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Hotel, Tourism and Leisure

MARKET REPORT

Auckland Hotel Market Outlook

SEPTEMBER 2018



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With the high (summer) season approaching, it won't be too long before we start reading reports about the high hotel room rates and a shortage of hotel rooms in Auckland. This is likely to lead to the familiar calls for more hotels and acceleration of projects in the planning.

Amidst such sentiment, it is easily overlooked that there is a significant risk of a period of strong occupancy decline unless we see a dramatic stimulus in off-season demand or some developers reconsider their planned projects.

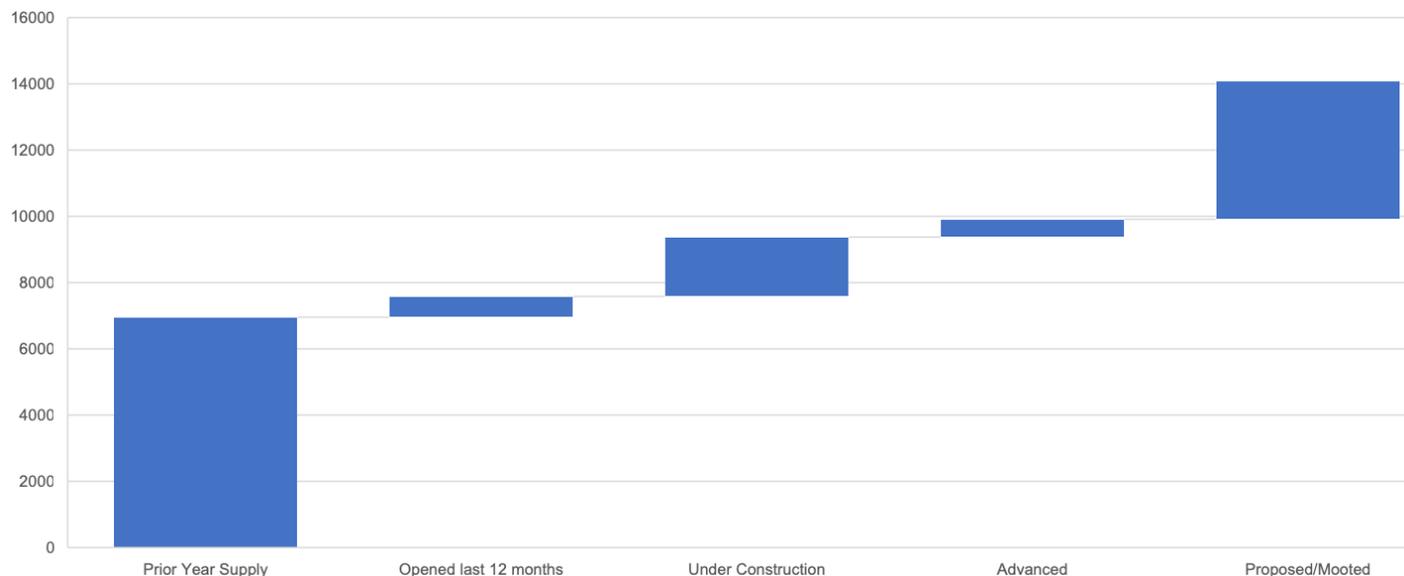
For the eight months to August, RevPAR for the major Auckland hotels declined by 4% compared to the same period last year.

Key contributing factors to this downturn were the absence of major events like last year's British & Irish Lions rugby tour and the opening of more than 600 hotel rooms, increasing supply by approximately 9% over the period.

Hotel occupancy rates of 82.6% for this eight month period may be considered high but are the lowest since 2014.

Based on the number of new hotel projects under construction, announced or being considered, annual hotel occupancy levels could slip much further.

Auckland planned hotel room supply until 2023



Source: Horwath HTL

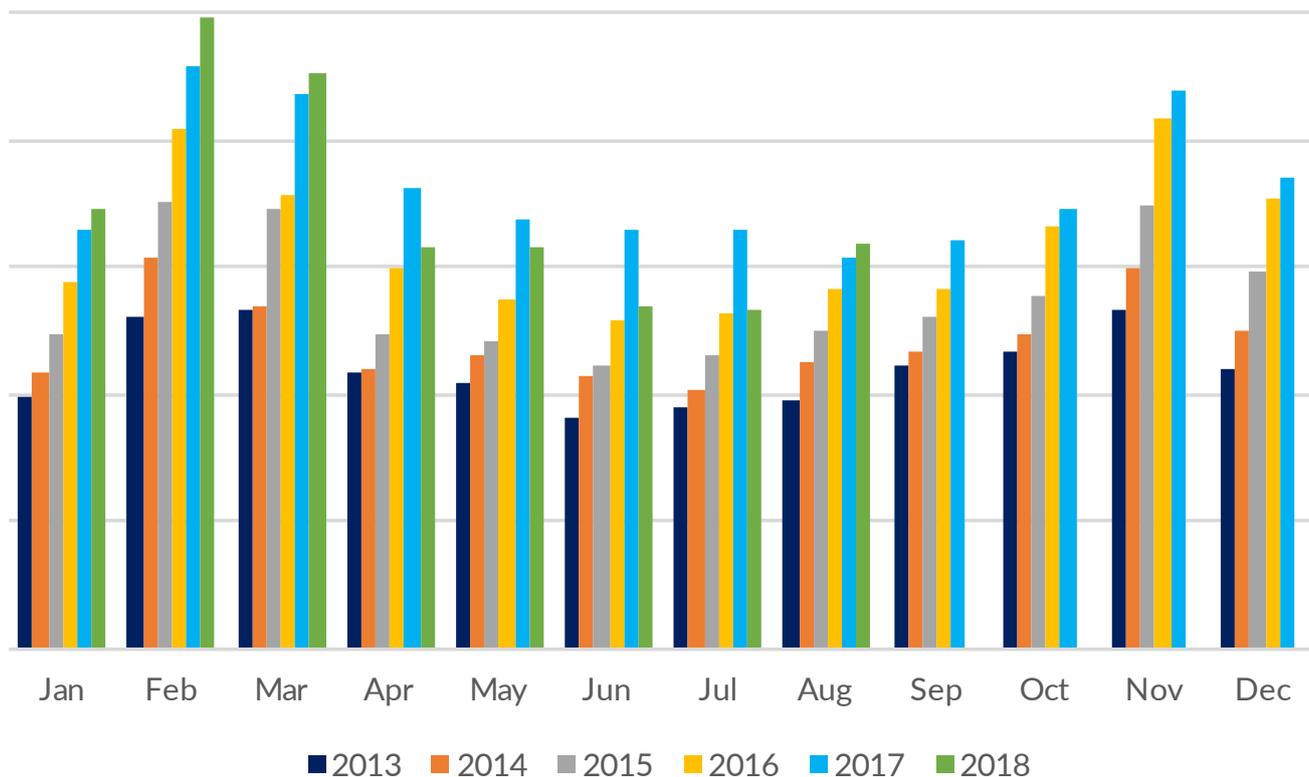
We have identified 41 hotel projects in various stages that are planned to open over the next five years with a total of 6,500 rooms. If all these projects proceed, this will represent an increase of approximately 89% of the current major hotel supply in Auckland.

