

Hotel sector's low end pulls in Cup fans

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Despite a huge surge in the number of four- and five-star hotels in SA over the past few years, it is the other end of the market that has been most popular with soccer fans visiting the country.

Both Accor Hospitality's Hotel Formula 1 and City Lodge's Road Lodge have done well despite securing little or no business from Match, the agency handling accommodation on behalf of FIFA.

Enjoyment, not luxury

"Most of the rooms we received back from Match were in the Road Lodge brand. Yet the brand has done extremely well in the first 10 days of the tournament with a lot of walk-in or last-minute business," City Lodge CEO Clifford Ross said yesterday, 23 June 2010.

This was in line with Ross's expectations ahead of the Cup. "The fans are not here for the luxury of a five-star brand but to enjoy the World Cup. Therefore accommodation is at the bottom of their spending priorities."

Philippe Trapp, MD of Accor's operations in south and east Africa, said Formula 1 too had been popular with soccer fans. "Occupancies were very good considering that Accor have no contracts with Match."

Trapp said the World Cup had shown there was a real demand for affordable accommodation and that there would be increasing demand from budget leisure travellers.

Few budget additions; premium oversupply

Yet few two-star rooms were built in the past three years. Research from Pam Golding Hospitality shows that nationally the number of five-star rooms has grown about 22%, from 8013 rooms in 2007 to 10295 rooms in 71 hotels this year. In the one-star market the number of rooms had grown at a far slower 13%, from 3156 to 3645 in 46 hotels.

This trend is more pronounced in Cape Town, with five-star rooms having virtually doubled to 3395 while not a single one-star hotel room was added between 2007 and this year, staying static at 392 rooms.

"The market is now only waking up to the fact that this is an underserved market. While there is an oversupply of rooms in some nodes, there is a distinct need for budget - one- and two-star - establishments," said Joop Demes, CEO of Pam Golding Hospitality.

"This is even true of Cape Town, where the oversupply in premium rooms is most acute. There is a market for budget hotels at the edges of the city centre." Pam Golding is already working with an international hotel group to develop new budget properties around the country.

Reserved expansion

However, Ross is more cautious about expanding Road Lodge's portfolio. "Demand is still extremely weak, particularly in the corporate market, and we don't expect to see any real improvement before the second quarter of next year. Therefore, City Lodge will be more selective in building new hotels across all its brands and only tackle projects where it is good for the brand or the product will perform well."

While Road Lodge has traditionally outperformed the rest of the portfolio, the recession has brought occupancy in line with the other brands.

Demes said the key to building a budget hotel was to keep costs as low as possible to provide the most affordable room rate. Far too often developers overcapitalised, resulting in higher rates once the hotel opened.

Source: Business Day

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