

Horwath Hotel Performance Confidence Indicator 4th Quarter 2008



Hotel, Tourism and Leisure

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We are pleased to present the Horwath Hotel Performance Confidence Indicator for the 4th 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 4th Quarter of 2008 in comparison to the same period in 2007. In total 171 hotel managers, 80% of whom were General Managers, participated in the analysis.

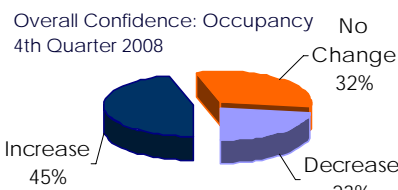
The results are segmented by star grading, hotel size and geographic location, which should provide for interesting benchmarking opportunities.

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.

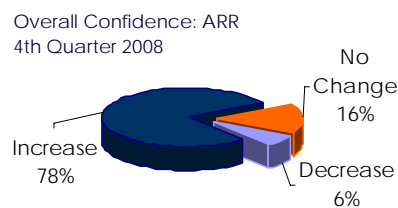
*Sincerely,
Michèle de Witt, Director*

Summary of Results—4th Quarter 2008

The overall forecasts in the industry for the 4th Quarter of 2008 are promising, with some 45% of all hotel managers interviewed forecasting an increase in occupancy and some 78% forecasting an increase in Average Room Rate (ARR) over the same period last year.



However, forecast hotel performance in terms of likely market demand in the 4th Quarter of 2008 is lower than in the 4th Quarter of 2007 when overall some 67% of hotel managers interviewed forecast an increase in occupancy and some 80% forecast an increase in Average Room Rate.



According to STR's Global Performance study, hotel occupancy rates have declined in all regions except Middle East/ Africa for the period ended 31 July 2008 when compared to the same period in 2007: Americas (-2,2%), Asia Pacific (-4,3%), Europe (-1,5%) and

Middle East/ Africa (+4%).

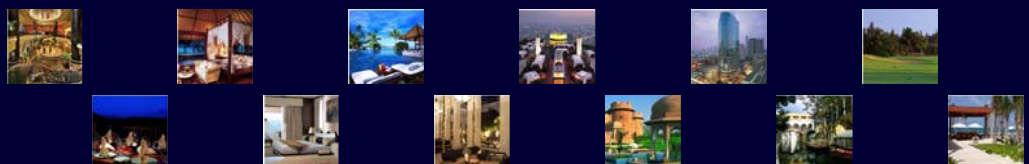
However, according to the same study, ARR has increased in all regions during the first seven months of 2008 when compared to the same period last year; Americas (+4,7%), Asia Pacific (+16,6%), Europe (+16,3%) and Middle East/ Africa (+22,1%).

According to the latest data released by SA Tourism, overseas tourist arrivals in South Africa for the period ended 31 July 2008 increased by some 7,9% from some 5,2 million in 2007 to some 5,6 million in 2008. The fastest growing source regions included the Middle East (+17,7%) and Central & South America (+15,4%).

South Africa's main overseas source markets all recorded continued growth in the first seven months of 2008: the United Kingdom (+3,7%), U.S.A. (+10,8%), Germany (+4,5%), France (+16,9%) and the Netherlands (+8,6%).

Tourist arrivals from the African Continent increased by some 7,4% in the period ended 31 July 2008 to some 4,2 million compared to some 3,9 million in the same period last year.

The key African source markets included Lesotho (+0,1%), Mozambique (+13,6%), Zimbabwe (+24,8%), Swaziland (+4%) and Botswana (-0,1%).



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Confidence Indicator by Star Grading

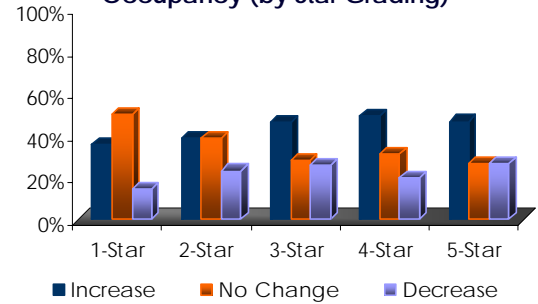
The overall confidence in an increase in occupancy remains positive with some 45% of all hotel managers forecasting an increase in occupancy in the fourth Quarter of 2008 compared to the same period last year.

