



Horwath HTL™

Hotel, Tourism and Leisure

MARKET REPORT

**New Zealand
Tourism & Hotel
Market Overview**

JULY 2018

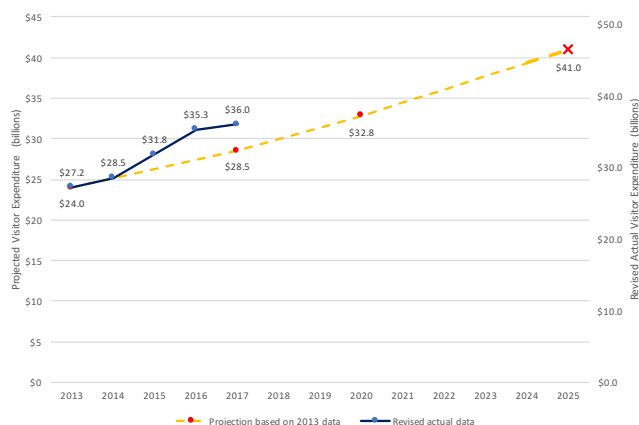


Tourism Industry Growth

Tourism is the largest export industry in New Zealand, narrowly exceeding our traditional top earner, dairy.

With \$36 billion of combined international and domestic visitor expenditure in the year ended March 2017, New Zealand is more than on track to achieve Tourism Industry Aotearoa’s (TIA’s) aspirational goal of \$41 billion of spending by 2025.

How Visitor Expenditure in NZ is Tracking (YE Mar)

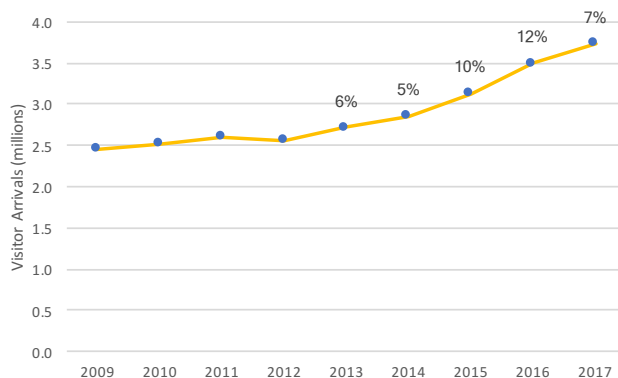


Source: Tourism Satellite Account, TIA

The Tourism Satellite Account, published by Stats NZ, shows that domestic visitor expenditure increased by 4.0% in the year ended March 2017.

The trend of strong growth in international visitor arrivals continued in 2017 with 6.7% growth to 3.7 million visitors.

International Visitor Arrivals Growth (YE Dec)



Source: Tourism Satellite Account, TIA



New Zealand Hotel Market Snapshot

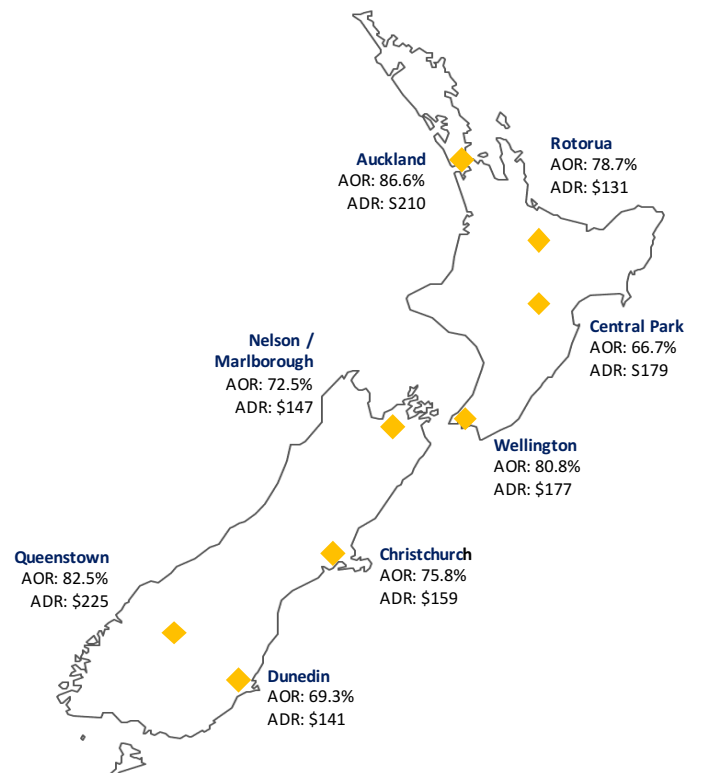
Hotels in all of the main centres achieved strong room rate growth in 2017, particularly in areas of constrained supply such as Auckland and Queenstown. Hotels in some regions, such as Central Park and Wellington, were able to make strong gains in both ADR and occupancy. Hotels in some other regions incurred modest reductions in occupancy as a result of:

