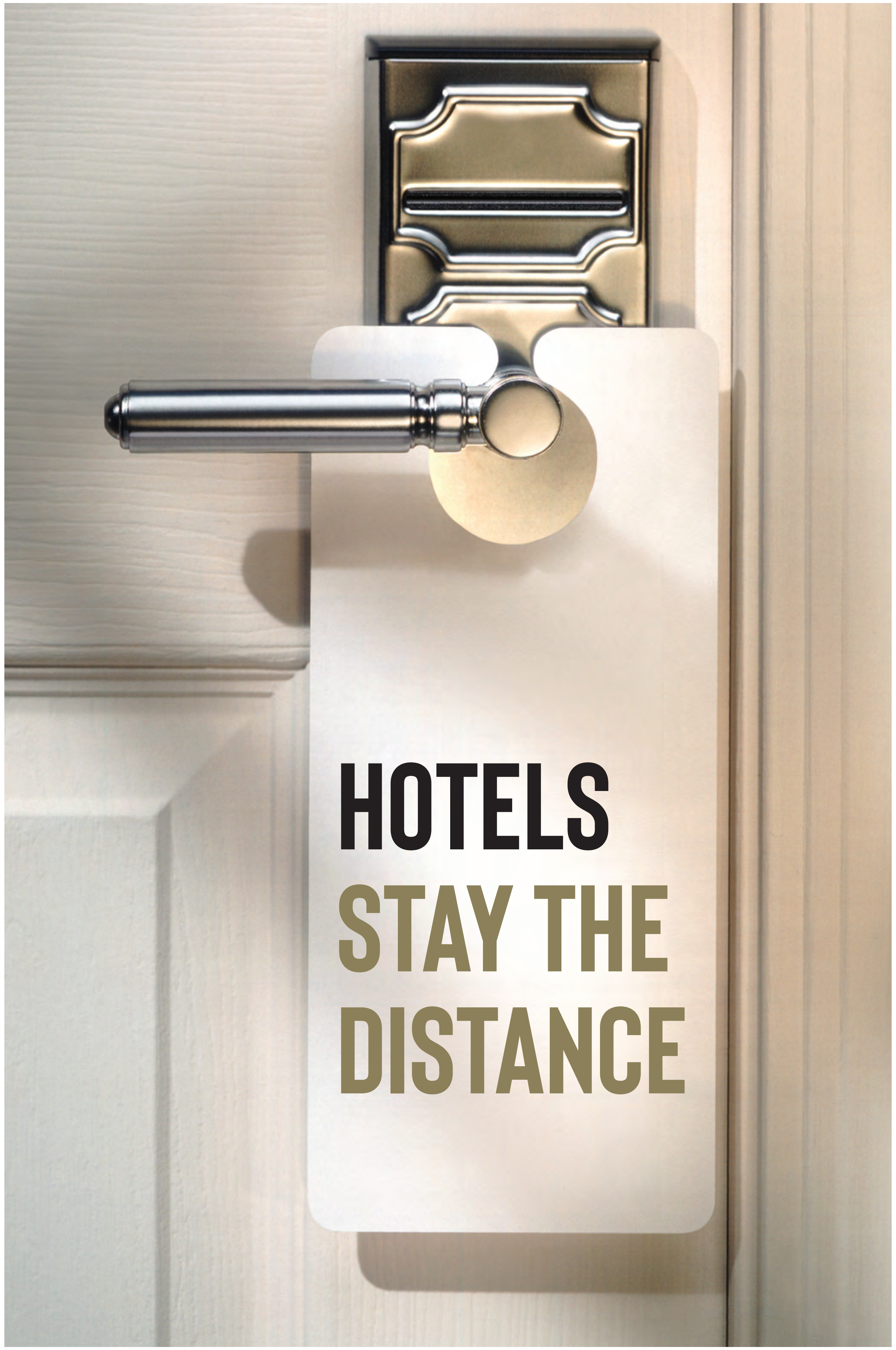

HOTELS STAY THE DISTANCE

WITH NEW ZEALAND'S USUALLY POROUS BORDERS CLOSED TO TOURISTS FOR THE FORESEEABLE FUTURE, THE HOTEL SECTOR FACES UNPARALLELED DISRUPTION – BUT THERE ARE GLIMMERS OF LIGHT.

LESS THAN A YEAR AGO, tourism was New Zealand's number one export earner on the back of soaring numbers of visitor arrivals.

It is sobering to look at those arrival numbers in the midst of a global pandemic, with our borders closed to everyone except returning Kiwis.