The confidence in occupancy rate increases is highest amongst hotel managers of 4-star establishments (49%), and lowest amongst hotel managers of 1-star establishments (36%).

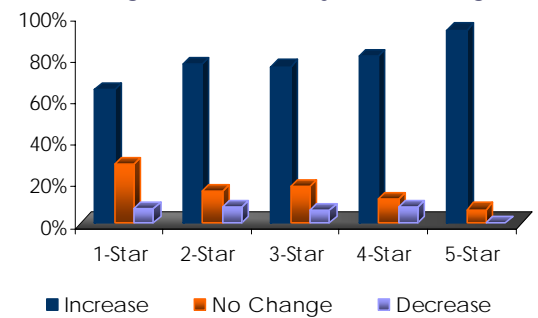
The overall confidence in an increase in Average Room Rate (ARR) remains positive with some 78% of all hotel managers interviewed expecting an increase in ARR in the upcoming quarter compared to the same period last year.

Hotel managers of 5-star establishments are the most confident in an increase in ARR (93%) whilst hotel managers of 1-star establishments are the least confident in an increase in ARR (64%) for the fourth Quarter of 2008 compared to the same period last year.

Occupancy (by Star Grading)

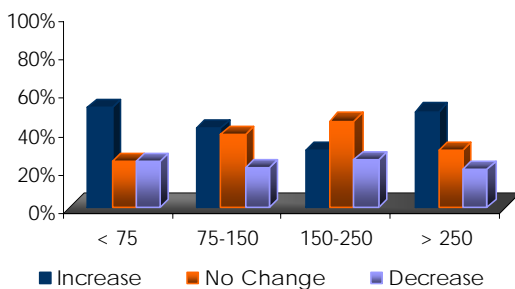


Average Room Rate (by Star Grading)



Confidence Indicator by Hotel Size

Occupancy (by Hotel Size/ Number of Rooms)

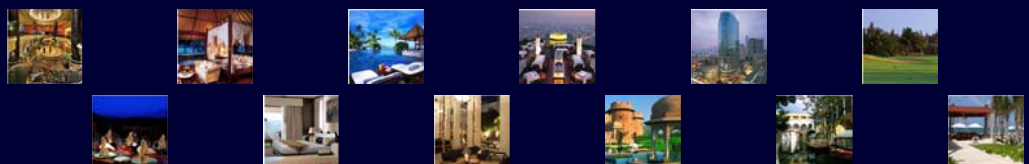
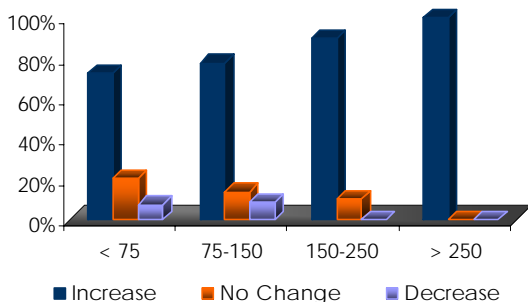


For the upcoming quarter, managers of hotels with less than 75 rooms are the most confident in terms of an increase in occupancy, albeit a decline in confidence when compared to 2007; 52% of respondents compared to 69% of respondents in the same period last year. Managers of large-scale hotels (more than 250 rooms) remain positive in terms of forecast increase in occupancy; 50%.

Confidence in an increase in occupancy for the upcoming quarter is lowest amongst hotel managers of establishments with 150 - 250 rooms and represents a decline in confidence of 49 percentage points from 79% of respondents in the 4th Quarter of 2007 to 30% of respondents for the upcoming quarter.

In terms of Average Room Rate, hotel managers of establishments with more than 250 rooms remain the most confident for the upcoming quarter; 100% compared to some 70% for the 4th Quarter of 2007. Some 90% of hotel managers of establishments with 150 - 250 rooms forecast an increase in ARR for the upcoming quarter compared to 79% in the same period last year. Some 72% of managers of hotels with less than 75 rooms forecast an increase in ARR compared to 62% for the same period last year.

