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Yields soften for Australian hotels but offshore demand remains strong

Sydney, Australia (6 February 2009)

The Australian hotel investment market has not been immune to the turmoil in global financial markets, with new CBRE research indicating that hotel yields eased by at least 50 basis points - and in some cases by more than 100 basis points - in 2008.

CBRE Hotels' newly issued Limelight report highlights that yields for prime, highly marketable hotels eased by between 50 and 100 basis points, while yields for lesser quality or passive hotel softened by more than 100 basis points during the course of the year.

CBRE Hotels Business Analysis Manager Nathan Wiltshire said hotel yields had returned to the levels of early this decade and a further easing was expected this year. However, the dynamic nature of hotel revenue would be a positive for the sector in the current uncertain operating environment and Australian hotels were still expected to receive interest, particularly from overseas private investors.

"Any further softening in yields will be determined by the depth of the economic downturn, but will be counteracted to a degree by reductions in interest rates," Mr Wiltshire said.

CBRE Hotels Regional Director Rob Cross said yields would also be increasingly dependent on individual property fundamentals and marketability as leisure and corporate travel demand softened in line with an easing in tourism growth globally.

"Properties with a diverse demand base in high demand locations are most likely to retain lower acceptable yields, while those without these attributes will be discounted," Mr Cross said.

"Overall, however, we expect the sector to continue to attract interest due to the limited supply of hotels in most Australian cities and the lack of new construction which will help preserve the sector's medium to long term profitability."

The Limelight report highlights a significant fall in the volume of Australian hotel sales above \$10 million during 2008. Discounting hotels that were purchased for alternative uses, hotel sales totalled over \$620 million - the lowest level since 2001.

The report also highlights a significant shift in buyer profile. Whereas Australian investors were the dominant purchaser group in recent years, accounting for more than 90% of all sales in 2005 and 2006, economic conditions and the limited availability of funds has shifted the balance back to foreign investors.

For the first time since 2002, foreign investors outbid local buyers to acquire \$396 million of hotel stock, with key transactions including the \$160 million sale of The Westin Melbourne to the Malaysian-listed TA Enterprise Bhd. Local buyers accounted for the remaining \$225 million in hotel deals during 2008.

Private buyers also came to the fore during 2008 and a similar trend is expected this year, with buyers expected to put a growing emphasis on opportunities to value add through upgrading, re-branding or renegotiating management structures.

"Institutional investors have been the dominant players in past years due to the growing acceptance of this sector as a viable investment avenue under expert asset management," Mr Wiltshire said.

"However, as seen in the past 12 months we expect major private and offshore investor to become more active in 2009, with many in search of trophy assets in prime locations. We don't expect to see institutional investors return to the market in the foreseeable future, however those that have funds available are likely to return to the market once signs of improving fundamentals return."

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