Passport to Africa

Hospitality outlook: 2014-2018

South Africa – Nigeria – Mauritius – Kenya

4th edition

June 2014

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Hospitality outlook: 2014-2018

Fourth edition

PwC's team of hospitality specialists provide an unbiased overview of how the hospitality industry in South Africa, Nigeria, Mauritius and Kenya is expected to develop over the coming years. The publication focuses on the following major industry segments: hotels, guest houses and farms, caravan/camping sites, bush lodges and other accommodation. It details the key trends observed and discusses the challenges facing these sectors as well as considering their future prospects.

Hospitality outlook: 2014-2018 demonstrates deep knowledge of the hospitality market and is a powerful tool for understanding critical business issues. To learn more about the challenges and opportunities that lie ahead for the hospitality industry in South Africa, please visit *www.pwc.com/za/hospitality-and-leisure*

About PwC's hospitality industry group

Every day, PricewaterhouseCoopers (PwC) plays a significant supporting role in hospitality businesses across the world. With our local knowledge of culture, laws and business needs, we help clients make the most of changing market scenarios.

We understand how developments in the broader hospitality environment are affecting our clients and work with them as a trusted advisor to provide solutions to help improve organisational effectiveness and long-term success. More significantly, we focus on the issues and challenges that are of utmost importance to our clients. These include restructuring, talent management, changing revenue models, compliance, changing guest requirements and managing capital spend. We have made a significant commitment to understanding the forces that are impacting these issues and continue to develop and deliver solutions to help our clients achieve their financial, operational and strategic objectives.

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Hospitality Outlook: 2014-2018
South Africa – Nigeria – Mauritius–Kenya

Prepared and edited by:

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Research methodology

Historical data was derived from our analysis of Smith Travel Research (STR) data and local country data combined with other information on industry trends. As some of the historical data was generated through surveys, year-to-year swings sometimes occur because of entities of different sizes being sampled rather than because of underlying industry trends.

Historical data from STR may also differ from one year to the next, reflecting differences in the make-up of the participating sample of hotels. We applied a harmonising model to smooth out these swings in order to better reflect underlying market trends.

We then developed forecasting models based on the historical performance for each category, economic prospects for each country and the rest of the world, and estimates of domestic and international overnight travel. We also took into account announced plans for expansion by hotel operators, as well as competition, pricing trends and the expected reaction of proprietors to changing occupancy rates.

Quantitative research and analysis was provided by Wilkofsky Gruen Associates Inc., a provider of global research and analysis of the hospitality industry.
See www.wilkofskygruen.com for more information.

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Many other professionals within PwC reviewed the text and contributed local expertise to this publication and we thank them for their assistance.

Use of Outlook data

Permission to cite

Johannesburg

19 June 2014

To our clients and friends both in and beyond the hospitality industry:

Welcome to the 4th edition of the *Hospitality outlook: 2014-2018.* This publication focuses on segments within the hospitality industry with detailed forecasts and analysis. It discusses the key trends observed in each segment as well as critical challenges and future prospects.

In the South African market, overall spending on rooms in all categories rose 14% in 2013 to R17.3 billion, reflecting an increase in stay unit nights and an 8.4% rise in the average room rate.

This publication also features information about hotel accommodation in Nigeria, Mauritius and, for the first time this year, Kenya.

The hotel market in Nigeria grew 9% in 2013 and by a cumulative 59% over the past four years. Growth has been fuelled by a large increase in available rooms and a rapidly growing economy. Hotel room revenue in Mauritius decreased by 8.7% in 2013 and is projected to grow at 4.6% compounded annually to 2018. Kenya's hotel market declined during the past two years, falling 6.6% in 2012 and by a further 2.6% in 2013.

We are very excited to include a detailed analysis of the cruise industry in South Africa for the first time in this year's publication.

We at PwC continue to stay on top of trends and developments that may impact hospitality companies, now and in the future, and look forward to sharing our thoughts further with you.

We appreciate your feedback and ask that you continue to tell us what we can do to make our publications more relevant and useful to you.

If you would like clarification on any matters covered in this publication, or you believe we can be of service to your business in any way, please contact one of our hospitality specialists listed on page 72 of this report.

Finally, we thank you for your support and wish you an exciting and rewarding year ahead.

Sincerely,

Nikki Forster

Director
Leader – Hospitality
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The market

This report covers South Africa, Nigeria, Mauritius and Kenya. The market consists of spending generated by renting rooms. Accommodation sectors in South Africa consist of hotels, guest houses and guest farms, game lodges, caravan sites, camping sites and other overnight accommodation. In Nigeria, Mauritius and Kenya, we present information on hotels only.

Figures for South Africa are expressed in rands. Figures for Nigeria and Kenya are shown in US dollars (USD). Figures for Mauritius are expressed in Euros. Tables showing comparisons between countries are shown in rands. We use a constant exchange rate for the 2007-2018 period.

Exchange rates used in this report

Rand : USD	10.5869
USD : Naira	159.6650
Rand : Euro	14.6572
Euro : Rupee (Mauritius)	40.0491
Euro : USD	0.7223
USD : Kenyan Shilling	85.4361

Overview

South Africa, Nigeria, Mauritius and Kenya have very different markets. South Africa attracts a mix of business and holiday travellers and offers a wide range of hotel classes and accommodation.

Nigeria is principally a business destination with relatively little holiday tourism. Mauritius is principally a resort market with most travellers coming on holiday. Five-star hotels constitute a significant component of available rooms and total spending in Mauritius. Kenya attracts eco-tourists and offers safaris and beaches, but is currently challenged by terrorism that is discouraging visitors.

These differences are reflected in spending patterns. As a resort market, Mauritius is affected more by international global economic conditions through its impact on disposable income and competition from the Maldives, Sri Lanka and Seychelles, which compete for the same market.

As business destinations, the domestic economic climate is an important factor in Nigeria and South Africa. Nigeria's economy is booming, buoyed in large part by regional and international investment. Hotel room revenue rose 59% between 2009 and 2013. Growth in South Africa's economy has weakened, but growth in international travel and rising room rates have bolstered the market. Total room revenue in South Africa rose 14.0% in 2013 and hotel-room revenue increased 14.6%.

Kenya was the only country to decline during the past two years, the result of terrorist concerns that led to a drop off in tourism and decreases in stay unit nights.

Nigeria will be the fastest-growing market over the next five years with a projected 22.6% compound annual gain. Growth will be facilitated by an increase in available rooms and large gains in stay unit nights fuelled by a booming economy. However, recent terrorist activity in the country may impact negatively on future prospects.

We expect South Africa to expand at a 10.7% compound annual rate overall and by 11.2% compounded annually for hotels. Growth in room rates will be the principal driver in South Africa, aided by the positive impact of the depreciating rand on the number of foreign visitors and by growth in real terms following a period of low rate increases.

Mauritius will grow at a projected 4.6% compound annual rate, helped by an improving global economy and growth in foreign travel.

Kenya will be the slowest growing of the four countries with a projected 2.5% increase, hurt by ongoing terrorism that will lead to short-term and mid-term declines.

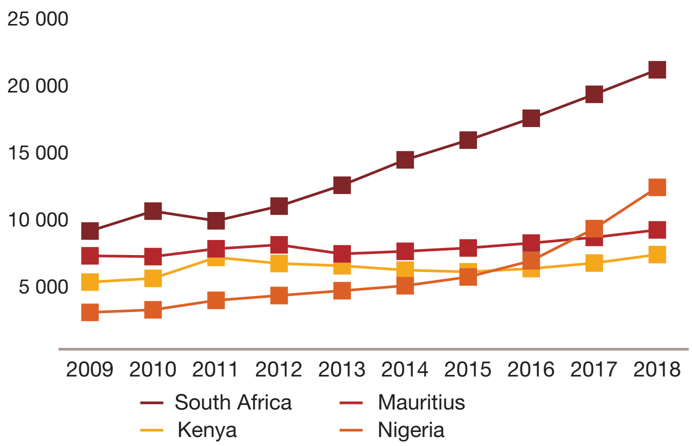
Room revenue in South Africa, Nigeria, Mauritius and Kenya (R millions)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2014-18 CAGR
South Africa (Total)	11 867	13 850	13 368	15 159	**17 279**	19 430	21 629	23 935	26 321	28 736	
% change	*-3.6*	*16.7*	*-3.5*	*13.4*	***14.0***	*12.4*	*11.3*	*10.7*	*10.0*	*9.2*	*10.7*
South Africa (Hotels only)	8 829	10 317	9 594	10 688	**12 249**	14 144	15 620	17 250	19 039	20 873	
% change	*-7.4*	*16.9*	*-7.0*	*11.4*	***14.6***	*15.5*	*10.4*	*10.4*	*10.4*	*9.6*	*11.2*
Nigeria*	2 753	2 943	3 652	4 012	**4 372**	4 743	5 399	6 606	9 009	12 090	
% change	*-7.5*	*6.9*	*24.1*	*9.9*	***9.0***	*8.5*	*13.8*	*22.4*	*36.4*	*34.2*	*22.6*
Mauritius*	6 977	6 918	7 504	7 798	**7 123**	7 314	7 563	7 930	8 355	8 912	
% change	*-7.7*	*-0.8*	*8.5*	*3.9*	***-8.7***	*2.7*	*3.4*	*4.9*	*5.4*	*6.7*	*4.6*
Kenya*	5 018	5 293	6 860	6 405	**6 236**	5 907	5 780	6 024	6 437	7 072	
% change	*54.4*	*5.5*	*29.6*	*-6.6*	***-2.6***	*-5.3*	*-2.1*	*4.2*	*6.9*	*9.9*	*2.5*
Total hotel revenue	**23 577**	**25 471**	**27 610**	**28 903**	**29 980**	**32 108**	**34 362**	**37 810**	**42 840**	**48 947**	
% change	***1.1***	***8.0***	***8.4***	***4.7***	***3.7***	***7.1***	***7.0***	***10.0***	***13.3***	***14.3***	***10.3***

*Hotels only

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 1. Hotel room revenue in South Africa, Nigeria, Mauritius and Kenya



*Hotels only

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Travel and tourism in South Africa

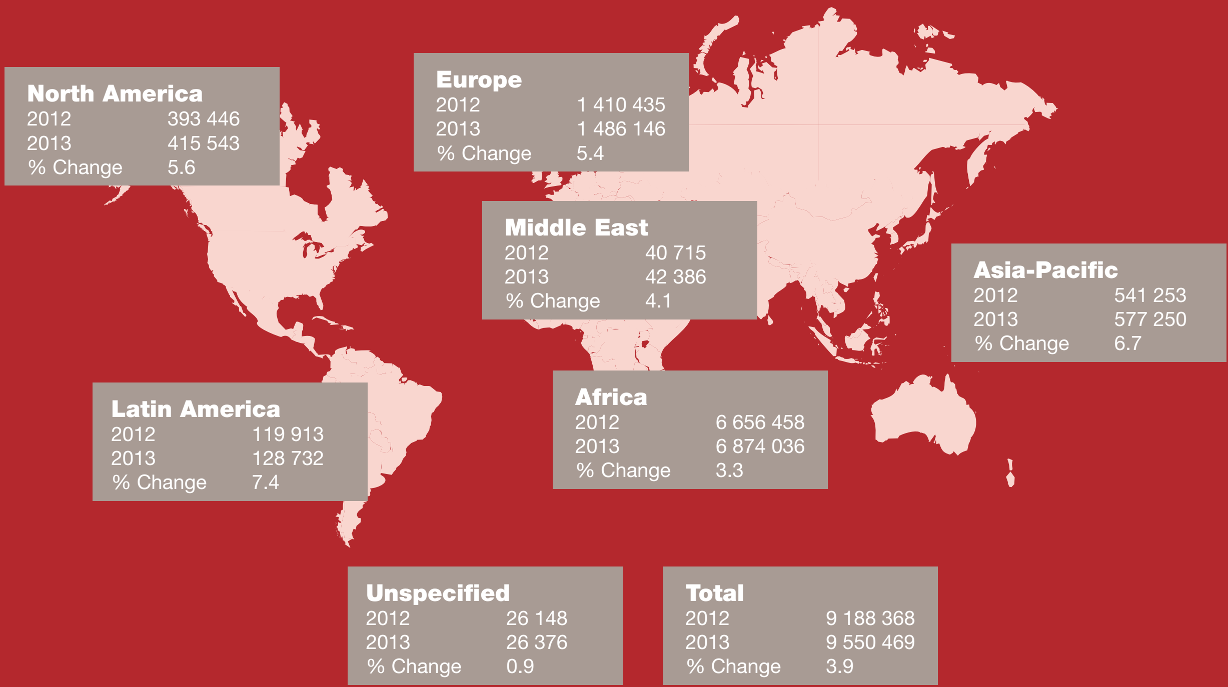
The total number of foreign overnight visitors to South Africa rose 3.9% in 2013, down from the 10.2% increase in 2012, but still representing continued growth in foreign travel to South Africa.

Increases in foreign overnight visitors were recorded from each region. Despite sluggish economies, travellers from Europe increased 5.4 %, while the number of North American visitors rose 5.6%. In Latin America and Asia-Pacific, where economic conditions have been relatively healthy, travel to South Africa rose by 7.4% and 6.7%, respectively. The number of visitors from countries outside of Africa rose 5.7% in 2013.

Visitors from other countries in Africa totalled 6.9 million in 2013, up 3.3% from 2012 and accounting for 72% of the total number of foreign visitors to South Africa.

Source markets

Foreign overnight visitors by continent



Sources: Statistics South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Of non-African countries, the United Kingdom remains the largest source of visitors to South Africa at 432 186 in 2013, down 1.3% from 2012. There were more than 347 000 visitors from the United States in 2013, an increase of 6.2%, and more than 300 000 from Germany, an increase of 12.8%. South Africa also generated more than 100 000 visitors from each of China, France, Australia, the Netherlands and India.

Of non-African countries with the largest number of visitors to South Africa, China posted the largest growth in 2013 with a 16.1% increase. The introduction of direct non-stop flights to China in 2012 led to a jump in visitor numbers in 2012, which continued in 2013.

Of visitors from China in 2013, 67.2% came on holiday, 29.3% were travelling to South Africa as part of a longer trip that included other destinations, 3.2% came on business and 0.3% came here for study and/or education purposes.

Top-ten foreign overnight visitors to South Africa from non-African countries

	2012	2013	% change
United Kingdom	438 023	432 186	-1.3
United States	326 644	347 030	6.2
Germany	266 333	300 531	12.8
China	132 327	153 662	16.1
France	122 244	133 642	9.3
Australia	120 315	124 717	3.7
Netherlands	117 935	120 707	2.4
India	106 774	111 930	4.8
Brazil	78 376	82 437	5.2
Canada	66 802	68 511	2.6

Sources: Statistics South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

The largest number of foreign visitors to South Africa in 2013 came from Zimbabwe at 1.9 million, followed by Lesotho at 1.5 million and Mozambique at 1.1 million. Of visitors from the Southern African Development Community (SADC) countries, Lesotho was the only country to record a decline, falling 9.7% from 2012. SADC countries in total accounted for 69% of South Africa's foreign visitors. Overall, visits from SADC were up 2.7% in 2013 to 6.6 million.

Foreign overnight visitors to South Africa from SADC countries

	2012	2013	% change
Angola	47 714	56 915	19.3
Botswana	452 158	536 958	18.8
DRC	32 956	34 311	4.1
Lesotho	1 618 223	1 461 250	-9.7
Madagascar	4 813	7 976	65.7
Malawi	142 063	170 305	19.9
Mauritius	18 233	19 309	5.9
Mozambique	1 104 404	1 116 438	1.1
Namibia	200 841	221 796	10.4
Seychelles	3 302	4 842	46.6
Swaziland	768 727	836 412	8.8
Tanzania	35 928	38 041	5.9
Zambia	169 555	179 794	6.0
Zimbabwe	1 847 974	1 934 847	4.7
Total SADC	**6 446 891**	**6 619 194**	**2.7**

Sources: Statistics South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

In East and Central Africa, Kenya at 35 530 was the leading source of visitors to South Africa in 2013, but this number was down 43.6% from 2012. Overall, the number of visitors from East and Central Africa fell 20.7% to 88 249.

Foreign overnight visitors to South Africa from East and Central Africa

	2012	2013	% change
Burundi	1 472	1 767	20.0
Cameroon	6 234	6 194	-0.6
Central African Republic	191	169	-11.5
Chad	414	484	16.9
Comoros	276	369	33.7
Congo	3 868	4 541	17.4
Djibouti	92	91	-1.1
Equatorial Guinea	406	418	3.0
Eritrea	904	719	-20.5
Ethiopia	7 863	9 038	14.9
Gabon	7 168	7 855	9.6
Kenya	62 992	35 530	-43.6
Rwanda	3 429	3 646	6.3
São Tomé and Príncipe	234	188	-19.7
Somalia	206	114	-44.7
Uganda	15 522	17 126	10.3
Total East and Central Africa	**111 271**	**88 249**	**-20.7**

Sources: Statistics South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Most visitors from West Africa come from Nigeria and Ghana. The number of visitors from West Africa increased 12.3% in 2013. Visitors from Nigeria totalled 81 458 in 2013, up 11.2% from 2012, and from Ghana, 27 312, an increase of 18.9%. These two countries accounted for 85% of visits from West Africa.

Foreign overnight visitors to South Africa from West Africa

	2012	2013	% change
Benin	1 553	1 926	24.0
Burkina Faso	816	1 005	23.2
Cape Verde Island	635	784	23.5
Cote D'Ivoire	2 415	2 554	5.8
Gambia	1 142	1 047	-8.3
Ghana	22 963	27 312	18.9
Guinea	2 990	2 864	-4.2
Guinea-Bissau	212	171	-19.3
Liberia	708	715	1.0
Mali	1 268	1 513	19.3
Mauritania	241	443	83.8
Niger	369	532	44.2
Nigeria	73 282	81 458	11.2
Senegal	3 600	3 915	8.7
Sierra Leone	991	936	-5.5
Togo	800	789	-1.4
Total West Africa	**113 985**	**127 964**	**12.3**

Sources: Statistics South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

North Africa is not a major source of visitors to South Africa. The number of visitors totalled only 14 277 in 2013 with Egypt the leading country at 7 308. North Africa posted an increase in 2013 of 10.1%.

Foreign overnight visitors to South Africa from North Africa

	2012	2013	% change
Algeria	1 259	1 539	22.2
Egypt	6 251	7 308	16.9
Libya	977	951	-2.7
Morocco	1 374	1 632	18.1
Sudan	1 891	1 665	-12.0
Tunisia	1 221	1 182	-3.2
Total North Africa	**12 973**	**14 277**	**10.1**

Sources: Statistics South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Foreign and domestic visitors

Foreign travel to South Africa was boosted in early 2013 by the African Cup of Nations football tournament and in December following the death of Nelson Mandela, which led to an increase in the number of visitors to Robben Island where he spent many years in jail. The continued depreciation of the Rand is also credited with contributing to the growth in foreign tourism by making South Africa a less expensive country to visit.

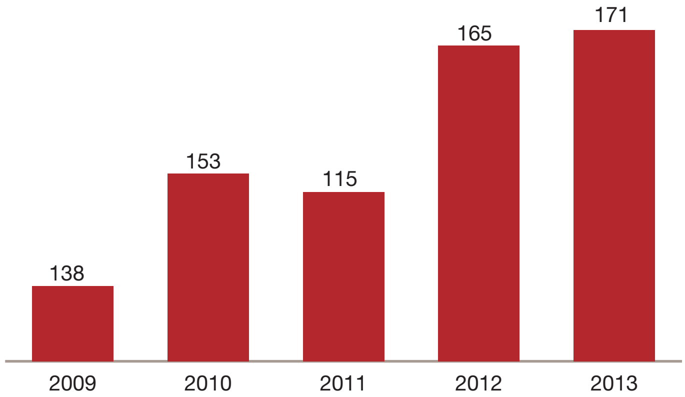
The Tourism Act was signed into law in 2014 with the objective of promoting tourism, incorporating the National Tourism Sector Strategy. Tourism is considered to be key element in South Africa's economy and is recognised in the National Development Plan as an important driver of economic and employment growth.

