



Horwath HTL™

Hotel, Tourism and Leisure

Special Market Report
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New Zealand Tourism and Hotel Market Overview

New Zealand Market Snapshot

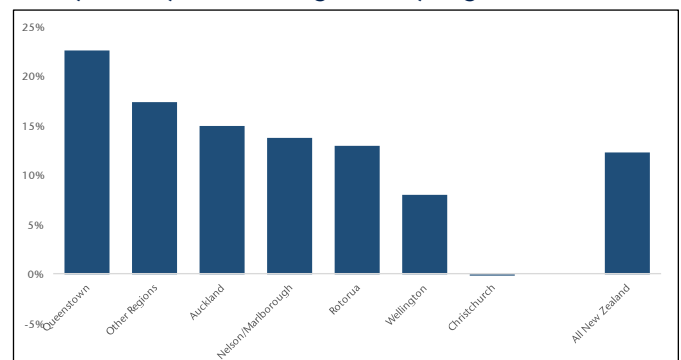
The New Zealand hotel industry is continuing to perform strongly, with occupancies and room rates breaking last year's highs.

Strong economic conditions and 3 - 4 years of unexpectedly strong growth in international visitor arrivals have generated increasingly strong demand for hotel accommodation.

With no significant increases in hotel supply, this has resulted in strong RevPAR growth in most main visitor centres throughout country.

Increasing visitor dispersal throughout the country has caused hotel demand growth to be extended to regional centres, although the impact of seasonality of demand is still a major factor in many centres.

2016 year on year RevPAR growth by Region



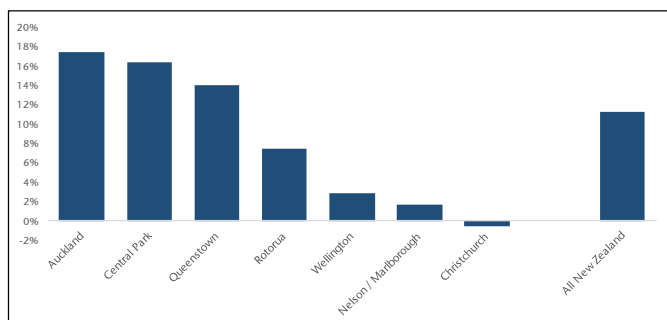
(Source: TIA Hotels Division)

Hotel demand growth in the first half of 2017 has been supported by the World Masters Games in April which attracted approximately 25,000 international and domestic participants, plus supporters and organisers, from close to 100 countries, and generated a significant volume of pre and post-event travel.

The British and Irish Lions rugby tour of New Zealand is also generating strong hotel demand in June / July, with a large contingent of supporters from the UK and Ireland visiting New Zealand.



2017 YTD May RevPAR growth by Region

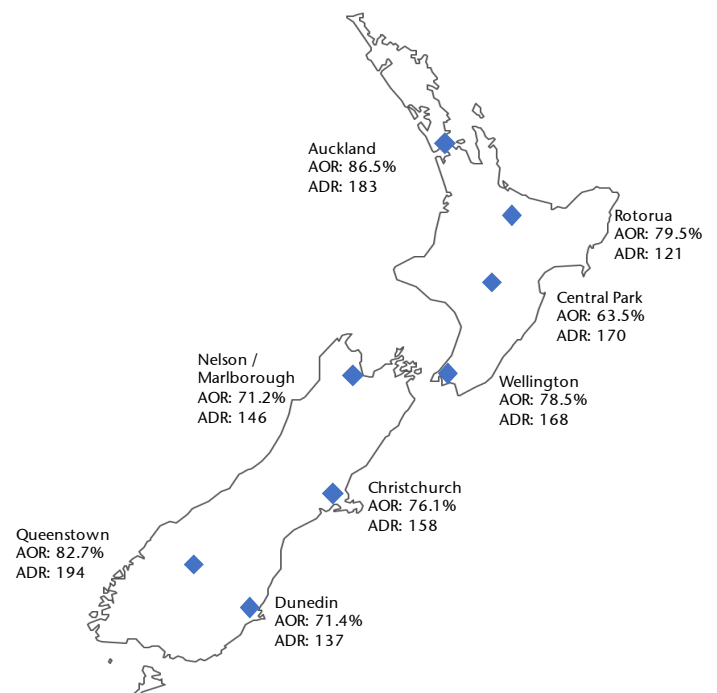


(Source: TIA Hotels Division)

