

# Hotel Industry Investment & Development

Stephen Hamilton  
Director

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Connectivity | Growth

 **Horwath HTL™**  
*Hotel, Tourism and Leisure*



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## Managing Peak Demand in the Hotel Industry

“We know we missed out on business over summer. We lost out because of availability and high prices. There’s an urgent issue around hotel investment to cater for that peak opportunity.”

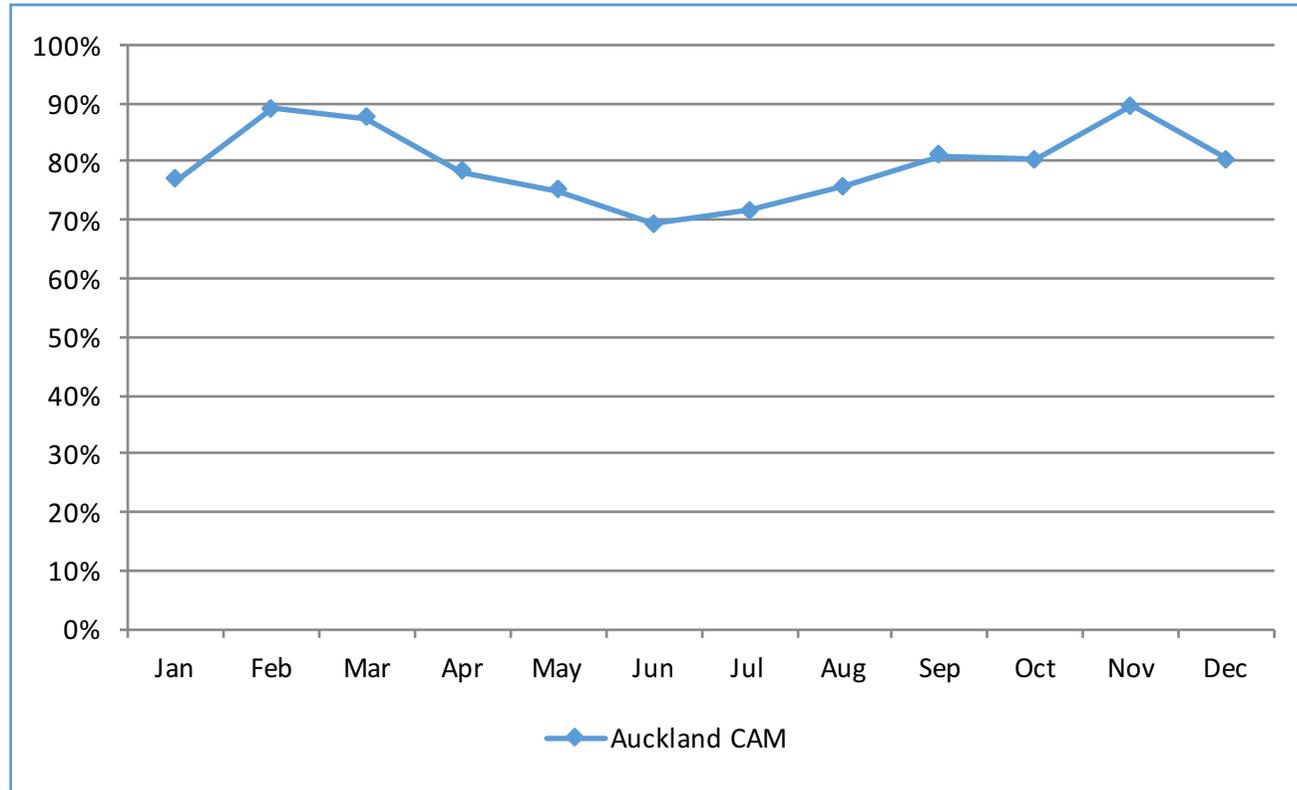
Kevin Bowler,  
CEO Tourism New Zealand

“We’re not full but that doesn’t mean that in a particular week or location you might not be struggling to find a bed where you want to stay.”

