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Tourism Trends

Issue 2 | 2024

Key trends and highlights of South Africa's tourism industry

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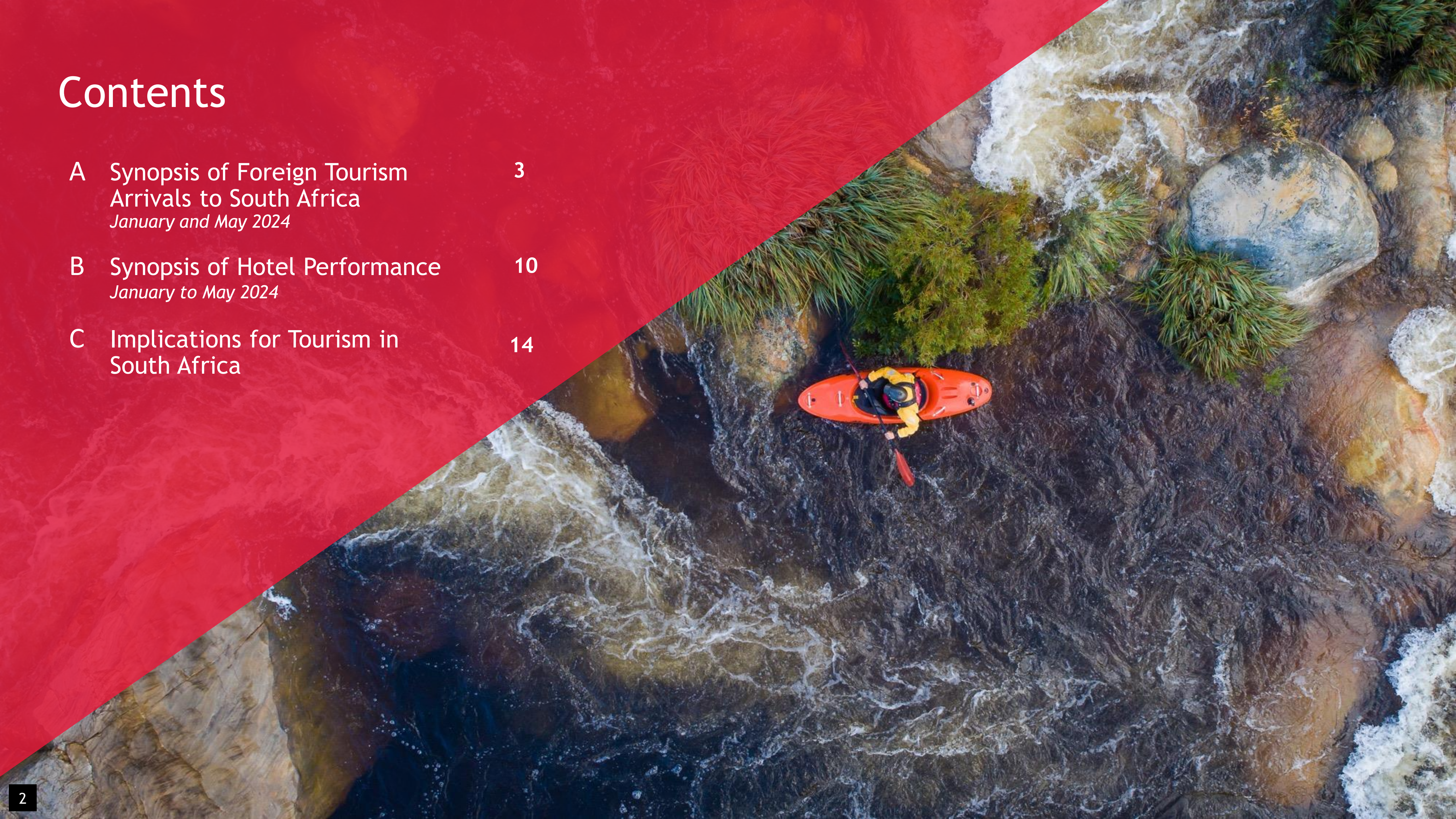
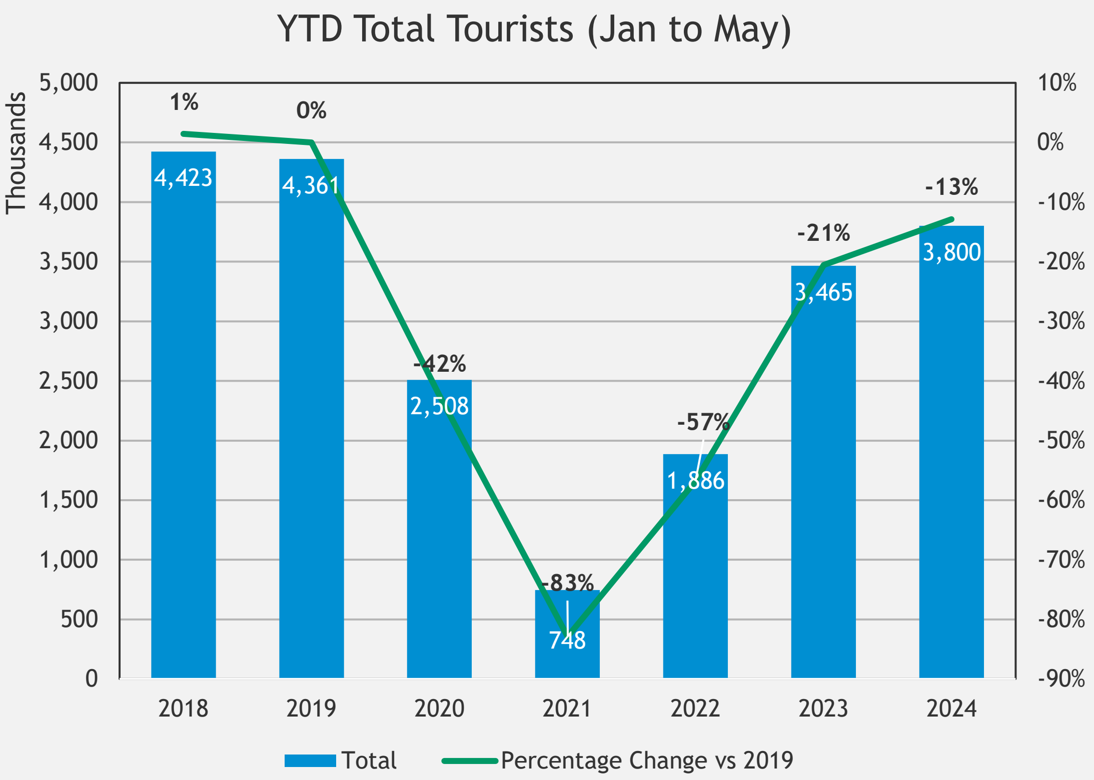


