



Coffeys Motel Industry Benchmarking Survey



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exclusively in accommodation properties

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We are pleased to release this year's survey results, the fifth year of producing these results. The first report surveyed the three financial years March 2016 to 2018, at that time with a sample number of around 600 Motel Profit and Loss Statements. Total sample number in the program over eight years is now over 1,200 including the latest March 2023 samples. This version showing six years 2018 to 2023 reporting on just over 800 samples.

The report interprets the results of collating information from motel financial accounts, in order to present meaningful industry benchmarks in terms of revenue and relative costs. The data is being constantly updated, so the March 2023 sample number will continue to grow, along with the earlier years as more multi-year financial account samples come to hand. The most recent financial year/s will therefore always show the lowest number of samples.

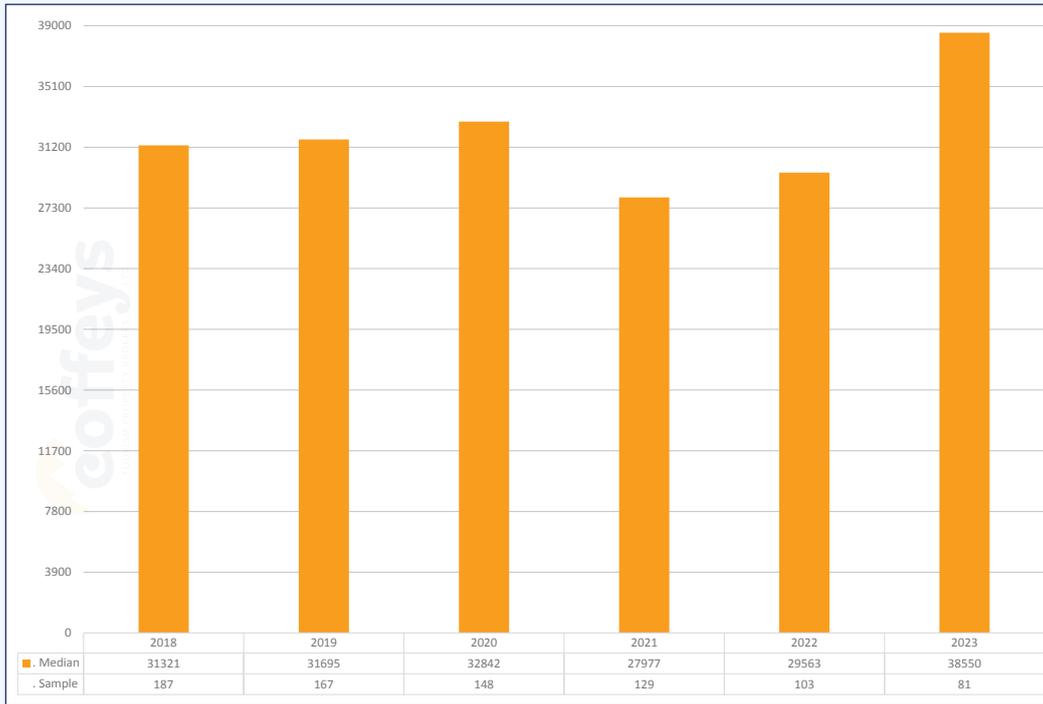
In order to confirm the accuracy of the data input and the correct analysis of the results, the original survey was audited by chartered accountants PKF Goldsmith Fox Audit, whose findings are appended to this report. The auditor's statement was completed in November 2020 based on 513 annual samples at that time. The methods of data input and results analysis remain unchanged.

The findings reported here are based on overall National data. The queries can be further broken down into, North Island, South Island, Regions, Main Centres, specific towns or cities. Tailored reports can be made available, however the more specific the search criteria the smaller the sample quantity will be.

We focus on the main categories we expect to be of interest to the industry. The results are available as both average and median, for this report, median findings are provided. All relevant expense categories are included in the survey. Most expense categories are displayed as a percentage of revenue, while some expenses which are not affected by revenue and occupancy such as rates and insurance, are displayed as cost per unit.