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



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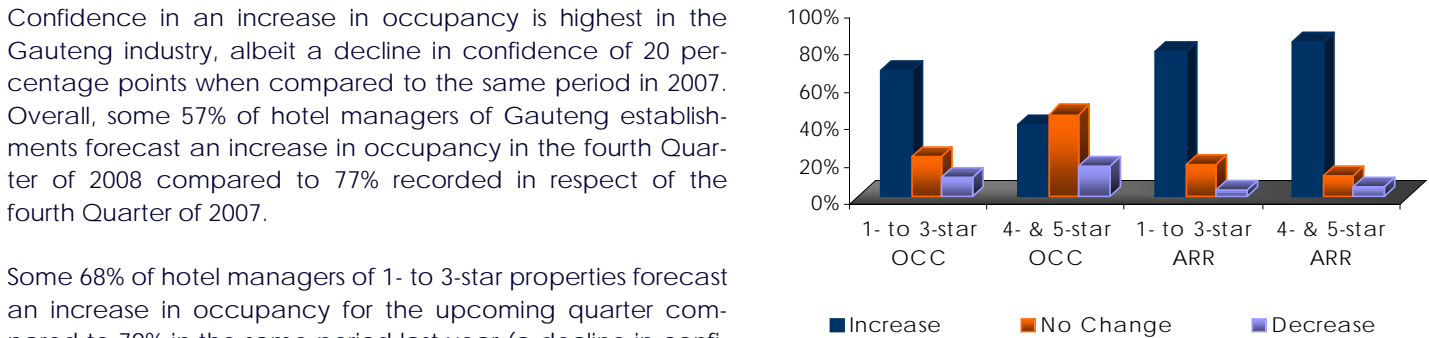
Confidence Indicator - Gauteng

Confidence in an increase in occupancy is highest in the Gauteng industry, albeit a decline in confidence of 20 percentage points when compared to the same period in 2007. Overall, some 57% of hotel managers of Gauteng establishments forecast an increase in occupancy in the fourth Quarter of 2008 compared to 77% recorded in respect of the fourth Quarter of 2007.

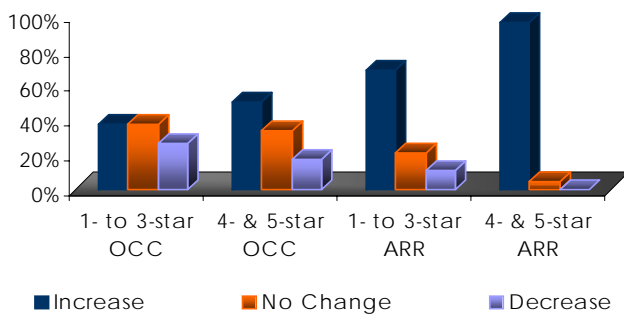
Some 68% of hotel managers of 1- to 3-star properties forecast an increase in occupancy for the upcoming quarter compared to 79% in the same period last year (a decline in confidence of 11 percentage points). Hotel managers of 4- & 5-star properties are less confident in an increase in occupancy with some 39% forecasting an increase in occupancy for the upcoming quarter whilst 44% of hotel managers of 4- & 5-star properties forecast occupancy will remain the same in the fourth Quarter of 2008 when compared to Quarter 4 2007.

The overall confidence in an increase in Average Room Rate remains high in Gauteng with 80% of 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; 83%, consistent with the same period last year. Some 79% of hotel managers of 1- to 3-star properties forecast an increase in ARR for the upcoming quarter compared to some 76% for the same period last year.

Gauteng hotel managers attribute their confidence in an increase in occupancy and ARR to an increase in demand compared to last year, especially in the business segment.



Confidence Indicator - Western Cape

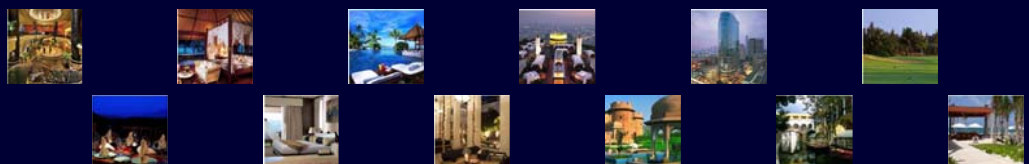


The overall confidence in an increase in occupancy for the fourth Quarter of 2008 in the Western Cape is lower than in 2007: 44% compared to 65% in the fourth Quarter of 2007.

Hotel managers of 4- & 5-star properties are less confident in an increase in occupancy when compared to last year; 50% forecast an increase in occupancy for the upcoming quarter compared to 71% recorded in the same period last year. Some 37% of 1- to 3-star hotel managers forecast an increase in occupancy for the fourth Quarter of 2008 compared to 55% for the same period in 2007.

