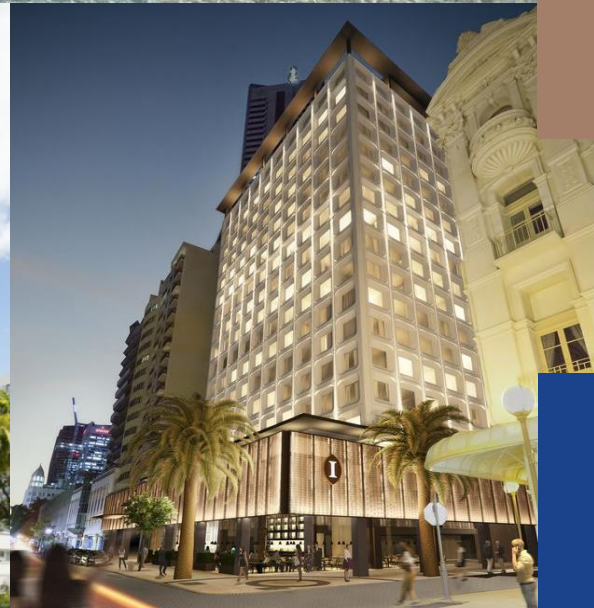


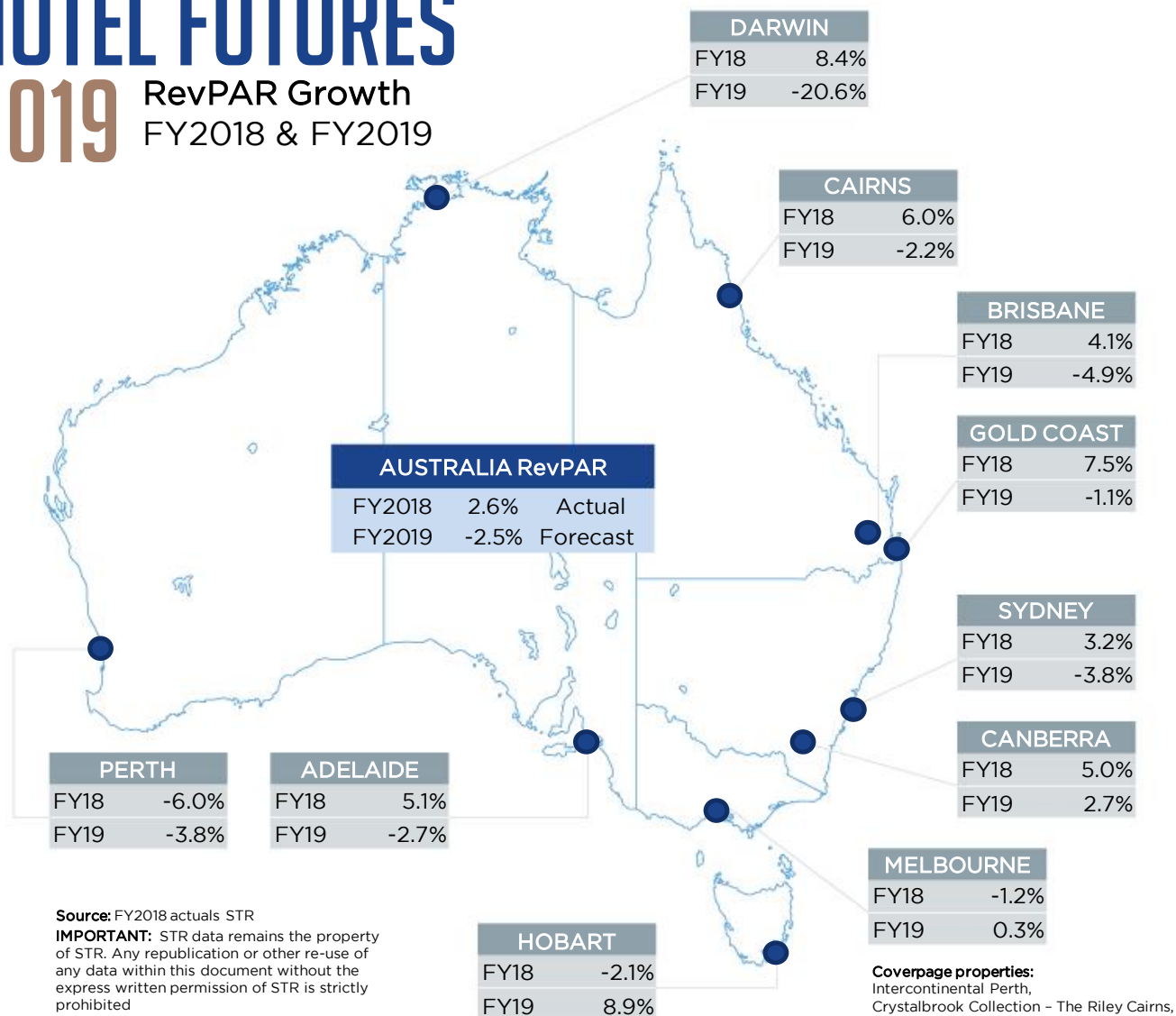
# HOTEL FUTURES 2019

A REVIEW OF THE REVENUE PERFORMANCE  
OF MAJOR AUSTRALIAN HOTEL MARKETS  
WITH FORECASTS TO 2027



# HOTEL FUTURES

## 2019 RevPAR Growth FY2018 & FY2019



# CONTENTS

HF2019 Snapshot	3
Australia at a Glance	4
Short & Medium Term Outlook	6
Long Term Outlook	7
City Summaries	8
Transaction Trends	9
Transactions	10
Background to Forecasts	
Supply & Demand	12
Arrivals & Departures	17
Adelaide	18
Brisbane	22
Cairns	26
Canberra	30
Darwin	34
Gold Coast	38
Hobart	42
Melbourne	46
Perth	50
Sydney	54
Methodology & Background	58
Data Geography	60
Glossary & Sources of Data	61

# 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 75,000 hotel rooms and numerous food and beverage outlets in more than 700 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](http://www.dransfield.com.au) or contact us.

## DEAN DRANSFIELD

Director & Owner

T +61 2 8234 6644

E [dean.dransfield@dransfield.com.au](mailto:dean.dransfield@dransfield.com.au)

# DRANSFIELD

Our core offering is the ability to integrate our service lines and 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

**IMPORTANT:** STR data remains the property of STR. Any republication or other re-use of any data within this document without the express written permission of STR is strictly prohibited

## 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

- Total 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

**DISCLAIMER** This document contains both qualitative and quantitative statements concerning the future performance of hotel and property markets, which may or may not prove to be correct. Dransfield & Co Pty Ltd (Dransfield) does not make any representation or warranty, express or implied that such statements will prove correct, or that estimates or forecasts contained in this document will be achieved. The projections contained in this document are estimates and represent only one possible result, depending on the assumptions made. Potential users of these forecasts should satisfy themselves as to the current market conditions. Individual hotel performance may differ to market averages. Due to the difficulty in predicting future events, the assumptions we have used may not hold true. Dransfield accepts no responsibility for any action taken or any failure to act, in reliance upon the information contained in this document. No liability for negligence or otherwise is accepted by Dransfield directly or indirectly in relation to the material contained in this document.

Hotel Futures 2019 was compiled by Dean Dransfield, Raq Pustetto, Scot McLaughlin, Grace Lam, and Hayden Longmuir © June 2019

# HF2019 SNAPSHOT

Long term RevPAR growth averaging 3.3% per annum, and 4.1% from FY2020, impacted by a soft short and medium term as new supply impacts both occupancy levels and rate confidence. Very high occupancy levels throughout the forecast underpin growth

## FY2018 Actual

In FY2018, the Major Australian Cities Hotels recorded 2.6% revenue growth (RevPAR). Rates improved 2.2% as high occupancy persisted, improving marginally and staying above 80%. Growth was, however, slightly below our 3.8% expectations

## RevPAR Forecast

The long term revenue forecast is above inflation **RevPAR growth averaging 3.3% p.a.**

- The forecast represents a slight downgrade to prior expectations, although remains strong and underpinned by high occupancy levels despite material supply growth expectations over the next five years
- Long term growth outperforms the medium term with supply absorption impacting the near term. We expect long term growth for all 10 cities, with some periods of volatility across all markets

## Supply

Hotel Futures 2019 represents a small increase in absolute supply, with **3.8% p.a. growth expected long term to FY2027**. We anticipate the market will deliver 43,000 additional rooms, which will be fully absorbed. The supply growth uplift to prior expectations represents a relatively small 0.2% p.a. over the life of the forecast

- The uplift is largely concentrated in Melbourne, as developers continue to recognize favorable demand fundamentals. Sydney activity has been slightly wound back as short term underperformance reflects negatively on highest and best use against both office and residential
- Construction activity has become the dominant pipeline component this year, representing almost half of the pipeline, increasing from just over a quarter last year

## Demand

Hotel Futures 2019 long term demand forecast is for **average annual growth of 4.0% to FY2027**

- Dransfield's demand profile has been slightly upgraded taking regard of moderate upgrades to supply expectations, favorable movement in the exchange rate and continued improvements to infrastructure and attraction development
- The forecast for demand remains above supply expectations in the long term

## Average Room Rate (ARR)

**Long term rate growth expectations averaging 3.1% p.a.** are expected. These are underpinned by high occupancy levels for the entirety of the forecast

- Rate growth through the short and medium term are below the long term forecast, impacted by arriving supply and conservative hotelier behaviour in some markets
- Our rate growth expectations have reduced relative to prior forecasts with lesser pressure generated from a slightly softer supply and demand equation, reflecting in conservative rate behaviour

