

# Horwath Hotel Performance Confidence Indicator 3rd Quarter 2008



Hotel, Tourism and Leisure

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We are pleased to present the Horwath Hotel Performance Confidence Indicator for the 3rd Quarter of 2008. 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 3rd Quarter of 2008 in comparison to the same period in 2007. In total 189 hotel managers, 73% 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,

Michèle de Witt  
Director

## Summary of Results—3rd Quarter 2008

The overall forecasts in the industry for the 3rd Quarter of 2008 are promising, with some 44% of all hotel managers interviewed forecasting an increase in occupancy and some 80% forecasting an increase in Average Room Rate (ARR) over the same period last year.

The forecast confidence for the preceding two quarters was slightly higher, with 64% and 55% of hotel managers interviewed forecasting an increase in occupancy in Quarter 1 and Quarter 2 respectively and 89% and 80% of hotel managers interviewed forecasting an increase in ARR in Quarter 1 and Quarter 2 respectively.

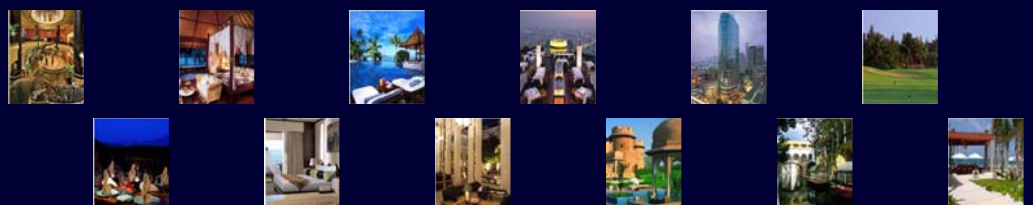
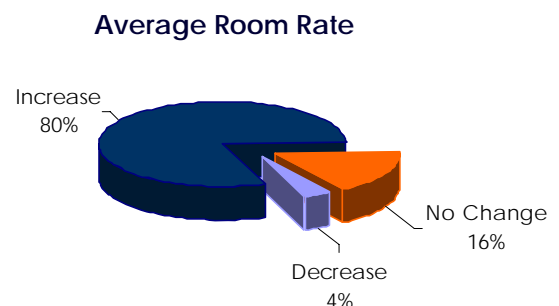
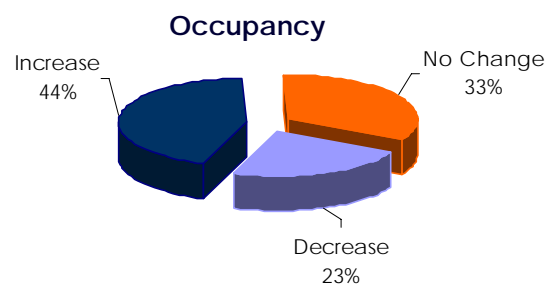
According to the hotel managers interviewed, the continued rise in the cost of petrol is the

most significant factor to influence confidence in an increase in occupancy in the 3rd quarter 2008 when compared to the 3rd quarter 2007.

Hotels targeting foreign guests also voiced their concern regarding the negative press surrounding the recent xenophobic attacks across South Africa. Hotel managers are of the opinion that this will also influence occupancies negatively.

With inflation ever increasing, many hotel managers reported that growth in ARR will stem primarily from increased room rates. This is reflected in the higher percentage of hotel managers expecting ARR to increase in the third quarter of 2008 compared to the same quarter last year.

## Overall Confidence—3rd Quarter 2008



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## Confidence Indicator by Star Grading

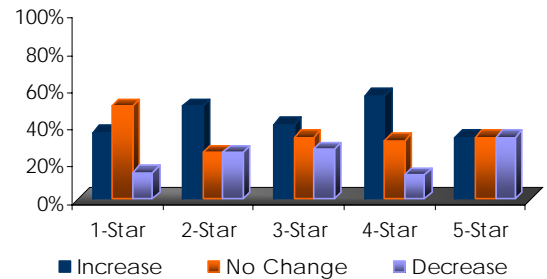
The overall confidence in an increase in occupancy remains positive with some 44% of all hotel managers forecasting an increase in occupancy in the third Quarter of 2008 compared to the same period last year.

The confidence in occupancy rate increases is highest amongst hotel managers of 4-star establishments (56% compared to 61% in the same period last year), and lowest amongst hotel managers of 5-star establishments (33% compared to 67% in the same period last year).

