20 June 2022

FNB Commercial Property Finance

Property Insights

April 2022 Hotel Accommodation Income Statistics continue to show a very weak picture compared to pre-lockdown times.

April 2022 hotel revenues – still-strong year-on-year growth off a low 2020/early-2021 base, but still far weaker than pre-lockdown levels.

The StatsSA release of April 2022 preliminary monthly tourism statistics show the Hotel Sector still battling to fully recover from the harsh Covid-19-related lockdown shock back in 2020, with year-on-year growth still strong but slowing.

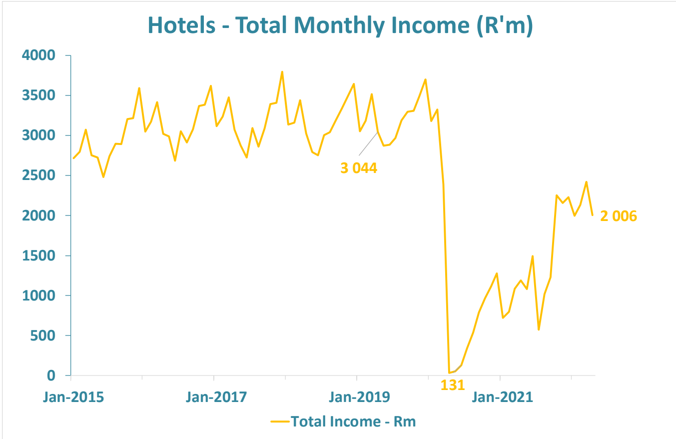
On a year-on-year growth rate basis, total Hotel Sector income was a very strong 68.4% in April, but slower than the 122.8% rate for March, the 3rd consecutive quarter of slowing. But these still-strong growth rates have limited significance given that this income was coming off a very low base when compared with 2020/early-2021 "lockdown" levels.

Given the abnormalities created in growth rates by the low lockdown base, it makes more sense to view total revenue value, and compare it to the corresponding month back in 2019, a pre-COVID 19 month.

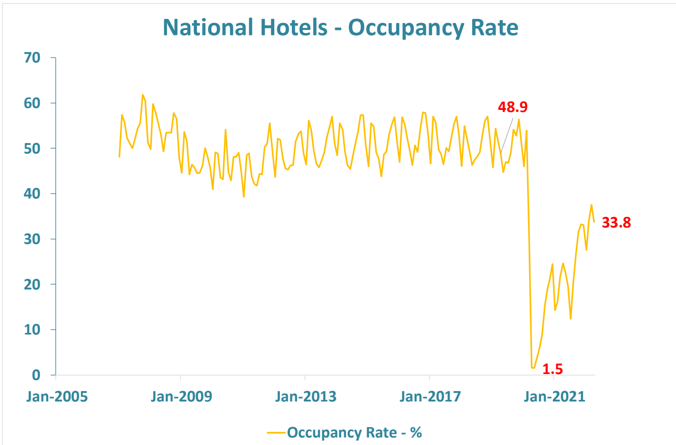
We then see a more accurate picture of a Hotel Sector whose income is still under severe pressure.

Total Hotel Industry Income in April 2022 was still -34.11% below the income for April 2019, the year prior to the 2020 lockdown.

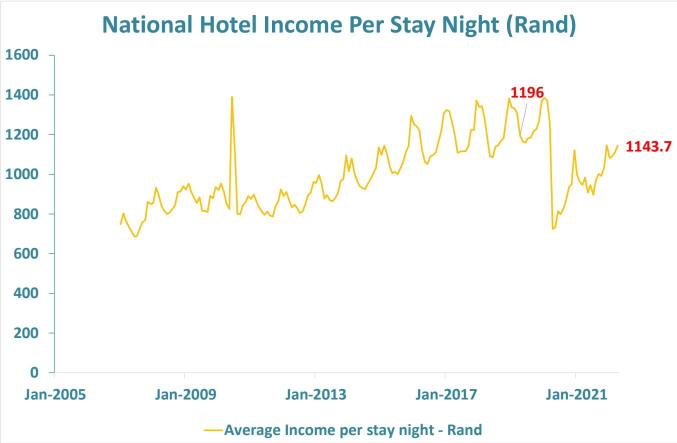
Hotel income growth does continue to outpace the growth in income in both the "Guest House and Guest Farm" category as well as "Camp Sites and Caravan Parks", with the former category under longer term pressure while the latter category having already recovered far earlier during the post-lockdown phase.



Going further to view occupancy rates, in April 2022, the national hotel occupancy rate was 33.8%, still well-below the 48.9% rate for April 2019.



It isn't only a low occupancy rate that has constrained hotel income. It is a more constrained client financial environment too, and the average hotel income per stay night in April 2022, despite significant post-lockdown recovery, was still -4.37% down on the April 2019 level.



Conclusion

The Hotel Sector remains under severe income pressure, despite significant recovery off the near-zero base created at a stage of 2020 by hard lockdowns.