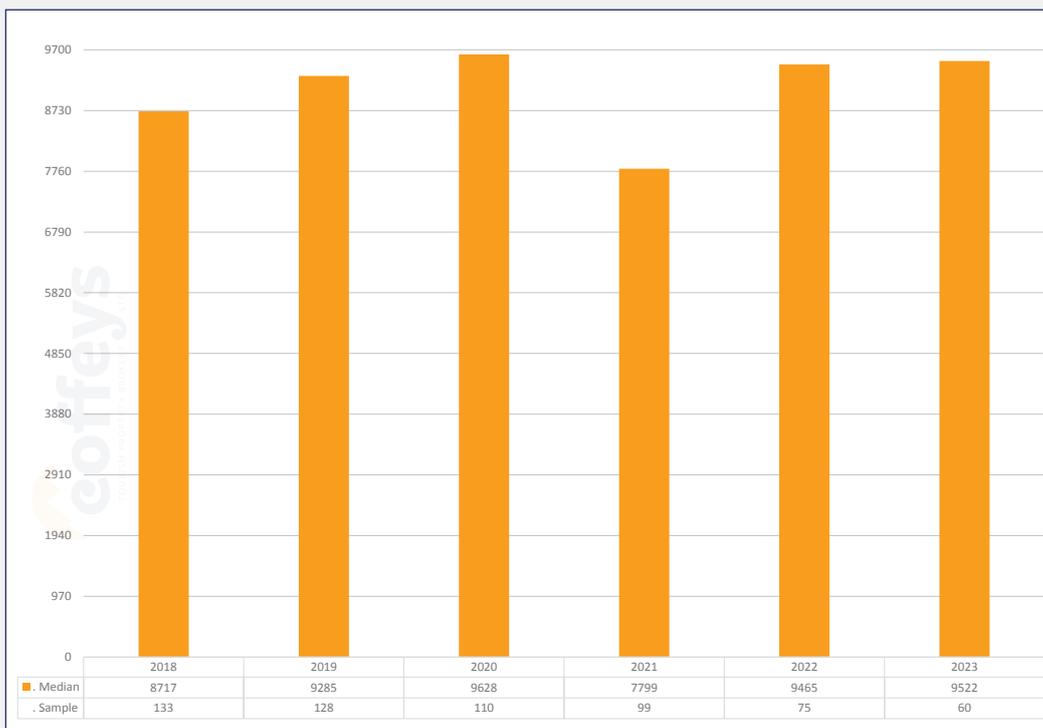


Revenue per unit



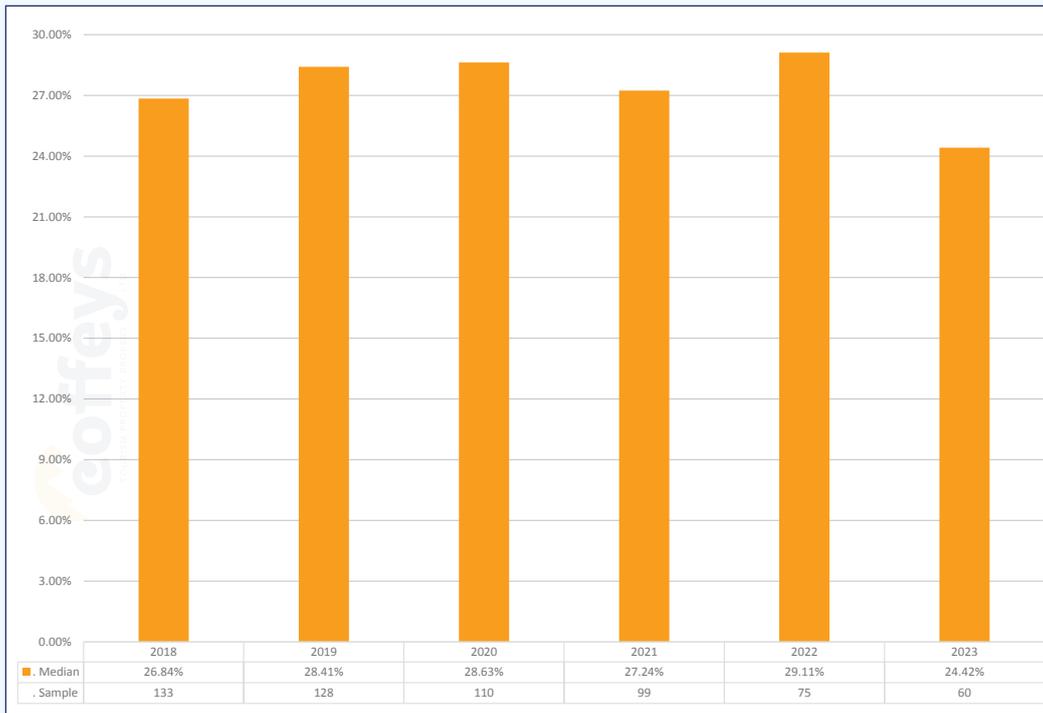
GST exclusive revenue per unit nationally. 2021 was the first year since starting the survey data in 2016 where the average revenue per unit had fallen from the previous year, almost certainly due to the Covid pandemic. The revenue per unit for the March 2023 year saw the most notable rise over the previous year, showing considerably higher than pre-Covid averages. Whether this will be sustained remains to be seen, with some reporting as good and sometimes even higher current year figures, with others dropping back to some extent in this financial year.

Rent per unit



With the exception of March 2021 reflecting Covid related discounts, rent per unit has remained reasonably level in recent years.

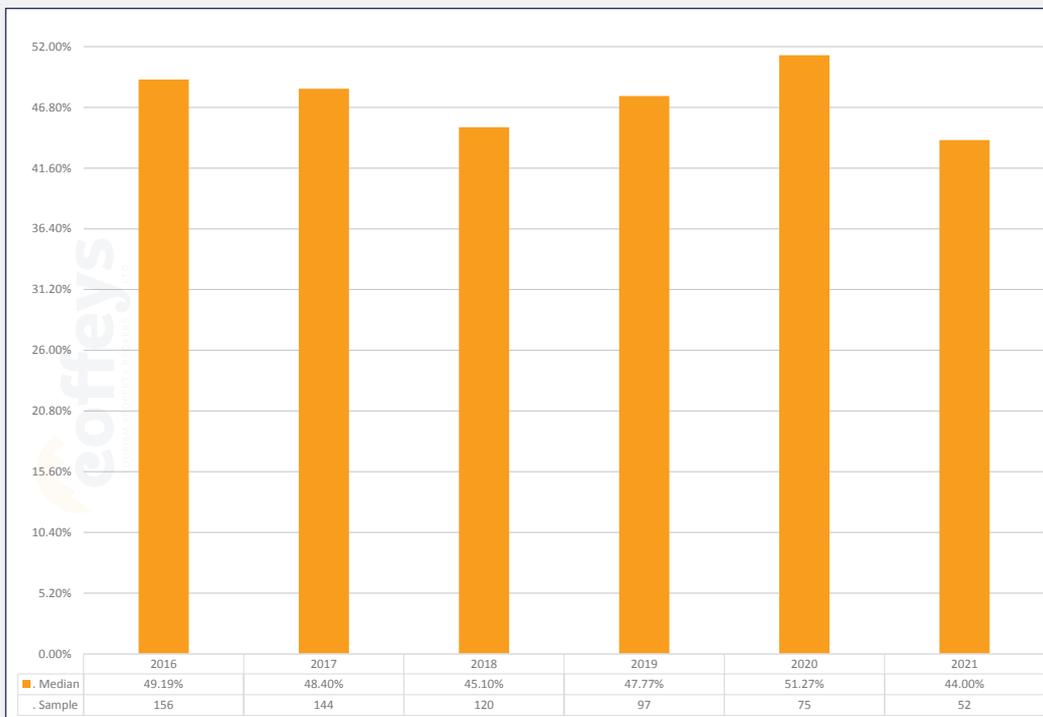
Rent as a percentage of Revenue



Rent as a percentage of revenue shows a considerable drop for the March 2023 year. Given that rent per unit surveyed did not actually drop, this will be due to revenue per unit increasing, while the rent remains at the same level pending rent reviews. Presently we are aware of many rent reviews being instigated as landlords look to re-evaluate the rental, for many after a considerable period of time since last doing so.

Rent to Profit Ratio

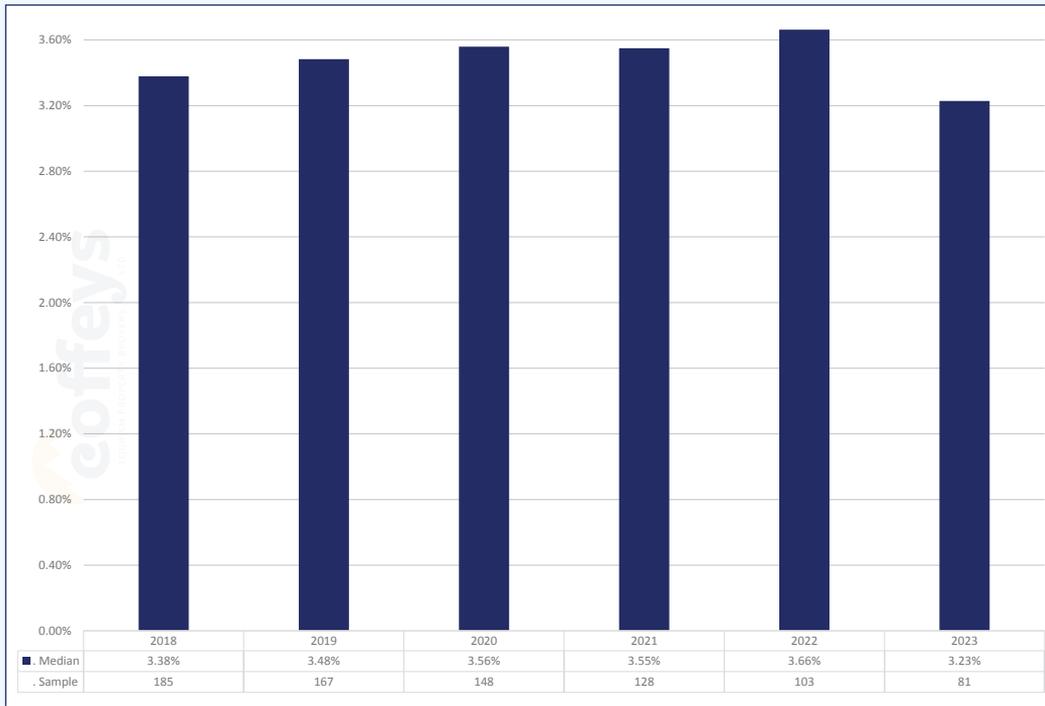
Profit calculated before payment of rental, then rental reported as percentage of that profit



A similar result to the rent/revenue ratio where rents have not yet risen relative to increased revenue. When conducting rent reviews or setting rentals, valuers sometimes take what they call the “economic approach”. This method involves removing any existing rental structure from the equation (if any) and then calculating what the profit for the business would be without rental being paid. They then like to see that the rental is set at no more than the profit, so the results of this query appear to be consistent with the approximately 50-50 split for rent and profit, prior to March 2023.