The Act seeks to ensure quality tourist services, while attracting conventions, conferences and business travel. The International World Congress of Architects Trade Exhibition, the Southern African International Trade Exhibition, NOSHCON 2014, ITEXPO South Africa and Trading Exhibition, South African Automotive Week, and the Sports & Events Tourism Exchange are among the events scheduled for 2014.

In 2013, the Government created the South Africa National Conventions Bureau (SANCB) to promote South Africa as a destination for meetings, incentives, conferences and exhibitions (MICE). Business tourism accounts for a third of total tourist spending, comprises only 10% of foreign overnight visitors. The MICE sector is growing rapidly and convention centres in Cape Town, Johannesburg and Durban are attracting major international conferences and trade shows.

The number of non-holiday foreign visitors to South Africa rose by 125% between 2009 and 2011, and increased an additional 86% in 2012, before growing more slowly at 5% in 2013.

Figure 2. Non-holiday foreign overnight visitors (thousands)



Sources: Statistics South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

A key factor in foreign travel is direct flights to and from major cities. In the past two years several direct flights to South Africa were discontinued, raising concerns from the tourism industry that the lack of air capacity could restrict growth in tourism to South Africa. At the same time, South African Airways is looking to add other routes.

On balance, we project that a stronger global economy combined with rising interest in both business and leisure travel to South Africa, particularly from Asia and Latin America, will lead to modest but steady growth in foreign overnight visitors. We project the number of foreign overnight visitors to South Africa to increase at a 4.2% compound annual rate to 11.7 million in 2018 from 9.5 million in 2013.

Domestic travel improved in 2013 with a 2.4% increase following an 8.5% decline in 2012. The weakening rand also provided a lift for domestic travel as some people substituted a vacation abroad, which had become more expensive because of the depreciating rand, for a local holiday.

With economic conditions improving and more South Africans beginning to travel, we look for continued growth in domestic travel and project a 3.0% compound annual increase over the next five years, rising to 5.9 million from 5.1 million in 2013.

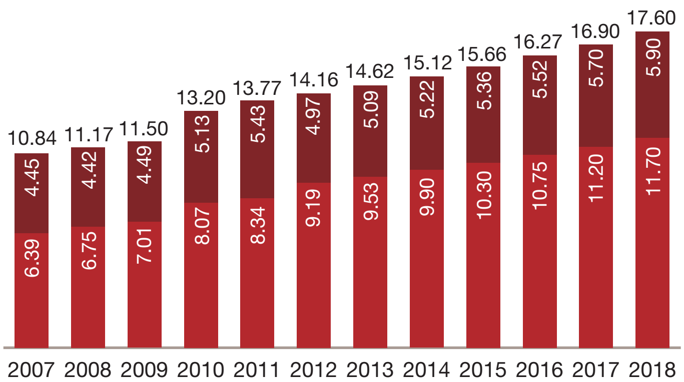
The total number of travellers in South Africa will reach a projected 17.6 million by 2018, a 3.8% compound annual increase from 2013. Growth in travel and tourism will fuel growth in the accommodation industry during the next five years.

Travel and tourism to South Africa (millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2014-18 CAGR
Foreign overnight visitors	6.39	6.75	7.01	8.07	8.34	9.19	**9.53**	9.90	10.30	10.75	11.20	11.70	
% change	*8.1*	*5.6*	*3.9*	*15.1*	*3.3*	*10.2*	***3.7***	*3.9*	*4.0*	*4.4*	*4.2*	*4.5*	*4.2*
Domestic travellers	4.45	4.42	4.49	5.13	5.43	4.97	**5.09**	5.22	5.36	5.52	5.70	5.90	
% change	*3.0*	*-0.7*	*1.6*	*14.3*	*5.8*	*-8.5*	***2.4***	*2.6*	*2.7*	*3.0*	*3.3*	*3.5*	*3.0*
Total	**10.84**	**11.17**	**11.5**	**13.2**	**13.77**	**14.16**	**14.62**	**15.12**	**15.66**	**16.27**	**16.90**	**17.60**	
% change	***6.0***	***3.0***	***3.0***	***14.8***	***4.3***	***2.8***	***3.2***	***3.4***	***3.6***	***3.9***	***3.9***	***4.1***	***3.8***

Sources: Statistics South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 3. Domestic and foreign visitors: 2006-2018 (millions)



Sources: Statistics South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

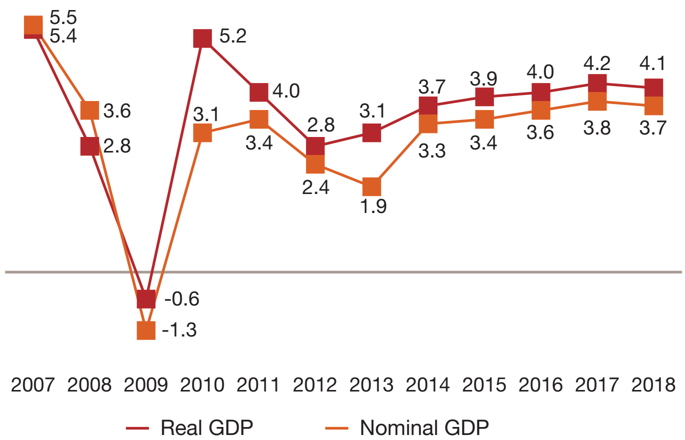
Gross domestic product

Economic growth in South Africa slowed to 1.9% in 2013, but faster increases are expected beginning in 2014 with real GDP projected to average 3.6% compounded annually during the next five years.

The global economy improved in 2013 with a 3.1% increase, up from 2.8% in 2012, a gain that contributed to the increase in foreign tourism to South Africa. Global GDP will further strengthen, rising at a 4.0% compound annual rate through 2018.

Sources: International Monetary Fund, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 4. Real GDP growth (%)



Source: International Monetary Fund, Statistics South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Real GDP growth (%)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2014-18 CAGR
South Africa	5.5	3.6	-1.3	3.1	3.4	2.4	**1.9**	3.3	3.4	3.6	3.8	3.7	3.6
Global	5.4	2.8	-0.6	5.2	4.0	2.8	**3.1**	3.7	3.9	4.0	4.2	4.1	4.0

Total accommodation market in South Africa

Overall spending on rooms in all categories rose 14.0% in 2013 to R17.3 billion, reflecting an increase in stay unit nights and an 8.4% rise in the average room rate.

Stay unit nights were up 5.2% in 2013 following a 7.7% increase in 2012. With room availability up only 0.7%, the occupancy rate increased to 52.6%, the highest average since 2007.

We project spending to rise an additional 12.4% in 2014, fuelled principally by an 11.4% increase in the average room rate. With room rates increasing by only 2.7% between 2010 and 2012, hotels began catching up by posting larger increases in 2013. We expect this trend to continue in 2014.

Beginning in 2015, we expect more moderate rate increases accompanied by larger increases in stay unit nights. For the forecast period as a whole, we project stay unit nights to grow by 3.4% compounded annually to reach 26.3 million in 2018 from 22.2 million in 2013.

The number of available rooms will grow at a 1.3% compound annual rate. With stay unit nights increasing at a faster rate than room supply, the overall occupancy rate will increase to a projected 58.4% by 2018.

Following the 11.4% increase in 2014, we expect room rates to grow at mid-single-digit rates, roughly in line with the overall rate of inflation. The average room will cost R1 093 in 2018, up 7.0% on a compound annual basis from R778 in 2013.

Total room revenue will reach R28.7 billion in 2018, a 10.7% compound annual increase from 2013.

Total accommodations market in South Africa

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2014-18 CAGR
Available rooms (thousands)	104.6	106.2	110.7	113.4	113.2	114.9	**115.7**	116.2	117.8	119.8	121.6	123.4	
% change	*2.6*	*1.5*	*4.2*	*2.4*	*-0.2*	*1.5*	***0.7***	*0.4*	*1.4*	*1.7*	*1.5*	*1.5*	*1.3*
Stay unit nights (millions)	20.4	20.2	19.1	19.8	19.6	21.1	**22.2**	22.4	23.4	24.4	25.4	26.3	
% change	*5.2*	*-1.0*	*-5.4*	*3.7*	*-1.0*	*7.7*	***5.2***	*0.9*	*4.5*	*4.3*	*4.1*	*3.5*	*3.4*
Occupancy rates (%)	53.4	52.0	47.3	47.8	47.4	50.2	**52.6**	52.8	54.4	55.6	57.2	58.4	
Average room rates (R)	536	610	621	699	682	718	**778**	867	924	981	1036	1093	
% change	*13.6*	*13.8*	*1.8*	*12.6*	*-2.4*	*5.3*	***8.4***	*11.4*	*6.6*	*6.2*	*5.6*	*5.5*	*7.0*
Total room revenue (R millions)	**10 936**	**12 312**	**11 867**	**13 850**	**13 368**	**15 159**	**17 279**	**19 430**	**21 629**	**23 935**	**26 321**	**28 736**	
% change	***19.4***	***12.6***	***-3.6***	***16.7***	***-3.5***	***13.4***	***14.0***	***12.4***	***11.3***	***10.7***	***10.0***	***9.2***	***10.7***

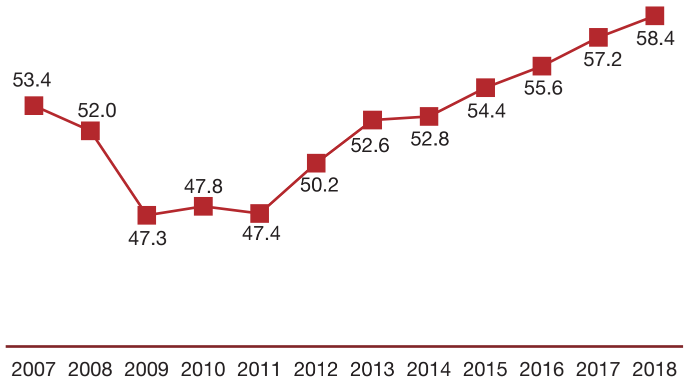
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Occupancy

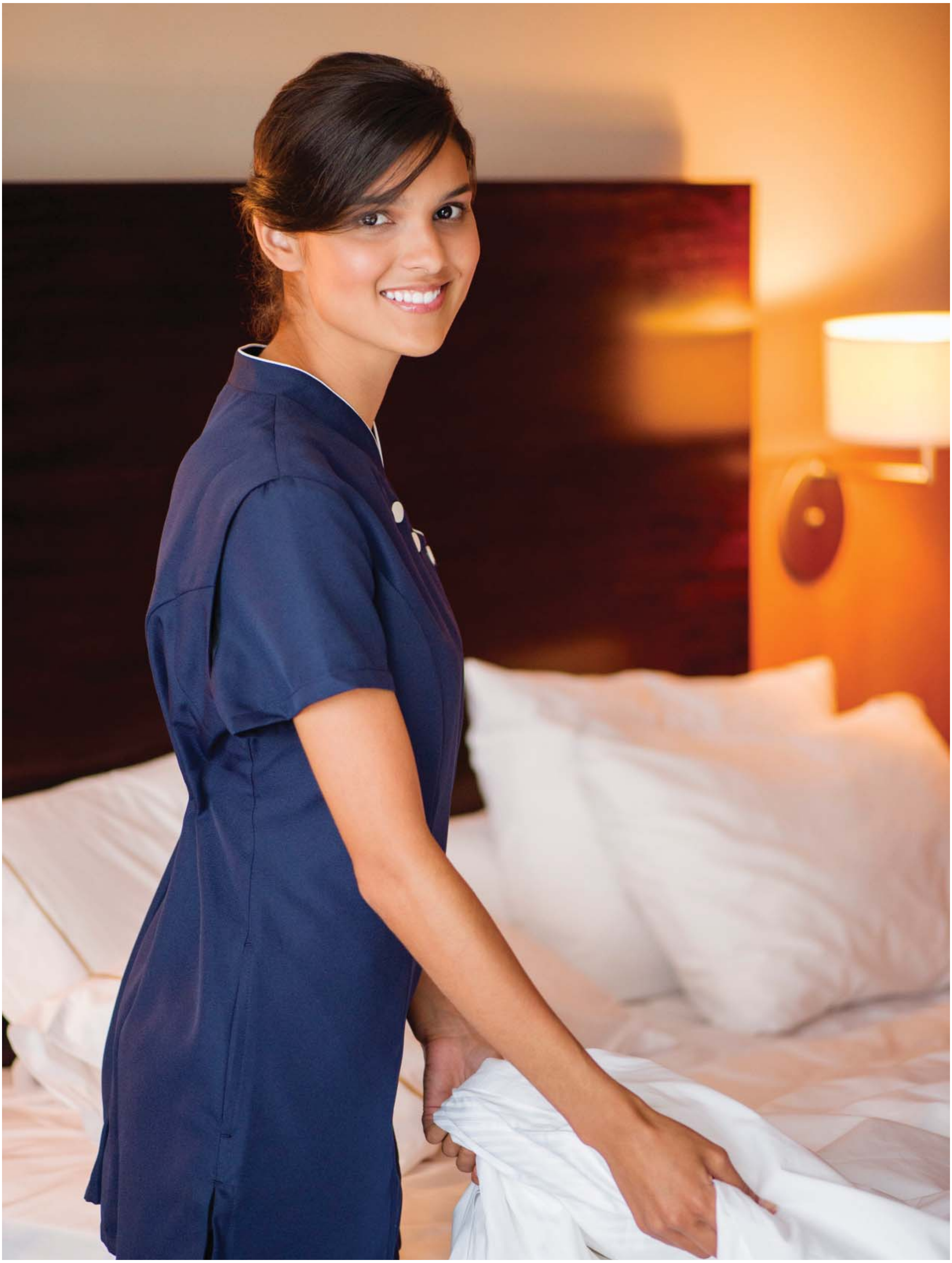
Between 2008 and 2010, there was a large increase in the number of available rooms that, coupled with the onset of recession, led to a decline in occupancy rates. With stay unit nights increasing in the past two years, combined with slower increases in available rooms, occupancy rates began to recover, rising to 52.6% in 2013.

With demand growing faster than supply, we anticipate that occupancy will increase, rising to a projected 58.4% in 2018.

Figure 5. Overall occupancy rates in South Africa (%)

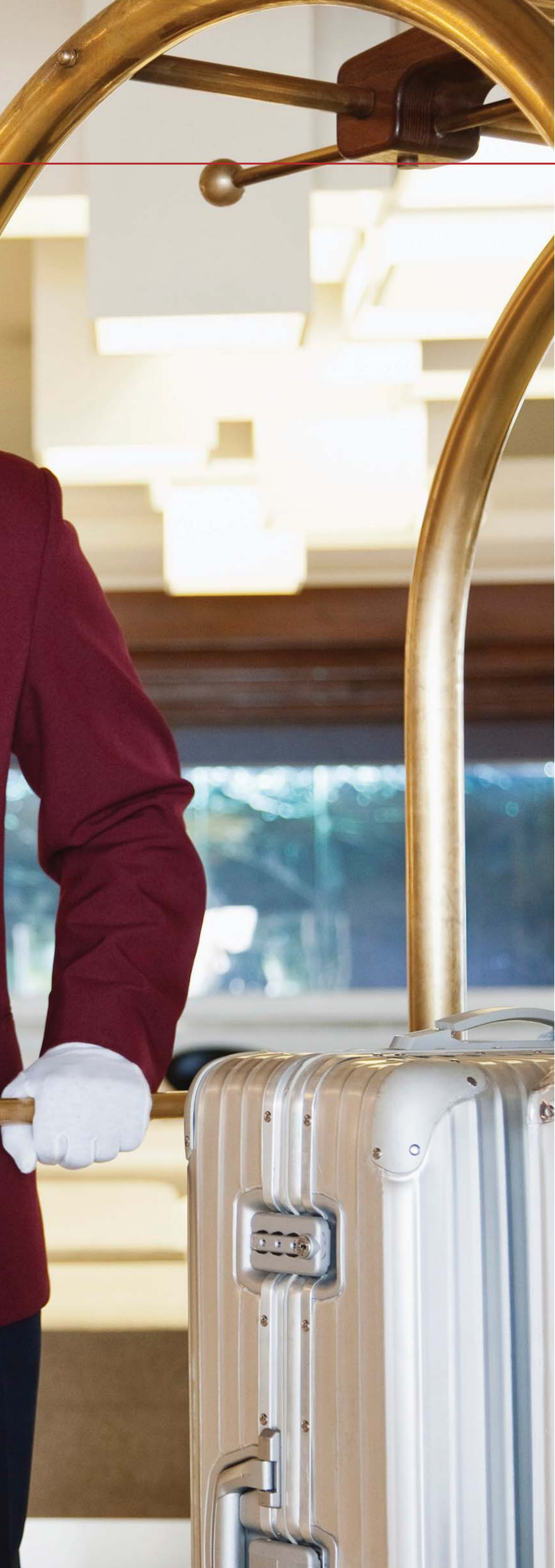


Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates



Hotel accommodation in South Africa

The pick up in occupancy rates has stimulated new activity in the market. In 2013, Sun International refurbished The Grayston in Sandton and reopened it as The Maslow Hotel to serve business travellers. The Protea Hotel Kruger Gate in 2013 received a makeover that included extra-length beds, insect-resistant window screens and room upgrades.



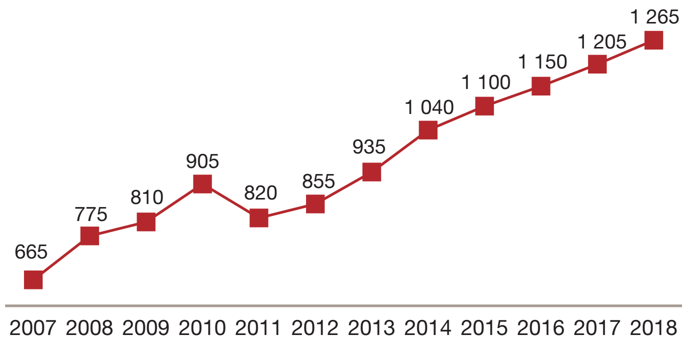
Marriott International acquired the Protea Hotel Group and plans to realign the facilities in line with its brand image. A number of other chains are renovating their properties or planning to open new hotels. Tsogo Sun spent R220 million renovating two key Durban beachfront hotels and is investing R100 million to refurbish its Southern Sun Waterfront Hotel and a new hotel, 177 Empire Place, is opening in Sandton. The Hilton Durban also began a three-year upgrade in 2014. Other developments announced include The Radisson Blu Le Vendome Hotel Cape Town in 2014, the Thaba Moshate Hotel in Burgersfort and upgrades to Emperors Palace and the Mmabatho Palms Hotel in Mahikeng.

The number of available rooms edged up 0.8% in 2013. We expect further growth to be comparable to the 2013 gain, averaging 0.9% compounded annually, as companies avoid a build up of excess supply, which led to problems in the past. By 2018, there will be an estimated 63 600 hotel rooms available from 60 900 in 2013.

Stay unit nights rose 4.8% in 2013. We project a 3.8% increase for 2014 followed by somewhat larger gains as growth in foreign visitors picks up. We project stay unit nights to average 4.7% compounded annually to reach 16.5 million in 2018 from 13.1 million in 2013.

With stay unit nights growing faster than room supply, the occupancy rate for hotels will rise from 58.9% in 2013 to a projected 71.1% in 2018.

