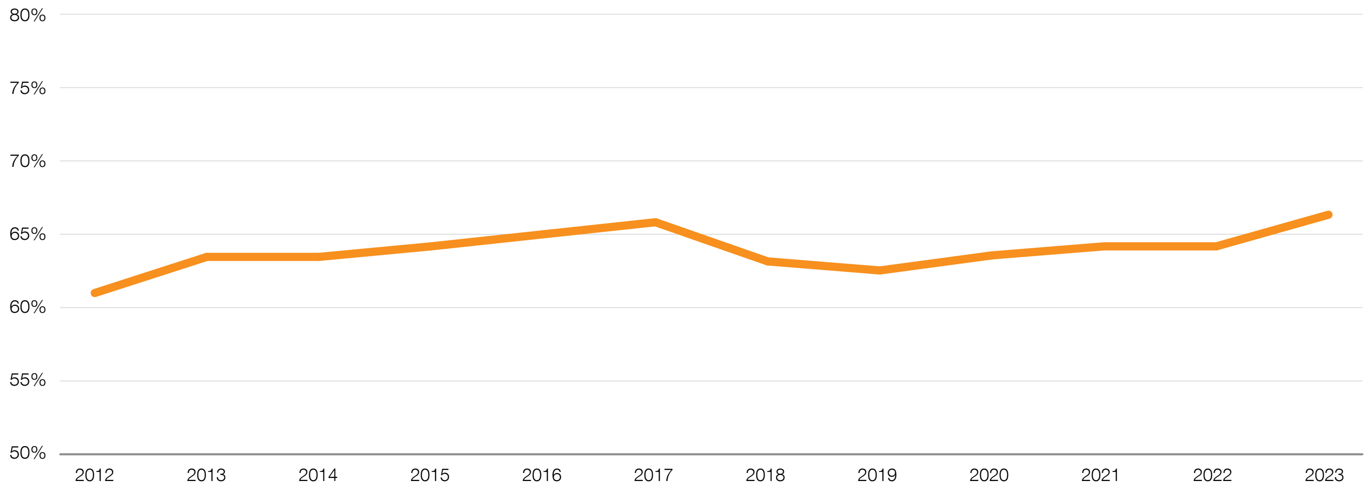


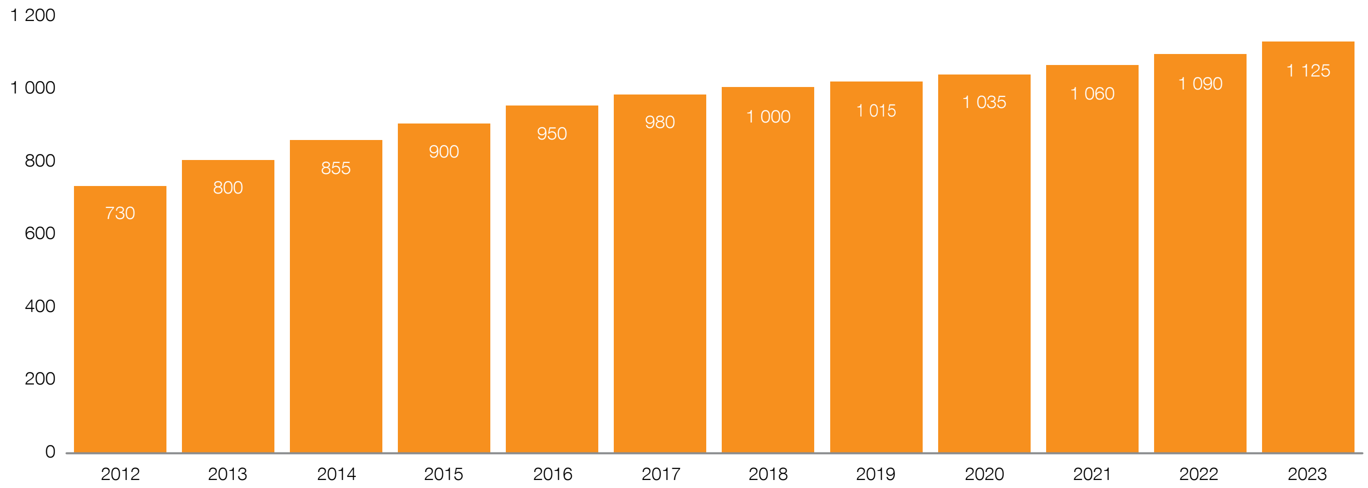
Image courtesy of Tsogo Sun

Figure 7: Three-star hotels: occupancy rates (%)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 8: Three-star hotels: average room rates (R)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Image courtesy of Tsogo Sun

Four-star hotels

With a number of four-star hotels opening in 2017-18, available rooms increased 3.4%, the largest increase during the past six years. Guest nights rose 2.4%, the only category to post an increase in 2018. This increase, however, did not match growth in available rooms and the occupancy rate dropped to 65.4%. This decrease, combined with the competitive market, including online booking and price shopping, contributed to a sharp slowdown in ADR growth. The average room rate rose only 0.3% in 2018, down from the 3.2% increase in 2017 and well below the 7.3% compound annual increase between 2013 and 2016.

Half of the overall growth in available rooms will be in four-star hotels during the next five years with capacity projected to grow at a 2.0% compound annual rate.

We expect guest nights to be flat in 2019 and then rise in subsequent years as tourism improves, averaging 1.8% compounded annually for the entire forecast period. This increase will be slightly less than growth in available rooms and the occupancy rate will dip to a projected 64.7% in 2023.

We expect ADR growth to remain modest with a projected 1.0% compound annual increase from R1 450 in 2018 to an estimated R1 525 in 2023. Room revenue will increase to R7.2 billion in 2023, growing at a 2.8% compound annual rate from R6.2 billion in 2018.

Four-star hotels in South Africa

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2019-23 CAGR
Available rooms (thousands)	16.6	17.1	17.1	17.1	17.1	17.4	18.0	18.3	19.0	19.4	19.7	19.9	
% change	*-0.6*	*3.0*	*0.0*	*0.0*	*0.0*	*1.8*	*3.4*	*1.7*	*3.8*	*2.1*	*1.5*	*1.0*	*2.0*
Guest nights (millions)	3.6	3.9	3.9	3.9	4.1	4.2	4.3	4.3	4.4	4.5	4.6	4.7	
% change	*9.1*	*8.3*	*0.0*	*0.0*	*5.1*	*2.4*	*2.4*	*0.0*	*2.3*	*2.3*	*2.2*	*2.2*	*1.8*
Occupancy rates (%)	59.3	62.5	62.5	62.5	65.5	66.1	65.4	64.4	63.3	63.6	64.0	64.7	
ADR (R)	1 055	1 140	1 200	1 290	1 400	1 445	1 450	1 455	1 465	1 480	1 500	1 525	
% change	*2.4*	*8.1*	*5.3*	*7.5*	*8.5*	*3.2*	*0.3*	*0.3*	*0.7*	*1.0*	*1.4*	*1.7*	*1.0*
Total room revenue (R millions)	**3 798**	**4 446**	**4 680**	**5 031**	**5 740**	**6 069**	**6 235**	**6 257**	**6 446**	**6 660**	**6 900**	**7 168**	
% change	***11.7***	***17.1***	***5.3***	***7.5***	***14.1***	***5.7***	***2.7***	***0.4***	***3.0***	***3.3***	***3.6***	***3.9***	***2.8***

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

Five-star hotels

Guest nights fell 11.1% in 2018 as concerns about the drought in Cape Town hurt bookings. We expect guest nights to remain stable in 2019 and then return to their 2015-17 levels beginning in 2020.

There haven't been many new five-star hotels opening in recent years and only a small Mantis Collection Lodge is expected during the next five years.

The drop in guest nights in 2018 led to a decline in the occupancy rate to 70.7% from 79.5% in 2017. This, coupled with growth in online booking, and rate cuts by hotels in Cape Town led to a 0.3% decrease in the average room rate for five-star hotels in 2018. This decrease was a sharp turnaround from the 10.7% compound annual ADR increase enjoyed between 2012 and 2017. We expect a further 0.8% drop in ADR in 2019. Then, as the occupancy rate increases with the growth in guest nights beginning in 2020, we project the ADR to again trend upwards, helped by rising tourism and an improving economy.

The average five-star room in 2023 will cost R3 210, up 1.7% on a compound annual basis from R2 950 in 2018. Room revenue will expand at a 4.1% compound annual rate to R2.9 billion in 2023 from R2.4 billion in 2014.

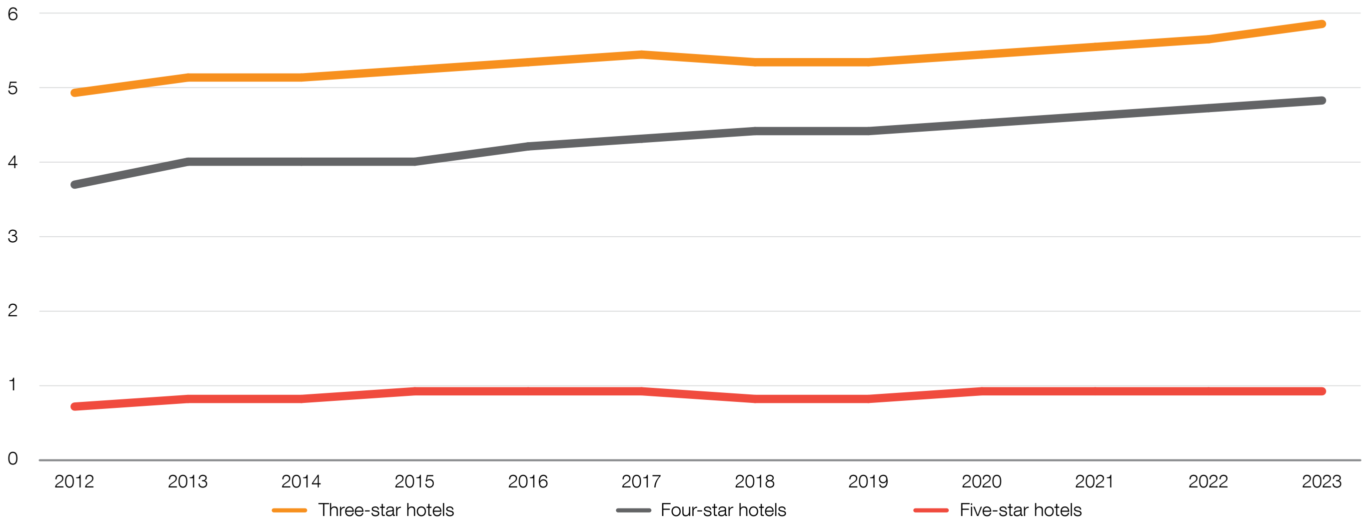
Five-star hotels in South Africa

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2019-23 CAGR
Available rooms (thousands)	3.2	3.2	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	
% change	*0.0*	*0.0*	*-3.1*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Guest nights (millions)	0.7	0.8	0.8	0.9	0.9	0.9	0.8	0.8	0.9	0.9	0.9	0.9	
% change	*16.7*	*14.3*	*0.0*	*12.5*	*0.0*	*0.0*	*-11.1*	*0.0*	*12.5*	*0.0*	*0.0*	*0.0*	*2.4*
Occupancy rates (%)	59.8	68.5	70.7	79.5	79.3	79.5	70.7	70.7	79.3	79.5	79.5	79.5	
ADR (R)	1 780	1 950	2 200	2 370	2 720	2 960	2 950	2 925	2 940	3 000	3 100	3 210	
% change	*1.7*	*9.6*	*12.8*	*7.7*	*14.8*	*8.8*	*-0.3*	*-0.8*	*0.5*	*2.0*	*3.3*	*3.5*	*1.7*
Total room revenue (R millions)	**1 246**	**1 560**	**1 760**	**2 133**	**2 448**	**2 664**	**2 360**	**2 340**	**2 646**	**2 700**	**2 790**	**2 889**	
% change	***18.7***	***25.2***	***12.8***	***21.2***	***14.8***	***8.8***	***-11.4***	***-0.8***	***13.1***	***2.0***	***3.3***	***3.5***	***4.1***

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

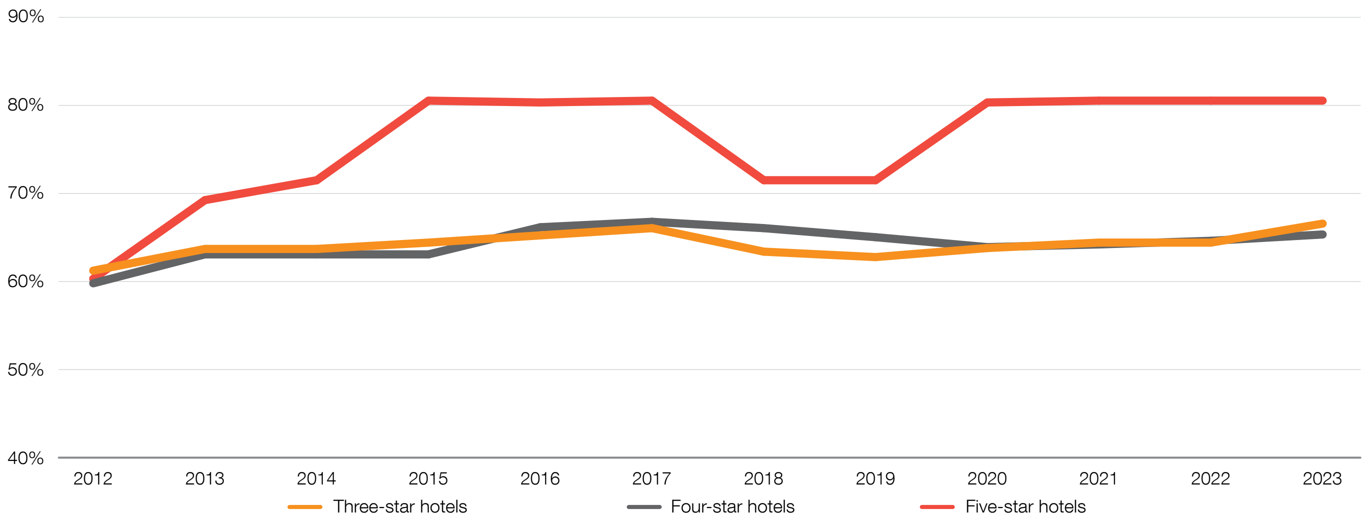
Image courtesy of Tsogo Sun

Figure 9: Guest nights: Three-, four- and five-star hotels



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 10: Occupancy rates: Three-, four- and five-star hotels



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Image courtesy of Tsogo Sun

Cape Town

In absolute terms, most of the decline in total guest nights came from Cape Town as a result of concerns about the drought and an impending Day Zero, which led to a drop in advance bookings. As it turned out, Day Zero was averted and hotels stayed open, but the impact was felt throughout 2018. Declines in both guest nights and ADR led to a drop in room revenue in 2018.

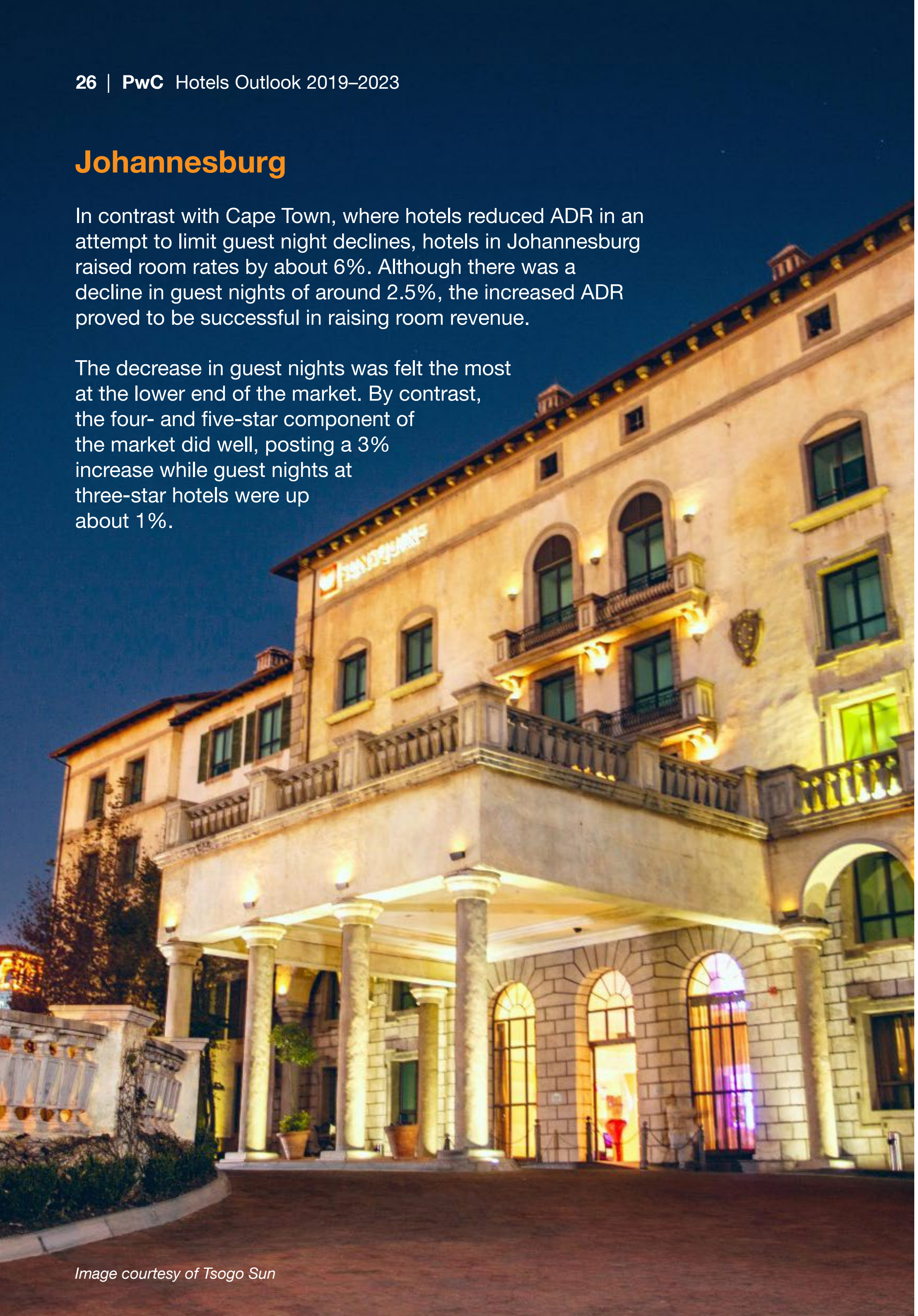
Five-star hotels experienced the largest percentage decline in guest nights with nearly a 4% drop in 2018, likely reflecting concerns among upscale travellers that some of the expected amenities would not be available.

