

HOSPITALITY MARKET REPORT

# Cape Town

April 2016



Hospitality & Tourism Industry Specialists

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# Introduction

*Situated at the South-West tip of Africa (and South Africa), Cape Town is home to an estimated 3.7 million people and is the second largest municipal economy in the country.*

The broader Cape Town area is a highly desired location for corporates as well as domestic and international leisure visitors. This strong leisure and corporate base combined with the South African Parliament and venues such as the Cape Town International Convention Centre creates a diverse market mix for hotels and positions

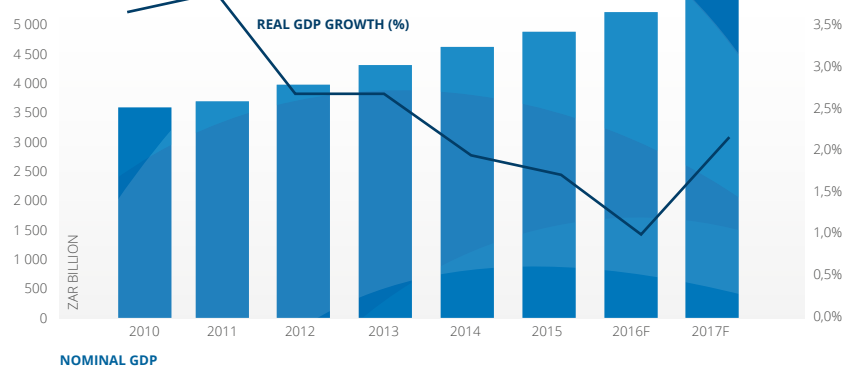
the City as one of the strongest performing hotel nodes in the Country. Considering the economic challenges facing South Africa, 2016 could be a difficult year for the Cape Town hotel market. HTI Consulting took a closer look at the market to assess the outlook for the sector.

# Factors Influencing the Hotel Sector

## 1 | A National Economic Slowdown

Since 2011 economic growth in South Africa has slowed from 3.2% to a projected growth of 0.8% for 2016. In recent years continued political instability, strikes in various economic sectors, an unstable supply of electricity, drought and declining commodity prices have limited the extent to which Africa's second largest economy can grow.

**SOUTH-AFRICAN GDP GROWTH (2010 - 2017F)**



Source: Standard Bank, African Markets Revealed January 2016

The instability in South Africa has caused ratings agencies to downgrade South Africa's investment status. Fitch down-graded South African debt in December 2015 to BBB - a notch above non-investment grade - while Standard & Poor lowered its assessment from stable to negative.

The current negative outlook has caused a run on the currency and the rand declined from ZAR11.21/USD1 in December 2014 to approximately ZAR15.47/USD1 by December 2015, a decline of almost 40%.

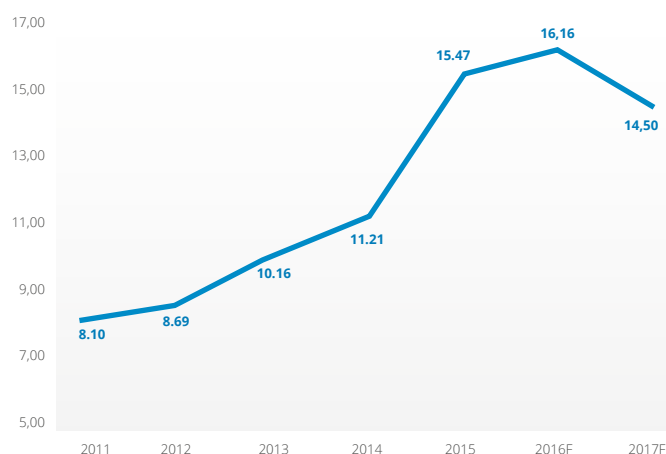


Standard Bank project a weaker rand for 2016, however in 2017 it is projected to strengthen and move below ZAR15/USD1.

The weaker rand has created inflationary pressures and interest rates are rising as a result. The prime interest rate has increased from 9.75% in November 2015 to 10.50% in March 2016. Further increases are expected as inflationary pressures persist.

The economic situation presents a challenging environment for many businesses, including hotels, who are, in many cases, reliant on domestic corporate and leisure demand. However destinations like Cape Town can benefit from a weaker rand through increased demand from international tourists taking advantage of South Africa's greater affordability.

