Photo credit: The Hotel Britomart

HOTELS PLAY THE LONG GAME

WITH NEW ZEALAND'S USUALLY POROUS BORDERS CLOSED TO INTERNATIONAL TOURISTS FOR NOW, THE HOTEL SECTOR IS FACING UNPARALLELED DISRUPTION – BUT THE DOMESTIC MARKET IS STEPPING UP.

LESS THAN A YEAR AGO, TOURISM WAS New Zealand's number one export earner on the back of escalating visitor arrivals.

It is sobering to look at those arrival numbers now in the midst of a global pandemic, with our borders still closed to all but returning Kiwis and a handful of others.

For the month of August in the years 2010-2019, overseas arrivals averaged 187,648, peaking in 2019 with 251,131 arrivals. According to NZ Customs data, this dropped to just 11,483 arrivals in September 2020.

Naturally, this has translated into significant drops in hotel occupancy with an average 24 percent decline in average national occupancy for the year ending September 2020, according to Hotel NZ data.

Unsurprisingly, the greatest drop off was seen in the traditional tourist hotspot Queenstown – down 32 percent, while the lowest decline was for central New Zealand including Taupo, Taumarunui, Ruapehu, Gisborne and Hawke's Bay, down an average 10 percent. Likewise, revenue per available room (RevPAR) has declined most in Queenstown, and least in central New Zealand.

After minimal investment in the hotel sector in the last decade, new-build activity around the country had started to pick-up prior to the COVID-19 outbreak – mainly focused on Auckland, Wellington, Christchurch, and Queenstown.

Despite the uncertainty 2020 has dished up, The Hotel Britomart, Park Hyatt Auckland, Travelodge Wynyard Quarter and QT Auckland opened recently in Auckland – not exactly the optimal time to do so, but with hopes that domestic tourism will support business in the interim.

Meanwhile, SkyCity's long-awaited International Convention Centre in Auckland is now expected to be completed by mid-2023, and its associated Horizon Hotel has deferred opening until mid-2022.

Bayleys' director hotels and tourism Paul Dixon, says for the 30-plus hotels designated as Government-run managed isolation and quarantine facilities throughout the country, and used exclusively for returning residents, the associated guaranteed income has been welcome.

"Particularly as accommodation providers were overlooked in the Government's $400 million Tourism Recovery Package.

"But while those isolation hotels have covered overheads and mitigated some of the losses other hotels are absorbing, in the bigger picture, it's a small proportion of accommodation stock."

Dixon says pre-COVID-19, the domestic market made up around 55 percent of New Zealand hotel occupancy, and the push for New Zealanders to support local and see more of their 'backyard' went some way to providing business to hotels once the country went to level 1.

"Hotels in Queenstown have certainly worn the brunt of the international tourist tap being turned off and Auckland's return to level 3 lockdown didn't help, having a major impact on the South Island ski season trade."

Australia and New Zealand remain committed to establishing travel bubbles. New Zealanders are now being welcomed back to some Australian states, but the arrangement is not being reciprocated by us, with the second wave of the virus centred on Melbourne followed by Auckland's resurgence, turning the potential wider bubble clock back.

Dixon says the hotel sector needs the trans-Tasman bubble more than ever.

"The resumption of trans-Tasman sport has been a good morale boost and demonstrates the inter-relationship of the two countries, but Kiwis and Australians are itching to travel again, and our hotel operators want to host them.

"Australians may not be able to visit Asia, the UK or Europe for quite some time yet, so New Zealand would be an appealing and accessible option."

Dixon says until a vaccine is available, or border issues can be safely addressed, it will be hard to sustain the value in hotel property.

"However, New Zealand's inherent tourism credentials will endure, and investors, hotel asset owners, and offshore funders recognise this."

Bayleys national director of valuations and advisory, Carl Waalkens, says a two-tiered market may emerge post-COVID, with regional tourism assets such as budget and motel accommodation being better positioned to withstand value decline due to stronger levels of domestic tourism.

