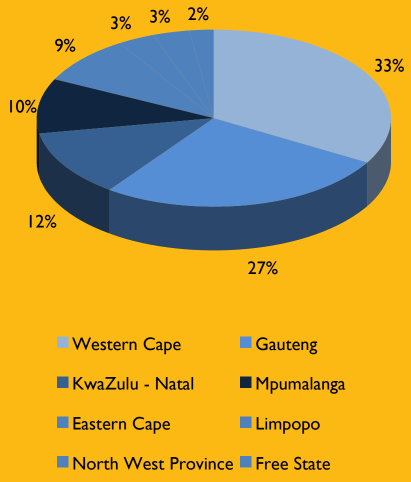
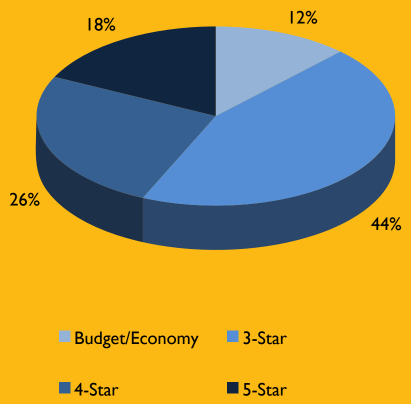
SOUTH AFRICA
HOTEL MARKET SENTIMENT SURVEY

February 2010

SHARE OF RESPONDENTS BY GEOGRAPHIC LOCATION



SHARE OF RESPONDENTS BY STAR GRADING



INTRODUCTION

The Horwath HTL South Africa Hotel Market Sentiment Survey has been designed to provide the South African hotel industry a quick assessment of the market outlook. The survey focuses on the current outlook for occupancy, average room rates, and total revenue and what hotel operators feel is going to happen based on their experience.

In this third edition of the biannual survey, hoteliers were asked to comment on their expectations for the year ahead in comparison to last year, as well as comment on how certain global and local factors are expected to influence hotel performance in 2010.

This report reviews the outcome of the survey, gathered from responses across South Africa. Of the 90 participants, 33 percent of them represent the Western Cape hotel industry followed by Gauteng (27 percent), KwaZulu-Natal (12 percent), Mpumalanga (10 percent), the Eastern Cape (9 percent), Limpopo and North West Province (3 percent respectively), and the Free State (2 percent). Hoteliers from the Northern Cape elected not to participate in the survey.

The majority of the responses were received from the 3-star segment (44 percent), followed by the 4-star segment (26 percent), the 5-star segment (18 percent), and budget/ economy segment (12 percent).

Having been through one of the most difficult trading periods in recent history coupled with the fact that South Africa will host the 2010 FIFA World Cup in mid-2010, it is not surprising to find most of South Africa's hotel markets have an improved outlook for 2010, although this is not to say that hoteliers are expecting strong performance levels.

We hope that the following analysis provides some useful insight as to the expectations for the different hotel markets across South Africa.

SENTIMENT RANKINGS

RANKING SCORE KEY	
Much Worse	-150
Worse	-75
Same	0
Better	+75
Much Better	+150

"All Provinces scored an overall positive sentiment score..."

SENTIMENT RANKINGS SOUTH AFRICA

	02/'09	07/'09	02/'10
1 Limpopo	- 9,4	5,8	66,7
2 Gauteng	- 6,3	- 13,0	56,4
3 Free State	- 13,1	1,6	56,3
4 Western Cape	- 21,5	- 20,6	49,7
5 KwaZulu-Natal	- 19,9	- 21,6	36,7
6 Mpumalanga	- 9,4	- 35,5	36,6
7 NWP	- 22,5	- 55,4	26,4
8 Eastern Cape	- 0,3	- 36,0	8,3
9 Northern Cape	3,8	- 56,3	-
South Africa	**- 11,9**	**- 22,3**	**44,6**

"Africa and the Middle East record the second highest positive sentiment score..."

SENTIMENT RANKINGS WORLD REGIONS

	02/'09	07/'09	02/'10
1 Asia	- 41	- 41	47
2 Africa/ Middle East	- 21	- 22	43
3 Australia Pacific	- 34	- 48	42
4 Americas	- 25	- 28	21
5 Europe	- 36	- 55	9
Global Average	**- 35**	**- 44**	**27**

As a way to measure and compare the results across Provinces, we have created an index to formulate an overall average sentiment score from all survey questions. Points are assigned to each corresponding response and compounded accordingly.

