Horwath HTL

Hotel, Tourism and Leisure

2011 SOUTH AFRICA
Hotel Industry Survey of Operations

2010 Calendar Year

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Overview of Survey Results

We, at Horwath HTL (South Africa), are pleased to present the South African edition of the 2011 Horwath HTL Annual Hotel Industry Survey of Operations, by far the most extensive and detailed survey of hotel operations conducted in South Africa. We would like to express our utmost appreciation to all who contributed to the survey.

For the purposes of this edition, 96 hotels located throughout South Africa participated in the survey, representing a total of 11 284 available guest rooms. The majority of participating hotels represented the 4–star segment, accounting for some 47 percent of participating establishments. Participating establishments of a 2- & 3-star standard accounted for some 41 percent, whilst the 5-star segment accounted for some 7 percent of participants. Some 5 percent of participating establishments indicated they were not graded.

The majority of participating establishments are situated in the Western Cape (some 40 percent), followed by establishments located in Gauteng (some 28 percent), and KwaZulu Natal (some 15 percent). Participating establishments from the Mpumalanga industry accounted for some 8 percent of responses whereas establishments located in the Free State represented some 5 percent of responses. Responses from the Eastern Cape industry amounted to some 2 percent of responses received whilst the Limpopo and Northern Cape industries contributed some 1 percent of responses respectively. No responses were received from the industry in the North West Province.

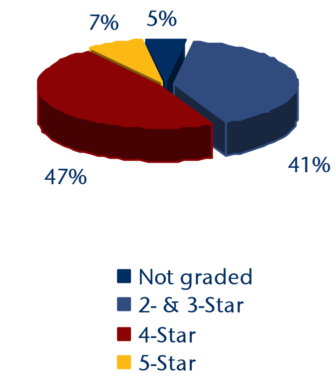
In terms of hotel size, the majority of participating hotel establishments (some 43 percent) comprised between 76 and 150 rooms, followed by establishments with between 151 and 250 rooms (some 26 percent). Establishments with between 31 and 75 rooms accounted for some 19 percent of responses received with boutique establishments with less than 30 rooms contributing approximately 8 percent of responses. Large hotels with more than 250 rooms accounted for some 4 percent of participants.

Survey Highlights:

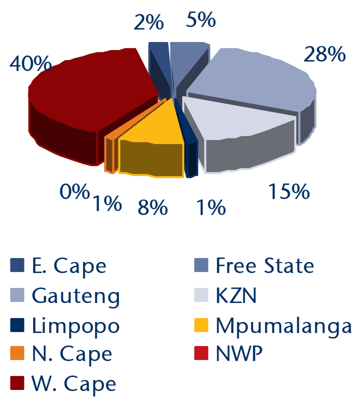
General:

According to the performance data reported by the participating establishments, 5-star establishments achieved an average room rate of R1 719 for the calendar year 2010 (up from R1 488 in 2009) albeit at a lower occupancy rate of 53,1 percent when compared to 54,8 percent achieved in 2009. Establishments of a 4-star standard achieved an average room rate of R809, approximately 10 percent higher than the

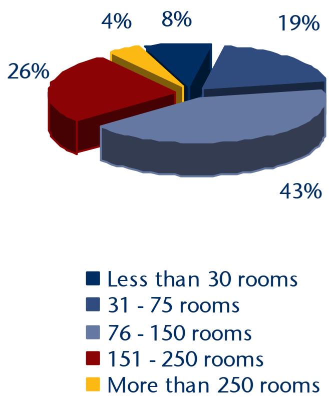
Share of Participants
By Star Grading



Share of Participants
By Geographic Location



Share of Participants
By Hotel Size



R735 achieved in 2009. These establishments reported improved occupancy levels in respect of the 2010 calendar year; 60,4 percent compared to 58,5 percent achieved in 2009. Establishments of a 2- & 3-star standard achieved an average room rate approximately 11 percent higher than the R594 achieved in 2009; R658 however registered a marginally lower occupancy rate of 57,9 percent compared to 60,3 percent recorded in respect of the 2009 calendar year. The 'not graded' group of establishments achieved an average room rate of R827 and an occupancy of 57,0 percent in respect of the period under review. Overall, the aggregate occupancy rate achieved by the 96 participants is 58,6 percent at an average room rate of some R807 per room night sold.

Only those participating establishments located in the Western Cape and Gauteng reported above average occupancy rates in respect of the 2010 calendar year, recording an overall occupancy of 59,9 percent and 58,8 percent respectively a marginal decline in demand when compared with occupancy achieved in both Provinces in 2009. Establishments located in the Western Cape and Gauteng also recorded the highest average room rate achieved in respect of the period under review; some R861 and some R844 respectively.

