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Disclaimer

The forecasts in this report reflect our understanding of the current market. However, the tourism market is cyclical and this report has regard to MBIE’s current tourism forecasts and the tourism market in general as at the date of this report. The exercise of making projections is necessarily problematic and the resultant values should be regarded as indicative estimates of probability rather than certainty.

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EXECUTIVE SUMMARY

New Zealand Trade & Enterprise (NZTE), Tourism New Zealand (TNZ) and the Ministry of Business, Innovation and Employment (MBIE), are working in partnership with Tourism Industry Aotearoa (TIA) to identify the level of demand and supply for hotels in five focus regions in New Zealand: Auckland, Rotorua, Wellington, Christchurch, and Queenstown. If gaps exist, NZTE will facilitate investment towards new hotel investment opportunities (Project Palace).

This independent report was commissioned by the Project Palace partners to understand current and future hotel demand and supply conditions within the focus regions. The objective of this report is to present the key results from the regional hotel market analysis. The main elements of this work are:

- A detailed understanding of the New Zealand hotel sector, including the key drivers of demand and supply.
- The development of quarterly hotel demand forecasts for each of the five focus regions for a period of 10 years (2016-2025), segmented by star rating.
- The development of quarterly hotel supply forecasts for each of the five focus regions for a period of 10 years, segmented by star rating.
- The development of an Excel model to bring the demand and supply forecasts together to produce occupancy, Average Daily Rate (ADR) and Revenue per Available Room (RevPAR) forecasts for the five focus regions, segmented by star rating.

Fresh Information Limited (Fresh Info) and Colliers International New Zealand Limited’s Hotel Division (Colliers) have worked in partnership to deliver this report. The hotel demand, occupancy, ADR and RevPAR forecasts have been produced by Fresh Info, while the hotel supply forecasts have been produced by Colliers.

Key findings

There is currently a critical shortage of hotel rooms during high demand periods in the five focus regions.

Exceptionally strong growth in hotel demand in the past three years combined with minimal change in new hotel inventory (supply) has resulted in a critical shortage of hotel rooms in the five focus regions during high demand periods. This is reflected in actual occupancy rates with Auckland, Rotorua, Christchurch and Queenstown all achieving 87-88% in the March quarter of 2015, and Wellington achieving 79%. All focus regions achieved occupancy rates of between 82% and 87% in the December quarter of 2015.

It is very difficult for a hotel to achieve an average occupancy rate of more than 90% across an entire quarter due to daily variations in demand and practical considerations such as room maintenance. Current occupancy rates therefore indicate that hotels in the focus regions are running at close to their practical capacities for sustained periods of time within the March and December quarters.

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1 The hotel sector is defined as all 3 to 5 star rated hotels and serviced apartment complexes operating at least 40 rooms. Qualmark ratings have been used when available, with expert judgement applied to self-rated establishments.
2 Some individual star ratings needed to be aggregated into star rating bands in each region to protect confidentiality e.g. 3 and 3.5 star properties in Auckland were aggregated into a 3-3.5 star category because using the individual star ratings would have revealed confidential information about one or more hotels.
3 The supply forecasts needed to be aggregated into the same star rating bands as the demand forecasts to provide a consistent level of segmentation within a region.
4 ADR is the average amount a hotel charges for one of its rooms each night, excluding GST.
5 RevPAR is the average amount of revenue a hotel derives from each of its rooms each night, including unoccupied rooms. Only the room revenue is included in this calculation, and all values exclude GST.
Key points from quarterly occupancy data include:

- Auckland’s consistently high occupancy rates across the year which ranged between 78% in September and 88% in March. This performance produced a record annual occupancy rate of 84% in 2015.
- Queenstown achieving occupancy rates of 80% or more in all quarters except June. Despite the traditionally weak June quarter, Queenstown still achieved an annual occupancy rate of 79% in 2015.
- The occupancy rate of 79% in Wellington in the March quarter is low relative to the other focus regions because demand falls in January due to the drop in corporate demand. February and March are extremely busy in Wellington, especially during major event periods.
- Rotorua and Queenstown both exhibit similar seasonal patterns with occupancy rates running at close to capacity during the March and December quarters, and lower occupancy rates of between 65% and 70% achieved outside those periods. These patterns are caused by the influx of international leisure visitors into these destinations during the warmer spring and summer periods.

### FIGURE 1 QUARTERLY OCCUPANCY RATES IN FOCUS REGIONS IN 2015
Source: TIA Hotel Statistics, Fresh Info

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Auckland</td>
<td>88%</td>
<td>78%</td>
<td>81%</td>
<td>87%</td>
<td>84%</td>
</tr>
<tr>
<td>Rotorua</td>
<td>87%</td>
<td>70%</td>
<td>65%</td>
<td>84%</td>
<td>77%</td>
</tr>
<tr>
<td>Wellington</td>
<td>79%</td>
<td>77%</td>
<td>75%</td>
<td>82%</td>
<td>78%</td>
</tr>
<tr>
<td>Christchurch</td>
<td>87%</td>
<td>70%</td>
<td>68%</td>
<td>83%</td>
<td>77%</td>
</tr>
<tr>
<td>Queenstown</td>
<td>87%</td>
<td>64%</td>
<td>80%</td>
<td>83%</td>
<td>79%</td>
</tr>
</tbody>
</table>

High occupancy rates are driving significant increases in room prices.

High occupancy rates are leading to significant room price increases with annual ADR rising by 9% across the five focus regions from NZ$140 in 2014 to NZ$152 in 2015. Queenstown experienced the strongest gain at 11% followed by Auckland and Rotorua at 10% and Wellington at 7%. Christchurch experienced a decline of 1% over the same period due to increased competition caused by the introduction of new hotels into the market.

### FIGURE 2 ANNUAL ADR IN FOCUS REGIONS ($NZ EXCL. GST)
Source: TIA Hotel Statistics, Fresh Info

<table>
<thead>
<tr>
<th>Region</th>
<th>2014</th>
<th>2015</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auckland</td>
<td>$139</td>
<td>$153</td>
<td>10%</td>
</tr>
<tr>
<td>Rotorua</td>
<td>$100</td>
<td>$110</td>
<td>10%</td>
</tr>
<tr>
<td>Wellington</td>
<td>$143</td>
<td>$152</td>
<td>7%</td>
</tr>
<tr>
<td>Christchurch</td>
<td>$160</td>
<td>$158</td>
<td>-1%</td>
</tr>
<tr>
<td>Queenstown</td>
<td>$151</td>
<td>$168</td>
<td>11%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$140</td>
<td>$152</td>
<td>9%</td>
</tr>
</tbody>
</table>

Forecasts suggest that the hotel room shortage will become more severe over the next 10 years.

A projected imbalance between hotel demand and supply in each region is expected to lift annual occupancy rates over the next decade. Auckland and Queenstown are expected to increase most strongly with annual occupancy rates approaching 90%, while Wellington is expected to reach 87% by 2025. Rotorua is expected to reach 85% by 2025 while Christchurch is expected to reach 82%.

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6 This is caused by the summer break, with normal patterns of corporate travel resuming in late January.
While it may be possible to build enough hotels in the medium/long-term to alleviate this pressure, the short-term situation in most regions is critical. Auckland hotels in particular will come under severe pressure in 2017 as a result of another major step-change in international tourism combined with several major events including World Masters Games, the British & Irish Lions Tour and the Rugby League World Cup. Queenstown will experience similar pressures as hotel demand continues to grow at a much faster rate than supply.

**FIGURE 3 PROJECTED OCCUPANCY RATES BY REGION**

Source: Fresh Info Hotel Forecasting Model

![Projected Occupancy Rates by Region](chart)

Rising occupancy rates will drive further increases in ADR.

The growth outlook for ADR is positive across all of the focus regions as a result of highly constrained occupancy and limited new hotel supply. The new hotels that do get built will also likely command a premium in the market which will further reinforce the overall ADR gains. All ADRs presented below are expressed in nominal terms.

Queenstown ADR is predicted to grow most strongly over the next decade, increasing from NZ$168 in 2015 to NZ$278 in 2025. This growth will be driven by strong occupancy rate pressure across three quarters of the year (March, September and December) and gradual improvement in the June quarter which is traditionally weaker than other quarters.

Auckland is also expected to experience strong ADR growth across the forecast period, increasing from NZ$153 in 2015 to NZ$220 in 2025 as a result of record levels of demand and high occupancy rate pressure throughout the year. Auckland will also experience a temporary spike in ADR in 2017 as a result of price escalation caused by major events.

ADR growth in Wellington is projected to grow at a more modest rate, increasing from NZ$152 in 2015 to NZ$183 in 2025. The potential for room rate growth in Wellington is constrained to some extent by its lack of exposure to the fast growing international market, with around three quarters of hotel demand in Wellington being generated by the mature and relatively price-sensitive domestic market. However, the recently announced long-haul service between Wellington and Singapore via Canberra is likely to generate some uplift.

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7 The sharp increase in the occupancy rate in Christchurch in 2011 was a direct result of the sudden reduction in hotel rooms caused by the earthquakes. This created an immediate shortage of hotel rooms relative to demand which has eased as new hotel capacity has been developed.
in visitor arrivals from Australia and Asia, and other services may follow which would lift demand beyond the levels assumed in this report. Other proposed developments that would materially improve the demand and ADR outlook for Wellington include the Movie Museum, the new Convention Centre, and the 350 metre runway extension at Wellington Airport.

Regular increases in hotel supply are expected to limit the rate of growth in Christchurch’s ADR, which remains well above pre-earthquake levels. Annual ADR is projected to increase gradually from NZ$158 in 2015 to NZ$179 in 2025.

Room rates in Rotorua will also continue to trend upwards as international tourism grows but the price sensitivity of the large tour and group segment combined with an aging hotel inventory will keep ADR comfortably below the levels achieved in the other focus regions. Annual ADR is projected to increase gradually from NZ$110 in 2015 to NZ$139 in 2025.

**FIGURE 4 PROJECTED ADR BY REGION ($NZ EXCL. GST)**

Source: Fresh Info Hotel Forecasting Model

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Australia is experiencing similar patterns of tourism growth to New Zealand, including rapid growth in Chinese demand, and therefore provides useful occupancy rate and ADR benchmarks. An analysis of recent trends in the Australian hotel market shows that:

- Sydney and Melbourne achieved occupancy rates of 88% and 87%\(^8\) respectively in 2015 which demonstrates that with favourable demand conditions and limited increases in room supply annual occupancy rates in key destinations can approach 90%. Interestingly, Auckland’s occupancy rate of 84%\(^9\) in 2015 is the same as Sydney’s occupancy rate in 2012.
- ADRs in key Australian cities varied considerably in 2015, ranging between a low of NZ$143 in Cairns and a high of NZ$254 in Sydney.\(^10\) Cross-city comparison must be used with caution due to differences in a range of factors\(^11\), but the key finding is that the focus regions currently achieve much lower ADRs than most key destinations in Australia. This suggests that there could be considerable scope for ADR growth in the focus regions.

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\(^8\) Based on STR data
\(^9\) Based on TIA Hotels data
\(^10\) Australian ADRs have been sourced from STR and converted to New Zealand dollars at an AUD/NZD exchange rate of 0.91. The Sydney ADR is based on “city” hotels only and therefore excludes airport and suburban hotels.
\(^11\) Factors that drive differences across cities include the size and composition of the hotel inventory, the customer base, competition from other forms of accommodation and the availability of supporting tourism attractions and infrastructure.
Higher occupancy rates will result in higher ADRs. The results for Sydney and Melbourne suggest that the rate of price escalation may start to accelerate (increase exponentially) once annual occupancy rates exceed 80%. For cities that have not yet reached annual occupancies in excess of 80% the relationship between occupancy and ADR appears to be more linear. This has important implications for New Zealand because Auckland’s annual occupancy rate is already well above 80% and the other four focus regions all have annual occupancy rates approaching 80%. There is already evidence of accelerating ADR growth in New Zealand in the first quarter of 2016, and this could signal the beginning of a major price adjustment in the New Zealand market. However, it is also important to note that the quantum and timing of new supply to the market is a significant variable in the future performance of each focus region.

**Growth in international tourism, particularly from China, will drive hotel demand over the next 10 years.**

New Zealand’s inbound tourism market is in the midst of a strong growth cycle that began in 2013 and shows no sign of abating. MBIE estimates that international visitor arrivals will grow from 3.13 million in 2015 to 4.51 million by 2022, representing overall growth of 44% and a CAGR\(^\text{12}\) of 5.4% per annum. Extrapolating these forecasts suggests that visitor arrivals to New Zealand will reach 5 million in 2025.

The next two years are estimated to be particularly strong with an additional 600,000 international visitors expected. This includes 350,000 visitors expected in 2016 (11% growth) and almost 250,000 expected in 2017 (7% growth). To put these numbers in perspective, international visitor arrivals grew by around 570,000 in the past three years (2013-15), which is recognised as an extraordinary period of growth, and by 510,000 in the 10 years prior to that (2002-12). The growth estimated by MBIE is therefore extremely significant and beyond anything New Zealand has experienced previously.

Significant growth in international air capacity is one of the key drivers of growth identified by MBIE. Based on current flight schedules it is estimated that inbound seats to New Zealand will grow from 8.45 million in 2015 to 9.53 million in 2016. This means that New Zealand will receive an additional 1.08 million inbound seats in 2016 which is a 13% increase and almost three times the increase in seats observed in 2015.\(^\text{13}\)

This is similar in magnitude to the change observed in 2004 when low cost carriers began operating on trans-Tasman routes. The increase in air capacity in 2004 resulted in a significant increase in visitor arrivals to New Zealand which caused a permanent step-change in trans-Tasman visitor flows. New Zealand may now be experiencing a similar step-change in long-haul aviation capacity caused by new aircraft technologies that improve the economic viability of long-haul routes. Low fuel prices are also incentivising capacity growth.

Major events and business events will also drive growth, with business events in particular expected to stimulate incremental demand relative to current levels as new convention facilities in Auckland, Wellington (proposed), Christchurch and Queenstown come online. Business events are generally held in the middle of the year and therefore help to lift demand during traditional off-peak periods e.g. the recently announced Amway incentives in Queenstown which will bring 10,000 international visitors to Queenstown in groups of 500 in the June quarter (starting in 2018).

More generally, New Zealand’s global reputation as a beautiful, safe, clean and friendly destination is a critical enabler and major driver of international tourism growth in New Zealand.

China and Australia are expected to be the largest contributors to growth, jointly accounting for around two thirds of the projected growth in total visitor arrivals between now and 2025. Chinese visitor arrivals are expected to grow from 356,000 in 2015 to 1.16 million in 2025 (226%), accounting for 43% of overall growth,\

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\(^\text{12}\) Compounding annual growth rate

\(^\text{13}\) This includes direct services as well as indirect services flying to New Zealand via other countries.
and Australian arrivals are expected to grow from 1.33 million in 2015 to 1.76 million in 2025 (33%), accounting for 23% of growth.

Despite more moderate levels of growth in the mature domestic market (including leisure and corporate) the combined growth in domestic and international tourism demand is expected to have a material impact on hotel demand over the next decade.

Based on current tourism growth projections it is estimated that unconstrained demand\textsuperscript{14} for hotel room nights across the five focus regions will increase from 5.9 million in 2015 to 8.7 million by 2025. This represents total growth of 49% over the next decade and an average growth rate of 4.1% per annum.

The international and domestic markets will both drive growth in hotel demand but the forecasting models developed for this project predict that international demand will grow by 5.8% per annum while domestic demand will grow more slowly at 2.5% per annum. The rapid growth in international demand will be driven mainly by China which is projected to grow by 11.6% per annum over the next decade. Based on these growth rates international demand will exceed domestic demand across the five focus regions by 2021.

\textbf{FIGURE 5 ANNUAL DEMAND FOR HOTEL ROOM NIGHTS IN THE FIVE FOCUS REGIONS}

\textit{Source: Fresh Info Hotel Forecasting Model}

The total change in demand will be greatest in Auckland with an additional 1.32 million hotel room nights annually by 2025. This represents growth over the next 10 years of 46% and average growth of 3.9% per annum. Queenstown is expected to experience the next largest increase at 600,000 room nights (5.1% per annum) followed by Christchurch at 460,000 (6.5%), Rotorua at 200,000 (3.2%) and Wellington at 290,000 (2.6%).

\textsuperscript{14} Unconstrained demand measures the number of room nights that would be spent in hotels if there were no room constraints.
An independent analysis conducted by Fresh Info suggests that home sharing platforms such as Airbnb will not have a material competitive impact on hotels in the short/medium term due to the relatively small number of active listings in the focus regions and the very high levels of accommodation demand relative to supply. In addition, the overlap between the customers that use hotels and those that use Airbnb is only partial. Given current market conditions it is likely that Airbnb is absorbing some of the latent demand that hotels can’t manage during peak tourism periods, which is positive for the wider tourism sector as a whole.

**Hotel supply is not expected to keep pace with demand over the next 10 years.**

As at December 2015 the five focus regions had a combined total of 20,115 hotel rooms. Auckland had the largest number of rooms at 9,459 (47%) followed by Wellington at 3,494 (17%), Queenstown at 3,234 (16%), Christchurch at 2,019 (10%) and Rotorua at 1,909 (9%).

Based on current projections it is estimated that the overall hotel supply in the five focus regions will increase to 25,289 in December 2025. This represents a total increase of 5,174 hotel rooms (26%) over the next decade and a CAGR of 2.3% per annum. This projection is based on a regional analysis of:

- Hotels that are currently under construction and scheduled for completion by December 2020
- Proposed or mooted hotel developments that would be completed by December 2020\(^{16}\)
- Historical growth rates in hotel capacity, applied to the period 2021-25

Auckland is expected to experience the largest increase in hotel inventory by 2025 with an additional 2,518 rooms built (27% increase), followed by Christchurch at 1,200 (59% increase), Queenstown at 679 rooms (21% increase), Wellington at 561 (16% increase) and Rotorua at 216 rooms (11% increase).

\(^{15}\) The main overlap will be in the independent leisure market where travellers are likely to be more flexible and more interested in the authentic local experience an Airbnb property could provide. Key segments such as corporates, business event delegates, tour groups and air crew will continue to favour hotels over home sharing arrangements.

\(^{16}\) Probability-weighting has been applied to uncertain developments based on the likelihood that they will proceed.
The projected growth in hotel supply is lower than the projected growth in demand in each focus region which means that occupancy rate and ADR pressures will continue to grow across the forecast period. The growing disparity between supply and demand will result in severe congestion during high demand periods and high year-round occupancy rates in some regions, especially Auckland and Queenstown.

**FIGURE 8 GROWTH IN HOTEL DEMAND AND SUPPLY 2015-25**
Source: Fresh Info Hotel Forecasting Model
Additional hotel investment is required in the five focus regions to maintain a sustainable balance between demand and supply.

Our analysis suggests that the hotel market could absorb up to 9,700 new hotel rooms across the five focus regions by 2025 while continuing to achieve 2015 occupancy rates. Some key assumptions that inform this analysis include: realisation of MBIE’s visitor arrival forecasts; limited impact on hotel demand from alternative modes of accommodation and new business models like Airbnb; and no major disruptions to normal tourism patterns e.g. natural disasters, economic shocks, pandemics, terrorism.

Taking into account projected growth in new hotel rooms over the next 10 years it is estimated that there may still be a significant shortfall in hotel rooms of up to 4,526 across the five focus regions by 2025. The expected shortfall is greatest in Auckland where up to 4,300 new hotel rooms will be required over the next 10 years but only 2,518 are expected to be built. This leaves a shortfall of up to 1,782 rooms by 2025. The next largest potential shortfall of 1,421 is in Queenstown (2,100 required and only 679 being built) with Rotorua, Wellington and Christchurch all having smaller shortfalls of between 400 and 500 rooms.

The urgency for new hotel inventory is greatest in Auckland and Queenstown where record occupancy rates are already starting to disrupt traditional tourism patterns and behaviours.

FIGURE 9 NEW HOTEL ROOMS REQUIRED BY 2025 IN THE FIVE FOCUS REGIONS
Source: Fresh Info Hotel Forecasting Model

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17 The unconstrained demand projections have been used to estimate the total number of hotel rooms each region would require in 2025. The "optimal" number of hotel rooms has been estimated by calculating the number of rooms that would allow hotels in each region to achieve the same occupancy rates in 2025 as they achieved in 2015. The 2015 calendar year has been used as a benchmark because it was a year that provided demand conditions that allowed most tourism demand to be accommodated while also being financially sustainable for hotels. This is very important because excessive growth in the hotel inventory has a detrimental impact on year-round financial performance which could result in subsequent periods of under investment.
Tourist behaviour suggests new 4 star and above hotels would be preferred.

Hotel preferences are influenced by a wide variety of factors. Based on current behaviour 4.5 star hotels are most popular across all markets except the Chinese market which currently prefers 4 star hotels. This preference is significant given the important role the Chinese market will play in driving tourism growth in New Zealand over the next decade. In aggregate 2% of hotel room nights are currently\textsuperscript{18} spent in 3 star establishments within New Zealand, 14% are spent in 3.5 star, 22% are spent in 4 star, 45% are spent in 4.5 star and 16% are spent in 5 star.\textsuperscript{19}

**FIGURE 10 SHARE OF ROOM NIGHTS OCCUPIED IN 2015 BY STAR RATING**

Source: TIA Hotel Statistics, Fresh Info

![Hotel Star Rating Chart]

Based on current guest preferences it is estimated that demand for higher quality hotels in the 4, 4.5 and 5 star categories will grow most strongly over the forecast period. Additionally, there will still be a requirement for additional 3-3.5 star establishments in all of the focus regions, especially Rotorua\textsuperscript{19} where the future demand preference is divided relatively evenly between 3-3.5 star establishments and higher quality 4, 4.5 and 5 star establishments.

The graph below allocates new hotel demand between 2015 and 2025 to hotel categories based on current hotel preferences e.g. the results for Auckland suggest that 84% of new hotel demand between 2015 and 2025 would ideally be satisfied in 4-5 star hotels with the remaining 16% ideally satisfied in 3-3.5 star hotels. We note that preferences may change over time, particularly in response to changes in hotel price and availability.

\textsuperscript{18} In calendar year 2015

\textsuperscript{19} Data constraints mean that Rotorua’s population of hotels can only be segmented into 3-4 star hotels and 4.5-5 star hotels, so the reported figures for Rotorua don’t align perfectly with the star bandings in the table.
FIGURE 11 GROWTH IN HOTEL DEMAND BETWEEN 2015 AND 2025 BY HOTEL PREFERENCE
Source: Fresh Info Hotel Forecasting Model

Auckland 84% 16%
Rotorua 51% 28%
Wellington 72% 30%
Christchurch 70% 17%
Queenstown 83%
INTRODUCTION

Background

New Zealand Trade & Enterprise (NZTE), Tourism New Zealand (TNZ) and the Ministry of Business, Innovation and Employment (MBIE) are working in partnership with Tourism Industry Aotearoa (TIA) to identify the level of demand and supply for hotels in five focus regions in New Zealand: Auckland, Rotorua, Wellington, Christchurch, and Queenstown. If gaps exist, NZTE will facilitate investment towards new hotel investment opportunities (Project Palace).

Project Palace will facilitate investment into new hotels that align with customer preferences in regions where there may otherwise be a future shortfall of hotel rooms. Project Palace is a subset of other tourism sector studies being conducted simultaneously. In particular, MBIE has proposed an Insight Series that will support NZTE’s ability to present the New Zealand Tourism Sector as an investable proposition through a series of focused reports.

Objective

The objective of this report is to present the key results from the regional hotel market analysis requested by NZTE. The main elements of this work are:

- A detailed understanding of the New Zealand hotel sector, including the key drivers of demand and supply.
- The development of quarterly hotel demand forecasts for each of the five focus regions for a period of 10 years (2016-2025), segmented by star rating.
- The development of quarterly hotel supply forecasts for each of the five focus regions for a period of 10 years, segmented by star rating.
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21 Some individual star ratings needed to be aggregated into star rating bands in each region to protect confidentiality e.g. 3 and 3.5 star properties in Auckland were aggregated into a 3-3.5 star category because using the individual star ratings would have revealed confidential information about one or more hotels.

22 The supply forecasts needed to be aggregated into the same star rating bands as the demand forecasts to provide a consistent level of segmentation within a region.

23 ADR is the average amount a hotel charges for one of its rooms each night, excluding GST.

24 RevPAR is the average amount of revenue a hotel derives from each of its rooms each night, including unoccupied rooms. Only the room revenue is included in this calculation, and all values exclude GST.
NATIONAL OVERVIEW

Tourism context

Tourism is one of the largest and fastest growing industries in New Zealand. In the year ending March 2015 tourism expenditure increased by 10.3% to reach a new high of $29.8 billion which supported 12.1% of all jobs in New Zealand.\(^2\) Domestic travellers accounted for around 60% of all tourism expenditure at $18.1 billion and international tourists the remaining $11.8 billion. The money spent by international tourists accounted for 17.4% of total exports by value which resulted in tourism replacing dairy as New Zealand’s largest export earner.

The New Zealand tourism sector has almost doubled in value since 1999 and is currently in the midst of its strongest ever growth cycle. This is being driven mainly by unprecedented growth in international tourism with visitor arrivals to New Zealand increasing by 9.7% in 2015 to reach a new high of 3.13 million, following increases of 5.3% in 2014 and 6.1% in 2013.

The Ministry of Business, Innovation and Employment (MBIE) predicts that this strong growth will continue with international visitor arrivals forecast to grow by 44% over the next seven years to reach 4.5 million by 2022, representing an average annual growth rate of 5.4% per annum. For the purposes of this analysis growth is assumed to remain stable thereafter (2023-25).

The main factors driving the current growth in international tourism include:

- A robust post-GFC rebound in international travel as many economies recover from sustained periods of slow or negative economic growth.
- Significant growth in air connectivity between New Zealand and key inbound markets, including more direct long-haul services to key aviation hubs such as Houston, Buenos Aires, Doha and Dubai. This growth is being driven by demand and enabled by the introduction of new long-haul aircraft into the aviation fleet which can fly further than older models and also have much better fuel efficiency. These technological advances favour long-haul destinations like New Zealand.

\(^2\) Statistics New Zealand will publish the YE March 2016 results in late 2016.
Growing demand for international travel within fast growing Asian markets, particularly China. This is being driven by high economic growth rates and expanding middle classes in these countries that increasingly have the time and money to engage in international travel.

- Lower fuel prices which have reduced airfares and are also playing a key role in incentivising air route expansion.
- A weaker NZ dollar relative to key currencies like the US dollar and the Chinese Renminbi which increases New Zealand’s competitiveness relative to other destinations.
- New Zealand’s reputation as a safe and friendly destination. This is becoming increasingly important as global tensions rise, giving New Zealand a competitive advantage over less stable destinations among risk-averse travellers.
- Strong destination awareness developed through many years of tourism marketing (100% Pure) and various promotional platforms e.g. The Hobbit, America’s Cup, Rugby World Cup 2011.
- New Zealand’s outstanding landscapes and natural attractions.
- High rates of inward migration (including export education) which stimulates additional inbound travel by friends and relatives and also increases global business connections which often leads to additional business travel to New Zealand.

The growth predicted by MBIE is particularly strong in the next two years (circa 600,000 visitor arrivals) with an additional 350,000 visitors expected in 2016 and almost 250,000 expected in 2017. To put these numbers in perspective international visitor arrivals grew by around 570,000 in the past three years (2013-15), which is recognised as an extraordinary period of growth, and by 510,000 in the 10 years prior to that (2002-12). The growth predicted by MBIE is therefore extremely significant and beyond anything New Zealand has experienced previously.

**FIGURE 13 CHANGE IN INTERNATIONAL VISITOR ARRIVALS**

Source: IVA (Stats NZ), Visitor Arrival Forecasts (MBIE), Fresh Info
This has significant implications for the hotel sector in New Zealand because the growth experienced between 2012 and 2015 has already led to major capacity constraints and escalating prices in a number of regions during peak tourism periods. This raises the important question of what impact repeating that growth over the next two years will have on the accommodation sector, and on the tourism system more generally.

China and Australia are expected to be the largest contributors to growth over the next decade, jointly accounting for around two thirds of the projected growth in total visitor arrivals. Chinese visitor arrivals are expected to grow by 226% to 1.16 million in 2025, accounting for 43% of overall growth, and Australian arrivals are expected to grow by 430,000 to 1.76 million, accounting for 23% of growth.

**FIGURE 14 PROJECTED GROWTH IN INTERNATIONAL VISITOR ARRIVALS BY MARKET**
Source: IVA (Stats NZ), Visitor Arrival Forecasts (MBIE), Fresh Info

Based on these growth rates China, the most significant growth market, will account for 23% of visitor arrivals in 2025 (up from 11%), Australia will account for 35% (down from 42% in 2015), the US will account for 9% (up from 8%) and the UK will account for 5% (down from 7%).

**FIGURE 15 SHARE OF INTERNATIONAL VISITOR ARRIVALS BY MARKET**
Source: IVA (Stats NZ), Visitor Arrival Forecasts (MBIE), Fresh Info
The holiday26 and ‘visiting friends and relatives’ (VFR) markets are expected to be the largest contributors to growth over the next decade, jointly accounting for around 87% of the projected growth in total visitor arrivals. Holiday visitors are expected to grow by 79% to 2.8 million in 2025, and VFR arrivals are expected to grow by 43% to 1.4 million, accounting for 22% of growth.

**FIGURE 16 INTERNATIONAL VISITOR ARRIVALS BY PURPOSE OF VISIT**
Source: IVA (Stats NZ), Visitor Arrival Forecasts (MBIE), Fresh Info

Based on these growth rates holiday visitors will account for 56% of visitor arrivals in 2025 (up from 50% in 2015), VFR will account for 27% (down from 30%), business will account for 7% (down from 9%) and other will account for 10% (down from 11%). The strong growth in holiday arrivals is positive for the hotel sector due to the high propensity of holiday visitors to use hotels (analysis presented below suggests that 24% of visitor nights within the holiday segment are spent in hotels in New Zealand).

**FIGURE 17 SHARE OF INTERNATIONAL VISITOR ARRIVALS BY PURPOSE OF VISIT**
Source: IVA (Stats NZ), Visitor Arrival Forecasts (MBIE), Fresh Info

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26 The term ‘holiday’ is used interchangeably with the term ‘leisure’ in this report. The holiday/leisure market is generally divided into ‘independent travellers’ (usually denoted as FIT which stands for ‘fully independent traveller’) and ‘tour & group’ which is self explanatory.
Business events

Business events\textsuperscript{27} represent a relatively small but important part of New Zealand’s visitor economy and they are highly relevant to the hotel sector because business event delegates have a high propensity to use hotels. Recent research on the multi-day convention market\textsuperscript{28} (the only officially-measured segment of the broader business events sector in New Zealand) concludes that international delegates spend an average of 5.8 nights in New Zealand\textsuperscript{29} while domestic delegates from outside the event region spend an average of 2.9 nights in the event region. There is no recent research available on the accommodation preferences of convention delegates but previous research suggests that convention delegates behave in a similar way to business travellers i.e. at least 25\% of convention delegates are likely to stay in hotels.

The growth prospects for business events in New Zealand are good with TNZ investing significantly in business event attraction and new convention facilities planned for Auckland, Wellington, Christchurch and Queenstown in the next 10 years. TNZ currently has 25 international business events confirmed for New Zealand over the next five years including six involving more than 1,000 delegates. The most notable of these is the recently announced Amway incentive which will bring 10,000 Chinese visitors to Queenstown in groups of 500 beginning in the June quarter of 2018.

Domestic aviation

There were 16.3 million domestic airline seats operating in New Zealand in 2015 (one way) - a 4.6\% increase on the previous year. Auckland handled the largest number of domestic seats across the five focus regions at 4.68 million (one way) followed by Christchurch at 3.08 million, Wellington at 2.93 million, Queenstown at 649,000 and Rotorua at 154,000. The balance of the 16.3 million domestic seats were handled by non-focus regions.