Despite the continuing growth in hotel demand in the main centres, there is still significant disparity in levels of RevPAR achieved across the country, with Auckland and Queenstown delivering the strongest performance growth.

Christchurch hotel demand is slowly recovering from the 2011 earthquake, and the opening of a replacement convention centre in 2020 is expected to support the recovery.

2016 Occupancy and ADR by Region



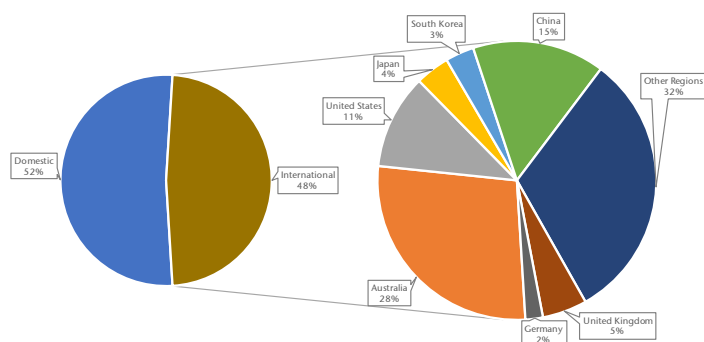
(Source: TIA Hotels Division)



Will infrastructure be a bottleneck for growth?

International visitor arrivals to New Zealand reached a record 3.5 million in 2016, an increase of 12% on the previous year, with all major source markets showing growth. Increased air capacity from the USA and China in particular contributed to unprecedented growth from these countries (20% and 15% respectively).

Mix of Guest nights by country of origin



(Source: TIA Hotels Division)

Tourism has overtaken the dairy industry to take the top spot as the country's largest foreign exchange earner. With most international visitors arriving during the warmer spring and summer months, this growth has put significant pressure on the country's tourism infrastructure, including availability of hotel accommodation over this period.

Tourism Industry Aotearoa has reported that occupancy across all its member hotels was 91.5% in February 2017, similar to the previous year. Auckland hotel occupancies reached 94% in February. Hotel room shortages during the peak season and increasing room rates in Auckland and Queenstown have displaced visitors to other regions or forced them to find alternative accommodation such as Airbnb and other private rental options.

Domestic visitors continue to be a significant contributor to hotel demand generating more than 50% of hotel demand in 2016. The international mix of hotel guest-nights for New Zealand is dominated by Australian, China and US guests. However, international visitor demand for hotels is diverse with 32% of guest-night demand for New Zealand hotels coming from visitors from other than the major New Zealand tourism markets.

In addition to the peak season shortage of hotel rooms, much other tourism infrastructure (from carparks to camping facilities, sewage and water facilities) is under pressure and in need of further investment. To address this, the government announced in the 2017/18 budget that it will provide funding of \$100 million over four years through a new Tourism Infrastructure Fund.

Last year, the government-funded "Project Palace" research identified the need for 26 new hotels over the next decade in the main centres to respond to expected further growth in visitor demand. This forecast, which is in the process of being updated, may be conservative.



A lagging development pipeline

No significant hotel supply has been added over the past few years, apart from hotels re-opening after the Christchurch earthquakes. The lingering effects of the GFC, a legacy of previously low room rates and high levels of seasonality has generally made it difficult to demonstrate that new hotel development will be feasible, but the outlook is more positive now than at any time in decades.