Figure 6. Hotels: Average room rates, 2006-2018 (R)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Hotels in South Africa

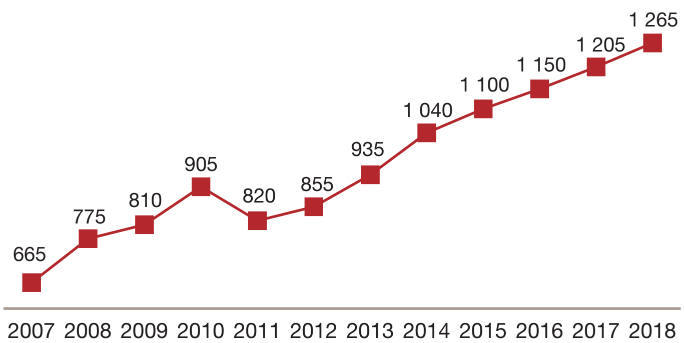
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2014-18 CAGR
Available rooms (thousands)	48.5	49.1	53.7	58.8	60.5	60.4	**60.9**	61.0	61.7	62.5	63.1	63.6	
% change	*1.0*	*1.2*	*9.4*	*9.5*	*2.9*	*-0.2*	***0.8***	*0.2*	*1.1*	*1.3*	*1.0*	*0.8*	*0.9*
Stay unit nights (millions)	12.7	12.3	10.9	11.4	11.7	12.5	**13.1**	13.6	14.2	15.0	15.8	16.5	
% change	*3.3*	*-3.1*	*-11.4*	*4.6*	*2.6*	*6.8*	***4.8***	*3.8*	*4.4*	*5.6*	*5.3*	*4.4*	*4.7*
Occupancy rates (%)	71.8	68.4	55.6	53.1	53.0	56.5	**58.9**	61.1	63.1	65.6	68.6	71.1	
Average room rates (R)	665	775	810	905	820	855	**935**	1 040	1 100	1 150	1 205	1 265	
% change	*14.7*	*16.5*	*4.5*	*11.7*	*-9.4*	*4.3*	***9.4***	*11.2*	*5.8*	*4.5*	*4.8*	*5.0*	*6.2*
Total room revenue (R millions)	**8 446**	**9 533**	**8 829**	**10 317**	**9 594**	**10 688**	**12 249**	**14 144**	**15 620**	**17 250**	**19 039**	**20 873**	
% change	***18.4***	***12.9***	***-7.4***	***16.9***	***-7.0***	***11.4***	***14.6***	***15.5***	***10.4***	***10.4***	***10.4***	***9.6***	***11.2***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

The average room rate increased 9.4% in 2013. With rates continuing to climb in early 2014, we anticipate an 11.2% rise in 2014 and then a return to mid-single-digit gains. The average rate will climb to R1 265 in 2018, a 6.2% compound annual increase from R935 in 2013.

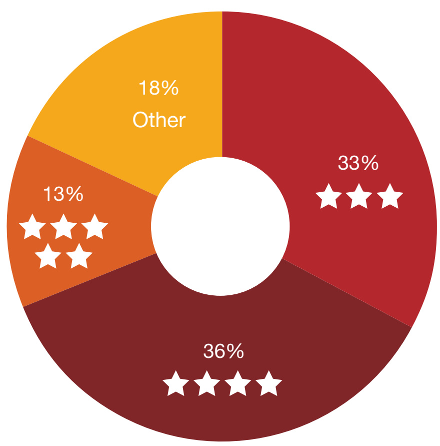
Hotel room revenue is expected to expand to R20.9 billion in 2018, up 11.2% compounded annually from R12.2 billion in 2013.

Figure 7. Hotels: Average room rates, 2006-2018 (R)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 8. Total hotel room revenue by category (2013)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Three-star hotels

Three-star hotels accounted for 36% of all available hotel rooms in South Africa and 33% of total hotel room revenue. The average room rate of R800 was 14% below the overall average of R935 for all hotels.

Stay unit nights for three-star hotels were up 4.2% in 2013 and combined with a 9.6% increase in the average rate, revenue increased 14.2%.

As with the hotel market as a whole, we expect moderating growth in stay unit nights, with increases averaging 3.0% compounded annually, which will raise the occupancy rate to 71.3% in 2018 from 63.1% in 2013.

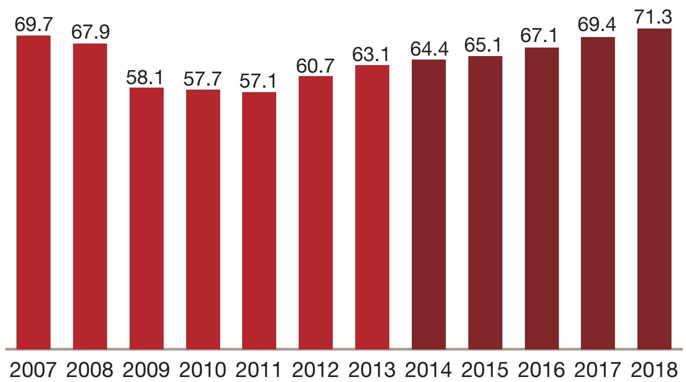
We expect another year of above-average room rate increase and then a return to mid-single-digit gains. The average room rate will rise to a projected R1 075 in 2018, growing at a 6.1% compound annual rate. Room revenue in three-star hotels will expand at a projected 9.3% compound annual rate to R6.2 billion in 2018 from R4 billion in 2013.

Three-star hotels in South Africa

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2014-18 CAGR
Available rooms (thousands)	16.5	16.9	18.4	20.4	21.6	21.6	**21.7**	21.7	21.9	22.0	22.1	22.3	
% change	*1.9*	*2.4*	*8.9*	*10.9*	*5.9*	*0.0*	***0.5***	*0.0*	*0.9*	*0.5*	*0.5*	*0.9*	*0.5*
Stay unit nights (millions)	4.2	4.2	3.9	4.3	4.5	4.8	**5.0**	5.1	5.2	5.4	5.6	5.8	
% change	*2.4*	*0.0*	*-7.1*	*10.3*	*4.7*	*6.7*	***4.2***	*2.0*	*2.0*	*3.8*	*3.7*	*3.6*	*3.0*
Occupancy rates (%)	69.7	67.9	58.1	57.7	57.1	60.7	**63.1**	64.4	65.1	67.1	69.4	71.3	
Average room rates (R)	535	625	650	720	690	730	**800**	875	925	970	1020	1075	
% change	*15.1*	*16.8*	*4.0*	*10.8*	*-4.2*	*5.8*	***9.6***	*9.4*	*5.7*	*4.9*	*5.2*	*5.4*	*6.1*
Total room revenue (R millions)	**2 247**	**2 625**	**2 535**	**3 096**	**3 105**	**3 504**	**4 000**	**4 463**	**4 810**	**5 238**	**5 712**	**6 235**	
% change	***17.8***	***16.8***	***-3.4***	***22.1***	***0.3***	***12.9***	***14.2***	***11.6***	***7.8***	***8.9***	***9.0***	***9.2***	***9.3***

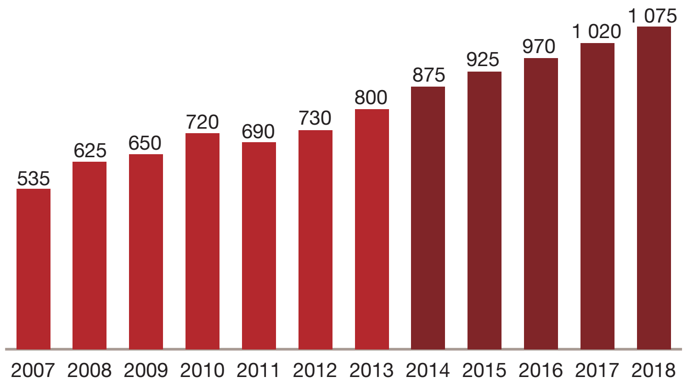
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 9. Three-star hotels: Occupancy rates (%)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 10. Three-star hotels: Average room rates (R)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Four-star hotels

Most of the growth in available rooms was among four-star hotels, which posted a 3.0% increase to 17 100, accounting for 28% of hotel rooms in South Africa.

Although price growth picked up for four-star hotels, the 8.1% increase was less than the overall 9.4% rise. At the same time, stay unit nights rose faster for four-star hotels than for hotels as a whole, increasing by 8.3% in 2013.

Revenue for four-star hotels increased by 17.1% in 2013 following an 11.7% increase in 2012.

We expect a 3.4% compound annual increase in stay unit nights, less than half the gain in 2013 as the market stabilises. With available rooms expected to grow at only a 0.7% compound annual rate, the occupancy rate will increase from 62.5% in 2013 to a projected 71.2% in 2018.

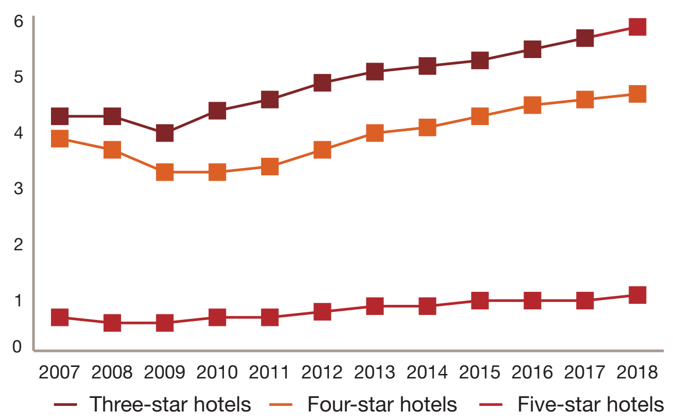
We project an 11.8% increase for the year as a whole. We then look for moderating growth in subsequent years with the average room rate increasing to a projected R1 575 in 2018, 6.7% growth compounded annually, boosting revenue from R4.4 billion in 2013 to R7.2 billion in 2018, a 10.3% compound annual gain.

Four-star hotels in South Africa

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2014-18 CAGR
Available rooms (thousands)	13.9	14.1	15.1	16.1	16.7	16.6	**17.1**	17.2	17.4	17.5	17.6	17.7	
% change	*2.2*	*1.4*	*7.1*	*6.6*	*3.7*	*-0.6*	***3.0***	*0.6*	*1.2*	*0.6*	*0.6*	*0.6*	*0.7*
Stay unit nights (millions)	3.8	3.6	3.2	3.2	3.3	3.6	**3.9**	4.0	4.2	4.4	4.5	4.6	
% change	*0.0*	*-5.3*	*-11.1*	*0.0*	*3.1*	*9.1*	***8.3***	*2.6*	*5.0*	*4.8*	*2.3*	*2.2*	*3.4*
Occupancy rates (%)	74.9	69.8	58.1	54.5	54.1	59.3	**62.5**	63.7	66.1	68.7	70.0	71.2	
Average room rates (R)	850	1 015	1 050	1 175	1 030	1 055	**1 140**	1 275	1 350	1 420	1 495	1 575	
% change	*14.1*	*19.4*	*3.4*	*11.9*	*-12.3*	*2.4*	***8.1***	*11.8*	*5.9*	*5.2*	*5.3*	*5.4*	*6.7*
Total room revenue (R millions)	**3 230**	**3 654**	**3 360**	**3 760**	**3 399**	**3 798**	**4 446**	**5 100**	**5 670**	**6 248**	**6 728**	**7 245**	
% change	***14.1***	***13.1***	***-8.0***	***11.9***	***-9.6***	***11.7***	***17.1***	***14.7***	***11.2***	***10.2***	***7.7***	***7.7***	***10.3***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 11. Three, four and five-star hotels: Stay unit nights (millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Five-star hotels

Five-star hotels were the principal beneficiary of the weakening rand as foreign tourists traded up to more luxurious accommodation. Stay unit nights rose 14.3%, which when combined with a 9.6% increase in the average room rate, resulted in a 25.2% increase in room revenue. Five-star hotels accounted for only 13% of total hotel room revenue in 2013, up from 12% in 2012.

We expect five-star hotels to continue to grow faster than the rest of the market, in large part reflecting above-average rate increases of 8.6% compounded annually. With the occupancy rate averaging 68.5% in 2013, higher than for hotels as a whole, five-star hotels can be more aggressive in raising rates. The occupancy rate for five-star hotels will rise to a projected 83.0% in 2018 and the average room rate will reach R2 945.

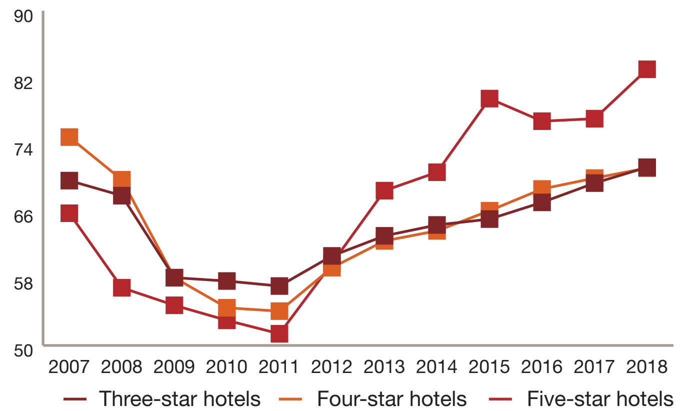
Room revenue will expand at a 13.6% compound annual rate to R2.9 billion in 2018 from R1.6 billion in 2013. Five-star hotels will increase their share of the market to 14% by 2018.

Five-star hotels in South Africa

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2014-18 CAGR
Available rooms (thousands)	2.5	2.4	2.5	3.1	3.2	3.2	**3.2**	3.1	3.1	3.2	3.2	3.3	
% change	*-7.4*	*-4.0*	*4.2*	*24.0*	*3.2*	*0.0*	***0.0***	*-3.1*	*0.0*	*3.2*	*0.0*	*3.1*	*0.6*
Stay unit nights (millions)	0.6	0.5	0.5	0.6	0.6	0.7	**0.8**	0.8	0.9	0.9	0.9	1.0	
% change	*20.0*	*-16.7*	*0.0*	*20.0*	*0.0*	*16.7*	***14.3***	*0.0*	*12.5*	*0.0*	*0.0*	*11.1*	*4.6*
Occupancy rates (%)	65.8	56.9	54.8	53.0	51.4	59.8	**68.5**	70.7	79.5	76.8	77.1	83.0	
Average room rates (R)	1 505	1 875	1 920	2 115	1 750	1 780	**1 950**	2 295	2 500	2 650	2 790	2 945	
% change	*16.7*	*24.6*	*2.4*	*10.2*	*-17.3*	*1.7*	***9.6***	*17.7*	*8.9*	*6.0*	*5.3*	*5.6*	*8.6*
Total room revenue (R millions)	**903**	**938**	**960**	**1 269**	**1 050**	**1 246**	**1 560**	**1 836**	**2 250**	**2 385**	**2 511**	**2 945**	
% change	***40.0***	***3.9***	***2.3***	***32.2***	***-17.3***	***18.7***	***25.2***	***17.7***	***22.5***	***6.0***	***5.3***	***17.3***	***13.6***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 12. Three, four and five-star hotels: Occupancy rates (%)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Regional analysis of major South African cities

Johannesburg

Johannesburg is the leading business destination in South Africa, while also attracting tourist travellers. Johannesburg hosts numerous conventions that attract both domestic and international participants.

Hotels in South Africa have experienced a volatile revenue pattern in recent years. Revenue was up by double digits in 2010, the year of the FIFA World Cup; fell by more than 18% in 2011; and then recovered a portion of that decline with a 13% increase in 2012.

The hotel market appears to have stabilised in 2013 with a 6% advance, although spending was still less than in 2010.

We expect that improving economic conditions and growth in foreign and domestic business travel will lead to continued expansion of the market in Johannesburg and project hotel room revenue to grow by approximately 6.5% on a compound annual basis.

Cape Town

Cape Town is the dominant tourist destination in South Africa. Table Mountain, Cape Point, Kirstenbosch National Botanical Gardens and Robben Island are among its main attractions. Cape Town is also, to a certain extent, a business destination and its convention centre also attracts large-scale international events.

Cape Town hotels did exceptionally well in 2013 with an increase of more than 18%, led by a 20% increase among its five-star hotels. Cape Town has a number of luxurious hotels that attract affluent visitors.

While we do not expect the pace of 2013 to be maintained, we do anticipate double-digit and high single-digit increases during the next five years.

Durban

Durban is a much smaller market than either Johannesburg or Cape Town and appeals to tourists looking for sandy beaches, waterfront hotels, game and nature reserves, casinos, as well as art galleries and museums.

Durban also appeals to visitors looking for natural landscape and a wilderness experience.

The Hilton Durban began a three-year refurbishment in 2014 to upgrade its guest areas, convention and event facilities and its restaurants and bars. In 2013, Tsogo Sun spent R220 million renovating and relaunching the Southern Sun Elangeni and the Southern Sun Maharani as a unified complex on Durban’s Golden Mile.

Durban’s hotels had a very strong year in 2013 and we expect revenue to grow at high single-digit rates over the next five years.

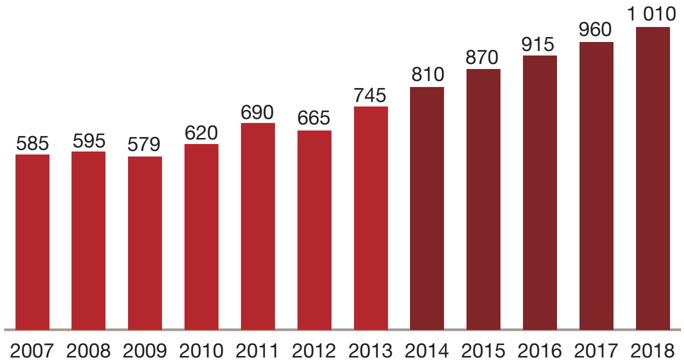
Guest houses and guest farms in South Africa

Guest house and guest farm room revenue rose 7.0% in 2013 as a 12.0% rise in the average room rate offset a 4.5% decrease in stay unit nights. While stay unit nights were down from the elevated level seen in 2012, the trend remains upward.

The decline in stay unit nights coincided with a 3.3% increase in available rooms, which was induced in part by the growth in stay unit nights in 2012, leading to a drop in the occupancy rate to 60.5% from 65.3% in 2013.

We expect a pick up in stay unit nights beginning in 2015, but most of the revenue growth will come from rate increases. We project an 8.7% rise in 2014 and growth to average 6.3% compounded annually through 2018. The cost of an average room will increase to R1 010 in 2018 from R745 in 2013.

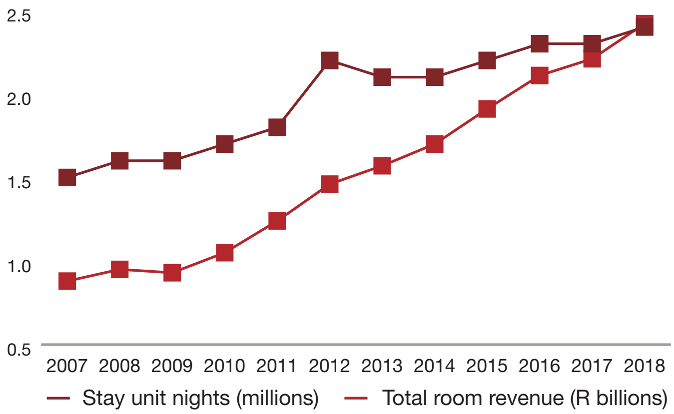
Figure 13. Guest houses/farms: Average room rates (R)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Overall room revenue expected to rise from R1.6 billion in 2013 to R2.4 billion in 2018, a 9.1% gain compounded annually.

