



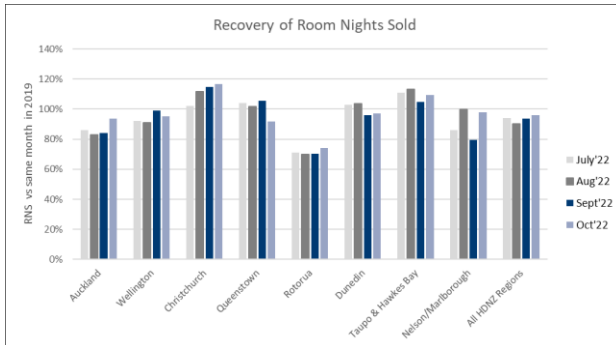
New Zealand Hotel Performance Focus October 2022

Hotel recovery held back by staff shortages

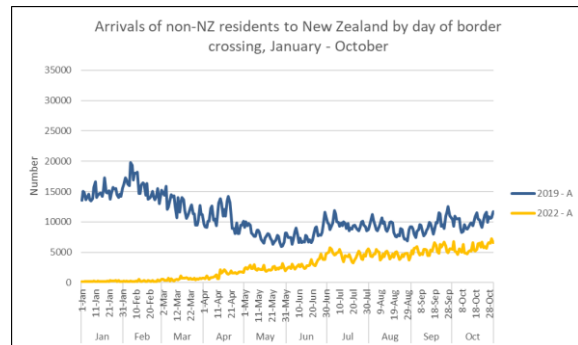


Demand for hotel accommodation continues to recover, with room nights sold in New Zealand’s major hotels returning to circa 96% of pre-Covid levels in the month of October, according to our analysis of data reported by Hotel Data New Zealand (HDNZ).

But staff shortages across the country continue to prevent many hotels selling all their rooms during peak periods, delaying the sector’s recovery and causing businesses and consumers to pay more for their overnight stay.



(Source: HDNZ & Horwath HTL)



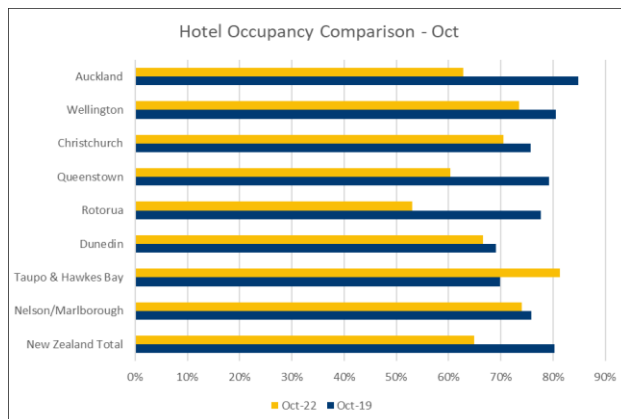
(Source: Stats NZ)

The strength of the hotel demand recovery appears to be significantly driven by domestic guests, with hotels reporting 74% of room nights sold to New Zealanders, compared to 56% in October 2019. International guests are still well below 2019 levels. Provisional data from Stats NZ reported a 56% recovery of non-New Zealand residents arriving in New Zealand during October, unchanged from the previous month. Visitors arriving from the USA during the month recovered to 78% of pre-Covid levels, while arrivals from Australia were 63% of those in October 2019. Not surprisingly, visitors from China were only 13% of 2019 levels.

Auckland experienced a strong improvement in demand, recovering to 93% of pre-Covid levels, up from the low to mid 80% range in August and September. Auckland hotels have benefited significantly from the Women’s Rugby World Cup, with 11 matches played in the city during the month, with accommodation provided for both teams and supporters.

Meeting and conference business was again strong across the country. Our analysis shows that hotel demand from this segment in Auckland, Christchurch, Wellington, Rotorua and Queenstown was higher than during the same period in 2019. As was the case prior to Covid, most attendees are either domestic or from Australia. Operators of some major hotels in Auckland have reported a record month compared to the 12-months period pre-Covid. Lead times can be extremely short, even for larger groups, with examples of a 500 person dinner and a 100+ pax conference being booked within a three-four week booking window.