Four-star hotels maintained their guest nights at the same level as in 2017, but overall occupancy was impacted given the increase in the number of available rooms. Overall revenue was down given the nearly 3% decrease in ADR.

Guest nights for three-star hotels were down around 2% in 2018, while ADR was relatively steady.

Guest nights during the 2018-19 festive season increased, with each of the top-three hotel classes in Cape Town having recorded some recoveries, suggesting that Cape Town may have a more positive year in 2019.

Image courtesy of Tsogo Sun



Johannesburg

In contrast with Cape Town, where hotels reduced ADR in an attempt to limit guest night declines, hotels in Johannesburg raised room rates by about 6%. Although there was a decline in guest nights of around 2.5%, the increased ADR proved to be successful in raising room revenue.

The decrease in guest nights was felt the most at the lower end of the market. By contrast, the four- and five-star component of the market did well, posting a 3% increase while guest nights at three-star hotels were up about 1%.

Image courtesy of Tsogo Sun

Durban

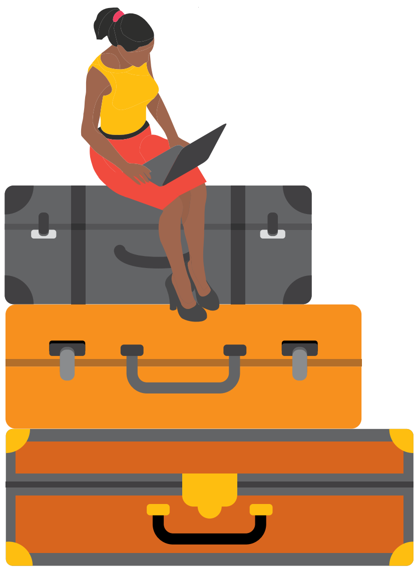
Guest nights were down in Durban in 2018 with a 2% decline. With a nearly 3% increase in ADR, however, room revenue was up slightly.

The hotel market in Durban was improving in early 2019 with guest nights up nearly 6%. With a 4% rise in ADR, it looks like Durban is on track for an improved performance in 2019.

Image courtesy of Tsogo Sun

Looking back: 2018

In last year's Outlook, we forecast the occupancy rate to drop to 59.9% in 2018, but it came in marginally lower at 59.2%. Overall guest nights totalled 13.7 million, also lower than the 13.8 million projection. ADR growth, however, was considerably lower than we anticipated, increasing only 1.2% instead of the 3.3% projected rise. As a result of the slower growth in ADR, total room revenue also grew much more slowly than we predicted, increasing 0.5% compared with the 3.3% projected increase for 2018.



Occupancy

Our occupancy forecast for five-star hotels was higher than actual, but four-star and three-star hotels were within a percentage point of our forecast.

Occupancy: Actual vs forecast results for 2018

	2018 projected occupancy (%)	2018 actual occupancy (%)
Five-star hotels	79.5	70.7
Four-star hotels	65.1	65.4
Three-star hotels	63.6	62.8
All hotels	**59.9**	**59.2**

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

Average room rates

The average room rate declined for five-star hotels, principally reflecting decreases in Cape Town as hotels in the city cut rates to counter concerns about the drought. For the rest of the market, average room rates rose somewhat less than expected.

Average room rates: Actual vs forecast results for 2018 (%)

	2018 projected average room rate growth	2018 actual average room rate growth
Five-star hotels	7.8	-0.3
Four-star hotels	0.7	0.3
Three-star hotels	3.1	2.0
All hotels	**3.3**	**1.2**

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

Guest nights

Guest nights for three- and four-star hotels matched our projection, while five-star hotels slightly underperformed.

Guest nights: Actual vs forecast results for 2018 (millions)

	2018 projected guest nights	2018 actual guest nights
Five-star hotels	0.9	0.8
Four-star hotels	4.3	4.3
Three-star hotels	5.2	5.2
All hotels	**13.8**	**13.7**

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

Total room revenue

As a result of the decline in ADR for five-star hotels, room revenue for the category fell 11.4% in 2018 compared to a 7.8% projected increase. Room revenue growth for the other hotel classes grew less than expected, but the differences were more modest.

Total room revenue: Actual vs forecast results for 2018 (%)

	2018 projected total room revenue growth	2018 actual total room revenue growth
Five-star hotels	7.8	-11.4
Four-star hotels	3.1	2.7
Three-star hotels	1.1	0.1
All hotels	**3.3**	**0.5**

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

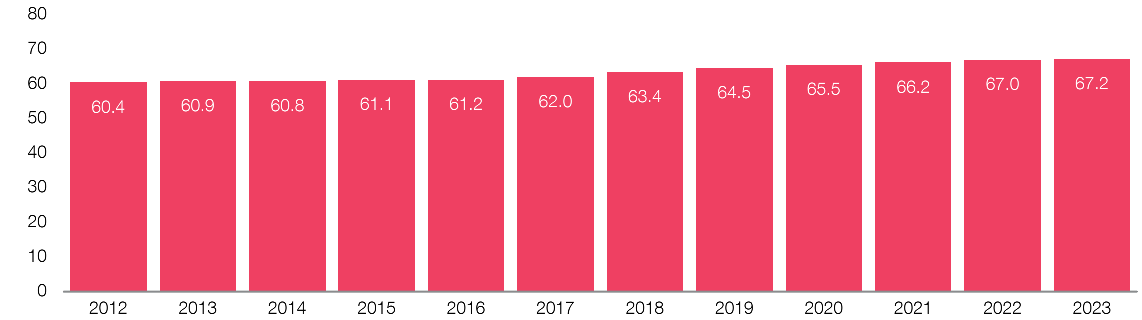
Outlook: 2019–2023

The number of available hotel rooms will rise at a 1.2% compound annual rate to 67 200 in 2023 from 63 400 in 2018.

We project guest nights to increase at a 2.0% compound annual rate to 15 million in 2023 from 13.7 million in 2018, with occupancy increasing to 61.6% in 2023 from 59.2% in 2018.

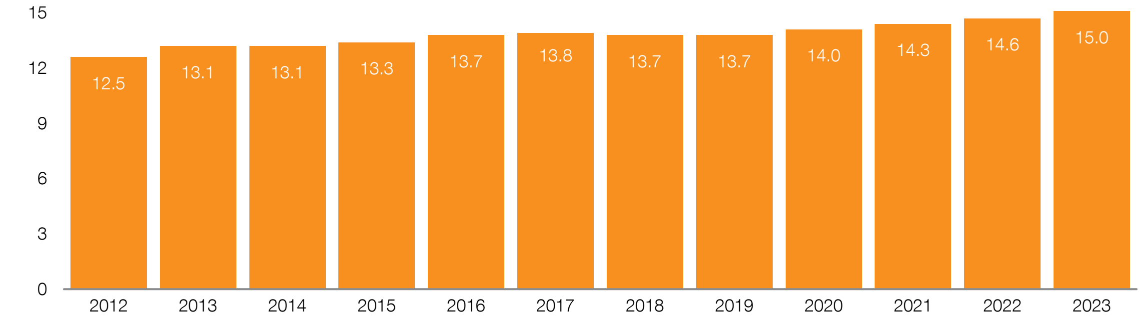
Overall hotel room revenue is expected to expand at a 3.4% compound annual rate to R19.7 billion in 2023 from R16.7 billion in 2018.

Figure 11: Available rooms (thousands)



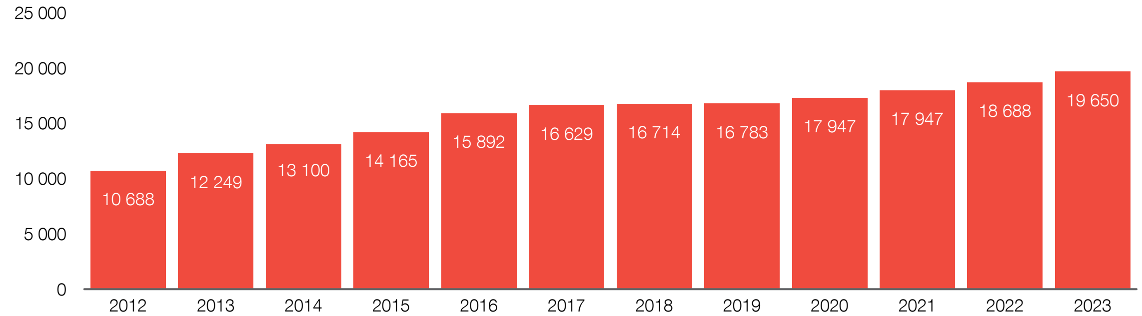
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 12: Guest nights (millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 13: Total room revenue (R millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Tourism Amendment Bill 2019

The Tourism Amendment Bill 2019 was issued in the Government Gazette on 12 April 2019. The Bill's stated aim is to provide for the development and promotion of sustainable tourism for the benefit of South Africa, its residents and its visitors; to provide for the continued existence of the South African Tourism Board, and to regulate the tourist guide profession.

The most controversial aspect of the Bill is its proposal to regulate 'short-term home rentals' under the Tourism Act. This means home-sharing apps such as Airbnb and their hosts may soon be regulated in South Africa.

The proposed legislation would empower the minister of tourism to determine 'thresholds' regarding these short-term home rentals and enforce limits on, for example:

- The number of nights booked through these apps;
- The upper limit on the value of a night stay; or
- The income earned for each Airbnb owner.

The thresholds would apply to 'non-businesses' that do not operate on a full-time basis. The Bill does not specify the exact thresholds that the Act will enforce.

The bill was open for public comment until 11 June.

Image courtesy of Tsogo Sun

4 Nigeria

Key trends

- **Nigeria remains an attractive market for major hotel brands with a strong infrastructure for urban visitors.**
- **The MICE sector will drive guest nights and overall room revenue.**
- **The mid-scale market will present the best opportunities for growth.**

Major hotel brands such as Marriott, Radisson, Hilton, Best Western, Sheraton, Novotel, Westin and Mövenpick are planning new hotels in Nigeria during the next five years. Of the five countries covered in this Outlook, Nigeria will have the largest increase in available rooms by a large margin.

Most of the new hotels will be in Lagos and Abuja as Nigeria has a strong urban infrastructure to accommodate the increase in rooms in those cities. Air traffic between Lagos and Abuja is one of the busiest routes in Africa and the Murtala Muhammed International Airport in Lagos is the fifth busiest in Africa serving more than eight million travellers annually.

Nigeria is primarily a business destination with the MICE (meetings, incentives, conferences and exhibitions) sector being the principal driver. The value of the naira has stabilised, the economy appears to have recovered from the decline in oil prices, and business activity is increasing.

With the country's growing affluence, we expect consumer tourism to become a more important sector. Adventure tourism is becoming more popular and the growing interest in experiences is allowing Nigeria to attract visitors interested in the local culture.

We expect an emerging consumer tourism market to be centred on mid-scale hotels and serviced apartments.

Image courtesy of Tsogo Sun

The economy

The Nigerian economy has experienced sharp up-and-down swings in recent years, reflecting large fluctuations in oil prices as the Nigerian economy is dominated by oil. Real GDP declined in 2016, remained weak in 2017 and plunged by 13.4% in the first quarter of 2018. Since then, however, the economy has picked up, averaging 5.9% real growth during the final three quarters of the year. For 2018 as a whole, real GDP rose 1.9%, which was its strongest performance since 2015.

Economic forecasts are somewhat muted because of the volatility of oil prices. Another decline could quickly lead to a downturn in the economy. Even so, the projected 2.7% compound annual increase in real GDP over the next five years would be an improvement compared with the past few years. As of this writing, economic growth appears to be stronger than that and we expect that there is more of an upside to the forecasts than a downside.

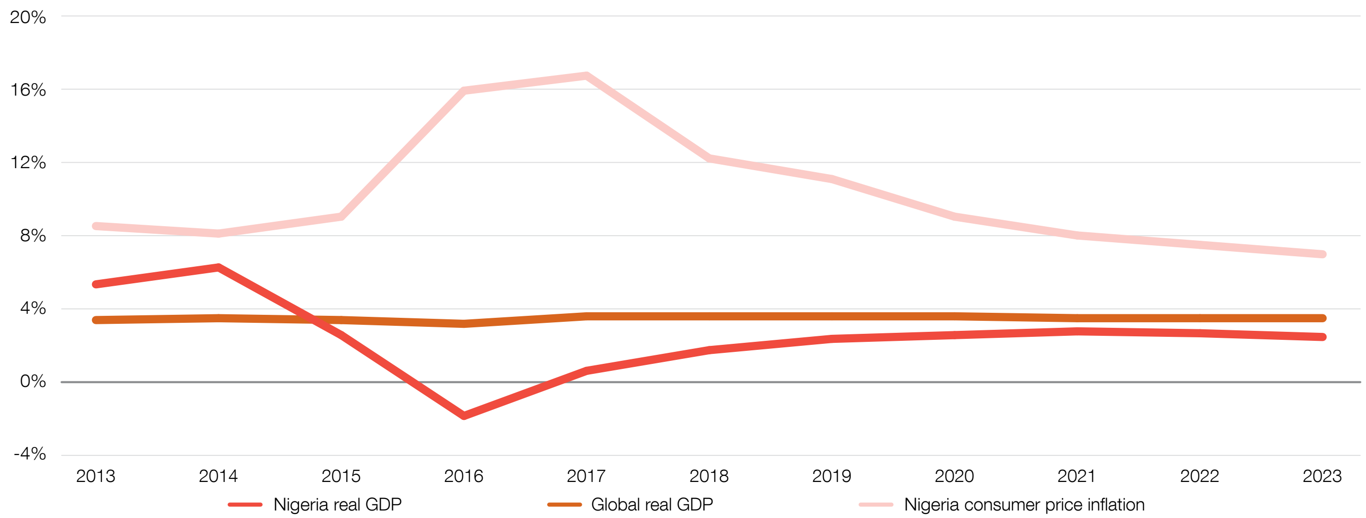
Another positive development is a moderating inflation rate. Consumer price inflation spiked in 2016 and 2017, in large part reflecting a depreciating naira, whose value fell by a cumulative 45% against the US dollar between 2015 and 2017. The weaker naira led to rising import prices and higher overall inflation. In 2018, however, the value of the naira stabilised and inflation dipped to 12.1% from an average of more than 16% annually in 2016-17. While still high, the trend is in the right direction and we expect the inflation rate to continue to fall during the forecast period, averaging 8.5% compounded annually for the 2019-23 period as a whole.

Real GDP growth and consumer price inflation (%)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2019-23 CAGR
Nigeria real GDP	5.4	6.3	2.7	-1.6	0.8	1.9	2.5	2.7	2.9	2.8	2.6	2.7
Global real GDP	3.5	3.6	3.5	3.3	3.7	3.7	3.7	3.7	3.6	3.6	3.6	3.6
Nigeria consumer price inflation*	8.5	8.1	9.0	15.7	16.5	12.1	11.0	9.0	8.0	7.5	7.0	8.5

**Annual averages.*
Sources: International Monetary Fund, World Bank, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 14: Real GDP growth and consumer price inflation (%)



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

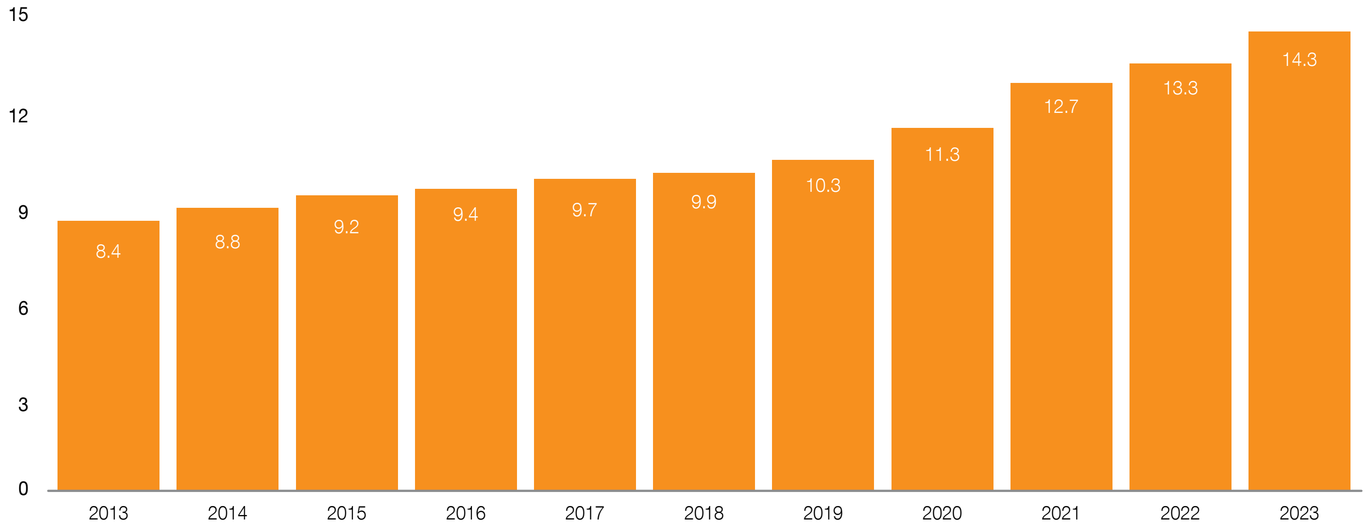
Recent developments

Guest nights rose 12.5% in 2018, the largest increase during the past six years as economic conditions improved and consumer inflation moderated.

The number of available rooms rose 2.1%, which was the smallest increase during the past six years as the uncertain economic climate in 2015-17 discouraged or delayed development.

We expect room capacity to accelerate beginning in 2019 with increases averaging 11% annually in 2020-21 based on current plans. For the forecast period as a whole, we estimate the number of available rooms to increase at a 7.6% compound annual rate to 14 300 in 2023 from 9 900 in 2018, well in excess of increases in any of the other countries analysed in the Outlook.