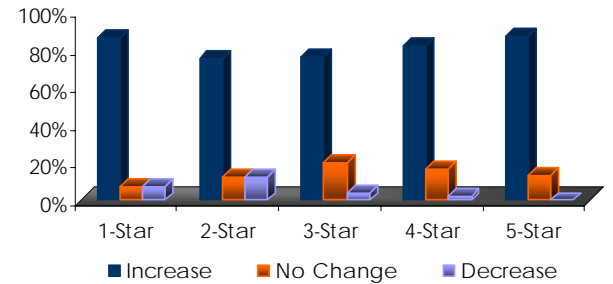
The overall confidence in an increase in Average Room Rate (ARR) remains high with some 80% of all hotel managers interviewed expecting an increase in ARR in the upcoming quarter compared to the same period last year.

Hotel managers of 5-star establishments remain the most confident in an increase in ARR (87%) whilst hotel managers of 2-star establishments are the least confident in an increase in ARR (75%) for the third Quarter of 2008 compared to the same period last year.

Occupancy (by Star Grading)

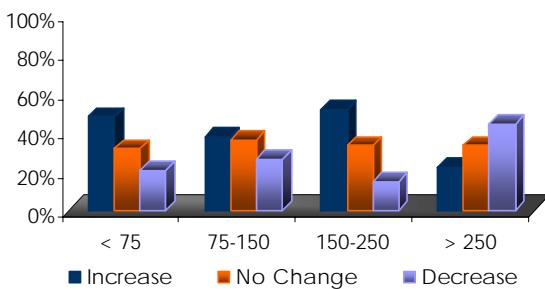


Average Room Rate (by Star Grading)



## Confidence Indicator by Hotel Size

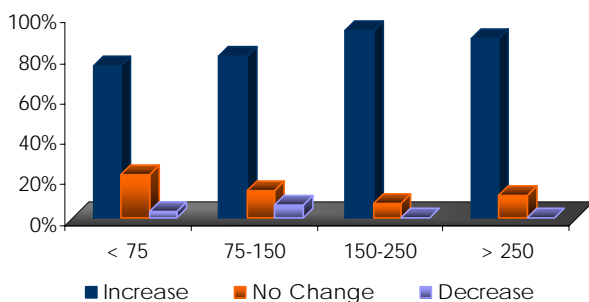
Occupancy (by Hotel Size/ Number of Rooms)



For the upcoming quarter, managers of mid-scale hotels (150—250 rooms) remain most confident in terms of an increase in occupancy; 52% compared to 63% for the same period last year. Managers of hotels with less than 75 rooms remain positive in terms of forecast increase in occupancy; 48%.

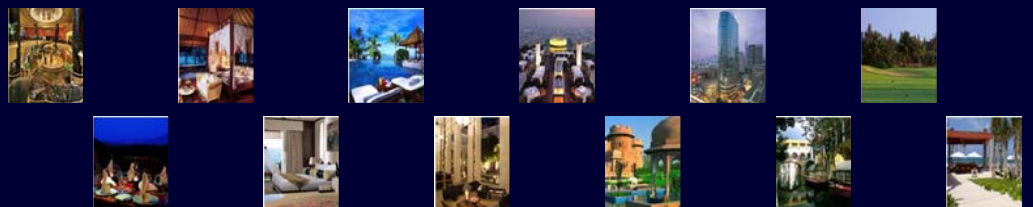
Confidence in an increase in occupancy for the upcoming quarter is lowest amongst hotel managers of establishments with more than 250 rooms; 22% compared to 63% for the same period last year.

Average Room Rate (by Hotel Size/ Number of Rooms)



In terms of Average Room Rate, hotel managers of establishments with between 150—250 rooms are the most confident in an increase in Average Room Rate for the upcoming quarter (93% compared to 83% for the third Quarter of 2007). 80% of hotel managers of establishments with 75-150 rooms forecast an increase in ARR for the upcoming quarter compared to the same period last year.

Some 75% of managers of hotels with less than 75 rooms forecast an increase in ARR compared to some 62% for the same period last year.



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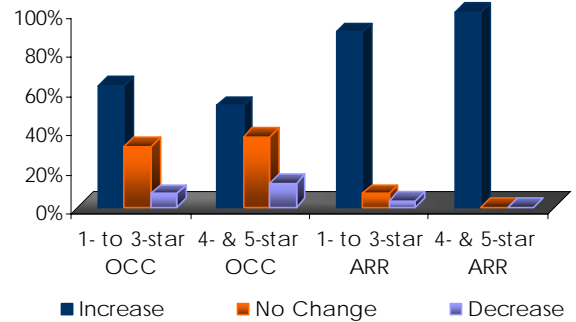


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## Confidence Indicator - Gauteng

Overall, some 57% of all hotel managers of Gauteng establishments forecast an increase in occupancy in the third Quarter of 2008 compared to some 67% recorded in respect of the third Quarter of 2007.

