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# HOTEL SECTOR

## AS BORDERS REOPEN AND INTERNATIONAL TRAVELLERS AGAIN SET THEIR SIGHTS ON NEW ZEALAND, THE HOTEL SECTOR IS GEARED UP FOR HOSPITALITY – AND INVESTMENT OPPORTUNITY.

AFTER A TWO-YEAR HIATUS DUE TO pandemic flux, New Zealand’s commercial accommodation sector is waiting to be invigorated as international tourists and a hospitality workforce progressively enter the country without the weight of restrictions.

Wayne Keene, Bayleys’ national director hotels, tourism and leisure (HTL), says things can only get better for visitor accommodation providers after what has been a prolonged period of uncertainty and disruption.

“Operators have been treading water for too long but I am quietly optimistic about the next financial year – it’s time to get cranking again,” he says.

“Domestic tourism spending exceeded \$10 billion for the first time in 2021, with people hungry to use up accumulated leave and hamstrung for offshore travel options.

“But there were highs and lows with data showing that Auckland’s series of rolling lockdowns had a significant impact on national occupancy figures – when Auckland was open, the rest of the country saw invigorated visitor activity.”

Keene says accommodation operators are relying on international travellers to return with dollars in their pockets and time on their hands.

“Our tourism marketing will need to have exceptional cut-through on

the international stage to attract the emotional travellers here again – the ones with New Zealand on their bucket list.

“Given the continued Russia-Ukraine tensions, rising cost of fuel and the flow-on effect to long-haul fares, plus the ongoing COVID-related uncertainties, international travel still has handbrakes but New Zealand remains an attractive destination.

“This country is seen as a safe haven with political stability, a good health system and outstanding natural features so while it is expected that Australia will again be our main market, it is hoped that the rest of the world will follow.”



### “INTERNATIONAL BRANDS CONTINUE TO SCOPE OUT NEW ZEALAND FOR BOTH DEVELOPMENT AND ACQUISITION OPPORTUNITIES.”

WAYNE KEENE, BAYLEYS’  
NATIONAL DIRECTOR HOTELS,  
TOURISM AND LEISURE

Despite market volatility, a pipeline of new hotel development has progressed around the country with multiple high-profile hotel properties opening during the height of the COVID storm, and more soon to open.

“International brands continue to scope out New Zealand for both development and acquisition opportunities, with Bayleys’ HTL team fielding proactive enquiry from major international hotel groups looking for new assets, particularly in Auckland, to either add to an existing stable or cement a presence in the Asia-Pacific rim.

“There has also been notable institutional investment in the country’s hotel sector, with NZ Hotel Holdings, a partnership between the NZ Super Fund, Russell Property Group, and Lockwood Property Group, recently acquiring hotel assets in Auckland, Wellington, Christchurch and Queenstown.

“These strategic acquisitions represent confidence in the sector, and this sends a strong message to the investment market.”

In Auckland, a pipeline of new development work is still expected to go ahead and by 2025, there could potentially be 12,300 to 14,300 hotel rooms available around Auckland to cater to the visitor market.

“An oversupply of rooms? Who knows how the new narrative will play out,” says Keene.

SkyCity Entertainment Group is prioritising work on the New Zealand International Convention Centre (NZICC) and associated Horizon Hotel, with completion dates expected to be 2025 and 2024 respectively.

Hotel developer Furu Ding still intends developing the NDG Auckland Centre on a long-vacant site in the CBD, while Precinct Properties’ One Queen Street mixed-use development with InterContinental hotel is progressing.

A 233-room hotel is planned for 65 Federal Street; the 200-room Voco hotel will be built on the corner of Albert and Wyndham Streets; building work has recommenced on the 225-room Hotel Indigo at 51 Albert Street, and the 5-star Te Arikunui Pullman Auckland Airport Hotel, being built by Tainui Group Holdings (TGH), in partnership with Auckland Airport, is going ahead.

On the transactional front, Keene says despite considerable pressures in the commercial accommodation sector across the asset classes over the past two years, he hasn’t seen any “fire” or distressed sales.

