

HOTEL yearbook 2010

What to expect in the year ahead

**Sir David Michels on the shape
of the coming recovery**

**The outlook for 20 key markets,
from China and the USA
to Germany, Brazil and Libya**

**Is it time to change in-room
technology standards?**

**How the crisis
will affect luxury in 2010**

**Editorial input from 25 hotel
industry CEOs**

This excerpt from the Hotel Yearbook 2010 is brought to you by :



Ecole hôtelière de Lausanne

The Ecole hôtelière de Lausanne (EHL) is the co-publisher of The Hotel Yearbook. As the oldest Hotel School in the world, EHL provides university education to students with talent and ambition, who are aiming for careers at the forefront of the international hospitality industry. Dedicated to preparing tomorrow's executives to the highest possible level, EHL regularly adapts the contents of its three academic programs to reflect the latest technologies and trends in the marketplace. Since its founding in 1893, the Ecole hôtelière de Lausanne has developed more than 25'000 executives for the hospitality industry, providing it today with an invaluable network of contacts for all the members of the EHL community. Some 1'800 students from over 90 different countries are currently enjoying the unique and enriching environment of the Ecole hôtelière de Lausanne.



Boutique DESIGN New York

Boutique DESIGN New York, a new hospitality interiors trade fair, will coincide with the 94-year-old International Hotel/Motel & Restaurant Show (IH/M&RS). Designers, architects, purchasers and developers will join the hotel owners/operators already attending IH/M&RS to view the best hospitality design offerings as well as explore a model room, exciting trend pavilion and an uplifting illy® networking café.



Hospitality Financial and Technology Professionals (HFTP)

HFTP provides first-class educational opportunities, research and publications to more than 4'800 members around the world. Over the years, HFTP has grown into the global professional association for financial and technology personnel working in hotels, clubs and other hospitality-related businesses.



Bench Events

Bench Events host premier hotel investment conferences including the International Hotel Investment Forum; the Arabian Hotel Investment Conference and the Russia & CIS Hotel Investment Conference. Bench Event's sister company, JW Bench, is a benchmarking company that has launched the Conference Bench and the Productivity Bench. An industry first, the Conference Bench, measures performance data for conference space in hotels throughout Europe.



Cornell University School of Hotel Administration

Founded in 1922, Cornell University's School of Hotel Administration was the first collegiate program in hospitality management. Today it is regarded as one of the world's leaders in its field. The school's highly talented and motivated students learn from 60 full-time faculty members – all experts in their chosen disciplines, and all dedicated to teaching, research and service. Learning takes place in state-of-the-art classrooms, in the on-campus Statler hotel, and in varied industry settings around the world. The result: a supremely accomplished alumni group-corporate executives and entrepreneurs who advance the industry and share their wisdom and experience with our students and faculty.



Hsyndicate

With an exclusive focus on global hospitality and tourism, Hsyndicate.org (the Hospitality Syndicate) provides electronic news publication, syndication and distribution on behalf of some 750 organizations in the hospitality vertical. Hsyndicate helps its members to reach highly targeted audience-segments in the exploding new-media landscape within hospitality. With the central idea 'ONE Industry, ONE Network', Hsyndicate merges historically fragmented industry intelligence into a single online information and knowledge resource serving the information-needs of targeted audience-groups throughout the hospitality, travel & tourism industries... serving professionals relying on Hsyndicate's specific and context-relevant intelligence delivered to them when they need it and how they need it.



WATG

Over the course of the last six decades, WATG has become the world's leading design consultant for the hospitality industry. Having worked in 160 countries and territories across six continents, WATG has designed more great hotels and resorts than any other firm on the planet. Many of WATG's projects have become international landmarks, renowned not only for their design and sense of place but also for their bottom-line success.

elevation



WATG re-invented the resort to reflect the magic of Kauai by paying homage to the unique island and its culture.

[READ MORE ►](#)

VISIONARY CLIENT



Ismail Haluk Kaya
Üçgen Construction and Trade Co. Inc.
 Should a client invest in a monument to the architect's ego?

[READ MORE ►](#)



PROJECT SPOTLIGHT



St. Mary's Mixed-Use Residential and Retail

New luxury towers currently under construction in Kuala Lumpur set the bar high for metropolitan living.

[READ MORE ►](#)

THOUGHT LEADER



Shaun Hannah
 WATG's director of sustainability talks about how the recession has impacted green design.