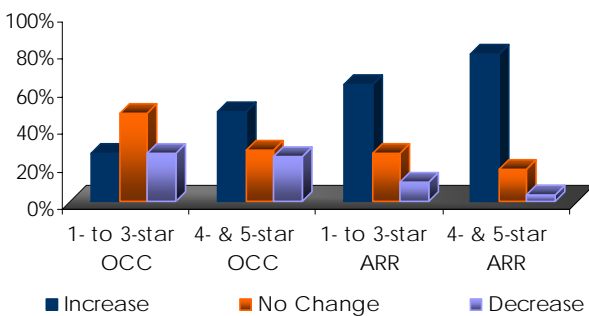
Some 62% of hotel managers of 1- to 3-star properties forecast an increase in occupancy for the upcoming quarter compared to 71% recorded in the same period last year reflecting a decline in confidence. Some 52% of hotel managers of 4- & 5-star properties forecast an increase in occupancy whilst 36% of hotel managers of 4- & 5-star properties anticipate occupancy will remain unchanged in the third Quarter of 2008 when compared to the third Quarter of 2007.



The overall confidence in an increase in Average Room Rate remains high in Gauteng with some 94% of all hotel managers interviewed forecasting an increase in Average Room Rate. Confidence in an increase in ARR is highest among hotel managers of 4- & 5-star properties; 100% compared to some 83% for the same period last year. Some 90% of hotel managers of 1- to 3-star properties forecast an increase in ARR for the upcoming quarter compared to some 77% for the same period last year, reflecting a positive increase in confidence.

Gauteng hotel managers attribute the confidence in an increase in occupancy and ARR to an increase in business activity in the area, leading to an increase in demand from the corporate segment.

## Confidence Indicator - Western Cape

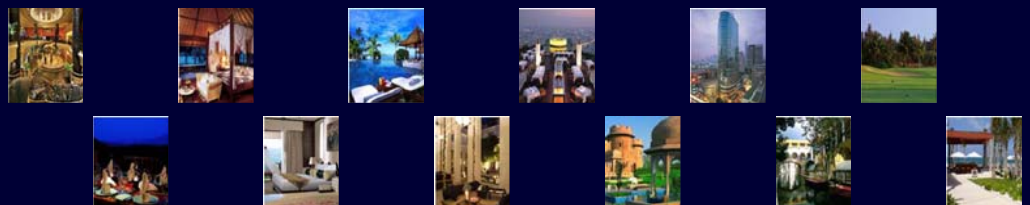


The overall confidence in an increase in occupancy for the third Quarter of 2008 in the Western Cape is 40% compared to 63% in Quarter 3 2007.

Hotel managers of 1- to 3-star properties are the least confident in an increase in occupancy; some 26% forecast an increase in occupancy for the upcoming quarter compared to 70% recorded in the same period last year. By comparison, some 48% of 4- & 5-star hotel managers forecast an increase in occupancy for the third Quarter of 2008 compared to some 57% for the same period in 2007.

The overall confidence in an increase in Average Room Rate for the third Quarter of 2008 in the Western Cape is some 73% compared to 75% in Quarter 3 2007. Some 63% of hotel managers of 1- to 3-star properties forecast an increase in ARR in the third Quarter of 2008 compared to 75% for the same period last year. 79% of hotel managers of 4- & 5-star properties forecast an increase in ARR in the third Quarter of 2008 compared to 75% for the same period last year.

The Western Cape hotel managers attribute the confidence in an increase in occupancy and ARR to an increase in activity related to preparation works in respect of the 2010 event and continued marketing efforts.



