

# *Making room for revenue*

## South African hospitality outlook: 2011 – 2015

*First South African edition*

*July 2011*



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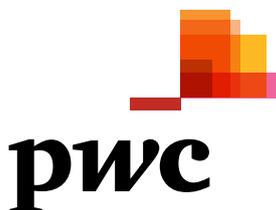
## ***About PwC's hospitality industry group***

Following a steep economic decline in 2009 and the windfall of the 2010 FIFA World Cup, this publication provides an overview of how the hospitality industry in South Africa is expected to develop over the coming years. The publication focuses on the following major industry segments: hotels, guest houses and farms, bush lodges, caravan/camping sites and other accommodation. It details the key trends observed and challenges facing these industry sectors as well as considering their future prospects.

South African hospitality outlook: 2011-2015 provides deep knowledge of the local hospitality market and is a powerful tool for understanding critical business issues. To learn more about the challenges and opportunities that lie ahead for the hospitality industry in South Africa, please visit [pwc.com/za/hospitality-and-leisure](http://pwc.com/za/hospitality-and-leisure).

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

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



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

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## ***Research methodology***

Historical data has been derived from our analysis of Smith Travel Research (STR) data and Statistics South Africa data combined with other information on industry trends. As some of the historical data is generated through surveys, there were year-to-year variances that occurred because of entities of different sizes being sampled rather than because of underlying industry trends. We applied a harmonising model to smooth out those variances in order to better reflect underlying market trends.

We then developed forecasting models based on the historical performance for each category, economic prospects for South Africa and the rest of the world and estimates of domestic and international overnight travel in South Africa. We also took into account unusual events such as the FIFA World Cup in 2010 as well as competition, pricing trends and the expected reaction of proprietors to changing occupancy rates.

Quantitative research and analysis was provided by Wilkofsky Gruen Associates Inc., a provider of global research and analysis of the hospitality industries. See [www.wilkofskygruen.com](http://www.wilkofskygruen.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.

## ***Use of Outlook data***

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Johannesburg

26 July 2011

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

Welcome to *South African hospitality outlook: 2011-2015*. This publication focuses on segments within the hospitality industry with detailed forecasts and analysis. Each segment details the key trends observed as well as key challenges and future prospects.

In 2009, the global recession severely impacted economic activity, translating into steep declines in foreign and domestic travel.

Overall spending on rooms in all categories in 2010 amounted to R13.9 billion, reflecting a rise in visitors because of the 2010 FIFA World Cup.

The market will return to its underlying trend in 2011, which means that compared with the inflated totals for 2010, the average room rate will fall, stay unit nights will decrease and room revenue will decline. We project spending to fall 7.1% in 2011 to R12.9 billion, the result of a 2.5% drop in stay unit nights and a 4.6% drop in the average room rate.

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

If you would like clarification on any matters covered in this publication, or you believe we can be of service to your business in any way, please contact one of our hospitality specialists listed on page 43 in this report.

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

Sincerely,



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

# *The South African accommodation market*





*This is our first publication focused on the revenue earned by the accommodation sector within the South African hospitality industry.*

*This report focuses on hotels, guest houses, bed & breakfast establishments, guest farms, caravan sites, camping sites, bush lodges, and other overnight accommodations. Its scope is limited to revenue that is generated from providing accommodation. Revenue from food and beverage and other services provided by hospitality providers is excluded.*

*The ultimate aim of this report is to provide a synopsis of historical performance for the 2006-2010 period and to forecast key revenue indicators for 2011-2015. We will be issuing this report on an annual basis from now on and believe it will become a useful reference tool for all players in the hospitality industry. We foresee that the level of detail and analysis, as well as contributions from those in the industry will increase in future publications.*

## Introduction

We are all aware of how the hotel and accommodation market is affected by the economy, by trends in foreign and domestic travel, the political stability of the country and region, and the infrastructure provided by the country.

Hotels require a major financial investment and there is a significant time lag – generally three to five years – between the decision to build and the day a hotel opens for business. During the construction and development phase, major outlays are required before revenues begin to be realised. In many cases third-party financing is needed to assist hotel owners and investors. Once built, the hotel is expected to generate revenues for many years to provide an acceptable level of return.

The nature of the investment affects how the decision to build is made. Hotel operators and owners want assurance that there is sufficient demand for rooms to provide a reasonable return on the investment. Finance providers require assurance that the enterprise will be sufficiently viable to repay the loan.

Because estimates of future demand are by definition speculative, all parties look to current market conditions to determine whether or not an investment in a hotel is warranted.

Revenue per available room, which is driven by room rates and occupancy rates, is a key indicator of the underlying health of the market. Rising occupancy rates usually

means that demand is growing faster than supply and if that trend continues, there will be room for new entrants into the market. Falling occupancy rates, by contrast, indicate demand is growing more slowly than supply, which makes it difficult for new entrants to thrive.

Price is also an indicator of the direction of the market. Typically, proprietors are reluctant to reduce rates to occupy unused rooms because it creates an expectation of lower rates and gives potential tourists an incentive to wait for the best deal, making it more difficult to subsequently raise rates even when demand improves. Consequently, prices either grow slowly or rapidly but rarely fall. Nevertheless, if sellers can sustain price increases without significantly affecting occupancy rates, revenues will rise and the potential return on the investment improves.

The hotel and accommodation industry depends on both domestic and foreign travel for holiday and business guests. The economy has a major impact on business travel as it is itself an investment whose ultimate purpose is to attract or retain clients and drive sales. The return on that investment improves when the economy is strong, but business travel is easily cut when the economy is weak. Also, the availability of sophisticated telecommunications tools such as videoconferencing is cutting into the market for business travel, particularly during economic downturns. The health of the

South African economy affects both domestic and international business travel.

Holiday travel is also influenced by the economy, but from a consumer's perspective. For consumers, rising disposable income allows for increased spending on discretionary purchases such as vacations. When disposable income is stagnating or falling, consumers cut back on discretionary purchases or may change to a cheaper accommodation or vacation option. The domestic economy affects domestic holiday travel, while the global economy impacts on international travel to South Africa.

Holiday travel also requires destinations that are appealing to visitors. South Africa offers beautiful beaches, luxury game lodges with their variety of wild life, world-class casinos and resorts, shopping malls and extensive sports and recreational facilities. South Africa does, however, face certain challenges which may negatively influence foreign holiday travel such as perceptions of the crime situation and the long distance of South Africa from the European and North American markets, coupled with rising oil prices and hence cost of air travel. The recent strengthening of the Rand has impacted South Africa as a "value for money" destination. Nevertheless, South Africa does have much to offer foreign and domestic visitors and international events such as the 2010 FIFA World Cup help to attract visitors and promote the country globally as a destination.

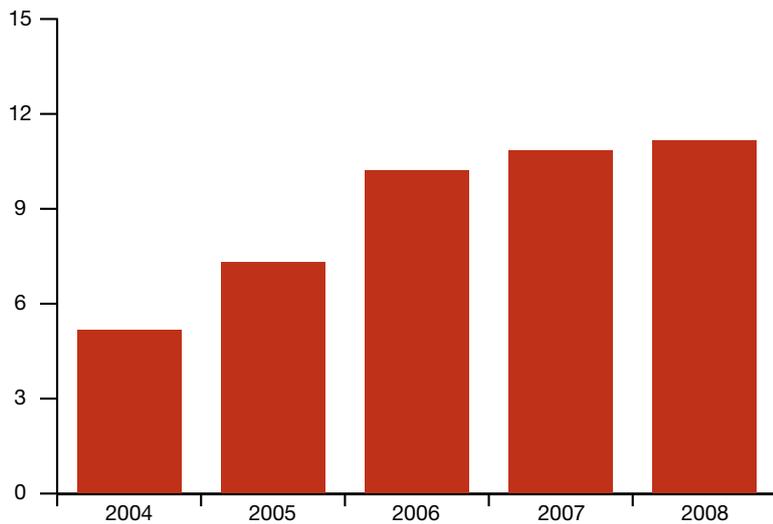
## The demand side of the accommodation market

The South African economy experienced a long-term expansion phase that began in late 1999 and extended through to the first half of 2008, the longest upward cycle in its history. Real economic growth averaged approximately 4% annually during this period.

The global economy generated sustained expansion from 2002-3 through to the first half of 2008.

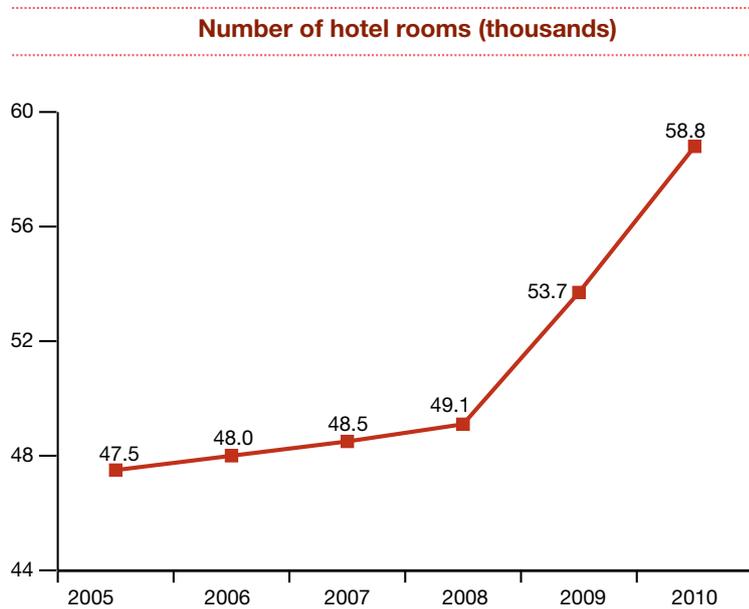
The domestic tourism and travel market took off at the beginning of 2004 with the number of overnight visitors to, and within, South Africa nearly doubling between 2004 and 2006 to 10.23 million. It then rose by an additional 940 000 between 2006 and 2008. Growth in travel and tourism boosted hotel visits, raised occupancy rates and fuelled accommodation revenue.