[READ MORE ►](#)



[facebook](#)
[LinkedIn](#)
[twitter](#)
[flickr](#)
[YouTube](#)



The travel destination of choice in 2010 ?

MICHELE DE WITT of **HORWATH's** Cape Town office projects what is going to happen in South Africa's hotel industry before, during and after the World Cup. Challenges abound, but she is optimistic they will be met with flying colors.

In 1994 South Africa held its first democratic elections with Nelson Mandela elected President. South Africa was alive with possibilities! And so the idea of hosting the Soccer World Cup on African soil was cogitated.

The country's initial bid to host the 2006 tournament was lost to Germany. However, when FIFA announced that the tournament would be rotated between the football confederations, and that the 2010 tournament would be held in Africa, South Africa went all out to secure the 2010 event.

On May 15th, 2004 South Africa was confirmed as the host country for the 2010 FIFA Soccer World Cup™, making South Africa only the second country in the world to host the cricket, rugby, and football world cups. With thirty-two of the world's best national soccer teams competing in sixty-four matches, watched by an estimated three and a half million spectators and billions of television viewers around the world, the event presented South Africa with significant opportunities... and a few challenges.

Let's consider some of these challenges

South Africa is a vast country; in fact, the total area of South Africa is only marginally less than the total area of the preceding four tournament host countries combined (Germany, South Korea, Japan, and France). Ten venues situated throughout the country's nine provinces will stage the tournament, and while at the time of winning the bid to host the World Cup, South Africa had good roads, rail and air facilities, their capacity would need to be improved significantly in order to facilitate the arrival and movement of players, fans, and the media prior to and during the event. Of course, the ten stadiums required to stage the tournament needed to be upgraded/constructed, and sufficient accommodation facilities were needed. Not to mention issues surrounding health, safety and security, and information and communications technologies.

So, in order to address these challenges, the South African government committed ZAR 8.4 billion toward the upgrading/ construction of the ten stadiums. A further ZAR 11.7 billion was invested in a transport infrastructure program; some



ZAR 45 million was allocated to health and medical services-related infrastructure; some ZAR 665 million was set aside for safety and security related equipment; and some ZAR 1.5 billion was invested in upgrading the country's ports of entry. The result: a legacy of improved cities and world-class infrastructure that will serve the country, and the South African tourism industry, well beyond 2010.

The current supply

The South African tourism industry has grown exponentially in the last decade and has become an important and recognized sector of the national economy. South Africa has become the country with the highest influx of tourist arrivals in Africa, with foreign tourist arrivals in the country amounting to some 9.6 million in 2008. Almost 77 % of foreign tourist arrivals stem from within the African Continent.

However, it is estimated that foreign tourism only contributes about 12 % to the total visitor market in South Africa.

Furthermore, the months of June and July, when the tournament will be hosted, are traditionally considered low season with less than 15 % of overseas tourists traveling to the country during this time. Yet, if one considers the media coverage and focus on South Africa in the run-up to and during the event, the tournament presents significant opportunities to raise awareness of the destination both within established and new source markets.

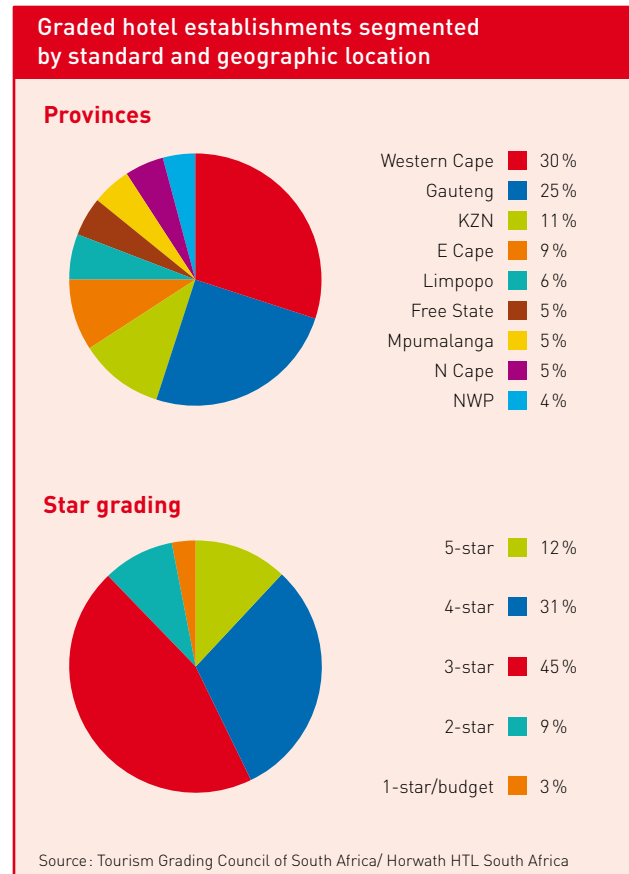
The accommodation supply in South Africa includes many different types, standards, and scale of establishments, for example guesthouses, lodges, timeshare units, hotels, and self catering establishments. Of an estimated 606 graded hotel establishments in South Africa, budget establishments (1 and 2-star) account for approximately 12 % of the current supply. The majority of graded hotel establishments, estimated to be some 45 %, are of a 3-star standard. Hotels of a 4-star standard account for approximately 31 % of graded hotel establishments, while the remaining 12 % of graded hotel establishments are of a 5-star standard.