The overall confidence in an increase in Average Room Rate for the fourth Quarter of 2008 is highest in the Western Cape industry with some 84% of hotel managers forecasting an increase in ARR for the upcoming quarter, consistent with the fourth Quarter of 2007. Some 96% of hotel managers of 4- & 5-star properties forecast an increase in ARR in the fourth Quarter of 2008 compared to 84% for the same period last year. Hotel managers of 1- to 3-star properties are less confident in an increase in ARR; some 68% forecast an increase in ARR in the fourth Quarter of 2008 compared to 85% for the same period last year (representing a decline in confidence of some 17 percentage points).

The hotel managers in the Western Cape attribute their decline in confidence in an increase in occupancy and ARR when compared to the same period in 2007 to increased airfares and the worsening economic situation, especially in key source markets such as the United States of America and Europe.



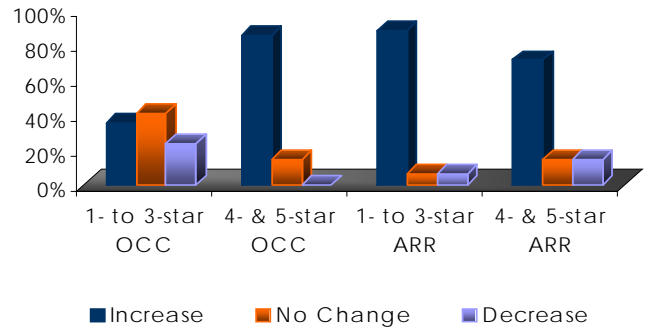
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Confidence Indicator - KwaZulu Natal

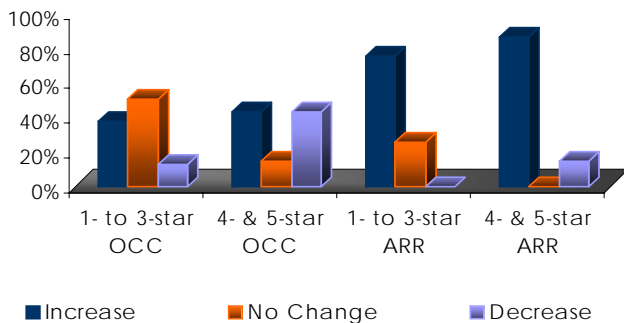
Overall confidence in an increase in occupancy for the fourth Quarter of 2008 in KwaZulu Natal is 50% compared to 45% for the same period last year. Some 86% of hotel managers of 4- & 5-star properties forecast an increase in occupancy compared to 73% recorded in the same period last year. Some 35% of hotel managers of 1- to 3-star properties forecast an increase in occupancy for the upcoming quarter compared to 11% for the same period last year. 41% of hotel managers of 1- to 3-star properties forecast occupancy will remain unchanged for the upcoming quarter when compared to the same period last year.



Overall, the KwaZulu Natal industry is more confident in an increase in Average Room Rate for the upcoming quarter compared to the same period last year. Some 83% of hotel managers interviewed forecast an increase in ARR in the upcoming quarter compared to some 67% in the same period last year. Some 88% of hotel managers of 1- to 3-star properties forecast an increase in ARR for the upcoming quarter compared to 64% for the same period last year (representing an increase in confidence of 24 percentage points). However, some 71% of hotel managers of 4- & 5-star properties forecast an increase in ARR in the fourth Quarter of 2008, compared to 73% for the same period last year.

Hotel managers of accommodation establishments in KwaZulu Natal attribute their confidence in an increase in occupancy and ARR to an increase in the number of government conferences and individual marketing efforts.

Confidence Indicator - Mpumalanga

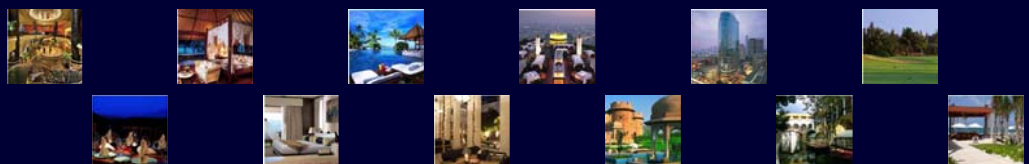


Overall confidence in an increase in occupancy for the fourth Quarter of 2008 in the Mpumalanga industry is lower than in the same period last year: 40% of respondents forecast an increase in occupancy for the upcoming quarter compared to 58% for the same period last year.