Figure 15: Available rooms (thousands)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

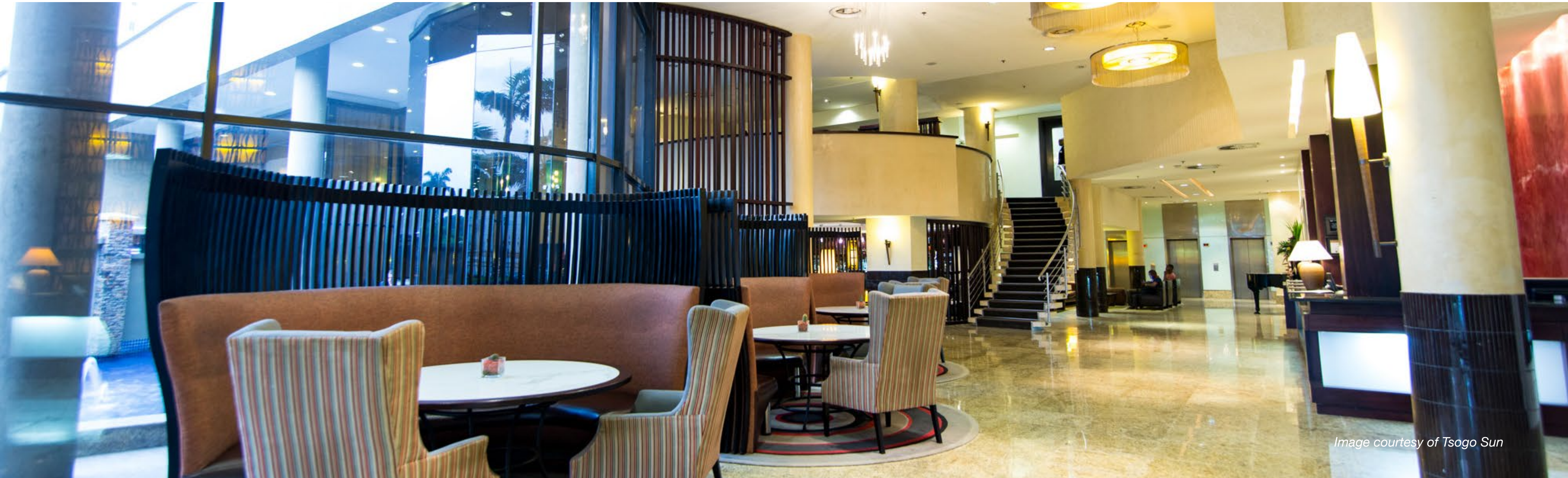
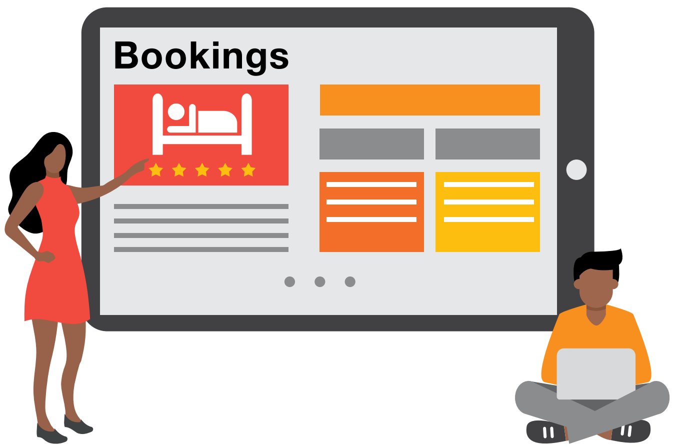


Image courtesy of Tsogo Sun

The ADR rose 6.9% in 2018, the largest increase during the past six years, principally reflecting the smallest increase in available rooms over the same period. Going forward, we expect faster growth in available rooms to keep occupancy rates at around the 50% level, alleviating pressure on room rates and leading to slower growth in ADR, which we project at 4.1% compounded annually.

The combination of faster economic growth and moderating room rate growth should lead to a pickup in guest nights. We project guest nights to increase at a 7.6% compound annual rate, also the highest among the five countries covered in this Outlook.

Room revenue rose 20.0% in 2018, fuelled principally by an increase in guest nights. We expect growth in guest nights to remain the principal driver, but moderating growth in both guest nights and ADR will result in a slower, but still robust, 12.0% compound annual increase in room revenue.

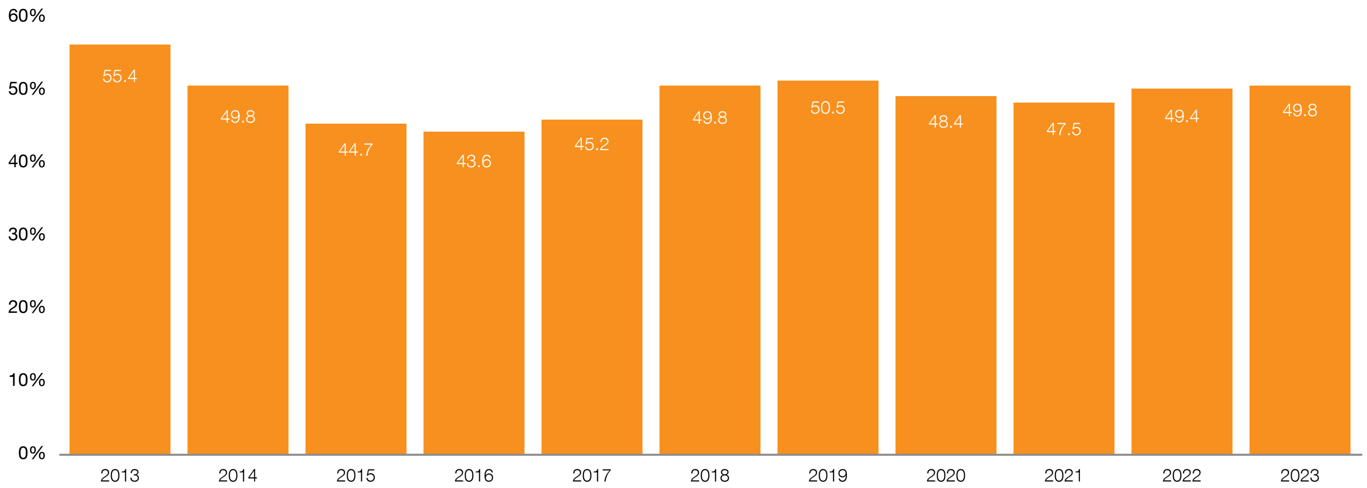


Hotels in Nigeria

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2019-23 CAGR
Available rooms (thousands)	8.4	8.8	9.2	9.4	9.7	9.9	10.3	11.3	12.7	13.3	14.3	
% change	*5.0*	*4.8*	*4.5*	*2.2*	*3.2*	*2.1*	*4.0*	*9.7*	*12.4*	*4.7*	*7.5*	*7.6*
Guest nights (millions)	1.7	1.6	1.5	1.5	1.6	1.8	1.9	2.0	2.2	2.4	2.6	
% change	*6.3*	*-5.9*	*-6.3*	*0.0*	*6.7*	*12.5*	*5.6*	*5.3*	*10.0*	*9.1*	*8.3*	*7.6*
Occupancy rates (%)	55.4	49.8	44.7	43.6	45.2	49.8	50.5	48.4	47.5	49.4	49.8	
ADR (US$)	107	112	117	124	131	140	145	151	158	164	171	
% change	*1.9*	*4.7*	*4.5*	*6.0*	*5.6*	*6.9*	*3.6*	*4.1*	*4.6*	*3.8*	*4.3*	*4.1*
Total room revenue (US$ millions)	**182**	**179**	**176**	**186**	**210**	**252**	**276**	**302**	**348**	**394**	**445**	
% change	***8.3***	***-1.6***	***-1.7***	***5.7***	***12.9***	***20.0***	***9.5***	***9.4***	***15.2***	***13.2***	***12.9***	***12.0***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 16: Occupancy rates (%)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Three- and four-star hotels

We have combined data for three- and four-star hotels in Nigeria. These hotels accounted for 46% of total available rooms and 50% of guest nights in 2018. The average room rate was $140 (R1 975) in 2018, 6% higher than the overall average, reflecting the fact that there are relatively few five-star hotels in Nigeria.

We expect most of the growth in the overall hotel market to be generated by three- and four-star hotels over the next five years. The number of available rooms will increase at a 12.8% compound annual rate, accounting for 86% of the total increase in available rooms over the next five years.

We project guest nights to rise by 13.6% compounded annually, generating virtually all of the growth in overall guest nights.

With a higher occupancy rate (53.6%) than the market as a whole, and with that rate edging up, we look for somewhat faster ADR growth than in the overall market. The average room rate is projected to increase by 4.8% compounded annually to $188 (R2 492).

Three- and four-star hotels will generate an estimated 96% of the total projected growth in room revenue. Total room revenue will reach $320 million (R4.2 billion) in 2023 from $134 million (R1.8 billion) in 2018, a 19.0% gain compounded annually.

Three- and four-star hotels in Nigeria

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2019-23 CAGR
Available rooms (thousands)	4.3	4.3	4.3	4.4	4.5	4.6	5.0	5.6	6.9	7.5	8.4	
% change	*0.0*	*0.0*	*0.0*	*2.3*	*2.3*	*2.2*	*8.7*	*12.0*	*23.2*	*8.7*	*12.0*	*12.8*
Guest nights (millions)	1.0	0.9	0.8	0.8	0.8	0.9	1.0	1.1	1.4	1.5	1.7	
% change	*11.1*	*-10.0*	*-11.1*	*0.0*	*0.0*	*12.5*	*11.1*	*10.0*	*27.3*	*7.1*	*13.3*	*13.6*
Occupancy rates (%)	63.7	57.3	51.0	49.7	48.7	53.6	54.8	53.7	55.6	54.8	55.4	
ADR (US$)	117	120	123	130	140	149	154	160	169	178	188	
% change	*2.6*	*2.6*	*2.5*	*5.7*	*7.7*	*6.4*	*3.4*	*3.9*	*5.6*	*5.3*	*5.6*	*4.8*
Total room revenue (US$ millions)	**117**	**108**	**98**	**104**	**112**	**134**	**154**	**176**	**237**	**267**	**320**	
% change	***13.6***	***-7.7***	***-9.3***	***6.1***	***7.7***	***19.6***	***14.9***	***14.3***	***34.7***	***12.7***	***19.9***	***19.0***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Image courtesy of Tsogo Sun

Looking back: 2018

Nigeria's overall hotel market rose somewhat faster than we expected in the 2018 Outlook. Guest nights totalled 1.8 million instead of 1.7 million; the occupancy rate of 49.8% was higher than the 46.6% forecast; and overall room revenue rose 20.0% in 2018, higher than the 11.0% projected increase. Three- and four-star hotels also did better than we expected with room revenue up 19.6%, higher than the 15.9% projected increase.

Actual vs forecast results for 2018

	2018 projected	2018 actual
Occupancy (%)	46.6	49.8
Guest nights (millions)	1.7	1.8
Total hotel room revenue growth (%)	11.0	20.0
Three- and four-star hotel room revenue growth (%)	15.9	19.6

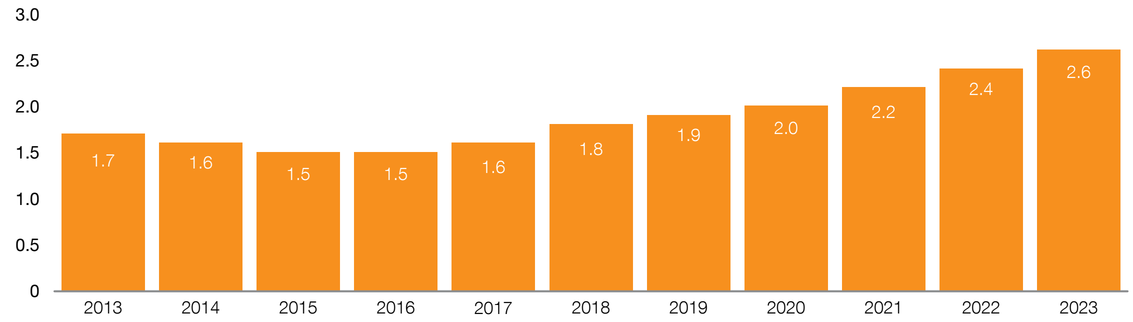
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Image courtesy of Tsogo Sun

Outlook: 2019–2023

Guest nights will continue to increase over the forecast period, rising at a 7.6% compound annual rate to 2.6 million in 2023 from 1.8 million in 2018.

Figure 17: Guest nights (millions)

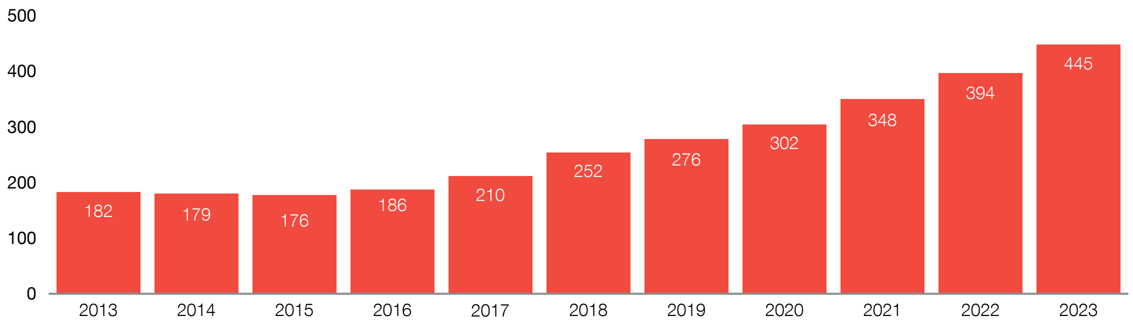


Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

The average room rate will rise at a projected 4.1% compounded annually, slower than the 5.5% compound annual increase during the past five years, the result of accelerating growth in available rooms.

Overall hotel room revenue is expected to expand at a 12.0% compound annual rate to $445 million (R5.9 billion) in 2023 from $252 million (R3.3 billion) in 2018.

Figure 18: Total room revenue (US$ millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

5 Mauritius

Key trends

- **Growth in available rooms going forward will ease pressure on pricing. Slower growth in tourist arrivals will lead to slower growth in guest nights during the next five years compared with the past five years.**
- **Mauritius will maintain its position as a safe destination appealing to high-end tourism.**
- **ADR in 2018**
  €211 (+15.3% on 2017)
- **Available rooms in 2018**
  13 510 (+1.5% on 2017)
- **Average length of stay in 2018**
  10.4 nights (10.3 in 2017)
- **Number of hotels in 2018**
  113 (up from 112 in 2017)
- **Guest nights in 2018**
  3.7m (-2.9% on 2017)

A record number of almost 1.4 million people visited Mauritius in 2018 (up 4.3% on 2017). However, growth in tourist arrivals in 2017 and 2018 was rather subdued, compared to the double-digit gains seen in 2015 and 2016.

Total room revenue rose 11.7% in 2018, the third consecutive year of double-digit growth, driven mainly by a significant rise in ADR.

The end of the moratorium on hotel development succeeded in boosting average room rates after several years of decline, while allowing for existing hotels to renovate and refurbish without facing competition from new hotels. After falling by more than 15% between 2012 and 2015, average room rates rose at double-digit annual rates during 2018.

Several new hotels are scheduled to open during the next five years but there will not be a surge in development as most of the prime real estate for hotels is already occupied. Consequently, growth in available rooms will be limited.

Nevertheless, the increase in capacity will ease some pressure on the market and we now project average room rates to grow at mid-single-digit rates during the next five years.

Air connectivity remains a challenge, and the government is negotiating with international airlines in line with its open sky strategy. Air Mauritius, the national airline, has been through some financial difficulties, and reduced some of its flights in key target markets since January 2019. This has had an impact on arrivals, which were down during the first four months of 2019.

Mauritius will remain an appealing destination for upscale travellers as it is considered a safe destination with beautiful beaches and other amenities. Mauritius will not benefit much from the global trend toward mid-market growth and the lower end of the market will face growing competition from Airbnb and the shared residences.

We expect a relatively flat market in 2019 followed by modest growth in the following years, in effect representing much less of an incremental boost to guest nights from tourist arrivals during the next five years, compared with the past five years.

The economy

Mauritius benefits from a strong and steady local economy. Real GDP rose at rates in excess of 3% annually during each of the past six years and has been trending up in recent years.

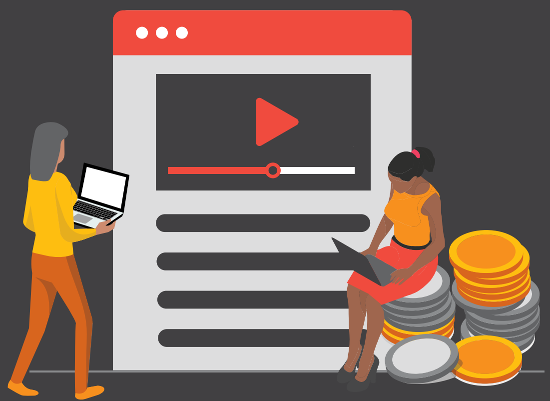
The business environment is considered to be most stable and one of the strongest in Africa. Safety & security are also good compared to the rest of Africa

Real GDP increased at a 3.8% annual rate during the past three years and is projected to grow at a 4.0% compound annual rate during the next five years. Relatively healthy global growth, projected at 3.6% compounded annually during the next five years, will support international tourism.