In terms of geographic distribution, the Western Cape has the largest number of graded hotel establishments (estimated to be some 30 %), followed by Gauteng (some 25 %), KwaZulu Natal (some 11 %), the Eastern Cape (some 9 %), Limpopo (some 6 %), Free State, Mpumalanga, and Northern Cape (some 5 % respectively), and the North West Province with some 4 %.

Enough to accommodate all the fans?

But how does the current supply of graded hotel establishments support the anticipated accommodation demand prior to and during the event? Well, FIFA requires 55,000 rooms. Overall, some 7,140 accommodation establishments, representing some 100,000 graded accommodation rooms, are registered with the Tourism Grading Council of South Africa – more than enough to meet FIFA’s requirements.

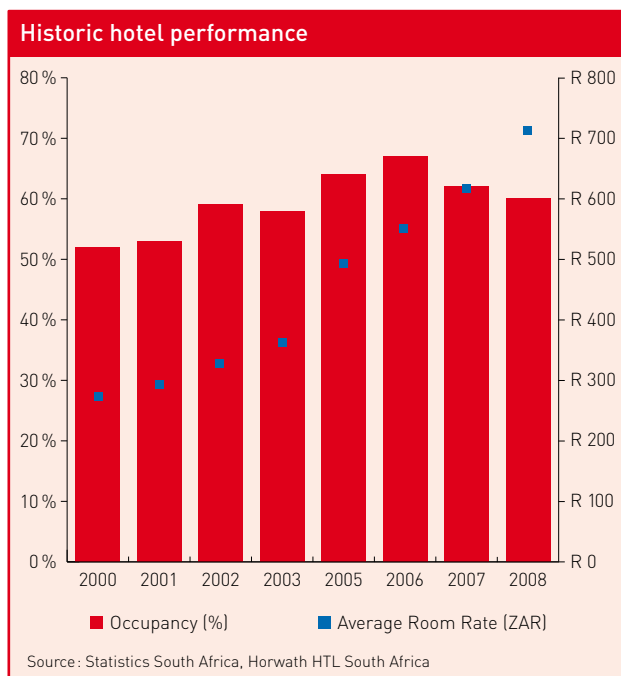
However, it is when we compare the anticipated demand in each host city with the current supply of graded rooms available in the host city, where there is evidence that in



some host cities, the anticipated demand will exceed the current supply. (The nine host cities include Johannesburg, Cape Town, Durban, Port Elizabeth, Pretoria, Bloemfontein, Nelspruit, Polokwane, and Rustenberg.) Therefore, to address the anticipated shortfall in accommodation, for the first time in history, FIFA has contracted non-hotel accommodation.

But to develop new hotels requires a significant investment and if one considers, dependant on the sample referred to, that the overall average occupancy rate in South Africa over the past few years was between 60 % and 70 %, a sustainable increase in demand would be required in order ▶

to justify a significant increase in supply and still generate the necessary rate of return.



Much of the new supply of hotel accommodation establishment, with an estimated increase in available rooms amounting to between 10 % and 15 % per host city, that have commenced operations since 2006 were developed by South African-based hospitality organizations in accordance with their respective expansion strategies.

Thus far, international hotel management companies with a presence in South Africa include Accor (Mercure and Formule 1); Best Western; Fairmont Hotels & Resorts; Hilton Worldwide (Hilton); Hyatt International (Hyatt Regency); InterContinental Hotels Group (Crowne Plaza and Holiday Inn Express); Kerzner International's One&Only; nH Hoteles; Orient Express Hotels & Resorts; Red Carnation; Rezidor (Radisson Blu and Park Inn); and Starwood Hotels & Resorts (The Luxury Collection, Sheraton, and Westin brands) with Coral International; and Taj

Hotels, Palaces, & Resorts anticipated to commence operations before kick-off.

