

Australia Hotels, Q3 2020

# Domestic market 'locked in' for the summer

 <b>Occupancy</b> YE Sep-20 <b>51.7%</b>	 <b>ADR</b> YE Sep-20 <b>\$175</b>	 <b>RevPAR</b> YE Sep-20 <b>\$90</b>	 <b>Dom. Overnight</b> Trips YE Jun-20 <b>92.0 million</b>	 <b>Dom. Overnight</b> Trip Spend YE Jun-20 <b>\$63.0 bn</b>
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\*Arrows indicate change from previous year.

**Key Points**

- **Annual RevPAR** declined 33.9% to \$90 for the year ending September 2020
- **National occupancy** declined 29.8% to 51.7% for the year ending September 2020
- **ADR** declined 5.9% to \$175 for the year ending September 2020
- **No market** registered positive annual RevPAR growth for the year ending September 2020
- **No new international visitor arrivals** were recorded in Q2 2020 as international borders remain closed
- **Domestic overnight trips** for the year ending June 2020 reached 92.0 million, declining 19% on 2019.
- **Domestic overnight spend** for the year ending June was \$63 billion, down 19% on 2019.
- **Hotel sales volume** for Q3 2020 was \$289 million

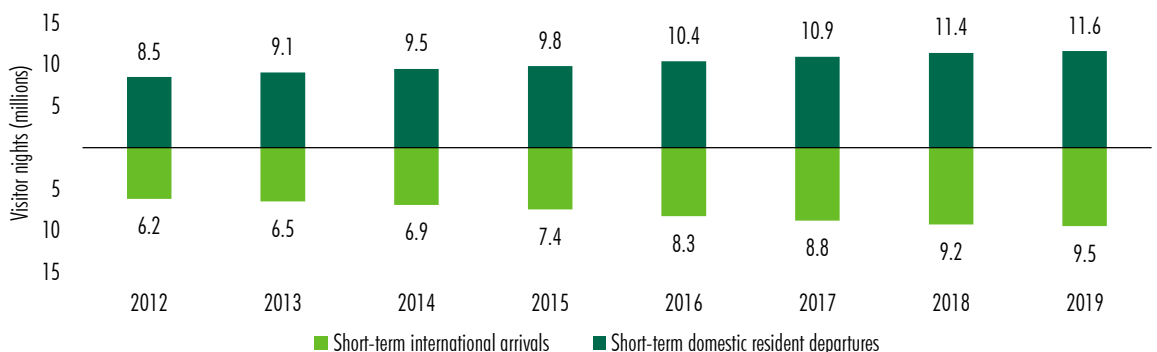
**PERFORMANCE IMPROVING SINCE Q2**

All national markets recorded occupancy increases over the past quarter under easing COVID-19 restrictions and improved travel confidence. Melbourne's prolonged Stage 4 lockdown has had a detrimental effect on its hotel demand.

A two-speed economy is emerging between CBD and regional markets. Regional operators have benefited from the surge in captive local travellers, while CBD markets continue to record low occupancy with subdued corporate-related demand and no international travel.

The hotel sector is recovering, albeit at a gradual pace, as Australia winds back movement restrictions. Support is coming, however, through a range of Federal Government FY2020-21 Budget initiatives. This includes an under-35 direct wage subsidy scheme, JobMaker Hiring Credit, as well as full capital asset deductions to support profitability. Continued government support, record-low interest rates along with the continued uplift in local travel from a displaced domestic outbound market as borders remain closed, is expected to assist with the sector's recovery over the summer months.

