



Coffeys Motel Industry Benchmarking Survey



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As specialist brokers in this field for the past 37 years, we have accumulated a great deal of data on the financial performance of accommodation businesses, particularly motels.

This report portrays the results of collating information from many sets of financial accounts, in order to present meaningful industry benchmarks in terms of revenue and relative costs, over consecutive financial years. The findings provide information on the five financial years to March 2020. The data is being constantly updated, so the March 2020 sample number will continue to grow, along with the earlier financial years as more accounts come to hand.

At the time of preparing this report, the results speak for over seven hundred years of Motel Profit and Loss Statements.

If you find this information helpful and would like to contribute to the database, we would welcome your Profit and Loss statements in total confidence in order to further enhance the coverage of this survey. All files are kept safely in our secure cloud-based server, which is accessible only by Multi-Factor Authentication.

In order to confirm the accuracy of the data input and the correct analysis of the results, we have had the survey 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 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, or for trends on particular expense categories. Tailored reports can be made available, however the more specific the criteria the smaller the sample quantity will be.

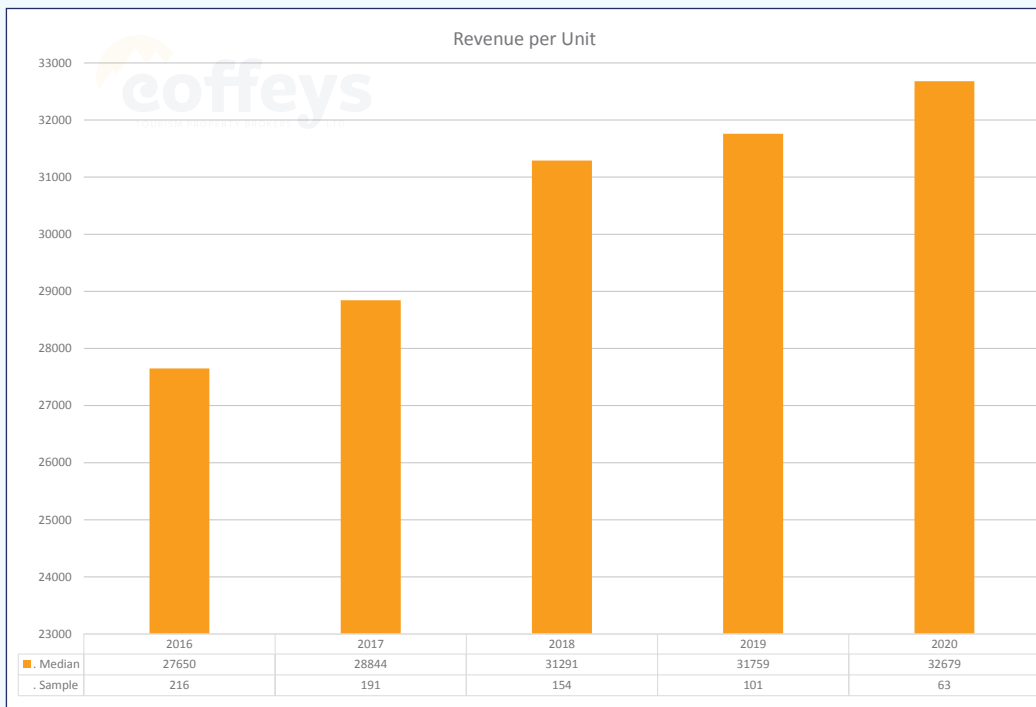
We have previously obtained Institutional business research studies for the accommodation industry, in order to corroborate our own observations in respect of some industry costs. For example, cleaners' wages as a percentage of revenue, and at different levels of turnover. While this information was helpful, we believed it could be improved by further separating some of the income and expense groupings and, presenting more detailed data in terms of relevant industry costs. The Institutional survey results we had previously obtained included under such categories as Occupancy Costs or Administration, items which we considered were important enough to be surveyed individually.

For the purposes of this report, 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 and tailored reports can be made available upon request.