Based on current flight schedules it is estimated that the number of domestic airline seats will grow by 1.71 million in 2016 – almost three times the increase observed in 2015. This growth is being driven by increased flight frequencies, Air New Zealand’s transition from Boeing 737s to larger A320 aircraft and Jetstar’s new regional routes (Napier, Nelson, New Plymouth and Palmerston North). Lower fuel prices and the introduction of more fuel efficient aircraft are also contributing to the expansion in domestic capacity.

FIGURE 18 DOMESTIC AIRLINE SEATS IN NEW ZEALAND (ONE WAY)

Source: Sabre Market Intelligence

\textsuperscript{27} The term ‘business events’ encompasses the wide range of events held in dedicated convention values including meetings/seminars, incentives, conferences/conventions, and trade shows/exhibitions.

\textsuperscript{28} MBIE, Convention Delegate Survey Report, Year Ending December 2015.

\textsuperscript{29} Four nights in the event region and 1.8 nights elsewhere in New Zealand.
Auckland is expected to experience the largest increase in domestic seat capacity in 2016 at 626,000 (13%), followed by Christchurch at 212,000 (7%), Wellington at 181,000 (6%) and Queenstown at 104,000 (16%). Domestic seat capacity at Rotorua Airport is expected to remain unchanged in 2016, due in part to Rotorua’s close proximity to Auckland which makes it easy to access by road for Auckland residents and international visitors entering New Zealand via Auckland Airport.

**FIGURE 19 DOMESTIC AIRLINE SEATS BY AIRPORT (ONE WAY)**
Source: Sabre Market Intelligence

International aviation

Auckland is New Zealand’s main international gateway with 71% of international visitors entering through Auckland Airport in 2015. Christchurch captures the next largest share at 14% followed by Wellington and Queenstown with 7% each.

**FIGURE 20 VISITOR ARRIVALS TO NEW ZEALAND BY PORT OF ENTRY**
Source: IVA (Stats NZ)

New Zealand was served by 9.5 million inbound airline seats in 2015 - a 4.6% increase on the previous year. Around 86% of these seats flew non-stop (direct) between the origin port and New Zealand while the remaining 14% stopped in at least one other country on the way (indirect). Based on current flight schedules it is estimated that New Zealand will receive an additional 1.08 million inbound seats in 2016 – almost three times the increase observed in 2015. This is similar in magnitude to the change observed in 2004 when low cost carriers began operating on routes between New Zealand and Australia. The increase in air capacity in
2004 resulted in a significant increase in visitor arrivals to New Zealand which caused a permanent step-change in trans-Tasman visitor flows.

**FIGURE 21 INTERNATIONAL AIRLINE SEATS (ONE WAY)**
Source: Sabre Market Intelligence

The new international services that are driving the majority of the overall growth in air capacity are summarised in the table below. There has also been an increase in frequency on several existing long-haul routes including Los Angeles, Houston, Vancouver and Guangzhou and some up-gauging to larger (wide body) aircraft, as well as an increase in frequency on some trans-Tasman routes and the introduction of night flights into Queenstown. In addition to the new services in the table below the Government is currently discussing improved air connectivity with the Indian Government which could accelerate growth in Indian visitor arrivals to New Zealand. This would be positive for the hotel sector because the off-peak period of May/June is the most popular time of year for Indians to visit New Zealand.

**FIGURE 22 NEW INTERNATIONAL AIR SERVICES**
Source: Sabre Market Intelligence, Tourism New Zealand

<table>
<thead>
<tr>
<th>Timing</th>
<th>Carrier</th>
<th>Route</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan 15</td>
<td>Air New Zealand</td>
<td>Singapore/Auckland</td>
<td>Daily</td>
</tr>
<tr>
<td>Sept 15</td>
<td>China Eastern</td>
<td>Shanghai/Auckland</td>
<td>4x week/daily Jan 16</td>
</tr>
<tr>
<td>Oct 15</td>
<td>China Airlines</td>
<td>Taipei/Mel/Christchurch</td>
<td>3x week (seasonal)</td>
</tr>
<tr>
<td>Dec 15</td>
<td>Air New Zealand</td>
<td>Buenos Aires/Auckland</td>
<td>3x week</td>
</tr>
<tr>
<td></td>
<td>Air New Zealand</td>
<td>Houston/Auckland</td>
<td>5x week</td>
</tr>
<tr>
<td></td>
<td>Philippines Airlines</td>
<td>Manila/Cairns/Auckland</td>
<td>4x week</td>
</tr>
<tr>
<td></td>
<td>Air China</td>
<td>Beijing/Auckland</td>
<td>Daily</td>
</tr>
<tr>
<td></td>
<td>China Southern</td>
<td>Guangzhou/Christchurch</td>
<td>3x week (seasonal)</td>
</tr>
<tr>
<td>Jan 16</td>
<td>Emirates</td>
<td>Dubai/Auckland</td>
<td>Daily</td>
</tr>
<tr>
<td>Mar 16</td>
<td>Air Asia X</td>
<td>Kuala Lumpur/Gold Coast/Auckland</td>
<td>Daily</td>
</tr>
<tr>
<td>June 16</td>
<td>American Airlines</td>
<td>Los Angeles/Auckland</td>
<td>Daily</td>
</tr>
<tr>
<td>July 16</td>
<td>Air New Zealand</td>
<td>Ho Chi Minh City/Auckland</td>
<td>3x week (seasonal)</td>
</tr>
<tr>
<td></td>
<td>United Airlines</td>
<td>San Francisco/Auckland</td>
<td>Daily</td>
</tr>
<tr>
<td>Sept 16</td>
<td>Singapore Airlines</td>
<td>Singapore/Canberra/Wellington</td>
<td>4x week</td>
</tr>
<tr>
<td>Nov 16</td>
<td>Air New Zealand</td>
<td>Osaka/Auckland</td>
<td>3x week (seasonal)</td>
</tr>
<tr>
<td>Dec 16</td>
<td>Air New Zealand</td>
<td>Manila/Auckland</td>
<td>3x week</td>
</tr>
<tr>
<td>Feb 17</td>
<td>Qatar Airlines</td>
<td>Doha/Auckland</td>
<td>Daily</td>
</tr>
</tbody>
</table>
Auckland is expected to experience the largest increase in international seat capacity in 2016 at 908,000 (14%), followed by Wellington at 87,000 (10%), Christchurch at 48,000 (6%) and Queenstown at 32,000 (11%). With 84% of overall international seat growth, Auckland will further strengthen its position as the main gateway to New Zealand in 2016. This is likely to generate additional demand for the domestic air network as international visitors travel between Auckland and other destinations in New Zealand.

**FIGURE 23 INTERNATIONAL AIRLINE SEATS BY AIRPORT (ONE WAY)**
Source: Sabre Market Intelligence
Hotel sector

As at December 2015 the five focus regions had a combined total of 20,115 3 to 5 star rated hotels and serviced apartments (Qualmark or self-rated) operating at least 40 rooms. Auckland had the largest number of rooms at 9,459 (47%) followed by Wellington at 3,494, Queenstown at 3,234 (16%), Christchurch at 2,019 (10%) and Rotorua at 1,909 (9%).

**FIGURE 24 HOTEL ROOMS IN THE FIVE FOCUS REGIONS AS AT DECEMBER 2015**
Source: Colliers International

Hotels with a 4.5 star rating account for 39% of all hotel rooms across the five focus regions, with 4 star hotels accounting for 21%, 3.5 star and 5 star 16% respectively and 3-3.5 star 7%. Christchurch currently has the highest share of 3-3.5 star rooms at 12% while Queenstown has the highest share of 5 star rooms at 28%.

**FIGURE 25 ROOM COMPOSITION IN THE FIVE FOCUS REGIONS AS AT DECEMBER 2015**
Source: Colliers International
The number of hotel room nights occupied within the five focus regions has increased from 5.47 million in 2010 to 5.86 million in 2015. All of this increase has been realised in the past three years driven by growth in both the international and domestic markets. The decline in demand between 2010 and 2012 was mainly caused by the combined impact of the global financial crisis (and subsequent economic recession) and the earthquakes which reduced the hotel inventory by over 2,000 rooms in Christchurch in early 2011.

**FIGURE 26 HOTEL ROOM NIGHTS OCCUPIED IN THE FIVE FOCUS REGIONS**
Source: TIA Hotel Statistics, Fresh Info

Domestic guests (including leisure and corporate) are the largest consumers of hotel room nights in the five focus regions, accounting for 56% of overall demand in 2015 which is up from 52% in 2010. Visitors from Australia are the next largest consumers at 14% (down from 18%) followed by visitors from China at 7% (up from 4%) and visitors from the US at 5% (no change). Visitors from other international markets occupied the remaining 18% of hotel rooms in 2015.

**FIGURE 27 SHARE OF ROOM NIGHTS OCCUPIED IN 2015 BY ORIGIN OF GUEST (FIVE FOCUS REGIONS)**
Source: TIA Hotel Statistics, Fresh Info
Occupancy rates and ADRs for 3 to 5 star hotels in the year ending December 2015 achieved historic highs in all of the focus regions except Christchurch. Auckland achieved the highest annual occupancy rate at 84% followed by Queenstown at 79%, Wellington at 78% and Rotorua and Christchurch at 77%. The highest ADR was achieved in Queenstown at NZ$168 followed by Christchurch at NZ$158, Auckland at NZ$153, Wellington at NZ$152 and Rotorua at NZ$110.

**FIGURE 28 MARKET SUMMARY FOR 3 TO 5 STAR HOTELS IN THE FIVE FOCUS REGIONS, CY 2015**

Source: TIA Hotel Statistics, Fresh Info

<table>
<thead>
<tr>
<th>Region</th>
<th>Rooms (as at December 2015)</th>
<th>Room nights available</th>
<th>Room nights occupied</th>
<th>Occupancy</th>
<th>ADR ($NZ)</th>
<th>RevPAR ($NZ)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auckland</td>
<td>9,459</td>
<td>3,442,769</td>
<td>2,877,550</td>
<td>84%</td>
<td>$153</td>
<td>$128</td>
</tr>
<tr>
<td>Rotorua</td>
<td>1,909</td>
<td>696,785</td>
<td>534,035</td>
<td>77%</td>
<td>$110</td>
<td>$84</td>
</tr>
<tr>
<td>Wellington</td>
<td>3,494</td>
<td>1,289,124</td>
<td>1,007,492</td>
<td>78%</td>
<td>$152</td>
<td>$119</td>
</tr>
<tr>
<td>Christchurch</td>
<td>2,019</td>
<td>679,774</td>
<td>521,977</td>
<td>77%</td>
<td>$158</td>
<td>$121</td>
</tr>
<tr>
<td>Queenstown</td>
<td>3,234</td>
<td>1,172,841</td>
<td>922,218</td>
<td>79%</td>
<td>$168</td>
<td>$132</td>
</tr>
<tr>
<td>TOTAL (5 regions)</td>
<td>20,115</td>
<td>7,281,293</td>
<td>5,863,272</td>
<td>81%</td>
<td>$152</td>
<td>$122</td>
</tr>
</tbody>
</table>

Information taken from Statistics New Zealand’s Commercial Accommodation Monitor shows that each hotel room in New Zealand is occupied by 1.71 guests per night on average and each guest stays an average of 1.96 nights. The number of occupants per room is highest in the popular holiday destinations of Queenstown and Rotorua because holiday travellers tend to travel in groups. The number of nights stayed per guest is much higher in Queenstown than elsewhere due to its attractiveness as a holiday destination and the time and cost of travelling there which tends to encourage longer stays. The number of nights stayed per guest in Rotorua is relatively low because it is only two hours from Auckland by road and is therefore regarded more as a short stay/weekend destination by domestic visitors, and within the international market it attracts a lot of tour and group business which tends to be short stay.

**FIGURE 29 HOTEL GUEST CHARACTERISTICS**

Source: Fresh Info, Commercial Accommodation Monitor (Stats NZ)

<table>
<thead>
<tr>
<th>Region</th>
<th>Room nights occupied</th>
<th>Number of guest nights</th>
<th>Guests per room night</th>
<th>Nights stayed per guest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auckland</td>
<td>2,877,550</td>
<td>4,756,059</td>
<td>1.65</td>
<td>1.99</td>
</tr>
<tr>
<td>Rotorua</td>
<td>534,035</td>
<td>1,010,628</td>
<td>1.89</td>
<td>1.72</td>
</tr>
<tr>
<td>Wellington</td>
<td>1,007,492</td>
<td>1,595,966</td>
<td>1.58</td>
<td>2.03</td>
</tr>
<tr>
<td>Christchurch</td>
<td>521,977</td>
<td>848,546</td>
<td>1.63</td>
<td>1.95</td>
</tr>
<tr>
<td>Queenstown</td>
<td>922,218</td>
<td>1,762,340</td>
<td>1.91</td>
<td>2.73</td>
</tr>
<tr>
<td>TOTAL (5 regions)</td>
<td>5,863,272</td>
<td>9,973,540</td>
<td>1.70</td>
<td>1.72</td>
</tr>
</tbody>
</table>

Hotel room night demand in New Zealand has historically followed a regular seasonal pattern with the lowest levels of demand observed in the June quarter and the highest levels observed in the March quarter. Domestic demand for hotel rooms is relatively stable across the year with a slight increase evident in the September and December quarters due to higher levels of business event attendance and corporate travel during those periods.

At a national level international hotel demand is seasonal with a bias toward the December and March quarters. These periods align with favourable weather patterns in New Zealand, the northern hemisphere winter and important holiday periods in some of our key markets such as Chinese New Year.
The main driver of the overall pattern of seasonality in hotel demand is therefore the concentration of international demand in the peak spring/summer period of November through March and the shoulder periods of October and April. This pattern is expected to persist in the future although there is likely to be an increase in shoulder and off-peak demand as TNZ shifts its marketing focus to these periods and supply constraints and the associated pricing effects incentivise off-peak travel. The increase in year-round international aviation capacity will also promote higher levels of demand during shoulder and off-peak periods.

**FIGURE 30 HOTEL ROOM NIGHTS OCCUPIED IN THE FIVE FOCUS REGIONS BY QUARTER**
Source: TIA Hotel Statistics, Fresh Info

Domestic hotel demand is fairly consistent across all four quarters of the year but the seasonal pattern of the international market causes the domestic share of total room nights occupied to vary between around 60% in the June and September quarters and 40% during the December and March quarters. The domestic market is therefore vitally important to the hotel sector at all times of the year, but particularly in the middle of the year when international demand is at its lowest.

**FIGURE 31 SHARE OF HOTEL ROOM NIGHTS OCCUPIED IN THE FIVE FOCUS REGIONS BY QUARTER**
Source: TIA Hotel Statistics, Fresh Info
There are varying propensities to use hotels within the large and diverse domestic tourism market. Almost half (47%) of all domestic visitor nights in New Zealand are for the purpose of VFR (pie chart) but only 5% of these nights are spent in hotels (bar chart). The holiday market accounts for a further 35% of visitor nights (pie chart) and around 10% of these nights are spent in hotels (bar chart). Only 10% of domestic visitor nights are for the purpose of business (pie chart) but importantly, more than one quarter (27%) of them are spent in hotels (bar chart). This demonstrates that some domestic tourism segments are more important to the hotel sector than others.

**FIGURE 32 STRUCTURE OF DOMESTIC VISITOR MARKET**  
Source: AA Traveller

According to MBIE’s International Visitor Survey\(^{30}\) around 11% of international visitor nights are spent in hotels in New Zealand. However, the propensities to use hotels vary considerably across visitor segments with holiday and business visitors each spending just under one quarter of their nights in hotels (25% and 23% respectively) compared with just 3% for VFR visitors and 4% for visitors travelling for ‘other’ reasons. Future demand for hotel room nights will therefore depend not only on headline growth in international visitor arrivals but also on the composition of that growth.

**FIGURE 33 INTERNATIONAL VISITOR PROPENSITY TO USE HOTELS BY PURPOSE OF VISIT**  
Source: International Visitor Survey (MBIE)

\(^{30}\) YE June 2013 as the International Visitor Survey ceased collecting detailed itinerary-level data at this time.
Domestic travellers consumed 67% of all 3 star hotel rooms in 2015, 62% of 3.5 star rooms, 50% of 4 star rooms, 63% of 4.5 star rooms and 60% of 5 star rooms. New Zealand, Australia and China collectively accounted for over 80% of all room nights sold in each star rating category.31

FIGURE 34 SHARE OF HOTEL ROOM NIGHTS OCCUPIED IN 2015 BY ORIGIN OF GUEST
Source: TIA Hotel Statistics, Fresh Info

Four star plus hotels are most popular across all markets except the Chinese market which currently appears to prefer 4 star hotels. In aggregate 2% of room nights are spent in 3 star hotels, 14% are spent in 3.5 star, 22% are spent in 4 star, 45% are spent in 4.5 star and 16% are spent in 5 star.

FIGURE 35 SHARE OF ROOM NIGHTS OCCUPIED IN 2015 BY STAR RATING
Source: TIA Hotel Statistics, Fresh Info

31 These figures are based on the 140 hotels that participate in the TIA Hotels benchmarking programme, most of which are located in the five focus regions of Auckland, Rotorua, Wellington, Christchurch and Queenstown.
**Hotel demand projections to 2025**

Forecasts of hotel room night demand in New Zealand have been developed using the methodology outlined in the methodology section of this report. Future demand for hotel room nights is defined as the number of hotel room nights domestic and international guests would like to occupy, as opposed to the number of room nights they’re actually able to occupy. The difference between these two measures is caused by hotel inventory constraints during busy periods which prevent some latent hotel demand from being satisfied.

Based on the previous analysis and future projections of domestic and international tourism activity it is estimated that overall unconstrained demand for hotel room nights in New Zealand’s five focus regions will increase from 5.9 million in 2015 to 8.7 million in 2025. This represents total growth of 49% over the next decade and an average growth rate of 4.1% per annum.

**FIGURE 36 DEMAND FOR HOTEL ROOM NIGHTS IN THE FIVE FOCUS REGIONS**

Source: Fresh Info Hotel Forecasting Model

The domestic and international markets will both drive growth in hotel demand but international demand is expected to grow by 5.8% per annum while domestic demand is expected to grow more slowly at 2.5% per annum. The rapid growth in international demand will be driven mainly by China which is projected to grow by 11.6% per annum over the next decade. Based on these growth rates international demand will exceed domestic demand across the five focus regions by 2021.

**FIGURE 37 DEMAND PROJECTIONS FOR HOTEL ROOM NIGHTS IN NEW ZEALAND BY MARKET**

Source: Fresh Info Hotel Forecasting Model
The largest changes in annual hotel demand over the next decade will come from the domestic, Chinese and Australian markets with increases of 920,000 (28% growth relative to 2015), 865,000 (199%) and 362,000 (43%) respectively. In aggregate these three markets will account for 75% of the growth in hotel room night demand in the five focus regions over the next decade.

**FIGURE 38 PROJECTED GROWTH IN ANNUAL DEMAND FOR HOTEL ROOM NIGHTS BY MARKET 2015-25**

*Source: Fresh Info Hotel Forecasting Model*

Based on the projected growth rates for each market it is estimated that the domestic market will account for 48% of hotel demand in 2025 (down from 56% in 2015), China will account for 15% (up from 7%) and Australia will hold its share at 14%.

**FIGURE 39 SHARE OF HOTEL ROOM NIGHT DEMAND BY ORIGIN OF GUEST**

*Source: Fresh Info Hotel Forecasting Model*
The total change in demand will be greatest in Auckland with an additional 1.32 million hotel room nights annually by 2025. This represents growth over the next 10 years of 46% and average growth of 3.9% per annum. Queenstown is expected to experience the next largest change at 600,000 room nights (5.1% per annum) followed by Christchurch at 460,000 (6.5%), Rotorua at 200,000 (3.2%) and Wellington at 290,000 (2.6%). These changes are driven by the destination preferences of specific markets combined with the growth projections presented previously.

**FIGURE 40 PROJECTED GROWTH IN DEMAND FOR HOTEL ROOM NIGHTS BY REGION 2015-25**
Source: Fresh Info Hotel Forecasting Model

Based on the projected growth rates for each region Auckland will attract 48% of hotel room night demand in 2025 (down from 49% in 2015), Queenstown will attract 18% (up from 16%), Wellington 15% (down from 17%), Christchurch 11% (up from 9%) and Rotorua 8% (down from 9%).

**FIGURE 41 SHARE OF HOTEL ROOM NIGHT DEMAND BY REGION**
Source: Fresh Info Hotel Forecasting Model
Hotel supply projections to 2025

The projected hotel supply for each of the five focus regions over the next decade has been estimated based on an analysis of:

- Hotels that are currently under construction and scheduled for completion by December 2020
- Proposed or mooted hotel developments that would be completed by December 2020
- Historical growth rates in hotel capacity, applied to the period 2021-25

Probability-weighting has been applied to projects that would be completed by 2020 based on the likelihood that they will proceed and/or be completed, as assessed by Colliers.

Based on analysis of historic hotel supply and the future development register, it is estimated that the overall hotel supply in the five focus regions will increase from 20,115 rooms in 2015 to 25,289 rooms in 2025. This represents a total increase of 26% over the next decade and an average growth rate of 2.3% per annum. Auckland is expected to experience the largest increase in hotel inventory by 2025 with an additional 2,518 rooms built (27% increase), followed by Christchurch at 1,200 (59% increase) and Queenstown at 679 rooms (21% increase).

FIGURE 42 PROJECTED GROWTH IN HOTEL ROOMS BY REGION 2015 - 2025
Source: Colliers International

The demand projections indicate that the five focus regions could absorb up to 9,700 new hotel rooms over the next decade without adversely impacting the current competitive environment. The “optimal” number of hotel rooms has been estimated by calculating the number of rooms that would allow hotels in each region to achieve the same occupancy rates in 2025 as they achieved in 2015. The 2015 calendar year has been used as a benchmark because it was a year that provided demand conditions that allowed most tourism demand to be accommodated while also being financially sustainable for hotels. This is very important because excessive growth in the hotel inventory has a detrimental impact on year-round financial performance which could result in subsequent periods of under investment.
Some key assumptions that underpin the analysis include:

- Realisation of MBIE’s visitor arrival forecasts which predict average growth of 5.4% per annum over the next seven years.
- Limited impact on hotel demand from alternative modes of accommodation and new business models like Airbnb.
- No major disruptions to normal tourism patterns caused by factors such as natural disasters, economic shocks, pandemics and terrorism.

Taking into account projected growth in new hotel rooms over the next 10 years it is estimated that there may still be a significant shortfall in hotel rooms of up to 4,526 across New Zealand’s five focus regions by 2025. The expected shortfall is greatest in Auckland where up to 4,300 new hotel rooms will be required over the next 10 years but only 2,518 are expected to be built. This leaves a shortfall of up to 1,782 rooms by 2025. The next largest potential shortfall of 1,421 is in Queenstown (2,100 required and only 679 being built) with Rotorua, Wellington and Christchurch all having smaller shortfalls of between 400 and 500 rooms.

The urgency for new hotel inventory is greatest in Auckland and Queenstown where record occupancy rates are already starting to disrupt traditional tourism patterns and behaviours.

**FIGURE 43 NEW HOTEL ROOMS REQUIRED BY 2025 IN THE FIVE FOCUS REGIONS**

Source: Fresh Info Hotel Forecasting Model

<table>
<thead>
<tr>
<th>Region</th>
<th>Growth in hotel rooms 2015</th>
<th>Expected room growth by 2025</th>
<th>Expected shortfall (maximum)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auckland</td>
<td>2,518</td>
<td></td>
<td>1,782</td>
</tr>
<tr>
<td>Rotorua</td>
<td>484</td>
<td>216</td>
<td>679</td>
</tr>
<tr>
<td>Wellington</td>
<td>439</td>
<td>561</td>
<td>484</td>
</tr>
<tr>
<td>Christchurch</td>
<td>1,200</td>
<td></td>
<td>400</td>
</tr>
<tr>
<td>Queenstown</td>
<td>1,421</td>
<td></td>
<td>1,200</td>
</tr>
</tbody>
</table>

Based on current guest preferences it is estimated that demand for higher quality hotels in the 4, 4.5 and 5 star categories will grow most strongly over the forecast period. Additionally, there will still be a requirement for additional 3-3.5 star establishments in all of the focus regions, especially Rotorua\(^\text{32}\) where the future demand preference is divided relatively evenly between 3-3.5 star establishments and higher quality 4, 4.5 and 5 star establishments.

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\(^{32}\) Data constraints mean that Rotorua’s population of hotels can only be segmented into 3-4 star hotels and 4.5-5 star hotels, so the reported figures for Rotorua don’t align perfectly with the star bandings in the table.
The graph below allocates new hotel demand between 2015 and 2025 to hotel categories based on current hotel preferences e.g. the results for Auckland suggest that 84% of new hotel demand between 2015 and 2025 would ideally be satisfied in 4-5 star hotels with the remaining 16% ideally satisfied in 3-3.5 star hotels. We note that preferences may change over time, particularly in response to changes in hotel price and availability.

**FIGURE 44 GROWTH IN HOTEL DEMAND BETWEEN 2015 AND 2025 BY HOTEL PREFERENCE**

Source: Fresh Info Hotel Forecasting Model
International benchmarking

Data sourced from STR shows that many cities in Australia have experienced similar trends in hotel demand patterns to those currently being observed in key destinations in New Zealand. Demand is particularly strong in the capital cities of Sydney and Melbourne where the annual occupancy rates reached 88% and 87% respectively in 2015.33 Interestingly, Auckland’s occupancy rate of 84%34 in 2015 is the same as Sydney’s occupancy rate in 2012. This demonstrates that with favourable demand conditions and limited increases in room supply annual occupancy rates in key destinations can approach 90%.

FIGURE 45 ANNUAL OCCUPANCY RATES IN AUSTRALIAN CITIES
Source: STR

ADR in key Australian cities varied considerably in 2015, ranging between a low of AU$130 (NZ$143) in Cairns and AU$231 (NZ$254) in Sydney. These variances reflect the levels of demand and supply in each city as well as the composition of demand and also the quality of the hotel inventory. In general cities in Australia with strong corporate demand achieve much higher ADRs than cities catering mainly to the leisure market.

FIGURE 46 ANNUAL ADR IN AUSTRALIAN CITIES ($AUD)
Source: STR

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33 Based on STR data
34 Based on TIA Hotels data
The relationship between occupancy rate and ADR in Australia’s key markets provides a useful insight into how the New Zealand market might respond to higher annual occupancy rates over the forecast period. The common theme across the cities considered is that higher occupancy rates will result in higher ADRs, which is the expected outcome. The results for Sydney and Melbourne suggest that the rate of price escalation may start to accelerate once annual occupancy rates exceed 80%, while for cities that have not yet reached annual occupancies in excess of 80% the relationship between occupancy and ADR appears to be more linear.

This has important implications for New Zealand because Auckland’s annual occupancy rate is already well above 80% and the other four focus regions all have annual occupancy rates approaching 80%. There is already evidence of accelerating ADR growth in New Zealand in the first quarter of 2016, and this could signal the beginning of a major price adjustment in the New Zealand market.

It is also important to note that the quantum and timing of new supply to the market is a significant variable in the future performance of each City. When significant levels of new supply enter the market this often has an immediate downward impact on both occupancy and room rates. We also note that other variables such as the recent downturn in the resource sector have had negative implications for hotel demand in some Australian cities.

Cross-city comparison must be used with caution due to differences in a range of factors, but it is interesting to note that New Zealand’s five focus regions currently achieve much lower ADRs than the majority of the key destinations in Australia (when converted to $NZD). Note that the Australian ADRs are based on STR data and the New Zealand figures are based on data sourced from TIA Hotels.

Sydney achieved the highest annual ADR in 2015 of NZ$254, followed by Melbourne at NZ$226 and Perth at NZ$216. Queenstown achieved the highest annual ADR in New Zealand of NZ$168, placing it between Darwin at NZ$188 and Adelaide at NZ$165. Auckland, Wellington and Christchurch all achieved ADRs that were well below Australia’s main urban destinations, and Rotorua’s annual ADR was the lowest across the destinations considered at NZ$110.

FIGURE 47 COMPARISON OF ANNUAL ADR ACROSS CITIES IN 2015 (CONVERTED TO $NZD)
Source: STR (Australian data), TIA Hotel Statistics (New Zealand data)

Factors that drive differences across cities include the size and composition of the hotel inventory, the customer base, competition from other forms of accommodation and the availability of supporting tourism attractions and infrastructure.

Australian ADRs have been converted to New Zealand dollars at an AUD/NZD exchange rate of 0.91.

The Sydney and Melbourne figures are based on “city” hotels only and therefore exclude airport and suburban hotels.
Emerging trends in short stay accommodation

One of the most notable trends in the short stay accommodation sector at present is the growing popularity of home sharing platforms such as Airbnb. Home sharing is the process whereby an existing house owner makes their house or an empty room available for others to rent for short periods of time as an alternative to traditional forms of short stay commercial accommodation.

This model has actually been employed successfully in New Zealand for many years through the holiday home market (e.g. holidayhomes.co.nz, bookabach.co.nz), but new platforms like Airbnb have used technology to simplify the process of offering or renting a property and they have also broadened their focus to include homes and spare rooms in urban areas.

The popularity and potential of the home sharing market is reflected in Airbnb’s current market valuation of $US24 billion. Further validation is provided by Accor’s recent purchase of luxury home sharing platform Onefinestay in April 2016 for at least £117 million, and its previous acquisition of a 30% stake in another home-sharing start up called Oasis in February 2016.

Wyndham Hotels & Resorts is another large US hotel group that is reportedly interested in home-sharing companies. The Financial Times recently reported that Wyndham has invested £7.5 million into Love Home Swap — a platform that allows people to exchange high-end homes with other Love Home Swap members in exchange for an annual fee.

A recent report by CBRE estimates that Airbnb users spent $2.4 billion on lodging in the United States over the past year, with more than 55% of this generated across the cities of New York, Los Angeles, San Francisco, Miami and Boston. It is hard to quantify the impact of this on the hotel sector but a recent academic study\(^\text{38}\) estimated that Airbnb’s entry into the Austin, Texas market had a quantifiable negative impact on local hotel room revenue in the order of 8-10%.

The study found that in Texas Airbnb provided a viable, but imperfect, alternative for certain traditional types of overnight accommodation, and identified lower-end hotels, and hotels not catering to business travellers, as those most vulnerable to increased competition from rentals enabled by firms like Airbnb. Another key finding was that the ability of home sharing platforms to add inventory quickly, and at zero marginal cost, impacted hotels disproportionately during peak tourism periods by limiting their pricing power. The study did however note that the results were specific to Austin and were unlikely to apply directly to other areas.

Airbnb in New Zealand

Home sharing statistics are difficult to access in New Zealand but a recent press release\(^\text{39}\) suggests that there are at least 6,000 Airbnb listings in New Zealand. The same article identified the biggest Airbnb users in New Zealand as United States (1), Australia (2), United Kingdom (3), Germany (4), Canada (5). It is noteworthy that Chinese visitors are not yet major users of Airbnb given the role they will play in driving growth in New Zealand’s visitor economy over the next decade.

Airbnb market reports show that there are currently 676 active listings in Auckland (160 houses, 418 apartments and 98 other) and 464 active listings in Wellington (237 houses, 151 apartments and 76 other). Data for other regions in New Zealand is currently unavailable. The median occupancy rates in March 2016 for properties listed on Airbnb in Auckland and Wellington were 63% and 53% respectively. These are calculated as the number of days that a property had a reservation divided by the total number of days it was available for.

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rent in the month. The median is the 50th percentile for the reporting area. Listings that are blocked for the month or are otherwise “inactive” are not included in the calculation.