A | Synopsis of Foreign Tourism Arrivals to South Africa

January and May 2024

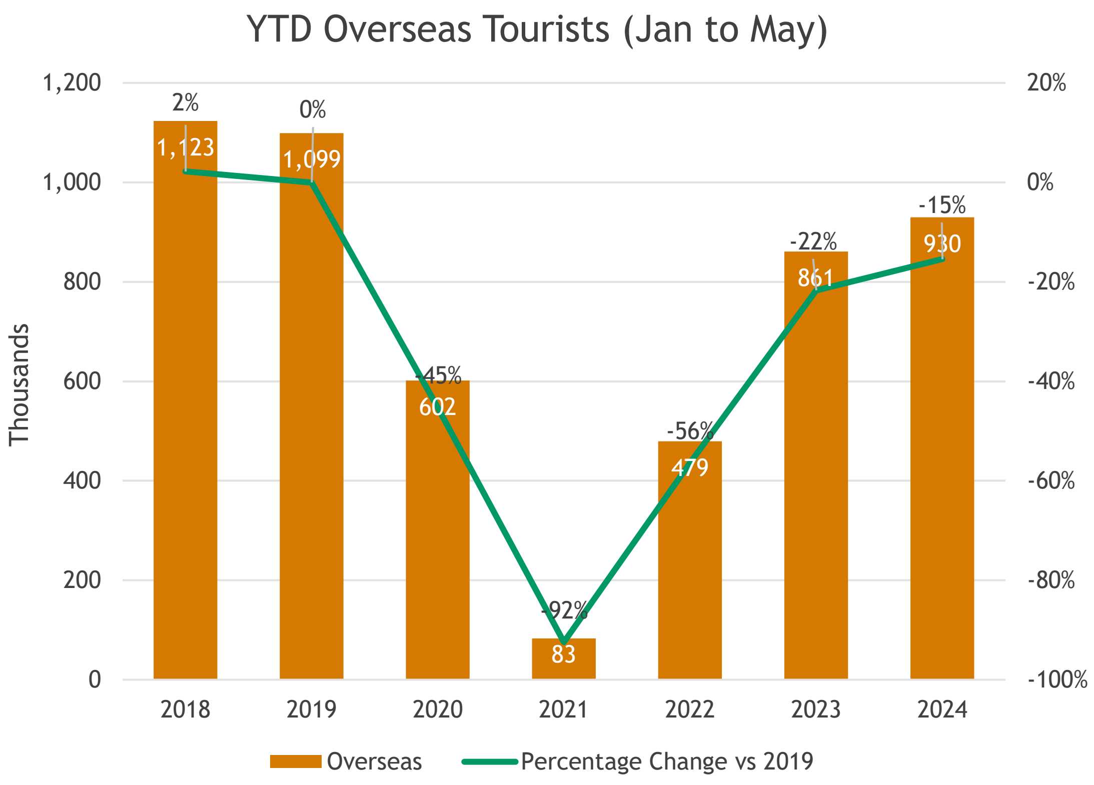
2024: Expected recovery remains out of sight



Source: StatsSA and BDO analysis

- 3,8 million foreign tourists visited South Africa in January and May 2024 (YTD).
- This is 561 000 less than the number of tourists recorded in the first 5 months of 2019.
- 2019, often referred to as the "last normal" year, was not our best year in terms of tourism arrivals – 2018 was.
  - YTD 2024 is 13% behind 2019 levels!
  - And compared to 2018, 2024 YTD foreign arrivals are 14% behind (623 000 less tourists in 2024 vs 2018 YTD).
- Unfortunately, the expected recovery in tourism arrivals has not materialised. In fact, arrival numbers have regressed during the past 3 months. For the first 2 months of the year, arrivals were 9% behind 2019 numbers but the months of April and May were particularly poor with figures tracking 22% and 14% behind 2019 respectively.
- This is a bleak picture for South Africa's tourism industry. We had anticipated that tourism would be back to "normal" by 2024. But it looks like we have a lot of work to do in the remaining period to drive up visitor numbers.

