

HORWATH CONFIDENCE INDICATOR

HOTEL PERFORMANCE - 2ND QUARTER 2005



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Announcements:

We have moved offices to Dunkley Square in Cape Town; please be so kind as to update our contact details accordingly (see page 4).

In addition to the move, we are in the process of updating our website on www.horwath.co.za, which will feature all the previous HCIs as well as other useful publications for your perusal. The site should be up and running in the beginning of April.

We are pleased to present our Horwath Hotel Performance Confidence Indicator publication for the 2nd Quarter of 2005. The indicator aims to reflect confidence in the performance of the South African hotel industry on a quarterly basis.

For the purposes of this analysis, hotel managers throughout South Africa were asked to forecast their hotel's performance in terms of likely market demand in the 2nd Quarter of 2005 in comparison to the same period in 2004. In total 118 hotel managers, 93% of whom were General Managers, participated in the analysis.

The results are segmented by star grading, hotel size and geographic location, which should provide for interesting benchmarking opportunities.

We would like to thank all the hotels which participated and look forward to the industry's continued support. We welcome any comments and suggestions that will make this indicator more relevant and helpful to the South African hotel sector.

Sincerely,

Joseph Aminzadeh

Director

Summary of Results - 2nd Quarter 2005

The overall forecasts for the second quarter of 2005 are reasonably positive, with 52% of hotel managers expecting an increase in their occupancy and 54% expecting an increase in their Average Room Rate (ARR) over the same period in 2004.

Though the majority of the hotel managers are confident in an increase in their ARR (54%), the confidence for the last two quarters has been significantly higher, with 68% and 72% forecasting an increase in the ARR during Q1 2005 and Q4 2004 respectively.

The high end of the market seems to be least confident for the coming quarter where ARR is concerned, with only 21% of hotel managers of 5-star hotels in the country expecting an increase in their ARR. The hotel managers of 1-star hotels are most confident in an increase in their ARR, followed by 2-star and

3-star hotels. Confidence for the full year 2005 is high though, with at least 75% of all hotel managers in each star category expecting an increase in their ARR.

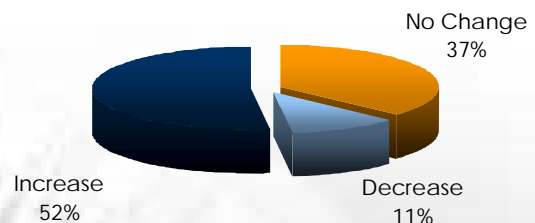
Although the full year 2004 tourist arrivals figures for South Africa have not been released to date, the World Tourism Organisation projects an overall arrivals growth of 1,4%.

Though this does look worrisome on the back of a 10% global increase in arrivals, it should be noted that most of the world was recovering from a global tourism recession and thus growth was from a low base. South Africa was effected only marginally by this recession.

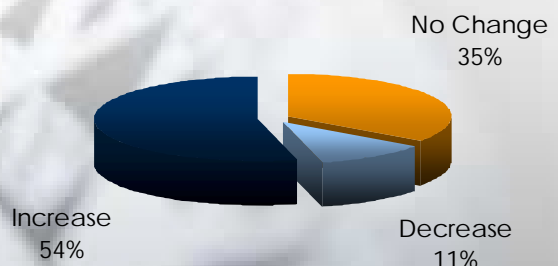
Given the current positive economic and tourism climate in South Africa and globally, we expect tourist arrivals to increase at a higher rate in 2005, despite the continued high value of the Rand.

Overall Confidence - 2nd Quarter 2005

Occupancy



Average Room Rate



Confidence by Star Grading

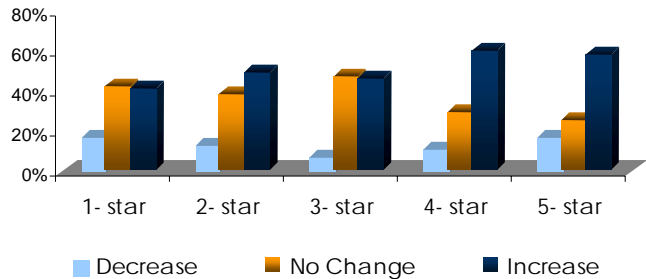
For the coming quarter the hotel managers of high end establishments (4- & 5-star) are most confident in an increase in their occupancies, though they are least confident in an increase in their Average Room Rate.

It is likely that the relative stagnation of the rates in the high end of the market are in some part due to both the strength of the Rand and competition from competing tourist destinations such as South America and South East Asia. In addition, the high growth in rates in the top end of the market in recent years were not likely to be sustained through 2005.

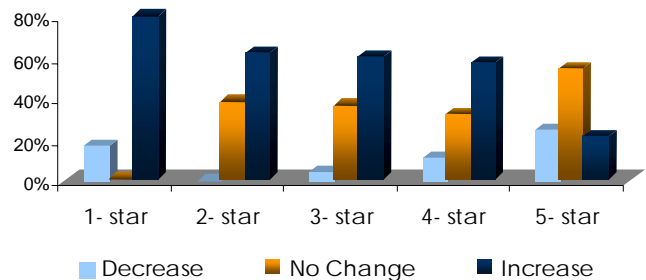
The confidence in the low end of the market continues to be high in terms of Average Room Rates, with some 83% of all 1-star hotel managers expecting an increase in comparison to the same period last year.

