HOTEL FUTURES 2017

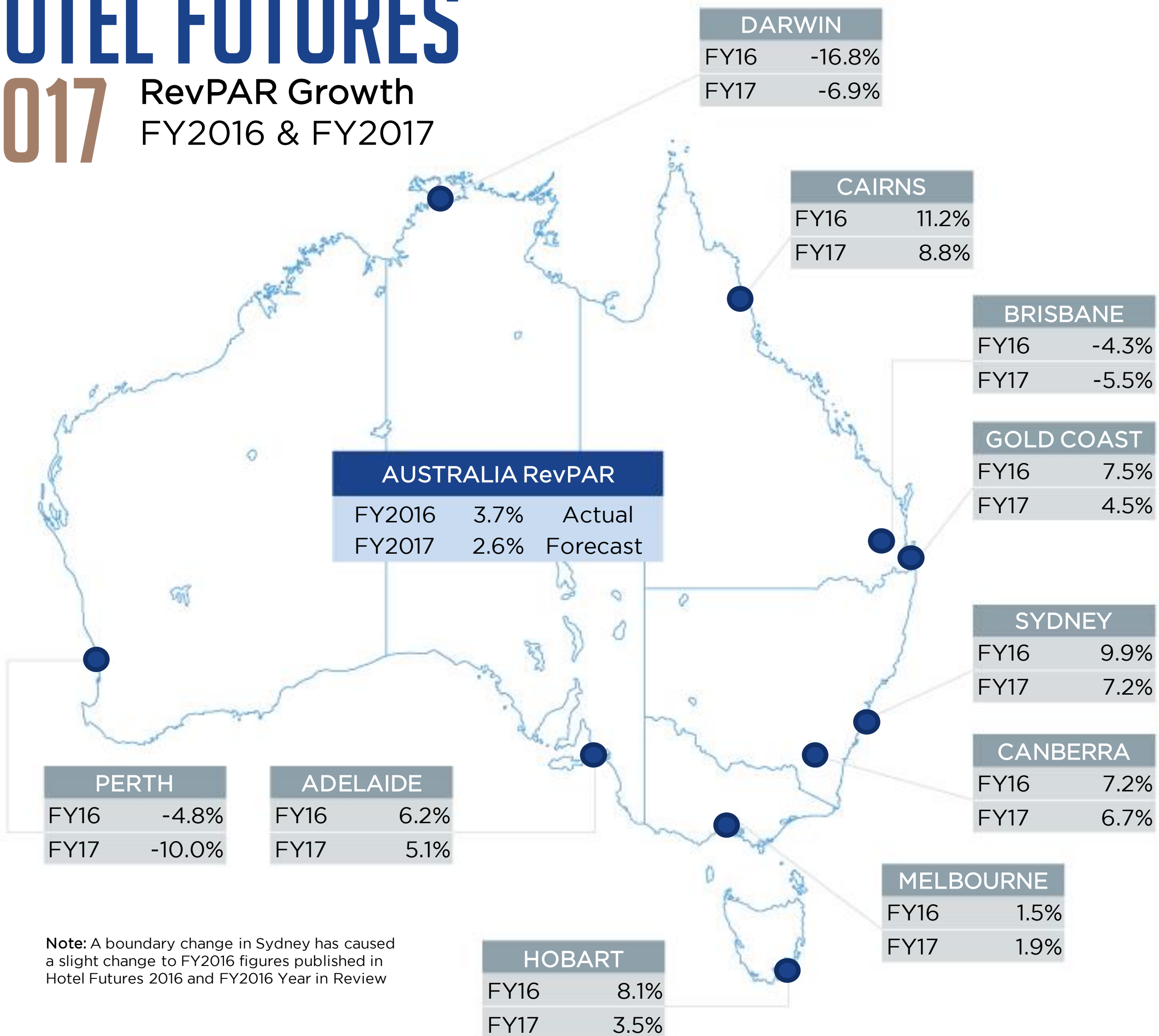
A REVIEW OF THE REVENUE PERFORMANCE OF MAJOR AUSTRALIAN HOTEL MARKETS WITH FORECASTS TO 2025

www.dransfield.com.au

DRANSFIELD
HOTELS & RESORTS

HOTEL FUTURES 2017

RevPAR Growth FY2016 & FY2017



Note: A boundary change in Sydney has caused a slight change to FY2016 figures published in Hotel Futures 2016 and FY2016 Year in Review

CONTENTS

DRANSFIELD HOTELS & RESORTS

ABOUT DRANSFIELD

DRANSFIELD is a specialist professional services organisation advising the tourism, finance and property industries.

Our experience includes a wide range of property and business related projects involving over 65,000 hotel rooms and numerous food and beverage outlets in more than 600 hospitality enterprises throughout Australia and Asia.

For further information on the range of services we provide, and the ways in which we can assist you, please visit our website www.dransfield.com.au or contact us.

DEAN DRANSFIELD

Director & Owner

T +61 2 8234 6644

E dean.dransfield@dransfield.com.au

DRANSFIELD

Our core offering is the ability to integrate our various service skill sets into a cohesive solution for development, operations and overarching advice. Service streams include:

TRANSACTIONS

- Agency
- Operator Selection
- Due Diligence
- Vendor Representation
- Bid Advisory
- Transaction Management
- Leasing

DEVELOPMENT

- Development Management
- Commercialisation of Design
- Integration of Development & Operations
- Feasibility Assessment
- Planning
- Design

SHARED OWNERSHIP

- Scheme Concept
- Responsible Entity
- Marketing & Sales
- Feasibility
- Advisory

STRATA/COMMUNITY TITLE

- Scheme Concepts
- PDS & Prospectus (AFS Licensed)
- Offer Structure
- Project Design and Commercialisation
- Operator Selection
- Project Marketing

EXPERT'S REPORTS

- Independent Expert Reports
  - Prospectus
  - PDS
- Expert Witness
  - Independent Court Reports
  - Litigation Support & Management

ASSET MANAGEMENT

- Asset Management
- Strategy Development & Implementation
- Operations Implementation
- Financial & Operational Reporting
- Stakeholder Management
- Refurbishment

ADVISORY AND FINANCE

- Operations
- Feasibility & Best Use Studies
- Strategic Consulting
- Restructuring Services
- Investment Risk Analysis
- Portfolio Assessment
- Debt & Equity Sourcing
- Refinancing
- Valuation Management
- Joint Venture/Equity Participation
- Independent Advisory
- Debt Restructuring

Hotel Futures 2017 was compiled by Dean Dransfield, Raq Pustetto, Scot McLaughlin, Grace Lam, Chanel Cargill and Hayden Longmuir © April 2017

HF2017 SNAPSHOT

Medium term RevPAR growth averaging 3.8% p.a with a slightly stronger outlook over the long term. Occupancy expected to hold above 77% for the entirety of the forecast, creating rate opportunities in most cities as demand growth outstrips new supply

FY2016

In FY2016 the Australian Capital City Hotel markets recorded 3.7% revenue growth (RevPAR) which exceeded our 1.3% expectations. Occupancy tightened to unprecedented levels, reaching 78%, enabling rate outperformance

RevPAR

The long term revenue forecast for Australian Capital City hotels is for strong **RevPAR growth averaging 4.4% p.a**, underpinned by extremely high occupancy levels despite moderate additional supply which continues to be outpaced by demand growth

- The forecast is consistent with prior expectations with slightly increased supply expectations offset by increased demand and affecting hotelier confidence to claim rate growth. Long term growth rates are largely unchanged
- Long term growth expected for all cities, although peak and trough periods have varied by city despite the national average remaining consistent with prior expectations

Supply

Hotel Futures' 2017 sees a small increase in absolute supply of 2,300 rooms to FY2024 (0.2% p.a.) which is consistent with growth in demand drivers. **Average growth of 3.4% p.a expected**

- Construction activity has almost doubled as previously proposed projects break ground. New mooted development has continued and has been comfortably absorbed into previously forecast Market Response
- Delays in delivery have eventuated over the next 3 years, however are likely to catchup over the long term

Demand

Hotel Futures' 2017 long term demand forecast is for strong **average annual growth of 3.9% to FY2025**, which is above prior expectations, enabled by improved tourism visitor night forecasts and additional supply

- Tourism Research Australia's long term visitor night forecast to FY2025 has been slightly upgraded. Average annual growth of 4.0% p.a. is expected compared to 3.6% in the prior forecast.
- Improved expectations to both Domestic and International visitor nights as International nights close the gap to Domestic market share

Average Room Rate (ARR)

Robust **long term rate growth expectations averaging 3.8% p.a** are expected as occupancy levels hold above 77% for the life of the forecast

- Improved average occupancy levels are expected following outperformance in FY2016. The supply pipeline upgrade is expected to negatively affect rate growth as hoteliers take a cautious approach to retaining and growing occupancy despite an even higher demand growth outlook
- Rate impacted by volatile confidence levels despite very good supply and demand fundamentals
- Upside opportunity remains in many cities, particularly if the large Market Response allowances do not eventuate as quickly as expected, boosting confidence levels

TOTAL AUSTRALIAN MAJOR CITIES (WEIGHTED) – HMGSA

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	$2016 Real RevPAR	Occ
HISTORICAL									
FY2008	83,407	1.7%	1.8%	$156.12	7.1%	$119.80	7.3%	$140.56	76.7%
FY2009	85,474	2.5%	-1.8%	$155.77	-0.2%	$114.53	-4.4%	$132.45	73.5%
FY2010	86,172	0.8%	2.5%	$152.38	-2.2%	$113.90	-0.5%	$127.82	74.7%
FY2011	87,442	1.5%	3.6%	$160.00	5.0%	$122.06	7.2%	$132.21	76.3%
FY2012	87,450	0.0%	0.1%	$166.49	4.1%	$127.11	4.1%	$136.07	76.3%
FY2013	87,446	0.0%	0.7%	$169.36	1.7%	$130.17	2.4%	$136.09	76.9%
FY2014	87,795	0.4%	0.1%	$170.71	0.8%	$130.75	0.4%	$132.72	76.6%
FY2015	98,745	12.5%	12.9%	$174.20	2.0%	$133.99	2.5%	$133.99	76.9%
FY2016	99,613	0.9%	2.3%	$178.10	2.2%	$138.96	3.7%	$137.58	78.0%
Actual Avg FY 2008 - 2016		**2.2%**	**2.5%**		**2.3%**		**2.5%**	**$134.39**	**76.2%**
Avg FY 12-16		**2.8%**	**3.2%**		**2.2%**		**2.6%**	**$135.29**	**76.9%**
Year	**Rooms***	**Supply % Chng**	**Demand % Chng**	**ARR**	**% Chng**	**RevPAR**	**% Chng**	**$2016 Real RevPAR**	**Occ**
FORECAST									
FY2017	101,196	1.6%	2.4%	$181.27	1.8%	$142.53	2.6%	$141.12	78.6%
FY2018	104,290	3.1%	3.9%	$189.48	4.5%	$150.19	5.4%	$145.08	79.3%
FY2019	109,120	4.6%	3.9%	$197.59	4.3%	$155.49	3.5%	$146.53	78.7%
Avg FY 17-19		**3.1%**	**3.4%**		**3.5%**		**3.8%**	**$144.24**	**78.9%**
FY2020	116,228	6.5%	5.4%	$204.68	3.6%	$159.35	2.5%	$146.08	77.9%
FY2021	122,028	5.0%	5.1%	$211.98	3.6%	$165.21	3.7%	$147.32	77.9%
FY2022	126,428	3.6%	3.8%	$219.58	3.6%	$171.44	3.8%	$148.72	78.1%
FY2023	129,585	2.5%	3.6%	$228.41	4.0%	$180.32	5.2%	$152.16	78.9%
FY2024	132,059	1.9%	3.6%	$238.52	4.4%	$191.40	6.1%	$157.11	80.2%
FY2025	134,499	1.8%	3.6%	$249.63	4.7%	$203.78	6.5%	$162.72	81.6%
Avg FY20-25		**3.6%**	**4.2%**		**4.0%**		**4.6%**	**$152.35**	**79.1%**
Total Forecast Avg FY 2017-2025		**3.4%**	**3.9%**		**3.8%**		**4.4%**	**$149.65**	**79.0%**

ABS Dataset change affected

Source: ABS

DRANSFIELD HOTELS & RESORTS

AUSTRALIA AT A GLANCE FY2016

This is the 20th edition of Hotel Futures. We report on major Australian hotel markets during FY2016 with long term forecasts to FY2025

- According to the ABS, the Australian Capital City Hotel market recorded **3.7% revenue growth (RevPAR) in FY2016**, well above our 1.3% expectations
  - Following an alteration to the ABS supply base in FY2015, which included an additional 17,828 rooms across 279 STA properties, another revision was made in FY2016 due to double counting
  - The effect of the re-adjustment in FY2016 was minor in comparison, however has caused recorded supply growth to be lower than actual movement
  - In FY2016 Australian City supply increased by 0.9%, slightly below our 2.0% expectations as a consequence
- Seven of the ten major cities covered in Hotel Futures experienced year on year growth:
  - Cairns & Port Douglas led the nation with an 11.2% increase in RevPAR. This was followed closely by Sydney with 9.9% growth as Sydney hoteliers finally took rate opportunities
  - Leisure markets consolidated on a strong prior year
  - Resource centric markets continued to correct
  - Darwin performed broadly in line with very poor expectations, recording the most significant decline
- Occupancy levels improved slightly to a very healthy 78% which enabled rate growth outperformance opportunities
- Rate growth of 2.2% was well above our 1.0% expectations, bolstered by the buoyant Sydney market
- Tourism Research Australia's visitor night data for FY2016 displayed strong growth, although is only an indirect guide to short term accommodation demand
  - International visitor nights increased 5.9% to 248M, which was sightly below prior expectations
  - Domestic visitor nights grew 4.5% to 328M, slightly outperforming prior expectations
- The STR sample typically represents higher quality and larger scale STA operations, and generally outperforms the ABS survey. In FY2016 this held true and the sample recorded slightly higher RevPAR growth of 4.0%. There were however some materially divergent results recorded in individual cities which is partly due to dataset variance, but mostly due to inconsistent ABS methodology

AUSTRALIAN MAJOR CITY HOTEL (HMGSA) FY2016 PERFORMANCE

FY2016 Performance			
Location	Rate	Occupancy	RevPAR
Adelaide	4.1%	75.3%	6.2%
Brisbane	-3.3%	73.0%	-4.3%
Cairns & P.D	5.8%	68.2%	11.2%
Canberra	3.6%	70.5%	7.2%
Darwin	-7.3%	61.6%	-16.8%
Gold Coast	3.2%	72.3%	7.5%
Hobart	1.8%	78.1%	8.1%
Melbourne	-0.9%	85.2%	1.5%
Perth	-3.5%	79.9%	-4.8%
Sydney	8.4%	87.5%	9.9%
Total Market	**2.2%**	**78.0%**	**3.7%**

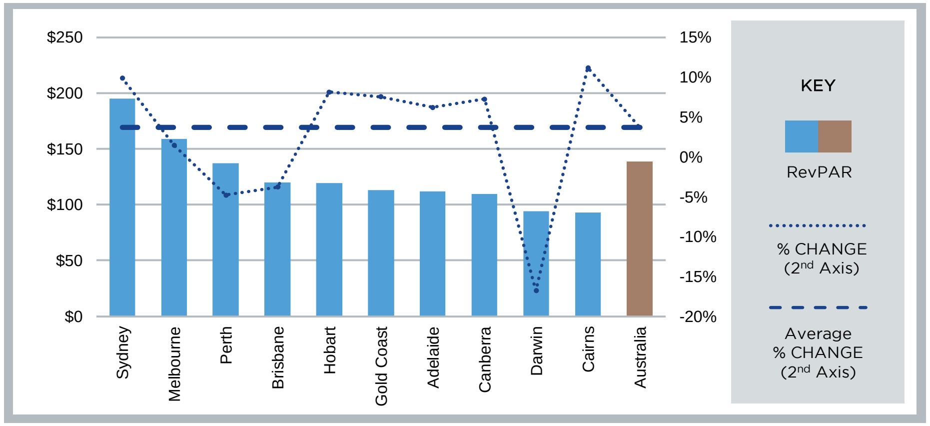
Source: ABS

DRANSFIELD HOTELS & RESORTS

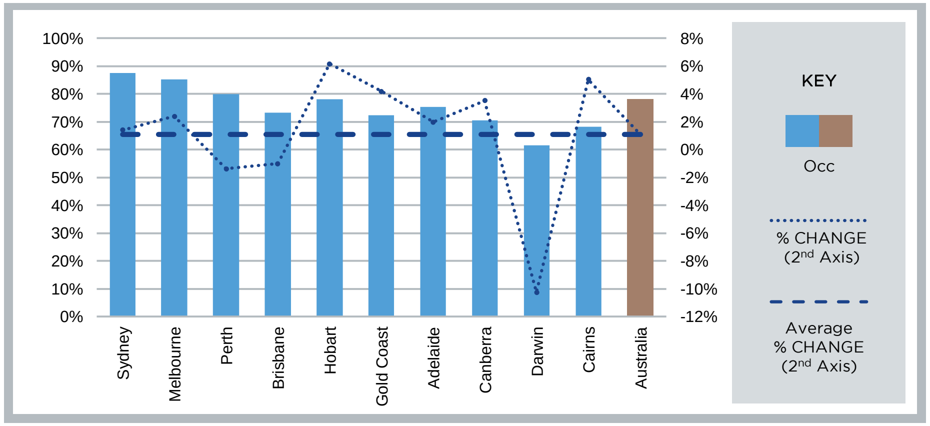
AUSTRALIA AT A GLANCE FY2016

Major City RevPAR growth of 3.7% in FY2016 as occupancy levels increased 1.1 points and ARR strengthened by 2.2%. Sydney extended its position atop the ladder, whilst Darwin was the weakest performer

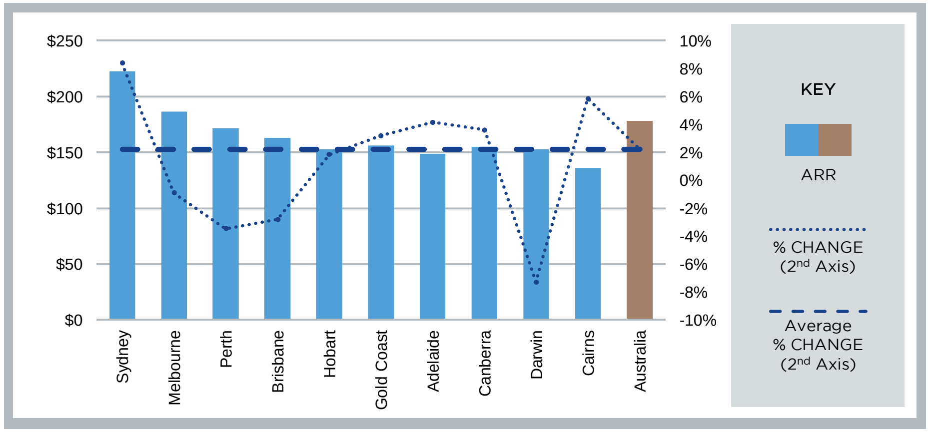
REVPAR – ACTUAL & % CHANGE FY2016



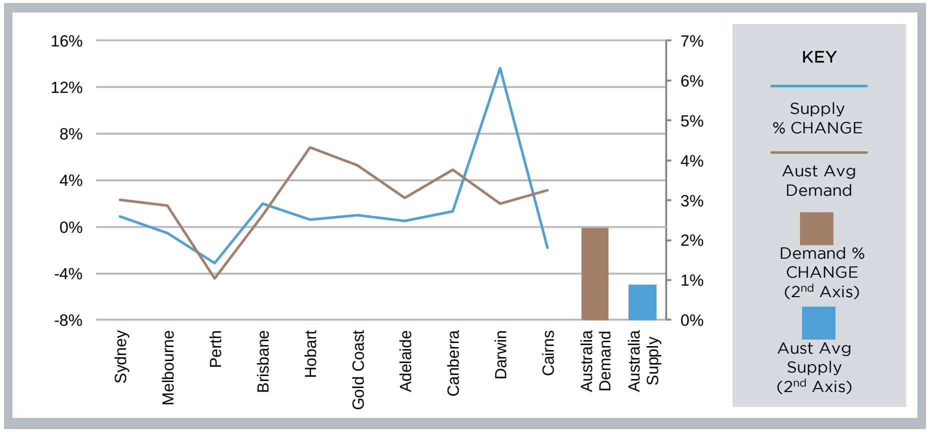
OCCUPANCY – ACTUAL & % CHANGE FY2016



ARR – ACTUAL & % CHANGE FY2016



SUPPLY AND DEMAND % CHANGE FY2016



Source: ABS

DRANSFIELD HOTELS & RESORTS

SHORT & MEDIUM TERM OUTLOOK

FY2017 National Outlook

- RevPAR for FY2017 is forecast to increase by a moderate 2.6% with occupancy levels improving slightly to a high 78.6%, placing upward pressure on rates
- The expected growth does, however, represent a 2.9 point downgrade to Hotel Futures 2016 RevPAR expectations as rate opportunities are expected to be only partially taken despite improvement in the supply and demand equation. The expected rebound for resource centric markets has lagged, dragging short term national growth
- Supply growth forecasts of 1.6% are revealing delay and are impacting demand growth potential as some cities reach high season and midweek/weekend capacity. Demand growth has therefore been tempered to 2.4%
- Rates are expected to consolidate, improving by an average of 1.8%, negatively impacted by the retreating resource centric markets

Medium Term Outlook to FY2019

- Strong RevPAR growth averaging 3.8% p.a. is expected over the medium term as demand growth exceeds delayed supply expectations
- RevPAR growth is slightly behind the 4.8% p.a. previously expected as hotelier sentiment surrounding new supply is expected to inhibit rate growth despite the extremely high occupancy environment
- Expected new supply has been delayed slightly and is now expected to average 3.1% growth. Growth levels are forecast to increase as we move through to the latter part of the term
- Demand growth expectations averaging 3.4% over the medium term are expected to fully absorb supply additions. The medium term demand forecast represents a slight reduction to prior forecasts, impacted by capacity constraints as supply is delayed. Demand growth continues above supply growth
- Occupancy expectations averaging an extreme 78.9% are slightly above previous expectations and should encourage rate taking behavior despite the impending supply additions
- Rate growth expectations are for 3.5% growth p.a, impacted by a soft FY2017 and continuing to be counter intuitive to occupancy and demand growth indicators

AUSTRALIAN MAJOR CITY HOTEL (HMGSA) MARKET REVENUE FORECASTS

	Forecast Average RevPAR Growth		
Location	Short FY2017	Medium FY17-19	Long FY17-25
Adelaide	5.1%	3.5%	3.5%
Brisbane	-5.5%	-2.4%	3.5%
Cairns	8.8%	8.3%	4.6%
Canberra	6.7%	4.7%	4.4%
Darwin	-6.9%	-0.2%	4.3%
Gold Coast	4.5%	4.0%	4.1%
Hobart	3.5%	-0.4%	1.3%
Melbourne	1.9%	4.7%	4.7%
Perth	-10.0%	-4.6%	2.5%
Sydney	7.2%	6.8%	4.6%
Total Market	**2.6%**	**3.8%**	**4.4%**

FY2025 LONG TERM OUTLOOK

Long Term Outlook to FY2025

- Australian major city RevPAR is forecast to grow at a healthy average of 4.4% p.a over the long term, well above the decade long average of 3.4% p.a
  - The forecast is consistent with prior expectations as increased supply expectations are largely in line with demand growth uplift
  - Long term performance is impacted by a slightly weaker than expected FY2017, although growth is expected to catch up over the long term
- Supply expectations have increased to 3.4% p.a representing an increase to Hotel Futures 2016 expectations of 3.2% p.a. We expect the additional supply to be fully absorbed
  - Supply has been slightly delayed through the first 3 years of the forecast, however catches up over the next 3 years
  - Certainty has increased as we move through the development cycle following a significant shift of proposals into the construction phase and subsequent replacement of proposals, with Market Response allowances being taken up
  - The primary development window appears to be at least a year away, with the bulk of new supply expected to come online through FY2019 to FY2021
- Demand growth has been upgraded to 3.9% p.a. compared with 3.7% previously. Improved visitor forecasts, improved destination and access infrastructure, and enabling supply additions, have all contributed to the upgrade
- Occupancy levels are expected to average 79% over the life of the forecast, and only dropping down to a still high 77.9% at the peak of the supply period
- Rate growth averaging 3.8% p.a is expected over the life of the forecast, largely in line with previous expectations. Upside opportunity exists across many of the major cities should Market Response supply allowances not eventuate

TOTAL AUSTRALIAN MAJOR CITIES (WEIGHTED) – HMGSA

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	$2016 Real RevPAR	Occ
FORECAST									
FY2017	101,196	1.6%	2.4%	$181.27	1.8%	$142.53	2.6%	$141.12	78.6%
FY2018	104,290	3.1%	3.9%	$189.48	4.5%	$150.19	5.4%	$145.08	79.3%
FY2019	109,120	4.6%	3.9%	$197.59	4.3%	$155.49	3.5%	$146.53	78.7%
Avg FY 17-19		**3.1%**	**3.4%**		**3.5%**		**3.8%**	**$144.24**	**78.9%**
FY2020	116,228	6.5%	5.4%	$204.68	3.6%	$159.35	2.5%	$146.08	77.9%
FY2021	122,028	5.0%	5.1%	$211.98	3.6%	$165.21	3.7%	$147.32	77.9%
FY2022	126,428	3.6%	3.8%	$219.58	3.6%	$171.44	3.8%	$148.72	78.1%
FY2023	129,585	2.5%	3.6%	$228.41	4.0%	$180.32	5.2%	$152.16	78.9%
FY2024	132,059	1.9%	3.6%	$238.52	4.4%	$191.40	6.1%	$157.11	80.2%
FY2025	134,499	1.8%	3.6%	$249.63	4.7%	$203.78	6.5%	$162.72	81.6%
Avg FY20-25		**3.6%**	**4.2%**		**4.0%**		**4.6%**	**$152.35**	**79.1%**
Total Forecast Avg FY2017-2025		**3.4%**	**3.9%**		**3.8%**		**4.4%**	**$149.65**	**79.0%**

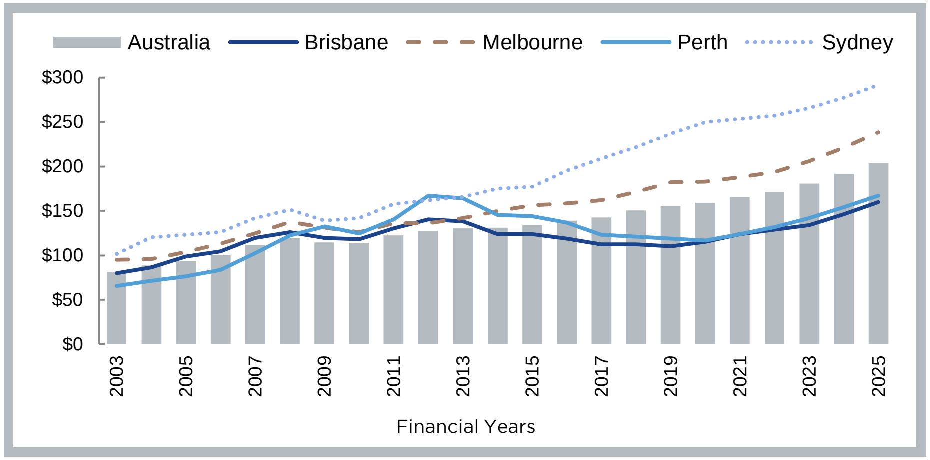
DRANSFIELD HOTELS & RESORTS

CITY SUMMARIES

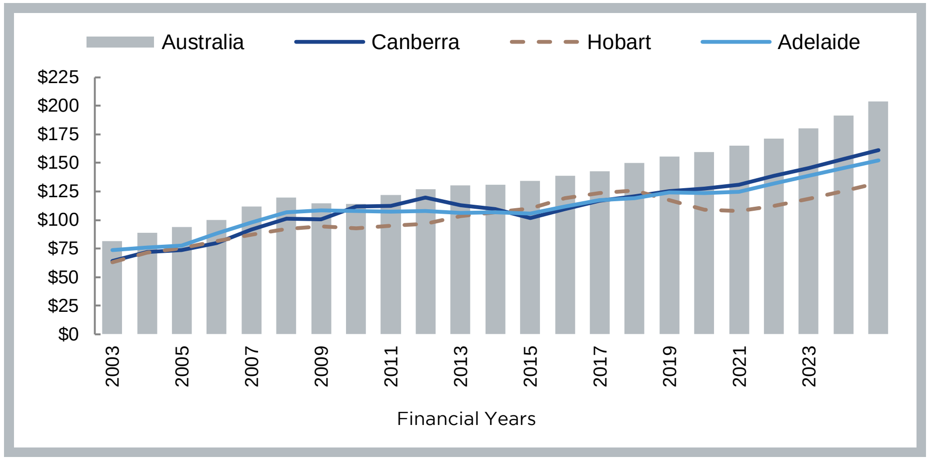
City	3 Year RevPAR Outlook (avg. p.a)	Comment	Key Driver
Adelaide	3.5%	Outperformance in FY2016 driving a long term upgrade. Occupancy average expected to stay above past decade. Conservative rate growth expected and consequently long term RevPAR growth of 3.5% p.a expected	Moderate supply additions fully absorbed, generating consistently high occupancy
Brisbane	-2.4%	A tale of two halves. Medium term contraction as sustained supply enters at a time of market vulnerability driving a slight market downgrade. Offset by an expected long term recovery as improved demand drivers slowly absorb the new, higher quality, stock. Long term growth of 3.5% p.a expected	Supply induced volatility
Cairns & Port Douglas	8.3%	Very strong medium term outlook driving slight market upgrade. Demand growth continued in a backdrop of no new supply. Some new material supply expected over the longer term which should be largely absorbed over time. RevPAR growth of 4.6% p.a expected	Limited medium term supply during a period of strengthening leisure demand
Canberra	4.7%	Upgraded forecast buoyed by outperformance in FY2016. Market fundamentals are above historical levels with average RevPAR growth of 4.4% expected over the long term	Moderate rate growth as new supply is fully absorbed
Darwin	-0.2%	Poor recent performance has tempered our medium term rate expectations and largely driven a market downgrade. The benign supply environment should lead to a gradual recovery. We expect back-ended RevPAR growth averaging 4.3% p.a. over the long term	Ability to replace high yield resource orientated contract demand over time
Gold Coast	4.0%	Largely unchanged long term outlook as demand outstrips low levels of new supply, providing a basis for consistent rate growth. Strong Commonwealth Games induced demand and rate growth expected in FY2018, albeit some unwind expected in the year following. Long term RevPAR expectations are for 4.1% growth p.a.	Sustained demand providing rate strengthening opportunities
Hobart	-0.4%	Highly volatile forecast as there is a large disconnect between current market needs and development activity in this small scale, seasonal, market. We expect a supply induced market slowdown through the middle of the forecast as demand doesn't keep pace, however, recovery should occur over the long term as supply is slowly absorbed. Long term growth of 1.3% p.a expected	Whether or not significant mooted supply eventuates
Melbourne	4.7%	Strong long term growth of 4.7% expected, albeit slightly below prior expectations. Rate trepidation emerges despite consistently high occupancy levels. Moderate supply growth is expected to be fully absorbed over the long term, and facilitate rate growth. Rate outperformance opportunity exists	Average occupancy levels forecast above 85% to facilitate robust rate growth
Perth	-4.6%	Significant short term deterioration expected to continue as poor market sentiment intensifies whilst significant supply comes online. Rate pressure will continue over the medium term, although will turn as the new supply is absorbed in a moderate to high demand growth market. Market fundamentals remain healthy with demand drivers upgraded. Average RevPAR growth of 2.5% expected over the long term	Material medium term supply expected in an already retreating market
Sydney	6.8%	Upgraded outlook following rate outperformance in FY2016. Long term RevPAR growth of 4.6% p.a expected for Sydney hotels as average occupancy levels maintain above 85%. This should incite upward rate pressure despite material expected supply additions. There remains scope for both rate growth outperformance and additional supply	Consistently strong rate growth in an extremely high occupancy market
Australia	3.8%	Australian Capital Cities maintain strong overall growth. Outperformance in FY2016 has increased development activity, although, this remains less than improved demand expectations, and will facilitate rate growth opportunities in many cities. Long term growth expected to average a strong 4.4% p.a	Demand growth expected to fully absorb new supply, generating upward pressure on rate

