

Urgent assistance for Hotels in response to COVID-19 and visa policy settings



1. Introduction

1.1 New Zealand's hotel sector

New Zealand's hotel sector comprises of 330+ hotels having 30 rooms or more. This equates to approximately 32,000 rooms or 11.7 million available room nights per annum.

Hotel Council Aotearoa (**HCA**) is a new industry body established to represent New Zealand hotels, hoteliers and hotel-related businesses. Our constituent hotels comprise 15,000 rooms and range in size from 30-452 rooms. The typical New Zealand full-service hotel has 0.4-0.7 full time equivalent employees per guest room in "normal times". Upper upscale and luxury hotels often have higher employment ratios.

Before COVID-19, New Zealand's hotel sector employed more than 20,000 people and had an estimated investment value of \$12 billion. In comparison, Air New Zealand employed approximately 12,500 people at peak.

1.2 Hotels are critical infrastructure

Although privately owned, hotels are key components of public tourism infrastructure. Without international-standard hotels, no destination can welcome a meaningful share of high-value visitors. Hotels sit alongside airports, airlines, conference centres and other essential infrastructure for transporting and hosting international and domestic travellers in volume. Without the economies of scale and operational/environmental efficiencies of hotels, New Zealand simply could not compete against other prominent destinations for its fair share of high-value international visitors.

If private investors refused to develop and own hotels, Government would ultimately be forced to step in and do so itself, as was the case with New Zealand's Tourism Hotel Corporation, and remains the case in emerging economies looking to establish an international tourism segment.

1.3 Accommodation industry competitive landscape

Hotels are just one part of the wider accommodation/lodging landscape in New Zealand. Alternatives to hotels include motels, hostels, campsites, short-term rental accommodation (such as Airbnb and Bookabach), campervans and staying with friends & family (**accommodation competitors**). Each of these accommodation competitors are worthy businesses and important contributors to our tourism landscape. All New Zealanders (including hoteliers) use these other forms of accommodation. Hotels room night pricing and profitability is affected by the pricing and availability of our accommodation competitors.

Hotels deliver *a significantly more service-oriented experience* than the other accommodation types. Hotels provide a range of value-added services such as front desk welcome/check-in, concierge, daily cleaning, in-house food & beverage, room service, event planning, spa/health club, etc. For example,

compared with the typical Airbnb listing, hotels offer a *smaller room* and *shared public spaces* (rather than an entire 100m² or more house), but offer a *much higher degree of service, amenity and consistency*. Whereas the only employment created by an Airbnb stay is approximately 2-3 hours of contract cleaning at the very end of each visit, a hotel stay generates sustainable employment for multiple employees delivering a diverse range of hotel services.

In summary: motels, backpacker hostels, campsites, short-term rental accommodation, campervans and staying with friends & family all rely to varying degrees on a philosophy of “serve yourself to save money”. In contrast, Hotels are a service-driven or “value-added” option. Consequently, *Hotels employ a lot more people than New Zealand’s other accommodation types* on a like-for-like basis.

As with other sectors of the economy, New Zealand should aspire to deliver products and services at the top of the value-chain. In the accommodation/lodging segment, Hotels are that peak product.

1.4 MIQ and New Zealand’s health response to COVID-19

Thirty-one New Zealand hotels (comprising more than 6,000 guest rooms) are now playing a key role in the health response to COVID-19 by providing managed isolation services. In addition to stepping up as part on New Zealand’s “team of 5 million”, the provision of MIQ services has allowed these hotels to maintain revenue and staffing at levels comparable with normal operating conditions. MIQ is, however, far removed from typical hotel business, especially in relation to:

- a. **Brand/reputational risk:** MIQ services carry a degree of brand and reputational risk in the event of security or hygiene failures. Quarantining guests continue to post negative reviews on public websites, when MIQ services are substantially Government-managed. Even after borders reopen and the quarantine regime is dismantled, it is likely to take some time before regular guests return to hotels that were once operated as MIQ facilities.
- b. **Wear and tear:** The nature of MIQ use (sustained occupancy for two-week periods with high load factors) and other related reasons mean that hotel guests rooms are experiencing considerable wear and tear, when compared with ordinary operations.
- c. **Staffing/operational challenges:** Hotel employees have understandable fears and concerns about working in managed isolation facilities, including ongoing COVID-19 testing obligations and hygiene standards. MIQ hotel employees are very much at the “front line” on New Zealand’s health response to COVID-19, yet many of these employees never anticipated being in such a role. Recruitment and retention has been challenging at MIQ hotels. Many experienced and senior hoteliers have decided to switch to hotels that *are not* offering MIQ services. Salaries and wages have increased to compensate hotel employees for these additional personal burdens.

The provision of MIQ services by these 31 nationwide hotels has masked the true extent of the drop off in hotel accommodation demand since COVID-19. As New Zealand’s borders re-open, MIQ rooms will return to ordinary use, placing further downward pressure on room rates due to increased supply. In Auckland alone, 3,500 rooms will be added back to the region’s room supply.

Against this background, we urge you to recognise that hotels hold a unique position because they are infrastructure assets that occupy a critical role in New Zealand’s broader tourism industry. Therefore, hotels are worthy of special regulatory consideration in the same way that Government has responded to the critical needs of airports and airlines in the wake of COVID-19.

2. How COVID-19 has affected Hotels generally

Fundamental characteristics of the hotel sector have resulted in hotels around the world suffering disproportionate damage from COVID-19, when compared with many other industries. These features include:

- a. **Perishable product:** If available room nights are left unoccupied, they cannot be stored up and sold later. Lost rooms revenue is permanently foregone and can never be clawed back in the future, even if there is “pent up demand” for travel after lockdowns or border closures. During 2020, a huge and unprecedented share of New Zealand’s 11.7 million available room nights have been permanently lost.
- b. **Capital-intensive:** Hotels are, by their very nature, capital-intensive businesses. Even the most tech-savvy and efficient hotel owners/operators are ultimately responsible for significant capital assets and large workforces. Consequently, debt service and/or lease payments are sizeable. These are “constant” costs that cannot be avoided or reduced in line with a prolonged revenue shortfall. A hotel cannot simply move to smaller premises when times are tough.
- c. **Service-driven:** The highly service-driven nature of a typical hotel means labour supply and cost shocks are especially damaging when compared to our accommodation competitors. Labour is the highest operating cost for hotels. If labour becomes scarce or expensive, hotels are unable to provide the “value-added” services expected by guests and/or service standards suffer. This leads to guest dissatisfaction and negative reviews. When service is compromised, low-service accommodation competitors become more attractive – they benefit at the expense of full-service hotels.

COVID-19 has created unprecedented challenges for New Zealand’s hotel segment, affecting both *demand* for hotel rooms and *operating costs*.

With support from Government’s wage subsidy programs, hotels have endeavoured to maintain employment levels for as long as possible following border closures in March 2020.

We are also grateful for the Government’s efforts, including those of Tourism New Zealand and RTOs, to promote domestic tourism while borders remain closed. However, it is important to emphasise that such tourism does not come close to filling the gap created by the absence of international visitors. Domestic tourists understandably and predictably favour our lower-cost accommodation competitors. Such behaviour is typical of domestic travellers anywhere in the world. Domestic travellers predictably spend less than international travellers enjoying a “once in a lifetime” experience in New Zealand. Notwithstanding very occasional bright spots on some weekends or during school holidays, occupancy and average daily rate (ADR) is consistently and dramatically down for all hotels across New Zealand. The second Auckland lockdown also stalled attempts to encourage more domestic tourism.

At the same time that room night demand has fallen, unavoidable fixed costs such as debt service, rates and insurance remain constant for all hotels. Variable costs for hotels are also rising on a “per unit” basis whereas other industries, such as agriculture, deal with their own pressures in response to COVID-19 and look to pass cost increases onto *their* customers (including hotels).

In addition to these demand and cost pressures, there is significant additional *supply* coming online soon, all of which was commissioned in anticipation of normal operating conditions, not a global pandemic. New supply will decrease average room rates and occupancy across the board. When

borders do re-open, hotels formerly operating as MIQ facilities will also re-enter the market, which will once again push down rates and occupancy.