## TOTAL AUSTRALIAN MAJOR CITIES (WEIGHTED)

Year	Sample Size	Sample Coverage	ARR	% Chng	RevPAR	% Chng	\$2018 Real RevPAR	Occ	
<b>HISTORICAL - STR</b>									
FY2017			\$193.55		\$155.01			80.1%	
FY2018	92,838	76%	\$197.90	2.2%	\$159.02	2.6%	\$155.75	80.4%	
Year	Rooms*	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	\$2018 Real RevPAR	Occ
<b>FORECAST - DRANSFIELD</b>									
FY2019	112,503	4.1%	1.7%	\$197.62	-0.1%	\$155.01	-2.5%	\$148.84	78.4%
FY2020	117,913	4.8%	4.3%	\$202.14	2.3%	\$157.77	1.8%	\$148.17	78.1%
FY2021	123,763	5.0%	5.3%	\$207.29	2.5%	\$162.39	2.9%	\$149.15	78.3%
<b>Avg FY19-21</b>		<b>4.6%</b>	<b>3.8%</b>		<b>1.6%</b>		<b>0.7%</b>	<b>\$148.72</b>	<b>78.3%</b>
FY2022	130,878	5.7%	5.7%	\$213.16	2.8%	\$166.91	2.8%	\$149.12	78.3%
FY2023	137,774	5.3%	5.2%	\$219.71	3.1%	\$171.91	3.0%	\$149.41	78.2%
FY2024	143,133	3.9%	4.3%	\$226.27	3.0%	\$177.72	3.4%	\$150.25	78.5%
FY2025	145,380	1.6%	3.3%	\$236.41	4.5%	\$188.83	6.2%	\$155.29	79.9%
FY2026	148,108	1.9%	3.3%	\$247.57	4.7%	\$200.48	6.2%	\$160.38	81.0%
FY2027	150,844	1.8%	3.3%	\$259.29	4.7%	\$212.93	6.2%	\$165.71	82.1%
<b>Avg FY22-27</b>		<b>3.4%</b>	<b>4.2%</b>		<b>3.8%</b>		<b>4.6%</b>	<b>\$155.02</b>	<b>79.7%</b>
<b>Total Forecast Avg FY 2019-2027</b>		<b>3.8%</b>	<b>4.0%</b>		<b>3.1%</b>		<b>3.3%</b>	<b>\$152.92</b>	<b>79.2%</b>

Source: STR

# AUSTRALIA AT A GLANCE FY2018

This is the 22nd edition of Hotel Futures. We report on major Australian hotel markets during FY2018 with long term forecasts to FY2027

- The Australian Major City Hotel market, as captured by STR, recorded modest **2.6% revenue growth (RevPAR) in FY2018**. This was below our 3.8% expectations
- Australian City supply increased by 3.7%, which was slightly exceeded by demand growth of 4.0%, pushing occupancy levels up 0.3 points to a very healthy 80%
- Tourism Research Australia's visitor night data for FY2018 revealed growth of 4.8% in capital cities, as an indirect guide to short term accommodation demand, which was slightly lower
  - International visitor nights in capital cities increased 3.0% to 210M
  - Domestic visitor nights in capital cities grew 8.2% to 116M
- Rate growth of 2.2% was slightly behind 2.6% expectations with six cities recording growth below the 3% benchmark
- Seven of the ten major cities experienced year on year RevPAR growth:
  - Darwin was the biggest mover, increasing 8.4% following several years of decline
  - Cairns, Gold Coast, Adelaide and Canberra all grew more than 5%
  - Brisbane stemmed their market reset, improving steadily despite continued additional supply
  - Sydney and Melbourne maintained Occupancy above 87% and 84% respectively, while Adelaide also joined the 80% club
  - Perth, Hobart and Melbourne all contracted, impacted by additional supply

\*Source: DHR internal research

## AUSTRALIAN MAJOR CITY HOTEL (STR) FY2018 PERFORMANCE

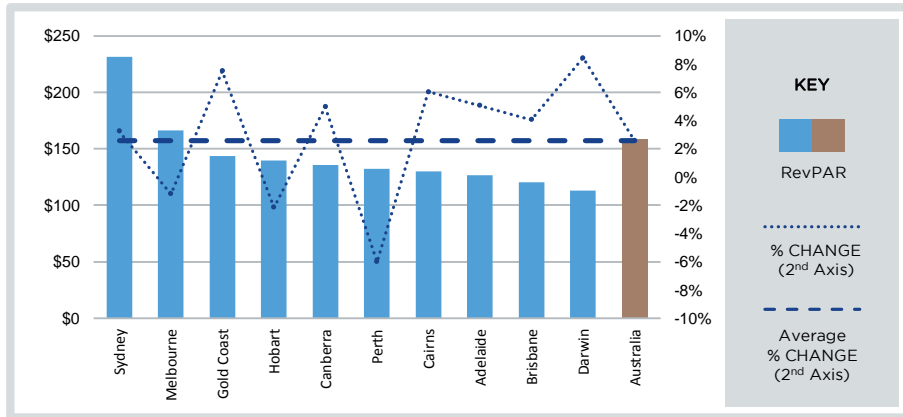
FY2018 Performance			
Location	Rate Growth	Occupancy	RevPAR Growth
Adelaide	3.6%	80.2%	5.1%
Brisbane	0.9%	75.5%	4.1%
Cairns & P.D	5.5%	78.6%	6.0%
Canberra	2.3%	78.2%	5.0%
Darwin	0.8%	75.2%	8.4%
Gold Coast	5.6%	72.8%	7.5%
Hobart	2.8%	78.8%	-2.1%
Melbourne	-0.1%	84.4%	-1.2%
Perth	-3.6%	76.2%	-6.0%
Sydney	4.5%	87.8%	3.2%
<b>Total Market</b>	<b>2.2%</b>	<b>80.4%</b>	<b>2.6%</b>

Source: STR

# AUSTRALIA AT A GLANCE FY2018

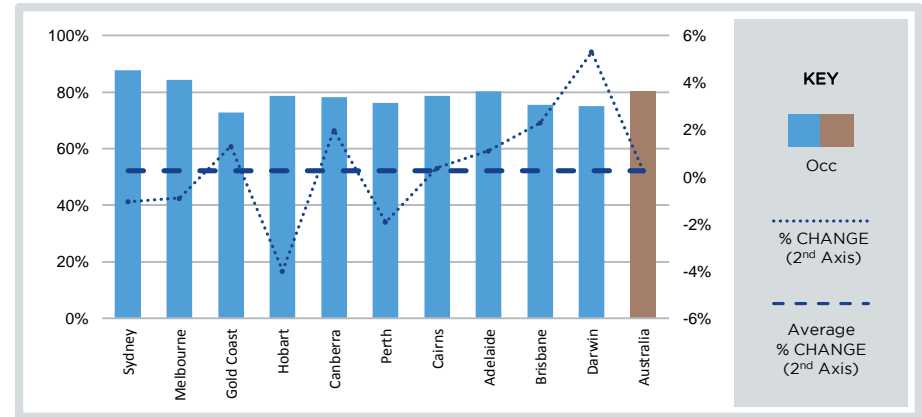
In FY2018 there was varied performance across the country, with major city RevPAR growth averaging 2.6%, with a high of 8.4% growth and a low of -6.0% contraction. Subdued rate growth was evident across the high occupancy markets of Sydney and Melbourne, although they remain the overall performance benchmark. Recent strugglers Darwin and Brisbane appeared to turn the tide, but this is short lived for Darwin. Adelaide and Canberra continue to thrive, while Hobart and Perth record declines

## REVPAR - ACTUAL & % CHANGE FY2018



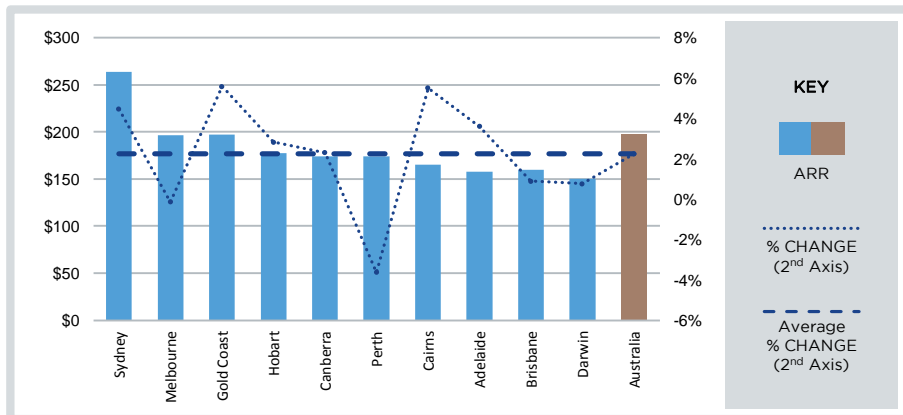
Source: STR

## OCCUPANCY - ACTUAL & % CHANGE FY2018



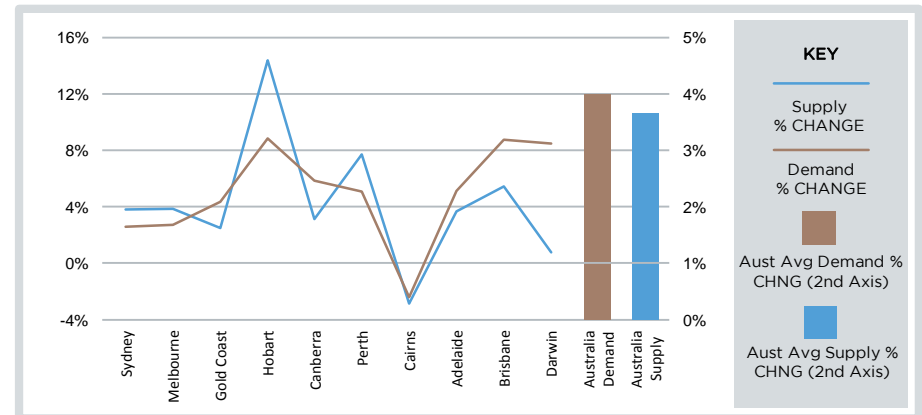
Source: STR

## ARR - ACTUAL & % CHANGE FY2018



Source: STR

## SUPPLY AND DEMAND % CHANGE FY2018



Source: STR

# SHORT & MEDIUM TERM OUTLOOK

## FY2019 National Outlook

- RevPAR for FY2019 is anticipated to slightly unwind following 8 consecutive years of growth. A 2.4% decline is expected, with reduced occupancy levels and stagnant rate outcome
- The decline represents a moderate downgrade to Hotel Futures 2018 RevPAR expectations which were for growth of 2.8% and reflects a change in short term market sentiment
- Occupancy levels are likely to fall just under 2 percentage points, albeit to a still high 78.4%. Demand growth of just 1.7% is not immediately absorbing moderate supply
- Resulting rate growth underperformance was both a factor of the softer occupancy environment, and conservative/defensive hotelier behavior in some markets

## Medium Term Outlook to FY2021

- RevPAR growth averaging a low 0.7% p.a. is expected over the medium term, dragged by soft FY2019 performance
- RevPAR growth is below the 2.6% p.a. previously expected, impacted by softer demand and subsequent rate growth. We expect this softer short term forecast will strengthen through the longer term, with stronger back ended opportunities eventuating as weaker performance metrics lead to lesser/later development activity, which should see occupancy and rate pressures return
- Expected new supply has been slightly delayed, although remains high relative to historical levels. Annual average growth of 4.6% is now expected compared to 5.3% previously
- Demand growth expectations averaging 3.8% p.a. over the medium term are expected, which are unlikely to immediately absorb all new supply. The softer demand outlook is a factor of short term supply delays blocking growth in some cities, and some weaker visitation in other cities.
- Occupancy is expected to remain high through the medium term, albeit slightly reduced. We expect occupancy will soften 1-2 percentage points over this period. The majority of the occupancy compression has already occurred through the first three quarters of FY2019
- Rate growth expectations are for a relatively low 1.6% growth p.a. This has reduced from 3.3% p.a. expectations. Rate has been impacted by a slightly softer supply and demand equation which is generating less upward pressure. A conservative hotelier strategy despite many high/extreme occupancy markets is similarly contributing to the below inflation growth.

