New Zealand Hotel Performance Focus

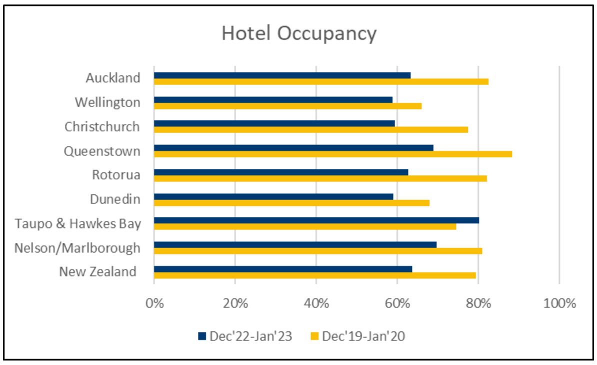
December’22 – January’23

Cost pressures mount as visitors return

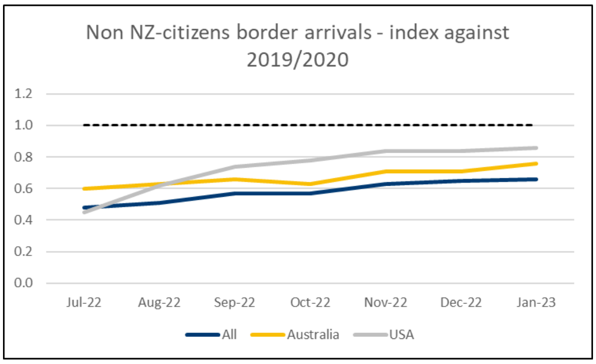
Horwath HTL
Hotel, Tourism and Leisure

HCA
HOTEL COUNCIL AOTEAROA

Occupancy of New Zealand's major hotels during the December – January period was 64% according to data reported by Hotel Data New Zealand (HDNZ). This compares to an occupancy of 79% during the comparable pre-Covid period three years ago (Dec'19 – Jan'20).



(Source: HDNZ)



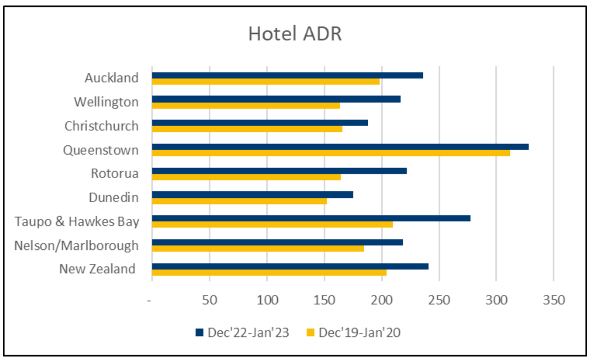
(Source: Stats NZ

According to provisional data from Stats NZ, 617,484 non-New Zealand residents arrived in the country during December and January, which was 35% less than during the same period three years ago. The USA market showed the best recovery assisted by good air capacity, a favourable exchange rate and relatively strong economy. Outbound travel showed a stronger recovery than inbound, with 386,040 New Zealand residents departing the country, which was just 25% less than the same pre-Covid period.

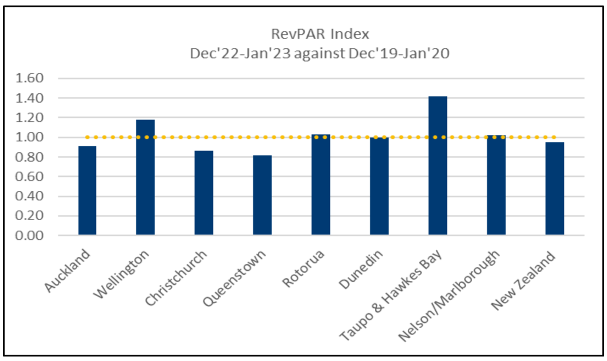
Demand for Auckland hotels was close to pre-Covid levels with a series of major events and concerts at Spark Arena, Eden Park, Western Springs and Mt Smart Stadium delivering several high demand days. The number of cruise ships visiting Auckland during the period also returned to pre-Covid levels. The reduced occupancy rate was therefore mostly as a result of the 19% supply increase over the past three years.

Queenstown hotel occupancy was 20 percentage points below pre-Covid levels following a 7% supply increase and the drawn-out return of international visitors. The Taupo and Hawkes Bay region was the only key destination with higher occupancies, driven by strong domestic demand and visitors from Australia.