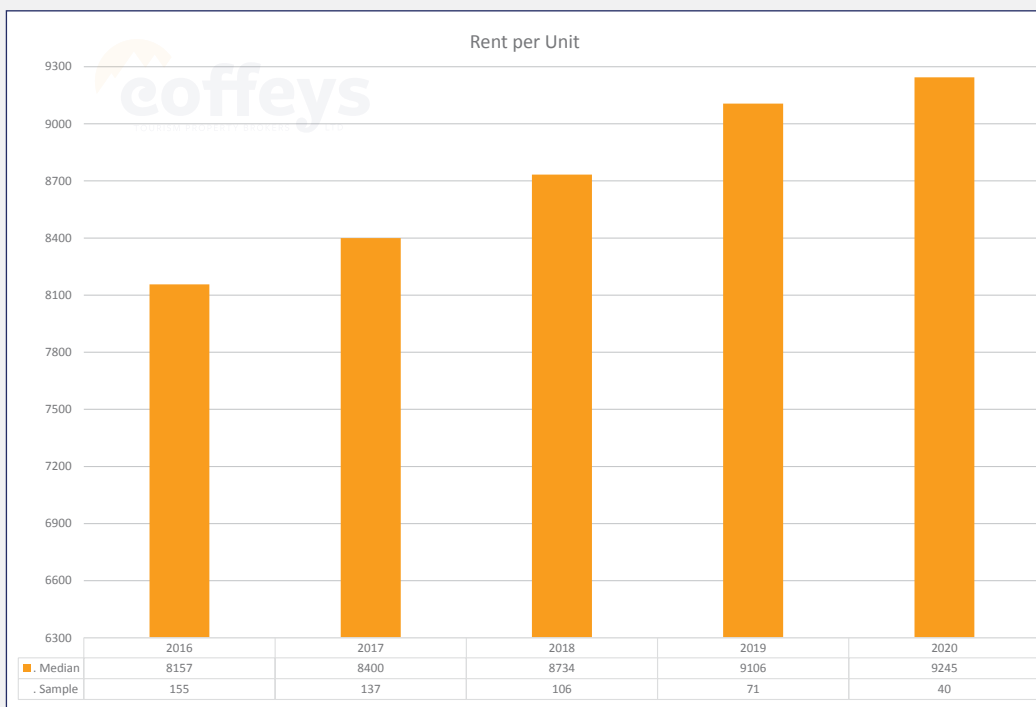


Revenue per unit



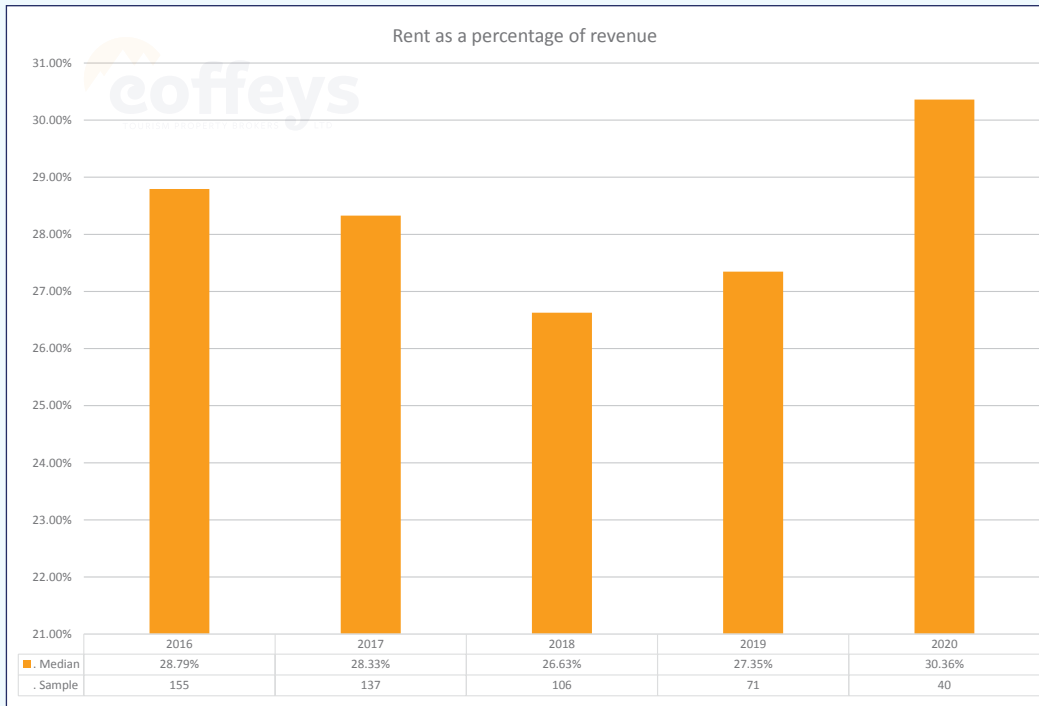
GST exclusive revenue per unit nationally.

