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New Zealand Tourism and Hotel Market Overview

The performance of the New Zealand hotel industry is improving strongly, with record occupancies and room rates currently being achieved. The outlook for continuing growth in hotel demand is strong, especially in New Zealand's main visitor destinations. There is a need for new hotel investment, especially in Auckland and Queenstown, and the various hotel projects which are under development and currently planned will not provide sufficient new rooms to meet expected demand. But, although room rates are rising reasonably strongly, New Zealand room rates are generally cheap by international standards, and not yet high enough to make most new hotel projects financially viable.

Introduction

Tourism is the fastest growing export industry in New Zealand and has recently replaced dairy as our largest export earner. The sector has almost doubled in value since 1999 and is currently experiencing its strongest ever growth cycle. Tourism directly or indirectly supports over 12% of all employment in New Zealand.

2015 was a year of milestones for the industry. According to the Tourism Satellite Account, international visitor expenditure hit a record $11.8 billion in the Year Ended March 2015 (an increase of 17.1% over the previous year), and domestic visitor expenditure was $18.1 billion (up 6.3%). Commercial accommodation demand has reached a record high, with hotel availability under significant pressure, particularly over the peak months in Auckland and Queenstown.

The tourism industry's goal of achieving $41 billion in total revenue by 2025 (which was described as aspirational in 2013) now looks easily achievable. The industry's strategic focus on value over volume is intended to help minimise the negative impacts of tourism and protect New Zealand's natural environment. Creating more options for visitors that encourage regional dispersal and reducing the effects of seasonality will assist in achieving this goal.

International Visitor Arrivals

International visitor arrivals to New Zealand rose to a record 3.27 million in the April 2016 year (up 312,000 from the previous year). This 11 percent increase followed a 7 percent increase in the year prior.

Leisure visitors made up just over half of all visitors who arrived in the April 2016 year (1.67 million arrivals). This was up 16 percent on the year ended April 2015. Visits to friends and relatives were up 7 percent and accounted for 30 percent of all visitor arrivals.

For the first time in many years, all of New Zealand's inbound visitor markets are in growth mode. Our largest inbound market, Australia, experienced 7 percent growth, and growth from Asian markets overall has been unprecedented. Asia contributed to 45 percent of the total inbound visitor growth in the latest period, including 28 percent from China.

The growing Chinese middle-class and a significant increase in air capacity from Air New Zealand, China Southern Airlines, Air China and China Eastern has assisted in achieving the record growth from China. New Zealand's Minister of Tourism and Prime Minister, John Key, believes the Chinese outbound market, currently 100 million people, could quadruple in five years.

390,200 Chinese visitors came to New Zealand in the year ended April 2016, an increase of 88,080 over the year before. The Chinese visitor market is undergoing a shift away from 'shopping tour' groups towards more 'free independent travellers' as they become more confident organising their own trips and seeking out unique and fresh experiences.

The average Chinese visitor length of stay is 16.8 days in New Zealand, and leisure visitors are currently staying for an average 8.3 days. With the average visitor from China spending $4,900 per trip, the Chinese visitor market contributed $1.75 billion to the New Zealand economy in the year ended March 2016.

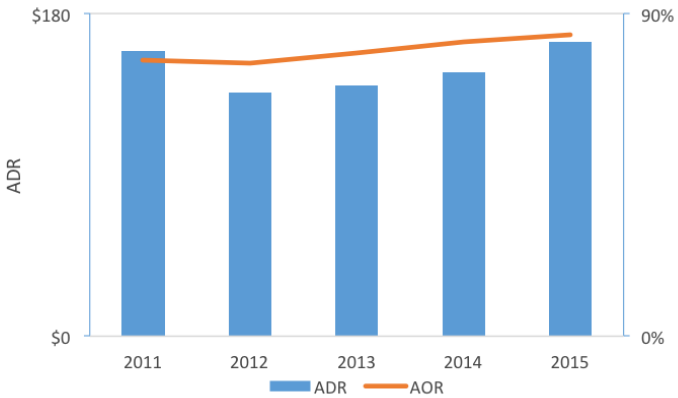
Hotels

New Zealand Trade and Enterprise, working in collaboration with Tourism New Zealand, the Ministry of Business, Innovation and Employment and Tourism Industry Aotearoa, have recently published a report which identifies the current and forecast future levels of hotel supply and demand in the five main tourism destinations in New Zealand: Auckland, Rotorua Wellington, Christchurch and Queenstown.

The report highlights what it describes is now a critical shortage of hotel rooms during high demand periods in the five regions as a result of three years of exceptionally strong growth in hotel demand and a minimal increase in hotel supply.

Chart 1 shows that the Average Daily Rate (ADR) in Auckland has been rising steadily over the past four years and now exceeds the abnormally high ADR which was achieved in 2011 when Auckland played a significant role in hosting the Rugby World Cup. The major Auckland hotels achieved an Annual Occupancy Rate (AOR) of 84% and ADR of $164 in 2015.