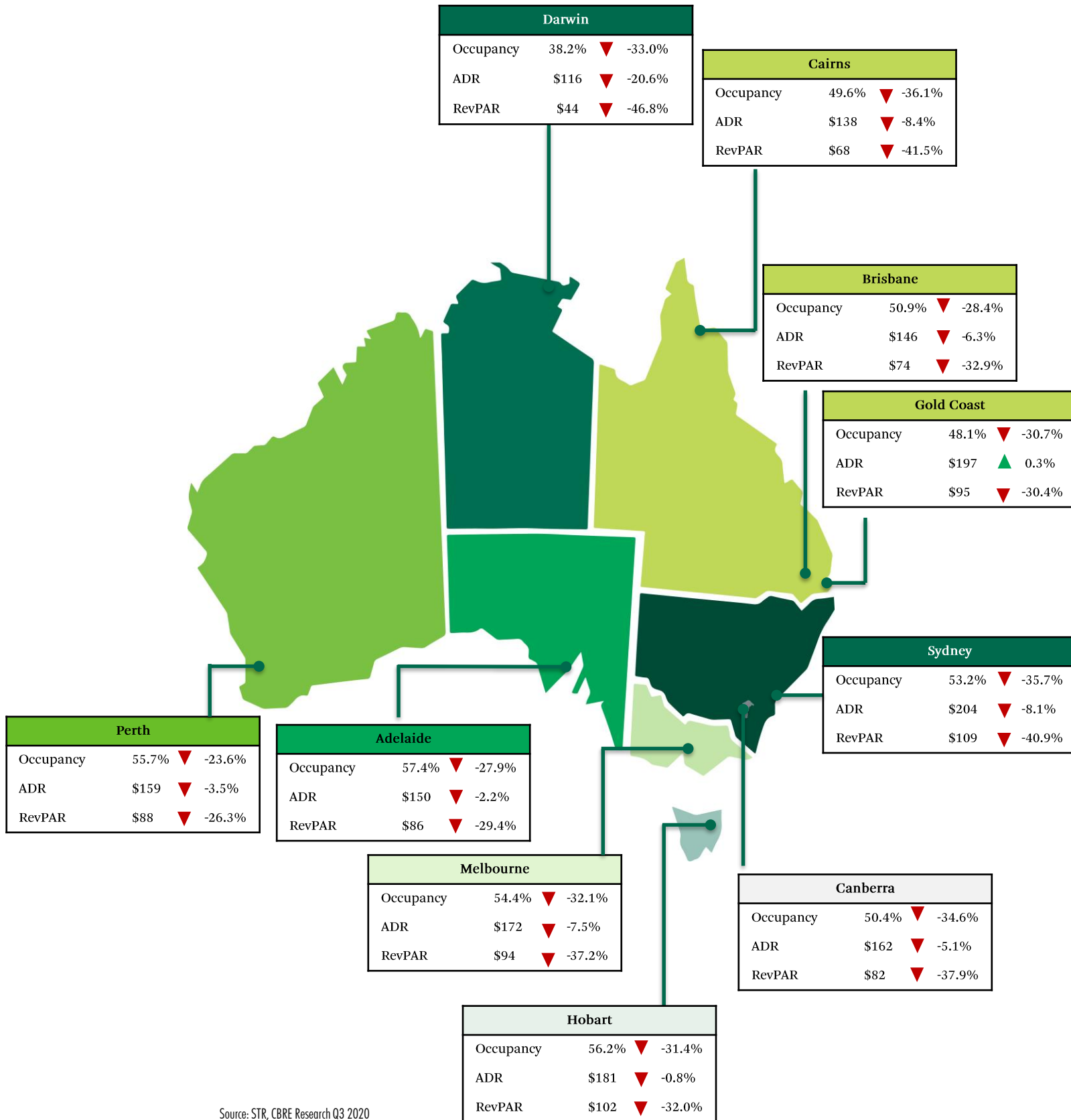
Chart 1: Short-term Domestic Resident Departures vs. Short-term International Arrivals - Australia



Source: ABS; CBRE Research Q3 2020

# National Overview

\*Rolling annual Sep-20



Source: STR, CBRE Research Q3 2020

# Hotel Performance

## OCCUPANCY

National occupancy has gradually improved over Q3 as COVID-19 restrictions eased across most states. Leisure markets such as the Gold Coast have benefited from displaced interstate travel, with most state borders remaining shut throughout this period.