Rent per unit



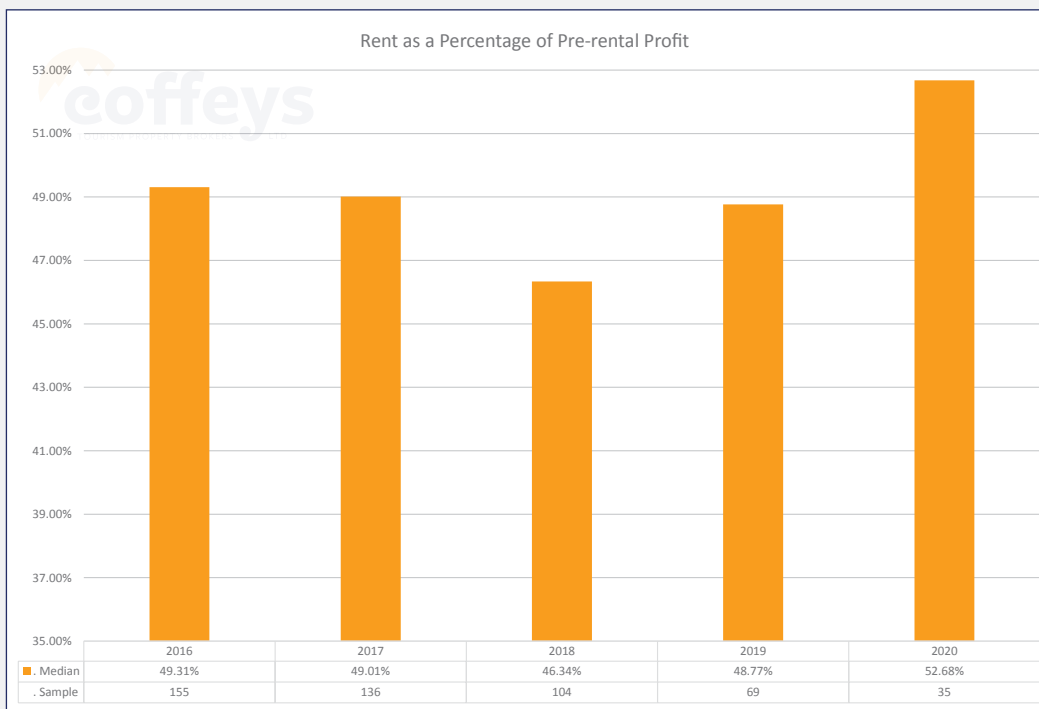
With the exception of rent per unit, expense categories are reported as a percentage of revenue. Please note that in some years, revenue and rent per unit may fluctuate due to the actual properties surveyed in that period, rather than any particular trend.

Rent as a percentage of revenue



Rent to Profit Ratio

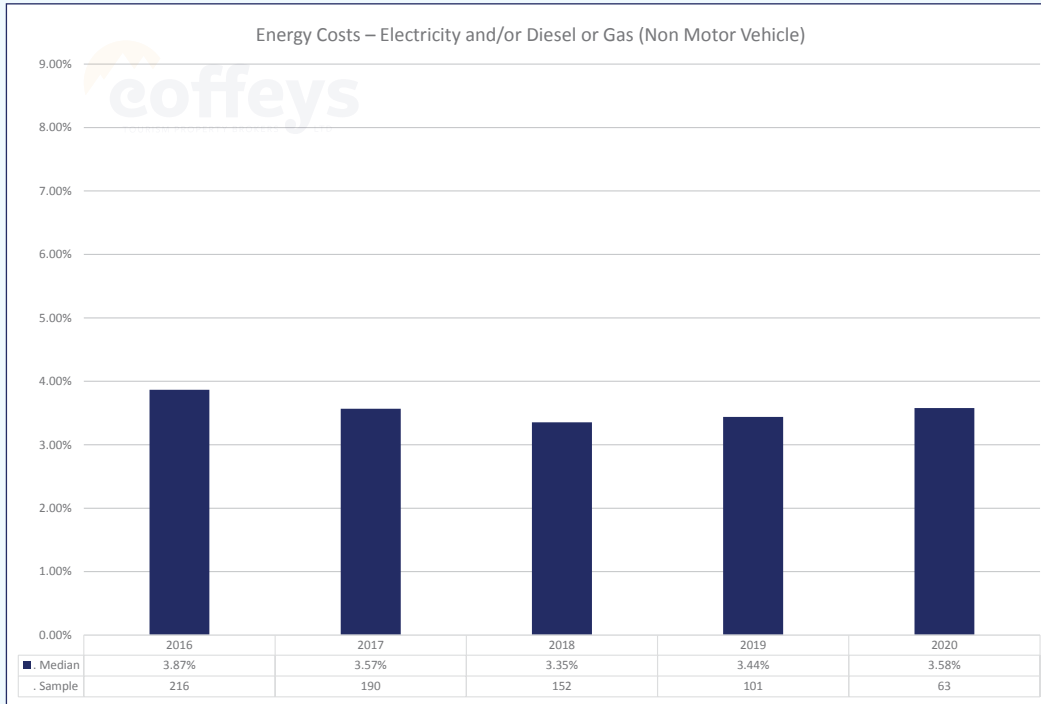
Profit calculated before payment of rental, then rental reported as percentage of that profit



