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Hotel sector remains buoyant despite the credit squeeze

Sydney, NSW (2 April 2008)

A surge in hotel room rates will maintain healthy returns from the Sydney hotel sector and help offset the impact of the current credit squeeze, according to new forecasts from CB Richard Ellis.

Speaking today at the firm's annual Valuation & Advisory Mortgage Industry Forum in Sydney, CBRE Hotels Regional Director Ken Smith said the hotel sector appeared to be the "bright light" on the horizon given the issues facing some other sectors of the property investment market.

Mr Smith said CBRE's expectation was that a shortage of new hotel rooms and relatively strong demand fundamentals would underpin a 6% to 10% hike in Sydney hotel room rates this year.

"We're in a severe supply squeeze in many markets throughout Australia and particularly in Sydney," Mr Smith told attendees at today's CBRE forum.

"This has been caused firstly by low performance for hotels in the early part of this decade, which led to relatively low values. That, against the high cost of development, showed a lack of viability and hence we've had no new supply. What's that's created is high occupancies and rising room rates," Mr Smith said.

CBRE's current forecast is for hotel occupancies to remain at historically high levels – a percentage range in the high 70s to low 80s.

"Under that scenario we see room rates growing quite considerably," Mr Smith said.

"Sydney has been quite sluggish over the last couple of years but that's about to change. As has been experienced in Brisbane over the last few years and more recently in Perth and other markets is that average daily room rate growth well in excess of inflation can occur quite quickly."

CBRE is forecasting average daily room rate (ADR) growth as high as 10% in 2008, which would translate into considerable income growth for hotel owners in the years ahead.

Based on 8% growth in room rates next year - followed by growth of 6%, 4%, and 3% in the following three years – hotel owners could anticipate income growth of 10% per annum compound over the next four years.

Growth would be as high as 20% this year relative to 2007 – helping to offset the impact of the credit squeeze and an anticipated softening in hotel yields.

“The hotel market should be a good value hedge against the current yield slide in the property industry,” Mr Smith said.

On the subject of risk, Mr Smith said the major considerations for financiers were the potential for an economic slow down that would impact the demand for hotel rooms; the possibility of a supply surge; and the prospect that hotel income growth might not compensate for the expected slide in hotel yields.

On all three fronts, Mr Smith said the prospects appeared sound. The risk of an economic slow down impacting demand was considered to be quite low and there were high barriers to new supply in the hotel sector.

On the prospect of income growth not compensating for a slide in yields, Mr Smith said the risks varied depending on location.

“I think that it’s location dependent and it’s a low risk in the city but a higher risk in suburban and regional locations.”

About CB Richard Ellis

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