

17 December 2021

Despite the significant impact of the Covid-19 pandemic, New Zealand has recorded the highest level of hotel transactions on record in 2021.

Dean Humphries, National Director of Hotels for Colliers, says in the calendar year ending 31 December in excess of \$400 million of hotel deals will have settled, representing a staggering 33 per cent increase on the previous highs of 2010 and 2015 that saw \$300 million of sales recorded each year, and nearly three times the 10-year average of \$150 million per annum.

Included in the \$400 million of hotel sales this year are a number of high-profile assets, including the five-star Sofitel Queenstown, 280 room Rydges Wellington, and the recently completed luxury lifestyle hotel QT Auckland.

Humphries says the reasons for the increase in activity vary, but the pandemic is obviously a contributing factor.

"Whilst there have been very few distressed sales, some owners have been more motivated to sell compared with recent boom times, especially if a buyer presents a fair, non-distressed offer," Humphries says.

With a total of 11 hotels with a minimum of \$5 million that settled during the past 12 months, Humphries lists the major trends as follows:

- Over 80 per cent of hotel transactions were to domestic purchasers, due largely to the inability of international investors to enter New Zealand due to ongoing border closures. In the five years preceding Covid-19, international buyers made up 50 per cent of all transactions.
- The majority of sales were 'off-market' as opposed to formal public campaigns whereby strategic alignment for each hotel asset was pivotal.
- Existing hotel investors remain the most active in the market, looking to grow existing portfolios both geographically and by segmentation.
- Other factors for the increased activity included: Some owners were looking to retire debt or, recalibrate/rebalance their portfolios and the consolidation of some multi-ownership/strata titled hotels, where there were lower returns due to the pandemic, motivated many mum-and-dad investors to sell their units to a

buyer prepared to pay a premium above individual unit buyers in the open market.

One of the big players to emerge in the past three years is New Zealand Hotel Holdings, a strategic partnership between the \$60 billion New Zealand Superannuation Fund and the Russell Property and Lockwood Groups.

This entity remained the most active investor in 2021, purchasing three strategic assets worth over \$250 million. Since the commencement of the partnership in 2019, the portfolio has now amassed a total of seven hotels comprising close to 1,400 rooms and is now the fourth largest hotel investor in the country (by room count).

Other notable investors in 2021 included the country's largest hotel company, CPG, who acquired in excess of \$50 million in assets, including Discovery Lodge Queenstown and the Rendezvous Hotel in Christchurch, and other assets in Hamner Springs and the Terrace Downs Resort.

Humphries notes that smaller hotels in the under \$20 million bracket were also highly sought-after representing 60 per cent of the hotels (by number, not value) that were sold this year. Sales were completed in Dunedin, Hamilton, New Plymouth, and Nelson.

So why is hotel investment so active during a pandemic?

