Unpacking Namibian hospitality trends

Looking back 2010 and 2011

1st Edition - September 2012

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Namibian hospitality overview

First Namibian edition

PwC's team of hospitality specialists provide an unbiased overview of how the hospitality industry in Namibia has featured in the last year.

The publication focuses on the accommodation segment of the tourism industry and details the key trends observed and challenges facing these industry sectors.

About PwC's hospitality industry group

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

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

Looking back, 2010 and 2011

PwC firms provide industry-focused assurance, tax and advisory services to enhance value for their clients. More than 168 000 people in 158 countries in firms across the PwC network share their thinking, experience and solutions to develop fresh perspectives and practical advice. See www.pwc.com for more information.

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

Research methodology

Historical data were derived from our analysis of the Namibia Tourism Board's (NTB) data on the Accomodation and Tourism Statistics January to December 2011, the Ministry of Environment and Tourism Tourist Statistical Report of 2010 and other information on industry trends.

It has to be noted that statistics on Namibia tourism are still limited at this stage and hence for the purposes of this publication the analysis was restricted to available data.

Due to the absence of recent data the publication will not focus on the trends in competition, pricing and the provision of forecasts and economic prospects for Namibia for the sector. These are all scenarios that will be presented in the second edition of the publication, when data becomes available.

The data collected however has served to develop a quantitative and empirical analysis of the performance of the different Namibian hospitality establishments for the years 2010 and 2011.

Windhoek
August 2012

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

We are pleased to present to you our first hospitality thought publication, Unpacking Namibian hospitality trends. The publication looks at the industry in Namibia in retrospect, looking at the performance of the main players and the constraints they face in a volatile global travel and tourism trade.

Tourism in Namibia had long been identified by the Namibian government as one of the most promising industries in the realization of the Millennium Development Goals (MDGs) and our own Vision 2030. In addition to the high prospects of employment in the sector and envisaged improvements in the livelihoods of the rural populace through Community based Natural Resource Management (CBNRM), the industry is also seen as one of the more sustainable trades.

The world economic recession, whose impacts began to be felt in 2008, has contributed to declining foreign tourist arrival numbers throughout 2009 and 2010, and curtailed the growth that the industry was experiencing in the mid-2000s. Even the FIFA World Cup staged in neighbouring South Africa during the months of June and July 2010 failed to meet the expectations of owners and directors of tourism establishments.

This publication provides an insight into the post-2010 era and the performances of Namibian tourism establishments for the years 2010 and 2011. The numbers generally indicate a need to diversify and look for new markets; especially domestically and regionally.

We at PwC continue to stay on top of trends and developments that may impact hospitality companies, now and in the future, and look forward to sharing our thoughts further with you. We appreciate your feedback and ask that you continue to tell us what we can do to make our publications more relevant and useful to you.

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

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

Sincerely,

Seretta Lombaard
Partner
Hospitality Leader
PwC Namibia

Unpacking hospitality trends

Namibian hospitality outlook

The Namibian hospitality industry is characterized by accommodation and service providers operating in a land of contrastingly beautiful landscapes, abundant wildlife and cultural diversity.

The destination has long been sought after for its sense of space and ease of getting around. The full spectrum of accommodation providers in this industry includes hotels, guest houses, guest farms, lodges, rest camps, pension hotels, backpackers and bed & breakfasts.

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

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

Advances in telecommunications, particularly the development of sophisticated videoconferencing, create a credible substitute for business travel, which exacerbates its vulnerability to a recession.
When the economy is expanding, however, there is often a more than proportional increase in business travel. Opportunities for generating new business are greater, there is

less pressure to reduce costs and travel to conventions and trade shows generally expands when the economy is growing. Face-to face meetings are still preferred notwithstanding the ability to communicate via videoconferencing.

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

For these reasons, overnight travel requiring the use of hotels and other accommodation tends to expand rapidly when the economy is strong but contracts sharply when the economy is weak or declining. The supply side has its own cycle, which is sometimes even more volatile. Hotels and lodges are expensive to build and there is a relatively long time lag between planning a hotel project, completing construction and generating revenue. Consequently, hotels, and major real estate projects in general, are among the more risky investments.

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

Because developers and lenders

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

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

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

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

Namibia had previously relied on visitors from Germany, the United Kingdom and other countries in Europe. The weak economy in Europe has limited tourist and business travel from those countries but resilient economies in China and India are boosting tourism to Southern Africa, of which Namibia is receiving increasing numbers, though there is limited data to support this claim. The Namibia Tourism Board (NTB) has moved to strategically align the country's position as a destination in China by creating the initial linkages between buyers and sellers of tourism services.

Regionally, the country has started to benefit from increased business travellers from neighbouring countries and the rest of Africa. Air Namibia now schedules weekly direct flights a week between Zambia, Zimbabwe, Ghana and Angola, in addition to the daily South African routes.

Neighbouring South Africa has experienced growth in tourism from Asia and from Brazil, Colombia and Chile in South America, where economic growth for 2011 has ranged between 9.8% and 14.9%. These are all new markets that Namibia should aim to penetrate in order to give the providers of tourist accommodation in Namibia a return on investment and create the necessary jobs.

Occupancy

2011 signalled a relative increase in occupancies across all types of accommodation in Namibia, as the pace of the global travel market's recovery from its slump in 2008 remained slower than expected.

Compared to 2010, average occupancy rates in Bed and Breakfast establishments remained static at 22% in 2011 during the period January to December, while the occupancy rates of Hotels (32% to 30%), Hotel pensions (36% to 35%) and Tented lodges (46% to 32%) recorded a decline.

However there were marked improvements for some accommodation types, which in turn yielded positive results. Accommodation establishments that performed very well in 2011 included: Rest camps (31% to 42%), Self caterings (19% to 20%), Tented camps (41% to 43%), Lodges (40% to 42%), Guest farms (15% to 17%) and Backpackers (20% to 21%).