For the month of June over the 2010-2019 period, overseas arrivals averaged 177,883, peaking in 2017 with 230,088 arrivals. According to NZ Customs data, this dropped to just 11,270 arrivals in August 2020.

Naturally, this has translated into significant drops in hotel occupancy with an average 20.31 percent decline in average national occupancy for the year ending August 2020, according to Hotel NZ data.

Unsurprisingly, the greatest drop off was seen in the traditional tourist hotspot Queenstown – down 26.4 percent, while the lowest decline was for central New Zealand including Taupo, Taumarunui, Ruapehu, Gisborne and Hawke's Bay, down an average 10.4 percent. Likewise, revenue per available room (RevPAR) has declined most in Queenstown, and least in central New Zealand.

A raft of new hotels are expected to launch in Auckland this year despite the uncertain times, including Hotel Britomart, Park Hyatt Auckland, Travelodge Wynyard Quarter and QT Auckland.

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.

Accommodation providers have been side-lined in the Government's $400 million Tourism Recovery Package and there have been calls for some of the Covid Response and Recovery Fund to be allocated to the accommodation sector.

Bayleys' director hotels and tourism Paul Dixon, says the 32 hotels designated as Government-run managed isolation and quarantine facilities throughout the country used exclusively for people who have recently arrived in New Zealand, will have welcomed the guaranteed income.

"It's allowed these hotels to cover overheads and mitigate some of the losses that other hotels might be experiencing, but in the bigger picture, it's a small proportion of accommodation stock.

"During the first two weeks of lockdown in New Zealand, it was very clear that hoteliers would be facing some tough times as the impacts of COVID-19 began to become more apparent.

"I spent many hours assisting hotel owners and companies in their liaisons with the Ministry of Business, Innovation and Employment and the Ministry of Health to provide data on hotels that could be utilised as isolation facilities and this was a valuable community service at that time."

Dixon says pre-COVID-19, the domestic market made up around 55 percent of New Zealand hotel occupancy, but that was underpinned by a pretty strong economy.

> **"THE COUNTRY DEFINITELY NEEDS A TRANS-TASMAN BUBBLE IF WE ARE TO SEE SOME SORT OF NORMALITY RETURN TO THE HOTEL AND TOURIST MARKET."**
>
> PAUL DIXON, BAYLEYS' DIRECTOR HOTELS AND TOURISM

"A 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, with occupancy levels improving in the South Island to around 35 percent and even better in Northland, Rotorua, Bay of Plenty and Auckland.

"Hotels in Queenstown have certainly worn the brunt of the international tourist tap being turned off and Auckland's return to level 3 lockdown had a major impact on the South Island ski season trade across the board."

While both Australia and New Zealand remain committed to establishing travel bubbles as soon as it can be safely done, a second wave of the virus centred on Melbourne followed by Auckland's resurgence, has turned the clock back.

"The country definitely needs a trans-Tasman bubble if we are to see some sort of normality return to the hotel and tourist market," says Dixon.

"As Australians may not be able to visit Asia, the UK or Europe for some time yet, New Zealand will be an appealing option.

"Until a vaccine is developed or a new way of approaching the issue of borders is addressed, the current reality will be with us for some time and it will be hard to sustain the value in hotel property for the immediate future."

Artist's impression. LQ Hotel - Ellerslie - Safari Group

Artist's impression. Ramada Queenstown Central - Safari Group

New Zealand's inherent tourism credentials will still be there once the pandemic is under control and Dixon says investors and owners recognise this.

"Offshore funders and investors are looking to invest in New Zealand thanks to our well-managed pandemic health response and knowing that the country will rebound.

"Meanwhile, proactive hotel owners and managers have used the pause in the market to reassess and forward-plan to help them become more sustainable and more resilient."

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.

"On the other hand, hotels positioned towards international tourism are receiving little reprieve in regard to reduced tourist numbers and this is resulting in challenging investment parameters.

"As such, 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.

> **"AS A DESTINATION, NEW ZEALAND HAS ONLY GOT MORE POPULAR THROUGH THIS CRISIS."**
>
> DAMIEN TAYLOR,
> SAFARI GROUP DIRECTOR

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.

"Because we were tracking ahead of programme before COVID-19 struck, we have been able to absorb the delays caused from the level 4 lockdown and have really only lost a handful of days against the overall programme," he says.

"Since COVID, we have also committed to two further developments – going unconditional on a site in Ellerslie for a $150 million hotel and apartment development and committing 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 a small breather so we can give Queenstown time to recover, but in short, Safari Group is still very much charging ahead.

