

New Zealand Hotel Performance and Profitability

8 May 2008

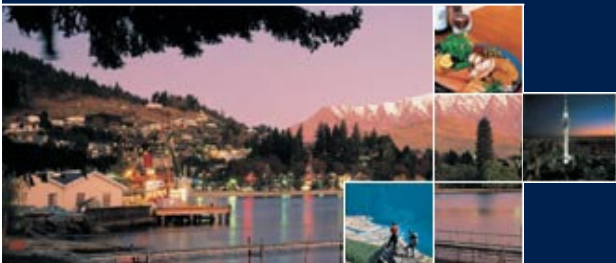
Stephen Hamilton



Horwath HTL Limited

Key messages in 2007

- Room rates in NZ are too low to provide an adequate return on investment on new hotels
- Low cap rates on existing property investments (ie: high prices paid)
- Lower returns more acceptable on serviced apartment investments (??)



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Key messages in 2008

- Challenging investment climate
- Investors are now more cautious
- Risk has been re-priced
- It is a more rational market
- Challenges ahead for inbound tourism

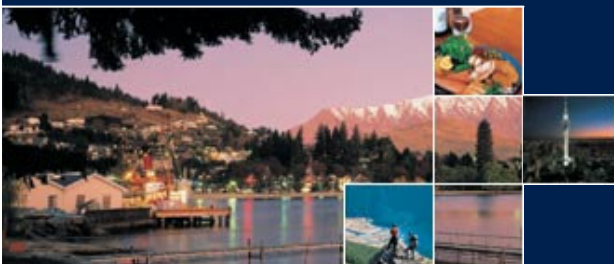


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ENHANCING FINANCIAL AND ECONOMIC YIELD IN TOURISM

SUMMARY REPORT OF THE YIELD RESEARCH PROGRAMME | NOVEMBER 2007

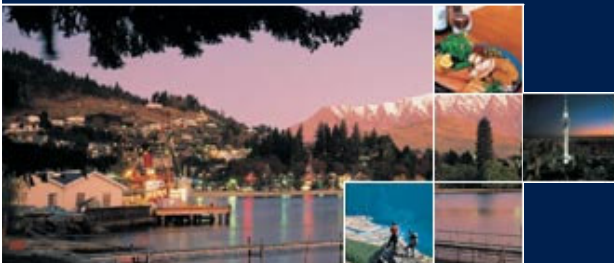


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Ministry of Tourism commentary Financial Yield in the private sector

Businesses must be profitable to be sustainable. In the long run they must generate sufficient returns on capital for investors to continue investing. In this research programme Financial Yield (i.e. the rate of return on assets) was used as the measure of yield in the private sector. Financial Yields were calculated for each sector of tourism (accommodation, transport, restaurants etc), and both average yields and the variation of yields within sub-sectors were investigated.

Source: Ministry of Tourism Summary Report (2007)

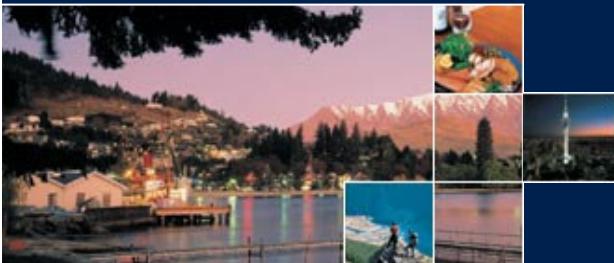


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The Yield Research Programme Accommodation sector FY

Accommodation	
Hotel	4.0
Motel/motor inn	5.3
Hosted accommodation	2.7
Backpacker/youth hostel	6.7
Campervan parks/camping grounds	3.7
Lodges/boutique accommodation	3.6

