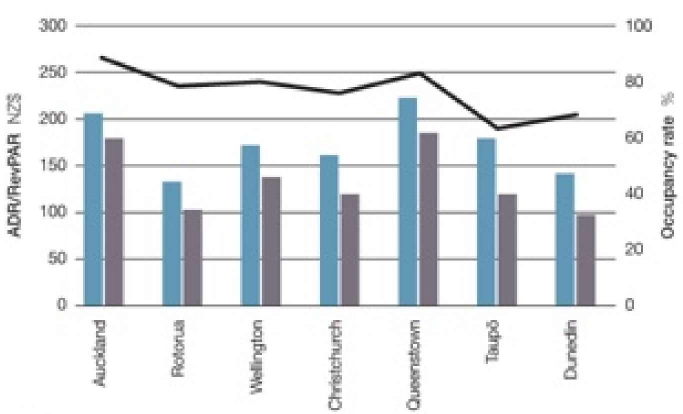
3 GROWTH

Hotels in New Zealand are experiencing record operating performance and strong growth in ADR, RevPAR and occupancy rates.

A surge in visitation to New Zealand is driving record hotel operating performance and strong growth in Average Daily Rate (ADR), Revenue Per Available Room (RevPAR) and occupancy rates.

FIGURE 6

Hotel ADR, RevPAR, and occupancy 3 to 5 star by New Zealand region – 2017



● ADR ● RevPAR — Occupancy (RHS)

Source: Fresh Info Hotel Forecasting Model

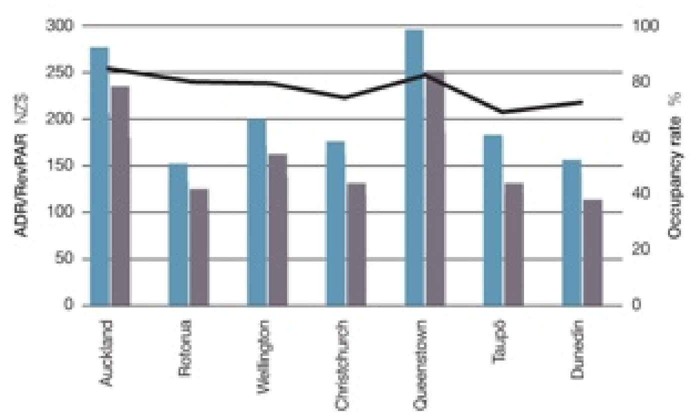
The Government encourages higher-value investments in hotels to cater to our growing FIT segment, who typically prefer staying in higher-value accommodation offerings.

2017 NZ$	ADR		RevPAR		Occupancy	
	3-5 Star	4-5 Star	3-5 Star	4-5 Star	3-5 Star	4-5 Star
Auckland	206	240	177	210	86%	87%
Rotorua	130	151	103	119	79%	79%
Wellington	170	175	137	144	81%	82%
Christchurch	159	166	121	128	76%	77%
Queenstown	222	256	183	203	82%	80%
Taupō	179		115		65%	
Dunedin	141		98		69%	

The hotel property class is currently outperforming other asset classes in the New Zealand market, with fundamentals remaining strong despite an increase in hotel supply.

FIGURE 7

Hotel ADR, RevPAR, and occupancy 3 to 5 star by New Zealand region – forecast 2025



● ADR ● RevPAR — Occupancy (RHS)

Source: Fresh Info Hotel Forecasting Model

Robust growth is forecast in both ADR and RevPAR for the 4-5 star hotel category, especially in the Auckland, Rotorua and Queenstown regions.

2025 NZ$	ADR		RevPAR		Occupancy	
	3-5 Star	4-5 Star	3-5 Star	4-5 Star	3-5 Star	4-5 Star
Auckland	274	319	234	273	85%	86%
Rotorua	152	177	125	143	82%	81%
Wellington	198	203	160	166	81%	82%
Christchurch	172	176	133	136	77%	77%
Queenstown	293	332	248	282	85%	85%
Taupō	183		133		72%	
Dunedin	153		115		75%	

4-5 star data has been provided for the regions where available with the exception of Rotorua's data at 4.5-5 star.

Source: TIA Hotels, Fresh Info

Note: The occupancy, demand, and supply forecasts displayed in this chart and throughout this report have been independently prepared by Fresh Information Limited (Fresh Info) and Colliers International New Zealand Limited's Hotel Division (Colliers). Occupancy is calculated by dividing room nights occupied by room nights available, after considering the expected room development pipeline and historic growth rate of room supply

4 DEVELOPMENT

Additional hotel development is required to maintain a sustainable balance between demand and supply – and delivery of projects is critical in Auckland.