Mauritius Competitive Rankings

	Ranking
Safety and security	33
Tourist service infrastructure	36
Paying taxes 2019	6

Source: WEF, Travel & Tourism Competitiveness Report 2017; World Bank & PwC, Paying taxes 2019

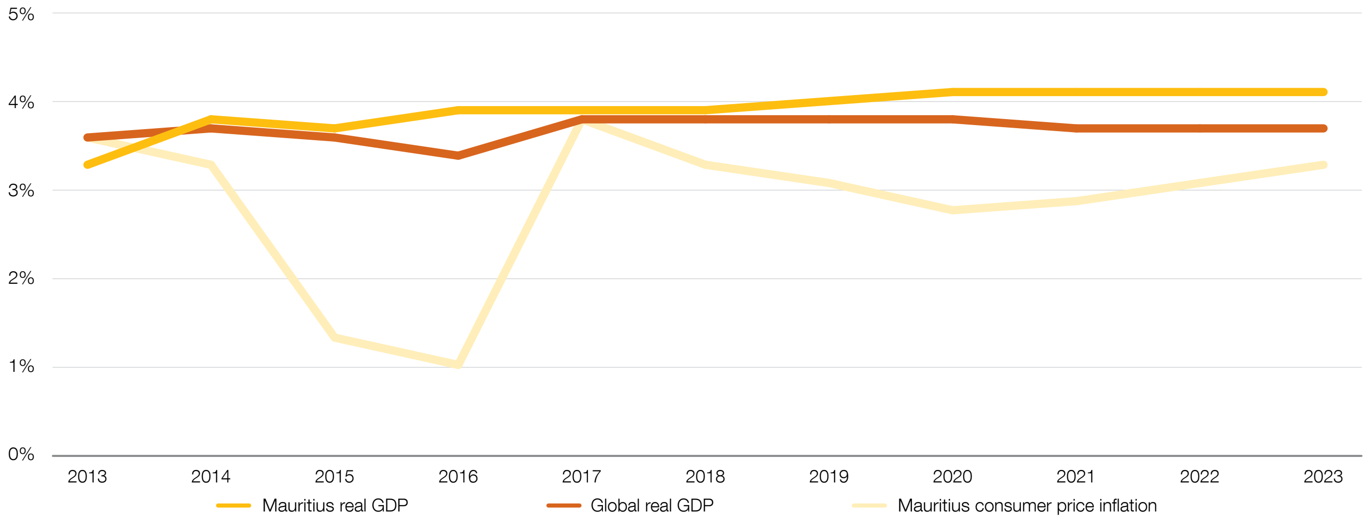


Real GDP growth and consumer price inflation (%)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2019-23 CAGR
Mauritius real GDP	3.2	3.7	3.6	3.8	3.8	3.8	3.9	4.0	4.0	4.0	4.0	4.0
Global real GDP	3.5	3.6	3.5	3.3	3.7	3.7	3.7	3.7	3.6	3.6	3.6	3.6
Mauritius consumer price inflation*	3.5	3.2	1.3	1.0	3.7	3.2	3.0	2.7	2.8	3.0	3.2	2.9

**Annual averages.*
Sources: Statistics Mauritius, International Monetary Fund, World Bank, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 19: Real GDP growth and consumer price inflation (%)



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

Contribution of the travel and tourism industry in Mauritius

	2017	2018
Tourism contribution to GDP	12%	14%
Tourism growth	5.2%	4.3%
% of total investment	11%	7.3%
Tourism earnings (EUR'bn)	1.53	1.63
Direct employment (% of total employment)	7.2%	7.3%

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

Tourist arrivals

Tourist arrivals rose 4.3% in 2018, down from the 5.2% rise in 2017 and the double-digit gains of 2015 and 2016. In fact, 2018 marked the slowest increase since 2013. Nevertheless, a record 1.4 million people visited Mauritius in 2018. KLM and Air Mauritius were among the airlines that added capacity, a key factor contributing to growth in tourist arrivals in 2018.

In 2018, 15.4% (+3.6% over 2017) of tourists who visited Mauritius were aged 60 and above, while for those who arrived by sea, the proportion was 51.7% (+34.3% over 2017). In contrast, the 25-35 age group has been comparatively declining.

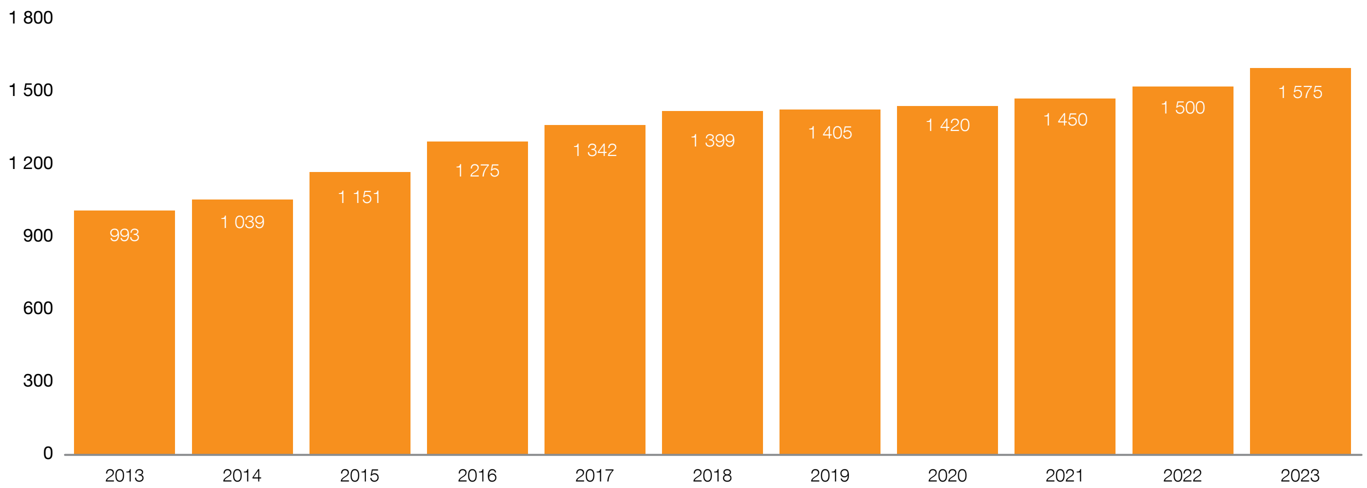
Image courtesy of Lux Island Resorts Ltd - LUX Me Spa*

Tourist arrivals to Mauritius (thousands)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2019-23 CAGR
Tourist arrivals	993	1 038	1 151	1 275	1 341	1 399	1 405	1 420	1 450	1 500	1 575	
% change	*2.9*	*4.6*	*10.8*	*10.8*	*5.2*	*4.3*	*0.4*	*1.1*	*2.1*	*3.4*	*5.0*	*2.4*

Note: Figures include arrivals from non-specified countries
Sources: Ministry of Finance and Economic Development, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates.

Figure 20: Tourist arrivals (thousands)



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

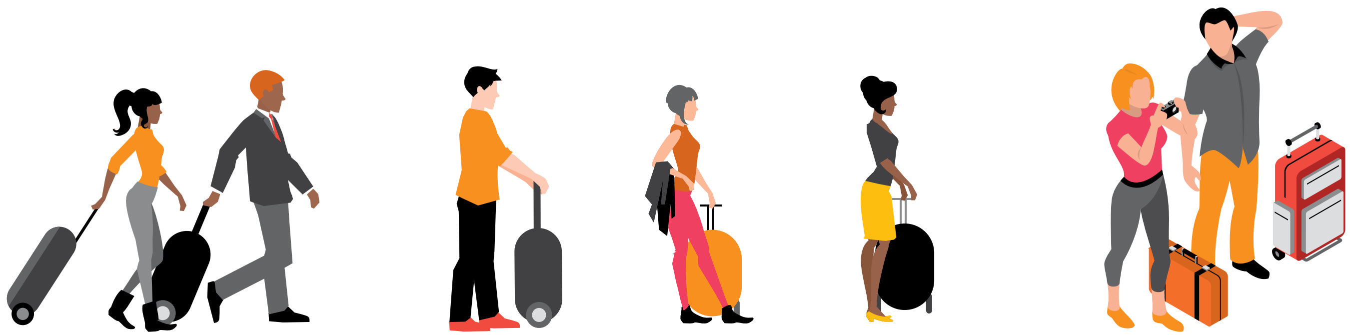
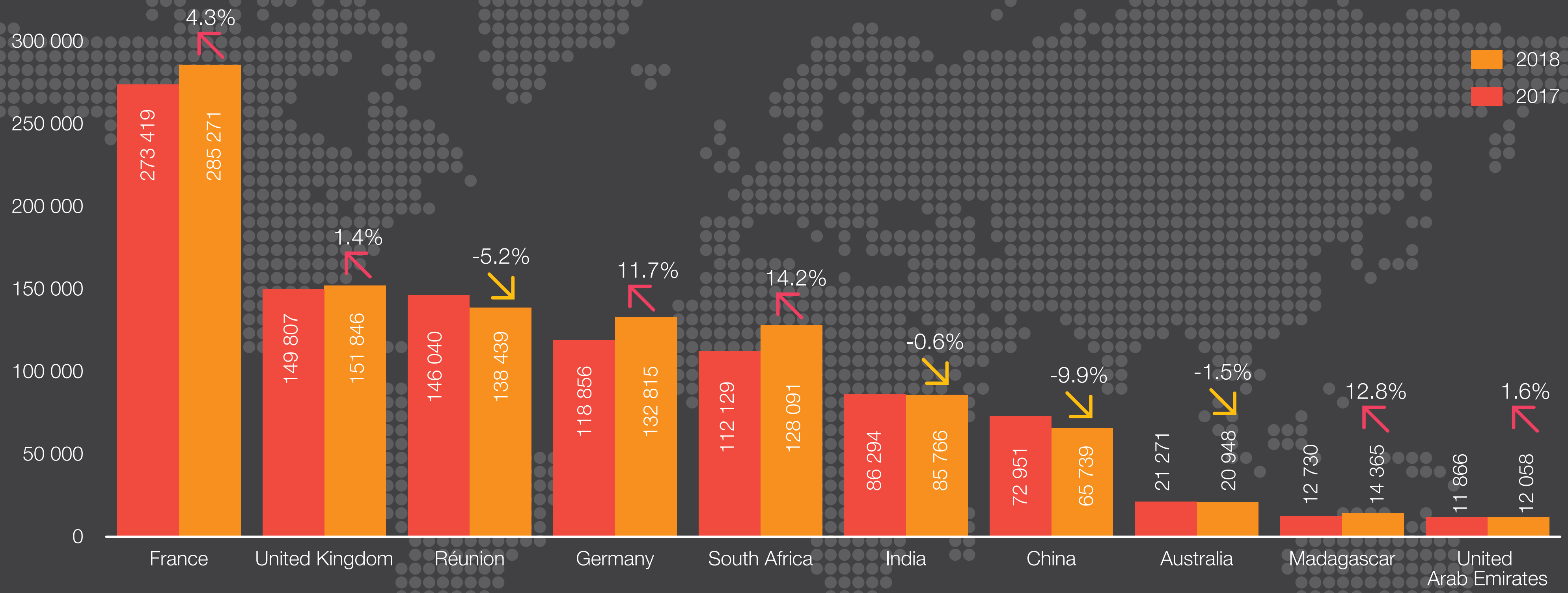


Figure 21: Top ten markets in arrivals, 2017-2018



Source: PwC analysis

Europe

Mauritius continued to attract most of its tourists from Europe, which accounted for 59% of total arrivals in 2018. France alone accounted for 20% of all tourist arrivals. Helped by added flight capacity, the Czech Republic and the Netherlands posted increases of 35.8% and 23.7%, respectively in 2018, followed by Germany at 11.7%. At the same time, there were fewer visitors from Poland, Belgium, Russia and Spain. Overall, arrivals from Europe increased 5.6%, making it the fastest-growing region.

Tourist arrivals from Europe

	2017	2018	% change
France	273 419	285 271	4.3
United Kingdom	149 807	151 846	1.4
Germany	118 856	132 815	11.7
Switzerland	40 252	41 084	2.1
Italy	35 101	38 362	9.3
Austria	17 596	18 577	5.6
Netherlands	13 269	16 418	23.7
Belgium	16 420	15 727	-4.2
Sweden	15 516	15 539	0.1
Spain	15 252	15 064	-1.2
Czech Republic	10 495	14 254	35.8
Russia	11 153	11 006	-1.3
Poland	11 318	10 805	-4.5
Other	51 755	57 442	11.0
Total Europe	**780 209**	**824 210**	**5.6**

Source: Ministry of Finance and Economic Development

Europe is forecast to remain the main source of tourists in the medium term, with Germany remaining promising. Airlines serving Eastern Europe on a regular basis should also help sustain growth from those markets. France and the UK should be increasingly looked at as hubs for European visitors.

Africa

Africa accounted for 22.3% of tourist arrivals in 2018, 85% of which came from Réunion and South Africa. Arrivals from Réunion fell 5.2%, but South Africa was up 14.2%. Nigeria recorded the largest gain, 62.1%, helped by a pickup in the economy during the latter part of the year following a weak first quarter. However, this increase may also include a number of Nigerian students attending private universities in Mauritius. Kenya also recorded strong growth with a 17.9% increase, helped by its strong economy and increased purchasing power among middle-income earners. Overall tourist arrivals from Africa increased 3.5% in 2018.

Tourist arrivals from Africa

	2017	2018	% change
Réunion	146 040	138 439	-5.2
South Africa	112 129	128 091	14.2
Madagascar	12 730	14 365	12.8
Seychelles	6 258	5 370	-14.2
Kenya	3 422	4 035	17.9
Zimbabwe	2 553	2 496	-2.2
Nigeria	1 331	2 157	62.1
Namibia	1 505	1 358	-9.8
Mayotte	1 340	1 355	1.1
Botswana	1 072	1 070	-0.2
Zambia	994	1 124	13.1
Ghana	897	1 011	12.7
Mozambique	876	809	-7.6
Other	10 751	10 932	1.7
Total	**301 898**	**312 612**	**3.5**

Source: Ministry of Finance and Economic Development

Middle East, Asia and Asia-Pacific

Tourist arrivals from these regions edged up 0.7%, the smallest gain of any region. This was principally the result of a tripling of visitors from Saudi Arabia and double-digit growth in arrivals from Taiwan and Israel. But these were offset by a decline in arrivals from Asia-Pacific. India, China, and Australia, the top-three sources of tourists from Asia-Pacific, all declined in 2018, as did Singapore, Indonesia, Malaysia, and Japan.

Tourist arrivals from the Middle East, Asia and Asia-Pacific

	2017	2018	% change
India	86 294	85 766	-0.6
China	72 951	65 739	-9.9
Australia	21 271	20 948	-1.5
Saudi Arabia	5 142	16 507	221.0
United Arab Emirates	11 866	12 058	1.6
South Korea	6 858	7 204	5.0
Philippines	2 742	2 871	4.7
Singapore	3 230	2 809	-13.0
Indonesia	2 670	2 519	-5.7
Malaysia	4 352	2 264	-48.0
Israel	1 698	2 167	27.6
Japan	2 315	2 046	-11.6
Taiwan	1 592	1 767	11.0
Hong Kong	1 512	1 519	0.5
Other	9 785	9 846	0.6
Total	**234 278**	**236 030**	**0.7**

Source: Ministry of Finance and Economic Development

China

The challenge in this market is to find a sustainable balance between the travellers' demands, the trade and direct air connectivity (currently provided only by Air Mauritius at a price that remains under pressure). Losing the Chinese market would be detrimental to Mauritius, not only because of the lost volume, but also because Chinese visitors tend to be hotel-stay guests and generally not predisposed to using informal types of accommodation. The Mauritian Government is putting in a lot of effort to promote the island in China. For instance, the Mauritius Tourism Promotion Authority (MTPA) earmarked Rs39m in February 2019 to promote Mauritius in China this year, including expenditure on social media campaigns and roadshows.

India

India is a market with strong potential for Mauritius. Indian travellers will often step outside the comfort of hotels and spend substantially on experiences (excursions, sightseeing, etc.). They are well connected and are cost-conscious travellers, and could help balance the off-peak season. Large Indian family weddings are a serious opportunity to consider, and honeymooners/couples also represent a large market.

The Americas

Arrivals from the Americas rose 4.5% in 2018. There was a rise of 9% from the USA and 12% from Canada. Arrivals from Brazil, however, dropped by 19.6%, probably due to the in-country issues and economic downturn.

Tourist arrivals from the Americas

	2017	2018	% change
United States	9 655	10 525	9.0
Canada	6 908	7 751	12.2
Brazil	4 659	3 744	-19.6
Other	3 573	3 897	9.1
Total	**24 795**	**25 917**	**4.5**

Source: Ministry of Finance and Economic Development

Non-traditional markets

Arrivals from non-traditional markets recorded strong growth in 2018, mainly driven by charter flights originating from new tour operators/zcountries such as the Czech Republic. These flights are, however, unpredictable and there is no certainty that these will be maintained in the future.

New markets performance, 2017-2018

	2017	2018
Netherlands	31.6%	23.7%
Czech Republic	23.4%	35.8%
United Arab Emirates	23.4%	1.6%
Poland	11.8%	-4.5%
Sweden	6.6%	0.1%
Austria	5.7%	5.6%
Belgium	4.8%	-4.2%

Source: Ministry of Finance and Economic Development

Image courtesy of LUX Belle Mare*

Expatriate-driven local market

As the country is growing as a preferred destination for investors and high-net-worth individuals, Mauritius has a growing expatriate community. This creates scope for an increase in the number of family and friends visiting local residents who have either permanent residency or a work permit.

Weddings

Mauritius is a known wedding destination; some local hotel chains are increasingly focussing on this segment, the country seems to be playing catch up with wedding-destination trend setters such as Bali.

MICE, eco-tourism and sporting events

These segments have significant potential for development, but only if product offerings are better marketed beyond the 'sea, sun and sand' concept. Those concepts have started to take shape, focusing on local experiences, food and products.

Golf

Mauritius has grown into a golfing destination for tourists in the last few years. There are currently 12 golf courses on the island, and a few more planned in the near future.

There are a few international golf tournaments that provide Mauritius with extensive exposure in the global media. These fixtures are included on the international golf calendar and have an average potential broadcast reach extending to over 300 million households globally, including features in press such as Golf365 and Forbes.

Cruises

Cruises have shown strong growth in recent years as a result of the 'Iles Vanilles' initiative to position the region on the international cruise market. In 2018, 42 cruise ships docked on the island bringing 36 796 tourists into the country (2017: 34 000). Cruises are not yet a feeder for hotel nights in Mauritius, however strategies proposing a varied offer could help turn around this situation in the future.

The Mauritius Port Authority has announced the construction of a 7 500-square-metre dedicated cruise terminal building to accommodate up to 4 000 passengers. The construction, at a project cost of Rs 644 million is scheduled to start in October 2019 and will be completed within 15 months.

Image courtesy of Tropical Attitude

Five-star hotels

Many premium destinations have seen a decrease in 2018. The weakened British pound has added pressure on room rates to secure reasonable revenue. A switch to the Maldives has also been felt. In return, a stronger dollar and stability on guest nights has helped maintain room revenue for five-star hotels at with growth of 13.5% in 2018..

The projected increase in available rooms should accommodate growth in guest nights without putting undue pressure on ADR. We expect guest nights to increase at a 1.5% compound annual rate.

Following the jump in ADR in 2018, we look for a modest 1.4% rise in the average room rate in 2019 followed by mid-single-digit increases thereafter. By 2023, the average rate for a five-star hotel will rise to €353 (R3 966) from €284 (R3 191) in 2018, a 4.4% compound annual increase.

