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Is the struggle for South African Hotels continuing?

Pam Golding Hospitality CEO Joop Demes disagrees and comments that the STR figures are starting to show early signs of aligning supply with demand throughout South Africa. Overall August, September and October 2011 shows plus or minus 4% growth in revpar and this is the first quarter of 2011 that can be compared to 2010 without having to make 'excuses' for the Worldcup soccer.

Why then reported Pam Golding Hospitality earlier this week that they have a portfolio of 23 mainly three star Hotels for sale?

Demes is quick to point out that none of the Hotels in the portfolio of 23, owned by three different Vendors, is distressed and that there are strategic reasons for the sale. He further comments that this portfolio can not be compared with Hotels that are auctioned as most of the auctioned Hotels in RSA are buildings that should not have been Hotels in the first place or are guesthouses as opposed to Hotels. The South African Hotel market has in fact experienced very few distressed sales compared with counties such as Ireland, England, Spain, Greece, Portugal, Italy and America.

The collective value of the PG Hospitality portfolio, spread between South Africa and Zimbabwe, amounts to plus or minus R1 Billion with an average cost per key of plus or minus R500 000. This is a 50% discount factor compared to replacement value and is a similar percentage discount that was applicable in the recent sale of the five star Westin Hotel in Cape Town and the recent sale of the five star Grace Hotel in Johannesburg. Demes points out that five to seven years ago one would build a five star Hotel for R1 Million rand per key and a three star Hotel for R300 000 per key and that despite the 50% discount most Vendors are still able to make a decent capital profit.

South African Hotel Operators have been very quick to react to the recent sales of five star properties at very attractive prizes/leases and the Westin Hotel, the Arabella Hotel, the Grace Hotel and the Grayston Hotel are sound evidence of this. Hilton was quick to re-brand the five star Coral Hotel in Cape Town.

The focus is now shifting to the mid-market Hotels says Demes and while some local players are complaining of declining profitability, a number of well-known international brands are keen to enter SA at a deep discount at what they believe is the bottom of the market.

Demes is talking to Accor and NH Hotels from Spain who are looking to grow their footprint in Southern Africa. They are particularly interested in breaking into the mid-priced market where local brands including Protea Hotels and City Lodge have traditionally dominated.

"These well-established global players see an enormous gap to develop the fast growing mid-market domestic and African traveller markets, which they believe is being largely ignored by local hotel players."

End.