Tourism Trends

Issue 1 | 2024

Key trends and highlights of South Africa's tourism industry

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Synopsis of Foreign Tourism Arrivals to South Africa

January and February 2024, including full year 2023

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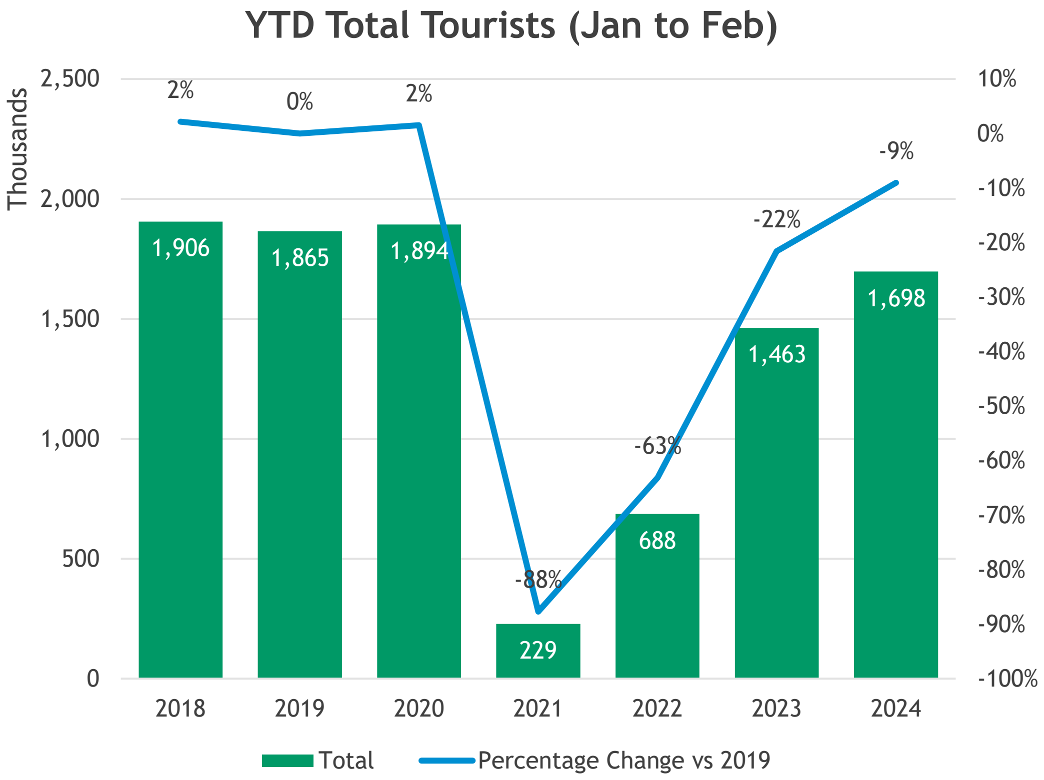
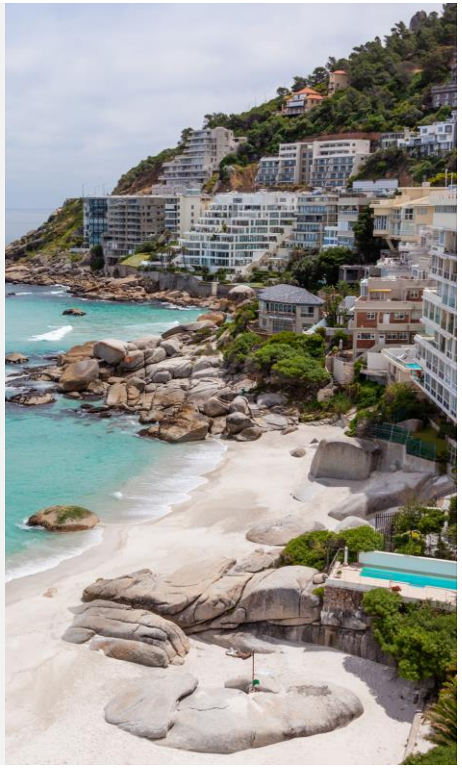
2024: Off to a slow start

