

NEW ZEALAND HOTEL MARKET SNAPSHOT | FEBRUARY 2023

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Market Commentary and Insights for 2023

We enter Q1 2023 with the highest degree of optimism since the onset of the pandemic in early 2020 despite a range of new headwinds challenging the sector.

Our international borders were fully opened from August 2022, and we are now enjoying an exceptionally strong summer trading period based on wider pent-up demand from the majority of our key inbound markets.

In recent weeks, our second largest inbound market China has also commenced outbound travel which will be a significant contributor to even stronger demand in 2023.

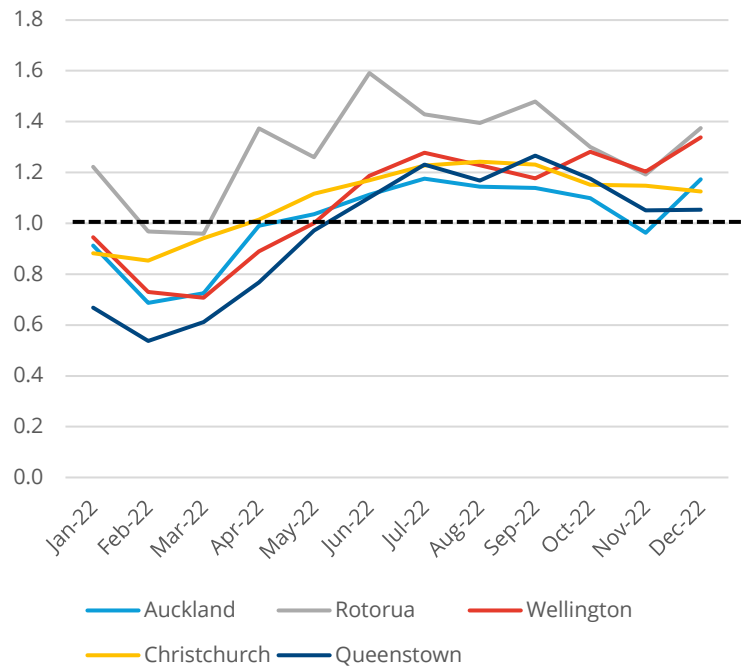
Tourism NZ has forecast international visitor levels to rebound to circa 2.5 million by YE September 2023, with a general view that inbound numbers will now reach pre Covid levels (circa 4 million) by as early as 2025.

A range of other factors will positively impact the NZ hotel sector this year including;

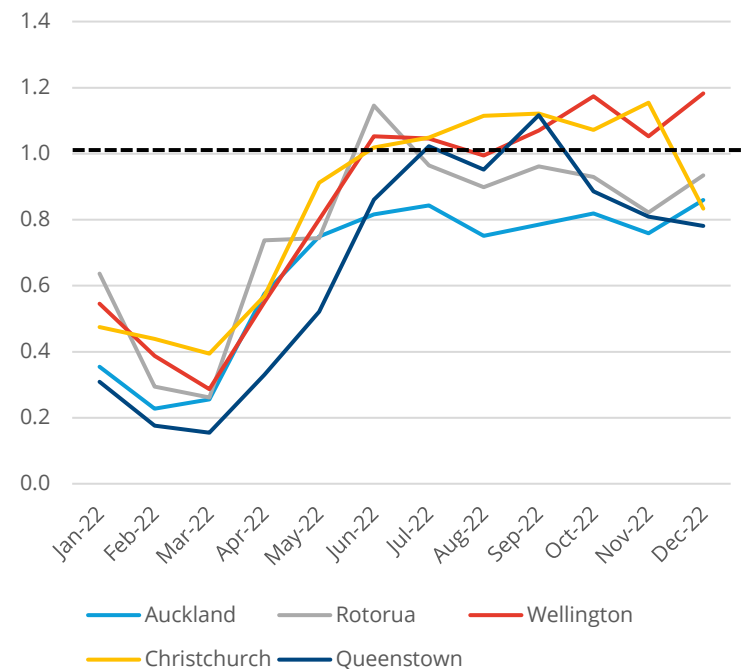
- FIFA Woman's World Cup, co- hosted with Australia. One of the largest global sporting events is to be held this year in July/August;
- Benign new supply pipeline (exception Auckland) together with an overall 'net reduction' in short stay accommodation across most regions, due to a decline in motel, hostel and third-party platform inventory.
- Based on the above we are seeing a 'pivot' toward guests staying in "hotels" as opposed to other forms of short stay accommodation;
- Discretionary consumer spending patterns moving to "experience" related activities particularly travel, as opposed to tangible items during the pandemic;
- Move toward extended stays, business-leisure ("bleisure") trips and self-contained accommodation;

All of the above factors lend themselves to the hotel sector providing strong resilience to a range of new global economic headwinds over the next 12 months; most notably inflation, higher cost of capital and slower economic growth.