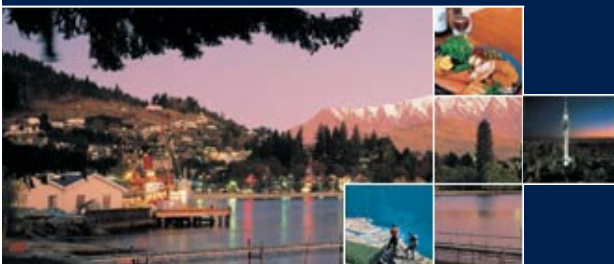
Source: Ministry of Tourism Summary Report (2007) / Yield Report 6A (2007)



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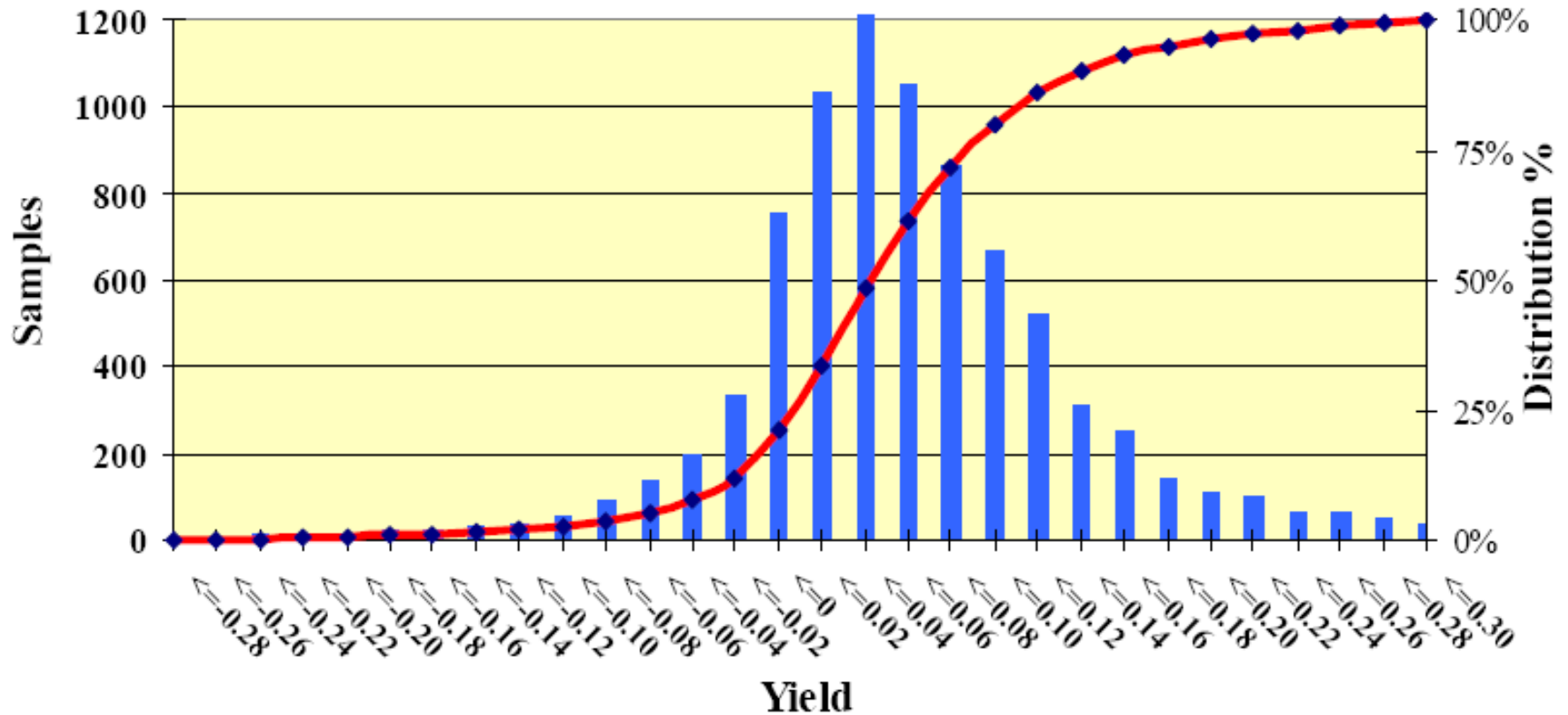
	All TSA Accommodation					
FY Statistics	1999	2000	2001	2002	2003	All
Samples	1662	1685	1665	1632	1600	
Average	4.26%	4.59%	4.69%	5.52%	5.26%	4.86%
95% Conf ±	0.34%	0.35%	0.36%	0.36%	0.39%	0.36%
Variance	0.51%	0.53%	0.56%	0.55%	0.62%	0.55%
Std Dev	7.14%	7.28%	7.47%	7.40%	7.90%	7.44%
Max	29.76%	29.36%	30.00%	29.74%	29.94%	30.00%
Min	-27.88%	-26.15%	-30.00%	-28.81%	-29.69%	-30.00%
Deciles						
1	-4.89%	-4.74%	-4.88%	-3.96%	-4.87%	-4.67%
2	-1.75%	-1.54%	-1.60%	-0.71%	-1.39%	-1.40%
3	0.51%	0.77%	0.77%	1.64%	1.12%	0.96%
4	2.45%	2.74%	2.80%	3.64%	3.26%	2.98%
5	4.26%	4.59%	4.69%	5.52%	5.26%	4.86%
6	6.06%	6.43%	6.58%	7.39%	7.26%	6.75%
7	8.00%	8.41%	8.61%	9.40%	9.41%	8.76%
8	10.26%	10.72%	10.98%	11.75%	11.91%	11.12%
9	13.40%	13.92%	14.26%	15.00%	15.39%	14.40%
	(According to a Normal Distribution of Yields)					

