

A room with a view

Cape Town hotels and tourism

Publication jointly
compiled by Wesgro, City
of Cape Town and PwC

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WESGRO
cape town & western cape
tourism, trade & investment



CITY OF CAPE TOWN
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Photo: The Clock Tower at the V&A Waterfront

Foreword by the Executive Mayor of Cape Town

The City of Cape Town is privileged to be part of this strategic publication for the hospitality industry in Cape Town.

The hospitality industry in Cape Town has been steadily growing and is expected to continue growing in the future as the number of travellers to South Africa in general, and the Western Cape in particular, continues to grow. Travellers to the Western Cape are attracted to Cape Town due to the tourism industry's various offerings, which include gorgeous landscapes, enjoyable weather, rich bio-diversity, outdoor activities and favourable exchange rates. These attributes add to the aesthetic allure of Cape Town as a destination for travellers.

Cape Town has received many accolades with regard to the tourism and hospitality industry, including the following:

- Number one (1) in the New York Times List of 52 places to visit in 2014
- Number one (1) Holiday Hotspot in the Guardian.com Top 40 Destination Roundup
- Number three (3) City in the World – Lonely Planet Best in Travel 2014
- Best Destination in Africa – World Tourism Awards (an award Cape Town has won seven times already)
- Best Destination in the World at the TripAdvisor Traveller's Choice Awards 2011
- The World's Top City in Africa and the Middle East at the Travel + Leisure World's Best Awards 2012
- One of the World's Ten Most Loved Cities 2012, CNNgo

The above accolades point to the fact that Cape Town offers value for money to travellers in terms of infrastructure, sites to visit and leisure activities. This recognition by international and local organisations in this industry is contributing to growth in tourism numbers, which in turn reflects confidence in Cape Town as a destination of choice for both tourists and travellers. This sector remains a vitally important contributor to economic growth, development and inclusion in Cape Town.

The City of Cape Town has been providing strategic interventions that will further contribute towards the development of the tourism and hospitality industry in Cape Town. Interventions by the City of Cape Town include the provision of infrastructure, like the expansion of the Cape Town International Convention Centre; continued engagements with the Transnet National Ports Authority regarding harbour developments, which will include berthing facilities for cruise liners; as well as working with private sector partners who are strategic to this industry. We look forward to continued growth in this vital sector of the Cape Town economy.

Patricia de Lille
Executive Mayor of Cape Town





Message by the CEO of Wesgro

As the Western Cape's Tourism, Trade and Investment Promotion agency, we are proud to partner with the City of Cape Town and PwC to produce this publication that focuses on the investment opportunities within the hotel and accommodation sector within the City of Cape Town and its tourism industry.

The improvement in global economic conditions has allowed the Western Cape to experience a good 14% growth in foreign tourist arrivals during the first nine months of 2013 (January to September), compared to 4% for South Africa as a whole during the same period. The strong growth was mainly driven by a 34.8% increase in tourists from Asia and Australasia as well as a 13.3% increase in tourists from the Americas.

Important to note is that the off-peak season during April to June 2013 has experienced a remarkable recovery. An increase in foreign travellers to our province when compared to the same period in 2012 reflected a strong 26% increase.

The Western Cape held a total of 13.5 million bed nights between January and September 2013, growing by a steady 14.7% when compared to the same period in 2012. This kind of increase in tourist numbers, coupled with a strong share in bed nights spent in the province, clearly has a direct bearing on our hotel occupancy rates.

These are exciting times for tourism in our province, with Cape Town receiving accolades such as the number one spot on the New York Times' 52 places to visit in 2014. The Cape Town International Convention Centre, and the V&A Waterfront and Cape Town Harbour are all planning expansions to accommodate the influx of tourists – all positives for Cape Town.

I trust that this publication will be a valuable read and will give you a clearer understanding of and insight into the tourism and hotel industry, and help you identify opportunities. Once again, a big 'thank you' to our partners, the City of Cape Town and PwC for making the compilation of this publication a reality.

Nils Flaatten
CEO, Wesgro



Message by the Partner in Charge, PwC Western Cape

PwC is a delighted and proud citizen of the Western Cape. We have a vested interest in making a contribution to the continued economic improvement of all the citizens in our beautiful province.

"A room with a view" as a publication is intended to promote business and investment in an industry which serves as a direct and sustainable source of employment and extended economic activity in our province. Our research puts the directly measurable foreign tourist spend in the Western Cape at more than R18 billion per annum.

I therefore extend PwC's appreciation to the City of Cape Town and Wesgro for initiating and supporting "A room with a view". I have confidence that it will serve its purpose and will add to the prosperity of not only the travel and leisure industry in the Western Cape, but of the entire economy.

Despite its beauty and very apparent physical attraction, the Western Cape still has serious economic imbalances. A number of elements in the report accentuate how important it is for Cape Town and the entire Western Cape to continue advancing itself as a business destination. Cape Town has received a number of accolades during 2014 as reflected in the interview with Enver Duminy, CEO of Cape Town Tourism and Alayne Reesberg, CEO of Cape Town Design. The work done at the Cape Town International Convention Centre and the V&A Waterfront enhances our region's profile as a business destination. This is important to create the growth we need to solve our socio-economic challenges.

Danie Fölscher
Partner in Charge, PwC Western Cape





Photo: Cape Town International Convention Centre (CTICC)

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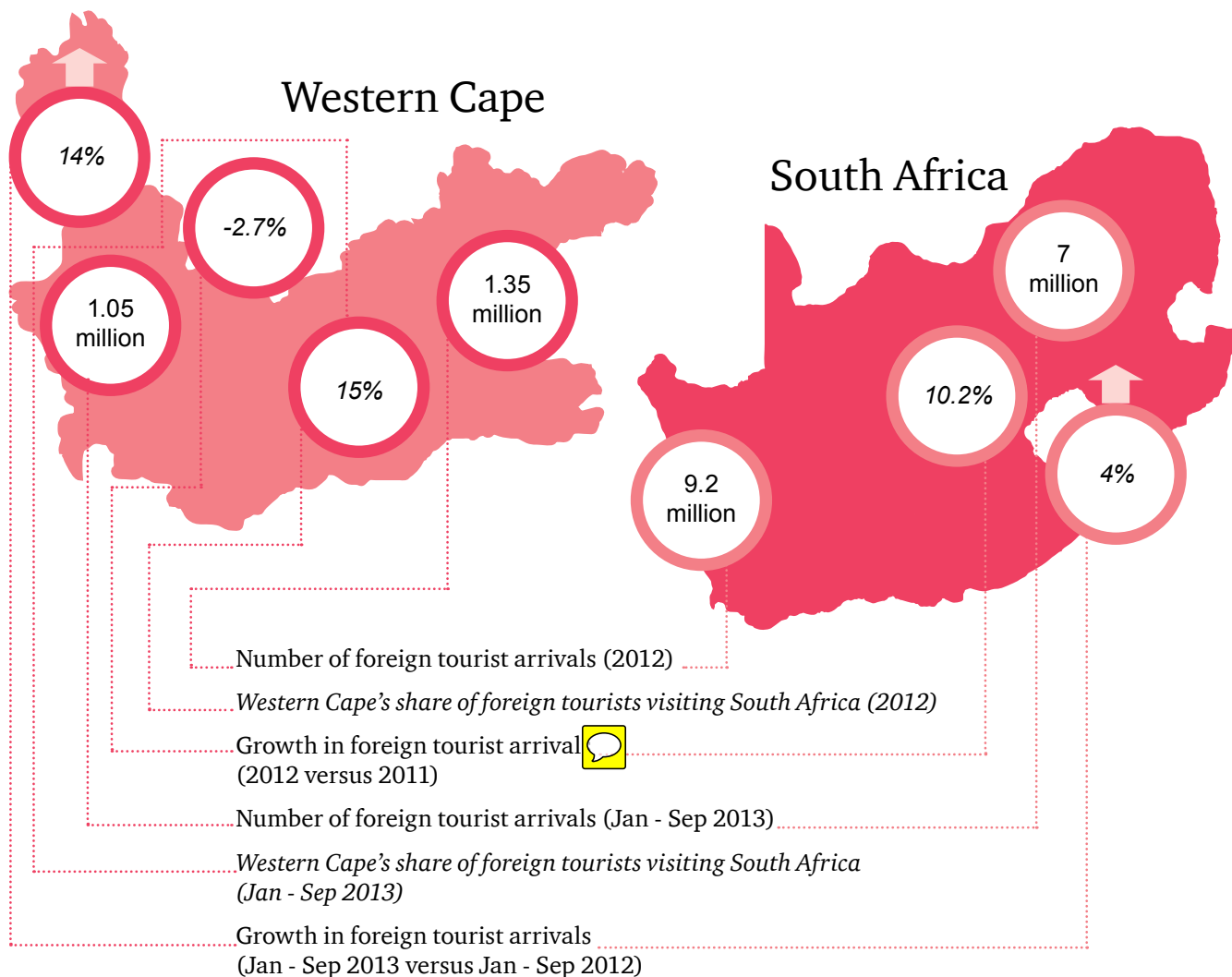
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Western Cape tourism in numbers

Foreign tourist arrivals



Top three leading international source regions (excluding the rest of Africa) (Jan - Sep 2013)

Western Cape: Europe, Asia and Australasia, Americas
 South Africa: Europe, Asia and Australasia, Americas

Top three leading international source markets (excluding the rest of Africa) (Jan - Sep 2013)

Western Cape: United Kingdom, Germany, United States
 South Africa: United Kingdom, United States, Germany

Top three leading African air markets (Jan - Sep 2013)¹

Western Cape: Angola, Nigeria, Kenya
 South Africa: Nigeria, Angola, Tanzania

Top three leading African land markets (Jan - Sep 2013)²

Western Cape: Namibia, Mozambique, Zimbabwe
 South Africa: Zimbabwe, Lesotho, Mozambique

Source: South African Tourism, 2014

Note 1: African air markets – countries where at least 60% of arrivals from the country arrive by air. The countries are Angola, DRC, Kenya, Nigeria and Tanzania.

Note 2: African land markets – countries where at least 60% of arrivals from the country arrive by land. The countries are Botswana, Lesotho, Malawi, Mozambique, Namibia, Swaziland, Zambia and Zimbabwe.

Key tourism competitor indicators, 2012 and 2013



Indicator	Western Cape	South Africa
Total foreign direct spend (TFDS)		
Total spend (excluding capital expenditure) by foreign tourists (2012)	R18.5 billion	R76.4 billion
<i>Western Cape's share of total spend by foreign tourists in South Africa (2012)</i>	24%	
Growth in spend by foreign tourists (2012 versus 2011)	1.6%	7.6%
Total spend (excluding capital expenditure) by foreign tourists (Jan–Sep 2013)	R12.7 billion	R54.1 billion
<i>Western Cape's share of total spend by foreign tourists in South Africa (Jan–Sep 2013)</i>	23%	
Growth in spend (Jan–Sep 2013 versus Jan–Sep 2012)	-4.5%	-2.9%
Number of bed nights		
Total number of bed nights spent by foreign tourists (2012)	16.3 million	67.5 million
<i>Western Cape's share of bed nights spent by foreign tourists in South Africa (2012)</i>	24%	
Growth in bed nights (2012 versus 2011)	-3.8%	2%
Total number of bed nights spent by foreign tourists (Jan–Sep 2013)	13.5 million	57.7 million
<i>Western Cape's share of bed nights spent by foreign tourists in South Africa (Jan–Sep 2013)</i>	23%	
Growth in bed nights (Jan–Sep 2013 versus Jan–Sep 2012)	14.7%	17%

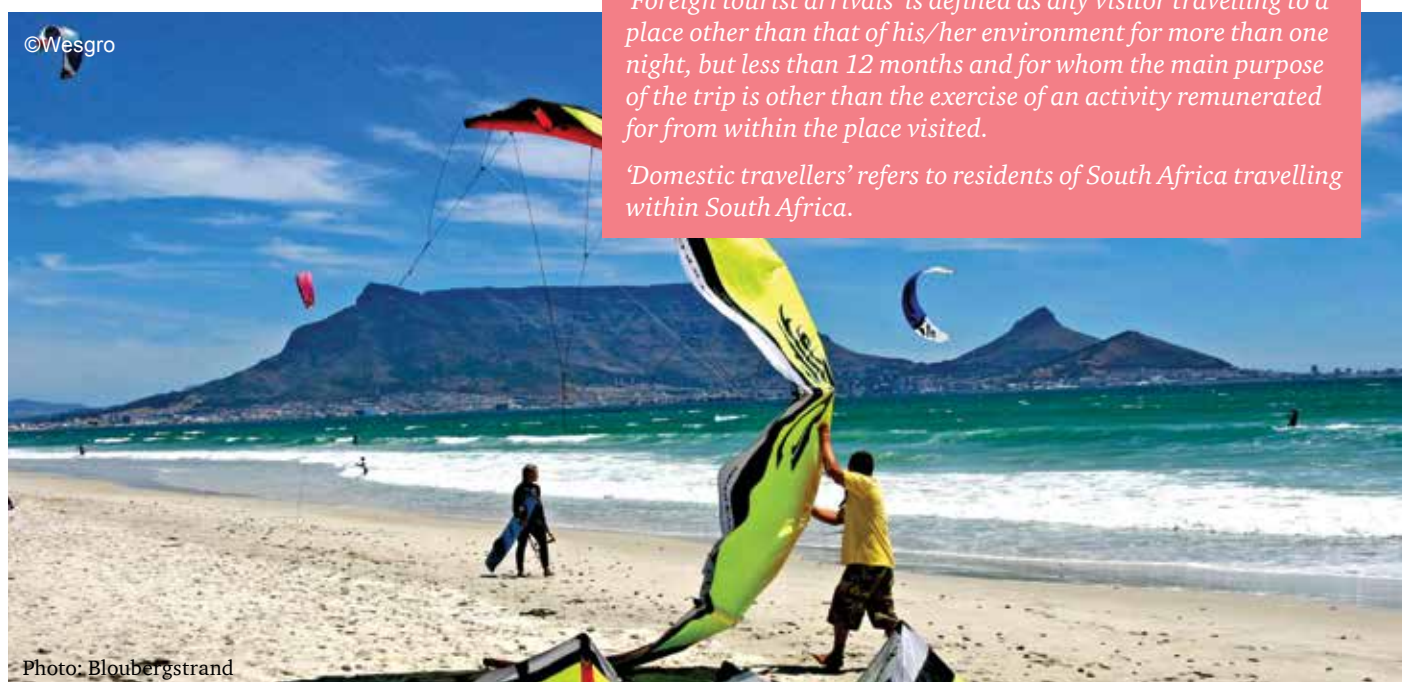
Source: South African Tourism, 2014

Domestic travellers

Domestic travellers to the Western Cape

Number of domestic trips to the Western Cape (2012)	2 million
<i>Western Cape's share of South Africa's domestic trips (2012)</i>	8%
Number of domestic trips to the Western Cape (Jan–June 2013)	1.1 million
<i>Western Cape's share of South Africa's domestic trips (Jan–June 2013)</i>	10%
Total spend by domestic tourists (2012)	R1.9 billion
<i>Western Cape's share of total spend of domestic travellers in South Africa (2012)</i>	9%
Total number of bed nights spent by domestic travellers (2012)	10.8 million
<i>Western Cape's share of bed nights spent by domestic travellers in South Africa (2012)</i>	9%

Source: South African Tourism, 2014



'Foreign tourist arrivals' is defined as any visitor travelling to a place other than that of his/her environment for more than one night, but less than 12 months and for whom the main purpose of the trip is other than the exercise of an activity remunerated for from within the place visited.

'Domestic travellers' refers to residents of South Africa travelling within South Africa.

Photo: Bloubergstrand

Our research

Cape Town is a unique travelling destination

Cape Town recently received the top spot in the New York Times' list of 52 places to go in 2014. The Mother City, as it is affectionately called, prides itself in extending its beauty to offer a world-class experience to domestic and international travellers for business and leisure.

In this publication we explore Cape Town's potential for growth in traveller volumes and the potential impact thereof on the hotel sector.

We present trends in key source markets for overseas tourists as well as new growth markets for Cape Town. Growth in tourist numbers from three of South Africa's BRICS partners, namely Brazil, India and China is exceptionally high.

Growth in tourist numbers is a direct stimulus for the hotel industry by increasing room demand. National and foreign direct investment into the Cape Town tourism and hotel sector fuels supply. It is important for investors to evaluate hotel demand versus supply in making any investment decision. Hotels are expensive to build and there is a relatively long time lag between planning a hotel, the construction phase and generating income. Investors thus tend to consider the potential acquisition of an existing hotel versus exploring new hotel projects when the market is favourable enough to support an increase in supply.

The key for hotel owners and potential investors will be to unlock the growth potential in a changing world of travellers. Cape Town is also well positioned as a springboard further into Africa.



In **Section 1** we provide an overview of Cape Town as a travelling destination. We focus on key trends in the tourism sector in the Western Cape compared to the overall South African market. The most recent information from South African Tourism was used. The latest data available for this publication is for the third quarter of 2013 (Q3 2013).

We present insights into the tourism sector through interviews with:

- Enver Duminy, CEO, Cape Town Tourism;
- Alayne Reesberg, CEO, Cape Town Design, the implementing agency for Cape Town World Design Capital 2014; and
- Michael Tollman, CEO, Cullinan Holdings.



In **Section 2** we focus on the hotel accommodation sector in Cape Town.

Cape Town trends were derived from an analysis of Smith Travel Research's (STR) data on Cape Town as at 30 September 2013. This data was based on monthly data collected from 65 participating hotels in the Cape Town area. It should be noted that historical data from STR differs from one year to the next, reflecting differences in the make-up of the participating sample of hotels.