Figure 14. Guest houses/farms: Stay unit nights and total room revenue



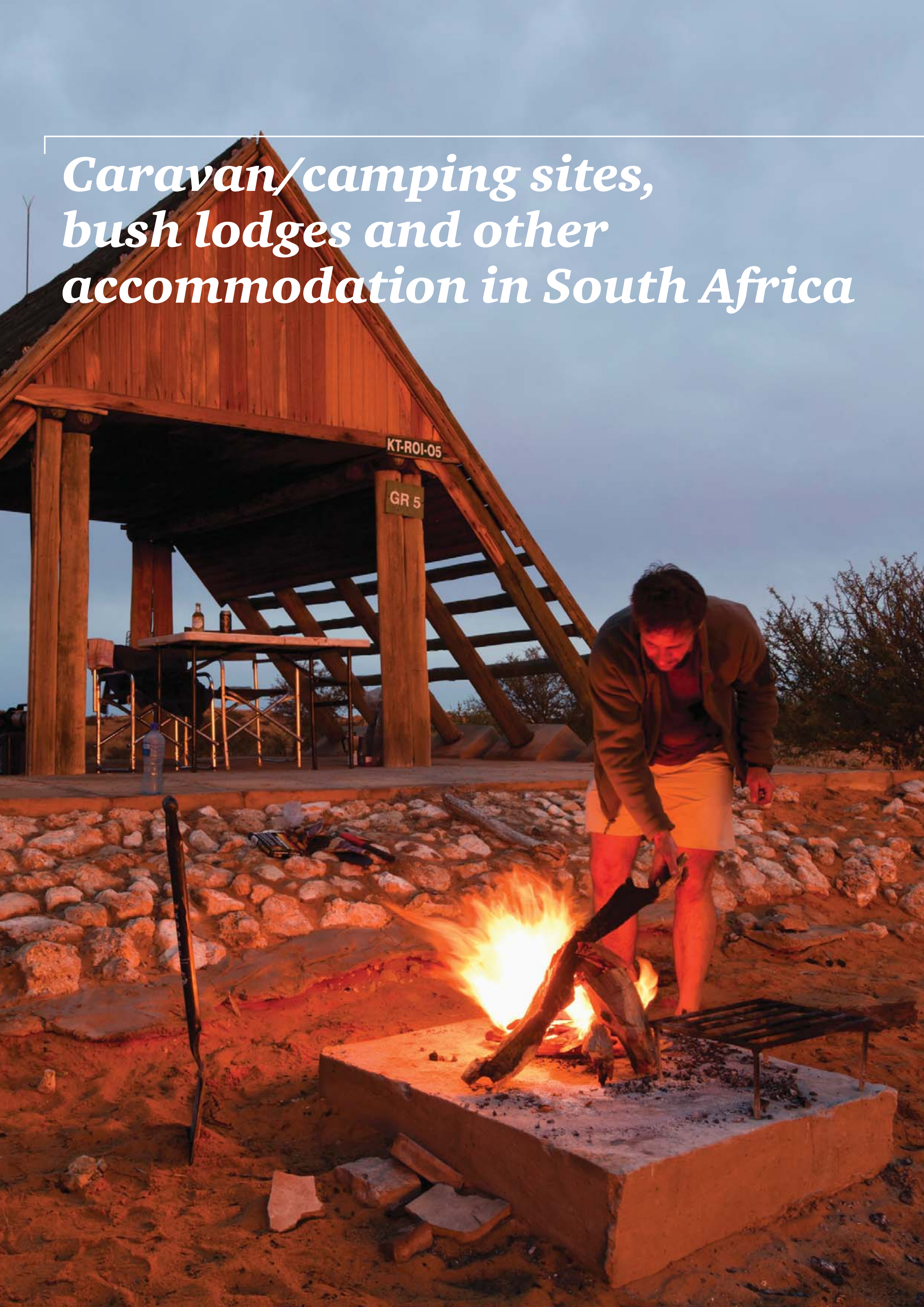
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

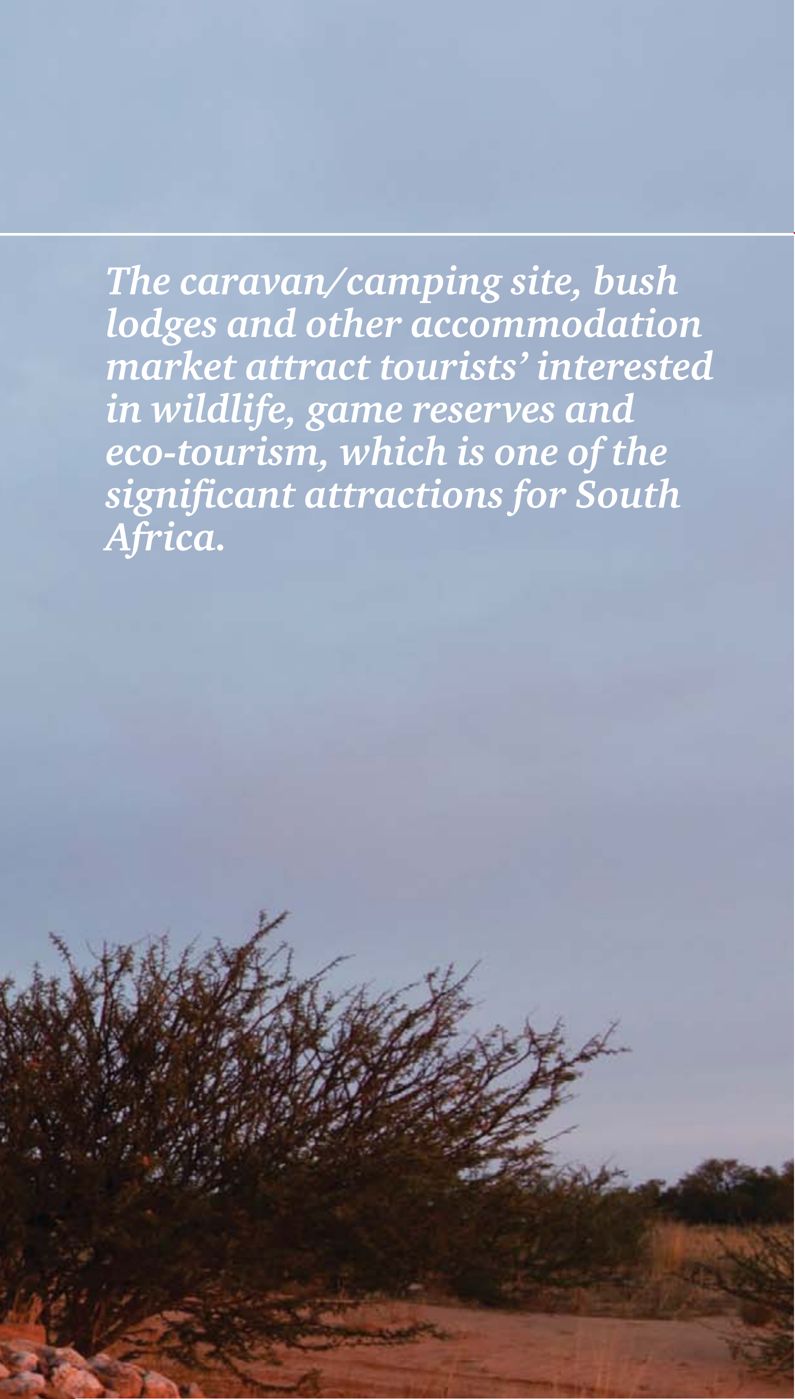
Guest houses/farms in South Africa

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2014-18 CAGR
Available rooms (thousands)	9.6	10.4	10.1	9.8	9.1	9.2	**9.5**	9.7	10.1	10.6	11.0	11.4	
% change	*12.9*	*8.3*	*-2.9*	*-3.0*	*-7.1*	*1.1*	***3.3***	*2.1*	*4.1*	*5.0*	*3.8*	*3.6*	*3.7*
Stay unit nights (millions)	1.5	1.6	1.6	1.7	1.8	2.2	**2.1**	2.1	2.2	2.3	2.3	2.4	
% change	*7.1*	*6.7*	*0.0*	*6.3*	*5.9*	*22.2*	***-4.5***	*0.0*	*4.8*	*4.5*	*0.0*	*4.3*	*2.7*
Occupancy rates (%)	42.9	42.0	43.4	47.5	54.2	65.3	**60.5**	59.3	59.6	59.3	57.2	57.7	
Average room rates (R)	585	595	579	620	690	665	**745**	810	870	915	960	1010	
% change	*6.4*	*1.7*	*-2.7*	*7.1*	*11.3*	*-3.6*	***12.0***	*8.7*	*7.4*	*5.2*	*4.9*	*5.2*	*6.3*
Total room revenue (R millions)	**878**	**952**	**926**	**1 054**	**1 242**	**1 463**	**1 565**	**1 701**	**1 914**	**2 105**	**2 208**	**2 424**	
% change	***14.0***	***8.4***	***-2.7***	***13.8***	***17.8***	***17.8***	***7.0***	***8.7***	***12.5***	***10.0***	***4.9***	***9.8***	***9.1***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Caravan/camping sites, bush lodges and other accommodation in South Africa





The caravan/camping site, bush lodges and other accommodation market attract tourists' interested in wildlife, game reserves and eco-tourism, which is one of the significant attractions for South Africa.

This segment of the market attracts young people in the leisure market who often spend more time in South Africa than other tourists. This segment also appeals to families who go camping and to people at lower-income levels as room rates are relatively low at R495 on average.

Stay unit nights rose 9.4%, stemming from the rise in domestic and international travellers, much faster than in other sectors, and revenue increased 15.2%.

We expect room revenue to increase at a 9.4% compound annual rate to R5.4 billion in 2018 from R3.5 billion in 2013.

Caravan/camping sites, bush lodges and other accommodation

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2014-18 CAGR
Available rooms (thousands)	46.5	46.7	46.9	44.8	43.6	45.3	**45.3**	45.5	46.0	46.7	47.5	48.4	
% change	*2.4*	*0.4*	*0.4*	*-4.5*	*-2.7*	*3.9*	***0.0***	*0.4*	*1.1*	*1.5*	*1.7*	*1.9*	*1.3*
Stay unit nights (millions)	6.2	6.3	6.6	6.7	6.1	6.4	**7.0**	6.7	7.0	7.1	7.3	7.4	
% change	*8.8*	*1.6*	*4.8*	*1.5*	*-9.0*	*4.9*	***9.4***	*-4.3*	*4.5*	*1.4*	*2.8*	*1.4*	*1.1*
Occupancy rates (%)	36.5	36.9	38.6	41.0	38.3	38.6	**42.3**	40.3	41.7	41.5	42.1	41.9	
Average room rates (R)	260	290	320	370	415	470	**495**	535	585	645	695	735	
% change	*18.2*	*11.5*	*10.3*	*15.6*	*12.2*	*13.3*	***5.3***	*8.1*	*9.3*	*10.3*	*7.8*	*5.8*	*8.2*
Total room revenue (R millions)	**1 612**	**1 827**	**2 112**	**2 479**	**2 532**	**3 008**	**3 465**	**3 585**	**4 095**	**4 580**	**5 074**	**5 439**	
% change	***28.5***	***13.3***	***15.6***	***17.4***	***2.1***	***18.8***	***15.2***	***3.5***	***14.2***	***11.8***	***10.8***	***7.2***	***9.4***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Looking back: 2013

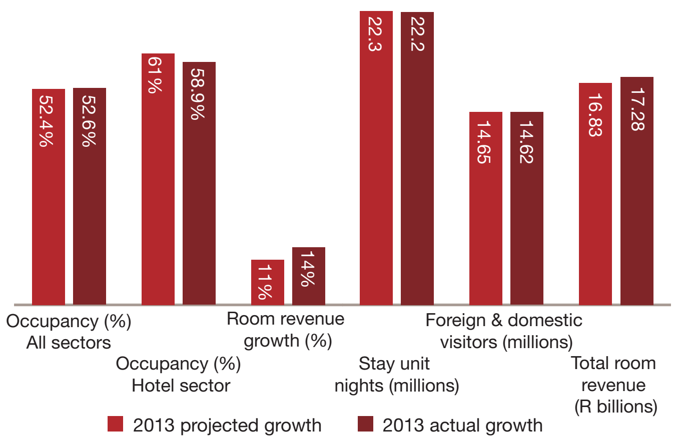
In our previous Outlook, we forecast occupancy rates to rise to 52.4% in 2013 for all accommodation sectors, but it came in at 52.6%.

Growth: Actual vs forecast results for 2013

	2013 projected	2013 actual
Occupancy (%): All sectors	52.4	52.6
Occupancy (%): Hotel sector	61.0	58.9
Stay unit nights (millions): All sectors	22.3	22.2
Room revenue growth (%): All sectors	11.0	14.0
Foreign & domestic visitors (millions): All sectors	14.65	14.62
Total room revenue (R millions): All sectors	**16 828**	**17 279**

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Growth: Actual vs forecast results for 2013



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Occupancy

In the hotel sector, we had projected an increase to 61.0%, but recovery was less pronounced and it grew to only 58.9%. Our forecast for five-star hotels of 68.5% was on target but four-star and three-star hotels were lower than we expected.

Occupancy: Actual vs forecast results for 2013

	2013 projected occupancy (%)	2013 actual occupancy (%)
Five-star hotels	68.5	68.5
Four-star hotels	64.1	62.5
Three-star hotels	64.7	63.1
All hotels	61.0	58.9
All sectors	**52.4**	**52.6**

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Stay unit nights

Decreased occupancy translated into 22.2 million stay unit nights for 2013 relatively close to our forecast of 22.3 million stay unit nights. Our forecast of 13.6 million nights for all hotels was slightly higher than the actual 13.1 million nights.

Stay unit nights: Actual vs forecast results for 2013

	2013 projected stay unit nights (millions)	2013 actual stay unit nights (millions)
Five-star hotels	0.8	0.8
Four-star hotels	4.0	3.9
Three-star hotels	5.1	5.0
All hotels	13.6	13.1
All sectors	**22.3**	**22.2**

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Total room revenue

We projected an 11.0% increase in total room revenue for the industry, but higher price growth led to a 14.0% rise. Five-star hotel room revenue proved to be above expectations, but we were too high for three- and four-star hotels.

Revenue growth: Actual vs forecast results for 2013

	2013 projected growth (%)	2013 actual growth (%)
Five-star hotels	21.3	25.2
Four-star hotels	20.1	17.1
Three-star hotels	15.7	14.2
All hotels	13.2	14.6
All sectors	**11.0**	**14.0**

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Outlook: 2014-2018

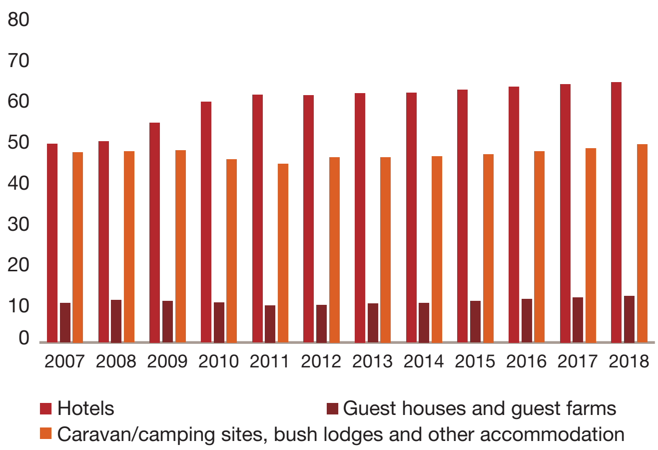
Available rooms

The overall number of available rooms rose 0.7% in 2013, down from the 1.5% increase in 2012.

We expect guest houses to be the fastest-growing category averaging 3.7% compounded annually, with slower growth in the other categories and only a 0.9% compound annual increase for hotels, as that sector looks to avoid overcapacity in room supply in a market where there is already an oversupply in certain geographical nodes and market sectors.

Overall room availability is projected to increase at a 1.3% compound annual rate to 123 400 in 2018 from 115 700 in 2013.

Figure 15. Available rooms (thousands)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Available rooms in South Africa (thousands)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2014-18 CAGR
Hotels	48.5	49.1	53.7	58.8	60.5	60.4	**60.9**	61.0	61.7	62.5	63.1	63.6	
% change	*1.0*	*1.2*	*9.4*	*9.5*	*2.9*	*-0.2*	***0.8***	*0.2*	*1.1*	*1.3*	*1.0*	*0.8*	*0.9*
Guest houses/ guest farms	9.6	10.4	10.1	9.8	9.1	9.2	**9.5**	9.7	10.1	10.6	11.0	11.4	
% change	*12.9*	*8.3*	*-2.9*	*-3.0*	*-7.1*	*1.1*	***3.3***	*2.1*	*4.1*	*5.0*	*3.8*	*3.6*	*3.7*
Caravan/ camping sites, bush lodges and other accommodation	46.5	46.7	46.9	44.8	43.6	45.3	**45.3**	45.5	46.0	46.7	47.5	48.4	
% change	*2.4*	*0.4*	*0.4*	*-4.5*	*-2.7*	*3.9*	***0.0***	*0.4*	*1.1*	*1.5*	*1.7*	*1.9*	*1.3*
Total	**104.6**	**106.2**	**110.7**	**113.4**	**113.2**	**114.9**	**115.7**	**116.2**	**117.8**	**119.8**	**121.6**	**123.4**	
% change	***2.6***	***1.5***	***4.2***	***2.4***	***-0.2***	***1.5***	***0.7***	***0.4***	***1.4***	***1.7***	***1.5***	***1.5***	***1.3***

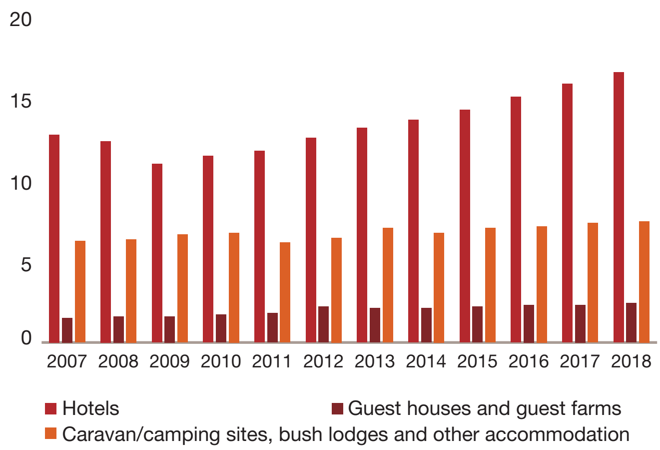
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Stay unit nights

Stay unit nights rose 5.2% in 2013, led by a 9.4% increase for caravan/camping sites, bush lodges and other accommodation. Stay unit nights for hotels rose 4.8% but guest houses/guest farms fell 4.5%.

We project hotels to be the fastest-growing category over the next five years with a 4.7% compound annual increase. We predict increases in the other categories to average less than 3% annually.

Figure 16. Stay unit nights (millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Stay unit nights (millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2014-18 CAGR
Hotels	12.7	12.3	10.9	11.4	11.7	12.5	**13.1**	13.6	14.2	15.0	15.8	16.5	
% change	*3.3*	*-3.1*	*-11.4*	*4.6*	*2.6*	*6.8*	***4.8***	*3.8*	*4.4*	*5.6*	*5.3*	*4.4*	*4.7*
Guest houses/ guest farms	1.5	1.6	1.6	1.7	1.8	2.2	**2.1**	2.1	2.2	2.3	2.3	2.4	
% change	*7.1*	*6.7*	*0.0*	*6.3*	*5.9*	*22.2*	***-4.5***	*0.0*	*4.8*	*4.5*	*0.0*	*4.3*	*2.7*
Caravan/ camping sites, bush lodges and other accommodation	6.2	6.3	6.6	6.7	6.1	6.4	**7.0**	6.7	7.0	7.1	7.3	7.4	
% change	*8.8*	*1.6*	*4.8*	*1.5*	*-9.0*	*4.9*	***9.4***	*-4.3*	*4.5*	*1.4*	*2.8*	*1.4*	*1.1*
Total	**20.4**	**20.2**	**19.1**	**19.8**	**19.6**	**21.1**	**22.2**	**22.4**	**23.4**	**24.4**	**25.4**	**26.3**	
% change	***5.2***	***-1.0***	***-5.4***	***3.7***	***-1.0***	***7.7***	***5.2***	***0.9***	***4.5***	***4.3***	***4.1***	***3.5***	***3.4***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Occupancy rates

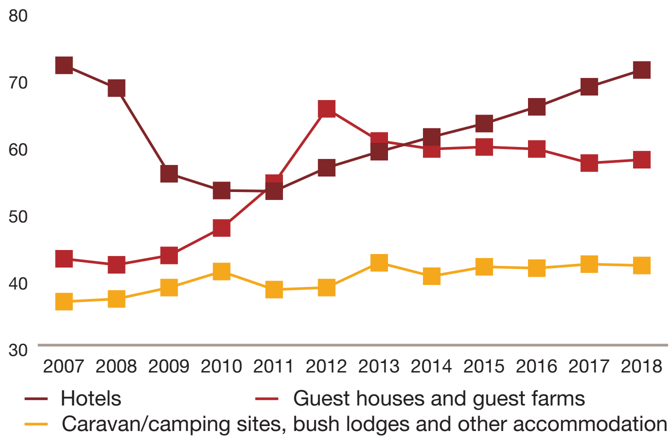
The overall occupancy rate rose to 52.6% in 2013. Guest houses/guest farms had the highest occupancy rate at 60.5%, but was the only category to show a decline in 2013, having posted an occupancy rate of 65.3% in 2012.

We expect occupancy rates to continue to increase for hotels, rising to 71.1% by 2018, overtaking guest houses/guest farms to again become the leading category.