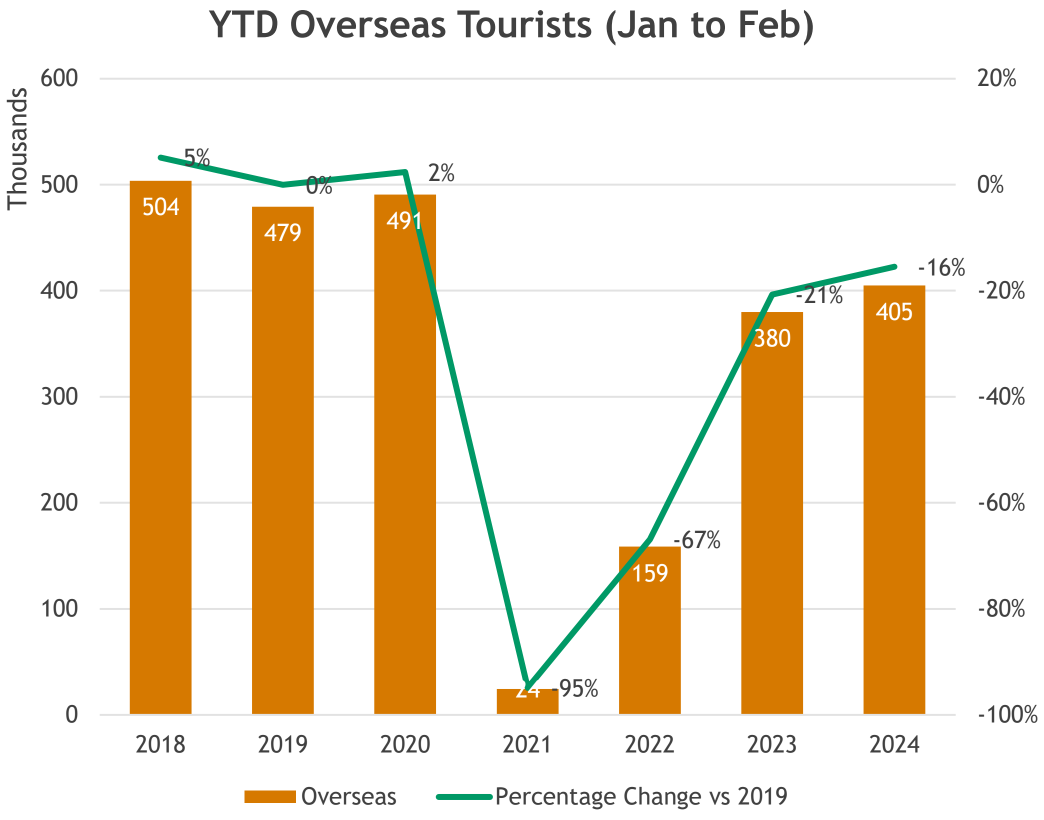


- Close to 1,7 million foreign tourists visited South Africa in January and February 2024 (YTD).
- This is still around 200 000 less than the number of tourists recorded in the first 2 months of 2020 (just before the pandemic hit us).
- 2019, often referred to as the "last normal" year, was not our best year in terms of tourism arrivals – 2018 was.
  - YTD 2024 is still 9% behind 2019 levels!
  - And compared to 2018, 2024 YTD foreign arrivals are 11% behind.
- 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.



Source: STR and BDO analysis

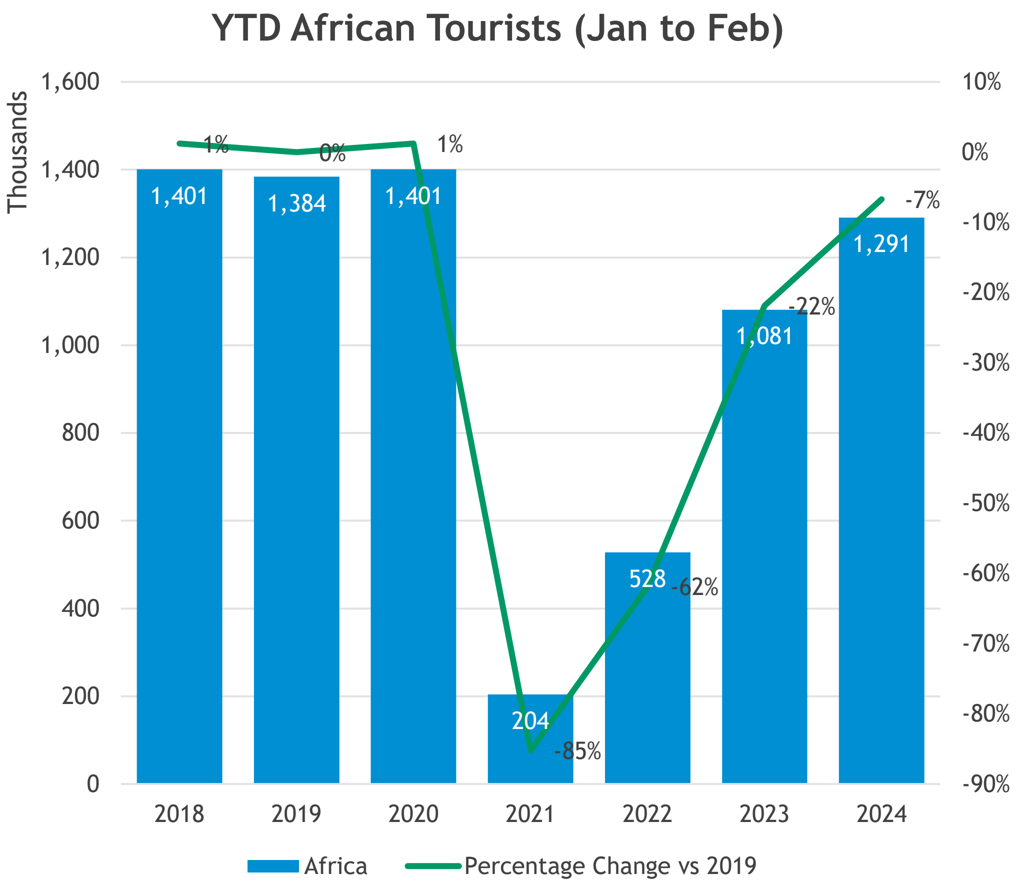
Overseas tourism is lagging with significant impacts to our economy



