"Auckland Hotel Market Outlook"
Presentation Notes
8 December 2003

International Visitor Arrivals – New Zealand

1. Lower than forecast growth in international arrivals to NZ in 2003 calendar year (+2.3%) due to SARS negatively impacting visitor arrivals, especially from Asia, for 6 months to September; subsequent recovery, especially in November and December 2003 (expected).
2. Return to relatively strong growth in inbound international arrivals is projected in 2004, up 8.1% to 2.26 million.
3. Further growth in 2005 and 2006 projected to take international visitors to 2.6 million in 2006.
4. Decline in arrivals from Asia (excluding Japan) expected to be 8.6% down in 2003 by comparison with 2002; but recovery of16.5% projected for 2004.
5. Continuing relatively strong growth from Australia, our largest inbound market, with 7.9% growth expected for 2003 followed by 6.0% growth in 2004 – reduced airfares and increased capacity on trans-Tasman routes could further stimulate this market – possibly substantially so.

International and Domestic Visitor Nights – New Zealand

1. There are approximately 30% more domestic visitor nights in New Zealand than international in 2003 (53m domestic, 42m international); however the rate of growth in international nights has been approximately 2.8 times higher than domestic over the past three years.
2. Changing mix of international visitors means that the overall length of stay is increasing slightly, despite reduced lengths of stay from several key markets.
3. Over three years to 2006, international visitor night growth is projected to be 25.6%, compared to 6.7% domestic, resulting in 58m domestic and 52m international visitor nights.

International and Domestic Visitor Nights – Auckland

1. Approximately 35% of international visitor nights are spent in the Auckland region – this relatively high ratio is impacted by the "main gateway" status of Auckland International Airport, and a relatively high proportion of foreign language students studying in Auckland for periods of less than a year.
2. Approximately 17% of domestic visitor nights are spent in the Auckland region – this relatively low ratio is impacted by the fact that the proportionately high numbers of Auckland residents themselves make up a relatively high ratio of domestic nights spent in other regions of New Zealand.
3. This results in there being approximately 14m international visitor nights and 9m domestic visitor nights in the Auckland region in 2003 (70% more international nights).
4. In 2004, international visitor nights in Auckland are projected to rise 10.3%, with a 2.7% growth in domestic visitor nights.
5. By 2006, Auckland international visitor nights are projected to be more than double the domestic visitor nights, with approximately 19m international visitor nights.

Guest-nights in Auckland Hotels

1. Approximately 16% of international visitor nights are spent in hotels, and 7.5% of domestic visitor nights.
2. This results in approximately 2.3m international guest-nights and 0.7m domestic guest-nights in Auckland hotels in 2003 – ie: 3 times more international guest-nights.
3. International guest-night demand in Auckland hotels down 0.5% in 2003, mainly because of negative impact of SARS over period of 6 months.
4. Recovery in international guest-nights projected in 2004, with 10.5% growth projected in Auckland hotels, combined with 2.3% domestic demand. Continuing low domestic and trans-Tasman airfares could further stimulate this growth.
5. The greatest likely threat to achieving this growth would be a terrorist incident in Australia or New Zealand.
6. By 2006, 80% of Auckland hotel guest-nights are projected to be international, with 32% growth in international guest-night volume between 2003 and 2006.

Overall Supply and Demand for Auckland Hotel Rooms

1. Growth in hotel room demand is further impacted by change in guest-type and therefore room density (average number of guests per room sold) – this is projected to rise from 1.55 in 2003 to 1.65 by 2006 as a result of increasing proportion of international guests.
2. Resultant total annual hotel room demand in Auckland hotels is projected to rise by 7.3% in 2004.
3. By 2006, total annual hotel room demand is projected to be 21.7% higher than in 2003 – with room supply being 11.0% higher
4. Average Auckland hotel occupancy in 2003 is projected to be 68% – nil growth over 2002 because of the combined effect of low overall demand growth and the opening of the Hyatt Residences and Number One Hobson rooms during the year.
5. Annual rooms available in 2004 is projected to be only 0.6% higher than in 2003 – with the main increments being a full year of the Hyatt Residences and Number One Hobson. Room supply increases from these properties during 2003 have been offset by reductions in the numbers of “overnight commercial accommodation” rooms available in strata-title hotels such as The Ascott Metropolis.
6. In 2004, average annual occupancy is therefore projected to rise 5 points to 73%.
7. By 2006, rooms available in the Auckland market is projected to rise by 11% over – with the main addition being the Sky City Grand Hotel opening in mid 2005.
8. Resultant overall Auckland hotel occupancy is projected to be 75% in 2005 and 2006.

Supply and Demand for "Category A" (4½★ - 5★) Auckland Hotel Rooms

1. Total annual Category A hotel room demand is projected to rise by 7.0% in 2004 – slightly less than the average for all Auckland hotels (and therefore a small loss in relative market share) assuming this group of hotels achieves higher than average growth in room rates – and possibly relatively strong increases.
2. By 2006, total Category A hotel room demand is projected to be 21.5% higher than in 2003 – with room supply being 13.6% higher.
3. Average Category A hotel occupancy in 2003 is projected to be 74% – also nil growth over 2002 because of the combined effect of low overall demand growth and the opening of the Hyatt Residences during the year.
4. Annual rooms available in 2004 is projected to be 1.3% higher than in 2003 – with the main increment in this Category being a full year of the Hyatt Residences.
5. In 2004, average annual occupancy is projected to rise 5 points to 73%.
6. By 2006, rooms available in Category A hotels is projected to rise by 13.6% over the 2003 supply – with the main addition being the Sky City Grand Hotel opening in mid 2005.
7. Resultant Category A hotel occupancy is projected to be 80% in 2005 and 79% in 2006.

