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A buoyant and optimistic hotel sector

A buoyant mood dominated the day at the sold-out New Zealand Hotel Industry Conference in Auckland recently as more than 300 senior hoteliers and tourism leaders gathered to discuss the current state of the sector and how to make the most of the excellent trading conditions. In association with co-hosts Tourism Industry Aotearoa and Horwath HTL and platinum sponsor AccorHotels, we've highlighted snapshots of the day that reflected the mood of the sector and what lies ahead.

Heating up

New Zealand hotel investment has a fifty-fifty split between domestic and foreign investors and while the market is seeing more foreign investment, they are having to compete with hungry domestic investors, the New Zealand Hotel Industry Conference heard.

Dean Humphries, the national director New Zealand hotels, Colliers International, said the New Zealand hotel market was heating up with the potential to record more than $450 million of hotel sale transactions in 2016, surpassing the previous peak of $378m in 2006.


Dean Humphries.

This renewed activity in the investment market in 2015 was on the back of improving market conditions and strong forecast earnings across the country. He pointed to strong positive market momentum in 2015 (close to $300 million transaction volume) carrying over into the 2016 year to date with around $143 million of hotel transactions completed so far this year.

Humphries also pointed to a limited new supply in all key markets in the short/medium term, noting there are five hotels currently under construction in Auckland; only one new hotel under construction in Rotorua and Wellington, with two underway in Christchurch. In turn there are three small hotels under construction in Queenstown.

There are a number of proposed projects in Auckland, Wellington, Christchurch and Queenstown, but these are in the early planning stages.

As to the foreign investment trends, Humphries outlined the composition of buyers by number of transactions over the past 18 months. Of the 14 hotels sold across New Zealand (over 50 rooms) some 43 percent were domestic buyers with 57 percent going to international investors, including 29 percent to Singapore, 14 percent to Australia and 7 percent to both Hong Kong buyers and Chinese buyers.

There were more than $400 million of sales in the last 18 months, with a number of significant assets currently for sale across New Zealand. ■

What's coming on stream?

The panel.

Record visitor arrivals mean infrastructure and hotel development has become a hot topic and the panel discussion on hotel investment saw Horwath HTL's managing director of Pacific Asia, Robert Hecker, reiterate the quality of the New Zealand offering.

He told the conference there was nothing like New Zealand. "Be confident. This is your first opportunity to drive rates, I think New Zealand is a quality destination and people are not coming here because it's cheap. New Zealand is doing the right thing marketing its allure and attractions – let's push the rates now while we can," he said.

Colliers' Dean Humphries said that 1,500 hotel rooms were currently under construction to be completed over the next two to three years and the sector is seeing inventory increasing by about 500 rooms a year.

Colliers is predicting about 5,000 rooms across the major markets between 2016 and 2025 but New Zealand Trade & Enterprise's Project Palace says 10,000 rooms are needed, meaning a shortfall of about 5,000 rooms.

Panelists noted too that construction companies were hard to find as major infrastructure projects were taking up a lot of that sector's resources and while the interest was there, labour availability was at capacity. Funding was also an issue as banks had to see that a project was feasible.

Raman Sarin, the managing director of Sarin Investments, also pointed to the fact that visitors want to go to the regions and there was a need to encourage developers there. And there was a need to educate investors about the smaller cities and destinations.

Peter Hamilton, the director of hotel valuation at CBRE, pointed out that development takes planning and when the feasibility and valuation studies are done, it is on an "as if complete basis" and does not take into account the build-up in trading that has yet to come.

Humphries said that in reality it is difficult to get hotels across the line with the banks, but the sector needs to find a solution. Banks, he said, do not like funding hotels and he pointed to office buildings being converted into hotels, which will continue.

Expansion of existing hotels is probably the easiest way and he believed hotel companies had to put some equity into the solution.

CBRE's Hamilton noted that he felt the sector was not far away from a time when feasibility studies would stack up. Sudesh Jhunjhnuwala, the CEO of Sudima Hotels and Resorts, said that the largest markets are from Asia, a price sensitive market. He added New Zealand is competing against countries like Thailand and Malaysia and asking these visitors to come here and pay a higher price.

Humphries said average rooms rates are moving up and the average rate in Auckland and Queenstown would hit $200 in the next two years.

"At $200 average room rate it makes very good sense for hotels to be developed."

