

Horwath HTL

**Annual Hotel Industry Survey of
Operations - South Africa**

Calendar Year 2007

2008 Horwath HTL Annual Hotel Industry Survey of Operations - South Africa

Foreword

The South African tourism industry has grown exponentially in the last decade and has become an important and recognised sector of the national economy. According to South African Tourism, the South African tourism industry created some 941 000 direct and indirect jobs in 2007 and tourism's contribution to gross domestic product (both direct and indirect) is estimated to have increased from 4,6% in 1993 to 8,1% (R159,6 billion) in 2007.

In 2007 South Africa received some 9,1 million foreign tourist arrivals; the second highest influx of tourist arrivals in Africa after Egypt, shifting South Africa from 29th to 28th position in the global tourism destination rankings. Despite an 8,3% increase in foreign tourist arrivals, foreign direct spend in South Africa declined by 9,8% in 2007 to some ZAR60,1 billion as a consequence of a decrease in the average spend per day and average length of stay among all foreign tourist arrivals.

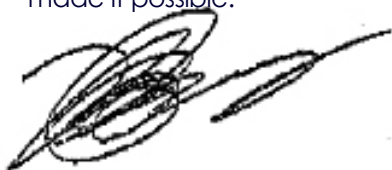
South African Tourism estimate that some 68,2 million bed nights were sold to foreign tourist arrivals in South Africa in 2007, a marginal increase of some 2,6% when compared to bed nights sold in 2006. However, expenditure on accommodation is estimated to have decreased by 8,3% (-ZAR800 million), partially attributable to an increase in the number of nights spent in unpaid accommodation.

In fact, South African Tourism estimate that some 43% of foreign tourist arrivals in South Africa in 2007 stayed with friends and family. In terms of paid accommodation, hotels achieved the highest proportion of bed nights in 2007 (21%), followed by self-catering establishments (12%), guesthouse establishments (8%), and B&Bs (5%). Game lodges and backpacking hostels each accounted for some 4% of bed nights.

With less than 700 days to the 2010 FIFA Soccer World Cup, the South African tourism industry faces some challenges, primarily underpinned by the global economic situation and rising oil prices. Nonetheless, we are encouraged by progress made in increased air access, investment in infrastructure which is evident throughout the country, and the number of investments planned in the hotel industry which will see additional international hotel chains enter the South African hospitality industry.

Through improving the quality, competitiveness and sustainability of our industry we will fashion a business environment conducive to further success. Publications like the Horwath HTL Annual Survey of Operations assist us, as industry stakeholders, to achieve these goals by providing information and data which help inform good decision-making.

FEDHASA is pleased to endorse the 2008 Horwath HTL Annual Survey of Operations. The survey allows for interesting benchmarking opportunities and we commend all those whose participation and contribution has made it possible.



Brett Dungan
Chief Executive Officer
Federated Hospitality Association of Southern Africa

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Overview of Survey Results

We, at Horwath Tourism & Leisure Consulting, are pleased to present the 2008 Horwath HTL Annual Hotel Industry Survey of Operations - South Africa, by far the most extensive and detailed hotel operation survey conducted in South Africa.

We would like to express our utmost appreciation to all who contributed to our survey. Unfortunately this year we had less hotels contributing compared to previous years. We certainly hope that this year's publication will encourage more hotels to participate in the years to come. For the purposes of this edition, 49 hotels participated in the survey, representing a total of 5 716 guest rooms.

Due to the smaller composite of participants in this year's survey, you will note that the segmentation applied this year in terms of star rating, hotel size, and geographic location does not follow last year's segmentation. As a result, this year's results cannot be compared directly to the results reported in last year's study. We look forward to a greater participation in next year's survey which will allow us to revert to our traditional reporting standards.

Survey Highlights

General

In respect of the 2007 calendar year, overall properties of a 4- & 5-star standard achieved an average room rate of R655 and occupancy of 71,6% while properties of a 2- & 3-star standard achieved an average room rate of R476 and occupancy of 71,1%.

It is interesting to note the distinct differences in average room rate achieved in each of the geographic locations, although occupancies did not differ substantially across provincial borders. According to responses from participants in Gauteng, overall properties achieved an average room rate of R627 and occupancy of 73,3%. Feedback received from participants in the Western Cape indicated that the Western Cape industry achieved an average room rate of R582 and occupancy of 72,8%, whilst in KwaZulu Natal feedback received from participants indicated that the KwaZulu Natal industry achieved an average room rate of R566 and occupancy of 63,9%.

In terms of size, hotels with less than 75 rooms achieved an average room rate of R667 and occupancy of 69,2%; mid-scale hotels (between 75 and 125 rooms) achieved an average room rate of R576 and occupancy of 68,3%; whilst hotels with more than 125 rooms achieved an average room rate of R551 and occupancy of 74,4% in 2007.

As expected, rooms revenue was the biggest driver of overall hotel profitability – rooms revenue accounted for some 71,6% of total revenue and some 12,8% of overall expenses. In contrast, F&B revenue accounted for some 24,8% of total revenue but some 15,8% of overall expenses.

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Source Markets

In terms of source markets, hotels with higher star rating attracted the most foreign guests; some 40% of 4- & 5-star hotel guests stemmed from the foreign market.

Undistributed Costs and Management Fees

Overall, administrative and general costs amounted to some 10,8% of Gross Revenue. In terms of sales and marketing expenses, higher end properties spent more on sales and marketing. Property operations and maintenance expenses, as a percentage of Gross Revenue, was highest among mid-scale hotels (between 75 and 125 rooms).

Base management fees, overall, were on average 4,1% of Gross Revenue, whilst incentive fee were 1,5% of Gross Revenue on average.