The only major new hotels to open in 2017 will be the Crowne Plaza Hotel in Christchurch which will open in July. The new Sofitel So in Wellington which opened in mid 2016 closed after a fire in late 2016 and is expected to re-open in late 2017.

Most of the planned developments in Auckland are in the 5-star category with a Sofitel So, Park Hyatt, Pullman and a new SKYCITY hotel planned to open between 2018 and 2021, and several other 5-star projects are being investigated.

Interest from developers and investors has increased in major tourism centres as well as regional centres. However, high land and construction costs has caused additional feasibility challenges while finance options are still tight. Added to this, the time lag from planning to opening will continue to result in a shortage of supply in the peak season for some time.

Auckland's Targeted Rate on Hotels

The improved trading conditions in Auckland has encouraged the city's mayor to implement an additional targeted rate on hotels to provide funding for the council's tourism and events marketing organisation.

In most cases, the additional rate will at least double the rates payable by hotel owners to Council. This will have a significant detrimental impact on hotel profitability and therefore the valuations of current hotels and new developments. We expect the rate will be subject to a strong legal challenge.



Market Outlook

Apart from the general increase in travel globally, the drivers of New Zealand's growth in tourism are largely from the success of its '100% Pure' marketing campaign, a great desire and increasing ability from people across the world to visit the country, which is matched by increased air capacity.

One-off large sporting events have aided Auckland's occupancy levels over the past 3 years. Adverse events internationally have proven to be positive for visitation to New Zealand which is regarded as a safe country to visit. Most of these positive drivers can be expected to continue for some time. Auckland will see the impact from fewer special events planned from 2018 onwards, which will be compensated for by the opening of the New Zealand International Convention Centre in late 2019.

While the hotel development pipeline is slowly growing, visitors are considering alternatives to paying high hotel room rates in destinations such as Auckland and Queenstown. These options include spending more time in regional areas, visiting during the shoulder or low seasons, using alternatives to hotel accommodation, or holidaying in another country.

Based on recent experience, we expect that more international visitors will spend time outside the main centres and plan their New Zealand holiday in the off-peak season, especially those who are more price sensitive. This will benefit hotel demand growth in the regions and moderate traditional seasonality patterns.

While developers are looking at more cost-effective construction methods, central and local government are promoting the investment opportunities through a variety of channels.

In the meantime, existing hotels will continue to see the benefits of tight supply but will have to plan for a more competitive environment from 2019 onwards.



Horwath HTL New Zealand

Horwath HTL New Zealand provides consulting services with in-depth market and technical knowledge, to the hotel, tourism and leisure industries in New Zealand and the South Pacific.

Our network has offices in eleven cities in the Asia Pacific region and forty five throughout the world.

We provide a well-balanced and sound approach in assisting clients progressing their business decisions and strategies with quality information.

Our key areas of business are:

- Asset Management
- Due Diligence
- Litigation Support
- Pre-lending Bank Reviews
- Independent Expert Advice
- Strategic Advice
- Market Supply & Demand Studies
- Financial Feasibility Studies
- Operating & Financial Projections
- Operator Selection & Contract Negotiation

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Stephen jointly established the specialist tourism and leisure consulting practice, Horwath HTL (formerly Horwath Asia Pacific Limited) in 2002.

Stephen has thirty years consulting experience in the New Zealand tourism industry and has also undertaken engagements in Australia, Fiji and the Cook Islands.

Stephen's enthusiasm and in-depth knowledge of the New Zealand tourism industry adds value for clients.

Providing a well-balanced and sound approach to their specific needs, Stephen assists clients to progress their business with quality information for decisions and strategies.

Stephen assists lenders, investors, funding sponsors, and / or purchasers and developers in both the public and private sectors, with the ability to quickly ascertain what financial and market analysis or research will be of most benefit.

Stephen's service lines include market demand analysis, financial feasibility analysis, market research, economic impact analysis and strategy development



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