

Africa hotel growth expected to remain positive despite economic uncertainty

Growth in Africa's hotel sector is expected to remain positive over the next five years despite current economic uncertainty and tempered foreign investment. This according to a report issued by PwC on Africa's hotel sector.

PwC's ninth edition of the Hotels Outlook: 2019-2023 includes information about hotel accommodation in South Africa, Nigeria, Mauritius, Kenya and Tanzania.



Image via PWC

Pietro Calicchio, hospitality industry Leader, PwC Southern Africa says: "While leisure is an important component of the tourism industry, governments are taking steps to develop more diverse initiatives, fueled by business tourism and conferencing. Business tourism is a critical component to the growth of African economies – business events are increasingly being held in a number of diverse locations across the continent."

South Africa is already established as the leading convention destination in Africa led by Cape Town, which is among the top-50 conventions cities in the world. In the coming months, South Africa will host a number of events, in particular, the World Economic Forum on Africa, attracting experts, business leaders, and governments from around the world. "This is an excellent opportunity for Africa to be branded as a destination that not only offers an amazing travel experience but one also for business and global conferences," adds Calicchio.

Hotel room revenue

In South Africa, hotel room revenue rose only 0.5% in 2018, its smallest increase during the past six years. Growth is expected to pick up beginning in 2019 and is forecast to expand to R19.7bn in 2023, up 3.3% compounded annually, from R16.7bn in 2018.

This relatively modest increase will reflect the expectation of low ADR (average daily rate) growth, as growth in online booking and the increasing use of travel sites promotes price shopping.

Growth in foreign visitors to South Africa dropped to 1.7% in 2018, down from the 2.4% gain in 2017 and the 12.8% increase in 2016. The slowdown in large part reflected concerns about the drought in Cape Town and the possible approach of Day Zero when Cape Town would run out of water. Although the threat of a Day Zero has been alleviated, we don't expect a rebound in foreign tourism in 2019.

Foreign tourism

For the forecast period as a whole, foreign tourism is forecast to rise at an estimated 2.9% compounded annually to 12.1 million in 2023 from 10.5 million in 2018.

It is notable that the number of foreign visitors in 2018 from Europe fell 2.5% and from Asia-Pacific by 1.9%. Declines from the UK, Germany, France and the Netherlands contributed to the drop from Europe, while India, China and Australia posted decreases from Asia-Pacific. On a percentage base, Brazil recorded the largest percentage increase with a 4.0% gain and visitors from the US and Canada rose 1.7% and 0.9% respectively.

Of African visitors, the largest number came from Zimbabwe at 2.2 million, followed by Lesotho at 1.7 million and Mozambique at 1.4 million.

The Tourism Amendment Bill 2019 was issued in the Government Gazette on 12 April 2019. The most controversial aspect of the Bill is the proposal to regulate 'short-term home rentals' under the Tourism Act. This means home-sharing apps such as Airbnb and their hosts may soon be regulated in South Africa.

During the next five years, Nigeria is expected to be the fastest-growing market with a projected 12.0% compound annual increase. Tanzania and Kenya are projected to be the next fastest growing with compound annual increases of 8.2% and 7.4%, respectively. Hotel room revenue for the five markets (South Africa, Nigeria, Mauritius, Kenya and Tanzania) as a group will increase at a 5.8% compound annual rate to R50.6 billion in 2023 from R38.1 billion in 2018.

Hotel accommodation: South Africa – Nigeria – Mauritius – Kenya – Tanzania

In South Africa, the number of available rooms is expected to increase at a 1.2% compound annual rate to 67 200 in 2023 from 63 400 in 2018. With guest nights projected to grow faster than available rooms, the occupancy rate for hotels will increase to a projected 61.1% in 2023 from 59.2% in 2018.

While three-star hotels accounted for 36% of all available hotel rooms in South Africa in 2018, it is projected that they will generate 41% of the overall increase in room revenue during the next five years. Room revenue in three-star hotels will expand at a projected 4.3% compound annual rate to R6.4bn in 2023 from R5.2bn in 2018.

With a number of four-star hotels opening in 2017-18, available rooms increased 3.4%, the largest increase during the past six years. Guest nights rose 2.4%, the only category to post an increase in 2018. This increase, however, did not match growth in available rooms and the occupancy rate dropped to 65.4%.

Guest nights in five-star hotels fell 11.1% amidst concerns about the drought in Cape Town and due to general economic pressures. Guest nights are expected to remain stable in 2019 and then return to their 2015-17 levels beginning in 2020.

The Airbnb market has grown in South Africa. It is believed that much of the Airbnb traffic occurs at peak periods when hotels are full. It is at the lower end of the market that moderately priced hotels face growing competition from Airbnb outlets.

In Nigeria, room revenue rose 20.0% in 2018, fueled mainly by an increase in guest nights. Overall hotel room revenue is expected to expand at a 12.0% compound annual rate to \$445m (R5.9bn) in 2023 from \$252m (R3.3bn) in 2018. Guest nights will continue to increase over the forecast period, rising at a 7.6% compound annual rate to 2.6m in 2023 from 1.8m in 2018.

Hotel room revenue in Mauritius is expected to grow at a 5.7% compound annual rate to 2023. An expected increase in room capacity and less aggressive growth in ADR should have a positive impact on guest nights, if supported by an increase in airline capacity and routes. Challenges that remain for operators are their actions with regards to sustainability, labour and the regulation of the informal sector.

The January 2019 terror attack at a hotel and office complex in Nairobi may temporarily impact tourist arrivals and guest nights in Kenya. Kenya will benefit from growing demand for experiences and adventure, with mid-scale hotels being the main driver, but growth in Airbnb and the sharing economy will cut into the hotel market.

Tanzania is targeting India and China to bolster tourism and drive growth in guest nights. To widen its appeal beyond adventure tourism, the government is looking to expand its MICE offering to boost business tourism.

Namibia has been targeting the Asian and American markets and has seen a small growth in Chinese arrivals to Namibia. Leisure tourism to Namibia contracted slightly in 2018 and is expected to decline in 2019. In Windhoek (300+ rentals) and Swakopmund (400+ rentals), Airbnb has placed the hospitality market under pressure in terms of both supply and price. The category of 'home vacation rental' has not yet been officially recognised by the Namibia Tourism Board and Airbnb providers cannot be registered for now.

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