



Horwath HTL™

Hotel, Tourism and Leisure

**New Zealand
Hotel Market
Sentiment Survey
Amid COVID-19 Pandemic**

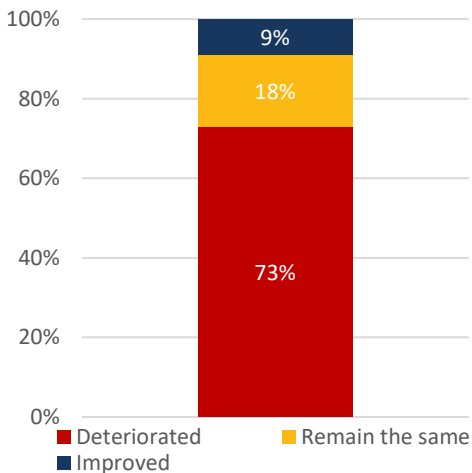
May 2020



INTRODUCTION

Horwath HTL has undertaken a series of COVID-19 impact sentiment surveys across the world and has partnered in New Zealand with Tourism Industry Aotearoa (TIA) to undertake such a survey for the local hotel market. The questionnaire is specially designed to examine how the pandemic is affecting hoteliers’ outlook for the New Zealand hotel market in general and their hotel in particular. The survey was carried out between 30 April and 5 May 2020.

BUSINESS OUTLOOK FOR THE NEXT TWO YEARS



With little prospect of our borders opening to international visitors any time soon, the outlook for the next two years is bleak, with 73% of respondents expecting that trading conditions for their hotel in 24 months’ time will have deteriorated compared to 2019.

These results equal a business confidence score for the two year period of **-64%** (percentage expecting improvement minus percentage expecting deterioration). This is worse than results reported by the latest ANZ bank business confidence survey, where for the next 12 months, a net 55% of firms expect weaker activity for their own business.

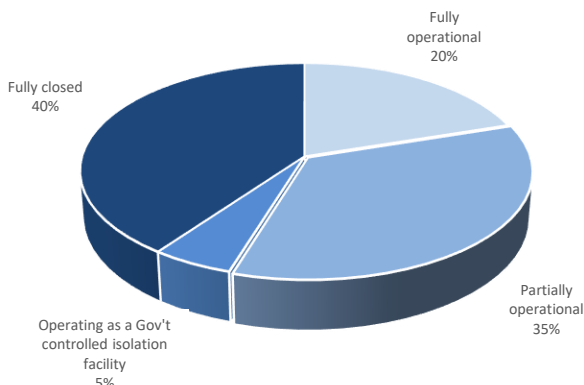
These results come at a time when hotels reported an average occupancy of 14.9% in April and 40% of hotels were fully closed.

This report summarises the survey results.

“Business confidence amongst hoteliers in New Zealand is much bleaker than business confidence in general”.

IMPACT OF COVID-19

Hotel operating status

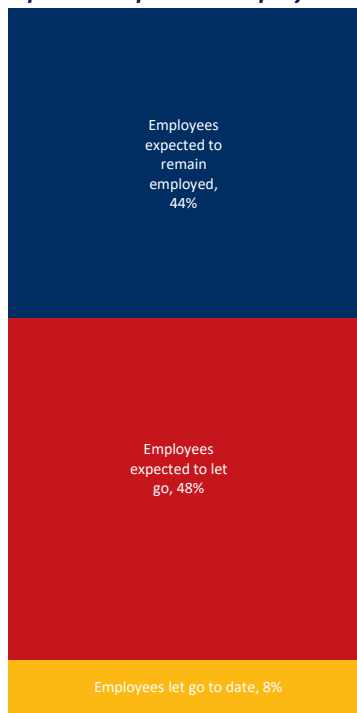


What is the current status of your hotel's guest room operation?

The operating status of hotels vary by region with circa 68% of hotels in regional areas fully closed and fewer closures in Auckland (20%) and Wellington (24%). Only 11% of Queenstown hotels are fully operational with 58% fully closed.

5% of the respondents whose hotel was still operational were planning to close.

Expected impact on employment



How many employees (full-time, part-time and casual) have you had to let go to date and are expecting to have to let go as a result of the COVID-19 outbreak?