CITY SUMMARIES

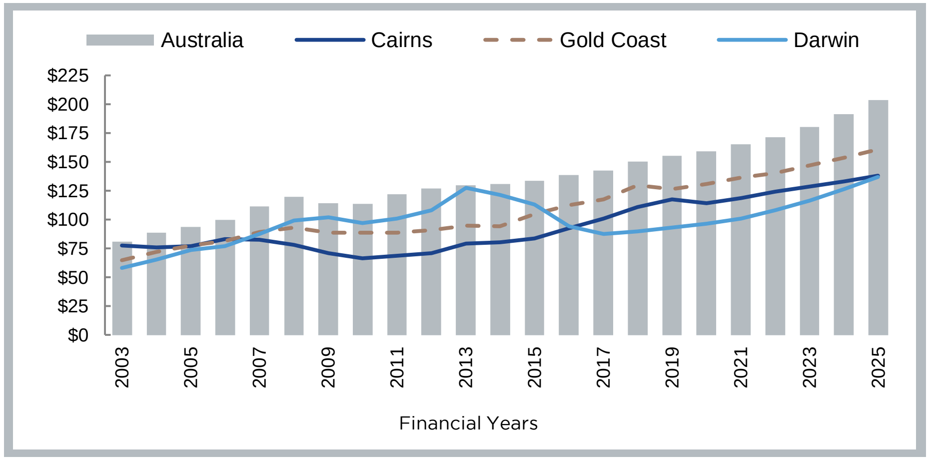
MAJOR CAPITAL CITY REVPAR COMPARISON



SECONDARY CAPITAL CITY REVPAR



LEISURE BASED CITY REVPAR



Relative RevPAR

- Average RevPAR growth of 4.4% p.a across Australia to FY2025 with Sydney leading the way
- Sydney and Melbourne continue as the highest RevPAR cities, and the only ones above the national long term average
- Over the longer term, Perth and Brisbane are expected to trend similarly, well below the national average, as both feel the full force of the resource construction slowdown
- Moderate growth forecasts in the secondary capital cities of Adelaide and Canberra are expected to see them overtake the supply engrossed Hobart market
- Leisure based cities of Cairns and the Gold Coast are expected to see strong growth, particularly over the medium term, whilst Darwin continues to contract as it resets from resource induced outperformance

TRANSACTION TRENDS

Reduced stock availability drives lower transaction volumes. Assets available in markets with good fundamentals are proving highly liquid with assets selling at all levels; Asian centric investment continues

Sales Activity

Positive market outlook and capital availability continues to promote transactional activity however, volumes fall as stock availability contracts

- Record breaking transactional volume in 2015 normalises in 2016, however still well above decade long averages
  - Transaction volumes fell by around 17%, from $3.7b in 2015 to $3.0b in 2016, although this was still well ahead of 2014 levels
  - The number of sales fell by around 15%, compared with both 2015 and 2014
- YTD sales in the first quarter of 2017 have been characterised by three large transactions over $130m, and accounting for 70% of sales volume. 2017 volumes unlikely to exceed the prior year
- The abundance of capital chasing relatively scarce investment grade products (particularly CBD assets) continues to drive the highly contested market and lower yields
  - Strong investment conditions continue in terms of hotel earnings, tourism market outlook and the low cost of debt
  - There continues to be a number of off the plan sales, with this structure gaining increasing market acceptance as investors are prepared to expand their risk profile to allocate capital
  - The billion dollar Ascendas and M&L CBD focussed portfolios, were both pulled from sale following initial bid submissions, disappointing a number of international investors
- Notable transactions included:
  - The record breaking $700m off the plan sale of the Ribbon Hotel & Serviced Apartments, managed by Dransfield as exclusive lead agent. This accounted for almost 25% of the 2016 transaction volume
  - ADIA's restructuring of its lease portfolio, which saw Accor acquire a $200m ibis portfolio
  - The sale of the W Melbourne off the plan for over $790k per room and Novotel on Collins for $624k per room, indicating an upward re-setting of prime CBD Melbourne prices
- The completion of a number of large scale apartment buildings in QLD has seen major hotel management companies such as Mantra and Minor competing for large scale management rights on the Gold Coast and increasing multiples

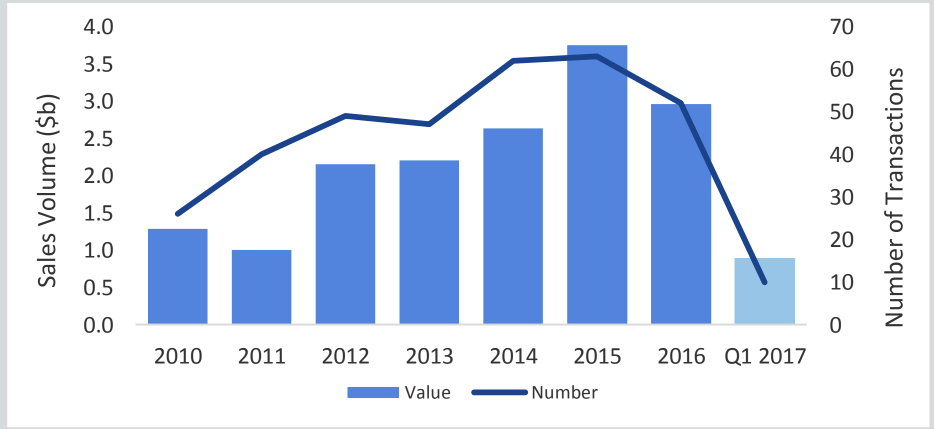
Geographic Markets

- Purchasers have largely avoided mining based markets and markets with over-supply concerns
  - Transactions in QLD were predominantly in the Gold Coast and Cairns, avoiding Brisbane
  - No major sales in the NT, only a couple in WA
  - The smaller SA and TAS markets remain characteristically quiet
  - NSW and VIC saw a decent spread of CBD, suburban and regional sales
  - There are a number of cities (Cairns, Gold Coast, Perth, Darwin) where assets are available below replacement cost

Buyer Profile

- The profile of buyers remains spread across purchaser types, and has become more concentrated in Asia
  - Funds and investment companies dominate, but owner/operators and to a far lesser extent, developers, are also represented
  - Increased predominance of Asian capital, particularly from Singapore and China, overshadowing Australian buyers particularly for transactions exceeding $100m. Australia is seen as a safe place to park money, with the buoyant tourism industry attracting hotel investment

HOTEL TRANSACTION HISTORY 2010 – Q1 2017



* Based on published sales prices for reported sales and Dransfield estimates

TRANSACTIONS

KEY TRANSACTIONS: January 2016 – March 2017

Property	Rooms	Purchaser	Origin	Approx. Price ($'m)	Approx. Price Per Key ($ 000's)
Ribbon Hotel & Serviced Apartments, Darling Harbour, Sydney (off the plan)	561	Greaton	China	$700m +	n/a
Novotel on Collins, Melbourne CBD	380	Frasers Hospitality Trust	Singapore	$237m	$624k
W Hotel, Collins Arch, Melbourne CBD (off the plan)	294	Daisho	Japan	$233m	$793k
Hilton Melbourne South Wharf	384	UOL Group	Singpapore	$230m	$599k
ibis Portfolio, various locations	1,595	Hotel Invest (Accor property investment arm)	France	$200m	$125k
Sheraton Mirage, Gold Coast	306	Star Entertainment/Far East Consortium/Chow Tai Fook	Aust/Sing/HK	$160m	$523k
Sheraton Mirage, Gold Coast	306	Australian Wattle Development	China	$140m	$458k
Travelodge Docklands, Melbourne	291	Sing Holdings	Singapore	$107m	$368k
Vibe Hotel, Sydney	191	Far East Organisation	Singapore	$90m	$471k
Novotel Brisbane	296	Mulpha International	Malaysia	$85m	$287k
Novotel Langley Perth	256	Kum Family	Singapore	$80m	$313k
Hotel Grand Chancellor, Gold Coast	408	Fidante/Abu Dhabi Investment Council	Middle East	$80m	$196k
Novotel Glen Waverley, Melbourne	200	iProsperity (on behalf of Asian investors)	Asia	$74m	$368k
Quest New Quay Docklands, Melbourne (off the plan)	221	Ascott Limited/Qatar Investment Authority Fund	Sing/Qatar	$71m	$321k
Marriott Resort & Spa, Gold Coast (part sale)	216	Bensonlily Surfers Paradise	Thailand	$70m	$324k
Clifton Suites on Northbourne, Canberra	153	Facilmate/Ascot Capital	Aust/Sing	$65m	$425k

DRANSFIELD HOTELS & RESORTS

SUPPLY FORECAST

Supply expectations have been slightly upgraded as construction activity increases and proposals infill the previously forecast Market Response

Australian Bureau of Statistics – Data Series Break

In FY2015 there was a break in the ABS data series with an additional 17,828 rooms across 279 Short Term Accommodation (STA) properties added to the base statistics. FY2016 data has again been amended following identification that some properties were doubled counted. This has led to a second base amendment in FY2016 for a much smaller 40 properties, to rectify the error. The effect has made supply and demand growth figures somewhat unreliable for FY2015 and FY2016 as data is not directly comparable to the past.

For more information on the effect of the data series break, please visit the Australian Bureau of Statistics' website www.abs.gov.au

National Supply - Actual and Outlook

- In FY2016 the ABS recorded 0.9% growth for Australian major city hotel supply, which is equivalent to just 900 new rooms
- Actual new rooms in major cities, excluding the ABS data change, are estimated to be approximately 1,500 or equivalent to a 1.6% increase
- The Hotel Futures 2017 forecast represents a small upgrade in absolute supply levels to prior expectations. An improved demand outlook is expected to fully absorb the additional new supply over the long term
  - In FY2017 supply is forecast to grow 1.6%, which is lower than prior expectations due to slight delays
  - Supply growth is expected to average 3.1% p.a. over the medium term to FY2019 which is expected to be fully absorbed. Delays through the first two years, as well as the reset in base, means the new forecast is a slight downgrade to 4.0% p.a. prior expectations
  - Our national long term forecast is for supply to increase by 3.4% p.a. and slightly above the 3.2% expectations from Hotel Futures 2016

Supply Cycle Comparison to FY2024 – HF2016 vs HF2017

	Hotel Futures 2016	Hotel Futures 2017	Var.
Construction	**5,900**	**10,300**	**4,400**
Net Proposals (% probability applied)	10,200	10,100	-100
Market Response	13,800	11,900	-1,900
Supply Pipeline	**30,000**	**32,300**	**2,300**
Forecast Supply FY2024*	129,800	132,100	1.8%
Average Annual Uplift (9 years)			**0.2%**

*Boundaries for Hotel Futures 2017 have changed. We have amended Hotel Futures 2016 data in this table to reflect a like for like region

Supply Cycle Comparison

- Australian Capital City long term supply forecasts have received a small increase of 2,300 rooms over 9 years, which is relative to a base of 100,000 and a previously expected pipeline of an additional 30,000 rooms. The increase represents a small supply uplift of 0.2% p.a over the forecast life and is expected to be fully absorbed
- The identified live pipeline has infilled, increasing to 20,400 rooms compared with 16,200 in the previous forecast
- The new forecast represents an increase in identified project numbers to 173 from 156 previously
- Certainty in the forecast has improved with the transition of Proposals to Construction and Market Response allowances being taken up by specific Proposals
  - Construction activity has increased substantially to 10,300 rooms compared with 5,900 previously
  - Gross Proposed rooms have increased to 21,000 to which we have applied a 48% prospect of completion, delivering 10,100 net rooms. Likely rooms are consistent with prior expectations although at a lower percentage probability as significant newly proposed projects are earlier in the planning process
- Over the next 6 years, live construction and proposals represent 73% of the forecast supply pipeline
  - Live supply growth is below demand growth expectations for the corresponding period (3.3% p.a vs. 4.1% p.a) and should be fully absorbed
  - Market Response over this period is forecast to add a further 7,000 rooms, and if they eventuate, will sit inline with expected demand growth
- Market Response for the full forecast period to FY2024 allows for an additional 11,900 rooms above identified live projects
  - This is a 1,900 room decrease to prior expectations, responding to the uplift and transfer to Construction and Proposal activity
  - Market Response to FY2024 now accounts for 37% of all new supply compared with 46% in the previous forecast

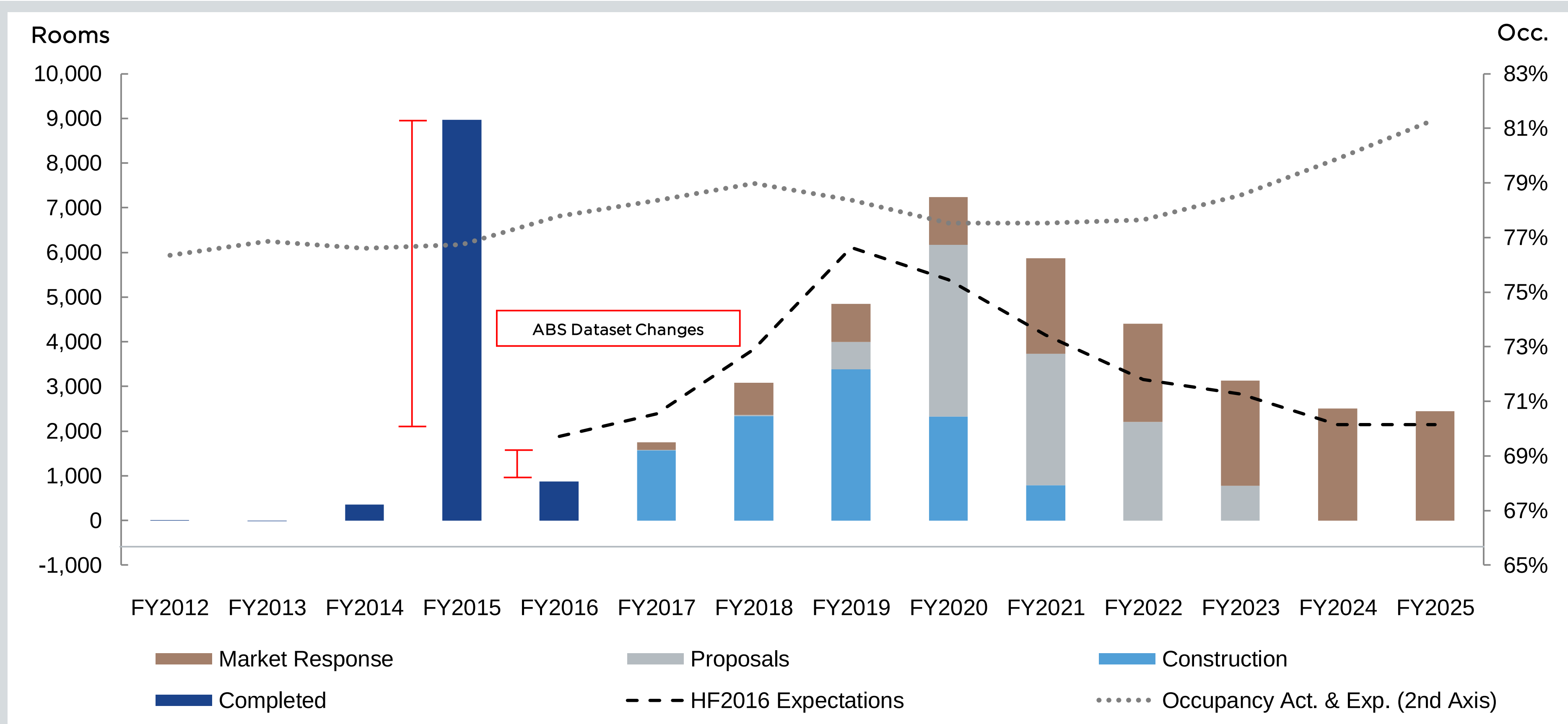
Supply by Type – Short, Medium and Long term: Comparative forecast to FY2024

	FY17 1 Yr	FY17-FY19 3 Yrs	FY17-FY22 6 Yrs	FY17-FY24 8 Yrs
Construction	100%	77%	39%	31%
Proposals	0%	6%	35%	32%
Market Response	0%	17%	26%	37%

SUPPLY NATIONAL

Supply expectations have increased in Hotel Futures 2017, although are slightly delayed through the short and medium term. The peak of the supply cycle has slid to FY2020. Supply is expected to be fully absorbed with occupancy strengthening over the long term

MAJOR CITY SUPPLY GROWTH PERFORMANCE AND FORECASTS TO FY2025 – ROOMS

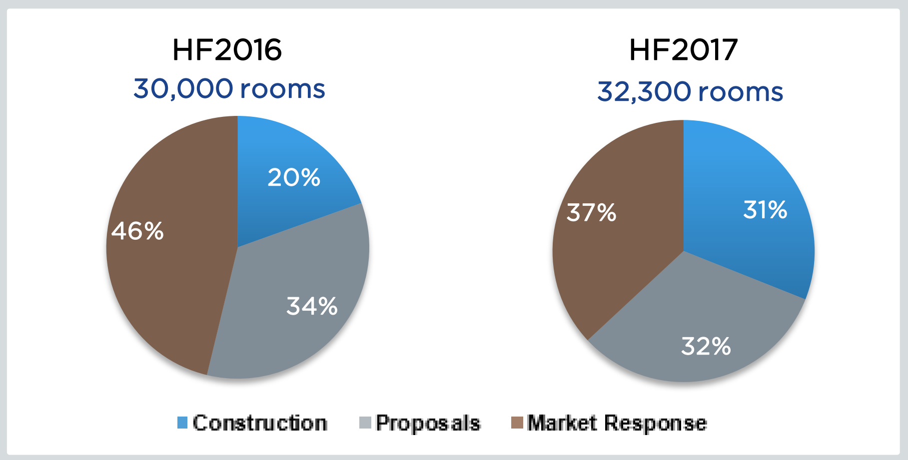


DRANSFIELD HOTELS & RESORTS

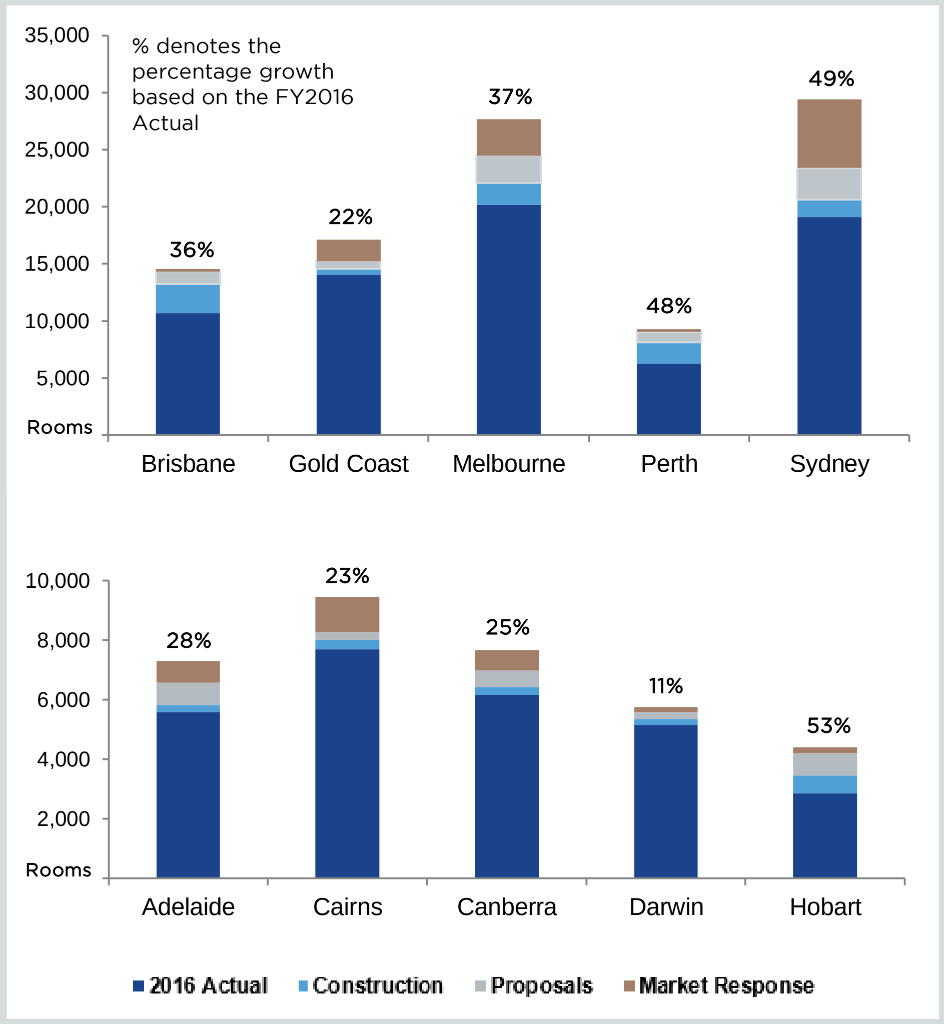
SUPPLY FORECAST

- Market performance, asset values and transaction activity, together with upgraded demand indicators have bolstered development activity, in turn leading to a slight increase in our total supply forecast
- The development cycle edges closer to the peak as proposed projects move into construction, and are largely replaced by new proposals
- On a national level, and despite the slightly increased supply expectations, the forecast remains that there is considerable scope for additional development than presently proposed, to satisfy demand growth over the long term. We allow for this additional supply as Market Response in our forecast. Should the Market Response not eventuate, there is performance upside potential for rate and RevPAR in some cities
- City by City there are widely divergent supply pipelines:
  - Sydney's supply forecast equates to 49% of current stock and is much needed, however the majority are still not in planning and remain in Market Response
  - Melbourne, despite the most significant supply boom over the last 20 years, still has considerable scope for additional supply beyond current proposals
  - Perth, Hobart and Brisbane, which have traditionally been dormant supply growth markets are in the middle of a period of significant growth and have largely reached their cap

SUPPLY BY TYPE COMPARISON - HF2016 vs HF2017: FY2017 to FY2024



MAJOR CITY FORECAST SUPPLY GROWTH BY TYPE FY2017-2025



DRANSFIELD HOTELS & RESORTS

ARRIVALS AND DEPARTURES

In FY2016, international arrivals consolidated on the strong growth achieved over the last 3 years. Growth continues through the first half of FY2017

Visitor Arrivals

- International arrivals increased 10.0% in FY2016 to 7.8M with growth displayed in all months. Eight of the twelve months recorded significant double digit growth
- Average arrivals growth for the last 3 years now sits at a very strong 8.4%
- The top 5 international markets by visitor nights displayed a mixed bag with 2 countries recording decline in FY2016

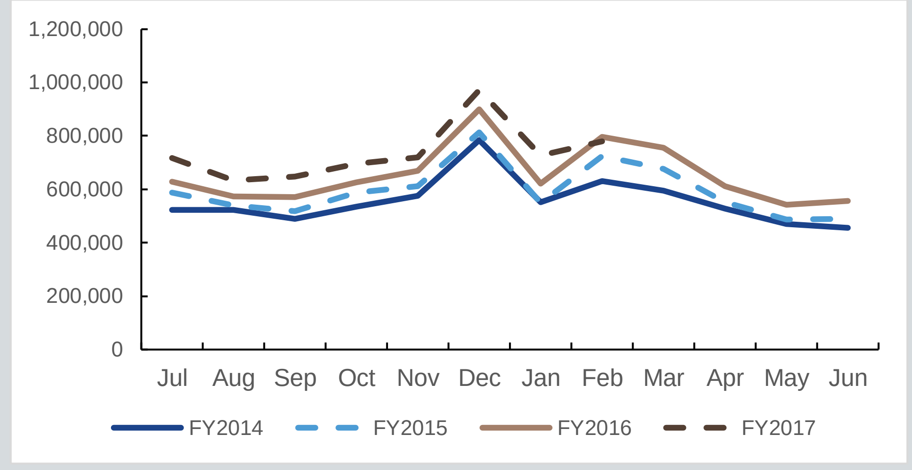
  China 13.2% UK -4.0% New Zealand -4.5% U.S.A 10.7% India 7.8%
- Nights derived from Korea displayed the most significant increase of those outside the top 5, recording 26.9% growth and moving it to 6th place in terms of total visitor nights
- In a great sign for the accommodation sector, international nights spent in hotels, motels and resorts increased 9.4% to 27.5M on the back of strong growth in the holiday segment, while nights spent at guest houses and bed and breakfasts also increased by 29%, to 1.3M
- Visitor arrival growth has continued in FY2017 (YTD February 2017) with a 9.4% increase on the prior corresponding period to December

Resident Departures

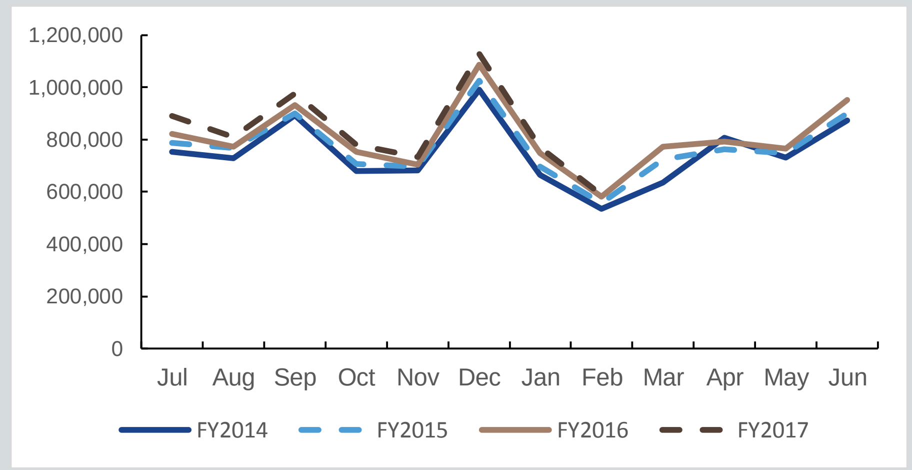
- In FY2016, domestic departures increased 4.5% to 9.7M, following a low prior year where a devalued $AUD kept holiday makers on shore
- All 12 months recorded period on period growth, led by the holiday months of January & March
- In FY2017 (YTD February 2017), growth has maintained, with a 4.3% increase on the prior corresponding period
- Australian residents travelled overseas mostly for holidays which accounted for 58% or 5.0M trips, however, it was business travel that drove growth, increasing 8.9% to 1.3M trips.

Source: ABS Overseas Arrivals and Departures Cat. 3401; TRA State of the Industry 2016

INTERNATIONAL VISITOR ARRIVALS TO AUSTRALIA



RESIDENT DEPARTURES – SHORT TERM LESS THAN 1 YEAR



DRANSFIELD HOTELS & RESORTS

DEMAND TFC FORECASTS

Tourism Research Australia's long term visitor night forecast to FY2025 has been slightly upgraded. **Average annual growth of 4.0% p.a.** is expected compared to 3.6% in the prior forecast. Improved expectations for both Domestic and International visitor nights as international nights close the gap in market share

TFC Domestic Forecasts

Domestic visitor night forecasts to FY2025 have been upgraded slightly with average annual growth expectations of 2.9% p.a, compared to 2.7% previously. This upgrade followed a substantial upgrade in the prior forecast

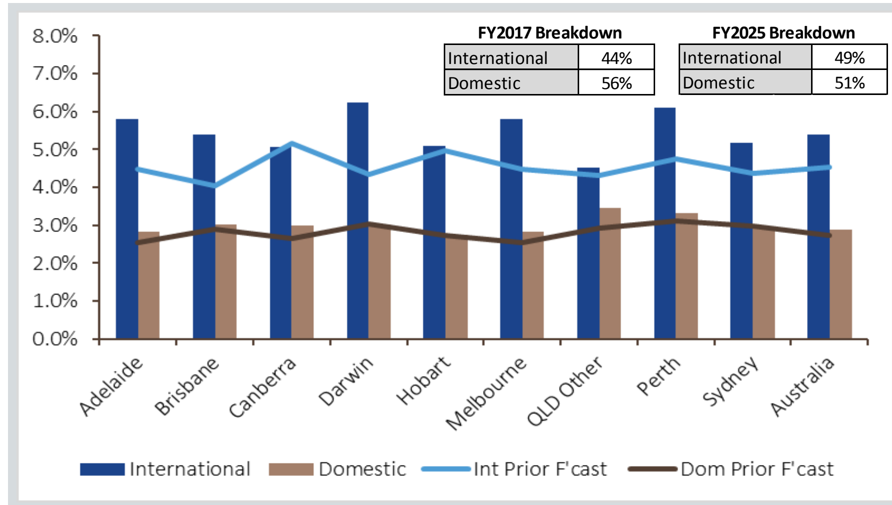
- In FY2016 domestic visitor nights grew by 4.5%, outperforming 3.5% expectations
- The relative weakness of the $AUD has influenced domestic travel choices with domestic holidays displaying considerable growth in the past year (9.3% increase in Nights for the year ended Sep 2016), and well above growth displayed in VFR and business travel
- Over the next 5 years to FY2021, domestic night growth is expected to slightly outperform long term expectations, with 3.0% p.a. growth forecast. Over this period, growth is expected to derive from increases in business trips (5.0% p.a to 85M nights) and holiday trips (2.7% p.a to 160M nights)
- Over the long term, total domestic visitor nights are now expected to reach 423M by 2025 (previously 413M)

TFC International Forecasts

Long term international visitor night forecasts to FY2025 have been upgraded with annual growth expectations of 5.4%, compared to 4.5% previously

- In FY2016 international visitor nights increased by 5.9%, however this was below robust 8.3% expectations. Expectations for FY2017 have also been tempered before the new forecast upgrades take effect
- Total international visitor nights are now expected to reach 399M by 2025 (previously 379M)
- Asian markets are expected to continue to drive growth through the short and long term, led by China and India, although well supported by Australia's largest traditional markets (N.Z, U.S.A and U.K).
- China is expected to overtake New Zealand as our largest international market in inbound arrivals by FY2018, two years earlier than previously forecast. China is expected to contribute 43% of the total growth to FY2025

TFC FORECAST VISITOR NIGHT MOVEMENT – Long Term to FY2025



Source: TFC State Forecasts 2016; TRA State of the Industry 2015-16

Outbound Travel Forecasts

Long term Resident departures represent a slight upward revision from those previously forecast. The 10 year forecast to FY2025 has been upgraded 0.3 points to 3.6% average growth p.a

- In FY2016, resident departures increased 4.5%, in line with expectations. Outbound nights grew at a slower rate, increasing 1.7% to 164M nights
- The TFC have forecast a 4.0% increase in short term departures for FY2017, revised upwards 0.6 points
- Despite the relative weakness of the $AUD, consumer sentiment has improved over the last 12 months manifesting in a slight improvement in expectations.
  - Discretionary spending has maintained with the cash rate showing little movement
  - Air service agreements continue to be negotiated and implemented, providing potential travellers with increased choice

DEMAND DRANSFIELD OUTLOOK

Dransfield's demand forecast has been upgraded taking regard of moderate upgrades to TRA visitor night forecasts and a slightly larger supply pipeline. Our forecast is for long term average annual growth of 3.9% compared to 3.7% previously

National Demand FY2016

Increased demand growth, as the relative weakness of the $AUD has a double barrelled effect, both attracting internationals and preserving domestics

- The ABS recorded a 2.3% increase in hotel demand which was relative to a 0.9% increase in supply
- Occupancy levels increased 1.1 points to 78.0%, which is the highest level recorded since the commencement of Hotel Futures. Occupancy levels were above our Hotel Futures 2016 expectation
- Tourism Research Australia recorded a 5.1% increase in total visitor nights across Australia in FY2016, although this is considered only an indirect correlation to nights spent in paid accommodation
  – International visitor nights grew 5.9%% to 248.8M
  – Domestic visitor nights grew 4.5% to 327.6M

