

NEWS RELEASE

'LET'S NOT BUILD CASTLES' - HOTEL INVESTORS

"Let's not build castles, but do our homework," Joop Demes, CEO of the Pam Golding Hospitality Group said at the opening of the 2010 Hospitality Investment Conference Africa (HICA) in Johannesburg this afternoon.

"There is an acute shortage of economy hotel rooms in South Africa and Africa," he said, "and the tendency on the continent is to build large because we have space. This does not always make financial sense."

In a conference session titled 'The investment kraal' Demes and other hospitality experts discussed what investors, advisors, financiers and developers take into account when considering investment in a new hotel.

Gillian Saunders, Principal Partner at Grant Thornton Strategic Solutions said the right product for the right place had to be developed. "Too often we fall into the trap of developing the kind of property that is already in over-supply in the market, instead of doing proper research and targeting the right end of the market. Following trends is not always the right thing to do.

"Because of the personal nature of the hospitality industry, investors have to choose partners that suit their projects, including bankers and developers."

Panelists agreed that any hotel development has to be a 'bankable' project that makes commercial sense and offers the expected return on invest. It is difficult to be financed without operators assisting with money and 'sweat' equity.

Mbuyazwe Magagula, Head Tourism at the Industrial Development Corporation said a well-focused management team that understands the challenges of a project is essential for the corporation to become involved. "Such a team will determine whether a development suits the location, based on its experience and knowledge of the market. The trend is to go into a destination that is popular for the moment, without looking at alternatives that may make more sense."

Donovan Chimhandamba, Head Strategic Projects Fund at the National Empowerment Fund said South Africa was fortunate to have the 2010 World Cup as a temporary hedge against the economic recession. "However, we no longer have that hedge and we are going to see a lot of change in financial strategies in future. To obtain financial assistance, applicants will have to go way beyond the norm and show understanding of the destination and its market.

“Cape Town, for example, saw many four and five-star hotels opening up over the last two years while, in the meantime, companies are reconsidering accommodation options for executives with price playing a far bigger role than before.”

According to the panelists, although South Africa weathered the economic downturn better than many other countries, future investment will be made on strategic decisions based on fundamental factors that have to be in place.

HICA is aimed at driving investment into hospitality and is a business-to-business platform for investors, financiers and developers. This annual event is arranged by the Tourism Business Council of South Africa in conjunction with the National Department of Tourism. It closes on Tuesday, 2 November.

(Ends)

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