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.

Energy Costs

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



OTA Commissions

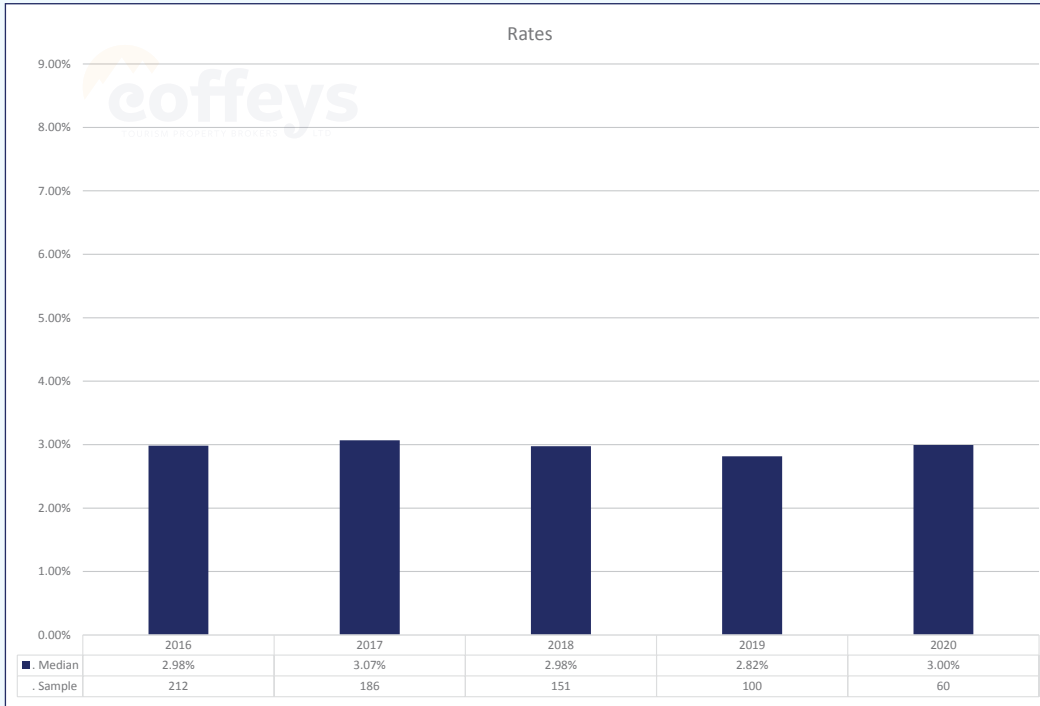
Travel Agents – Booking Sites



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.

Rates

Includes water and refuse rates where applicable



Includes water & refuse rates where applicable.