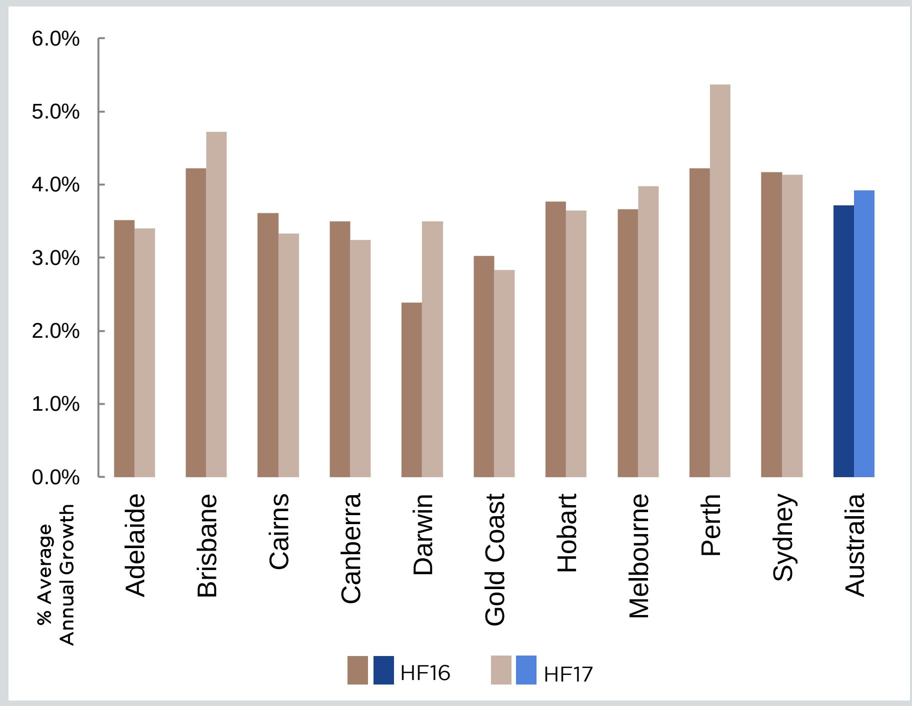
Dransfield National Demand Forecast

Hotel Futures 2017 long term demand forecast is for average growth of 3.9% p.a, which is a small upgrade to the 3.7% previously expected

International growth to drive forecast upgrades, although well supported by domestic growth as upgraded supply expectations enable capture

- We expect demand to increase by 2.4% in FY2017 which is slightly below prior expectations of 3.3% as supply delays constrain growth in some cities and the recovery of resource centric cities takes longer
- Medium term demand growth is expected to average 3.4% p.a, and is below prior expectations as supply delays persist
- Long term growth forecast of 4.0% p.a. is slightly above prior expectations, driven by Tourism Research Australia's improved long term outlook and enabled by increased supply expectations at the back end of the forecasts

DRANSFIELD LONG TERM DEMAND FORECAST



DRANSFIELD HOTELS & RESORTS

In FY2016, Adelaide RevPAR well exceeded expectations with a resurgence in occupancy. The earlier than expected growth followed six consecutive years of negative/negligible movement. This higher base has tempered our medium term forecast which catches up in the longer term, following absorption of a moderate level of supply, in the middle period. RevPAR growth averaging 3.5% p.a. is expected over the long term, a slight upgrade to our prior forecast

ADELAIDE REGIONS – JUNE 2016

	Establishments	Rooms	RevPAR
Adelaide City	42	5,168	$118.08
ADELAIDE TOURISM REGION			
Hotels	36	4,439	$120.79
Motels	48	1,990	$61.56
Serviced Apartments	24	1,728	$110.76
Total	**108**	**8,157**	**$104.22**
STAR GRADING			
Luxury	7	n.p.	n.p.
Up-Scale	43	4,231	$115.44
Mid-Scale	43	1,815	$63.90
Budget	15	n.p.	n.p.
Total	**108**	**8,157**	**$104.22**

FY2016 YEAR IN REVIEW

	FORECAST FY2016	ACTUAL FY2016	Var	
RevPAR	-1.2%	6.2%	7.4%	▲
Supply	2.3%	0.5%	-1.7%	▼
Demand	0.5%	2.5%	2.0%	▲
Occupancy	72.5%	75.3%	2.7%	▲
ARR	0.5%	4.1%	3.6%	▲

FY2016 Year In Review

- In FY2016 Adelaide hotels recorded healthy 6.2% RevPAR growth, easily outperforming our low prior expectations for a 1.2% decline. Hoteliers responded to increased demand and occupancy by taking up rate opportunities
  - Occupancy levels improved 1.5 points to 75.3%, exceeding expectations by 2.8 points
  - Rates grew 4.1%, well above our 0.5% expectation, and similar to the FY2015 rate increase
- The STR sample of higher quality, larger hotels was somewhat inconsistent with ABS data, recording lesser RevPAR growth of only 2.0%
- Preliminary STR data for FY2017 (YTD February 2017) indicates that the momentum has largely been maintained. Occupancy levels and rate improvement have informed our positive FY2017 forecast

Demand Driver Analysis

Slightly Downgraded Visitor Night Forecasts

- There are two major tourism infrastructure projects due to complete by the end of 2017 (convention centre and Adelaide Oval redevelopments). Longer term projects include the casino expansion (commencing late 2017) and the Riverbank Precinct development which is underway. This continued investment in tourism infrastructure is likely to sustain momentum and demand growth
- City data for FY2016 for Adelaide reveals:-
  - International visitor nights increased by 7.8% to 7.9M nights
  - Domestic visitor nights increased 12.4% to 8.5M nights
  - Total visitor nights increased by 10.1% to 16.4M nights of which 23% is captured in Hotels and Motels
- In FY2016 Adelaide hotel's domestic visitor nights share in hotels increased slightly to 75.5% from 74.9%
- The TFC forecasts for Adelaide for the period to FY2025 have however been slightly downgraded to average growth of 4.3% p.a compared to 4.5% previously:-
  - Annual domestic visitor night growth expectations remained unchanged at 2.7%
  - Annual international visitor night growth expectations of 5.7% vs. 6.1% previously

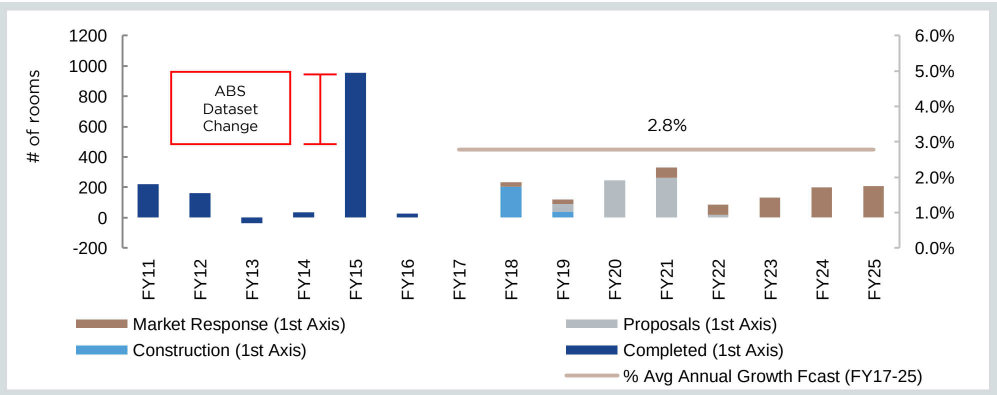
Dransfield Demand Forecast for Adelaide City Hotels

Annual demand growth of 3.4% is expected for Adelaide City hotels over the long term, which is a small downgrade to the prior forecast, adopting the reduced TFC visitor night expectations. Despite the minor downgrade, the demand growth forecast remains strong and above supply growth expectations

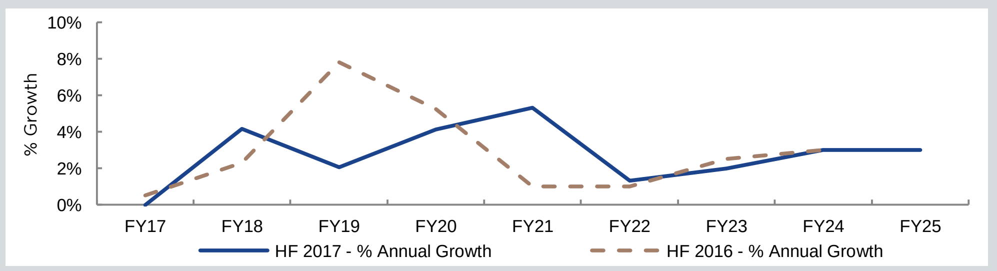
- We expect demand to increase 3% in FY2017, which represents a slight downgrade. As there is not expected to be supply growth in FY2017, short-term occupancy should continue to increase
- Medium term demand growth to FY2019 is expected to average 3% p.a, also a small downgrade from previous expectations, although absorbing lesser supply growth
- Long term growth expectations to FY2024 of 3.4% p.a. is a small 32,000 night (1.6%) absolute downgrade to prior forecasts.

Supply expectations are low relative to market size with the vast majority of expected stock not yet under construction and delayed. Supply growth is concentrated over the first half of the forecast with Market Response making up the entirety of the back half. A low level of new supply, below demand growth expectations, provides an opportunity to turn the tide of low rate growth history that has counter-intuitively characterised periods of sustained and strong occupancy levels

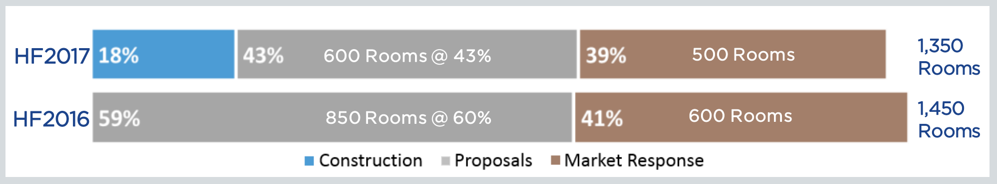
SUPPLY ACTUAL & FORECAST BY TYPE FY11-FY25



FORECAST COMPARISON HF17 VS HF16 - % ANNUAL SUPPLY GROWTH



FORECAST COMPARISON HF17 VS HF16 – PIPELINE BY TYPE TO FY2024



Supply Actual

- In FY2016 the ABS survey recorded a negligible 0.5% or 29 increase in rooms
- No new rooms are expected to come on line in FY2017, consistent with our prior forecast, however one project has shifted status to construction

Supply Forecasts

- Dransfield's supply forecast is for 1,500 new rooms to enter the market over the next 9 years to FY2025 (28% of current stock), at an average annual growth rate of 2.8%
  - Our forecast supply pipeline represents a small decrease of 100 rooms relative to the prior forecast as some projects in the planning stage appear less likely to proceed
  - Demand growth expectations for the forecast are expected to exceed supply growth expectations
  - Supply growth has been delayed through the medium term as proposed projects appear behind previously stated completion timetables
  - Supply growth in the medium term to FY2019 is expected to average a moderate 2.1% p.a. (350 rooms), which is a slight decrease on the 600 rooms expected in the prior forecast
  - The small size of the market in Adelaide means the status of a single project can significantly alter the pipeline, so it is difficult to predict future growth, particularly long term, with a high degree of certainty
  - Market Response remains moderate as a percentage of the total supply pipeline (39%) but can be filled by just two or three new projects
  - Looking at the next 6 years, live construction and proposal rooms represent 81% of the forecast supply pipeline, however completion risk remains high for all projects not yet under construction. Average annual supply growth (excluding Market Response) over this period is less than demand growth expectations (2.5% vs 3.8%) and should support occupancy growth
- The pipeline is skewed towards upscale developments with some mid tier projects also represented.

Long term RevPAR expectations are for 3.5% growth p.a, buoyed by a strong front and back-end. Real RevPAR expectations have been slightly increased relative to the prior forecast, following an early recovery and outperformance in FY2016. Rate softness is expected in the short to medium term as new supply coms on line, before strengthening in the back-end as this is absorbed in a moderate demand growth market

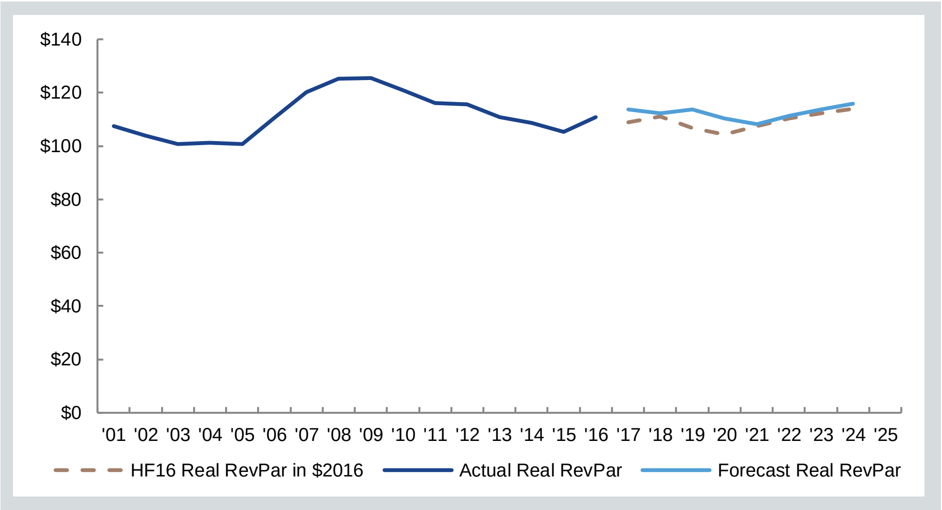
Conclusion

A positive medium term RevPAR outlook averaging 3.5% p.a, as supply is deferred. Softness is expected in the middle of the forecast as supply comes online, before strengthening over the back end as demand growth absorbs new supply

The Adelaide forecast represents a slight upgrade to prior expectations, due to outperformance in FY2016, which has raised the base

- Over the period of the forecast, average occupancy expectations have been slightly increased, almost reaching 80% by FY2025, as the supply and demand equation improves
  - In FY2017 occupancy levels are expected to increased by approximately 2 points (2.4 points above our prior forecast) as demand growth absent additional supply leads to an increase in occupancy
  - Over the medium term, demand is expected to exceed supply growth, leading to a slight improvement in occupancy levels
- Moderate rate growth is expected over the long term and slightly above low decade long averages. The rate growth trend is still conservative despite increased occupancy pressures
  - Rate growth has been slightly reduced relative to the prior forecast, given the higher base in FY2016 and elastic price nature of Adelaide demand
  - In the first eight months of FY2017, rates have only increased slightly, indicating a softening compared to the last two years
  - In the medium term, rates are expected to soften following two years of 4% p.a. growth, particularly as more substantial supply comes on line in FY2018 and FY2020-21
  - We expect stronger rate growth to materialise towards the back end of the forecast as occupancies approach 80%. Long term expectations are moderate, averaging 2.8% p.a.
- Our forecast is for a 2.7% increase in average long-term real RevPAR compared to our previous forecast, driven by a higher FY2016 base
- RevPAR growth rates for the comparable period to FY2024 represents a slight downgrade to prior forecasts as growth has been tempered following outperformance in FY2016, which is likely to unwind. The absolute RevPAR position is an upgrade to prior year forecasts
  - In FY2017, RevPAR is expected to record a strong 5.1% growth, albeit slightly lower than prior expectations of 7.1% due to softer rate growth
  - In the medium term to FY2019, average RevPAR growth is expected to be more subdued (averaging 3.5% p.a.) with new supply coming online in FY2018, impacting occupancy and rate
  - Long term expectations are for stronger growth over the back end as new supply is absorbed, giving confidence for hoteliers to push on rates
  - Full forecast expectations to FY2025 are for 3.5% growth p.a.

ADELAIDE CITY REAL REVPAR IN $2016



DRANSFIELD HOTELS & RESORTS

Long term RevPAR expectations are for 3.5% growth p.a, buoyed by a strong front and back-end. Real RevPAR expectations have been slightly increased relative to the prior forecast, following an early recovery and outperformance in FY2016. Rate softness is expected in the short to medium term as new supply coms on line, before strengthening in the back-end as this is absorbed in a moderate demand growth market

ADELAIDE CITY – HOTELS, MOTELS AND SERVICED APARTMENTS

ACTUAL

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	$2016 Real RevPAR	Occ
HISTORICAL									
FY2002	3,691	4.9%	3.4%	$110.38	0.9%	$74.09	-0.6%	$103.99	67.1%
FY2003	4,152	12.5%	10.8%	$111.54	1.1%	$73.74	-0.5%	$100.79	66.1%
FY2004	4,325	4.2%	4.7%	$114.23	2.4%	$75.91	2.9%	$101.24	66.4%
FY2005	4,451	2.9%	7.1%	$112.02	-1.9%	$77.43	2.0%	$100.77	69.1%
FY2006	4,276	-3.9%	3.6%	$118.67	5.9%	$88.43	14.2%	$110.68	74.5%
FY2007	4,159	-2.7%	1.3%	$126.29	6.4%	$98.06	10.9%	$120.23	77.6%
FY2008	4,147	-0.3%	-0.3%	$137.49	8.9%	$106.71	8.8%	$125.21	77.6%
FY2009	4,186	0.9%	-0.9%	$142.43	3.6%	$108.56	1.7%	$125.54	76.2%
FY2010	4,220	0.8%	1.7%	$140.07	-1.7%	$107.73	-0.8%	$120.89	76.9%
FY2011	4,439	5.2%	3.0%	$142.34	1.6%	$107.15	-0.5%	$116.06	75.3%
FY2012	4,602	3.7%	3.0%	$144.34	1.4%	$107.97	0.8%	$115.59	74.8%
FY2013	4,564	-0.8%	-0.6%	$141.48	-2.0%	$106.03	-1.8%	$110.85	74.9%
FY2014	4,597	0.7%	4.7%	$137.34	-2.9%	$106.97	0.9%	$108.58	77.9%
FY2015	5,550	20.7%	14.4%	$142.82	4.0%	$105.42	-1.5%	$105.42	73.8%
FY2016	5,579	0.5%	2.5%	$148.74	4.1%	$111.96	6.2%	$110.85	75.3%
Actual Avg FY 2002 - 2016		**3.3%**	**3.9%**		**2.1%**		**2.9%**		**73.6%**
Avg FY 12-16		**5.0%**	**4.8%**		**0.9%**		**0.9%**	**$110.26**	**75.3%**
Avg FY 14-16		**7.3%**	**7.2%**		**1.7%**		**1.9%**	**$108.28**	**75.7%**

FORECAST

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	$2016 Real RevPAR	Occ
FORECAST									
FY2017	5,579	0.0%	3.0%	$151.72	2.0%	$117.63	5.1%	$113.62	77.5%
FY2018	5,812	4.2%	3.0%	$155.51	2.5%	$119.20	1.3%	$112.34	76.7%
FY2019	5,931	2.0%	3.0%	$160.18	3.0%	$123.92	4.0%	$113.60	77.4%
Avg FY 17-19		**2.1%**	**3.0%**		**2.5%**		**3.5%**	**$113.19**	**77.2%**
FY2020	6,177	4.1%	3.0%	$161.78	1.0%	$123.79	-0.1%	$110.39	76.5%
FY2021	6,506	5.3%	5.0%	$163.40	1.0%	$124.64	0.7%	$108.13	76.3%
FY2022	6,591	1.3%	4.0%	$168.30	3.0%	$131.79	5.7%	$111.21	78.3%
FY2023	6,723	2.0%	3.2%	$175.03	4.0%	$138.68	5.2%	$113.83	79.2%
FY2024	6,925	3.0%	3.2%	$182.91	4.5%	$145.20	4.7%	$115.94	79.4%
FY2025	7,132	3.0%	3.2%	$191.14	4.5%	$152.03	4.7%	$118.09	79.5%
Avg FY20-25		**3.1%**	**3.6%**		**3.0%**		**3.5%**	**$112.93**	**78.2%**
Total Forecast Avg FY 2017-2025		**2.8%**	**3.4%**		**2.8%**		**3.5%**	**$113.02**	**77.9%**

COMPARISON HF2016 vs HF2017 – Average and Absolute to FY2024

Year	Supply Avg	Demand Avg	ARR	ARR Avg	RevPAR	RevPAR Avg	Avg Real RevPAR	Avg Occ
HF2016	2.9%	3.9%	$184.39	3.2%	$144.44	4.2%	$109.38	76.3%
HF2017	2.8%	3.4%	$182.91	2.6%	$145.20	3.3%	$112.38	77.7%

ABS Dataset change affected

In FY2016, Brisbane RevPAR declined, albeit less than very poor expectations. The market contraction is expected to continue over the short and medium term, impacted by high levels of additional supply. Demand growth expectations have improved and should fully absorb supply over the long term with expectations for 3.5% p.a RevPAR growth

BRISBANE REGIONS – JUNE 2016

	Est	Rooms	RevPAR
Brisbane City Core	96	10,861	$117.43
BRISBANE TOURISM REGION			
Hotels	46	6,051	$133.48
Motels	93	3,906	$81.44
Serviced Apartments	87	6,394	$112.04
Total	**226**	**16,351**	**$112.71**
STAR GRADING			
Luxury	8	1,466	$189.76
Up-Scale	109	10,423	$119.23
Mid-Scale	99	4,092	$72.21
Budget	10	370	$68.22
Total	**226**	**16,351**	**$112.71**

FY2016 YEAR IN REVIEW

	FORECAST FY2016	ACTUAL FY2016	Var	
RevPAR	-14.0%	-4.3%	9.6%	▲
Supply	4.6%	2.3%	-2.3%	▼
Demand	0.0%	1.2%	1.2%	▲
Occupancy	70.6%	73.0%	2.4%	▲
ARR	-10.0%	-3.3%	6.7%	▲

FY2016 Year in Review

- In FY2016 Brisbane hotels continued to contract recording a 4.3% decline in RevPAR, albeit significantly outperforming very poor expectations for a more substantial decline of 14.0%
  - Occupancy fell 0.8 points to 73%, as new supply was unable to be absorbed in an environment of softening demand
  - Rates contracted 3.3% as competition for guests intensified
- The STR sample of higher quality, larger hotels performed much worse than the ABS data, recording more pronounced decline of 11.5%, in line with our expectations. This casts doubt on the accuracy of the ABS data, which has displayed inconsistency over the last two years
- Preliminary STR data for FY2017 (YTD February 2017) indicates that whilst occupancy levels have maintained, rates have continued to contract, driving further market decline

Demand Driver Analysis

Upgraded Visitor Nights Forecasts

- Uncertainty in Brisbane hotel demand lingers as business spending remains dormant, despite leisure drivers improving as increased global exposure through G20 has a positive effect on international visitation and significant destination development continues
- City data for FY2016 for Brisbane reveals:-
  - International visitor nights increased by 4.1% to 24M nights
  - Domestic visitor nights decreased by 1.4% to 17M nights
  - Total visitor nights increased by 1.7% to 41M nights of which a low 14% is captured in Hotels and Motels
- In FY2016 Brisbane hotel's domestic visitor nights share in hotels decreased slightly to 69.2% from 70.8% previously
- The TFC forecasts for QLD Capital cities (Brisbane & Gold Coast) for the period to FY2025 have been slightly increased to average growth of 4.3% p.a compared to 3.5% previously, albeit from a lower base:-
  - Annual domestic visitor night growth expectations of 3.0% vs. 2.9% previously
  - Annual international visitor night growth expectations of 5.4% vs. 4.0% previously

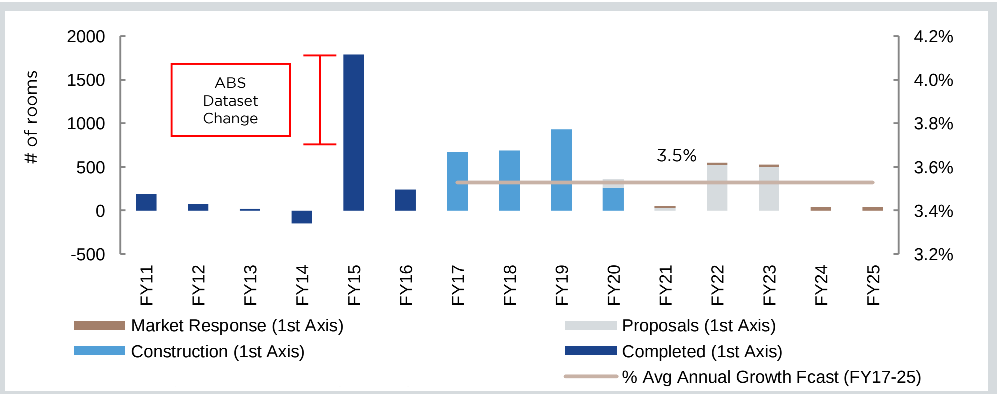
Dransfield Demand Forecast

Annual demand growth of 4.9% is expected for Brisbane City hotels over the long term, which is a moderate absolute upgrade to the prior forecast. Demand starts from a higher base following outperformance in FY2016, and is buoyed by enabling supply additions through the medium term. Long-term TFC expectations have been upgraded and drive our demand upgrade

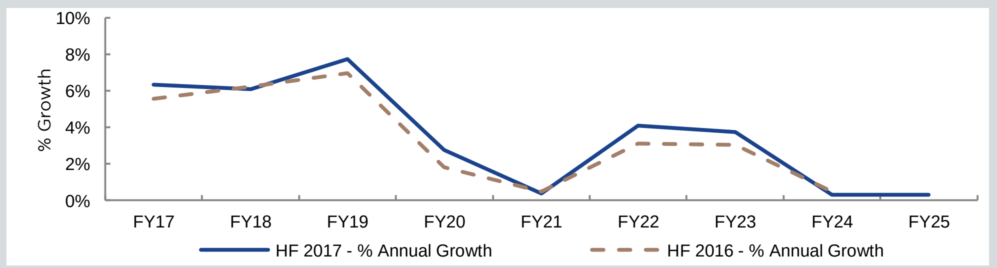
- We expect demand to increase 5.8% in FY2017 which is slightly lower than supply growth expectations
- Medium term demand growth to FY2019 is expected to average 5.6% p.a, which is largely in line with prior expectations, although below supply growth expectations and impacting occupancy levels
- Long term growth expectations to FY2024 realises a moderate 302,000 night (8%) absolute upgrade to prior forecasts. The breadth and depth of material new supply, in association with leisure driver development and increased air access, has shaped the upgrade consistent with upgraded TFC forecasts

Supply expectations are high relative to market size, and concentrated over the next three years. The majority of the forecast supply pipeline is already under construction, or deep into the planning process and quite certain. We expect very low levels of additional proposal activity to materialise over the life of the forecast. We expect the new rooms to be fully absorbed over time

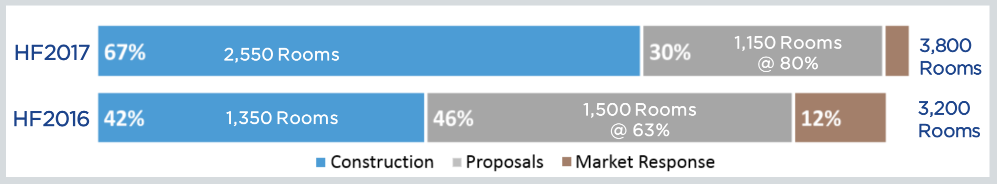
SUPPLY ACTUAL & FORECAST BY TYPE FY11-FY25



FORECAST COMPARISON HF17 VS HF16 - % ANNUAL SUPPLY GROWTH



FORECAST COMPARISON HF17 VS HF16 – PIPELINE BY TYPE TO FY2024



Supply Actual

- In FY2016 the ABS recorded a 2.3% increase (250 rooms) in rooms
- Five hotels have come online through the first half of FY2017 with one more expected before financial year end
- Construction activity remains high with 7 additional developments underway and expected to open over the next 3 years

Supply Forecasts

- Dransfield's supply forecast is for 3,900 new rooms to enter the market over the next 9 years to FY2025 (36% of current stock) at an average annual growth rate of 3.5% p.a.
  - Our forecast supply pipeline represents a small absolute increase of 600 rooms over the prior forecast, with demand growth expectations exceeding supply growth expectations
  - Timing is largely consistent with the prior forecast however a significant shift from proposal activity to construction activity has occurred. Construction activity (which includes FY2017 openings) has doubled to 2,550 rooms
  - With more than two-thirds of mooted supply already under construction, and therefore reasonably certain, strain will be placed on Brisbane's ability to attract adequate demand growth
  - The new forecast does however represent a small decrease in identified project numbers as some proposed projects have been abandoned as the larger and more certain supply pipeline makes feasibility increasingly difficult. Remaining proposed developments all indicate high probability of completion allowed (80%)
  - Supply growth in the medium term to FY2019 is expected to average a high 6.7% p.a. which is largely inline with expectations in the prior forecast
  - Over the longer term, we expect the market to fully absorb the supply additions, edging occupancy levels once again towards 80% at the end of the forecast
  - Market Response has infilled, reducing from an already low 12% of total pipeline supply to a meagre 3%. There is little prospect of any significant new development to emerge without considerable government backing or a special purpose
- Geographically, the spread of new developments has continued to expand. Fringe CBD locations such as Fortitude Valley, Spring Hill and Southbank have featured in this development cycle
- Traditionally lacking in 5-star luxury accommodation, Brisbane will undergo a transformation in this tier, welcoming several high quality, high service hotels to the CBD. Fringe locations on the other hand have shown a tendency to focus on select service and lifestyle centric brands

Long term RevPAR expectations are for 3.5% growth p.a, buoyed by a strong back end. Supply induced volatility over the medium term will inhibit rate confidence, however this should subside over the longer term as demand slowly absorbs new stock

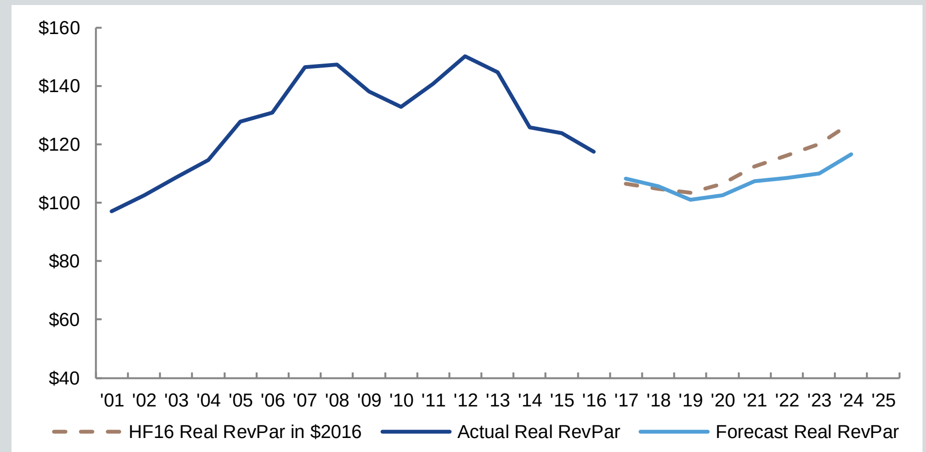
Conclusion

Short and medium term volatility expected as material supply comes online. Recovery expected to emerge over the long term as the supply cycle bottoms allowing demand to catch up and create upward pressure on rate. Long-term expectations are for moderate back ended RevPAR growth averaging 3.5% p.a.

The Brisbane forecast represents a small downgrade to prior expectations as the supply and demand equation affects market confidence, culminating in lower rate growth expectations

- Over the period of the forecast, average occupancy expectations are moderate at 74.8%, which is above prior expectations and buoyed by back end strengthening. Supply is expected to be fully absorbed over the longer term with occupancy pushing towards 80% at forecast end
  - In FY2017 occupancy levels are expected to be largely maintained despite moderate new supply
  - Over the medium term to FY2019, occupancy levels are expected to bear the brunt of new supply with three consecutive years of material increase. There is risk of occupancy underperformance should moderate demand not eventuate in line with expectations
- Rate growth expectations have been reduced to 2.0% p.a for the forecast period. Poor short and medium term sentiment is likely to linger longer than previously expected as occupancy competition intensifies. Rate recovery should eventuate over the long term as the general level of quality improves and leisure guests return to boost occupancy
  - Through the first half of FY2017, rates have continued to contract despite occupancy levels largely maintaining. The expected full year 5.0% decline is relative to previously expected growth of 3.0%, as hoteliers are being more cautious than expected. This attitude has reverberated through our medium-term forecast
  - We expect rates through the medium term to decline by an average of 1.3% p.a, which is largely dragged by FY2017 and takes regard of new properties through the ramp up period when rates are often discounted
  - The ability for hoteliers to have the confidence to push rates in Brisbane will be tied to Brisbane's ability to attract adequate new demand through the extended period of additional supply. Improved leisure drivers are key to this growth
  - Rate consolidation is expected towards the back end of the forecast as supply growth slows and the higher overall quality of stock creates natural rate movement
- Our forecast is for a reduction in average long term Real RevPAR (4.2%) despite a higher starting point, as rate trepidation takes effect
- RevPAR growth for the comparable period to FY2024 also represents a downgrade to prior forecasts, with average growth of 2.7% expected vs 5.3% previously. There is a moderate level of downside risk associated with the forecast which may occur if demand growth does not eventuate in line with expectations as supply is introduced
  - In FY2017 RevPAR is expected to decrease 5.5% and appears as some of the decline expected in FY2016 is carried forward
  - In the medium term to FY2019, RevPAR is expected to record three consecutive periods of contraction with average decline of 2.4% p.a.
  - Long-term expectations are for recovery to eventuate as supply is absorbed and hoteliers become more bullish on rate. The development of material new supply whilst inhibiting short and medium term performance is considered necessary for Brisbane to compete with improving alternate destinations, both domestically and internationally, over the long term. Planned and underway destination development and improvements to access infrastructure bodes well for the hotel market over the long term and will create upward occupancy and rate pressures
  - Full forecast expectations to FY2025 are for back ended growth of 3.5% p.a.

