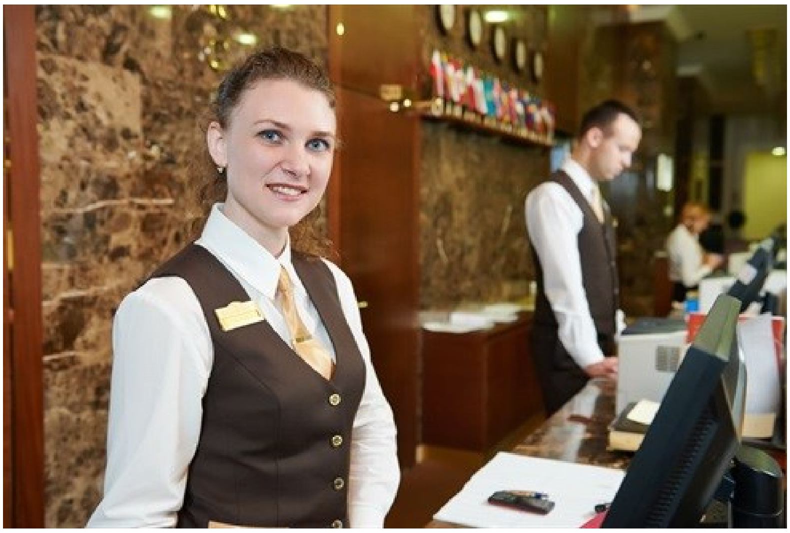
Hospitality outlook improving for Africa according to PwC

South Africa's hospitality industry is prepared to grow further in the next five years, with most growth in the sector expected to be generated in Cape Town, according to a report released by PricewaterhouseCoopers (PwC).



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Nikki Forster, Hospitality Industry Leader for PwC, Southern Africa says, "Although South Africa's economy has weakened, the hotel industry in 2014 has benefited from an increase in foreign visitors and rising room rates."

PwC's 5th edition of the 'Hospitality Outlook: 2015 - 2019' projects that by the year 2019 the overall occupancy rate across all sectors in South Africa will continue to increase, rising to an estimated 58.3% from 54.4% in 2014. "The hotel occupancy rate reached its highest level in 2014 of 52.6% since 2008. The hotel occupancy rate is expected to increase to 62% by 2019 but still remain lower than the 68.4% achieved in 2008," adds Forster. Five star hotels are expected to achieve a high of 80% occupancy in 2019.

However, one of the most significant recent developments in 2014 and 2015 in the South African tourism industry was the revision of the country's visa regulations. "Under the revised regulations tourists to South Africa will have to apply in person for visas to visit South Africa so that biometric data can be reliably collected. In addition, parents and guardians travelling with minors must have an unabridged birth certificate that shows the names of both parents.

"Although the new regulations are intended to protect South Africa they could have unforeseen consequences for the tourism and hospitality industries. Furthermore, the regulations may be onerous for tourists to comply with; it remains to be seen as to how they will affect the tourism and hospitality sectors."

Worldwide, governments are focusing on efforts to relax visa requirements to promote tourism. Tourism industry commentators in South Africa say the regulations have already adversely affected travel from China and India.

PwC's report features information about hotel accommodation in Nigeria, Mauritius and Kenya. The accommodation sector in South Africa consists of hotels, guesthouses and guest farms, game lodges, caravan sites, camping sites and other overnight accommodation.

"The accommodation market in South Africa enjoyed its third consecutive year of strong growth with a 9.1% advance following two years of double-digit gains. We expect total room revenue in South Africa to expand at an 8% compound annual rate overall and by 8.1% compounded annually for hotels."

Growth in room rates will be the main driver of revenue, with new hotels in Cape Town leading the expansion.

Hotel accommodation

In 2014, overall spending on rooms in South Africa rose 5.4% to R18.9 billion, with rising room rates being the principal driver. Hotel occupancy rates rose 7% just above inflation with five-star hotels achieving the fastest growth at 12.8%. With the market now improving, there is renewed activity in the hotel industry as major hotel chains upgrade current facilities, renovate their properties or make plans to expand and open new hotels. The report estimates that by 2019 there will be about 63,000 hotel rooms available up from 60,800 in 2014.

Elsewhere, the hotel markets in Nigeria and Kenya were both adversely affected by terrorist activity in 2014 and Nigeria was hurt by the outbreak of the Ebola virus in West Africa. Because of its strong economy, the hotel industry in Nigeria has attracted significant investment and the number of hotel rooms in Nigeria is expected to more than double during the next five years with much of the growth-taking place in Lagos. The number of available hotel rooms in Mauritius, a resort destination, is also expected to increase at a 2.8% compound annual rate.

Outlook: South Africa 2015 - 2019

Overall room availability in South Africa is expected to increase at modest rates for each category with guesthouses projected to be the fastest-growing category averaging 1.0% compounded annually. Overall room availability is projected to increase at a 0.7% compound annual rate to 120,300 in 2019 from 115,900 in 2014.

The overall occupancy rate rose 54.4% in 2014 with each category increasing. Guest houses/guest farms had the highest occupancy rate at 62.9%. The overall occupancy rate is forecast to climb to 58.3% in 2019. Total room revenue is forecast to reach R27.7 billion in 2019, an 8% compound annual increase from 2014.

Stay unit nights rose 3.6% in 2014 with most of the growth generated by a 10% increase in caravan/camping sites and other accommodation. "We expect stay unit nights to rebound in 2015, helped by an improving global economy and pick-up in economic growth. Growth, however, may be hampered by the recent imposition in 2014 of the new requirements needed to obtain a visa and in 2015 related to travelling with minors. Consequently we project stay unit nights to grow more slowly over the forecast period compared with increases during the 2010-13 period," she says.

It is also expected that the market can sustain mid-single-digit price rate increases in room rates without adversely affecting stay unit nights. The average room will cost R1,083 in 2019 from R820 in 2014.

Outlook: Nigeria, Mauritius, Kenya 2015 - 2019

The Nigerian hotel market was hit by health concerns in 2014 in the wake of the Ebola virus and concerns around terrorism. Room revenue declined by 20% and the 3/4 star hotel market took a knock as revenue fell 7.7%. For the forecast period as a whole, stay unit nights are projected to increase at a 6.6% compound annual rate to 2.2 million in 2019 from 1.6 million in 2014. Occupancy rates fell in 2014 for the first time to 49.8% and as development continues are expected to fall further to under 30% The number of tourist arrivals to Mauritius increased 4.6% in 2014, exceeding the one million level for the first time. Faced with competition from The Maldives, Sri Lanka and The Seychelles, hotels have been reluctant to raise room rates in recent years.

Kenya's hotel market declined during each of the past three years, with total revenue falling 7.1% and by a cumulative 16% since 2011. Despite continuing concerns around terrorism, a number of new hotels are scheduled to enter the market. Stay unit nights are also anticipated to decline by an additional 2.8% in 2015 with occupancies just above 50%.

Looking ahead

"The South African hotel market faces a number of challenges, but we are very optimistic in its ability to compete, adapt and succeed, especially as the global economy continues to improve following the recent economic uncertainty.

"Growth in travel and tourism is also expected to boost growth in the accommodation industry across the African continent during the next five years," she concludes.