Energy Costs

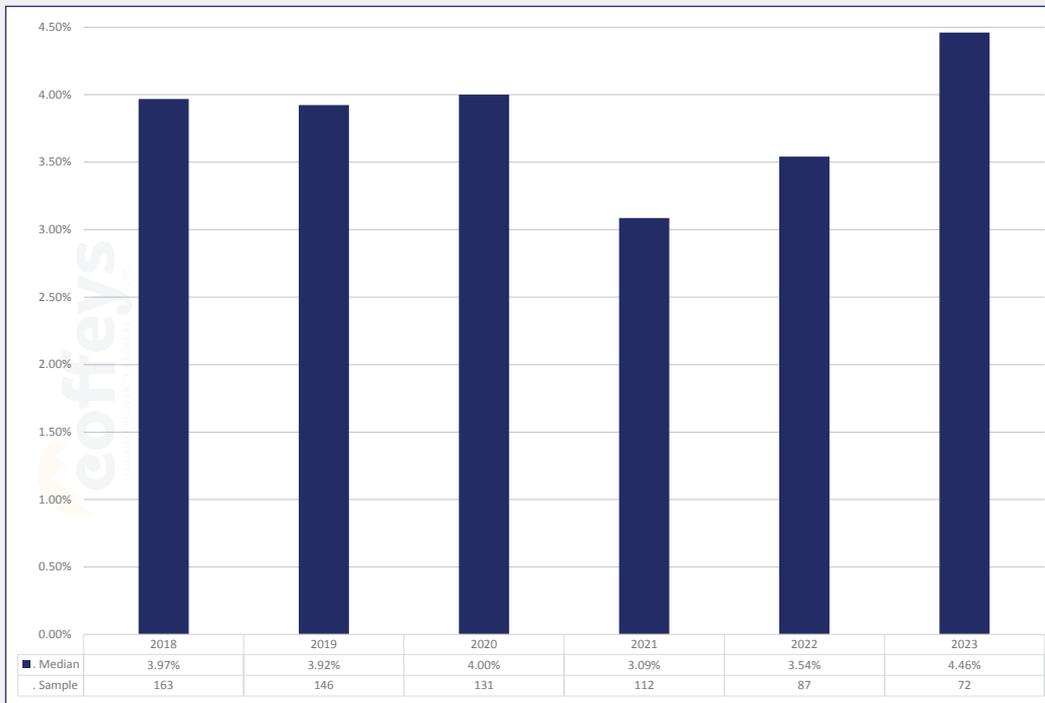
Electricity and / or Gas - Diesel (Non Motor Vehicle)



Apparent efficiency gains most likely reflecting revenue increasing more than costs.

OTA Commissions

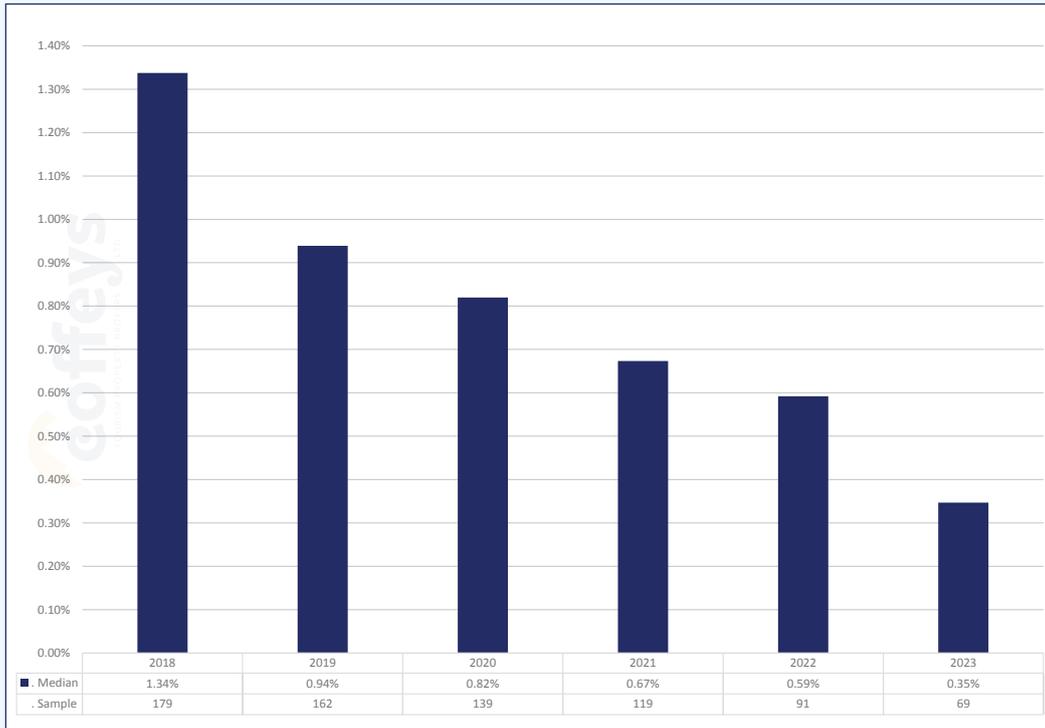
Travel Agents – Booking Sites



It would seem that the percentage of revenue shown here is considerably lower than the 15% (or more) commission charged by OTA's. This query shows the commission percentage as of total revenue, suggesting that there is still a large level of business coming from other sources. Reasonably steady until 2020, with 2021 and 2022 reflecting a reduction in commissions paid, likely due to less overseas bookings which tend to use OTA's more so than domestic bookings do. Notable increase for the March 2023 year as international travel resumes.

Promotion and Marketing

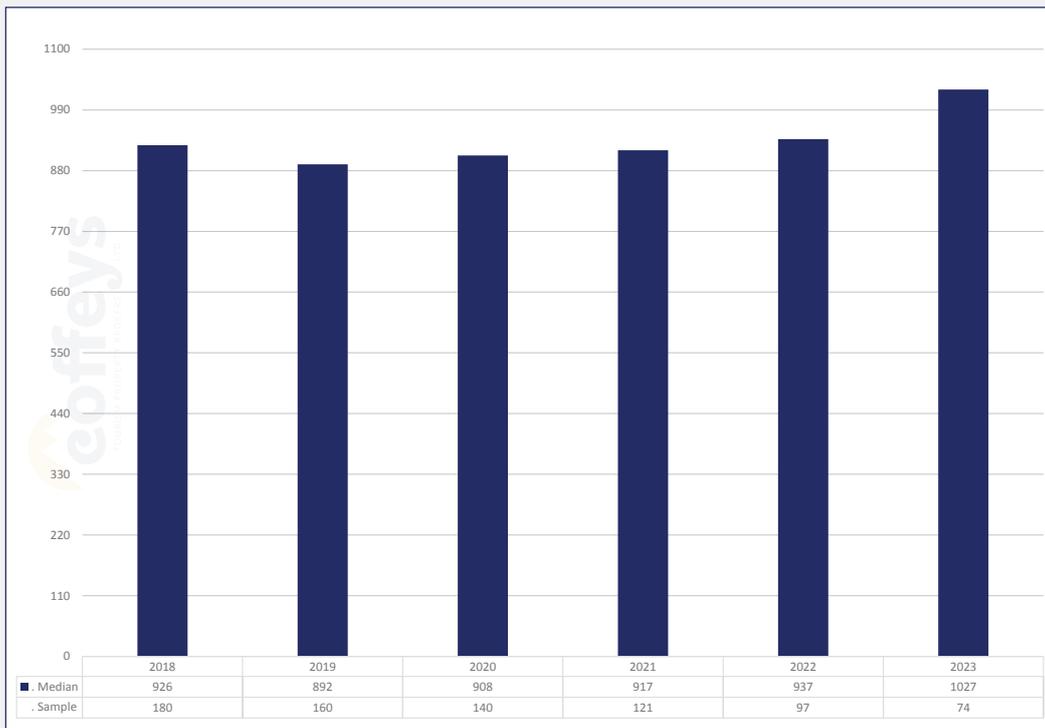
Advertising (including sponsorship), website and related costs, group commissions and marketing and franchise fees, (excluding OTA commissions)



We note the continuing reduction in general advertising costs. This would likely be due to the increase in OTA bookings and, the reliance on that platform for sourcing business. Many of the hard copy and reasonably expensive advertising medium of earlier years are no longer part of the equation.