## AUSTRALIAN MAJOR CITY HOTEL MARKET REVENUE FORECASTS

Forecast Average RevPAR Growth			
Location	Short FY2019	Medium FY19-21	Long FY19-27
Adelaide	-2.7%	-0.1%	2.6%
Brisbane	-4.9%	1.7%	4.9%
Cairns	-2.2%	0.7%	2.6%
Canberra	2.7%	2.7%	3.2%
Darwin	-20.6%	-3.1%	2.2%
Gold Coast	-1.1%	1.0%	3.3%
Hobart	8.9%	1.3%	2.6%
Melbourne	0.3%	0.8%	2.8%
Perth	-3.8%	-2.3%	3.8%
Sydney	-3.8%	1.1%	3.2%
<b>Total Market</b>	<b>-2.5%</b>	<b>0.7%</b>	<b>3.3%</b>

# LONG TERM OUTLOOK TO FY2027

## Long Term Outlook to FY2027

- Australian major city RevPAR is forecast to grow at a healthy average of 3.3% p.a. over the long term and 4.1% after FY2019
  - A positive supply and demand equation and sustained high occupancy levels will create rate growth opportunities
  - Despite the positive overall outlook, the forecast represents a downgrade to prior expectations, impacted by recent hotel demand underperformance, a moderate supply arrival schedule which has slightly increased and illogical rate behavior in some markets
  - Growth expectations are still well above recent history, which averaged 2.2% p.a. over the last 5 years
- Supply expectations are for 3.8% growth p.a. representing a minor increase to Hotel Futures 2018, although largely offset by increases to demand expectations
- Live projects (recently completed, under construction, proposals) have increased considerably, with 49% of the pipeline having now broken ground
- Our forecast assumes 43,000 additional rooms to enter the market over the next 9 years, with concentration through the first 5 years
- Supply is expected to be fully absorbed over the long term, albeit some slight occupancy softening to arise through the middle of the forecast, as sustained supply comes to market
- Demand has been marginally upgraded, with 4.0% p.a. growth now expected, as capacity constraints ease. Access infrastructure and flight schedules are also improving, and the diversity in demand drivers across many cities is growing
- Occupancy levels have been slightly tempered, although don't drop below a still high 78% average, and return above 80% in the late term.

## TOTAL AUSTRALIAN MAJOR CITIES (WEIGHTED)

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	\$2018 Real RevPAR	Occ
<b>FORECAST</b>									
FY2019	112,503	4.1%	1.7%	\$197.62	-0.1%	\$155.01	-2.5%	\$148.84	78.4%
FY2020	117,913	4.8%	4.3%	\$202.14	2.3%	\$157.77	1.8%	\$148.17	78.1%
FY2021	123,763	5.0%	5.3%	\$207.29	2.5%	\$162.39	2.9%	\$149.15	78.3%
<b>Avg FY 19-21</b>		<b>4.6%</b>	<b>3.8%</b>		<b>1.6%</b>		<b>0.7%</b>	<b>\$148.72</b>	<b>78.3%</b>
FY2022	130,878	5.7%	5.7%	\$213.16	2.8%	\$166.91	2.8%	\$149.12	78.3%
FY2023	137,774	5.3%	5.2%	\$219.71	3.1%	\$171.91	3.0%	\$149.41	78.2%
FY2024	143,133	3.9%	4.3%	\$226.27	3.0%	\$177.72	3.4%	\$150.25	78.5%
FY2025	145,380	1.6%	3.3%	\$236.41	4.5%	\$188.83	6.2%	\$155.29	79.9%
FY2026	148,108	1.9%	3.3%	\$247.57	4.7%	\$200.48	6.2%	\$160.38	81.0%
FY2027	150,844	1.8%	3.3%	\$259.29	4.7%	\$212.93	6.2%	\$165.71	82.1%
<b>Avg FY22-27</b>		<b>3.4%</b>	<b>4.2%</b>		<b>3.8%</b>		<b>4.6%</b>	<b>\$155.02</b>	<b>79.7%</b>
<b>Total Forecast Avg FY 2019-2027</b>		<b>3.8%</b>	<b>4.0%</b>		<b>3.1%</b>		<b>3.3%</b>	<b>\$152.92</b>	<b>79.2%</b>

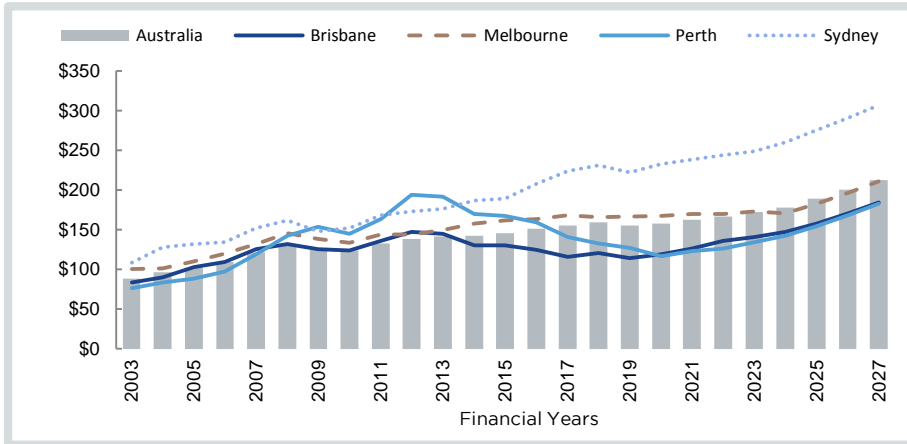


# CITY SUMMARIES

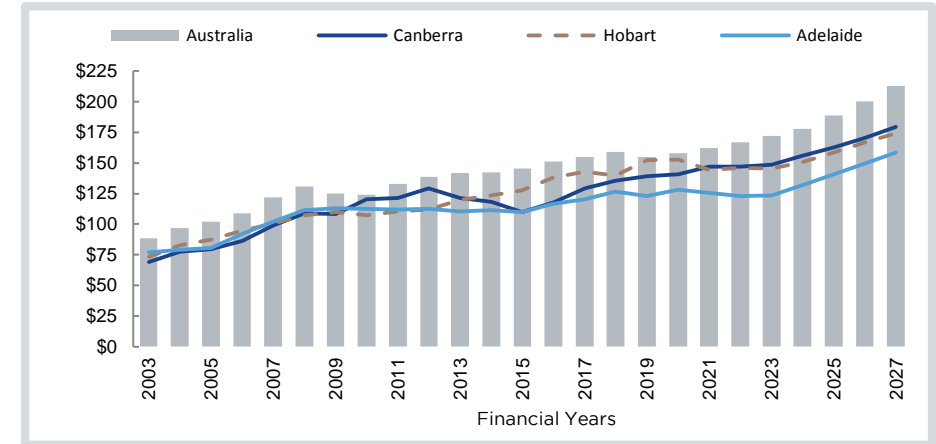
City	Long Term RevPAR (avg. p.a)	Comment
Adelaide	2.6%	In FY2018 Adelaide RevPAR growth of 5.1% was strong, albeit half of this has been given back through the start of FY2019. A significant shift from supply proposal activity to construction occurred this year and will deliver material supply through FY2021-FY2023., though this is expected to be fully absorbed. Long term RevPAR expectations of 2.6% growth p.a. are a little underwhelming given the high occupancy environment, impacted by conservative rate growth behaviour
Brisbane	4.9%	In FY2018, Brisbane Hotels stemmed the persistent market decline of the last five years, recording demand led RevPAR growth of 4.1%. Another big year of new supply will arrive during FY2019 which will impact short term growth, although this should be short-lived. A once in a generation improvement to tourism infrastructure and improved demand drivers will lead growth in this cycle, attracting a new range of visitors. Long term RevPAR expectations are positive with 4.9% annual growth expected, with backend outperformance
Cairns & Port Douglas	2.6%	In FY2018, Cairns & Port Douglas RevPAR continued to grow, recording 6.0% improvement and marking the 8th consecutive year of growth. Heavy rain and cyclone activity has affected demand in FY2019, with occupancy decline compounded by new supply. Supply arrivals will continue for the next couple of years which will limit growth opportunity as its absorbed. Long term RevPAR expectations are for 2.6% growth p.a., with short and medium term underperformance
Canberra	3.2%	In FY2018, Canberra RevPAR continued to perform well, increasing 5% following a very strong prior year. Growth has continued in FY2019, albeit at a lesser rate. Supply proposal activity has increased in light of robust recent performance and positive corporate, tourism and education sector sentiment. Long term RevPAR expectations of 3.2% growth are slightly above inflation targets upheld by moderate rate growth opportunities in a stable occupancy market
Darwin	2.2%	In FY2018, Darwin posted minor RevPAR growth following a large and sustained decline over the last four years. The turn was short lived with FY2019 expected to record a very high 20% decline as the structural composition of demand resets, seeing occupancy levels fall 15 percentage points. Corporate demand softness has led to cuts in access, with air capacity materially reducing. This will no doubt affect medium and perhaps long term occupancy while yielding opportunities also take a hit. Long term RevPAR expectations are for growth of 2.2% p.a, severely dragged by a 20% decline in the short term
Gold Coast	3.3%	In FY2018, Gold Coast hotels reaped the rewards from Commonwealth Games induced visitation, and also performed well across the balance of the year. Looking forward, we expect a moderate long term outlook with subdued growth over the medium term as the market unwinds from the Commonwealth Games, and new supply enters. Long term RevPAR expectations are for 3.3% growth p.a, underpinned by a positive supply and demand ratio
Hobart	2.6%	In FY2018, double digit supply growth led to an occupancy driven RevPAR decline. Strong demand growth absorbed the new supply through the high season, however the additional rooms were unable to adequately fill in the shoulder. The supply pipeline remains fully loaded with proposal activity above market needs if all eventuate. Long term RevPAR expectations are for 2.6% p.a. with upside and downside linked to supply development behaviour
Melbourne	2.8%	In FY2018, Melbourne hotels continued to trade at high levels despite a slight RevPAR decline. Sustained supply additions over the next 5-6 years will test equivalent demand growth and operators may respond with rate competition. We expect occupancy levels will slightly depress through the height of supply arrivals, largely upheld through considerable growth in demand generators over the parallel period. Full forecast expectations to FY2027 are for 2.8% growth p.a.
Perth	3.8%	In FY2018, Perth recorded a 6% decline as supply continued to arrive. Almost three quarters of the remaining pipeline is under construction and is due to arrive over the next 4 years, which will hamper medium term growth. Projects which haven't broken ground are at high risk to complete. The long term outlook remains positive, although 2-3 more years of volatility is expected as supply deliveries peak. Full forecast expectations to FY2027 are for 3.8% growth p.a.
Sydney	3.2%	In FY2018, Sydney hotels reacted well to new supply, growing RevPAR by 3.2%. This has reversed in FY2019 with a minor drop in occupancy leading to a larger drop in rates, despite market wide occupancy above 87%. Demand growth continues to be limited by room availability, which should be eased through the medium term with consistent moderate supply expected to arrive. Occupancy will be impacted by this supply, although this is expected to be absorbed over the longer term. Long term RevPAR forecasts are only slightly above inflation expectations despite ultra high occupancy. Growth appears restrained by nervous hoteliers who are not just missing rate growth opportunities, but actually reducing them! Full forecast expectations to FY2027 are for 3.2% growth p.a.