In 2016, the New Zealand Government commissioned an independent report by Fresh Info and Colliers into New Zealand's hotel sector.

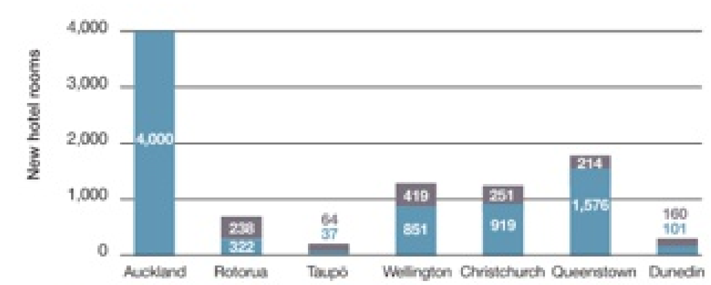
The report estimated that 9,700 new hotel rooms would be required by 2025 across Auckland, Rotorua, Wellington, Christchurch, and Queenstown to meet forecast visitor demand – with a significant predicted shortfall of up to 4,526 hotel rooms by that time, based on historic growth rates in room supply and the expected room development pipeline.

That analysis has now been updated to give a current view of demand and supply imbalances looking out to 2025. The update shows a supply response beginning to emerge from growth in the supply pipeline of hotels mooted, planned, and under construction.

In Auckland, although there is significant hotel pipeline, 72 percent of the pipeline has yet to commence construction, with the majority in planning stages. As such, this presents exciting potential for investment opportunities into new and existing projects. The Government is active in supporting delivery of planned projects.