R&M and Replacements

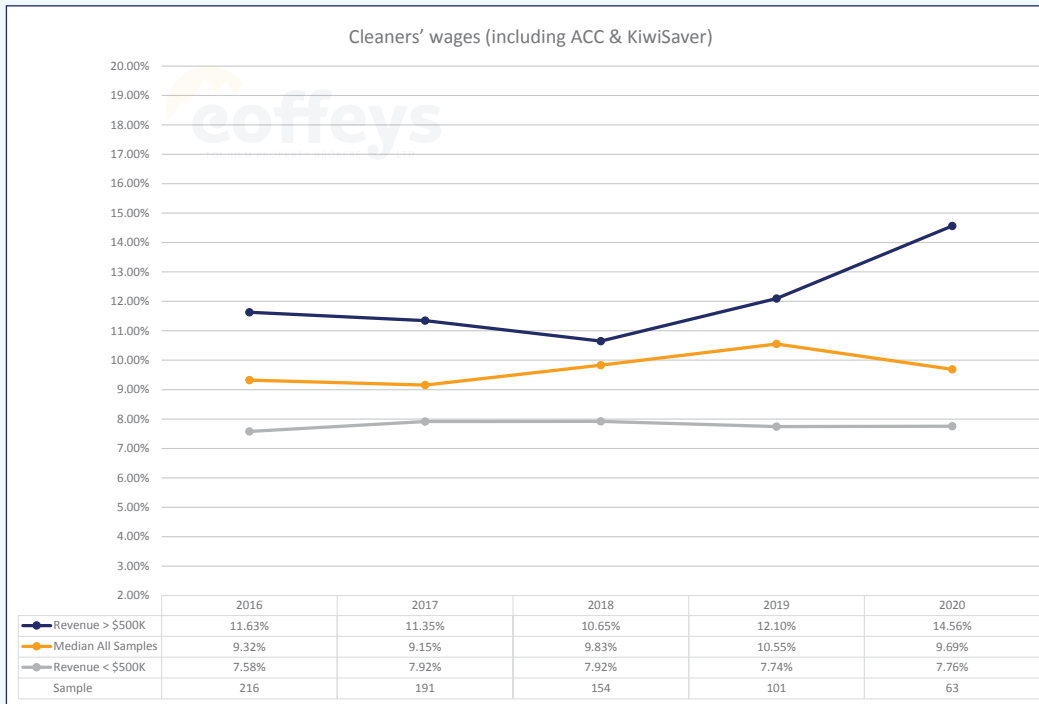


This includes repairs, maintenance, replacements/renewals – assets under \$500 – crockery, cutlery, linen. The overall percentage of revenue for this expense is less than we expected and we believe may be slightly understated.

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.

Cleaners' Wages and Minders

Including ACC & KiwiSaver



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.) Often wage costs are not broken down between cleaners' wages and remuneration to owners/managers/minders and/or reception and administration.

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. Unfortunately many of the Profit and Loss Statements on file record minders/managers as one category. Where payments to managers and/or minders are recorded these are excluded from the sample for this report. See appendix.