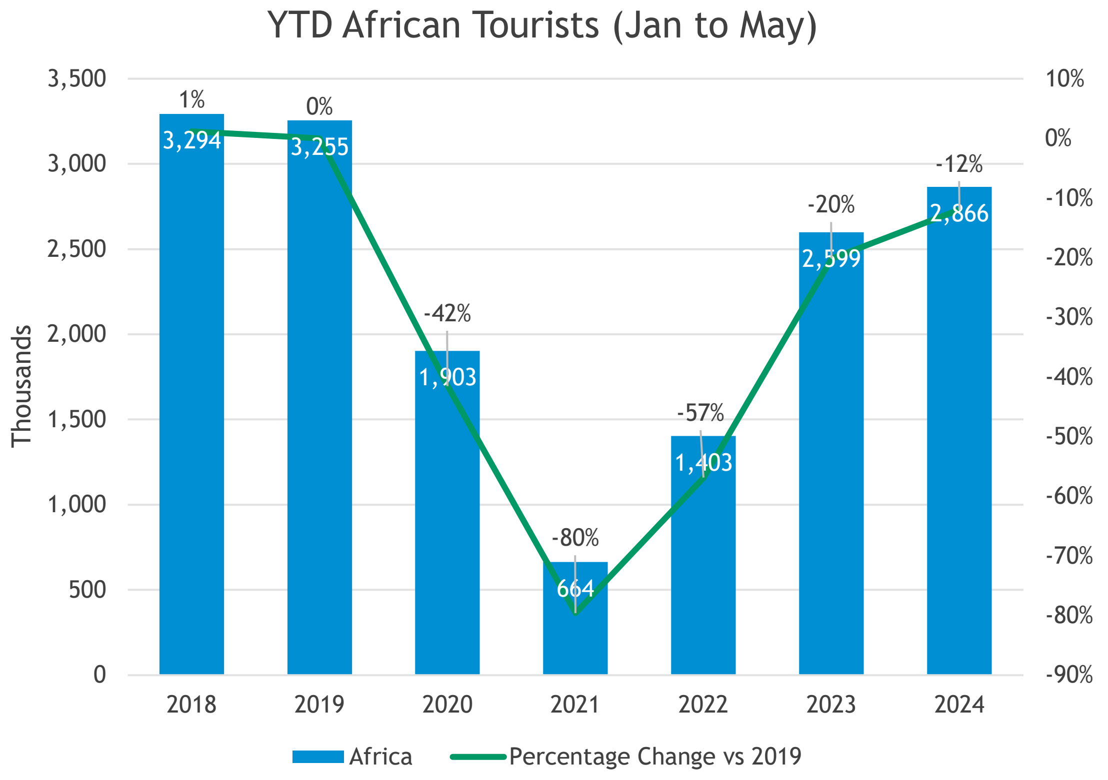
Overseas Tourism arrivals continue to disappoint with a growing negative impact on our economy



- Unfortunately, overseas tourism, which is the jewel in the crown when it comes to economic impact due to the high average spend per visitor, continues to lag behind 2019 and 2018 numbers.
- With 930 000 overseas arrivals between January and May 2024 (YTD), the lag behind 2019 overseas arrivals for the same period is at 15% (and 17% behind 2018 numbers).
- Although there is growth over 2023 arrivals, the growth is insufficient for the extent of recovery expected and needed.
- Compared to 2023 when YTD growth over 2022 overseas numbers was 80%, growth for the first 5 months of 2024 (over 2023) has been disappointing at only 8%. The big jump in 2023 was expected as we transitioned out of the Covid-19 pandemic period, however, growth of 8% in 2024 is much lower than expected given that South Africa's tourism industry has yet to recover to pre-pandemic levels, which many leading, and competitive, destinations have managed to achieve. To make a meaningful impact, we really needed (and expected) growth of 28% or more YTD to get our tourism industry back on track.
- In the first 5 months of 2024 we have not been able to regain i.e., lost 194 000 overseas tourists or 18% of the 2019 market.
- This has resulted in a staggering loss of R4.8 billion in direct revenue to the South African economy. This excludes the multiplier effect of this direct spend in our economy.

Source: StatsSA and BDO analysis

African Tourism, an increasingly important market, needs direct air access and an open visa regime to succeed



- Although faring slightly better than overseas markets, African tourists are still lagging – 12% behind 2019 and 13% behind 2018 arrivals for the first 5 months of the year.
- This lag still means that we are 430 000 African visitors behind 2019 numbers (2.9 million in 2024 vs 3.26 million in 2019), which is lost direct revenue in our economy of nearly R3 billion.
- Compared to 2023, growth for the first 5 months of 2024 has been 10%. But growth of 25% is needed to bring us back in line with 2019.
- With 274 000 African air arrivals for the first 5 months of 2024, levels are at 99% of 2019 for the same period. Thus, growth in African air arrivals is exceeding land arrivals, which is positive for our tourism industry as air arrivals tend to have a higher average trip spend than land arrivals.
- Key African markets that are significantly behind 2019 levels include, Nigeria (-50%), Angola (-47%), Egypt (-38%), Uganda (-16%) and DRC (-14%). This is a concern for attracting new tourism markets from the African continent (the African market on a whole is one with lots of potential for the future of our tourism industry).
- On a positive note, and a story in support of visa openness, the number of tourists from Ghana was 47% behind 2019 levels in 2023, until the mutual removal of visas, from which point arrivals have far exceeded 2019 numbers (up 71% YTD).
- Kenya is another good news story – arrivals YTD are 46% above 2019 figures (and in 2023 arrivals were 34% more than 2019).