As a result of this, the average occupancy figures for all accommodation establishments between January and December 2011 was 30% compared to 28% in 2010 during the same period. (See figure 1)

The same holds true for the number of beds the tourism establishments were able to sell in 2011. (See figure 2)

Figure 1: Total average occupancies across all accommodation types for Namibia.

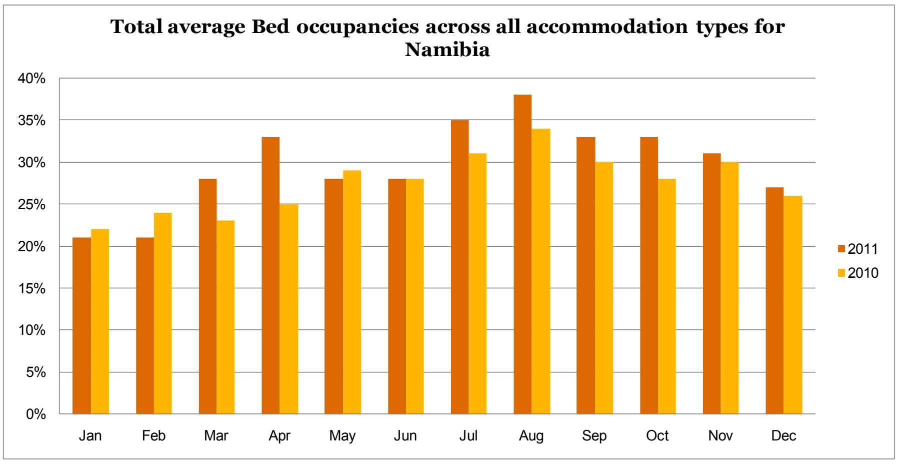
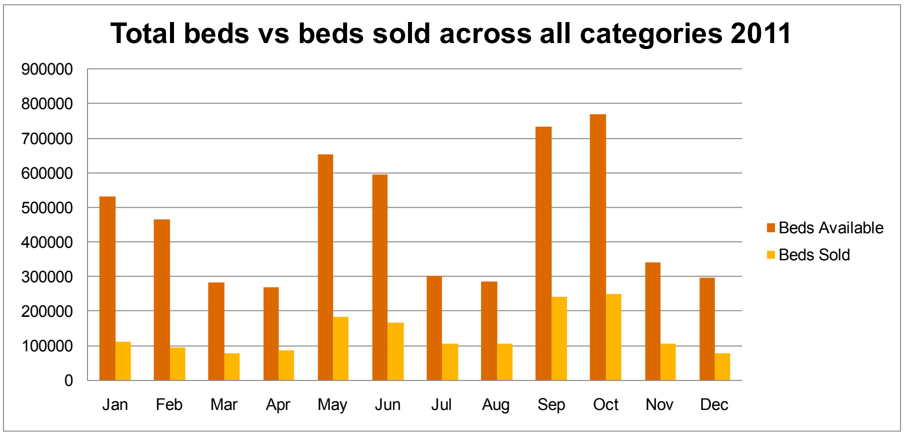
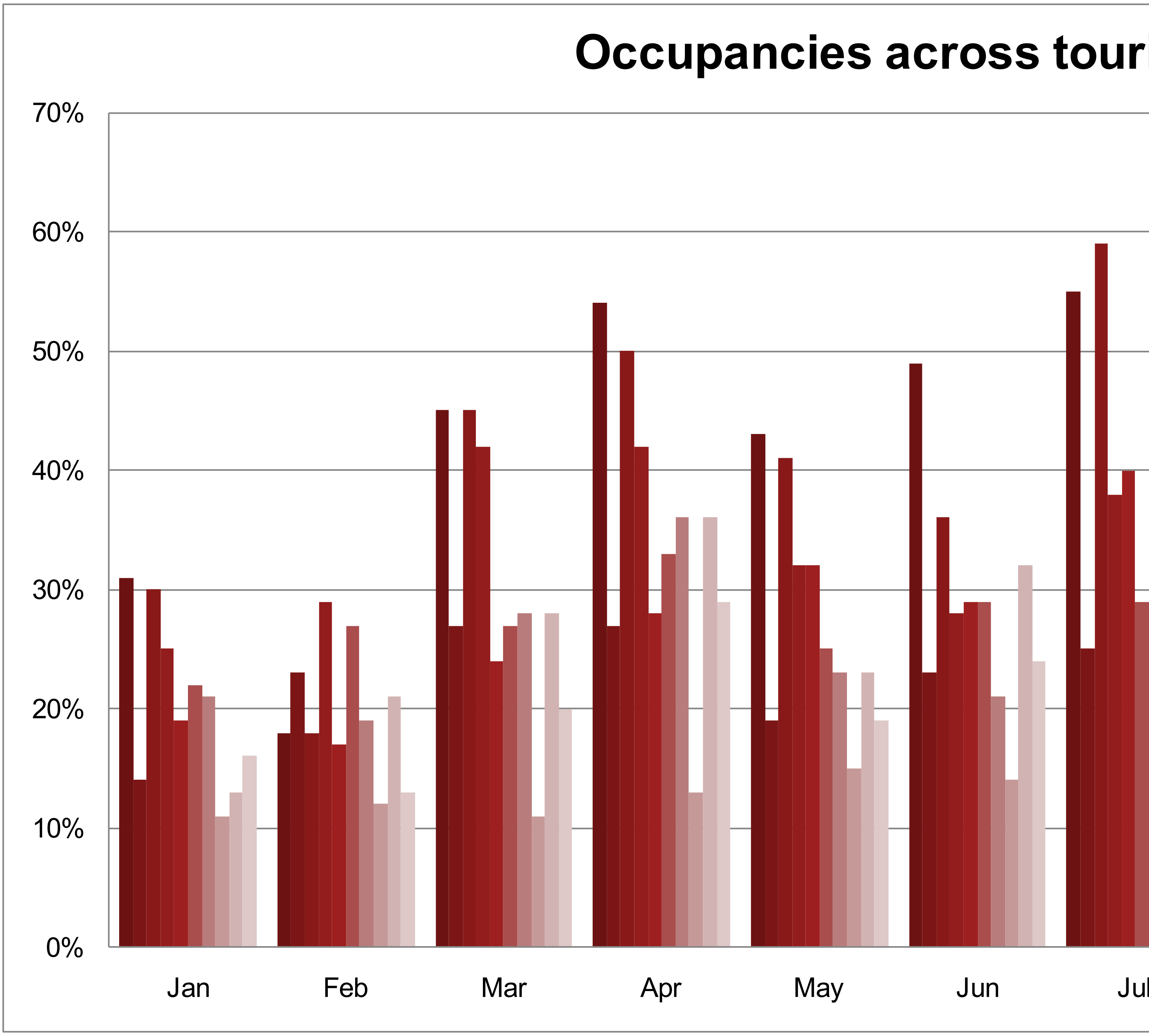