Foreign and domestic visitors (millions)



Source: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

## The supply response by accommodation providers



Source: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Market trends clearly indicated a growing demand for hotel rooms. As is typical in the accommodation industry, many people within and outside of the industry saw the same opportunities at the same time. Equally typical, lenders also recognised these opportunities and were willing to provide capital to expand capacity.

The lure of the 2010 FIFA World Cup and the number of visitors expected for the event contributed to the appeal of investing in hotel space and also made it easier to obtain financing.

Given the time lag between planning a hotel and opening one, it was not until 2008 that new hotels began to reach the market. Between 2005 and 2008, the number of hotel rooms rose by 1 600. Between 2008 and 2010, approximately 9 700 additional rooms were added.

To put this figure in context, the addition of 9 700 rooms can accommodate an additional 3,5 million visitors annually. Even if the economy continued to expand at a healthy rate, the increase in the supply of hotel rooms would have exceeded any reasonable expectations of growth in demand.

Unfortunately, by the time the new hotels began to open, economic conditions had worsened, tourism slowed and supply began growing faster than demand. While not nearly as severe, new hotel construction in South Africa has created a glut in hotel space putting room rates under pressure.



## The economy

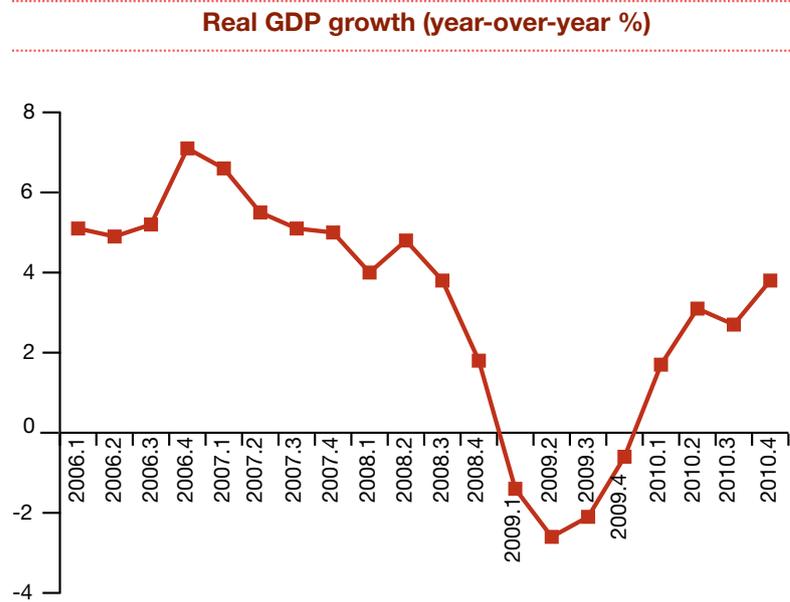
The South African economy was booming in the middle of the previous decade, growing at real rates in excess of 5% from mid-2006 through to the end of 2007. By the third quarter of 2008, economic growth was still at, or above, 4%.

However, South Africa was not able to avoid the global downturn that started in the fourth quarter of 2008 and extended through much of 2009. GDP growth in 2009 decreased by 1.8% following an increase of 3.7% percent in 2008.

In 2010, the economy began to recover, averaging real growth of 3.2% during the last three quarters of the year.

With the South African economy recovering and global economies improving, prospects for the coming years are looking brighter.

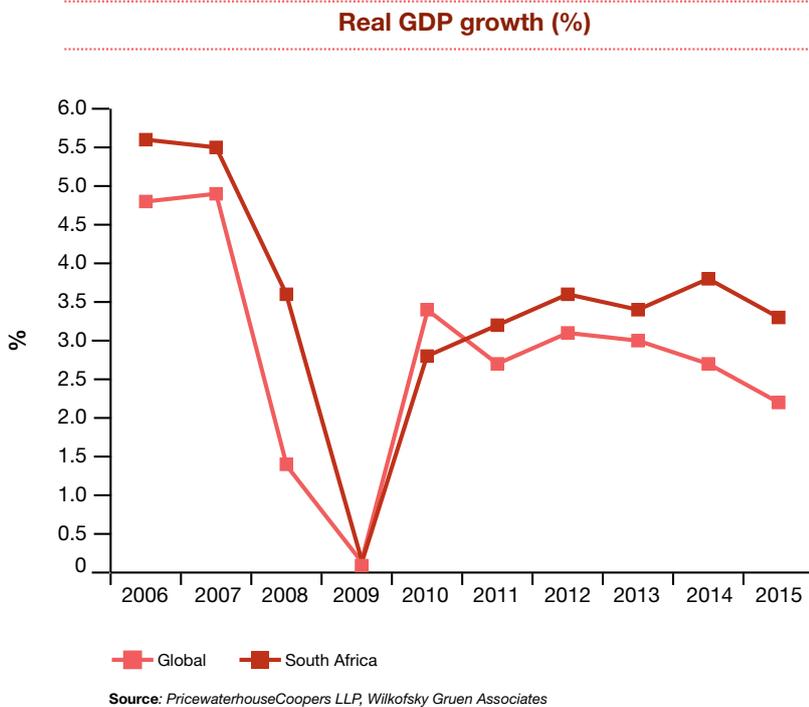
We do not expect South Africa to return to the high levels of economic growth seen in previous years. We anticipate faster growth in our forecast period of 2011-2015 compared with the past two years. We project real GDP to expand at a 3.5% compound annual rate during the next five years.



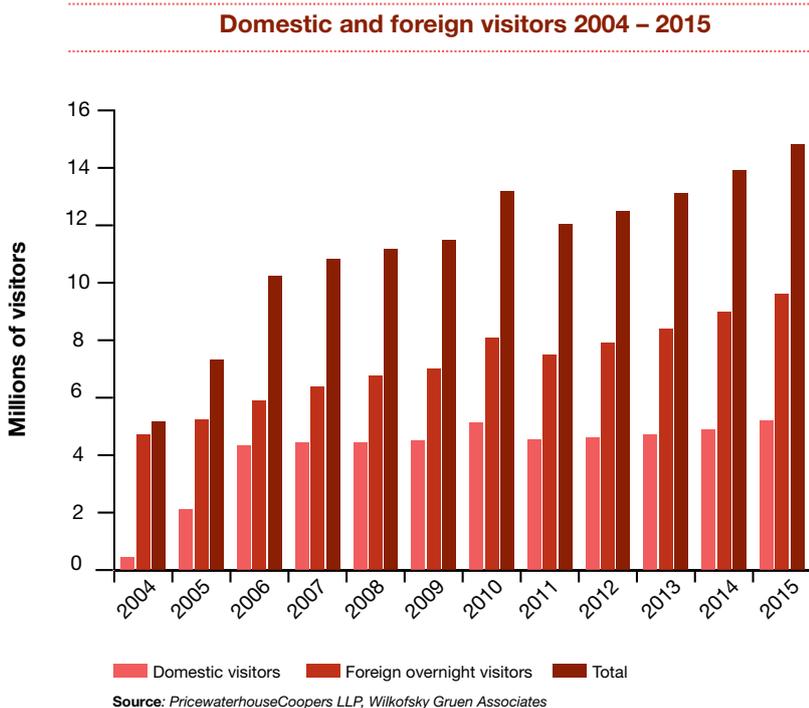
Source: Statistics South Africa

We expect global GDP to continue to expand, averaging 2.7% compounded annually, which will represent a larger gain compared with the average performance during

2008-10. Nevertheless, it is forecast that South Africa's economy will continue to grow faster than the global average during the next five years as shown by the chart below.



The improving economic outlook will have a positive impact on travel and tourism in South Africa.



Comparisons with 2010 are somewhat distorted following the jump in visitor numbers because of the 2010 FIFA World Cup. The number of foreign overnight visitors in 2010 rose 15.1% to 8.07 million. Likewise, there was a 14.3% increase in domestic visitors to 5.13 million. The overall number of visitors rose 14.8% to 13.2 million in 2010.

The number of visitors is expected to decline by an estimated 8.7% in 2011 as there will be no international attraction to South Africa comparable with that of the 2010 FIFA World Cup.

After 2011, the improving economic climate will lead to steady gains in both foreign and domestic visitors in South Africa. The number of foreign overnight visitors, more than 90% of whom are holiday visitors, will increase by a projected 2.1 million between 2011 and 2015, up 6.4% on a compound annual basis to 9.6 million. Compared with the inflated figures in 2010, growth for the forecast period as a whole will average 3.5% compounded annually.

We also anticipate growth in domestic visitors following a drop in 2011. The number of domestic visitors is expected to increase by 3.4% compounded annually between 2011 and 2015, which translates into a gain of 650 000. Compared with 2010, however, growth is expected to decline to 0.3% compounded annually to reach 5.2 million in 2015.

The total number of visitors in South Africa will rise to 14.8 million by 2015, a 2.3% compound annual increase from 2010, but a stronger 5.35% gain compounded annually from 2011. Growth in travel and tourism will have a positive impact on the accommodation industry.

## Summary

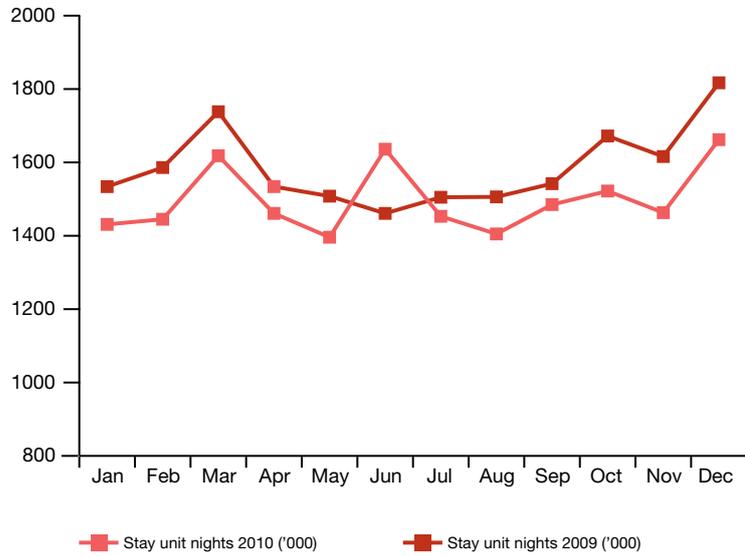
Overall spending on rooms in all categories rose 16.7% in 2010 to R13.9 billion, reflecting the increase in visitors due to the 2010 FIFA World Cup.

