

**BEFORE THE COMMISSIONERS ON
BEHALF OF DUNEDIN CITY COUNCIL**

IN THE MATTER of Application for Resource Consent
under Section 88 of the Resource
Management Act 1991

BY **NZ HORIZON HOSPITALITY
GROUP LIMITED**

LUC 2017-48 and SUB 2017-26

BRIEF OF EVIDENCE OF KEN HARRIS

**GALLAWAY COOK ALLAN
LAWYERS
DUNEDIN**

Solicitor on record: P J Page
Solicitor to contact: D A McLachlan
P O Box 143, Dunedin 9054
Ph: (03) 477 7312
Fax: (03) 477 5564
Email: phil.page@gallawaycookallan.co.nz
Email: derek.mclachlan@gallawaycookallan.co.nz

INTRODUCTION

1. My name is Ken Harris. I am a hotel investment specialist.
2. I have spent nearly four decades working with, investing in, and leading hotel companies across New Zealand, Australia and the South Pacific. I have expertise in hotel management, development and investment.
3. My knowledge of the workings and value of successful hotel operations was developed over years of operational experience. Originally training in the comprehensive New Zealand Tourist Hotel Corporation (THC) system, I built management experience in hospitality businesses in countries as far afield as Papua New Guinea, Vanuatu, Malaysia and England, as well as Australia and New Zealand.
4. At an early stage, I began developing specialist knowledge in hotel development and investments, working with major institutions – including the Bank of China in Australia – to acquire existing operations and prepare them for sale.
5. For more than 14 years, I assisted the Outrigger Group to build its brand in New Zealand. After identifying areas of potential growth in New Zealand – both in major tourism centres and developing regional hubs – I assisted to build Outrigger's presence in the country from a single Queenstown site to a network of fifteen hotel and apartment complexes across the country, including Waitangi, Rotorua, Taupo, Awaroa, Portage, Martinborough and Tekapo.
6. After the acquisition of the Outrigger business by what is now the Mantra Group, I was appointed as the company's New Zealand Regional Manager. For 12 years, I oversaw the organisation's local operations, with a broad range of responsibilities that included the management of Mantra's ongoing acquisition programme.
7. In 2016, I established a hotel company specialising in hotel management, hotel consultancy, body corporate management and guest services. This company is involved in the development of a number of new or existing hotel opportunities not only in New Zealand but also internationally.

8. My work is across a diverse variety of hotel models and have a have comprehensive background in different business and investment structures, from single-owner properties through to strata management, including the control of management letting rights, management contracts, management agreements and timeshare.
9. As regional manager of the Mantra Group I spent 2 ½ years looking for a suitable hotel site in Dunedin, including existing properties and new builds. I could not get any site to work financially because of the number of rooms. My analysis was (and remains) that at least 180 rooms are required to deliver a 5 star product in Dunedin.
10. I have been assisting Tony Tosswell in developing the business case for this particular project for about 12-18 months. I am familiar with this application and the reasons why it has been structured in the form presented.

Hotel market in Dunedin.

Scope of existing offerings.

11. The existing inventory available in Dunedin restricts the city's ability to attract high end consumers. I recognise that Distinction Hotels is now looking to attract high end users however marketing dollars for this product are limited and require additional product of equal or better quality to enhance and support this initiative. Distinction is a NZ brand that does not have an international market reach.
12. This is a chicken and egg scenario. With the Council's drive to change the perception of Dunedin to not only international guests but national guests its ability to achieve this is hamstrung with ailing, poor or limited quality accommodation in market. Dunedin is one of the few New Zealand cities that has thought about its diverse market base, state of the art sports arena, Council supported conference facilities second to none, and the list goes on. As these things are becoming more and more popular the consumer needs to book accommodation as far away as Queenstown for events in Dunedin. Or at worst adopting a drive-in drive our mentality. The full economic benefit of these events is not being enjoyed by business in the community.

How do we know that a large 5-star hotel in Dunedin is feasible?

13. Like all business there is a risk element adding any new product in market. Tourism growth year on year in New Zealand is unquestionable. Government initiatives such as Project Palace have recognised this growth and regional New Zealand has now become a focus. Investors are looking closely at regional New Zealand and identifying key areas with:
 - (a) supporting infrastructure,
 - (b) Councils with long term growth strategies, and
 - (c) International hotel operators who believe in the region and through their strong distribution network add value, integrity and experience to the offering.
14. No brand would consider entering this market with their 5 star brand if they didn't believe in its success.

What benefits would be having a 5 star offering bring to Dunedin?

15. First and fore most credibility and integrity. The market would begin to recognise Dunedin as a destination with not only quality infrastructure but supported by quality accommodation. For too long Dunedin has been tarred with the brush of being a student town and this has resulted in mixed market feelings. Perception is one of a boozy town with students running crazy and this is what is reported by the media. A 5 star hotel will go some way toward changing this perception, particularly one that has an international brand and equally importantly one that focusses on the New Zealand and Australian markets.

What are the requirements of a 5 star hotel in Dunedin?

