AUSTRALIAN HOTEL MARKET UPDATE
Trading, Development and Investment
February 2015
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Leisure is back! An overall 4.1% increase in revenue per available room (RevPAR), a lift in hotel trading profit due to low cost increases, together with a tightening of investment yields prove hotels are an attractive asset class for investors and operators alike.

The best performing markets in Australia for 2014 were not the Sydney and Melbourne investment favourites but Cairns and the Gold Coast. Strong performers were also the often overlooked markets of Adelaide and Hobart while Perth and Brisbane held up better than expected given the economic shift in their states.

CBRE expects 2015 will witness a continuation of last year’s trends given the strong occupancy levels being experienced in most markets, limited new supply under construction and the benefits of a low Australian dollar to domestic and international holidaymakers’ decision making.
The Adelaide market has demonstrated surprising resilience to a significant increase in room supply. The completion of the Adelaide Oval redevelopment has provided a much needed spark to the city and has been supported by a successful events calendar and consistent corporate demand. The positive impact on performance is reflected in high occupancies and Average Daily Rate (ADR) growth. New room supply has the potential to dilute existing demand and place considerable pressure on occupancy; yet, increased direct international flights to Adelaide is viewed as a major potential upside to this market. CBRE Hotels anticipates that the mooted supply levels entering Adelaide in the next two years will be absorbed by the market with any overall dip in the general market to be short-lived. ADR growth is expected to be limited.
The Brisbane hotel market has seen reduced corporate demand from the mining sector and Government; however, looking forward CBRE Hotels expects continued growth in demand off the back of strong growth forecasts for domestic and international visitors. The Brisbane Council’s moratorium on infrastructure charges on 4 and 5 star hotels has seen an influx of supply with a number of projects recently completed, under construction, approved or mooted. The market has absorbed the supply growth relatively well, however, it is anticipated that supply will exceed demand during the short to medium term resulting in lower occupancy levels and softening RevPAR.
**Cairns** is currently one of the best performers in the market, exceeding market expectations and recording a strong recovery from a low base. Cairns had the highest RevPAR growth in Australia in 2014 and improved occupancy levels, however ADR and RevPAR remain well below other destinations. Cairns is currently witnessing a strong rebound in international and domestic tourist arrival numbers as a result of increased air capacity into the region, especially from Asia. The increase in demand is outstripping the limited supply levels. There are a lack of developments in the pipeline and CBRE Hotels expects to see the market respond to these favourable conditions.
The statistics suggest an uninspiring outlook for Canberra / ACT. A wave of new supply in 2014, Government spending cuts and a market reliant upon Government bookings (controlled by a single third party) has resulted in subdued performance. Demand will continue to be driven by Government business and events. However, recent negative pressures on the market are not typical and the outlook is reasonably positive. Over the long term, the completion of major projects such as the Australia Forum and the City to the Lake project, along with the introduction of international flights to Canberra, if they occur, are expected to restore confidence, despite new product entering the market in the next 12 months.
PERFORMANCE (Year Ending December 2014)

ADR
AU$189.42
OCC
76.0%
REVPAR
AU$143.88

Source: STR Global, CBRE Hotels, TRA

DEMAND for Hotels, Motels and Serviced Apartments (Year Ending September 2014)

Visitor Arrivals
14%
86%
Visitor Nights
84%

Domestic
International

Length of Stay
4.1 days

Visitors ('000): 392.60
Visitor Nights ('000): 1,614.21

HISTORICAL PERFORMANCE (Year Ending December)

A$200
A$180
A$160
A$140
A$120
A$100

RevPAR
ADR
Occupancy

Source: STR Global, CBRE Hotels

DARWIN

The Darwin market is buoyed by tourism, the resources industry, Government services and defence operations. Despite a contraction in mining activity, large projects such as the INPEX Ichthys LNG (estimated total cost of US$34 billion) will continue to drive demand in the medium term. Positive sentiment is underpinned by limited supply during the high season, pushing occupancy rates and ADRs higher. Additionally, business demand continues to smooth seasonality. However, this success may only be short-lived as in two to three years the INPEX project will require a smaller residential workforce. Nevertheless, other major resource projects are currently underway or confirmed and the NT Tourism Vision 2020 is currently being implemented.
After an extended period of minimal growth in supply and demand, due to softer economic and competitive conditions, the Gold Coast market is seeing a return to form with the recovery buoyed by strong investor confidence, foreign investment, increased tourist numbers, the completion of the Light Rail project and the upcoming 2018 Commonwealth Games. The Gold Coast hotel market has enjoyed relatively stable supply over the last five years and going forward, the supply outlook looks relatively benign. Increased demand from both domestic and international visitors is expected to result in continual growth in both occupancy and ADR over the short and medium term.
Demand in the Hobart market has been strong over the past 12 months largely due to the continued popularity of the Museum of Old and New Art (MONA), strategic marketing by Tourism Tasmania’s ‘Discover Tasmania’ promotions and consistent corporate and Government demand. The new room supply mooted for this market will rely on tapping both induced and unsatisfied demand if a significant downturn in occupancy is to be averted. However, on a rolling business case basis it is likely that not all of the proposed developments will proceed. The outlook for Hobart is low but steady RevPAR growth.
### PERFORMANCE (Year Ending December 2014)

