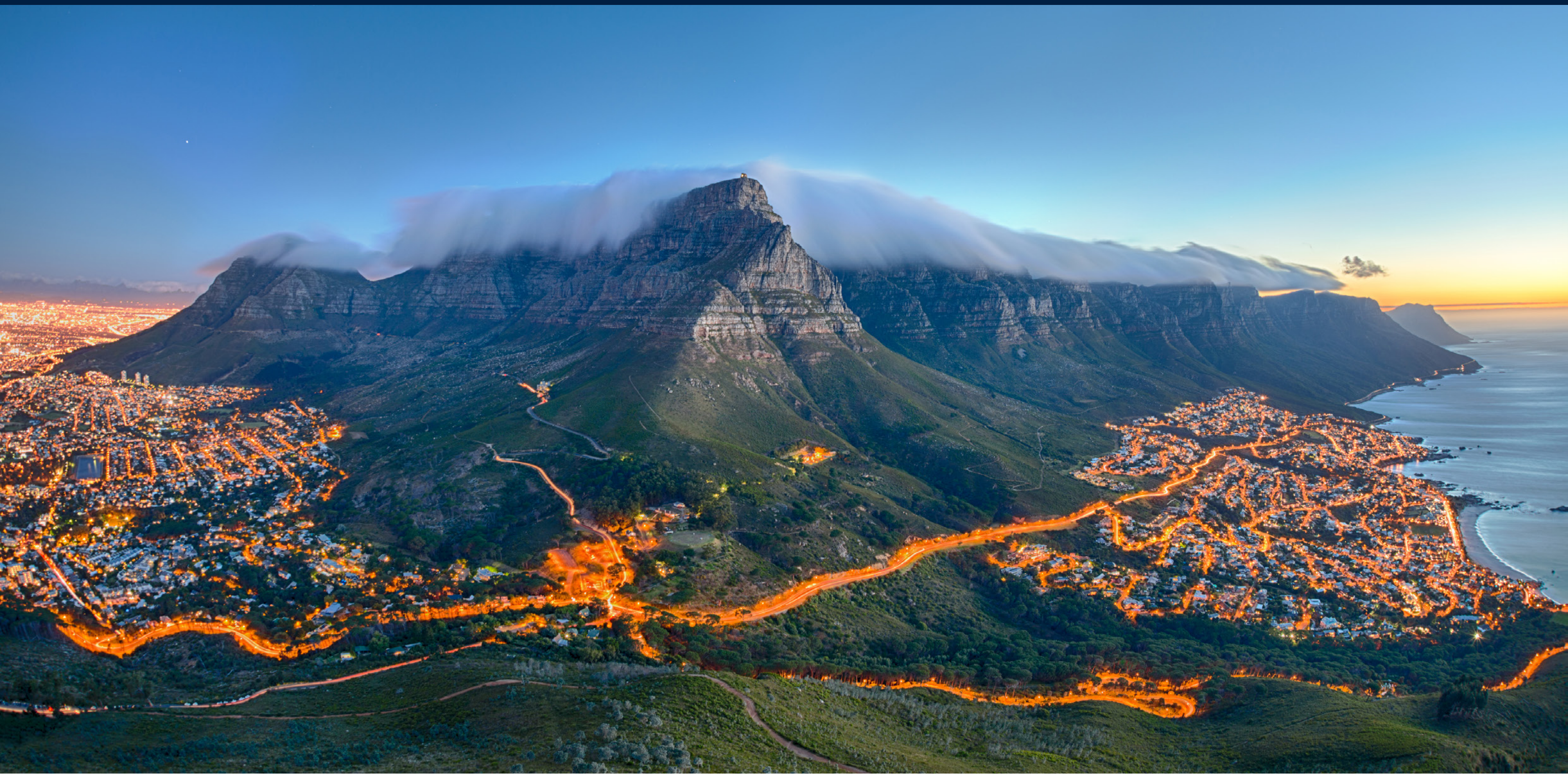


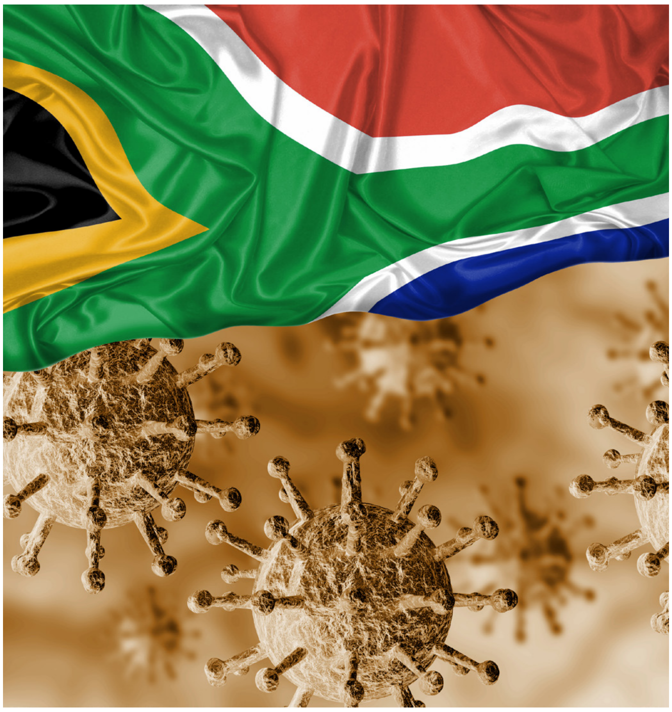
Horwath HTL
*Hotel, Tourism and Leisure*

MARKET REPORT

# South Africa

*Market Update*

SEPTEMBER 2020



## The South African Government's Response To The Coronavirus Pandemic

On Thursday 26 March 2020 hoteliers across South Africa embarked on the process of closing buildings never designed to be locked up in preparation for a 21-day national lockdown that was to come into effect at midnight.

Team members were sent home and asked to isolate for the next 21 days after which, it was thought at the time, everyone would return to work and life would continue as we knew it. On 26 March 2020 as we said our goodbyes to colleagues, we certainly did not think