# Hotels show signs of recovery from slump

By Alistair Anderson 25 Mar 2014

The South African hotel sector looks to be emerging from its post-Soccer World Cup slump based on occupanc and room-rate figures from last year.

Wayne Troughton says strong growth has been recorded in the past year. Image: How We Made it in Africa

Analysts and chief executives in the sector have said companies have turned a corner, after a difficult period during whicl over-supply as a result of development for the 2010 Soccer World Cup led to low occupation rates.

Hotels had struggled to pay back bank funding used during that period. But last year, hotels managed to raise room rates without putting downward pressure on occupancy rates growth.

The chief executive for Hospitality and Real Estate Consulting at HTI Consulting, Wayne Troughton, says a key metric last year was the increase in average daily rates for hotel rooms. "Last year cemented a strong recovery for hotels.

"The fact that across the board we saw increases in the average daily rate for rooms, across all stars, suggests hotel owne and managers are confident that demand is high."

## Average rates

The average daily rates for rooms in the country increased 10.2% last year, according to industry data company STR Global. The company says the main driver was a demand for rooms, which allowed companies to raise the rates.

All regions, with the exception of the Northern Cape, and all classes of hotels grew in terms of both rates and occupancy l year, indicating that growth was not solely a result of international leisure tourist arrivals and the weak rand.

"This is a clear indication that growth has occurred in all types of demand: leisure, business, international and domestic," Troughton says. "We predict occupancies for the country will achieve 65% by end-2014, with Cape Town achieving in excess of 68%, indicating stable recovery to healthy occupancy levels."

The figures show occupancy rates rose 3.6% last year in SA's hotel industry.

Troughton says the five-star market was the hardest hit after the 2010 Soccer World Cup, because of the high proportion supply growth in this segment but added that it had shown the strongest recovery.

## Impressive growth

Cape Town five-star hotels have recorded impressive growth of 22.9% in 2013, according to STR Global, which continued and accelerated in January.

"This is extremely positive and is set to continue. Reasons for this are the continued growth of overseas travellers, the wea
rand and the lower base from which growth occurred."

Hospitality Property Funds Andrew Rogers says the outlook remains positive for the conferencing sector. Image: HPF

The chief executive of JSE-listed Hospitality Property Fund, Andrew Rogers, says he has been surprised by the extent of demand for business conferencing. "Off the bat, Cape Town and some other provinces have had incredible tourism seaso over the summer. I am really impressed by demand for conferencing," he said.

The attraction of the weak rand for foreign businesses has not worked itself into hotel numbers yet. "The business traveller started coming here towards the end of last year and has continued this year," Rogers says.

## Conferences

"Many of the contracts related to this work would have been drawn up months ago, before the rand weakened. We should see a further rand effect with even more conferencing. We have not even seen pre-national election conferencing yet."

Rogers says that volume tracks rates, and since rates rose substantially last year, occupancy growth should pick up and ease the discrepancy between rates and occupancy growth.

"The key is that revenue per available room is rising, which suggests hotels are set for a very good 2014," he adds.

Growth in revenue per available room takes into account occupancy growth and average room rate growth. This key measure grew 14.7% for the hotel industry overall in the second six months of last year.

Even though last year showed a recovery for hotels, Clifford Ross, the chief executive of The City Lodge Group, says som factors may have skewed the sector's performance.

"While there were certain areas or regions that performed better last year than in 2012, this was not all over the country," Ross says.

"Areas where international tourists visit, like Cape Town, did better than in the prior year, but this was only in the second h of 2013.

"The early part of last year was also skewed by the African Cup of Nations soccer tournament, hosted by South Africa, which boosted occupancy in areas like the Eastern Cape and Mpumalanga and that won't happen again for some time.

Clifford Ross says some uncertainty mars the immediate outlook. Image: Who's Who in Southern Africa

He believes business travel last year was affected by slow economic growth, labour unrest in the mining industry and manufacturing industries.

## Abnormal factors

"December was naturally not a normal month and was very skewed in the Gauteng region as a result of the passing of Nelson Mandela," Ross says. "This will not happen again, so should be discounted."

"In fact, uncertainty in South Africa this year could damage the hotel sector," Ross said.

"The hotel and hospitality industry is subject to the vagaries of the business travel and tourism markets, and these are in a uncertain space at the moment," he says.

"What with strikes, civil protests, electioneering and upcoming elections, interest rate increases, petrol price hikes and unusually wet weather, business confidence is likely to remain subdued in the lead-up to May's election.

"Beyond that, we believe occupancies will improve because of a lack of new accommodation capacity coming on stream a improved demand," he says.

Rogers says that very few new hotels are under construction in South Africa, which will favour owners of existing ones.

"There will be deals to build new hotels over the next three years or so, but as it stands we have demand which is outstripp supply, so those companies that already own hotels are set to benefit.

"Banks are also being more careful in funding hotel businesses and I think there is now a slim chance of sudden supply coming to market," he added.