Advance Reservations

The most popular channel overall in respect of advance bookings in 2007 was direct enquiries (30,1%) followed by travel agents (23,5%). Hotel chain websites and own reservation systems continued to be an important source of business at 10,7% and 9,9% respectively.

Tour operators and other Internet sites accounted for 8,5% and 5,9% of advance bookings respectively. Hotel representatives and Internet bookings through the hotel's own website were still fairly low at 4,4% and 2,8% respectively.

Labour Statistics

There is a clear correlation between the number of staff per available room and the star rating of hotels. The average staff ratio at properties of a 2- & 3-star standard amounted to some 0,42 staff members per available room, while the average staff ratio at 4- & 5-star properties amounted to 1,04 staff members per available room.

In terms of size, mid-scale hotels (between 75 and 125 rooms) reported the highest staff per available room ratio (1,24) followed by hotels with less than 75 rooms (0,80) whilst hotels with more than 125 rooms reported an average staff per available room ratio of 0,42.

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Industry Outlook

Overall, some 73,5% of respondents forecast an increase in occupancy in 2008. Confidence in an increase in occupancy in 2008 was highest amongst hotel managers of 2- & 3-star hotels (78,3%); some 69,2% of hotel managers of 4- & 5-star hotels anticipate an increase in occupancy in 2008.

In terms of hotel size, hotel managers of mid-scale hotels (between 75 and 125 rooms) were the most confident of all hotel managers in an increase in occupancy in 2008 (90%) followed by hotel managers of hotels with more than 125 rooms (64%).

Hotel managers in KwaZulu Natal are the most confident in an increase in occupancy in 2008 (80%) followed by Gauteng (79%) and the Western Cape (67%). Overall, some 65,3% of respondents forecast an increase in occupancy in 2009.

In terms of Average Room Rate (ARR), some 93,9% of all respondents forecast an increase in ARR in 2008. Confidence in an increase in ARR was highest amongst hotel managers of 4- & 5-star properties (100%); some 87% of hotel managers of 2- & 3-star establishments forecast an increase in ARR in 2008.

Hotel managers of hotels with more than 125 rooms are the most confident of an increase in ARR in 2008 (100%). In terms of geographic location, hotel managers in Gauteng are the most confident in an increase in ARR in 2008 (100%) followed by the Western Cape industry (93,3%) and KwaZulu Natal (80%). Overall some 93,9% of respondents forecast an increase in ARR in 2009.

Survey Methodology

All financial results are presented as arithmetic means. With the use of means, all values presented are simple averages of individual property data. We believe this calculation to be the most representative of segment performance since it reflects the results of an average hotel in each category. The use of means also enables us to present segment financial tables where individual line items did not add to the totals shown.

In the production of the Horwath HTL Annual Hotel Industry Survey of Operations – South Africa, as with any report that aggregates diverse financial statements, many decisions were made regarding data treatment and analysis. In order for this report to be of optimal benefit to the reader, it is necessary to describe some of our major decisions and general methodology.

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First, data presented in this report is in accordance with the Uniform System of Accounts for Hotels as revised in December 2007. In our data collection, we stressed the importance of structuring the data in accordance with the Uniform System of Accounts for Hotels in order to achieve consistent reporting. To the best of our ability we made every property in the sample consistent with that format. Those questionnaires that were not in a consistent format and could not be modified to that format, or those that did not provide sufficient detail, were not included in the analysis.

Second, when all the data was in the appropriate format, inputted and ready for analysis, we ran error and reasonableness checks to ensure data accuracy and identify outliers in the data. Typically, these checks resulted in the identification and subsequent modification of suspect data.

All financial data is presented according to the most common measures of industry performance: ratios to revenue (RTR) and amounts per available room (PAR). When analyzing segment results, the reader should be aware that each of these measures were computed independently of each other. In effect, results presented as RTR reflect the performance for a typical hotel in the segment being analyzed (i.e. each hotel getting equal weighting), while results presented as PAR's reveal segment results weighted by property size and revenue generated.

Therefore, balancing the reported ratios across two different measures of performance for each line item is difficult. Depending on the needs of the user, one of these measures may be more appropriate than the other. This is true whether the user's needs are for a particular revenue or expense category or the total financial statement of a particular type of hotel operation.

Values presented are averages of individual property data. We feel that this calculation to be most reflective of industry segments. Since not every property provided data for every line item, weighting of the data, or any alternative calculation, becomes extremely difficult as the base would be different for each of the individual line items.

As with all studies of this kind, a random sample of data collection was used to enlist participants for this report. Therefore, while we believe the results to be the most accurate available, they are still subject to non-sampling errors. In addition, although the information in this publication has been obtained from sources which we believe to be reliable and accurate, we do not guarantee its accuracy since it is submitted by third parties.

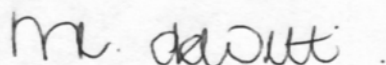
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Overview of Survey Results

This publication is not intended to represent the rendering of legal, accounting, or professional services. The amounts and ratios presented should not be considered a standard for any type of property, geographic location, hotel size, or star rating, but only as guidelines for comparison with the operation results of a specific property. They are not an attempt by the publisher of this report to set or conform prices or operating standards for the industry. It should be noted that all amounts throughout are presented in South African Rand.

In closing, our most sincere thanks go to all the hotels that participated in this study and we look forward to the industry's continued support and participation in the years to come. We welcome any comments and suggestions that will make this study more helpful and relevant for the South African hotel sector. We would also like to take this opportunity to extend our sincere appreciation to the Federated Hospitality Association of Southern Africa (FEDHASA) who endorsed this study for the first time this year.

Sincerely,



Michelè de Witt
Director