Figure 2: Total beds vs beds sold across all categories 2011.



Trends in Occupancy per accommodation type

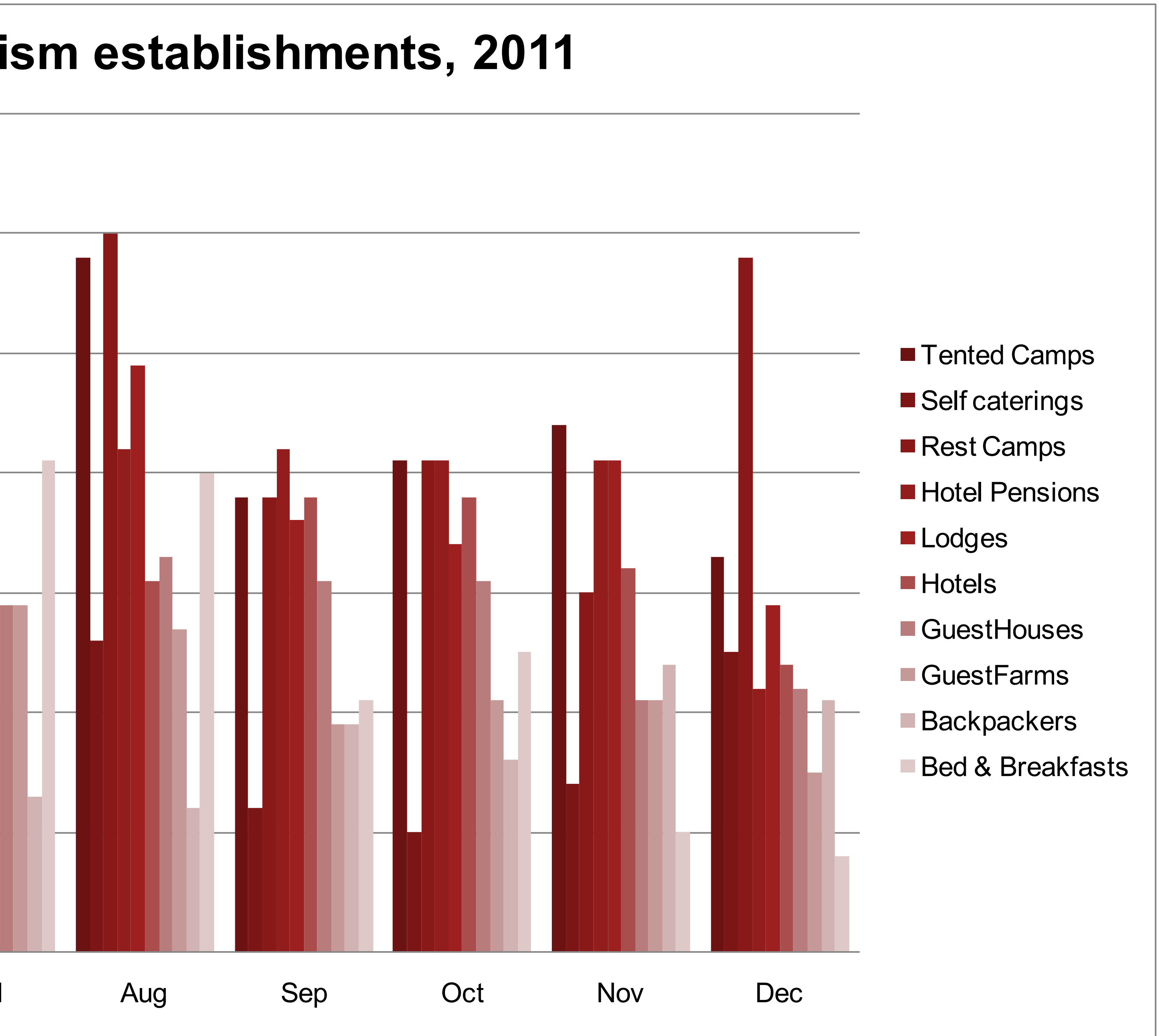


Analysis of occupancies across all tourism establishments for 2011.

The analysis shows that facilities in the categories Rest Camps and Tented Camps have both maintained an average of 42% throughout the year while Lodges increased their average occupancy from 28% in 2010 to 32%.