Auckland Airport has suggested in its most recent Interim Report that Auckland could eventually have up to 5,000 Airbnb listings. This is based on the assumption that the number of Airbnb listings per head of Auckland population will eventually match the rate achieved in the San Francisco municipal district. In our view 5,000 Airbnb listings in Auckland will be difficult to achieve for at least three reasons:

1. The San Francisco municipal district is much more compact than the Auckland region. It is therefore not valid to apply the penetration rates observed in San Francisco to the entire Auckland region. A more valid area to apply the San Francisco penetration rate to would be the old Auckland City local authority area which has a population of around 500,000. This suggests that the number of Airbnb listings in Auckland could eventually reach 1,800 based on San Francisco penetration rates.
2. We would expect San Francisco to be an exemplar in terms of Airbnb penetration so it may not be valid to assume that Auckland would eventually replicate this performance.
3. Auckland currently has a severe housing shortage due to record net migration levels and low rates of new housing development, and this situation is unlikely to change in the short-term. A key premise of the home sharing model is excess capacity, and while there will always be empty houses and rooms in Auckland at any given time, the amount of excess capacity in the market is likely to shrink rather than grow in the next few years.

In our view a more realistic long-term estimate of active Airbnb listings in Auckland would be somewhere in the range of 1,500 – 2,000, or up to three times the current number of active listings. The points listed above would apply more generally to the other focus regions.

There is undoubtedly scope for direct competition between Airbnb and other forms of short stay commercial accommodation in New Zealand. In fact, this competition has been present since Airbnb entered the New Zealand market several years ago. However, during that period Airbnb listings have grown significantly and at the same time hotel occupancy rates and ADRs have climbed to unprecedented levels. There are two main reasons for this:

- The strong growth in international tourism in recent years has resulted in accommodation demand exceeding the combined capacity of the commercial accommodation and home sharing sectors i.e. there is enough demand at present to keep all forms of accommodation highly occupied.
- The overlap between the customers that use hotels and those that use Airbnb is only partial. Key segments such as corporates, business event delegates, tour groups and air crew will continue to favour hotels over home sharing arrangements. The main overlap will be in the independent leisure market where travellers are likely to be more flexible and more interested in the authentic local experience an Airbnb property could provide.

Based on this analysis we have reached the conclusion that the competitive impact of Airbnb on hotels will not be material in the short/medium term due to the relatively small number of active listings in key destinations and the very high levels of accommodation demand relative to supply. Given current market conditions it is likely that Airbnb is absorbing some of the latent demand that hotels can’t manage during peak tourism periods, which is positive for the wider tourism sector as a whole.

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40 Auckland Airport, Interim Report 2016, slide 17.
AUCKLAND

Summary

Current situation

- Auckland’s status as New Zealand’s largest city and main international gateway gives it a major advantage in attracting a large and growing number of international and domestic visitors each year.
- The Auckland region has the largest number of hotels in New Zealand with a current inventory of 65 properties offering a total of 9,459 rooms. The hotel population is made up of approximately 62% 4 to 4.5 star properties, 19% 5 star properties and a further 19% 3 to 3.5 star properties. Around 70% of Auckland’s hotels are located in the CBD with the remainder divided evenly between the airport precinct and suburban areas.
- Despite Auckland’s large hotel inventory, strong growth across all of Auckland key tourism segments has resulted in a critical shortage of hotel rooms during peak periods and consistently high levels of demand outside these periods.
- Favourable demand conditions have pushed the annual occupancy rate to a record 84% in 2015 and annual ADR up 10% to $153. The overall effect is a 14% increase in annual RevPAR to $128 in the 2015 calendar year, the highest on record and surpassing the levels achieved in 2011 as a result of the Rugby World Cup.

Demand outlook

- Annual unconstrained demand for hotel room nights in Auckland is expected to increase from around 2.9 million room nights in 2015 to over 4.2 million room nights in 2025, representing growth of 46% and an average growth rate of 3.9% per annum. This growth will be driven by the buoyant international tourism market and in particular the rapid growth in visitor arrivals from China. The domestic market is also expected to contribute through greater business travel, Auckland’s strong and growing portfolio of major events and industry events, and the region’s increasing popularity as a domestic leisure destination.
- The New Zealand, Australian and Chinese markets are expected to drive the majority of the growth, collectively accounting for 81% of the overall increase. Demand by Chinese visitors is expected to grow more strongly in percentage terms than demand by other origin markets, reflecting general growth expectations for this important market.

Supply outlook

- There has been a notable interest in new hotel development in the past 12 months lead by the significant increase in international tourism numbers, improving trading fundamentals, regeneration of Auckland’s waterfront and the commencement of the New Zealand International Convention Centre. An increasing number of hotel investors and operators are also actively trying to secure a strategic position within the Auckland market. There are currently five hotels (724 rooms) being built in Auckland and a further seven proposed developments which are in various stages of advanced design or consent phases. A range of other developments are mooted, but remain in early stages of design concept.
Market projections

- Current demand and supply projections indicate that Auckland’s hotel sector will remain highly constrained over the next decade, resulting in annual occupancy rates approaching 90% and significant increases in ADR above the long term historical average. These conditions will result in RevPAR almost doubling relative to 2010 levels. There is no historical precedent for the record high occupancy rates that Auckland is currently achieving and we believe that sustained occupancy pressure could result in ADR’s which surpass predicted levels.
- We are likely to see the Auckland hotel sector reach “critical constraint status” as early as 2017 with no new supply forecast over the next 18 months and a number of key events occurring such as World Masters Games in April, the Lions Tour in June/July and the Rugby League World Cup in November.
- Current unconstrained demand projections indicate that Auckland may need up to 4,300 new hotel rooms by 2025.
- Taking into account the current development schedule and long-term trends in hotel development, it is estimated that around 2,500 new hotel rooms will be built over the next 10 years, which leaves a potential shortfall of up to 1,800 rooms.
- Based on current guest preferences it is estimated that unconstrained demand for 4.5 star hotels will grow most strongly over the forecast period, followed by 4 star hotels. This provides useful guidance on which types of hotels would be most well received by the market although it is noted that preferences may change over time, particularly in response to changes in hotel price and availability.

Implications & insights

- The ability to deliver additional hotel room inventory is heavily dependent upon managing a number of key constraints including financial feasibility, site availability, resource and building costs, finance, and timing delays. A range of development solutions will be required to resolve the hotel supply shortage including:
  - New purpose build in the 4 and 4.5 star categories
  - Conversions as secondary office towers become vacant
  - Modular development
  - Mixed use development
  - Expansion of existing hotels
  - Public Private Partnerships to open up strategic sites for hotel development
  - Development in non-CBD locations e.g. Takapuna, Albany, Manukau, Airport precinct

Sustained growth in demand and a constrained supply pipeline will likely result in a number of structural and behavioural changes to the Auckland hotel market over the forecast period including:

- A spike in ADR in 2017 due to no new room supply and aggressive pricing caused by World Masters Games, the British & Irish Lions Tour and the Rugby League World Cup.
- Strong ongoing annual demand and constrained supply will produce unprecedented occupancy rates of between 85% and 90% over the forecast period.
- High occupancy rates will allow hotels to steadily increase ADR, with average rates expected to reach $220 by 2025. New 5 star inventory coming on line in 2018-2020 will help further increase the overall average ADR.
- Short-term abatement in capacity constraints in the 5 star sector when the Sofitel So, Park Hyatt, Ex Cophthorne Quay Street, and NZICC Hotel are completed in 2018-2020.
- Longer peak season extending from as early as September to April of each year and an increase in demand during traditional off-peak periods when hotel availability is less constrained and prices are lower.
• Traditional lower yielding segments such as tour groups and aircrew being forced to accept significantly higher room rates or move to suburban/airport locations.
• Some lower yielding business moving to shoulder/off peak periods to retain competitive advantage.
• Further pricing pressure on the domestic market (both leisure and corporate).
• Difficultly among existing hotel owners to upgrade/refurbish due to high occupancy/returns
• Risk of escalating room rates during peak periods creating long-term consequences for the wider tourism industry.
• Inability to accommodate future demand resulting in loss of business to other regions e.g. Hamilton, Bay of Plenty, Rotorua, Northland and possibly Christchurch as New Zealand’s only alternative long haul airport.
• Increasing reliance on other types of short stay accommodation including motels, budget stays, campervans and new business models such as Airbnb.
• Loss of major events and business events to other cities/countries due to a lack of accommodation capacity and high prices.

Tourism context

Auckland’s status as New Zealand’s largest city and main international gateway gives it a major advantage in attracting domestic and international visitors. In the year ending March 2015 Auckland captured 29% of all tourism expenditure in New Zealand including 23% of domestic expenditure and 39% of international expenditure. The international share is relatively high because Auckland Airport receives almost 71% of all visitor arrivals to New Zealand and the domestic share is relatively low because more than one third of the population resides in Auckland.

FIGURE 48 OVERVIEW OF AUCKLAND’S TOURISM SECTOR
Source: Tourism Satellite Account, IVA (Statistics NZ)

<table>
<thead>
<tr>
<th>Measure</th>
<th>Period</th>
<th>Auckland</th>
<th>Other four focus regions</th>
<th>Five focus regions</th>
<th>Market share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tourism expenditure</td>
<td>YE Mar 15</td>
<td>$6,496m</td>
<td>$15,908m</td>
<td>$22,404m</td>
<td>29.0%</td>
</tr>
<tr>
<td>Domestic</td>
<td>YE Mar 15</td>
<td>$3,268m</td>
<td>$10,864m</td>
<td>$14,132m</td>
<td>23.1%</td>
</tr>
<tr>
<td>International</td>
<td>YE Mar 15</td>
<td>$3,227m</td>
<td>$5,045m</td>
<td>$8,272m</td>
<td>39.0%</td>
</tr>
<tr>
<td>International visitor arrivals</td>
<td>CY 2015</td>
<td>2,217,088</td>
<td>912,224</td>
<td>3,129,312</td>
<td>70.8%</td>
</tr>
</tbody>
</table>

Auckland Airport

Auckland Airport handled 16.3 million passenger movements in 2015, up 6.5% from 15.3 million in 2014. International passenger movements increased by 7.1% from 8.3 million to 8.9 million while domestic passenger movements increased by 5.8% from 7 million to 7.4 million. Auckland Airport spent $575 million on major upgrades between 2004 and 2011 and future plans include development of a combined domestic and international terminal, a second runway, and the capability to extend the length of the second runway after 2044 to cater for increasingly larger aircraft. Earlier this year, Auckland Airport announced that it expected annual passenger movements to grow from 15.3 million in 2015 to approximately 40 million by 2040.

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41 Excludes airfares and export education fees.
Key attractions

As New Zealand’s largest city and main international gateway, Auckland naturally receives a large number of visitors each year. However, it is also a compelling visitor destination in its own right, offering a range of high quality attractions and experiences including:

- **Auckland CBD & waterfront** – Auckland’s CBD and waterfront is the beating “heart” of the city and the main place that visitors stay due to the high concentration of commercial accommodation.
- **Wine** - Auckland is encircled by four world class wine regions: Matakana, Kumeu, Clevedon Hills and Waiheke Island. Auckland’s numerous vineyards offer a wide range of tasting and dining experiences, usually in highly picturesque settings.
- **Export education** – Auckland’s tertiary institutions and language schools attract part-time and full-time students from around the world. This leads to further visitation by friends and relatives.
- **Volcanic cones** - Auckland has 48 volcanic cones, many of which offer panoramic views of Auckland’s landscape and harbour. The most popular cones are Mt Eden, One Tree Hill, Mt Victoria and Rangitoto.
- **Hauraki Gulf** - the Hauraki Gulf is a maritime playground that offers a wide range of experiences including swimming, sailing, fishing, kayaking, whale watching, and island hopping.
- **Golf** - Auckland provides one of the most diverse golfing landscapes in New Zealand, from oceanfront courses like Gulf Harbour Country Club, to inland courses such as Pukekohe and Remuera. The moderate climate allows for year-round golf, with several courses featuring fast draining, sandy bases.
- **Culture & heritage** – Auckland has a diverse range of culture and heritage-based offerings including art galleries, museums, sculpture trails, heritage attractions, gardens, and boutique markets.
- **Food & beverage** - Auckland serves up an amazing variety of cuisine from around the world. Diners can choose from hundreds of high quality restaurants, cafés, bars and wineries offering everything from fine dining to fresh fish and chips.
- **Adventure tourism** – Auckland offers a range of adventure activities including abseiling, bungy jumping, canyoning, caving, climbing, mountain biking, horse trekking, quad biking and zip lining.
- **Beaches** - There are thousands of beaches throughout the greater Auckland region, from the wild black-sand surf beaches on the west coast to the sheltered golden bays on the east coast.
- **Nightlife** – Auckland has a number of vibrant and diverse night spots including Britomart, Ponsonby, Viaduct Harbour, North Wharf, Federal Street, K’ Road, Kingsland and Parnell.
Major events

Auckland has a strong portfolio of major events and was recently shortlisted in the top 10 SportBusiness Ultimate Sports Cities Awards, reinforcing its global reputation for hosting international sporting events. Events play an important role in attracting domestic and international visitors to Auckland which has a positive impact on hotel occupancy and room rates. Major international sporting events that Auckland has hosted in the past five years include:

- ICC Cricket World Cup 2015
- FIFA Under 20 Football World Cup 2015
- Volvo Ocean Race 2012, 2015
- Rugby World Cup 2011

Auckland’s regular portfolio of major events includes:

- Major indoor and outdoor concerts throughout the year which attract large numbers of visitors (typically in the order of 20,000 for a major international act)
- NRL Auckland Nines (Feb/Mar)
- ITM 500 Auckland (Nov)
- Auckland City Limits (Feb)
- ASB Classic / Heineken Open Tennis (Jan)
- New Zealand Fashion Week (Aug)
- Numerous Super 15 matches (Mar-Aug)
- Several international cricket matches (Dec-Mar)
- At least one All Blacks test match (Jun-Oct)
- New Zealand Film Festival (July)
- Major cultural festivals including Diwali, Pasifika and Lantern Festival

2017 will be a particularly busy year for Auckland with three global events scheduled in addition to the regular portfolio of events:

- World Masters Games (Apr). This event will involve around 25,000 athletes and is expected to generate 250,000 visitor nights across a range of accommodation types.
- Lions Tour 2017 (Jun-Jul). Auckland will host three Lions matches, including two of the three test matches. At least 20,000 international visitors will come to New Zealand for the event, travelling mainly from the UK.
- Rugby League World Cup 2017 (Oct–Dec). Auckland will host several pool matches as well as one quarter final and one semi-final. Around 2,000 international visitors are expected to travel to New Zealand for the event.

Business events

Business events play an important role in attracting high spending domestic and international delegates to Auckland. The delegates spend significantly more each day than other types of visitors and they tend to visit the region outside peak tourism periods, bringing money into Auckland when it’s most needed. They also have a high likelihood of staying in hotels and are generally less price sensitive because their expenses are often covered by their business or employer.

Construction of the 3,150 seat New Zealand International Convention Centre has begun and is due to open for business in 2019. This development is expected to significantly increase the number and scale of domestic and
international business events held in Auckland, generating further demand for hotels. SkyCity has announced that it will construct a 300 room 5 star hotel next to the convention centre and are in the process of finding a suitable investor.

Auckland currently hosts around 906,000 business event delegates per year which represents around 35% of the national market. Approximately one quarter of these delegates travel to Auckland from other parts of New Zealand or overseas.

**Hotel demand**

Approximately 47% of all hotel rooms in the five focus regions are currently located in Auckland and over 49% of all hotel room nights are spent in Auckland. The annual occupancy rate in Auckland is currently 83.6% compared with 77.8% in the other four focus regions and the annual ADR is $153 compared with $151 elsewhere. Each hotel guest in Auckland stays for an average of 1.99 nights and an average of 1.65 guests occupy each hotel room per night.

**FIGURE 50 OVERVIEW OF AUCKLAND’S HOTEL SECTOR**

Source: TIA Hotel Statistics, Fresh Info, Colliers International

<table>
<thead>
<tr>
<th></th>
<th>Period</th>
<th>Auckland</th>
<th>Other four focus regions</th>
<th>Five focus regions</th>
<th>Market share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hotel rooms</td>
<td>CY 2015</td>
<td>9,459</td>
<td>10,656</td>
<td>20,115</td>
<td>47.0%</td>
</tr>
<tr>
<td>Hotel room nights available</td>
<td>CY 2015</td>
<td>3,442,769</td>
<td>3,838,524</td>
<td>7,281,293</td>
<td>47.3%</td>
</tr>
<tr>
<td>Hotel room nights sold</td>
<td>CY 2015</td>
<td>2,877,550</td>
<td>2,985,722</td>
<td>5,863,272</td>
<td>49.1%</td>
</tr>
<tr>
<td>Occupancy rate</td>
<td>CY 2015</td>
<td>83.6%</td>
<td>77.8%</td>
<td>80.5%</td>
<td>n/a</td>
</tr>
<tr>
<td>ADR ($NZ)</td>
<td>CY 2015</td>
<td>$153</td>
<td>$151</td>
<td>$152</td>
<td>n/a</td>
</tr>
<tr>
<td>RevPAR ($NZ)</td>
<td>CY 2015</td>
<td>$128</td>
<td>$117</td>
<td>$122</td>
<td>n/a</td>
</tr>
<tr>
<td>Average nights per guest</td>
<td>CY 2015</td>
<td>1.99</td>
<td>2.13</td>
<td>1.72</td>
<td>n/a</td>
</tr>
<tr>
<td>Average guests per room</td>
<td>CY 2015</td>
<td>1.65</td>
<td>1.75</td>
<td>1.70</td>
<td>n/a</td>
</tr>
</tbody>
</table>

The independent traveller (FIT) market currently consumes 48% of all hotel room nights in Auckland and generates 52% of hotel room revenue. The next largest segment is the corporate market which accounts for 21% of room nights sold and 22% of hotel room revenue. The highest yielding segments are FIT ($178 per night), conference & incentive ($175 per night) and corporate ($168 per night).

**FIGURE 51 DEMAND FOR HOTEL ROOM NIGHTS IN AUCKLAND BY TYPE OF GUEST IN 2015**

Source: TIA Hotel Statistics
New Zealand residents currently consume around 61% of all hotel room nights in Auckland. Australia and China are the largest international markets at 12% and 7% respectively.

**FIGURE 52 ROOM NIGHTS OCCUPIED IN AUCKLAND BY ORIGIN OF GUEST IN 2015**
Source: TIA Hotel Statistics, Fresh Info

Analysis of hotel demand patterns in Auckland in 2015 reveals that:

- The hotel preferences of New Zealanders and Australians are very similar and both markets seem to favour 4.5 star establishments in Auckland.
- Auckland’s 4 star establishments are most popular among Chinese visitors and only 7% of Chinese hotel nights are spent in 5 star establishments.
- Almost 50% of all Auckland hotel rooms consumed by visitors from South Korea are in the 3-3.5 star category.

These observations are based on current patterns of supply and demand and it is important to note that preferences may evolve in response to structural shifts in markets and changes in hotel supply over time.

**FIGURE 53 AUCKLAND HOTEL PREFERENCE BY ORIGIN OF GUEST (SHARE OF ROOM NIGHTS)**
Source: TIA Hotel Statistics, Fresh Info
The annual occupancy rate in Auckland reached 83.7% in 2015, up from 80.9% in 2014. This increase in demand pushed ADR up by $14 to $153 which is higher than the rate of $150 achieved in 2011 due to the price escalation caused by the Rugby World Cup. The combination of higher occupancy rates and higher ADR increased annual RevPAR in Auckland by 14% ($16) to $128 in 2015.

**FIGURE 54 HISTORICAL HOTEL PERFORMANCE IN AUCKLAND**

Source: TIA Hotel Statistics, Fresh Info

The December and March quarters are both high demand periods for hotels in Auckland. The December quarter is driven mainly by domestic business travel, business events such as conferences and conventions, and the beginning of the international tourism peak. The March quarter is driven mainly by the international tourism peak, business travel following the Christmas break and a strong programme of major festivals and events. The June and September quarters are traditionally less busy but still achieved occupancy rates of 78.3% and 80.8% respectively in 2015.

**FIGURE 55 HOTEL PERFORMANCE IN AUCKLAND BY QUARTER IN 2015**

Source: TIA Hotel Statistics, Fresh Info

<table>
<thead>
<tr>
<th></th>
<th>Occupancy rate</th>
<th>ADR ($NZ excl. GST)</th>
<th>RevPAR ($NZ excl. GST)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mar-15</td>
<td>88.5%</td>
<td>$164</td>
<td>$145</td>
</tr>
<tr>
<td>Jun-15</td>
<td>78.1%</td>
<td>$140</td>
<td>$109</td>
</tr>
<tr>
<td>Sep-15</td>
<td>80.8%</td>
<td>$141</td>
<td>$114</td>
</tr>
<tr>
<td>Dec-15</td>
<td>87.0%</td>
<td>$164</td>
<td>$142</td>
</tr>
<tr>
<td>TOTAL</td>
<td>83.6%</td>
<td>$153</td>
<td>$128</td>
</tr>
</tbody>
</table>
Demand projections

The outlook for the hotel sector in Auckland is strong with unconstrained hotel demand expected to increase from just under 2.9 million room nights in 2015 to over 4.2 million room nights in 2025. This represents growth over the next 10 years of 46% and an average growth rate of 3.9% per annum. The main factors driving the increase in demand are:

- The strong growth in international visitation predicted by MBIE, particularly over the next two years
- The buoyant domestic economy and improving international economy
- Proximity to New Zealand’s largest international airport and the expansion in direct air routes to key international markets and hubs which makes it easier and cheaper to travel to New Zealand
- Proximity to the fast growing Asia Pacific market, and China in particular, which is the main factor driving MBIE’s strong international visitor arrival forecasts
- Steady growth in the domestic corporate/business market as well as the domestic leisure market
- Expansion in the domestic aviation market and greater competition on regional routes
- Major events in 2017 including World Masters Games (circa 25,000 participants), the Lions Tour (circa 20,000 international visitors) and the Rugby League World Cup (circa 2,000 international visitors)
- The opening of the New Zealand International Convention Centre in 2019
- Ongoing improvements to Auckland’s CBD and waterfront area which will make it a more compelling place to visit
- Auckland’s rapidly growing population which will naturally lead to greater visitation e.g. more commercial activity in Auckland will lead to more business travel and greater population will lead to more holiday and VFR travel.

FIGURE 56 PROJECTED DEMAND FOR HOTEL ROOM NIGHTS IN AUCKLAND
Source: Fresh Info Hotel Forecasting Model
The New Zealand, Australian and Chinese markets are expected to drive the majority of the growth in hotel demand, collectively accounting for 81% of the overall increase. Demand by Chinese visitors is expected to grow much more strongly in percentage terms than demand by other origin markets, reflecting the more general growth expectations for this important market.

**FIGURE 57 PROJECTED GROWTH IN HOTEL ROOM NIGHT DEMAND IN AUCKLAND BY ORIGIN OF GUEST**
Source: Fresh Info Hotel Forecasting Model

Based on the projected growth rates it is estimated that 15% of room night demand will be generated by Chinese visitors in 2025, up from 7% in 2015. The New Zealand market’s share of room night demand will fall from 61% to 55% over the same period and the Australian share will fall from 12% to 11%.

**FIGURE 58 PROJECTED SHARE OF ROOM NIGHT DEMAND IN AUCKLAND BY ORIGIN OF GUEST**
Source: Fresh Info Hotel Forecasting Model
While unconstrained demand is expected to maintain its seasonal profile over time due to the strong growth in international demand, accommodation constraints will mean that not all peak season demand can be met. Auckland is already experiencing very high demand during peak periods so there is little scope for occupancy rates to improve much further during these periods. However, off peak demand is also expected to grow and this will allow year-round occupancy rates to increase because there is currently surplus hotel capacity during off peak periods that can be utilised.

FIGURE 59 SEASONALITY OF PROJECTED HOTEL ROOM NIGHT DEMAND IN AUCKLAND
Source: Fresh Info Hotel Forecasting Model
**Hotel supply**

The Auckland region has the largest number of hotels in New Zealand due to its status as main commercial hub and international gateway. Auckland’s hotel inventory comprised a total of 65 properties offering a total of 9,459 rooms in March 2016. This includes all 3 to 5 star rated hotels and serviced apartments (Qualmark or self-rated) operating at least 40 rooms. The hotel population is made up of 27% 3 to 3.5 star properties, 62% 4 to 4.5 star properties and 11% 5 star properties. Around 72% of Auckland’s hotel properties and rooms are located in the CBD with the remainder divided relatively evenly between the airport precinct and suburban areas.

Only one major hotel has been completed in Auckland since 2011, being the 138 room Adina Hotel which was completed in December 2015 (Tapora Street near Auckland’s Vector Arena) with the last major hotel completed before this being the 263 room Novotel Auckland Airport, which opened in 2011.

**FIGURE 60 STRUCTURE OF AUCKLAND’S HOTEL SUPPLY AS AT DECEMBER 2015**

Source: Colliers International

<table>
<thead>
<tr>
<th>Properties</th>
<th>3 star</th>
<th>3.5 star</th>
<th>4 star</th>
<th>4.5 star</th>
<th>5 star</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>CBD</td>
<td>7</td>
<td>4</td>
<td>12</td>
<td>15</td>
<td>7</td>
<td>45</td>
</tr>
<tr>
<td>Airport</td>
<td>3</td>
<td>1</td>
<td>1</td>
<td>4</td>
<td>0</td>
<td>9</td>
</tr>
<tr>
<td>Suburban</td>
<td>0</td>
<td>3</td>
<td>5</td>
<td>3</td>
<td>0</td>
<td>11</td>
</tr>
<tr>
<td>Total</td>
<td>10</td>
<td>8</td>
<td>18</td>
<td>22</td>
<td>7</td>
<td>65</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Rooms</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>CBD</td>
<td>570</td>
<td>441</td>
<td>1,214</td>
<td>2,816</td>
<td>1,756</td>
<td>6,797</td>
</tr>
<tr>
<td>Airport</td>
<td>303</td>
<td>141</td>
<td>192</td>
<td>833</td>
<td>0</td>
<td>1,469</td>
</tr>
<tr>
<td>Suburban</td>
<td>0</td>
<td>361</td>
<td>437</td>
<td>395</td>
<td>0</td>
<td>1,193</td>
</tr>
<tr>
<td>Total</td>
<td>873</td>
<td>943</td>
<td>1,843</td>
<td>4,042</td>
<td>1,756</td>
<td>9,459</td>
</tr>
</tbody>
</table>

**FIGURE 61 STRUCTURE OF AUCKLAND’S HOTEL SUPPLY (MARCH 2016)**

Source: Colliers International

Qualmark ratings have been used when available.
New supply

There has been a notable interest in new hotel development in Auckland in the past 12 months led by:

- The significant increase in international tourism numbers
- Improving trading fundamentals
- Regeneration of Auckland’s waterfront
- The commencement of the New Zealand International Convention Centre
- An increasing number of investors and operators actively trying to secure a strategic position in Auckland

As a result there are currently five hotels with a total of 724 rooms being built in Auckland. We note that the majority of new hotel rooms under construction are located in the Auckland CBD and will be of a 5 star rating (60%), with the remaining 40% located in the Airport precinct, and of a 4 to 4.5 star rating.

There are currently seven proposed hotel developments in Auckland which are in various stages of advanced design feasibility, or consent phases. Whilst the majority of these developments have a strong likelihood of proceeding, they are not certain and have therefore had probability weights assigned to them by Colliers based on where in the current design/consent phase each project sits. We note that the majority of proposed hotel rooms (86%) are located in the Auckland CBD, with all but one of these proposed developments being of a 4.5 star or 5 star rating.

We are also aware of a number of other mooted hotel developments that may occur in the future. These projects are generally in the initial concept stages and are typically less well defined than the proposed developments above. These have therefore been added to a development register watch list and are not specifically included in our current supply forecasts.

Expected New Supply

Colliers has developed a probability-weighted hotel room development register for Auckland which includes all confirmed and expected developments over the next five years. It is estimated that around 1,250 new rooms will be built over the next five years and a total of 2,500 will be built over the next 10 years. Annual growth beyond 2020 has been estimated based on the average annual increase in new supply observed over the past 20 years. Based on these projections it is estimated that the number of hotel rooms in Auckland will increase from around 9,400 in 2015 to around 11,900 by 2025.

FIGURE 62 ANNUAL CHANGE IN HOTEL ROOMS IN AUCKLAND
Source: Colliers International
Market projections

Current demand and supply projections indicate that Auckland’s hotel sector will remain highly constrained over the next decade, resulting in annual occupancy rates that approach 90% in the long-term. It is likely that the Auckland hotel market will reach “critical constraint status” as early as 2017 with no new supply forecast over the next 18 months and a number of major events occurring such as World Masters Games, the British & Irish Lions Tour and the Rugby League World Cup.

FIGURE 64 OCCUPANCY PROJECTIONS FOR AUCKLAND HOTELS
Source: Fresh Info Hotel Forecasting Model

<table>
<thead>
<tr>
<th>CY</th>
<th>3-3.5 star</th>
<th>4 star</th>
<th>4.5 star</th>
<th>5 star</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016f</td>
<td>86%</td>
<td>86%</td>
<td>87%</td>
<td>88%</td>
<td>87%</td>
</tr>
<tr>
<td>2017f</td>
<td>88%</td>
<td>89%</td>
<td>90%</td>
<td>89%</td>
<td>89%</td>
</tr>
<tr>
<td>2018f</td>
<td>88%</td>
<td>88%</td>
<td>89%</td>
<td>86%</td>
<td>88%</td>
</tr>
<tr>
<td>2019f</td>
<td>87%</td>
<td>89%</td>
<td>89%</td>
<td>83%</td>
<td>87%</td>
</tr>
<tr>
<td>2020f</td>
<td>89%</td>
<td>90%</td>
<td>90%</td>
<td>85%</td>
<td>89%</td>
</tr>
<tr>
<td>2021f</td>
<td>89%</td>
<td>90%</td>
<td>90%</td>
<td>85%</td>
<td>89%</td>
</tr>
<tr>
<td>2022f</td>
<td>89%</td>
<td>90%</td>
<td>90%</td>
<td>86%</td>
<td>89%</td>
</tr>
<tr>
<td>2023f</td>
<td>90%</td>
<td>90%</td>
<td>90%</td>
<td>87%</td>
<td>89%</td>
</tr>
<tr>
<td>2024f</td>
<td>90%</td>
<td>90%</td>
<td>90%</td>
<td>89%</td>
<td>90%</td>
</tr>
<tr>
<td>2025f</td>
<td>90%</td>
<td>90%</td>
<td>90%</td>
<td>90%</td>
<td>90%</td>
</tr>
</tbody>
</table>
Auckland is expected to experience strong ADR growth across the forecast period, increasing by 44% from NZ$153 in 2015 to NZ$220 in 2025. This growth will be driven by record levels of demand and high occupancy rate pressure throughout the year. Auckland will also experience a temporary spike in ADR in 2017 as a result of price escalation caused by one-off major events including World Masters Games, the British & Irish Lions Tour and the Rugby League World Cup.

There is no historical precedent for the record high occupancy rates expected in Auckland and there is a reasonable chance that sustained occupancy pressure could result in ADR’s which exceed predicted levels.