Chris Roberts, Chief Executive  
Tourism Industry Association



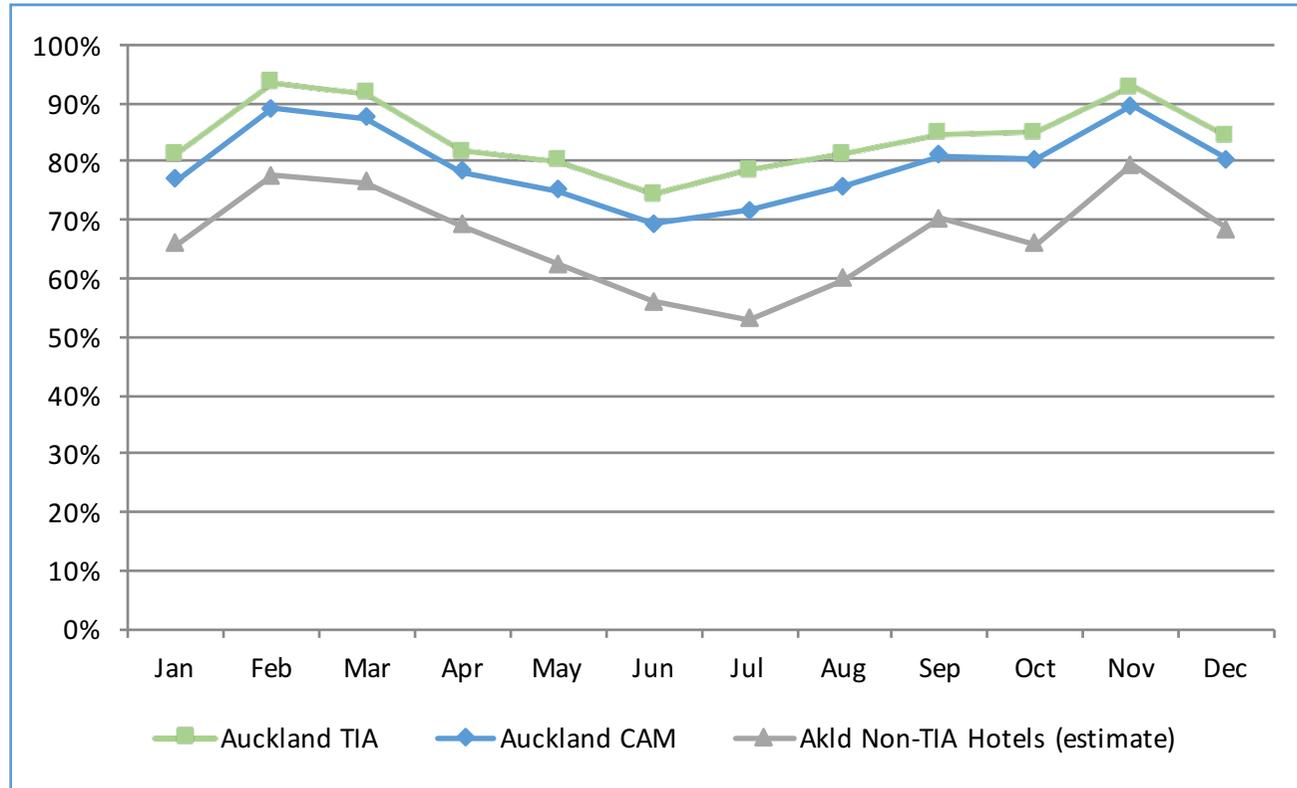
## Managing Peak Demand in the Hotel Industry - Seasonality