Some 43% of hotel managers of 4- & 5-star properties forecast an increase in occupancy for the upcoming quarter, consistent with the same period last year. Furthermore, 50% of hotel managers of 4- & 5-star properties forecast occupancy will remain unchanged when compared to the same period last year. Some 38% of hotel managers of 1- to 3-star properties forecast an increase in occupancy, a significant decline in confidence when compared to the same period last year when some 64% of hotel managers of 1- to 3-star properties forecast an increase in occupancy.

Overall some 80% of Mpumalanga hotel managers interviewed forecast an increase in Average Room Rate compared to 68% in Quarter 4, 2007. Some 75% of hotel managers of 1- to 3-star properties forecast an increase in ARR for the fourth Quarter of 2008, compared to 64% for the same period last year. Hotel managers of 4- & 5-star properties are more confident in an increase in ARR for the upcoming quarter; some 86% of hotel managers of 4- & 5-star properties forecast an increase in ARR for the fourth Quarter of 2008, compared to 75% in the same period last year.

The Mpumalanga industry attributes a lower confidence in an increase in occupancy when compared to Quarter 4 2007 to the increases in fuel price and interest rate resulting in travel which is closer to home and of a shorter period.



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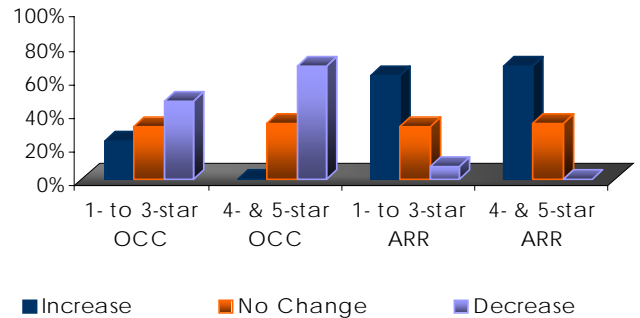
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Confidence Indicator - Eastern Cape

The overall confidence in an increase in occupancy in the fourth Quarter of 2008 is lowest in the Eastern Cape; 19%, reflecting a decline in confidence of some thirty-one percentage points when compared to the fourth Quarter of 2007.

Some 23% of hotel managers of 1- to 3-star properties forecast an increase in occupancy for the upcoming quarter, a decline of 30 percentage points when compared to 53% of respondents in the same period last year. Some 31% of hotel managers of 1- to 3-star properties forecast occupancies will remain unchanged when compared to the same period last year and some 46% forecast a decline in occupancy.

Not a single hotel manager of 4- & 5-star properties forecast an increase in occupancy for the upcoming quarter compared to some 40% of hotel managers of 4- & 5-star properties recorded in the fourth Quarter of 2007. Some 33% of hotel managers of 4- & 5-star properties in the Eastern Cape forecast occupancies will remain unchanged and some 67% forecast a decline in occupancy when compared to the same period last year.



The overall confidence in an increase in Average Room Rate in the Eastern Cape industry is some 63% for the upcoming quarter compared to some 45% recorded in the fourth Quarter of 2007. Some 62% of hotel managers of 1- to 3-star properties forecast an increase in ARR for the upcoming period, whilst some 31% of hotel managers of 1- to 3-star properties forecast ARR will remain unchanged when compared to the same period last year. Some 67% of hotel managers of 4- & 5-star properties are confident in an increase in ARR for the upcoming quarter, albeit a decline in confidence of 13 percentage points, compared to the fourth Quarter of 2007.

Hotel Managers of the Eastern Cape industry attribute the decline in confidence in an increase in occupancy to the general economic climate and increased competition within the province.

