

22 March 2017

Chris Roberts

Chief Executive Officer
Tourism Industry Aotearoa
79 Boulcott Street
Wellington 6140

Dear Chris,

Proposed Auckland Short-stay Accommodation Targeted Rates

My name is Dean Humphries, National Director of Hotels for Colliers International. I am a registered property valuer and hotel consultant with over thirty years' experience in the valuation and sale of hotels and tourism assets. I have also held a senior lecturing position at the University of Auckland's Department of Property between 1999 and 2011 and have been a regular participant in providing specialist tourism advice to the wider property industry.

Over recent months, I have tried to voice my concerns in regard to the proposed "targeted rate" (TR) proposed to be levied on hotel and short-stay accommodation assets in Auckland. My concerns are based on many years of experience in the industry, both in New Zealand and abroad, as well as extensive discussions with many industry participants in the tourism sector. I am very concerned that the Auckland Council does not truly appreciate the wider implications this proposed TR will have on the local short-stay accommodation sector and I believe the TR if imposed in its current form will have far reaching implications for the local Auckland economy due to the wider tourism industry being a pillar of the local economy here in Auckland. In essence the negative impact of the TR will far outweigh any perceived benefits and will also likely leave Auckland ratepayers in a worse off position.

My rationale for my assessment of the TR's impact are as follows:

Point 1 - Immediate Impact on Owners and Staff

It is important to understand the immediate economic and social impact the proposed TR will likely have on short-stay accommodation business owners and their thousands of employees. Local Authority Rates are what we term in the industry a "below the line" or direct cost to be borne by property owners. As these rates are not imposed in the form of a levy or bed tax, the associated costs cannot be directly passed onto guests and are accordingly treated as non-recoverable operating costs to be deducted from the property's cashflow. This therefore has a direct impact on the profitability/performance and value of the underlying asset and accordingly adversely impact the property owner's balance sheet.

Our internal analysis based on a typical 150 room hotel in the Auckland CBD and on the assumption of an increase in rates bill of between 150% and 250% as a result of the proposed TR show an immediate reduction in the asset's net profits somewhere in between \$200,000 and \$300,000. On this basis, this would equate to a decrease in

property value in the order of between \$3m to \$5m based on current investment return expectations.

Furthermore, this reduction in profitability will have a significant adverse impact on the owner of the underlying asset and the wider business. Any reduction in underlying property value may result in the property owner potentially breaching their banking covenants as loan-to-value ratios for hotel assets typically do not exceed 50%. In order to avoid this from occurring, it is likely that cost saving measures will need to be put in place immediately to offset the loss in value brought about by the proposed TR. As the largest variable cost associated with short-stay accommodation is typically labour, cost saving measures imposed to offset the proposed TR will most likely lead to staff cutbacks and/or job losses. In addition, other cost cutting measures may also include deferring or cancelling outright any planned refurbishment programmes, leading potentially to indirect losses in construction jobs.

In summary, I have no doubt that the immediate reduction in profitability will need to be offset with the most likely outcome being job losses in some form.

Point 2 - Strong Deterrent to New Hotel Development

Hotel development projects in the New Zealand context have traditionally been and currently remain marginally feasible due to a number of factors including high development costs (both in terms of land and construction prices); strict banking requirements; and low room prices (relative to global peers). I have been involved in numerous hotel feasibilities over recent years and can confirm that despite the recent tourism boom, the majority of new projects are simply not feasible and therefore do not occur. This is why there has been virtually no new hotel developments completed in Auckland over the past five years.

If the proposed TR is imposed, I am very concerned this will erode the small number of feasible developments taking place in Auckland at this present point in time as a reduction in value in the order of \$3m to \$5m will simply render most projects not feasible. This has been confirmed with a number of my clients in recent weeks who have advised they will look to defer or walk away from their projects should the proposed TR occur.

Furthermore, the proposed TR would also send out a negative and confusing message to new investors. First, investors would perceive Auckland to be "anti" new development and second, the proposed TR would be perceived to be in direct conflict with the New Zealand Government's recent initiatives to stimulate new hotel development through New Zealand Trade and Enterprise's Project Palace mandate. As noted previously, a number of Auckland hotel investors and developers have confirmed this and have suggested to me that they will pull out of current projects they are looking at because these projects would no longer be feasible to develop and because Auckland City are putting in place impediments to new development.

This will obviously have a significant impact for Auckland, which needs an additional 4,300 hotel rooms by 2025 to accommodate the forecast increase in tourism number over this period. Given the city is currently experiencing a critical shortage of hotel rooms, I believe the Auckland Council must seriously consider whether they really want the city to be perceived as being anti-development by the global investment community.

Personally, I have been in contact with a number of new offshore hotel investors over recent weeks who are extremely concerned over the proposed TR. Many of these

investors are now reviewing their position on Auckland as an investment destination with some now looking to invest in other parts of New Zealand and others planning to focus on countries such as Australia where these types of taxes are not in place. In fact, local authority in some Australian cities have actually offered 'rate rebates' or imposed moratoriums on development charges and levies to encourage new hotel development given the wider economic benefits which the tourism sector brings to their respective local economies. The best example of this is in Brisbane where I was part of a steering committee in 2011 and 2012 to help stimulate new hotel development.

In summary, I am extremely concerned of the direct and immediate implications the proposed TR will have on Auckland, which is widely perceived as New Zealand's gateway city. If we do not have strong investment in the hotel sector, we will effectively further increase the deficit in critical tourism infrastructure needed to ensure the industry's on-going growth. Without adequate infrastructural spending and hotel investment, the city will lack capacity to accommodate additional growth in the airline, airports, and cruise industries, as well as the many thousands of local businesses that benefit directly or indirectly from tourism. Finally, this will have a flow on effect on employment with a significant portion of the working population being involved in tourism or tourism-related industries.

I sincerely hope Auckland City postpone the implementation of this proposed TR (in its current form) until a wider and more considered strategy that does not adversely impact on existing and new investments, job losses and one of the pillars of our local and national economy, is explored by the New Zealand Government.

Yours faithfully,

A handwritten signature in black ink, appearing to read "Dean Humphries".

Dean Humphries

National Director, Hotels

T: +64 9 358 9896

M: +64 21 408 156

E: dean.humphries@colliers.com