BRISBANE CITY REAL REVPAR IN $2016



Long term RevPAR expectations are for 3.5% growth p.a, buoyed by a strong back end. Supply induced volatility over the medium term will inhibit rate confidence, however this should subside over the longer term as demand slowly absorbs new stock

BRISBANE CITY CORE – HOTELS, MOTELS AND SERVICED APARTMENTS

ACTUAL

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	$2016 Real RevPAR	Occ
HISTORICAL									
FY2002	6,266	-1.5%	3.1%	$102.73	3.9%	$73.04	8.7%	$102.51	71.1%
FY2003	6,043	-3.6%	0.5%	$107.36	4.5%	$79.57	8.9%	$108.75	74.1%
FY2004	6,088	0.7%	5.8%	$110.53	3.0%	$86.00	8.1%	$114.70	77.8%
FY2005	6,255	2.7%	6.0%	$122.39	10.7%	$98.25	14.2%	$127.86	80.3%
FY2006	6,893	10.2%	9.3%	$131.26	7.2%	$104.53	6.4%	$130.83	79.6%
FY2007	7,235	5.0%	8.3%	$145.25	10.7%	$119.39	14.2%	$146.40	82.2%
FY2008	7,812	8.0%	5.4%	$156.62	7.8%	$125.70	5.3%	$147.48	80.3%
FY2009	8,404	7.6%	1.0%	$158.40	1.1%	$119.41	-5.0%	$138.09	75.4%
FY2010	8,500	1.1%	3.2%	$153.89	-2.8%	$118.39	-0.9%	$132.85	76.9%
FY2011	8,689	2.2%	4.6%	$165.19	7.3%	$129.98	9.8%	$140.79	78.7%
FY2012	8,763	0.9%	4.0%	$173.03	4.7%	$140.43	8.0%	$150.34	81.2%
FY2013	8,786	0.3%	-3.5%	$177.17	2.4%	$138.43	-1.4%	$144.72	78.1%
FY2014	8,636	-1.7%	-5.3%	$164.71	-7.0%	$123.96	-10.5%	$125.82	75.3%
FY2015	10,429	20.8%	18.4%	$167.94	2.0%	$123.96	0.0%	$123.96	73.8%
FY2016	10,671	2.3%	1.2%	$162.44	-3.3%	$118.61	-4.3%	$117.43	73.0%
Actual Avg FY 2002 - 2016		3.7%	4.1%		3.5%		4.1%		77.2%
Avg FY 12-16		4.5%	3.0%		-0.2%		-1.6%	$132.45	76.3%
Avg FY 14-16		7.1%	4.8%		-2.8%		-4.9%	$122.40	74.0%

ABS Dataset change affected

FORECAST

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	$2016 Real RevPAR	Occ
FORECAST									
FY2017	11,347	6.3%	5.8%	$154.32	-5.0%	$112.12	-5.5%	$108.30	72.7%
FY2018	12,037	6.1%	5.0%	$155.86	1.0%	$112.08	0.0%	$105.62	71.9%
FY2019	12,970	7.8%	6.0%	$155.86	0.0%	$110.26	-1.6%	$101.07	70.7%
Avg FY 17-19		6.7%	5.6%		-1.3%		-2.4%	$105.00	71.8%
FY2020	13,328	2.8%	4.0%	$160.54	3.0%	$114.93	4.2%	$102.49	71.6%
FY2021	13,380	0.4%	4.5%	$166.16	3.5%	$123.83	7.7%	$107.42	74.5%
FY2022	13,928	4.1%	4.5%	$171.97	3.5%	$128.66	3.9%	$108.57	74.8%
FY2023	14,452	3.8%	4.5%	$177.99	3.5%	$134.11	4.2%	$110.09	75.3%
FY2024	14,495	0.3%	5.0%	$185.11	4.0%	$146.01	8.9%	$116.59	78.9%
FY2025	14,538	0.3%	5.0%	$193.44	4.5%	$159.73	9.4%	$124.07	82.6%
Avg FY20-25		1.9%	4.6%		3.7%		6.4%	$111.54	76.3%
Total Forecast Avg FY 2017-2025		3.5%	4.9%		2.0%		3.5%	$109.36	74.8%

COMPARISON HF2016 vs HF2017 – Average and Absolute to FY2024

Year	Supply Avg	Demand Avg	ARR	ARR Avg	RevPAR	RevPAR Avg	Avg Real RevPAR	Avg Occ
HF2016	3.5%	4.8%	$206.78	4.0%	$161.32	5.3%	$112.20	72.3%
HF2017	3.9%	4.9%	$185.11	1.7%	$146.01	2.7%	$107.52	73.8%

CAIRNS & PORT DOUGLAS

In FY2016, Cairns and Port Douglas RevPAR increased above already strong expectations as a strong supply and demand equation allowed hoteliers to move on rate. Growth is likely to continue in the short and medium term as supply increases remain low. Demand growth will persist and fully absorb low levels of additional supply, providing a basis for further rate consolidation. Our long-term outlook has improved to RevPAR growth of 4.6% p.a

CAIRNS REGIONS – JUNE 2016

	Establishments	Rooms	RevPAR
Cairns	63	5,244	$92.72
Port Douglas	49	2,437	$102.17
Cairns & Port Douglas	112	7,681	$97.45
Tropical North Queensland			
Hotels	40	3,980	$92.91
Motels	62	3,265	$68.64
Serviced Apartments	88	3,925	$96.33
Total	**190**	**11,170**	**$87.02**

FY2016 YEAR IN REVIEW

	FORECAST FY2016	ACTUAL FY2016	Var	
RevPAR	9.2%	11.2%	2.0%	▲
Supply	0.0%	-1.8%	-1.8%	▼
Demand	5.0%	3.2%	-1.8%	▼
Occupancy	68.2%	68.2%	0.0%	▲
ARR	4.0%	5.8%	1.8%	▲

FY2016 Year in Review

- In FY2016, Cairns and Port Douglas hotels recorded strong RevPAR growth of 11.2% and captured the title for the highest growth City market in the country. The strong results outperformed our robust 9.2% expectations and were driven by demand led rate growth
  - FY2016 represents the 6th consecutive year of RevPAR growth and a new RevPAR record for the region
  - Occupancy levels increased by 3.3 points to 68.2%, in line with our expectations and are the highest recorded in over 10 years
  - Rates grew by a strong 5.8%, facilitated by the positive movements in occupancy as Australian leisure markets continue to prosper
- The STR sample of higher quality larger hotels, recorded similar RevPAR growth, with higher occupancy than the ABS. The STR sample is representative of only Cairns performance and a relatively low 48% participation rate
- Preliminary STR data for FY2017 (YTD February 2017) shows continued rate driven RevPAR growth

Demand Driver Analysis

Upgraded Visitor Night Forecasts

- Whilst the Australian Dollar remains low we should see demand for the region continue to grow. It is important to note that as this region is almost entirely leisure based, demand will be highly subject to price, with the region only remaining popular if it is considered good value relative to competitive destinations
- City data for FY2016 for Cairns reveals :-
  - International visitor nights decreased by 1.8% to 5.1M nights
  - Domestic visitor nights increased by 16.9% to 5.8M nights
  - Total visitor nights increased by 7.3% to 10.1M nights, of which a high 45% is captured in Hotels and Motels
- In FY2016 Cairns and Port Douglas hotel's domestic visitor nights share in hotels decreased to 59.1% from 63.5% as the region continues to attract significant growth from the major markets of China and the USA
- The TFC forecasts for the total visitor nights for Queensland (excluding Brisbane and the Gold Coast) to FY2025 have been upgraded to average annual growth of 3.8% p.a compared to a previous 3.3%, although there is an absolute downgrade due to underperformance of FY2016 :-
  - Annual domestic visitor night growth expectations of 3.5% vs. 2.9% previously
  - Annual international visitor night growth expectations of 4.5% vs. 4.3% previously

Dransfield Demand Forecast

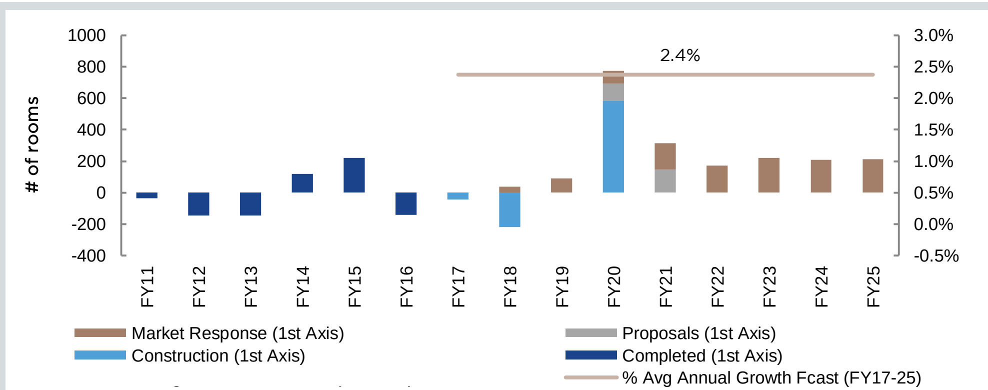
Annual demand growth of 3.3% is expected for Cairns and Port Douglas hotels over the long term which is largely in line with prior forecasts, and above supply growth expectations. Whilst annual occupancy is low relative to other cities, the highly seasonal nature of these leisure destinations means there is some supply constrained demand during the high season first quarter which is holding back further growth

- We expect demand to increase 3.0% in FY2017, which represents a marginal downgrade, but is still well above supply expectations, and would see occupancy push into the 70%, for the first time since FY2003
- There may be an artificial dip in the short term to medium term as tourists source alternate destinations to those near the recent cyclone tragedy, despite being physically unaffected
- Medium term demand growth to FY2019 is expected to average 3.0% p.a, which represents a small downgrade from previous expectations, although, again well above supply growth expectations
- Long term growth expectations to FY2024 realise a minor 57,000 night (2%) absolute downgrade to prior forecasts

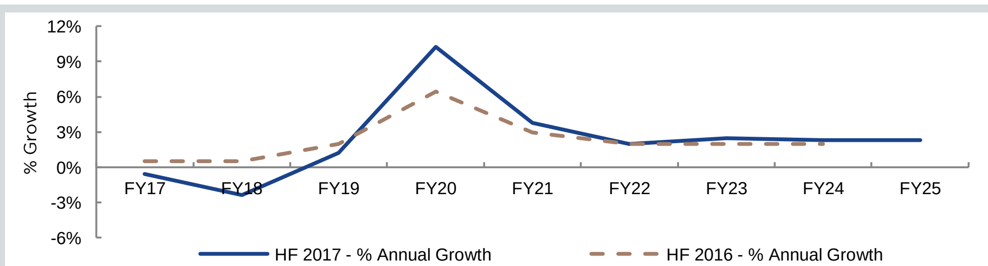
CAIRNS & PORT DOUGLAS

Total supply expectations are relatively similar to prior expectations with some movement between proposal and construction experienced. New proposal activity still sits well within our previously allowed Market Response, but remains limited

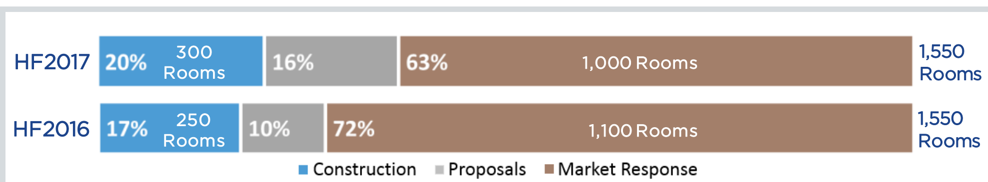
SUPPLY ACTUAL & FORECAST BY TYPE FY11-FY25



FORECAST COMPARISON HF17 VS HF16 - % ANNUAL SUPPLY GROWTH



FORECAST COMPARISON HF17 VS HF16 – PIPELINE BY TYPE TO FY2024



Supply Actual

- In FY2016 the ABS survey recorded a 1.8% decrease (140 rooms) in rooms, which was the result of rectifying double counting in the prior year
- The historical low rate and occupancy environment has frustrated new supply. This is shown by a net increase of 330 rooms (0.4% annually) since FY2005. Construction activity remains low

Supply Forecasts

- Dransfield's supply forecast to FY2025 is for 1,800 new rooms to enter the market over the next 9 years to FY2025 (23% of current stock), at an average annual growth rate of 2.4%
  - Our forecast supply pipeline is consistent with the prior forecast with demand growth exceeding supply growth
  - Supply contraction is expected in the medium term to FY2019, averaging an annual decline of 0.6% as the redevelopment of a hotel halts trading. This unexpected occurrence sees a net loss of available stock against prior expectations of a very small increase
  - Proposal activity has increased relative to the prior forecast with the emergence of the Crystalbrook collection's 800 plus rooms across three sites
  - We expect moderate additional supply proposals to come to light over the longer term as the market looks to take advantage of positive sentiment. These Market Response allowances will only be taken up over the latter years if the market absorbs the first material supply increase since the late 90's. There remains risk that some of the forecast Market Response will not materialise
  - Looking at a more contemporary timeline over the next 6 years, live construction and proposal rooms represent about half of the forecast pipeline. Supply growth over this period is below demand growth expectations for the corresponding period (2.4% vs 3.5%) and should give hoteliers the confidence to continue to move on rate
- Geographically, almost all the supply expectations are for the Cairns region. We do not expect to see any major supply movement in the Port Douglas region, which in FY2016 had only one quarter operating above 55% occupancy. Any hotel activity in the Port Douglas region will more than likely be refurbishment.

CAIRNS & PORT DOUGLAS

Long term RevPAR expectations are for 4.6% growth p.a, buoyed by a very strong front end. Expectations have been maintained relative to the prior forecast with demand growth outstripping supply additions, driving up occupancy levels and promoting rate growth

Conclusion

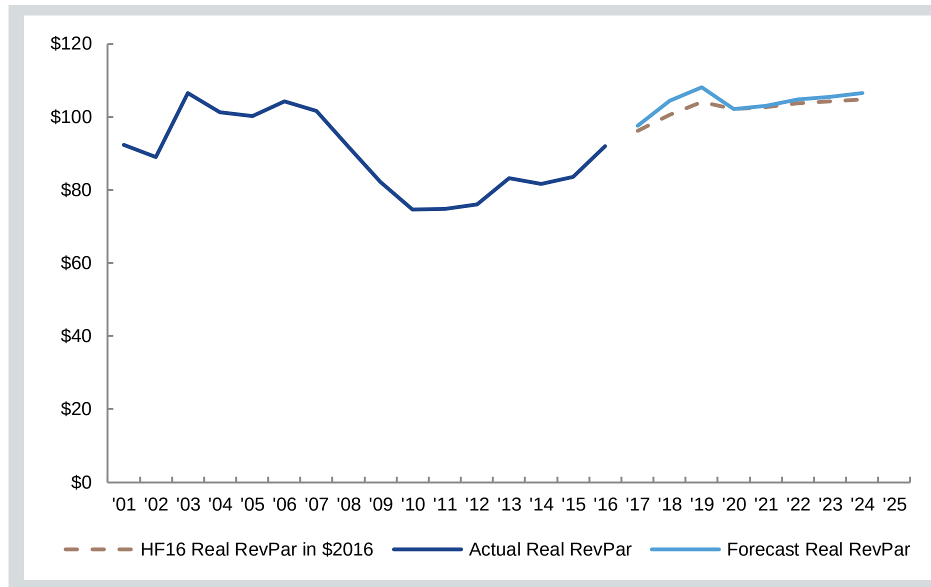
Strong performance in FY2016 and the continued helpful position of the Australia dollar, albeit unwinding, has seen us maintain our strong positive forecast as occupancy levels improve and provide a basis for rate growth

The Cairns and Port Douglas forecast represents a small upgrade to prior expectations, largely as a result of slight short and medium term outperformance, impacted by reduced supply over the next two years

- Over the period of the forecast, average occupancy expectations remain unchanged at a healthy leisure destination average of 73.3%
  - In FY2017 occupancy levels are expected to grow by approximately 2.5 points as supply reduces due to the temporary closure of a major hotel
  - Over the entire forecast we anticipate that occupancy will remain above 70%, a premium that has been unable to be maintained in the past
  - Acceleration of the $1B+ expansion of the Cairns Airport may see demand growth outperformance, particularly if new discount carrier routes can be secured in a region whose performance is closely tied to value and price
- Annual average rate growth of 3.5% is expected over the life of the forecast. This is in line with prior forecasts as consistently high occupancy instils confidence in hoteliers to grow rates
  - Historically, the region has experienced wildly varied rate movement. Year on year changes are difficult to forecast reliably for a small leisure market and we focus on the long-term average
  - As a leisure destination, demand is highly sensitive to price. As a consequence too much rate growth would hinder long-term demand. For instance the Cairns and Port Douglas region, has always operated at a discount to the more accessible Gold Coast region ($20 in FY2016)
- Our forecast is for a 1.7% increase in average long-term real RevPAR compared to our previous forecast. The upgrade is a result of supply contractions in the medium term which has led to outperformance which carries through
- RevPAR percentage growth for the comparable period FY2017-FY2024 represents no material change, even with the higher start position.
  - In FY2017 RevPAR is expected to record very strong growth of 8.8% as the supply reductions positively affect occupancy and promote rate growth
  - In the medium term to FY2019 average RevPAR growth of a very healthy 8.3% is expected with FY2018 showing the peak of year on year growth

    Long-term expectations are for RevPAR growth to return to levels more closely linked to inflation for fear of the market being considered too expensive relative to competitor locations
  - Full forecast expectations to FY2025 are for 4.6% growth p.a.

CAIRNS & PORT DOUGLAS REAL REVPAR IN $2016



Long term RevPAR expectations are for 4.6% growth p.a, buoyed by a very strong front end. Expectations have been maintained relative to the prior forecast with demand growth outstripping supply additions, driving up occupancy levels and promoting rate growth

CAIRNS & PORT DOUGLAS – HOTELS, MOTELS AND SERVICED APARTMENTS

ACTUAL

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	$2016 Real RevPAR	Occ
HISTORICAL									
FY2002	7,105	1.2%	0.0%	$98.17	0.3%	$63.39	-0.9%	$88.97	64.6%
FY2003	6,155	-13.4%	-1.2%	$105.85	7.8%	$77.94	22.9%	$106.53	73.6%
FY2004	7,338	19.2%	7.0%	$114.82	8.5%	$75.87	-2.7%	$101.19	66.1%
FY2005	7,373	0.5%	0.0%	$117.16	2.0%	$77.06	1.6%	$100.29	65.8%
FY2006	7,192	-2.5%	0.6%	$122.72	4.7%	$83.24	8.0%	$104.18	67.8%
FY2007	7,273	1.1%	-1.3%	$125.12	2.0%	$82.83	-0.5%	$101.57	66.2%
FY2008	7,612	4.7%	-0.8%	$124.67	-0.4%	$78.20	-5.6%	$91.76	62.7%
FY2009	7,669	0.7%	-3.9%	$118.77	-4.7%	$71.08	-9.1%	$82.20	59.8%
FY2010	7,829	2.1%	-1.8%	$115.57	-2.7%	$66.55	-6.4%	$74.68	57.6%
FY2011	7,792	-0.5%	2.9%	$115.92	0.3%	$69.00	3.7%	$74.74	59.5%
FY2012	7,649	-1.8%	1.5%	$115.33	-0.5%	$71.02	2.9%	$76.03	61.6%
FY2013	7,502	-1.9%	2.7%	$123.47	7.1%	$79.64	12.1%	$83.26	64.5%
FY2014	7,622	1.6%	2.8%	$123.16	-0.2%	$80.35	0.9%	$81.55	65.2%
FY2015	7,843	2.9%	2.4%	$128.71	4.5%	$83.55	4.0%	$83.55	64.9%
FY2016	7,703	-1.8%	3.2%	$136.24	5.8%	$92.88	11.2%	$91.96	68.2%
Actual Avg FY 2002 - 2016		**0.8%**	**0.9%**		**2.3%**		**2.8%**		**64.5%**
Avg FY 12-16		**-0.2%**	**2.5%**		**3.3%**		**6.2%**	**$83.27**	**64.9%**
Avg FY 14-16		**0.9%**	**2.8%**		**3.4%**		**5.3%**	**$85.69**	**66.1%**

ABS Dataset change affected

FORECAST

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	$2016 Real RevPAR	Occ
FORECAST									
FY2017	7,659	-0.6%	3.0%	$143.05	5.0%	$101.03	8.8%	$97.59	70.6%
FY2018	7,476	-2.4%	3.0%	$148.77	4.0%	$110.87	9.7%	$104.48	74.5%
FY2019	7,566	1.2%	3.0%	$155.47	4.5%	$117.92	6.4%	$108.10	75.8%
Avg FY 17-19		**-0.6%**	**3.0%**		**4.5%**		**8.3%**	**$103.39**	**73.7%**
FY2020	8,340	10.2%	5.0%	$158.58	2.0%	$114.57	-2.8%	$102.17	72.2%
FY2021	8,655	3.8%	4.0%	$164.13	3.5%	$118.83	3.7%	$103.08	72.4%
FY2022	8,828	2.0%	3.0%	$169.87	3.5%	$124.20	4.5%	$104.80	73.1%
FY2023	9,049	2.5%	3.0%	$174.97	3.0%	$128.55	3.5%	$105.52	73.5%
FY2024	9,257	2.3%	3.0%	$180.22	3.0%	$133.31	3.7%	$106.45	74.0%
FY2025	9,470	2.3%	3.0%	$185.62	3.0%	$138.25	3.7%	$107.38	74.5%
Avg FY20-25		**3.9%**	**3.5%**		**3.0%**		**2.7%**	**$104.90**	**73.3%**
Total Forecast Avg FY 2017-2025		**2.4%**	**3.3%**		**3.5%**		**4.6%**	**$104.40**	**73.4%**

COMPARISON HF2016 vs HF2017– Average and Absolute to FY2024

Year	Supply Avg	Demand Avg	ARR	ARR Avg	RevPAR	RevPAR Avg	Avg Real RevPAR	Avg Occ
HF2016	2.3%	3.4%	$177.95	3.6%	$132.64	4.8%	$102.28	73.3%
HF2017	2.4%	3.4%	$180.22	3.6%	$133.31	4.7%	$104.02	73.3%

In FY2016, Canberra RevPAR easily outperformed moderate expectations and recovered all of the prior year decline. Growth is expected to continue through the short and medium term as demand growth fully absorbs new supply, promoting confidence to increase rates. Market fundamentals for the forecast period are above historical levels with average RevPAR growth of 4.4% expected over the long term

CANBERRA REGIONS – JUNE 2016

	Establishments	Rooms	RevPAR
Canberra	56	6,252	$108.28
CANBERRA TOURISM REGION			
Hotels	24	3,525	$128.83
Motels	15	1,332	$83.15
Serviced Apartments	17	1,395	$122.38
Total	**56**	**6,252**	**$117.67**
STAR GRADING			
Luxury	4	735	$161.98
Up-Scale	32	3,534	$125.87
Mid-Scale	17	1,793	$89.54
Budget	3	190	$58.95
Total	**56**	**6,252**	**$117.67**

FY2016 YEAR IN REVIEW

	FORECAST FY2016	ACTUAL FY2016	Var	
RevPAR	3.6%	7.2%	3.6%	▲
Supply	6.8%	1.3%	-5.4%	▼
Demand	8.5%	4.9%	-3.6%	▼
Occupancy	69.1%	70.5%	1.3%	▲
ARR	2.0%	3.6%	1.6%	▲

FY2016 Year in Review

- In FY2016 Canberra recorded robust RevPAR growth of 7.2%, which outperformed our expectations for lesser 3.6% growth, with improvements to both occupancy and rate
  - Occupancy levels strengthened 2.4 points, tipping back over the 70% mark for the first time in 3 years
  - Rates reacted accordingly, growing 3.6%
- ABS was materially inconsistent with the STR sample of higher quality, larger hotels with only 1.6% RevPAR growth recorded. Given the changes in ABS data sets it is likely that the STR results were a better indicator
- Preliminary STR data for FY2017 (YTD February 2017) indicates that RevPAR growth will continue. Improving occupancy and overall stock quality have created upward pressure on average rates

Demand Driver Analysis

Slightly Upgraded Visitor Night Forecasts

- Increased focus on NSW drive visitors as well as the expansion of direct domestic and international flight access is expected to continue to improve the holiday segment as well as complement parliamentary travel activity. This has positively influenced our demand expectations over the long term
- City data for FY2016 for Canberra reveals:-
  - International visitor nights increased by 8.9% to 5M nights
  - Domestic visitor nights decreased by 1.3% to 6.4M nights
  - Total visitor nights increased by 4.5% to 11.4M nights of which 23% is captured in Hotels and Motels
- In FY2016 Canberra hotel's high domestic visitor nights share in hotels decreased slightly to 89.0% from 89.1% previously
- The TFC forecasts for Canberra, for the period to FY2025, have been slightly upgraded to average growth of 4.0% p.a compared to 3.8% previously:-
  - Annual domestic visitor night growth expectations of 3.0% vs. 2.6% previously, from a lower base
  - Annual international visitor night expectations increased from a higher base despite slightly softer annual growth of 5.1% vs. 5.2% previously

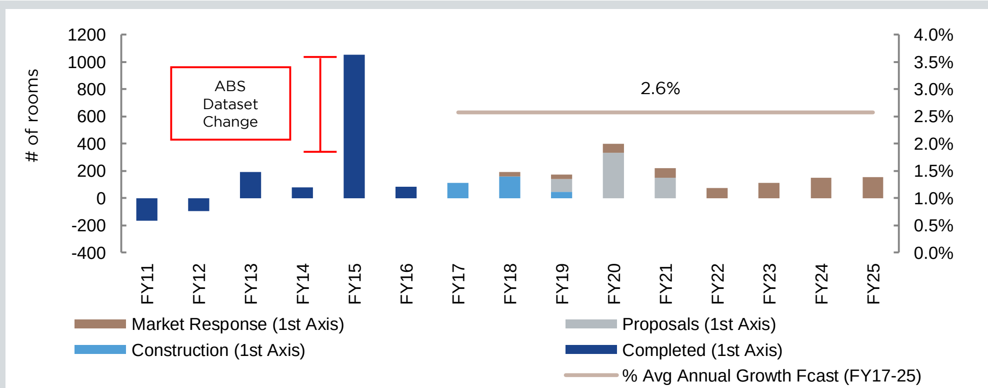
Dransfield Demand Forecast

Annual demand growth of 3.2% is expected for Canberra hotels over the long term and is above supply growth expectations. This is a minor absolute upgrade to the prior forecast, from a lower base. Strong demand growth over the long term is expected to drive a healthy and upgraded performance outlook

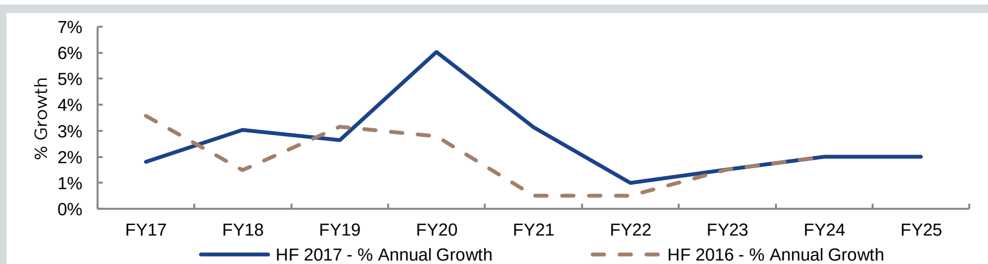
- We expect demand to increase by 5.0% in FY2017 which is slightly above TFC forecasts, as preliminary market data indicates strong occupancy improvement relative to our low supply expectations
- Medium term demand growth to FY2019 is expected to average 3.8% p.a, buoyed by the strong FY2017 and absorbing the low levels of expected additional supply
- Long term growth expectations to FY2024 of 3.3% p.a, are a minor absolute visitor night upgrade (<1%) to the prior forecast

Supply expectations are low and sit slightly below demand growth expectations over the short, medium and long term. The relatively small additions, which are largely expected over the next 5 years, have moderate completion risk. Our supply forecast assumes the entirety of the back half of the forecast is Market Response which will only eventuate with appropriate market conditions

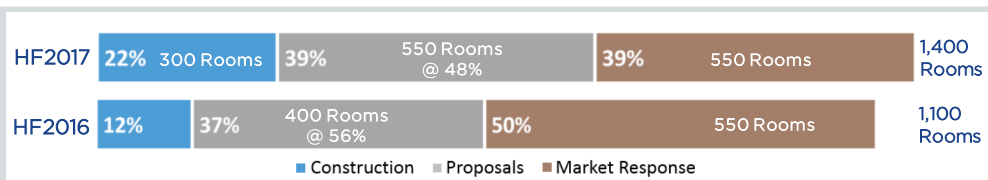
SUPPLY ACTUAL & FORECAST BY TYPE FY11-FY25



FORECAST COMPARISON HF17 VS HF16 - % ANNUAL SUPPLY GROWTH



FORECAST COMPARISON HF17 VS HF16 – PIPELINE BY TYPE TO FY2024



Supply Actual

- In FY2016 the ABS survey recorded a 1.3% increase (100 rooms) in supply which was slightly affected by rectifying double counting in the prior year. We estimate that actual supply growth for FY2016 was slightly higher at approximately 300 rooms, or a 5% increase
- Construction activity is relatively low, representing just 20% of the pipeline. We expect proposals to move into construction over the next 12-18 months to keep up with announced timelines

Supply Forecasts

- Dransfield's supply forecast is for 1,600 new rooms to enter the market over the next 9 years to FY2025 (25% of current stock) at an average annual growth rate of 2.6%
  - Our forecast supply pipeline represents a small increase of 300 rooms relative to the prior forecast with demand growth expectations exceeding supply growth expectations
  - Supply growth in the medium term to FY2019 is expected to average a low 2.5% (500 rooms), which is a minor decrease on the prior forecast as project timing has delayed
  - Uplift is concentrated in FY2020 and FY2021 as new proposals have come to light
  - Market Response previously allowed has been partly absorbed by live projects, but remains moderate given the long term demand growth expectations. It now accounts for 39% of all new supply compared with 50% in the prior forecast
  - As market performance strengthens over the medium term we expect hotel development proposal activity to increase, and absorb our material Market Response allowance
  - Over the next 6 years, live construction and proposal rooms represent a high 76% of the forecast supply pipeline. Supply growth over this period is below demand growth expectations for the corresponding period (2.4% vs 3.9%). Performance upside opportunity is available should Market Response allowances not eventuate
- Geographically, the spread of proposed developments is quite concentrated between three distinct districts. Clusters at the London Circuit/Braddon area in the city centre, Kingston/Forrest area adjacent to Parliament further to the South, and the Belconnen region near the University of Canberra's Bruce campus, are all holding multiple proposed developments
- Many of the proposed developments are early in the planning process and have not identified grade or branding. Following a considerable improvement at the luxury end of the market (both new build and refurbishment) over the last 4-5 years, we expect this cycle to skew towards mid tier 3.5-4.5 star products and serviced apartments

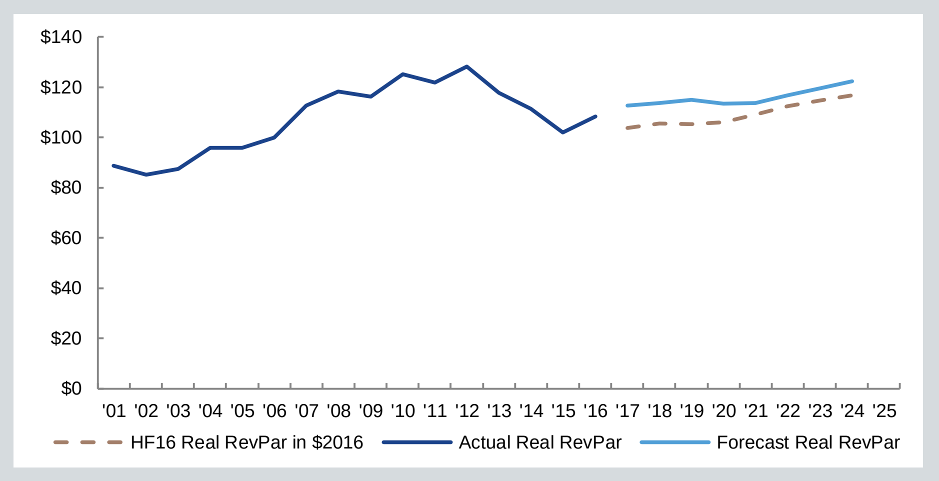
Long term RevPAR expectations are for 4.4% growth p.a, with relatively strong growth throughout. Expectations for absolute RevPAR levels have improved relative to prior forecasts following outperformance in FY2016, which is expected to continue in the short and medium term. Occupancy levels are expected to be above historical averages, providing rate growth opportunities

Conclusion

Demand induced rate growth over the medium term is expected to be largely maintained over the full forecast. This is underpinned by occupancy levels well above the decade long average

- The Canberra forecast represents a moderate upgrade to prior expectations from a higher base following outperformance in FY2016
- Over the period of the forecast, average occupancy expectations have been increased to 73.2%, compared with 71.5% previously
  - In FY2017 occupancy levels are expected to increase approximately 2 points as a slight delay in supply is met with robust demand growth
  - Over the medium term to FY2019 occupancy levels are expected to maintain around the 73% mark before softening slightly as relatively low levels of new supply peaks in FY2020. Levels should gradually increase over the back end of the forecast as subdued levels of new supply are expected. There is opportunity for occupancy outperformance should Market Response not eventuate
- Above inflation rate growth is expected through the medium term, strengthening over the back half of the forecast as occupancy levels improve. Long term expectations are for moderate growth averaging 3.7% p.a.
  - Rate growth has been slightly increased relative to the prior forecast dictated by a stronger occupancy environment
  - A benign supply cycle should encourage rate improvement throughout the forecast period if demand growth meets expectations
- Our forecast is for a 6.2% improvement in average long-term real RevPAR compared to our previous forecast. The upgrade is buoyed by outperformance in FY2016 and an upgraded FY2017 outlook, which carries through for the full forecast
- RevPAR growth rates for the comparable period to FY2024 have been slightly tempered, despite improved market sentiment following a higher FY2016 base and slightly impacted by a small increase in supply proposals
  - In FY2017, RevPAR is expected to record robust 6.7% growth, easily outperforming 1.9% prior expectations as demand comfortably absorbs delayed supply additions and hoteliers react on rate
  - In the medium term to FY2019, average RevPAR growth of 4.7% is expected as a positive supply and demand equation creates above inflation rate opportunities
  - Long term expectations are for modest growth in a rising occupancy market with some supply risk. Should moderate Market Response allowances not be adequately commercialised, there is forecast upside present
  - Full forecast expectations to FY2025 are for 4.4% growth p.a.

