March 2021

Auckland Council's Accommodation Provider Targeted Rate (APTR) and Recovery after COVID

Auckland Council is currently conducting a 30-day public consultation process on its 10-Year Budget 2021-2031. Amid almost 700 pages of consultation documentation are four pages dealing with Council's proposed reintroduction of the Accommodation Provider Targeted Rate (**APTR**). The rate was suspended in mid-2020 in response to COVID. Council now proposes to re-introduce the APTR from either April 2021, January 2022 or July 2022.

The APTR was designed to fund approximately 50 per cent of Council's spending on major events, destination marketing and visitor attraction. Mayor Phil Goff has long campaigned for hotels to pay a "fair share" of the cost of these activities. Soon after the APTR's introduction in 2017, various Auckland accommodation providers started legal proceedings against Council. Hotels and other accommodation providers have consistently argued that they receive just nine cents out of every dollar spent in Auckland's visitor economy, and as such the amount collected as APTR is hugely disproportionate to the benefits delivered *to accommodation providers*. In short, the APTR is inequitable.

Hotel Council Aotearoa has delivered a detailed submission to Council on why the APTR should be shelved entirely, or suspended indefinitely, if Council is sincere about wanting to assist the region's economic recovery after COVID.

Auckland hotels are doing much worse than you think: Following border closures in March 2020, international visitation to New Zealand dropped to levels last seen in 1961, when Auckland's population was just 450,000. The standard metric for hotel performance is RevPAR, or "revenue per available room", which combines average achieved rate and average achieved occupancy. Hotels must drive both factors – rate *and* occupancy – to be profitable. In February 2021, Auckland hotels open to the general public generated RevPAR of just $82, a decline of 62% against $214 in RevPAR generated in February 2020 (when international visitation has *already* started to decline following initial COVID cases in Wuhan). After adjustment to remove revenue earned by 16 Auckland hotels currently providing MIQ services, RevPAR in February 2021 is shown to have fallen even further to just $49, or a 77% decline. During periods of lockdown, hotel revenues fall to zero. Hotel associates cannot "work from home". Hotel stays cannot be home-delivered by Uber or experienced virtually by Zoom. Hotel room-nights cannot be stockpiled for later – there's no such thing as pent-up demand for yesterday's unsold room-night.

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Talking Points

APTR

1

Auckland hotels are performing <u>much worse</u> than you think. RevPAR has fallen more than 50%.

2

Hotel profitability has evaporated. Fixed costs and diseconomies of scale result in <u>losses</u>.

3

COVID has brought fundamental change. Will Council show visionary leadership?

Most hotels are accumulating losses due to fixed costs and diseconomies of scale. RevPAR is not a measure of profitability and actually *understates* how bad things are for hotels. Fixed costs that continue to accrue at largely pre-COVID levels include rates, property insurance, operating insurance, interest expense on borrowings, fixed components of utility costs (such as lines charges) and emergency/critical maintenance. Most variable costs do not decrease in line with reduced revenues because of diseconomies of scale. In addition, wage increases, holiday/sick-leave changes and new work visa policies have all combined to place upward pressure on labour cost, which is the largest variable cost for hotels. In short, operating profit margins have evaporated. While break-even points vary between properties, it is not unusual for hotels to require occupancy of around 65-70% to start generating profits

COVID has brought fundamental change. Auckland Council has the opportunity to show visionary leadership in response to the COVID pandemic. The history and politics of the APTR's introduction in 2017 are irrelevant now. All focus must now be on how to stimulate the best recovery for Auckland's visitor economy and economic wellbeing.

Generalised destination and events marketing is not the highest priority during or post COVID. In normal times, destination marketing, visitor attraction and staging major events provide benefits Auckland ratepayers – individuals *and* commercial enterprises such as hotels, too. Auckland Unlimited has dedicated employees, clever ideas and a meaningful mandate. However, COVID has shown that the APTR *as a funding mechanism* is not fit for purpose, especially when hotels are accumulating losses as a result of COVID/border closures. From the perspective of accommodation providers, the highest and best use of limited funds once borders re-open is to directly target free independent travellers and corporate demand to maximise rate/occupancy and quickly refill empty hotels. Hotels must rebuild teams that have been decimated as a result of redundancies and hiring freezes.