Hotels and other accommodation providers were able to charge higher rates during the 2010 FIFA World Cup period, in what is otherwise the off-season. The average room rate for hotels increased 12.6% to R699.

Stay unit nights increased 3.7% in 2010, the first gain since 2007. The increase during the month of the FIFA World Cup offset an underlying weak market that was still suffering from the lingering effects of the global recession.

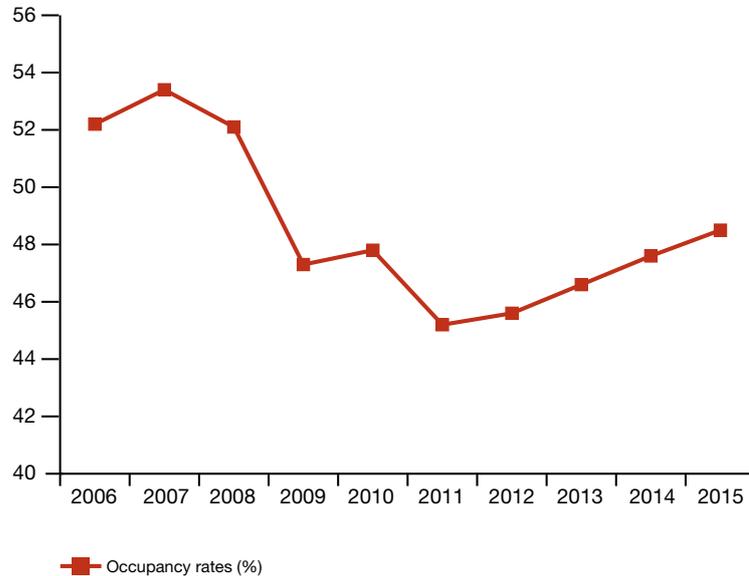
The average occupancy rate, which fell from 53.4% in 2007 to 47.3% in 2009, edged up to 47.8% in 2010. If one were to ignore the increase in available rooms of 8 800 rooms from 2007 to 2010, the occupancy rate in 2010 based on 2007 available rooms would be 51.9%.

2010 vs 2009 monthly stay unit nights ('000)



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

Occupancy rates (%)

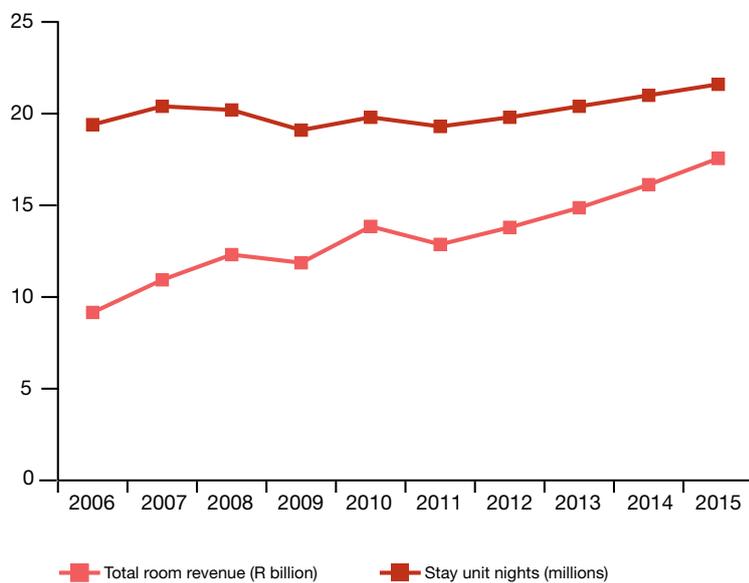


Source: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

The market is returning to its underlying trend in 2011, which means that compared with the inflated totals for 2010, the average room rate will fall, stay unit nights will decrease, and room revenue will decline. We project spending to fall 7.1% in 2011 to R12.9 billion, the result of a 2.5% drop in stay unit nights and a 4.6% drop in the average room rate.

We then expect the market to rebound as the positive effects of the improving economic environment and an accompanying rise in international and domestic travel to South Africa take their effect on the accommodation market.

**Stay unit nights and total room revenue 2006 – 2015**



Source: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

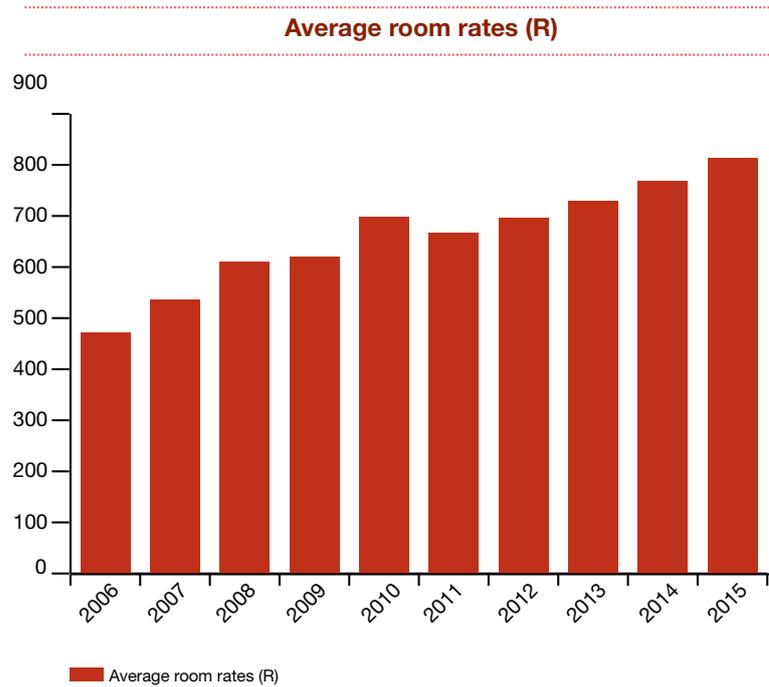
We project stay unit nights during the entire forecast period to increase by 1.8% compounded annually to 21.6 million in 2015. Compared with 2011, growth will average 2.9% compounded annually.

Meanwhile, the recent softening of the market and the drop in occupancy rates has signalled that further hotel expansion is no longer warranted. We expect growth in room availability to moderate. The number of available rooms is predicted to increase to an estimated 121 900 by 2015, a compound annual increase of just 1.5% from 2010.

Beginning in 2013, demand for rooms will again grow faster than supply, and the overall occupancy rate will begin to increase. We project that by 2015, occupancy will average 48.5%.

Room rates will again return to their upward path beginning in 2012, but we anticipate more modest gains compared to the 2006-8 period as underlying demand is growing more slowly. The average room across all grades of accommodation will cost R813 in 2015, up 3.1% on a compound annual basis from 2010 and 5.1% percent compounded annually from 2011.

Total room revenue is expected to reach R17.6 billion in 2015, an 8.1% compound annual increase from 2011 and 4.9% compounded annually from 2010.



Source: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

## ***The impact of the 2010 FIFA World Cup on the accommodation market***

*The FIFA World Cup clearly had a major impact on the market in 2010. If there had been no FIFA World Cup in 2010, we estimate that total spending would have risen by 4.2%, instead of the 16.7% increase that actually occurred. In that scenario we anticipate a 4.1% increase in 2011 and 7.3% compound annual growth through to 2015.*

*In the absence of the FIFA World Cup, stay unit nights would have increased by 0.5% instead of 3.7%, with another 0.5% increase expected for 2011, with growth averaging 2.4% compounded annually over the next five years.*

*Without the FIFA World Cup, instead of increasing to 47.8% in 2010, we estimate that the average occupancy rate would have fallen to 46.4%. Similarly, rather than increasing 12.6% to R699 during 2010, we estimate that the average room rate would have advanced just 3.7% to R644.*

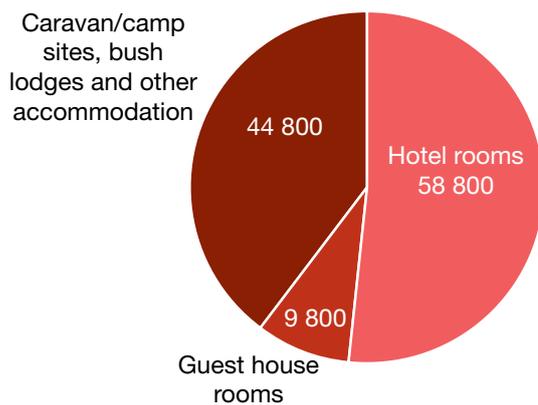


*Hotel accommodation*



Although hotels accounted for just over half of the available rooms in South Africa in 2010, these accounted for three-quarters of total spending as occupancy and room rates are well above those in the other accommodation categories of guest houses, caravan parks and camping sites.

### Total number of rooms available 2010



The increase in available rooms during the past two years has been centred in hotels, while room availability in other categories declined marginally as economic conditions worsened.

Hotels have the most to gain compared with other accommodation categories during a period of economic expansion because the higher occupancy and higher room rates generate larger increases in revenue, which in turn fuels demand for construction.

Over the last decade the hotel industry in South Africa has been dominated by large groups such as Southern Sun, Sun International, Protea Hotels, City Lodge Group, Legacy Hotels & Resorts and Accor Hotels. All of these industry players

have opened new properties in the country over the past few years and a number of international brands have also invested in South Africa, including Rezidor Hotel Group, Hyatt, Hilton and Sheraton. There are many other new entrants to the market as well as boutique hotels that have opened in Cape Town and Johannesburg.

A number of new hotels opened since the economy began to weaken. In Johannesburg, hotel capacity rose by nearly 30% in the past three years, an increase of nearly 4 400 rooms. In Cape Town, 10 hotels with a total of nearly 1 600 rooms opened during the past two years, representing a 20% increase in capacity. In Durban, hotel capacity has risen by more than 35% since the end of 2008.