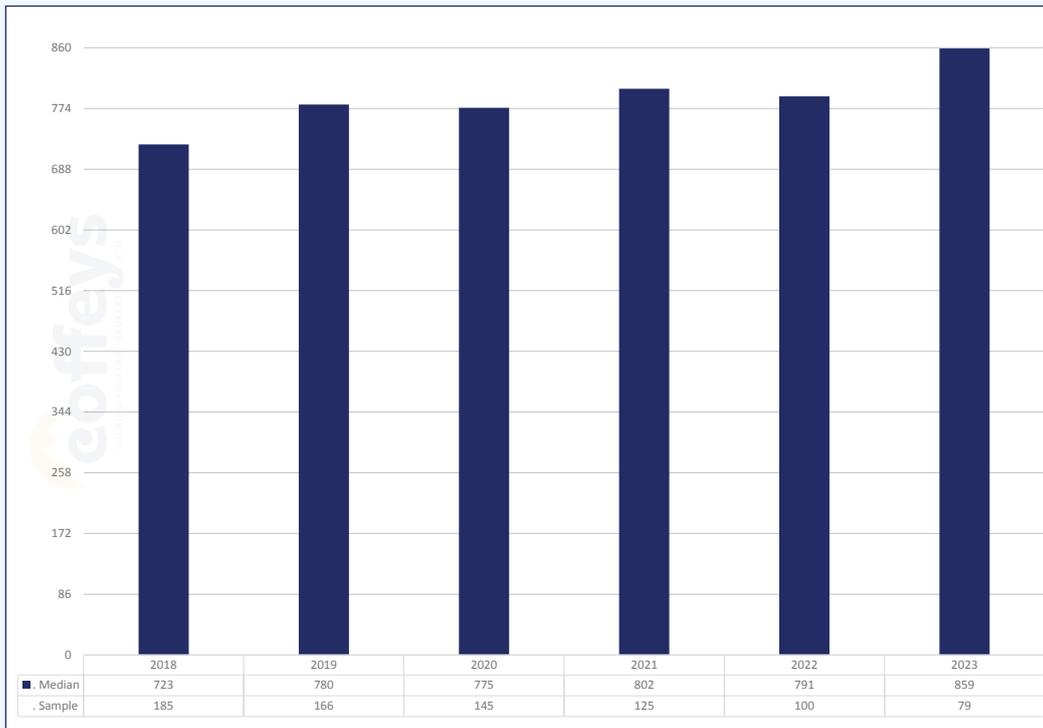
Rates per unit

Includes: Water & Refuse Rates where applicable

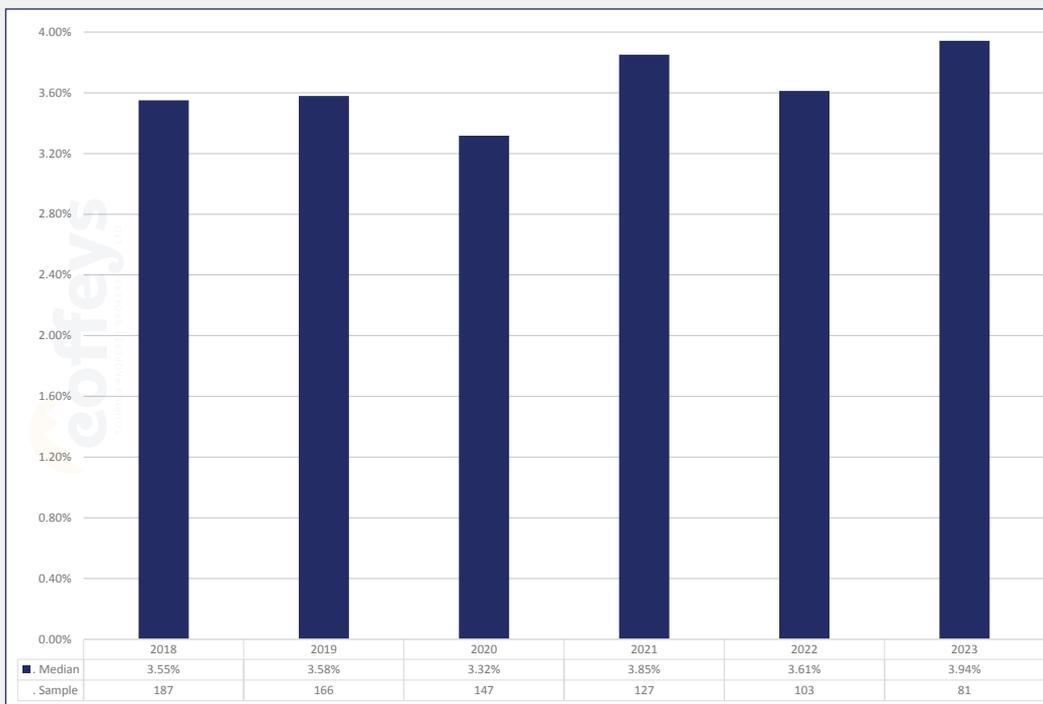


Insurance per unit

Insurance. Including Land & Buildings – Liability – Business Interruption – Chattels



R&M and Replacements



This includes repairs, maintenance, replacements/renewals – assets under \$500 – crockery, cutlery, linen. The overall percentage of revenue for this expense is less than we expected and we believe may be slightly understated.

This could be due to payments into maintenance funds having not been treated as expenses, nor have reimbursement from such funds been treated as income. (Leases which actually operate such maintenance funds are in the minority, so the effect on the overall results should be limited.) Also of note is that upgrades which would be considered Capital Expenditure will not be recorded as an expense in the Profit and Loss Accounts.