Sarin also noted that if the industry is waiting for foreign investment to come in, especially from the Asian markets, they want to buy a major brand name on the hotel and that is what is missing in New Zealand. We need more presence of brands.

"Then encourage the tourist, they will pay higher for a branded hotel."

Jhunjhnuwala said while the industry needs to increase rates, it has to be careful that it is not losing out to other destinations.

Hamilton said it's not just revenues that come into play, construction costs are going up as are land values but the speed at which revenues and profits were growing, does make it feasible. ■

WHO IS PAYING FOR TOURISM?

Chris Roberts.

Lawrence Yule, Local Government NZ's president and the mayor of Hastings District Council, said he understood hotel levy and bed taxes were widely opposed by the accommodation sector but tourism is one of the few things that ratepayers fund directly.

He said millions of dollars are spent in New Zealand to support the tourism industry and felt he had to ask the question, who pays? "At the moment most of it is ratepayers."

There needed to be a strategic alignment of local government and central government around how to provide the infrastructure that is needed and added that he saw the need for "a more grown up conversation". Yule said later that local government had not been as good as it could be about partnering with tourism and that the Government's new tourism fund for smaller communities of $12 million over four years was a drop in the ocean at this stage.

"Everybody understands that hotels are very important, everybody wants a hotel but it is hard to make it work and we need a collaborative model across New Zealand, keeping in mind you have troughs and peaks."

Ratepayers' money goes to support the tourism industry and this is consistently challenged by ratepayers.

TIA's chief executive Chris Roberts said that investment in tourism infrastructure was top of mind and it was good the sectors were talking to each other. Together they would find the answers and the opportunity to start building hotels. ■

The future

The boom can't last forever said STR Global's Jesper Palmqvist, with 4.3 million tourists a year by 2022. So when will it start slowing down? Are we at the peak now? Or approaching peak hotel performance?

Bruce Garrett, MD Brook Serene Hotel Management, did not think we are quite at the peak, adding there was room for some improvement yet. In a couple of years' time things will start slowing when new supply comes on. He agreed with Westpac chief economist Dominick Stephens that constraints of supply would have an impact on slowing that growth.

IHG's Karin Sheppard said it was hard to see clouds on the horizon and predicted next year will be great with a number of major events scheduled.

TFE Hotels Andrew Dunn was very optimistic for the next two years with event-driven demand locked in. He said growth was coming from the luxury end and the sector should be doing more until it sees rates starting to climb. Is there more to be done? There's always room for improvements from the rates side and that's where the opportunity lay.

Asked about concerns around labour and productivity, Paul Archer of AccorHotels said the new health and safety laws had the potential to put a lot of pressure on the sector. He did not think the market, as yet, had seen the real impact.

"Everyone's involved – I don't know if people really understand that properly and there are certain areas you can't insure yourself." He said the new law had the potential to hurt [a business]. ■

CONCENTRATE ON THE CUSTOMERS

Penny Clark, the general manager of Goldridge Resort, Queenstown, who was later awarded the prestigious Hotel Industry Achievement Award, had an excellent message for conference attendees: Namely that in the current buoyant conditions and with an increasing shortage of rooms, visitors will pay the money if hotels concentrate on their customers.

As part of a panel on the Role of Today's GM, Clark offered an impassioned, and very well received commentary that no matter what else hoteliers do, they must concentrate on the customer.

If you have an engaged team where everyone looks after the customers that is the winning ingredient. "But to do that you must have the right employees. They must have your trust and must have integrity because you never know from day-to-day what's going to happen.

"I run a little hotel, but I have 100 percent trust in my staff. You have to inspire that passion in your staff."

She noted too that millennial customers are booking a room "five minutes before they walk through the door" and that millennial staff didn't want to work a 40-hour week, they wanted to work a 30-hour week. ■