Source: STR and BDO analysis

- Unfortunately, overseas tourism, which is the jewel in the crown when it comes to economic impact due to the high average spend per visitor, is lagging significantly behind 2019 and 2018 numbers.
- With only 405 000 overseas arrivals for the first 2 months of 2024, we are still 16% behind 2019 for the same period (and 20% behind 2018 numbers).
- Compared to 2023, when growth was 140%, growth for the first 2 months has been slow at 6,6%. The big jump in 2023 was expected as we transitioned out of the pandemic period, however, growth of 6,6% in 2024 is much lower than expected given that the tourism industry has yet to "right-size". We really needed growth of 30% or more.
- In the first 2 months of 2024 we have not been able to regain 100 000 overseas tourists or 20% of the market.
- This has resulted in a loss of R2,5 billion in direct revenue to the South African economy. This excludes the multiplier effect of this direct spend in our economy.

African Tourism is improving – in pockets



Source: STR and BDO analysis

- Total foreign tourism arrivals can be divided into two broad categories for tourists, viz Tourists from the rest of Africa and Overseas tourists.
- Although faring better than overseas markets, African tourists are still lagging – being 7% behind 2019 and 8% behind 2018 arrivals for the first 2 months of the year.
- This lag still means that we are 110 000 visitors behind 2018 numbers, which is lost direct revenue in our economy of R750 million.
- But compared to 2023, growth for the first 2 months of 2024 has been fairly good at 19,4%. But growth in excess of 30% would have brought us back in line with 2019.
- At 105 000 African air arrivals, levels are at 91% of 2019 (for the first 2 months of 2024). Thus, growth in land arrivals is exceeding air arrivals.
- Key air markets are significantly behind 2019 levels i.e. DRC (-21%), Angola (-56%), Egypt (-43%), Nigeria –(-53%) and Uganda (-20%). This is a concern for attracting new tourism markets from the African continent (this market is definitely 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 more than 50% behind 2019 levels in 2023, until the mutual removal of visas, from which point arrivals have far exceeded 2019 numbers (up 49% YTD).
- Kenya is another good news story – arrivals YTD are 35% above 2019 figures (and in 2023 arrivals were 31% more than 2019).