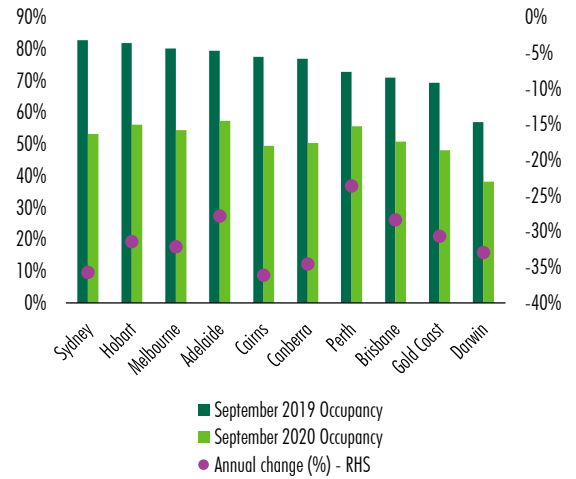
With the exception of Melbourne, CBD markets are experiencing pronounced occupancy spikes over weekends as locals indulge in city getaways. Perth recorded the strongest performance over the past quarter relative to the other markets, partly due to rising consumer and business confidence and a captive interstate worker market driving strong weekend occupancy levels.

Despite improving conditions across most states, occupancies across all markets are trending materially lower than 2019 levels. Subdued occupancy levels are expected to persist into 2021 under recovering domestic and international markets.

## ADR

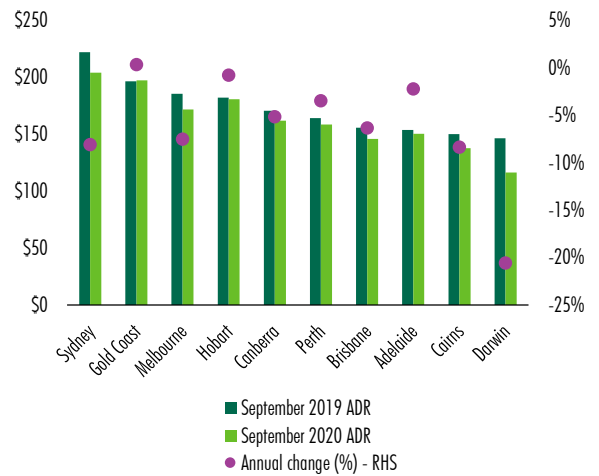
ADR trended slightly lower across most markets, which is reflective of the current business mix being heavily weighted towards rate-constrained government business, which currently serve as quarantine hotels. The marginal fall in ADR suggests that hoteliers have been more aggressive in pricing for non-government business in order to partially offset the resultant lost revenue from a depressed demand base.

Chart 3: Rolling Annual Occupancy Change – 12 Months to September



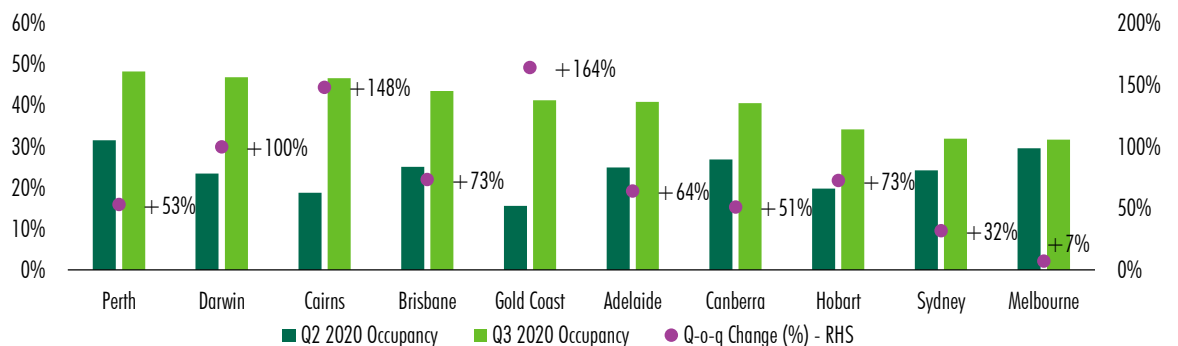
Source: STR; CBRE Research Q3 2020

Chart 4: Rolling Annual Average Daily Rate Change – 12 Months to September



Source: STR; CBRE Research Q3 2020

Chart 2: Quarterly Occupancy Change\*



Note: Quarterly occupancy represents a weighted figure of monthly occupancy  
Source: STR; CBRE Research Q3 2020

# Demand Drivers

## VISITATION

With the exception of temporary visa holders, Australia has not recorded any short-term international visitor arrivals since March 20. The international market represents a key demand segment for most markets, with some national markets expected to be hit harder than others due to the absence of international travel.