**USD/ZAR EXCHANGE RATE PERIOD END (2011 – 2017F)**

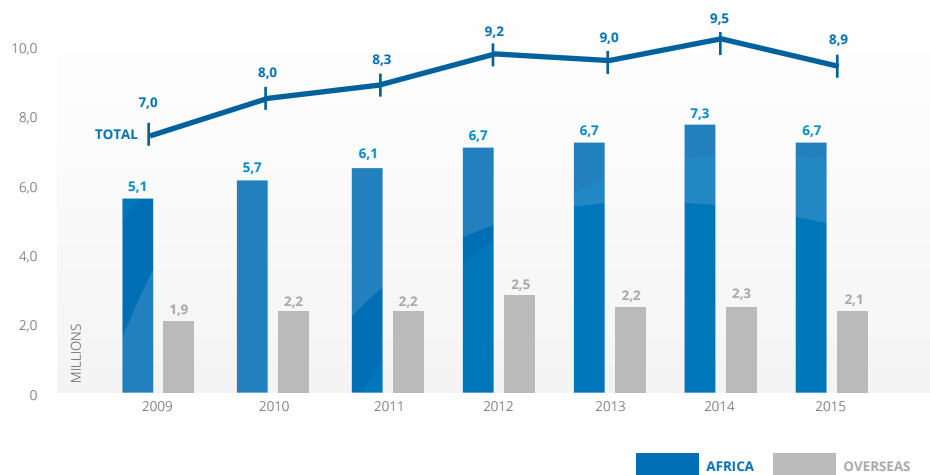


Source: Standard Bank, African Markets Revealed January 2016

## 2 | A Positive End to a Negative Tourism Year

*Tourism arrivals to South Africa declined by 6.8% in 2015. Both African and Overseas markets declined by 7.4% and 4.9% respectively. The Ebola threat and the introduction of onerous visa laws influenced the decline in demand.*

**TOURIST ARRIVALS TO SOUTH AFRICA (2009-2015)**



Source: South Africa Tourism and Stats SA

\*Stats SA changed their collection methodology in 2013 and data pre 2013 should therefore not be compared to current data

Overseas visitor demand for South Africa declined for the first 10 months of the year (with the exception of July). In October 2015, however changes were made to the visa laws and this, combined with the weak rand, saw overseas demand in November and December increase by 6.4% and 6.0% respectively.

Despite the national decline, international passenger arrivals to Cape Town International Airport (CTIA) increased by 9.0% (January to December 2015). Increased arrivals were attributed to improved connectivity, notably between Cape Town and Addis Ababa through the introduction of an Ethiopian Airlines flight 6 days a week. Direct international flight connectivity to Cape Town is expected to continue in 2016 with increased capacity through KLM, British Airways, Thomas Cook and SA Airlink.



# 3 | Maturity of the Hotel Market

With a supply of almost 10,000 rooms, a good representation of 3, 4 and 5 star properties and strong penetration of international brands, Cape Town is regarded as a mature market.

The majority of the rooms in the City are concentrated in the CBD area (approximately 6,000 rooms), with the remainder in the Northern and Southern suburbs, Milnerton, Camps Bay, Bantry Bay, Sea Point and Green Point.

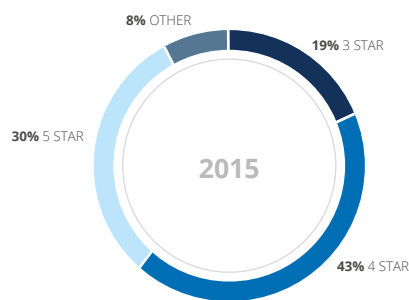
Most quality supply is concentrated in the four and five star sectors (approximately 6,600 rooms) with four star supply dominating at an estimated 43% of total rooms.

Domestic and international brands present in the market include Marriott (Protea), Southern Sun, Carlson Rezidor, Hilton, Holiday Inn, Taj and Belmond, to name a few.

Since 2010 there has been limited new investment in the Cape Town hotel sector. After the significant increase in supply prior to the 2010 FIFA World Cup, development in Cape Town slowed. Less than 200 rooms have entered the market over the last five years.