CANBERRA CITY REAL REVPAR IN $2016



Long term RevPAR expectations are for 4.4% growth p.a, with relatively strong growth throughout. Expectations for absolute RevPAR levels have improved relative to prior forecasts following outperformance in FY2016, which is expected to continue in the short and medium term. Occupancy levels are expected to be above historical averages, providing rate growth opportunities

CANBERRA – CITY HOTELS, MOTELS AND SERVICED APARTMENTS

ACTUAL

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	$2016 Real RevPAR	Occ
HISTORICAL									
FY2002	5,197	3.1%	3.7%	$99.10	-1.7%	$60.73	-1.1%	$85.23	61.3%
FY2003	5,102	-1.8%	0.9%	$101.76	2.7%	$64.08	5.5%	$87.58	63.0%
FY2004	4,994	-2.1%	5.5%	$106.03	4.2%	$71.94	12.3%	$95.95	67.8%
FY2005	4,911	-1.7%	-1.3%	$108.10	2.0%	$73.60	2.3%	$95.78	68.1%
FY2006	4,960	1.0%	4.4%	$113.47	5.0%	$79.85	8.5%	$99.94	70.4%
FY2007	5,011	1.0%	5.4%	$125.11	10.3%	$91.85	15.0%	$112.62	73.4%
FY2008	5,016	0.1%	-2.5%	$141.08	12.8%	$100.89	9.8%	$118.37	71.5%
FY2009	5,097	1.6%	-2.0%	$145.72	3.3%	$100.54	-0.4%	$116.26	69.0%
FY2010	5,023	-1.4%	6.8%	$149.28	2.4%	$111.61	11.0%	$125.25	74.8%
FY2011	4,857	-3.3%	-5.4%	$153.80	3.0%	$112.49	0.8%	$121.84	73.1%
FY2012	4,762	-2.0%	-2.3%	$164.43	6.9%	$119.86	6.6%	$128.31	72.9%
FY2013	4,954	4.0%	-1.5%	$163.29	-0.7%	$112.67	-6.0%	$117.79	69.0%
FY2014	5,032	1.6%	-1.9%	$164.50	0.7%	$109.65	-2.7%	$111.29	66.7%
FY2015	6,085	20.9%	23.5%	$149.84	-8.9%	$101.98	-7.0%	$101.98	68.1%
FY2016	6,167	1.3%	4.9%	$155.22	3.6%	$109.36	7.2%	$108.28	70.5%
Actual Avg FY 2002 - 2016		**1.5%**	**2.5%**		**3.0%**		**4.1%**		**69.3%**
Avg FY 12-16		**5.2%**	**4.5%**		**0.3%**		**-0.4%**	**$113.53**	**69.4%**
Avg FY 14-16		**7.9%**	**8.8%**		**-1.5%**		**-0.8%**	**$107.18**	**68.4%**

ABS Dataset change affected

FORECAST

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	$2016 Real RevPAR	Occ
FORECAST									
FY2017	6,278	1.8%	5.0%	$160.66	3.5%	$116.74	6.7%	$112.76	72.7%
FY2018	6,469	3.0%	3.5%	$165.48	3.0%	$120.78	3.5%	$113.82	73.0%
FY2019	6,640	2.7%	3.0%	$171.27	3.5%	$125.43	3.9%	$114.99	73.2%
Avg FY 17-19		**2.5%**	**3.8%**		**3.3%**		**4.7%**	**$113.86**	**73.0%**
FY2020	7,041	6.0%	4.5%	$176.41	3.0%	$127.33	1.5%	$113.55	72.2%
FY2021	7,260	3.1%	2.6%	$182.58	3.5%	$131.12	3.0%	$113.74	71.8%
FY2022	7,333	1.0%	2.6%	$189.88	4.0%	$138.53	5.6%	$116.89	73.0%
FY2023	7,443	1.5%	2.6%	$197.48	4.0%	$145.63	5.1%	$119.54	73.7%
FY2024	7,592	2.0%	2.7%	$206.37	4.5%	$153.23	5.2%	$122.35	74.2%
FY2025	7,744	2.0%	2.7%	$215.65	4.5%	$161.22	5.2%	$125.23	74.8%
Avg FY20-25		**2.6%**	**3.0%**		**3.9%**		**4.3%**	**$118.55**	**73.3%**
Total Forecast Avg FY 2017-2025		**2.6%**	**3.2%**		**3.7%**		**4.4%**	**$116.99**	**73.2%**

COMPARISON HF2016 vs HF2017 – Average and Absolute to FY2024

Year	Supply Avg	Demand Avg	ARR	ARR Avg	RevPAR	RevPAR Avg	Avg Real RevPAR	Avg Occ
HF2016	1.9%	2.9%	$198.92	3.5%	$148.06	4.5%	$109.23	71.8%
HF2017	2.6%	3.3%	$206.37	3.6%	$153.23	4.3%	$115.96	73.0%

DRANSFIELD HOTELS & RESORTS

In FY2016, Darwin RevPAR declined significantly, although broadly in line with expectations. Poor recent performance has tempered our medium term rate expectations and largely driven a market downgrade. The benign supply environment over the forecast period should lead to a gradual recovery. We expect back-ended RevPAR growth averaging 4.3% p.a. over the long term

DARWIN REGIONS – JUNE 2016

	Establishments	Rooms	RevPAR
Darwin	33	3,972	$124.43
DARWIN TOURISM REGION			
Hotels	16	2,613	$113.47
Motels	14	759	$76.63
Serviced Apartments	18	1,867	$121.58
Total	**48**	**5,239**	**$111.02**
STAR GRADING			
Luxury	3	568	$145.90
Up-Scale	25	3,541	$120.88
Mid-Scale	14	950	$67.11
Budget	6	180	$38.72
Total	**48**	**5,239**	**$111.02**

FY2016 YEAR IN REVIEW

	FORECAST FY2016	ACTUAL FY2016	Var	
RevPAR	-18.9%	-16.8%	2.1%	▲
Supply	7.2%	13.6%	6.4%	▲
Demand	-5.0%	2.0%	7.0%	▲
Occupancy	60.8%	61.6%	0.8%	▲
ARR	-8.5%	-7.3%	1.2%	▲

FY2016 Year in Review

In FY2016 Darwin recorded a significant 16.8% RevPAR decline, largely in line with expectations, as the market reset continues following extreme resource industry induced outperformance

- – Occupancy levels declined by 7.1 points to 61.6%, in line with expectations, as continued supply growth outpaced sluggish demand
- – Rates followed suit decreasing by 7.3%, impacted as above-market Inpex related contracts fall-off as the project winds down its labour intensive construction phase

- The STR sample of higher quality, larger hotels recorded a similar RevPAR decline of 14.6%, however with better occupancy preservation but more pronounced rate decline
- Preliminary STR data for FY2017 (YTD February 2017) is showing signs that the rate of market deterioration is slowing, but not yet over. Occupancy decline is expected to slow and may even present as growth, however, rates are still highly likely to record significant contraction.

Demand Driver Analysis

Upgraded Visitor Night Forecasts

- In recent years, the Inpex Project related demand has underpinned strong visitation, particularly from fly-in-fly-out workers. Conversely, the winding down of the construction phase of the project, absent immediate replacement demand, has more recently had a large downward effect. Whilst corporate and mining travel reduces, the opportunity for pent up and displaced leisure demand increases. This may be somewhat subdued by the lack of tourism infrastructure development and relatively narrow base of existing demand drivers in Darwin
- City data for FY2016 for Darwin reveals:-
  - – International visitor nights decreased by 20.5% to 2.4M nights
  - – Domestic visitor nights increased by 21.1% to 4.1M nights
  - – Total visitor nights increased by 1.4% to 6.5M nights, of which around 30% is captured in Hotels and Motels
- In FY2016 Darwin hotel's domestic visitor nights share in hotels decreased to 75.3% from 77% despite contrary total visitor night movements as many of the domestic travellers are likely FIFO workers who stay in camps
- The TFC forecasts for Darwin for the period FY2017 to FY2025 have been upgraded to average growth of 4.3% p.a compared to 3.7% previously, off a lower base in FY2016:-
  - – Annual domestic visitor night growth expectations remained unchanged at 3%
  - – Annual international visitor night growth expectations of 6.2% vs. 4.3% previously

Dransfield Demand Forecast for Darwin City Hotels

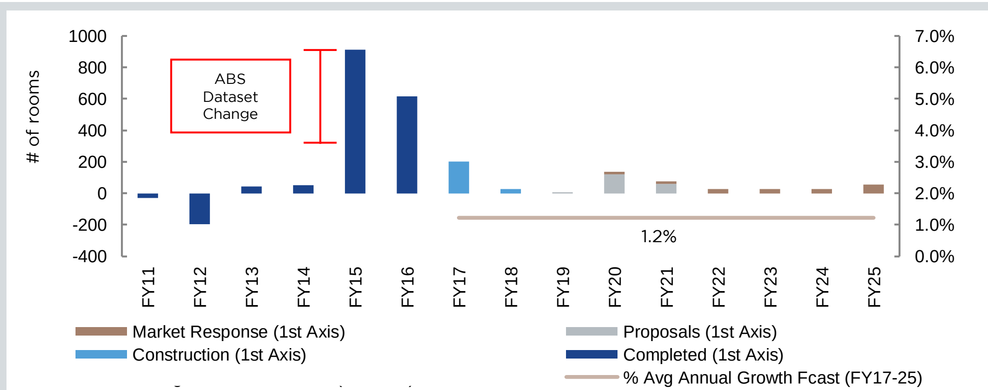
Annual demand growth of 3.5% is expected for Darwin City hotels over the long term which is a moderate upgrade to the prior forecast, and well above supply growth expectations

TFC visitor night expectations have been slightly upgraded, and are supported by the soft rate environment. Gradual demand growth should emanate from the re-focus on traditional business and leisure guests who may have been displaced by the Inpex related contract demand

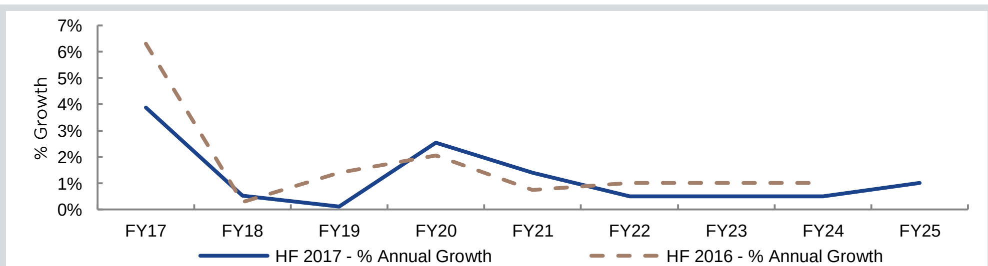
- We expect demand to increase 4% in FY2017, which represents a small upgrade on the prior forecast
- Medium term demand growth to FY2019 is expected to average 3.3% p.a, in line with previous expectations, although off a slightly higher base, and well above supply growth expectations
- Long term growth expectations to FY2024 of 3.4% p.a. realise a 117,000 night (8%) absolute upgrade to prior forecasts.

Following a wave of new supply over the past few years, we expect minimal additions over the forecast period. This provides an opportunity for a gradual demand led recovery. We expect mooted proposals will be re-assessed and deferred pending evidence of market stabilisation and commencement of a recovery

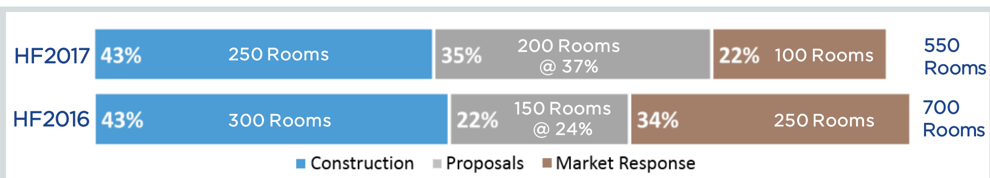
SUPPLY ACTUAL & FORECAST BY TYPE FY11-FY25



FORECAST COMPARISON HF17 VS HF16 - % ANNUAL SUPPLY GROWTH



FORECAST COMPARISON HF17 VS HF16 – PIPELINE BY TYPE TO FY2024



Supply Actual

- In FY2016 the ABS survey recorded a 13% or 600 room increase, which was above our expectations of 7.2% growth
- Two developments have come online in the first half of FY2017, being the Club Tropical Resort expansion (112 rooms) and the Mercure Darwin Airport expansion (108 rooms), and are included in our construction segment. There are no other rooms currently underway

Supply Forecasts

- Dransfield's supply forecast is for 600 new rooms to enter the market over the next 9 years to FY2025 (11% of current stock), at an average annual growth rate of 1.2%.
  - Our extremely low supply forecast is largely in line with the prior forecast, and well below demand growth expectations
  - The timeline is largely consistent with the prior year
  - Projects at the proposal level have a significant risk to complete with the reassessment of feasibilities likely given the continued market decline and unclear timing and drivers of a recovery
  - Most proposals have been assigned a probability of no more than 25%, with the exception of the government sponsored Luxury Waterfront Hotel which may be more likely but is still in its early concept stages
  - We expect very few additional supply proposals to come to light over the longer term as market conditions remain soft and occupancies are in the low-mid 60s until the back end of the forecast.

Long term RevPAR expectations have been downgraded to 4.3% p.a. The expected underperformance on rate in FY2017 is anticipated to have a flow on effects in the medium term as the market recovery is delayed. Recovery is expected to commence from a lower base in 4-5 years

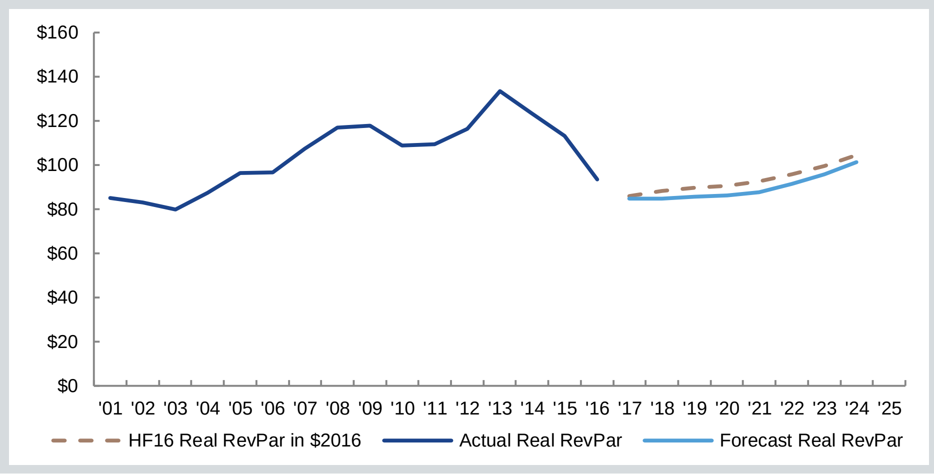
Conclusion

The market deterioration is expected to slow over the medium term as the market completes its reset. Medium term RevPAR decline averaging 0.2% is forecast as demand growth slowly absorbs the supply additions from the previous few years. A benign supply environment should assist the longer term recovery

The Darwin forecast represents a small downgrade to prior expectations, as poor market sentiment has amplified, making us reassess our rate growth positioning downwards, despite the improved demand outlook

- Over the forecast period, average occupancy expectations have been slightly increased as the supply and demand equation improves, but are not expected to reach a more normalised 70% level until FY2023
  - In FY2017 occupancy decline is expected to stop, with levels remaining around 62%
  - Over the medium term, occupancy levels are forecast to edge towards 65% as demand growth outpaces the limited new supply growth
- Rates are expected to unwind further in FY2017, with growth below inflation until occupancy reaches the mid 60s in the middle of the forecast. The second half of the forecast should see stronger rate growth as demand growth easily exceeds supply growth and pushes occupancy towards the low-mid 70s. Long term expectations average 2.0% p.a, dragged down by the short term weakness
  - Rate growth has been significantly reduced and deferred relative to the prior forecast as the market deterioration has continued, albeit at a declining rate
  - Darwin is undergoing structural change in demand from the less price sensitive long-term contract nights, as the Inpex Project moves into the operating phase. The narrow base of existing and future demand drivers in Darwin suggests that the demand void will take some time to infill, as hoteliers get back into the swing of enticing the more price sensitive traditional business and leisure guests
  - Medium term rate growth is expected to average -2.0%, dragged down by the expected -7% rate decline in FY2017
  - We expect stronger rate growth to materialise towards the back end of the forecast in an environment of limited new supply and as replacement demand finds its footing
- Our forecast is for a 3.9% reduction in average long-term real RevPAR compared to our previous forecast. The downgrade is dragged by expectations of a longer and more pronounced period of rate softness. Real RevPAR is not anticipated to reach pre-mining boom levels over the forecast period
- RevPAR growth for the comparable period to FY2024 has been downgraded
  - In FY2017, RevPAR is expected to record a 7% decrease compared with prior expectations of a 4.1% decline. Whilst occupancy levels are around 3 percentage points higher than prior expectations, a further significant rate reduction of around 7% is expected, compared with our prior forecast of a 1% fall
  - In the medium term to FY2019, RevPAR is expected to move towards a growth phase, averaging -0.2%, following 3 consecutive years of contraction. There is moderate risk and volatility associated with the small Darwin market during the medium term and performance could easily swing both ways
  - Long term expectations are for market stabilisation following the medium term reset. Strong levels of growth are expected at the back of the forecast period as supply absorption increases and hoteliers regain confidence to push rates with a reasonable demand outlook
  - Full forecast expectations to FY2025 are for 4.3% growth p.a.

DARWIN CITY REAL REVPAR IN $2016



Long term RevPAR expectations have been downgraded to 4.3% p.a. The expected underperformance on rate in FY2017 is anticipated to have a flow on effects in the medium term as the market recovery is delayed. Recovery is expected to commence from a lower base in 4-5 years

DARWIN – CITY HOTELS, MOTELS AND SERVICED APARTMENTS

ACTUAL

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	$2016 Real RevPAR	Occ
HISTORICAL									
FY2002	2,619	0.5%	-0.7%	$94.73	1.6%	$59.05	0.4%	$82.88	62.3%
FY2003	2,652	1.3%	-4.2%	$99.16	4.7%	$58.47	-1.0%	$79.92	59.0%
FY2004	2,658	0.2%	9.0%	$102.06	2.9%	$65.43	11.9%	$87.27	64.1%
FY2005	2,796	5.2%	12.0%	$108.28	6.1%	$73.93	13.0%	$96.21	68.3%
FY2006	2,902	3.8%	5.6%	$111.24	2.7%	$77.31	4.6%	$96.77	69.5%
FY2007	2,880	-0.7%	2.6%	$121.87	9.6%	$87.51	13.2%	$107.31	71.8%
FY2008	2,847	-1.2%	4.7%	$131.00	7.5%	$99.63	13.8%	$116.89	76.0%
FY2009	3,461	21.6%	13.9%	$143.04	9.2%	$101.95	2.3%	$117.90	71.3%
FY2010	3,753	8.4%	6.0%	$139.27	-2.6%	$97.04	-4.8%	$108.89	69.7%
FY2011	3,723	-0.8%	-0.3%	$144.34	3.6%	$101.10	4.2%	$109.50	70.0%
FY2012	3,527	-5.3%	0.9%	$145.41	0.7%	$108.52	7.3%	$116.18	74.6%
FY2013	3,569	1.2%	6.9%	$161.97	11.4%	$127.65	17.6%	$133.45	78.8%
FY2014	3,619	1.4%	-1.9%	$159.21	-1.7%	$121.43	-4.9%	$123.25	76.3%
FY2015	4,531	25.2%	12.7%	$164.96	3.6%	$113.27	-6.7%	$113.27	68.7%
FY2016	5,149	13.6%	2.0%	$152.94	-7.3%	$94.23	-16.8%	$93.30	61.6%
Actual Avg FY 2002 - 2016		**5.0%**	**4.6%**		**3.5%**		**3.6%**		**69.5%**
Avg FY 12-16		**7.2%**	**4.1%**		**1.4%**		**-0.7%**	**$115.89**	**72.0%**
Avg FY 14-16		**13.4%**	**4.3%**		**-1.8%**		**-9.5%**	**$109.94**	**68.8%**

FORECAST

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	$2016 Real RevPAR	Occ
FORECAST									
FY2017	5,348	3.9%	4.0%	$142.23	-7.0%	$87.74	-6.9%	$84.75	61.7%
FY2018	5,376	0.5%	3.0%	$142.23	0.0%	$89.90	2.5%	$84.72	63.2%
FY2019	5,382	0.1%	3.0%	$143.65	1.0%	$93.43	3.9%	$85.65	65.0%
Avg FY 17-19		**1.5%**	**3.3%**		**-2.0%**		**-0.2%**	**$85.04**	**63.3%**
FY2020	5,519	2.5%	3.0%	$147.96	3.0%	$96.66	3.5%	$86.20	65.3%
FY2021	5,595	1.4%	3.0%	$152.40	3.0%	$101.14	4.6%	$87.73	66.4%
FY2022	5,623	0.5%	3.5%	$158.50	4.0%	$108.32	7.1%	$91.41	68.3%
FY2023	5,651	0.5%	4.0%	$164.84	4.0%	$116.58	7.6%	$95.70	70.7%
FY2024	5,680	0.5%	4.0%	$173.08	5.0%	$126.67	8.7%	$101.15	73.2%
FY2025	5,736	1.0%	4.0%	$181.74	5.0%	$136.96	8.1%	$106.38	75.4%
Avg FY20-25		**1.1%**	**3.6%**		**4.0%**		**6.6%**	**$94.76**	**69.9%**
Total Forecast Avg FY 2017-2025		**1.2%**	**3.5%**		**2.0%**		**4.3%**	**$91.52**	**67.7%**

COMPARISON HF2016 vs HF2017 – Average and Absolute to FY2024

Year	Supply Avg	Demand Avg	ARR	ARR Avg	RevPAR	RevPAR Avg	Avg Real RevPAR	Avg Occ
HF2016	1.7%	3.3%	$191.94	3.1%	$132.33	4.7%	$93.32	63.4%
HF2017	1.2%	3.4%	$173.08	1.6%	$126.67	3.9%	$89.66	66.7%

ABS Dataset change affected

In FY2016, Gold Coast RevPAR increased strongly, and slightly above expectations, as demand for the region continued to grow. Short term growth should continue through to the Commonwealth Games period, with some softness thereafter from the short term high. Market fundamentals are expected to improve as demand growth exceeds supply additions over the long term with RevPAR expectations of 4.1% p.a. growth

GOLD COAST REGIONS – JUNE 2016

	Establishments	Rooms	RevPAR
Hotels	32	7,119	$110.06
Motels	29	1,360	$71.69
Serviced Apartments	95	5,466	$102.87
Total	**156**	**13,945**	**$103.50**

FY2016 YEAR IN REVIEW

	FORECAST FY2016	ACTUAL FY2016	Var	
RevPAR	6.6%	7.5%	0.9%	▲
Supply	0.0%	1.0%	1.0%	▲
Demand	2.5%	5.3%	2.8%	▲
Occupancy	71.1%	72.3%	1.2%	▲
ARR	4.0%	3.2%	-0.8%	▼

FY2016 Year in Review

- In FY2016 Gold Coast hotels achieved RevPAR growth of 7.5%, exceeding our already strong 6.6% expectations. This growth followed a very strong FY2015 (11.3% RevPAR increase)
  - Occupancy levels rose above 70% for only the second time since 1995, with a 3% increase
  - The favourable conditions allowed hoteliers to move on rate, which grew 3.2%, representing 6 consecutive years of rate growth
- The STR sample of higher quality, larger hotels recorded similar growth of 8.0% with rate and occupancy trending similar to ABS
- Preliminary STR data for FY2017 (YTD February 2017) indicates continued RevPAR growth, albeit at a slightly lower rate than prior years. We expect growth to continue through the medium term as we approach the Commonwealth Games in FY2018

Demand Driver Analysis

Visitor Night Forecasts Maintained at Moderate Levels

- The Gold Coast market is expected to maintain strong demand growth, with the level of growth impacted by a couple of key drivers, being the strength of the Australia Dollar as well as the region's ability to capitalise on the 2018 Commonwealth Games. Like other leisure based destinations, the capacity to continue to present as a comparable "value for money" destination will also impact on demand levels
- City data for FY2016 for the Gold Coast reveals :-
  - International visitor nights increased by a high 17.1% to 10.2M nights
  - Domestic visitor nights decreased by 1.2% to 13.1M nights
  - Total visitor nights increased by 6.1% to 23.3M nights, of which 33% is captured in Hotels and Motels
- In FY2016 Gold Coast hotel's domestic visitor nights share decreased to 70.7% from 74.3% as increased air access helped in attracting international guests which grew at a much faster rate than domestic
- The TFC forecasts for Queensland major Cities (Brisbane and the Gold Coast) for the period to FY2025 have been upgraded to average growth of 3.8% p.a compared to 3.3% previously, albeit off a lower base. Absolute visitor night are unchanged :-
  - Annual domestic visitor night growth expectations of 3.5% vs. 2.9% previously
  - Annual international visitor night growth expectations of 4.5% vs. 4.3% previously

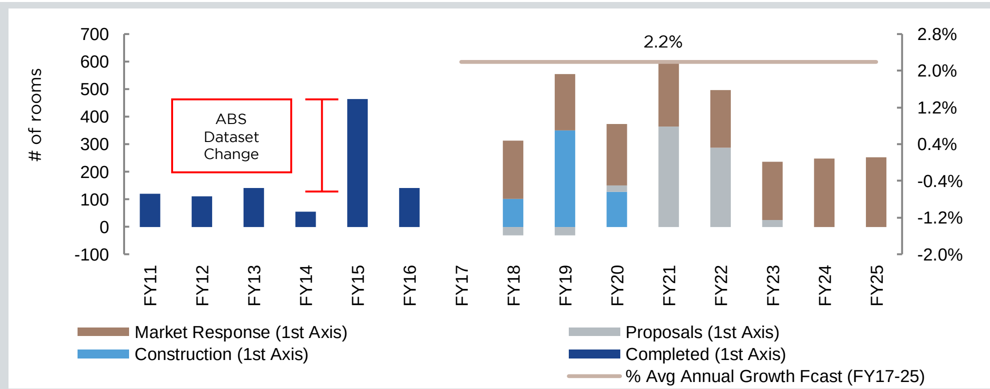
Dransfield Demand Forecast for Gold Coast Hotels

Annual demand growth of 2.8% is expected for Gold Coast hotels over the long term to FY2025. This is a slight absolute upgrade to the prior forecast as a result of outperformance in FY2016 and a higher base. Demand growth expectations remain above supply growth expectations

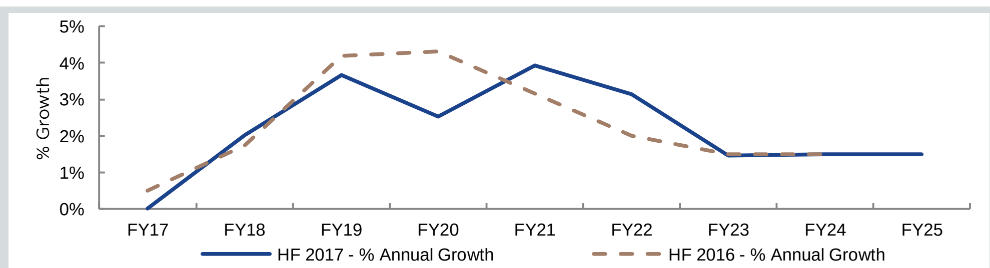
- We expect demand to increase just 0.5% in FY2017, which represents a downgrade from prior expectations, and is above supply growth expectations, consistent with STR YTD performance
- Medium term demand growth to FY2019 is expected to average 2.2% p.a. with wildly divergent movement within this 3-year average as a consequence of the Commonwealth Games peak and troughs. The important year will be post Commonwealth Games, where we have allowed for zero demand growth as the peak unwinds
- Long term demand growth expectations to FY2024 of 2.8% p.a. are consistent with prior forecasts, and remain above supply growth expectations.

