



“Build it and will they come?”

Howard Kemball on the expectation from owners that a wave of guests will arrive at their brand-new hotel from day one

THERE'S A HECK of a lot of talk these days about hotel development. Or haven't you noticed?

Every major (and not so major) operator featured in HM magazine continues to claim growth at a frenetic rate which begs the question: “build it and will they come”?

True, tourism globally is increasing. To quote the UN World Tourism Organisation:

“International tourist arrivals grew by a remarkable 7% in 2017 to reach a total of 1.3 billion, according to the latest UNWTO World Tourism Barometer. This strong momentum is expected to continue in 2018 at a rate of 4%-5%.”

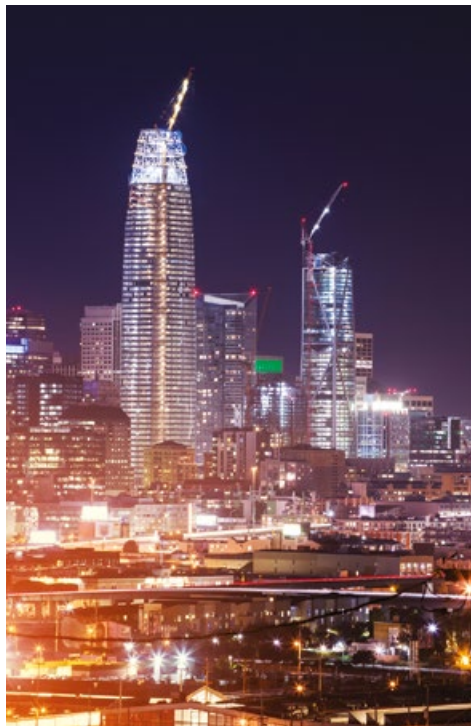
In our part of the world (Oceania), that 7% figure quoted above also applies and for the year ending April 2018, Australia welcomed 9 million visitors – an increase of 6.3%.

Leisure arrivals (Holiday + VFR) continued to drive international arrivals growth, with an increase of 7.4% per cent over the 12-month period. China is now our biggest market (and biggest growth at 10.3%) followed by NZ, the UK and the USA, according to Tourism Australia.

According to STR (Feb 2018), overall demand into Australia still exceeds supply but that hides the detail. Hobart and Perth have supply exceeding demand as does Melbourne and Sydney CBD. And in these cities much more supply to come.

Other major centres around the country have healthier supply/demand ratios albeit smaller numbers.

According to the most recent Dransfield Hotel Futures report, “live projects (recently completed, under construction, proposals) have increased from 166 to 266 as the supply cycle moves towards the peak”. Also “our forecast assumes 41,000 additional rooms to enter the market over the next 9 years”. Having said that, Dransfield is relatively optimistic that “supply will be absorbed over the long term”.



However, I have concerns relating to demand. Namely, these are:

- Airline travel into our part of the world is still relatively expensive compared to other destinations available to our major and growing markets.
- Visa costs can be high and the process cumbersome – as I understand it.
- Axing of the 457 Visa program won't help our skills needed in hospitality.
- The increase of alternative accommodation (i.e. home sharing) can keep ADR growth low.
- The eventual and certain rise in interest rates may deter some domestic travel.
- The consistency of product and service quality at key tourism locations vary to the extent that our reputation as a welcoming and service oriented country will be damaged.
- 'Tourism' as an export industry is still not recognised at senior government level (no separate seat at the Cabinet table).
- 'Hospitality' as a career option for high school leavers is still regarded as a 'non-professional' choice.

What's not to love about this country and the hotel business? I also think that our diversity as a nation – our people, places, experiences – make us an attractive destination.

However, I don't think it's just enough to build more hotels and believe they'll be profitable from day one. (In fact, there's an old adage that the third owner is the one that makes the money!)

The costs involved to finance, build, open then operate can be prohibitive and risky. And there's no guarantee of revenue every day.

Owners, please take care. ■

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