# CITY SUMMARIES

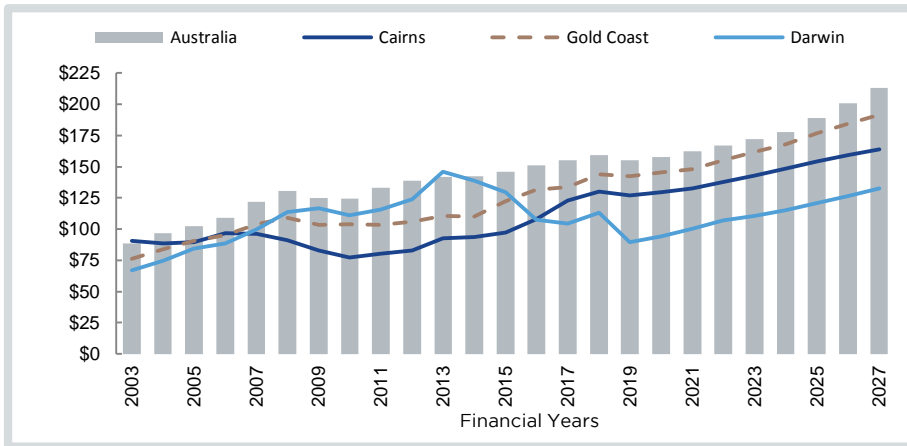
## MAJOR CAPITAL CITY REVPAR COMPARISON



## SECONDARY CAPITAL CITY REVPAR



## LEISURE BASED CITY REVPAR



## Relative RevPAR

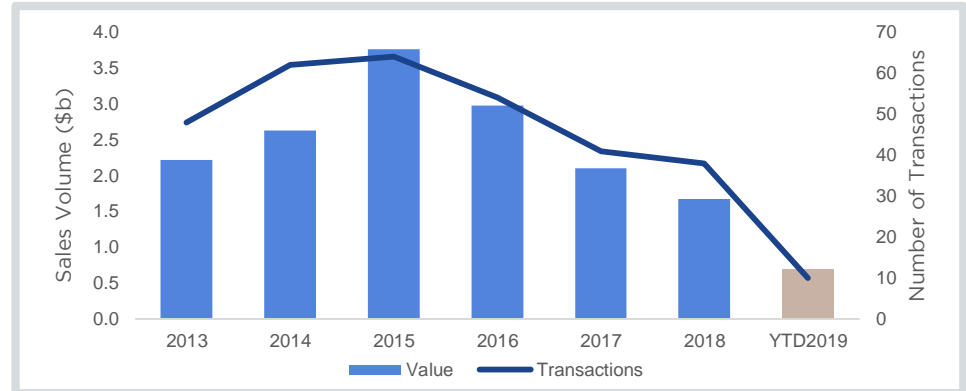
- Average RevPAR growth of 3.3% p.a. across Australia to FY2027, with Sydney leading the way. Sydney RevPAR is more than \$55 above Melbourne and extends the gap as we move through the forecast period
- Melbourne will absorb material supply for the next six years, impacting both occupancy and rate, and moving behind the national RevPAR average (albeit underpinned by a strong Sydney), despite moderate growth just below 3%
- Following market resets, Brisbane and Perth are both set to move into their upward swing following softness caused by material additional supply conceived through the mining boom. They will both make some ground on Melbourne through the back half of the forecast. Perth still has slightly longer to run before the upturn, however, both cities are primed for long term success, with refreshed and diversified supply, and an improved demand environment
- Adelaide upside is evident given their occupancy position, with soft rate growth holding the market below Hobart and Canberra on an absolute level. The emergence of individual projects in Hobart could swing the RevPAR considerably given the market's small size and seasonality
- Darwin resets once again, with the evaporation of the last high value corporate contracts seeing them post the lowest national RevPAR, a position they hold for the length of the forecast
- Leisure markets of Gold Coast and Cairns are well placed to capture holiday makers, this is both a function of broader tourism infrastructure including access, as well as new and refurbished hotel product.

# TRANSACTION TRENDS

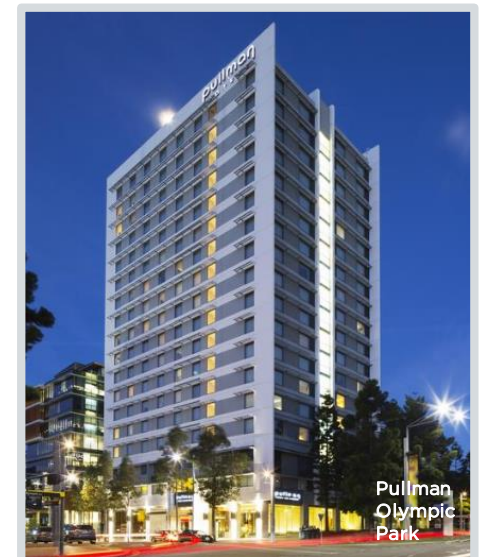
Hotel transactions reached \$1.7B in 2018 and \$700M through the first five months of 2019. We expect transaction activity will increase in the next 2-3 years as capital flows which are peaking in the development space, transfer back to sales as developers recycle the capital for new projects

- Transactional volume continues to be constrained by stock availability, with many owners happy to sit tight from a good entry point and back further cap rate compression to add value to their holdings
- Despite reduced asset availability, there has been more market activity than many market participants expected in 2018, with in excess of \$1.7B of assets changing hands
- Through the first 5 months of 2019, transaction volume has reached \$700M, whilst there are a number of large transactions which are close to exchange, but are not quite there yet with transaction timetables elongating
- A number of the potential deals have a development perspective, which requires significantly more design, contractual and operating comfort than sales on completion or for established product
- Exuberant Asian money has largely gone, although this has been replaced by measured international and domestic buyers
- A- and B+ stock is facing some challenges as vendor price expectations reset into normal ranges in pricing and upper limit grasping eases. The quality of stock has also drifted towards investment, from trophy
- Capitals flows continue to push towards development, with increases in the development pipeline. Many of these developers are not long term holders and will look to recycle capital either through the development process (fund through), on completion or as income is stabilised. This should see asset availability increase in the next few years
- Notable transactions for the 12 months to May 2019 are included over page.

HOTEL TRANSACTION HISTORY: 2013 - 2019 (YTD May 2019)



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



# TRANSACTIONS

## MAJOR TRANSACTIONS BY VALUE: April 2018 – May 2019

Property	Rooms	Purchaser	Origin	Approx. Price	Approx. Price Per Key
ADIA Homebush Portfolio (Pullman, Novotel, Ibis) & Novotel Canberra	831	AXA Investment Managers-Real Assets	Australia	\$330m	\$398k
Westin Perth	368	YTL Hospitality REIT	Malaysia	\$200m	\$543k**
Pullman on the Park Melbourne	419	iProsperity	Asia	\$156m	\$372k
Bell City - Mantra & Breakfree, Melbourne	844	Gaw Capital	Hong Kong	\$127m	\$151k
Next Hotel, Brisbane	304	Salter Brothers	Australia	\$113m	\$371k
Elanor Hospitality & Accommodation Fund Portfolio*	374	Elanor Metro and Prime Regional Hotel Fund	Australia	\$104m	\$278k
Ibis Styles Brisbane	367	Legend Land	Singapore	\$100m	\$272k
Adabco Boutique Hotel & Mayfair Hotel, Adelaide	239	Elanor Luxury Hotel Fund	Australia	\$99m	\$414k
Quincy, King St/Flinders Lane, Melbourne	241	Interglobe (Kapil & Rahul Bhatia)	India	\$91m	\$378k
Novotel Twin Waters, Sunshine Coast	361	Shakespeare Property Group	Australia	\$89m	\$245k
Hilton Hotel Surfers Paradise	169	Jerry Schwartz	Australia	\$70m	\$414k
Felix by 8Hotels, Baxter Road, Sydney	150	Ascott REIT	Singapore	\$60m	\$404k
Park Regis Hotel, Sydney	122	Yeh Group	Singapore	\$54m	\$444k
Aloft Perth	224	Hiap Hoe	Singapore	\$51m	\$229k
LinQ Hotel, City Road, Melbourne	162	Next Story	Singapore	\$45m	\$278

\* Portfolio consists of: Ibis Styles Port Macquarie, Ibis Styles Tall Trees, Mantra Pavilion Wagga Wagga, Mantra Wollongong, Parklands Resort Mudgee, Peppers Cradle Mountain Lodge

\*\* Price includes existing DA approval for 36,545sqm of office, on an already constructed base

# SUPPLY FORECAST

Supply growth expectations have increased, however remain slightly below demand growth forecasts. Construction activity becomes the dominant component of the long term pipeline as proposals activate