**FIGURE 65 ADR PROJECTIONS FOR AUCKLAND HOTELS (NZ EXCL. GST)**

Source: Fresh Info Hotel Forecasting Model

<table>
<thead>
<tr>
<th>CY</th>
<th>3-3.5 star</th>
<th>4 star</th>
<th>4.5 star</th>
<th>5 star</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016f</td>
<td>109</td>
<td>137</td>
<td>175</td>
<td>237</td>
<td>167</td>
</tr>
<tr>
<td>2017f</td>
<td>123</td>
<td>156</td>
<td>200</td>
<td>272</td>
<td>191</td>
</tr>
<tr>
<td>2018f</td>
<td>117</td>
<td>149</td>
<td>189</td>
<td>263</td>
<td>183</td>
</tr>
<tr>
<td>2019f</td>
<td>117</td>
<td>148</td>
<td>190</td>
<td>269</td>
<td>186</td>
</tr>
<tr>
<td>2020f</td>
<td>120</td>
<td>153</td>
<td>196</td>
<td>280</td>
<td>193</td>
</tr>
<tr>
<td>2021f</td>
<td>123</td>
<td>156</td>
<td>201</td>
<td>286</td>
<td>197</td>
</tr>
<tr>
<td>2022f</td>
<td>126</td>
<td>160</td>
<td>207</td>
<td>294</td>
<td>203</td>
</tr>
<tr>
<td>2023f</td>
<td>130</td>
<td>165</td>
<td>212</td>
<td>301</td>
<td>209</td>
</tr>
<tr>
<td>2024f</td>
<td>133</td>
<td>168</td>
<td>217</td>
<td>306</td>
<td>213</td>
</tr>
<tr>
<td>2025f</td>
<td>137</td>
<td>174</td>
<td>224</td>
<td>315</td>
<td>220</td>
</tr>
</tbody>
</table>

The demand projections presented above have been used to predict the total number of hotel rooms Auckland would require in 2025 to accommodate the projected unconstrained demand for hotel room nights at that time. Our analysis suggests that the Auckland hotel market could absorb up to 4,300 hotel rooms by 2025 while continuing to achieve 2015 occupancy rates. This is based on the following assumptions:

- Realisation of MBIE’s visitor arrival forecasts which predict average growth of 5.4% per annum over the next 7 years.
- Limited impact on hotel demand from alternative modes of accommodation including new business models like Airbnb.

Taking into account expected growth in hotel rooms over the next 10 years (based on Colliers’ latest development schedule and long-term growth in hotel inventory) it is estimated that there may be a shortfall in hotel rooms of up to 1,800 in Auckland over the next 10 years.

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43 The “optimal” number of hotel rooms has been estimated by calculating the number of rooms that would allow Auckland hotels to achieve the same occupancy rates in 2025 as they achieved in 2015. The 2015 calendar year has been used as a benchmark because it was a year that provided demand conditions that allowed most tourism demand to be accommodated while also being financially sustainable for hotels.
Based on current guest preferences it is estimated that unconstrained demand for 4.5 star hotels will grow most strongly over the forecast period, followed by 4 star hotels. This provides useful guidance on which types of hotels would be most well received by the market although it is noted that preferences may change over time, particularly in response to changes in hotel price and availability.

FIGURE 66 HOTEL ROOM ANALYSIS FOR AUCKLAND
Source: Fresh Info Hotel Forecasting Model

<table>
<thead>
<tr>
<th>Hotel rooms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Room supply in 2015</td>
</tr>
<tr>
<td>Required room supply in 2025</td>
</tr>
<tr>
<td>New rooms required in 2025</td>
</tr>
<tr>
<td>New rooms projected in 2025</td>
</tr>
<tr>
<td>Shortfall</td>
</tr>
</tbody>
</table>

FIGURE 67 CHANGE IN ANNUAL DEMAND FOR HOTEL ROOM NIGHTS IN AUCKLAND 2015-25
Source: Fresh Info Hotel Forecasting Model
Summary

Current situation

- Rotorua is a major destination for both international and domestic tourists who are attracted to the world famous cultural, geothermal and event activities.
- Strong growth in hotel demand in the past two years has resulted in a shortage of hotel rooms during the summer peak and increasing levels of demand outside these periods.
- Favourable demand conditions have pushed the annual occupancy rate up to 77% in 2015 and annual ADR up 10% to $110. The overall effect is an 18% increase in annual RevPAR to $84 in the calendar year 2015.

Demand outlook

- Annual unconstrained demand for hotel room nights is expected to increase from around 534,000 room nights in 2015 to 731,000 room nights in 2025. This represents growth over the next 10 years of 37% and an average growth rate of 3.2% per annum. This growth will be driven by the buoyant international tourism market and in particular the strong growth in Chinese visitors to New Zealand. Chinese visitors have a high propensity to visit Rotorua so material growth in this market will have a direct and sizeable impact on local hotel demand.
- Anecdotal evidence suggests that Rotorua is also likely to benefit from a spill over effect from the Auckland market, particularly in the short term as increasing numbers of visitors are unable to find suitable accommodation in the gateway city.
- New demand drivers such as a planned premium-quality health and wellness tourism precinct would have additional upside on occupancy and ADR.

Supply outlook

- There is only one hotel currently under construction in the market, being a circa 140 room hotel located on Arawa Street in central Rotorua due to open in late 2017.
- With only two other hotels developments proposed in the short to medium term, the supply pipeline in Rotorua remains low, although Rotorua does not currently appear to have any major capacity constraints outside the peak tourism season.

Market projections

- Current demand and supply projections indicate that Rotorua’s hotel sector will become increasingly constrained over the next decade during peak periods and busier during off peak periods as tourism demand rises across the year. This will result in annual occupancy rates of around 85% in the long-term and further increases in ADR, albeit off a relatively low base.
- There is no historical precedent for the record high occupancy rates that Rotorua is currently achieving and we believe that sustained occupancy pressure could result in ADR’s which exceed predicted levels.
- We are likely to see the Rotorua hotel market reach “constrained status” as early as 2017 with minimal new supply forecast and a surge in visitor numbers caused by rapid growth in international visitor arrivals (especially Chinese visitors) as well as a number of key events in 2017.
- Current unconstrained demand projections suggest that Rotorua could absorb up to 700 new hotel rooms by 2025 while continuing to achieve 2015 occupancy rates.
Taking into account the current development schedule and long-term trends in hotel development it is estimated that there may be a shortfall of up to 480 hotel rooms in Rotorua over the next 10 years.

Based on current guest preferences it is estimated that demand for 3-4 star hotels will grow most strongly over the forecast period, although demand for 4.5-5 star hotels will also be strong. This provides useful guidance on which types of hotels would be most well received by the market although it is noted that preferences may change over time, particularly in response to changes in hotel price and availability.

While the average ADR is forecast to increase from its low base of $110 in 2015 to $139 by 2025, the lower ADR remains a challenge to new developments occurring. Finding ways to overcome this challenge will be a critical success factor for Rotorua.

Implications & insights

While it has been estimated that an additional 216 hotel rooms will be built over the next 10 years, with a further 484 required, the ability to deliver these rooms is heavily dependent upon managing a number of key constraints including financial feasibility, resource and building constraints, cite availability and finance. Finding ways to overcome these challenges will be a critical success factor for the hotel sector, the tourism sector and Rotorua’s overall economy.

A range of development solutions may be available to resolve the medium term hotel supply shortage in Rotorua including:

- Medium/long term opportunities for new development in the 3, 4 & 5 star market
- Conversions as secondary office towers become vacant
- Strategic development around major demand drivers e.g. event centres
- Modular development
- Expansion of existing hotels
- Public Private Partnerships to open up strategic sites for hotel development (including Iwi).

Strong demand and a constrained room inventory over high demand periods will likely result in a number of structural and behavioural changes within the Rotorua hotel market over the short/medium term including:

- Longer peak season extending from as early as September to April of each year and an increase in demand during traditional off-peak periods when hotel availability is less constrained and prices are lower. This may be driven by some lower yielding business moving to shoulder/off peak periods to keep costs down e.g. tour groups.
- Spill over business from the congested Auckland market, particularly in the short term as increasing numbers of visitors are unable to find suitable or appropriately priced accommodation in the gateway city. This will likely be exacerbated in 2017 due to congestion caused by the British and Irish Lions Tour and World Masters Games.
- Movement from traditional lower yielding segments such as tour groups to FIT and events during peak periods, although Rotorua hotel prices will remain less expensive relative to other key tourism destinations so the overall impact may be limited.
- Further pricing pressure on the price sensitive domestic leisure market which may respond by shifting demand outside peak tourism periods.
- Difficultly among existing hotel owners to upgrade/refurbish due to high occupancy/returns.
- Inability to accommodate future demand during peak periods resulting in loss of business to other regions e.g. Hamilton, Taupo, Waitomo, Tauranga etc.
- Increasing reliance on other types of short stay accommodation including motels, budget stays, campervans and new business models such as Airbnb (although the potential for Airbnb in Rotorua may be limited due to a lack of suitable inventory).
Tourism context

Rotorua is a major destination for both international and domestic tourists who are attracted to the world famous cultural, geothermal and event activities.

While Rotorua is primarily a leisure market, the city received an International Festivals and Events Association (IFEA) World Festival and Event City Award in 2013, acknowledging that Rotorua has the expertise and infrastructure to deliver world class events. In the year ending March 2015 Rotorua captured 2.6% of all tourism expenditure in New Zealand including 2.1% of domestic expenditure and 3.6% of international expenditure.

FIGURE 68 OVERVIEW OF Rotorua’S TOURISM SECTOR
Source: Tourism Satellite Account, IVA (Statistics NZ)

<table>
<thead>
<tr>
<th>Measure</th>
<th>Period</th>
<th>Rotorua</th>
<th>Rest of New Zealand</th>
<th>New Zealand</th>
<th>Market share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tourism expenditure**</td>
<td>YE Mar 15</td>
<td>$593m</td>
<td>$21,811m</td>
<td>$22,404m</td>
<td>2.6%</td>
</tr>
<tr>
<td>Domestic</td>
<td>YE Mar 15</td>
<td>$298m</td>
<td>$13,834m</td>
<td>$14,132m</td>
<td>2.1%</td>
</tr>
<tr>
<td>International</td>
<td>YE Mar 15</td>
<td>$295m</td>
<td>$7,977m</td>
<td>$8,272m</td>
<td>3.6%</td>
</tr>
<tr>
<td>International visitor arrivals</td>
<td>CY 2015</td>
<td>0</td>
<td>3,129,312</td>
<td>3,129,312</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

Rotorua Airport

Rotorua Airport is located around 6 kilometres north east of the Rotorua CBD, and comprises a small/medium size facility currently catering for domestic use only. The Airport is currently served by Air New Zealand’s regional subsidiaries with flights to Auckland, Wellington and Christchurch and commuter airline Sunair with flights to Gisborne and the North Shore. A number of charter and scenic airlines also operate from the airport on a regular basis.

In the first seven months of the 2016 financial year, Rotorua Airport announced an increase of 8.5% in domestic passengers, with the Auckland route growing 33.5%. Rotorua Airport has recently announced they are to begin a capital expenditure programme which will see a significant upgrade to the terminal and fire station, to ensure the airport meets current building, health and safety and airport requirements, including earthquake strengthening regulations.

In the past, Rotorua Airport also catered for a number of scheduled trans-Tasman flights which ceased in April 2015. The ability to recommence trans-Tasman services in the future will depend on underlying demand and the willingness of an international carrier to service the route.

Key attractions

- **Maori Culture** – This region is rich in Maori culture, and there are a range of guided walks and tours which are highly popular with international visitors. The Buried Village of Te Wairoa is New Zealand’s most visited archaeological site, which preserves the volcanic eruption of Mt Tarawera in 1886, burying the Te Wairoa village and the destruction of the infamous Pink and White Terraces. There are also a number of businesses promoting Maori culture through hangi and dance.

- **Geothermal Wonders** - The city is known internationally for its geothermal activity, and features geysers – notably the Pohutu Geyser at Whakarewarewa and hot mud pools. This thermal activity is sourced to the Rotorua caldera, upon which the town lies. There are several geothermal parks near and within Rotorua.

**44** Excludes airfares and export education fees.
which showcase the extensive geothermal activity of the region, including Waimangu Volcanic Valley, Wai-O-Tapu Thermal Wonderland, and Te Puia.

- **Adventure Tourism** - Rotorua provides an abundance of outdoor activities throughout the rivers, lakes and forests and parks that fringe the city. These activities include running, biking, trekking, adventure sport and water based events.

- **Spa & Wellness** - Rotorua has some of the best natural thermal hot pools, spas, and massage therapies in New Zealand. These include the Polynesian Spa in central Rotorua, which is New Zealand’s leading internationally acclaimed spa, and Hells Gate Geothermal Mud Bath Spa, which is the only place in New Zealand offering outdoor Mud Baths or Sulphur Spas.

- **Leisure & Wildlife Parks** - The Rotorua District is home to a number of wildlife parks and agricultural theme parks, showcasing New Zealand’s proud farming traditions and an array of wildlife, including kiwis. Paradise Valley Springs is home to native New Zealand birds, farm animals, and a pride of African Lions which are fed publically daily. The Agridome is also popular with tourists wanting to experience the New Zealand farming lifestyle, with shearing shows, and live demonstrations of farming operations.

### Major events

Major annual events in Rotorua include:

- Blue Lake Multisport Festival (January)
- New Year’s Mardi Gras Festival (January)
- Tarawera Ultra Marathon (February)
- Rotorua Bike Festival (February)
- Rotorua Walking Festival (March)
- Rotorua Marathon (April)
- Tough Guy and Gal Challenge (May)
- Rotorua Blues Festival (May/June)
- Super 15 matches held at Rotorua International Stadium (March – August)
- Summer Festival Race day (December)
- Major concerts held at Rotorua International Stadium

Rotorua has also hosted several international events in the past five years including Rugby World Cup 2011, Raggamuffin Music Festival 2010-2012 and Crankworx International Mountain Bike Festival 2015-16. It will also host a British & Irish Lions match in June 2017 against the Maori All Blacks.

### Business events

Rotorua’s central location and strong tourism proposition makes it a popular destination for business events. There are currently three main venues which are marketed by Events & Venues Rotorua:

- **Energy Events Centre** - a versatile, multi-purpose complex positioned on the edge of Lake Rotorua that is capable of seating up to 4,000 people theatre style. With its unique location in the picturesque Government Gardens, the Centre provides extensive car parking and is also within easy walking distance of the retail precinct, accommodation, restaurants, cafes and spa facilities.

- **Sir Howard Morrison Performing Arts Centre** - an architecturally designed building designed specifically for conferences, exhibitions and entertainment that offers banquet, concert, meeting, and conference and exhibition spaces, together with a 686 tiered-seating theatre. Located in the midst of Rotorua’s downtown business and retail area, the Convention Centre is a leisurely stroll from major hotels, shops, bars and restaurants.
Te Runanga Tea House - located in the Government Gardens, adjacent to Rotorua city centre. Built as a tea pavilion in 1903, its location, mid-way between the Rotorua Convention Centre and the Energy Events Centre, makes it great for an extra breakout room. The building attracts many smaller conference and incentive groups seeking something extra special.

Rotorua currently hosts around 83,000 business event delegates per year which represents around 3% of the national market. Approximately half of these delegates travel to Rotorua from other parts of New Zealand or overseas.

**Hotel demand**

Approximately 9.5% of all hotel rooms in the five focus regions are currently located in Rotorua and 9.1% of all hotel room nights are spent in Rotorua. The annual occupancy rate in Rotorua is currently 76.6% compared with 80.9% in the other four focus regions and the annual ADR is $110 compared with $156 elsewhere. Each hotel guest in Rotorua stays for an average of 1.72 nights and an average of 1.89 guests occupy each hotel room per night.

**FIGURE 69 OVERVIEW OF ROTORUA’S HOTEL SECTOR**

Source: TIA Hotel Statistics, Fresh Info, Colliers International

<table>
<thead>
<tr>
<th>Measure</th>
<th>Period</th>
<th>Rotorua</th>
<th>Other four focus regions</th>
<th>Five focus regions</th>
<th>Market share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hotel rooms</td>
<td>CY 2015</td>
<td>1,909</td>
<td>18,206</td>
<td>20,115</td>
<td>9.5%</td>
</tr>
<tr>
<td>Hotel room nights available</td>
<td>CY 2015</td>
<td>696,785</td>
<td>6,584,508</td>
<td>7,281,293</td>
<td>9.6%</td>
</tr>
<tr>
<td>Hotel room nights sold</td>
<td>CY 2015</td>
<td>534,035</td>
<td>5,329,237</td>
<td>5,863,272</td>
<td>9.1%</td>
</tr>
<tr>
<td>Occupancy rate</td>
<td>CY 2015</td>
<td>76.6%</td>
<td>80.9%</td>
<td>80.5%</td>
<td>n/a</td>
</tr>
<tr>
<td>ADR ($)</td>
<td>CY 2015</td>
<td>$110</td>
<td>$156</td>
<td>$152</td>
<td>n/a</td>
</tr>
<tr>
<td>RevPAR ($)</td>
<td>CY 2015</td>
<td>$84</td>
<td>$126</td>
<td>$122</td>
<td>n/a</td>
</tr>
<tr>
<td>Average nights per guest</td>
<td>CY 2015</td>
<td>1.72</td>
<td>2.10</td>
<td>1.72</td>
<td>n/a</td>
</tr>
<tr>
<td>Average guests per room</td>
<td>CY 2015</td>
<td>1.89</td>
<td>1.68</td>
<td>1.70</td>
<td>n/a</td>
</tr>
</tbody>
</table>
The tour & group market currently consumes almost half (48%) of all hotel room nights in Rotorua and generates 41% of room revenue. This is the one of the reasons the room yield in Rotorua is so low relative to other regions. The next largest segment is the independent traveller (FIT) market which accounts for 35% of room nights occupied and 41% of room revenue. The highest yielding segments are FIT (NZ$128 per night), corporate (NZ$121 per night) and conference & incentive (NZ$120 per night).

**FIGURE 70 DEMAND FOR HOTEL ROOM NIGHTS IN ROTORUA BY TYPE OF GUEST IN 2015**
Source: TIA Hotel Statistics

New Zealand residents currently consume around 39% of all hotel room nights in Rotorua. China and Australia are the largest international markets at 23% and 9% respectively.

**FIGURE 71 ROOM NIGHTS OCCUPIED IN ROTORUA BY ORIGIN OF GUEST IN 2015**
Source: TIA Hotel Statistics, Fresh Info
Analysis of hotel demand patterns in Rotorua in 2015 reveals that:

- Total guest nights in Rotorua are divided relatively evenly between 3-4 star hotels and 4.5-5 star hotels.
- New Zealand guests strongly favour 4.5-5 star establishments.
- Chinese and Australian visitors each spend around 60% of their nights in 3-4 star hotels.
- South Korean guest spend almost three quarters of their guest nights in 3-4 star hotels.

These observations are based on current patterns of supply and demand and it is important to note that preferences may evolve in response to structural shifts in markets and changes in hotel supply over time.

**FIGURE 72 Rotorua Hotel Preference by Origin of Guest (Share of Room Nights)**

Source: TIA Hotel Statistics, Fresh Info

The annual occupancy rate in Rotorua reached 77% in 2015, up from 71% in 2014. This increase in demand pushed ADR up by $10 (10%) to $110 which is higher than the rate of $107 achieved in 2011 due to the price escalation caused by the Rugby World Cup. The combination of higher occupancy rates and higher ADR increased annual RevPAR in Rotorua by $12 (18%) to $84 in 2015.

**FIGURE 73 Historical Hotel Performance in Rotorua**

Source: TIA Hotel Statistics, Fresh Info
The December and March quarters are both high demand periods for hotels in Rotorua due to high levels of international demand. The June and September quarters are traditionally less busy but still achieved reasonable occupancy rates of 70.4% and 64.8% respectively in 2015.

**FIGURE 74 HOTEL PERFORMANCE IN Rotorua BY QUARTER IN 2015**

Source: TIA Hotel Statistics, Fresh Info

<table>
<thead>
<tr>
<th></th>
<th>Occupancy rate</th>
<th>ADR ($NZ excl. GST)</th>
<th>RevPAR ($NZ excl. GST)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mar-15</td>
<td>87.2%</td>
<td>$113</td>
<td>$99</td>
</tr>
<tr>
<td>Jun-15</td>
<td>70.4%</td>
<td>$105</td>
<td>$74</td>
</tr>
<tr>
<td>Sep-15</td>
<td>64.8%</td>
<td>$102</td>
<td>$66</td>
</tr>
<tr>
<td>Dec-15</td>
<td>84.3%</td>
<td>$117</td>
<td>$98</td>
</tr>
<tr>
<td>TOTAL</td>
<td>76.6%</td>
<td>$110</td>
<td>$84</td>
</tr>
</tbody>
</table>

Demand projections

The outlook for the hotel sector in Rotorua is strong with **unconstrained** hotel demand expected to increase from around 534,000 room nights in 2015 to 731,000 room nights in 2025. This represents growth over the next 10 years of 37% and an average growth rate of 3.2% per annum. The main factors driving the increase in demand are:

- The rapid growth in the Chinese market which has a high propensity to visit Rotorua, especially the large tour and group market
- Expansion in the domestic aviation market and more domestic capacity on Auckland services
- The Lions Tour in 2017 (circa 20,000 international visitors), many of which will visit Rotorua to attend the match against the Maori All Blacks, and also as tourists outside match days in other regions.

**FIGURE 75 PROJECTED DEMAND FOR HOTEL ROOM NIGHTS IN Rotorua**

Source: Fresh Info Hotel Forecasting Model
The Chinese market is expected to drive the majority of the growth in hotel demand over the next 10 years, accounting for 57% of the overall increase. The New Zealand market, which currently accounts for 39% of overall demand, is expected to remain unchanged across the forecast period. This reflects the lack of growth in recent years and greater competition from other domestic leisure destinations, particularly Queenstown.

**FIGURE 76 PROJECTED GROWTH IN HOTEL ROOM NIGHT DEMAND IN Rotorua BY ORIGIN OF GUEST**
Source: Fresh Info Hotel Forecasting Model

Based on the projected growth rates it is estimated that 32% of room night demand will be generated by Chinese visitors in 2025, up from 23% in 2015. The New Zealand market’s share of room night demand will fall from 39% to 28% over the same period due to the domestic market remaining stagnant while key international markets continue to grow strongly.

**FIGURE 77 PROJECTED SHARE OF ROOM NIGHT DEMAND IN Rotorua BY ORIGIN OF GUEST**
Source: Fresh Info Hotel Forecasting Model
While unconstrained demand is expected to maintain its seasonal profile over time due to the strong growth in international demand, accommodation constraints are likely to mean that not all peak season demand can be met. Rotorua is already experiencing high demand during peak periods so there isn’t much scope for occupancy rates to improve significantly during these periods. However, off-peak demand is also expected to grow due to general growth in the market combined with altered travel patterns as a result of peak period congestion. This will allow year-round occupancy rates to grow because there is currently surplus hotel capacity during off-peak periods that can be utilised.

FIGURE 78 SEASONALITY OF PROJECTED HOTEL ROOM NIGHT DEMAND IN ROTORUA
Source: Fresh Info Hotel Forecasting Model
**Hotel supply**

Rotorua’s hotel sector comprised 20 properties offering a total of 1,909 rooms in December 2015. This includes all of the large hotels as well as serviced apartments operating at least 25 rooms. The hotel population is made up of 80% 4 to 4.5 star properties, 18% 3 to 3.5 star properties, and 2% 5 star properties. The majority of Rotorua’s hotel properties and rooms are located within the wider city centre, with only a few properties located near some of the city’s key tourist attractions.

There has been only one addition to the Rotorua hotel market in recent years, being a 36 room Quest serviced apartment hotel which was completed in late 2012. The majority of Rotorua’s existing stock dates from the 1980s and 1990s with the exception of the Ibis Hotel which was constructed in 2004.

**FIGURE 79 HOTEL ROOM SUPPLY IN ROTORUA AS AT DECEMBER 2015**

Source: Colliers International

<table>
<thead>
<tr>
<th>Star rating</th>
<th>Properties</th>
<th>Rooms</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>1</td>
<td>38</td>
</tr>
<tr>
<td>3.5</td>
<td>4</td>
<td>310</td>
</tr>
<tr>
<td>4</td>
<td>5</td>
<td>573</td>
</tr>
<tr>
<td>4.5</td>
<td>9</td>
<td>945</td>
</tr>
<tr>
<td>5</td>
<td>1</td>
<td>43</td>
</tr>
<tr>
<td>TOTAL</td>
<td>20</td>
<td>1,909</td>
</tr>
</tbody>
</table>

The Rotorua market predominantly comprises 4.5 star hotels, which account for 50% of all hotel rooms. The second largest segment is 4 star hotels at 30% of all hotel rooms, followed by 3.5 star hotels at 16%. There is a distinct lack of budget and luxury hotel accommodation in the Rotorua market, with only one hotel in each of the 3 star and 5 star categories. We recognise that Rotorua also has a large motel sector which helps cater for more affordable accommodations options.

**FIGURE: STRUCTURE OF ROTORUA’S HOTEL SUPPLY (DEC 2015)**

Source: Colliers International

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45 Qualmark ratings have been used when available.
New hotel supply

There has been minimal new development in Rotorua for the past two decades due primarily to low room yields and a historical oversupply of hotel rooms relative to demand. However the recent significant increase in tourism demand has drawn the attention of a number of developers and investors who now see Rotorua as a viable city for hotel investment and possible development proposition.

There is currently one hotel under construction being a 4.5 star circa 140 room hotel, which is to be a conversion of the former Zen Building on Arawa Street in the Rotorua CBD with the hotel due to be completed in mid/late-2017. An operator for this development is reported to be in the final stages of negotiation.

There are also a number of proposed developments which are in various stages of design feasibility, or consent phases. Whilst these developments have a likelihood of proceeding, they are not certain and have therefore had probability weights assigned to them based on where in the current design/consent phase each project sits. We are aware of two proposed developments which have been identified in Rotorua that may proceed in the short term. We note that both of the proposed hotels are located in the Rotorua central area and are both of a 4 star rating.

We are also aware of a number of other mooted hotel developments that may occur in the future. These projects are generally in the initial concept stages and are typically less well defined than the developments listed above. These have therefore been added to a development register watch list and are not specifically included in our current supply forecasts.

Expected New Supply

Colliers has developed a probability-weighted hotel room development register for Rotorua which includes all confirmed and expected developments over the next five years. As at April 2016 it is estimated that only 111 rooms (based on weighted probability) will be built over the next five years and a total of 216 will be built over the next 10 years. Annual growth beyond 2020 has been estimated based on the average annual increase in new supply observed over the past 20 years. Based on these projections it is estimated that the number of hotel rooms in Rotorua will increase from 1,909 in 2015 to 2,125 by 2025.

FIGURE 80 ANNUAL CHANGE IN HOTEL ROOMS IN ROTORUA
Source: Colliers International
Market projections

Current demand and supply projections indicate that Rotorua’s hotel sector will become increasingly constrained over the next decade during peak periods and also busier during off peak periods as tourism demand rises across the year. This will result in annual occupancy rates of around 85% in the long-term.

We are likely to see the Rotorua hotel market reach “constrained status” as early as 2017 with minimal new supply forecast and a surge in visitor numbers caused by rapid growth in international visitor arrivals (especially Chinese visitors) as well as a number of key events in 2017. These include a match between the Maori All Blacks and the British & Irish Lions, and World Masters Games in Auckland which is likely to result in additional visits to Rotorua. The Rugby League World Cup may also have an impact if Rotorua is awarded a match.

New demand drivers such as a planned premium-quality health and wellness tourism precinct would have additional upside on occupancy and ADR.

FIGURE 82 OCCUPANCY RATE PROJECTIONS FOR ROTORUA HOTELS
Source: Fresh Info Hotel Forecasting Model

<table>
<thead>
<tr>
<th>CY</th>
<th>3-4 star</th>
<th>4.5 - 5 star</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016f</td>
<td>79%</td>
<td>82%</td>
<td>81%</td>
</tr>
<tr>
<td>2017f</td>
<td>81%</td>
<td>80%</td>
<td>81%</td>
</tr>
<tr>
<td>2018f</td>
<td>82%</td>
<td>82%</td>
<td>82%</td>
</tr>
<tr>
<td>2019f</td>
<td>83%</td>
<td>82%</td>
<td>83%</td>
</tr>
<tr>
<td>2020f</td>
<td>84%</td>
<td>83%</td>
<td>84%</td>
</tr>
<tr>
<td>2021f</td>
<td>85%</td>
<td>84%</td>
<td>84%</td>
</tr>
<tr>
<td>2022f</td>
<td>85%</td>
<td>84%</td>
<td>84%</td>
</tr>
<tr>
<td>2023f</td>
<td>85%</td>
<td>84%</td>
<td>85%</td>
</tr>
<tr>
<td>2024f</td>
<td>86%</td>
<td>84%</td>
<td>85%</td>
</tr>
<tr>
<td>2025f</td>
<td>86%</td>
<td>85%</td>
<td>85%</td>
</tr>
</tbody>
</table>
ADR in Rotorua is expected to increase in response to occupancy rate pressure but the price sensitivity of the large international tour and group segment combined with an aging hotel inventory is expected to hold ADR levels below those achieved in the other focus regions. The overall annual ADR in Rotorua is projected to increase gradually from NZ$110 in 2015 to NZ$139 in 2025, representing a 26% increase over the forecast period.

There is no historical precedent for the record high occupancy rates expected in Rotorua and there is a reasonable chance that sustained occupancy pressure could result in ADR’s which exceed predicted levels.

FIGURE 83 ADR PROJECTIONS FOR ROTORUA HOTELS ($NZ EXCL. GST)
Source: Fresh Info Hotel Forecasting Model

<table>
<thead>
<tr>
<th>CY</th>
<th>3-4 star</th>
<th>4.5 - 5 star</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016f</td>
<td>102</td>
<td>132</td>
<td>118</td>
</tr>
<tr>
<td>2017f</td>
<td>108</td>
<td>141</td>
<td>126</td>
</tr>
<tr>
<td>2018f</td>
<td>105</td>
<td>139</td>
<td>123</td>
</tr>
<tr>
<td>2019f</td>
<td>108</td>
<td>142</td>
<td>126</td>
</tr>
<tr>
<td>2020f</td>
<td>110</td>
<td>145</td>
<td>129</td>
</tr>
<tr>
<td>2021f</td>
<td>113</td>
<td>149</td>
<td>132</td>
</tr>
<tr>
<td>2022f</td>
<td>114</td>
<td>151</td>
<td>134</td>
</tr>
<tr>
<td>2023f</td>
<td>116</td>
<td>153</td>
<td>136</td>
</tr>
<tr>
<td>2024f</td>
<td>117</td>
<td>154</td>
<td>137</td>
</tr>
<tr>
<td>2025f</td>
<td>118</td>
<td>156</td>
<td>139</td>
</tr>
</tbody>
</table>

The demand projections presented above have been used to predict the total number of hotel rooms Rotorua would require in 2025 to accommodate the projected demand for hotel room nights at that time.46 Our analysis suggests that the Rotorua hotel market could absorb up to 700 new hotel rooms by 2025 while continuing to achieve 2015 occupancy rates. This is based on the following assumptions:

- Realisation of MBIE’s visitor arrival forecasts which predict average growth of 5.4% per annum over the next 7 years.
- Limited impact on hotel demand from alternative modes of accommodation and new business models like Airbnb.

Taking into account expected growth in hotel rooms over the next 10 years (based on Colliers’ latest development schedule and long-term growth in hotel inventory) it is estimated that there may be a shortfall of up to 480 hotel rooms in Rotorua over the next 10 years.

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46 The “optimal” number of hotel rooms has been estimated by calculating the number of rooms that would allow Rotorua hotels to achieve the same occupancy rates in 2025 as they achieved in 2015. The 2015 calendar year has been used as a benchmark because it was a year that provided demand conditions that allowed most tourism demand to be accommodated while also being financially sustainable for hotels.
Based on current guest preferences it is estimated that demand for 3-4 star hotels will grow most strongly over the forecast period, although demand for 4.5-5 star hotels will also be strong. This provides useful guidance on which types of hotels would be most well received by the market although it is noted that preferences may change over time, particularly in response to changes in hotel price and availability.
WELLINGTON

Summary

Current situation

- Wellington is New Zealand’s capital city and is primarily a corporate/domestic market, being home to Parliament and the head offices of all Government Ministries and Departments and a number of key private institutions.
- Wellington is also a well-established events and domestic leisure destination with a vibrant calendar of annual events and demand drivers such as Te Papa and the Wellington Film Industry.
- Favourable demand conditions have pushed the annual occupancy rate up to 78% in 2015 and annual ADR up 7% to $152. The overall effect is a 12% increase in annual RevPAR to $119 in the 2015 calendar year.
- The Wellington hotel market is less seasonal than the other focus regions but has supply constraints at certain times of the year due to corporate travel (typically Monday – Thursday) and more recently a shortage of hotel accommodation during November, February and March when peak tourism demand coincides with corporate travel demand. These effects are exacerbated by major events such as the Wellington Sevens which are held in the middle of the peak demand period.