Source: Lincoln University Yield Study (2007)

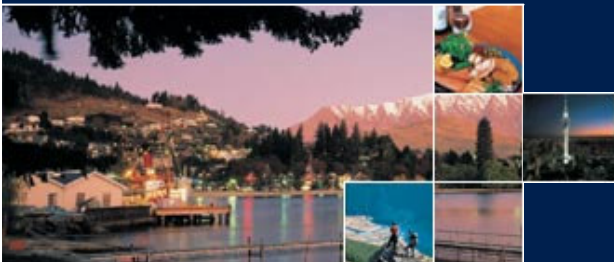


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All TSA Accommodation Spectrum and Distribution of Yield 1999-2003



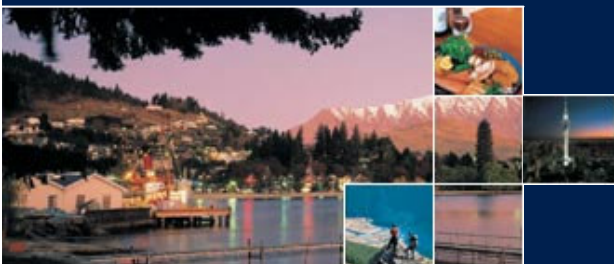
Source: Lincoln University Yield Study (2007)



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FY Statistics	Hotels (Accommodation)					All
	1999	2000	2001	2002	2003	
Samples	134	121	120	98	83	
Average	5.29%	5.76%	4.98%	6.45%	5.03%	5.50%
95%Conf ±	1.47%	1.62%	1.56%	1.76%	2.09%	1.70%
Variance	0.76%	0.83%	0.76%	0.79%	0.94%	0.82%
Std Dev	8.74%	9.10%	8.70%	8.90%	9.71%	9.03%
Max	29.73%	28.68%	29.31%	25.99%	29.66%	29.73%
Min	-22.29%	-19.83%	-29.93%	-21.85%	-22.22%	-29.93%
Deciles						
1	-5.91%	-5.90%	-6.16%	-4.96%	-7.42%	-6.07%
2	-2.07%	-1.90%	-2.34%	-1.04%	-3.15%	-2.10%
3	0.71%	0.99%	0.42%	1.78%	-0.06%	0.77%
4	3.08%	3.45%	2.78%	4.20%	2.57%	3.21%
5	5.29%	5.76%	4.98%	6.45%	5.03%	5.50%
6	7.51%	8.06%	7.19%	8.71%	7.49%	7.79%
7	9.88%	10.53%	9.55%	11.12%	10.12%	10.24%
8	12.65%	13.41%	12.31%	13.94%	13.20%	13.10%
9	16.50%	17.41%	16.13%	17.86%	17.48%	17.08%
(According to a Normal Distribution of Yields)						