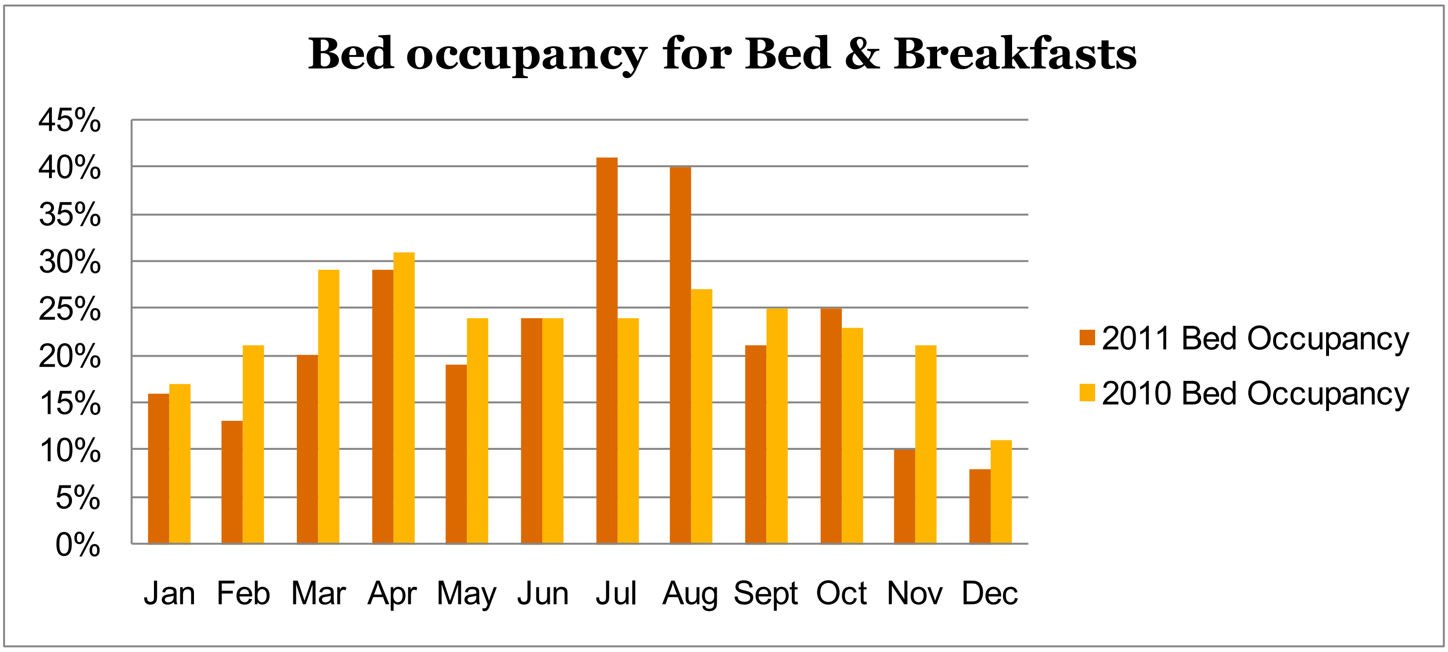
The monthly variations are typical of Namibia's hospitality season with rises in monthly occupancy coming in the months of March, April, June, July and August.

The month of December in particular proved a good month for Rest Camps with the local market responding to the special discounts offered during the holiday season.



Please take note that information is ONLY for those establishments that provided the data.

Figure 4: Bed occupancy for Bed & Breakfasts



Bed & Breakfast accommodation providers have also experienced lower occupancies in 2011 compared to 2010 during the traditional low seasons (September – March), with the exception being the months of March and April which are largely attributable to the South African school holidays and the Easter and Independence holidays in Namibia.

Figure 5: Bed occupancy for Hotels

Hotels in Namibia recorded decreased bed occupancies of 30% on average in 2011, a decrease of 2% from 2010.