FIGURE 8

Expected room growth and shortfalls by 2025, by New Zealand region



● Expected room growth by 2025 ● Expected shortfall by 2025

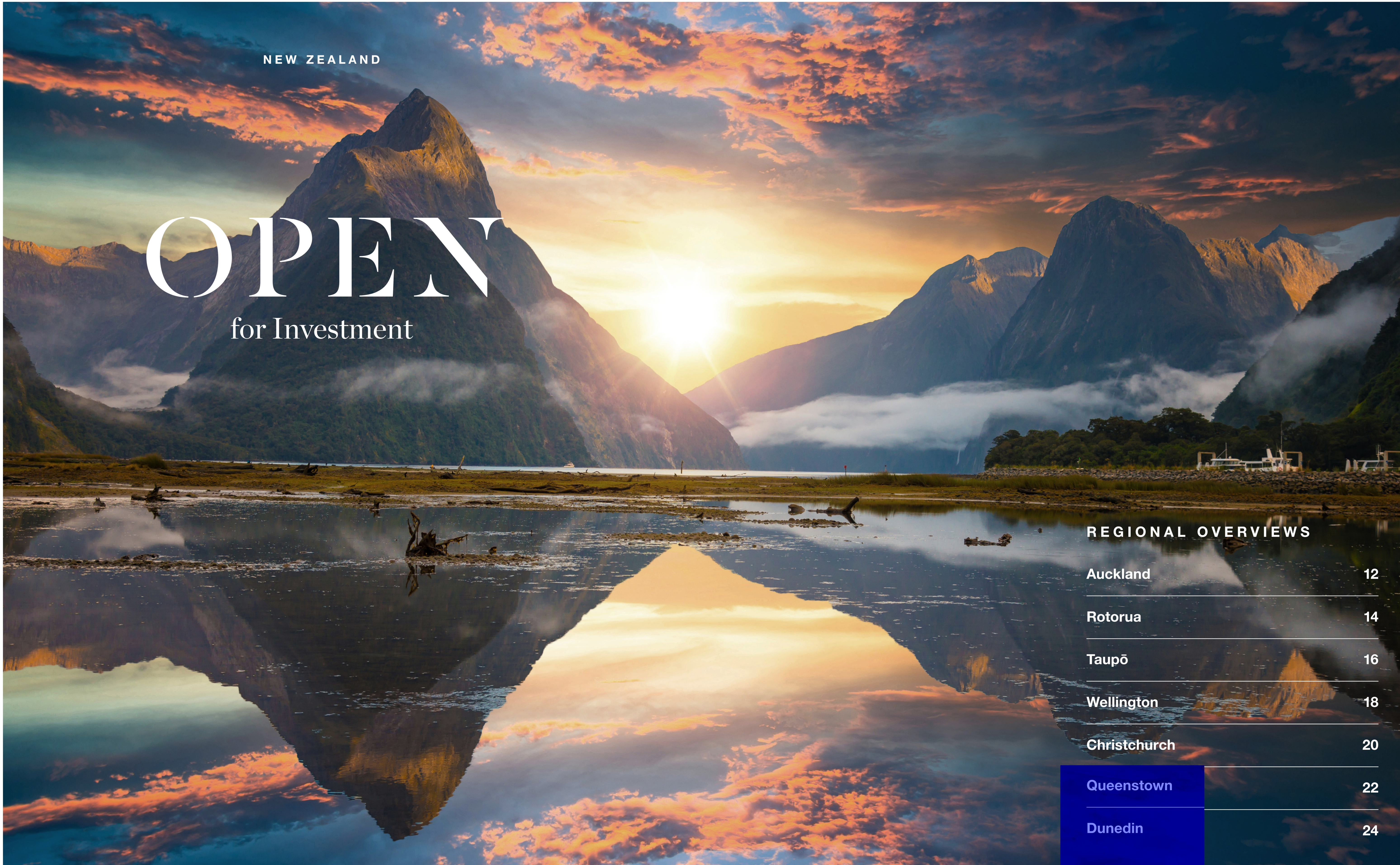
Source: Fresh Info

Note: The uncertainty of supply coming online for Christchurch makes it difficult to estimate new hotel rooms required by 2025. All Taupō's supply growth is estimated based on historic growth; it currently has nothing in the supply pipeline.

IMAGE – **Planned New Zealand International Convention Centre (NZICC), Auckland CBD**

NEW ZEALAND

OPEN
for Investment



REGIONAL OVERVIEWS

IMAGE — Milford Sound

Auckland

Destination highlights

Auckland is New Zealand's largest city, home to more than one-third of New Zealand's population. The city is the gateway to New Zealand, with more than 70 percent of visitor arrivals entering through Auckland International Airport. Auckland consistently ranks high on benchmark measures with other international cities, including being rated the world's third most liveable city in the Mercer Quality of Living survey since 2011 and as 'one of the top 10 cities to visit' globally by Lonely Planet in 2014.

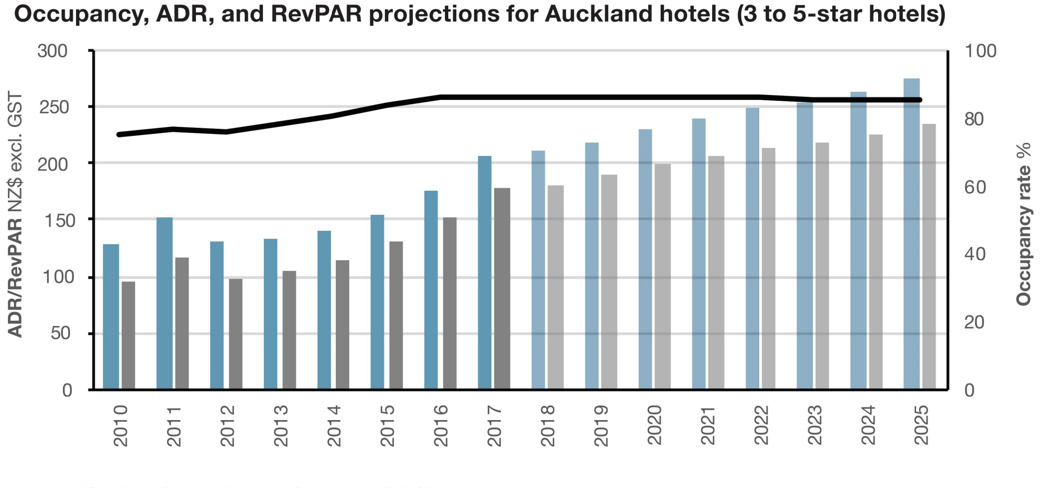
Auckland is culturally tolerant and one of the world's most culturally diverse cities, with the fourth-highest foreign-born population recorded in the 2015 World Migration Report.

Favourable hotel demand conditions

Auckland's position as the main international gateway and economic hub of New Zealand provides a major advantage in attracting a large and growing number of international and domestic visitors each year. Key factors driving demand include:

- a buoyant international tourism market, supported by international airline access and capacity
- a strengthening business travel and convention market
- status as a major cruise hub for Oceania
- increasing popularity as a short-break leisure destination for Australian and domestic visitors
- recognition as one of the world's most culturally diverse cities.

