Cape Town, South Africa

Market Overview

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Market Overview: Cape Town, South Africa

South Africa is anything but monotonous. Its diversity ranges from lush greenery to high mountains, great oceans to barren deserts, and small villages to modern cities – South Africa has it all. The country also expresses diversity through its people, who live and interact with each other in various cultures, backgrounds, and languages. However, it is only in recent years that the country – located on the very southern tip of the Dark Continent – has become more transparent in the world's eyes.

As the legislative capital, Cape Town is recognized as one of the three major cities in South Africa, along with Durban and Johannesburg. With increased world attention on South Africa, Cape Town has benefited both economically and socially from the growing number of visitors who come to discover the city's deep historic roots, engage in various outdoor activities, and experience the unique local cultures. Consequently, the lodging market in Cape Town has experienced significant growth in recent years, and this upward trend is expected to continue in the near future as the citywide and countrywide efforts to further development strengthen with the rising anticipation surrounding the FIFA World Cup 2010.

Increased Travel to South Africa

As the world began to discover the true potential of South Africa, whether for business or leisure purposes, the number of visitors to the country increased. This growing trend is illustrated in the following table. The most recent data indicate that South Africa as a single country surpassed the world and the whole African continent in terms of growth in international arrivals, posting healthy increases of roundly 14% in 2006, and 9% in the year-to-date period through October 2007 compared to the corresponding months of 2006. In addition, the country was ranked one of the top 25 tourist destinations in the world according to the 2006 data consolidated by the World Tourism Organization.

Table 1 International Arrivals

	International Arrivals (millions)				Change			
	1995	2000	2005	2006	1995-2000	2000-2005	2005-2006	YTD 10/1/2007
World	536	684	803	846	27.6 %	17.4 %	5.4 %	5.6 %
Africa	20.1	27.9	37.3	40.6	38.8	33.7	8.8	8.4
South Africa	**4.7**	**6.0**	**7.4**	**8.4**	**28.1**	**22.8**	**13.9**	**8.9**

Source: World Tourism Organization (UNWTO)

The preceding statistics are expected to increase dramatically in the near future as the country prepares to host one of the world's largest events – the FIFA World Cup 2010.

Visitor statistics specific to the city of Cape Town were not readily available for review; however, the following visitor statistics for the Western Cape region (which includes Cape Town and the surrounding areas of West Coast, Cape Winelands, Overberg, Garden Route, and Central Karoo) help to illustrate the historical trends in international arrivals, visitor expenditures, and the number of room nights generated by visitors to Cape Town.

Table 2 Western Cape Foreign Visitor Statistics

Period	International Arrivals		Total Expenditures (millions US$)*		Room Nights Generated (millions)	
2002	1,372,000	—	$2,256	—	12.0	—
2003	1,528,649	11.4 %	1,004	-55.5 %	15.7	30.7 %
2004	1,535,903	0.5	1,161	15.6	16.1	2.8
2005	1,591,648	3.6	2,204	89.9	16.9	4.7
2006	1,737,937	9.2	2,582	17.2	19.8	17.3
Most Recent Data – Third Quarter:						
2006	374,637	—	$342	—	4.0	—
2007	396,194	5.8 %	381	11.5 %	4.3	7.6 %

**Rate of Conversion at 0.130395 (1 South African Rand = 0.130395 US Dollars)*

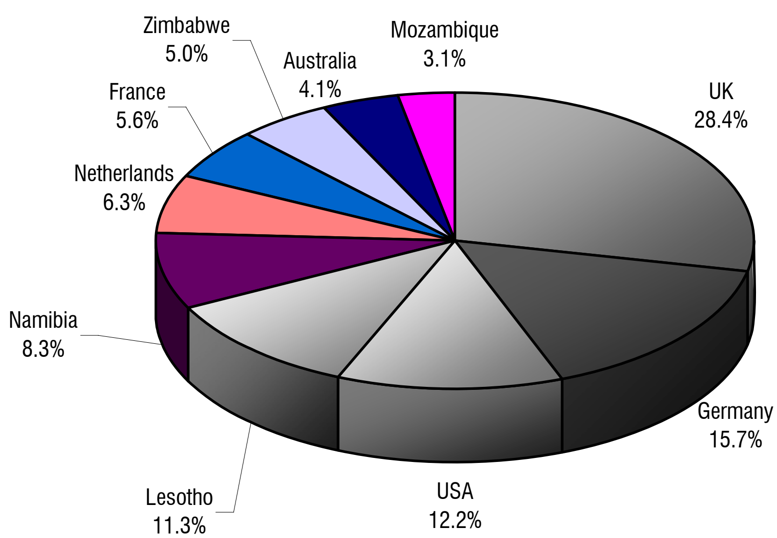
Source: Cape Town Routes Unlimited

We note that the growth in international arrivals to the Western Cape region surpassed the level achieved by the country as a whole in the most recent full-year data for 2006. The recent double-digit increases in visitor expenditures, and the healthy growth rates in the number of room nights generated, are evidence of the increasing presence of leisure and commercial travel in the region. As one of the most popular destinations in the Western Cape, Cape Town is expected to post growth in the number of travelers that correlates or even surpasses the gains anticipated for the region and the country in the near future. Such growth in international arrivals in Cape Town should directly translate to increases in lodging demand in the area.

