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## NZHIC 2010 - Positioning for the Upturn

The release of this edition of *Hotel, Tourism and Leisure Outlook* (HTLO) coincides with the 4th annual New Zealand Hotel Industry Conference, co-hosted by Horwath HTL, the New Zealand Hotel Council, and Simpson Grierson. The conference theme of "Positioning for the Upturn" is very apt with business sentiment generally improving with regards to the economic outlook and New Zealand experiencing a 5% increase in international visitors over the last six months.

The 2010 conference programme features a very strong line-up of key note speakers including:

- Prime Minister John Key's opening address
- Anna Pollock, CEO of Desticorp, who will provide her thoughts and insights into the need for trans-

formation in the New Zealand tourism industry

- Kevin Bowler, who will outline Tourism New Zealand's key strategies in building international demand for New Zealand

- Peter Harbison, Executive Chairman of the Asia Pacific Aviation Centre, who will provide expert analysis of airline trends and the strategic implications for New Zealand

- Stephen Toplis, Head of Research at the BNZ, who will provide analysis of the economic outlook and implications for the hotel industry. ■

*Presentation notes will be available post-conference on the NZHIC website: [www.nzhotelconference.com](http://www.nzhotelconference.com)*

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## New Zealand Hotel Industry Current Position & 2010 Outlook

After the difficulties of 2009, 2010 appeals as a year of restrained recovery for the hotel industry. In this article, we briefly review the 2009 year, before considering the outlook for 2010 and the implications for each of New Zealand's five main hotel centres.

### 2009 – Not as Bad as it Might Have Been

While 2009 was a very challenging year for the New Zealand hotel industry, it was not as bad as early forecasts suggested it might have been. International visitor arrivals held steady against 2008 levels thanks to a 10.9% increase in Australian visitors and a 3.6% increase in German visitors off-setting declines in all other major visitor markets. The Commercial Accommodation Monitor (CAM) shows that hotel room nights sold in New Zealand fell only 1% in 2009 despite New Zealand's domestic recession and a strong decline in key visitor markets that have a high propensity to use hotels (ie: USA, Japan, China, and South Korea). The total number of hotel room nights sold in New Zealand in 2009 was the second highest on record and CAM data shows the Wellington market actually experienced a record level of hotel room nights sold.

Despite the domestic recession, both

Queenstown and Christchurch enjoyed strong growth in domestic hotel guest nights (Table 1), while both Auckland and Wellington experienced declines of approximately 6%, according to the New Zealand Hotel Council (NZHC). These trends possibly point to Queenstown and Christchurch benefiting from increased domestic leisure travel in place of overseas holidays, while Wellington and Auckland suffered from reduced levels of corporate travel.

The strong growth in Australian arrivals benefited Queenstown significantly and also Wellington and Christchurch, but apparently failed to deliver any growth in Auckland.

The next three largest generators of hotel guest nights (USA, UK, and China) all demonstrated markedly different growth patterns across the main hotel centres.

The relatively pleasing demand outcome across the country was, however, achieved in the context of a

**Table 1: Change in Hotel Guest Nights by Guest Origin (Key Markets)**

	Total	NZ	Australia	USA	UK	China
Auckland	-3%	-6%	-13%	-6%	2%	85%
Wellington	5%	-6%	19%	-13%	-18%	-34%
Christchurch	-2%	11%	20%	9%	-27%	-21%
Queenstown	-1%	17%	47%	-13%	2%	28%

(Source: NZHC) Note: Rotorua excluded due to inconsistent 2008 and 2009 data sets.