Occupancy, ADR, and RevPAR projections for Auckland hotels (3 to 5-star hotels)



Source: Fresh Info Hotel Forecasting Model

85%

Occupancy by 2025

IMAGE — **Waitematā Harbour, Auckland**

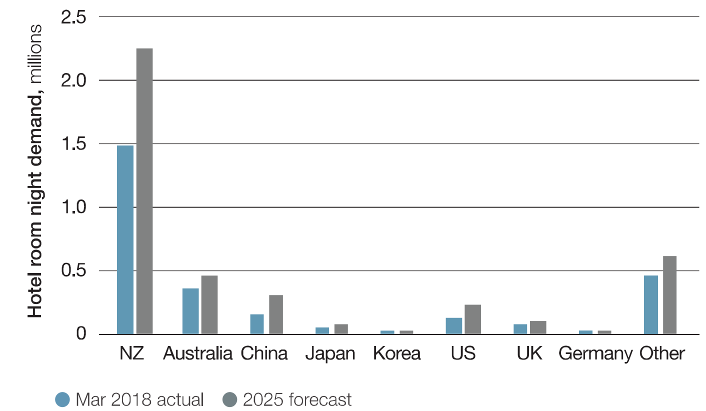
Hotel room nights March 2018 year-end
2.8m

Hotel occupancy March 2018 year-end
86%

Hotel ADR March 2018 year-end, 3 to 5-star
NZ$208
+12% year-on-year growth

RevPAR March 2018 year-end, 3 to 5-star
NZ$179
+11% year-on-year growth

Projected growth in hotel room night demand in Auckland by origin of guest



Source: Source: Fresh Info Forecasting model

Auckland room nights totalled 2.8 million in the March 2018 year-end, consistent with the record result achieved in 2017. A highly constrained hotel sector has resulted in competition for rooms. More price-sensitive domestic demand has been replaced by higher-value international guests, resulting in further increases to ADR and RevPAR.

Looking ahead, annual demand for hotels is forecast to increase to over 4.1 million room nights by 2025. This represents an increase of 47 percent from 2017. New hotels will likely command a premium in the market, further enhancing ADR growth. Auckland hotels experience the least seasonality of any market in New Zealand.

Attractive customer base

62 percent of all Auckland hotel guests are travelling for leisure reasons. The majority of these are FIT, which benefits average room rates due to the higher spending propensity of this segment. Corporate travellers also represent an important share of hotel nights, accounting for 19 percent.

Delivery of pipeline development

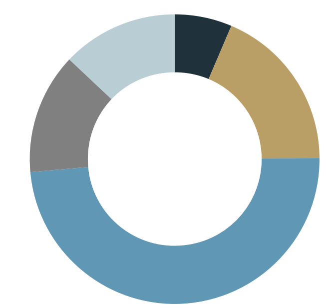
Demand for accommodation is currently outpacing delivery in Auckland. 72 percent of the pipeline of new hotels has not commenced construction, with the majority in planning stages. The lag in supply growth indicates that the hotel sector will remain constrained until new rooms have been delivered.

Accommodation constraints during peak periods will drive off-peak travel and the utilisation of current surplus capacity during lower-demand periods, netting a good occupancy pressure throughout the year.

Auckland occupancy is projected to level out at 85 percent in the long term.

ADR is expected to increase 33 percent from 2017 to NZ$274 by 2025, with RevPAR forecast to grow 32 percent to NZ$234 by 2025.

Purpose of stay in Auckland



Conference & Incentive	6%
Corporate	19%
FIT	49%
Tours & Groups	13%
Other	13%

Source: TIA Hotels

Auckland is a hub for major events

Auckland's global city status sees it play host to major international business, cultural, and sporting events.

Auckland's future major events calendar is strong, with the city hosting both the Asia Pacific Economic Cooperation forum and 36th America's Cup in 2021.

Panuku Development Auckland (the land-holding entity of Auckland Council) is undergoing a 20-year project to revitalise the Wynyard Quarter. An America's Cup village has been approved for construction in this area.

The state-of-the-art, 3,150-delegate New Zealand International Convention Centre, due to open in 2020, is expected to host 330,000 conference attendees each year and will allow Auckland to host a new wave of major global business and conference events.