Source Market

The following graph represents the top ten source markets for the Western Cape region.

Chart 1 Top Ten Source Markets for the Western Cape 2006



The total number of arrivals from the top ten source markets was approximately 1.2 million, which represents over 68% of the total international arrivals to the Western Cape in 2006. The countries ranked in Western Cape's top three source markets are the United Kingdom, Germany, and the United States. According to the data compiled by Cape Town Routes Unlimited, a destination management organization based in Cape Town, it is only in the recent period that the United States has ranked in the top three;

due to the distance, time, and cost associated with traveling to the very southern tip of the African continent, U.S. residents have historically faced relative difficulty in traveling to the Western Cape and Cape Town. However, as presented in the following table, the number of U.S. visitors to the Western Cape exhibited strong increases in the recent period reviewed, outpacing the growth rates posted by travelers from both the United Kingdom and Germany.

Table 3 Historical Trends in Arrivals from the Top Three Source Markets

	United States		United Kingdom		Germany	
2002	83,991	—	239,171	—	166,823	—
2003	114,343	36.1 %	293,965	22.9 %	179,913	7.8 %
2004	112,406	(1.7)	301,203	2.5	169,362	(5.9)
2005	121,377	8.0	309,935	2.9	167,168	(1.3)
2006	145,211	19.6	336,742	8.6	186,132	11.3
Most Recent Data - Third Quarter						
2006	41,181	—	67,612	—	32,872	—
2007	41,221	0.1 %	63,339	(6.3) %	3,449	(89.5) %

Source: Cape Town Routes Unlimited

The increasingly strong presence of European and U.S. travelers to the Western Cape region is indicative of the potential growth in demand for internationally recognized branded hotels.

Future Development

A significant number of new developments and infrastructural expansions are pending for some of the major cities and suburbs of South Africa, especially in the areas of the Western Cape, including Cape Town. With the need for economic sustainability, the new developments in these areas will consider the greater future – beyond 2010 – as well as the current social and economic conditions of the country.

Table 4 Major Developments in the Greater Cape Town Area as of December 2007

Project Name	Project Type	Cost in U.S. Dollars* (rounded)	Description
Strand-on-Adderley	mixed-use	287,000,000	commercial redevelopment of three blocks on the corners of prominent central city intersection - office, retail, parking, and public space upgrade
Oscar Pearce Hotel	mixed-use	29,000,000	development of a 100-room hotel, apartments, office space, parking, and retail
Mandela Rhodes Place Phase 2 and Phase 3	mixed-use	104,000,000	development of a hotel complex (a Taj Hotel) in Phase 2 and a shopping complex (Chancery Square) in Phase 3
City Hall	public	N/A	redevelopment of historic public building to potential as music and cultural venue or other related services
Grand Parade	infrastructure	1,000,000	revitalisation project - repaving, greening, and upgrading management
Cape Town Station (Phase 1)	public	12,000,000	refurbishment project with further precinct revitalization anticipated
Parliamentary Extension	public	44,000,000	redevelopment of public buildings to offices and a conference center
Parliamentary Precinct	mixed-use	N/A	mixed-use development of offices, parking, and retail
Oranjerie	residential	N/A	redevelopment of 100 apartments
15 on Orange Hotel Complex	mixed-use	65,000,000	a hotel complex including residential, commercial, and retail components
The Pulse	mixed-use	26,000,000	development of an office and retail complex
Greenwillow Properties	mixed-use	26,000,000	mixed-use development including residential and office component; retail on ground floor
St Andrews Square	public	1,000,000	public space upgrade - memorial space, ossuary, take-away kiosk, and public bathrooms
Jarvis House	mixed-use	18,000,000	commercial and retail redevelopment
Phoenix Hotel Site	mixed-use	42,000,000	mixed-use development of a 40-room boutique hotel, 140 residential units, and ground-floor retail
Green Point 2010 World Cup Stadium & Park	public	373,000,000	new development of a sports complex and adjoining facilities with an urban park
Somerset Hospital Site	mixed-use	N/A	office space, residential, and retail components involved
Waterfront Expansion	mixed-use	913,000,000	expansion of the famous Victoria-Alfred Waterfront, including 3 new hotels, apartment complexes, office space, and additional retail space
Convention Centre Expansion	mixed-use	65,000,000	addition of office space, retail space, a hotel, and more exhibition space
Convention Towers	commercial	29,000,000	new development of AAA grade commercial property
Media 24 Expansion	commercial	37,000,000	new development of Media 24 headquarters
Old Biscuit Mill	mixed-use	N/A	mixed-use commercial and retail development in Salt River
Ogilvy Bldg.	commercial	N/A	commercial redevelopment of the headquarters building and office complex in Woodstock
Hotel	hotel	9,000,000	development of a 100-room Shariah-compliant hotel
Golden Acre/ 11 Adderley Upgrades	mixed-use	62,000,000	redevelopment including offices, parking, and major retail