that some three, four, five, six months later we would all still be at home with many hotels across South Africa still closed .... and with some, never to welcome guests again.

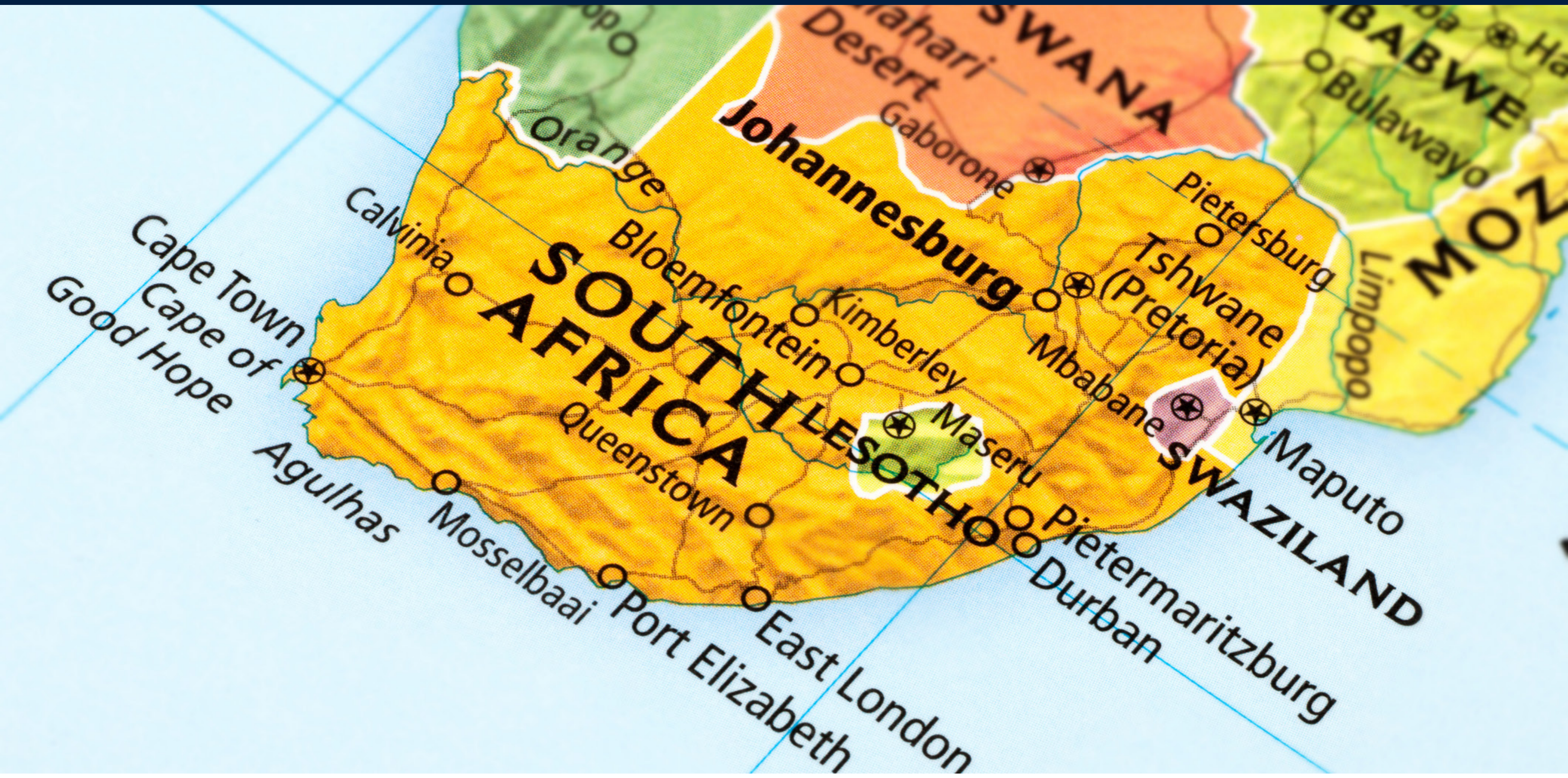
The South African Government, like many Governments around the world, developed a strategy that aimed to balance health and economic considerations in determining the extent to which the lockdown regulations would apply to the movement of citizens and therefore economic activity. In South Africa, this is referred to as the COVID-19 Risk Adjusted Strategy which is comprised of five levels with Lockdown Level 5 being the most severe of the lockdown levels and Lockdown Level 1 permitting almost all economic activity to resume.