**2015 Monthly Hotel  
Occupancy  
Auckland Hotels**



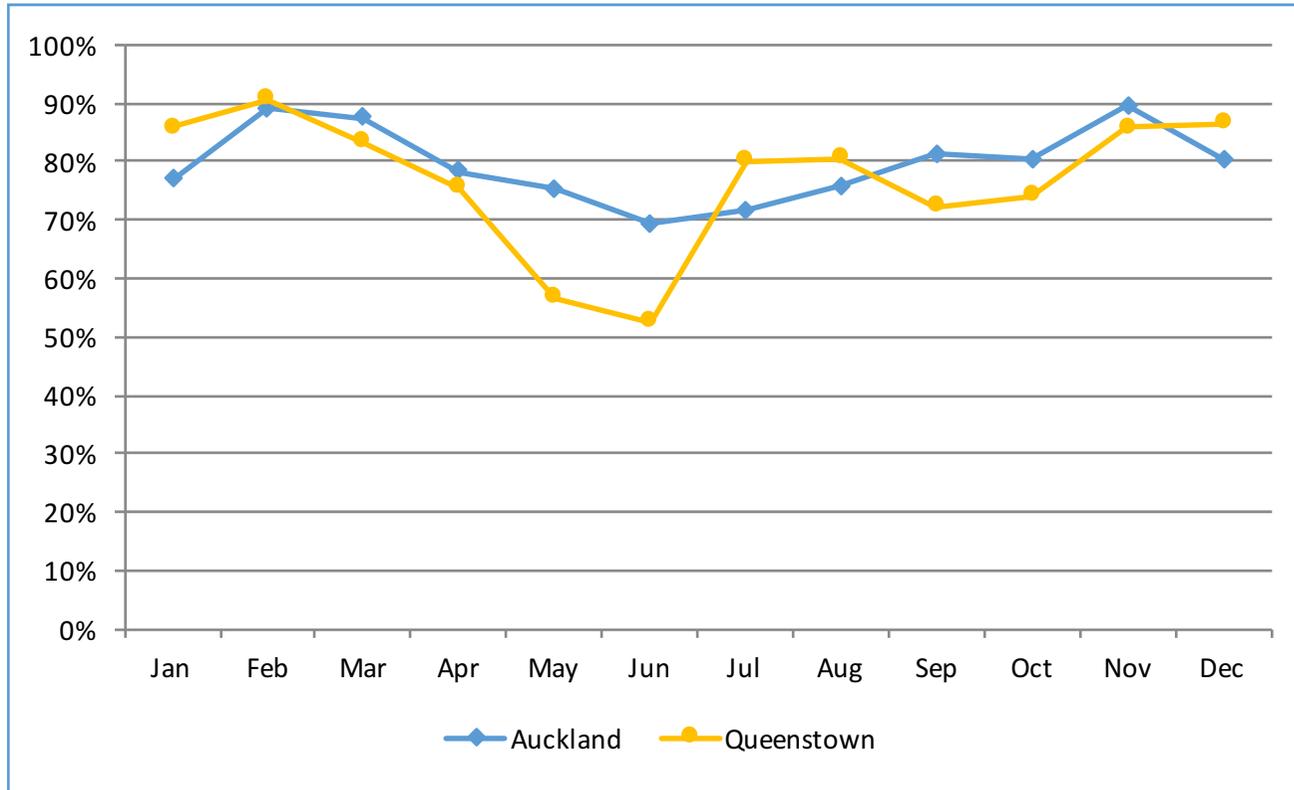
## Managing Peak Demand in the Hotel Industry - Seasonality



