

23 March 2017

Chris Roberts  
Chief Executive  
Tourism Industry Aotearoa  
Level 4, 79 Boulcott Street  
PO Box 1697  
Wellington 6140

Dear Chris

### **Auckland Council proposed targeted rate on commercial accommodation**

As a member of Tourism Industry Aotearoa (TIA), Horwath HTL Ltd supports TIA's advocacy on behalf of Auckland accommodation industry owners and operators (and the wider tourism industry at large) against Auckland Council's proposed very substantial targeted rate on many (but not all) commercial accommodation providers.

The proposed targeted rate has been hastily and poorly conceived, and its implementation would be completely inequitable from the perspective of the investors in Auckland's commercial accommodation supply. We believe the targeted rate, if implemented on the basis as proposed, will have a range of unintended detrimental consequences, many of which, when pointed out, appear to be disputed or disbelieved by Council (or at least by the Mayor), and some of which may not yet have been identified or adequately considered.

During the 2016 Auckland election campaign Mr Goff stated that as Mayor, his decision-making process would be evidence-based at all times. So far, the evidence and arguments that the Mayor / Council have produced in support of the proposed targeted rate has been inadequate and demonstrates a poor level of understanding and research undertaken as to how the commercial accommodation market works.

The private sector accommodation owners and operators (who are largely different groups of people and most of whom are direct competitors with each other), on the other hand, have been challenged to produce, in a relatively short space of time, a substantial amount of evidence and qualified opinion to support their arguments in opposition to the proposed rate. It appears that much of this evidence and opinion, so far, have been dismissed by the Mayor and Council. It has already been said in the media that this approach is commercially naive, but their refusal to engage in proper and meaningful discussion is of greater concern.

We have a wide client base across the tourism industry, including hotel owners and investors, hotel management companies, lessors and lessees of commercial accommodation and other leisure and tourism related businesses.

We provide market and commercial advice regarding proposed hotel developments, undertake market demand and feasibility studies for potential investors and negotiate management agreements with international and local hotel operators. We also provide advice and assistance to local authorities across New Zealand, assisting them with the development of strategic tourism development plans, and very often helping them to identify and encourage hotel development opportunities within their territories.

We know first-hand how difficult it has always been, and still is, to make new hotel investment viable, and what needs be done by local authorities, if they are so inclined, to facilitate and encourage new accommodation investment. This involves providing incentives and facilitation, not disincentives and impediments to new investment, or penalising investors and major ratepayers who have already committed to long-term investment in the location.

In our opinion, the imposition of the proposed targeted rate will provide a major disincentive to investment in new commercial accommodation in Auckland.

The Mayor's simplistic solution, of accommodation owners somehow lifting the room charges by another \$6-\$10 a night to cover the extra rate, without having the legislated mandatory requirement to do so, is naïve and won't work in the way he suggests either in the short, medium or long term.

Most owners of hotel properties do not manage, operate or control the hotel business undertaken in their properties. They have very little influence in how the property is managed or rooms are priced on a day-to-day basis.

Hotel valuers have commented on the significant impairment in the value of hotel properties that would be caused directly by the targeted rate, and the potential impact on banking covenants as a result.

While room rates and profitability have improved in Auckland hotels in the past 2 years, over the 18 years before that room rates fell in both nominal and real terms (ie: after allowing for inflation) over which period of time staff costs hotel operating costs and ownership expenses (including, most significantly, property rates) have increased by more than the CPI.

Therefore investment returns have fallen over the period. This explains why there has been so little investment in new hotel development – and why most of the development that has occurred has been funded by 'mum and dad' investors in strata titled apartment-style product, partly based on the promises of presumably reputable property developers (almost all of which were broken, as it turned out) of 'guaranteed returns' – even though the 'guaranteed returns' were largely pre-funded by paying inflated purchases prices, fuelled by loose lending by banks.

Astute investors were far more aware of the underlying market conditions and chose to invest elsewhere, as they will do again.

Auckland Council (or at least, the Mayor) appears to be intent in blundering its way into a major problem which it seems to have very little comprehension of or preparedness to understand.

This will be a major problem for the whole of the New Zealand tourism industry, not just for Auckland hotel owners and operators.

Yours faithfully  
**HORWATH HTL LIMITED**



Stephen Hamilton  
Director