Under the COVID-19 Risk Adjusted Strategy, it was not until June 2020, after almost seventy days of not being permitted to trade, when the country transitioned to Lockdown Level 3 that accommodation establishments were permitted to accept domestic business travelers. Leisure travel within the country remained a 'not permitted activity'. Restaurants, both independent and those situated within hotels, were still not permitted to open for sit-down/ dine-in service. The nightly curfew introduced under Lockdown Level 4 remained in effect between 9pm and 4am.

A further near sixty days later, at the end of July 2020, the Lockdown Level 3 regulations were modified and the Advanced Lockdown Level 3 regulations came into effect. Under Advanced Lockdown Level 3, restaurants were permitted, under strict regulation, to offer sit-down / dine-in service accompanied by on-consumption sales of alcoholic beverages. Conference and meeting venues were permitted to host conferences, meetings and events for up to 50 persons whilst observing the social distancing rules and casino operators were permitted to open, restricted to fifty percent of the casino's capacity.

Lockdown Level 2 came into effect in late August 2020 and brought with it the permission to travel between provinces for both business and leisure purposes. Licensed restaurants were also permitted to sell alcoholic beverages for on-site consumption every day of the week whilst observing the curfew hours. Restauranteurs welcomed the announcement that the nightly curfew would only start at 10pm allowing them an extra hour to trade.

With the announcement that the country was to transition to Lockdown Level 1 on Monday 20 September 2020 those hoteliers who had been able to sustain the five month lockdown welcomed the news that regional and international travel to South Africa would be permitted with effect 01 October 2020. At the time of writing, the South African Government had indicated it intended to permit access to all nationals residing on the African Continent requesting entry to the country and that a list of 'low risk' countries would be established and updated regularly that would confirm those overseas countries whose nationals would be permitted access to the country.