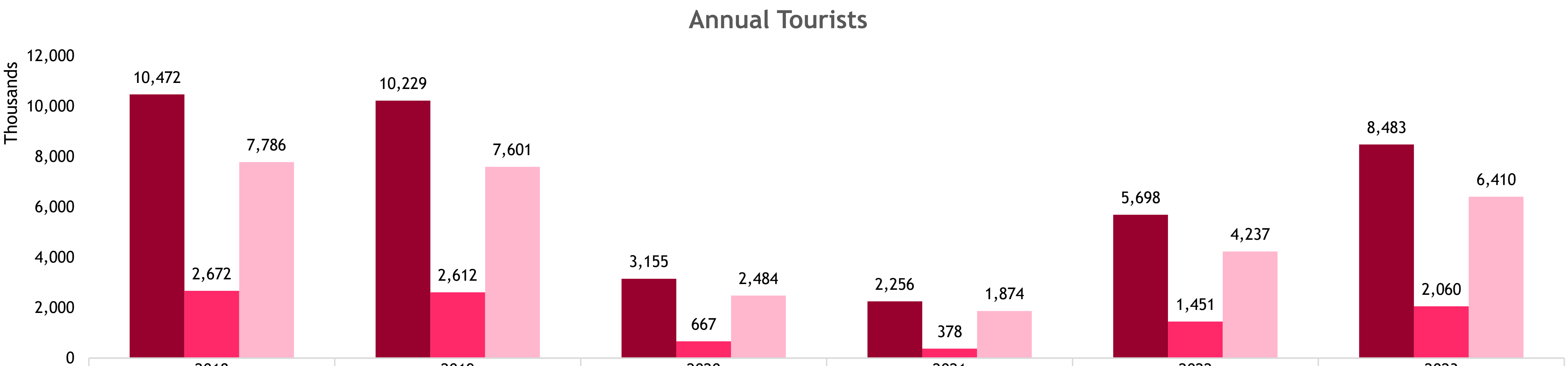
Lagging overseas markets

- China is the worst performing overseas market. YTD we have only received 37% of 2019 numbers (6 600 vs 17 900). This is largely due to the slow reopening of borders. But 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.
- France is an important source market for South Africa's tourism industry, yet for the first 2 months of 2024 this market remains 26% behind 2019 numbers. This is a slight improvement over 2023, where the market was down a third compared to 2019.
- The impact of direct flights between South Africa and Brazil has had a significant impact on demand from the Brazilian market. In 2023, the Brazilian market was down 70% compared to 2019. However, for the first 2 months of 2024, demand from this market is already at 77% of 2019 levels (only down 23%). Long may the new air route last!
- Overall, many European source markets have been slow to return to 2019 levels.
- Italy is only at 77% of 2019 YTD numbers (down 23%), with low growth of only 2,5% over the first 2 months of 2023.
- The rest of Europe is down 19% compared to January & February 2019.
- Germany is recovering fairly well but is still at only 93% of 2019 YTD numbers (down 7%)
- The UK, traditionally, South Africa's strongest overseas source market, is a major concern. This market remains 14% behind 2019 levels, with limited movement in 2024 over 2023 numbers (growth of only 1,5%). Despite the poor performance of this market, the UK remains the largest overseas source market at 83 500 visitors for January and February 2024.
- Australia is still 20% behind 2019, but very small growth in January and February 2024 over the same period in 2023 (2,3%).
- India has recovered to 81% of 2019 numbers (19% behind). But, the number of Indian arrivals actually decreased by 0,4% in the first 2 months of 2024 when compared to the same period in 2023. Another worrying indicator?
- Special note on the USA market, which showed fabulous growth in 2023 by outperforming 2019 by 2%. But early indicators are that this growth appears to have stagnated or even shrunk in 2024 (arrivals for the first 2 months are down 3,3% compared to the same period in 2023)

Outperforming overseas markets

- The Russian market remains a stellar performer, with a 73% 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 6 000 visitors for January and February 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. Despite the rising importance of this market, growth in 2024 appears to have waned somewhat, with only 3% growth over the first 2 months of 2023.
- The Netherlands is a market to watch out for. Growth for the first 2 months of 2024 was 12,2% up on the same period in 2023. And this market is already 7% up on 2019. Hopefully this growth trend continues for the balance of the year.
- Although a very small market, Saudi Arabia has shown impressive growth, with YTD growth of 124% when compared to the same period in 2019. So far more than 2 000 Saudi tourists have visited South Africa, compared to less than 1 000 in the same period in 2019.
- New Zealand has also rebounded fast (57% up on 2019), but growth in 2024 was muted when compared to 2023 (4,2%).