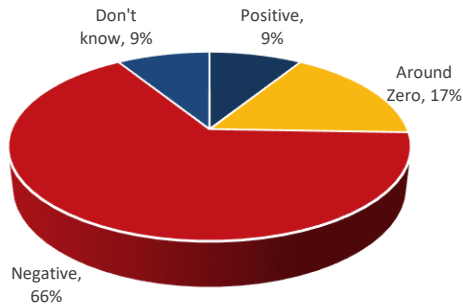
Hoteliers expect to reduce the number of employees by an average of 56%. The number of employees let go to date is still low because of the government's 12-week wage subsidy paid to employers at the start of the country's lock-down. It is expected that the wage subsidy will not continue until such time that hotel demand has sufficiently recovered.

Job losses in main visitor destinations are expected to be higher from 69% for Queenstown hotels to 89% for hotels on the West Coast.

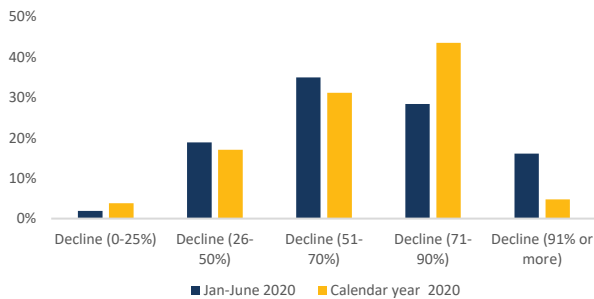
This extraordinary expectation of job losses is aligned with expectations of immediate cash flow problems and a slow recovery of the international visitor markets on which the majority of hotels heavily rely.

HOTEL PERFORMANCE EXPECTATION

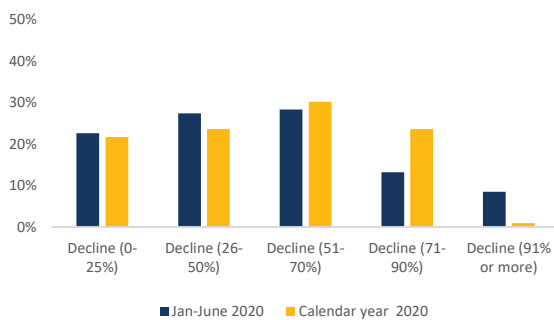
Expected Cash Flow



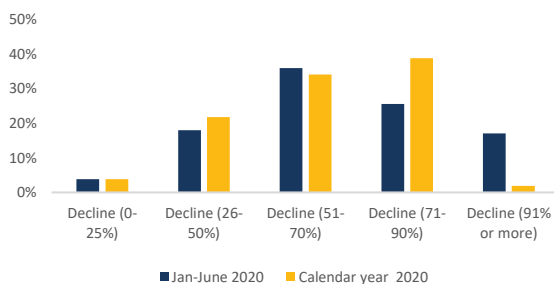
Expected total revenue decline



Expected average room rate decline



Expected occupancy decline



What do you expect your hotel's operating cash flow for the calendar year 2020 to be?

Based on the responses received we expect that many hotels will need to make use of the government's tax relief and loan options while many may need more financial assistance from lenders and /or shareholders.

All responding hotels have applied for the government wage subsidy, while 38% had applied for debt relief and/or more shareholder funds. 80% of those that had applied for debt relief, said that they had a positive banking experience.

30% of hotels have applied for rent relief, which we estimate will be all or most of the leased hotels in New Zealand.

By approximately how much do you expect your performance to decline in the first half of 2020 and the full calendar year, compared to the same periods in 2019?

48% of respondents expect total revenue for the full year to decline by more than 70%. This expectation is consistent across most of the regions in the country and only marginally higher (51%) for hotels where more than 55% of rooms are sold to international visitors.

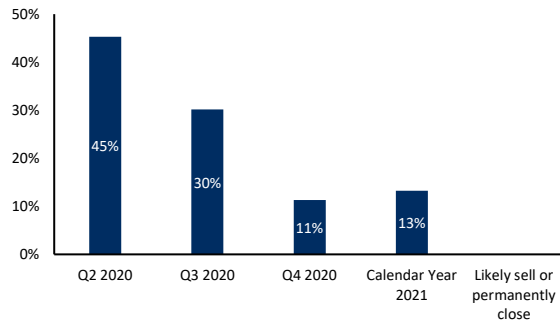
Surprisingly, 55% of respondents believe that average room rates in 2020 will decline by more than 50%, despite skilled revenue managers warning against excessive discounting during periods of low demand.