Our thoughts on the short-term outlook

Media exposure of the country before, during, and after the event will increase awareness of the destination beyond the traditional target markets affording the country an opportunity to increase foreign tourist arrivals from existing and new source markets.

The legacy of significantly improved access, including a revised (read less-restrictive) aviation policy, new public transport facilities, and improved roads network, will enhance the current tourism product offering.

The successful (read safe) hosting of the event, as was achieved when South Africa hosted the DFL Indian Premier League, British Irish Lions Tour of South Africa, and FIFA Confederations Cup in 2009, will enhance South Africa's image as a safe destination.

While we anticipate a degree of displaced visitors in the months immediately prior to and during the event, given the seasonal nature of foreign tourist arrivals, we believe that the potential displacement will be largely confined to the domestic market.

We expect foreign tourist arrivals to grow by some 3 % in 2009, despite the affects of the global economic crisis, and by a further 6 % to 10 % in 2010. Thereafter we anticipate that growth in foreign tourist arrivals will decline to approximately 1 % in 2011 before stabilizing at some 4 %.

With reference to the domestic tourism market, we anticipate that overall growth in this segment will contract in 2009 as a consequence of the economic climate and in 2010 as domestic leisure and business travel is displaced as a result of 2010 FIFA Soccer World Cup™ related activity.

In terms of hotel performance, we would expect to see overall hotel occupancy in 2009 decline to between 50 % and 60 % as a consequence of the additional new supply coming online and the affects of the global economic crisis on tourism in South Africa.

We anticipate that demand for accommodation during the event will be characterized by short-term spikes, dependent on the prevailing schedule of matches, stadium capacities, and available tickets in each host city.

Gauteng, host to three venues, is likely to have the highest demand for accommodation throughout the tournament while the arrival of the MS Noordam and MS Westerdam, each with more than 950 cabins, docking in Durban and Port Elizabeth harbors respectively for the full month of the World Cup, means that demand for accommodation in these two host cities should easily be met.

For the full year 2010, we anticipate that overall hotel occupancy will be between 55 % and 65 %, declining to between 50 % and 60 % until such time as the growth in demand matches supply. However, with reference to average room rate, we anticipate average room rate to grow by some 5 % to 10 % in 2009 over ARR achieved in 2008. According to MATCH, the average FIFA World Cup™ rate for contracted accommodation varies between ZAR 1,816 and ZAR 4,545. Given the timing of the tournament, and the higher than normal rates the hotels are likely to achieve, we would expect 2010 to yield above average growth in ARR.

We anticipate that average room rate performance will continue to realize above-inflation increases, as is the custom in the South African hospitality industry, from 2011 onward. In the luxury segment, we are of the opinion that hospitality management companies will be under pressure from owners to achieve room rates that deliver the required rate of return as many of the new-builds were realized at inflated construction costs.

Longer term: can the demand be sustained ?

In closing, the affects of the global economic crisis will undoubtedly continue to influence foreign traveler's choice of travel destinations in 2010. Nevertheless, destinations such as South Africa with favorable exchange rates that offer value for money should be at an advantage as we expect length of stay and expenditure to be impacted more than volume. As host

country to the 2010 FIFA Soccer World Cup™, South Africa is well placed to be the travel destination of choice in 2010.

With reference to the event, we are of the opinion that the greatest challenge the South African tourism industry will encounter immediately prior to and during the event will revolve around logistical requirements that will enable players, fans, and the media to move throughout the country, and neighboring countries, in a timely manner.

In terms of the hospitality sector specifically, the ability of the market to absorb the additional hotel room supply post 2010 will depend on the extent to which growth in demand can be sustained at similar rates to the growth in supply. ■



Taj Hotel Cape Town



Soon, we'll all Score.

Right now, we're providing partners and clients with planning, financial and technical assistance with their infrastructure needs for our biggest ever soccer tournament. Stadia, public transport systems, accommodation, security, medical, emergency and venue training services are just some of the infrastructure that's being targeted. The way we see it, a hands-on and integrated approach is a sure way to unlock and sustain development benefits for many years to come.



DBSA

Development Bank
of Southern Africa

Financier • Advisor • Partner

For more information visit www.dbsa.org or call +27 11 313 3911.