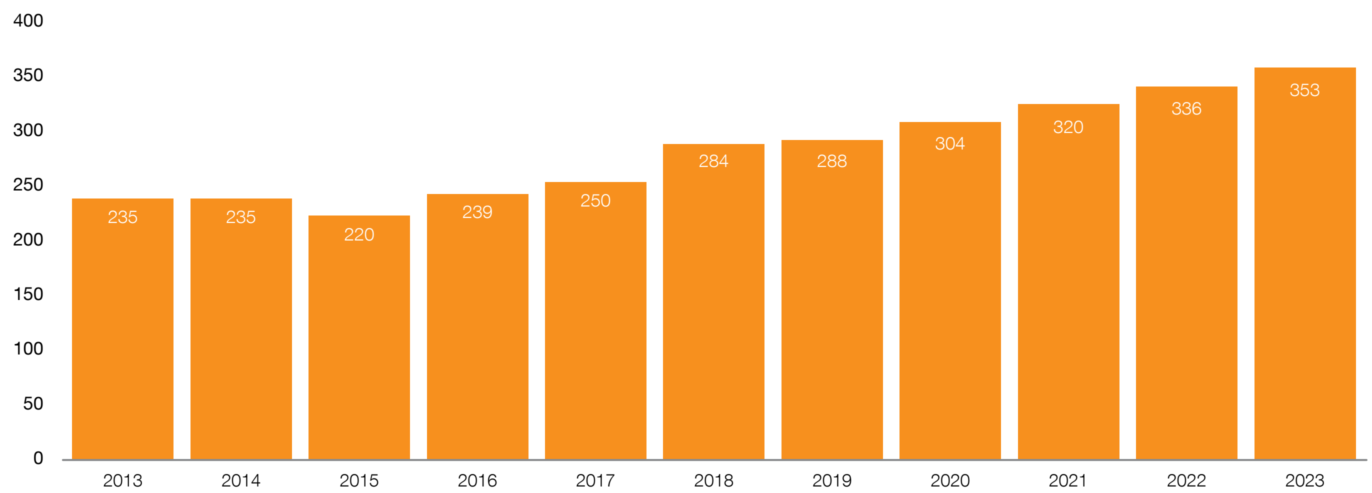
Total room revenue for five-star hotels will increase by a projected 6.0% compounded annually to €494 million (R5.6 billion) in 2023 from €369 million (R4.1) billion in 2018.

Five-star hotels in Mauritius

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2019-23 CAGR
Available rooms (thousands)	5.1	5.1	5.0	5.1	4.9	5.2	5.3	5.4	5.4	5.4	5.4	
% change	*2.0*	*0.0*	*-2.0*	*2.0*	*-3.9*	*6.1*	*1.9*	*1.9*	*0.0*	*0.0*	*0.0*	*0.8*
Guest nights (millions)	1.0	1.1	1.2	1.2	1.3	1.3	1.3	1.3	1.4	1.4	1.4	
% change	*0.0*	*10.0*	*9.1*	*0.0*	*8.3*	*0.0*	*0.0*	*0.0*	*7.7*	*0.0*	*0.0*	*1.5*
Occupancy rates (%)	53.7	59.1	65.8	64.3	72.7	68.5	67.2	65.8	71.0	71.0	71.0	
ADR (€)	235	235	220	239	250	284	288	304	320	336	353	
% change	*-0.4*	*0.0*	*-6.4*	*8.6*	*4.6*	*13.6*	*1.4*	*5.6*	*5.3*	*5.0*	*5.1*	*4.4*
Total room revenue (€ millions)	**235**	**259**	**264**	**287**	**325**	**369**	**374**	**395**	**448**	**470**	**494**	
% change	***-0.4***	***10.2***	***1.9***	***8.7***	***13.2***	***13.5***	***1.4***	***5.6***	***13.4***	***4.9***	***5.1***	***6.0***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 24: Average room rates for five-star hotels (€)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Three- and four-star hotels

We have combined data for three- and four-star hotels. As with 5-star hotels, guest nights were flat in 2018, but a double-digit increase in the ADR boosted room revenue by 13.4%.

Several hotels, which were operating in the four-star segment while marketing as three-star hotels, have been reviewed and moved out of the segment, thus reducing the hotel stock in the three-star segment. Some of them are also closing for renovation.

The UK is the strongest feeder of four-star hotels in Mauritius, especially during the low season.

It is predicted that demand will remain steady and that the three-star segment will remain resilient despite increase in room rates. Most of the growth in available rooms will be in three- and four-star hotels, with a projected 1.1% compound annual increase. Rising capacity should limit ADR growth, which we project at 4.4% compounded annually from €133 (R1 494) in 2018 to €165 (R1 854) in 2023.

Overall room revenue for three- and four-star hotels is projected to increase to €248 million (R2.8 billion) in 2023 from €186 million (R2.1 billion) in 2018.

Three- and four-star hotels in Mauritius

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2019-23 CAGR
Available rooms (thousands)	6.8	7.0	7.2	7.2	7.1	7.1	7.1	7.2	7.4	7.4	7.5	
% change	*3.0*	*2.9*	*2.9*	*0.0*	*-1.4*	*0.0*	*0.0*	*1.4*	*2.8*	*0.0*	*1.4*	*1.1*
Guest nights (millions)	1.2	1.1	1.3	1.4	1.4	1.4	1.4	1.4	1.5	1.5	1.5	
% change	*0.0*	*-8.3*	*18.2*	*7.7*	*0.0*	*0.0*	*0.0*	*0.0*	*7.1*	*0.0*	*0.0*	*1.4*
Occupancy rates (%)	48.3	43.1	49.5	53.1	54.0	54.0	54.0	53.1	55.5	55.5	54.8	
ADR (€)	104	108	101	107	117	133	135	142	149	157	165	
% change	*-4.6*	*3.8*	*-6.5*	*5.9*	*9.3*	*13.7*	*1.5*	*5.2*	*4.9*	*5.4*	*5.1*	*4.4*
Total room revenue (€ millions)	**125**	**119**	**131**	**150**	**164**	**186**	**189**	**199**	**224**	**236**	**248**	
% change	***-4.6***	***-4.8***	***10.1***	***14.5***	***9.3***	***13.4***	***1.6***	***5.3***	***12.6***	***5.4***	***5.1***	***5.9***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Image courtesy of Zilwa Attitude

Recent developments

The number of available rooms rebounded after the 18-month moratorium with a 1.5% increase to 13 510 in 2018. Even with this increase, there were still fewer available rooms in 2018 than in 2015, a key factor contributing to the double-digit increase in ADR.

The scarcity of prime real estate or sea frontage locations, paired with resistance from environmental activists, caused a slowdown in new project developments. Only a handful of hotel openings are expected in the next five years. Undeveloped prime real estate is scarce, but new rooms will have to be added to meet the government's ambition for 2.5m tourist arrivals by 2030. Otherwise, this demand for tourist accommodation will be met by the informal/Airbnb sector.

Announced new hotels projects

Name of hotel	Opening date	Star rating	No of rooms	Location
Anantara	2019	5-Star	164	Le Chaland
Marriott - Aloft Hotels	2019	-	150	Port-Louis
Les Salines Beachcomber Resort & Spa	2020	4-Star	338	Black River
Park Inn by Radisson	2020	-	-	Quatre Bornes
West Coast Leisure	2021	5-star Boutique Hotel	33 suites	Bel Ombre
Avani Resort & Spa	2021	-	150	Bel Ombre
Generess Hotel	unknown	4-Star	28	Baie du Tombeau
Le Palmiste Boutique Hotel	unknown	5-star		Trou-aux-Biches

Souce: PwC analysis

Image courtesy of Zilwa Attitude

Inland

The development of ecotourism has seen the opening of new chalets, luxury eco lodges and guest houses inland. Hotel and developments attached to golf courses may also have some appeal.

The decline in guest nights in 2018 was centred at the lower end of the market where Airbnb and other tourist residences are now competing more effectively with hotels where room rates are rising at double-digit rates. With the rise in capacity, we anticipate moderating ADR growth, which should have a positive impact on guest nights. We expect guest nights to stabilise in 2019 and to grow at a 1.6% compound annual rate through 2023.

Even with the expected increase in guest nights, we look for moderating ADR growth to lead to slower growth in room revenue. For the forecast period as a whole, we project room revenue to increase at a 5.7% compound annual rate from €762 million (R8.6 billion) in 2018 to a projected €1.0 billion (R11.3 billion) in 2023.

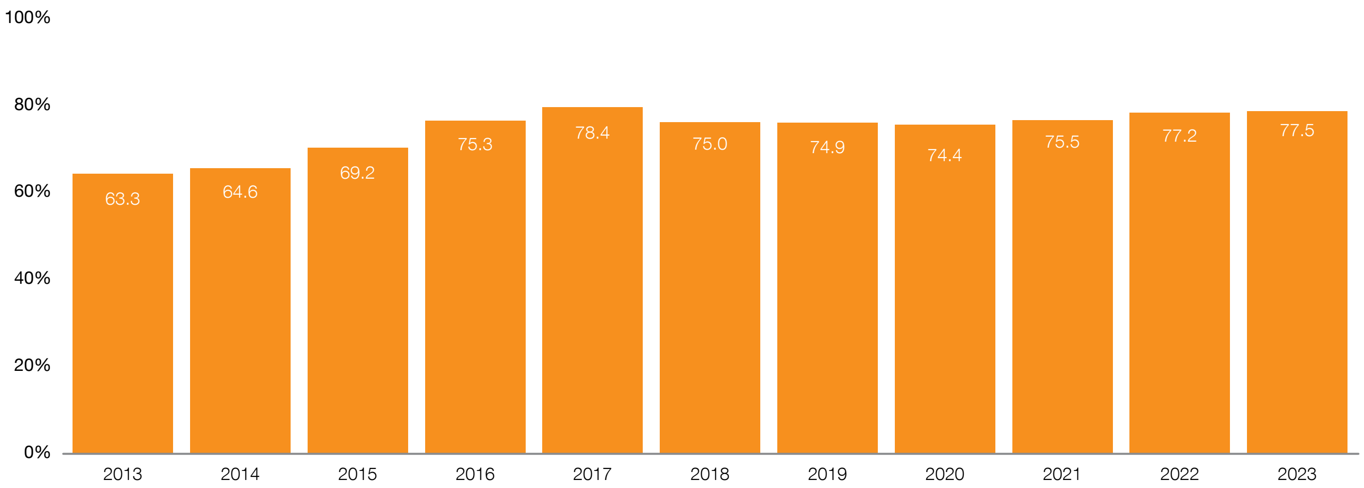
Hotels in Mauritius

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2019-23 CAGR
Available rooms (thousands)	12.376	12.799	13.617	13.605	13.315	13.510	13.525	13.780	13.975	14.010	14.135	
% change	*-1.2*	*3.4*	*6.4*	*-0.1*	*-2.1*	*1.5*	*0.1*	*1.9*	*1.4*	*0.3*	*0.9*	*0.9*
Guest nights (millions)	2.86	3.02	3.44	3.75	3.81	3.70	3.70	3.75	3.85	3.95	4.00	
% change	*0.0*	*5.6*	*13.9*	*9.0*	*1.6*	*-2.9*	*0.0*	*1.4*	*2.7*	*2.6*	*1.3*	*1.6*
Occupancy rates (%)	63.3	64.6	69.2	75.3	78.4	75.0	74.9	74.4	75.5	77.2	77.5	
ADR (€)	169	167	156	165	179	206	207	217	228	239	251	
% change	*-8.6*	*-1.2*	*-6.6*	*5.8*	*8.5*	*15.1*	*0.5*	*4.8*	*5.1*	*4.8*	*5.0*	*4.0*
Total room revenue (€ millions)	**483**	**504**	**537**	**619**	**682**	**762**	**766**	**814**	**878**	**944**	**1,004**	
% change	***-8.7***	***4.3***	***6.5***	***15.3***	***10.2***	***11.7***	***0.5***	***6.3***	***7.9***	***7.5***	***6.4***	***5.7***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

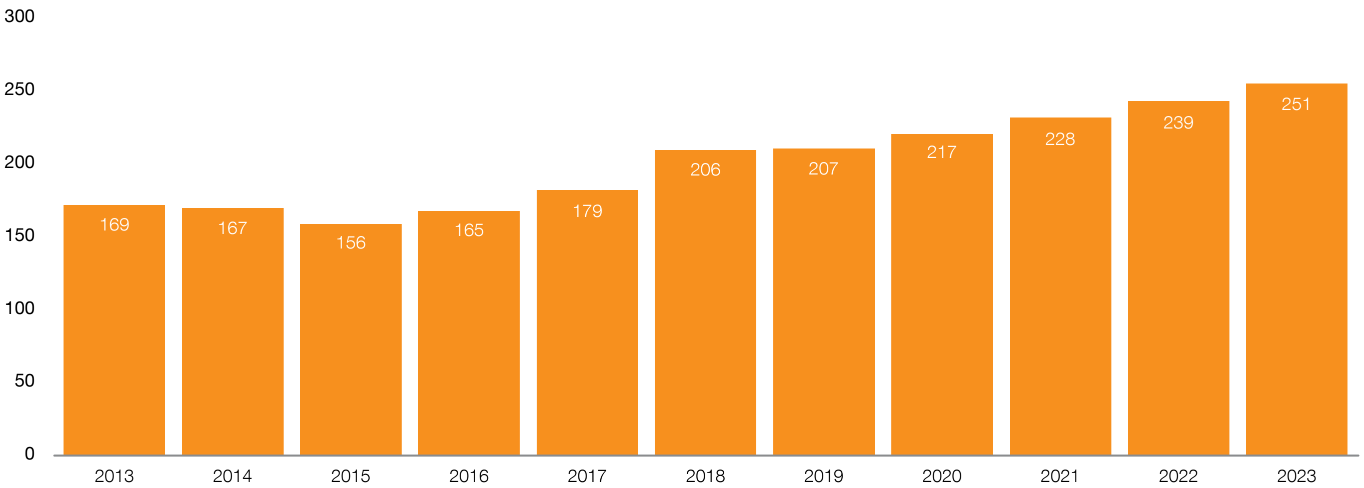
Image courtesy of LUX Grand Gaube*

Figure 22: Occupancy rates (%)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 23: Average room rates (€)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Image courtesy of LUX Island Resorts

Looking back: 2018

Guest nights, tourism and occupancy rates were a bit lower than we predicted but total room revenue growth of 11.7% was above our 8.8% projection. Five-star hotels as well as three- and four-star hotels also surpassed our expectations for room revenue growth.

Actual vs forecast results for 2018

	2018 projected	2018 actual
Occupancy (%)	78.7	75.0
Guest nights (millions)	3.83	3.70
Foreign & domestic visitors (millions)	1 410.0	1 399.0
Total hotel room revenue growth (%)	8.8	11.7
Five-star hotel room revenue growth (%)	7.9	13.5
Three- and four-star hotel room revenue growth (%)	7.8	13.4

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Image courtesy of The Ravenala Attitude

Outlook: 2019–2023

We project the number of available hotel rooms to increase at a 0.9% compound annual rate, rising to 14 135 in 2023.

The average occupancy rate will rise from 75.0% in 2018 to 77.5% in 2023.

We project guest nights for the forecast period as a whole to rise from 3.7 million in 2018 to 4.0 million in 2023, a 1.6% compound annual increase.

We project that average room rates will increase by 4.0% compounded annually to 2023.

Hotel room revenue in Mauritius is expected to grow at a 5.7% compound annual rate to 2023. An expected increase in room capacity and less aggressive growth in ADR should have a positive impact on guest nights, if supported by an increase in airline capacity and routes.

Challenges that remain for operators are their actions with regards to sustainability, labour and the regulation of the informal sector.

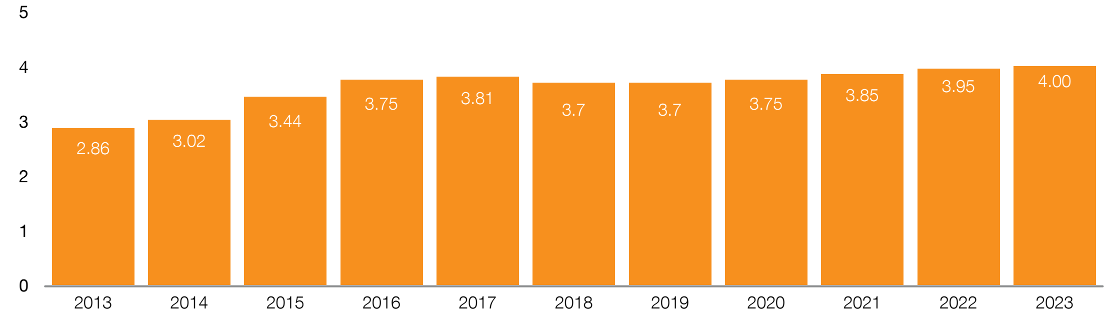
There is a strong sentiment in the market that the sector is in need of transformation and a diversification away from the 'sea, sand, sun' model. The government has proposed several measures to address this, including:

- Sustainability initiatives;
- Upskilling of the workforce;
- Liberalising air access; and
- A revised promotional strategy.

However, this will require joint efforts and commitment from all stakeholders to ensure the appropriate positioning of the country.

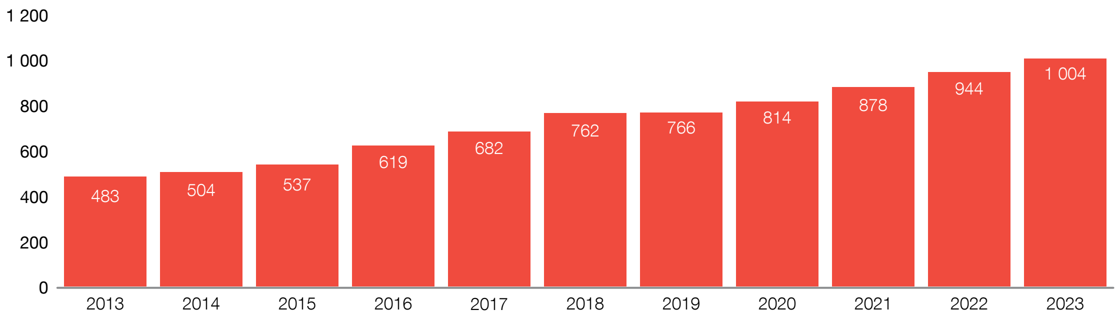
We expect tourist arrivals to Mauritius to continue to expand, but at a much slower rate, averaging 2.4% compounded annually to 1.6 million in 2023.

Figure 25: Guest nights (millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 26: Total room revenue (€ millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

6 Kenya

Key trends

- **The January 2019 terror attack at a hotel and office complex in Nairobi may temporarily affect the revival in tourist arrivals and guest nights that began in 2018.**
- **Growth in air connectivity, visa-on-arrival policies, and a strong economy can again become a significant driver of tourism and business travel assuming a period of security.**
- **Kenya will benefit from growing demand for experiences and adventure, with mid-scale hotels being the main driver, but growth in Airbnb and the shared economy will cut into the hotel market.**

The increase in international tourist arrivals in 2018 demonstrates Kenya's attractiveness and reputation as a destination. Unfortunately, the period of peace and security was interrupted when the country experienced an attack at a hotel and office complex in Nairobi in January 2019.

Aggressive marketing, more flights to Kenya, improved transportation within Kenya, and a convenient evisa process that is available to travellers from most countries were major factors driving growth in 2018.