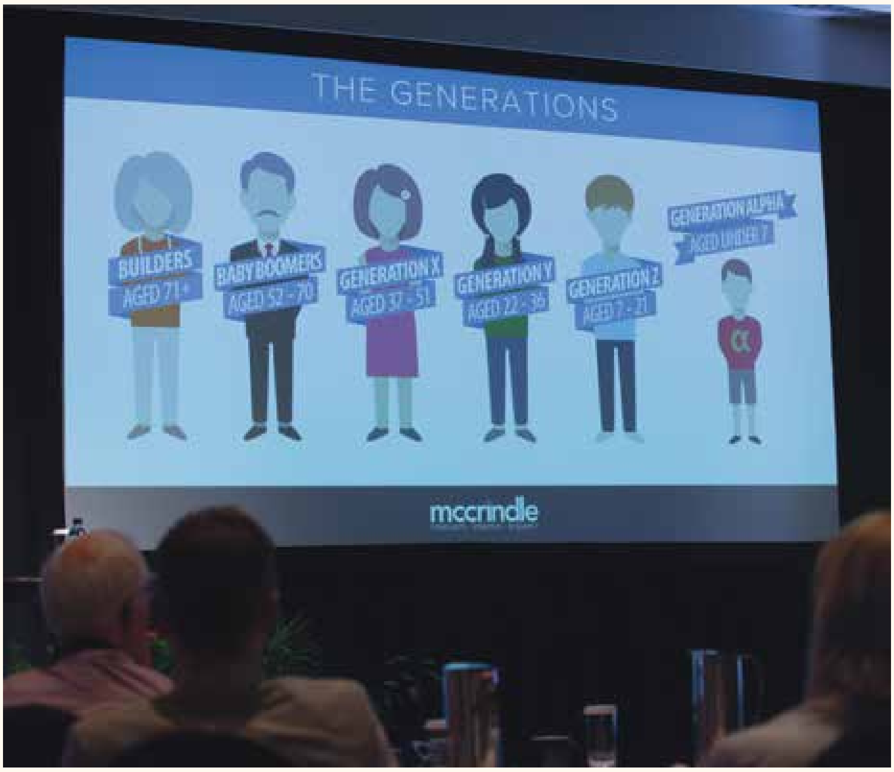
WHY DO THEY COME?

Grant Colquhoun, TripAdvisor's senior director of account management APAC, explained that for visitors globally the organisation's Trip-Barometer for March 2016 found 50 percent travelled to a destination because of the specific culture of that country.

In turn 34 percent travelled because of an event; 33 percent because it was recommended by friends or family; 31 percent because of a cheap flight; 30 percent had family from there and 28 percent because there was an activity they couldn't do elsewhere.

And they should know. TripAdvisor said it influenced one in 10 global trips in 2014 and it has 340 million unique visitors a month. ■

Finding the centre of the centrifugal force



The current rate of change is like a centrifugal force where you have to hang on to make it to the centre and get away from the margins. You have to adjust and adapt and innovate, according to Australian-based futurist, demographer and social commentator, Mark McCrindle.

He said overwhelming change can lead to change fatigue. As leaders you have to lead through change, drive the trends and create your future.

McCrindle said we have to deal with the complexity of the trends that are appearing now, from the level of probability. There are massive demographic shifts with rapid social change, ongoing technology trends and huge generational trends.

The demographic transformations put New Zealand as the fastest growing nation in the OECD over the last century. Germany, with is 81 million people, has seen 25 percent growth over the last century; the UK with 65 million has had 37 percent growth; Sweden with 9.8 million has had 73 percent growth and New Zealand, which had a population a century ago of one million, has seen 450 percent growth to 4.7 million.

In turn the population is aging and we are living longer. In 1984 average life expectancy was 73.9 years, but by 2044 it will be 86.6 years. "Fifty is the new 40."

And we are culturally diverse; in 2001 one in five New Zealanders was born overseas, it's now one in four and in Auckland it is two in five or 40 percent.

Socially we are being redefined. The average tenure of a Kiwi in their employment is a two to three year span per employer. In their lifetime they will have 17 separate jobs and five careers.

So how to connect to retain them for longer?

McCrindle said the command and control model now gave way to the engagement approach, more a mentoring model and the leadership structure needed a relational leadership approach – a relationship that directs but empowers and equips staff. ■

One wish for the hotel industry

Bruce Garrett, MD Brook Serene Hotel Management: "If we can solve the seasonality issue that would make everything easier."

Karin Sheppard, chief operating officer for IHG Australasia and Japan: "Parents saying to their kids - you should really go into the hotel sector."

Andrew Dunn, hotels development manager, TFE Hotels: "Adding $50 to every room rate in New Zealand would be a game changer."

Paul Archer, regional GM North Island hotels for AccorHotels: "Events. The first thing we talk about is when is it all going to end, let's capitalise on what we have got now. When's the next wave? What wave can we build and capitalise on the opportunity and not worry about when it will all end?" ■

Winning in a strong and changing market

IHG's chief operating officer Karin Sheppard.