We present an analysis of and insights into the hotel sector through interviews with the following industry leaders:

- John van Rooyen, Operations Director, Tsogo Sun Cape Region
- David Green, CEO, V&A Waterfront
- Joop Demes, CEO, Pam Golding Hospitality and Kamil Abdul Karrim, Managing Director, Pam Golding Tourism & Hospitality Consulting



Section 3 contains a list of selected hotels in Cape Town.

We wish to thank all those who contributed data, insights and analysis. In particular, we would like to thank the executives interviewed for their time and insights.

Use of publication data

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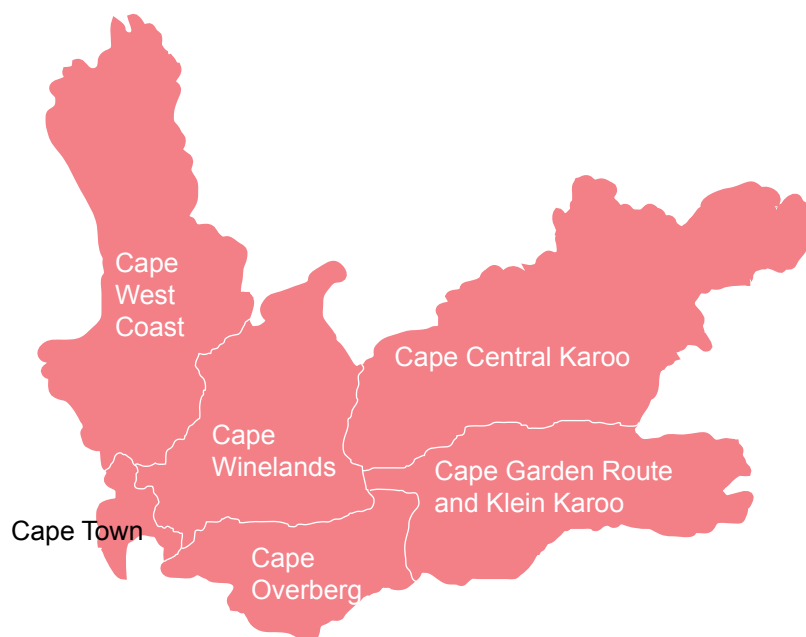
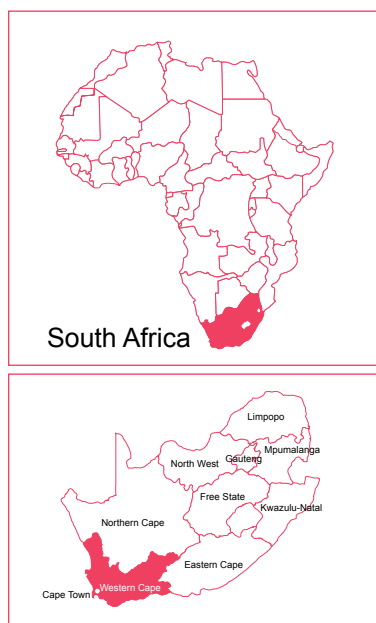


Section

1

*Unpacking the
Cape Town
tourism sector*

Section 1: Unpacking the Cape Town tourism sector



South Africa is one of the world's fastest-growing holiday destinations, and the tourism sector in the country is regarded as a modern-day engine of growth. Visitors are especially attracted to South Africa to experience its cultural and scenic variety, rich bio-diversity, myriad of outdoor activities on offer and warm weather. Furthermore, compared with many other countries it is also a cost-effective option for travelling, providing good value for money.

South African foreign tourist arrivals increased significantly by 10.2% from 8.34 million in 2011 to 9.2 million in 2012. This by far exceeds the global growth rate of 3.8% in 2012.

The **Western Cape** forms a key and integral part of the tourism market of **South Africa**. With 1.35 million foreign tourist arrivals in 2012, the Western Cape accounted for 15% of all South African foreign tourist arrivals.

The travel industry can expect more South Africans to travel both locally and abroad in 2014. According to TripAdvisor's latest TripBarometer study, more than half of South African travellers are planning international trips over this year. Domestic travel will also see significant growth with 93% of South African respondents reported that they were planning a domestic trip. TripBarometer also revealed that South African travellers' travel budgets increased from R26 200 in 2013 to R34 000 in 2014.

The greater share of respondents planning to embark on holidays within their home country serves as a promising market for the Western Cape, and may further boost tourism and economic growth in the province. According to long-term visitor trends, Western Cape travellers rank as the largest contributor to domestic travel in the province. Therefore, an anticipated increase in domestic travel from the remaining provinces will bode well for the Western Cape and ultimately further elevate domestic tourism levels in the province. Apart from Western Cape visitors contributing to the tourism industry, visitors from Gauteng account for a significant portion of domestic overnight stay.

South Africa is known for providing a wide variety of tourism experiences:

- *Eco-tourism*
- *Cultural tourism*
- *Adventure tourism*
- *Business tourism*
- *Sports tourism*

Foreign tourist arrivals

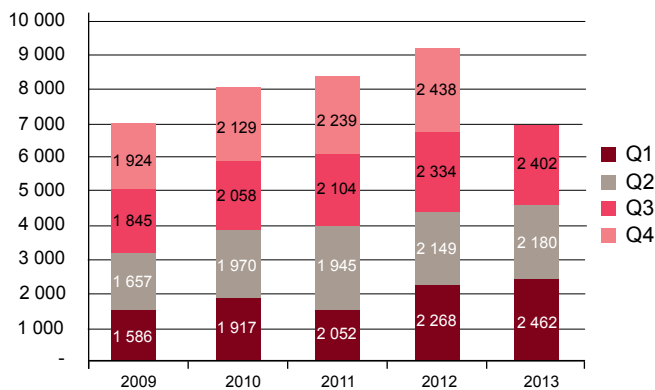
Western Cape foreign tourist arrivals to exceed 2010 FIFA World Cup levels

The FIFA World Cup is the largest single-event sporting competition in the world. It is the world's most widely viewed sporting event, and brought South Africa and the respective host cities an immense level of destination awareness. Similar to many other World Cup host destinations, an anticipated lag in travel to the Western Cape occurred between 2011 and 2012, a trend that was expected as travel patterns began to normalise. In spite of the overall slowdown, key emerging markets China, including Hong Kong (44.5%), Brazil (44.3%) and India (19%); and African land markets Lesotho (29.6%) and Zambia (17.8%) recorded impressive double-digit growth rates and continued to drive tourism growth in 2012.

Improving economic conditions and the normalisation in travel behaviour brought renewed confidence in the growth of tourism in the Western Cape. In the first nine months of 2013, the Western Cape reached a total of 1 048 450 tourist arrivals, growing by a rapid 14% when compared to the same period of 2012. The Western Cape's growth was more than double the growth rate for South Africa (4%) during the same period.

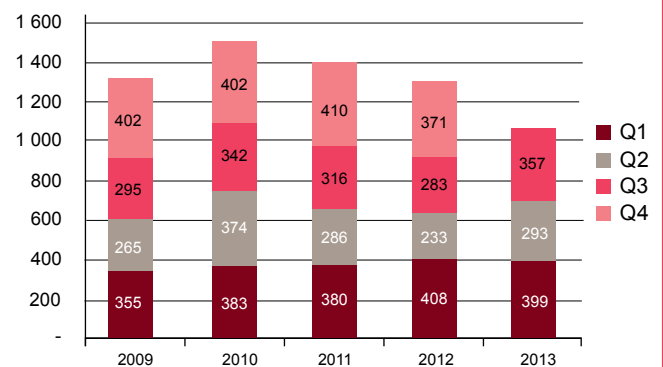
Holiday travel is discretionary and people tend to travel on elaborate vacations when their disposable income is rising. Sustained economic recovery of the Western Cape's dominant markets (Europe and the United States) will ensure the province maintains its strength in the traditional markets, while simultaneously appealing to key emerging markets as an attractive all-year-round leisure destination.

South Africa – Foreign tourist arrivals by quarter, 2009 - 2013 (thousands)



Source: South African Tourism, 2014

Western Cape – Foreign tourist arrivals by quarter, 2009 - 2013 (thousands)



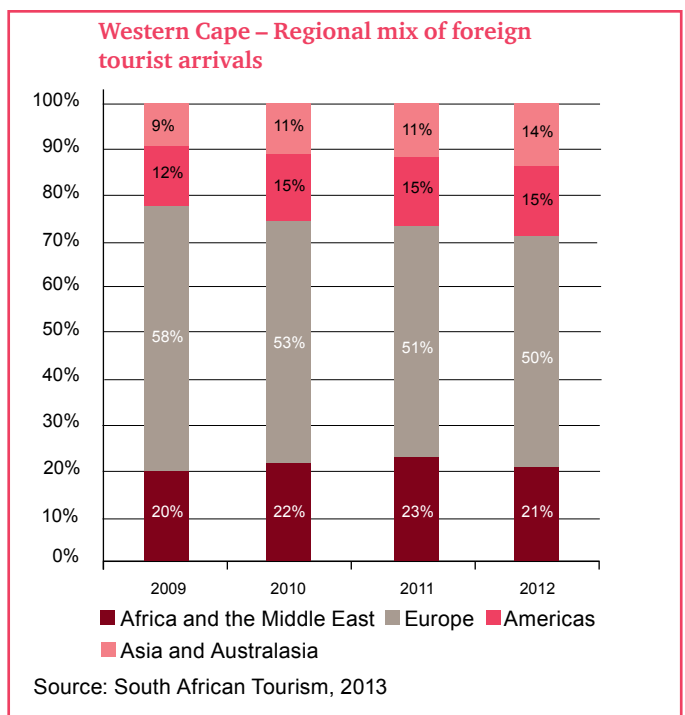
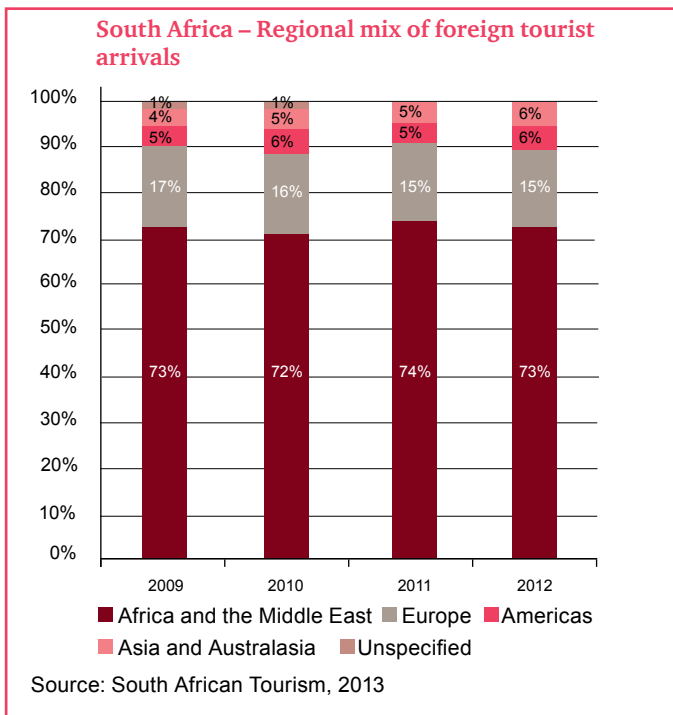
Source: South African Tourism, 2014

Regional mix of foreign tourist arrivals – South Africa versus the Western Cape

Most foreign visitors to South Africa come from the rest of Africa and the Middle East. This percentage has remained fairly constant from 2009 to 2012, at between 72% and 74%. This is followed by visitors from Europe, with between 15% and 17% of total foreign visitors.

The regional mix of the Western Cape differs significantly from that of the rest of South Africa. Its dominant tourist market is Europe, with arrivals from there steadily making up between 50% and 58% per annum in 2009 and 2012 respectively. This is followed by the rest of Africa and the Middle East (between 20% and 23%) and the United States (between 12% and 15%). The percentage share from Asia and Australasia reflected a firm year-on-year increase, growing from a 9% share in 2009 to 14% in 2012, indicating a consistent growth in the share of tourist arrivals from this region.

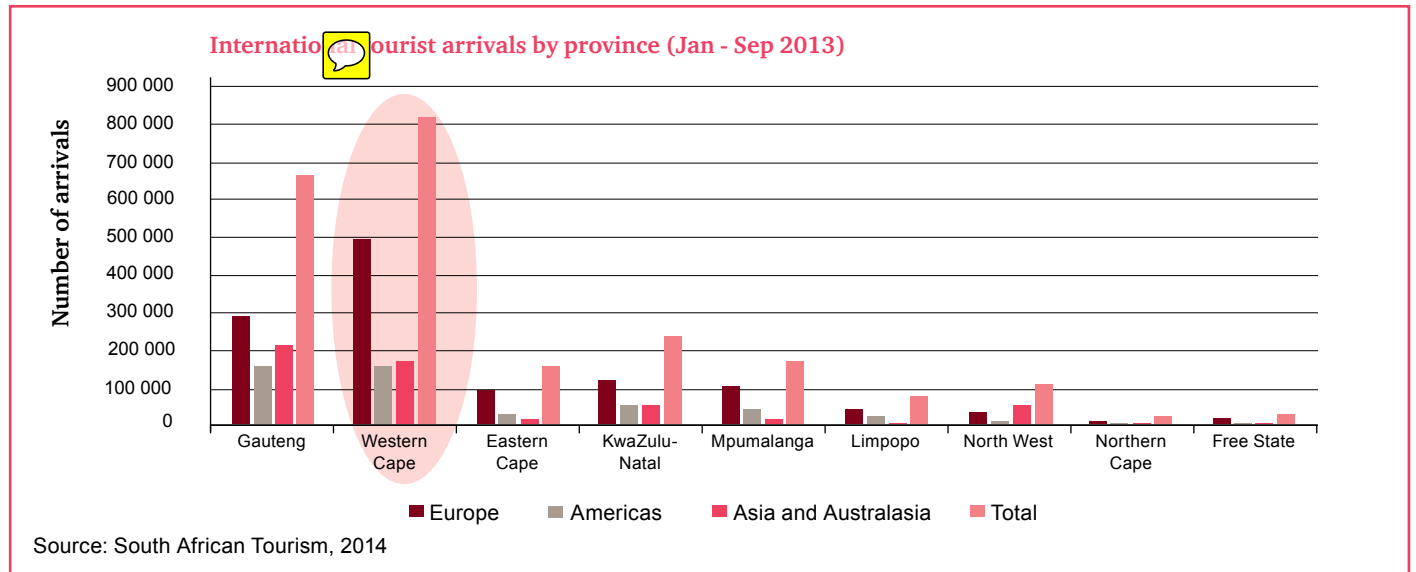
While the European region sustained its position as the Western Cape's top source for tourist arrivals, Asia and Australasia (19.2% growth) fuelled tourism growth in 2012, led by the strength attained from China (including Hong Kong) and India. Europe and the Americas gained momentum into the first nine months of 2013, portraying strong signs of stabilisation. Growth largely stemmed from an improved economic environment and a rise in disposable income levels, coupled with the depreciation of the rand against major currencies, which further stimulated travel to the province. The strong recovery in growth from Europe and the Americas indicates a healthy appetite for leisure travel to the Western Cape.



Provincial spread of international tourist arrivals – Western Cape takes the lead in international tourist arrivals

The significant growth in international tourist arrivals to the Western Cape was mainly due to a 34.8% increase in tourists from Asia and Australasia, and a 13.3% increase in tourists from the Americas.

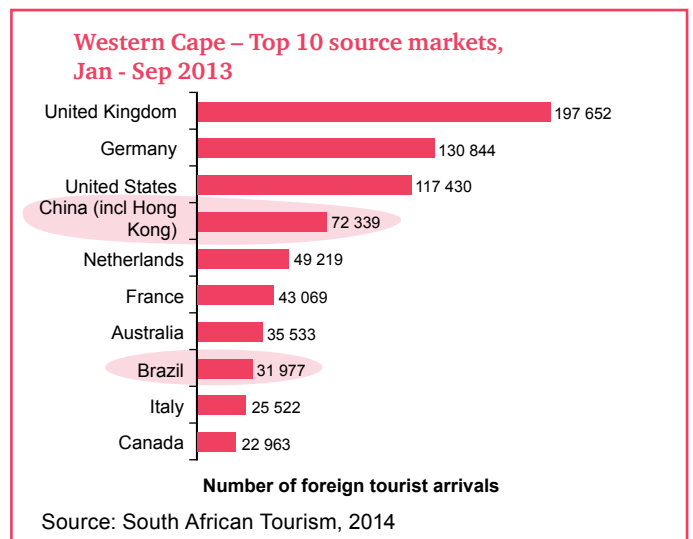
From the trend depicted below, it is evident that the Western Cape by far outshone the remaining provinces in the share of international foreign tourist arrivals. The Western Cape recorded the highest number in European arrivals as well as the highest overall total in international foreign tourist arrivals. The steady influx of European travellers to the Western Cape serves as a strong indication of return visitors to the province. The Western Cape’s climate and seasons being the opposite of those of Europe and North America portray the province as a preferred leisure destination among the European and American markets.



Top ten international tourist source markets

Europe is undeniably the Western Cape’s strongest region with respect to international tourist arrivals. The United Kingdom, Germany and the United States each maintained their position in the top three rankings. In addition to the sustained inflow from traditional countries, the BRICS markets (China, including Hong Kong, and Brazil) have been identified as key emerging markets for the Western Cape and have since showed major growth potential, shifting into the top ten source markets for the province.