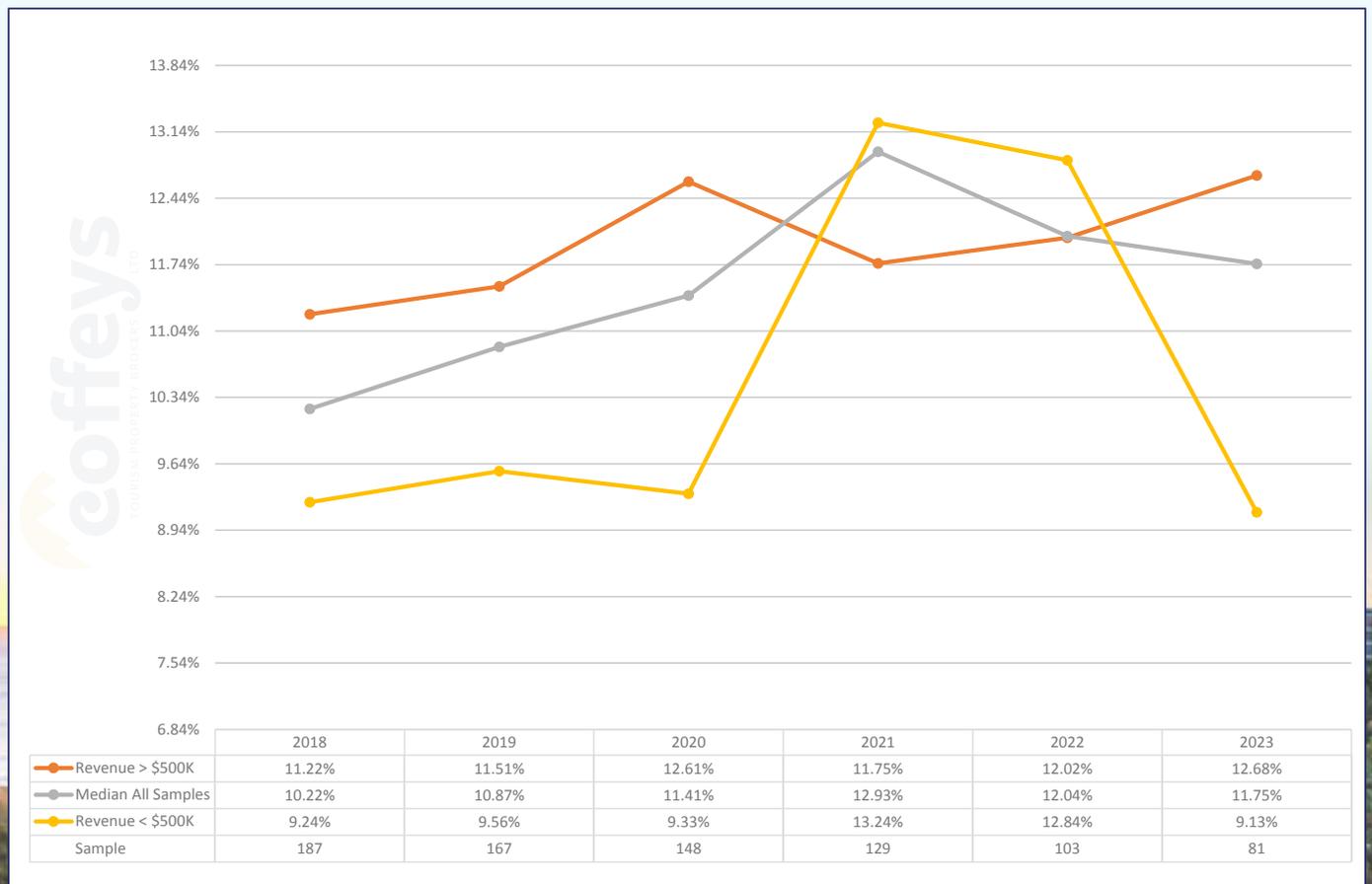
This is a challenging category to survey, because the amount expended on wages is very discretionary and fluctuates greatly. Where owners' remuneration/drawings/salaries are clearly identifiable, these expenses are excluded from the survey result. (Please see list of excluded income and expenses.) The intention is to provide information on wages paid to cleaners only, with the exclusion of payments made to minders/managers, administration staff or maintenance wages. As such the charts below report the results for both filtered and unfiltered datasets.

The unfiltered dataset includes samples where there are zero wages recorded as paid to cleaners, as well as samples where wages represent over 20 percent of revenue, which seems excessive. This dataset also includes accounts which also show payments made to managers/minders and administration staff, however those sums are not included as cleaners' wages.

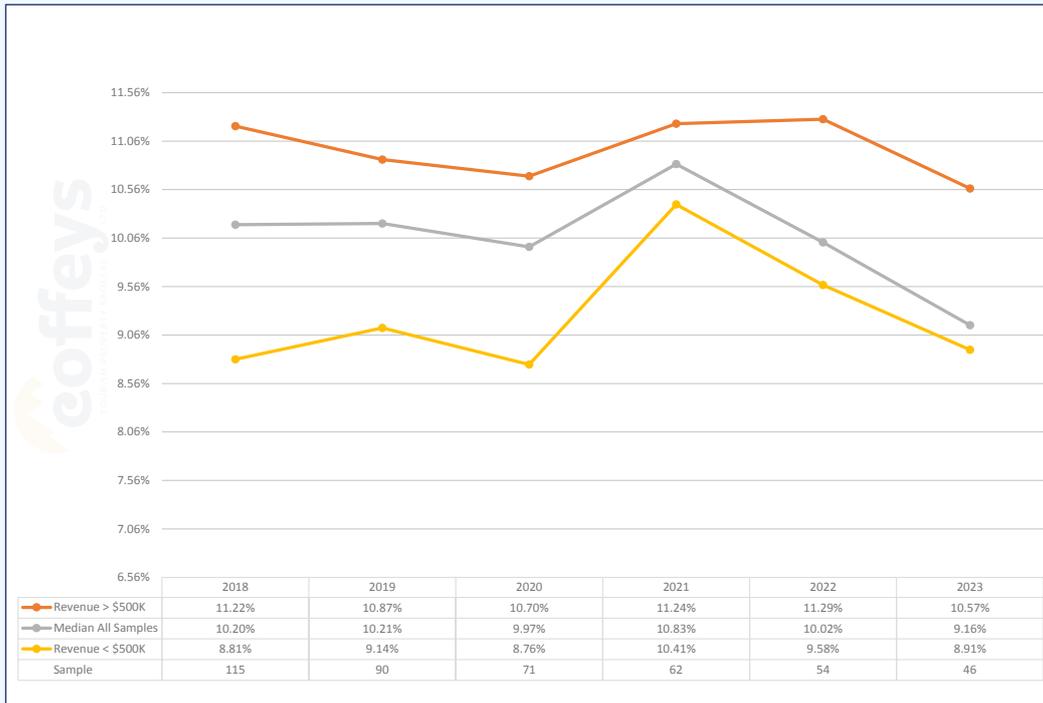
The filtered dataset excludes samples where there are either zero wages or wages over 20 percent of revenue and also excludes samples which also show wages for minders/managers, administration or maintenance wages.