Keynote speaker, IHG's chief operating officer Karin Sheppard (left) highlighted a positive outlook for the New Zealand tourism industry and strong international visitor growth. She pointed to the power of global brands, which help with buying power, drive greater business and led to more investment in hotels.

Loyalty programmes are key. She said IHG's loyalty programme has 92 million members globally, including 2.5 million in Australia and was a large portion of its business. From a hotel perspective, loyalty programme members are the highest paying guests and a very good promotional vehicle. Loyalty programmes build good business for IHG, she said.

Sheppard delved into ways hotel operators could win in this strong and changing market, pointing first to product quality. The standard of hotels in Asia is seeing a lot of new build and on a grander scale. It's important to ensure value for money and, in looking after the assets, to have plans on how to future-proof hotels that have been around for a long time.

She gave the example of the revamp of the InterContinental in Wellington where the owners had the foresight to see new supply is increasing guest expectations. This, she said, was a smart investment decision. Hoteliers all have to think about product quality and when it's time to invest.

Sheppard's second point was around tailored experiences and how hotels can put tailored experiences together such as around food, wine and Maori culture.

She said hotels need a Chinese language website where a visitor can make their booking directly.

Another point was around strong revenue management. Hotels need strong systems and people trained and skilled in making these decisions day-by-day.

She had heard Auckland will be busy next year and said it was about "having confidence and feeling proud of what we deliver and charging accordingly. We should be unashamed to do that providing we keep quality up and deliver the experience people expect".

Talent attraction and retention underpinned it all. "We can build great hotels but when we come face-to-face with guests, it is getting more competitive and we need to train better and faster." ■

Catering for the Chinese market

Chinese visitors are becoming more confident and more independent and are building a far more sophisticated picture of travel very quickly, according to keynote speaker, Karin Sheppard, COO for IHG Australasia and Japan.

"Who are they? They are a mixed bunch. We continue to see tour groups along with increasing FIT market particularly at the luxury end of the market."

She said Chinese visitors love to talk about their unique experiences and they love international brands – that is part of status and recognition.

"We are seeing that at IHG – they know our brands and have a high likelihood to seek them out." It's a mix of exploring the new and a level of familiarity.

So how do you make them feel comfortable in a hotel?

- Familiar brands win.
- They prefer full service hotels.
- Recognition is important. Having an understanding of the person and being able to understand where they come from and knowing their preferences before they arrive.
- Language familiarity provides great comfort.
- With food and beverage they like exploring but, like all of us, like their own comfort food too. Family needs are important. ■

The critical enablers of growth in the tourism industry

- Strong infrastructure – make sure people can move around, access to public transport and the roading infrastructure.
- Low barriers to visitor entry – New Zealand has done a good job but it's a very competitive market and South East Asian countries are aware of the [visa] barriers.
- Less seasonality and more dispersal, being able to build an event and festival calendar.
- Access to high calibre talent. ■

CRUISE JUST KEEPS GETTING BIGGER

Jason Hill.

Last year some 250,000 cruise passengers visited New Zealand and by 2020, that could reach 320,000, according to Jason Hill, a board member of Cruise NZ and the head of tourism at Auckland Tourism, Events & Economic Development.

Hill told the conference that the sector focus was on encouraging exchange visitors in the cruise market, those who embark and disembark from a New Zealand port.

These passengers spend 100 percent more [than other cruise passengers] and their value to the region is 60 percent higher with the additional spend on hotels, food and beverage and retail. Hill estimated that the bed nights of exchange passengers in the 2014/15 season was around 80,000.

The implications for hotels is that cruise passenger growth in 2020 is estimated to mean 160,000 bed nights required (based on 50 percent of passengers being exchanges). This means an additional 80,000 room nights in peak and shoulder season in four years.

But there are roadblocks around cruise infrastructure development and bigger ships are coming. He said the Ovation of the Seas, which carries 4,500 passengers and 1,300 crew, is 350 metres long. It has three Auckland visits in 2016/17 and 2017/18 and will moor in harbour and tender passengers to shore. ■

What the PM said

Prime Minister John Key.

In a wide-ranging address the Prime Minister John Key told the conference that the tourism industry was in great shape. One thing that tied it all together was that New Zealanders were friendly and approachable people. "That is an experience they will not get anywhere else." We must preserve what is great about New Zealand, he said.