16. A 5 star brand in New Zealand talks to quality and service. It is important that this hotel is supported by the NZD Qualmark rating system which ensures the product is marketed as such through and in conjunction with tourism New Zealand. Qualmark has a systematic approach to its approved rating system and covers detail of the branding and minimum service offerings. An internationally branded hotel company would use the NZD system as its base to the rating but would offer services and

product delivery over and above these recommended by these standards.

17. In order to offer the services required of a true 5-star property, volume is the key. 24-hour room service, 24-hour front desk services, 24 hour porter etc. These services cannot be sustained on a 24/7 basis without a critical threshold of hotel rooms. I believe 210 rooms as proposed is close to that critical threshold.

What role do the apartments play in the offering?

18. A mixed-use property (hotel rooms and apartments) are not unusual and quite typical of similar product in the Mantra portfolio. In these hotels apartments are used for more discerning guests such as conference executives, long stay professors, long stay sporting guests. In the case of the Dunedin project I envisage high take up on these rooms particularly supported by university requirements and VIP conference organisers due to its proximity to the Council facilities.

Importance of elevated views.

19. This property build has the benefit of not making the same mistake city hotels such as Auckland have made. That is the belief that guests have little interest in views. This is not true. Guests will pay more for views. One only needs to look at web sites and see the price differences between hotels with views and those without. For the costs of building this hotel it is imperative that all possible benefits are capitalised on.
20. I am aware that some submitters and commentators in the local newspaper have suggested that Dunedin should adopt a low-rise model for a 5 star hotel. This model might comply with the District Plan's height limit. Lay people might point to examples of small boutique urban 5 star plus properties such as Eichardt's in Queenstown, Raffles in Singapore, and Sofitel Metropole Legend Hanoi. Could this model work in Dunedin? The examples raised are like comparing apples to caviar. These kinds of iconic properties are destination properties in their own right. Dunedin is not.
21. The clients in the above suggested properties are in the market known as high rollers with large disposable income. Average rates in these

properties will be in most cases 650% higher than that being proposed for Dunedin. Dunedin is simply not in this market.

22. The importance of being part of an internationally branded and recognised network to the inbound tourism market should not be underestimated. Dunedin in the first instance needs to breakaway from the stigma currently surrounding it. An international brand with a strong distribution network will send a message to market that the doors to Dunedin are now open to the international market. Mantra took a leap of faith in Tekapo and now as they say the rest is history. Some may argue that the Christchurch earthquake helped and for two months of the year it did however, Peppers had established Tekapo as a destination well before the quake and this was done off the back of its extensive sales and marketing network.

Synergies with the Town Hall/conference centre

23. This is key to the success of this hotel and fundamental in Mantra's decision to throw its full support behind this project. Combined sales activities will see sales and marketing dollars support each project, a more concentrated bang for your buck. The hotel would have limited conference facilities but still actively sell conferences using the Dunedin Centre as its venue. I expected that the hotel would spend more than \$600,000 yearly in sales and marketing activity.

Likely criticism from existing hotel operators:

24. Average occupancies in Dunedin closed last year at 71% occupancy with an ADR of \$137.19 (Source: TIA) . Based on this it makes no sense for a 5 star 200 bedroom hotel.
25. Answer: The TIA statistics represent only those hotels who submitted data. Of this none were for 5 star hotels. 339 rooms represented 4 star plus product¹. Distinction Hotel did not submit. I have it on good authority they closed the year mid 70% occupancy with a very good rate. Occupancy was down 4% points on 2015 for the region as a result of this hotel opening. I believe the extra inventory will have an impact on

¹ This data includes self-graded motels. 339 rooms is a remarkably small number for a City the size of Dunedin.

occupancy in the short term however the long term benefits to everyone will be strong.

26. Is there a conflict of interest between this hotel and the Dunedin Centre?
No, all hotels have the same opportunity in on selling accommodation and piggy backing on the Dunedin Centre. The difference is a number of hotels have their own facilities and correctly choose to sell these first. The challenge is when hotels are full the Dunedin Centre facilities are unable to sell due to a lack of accommodation.
27. As with any convention centre worldwide hotels are offered the option of tendering for this business. In the past conferences have been lost from Dunedin because of limited accommodation or location of accommodation. Yes, there will be times that this hotel benefits compared to existing hotels in the City due to its location. However lets also not lose sight of the fact that whilst some hotels may not benefit other outlets, tours, restaurants, and bars will.

Summary

28. Mantra and Accor hotels have expressed an interest in operating this hotel. Both are internationally branded hotels and both believe their 5 star brand would work effectively in this city.
29. Mantra has good product on the ground in New Zealand and have shown faith and been successful in opening regional properties in and around New Zealand.
30. In order for Dunedin to become a credible destination it must first have international brands in its city.
31. Domestically branded hotels have good legs in the NZ domestic market but lack international exposure to draw new international tourist business to the city. A 5 star product of this volume send a message to the market that there is a strong belief in the product and the destination.

32. Dunedin should not assume that small boutique hotels offer the same opportunities for tourism growth in the City. That model works for destination properties with international pulling power for high rollers. Dunedin is not in that market.

Ken Harris

Date: 17 July 2017