For guest houses, we project occupancy rates to drop further in 2014 and then climb back to 57.7% in 2018, a figure that will remain lower than in 2012-13, but above the levels in prior years, reflecting a shift back towards hotels.

We expect occupancy rates for caravan/camping sites, bush lodges and other accommodation to dip to 40.3% in 2014 from 42.3% in 2013, and then edge up to 41.9% by 2018.

Figure 17. Occupancy rates (%)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Occupancy rates in South Africa (%)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Hotels	71.8	68.4	55.6	53.1	53.0	56.5	**58.9**	61.1	63.1	65.6	68.6	71.1
Guest houses/ guest farms	42.9	42.0	43.4	47.5	54.2	65.3	**60.5**	59.3	59.6	59.3	57.2	57.7
Caravan/ camping sites, bush lodges and other accommodation	36.5	36.9	38.6	41.0	38.3	38.6	**42.3**	40.3	41.7	41.5	42.1	41.9
Total	**53.4**	**52.0**	**47.3**	**47.8**	**47.4**	**50.2**	**52.6**	**52.8**	**54.4**	**55.6**	**57.2**	**58.4**

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Average room rates

Perhaps the most significant development in 2013 was the rise in average room rates, which increased 8.4%, well above the 5.9% rate of inflation.

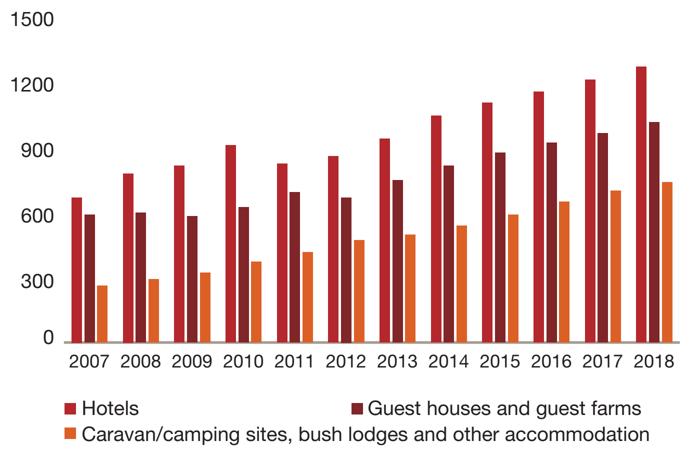
There is a large disparity in average room rates between the three categories. Each component occupies a niche and targets different visitors.

Hotels appeal to business travellers and the high-end vacation market. Guest houses and guest farms target consumers looking for comfortable accommodation and local flavour. They also attract many budget conscious business travellers. Caravan and camping sites market to people looking for inexpensive accommodation while game/bush lodges appeal to visitors interested in outdoor activities.

Caravan/camping sites, bush lodges and other accommodation was the slowest growing category in 2013 with a 5.3% increase, but we expect it to edge back to its historical growth pattern, averaging 8.2% on a compound annual basis.

Average rates for hotels are expected to rise at a 6.2% compound annual rate while guest houses will increase at a comparable 6.3% compound annual rate.

Figure 18. Average room rates (R)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Average room rates in South Africa (R)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2014-18 CAGR
Hotels	665	775	810	905	820	855	**935**	1 040	1 100	1 150	1 205	1 265	
% change	*14.7*	*16.5*	*4.5*	*11.7*	*-9.4*	*4.3*	***9.4***	*11.2*	*5.8*	*4.5*	*4.8*	*5.0*	*6.2*
Guest houses/ guest farms	585	595	579	620	690	665	**745**	810	870	915	960	1010	
% change	*6.4*	*1.7*	*-2.7*	*7.1*	*11.3*	*-3.6*	***12.0***	*8.7*	*7.4*	*5.2*	*4.9*	*5.2*	*6.3*
Caravan/ camping sites, bush lodges and other accommodation	260	290	320	370	415	470	**495**	535	585	645	695	735	
% change	*18.2*	*11.5*	*10.3*	*15.6*	*12.2*	*13.3*	***5.3***	*8.1*	*9.3*	*10.3*	*7.8*	*5.8*	*8.2*
Total	**536**	**610**	**621**	**699**	**682**	**718**	**778**	**867**	**924**	**981**	**1 036**	**1 093**	
% change	***13.6***	***13.8***	***1.8***	***12.6***	***-2.4***	***5.3***	***8.4***	***11.4***	***6.6***	***6.2***	***5.6***	***5.5***	***7.0***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

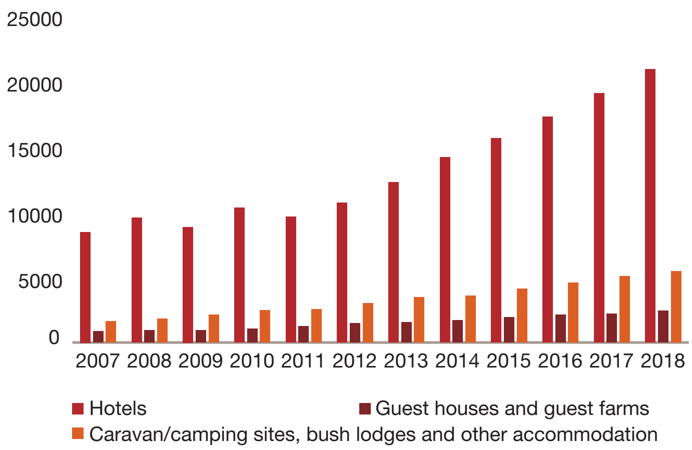
Total room revenue

Hotels accounted for 71% of total accommodation revenue in 2013 and this share will rise to 73% by 2018 as it will be the fastest-growing category with a projected 11.2% compound annual increase.

Caravan/camping sites, bush lodges and other accommodation is projected to grow at a 9.4% compound annual rate.

Guest houses and guest farms is projected to be the slowest-growing component of the overall accommodation market with a 9.1% compound annual increase.

Figure 19. Total room revenue (R millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Total room revenue in South Africa (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2014-18 CAGR
Hotels	8 446	9 533	8 829	10 317	9 594	10 688	**12 249**	14 144	15 620	17 250	19 039	20 873	
% change	*18.4*	*12.9*	*-7.4*	*16.9*	*-7.0*	*11.4*	***14.6***	*15.5*	*10.4*	*10.4*	*10.4*	*9.6*	*11.2*
Guest houses/ guest farms	878	952	926	1 054	1 242	1 463	**1 565**	1 701	1 914	2 105	2 208	2 424	
% change	*14.0*	*8.4*	*-2.7*	*13.8*	*17.8*	*17.8*	***7.0***	*8.7*	*12.5*	*10.0*	*4.9*	*9.8*	*9.1*
Caravan/ camping sites, bush lodges and other accommodation	1 612	1 827	2 112	2 479	2 532	3 008	**3 465**	3 585	4 095	4 580	5 074	5 439	
% change	*28.5*	*13.3*	*15.6*	*17.4*	*2.1*	*18.8*	***15.2***	*3.5*	*14.2*	*11.8*	*10.8*	*7.2*	*9.4*
Total	**10 936**	**12 312**	**11 867**	**13 850**	**13 368**	**15 159**	**17 279**	**19 430**	**21 629**	**23 935**	**26 321**	**28 736**	
% change	***19.4***	***12.6***	***-3.6***	***16.7***	***-3.5***	***13.4***	***14.0***	***12.4***	***11.3***	***10.7***	***10.0***	***9.2***	***10.7***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Hotel accommodation in Nigeria

The hotel market in Nigeria grew 9.0% in 2013, which was the smallest gain since 2010. Over the past four years, spending rose by a cumulative 59%. Large increase in available rooms and a strong economy has propelled the hotel market in recent years.

Nigeria has an energy-based economy – oil and natural gas production – that has grown rapidly in real terms. Real GDP increased 6.4% in 2013 and by a cumulative 40.4% over the past five years, making Nigeria one of the fastest-growing economies in the world.

The hotel market in Nigeria is almost entirely corporate driven as companies around the world want to do business in Nigeria, Africa's most populous country.

The number of available rooms has increased by a third since 2009. Openings in 2013 include the Intercontinental Hotel in Lagos, Swiss International Mabisel-Port Harcourt, and Swiss International Westown-Lagos, each of which are five-star hotels, and AES Luxury Apartments in Abuja, which markets itself as a six-star accommodation.

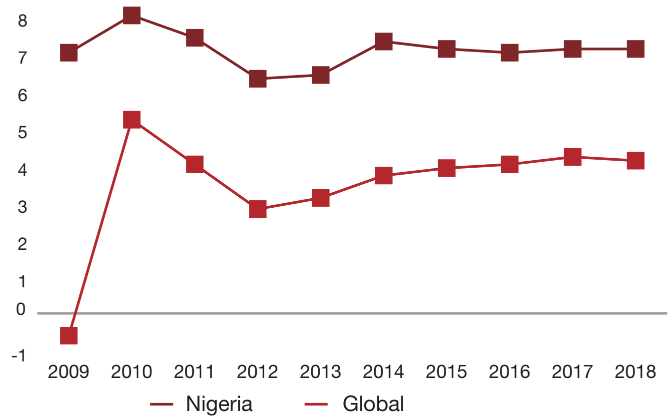
There are a number of planned openings. Protea Group has plans to build five hotels in Nigeria, Hexagon Network plans a new hotel and an amusement park; Marriott has three five-star hotels expected to open in 2015 and Starwood plans to open Four Points by Sheraton and Le Meridien Ikoyi Towers by 2015. Transcorp Hilton Lagos and Port Harcourt are also scheduled to open in 2017.

With stay unit nights up a cumulative 42% since 2009, international hotel operators are targeting Nigeria to participate in that growth. Meanwhile, the government is investing in infrastructure to make tourism more appealing and the economy continues to surge.

In April 2014 Nigeria 'rebased' its gross domestic product (GDP) data to include previously uncounted industries like telecoms, information technology, music, online sales, airlines, and film production. This has pushed it above South Africa as the continent's biggest economy with GDP for 2013 totalling USD509.9 billion.

Real GDP is projected to improve to 7.3% in 2014 and to average 7.0% compounded annually to 2018. These projected gains are well in excess of the global average. Corporate travel continues to increase as businesses take advantage of Nigeria's fast growing economy.

Figure 20. Real GDP growth (%)



Source: International Monetary Fund, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Real GDP growth (%)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2014-18 CAGR
Nigeria	7.0	8.0	7.4	6.3	**6.4**	7.3	7.1	7.0	7.1	7.1	7.0
Global	-0.6	5.2	4.0	2.8	**3.1**	3.7	3.9	4.0	4.2	4.1	4.0

Sources: International Monetary Fund, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Hotel accommodation

Banks are supporting the market with available financing. For example, the N30 billion Intercontinental Hotel that opened in 2013 in Lagos was funded by Skye and Wema Bank Nigeria.

As a consequence of these developments, we expect large increases in room availability.

Stay unit nights increased 6.3% in 2013 and have grown even faster than room availability over the past three years. An ongoing concern is the impact on tourism of terror attacks by Boko Haram, which seeks to overthrow the federal government and establish an Islamic state, and ongoing sectarian conflict between Christians and Muslims in the north of the country. However, with most of the market consisting of business travel, we expect the effect on the hotel market will be relatively mild.

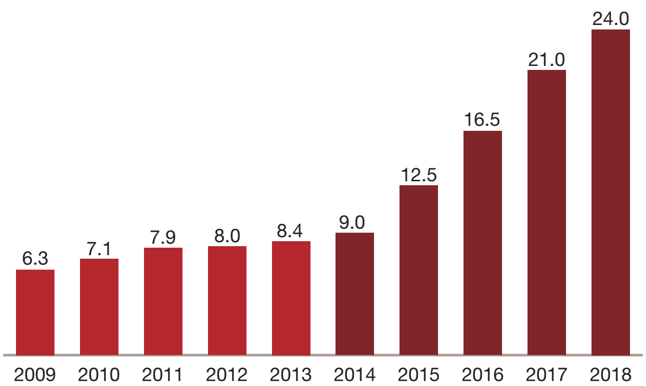
Average room rates have grown slowly in recent years, rising by only 2.5% in 2013.

Hotels in Nigeria

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2014-18 CAGR
Available rooms (thousands)	6.3	7.1	7.9	8.0	**8.4**	9.0	12.5	16.5	21.0	24.0	
% change	*3.3*	*12.7*	*11.3*	*1.3*	***5.0***	*7.1*	*38.9*	*32.0*	*27.3*	*14.3*	*23.4*
Stay unit nights (millions)	1.2	1.3	1.5	1.6	**1.7**	1.8	2.0	2.4	3.2	4.2	
% change	*-14.3*	*8.3*	*15.4*	*6.7*	***6.3***	*5.9*	*11.1*	*20.0*	*33.3*	*31.3*	*19.8*
Occupancy rates (%)	52.2	50.2	52.0	54.6	**55.4**	54.8	43.8	39.7	41.7	47.9	
Average room rates (USD)	217	214	230	237	**243**	249	255	260	266	272	
% change	*8.0*	*-1.4*	*7.5*	*3.0*	***2.5***	*2.5*	*2.4*	*2.0*	*2.3*	*2.3*	*2.3*
Total room revenue (USD millions)	**260**	**278**	**345**	**379**	**413**	**448**	**510**	**624**	**851**	**1 142**	
% change	***-7.5***	***6.9***	***24.1***	***9.9***	***9.0***	***8.5***	***13.8***	***22.4***	***36.4***	***34.2***	***22.6***

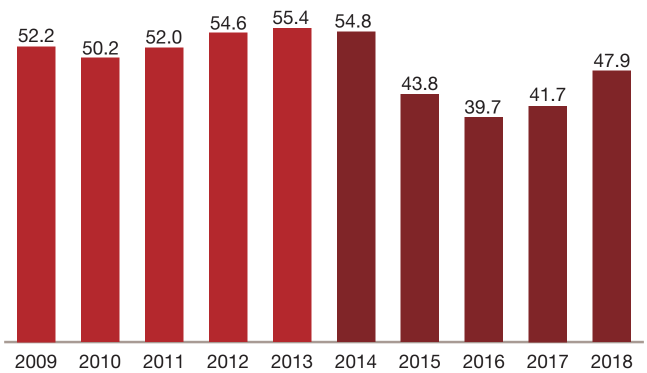
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 21. Available rooms (thousands)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 22. Occupancy rates (%)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Three and four-star hotels

We have combined the data for three and four-star hotels in Nigeria. These hotels accounted for 51% of total available rooms and 59% of stay unit nights in 2013. The average room rate was USD265 (R2 806) in 2013, 9% higher than the overall average, reflecting the fact that there are still few five-star hotels in Nigeria. The price, however, was 44% higher than the average rate for a five-star hotel in South Africa.

With several five-star hotels opening in Nigeria, we expect the three and four-star market to grow more slowly than the overall market. Available rooms will increase at a 7.9% compound annual rate to 6 300 from 4 300 in 2013; stay unit nights will increase from 1.0 million in 2013 to 1.6 million by 2018, a 9.9% compound annual increase. Occupancy rates will edge up to 69.6% in 2018 from 63.7% in 2013.

The average room rate is projected to increase by 3.6% compounded annually to USD316 (R3 345) and total room revenue will reach USD506 million (R5.4 billion) from USD265 million (R2.8 billion) in 2013, a 13.8% gain compounded annually.

Three and four-star hotels in Nigeria

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2014-18 CAGR
Available rooms (thousands)	3.7	3.8	4.2	4.3	**4.3**	4.3	4.5	4.9	5.5	6.3	
% change	*0.0*	*2.7*	*10.5*	*2.4*	***0.0***	*0.0*	*4.7*	*8.9*	*12.2*	*14.5*	*7.9*
Stay unit nights (millions)	0.7	0.8	0.9	0.9	**1.0**	1.0	1.1	1.2	1.4	1.6	
% change	*-12.5*	*14.3*	*12.5*	*0.0*	***11.1***	*0.0*	*10.0*	*9.1*	*16.7*	*14.3*	*9.9*
Occupancy rates (%)	51.8	57.7	58.7	57.2	**63.7**	63.7	67.0	66.9	69.7	69.6	
Average room rates (USD)	228	234	252	257	**265**	281	296	305	311	316	
% change	*13.4*	*2.6*	*7.7*	*2.0*	***3.1***	*6.0*	*5.3*	*3.0*	*2.0*	*1.6*	*3.6*
Total room revenue (USD millions)	**160**	**187**	**227**	**231**	**265**	**281**	**326**	**366**	**435**	**506**	
% change	***-0.6***	***16.9***	***21.4***	***1.8***	***14.7***	***6.0***	***16.0***	***12.3***	***18.9***	***16.3***	***13.8***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Looking back: 2013

While the Nigerian market grew at a healthy rate in 2013, we had projected an even larger increase. Stay unit nights were slightly lower than we anticipated, 1.7 million vs. a 1.8 million projection, and the occupancy rate averaged 55.4%, below our 60.9% projection.

Average room rates also grew more slowly than we expected, with the result that the 9.0% increase in room revenue was less than the projected 20.7% advance. For three and four-star hotels, room revenue rose 14.7% compared with our 18.0% projection.

Growth: Actual vs forecast results for 2013

	2013 projected	2013 actual
Occupancy (%)	60.9	55.4
Stay unit nights (millions)	1.8	1.7
Total hotel room revenue growth (%)	20.7	9.0
Three and four-star hotel room revenue growth (%)	18.0	14.7

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Outlook: 2014-2018

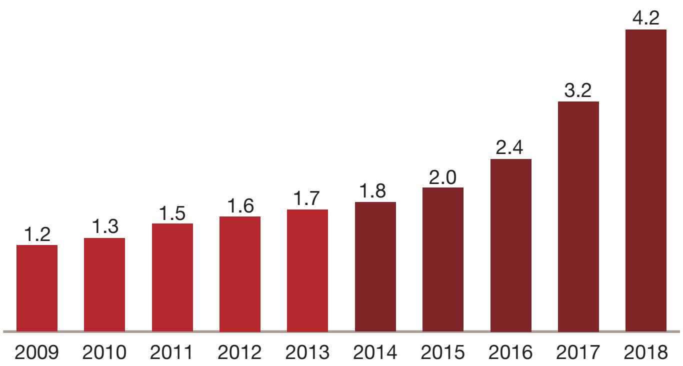
The number of hotel rooms will nearly triple during the next five years, rising from 8 400 in 2013 to 24 000 in 2018, a 23.4% compound annual increase.

We project stay unit nights to increase at a 19.8% compound annual rate to 4.2 million in 2018 from 1.7 million in 2013. While that increase represents an impressive gain, it will not match the expected growth in room availability. Consequently, we expect occupancy rates to fall over the next three years from 55.4% in 2013 to 39.7% in 2016. We then expect the near-term effects on tourism to have run their course and we look for faster growth in stay unit nights, while growth in room availability will moderate. The result will be a rebound in occupancy rates to 47.9% in 2018.

We expect this pace of growth to continue and project increases in room rates to average 2.3% compounded annually over the next five years.

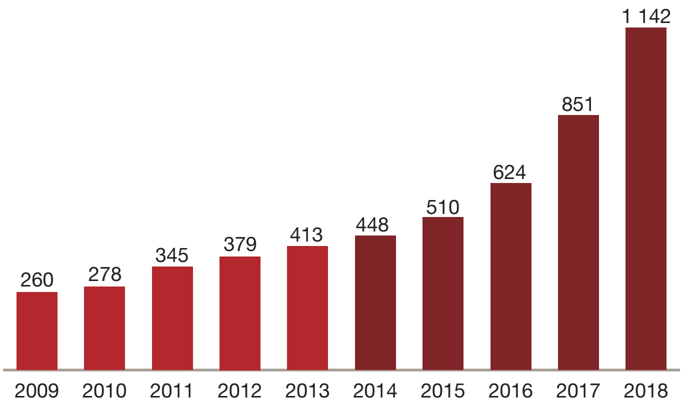
Overall hotel room revenue is expected to expand at a 22.6% compound annual rate to USD1.1 billion (R12.1 billion) in 2018 from USD413 million (R4.4 billion) in 2013.