New Zealand Hotel Monthly ADR Index against 2019



New Zealand Hotel Monthly RevPAR Index against 2019



Source: Hotel Data New Zealand (HDNZ)

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Hotel Investment Trends

Strong ADR Growth leading to a Speedy Market Recovery

As with many international markets, New Zealand hotels are witnessing robust revenue growth, primarily due to exceptionally strong room rates and underlying pent up demand since our borders reopened.

Many regions are fast reaching industry high pre-Covid RevPAR levels. We now predict Christchurch, Wellington, Rotorua and Queenstown to surpass 2019 levels by YE 2023 followed by Rotorua and Auckland in 2024/25 respectively.

Refer graphs on page one.

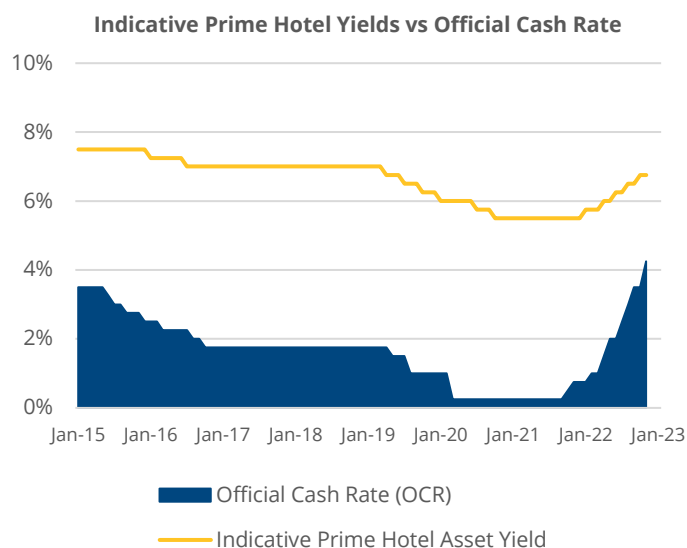
Strong Hedge Against Inflation

Hotels are one of the few 'bricks and mortar' asset classes that can immediately adjust revenue/returns to the rising costs of inflation and hence remain a perfect hedge in the current climate.

As hotel revenue can be adjusted daily, this has an immediate impact to cashflows and profitability, positively assisting property values and investment returns.

By way of example hotel owners and managers have been able to increase room rates in the general vicinity of 20% during H2 2022.

Conversely, we note operational costs are also increasing although at a disproportionately lower level than revenue, meaning profitability margins are generally keeping ahead of wider inflationary pressures.



Investment Yields are on the Move

Another key variable currently influencing hotel asset values/pricing is the rising cost of capital. In NZ, we have seen the OCR (Official Cash Rate) increase from 0.75% to 4.25% over the past 12 months.

This increase is being transferred to investment yields and discount rates, which have moved by circa 75 to over 200 basis points depending on the quality, location and tenure of the asset concerned.

However, interest rates are anticipated to stabilise over the next 12 months with current market sentiment also suggesting a downward trend in the medium term.

Prime Assets Show Resilience

Whilst increasing yields negatively impact values, the sector is in a unique position to offset some of this movement by the robust revenue/profitability margins that have emerged post pandemic. This has been an important buffer to any significant movement in prime assets or those with immediate repositioning potential.

The recent sales of the Stamford Auckland, Chateau Marlborough and a range of other regional assets including the YHA Portfolio are a clear demonstration of this.

Transactional Levels to Remain Low

We anticipate transactional levels to remain low for H1 2023 as investors continue to adopt a wait and see approach around factors such as inflation, cost of capital, the wider recovery of the tourism sector and the conservative sentiment around the global economy.

As we see strong forecast earnings transferred to robust and healthy bottom-line profits, we anticipate this will provide investors and lenders alike increasing confidence in this sector and transaction volumes to increase.



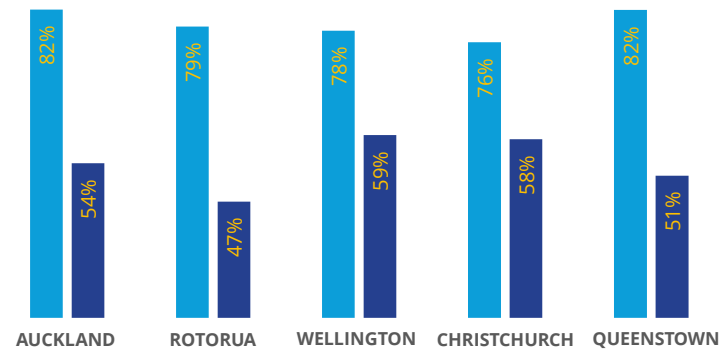
Stamford Plaza Auckland

The 286 room hotel was purchased by a NZ based consortium for a reported NZ\$170m and was immediately rebranded to the first JW Marriott in the country