The overall confidence in occupancy increases remains relatively high for the coming quarter, compared to the same period last year, although lower than the full year 2005 forecast (72% expect an increase).

Occupancy Confidence Indicator by Star Grading



Avg. Rm. Rate Confidence Indicator by Star Grading



Confidence by Hotel Size (rms)

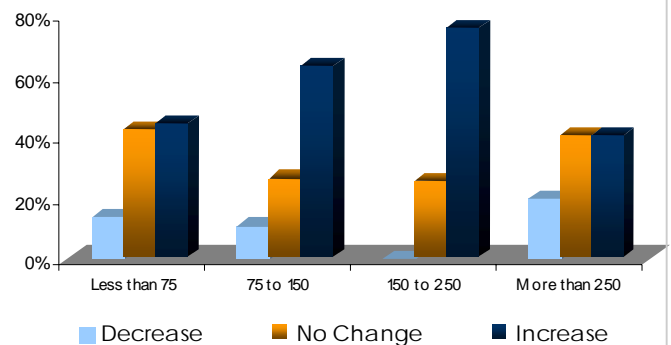
For the third quarter in a row, the managers of hotels with 150 to 250 rooms are most confident in an increase in their occupancy compared to the same quarter during the previous year.

The confidence in an increase in Average Room Rate for the coming quarter compared to the same quarter last year is highest amongst the managers of the mid-scale hotels, of 75 to 150 rooms and 150 to 250 rooms.

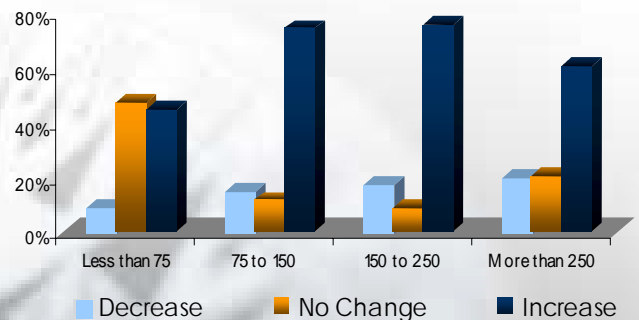
The lowest confidence in an increase in Average Room Rate is amongst hotel managers of hotels with less than 75 rooms, with some 47% expecting their Average Room Rate to stay the same.

Confidence in Average Room Rate increases has been lowest with the managers of the smaller properties during the last three quarters, compared to the same periods in the previous year.

Occupancy Confidence Indicator by Hotel Size (rms)



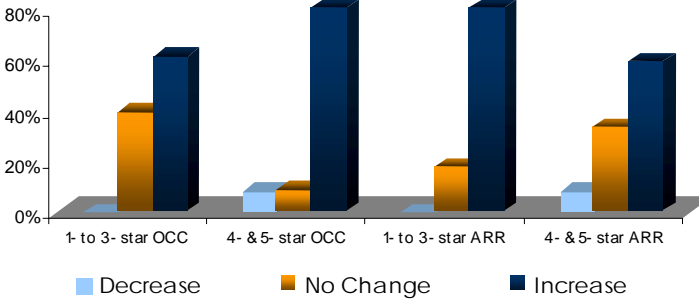
Avg. Rm. Rate Confidence Indicator by Hotel Size (rms)



Hotel Performance Confidence Indicator - Gauteng

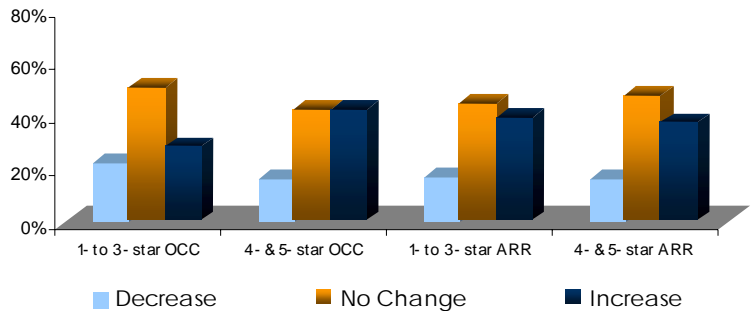
Overall confidence in Gauteng in an increase in both occupancy and Average Room Rate in comparison to the same quarter last year is highest amongst all regions.

The confidence in an increase in occupancies amongst 4- & 5-star hotels (83%) is particularly encouraging.



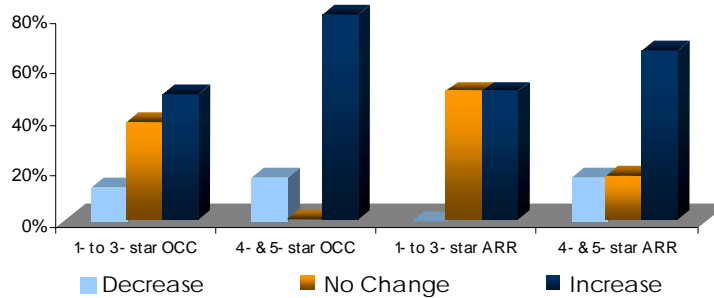
Hotel Performance Confidence Indicator - Western Cape

Although the confidence for the full year 2005 amongst hotel managers in the Western Cape is high, the confidence in the second quarter of 2005 compared to last year shows a moderate confidence in increases in Average Room Rate and occupancy.