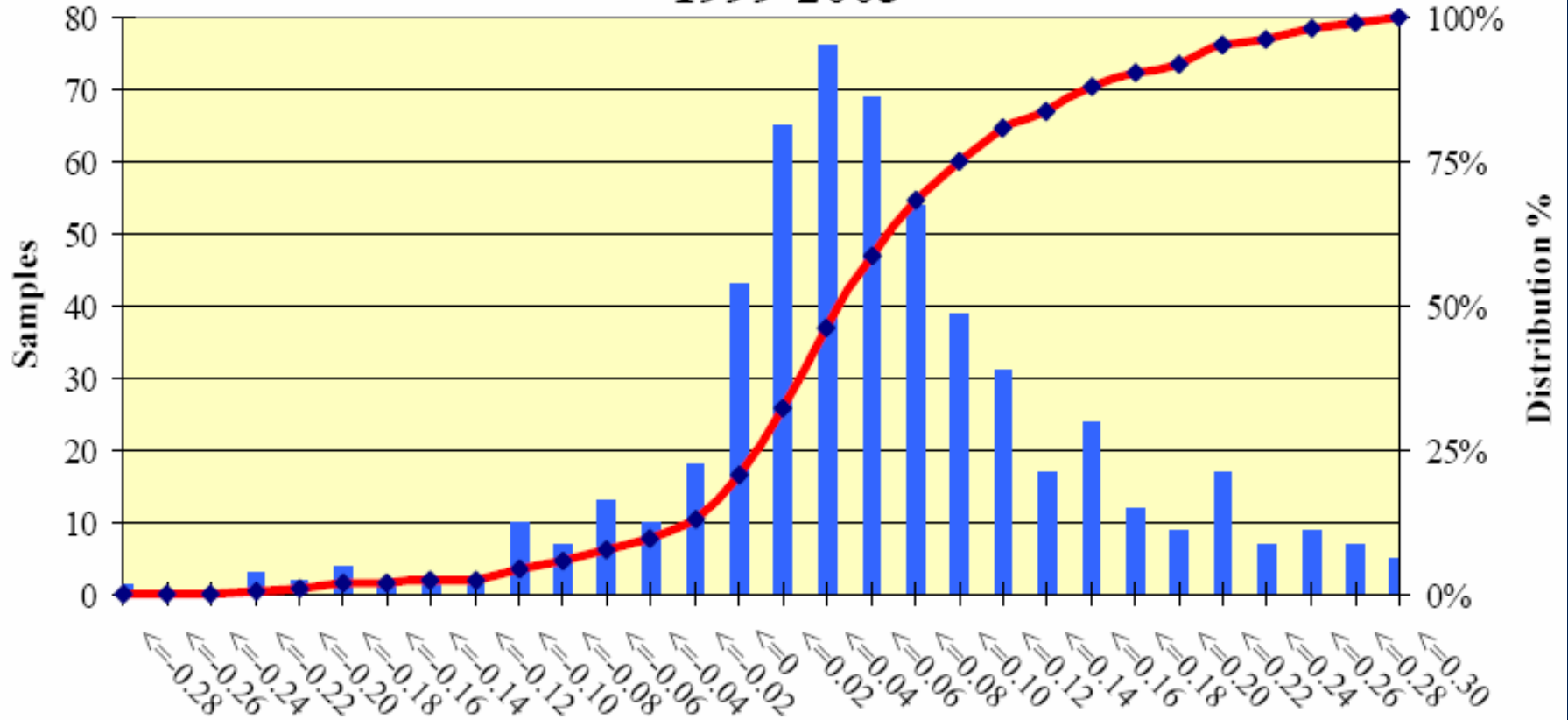
Source: Lincoln University Yield Study (2007)