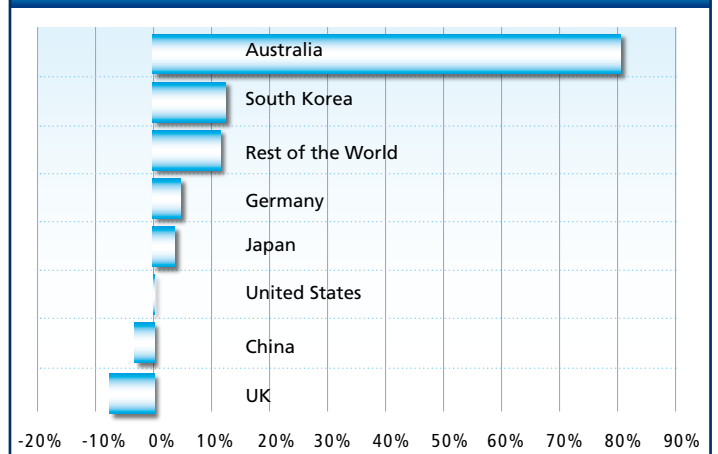


6% reduction in Average Daily Room Rate (ADR) across NZHC member hotels. This reduction took ADRs back to levels last seen in New Zealand in 2004 – 05.

Whether this level of decline in ADR was fully required in 2009 is very difficult to judge. Pricing decisions would have been made on the basis of market expectations regarding demand, and official forecasts as late as August 2009 were for a 4.2% decline in international visitor arrivals for the year ended December 2009. Also, the recessionary environment meant there was a wide-spread expectation amongst purchasers that “good deals were to be had”. Clearly, a number of hotel chains saw the opportunity to use price-focused positioning as a means of building market share during 2009 to provide a stronger customer base going forward.

A benefit of the 2009 downturn was that it enforced a drive towards greater operational efficiency. NZHC data demonstrates that, on average, member hotels achieved reductions in costs per room night sold across all of the surveyed cost areas.

**Graph 1: Projected Source of International Visitor Arrival Growth in 2010**



(Source: Horwath HTL)

**Table 2: Operating Costs Per Room Night Sold (\$)**

	Wages & Salary	Food & Beverages	Room Expenses	Utilities	Maintenance	Sales & Marketing	Rates & Insurance	Other
2009	25.43	9.05	6.32	3.16	1.72	2.73	2.16	6.47
2008	24.32	7.81	5.41	3.15	1.65	2.55	2.10	5.11
% Change	-4.4%	-13.7%	-14.5%	-0.2%	-4.2%	-6.5%	-2.5%	-21.0%

(Source: NZHC). Note: “Other” does not mean “All Other” operating costs.

If these cost savings are sustainable, they provide a good platform for improved profitability as revenues lift through 2010.

Another positive outcome of the recent recession for the hotel industry is that the significant tightening in debt funding has constrained the supply of new hotels and serviced apartments in many centres. This should enable existing properties to improve returns on investment before they face significant new competitive supply.

## Tourism Growth in 2010

We have reviewed the visitor arrival patterns in the first quarter of 2010 and assessed these in the context of current sentiment regarding short-term tourism growth from each of our main markets.

Our current expectations are that New Zealand will achieve growth of 3-5% in international visitor arrivals in 2010. This expectation is based on continued growth out of Australia, albeit at lower levels than in 2009, and improvements in all other major visitor markets, relative to 2009.

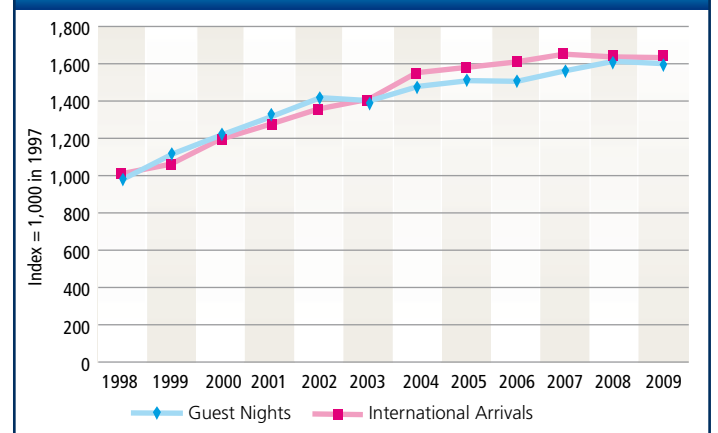
We anticipate continued strong reliance on the Australian market with our expectation that Australia will likely account for approximately 80% of the volume growth with South Korea the next biggest contributor at approximately 10%. (Graph 1).

