Shift noted in nature of SA hotel development

The nature of hotel development in South Africa has shifted, says Wayne Troughton, CEO of HTI Consulting, along with the manner in which such developments are funded and owned.


Wayne Troughton, CEO of HTI Consulting

"Historically, few SA developers looked to own hotels, instead opting to secure leases through the typical developers model used in other asset classes," he explains. "More recently, however, a number of factors have resulted in the construction of more hotels within larger mixed-use buildings and communities."

New developments

Towards the end of 2016, local independent property development company, The Amdec Group, announced the investment of R3bn into five new hotels in Johannesburg and Cape Town, to be managed under the Marriott International Hotels brand. The Johannesburg hotels will be developed at One On Whiteley, a larger development by Amdec within Melrose Arch. In Cape Town, the five-star, 200-room Cape Town Marriott Hotel Foreshore and the 150-room Residence Inn by Marriott Cape Town Foreshore will be situated within Amdec's latest mixed-use development named Harbour Arch, modelled on Melrose Arch. A 189-room AC Hotel Cape Town will be situated in Amdec's The Yacht Club mixed-use development, close to the CTICC and Waterfront.

Similarly, the V&A Waterfront has recently undergone substantial development in its new Silo district, which currently houses the new headquarters of Allan Gray and the recently opened 28-room Silo Hotel. The project will be completed this year, with the Zeitz Museum of Contemporary Art Africa, a Virgin Active gym and a new 252-key Radisson Red hotel due to open in September.

The former Triangle (Safmarine) House, an office building in Cape Town, is currently being transformed by developer Signatura and land owner Stonehill Property Fund into the Radisson Blu Hotel and Residence - a five-star hotel plus 166 branded sectional title apartments and penthouses for sale due to open in April 2017.

Another newcomer is the 207-room Radisson Blu Hotel in Durban's Oceans Umhlanga development, developed by the Edison Group's founder Vivian Reddy. It's anticipated to open its doors in 2019. Designed as an urban resort, the high-end complex will feature 460 luxury apartments and a 33,000m^2 shopping mall.

Factors driving this trend

A number of factors are driving this trend, comments Troughton. “Developers in South Africa are often in possession of development rights for the most prime real estate in the business areas of the country, which means that hotel operators typically have to deal with property developers as opposed to traditional hotel investors,” he explains. “Both the power of the developer and a historical lack of international brand penetration in the South African market have resulted in hotel management companies (especially those with limited or no presence in the market), developing more flexibility in order to achieve a strong brand presence. These factors have brought developers and hotel operators closer together,” he says. “Additionally, developers and owners have achieved a much greater understanding of hotel operations and the high yields that can be achieved through investment with management contracts. They've also become more sophisticated in the negotiation of contract terms, often with the help of specialist advisory firms.”

“The recent entry of several major international hotel brands into South Africa has begun to bring more developers into the hotel fray,” continues Troughton, “with classic hotel management contracts changing toward more 'hybrid contracts' that attune the individual needs and risk appetites of the parties and provide some downside financial protection, thereby giving comfort to investors, developers and banks.”

Cyclical real estate market

“Added to this,” he explains, “we understand that the real estate market is cyclical by nature. Different stages of the market cycle presenting different levels of opportunities and risk. In the last few years, SA’s sluggish economy, rand weakness and muted GDP growth have made operating conditions difficult with more traditional assets such as office and industrial often not performing as well in terms of yields,” he says. “This downturn in traditional real estate has resulted in less speculative investment and an upturn in the hospitality market, with a promise of greater yields driven by increased tourism growth and supported by the weak rand and the lack of hotel development in the market in the last five years.”

“The opportunity to spread risk by having investment revenue flow through multiple revenue streams and the ability to achieve a nicely balanced ratio of variable to fixed cash flows - as well as from diversified market sectors like hotel, office and retail - is also appealing,” Troughton explains. “Research also reveals that a hotel can boost revenue by 15–20% if attached to a shopping or retail centre. Integrated retail and hotel developments can take advantage of the essential ‘critical mass’ that leads to greater consumer convenience through one-stop shopping, dining and entertainment,” he says. “Reduced traffic congestion and greater cost-effectiveness through shared resources such as parking, landscaping and common areas provide further incentives.”

“The growing mixed-use development trend is one that’s being replicated in other African cities,” he states. “Big developers and hotel operators have also joined forces in Nairobi, Accra, Lagos, Dar es Salaam and Maputo,” comments Troughton. “Such relationships can only bode well for the hospitality sector across the continent as the combination of world class development with world class brands take the supply of hotels to a new level.”