<table>
<thead>
<tr>
<th>ADR</th>
<th>AU$185.08</th>
</tr>
</thead>
<tbody>
<tr>
<td>OCC</td>
<td>81.7%</td>
</tr>
<tr>
<td>RevPAR</td>
<td>AU$151.13</td>
</tr>
</tbody>
</table>

**Source:** STR Global, CBRE Hotels, TRA

### SUPPLY (Year Ending December 2014)

**Existing Hotels, Motels and Serviced Apartments:** 346 (31,374 rooms)

#### Key Recent Openings

- **Sheraton Melbourne Hotel** 5* 174 keys Mar-2014
- **Brady Hotels** 4.5* 146 keys Sept-2014
- **The Larwill Studio** 4* 100 keys Dec-2014

#### Key Properties Under Construction

- **QT Melbourne** 4* 188 keys May-2016
- **Peppers Docklands** 4.5* 87 keys Dec-2016
- **Punt Hill – 560 Finders St** 4 130 keys Jul-2016

#### Key Mooted Projects

- **Parkroyal Docklands** 5* 281 keys Jul-2016
- **Four Points Docklands** 4* 269 keys Jan-2017
- **Aloft on Lonsdale Street** 4.5* 300 keys Aug-2017

**Source:** STR Global, CBRE Hotels

### DEMAND for Hotels, Motels and Serviced Apartments (Year Ending September 2014)

**Visitor Arrivals**

<table>
<thead>
<tr>
<th>Purpose of Visit</th>
<th>Domestic</th>
<th>International</th>
</tr>
</thead>
<tbody>
<tr>
<td>Holiday</td>
<td>20%</td>
<td>80%</td>
</tr>
<tr>
<td>Business</td>
<td>35%</td>
<td>65%</td>
</tr>
<tr>
<td>VFR</td>
<td>7%</td>
<td>93%</td>
</tr>
</tbody>
</table>

**Length of Stay:** 2.9 days

**Purpose of Visit**

- **Holiday** 5%
- **Business** 36%
- **VFR** 45%
- **Other** 7%

**Dominant Source Markets**

1. New South Wales
2. Victoria
3. Queensland

**Visitors ('000):** 4,878.86
**Visitor Nights ('000):** 14,006.45

**Domestic** 65%
**International** 35%

### HISTORICAL PERFORMANCE (Year Ending December)

**Source:** STR Global, CBRE Hotels

- **RevPAR**
- **ADR**
- **Occupancy**

#### A$200

- 2010: 80%
- 2011: 90%
- 2012: 80%
- 2013: 70%
- 2014: 60%

#### A$180

- 2009: 50%
- 2010: 60%
- 2011: 50%
- 2012: 50%
- 2013: 50%

#### A$160

- 2009: 40%
- 2010: 40%
- 2011: 40%
- 2012: 40%
- 2013: 40%

#### A$140

- 2009: 30%
- 2010: 30%
- 2011: 30%
- 2012: 30%
- 2013: 30%

#### A$120

- 2009: 20%
- 2010: 20%
- 2011: 20%
- 2012: 20%
- 2013: 20%

### Key Points

- **RevPAR:** AU$151.13 vs. AU$146.68 in 2013
- **ADR:** AU$185.08 vs. AU$178.52 in 2013
- **OCC:** 81.7% vs. 78.3% in 2013

### Notes

- **Strong demand levels supports a CBD and inner fringe market occupancy of over 80%.**
- **Unlike many Australian capital cities, Saturday night is the strongest which reflects the inherent nature of this market’s segment mix of corporate and leisure business.**
- **ADR growth has been lacking largely due to consortia resistance to increases and third party internet reservation sites which capture significant commissions.**
- **Melbourne is anticipated to absorb the new room supply although hidden supply is the ‘elephant in the room’ given the huge number of current and proposed apartment developments in the CBD and fringe.**
- **The outlook for Melbourne is steady RevPAR growth generally at CPI levels.**
**PERFORMANCE (Year Ending December 2014)**