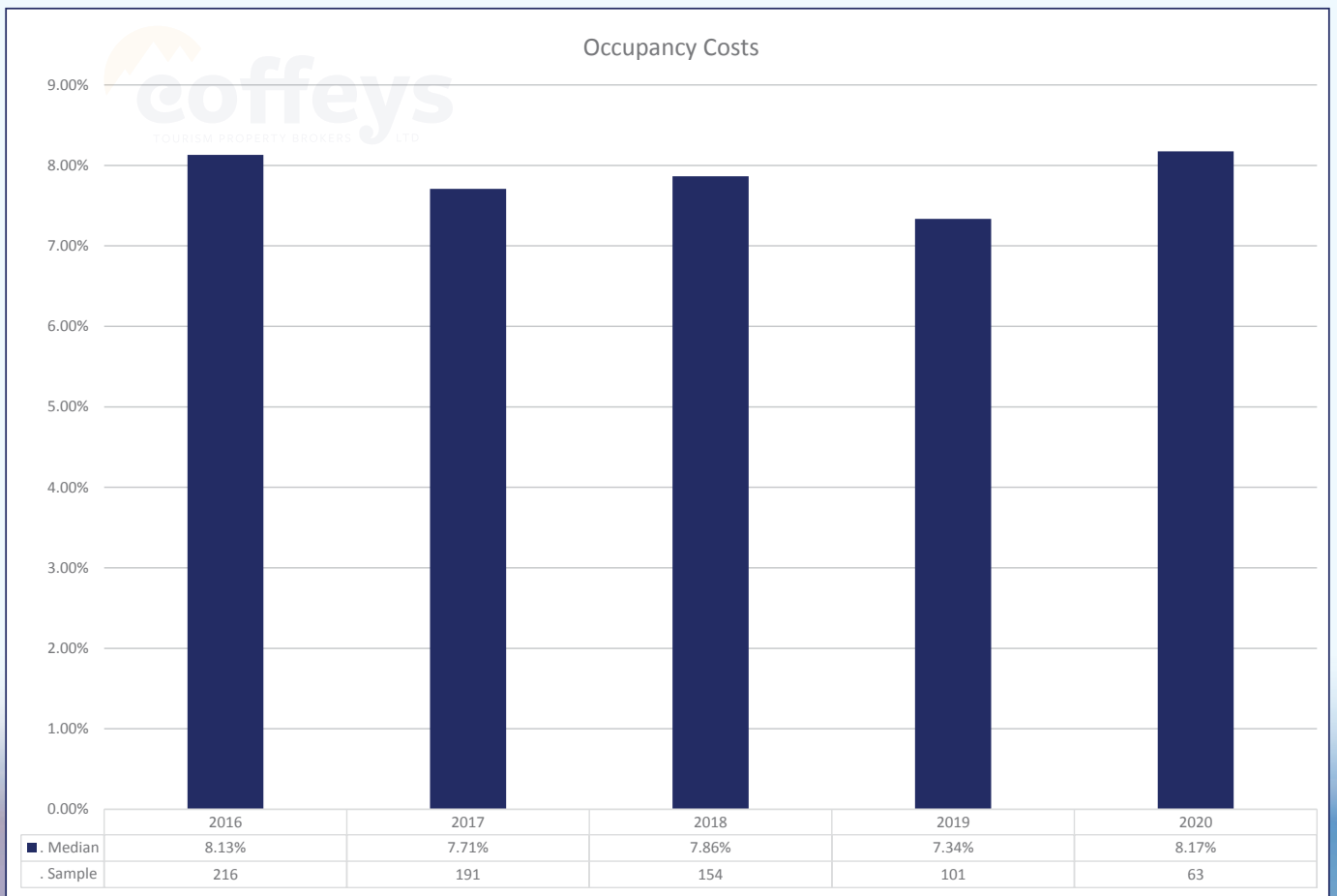
The results of this query confirm our observations that cleaners' wages rise not only in dollar terms but also in percentage terms as overall revenue rises. This seems contrary to the expectation of economies of scale. Reasons for this could include that smaller owner operator businesses benefit from 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.

The wages expense percentage for businesses with revenue exceeding \$500,000 indicates a noticeable upward trend in the last two financial years reported. This could be due to the relatively smaller number of samples being overly influenced by higher than average wage costs in the accounts entered. If that is the reason, then as more records are inputted, this anomaly should rectify. Another possibility is the impact of several increases to the minimum wage during that time, which would have more effect on larger businesses employing more staff. Time will tell.

General Categories

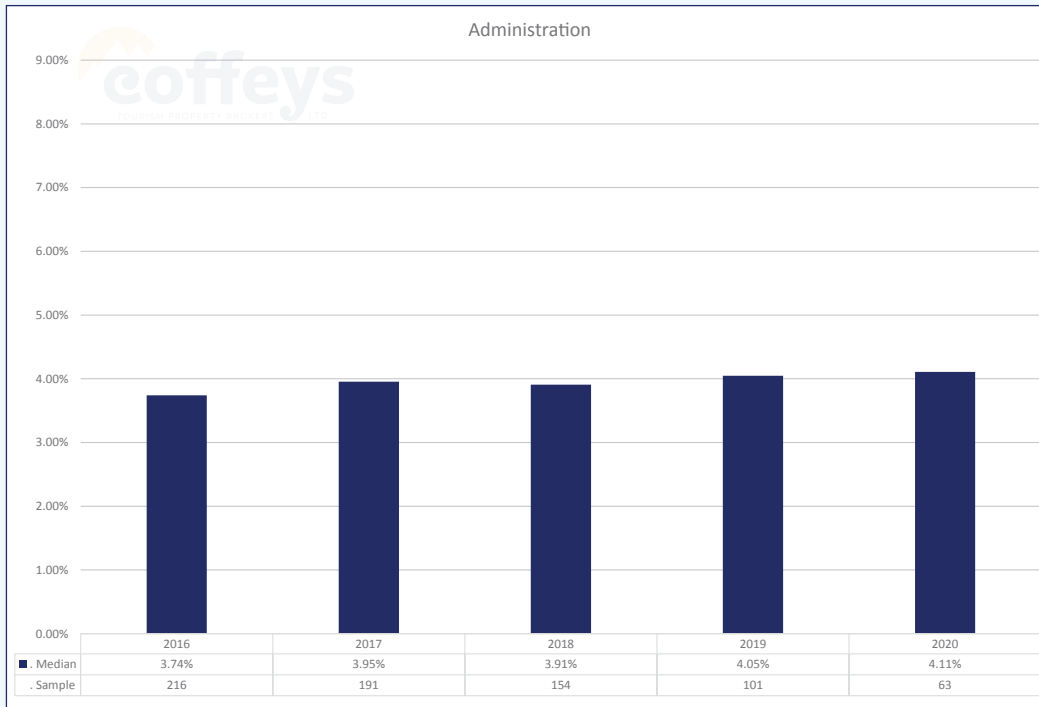
Because a number of particular expense items are coded by accountants in various ways in different sets of accounts, some expense categories must, and have been, grouped into overall categories. Determining which expenses are to be allocated to these general categories will always be subjective. By combining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

