Welcome to the Occasional Coffeys Newsletter

APRIL 2024

We use the term occasional as we don't see the point in bombarding busy operators with newsletters just for the sake of it. Now and then there seems to be a number of matters worthwhile commenting on. It's good to be sharing positive news, the previous round of newsletters were most frequently during the Covid lockdowns and all the uncertainty that went with that.

This issue:

2024

2024 marks 40 years of involvement in this industry for the writer. In 1984 New Zealand had just over 500,000 international visitor arrivals annually and just 17 percent of motel guests were international, according to the New Zealand Yearbook 1984. (A 22 inch colour television would have set you back $1200.) From memory, room rates for a studio unit were between $65 and $80 a night. Plugging those numbers into the Reserve Bank Inflation Calculator suggests that the equivalent nightly rate on that basis should now be between approximately $240 and $300 per night. For most operators around the country, this means that the room rates have not kept up with inflation. Additionally, apart from existing costs rising since then we have had the introduction of additional overheads such as Online Travel Agents – the good old OTAs. So, is it time for a correction?

There will always be exceptions, but for most as we look back over the last 10 years, revenue and profitability has fluctuated but hasn't really grown that much, if at all, over that time. More importantly, profitability has not really grown all that much over that time and this has had the unfortunate effect of constraining the value of motel leases and the real estate they occupy. It is pleasing to report that finally, operators are able to lift their rates as we climb out of the difficult trading conditions over the past couple of years and see most areas enjoying very healthy demand for accommodation. This, combined with all of the publicity about what we used to call inflation, (now termed the "cost of living crisis"), seems to have conditioned the travelling public in terms of acceptance of rising room rates. Even before the most recent and significant increases in building costs, it has been very difficult to get a new development past the spreadsheet because it just wouldn't stack up unless the room rates forecast were considerably higher than what has been achievable. So, we are likely to see restricted development in the near future, or long overdue catch-up growth in what can be charged for your rooms.

Either way, all good news for the industry.

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The Market

The financial year to March 2023 for most showed excellent post Covid recovery in financial performance. The question since April last year was, is this a spike or is it a sustainable recovery? Is pleasing to report that we are now seeing the evidence that for many, March 2024 will be as good if not better than the results to March 2023, providing a solid argument that the industry has turned the corner. Certainly, our activity has picked up over the last six months or so compared to the previous period, our website gurus tell us that the platform is getting a lot more views and enquiries than previously. We are even seeing some multi-offer situations on certain listings, which is not something we have seen much of for a while.

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Coffeys Motel Industry Benchmarking Survey

When reviewing the results from our latest industry running cost benchmarking survey to March 2023, initially we were surprised with a couple of indicators. These were rent and wages as a percentage of revenue, which appeared to drop percentagewise. At first this didn’t make sense, until it became apparent that the increase in total revenue to March 2023 has yet to be matched or caught up with in terms of those particular overheads. In other words, wage costs for example had continued to increase, but not as much as revenue had. As to rent, there appears to be a high number of rent reviews being conducted these days. Possibly due to the GFC followed by a flat economic period, starting to recover then hit by the Covid pandemic, there was not much appetite to attempt to increase rent. As a result, many landlords have not seen much if any rental growth for the last 6, 8 or in some cases even 10 years. We are receiving a noticeably higher number of enquiries from valuers, accountants, lessors and lessees in relation to rent reviews. So, it will be interesting to see what happens over the next couple of years to see where these new rentals end up after this round of catch-up reviews.

Benchmarking Survey Results.

Social Housing

Anecdotally, we are seeing a move away from social housing in a number of situations. Partly it seems because the operators prefer the traditional type of clientele and as that market picks up, they have the ability to decline more social housing business. Additionally, we have heard that the construction of social housing alternatives is starting to have an impact on the demand for the alternatives such as motels.

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Banks

These institutions are usually pretty slow to respond to changing dynamics, this time around being no exception. We have spent the last 12 months trying to convince lenders that the industry is once again quite strong and looking solid for future growth, however only just now are we hearing that some banks are coming back to the table and starting to view accommodation businesses more favourably. This all helps not only in terms of being able to arrange finance, but also it’s good for market confidence.

Further Updates - Feedback

We welcome your feedback or comments on any of the content of these articles.

If you would like to be included with any further updates or newsletters, we would be pleased to hear from you.

Please just let us have your contact details at:
info@coffeys.co.nz.