## The Economic Consequence

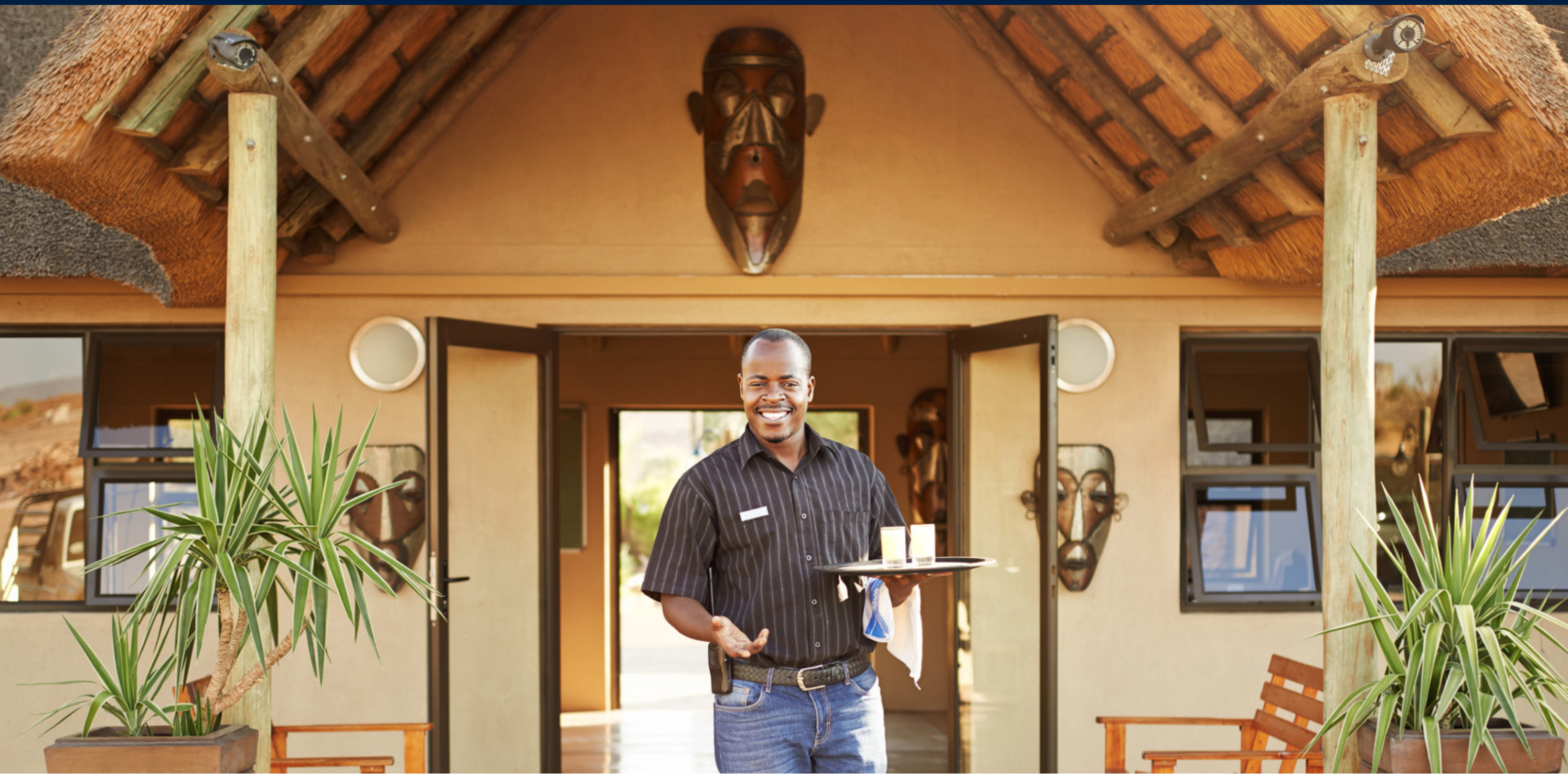
The Coronavirus Gray Swan event has, without doubt, shaken up the world, the global economy, and the stock markets. As is the nature of a Gray Swan event, it has the potential to positively or negatively, yet almost certainly significantly, alter the way the world operates.

The Government-imposed lockdown restrictions have served to exacerbate the numerous challenges South Africa was already facing before the onset of the pandemic; these included increased unemployment numbers and a highly constrained fiscus.

During the initial lockdown period, barring those companies selling or involved in the provision of essential goods and services, a large part of the economy was prevented from operating, leading to significant demand- and supply-side shocks. Consequently, following a three quarter recession, the Q2 2020 GDP reading plunged by a further, unprecedented, 51.0 percent on a quarter on quarter seasonally adjusted annualized basis.