## National Supply - Actual and Outlook

- In FY2018, we estimate that Major City supply stock increased by a relatively high 3.7%, which is equivalent to 3,800 new rooms. This opening activity is above the 2.2% growth recorded in the prior year, which itself was one of the largest year on year growth rates over the last decade
- Construction activity has doubled this year as we edge closer to the supply arrival peak in FY2022. Rooms under construction now make up 49% of the total pipeline
- The Hotel Futures 2019 forecast represents an upgrade in absolute supply levels to prior expectations. Long term demand expectations exceed supply over the long term, however, soft early indications for FY2019 are likely to produce some occupancy contraction over the short and medium term which could temper back end supply
  - In FY2019 supply is forecast to grow 4.1%, which is slightly below prior expectations. This arises as some projects have been slightly delayed
  - Supply growth is expected to average 4.6% p.a. over the medium term to FY2021 which is unlikely to be immediately absorbed. These rooms are fairly certain as the vast majority are under construction
  - The last three years of the supply forecast have been reduced following the increase through the front end. Feasibility and financing has become tougher in some markets following the raft of new rooms expected and the subsequent effect on rate providing self regulation
  - Our national long term forecast is for supply to increase by 3.8% p.a. over the next 9 years to FY2027

## Supply Cycle Comparison – HF2018 vs HF2019

- Australian Major City long term supply forecasts have increased 2,700 rooms over 9 years, which is relative to a base of just over 100,000 rooms. The increase represents a relatively small supply uplift of 0.2% p.a. over the forecast life and is expected to be fully absorbed
- The identified live pipeline (construction and proposals) has inflated, increasing to 29,300 rooms compared with 21,900 in the previous forecast
- Certainty has improved with the transition of Proposals to Construction, and Market Response allowances being taken up by specific Proposals
  - Construction activity has significantly increased to 19,500 rooms compared with 9,900 previously
  - Gross Proposed rooms (assuming 100% probability of all proposals) have subsequently decreased, albeit slightly, to 24,500 to which we have applied a blended 40% prospect of completion, delivering 9,800 net rooms. Over the same period last year, our forecast anticipated 12,000 net rooms at 46%. The probability percentage reduction reflects current projects being earlier in the planning process with higher completion risk following more projects breaking ground
- Market Response for the forecast period to FY2026 allows for an additional 10,700 rooms above the identified and currently live projects and proposals
  - This is a 4,700 room decrease to prior expectations, responding to the uplift and transfer to Construction and Proposal activity over the last year
- Market Response to FY2026 now accounts for 27% of all new supply compared with 41% in the previous forecast

## Supply Cycle Comparison FY2019 to FY2026 : HF2018 vs HF2019

	Hotel Futures 2018	Hotel Futures 2019	Var.
Construction & Recently Completed	9,900	19,500	9,600
Net Proposals (% probability applied)	12,000	9,800	-2,200
Market Response	15,400	10,700	-4,700
<b>Supply Pipeline</b>	<b>37,300</b>	<b>40,000</b>	<b>2,700</b>
<b>Supply Pipeline Uplift</b>			<b>1.9%</b>
<b>Average Annual Uplift (9 years)</b>			<b>0.2%</b>

\*Boundaries for Hotel Futures 2019 have changed. We have amended Hotel Futures 2018 data in this table to reflect a like for like region

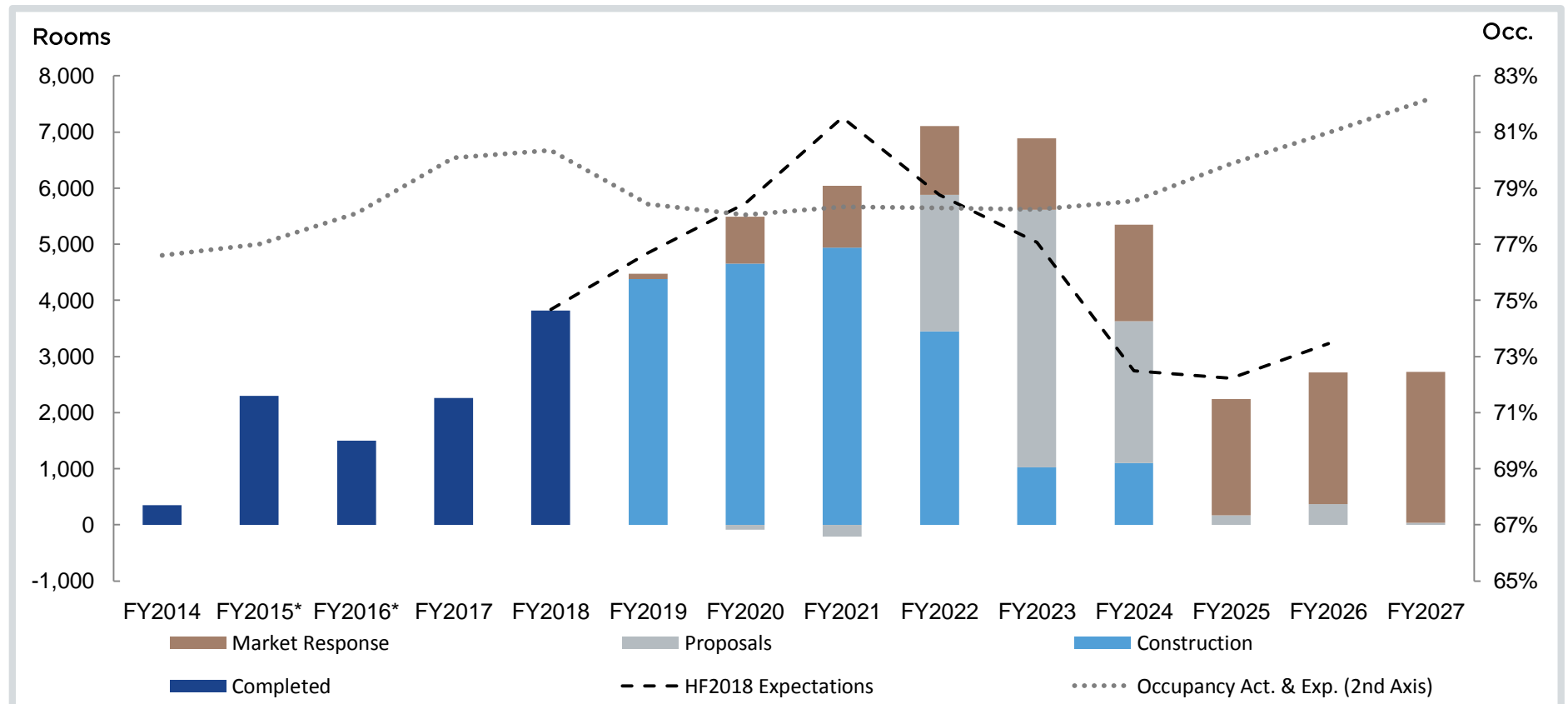
## Supply by Type – Short, Medium and Long Term: Comparative Forecast to FY2026

	FY19 1 Yr	FY19-FY21 3 Yrs	FY19-FY24 6 Yrs	FY19-FY26 8 Yrs
<b>Construction</b>	98%	88%	56%	49%
<b>Proposals</b>	0%	0%	26%	24%
<b>Market Response</b>	2%	12%	18%	27%

# SUPPLY NATIONAL

Supply expectations have increased 1.9% or 0.2% p.a. in *Hotel Futures 2019* following a large movement from proposals to the construction phase. The increased volume presents through FY2022-FY2024 as new proposals have emerged, however slight delays are expected over the medium term as feasibility and funding concerns materialise in some markets

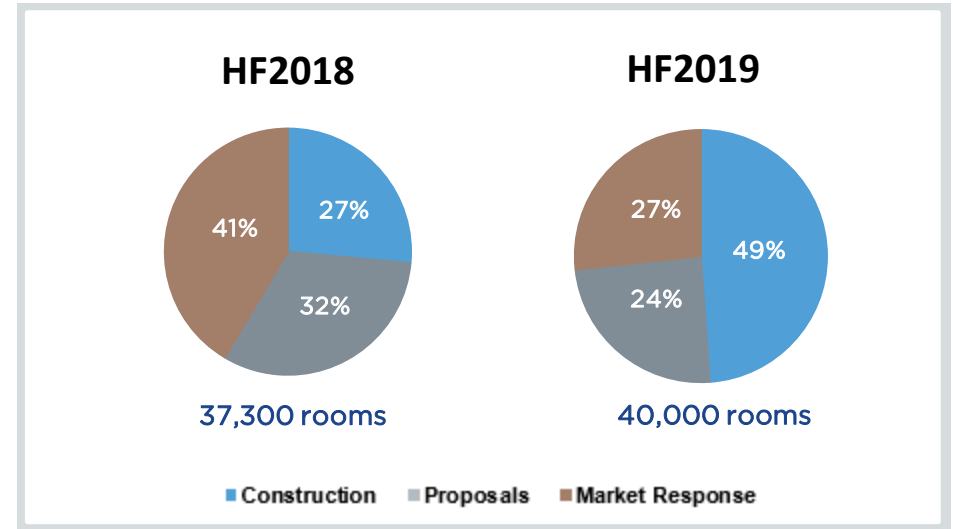
## MAJOR CITY SUPPLY GROWTH PERFORMANCE AND FORECASTS TO FY2027 - ROOMS