The PM outlined his thinking on a variety of tourism issues.

VISAS: 100 million Chinese citizens travelled the world last year and in five years' time that will be 400 million which John Key said gives a sense of the numbers that will be coming to New Zealand. The Government is looking to see if there is more it can do to make it easier for visitors. We have to be competitive and particularly in the hotel sector with business travellers wanting multi-entry visas.

CHINA: One of the dangers is that the industry thinks about numbers, but the real issue is how good the quality of the visitors is and how much they are spending when they are here. The value of Chinese visitors is rising three times as fast as the volume. Next year, if New Zealand has about 500,000 Chinese visitors, they will spend more than the 1.5 million Australians who visit. He sees this as a systematic change that is not going to go away. But it won't just grow and grow. One reason is the middle class. While there are 1.35 billion Chinese only 200 to 300 million are anywhere near middle income.

CONNECTIVITY: Asian visitors want to take one flight and we need to be seen more as a one flight destination – the missing link is India but eventually we'll see direct connectivity. He also pointed to more carriers coming to New Zealand and the reasonably low oil prices. The question is, where do we go next? He pointed to markets where there were still more opportunities – the East Coast of the US and the wealthier parts of Asia.

HOTEL DEVELOPMENT: There was a deficit of hotels, occupation rates were high, yield was rising, they are delivering great returns. But we do need more space for people, pointing to NZTE's Project Palace which shows the demand is in Auckland, Christchurch, Wellington and Queenstown. ■

TAXING THE VISITOR

Prime Minister John Key also raised discussion within the tourism industry around some sort of visitor charge – a departure tax or bed tax which, he said, provided both opportunities and challenges. "At the moment we are a little unusual in that we pay 100 percent of [Tourism NZ] marketing along with work done by Air NZ and the industry." If the government, theoretically, did put a $20 departure tax on the four million visitors expected this would bring in $80 million a year. "How elastic is it, how much does it stop someone coming here?" In reality if a family is coming for two weeks they are unlikely not to come because of $80. Both Singapore and Australia charge a tax.

And you could do the same thing with a bed tax. "But the challenge with all of this is that it's virtually impossible to target foreigners... If I go to Sydney I pay a departure tax, if I go to Dunedin I pay a bed tax." He asked what do we spend the money on? Pointing to discussion around Department of Conservation huts, cycleways, and some areas which have a small rating base and big tourism demand.

But the PM said there were challenges, also mentioning charging in national parks which is not unusual in other countries. This year he met with a number of industry leaders who wanted to talk about the need for input into infrastructure and the need to charge visitors. "We will wait and see. If it happens it will not happen for a while. We need to think long and hard before we agree to it." ■

Winners

The hotel sector's highest honour went to Penny Clark (above), general manager of the Goldridge Resort Queenstown. A well-known and well-liked industry stalwart Clark took away the prestigious Hotel Industry Achievement Award, only the fourth time it has been awarded.

Horwath HTL's Stephen Hamilton said Clark had made a significant impact at every hotel she has managed over a career spanning more than three decades.

Other winners were:

- **Administration Employee of the Year:** Kamlesh Kumar, James Cook Hotel Grand Chancellor, Wellington.
- **Environmental Initiative of the Year:** The Langham, Auckland.
- **Front Office Services Employee of the Year:** Jenna Abramowitz, InterContinental Wellington.
- **Housekeeper Employee of the Year:** Meripa Aiono, Novotel & Ibis Auckland Ellerslie.
- **Outstanding Young Hotel Executive sponsored by ServiceIQ:** Brad Garnett, SKYCITY Hotels Auckland.
- **Revenue Manager of the Year:** Deborah Kennedy, Crowne Plaza Auckland.
- **Sales & Marketing Employee of the Year:** Elizabeth Burrett, SKYCITY Hotels Auckland.
- **Senior Hotel Executive, sponsored by AHS Hospitality:** Bruce Garrett, managing director, The George, Christchurch. ■

GEAR UP FOR NEXT YEAR

The 2017 New Zealand Hotel Industry Conference is confirmed for July 19 and 20, again at The Langham, Auckland. For more information email Horwath HTL Director Stephen Hamilton (*Shamilton@horwathhtl.com*) or Tourism Industry Aotearoa Hotel Sector Manager Sally Attfield (*sally.attfield@tia.org.nz*). ■