**Rate of Conversion at 0.130395 (1 South African Rand = 0.130395 US Dollars)*

Source: Cape Town Economic Development

The developments outlined in the preceding table total roundly $2.1 billion in investments. These projects are slated to be completed around 2010 and are expected to enhance Cape Town and the Western Cape region as a world destination, particularly in view of the upcoming FIFA World Cup 2010. In addition to creating a large economic impact by adding new jobs and encouraging more visitor spending, the preceding developments are anticipated to generate more commercial, meeting and group, and leisure demand for the area's lodging market.

The South African Lodging Market

According to the HotelBenchmark Survey by Deloitte, South Africa recorded a healthy overall occupancy of 63.9% and an average daily rate (ADR) of roundly $90 in January 2007.

The following table illustrates recent lodging trends for Southern Africa, compared to those for other world regions, as compiled by Smith Travel Research.

Table 5 Global Performance by Smith Travel Research

	Occupancy		ADR		RevPAR		Change from 2006 - 2007		
	2006	2007	2006	2007	2006	2007	Occ.	ADR	RevPAR
Asia Pacific	70.6 %	69.6 %	$115.58	$129.33	$81.55	$89.98	-1.4 %	11.9 %	10.3 %
Central & South Asia	67.8	67.0	150.20	199.91	101.88	133.93	-1.2	33.1	31.5
Northeastern Asia	71.6	68.2	121.27	124.66	86.78	85.03	-4.7	2.8	-2.0
Southeastern Asia	66.9	69.5	87.57	107.75	58.57	74.91	4.0	23.0	27.9
Australia & Oceania	74.3	74.8	124.36	145.41	92.39	108.83	0.7	16.9	17.8
Americas	63.4 %	63.3 %	$99.02	$105.16	$62.74	$66.57	-0.1 %	6.2 %	6.1 %
North America	63.3	63.3	98.44	104.46	62.35	66.03	-0.1	6.1	6.0
Caribbean	68.2	66.5	195.75	206.44	133.59	137.35	-2.5	5.5	2.8
Central America	68.4	70.7	106.41	119.41	72.82	84.39	3.3	12.2	15.9
South America	61.8	63.8	92.18	109.39	56.96	69.76	3.2	18.7	22.5
Europe	68.9 %	69.1 %	$137.74	$161.25	$94.90	$11.45	0.3 %	17.1 %	17.4 %
Eastern Europe	66.0	65.6	160.57	185.80	105.99	121.83	-0.7	15.7	14.9
Northern Europe	72.0	71.7	139.52	165.76	100.44	118.93	-0.3	18.8	18.4
Southern Europe	65.2	64.9	137.99	161.23	90.00	104.66	-0.5	16.8	16.3
Western Europe	67.0	68.4	131.79	150.71	88.26	103.15	2.2	14.4	16.9
Middle East/Africa	66.5 %	69.7 %	$144.50	$168.26	$96.11	$117.28	4.8 %	16.4 %	22.0 %
Middle East	66.6	68.8	178.36	206.31	118.84	142.00	3.3	15.7	19.5
Northern Africa	66.3	72.7	79.66	91.77	52.82	66.75	9.7	15.2	26.4
Southern Africa	**66.4**	**66.7**	**133.57**	**161.47**	**88.75**	**107.73**	**0.4**	**20.9**	**21.4**

Source: The Bench, Global Partners with Smith Travel Research

Southern Africa, a submarket designation by Smith Travel Research that includes the country of South Africa, achieved an occupancy level of 66.7% and average daily rate of $133.57 in 2007, posting growth rates of 0.4% in occupancy and 20.9% in ADR, compared to the data from 2006. The submarket of Southern Africa achieved the third-highest ADR growth and the fifth-highest RevPAR growth out of the 15 world submarkets identified by Smith Travel Research. Such growth in lodging indicators supports the increase in lodging demand in the country and, thus, in the city of Cape Town.

