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From: SEDGWICK Chris
Sent: Monday, 27 March 2017 3:50 p.m.
To: Annual Budget
Subject: Feedback_AccorHotels
Attachments: AccorHotels Submission.pdf

Dear Sir/Madam

Please find attached our submission to the Auckland Council with regards to the proposed targeted rates.

Please contact me if you have any questions or further clarification to this submission.

Regards

Chris Sedgwick
Senior Vice President Operations
New Zealand, Fiji & French Polynesia

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Submission to Auckland Council from AccorHotels

Targeted Rates Increase for Commercial Accommodation Providers

INTRODUCTION

AccorHotels is Auckland's largest hotel operator, with over 1,400 rooms under our management in Auckland which is approximately 22% of the major hotel room supply in Auckland. AccorHotels does not currently own any hotels in Auckland, but it has done so in the past.

AccorHotels is an international hotel management company with a variety of brands ranging from economy to luxury hotels. AccorHotels currently manages its Auckland hotels on behalf of a variety of owners, including major hotel investors and individual apartment owners in properties such as Sebel Quay West, Sebel Viaduct Harbour, and Sofitel Auckland.

AccorHotels earns management fees for managing these hotels on behalf of the hotel owners. The structure of these management agreements is one of an agency agreement with the risk and reward being borne by the hotel owners. AccorHotels is not a lessee nor tenant of the hotel owners. Therefore the impact on the proposed targeted rate adds significant costs to the hotel owners.

ACCORHOTELS POSITION

Correlation between proposed Targeted Rate and Benefits of the Rate

Accor Hotels believe Auckland Council's proposed targeted rate is inequitable and ill conceived.

- The figures for the 12 months ended January 2017 from MBIE show that the annual tourism spend in the Auckland region is $7,486m and that spend in commercial accommodation services in the Auckland region accounts for $697m, which equals 9.3% of total annual tourism spend in the Auckland region.

- Visitors to Auckland spend across a diverse range of services. The commercial accommodation sector receives only 9.3% of that spend but is expected to pay 100% of the targeted rate

- Four sectors as defined by Statistics New Zealand and MBIE receive a larger share of the visitor spend than commercial accommodation. General retail sales make up 30% of total annual tourism spend in the Auckland region, food and beverage serving services 17%, passenger transport (excluding air) 16% and tourism activities 14%. Other sectors that also benefit from tourism are alcohol, food and beverage sales (7%), fuel and other automotive products (5%) and cultural, recreation and gambling (2%).

- The proposed targeted rate excludes Air BNB, a segment which is growing in market share as an accommodation provider in the current marketplace.

<u>Barriers to “simply pass” on the proposed targeted rate</u>

- The proposal announced is NOT a Visitor Levy NOR a Bed Tax. It is a rate based on capital value to be paid by the building owner, irrespective of the number of guests accommodated in the building.

- The burden of the targeted rate will remain with our hotel owners, not the consumer, as we will not be able to pass this on – as we would be required to do if a ‘bed tax’ or similar charge was legally required to be charged on the guest’s bill.

- The Commerce Commission has noted that accommodation providers would be in breach of the Commerce Act if they were to discuss a pricing approach, let alone agree to one. Furthermore, the Commerce Commission has prosecuted companies for adding ‘surcharges’ to cover normal operating costs that should be included in prices. This is further evidence why accommodation providers, and all other firms, do not add a ‘council general rate’ surcharge to their bills. No matter how much the Council insists that it is a 4% charge, or $6 to $10 a night per room, this is incorrect.

- We are already charging the maximum prices the market will bear for our hotel rooms in Auckland, and there is market resistance to the strong price increases achieved last year, particularly from New Zealand (domestic), Australian and Chinese markets. New Zealand is currently one of the most expensive destinations in the world (as a result of the long distance airfares from most source markets), hence any further increases would reduce visitors arrival to Auckland.

- Domestic guests across both the corporate and leisure segments, who make up 54% of rooms sold in the Auckland hotels (according to data from Tourism Industry Aotearoa (TIA)), have been very sensitive to the price increases and are reconsidering their travel and accommodation options. By comparison, back in 2004 only 38% of rooms were sold to domestic guests.

- Many room rates are contracted well in advance, such as corporate, inbound travel agent, incentive, tour groups and airline crews. We are unable to go to our clients to renegotiate a contract that is already legally binding. These contracted rates are negotiated between one to three years in advance and account for almost one third (150,000 rooms) of all rooms sold in AccorHotels in Auckland

Auckland Market Overview

- Based on TIA data, in 1996 the average room rate in major Auckland hotels was $155 + GST. This was the previous high point achieved in Auckland hotel room rates. But it was not high by international comparisons. 18 years later, in 2014, the average rate was only $147. Last year it was $183. After allowing for inflation, that was only $124 + GST in 1996 dollars. Therefore 2016 room rates were 20% lower in real terms than the high point 20 years ago.