Demand outlook

- The outlook for the hotel sector in Wellington is positive with annual demand for hotel room nights expected to increase from just over 1 million room nights in 2015 to 1.3 million room nights in 2025. This represents growth over the next 10 years of 29% and an average growth rate of 2.6% per annum. The main factors driving the increase in demand are:
  - Steady growth in the domestic market driven by Wellington’s strong corporate and FIT sectors.
  - Increasing growth in international demand although the impact of this will be limited by Wellington’s modest exposure to key growth markets and in particular China. However, the recently announced long-haul service between Wellington and Singapore via Canberra is likely to generate some uplift in visitor arrivals from Australia and Asia, and other services may follow which would lift demand beyond the levels assumed in this report.
  - Expansion in the domestic aviation market and greater competition on regional routes.
  - Major events in 2017 including the British & Irish Lions Tour (circa 20,000 international visitors) and the Rugby League World Cup (circa 2,000 international visitors).
- Other factors that have not been directly modelled but which would have a positive impact on demand (particularly international) if completed include Sir Peter Jackson and Sir Richard Taylor’s Movie Museum, a new Convention Centre, and the proposed 350 metre runway extension at Wellington Airport which would enable Wellington to receive some types of wide body aircraft. A resource consent application has recently been lodged by Wellington Airport for the extension, but the project is expected to require significant financial support from central and local government if it is to proceed.
Supply outlook

- There is currently one hotel under construction in Wellington - The Sofitel Wellington on Bolton Street which is due for completion in mid-2016.
- We are aware of two proposed developments in Wellington, including the Sebel Suites Lower Hutt, which is anticipated to be completed in 2017 and the 134 room Rydges Hotel which is to be constructed at Wellington Airport with a completion date in late 2018. We are also aware of a number of other mooted hotel developments in Wellington which are in the early design and concept stages of planning.

Market projections

- Current demand and supply projections indicate that Wellington’s hotel sector will become increasingly constrained over the next decade with annual occupancy rates gradually rising from their current level of 78% to around 87% by 2025.
- The average ADR is expected to increase from $152 in 2015 to $183 in 2025, and RevPAR is expected to increase from $119 to $159. There is no historical precedent for the record high occupancy rates that Wellington is currently achieving and we believe that sustained occupancy pressure could result in ADR’s which surpass predicted levels.
- The challenge for Wellington in the short-term is that the demand profile outside the high demand periods can be comfortably accommodated within the existing and proposed hotel inventory. This suggests that while there is a shortage of hotel accommodation during certain periods, the demand profile is not yet consistent enough to sustain a major expansion in hotel room inventory. However, this is expected to change over the latter part of the forecast period and could occur much sooner if proposed large-scale developments like the Movie Museum, the new Convention Centre and the 350 metre runway extension at Wellington Airport go ahead.
- Current unconstrained demand projections indicate that Wellington may need as many as 1,000 additional hotel rooms by 2025. Taking into account the current development schedule and long-term trends in hotel development it is estimated that around 560 will be built over the next 10 years, which leaves a potential shortfall of up to 439 hotel rooms.
- Based on current guest preferences it is estimated that demand for 4.5 - 5 star hotels will grow most strongly over the forecast period, followed by 3-3.5 star. This provides useful guidance on which types of hotels would be most well received by the market although it is noted that preferences may change over time, particularly in response to changes in hotel price and availability.

Implications & insights

- While it has been estimated that an additional 561 hotel rooms will be built in Wellington over the next 10 years, the ability to deliver these rooms is heavily dependent upon managing a number of key constraints including site availability, seismic strengthening, financial feasibility, resource and building costs, financing and timing delays. Finding ways to overcome these challenges will be a critical success factor for the hotel sector, the tourism sector and Wellington’s overall economy.
- A range of development solutions will be required to resolve the hotel supply shortage including:
  - New purpose built hotels, mainly in the 4.5 – 5 star category
  - Further medium term opportunities in the 3 and 4 star market
  - Conversions as secondary office towers become vacant
  - Modular development
  - Mixed use developments e.g. office/retail/residential/serviced apartments.
  - Strategic development near key demand generators e.g. Sir Peter Jackson and Sir Richard Taylor’s Movie Museum, and a new convention centre, and the proposed runway extension at Wellington Airport.
- Expansion of existing hotels
- Public Private Partnerships to open up strategic sites for hotel development.

The changing landscape of the Wellington hotel and tourism market over the next decade is likely to result in a number of potential structural and behavioural changes including:

- Peak periods will become increasingly constrained in the absence of new hotel supply. This is likely to result in initiatives that increase demand in the shoulder and off-peak periods which will improve year-round performance e.g. events and marketing campaigns targeting off-peak periods.
- Traditional lower yielding segments being forced to accept significantly higher room rates or move to more affordable destinations.
- The introduction of new 4 and 5 star hotels, combined with increasing demand, will lift the overall average ADR in Wellington and temporarily ease constraints in the short-term.
- Further ADR pressure on the price sensitive domestic market (particularly leisure and to a lesser extent corporate) during peak periods which could result in altered tourism patterns and some loss of business. There is already evidence of corporate travellers switching to more frequent day trips to Wellington during peak periods, rather than staying overnight.
- The introduction of new 4.5 and 5 star hotels, combined with increasing demand, will lift the overall ADR in Wellington and temporarily ease constraints in the short-term.
- Increased opportunity for operators to charge excessive room rates during peak periods with possible long term downstream consequences for the wider Wellington visitor market. The British & Irish Lions Tour in 2017 is likely to result in severe price escalation in late-June/early July when Wellington hosts a match against the Hurricanes and the second test against the All Blacks.
- Movement of some guests to decentralised locations when the airport and Lower Hutt hotels are completed and some spill of surplus demand to satellite regions such as Wairarapa, Palmerston North and Picton when the Wellington market is heavily congested.
- Increasing reliance on other types of short stay accommodation including motels, budget stays, campervans and new business models such as Airbnb.
Tourism context

Wellington is New Zealand’s capital city and is primarily a corporate/domestic market, being home to Parliament and the head offices of all Government Ministries and Departments and a number of key private institutions. It is also a well-established events and domestic leisure destination with a vibrant calendar of annual events and demand drivers such as Te Papa and the Wellington Film Industry. Positively Wellington Tourism has developed a number of marketing promotions for the domestic and Australian markets to lift the profile of Wellington as a leisure destination, with a particular focus on weekend and event-related travel.

In the year ending March 2015 Wellington captured 9.7% of all tourism expenditure in New Zealand including 12% of domestic expenditure and 5.8% of international expenditure.

FIGURE 86 OVERVIEW OF WELLINGTON’S TOURISM SECTOR
Source: Tourism Satellite Account, IVA (Statistics NZ)

<table>
<thead>
<tr>
<th>Measure</th>
<th>Period</th>
<th>Wellington</th>
<th>Rest of New Zealand</th>
<th>New Zealand</th>
<th>Market share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tourism expenditure(^{47})</td>
<td>YE Mar 15</td>
<td>$2,166m</td>
<td>$20,238m</td>
<td>$22,404m</td>
<td>9.7%</td>
</tr>
<tr>
<td>Domestic</td>
<td>YE Mar 15</td>
<td>$1,690m</td>
<td>$12,442m</td>
<td>$14,132m</td>
<td>12.0%</td>
</tr>
<tr>
<td>International</td>
<td>YE Mar 15</td>
<td>$476m</td>
<td>$7,796m</td>
<td>$8,272m</td>
<td>5.8%</td>
</tr>
<tr>
<td>International visitor arrivals</td>
<td>CY 2015</td>
<td>213,120</td>
<td>2,916,192</td>
<td>3,129,312</td>
<td>6.8%</td>
</tr>
</tbody>
</table>

Wellington Airport

- Wellington Airport is both a domestic and international airport, but the current runway length restricts the size of planes able to land. International flights arriving directly into Wellington are predominantly trans-Tasman flights arriving from Sydney, Melbourne and Brisbane.
- In the year ended December 2015 the airport handled approximately 5.69 million passenger movements of which 873,000 were international. The airport saw an increase of 9.8% in visitors from Asia, Europe and North America over the same period in 2014.
- New air connections have been announced in 2015 with Jetstar beginning new services to the Gold Coast and Melbourne, and Fiji Airways flying year round to Nadi, connecting to North America. In addition, Singapore Airlines has announced a “Capital Express” service which will fly four times per week between Wellington and Singapore via Canberra, commencing in September 2016.
- In November 2014, construction commenced on a $58 million, 6,000m² upgrade of the main terminal building to cater for increasing passenger numbers. This extended the terminal building by approximately 30 metres and includes an additional lounge, retail and food and beverage space and provides additional parking for aircraft.
- Discussions continue around a proposed 350 metre runway extension which would allow larger international flights to fly direct to Wellington; however the exact design, cost and timing are yet to be confirmed. The project will require significant financial support from central and local government if it is to proceed. A resource consent application has recently been lodged by Wellington Airport for the extension.

\(^{47}\) Excludes airfares and export education fees.
Key attractions

In addition to its strong corporate market Wellington provides a unique ‘city break’ experience for leisure visitors built around its cafe culture, major event programme and concentration of arts and cultural attractions within its compact CBD. Key attractions that anchor the Wellington visitor experience include:

- **Te Papa** – Te Papa is New Zealand’s national museum and one of Wellington’s ‘must-see’ attractions. Located in the heart of the CBD, Te Papa houses an impressive collection of Māori artefacts, natural history and environment exhibitions, Pacific and NZ history galleries, the National Art Collection, and themed hands-on ‘discovery centres’ for children. The current feature attraction is ‘Gallipoli: The Scale of Our War’ which features eight hyper-real models produced by Weta Workshop.

- **Wellington Cable Car** - One of Wellington’s most popular tourist attractions, the Wellington Cable Car runs from downtown Wellington to the picturesque suburb of Kelburn and Wellington Botanic Garden.

- **Film, Theatre & Entertainment** – Known as ‘Wellywood’, Wellington has an international film and special effects industry. Notable industry players include Sir Peter Jackson and Sir Richard Taylor and their Weta group of companies, widely known for their work on the Lord of the Rings and Hobbit trilogies, King Kong, and Avatar. Wellington is also New Zealand’s creative and cultural capital, housing institutions the New Zealand Symphony Orchestra and the Royal New Zealand Ballet.

- **Government Precinct** – The Government Precinct is home to a number of key government buildings including Parliament House, the Parliamentary Library, and executive offices located within the parliamentary buildings. In addition, public and private sector organisations are concentrated in this area, including the Ministry of Education, New Zealand Police, the New Zealand Defence Force, foreign embassies, consulates and high commissions.

- **Westpac Stadium** – the city’s premier sporting venue with seating capacity for up to 35,000 attendees. The Stadium is the home venue for the Super 15 rugby team the Wellington Hurricanes and the A-League football club the Wellington Phoenix, as well as hosting a number of All Blacks rugby test matches, international cricket matches and other major sporting events and concerts such as the annual IRB Sevens tournament.
Major events

Every year, Wellington city hosts a wide range of events including concerts, sporting matches, live theatre and dance, exhibitions, and festivals. Major annual events in Wellington include:

- Wellington Cup Day (January)
- Summer City Festival (January - March)
- International cricket matches held at the Basin Reserve and Westpac Stadium (January - March)
- HSBC Wellington Sevens (February)
- Pasifika Festival (February)
- New Zealand Festival (February – March, held on even numbered years)
- Homegrown Music Festival (April)
- Numerous Super 15 and A-League matches held at Westpac Stadium (March – August)
- Visa Wellington on a Plate (August)
- World of Wearable Arts (September/October)
- Major concerts held at Westpac Stadium

Wellington has also hosted several international events in the past five years including Royal Edinburgh Military Tattoo 2016, ICC Cricket World Cup 2015, FIFA U20 Football World Cup 2015, HSBC Wellington Sevens and Rugby World Cup 2011. In 2017 Wellington will host two Lions matches - one against the Hurricanes and the second test against the All Blacks.

Business events

Wellington has a strong business events sector supported by several large venues and a range of smaller options. There are currently a number of large venues including:

- **Te Papa** - As well as being a six level museum that showcases New Zealand’s national art and treasures, Te Papa is also a conference and events venue. Situated on the waterfront in the heart of Wellington, Te Papa is close to all major hotels and public transport and offers plenty of onsite parking. Key features include 15 dedicated meeting rooms and a variety of exhibition spaces, catering from 20 to 5000, flexible venues seating 20 to 520, purpose built 328 tiered seating theatre, 519m² of trade display space in a single room, seated dinner for up to 550 and cocktails for up to 5000.

- **Shed 6** - Wellington's newest waterfront venue has been transformed from an old Harbour Board shed into a versatile event space. Shed 6 can be easily configured for exhibitions, meetings, banquets, social functions, product launches and live performances - transforming itself from one to four separate spaces with its large operable walls. Shed 6 is linked to the TSB Bank Arena by a two storey Arcade providing an ‘under one roof’ venue which is attracting more international conferences and events to Wellington. Located right on Wellington's waterfront, Shed 6 is also within easy walking distance of Wellington’s central business and down town hotel district.

- **TSB Bank Arena** - Located on the waterfront and within an easy stroll of major hotel accommodation, cafes and restaurants, boutique shopping as well as Wellington’s arts, culture and entertainment precinct. TSB Bank Arena has a large foyer space providing a good flow between spaces and the combination of fixed, loose floor and retractable seating offers multiple configuration setups. The venue also has the added benefit of the Arcade linking to Shed 6 which provides a variety of options.

- **Michael Fowler Centre** - Located in the heart of the city’s civic and cultural precinct, the Michael Fowler Centre has won numerous architecture awards and is the Wellington stage for both international conferences and leading performing artists alike. The venue is within an easy stroll of major hotel accommodation, cafes and restaurants, and major cultural attractions.
• **EPICURE Westpac Stadium Function Centre** – Provides a distinctive setting for a range of events from 20 person boardroom to 800 guest banquet dinners and everything in between. EPICURE’s brand has been built on a sustainable food philosophy featuring seasonal menus which support ethically produced food and utilise local produce.

Another possible venue in Wellington is the proposed Movie Museum which would include a 6,000m$^2$ convention centre on the top floor. This could play a key role in lifting shoulder and off-peak demand in Wellington if it is built.

Wellington hosted around 350,000 business event delegates in 2015 which represents around 14% of the national market. Approximately 25% of these delegates travelled to Wellington from other parts of New Zealand or overseas.

**Hotel demand**

Approximately 17.4% of all hotel rooms in the five focus regions are currently located in Wellington and 17.2% of all hotel room nights are spent in Wellington. The annual occupancy rate in Wellington is currently 78.2% compared with 81% in the other four focus regions and the annual ADR is $152 which is the same as the average across all five focus regions. Each hotel guest in Wellington stays for an average of 2.03 nights and an average of 1.58 guests occupy each hotel room per night.

**FIGURE 88 OVERVIEW OF WELLINGTON’S HOTEL SECTOR**
Source: TIA Hotel Statistics, Fresh Info, Colliers International

<table>
<thead>
<tr>
<th>Measure</th>
<th>Period</th>
<th>Wellington</th>
<th>Other four focus regions</th>
<th>Five focus regions</th>
<th>Market share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hotel rooms</td>
<td>CY 2015</td>
<td>3,494</td>
<td>16,621</td>
<td>20,115</td>
<td>17.4%</td>
</tr>
<tr>
<td>Hotel room nights available</td>
<td>CY 2015</td>
<td>1,289,124</td>
<td>5,992,169</td>
<td>7,281,293</td>
<td>17.7%</td>
</tr>
<tr>
<td>Hotel room nights sold</td>
<td>CY 2015</td>
<td>1,007,492</td>
<td>4,855,780</td>
<td>5,863,272</td>
<td>17.2%</td>
</tr>
<tr>
<td>Occupancy rate</td>
<td>CY 2015</td>
<td>78.2%</td>
<td>81.0%</td>
<td>80.5%</td>
<td>n/a</td>
</tr>
<tr>
<td>ADR (SNZ)</td>
<td>CY 2015</td>
<td>$152</td>
<td>$152</td>
<td>$152</td>
<td>n/a</td>
</tr>
<tr>
<td>RevPAR (SNZ)</td>
<td>CY 2015</td>
<td>$119</td>
<td>$123</td>
<td>$122</td>
<td>n/a</td>
</tr>
<tr>
<td>Average nights per guest</td>
<td>CY 2015</td>
<td>2.03</td>
<td>2.06</td>
<td>1.72</td>
<td>n/a</td>
</tr>
<tr>
<td>Average guests per room</td>
<td>CY 2015</td>
<td>1.58</td>
<td>1.73</td>
<td>1.70</td>
<td>n/a</td>
</tr>
</tbody>
</table>
The independent traveller (FIT) market currently consumes 47% of all hotel room nights in Wellington and generates 48% of hotel room revenue. The next largest segment is the corporate market which accounts for 32% of room nights sold and 33% of hotel room revenue. The highest yielding segments are conference & incentive (NZ$167 per night), corporate (NZ$165 per night) and FIT (NZ$162 per night).

**FIGURE 89 DEMAND FOR HOTEL ROOM NIGHTS IN WELLINGTON BY TYPE OF GUEST IN 2015**
Source: TIA Hotel Statistics

New Zealand residents currently consume around three quarters of all hotel room nights in Wellington. Australia and the US are the largest international markets at 11% and 3% respectively. Wellington is the only market in this report that does not currently have major exposure to the rapidly growing Chinese market, and this is reflected in its growth prospects relative to other markets. This situation may change over time if Wellington is able to receive direct flights from Asia.

**FIGURE 90 ROOM NIGHTS OCCUPIED IN WELLINGTON BY ORIGIN OF GUEST IN 2015**
Source: TIA Hotel Statistics, Fresh Info
An analysis of hotel demand patterns in Wellington in 2015 reveals that:

- Around 50% of domestic guest nights are spent in 4.5-5 star hotels. This is similar to the overall average due to the large share of room nights consumed by New Zealanders.
- Almost two thirds of Australian guest nights, and around three quarters of US guest nights, are spent in 4.5-5 star establishments.

These observations are based on current patterns of supply and demand and it is important to note that preferences may evolve in response to structural shifts in markets and changes in hotel supply over time.

**FIGURE 91 WELLINGTON HOTEL PREFERENCE BY ORIGIN OF GUEST (SHARE OF ROOM NIGHTS)**
Source: TIA Hotel Statistics, Fresh Info

The annual occupancy rate in Wellington reached 78% in 2015, up from 74% in 2014. This increase in demand pushed the annual ADR up by NZ$9 to NZ$152 which is slightly higher than the rate of NZ$151 achieved in 2011 due to the price escalation caused by the Rugby World Cup. The combination of higher occupancy rates and higher ADR increased annual RevPAR in Wellington by $13 (12%) to $119 in 2015.

**FIGURE 92 HISTORICAL HOTEL PERFORMANCE IN WELLINGT**
Source: TIA Hotel Statistics, Fresh Info
Demand is less seasonal in Wellington than elsewhere due to the high concentration of domestic and corporate visitation. There is some improvement in occupancy and a material increase in ADR in the December and March quarters due to the overlap between corporate travel, major events and the international tourism peak.

**FIGURE 93 HOTEL PERFORMANCE IN WELLINGTON BY QUARTER IN 2015**

Source: TIA Hotel Statistics, Fresh Info

<table>
<thead>
<tr>
<th></th>
<th>Occupancy rate</th>
<th>ADR ($NZ excl. GST)</th>
<th>RevPAR ($NZ excl. GST)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mar-15</td>
<td>79.4%</td>
<td>$156</td>
<td>$124</td>
</tr>
<tr>
<td>Jun-15</td>
<td>76.8%</td>
<td>$142</td>
<td>$109</td>
</tr>
<tr>
<td>Sep-15</td>
<td>74.6%</td>
<td>$144</td>
<td>$107</td>
</tr>
<tr>
<td>Dec-15</td>
<td>81.8%</td>
<td>$165</td>
<td>$135</td>
</tr>
<tr>
<td>TOTAL</td>
<td>78.2%</td>
<td>$152</td>
<td>$119</td>
</tr>
</tbody>
</table>

**Demand projections**

The outlook for the hotel sector in Wellington is positive with hotel demand expected to increase from just over 1 million room nights in 2015 to 1.3 million room nights in 2025. This represents growth over the next 10 years of 29% and an average growth rate of 2.6% per annum. The main factors driving the increase are:

- Steady growth in the domestic market driven by Wellington’s strong corporate and FIT sectors
- Increasing growth in international demand although the impact of this will be limited by Wellington’s modest exposure to key growth markets and in particular China. It is however noted that Wellington will receive its first long-haul flight in September 2016 (Singapore via Canberra) which could pave the way for additional long-haul services in the future if it is successful.
- Expansion in the domestic aviation market and greater competition on regional routes
- Major events in 2017 including the Lions Tour (circa 20,000 international visitors) and the Rugby League World Cup (circa 2,000 international visitors)

Other factors that have not been directly modelled but which would have a positive impact on demand if completed include Sir Peter Jackson and Sir Richard Taylor’s Movie Museum, the new Convention Centre, and the proposed runway extension at Wellington Airport which would enable Wellington to receive some wide body aircraft.

**FIGURE 94 PROJECTED DEMAND FOR HOTEL ROOM NIGHTS IN WELLINGTON**

Source: Fresh Info Hotel Forecasting Model
The New Zealand and to a lesser extent Australian markets are expected to drive the majority of the growth in hotel demand, collectively accounting for 75% of the overall increase. The current lack of direct international air connectivity beyond Australia limits Wellington’s ability to benefit from the fast growing Asia Pacific travel market.

**FIGURE 95 PROJECTED GROWTH IN HOTEL ROOM NIGHT DEMAND IN WELLINGTON BY ORIGIN OF GUEST**
Source: Fresh Info Hotel Forecasting Model

Based on the projected growth rates it is estimated that the domestic share of room night demand will fall slightly from 76% in 2015 to 73% in 2025. Overall the structure of the Wellington market is expected to remain relatively stable over the forecast period due to its lack of exposure to the fast growing international market.

**FIGURE 96 PROJECTED SHARE OF ROOM NIGHT DEMAND IN WELLINGTON BY ORIGIN OF GUEST**
Source: Fresh Info Hotel Forecasting Model
The seasonal pattern experienced in Wellington is much more moderate than in other regions due to the high proportion of demand generated by the domestic market which is relatively consistent across the year. The lack of exposure to the international market limits the extent to which demand spikes during peak tourism periods.

**FIGURE 97 SEASONALITY OF PROJECTED HOTEL ROOM NIGHT DEMAND IN WELLINGTON**
Source: Fresh Info Hotel Forecasting Model
**Hotel supply**

Wellington’s hotel sector comprised 31 properties offering a total of 3,494 rooms as at December 2015. This includes all 3 to 5 star hotels as well as serviced apartments (Qualmark or self-rated) operating at least 40 rooms. The hotel population is made up of 52% 4 to 4.5 star properties, 38% 3 to 3.5 star properties and 10% 5 star properties. The majority of Wellington’s hotel properties and rooms are located in the CBD and central city area, with only a few properties located in the outer suburbs of Wellington.

The majority of rooms in the Wellington market are of a 4.5 star rating at 39%, with 3.5 star being the second largest segment at 30%. Wellington also demonstrates a notable proportion of luxury accommodation, with around 12% of all hotel properties in Wellington achieving a 5 star rating.

**FIGURE 98 HOTEL ROOM SUPPLY IN WELLINGTON AS AT DECEMBER 2015**

<table>
<thead>
<tr>
<th>Star rating</th>
<th>Properties</th>
<th>Rooms</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>1</td>
<td>118</td>
</tr>
<tr>
<td>3.5</td>
<td>11</td>
<td>1,039</td>
</tr>
<tr>
<td>4</td>
<td>7</td>
<td>559</td>
</tr>
<tr>
<td>4.5</td>
<td>9</td>
<td>1,353</td>
</tr>
<tr>
<td>5</td>
<td>3</td>
<td>425</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>31</td>
<td>3,494</td>
</tr>
</tbody>
</table>

**FIGURE: STRUCTURE OF WELLINGTON’S HOTEL SUPPLY (DEC 2015)**

Source: Colliers International

There has been no new hotel development in Wellington since the 85 room Distinction Century City Apartments were completed in 2009 and the 4.5 star 280 room Rydges Hotel (originally opened as a Holiday Inn) which was completed in 2008 and the Distinction Century City Apartments, an 85 apartment development completed in 2009. Over recent years there has however been a significant level of refurbishment occurring in existing hotels, most recently in 2013/2014 including InterContinental Hotel Wellington, Novotel Wellington and Amora Hotel Wellington.

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Note: Qualmark ratings have been used when available.

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48 Qualmark ratings have been used when available.
New hotel supply

There is currently one hotel under construction in Wellington being the 130 room, 5 star Sofitel Wellington on Bolton Street. The Hotel’s interior fitout is well underway, with completion anticipated in mid-2016. We also note that the Museum Hotel Wellington, which was recently purchased by Australian based Event Hospitality and Entertainment, will be refurbished and converted to a four star plus ‘QT’ branded boutique hotel in 2016, although it will not add any additional room inventory to the market.

We are also aware of a 138 room apartment conversion at 204 Lambton Quay in Wellington, which we believe will open in July 2016. The property will comprise predominantly studio apartments with a number of two, three, and four bedroom apartments and will be managed by Te Aro Tenancies, who are experienced in short and long-stay accommodation. We have not included this development in our forecasts, given we believe it will primarily be used for short/long stay residential use.

There are a number of proposed developments which are in various stages of advanced design feasibility, or consent phases. Whilst the majority of these developments have a likelihood of proceeding, a probability-weighting room matrix has been adopted to take account of these developments dependent upon where in the current design/consent phase each project sits. There are currently five proposed hotel developments that have been identified in Wellington that may proceed over the short/medium term.

We are also aware of a number of other mooted hotel developments which may occur in the future. These projects are generally in the initial concept stages and are generally less well defined than the proposed developments listed above. These have therefore been added to a development register watch list and are not specifically included in our current supply forecasts.

Expected New Supply

Colliers has developed a probability-weighted hotel room development register for Wellington which includes all confirmed and expected developments over the next five years. As at April 2016 it is estimated that around 275 new rooms will be built over the next five years and a total of 561 will be built over the next 10 years. Annual growth beyond 2020 has been estimated based on the average annual increase in new supply observed over the past 20 years. Based on these projections it is estimated that the number of hotel rooms in Wellington will increase from 3,522 in 2015 to 4,084 by 2025.

FIGURE 99 ANNUAL CHANGE IN HOTEL ROOMS IN WELLINGTON
Source: Colliers International
Market projections

Current demand and supply projections indicate that Wellington’s hotel sector will become increasingly constrained over the latter part of the forecast period with annual occupancy rates gradually rising from their current level of 78% to around 87% by 2025.

The Wellington hotel market already faces regular and sometimes severe midweek supply constraints at certain times of the year due to corporate travel (typically Monday – Thursday) and more generally has a shortage of hotel accommodation during November, February and March when peak tourism demand coincides with corporate travel demand. These effects are exacerbated by major events such as the Wellington Sevens which are held in the middle of the peak demand period.

There is likely to be a short-term abatement in capacity constraints in the 4 and 5 star sectors when the Sofitel, Rydges Wellington Airport and Sebel Suites Lower Hutt are completed in 2016 to 2018, but the demand projections indicate that additional capacity will be required beyond this to accommodate the anticipated long term growth in demand.

The challenge for Wellington is the demand profile outside the high demand periods which at most times can be comfortably accommodated by the existing and forecast hotel inventory. This suggests that while there is a critical shortage of hotel accommodation in Wellington during high demand periods, the consistency of this demand is a potential impediment to expansion of the hotel room stock in the short-term. This situation is expected to change over time as off-peak demand gradually increases, resulting in better year-round occupancy rates and a stronger incentive to invest in new hotel inventory. The recently announced long-haul service between Wellington and Singapore via Canberra is likely to generate some uplift in visitor arrivals from Australia and Asia, and other services may follow which would lift demand beyond the levels assumed in this report. Proposed large-scale projects like the Movie Museum, the new Convention Centre, and the runway extension also have the potential to lift demand beyond current predictions.
FIGURE 101 OCCUPANCY RATE PROJECTIONS FOR WELLINGTON
Source: Fresh Info Hotel Forecasting Model

<table>
<thead>
<tr>
<th>CY</th>
<th>3-3.5 star</th>
<th>4 star</th>
<th>4.5-5 star</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016f</td>
<td>80%</td>
<td>82%</td>
<td>78%</td>
<td>80%</td>
</tr>
<tr>
<td>2017f</td>
<td>82%</td>
<td>85%</td>
<td>80%</td>
<td>82%</td>
</tr>
<tr>
<td>2018f</td>
<td>83%</td>
<td>85%</td>
<td>81%</td>
<td>82%</td>
</tr>
<tr>
<td>2019f</td>
<td>85%</td>
<td>81%</td>
<td>82%</td>
<td>83%</td>
</tr>
<tr>
<td>2020f</td>
<td>86%</td>
<td>82%</td>
<td>84%</td>
<td>84%</td>
</tr>
<tr>
<td>2021f</td>
<td>87%</td>
<td>83%</td>
<td>85%</td>
<td>85%</td>
</tr>
<tr>
<td>2022f</td>
<td>87%</td>
<td>84%</td>
<td>86%</td>
<td>86%</td>
</tr>
<tr>
<td>2023f</td>
<td>87%</td>
<td>85%</td>
<td>86%</td>
<td>86%</td>
</tr>
<tr>
<td>2024f</td>
<td>87%</td>
<td>85%</td>
<td>87%</td>
<td>87%</td>
</tr>
<tr>
<td>2025f</td>
<td>88%</td>
<td>86%</td>
<td>87%</td>
<td>87%</td>
</tr>
</tbody>
</table>

ADR growth in Wellington is projected to increase by 21% over the forecast period from NZ$152 in 2015 to NZ$183 in 2025. The potential for room rate growth in Wellington is constrained to some extent by its lack of exposure to the fast growing international market, with around three quarters of hotel demand in Wellington being generated by the mature and relatively price-sensitive domestic market. The ADR outlook for Wellington would improve further if proposed projects such as Sir Peter Jackson’s Movie Museum and convention centre and/or the 350 metre runway extension went ahead.

There is no historical precedent for the record high occupancy rates expected in Wellington and there is a reasonable chance that sustained occupancy pressure could result in ADR’s which exceed predicted levels.

FIGURE 102 ADR PROJECTIONS FOR WELLINGTON ($NZ EXCL. GST)
Source: Fresh Info Hotel Forecasting Model

<table>
<thead>
<tr>
<th>CY</th>
<th>3-3.5 star</th>
<th>4 star</th>
<th>4.5-5 star</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016f</td>
<td>120</td>
<td>132</td>
<td>190</td>
<td>158</td>
</tr>
<tr>
<td>2017f</td>
<td>127</td>
<td>140</td>
<td>203</td>
<td>168</td>
</tr>
<tr>
<td>2018f</td>
<td>124</td>
<td>138</td>
<td>199</td>
<td>165</td>
</tr>
<tr>
<td>2019f</td>
<td>126</td>
<td>143</td>
<td>201</td>
<td>167</td>
</tr>
<tr>
<td>2020f</td>
<td>128</td>
<td>146</td>
<td>205</td>
<td>170</td>
</tr>
<tr>
<td>2021f</td>
<td>130</td>
<td>150</td>
<td>209</td>
<td>173</td>
</tr>
<tr>
<td>2022f</td>
<td>132</td>
<td>152</td>
<td>212</td>
<td>176</td>
</tr>
<tr>
<td>2023f</td>
<td>134</td>
<td>154</td>
<td>215</td>
<td>178</td>
</tr>
<tr>
<td>2024f</td>
<td>135</td>
<td>156</td>
<td>217</td>
<td>180</td>
</tr>
<tr>
<td>2025f</td>
<td>138</td>
<td>158</td>
<td>221</td>
<td>183</td>
</tr>
</tbody>
</table>

The demand projections presented above have been used to predict the total number of hotel rooms Wellington would require in 2025 to accommodate the projected unconstrained demand for hotel room nights at that time.49 Our analysis suggests that the Wellington hotel market could absorb up to 1,000 new hotel rooms by 2025 while continuing to achieve 2015 occupancy rates. This is based on the following assumptions:

- Realisation of MBIE’s visitor arrival forecasts which predict average growth of 5.4% per annum over the next 7 years.