Tourism New Zealand has signalled that it is prioritising its 2010 marketing activity on Australia, USA, China, and Germany and we see this as a positive step in achieving this growth outlook.

## Hotel Industry Outlook - 2010

The positive international visitor growth outlook for 2010 suggests generally improving demand conditions for the New Zealand hotel industry. Indeed, the graph below suggests there is a very strong correlation between international visitor arrival growth and hotel guest night growth. (Graph 2).

**Graph 2: Growth Index: New Zealand Hotel Guest Nights Relative to International Visitor Arrivals**



(Source: Statistics New Zealand)

## Auckland

Auckland will benefit from a relatively stable hotel room supply situation in 2010 with the Rydges expansion representing the only significant new hotel supply. The improving domestic economy should assist demand growth and we expect Auckland to also benefit from growth in Australian and South Korean visitors. Given greater certainty as to the demand outlook, we anticipate a lift in ADR of 3 – 4% could be achievable although this will depend on the nature of contracts individual hotels entered into during 2009.

## Rotorua

Rotorua has experienced a gradual reduction in total hotel demand since 2004. This decline can, in part, be attributed to the sharp decline in Japanese and South Korean arrivals throughout this period, both of



which were significant markets for Rotorua. The strong bounce back projected for South Korea and the modest lift in Japanese arrivals are both positive signals for Rotorua. There is also the potential for Rotorua to gain some market share in relation to Australian arrivals with the commencement of direct trans-Tasman flights in December 2009.

Overall, we anticipate a modest lift in hotel demand and Average Occupancy Rate (AOR) performance will be aided by the absence of new hotel supply. The potential for ADR increases is likely to be constrained by the relatively low levels of AOR, which are likely to encourage ongoing price-focused market share competition amongst hotels.

### Wellington

The strengthening domestic economy and continued growth from Australia are likely to result in further strengthening of the Wellington hotel market. Given the high AOR levels in the Wellington market, we anticipate Wellington could have the strongest levels of ADR improvement of the main centres in 2010.

### Christchurch

Christchurch should benefit from continued growth from Australia and a turn-around in the Japanese market. However, with the recent opening of both the Novotel and Marquee hotels, the growth in supply is likely to off-set the increased demand resulting in little change in overall market AOR. The new supply and suppressed AORs are likely to inhibit ADR recovery in Christchurch in 2010.

### Queenstown

Queenstown was the biggest beneficiary of the strong increase in Australian visitor arrivals in 2009 and this trend is likely to continue in 2010. We expect a reasonable increase in room nights sold in 2010. This should result in improved AOR and ADR through the first three quarters of 2010. The fourth quarter of 2010 will be impacted by the opening of the 276 rooms at Kawarau Falls. However, the extent of the impact and the relative impact on AOR vis-a-vis ADR, is highly uncertain and will depend upon the hotel brand(s) and the receiver's operating strategy. ■

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## Beyond Recovery: Transformation

Anna Pollock, CEO DestiCorp UK Ltd

Optimism and positive thinking are rife within tourism. It has to be. You sell experiences that are time, place and user-specific – unique and perishable. Travel and tourism leaders haven't time for pessimism and can spot a green shoot in the economy a mile away. The business magazines and marketing plans are filled with references to tourism's innate resilience. In this context, the conference theme of "Positioning For the Upturn" makes sense. But supposing something much deeper and more powerful is happening to the global and national economy? Supposing consumer values are shifting and creating new forms of demand that you have yet to anticipate? Supposing traditional forms of marketing and support delivery are dissolving in front of your eyes with most of the innovation coming from players you have never heard of. Supposing the market forces that lifted the tide of tourism growth are now ebbing. Worse still, supposing there's an intrinsic flaw in the very operating system of tourism that is the cause of its own self-destruction.