Supply and Demand for "Category B" (3½★ - 4★) Auckland Hotel Rooms

1. Total annual Category B hotel room demand is projected to rise by 8.7% in 2004 – slightly more than the average for all Auckland hotels (and therefore a small gain in relative market share) assuming this group of hotels achieves higher than average growth in rooms sold at competitive room rates.
2. By 2006, total Category B hotel room demand is projected to be 25.9% higher than in 2003 – with room supply being 18.1% higher.
3. Average Category B hotel occupancy in 2003 is projected to be 76% – a 1 point growth over 2002.
4. Annual rooms available in 2004 is projected to be 3.2% higher than in 2003 – with the main increment in this Category being a full year of Number One Hobson.
5. In 2004, average annual occupancy is projected to rise 4 points to 80%.
6. By 2006, rooms available in Category B hotels is projected to rise by 18% over the 2003 supply.
7. Resultant Category B hotel occupancy is projected to be 82% in 2005 and 81% in 2006.

Supply and Demand for "Category C" (up to 3★) Auckland Hotel Rooms

1. Total annual Category C hotel room demand is projected to rise by 6.5% in 2004 – slightly less than the average for all Auckland hotels (and therefore a small loss in relative market share) recognising that this group contains many hotels who do not have the traction and distributions systems to achieve above market occupancy growth if there is capacity available in the branded and chain-managed hotels.
2. By 2006, total Category C hotel room demand is projected to be 18.2% higher than in 2003 – with room supply being 3.7% higher.

3. Average Category C hotel occupancy in 2003 is projected to be 57% – no change over 2002.
4. Annual rooms available in 2004 is projected to be 3.2% higher than in 2003 – with the main increment in this Category being a full year of Number One Hobson.
5. In 2004, average annual occupancy is projected to rise 5 points to 62%.
6. By 2006, rooms available in Category C hotels is projected to rise by 4% over the 2003 supply.
7. Resultant Category B hotel occupancy is projected to be 65% in 2005 and 2006.

Seasonality of Demand for Auckland Hotel Rooms

1. Achieving more than an overall 75% average occupancy will be difficult to achieve in the Auckland market because of the "traditional" pattern of occupancy in Auckland hotels, with only two "peak" months (November and February) at an average occupancy of 88.5%.
2. As the mix of international visitors grows in Auckland hotels, achieving occupancies during the six "low" months of April – September (and especially the three months of May – July) will become increasingly difficult as the numbers of hotels rooms available increases faster than demand during these months.
3. Maintaining or increasing overall annual Auckland hotel occupancies over the next few years will therefore likely require growth mostly in the "shoulder" months of October and March, as well as promoting rooms to the domestic leisure market in late December and early January.
4. In Category A hotels, the maximum achievable occupancies in the peak months of November and February are likely to average 94.5%; with 96.5% in Category B hotels and 76.5% in Category C hotels.
5. In Category A hotels, we believe the maximum achievable occupancies in the low month of June is likely to average 66.5%; with 68.0% in Category B hotels and 54.0% in Category C hotels.
6. The combination of these "highs" and "lows" results in maximum annual average occupancies of 80.0% in Category A hotels, 82.0% in Category B hotels and 65.0% in Category C hotels.

The Outlook for Increasing Room Yield

1. Given the positive outlook for demand and occupancy growth in Auckland hotels, especially in 2004 by comparison with 2003, the outlook for strong growth in room rates should also be good.
2. The projections indicate that, within each major category of hotel, the new Sky City Grand hotel, scheduled to open in early to mid 2005, should not have any major downward impact on hotel occupancies – if there is any downward movement at all.
3. This should mean that room rate discounting to maintain occupancy levels should not be necessary in any of the major hotel categories.
4. However, some redistribution of "existing" demand will inevitably occur between direct hotel competitors. The challenge for competing hotels will be

to ensure that their marketing and distribution systems will be generating sufficient levels of “new” business to offset any “existing” business lost.

5. The relatively high New Zealand Dollar does not appear to be having a significant detrimental impact on New Zealand tourism or Auckland hotel demand at the present time, possibly because it is the USD exchange rate that is most significantly affected. The cross-rates with other currencies appear to be generally less impacted.
6. Because of increasing diversification of accommodation products being demanded and available in the Auckland market, especially by international visitors, there is a prospect that the proportion of guest-nights spent in hotels may fall over time, with a resultant dampening in hotel demand. Given the overall positive demand outlook, and the price sensitivity of some parts of the market, such a loss of market share would not necessarily be bad for the hotel industry – it should in fact lead to increased hotel profitability.
7. The positive demand outlook should lead hoteliers to be increasingly resolute and confident in their room pricing decisions and in negotiation with wholesalers.