The index utilized a scale of negative 150 to positive 150 in which a score of negative 150 denotes a sentiment of absolute pessimism, whereas a positive 150 signifies a very optimistic outlook and a zero score indicates unchanged expectations from the previous year. The index allows us to track changes in market sentiment over time.

After the pessimistic market sentiment recorded in July 2009, hoteliers across all South African hotel markets have returned to a positive sentiment in 2010 with a national average score of 44,6. Whilst the positive outlook for 2010 is relative to the poor performance recorded in 2009, and should be viewed in this context, the positive sentiment indicates that hoteliers expect to see a return to growth in the year ahead.

All Provinces recorded an overall positive sentiment score with Limpopo, Gauteng, and the Free State the most optimistic Provinces scoring +66,7; +56,4; and +56,3 respectively. The Eastern Cape scored the least optimistic score; +8,3.

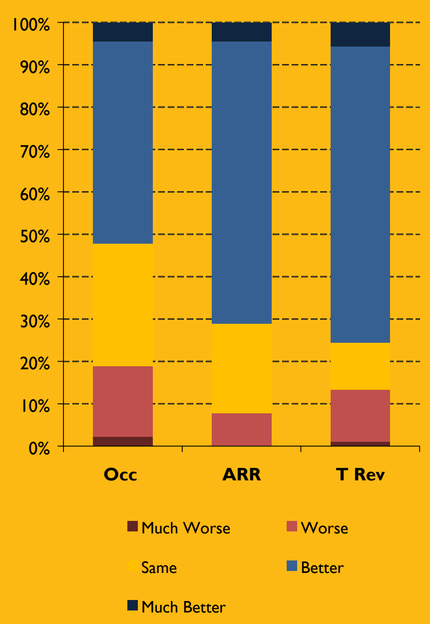
The biggest positive shift in overall sentiment was recorded in the North West Province, Mpumalanga, and Western Cape hotel markets. By comparison, the KwaZulu Natal, Free State, and Eastern Cape hotel markets recorded the smallest shift in overall sentiment when compared to the overall sentiment scores reported in July 2009.

In terms of Global Sentiment, Asia is the most optimistic region with an overall sentiment score of +47, followed by Africa and the Middle East (+43), Australia Pacific (+42), the Americas (+21), and Europe (+9). The five countries recording the highest sentiment scores include:

	Feb '09	Jul '09	Jan '10
1. Hong Kong	- 53	- 94	+ 82
2. China	- 41	- 44	+ 64
3. Indonesia	- 4	+ 19	+ 50
4. South Africa	- 12	- 22	+ 45
5. Australia	- 34	- 48	+ 42

2010 MARKET OUTLOOK

RATIO OF RESPONSES



"Over 70 percent of respondents stated that they expect average room rate and total revenue to perform better or much better in 2010 when compared to 2009"

MARKET OUTLOOK SENTIMENT SCORE

	Occ	ARR	TRev	Av
Eastern Cape	- 18,8	28,1	9,4	6,3
Free State	0,0	37,5	75,0	37,5
Gauteng	40,6	53,1	65,6	53,1
KwaZulu Natal	6,8	61,4	34,1	34,1
Limpopo	50,0	75,0	75,0	66,7
Mpumalanga	8,3	50,0	50,0	36,1
NWP	25,0	25,0	25,0	25,0
Western Cape	41,4	51,7	51,7	48,3
South Africa	**26,7**	**50,8**	**50,0**	**42,5**

The first survey question asked hoteliers to comment on their expectation for performance levels in 2010 when compared to that recorded in 2009 in relation to hotel Occupancy (Occ), average room rate (ARR), and total revenue (T Rev).

OCCUPANCY

The market outlook in terms of occupancy scored an average sentiment score of +26,7. Limpopo recorded the highest sentiment score (+50,0), followed by the Western Cape (+41,4), and Gauteng (+40,6) hotel markets with the Eastern Cape hotel market the most pessimistic with a score of negative 18,8.

Hotel managers of 4-star establishments are the most optimistic in terms of occupancy growth in 2010, recording the highest sentiment score (+42,4) followed by the 3-star segment (+26,9). Hotel managers of 5-star establishments and budget/ economy establishments are less optimistic recording a sentiment score of +14,1 and +13,6 respectively.

AVERAGE ROOM RATE

The overall average sentiment with regard to ARR expectations was encouraging with a positive score of 50,8 recorded. Hotel managers in Limpopo were the most optimistic scoring +75,0 followed by the KwaZulu Natal (+61,4) and Gauteng (+53,1) hotel markets. The Eastern Cape and North West Province hotel markets recorded the least optimistic ARR sentiment scores of +28,1 and +25,0 respectively.