I cover these themes and more at the Hotel Industry Conference in Auckland on May 13th because I am convinced that the tourism community in New Zealand must recognise its vulnerabilities and work intensely together to craft a more robust, resilient vision of its future. Just assuming some upturn in the economy will enable you to conduct "business as normal" is a recipe for disaster.

The tourism community in New Zealand is caught between a rock and hard place. On the one hand, it wants to help its Minister and Prime Minister achieve his goals of attaining a GDP per capita level equivalent to that of Australia and that means doubling tourism's exports by 2030. On the other, it means reversing the slippage (tourism growth in New Zealand was sluggish for the four years preceding what the IMF President has called "the great recession") and overcoming some structural vulnerabilities - remoteness, increasing dependence on for-

eign airlines satisfying their own agendas; stagnation in old markets being replaced by emerging markets whose interests and motivations are still not fully understood; lack of investment in hard and soft infrastructure – particularly digital broadband and associated skills; and lack of integration with other economic agencies and a proliferation of agencies marching to their own tune.



The good news is that the brand and product are strong. New Zealand is an inspirational destination for good reason. Its remoteness can be converted into an advantage but to do so the tourism community will have to integrate more closely with its customers, fellow residents, and other agencies with similar interests in building ties with the rest of the world, and harness the new social technologies to share the task of extending the invitation to visit. It can no longer afford to concentrate on just the "big guys," as every visitor forms his or her impression from a myriad of experiences with real people in real places – way beyond the control or influence of corporate strategies. It cannot rely on spin when the Internet reveals everything and authenticity and integrity now drive markets. It also cannot choose growth over resilience without thinking through the implications of each. Shift happens. Our connected world has become more uncertain, more pregnant with possibility, more risky than ever before. Tourism cannot afford to operate on automatic pilot when the underlying assumptions driving the "pilot" are disintegrating. Now is the time for your leaders to invest in thinking first and action second. No general has won a battle by sending his troops over the wrong hill. ■



# New Hotel & Serviced Apartment Supply Update

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

The new supply outlook is notable for the significant emphasis on Auckland.

There are 776 new hotel rooms and serviced apartment units scheduled to open in Auckland between late 2010 and the end of 2011. Of this new supply, 85% will be located between Greenlane and Auckland Airport. This significant increase will place strong pressure on AOR and ADR in these geographic areas post RWC. We also anticipate that the competitive pressure could impact on mid-market CBD hotels. ■

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
<b>Auckland</b>								
Cnr Federal & Kingston Streets*	O	May 2010	4	Rydges			81	
Greenlane	U	Late 2010	3½	TBC	118			
Emily Place	U	Aug 2011	4	Waldorf		123		
Auckland Airport	U	Aug 2011	4½	Novotel	260			
Near Airport	U	Apr 2011	4	Sudima	151			
Auckland Airport	A	Aug 2011	2	Formule 1	125			
Customs Street	A	2012	5	Pullman	296			
Vincent Street	A	2012	3	Metro	170			
<b>Rotorua</b>					Nil	Nil	Nil	Nil
<b>Wellington</b>					Nil	Nil	Nil	Nil
<b>Christchurch</b>								
Cathedral Square	O	Jan 2010	4	Novotel			193	
Gloucester Street	O	Mar 2010	4	Marque			171	
<b>Dunedin</b>								
Princes Street*	A	Late 2011	3	Mercure	70			
<b>Queenstown</b>								
Kawarau Falls Station	U	Late 2010	4	Quadrant		98		
Kawarau Falls Station	U	Late 2010	5	Westin	178			
<b>Total</b>					<b>1,368</b>	<b>221</b>	<b>445</b>	



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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 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.

Horwath HTL Limited provides a number of core services including:

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

The directors of Horwath HTL Limited, Stephen Hamilton, Terry Ngan & James Parkinson have over 50 years combined consulting experience in both the New Zealand and overseas tourism industries, together with over 10 years commercial experience in New Zealand and overseas hotel chains. The directors have been involved in over 1,000 tourism and hotel consulting assignments in New Zealand, Australia, Asia and the Pacific.