Fortunately, the actual reported results of major hotels in April, show a "modest" 11.6% decline in ADR, while reported occupancies of 14.9% were at an all-time low.

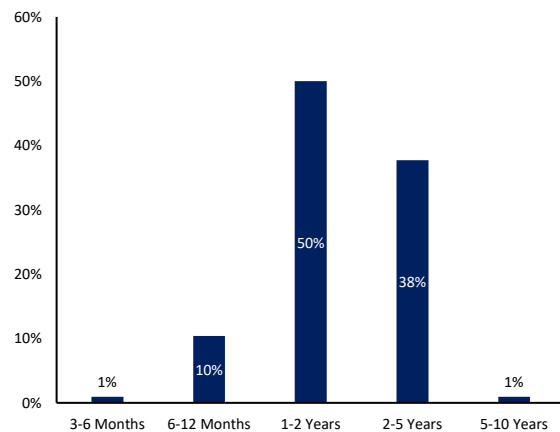
It appears that ,so far, common sense has prevailed, and hotels realize that at some point, further discounting is not profitable when it will not create additional market demand.

Hotel Market Outlook

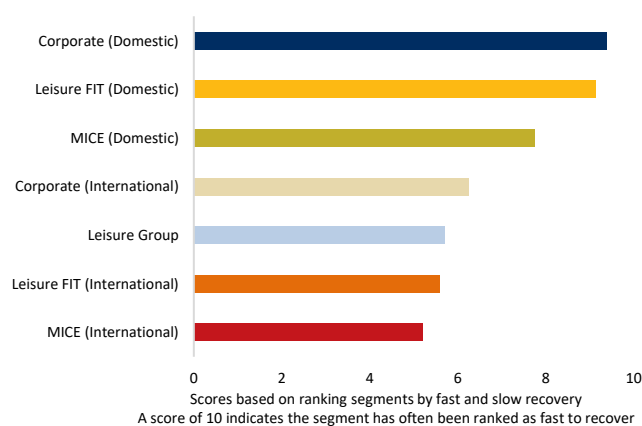
Expected time to re-open



Period of COVID-19 impact on hotel performance



Expected recovery of market segments



If your rooms are fully closed or planning to close, what is your envisaged time to re-open?

Now that the summer high season is over, it is no surprise that many hotels expect to remain closed for the next few months. Circa 27% of closed regional hotels are expected to open only in Q4-2020 or next year. 90% of closed hotels in Queenstown are expected to open before or at the start of the ski-season. This suggests that there is a high expectation that the New Zealand and Australian governments will agree on a “trans-Tasman bubble”, allowing Australians to visit the Queenstown Lakes District’s ski areas.

For how long do you believe COVID-19 will continue to influence your hotel's operating performance?

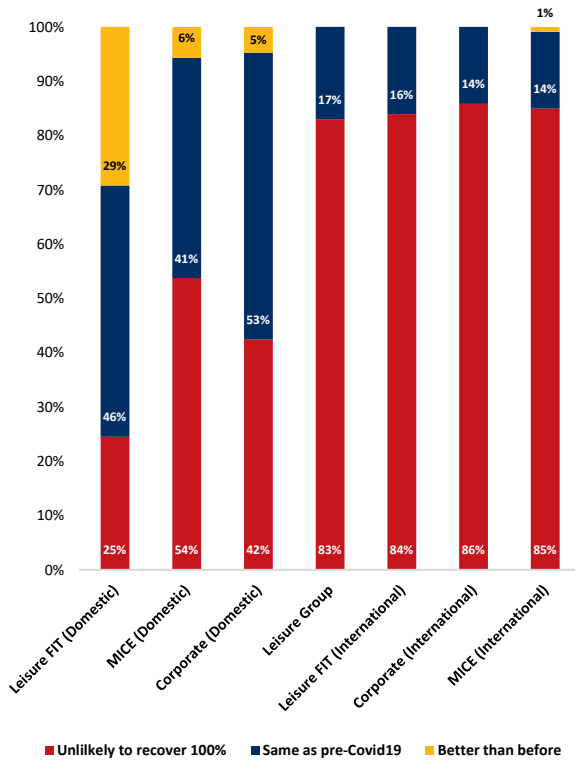
The first COVID-19 case in New Zealand was reported on 28 February 2020. It looks as if the response to the outbreak in New Zealand and Australia has been more effective in eliminating community spread than in many other countries. The message from the government has been that New Zealand borders are unlikely to re-open to countries other than Australia and some Pacific Islands until a vaccine has been wide available some time in 2021.