Chart 1: Auckland AOR and ADR Performance (2011–2015)

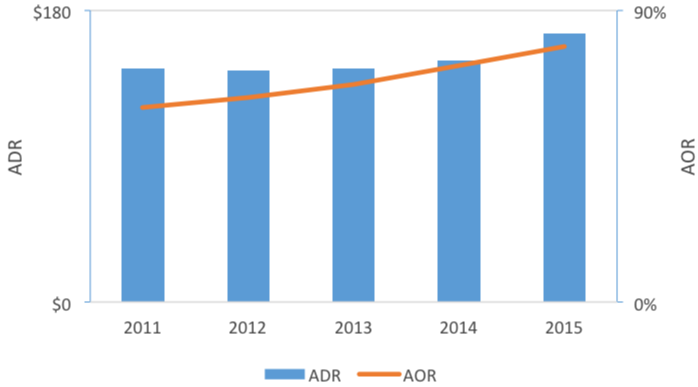


(Source: TIA Hotels Division)

Strong increases in AOR were achieved throughout the country with major hotels in Queenstown achieving the next highest rate at 79%, followed by Wellington at 78%, and Rotorua and Christchurch both at 77%.

As shown in Chart 2, Queenstown's ADR for the year ending December 2015 was $166, up 11% on the previous year. Queenstown's AOR has grown 16% over the 5 year period with little hotel development since the Hilton hotels opened in 2011, and visitor numbers increasing strongly annually.

Chart 2: Queenstown AOR and ADR Performance (2011–2015)

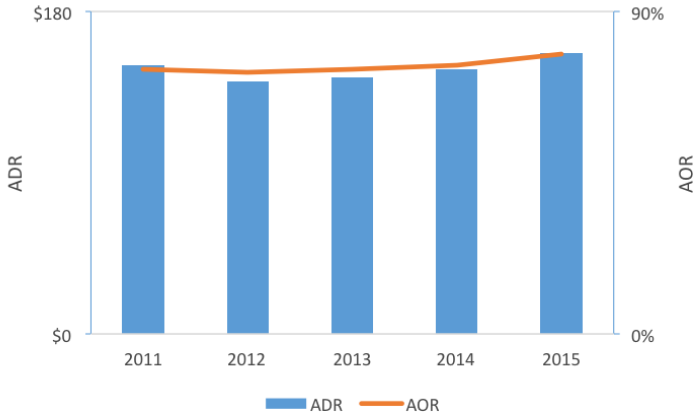


(Source: TIA Hotels Division)

In the year ended December 2015, major hotels in Queenstown achieved the highest ADR at $166, followed by Auckland at $164, Wellington at $157, Christchurch at $156, and Rotorua at $111.

Chart 3 shows Wellington's consistent but smaller increases in ADR and AOR over the past four years.

Chart 3: Wellington AOR and ADR Performance (2011–2015)



(Source: TIA Hotels Division)

The rise in ADR being achieved by most New Zealand hotels is having a significant impact on profitability. Profits earned by Auckland hotels remains the highest of all of the major regions, followed by Queenstown, Wellington, Christchurch, Dunedin and Rotorua.

5 star hotels in Auckland are the most profitable in New Zealand, in terms of dollars of profit per room, followed by 5 star hotels in Wellington and Queenstown. The reverse is true for the 3-4 star hotel category, with Queenstown 3-4 star hotels being significantly more profitable than in Wellington and Auckland.

Room Revenue per Available Room in the major New Zealand hotels increased by 13% in 2015. The largest increase in occupancy came in the 3 star category, but the largest gains in RevPAR occurred in the 5 star hotels.

The Regional Hotel Market Analysis & Forecasting report estimates that, if there was no constraint on available hotel rooms, total room night demand in New Zealand's five main regions could increase from 5.9 million in 2015 to 8.7 million in 2025. This would represent a total growth of 49% over the next decade, or a compound annual growth rate of 4.1% per annum. However, if hotel room supply does not increase at a rate faster than demand, this forecast is effectively unachievable.

The domestic and international visitor markets will continue to drive growth in hotel demand, but it is predicted that international demand (particularly driven by China) will exceed domestic demand across the five main regions by 2021.

It is interesting to compare changes in AOR and ADR in the major centres in New Zealand and Australia (eg: Sydney and Melbourne). According to STR Global data, Sydney's ADR in 2015 was AUD208 (up 17.5% over 5 years) and Melbourne's ADR was AUD200 (up 14.3% over 5 years). This compares to Auckland where STR's data shows that the ADR has increased by 23% over 5 years. But Auckland hotels still represent good value for money compared to Sydney and Melbourne.

Room rates need to rise further in New Zealand before most new hotel projects will become financially viable or attract the required level of new investment.

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Stephen jointly established the specialist tourism and leisure consulting practice, Horwath HTL (formerly Horwath Asia Pacific Limited) in 2002.
Stephen has thirty years consulting experience in the New Zealand tourism industry and has also undertaken engagements in Australia, Fiji and the Cook Islands.
Stephen's enthusiasm and in-depth knowledge of the New Zealand tourism industry adds value for clients.
Providing a well-balanced and sound approach to their specific needs, Stephen assists clients to progress their business with quality information for decisions and strategies.
Stephen assists lenders, investors, funding sponsors, and / or purchasers and developers in both the public and private sectors, with the ability to quickly ascertain what financial and market analysis or research will be of most benefit.
Stephen's service lines include market demand analysis, financial feasibility analysis, market research, economic impact analysis and strategy development.

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