"COVID-19 is a short-term blip in a very long-term proposition for us."

Taylor says Safari Group has full confidence that the sector will bounce back.

"As a destination, New Zealand has only got more popular through this crisis, and there is huge enquiry from people wanting to visit, or migrate, to New Zealand when the borders re-open.

"The hotel accommodation sector has received a bounce with domestic tourism in the first instance, which is no surprise given Kiwis' love affair with travelling abroad and the desire to support local businesses – especially industries that have been hit the hardest."

"Our actions speak louder than words, and Safari Group's commitment to the aforementioned projects since COVID-19 came along only reinforces that path.

"Further, we are still actively looking for more development opportunities across the country because out of adversity, comes opportunity."

Chief executive officer for Sarin Hotel Group, Udai Sarin, says the pandemic situation has crystallised three very important fundamentals for the company, which has a nationwide presence in the accommodation sector.

"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."

Sarin says the family-owned company has managed to navigate the COVID-19-muddied waters well, because it has those three vital bases covered.

"What has been foremost for the Sarin business is keeping our staff gainfully employed and retraining our teams, so they can adapt to different roles."

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 without any Government-managed social housing or managed isolation contracts.

"We've used the down time to undertake general maintenance and deep spring cleaning on all of our properties, as upholding standards is critical," says Sarin.

The Sarin Group represents a number of well-known global brands in the accommodation market; however, this brand awareness resonates more with international travellers than the domestic guest, according to Sarin.

"Kiwis tend to make New Zealand accommodation booking decisions based on price or where they feel most comfortable," he says.

> **"ANY TOURISM INDUSTRY IS ONLY AS GOOD AS THE AIRLINE INDUSTRY – WE ARE CO-DEPENDENT ON BUSINESS."**
>
> UDAI SARIN,
> CEO SARIN HOTEL GROUP

Holiday Inn Queenstown - Sarin Group

"International travellers, on the other hand, often have loyalties to particular chains or brands and book based on past experience and confidence around processes, protocols and service offerings.

"These overseas guests seek consistency and certainty and tend to forward book with the same hotel brand on multi-sector trips."

Sarin says it's a big ask for the domestic market to try and compensate for the lack of overseas travellers with the uncertainty around demand the biggest challenge for those in the hotel sector.

"The brakes have come on, come off and gone on again through alert levels resulting in mass cancellations and a lack of forward booking as people cannot plan with confidence.

"We've had to offer fully-flexible rates while our fixed costs remain the same and we can't forecast with any level of certainty which makes it difficult to budget cashflows."

Sarin believes there will be pent-up demand from Asian and American leisure travellers, and the Australian corporate market, once border restrictions are relaxed.

"New Zealand is perceived as being a safe, trusted and sought-after destination – but the hotel sector can only prepare itself and wait for airline business to resume.

"Any tourism industry is only as good as the airline industry – we are co-dependent on business."

Sarin firmly believes that the discounting model is not the way to rebuild occupancy stating, "no-one wins solely on price."

"It comes down to the offering and the level of service and operators must be proactive in monitoring and responding to online reviews as they are powerful."

The Sarin Hotel Group's serviced apartment offerings have been the most adaptable throughout the pandemic environment.

"Serviced apartments with full kitchens are easier to transfer into longer-stay accommodation because if COVID has taught us anything at a base level, it's everybody has to live somewhere, and everybody has to eat something.

"In our forward planning, we will definitely be taking that thinking further – it will be part of our Plan B and Plan C."

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

The Muse art hotel, a boutique 40-room hotel in a restored heritage building in Manchester Street, Christchurch, opened mid-September and work continues on the new-build 60-room apartment hotel The Sebel Wellington, in Lower Hutt.

"As we recover from the pandemic conditions, the centrally-located properties will rebound more quickly than those in outlying suburbs," says Sarin.

"Our Queenstown Holiday Inn in Frankton was the only facility we temporarily shuttered when New Zealand went into complete lockdown as it's away from the town centre."

New Zealand's tourism star will rise again once the world returns to some form of normal and as people start travelling.

There has been talk around the private sector offering pay-as-you-go privately-managed isolation hotel accommodation if New Zealand could open its borders to international students, highly-skilled foreign workers, wealthy tourists and other internationals to help re-build the economy.

Further, businessman Rob Fyfe recently said that he has had approaches from high net wealth individuals and entities that want to invest "billions" in New Zealand including from people that "want to build golf courses and invest in tourism assets".

Artist's impression. Hilton Double Tree Wellington - Sarin Group