PwC report anticipates growth in Africa's hospitality sector

Despite the state of the South African economy, the hospitality sector is poised for further growth in the next five years in the wake of a number of inbound travellers to the African continent, according to a report issued by PwC.

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Nikki Forster, PwC's leader of hospitality and gaming, said: "Although South Africa's economy has weakened, growth in international travel and tourism, and rising room rates have bolstered the hospitality sector."

PwC's fourth edition of the Hospitality Outlook: 2014-2018 projects that by the year 2018 the overall occupancy rate across all sectors in South Africa will increase, rising to an estimated 58.4%. Total room revenue is expected to reach R28.7 billion in 2018, a 10.7% compound annual increase from 2013.

"Occupancy rates are expected to increase for hotels over the next five years, overtaking guest houses, bush lodges and guest farms to again become the leading category," said Forster. Occupancy rates for hotels are projected to increase from 58.9% in 2013 to 71.1% in 2018.

The report features information about hotel accommodation in Nigeria, Mauritius and Kenya. Accommodation sectors in South Africa consist of hotels, guest houses and guest farms, game lodges, caravan sites, camping sites and other overnight accommodation. For the first time the report includes a detailed analysis of the cruise industry in South Africa.

"One of the most significant developments in 2013 in the South African hospitality industry was the rise in average room rates, which increased 8.4%, well above the 5.9% rate of inflation," said Forster.

Despite the recent economic uncertainty, the total number of foreign overnight visitors to South Africa rose by 3.9% in 2013, down from the 10.2% increase in 2012, but still reflecting continued growth in foreign travel to South Africa. Foreign travel to South Africa was boosted in early 2013 by the African Cup of Nations football tournament and in December following the death of the late President Nelson Mandela, which led to an increase in the number of visitors to Robben Island where he spent many years in jail. "The continued depreciation of the rand is also credited with contributing to the growth in foreign tourism by making South Africa a less expensive country to visit," added Forster. South Africans are also tightening their belts when it comes to luxury holidays abroad and turning to local travel as an alternative. The total number of travellers in South Africa is projected to reach 17.6 million.

Hotel accommodation

In 2013 overall spending on rooms in South Africa in all categories rose 14% to R17.3 billion, reflecting an increase in stay unit nights and an 8.4% rise in the average room rate. The increase in hotel occupancy rates has stimulated new activity in the industry, with a number of major hotel chains in the process of upgrading facilities, renovating their properties or making plans to open new hotels. The report estimates that by 2018 there will be about 63,600 hotel rooms available up from 60,900 in 2013.

Elsewhere, Nigeria's economy is booming, buoyed in part by regional and international investment. Hotel room revenue rose by 59% between 2009 and 2013. Conversely, hotel room revenue in Mauritius decreased by 8.7% in 2013, but is projected to grow at 4.6% compounded annually to 2018. Kenya's hotel market declined during the past two years, largely due to terrorist concerns.

Outlook: South Africa 2014 to 2018

Overall room capacity is projected to increase at a 1.3% compound annual rate to 123, 400 in 2018 from 115, 700 in 2013. Guest houses are expected to be the fastest-growing category in respect of the availability of rooms averaging 3.7% compounded annually, with slower growth in other areas. Stay unit nights for hotels rose by 4.8% in 2013 whereas guest houses and guest farms fell by 4.5%. The overall occupancy rate across all sectors rose to 52.6% in 2013. Although guest houses/guest farms had the highest occupancy rate at 60.5%, it was the only category to show a decline in 2013, having posted an occupancy rate of 65.3% in 2012.

Hotels accounted for 71% of total accommodation revenue in 2013 and this share is expected to rise to 73% by 2018.

Outlook: Nigeria, Mauritius and Kenya 2014 to 2018

The hotel market in Nigeria grew by 9% in 2013, which was the smallest gain since 2010. Stay unit nights increased by 6.3% in 2013 and have grown faster than room availability over the past three years. Average room rates have grown slowly in the last two years, rising by only 2.5% in 2013.The number of hotel rooms is expected to triple during the next five years, rising from 8400 in 2013 to 24,000 in 2018. Overall hotel room revenue is also anticipated to expand at a 22.6% compound annual rate to USD1.1 billion (R12.1 billion) in 2018 from USD413 million (R4.4 billion) in 2013.

Mauritius competes with the Maldives, Sri Lanka and the Seychelles for the tropical tourist market. The average hotel room in Mauritius costs 170 Euros (R2492); 2.7 times higher than average rates in South Africa and 28% higher than South Africa's average five-star room rate. Due to the number of renovations and projects taking place in the industry, the number of available hotel rooms is expected to increase at a 2.9% compound annual rate to 14, 250 in 2018. The average occupancy rate will edge down from 63.3% in 2013 to 61.5% in 2018.

Kenya's hotel market declined during the past two years, falling by 6.6% in 2012 and an additional 2.6% in 2013.Concerns about terrorism led several countries, including the US and the UK, to issue travel alerts that discouraged people from visiting Kenya. The number of available rooms in Kenya is, however, projected to increase from 17, 500 in 2013 to 19, 400 in 2018 with an increase in the average room rate from USD155 (R1641) in 2013 to USD163 (R1726) in 2018. Total room revenue is expected to expand by 2.5% compounded annually, rising to USD668 million (R7.1 billion) in 2018 from USD589 million (R6.2 billion) in 2013.

Cruise industry in South Africa

The cruise industry in South Africa consists of spending by South Africans on cruises originating or departing from South Africa. Currently, the industry is not seen as a direct competitor for the mainstream hospitality industry. The number of cruise passengers from South Africa totalled only 153,000 for the entire 2013/14 season, compared with 13.1 million stay unit nights for hotels in South Africa in 2013.

Durban is the leading cruise port in South Africa, accounting for about 70% of cruise passengers, Cape Town is the next largest. The average cruise cost R13, 365 in the 2013/14 season, comparable to the cost of a week at a five-star hotel in Cape Town. Cruise prices locally are nearly 30% less than the global average of R18, 525, in part reflecting the popularity of shorter and less-expensive cruises to local destinations, and also lower incomes in South Africa.

The number of cruise passengers is projected to increase to 186,000 in 2018/9. Although the number of passengers is expected to decline in 2014/15, the occupancy rate is projected to increase to 85.2% from 74.6% in 2013/14 as supply will fall faster than demand. Passenger capacity is affected by the number of ships serving the market, the size of the ship and the number of cruises per season. Another factor affecting capacity is the quality of the cruise terminals. Transnet National Ports Authority is in the process of soliciting and evaluating for new cruise terminals in Durban and Cape Town.

"The construction of world-class terminals will improve boarding, which will enhance the cruise experience and encourage cruise lines to increase the number of cruises they offer in South Africa," added Forster.

Total cruise revenue is expected to increase by a projected 9.4% compounded annually, rising to R3.2 billion in 2018/19 from R2 billion in 2013/14.

Looking ahead

Foster concluded: "Tourism is considered to be a key element in South Africa's economy and is recognised in the National Development Plan as an important driver of economic and employment growth.

"Growth in travel and tourism is expected to fuel growth in the accommodation industry across the African continent during the next five years."

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