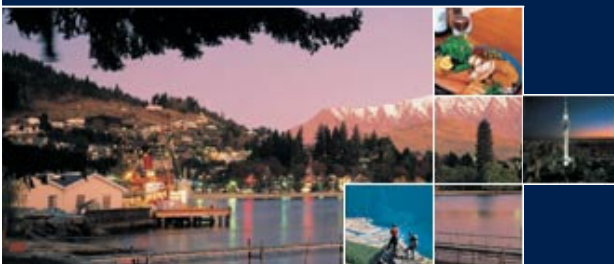
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Hotel Spectrum and Distribution of Yield (\$000)

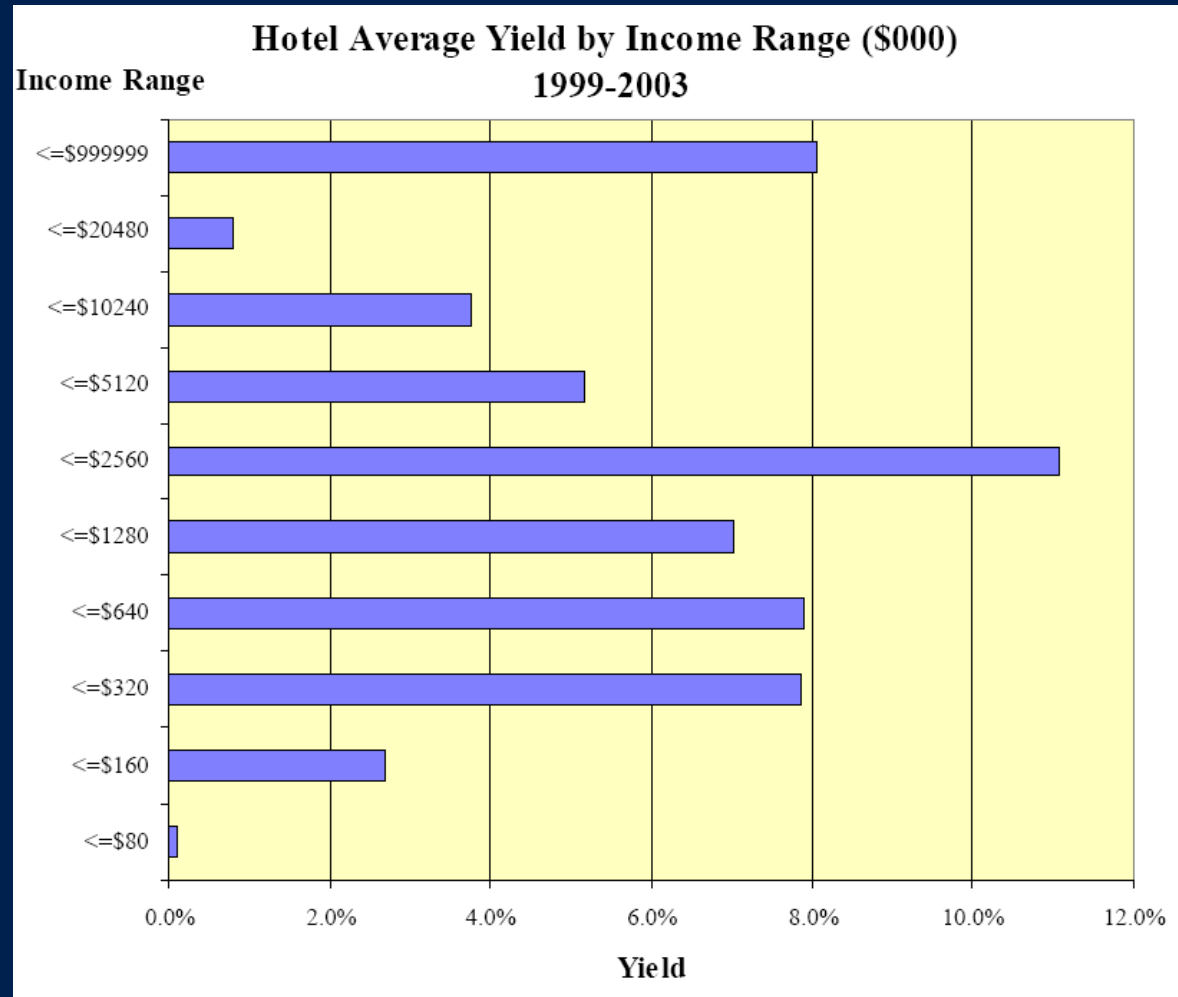
1999-2003



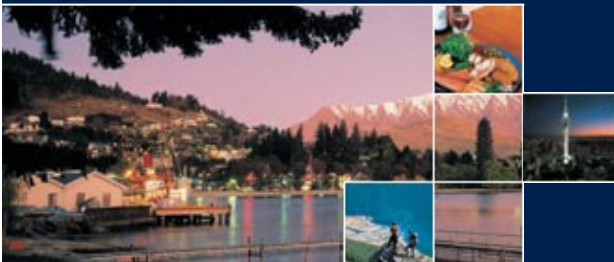
Source: Lincoln University Yield Study (2007)



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Source: Lincoln University Yield Study (2007)



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Lincoln University commentary

Hotel sector

Hotels within the income range \$1,280,000 through \$2,560,000 exhibited the highest average FY over the period 1999-2003 – even though performance declined considerably in 2000 and 2003. Hotels with incomes in the range \$10 million to \$20 million recorded negative FY in 2001 and consistently returned low FY over the analysis period with an overall average of 0.81 percent.

Hotels in the \$5 million through \$20 million income range employ significant staff numbers and reported FYs well below average. However, enterprises with incomes in excess of \$20 million, reported FYs well above average and suggests that they are good exemplars for the division.