Source: STR and BDO analysis

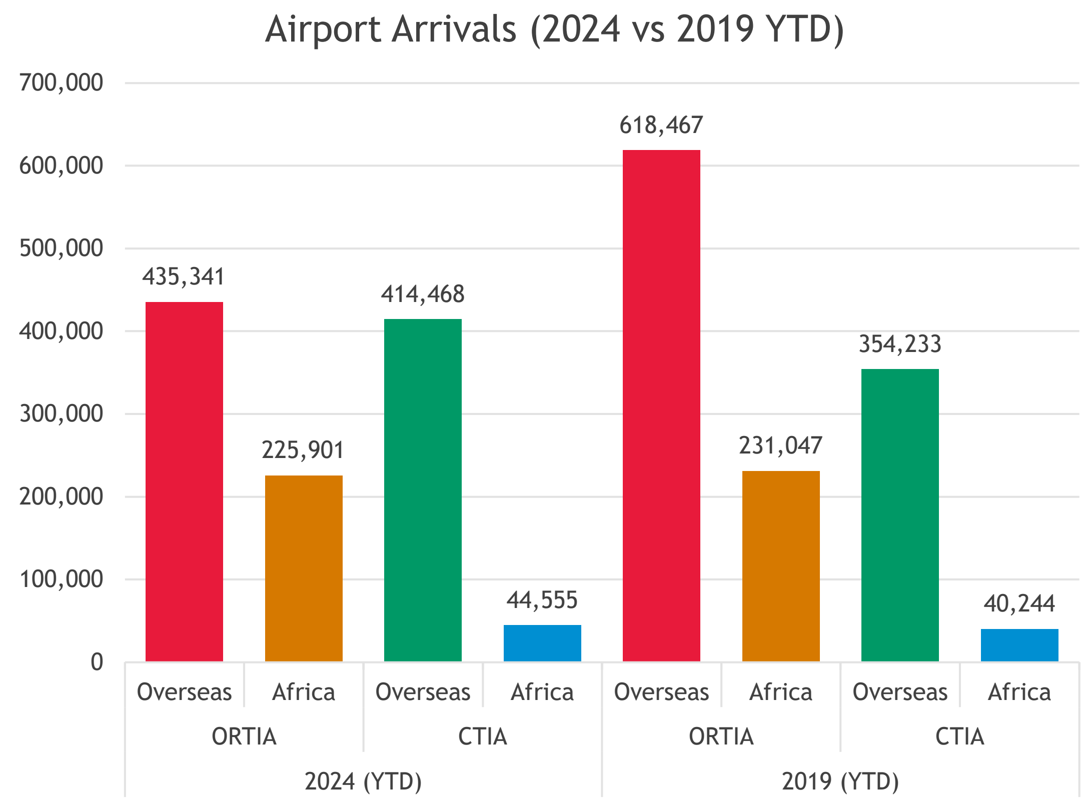
Lagging overseas markets

- China remains the worst performing overseas market. YTD, we have only received 43% of 2019 numbers (17 100 vs 39 600). This is largely, but not exclusively, due to the slow reopening of Chinese borders. However, given the size of this outbound market (around 155 million in 2019), even the 97 000 visitors we hosted in 2018 is a drop in the ocean. China remains a largely untapped opportunity for South Africa. But significant growth can't be achieved without products and services that meet the needs of this market and a visitor friendly visa regime.
- Many other Asian markets, although small, are also showing low levels of growth and poor recovery to 2019 levels e.g. Taiwan, Philippines, Republic of Korea, etc.
- The impact of direct flights between South Africa and Brazil has had some impact on demand from the Brazilian market. In 2023, the Brazilian market was down 73% compared to 2019. However, for the first 5 months of 2024, demand from this market is already at 77% of 2019 levels (only down 30%). With someway to go before we reach full recovery, the direct air route will be pivotal in driving demand from this market.
- The Italian market is only at 76% of 2019 YTD numbers (down 23,5%), with only moderate growth of 8% over the first 5 months of 2023.
- France remains an important source market for South Africa's tourism industry. This market has recovered slightly in the first 5 months of 2024, with growth of 12% over 2023. However, the market remains 22% behind 2019 numbers YTD (57 200 in 2024 vs 73 700 in 2019).
- Germany's recovery has stalled, with this market recovering to 88% of 2019 levels for the first 5 months of 2024 (growth of only 5% YTD compared to 2023).
- Rest of Europe (countries outside of Germany, France, Italy, Netherlands, Russia) is down 20% compared to January to May 2019.
- Overall, many European source markets have been slow to return to 2019 levels.
- The UK, traditionally, South Africa's strongest overseas source market, remains a major concern. The lag to 2019 numbers has increased to 16% in the first 5 months of the year (from 14% for the first 2 months of 2024). Growth of only 2,5% has been recorded for 2024 YTD over 2023 numbers. Despite the poor performance of this market, the UK remains the largest overseas source market at 168 400 visitors for January to May 2024.
- The Australian market has recovered slightly in the last 3 months and is now 13% behind 2019, with moderate growth in January to May 2024 over the same period in 2023 (8,4%).
- India has recovered to 81% of 2019 numbers (19% behind). But the number of Indian arrivals increased by only 2,7% in the first 5 months of 2024 when compared to the same period in 2023. Another worrying indicator?

