Hotel sector recovering steadily in SA

By Nick Hedley

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JSE-listed Hospitality Property Fund, which invests in hotel and leisure properties, is optimistic about the outlook for the hotel sector after a challenging period, according to its chief executive Andrew Rogers.

Rogers said at the IPD Property Investment Conference last week that while the sector had been through a tough time, he believed that it had "urned the corner and that already the early indicators are the market has recovered.

The local hotels and resorts market is emerging from a difficult period following an increase in supply ahead of the 2010 Soccer World Cup. Post-2010, the sector has been battling with oversupply and low occupancies, although analysts generally agreed that the sector is stabilising.

According to professional services firm PwC, occupancies in the hospitality sector reached a low of 53% in 2011, compared with 72% in 2007.

PwC projects that by 2017, average hotel occupancies in SA will have increased to 68.7% from 56.5% in 2012, while average room rates will have grown 5.4% compounded annually from R718 in 2012 to R936 by 2017.

Oversupply

Rogers said while the 2010 oversupply hangover had been around for a long time, the supply pipeline slowed down almost to a trickle, with few developments under way.

Hospitality's portfolio comprises 27 hotel and leisure properties. The fund's portfolio is valued at about R4.5bn while its market capitalisation is R3bn.

Rogers said the fund was focusing on exiting its investments outside the major metropolitan areas, which were vulnerable to volatility and a slowdown in the market.

Hospitality was targeting large hotels in the major metropolitan areas which carried strong international brands that benefit large-scale loyalty programmes.

Although occupancies were improving, room rates were still lagging and were only at levels seen in 2008. Rogers said rates were probably between 15% and 20% behind where they should be.

However, rates were showing improvements, especially in major metropolitan nodes. Five-star hotels were showing the best growth, although this was probably due to the fact that five-star hotels had not been trading at the correct rates for some time.

A healthy recovery in tourism, boosted by the opening of air corridors into Brics (Brazil, Russia, India, China and SA) nations, was an important driver of the sector's recovery.

In the domestic market, the meetings and incentives market has recovered very nicely although much of the corporate demand in the sector was being driven by local companies.