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49 The “optimal” number of hotel rooms has been estimated by calculating the number of rooms that would allow Wellington hotels to achieve the same occupancy rates in 2025 as they achieved in 2015. The 2015 calendar year has been used as a benchmark because it was a year that provided demand conditions that allowed most tourism demand to be accommodated while also being financially sustainable for hotels.
• Limited impact on hotel demand from alternative modes of accommodation and new business models like Airbnb.

Taking into account expected growth in hotel rooms over the next 10 years (based on Colliers’ latest development schedule and long-term growth in hotel inventory) and the demand conditions described previously it is estimated that there could be a shortfall of up to 439 hotel rooms in Wellington over the next 10 years. Proposed large-scale projects like the Movie Museum, the new Convention Centre and the runway extension all have the potential lift hotel demand, and the required number of rooms, beyond predicted levels.

FIGURE 103 HOTEL ROOM ANALYSIS FOR WELLINGTON
Source: Fresh Info Hotel Forecasting Model

<table>
<thead>
<tr>
<th>Hotel rooms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Room supply in 2015</td>
</tr>
<tr>
<td>Required room supply in 2025</td>
</tr>
<tr>
<td>New rooms required in 2025</td>
</tr>
<tr>
<td>New rooms projected in 2025</td>
</tr>
<tr>
<td>Shortfall</td>
</tr>
</tbody>
</table>

Based on current guest preferences it is estimated that demand for 4.5-5 star hotels will grow most strongly over the forecast period, followed by 3-3.5 star. This provides useful guidance on which types of hotels would be most well received by the market although it is noted that preferences may change over time, particularly in response to changes in hotel price and availability.

FIGURE 104 CHANGE IN ANNUAL DEMAND FOR HOTEL ROOMS IN WELLINGTON 2015-25
Source: Fresh Info Hotel Forecasting Model
CHRISTCHURCH

Current situation

- Christchurch is New Zealand’s third largest city, and the largest population centre in the South Island. It is also the main gateway to the South Island and the second largest international gateway to New Zealand.
- The tourism and hotel accommodation markets were severely disrupted in 2011 as a result of the Christchurch earthquakes which reduced the hotel room inventory from 3,840 rooms in 2010 to 920 rooms in 2012.
- In the past 18 months, the Christchurch market has experienced a recovery in tourism numbers, with increasing passenger arrivals through Christchurch Airport, and an increase in both domestic and international routes, which has seen tour group business return to the market as hotel inventory is reintroduced.
- The Christchurch rebuild is well underway and is likely to facilitate further corporate and tourism demand as the city continues to take shape.
- Until recently, low levels of supply have resulted in a shortage of hotel rooms during peak periods, although these constraints are starting to ease as new capacity comes online.
- Despite an increase in occupancy from 73% in 2014 to 77% in 2015 the introduction of more 3 star inventory led to a $2 reduction in ADR to $158. The overall effect was a modest 3% increase in annual RevPAR to $121 in 2015.

Demand outlook

- The outlook for the hotel sector in Christchurch is positive but will be highly dependent on the pace of the rebuild and the availability of hotel rooms in the city. Hotel demand will therefore be led by supply-side factors until the rebuild is complete, which may take many years.
- It is essential that key demand drivers are restored, and key infrastructure projects are completed, particularly the convention centre and sports stadium.
- Our projections indicate that hotel demand in Christchurch will begin to exceed pre-earthquake levels in 2025 when it is predicted to reach 982,000 room nights. This represents growth over the next 10 years of 88% and an average growth rate of 6.5% per annum. The main factors driving the increase in demand are:
  - The rebuild which will gradually transform Christchurch into a modern and compelling visitor destination. This will enable Christchurch to meet the needs of the many international visitors that enter the South Island through Christchurch Airport (both directly and through domestic connections ex Auckland).
  - Expansion in direct air routes to China and other key international markets and hubs which makes it easier and cheaper to travel to Christchurch and the wider South Island via Christchurch.
  - Expansion in the domestic aviation market and greater competition on regional routes.
  - Major events including the British & Irish Lions Tour in 2017 (circa 20,000 international visitors) and possibly the Rugby League World Cup (circa 2,000 international visitors) if Christchurch is awarded some matches.
  - Possible spill over from congested tourism regions such as Auckland and Queenstown during peak demand periods, if Christchurch has sufficient capacity to absorb it.
  - The proposed Christchurch Convention Centre which is currently delayed but still expected to progress.
  - Major attractions and experiences that are likely to be developed in and around Christchurch over the next decade.
The New Zealand, Australian, US and Chinese markets are expected to drive the majority of the growth in hotel demand, collectively accounting for 74% of the overall increase. The domestic market will make the biggest contribution to growth in nominal terms while the Chinese market is expected to grow most strongly in percentage terms, reflecting the more general growth expectations for this important market.

Supply outlook

- There are currently two hotels being built or remediated in Christchurch:
  - The former 52 room Scenic Circle Fino Casementi Hotel which is due to open in 2016
  - The 200 room 4.5 star Crowne Plaza Christchurch which is due to open in 2017
- There are currently ten proposed hotel developments that have been identified in Christchurch which may proceed over the short/medium term. This includes a 200 room Novotel which is to be constructed at Christchurch Airport and the former 179 room Millennium Hotel on Cathedral Square which will open as a Distinction Hotel circa 2018
- There is a risk that if all of the proposed projects commence in the short/medium term this may result in an oversupply of hotel rooms in Christchurch. Maintaining a balance between hotel demand and supply will be critical to the economic viability of the hotel sector in Christchurch.

Market projections

- Current demand and supply projections indicate that occupancy rates in Christchurch will range from 79% to 82% over the next decade. It will be difficult for Christchurch to go beyond these levels based on expected seasonal patterns and regular additions to the hotel stock.
- These conditions, combined with the introduction of new (higher rated) hotels into the market, will result in the average ADR increasing from $158 in 2015 to $179 in 2025, and RevPAR increasing from $120 to $146.
- Current demand projections indicate that Christchurch may need as many as 1,600 new hotel rooms by 2025. Taking into account the current development schedule and long-term trends in hotel development it is estimated that around 1,200 will be built over the next 10 years, which leaves a potential shortfall of up to 400 hotel rooms.
- Based on current guest preferences it is estimated that demand for 4.5-5 star hotels will grow most strongly over the forecast period, followed by 3-3.5 star hotels. This provides useful guidance on which types of hotels would be most well received by the market although it is noted that preferences may change over time, particularly in response to changes in hotel price and availability.

Implications & insights

- There is a risk that if all the proposed/mooted hotel developments are completed in the short/medium term that it will result in an oversupply of hotel rooms in Christchurch. Maintaining a balance between demand and supply will be critical to the financial viability of the hotel sector in Christchurch.
- Whilst it has been estimated that an additional 1,200 hotel rooms will be built over the next 10 years, and a further 400 may be required, the ability to deliver additional hotel room supply is heavily dependent upon managing a number of key constraints including zoning regulation in the CBD, seismic strengthening requirements, financial feasibility, resource and building costs, financing, and timing delays. Finding ways to overcome these challenges will be a critical success factor for the hotel sector, the tourism sector and Christchurch’s overall economy.
- A range of development solutions will be required to minimise the impediments to hotel development in Christchurch including:
  - New purpose built hotels in the 3-3.5 and 4.5-5 star categories
  - Remediation/ conversions of decommissioned office buildings and hotels
- Strategic development near key demand drivers e.g. Christchurch Airport, Convention Centre
- Mixed use developments office/retail/serviced apartments
- Modular development
- Expansion of existing hotels
- Public Private Partnerships to open up strategic sites for hotel development

• Changing demand and supply conditions in the Christchurch hotel and tourism market may cause a number of structural and behavioural shifts over the next decade including:
  - Peak periods becoming increasingly constrained, despite the development of new inventory. This is likely to result in some demand being pushed into the shoulder and off-peak periods which will improve year-round performance.
  - Christchurch may receive some spill over demand from other congested regions, particularly Auckland and Queenstown, if has the hotel capacity to absorb it.
  - Traditional lower yielding segments such as tour groups and aircrew being forced to accept significantly higher room rates.
  - The introduction of new 4.5 and 5 star hotels, combined with increasing demand, will lift overall ADR and RevPAR.
  - Pricing pressure on the domestic market (leisure and corporate) during peak periods.
  - Increased opportunity for operators to charge excessive room rates during peak periods with possible long term downstream consequences for the wider Christchurch visitor market. The British & Irish Lions Tour in 2017 is likely to result in severe price escalation in late-June/early July when Christchurch hosts a match against the Crusaders (as observed during the ICC Cricket World Cup).
  - Movement of some guests to decentralised locations when the airport and Addington hotels are completed and some spill of surplus demand to satellite regions such as Akaroa, Hanmer Springs, Tekapo, and Kaikoura when the Christchurch market is heavily congested.
  - At present many international visitors arrive in Christchurch and travel directly to other parts of the South Island because the CBD is still under construction and the number of hotel rooms available in the wider City is limited. This trend will start to reverse as the rebuild progresses and more hotel accommodation becomes available.
  - Increasing reliance on other types of short stay accommodation including motels, budget stays, campervans and new business models such as Airbnb.
Tourism context

Christchurch is New Zealand’s third largest city, and the largest population centre in the South Island. In the aftermath of the Christchurch Earthquakes in late 2010/early 2011 the tourism and hotel sector was severely disrupted. There was a significant reduction in room inventory from 3,840 (before the first major earthquake in late 2010) to 920 rooms immediately following the second major earthquake in February 2011. In the past 18 months, the Christchurch market has witnessed a recovery in hotel inventory and tourism numbers, with increasing passenger arrivals through Christchurch Airport, and an increase in both domestic and international routes, which has seen group, FIT business return to the market as hotel inventory is reintroduced.

The Christchurch rebuild is well underway, and is likely to facilitate further domestic and international tourism demand as the city continues to take shape. It is essential that key demand drivers are restored, and infrastructure projects are completed, particularly the convention centre and sports stadium. It is also important that a balance exists between demand and new supply levels whilst the rebuild is underway, to ensure that a sustainable balance between supply and demand is maintained.

Despite the extensive damage caused by the earthquakes Christchurch is still the main gateway to the South Island and the second largest international gateway to New Zealand. In the year ending December 2015 Christchurch received 14.4% of total visitor arrivals to New Zealand and in the year ending March 2015 it captured 7.8% of all tourism expenditure in New Zealand including 7.6% of domestic expenditure and 8.2% of international expenditure.

FIGURE 105 OVERVIEW OF CHRISTCHURCH’S TOURISM SECTOR
Source: Tourism Satellite Account, IVA (Statistics NZ)

<table>
<thead>
<tr>
<th>Measure</th>
<th>Period</th>
<th>Christchurch</th>
<th>Rest of New Zealand</th>
<th>New Zealand</th>
<th>Market share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tourism expenditure ($m)50</td>
<td>YE Mar 15</td>
<td>$1,752m</td>
<td>$20,652m</td>
<td>$22,404m</td>
<td>7.8%</td>
</tr>
<tr>
<td>Domestic</td>
<td>YE Mar 15</td>
<td>$1,075m</td>
<td>$13,057m</td>
<td>$14,132m</td>
<td>7.6%</td>
</tr>
<tr>
<td>International</td>
<td>YE Mar 15</td>
<td>$677m</td>
<td>$7,595m</td>
<td>$8,272m</td>
<td>8.2%</td>
</tr>
<tr>
<td>International visitor arrivals</td>
<td>CY 2015</td>
<td>449,664</td>
<td>2,679,648</td>
<td>3,129,312</td>
<td>14.4%</td>
</tr>
</tbody>
</table>

Christchurch Airport

Christchurch International Airport is the largest airport servicing New Zealand’s South Island, and the second largest airport in the country. In the year ended December 2015 the airport handled approximately 6.08 million passenger movements, of which 1,475,000 were international.

New air connections have been announced in 2015, with China Southern Airlines beginning new services between Guangzhou and Christchurch, China Airlines announcing an international service from Taipei to Christchurch via Melbourne for the summer season, as well as Qantas introducing more return summer flights to Brisbane and Sydney.

In 2012, the airport completed a substantial upgrade and expansion, costing approximately $273 million. This included a new terminal, check-in hall, food/retail precinct, domestic screening area, regional departure lounge, new domestic baggage claim.

Christchurch Airport has forecast that annual passenger movements will grow from 5.89 million in FY June 2015 to 6.46 million for FY June 2018, although recent trends suggest that this forecast will be exceeded.

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50 Excludes airfares and export education fees.
Christchurch rebuild

Following the events of the February 2011 earthquake, the New Zealand Government and private sector have committed to a circa $30 billion rebuild plan to make Christchurch a world-class city and the focal point for tourism in the South Island. The Christchurch Rebuild follows the vision laid out by the Christchurch Central Recovery Plan (CCRP) introduced in July 2012 by the Christchurch Central Development Unit. The key anchor projects are summarised in Appendix 1.

Key attractions

- **Cardboard Cathedral** – Christchurch’s new Anglican Cathedral officially opened in mid-August 2013 and temporarily replaces the original Christchurch Cathedral that was damaged in 2011. The new cathedral can seat up to 700 people and has been built to last for up to 50 years. It was designed by Japanese architect Shigeru Ban and is located next to Latimer Square on the periphery of the CBD.
- **Christchurch Art Gallery** – Located to the west of Cathedral Square, the gallery is home to a substantial art collection and presents a diverse programme of local and international exhibitions.
- **Christchurch Botanic Gardens** – One of the most popular attractions in the city, the Christchurch Botanic Gardens are located next to the Avon River and Hagley Park to the west of the CBD, and attract over 1.1 million visitors each year.
- **International Antarctic Centre** – owned by Christchurch Airport, this major tourist attraction is open 365 days a year. The centre is well positioned, as Christchurch is known to be the regular departure point for Antarctic expeditions. The centre is home to the New Zealand, United States and Italian Antarctic Programmes, and features educational tools showcasing Antarctic vehicles and displays, as well as little blue penguins at the New Zealand Penguin Encounter.
- **University of Canterbury** – Founded in 1873, the University of Canterbury is New Zealand’s second oldest university, and is well known for its programmes in engineering and information technology.
- **Addington Raceway** – Affectionately known as ‘The Met’, the Addington Raceway is home to the Metropolitan Trotting Club and plays host to a number of annual harness and greyhound races such as the New Zealand Trotting Cup.
- **Hanmer Springs** – Located approximately two hours north of Christchurch, Hanmer Springs is a popular tourist destination which attracts over half a million visitors each year through its range of natural thermal pools and spas.
• **TranzAlpine** – Often regarded as one of the great train journeys in the world, the TranzAlpine is a scenic passenger train operated by KiwiRail Scenic Journeys. The service travels daily, with return trips between Christchurch and Greymouth, via the Southern Alps.

**Major events**

Every year, Christchurch hosts a wide range of events including concerts, sporting matches, live theatre and dance, exhibitions, and festivals. Major annual events in Christchurch include:

- World Buskers Festival (January)
- Festival of Flowers (February)
- Waipara Wine and Food Celebration (March)
- New Zealand International Jazz & Blues Festival (April)
- Matariki (June)
- New Zealand Cup and Show Week (November)

Christchurch has also hosted several international events in the past five years including the ICC Cricket World Cup 2015, FIFA U20 Football World Cup 2015 and the New Zealand Women’s Open. In 2017 Christchurch will host one British & Irish Lions match against the Crusaders on June 10.

**Business events**

Christchurch’s strong business events sector was significantly impacted by the loss of venues and accommodation caused by the earthquakes. Despite the loss of its Convention Centre Christchurch has been innovative in its use of alternative venues and is now seeing a gradual recovery in the number of business events it hosts. Construction has not yet started on the proposed Christchurch Convention Centre but the current view is that it will be completed by 2019 as planned. There are currently three main large-scale venues in Christchurch which are managed by Vbase:

- **Air Force Museum of New Zealand** - Located just 15 minutes from central Christchurch and surrounded by the historic Wigram Air Force Base. The brand new 1,500m² Conference & Events Hall is suitable for trade exhibitions, conferences, exhibitions, gala dinners and special events. The venue also offers several breakout areas and meeting rooms capable of holding up to 130 people. There are also hundreds of car parks on site and 37 hectares of flat land adjacent to the venue.
- **Hagley Oval Pavilion** - Centrally located venue in Hagley Park and with views across the oval. The architecturally designed pavilion is used to host meetings, cocktail functions, conferences and gala dinners.
- **Horncastle Arena** - Located in the business precinct of Addington, Horncastle Arena is ideal for exhibitions, tradeshows and large scale special events but also offers spaces for more intimate gatherings. It has 4,000m² of flat floor space, an extensive back of house, large concourse areas and 18 corporate suites. The simple design, flexible shape and high ceiling allow the venue to be easily configured to meet the needs of different events. The venue is complemented by a parking area which can take up to 2,000 vehicles.

Christchurch hosted around 310,000 business event delegates in 2015 which represents around 12% of the national market. Approximately 20% of these delegates travelled to Christchurch from other parts of New Zealand or overseas.

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51 Includes the wider Canterbury region although the majority of business event activity in Canterbury is located in Christchurch.
**Hotel demand**

Approximately 10% of all hotel rooms in the five focus regions are currently located in Christchurch and 8.9% of all hotel room nights are spent in Christchurch. The annual occupancy rate in Christchurch is currently 76.8% compared with 80.9% in the other four focus regions and the annual ADR is $158 (compared with $151 elsewhere). Each hotel guest in Christchurch stays for an average of 1.95 nights and an average of 1.63 guests occupy each hotel room per night.

**FIGURE 107 OVERVIEW OF CHRISTCHURCH’S HOTEL SECTOR**

Source: TIA Hotel Statistics, Fresh Info, Colliers International

<table>
<thead>
<tr>
<th>Measure</th>
<th>Period</th>
<th>Christchurch</th>
<th>Other four focus regions</th>
<th>Five focus regions</th>
<th>Market share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hotel rooms</td>
<td>CY 2015</td>
<td>2,019</td>
<td>18,096</td>
<td>20,115</td>
<td>10.0%</td>
</tr>
<tr>
<td>Hotel room nights available</td>
<td>CY 2015</td>
<td>679,774</td>
<td>6,601,519</td>
<td>7,281,293</td>
<td>9.3%</td>
</tr>
<tr>
<td>Hotel room nights sold</td>
<td>CY 2015</td>
<td>521,977</td>
<td>5,341,295</td>
<td>5,863,272</td>
<td>8.9%</td>
</tr>
<tr>
<td>Occupancy rate</td>
<td>CY 2015</td>
<td>76.8%</td>
<td>80.9%</td>
<td>80.5%</td>
<td>n/a</td>
</tr>
<tr>
<td>ADR ($NZ)</td>
<td>CY 2015</td>
<td>$158</td>
<td>$151</td>
<td>$152</td>
<td>n/a</td>
</tr>
<tr>
<td>RevPAR ($NZ)</td>
<td>CY 2015</td>
<td>$121</td>
<td>$122</td>
<td>$122</td>
<td>n/a</td>
</tr>
<tr>
<td>Average nights per guest</td>
<td>CY 2015</td>
<td>1.95</td>
<td>2.07</td>
<td>1.72</td>
<td>n/a</td>
</tr>
<tr>
<td>Average guests per room</td>
<td>CY 2015</td>
<td>1.63</td>
<td>1.71</td>
<td>1.70</td>
<td>n/a</td>
</tr>
</tbody>
</table>

The independent traveller (FIT) market currently consumes 44% of all hotel room nights in Christchurch and generates 45% of hotel room revenue. The next largest segment is the corporate market which accounts for 24% of room nights sold and 26% of hotel room revenue. The highest yielding segments are conference & incentive and corporate (both $164 per night) and FIT ($162 per night).

**FIGURE 108 DEMAND FOR HOTEL ROOM NIGHTS IN CHRISTCHURCH BY TYPE OF GUEST IN 2015**

Source: TIA Hotel Statistics
New Zealand residents currently consume just under half of all hotel room nights in Christchurch. Australia and the US are the largest international markets at 17% and 8% respectively.

**FIGURE 109 ROOM NIGHTS OCCUPIED IN CHRISTCHURCH BY ORIGIN OF GUEST IN 2015**
Source: TIA Hotel Statistics, Fresh Info

An analysis of hotel demand patterns in Christchurch in 2015 reveals that:

- New Zealand guests spend around 40% of their nights in 4.5-5 star hotels and a further third in 4 star hotels.
- Just over 40% of Australian guest nights are spent in 3-3.5 star hotels and a similar share is spent in 4.5-5 star hotels.
- Visitors from the US spend over 60% of their nights in 4.5-5 star hotels while visitors from South Korea spend over 80% of their nights in 3-3.5 star hotels.

These observations are based on current patterns of supply and demand and it is important to note that preferences may evolve in response to structural shifts in markets and changes in hotel supply over time.

**FIGURE 110 CHRISTCHURCH HOTEL PREFERENCE BY ORIGIN OF GUEST (SHARE OF ROOM NIGHTS)**
Source: TIA Hotel Statistics, Fresh Info

### Usual Residence of Guest

<table>
<thead>
<tr>
<th>Country</th>
<th>Share of Hotel Room Nights (3-3.5 star)</th>
<th>Share of Hotel Room Nights (4 star)</th>
<th>Share of Hotel Room Nights (4.5 - 5 star)</th>
</tr>
</thead>
<tbody>
<tr>
<td>NZ</td>
<td>30%</td>
<td>50%</td>
<td>20%</td>
</tr>
<tr>
<td>Australia</td>
<td>35%</td>
<td>45%</td>
<td>20%</td>
</tr>
<tr>
<td>China</td>
<td>40%</td>
<td>40%</td>
<td>20%</td>
</tr>
<tr>
<td>Japan</td>
<td>45%</td>
<td>35%</td>
<td>20%</td>
</tr>
<tr>
<td>Korea</td>
<td>50%</td>
<td>50%</td>
<td>0%</td>
</tr>
<tr>
<td>US</td>
<td>55%</td>
<td>45%</td>
<td>0%</td>
</tr>
<tr>
<td>UK</td>
<td>60%</td>
<td>40%</td>
<td>0%</td>
</tr>
<tr>
<td>Germany</td>
<td>65%</td>
<td>35%</td>
<td>0%</td>
</tr>
<tr>
<td>Other</td>
<td>70%</td>
<td>30%</td>
<td>0%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>
The annual occupancy rate in Christchurch reached 77% in 2015, up from 73% in 2014. Despite the strong occupancy performance, the annual ADR in Christchurch decreased by NZ$2 in 2015 to NZ$158. This was caused by greater competition as a result of new hotel openings including the introduction of more 3-3.5 star rooms into the market which has pulled the overall ADR down. The net effect of the higher occupancy rate and slightly lower ADR was a modest increase in RevPAR from NZ$118 in 2014 to NZ$121 in 2015.

**FIGURE 111 HISTORICAL HOTEL PERFORMANCE IN CHRISTCHURCH**

Source: TIA Hotel Statistics, Fresh Info

Demand is highly seasonal in Christchurch due to the impact of international tourism on the December and March quarters. Occupancy rates outside the peak season currently sit at around 70%.

**FIGURE 112 HOTEL PERFORMANCE IN CHRISTCHURCH BY QUARTER IN 2015**

Source: TIA Hotel Statistics, Fresh Info

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Occupancy rate</th>
<th>ADR ($NZ excl. GST)</th>
<th>RevPAR ($NZ excl. GST)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mar-15</td>
<td>86.6%</td>
<td>$172</td>
<td>$149</td>
</tr>
<tr>
<td>Jun-15</td>
<td>70.0%</td>
<td>$149</td>
<td>$104</td>
</tr>
<tr>
<td>Sep-15</td>
<td>68.3%</td>
<td>$149</td>
<td>$102</td>
</tr>
<tr>
<td>Dec-15</td>
<td>82.8%</td>
<td>$159</td>
<td>$132</td>
</tr>
<tr>
<td>TOTAL</td>
<td>76.8%</td>
<td>$158</td>
<td>$121</td>
</tr>
</tbody>
</table>

The sharp increase in occupancy in 2011 was caused by the sudden reduction in hotel rooms caused by the earthquakes. This created an immediate shortage of hotel rooms relative to demand which has gradually eased as new hotel capacity has been developed.
Demand projections

The outlook for the hotel sector in Christchurch remains positive but will depend critically on the pace of the rebuild and the availability of new hotel rooms in the city. At present many international visitors arrive in Christchurch and travel directly to other parts of the South Island because the CBD is still under construction and the number of hotel rooms available in the wider city is limited. This trend will start to reverse as the rebuild progresses and more hotel accommodation becomes available. Hotel demand will therefore be led by supply-side factors until the rebuild is complete, which may take many years.

The demand projections indicate that unconstrained hotel demand in Christchurch will begin to exceed pre-earthquake levels in 2025 when it is estimated to reach 982,000 room nights. This represents growth over the next 10 years of 88% and an average growth rate of 6.5% per annum. The main factors driving the increase in demand are:

- The rebuild which will gradually transform Christchurch into a modern and compelling visitor destination. This will enable Christchurch to meet the needs of the many international visitors that enter the South Island through Christchurch Airport (both directly and through domestic connections ex Auckland).

- Expansion in direct air routes to China and other key international markets and hubs which makes it easier and cheaper to travel to Christchurch and the wider South Island via Christchurch.

- Expansion in the domestic aviation market and greater competition on regional routes.

- Major events including the British & Irish Lions Tour in 2017 (circa 20,000 international visitors) and possibly the Rugby League World Cup (circa 2,000 international visitors) if Christchurch is awarded some matches.

- Possible spill over from congested tourism regions such as Auckland and Queenstown during peak demand periods, if Christchurch has sufficient capacity to absorb it.

- The proposed Christchurch Convention Centre which is expected to be open for business around 2019 (although no official announcement has been made).

- Major attractions and experiences that are likely to be developed in and around Christchurch over the next decade.

FIGURE 113 PROJECTED DEMAND FOR HOTEL ROOM NIGHTS IN CHRISTCHURCH
Source: Fresh Info Hotel Forecasting Model
The New Zealand, Australian, US and Chinese markets are expected to drive the majority of the growth in hotel demand, collectively accounting for 74% of the overall increase. The domestic market will make the biggest contribution to growth in nominal terms while the Chinese market is expected to grow most strongly in percentage terms, reflecting the more general growth expectations for this important market.

**FIGURE 114 PROJECTED GROWTH IN HOTEL ROOM NIGHT DEMAND IN CHRISTCHURCH BY ORIGIN OF GUEST**

Source: Fresh Info Hotel Forecasting Model

Based on the projected growth rates it is estimated that 11% of room night demand will be generated by Chinese visitors in 2025, up from 4% in 2015. The New Zealand market’s share of room night demand will fall from 47% to 36% over the same period and the Australian share will fall from 17% to 16%.

**FIGURE 115 PROJECTED SHARE OF ROOM NIGHT DEMAND IN CHRISTCHURCH BY ORIGIN OF GUEST**

Source: Fresh Info Hotel Forecasting Model
While unconstrained demand is expected to become more seasonal over time due to the rebound in the international market, accommodation constraints are likely to mean that not all peak season demand can be met. Christchurch is already experiencing high occupancy rates during peak periods so there isn’t much scope for occupancy rates to improve during these periods. However, off peak demand is also expected to grow and this will allow year-round occupancy rates to grow because there is currently surplus hotel capacity during off peak periods that can be utilised. The predicted seasonal pattern in 2025 looks very similar to the pre-earthquake pattern in 2010.

**FIGURE 116 SEASONALITY OF PROJECTED HOTEL ROOM NIGHT DEMAND IN CHRISTCHURCH**
Source: Fresh Info Hotel Forecasting Model

![Seasonality of Projected Hotel Room Night Demand in Christchurch](image)

### Hotel supply

Christchurch’s hotel sector comprised 18 properties offering a total of 2,019 rooms in December 2015. This includes all 3 to 5 star rated hotels (Qualmark and self-rated) as well as serviced apartments operating at least 40 rooms. The hotel population is made up of 66% 4 to 4.5 star properties, 23% 3 to 3.5 star properties and 11% 5 star properties.

The majority of Christchurch’s hotel properties are located in the CBD (61%), with 28% of hotels being located in the inner city suburbs and 11% of Christchurch’s hotel inventory is located at the Airport.

**FIGURE 117 HOTEL ROOM SUPPLY IN CHRISTCHURCH AS AT DECEMBER 2015**
Source: Colliers International

<table>
<thead>
<tr>
<th>Star rating</th>
<th>Properties</th>
<th>Rooms</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>1</td>
<td>250</td>
</tr>
<tr>
<td>3.5</td>
<td>3</td>
<td>472</td>
</tr>
<tr>
<td>4</td>
<td>6</td>
<td>506</td>
</tr>
<tr>
<td>4.5</td>
<td>6</td>
<td>712</td>
</tr>
<tr>
<td>5</td>
<td>2</td>
<td>79</td>
</tr>
<tr>
<td>TOTAL</td>
<td>18</td>
<td>2,019</td>
</tr>
</tbody>
</table>
The Christchurch market is heavily weighted towards 4 and 4.5 star hotels, which make up two thirds of all hotels in Christchurch. 35% of hotel rooms in Christchurch are of a 4.5 star standard followed by 4 star (25%) and 3.5 star (23%). While 11% of hotels are of a 5 star standard, only 4% of all hotel rooms are of a 5 star standard, indicating a number of smaller, boutique luxury offerings.

**FIGURE: STRUCTURE OF CHRISTCHURCH’S HOTEL SUPPLY (DEC 2015)**

Source: Colliers International

![Structure by star rating](image)

**New supply**

There has been a renewed interest in hotel development in the Christchurch region in the past 18 months led by:

- An abundance of available land (and decommissioned buildings) in the CBD
- A notable increase in international and domestic tourism arrivals to the airport (and the city in general)
- The pending development of the Convention Centre
- An increasing number of hotel investors and operators actively trying to secure a strategic position within the Christchurch CBD.

There are currently two hotels being built or remediated in Christchurch. We note that both of these developments are located in the Christchurch CBD and will be of a 4 to 4.5 star rating.

There are a number of **proposed** developments which are in various stages of advanced design feasibility, or consent phases. Whilst the majority of these developments have a likelihood of proceeding, a probability-weighting room matrix has been adopted to take account of these developments dependent upon where in the current design/consent phase each project sits. There are currently ten proposed hotel developments that have been identified in Christchurch, and we note that the majority of these are to be located in the Christchurch CBD, with the exception of a proposed hotel at Addington Raceway and the proposed Novotel Christchurch Airport.

There is a risk that if all these projects commence in the short/medium term this will result in an oversupply of hotel rooms in Christchurch. Maintaining a balance between demand and supply will be critical to the economic viability of the hotel sector in Christchurch.
We are also aware of a number of other mooted hotel developments which may occur in the future. These projects are generally in the initial concept stages and are generally less well defined than the proposed developments listed above. These have therefore been added to a development register watch list and are not specifically included in our current supply forecasts.