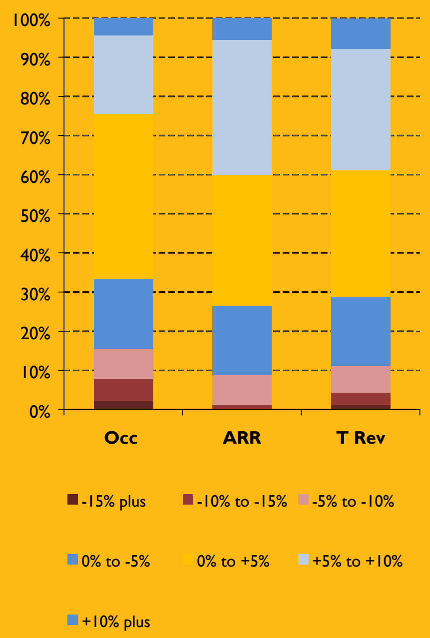
With reference to hotel standard, the budget/ economy segment was the most optimistic with a positive sentiment score of 75,0. The 4-star segment, with a positive score of 58,7, was more positive than the 3-star segment which recorded a score of +55,8, while the 5-star segment expects marginal growth in ARR with a positive sentiment score of 9,4.

TOTAL REVENUE

Total revenue recorded a national average sentiment score of positive 50,0. Limpopo and the Free State registered the highest sentiment score of +75,0 respectively. Again the Eastern Cape hotel market registered by far the least optimistic score of all the Provinces; +9,4.

The 4-star segment is marginally more optimistic than the budget/ economy segment in terms of total revenue, recording scores of +62,0 and +61,4 respectively followed by the 3-star segment with a sentiment score of +51,9. The 5-star segment registered the least optimistic score of +18,8.

RATIO OF RESPONSES



"17,8 percent of respondents expect their respective hotels will fare up to five percent below 2009 performance levels recorded in all three performance indicators in 2010"

HOTEL PERFORMANCE SENTIMENT SCORE

	Occ	ARR	TRev	Av
Eastern Cape	- 25,0	50,0	6,3	10,4
Free State	50,0	75,0	100,0	75,0
Gauteng	50,0	64,6	64,6	59,7
KwaZulu-Natal	31,8	50,0	36,4	39,4
Limpopo	16,7	100,0	83,3	66,7
Mpumalanga	22,2	44,4	44,4	37,0
NWP	16,7	33,3	33,3	27,8
Western Cape	46,6	50,0	56,9	51,1
South Africa	**35,0**	**54,4**	**50,6**	**46,7**

HOTEL PERFORMANCE EXPECTATION

The second question asked hoteliers to comment on their expectation of how their respective hotels will fare in 2010 in comparison to 2009, in percentage terms.

OCCUPANCY

Overall, the national expectation was positive with a national average sentiment score of positive 35,0 for question two. Some 66,7 percent of responding hoteliers expect to see an improvement in performance in 2010.

With reference to the various hotel markets, the Free State, Gauteng, and Western Cape hotel markets recorded the most optimistic sentiment scores, whilst the Eastern Cape was the only hotel market to record a negative sentiment score.

Some 30,4 percent of responding hoteliers of 4-star establishments expect occupancy to grow by between 5% and 10% in 2010 when compared with 2009 and recorded the most optimistic sentiment score of +52,2. The 4-star segment was followed by the 3-star segment (+30,8), and the budget/ economy segment (+27,3). The 5-star segment recorded the least optimistic sentiment score; +25,0.

AVERAGE ROOM RATE

73,3 percent of responding hoteliers expect ARR will increase in 2010, with some 34,4 percent expecting ARR growth to be between 5% and 10%. Overall, a national average sentiment score of positive 54,4 was recorded.

Limpopo, Free State, and Gauteng are the most optimistic Provinces scoring positive sentiment scores of 100,0; 75,0; and 64,6 respectively. Mpumalanga and the North West Province hotel markets are the least optimistic, scoring positive sentiment scores of 44,4 and 33,3 respectively.

In terms of hotel standard, the budget/ economy segment and 4-star segment recorded the most optimistic sentiment scores; +68,2 and 65,2 respectively. The 3-star segment followed with a positive sentiment score of 57,7 whilst the 5-star segment recorded the least optimistic score; +25,0.