Demand could not keep pace with the sharp increase in supply and hotels experienced the steepest decline in occupancy rates of any category. The average occupancy rate fell from 70.3% in 2006 to 53.1% in 2010.

Although occupancy rates continued to fall in 2010, hotels did benefit from the 2010 FIFA World Cup. Occupancy rates in Cape Town averaged nearly 70% during the tournament and nearly 80% on match days. In Durban, occupancy rates averaged more than 61% for the tournament and more than 80% on match days. In Johannesburg, occupancy rates averaged 80% during the tournament and nearly 90% on match days.

The surge in stay nights during the tournament offset weak demand during the rest of the year. Overall stay unit nights rose 4.6% to 11.4 million for 2010 as a whole.

Some hotels were also able to charge premium rates during the World Cup, while others were bound by rates agreed with Match Hospitality, the worldwide exclusive rights holder for the FIFA Hospitality Programme. Average room rates doubled in Johannesburg and comparable increases were sustained in other cities. For the year as a whole, the average room rate increased 11.7% to R905, with higher rates for four- and five-star hotels.

Overall hotel room revenue reached R10.3 billion in 2010, a 16.9% increase from 2009.

We expect an additional 7.1% increase in room availability in 2011 followed by a further 3.2% increase in 2012.

The significant decrease in occupancy rates during the past two years has discouraged further plans to expand. We expect the impact of delayed or postponed projects to be felt from 2013 and we project annual gains of less than 1% in room availability during 2013-15. By 2015, there will be an estimated 66 000 hotel rooms available in South Africa, an increase of 2.3% compounded annually from 2010.

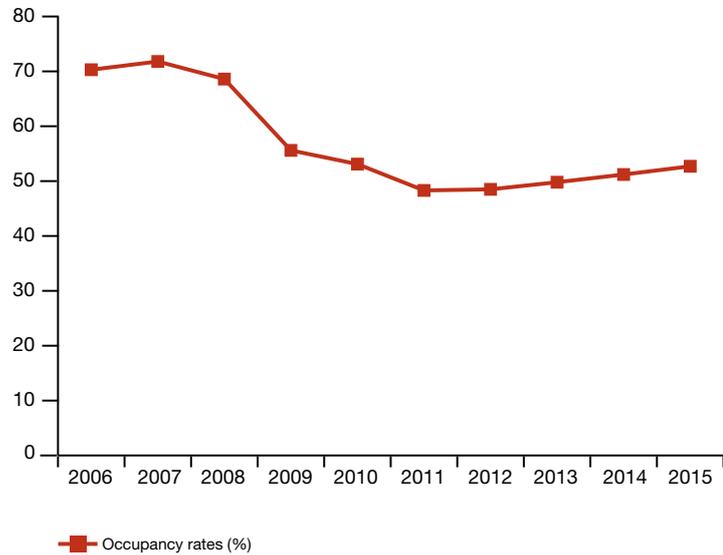
Following the World Cup in 2010, we expect stay unit nights to decline by 2.6% in 2011 to 11.1 million. Then, as economic conditions strengthen and as travel and tourism increase, we look for stay unit nights to rise to 12.7 million by 2015, a 2.2% compound annual increase from 2010 and a 3.4% increase compounded annually from 2011.

The expected pick up in stay unit nights combined with the slowdown in room availability growth will lead to a turnaround in occupancy rates beginning in 2011. By 2015, the occupancy rate is forecast to average 52.7%, a 4.4% improvement from 2011, but still below average occupancy rates during 2006-10.

The average room rate will drop to an estimated R835 in 2011, a 7.7% decrease, and then trend upward. By 2015, the average hotel room will cost R980, with four- and five-star hotels reaching above R1 000.

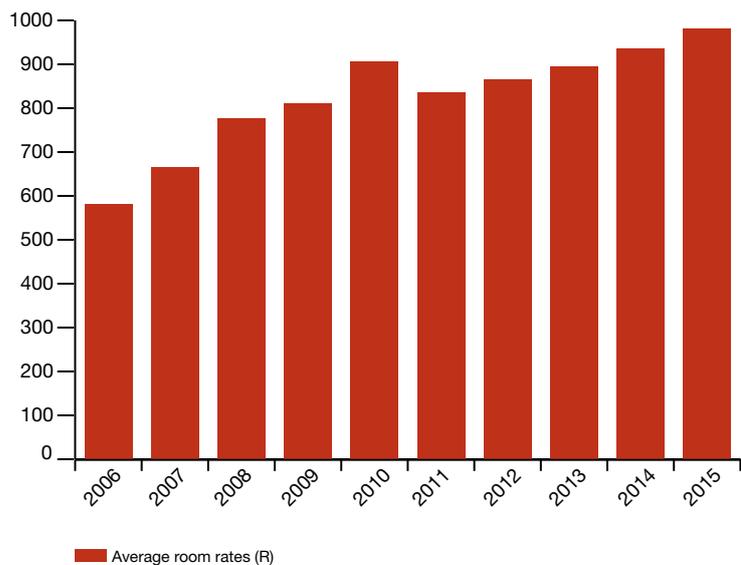
Total hotel room revenue will drop 10.2% in 2011 to R9.3 billion and then expand to R12.4 billion in 2015, an increase of 3.8% compounded annually from 2010 and 7.6% from 2011 on a compound annual basis.

### Hotels – Occupancy rates (%)



Source: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

### Hotel – Average room rates (R)



Source: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Hotels											
South Africa	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR*
Available rooms (thousands)	48.0	48.5	49.1	53.7	58.8	63.0	65.0	65.5	65.8	66.0	
% change	1.1	1.0	1.2	9.4	9.5	7.1	3.2	0.8	0.5	0.3	2.3
Stay unit nights (millions)	12.3	12.7	12.3	10.9	11.4	11.1	11.5	11.9	12.3	12.7	
% change	3.4	3.3	-3.1	-11.4	4.6	-2.6	3.6	3.5	3.4	3.3	2.2
Occupancy rates (%)	70.3	71.8	68.6	55.6	53.1	48.3	48.5	49.8	51.2	52.7	
Average room rates (R)	580	665	775	810	905	835	865	895	935	980	
% change	11.5	14.7	16.5	4.5	11.7	-7.7	3.6	3.5	4.5	4.8	1.6
<b>Total room revenue (R millions)</b>	<b>7 134</b>	<b>8 446</b>	<b>9 533</b>	<b>8 829</b>	<b>10 317</b>	<b>9 269</b>	<b>9 948</b>	<b>10 651</b>	<b>11 501</b>	<b>12 446</b>	
% change	<b>15.3</b>	<b>18.4</b>	<b>12.9</b>	<b>-7.4</b>	<b>16.9</b>	<b>-10.2</b>	<b>7.3</b>	<b>7.1</b>	<b>8.0</b>	<b>8.2</b>	<b>3.8</b>

\*Compound annual growth rate

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

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

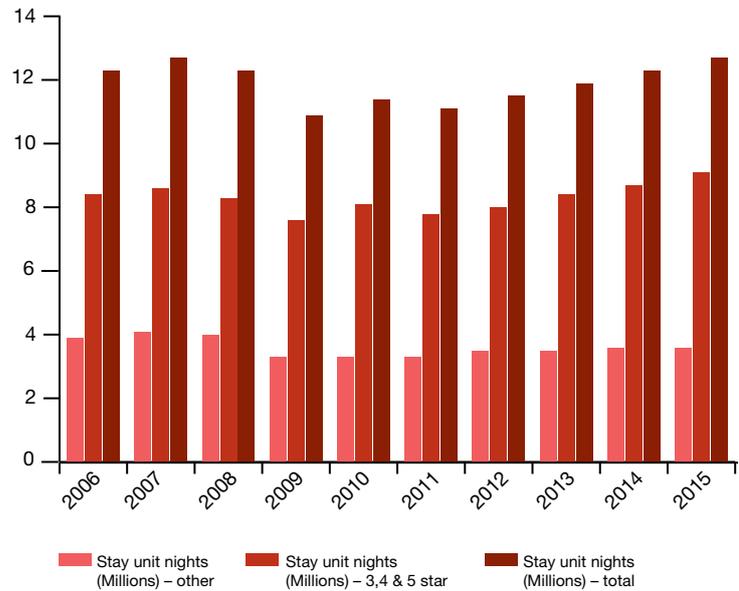
As a group, three-, four- and five-star hotels comprised two-thirds of available hotel rooms in 2010, 71% of stay unit nights and 79% of total hotel room revenues.

The average room rate for the top hotel classes was R1 003 in 2010, 11% above the overall hotel average.

Room revenues in 2010 rose 18.5% compared with 16.9% growth for all hotels.

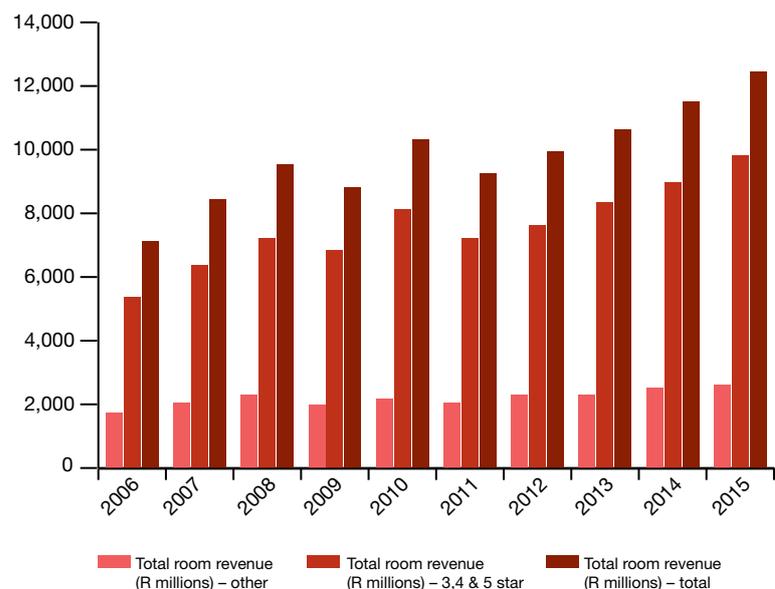
During the next five years, growth for the top hotel classes is expected to average 3.9% compounded annually, slightly higher than the projected 3.8% compound annual increase for all hotels.