Kenya is also a major destination for adventure travellers, which is a growing component of the market. World Travel Awards named Kenya as the World's Leading Safari Destination in 2018 and Rough Guides named Kenya as one of its top-10 destinations. Kenya also gets positive reviews from Trip Advisor, which ranked Nairobi as the third best place to visit in 2018. National parks, wildlife, and attractions such as the Great Rift Valley and the Maasai Mara National Reserve are major drawcards.

Search trends show that three-star hotels generate much of the interest among tourists considering Kenya. Meanwhile, Airbnb is booming in Kenya with visits up 68% in the last few years. Growth in the sector is expected to cut into the hotel market.

Image courtesy of Lake Naivasha Resort

The economy

Real GDP rose 6.0% percent in 2018, up from the 4.9% increase in 2017 and the largest gain during the past six years. The surge in tourism played a major role in the uptick in GDP growth in 2018. We anticipate slightly slower, but still healthy, growth of 5.5% in real GDP in 2019.

Assuming that the security situation remains stable and tourism grows, we look for real GDP to grow faster beginning in 2020 and to average 5.8% compounded annually for the forecast period as a whole.

Helped by a modest appreciation of the shilling, inflation dropped from 8.0% in 2017 to 4.7% in 2018. We expect inflation to remain moderate during the forecast period at 4.4% compounded annually.

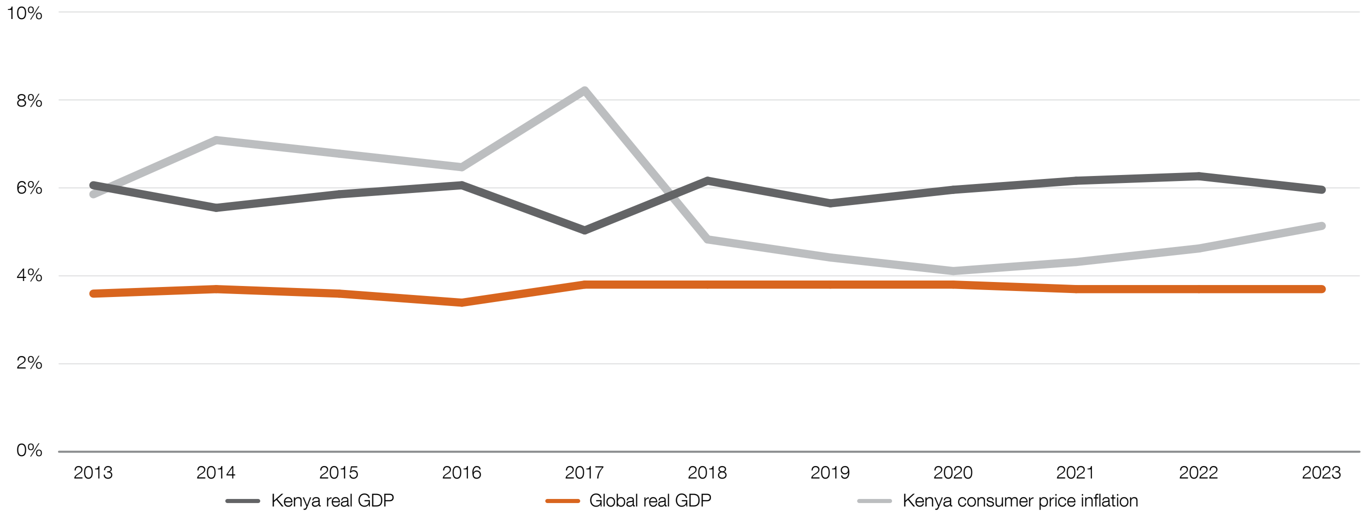
Image courtesy of The One Hotel

Real GDP growth and consumer price inflation (%)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2019-23 CAGR
Kenya real GDP	5.9	5.4	5.7	5.9	4.9	6.0	5.5	5.8	6.0	6.1	5.8	5.8
Global real GDP	3.5	3.6	3.5	3.3	3.7	3.7	3.7	3.7	3.6	3.6	3.6	3.6
Kenya consumer price inflation*	5.7	6.9	6.6	6.3	8.0	4.7	4.3	4.0	4.2	4.5	5.0	4.4

**Annual averages.*
Sources: International Monetary Fund, Kenya National Bureau of Statistics, World Bank, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 27: Figure 2: Real GDP growth and consumer price inflation (%)



Source: International Monetary Fund, Kenya National Bureau of Statistics, World Bank, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Tourist arrivals

Tourist arrivals rose a remarkable 37.7% in 2018 to more than two million visitors. A number of factors contributed to this gain, not least of which was that it was a period of economic growth and security, which in turn led to an easing of travel advisories, making Kenya a more desirable destination.

Increased air connectivity played a major role as well. Kenyan Airways acquired new planes and introduced non-stop flights to New York. Kenya Airways also reinstated daily flights to Gabon after a six-year absence. Air France also returned to the market with three weekly flights. Qatar Airways also added flights between Doha and Mombasa.

Kenya undertook a massive 'Magical Kenya' promotional campaign which positioned Kenya as an appealing destination to audiences in the United States, Europe, India and China. Half of the international arrivals in 2018 came from East Africa, the United States, the United Kingdom, India and China.

Kenya has a low ranking with respect to safety and security and lags well behind Mauritius in it tourist service infrastructure, factors that we expect will limit growth in tourism over the forecast period.

Kenya Competitive Rankings

	Ranking
Safety and Security	129
Tourist Service Infrastructure	95
Paying Taxes 2019	91

Source: WEF, Travel & Tourism Competitiveness Report 2017; World Bank & PwC, Paying taxes 2019

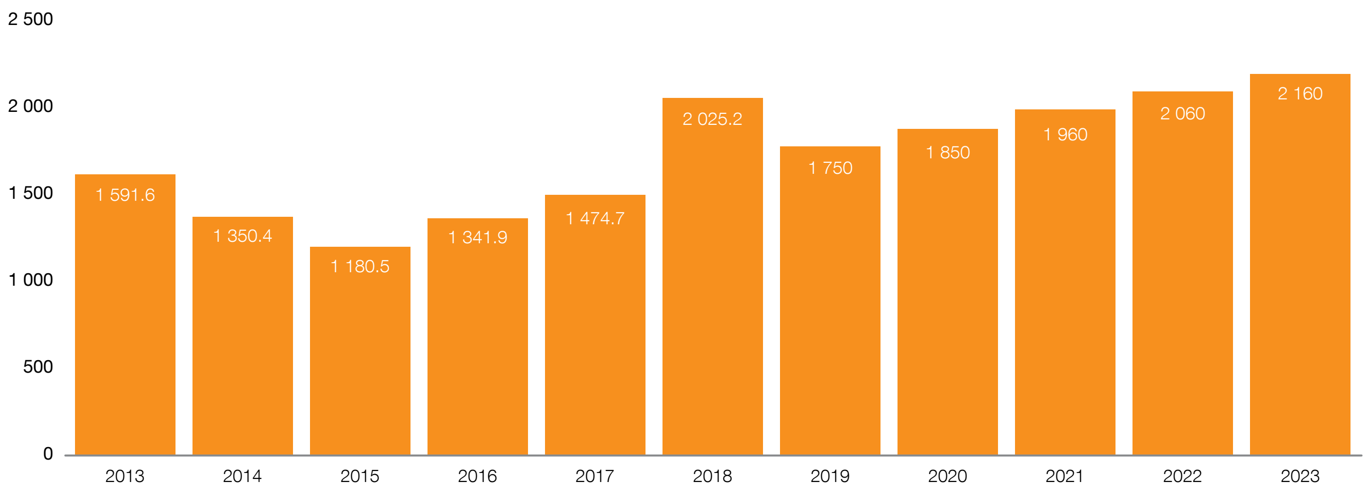
Recent terrorist attacks could have a short-term dampening effect on demand to travel to Kenya and we project a 13.6% decline in 2019. Thereafter, we project a pickup in tourist arrivals beginning in 2020. For the forecast period as a whole, we project arrivals to increase at a 1.3% compound annual rate to 2.16 million in 2023 from 2.025 million in 2018.

Tourist arrivals to Kenya (thousands)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2019-23 CAGR
Tourist arrivals	1 591.6	1 350.4	1 180.5	1 341.9	1 474.7	2 025.2	1 750.0	1 850.0	1 960.0	2 060.0	2 160.0	
% change	*-7.0*	*-15.2*	*-12.6*	*13.7*	*9.9*	*37.3*	*-13.6*	*5.7*	*5.9*	*5.1*	*4.9*	*1.3*

Sources: Kenya Ministry of Tourism, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 28: Tourist arrivals (thousands)



Sources: Kenya Ministry of Tourism, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Recent developments

The hotel market benefited from the growth in tourism in 2018 and posted an 18.2% increase in guest nights. If tourism declines in 2019, we would look for guest nights to fall as well and we project a 5.1% decrease. Thereafter, the strong fundamentals of the Kenyan market should prevail, leading to a rebound in guest nights from 2020. Over the entire forecast period, we project guest nights to increase at a 3.4% compound annual rate.

A number of hotel openings in 2018, including two Hilton hotels, a City Lodge, and a Mövenpick hotel contributed to a 5.2% increase in the number of available rooms, the largest gain during the past six years. A number of major hotel brands are expected to enter the market in the coming years, including five from Best Western, two each from Hilton, Hyatt and Rotana, along with single entries from Marriott, Radisson, Pullman, Novotel and Protea, among others. In total, we expect an additional 3 700 rooms to be added during the next five years, a 3.4% compound annual increase.

The increase in available rooms in 2018 prevented a spike in occupancy rates, but the average occupancy rate rose to 53.2%, comparable to rates in 2015-16. With available rooms and guest nights projected to grow at similar rates over the next five years, we see little change in the overall occupancy rate.

Despite the rise in the occupancy rate, the average room rate fell 3.0% in 2018, the second consecutive decline. We expect room rates to begin to rise in 2019 and to grow at a 4.0% compound annual rate over the next five years.

Overall room revenue rose 14.6% in 2018, but room revenue still remained lower than its peak in 2016. We expect a decline in room revenue in 2019 followed by a rebound beginning in 2020.

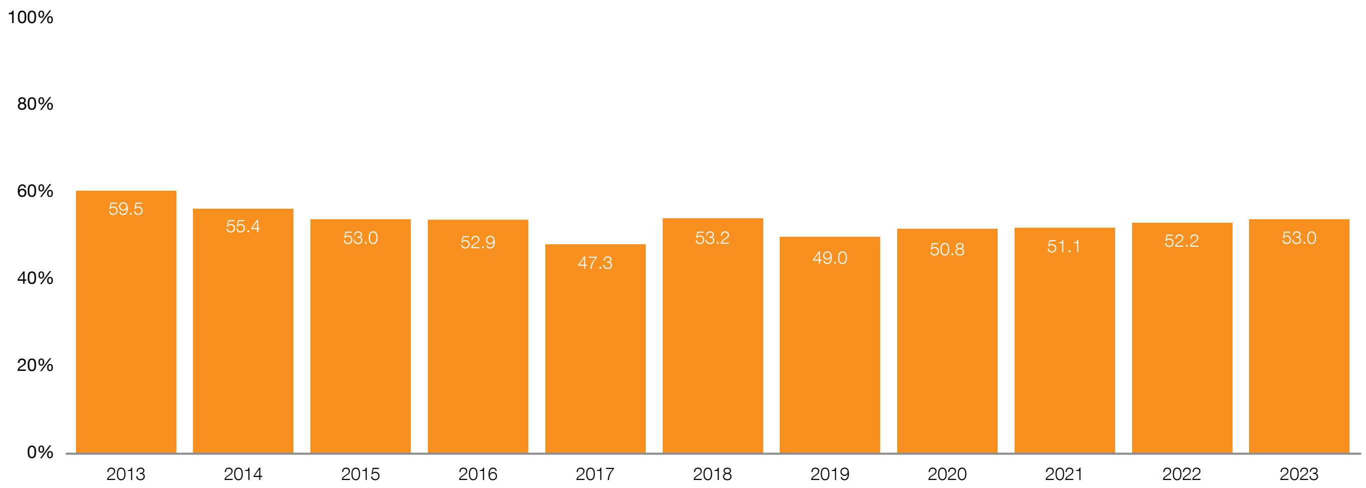
Hotels in Kenya

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2019-23 CAGR
Available rooms (thousands)	17.5	17.8	18.1	18.6	19.1	20.1	20.7	21.5	22.5	23.1	23.8	
% change	*2.3*	*1.7*	*1.7*	*2.8*	*2.7*	*5.2*	*3.0*	*3.9*	*4.7*	*2.7*	*3.0*	*3.4*
Guest nights (millions)	3.8	3.6	3.5	3.6	3.3	3.9	3.7	4.0	4.2	4.4	4.6	
% change	*-2.6*	*-5.3*	*-2.8*	*2.9*	*-8.3*	*18.2*	*-5.1*	*8.1*	*5.0*	*4.8*	*4.5*	*3.4*
Occupancy rates (%)	59.5	55.4	53.0	52.9	47.3	53.2	49.0	50.8	51.1	52.2	53.0	
ADR (US$)	130	128	139	143	135	131	136	141	147	153	159	
% change	*0.0*	*-1.5*	*8.6*	*2.9*	*-5.6*	*-3.0*	*3.8*	*3.7*	*4.3*	*4.1*	*3.9*	*4.0*
Total room revenue (US$ millions)	**494**	**461**	**487**	**515**	**446**	**511**	**503**	**564**	**617**	**673**	**731**	
% change	***-2.6***	***-6.7***	***5.6***	***5.7***	***-13.4***	***14.6***	***-1.6***	***12.1***	***9.4***	***9.1***	***8.6***	***7.4***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

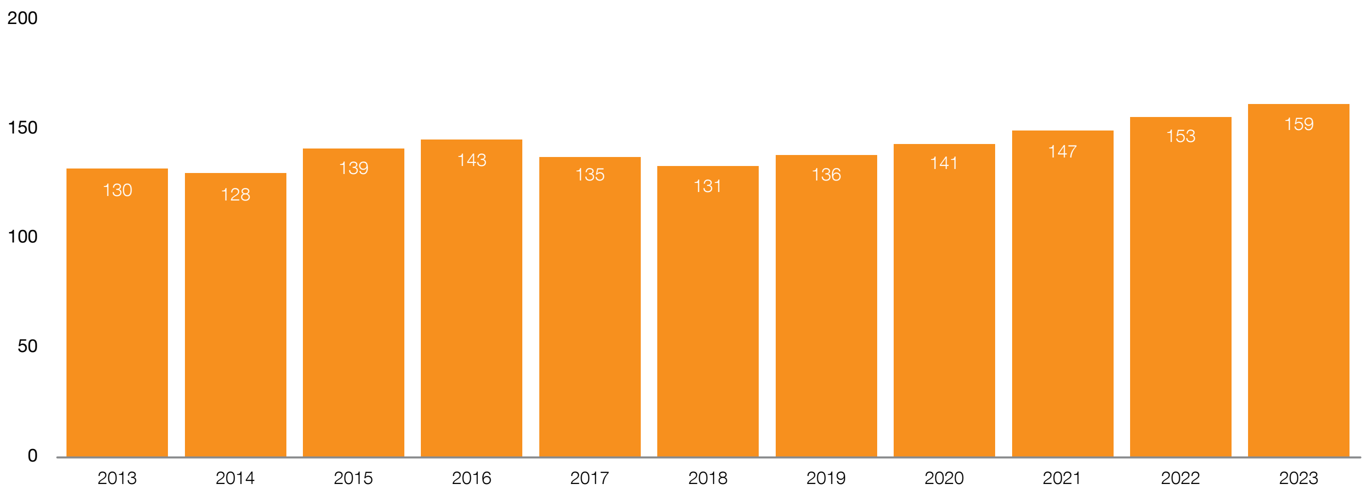
Image courtesy of The One Hotel

Figure 29: Occupancy rates (%)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 30: Average room rates (US$)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Image courtesy of The One Hotel

Looking back: 2018

Largely as a result of the growth in international tourism, the hotel market in Kenya surpassed our expectations in 2018. The occupancy rate of 53.2% was higher than our 49.3% projection, guest nights rose to 3.9 million, above the expected 3.6 million, and the 14.6% increase in room revenue was significantly above our 5.7% expected increase.

Actual vs forecast results for 2018

	2018 projected	2018 actual
Occupancy (%)	49.3	53.2
Guest nights (millions)	3.6	3.9
Total hotel room revenue growth (%)	5.7	14.6

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Image courtesy of Lake Naivasha Resort

Outlook: 2019–2023

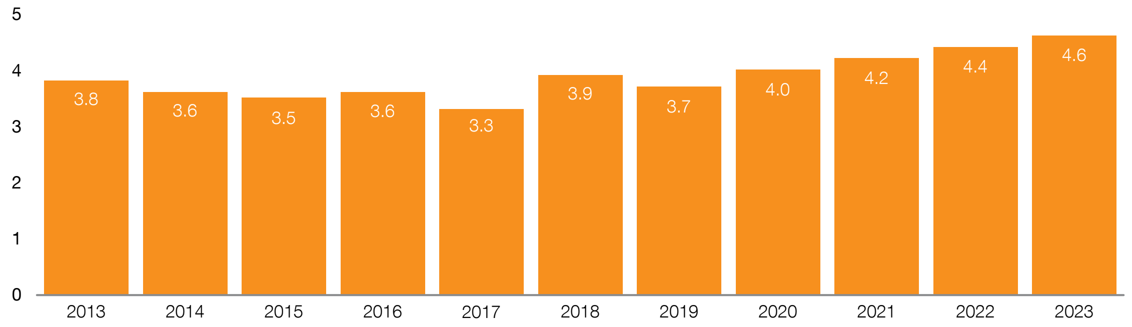
We project the number of available rooms to increase from 20 100 in 2018 to 23 800 in 2023, a 3.4% compound annual increase.

Guest nights will total an estimated 4.6 million in 2023, a 3.4% compound annual increase from 3.9 million in 2018.

We project the ADR to increase from $131 (R1 736) in 2018 to $159 (R2 108) in 2023, a 4.0% compound annual increase.