In short, it has been – and remains – a perfect storm. Recovery will not come quickly. The realistic timeframe for a full recovery in international visitation must surely be accepted as a matter of *years*, not months, from today.

3. Urgent Issue

The hotel sector continues to “box on” in incredibly challenging circumstances.

As we approach the peak domestic travel period, Government policy settings around visas will significantly impact on hotel labour supply, either *dramatically increasing costs* or leaving hotels simply *unable to deliver typical hotel services*.

While we understand the intent of these policy settings, the timing could not be worse. Current visa policy settings will further damage the hotel sector at the time when we most need Government assistance to survive. They will slow the recovery after COVID-19 and may contribute to hotel closures and consequent permanent job losses and important tourism infrastructure.

1 Hotels have responded to COVID-19 without industry-specific support.	2 Hotels are <u>key infrastructure</u> , including providing MIQ services despite reputational risk.	3 Hotels cannot sell to our main customers. 2020 lost revenue is <u>permanently</u> lost. Capital costs remain.
4 Hotels are <u>more reliant on labour</u> because we provide more “value-add” than other accommodation types.	5 Seasonality of demand and “inhospitable hours” mean hotel jobs tend to suit flexible job-seekers.	6 Hotels <u>everywhere</u> turn to student and migrant labour – it’s normal and not a sign of failure in NZ.
7 Visa policy changes are ill-timed and seriously impact on hotels’ ability to salvage summer trading.	8 Hotels are <u>doing much worse than you think</u> .	9  Specific hotel sector visa exceptions are <u>urgently needed</u> , justifiable and equitable.

4. Requested relief

We urgently request the following:

- a. **Remove hotel-based roles from national oversupply lists for 24 months:** All roles at (1) hotels (being accommodation businesses that also hold liquor licenses and/or operate restaurants available to the public) and, (2) hotel management companies, should be removed from national oversupply lists for 24 months. In other words, a specific exemption to oversupply lists should be granted for the entire hotel sector.
- b. **Automatically extend employer-assisted temporary work visas for hotel workers:** Anyone working in hotels as at December 2020 and holding an employer-assisted temporary work visa due to expire before 30 June 2021 should be automatically granted a 12-month extension.
- c. **Optionally extend employer-assisted temporary work visas for employees in other sectors:** Anyone in New Zealand as at December 2020 and holding an employer-assisted temporary work visa due to expire before 30 June 2021 should be entitled to remain in New Zealand for up to 12 months if they obtain employment at a hotel.
- d. **Provide for greater flexibility for existing hotel-related work visas:** Visa conditions should be automatically modified so that, if both employer and employee agree in writing, employees may work not just at the address/location stated in their visa, but also at any “sister hotels”, being hotels in New Zealand ultimately owned by the same holding company as the original visa sponsor.

5. Visa Settings: Analysis & Rationale

5.1 Labour and hotel operations generally

Three unavoidable characteristics of hotels affect employment and retention of labour: (a) seasonality of room night demand, (b) “inhospitable hours” of operation, and (c) greater reliance on service than our accommodation competitors.

- a. **Seasonality:** A hotel’s labour needs fluctuate significantly in accordance with seasonality of room night demand. Hotels require far fewer cleaners, waiters, chefs and front-office personnel during periods of low demand and occupancy because hotel labour has “just-in-time” characteristics – hotel chefs cannot make meals during winter to be stored and sold to guests in summer. New Zealand remains a highly seasonal hotel market, with demand skyrocketing during school holiday periods or across ski season in Queenstown. Approximately two-thirds of visitation is during summer months.
- b. **Inhospitable hours:** Even though demand (and therefore profitability) is highly seasonal, hotels must operate as 24-7-365 businesses, open all hours and every day of the year including public holidays. On a day-to-day basis, much guest-facing hotel work occurs during “inhospitable hours”, for example breakfast service from 6:00 a.m, dinner service until late, 24-hr room service, overnight cleaning, etc. Hotels must carefully manage their labour needs throughout the year (for seasonality) and across each day (for unusual working hours).