2023: Lacklustre Recovery Year

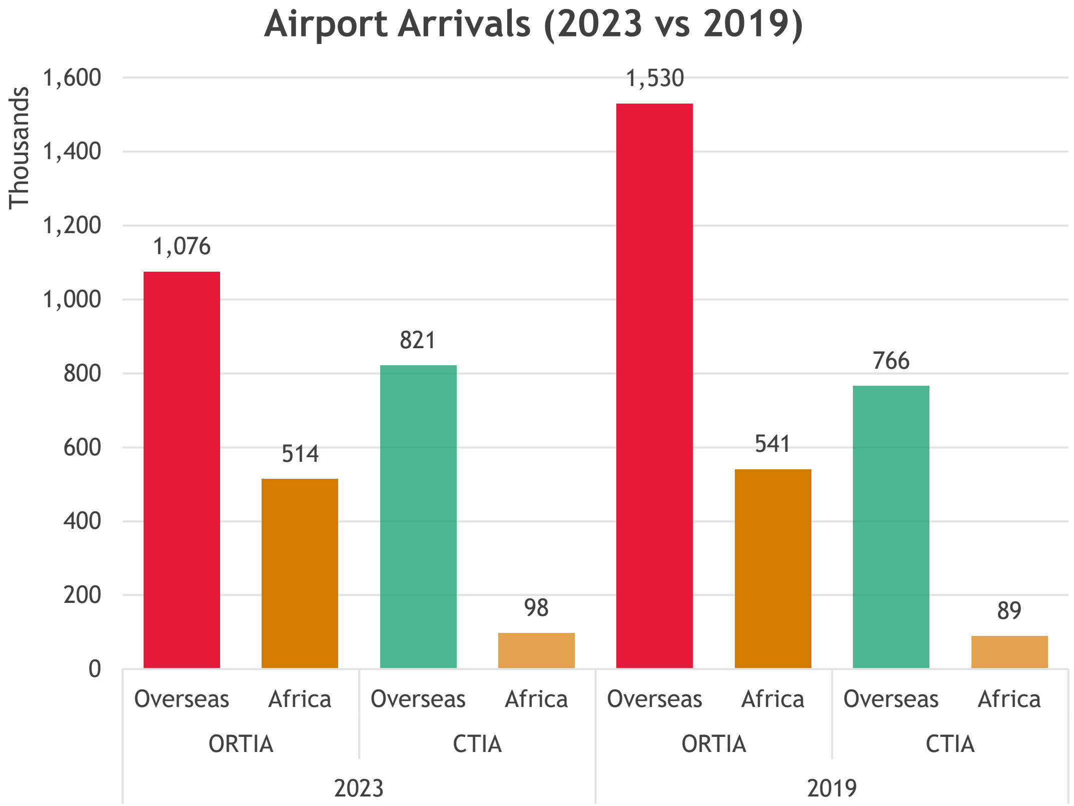


	2018	2019	2020	2021	2022	2023
Total	10,472,105	10,228,593	3,155,221	2,255,699	5,698,062	8,483,333
Overseas	2,672,146	2,612,159	667,308	377,804	1,450,671	2,060,313
Africa	7,786,357	7,600,843	2,483,865	1,873,609	4,237,261	6,410,392

Source: STR and BDO analysis

- 2023 was another recovery year. By year end:
  - Total tourists were 17% behind 2019 levels;
  - Overseas tourism numbers were 21% behind 2019; and
  - African tourism arrivals were 16% behind.
- Yes, there was recovery but overall the recovery was not to the level expected.
- Only the USA, Russia, New Zealand, Saudi Arabia, UAE and Mexican arrivals exceeded 2019 numbers
- Overseas visitor numbers from France, Italy, Rest of Europe, Brazil, China, and many other far Eastern Countries were significantly behind 2019 numbers (when compared to the average lag).

Cape Town Air Access Strategy reaping rewards for International Air Arrivals



- The success of the Cape Town Air Access Strategy is evident when we look at international air arrivals by airport.
- For 2023, international air arrivals through CTIA (Cape Town International Airport) were up 7% on 2019 (and 2018). Given that for the country as a whole air arrivals were 15% behind 2019 numbers in 2023, this is an impressive performance.
- By comparison, ORTIA (OR Tambo International Airport) ended 2023 some 23% behind 2019 international air tourist arrivals.
- For January and February 2024, CTIA received 207 000 overseas air arrivals, compared to 165 150 at ORTIA.
  - For CTIA this is 12% up on the same period in 2023 and 17% more than 2019.
  - For ORTIA, this is only 3% up on January & February 2023 and still 34% behind the same period in 2019.
- The majority of Africa air arrivals enter South Africa through ORTIA. In 2023, ORTIA handled more than 5 times the number of African air arrivals than CTIA.
- Yet, African air arrivals through CTIA are up 24% for the first 2 months of 2024 when compared to 2023, and 6% up on the same period in 2019.
- ORTIA experienced good growth in African air arrivals in January and February (up 22% over 2023), but the number is still 11% behind the same period in 2019.