<table>
<thead>
<tr>
<th>Metric</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADR</td>
<td>AU$200.97</td>
</tr>
<tr>
<td>OCC</td>
<td>83.6%</td>
</tr>
<tr>
<td>REVPAR</td>
<td>AU$167.91 (Vs. 2013: -3.8%)</td>
</tr>
</tbody>
</table>

Source: STR Global, CBRE Hotels, TRA

**SUPPLY (Year Ending December 2014)**

**Existing Hotels, Motels and Serviced Apartments:** 99 (10,436 rooms)

- **Key Recent Openings**
  - Terrace Hotel: 5*, 15 keys, Mar-2013

- **Key Properties Under Construction**
  - Old Treasury Building: 5*, 48 keys, May-2015

- **Key Mooted Projects**
  - Westin Hotel: 5*, 300 keys, Jan-2017
  - Ritz Carlton Hotel: 5*, 204 keys, 2018

Source: STR Global, CBRE Hotels

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**DEMAND for Hotels, Motels and Serviced Apartments**

**Visitor Arrivals**

- **Visitor Nights**
  - Domestic: 66%
  - International: 34%

**Visitors (’000):** 1,204.12

**Visitor Nights (’000):** 4,238.39

- **Length of Stay:** 3.5 days

**Purpose of Visit**

- Business: 12%
- Holiday: 43%
- VFR: 38%
- Other: 7%

1Based on visitor nights

Source: TRA, CBRE Hotels

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**HISTORICAL PERFORMANCE (Year Ending December)**

<table>
<thead>
<tr>
<th>Year</th>
<th>RevPAR</th>
<th>ADR</th>
<th>Occupancy</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>A$220</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>A$200</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>A$180</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>A$160</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>A$140</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: STR Global, CBRE Hotels

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Despite the downturn in the mining industry, statistics still show strong occupancies and ADRs because of the need for more hotels, predominantly in Perth. Perth is a market in transition: the boom style demand conditions supported by an active mineral and resources sector now need to be replaced in large part by traditional leisure tourism. Given that airline seat capacity is a major consideration for this market, it is essential that carriers maintain current capacities and tourism authorities effectively market the West. Substantial development around the Perth CBD not only increase the room supply but add to the appeal of the city as a destination and provide much needed new quality room stock. It is likely to be a bumpy demand transition over the short term.
Sydney, as Australia’s premier gateway and financial centre, attracts demand from a wide variety of sources. It accommodates high levels of domestic corporate demand mid-week, domestic leisure on weekends, international corporate business throughout the year and international leisure in the warmer months. Strong demand levels have produced high occupancies and escalating ADRs. With minimal new supply in the short term, occupancies are likely to remain high with ADR growth at inflationary levels or better.
Despite the fundamentals for new hotel development remaining challenging, particularly for full service offerings, the availability of sites sees Melbourne and Brisbane showing the greatest supply growth expectation. Barriers to entry for new developments remain high, particularly in Sydney, and while funding pressures have eased dramatically, the foot race to highest and best use sees alternate asset classes, most notably residential, keeping the hurdle high.

CBRE Hotels expects development to be dominated by limited service hotels, mixed use schemes, redundant office conversions and concept venue developments over coming years. Full service hotels may be promoted in government site releases in key markets where occupancies are high and where hotel development is seen as a key element to economic activity and growth.

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**Key Australian Markets**

- **CBD Markets**
  - Brisbane CBD: +17.0%
  - Melbourne CBD: +17.3%
  - Perth CBD: +10.7%
  - Sydney CBD: +5.2%

- **Greater City Regions Markets (including CBD and surrounds)**
  - Adelaide: +3.2%
  - Cairns: +0.0%
  - Canberra / ACT: +11.0%
  - Darwin: +15.7%
  - Gold Coast: +1.3%
  - Hobart: +11.4%

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1Percentage increase on existing supply in respective markets

Note: Mooted hotels are based on CBRE’s estimates of developments more than 50% likely of occurring and opening before 2018. CBD was selected for Brisbane, Melbourne, Perth and Sydney due to their size.