Revenue Per Available Room (RevPAR) reached 95% of the comparable pre-Covid period, supported by an 18% growth in the Average Daily Rate (ADR). Five of the eight key destinations achieved or exceeded pre-Covid RevPAR levels.

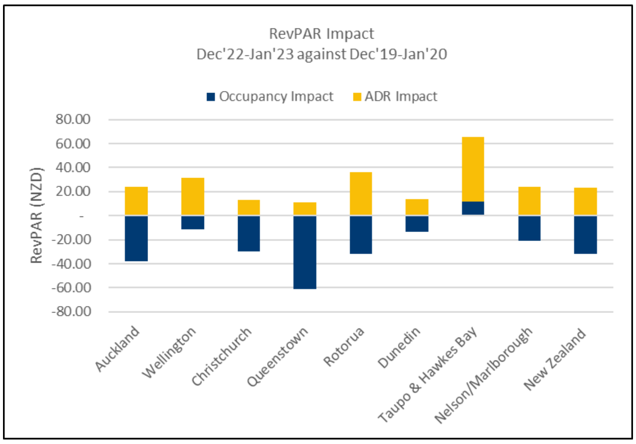


(Source: HDNZ)



(Source: HDNZ)

The following chart shows the impact of occupancy and ADR on the RevPAR recovery for the key markets according to the data reported by HDNZ.



(Source: HDNZ)

Despite the positive RevPAR recovery supported by strong ADR in many markets, hotel profitability remains under pressure, especially in destinations like Auckland, Christchurch and Queenstown where ADR increases have not yet compensated for the reduced occupancy.

Consumer prices have increased by 15% over the past three years, with minimum and living wage rate increases of circa 13%. Wage rates for many front line jobs increased by more than 30% where hotels have been required to pay above the living wage rates for positions previously paid at close to the minimum wage. This wage cost pressure has also pushed up salaries for supervisory and management staff. From the end of February, minimum wage rates payable to obtain visas for overseas workers increase by a further 19% to $28.18 and from April the minimum wage increases by 6%. For the hotel industry, where payroll costs make up 35-40% of total operating expenses, this continues to have a considerable overall operating cost impact.

Even with the higher wages being paid, many hotels are still facing considerable staff shortages, forcing them to restrict the number of bookings and / or reduce restaurant operating hours. For destinations like Queenstown this has been made worse by a lack of staff accommodation which is the biggest concern for most operators in the region and the biggest barrier to employing the required staff.

Slowing down these inflationary cost pressures and the consequent erosion of profitability, will require changes in the government's policy approach, as well as industry adaptation. Better resourcing is needed to attract and develop a skilled domestic hospitality workforce.

Hotel owners and operators need to continue to improve their working environments and improve productivity by changing working practices and making use of new technology. In the meantime, less restrictive immigration settings would allow the industry to compete for overseas workers more effectively with countries such as Australia.

Horwath HTL (Hotels Tourism and Leisure) is the world's largest and most experienced Hotel, tourism and leisure-consulting brand, with 52 offices in 38 countries. Our hotel asset management team has the skills, qualifications and experience required to add value at every stage of the hotel investment cycle.

Horwath HTL is a member of Crowe Global, a professional association of accounting and management consulting firms founded in New York in 1915. Crowe Global is currently ranked among the top ten international professional service groups with offices in close to 586 cities in 108 countries. www.horwathhtl.com

Hotel Council Aotearoa (HCA) is New Zealand's dedicated industry body for hotels and hoteliers. HCA currently represents more than 140 New Zealand hotels; comprising over 15,600 guest rooms or 5.6 million available room-nights per annum. Alongside airlines, airports and transport infrastructure, hotels are key tourism infrastructure without which New Zealand would be unable to attract high value international travelers. www.hotelcouncilaotearoa.com

If you have any questions, please contact Wim Ruepert, Director, Horwath HTL Auckland at wruepert@horwathhtl.com or James Doolan, Strategic Director, Hotel Council Aotearoa at james@hotelcouncilaotearoa.com.

Definition of RevPAR
RevPAR (revenue per available room) is the primary performance measure for hotels. RevPAR combines (a) average room rate (**rate**), and (b) average occupancy expressed as a percentage (**occupancy** or **occ**). RevPAR allows for comparison between different hotels, regions or (with currency adjustment) countries. RevPAR is not a complete measure of hotel performance. It does not account for ancillary hotel revenues such as revenue generated from food and beverage (**F&B**), spa and other sources. RevPAR is not a measure of profitability – it does not account for costs of any kind, whether variable or fixed.

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