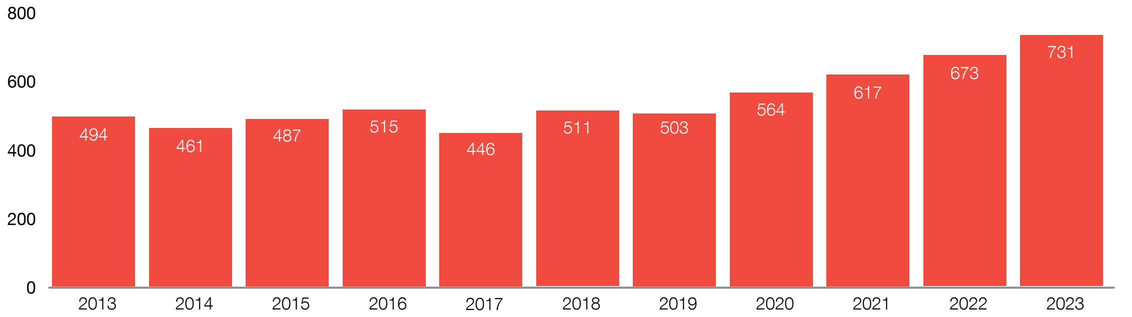
Total room revenue will expand by 7.4% compounded annually, rising to $731 million (R9.7 billion) in 2023 from $511 million (R6.8 billion) in 2018.

Figure 31: Guest nights (millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 32: Total room revenue ($ millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

7 Tanzania

Key trends

- Tanzania is targeting India and China to bolster tourism and drive growth in guest nights.
- The trend toward growing interest in experiences and adventure travel will benefit Tanzania as it is a well-established exotic destination.
- To widen its appeal beyond adventure tourism, the government is looking to expand its MICE offerings to boost business tourism.

Tanzania is stepping up its marketing and promotional activities in India and China to attract more tourists from those countries. Direct flights to India are in the process of being introduced with the initial focus to people in the major cities.The plan is to expand the marketing effort to reach people in second and third tier cities as well. The Tanzania Tourist Board is also working with the government to target China.

Tanzania is well established as an exotic destination whose principal appeal is wildlife viewing, which is the largest tourist activity. More than a quarter of the land area in Tanzania is allocated to wildlife, the largest share of any country in the world. In 2018, Tanzania was named the Best Exotic Destination by the Russian National Geographic Traveller. Tanzania is well positioned to attract more adventure tourists, which is becoming a more important sector in the overall tourism industry.

Tanzania has not been a major player in MICE tourism but is looking to improve its offerings. The Ministry of Tourism is establishing a national convention bureau that will supervise the expansion of facilities to attract conferences and business meetings.

Tanzania ranks higher than Kenya with respect to safety and security, but lower than Kenya for tourist service infrastructure. Improvements in these areas will help Tanzania boost its tourism market.

Tanzania Competitive Rankings

	Ranking
Safety and Security	92
Tourist Service Infrastructure	103
Paying Taxes 2019	167

Source: WEF, Travel & Tourism Competitiveness Report 2017; World Bank & PwC, Paying taxes 2019

Image courtesy of Legendary Expeditions

The economy

Tanzania remains one of the fastest growing economies with an average growth rate of 7% in the years up to 2016, which appears to have moderated in 2017 and 2018, but still remains robust. Real GDP is projected to increase at a 6.5% compound annual rate over the next five years. GDP growth is forecast to be even higher by other institutions like the African Development Bank.

Consumer price inflation fell to 3.5% in 2018 following increases in excess of 5% in prior years. We expect consumer price inflation to remain moderate during the forecast period with a 3.5% compound annual increase.

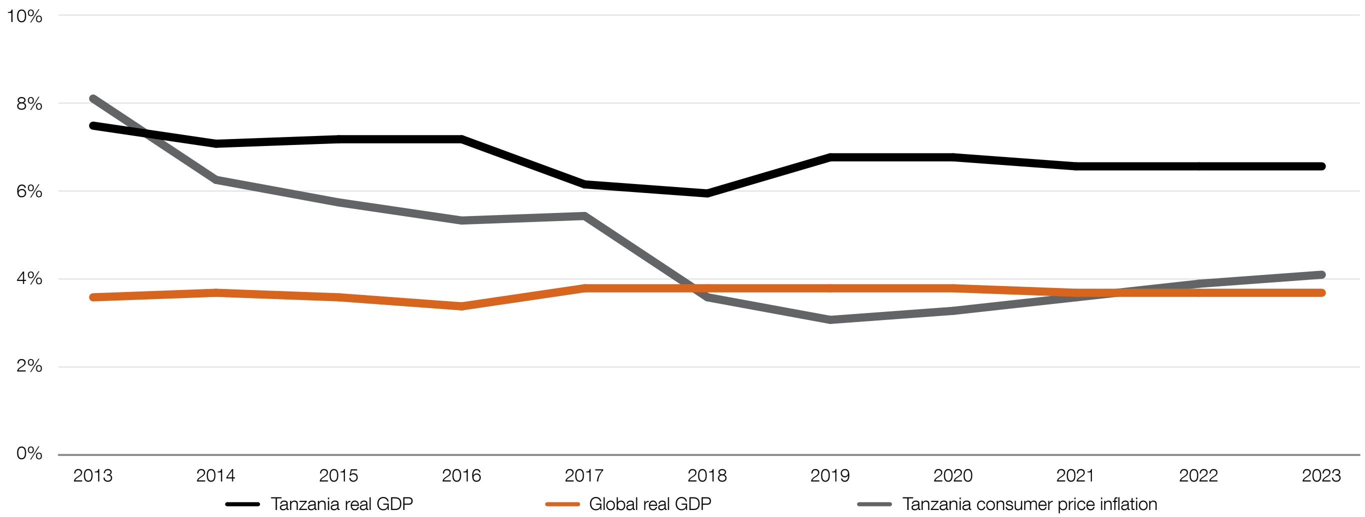
Image courtesy of The Residence Zanzibar

Real GDP growth and consumer price inflation (%)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2019-23 CAGR
Tanzania real GDP	7.3	6.9	7.0	7.0	6.0	5.8	6.6	6.6	6.4	6.4	6.4	6.5
Global real GDP	3.5	3.6	3.5	3.3	3.7	3.7	3.7	3.7	3.6	3.6	3.6	3.6
Tanzania consumer price inflation*	7.9	6.1	5.6	5.2	5.3	3.5	3.0	3.2	3.5	3.8	4.0	3.5

**Annual averages.*
Sources: International Monetary Fund, World Bank, Tanzania Bureau of Statistics, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 33: Figure 2: Real GDP growth and consumer price inflation (%)



Sources: International Monetary Fund, World Bank, Tanzania Bureau of Statistics, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Recent developments

Guest nights declined in 2017, hurt by the impact of the 18% VAT on tourism services introduced in 2016 and the fixed rate concession fee introduced in 2017, which increased costs for travel agents and other travel packagers, and cut into demand. With the impact of that cost increase largely absorbed, guest nights increased in 2018, returning to their 2015-16 level.

There was also an increase in available rooms with the opening of a City Lodge and Zuri Zanzibar and the full-year impact of a new Melia hotel that opened in late 2017. Rotana, Melia, Anantara, Sarovar Portico and Ritz-Carlton are among the major hotel brands with planned openings in the coming years, together adding a 1 000 rooms over the forecast period.

The occupancy rate increased to 56.2% in 2018, comparable to the levels in 2015-16. ADR rose 3.0% as occupancy increased.

We expect the tourist initiatives and an emerging MICE market, along with a strong economy, to lead to further growth in guest nights, which we project will rise at a 3.5% compound annual rate. A fledgling Airbnb market is growing rapidly on a percentage basis. While remaining only a small component, it will cut into guest night growth at the lower end of the market to some degree.

We look for occupancy rates to edge up a bit but still remain lower than the levels reached in 2013-14.

The increase in occupancy rates will put some upward pressure on ADR, which we project will increase at a 4.5% compound annual rate.

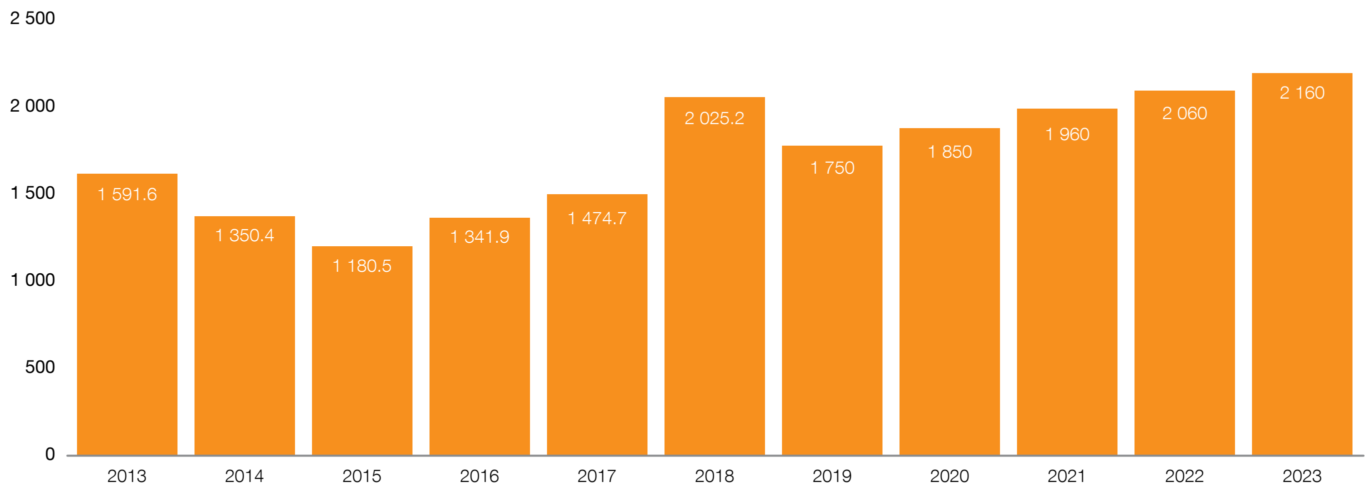
The rebound in guest nights and the uptick in ADR combined to boost room revenue by 9.4% in 2018. We project an 8.2% compound annual increase going forward, reflecting moderate growth in both guest nights and ADR.

Hotels in Tanzania

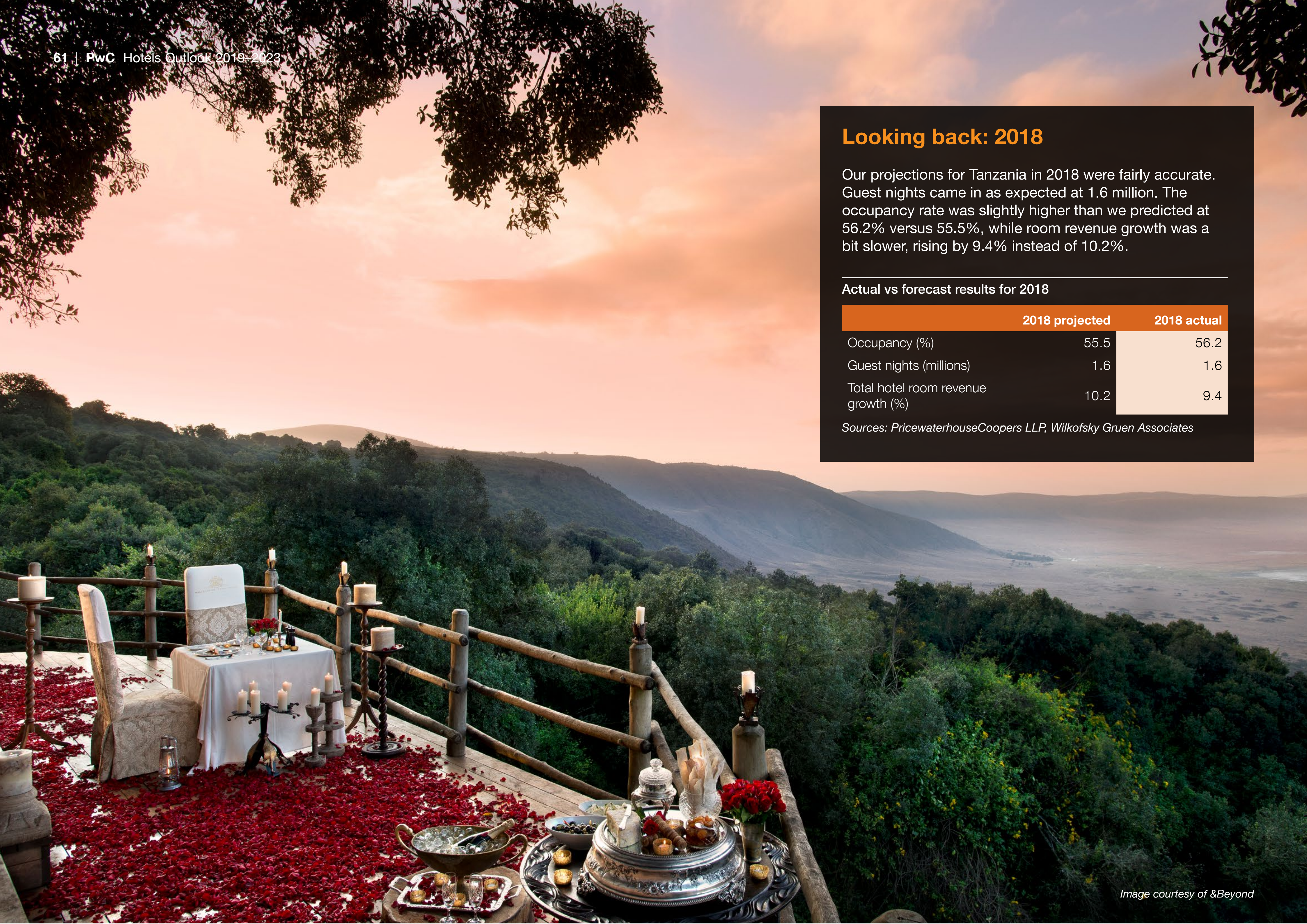
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2019-23 CAGR
Available rooms (thousands)	7.2	7.4	7.7	7.7	7.7	7.8	8.2	8.6	8.7	8.7	8.8	
% change	*0.0*	*2.8*	*4.1*	*0.0*	*0.0*	*1.3*	*5.1*	*4.9*	*1.2*	*0.0*	*1.1*	*2.4*
Guest nights (millions)	1.7	1.7	1.6	1.6	1.5	1.6	1.7	1.8	1.8	1.9	1.9	
% change	*0.0*	*0.0*	*-5.9*	*0.0*	*-6.3*	*6.7*	*6.3*	*5.9*	*0.0*	*5.6*	*0.0*	*3.5*
Occupancy rates (%)	64.7	62.9	56.9	56.8	53.4	56.2	56.8	57.2	56.7	59.8	59.2	
ADR (US$)	100	102	125	135	135	139	146	152	159	166	173	
% change	*11.1*	*2.0*	*22.5*	*8.0*	*0.0*	*3.0*	*5.0*	*4.1*	*4.6*	*4.4*	*4.2*	*4.5*
Total room revenue (US$ millions)	**170**	**173**	**200**	**216**	**203**	**222**	**248**	**274**	**286**	**315**	**329**	
% change	***11.1***	***1.8***	***15.6***	***8.0***	***-6.0***	***9.4***	***11.7***	***10.5***	***4.4***	***10.1***	***4.4***	***8.2***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 34: Average room rates (US$)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates



Looking back: 2018

Our projections for Tanzania in 2018 were fairly accurate. Guest nights came in as expected at 1.6 million. The occupancy rate was slightly higher than we predicted at 56.2% versus 55.5%, while room revenue growth was a bit slower, rising by 9.4% instead of 10.2%.

Actual vs forecast results for 2018

	2018 projected	2018 actual
Occupancy (%)	55.5	56.2
Guest nights (millions)	1.6	1.6
Total hotel room revenue growth (%)	10.2	9.4

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Image courtesy of &Beyond

Outlook: 2019–2023

Growth in available rooms will average 2.4% compounded annually with the number of available rooms increasing from 7 800 in 2018 to 8 800 in 2023.

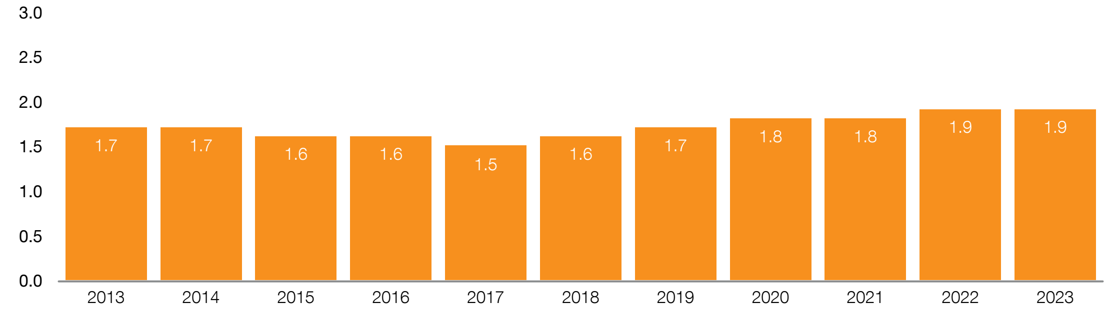
We project guest nights to rise from 1.6 million in 2018 to 1.9 million in 2023, a 3.5% compound annual increase.

Guest nights will grow faster than available rooms and hotel occupancy will increase from 56.2% in 2018 to 59.2% in 2023.

We project the ADR to increase from $139 (R1 842) in 2018 to $173 (R2 293) in 2023, a 4.5% compound annual increase.

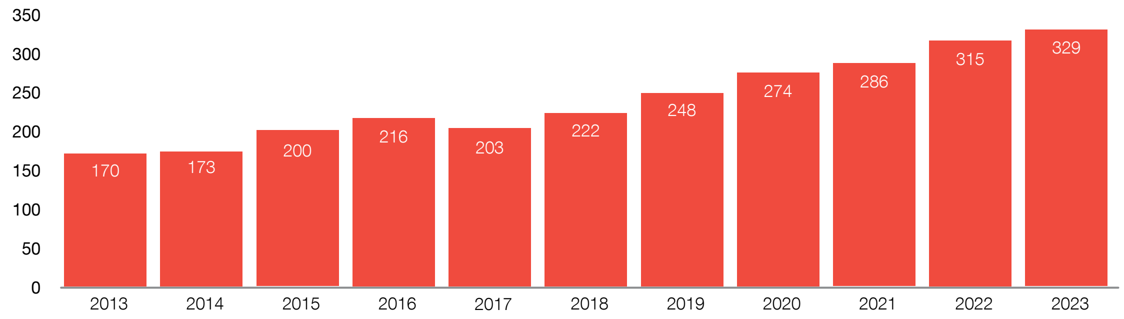
Total room revenue will expand by 8.2% compounded annually, rising to $329 million (R4.4 billion) in 2023 from $222 million (R2.9 billion) in 2018.

Figure 35: Guest nights (millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 36: Total room revenue (US$ millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

8 Namibia

In this year's *Outlook* we take a broad look at the Namibian hospitality and tourism environment. The industry consists of various players that range from bed & breakfasts and game lodges to hotels.