Hotels will continue be reliant on intrastate markets, as well as a pick up in interstate travel once state borders open across Australia. This will help drive demand, as well as a strong domestic leisure market that has historically recorded consistent annual growth over the past five years.

## AIRLINE CAPACITY

A healthy domestic aviation industry is paramount to the viability of the national hotel and tourism sector. Reduced air capacity is expected along less travelled regional routes, noting that domestic carriers are likely to operate with reduced fleets moving forward. Pricing and capacity challenges could in turn translate to lower hotel demand across notable ‘fly-to’ markets.

Furthermore, Australia’s largest carrier Qantas has reduced international route capacity by 90 per cent in response to COVID-19. This presents similar pricing and availability challenges for potential international travellers once borders open again.

## TRAVEL BUBBLES

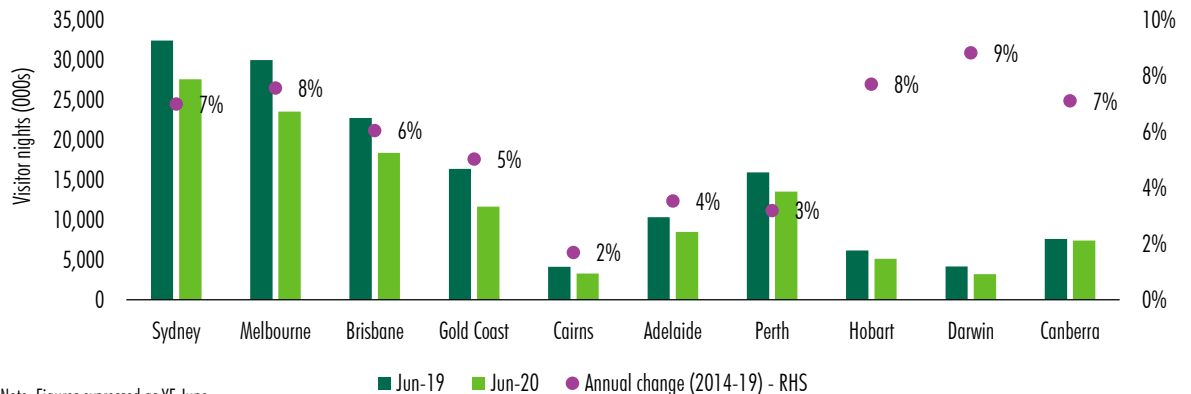
A travel bubble represents a lucrative opportunity to encourage cross-border travel between countries with relatively low COVID-19 infection rates. Australia has already established one-way travel bubbles with New Zealand (NZ to Australia) and Singapore (Australia to Singapore), and has proposed travel bubbles with Japan, South Korea, Taiwan and the Pacific Islands.

These arrangements are, however, still subject to a number of restrictions including mandatory hotel quarantine. As such, visitors will need to assess the benefits against the significant time and financial cost currently associated with international travel.

Table 1: Key Risks and Opportunities to Domestic and International Travel

Risks	Opportunities
<ul style="list-style-type: none"> <li>Confidence in travel will be strongly linked to the availability of a successful COVID-19 vaccine, of which timing is uncertain</li> <li>Persistent delays in state border reopenings will continue to limit interstate travel</li> <li>Reduced domestic flight capacity could impact accessibility to a number of ‘fly-to’ markets</li> <li>High implementation costs and increased traveller expenses associated with travel bubbles could limit viability moving forward</li> </ul>	<ul style="list-style-type: none"> <li>Local regional operators are expected to capitalise on a captive domestic market particularly as Australia approaches its summer months</li> <li>Australia can leverage its low COVID-19 infection rate as a competitive advantage to attract short-term international travel</li> <li>Travel bubbles can present a lucrative opportunity for operators if implemented efficiently e.g. allowing quarantine-free travel</li> <li>Ongoing surges in COVID-19 cases in Europe and North America will perturb Australians travelling overseas even as borders gradually open</li> </ul>

Chart 6: Domestic visitor nights and historic annual growth



Note: Figures expressed as YE June  
Source: TRA Q2 2020; CBRE Research

# Investment Market

## SALES ACTIVITY PICKS UP IN Q3

Hotel sales recorded stronger volumes in Q3 relative to the previous Q2 sales cycle, achieving a total of \$289 million in sales nationally. The recent sales activity has been underpinned by domestic and international investors with a mandate to acquire assets and holding a longer-term view on investment returns.