Stay unit nights comparison



Source: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Total room revenue comparison



Source: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Three-, four- and five-star hotels											
South Africa	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR*
Available rooms (thousands)	32.5	32.9	33.4	36.0	39.6	42.5	43.8	44.5	44.9	45.2	
% change	2.2	1.2	1.5	7.8	10.0	7.3	3.1	1.6	0.9	0.7	2.7
Stay unit nights (millions)	8.4	8.6	8.3	7.6	8.1	7.8	8.0	8.4	8.7	9.1	
% change	5.0	2.4	-3.5	-8.4	6.6	-3.7	2.6	5.0	3.6	4.6	2.4
Occupancy rates (%)	70.6	71.6	68.1	57.8	55.9	50.3	50.0	51.7	52.9	55.2	
Average room rates (R)	641	742	870	902	1 003	927	954	995	1 032	1 080	
% change	10.7	15.8	17.3	3.7	11.2	-7.6	2.9	4.3	3.7	4.7	1.5
<b>Total room revenue (R millions)</b>	<b>5 383</b>	<b>6 380</b>	<b>7 217</b>	<b>6 855</b>	<b>8 125</b>	<b>7 230</b>	<b>7 635</b>	<b>8 358</b>	<b>8 975</b>	<b>9 826</b>	
% change	<b>16.3</b>	<b>18.5</b>	<b>13.1</b>	<b>-5.0</b>	<b>18.5</b>	<b>-11.0</b>	<b>5.6</b>	<b>9.5</b>	<b>7.4</b>	<b>9.5</b>	<b>3.9</b>

**Note:** The data shown below is classified into the three-, four- and five-star categories as per the Smith Travel Research (STR) reports.

\*Compound annual growth rate

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

## Three-star hotels

Three-star hotels accounted for 35% of the available hotel rooms in 2010, 38% of the stay unit nights, and 30% of total hotel room revenue. The average room rate in three-star hotels was 20% below the overall hotel average in 2010, reflecting a cheaper room rate.

Available rooms in three-star hotels rose by 21% during the past two years with a further 7.8% increase projected for 2011.

Three-star hotels benefited from the World Cup, posting a 10.3% increase in stay unit nights, a 10.8% increase in the average room rate and a 22.1% rise in room revenues.

During the next five years, room revenues in three-star properties will increase at a projected 3.6% compound annual rate to R3.7 billion in 2015 from R3.1 billion in 2010.

Three-star hotels											
South Africa	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR*
Available rooms (thousands)	16.2	16.5	16.9	18.4	20.4	22.0	22.5	22.8	22.9	23.0	
% Change	3.2	1.9	2.4	8.9	10.9	7.8	2.3	1.3	0.4	0.4	2.4
Stay unit nights (millions)	4.1	4.2	4.2	3.9	4.3	4.1	4.2	4.4	4.6	4.8	
% change	5.1	2.4	0.0	-7.1	10.3	-4.7	2.4	4.8	4.5	4.3	2.2
Occupancy rates (%)	69.1	69.7	68.1	58.1	57.6	51.1	51.1	52.9	54.9	57.2	
Average room rates (R)	465	535	625	650	720	670	690	715	745	770	
% change	9.4	15.1	16.8	4.0	10.8	-6.9	3.0	3.6	4.2	3.4	1.4
<b>Total room revenue (R millions)</b>	<b>1 907</b>	<b>2 247</b>	<b>2 625</b>	<b>2 535</b>	<b>3 096</b>	<b>2 747</b>	<b>2 898</b>	<b>3 146</b>	<b>3 427</b>	<b>3 696</b>	
% change	<b>15.0</b>	<b>17.8</b>	<b>16.8</b>	<b>-3.4</b>	<b>22.1</b>	<b>-11.3</b>	<b>5.5</b>	<b>8.6</b>	<b>8.9</b>	<b>7.8</b>	<b>3.6</b>

\*Compound annual growth rate

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

## Four-star hotels

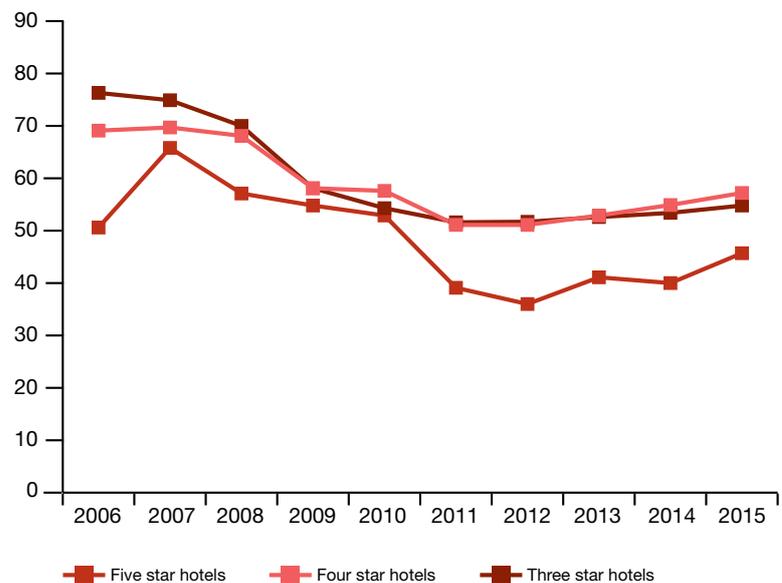
Four-star hotels comprised 27% of hotel rooms in 2010, 28% of stay unit nights and 36% of hotel room revenue. The average room rate for four-star hotels was 30% higher than the overall hotel average in 2010.

As with three-star hotels, there was an accelerated increase in available rooms during the previous two years with a cumulative increase of 14%. We expect an additional 5.6% increase in available rooms in 2011.

Four-star hotels did not generate as much of an increase in room revenues in 2010 as three- and five-star hotels. Although stay unit nights were up 16% during the month of the World Cup, they were flat for the year as a whole. However, an 11.9% increase in the average room rate provided a revenue boost.

During the next five years, room revenues for four-star hotels are forecast to increase from R3.8 billion in 2010 to a R4.6 billion in 2015, a 4.1% compound annual increase.

Occupancy rates – three, four and five star hotels



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



Four-star hotels											
South Africa	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR*
Available rooms (thousands)	13.6	13.9	14.1	15.1	16.1	17.0	17.5	17.7	17.9	18.0	
% change	1.5	2.2	1.4	7.1	6.6	5.6	2.9	1.1	1.1	0.6	2.3
Stay unit nights (millions)	3.8	3.8	3.6	3.2	3.2	3.2	3.3	3.4	3.5	3.6	
% change	5.6	0.0	-5.3	-11.1	0.0	0.0	3.1	3.0	2.9	2.9	2.4
Occupancy rates (%)	76.3	74.9	70.0	58.1	54.3	51.6	51.7	52.6	53.4	54.8	
Average room rates (R)	745	850	1 015	1 050	1 175	1 100	1 140	1 180	1 225	1 275	
% change	12.9	14.1	19.4	3.4	11.9	-6.4	3.6	3.5	3.8	4.1	1.6
<b>Total room revenue (R millions)</b>	<b>2 831</b>	<b>3 230</b>	<b>3 654</b>	<b>3 360</b>	<b>3 760</b>	<b>3 520</b>	<b>3 762</b>	<b>4 012</b>	<b>4 288</b>	<b>4 590</b>	
% change	<b>19.1</b>	<b>14.1</b>	<b>13.1</b>	<b>-8.0</b>	<b>11.9</b>	<b>-6.4</b>	<b>6.9</b>	<b>6.6</b>	<b>6.9</b>	<b>7.0</b>	<b>4.1</b>

\*Compound annual growth rate

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

## Five-star hotels

Five-star hotels comprised only 5% of available hotel rooms and stay unit nights in 2010, and generated 12% of total hotel room revenues.

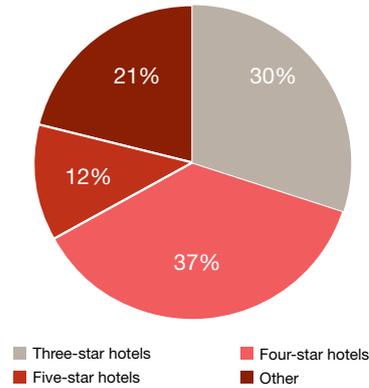
Available rooms in five-star hotels declined between 2006 and 2008, in part reflecting renovations. During the past two years, the number of available rooms increased by 29%.

The average room rate was R2 115 in 2010, more than twice the overall hotel average. In 2011, we are seeing five-star hotels experiencing lower occupancy levels, leading hotel operators to contemplate reducing rates to a level that will stimulate demand while maintaining an adequate measure of the luxury and exclusivity among five-star establishments.

Five-star hotels generated the largest increase in room revenues for the hotel categories in 2010 with a 32% increase.

During the next five years, five-star hotel room revenues are anticipated to expand at a 3.9% compound annual rate to R1.5 billion from R1.3 billion in 2010.