Source: Lincoln University Yield Report 5 (2007)

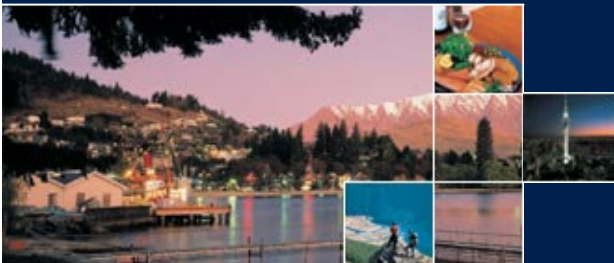


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Summary of Accommodation Financial Yield / NOPAT (1999 – 2003)

	Fin Yield (FY)	NOPAT/ Rev
H571010 Hotels (Accommodation)	4.0%	0.06313
H571020 Motels and Motor Inns	5.3%	0.11696
H571030 Hosted Accommodation	2.7%	0.11689
H571040 Backpacker and Youth Hostels	6.7%	0.15637
H571050 Caravan Parks and Camping Grounds	3.7%	0.13243
H571090 Accommodation nec	3.6%	0.08748

Source: Lincoln University Yield Study (2007)

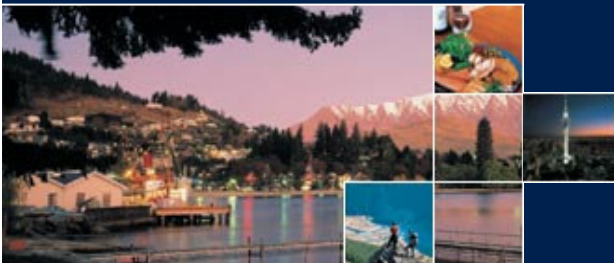


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Ministry of Tourism commentary Accommodation sector

While the low Financial Yield could be expected to have restricted investment in the sector, in fact there has been increased capacity in tourism accommodation, with hotel and motel rooms increasing by 36% each, hosted accommodation by 82% and backpacker capacity by 149% in the decade to April 2005⁶. The low yields must be acceptable to these investors and from this perspective the yield seems to be sustainable, at least in the current economic environment.