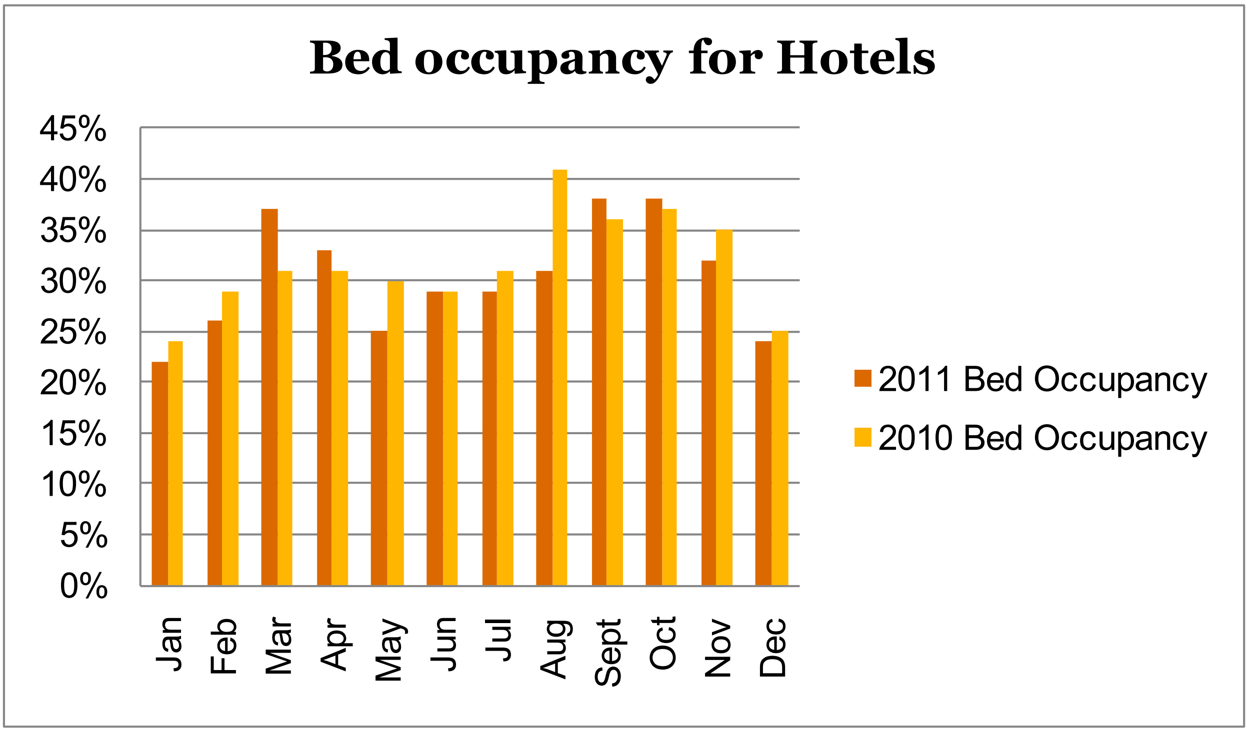


Figure 6: Tented Camps

Tented Camps and tented lodges have long been the most favoured of the tourism accommodation types in Namibia with the positioning and possibility of experiencing the Namibian wildlife and outdoors a major pulling factor.

It has been no surprise therefore that this category has recorded the highest occupancies throughout the year. Tended Camps have on average improved their occupancies in 2011 to 42%, an improvement of 2% from 2010, while Tented lodges have seen a decrease in average occupancy from 46% in 2010 to 32% in 2011.

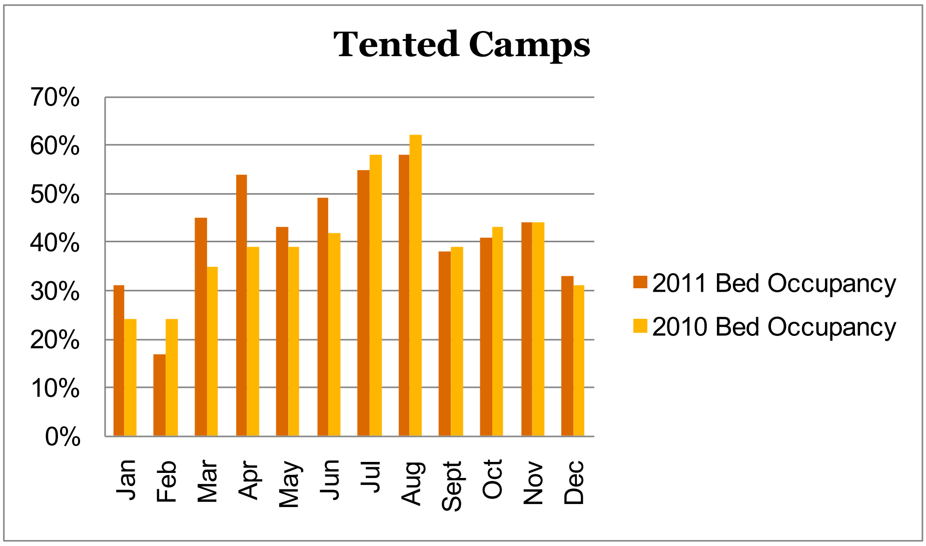


Figure 7: Tented Lodges

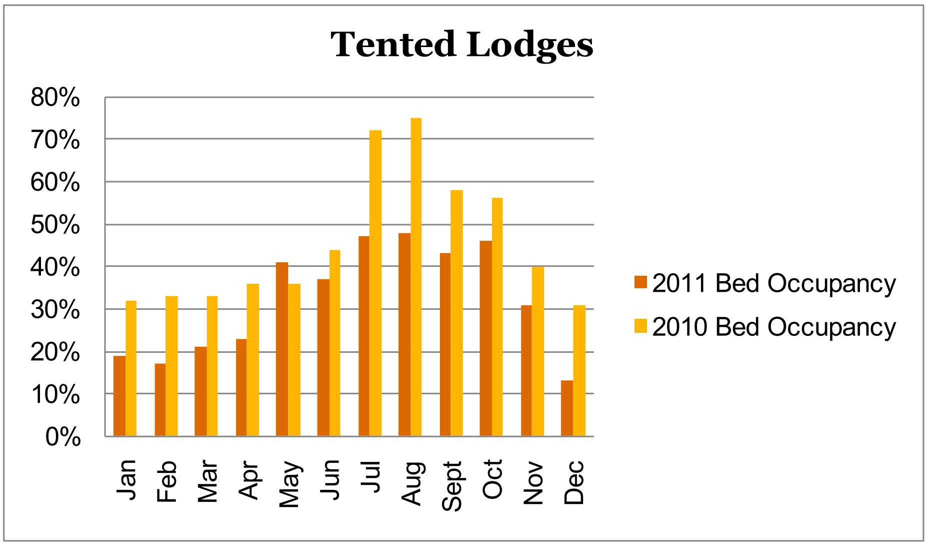
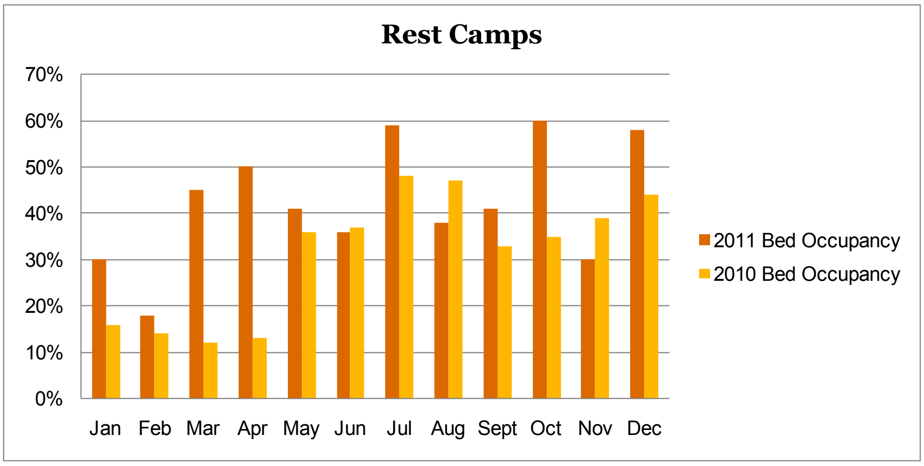


Figure 8: Rest Camps



Rest Camps are the most popular accommodation type in Namibia and have seen a relative increase in 2011. The average occupancy in 2011 has grown to 42% from 32% in 2010.