Supply expectations are similar to the prior forecast, with the next moderate supply cycle expected post games in the period FY2019-2022. The market has capacity to absorb a number of additional projects over and above current activity, with demand expectations exceeding supply expectations inclusive of a high level of Market Response allowance

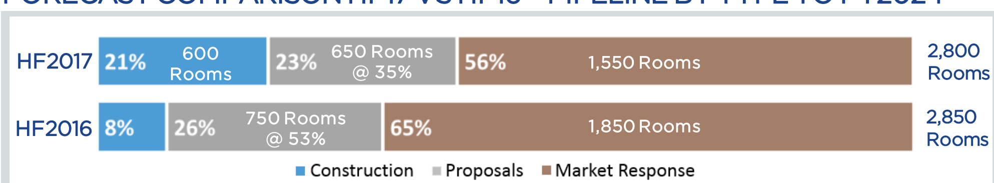
SUPPLY ACTUAL & FORECAST BY TYPE FY11-FY25



FORECAST COMPARISON HF17 VS HF16 - % ANNUAL SUPPLY GROWTH



FORECAST COMPARISON HF17 VS HF16 – PIPELINE BY TYPE TO FY2024



Supply Actual

- In FY2016 the ABS survey recorded a marginal 1% increase (150) in rooms
- The low level of additional supply continues the long-term trend of limited net supply growth, averaging 0.6% for the last 10 years. The nature of typical supply on the Gold Coast market (Strata dual zoning, withdrawal with 3-month notice) means that some new supply can be hidden by withdrawals
- On the eve of the Commonwealth Games, there is significant infrastructure development, however hotel construction is limited, arriving after the Games

Supply Forecasts

- Dransfield's supply forecast is for 3,000 new rooms over the next 9 years to FY2025 (22% of current stock), at an average annual growth rate of a low 2.2%
  - Our forecast supply pipeline is consistent with prior expectations, with demand growth expectations exceeding supply growth expectations
  - Expected delivery of new rooms has been delayed and spread out over the middle of our forecast as large scale projects struggle to move to the construction phase. The only large scale proposal which we attribute a high level of probability is the future stages of the Jupiters Gold Coast. Overall proposal stage projects have a low total probability of proceeding at 35%
  - We expect more clarity around proposed projects over the next 18 months where we expect a number of projects to either move to construction or fall away. The fundamental issue is still that hotel values are well below development costs on the Gold Coast
  - Supply growth in the medium term to FY2019 is expected to average a very low 1.9% p.a. (800 rooms), which is in line with prior expectations
  - Medium term Market Response allowance coming into the Commonwealth Games period is higher than other cities, and the general development rhetoric, given the agility of apartments to enter and withdraw from letting pools
  - Over the next 6 years, live construction and proposal stage rooms represent 52% of the forecast supply pipeline. The high Market Response allowance in the next 6 years means that there is a higher than usual risk that supply expectations will not be met. Supply growth over this period is below demand growth expectations for the corresponding period (2.5% vs 2.8%) and will see the continuation of occupancy growth
  - Our forecast assumes a high level of Market Response allowance which will only eventuate with appropriate market conditions
- Geographically, the spread of proposed and under construction developments are right across the region with no real development hotspot identified. The new wave of projects are typical of a higher quality than historically available, continuing the trend set by Q1, Jewel, Soul, Hilton and Oracle

Long term RevPAR expectations are for 4.1% growth p.a. Two more years of strong growth are expected to FY2018 before a slight reset occurs as event induced demand unwinds. Long term expectations have remained largely unchanged with a positive supply and demand equation providing confidence for rate strengthening

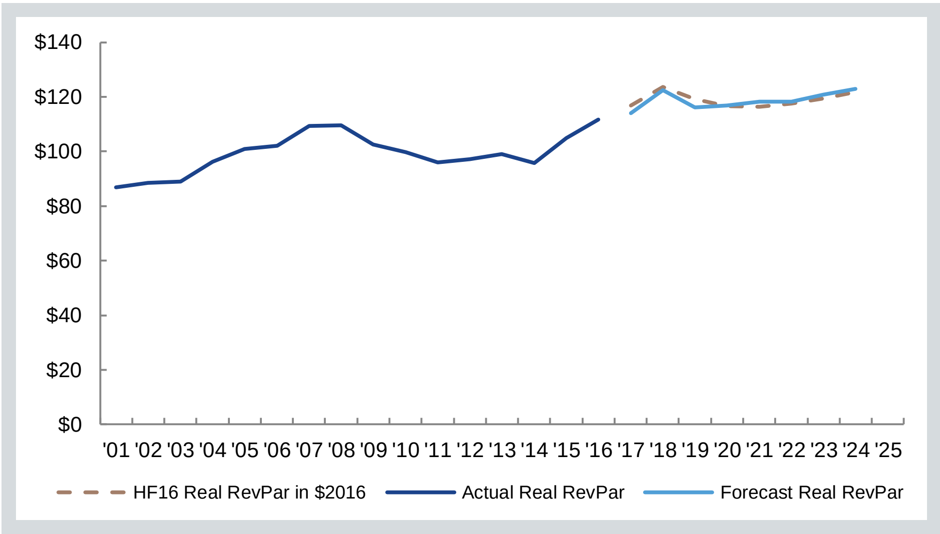
Conclusion

Despite a slight underperformance in FY2017, the outlook for the Gold Coast remains positive and largely unchanged. Continued RevPAR growth, stemming from a positive supply and demand equation, could promote some of the stalled proposal stage developments to proceed in the next phase

The Gold Coast forecast represents a negligible change to prior long term expectations, impacted by slight underperformance in FY2017

- Over the period of the forecast, average occupancy expectations remain largely unchanged and at historical highs above 73%
  - In FY2017 occupancy levels are expected to remain unchanged
  - With long term demand forecasts above supply expectations for the forecast period, occupancy rates are expected to steadily climb and peak at 76%
- Rate growth is expected to average above inflation for the entirety of the forecast, however some soft years are expected following the Commonwealth Games in FY2018 and the introduction of new supply at various points. Long-term average annual rate growth of 3.4% is expected to FY2025
  - Long term rate growth expectations remain largely consistent with prior expectations, with slight individual year movement only. New, high quality supply will test rate ceilings for the region
  - With the exception of the years surrounding the Commonwealth Games, rate growth is expected to be moderate and relatively stable
  - Like Cairns, rate growth potential will be impacted by price and perceived value of alternate leisure destinations
- Our forecast is for a minor 0.2% reduction in average long-term real RevPAR compared to our previous forecast
- RevPAR growth for the comparable period to FY2024 is inline with prior expectations. Moderate growth is expected to be maintained throughout the forecast period with the exception of FY2019 where RevPAR decline is expected as event induced demand and rate unwind following the Commonwealth Games
  - In FY2017, RevPAR is expected to record growth of 4.5% which is strong but below the performance of the prior 2 years. This has followed a subdued summer period which may be linked to the current poor perception of theme parks which are a major drawcard for the region
  - In the medium term to FY2019, average RevPAR growth is expected to be volatile and averaging 3.9%
  - Long term expectations are for moderate growth, supported by a positive supply and demand equation. The quality of the stock proposed, as well as activities by Gold Coast Tourism are expected to help broaden the appeal of the region and drive long term health
  - Full forecast expectations to FY2025 are for 4.1% growth p.a.

GOLD COAST REAL REVPAR IN $2016



DRANSFIELD HOTELS & RESORTS

Long term RevPAR expectations are for 4.1% growth p.a. Two more years of strong growth are expected to FY2018 before a slight reset occurs as event induced demand unwinds. Long term expectations have remained largely unchanged with a positive supply and demand equation providing confidence for rate strengthening

GOLD COAST – HOTELS, MOTELS AND SERVICED APARTMENTS

ACTUAL

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	$2016 Real RevPAR	Occ
HISTORICAL									
FY2002	13,223	-0.2%	2.7%	$97.46	1.8%	$63.03	4.7%	$88.47	64.7%
FY2003	12,976	-1.9%	-1.5%	$100.37	3.0%	$65.14	3.3%	$89.03	64.9%
FY2004	13,357	2.9%	8.3%	$105.65	5.3%	$72.16	10.8%	$96.24	68.3%
FY2005	13,206	-1.1%	0.3%	$111.82	5.8%	$77.46	7.3%	$100.80	69.3%
FY2006	13,281	0.6%	0.1%	$118.19	5.7%	$81.47	5.2%	$101.96	68.9%
FY2007	13,081	-1.5%	0.3%	$127.01	7.5%	$89.15	9.4%	$109.32	70.2%
FY2008	13,386	2.3%	1.0%	$134.68	6.0%	$93.33	4.7%	$109.51	69.3%
FY2009	13,436	0.4%	-4.7%	$134.59	-0.1%	$88.58	-5.1%	$102.44	65.8%
FY2010	12,989	-3.3%	-1.1%	$132.09	-1.9%	$88.93	0.4%	$99.80	67.3%
FY2011	13,109	0.9%	-0.4%	$133.37	1.0%	$88.64	-0.3%	$96.01	66.5%
FY2012	13,219	0.8%	1.8%	$135.44	1.6%	$90.85	2.5%	$97.25	67.1%
FY2013	13,360	1.1%	2.6%	$139.14	2.7%	$94.73	4.3%	$99.03	68.1%
FY2014	13,415	0.4%	-4.9%	$146.31	5.2%	$94.31	-0.4%	$95.73	64.5%
FY2015	13,880	3.5%	11.3%	$151.37	3.5%	$104.97	11.3%	$104.97	69.3%
FY2016	14,021	1.0%	5.3%	$156.19	3.2%	$112.86	7.5%	$111.74	72.3%
Actual Avg FY 2002 - 2016		**0.4%**	**1.4%**		**3.3%**		**4.4%**		**67.8%**
Avg FY 12-16		**1.4%**	**3.2%**		**3.2%**		**5.0%**	**$101.74**	**68.2%**
Avg FY 14-16		**1.6%**	**3.9%**		**3.9%**		**6.1%**	**$104.14**	**68.7%**

ABS Dataset change affected

FORECAST

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	$2016 Real RevPAR	Occ
FORECAST									
FY2017	14,021	0.0%	0.5%	$162.43	4.0%	$117.96	4.5%	$113.94	72.6%
FY2018	14,305	2.0%	6.0%	$172.18	6.0%	$129.91	10.1%	$122.42	75.4%
FY2019	14,829	3.7%	0.0%	$173.90	1.0%	$126.57	-2.6%	$116.03	72.8%
Avg FY 17-19		**1.9%**	**2.2%**		**3.7%**		**4.0%**	**$117.47**	**73.6%**
FY2020	15,202	2.5%	3.0%	$179.12	3.0%	$130.98	3.5%	$116.80	73.1%
FY2021	15,800	3.9%	4.0%	$186.28	4.0%	$136.30	4.1%	$118.24	73.2%
FY2022	16,297	3.1%	3.0%	$191.87	3.0%	$140.20	2.9%	$118.31	73.1%
FY2023	16,534	1.5%	3.0%	$198.59	3.5%	$147.32	5.1%	$120.92	74.2%
FY2024	16,782	1.5%	3.0%	$204.55	3.0%	$153.98	4.5%	$122.95	75.3%
FY2025	17,034	1.5%	3.0%	$210.68	3.0%	$160.94	4.5%	$125.01	76.4%
Avg FY20-25		**2.3%**	**3.2%**		**3.3%**		**4.1%**	**$120.37**	**74.2%**
Total Forecast Avg FY 2017-2025		**2.2%**	**2.8%**		**3.4%**		**4.1%**	**$119.40**	**74.0%**

COMPARISON HF2016 vs HF2017 – Average and Absolute to FY2024

Year	Supply Avg	Demand Avg	ARR	ARR Avg	RevPAR	RevPAR Avg	Avg Real RevPAR	Avg Occ
HF2016	2.4%	3.1%	$205.14	3.4%	$154.36	4.1%	$118.93	73.9%
HF2017	2.3%	2.8%	$204.55	3.4%	$153.98	4.0%	$118.70	73.7%

In FY2016, Hobart RevPAR outperformed strong expectations with a large improvement in occupancy levels. Growth is likely to continue in FY2017 and FY2018, albeit at a lower level, but should fully unwind over the next three years as significant new supply comes online. Recovery is expected over the long term as supply is absorbed, with back ended growth of a low 1.3% p.a. expected

HOBART REGIONS – JUNE 2016

	Establishments	Rooms	RevPAR
Hobart	28	1,917	$130.14
HOBART TOURISM REGION			
Hotels	25	1,624	$110.68
Motels	20	713	$80.38
Serviced Apartments	12	663	$146.24
Total	**57**	**3,000**	**$111.34**
STAR GRADING			
Luxury	1	n.p.	n.p.
Up-Scale	29	1894	$131.55
Mid-Scale	24	n.p.	n.p.
Budget	3	n.p.	n.p.
Total	**57**	**3,000**	**$111.34**

FY2016 YEAR IN REVIEW

	FORECAST FY2016	ACTUAL FY2016	Var	
RevPAR	6.1%	8.1%	2.0%	▲
Supply	0.0%	0.6%	0.6%	▲
Demand	3.0%	6.8%	3.8%	▲
Occupancy	75.8%	78.1%	2.3%	▲
ARR	3.0%	1.8%	-1.2%	▼

FY2016 Year in Review

- In FY2016 Hobart recorded an 8.1% RevPAR increase which slightly outperformed already strong expectations as demand for Hobart hotels flourished in an environment of stable supply
  - Occupancy levels improved by a significant 4.5 points to an all time high of 78.1%
  - Rates strengthened 1.8%, albeit below quite conservative expectations, especially in an environment of strengthening occupancy
- The STR sample of higher quality, larger hotels recorded higher RevPAR growth of 12.2% with more pronounced growth in rates
- Preliminary STR data for FY2017 (YTD February 2017) indicates that the rate of market growth has slowed, and is below our prior expectations as rate opportunities are not being fully captured despite sustained high occupancy. We expect Hobart to record moderate improvement in FY2017 as occupancy levels tighten

Demand Driver Analysis

Visitor Night Forecasts have been maintained at moderate levels

Continued investment in access and tourism infrastructure, targeted marketing campaigns, and the development of distinctive experiences in art, culture, food and nature will be needed to fill new supply. Demand growth requires a sustained elevation of Hobart's tourist appeal to attract domestic and international tourists, especially from China, over the long term

- City data for FY2016 for Hobart reveals :-
  - International visitor nights increased by 6.8% to 1.9M nights
  - Domestic visitor nights increased by 7.2% to 4.7M nights
  - Total visitor nights increased by 7.1% to 6.6M nights of which 31% is captured in hotels and motels
- In FY2016 Hobart hotel's high domestic visitor nights share in hotels decreased to 81.4%, from 82% previously
- The TFC forecasts for Hobart for the period to FY2025 have been maintained with average growth of 3.4% p.a from a slightly higher base:-
  - Annual domestic visitor night growth expectations of 2.7% which is inline with prior expectations from a higher base
  - Annual international visitor night expectations of 5.1% vs. 5.0% previously, although from a slightly lower base

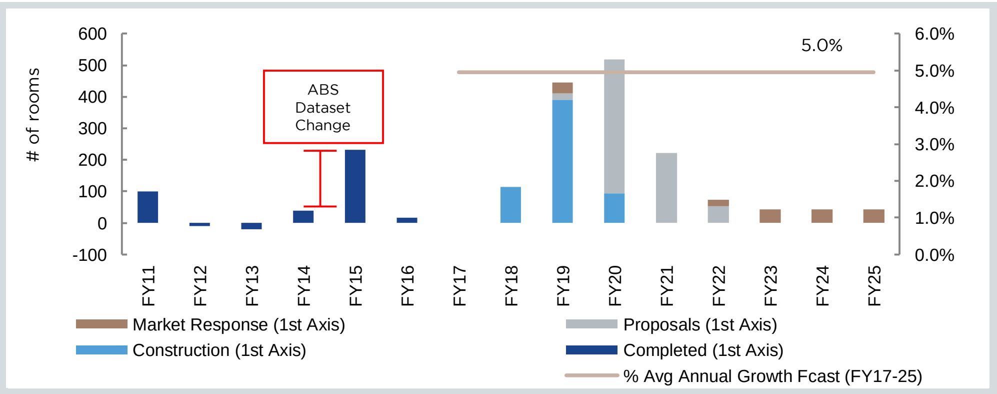
Dransfield Demand Forecast

Annual demand growth of 3.6% is expected for Hobart City hotels over the long term. This is a slight absolute upgrade to the prior forecast, buoyed by outperformance in FY2016, however, below significant supply expectations. TFC visitor night expectations have been maintained at moderate levels, however hotel demand growth in Hobart will be highly dependent on supply availability through the high season, as well as the relative rate environment compared with other leisure destinations

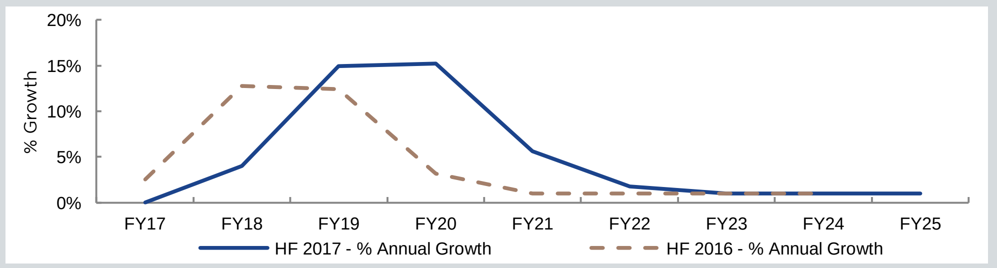
- We expect demand to increase 2.5% in FY2017, which represents a small downgrade to strong prior expectations as already high occupancy levels through the high season limit growth opportunities
- Medium term demand growth to FY2019 is expected to average 4.2% p.a, which represents a downgrade from previous expectations as enabling supply has been delayed
- Long term growth expectations to FY2024 of 3.6% p.a. are a small 32,000 night (3%) absolute upgrade to prior forecasts, but sit well below supply growth expectations

Supply expectations are high relative to market size and seasonality and are unlikely to be fully absorbed in this forecast period. Development activity in the proposal stage is extremely high and does not match market needs. As a result of this, we have applied a low probability for proposal completion, and there is high forecast risk

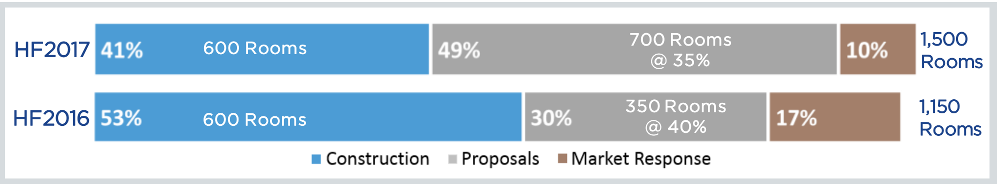
SUPPLY ACTUAL & FORECAST BY TYPE FY11-FY25



FORECAST COMPARISON HF17 VS HF16 - % ANNUAL SUPPLY GROWTH



FORECAST COMPARISON HF17 VS HF16 – PIPELINE BY TYPE TO FY2024



Supply Actual

- In FY2016 the ABS survey recorded a 0.6% increase (20 rooms) in rooms as Hobart supply remains largely unchanged
- Construction activity in Hobart is relatively low by project number, and represents a moderate level by room count, with a couple of larger scale projects in development. There is potential for these projects to be delayed as progress on some sites appears slow or stalled.

Supply Forecasts

- Dransfield's supply forecast is for a significant 1,500 new rooms to enter the market over the next 9 years to FY2025 (53% of current stock), at an average annual growth rate of 5.0%
  - Our forecast supply pipeline represents a small 350 room increase to the prior forecast, with supply growth expectations exceeding demand growth expectations
  - There is an element of disconnect between market needs and market activity in Hobart's development pipeline. Additional proposal activity of significant scale (relative to market size) is occurring at the concept stage in the small, seasonal market. We have assumed proposals at a low 35% probability of completion as a consequence
  - Projects at the proposal level are considered to have a high risk of completion despite current positive market sentiment. Some inherent concentration risk is also present with a mooted 1,200 rooms proposed by a single developer
  - Supply growth in the medium term to FY2019 is expected to average a high 6.3% p.a. (550 rooms), although heavily back ended as project timing has delayed. The delay is expected to catch up in FY2020
  - Two years with 15% p.a supply growth in FY2019 and FY2020 will significantly alter the hotel accommodation environment
  - We expect very few additional supply proposals to come to light over the longer term. Market Response of just 12% of the forecast pipeline has been assumed for the full forecast period
  - Older stock may fall out of the market should the proposed projects materialise
  - Looking over the next 6 years, live construction and proposal rooms represent an extremely high 96% of the forecast supply pipeline. Supply growth over this period is above demand growth expectations for the corresponding period (7.7% p.a vs 4.6% p.a) which will act as a drag on occupancy
- Geographically, the spread of proposed developments is concentrated around the Harbour with a ring of developments spreading from Salamanca to Macquarie Wharf, whilst there is also concentration around Elizabeth St Mall and Royal Hobart Hospital
- Many of the proposed developments are early in the planning process and have not identified grading or branding. We are seeing some 4.5 and 5 Star brands attach their name to projects which would improve the overall depth and breadth of market options compared to what is currently available

Long term ReVPAR expectations are for a low 1.3% growth p.a, severely impacted by high levels of supply through the early part of the forecast. Highly volatile market outlook based on extreme supply proposal activity, with performance swing opportunities both ways depending on what goes to construction and when

Conclusion

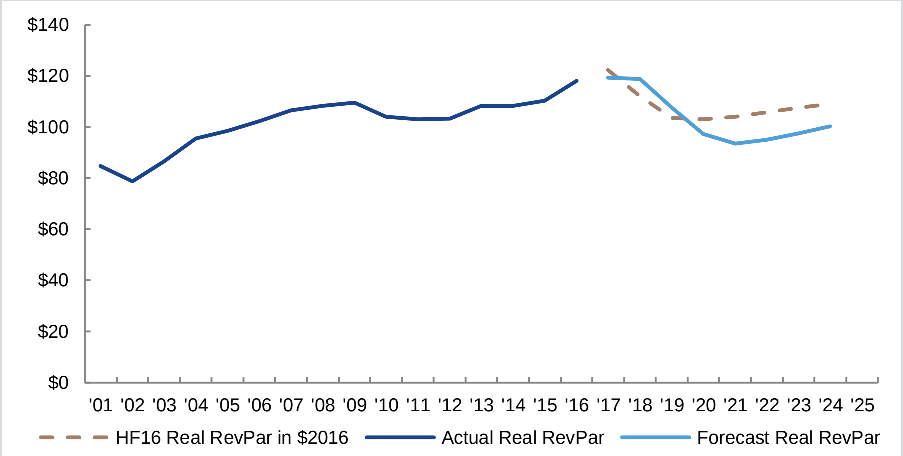
Highly volatile forecast as there is a large disconnect between current market needs and development activity in the small scale, seasonal market. Any attempt at a forecast is a high risk proposition with current proposal activity not matching typical investment criteria.

We expect a supply induced market slowdown through the middle of the forecast as demand does not keep pace, however, recovery should occur over the long term as supply is slowly absorbed

The Hobart forecast represents a small downgrade to prior expectations, despite a higher base, as rate underperformance in FY2017 drags the forecast and is compounded by additional supply

- Over the period of the forecast, average occupancy expectations have been marginally reduced and will sit below the decade long average despite a small window of high occupancy in the short term
  - In FY2017 occupancy levels are expected to increase 2 points as new supply remains under construction
  - Over the medium term to FY2019 occupancy averages will be high, although somewhat constrained by occupancy ceilings during the high season, before significant new supply comes online in FY2019 (15%). This first wave of expected new supply will compress occupancy levels considerably
  - A further two years of significant supply growth averaging 10% to FY2021 will compound the occupancy contraction before any growth can once again be realised
- Modest and tempered long term rate growth of 2.3% p.a is expected as significant additional supply impacts occupancy levels and maintenance of rates
  - As a domestically orientated and largely leisure based destination, the Hobart accommodation market is sensitive to price compared with substitutable destinations. Despite the current high occupancy, which is skewed significantly through the high season, there remains a ceiling on what guests are willing to pay. This appears to be manifesting through the short term with the first half of FY2017 only recording minor rate growth despite historically high occupancy levels
  - Rates through the middle of the forecast are highly unlikely to grow meaningfully while significant new supply is added to the market
  - We expect moderate rate growth to materialise towards the back end of the forecast as supply growth dramatically slows and new, higher quality stock is absorbed
- Our forecast is for a 4.4% reduction in average long-term real RevPAR compared to previous expectations. The downgrade is dragged by a weaker FY2017 than expected, while additional proposed supply, above market needs, has been mooted and impacts our rate assumptions
- RevPAR growth for the comparable period to FY2024 represents a moderate downgrade with revision through to FY2021 as additional supply arrives above market needs. There is moderate risk and volatility associated with the Hobart market as the development environment is hinged to the outcome of a small number of large scale projects. Performance could easily swing both ways pending the outcome.
  - In FY2017, RevPAR is expected to record moderate growth of 3.5% relative to stronger prior expectation for 7.0% growth, as rate growth opportunities are not taken despite higher occupancy levels
  - In the medium term to FY2019, average RevPAR decline of 0.4% p.a is expected despite expected growth through the first two years. A material decline in FY2019 is expected as the first wave of material new supply comes online
  - Long term expectations are for market stabilisation following the supply induced reset through FY2019-FY2021. Strong levels of growth are expected at the back end of the forecast period as a growing leisure base is met with expanded experiential tourism drivers
  - Full forecast expectations to FY2025 are for 1.3% growth p.a.

HOBART CITY REAL REVPAR IN $2016



Long term RevPAR expectations are for a low 1.3% growth p.a, severely impacted by high levels of supply through the early part of the forecast. Highly volatile market outlook based on extreme supply proposal activity, with performance swing opportunities both ways depending on what goes to construction and when

HOBART – CITY HOTELS, MOTELS AND SERVICED APARTMENTS

ACTUAL

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	$2016 Real RevPAR	Occ
HISTORICAL									
FY2002	2,145	4.0%	0.1%	$93.41	-0.6%	$56.09	-4.4%	$78.73	60.1%
FY2003	2,241	4.5%	12.8%	$97.48	4.4%	$63.21	12.7%	$86.40	64.8%
FY2004	2,358	5.2%	10.5%	$105.04	7.8%	$71.54	13.2%	$95.42	68.1%
FY2005	2,403	1.9%	2.4%	$110.46	5.2%	$75.63	5.7%	$98.42	68.5%
FY2006	2,435	1.3%	4.2%	$116.04	5.0%	$81.73	8.1%	$102.29	70.4%
FY2007	2,366	-2.8%	-2.9%	$123.46	6.4%	$86.93	6.4%	$106.59	70.4%
FY2008	2,376	0.4%	4.6%	$125.93	2.0%	$92.37	6.3%	$108.38	73.4%
FY2009	2,428	2.2%	2.9%	$128.14	1.8%	$94.62	2.4%	$109.43	73.8%
FY2010	2,497	2.8%	4.2%	$123.83	-3.4%	$92.68	-2.1%	$104.00	74.8%
FY2011	2,596	4.0%	1.9%	$129.68	4.7%	$95.14	2.7%	$103.05	73.4%
FY2012	2,587	-0.3%	-0.7%	$131.98	1.8%	$96.51	1.4%	$103.32	73.1%
FY2013	2,568	-0.7%	0.4%	$140.15	6.2%	$103.62	7.4%	$108.33	73.9%
FY2014	2,608	1.5%	-3.1%	$151.10	7.8%	$106.62	2.9%	$108.22	70.6%
FY2015	2,840	8.9%	13.6%	$149.96	-0.8%	$110.34	3.5%	$110.34	73.6%
FY2016	2,857	0.6%	6.8%	$152.71	1.8%	$119.29	8.1%	$118.11	78.1%
Actual Avg FY 2002 - 2016		**2.2%**	**3.9%**		**3.3%**		**4.9%**		**71.1%**
Avg FY 12-16		**2.0%**	**3.4%**		**3.4%**		**4.7%**	**$109.66**	**73.9%**
Avg FY 14-16		**3.7%**	**5.8%**		**3.0%**		**4.8%**	**$112.22**	**74.1%**

FORECAST

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	$2016 Real RevPAR	Occ
FORECAST									
FY2017	2,857	0.0%	2.5%	$154.24	1.0%	$123.50	3.5%	$119.29	80.1%
FY2018	2,971	4.0%	4.0%	$157.32	2.0%	$125.98	2.0%	$118.72	80.1%
FY2019	3,415	15.0%	6.0%	$158.90	1.0%	$117.32	-6.9%	$107.55	73.8%
Avg FY 17-19		**6.3%**	**4.2%**		**1.3%**		**-0.4%**	**$115.19**	**78.0%**
FY2020	3,935	15.2%	6.0%	$160.48	1.0%	$109.02	-7.1%	$97.22	67.9%
FY2021	4,156	5.6%	3.5%	$162.09	1.0%	$107.89	-1.0%	$93.59	66.6%
FY2022	4,230	1.8%	3.0%	$166.95	3.0%	$112.46	4.2%	$94.89	67.4%
FY2023	4,273	1.0%	2.6%	$173.63	4.0%	$118.81	5.6%	$97.52	68.4%
FY2024	4,315	1.0%	2.6%	$180.58	4.0%	$125.52	5.6%	$100.22	69.5%
FY2025	4,358	1.0%	2.6%	$187.80	4.0%	$132.60	5.6%	$103.00	70.6%
Avg FY20-25		**4.3%**	**3.4%**		**2.8%**		**2.2%**	**$97.74**	**68.4%**
Total Forecast Avg FY 2017-2025		**5.0%**	**3.6%**		**2.3%**		**1.3%**	**$103.56**	**71.6%**

COMPARISON HF2016 vs HF2017 – Average and Absolute to FY2024

Year	Supply Avg	Demand Avg	ARR	ARR Avg	RevPAR	RevPAR Avg	Avg Real RevPAR	Avg Occ
HF2016	4.4%	3.9%	$188.08	2.5%	$138.23	2.2%	$108.41	71.8%
HF2017	5.4%	3.8%	$180.58	2.1%	$125.52	0.8%	$103.63	71.7%

ABS Dataset change affected

In FY2016 Melbourne RevPAR growth was slightly below expectations as rate was not claimed in the high Occupancy environment. YTD FY2017 has been similar, slightly dragging the long term forecast. The demand outlook has improved long term, however will be capacity constrained. Growth in long term RevPAR remains strong at 4.7% p.a. with rate outperformance opportunity in a continuing high occupancy environment

MELBOURNE REGIONS – JUNE 2016

	Establishments	Rooms	RevPAR
Melbourne	145	20,148	$157.07
MELBOURNE TOURISM REGION			
Hotels	100	15,754	$154.53
Motels	95	4,863	$84.92
Serviced Apartments	129	11,013	$136.57
Total	**324**	**31,630**	**$137.57**
STAR GRADING			
Luxury	25	n.p.	n.p.
Up-Scale	179	19,839	$133.49
Mid-Scale	106	5,440	$86.32
Budget	14	n.p.	n.p.
Total	**324**	**31,630**	**$137.57**

FY2016 YEAR IN REVIEW

	FORECAST FY2016	ACTUAL FY2016	Var	
RevPAR	1.9%	1.5%	-0.4%	▼
Supply	0.6%	-0.5%	-1.2%	▼
Demand	2.0%	1.8%	-0.2%	▼
Occupancy	84.3%	85.2%	0.9%	▲
ARR	0.5%	-0.9%	-1.4%	▼

FY2016 Year in Review

- In FY2016 Melbourne hotels recorded demand driven RevPAR growth of 1.5%, slightly below our 1.9% expectations as rates declined for the first time in 5 years
  - Occupancy levels increased 2.0 points to a very high 85.2%. High occupancy levels will promote further development activity as new supply is perennially absorbed in Melbourne
  - Unexpected and slight rate decline of 0.9% was recorded following a strong prior year, which was unusual given the city's occupancy environment. A proportion of this lower than expected growth can be attributed to a strong p.c.p which included high rate inducing events in Melbourne including the 2015 international Champions Cup and the Jehovah's Witness conference
- The STR sample recorded slightly higher RevPAR growth of 2.6%, similarly shackled by rate, albeit recording slight rate growth
- Preliminary STR data for the YTD FY2017 (February 2017) indicates that rate growth continues to underperform expectations despite further improvement to occupancy levels. RevPAR expectations for FY2017 have therefore been tempered.

