Horwath HTL
Hotel, Tourism and Leisure

MARKET REPORT

New Zealand

JUNE 2019

Tourism and Hotel Market Overview

The New Zealand hotel industry has experienced a significant period of growth in revenue and profitability, but the outlook for further improvement in 2019 and beyond is uncertain.

Uncertainty about the rate of future growth and constantly changing market dynamics increases the need for current and potential future hotel industry investors to have a detailed understanding of the market.

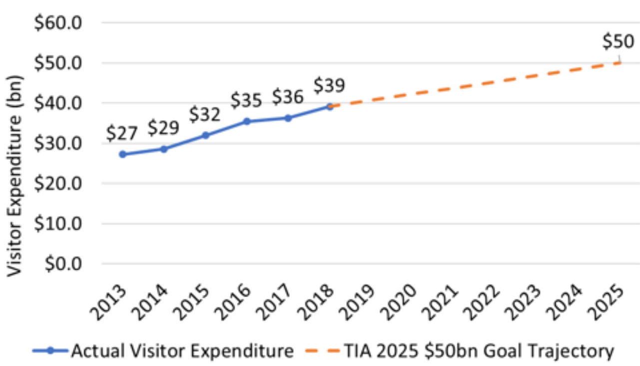
International and Domestic Visitor Growth

2019 has seen a slower rate of growth in international visitors compared to recent years. This trend has not been limited to New Zealand – Australia has experienced a similar trend.

There was a total of $16bn of international visitor expenditure in New Zealand in the year ended March 2018, up 9.6% on the previous year, according to Statistics NZ. Domestic visitor expenditure increased by 6.5% to $23bn.

Tourism Industry Aotearoa (TIA) has recently updated the aspirational goal of visitor expenditure in 2025 from $41bn to $50bn, reflecting an increasing industry focus on targeting 'value over volume' – and the unprecedented level of expenditure growth over the past five years.

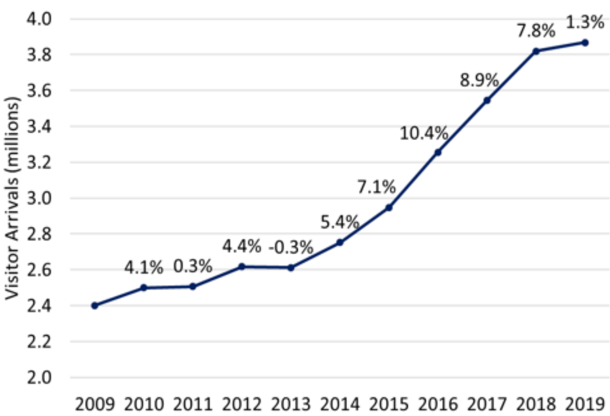
Total Visitor Expenditure Growth (YE March)



Source: Statistics New Zealand, TIA

Australia is New Zealand's largest visitor market, accounting for 24% of international expenditure in 2018. China, at 15%, is the second largest market. Approximately 60% of international visitor expenditure comes from our top four countries of origin (Australia, China, USA and the UK).

International Visitor Arrival Growth (YE March)



Source: Statistics NZ

2019–2025 International Visitor Forecast

The Ministry of Business, Innovation and Employment (MBIE) is forecasting 4.25% average annual growth in international visitor expenditure, over the period 2019-2025, driven by a 3.98% increase in visitors and 4.28% increase in visitor days. These are lower growth rates than assumed in the 2018–2024 MBIE forecast.

The visitor arrival forecast for the year ending December 2019 is approximately 3.4% lower than the previous year's forecast. In particular, the Chinese forecast for 2019 has been reduced from 11% to 3%, following a 0.8% decrease in the year ended March 2019. By comparison, Chinese arrivals into Australia over the same period grew by 2.4%.

US arrivals to New Zealand are forecast to grow by 5.5% per annum in 2019 and 2020 – the fastest-growing source market for these years.

There has been no short-term reduction in visitor arrivals as a result of a serious terrorism attack in Christchurch in March 2019. New Zealand has achieved an enhanced international reputation for effective political leadership and as a desirable place to live and visit.