TOTAL REVENUE

In terms of total revenue, an overall national sentiment score of +50,6 was recorded with some 71,1 percent of responding hoteliers expecting to realize total revenue growth in 2010 when compared to 2009. Interestingly, some 7,8 percent of responding hoteliers expect total revenue to increase by 10 percent or more.

FACTORS EFFECTING PERFORMANCE

Hoteliers were asked to gauge their attitude towards eight factors and how these will impact their hotel's performance in 2010. The eight factors included:

1. Local/ global stock market
2. Local economic growth trends
3. Global economic growth trends
4. Local tourism trends
5. New competitive supply
6. Global oil prices
7. Currency exchange rates
8. H1N1 virus

Utilizing the index, only three factors registered positive results (2, 3, and 4), while the remaining factors registered negative sentiment scores. Local tourism trends scored the highest sentiment score among the eight factors (+36,7) with 62,2 percent of all responding hoteliers expecting a positive impact on hotel performance from local tourism growth trends in 2010.

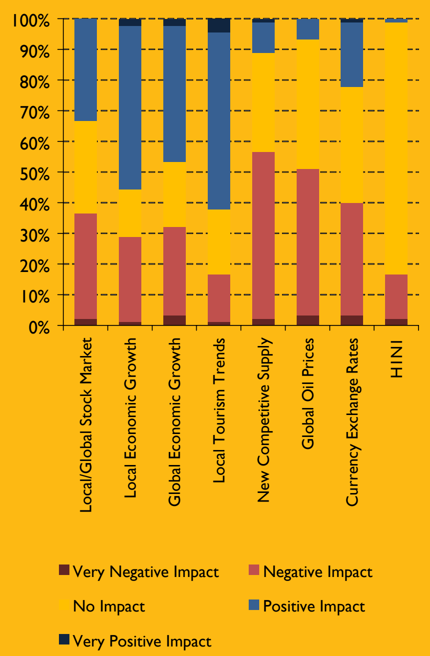
The most negative of the eight factors was global oil prices at a score of negative 35,8 followed by new competitive supply additions with a score of negative 35,0. Some 46,7 percent of respondents felt that global economic growth trends would have a positive impact on hotel performance, compared to a year ago when 66,2 percent felt this would negatively impact hotel performance.

Shifting our focus onto individual Provinces, Free State, Limpopo, and Gauteng were the most bullish in regards to expectations of the impact of the local/global stock market, however, the Free State and Mpumalanga were much less positive in regards to local economic growth trends. Both Gauteng and the Western Cape felt that global economic growth trends would influence hotel performance positively with the other South African hotel markets expecting the global economic growth trends to influence hotel performance negatively.

The Eastern Cape and North West Province felt local tourism growth trends would negatively influence hotel performance in the year ahead whilst all Provinces agreed that new competitive supply additions and global oil prices were negative factors.

The Eastern Cape, Free State, Limpopo, and North West Province felt that currency exchange rates would not influence hotel performance in the year ahead registering a sentiment score of zero. The Eastern Cape, Gauteng, KwaZulu Natal, Mpumalanga, and Western Cape hotel markets agreed that the H1N1 virus would negatively influence hotel performance in 2010.

RATIO OF RESPONSES



46,7 percent of respondents felt that global economic growth trends would have a positive impact on performance in 2010

FACTORS AFFECTING PERFORMANCE

	Budget	3-Star	4-Star	5-Star
Local/ global stock market	- 27,3	- 5,8	13,0	- 9,4
Local economic growth trends	0,0	17,3	35,9	18,8
Global economic growth trends	- 6,8	- 1,9	32,6	9,4
Local tourism trends	20,5	34,6	52,2	28,1
New supply	- 40,9	- 34,6	- 32,6	- 46,9
Global oil prices	- 61,4	- 38,5	- 32,6	- 23,4
Currency exchange rates	- 54,5	- 9,6	3,3	- 32,8
H1N1 virus	- 27,3	- 7,7	- 6,5	- 32,8

MARKET SEGMENT PERFORMANCE

The final survey question asked hoteliers to share their opinion with regard to primary market demand segments which were Corporate, Leisure FIT, Leisure Group, and MICE (Meetings, Incentives, Conference, and Exhibition) and how each of these demand segments are expected to perform in 2010.

The majority of the respondents had positive opinions about the future performance of the Corporate, Leisure FIT and Leisure Group demand segments, with at least 37 percent of respondents expecting better performance by these demand segments in 2010. For the MICE demand segment, the majority of respondents (61,1 percent) felt performance would remain unchanged in 2010.

