



New Hotel & Serviced Apartment Supply Update

The Rugby World Cup in 2011 will stretch hotel, serviced apartment and other accommodation to the limit in all match centres. Pre and post tournament holidays and business trips will provide further accommodation demand, including in regions where no RWC games will be held.

There is limited new supply under construction at the current time in Auckland where most of the overseas visitors for the RWC 2011 will visit. New build hotel and serviced apartment developments would need to commence in 2009 or risk not opening in time for RWC 2011. Conversion of existing buildings could start as late as mid / late 2010 to be ready for RWC 2011. Temporary accommodation, including cruise ships, will be needed in Auckland to off-set the shortfall in permanent accommodation supply.

Our recent market research and enquiries have identified the following new hotel and serviced apartment supply (either under construction or announced) in the main visitor destinations in New Zealand. It is likely that some of the announced projects will not proceed in the timeframe indicated, or at all.

Outside of the main centres, the largest new hotel development is the 100 room, 5 star Te Waonui Forest Retreat at Franz Josef. This hotel is being developed and operated by Scenic Hotel Group and will officially open in September 2009.

Serviced apartments are increasingly being let to long stay (ie: weekly, monthly or 6 monthly) rather than short stay (1-2 night) guests. Long stays allow a lower operating cost structure as typically the properties offer limited service (eg: weekly cleaning of rooms and linen change) and limited facilities (eg: no restaurant and / or bar). This helps in maximising return on investment to strata title investors, or reducing the underwrite needed by the developer during the guarantee period (where relevant).

The Hotel Industry Survey of Operations 2008 of hotels and serviced apartments in Australia

and New Zealand, undertaken by Horwath HTL (Australia), identified that serviced apartments were, on average, more efficient than hotels. Serviced apartments achieved a net operating profit (before management fees and ownership costs) of 52% of total revenues, 16 percentage points higher than that for hotels, whose net operating profit was 36%. Payroll and related expenses represented 28.4% of total revenues

for serviced apartments, 2.7 points better than that for hotels of 31.1%.

Development cost of the 1,203 hotel rooms and serviced apartments currently under construction is estimated at \$300million (including land, excluding GST). The estimated cost of new supply announced but not yet under construction is \$336million. ■

Region / Location	Status	Opening	Star	Brand	Hotel Rooms	Apartment Units
Auckland						
CBD	A	Aug 2011	5	Pulman	296	
CBD (expansion)	U	Mar 2010	4	Rydges	81	
Greenlane	U	Late 2009	3.5	TBC	100	
Britomart	A	TBC	5	Four Seasons	175	
Waiheke	A	TBC	5	Langham Place	79	
St Martins Lane	U	Jun 2009	3	Waldorf		154
Emily Place	U	Jan 2011	4	Waldorf		119
Airport	U	Sept 2009	3	Ventura Inn	70	
Rotorua					Nil	Nil
Wellington						
CBD	A	TBC	5	Watermark	50	
Christchurch						
CBD	U	Sept 2009	4	Novotel	193	
CBD	U	Jan 2010	4	Rendezvous	170	
Dunedin						
CBD (expansion)	A	2010	3	Mercure	70	
Queenstown						
Frankton Rd (balance)	U	2009	5	Rees		80
Kawarau Falls Station	U	Jan 2010	4	Quadrant		98
Kawarau Falls Station	U	Mar 2010	5	Westin	178	
Kawarau Falls Station	A	May 2011	5	InterContinental	238	
Kawarau Falls Station	A	May 2012	5	Quay West		195
Kawarau Falls Station	A	May 2012	3-4	Quadrant		200
Total					1,700	846

Notes:- U = under construction A = announced TBC = to be confirmed



AUTUMN 2009

Hotel Market Outlook for 2009-2010

Auckland

Auckland full service hotels and apartments are experiencing significant pressure on room rates due to increasing competition from limited service apartments and decreasing demand. New serviced apartments such as the recently opened Chifley Suites and Waldorf Stadium Apartments, totaling 285 apartments, will compete to some extent with hotels. The lack of new hotels under construction will be positive for the hotel market offsetting to some degree lower visitor arrivals. The Vector Arena has proven to be a strong driver of domestic visitor demand and the domestic leisure and events markets will be increasingly important to Auckland's hotels.

Wellington

Wellington, with no hotels or serviced apartments under construction, appears to have absorbed well the new Holiday Inn hotel and Museum serviced apartments, which opened in the last 2 years. The size of the public sector, the conference market and domestic leisure visitors will be key influencers of Wellington

hotel demand. Room rates could face pressure ahead of lower occupancies if the public sector downsizes and corporate demand falls.

Rotorua

Rotorua, albeit with no major hotel or serviced apartments under construction, is unfortunately likely to continue to suffer due to the reduction in overseas visitors to New Zealand. Smart sales and marketing and value add-ons will be crucial to minimise revenue falls. The 30 room Wai Ora Lakeside Spa Resort was the only new hotel to open in Rotorua in the last 12 months. Direct flights from Australia may start in late 2009, providing opportunities for Rotorua, adding to the positive impact of the Energy Events Centre. Maintaining hotel occupancies and room rates will continue to be challenging.

Christchurch

Christchurch faces challenging times from late 2009 when 363 new hotel rooms, operated by Accor and Rendezvous, open. Christchurch must continue to capture incoming overseas

visitors prior to their travel to other destinations. The Christchurch Convention Centre, and its proposed expansion, will be critical to capturing large conferences for New Zealand in the absence of an internationally competitive (over 1,500 person) purpose built convention centre in Auckland. Room occupancies and room rates could fall in 2010 in Christchurch.

Queenstown

The Queenstown hotel market faces significant new hotel and serviced apartment supply opening in the next 3 years primarily due to the Kawarau Falls Station development which comprises 2 hotels and 4 serviced apartment developments in 3 stages. Stimulation of visitor arrival growth is critical to avoid a room rate "bloodbath". The additional \$1 million funding for Destination Queenstown, as well as keenly priced domestic and trans Tasman airfares will be needed to induce visitor demand. Occupancies and room rates will face downward pressure in the next 3 years. ■