2015 Monthly Hotel  
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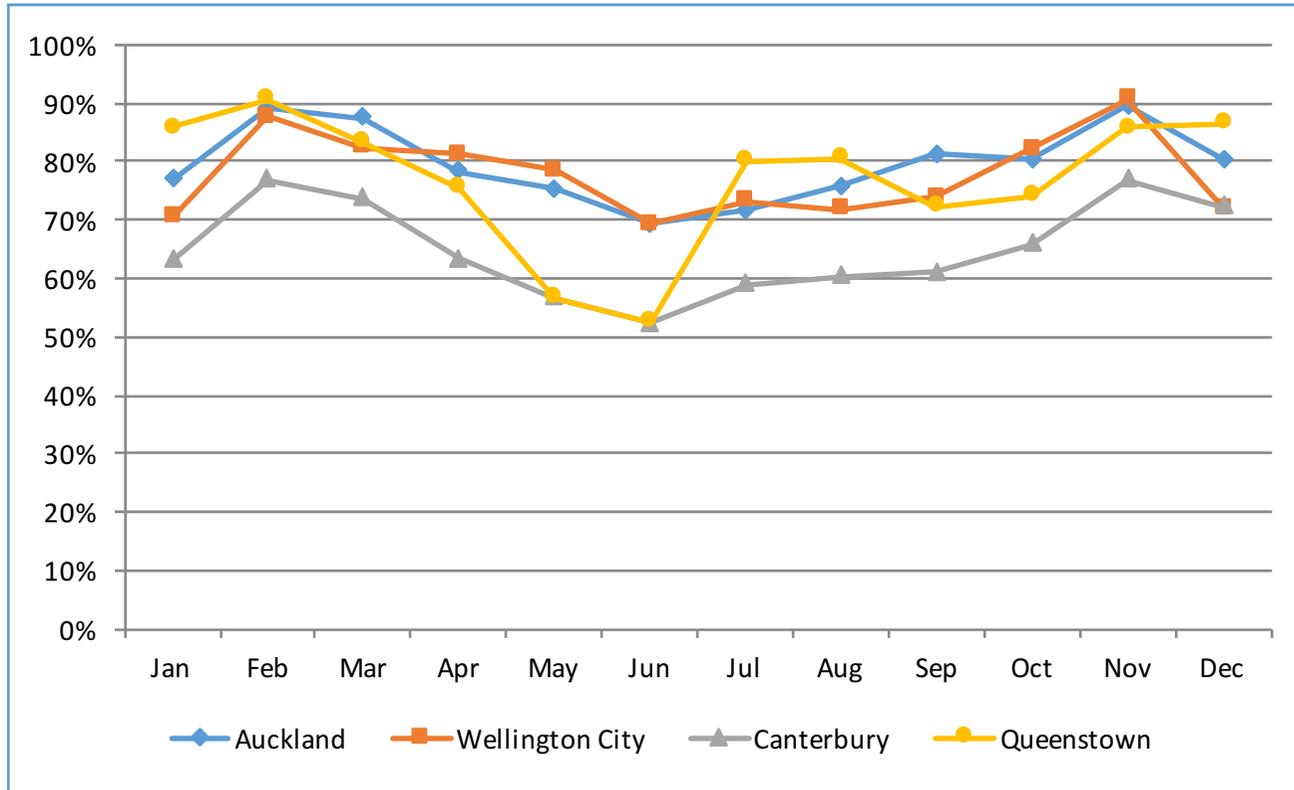


2015 Monthly Hotel Occupancy

(Source: Commercial Accommodation Monitor)



# Managing Peak Demand in the Hotel Industry - Seasonality



2015 Monthly Hotel Occupancy

(Source: Commercial Accommodation Monitor)



## Managing Peak Demand in the Hotel Industry

	Feb-15	Feb-16	Change
<b>Average Occupancy Rate</b>			
TIA Hotels	93.5%	93.9%	0%
Non-TIA Hotels	77.6%	84.4%	9%
<b>All CAM Hotels</b>	<b>89.1%</b>	<b>91.3%</b>	<b>2%</b>
<b>Average Unsold Rooms per Night</b>			
TIA Hotels	428	387	-9%
Non-TIA Hotels	566	384	-32%
<b>All CAM Hotels</b>	<b>993</b>	<b>771</b>	<b>-22%</b>