Outperforming overseas markets

- The Russian market remains a stellar performer, with an 86% increase in the number of visitors received compared to the same period in 2019. This is, however, a very small market with only just over 16 000 visitors in 2019 (full year) and approximately 14 000 visitors hosted YTD (January to May 2024). This upsurge is being felt across many African countries and likely due to the continent's largely neutral stance in the Russian/Ukraine war. Growth from this market continues to surge forward, with YTD growth of 13% over 2023 numbers.
- The Netherlands continues to defy European trends. Growth for the first 5 months of 2024 was nearly 10% up on the same period in 2023. And this market is now 2,5% up on 2019. This is one market that has "recovered".
- Although very small markets, both Saudi Arabia and the UAE have shown impressive growth, with YTD growth of 118% and 88% respectively when compared to the same period in 2019. So far more than 4 500 Saudi tourists have visited South Africa YTD (up 53% on YTD 2023), compared to just over 2 000 for the full year in 2019.
- New Zealand, another small market, has also rebounded fast (45% up on 2019), but growth in 2024 was muted when compared to 2023 (-1,2%).
- Special note on the USA market, which reached 95% of 2019 arrival numbers in 2023 (full year). With 6% growth YTD, this market is now on par with 2019 numbers. We remain optimistic that good growth from this market will continue. At the current pace of growth, the USA market is poised to take the podium as South Africa's largest source market (for overseas countries).

Cape Town Air Access Strategy reaping rewards for International Air Arrivals



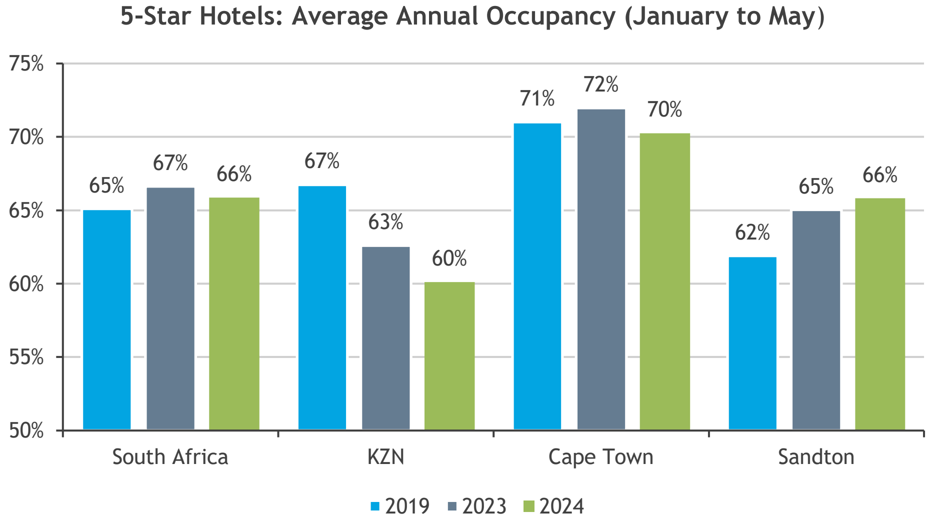
Source: STR and BDO analysis

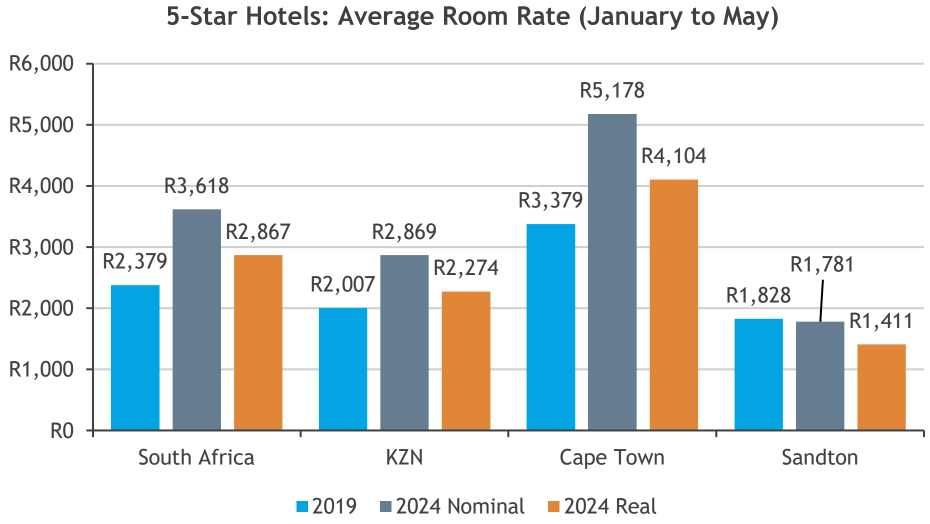
- Looking at international air arrivals by airport, the achievements of the Cape Town Air Access Strategy are clearly evident.
- For the first 5 months of 2024, overseas air arrivals through CTIA (Cape Town International Airport) were up 17% on the same period in 2019. Given that for the country as a whole, air arrivals for 2024 YTD were 11% behind 2019 numbers, this is an impressive performance.
- By comparison, ORTIA (OR Tambo International Airport) ended the 5-month period some 30% behind 2019 overseas air arrivals and 1% up on the same period in 2023.
- The majority of African air arrivals enter South Africa through ORTIA. In the first 5 months of 2024, ORTIA handled more than 5 times the number of African air arrivals than CTIA.
- For both ORTIA and CTIA air arrivals from Africa were up over 16% for the first 5 months of 2024 when compared to 2023.
- Despite this good growth, ORTIA is still 2% behind YTD 2019 African air arrivals.
- However, CTIA is already 11% ahead of the number of YTD African Air Arrivals recorded in 2019 (this is off a small base).