Despite the current uncertainty, recent sales are observing price discounts between 5% and 15% on estimated pre-COVID values. The relatively low price reduction is somewhat reflective of the mix of hotels having been sold weighted toward investment-grade assets that typically transact within tighter yield ranges. Investor confidence is also underpinned by an acute shortage of yielding assets and expectations that the hotel sector still represents a worthy yield opportunity over the medium term as trading markets gradually recover.

Vibe Hotel Melbourne represents the largest sale this quarter, with Sino Pacific Trading Company purchasing the asset from Caydon Property Group for \$108 million. In addition, Radisson Suites Darling Harbour in Sydney and The Fantauzzo Art Series in Brisbane exchanged recently for \$38 million and \$67 million respectively.

Despite some recent pick up in activity, hotel investment will continue to be challenged by soft trading conditions and diminished borrowing liquidity. Major banks continue to be cautious in issuing new debt to the sector. Given the uncertainty of timing for a full market recovery, investors may be discouraged by the prospect of underwriting future incomes, and accurately pricing the risk of those forecasts.

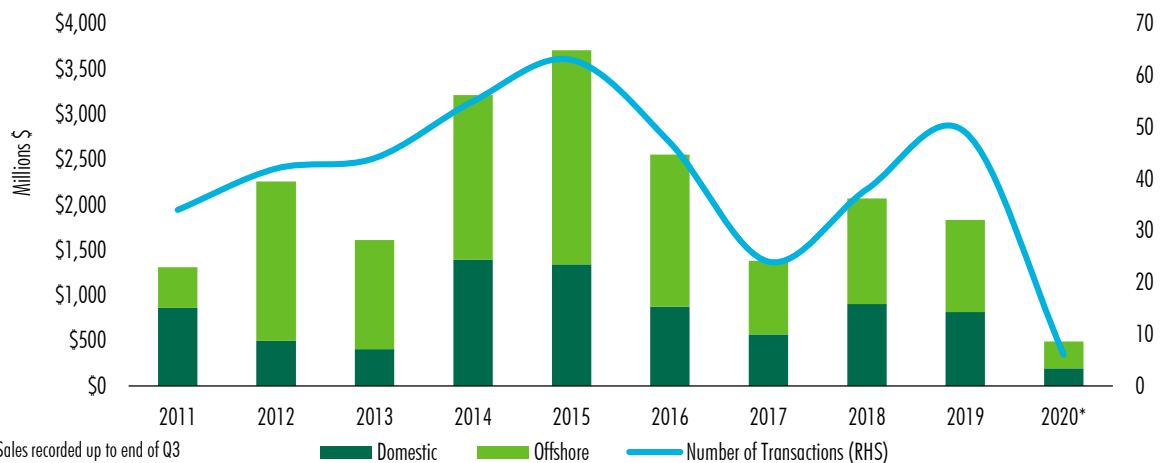
However, well capitalised investors, many of whom have been priced out of the market in pre-pandemic on-market sales campaigns, will be well positioned to take advantage of the likely increase in opportunities created by the COVID-19 induced market dislocation. Such opportunities are likely to arise as a result of investor spot liquidity requirements, lender-forced liquidity trades, or portfolio rebalances responding to lessons learned during the pandemic.

Table 2: Notable Transactions Q3 2020

HOTEL	LOCATION	SALE DATE	PRICE (m)	KEYS
Vibe Hotel Melbourne	Melbourne	Jul-20	\$108	206
The Fantauzzo Art Series	Brisbane	Sep-20	\$67	166
Radisson Hotel & Suites Sydney	Sydney	Sep-20	\$38	100
Rydges on Swanston	Melbourne	Sep-20	\$35	107
Rydges Capitol Square	Sydney	Sep-20	\$26	94
The Bower Byron Bay	Byron Bay	Sep-20	\$15	28