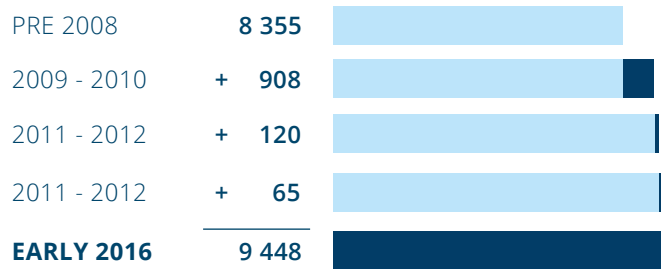
The lack of investment has enabled new supply to be absorbed and the market is achieving a strong performance.

## EXISTING QUALITY ROOM SUPPLY (2015)



Source: STR, HTI Consulting

## GROWTH IN QUALITY ROOM SUPPLY (2008 – 2016)



Source: HTI Consulting



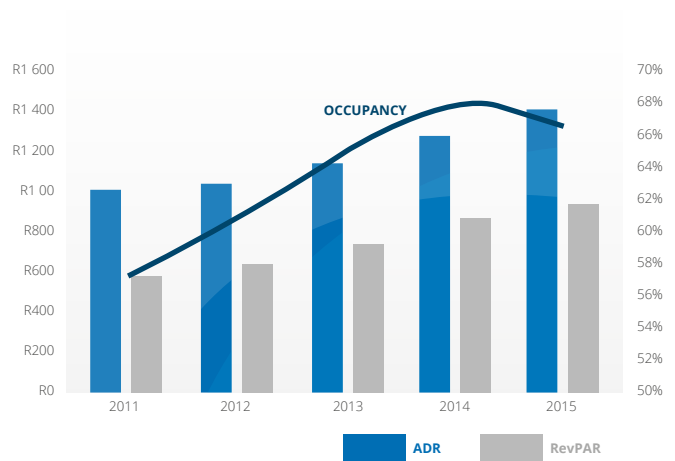
# 4 | Market Performance

*In 2015 STR reported that hotel occupancy in Cape Town declined by 1.2 percentage points to 66.7%. Given the challenges faced by the tourism sector in 2015 the small drop in occupancy is surprising. STR data shows that for the first eight months of the year occupancy showed a decline or stagnation when compared to 2014.*

However, in September and October STR reports that occupancy grew by 0.8 percentage points and 2.2 percentage points respectively whilst in November and December occupancy grew by 5 percentage points. As indicated, adjustments to visa laws and the weakened rand enabled market recovery and reduced the overall impact of the tourism decline on occupancy levels.

Since 2013 hoteliers have focused on ADR versus occupancy growth. From 2013 ADR experienced double digit growth (12.1%) which was maintained in 2014 (11.6%). Despite the slowdown in the market in 2015 double digit ADR growth continued (10.0%). RevPAR growth is still positive at 8.0% in 2015, down from 18.3% and 16.6% in 2013 and 2014 respectively.

**PERFORMANCE (2011 – 2015)**



Source: STR



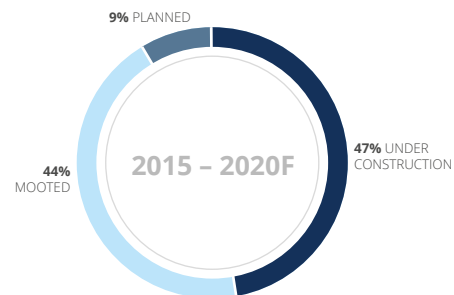
# 5 | Future Supply

*The positive conditions coupled with the absence of investment in the Cape Town market have attracted investors.*

New supply in the market has been segregated into rooms under construction, rooms planned and mooted supply. There are an estimated 1,000 rooms currently under construction (representing 47% of potential future supply) with most projected to enter the market in 2017. The Radisson Blu Hotel and Residence (214 rooms) is likely to open at the beginning of the year whilst the Radisson Red (252 rooms) and the Tsogo Sun (500 rooms – a 200-room SunSquare hotel and a 300-room StayEasy) should open in September/October 2017.

An approximate 9% of potential future supply fall under planned supply (175 rooms) and are in the early planning phases. The remaining (1,000 rooms) are mooted (suggested) developments and not all will be realised. Nevertheless, the 1,000 rooms under construction will impact on the market in 2017, especially the hotels in the CBD, foreshore and at the V&A Waterfront where the highest concentration of new supply is occurring.