Furthermore, the impact of the pandemic on the global economy is expected to discourage much long haul international travel which New Zealand relies on for its tourism. New Zealand’s reputation as a safe and desirable country to visit is likely to remain or even be enhanced because of its handling of the crisis. Nevertheless, a significant share (39%) of hoteliers expect the impact of COVID-19 will last more than 2 years. In major visitor centres such as Queenstown, this percentage is much higher at 63%.

Which of the major demand segments do you expect to recover fastest to their original contribution levels, once the COVID-19 outbreak is over?

In 2019 circa 43% of hotel rooms in major New Zealand hotels were sold to international visitors, ranging from 24% in Wellington to 66% in Queenstown. The results reflect expectations that New Zealand’s borders remain closed for some time and the global economic downturn will delay a return of international visitors to the country.

Expected three-years market segment recovery



How do you expect each of the market segments to recover over the next three years?

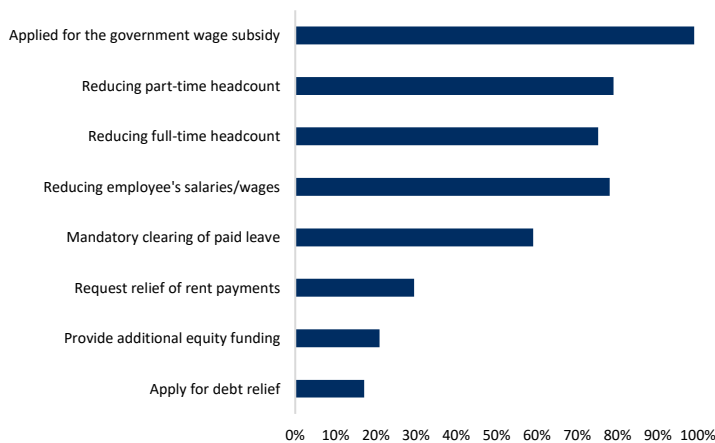
Judging by the expected recovery of each of the key market segments, COVID-19 may well impact the hotel’s operating performance for more than three years. For hotels to recover, many hoteliers expect a significant shift in behaviour of New Zealand consumers, replacing overseas by domestic travel.

Prior to COVID-19, New Zealanders took circa 3.1 million trips overseas. After deducting business travel, travel for education, and all travel to Australia and the Pacific Islands, there is the potential of an average of circa 90,000 trips per month to be substituted for domestic travel while our borders remain closed to countries other than Australia and the Pacific Islands.

As a result of COVID-19, the scope of Tourism New Zealand (TNZ) activity has been extended from marketing the country to international markets to also include domestic marketing to stimulate New Zealanders to travel in their own country. While TNZ has demonstrated excellent capabilities to market internationally, it remains to be seen how much domestic demand TNZ can stimulate in an economy where unemployment is expected to rise significantly.

MEASURES TAKEN AND CONCERNS

Measures taken to reduce financial impact of COVID-19



What are some of the measures you have or will soon be taking to reduce the financial impact of the COVID-19 outbreak?

The government’s wage subsidy only partly covers the total salaries and wages payable to hotel employees. As a result, hotels have had to reduce payroll costs, which makes up circa 36% of the average hotel’s total expenses.

While the wage subsidy is in place, hotels have only reduced headcount by circa 8%. Survey respondents expect this to grow to 56% once the subsidy has ended.

Most critical support requirements



What are the most critical support measures you need to prevent having to permanently close or sell your hotel?

Many respondents regard an extension of the wage subsidy as being critical to avoid having to ‘let go’ more employees. However, to secure business continuity in an environment where 66% of respondents expect to have a negative cash flow this year, broader financial assistance is critical in addition to measures such as rent and tax relief.