Cleaners' Wages

Including ACC & KiwiSaver as a Percentage of Revenue Unfiltered

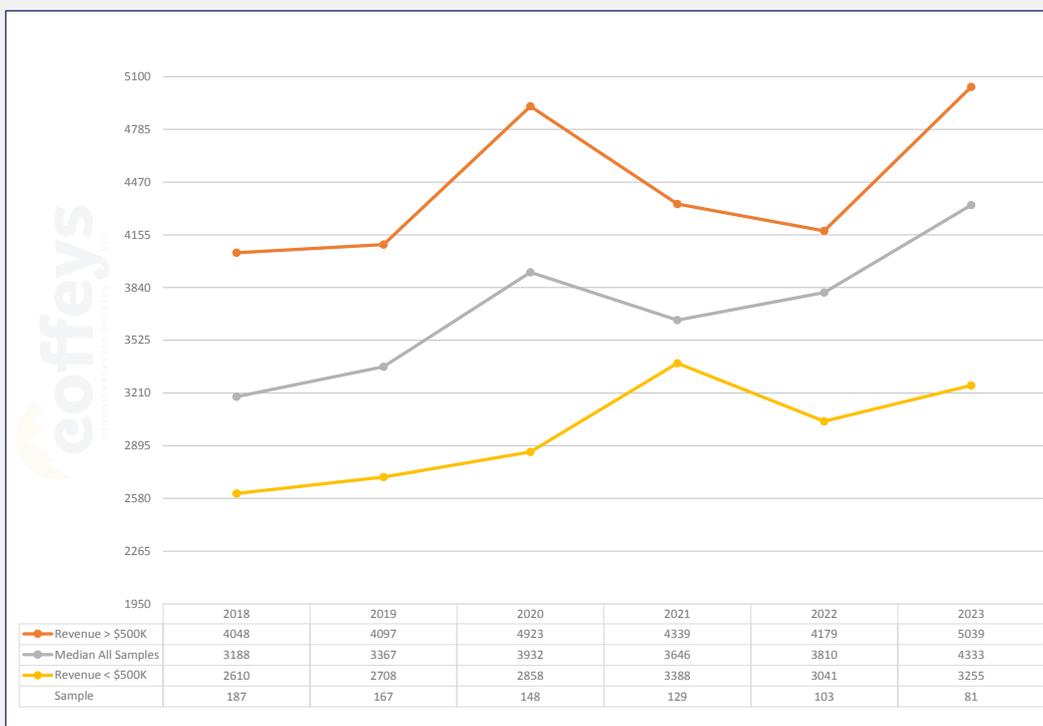


Cleaners' Wages As a Percentage of Revenue Filtered



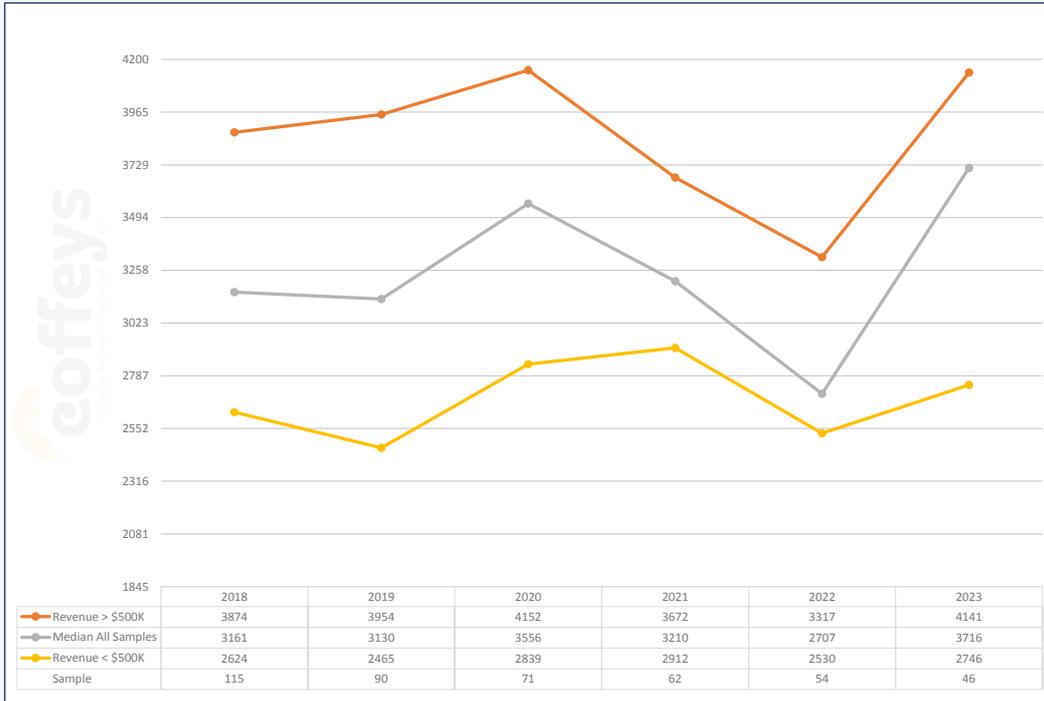
With rising wage costs widely acknowledged, the results were initially surprising insofar as wages falling as a percentage of revenue. This is likely due to the significant increase in revenue per unit which appears to have exceeded the increase in wage costs. Also, possibly the difficulty in some regions in obtaining cleaning staff.

Cleaners' Wages Per Unit Unfiltered



Cleaners' Wages

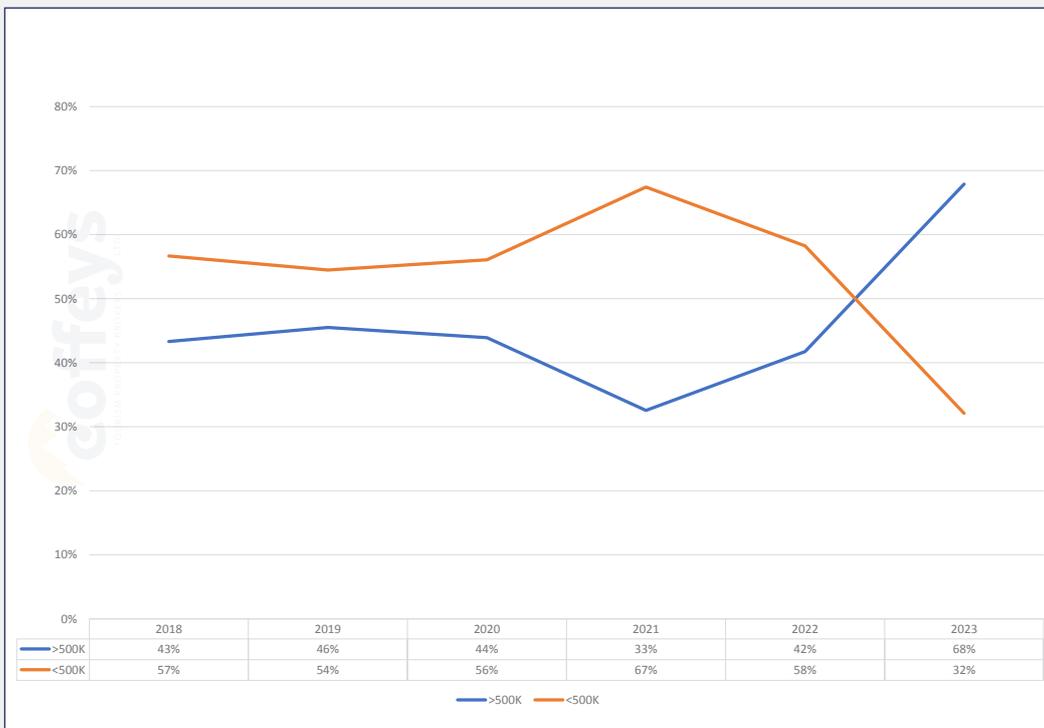
Per Unit Filtered



The per unit results would seem to portray the increased cost of cleaners' wages.

Cleaners' Wages

Quantity of Samples Under Vs Over 500k Revenue.



2023 is the first year recording more samples in the over \$500,000 revenue category.

The intention is to portray motels actively run by owner operators. We believe that an additional allowance should be made for Motel Minders, as operators do need some time off. The results of this query confirm our observations that with some exceptions, the cleaners' wages appear to rise not only in dollar terms but also by percentage and per unit, as overall revenue rises.

This seems contrary to the expectation of economies of scale. Reasons for this could include that smaller owner operator businesses benefit from a reasonable amount of labour input from say an active "hands-on" couple. When the size of the operation increases, the labour input from the operator remains the same, or even less due to other demands, thereby raising staffing costs.