Twelve projects are currently under construction, totalling 1,800 rooms, increasing major hotel room supply by approximately 24%.

Three projects are already well advanced with construction expected to commence soon and will increase supply growth to 31%. A further 26 projects have been announced or are under consideration.

If we assume that only those projects which have been announced will proceed, supply is expected to increase by “only” 24 hotels, or 3,900 rooms over the next five years. Such an increase of just over 50% of existing major hotel supply would trouble most hotel investors in any city.

RevPAR for major Auckland Hotels



Source: TIA

It is reassuring that the past years have shown there is considerable demand growth potential during the summer season, including an opportunity to regain market share lost to other regions and to alternative accommodation providers.

During 2021, the Americas Cup and APEC will boost visitation and fill many hotels before and during these events. But what about the months outside the high season after 2021?

If we look at the past five years, most of the growth has occurred over the high season and because of major events in the shoulder and low seasons such as the World Masters Games, Lions Tour, Soccer Under 18 World Cup, etc.

During these periods, supply was constrained which allowed hotels to maximise yield by raising rates which resulted in unprecedented growth.

However, occupancy rates increased by less than 6 percentage points, despite a surge of 1.2 million (44%) international visitor arrivals to New Zealand and a relatively low increase in Auckland room supply (with most rooms opening in the past 12 months).



By satisfying the need for more rooms during the high season, the gap between supply and demand during the off-season will widen, and annual occupancies will fall, unless the seasonality of demand is fundamentally addressed.

History has shown us that filling rooms in the off-season is much harder than in the high season, let alone if we have 50% more rooms available.

Without doubt, the New Zealand International Convention Centre will generate considerable demand, much of which is expected during the off-season, but this will not nearly be enough to achieve sustainable occupancies to absorb 3,900 additional hotel rooms.

To achieve an average annual occupancy of 75%, these new hotels will need to sell close to 1.1 million room nights per year.

By comparison, the Ministry of Business Innovation and Employment projected increase in international visitor arrivals to the entire country over the next 5 years is just over 1 million, or 728,000 when excluding those visiting friends and family.

To absorb the increase in planned room supply, Auckland will need more major events and target emerging markets who travel off-peak. It will also need to convince existing markets that between May and October, Auckland can compete as a destination with cities in Australia and those in the warmer, northern hemisphere.



At the same time, it will be the responsibility of hotels to manage the next business cycle.

Managers and owners will need to plan for a drop in annual occupancies and a greater level of seasonality. It will be critical that hotels manage their yield appropriately.

This will continue to require maximising room rates during the peak season and special events and avoiding excessive discounting off-peak.

As for developers, there is no room for wishful thinking that annual occupancy levels over the next 5-10 years will continue above 80%. Expect the market to become extremely competitive.

Hotels that will succeed in this environment will be those in the best locations, with a differentiating product and an operator that can attract and retain increasingly discerning customers.

Major banks will likely increase their scrutiny before approving development funding. If a project cannot attract primary debt funding, there is likely to be a good reason for this and it may be better for the project not to proceed.

AUTHOR:



Wim Ruepert

Director

Horwath HTL New Zealand

wruepert@horwathhtl.com

Wim joined Horwath HTL in March 2016. Wim is a senior hotel executive with over 25 years experience in financial leadership and general management positions in international hotels and resorts. Prior to joining Horwath HTL, Wim was Area General Manager responsible for the Intercontinental Hotels Group (IHG) portfolio in New Zealand.

He specialises in developing and implementing strategies to maximise the performance and value of hotels and has worked with a wide variety of owners and investors, from high net worth individuals, to institutional owners and private equity funds.

Wim's service lines include market demand analysis, financial feasibility analysis, market research, and strategy development.

His extensive international experience includes hotel management roles in Australasia, Europe, USA, China, Japan and the Caribbean.



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