Nationality trends per region

Figure 9: Namibia

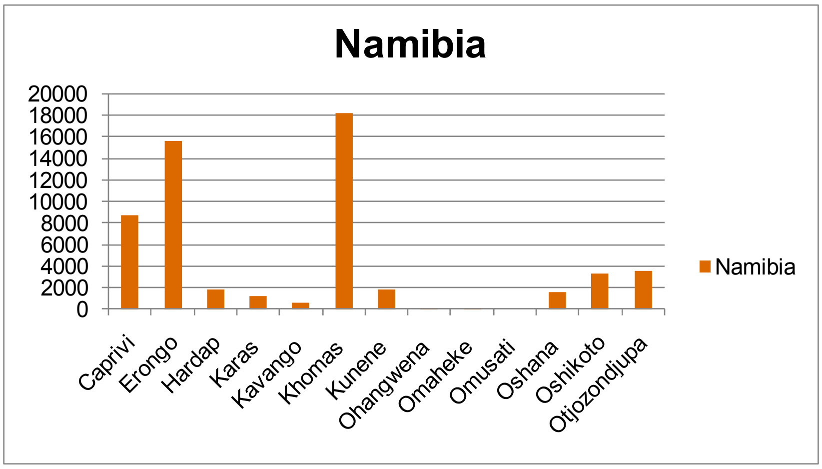


Figure 10: South Africa

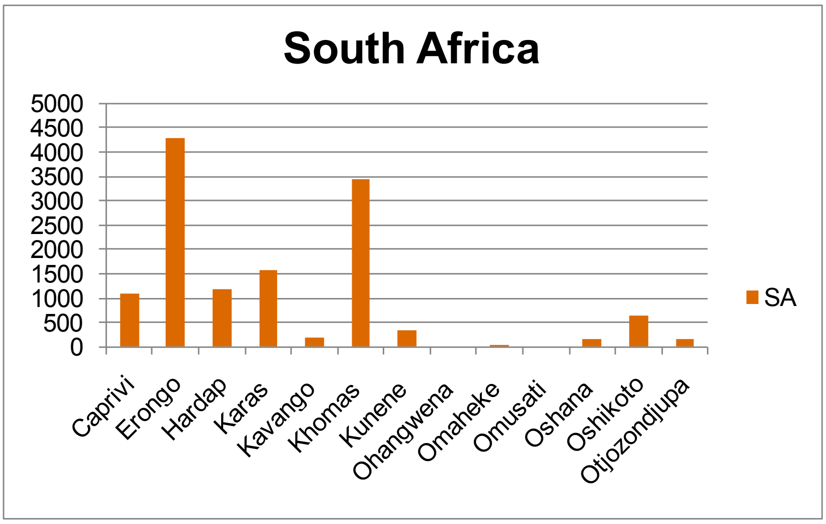


Figure 11: Rest of Africa

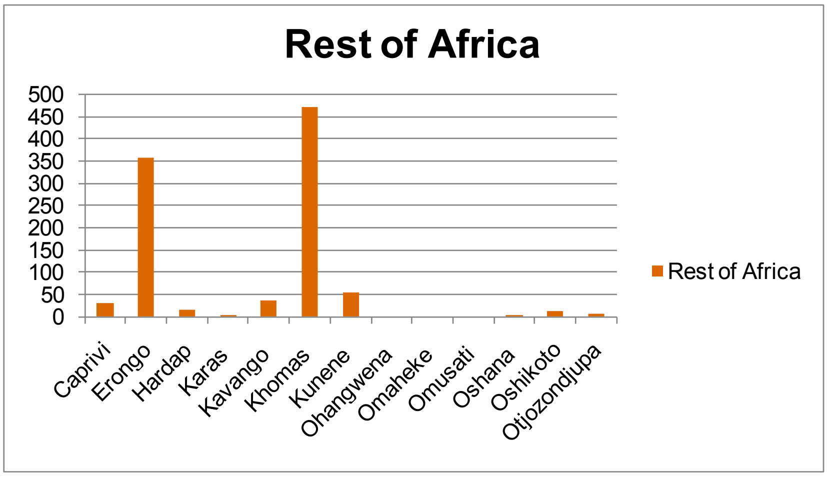
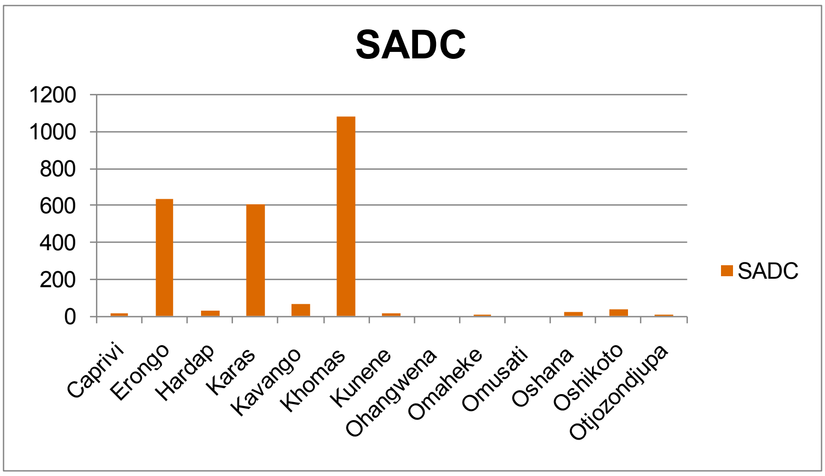


Figure 12: SADC



Namibians with Wanderlust

Of the close to 43 160 recorded visitors to Hospitality facilities in the Khomas region, 42% were Namibians. Namibians were also seen to take up most of the recognized occupancy in the Erongo and Caprivi regions, recording 46% and 80% respectively.