Understandably, many New Zealand job-seekers prefer predictable full-time employment, standard 9-5 working hours or part-time roles that align with typical school/pre-school opening hours.

- c. **Greater reliance on service:** Labour supply shocks typically affect Hotels far more than our accommodation competitors, even during normal times. Hotels offer value-added services delivered by our employees, whereas accommodation competitors rely to a much greater extent on the “do it yourself to save money” philosophy.

It is for these reasons – and not because of any failure by hotel management practices – that the hotel sector turns to part-time and limited-hours contracts more than some other industries. Students (including hospitality industry students), working holiday visa-holders and migrants fill an array of hotel jobs that are seen as unappealing by locals.

Students are able to balance working hours with study and lecture attendance, and hospitality students further their chosen career. Working holiday visa-holders are often pleased to work evenings and mornings, allowing them to explore their location during daylight hours or gaps in the roster. Essential skills migrants see New Zealand’s hotels as offering safe, clean and well-managed working conditions with meaningful opportunities to train and advance on-the-job. Students, working holiday visa-holders and essential skills migrants are all less likely to have childcare responsibilities than job-seeking New Zealanders, meaning inhospitable hours are less of a burden to them.

To be clear, this is not a state of affairs that’s unique to New Zealand. Hotel wait-staff and cleaners are also likely to be students or migrants when working in London, New York, Sydney and Toronto.

Once again, these characteristics of the hotel industry are not indicative of market failure or exploitation by hoteliers. New Zealand’s minimum wage levels and public holiday pay regime is near the very top when compared to other developed nations. Our hotels are attractive to migrants *because* pay and conditions are often better than in the countries they’ve travelled from, and that wage premium is not limited to developing nations.

5.2 COVID-19 and Government visa policy changes

Key COVID-19 developments and Government policies during 2020 that relate to Hotel labour and employment are:

- a. **Borders close:** New Zealand’s borders close on 19 March 2020. All international tourism effectively ended. Many working holiday visa holders (typically 50,000 in New Zealand) start to return to their home countries, depleting a primary source of labour for typical seasonal and “inhospitable hours” hotel industry jobs.
- b. **First (nationwide) lockdown:** New Zealand’s first nationwide lockdown occurs from 25 March 2020 until 13 May 2020. All hotel revenue effectively goes to zero and hotels lose almost all forward bookings.
- c. **Strategic Tourism Assets Protection Programme (STAPP):** In May 2020, Government announces a \$400 million support package for strategic tourism assets. Generally, hotels are *not* considered to be “strategic” under the relevant qualification criteria.
- d. **Extension of working visas:** Recognising the impact of COVID-19 border closures and the first lockdown, on 7 July 2020, Government announces an automatic 6-month extension for anyone

in New Zealand as at 10 July 2020 and holding an employer-assisted temporary work visa due to expire before 31 December 2020 (the **first work visa extension**).

- e. **Introduction of median income threshold, skills match report and oversupply/undersupply lists:** In July 2020, Government also announces a wage threshold set at the New Zealand median income (\$25.50 per hour) (the **median income threshold**) applying to working visas. Those earning above the median income threshold may be eligible for essential skills work visas of up to three years in duration, while those earning less than the threshold can only be granted a six-month duration work visa. For roles paying below the median income threshold, prospective employers of migrant labour are required to provide a skills match report. No skills match report will be issued for roles listed on the Ministry of Social Development's oversupply list (the **Oversupply List**), which is a list of roles the Ministry considers are readily able to be filled by out-of-work New Zealanders. Included amongst such roles on a national basis are:

- Cafe worker (431211)
- Cook (351411)
- Commercial housekeeper (811411)
- Kitchenhand (851311)
- Waiter (431511)

Where roles are considered *unable* to be readily filled by out-of-work New Zealanders, they are listed on an undersupply list (the **Undersupply List**), the effect of which is to allow prospective employers to apply for migrant visas without first obtaining a Skills Match Report.

