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General News

Property developer on Safari for growth

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Projects combine both apartments and hotels, writes Anne Gibson

When Birkenhead resident Damien Taylor was introduced to a new acquaintance recently, he was asked for his profession.

"Property developer," replied Taylor.

"So, basically the devil?" the new acquaintance responded.

That floored the 32-year-old with a University of Auckland property degree, as he questioned the way other people saw his profession.

"Do people think about the building they work in and that the building was developed by someone? Their house? Other buildings they visit?" asks the former Kristin School pupil.

While he acknowledges that developers aren't necessarily going to be super-popular, he hopes that their work makes a difference. His company is creating new residences for people who could not otherwise afford them, he says, and new rooms in the under-supplied hotel sector, and that has value.

The company he partly owns - Grafton-headquartered Safari Group - builds apartments in a specialist hybrid model catering for private owners or residents who live in the building, which is operated by a global hotel chain.

Safari's buildings are either dedicated hotels or occupied by a mix of private residents and guests of the Quest or Ramada chains in New Zealand.

The company is building in many areas short of apartments and hotels, particularly Auckland and Queenstown.

The business has formed alliances with the two international hotel chains, which operate the properties under leases.

Hybrid hotel/apartment schemes have not always gone well for investors, or for hotel chains.

Two hotel/apartment properties developed by Auckland's Nigel McKenna are cases in point.

In 2011, overseas investors who owned Auckland hotel rooms were at loggerheads over the way the business was being run and how much return they got. Rooms in Westin Auckland Lighter Quay were seized by Singaporean and Malaysian owner/investors who rebranded them Hotel Viaduct Harbour and slashed rates by three-quarters to get guests in the door and money into their pockets.

They withdrew 116 rooms from the hotel, leaving the American-owned chain with only 58 rooms. Eventually, new managers Sofitel came in.

Much the same happened in Wellington the same year, at the \$100 million Holiday Inn after a long-running dispute between management and investors who bought rooms there. InterContinental Hotels Group pulled its name and walked. Rydges then took over the 280-room Featherston St hotel.

But Taylor says the Safari model avoids such issues.

"Those failed hotels were run under management contracts, not commercial leases which is our set-up." Under Safari's model, "all of the unit types have the same income and the hotel tenant has to pay that rental, regardless of whether someone stays in a unit one night of the year or all 365 nights. So it's very different from the examples, hence the guaranteed return, all with guarantees in place from the tenant," Taylor says.

He is confident of Safari's model "because of the strength of the commercial lease in place with guarantees - a large difference from these other failed models."

A new studio unit in the Remarkables Park Ramada Hotel, in Queenstown, is being sold by Safari for about \$234,000. An investor will get about \$14,000 annual return, and also get 10 "free" days annually to stay in that room, he says. That deal is based on a 30-year lease to the hotel: an initial 15-year term with rights of renewal of five, plus five, plus five years.

Marketing material says a 6.6 per cent guaranteed gross return for hotel apartment investors will be paid monthly, directly into bank accounts.

Body corporate fees average about \$750 a year for hotel units but rates are extra.

One-bedroom units in the new hotel are around \$310,000, says Taylor.

So will the Government's planned ban on foreign property buyers stop Safari's sales?

"Not really because it's more Kiwis who are buying than overseas buyers and we expect hotel or commercial products to be excluded from the changes to the Overseas Investment Act," Taylor says.

"We're probably the biggest New Zealand hotel developer, with more than \$500m under construction or about to start."

Projects under construction are:

?Ramada Hotel and Suites Victoria St, a \$75m Auckland project opposite NZME, with 66 private apartments and 48 hotel apartments

?Wyndham Garden Hotel and Suites Queenstown, a \$62m project with 55 private apartments and 75 hotel apartments

?Ramada Pacific Hotel and Suites Manukau, a \$62m Auckland project with 67 private apartments and 85 hotel apartments

Safari has developments under way or planned from Northland to Southland, specialising in the private apartment/hotel apartment model.

New projects are:

?Ramada Kawarau River Hotel and Suites Queenstown, a \$90m project due by early 2020 with 187 apartments, 30 per cent pre-sold, released mid-April

?Ramada Hotel and Suites Newmarket, a \$96m, 126-unit project to start this October, 57 per cent pre-sold

?Ramada Hotel and Suites Queenstown, a \$56m, 133-unit project due to start next month, 66 per cent pre-sold

?Ramada Pacific Hotel and Suites Manukau, a \$62m, 152-unit project due to open next May, 86 per cent pre-sold

Pre-sales are a key to the business which has \$250m annual turnover.

Early this month, Safari paid for 30 clients of Don Ha Real Estate to fly from Auckland to Queenstown to see new product, "selling them the dream. We sold 55 units without even formally releasing it to the market," he says.

Taylor owns 10 per cent of Safari Management 2016, the main company. His father Stephen owns 23 per cent but the majority is owned by their business partner Rob Neil.

Safari was founded by Neil and Stephen Taylor in 1996 and is in its second-generation phase: Damien Taylor is working with Rob's sons Liam and Kyle.

"Rob and Steve have been partners since before 1996," Taylor says of his father. "Rob started as a junior under Steve, just doing construction. They started out with A1 Construction, then founded Safari. Rob owned all of Safari to begin with but has been looking to the future for his two sons and me."

Safari wants to grow fast.

"I look at Mansons and we're not at that scale of them but we're very similar, being a builder and developer. Since 2010, we've really been focused on the hotel/apartment scene and carved out a niche.

"ASB have been great partners with us, along with China Construction Bank. We can borrow up to 70 per cent of [the value of] a project. The loan to value restrictions have made it tough. Equity requirements for projects have doubled."

Safari businesses keep some units in all their projects to retain a degree of control.

"We want to be able to ensure that any incoming operator is fit for purpose," Taylor says of a possible change of hotel operator.

The new Ramada Hotel and Suites Victoria St retains the facade of an original building, deemed to have heritage value. Taylor says he is well aware of the "anti-facadeism" movement, which believes that heritage is not served, but destroyed when only the facade of an old building is kept and a new tower is rammed through the centre.

Safari, with 22 staff, will shift from Grafton into that new Victoria St building once it is finished.

"The growth in apartment and hotel demand has given us a big opportunity to grow and if there's any devil involved, it's in the detail of completing these quite complex and challenging projects."

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