The Cape Town Lodging Market

Lodging demand in Cape Town consists primarily of leisure visitors due to the large number of tourism activities that the country has been able to generate with its cultural and natural attractions. According to research conducted by Cape Town Routes Unlimited, the main purpose of visitations to Cape Town as of June 2007 was "holiday."

However, with the recent overall growth in travel to South Africa, the other demand segments have experienced growth as well, mainly due to the city's efforts to attract more attention from large corporations, which make up the lodging market's high-rated commercial segment. The global meeting, incentive, conference, and events (MICE) market is also being drawn to Cape Town. According to the HotelBenchmark Survey by Deloitte, South Africa ranked 27th in the world's most popular MICE destinations in 2006, and the country looks to achieve a ranking in the top ten by the year 2010[1]. The Cape Town and Western Cape Conventions and Events Bureau, together with other key tourism organizations, reportedly has booked ten large conferences and conventions for 2010, which are expected to generate a total of more than $24 million in economic impact. The following table lists some of the conferences and conventions that will be held in Cape Town in 2010, as presented in the article written by Verikios.

Table 6 Cape Town Convention Bookings for 2010

Convention	Expected Number of Delegates	Estimated Economic Impact
The International Congress on World Evangelization	5,000	$11,029,500
The International Union of Food Science and Technology World Congress	2,000	$3,277,500
The International Communication Conference	1,000	$2,066,250

Source: The Cape Town and Western Cape Convention and Events Bureau

Lodging Performance

According to Cape Town Routes Unlimited, the city's current lodging supply consists of four different categories: hotels, guest houses, bed and breakfast establishments, and self-catering accommodations. It is interesting to note that the bed and breakfasts have played a significant role in the Cape Town lodging market by accommodating price-sensitive leisure demand generated

[1] West, Jane "South Africa's popularity drives double-digit hotel growth," HotelBenchmark by Deloitte, February 2006

from within the country and the continent. Not many branded hotels currently operate in the city or the country, which is significantly different from the orientation of the lodging market in the United States. The following table presents the changes in Cape Town's lodging indicators for these four accommodation categories from the fourth quarter of 2006 to the fourth quarter of 2007.

Table 7 Lodging Parameters in Cape Town

	Q4 2006			Q4 2007			Change		
	ADR*	Occ.	RevPAR	ADR*	Occ.	RevPAR	ADR	Occ.	RevPAR
Hotel	$121.40	74.3 %	$90.23	$193.09	79.9 %	$154.28	59.1 %	7.5 %	71.0 %
Guest House	63.37	72.1	45.64	97.22	67.3	65.43	53.4	(6.7)	43.4
B & B	61.68	65.1	40.16	77.21	69.1	53.35	25.2	6.1	32.8
Self-Catering	70.15	59.8	41.99	98.77	69.7	68.84	40.8	16.6	64.0
Total	$74.59	67.3 %	$50.20	$116.77	70.8 %	$82.68	56.6 %	5.2 %	64.7 %

**Rate of Conversion at 0.130395 (1 South African Rand = 0.130395 US Dollars)*

Source: Cape Town Routes Unlimited

For the last quarters of both 2006 and 2007, the hotel segment achieved the highest average daily rate and occupancy in Cape Town. In both periods, the bed and breakfasts recorded the lowest average daily rate; this positioning is attributable to the low-rated leisure demand that the bed and breakfasts accommodate. Between the two periods, hotels achieved the highest RevPAR growth, followed by the self-catering segment. The strong RevPAR growth in the hotel category was driven by the roundly 59% increase in average rate. It is interesting to note that between the two periods reviewed, all segments of the Cape Town lodging market experienced impressive double-digit average rate and RevPAR gains.

The Future

Significant lodging supply increases are planned for the Cape Town market in the near future, as previously shown in the overall development plan for the city and the Western Cape region. The greatest supply growth is expected to occur in the hotel category, as more branded and upscale hotels that offer consistent product and service will be developed to cater to the needs of international travelers. Most international hotel chains will aggressively target South Africa for future expansion, given its easy barriers to entry compared to other African countries. The start of such expansion efforts is apparent in InterContinental's recent appointment of a development director solely for Africa, based in Cape Town. We note that a 48-room Holiday Inn opened in Soweto, in the outskirts of Cape Town in the last quarter of 2007; as reported by Travelwires, the hotel was developed for roundly $3 million.

It will be interesting to see how the dynamics of Cape Town's lodging market evolve as more local businesses, government entities, hotel companies, and global investors identify opportunities for new developments in the area. The future success of the lodging industry in Cape Town depends on the establishment of the complex but crucial roles and interactions among the South African government, local companies, and the investors of the world. With this synergy in place, development of the local hotel industry should enable Cape Town – and South Africa – to realize sustainable growth.

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