**Total hotel room revenue  
by category 2010**



Five-star hotels											
South Africa	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR*
Available rooms (thousands)	2.7	2.5	2.4	2.5	3.1	3.5	3.8	4.0	4.1	4.2	
% change	0.0	-7.4	-4.0	4.2	24.0	12.9	8.6	5.3	2.5	2.4	6.3
Stay unit nights (millions)	0.5	0.6	0.5	0.5	0.6	0.5	0.5	0.6	0.6	0.7	
% change	0.0	20.0	-16.7	0.0	20.0	-16.7	0.0	20.0	0.0	16.7	3.1
Occupancy rates (%)	50.6	65.8	57.1	54.8	52.9	39.1	36.0	41.1	40.0	45.7	
Average room rates (R)	1 290	1 505	1 875	1 920	2 115	1 925	1 950	2 000	2 100	2 200	
% change	8.4	16.7	24.6	2.4	10.2	-9.0	1.3	2.6	5.0	4.8	0.8
<b>Total room revenue (R millions)</b>	<b>645</b>	<b>903</b>	<b>938</b>	<b>960</b>	<b>1 269</b>	<b>963</b>	<b>975</b>	<b>1 200</b>	<b>1 260</b>	<b>1 540</b>	
% change	<b>8.4</b>	<b>40.0</b>	<b>3.9</b>	<b>2.3</b>	<b>32.2</b>	<b>-24.1</b>	<b>1.2</b>	<b>23.1</b>	<b>5.0</b>	<b>22.2</b>	<b>3.9</b>

\*Compound annual growth rate

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

A photograph of a man and a woman standing on a paved path in front of a building with a thatched roof. The woman is on the left, wearing a dark grey zip-up hoodie and dark jeans, with her hands in her pockets. The man is on the right, wearing a dark brown jacket and blue jeans, also with his hands in his pockets. The background shows tall grasses and the building's roofline under a clear sky.

*Guest houses and guest farms*



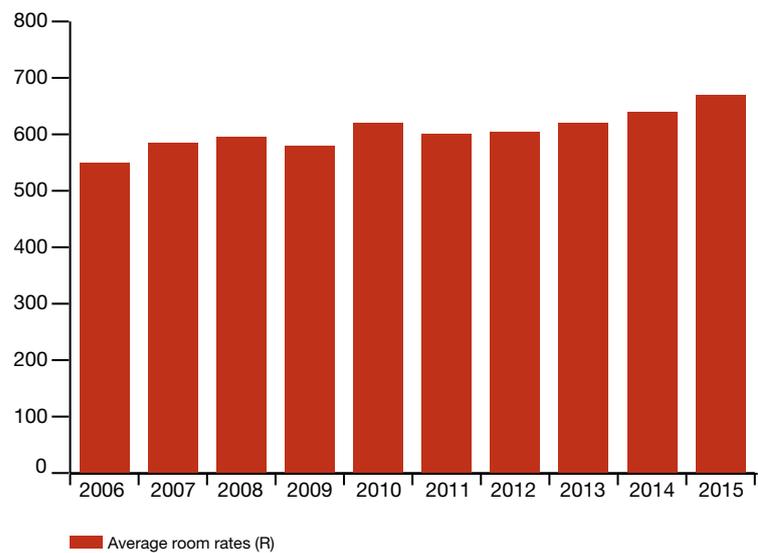
*The guest house and guest farm market is much more flexible with respect to room availability. Rooms can be added to or taken off the market much more quickly in this category than in the case of hotels. There was a surge in room availability between 2006 and 2008, but as the economy weakened during the past two years, the number of available rooms declined.*

We do not expect room availability to rebound until the recovery is well underway and established. Beginning in 2013, we expect room availability to increase, rising to 10 700 by 2015, a 1.8% compound annual increase from 2010.

Stay unit nights are relatively stable in this category and we do not expect significant growth. This category received a modest boost from the World Cup and stay unit nights will drop from 1.7 million in 2010 to 1.6 million during the next two years. It is then expected to increase to 1.8 million by 2015, a 1.1% compound annual increase from 2010.

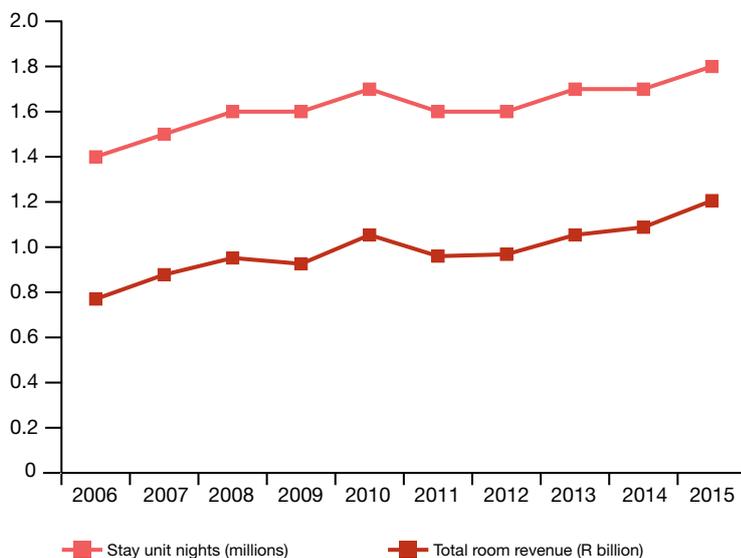
Occupancy rates are well below that of hotels and have not shown much annual variation. There was a modest increase to 47.5% in 2010 and we expect a dip to 45.7% in 2011. We then expect the average occupancy rate to fluctuate between 46% and 47.5% during the 2012-15 periods.

**Guest houses/farms – average room rates (R) 2006 to 2015**



Source: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

**Guest houses/farms**



Source: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Guest houses were also able to charge a premium during the World Cup in 2010 and the average room rate rose 7.1% to R620. We expect this rate to drop to R600 in 2011 and then increase at low-to-mid single-digit rates to R670 by 2015, a 1.6% compound annual increase from 2010.

Room revenue jumped 13.8% to R1.1 billion in 2010. We project an 8.9% decline to R960 million in 2011 and a relatively flat market in 2012 followed by increases in subsequent years. Spending will increase to R1.2 billion by 2015, a 2.7% gain compounded annually from 2010.

	Guest houses/farms										
South Africa	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR*
Available rooms (thousands)	8.5	9.6	10.4	10.1	9.8	9.6	9.5	9.8	10.2	10.7	
% change	1.2	12.9	8.3	-2.9	-3.0	-2.0	-1.0	3.2	4.1	4.9	1.8
Stay unit nights (millions)	1.4	1.5	1.6	1.6	1.7	1.6	1.6	1.7	1.7	1.8	
% change	0.0	7.1	6.7	0.0	6.3	-5.9	0.0	6.3	0.0	5.9	1.1
Occupancy rates (%)	45.2	42.9	42.1	43.4	47.5	45.7	46.1	47.5	45.7	46.0	
Average room rates (R)	550	585	595	579	620	600	605	620	640	670	
% change	7.8	6.4	1.7	-2.7	7.1	-3.2	0.8	2.5	3.2	4.7	1.6
<b>Total room revenue (R millions)</b>	<b>770</b>	<b>878</b>	<b>952</b>	<b>926</b>	<b>1 054</b>	<b>960</b>	<b>968</b>	<b>1 054</b>	<b>1 088</b>	<b>1 206</b>	
% change	<b>7.8</b>	<b>14.0</b>	<b>8.4</b>	<b>-2.7</b>	<b>13.8</b>	<b>-8.9</b>	<b>0.8</b>	<b>8.9</b>	<b>3.2</b>	<b>10.8</b>	<b>2.7</b>

\*Compound annual growth rate

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

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





*The caravan/camping site, bush lodge, self catering and other accommodation market provides a large proportion of accommodation capacity – 44 800 rooms/units in 2010, which was 40% of total accommodation capacity. However, this sector’s share of total revenue is low at R2.5 billion, which was 18% of the total in 2010. This category mainly targets an economy-minded clientele.*



Occupancy rates are much lower than among the other accommodation categories, particularly for caravan and camping sites where usage is very low during non-summer months. Occupancy averaged 41% in 2010.

Nightly rates are also much lower than the other accommodation categories. Caravan and camping sites charge relatively little per night and overall rates averaged R370 in 2010, which is 40% lower than that of guest house rates and nearly 60% below the average hotel rate.

Nevertheless, this category has posted the largest annual increases in nightly rates during the past five years. There is less resistance to raising fees when rates are still well below those of other accommodation options. As average rates have climbed by a cumulative 68% since 2006, resistance to further price hikes will increase. We project growth to drop to high single-digits averaging 8.3% compounded annually to reach R550 by 2015.

Capacity is relatively stable in this category and we do not expect any major changes. The number of rooms or units available is forecast to edge up by 0.2% compounded annually to 45 200 in 2015.

This category benefited from improved occupancies and revenues as a spill over from the World Cup in 2010 and so will register a modest decline in 2011. We then anticipate low single-digit gains through to 2015. There is a modest countercyclical element to this category. Stay unit nights increased in 2009, possibly reflecting a shift from higher-priced facilities for vacationers. As economic conditions improve, there may be a reverse shift as holidaymakers' trade up to more expensive accommodation. Additionally, as the gap in rates between this category and other categories narrows, there will be a further incentive to trade up. On balance, we project low single-digit gains in stay unit nights averaging 1.2% compounded annually to 7.1 million by 2015.

Growth in stay unit nights will lead to an increase in occupancy rates beginning in 2012. By 2015, occupancy will average 43%.

With respect to room revenue, this category was the fastest growing during the past five years and we expect it to continue to be the fastest growing during the next five years, increasing by 9.5% compounded annually to reach R3.9 billion by 2015.