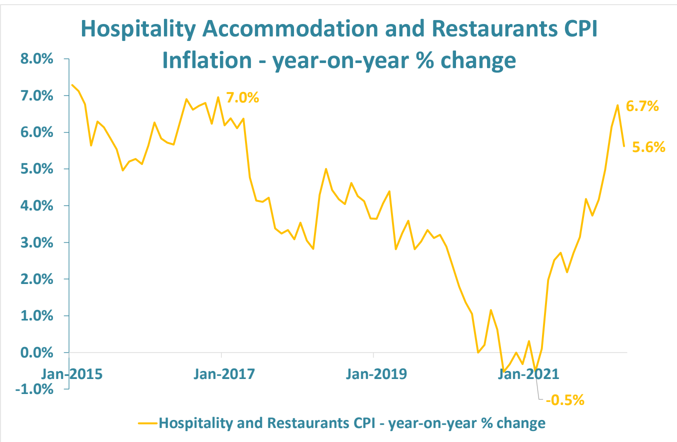
These still very weak revenue figures, while expected to continue to improve gradually as the year progresses, lead us to remain of the expectation that the Hotel Property Market will remain under pressure.

These April hotel income numbers continue to show a Hotel Sector that is far from "fully-recovered" back to 2019/early-2020 levels.

We have been expecting gradual improvement in 2022 on the back of Covid-19 seemingly having receded as a threat, and lockdown regulations relaxed even further from late in 2021.

A stronger economy since the low of 2020 has brought about some improvement in pricing power for the Hospitality Accommodation and Restaurant Sector, as witnessed in the CPI (Consumer Price Index) for this sector. From -0.5% year-on-year deflation in February 2021, this index's inflation rate rose to 6.7% as at March 2022, and remained strong at 5.6% in April.

This has been supportive of a significant rise in average income per stay night following a major 2020 lockdown dip, albeit not yet back to pre-Covid 19 levels.

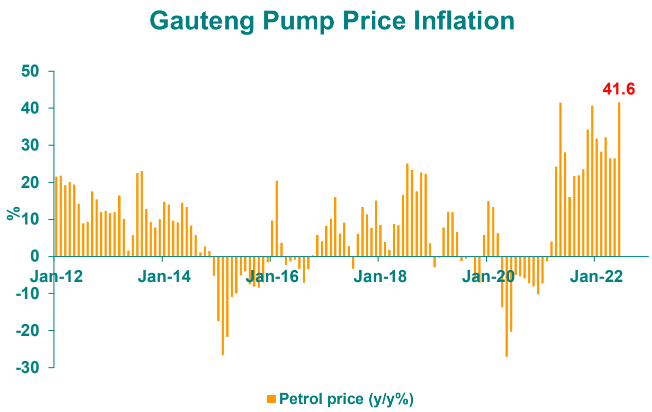


However, certain input cost increases may be reflected in this inflation increase, as the general inflation environment has deteriorated of late, so cost pressure for the Hotel Sector may also have risen.

But the industry has experienced some new pressures in recent months.

The KZN Province has been hit by severe flooding twice, the first flooding having been in April. This may have had an impact hotel occupancy over the Easter period and possibly beyond, a typically reasonably busy time for hoteliers that may have been less busy due to the floods and the damage they have caused.

In addition, transport cost inflation has skyrocketed due to a surge in global oil prices driving up domestic petrol prices. The fuel price inflation has been relentless over the past year, and this is likely to dampen domestic tourist travel demand by road, while the cost of air travel is also influenced.



In addition, the demise of Comair has restricted the availability of air travel in recent weeks, which may be having a negative impact on air travel and thus on hotel demand too.

And then there are the factors that we have identified as constraints on tourism and hotel demand for a considerable time already.

Firstly, domestic holiday tourists as a group are more financially pressured than prior to Covid-19, due to the impact of the 2020 recession on employment and incomes, not to mention recently rising CPI inflation and interest rates. With much holiday tourism being non-essential in nature, this expenditure category gets put on the backburner for many households while they nurse their finances back to health.

Secondly, we have argued for a while that business travel not only battles from similar financial constraints following the 2020 recession impact on businesses, but the Business Sector has also successfully "Zoomified" much of its interaction during forced lockdowns. This modern communication likely pushes it partially away from less efficient physical travel. Much of that costly physical business travel may therefore never return. Many hotels may have to be less dependent on domestic business travel on a more permanent basis, therefore.

In short, we would expect hotel occupancy and income improvements to continue in 2022, on the assumption that everyone remains freer to move around as vaccine rollouts progress, across the world as well as in SA, and the virus threat recedes.

But the financial impact from the 2020 recession on households and businesses alike lingers, with more recent pressure being added by higher fuel and overall price inflation, and resultant interest rate hiking. These factors are seen as a drag on the pace of recovery in what is a non-essential spending category for many. So, progress back to pre-Covid-19 income levels for this property class may not yet happen in 2022.

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