Note: Sale price rounded to nearest \$ million  
Source: RCA, CBRE Research

Chart 7: Hotel Sales above \$5 million



\*Sales recorded up to end of Q3  
Source: RCA, CBRE Research

# Supply

## REDUCED NEW SUPPLY PIPELINE

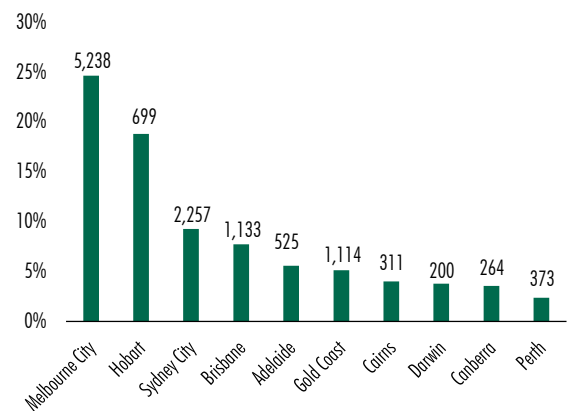
The impacts of COVID-19 have led to a material reduction in the new supply pipeline across most national markets.

Within the new supply pipeline, hotel developments not already under construction are now unlikely to proceed. The majority of hotel developments with planning approvals but yet to commence construction are on hold at this time, with many unlikely to proceed for an extended period. Projects which are under construction will proceed, however, their completion dates will be extended due to slower construction times and a reluctance on the part of owners to open new hotels in such challenging market fundamentals.

Despite challenging development conditions, markets such as Melbourne CBD and Hobart are expected to either forge ahead or progress with a large number of projects. This is expected to result in notable supply additions, and coupled with subdued market conditions, is likely to have a dampening effect on medium-term occupancy and room rate growth across these markets.

Most markets, however, are expected to deliver limited net increases over current stock levels, and this should help alleviate some longer-term pressure off existing hotels. Guests will also be buoyed by the prospect of fresh and high-quality product entering the market, noting that upper upscale and luxury hotels represent over 60% of national room supply under construction.

Chart 8: National Supply Pipeline Under Construction



Note: Labels represent the no. of rooms under construction (only)  
Source: CBRE Research Q3 2020

Table 3: 2020-21 National Supply Pipeline – Major Projects\*

Property	Market	Quality	Number of Keys	Current Status	Opening Date
SKYCITY Adelaide Casino Hotel	Adelaide	5 Star	123	Under Construction	Dec-20
Sofitel Adelaide	Adelaide	5 Star	257	Under Construction	Jan-21
Hotel Indigo Adelaide	Adelaide	4.5 Star	145	Under Construction	Feb-21
Hotel Indigo Brisbane	Brisbane	4.5 Star	146	Under Construction	Feb-21
Flynn	Cairns	5 Star	311	Recently Completed	Nov-20
Adina Grand Canberra	Canberra	4.5 Star	132	Under Construction	Jan-21
Rydges Hotel Gold Coast Airport	Gold Coast	3.5 Star	192	Recently Opened	Nov-20
Langham Hotel & Residences, Jewel Gold Coast	Gold Coast	5 Star	254	Under Construction	Jun-21
Meriton Suites Surfers Paradise	Gold Coast	4 Star	332	Under Construction	Sep-21
Vibe Hotel Hobart	Hobart	4 Star	120	Under Construction	Nov-20
Movenpick Hotel	Hobart	5 Star	221	Under Construction	Feb-21
The Tasman	Hobart	5 Star	152	Under Construction	Mar-21
W Hotel	Melbourne	6 Star	294	Under Construction	Nov-20
AC Hotel	Melbourne	4 Star	193	Under Construction	Dec-20
Adina Apartment Hotel	Melbourne	4 Star	220	Under Construction	Jan-21
Hilton Hotel	Melbourne	5 Star	244	Under Construction	Jan-21
Ritz Carlton Hotel	Melbourne	6 Star	263	Under Construction	Mar-21
Quest Ascot	Perth	4 Star	112	Under Construction	Jan-21
Double Tree by Hilton Perth Waterfront	Perth	3.5 Star	229	Under Construction	Jun-21
Little National Hotel	Sydney	5 Star	230	Under Construction	Nov-20
Adina Apartment Hotel Sydney	Sydney	4 Star	194	Under Construction	Dec-20
Crown Sydney Barangaroo	Sydney	6 Star	350	Under Construction	Dec-20

\*Table is not a comprehensive list and only provides a summary of key projects; Source: CBRE Research Q3 2020

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