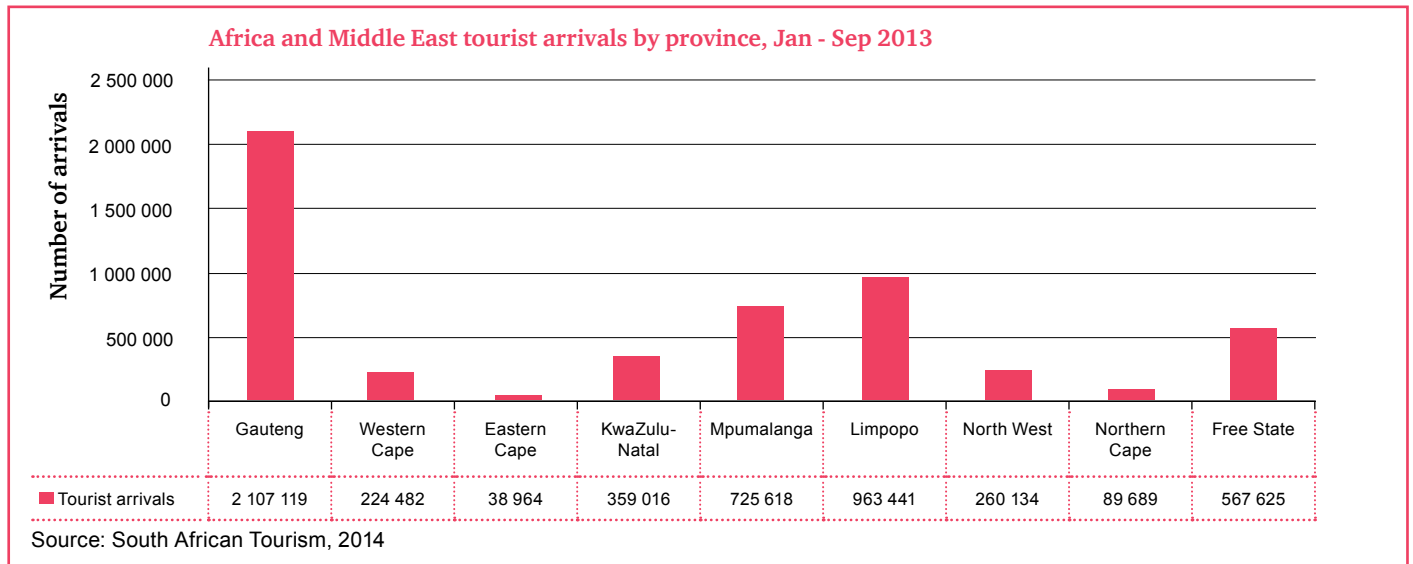
In addition to the provincial trend, long-term visitor patterns into the six regions of the Western Cape reflected the United Kingdom, Germany, the Netherlands and the United States as their top international markets. This is an important indicator for the Western Cape, as it signifies a regional spread of the international market, resulting in a significant boost to the local economies.



Provincial spread of foreign tourist arrivals from Africa and the Middle East

When taking a closer look at the Africa and Middle East region, Gauteng received the largest share of tourist arrivals from this region in the first nine months of 2013. Limpopo followed with the second-highest number of tourist arrivals from Africa and the Middle East. This finding is largely due to the close proximity of the Africa land markets of Swaziland, Zimbabwe and Mozambique to the Limpopo province.

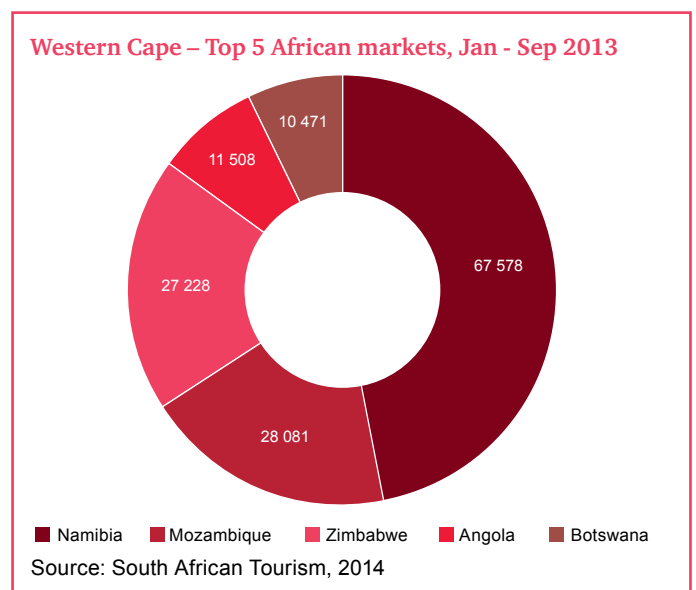
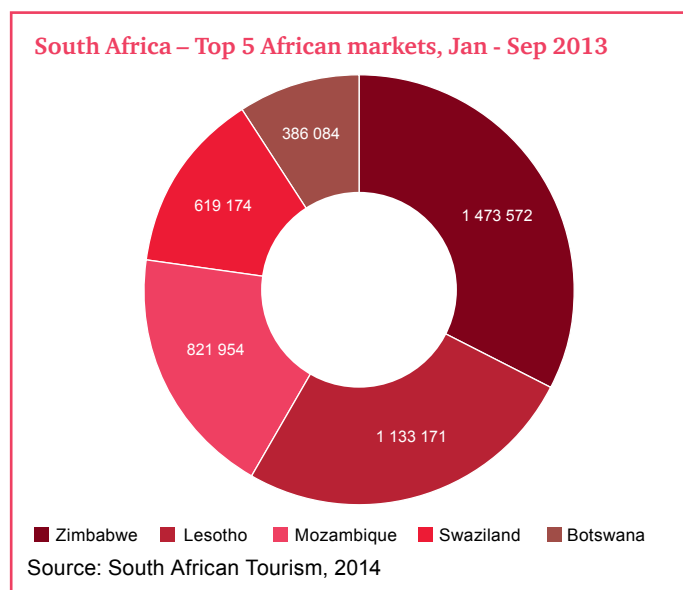
The strongest growth in 2012 was attained from African land markets (Lesotho and Botswana), followed by Africa and the Middle East rapidly regaining high quarterly growth rates during Q2 2013 (18.6% growth) and Q3 2013 (21.6% growth), reflecting additional opportunities for the Western Cape among the growing African and Middle East economies.



Top five African markets

Zimbabwe and Lesotho are ranked as South Africa's largest contributors to tourist arrivals from the African region, while travellers originating from Namibia and Mozambique dominated in the Western Cape.

While Namibia ranked as the Western Cape's largest contributor to tourist arrivals from the Africa and Middle East region, key African land markets Lesotho and Botswana recorded the strongest growth in 2012 – growing by 29.6% and 8.1% respectively. The significant growth was fuelled by a positive increase in regional arrivals at the Cape Town International Airport. In 2012, a double-digit year-on-year increase of 13.7% in regional arrivals through the airport was recorded, attained from key African land markets Botswana, Lesotho, Namibia and Swaziland. The Western Cape's strength from the African land markets portrays a strong demand from this region.



Top growth source markets – BRICS/Emerging markets leading growth in the Western Cape

According to the International Monetary Fund (2014), emerging and developing economies have grown by an average annual growth rate of 6.5% over the period 2004 to 2013, while the BRICS markets have grown by an average annual growth rate of 6% over the same period. Between 2004 and 2013, BRICS economies doubled in size and now collectively account for 21% of global GDP and 53% of emerging market GDP. It is estimated that they accounted for one in every six US dollars spent globally in 2013 (ICF Monitor, 2014).

The increase in growth in BRICS economies has led to a growing middle class with rising levels of disposable income. Rising discretionary spending by the middle class has led to a growing propensity to travel, and this has opened up opportunities for South Africa's tourism and hotel sector.

The strong growth in these economies, coupled with a rise in disposable income, has led to a significant number of tourists travelling to the Western Cape. In addition to key Asian markets (China, including Hong Kong, and India), Japan similarly contributed to growth levels from this region.

Angola was ranked as the Western Cape's strongest African air market, growing by a substantial 119.1% between January and September 2013, following a 5% year-on-year increase in 2012. The strong growth from this market stems from a healthy national growth, as well as an increase in disposable income largely influenced by gas and oil reserves.

These growing markets hold important potential for the Western Cape as an attractive leisure and business destination.

Top three international and African source markets by growth, Jan - Sep 2012/2013

Source market	Western Cape	South Africa
International	China, incl. Hong Kong (61.2%)	China, incl. Hong Kong (19.5%)
	Brazil (49.8%)	Japan (19.1%)
	Japan (45.8%)	Austria (17.7%)
Africa	Angola (119.1%) ¹	Malawi (24%)
		Ghana (21.8%)
		Botswana (20.5%)

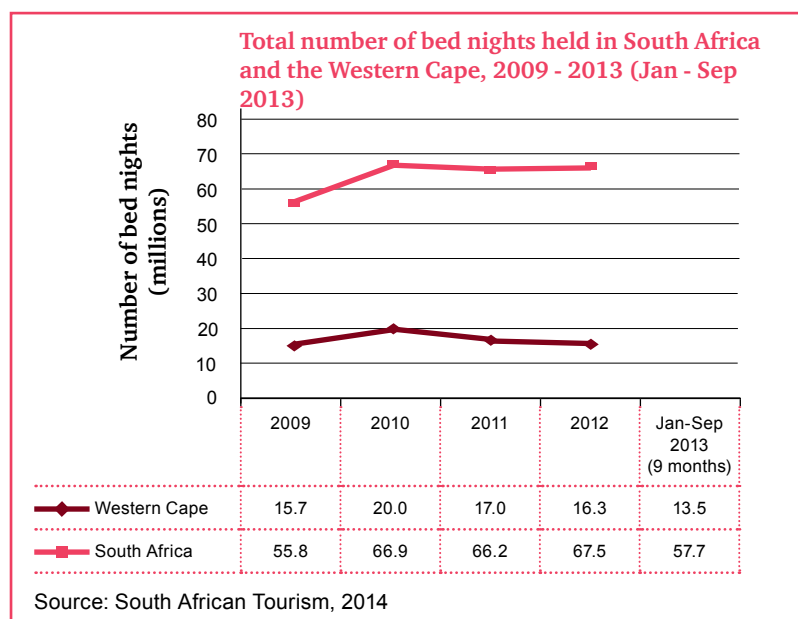
Source: South African Tourism, 2014

Note 1: Angola was the only comparative African market provided for the Western Cape.



Bed nights spent by foreign tourists

Although the Western Cape's share of foreign tourist arrivals in 2012 was only 15% of all arrivals in South Africa, its share of bed nights spent was 24% of the national total.



Tourist arrivals into the province further translated into 13.5 million bed nights held in the Western Cape between January and September 2013, growing by a significant 14.7% when compared to the same period in 2012.

The Western Cape enjoyed the second-highest number of bed nights among all provinces (second to Gauteng), which not only serves as a direct boost for the economy, but further bodes well for the performance of the accommodation sector in the Western Cape.

Foreign direct investment (FDI) in the Cape Town hotel industry

FDI in the hotel industry in Cape Town (2003-2014)

Number of FDI ¹ projects	10
Estimated total FDI investment value	R4.8 billion
Average hotel FDI project size for high-end luxury hotels: 200+ rooms	R550 million - R1.1 billion
Average hotel FDI project size for mid- to luxury hotels: 120-200 rooms	R260 million - R500 million
Average hotel FDI project size for boutique hotels: 20-60 rooms	R90 million - R240 million
Cross-border inward merger and acquisition investment value	R2.7 billion

Source: Financial Times, 2014; Mergermarket, 2014; Pam Golding Hotels (Pty) Ltd, 2014

¹An FDI project according to the UNCTAD classification is a crossborder investment in a new physical project or expansion of an existing investment which creates new jobs and capital investment

Prominent FDI projects in the Western Cape include the following (Financial Times, 2014):

Park Inn – 2010 – subsidiary of Rezidor Hotel Group opened a 120 room Park Inn hotel in Cape Town, Foreshore, featuring a grill restaurant, gym, business centre, two rooftop conference rooms, four small breakaway rooms, rooftop terrace, bar and swimming pool.

Hilton Hotels – 2010 – set up a development office in Cape Town with the intention to open hotels in all main cities in South Africa and will seek local partners to develop new hotels or manage existing hotels. Since this investment Hilton Hotels have opened in two locations in Cape Town. The Hilton Cape Town City Centre is a 137 room 5-star hotel located in the CBD and the DoubleTree by Hilton is a 183 room 4-star hotel located in the trendy Woodstock area.

Holiday Inn – 2007 – subsidiary of InterContinental Hotels Group (IHG) announced an investment into four Express by Holiday Inn properties in South Africa with the first 175 room Cape Town hotel located in the CBD.

Booking.com – 2007 – subsidiary of priceline.com opened a new office in Cape Town with local sales and account management teams to ensure closer relationships with hotels and partners in each region served.

Indian Hotels – 2006 – subsidiary of Tata Group, invested in the 176 room Taj Hotel in the Cape Town CBD. The property was developed through a 25-50-25 joint venture with Eurocape and Tata Africa.

Kerzner International – 2004 - invested in the ultra-luxury One & Only hotel located at the V&A Waterfront in Cape Town with 131 rooms and suites.

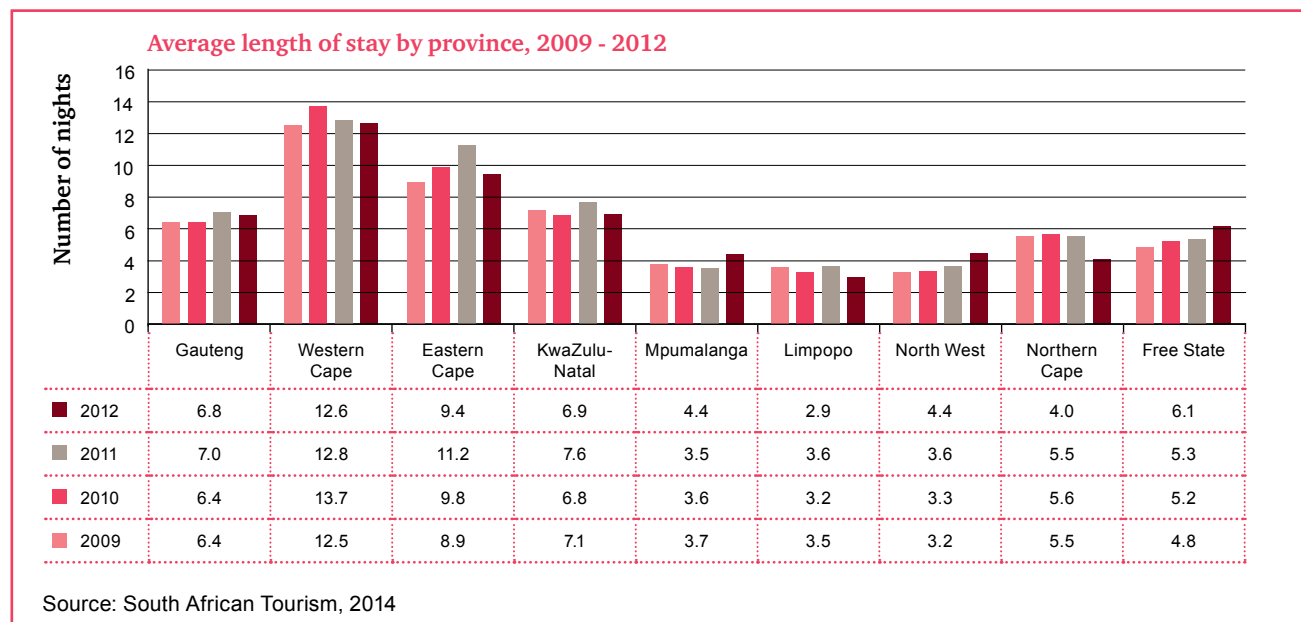
“We believe that these new regions will be important for the growth of our company. By setting up these offices we can focus better on providing a localised offering and a personalised account management service,” said Stef Norden, CEO of Booking.com. “In addition to opening a second office in Germany, our new offices in South Africa, Poland and the UAE emphasise our commitment and dedication to expanding our business model in these countries.”

Recent hotel transactions

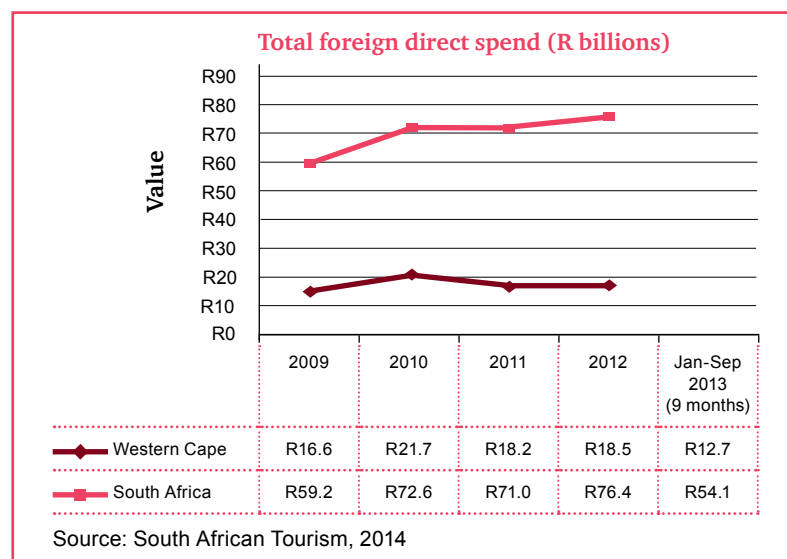
On 1 April 2014, Marriott International, a leading United States hospitality group, completed its acquisition of Protea Hospitality Group for R2 billion. The transaction is in line with Marriott’s strategy to expand in the hotel market and thereby to enhance its footprint in Africa. The deal is expected to be positive for South Africa and is an indication of investor interest. Protea, established in 1984, manages 116 hotels with 10 148 rooms in seven African countries under the Protea Hotels, Protea Hotel Fire & Ice and the African Pride Hotels brands. Marriott will manage 45% of the rooms, franchise about 39% and lease the other 16%.