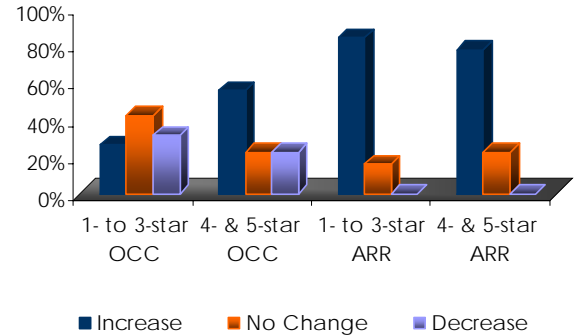
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## Confidence Indicator - KwaZulu Natal

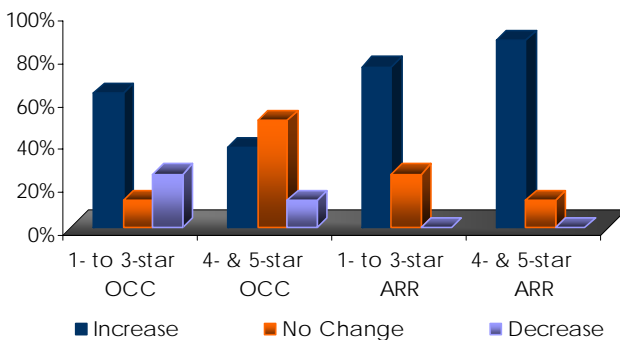
Overall confidence in an increase in occupancy for the third Quarter of 2008 has declined to 36% in KwaZulu Natal compared to 53% for the same period last year. Some 26% of hotel managers of 1- to 3-star properties forecast an increase in occupancy for the upcoming quarter compared to some 52% for the same period last year. Some 56% of hotel managers of 4- & 5-star properties forecast an increase in occupancy, consistent with the same period last year.



The overall confidence in an increase in Average Room Rate for the upcoming quarter has increased in KwaZulu Natal. Some 82% of all hotel managers interviewed expect an increase in ARR in Quarter 3 2008 compared to some 67% for the same period last year. Some 78% of hotel managers of 4- & 5-star properties anticipate an increase in ARR for the upcoming quarter; reflecting a rise in confidence in an increase in ARR when compared to the third Quarter of 2007 when some 67% of hotel managers of 4- & 5-star properties forecast an increase in ARR.

Although some hotel managers cited conferences and scheduled sporting events as influx generators for the upcoming quarter, other hotel managers cited rising fuel prices and the economic slow down as growth constraints affecting occupancy and ARR for the upcoming quarter.

## Confidence Indicator - Mpumalanga

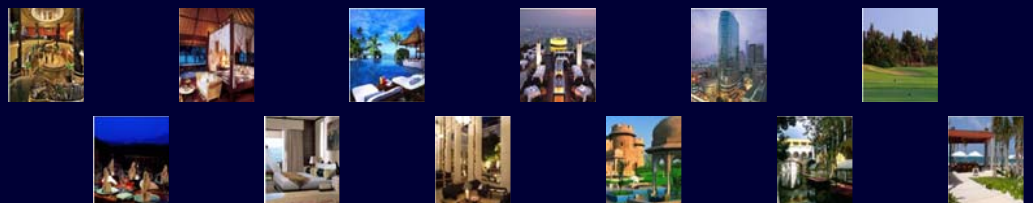


Overall confidence in an increase in occupancy for the third Quarter of 2008 is some 50% in Mpumalanga compared to 72% for the same period last year, reflecting a decline in confidence from the Mpumalanga industry.

Some 63% of hotel managers of 1- to 3-star properties forecast an increase in occupancy, compared to some 73% for the same period last year. Some 38% of hotel managers of 4- & 5-star properties forecast an increase in occupancy for the upcoming quarter compared to some 71% for the same period last year, reflecting a significant decline in confidence.

However, the Mpumalanga industry is more confident in an increase in Average Room Rate for the upcoming quarter. Overall some 81% of all hotel managers interviewed forecast an increase in ARR compared to 39% in Quarter 3 2007. Some 75% of hotel managers of 1- to 3-star properties forecast an increase in ARR for Quarter 3 2007, reflecting a significant increase in confidence compared to 27% for the same period last year. Hotel managers of 4- & 5-star properties are also more confident in an increase in ARR for the upcoming quarter; 88% of hotel managers of 4- & 5-star properties forecast an increase in ARR compared to 57% in Quarter 3 2007.

The Mpumalanga hotel managers cited a decline in conferences and major events and the rise in fuel prices as the factors negatively affecting growth in occupancy for the upcoming quarter.