New Zealand Economic Outlook

According to Statistics NZ, in the year ended March 2018, tourism contributed 6.1% of Gross Domestic Product (GDP). Economic growth in New Zealand remains moderate with 2.7% GDP growth in 2018, underpinned by domestic consumption and tourism.

The OECD expects slowing private consumption and declining export growth to constrain GDP growth in 2019-2020, in the 2.5–3% range, slightly higher than the OECD average of approximately 2.5%.

Business confidence, as measured by the NZIER Quarterly Survey of Business Opinion, has continued to soften in the March 2019 quarter, reflecting slower economic growth in the first half of 2019.

Hotel Market Performance Overview

The slowdown in international visitor arrival growth, together with an increase in hotel room supply, have impacted average achieved occupancies and room rates.

The Average Occupancy Rate (AOR) of TIA member hotels (ie: most major hotels in New Zealand) was 80% in the year ended April 2019, down from 81% in the preceding year.

The Average Daily Rate (ADR) was $193 for the year ended April 2019, down from $195 for the preceding year.

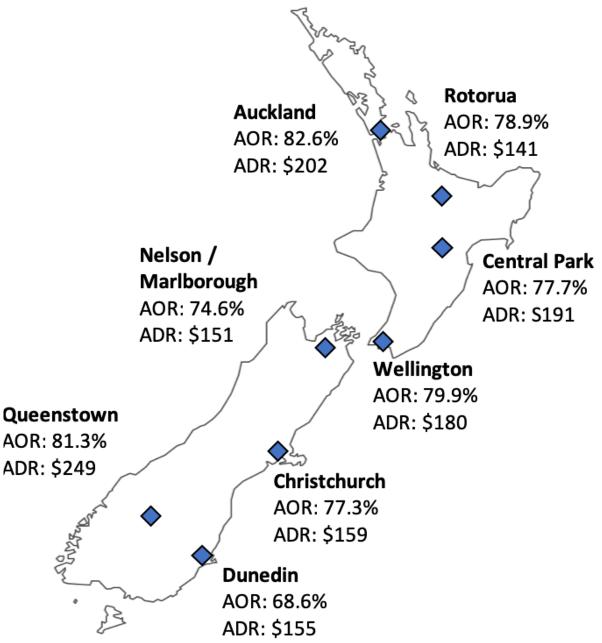
Revenue Per Available Room (RevPAR) fell nearly 3% in the year ended April 2019, with the decrease largely caused by the performance of Auckland hotels. AOR increased in three regions (Rotorua, Nelson / Marlborough and Central Park). Wellington's AOR was steady, and all other areas experienced a reduction in AOR. ADR fell in only two centres – Auckland and Christchurch.

Auckland is the largest hotel market in New Zealand, accounting for 32% of total hotel room nights sold in 2018. Queenstown had the next largest market share, with 13% of room nights.

Several regional locations achieved increases in revenue as a result of:

- increased dispersal of visitor demand (especially group tour demand) to other regions, partly as a result of high hotel prices in some main centres (notably Queenstown and Auckland), and more active regional destination promotion
- some displacement of domestic guests by international guests paying higher prices
- relatively low increase in room supply.

Regional AOR and ADR (Year Ended April 2019)



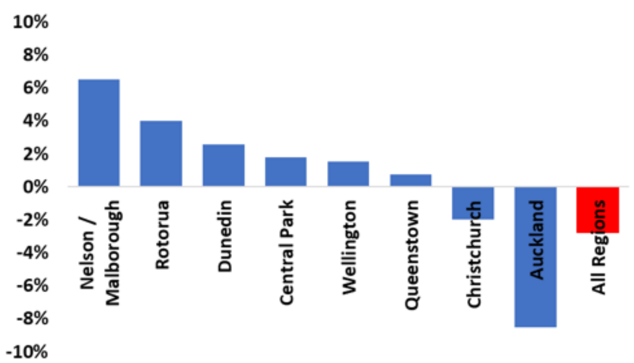
Source: TIA Hotels

Auckland hotels have continued to achieve the highest AOR, despite also having experienced the strongest decrease in both AOR and ADR in the year ended April 2019.