The board of directors of Tsogo Sun announced on 2 April 2014 that Southern Sun, a wholly owned subsidiary of Tsogo Sun; Liberty Group; and Cullinan, a company jointly held by Southern Sun and Liberty Group, have concluded agreements in terms of which Southern Sun and Liberty Group will restructure their respective shareholdings in Cullinan.

Average length of stay by province



Total foreign direct spend



The total foreign direct spend by tourist arrivals contributes more than R18 billion to the Western Cape’s economy annually.

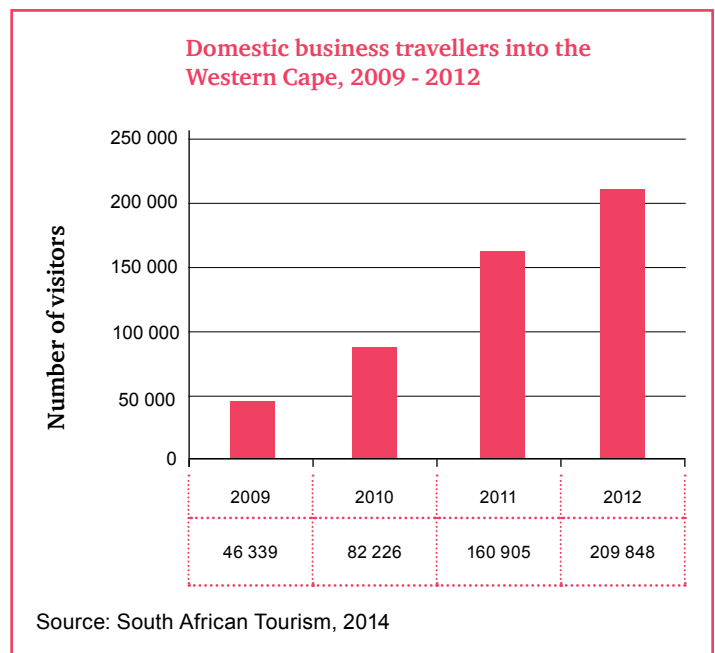
Between January and September 2013, the Western Cape not only generated the second-highest value in total foreign direct spend of all provinces (second to Gauteng), but it had already reached R12.7 billion – accounting for 68.6% of the total foreign expenditure recorded in 2012 (R18.5 billion) for the Western Cape.

Business tourism

South Africa is a popular destination for business travellers, who spend on average three times more than their leisure counterparts when participating in leisure travel themselves, through tours before or after their business activities and through return trips in subsequent years.

According to South African Tourism visitor trends, the share of international business travellers to the Western Cape (tourists who only travelled for business) increased from 12.1% in 2009 to 16.6% in 2012. The share of international business tourists (tourists who travelled for business and leisure) to the Western Cape grew from 5.7% in 2009 to 7.3% in 2012. The steady growth rate in each visitor segment echoes the importance and potential of business tourism for the Western Cape. Growth in business tourists further indicates a rise in business travellers coming to the province for business and leisure purposes.

Domestic business travellers to the Western Cape have increased from 46 339 in 2009 to a significant high of 209 848 in 2012, demonstrating the substantial growth pace in the domestic market for business travel.



Since April 2010, there have been thirteen association conferences secured by Cape Town, with an economic impact of more than R208 million. Cape Town's impressive business stature is attributed to the city's award-winning international airport, world-class infrastructure, award-winning international convention centre and vibrant destination appeal, making it the first-choice destination for business meetings.

According to the International Congress and Convention Association (ICCA) 2013 stats, Cape Town (and the Western Cape) maintains its proud standing as the number one destination for conferences in Africa. In relation to the BestCities Global Alliance partners (Berlin, Chicago, Copenhagen, Dubai, Edinburgh, Houston, Melbourne, Singapore and Vancouver), Cape Town fared very well at 52nd, behind Melbourne at 44th and Vancouver at 38th.

The meetings, incentives, conferences and exhibition (MICE) sector in Cape Town and the Western Cape is growing from strength to strength. The share in business travellers representing key international source markets reflected robust growth. Forty-five per cent of international association meetings in South Africa were hosted in Cape Town, illustrating that the city holds a strong business events industry and is a highly desirable destination for meetings.

Cape Town International Convention Centre proudly hosted a total of 45 meetings in 2013, welcomed an estimated total of 31 026 participating delegates and recorded a steady average of four days per meeting across the respective years depicted below. The MICE industry is extremely attractive for investors – the trends below indicate growth in the number of meetings, volume of delegates and an unwavering duration of stay, which resulted in business travellers exploring the destination and embarking on tours during their stay.

Cape Town ICCA rankings, 2011–2013

Indicator	2011	2012	2013
Number of meetings	47	41	45
Average number of participants	415	461	690
Estimated total number of participants	19 522	18 901	31 026
Average length of meetings (days)	4.3	4.2	3.8

Source: ICCA, 2014

A large share of hotels have expanded their premises to accommodate the lucrative MICE sector, offering accommodation coupled with conference venues. The significant growth and potential of the business tourism sector serves as a strong opportunity for investors, and heightens the Western Cape’s appeal as one of the world’s leading convention destinations and the leading destination in Africa.





Q&A with...

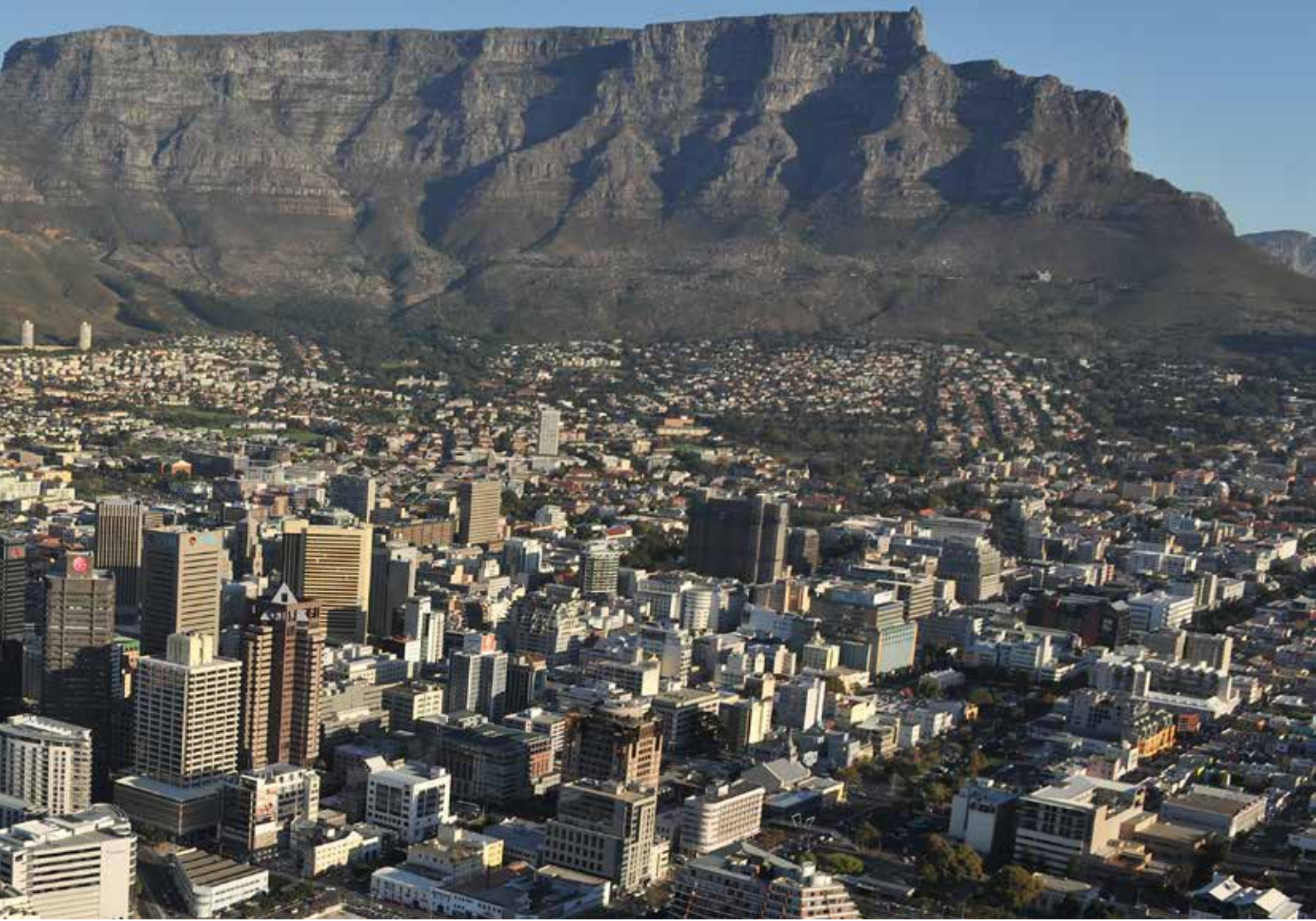
Enver Duminy – CEO, Cape Town Tourism

Q – Post the 2010 FIFA World Cup, what tourism trends emerged and were they expected?

The average annual growth between 2009 and 2012 has been 5.6% per annum, as stated in the Economic Value of Tourism Report issued by Grant Thornton on behalf of the City of Cape Town.

Based on national information in the Economic Value of Tourism Report 2012, the economic value of tourism in Cape Town was R12.4 billion in 2009, increasing to R16 billion in 2010, before declining to R14.7 billion in 2011. It should, however, be noted that in 2010, Cape Town achieved a strong increase in the economic value of tourism due to the 2010 FIFA World Cup being hosted in the city.

We expected a dip in visitors, as we had studied the trend of post-event dips after most major sporting events, but our situation was compounded by the effects of the global recession. A particular case we studied was that of the 2000 Summer Olympics in Sydney, but Cape Town fortunately, and through a concerted effort on the part of the tourism industry, didn't see a substantial decrease or a sustained drop in visitors.



The single biggest opportunity around hosting the World Cup was the media exposure garnered during the month-long event and the opportunities presented in terms of the direct spend and word-of-mouth generated by World Cup visitors, as well as the opportunity to correct the Afro-pessimistic perceptions the world had about South Africa as an expensive and unsafe destination. With the hosting of the 2010 FIFA World Cup we proved that we are a safe, efficient and capable destination.

Another key shift for the city was that Cape Town was exposed for the first time as an urban offering, with stories being told by its people and the energy of those same people proving to be infectious. Vivid imagery of people in the streets conveyed the message that there was an exciting urban experience in Cape Town.

Major travel trends observed since the 2010 FIFA World Cup include:

- Key source markets to Cape Town are still very important, but tourism growth is also being driven by emerging markets like Brazil, India and China.
- We realised the potential of regional Africa as a source market. Of all rooms sold in January 2014, 15.1% were sold to visitors from regional Africa. This is up from 8.1% in December 2013, 5.2% in November and 6.2% in October 2013.
- Online booking lead times got shorter and there was a marked rise in the use of mobile technology while travelling, which is still on the increase.
- For some time after the global financial crisis, spend for international tourism lagged behind arrivals, which recovered sooner; however, we are starting to see a reversal of this trend. For the calendar year 2013, the accommodation sector in Cape Town showed 1.1% growth year-on-year in occupancy rate but 4.7% in average room rate. PwC forecasts that average room rates will rise at a compound annual rate of just 4.6% over the next three years. A 2013 consumer trends report published by Euromonitor revealed that when consumers cut back, it is likely to be in fast food (38%), and when they splurge, it is likely to be in travel (22%). Indeed, 13% of consumers who plan to decrease spending in the next 12 months also predict spending more on travel and vacations, showing how alluring these types of purchases can be even when trying to stick to a strict budget.



Q – What are your plans to increase tourist numbers?

We are mandated by the City of Cape Town to provide tourism services for Cape Town, and so our strategy and budget allocations align with the City of Cape Town's Five-Year Integrated Development Plan 2012 – 2017.

The five pillars of their vision are to:

- Ensure that Cape Town continues to grow as an opportunity city
- Make Cape Town an increasingly safe city
- Make Cape Town even more of a caring city
- Ensure that Cape Town is an inclusive city
- Make sure that Cape Town continues to be a well-run city

One of the main focus areas for Cape Town Tourism along with the City of Cape Town is looking at addressing seasonality via various approaches.

One approach is to penetrate international markets that will travel to Cape Town no matter the season, but particularly during the off-peak season. Our Trade Marketing team recently attended the South African Tourism Road Show in India with much success and also went to China along with South African Tourism.

Looking at the domestic market, we are once again putting together 'Love Cape Town City Breaks' deals, to offer competitively priced packages by our members, in order to entice the domestic market to visit Cape Town during our low season. We will also produce a 'special offers' booklet that will be distributed in key locations throughout the Mother City to showcase Cape Town as a city that offers great value for money.

We will be looking at all our operations throughout the organisation through a 'seasonality filter' – whether it is via our website, social media, Visitor Information Centres (VICs) or membership programmes – in order to continually focus on increasing demand during the winter season.

Other key areas of growth include improving airlift, mentoring skills and connecting tourism entrepreneurs to opportunity.

Tourism is a key driver of the Cape Town economy and a tourism development framework has been developed for the period 2012 – 2017. Cape Town's tourism offerings include: iconic places of interest, leisure tourism, cultural and heritage tourism, business tourism, events-based tourism and education-based tourism. In 2013 Cape Town Tourism saw 3.2 million visitor interactions via VICs, the website and touchscreens, which produced a solid conversion rate of 79%.

Photo: Table Mountain's cable car

Q – What are your current and future markets?

Cape Town's current key source markets are the United Kingdom, the United States, Germany and the Netherlands. We continue to attend trade shows targeting these markets and have a well-organised network of trade contacts in this region.

The domestic market is also a critical and tactical market for Cape Town, targeted with year-round events and value-driven winter travel deals.

Some key emerging markets for Cape Town include India and China, with plans to expand to South America and the Middle East. We began to research the Indian market recently when we accompanied South African Tourism on their trade roadshow, and we are busy collating our research on this market to create an effective strategy.

Understanding the audience's needs and desires is absolutely critical to the success of a tourism campaign and we are discovering a lot about the new markets – even as they are rapidly changing too.

Q – Do you target any specific age groups?

Visitors to Cape Town come from a wide range of age groups – from young volunteers and backpackers to senior citizens on luxurious leisure holidays.

Q – Do you distinguish between business tourists versus leisure tourists?

Cape Town is very well known as a leisure destination, but increasingly it has become a magnet for business tourism. The current Cape Town International Convention Centre (CTICC) upgrade is worth R4.5 billion and was initiated based on the demand for additional conference and meeting facilities. Cape Town Tourism works closely with Wesgro to promote Cape Town as a business destination.

It is important to note that we are seeing the line between business and leisure travel blur quite a bit, with many business people now wanting flexible conference packages and leisure add-on options.

Q – Do you market Cape Town as an events destination?

The City of Cape Town is proactively working at building on to our annual events calendar in order to offer a year-round destination of events. This is something that takes time, however, and it is a project that needs continuous work and support from our side.

Q – How important are food and beverage outlets?

The food and beverage offering is a major factor in whether a holiday or business experience was enjoyed, and this is one of Cape Town's greatest assets. With a skilled and internationally fused food and wine offering, markets, events and festivals, there is no end to the experiences visitors can have through food and drink in the city and its surroundings.

Q – What are the next big tickets for Cape Town as a destination?

2014 is a very big year for us as Cape Town plays out the year as World Design Capital 2014 and South Africa celebrates twenty years of democracy. We will continue to leverage our title as World Design Capital 2014 as far as possible.

From an infrastructure perspective, the Cape Town International Convention Centre (CTICC) is currently expanding and the V&A Waterfront and Cape Town Harbour are also planning expansions and improvements, with the inclusion of new leisure offerings and a modern cruise liner terminal which is being built at the harbour.

In addition, Cape Town has received many accolades this year, which is important in terms of creating more awareness around the destination:

- One of FlipKey.com's Top 10 Wine Destinations
- Number One, New York Times 52 Places to Go in 2014
- Number One Holiday Hotspot, Theguardian.com Top 40 destination round-up
- Number Three City in the World, Lonely Planet's Best in Travel 2014



Photo: Camps Bay



Q&A with...

Alayne Reesberg – CEO, Cape Town Design NPC, the implementing agency for Cape Town World Design Capital 2014

Q – Please set the scene - Tell us more about your theme and plan for Cape Town as World Design Capital (WDC) 2014.

Cape Town essentially put in a very compelling bid that showed how the City would use design in efforts to transform life through design. So our story was very much about design in service of the citizen. We were up against Bilbao and Dublin on the short-list. The judges never gave their reasons for their choice, but it was evident that during the voting process and on-site visits, Cape Town conveyed a can-do sensibility in tackling the very tough issues facing our City. In this respect, Cape Town's issues and conditions resonate more with emerging-market cities – very different from the contexts offered by Dublin and Bilbao.

Q – What is your expectation of Cape Town’s title as the World Design Capital 2014 to attract visitors from the world’s creative hubs? Have you seen a rise in tourism numbers from previous World Design Capital titleholders?

It is difficult to tell at this point exactly what the numbers are. However, one of the core strategies is to build the design economy in the Western Cape. WDC is a part of a much larger strategy that is being developed, that will impact design education and grow the demand for goods and services from Cape Town designers. WDC offers the opportunity to market this local talent to a very wide audience.