*(Source: Commercial Accommodation Monitor,  
Tourism Industry Association)*



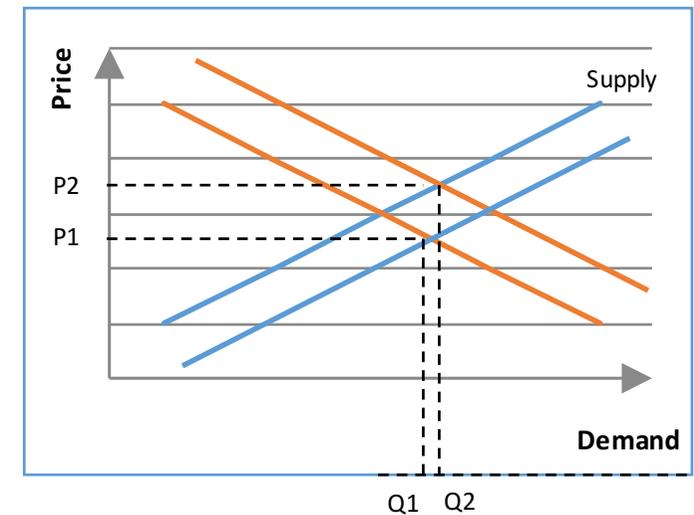
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**All Auckland Hotels  
February 2015/2016**

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## Managing Peak Demand in the Hotel Industry – Market Economy

- **Supply & Demand**
  - the pricing mechanism for hotel rooms needs to work
    - especially during peak months
  - if demand for hotel rooms is high and rooms are scarce
    - the price should be high
  - hotel rooms are available
    - for those willing to pay the price



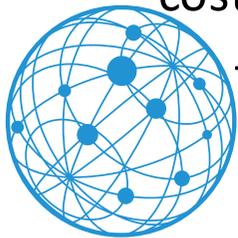
## Managing Peak Demand in the Hotel Industry – Market Economy

- **Supply & Demand**
  - higher peak season profit offsets lower off-peak returns and increases the overall financial return
  - it becomes more feasible to develop new hotels
  - new hotel supply enters the market
  - if demand continues to increase faster than supply room rates should continue to increase rather than decrease



## The Economics of Hotel Development – Hotel Feasibility Conundrum

- ADR increases at less than CPI – until recently
- AOR increases constrained by seasonality of demand
- land prices are high
- building standards being tightened
- capital cost increases at more than CPI
  - land and buildings
- cost of construction increasing significantly
  - especially in key locations



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**There is no shortage of global capital prepared to invest in New Zealand hotels if the investment conditions are equivalent to, or better than, competing destinations eg: Australia**



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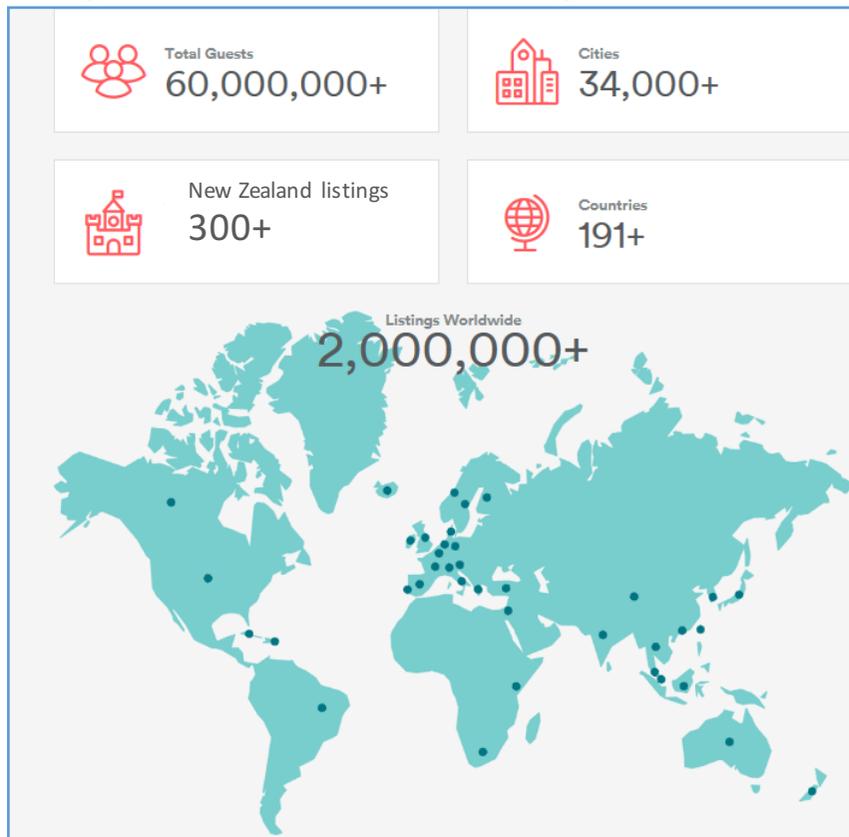
## The Economics of Hotel Development – Hotel Feasibility Conundrum