**Expected New Supply**

Colliers has developed a probability-weighted hotel room development register for Christchurch which includes all confirmed and expected developments over the next five years. It is estimated that 624 new rooms will be built in Christchurch over the next five years and 1,200 will be built over the next 10 years. Annual growth beyond 2020 is assumed to be the same as growth during the period 2016-20. Based on these projections it is estimated that the number of hotel rooms in Christchurch will increase from 2,079 in 2015 to 3,184 by 2025, which is still well short of the pre-earthquake total of around 3,900.

**FIGURE 118 ANNUAL CHANGE IN HOTEL ROOMS IN CHRISTCHURCH**
Source: Colliers International

**FIGURE 119 NUMBER OF HOTEL ROOMS IN CHRISTCHURCH**
Source: Colliers International
Market projections

Current demand and supply projections indicate that occupancy rates in Christchurch will range from 79% to 82% over the next decade. It will be difficult for Christchurch to go beyond these levels based on expected seasonal patterns and regular additions to the hotel inventory.

FIGURE 120 OCCUPANCY RATE PROJECTIONS FOR CHRISTCHURCH
Source: Fresh Info Hotel Forecasting Model

<table>
<thead>
<tr>
<th>CY</th>
<th>3-3.5 star</th>
<th>4 star</th>
<th>4.5-5 star</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016f</td>
<td>74%</td>
<td>78%</td>
<td>84%</td>
<td>79%</td>
</tr>
<tr>
<td>2017f</td>
<td>77%</td>
<td>81%</td>
<td>81%</td>
<td>80%</td>
</tr>
<tr>
<td>2018f</td>
<td>78%</td>
<td>82%</td>
<td>81%</td>
<td>80%</td>
</tr>
<tr>
<td>2019f</td>
<td>79%</td>
<td>83%</td>
<td>80%</td>
<td>80%</td>
</tr>
<tr>
<td>2020f</td>
<td>80%</td>
<td>84%</td>
<td>81%</td>
<td>81%</td>
</tr>
<tr>
<td>2021f</td>
<td>80%</td>
<td>82%</td>
<td>81%</td>
<td>81%</td>
</tr>
<tr>
<td>2022f</td>
<td>81%</td>
<td>82%</td>
<td>81%</td>
<td>81%</td>
</tr>
<tr>
<td>2023f</td>
<td>81%</td>
<td>82%</td>
<td>81%</td>
<td>81%</td>
</tr>
<tr>
<td>2024f</td>
<td>82%</td>
<td>82%</td>
<td>82%</td>
<td>82%</td>
</tr>
<tr>
<td>2025f</td>
<td>82%</td>
<td>82%</td>
<td>82%</td>
<td>82%</td>
</tr>
</tbody>
</table>

Regular increases in hotel supply are expected to limit the rate of growth in Christchurch’s ADR, which remains well above pre-earthquake levels. Annual ADR is projected to increase gradually over the forecast period, rising 14% from NZ$158 in 2015 to NZ$179 in 2025.

FIGURE 121 ADR PROJECTIONS FOR CHRISTCHURCH ($NZ EXCL. GST)
Source: Fresh Info Hotel Forecasting Model

<table>
<thead>
<tr>
<th>CY</th>
<th>3-3.5 star</th>
<th>4 star</th>
<th>4.5-5 star</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016f</td>
<td>128</td>
<td>142</td>
<td>189</td>
<td>156</td>
</tr>
<tr>
<td>2017f</td>
<td>129</td>
<td>144</td>
<td>196</td>
<td>161</td>
</tr>
<tr>
<td>2018f</td>
<td>129</td>
<td>144</td>
<td>201</td>
<td>165</td>
</tr>
<tr>
<td>2019f</td>
<td>130</td>
<td>144</td>
<td>206</td>
<td>169</td>
</tr>
<tr>
<td>2020f</td>
<td>130</td>
<td>146</td>
<td>209</td>
<td>172</td>
</tr>
<tr>
<td>2021f</td>
<td>131</td>
<td>149</td>
<td>210</td>
<td>173</td>
</tr>
<tr>
<td>2022f</td>
<td>133</td>
<td>151</td>
<td>212</td>
<td>175</td>
</tr>
<tr>
<td>2023f</td>
<td>134</td>
<td>153</td>
<td>213</td>
<td>176</td>
</tr>
<tr>
<td>2024f</td>
<td>136</td>
<td>154</td>
<td>215</td>
<td>178</td>
</tr>
<tr>
<td>2025f</td>
<td>137</td>
<td>155</td>
<td>217</td>
<td>179</td>
</tr>
</tbody>
</table>

The demand projections presented above have been used to predict the total number of hotel rooms Christchurch would require in 2025 to accommodate the projected demand for hotel room nights at that time. Our analysis suggests that the Christchurch hotel market could absorb up to 1,600 new hotel rooms by 2025 while continuing to achieve 2015 occupancy rates. This is based on the following assumptions:

- Realisation of MBIE’s visitor arrival forecasts which predict average growth of 5.4% per annum over the next seven years.

53 The “optimal” number of hotel rooms has been estimated by calculating the number of rooms that would allow Christchurch hotels to achieve the same occupancy rates in 2025 as they achieved in 2015. The 2015 calendar year has been used as a benchmark because it was a year that provided demand conditions that allowed most tourism demand to be accommodated while also being financially sustainable for hotels.
• Limited impact on hotel demand from alternative modes of accommodation and new business models like Airbnb.

Taking into account expected growth in hotel rooms over the next 10 years (based on Colliers’ latest development schedule and long-term growth in hotel inventory) and the demand conditions described previously it is estimated that there could be a shortfall of up to 400 hotel rooms in Christchurch over the next 10 years.

FIGURE 122 HOTEL ROOM ANALYSIS FOR CHRISTCHURCH
Source: Fresh Info Hotel Forecasting Model

<table>
<thead>
<tr>
<th>Hotel rooms</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Room supply in 2015</td>
<td>2,019</td>
</tr>
<tr>
<td>Required room supply in 2025</td>
<td>3,619</td>
</tr>
<tr>
<td>New rooms required in 2025</td>
<td>1,600</td>
</tr>
<tr>
<td>New rooms projected in 2025</td>
<td>1,200</td>
</tr>
<tr>
<td>Shortfall</td>
<td>400</td>
</tr>
</tbody>
</table>

Based on current guest preferences it is estimated that demand for 4.5-5 star hotels will grow most strongly over the forecast period, followed by 3-3.5 star hotels. This provides useful guidance on which types of hotels would be most well received by the market although it is noted that preferences may change over time, particularly in response to changes in hotel price and availability.

FIGURE 123 CHANGE IN ANNUAL DEMAND FOR HOTEL ROOM NIGHTS IN CHRISTCHURCH 2015-25
Source: Fresh Info Hotel Forecasting Model
QUEENSTOWN

Current situation

- Queenstown is widely regarded as New Zealand’s premier tourist destination offering a unique ‘dual season’ proposition that offers a wide range of high quality summer and winter experiences.
- Record occupancy rates in 2015 show that Queenstown is becoming an all-season destination with strong demand across three quarters of the year and growing demand in its traditional low season (June quarter).
- The market is currently experiencing severe capacity constraints during peak periods, with no new hotel supply introduced to the market since 2011.
- Favourable demand conditions have pushed the annual occupancy rate up to 79% in 2015 and annual ADR up 11% to $168. The overall effect is a 20% increase in annual RevPAR to $132 in the 2015 calendar year.

Demand outlook

The outlook for the hotel sector in Queenstown is particularly strong with hotel demand expected to increase from 920,000 room nights in 2015 to over 1.5 million room nights in 2025. This represents growth over the next 10 years of 65% and an average growth rate of 5.1% per annum. The main factors driving the increase in demand are:

- Sustained growth in direct air capacity into Queenstown (domestic and international), including night flights from Australia which will make it much more convenient for Australians to fly directly into Queenstown. Queenstown Airport predicts that international visitor arrivals will double over the next 10 years to over 400,000 per annum.
- The rapid growth in the Chinese inbound market which has a strong preference for Queenstown. MBIE is predicting annual growth in Chinese visitor arrivals of 12.6% per annum over the next decade.
- Slow but steady growth in domestic tourism, reflecting the maturity of the market and increasing congestion and price escalation caused by the international market.
- Major events in 2017 which Queenstown is likely to benefit from indirectly including World Masters Games (circa 25,000 participants) and the Lions Tour (circa 20,000 international visitors).
- An increase in business events during off peak periods including the recently announced Amway incentive programme which will bring 10,000 people to Queenstown in waves of 500 beginning in Autumn 2018.
- The Chinese, Australian and New Zealand markets are expected to drive the majority of the growth in hotel demand, collectively accounting for 73% of the overall increase. The fast growing Chinese market will account for around 39% of the overall growth in demand followed by the Australian market at 22% and the New Zealand market at 12%.

Supply outlook

- There are three small hotels (189 rooms) currently under construction in Queenstown, and a further eight proposed developments which are in various stages of design and consent phases.
- Despite this, the proposed developments will not help alleviate current capacity issues, as they will not be completed until the mid/late part of the forecast period.
- An increasing number of hotel investors and operators are also actively trying to secure a strategic position within the Queenstown market.
Market projections

- Current demand and supply projections indicate that Queenstown’s hotel sector will be increasingly supply constrained over the next decade, resulting in annual occupancy rates approaching 90% in 2025.
- World Masters Games and the British & Irish Lions Tour will generate additional shoulder/low season visitation to Queenstown in 2017, and the recently announced Amway incentive programme will have a material impact on low season demand in 2018.
- More generally, it is expected that congestion and high prices during peak tourism periods will push some demand into shoulder and peak seasons, resulting in improved occupancy, ADR and RevPAR across the year.
- These conditions, combined with the introduction of some new (higher priced) hotels into the market in the medium/long term, will result in ADR increasing substantially from $168 in 2015 to $279 in 2025, and RevPAR almost doubling from $132 to $249.
- Based on this outlook it is likely that the Queenstown hotel market will reach “critical capacity status” as early as the summer of 2016/2017 with occupancy rates already running at record highs and only a small amount of new supply scheduled over the next 18 months.
- Current unconstrained demand projections indicate that Queenstown may need as many as 2,100 new hotel rooms by 2025. Taking into account the current forecast development schedule and long-term trends in hotel development it is estimated that only 679 rooms will be built over the next 10 years, which leaves a potential shortfall of up to 1,421 rooms.
- Based on current guest preferences it is estimated that demand for 4 star hotels will grow most strongly over the forecast period, followed by 4.5 star hotels, 5 star hotels and 3-3.5 star hotels. This provides useful guidance on which types of hotels would be most well received by the market although it is noted that preferences may change over time, particularly in response to changes in hotel price and availability.

Implications & insights

- Whilst it has been estimated that an additional 679 rooms will be built over the next 10 years and a further 1,421 may be required, the ability to deliver additional hotel room supply is heavily dependent upon managing a number of key constraints including seismic requirements, financial feasibility, site availability, resource and building costs, finance, and timing delays. In addition to these constraints we note that there is a severe housing shortage for hotel staff in Queenstown.
- Finding ways to overcome these challenges will be a critical success factor for the hotel sector, the tourism industry and Queenstown’s overall economy.
- New development initiatives should be explored including:
  - New purpose built hotels in the 4, 4.5 and 5 star categories
  - Conversions of commercial buildings and other accommodations facilities
  - Decentralised hotel development where land prices are generally less expensive – Frankton, Fernhill etc.
  - Strategic development near key demand drivers e.g. Queenstown Airport, Convention Centres
  - Mixed use developments office/retail/serviced apartments
  - Modular development
  - Expansion of existing hotels
  - Public Private Partnership to open up strategic sites for hotel development
- Sustained growth in demand and a heavily constrained supply pipeline will likely result in a number of structural & behavioural changes to the Queenstown hotel market over the forecast period including:
- Strong ongoing annual demand and constrained supply will produce unprecedented occupancy rates of 85-90% over the forecast period with Queenstown likely to become New Zealand’s first “all season” leisure destination.

- High year-round occupancy rates will allow hotels to significantly increase ADR. New inventory coming on line over the next 5 years will also help push up the overall ADR up.

- An increase in demand during traditional off-peak periods when hotel availability is less constrained and prices are lower. This shift will play a key role in continuing to lift year-round occupancy rates.

- Traditional lower yielding segments such as tour groups and aircrew being forced to accept significantly higher room rates or move to suburban locations or nearby towns such as Cromwell.

- Some lower yielding business moving to shoulder/off peak periods to retain competitive advantage.

- Significant pricing pressure on the domestic market (both leisure and corporate).

- Reluctance among existing hotels to upgrade/refurbish due to high occupancy and returns on existing hotel inventory.

- Increased opportunity for operators to charge excessive room rates during peak periods with possible long term downstream consequences for the wider Queenstown visitor market.

- The potential for demand to spill in to surrounding towns due to accommodation constraints in Queenstown e.g. Wanaka, Cromwell, Dunedin, Invercargill, Twizel and Tekapo.

- Increasing reliance on other types of short stay accommodation including motels, budget stays, campervans and new business models such as Airbnb.

- Loss of major events and business events to other cities/countries due to a lack of accommodation capacity and high prices.
Tourism context

Queenstown is now widely recognised as New Zealand’s premier tourist destination offering a unique ‘dual season’ proposition with a wide range of high quality summer and winter experiences. Record occupancy rates in 2015 suggest that Queenstown’s shoulder and low season is shrinking as a result of rapidly increasing tourism demand, ultimately leading to Queenstown becoming a year-round leisure destination.

Hotel demand is expected to grow significantly in the next 10 years driven by further expansion in domestic and international air capacity and a buoyant international tourism market, including very strong growth in the Chinese market which has a high propensity to visit Queenstown. In the year ending March 2015 Queenstown captured 7.5% of all tourism expenditure in New Zealand including 3.6% of domestic expenditure and 14.3% of international expenditure. Queenstown is also emerging as a major gateway to New Zealand with over 200,000 visitors arriving in the country through Queenstown Airport in calendar year 2015.

FIGURE 124 OVERVIEW OF QUEENSTOWN’S TOURISM SECTOR
Source: Tourism Satellite Account, IVA (Statistics NZ)

<table>
<thead>
<tr>
<th>Measure</th>
<th>Period</th>
<th>Queenstown</th>
<th>Rest of New Zealand</th>
<th>New Zealand</th>
<th>Market share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tourism expenditure ($m)³⁴</td>
<td>YE Mar 15</td>
<td>$1,688m</td>
<td>$20,716m</td>
<td>$22,404m</td>
<td>7.5%</td>
</tr>
<tr>
<td>Domestic</td>
<td>YE Mar 15</td>
<td>$506m</td>
<td>$13,626m</td>
<td>$14,132m</td>
<td>3.6%</td>
</tr>
<tr>
<td>International</td>
<td>YE Mar 15</td>
<td>$1,182m</td>
<td>$7,090m</td>
<td>$8,272m</td>
<td>14.3%</td>
</tr>
<tr>
<td>International visitor arrivals</td>
<td>CY 2015</td>
<td>203,376</td>
<td>2,925,936</td>
<td>3,129,312</td>
<td>6.5%</td>
</tr>
</tbody>
</table>

Queenstown Airport

Queenstown Airport is located eight kilometres from the CBD, and is the fourth busiest in New Zealand by aircraft movements. Queenstown Airport is currently serviced by multiple airlines, including Air New Zealand, Qantas, Virgin Australia and Jetstar Airways. It is also one of New Zealand’s busiest helicopter centres and is a base for several flightseeing operations. Currently, Queenstown Airport services direct flights domestically to Christchurch, Wellington and Auckland, while international flights operate to Melbourne, Sydney, Gold Coast and Brisbane.

Construction recently began on a further $12 million expansion of the international terminal at Queenstown Airport. This will result in the international terminal almost doubling in size and the current building footprint being extended by a third. The 4,080m² expansion will be undertaken in three stages, with Stage One involving new international arrival and departure lounges, customs areas, retail stores, baggage claim and offices, allowing 1,000 passengers per hour through the terminal compared to the existing throughput of 480 passengers per hour.

In the year ended December 2015, the airport hosted over 1.5 million passenger movements, an increase of 14.2% from the previous year. Queenstown Airport has recently been cleared to receive night flights from Australia which will make it much more convenient for Australians to fly directly into Queenstown. Queenstown Airport predicts that international visitor arrivals will double over the next 10 years to over 400,000 per annum.

³⁴ Excludes airfares and export education fees.
Key attractions

- **Adventure Tourism** – Queenstown is widely regarded as the ‘Adventure Capital of the World’, with activities including skiing, snowboarding, jet boating, white water rafting, bungy jumping, sky diving, paragliding, canyoning, abseiling, zip-lining, and mountain biking.

- **Central Otago Wine Region** – The Central Otago wine region is the world’s southern-most commercial wine growing region, and is best known for its world famous pinot noirs, which account for 70% of plantings in the area.

- **Skyline Gondola** – The Skyline Queenstown Complex comprises the Gondola, Luge, Maori cultural performances, and the Stratosphere Restaurant & Bar, offering panoramic views of Lake Wakatipu and the mountain ranges beyond. The Gondola also provides access to scenic walking tracks in the Ben Lomond Reserve, and mountain bike trails in the Queenstown Bike Park.

- **Queenstown Events Centre** – A multipurpose sports stadium located in Queenstown, which hosts regular international cricket matches, as well as several Highlanders Super 15 rugby games, trade shows, exhibitions, seminars, and concerts. The stadium has a capacity of 19,000 spectators with 6,000 permanent seats and 13,000 temporary seats.

- **Queenstown Casino** – In May 2013 it was announced SkyCity had purchased the Casino License for the Wharf Casino as part of its long term plan to further develop operations in the region. It is unknown if the Casino will be merged with the existing SkyCity Queenstown operation, or will continue to occupy its current space.

- **Millbrook Resort** – Boasting many awards and accolades, Millbrook Resort is renowned for its exceptional accommodation, spa, restaurants, golf course and property, facilities which are open to Millbrook members, hotel guests, and to the public as day visitors. As co-host of 2014’s New Zealand Open, Millbrook received unprecedented worldwide exposure and co-hosted the event again in conjunction with The Hills in Arrowtown in 2015. Queenstown’s award winning Millbrook Resort has acquired a neighbouring block of farmland of approximately 66 hectares, and have announced plans to spend $50 million on expanding the current course and construction of further residential development.

- **Frankton Flats** – There are a number of developments being undertaken within Frankton including Five Mile, Queenstown Central Limited, and The Landing. Bulk retail development at Five Mile includes a Countdown Supermarket, Briscoes, and Rebel Sport together with a Warehouse Stationery and Number One Shoes. The Landing comprises three new retail and commercial buildings, while Queenstown Central
Limited comprises a mixed use development containing specialty retail, accommodation, and medium density residential uses.

- **Coronet Peak Ski Field** – Coronet Peak is one of the most popular ski resorts in New Zealand due to its proximity to Queenstown, varied terrain and superb facilities. The field has extensive snowmaking facilities, and is one of the last ski fields in the Southern Hemisphere to lose its snow, and is one of the only ski fields in New Zealand to offer night skiing on Friday and Saturday nights.

- **Remarkables Ski Field** – The Remarkables Ski Field has a patrolled area of 220 hectares, with six ski lifts. The terrain is rated 30% beginners, 40% intermediate, and 30% advanced, with the standard season running from 18 June through to 16 October. The Remarkables Ski Field is also expanding and improving its facilities. We understand a new chairlift is under construction, with work being undertaken on a new base building as well as resealing the roads to the ski field.

- **Golf Courses** – Queenstown has several world class golf courses all situated within a short drive of town including Millbrook, The Hills (host of the New Zealand Golf Open) and Jack’s Point. These courses attract a wide range of domestic and international visitors to the region throughout the year.

**Major events**

Queenstown hosts several major events each year including:

- Glenorchy Race Day (January)
- Motutapu Off Road Marathon (March)
- Gibbston Wine and Food Festival (March)
- Arrowtown Autumn Festival (March/April)
- New Zealand Golf Open (March)
- Millbrook Masters Golf Tournament (April)
- American Express Queenstown Winter Festival (June/July)
- New Zealand Mountain Film Festival (July)
- Gay Ski Week QT (August/September)
- Queenstown Jazz Festival (October)
- Wanaka Fest (October)
- Queenstown International Marathon (November)
- Warbirds over Wanaka (March biannually)

Queenstown also hosts one-off international events (e.g. international cricket matches and snow-based events) and also benefits from visitation caused by events held in other regions e.g. Rugby World Cup 2011, ICC Cricket World Cup, British & Irish Lions Tour etc.
**Business events**

Queenstown is a small but growing participant in the business events market, and it is New Zealand’s premier incentive destination. In 2015 Queenstown hosted around 58,000 business event delegates (including incentive delegates) which represents around 2% of the national market, with over 60% travelling from other parts of New Zealand or overseas. Queenstown currently has several business event venues of varying sizes including:

- **Queenstown Events Centre** - Indoor sports and events complex only five minutes’ drive from central Queenstown and adjacent to the Queenstown International Airport. The venue is flexible, offering a range of function and meeting room facilities which can be adapted to meet the needs of concerts, events, gala dinners, conferences, trade shows, private functions and sports & recreation. Ample free parking is available on site.
- **Millbrook** – Located midway between Queenstown and Arrowtown offering a range of conference and event spaces including break out rooms and unique activity based options.
- **Skyline Queenstown** – Providing exclusive dining and day conferencing for up to 900 guests with full closure of the complex.
- Various hotels offering a range of smaller conference facilities.

In 2012, New Zealand Prime Minister John Key announced the National Convention Centre Policy which focuses on developing international convention centres in Auckland, Christchurch and Queenstown. The Queenstown Centre is expected to be designed to hold 750 or 800 delegates. In February 2013 it was announced that SkyCity was the preferred operator as part of the consortium with Ngai Tahu and Morrison & Co. to build and operate a convention centre in Queenstown. It was subsequently announced that the preferred site is the camping ground to the rear of the Queenstown CBD which is owned by the Queenstown District Council and subject to a ground lease due to expire in the short term. While the convention centre development remains in its planning stages, discussions are progressing with a status announcement imminent. A second, privately owned convention centre has also been mooted at the Remarkables Park shopping centre, near the Airport.
Hotel demand

Approximately 16% of all hotel rooms in the five focus regions are currently located in Queenstown and 15.7% of all hotel room nights are spent in Queenstown. The annual occupancy rate in Queenstown is currently 78.6% compared with 80.9% in the other four focus regions and the annual ADR is $168 compared with $149 elsewhere.

Each hotel guest in Queenstown stays for an average of 2.73 nights which is much longer than other destinations in New Zealand and an average of 1.91 guests occupy each hotel room per night. The long length of stay is attributable to Queenstown’s popularity as a leisure destination as well as the amount of time and money required to travel there.

FIGURE 126 OVERVIEW OF QUEENSTOWN’S HOTEL SECTOR
Source: TIA Hotel Statistics, Fresh Info, Colliers International

<table>
<thead>
<tr>
<th>Measure</th>
<th>Period</th>
<th>Queenstown</th>
<th>Other four focus regions</th>
<th>Five focus regions</th>
<th>Market share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hotel rooms</td>
<td>CY 2015</td>
<td>3,234</td>
<td>16,881</td>
<td>20,115</td>
<td>16.1%</td>
</tr>
<tr>
<td>Hotel room nights available</td>
<td>CY 2015</td>
<td>1,172,841</td>
<td>6,108,452</td>
<td>7,281,293</td>
<td>16.1%</td>
</tr>
<tr>
<td>Hotel room nights sold</td>
<td>CY 2015</td>
<td>922,218</td>
<td>4,941,054</td>
<td>5,863,272</td>
<td>15.7%</td>
</tr>
<tr>
<td>Occupancy rate</td>
<td>CY 2015</td>
<td>78.6%</td>
<td>80.9%</td>
<td>80.5%</td>
<td>n/a</td>
</tr>
<tr>
<td>ADR ($NZ)</td>
<td>CY 2015</td>
<td>$168</td>
<td>$149</td>
<td>$152</td>
<td>n/a</td>
</tr>
<tr>
<td>RevPAR ($NZ)</td>
<td>CY 2015</td>
<td>$132</td>
<td>$120</td>
<td>$122</td>
<td>n/a</td>
</tr>
<tr>
<td>Average nights per guest</td>
<td>CY 2015</td>
<td>2.73</td>
<td>1.95</td>
<td>1.72</td>
<td>n/a</td>
</tr>
<tr>
<td>Average guests per room</td>
<td>CY 2015</td>
<td>1.91</td>
<td>1.66</td>
<td>1.70</td>
<td>n/a</td>
</tr>
</tbody>
</table>

The independent traveller (FIT) market currently consumes 59% of all hotel room nights in Queenstown and generates 66% of hotel room revenue. The next largest segment is the tour & group market which accounts for 28% of room nights sold and 22% of hotel room revenue. The highest yielding segments are conference & incentive ($183 per night) and FIT ($182 per night).

FIGURE 127 DEMAND FOR HOTEL ROOM NIGHTS IN QUEENSTOWN BY TYPE OF GUEST IN 2015
Source: TIA Hotel Statistics
New Zealand residents currently consume just over one third of all hotel room nights in Queenstown and Australians consume just over one quarter. The rapidly growing Chinese market currently accounts for 10% of demand.

**FIGURE 128 ROOM NIGHTS OCCUPIED IN QUEENSTOWN BY ORIGIN OF GUEST IN 2015**  
Source: TIA Hotel Statistics, Fresh Info

An analysis of hotel demand patterns in Queenstown in 2015 reveals that:

- New Zealand and Australian guests have similar preferences with demand spread relatively evenly across star bandings.
- Four star hotels are most popular amongst Chinese visitors (just over 40% of all guest nights).
- Visitors from the US spend almost 40% of their nights in 5 star establishments compared with around 5% of South Korean guests.

These observations are based on current patterns of supply and demand and it is important to note that preferences may evolve in response to structural shifts in markets and changes in hotel supply over time.

**FIGURE 129 QUEENSTOWN HOTEL PREFERENCE BY ORIGIN OF GUEST (SHARE OF ROOM NIGHTS)**  
Source: TIA Hotel Statistics, Fresh Info
The annual occupancy rate in Queenstown reached 79% in 2015, up from 73% in 2014. This increase in demand pushed ADR up by NZ$17 (11%) to a new high of NZ$168. The combination of higher occupancy rates and higher ADR increased annual RevPAR in Queenstown up by NZ$21 (20%) to NZ$132 in 2015.

**FIGURE 130 HISTORICAL HOTEL PERFORMANCE IN QUEENSTOWN**
Source: TIA Hotel Statistics, Fresh Info

Demand is strong across three quarters of the year but drops sharply in the June quarter between the summer and ski seasons. Occupancy rates in the March and December quarters are approaching capacity so further year-round increases will need to be driven through improvements in shoulder and off-peak performance.

**FIGURE 131 HOTEL PERFORMANCE IN QUEENSTOWN BY QUARTER IN 2015**
Source: TIA Hotel Statistics, Fresh Info

<table>
<thead>
<tr>
<th></th>
<th>Occupancy rate</th>
<th>ADR (NZ excl. GST)</th>
<th>RevPAR (NZ excl. GST)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mar-15</td>
<td>87.2%</td>
<td>$176</td>
<td>$154</td>
</tr>
<tr>
<td>Jun-15</td>
<td>64.0%</td>
<td>$145</td>
<td>$93</td>
</tr>
<tr>
<td>Sep-15</td>
<td>80.0%</td>
<td>$171</td>
<td>$137</td>
</tr>
<tr>
<td>Dec-15</td>
<td>83.3%</td>
<td>$175</td>
<td>$145</td>
</tr>
<tr>
<td>TOTAL</td>
<td>78.6%</td>
<td>$168</td>
<td>$132</td>
</tr>
</tbody>
</table>

**Demand projections**

The outlook for the hotel sector in Queenstown is particularly strong with hotel demand expected to increase from 920,000 room nights in 2015 to over 1.5 million room nights in 2025. This represents growth over the next 10 years of 65% and an average growth rate of 5.1% per annum. The main factors driving the increase in demand are:

- Sustained growth in direct air capacity into Queenstown (domestic and international), including night flights from Australia which will make it much more convenient for Australians to fly directly into Queenstown. Queenstown Airport predicts that international visitor arrivals will double over the next 10 years to over 400,000 per annum.
- The rapid growth in the Chinese inbound market which has a strong preference for Queenstown. MBIE is predicting annual growth in Chinese visitor arrivals of 12.6% per annum over the next decade.
- Slow but steady growth in domestic tourism, reflecting the maturity of the market and increasing congestion and price escalation caused by the international market.
Major events in 2017 which Queenstown is likely to benefit from indirectly including World Masters Games (circa 25,000 participants) and the Lions Tour (circa 20,000 international visitors).

An increase in business events during off peak periods including the recently announced Amway incentive programme which will bring 10,000 people to Queenstown in waves of 500 beginning in Autumn 2018.

**FIGURE 132 PROJECTED DEMAND FOR HOTEL ROOM NIGHTS IN QUEENSTOWN**  
Source: Fresh Info Hotel Forecasting Model

The Chinese, Australia and New Zealand markets are expected to drive the majority of the growth in hotel demand, collectively accounting for 73% of the overall increase. The fast growing Chinese market will account for around 39% of the overall growth in demand followed by the Australian market at 22% and the New Zealand market at 12%.

**FIGURE 133 PROJECTED GROWTH IN HOTEL ROOM NIGHT DEMAND IN QUEENSTOWN BY ORIGIN OF GUEST**  
Source: Fresh Info Hotel Forecasting Model
Based on the projected growth rates it is estimated that Chinese visitors will account for 21% of hotel demand in 2025, up from 10% in 2015. New Zealanders will still be the largest consumers of hotel room at 25% (down from 34%) with Australians consuming a further 24% (down from 26%).

**FIGURE 134 PROJECTED SHARE OF ROOM NIGHT DEMAND IN QUEENSTOWN BY ORIGIN OF GUEST**
Source: Fresh Info Hotel Forecasting Model

While unconstrained demand is expected to retain a seasonal pattern in the future, accommodation constraints are likely to mean that not all peak season demand can be met. Queenstown is currently running very close to capacity during peak periods so there is very little room for occupancy rates to improve during these periods. However, off peak demand is also expected to grow and this will allow year-round occupancy rates to grow because there is currently surplus hotel capacity during off peak periods that can be utilised.

**FIGURE 135 SEASONALITY OF PROJECTED HOTEL ROOM NIGHT DEMAND IN QUEENSTOWN**
Source: Fresh Info Hotel Forecasting Model
Hotel supply

Queenstown’s hotel sector comprised 24 properties offering a total of 3,234 rooms in December 2015. This includes all 3 to 5 star hotels and serviced apartments (Qualmark or self-rated) operating at least 40 rooms. The hotel population is made up of 46% 4 to 4.5 star properties, 29% 5 star properties and 25% 3 to 3.5 star properties. The majority of Queenstown’s hotel properties and rooms are located in the wider town centre with a smaller number of other hotels located on the outer fringes of Queenstown, including Fernhill and Frankton.

There have only been two additions to the Queenstown hotel market in the past five years, being the 98 room DoubleTree by Hilton Queenstown and the 178 room Hilton Queenstown Resort & Spa, which were completed in 2011. The majority of Queenstown’s existing hotel stock dates from the late 1980’s to early 2000’s.

The Queenstown market demonstrates a relatively even spread of hotel rooms across 4 star, 4.5 star, and 5 star categories. Queenstown has a scarcity of budget hotel accommodation, with only 2.4% of all hotel rooms in Queenstown being of a 3 star rating.