Occupancy Costs



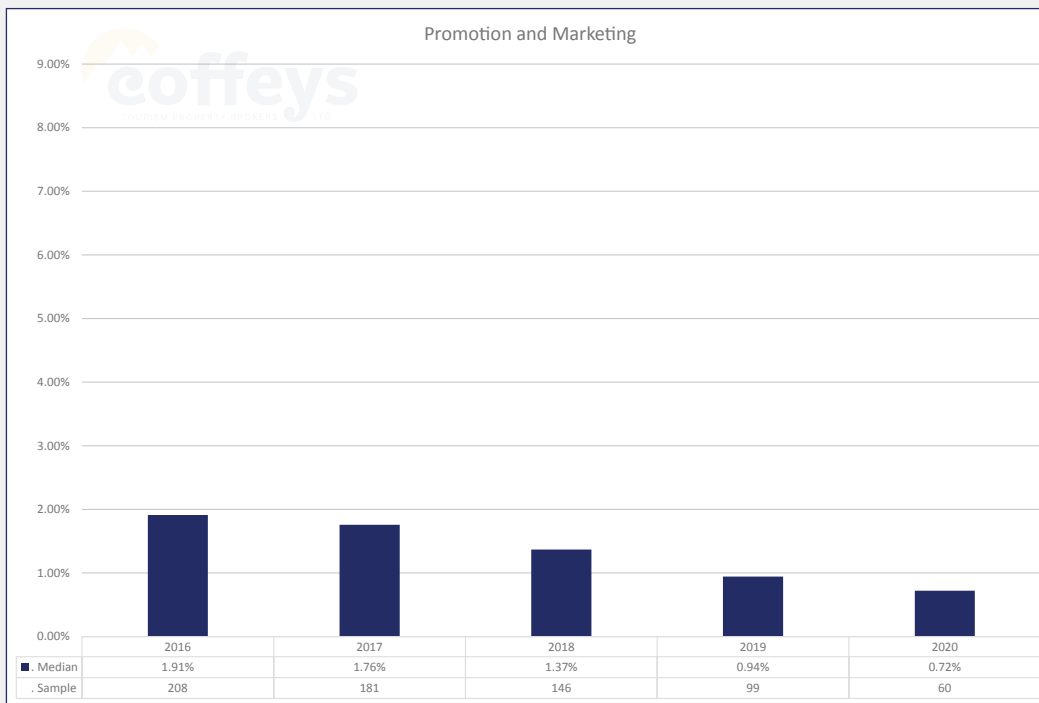
Cleaning and laundry (excluding wages), supplies and consumables, TV including Sky (or other streaming services), provisions, rubbish & waste removal, staff expenses & training, newspapers, and breakfast supplies.

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.