Leisure group business has also started to return to some areas, with several tour operators

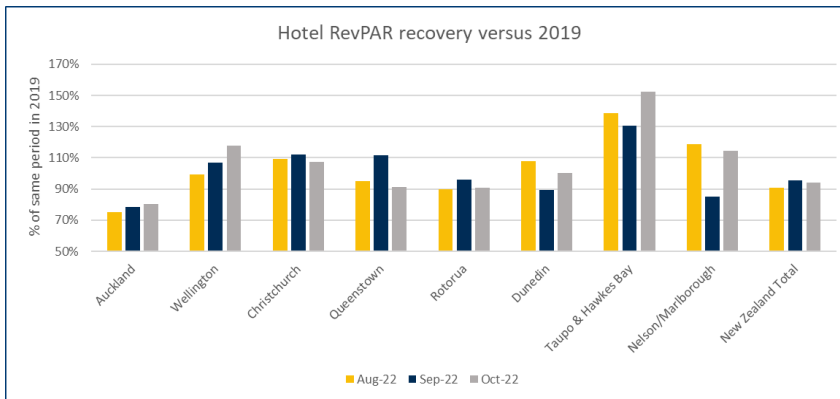


(Source: HDNZ)

using Covid related credits given in 2020 prior to their expiry at the end of the year. Regional areas such as Taupo / Hawkes Bay and Nelson / Marlborough continue to see good visitor growth coming from Australia.

Despite a strong recovery of demand, hotel occupancy levels averaged only 65%, compared to 80% in October 2019 following a supply increase of circa 19% across the key New Zealand markets.

In markets like Auckland and Queenstown, which have seen the largest supply increases, this continues to put pressure on RevPAR¹ recovery.

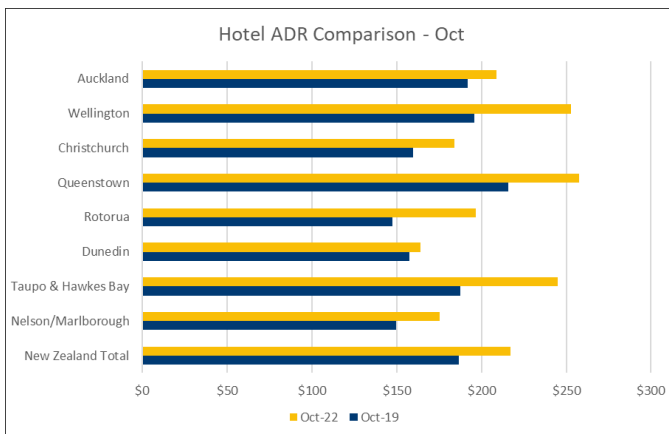


(Source: HDNZ)

As meetings and special events increase the number of peak demand days (often at short notice), staff shortages force hotels across the country to frequently cap their occupancy levels so that rooms can be cleaned and service standards maintained.

This is resulting in valuable revenue opportunities being lost and is slowing down hotel recovery, especially in Auckland, Rotorua and Queenstown, where occupancies and RevPAR are still significantly below 2019 levels due to the still emerging base of international visitors.

Workforce shortages are effectively constraining the room inventories for many hotels during peak periods, and thereby general market supply. Combined with significant cost inflation, hotels effectively have no choice but to compensate for the lost revenue by charging higher room rates, which on average have increased by 16% in October and 19% in the last quarter, compared to the same periods in 2019.



(Source: HDNZ)

Higher room rates should benefit hotel profit margins, but will also add to general inflation, and this could risk dampening demand growth, potentially from both domestic and international guests who may seek alternative accommodation options.

With circa 20 hotels still under construction and expected to open over the next few years, the sector needs an environment that allows for demand to grow in order to be sustainable.

While this includes achieving an improvement of the productivity of the sector, it will still require a significant increase of the hospitality workforce to meet the expectations of the high-value customers that the government and Tourism New Zealand is targeting for the tourism industry.

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.

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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 wruPERT@horwathhtl.com or James Doolan, Strategic Director, Hotel Council Aotearoa at james@hotelcouncilaotearoa.com.

¹ A definition of RevPAR is included at the end of this report.

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.