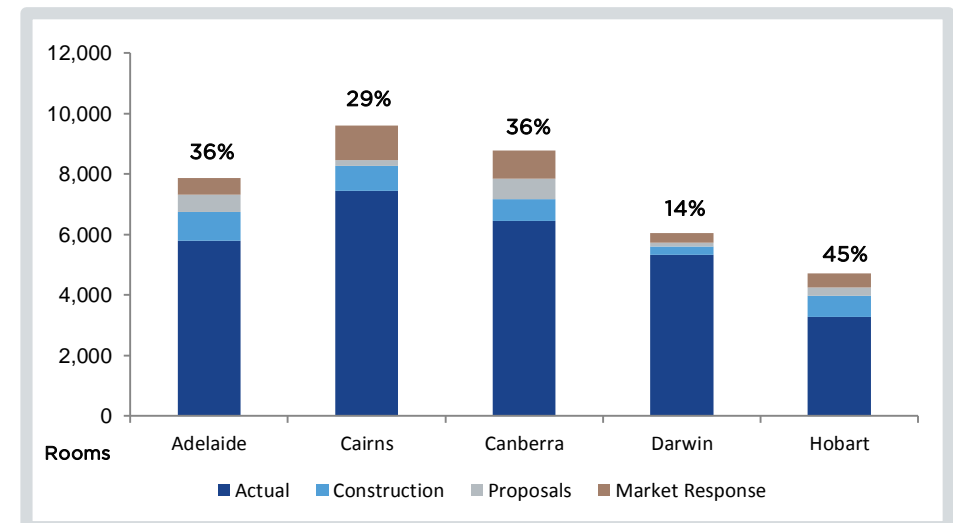
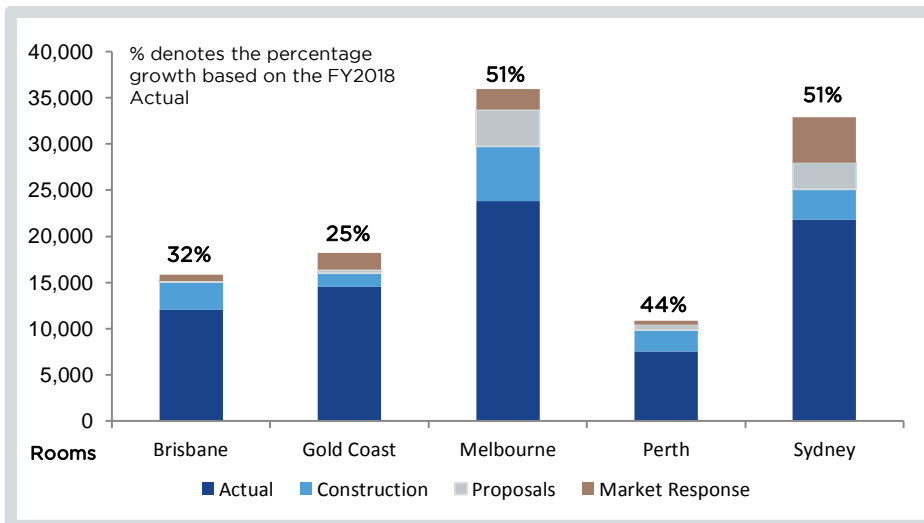
# SUPPLY FORECAST

- Construction activity becomes the dominant pipeline component this year with a boom in development across many markets, and now accounting for 49% of the pipeline to FY2026
- Proposals are also being replaced at a faster rate than delivery expectations, absorbing the Market Response Allowance
- Across the country, markets are in various stages of the supply cycle:
  - Brisbane leads the pack and will have largely completed their cycle closing out FY2019, with 10% supply growth. Perth is similarly well advanced, with another two years of high supply arrivals imminent
  - Melbourne activity has surged in the last 12 months with a large movement of proposals into the construction phase. These have been replaced, above prior expectations, giving Melbourne the mantle of the largest live pipeline of all capital cities
  - Sydney activity is progressing, albeit many projects have not yet started construction. Significant additional scope for further rooms remains, with site availability and best use comparisons continuing to frustrate development. Projects that have not commenced are at higher risk than 12 months ago
  - Hobart and Cairns are moving closer to their peak, with high levels of supply under construction and due in the next couple of years. Both these markets are highly seasonal, making feasibility difficult. Hobart proposal activity remains high and at considerable risk. The outcome of several large developments could easily swing the market upwards or downwards
  - Adelaide is slightly ahead of Canberra, with slightly higher construction activity and lesser Market Response allowance

## SUPPLY BY TYPE COMPARISON - HF2018 vs HF2019: FY2019 to FY2026



## MAJOR CITY FORECAST SUPPLY GROWTH BY TYPE FY2019-2027



# ARRIVALS AND DEPARTURES

In FY2018, international arrivals grew at a faster rate than resident departures (6.0% vs 4.2%). India's growth was the most substantial this period, increasing 5x the rate of the prior year

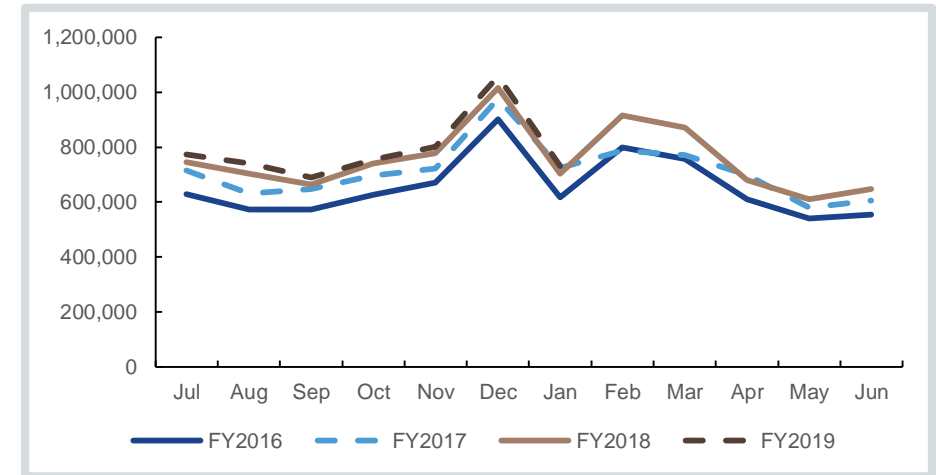
## Visitor Arrivals

- International arrivals increased 6.0% in FY2018 to 9.1M with growth displayed in all but two months. Three months recorded double digits growth
- Average arrival growth for the last 3 years now sits at a very strong 8.3% p.a.
- Three out of the top five international markets by visitor nights recorded declines in FY2018, led by USA. India recorded significant growth and is now the third largest contributor of visitor nights  
China 10.6%, UK -8.7%, New Zealand -10.9%, U.S.A -11.1%, India 22.8%
- Visitor nights from Indonesia displayed the most significant increase of those outside the top 5, recording 12.8% growth
- Visitors nights from Asia now account for 58.1% of all visitor nights in Australia, up 2.4% on the prior year
- In FY2019 (YTD January, 2019), growth has continued, with a 3.8% increase on the prior corresponding period

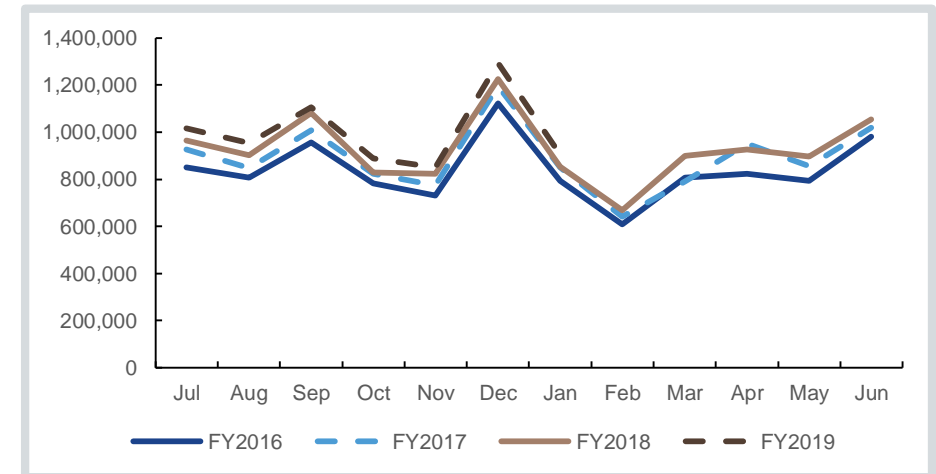
## Resident Departures

- In FY2018, domestic departures increased 4.2% to 11.1M
- All but one month recorded period on period growth
- Through the first half of FY2019 Resident departure growth has continued, recording growth of 5.0%

## INTERNATIONAL VISITOR ARRIVALS TO AUSTRALIA



## RESIDENT DEPARTURES - SHORT TERM LESS THAN 1 YEAR



Source: ABS Overseas Arrivals and Departures Cat. 3401;  
TRA State of the Industry 2017-18



# DEMAND TRA FORECASTS

Tourism Research Australia's long term visitor night forecast to FY2027, last published in August 2017, is for average annual growth of 3.9% p.a. The larger **city component is forecast to grow at a faster 4.9% p.a.**, whilst regional areas are expected to see 2.9% average annual growth

## TRA Domestic Forecasts

**Domestic visitor night forecasts to FY2027 are for 2.3% growth p.a, and slightly higher for capital cities at 2.4% p.a**

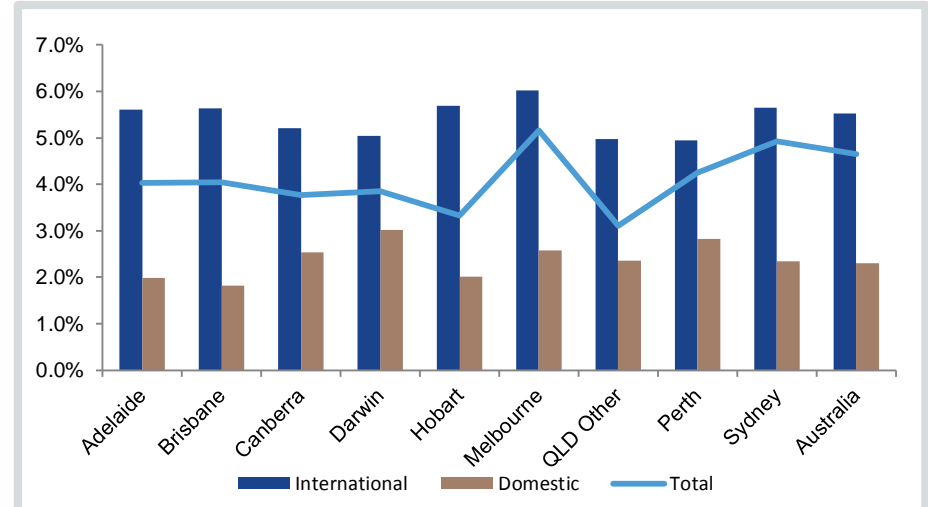
- In FY2018 domestic visitor nights in capital cities grew 8.2%, well above expectations. Melbourne, Adelaide and Perth recorded double digit growth, whilst, Sydney and Queensland Capitals recorded 5%+ growth. Hobart and Darwin were the worst performing, each contracting by more than 5%
- Long term city growth expectations of 2.4% p.a. is marginally stronger than 2.3% for regional areas. In FY2027, regional nights will make up 64% of the total nights which is similar to current levels
- Nights for the purpose of Business are expected to grow at the fastest pace over the long term to FY2027 (4.2% p.a. to 96M), with the larger VFR (1.9% p.a. to 125M) and Holiday (1.5% p.a. to 170M) markets growing slower
- Over the long term, domestic visitor nights are expected to reach 421M by FY2027

## TRA International Forecasts

**Long term International visitor night forecasts to FY2027 are for 5.6% growth p.a. across the country with capital cities slightly higher at 5.8% p.a**

- In FY2018 international visitor nights in capital cities increased by 3.0%, well below expectations. The larger cities of Sydney, Melbourne and Brisbane/Gold Coast all recorded growth of 2-4%. Significant movement was recorded in Hobart (up 58%), Canberra (up 24%) and Darwin (down 21%)
- Long term city growth expectations of 5.8% p.a. is stronger than 5.0% for regional areas. In FY2027, city nights will make up an 82% component of the total nights which is slightly higher than the current 81%
- VFR travellers is the fastest growing segment, forecast to average 6.7% p.a. This is above 5.7% p.a. growth for holiday makers and 3.2% growth for business purposes
- Total international visitor nights are expected to reach 471M by FY2027

## TRA FORECAST VISITOR NIGHT MOVEMENT - Capital Cities to FY2027



Source: TRA State and Territories Forecast 2017 - 2 August 2017, State of the Industry 2018, Tourism Research Australia, Canberra. International Visitor Survey, November 2018, Domestic Visitor Survey, December 2018.