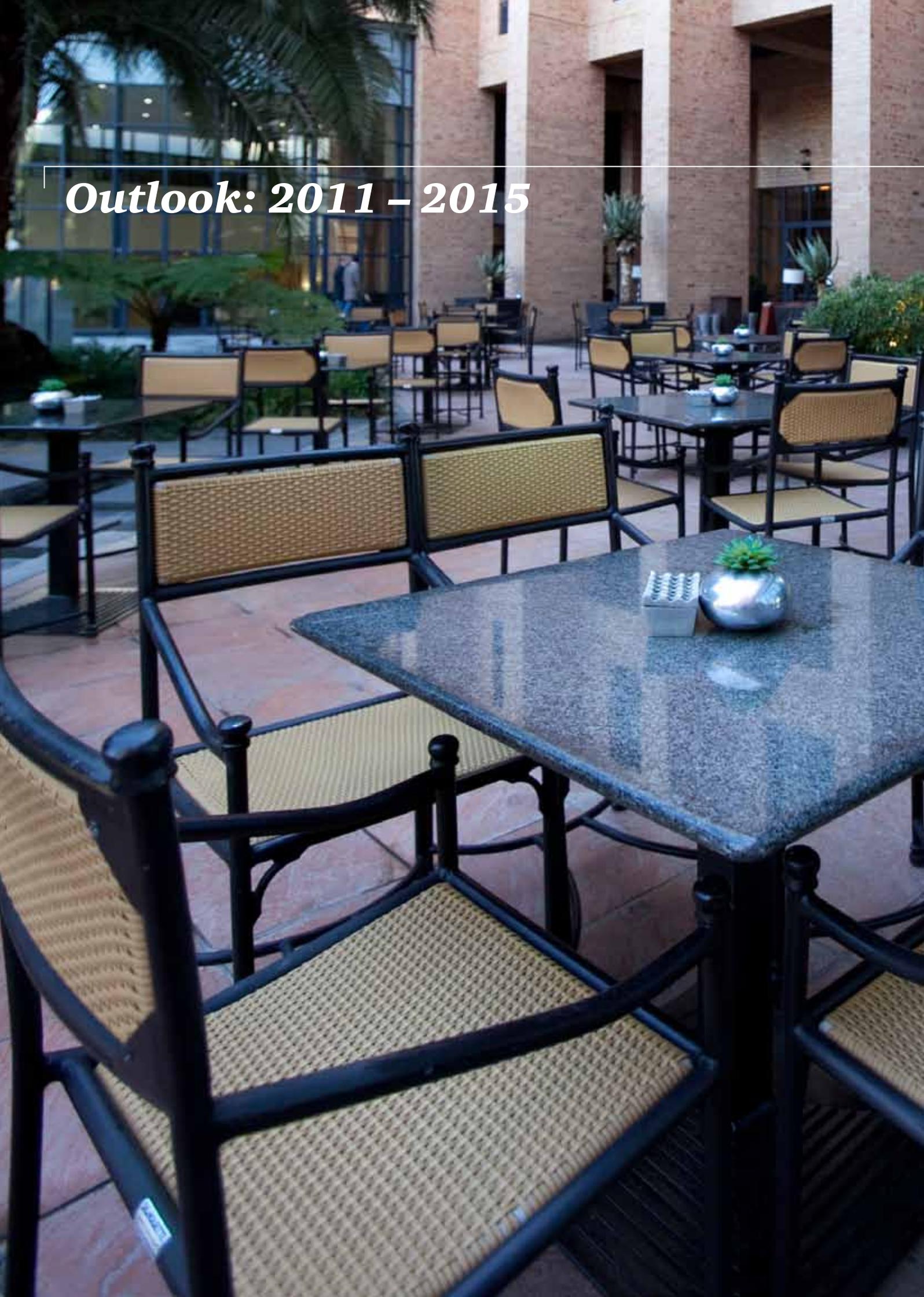
**Caravan/camping sites, bush lodges and other accommodation**

<b>South Africa</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2011-15 CAGR*</b>
Available rooms (thousands)	45.4	46.5	46.7	46.9	44.8	44.5	44.5	44.6	44.8	45.2	
% change	5.8	2.4	0.4	0.4	-4.5	-0.7	0.0	0.2	0.4	0.9	0.2
Stay unit nights (Millions)	5.7	6.2	6.3	6.6	6.7	6.6	6.7	6.8	7.0	7.1	
% change	5.6	8.8	1.6	4.8	1.5	-1.5	1.5	1.5	2.9	1.4	1.2
Occupancy rates (%)	34.4	36.5	37.0	38.6	41.0	40.6	41.3	41.8	42.8	43.0	
Average room rates (R)	220	260	290	320	370	400	430	465	505	550	
% change	12.8	18.2	11.5	10.3	15.6	8.1	7.5	8.1	8.6	8.9	8.3
<b>Total room revenue (R millions)</b>	<b>1 254</b>	<b>1 612</b>	<b>1 827</b>	<b>2 112</b>	<b>2 479</b>	<b>2 640</b>	<b>2 881</b>	<b>3 162</b>	<b>3 535</b>	<b>3 905</b>	
% change	<b>19.1</b>	<b>28.5</b>	<b>13.3</b>	<b>15.6</b>	<b>17.4</b>	<b>6.5</b>	<b>9.1</b>	<b>9.8</b>	<b>11.8</b>	<b>10.5</b>	<b>9.5</b>

\*Compound annual growth rate

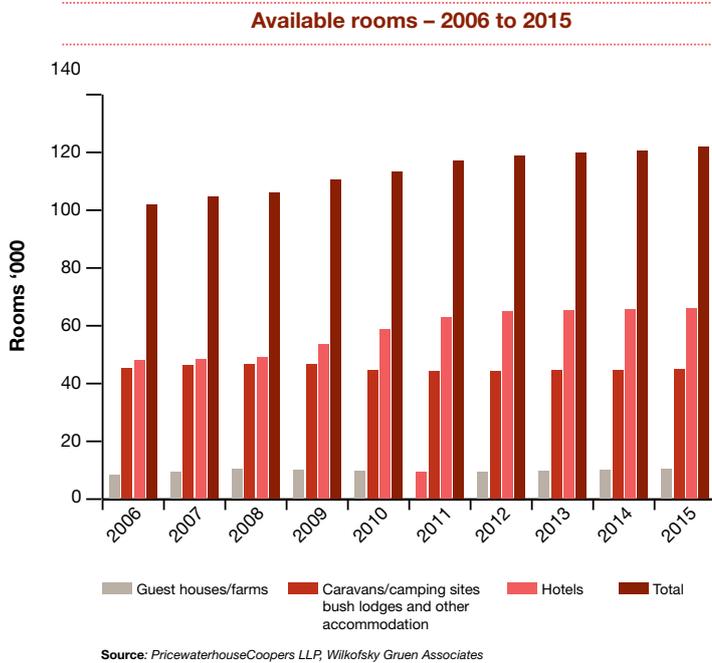
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

*Outlook: 2011 – 2015*





## Available rooms



A surge in hotel construction accounted for the increase in overall capacity during the past two years. In 2010, the 9.5% rise in hotel rooms offset declines in the other two categories and overall capacity increased 2.4%.

Hotels will continue to post the largest increases in rooms during the next two years. Beginning in 2013, there will be an abrupt slowdown in hotel room growth reflecting the current decrease in new construction plans. By contrast, we expect to see room growth in the other two categories to increase during the latter part of the forecast period, reflecting improved economic conditions and significantly lower lead times from planning to implementation.

Despite the slowdown in 2013-15, hotels will still increase capacity at a faster rate than the other two categories. Hotel room growth will average 2.3% compounded annually through to 2015 compared with 1.8% compounded annually for guest houses and guest farms, and 0.2% compounded annually for caravan/camping sites, bush lodges and other accommodation.

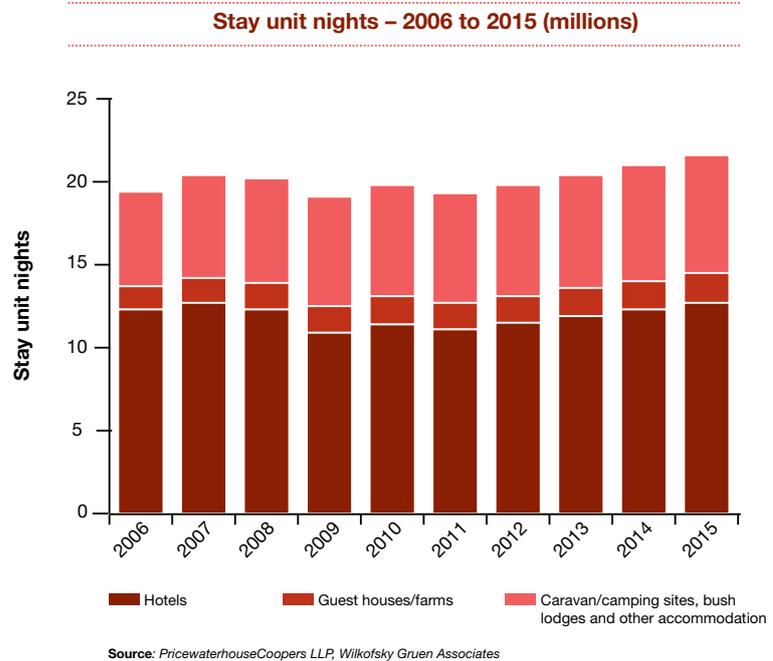
## Stay Unit Nights

We also expect hotels to have the fastest rate of growth in stay unit nights. We expect price growth to moderate as hotels look to improve occupancy rates while increased capacity will make the market more competitive.

Improving economic conditions will also benefit hotels more than other categories because the upper end of the market typically benefits more than proportionally when the economy is expanding. We project stay unit nights for all hotels to increase at a 2.2% compound annual rate during the next five years.

The guest houses and guest farms category is relatively stable and will average 1.1% growth compounded annually during the next five years.

We expect stay unit nights at bush lodges and other accommodation to increase by 1.2% compounded annually, with most of the increase occurring during the latter part of the forecast period.