B | Synopsis of Hotel Performance

January to May 2024

5-Star Hotels - still the best performer

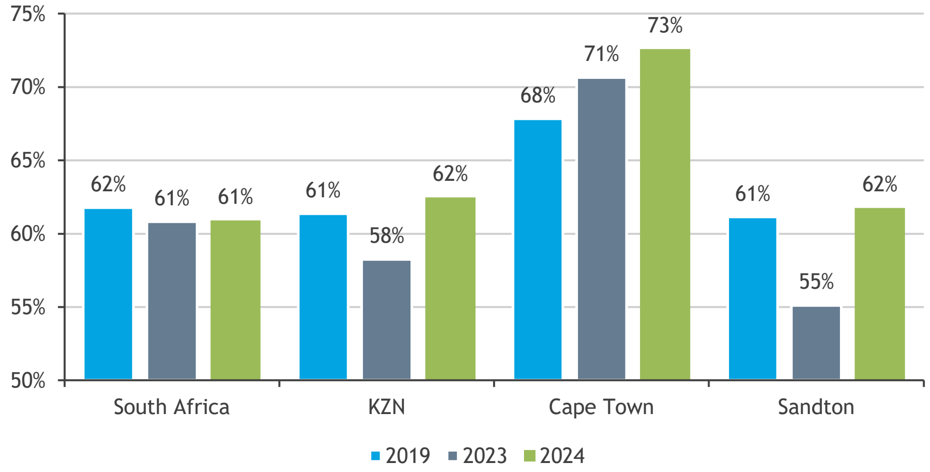


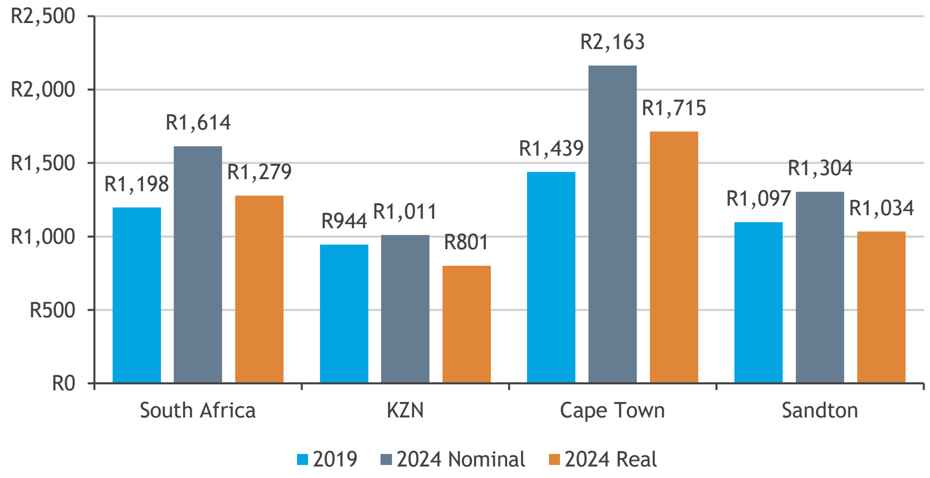


- 5-Star hotels continue to be the "star" performer in the hospitality industry.
- Across the country 5-star hotels have performed well in terms of room occupancy for the period January to May 2024. Sandton is outperforming 2019 levels (66% YTD in 2024 vs 62% in 2019 YTD). YTD room occupancies in 5-star hotels in Cape Town have remained above an impressive 70%.
- However, 5-star hotels in KwaZulu-Natal (KZN) are yet to recover to 2019 levels, with a 3 percentage point decline in occupancy in 2024 over the January to May period in 2023 (and 7 percentage points behind 2019).
- 5-Star hotels in Cape Town continue to be the shining star, achieving Average Room Rates (ARR) for January to May 2024 that are 21% ahead of the same period in 2023. In real terms 5-star hotels in Cape Town were 21,5% ahead of the same period in 2019. Even though occupancies have dropped by 1 percentage point in 2024 compared to 2019, in real terms RevPAR for 5-star, Cape Town hotels was still 19,6% greater than 2019.
- ARR across all 5-Star hotels was R3 618 in January to May 2024, this is R1 240 more than the ARR in the same period in 2019 and 13% up in real terms on 2019.
- Although 5-Star hotels in KwaZulu-Natal have been able to achieve real growth in ARR of over 13% between 2019 and 2024, lower occupancies have resulted in no significant change in real RevPAR for the January to May period.
- In terms of ARR, Sandton 5-Star hotels continue to take a beating - with ARRs that are a third of what was achieved in equivalent Cape Town hotels, and real ARR that is 23% lower than what was achieved in 2019. The improved occupancies coupled with rate deterioration means that RevPAR for 5-Star Sandton hotels are down 6% over 2019 for the January to May period. Sandton hotel operators are clearly sacrificing rate in favour of occupancy.