The impact of the New York Times voting Cape Town one of the top destinations to visit in 2014 is significant. Tourism experts tell us that around 27% of travellers now make their choices based on significant experiences they can have while traveling, not just on the usual destination attributes (and the Cape Town region is richly blessed with many of these). For the four million people living in our area, this is an opportunity to tell stories, show excellence and communicate our optimism about the future.

Q – What projects have you seen so far that will increase tourist numbers due to structural/design/functional changes to Cape Town as a city?

We have curated a full year of activities, showcasing local design competence that addresses seemingly intractable ‘wicked problems’ in transportation, housing, health, sanitation, design education, the environment and social cohesion. The 2014 year will take time, through its 480+ recognised problems, to create new conversations and forge new collaborations that will last well beyond 2014. The Guild Exhibition in February was a highlight, bringing international attention to Cape Town through some of the most famous ‘collectable art’ galleries in the world. These gallerists sense that Cape Town is a fresh new frontier, and are delighted to be coming here. Home-grown projects like Future Tyger, Common Methods: Craft in Production, Learning Innovation Design Lab, iKhaya le Langa and Open Design Cape Town will invite public participation and dialogue at an unprecedented level. There will be events like the Innovation Summit, the Design Policy Conference and finally our Design House Exhibition: Transforming Cities, which will end the year with a crescendo. In between these big events there will be myriad exhibitions, public lectures and other activities to place the spotlight on indigenous knowledge and local solutions.

Highlights and events

Guild/Design Indaba/Future Foreshore Exhibition/Open Design/Red Bull Doodle Art/Light Containers/100% Design/Cape Craft and Design Institute (CCDI) Winter Market/Innovation Summit/The Slave Tree/Muizenberg Festival/Cape Town Story Market/1000 Drawings Cape Town

Tours

Open Studios/Artwalk/Meet the Makers/Maboneng Township Art Experience/Harrington Heart/Future CT Tours

Q – What happens beyond 2014?

A great deal is being done. Special purpose vehicles (SPVs) have been created to focus on various areas of design – to grow skills, improve quality, create and develop both local and international markets for the products, support the practitioners/designers/craftsmen with training and create collaborations. There are many incubators and hubs that support designers from idea to commercialisation (this often includes mentorship). There is an overt shift on the part of the City Administration to support design initiatives (e.g. Open Design, Design Indaba). The Western Cape has developed a design strategy (a first in the country), so there is certainly a sense that design in Cape Town and the region is being supported. I believe that the conversations that will be had at the end of 2014 will shape our understanding of the true legacy of WDC. In all, the designation creates an opportunity to showcase local ingenuity and capability, firstly to ourselves, and secondly to the international design community. This goes beyond Cape Town’s established credentials as a world-class tourism destination. As one particularly tough local retailer said after a meeting, “I had no idea Cape Town was so interesting...”

About Cape Town Design NPC:

Cape Town Design NPC is the implementation company of World Design Capital Cape Town 2014 appointed by the City of Cape Town. As an independent, not-for-profit organisation, the implementation company is responsible for ensuring the requirements of the WDC 2014 host city agreements are met, and that the programme delivery is aligned with the vision of bridging historic divides and repositioning the city for a sustainable, inclusive future through design.



Q&A with...

Michael Tollman – CEO, Cullinan Holdings

Q – Please tell us more about your business and your plans for Cape Town as a tourist destination.

Cullinan Holdings is one of the leading businesses in the travel and tourism services sector. We own some of the premier tourism, travel and leisure brands in Southern Africa including Thompsons, iKapa, Hylton Ross tours and Pentravel.

In 2013 we completed the acquisition of the entire tourism and travel division of Imperial Holdings. The companies that we acquired were Springbok Atlas Touring, Springbok Atlas Charter, Eastgate Safaris, Grosvenor Tours and Silverton Travel (trading as Edusport).

We are proud to be a subsidiary of the Travel Corporation, which is a global tourism and travel business that owns some of the most iconic brands in the world, including Trafalgar Tours, Insight Tours, Contiki Tours, The Red Carnation Hotel Group and Uniworld River Cruising.

The Red Carnation Hotel Group owns two exclusive hotels in the Western Cape, The Twelve Apostles Hotel and Spa and Bushmans Kloof Wilderness Reserve and Wellness Retreat.

Cape Town is an attractive tourist destination and an essential part of the experience that we offer to international tourists visiting South Africa. We are confident about the future growth prospects for tourism, both in Cape Town and globally.

Q – Define success in the tourism sector, what are the key drivers?

As a travel services group, we focus on service excellence and value for our customers. We believe in investing in skills development and training for our employees so that we can provide a distinct service experience.

We also believe that to be a successful tourist destination, Cape Town needs to be able to provide a value-for-money experience. It is important that hotel and airline pricing remains competitive with rival destinations. Accommodation and airfares are a significant part of customers' travel budgets. Getting this right will also help establish a sustainable tourism growth model as demand for travel to Southern Africa grows.

Investment in the infrastructure of important tourist attractions like Robben Island is also necessary.

Globally, our customers tend to prefer diverse experiences and are looking for something different. The more Cape Town can expand its current tourist offerings, the more people will want to visit.

Q – Post the 2010 FIFA World Cup, what trends have emerged and were they expected?

We took a long-term view on the future impact of the 2010 FIFA World Cup on the travel and tourism services sector of Southern Africa.

Since the 2010 FIFA World Cup we have, as mentioned, acquired the tourism interests of Imperial Holdings. We also acquired Glacier Enterprises and, as a result, have formed the Cullinan financial services division, which offers import finance, bridging finance on property transfers, marine finance aimed at boat building, and short-term project finance.

We have also invested in a number of developments to further strengthen our position in the tourism market. These include:

- the growth of our Inbound China Division by expanding our Shanghai and South African offices;
- the opening of our new offices at Chiappini Square in Cape Town, which created a travel-centre hub in Cape Town for Thompsons Holidays, Thompsons Travel, Pentravel, the Inbound China Division and Glacier Enterprises;
- upgrades to our coach depots in Cape Town and Johannesburg; and
- the opening of new Pentravel outlets.

Q – What are your current source markets and do you target any specific new foreign tourist markets?

We anticipate growth in the inbound tourism market to Southern Africa both from our traditional markets and from Asia.

Our key traditional markets are the Americas, Europe and Australia.

Our Inbound China division has staff based in Cape Town and a sales office in Shanghai, while our Planet Africa division opened a branch in Tokyo in 2013 to secure its dominant share of the Japanese tourism business into Southern Africa.

We remain committed to investing in this sector and to maintaining our position as a market leader in the travel services sector in Southern Africa.



Section
2

Hotel accommodation



Section 2: Hotel accommodation

Overview

Accommodation – an important component of the tourism industry

The accommodation subsector forms an essential part of the tourism sector in South Africa, contributing roughly 12% of revenue from foreign tourism and 16% from domestic tourism (according to South African Tourism). Although there are many different forms of accommodation on offer, the hotel industry is still the largest and most significant business component.

Defining 'hotel'

It is not an easy task to provide a precise definition for the concept of a hotel, differentiating it from other forms of accommodation, as these lines are often blurred. Hotels may include full-service hotels, limited-service hotels as well as smaller boutique hotels. Some hotels, referred to as full-service, provide all meals, a number of amenities and other services, whereas limited-service or economy hotels offer only breakfast and a room with limited amenities. Boutique hotels are smaller and often try to provide guests with a characteristic experience.

Significant themes

Trends and publications on the hospitality sector show a few central themes that should be considered.

Africa

In recent years the number of tourists from African countries to South Africa (and Cape Town) have grown significantly, and the National Department of Tourism has dedicated itself to exploring these opportunities further.

Youth travel

The market for youth travel, which includes study tourism and volunteerism, has become one of the most important markets for tourism worldwide. The challenge of this market is that travellers are becoming more and more conscious of sustainability and responsibility, according to Taleb Rifai, Secretary-General of the World Tourism Organisation. Youth travellers want to hold service providers accountable. They want to get good value for money and they prefer a tourism offering that is eco-friendly and socially aware. They also show an affinity for adventure travelling.

Seasonality

The Cape Town hotel sector is very familiar with the effects of seasonality, as illustrated in the previous section. Strategies to counter the effects of seasonality include special off-season rates and packages as well as a greater spread of events throughout the year, such as festivals organised during the winter months and other quieter times.

“In addition to spreading events, tourist service providers also need to understand the barriers to travel and market for specific target groups rather than uniform marketing. Other reasons for visiting Cape Town need to be explored, such as business travelling and even coming to the city to learn English.”

– Enver Duminy, CEO, Cape Town Tourism

The 2010 FIFA World Cup was a typical event held during the off-season. A once-off event such as this does not necessarily increase visitor numbers in the longer term, as it creates a short-term demand that initiates the development of further capacity that cannot be filled after the event has passed (Who owns Whom, Stern, 2012). However, it has the potential to introduce the destination to new markets, provide expanded media exposure and change perceptions around the destination that will bring an increase in numbers in the longer term. This is confirmed by the trends that are discussed later on, as well as interviews with industry leaders.

Responsible Tourism

In recent years, Responsible Tourism has become more and more important, and Cape Town is playing a leading role.

In 2009 the City of Cape Town and the industry jointly signed a Responsible Tourism Charter to guide this process, and they have engaged in developing appropriate policies around this matter. It will become a necessity for players in the sector to take this angle to tourism seriously and contribute to the sector's sustainability. The tourism and accommodation sector needs to prosper, but without having a negative impact on its natural surroundings, local citizens, infrastructure and other economic sectors.

In the context of Responsible Tourism, it becomes important for service providers to understand the governance systems in place for the sector. The following section explores this further.

Governance in the hotel industry

Important regulations

The following regulations are relevant for the hotel industry:

- Basic Conditions of Employment Act, Sectoral Determination, Hospitality Sector
- Various liquor laws
- Tobacco legislation
- Copyright legislation
- A range of food hygiene regulations, including hazard and critical control point (HACCP) regulations
- Sexual Offences Act
- Gambling regulations, if relevant

Black Economic Empowerment (BEE)

The tourism industry has been proactive in terms of transformation as the first industry to gazette a Sector Code for BEE in 2009. The following large role-players maintain high levels of compliance:

- Protea Hospitality Group – level 3 (110% procurement recognition)
- Tsogo Sun – level 2 (125% procurement recognition)
- City Lodge Hotels – level 2 (125% procurement recognition)

Fair trade

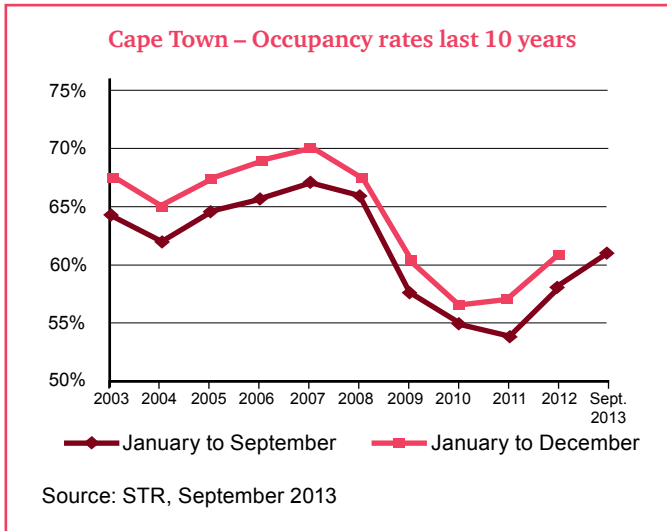
South Africa was the first country to apply fair trade criteria to tourism products. By 2012, 40 accommodation establishments were already Fair Trade in Tourism SA (FTTSA) accredited. Fair trade focuses on the social and environmental aspects of the business.

Cape Town hotels – STR statistic

The following is an analysis of Smith Travel Research's (STR) data based on 65 participating hotels in Cape Town as at 30 September 2013. Trends experienced by these participating hotels provide a good overview of the health and prospects of Cape Town's hotel industry.

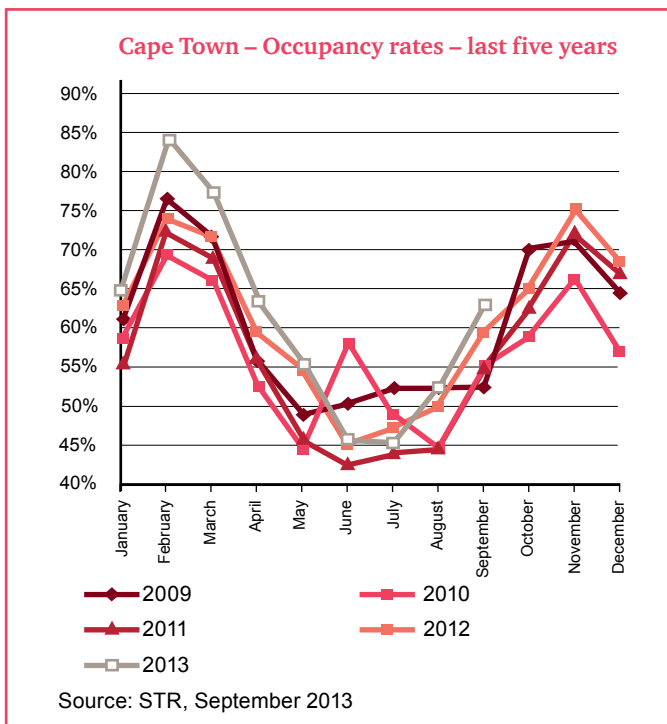
Occupancy

The graph shows that occupancy rates for hotels in Cape Town dropped to an all-time low in 2011, mostly due to the global recession and an effect of increased capacity for the 2010 FIFA World Cup that could not be maintained. The trend is beginning to curve upwards again after this low point, reaching 61% for the nine months to September 2013. It is expected that the last quarter of 2013 will follow a similar upward trend as in 2012.



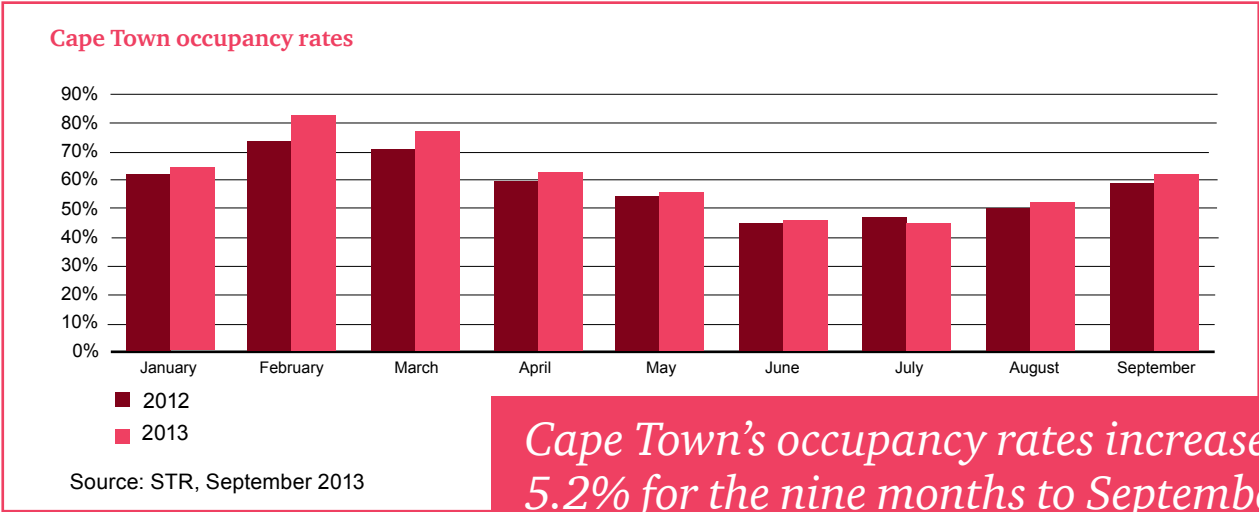
Occupancy rates for Cape Town hotels started to recover from the low in 2011 at the heat of the economic recession and the effect of an oversupply following the 2010 FIFA World Cup.

A view of occupancy rates per month for the last five years shows the typical seasonality of the Cape Town hotel industry. In the period January to September 2013, occupancy as high as 84% was recorded in February 2013 and as low as 49% in the midst of the winter period in June 2013. The spike in the 2010 winter period reflects the boost in visitors to the 2010 FIFA World Cup.



One of the main focus areas for Cape Town Tourism is looking at addressing seasonality. This will have a significant impact on tourism and the hotel sector going forward.

Occupancy rates for 2012 compared to 2013 (for the period January to September) reflect a significant increase in occupancy.



Cape Town's occupancy rates increased by 5.2% for the nine months to September 2013 compared to the same period in 2012.