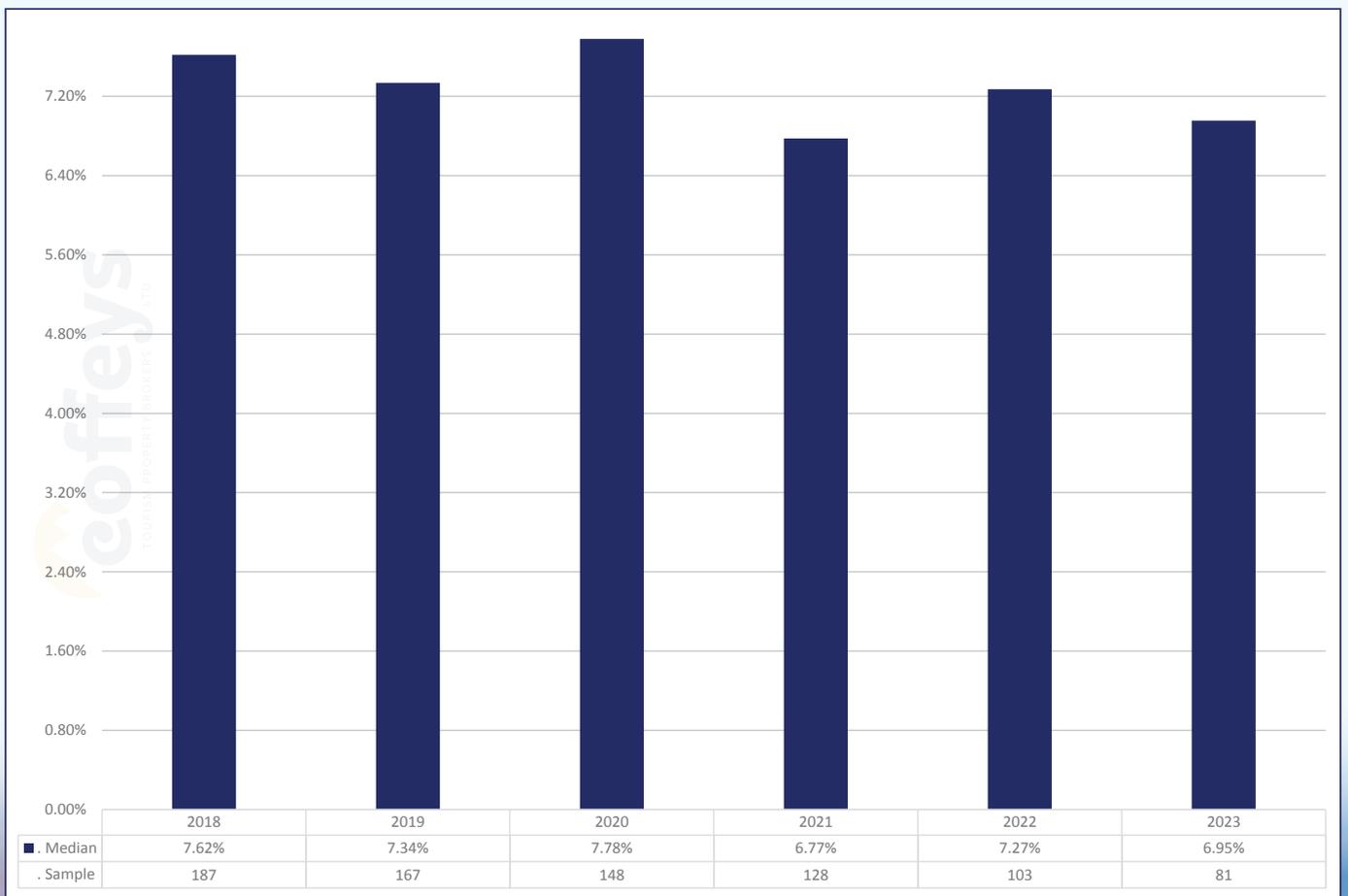
As accommodation businesses get substantially larger, they often also pay employees to supervise and manage other cleaning staff.



General Categories

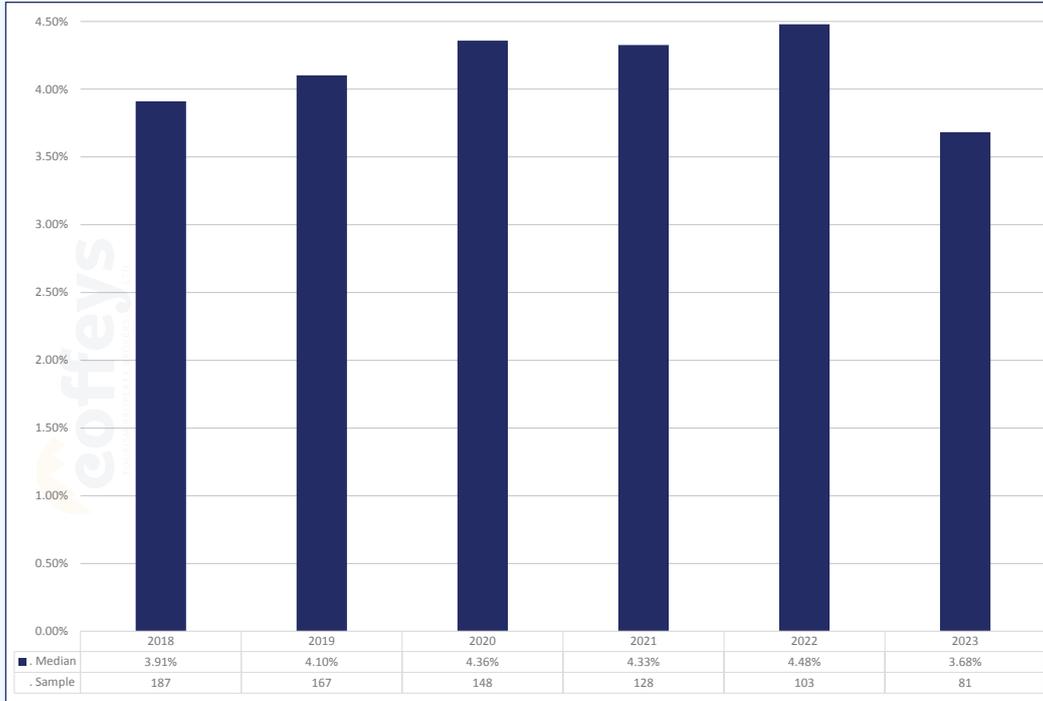
Because a number of particular expense items are coded by accountants in various ways, some expense categories must, and have been, grouped into overall categories. Determining which expenses are to be allocated to these general categories will always be subjective. By combining those expenses into general categories, these reports will at very least provide consistent comparisons for those expense groupings.

Occupancy Costs



Cleaning and laundry (excluding wages), supplies and consumables, TV including Sky (or other streaming services), provisions, rubbish & waste removal, staff expenses & training, newspapers and breakfast supplies.

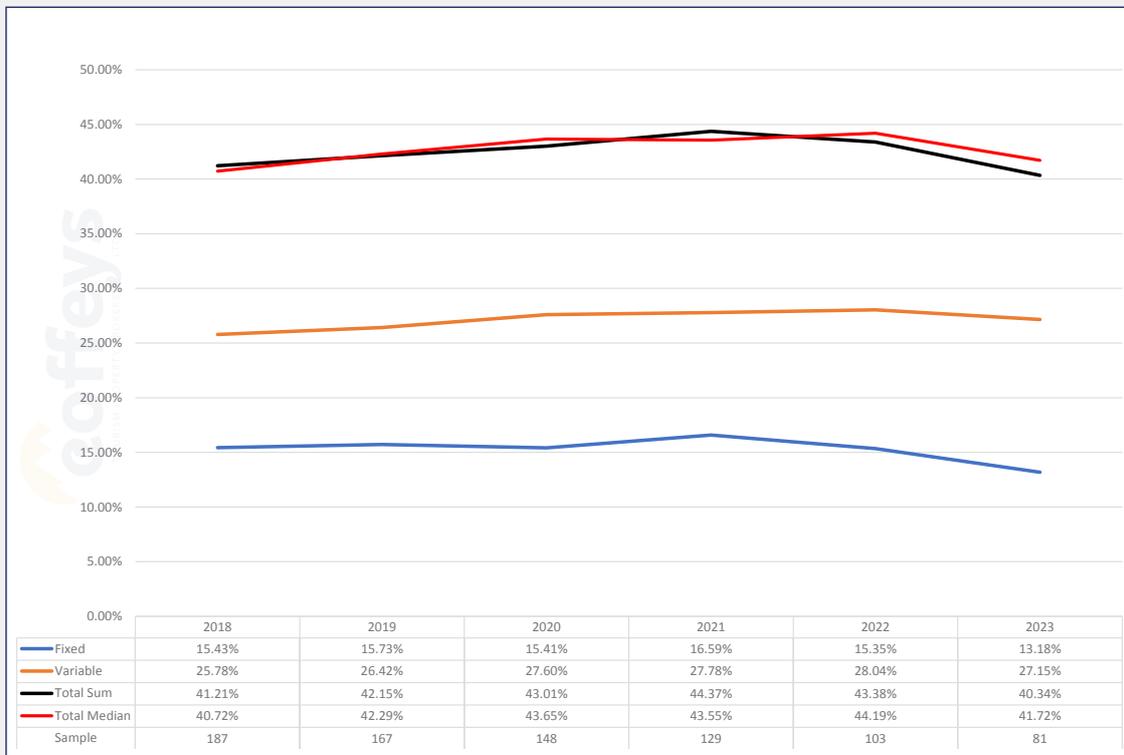
Administration



Bank charges, credit card/merchant fees, equipment hire (including EFTPOS terminal), telephone (incl. mobile) and internet, postage & freight, printing & stationery, general expenses, licenses and subscriptions, computer expenses, software, security, sundry.