Source: Ministry of Tourism Summary Report (2007)



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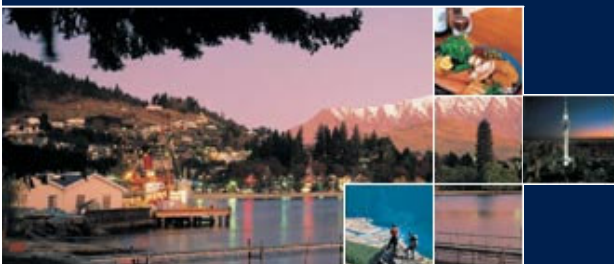
Outlook

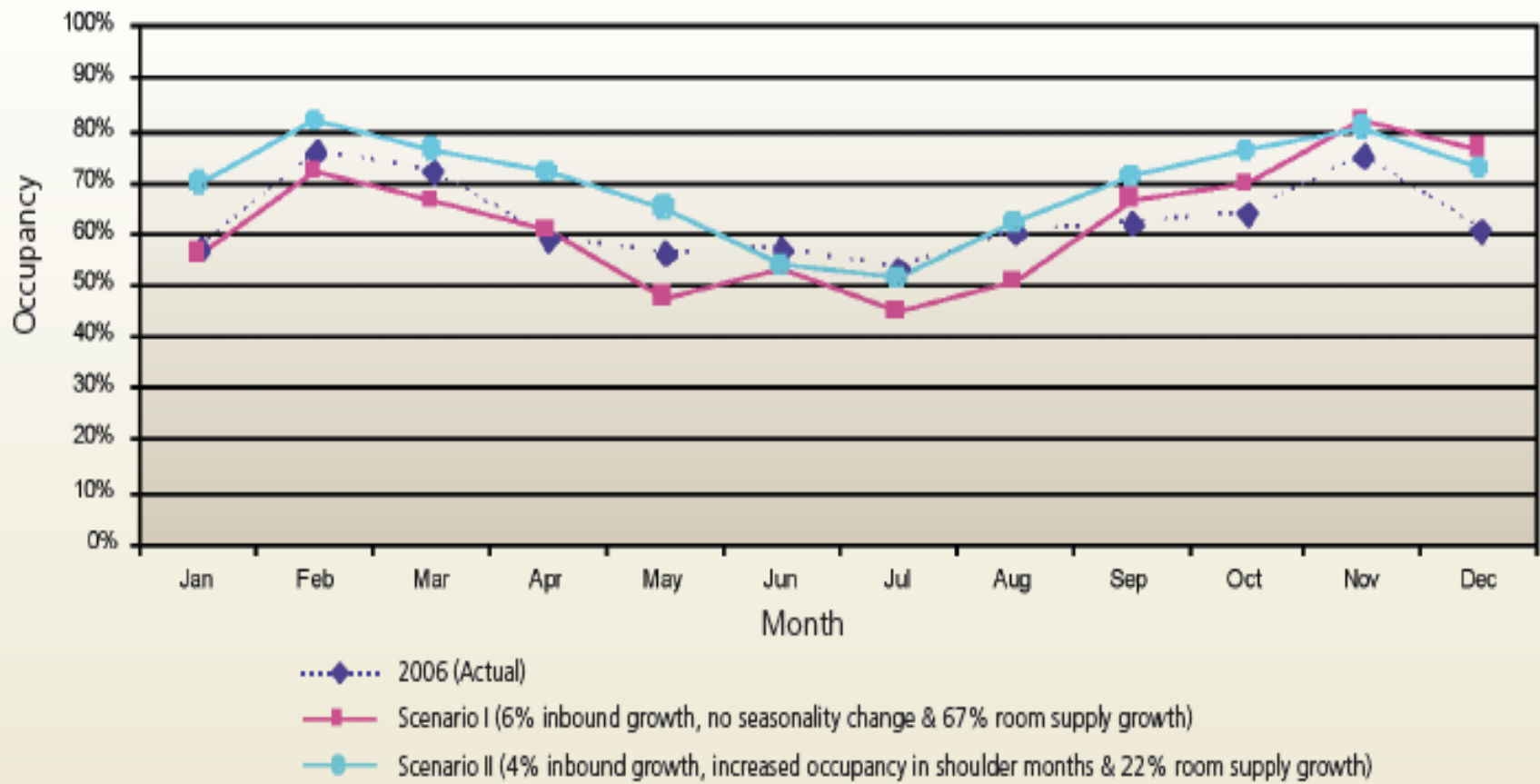
ISSUE 4 SUMMER 2007

The impact of seasonality on profitability in the hotel and tourism industry

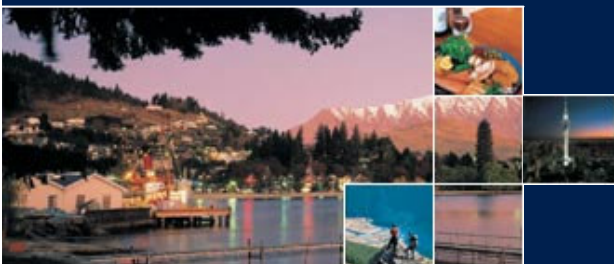
Scenario I *assumes international visitor arrival growth of 6% per annum to 2015 and similar seasonality patterns as experienced by the industry over the past 9 years (1997 to 2006).*

Scenario II *assumes international visitor arrival growth of 4% per annum to 2015 with less seasonal fluctuation, with relative growth in occupancies in the shoulder months of September, October, March and April (ie: excluding peak and winter months).*





(Source: Statistics New Zealand, Horwath HTL)



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	2006 (Base)	2015 (Scenario I)	2015 (Scenario II)
Annual International Visitor Growth	Base	6%	4%