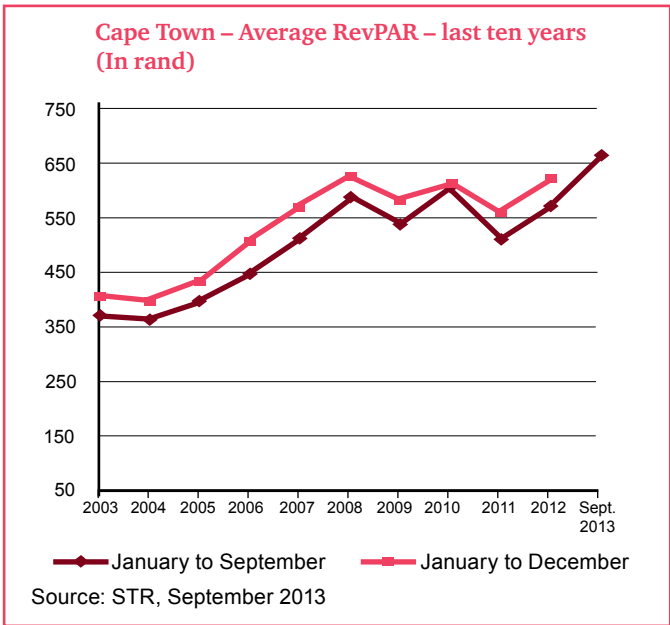
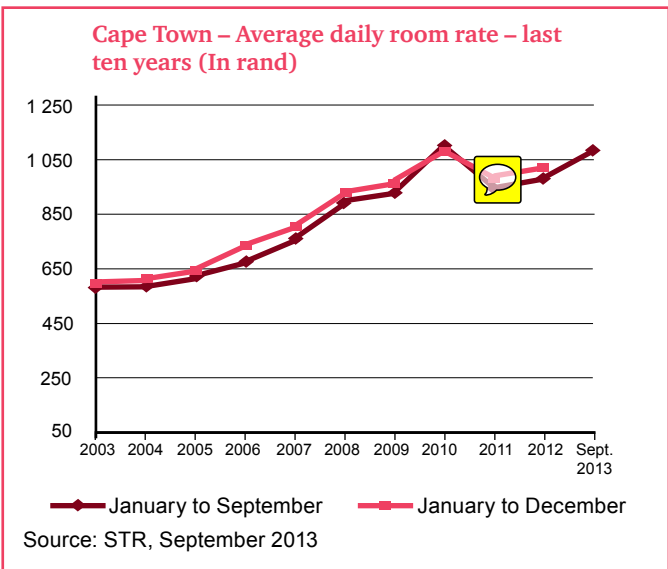
Average daily room rate and revenue per available room (RevPAR)

The average daily room rate is calculated by taking the room revenue and dividing this by the number of rooms sold. The average daily room rate for Cape Town hotels has increased tremendously from 2003 to September 2013. The average daily room rate for the nine-month period to September 2013 almost reached the 2010 level during the FIFA World Cup.

It is expected that the last quarter of 2013 will follow a similar upward trend.

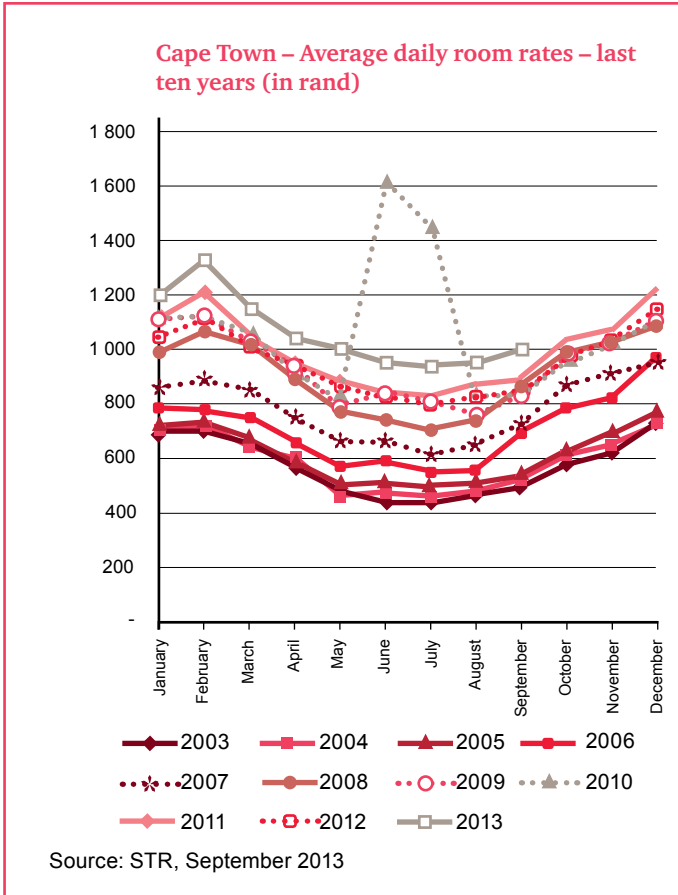
RevPAR is calculated by taking the room revenue and dividing this by the number of rooms available. In 2009 RevPAR declined as a result of more rooms that became available for the 2010 FIFA World Cup. The average RevPAR for the nine-month period to September 2013 surpassed the 2010 level during the FIFA World Cup.

The surpassing of the ultimate-high rates reached during the 2010 FIFA World Cup illustrates renewed comfort in the hotel sector following the global economic recession in 2011 and 2012.



Cape Town's average annual daily room rate is expected to soon surpass the previous high achieved during the 2010 FIFA World Cup.

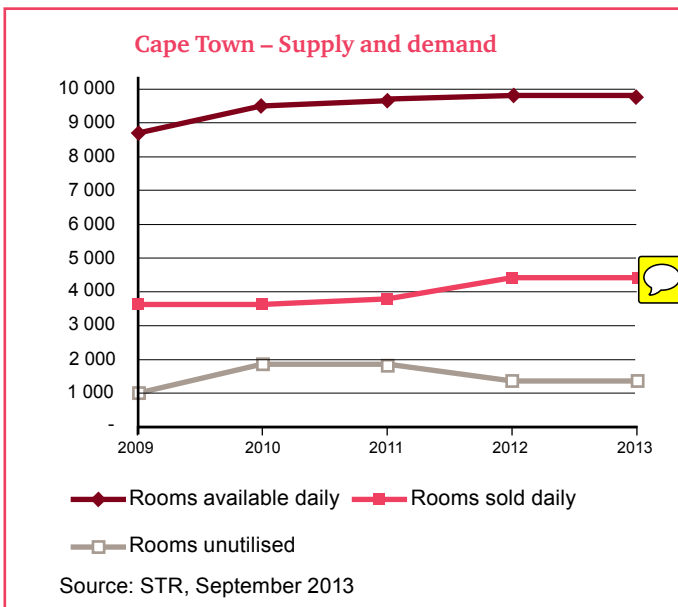
Looking at the average daily room rate per month, February and December reflected the highest rates, with the lowest in July of each year. The peak in June and July in 2010 was as a result of the 2010 FIFA World Cup.



Supply and demand

As illustrated below, the number of rooms available daily increased significantly by 7% from 2009 to 2010 as a result of the 2010 FIFA World Cup. Following this increase in available rooms, supply remained fairly constant in 2011 through to September 2013.

Cape Town demand was lower than expected during the 2010 FIFA World Cup but is slowly picking up in the World Cup aftermath to recover to levels before the 2009 global financial crisis, in 2012. This is illustrated by the declining trend in unutilised rooms in Cape Town after the World Cup.



There is a trend of increasing demand in rooms to levels before the 2009 global economic crisis.



Photo: Long street

WWW.EBRTAXIS.CO.ZA



Q&A with...

John van Rooyen – Operations Director, Tsogo Sun Cape Region

Q – Define success for hotels?

Ultimately, cash flow is what counts, as hospitality is a business and without cash flow we cannot stay in business. The driver of cash flow is a combination of revenue per available room (RevPAR) and other revenue, less operating costs and maintenance capital expenditure (capex) to keep product in the right condition.

In Cape Town the challenge has always been the great disparity between the peak season (October to April), which is characterised by high levels of international tourism and strong domestic business and leisure demand, and the off-peak winter period, where both international and local demand drops substantially.

The ability to tap into sustainable streams of business – primarily domestic corporate, government, and group and convention (G&C) – is vital to sustain hotels through the lean months and is a key differentiator between the local brands, with their deep understanding of the local market, and the international brands, which tend to rely on their flag.



Q – How many hotels are sustainable in Cape Town?

There are no barriers to entry in the hotel market. As soon as demand increases, new supply comes on stream in a short period relative to other industries. There are always operators looking to manage hotels for developers, and local hotel groups such as Tsogo Sun are continuously evaluating demand versus supply to determine when to add to our own stock.

At the current point in the cycle the industry is still in over-supply. This is evidenced by the fact that there are a number of hotels for sale at well below replacement or new-build cost.

Q – What is your view on foreign direct investment interest in the hotel industry in Cape Town?

The vast majority of investment in the industry is local through either the established local hotel groups and private individuals, or institutional investors and property developers. Foreign investment tends to be limited to private individuals in the boutique segment, with isolated examples of larger foreign developments prior to the 2010 FIFA World Cup. Your well-known international brands all tend to follow an ‘asset-light strategy’, which means they only sell services (management and marketing) and don’t actually invest any of their own cash into developments, other than occasional small ‘sweat equity’ contributions.

Q – How important is a recognised brand (local versus international) for hotel transactions in South Africa?

A hotel needs a brand. Obviously we believe strongly that local brands have a distinct advantage over the international brands, which is why the Tsogo Sun Group reverted back to operating under our own brands some ten years ago. It’s a strategy that has been very successful for us and we have excellent RevPAR premiums in the markets in which we operate.

Q – What is the preferred debt versus equity ratio in financing hotels?

The hotel business is cyclical. The greatest threat to a sustainable hotel business is debt. Tsogo Sun has done well over the years, acquiring good hotels at great prices that had to be sold because of excess debt. Especially with green field developments, the euphoria of early cash flows results in people forgetting the refurbishment capex liability that is accumulating and makes people braver with debt than they should be. Both Tsogo Sun and City Lodge are examples of hotel groups that have survived through tough times because they never took on excessive debt.

Q – What trends emerged post 2010 FIFA World Cup and were they expected?

Oversupply remains but demand is slowly catching up. However, until the local economy starts showing a sustained higher growth level, the industry will remain under pressure.

Q – Hotel operations versus owning the properties: Which offer the best returns?

We firmly believe in owning our hotels. The management model only works if you act like a consultancy and can spread your brands to many markets, making a little money from each contract. Ownership concentrates the risk, but allows for greater return on effort. Tsogo Sun is of the view that if there is an opportunity locally that is worth committing our people to, we should do it for our own account, unless there is a compelling strategic alternative reason.

The inability to invest their own money and world-class local competition are the main reasons the international brands have not generally achieved a meaningful or dominant local footprint in Cape Town or South Africa.

In the international hotel management contract game, there are only a handful of brands that have truly expanded well. It's worth noting that they first obtained their footprint through owned operations and only moved into the asset-light phase once they already had scale. Secondly, their current growth is concentrated in large fast-growing economies that do not have successful local brands with good penetration as yet, such as China and the Middle East.

Africa seems to offer a good avenue for management contract expansion, but the markets are actually quite small. Tsogo Sun has therefore taken the view that we would rather own in these markets too, and consequently most of our African operations are owned.







Q&A with...

David Green – CEO, V&A Waterfront

Q – What is your current profile of visitors to the V&A Waterfront?

The V&A Waterfront, a vibrant mixed-use property wrapped around South Africa's oldest working harbour, is the most visited tourism destination in Africa (as measured by South African Tourism) and one of Africa's most successful urban redevelopment projects. Every year near 24 million citizens and visitors visit the 300-acre property.

On average, about 55% of our visitors are from Cape Town, 16% are domestic visitors and 29% are international visitors. While we're experiencing strong growth in emerging visitor markets like China, India and Brazil, 67% of our visitors stem from the traditional source markets of Europe (29%), the UK (23%) and North America (15%).

Capetonians are the business' backbone, although foreign visitors generally have larger discretionary spend, dependent on prevailing exchange rates. Tourists' shopping, eating and entertainment repertoire will be similar to that of locals. This large and affluent market calls for an appropriate mix of high-end international brands and interesting, unique South African retail offerings.

The V&A Waterfront's ten hotels (1 500 rooms) have a diverse offering and cater to diverse markets, and are different in the profiles of visitor they attract. These range from top-end luxury six-star through to budget-conscious and business offerings.

Our two biggest strengths are our location and our variety of offerings.



Q – In which market segment do you see future growth and what are your plans for growing visitor numbers?

Our location is ideal; we're situated within walking distance of the downtown city centre, an international convention centre and Cape Town Stadium. We feature as one of the 'must do' experiences in the city, with over 90% of visitors claiming to come to the V&A at least once during their stay. So while our main emphasis is on serving the needs of our Cape Town residents, our offering and positioning mean we are well placed to capitalise on the growth in leisure and business tourism.

Q – What is the V&A Waterfront's impact on economic drivers of the Western Cape and South Africa?

The V&A Waterfront makes a significant impact not only as a driver of Cape Town's tourism industry, but as a contributor to the city's economic and emotional wellbeing. We undertook a research study in early 2012 to quantify the V&A Waterfront's economic impact.

Findings show that the V&A Waterfront is estimated to have contributed R198 billion to the South African economy between 2002 and 2012. The annual contribution to gross domestic product (GDP) has increased by 178% to R28.91 billion over this ten-year period .

Cumulatively, business activities at the V&A Waterfront have added over R173 billion to the Western Cape's gross geographic product (GGP).

During this same period, our contribution to total jobs countrywide increased by 43% to 47 909 direct and indirect jobs.

Future planned development will create an expected economic contribution of a further R28.1 billion by 2023, creating an additional 15 708 jobs by 2023.

In 2011, the V&A Waterfront accounted for more than 60% of all tourism visits of the 19 top attractions, and more than half of all tourism expenditure at these attractions. Twenty-six percent of all tourism expenditure in the Western Cape occurred at the V&A Waterfront.

It is estimated that the V&A Waterfront has added R2.8 billion to the property values within a 1.5 km radius. This value is 23% higher than the values that would have been realised in the absence of the V&A.

This indoor-outdoor destination offers city dwellers an energetic and pulsating 'backyard' in a historically significant setting.

Q – How important are food and beverage outlets for the hotel industry?

Food and beverage (F&B) is a significant contributor to the status of the destination, and with over 80 eateries this accounts for almost a quarter of the retail gross leasable area (GLA). The food and beverage offering has to remain relevant and valid to both locals and tourists, and we work hard to offer an extraordinary F&B offering that is continually evolving and reflective of current and emerging contemporary preferences.

Q – What are your future plans for growing visitor numbers and the provision of accommodation at the V&A Waterfront?

Our strategy centres on providing an experience, and making the V&A Waterfront an attractive place to eat, live, work, play and stay. Our success to date has been through anticipating and responding to market demand.

The Watershed – a central location for small businesses

The V&A Waterfront has traditionally been a springboard for small businesses. The R50 million Watershed development will house some 150 businesses showcasing the finest of South African craft and design retail traders, in addition to commercial offices, a dedicated exhibition and eventing space, and Workshop 17, an innovative collaboration with the UCT's Graduate School of Business.

Long-term residential development: Ports Edge

After building a new head office for one of our bluechip commercial tenants, we capitalised on the need for affordable, urban lock-up-and-go rental-only apartments by converting their old office building into 109 residential units. In terms of the business model for Ports Edge: rental versus sectional title, we keep what is arguably the most valuable real estate in Cape Town in the hands of our shareholders, while activating one of the business objectives of making this an attractive place to live.

The other current developments are focused in the Silo district.

Mid-market, internationally branded hotel

Growth in tourism, as demonstrated in part by the robust recovery of our hotels' occupancy and REVPAR levels over the past 18 months, suggests the need for a three- to four-star internationally branded hotel, to capitalise on an anticipated market need.

This mid-market, internationally branded hotel will be ideally placed for domestic and international travellers who are looking for the familiarity and desirability of an internationally branded hotel at which they are still able to benefit from loyalty programmes. We are currently under-represented in this category of hotel, and if we look at the past 18 months, this segment has shown the strongest recovery and growth.

World-class museum for contemporary art from Africa

We are currently developing what is undoubtedly one of the most ambitious and prestigious projects in our history. We recognise the power of the creative and innovative industries of Africa, and the significant contribution they have to make. A not-for-profit entity has been established that will see the V&A Waterfront shareholders fund the redevelopment of the landmark historic grain silos into a cutting-edge, internationally recognised museum. The Zeitz Museum of Contemporary Art Africa (MOCAA), under construction in the Silo district, promises to equal in stature and significance world-famous art galleries. The Museum forms part of a master plan for the Silo district that includes mixed-use developments of residential, commercial, leisure and hotel property with the transformed grain silo as the central focus of a public plaza. This will have major impact for the visual art world and for Cape Town. Zeitz MOCAA is envisaged to become an international destination drawcard.

©V&A Waterfront



©V&A Waterfront, credit Heatherwick Studio





Q&A with...

Joop Demes – CEO, Pam Golding Hospitality



Kamil Abdul Karrim – Managing Director, Pam Golding Tourism & Hospitality Consulting



Q – Define success for hotels; what are the ‘drivers’?

Occupancy

Occupancy is one of the most commonly utilised benchmarks in the hotel industry as a snapshot performance indicator. While this is fairly reflective at any point in time, occupancy must be measured relative to the supply cycle.

Occupancy analysis at	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
31 December												
Greater Cape Town	70.5%	69.0%	66.2%	69.4%	72.3%	72.3%	69.7%	60.0%	55.8%	57.2%	60.9%	64.2%
<i>Change year-on-year</i>		(2.1%)	(4.1%)	4.8%	4.2%	0.0%	(3.6%)	(13.9%)	(7.0%)	2.5%	6.5%	5.4%

Source: Supplied by Pam Golding Tourism and Hospitality Consulting (Pty) Ltd

The review of occupancy performance for Greater Cape Town over an extended period reflects the decline experienced over the period 2008 to 2010 and the subsequent recovery from 2011 to 2013. If we factor in the supply cycle, however, the picture becomes considerably more positive.



Cape Town’s overall room inventory supply grew substantially between 2008 and 2010, before stabilising between 2010 and 2013. The overall inventory supply grew by over 22.6% over the five-year period.

However, an analysis of overall demand reflects that this demand has grown substantially compared to the lowest level in 2009. Importantly, the current demand level for hotel rooms in Cape Town has surpassed the previous high demand level experienced in 2007.

While the 2013 overall achieved occupancy level of 64.2% remains below the 2007 high level of 72.3%, assessing occupancy only leads to the assumption that the market remains in recovery mode.