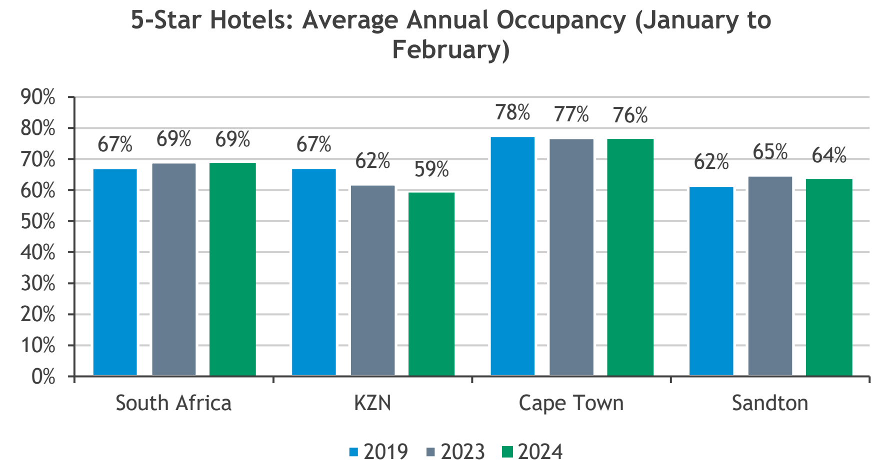
Source: STR and BDO analysis

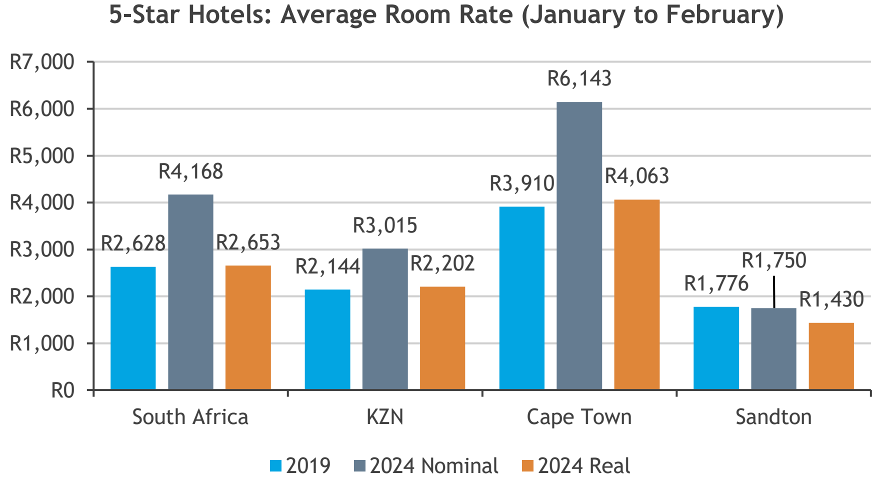
B

Synopsis of Hotel Performance

January to February 2024 (YTD), including full year 2023

5-Star Hotels – still the best performer

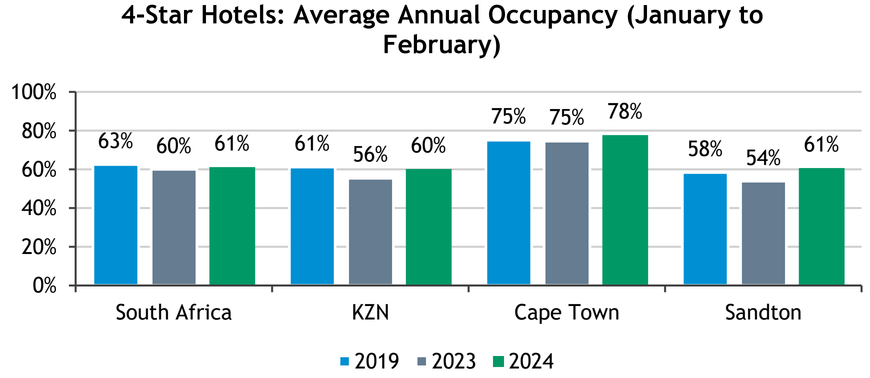


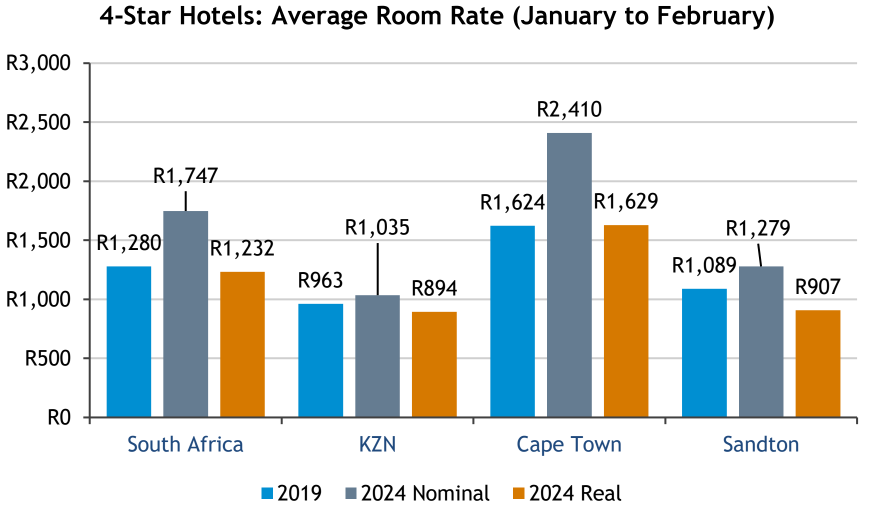


Source: STR and BDO analysis

- 5-Star hotels continue to be the "star" performer in the hospitality industry.
- Overall, occupancies for January to February 2024 are back-on-track when compared to 2019, with some markets outperforming 2019 levels (Sandton in particular).
- But the good news for the Sandton market ends right there! Sandton 5-Star hotels have sacrificed rate in order to drive up occupancy as RevPar (revenue per available room) is only just higher than 2019 levels in nominal terms (including inflation). And when you back out inflation, real RevPar achieved by Sandton 5-star hotels is less than R1000 per room. This is less than a third of the real RevPar achieved in Cape Town 5-star hotels for the first 2-months of 2024.
- Overall, 5-star hotels across the country have achieved real growth in RevPar and Average Room Rate (ARR) when compared to the first 2-months of 2019 and have exceeded 2019 occupancy by 2 percentage point.
- Cape Town 5-star hotels have performed exceptionally with real growth in RevPar of 3% when compared to the same period in 2019, even though occupancies have dropped by 2 percentage points. ARR for the period is up 4% in real terms. Actual ARR across 5-Star hotels was R6 143 in January & February 2024, this is R2 000 more than the national average for 5-Star hotels (and R2 200 more than the ARR in the same period in 2019).
- 5-Star hotels in KwaZulu-Natal have taken a beating, with occupancies in January to February 2024 being 8 percentage points below the same period in 2019. Although nominal RevPar looks good for these hotels, in real terms RevPar has not kept pace with inflation. This is clearly due to the impact of reduced occupancy while average room rates have held steady in real terms.