- consumer expectations continue to increase over time
- OTAs capturing increasing share; high commissions
- majority of visitors prepared to pay 4 star hotel room rates
- existing 5 star hotels competing on price at 4 star + room rates
- previous strata title hotel rooms re-selling at significant discounts
- actual returns significantly lower than developers promised

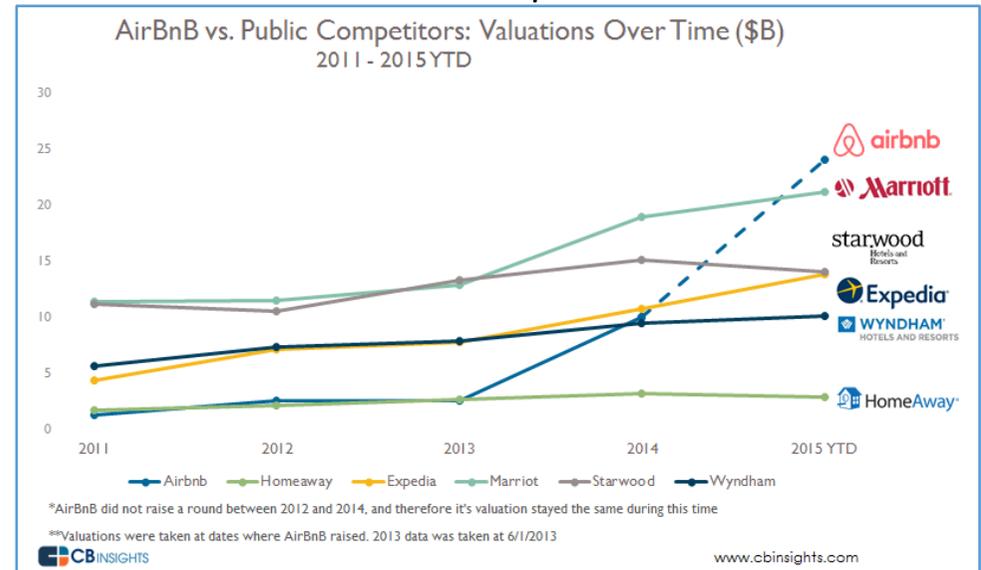


# Airbnb

- Since August 2008 Airbnb has grown to:



## a valuation of around \$24 billion



## Airbnb – Part of the Solution?

- can provide new supply quickly, because it already exists without needing to be developed
- issues regarding regulatory compliance (central and local government) eg: building compliance, health and safety, and tax obligations
- can be part of the solution to the commercial accommodation shortage during peak periods
- also competes with other commercial accommodation off-peak and therefore increases the new hotel feasibility challenge



## Managing Peak Demand in the Hotel Industry – Some Solutions

- don't build hotel capacity to meet the peak
- affordable land – not all CBD
  - regional spread, suburban hotels on arterial routes
- Innovate in mid-range accommodation products
  - eg: modular hotel rooms
- build for the rate, not the rating!



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## Managing Peak Demand in the Hotel Industry – Some Solutions

- continue to pursue any and all strategies to drive visitor arrivals to New Zealand during the off-peak and shoulder seasons
  - special events
  - emerging markets
  - conferences and other Business Events
  - develop ski industry and winter sports events
- AirBnB, cruise ships, campervans.



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## Contact:

**Stephen Hamilton**

+64 9 306 3446 DDI

+64 27 488 9988 Mobile

[shamilton@horwathhtl.com](mailto:shamilton@horwathhtl.com)

PO Box 628, Shortland Street, Auckland

Level 5, West Plaza Building, 3 Albert Street, Auckland



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