With reference to hotel size, whilst large hotels with more than 250 rooms, boutique establishments with less than 30 rooms and establishments with between 151 and 250 rooms recorded the best performance in terms of occupancy levels in respect of the period under review (64,2 percent, 62,3 percent, and 59,9 percent respectively), only large hotels with more than 250 rooms and boutique establishments with less than 30 rooms reporting achieving above average average room rates of approximately R1 041 and R834 respectively for the period under review. Please refer to the Summary of Results presented on pages five and six for an overview of the survey results segmented by hotel standard, hotel size, and geographic location.

As expected, rooms revenue was the biggest driver of overall hotel profitability with rooms revenue accounting for approximately 72,0 percent of total revenue with rooms departmental expenses, as a ratio to total revenue, of 14,1 percent. In contrast, total F&B revenue, including conference venue hire, accounted for 23,2 percent of total revenue with total F&B departmental expenses, as a ratio to total revenue, amounting to some 17,4 percent.

Undistributed Costs and Management Fees:

Administrative and general costs were on average 11,0 percent of total revenue. In terms of sales and marketing expenses, as a percentage of total revenue, establishments of a 5-star standard recorded the highest ratio (9,3 percent) in this regard. Overall, utility costs increased to on average 3,7 percent of total revenue whilst property operations and maintenance expenses, as a percentage of total revenue, was on average 4,2 percent. Base management fees accounted for some 3,8 percent of total revenue, on average, whilst incentive fees declined to approximately 0,9 percent of total revenue.

Guest Profile:

Overall, direct inquiry by guests remains the most popular channel for advance bookings with some 33,9 percent of advance bookings originating via this channel in 2010 followed by travel agents (some 17,8 percent) and global distribution channel (GDS) (some 13,2 percent). Tour operators, hotel chain websites, and own reservation systems remained important sources of business at some 9,5 percent, some 8,5 percent, and some 5,7 percent respectively. Bookings made via the hotel representative, which accounted for some 3,2 percent of advance reservations, was followed by bookings made via Other Internet Sites which accounted for some 3,1 percent. Bookings via a transportation company, the hotels own website, and independent reservation systems remain relatively low at some 2,5 percent, some 1,4 percent, and some 1,2 percent respectively.

Overall, participating establishments reported that some 70,6 percent of guests accommodated in 2010 stemmed from the domestic market. In terms of foreign guests, Europe was the largest producing world region, accounting for some 11,1 percent of room nights sold followed by North America (some 3,6 percent) and Asia (some 2,6 percent). According to responses received from participants, the corporate/ business travelers market segment accounted for some 40,6 percent of room nights sold in 2010, followed by the direct tourists/ leisure FITs market segment (some 13,5 percent), and the Other market segment (some 10,2 percent).

Labour Statistics:

There continues to be a clear correlation between the number of staff per available room and the star grading of the establishment. In the 2- & 3-star segment a staff per available room ratio of 0,33 was reported, a marginal decline from the 0,37 reported in respect of the 2009 calendar year. 4-star establishments registered a marginally higher staff per available room ratio of 0,62 in respect of the 2010 calendar year when compared to a ratio of 0,58 recorded in the previous year. Although 5-star establishments registered the highest staff per available room ratio of 1,33 in respect of the 2010 calendar year, this represents a decline in the number of staff per available room at 5-satr establishments when compared to 1,49 staff at these establishments recorded in respect of the 2009 calendar year. Overall, salaries, wages and bonuses account for some 81,9 percent of total payroll. Payroll-related expenses, which include payroll taxes, supplemental pay for example leave pay and severance pay, and employee benefits, overall accounted for some 18,1 percent of total payroll.

Industry Outlook:

Overall, some 44,7 percent of respondents forecast an increase in occupancy in 2011 and some 68,1 percent of respondents forecast an increase in occupancy in 2012. In terms of average room rate, overall some 52,1 percent of respondents forecast an increase in Average Room Rate in 2011 and some 77,7 percent of respondents forecasted an increase of Average Room Rate in 2012.

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.

First, data presentation in this report is based on the Uniform System of Accounts for the Lodging Industry. In our data collection, we stress the importance of structuring the data to be consistent with the Uniform System. 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 used in this 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: ratio 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 methodology 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.

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 grading, 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 important study more helpful and relevant for the South African hotel sector.

Yours sincerely,
For, and on behalf of, Horwath HTL (South Africa)

M. deWitt

Michelè de Witt
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