Figure 23. Stay unit nights (millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 24. Total room revenue (USD millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

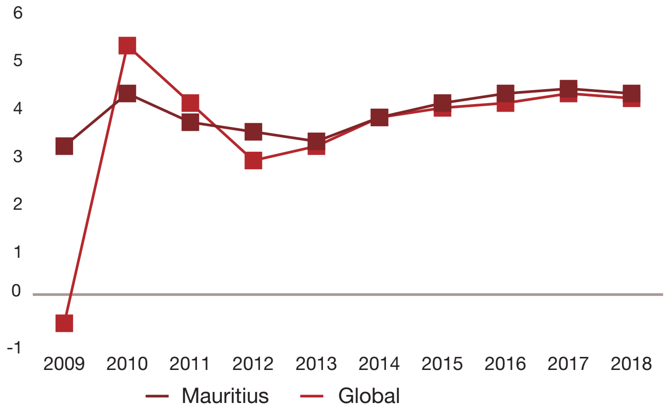
Hotel accommodation in Mauritius

Mauritius attracts high-end leisure travellers that are looking for a tropical climate, beaches, water sports and natural beauty. There is relatively little business travel, only 4% of travellers to Mauritius in 2013 were there for business purposes. Mauritius competes with the Maldives, Sri Lanka and the Seychelles for the tropical tourist market.

As Mauritius relies principally on foreign leisure travellers, the global economy plays an important role in tourist arrivals. Global real GDP rose 3.1% in 2013, up from the 2.8% rise in 2012 and this improvement contributed to growth in tourism to Mauritius in 2013.

We project global real GDP to rise by 4.0% compounded annually, which will support ongoing growth in tourism to Mauritius.

Figure 25. Real GDP growth (%)



Source: Mauritius Chamber of Commerce and Industry, International Monetary Fund, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

In addition, an increase in seating airline capacity to Mauritius will support increased tourism. At the same time, however, Mauritius is facing stiff competition as a tourist attraction from Sri Lanka, the Maldives and the Seychelles.

While tourism was up 2.9% in Mauritius in 2013, it rose by 26.7% in Sri Lanka, by 16.6% in the Maldives and 10.7% in the Seychelles. Competition from these countries will partially offset the positive impact of an improving global economy and growth in seating capacity. Consequently, we expect only low single-digit increases to Mauritius in the coming years. We project tourist arrivals to Mauritius to increase by 2.7% in 2014 and at a 3.2% compound annual rate through 2018.

Real GDP growth (%)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2014-18 CAGR
Mauritius	3.1	4.2	3.6	3.4	**3.2**	3.7	4.0	4.2	4.3	4.2	4.1
Global	-0.6	5.2	4.0	2.8	**3.1**	3.7	3.9	4.0	4.2	4.1	4.0

Sources: Mauritius Chamber of Commerce and Industry, International Monetary Fund, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

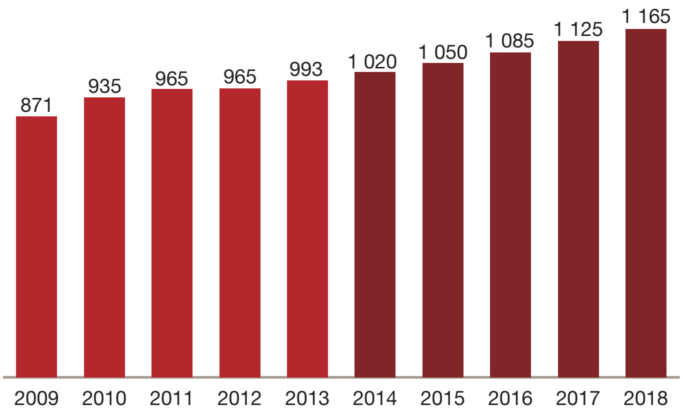
Tourist arrivals to Mauritius (thousands)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2014-18 CAGR
Tourist arrivals	871.4	934.8	964.6	965.4	**993.1**	1 020.0	1 050.0	1 085.0	1 125.0	1 165.0	
% change	*-6.4*	*7.3*	*3.2*	*0.1*	***2.9***	*2.7*	*2.9*	*3.3*	*3.7*	*3.6*	*3.2*

Note: Figures include arrivals from non-specified countries

Sources: Ministry of Finance and Economic Development, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 26. Tourist arrivals (thousands)



Sources: Ministry of Finance and Economic Development, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Air Mauritius discontinued direct flights to Germany, Italy and Switzerland in 2012. While tourist arrivals from Italy fell 22.0% in 2013 (in large part reflecting a poor economy), arrivals from Germany and Switzerland increased as tourists travelled to Mauritius from those countries on flights routed through Paris or through other cities. In addition, Condor Airways increased its load factor and had direct flights from Munich and Frankfurt to Mauritius.

The total number of seats to Mauritius also has increased since 2012. Local operators are expecting a further 100 000 seat increase in 2014 with the addition of A380 flights by Emirates Airways and the arrival of TUI, Europe's largest tour operator.

Europe is the principal source of tourist travel to Mauritius but travel from Europe fell 1.5% in 2013. The number of visitors from Asia Pacific rose 24.3% and visitors from China increased by 100.7% in large part because of the introduction of direct flights by Air Mauritius to Shanghai and Beijing.

France is the leading country in travel to Mauritius at 244 752 in 2013, representing 25% of all tourist arrivals to Mauritius in 2013. The number of visitors from France fell 4.7% in 2013. Travel from Italy declined 22.0%, Russia was down 23.3% and Spain declined 10.9%. The UK recorded the largest gain with an 11.8% increase followed by Germany at 9.7%. Mid-single-digit increases also were recorded in Belgium, Sweden and Switzerland.

Tourist Arrivals to Mauritius from Europe

	2012	2013	% change
Austria	8 151	7 937	-2.6
Belgium	10 967	11 566	5.5
France	256 929	244 752	-4.7
Germany	55 186	60 530	9.7
Italy	40 009	31 205	-22.0
Netherlands	4 434	4 499	1.5
Spain	9 473	8 441	-10.9
Sweden	4 295	4 577	6.6
Switzerland	26 002	27 756	6.7
United Kingdom	87 648	98 017	11.8
Russia	19 429	14 905	-23.3
Other	33 005	32 861	-0.4
Total Europe	**555 528**	**547 046**	**-1.5**

Source: Ministry of Finance and Economic Development

The next largest source of tourists is from Africa, led by nearby Réunion at 143 114 in 2013, down 0.8%, and South Africa at 94 208, up 5.8%. Overall tourist arrivals from Africa increased 2.7% in 2013.

Tourist Arrivals to Mauritius from Africa

	2012	2013	% change
Comoros	1 076	1 147	6.6
Kenya	2 705	2 865	5.9
Malagasy	13 563	13 943	2.8
Reunion	144 340	143 114	-0.8
Seychelles	6 779	7 187	6.0
South Africa	89 058	94 208	5.8
Zimbabwe	1 568	1 526	-2.7
Other	11 297	13 783	22.0
Total	**270 386**	**277 773**	**2.7**

Source: Ministry of Finance and Economic Development

As a result of direct flights to China, tourism from that country doubled in 2013 to 41 913. Still, India remained the leading source of Asian tourists to Mauritius at 57 255, up 3.7%. Malaysia and the United Arab Emirates had the next largest increases at 61.4% and 51.0%, respectively, while Hong Kong rose 14.2%. Tourism from each country increased in 2013 and the overall gain of 24.3% pushed the total to 151 914.

Tourist Arrivals to Mauritius from Asia-Pacific

	2012	2013	% change
Australia	17 009	18 393	8.1
Hong Kong	1 269	1 449	14.2
India	55 197	57 255	3.7
Japan	1 641	1 768	7.7
Malaysia	1 967	3 174	61.4
China	20 885	41 913	100.7
Singapore	2 078	2 112	1.6
South Korea	2 651	2 778	4.8
United Arab Emirates	5 403	8 161	51.0
Other	14 099	14 911	5.8
Total	**122 199**	**151 914**	**24.3**

Source: Ministry of Finance and Economic Development

For the Americas, by contrast, travel to Mauritius fell 6.9%, with the United States down 9.4% and Canada down 6.4%. The total number of tourists from the Americas dropped to 15 473 in 2013.

Tourist Arrivals to Mauritius from Americas

	2012	2013	% change
United States	6 374	5 777	-9.4
Canada	4 736	4 435	-6.4
Other	5 514	5 261	-4.6
Total	**16 624**	**15 473**	**-6.9**

Source: Ministry of Finance and Economic Development

Hotel accommodation

There were 12 376 available hotel rooms in Mauritius in 2013, down 1.2% from 2012. (The available room totals do not include non-operational rooms.) There are a number of projects that recently opened or are in the pipeline that will lead to an increase in the available rooms beginning in 2014.

Starwood's St. Regis Mauritius resort opened in 2013; Trou aux Biches Resort & Spa was rebuilt; and Angsana Balaclava Mauritius, Baystone Boutique Hotel & Spa, the Paradise Cove Hotel, and Centara Grand Azuri Resort & Spa Mauritius were other properties that were either relaunched or newly opened.

In 2014, the renovation of the Royal Palm Mauritius is expected to be completed, the InterContinental Hotels Group opened the Holiday Inn Mauritius Airport, the Grand Mauritian is reopening as the Westin, and Outrigger Resorts purchased Mövenpick in 2013 and then renovated and launched it under their own brand in 2014.

Stay unit nights were flat in 2013 at 2.86 million but we expect a 1.4% rise in 2014 to 2.9 million.

Hotels in Mauritius are facing increased competition not only from Sri Lanka, the Maldives and the Seychelles but also from high-end self-catering residences that are attracting wealthy tourists.

In addition, average stays are expected to decline as the share of travellers from Asia increases as Asian travellers tend to have shorter stays than European travellers. On the positive side, a rebounding European economy and gains in overall foreign tourist arrivals will help the hotel market in Mauritius.

As a resort destination, the average room rate in Mauritius is much more expensive than the typical hotel in South Africa. The average hotel room in Mauritius costs €170 (R2 492), 2.7 times higher than the level in South Africa and 28% higher than South Africa's average five-star room rate.

The average room rate fell 8.6% in 2013, but appears to be rebounding in 2014. We project a 1.2% increase for the year as a whole with somewhat faster increases in subsequent years.

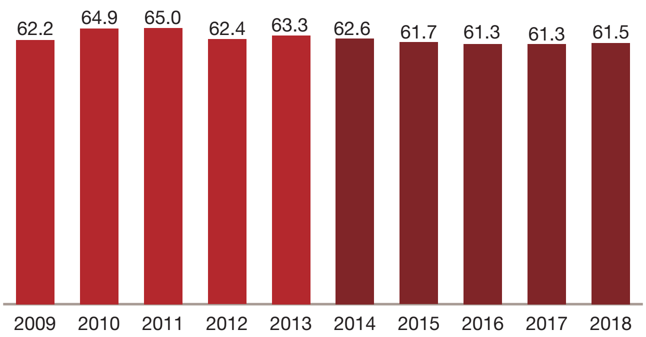
Hotel room revenue in Mauritius is expected to increase from €486 million (R7.1 billion) in 2013 to a projected €608 million (R8.9 billion) in 2018, growing at a 4.6% compound annual rate.

Hotels in Mauritius

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2014-18 CAGR
Available rooms (thousands)	11 456	12 075	11 925	12 527	**12 376**	12 700	13 100	13 470	13 850	14 250	
% change	*3.2*	*5.4*	*-1.2*	*5.0*	***-1.2***	*2.6*	*3.1*	*2.8*	*2.8*	*2.9*	*2.9*
Stay unit nights (millions)	2.60	2.86	2.83	2.86	**2.86**	2.90	2.95	3.02	3.10	3.20	
% change	*-3.7*	*10.0*	*-1.0*	*1.1*	***0.0***	*1.4*	*1.7*	*2.4*	*2.6*	*3.2*	*2.3*
Occupancy rates (%)	62.2	64.9	65.0	62.4	**63.3**	62.6	61.7	61.3	61.3	61.5	
Average room rates (€)	183	165	181	186	**170**	172	175	179	184	190	
% change	*-4.2*	*-9.8*	*9.7*	*2.8*	***-8.6***	*1.2*	*1.7*	*2.3*	*2.8*	*3.3*	*2.2*
Total room revenue (€ millions)	**476**	**472**	**512**	**532**	**486**	**499**	**516**	**541**	**570**	**608**	
% change	***-7.8***	***-0.8***	***8.5***	***3.9***	***-8.7***	***2.7***	***3.4***	***4.8***	***5.4***	***6.7***	***4.6***

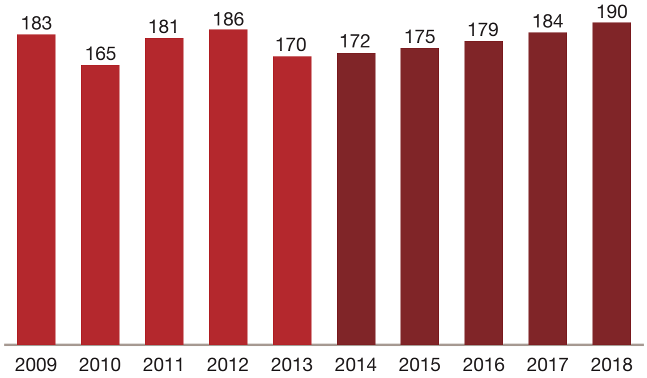
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 27. Occupancy rates (%)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 28. Figure 29. Average room rates (€)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Five-star hotels

The average room rate for five-star hotels declined between 2008 and 2013, as hotels discounted rates to attract tourists in a weak economy, but appears to be picking up in 2014.

With competition from the Maldives, Sri Lanka and the Seychelles increasing, we expect room rate growth to remain modest, averaging 2.1% compounded annually to reach €262 (R3 840) in 2018.

Stay unit nights rose by nearly 60% between 2009 and 2013. We expect slower growth in the coming years as competition increases, but the market will still benefit from improving global economic conditions and increases in foreign tourism. Growth will average 3.7% compounded annually.

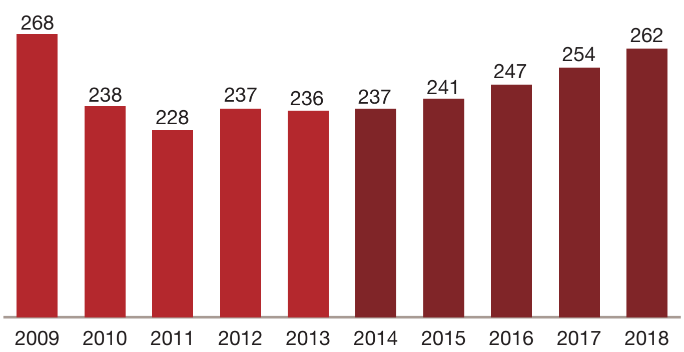
Total room revenue for five-star hotels will increase by a projected 5.9% compounded annually to €314 million (R4.6 billion) in 2018 from €236 million (R3.5 billion) in 2013.

Five-star hotels in Mauritius

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2014-18 CAGR
Available rooms (thousands)	4.4	4.5	4.8	5.0	**5.1**	5.1	5.2	5.4	5.7	6.0	
% change	*2.3*	*2.3*	*6.7*	*4.2*	***2.0***	*0.0*	*2.0*	*3.8*	*5.6*	*5.3*	*3.3*
Stay unit nights (millions)	0.7	0.8	0.9	1.0	**1.0**	1.1	1.1	1.2	1.2	1.2	
% change	*-22.2*	*14.3*	*12.5*	*11.1*	***0.0***	*10.0*	*0.0*	*9.1*	*0.0*	*0.0*	*3.7*
Occupancy rates (%)	43.6	48.7	51.4	54.6	**53.7**	59.1	58.0	60.7	57.7	54.8	
Average room rates (€)	268	238	228	237	**236**	237	241	247	254	262	
% change	*-6.9*	*-11.2*	*-4.2*	*3.9*	***-0.4***	*0.4*	*1.7*	*2.5*	*2.8*	*3.1*	*2.1*
Total room revenue (€ millions)	**188**	**190**	**205**	**237**	**236**	**261**	**265**	**296**	**305**	**314**	
% change	***-27.4***	***1.1***	***7.9***	***15.6***	***-0.4***	***10.6***	***1.5***	***11.7***	***3.0***	***3.0***	***5.9***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 29. Average room rates for five-star hotels (€)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Three and four-star hotels

We have combined data for three and four-star hotels in Mauritius. Stay unit nights were flat in 2013 following a decline in 2012. We expect a flat market during the next two years followed by an uptick in 2016 as foreign tourism grows. Stay unit nights will average 1.6% growth compounded annually for the forecast period as a whole.

The average room rate for three and four-star hotels fell 4.5% in 2013. By early 2014, however, prices were picking up. We expect room rates to grow as the global economy improves and tourism increases. The average rate is expected to rise from €105 (R1 539) in 2013 to €119 (R1 744) in 2018, a 2.5% compound annual increase.

Overall room revenue for three and four-star hotels is projected to increase at a 4.2% compound annual rate to €155 million (R2.3 billion) in 2018 from €126 million (R1.8 billion) in 2013.

Three and four-star hotels in Mauritius

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2014-18 CAGR
Available rooms (thousands)	6.2	6.3	6.6	6.6	**6.8**	6.9	7.1	7.3	7.5	7.7	
% change	*3.3*	*1.6*	*4.8*	*0.0*	***3.0***	*1.5*	*2.9*	*2.8*	*2.7*	*2.7*	*2.5*
Stay unit nights (millions)	1.0	1.1	1.3	1.2	**1.2**	1.2	1.2	1.3	1.3	1.3	
% change	*-9.1*	*10.0*	*18.2*	*-7.7*	***0.0***	*0.0*	*0.0*	*8.3*	*0.0*	*0.0*	*1.6*
Occupancy rates (%)	44.2	47.8	54.0	49.7	**48.3**	47.6	46.3	48.7	47.5	46.3	
Average room rates (€)	118	103	109	110	**105**	107	109	112	115	119	
% change	*4.4*	*-12.7*	*5.8*	*0.9*	***-4.5***	*1.9*	*1.9*	*2.8*	*2.7*	*3.5*	*2.5*
Total room revenue (€ millions)	**118**	**113**	**142**	**132**	**126**	**128**	**131**	**146**	**150**	**155**	
% change	***-4.8***	***-4.2***	***25.7***	***-7.0***	***-4.5***	***1.6***	***2.3***	***11.5***	***2.7***	***3.3***	***4.2***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Looking back: 2013

Our forecast for stay unit nights proved to be low as tourism rose faster than we projected and occupancy rates increased more than we projected. Total room revenue, however, fell 8.7% in 2013 as the average room rate declined.

Five-star hotels did better than the market as a whole, falling only 0.4%, still well below our 8.4% projection. We anticipated an 8.1% decline in room revenue for three and four-star hotels, but the category decreased by 4.5%.

Actual vs forecast results for 2013

	2013 projected	2013 actual
Occupancy (%)	57.8	63.3
Stay unit nights (millions)	2.7	2.86
Foreign & domestic visitors (thousands)	970.0	993.1
Total hotel room revenue growth (%)	12.7	-8.7
Five-star hotel room revenue growth (%)	8.4	-0.4
Three and four-star hotel room revenue growth (%)	-8.1	-4.5

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Outlook: 2014- 2018

Due to the number of renovations in 2014 we project the number of available hotel rooms to increase at a 2.9% compound annual rate to 14 250 in 2018.

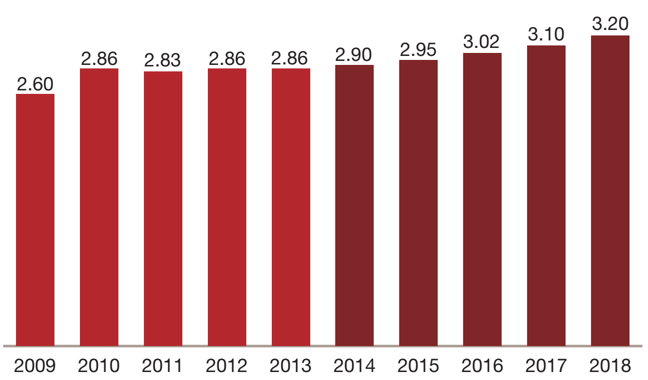
The average occupancy rate will edge down from 63.3% in 2013 to 61.5% in 2018.