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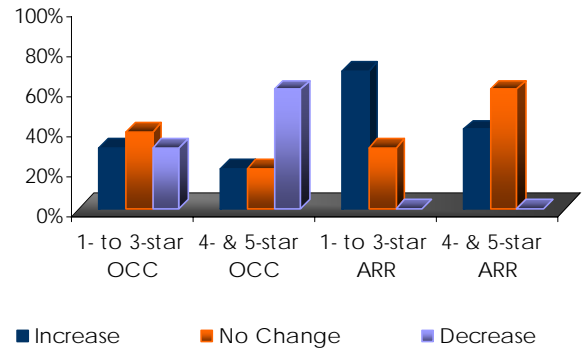


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## Confidence Indicator - Eastern Cape

The overall confidence in an increase in occupancy in the third Quarter of 2008 is some 28% for the Eastern Cape industry. The overall confidence in an increase in occupancy for the upcoming quarter reflects a significant decline in confidence when compared to some 56% recorded for the third Quarter of 2007.

Some 31% of hotel managers of 1- to 3-star properties forecast an increase in occupancy for the upcoming quarter; a decline in confidence in an increase in occupancy of some 19 percentage points when compared to the same period last year. Some 20% of hotel managers of 4- & 5-star properties forecast an increase in occupancy compared to some 75% recorded in the third Quarter of 2007.



The overall confidence in an increase in Average Room Rate for the Eastern Cape industry is some 61% for the third Quarter of 2008. Some 69% of hotel managers of 1- to 3-star properties expect an increase in ARR for the upcoming period, compared to some 58% in Quarter 3 2007. Some 40% of hotel managers of 4- & 5-star properties are confident in an increase in ARR for the upcoming quarter; compared to 100% in Quarter 3 of 2007.

Hotel managers from the Eastern Cape industry cited the economic slowdown as the primary contributing factor to the decline in confidence, despite the increase in business activity and events.

## Global Warming and the Tourism Industry

According to the United Nations World Tourism Organisation (UNWTO) average temperatures are predicted to rise by as much as four degrees Celsius during this century. Whilst some destinations will gain from this change in temperature, the negative considerations outweigh these benefits by a wide margin.

The Tourism Industry is not only a victim of climate change but also contributes to global warming with its total greenhouse gas emission. According to *The Economist Group* the Tourism Industry contributes between five and six percent of all carbon emissions. With some 40% of visitors arriving at their destinations by means of air transport, it is understandable that most emissions come from transportation methods.

Yet the Tourism Industry significantly contributes to poverty reduction. As such, it is not a solution to simply reduce air travel and consequently shrink the number of tourist related visits to developing countries. As long as the majority of today's transportation methods are based on fossil fuels, the Tourism Industry will need to rely on alternative ways to reduce its greenhouse gas emissions.

According to the Davos Declaration the Tourism Industry must rapidly respond to climate change in order to grow in a sustainable manner. The Tourism Industry has to mitigate its greenhouse gas emissions derived especially from transport and accommodation activities; adapt tourism businesses and destinations to changing climate conditions; apply existing and new technology to improve energy efficiency; and secure financial resources to help poor regions and countries.



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Energy management systems that reduce energy consumption by preventing the conditioning of unused rooms and solutions such as the use of compact fluorescent light bulbs, low flow shower heads and sink aerators can significantly contribute to an improved environment. To this end, major corporations have already started to adapt their business model towards a more environmental friendly solution. For example: Accor plans to equip 200 of its establishments world-wide with solar panels by 2010 and Marriott aims to reduce energy and water consumption at its hotels by 25% over the next ten years.

Travelport, a travel-technology company, introduced the Travelport Carbon Tracker, which allows travel agencies and companies to measure and analyse carbon emissions enabling "sustainable travel decision-making". Tourists are more and more aware of the effects their holiday has on the environment and demand greener solutions. Together with the global awareness of the changing environment tourism presents an opportunity for members of the Tourism Industry to adjust the current product in order to contribute to a better environment and target tourists seeking a greener holiday destination.

In South Africa, the Department of Environmental Affairs and Tourism established a process referred to as the Long Term Mitigation Scenario (LTMS) study which aimed to seek ways in which to protect the climate whilst meeting the development challenges of poverty alleviation and job creation. According to the Minister of Environmental Affairs and Tourism's budget speech in May 2008, the LTMS study sets forth the pathway for South Africa's long-term climate policy and will eventually inform a legislative, regulatory and fiscal package that will give effect to the climate policy at a mandatory level. An implementation plan is expected to be tabled in Parliament in the third quarter of 2008.

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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. Through the years, the Horwath Hotel, Tourism and Leisure Group member firms have gained unequalled experience and expertise through a combination of specialised local knowledge and international understanding.

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