- f. **Second (Auckland) lockdown:** Auckland goes into a second lockdown between 12 August and 30 August 2020. Once again, revenue at hotels in or near Auckland effectively goes to zero, and hotels outside of Auckland also suffer from cancellations and substantial softening of demand (since outbound Auckland business is prohibited).
- g. **Queenstown Undersupply List:** On 1 December 2020, the following roles are moved to a Queenstown-specific undersupply list:

- Executive Chef, Head Chefs, Sous Chefs, Chef de Partie, Commis Chef (351311)
- Cook (351411)
- Restaurant supervisor (431111/ 431511)
- Waiter (431511)
- Concierge (431411)
- Hotel or Motel Receptionist (542113)
- Cleaner (811211)
- Porter (431912)
- Laundry Attendant (811511)
- Housekeeper (811411)

The effect of this change is that various hotel roles moved overnight from the Oversupply List to the Undersupply List, but only in Queenstown. Typical hotel roles remain on the Oversupply List nationally.

5.3. Rationale for relief

The unavoidable consequences of COVID-19 and the Government's health response (which we support), together with the Government's 2020 migrant visa policy setting changes, have the

cumulative effect of significantly hindering the hotel sector’s ability to fill existing vacant roles. The potential long-term damage to New Zealand’s hospitality industry is severe if hotels are unable to fill roles in a timely fashion over the peak summer holiday period.

Hotels have been surviving on anaemic revenue throughout 2020. It is now critical that hotels “ramp up” operations during the summer high season in order to generate as much revenue as possible to offset past losses. Without a reasonable 2020/21 holiday period, some hotels may permanently close.

The hotel sector seeks urgent Government assistance for the following reasons:

- a. **Typical hotel labour characteristics have been misunderstood:** Visa policy settings appear not to appreciate the unique characteristics of hotel labour demand generally, including the impact of seasonality, inhospitable hours and the hotel sector’s greater reliance on guest-facing labour versus our accommodation competitors.
- b. **Key labour markets have been closed off by COVID-19:** Visa policy settings appear not to appreciate the loss of traditional labour supply that has occurred as a direct result of COVID-19 border closures, especially the loss of supply usually provided by students and working holiday visa holders. The first work visa extension was announced after the first nationwide lockdown, but before the second lockdown in Auckland. At the time, it was widely anticipated that an Australian travel bubble could be created before the end of 2020 and that normal tourism volumes would return by 2021. That is clearly no longer the timeline for global recovery.
- c. **Hotel roles have unique skills requirements:** Various hotel sector roles, although nominally “unskilled”, are often more highly trained *in the context of a hotel* than in other hospitality businesses. Such roles may not pay above the median New Zealand wage, but usually pay above New Zealand minimum wage and often pay significantly more than equivalent positions in other developed nations. For example:

Hotel cleaners:

- *Key-card access to guest rooms gives them direct access to guest valuables and possessions*
- *Trained in checklist-driven cleaning of guest rooms and public spaces, ensuring room-to-room consistency*
- *Uniformed and groomed in accordance with relevant hotel brand standards*
- *Trained to interact with hotel guests (hotel cleaners are, in practice, a “guest-facing” role)*
- *At certain branded hotels, trained in new COVID-19-driven hygiene standards, and/or a proportion may be required to hold first-aid certificates or similar qualifications*

Hotel wait-staff:

- *Trained in hotel-specific POS software/systems*
- *Working across multiple menu types (breakfast, lunch, dinner, room-service) and, at larger hotels, in different F&B venues*
- *At certain branded hotels, trained in new COVID-19-driven hygiene standards*
- *Uniformed and groomed in accordance with relevant hotel brand standards*
- *Trained to interact with hotel guests and appropriately handle “general” requests in addition to typical F&B functions*
- *At certain branded hotels, trained in new COVID-19-driven hygiene standards*
- *Typically, a proportion may be required to hold first-aid certificates or similar qualifications*

- d. **New Zealanders are not applying for hotel jobs ahead of summer:** Visa policy settings appear not to appreciate that New Zealand job-seekers may prefer to delay their search for new employment until *after* the summer holiday season. However, the summer holiday season is

likely to represent peak demand for New Zealand's hotels – this is exactly when hotels have an urgent need to fill outstanding roles.