“There have been well-considered exits from the market as investment portfolios have been rejigged or priorities

Keene says with the contracts of all but a handful of managed isolation and quarantine (MIQ) hotels around the country ending, capacity will return to some semblance of normal after refurbishment programmes are completed.

“In talking to leading operators, there’s cautious optimism that the tide has turned and forward bookings are looking good – even in the hardest-hit centres like Queenstown.

“Once those direct route international flights and the long-haul market rallies, I am certain that Queenstown will recover quickly, confirming its jewel-in-the-crown status.

“However, with the hopeful return of offshore workers to fill crucial roles within the hotel and hospitality sector in Queenstown comes the perennial headache of accommodating those workers – that’s an issue that requires a long-term solution.”



Artist impression of Precinct Properties’ One Queen Street development in Auckland.



Te Pae Christchurch Convention Centre.

changed, acquisition activity from known operators as they’ve expanded portfolios and, surprisingly given market uncertainties, a number of first-time entrants to the market purchasing accommodation businesses.

“Adding fuel to the COVID-related fire for new entrants, is a disconnect between funders and a prospective opportunity.

“Banks are notoriously risk-averse in the commercial accommodation sector and disrupted trading adds yet more uncertainty.

“Trading banks are residential-focused so those buyers with capital partners or extensive assets to secure against will always have a head start.”

While work continues on SkyCity’s NZICC, the conference and events sector nationwide is expected to take some time to regain traction, especially as other countries have opened ahead of New Zealand leaving us further down the international destination chain, and given the long lead times required in event planning.

“Auckland will be competing for business with the new Te Pae Christchurch Convention Centre and Tākina, the new Wellington Convention and Exhibition Centre,” says Keene.

“Strategic pitching will be required by the events sector to attract the international conference market back, particularly as corporates wrestle with their travel versus carbon footprint conscience.”

Keene says Christchurch epitomises a city that is doing things very well, and a wave of new hotels has emerged including The Mayfair in Victoria Street to be opened in June and run by Mayfair

Luxury Hotels Ltd, and Sarin Hotel Group’s The Observatory in the Arts Centre now open.

“As a city, Christchurch offers a point-of-difference and high levels of amenity, and has positioned itself well to leverage a new resurgence of travellers, with the city’s \$475 million convention centre reportedly booked to host 150 events this year.”

Meanwhile, in the nationwide motel market, Keene says those operators who have stuck with the visitor market – as opposed to the long-term rental sector – are well-placed to capture the generally more budget-friendly segment of the traveller pie as borders relax.

“There’s the will and the want in the motel sector with identified capacity in the market for new motel developments, but the challenge is finding the right sites, and even when that happens, there are construction sector hurdles to navigate now.”

### UPPER END OF THE MARKET

The \$300 million, 195-room Park Hyatt Auckland on the city’s waterfront opened in September 2020 becoming one of more than 1000 hotels in 68 countries under the broader Hyatt Hotels Corporation umbrella.

Hyatt currently has hundreds of new properties under development around the world, with the Asia-Pacific region high on the list.

Owned by Beijing-based investment company Fu Wah International Group, the flagship 5-star Park Hyatt Auckland sits on the former Team New Zealand base site in the Wynyard Quarter with a grandstand Viaduct Harbour position.



## “FORWARD BOOKINGS ARE LOOKING GOOD, WITH THE NORTH AMERICAN AND SOUTHEAST ASIAN MARKETS PREPARING TO TRAVEL AGAIN.”

BRETT SWEETMAN, GENERAL MANAGER, PARK HYATT AUCKLAND

Recently shortlisted in the hospitality category of the 2022 Auckland Architecture Awards (winner to be announced in August), the hotel was designed by Singapore-based studio AR+D in conjunction with local firm Bossley Architects.

Brett Sweetman, general manager of Park Hyatt Auckland, says no one plans to open a significant luxury hotel offering in the midst of a global pandemic – but the hotel has traded well domestically regardless and is well-gearred to meet and greet international guests.

“In the last week or two, there’s been a lot more positivity in the market and we’ve been able to benchmark our operation against Hyatt hotels in Australia.