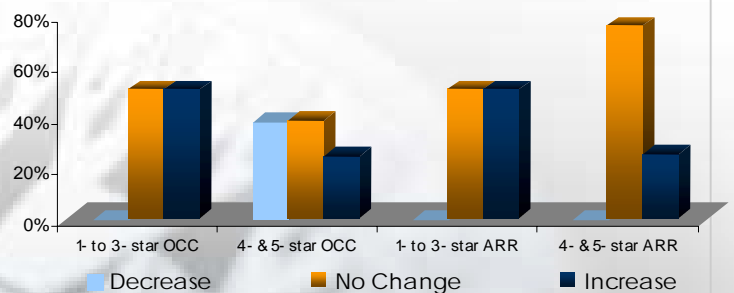
Hotel Performance Confidence Indicator - KwaZulu-Natal

For a third quarter in a row the confidence in an increase in occupancy amongst hotel managers of 4- & 5-star hotels in KwaZulu-Natal, in comparison to the same quarter in the previous year is very high. The relatively high confidence in an increase in Average Room Rate in the region should serve to increase RevPAR in comparison to the same period last year.



Hotel Performance Confidence Indicator - Mpumalanga

Overall confidence in occupancy and Average Room Rate increases amongst hotel managers of hotels in Mpumalanga, compared to the same period last year, is lowest of all regions, with some 69% of managers expecting Average Room Rates to stay the same.



Tourist Arrivals Prospects for 2005

The full year 2004 projections from the World Tourism Organisation (WTO) indicate a robust increase in worldwide tourist arrivals, estimated at an additional 69 million arrivals, some 10% higher than 2003.

The region with the highest projected increase in arrivals is Asia and the Pacific, with a projected growth of 28,6%, followed by the Middle East, with a projected increase of 20,4%. The lowest growth as a percentage was projected for Europe (3,9%), followed by Africa (6,9%). In 2003 the Middle East region held the lowest market share of total arrivals worldwide (4,2%), however in 2004 Africa is projected to have taken the lowest market share as a region, at 4,3% of global arrivals.

Though we would like to reflect on tourist arrivals in South Africa for 2004, the most recent data available is year to September (according to Statistics South Africa full year 2004 results are likely to be out only in April or May). The most recent forecast from the WTO, projects a 1,4% increase in foreign arrivals in South Africa in 2004.

The WTO estimates international tourist arrivals to grow by some 5% in 2005, somewhat higher than the long-term average projected growth rate of 4,1% per annum.

Although the estimated increase in 2005 is significantly lower than the 2004 projection (10%), one should note that after the high growth in 2004, tourism is growing from a significantly higher base. In the long-term, tourist arrivals growth in Africa is expected to outpace international growth, as it is still growing from a relatively low base.

We expect the growth in tourist arrivals in South Africa for 2005 to be higher than the 1,4% projected increase in 2004. The effect of the Indian Ocean Tsunami could have a positive impact on tourist arrivals in South Africa, however this is likely to be for a relatively short period of time and will be limited due to the price reductions and increased promotions by effected countries.

The continued economic recovery in the main business source markets of South Africa coupled with strong economic performance at home should further foster growth in business arrivals to the country. The leisure market segment has endured strong competition from competing tourism markets such as South America and South East Asia in the last year; nonetheless this segment should show additional growth this year.

Horwath Tourism & Leisure Consulting

Dunkley House
32 Barnet Street
Cape Town 8001

P. O. Box 12571
Cape Town 8010
South Africa

Phone: +27 21 469 1300
Fax: +27 21 462 3425
E-mail: tourism@horwath.co.za

www.horwath.co.za

The Horwath Hotel, Tourism and Leisure Group is the largest global organisation in the sector — and is growing fast. The Group comprises a global network of more than 150 industry specialised consultants working from 57 offices in 32 countries. By comparison, the next largest competitor has less than one third of the global coverage. Horwath's wide representation provides us with a unique market positioning. We can offer clients an unrivalled depth of knowledge of local market characteristics, combined with an understanding of international trends.

For nearly a century, Horwath has globally conquered the challenge of an ever-changing world market by providing a vast array of professional services in the hotel, tourism and leisure sector. Beginning in 1915, Horwath paved the way by creating a standard system of hotel accounting – a system so successful it is still in practice today. Throughout the years, we have gained unequalled experience and expertise through a combination of specialised local knowledge and international understanding.

Horwath Tourism and Leisure Consulting is driven by a single purpose: helping you, the client, to succeed in any market, whether it is local or global. Putting your needs first also dictates the network's energetic and supportive approach. While national business cultures shape the nature of this support in each country, our international offices all work towards the same end: achieving tangible success for our clients.