Source: STR Global, CBRE Hotels
Over the past 12 months, CBRE Hotels has observed the following hotel development trends:

- New hotel owner operators are expanding and establishing their flags in key gateway cities, while several established groups have capitalised on the strong market fundamentals to sell on favourable terms.
- Operator demand for prime hotel development continues to drive competitive Hotel Management Agreement negotiations throughout Australia’s capital cities.
- There is a trend for new hotel developments to steer away from traditional full service models and create more rooms focused hotels with food and beverage elements that are separately leased to specialist tenants.
- Hotel designs are becoming less standardised and are focusing on differentiation through interior design that is customised to the destination.
- Technology continues to play an important part of new hotel design, allowing guests to check-in / check-out, unlock their rooms through their smartphone and operate in-room amenities including electronic blinds, televisions, air-conditioning and lights, among other features.
- ‘Active’ lobbies with a merging of common spaces, including the reception, lobby, café and meeting areas, offer more profitable use of floor space and typically include a high level of design / style input.
- Modular construction is an emerging solution to feasibility challenges. Thus far, the practical reality has been a noticeable time benefit.
- Mixed use projects that include residential, commercial and hotel components remain the main format for new hotel development.
The market in Australia is relatively small and therefore market averages in terms of transaction size, value per room and yield and can be skewed by a small number of outlying transactions. Nonetheless, sufficient enough volume occurs to give quite a graphic picture of the market.

The number of sales in 2012 and 2013 exceeded the boom years of 2004/5 when purchasers were positioning for growth. Transactional activity for 2013 included the sale of the 30 hotel TAHL portfolio and the Four Seasons in Sydney, accounting for close to two thirds of total sale volume.

2014 has also seen a number of major transactions including the Park Hyatt Melbourne, the Sofitel Wentworth Sydney and the Sheraton on the Park, all of which attracted major international interest.

With the upcoming sale of the Hilton and Westin hotels in Sydney, CBRE Hotels expects sales volumes for 2015 to once again exceed AU$1.5 billion.
The expectation of continued income growth, low interest rates and an intensification of investment demand have all combined to see yields compress further in 2014.

Unlike the investment surge prior to the GFC, where investors were punting on growth, the narrow gap between the actual initial yield and the perceived stabilised yield shows the shift from growth to income as the main value driver. The weighted stabilised yield in 2014 of 7.54% demonstrates not only yield compression that has been experienced in property investment generally but also investor confidence in the hotel asset class.

A continuation of stable fundamentals, investment pressure and low interest rates will see yields remain tight and compress further for noteworthy investment opportunities.
Initial Yields 2014

Melbourne Park Hyatt
Yield: 6.2%

1888 Hotel, Sydney
Yield: 7.1%

ibis Styles Kingsgate
Melbourne
Yield: 7.5%

Abode Woden
Yield: 9.0%

Rydges Darwin Airport
Hotel & Resort
Yield: 10.5%

Sheraton on the Park,
Sydney
Yield: 6.3%

Oaks on Lonsdale,
Melbourne
Yield: 7.1%

Novotel Wollongong
Yield: 8.5%

Chifley Penrith
Yield: 9.4%

Sunnybank Star Motel &
Apartments
Yield: 10.5%

Source: CBRE Hotels

The Park Hyatt Melbourne, the Sofitel Wentworth Sydney and the Sheraton on the Park have recently been acquired by Asian based investors who have been attracted to the freehold nature of these major assets and their locations in key Australian cities. The significant interest in each property, has been reflected in the forecast initial yield for each of the assets falling below 6.5%.

CBRE Hotels expects that the yield profile for well located, major hotel assets within the main Australian corporate markets will continue to harden, reflecting the investment surge from international investors seeking to take advantage of Australia’s relative economic stability, security and continued growth prospects.
The Australian hotel market continues to perform strongly with occupancies maintaining an upward trend, aided by the weaker Australian dollar. Arrivals from China are increasing but the traditional inbound markets remain New Zealand, the United Kingdom and the United States, while domestic demand remains dominant. The operating environment in major city markets in recent years has been characterised by ‘full house’ occupancies exceeding 80%, strong ADR growth and limited new supply.

Underpinning this position of strength has been Australia’s economic growth that has averaged almost 3% per annum for the last seven years. As the Australian economy transitions from mining investment to export production and the Australian dollar falls to levels that support the balance of trade position and tourist visitations, market fundamentals are positioned to support solid longer term performance well into the future.

**Investors continued to display a robust appetite for hotel properties in Australia with strong sales setting record yields and price points.**

The shortage of saleable good quality and well located assets continues to boost pricing. Buyers from Asia were very active over the course of 2014 and accounted for virtually all deals for assets priced over AU$50 million. Domestic buyers – primarily high net worth individuals – are generally focusing on assets below AU$40 million as they feel competition at the upper end of the market is too strong at present. Recent major transactions include the AU$463 million acquisition of the five-star Sheraton on the Park Sydney. The deal set a new record for the largest single hotel asset sale in Australia. The buyer was China-based Sunshine Insurance Group.

The outlook for 2015 is positive with strong trading conditions in the short to medium term and a large volume of capital chasing deals, particularly in the key Sydney and Melbourne markets.
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