Source: STR and BDO analysis

4-Star Hotels - improved performance but only in some markets



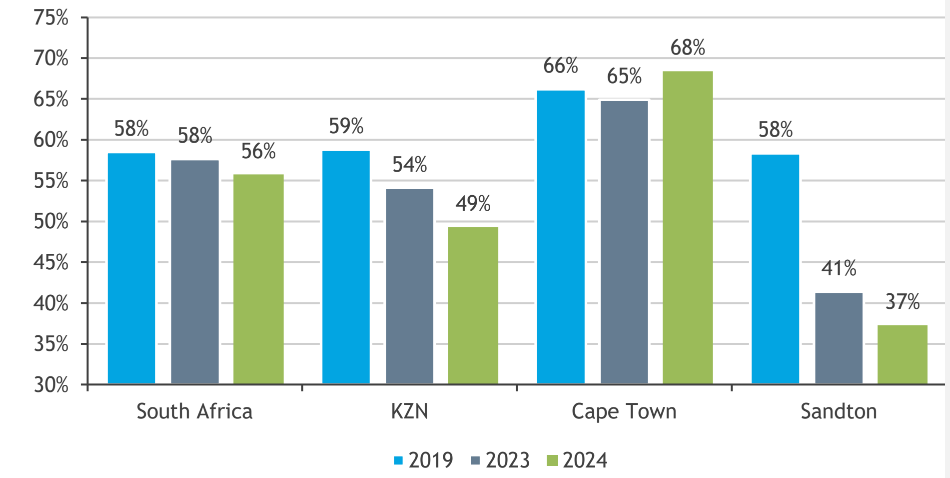


- For the first 5 months of 2024, 4-star hotels in Cape Town performed well, achieving an average occupancy that is 5 percentage points above the same period in 2019 and achieving real growth in ARR of nearly 20% over 2019. YTD ARRs in 4-Star hotels were 42% of 5-Star hotels in the Cape Town market. Coupled with good occupancy, nominal RevPAR for these hotels was R1 589, 26% more than the same period in 2019 in real terms.
- Although occupancies in 4-Star KwaZulu-Natal hotels had rebounded to pre-Covid levels, the same cannot be said for ARR. In real terms, ARRs in 4-Star KZN hotels were down 15% for the first 5 months of 2024 when compared to the same period in 2019, which results in real decline in RevPAR of over 13%. In KZN ARRs in 4-Star hotels were at 35% of 5-Star hotels in the same market.
- As in KZN, occupancies in 4-Star Sandton hotels have rebounded to pre-Covid levels but average room rates are still slightly behind 2019 levels in real terms. For the first 5 months of 2024, real RevPAR was down 5% in Sandton when compared to the same period in 2019. ARR in 4-Star Sandton hotels was at 73% of 5-Star Sandton ARRs, which is more an indication of 5-Star weakness, than 4-Star strength.
- In fact, ARRs for 4-Star hotels in Sandton are only at 60% of that achieved in Cape Town.
- The weakness in the KZN market is amplified by the fact that ARRs in 4-Star KZN hotels are more than R1 100 below that achieved in Cape Town (or only 47% of ARRs in Cape Town). The biggest challenge for this market lies in bridging the rate gap (in fact, 4-Star hotels in KZN achieved a slightly <u>lower</u> ARR than 3-Star hotels in the same market for the first 5 months of 2024).

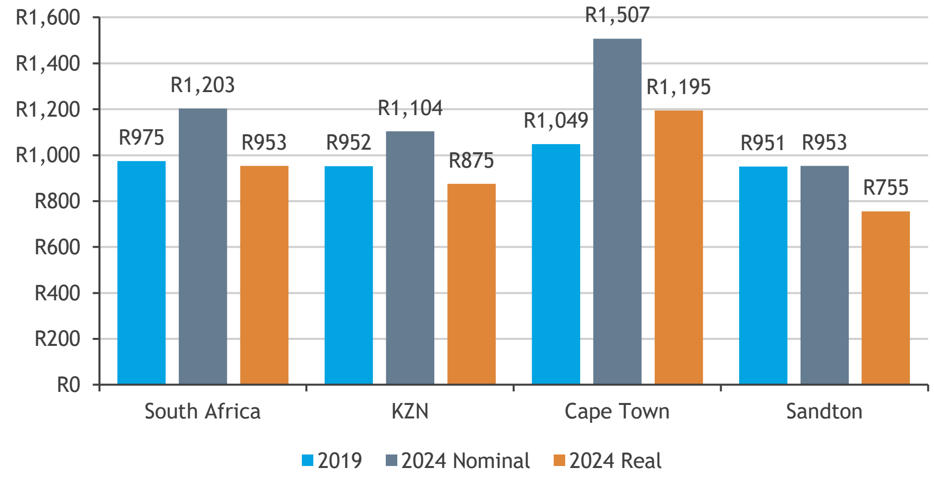
Source: STR and BDO analysis

3-Star Hotels – for most markets, the woes continue

3-Star Hotels: Average Annual Occupancy (January to May)