4-Star Hotels – lacklustre performance





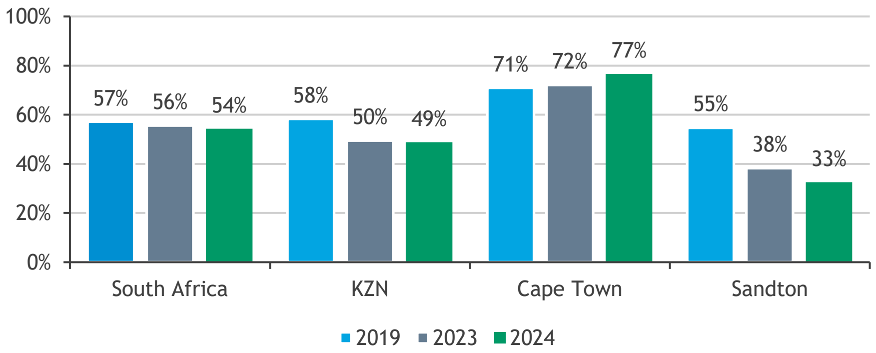
Source: STR and BDO analysis

- For the first 2 months of 2024, 4-star hotels in Cape Town have managed to stay on par with 2019 average room rates and RevPar in real terms i.e. rates have increased in line with inflation.
- Unfortunately, the same can not be said for 4-Star properties in KwaZulu-Natal and Sandton. Although occupancies in both regions are on track (or higher) than 2019 levels, average room rates have taken a pounding in real terms. For the first 2 months of 2024, real RevPar is down 16% in KwaZulu-Natal and down 23% in Sandton.
- The biggest challenge for this market is bridging the gap in the average room rate between the 5- and 3-star products. Currently 4-star hotels are trading at a premium of only R520 over 3-star hotels and at a discount of R2 420 off 5-star hotels.