The supply versus demand analysis reflects otherwise, however, in that the market is currently in a growth phase. The growth in demand in 2013 has continued into 2014, and at levels in excess of 65% occupancy, the market is going to start encountering supply-driven growth constriction as displacement creeps in due to inventory limitation over high-demand periods – traditionally from September to April.

The period 2005 to 2007 saw substantial improvement in airlift capacity either directly to Cape Town or via Johannesburg, resulting in growing pressure on supply in Cape Town’s hotel room inventory. The accelerated increase in inventory over the period 2008 to 2010 was ignited by the aggressive demand, while the demand decline between 2008 and 2009 was essentially economically driven and could not have been foreseen in 2007.

What this effectively reflects is that occupancy, while being an essential benchmark in the hotel industry, is not necessarily as comprehensive a performance indicator as is generally perceived.

A further important observation is the substantial difference in the supply versus demand dynamics between the different grade-positioning levels, commonly known as the star grading.

The five star room inventory in Cape Town, for example, grew with almost 70% between 2007 and 2013 but recovered in a remarkable way to record an overall occupancy of 65.3% during 2013, higher than any other star grade in Cape Town.

RevPAR (Revenue per Available Room)

RevPAR, which by definition is a benchmark measuring room revenue relative to the total number of rooms available, becomes more meaningful if it incorporates the growth in inventory. RevPAR is generally accepted as the most meaningful revenue performance benchmark.

Revenue per available room (RevPAR) analysis (In rand)

At 31 December	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Greater Cape Town	R369	R406	R404	R442	R500	R542	R658	R621	R648	R575	R630	R747
Change year-on-year		10.2	(0.6%)	9.5%	13.0%	8.5%	21.3%	(5.6%)	4.4%	(11.3%)	9.5%	18.5%

Source: Supplied by Pam Golding Tourism and Hospitality Consulting (Pty) Ltd

Analysing RevPAR for Greater Cape Town over the extended period reflects that even though there were intermittent declines in 2009 and 2011, the established worst periods in the hotel industry, RevPAR consistently performed above the high 2007 occupancy period.

Importantly, while occupancy reflects improvement of 10% in 2013 over 2007, RevPAR reflects a 38% growth.

Of course, one has to relate the annual RevPAR growth and figures to the relatively high annual inflation levels that South Africa was experiencing to consider the real growth.

Cash flow

Cash flow is ‘banked’, versus RevPAR, which is ‘achieved’ – this is a common coined phrase used by many hotel owners when they analyse and critique the performance of a hotel operator.

The hotel industry consists of different grade-positioning levels, commonly known as the star grading, ranging from budget through to luxury level. The operating cost structures differ along the grade positioning and the cash flow produced relative to the revenue generated reduces proportionately as one moves up along the grading ‘ladder’.

Cash flow or profitability in relation to the overall investment has to be the ultimate measure in any commercial venture, and the hotel industry is no different. One has to be careful about the interpretation of certain cycles, however; this is further explained below.

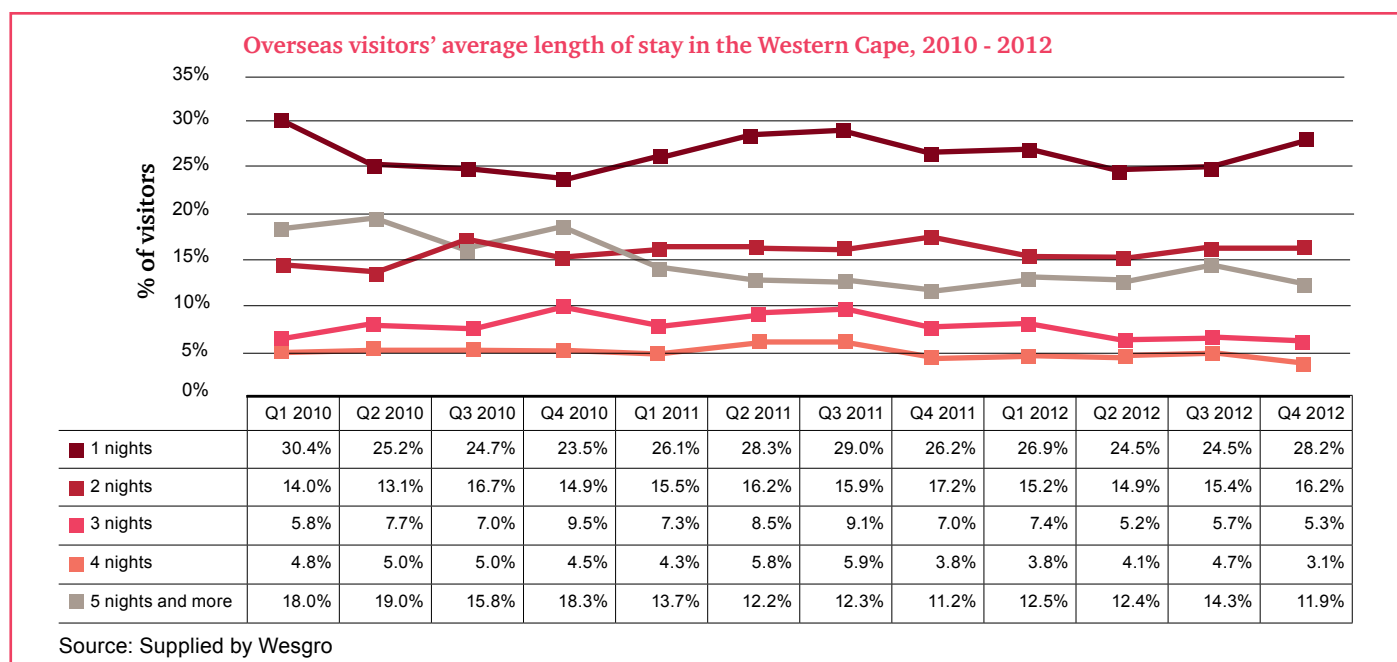
Hotels generally have a substantial level of fixed costs affecting cash flow substantially more during lower-demand periods and accelerating profitability during high-demand periods. The hotel industry has always been a long-term sector, and assessing cash flow at one point in time will invariably not present a true reflection of the dynamics of the industry.

The typical life cycle of a hotel is in excess of 30 years, and performance cycles are considerably shorter. Referring to the supply versus demand analogy earlier, this cycle over the extended period has been five years. The hotel model is consistently evolving relative to commercial conditions as well as external factors such as the local and global economy, the political climate and environmental considerations. Quite a few of the cost-cutting exercises in the down-cycle have been known to be unsustainable over the longer term.

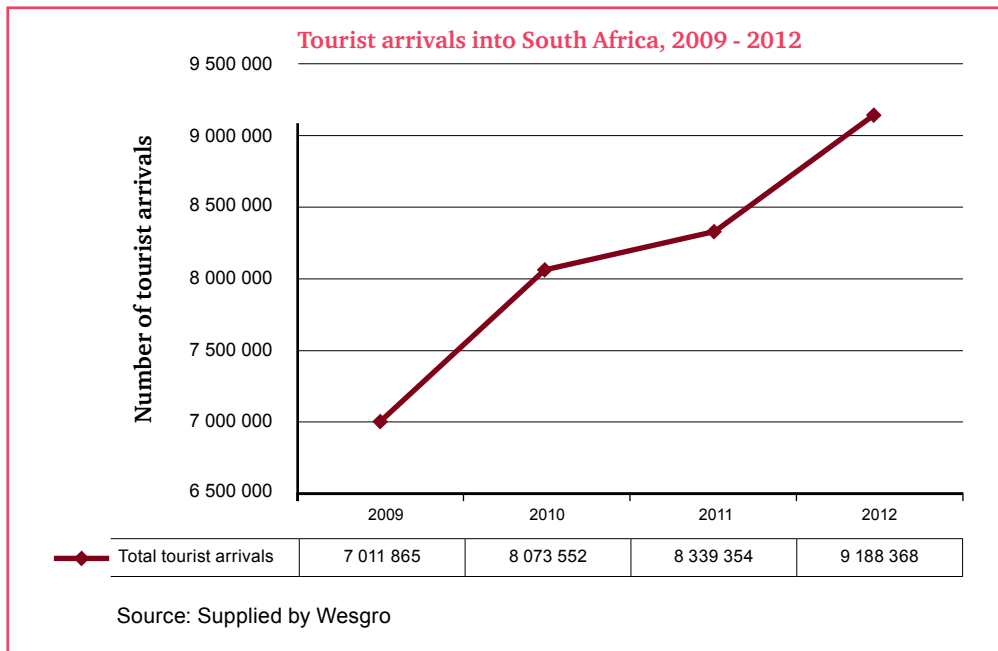
Key areas that are cut back on in a depressive cycle are marketing, maintenance, refurbishment and staff, and knowing far too well that these are not sustainable cut-backs, the next growth cycle invariably initiates a wave of employment, increased operational expenditure and refurbishment. Cash-flow cycles are therefore erratic and not necessarily reflective of industry performance.

Average length of stay in the Western Cape

Any stay in a hotel translates into RevPAR for the hotel, notwithstanding the length of that stay. It is a known fact that the global financial crisis has resulted in especially the ‘leisure trip’ evolving from the length of the trip to the quality of the break. People take shorter breaks, focusing on the quality of the break. Analysis of RevPAR reflected consistent growth through to 2013, while analysis of length of stay reflects a different tendency, as analysed in the graph below:



What is clear over the analysis period is that one and two nights' stays in the Western Cape are fairly consistent, while three nights and longer have declined. This has been offset by the number of international arrivals, however, which has seen consistent growth, as analysed in the graph below:



While length of stay is an important indicator, it is not a performance benchmark in itself and needs to be assessed relative to all other indicators and developments.

The overall positive is that available data reflects that the average length of stay has improved in Cape Town in 2012 to 5.8 days from 5.5 days in 2011.

Q – Expansion: How many hotels are sustainable in greater Cape Town?

The Achilles heel of the hotel industry is that development is driven by the level of demand, while demand growth is invariably capacity-driven. The level of demand is constricted to the level of available capacity, and as seen previously in Cape Town, the level of available inventory resulted in a substantial level of demand displacement due to the inability to accommodate demand.

The tendency is, therefore, that only when supply starts reaching critical demand pressure levels, new inventory is planned and introduced, ultimately resulting in a cycle of oversupply while demand again develops and mops up the oversupply.

Number of rooms available in Cape Town

Grading	Number of hotels	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
5 Star	23	1 097	1 673	1 673	1 673	1 803	1 914	1 914	2 733	3 252	3 252	3 252	3 252
4 Star	34	3 765	3 822	3 822	3 822	4 058	4 194	4 194	4 194	4 744	4 744	4 744	4 744
3 Star	22	2 570	2 570	2 570	2 570	2 700	2 700	2 700	2 702	2 822	2 822	2 822	2 967
2 Star	3	337	337	337	337	337	337	337	337	337	337	337	337
1 Star	5	302	392	392	392	392	392	392	392	392	392	392	392
Total	87	8 071	8 794	8 794	8 794	9 290	9 537	9 537	10 358	11 547	11 547	11 547	11 692

Source: Pam Golding Tourism and Hospitality Consulting (Pty) Ltd

An inventory analysis of Cape Town reflects that inventory remained relatively stable over the high-demand period of 2005 to 2007, after which we saw accelerated introduction of inventory between 2008 and 2010, particularly in the five-star industry.

Unfortunately, the displacement experienced during the high-demand period together with the economic environment resulted in substantial oversupply over the period 2010 to late 2011. The recovery that started in the last quarter of 2011 has now again translated to growth, creating the platform for the next expansion cycle. The cycle 2002 to 2007 saw around 1 500 rooms entering the market, while the cycle between 2008 and 2010 introduced just over 2 000 rooms.

The interest from investors, funders and developers, nationally and internationally, has increased sharply over the last six to nine months. Cape Town and the surrounding winelands has hardly any meaningful hotel development appropriately zoned and confirmed.

Most of the recent interest and enquiries experienced by Pam Golding Hotels have been focused on acquisitions of existing hotels and conversion opportunities. We currently have on our books a number of interesting investment opportunities that indeed offer an attractive discount compared to replacement value.

The demand in Cape Town has evolved from recovery to growth over the past two years and it appears, judging from the performance during the first quarter of 2014, that the RevPAR growth has considerable traction, assisted by impressive average daily room rate (ADR) growth.

Provided this level of growth continues and indeed proves to be sustainable, we are of the opinion that capacity for between 1 500 to 1 800 new rooms can be created.

Q – What are your views and trends on foreign direct investment into the hotel industry in Cape Town?

There are two distinct levels of investment in the hotel industry, one being the bricks and mortar infrastructure and the other being operational expertise, often translated into management contracts.

What we have experienced in South Africa over the years is an increased appetite, activity and expansion by global branded hotel operators with regard to management contracts. Examples include Rezidor, Hilton, Starwood, and more recently Marriott through the acquisition of the management contract portfolio of the Protea Hospitality Group.

The core development investment in the industry relates to bricks and mortar infrastructure, however.

Pam Golding Hotels has facilitated transactions in excess of R6.5 billion in the hotel industry in Southern Africa. Part of this involved foreign direct investment in the Western Cape, including the Pezula Hotel, Hotel Le Vendôme, the Taj Hotel, the President Hotel, the 12 Apostles Hotel and the Cape Royale Hotel.

The global financial crisis of 2008 has changed the dynamics somewhat, as development opportunities in traditional European and American markets have declined and new opportunities are being sought.

Africa has become a 'hotspot' for international investors, and the potential for foreign direct investment in an area like Cape Town, considering the current growth in demand, will increasingly present new foreign direct investment opportunities.

Cape Town as a world-renowned leisure destination has in our opinion a shortage of global hotel brands and international management companies. The increasing appetite by hotel operators for a presence in Cape Town is a direct result of one or more of the following points:

- Cape Town is an exciting and professional environment in which to invest. Cost-competitiveness in various emerging sectors, a young professional workforce and world-class infrastructure makes Cape Town a highly attractive place to do business.
- The vibrant economy of Cape Town has consistently outperformed the national GDP in South Africa.
- Cape Town is a very stable, dynamic and capable city and the same can be said of its provincial government.
- Cape Town has a world-class airport with good connectivity and facilities.
- Cape Town is a key city as a base for further expansion into South Africa and the rest of Africa.
- Over 53% of all tourism visitors to South Africa visit Cape Town and tend to stay longer here than anywhere else in South Africa.
- Cape Town has a world-class convention centre that has significantly increased national and international meetings, incentives, conferencing and exhibitions (MICE) business as well as business travel occupancy for Cape Town hotels.
- The Cape Town International Convention Centre (CTICC) will double its capacity over the next two years.
- The strong growth in occupancy and rate is expected to continue well ahead of annual inflation.

- Cape Town has established itself as a value-for-money destination.
- The New York Times has placed Cape Town into the top spot on its list of 52 places to go to in 2014, ahead of London and Paris.
- The UK's Guardian Newspaper listed Cape Town as the number one holiday spot for 2014.

This increasing appetite is starting to create healthy competition amongst the operators, and the 'must have presence' in Cape Town attitude is resulting in flexibility as to the key terms and discussions in the negotiation of a management contract. Some operators are prepared to pay 'key' money to enter the Cape Town market.

Our consultancy firm, Pam Golding Tourism and Hospitality Consulting, is experiencing an increasing demand for feasibility studies in and around Cape Town.

Q – How important is a recognised brand (especially local versus international) for hotel transactions in South Africa and Cape Town in particular?

South Africa has traditionally been exceptional at developing localised hotel brands, which in most cases have become regional through expansion, especially into Africa. The distribution of global hotel brands has been on a much smaller scale up to recently, when we saw the expansion of the likes of Hilton, Rezidor, Starwood, and more recently Marriot's acquisition of the management contract portfolio of Protea Hotels.

Historically, the local brands have had a strong foothold in the South African market, and the mid-2000 rebranding of a large part of the then Southern Sun Portfolio from the global Intercontinental – Holiday Inn – stable to Southern Sun or Southern Sun-endorsed brands is testimony to this.

Travel trends consistently evolve, however, and there are numerous case studies, especially in the Cape Town region, that are starting to turn this perception around. Global brands, with their vast loyalty bases and proven access to markets, are clearly starting to express their advanced ability to drive business into hotels managed by them, practically instantly opening the revenue stream.

While some of the more successful hotels in Cape Town, especially at the luxury end of the market, are privately managed and branded, there are as many examples of globally branded hotels that are exceptional performers.

Much of the success of the privately managed hotels is due to their instant market interaction ability in the absence of a huge, sometimes constraining, head office infrastructure. Privately managed hotels are fully embracing the dynamics of online marketing and booking and are also advantaged by their fast decision-making and deal-broking ability, giving them an edge on the larger groups.

However, some of the global operators, especially in Cape Town, are reflecting exceptional levels of success driven by both their brand equity and their loyalty card base.

The Marriot acquisition is going to be very interesting to monitor as to which Protea Hotel properties will be re-branded into one of their global brands and whether this will provide them with the requisite competitive edge in the market.

Q – Funding: What is the preferred debt-versus-equity ratio in financing hotels?

The recent economic hurdles have provided much insight into sustainable funding models in South Africa. New developments that had been geared in excess of, say, 60% have reflected substantial sustainability shortcomings and poor debt servicing ability. Many of these properties have undergone some form of structural funding realignment where projects that had a loan-to-value ratio of below 50% have generally weathered the storm and are starting to perform well in the current growth environment.

Hotel management companies have also become substantially more stringent, taking on conservatively geared hotels. Like banks, they look more at the sustainability of hotels as opposed to just expanding their portfolio.