## Outbound Travel Forecasts

**Long term resident departure expectations to FY2027 are in line with visitor night growth expectations of 3.9% p.a.**

- In FY2018 resident departures increased 4.2%, largely inline with 4.0% expectations
- New Zealand, Indonesia and the United States are the primary destinations, maintaining these podium positions for the life of the forecast
- China will see the fastest growth of all the major destinations, averaging 4.4% p.a. long term

# DEMAND DRANSFIELD OUTLOOK

Dransfield's demand forecast for major city hotel rooms has been slightly upgraded taking regard of moderate upgrades to supply expectations, favorable movement in the exchange rate and continued improvements to infrastructure and attraction development. Our forecast is for long term average annual growth of 4.0% which is slightly above previous expectations

## National Demand FY2018 – Major Cities

Visitor night statistics reported moderate growth in FY2018. Growth was slightly below expectations

- Tourism Research Australia recorded a 4.8% increase in total visitor nights across Australian Major Cities in FY2018. Visitor nights in Hotels/Resort/Motel or Motor Inns (\*HRMMI's) increased at a similar rate, recording 4.6% growth, although upheld by strong domestic hotel stays
  - International visitor nights in major cities grew 3.0% to 210M, while nights in HRMMI's actually declined by 3.1% to 24M, indicating leisure tourism softness being the predominant users of paid accommodation
  - Domestic visitor nights in major cities grew 8.2% to 116M, while nights in HRMMI's grew slightly faster at 9.0% to 48M

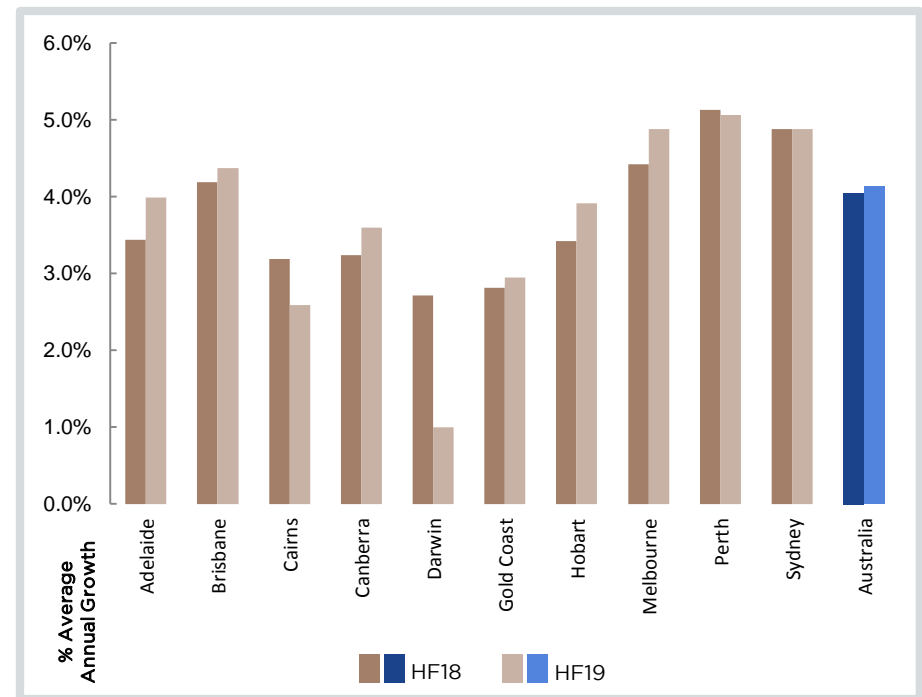
## Dransfield National Demand Forecast

Hotel Futures 2019's long term demand forecast is a slight upgrade to the previous forecast, and is a mixed bag across the various cities, with uplift and reductions both evident

- We expect demand to increase by 1.7% in FY2019 which is below previous forecasts for 3.9% growth. Much of this performance has already occurred at the time of print, with underperformance in several key cities
- Medium term demand growth is expected to average 3.8% p.a, which is behind prior forecasts, albeit dragged by the soft short term. Demand growth for this period is slightly behind supply growth expectations and we expect a small reduction in occupancy levels to emerge
- Our long term forecast is for average growth of 4.0% p.a. underpinned by growth in both international and domestic leisure tourism as well as office development activity which will ensure core corporate travel needs.

• Source: TRA special request

## DRANSFIELD LONG TERM DEMAND FORECAST





In FY2018 Adelaide RevPAR growth was strong, albeit half of this has been given back through FY2019. Minor volatility continues to define the market as does low rate growth. Demand should exceed supply long term, keeping average occupancy levels high. RevPAR growth of 2.6% p.a. is expected, with the long term impacted by below inflation rate growth

## FY2018 SNAPSHOT

	STR
Establishments	54
STR Sample Rooms	5,454
STR Sample Coverage	92%
Occupancy	80.2%
Rate	\$157.68
<b>RevPAR</b>	<b>\$126.46</b>

Source: STR

## FY2018 YEAR IN REVIEW

	FORECAST FY2018	ACTUAL FY2018	Variance	
<b>Supply</b>	3.3%	3.7%	0.4%	▲
<b>Occupancy*</b>	1.3	1.1	-0.2	▼
<b>ARR</b>	5.0%	3.6%	-1.4%	▼
<b>RevPAR</b>	6.7%	5.1%	-1.7%	▼

\* Percentage Point Change

Source: STR

### FY2018 Year In Review

- In FY2018 Adelaide hotel performance was strong, recording 5.1% RevPAR growth, largely in line with 6.7% expectations and absorbing new supply
  - Occupancy levels increased 1.1 points to 80.2%, finishing the year as the third highest of the major cities
  - Rates improved by 3.6%, helped by a strong calendar of corporate and leisure events driving compression night rates
- Preliminary STR data for YTD FY2019 (YTD April 2019) shows a slight market reset, dragged by an Ashes induced unwind (42% RevPAR increase in the P.C.P) in December. Removing December performance, the market has remained in line with the prior year

### Demand Driver Analysis

**Adelaide performed in line with TFC tourism forecasts in FY2018, although is trending behind through the first half of FY2019**

- Public sector spending on renewable energy projects should help improve corporate activity, whilst strong international growth expectations will be enabled if additional flights can be attracted following expansion of the international terminal
- City data for FY2018 for Adelaide reveals:-
  - International visitor nights decreased by 3.0% to 8.7M nights
  - Domestic visitor nights increased 15.2% to 9.6M nights
  - Total visitor nights increased by 5.7% to 18.3M nights, inline with 6.6% TFC forecasts, of which 22% are captured in Hotels
- In FY2018 Adelaide hotel's domestic visitor night content increased slightly to 76% from 75%
- The updated 2019 TFC visitor night forecasts have not been released at the time of the forecast. The long term outlook for FY2020 to FY2027 remains growth of 4.0% p.a.-
  - Annual domestic visitor night growth expectations remain at 2.0% p.a.
  - Annual international visitor night growth expectations remain at 5.6% p.a.

### Dransfield Demand Forecast for Adelaide City Hotels

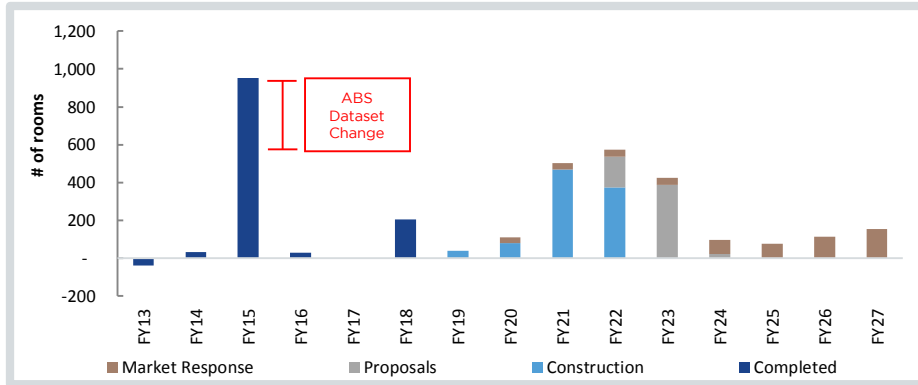
**Annual demand growth of 3.9% is expected for Adelaide hotels over the long term, which is a minor upgrade to the prior forecast influenced strong event growth and helped by a slight increase in supply and a stretch in supply timing which assists long term absorption**

- We expect demand to increase marginally in FY2019, in line with room additions
- Medium term demand growth to FY2021 is expected to average 3.3% p.a. This is 1% below TRA visitor forecasts
- Long term growth expectations represent a minor upgrade to prior forecasts and remain slightly below TRA visitor night forecasts. Tourism and Events infrastructure improvements are enabling and attracting more visitors, both corporate and leisure. We expect demand growth to outstrip supply growth over the long term.