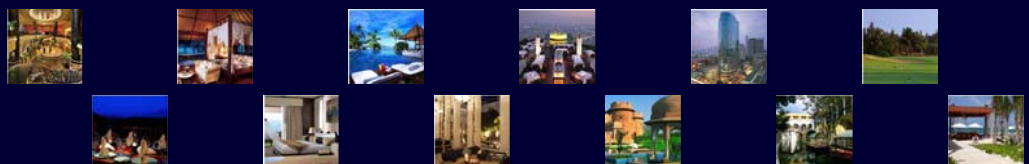
Increased Cost of Travel and the SA Hospitality Industry

At the time of conducting research for Horwath's 3rd Quarter 2008 edition of the Horwath Hotel Performance Confidence Indicator a number of respondents made reference to the increase in fuel price, the increased cost of travel and the general economic climate as the main constraints to increases in hotel occupancy and average room rate.

Consequently, in this edition of the Horwath Hotel Performance Confidence Indicator, we present our findings based on limited research into the affect the aforementioned constraints have had on hotel performance during the course of the first eight months of this year.

The dramatic increases in crude oil price over the past year and a half have translated in continued increases in fuel price for the South African consumer as well as for airline companies, both globally and nationally. In fact, according to an *American Express Business* study, the price of international airfares had risen to the highest point since monitoring started in 1999, with an increase of 11 percent in the second quarter of 2008 over the same period in 2007. The study further confirmed that the high cost of fuel had resulted in airlines making capacity reductions, tightening ticket restrictions, and increasing the average ticket price.

Our analysis of air passenger movement through all of South Africa's airports reported by the Airports Company South Africa for the period January 2008 to August 2008 illustrates a marginal decline in total passenger movement of some



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1,7%; from some 23,1 million passengers in the eight month period to August 2008 compared to some 23,5 million passengers in the same period last year.

Whilst international and regional passenger movement has increased by 6,3% and 3,9% respectively during the first eight months of this year when compared to the same period in 2007, these growth rates are lower than that achieved in 2007 when compared to 2006. In the first eight months of 2007, international and regional passenger movement increased by 10,2% and 7,1% respectively when compared to the same period in 2006.

However, following an 18,7% growth in domestic passenger movement recorded in the first eight months of 2007 when compared to the same period in 2006, domestic passenger movement for the first eight months of 2008 has declined considerably when compared to the same period in 2007; from some 17,1 million passengers to some 16,3 million passengers (-4,7%). According to the Managing Director of the Airports Company South Africa (ACSA), Monhla Hlahla, the decline in domestic air travel is expected to continue until the 2010 FIFA World Cup.

So, what affect has the decline in domestic air travel had on hotel occupancy in the first eight months of this year? According to the *STR Global Hotel Survey* results, very little. Overall, for the period ended 31 August 2008, the average hotel occupancy rate had decreased by one percent from 70,8% in the first eight months of 2007 to 70,1% in the first eight months of 2008.

In terms of geographic locations, all provinces, with the exception of Gauteng, experienced a marginal decline in occupancy rate. The greatest decrease in occupancy rate experienced by the Free State and Mpumalanga hospitality industries; -3,0% and -2,7% respectively.

Average hotel occupancies in KwaZulu Natal decreased by two percentage points, whilst the decrease in average occupancy rate in the Western Cape was some -0,8% for the period under review. Gauteng was the only province to demonstrate a small growth in occupancy (0,8%) for the first eight months of 2008 when compared to the same period in 2007.

However, in terms of Average Room Rate, there is no evidence to support the notion that recent increases in travel-related costs and the general economic climate have negatively affected the South African hospitality industry. In fact, overall the South African hospitality industry recorded strong growth in Average Room Rate (ARR) for the first eight months of 2008 when compared to the same period in 2007 of some 19,5%. This translated into an 18,2% increase in Revenue per Available Room (RevPAR) according to the *STR Global Hotel Survey*.

According to the same source, the Gauteng hospitality industry recorded the highest growth in ARR for the period ended 31 August 2008 when compared to the same period in 2007 (some 23,2%), followed by the Mpumalanga hospitality industry (some 22,0%), KwaZulu Natal (some 17,2%) and the Western Cape (some 16,5%).

Whilst the current sentiment in the South African hospitality industry is that the increase in fuel price, subsequent increases in costs associated with travel, and the current economic downturn have negatively affected the performance of the South African hospitality industry, our analysis of actual year to date hotel performance data did not support this opinion.

Nonetheless, we look forward to sharing the South African hospitality industry's outlook for the full year 2009 in the next edition of the Horwath Hotel Performance Confidence Indicator. In closing, we would like to extend our sincere appreciation to the South African hospitality industry for their participation in 2008 and look forward to their continued support in 2009.



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