The industry shows potential in the coming years, but the industry also faces notable challenges, including a lack of funding from the government to maintain and repair existing infrastructure, lack of technology enablement as well as a strategy to broaden the appeal of the country as a holiday destination among a wider cross-section of international tourists.

Key trends

- **Namibia has been targeting the Asian (China), American (United States of America) markets and has seen a small growth in Chinese arrivals to Namibia.**
- **Leisure tourism to Namibia contracted slightly in 2018 and it is expected to decline in 2019.**
- **Overall 10-year leisure tourism growth has been only at 6.5%**

The Namibian accommodation landscape is made up of approximately 3 100 hospitality businesses that are registered with the Namibia Tourism Board. These occupy a range of segments, including hotels, pensions, lodges, tented lodges, backpackers, B&Bs, campsites and guest farms. Of registered accommodation businesses, approximately 580 relate to hunting farms, which are considered to be a separate market segment.

Most of the accommodation businesses are located in the countryside in rural or remote areas, providing a very diverse nature, bush and wildlife safari experience to the traveller. Only Windhoek as the capital city of Namibia and Swakopmund provide larger independent and branded hotels such as the Hilton in Windhoek, the Legacy Hotels Windhoek Country Club and Swakopmund Hotel and Entertainment Center as well as the Avani Windhoek Hotel & Casino.

Beyond the hotels, the accommodation market is very much fragmented and consists mainly of owner-managed, small independent businesses. The average room number ranges between six and 15 rooms, while only a very few hotels have more than 100 rooms. These include the Strand Hotel Swakopmund (125), Hilton Hotel Windhoek (150), Safari Hotel Windhoek (190+215), Country Club Windhoek (151), Avani Windhoek (173).

The Strand Hotel Swakopmund, with its four modern and stylish food & beverage outlets, large conference & banqueting centre and Atlantic Spa, has not only established itself as the most modern hotel in Namibia, but is also ideally equipped as a MICE destination.

The hospitality and tourism industry in Namibia contributed N$5.2 billion to the country's GDP in 2017, 3.5% of total GDP. The industry also provided direct employment for 44 700.

Namibia ranks higher than all other Southern African countries besides South Africa for both safety and security and tourist service infrastructure. It is third behind Mauritius and South Africa among countries analysed in this report. Further improvements in these areas will help Namibia boost its tourism market, while greater efficiency in its tax regime could help improve the contribution of the sector to the economy

Namibia Competitive Rankings

	Ranking
Safety and Security	82
Tourist Service Infrastructure	73
Paying Taxes 2019	81

Source: WEF, Travel & Tourism Competitiveness Report 2017; World Bank & PwC, Paying taxes 2019

The economy

Following a period of strong growth, the Namibian economy entered a sharp slowdown, beginning in 2015. It is expected that the economy will continue to recover slowly following the contraction in GDP experienced in 2017.

Although growth was expected to reach 2% in 2020 and gradually move to a steady rate of 3%, the quarterly national accounts for Q1 2019 released by the Namibia Statistics Agency paints a different picture.

The release showed that real GDP contracted by 2.0% for Q1 2019, marking eight contractions over the last 12 quarters (three full years).

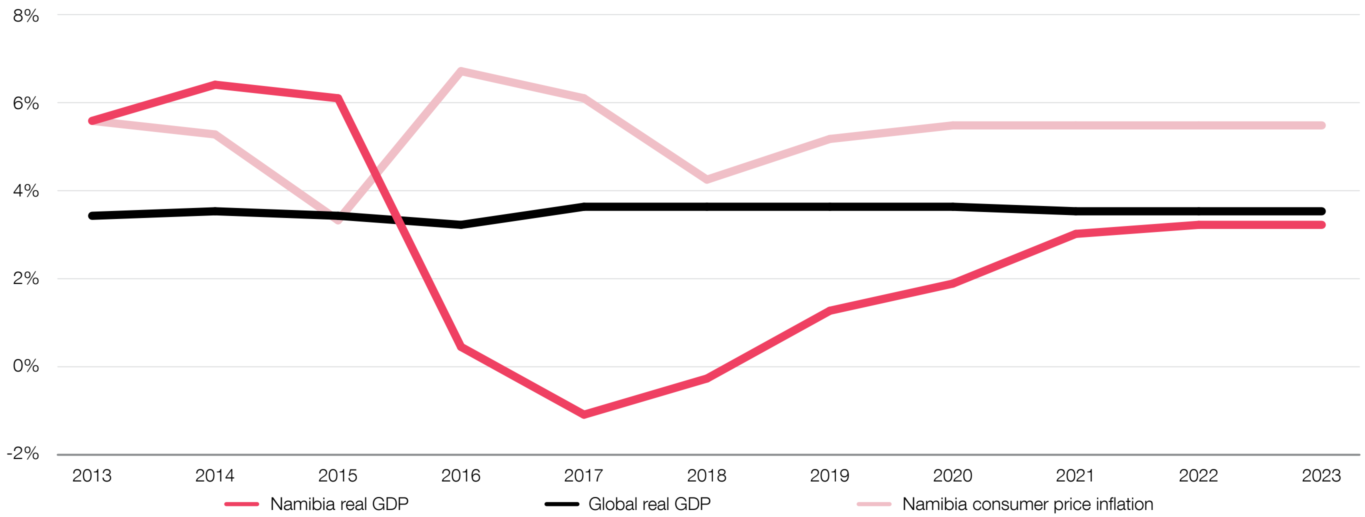
Poorer performance was recorded across most major sectors of the economy. The primary industries performed weaker than before, a significant contributing factor to the deeper contraction.

Real GDP growth and consumer price inflation (%)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2019-23 CAGR
Namibia real GDP	5.6	6.4	6.1	0.6	-0.9	-0.1	1.4	2	3.1	3.3	3.3	6.5	1.1
Global real GDP	3.5	3.6	3.5	3.3	3.7	3.7	3.7	3.7	3.6	3.6	3.6	3.6	3.6
Namibia consumer price inflation	5.6	5.3	3.4	6.7	6.1	4.3	5.2	5.5	5.5	5.5	5.5	3.5	4.6

**Annual averages.*
Sources: International Monetary Fund, PricewaterhouseCoopers LLP

Figure 37: Real GDP growth and consumer price inflation (%)



Sources: International Monetary Fund, PricewaterhouseCoopers LLP

Recent developments

The biggest challenge for accommodation providers in Namibia is the lack of technological enablement, resulting in a high dependence on a value chain (supplier-destination management company (DMC)- wholesale-retail-traveller) that is no longer sustainable. This leaves providers having to pay more commissions and offer lower rates in order for this value chain to stay competitive and/or become dependent on global market dominating online travel agents.

While the market segments this value chain addresses (age group 50+ in Germany, Austria, Switzerland and North America predominantly) will shrink in the future, the important 30-45 age group can't be attracted by this value chain as this generation prefers to do all their bookings online.

This results in a situation in which the accommodation providers give away between 60% and 80% or more of their profits to intermediaries. As a result, little tourism spend is being left in Namibia to pay for maintenance and rejuvenation of accommodation, or staff training and education. This impacts the quality of the guest experience.

The majority of the leisure travellers are from the German-speaking countries (Germany, Austria, Switzerland) followed by other European countries. They tend to be in the 50+ age group.

Namibian hospitality and tourism businesses need to collaborate and invest in a digital transformation strategy in order to gain back control of visibility, reputation and distribution in order to sustain and grow the industry.

Other factors also need to be addressed to increase Namibia's attractiveness as a tourist destination. These include road infrastructure, safety & security and water supply, together with the overall value for money that the country offers visitors.

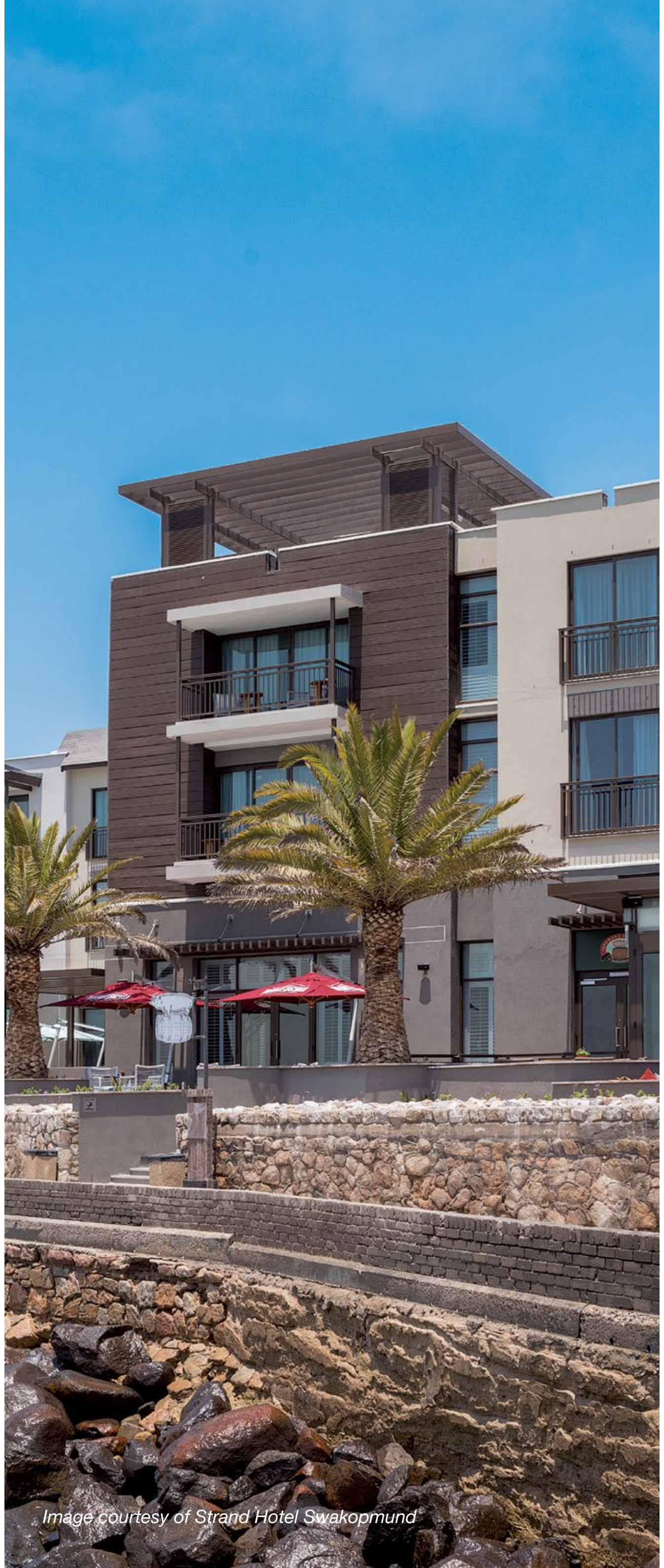


Image courtesy of Strand Hotel Swakopmund

AirBnb

In Windhoek (300+ rentals) and Swakopmund (400+ rentals), AirBnb has placed the hospitality market under pressure in terms of both supply and price. The category of 'home vacation rental' has not yet been officially recognised by the Namibia Tourism Board as a category and AirBnb providers cannot be registered for now. At the same time, regulations regarding the levying of VAT, income tax and a tourism levy are yet to be enforced on AirBnB accommodation. While this remains the case, we expect that the formal accommodation providers, especially in Windhoek and Swakopmund, will remain under pressure.

Tourist arrivals

To provide a clear picture of the hospitality and tourism market in Namibia, we have divided total arrivals figure into two categories: leisure tourists and business/friends & family-related travellers. Total arrivals in 2017 reached 1 608 018, an increase of 2.2% on 2016. However, 73.8% of visitors were from neighbouring countries and predominantly fell in the business/friends & family-related travellers category. Only 19.9% (320 139) arrived from Europe (mainly leisure tourism), 2.5% from North America (mainly hunters and leisure tourism) and 3.8% from the rest of the world.

An analysis of the total number of arrivals would suggest that the hospitality and tourism industry in Namibia is growing. This is not the case when the detailed figures of the source markets and market segments are taken into account.

Foreign overnight visitors from African countries, 2017

Country	Number of arrivals
Angola	447 269
South Africa	345 376
Zambia	213 184
Zimbabwe	96 028
Botswana	57 950
Other Africa	27 250
Total	**1 186 957**

Sources: Ministry of Environment & Tourism, Namibia Statistics Agency

Foreign overnight visitors from Europe, 2017

Country	Number of arrivals
Germany	124 971
United Kingdom	34 252
France	32 388
Switzerland	20 014
The Netherland	19 526
Italy	17 296
Other Europe	15 555
Scandinavia	12 410
Belgium	12 017
Portugal	11 863
Austria	10 196
Spain	9 651
Total	**320 139**

Sources: Ministry of Environment & Tourism, Namibia Statistics Agency

Foreign overnight visitors from other countries, 2017

Country	Number of arrivals
Brazil	3 454
Canada	8 852
China	15 220
Japan	4 167
United Arab Emirates	4 598
United States	31 674
Other countries	32 829
Total	**100 794**

Sources: Ministry of Environment & Tourism, Namibia Statistics Agency

The number of business travellers visiting Namibia declined by 8.6% in 2017 to 205 845. Namibia is yet to capitalise on the potential offered by business tourism or larger MICE sector.

Tourists stayed in Namibia for an average of 19 days. Arrivals from Africa had an average length of stay of 20 days, those from Europe stayed 18 days and from North America, 17 days, while other regions averaged 21 days.

Visitor profile

Visitors to Namibia are predominantly male (60.4%) and older adults. Visitors from Europe and North America in the 50+ age group made up 48.7% (175 756) total tourist arrivals from those regions.

Accommodation statistics

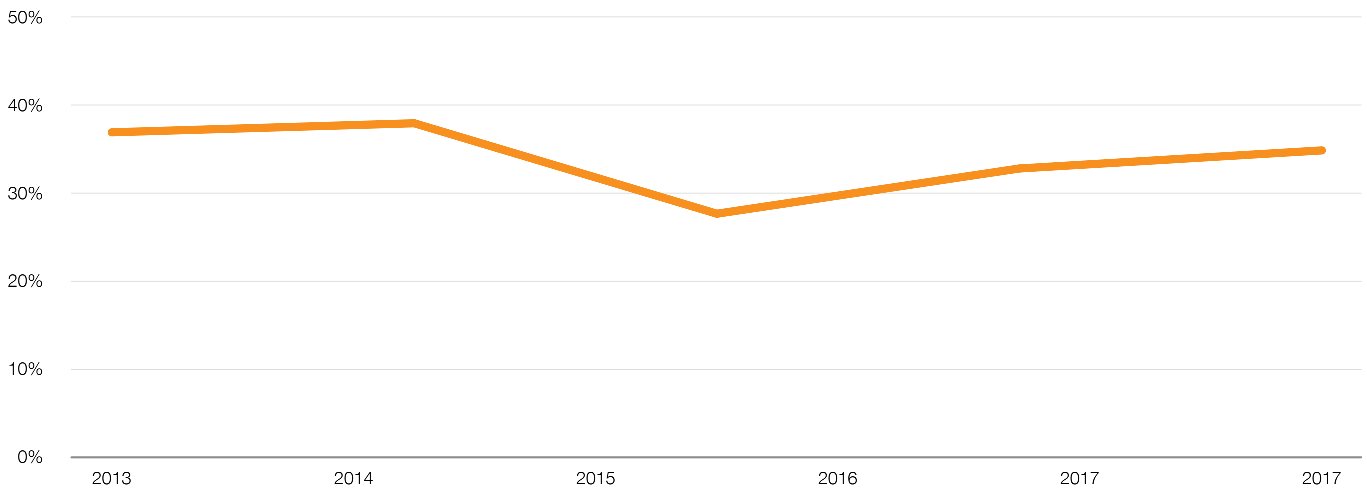
On average, the number of beds available for the year was 399 278.

The number of beds sold varied between 43 998 in December and 180 537 in August, but averaged 143 514.

Occupancy figures from 2013 to 2017 suggest that there has been no total growth in this period, but peaks and lows in the Namibian hospitality and tourism industry.

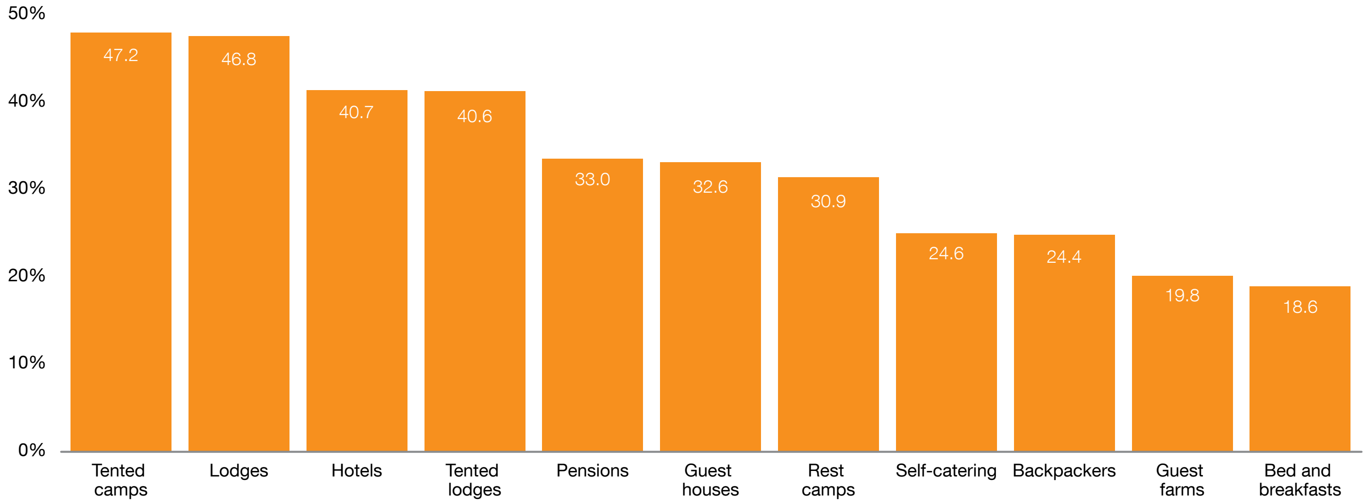
Image courtesy of Strand Hotel Swakopmund

Figure 38: Hotel occupancy rates, 2013-2017 (%)



Sources: Ministry of Environment & Tourism, Namibia Statistics Agency

Figure 39: Occupancy rate by accommodation type, 2017 (%)



Sources: Ministry of Environment & Tourism, Namibia Statistics Agency

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