Demand Driver Analysis

Upgraded visitor night forecasts

The re-opening of Sydney's International Convention Centre will loosen Melbourne's recent monopoly on large, high yielding business events and conferences, however a country leading calendar of events and strong corporate core enable demand to be replaced

- City data for FY2016 for Melbourne reveals :-
  - International visitor nights increased by 7.4% to 51.9M nights
  - Domestic visitor nights increased by 2.4% to 23.7M nights
  - Total visitor nights increased by 5.8% to 75.6M nights of which 19% is captured in hotels and motels
- In FY2016 Melbourne hotel's domestic visitor nights content decreased slightly to 63.9% from 66.6% previously
- The TFC visitor night forecasts for the period to FY2025 have been upgraded to average **annual growth of 5.0%** p.a compared with 3.9% previously, albeit from a slightly lower base:-
  - Annual domestic visitor night growth expectations of 2.8% vs. 2.5% previously
  - Annual international visitor night growth expectations of 5.8% vs. 4.5% previously

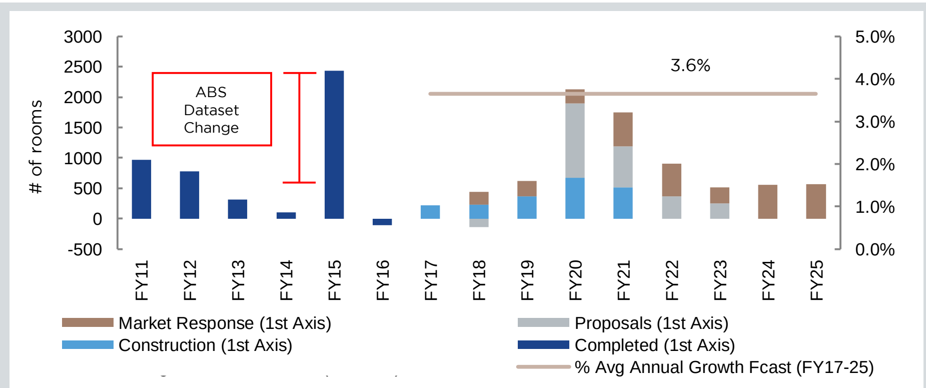
Dransfield Demand Forecast

Annual demand growth of 4.0% is expected for Melbourne City hotels over the long term which is a slight absolute upgrade to the prior forecast. The uplift comes through the middle of the forecast with short term growth constrained below TFC demand forecasts by high occupancy and limited immediately available supply

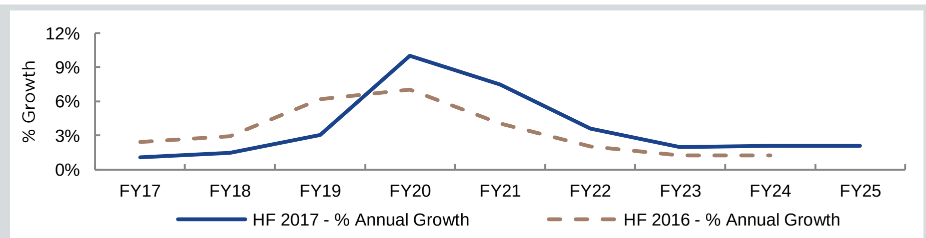
- We expect demand to increase by a supply constrained, 2.0% in FY2017, which is above supply growth expectations
- Medium term demand growth to FY2019 is expected to average 2.3% p.a, representing a downgrade from previous expectations as supply delays constrain demand growth
- Long term growth expectations to FY2024 of 4.0% p.a, realise a minor 93,000 night (1%) absolute upgrade to the prior forecast. The ability for Melbourne to capitalise on demand growth is tied to capacity, and with occupancy levels above 80% for the foreseeable future there is little room for substantial growth in the absence of further enabling supply

Supply expectations are moderate relative to market size and slightly increased, however less than expected demand growth. Medium term supply has been delayed, become more concentrated and more certain, however, is well within prior expectations with capacity for a reasonable level of additional projects

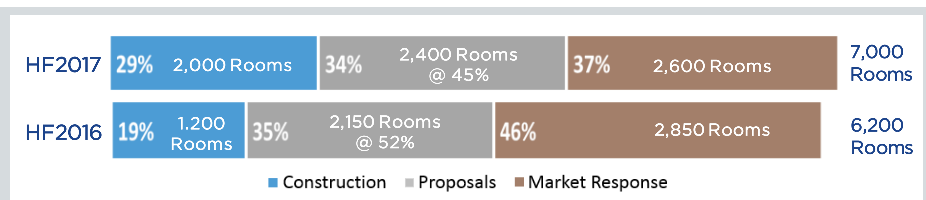
SUPPLY ACTUAL & FORECAST BY TYPE FY11-FY25



FORECAST COMPARISON HF17 VS HF16 - % ANNUAL SUPPLY GROWTH



FORECAST COMPARISON HF17 VS HF16 - PIPELINE BY TYPE TO FY2024



Supply Actual

- In FY2016 the ABS survey recorded a 0.5% decrease (100 rooms) in rooms, which was the result of double counting in the prior year ABS survey which has been rectified. Actual openings through the year were low with Peppers Docklands (87 rooms) the only new property of scale to welcome guests
- Several hotels have come online through the first half of FY2017 including the QT Melbourne (188 rooms) and the Punthill Apartments Flinders Street (132 rooms), while the Four Points by Sheraton (273) is expected to open through the 4th quarter FY2017
- Construction activity is moderate, however a significant proportion of proposed supply is in the planning stage. Many of these will need to move into construction over the next 12 months in order to meet their proposed completion timetables

Supply Forecasts

- Dransfield's supply forecast is for 7,500 new rooms to enter the market over the next 9 years to FY2025 (37% of current stock) at an average annual growth rate of 3.6%.
  - Our forecast supply pipeline represents a small increase of 800 rooms over the prior forecast, with demand growth expectations exceeding supply growth expectations
  - Supply growth has been delayed through the first three years as projected completion dates for many proposed developments which have not broken ground are pushed back, continuing this recent trend in Melbourne. Growth is now concentrated through the middle of the forecast between FY2020-FY2022
  - Supply growth in the medium term to FY2019 is expected to average a low 1.9% p.a. (1,100 rooms), which is a decrease on the 2,400 rooms expected in the prior forecast as project timing has delayed. This delay is expected to catchup through FY2020 and FY2021
  - A significant proportion of the forecast supply for the full forecast period to FY2025 is made up of Market Response (42%) which will only eventuate with appropriate market conditions. Fundamentals are above the historic development trigger levels, which bodes well for projects proceeding
  - All of the expected additional supply is likely to be absorbed over the long term with occupancies maintaining well above 80%
  - Looking over the next 6 years, live construction and proposals represent 70% of the forecast supply pipeline which is below demand growth expectations for the corresponding period (3.5% vs 4.1%). The forecast Market Response in this period totals 1,800 rooms or 30% of supply, equating to 6-10 additional projects
- Geographically, the spread of proposed development has continued to expand, concentrating towards the Southbank and Docklands regions, while Lonsdale and Russell Streets appear to act as the natural barrier for development activity inside the city centre
- Luxury and upscale developments have captured much of the press recently, and are the dominant grading type in the pipeline. There is also a reasonable mix of budget and midscale rooms with the level of overall market quality to improve.

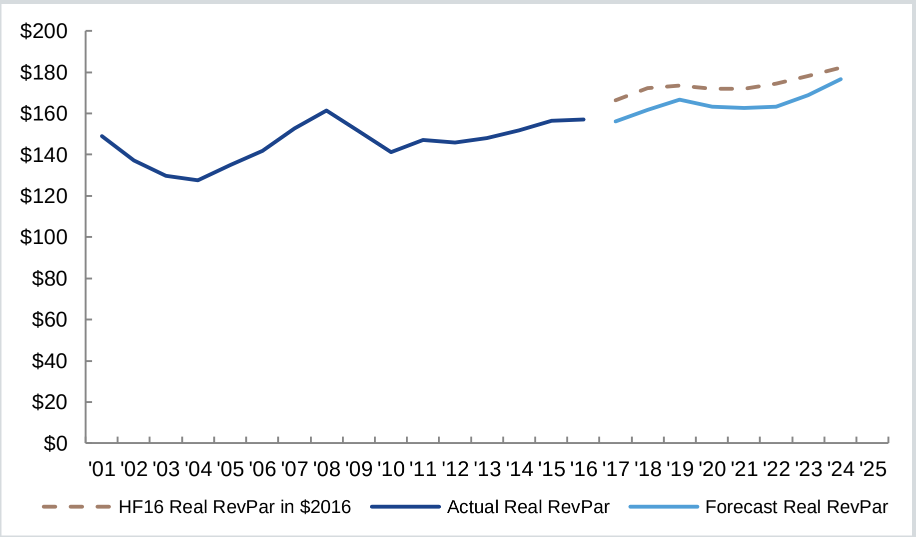
Long term RevPAR expectations are for 4.7% growth p.a, underpinned by high average occupancy levels throughout the forecast period. Expectations have reduced slightly relative to the prior forecast as robust rate expectations for FY2017 are not realised. Rate opportunities, if seized, could significantly improve long term growth and will be driven by occupancy in the mid 80's

Conclusion

Our forecast anticipates healthy long term RevPAR growth of 4.7% p.a for Melbourne hotels, underpinned by an extremely high occupancy environment, despite material supply additions through the middle of the forecast

- In the context of a positive market outlook, the Melbourne RevPAR forecast represents a small downgrade to prior expectations largely a result of rate driven underperformance in FY2016 and FY2017. This has dragged long term forecasts
- Over the period of the forecast, average occupancy expectations are extremely high at 85.5%. This is slightly above prior expectations and should encourage robust rate growth
  - In FY2017 Occupancy levels are expected to consolidate towards 86% as supply growth is minimal
  - Over the medium term to FY2019, occupancy levels are expected to continue to strengthen before significant supply comes online through FY2020-FY2021
- Rate growth expectations of 4.3% p.a for the forecast period have been slightly reduced, although remain strong. There is opportunity for the market to realise significantly higher rate growth as supply capacity constraints are maintained, even through the supply bubble period. Recently limited propensity to move on rate has kept our expectations conservative
  - Through the first half of FY2017, rate growth has started to turn following a decline in the prior year, albeit modestly. The underwhelming performance through the first half has driven our soft FY2017 expectation
  - Price resistance in the underperforming mining cities may be affecting Operators disposition to rate growth in other cities, including Melbourne, although this is unlikely to continue in the long term
  - Pent up rate pressure should be released in FY2018 and FY2019 as occupancy levels hold above 86%
  - There is expected to be some vulnerability through the middle of the forecast (FY2020-FY2021) when over half of the proposed new supply is expected to materialise
  - Over the long term, above inflation average growth is expected, influenced by the high occupancy environment and general improvement in the average quality of supply following the influx of new stock
- Our forecast is for a 5.2% reduction in absolute average long term real RevPAR compared to our previous forecast, almost entirely driven by downgraded FY2017 expectations which flow through the life of the forecast
- RevPAR growth for the comparable period to FY2024 represents a downgrade to prior forecasts, but remain strong, with average growth of 4.3% now expected vs. 4.8% previously
  - In FY2017, RevPAR is expected to increase 1.9%, below robust previous expectations for 7.1% growth, as hoteliers are unable to claim rate
  - In the medium term to FY2019, RevPAR is expected to grow by an average of 4.7% p.a. as occupancy growth encourages hoteliers to move on rate
  - Long term expectations are for robust average annual growth driven by a positive supply and demand equation in the already high yield, high occupancy city. The expected mild softness through the middle of the forecast arises as significant supply comes online, although this should be absorbed as we move towards the end of the forecast. Rate opportunities will present as occupancy levels strengthen towards the mid to high 80%'s
  - Full forecast expectations to FY2025 are for 4.7% growth p.a

MELBOURNE CITY REAL REVPAR IN $2016



Long term RevPAR expectations are for 4.7% growth p.a, underpinned by high average occupancy levels throughout the forecast period. Expectations have reduced slightly relative to the prior forecast as robust rate expectations for FY2017 are not realised. Rate opportunities, if seized, could significantly improve long term growth and will be driven by occupancy in the mid 80's

MELBOURNE – CITY HOTELS, MOTELS AND SERVICED APARTMENTS

ACTUAL

Year	Rooms*	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	$2016 Real RevPAR	Occ
HISTORICAL									
FY2002	11,673	4.0%	-0.3%	$139.58	-1.2%	$97.70	-5.3%	$137.13	70.0%
FY2003	12,472	6.8%	6.0%	$136.79	-2.0%	$94.95	-2.8%	$129.78	69.4%
FY2004	13,517	8.4%	9.6%	$136.31	-0.4%	$95.70	0.8%	$127.63	70.2%
FY2005	13,883	2.7%	11.3%	$136.36	0.0%	$103.78	8.4%	$135.05	76.1%
FY2006	14,433	4.0%	4.6%	$147.87	8.4%	$113.25	9.1%	$141.75	76.6%
FY2007	14,853	2.9%	7.5%	$155.54	5.2%	$124.48	9.9%	$152.63	80.0%
FY2008	14,724	-0.9%	0.8%	$169.01	8.7%	$137.48	10.4%	$161.31	81.3%
FY2009	15,037	2.1%	-2.1%	$167.83	-0.7%	$130.90	-4.8%	$151.37	78.0%
FY2010	15,655	4.1%	2.1%	$164.62	-1.9%	$125.91	-3.8%	$141.30	76.5%
FY2011	16,621	6.2%	10.4%	$170.64	3.7%	$135.78	7.8%	$147.07	79.6%
FY2012	17,403	4.7%	4.0%	$172.41	1.0%	$136.21	0.3%	$145.81	79.0%
FY2013	17,717	1.8%	3.6%	$176.10	2.1%	$141.55	3.9%	$147.98	80.4%
FY2014	17,821	0.6%	3.6%	$180.60	2.6%	$149.48	5.6%	$151.72	82.8%
FY2015	20,260	13.7%	14.3%	$187.98	4.1%	$156.37	4.6%	$156.37	83.2%
FY2016	20,151	-0.5%	1.8%	$186.26	-0.9%	$158.65	1.5%	$157.07	85.2%
Actual Avg FY 2002 - 2016		**4.0%**	**5.1%**		**1.9%**		**3.1%**		**77.9%**
Avg FY 12-16		**4.0%**	**5.4%**		**1.8%**		**3.2%**	**$151.79**	**82.1%**
Avg FY 14-16		**4.6%**	**6.6%**		**1.9%**		**3.9%**	**$155.05**	**83.7%**

FORECAST

Year	Rooms*	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	$2016 Real RevPAR	Occ
FORECAST									
FY2017	20,366	1.1%	2.0%	$188.12	1.0%	$161.71	1.9%	$156.20	86.0%
FY2018	20,667	1.5%	2.0%	$198.47	5.5%	$171.48	6.0%	$161.60	86.4%
FY2019	21,290	3.0%	3.0%	$210.37	6.0%	$181.75	6.0%	$166.61	86.4%
Avg FY 17-19		**1.9%**	**2.3%**		**4.2%**		**4.7%**	**$161.47**	**86.3%**
FY2020	23,421	10.0%	7.0%	$217.74	3.5%	$182.96	0.7%	$163.16	84.0%
FY2021	25,174	7.5%	7.0%	$224.27	3.0%	$187.60	2.5%	$162.74	83.7%
FY2022	26,079	3.6%	3.7%	$231.00	3.0%	$193.43	3.1%	$163.22	83.7%
FY2023	26,592	2.0%	3.7%	$241.39	4.5%	$205.56	6.3%	$168.74	85.2%
FY2024	27,150	2.1%	3.7%	$255.87	6.0%	$221.31	7.7%	$176.72	86.5%
FY2025	27,721	2.1%	3.7%	$271.23	6.0%	$238.27	7.7%	$185.07	87.8%
Avg FY20-25		**4.5%**	**4.8%**		**4.3%**		**4.7%**	**$169.94**	**85.2%**
Total Forecast Avg FY 2017-2025		**3.6%**	**4.0%**		**4.3%**		**4.7%**	**$167.12**	**85.5%**

COMPARISON HF2016 vs HF2017 – Average and Absolute to FY2024

Year	Supply Avg	Demand Avg	ARR	ARR Avg	RevPAR	RevPAR Avg	Avg Real RevPAR	Avg Occ
HF2016	3.4%	3.9%	$263.39	4.3%	$230.89	4.8%	$173.93	84.8%
HF2017	3.8%	4.0%	$255.87	4.1%	$221.31	4.3%	$164.87	85.2%

ABS Dataset change affected

In FY2016, Perth RevPAR declined inline with expectations as the market reset continues. The decline has been more pronounced than expected in FY2017, dragging the long term forecast. Poor short and medium term market sentiment has further tempered medium term rate growth expectations, driving our market downgrade long term. Market fundamentals remain healthy with demand drivers upgraded, and back ended average RevPAR growth of 2.5% expected over the long term

PERTH REGIONS – JUNE 2016

	Establishments	Rooms	RevPAR
Perth City	53	6,269	$144.79
PERTH TOURISM REGION			
Hotels	55	6,855	$144.51
Motels	31	1,663	$84.30
Serviced Apartments	50	3,279	$124.58
Total	**136**	**11,797**	**$130.46**
STAR GRADING			
Luxury	8	n.p.	n.p.
Up-Scale	63	6,033	$143.13
Mid-Scale	54	3,575	$83.81
Budget	11	n.p.	n.p.
Total	**136**	**11,797**	**$130.64**

FY2016 YEAR IN REVIEW

	FORECAST FY2016	ACTUAL FY2016	Var	
RevPAR	-4.2%	-4.8%	-0.6%	▼
Supply	2.3%	-3.1%	-5.4%	▼
Demand	1.0%	-4.5%	-5.5%	▼
Occupancy	80.0%	79.9%	-0.1%	▼
ARR	-3.0%	-3.5%	-0.5%	▼

FY2016 Year in Review

- In FY2016 Perth recorded a 4.8% RevPAR decline, largely in line with expectations as the market continues to contract following extreme resource industry induced outperformance
  - Occupancy levels declined by 1.1 points to a still high 79.9% as demand contracted
  - Rates decreased by 3.5%, as market average rates reset to maintainable levels, and above market contract levels fall off
- The STR sample of higher quality, larger hotels recorded a similar decline of 3.9% with rate and occupancy trending in line with ABS
- Preliminary STR data for FY2017 (YTD February 2017) indicates that market decline has amplified with reductions to both occupancy and rate. The introduction of the first wave of new supply appears to have impacted market confidence more significantly than initially expected and may reverberate through the medium term as additional supply is added

Demand Driver Analysis

Upgraded Visitor Night Forecasts

- Mining market commentators still feel that the deterioration in mining investment has not bottomed and will continue to place strain on the city's economic activity. This has manifested in several avenues and culminates in 25-year highs for office vacancy. Whilst corporate and mining travel reduces, the opportunity for pent up and displaced leisure demand increases. Destination development strategies have taken effect, both public and private, with several state significant developments underway, led by Elizabeth Quay, Perth City Link and Perth Arena
- City data for FY2016 for Perth reveals:-
  - International visitor nights decreased by 6.0% to 21.6M nights
  - Domestic visitor nights increased by 19.3% to 14M nights
  - Total visitor nights increased by 2.5% to 35.6M nights, of which 18% is captured in hotels and motels
- In FY2016 Perth hotel's domestic visitor nights share in hotels decreased to 52.4% from 57% previously, despite an increase in overall domestic visitor nights in the city, which may be attributed to FIFO workers who stay in camps
- The TFC forecasts for Perth for the period to FY2025 have been strongly upgraded to average growth of 5.1% p.a compared to 4.2% previously:
  - Annual domestic visitor night growth expectations of 3.3% vs. 3.1% previously
  - Annual international visitor night growth expectations of 6.1% vs. 4.8% previously

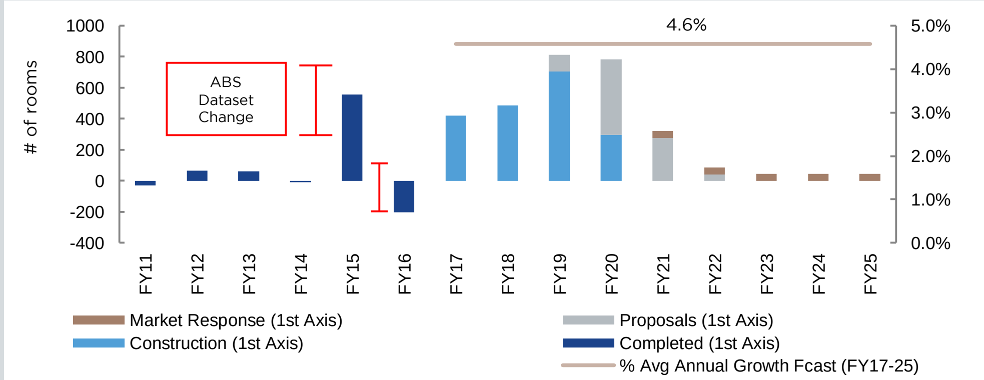
Dransfield Demand Forecast for Perth City Hotels

Annual demand growth of 5.4% is expected for Perth City hotels over the long term to FY2025, which is a moderate upgrade to the prior forecast, although dragged by underperformance in FY2016. TFC visitor night expectations have improved and driven demand growth over the long term, complemented by the softening rate environment which will assist in attracting price sensitive leisure guests. The demand uplift comes through the middle of the forecast and aligns with the timing of new supply and attractions

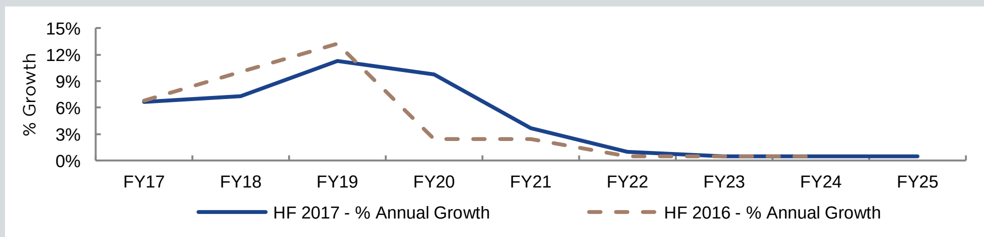
- We expect demand to increase 3.8% in FY2017, which represents a downgrade to prior expectations, and is below supply growth expectations. This will place further short-term pressure on hoteliers to maintain occupancy levels
- Medium term demand to FY2019 is expected to average relatively strong growth of 6.1% p.a, although this sits below supply growth expectations
- Long term growth to FY2024 overcomes medium term softness with expectations of 5.5% p.a, and is above average long term supply growth expectations. Demand realises a small 37,000 night (2%) absolute upgrade to prior forecasts

Supply expectations are high relative to market size, and concentrated over the next three to four years. The majority of rooms are already in construction however those which have not yet started construction may be reassessed as the medium term market sentiment deteriorates. Significant additional projects are unlikely through the medium and long term

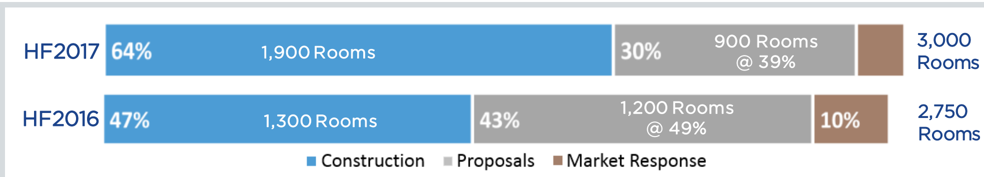
SUPPLY ACTUAL & FORECAST BY TYPE FY11-FY25



FORECAST COMPARISON HF17 VS HF16 - % ANNUAL SUPPLY GROWTH



FORECAST COMPARISON HF17 VS HF16 – PIPELINE BY TYPE TO FY2024



Supply Actual

- In FY2016 the ABS survey recorded a 3.1% decrease (200 rooms) in rooms, which was the result of double counting in the prior year which has been rectified. Actual supply movement is believed to be a small increase of less than 2%
- Several hotels have come online through the first half of FY2017 including a pair of Quests (130 & 71 rooms), Sage West Perth (95 rooms) and Peppers King Square (120 rooms)
- Construction activity is high with several medium to large scale developments in progress and due to come online over the next 3 years

Supply Forecasts

- Dransfield's supply forecast is for 3,050 new rooms to enter the market over the next 9 years to FY2025 (48% of current stock), at an average annual growth rate of 4.6%
  - Our forecast supply pipeline represents a small increase of 250 rooms relative to the prior forecast, with demand growth expectations exceeding supply growth expectations
  - Projects at the proposal level have significant risk as feasibilities are reassessed given short-term market sentiment. Long term market fundamentals, however, remain strong and above traditional development trigger levels
  - Supply growth in the medium term to FY2019 is expected to average a high 8.4% p.a. (1,700 rooms), which is a slight decrease on the 2,000 rooms expected in the prior forecast as project timing has delayed. The delay is expected to catch up in FY2020
  - We expect very few additional supply proposals to come to light over the longer term as the market tries to absorb the material supply additions already committed. Market Response of just 10% of all new supply has been assumed for the full forecast period to FY2025
  - Looking at a 6 year timeline, live construction and proposal rooms represent a high 97% of the total forecast supply pipeline. Supply growth over this period is above demand growth expectations for the corresponding period (7.5% vs 6.5%) and will likely reduce occupancy
- Geographically, the spread of proposed and under construction developments have migrated towards the Western corridor of the CBD, and towards Elizabeth Quay. Continued infrastructure development including Perth Arena, Perth City Link and the core Elizbeth Quay precinct will help support hotel demand growth going forward
- Luxury and upscale developments are dominant in this supply wave although they have been supported by mid-tier options. There is opportunity for some of the older stock to fall out of the market as trading conditions make it harder for them to compete without undertaking considerable capital expenditure

Long term RevPAR expectations are for 2.5% growth p.a, buoyed by a strong back end. Expectations have been reduced relative to the prior forecast as poor short term market sentiment intensifies as significant supply comes online. Downward rate pressure will continue over the medium term, although will turn as the new supply is absorbed in a moderate to high demand growth market

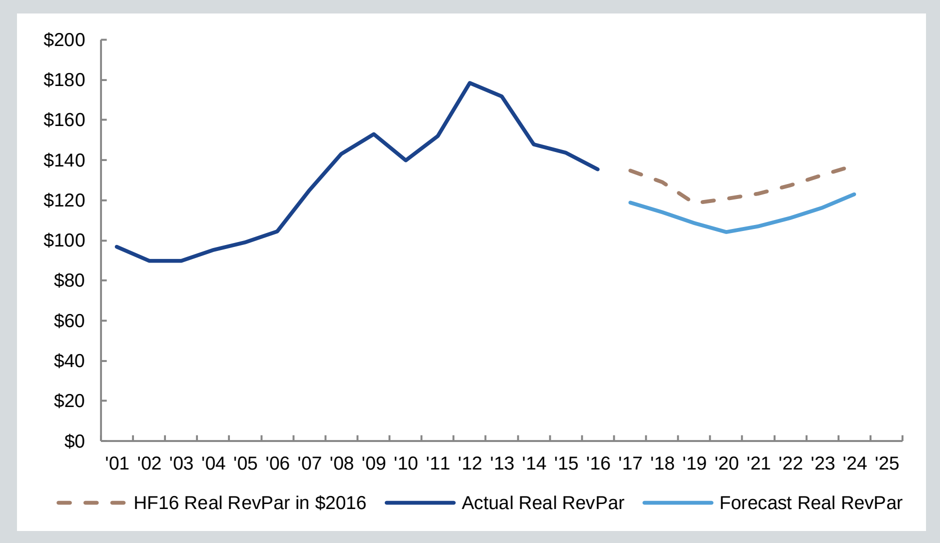
Conclusion

Significant short-term deterioration is expected to slow over the medium term as the market reset continues. Medium term RevPAR decline averaging 4.6% is forecast as material new supply enters the market creating downward pressure on occupancy and rates

The Perth forecast represents a significant downgrade to prior expectations, largely the result of a much weaker than expected FY2017 which has dragged the full forecast and intensified the poor sentiment likely to affect the medium term

- Over the period of the forecast, average occupancy expectations have been slightly reduced although still sit at a high level, above 78%
  - In FY2017 occupancy levels are expected to fall by approximately 2 points as the first wave of new supply enters the market and is unlikely to be fully absorbed
  - Over the medium term and extending into FY2020 occupancy levels will feel the full force of a boom induced supply spurt. Levels are expected to reach decade-long lows in the early 70%'s
- Rates will likely continue to unwind through the short and medium term before any growth is realised in the back half of the forecast. Long term expectations are moderated given the weak medium term and are for 1.5% growth p.a.
  - Rate growth has been significantly reduced relative to the prior forecast as market sentiment has depressed, in part due to weakening economic indicators (office vacancies at quarter-century highs, continued reduction in mining investment) and the timing of new supply and its impact on competitive behaviour
  - Through the first half of FY2017, rate contraction has amplified and is likely to double that of the decline posted last year
  - Perth is undergoing structural change in demand from long-term contract nights, which are generally less price sensitive, to traditional business and leisure guests. Continued improvement in the quality of offerings will likely attract these forgotten market segments, and drive natural long term rate growth
  - We expect moderate rate growth to materialise towards the back end of the forecast as supply growth slows and new, higher quality, stock is absorbed
- Our forecast is an 11.8% reduction in average long-term real RevPAR compared to our previous forecast. The downgrade is dragged by a significantly weaker FY2017, with prolonged market fragility expected as hoteliers respond to continuous new supply by cutting rates
- RevPAR growth rates for the comparable period to FY2024 represents a significant downgrade, dragged by short and medium term revision. Poor short term sentiment is expected to strongly affect medium-term rate performance, delaying any market recovery. Despite the downgrade, market fundamentals are above pre-mining boom levels
  - In FY2017, RevPAR is expected to record a double-digit decrease of 10%, which is relative to prior expectations of 0.3% growth. Softer than expected demand has dragged occupancy levels down further than expected while new supply emerges, in turn leading to rate competition and poor confidence
  - In the medium term to FY2019, average RevPAR decline is expected to slow relative to FY2017, with a 4.6% decline p.a. Significant supply will come online during this period which makes forecasting difficult in an already retreating market. There is moderate risk and volatility associated with the Perth market during the medium term and performance could easily swing both ways
  - Long term expectations are for market stabilisation following the medium term reset. Strong levels of growth are expected at the back of the forecast period as supply additions cease and hoteliers regain confidence to push rates with a reasonable demand outlook
  - Full forecast expectations to FY2025 are for 2.5% growth p.a.