"In contrast, hotels positioned towards international tourism are receiving little reprieve from reduced tourist numbers resulting in challenging investment parameters, hence valuers will be contemplating reduced cashflow forecasts and occupancy rates while perhaps applying deferral periods until normal trading may resume."

Privately-owned New Zealand family business Safari Group, has been successfully developing and building mixed-use hotel/apartment complexes and stand-alone hotel projects around New Zealand for 25 years.

Director of the Safari Group of companies, Damien Taylor, says it currently has three hotel/mixed-use developments under construction – Ramada Newmarket, Ramada Wellington and LQ Kawarau River Queenstown – and there has been minimal, if any, disruption to the delivery dates.

"We were tracking ahead of programme before COVID-19 struck, so could absorb the delays caused from the level 4 lockdown," he says.

"Since lockdown, we have gone unconditional on a site in Ellerslie for a $150 million hotel/apartment development and committed to a $35 million existing heritage building in Wellington for conversion to a 5-star Tryp by Wyndham hotel.

"We have parked the proposed Tryp by Wyndham Queenstown for now while the Queenstown market recovers, but we're still very much charging ahead elsewhere."

New Zealand's first 5 Green Star Hotel, The Hotel Britomart opened in Auckland on October 1st.

Left and bottom right Lobby Lane. Top right Takutai View Room. Photo credits: The Hotel Britomart

Artist's impression: LQ Hotel, Ellerslie - Safari Group

Artist's impression: Double Tree by Hilton Wellington - Sarin Investments

Artist's impression: Ramada Queenstown Central - Safari Group

The Muse Christchurch Art Hotel - Sarin Investments

Taylor says Safari Group has full confidence that the sector will bounce back and its actively looking for more development opportunities across the country believing that "out of adversity, comes opportunity".

Udai Sarin, chief executive officer for the Sarin Hotel Group which represents a number of well-known global brands in the accommodation market nationwide, says he'd describe the current pulse of the hotel sector as "still uncertain, yet more positive".

"It's like we're halfway up Everest – doing the very best we can with the hand we've been dealt and we're seeing more confidence from the market now that alert levels have been relaxed nationwide.

"There's been an increase in activity from domestic travellers, the government sector and the corporate market as life reboots after restrictions."

Sarin says the COVID-19 outbreak and associated response crystallised three very important fundamentals for the company.

"Firstly, always have a Plan B and C for your business so as to pivot quickly in tough times.

"Secondly, do not be overexposed to debt and thirdly, location remains crucial to success in the hotel sector."

With properties including Proximity Apartments Manukau, Double Tree by Hilton Wellington, Holiday Inn Queenstown and Ibis Styles by Accor in Invercargill under its ownership and/or management, Sarin Investments has survived the pandemic disruptions without any Government-managed social housing or managed isolation contracts.

The Queenstown Holiday Inn in Frankton was the only facility Sarin Group temporarily shuttered when New Zealand went into complete lockdown and Sarin says that market is still suffering.

"There's so much hotel and other accommodation stock in Queenstown so until the international tourism market opens up again, it's likely to be a slow haul there."

Sarin says once domestic travellers have ticked off the hero destinations like Queenstown, the secondary destinations like Hawke's Bay, New Plymouth and Invercargill get airtime and there are regional trends emerging as people try out new destinations.

"We opened our new The Muse Christchurch Art Hotel, a boutique 40-room hotel in a restored heritage building in Manchester Street in mid-September and we're delighted with the way it's been received.

"It's a good product with great service and is not in the cookie cutter-style, so there's niche appeal and that's working well for us."

Sarin Group also has several new development projects in the pipeline, with those that had commenced prior to New Zealand going into full lockdown proceeding, and those not yet underway pushed back by at least 12 months.

COVID-19 has had the upside of forcing hotel owners/managers to take a long, hard look at their business models.

Sarin says its self-contained serviced apartment offerings proved the most adaptable throughout the pandemic environment, being easier to transfer into longer-stay accommodation where required.

"If COVID has taught us anything at a base level, it's everybody has to live somewhere, and everybody has to eat something."