“Auckland is around eight to 10 weeks behind Australia in terms of managing the outbreak with open borders and they’ve noted the corporate market returning, and significantly increased enquiry and booking levels.”

Sweetman says since opening, around 70 percent of Park Hyatt Auckland’s business has been weekend-focused, however he’s noting increased corporate business across the week.

“That’s a good sign but realistically, I believe Q4 will be when things are back on track.

“Forward bookings are looking good, with the North American and Southeast Asian markets preparing to travel again.

“I’m looking forward to walking through the lobby and hearing lots of different accents – that’s when I’ll know we’ve turned the corner.”

Sweetman says the condensed America’s Cup event was essentially the whole of 2021 compressed into an eight-day window.

“It wasn’t the way we projected our first year to play out, but that event – along with a rugby test at Eden Park, and several large-scale conferences before



Park Hyatt Auckland's lobby and reception.

COVID-19 curtain shut Auckland down again – gave us a fleeting insight into how the Park Hyatt will soar once the visitor tap is turned on again.

“It also proved just what Auckland can do in that large event space – even with limitations.”

Sweetman urges Auckland tourism and events industry groups to more actively sell Auckland as a destination.

“Coming from Melbourne, I look to events like the Australian Grand Prix which boasted a record crowd of 420,000 people over the recent flagship weekend.

“Auckland needs to look at truly activating sport, music and other events as it has the potential to truly be a world-class city that is so much more than just an entry point to the rest of New Zealand.”

### PARTNERSHIP FOCUS

New Zealand owned and operated Capstone Hotel Management offers a suite of services for the commercial accommodation sector including full management, sales representation, marketing, consultancy, refurbishment projects and white label solutions.

Its portfolio spans the country and covers large-scale hotels to luxury lodges, many in destinations requiring a specialised approach and with a management focus on the individual property’s brand.

Clare Davies, managing director for Capstone, says building sustainable partnerships centred on a hotel’s profitability, with transparent reporting, is crucial to remaining relevant in the sector’s reset phase.

“We identified early in the pandemic crisis that our businesses needed to rapidly streamline and simplify and like all operators, we were head-down reviewing clients’ operating budgets and cashflows on a weekly basis.



## “TALK FROM THE INBOUND INDUSTRY STRONGLY SUGGESTS THE FIRST MARKET TO RECOVER WILL BE THE HIGH-END LUXURY MARKET.”

CLARE DAVIES, MANAGING DIRECTOR, CAPSTONE HOTEL MANAGEMENT

“Although at times it has seemed drastic and not without emotional challenges, the ‘go hard and fast’ approach to cost-saving has been crucial to ensure survival as we’ve grappled with the property’s potential for long-term growth and delivering a good yield.”

Davies says there’s identified and growing demand for Capstone’s partnership model of commercial accommodation management.

“Some operators who have done it really tough over the last couple of years may struggle to manage an uptick in business as visitor numbers start to rebound.

“We’ve also seen a number of properties change ownership recently so there are owners out there who are inexperienced in dealing with the international market and with a fully-functioning domestic/corporate market.”

Davies stresses that owning a commercial accommodation asset is a long game, taking time to build a reputation, deliver on brand promises and carve out a place in the market.

“Identifying target markets and then implementing our cornerstone tactics of smart distribution, robust technological solutions and yield management make for a successful and profitable property long term.”

While heartened by the forward business she’s seeing for the September-October period, Davies expects a slow market recovery although some segments will be in pole position.

“Talk from the inbound industry, coupled with what we are already witnessing with some of our properties, strongly suggests the first market to recover will be the high-end luxury market.

“These travellers will have the confidence and money to combine work and leisure, so their trip from, say, the US to New Zealand, may well be a hybrid holiday.

“Pure corporate travel will also return strongly given the desire to return to some element of face-to-face business and maintain connections.

“However, in looking at the leisure market, we will require strong investment by local and central government to ensure a compelling events strategy is in place to assist with driving leisure business to our major cities.”



Delamore Lodge, Waiheke, a property in Capstone Hotel Management's portfolio.