Corporates have indicated in a number of surveys conducted by StatsSA between April 2020 and June 2020 that their ability to survive on reduced or no income was waning each month. Declining incomes and earnings associated with the economic slump have forced corporates and households to use their savings to service debt and meet costs, including salaries, whilst the vast majority of the indebted have been battling financially, despite low interest rates. As a result, the severe lockdown has weakened corporate balance sheets, with many businesses closing permanently or temporarily.

The official unemployment rate climbed to 30.1 percent in the first quarter of 2020 and is forecast to reach around 37.9 percent in the second quarter of the year (Stats SA data) as many businesses have had to shut their doors permanently or downscale their workforce.



## The Impact On The South African Tourism Industry

Historically, the South African tourism industry has relied substantively on domestic and regional travelers with overseas visitors accounting for approximately one quarter of the annual visitor market.

By the end of the first quarter 2020, passenger movement across the three key gateway international airports had declined by some 13 percent when compared to the corresponding period in 2019.

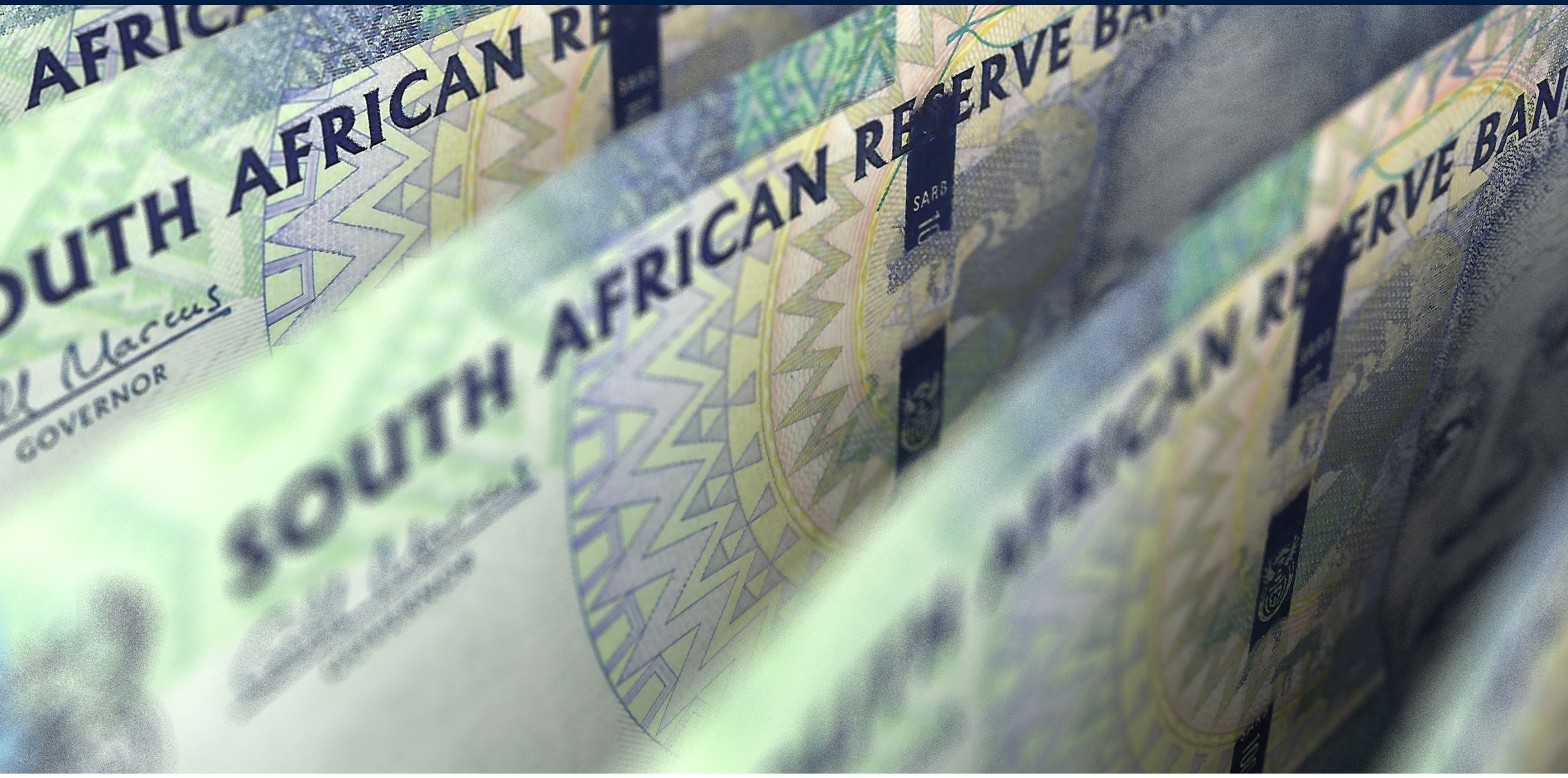
The three month period of April 2020 through June 2020, when the lockdown was most severe, passenger movement had contracted by some 99 percent.