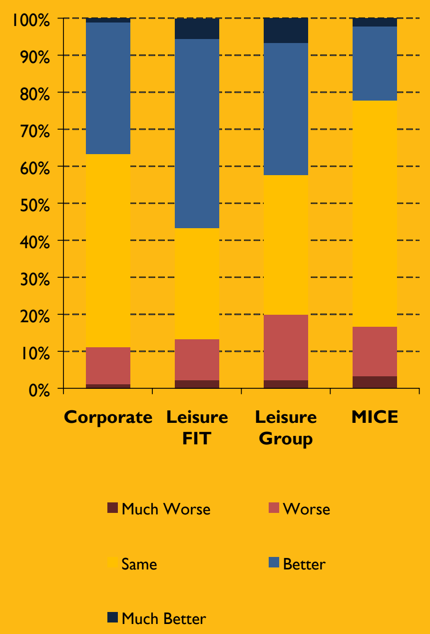
Applying the scoring index to obtain a national average sentiment score, all four demand segments yielded positive results, indicating that respondents generally think performance across all demand segments will improve this year. When compared to the February 2009 survey, participating hoteliers believe the Leisure FIT demand segment will be the biggest improver in 2010, improving from negative 28,0 in February 2009 to positive 35,0 a year later. Similarly, the Leisure Group demand segment is expected to improve significantly from negative 27,5 a year ago to positive 20,0 in February 2010.

The Eastern Cape was the only Province in which all four of the demand segments achieved a negative score. KwaZulu Natal and the North West Province both registered a negative score in respect of the MICE demand segment. All other regions had positive scores for all the demand segments.

With reference to hotel standard, all hotel standard categories registered Leisure FIT as the highest scoring demand segment. For the budget/ economy hotel category, the second highest scoring demand segment was Corporate and Leisure Group (+20,5 respectively) followed by the MICE segment registering a positive 6,8. In the 3-star category the second highest scoring demand segment was Corporate (+26,9) followed by Leisure Group (+3,8) and MICE (0,0).

The Leisure Group demand segment registered the second highest score in the 4-star category (+42,4) followed by the MICE demand segment (+26,1) and the Corporate demand segment (+22,8). Similarly, Leisure Group was the second highest scoring demand segment in the 5-star category scoring a positive 18,8 followed by the Corporate and MICE demand segments with both demand segment registering negative scores of 9,4 and 23,4 respectively.

RATIO OF RESPONSES



South African hoteliers generally expect performance across all demand segments will improve this year when compared to 2009

MARKET SEGMENT PERFORMANCE

	Corp	L/FIT	L/Group	MICE
Eastern Cape	- 9,4	- 28,1	- 28,1	- 65,6
Free State	75,0	75,0	37,5	37,5
Gauteng	21,9	31,3	18,8	25,0
KwaZulu-Natal	13,6	27,3	0,0	- 13,6
Limpopo	0,0	75,0	25,0	25,0
Mpumalanga	41,7	58,3	25,0	16,7
NWP	25,0	0,0	0,0	- 25,0
Western Cape	15,5	46,6	36,2	5,2
South Africa	**19,2**	**35,0**	**20,0**	**3,3**

CONCLUSIONS

All Provinces have recorded improvements in their sentiment towards the market outlook since the last survey in July 2009, with all Provinces recording an overall positive sentiment score, albeit a marginal positive result in respect of the Eastern Cape hotel market. While the context of the improved sentiment in relation to the poor results achieved in 2009 need to be considered, this survey at least highlights that most hoteliers across South Africa believe that the various Provincial hotel markets have hit bottom, and that can only be seen as a very positive outcome for the industry.

Hoteliers from the KwaZulu Natal, Free State, and Eastern Cape hotel markets clearly believe there is still some way to go before significant improvements in the market can be seen. On the other hand hoteliers in the North West Province, Mpumalanga, and Western Cape hotel markets have a much more positive outlook for 2010 registering the biggest positive shift in overall sentiment score.

Local tourism trends, local economic growth trends, and global economic growth trends are expected to have the most positive affect on hotel performance in 2010. Participating hoteliers expect global oil prices and new competitive supply additions to negatively impact hotel performance the most in 2010.

The majority of participating hoteliers don't think the MICE demand segment will improve significantly in 2010 but rather maintain similar levels of performance as that achieved in 2009. With the 2010 FIFA World Cup being hosted in South Africa this year, it is not surprising that responding hoteliers expect the Leisure FIT and Leisure Group demand segments to improve significantly in 2010 when compared to 2009.

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