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PROUD CO-HOSTS OF THE



New Zealand
 Hotel Industry
 Conference
 2011

www.nzhotelconference.com

NZHIC 2011

WELCOME to the 10th issue of the Hotel, Tourism and Leisure Outlook (HTLO) which coincides with the 5th annual New Zealand Hotel Industry Conference, co-hosted by Horwath HTL, the New Zealand Hotel Council and Lowndes Associates. We hope those who attend enjoy the conference and also the technical seminar (also co-hosted by Horwath HTL).

Regards Stephen Hamilton, Terry Ngan, James Parkinson, Directors of Horwath HTL Ltd, New Zealand. ■

Visitor Arrival Outlook

NEW ZEALAND hotels rely significantly on the flow of inbound visitor arrivals with approximately half of rooms sold in major hotels being to international guests. Almost all new hotel development in the past 30 years has been driven mainly by the steadily increasing number of international visitors to New Zealand.

However, the overall growth in inbound visitors has slowed considerably in the past few years for various reasons, with total arrivals relatively stable at 2.5 million per annum since 2007.

The Tourism Strategy Group of the Ministry of Economic Development's last international visitor arrival forecasts (for the period to 2016) were published in July 2010. They contained a generally positive outlook for continuing inbound growth, with New Zealand and the world recovering from recession, and with a boost this year from the Rugby World Cup.

The forecast showed an annual average growth rate of 3.5% through to 2016, when visitor numbers were forecast to reach 3.117 million. However visitor nights were forecast to grow by only 2.8% per annum. The forecast could conceivably still be achievable, despite the significant effects caused by the two subsequent earthquakes in Christchurch and the similar major natural disasters in Japan.

The forecasts show a continuing significant change in the mix of international visitors to New Zealand, and this foreshadows significant challenges for New Zealand hotels. Of the overall growth between 2009 and 2016 (669,000 more international visitors per annum in 2016 than in 2009), 312,000 of the increase was forecast to come from Australia (3.7% growth per annum) and 77,000 from China (8.4% growth per annum).

Traditional long-haul and longer stay visitor markets were

forecast to deliver much more limited growth, with the increase from the UK being only 21,000 (1.1% per annum) and from Germany only 13,000 (2.7% per annum).

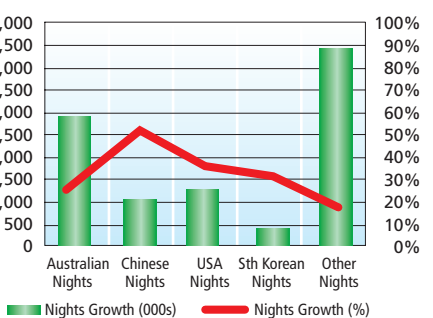
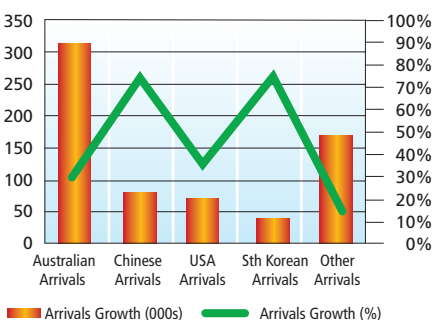
The strongest forecast growth from a traditional long-haul market was the USA, with 70,000 more visitors in 2016 than 2009 (4.4% growth per annum). A significant proportion of this growth relates to projected growth in the cruise industry. This growth will benefit hotels mainly in Auckland. The charts below summarise the forecast increase in annual arrivals and visitor nights between 2009 (base year actual) and 2016.

Since the earthquakes, Japanese and Korean arrivals have shown dramatic reductions, and this has impacted hotels around New Zealand (in particular Queenstown, Rotorua and Auckland in addition to the obvious impacts on Christchurch). These markets will presumably recover over the next few years, although the recovery from Japan will likely be slower and the "underlying" growth forecast from Japan was modest to start with: only 19,000 more Japanese in 2016 than 2009. The Korean market has shown high volatility in the past - significant growth following significant declines. There is little reason to believe this market won't rebound reasonably quickly to previous forecast levels particularly if visitor flow patterns in the South Island can be organised to suit this market. The underlying growth forecast from Korea was 40,000 more visitors in 2016 than 2009 (8.4% growth per annum).

Given the lower ratio of Australians who use hotel accommodation (because of a higher proportion staying with friends and family, and using apartment and motel accommodation) it seems likely that there will be a reasonably strong increase in the proportion of Chinese and Korean guests staying in New Zealand hotels over the next decade.