PERTH CITY REAL REVPAR IN $2016



Long term RevPAR expectations are for 2.5% growth p.a, buoyed by a strong back end. Expectations have been reduced relative to the prior forecast as poor short term market sentiment intensifies as significant supply comes online. Downward rate pressure will continue over the medium term, although will turn as the new supply is absorbed in a moderate to high demand growth market

PERTH – CITY HOTELS, MOTELS AND SERVICED APARTMENTS

ACTUAL

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	$2016 Real RevPAR	Occ
HISTORICAL									
FY2002	5,322	2.2%	-2.1%	$97.20	-0.5%	$63.91	-4.6%	$89.70	65.8%
FY2003	5,386	1.2%	6.9%	$94.49	-2.8%	$65.63	8.7%	$89.70	69.5%
FY2004	5,749	6.7%	10.0%	$99.82	5.6%	$71.47	8.9%	$95.33	71.6%
FY2005	5,702	-0.8%	2.4%	$103.04	3.2%	$76.15	6.5%	$99.11	73.9%
FY2006	5,594	-1.9%	2.1%	$108.53	5.3%	$83.51	9.7%	$104.52	76.9%
FY2007	5,515	-1.4%	4.1%	$125.55	15.7%	$101.95	22.1%	$125.01	81.2%
FY2008	5,722	3.8%	6.9%	$145.92	16.2%	$122.05	19.7%	$143.20	83.6%
FY2009	5,860	2.4%	-0.9%	$163.53	12.1%	$132.38	8.5%	$153.09	81.0%
FY2010	5,827	-0.6%	-3.9%	$159.43	-2.5%	$124.72	-5.8%	$139.96	78.2%
FY2011	5,799	-0.5%	4.9%	$170.00	6.6%	$140.24	12.4%	$151.90	82.5%
FY2012	5,866	1.2%	5.6%	$193.66	13.9%	$166.83	19.0%	$178.59	86.1%
FY2013	5,929	1.1%	-2.1%	$197.12	1.8%	$164.41	-1.4%	$171.88	83.4%
FY2014	5,919	-0.2%	-3.0%	$179.77	-8.8%	$145.65	-11.4%	$147.83	81.0%
FY2015	6,478	9.4%	9.4%	$177.48	-1.3%	$143.74	-1.3%	$143.74	81.0%
FY2016	6,275	-3.1%	-4.5%	$171.30	-3.5%	$136.83	-4.8%	$135.48	79.9%
Actual Avg FY 2002 - 2016		1.3%	2.4%		4.1%		5.7%		78.4%
Avg FY 12-16		1.7%	1.1%		0.4%		0.0%	$155.51	82.3%
Avg FY 14-16		2.0%	0.6%		-4.5%		-5.8%	$142.35	80.6%

ABS Dataset change affected

FORECAST

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	$2016 Real RevPAR	Occ
FORECAST									
FY2017	6,693	6.7%	3.8%	$158.45	-7.5%	$123.16	-10.0%	$118.97	77.7%
FY2018	7,181	7.3%	5.5%	$158.45	0.0%	$121.11	-1.7%	$114.13	76.4%
FY2019	7,993	11.3%	9.0%	$158.45	0.0%	$118.61	-2.1%	$108.73	74.9%
Avg FY 17-19		8.4%	6.1%		-2.5%		-4.6%	$113.94	76.3%
FY2020	8,774	9.8%	8.0%	$158.45	0.0%	$116.68	-1.6%	$104.05	73.6%
FY2021	9,096	3.7%	6.0%	$164.00	3.5%	$123.49	5.8%	$107.12	75.3%
FY2022	9,182	0.9%	4.0%	$169.74	3.5%	$131.68	6.6%	$111.11	77.6%
FY2023	9,228	0.5%	4.0%	$176.53	4.0%	$141.71	7.6%	$116.32	80.3%
FY2024	9,274	0.5%	4.0%	$185.35	5.0%	$153.98	8.7%	$122.95	83.1%
FY2025	9,320	0.5%	4.0%	$194.62	5.0%	$167.31	8.7%	$129.96	86.0%
Avg FY20-25		2.6%	5.0%		3.5%		6.0%	$115.25	79.3%
Total Forecast Avg FY 2017-2025		4.6%	5.4%		1.5%		2.5%	$114.82	78.3%

COMPARISON HF2016 vs HF2017 – Average and Absolute to FY2024

Year	Supply Avg	Demand Avg	ARR	ARR Avg	RevPAR	RevPAR Avg	Avg Real RevPAR	Avg Occ
HF2016	4.6%	4.6%	$214.77	2.8%	$173.93	3.1%	$127.99	76.6%
HF2017	5.1%	5.5%	$185.35	1.1%	$153.98	1.7%	$112.92	77.4%

DRANSFIELD HOTELS & RESORTS

In FY2016, Sydney RevPAR growth outperformed strong expectations as hoteliers finally responded to rate opportunities. Rate driven growth continues in FY2017 as high occupancy is maintained. Material supply additions over the long term are expected to be fully absorbed as demand expectations have improved. Rate growth opportunities should persist throughout the forecast. RevPAR growth averaging 4.6% expected over the long term, a slight absolute upgrade

SYDNEY REGIONS – JUNE 2016

	Establishments	Rooms	RevPAR
Sydney	114	19,128	$192.83
SYDNEY TOURISM REGION			
Hotels	128	21,538	$181.63
Motels	108	7,295	$104.27
Serviced Apartments	78	7,949	$172.47
Total	**314**	**36,782**	**$164.39**
STAR GRADING			
Luxury	31	8,489	$255. 87
Up-Scale	138	19,316	$155.72
Mid-Scale	117	7,580	$100.87
Budget	28	1,397	$70.46
Total	**314**	**36,782**	**$164.39**

FY2016 YEAR IN REVIEW

Actual includes Pyrmont - Ultimo

	FORECAST FY2016	ACTUAL FY2016	Var	
RevPAR	7.5%	9.9%	2.4%	▲
Supply	1.5%	0.9%	-0.6%	▼
Demand	3.0%	2.3%	-0.7%	▼
Occupancy	87.6%	87.5%	-0.1%	▼
ARR	6.0%	8.4%	2.4%	▲

FY2016 Year in Review

- In FY2016, following years of rate growth underperformance, Sydney hotels recorded significant 9.9% RevPAR growth. Performance was above strong prior expectations, as hoteliers were able to claim longstanding rate opportunities
  - Following an ABS boundary change, we have amended the Sydney Hotel Futures region for FY2015 & FY2016 to include Pyrmont – Ultimo which previously withheld data for identification risk purposes. Many of the properties now included in this region were formerly classified within Hotel Futures boundaries, meaning the actual change is quite minor, but has affected data published earlier
  - Occupancy levels recorded a 1.2 point increase, pushing levels to an unprecedented 87.5% as the market awaits much needed supply
  - Rates responded, increasing 8.4%, and hopefully releasing the rate handcuffs which have been evident over the last 5 years
- The STR sample of higher quality, larger, hotels recorded similar results with rate led growth of 8.1%
- Preliminary STR data for FY2017 (YTD February 2017) indicates that rate driven growth continues as occupancy pressures are maintained

Demand Driver Analysis

Upgraded Visitor Night Forecasts

- The reopening of the International Convention Centre will place further strain on an already tight accommodation market and may displace some leisure travellers in the short term. Enabling supply will build through the medium to long term, and is the key to demand growth. International demand growth, particularly out of Asia will continue to fill rooms as and when they become available
- City data for FY2016 for Sydney reveals :-
  - International visitor nights increased by 8.6% to 73.1M nights
  - Domestic visitor nights decreased by 4.6% to 23.8M nights
  - Total visitor nights increased by 5.1% to 97M nights
- In FY2016 Sydney hotel's domestic content in hotels decreased to 52.4% from 57% previously
- The TFC forecasts for Sydney for the period to FY2025 have increased with growth of 4.7% p.a expected, compared to 4.0% previously, driven by international growth :-
  - Annual domestic visitor night growth expectations have decreased to 2.9% vs. 3.0% previously, and from a lower base
  - Annual international visitor night growth expectations increased to 5.2% vs. 4.4% previously, from a higher base.

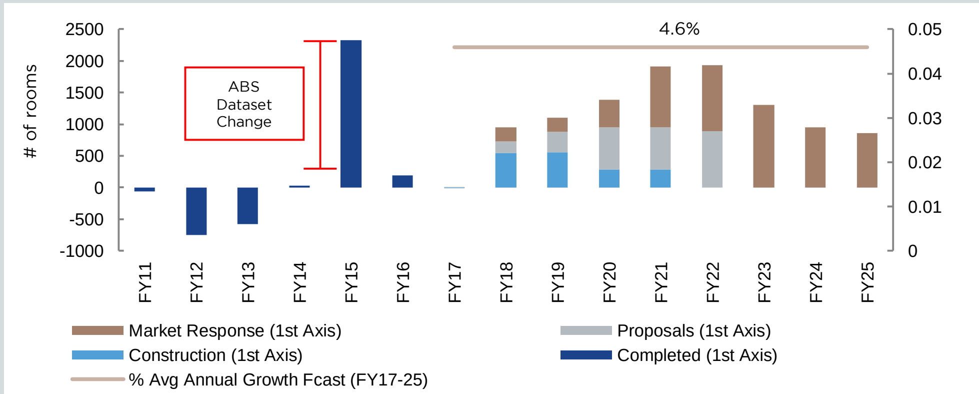
Dransfield Demand Forecast

Annual demand growth of 4.1% is expected for Sydney hotels over the long term which is a slight absolute upgrade to the prior forecast. Short term growth in hotel demand has been constrained below TFC demand forecasts by supply capacity, however demand growth opportunities will arise later in the forecast period as moderate supply additions come online

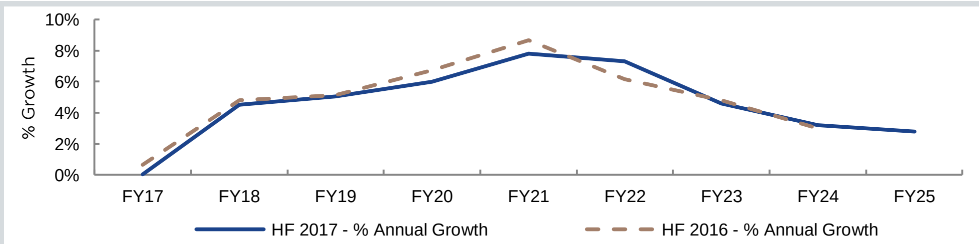
- We expect demand to increase 0.7% in FY2017 which is above stable supply expectations and largely constrained by room availability
- Medium term demand growth to FY2019 is expected to average 3.3% p.a as new supply creates demand growth opportunities. This is inline with previous expectations
- Long term demand growth expectations to FY2024 of 4.1% p.a, realises a minor 97,000 night (1.6%) absolute upgrade to the prior forecast, driven by a slight increase in enabling supply, but remaining constrained

Supply expectations are moderate relative to market size, and is much needed. Construction activity has increased considerably as previously proposed projects progress with the first wave of new supply expected in FY2018. Significant scope remains for additional supply with our allowance for additional Market Response making up 54% of the forecast pipeline

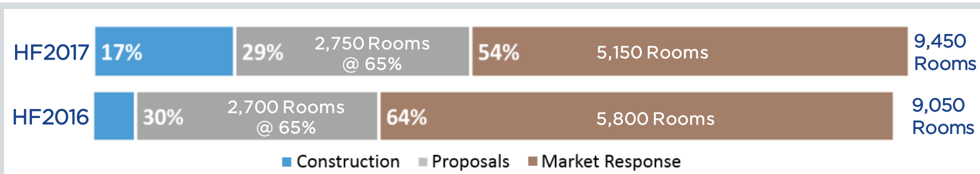
SUPPLY ACTUAL & FORECAST BY TYPE FY11-FY25



FORECAST COMPARISON HF17 VS HF16 - % ANNUAL SUPPLY GROWTH



FORECAST COMPARISON HF17 VS HF16 – PIPELINE BY TYPE TO FY2024



Supply Actual

- In FY2016 the ABS recorded a 1.1% (200 rooms) increase in rooms which was slightly affected by an ABS double counting error, reducing recorded growth by approximately 100 rooms
- Through the first half of FY2017, the most significant change to the supply environment has been the closure of the 446 room Menzies. This has magnified pressure on an already supply constrained market. The addition of 200 plus rooms to the Hyatt Regency Darling Harbour, now Australia's largest Hotel by room count, will relieve some strain as we wait for much needed new supply to arrive
- Construction activity is low relative to market size, however, several medium to large scale developments are underway. We expect to see a significant shift from projects in planning into construction over the next 12-18 months.

Supply Forecasts

- Dransfield's supply forecast is for 10,400 new rooms to enter the market over the next 9 years to FY2025 (49% of current stock) at an average annual growth rate of 4.6%
  - Our forecast supply pipeline represents a small increase of 400 rooms relative to the prior forecast and is expected to be largely absorbed in the supply constrained market
  - The supply outlook is consistent with prior expectations in terms of timing with growth ramping up through to the peak in FY2021 and FY2022 where it continues at moderate levels thereafter
  - Supply growth in the medium term to FY2019 is expected to average a moderate 3.2% p.a (2,100 rooms) which is in line with prior expectations, and is dragged by FY2017 which is expected to record no new supply
  - A significant proportion of forecast supply is made up of back ended Market Response which will only arrive with appropriate market conditions. Market Response for the full forecast period to FY2025 is assumed to make up 58% of all new supply as market fundamentals are expected to stay well above development trigger levels for the entirety of the forecast, promoting continued development activity
  - The large allowance for Market Response needs to be taken up for Sydney to capitalise on forecast international tourism growth. The forecast new supply is likely to be largely absorbed over the long term with occupancy levels maintaining well above 80% throughout
  - Looking at the next 6 years, live construction and proposals represent 60% of the forecast supply pipeline. New supply is below demand growth expectations for the corresponding period (3.5% vs 4.4%). The forecast Market Response in this period totals 2,900 rooms or 40% of new supply, equating to 8-12 additional projects
- The geographical dispersion of proposed projects is quite vast across the Sydney CBD with strong prospects scattered throughout. However, as the availability of sites in the core CBD has become harder, increased activity in Central and Southern sectors (South of Martin Place) is evident. Construction activity in the Darling Harbour Region is also a focus as the development of Barangaroo, the convention precinct and Pyrmont continue

Long term RevPAR expectation are for strong 4.6% growth p.a. underpinned by nation leading occupancy. Expectations have slightly improved following outperformance in FY2016 with growth rates remaining largely consistent. Despite material supply additions, there remains scope for rate growth outperformance and additional supply

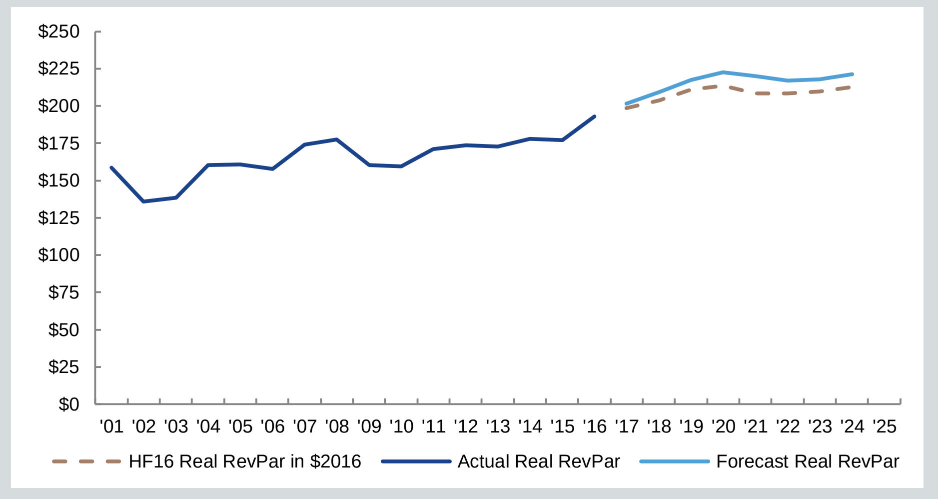
Conclusion

Strong rate driven long term RevPAR growth of 4.6% p.a expected for Sydney hotels as average occupancy levels maintain above 85%, inciting upward rate pressure despite material expected additions to supply

The Sydney forecast represents a minor upgrade to the strong prior forecast, buoyed by an outperforming FY2016 and a slight improvement to demand expectations

- Over the period of the forecast, average occupancy expectations are extremely high and continue to lead the country at 85.9%. Occupancy levels are marginally higher than prior forecasts as international visitor night growth expectations have improved. Some slight softening is expected through the back end as consistent material supply comes online over a sustained period
  - In FY2017, occupancy levels are expected to continue tightening, moving towards 88%
  - Over the medium term to FY2019, extreme occupancy characteristics will continue despite some supply relief as pent up demand, led by the introduction of the International Convention and Exhibition Centre, largely absorbs the new stock
- Robust rate expectations of 5.0% growth p.a. for the forecast period have been maintained in line with the prior forecast. The market continues to show signs of severe supply blockage which should manifest itself in high rate growth over the medium term. Our expectations, whilst high, offer a greater chance of outperformance than underperformance as Sydney hoteliers begin to recognise the rate opportunity available given the occupancy characteristics
  - Through the first half of FY2017, rate growth has slowed slightly, giving back outperformance in the prior year
  - After years of rate growth underperformance, we have started to see hoteliers react to the extreme market fundamentals. This has increased our confidence in rate growth opportunities being captured and driven our robust expectations
  - Medium term rate growth averaging 6.6% expected
  - As the bulk of new supply enters the market through FY2020-FY2022, we expect an element of rate tempering as occupancy considerations affect hoteliers propensity to push rates. The expected demand growth over this period should however ensure that rates still grow well above inflation
- Our forecast is for a 3.6% increase in average long-term real RevPAR compared to our previous forecast, from a slightly higher base and with outperformance opportunities should material Market Response allowances not eventuate
- RevPAR growth for the comparable period to FY2024 is consistent with the prior forecast and remains strong with average growth of 4.5% p.a, underpinned by a consistently high occupancy environment, despite material supply expectations
  - In FY2017, RevPAR is expected to increase 7.2%, which is in line with prior expectations as the supply and demand equation remains consistent, encouraging rate growth
  - In the medium term to FY2019, robust RevPAR growth averaging 6.8% p.a is expected, as demand growth absorbs new supply, keeping pressure on rates. Despite the envisaged high occupancy environment, there is some chance that hoteliers retreat to a conservative rate approach as new supply continues to build
  - Long term expectations are for strong average annual growth as market fundamentals remain stable despite the emergence of material supply. Much needed and pent up demand growth opportunities will be enabled and should be largely taken up, maintaining the high occupancy and high rate environment
  - Full forecast expectations to FY2025 are for 4.6% growth p.a

SYDNEY CITY REAL REVPAR IN $2016



Long term RevPAR expectation are for strong 4.6% growth p.a. underpinned by nation leading occupancy. Expectations have slightly improved following outperformance in FY2016 with growth rates remaining largely consistent. Despite material supply additions, there remains scope for rate growth outperformance and additional supply

SYDNEY – CITY HOTELS, MOTELS AND SERVICED APARTMENTS

ACTUAL – Dataset includes Pyrmont – Ultimo (FY2015 & FY2016)

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	$2016 Real RevPAR	Occ
HISTORICAL									
FY2002	20,707	-3.4%	-4.5%	$139.87	-10.7%	$96.86	-11.8%	$135.95	69.3%
FY2003	18,625	-10.1%	-4.8%	$138.43	-1.0%	$101.43	4.7%	$138.63	73.3%
FY2004	18,152	-2.5%	4.8%	$152.54	10.2%	$120.13	18.4%	$160.22	78.8%
FY2005	18,568	2.3%	2.9%	$155.79	2.1%	$123.41	2.7%	$160.60	79.2%
FY2006	19,429	4.6%	1.4%	$164.10	5.3%	$125.96	2.1%	$157.65	76.8%
FY2007	19,648	1.1%	6.7%	$175.49	6.9%	$142.09	12.8%	$174.23	81.0%
FY2008	19,763	0.6%	1.9%	$184.57	5.2%	$151.35	6.5%	$177.58	82.0%
FY2009	19,896	0.7%	-3.5%	$176.31	-4.5%	$138.57	-8.4%	$160.25	78.6%
FY2010	19,878	-0.1%	6.2%	$170.09	-3.5%	$142.06	2.5%	$159.41	83.5%
FY2011	19,817	-0.3%	3.0%	$182.93	7.5%	$157.88	11.1%	$171.01	86.3%
FY2012	19,073	-3.8%	-7.4%	$195.20	6.7%	$162.11	2.7%	$173.54	83.0%
FY2013	18,498	-3.0%	-1.0%	$195.04	-0.1%	$165.29	2.0%	$172.81	84.7%
FY2014	18,527	0.2%	2.4%	$202.20	3.7%	$175.13	5.9%	$177.75	86.6%
FY2015	20,850	12.5%	12.2%	$205.26	1.5%	$177.22	1.2%	$177.22	86.3%
FY2016	21,041	0.9%	2.3%	$222.46	8.4%	$194.76	9.9%	$192.83	87.5%
Actual Avg FY 2002 - 2016		**0.0%**	**1.5%**		**2.5%**		**4.2%**		**81.1%**
Avg FY 12-16		**1.4%**	**1.7%**		**4.0%**		**4.3%**	**$178.83**	**85.7%**
Avg FY 14-16		**4.5%**	**5.6%**		**4.5%**		**5.7%**	**$182.60**	**86.8%**

ABS Dataset change affected

FORECAST

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	$2016 Real RevPAR	Occ
FORECAST									
FY2017	21,048	0.0%	0.7%	$236.92	6.5%	$208.80	7.2%	$201.69	88.1%
FY2018	21,997	4.5%	4.3%	$252.32	6.5%	$221.93	6.3%	$209.15	88.0%
FY2019	23,104	5.0%	5.0%	$269.73	6.9%	$237.16	6.9%	$217.41	87.9%
Avg FY 17-19		**3.2%**	**3.3%**		**6.6%**		**6.8%**	**$209.42**	**88.0%**
FY2020	24,492	6.0%	6.2%	$283.22	5.0%	$249.48	5.2%	$222.47	88.1%
FY2021	26,405	7.8%	5.4%	$294.54	4.0%	$253.65	1.7%	$220.03	86.1%
FY2022	28,337	7.3%	4.5%	$306.33	4.0%	$256.88	1.3%	$216.76	83.9%
FY2023	29,640	4.6%	4.0%	$318.58	4.0%	$265.62	3.4%	$218.04	83.4%
FY2024	30,589	3.2%	3.5%	$331.32	4.0%	$277.05	4.3%	$221.22	83.6%
FY2025	31,445	2.8%	3.6%	$346.23	4.5%	$291.77	5.3%	$226.63	84.3%
Avg FY20-25		**5.3%**	**4.5%**		**4.3%**		**3.5%**	**$220.86**	**84.9%**
Total Forecast Avg FY 2017-2025		**4.6%**	**4.1%**		**5.0%**		**4.6%**	**$217.05**	**85.9%**

COMPARISON HF2016 vs HF2017 – Average and Absolute to FY2024

Year	Supply Avg	Demand Avg	ARR	ARR Avg	RevPAR	RevPAR Avg	Avg Real RevPAR	Avg Occ
HF2016	5.0%	4.3%	$323.76	5.2%	$269.58	4.5%	$208.28	85.3%
HF2017	4.8%	4.2%	$331.32	5.1%	$277.05	4.5%	$215.85	86.1%

DRANSFIELD HOTELS & RESORTS

METHODOLOGY & BACKGROUND

In producing Hotel Futures, Dransfield have committed to making available to investors, long term historical information and one view of what the future might look like. Investors now have available to them forecasts of key demand drivers, published by Tourism Research Australia (TRA), and a number of other government and private sources. Supply information is provided by local and state governments as well as private organisations. Hotel Futures seeks to interpret the impact of these expectations on hotel revenues, when combined together in a supply/demand equation.

In presenting a market forecast it is important for readers to accept that individual hotels will be influenced by the market, but will not behave in an identical manner. The market forecast is therefore a guide against which the past and future performance expectations for any particular hotel may be reviewed.

Australian Bureau of Statistics – Adjustment in Reporting

In FY2015 a break in the ABS data series occurred, with the inclusion of an additional 17,828 rooms across 279 STA properties in Australia which were previously overlooked. Whilst these additional rooms are not solely included in Hotel Futures city borders, the effect has made supply and demand growth figures unreliable for FY2015 as data from the September quarter 2014 onwards is not directly comparable to the past

In FY2016, another data break occurred, albeit less substantial (40 properties), as the ABS recognised double counting in the prior survey which they have rectified in FY2016 data.

For more information on the change visit www.abs.gov.au

Effect of changes to Australian Bureau of Statistics Classifications

The identified data break in FY2016 is perceived to have had only a minor impact on supply and demand data.

Where possible we have provided our supply and demand estimates excluding the base change. These are only an estimate and should not be relied on as being completely accurate.

Sources of Historic Forecast Data

Where it is noted that ABS data has been used in our analysis, this refers only to historic data. Forecasts are solely the product of Dransfield, though the construction of the forecast may rely on information published by Tourism Research Australia.

Tourism Research Australia was created on 1 July 2004 and brings together the Australian Tourism Commission, See Australia, the Bureau of Tourism Research and the Tourism Forecasting Council. The Tourism Forecasting Committee (TFC) was also established following the formation of Tourism Australia (TA). The TFC remains an independent body providing forecasts of activity across international, domestic and outbound tourism sectors. The resources for the TFC are provided by Tourism Research Australia (TRA), which is a division of Tourism Australia.

STR

STR provides global hotel data covering daily and monthly performance data, forecasts, annual profitability, pipeline and census information. STR collects data from 55,000 hotels globally, representing 7.4 million rooms.

The Australian and New Zealand Hotel Review provides a sample of the whole market and coverage typically sits within a range of 50-75% of the entire census. The data consists of the majority of larger and branded operators but also contains information from many smaller operators and independents. This sample is on average of a higher quality than the market covered in the full ABS survey.

Typically, STR sample data outperforms ABS survey data and provides a slightly skewed top end performance review, based on subject properties who participate in the survey.

METHODOLOGY & BACKGROUND

Other Historical Changes to Australian Bureau of Statistics and TFC Methodology

As a result of the introduction of the Goods and Services Tax (GST) on 1 July 2000, the ABS reports data inclusive of GST. To enable meaningful comparison to the previous years, we have adjusted the post 1 July 2000 data by reducing revenues by 1/11th, making them net of GST.

In the June 2003 quarter, an additional 132 establishments (5,918 rooms) were added to the Australian Bureau of Statistic's Survey of Tourist Accommodation room stock count. The addition of these establishments resulted in a break in the time series between the March and June quarters 2003 and would tend to overstate supply growth. To offset this, the base figures for quarters June 2002 to June 2003 have been increased by a factor, provided by the ABS, to take into account the effect of the break in the series. The factor used varies for different cities and ranges from an increase of 1.9% to 6.2%. In 2007 the ABS redrew the geographical boundaries of the Sydney City Region and divided the City Region into four sub-regions: Inner, South, East and West. The changes to the boundaries has not impacted the total Sydney City region, rather the sub parts of the region have been redrawn.

In the 2012 TFC forecast, historical performance and forecasts were being reported on a financial year basis. Previous calendar year forecast of November 2011 have been adjusted to report on a financial year basis for comparative purposes. They are at best an indication of what the financial year forecasts would have been if prepared on that basis.

Effective from 1 January 2012, the ABS has replaced the Australian Standard Geographical Classification (ASGC) with the new Australian Statistical Geography Standard (ASGS) as the geographic framework for its survey data. For the purposes of our Hotel Futures analysis, this changes the boundaries applicable to the Darwin and Cairns regions.

Accordingly, comparisons with prior period data for these two regions is not exactly like for like, however the effect of the change in coverage is relatively minimal. We have taken the opportunity through these classification changes to include Port Douglas in our Cairns market forecasts.

From 1 July 2013, the ABS changed the collection and release activity of the survey of tourist accommodation small area data (STA). The collection frequency of the STA moved from a quarterly to annual release and from a calendar to financial year basis.

Supply Expectations

In calculating supply expectations, Dransfield considers three stages of development:-

1) Under construction or recently completed

2) Proposals

3) Market Response

Our forecast recognises that not all project proposals will proceed as anticipated, and probability estimates have been applied to sites where construction has not yet started and may not start or could be delayed. Following consideration of mooted and under construction supply, and likely market performance, Dransfield allows a "Market Response" provision which seeks to estimate the volume of additional rooms that may be delivered during the forecast period that do not relate to current known projects Eg. the Market Response to forward supply and demand conditions. This is informed by past market behavior, including identified trigger points in key revenue metrics.

Demand

Our demand forecasts are partly based on international and domestic visitor forecasts published by Tourism Research Australia (TRA) through the Tourism Forecasting Committee (TFC). They also require a level of subjective judgment. In August 2016, TRA released revised forecasts updating those issued in December 2015 which were relied upon in the 2016 edition of Hotel Futures. TFC forecasts are produced on a financial year basis.

There are multiple other indicators of future demand for the major cities considered in Hotel Futures. The TFC publishes a range of related actual and forecast national statistics including:

METHODOLOGY & BACKGROUND

- International Arrivals;
- International Visitor nights;
- International Visitor nights in Hotels, Motels, Guest Houses and Serviced Apartments (HMGSA);
- Domestic Visitor Nights
- Domestic Visitor nights in Hotels, Motels, Guest Houses and Serviced Apartments (HMGSA).

International visitor forecasts are now undertaken on a state by state basis, similar to what has historically been provided for the domestic forecasts. We have undertaken correlation testing on each of the above demand indicators and found varying degrees of correlation to actual results in different years. None of the individual indicators have a very strong historical correlation with the room nights occupied in the cities that Hotel Futures reports on. This is partly due to the differing proportions of international and domestic visitors in each city, though we do take regard of the known changes in market mix. It is also due to the differing geographic boundaries of the indicators and the subject, for example, using the international forecast for the whole state has only an indirect relationship with an individual city.

Changes in the level of supply in each city also alter travel patterns as room availability improves.

The difficulty in using raw statistics/forecasts is demonstrated by considering the lack of growth in International Arrivals in 2009 compared to the 5% increase in International Visitor nights and 6% reduction in International Visitor Nights to Hotels. The demand figures estimated in Hotel Futures therefore require a significant subjective assessment.

In our analysis, the TFC visitor forecasts and customer market mix in individual states are blended and adjusted to reflect historical differences between these key drivers, actual results and the impact of additional supply. Supply often stimulates demand growth and there are differing expectations for individual city growth rates compared to the whole state. Historically, actual performance and our forecasts for a city's demand growth have exceeded 'melded' growth rates (combined weighted International and Domestic forecasts) based on TFC data for larger geographic areas, sometimes quite substantially.

Room Rate Methodology

Real room rate change is mostly impacted by occupancy levels. Changes upward generally lag occupancy movements by approximately twelve months, whilst hoteliers respond to new market circumstances and contract prices move. Regression analysis has been used to analyse historic real rate growth and is used as a guide to forecasting likely future growth rates based on expected occupancy levels. Room rates are presented net of GST.

Room Yield/RevPAR Methodology

The most reliable indicator of hotel profitability is the RevPAR (revenue per available room or yield) which indicates the revenue available from which profit is derived. Given the change in inflation over the last decade, we have calculated a 'real RevPAR' curve in each market so that a more realistic comparison of future expectations and past performance can be made. The real RevPAR is also a good guide as to when new projects might be considered viable, and therefore likely to proceed.

Nominal growth rates depend on the starting base, (e.g. growth rates calculated from a peak will be lower and often negative compared to growth rates calculated from a trough). Comparing the average real RevPAR of a whole forecast to prior forecasts is therefore the most objective and complete way to determine if it has been upgraded or downgraded. For the purposes of comparing current forecast real RevPAR with our previous forecasts, CPI data has been used.

GLOSSARY OF TERMS

Australian Bureau of Statistics (ABS)	The ABS is Australia's national statistical authority and provides survey based statistics of hotels, motels and serviced apartments.
Average Room Rate (ARR)	The Average Room Rate is the average daily revenue per occupied room. Calculated as Total Room Revenue divided by occupied room nights. This rate is calculated net of GST. Also known as Average Daily Rate (ADR).
HF	Dransfield's annual Hotel Futures publication
Hotels	Hotels with guest facilities, licensed to operate a public bar. References made to the 'hotel market' generally include motels, guest houses and serviced apartments.
HMGSA	Hotels, Motels, Guest Houses and Serviced Apartments, a statistical basket of competitors
Live Pipeline	Refers to supply projects which have been conceptualised and are either in construction or mooted
Market Response	Supply allowance over and above live projects which have not yet been conceptualised, but are expected given market conditions
Occupancy	The Occupancy is the number of rooms occupied divided by the number of rooms available.
P.C.P	Prior corresponding period
Serviced Apartments	Self contained units with full cooking facilities, daily service and provision of linen and laundry.

GLOSSARY OF TERMS

RevPAR	The RevPAR is the revenue per available room night, calculated as occupancy multiplied by Average Room Rate or total room revenue divided by available room nights. Also known as and previously defined in Hotel Futures as Yield.
Real RevPAR	The RevPAR calculated in 2016 dollars to remove the effect of inflation. Previously defined in Hotel Futures as Real Yield.
STR	STR
Tourism Forecasting Committee (TFC)	A division of Tourism Australia. The TFC is an independent body charged with providing consensus forecasts of activity across international, domestic and outbound tourism sectors.
Yield/Room Yield	The Room Yield is the revenue per available room night calculated as occupancy multiplied by Average Room Rate. Also known as RevPAR.

TABLE REFERENCE

Supply % Change	This is the annual percentage change in the sum of the number of rooms available for each night of the year (supply). Supply is not always the same as a calculation of the number of rooms times the number of days in the year, as rooms are not always available for the whole year when new supply is introduced, or old supply withdrawn part way through the year.
Rooms	This figure is based on the equivalent rooms available for the full year calculated by dividing supply by the number of days in the year.
Demand % Change	This is the annual percentage change in the sum of the number of rooms occupied for each night of the year (demand). Demand information is not directly supplied by the ABS and is calculated by multiplying supply by the reported occupancy.

SOURCES OF DATA

ABS – Australian Bureau of Statistics
www.abs.gov.au

Actual Data to FY2016 relating to Room Night Supply, Occupancy, Takings/Rate and RevPAR actuals, and calculated historical growth rates as published in:

- Survey of Tourist Accommodation (STA), Tourist Accommodation, Small Area Data (Cat. No. 8635).
- International Visitor Arrivals to Australia, 3401.0 Table 1: Total Movement, Visitor Arrivals – Category of Movement.
- Resident Departures, 3401.0 Table 2: Total Movement, Resident Departures – Category of Movement (Short Term less than 1 year)

STR
www.str.com

Data from STR for year on year growth rates as published in:

- 2016 STR, Ltd. Australia and New Zealand Hotel Review

Tourism Research Australia (TRA) and The Tourism Forecasting Committee (TFC) www.tourism.australia.com

Data relating to historical and forecast demand as published through TRA and its affiliate TFC:

- State and Territory Tourism Forecasts 2016 (tables), Tourism Research Australia, Canberra.

Data relating to latest publications and forecasts

- IVS – International Visitors in Australia: Quarterly results of the International Visitor Survey
- NVS – Travel by Australians: Quarterly results from of National Visitor Survey
- TRA Special Request: NVS and IVS overnight visitors in Hotel/Resort or Motor Inn