Promotion and Marketing

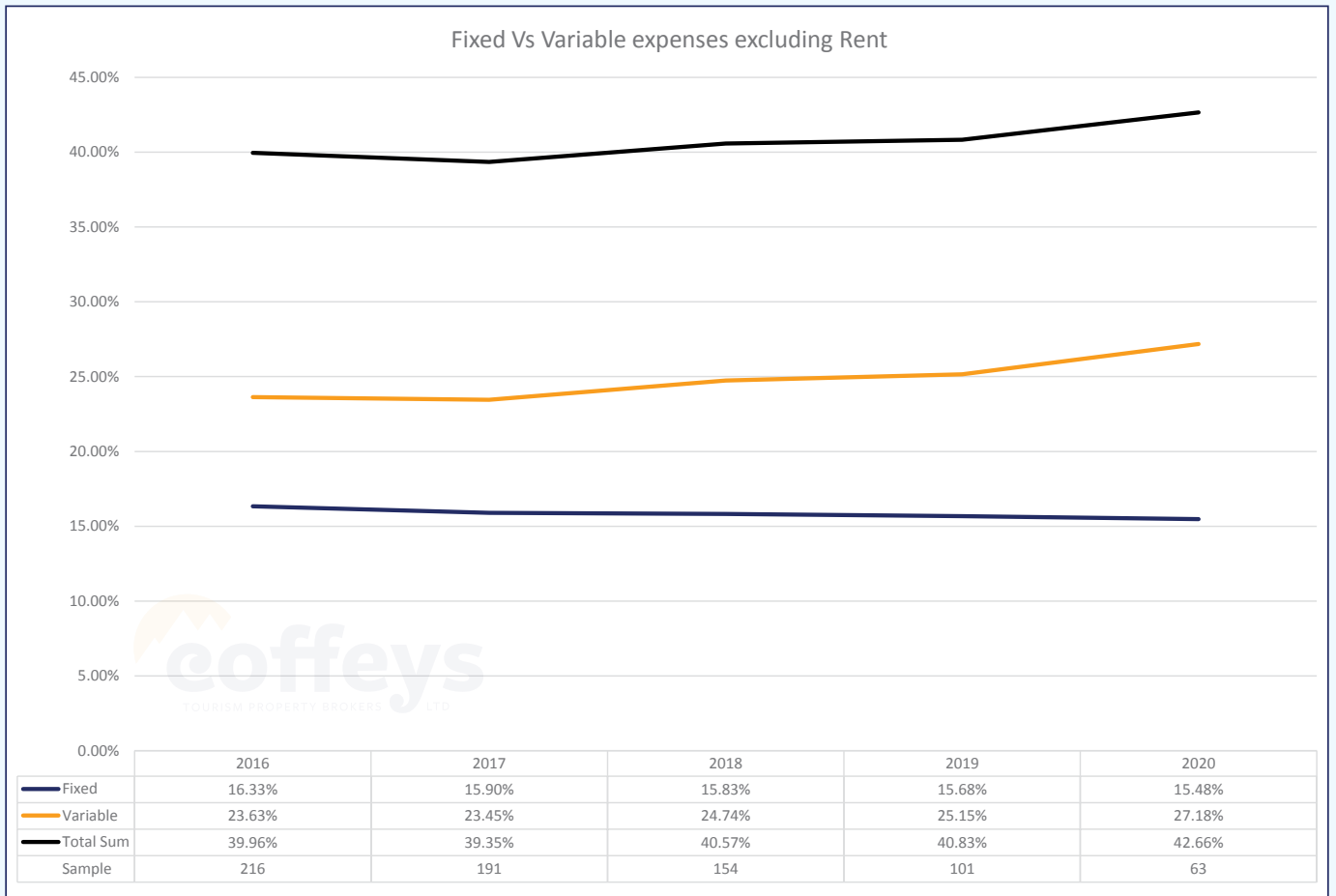


Advertising (including sponsorship), website and related costs, group commissions and marketing & franchise fees, (excluding OTA commissions).

We note the gradual reduction in general advertising costs over the past few years. This would possibly 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.

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 numerous 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
- Chargebacks – other parties
- Credit card surcharges
- Dividends
- Domestic Establishment Allowance – (benefit of “free living” declared as income for tax purposes)
- Insurance proceeds
- Rent received – off site
- Shop sales
- Vehicle personal use – for tax purposes
- Maintenance fund reimbursements

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
- 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)
- Maintenance fund contributions

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. This is just the first report and our intention is to build on this platform. The next task being to create a web-based database which can be continually updated with new information and accessible in real-time on our website. The database will be added to as more records are received, providing a higher number of samples, likely to produce more accuracy. We would be grateful to receive financial accounts from motel businesses to be added to the database, even if for no other purpose. This information is always kept confidential and no one set of financial accounts can be identified.

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Appendix

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. Increased percentage wage costs would appear to apply in larger businesses, as the results depict. 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

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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.



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