FIGURE 136 HOTEL ROOM SUPPLY IN QUEENSTOWN AS AT DECEMBER 2015
Source: Colliers International

<table>
<thead>
<tr>
<th>Star rating</th>
<th>Properties</th>
<th>Rooms</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>1</td>
<td>78</td>
</tr>
<tr>
<td>3.5</td>
<td>5</td>
<td>548</td>
</tr>
<tr>
<td>4</td>
<td>5</td>
<td>830</td>
</tr>
<tr>
<td>4.5</td>
<td>6</td>
<td>880</td>
</tr>
<tr>
<td>5</td>
<td>7</td>
<td>898</td>
</tr>
<tr>
<td>TOTAL</td>
<td>24</td>
<td>3,234</td>
</tr>
</tbody>
</table>

FIGURE: STRUCTURE OF QUEENSTOWN’S HOTEL SUPPLY (DEC 2015)
Source: Colliers International
New hotel supply

There has been a notable renewed interest in hotel development in the Queenstown region in the past 12 months led by the significant increase in international tourism numbers and improving trading fundamentals. There are currently three hotels with a total of 189 rooms being built or refurbished in Queenstown. We note that all of the hotels currently under construction are smaller in nature, with two being located in or near the CBD and one in Frankton near the airport.

There are a number of proposed developments which are in various stages of advanced design feasibility, or consent phases. Whilst the majority of these developments have a likelihood of proceeding, a probability-weighting room matrix has been adopted to take account of these developments dependent upon where in the current design/consent phase each project sits. There are currently eight proposed hotel developments that have been identified in Queenstown which may proceed over the short/medium term. We note that the majority of proposed hotel rooms (58%) are located on the periphery of the town centre in Frankton and Kawerau Falls, with all but one of these proposed developments being of a 4, 4.5 star or 5 star rating.

We are also aware of a number of other mooted hotel developments which may occur in the future. These projects are generally in the initial concept stages and are generally less well defined than the proposed developments listed above. These have therefore been added to a development register watch list and are not specifically included in our current supply forecasts.

Expected New Supply

Colliers has developed a probability-weighted development register for Queenstown which includes all confirmed and expected developments over the next five years. As at April 2016 it is estimated that around 330 new rooms will be built in Queenstown over the next five years and a total of 679 will be built over the next 10 years. Based on these projections it is estimated that the number of hotel rooms in Queenstown will increase from 3,205 in 2015 to 3,885 by 2025.

FIGURE 137 ANNUAL CHANGE IN HOTEL ROOMS IN QUEENSTOWN
Source: Colliers International
Market projections

Current demand and supply projections indicate that Queenstown’s hotel sector will be critically supply constrained over the next decade, resulting in annual occupancy rates approaching 90% by 2025. World Masters Games and the British & Irish Lions Tour will generate additional shoulder/low season visitation to Queenstown in 2017, and the recently announced Amway incentive programme will have a material impact on low season demand in 2018. More generally, it is expected that congestion and high prices during peak tourism periods will push some demand into shoulder and off-peak periods, resulting in improved occupancy across the year. Based on this outlook the Queenstown hotel market will reach “critical capacity status” as early as the summer of 2016/2017 with occupancy rates already running at record highs and only a small amount of new supply scheduled over the next 18 months.

FIGURE 139 OCCUPANCY RATE PROJECTIONS FOR QUEENSTOWN HOTELS
Source: Fresh Info Hotel Forecasting Model

<table>
<thead>
<tr>
<th>CY</th>
<th>3-3.5 star</th>
<th>4 star</th>
<th>4.5 star</th>
<th>5 star</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016f</td>
<td>87%</td>
<td>88%</td>
<td>84%</td>
<td>80%</td>
<td>84%</td>
</tr>
<tr>
<td>2017f</td>
<td>87%</td>
<td>88%</td>
<td>85%</td>
<td>85%</td>
<td>86%</td>
</tr>
<tr>
<td>2018f</td>
<td>87%</td>
<td>89%</td>
<td>86%</td>
<td>85%</td>
<td>87%</td>
</tr>
<tr>
<td>2019f</td>
<td>87%</td>
<td>89%</td>
<td>86%</td>
<td>85%</td>
<td>87%</td>
</tr>
<tr>
<td>2020f</td>
<td>88%</td>
<td>90%</td>
<td>87%</td>
<td>85%</td>
<td>88%</td>
</tr>
<tr>
<td>2021f</td>
<td>88%</td>
<td>90%</td>
<td>87%</td>
<td>86%</td>
<td>88%</td>
</tr>
<tr>
<td>2022f</td>
<td>89%</td>
<td>90%</td>
<td>88%</td>
<td>86%</td>
<td>88%</td>
</tr>
<tr>
<td>2023f</td>
<td>89%</td>
<td>90%</td>
<td>88%</td>
<td>87%</td>
<td>89%</td>
</tr>
<tr>
<td>2024f</td>
<td>90%</td>
<td>90%</td>
<td>89%</td>
<td>87%</td>
<td>89%</td>
</tr>
<tr>
<td>2025f</td>
<td>90%</td>
<td>90%</td>
<td>89%</td>
<td>88%</td>
<td>89%</td>
</tr>
</tbody>
</table>
Queenstown ADR is predicted to grow strongly over the next decade, increasing by 66% from NZ$168 in 2015 to NZ$278 in 2025. This growth will be driven by strong occupancy rate pressure across three quarters of the year (March, September and December) and gradual improvement in the June quarter which is traditionally weaker than other quarters.

**FIGURE 140 ADR PROJECTIONS FOR QUEENSTOWN HOTELS ($NZ EXCL. GST)**

Source: Fresh Info Hotel Forecasting Model

<table>
<thead>
<tr>
<th>CY</th>
<th>3-3.5 star</th>
<th>4 star</th>
<th>4.5 star</th>
<th>5 star</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016f</td>
<td>129</td>
<td>164</td>
<td>178</td>
<td>267</td>
<td>188</td>
</tr>
<tr>
<td>2017f</td>
<td>141</td>
<td>182</td>
<td>195</td>
<td>294</td>
<td>208</td>
</tr>
<tr>
<td>2018f</td>
<td>145</td>
<td>186</td>
<td>199</td>
<td>303</td>
<td>214</td>
</tr>
<tr>
<td>2019f</td>
<td>153</td>
<td>195</td>
<td>208</td>
<td>316</td>
<td>223</td>
</tr>
<tr>
<td>2020f</td>
<td>158</td>
<td>203</td>
<td>216</td>
<td>330</td>
<td>233</td>
</tr>
<tr>
<td>2021f</td>
<td>165</td>
<td>212</td>
<td>226</td>
<td>344</td>
<td>242</td>
</tr>
<tr>
<td>2022f</td>
<td>171</td>
<td>220</td>
<td>234</td>
<td>357</td>
<td>251</td>
</tr>
<tr>
<td>2023f</td>
<td>177</td>
<td>228</td>
<td>243</td>
<td>369</td>
<td>260</td>
</tr>
<tr>
<td>2024f</td>
<td>182</td>
<td>235</td>
<td>250</td>
<td>380</td>
<td>268</td>
</tr>
<tr>
<td>2025f</td>
<td>189</td>
<td>244</td>
<td>259</td>
<td>394</td>
<td>278</td>
</tr>
</tbody>
</table>

The demand projections presented above have been used to predict the total number of hotel rooms Queenstown would require in 2025 to accommodate the projected demand for hotel room nights at that time. The “optimal” number of hotel rooms has been estimated by calculating the number of rooms that would allow Queenstown hotels to achieve the same occupancy rates in 2025 as they achieved in 2015. The 2015 calendar year has been used as a benchmark because it was a year that provided demand conditions that allowed most tourism demand to be accommodated while also being financially sustainable for hotels. This is very important because excessive growth in the hotel inventory has a detrimental impact on year-round financial performance which usually results in subsequent periods of under investment.

Our analysis suggests that the Queenstown hotel market could absorb up to 2,100 new hotel rooms by 2025 while continuing to achieve 2015 occupancy rates. This is based on the following assumptions:

- Realisation of MBIE’s visitor arrival forecasts which predict average growth of 5.4% per annum over the next seven years.
- Limited impact on hotel demand from alternative modes of accommodation and new business models like Airbnb.

Taking into account expected growth in hotel rooms over the next 10 years (based on Colliers’ latest development schedule and long-term growth in hotel inventory) and the demand conditions described previously it is estimated that there could be a shortfall of up to 1,421 hotel rooms in Queenstown over the next 10 years.

**FIGURE 141 HOTEL ROOM ANALYSIS FOR QUEENSTOWN**

Source: Fresh Info Hotel Forecasting Model

<table>
<thead>
<tr>
<th></th>
<th>Hotel rooms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Room supply in 2015</td>
<td>3,234</td>
</tr>
<tr>
<td>Required room supply in 2025</td>
<td>5,334</td>
</tr>
<tr>
<td>New rooms required in 2025</td>
<td>2,100</td>
</tr>
<tr>
<td>New rooms projected in 2025</td>
<td>679</td>
</tr>
<tr>
<td>Shortfall</td>
<td>1,421</td>
</tr>
</tbody>
</table>
Based on current guest preferences it is estimated that demand for 4 star hotels will grow most strongly over the forecast period, followed by 4.5 star hotels and 5 star hotels. This provides useful guidance on which types of hotels would be most well received by the market although it is noted that preferences may change over time, particularly in response to changes in hotel price and availability.

**FIGURE 142 CHANGE IN ANNUAL DEMAND FOR HOTEL ROOMS IN QUEENSTOWN 2015-25**
Source: Fresh Info Hotel Forecasting Model
**METHODOLOGY**

The primary objective of this project is to assess historic hotel demand and supply and use this understanding to develop forecasts of hotel occupancy and ADR for the five focus regions (Auckland, Rotorua, Wellington, Christchurch and Queenstown). The forecasts can then be used by interested stakeholders to help inform hotel investment decisions. The forecast period is 2016-2025 and the forecast frequency is quarterly.

Delivering this project has required:

- Development of a quarterly supply forecast for each region, segmented by star rating
- Development of a quarterly demand forecast for each region, segmented by star rating and origin of guest
- Use of the resulting supply and demand forecasts to develop occupancy rate forecasts for each region, segmented by star rating
- Use of the resulting occupancy rate forecasts to develop ADR forecasts for each region, segmented by star rating

The sections below provide more detail on each stage of the forecasting process.

**FIGURE 143 APPROACH TO HOTEL SECTOR FORECASTING**

Base data

An audit conducted at the beginning of the project identified the following data sources that could be used to inform the forecasting process:

- Commercial Accommodation Monitor (Statistics NZ)
- TIA Hotels benchmarking data (TIA)
- International visitor arrival data (Statistics NZ)
- International visitor arrival forecasts (MBIE)
- International Visitor Survey data (MBIE)

These data sources are discussed in more detail below.

**Commercial Accommodation Monitor**

The Commercial Accommodation Monitor (CAM) is based on a monthly survey of commercial accommodation providers conducted by Statistics New Zealand. The results of the survey are weighted up to the population of accommodation providers by imputing values onto non-respondents. Statistics published in the CAM include guest night numbers, capacity, and occupancy rates. The results can be segmented by region and accommodation type (including hotels) and therefore align well with the requirements of this project.
Our initial intention was to use the CAM to measure hotel capacity in each region. However, it became apparent early in the project that the CAM population included hotels that were not relevant to his project (e.g. small hotels and hotels located in outlying areas) and (excluded some establishments that operate like hotels but are not officially defined as hotels (e.g. serviced apartments).

A further complication was that Statistics New Zealand was unable to share its database of hotels with us due to confidentiality issues. This meant that we were unable to segment the CAM population by star rating (a key requirement of the project) and it also prevented us from reconciling the CAM hotel population with our own estimate of the hotel population.

Due to these issues we were unable to use the CAM statistics as a measure of the hotel population and instead had to build our own estimates. This process is discussed in more detail below.

**TIA Hotels benchmarking data**

TIA operates a monthly benchmarking programme for its hotel members. The number of hotels participating in this programme has grown over time and currently sits at 140. These hotels collectively represent around 78% of total 3 to 5 star hotel room capacity in the five focus regions (based on hotels operating at least 40 rooms). Participating hotels submit the following data each month:

- Capacity (number of rooms)
- Room nights occupied
- Room revenue
- Room nights occupied x segment (C&I, corporate, FIT, tour/group, crew, other)
- Room revenue x segment (C&I, corporate, FIT, tour/group, crew, other)
- Room nights occupied x origin of guest (New Zealand, Australia, United States, Japan, South Korea, China, Other Asia, United Kingdom, Germany, other international)

The sample of hotels that participates in the benchmarking programme is self-selecting and tends to have a bias towards larger and higher quality hotels. Careful weighting of the TIA data is therefore required to ensure that the resulting market-level estimates are representative of the wider hotel population.

TIA’s benchmarking data plays a critical role in understanding and forecasting demand behaviour (who is consuming hotel rooms), occupancy rates, and ADR at the level of granularity required to achieve the objectives of this project.

**International visitor arrival data**

Statistics New Zealand publishes monthly estimates of international visitor arrivals to New Zealand segmented by a range of variables including age, gender, port of entry, usual residence and purpose of visit. The visitor arrival data is derived from information contained in electronic records supplied by the New Zealand Customs Service, as well as from arrival and departure cards completed by passengers. The international visitor arrival (IVA) estimates play a critical role in understanding the relationship between international visitor arrivals to New Zealand and the demand for hotel room nights.
International visitor arrival forecasts

MBIE produces calendar year forecasts of international visitor arrivals with a forecast period of seven years (currently 2016-22). The forecasts are segmented by:

- Origin market (Australia, Canada, China, Germany, India, Indonesia, Japan, South Korea, United Kingdom, United States, Other)
- Purpose of visit (Holiday, VFR, Business, Other)

MBIE’s international visitor arrival forecasts play a critical role in forecasting international demand for hotel room nights in New Zealand.

International Visitor Survey

The International Visitor Survey is an exit survey of international visitors conducted by MBIE. Prior to July 2013 the IVS captured information about the number of nights spent in each region and which modes of accommodation those nights were spent in (changes to the survey in July 2013 make this information unavailable after that date). This information has been used to understand how international demand for hotel room nights at a regional level is influenced by the port of entry used by the visitor.

Historical estimates of hotel supply and demand

Our data audit revealed a range of partial hotel supply and demand estimates but no reliable population estimates that would meet the requirements of this project. We therefore had to use all of the available information to develop our own historical estimates of hotel supply and demand at the required level of granularity. This process is described in more detail below.

Supply of hotel rooms

The population of hotels and hotel room capacity in the five study areas (Auckland, Rotorua, Wellington, Christchurch and Queenstown) has been established through a detailed bottom-up analysis led by Colliers International Limited’s Hotel Division. This required the development of a monthly database containing the names and attributes of every relevant property in each of the five regions going back six years to January 2010. A property was considered to be ‘relevant’ if it was of sufficient scale (generally 40+ rooms with the exception of Rotorua which was 25+) and it was considered by Colliers to operate in the same competitor set as traditional hotels e.g. some serviced apartments.

The resulting database provided the definitive measure of the hotel population in each region. The database was then used to form quarterly room availability estimates segmented by star rating, which was the required level of granularity to support the forecasting process.

Demand for hotel rooms

Population demand in the five study areas has been established through a detailed bottom-up analysis led by Fresh Info. The starting point for the analysis was the supply of hotel rooms in each region developed by Colliers. These estimates were combined with occupancy rates from the TIA benchmarking programme at the region x star rating level to develop estimates of total room nights occupied within each stratum of the overall hotel population.

An additional process was then developed to allocate overall room night demand within each stratum (region x star rating combination) to the specific markets consuming the rooms. This was achieved by applying the ‘origin of guest’ distributions from the TIA benchmarking programme at the stratum level. This enabled overall
room night demand at the stratum level to be separated into demand generated by guests from New Zealand, Australia, China, Japan, South Korea, United States, United Kingdom, Germany, and other international markets. The end result of this process was quarterly estimates of hotel room nights sold x region x star rating x origin market, which was the required level of granularity to support the forecasting process.

The use of TIA data created some confidentiality issues that had to be mitigated through the aggregation of several star rating bands. The final region x star rating combinations used in the modelling are presented in the table below.

**FIGURE 144 FINAL MARKET SEGMENTATION**

<table>
<thead>
<tr>
<th>Region</th>
<th>Star rating bands&lt;sup&gt;55&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auckland</td>
<td>3-3.5 star</td>
</tr>
<tr>
<td></td>
<td>4 star</td>
</tr>
<tr>
<td></td>
<td>4.5 star</td>
</tr>
<tr>
<td></td>
<td>5 star</td>
</tr>
<tr>
<td>Rotorua</td>
<td>3-4 star</td>
</tr>
<tr>
<td></td>
<td>4.5-5 star</td>
</tr>
<tr>
<td>Wellington</td>
<td>3-3.5 star</td>
</tr>
<tr>
<td></td>
<td>4 star</td>
</tr>
<tr>
<td></td>
<td>4.5-5 star</td>
</tr>
<tr>
<td>Christchurch</td>
<td>3-3.5 star</td>
</tr>
<tr>
<td></td>
<td>4 star</td>
</tr>
<tr>
<td></td>
<td>4.5-5 star</td>
</tr>
<tr>
<td>Queenstown</td>
<td>3-3.5 star</td>
</tr>
<tr>
<td></td>
<td>4 star</td>
</tr>
<tr>
<td></td>
<td>4.5 star</td>
</tr>
<tr>
<td></td>
<td>5 star</td>
</tr>
</tbody>
</table>

**Forecasting the supply of hotel rooms**

Colliers International Limited's Hotel Division produced a comprehensive database of current and proposed new hotel development for the purpose of this report. The following process was used by Colliers to forecast the supply of hotel rooms in each region:

- Assume that the current hotel stock will continue to exist in the future (unchanged)
- Create a register of new hotel developments. This was based on a detailed market assessment to identify all hotels in the five focus regions that are currently under construction, as well as planned hotels in the pre-construction phase and mooted hotels at various stages in the planning cycle. The resulting hotel development schedule covered the next five years (to December 2020).
- Assign completion probability weights to each of the new hotel developments and use these to calculate the expected change in hotel rooms over the next five years.
- Use the long-term growth rate (2000-2020) to forecast the supply of hotel rooms beyond 2020.

The result of this process was a quarterly forecast of hotel rooms in each region, segmented by star rating.

<sup>55</sup> Based on Qualmark if available, otherwise Colliers’ professional opinion
**Forecasting demand for hotel rooms**

For the purposes of this project demand for hotel rooms has been divided into domestic demand (demand by New Zealand residents) and international demand (demand by visitors to New Zealand). The factors that drive growth in these markets are very different and it is therefore necessary to develop specific modelling and forecasting processes for the demand generated by each.

It is important to note that demand for room nights is not the same as room nights occupied. **Unconstrained demand** represents the total number of room nights that would be consumed if they were available while room nights occupied represents the amount of room night demand that is actually satisfied. The number of hotel room nights occupied will be influenced by the unconstrained demand for hotel room nights as well as the availability of hotel rooms to satisfy that demand. Unconstrained demand will therefore be greater than room nights occupied if the demand for hotel room nights exceeds supply during that period.

Modelling unconstrained demand is an important part of the forecasting process because it provides insight into the extent to which the hotel sector is likely to be under or over-supplied with capacity in the future. This in turn has a material impact on the prices that hotels can charge for their rooms.

**Forecasting domestic demand for hotel rooms**

Econometric models were used to understand and predict unconstrained hotel demand in Auckland and Wellington. The dependent variable in each region was the demand for hotel room nights and the explanatory variables were selected based on goodness of fit criteria. Quarterly dummies were included in each model to account for seasonality. The resulting coefficients were then combined with forecasts of the explanatory variables to generate forecasts of domestic demand for hotel rooms.

**FIGURE 145 ESTIMATED COEFFICIENTS PRODUCED BY DOMESTIC DEMAND MODELS**

Source: Fresh Info

<table>
<thead>
<tr>
<th></th>
<th>Auckland</th>
<th>Wellington</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjusted R Square</td>
<td>0.78</td>
<td>0.64</td>
</tr>
<tr>
<td>Intercept</td>
<td>-178,589</td>
<td>-7,838</td>
</tr>
<tr>
<td>Seasonally adjusted NZ GDP ($m)</td>
<td>14,196</td>
<td>3.37</td>
</tr>
<tr>
<td>June dummy</td>
<td>30,887</td>
<td>11,595</td>
</tr>
<tr>
<td>September dummy</td>
<td>-178,589</td>
<td>13,798</td>
</tr>
<tr>
<td>December dummy</td>
<td>10.83</td>
<td>8,934</td>
</tr>
<tr>
<td>Regional event dummy</td>
<td>30,887</td>
<td></td>
</tr>
</tbody>
</table>

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56 Used to capture the impact of Auckland’s recent (and ongoing) investment in its major event portfolio
Econometric analysis was also applied to the Rotorua, Christchurch and Queenstown markets, but satisfactory outcomes were not able to be achieved.

The chosen solution for Rotorua was an assumption of no change in domestic demand over the forecast period. This was based on the observation that domestic demand has been relatively stable over the past 5 years. The causes of this lack of growth are difficult to isolate but more outbound travel by Auckland residents (at the expense of domestic travel) and greater competition from other destinations, particularly Queenstown, are likely to be key contributors.

The severe disruptions to the Christchurch market caused by the earthquakes limit the extent to which statistical analysis can be used to understand and predict trends. The approach taken to the Christchurch market was to assume that hotel demand will be led by hotel supply during the rebuild process. The following equation was used to forecast domestic demand for hotels:

\[
\text{Demand}_t = \text{Demand}_{t-1} \times (1 + (\text{Hotel supply}_t / \text{Hotel supply}_{t-1}) \times 0.7)
\]

where:

- \( t \) is the current quarter
- \( t-1 \) is the same quarter in the previous year

In practice this means that a 1% increase in hotel rooms in Christchurch will result in a 0.7% increase in domestic hotel demand.

The econometric models for Queenstown fitted the data well but produced implausibly high growth rates across the forecast period. This outcome was caused by the strong historical growth relative to explanatory variables like GDP. The chosen solution for Queenstown was to peg growth in domestic demand to GDP. This means that a 1% increase in GDP will result in a 1% increase in domestic hotel demand in Queenstown.

### Forecasting international demand for hotel rooms

The following process was used to forecast international demand for hotel rooms in each region:

1. Use the annual MBIE visitor arrival forecasts x origin market x purpose of visit to develop quarterly visitor arrival forecasts x origin market x purpose of visit x port of entry. This was achieved in three stages:
   a. Extend the MBIE forecasts to 2025 by extrapolating the projected growth between 2021 and 2022 across the remaining three years of the forecast period (at the origin market x purpose of visit level).
   b. Allocate MBIE’s annual visitor arrival forecasts x origin market x purpose of visit to the main ports of entry (Auckland Airport, Wellington Airport, Christchurch Airport, Queenstown Airport, other ports) based on recent market share trends (subject to the constraint that visitor arrivals across all ports reconcile with the MBIE forecasts at the origin market x purpose of visit level).
   c. Allocate the resulting port-level forecasts across quarters based on 2015 seasonal patterns (subject to the constraint that visitor arrivals across all ports reconcile with the MBIE forecasts at the origin market x purpose of visit level).

2. Estimate historical room night demand x origin market x port of entry. This was achieved by starting with the historical estimates of room nights occupied x origin market (see above) and segmenting further by port of entry using data from the International Visitor Survey. This was necessary in order to understand the
relationship between quarterly visitor arrivals through specific ports and quarterly hotel demand at the regional level.

3. Assume that the current relationship between quarterly visitor arrivals x origin market x port of entry and quarterly hotel demand x origin market x port of entry (room nights occupied per visitor arrival x origin market x port of entry) will remain constant at 2015 levels across the forecast period. A variation of this step was applied to Christchurch due to the disruption caused by the earthquakes:

a. Assume that the current relationship between quarterly visitor arrivals x origin market x port of entry and quarterly hotel demand x origin market x port of entry (room nights occupied per visitor arrival x origin market x port of entry) grows across the forecast period in direct proportion to hotel room supply, based on the following formula:

\[
\text{Demand}_t = \text{Demand}_{t-1} \times (1 + (\text{Hotel supply}_t / \text{Hotel supply}_{t-1}) \times 0.7))
\]

where:

- \(t\) = the current quarter
- \(t-1\) = the same quarter in the previous year

In practice this means that a 1% increase in hotel rooms in Christchurch will result in a 0.7% increase in the rate at which a visitor from a specific market will demand hotel room nights in Christchurch.

Develop forecasts of room night demand x origin market x port of entry by multiplying room night demand per visitor arrival x origin market x port of entry by the forecasts of visitor arrivals x origin market x port of entry (see above). Then sum across port of entry to end up with forecasts of room night demand x origin market.

Final demand allocation

Allocate demand across star rating bands using a two-staged process:

1. Allocate room nights to hotels based on the preferences of specific origin markets, as revealed by the TIA origin of guest data e.g. if 40% of all Australian hotel nights were spent in 4 star hotels in Q1 2015 then it is assumed that 40% of Australian hotel nights would ideally be spent in 4 star hotels in Q1 2016.

2. If the preference allocation causes demand for a particular star banding to exceed supply then the surplus demand is allocated to other star bandings based on the amount of excess capacity they have relative to other star bandings.

The maximum occupancy rate that can be achieved across a whole quarter is 90%. This appears to be a realistic assumption based on observed occupancy rates in the March 2016 quarter (the busiest quarter ever experienced in New Zealand).

Forecasting occupancy rates

Future occupancy rates for each region x star band are calculated by dividing room nights occupied by room nights available. As discussed previously the average occupancy rate across an entire quarter is constrained to being no greater than 90%.
**Forecasting ADR**

A four-staged process was used to predict ADR in each region (with the exception of Christchurch which is discussed in more detail below):

1. Develop a quarterly econometric model for each region to explain historical changes in ADR. The models all used unconstrained occupancy as the main explanatory variable (unconstrained demand divided by room nights available), as well as including dummy variables to control for seasonal effects and Rugby World Cup effects. A time trend was also included in all of the models except Rotorua’s. The estimated coefficients are shown in the table below.

2. Combine the estimated coefficients with forecasts of the explanatory variables to generate forecasts of ADR for existing hotels.

3. Assume that new hotels will be able to charge 25% more than existing hotels within the same star rating band. Use this assumption to calculate the ADR for new hotels.

4. Calculate the weighted average ADR across existing and new hotels for each star banding

**FIGURE 146 ESTIMATED COEFFICIENTS PRODUCED BY ADR MODELS**

Source: Fresh Info

<table>
<thead>
<tr>
<th></th>
<th>Auckland</th>
<th>Rotorua</th>
<th>Wellington</th>
<th>Queenstown</th>
</tr>
</thead>
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<td>0.88</td>
<td>0.81</td>
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<td>Intercept</td>
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<td>82.19</td>
<td>107.88</td>
<td>108.80</td>
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<td>Unconstrained occupancy</td>
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<td>-2.31</td>
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<td>0.63</td>
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<tr>
<td>Time trend</td>
<td>64.34</td>
<td></td>
<td>107.88</td>
<td>108.80</td>
</tr>
</tbody>
</table>
DEFINITIONS

The following terms are used extensively within this document:

- **Rooms** – the number of rooms in a hotel or serviced apartment complex.
- **Room Nights Available (RNA)** – the number of room nights that are available to be sold. RNA is the main measure of capacity for a hotel.
- **Room Nights Occupied (RNO)** – the total number of room nights occupied by guests within a given period. RNO is the main measure of demand for a hotel.
- **Occupancy Rate** – the key measure of utilisation for a hotel. Occupancy rate is calculated as RNO divided by RNA.
- **Room Revenue** – the total revenue derived by a hotel from letting its hotel rooms to guests (excl. GST).
- **Average Daily Rate (ADR)** – measures the gross room revenue derived per occupied room (excl. GST). ADR is calculated as Room Revenue divided by RNO. Another term for ADR is ‘room rate’.
- **Revenue per Available Room (RevPAR)** – measures the gross revenue per available room (excl. GST). RevPAR is calculated as Room Revenue divided by RNA.
- **FIT** – fully independent traveller.
- **VFR** – visiting friends and relatives.
- **Star rating** - quality rating assigned to a hotel or serviced apartment complex.
- **Qualmark rating** – quality rating assigned to a hotel or serviced apartment by Qualmark.
- **Self rated** – an unofficial star rating assigned by the hotel or serviced apartment complex.
- **Unconstrained demand** – the number of room nights that would be spent in hotels if there were no supply constraints.
## FIGURE 147 CHRISTCHURCH REBUILD ANCHOR PROJECTS

**The Square**
Cathedral Square will remain as the civic heart of Christchurch, in proximity to the new Central Library, and the Convention Centre Precinct. Space will be retained for a new cathedral with the redevelopment of the Square to be completed by mid-2016.

**Convention Centre Precinct**
Prior to the earthquakes, the Christchurch Convention Centre was situated at 99 Kilmore Street in the Christchurch CBD. The Centre was damaged in the earthquakes, and is to be replaced by a new world-class facility providing for up to 2,000 delegates. A consortium comprising Plenary Group, Ngai Tahu Property and Carter Group has been chosen as the preferred developer to undertake the Government funded Convention Centre project in Christchurch. Accor Hotels has been chosen as the preferred operator for the new Convention Centre, which is to be located within the block defined by Armagh Street, Oxford Terrace, Worcester Street, and Colombo Street.

**Central Library**
Tenders have been received for this $85 million project, which upon completion will become the second largest public library in the country with a GFA of close to 10,000m². Construction is anticipated to begin later in 2016 with completion scheduled for 2018.

**Performing Arts Precinct**
Upon completion, the Performing Arts Precinct located at the corner of Gloucester and Colombo Streets, will house the Christchurch Symphony Orchestra, the Music Centre of Christchurch, and Court Theatre and the Isaac Theatre Royal.

**Retail Precinct**
Development is now well underway with several projects including The Crossing under construction.

**Justice and Emergency Precinct**
The Christchurch Justice and Emergency Services Precinct is currently under construction in the CBD. The precinct is envisaged to house all of Christchurch’s justice and emergency departments in one place upon completion, which is currently estimated to be mid-2017.

**Innovation Precinct**
Anchored by key builds such as the Vodafone Centre, the Innovation Precinct is a private sector-led initiative currently under development in the south-eastern corner of the CBD.

**Cricket Oval**
Hagley Oval was re-opened in September 2013, and was the host venue for the opening ceremony and the first match of the 2015 ICC Cricket World Cup.

**Bus Interchange**
The new Bus Interchange was completed and opened in May 2015. The $53 million facility on Lichfield Street will act as the central transport hub for the CBD.

**Avon River Precinct**
The new urban waterfront for the Christchurch CBD, the Avon River Precinct will, upon completion, provide spaces for people to gather, play, shop and dine. This precinct will feature a number of new attractions including the recently completed Margaret Mahy Family Playground and the Canterbury Earthquake Memorial which is currently under construction.

**Canterbury Earthquake Memorial**
Work has officially begun on the Canterbury Earthquake Memorial located on the banks of the Avon River. The memorial is expected to be completed in time for a commemoration ceremony in February 2017.

**Health Precinct**
At the heart of the new Health Precinct is the redeveloped Christchurch Hospital, which will be supplemented by a range of research and education facilities.

**Metro Sports Facility**
Currently confirmed features of this new facility include an aquatic centre with a ten lane competition pool and dive facility, spa, sauna and steam room, indoor sports courts, fitness centre, dance studio space, and a high performance sports centre. Currently in design and planning stages, this facility is scheduled for completion in 2020.
Stadium
A world-class, covered stadium is anticipated to be developed for Christchurch. Whilst the project is currently in early planning stages, the Stadium is anticipated to have capacity for up to 35,000 people.

South Frame
The South Frame will be a new urban neighbourhood connecting health, education, innovation and city living. The project emphasises the creation of a greenway, public gathering spaces and a number of laneways in order to create a complete and alternate way to move around the CBD. The greenway will include pedestrian/cycle pathways, garden areas and seating.

East Frame
The East Frame will be a new neighbourhood located in the heart of the CBD surrounding a large central green space. The project will comprise residential developments together with cafes, restaurants, and outdoor entertainment areas. Construction is anticipated to begin in October 2016.