3-Star Hotels: Average Room Rate (January to May)



- Unfortunately, the woes for 3-Star hotel owners continue, with most markets not being able to achieve the level of demand and rates experienced prior to the lockdown period. Only Cape Town's 3-star hotels are showing some signs of recovery.
- The bloodbath in Sandton continues, with occupancy tracking 21 percentage points behind the first 5-months of 2019, and 4 percentage points behind the same period in 2023. ARRs for 3-Star Sandton hotels are on par with that achieved in 2019, which means a real decline of over -20%. The extremely low occupancy, couple with low ARRs has resulted in a RevPAR of only R355 for the January to May 2024 period – compared to R557 in 2019 (in real terms the decline in RevPAR is a staggering 50%).
- KwaZulu-Natal properties are also suffering (but not to the same extent as Sandton), with a -14% real decline in average room rate and 9 percentage point decline in occupancy, resulting in a real decline in RevPAR of 23%.
- 3-Star hotels in Cape Town on the other hand are showing improvement, with occupancies 3 percentage points above the January to May period in 2019 and real growth in ARR of 14%, resulting in real RevPAR growth of nearly 18%.
- We reiterate that the poor performance of the 3-star market is attributable to a number of factors, including inter alia:
  - Domestic business travelers, the mainstay of the 3-hotel product, which has just not returned with any veracity. Although we can blame "online meetings" replacing the need for face-to-face get-togethers, in reality it is a reflection of the weak and under performing economy.
  - South African government employees who are not travelling as they did pre-pandemic. This is primarily due to budget cuts and significant cut-backs on "superfluous" spending.
  - Missing overseas tourists – our numbers are yet to return to 2019 levels and those that are travelling are selecting 5-Star properties (which, in Dollar terms, are seen as "value for money").
  - Undercutting primarily from 4-Star products.
  - Increasing competition from alternative forms of accommodation such as more affordable guesthouses, Airbnb's, etc.

Source: STR and BDO analysis

C | Implications for Tourism in South Africa

Implications and recommendations

Industry players need to be realistic and recognize that post-pandemic recovery of the sector has not been rapid, nor has it progressed according to plan. We continue to be at risk of not achieving a full rebound by the end of 2024.

On a positive note, our sector continues to be led by Minister Patricia de Lille, who was appointed to the role in 2023 and reappointed after the May 2024 national elections. Minister de Lille has proven her mettle, not only by truly understanding the sector but as a driver of action. With new leadership in the Ministries of Home Affairs and Transport, and Minister de Lille’s commitment, we are optimistic about the potential for positive developments.

Implications and recommendations

We reiterate the key areas for Minister de Lille, together with her broader tourism team, to focus on:

- Together with the Minister of Home Affairs, creating a tourist friendly visa regime: as evidenced in the Ghana and other examples, a visa free environment will open opportunities and drive tourism to our country. At minimum we need to ensure that where visas are necessary that these can be obtained with limited bureaucratic bungling/ headaches.
- Improved air access for regional and other international connections, through joint public private sector interventions: the Cape Town Air Access Strategy is clear evidence of how this approach can drive increased air access and hence tourism to a region/ country.
- Creating a welcoming environment: our naturally welcoming and friendly culture needs to felt across the country. Everyone should recognize and appreciate the value of tourism and "put out the welcome mat" for all tourists. This should start with key (and ongoing) education programmes on the value and benefit of tourism aimed at key Ministers and other decision-makers with portfolios that directly or indirectly affect tourism.
- Tackling crime, grime and decay through public/ private sector structures such as city improvement districts which tackle local government problems. Dereliction of our public spaces will continue to drive both domestic and international tourists away – we need to recreate spaces that we are all proud of and tourists would love to visit.
- Driving economic development and growth: which in turn will drive business tourism and growth domestic tourism will follow suit.
- Market, market, market: **let's be louder and more consistent in telling the world how wonderful South Africa is**
    - Role players need to tap into and build on the extensive experience and knowledge across the private sector, often with deep knowledge in specific markets
    - We have various critical tourism markets which we urgently need to resurrect or grow - this should be achieved via task forces comprising public and private sector specialists.
- Skills development and retention: ensuring that the knowledge and skills of sector employees are continually advanced and matches, if not exceeds, global standards. In addition, we need to buckle down to ensure that the sector is attractive to potentially new talent and is able retain existing employees.
- Ensuring that our tourism product is continually growing and advancing – reaching all corners of the country; offering a diverse range of experiences that cater to a variety of markets; offering quality products and experiences; and ensuring a diversity of ownership with benefits for local communities and residents.
- Driving the message of sustainability and responsible tourism, with a strong focus on Africa's social issues such as economic inclusion, poverty reduction, protection of our culture, heritage and biodiversity, etc.

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