Dependable South Africans

South Africa shares a long colonial history with Namibia. Because of a shared language, Afrikaans; and the linking of the N$ to the Rand, South African nationals find it easy to get around Namibia. They are known to visit the country during peak seasons during April and March, characterized by the South African holidays and December.

They have mostly been seen to visit the Erongo region; recognized for its popular and varied angling destinations, a favourite pastime for them. It is also a region from where the Namib-Naukluft and Skeleton Coast Parks can be explored.

The Rest of Africa chip in

The majority (50.3%) of visitors from the African Region to Namibia, as reported in the Ministry of Environment and Tourism Statistical Report of 2010, come to visit relatives and friends. Not many make use of tourist accommodation and hence the low numbers reported.

Tourist Accommodation Statistics Jan - Dec 2011 - Namibia Tourism Board (2011)

Resolute Germans

In Germany, the global recession appears to be having a limited impact on outbound travel. Regardless of a weakening economy Germans have still be making up the largest number of European arrivals and hence users of tourist accommodation in Namibia.

Namibia is still a big drawing card for German tourists as the figures suggest. German architecture in Swakopmund (in Erongo region) and Windhoek (Khomas Region) typify the remnants of a colonial history dating back to 1884 and also present a type of cultural tourism strongly linked with German visitors to Namibia.

The United Kingdom

In the UK, holiday makers seem to have responded to the global recession by adopting cost-conscious measures when planning their holidays and prefer to spend their funds on short European and/or domestic holidays. This is reflected in the numbers of UK citizens taking up accommodation in Namibia

France, Italy and Spain

The economic prospects for these three countries have grown gloomy in mid-2011. This is explained by the low number of tourists coming from these countries. The short term prospects for holidaymakers from these countries to undertake long-haul trips to destinations such as Namibia are greatly reduced by debt crisis of 2011.

