

Rising costs put damper on City Lodge

City Lodge Hotels on Friday reported a 5.5% increase in revenue to R790m in the year to June, but a decline in occupancy levels and a significant increase in operating costs hit headline earnings, down 30% to R163m.

By [Mark Alix](#) 16 Aug 2011

The group said although slightly more rooms were sold than in the previous financial year, average occupancy fell to 56% from 70%.

However, it completed its biggest expansion programme yet in the period and, excluding new hotels opened during the year, the average occupancy rate was 62%.

CEO Clifford Ross said the fall in occupancy was mainly from the subdued economy, and the rise in the supply of hotel rooms before the World Cup. "We are a cyclical industry, and we have had these cycles before."

But, he said, this had been worsened by the poor state of both the global and domestic economies.

The group added 1451 rooms between mid-2009 and last year, and now boasts 52 hotels nationally, with 6440 rooms across its four brands - Courtyard, City Lodge, Town Lodge and Road Lodge.

Operating costs rose 29.3%, as a result of the additional property rental expenses associated with the new hotels.

Cost increases were also made worse by the significant increase in room numbers as well as a 50.7% rise in electricity costs.

Electricity comprises between 6% and 7% of total costs, up from between 3.5% and 4% in the past three years.

The group said it had no hotels under construction, but that it would keep an eye on long-term development opportunities.

It said opportunities in other parts of Africa were being looked at carefully, and exploratory visits had been made to neighbouring countries and to East and West Africa.

SA's hospitality industry is suffering from overcapacity in certain areas, following multiple new developments. This has been compounded by soft demand and competitive pricing. But City Lodge said with hotels in prime locations and solid finances, the group was well positioned to take advantage of an upturn in the market.

Source: Business Day