- Yet property rates and all other hotel operating costs have risen significantly. Therefore, even allowing for the recent recovery in room rates, Auckland hotel profitability is still significantly lower than it was 20 years ago.

- The key reason for the Auckland market hotel performance, with increases in occupancy and average rate is due to strong visitor demand without a commensurate increase in room supply. Our data shows that this demand is driven primarily from New Zealand domestic travel which accounts for 65% of the room nights sold in AccorHotels in Auckland in 2016.

- These past two years have been very unusual market conditions and, based on our experience of previous trends, are unlikely to be sustained. Early signals has been evidenced by our drop in guest room nights sold across our Auckland hotels in February 2017.

- Pricing in the hotel market is very dynamic. The balance between total room supply and total room demand, across a wide range of market segments, and the price which can be achieved in each segment, is a very complex business, and this changes every day and hour by hour. Further, this is complicated by seasonality. The spread of rates for the summer months and winter months for our hotels ranges between $50 and $150 depending on the hotel brand.

- There is only one thing that is certain in terms of hotel room pricing as far as AccorHotels are concerned – it is the market and not AccorHotels which ultimately determines the room rates which we can achieve for our owners.

Impact on Owners

- The potential impact of the proposed targeted rate to AccorHotels owners return amounts to 3.8 Million. This is an average increase across our Auckland hotels of 271% on the current council rates.

- Our estimate if we were to pass on this increase in full, the cost of a room will increase by approximately $16 - $20 per room per night on average across all our Auckland hotels, which represents an increase of a further 8% in average rate. Given that CPI runs at sub 2% currently it would be challenging to pass this on especially to the New Zealand consumer, as 65% of our guests are domestic.

- The proposed targeted rate will also put a strain on employment. Accommodation providers will have to find cost savings and as employment costs can make up to 30% of accommodation operating costs, jobs are likely to be lost. Further this will also potentially limit future wage rate growth for the accommodation sector.

Strata Title Owners

- AccorHotels have currently two Strata title arrangements to manage the apartments on behalf investors, 73% (108 owners) of them are New Zealand investors.

- Within the Auckland market there are estimated over 3,000 owners across the 330 properties. Many of these are mum and dad Auckland investors who are facing huge new costs that they cannot recover from the hotel operator as these cost cannot be legally passed on to the consumer. This will have an impact of driving down the value of their investment.

- These group of investors already pay commercial council rates compared to Air BNB owners who are only subjected to residential rates which further highlights the inequality of the proposed targeted rates.

- The proposed targeted rate will be an incentive for strata owners to list with the likes of AirBNB, who will not be subjected to these targeted rates under the Council's proposal.

Funding of ATEED

- Auckland hotels already contribute to ATEED through joint venture partnership marketing initiatives and provide funding to the Auckland Convention Bureau. It is not correct that it is only ATEED's marketing expenditure that is filling Auckland hotel rooms. This year, AccorHotels Auckland hotels are budgeting to spend close to $7 million in sales and marketing.

- There is lack of transparency of ATEED's expenditure on tourism and event promotion, to determine if the expenditure has any return on investment and meets the goals of stimulating economic development for the benefit of the entire city.

- If ATEED is successful with its endeavours to stimulate visitor spend to a higher level than would otherwise have occurred, it could be reasonably expected that around 9.3% of that additional revenue will be received in the commercial accommodation sector

- We are of the opinion that an urgent and detailed review of ATEED's cost is required.

Future New Hotel Development and Reinvestment will diminish.

- Auckland needs more investment in new hotels if the visitor industry is to expand. However, existing owners and prospective investors are indicating that the high land and building cost in Auckland is making the decision to invest very challenging.

- The targeted rate adds yet another disincentive to invest in hotels as it will ultimately lead to a poor return when compared to other investment opportunities.

- Further, this targeted rate will also be a disincentive for hotels owners to keep reinvesting in their existing hotels.

- This would be completely contrary to ATEED's tourism and economic development objectives and have a major negative impact on the capability to grow not only Auckland's but New Zealand's visitor economy.

Conclusion

- We do not consider that the Council has made a compelling case for funding part of ATEED via a targeted rate on accommodation providers.

- Accommodation providers are not the sole or even principal beneficiaries of ATEED's activities, the whole Auckland community is.

- Within the tourism sector, accommodation only receives about 9.3% of the spending by visitors to Auckland.

- The targeted rate singles out the major accommodation industry as it's an administratively easy way to increase funding. It is however by no means equitable and in turn could have a detrimental impact on the volume of visitors to Auckland, limits the growth of hotel infrastructure and impacts future employment opportunities. We do not believe this is in Auckland's best interests and urge councilors, representing the people of Auckland, to prevent the target rate proposal from proceeding.