## FUTURE SUPPLY PLANNED (2015 – 2020F)



Source: HTI Consulting



# 6 | A Positive Market Outlook

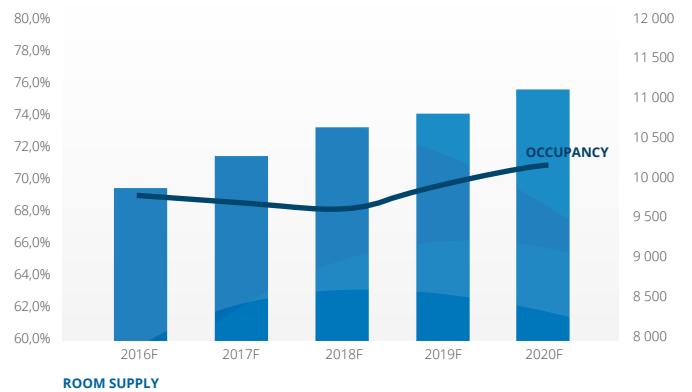
*Cape Town is likely to continue to be a “hot spot” for 2016. Occupancies for January and February grew by 6.0 and 5.0 percentage points respectively. Given the number of events held in March, positive growth is also likely.*

Already the summer season (October 2015 to February 2016) is showing positive growth over the previous season. According to STR occupancy grew by five percentage points whilst ADR and RevPAR increased by 11.0% and 18.1% respectively.

The primary risk to positive occupancy growth in 2016 lies with the domestic corporate and leisure markets, who could reduce travel spend given the current economic outlook. Despite this risk, HTI Consulting project occupancy growth for the City. Increases in direct international air lift to Cape Town, continued weakness of the rand and no new supply should enable occupancies to reach 69% -70% in 2016.

In 2017 occupancy levels are likely to be impacted as a large amount of new supply enters the market. The new supply will take some time to be absorbed and a return to market growth is expected between 2019 and 2020. Occupancies are expected to stabilise at around 70%, however this will fluctuate as new hotels enter the market.

**PROJECTED PERFORMANCE OF THE CAPE TOWN HOTEL MARKET (2016 – 2020F)**



Source: HTI Consulting



# About the Authors

Hospitality and Tourism International Consulting "HTI Consulting" is a niche, specialist hospitality, mixed-use, real estate and leisure focused consulting company formed in 2003. To-date more than 300 assignments have been completed covering 36 countries in Africa and the Middle East. Our services include:

- Market & financial feasibility studies
- Asset Management
- Operator Selection & Management Contract Negotiation
- Valuations
- Due Diligence
- Brokerage
- Finance Raising

HTI Consulting have recent experience in Cape Town where we have recently undertaken Market and Financial Feasibility Studies, Valuations and Operator Selection. For additional information on these and other services please contact HTI Consulting: [info@hticonsulting.co.za](mailto:info@hticonsulting.co.za) | +27 21 685 0635

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## WAYNE TROUGHTON

Chief Executive Officer



*Wayne is Chief Executive Officer of HTI Consulting. He has a three year Hotel Management Certificate from the University of Johannesburg and an MBA from CASS Business School in London. Wayne has 9 years of middle management operational experience in leading 5-star hotels and resorts in South Africa and the United Kingdom. Wayne also has 18 years of specialist hospitality consulting experience with HTI Consulting and Grant Thornton covering 36 countries focusing on: feasibilities, due diligence, operator selection, finance raising and asset management.*

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## KIRSTY DE GROOT

Associate, Head of Research & Quality Control



*Kirsty is Head of Research and Quality Control with HTI Consulting and has a BCOM degree in marketing from the University of South Africa. Kirsty has extensive experience in undertaking market and financial feasibility studies for stand alone hotel developments and integrated resorts. Kirsty has worked with HTI Consulting and KPMG (South Africa and Hungary) with a focus on hospitality consulting, for the past 16 years. Kirsty joined HTI Consulting in 2010 as an Associate Consultant, becoming a full-time employee in February 2012. Kirsty has worked on assignments in over 25 countries focusing on feasibility studies, market research and operator selection.*