- some dispersal of visitor demand (especially group tour demand) to adjacent regions
- some displacement of domestic guests, replaced by international guests paying higher prices
- some loss of market share of guest nights from hotels to other forms of commercial and private accommodation (eg: apartments, Airbnb).

There is a significant degree of disparity between the occupancies and room rates achieved by location. Auckland hotels achieved the highest occupancy, however it was the Queenstown 5* hotels which were able to maximise ADR. This was particularly true in the 5 star category, with Queenstown hotels achieving an ADR 24% higher than Auckland hotels, despite having an 18% lower occupancy.

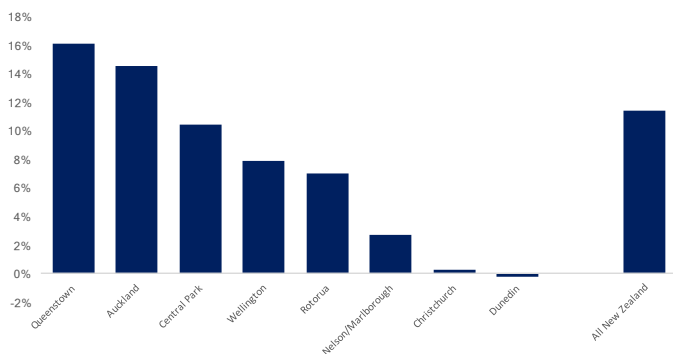
Central Park hotels ‘punched above their weight’, achieving the third highest ADR, despite having the lowest occupancy and the lowest proportion (35%) of 4.5–5 star hotels.

2017 Occupancy and Room Rates by Region



Source: TIA Hotels Division

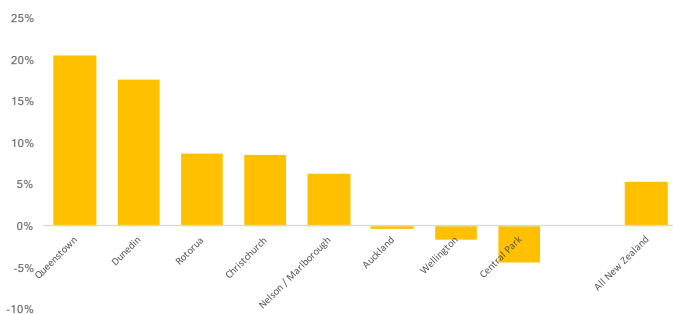
Year on Year RevPAR Growth by Region (YE Dec 17)



Source: TIA Hotels Division

New Zealand hotels once again achieved strong RevPAR growth across most of the country in 2017. RevPAR growth in the first five months of this year however is significantly different from the growth experienced in 2017. The exception is continuing strong RevPAR growth in Queenstown.

RevPAR growth by Region (YTD May 18)



Source: TIA Hotels Division

RevPAR in both Dunedin and Christchurch has returned to growth. Meanwhile RevPAR in Auckland, Wellington and Central Park has softened as a result of small decreases in occupancies.

In Auckland’s case this was off the back of major event related demand in 2017 which pushed up occupancies and room rates.

The decline in Wellington’s RevPAR was mainly attributable to a decline in the occupancy of the Wellington 4.5–5 star hotels following the opening of the 129 room Sofitel Wellington in October 2017.

New Zealand Economic Outlook

Economic growth in NZ has slowed but remains solid with 2.9% GDP growth in 2017, underpinned by consumption and international tourism.

In the year ending March 2017, tourism expenditure represented 5.9% of Gross Domestic Product (GDP).

According to the OECD Economic Outlook, GDP growth in New Zealand is projected to continue at 3.0% in 2018 and 2019, above the OECD average of around 2.5%. The OECD comments that while export growth is expected to slow, overall growth “will continue to be driven by strong tourism demand from Asia and increases in dairy exports.”

Business confidence as measured by the NZIER Quarterly Survey of Business Opinion has recovered slightly following a sharp drop in the December 2017 quarter in the wake of a change in government.