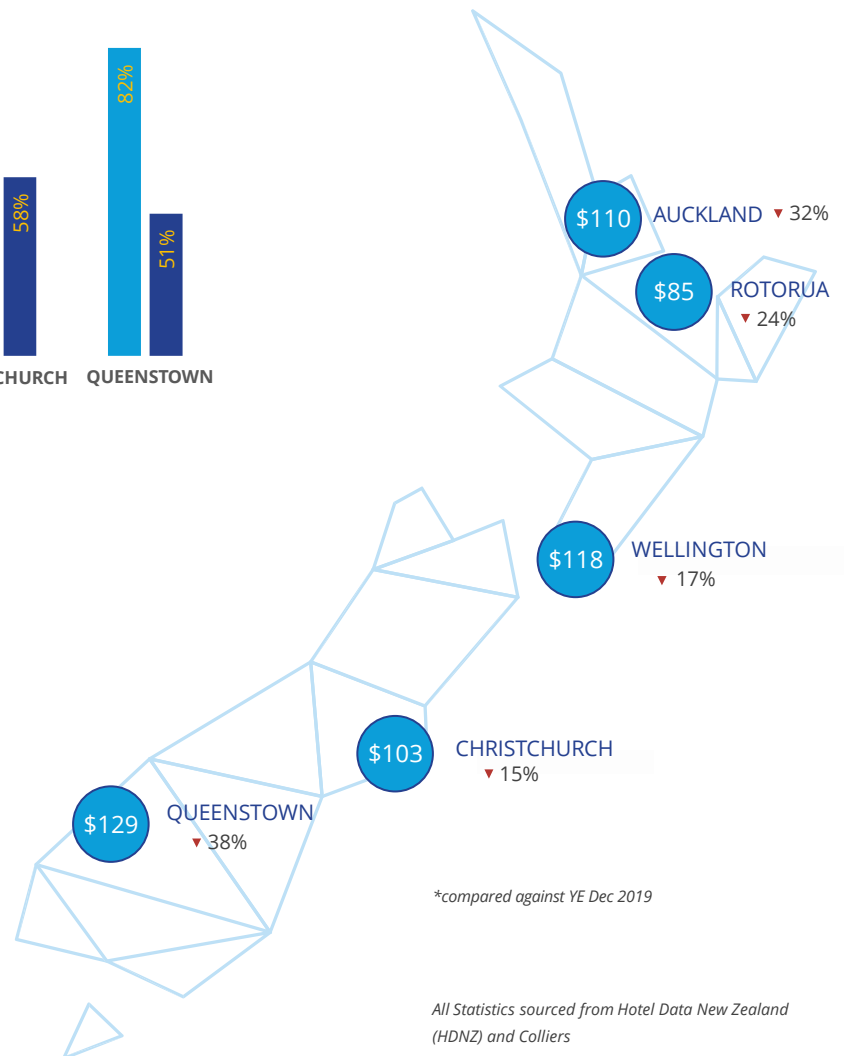
NEW ZEALAND HOTEL MARKET PERFORMANCE SNAPSHOT

OCCUPANCY | YE DEC

■ 2019 ■ 2022

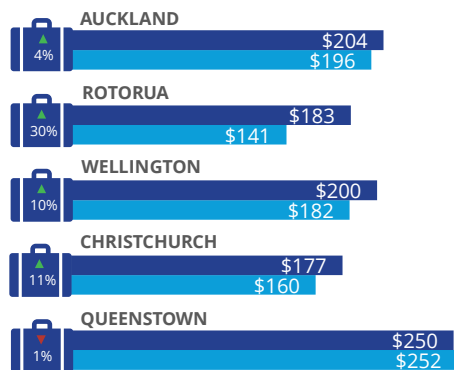


REVPAR YE DEC 22



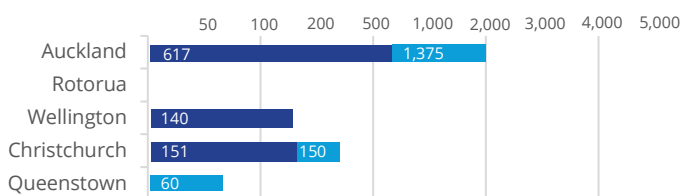
ADR | YE DEC

■ 2019 ■ 2022



SUPPLY | AS AT DEC 21

■ Rooms completed YE Dec 2022
■ Rooms currently under construction



**Rooms only include 3-5 star hotels above 60 rooms*

All Statistics sourced from Hotel Data New Zealand (HDNZ) and Colliers

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