- e. **The hotel sector is being treated inequitably, compared with other industries:** Government has recognised an urgent need for labour in other sectors, including allowing certain migrant workers to extend their stay in New Zealand if they apply for Supplementary Seasonal Employment (SSE) visas working in horticulture or viticulture. However, this policy setting assists the other sectors at the expense of the hotel segment, even though international tourism-related businesses remain the most negatively affected by COVID-19. There is no doubt whatsoever that New Zealand's hotel sector in 2020 and 2021 will suffer a far greater loss of revenue due to COVID-19 than the agriculture and viticulture sectors. Migrant hotel employees are effectively being told that their on-the-job skills are worthless – they should pick fruit instead. Government has created sector-specific border exemptions for multiple other sectors and interests, including overseas fisherman, America's Cup entrants, film industry workers and others. Our own hotel sector needs similar assistance now.
- f. **Problem is *partially* understood and *partially* resolved:** The recent Queenstown undersupply list adjustment appears to reflect a growing understanding in Government that there are serious problems ahead. However, the policy change in Queenstown does not go far enough. It fails to fully address the issue in Queenstown and fails to address the issue at all in locations outside of Queenstown.

Employment, retention and training at full-service hotels is a complicated area. Shortages of appropriately qualified local labour do not necessarily indicate that the relevant positions are underpaid, or that the employing hotels are not desirable places to work for the right candidates. The hotel sector remains fully committed to working productively with Government on the nuanced issue of creating a sustainable labour force for the hospitality industry. However, recent changes to visa policy settings are a “quick fix” solution for a problem that does not exist. Current visa settings make survival and recovery after COVID-19 harder than it needs to be.

For the reasons outlined above, we consider the Requested Relief above is a reasonable, justifiable and necessary policy response to the effects of COVID-19 that Government should now implement with urgency.

6. Practical examples

Our hotel members are in a battle amongst themselves for guests, supplies and talent. They are understandably reluctant to share employment statistics at short notice to present an aggregated picture.

In any event, an aggregated “New Zealand-wide” picture often misrepresents the *real* state of play for hotels, since occupancy, rate and variable costs are highly location-specific. Identical hotel rooms sell at widely-varying rates depending on their location. Labour supply also varies dramatically by region, including on the basis of whether a destination is desirable for working holiday visa-holders or is home to a significant student population.

However, we are able to share with you data from example hotels throughout New Zealand. These example hotels very much reflect the on-the-ground reality for their locations. All other hotels will be experiencing the same pressure points and similar decreases in hotel room rates and demand.

The example hotels are all part of domestic or international branded chains. This means the example hotels are likely to have stronger distribution channels and more “above-property” administrative support than would typically be available to independent hotels. We anticipate that independent hotels will be experiencing even greater operational pressures than these example hotels.

Each example hotel has its own unique issues and challenges. However, the following is clear:

- Forward bookings for January 2021 are dramatically below where they would ordinarily be at this stage – between 1% and 50% of expected booking volumes
- Bookings are significantly down even though hotels have heavily discounted room rates
- Employee headcount is significantly down
- All hotels are looking to fill roles in anticipation of improving trading volumes, but the forward outlook is highly uncertain making staffing extremely challenging.

There is a narrative in circulation that the tourism industry in general is “20% down” on pre-COVID levels, and the recovery will be swift once borders start to open. This narrative is *significantly* divorced from reality for hotels. A better sense of the reality for New Zealand hotels *that remain open* this coming summer is:

- Occupancy expected to be 35% instead of 90%, or just 30% of normal levels (summer is the normally the highest occupancy period for New Zealand hotels)
- Average daily rate at 75% of pre-COVID levels
- Net profit levels *before* interest costs at 30% of pre-COVID levels across the board, notwithstanding dramatic reduction in headcount and variable costs
- There are hotels already shuttered/closed for the high season in Auckland, Queenstown, Wellington, West Coast and elsewhere, so the operating performance is even worse than the headline numbers.

Please see **Appendix 1: Hotel Performance Outlook Examples**.

December 2020