This raises the question of how well prepared New Zealand hotels are for this change in mix. Hotels in Auckland, Rotorua and Queenstown (in the short term) and Christchurch (in the medium term) will be the main beneficiaries of growth from these markets. Hotels in other centres will experience lower overall growth in demand. New hotel requirements in other centres will generally be low. ■

Arrivals Growth (TOP) - Nights Growth (BELOW)





Improved Yield Continues to be a Challenge

THE New Zealand tourism industry has long sought to improve visitor yield in order to lift profitability and increase the industry's contribution to New Zealand's export economy. In more recent years environmental considerations have also seen the industry seek ways of increasing international visitor spend without a corresponding increase in carbon footprint driven by visitor arrivals.

However, against the backdrop of the GFC and resultant widespread austerity measures, the New Zealand tourism industry has witnessed a significant reduction in average daily spend by international visitors. International Visitor Survey data shows levels have decreased 14% from \$133 in 2008 to \$113 in 2010. Reduced visitor spend is common across all key visitor markets.

In 2010 there was a 9% increase in international visitor nights in

New Zealand, thereby driving increased utilisation of infrastructure, plant and equipment as well as inevitably lifting operating costs. However, because of the reduced average daily spend, the net effect of the increased activity was a 6% reduction in earnings from international visitors. Based on the current daily visitor spend of \$113, New Zealand would need to host 7 million more international visitor nights than in 2008 simply to achieve the same level of earnings from international visitors.

With the tourism industry looking to RWC 2011 as a circuit-breaker for the current difficult trading environment, it is clear that a sustained turn-around in visitor yield will only occur through a deliberate and co-ordinated industry approach. There is significant lost ground to be re-gained before forward progress is realised. ■

New Hotel & Serviced Apartment Supply Update

OUR market research and enquiries have identified the following new hotel and service apartment supply in the main visitor destinations in New Zealand.

There are 654 new hotel rooms scheduled to open in Auckland in 2011. Of this new supply, 82% will be located at or near Auckland Airport. This significant increase will place strong pressure on AOR and ADR in the airport precinct post RWC.

The 276 rooms/apartments to open in Queenstown will be managed by Hilton and will add substantial competitive pressure on the 4-5 star hotel market.

The lack of new supply in other centres, including Auckland CBD, should help operators raise occupancies and room rates. ■

Notes: A = announced U = under construction
O = opened TBC = to be confirmed * = Expansion
This table excludes proposed new supply that has not been publicly announced.

Region / Location	Status	Opening	Star	Brand/Operator	Announced / Under Construction		Opened in 2010	
					Hotel Rooms	Apartment Units	Hotel Rooms	Apartment Units
Auckland								
Cnr Federal & Kingston Streets*	O	May 2010	4	Rydges			81	
Greenlane	U	Aug 2011	3½	TBC	118			
Emily Place	O	June 2010	4	Waldorf				123
Auckland Airport (Inter)	U	May 2011	4½	Novotel	260			
Near Airport	U	May 2011	4	Sudima	151			
Auckland Airport (Dom)	U	Sept 2011	2	Formule 1	125			
Customs Street	A	2013	4.5	Accor	296			
Rotorua				Nil	Nil	Nil	Nil	
Wellington				Nil	Nil	Nil	Nil	
Christchurch								
Cathedral Square	O	Jan 2010	4.5	Novotel			193	
Gloucester Street	O	Mar 2010	4	Marque			171	
Dunedin								
Princes Street	U	Late 2012	4.5	Distinction	172			
Queenstown								
Kawarau Falls Station	U	May 2011	4	Kawarau Hotel		98		
Kawarau Falls Station	U	May 2011	5	Hilton	178			
Total					1,300	98	445	123

HORWATH HTL is Crowe Horwath International's global Hotel, Tourism and Leisure Group. As a member of Crowe Horwath International, we are part of one of the 10 largest global networks of independent accounting and advisory firms, with over 140 member and correspondent firms and with 560 offices in over 100 countries worldwide.

Horwath HTL Limited provides a number of core services including:

- Market demand and supply studies
- Due diligence
- Operator search & selection
- Management contract negotiations
- Expert opinion reports
- Litigation support & mediation
- Economic impact research & analysis
- Financial feasibility studies
- Budget review & analysis
- Owner Representation
- Financial performance improvement reviews
- Hotel investor search
- Development concept reviews

Horwath HTL Limited in New Zealand is affiliated with 12 other Horwath HTL offices in the Asia Pacific region, and 50 offices in 30 countries globally, providing specialist hotel, tourism and leisure services. The directors of Horwath HTL in New Zealand have been involved in over 1,000 tourism and hotel consulting assignments in New Zealand, Australia, Asia and the Pacific.