We project stay unit nights for the forecast period as a whole to rise from 2.86 million in 2013 to 3.2 million in 2018, a 2.3% compound annual increase.

We project average room rates to increase by 2.2% compounded annually to 2018.

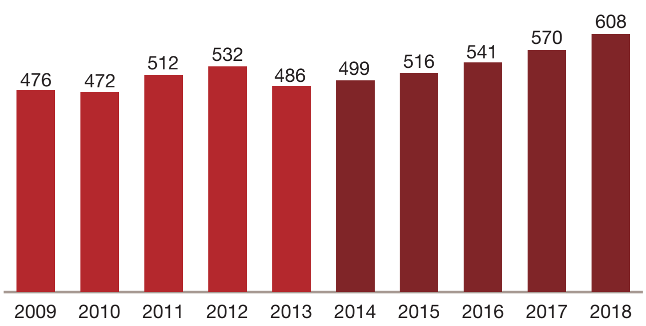
Hotel room revenue in Mauritius is expected to grow at a 4.6% compound annual rate to 2018.

Figure 30. Stay unit nights (millions)



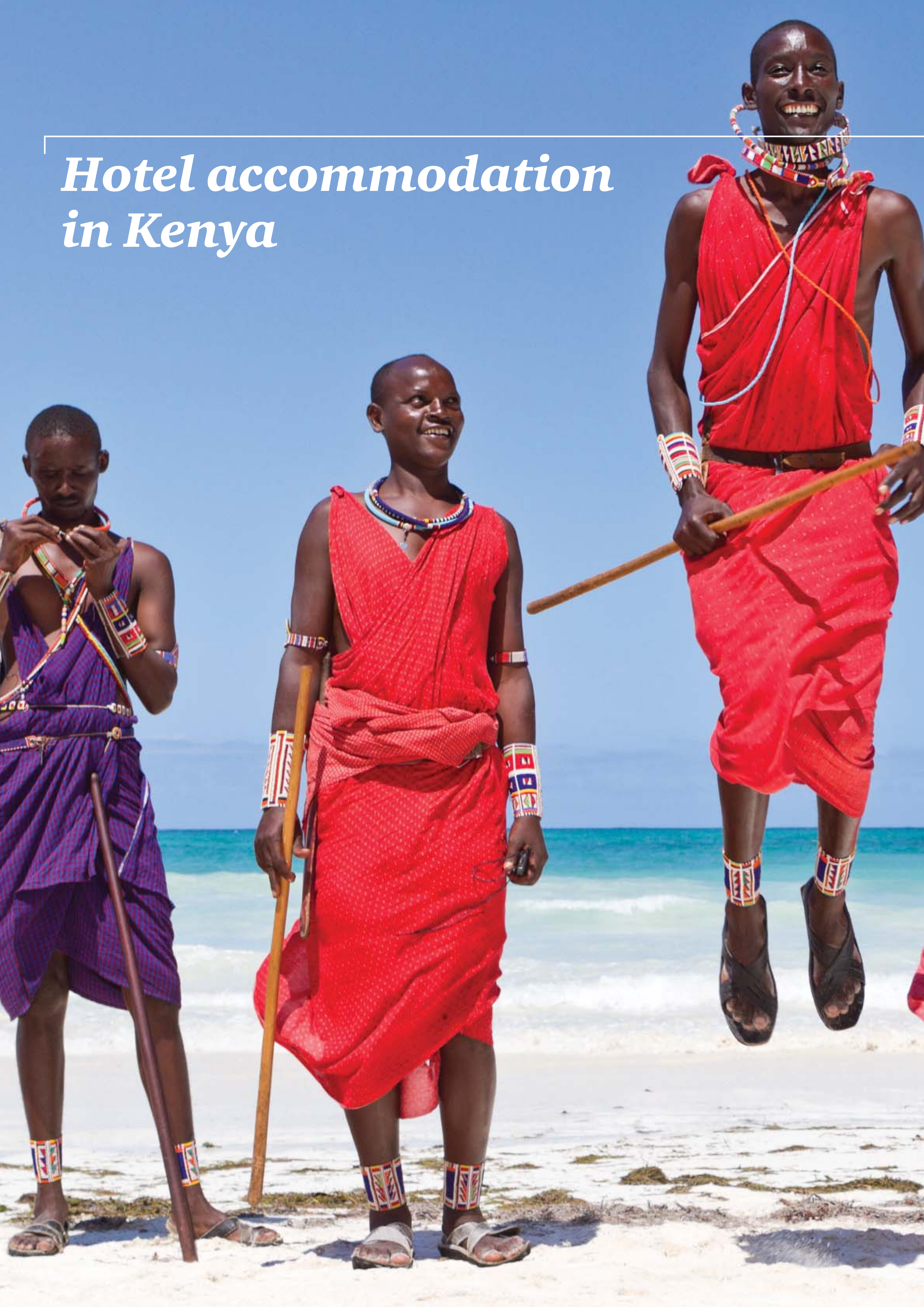
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 31. Total room revenue (€ millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Hotel accommodation in Kenya



Kenya's hotel market declined during the past two years, falling 6.6% in 2012 and an additional 2.6% in 2013. Concerns about terrorism led several countries, including the United States, the United Kingdom and Germany, to issue travel alerts that discouraged people from visiting Kenya.

The British Department of Transport suspended flights by British airlines to Kenya because of terrorist concerns. These developments occurred before the shooting in the Westgate Mall in September 2013, which subsequently only exacerbated the problem. Likewise, a fire at the Jomo Kenyatta International Airport in August 2013 also hurt the market.

In early 2014, however, stay unit nights began to increase, suggesting that the market is beginning to recover. However, with the bombing at Mombasa in May 2014, it is expected that terrorist activities will again impact tourism. Tourists in Mombasa and Kwale left their hotels with some going to Nairobi and others leaving the country. We now expect stay units nights to decline by an additional 5.3% in 2014.

Kenya is a destination for eco-tourists, offering national parks, wildlife, nature reserves, safaris and beaches. As in South Africa, tourism in Kenya is considered to be an important pillar of economic growth.

The government is cracking down on poaching of elephants and other threatened species and is improving the infrastructure and upgrading roads to make it easier for tourists to visit the national parks. Eldoret is a growing sports resort offering mainly athletic training camps.

The local economy is strong with GDP growing by 5.6% in 2013. Increases in excess of 6% annually are expected beginning in 2014, helped by an emerging oil industry.

Real GDP growth (%)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2014-18 CAGR
Kenya	1.1	4.8	4.8	4.8	**5.6**	6.3	6.5	6.5	6.3	6.1	6.3
Global	-0.6	5.2	4.0	2.8	**3.1**	3.7	3.9	4.0	4.2	4.1	4.0

Sources: International Monetary Fund, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Hotel accommodation

Rising incomes and an expanding middle class are boosting domestic tourism. Kenya also attracts visitors from India and China. Growing trade between Kenya and China is credited with travel from China.

Hotel construction is increasing in Kenya. Hemingways Boutique Hotel Nairobi, Kempinski Villa Rosa, Eastland Hotel, Soluxe Club and Best Western were among the hotels that opened in Kenya in 2013. Marriott plans a new hotel in Nairobi in 2015 and Hilton plans to open two hotels in Nairobi in the next few years. Radisson Blu, Park Inn and Lonrho Hotels are other international hotel brands planning to expand in Nairobi.

We expect concerns about terrorism to remain an issue in the short-to-medium term and anticipate that stay unit nights will not return to the level reached in 2011 until 2018.

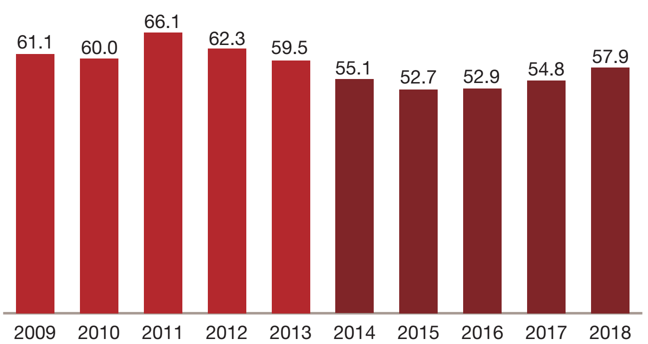
Average room rates were flat in 2013 and we do not expect much growth, as hotels need to attract cautious tourists.

Hotels in Kenya

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2014-18 CAGR
Available rooms (thousands)	16.6	16.9	17.0	17.1	**17.5**	17.9	18.2	18.6	19.0	19.4	
% change	*1.2*	*1.8*	*0.6*	*0.6*	***2.3***	*2.3*	*1.7*	*2.2*	*2.2*	*2.1*	*2.1*
Stay unit nights (millions)	3.7	3.7	4.1	3.9	**3.8**	3.6	3.5	3.6	3.8	4.1	
% change	*19.4*	*0.0*	*10.8*	*-4.9*	***-2.6***	*-5.3*	*-2.8*	*2.9*	*5.6*	*7.9*	*1.5*
Occupancy rates (%)	61.1	60.0	66.1	62.3	**59.5**	55.1	52.7	52.9	54.8	57.9	
Average room rates (USD)	128	135	158	155	**155**	155	156	158	160	163	
% change	*29.3*	*5.5*	*17.0*	*-1.9*	***0.0***	*0.0*	*0.6*	*1.3*	*1.3*	*1.9*	*1.0*
Total room revenue (USD millions)	**474**	**500**	**648**	**605**	**589**	**558**	**546**	**569**	**608**	**668**	
% change	***54.4***	***5.5***	***29.6***	***-6.6***	***-2.6***	***-5.3***	***-2.1***	***4.2***	***6.9***	***9.9***	***2.5***

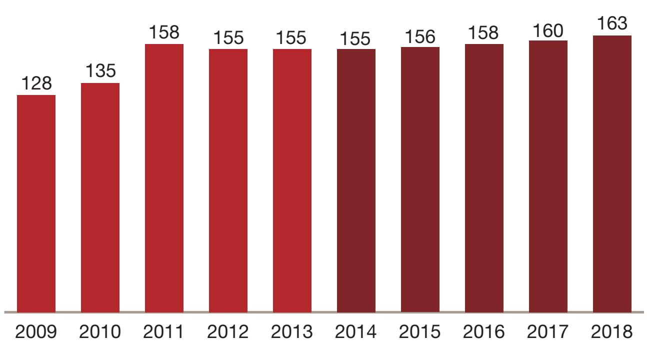
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 32. Occupancy rates (%)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 33. Average room rates (USD)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Outlook: 2014-2018

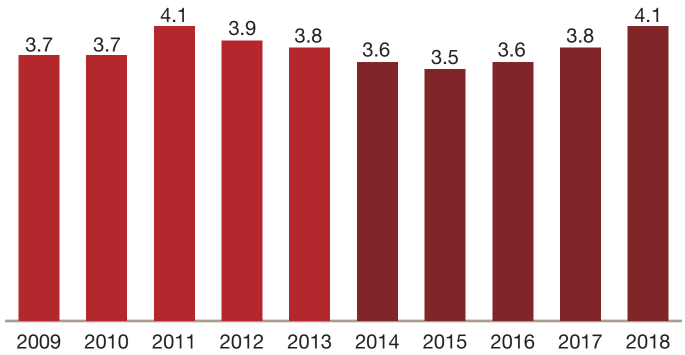
We project the number of available rooms to increase from 17 500 in 2013 to 19 400 in 2018, a 2.1% compound annual increase.

We project stay unit nights to decline for an additional two years and then begin to recover in 2016. Stay unit nights will total an estimated 4.1 million in 2018, a 1.5% compound annual increase from 3.8 million in 2013. Despite this increase, the occupancy rate will fall to 57.9% from 59.5% in 2013.

We project the average room rate to increase from USD155 (R1 641) in 2013 to USD163 (R1 726) in 2018, a 1.0% compound annual increase.

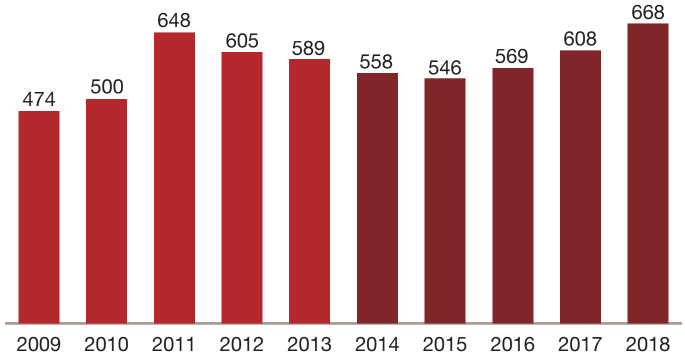
Total room revenue will expand by 2.5% compounded annually, rising to USD668 million (R7.1 billion) in 2018 from USD589 million (R6.2 billion) in 2013.

Figure 34. Stay unit nights (millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 35. Total room revenue (USD millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Preparing hotels for the effects of distribution channels

– by Veneta Eftychis and Marthie Crafford

Today, real-time online booking is becoming the norm as most people are using the Internet to find and book their travel, especially on their mobile devices. Online presence for hoteliers has therefore become imperative for hotels to optimise their hotel reservations.

Hotels are spending on IT platforms in order to engage guests, deliver consistent information across many devices and on different platforms. Their challenge is to make sure this is done and maintained efficiently and cost effectively in a dynamic, volatile and competitive distribution landscape.

Hotels are putting their rates and inventory online, making them available to different channels, resulting in the emergence of a new breed of third-party intermediaries. These include Google, Facebook and online travel agents (OTAs) such as Travelstart and Kulula.com. These third-party intermediaries control the traffic leading to the demand for hotel rooms.

For the guest, the online booking option appears to be most attractive since it is hassle free. It takes less than 30 minutes to select the right hotel, pick the best location, assess best value for money, review what others think of the hotel and finally book a room. Guests are able to apply the most popular filters and only show the best hotels in close proximity.

The online booking option increases the value of unsold inventory for the hotel, by reaching a larger audience in slow periods and therefore maximises profitability.

It has been well documented that improvements in online reviews lead directly to higher bookings, average daily rate (ADR) and revenue. So what hotel wouldn't want to improve its ranking? The use of third-party intermediaries can, however, have other implications that hotels needs to be prepared for:

- Third-party intermediaries have developed into a powerful preferred point of entry for hotel browsing and booking, charging the hotels referral fees and commissions. Over and above this, the hotel still requires a technology infrastructure to support the enquiries and transaction delivery, all adding to the cost.
- The ratings received on these third-party intermediary sites may have a direct impact on the future online survival of hotels.

Smaller hotels with lesser budgets are at a risk of not being able to compete with their booking agents for top rankings of their own properties, forcing them to pay third-party intermediaries for online referrals; otherwise they stand the chance of losing the visitor to one of their competitors.

Conversely, third-party booking agents may allow smaller properties to become visible and compete where otherwise they would not be able to.

Although third-party intermediaries pose great risks as well as opportunities for hotels, it is critical that hotel brands manage them accordingly, in order to achieve their longer-term outcomes. Aspects that may be considered include:

- Hoteliers should remain vigilant to ensure that each new channel has a reasonable return on investment.
- Improvement of a hotel's ranking, on TripAdvisor for example, can occur by improving scores, promoting an increase in the number of reviews being submitted and keeping up a steady flow of reviews so they remain current.
- Embracing the significance of having user-friendly navigation and booking forms, quality images and excellent reviews in order to differentiate from competitors.
- Revenue management strategies need to continue to evolve as both the marketplace and consumer booking habits change. One way to do so is through a sophisticated, online revenue management system in order to predict guest behaviour to optimise room availability and prices.
- Begin an aggressive campaign to build direct relationships with the consumer and reduce distribution costs. Loyalty programmes promote direct relationships and allow hotel brands more direct brand engagement with the consumer. This can ultimately drive down the need for distribution costs to third-party intermediaries.

- Diversification through investment and acquisition up and down the value chain may be a good medium-term solution. For example, a hotel could focus its strategic technology investments in a third-party intermediary in order to improve data integration for marketing and sales purposes.

- Some third-party distribution channels may start to offer similar services as those provided by current hotel brands. They may develop into a kind of 'soft brand' to support client hotels by maintaining a brand presence on behalf of the hotel. Examples could include providing substantial reservation contribution, maintaining quality metrics for customer evaluation, offering the benefits of a frequency/loyalty programme. Data analytics could be provided by a third-party intermediary to in order to identify the most profitable segments and types of guests.

Third-party distribution channels directly impact the revenue models that hotels implement. With the transparency of rates on the Internet and emerging mobile applications, concern about 'rate parity' to keep the same rates in all channels, may result in a 'one-rate-fits-all' pricing structure for many hotels. Hotels' traditional pricing and revenue management strategies are directly impacted and may need to be assessed in a new light.

For the hotelier who does not take proper precautions and execute careful planning and control, inaccurate pricing strategies can:

- Make forecasting more difficult with respect to room revenue and occupancy rates;

- Lower rates overall;

- Reduce the volume of high-rated business booked further out from arrival;

- Cause consumers to believe that there is little difference between hotel brands; and

- Call into question the issue of who 'owns' the guest by making the reservation portal the 'place to go' for hotel buyers and, in so doing, potentially degrading the value of the hotel brand.

In conclusion, the power will be in the hands of the gatekeepers who are competing for control over consumer access through hotel browsing and booking. This has also resulted in a large divide in ownership, management and branding since the relationship with the guest is now not only with the hotel, but also with gatekeepers.

However, closely managing channel costs and choosing the best mix of channel partners can refine a distribution strategy to deliver optimal results at a brand and hotel level.

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Cruise industry in South Africa

The cruise industry in South Africa consists of spending by South Africans on cruises originating or departing from South Africa. Spending consists of ticket purchases and onboard spending, but does not include casino gaming, where applicable, or offshore spending.

Background

The cruise industry serves mid-to-upper income travellers vacationing or engaging in leisure activity. Cruises are comparable to resorts in that they provide a full-service experience and, as such, compete with land-based resorts.

Cruise competition with hotels is limited due to the fact that cruises are not used by business travelers and do not operate in the winter in South Africa. The cruise market is also insignificant compared with the hotel market. The number of cruise passengers from South Africa totaled only 153 000 for the entire 2013/14 season, compared with 13.1 million stay unit nights for hotels in South Africa in 2013.

The global cruise market is dominated by North America and Western Europe, which accounted for more than 80% of cruise passengers in 2013. Australia and Brazil were the leading cruise markets outside of North America and Western Europe, together accounting for 7% of cruise passengers, still well below that of North America and Western Europe.

The Caribbean is the dominant cruise destination with the Mediterranean next. Recently, river cruises have become popular and cruises to other locations have grown, including Africa as well as to South America, the Middle East and Antarctica.

There were a total of 21.3 million global cruise passengers in 2013, of which 11 million, or nearly 52%, were from the United States. The United Kingdom and Ireland were next at 1.7 million followed by Germany at 1.6 million.

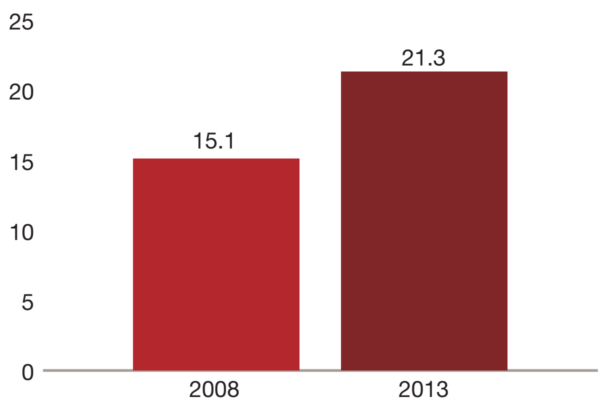
Cruise passengers by top ten country, 2013

Country	Number of 2013 cruise passengers (thousands)	Global passenger share (%)
United States	11 016	51.7
United Kingdom/ Ireland	1 719	8.1
Germany	1 637	7.7
Italy	860	4.0
Australia	760	3.6
Canada	734	3.4
Brazil	732	3.4
Spain	600	2.8
France	520	2.4
Scandinavia/Finland	350	1.6
Top-Ten Total	**18 928**	**88.7**

Source: Cruise Lines International Association

During the past five years, the number of global cruise passengers increased at a 7.1% compound annual rate from 15.1 million in 2008.