Seasonality Change	Base	Based on historical seasonality trend	Higher occupancy in shoulder months
Annual Occupancy	66.0%	62.0%	69.4%
Total Supply	8,599 rooms	14,353 rooms	10,508 rooms
% increase on 2006 supply	Base	67%	22%
ADR*	\$140	\$190	\$209
Total Hotel Profit**	\$107 million	\$224 million	\$238 million
Hotel Profit per Room Night Available	\$34	\$43	\$62
Hotel Profit per Room Night Sold	\$51	\$69	\$89
New Hotel Investment Required including Land		\$994 million	\$330 million

* ADR (Average Daily Rate excluding GST) is projected to increase at the rate of inflation to 2015 for Scenario I and II, and is assumed to be 10% higher in Scenario II due to lower anticipated supply entering the market

** EBITDA.



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AUSTRALIA AND NEW ZEALAND

Hotel Industry Survey of Operations 2007

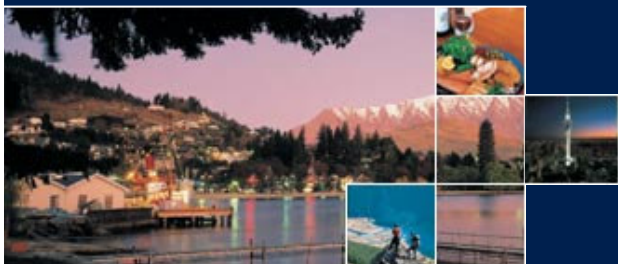
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