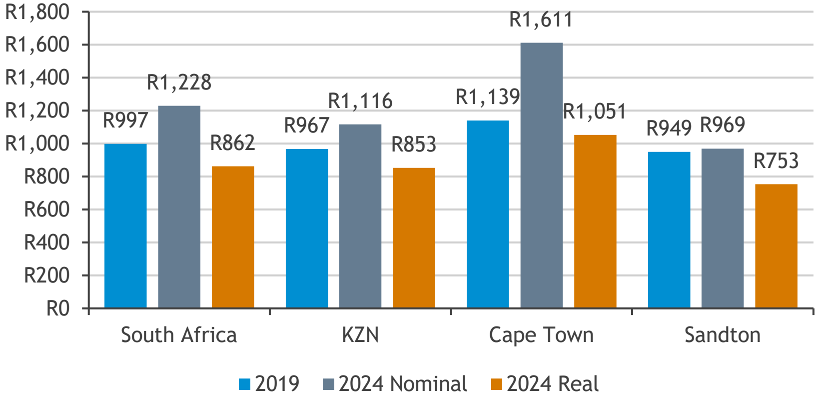
B | Synopsis of Hotel Performance

3-Star Hotels – yet to get out of the starting blocks

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



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

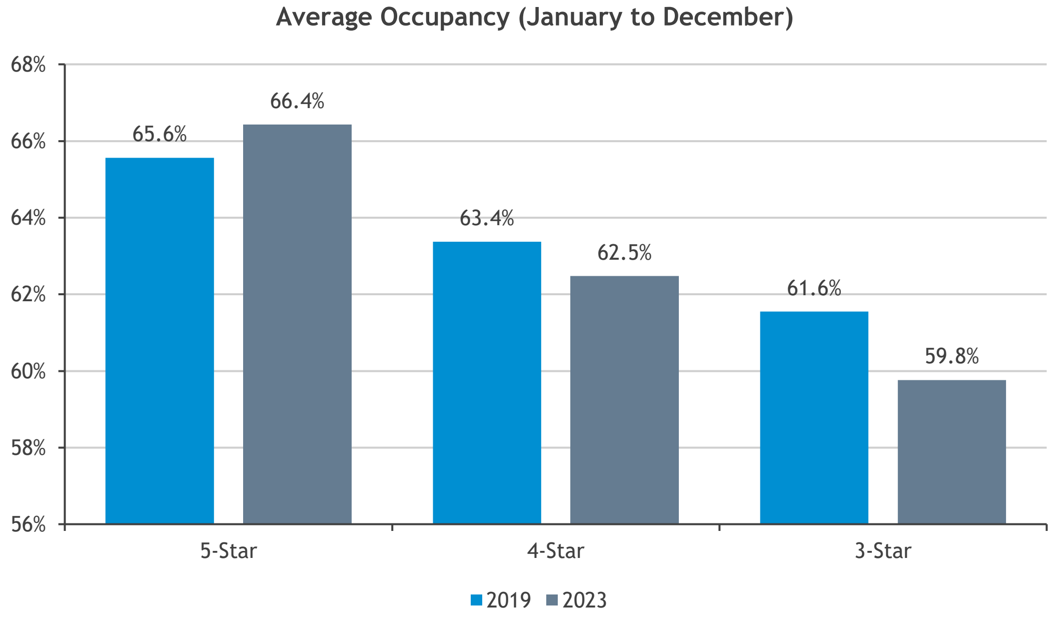


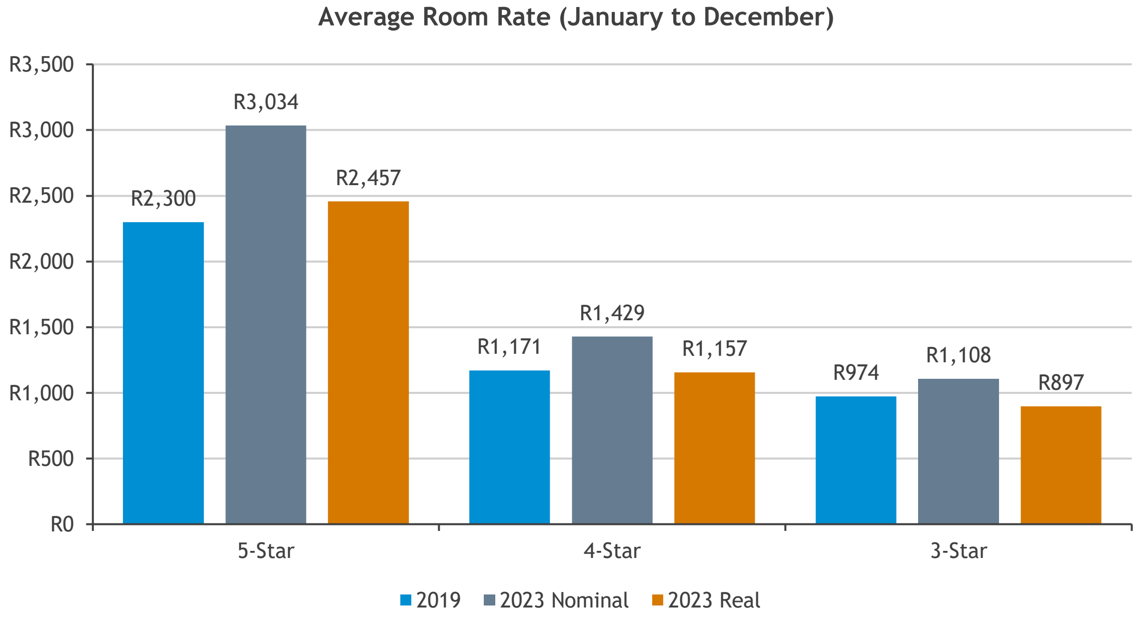
Source: STR and BDO analysis

- 3-Star hotel owners just don’t seem to be getting a reprieve, having suffered with low occupancies and rates during the pandemic period, these hotels are just not receiving the level of demand experienced prior to the lockdown period. Even Cape Town’s 3-star hotels are tracking behind in real average room rate.
- The real bloodbath though is Sandton, with occupancy tracking 22 percentage points behind the first 2-months of 2019 and a real decline in average room rate of -21%.
- KwaZulu-Natal properties are also suffering (but not to the same extent as Sandton), with a -12% real decline in average room rate and 9 percentage point decline in occupancy.
- This can be attributed to the slow return of three very important markets:
  - Domestic business travelers, the mainstay of the 3-Star 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 underperforming economy. Facing tough trading conditions and an uncertain outlook South African corporates continue to focus on austerity measures and business travel is frequently the first expense item that gets cut.
  - 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.
  - And then the missing overseas travelers: tourism numbers have not yet returned to 2019 levels. It definitely appears that the tourists who are travelling to South Africa are selecting 5-Star properties.

B | Synopsis of Hotel Performance

2023 at a glance





- 5-Star hotels were more than back on track in 2023, achieving average room occupancy which was marginally higher than in 2019 in addition to real growth in Average Room Rate.
- 4-Star hotels were very slightly behind on both occupancy and real average room rate.
- 3-Star hotels continued to experience the prolonged impact of the pandemic, achieving occupancies close to 2 percentage points below 2019 levels and losing ground on average room rates that were unable to keep pace with inflationary growth.

Source: STR and BDO analysis

C Implications for Tourism in South Africa

Implications and recommendations

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

There have been a number of stumbling blocks which need to be urgently addressed:

- Open Access and welcoming environment: as evidenced in the Ghana example, 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, 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.
- Welcoming environment: our naturally welcoming and friendly culture needs to felt across the country. Everyone should recognise and appreciate the value of tourism and “put out the welcome mat” for all tourists.
- 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 drive 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 in domestic tourism will follow suit.
- Market, market, market: **let’s be louder and more consistent in telling the world how wonderful South Africa is.**

FOR A CLEAR PERSPECTIVE, PLEASE CONTACT:

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