With interest rates that remain relatively high in South Africa, it is our opinion that a gearing level of 50% or less is optimum for new hotels, as projects that engage higher gearing levels are prone to encounter often insurmountable challenges during down-cycles. South African banks typically will not entertain gearing that exceeds 50% unless there is further collateral or security that can be provided.

When one considers that recent history has reflected the hotel industry business cycle as being approximately five years, then any over-geared project is prone to encounter challenges within the typical development loan term of ten years.

Acquisitions and conversions might warrant a different funding structure, but this needs to be carefully considered and examined through a comprehensive feasibility study.

Pam Golding Tourism and Hospitality Consulting is a leading specialised consultancy practice that, through its affiliation with Pam Golding Hotels, offers an integrated one-stop service, including the feasibility study, the procurement of the most suitable operator, the procurement of loan finance and the necessary assistance in the period leading up to the opening of the hotel.

Q – Post the 2010 FIFA World Cup, what trends emerged and were they expected?

When South Africa won the right to host the 2010 FIFA World Cup, there were no indications of the looming global financial crisis. As the industry approached the World Cup on the back of a debilitating 2009 trading environment, it was clear that major challenges were confronting the hotel industry, contrary to the 2006 to 2007 belief that there would be an acceleration in the popularity of destination South Africa.

Besides the development of a string of new (traditional) hotels, there were a number of residential developers that changed the envelope to become apartment hotels, some more successful than others. This nevertheless added to the increasing room inventory.

The hotel industry generally accepted that a challenging period of 36 to 48 months would follow the event, and that there would then be a gradual improvement.

What was not expected was the resilience that the South African hotel industry has shown, with the recovery starting as early as the last quarter of 2011 and turning to a growth phase in 2013. As all benchmarks currently indicate, the expectation is for a bullish 2014, and the emotions of winning the 2010 FIFA World Cup bid, to the deflation driven by the economic crisis after the event, are now translating to renewed optimism.

Q – Hotel operators versus hotel ownership: Which offers the best return?

This has been the eternal debate in the hotel industry – one that has effectively been addressed to a great extent by the large global operators, especially those at the mid-upscale to luxury levels, aligning their operations away from ownership to management. The risks and rewards are essentially left to the owner of the hotel.

Most of the large global hotel operators have also become averse to leasing, especially in Africa.

What this ultimately means is that globally, hotels today are developed by owners who adopt the risk-reward challenge, while there still are some global hotel companies – albeit very few – that own and operate their own hotels.

This is perhaps more prevalent in the budget and economy segments, as the operating structures in these segments are often challenging in terms of generating a reasonable management fee for the hotel brand. Private ownership is also prevalent for some of the very high trophy hotels in key cities throughout the world, and the Saxon Hotel in Johannesburg or the Cape Grace Hotel in Cape Town are good examples of this.

The majority of the large South African operators are, however, still prepared to consider the ownership model. Southern Sun, Peermont, Legacy, Sun International and City Lodge are good examples of this. This essentially makes it more challenging for foreign operators to enter the South African market, especially the ones with an inflexible management contract approach.

The issue of whether the owner or the operator generates the return is essentially two sides of the same coin. For the operator to generate decent fees, the hotel has to generate a decent revenue and profit.

The common perception that the operator bears no risk is not always true. In a well-balanced negotiated contract a considerable part of the fees should be based on the EBITDA generated by the operator.

Effectively, the operator usually sees a margin of around 6% to 7% of revenue, while large hotels, once established, generate an EBITDA of between 30% to 35% of revenue and in some cases even higher.

The above reflects that the benefits remain with the owner, and the shortcoming is that the overall return is often only questioned in the shorter down-cycles but not necessarily evaluated in the longer up-cycles.

A further significant consideration in the debate of hotel ownership is the capital appreciation, something that of course has to be factored into the overall return on investment calculation.



A woman with long dark hair, wearing a red blazer and blue jeans, is sitting on a white metal folding chair with dark wooden slats. She is smiling and looking towards the left. The setting is outdoors, with a large tree trunk behind her and a grassy area in the foreground. In the background, there are more trees, a white wall, and a building with a blue roof. The lighting is bright and sunny, creating a warm atmosphere.

Section

3

List of selected hotels in Cape Town

Section 3: List of selected hotels in Cape Town

Name	Street address	Suburb	Website	Star Grading (May 2014)
Adderley Hotel	31 Adderley Street	City Centre	www.adderleyhotel.co.za	4
African Pride 15 On Orange Hotel	Orange Street	City Centre	www.africanpridehotels.com	#
African Pride Crystal Towers Hotel & Spa	C/o Century Boulevard & Rialto Road	Century City	www.africanpridehotels.com	4
Alphen Boutique Hotel, The	Alphen Drive, Constantia	Constantia	www.alphen.co.za	5
Ambassador Hotel & Executive Suites	34 Victoria Road	Bantry Bay	www.ambassador-hotel.co.za	4
Aquarius Luxury Suites	10 Blaauwberg Road	Blouberg	www.aquariussuites.co.za	3
Atlantic Beach Hotel	C/o Commaille Road & 13th Avenue	Melkbosstrand	www.atlanticbeachhotel.co.za	4
Banksia Boutique Hotel	14 Banksia Road	Rosebank	www.banksiaboutique.co.za	4
Bantry Bay International Vacation Resort	44a Victoria Road	Bantry Bay	www.bantrybayinternational.co.za	#
Bantry Bay Suite Hotel (Three Cities)	8 Alexander Road	Bantry Bay	www.threecities.co.za/hotel/bantrybay	4
Bay Hotel, The	69 Victoria Road	Camps Bay	www.thebay.co.za	5
Best Western Cape Town Suites Hotel	C/o De Villiers & Constitution Streets	Zonnebloem	www.bestwesterncapesuiteshotel.co.za	3
Blue Peter Hotel	8 Popham Road	Bloubergstrand	www.bluepeter.co.za	#
Camps Bay Retreat	7 Chilworth Road	Camps Bay	www.campsbayretreat.com	5
Cape Grace Hotel, The	West Quay Road	V&A Waterfront	www.capegrace.com	5
Cape Heritage Hotel	90 Bree Street	City Centre	http://capeheritage.co.za	#
Cape Milner Hotel	2a Milner Road	Tamboerskloof	www.capemilner.com	4
Cape Royale Luxury Hotel & Spa	47 Main Road	Green Point	www.caperoyale.co.za	5
Cape Town Hollow Boutique Hotel	88 Queen Victoria Road	City Centre	www.seasonsinafrica.com/hotels-in-south-africa/cape-town-hotels/cape-town-hollow-boutique-hotel	#
Cape Town Lodge	101 Buitengracht Street	City Centre	www.capetownlodge.co.za	4
Cape Town Ritz Hotel	C/o Main and Camberwell Roads	Sea Point	www.capetownritzhotel.co.za	2
Capetonian Hotel	Pier Square, Heerengracht	Foreshore	www.raya-hotels.com/cms/capetonian.asp	4
Cellars-Hohenort Hotel	93 Brommersvlei Road	Constantia	www.collectionmcgrath.com	5
Chapman's Peak Hotel	Chapman's Peak Drive	Hout Bay	www.chapmanspeakhotel.co.za	#
Circa On The Square	15 Anton Anreith Arcade	Foreshore	www.circahotel.co.za	4
City Lodge Grandwest	Vanguard Drive	Goodwood	www.citylodge.co.za	3
City Lodge Pinelands	Raapenberg Road	Pinelands	www.citylodge.co.za	3
City Lodge V&A Waterfront	C/o Dock & Alfred Road	V&A Waterfront	www.citylodge.co.za	3

Name	Street address	Suburb	Website	Star Grading (May 2014)
Colosseum Luxury Hotel	C/o Century Way & Century Boulevard	Century City	www.colosseum.co.za	#
Commodore, The	Portswood Road	V&A Waterfront	www.legacyhotels.co.za/en/hotels/commodore	4
Dock House Boutique Hotel & Spa	Portswood Close	V&A Waterfront	www.newmarkhotels.com/accommodation/hotels/dock-house-boutique-hotel-spa/	5
Dolphin Beach Hotel	Marine Drive	Bloubergstrand	www.visitdolphinbeach.com	4
Doubletree By Hilton Cape Town	31 Brickfield Road	Woodstock	http://doubletree3.hilton.com	4
Ellerman House	180 Kloof Road	Bantry Bay	www.ellerman.co.za	5
Fountains Hotel	1 St George's Mall	City Centre	www.fountainshotel.co.za	3
Garden Court De Waal (Tsogo Sun)	Mill Street	Gardens	www.tsogosunhotels.com/garden-court/de-waal	3
Garden Court Nelson Mandela Boulevard (Tsogo Sun)	C/o Melbourne & Coronation Roads	Woodstock	www.tsogosunhotels.com/garden-court/nelson-mandela-boulevard	#
Glen Boutique Hotel, The	3 Glen Road	Sea Point	www.glenhotel.co.za	4
Grand Daddy Hotel, The	38 Long Street	City Centre	www.granddaddy.co.za	4
Grand Hotel Grandwest	1 Vanguard Drive	Goodwood	www.suninternational.com/grandwest	4
Greenways Hotel	1 Torquay Ave	Claremont	www.greenways.co.za	5
Harbour Bridge Hotel & Suites	Lower Long Street	City Centre	http://harbourbridge.ahagroup.co.za	4
Highlands Country House	36 Tennant Road	Kenilworth	www.highlands.co.za	5
Hilton Cape Town City Centre	126 Buitengracht Street	City Centre	http://www3.hilton.com/en/hotels/south-africa/hilton-cape-town-city-centre-CPTCCHI/index.html	4
Hippo Boutique Hotel	9 Park Road	Gardens	www.hipotique.co.za	#
Holiday Inn Express Cape Town City Centre	101 St George's Mall	City Centre	www.ihg.com/holidayinnexpress	3
Hollow On The Square Suites	9 Ryk Tulbagh Square	City Centre	www.seasonsinafrica.com/hotels-in-south-africa/cape-town-hotels/hollow-on-the-square-hotel	#
Hotel Graeme	105 Main Road	Greenpoint	www.hotelgraeme.co.za	3
Hotel Verde	15 Michigan Street	Cape Town Airport	www.hotelverde.com	4
Hout Bay Manor	Baviaanskloof, Off Main Road	Hout Bay	www.houtbaymanor.com	5
Hyde Hotel, The	13 London Road	Sea Point	www.thehydehotel.com	4
Inn On The Square (Three Cities)	10 Greenmarket Square	City Centre	www.threecities.co.za/hotel/inonthesquare	4
Lady Hamilton Hotel	10 Union Street	Gardens	www.ladyhamilton.co.za	3
Lagoon Beach Hotel	Lagoon Beach Drive	Milnerton	www.lagoonbeachhotel.co.za	4
Leisure Bay Luxury Suites Hotel	Lagoongate Road	Milnerton	http://leisurebay.ahagroup.co.za	4
Mandela Rhodes Place (Three Cities)	C/o Burg and Wale Street	City Centre	www.threecities.co.za/hotel/mandelarhodesplace/	4
Mount Nelson Hotel	76 Orange Street	Gardens	www.mountnelson.co.za	5
New Tulbagh Hotel, The	9 Ryk Tulbagh Square	City Centre	www.newtulbaghhotel.com	#
Nova Constantia Boutique Residence	C/o Welbeloond Road and Muscat Lane	Constantia	www.novaconstantia.com	5
One & Only Cape Town	Dock Road	V&A Waterfront	http://capetown.oneandonlyresorts.com	#

Name	Street address	Suburb	Website	Star Grading (May 2014)
Park Inn By Radisson Hotel Cape Town	29 Heerengracht	Foreshore	www.parkinn.com/hotel-capetown	4
Parliament Hotel	9 Barrack Street	City Centre	http://parliamenthotel.co.za	3
Peninsula All-Suite Hotel (Three Cities)	313 Beach Road	Sea Point	www.threecities.co.za/hotel/peninsula/	#
Pepper Club Hotel & Spa	C/o Loop Street & Pepper Street	City Centre	www.pepperclub.co.za	5
Place On The Bay	C/o Van Kamp & Victoria Road	Camps Bay	www.placeonthebay.co.za	4
Portswood Hotel	Portswood Road	V&A Waterfront	www.legacyhotels.co.za/en/hotels/portswood	4
Premier Hotel Cape Manor	1 Marais Road	Sea Point	www.premierhotels.co.za	4
Primi Royal Boutique Hotel	23 Camps Bay Drive	Camps Bay	www.primi-royal.com	4
Protea Hotel Breakwater Lodge	Portswood Road	V&A Waterfront	www.proteahotels.com/hotels/Pages/protea-hotel-breakwater-lodge.aspx	3
Protea Hotel Cape Castle	3 Main Road	Green Point	www.proteahotels.com/hotels/Pages/protea-hotel-cape-castle.aspx	3
Protea Hotel Durbanville	99 Jip De Jager Drive	Durbanville	www.proteahotels.com/hotels/Pages/Protea-Hotel-Durbanville.aspx	3
Protea Hotel Fire & Ice	New Church Street	City Centre	www.proteahotels.com/fire-and-ice/Pages/protea-hotel-fire-ice-cape-town.aspx	4
Protea Hotel Island Club	Century Boulevard	Century City	www.proteahotels.com/hotels/Pages/protea-hotel-island-club.aspx	4
Protea Hotel North Wharf	1 Lower Bree Street	City Centre	www.proteahotels.com/hotels/Pages/protea-hotel-north-wharf.aspx	4
Protea Hotel President	4 Alexander Road	Bantry Bay	www.proteahotels.com/hotels/Pages/protea-hotel-president.aspx	4
Protea Hotel Sea Point	Arthurs Road	Sea Point	www.proteahotels.com/hotels/Pages/protea-hotel-sea-point.aspx	3
Protea Hotel Tyger Valley	Uys Krige Drive	Welgemoed	www.proteahotels.com/hotels/Pages/Protea-Hotel-Tyger-Valley.aspx	3
Protea Hotel Victoria Junction	Somerset Road	Greenpoint	www.proteahotels.com/hotels/Pages/protea-hotel-victoria-junction.aspx	#
Queen Victoria Hotel	Portswood Road	V&A Waterfront	www.newmarkhotels.com/accommodation/hotels/queen-victoria-hotel/	5
Radisson Blu Hotel	Beach Road	Granger Bay	www.radissonblu.com/hotel-capetown	5
Road Lodge Cape Town International Airport	Oval Park Road	Cape Town Airport	www.citylodge.co.za/r112.php	1
Rockwell All Suite Hotel & Apartments	32 Prestwich Street	Greenpoint	www.rockwellhotel.co.za	4
Romney Park All Suite Hotel & Spa	C/o Hill Road & Romney Road	Greenpoint	www.romneypark.co.za	5
Simon's Town Quayside Hotel	St George's Street	Simon's Town	http://quayside.ahagroup.co.za	4
Southern Sun Cape Sun (Tsogo Sun)	Strand Street	City Centre	www.tsogosunhotels.com/hotels/cape-sun	4
Southern Sun Newlands (Tsogo Sun)	Main Road	Newlands	www.tsogosunhotels.com/hotels/newlands	4

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Southern Sun The Cullinan (Tsogo Sun)	Cullinan Street	Foreshore	www.tsogosunhotels.com/hotels/the-cullinan	4
Southern Sun Waterfront (Tsogo Sun)	1 Lower Buitengracht	Foreshore	www.tsogosunhotels.com/hotels/waterfront-cape-town	4
Stay Easy Hotel Century City (Tsogo Sun)	Century Boulevard	Century City	www.tsogosunhotels.com/stayeasy/century-city	#
Steenberg Hotel & Winery	Tokai Road	Constantia	www.steenberghotel.com	5
Strand Tower Hotel	C/o Strand and Loop Streets	City Centre	www.strandtowerhotel.co.za	4
Sun 1 Cape Town (Tsogo Sun)	C/o Jan Smuts and Martin Hammerschlag	Foreshore	www.tsogosunhotels.com/sun1	#
Sun 1 Milnerton (Tsogo Sun)	C/o Koeberg Road and Freedom Way	Milnerton	www.tsogosunhotels.com/sun1	1
Sun 1 Parow (Tsogo Sun)	C/o Arnold Wilhelm and Jean Simonis	Parow	www.tsogosunhotels.com/sun1	1
Table Bay Hotel (Sun International)	Quay 6	V&A Waterfront	http://tablebay.suninternational.com/	5
Taj Hotel	Wale Street	City Centre	www.tajcapetown.co.za	5
Town Lodge Bellville	Willie van Schoor Avenue	Bellville	www.citylodge.co.za	2
Townhouse Hotel & Conference Centre	60 Corporation Street	City Centre	www.townhouse.co.za	#
Tulip Hotel and Conference Centre, The	C/o Bree & Strand Street	City Centre	www.thetulip.co.za	#
Twelve Apostles Hotel And Spa, The	Victoria Road	Camps Bay	www.12apostleshotel.com	5
Victoria & Alfred Hotel	Waterfront Pierhead	V&A Waterfront	www.newmarkhotels.com/accommodation/hotels/victoria-alfred-hotel/	4
Villa Belmonte	33 Belmont Ave	Oranjezicht	www.villabelmontehotel.co.za	#
Vineyard Hotel & Spa	Colinton Road	Newlands	www.vineyard.co.za	4
Waterfront Village (Graded and ungraded self-catering (exclusive) apartments)	West Quay Road	V&A Waterfront	www.waterfrontvillage.com	Between 4 and 5
Westin Cape Town	Lower Long Street	Foreshore	www.westincapetown.com	5
Winchester Mansions	221 Beach Road	Sea Point	www.winchester.co.za	4

Source: South African Tourism: Tourism Grading Council of South Africa as of 21 May 2014

Note: #Not graded or grading not available or grading cancelled as of 21 May 2014

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