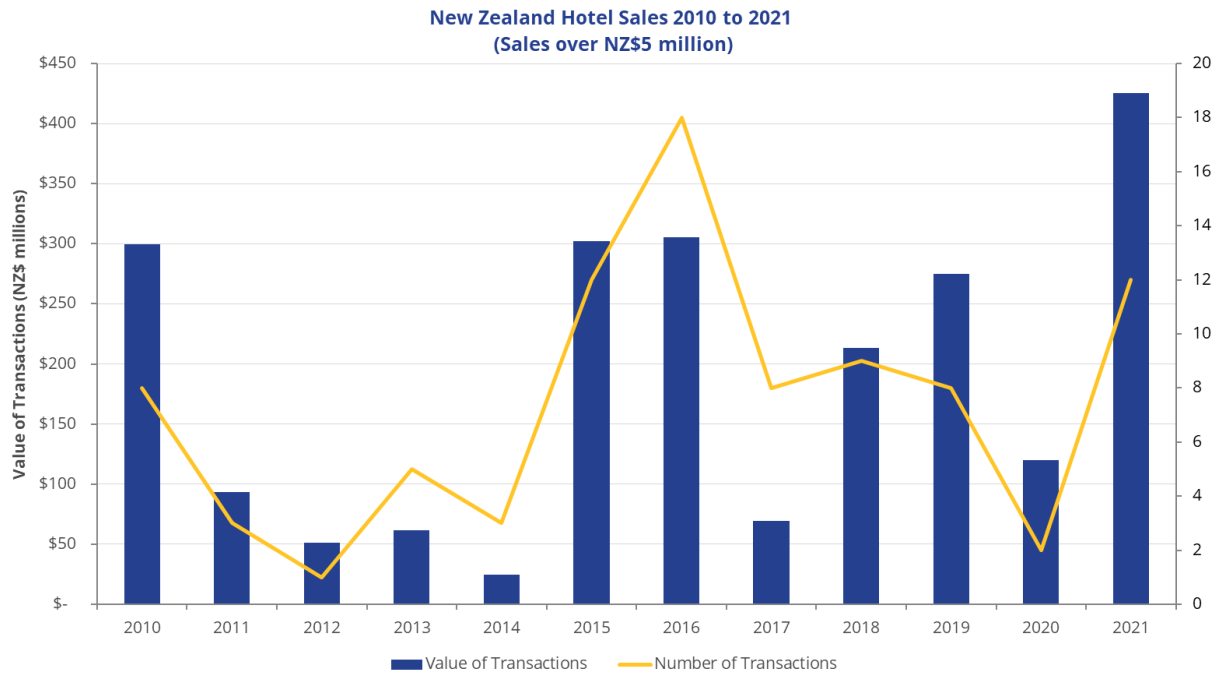
Humphries says investors are looking at counter cyclical opportunities to expand their existing portfolios and new investors are looking to enter the market.

"In almost all cases, these investors predict tourism will rebound strongly post Covid-19 and so will investment returns.

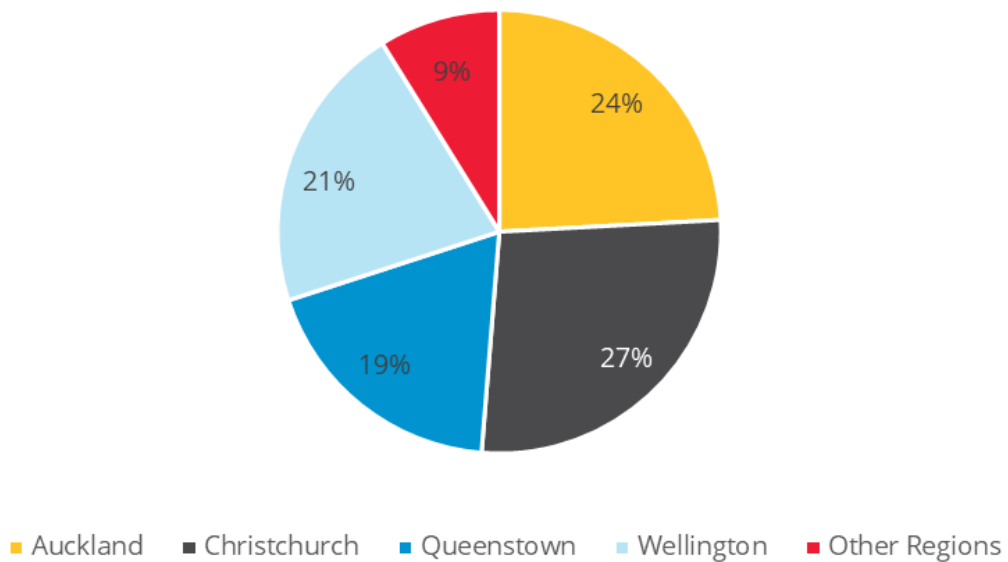
"Hotel yields also remain above other key asset classes offering attractive post-Covid-19 stabilised returns of 6 to 8 per cent."

Despite the increased levels of activity, Humphries notes that hotel investment is not for the fainthearted, with the recent Covid-19 pandemic a good example of the highs and lows investors must face in this sector.

ENDS



Sales Volume by Region (>\$5m)



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