The restriction on movement of travelers and the effect of the severe lockdown yielded similar results in demand for hospitality accommodation which contracted by some 39 percent in the month of March 2020; albeit the lockdown was only in effect for five days of the month.

Over April 2020 and May 2020 demand for hospitality accommodation contracted by some 97 percent with a limited number of accommodation establishments permitted to continue operating to accommodate foreign travelers unable to return home and/or as quarantine and isolation facilities.

With the transition to Lockdown Level 3 coming into effect in June 2020, domestic business travel was permitted. However, with almost half of the domestic airlines grounded at the time contemplating business rescue strategies, it was not until mid- to late June 2020 when air connectivity made business travel more accessible. Demand for hospitality accommodation strengthened by five percentage points registering a market wide occupancy rate of some 3.5 percent.

With the list of 'approved' overseas countries only expected to be published toward the end of September 2020, following which international air carriers would be able to confidently sell tickets for destination South Africa, we would expect international tourist arrivals to remain subdued in the near term.




## Outlook

The impact of the Coronavirus pandemic on the health of the population appears to be much less severe than was originally feared while the impact of the Government-imposed lockdown on the economy is, thus far, quite likely underestimated and continues to see much worse outcomes than originally expected.

The pace of recovery for the South African economy is anticipated to be extremely slow, in particular held back by the major electricity constraints and lack of political will to radically reduce the complexity and number of regulations the industrial sector is constrained by. Persistent policy uncertainty and the slow implementation of crucial reforms are anticipated to continue weighing on business and consumer confidence, further inhibiting growth.

Local economists suggest it will take several years, possibly until 2025, for South Africa to return to the level of economic activity experienced at the end of 2019, which was R3.14 trillion in real terms (adjusted for inflation) or R5.2 trillion in nominal terms.

With both Public and Private sector spending down sharply, and likely to remain constrained for the foreseeable future, recovery of the South African tourism industry is only anticipated toward the end of 2022/ early 2023.

## Authors

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Michelè has 25 years of experience in the tourism and hospitality industry with the past decade focussed on providing services across English-speaking sub-Saharan Africa. Her experience covers a wide range of activities enabling her to provide a spectrum of services from market analyses, concept development, financial feasibility studies and operator selection for projects to trouble-shooting for existing operations, and developing and implementing operating standards, policies and procedures to support organisational objectives. More recently, Michelè has assisted hospitality owners with asset management, owner representation, and corporate strategic advice (including the implementation thereof).

Michelè holds a National Diploma in Hotel Management from ML Sultan Hotel School, South Africa as well as a National Diploma in Management Accounting and Finance conferred by the Independent Institute of Education and endorsed by the Chartered Institute of Business Management, South Africa. Michelè joined Horwath HTL's South African firm in 2004 and currently holds the position of Managing Director.

Michelè has served on various tourism and hospitality committees in South Africa and in 2012 was elected Chairperson of FEDHASA Cape. Michelè serves as a Trustee to the Tourism Hospitality and Catering Pension Fund and is also a member of the South African Property Owners Association and the Institute of Directors of Southern Africa.

## Horwath HTL

At Horwath HTL, our focus is one hundred percent on hotel, tourism and leisure consulting. Our services cover every aspect of hotel real estate, tourism and leisure development.

Our clients choose us because we have earned a reputation for impartial advice that will often mean the difference between failure and success. Each project we help is different, so we need all of the experience we have gained over our 100-year history.

We are a global Brand with 47 offices, who have successfully carried out over 30,000 assignments for private and public clients. We are part of Crowe Global, a top 10 accounting and financial services network. We are the number one choice for companies and financial institutions looking to invest and develop in the industry.

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- Tourism
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- Hospitality Crisis Management

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