Figure 37. Global cruise passengers (millions)



Source: Cruise Lines International Association

Even in the recession year of 2009, there was a 2.0% increase in the number of cruise passengers. In the leading cruise markets, high-income travellers fared relatively well during the recession and subsequent weak recovery, while real income for the average household was flat or declining.

This gave rise to a shift in the income distribution in favour of the more wealthy and this trend contributed to the strong performance of the cruise industry during what otherwise was a period of sluggish economic growth.

Cruise ships are very expensive to build, which creates a significant barrier to entry into the market. The market is dominated by a handful of companies. Carnival and Royal Caribbean are the leading companies followed by Norwegian Cruise Lines/Star Cruises and the Mediterranean Shipping Company (MSC) Cruises. Together, these companies account for approximately 85% of the global cruise market.

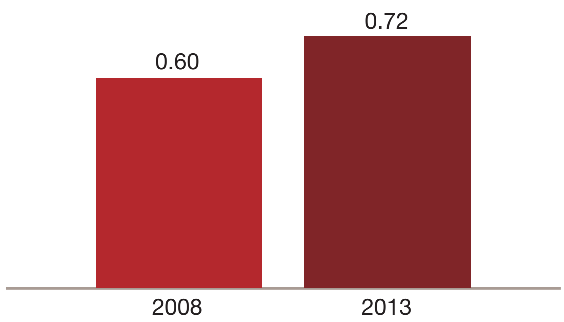
The success of local cruise markets depends in large part on the willingness of the major cruise lines to enter those markets. Until relatively recently, cruise lines were reluctant to expand into Africa, citing poor infrastructure, safety concerns, limited shore excursions and the large distances from their major markets and the leading destinations.

While the major cruise lines now travel to South Africa as a port of call on long trips, the local cruise market in South Africa was jump-started when MSC Cruises began operating cruises out of South Africa.

The entrance of MSC Cruises into the local South African market boosted local capacity while providing luxurious cruise amenities that attracted mid-to-upper-income travellers to the cruise market.

During the past five years, South Africa's economy has grown faster than the global economy, and its cruise market, helped by an additional ship from MSC Cruises that began operating out of South Africa in 2009, increased even faster. South Africa's share of global cruise passengers increased to 0.72% in 2013 from 0.60% in 2008.

Figure 38. South Africa's share of global cruise passengers (%)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

The South African cruise market

Durban is the leading cruise port in South Africa, accounting for approximately 70% of cruise passengers. Cape Town is the next largest. Cruises also operate out of Richard's Bay, East London, Port Elizabeth, Mossel Bay and Saldanha Bay.

The cruise market is seasonal in South Africa with cruises operating from September until May. Cruises do not operate from South Africa in the winter.

Short cruises of less than a week are popular in South Africa. There is a two-day Cruise to Nowhere that simply sails out of Cape Town, spends two days at sea and then returns without making any stops, providing passengers with the cruise experience at a lower cost than a full cruise. There are also Christmas and New Year's cruises which are popular attractions.

Most cruises consist of trips to specific destinations. There are a number of three and four-day cruises from Durban to Portuguese Island, Inhambane, Maputo and Namibia. Week-long cruises include trips to Anakao and Fort Dauphin in Madagascar. Longer cruises include trips to Réunion, Mauritius, Seychelles, Madagascar, Mozambique, Kenya, and Walvis Bay in Namibia.

There are also major cruises lasting up to five-weeks from South Africa that cross the Equator and visit Casablanca, Lisbon and other countries in Europe as well as countries in Africa.

MSC Cruises is the leading cruise line serving South Africa with MSC Opera and MSC Sinfonia serving the market in the 2013/14 season. These ships have numerous restaurants, bars, pools and offer Internet cafés, spas, discos, video games, casinos and live entertainment.

Cruises require large crews both to operate the ship as well as to provide the various amenities. A ship that can carry 2 000 passengers will have a crew of about 600. Because of the need for large crews, cruises are very expensive. The average cruise cost R13 365 in the 2013/14 season, comparable to the cost of a week at a five-star hotel in Cape Town.

Cruise supply

Cruise supply is represented by seasonal passenger capacity, which measures the maximum number of passengers that can be accommodated on cruises in any season. It is the counterpart to available rooms for hotels. With cruises, of course, passenger capacity is only available when a cruise sails. Capacity is affected by the number of ships serving the market, the size of the ship and the number of cruises per season.

Ships need time between outings for maintenance and to restock food, fuel and other supplies. The typical cruise runs five-to-seven days, which limits the number of cruises offered in a season to approximately 30-40 per ship.

Consequently, the entrance or exit of a ship into the market can have a large impact on overall cruise capacity or supply. In 2009, the MSC Sinfonia began serving South Africa, raising capacity for the 2009/10 season by approximately 70 000, a 53.8% increase from the 2008/09 season. As the MSC Sinfonia is not returning for the 2014/15 season and is not being replaced, we expect a 70 000 drop in seasonal capacity to 135 000.

In the 2015/16 season, however, the MSC Sinfonia will be replaced by the MSC Armonia. As part of the MSC Renaissance programme, the cruise line is stretching several of its ships to expand capacity. The MSC Armonia will be stretched to allow for an additional 500 passengers per cruise. The MSC Opera will also be stretched, adding 24 metres to its length and 200 additional cabins, for the 2015/16 season.

With the entrance of the MSC Armonia and the return of an expanded MSC Opera, we expect a 70.4% increase in cruise capacity to 230 000 for the 2015/16 season.

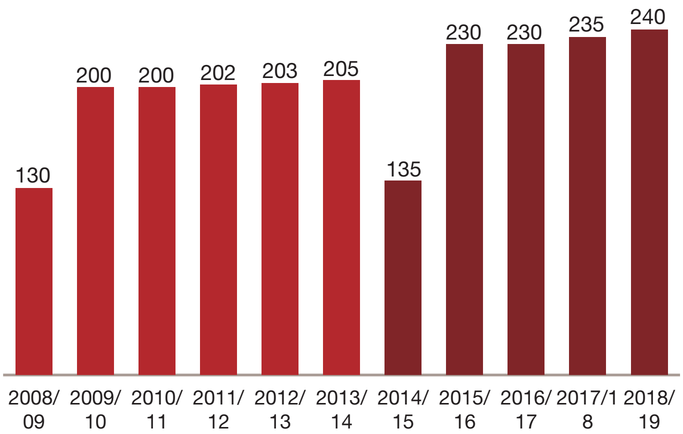
Such large swings in cruise capacity are the exception rather than the rule. In general, capacity is relatively stable with perhaps a cruise or two added if business appears to warrant it.

Another factor affecting capacity is the quality of the cruise terminals. Currently, passengers boarding ships in local ports are using makeshift facilities. Transnet National Ports Authority is in the process of soliciting and evaluating proposals for new cruise terminals in Durban and Cape Town.

The construction of world-class cruise terminals will improve boarding, which will enhance the cruise experience and encourage cruise lines to increase the number of cruises they offer in South Africa. MSC Cruises has been pushing for new terminals. The expectation is that improved facilities will encourage cruise lines to add a few more cruises.

We expect that the addition of several cruises will raise seasonal capacity to 240 000 by the 2018/19 season.

Figure 39. Seasonal passenger capacity (thousands)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Cruise demand

Cruise demand is measured by the number of passengers taking cruises in each season. It is the counterpart to stay unit nights for hotels. In contrast with hotels, however, cruises are sold on a per-passenger per-cruise basis rather than on a per-room per-night basis as with hotels. While longer cruises cost more than shorter cruises, the relationship is not necessarily linear as food, alcohol, port costs and other factors play a large role in the price. Typically, longer cruises have a lower per-day cost than shorter cruises.

The entrance of a ship serving South Africa also affects demand, as the availability of more options, more destinations and more departures expands the potential market for cruise customers. Similarly, a large cutback in cruise options due to the exit of a ship reduces the potential market. For example, the large increase in capacity for the 2009/10 season led to a 32 000 increase in the number of passengers, a 35.6% increase that offset the impact of the recession.

With capacity expected to be down for the 2014/15 season, we project a decrease in the number of passengers to 115 000, a 24.8% decline from the 2013/14 season. With capacity then expected to increase again for the 2015/16 season, we anticipate a 43.5% jump in the number of passengers to 165 000.

In most years, however, capacity is relatively stable and the state of the economy becomes the principal driver as cruises are a highly discretionary expense. The cruise industry benefits from an expanding economy as more people are able, and willing, to go on a cruise if their economic prospects are favourable.

At the same time, although relatively expensive, the industry has been successful in marketing cruises as good value for money. A cruise provides virtually unlimited food and drink as well as activities and entertainment in addition to luxurious accommodation and the experience of being at sea. This formula has been successful in expanding the market during the past two years.

The cruise market was particularly strong in 2013, with the number of passengers rising by 10.9% to 153 000. The weaker rand helped the cruise market as some people substituted a vacation abroad, which had become more expensive because of the depreciating rand, for a local cruise.

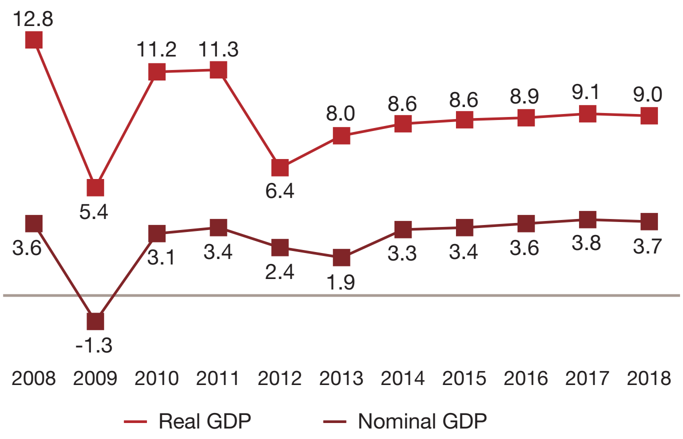
The outlook for cruises from South Africa

Economy

The economic outlook appears to be improving in South Africa, albeit slowly. Real GDP is projected to increase by 3.3% in 2014 and to average 3.6% compounded annually through 2018. Nominal GDP will expand at a projected 8.9% compound annual rate over the next five years.

Projected increases in real GDP translate into high-single-digit nominal GDP growth rather than the double-digit gains experienced in the past. Nevertheless, we expect the improving economic climate to have a positive impact on the cruise industry over the next five years.

Figure 40. GDP growth in South Africa (%)



Sources: Statistics South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

GDP growth in South Africa (percent)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2014-18 CAGR
Real GDP	3.6	-1.3	3.1	3.4	2.4	**1.9**	3.3	3.4	3.6	3.8	3.7	3.6
Nominal GDP	12.8	5.4	11.2	11.3	6.4	**8.0**	8.6	8.8	8.9	9.1	9.0	8.9

Sources: Statistics South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

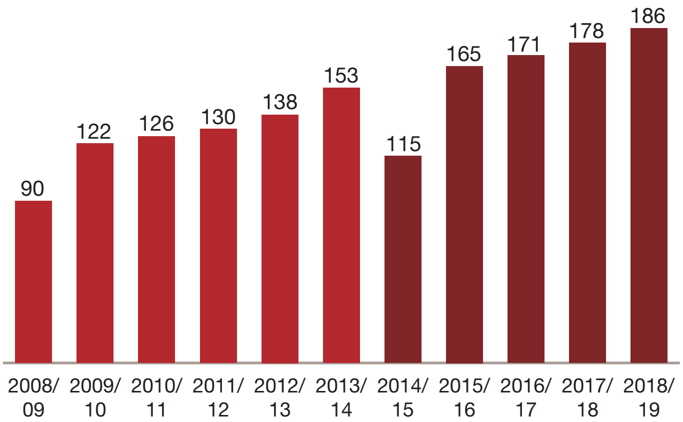
Cruise passengers

Following the up-and-down pattern in the number of cruise passengers expected in the next two seasons as a result of large changes in cruise capacity, we anticipate more moderate increases averaging 4.1% compounded annually over the final three seasons of the forecast period.

Growth during that period will be the result of an expanding economy, rising incomes and the expectation that new cruise terminals in Durban and Cape Town will accommodate more passengers and make cruising more attractive.

For the forecast period as a whole, we project the number of cruise passengers to increase at a 4.0% compound annual rate to 186 000 in 2018/19.

Figure 41. Cruise passengers from South Africa (thousands)



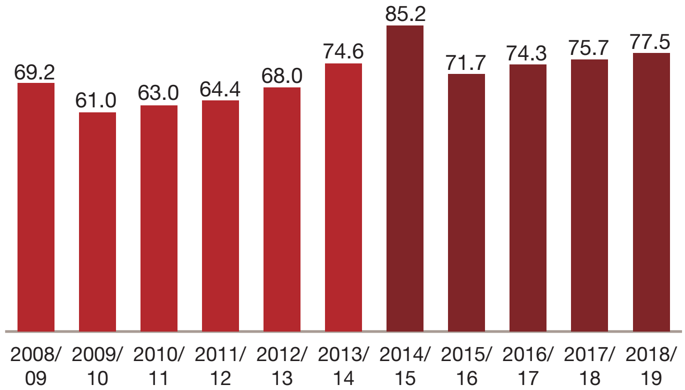
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Occupancy rates

Although we expect the number of passengers to decline in 2014/15, we project the occupancy rate to increase to 85.2% from 74.6% in 2013/14 as supply will fall faster than demand. In 2015/16, we expect supply to increase faster than demand, resulting in a drop in the occupancy rate to 71.7%.

We then expect occupancy rates to trend upward as demand grows faster than supply, rising to 77.5% in the 2018/19 season.

Figure 42. Cruise occupancy rates (%)



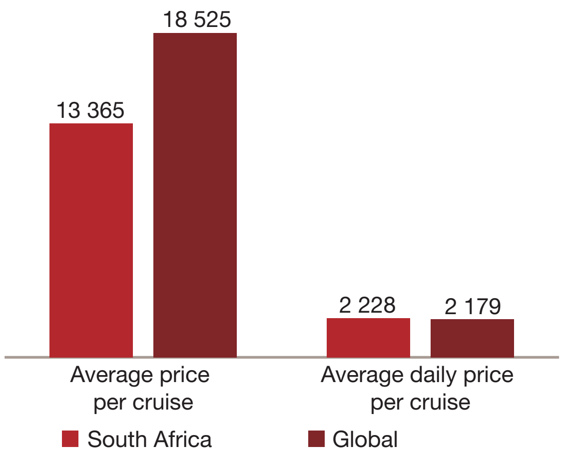
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Average spending per passenger

Cruise prices in South Africa are nearly 30% less than the global average of R18 525, in part reflecting the popularity of shorter and less expensive cruises to nearby locales, and in part reflecting lower incomes in South Africa. Globally, the average cruise was about 8.5 days in 2013, compared with about 6 days for the average cruise from South Africa.

On a daily basis, however, South African cruises were actually 2.2% more expensive than the average global daily cost of a cruise (R2 228 vs R2 179) because shorter cruises generally have a higher daily cost than longer cruises and port costs in Africa are generally higher than in other regions.

Figure 43. Average cruise prices, 2013 (R)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Cruise lines globally and in South Africa reduced their rates in 2009 in an effort to retain passengers in a difficult economic environment, a strategy that proved to be successful.

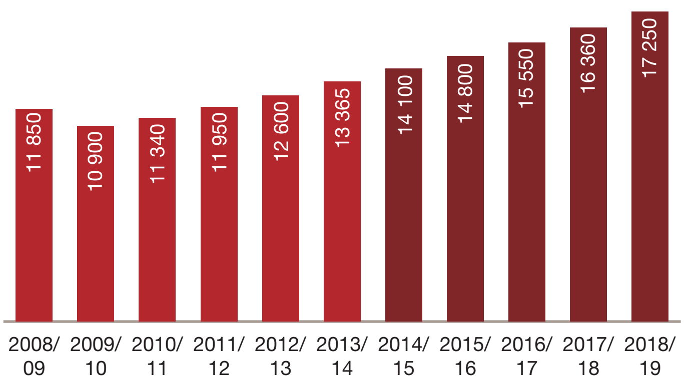
In South Africa, the large increase in capacity is likely to have led to an increase in cruise passengers in 2009/10 even if prices were not reduced. Since then, price increases have generally been less than the rate of inflation in South Africa.

Cruise lines such as MSC operate in many countries and buy much of their supplies, including fuel, on the world market. Consequently, costs are less affected by the inflation rate in any one country and the ability to purchase in large volumes helps limit costs.

At the same time, port costs and other cost items are affected by local economies, which influences the overall cost structure. Cruises also are marketing to South Africans and in this regard local inflation rates do play a role.

Following the 2009/10 season, average spending per passenger rose at a 5.2% compound annual rate through the 2013/14 season. We project a comparable 5.2% compound annual increase over the next five years with average spending per cruise rising to R17 250 in 2018/19 from R13 365 in 2013/14.

Figure 44. Average spending per passenger (R)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Total cruise revenue

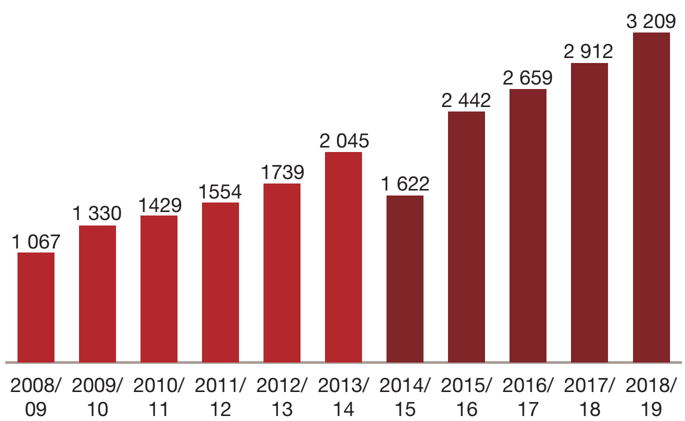
Total cruise revenue increased 17.6% in 2013/14, the second consecutive double-digit increase and the largest gain since the 2009/10 season, when the MSC Sinfonia began operating out of South Africa.

With the projected drop in passengers in 2014/15 because of the absence of the MSC Sinfonia, we expect revenue to fall by 20.7% to R1.6 billion.

We then expect revenue to rebound with a 50.6% increase in the 2015/16 season as capacity increases.

Over the latter three seasons of the forecast period, we project cruise revenue to grow at a 9.5% compound annual rate. For the forecast period as a whole, revenue will increase by a projected 9.4% compounded annually, rising to R3.2 billion in 2018/19 from R2 billion in 2013/14.

Figure 45. Total cruise revenue (R millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Cruise industry in South Africa

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2014/15-2018/19 CAGR
Seasonal passenger capacity (thousands)	200	200	202	203	**205**	135	230	230	235	240	
% change	*53.8*	*0.0*	*1.0*	*0.5*	***1.0***	*-34.1*	*70.4*	*0.0*	*2.2*	*2.1*	*3.2*
Cruise passengers (thousands)	122	126	130	138	**153**	115	165	171	178	186	
% change	*35.6*	*3.3*	*3.2*	*6.2*	***10.9***	*-24.8*	*43.5*	*3.6*	*4.1*	*4.5*	*4.0*
Occupancy rate (%)	61.0	63.0	64.4	68.0	**74.6**	85.2	71.7	74.3	75.7	77.5	
Average spending per passenger (R)	10 900	11 340	11 950	12 600	**13 365**	14 100	14 800	15 550	16 360	17 250	
% change	*-8.0*	*4.0*	*5.4*	*5.4*	***6.1***	*5.5*	*5.0*	*5.1*	*5.2*	*5.4*	*5.2*
Total cruise revenue (R millions)	**1 330**	**1 429**	**1 554**	**1 739**	**2 045**	**1 622**	**2 442**	**2 659**	**2 912**	**3 209**	
% change	***24.6***	***7.4***	***8.7***	***11.9***	***17.6***	***-20.7***	***50.6***	***8.9***	***9.5***	***10.2***	***9.4***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

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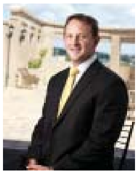

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