Queenstown is a highly desirable visitor destination. Queenstown hotels have continued to achieve the highest ADR, despite a 2.3 percentage point decline in AOR.

Central Park hotels (ie: central North Island, excluding Rotorua) continue to perform well, achieving a relatively high ADR despite having a relatively low proportion of 4.5–5 star hotels.

Regional RevPAR Change (Year Ended April 2019)



Source: TIA Hotels Division

In general, regional centres have performed better than the main centres in terms of RevPAR growth over the past twelve months. Room supply increases in several main centres has impacted RevPAR in those locations.

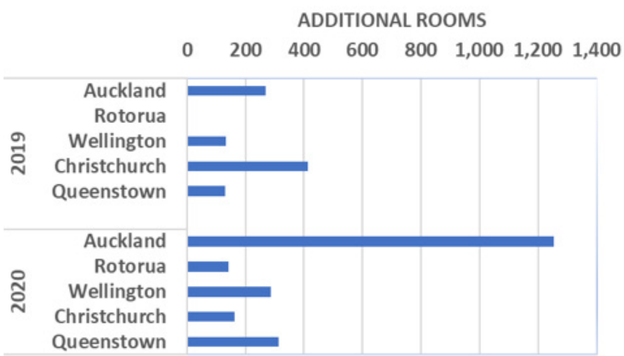
The AOR and ADR achieved in the shoulder and off-peak seasons were lower in 2018 than 2017, especially in the main centres. This partly reflected a strong off-peak season in 2017, supported by room demand generated by the British and Irish Lions' tour, particularly in Auckland and Wellington.

Auckland RevPAR was also impacted by a 6% increase in room supply in the year ended April 2019, and a 6% reduction in ADR in the first quarter of 2019 as a result of softer than expected peak season demand.

Strong Hotel Development Pipeline

By the end of 2019, nine hotels totalling 947 rooms will have opened in New Zealand's main visitor centres. A further 17 hotels totalling 2,158 rooms are expected to open during 2020.

Hotel Rooms Expected to Open 2019–2020



Source: Horwath HTL

Auckland will see the bulk of the new supply over the next two years, with 13 hotels totalling 1,522 rooms (approximately a 16% increase in room supply). 53% of these new rooms will be in 5 star hotels. No new 5 star hotels are expected to open in Queenstown in the next two years.

Taxes, Taxes, Taxes

The targeted property rate imposed on accommodation providers is still in place in Auckland, and has been extended to include year-round Airbnb providers. However, it is subject to a judicial review.

There have been increasing calls from local government for central government to allow the imposition of bed taxes on commercial accommodation providers. Queenstown Lakes District Council has undertaken a referendum on a proposed 5% "visitor levy" imposed on accommodation providers. Unsurprisingly, the referendum showed strong ratepayer support for such a levy.

Again unsurprisingly, accommodation owners are strongly opposed to targeted rates, bed taxes, and visitor levies, especially when they are only imposed on accommodation providers. As an alternative, TIA is lobbying central government to allocate 20% of GST paid by international visitors to help funding of local government visitor infrastructure. TIA sees this as a more effective, efficient and equitable means of funding essential tourism infrastructure throughout the country.

Hotel Market Outlook

Auckland's softer hotel performance in the first half of 2019 is expected to continue in the short term, partly as a result of the significant increase in room supply in 2019–2020. The room supply increases in other centres are less significant and not anticipated to impact hotel performance to the extent which will be experienced in Auckland.

The long-term outlook for the New Zealand tourism and hotel industry is for continuing growth in demand. The opening of major new conference centres in Auckland, Wellington and Christchurch will enable New Zealand to host larger international conferences than has ever previously been the case. Destination marketing and economic development agencies are becoming increasingly focused on event attraction, especially events which generate shoulder and off-season visitors.

The major challenge facing the industry is the imbalance between the timing of new hotel room supply and the rate of increase in visitor night growth, particularly in Auckland.

We expect that these emerging dynamics, combined with tight bank lending criteria and continuing escalation in premium land prices and construction costs throughout New Zealand, will choke off several of the mooted hotel projects in the second half of the next decade.

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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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