Hotel industry outperforms globe: Pam Golding

The South African hotel industry is doing relatively well when compared to the market in the rest of the world, according to Joop Demes, CEO of Pam Golding Property Group.

"South Africa has very few distressed hotel situations when compared with other parts of the world and for hotels which do get into trouble, solutions can invariably be found," said Demes.

"Simply measuring the RevPAR (revenue per available room) for the first six months of 2011 and comparing it to the same period in 2010 does not reflect the full picture, as the Soccer World Cup during June/July last year saw a substantial influx of visitors to South Africa and a related increased demand for accommodation.

"As a result, while RevPAR for 1 January to 30 June 2011 reflected a decrease of 16.5% (measured in SA Rand), occupancy levels reflected a much lower decrease of 6.4%. And from an international perspective, South Africa's July 2011 year to date RevPAR of US$ 64.39 declined by 14.9% compared to the same period last year, a figure that still compares favourably with the USA's July 2011 year to date RevPAR of US$61.33."

Demes said when viewed in the context of the increased occupancy level during the World Cup, coupled with the full absorption of increased hotel room inventory - much of which came on line just prior to the World Cup - it reflected a marked move towards a bottoming-out of the recession and global contagion which had driven consistent decline over the past three years.

He said: "If the effects of the World Cup period demand were factored out, then we would see levels which were flat or at least stable year-on-year, as the drop in occupancy is directly driven by the increased demand during this major event.

"The next six months will be the acid test for whether the hotel industry is stabilising and moving toward a recovery phase in 2012. Rates, however, are not expected to increase substantially as the inventory-driven competitive environment remains a challenge to effective yielding in the industry."

"Viewing the hotel market internationally, it should be borne in mind that traditional markets have reflected no growth in international tourist arrivals, and in most cases declined as a direct result of prevailing global economic conditions.

"Conversely, it is anticipated that the improvement in growth of global travel to South Africa will be substantially driven by the exploration of new markets, with the BRICS (Brazil, Russia, India, China, South Africa) relationship proving to be critical over the long term," according to Demes.

He pointed out that one of the key issues that was facing the industry was 'cost-push' related inflation affecting utility and transportation costs. The sustained abnormal increase in electricity costs, together with the substantial increase in water, gas and property rates cost presented a significant challenge to hotel operators.

"The fact is these costs have increased substantially above inflation rates while the current market dynamics are repressing room rates and the ability to yield pricing, while fuel price increases present a further 'cost-push' pressure on operating costs. As a result, turnarounds are debilitated by these uncontrollable factors as well as the prevailing market dynamics which are driven by increased inventory and the discounting regime", Demes added.

He said: "Looking ahead, the South African hotel industry still faces a challenging period of between two to three years. While 2012 is expected at best to reflect a marginal recovery on the 2010/11 period, the level of inventory dilution is considerable and demand needs to improve substantially to pre-2009 levels for a reasonable impact in the absorption of increased inventory. The years 2013 and 2014 are expected to reflect marked improvement, albeit strongly dependent on the local and global economic circumstances."