Total Overheads

Fixed Vs Variable expenses excluding rent



With the exclusion of the net effect of the Income and Expenditure omitted as detailed below, this chart represents total running costs excluding rent, as a percentage of accommodation revenue. The separate classification to variable costs may provide helpful information when looking to calculate the loss of profit when income is disrupted, such as during a lockdown, road closure, or any other event resulting in extraordinary or non-recurring loss of revenue.

While some income and expense categories as reported by business operators for tax purposes are real and ongoing, (such as motor vehicle expenses), some of these are more influenced by the operator's particular circumstances, rather than actual revenue and running costs for a typical motel business. The intention of the survey is to examine revenue and expenses for accommodation sales to the exclusion of some other items of income or expense. We have excluded from the data the following income and expenses (if any):

Income

- Bartercard – (minimal)
- Commissions and/or Interest received
- Covid Wage Subsidies
- Covid Resurgence Payments
- Chargebacks – other parties
- Credit card surcharges
- Dividends
- Domestic Establishment Allowance – (*benefit of “free living” declared as income for tax purposes*)
- Insurance proceeds
- Maintenance fund reimbursements
- Rent received – off site
- Shop sales
- Vehicle personal use – for tax purposes

Expenses

- Bad debts and debt collection costs
- Bartercard costs
- Chargebacks or accommodation charges paid to other providers
- Depreciation - loss on sale of assets - lease amortisation
- Discretionary expenses - including, donations and entertainment
- Fringe Benefit Tax
- Home office expense – for tax purposes
- Interest
- Maintenance fund contributions
- Managers' and/or minders' remuneration – see appendix
- Motor vehicle expenses
- IRD penalties
- Owners – salaries – wages - drawings
- Professional fees – accountants – lawyers - valuers or consultants
- Rental paid between related parties, such as in the case of a Freehold Going Concern. (*Such rentals may not reflect market levels*)
- Shop supplies
- Travel and/or conference expenses – discretionary
- Variations in stock levels (*for non-food and beverage operations*)

The database has been developed so that the exclusion of some expense items from a certain set of accounts will not distort the results. All expenses are entered into the system, in order that the reconciliation of the totals can be made to confirm accuracy of the data input. The excluded line entries are then automatically removed from the sample number reported.

We trust that this report will be of value to the industry and we would welcome any feedback.

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Appendix

Summary of observations for the March 2023 financial year.

Revenue per unit for the year to March 2023 saw the biggest rise over the previous year since survey results began in 2016. Expenses such as energy costs and wages, appear as a lower percentage when in fact they have increased, just not as much as the revenue has increased.

Conservative commentators such as banks in some cases are questioning whether these new revenue levels are sustainable, citing “revenge travel” in that financial year, unlikely to be repeated. Feedback from the market suggests that some localities are showing even further growth, whereas others are dropping back to some extent in the current financial year. With the significant increase in building costs in recent years, the feasibility of constructing new accommodation is sorely tested. This could mean good times for the industry ahead as the supply and demand equation falls in favour of the motel operator.

Cleaners’ Wages

As with any statistical survey, records will include extreme examples. For instance a smaller leasehold business with energetic operators in many cases may not employ any cleaners. On the other hand, a well capitalised freehold going concern operator with little or no debt, paying lots of tax, in many cases may not contribute to the cleaning at all. Overall, the results of the survey are consistent with our observations over time.

Because minders/managers wages are often not separated, we are unable to include the minders category in the survey and such records are excluded. Where cleaners’ wages are reported on, the percentage will be accurate based on the number of samples surveyed, however total overheads will be understated by the quantum of minders fees.

Addendum

PKF Goldsmith Fox Audit Report attached.



2 November 2020

Kelvyn Coffey
Coffeys Tourism Property Brokers Limited
PO Box 36 – 092
Merivale
Christchurch 8146

ACCOMMODATION INDUSTRY BENCHMARKING SURVEY

Report of Factual Findings

We have performed the procedures agreed with you to report factual findings for the purpose of providing you an independent review of the database.

The procedures performed are:

1. Select a sample of entries within your spreadsheet;
2. Trace the selected entries back to source records to ensure that the data has been accurately transferred from the financial statements;
3. Follow the above selections to the final published information in the database to verify that this information is accurately extracted from the summarised data in the spreadsheet mentioned in step 1.

Directors' Responsibility for the Procedures Agreed

The Directors are responsible for the adequacy or otherwise of the procedures agreed to be performed by us. You are responsible for determining whether the factual findings provided by us, in combination with any other information obtained, provide a reasonable basis for any conclusions which you or other intended users wish to draw on the subject matter.

Our Responsibility

Our responsibility is to report factual findings obtained from conducting the procedures agreed. We conducted the engagement in accordance with the New Zealand Institute of Chartered Accountants Engagement Standard APS-1 (revised) Agreed-Upon Procedures Engagements to Report Factual Findings. We have complied with ethical requirements equivalent to those applicable to Other Assurance Engagements, including independence.

Because the agreed-upon procedures do not constitute either a reasonable or limited assurance engagement in accordance with auditing, review or other assurance engagement standards issued by the New Zealand Auditing and Assurance Standards Board (NZAuASB), we do not express any conclusion and provide no assurance on the information reported in the benchmarking database. Had we performed additional procedures, or had we performed an audit or a review in accordance with auditing, review or other assurance engagement standards issued by the NZAuASB, other matters might have come to our attention that would have been reported to you.

Factual Findings

The procedures performed are solely to assist you with assuring that the financial information reported by the database is robust and accurately reflects the source information.

You have provided us with the database with a population of 513 financial statements. We have carried out our procedures on a sample basis. Our sample represents 6% of the population. You have also provided us with Information Memoranda for the selected samples to verify correct unit numbers. Of the various reporting fields, we have chosen to examine the categories outlined below to test the accuracy and consistency of data input and statistical extraction.

PKF Goldsmith Fox Audit • Level 1, 100 Moorhouse Avenue, Christchurch 8011 • PO Box 13 141 • Christchurch 8141

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The factual findings obtained are as follows:

Procedures Performed	Factual Findings	Exceptions
We traced a sample of the entries in data tab to source records. Sample size was 31 which is 6 % of the population.	We found that non- operating income and expenses (including discretionary expenses) were excluded from the benchmarking results.	None
For the selected sample we calculated rent per unit, revenue per unit and percentage of cleaner’s wages to revenue. This was then compared with the benchmarking database.	We found the benchmarking database calculations to be consistent with our calculations. Approximately 9.67% of our sample recorded nil rent due to the rent being internal rent as it may not reflect market rent.	None
Based on the raw data in data tab we formed expectations for average rent per unit, average revenue per unit and average cleaner’s wages % by region. We the compared our expectations to the report tab in the database.	We found the output to have no significant differences from our expectation.	None

Restriction on Use of Report

This report is intended solely for the use of Coffeys Tourism Property Brokers Limited and for the purpose set out above. As the intended user of our report, it is for you and other intended users to assess both the procedures and our factual findings to determine whether they provide, in combination with any other information you have obtained, a reasonable basis for any conclusions which you wish to draw on the subject matter. As required by APS-1, use of this report is restricted to those parties that have agreed the procedures to be performed with us and other intended users identified in the terms of the engagement (since others, unaware of the reasons for the procedures, may misinterpret the results). Accordingly, we expressly disclaim and do not accept any responsibility or liability to any party other than Coffeys Tourism Property Brokers Limited for any consequences of reliance on this report for any purpose.



Gordon Hansen
Partner
PKF Goldsmith Fox Audit

Email Address: gordon@pkfgf.co.nz



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