Hotels form Auckland's tourism backbone. Alongside airlines, airports and physical transport networks such as road and rail, hotels form our "tourism backbone", which attracts and delivers high-value international tourists to Auckland for the benefit of smaller, less capital-intensive businesses. Government's role is to monitor and safeguard the health of our tourism backbone. Guests subconsciously and consciously judge a destination based on their perceptions of the tourism backbone.

Reintroduction of the APTR requires new thinking. Section 101 of the Local Government Act 2002 requires Auckland Council to consider circumstances as they exist today. It is not sufficient for Council to rely on analysis done in 2017, as circumstances are obviously fundamentally different now. It is also not sufficient to suggest that, in future, Council might revoke the APTR in favour of a fairer regime.

It's time for Auckland Council to support effective long-term solutions. HCA is willing and able to work collaboratively with Council on a fair, reasonable and nationally-endorsed funding model for the tourism economy which draws upon international best-practice and robust research.

4

Generalised destination & events marketing has value, but hotels have higher priorities as they look to survive.

5

Hotels form Auckland's "tourism backbone" and will be key to the recovery.

6

Reintroduction of the APTR requires new analysis under s101 LGA.

7

HCA, Council and industry should work collaboratively on long-term solutions. APTR is not the answer.

Additional Resources

- Auckland Council website for online feedback (including consultation documentation): https://akhaveyoursay.aucklandcouncil.govt.nz/hub-page/10-year-budget-2021-2031
- Hotel Council Aotearoa resources: https://hotelcouncilaotearoa.com/publications-research/
- Section 103 of the Local Government Act 2002: https://www.legislation.govt.nz/act/public/2002/0084/latest/DLM172358.html

Why are hotels important to New Zealand?

Hotels are key infrastructure in New Zealand's tourist economy, sitting alongside our airlines, airports and physical transport networks such as road and rail. Why is this infrastructure – our "tourism backbone" – so important?

The tourism backbone is comprised of large-scale, capital-intensive, network businesses and government-owned infrastructure. Consequently, these assets are sensitive to changing market dynamics such as construction/labour cost increases, interest rate rises, and weaknesses within the network. Very few countries can *quickly* add new airlines, airports, transport networks or hotels to their nation's tourism offering. Development timelines are long and returns are typically generated over extended timeframes, not during one or two good seasons.

Given New Zealand's geographic isolation, a thriving tourist economy requires us to first market and sell "the New Zealand experience" to high-value international tourists *while they are still overseas*. The tourism backbone is a central element of these offshore marketing and sales efforts, even if we sometimes take it for granted. In competition with other global destinations, we must (1) encourage high-value travellers to visit New Zealand, (2) convey them by air to our country, (3) process them through our borders, (4) ensure they have somewhere comfortable to stay, (5) facilitate their safe and efficient movement between accommodation and attractions. Once this "guest journey" has been completed, international tourists *are ready to be sold to on a local basis by New Zealand's myriad smaller tourism businesses.*

Tourist destinations around the world are consciously and subconsciously assessed and compared on the relative strengths of their tourism backbone. *What's the airline like? How safe and easy is it to get around? How good are the hotels?* New Zealand is blessed with fantastic scenery and natural resources. However, without a solid and connected tourist backbone, we cannot leverage our natural advantages to attract high-value international tourism.

About Hotel Council Aotearoa

Hotel Council Aotearoa (**HCA**) is an advocacy-focused organisation which educates and influences key decision-makers on matters of importance to the New Zealand hotel industry. HCA's membership encompasses hotel owners, general managers, operators/brand companies, consultants, academics, advisors and other organisations and individuals connected with the hotel industry. HCA currently represents more than 140 New Zealand hotels throughout the country, comprising over 15,600 guest rooms, or 5.6 million available room-nights per annum.

To learn more about HCA or to become a member, please visit www.hotelcouncilaotearoa.com or email admin@hotelcouncilaotearoa.com.

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James Doolan
Strategic Director
james@hotelcouncilaotearoa.com
021 0851 0685