Figure 13: German speaking

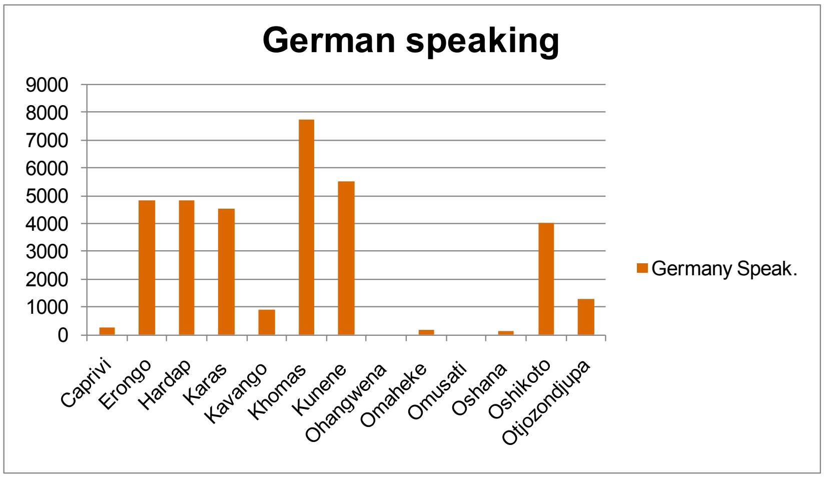


Figure 14: France

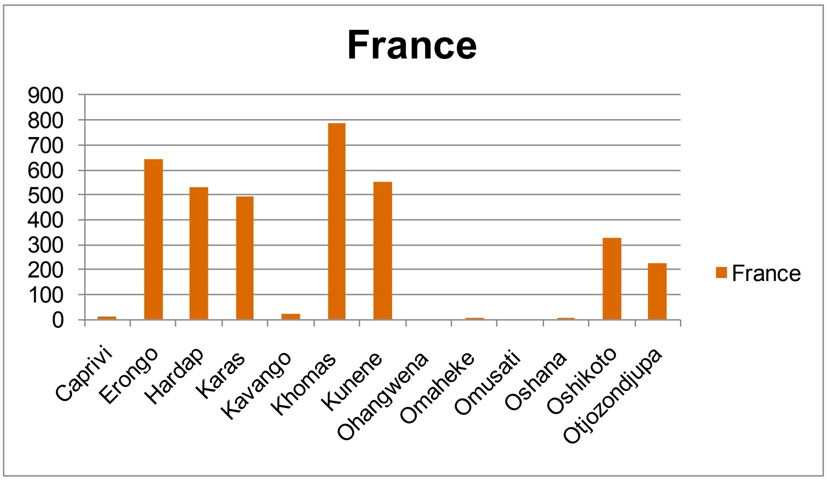
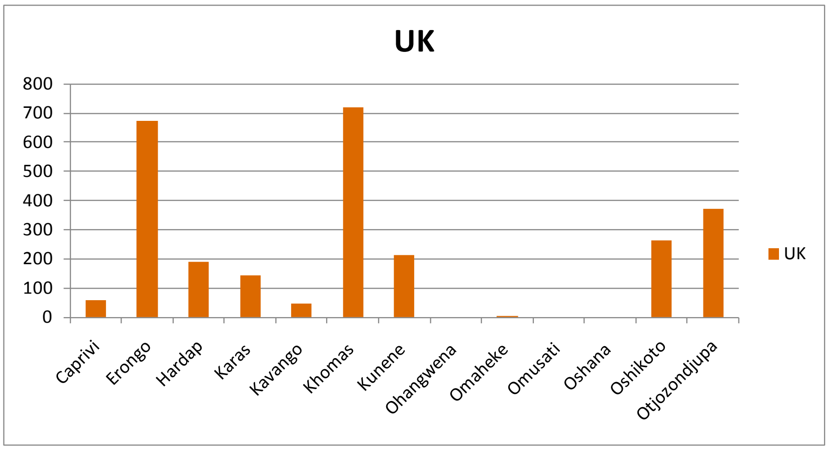
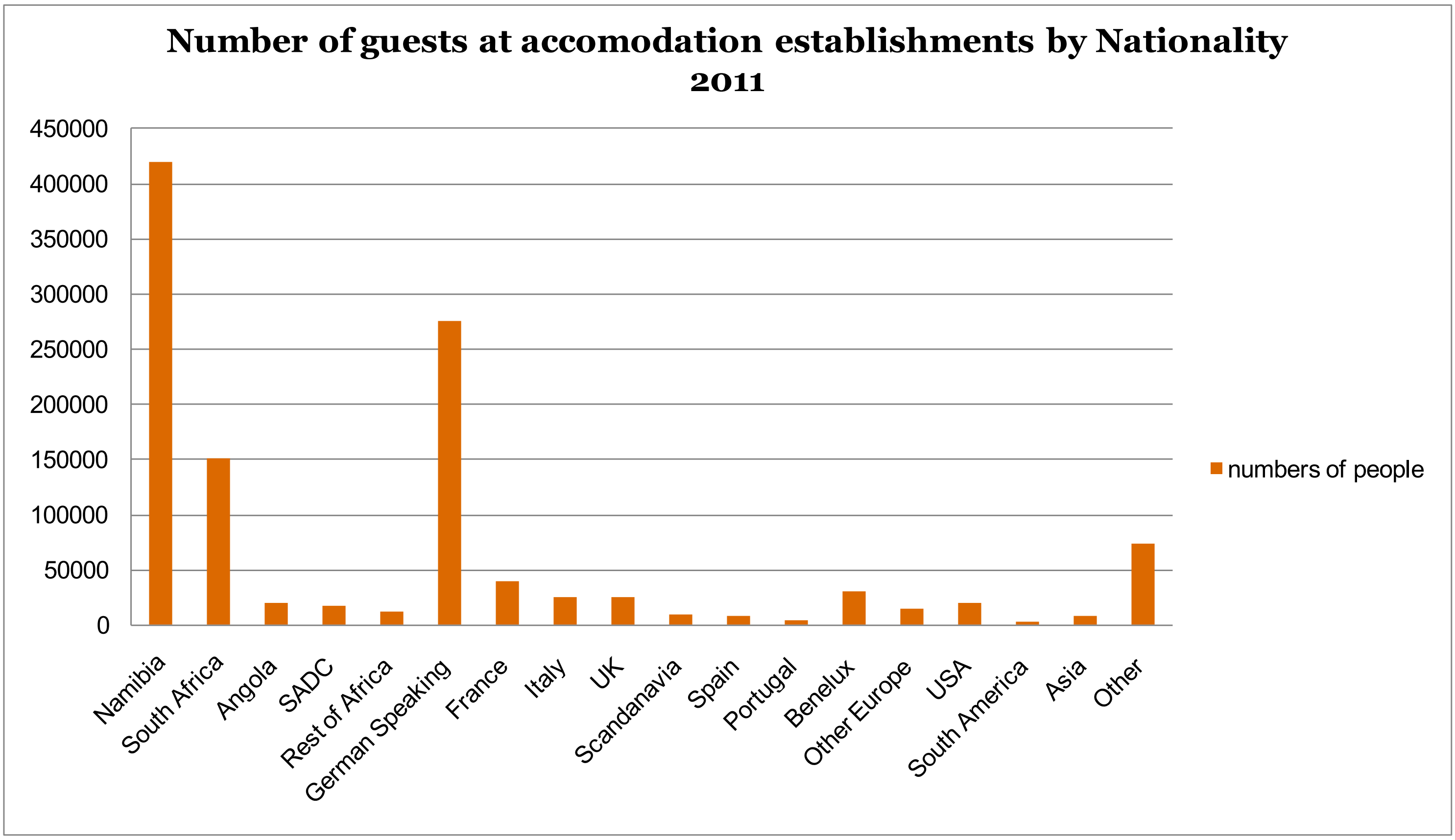


Figure 15: UK





The analysis shows that out of all the tourism establishments that provided data on the nationality of their occupants, the domestic market (Namibians) accounts for 39% of their occupancy which is almost evenly distributed throughout the year, followed by German speaking nationalities (25%). South Africans account for 9% occupancy.

With the numbers of foreign visitors declining over the last few years there has been a major shift towards providing incentives for the domestic market to make use of accommodation. The regional trends show that Namibians mostly visit the Erongo region with almost 46% of the total of 34,110 visitors to the region in November and December 2011.

Overall, the most visited region is the Khomas region followed by the Erongo region.

Conclusion

The Namibian hospitality industry will continue to be faced with the challenges of low occupancies in the short term.

Accommodation providers will also be under pressure with regard to their rates and will need to turn to the potential presented by the domestic, regional and African markets to fill the gap vacated by the European market, which is still faced by the reality of the Euro debt crisis.

There is, however, optimism in the market with some signs of recovery translating into improved occupancies in certain sectors. Exceptional innovation and value addition in terms of product packaging, pricing and promotion is needed in order to ensure increased participation by the domestic market in this regard.

Namibia has also long been focusing a majority of its visitor experience on leisure and holiday tourism, which is based on landscape scenery and wildlife. However increased occupancies will be realised by industry players who are able to diversify their product offerings from just merely accommodation to cultural and adventure tourism; and Meetings, Incentives, Conferences and Events (MICE). This is an area that sets the towns of Windhoek and Swakopmund apart as destinations that the Namibian corporate sector looks to spend money in.

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