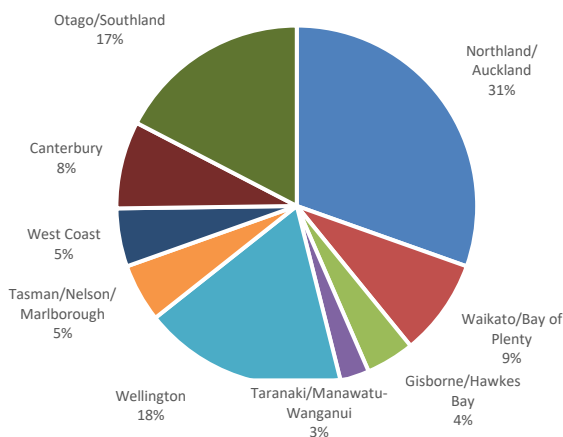
Hoteliers also look to the government sector to start travelling again and use hotels for overnight stays, meetings and conferences. Additional support to the business events market and a ‘whole of industry’ collaboration is mentioned as critical to resurrect the sector.

Some hoteliers expect to only get back to more sustainable business levels once unrestricted domestic travel resumes and a trans-Tasman bubble has been established, but for many this is not expected until borders are re-opened to most of New Zealand’s key source markets.

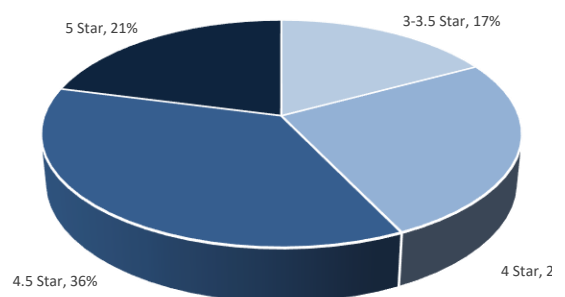
With most destinations around the world vying for the same tourists and TNZ’s extended role, hoteliers advocate for a significant budget increase to provide TNZ with the required resources to help fill their hotels.

SHARE OF RESPONDENTS

By location



By Classification



Horwath HTL New Zealand

Horwath HTL is the world’s largest hospitality consulting brand with 45 offices across the world providing expert local knowledge. Since 1915 we have been providing impartial, specialist advice to our clients and are recognized as the founders of the Uniform System of Accounts which subsequently has become the industry standard for hospitality accounting.

Our regional experience and analysis capabilities underpin the planning process for new hotel and tourism related developments. By thoroughly understanding local market characteristics, trends and opportunities, Horwath HTL provides product positioning, sizing and facilities configuration recommendations designed to optimize project performances. Financial feasibility is then tested by estimating cash flow and investment returns. Through financial and development sensitivity analyses, we are able to determine the project and financial structure which best meets the objectives of the developer or land owner.

Horwath HTL studies are relied upon by developers, operators, lenders and third parties requiring an impartial assessment of project viability, while our market and product descriptions form the basis for architectural briefs.

Horwath HTL know what it takes to ensure performance in all areas of your business. We will assess, explore and make detailed recommendations on how to improve business performance, whilst evaluating your internal processes against the best the industry can offer.

Understanding what strategies and management practices result in increased cash flow and asset value, we take an assertive position in an asset management role as owner representative to maximise returns and asset value over time.

This service is especially tailored to the particular needs of owners, be they institutions, companies or private investors, whose hotels are managed by an external operator. It can also be adapted to support owner - operators, especially those facing strict bank control or struggling to meet debt repayment obligations.

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Wim joined Horwath HTL in 2016 with over 28 years’ experience in financial leadership and general management positions in international hotels and resorts.

He specialises in hotel asset management, market demand, supply and feasibility analysis and has worked with a wide variety of owners and investors, from high net worth individuals, to institutional owners and private equity funds.

His extensive international experience includes hotel management roles in Australasia, Europe, USA, China, Japan and the Caribbean.



Stephen Hamilton

Director

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Stephen jointly established the specialist tourism and leisure consulting practice, Horwath HTL in 2002. With thirty years consulting experience in the New Zealand tourism industry, Stephen’s in-depth knowledge is valued by all his clients.

Providing a well-balanced and sound approach to their specific needs, Stephen assists clients to progress their business with quality information for decisions and strategies.

Stephen assists lenders, investors, funding sponsors, and / or purchasers and developers in both the public and private sectors, with the ability to quickly ascertain what financial and market analysis or research will be of most benefit.

Stephen’s service lines include market demand analysis, financial feasibility analysis, market research, economic impact analysis and strategy development.



Hotel, Tourism and Leisure

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