Stay unit nights (millions)											
South Africa	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR*
Hotels	12.3	12.7	12.3	10.9	11.4	11.1	11.5	11.9	12.3	12.7	
% change	3.4	3.3	-3.1	-11.4	4.6	-2.6	3.6	3.5	3.4	3.3	2.2
Guest houses/guest farms	1.4	1.5	1.6	1.6	1.7	1.6	1.6	1.7	1.7	1.8	
% change	0.0	7.1	6.7	0.0	6.3	-5.9	0.0	6.3	0.0	5.9	1.1
Caravan/camping sites, bush lodges and other accommodation	5.7	6.2	6.3	6.6	6.7	6.6	6.7	6.8	7.0	7.1	
% change	5.6	8.8	1.6	4.8	1.5	-1.5	1.5	1.5	2.9	1.4	1.2
<b>Total</b>	<b>19.4</b>	<b>20.4</b>	<b>20.2</b>	<b>19.1</b>	<b>19.8</b>	<b>19.3</b>	<b>19.8</b>	<b>20.4</b>	<b>21.0</b>	<b>21.6</b>	
% change	<b>3.7</b>	<b>5.2</b>	<b>-1.0</b>	<b>-5.4</b>	<b>3.7</b>	<b>-2.5</b>	<b>2.6</b>	<b>3.0</b>	<b>2.9</b>	<b>2.9</b>	<b>1.8</b>

\*Compound annual growth rate

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

## Occupancy rates

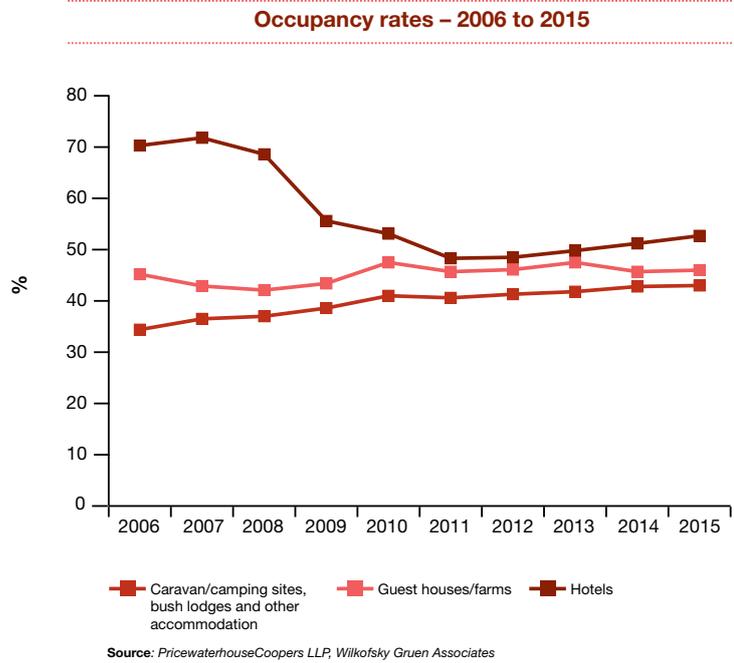
During the past five years, hotel occupancy rates plummeted, occupancy rates for bush lodges and other accommodation rose, while occupancy at guest houses and guest farms remained relatively stable.

Following a decrease in 2011, we expect occupancy rates for hotels to begin to increase and for caravan/camping sites, bush lodges and other accommodation to resume their upward path.

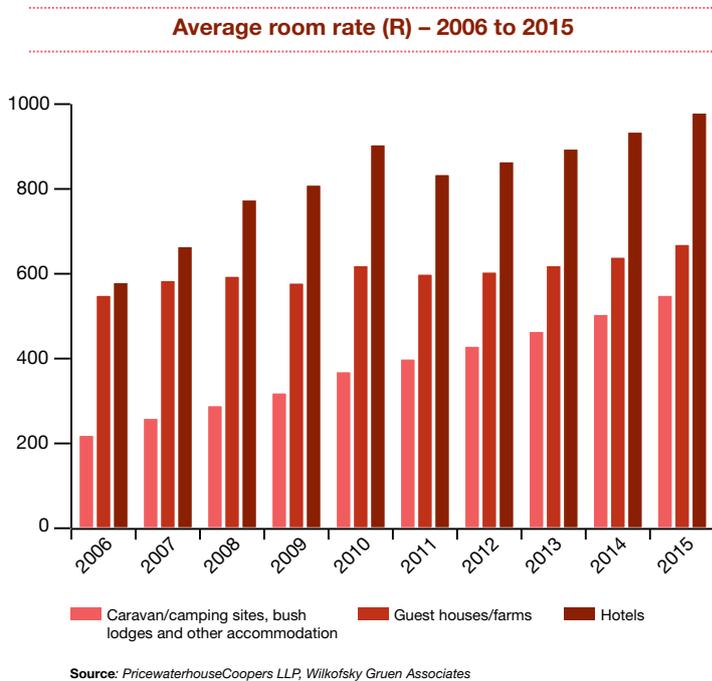
In the case of hotels, increases in occupancy rates during 2012-15 will not offset the drop from 2008 to 2011 and the occupancy rate in 2015 will remain lower than in 2010 and prior years. Nevertheless, hotels will continue to have the highest occupancy rates among the three accommodation categories.

For caravan/camping sites, bush lodges and other accommodation, the average occupancy rate will rise to 43% by 2015, a ten-year high.

For guest houses and guest farms, we expect occupancy rates to fluctuate within a relatively narrow band, showing no particular long-term trend.



## Average Room Rates



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

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

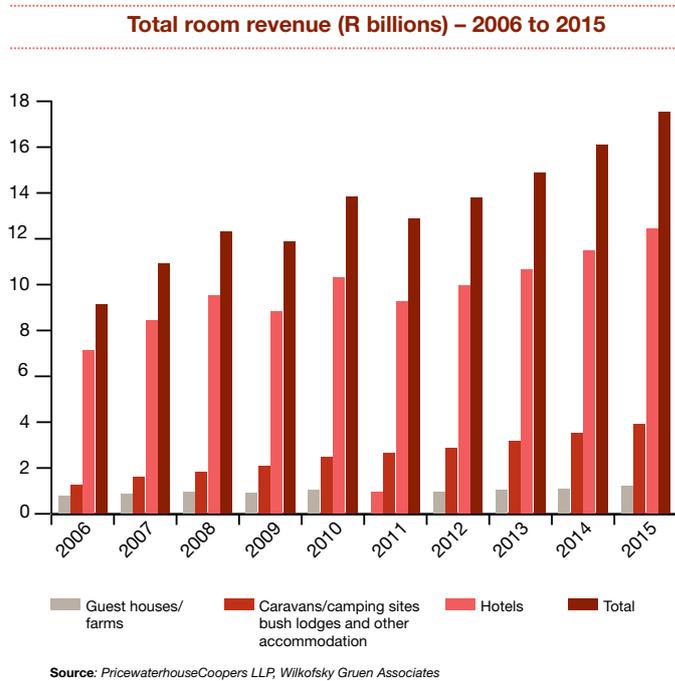
Average rates for hotels and guest houses are expected to grow at compound annual rates of 1.6%. The caravan/camping sites will continue to be the fastest-growing category, averaging 8.3% compounded annually, but this growth will represent a slower increase compared with the double-digit annual gains seen during the past five years.

Average room rates											
South Africa	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR*
Hotels (R)	580	665	775	810	905	835	865	895	935	980	
% change	11.5	14.7	16.5	4.5	11.7	-7.7	3.6	3.5	4.5	4.8	1.6
Guest houses/guest farms (R)	550	585	595	579	620	600	605	620	640	670	
% change	7.8	6.4	1.7	-2.7	7.1	-3.2	0.8	2.5	3.2	4.7	1.6
Caravan/camping sites, bush lodges and other accommodation (R)	220	260	290	320	370	400	430	465	505	550	
% change	12.8	18.2	11.5	10.3	15.6	8.1	7.5	8.1	8.6	8.9	8.3
<b>Total</b>	<b>472</b>	<b>536</b>	<b>610</b>	<b>621</b>	<b>699</b>	<b>667</b>	<b>697</b>	<b>729</b>	<b>768</b>	<b>813</b>	
% change	<b>11.1</b>	<b>13.6</b>	<b>13.8</b>	<b>1.8</b>	<b>12.6</b>	<b>-4.6</b>	<b>4.5</b>	<b>4.6</b>	<b>5.3</b>	<b>5.9</b>	<b>3.1</b>

\*Compound annual growth rate

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

## Total room revenue



Hotels will continue to generate the majority of accommodation revenue during the next five years, but their share of the market will drop to 70.9% in 2015 from 74.5% in 2010. Hotel room revenue is forecast to expand at a 3.8% compound annual rate. Despite losing market share, hotels will account for 57% of the total increase in accommodation during the next five years.

The caravan/camping sites, bush lodges and other accommodation will be the fastest-growing category with a projected 9.5% compound annual growth rate, raising its share of the market from 17.9% in 2010 to 22.2% in 2015.

Guest houses and guest farms are expected to be the slowest-growing component of the overall accommodation market with a 2.7% compound annual increase, dropping its share of total spending to 6.9% in 2015 from 7.6% in 2010.

Total room revenue (R millions)											
South Africa	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Hotels	7,134	8,446	9,533	8,829	10,317	9,269	9,948	10,651	11,501	12,446	
% Change	15.3	18.4	12.9	-7.4	16.9	-10.2	7.3	7.1	8.0	8.2	3.8
Guest houses/guest farms	770	878	952	926	1,054	960	968	1,054	1,088	1,206	
% Change	7.8	14.0	8.4	-2.7	13.8	-8.9	0.8	8.9	3.2	10.8	2.7
Caravan/camping sites, bush lodges and other accommodation	1,254	1,612	1,827	2,112	2,479	2,640	2,881	3,162	3,535	3,905	
% Change	19.1	28.5	13.3	15.6	17.4	6.5	9.1	9.8	11.8	10.5	9.5
<b>Total</b>	<b>9 158</b>	<b>10 936</b>	<b>12 312</b>	<b>11 867</b>	<b>13 850</b>	<b>12 869</b>	<b>13 797</b>	<b>14 867</b>	<b>16 124</b>	<b>17 557</b>	
% Change	<b>15.1</b>	<b>19.4</b>	<b>12.6</b>	<b>-3.6</b>	<b>16.7</b>	<b>-7.1</b>	<b>7.2</b>	<b>7.8</b>	<b>8.5</b>	<b>8.9</b>	<b>4.9</b>

\*Compound annual growth rate

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates



## ***Conclusion***

The accommodation sector should see growth in the coming years. However, as our forecasts show, occupancy rates are not expected to match those seen prior to 2009 and growth in average room rates will be low. All key players in the industry have reduced costs as far as possible and are all striving to maximise occupancy levels while carefully monitoring average room rates and being innovative as the market, regulatory environment and economy change. The accommodation provider that offers the best value product for the 21<sup>st</sup> century, coupled with strong branding will win out! The trend for 2011 remains gloomy but the future looks bright. Returns, though lower than in the past, are still to be made. The key to maximising the returns is innovation and leveraging the knowledge of past experiences in this vibrant and ever-changing industry.

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