This is positive news for domestic tourism and foreign investment in New Zealand hotels.

Latest Tourism Forecasts

The latest New Zealand Tourism Forecasts 2018-2024 issued by the Ministry of Business, Innovation and Employment (MBIE) project a 4.9% increase in visitor arrivals in 2018 and a further 5.4% increase in 2019 to 4.1 million arrivals.

Chinese visitor arrivals projections have been revised downwards following lower than expected growth (2.3%) in 2017. This has been attributed to a decline in the relative value of the Chinese currency, difficulty securing hotel accommodation in Auckland and Queenstown over the peak season, and some price resistance.

MBIE is still projecting Chinese arrivals to grow by 10.0% in 2018 and a further 11.0% in 2019, with a 7% increase in direct air capacity cited as an important driver.

Growth in Chinese arrivals in 2019 will benefit from the China-New Zealand Year of Tourism, with both countries promoting and facilitating tourism.

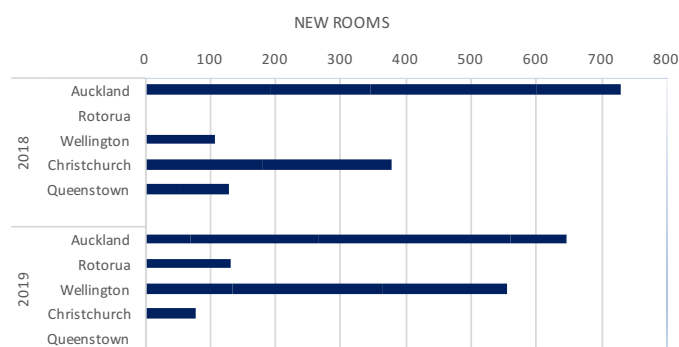
Arrivals by US visitors are projected to grow by 10.0% in 2018 and an additional 9.5% in 2019. Favourable economic conditions are expected to offset a 3% reduction in direct flight capacity occurring in 2018.



Strong Hotel Development Pipeline

By the end of this year, nine hotels totalling 1,345 rooms will have opened in New Zealand’s main visitor centres. A further nine hotels totalling 1,409 rooms are expected to open during 2019. This excludes two hotels announced to open in Queenstown during 2019 which we expect will be delayed to 2020.

Hotel Rooms Expected to Open in 2018–2019



Source: Horwath HTL

Auckland will see the bulk of the new supply with four hotels totalling 1,375 rooms.

We expect that Wellington hotel occupancy will suffer most from the impact of new hotel supply with the 663 new rooms representing a 37% increase in the city’s 4.5–5 star room supply during 2018 and 2019.

Hotel Market Outlook

The outlook is positive for inbound visitors to New Zealand and hotel demand throughout 2018 and 2019. However we are projecting minor reductions in occupancy in some locations following the introduction of significant new room supply.

Despite increased competition and falling occupancies, our room rate projections remain generally positive. We expect that the increasingly sophisticated hotel revenue management systems should enable hoteliers to continue to at least maintain their room rates.

Further significant increases in hotel supply are expected in 2020 and 2021, so hoteliers’ room rate response to increased competition over the next two years will be very important.

We remain hopeful that the hotel industry can avoid the ‘boom and bust’ conditions previously experienced in New Zealand.



Targeted Rates to Include Airbnb

New Zealand's first accommodation provider targeted rate was introduced in Auckland in 2017. Hotels and other commercial accommodation providers are now being charged additional rates to fund ATEED's budget for destination marketing and the promotion of major events. A group of leading hoteliers plans to initiate a judicial review of the rate which has increased hotel rates charges by up to 300% in some cases.

Residential property owners in Auckland that let their properties on web-based accommodation platforms such as Airbnb for more than 28 nights per annum will also be subject to the targeted rate from July.

Queenstown has already implemented increased rates charges (of 25–80% depending on the number of days the property is rented out) for residential owners who let their properties as online holiday rentals.

Councils in several other regional centres including the Hawkes Bay and Christchurch are investigating similar rates increases.

The implementation of additional rates charges will make it less attractive for homeowners to let their properties as holiday accommodation, and is a move towards requiring private accommodation providers on Airbnb and other platforms to compete 'on a level playing field' with hotels.

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

With thirty years consulting experience in the New Zealand tourism industry, Stephen 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, by providing a well-balanced and sound approach to their specific needs and assisting clients to progress their business with quality information for decisions and strategies. Stephen assists lenders, investors, funding sponsors, and purchasers/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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