A significant shift from proposal activity to construction occurred this year, while the proposal pipeline was refilled. Risk in delivery remains for the 50% of the pipeline yet to break ground, and this may depend on how well the initial supply wave is absorbed and how well rate reacts, impacting feasibility inputs

### SUPPLY ACTUAL & FORECAST BY TYPE FY13-FY27



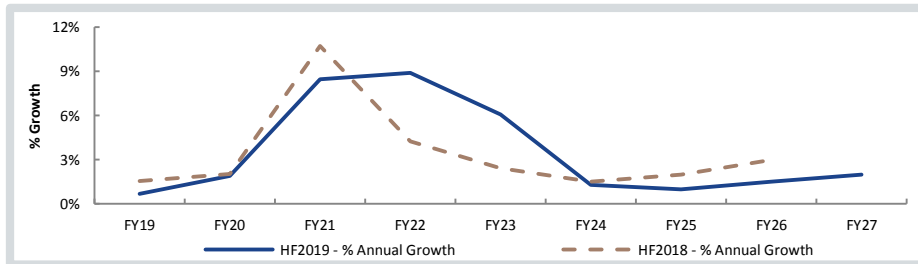
### Supply Actual

- In FY2018, just over 200 rooms came online, increasing supply by 3.7%
- Through the first three quarters of FY2019, all of the very small increase in supply was the result of an annualised increase from a single hotel opening in late FY2018. No new hotels have come to market
- Construction activity has doubled with five projects now underway, representing 50% of the pipeline. These will be delivered through to FY2022.

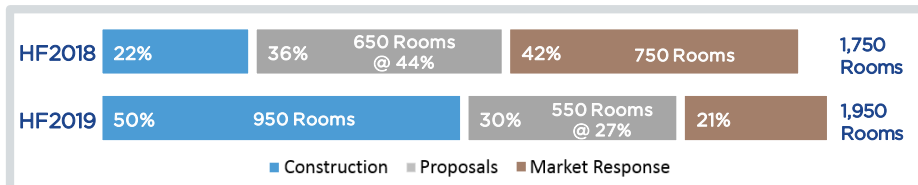
### Supply Forecasts

- Dransfield's supply forecast is for 2,100 new rooms to enter the market over the next 9 years to FY2027 (36% of current stock) at an average annual growth rate of 3.5%
  - Our forecast supply pipeline is 200 rooms above our prior forecast from Hotel Futures 2018, with new proposal activity replacing projects which moved in to construction
  - 950 rooms are now under construction with the first rooms to arrive in early to mid 2020
- The prior years proposals which moved into construction have been fully replaced at the gross level, although the new and less progressed schemes have higher risk for completion. This sees a minor reduction in net proposals
  - 550 net proposed rooms at a 31% probability to complete are currently expected
  - Our Market Response allowance has reduced in light of the more pronounced live pipeline. Our forecast Market Response to FY2027 is for a low 400 additional rooms representing 21% of the total pipeline
- Supply growth in the medium term to FY2021 is expected to average 3.7% p.a. which is highly backended
  - Material supply arrivals begin to arrive through FY2021 with three years of growth averaging just shy of 8% p.a. before reverting back to low levels which is all Market Response at this stage
  - We expect supply to be fully absorbed over the long term with occupancy levels moving back above 80% in FY2025
- Similar to many major markets in this cycle, the level of quality and sophistication of product is significantly improving the supply base. Lifestyle brands and serviced apartment products are well represented along with the upper upscale and luxury products already under development.

### FORECAST COMPARISON HF18 VS HF19 - % ANNUAL SUPPLY GROWTH



### FORECAST COMPARISON HF18 VS HF19 - PIPELINE BY TYPE TO FY2026





Long term RevPAR expectations are for quite low 2.6% growth p.a, which is impacted by medium term additional supply, and a conservative rate environment. High occupancy levels provide opportunity for rate growth, however, this opportunity is often left on the table in Adelaide

## Conclusion

**A slightly underwhelming long term market outlook given the high occupancy environment. Upside opportunity is constrained by medium term supply expectations and there is downside risk. It will be interesting to see how rate reacts as the first new high quality hotels currently under construction are completed**

The Adelaide forecast represents a small downgrade to prior expectations, with short term rate underperformance, despite occupancy levels maintaining. Current rate behaviour has reduced our forward looking rate sentiment

- Over the period of the forecast, average occupancy of 80% is expected with strong backended growth following a period of material additional supply through the middle of the forecast
  - In FY2019, occupancy levels are expected to largely maintain with no real increase in supply recorded
  - Over the medium term to FY2021, occupancy movement is expected to be quite neutral despite some high supply arrivals at the end of this period. Occupancy is likely to depress 3-4 percentage points in the period following, with three years of material supply to arrive, challenging demand to keep pace. Occupancy may drop 5 points from peak to trough
- Rate growth expectations have reduced and now sit below inflation targets. Market behaviour is indicating a more conservative stance, with FY2019 YTD figures proving less boisterous. Adelaide rate yielding is closely linked to event nights, so any improvement in the scale and frequency of these will likely reap benefits
  - There is an element of both rate risk and rate upside in our forecast despite the high occupancy position, with hoteliers response to new supply posing volatility
  - In the medium term, rate growth opportunity is impacted by arriving supply, albeit much of it at the upscale end which may promote organic increases. We expect average growth of less than 0.5% p.a. over this period
  - Long term expectations are for more robust rate growth as supply arrivals slow. Late term expectations are above 4% p.a, whilst the full forecast expectations average 2.6% p.a.
- Our forecast is for a moderate 6.0% decrease in average long-term real RevPAR compared to our prior forecast, largely a result of rate underperformance in the prior year and year to date, which carries through for the life of the forecast
- A benign rate outcome once again limits Adelaide as hoteliers cut rates despite maintaining 80% occupancy. 2,000 additional rooms over the longer term are likely to keep rate upside in check, although these rooms are expected to be fully absorbed.
- RevPAR growth rates for the comparable period to FY2026 have been reduced from 3.0% p.a. to 2.2% p.a.
  - In FY2019, RevPAR will decline as rates reduce in an environment of stable occupancy, led by the Ashes period unwind seeing RevPAR drop 12% for that month
  - In the medium term to FY2021, RevPAR growth is dragged by the soft FY2019, and then impacted by significant supply arrivals in FY2021. Occupancy and rate growth through this period are likely be neutral. This is likely to extend through to FY2023 as supply arrivals continue to impact rate
  - Long term expectations are positive with outperformance anticipated over the back end as supply additions slow. Rate opportunities should ramp up over this time as occupancy levels push towards and above 80% and the quality of stock settles a step above the historical market
  - Full forecast expectations to FY2027 are for 2.6% growth p.a.



Long term RevPAR expectations are for quite low 2.6% growth p.a, which is impacted by medium term additional supply, and a conservative rate environment. High occupancy levels provide opportunity for rate growth, however, this opportunity is often left on the table in Adelaide

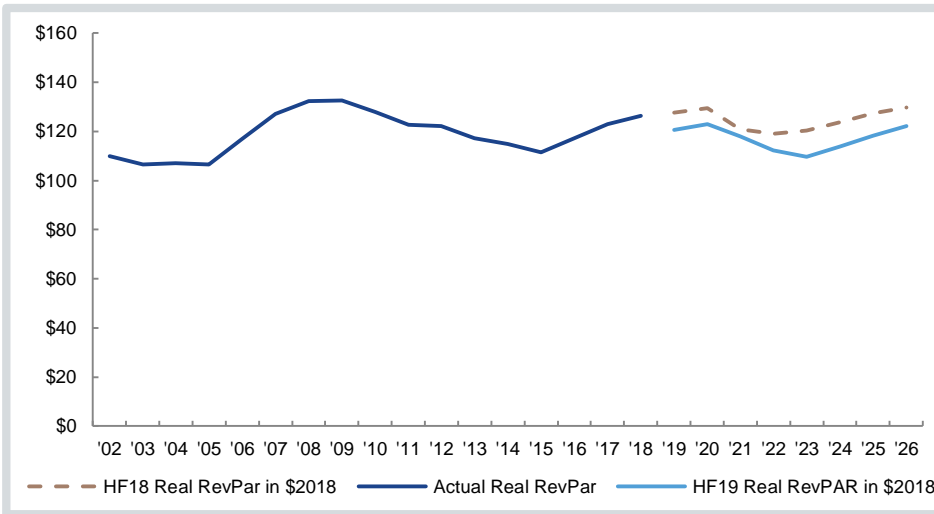
## ADELAIDE - HOTELS, MOTELS AND SERVICED APARTMENTS

### ACTUAL - STR

Year	Sample Size	Sample Coverage	ARR	% Chng	RevPAR	% Chng	\$2018 Real RevPAR	Occ
<b>HISTORICAL</b>								
FY2017			\$152.18		\$120.37			79.1%
FY2018	5,454	92%	\$157.68	3.6%	\$126.46	5.1%	\$126.46	80.2%

Source: STR

### ADELAIDE CITY REAL REVPAR IN \$2018



\* There is a step in the data from FY2017 onwards being a change from ABS census to STR sample. The STR census data has a higher performance base as properties included are typically skewed towards larger and branded product

### DRANSFIELD FORECAST

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	\$2018 Real RevPAR	Occ
<b>FORECAST</b>									
FY2019	5,824	0.7%	0.5%	\$153.74	-2.5%	\$123.05	-2.7%	\$120.64	80.0%
FY2020	5,935	1.9%	3.0%	\$158.35	3.0%	\$128.10	4.1%	\$122.82	80.9%
FY2021	6,437	8.5%	6.5%	\$158.35	0.0%	\$125.78	-1.8%	\$117.95	79.4%
<b>Avg FY19-21</b>		<b>3.7%</b>	<b>3.3%</b>		<b>0.2%</b>		<b>-0.1%</b>	<b>\$120.47</b>	<b>80.1%</b>
FY2022	7,010	8.9%	6.5%	\$158.35	0.0%	\$123.01	-2.2%	\$112.21	77.7%
FY2023	7,435	6.1%	5.0%	\$160.72	1.5%	\$123.60	0.5%	\$109.68	76.9%
FY2024	7,532	1.3%	4.0%	\$167.15	4.0%	\$131.97	6.8%	\$113.92	79.0%
FY2025	7,607	1.0%	3.2%	\$174.67	4.5%	\$140.92	6.8%	\$118.32	80.7%
FY2026	7,721	1.5%	3.2%	\$182.53	4.5%	\$149.73	6.3%	\$122.29	82.0%
FY2027	7,876	2.0%	3.2%	\$190.75	4.5%	\$158.30	5.7%	\$125.78	83.0%
<b>Avg FY22-27</b>		<b>3.5%</b>	<b>4.2%</b>		<b>3.2%</b>		<b>4.0%</b>	<b>\$117.03</b>	<b>79.9%</b>
<b>Total Forecast Avg FY 2019-2027</b>		<b>3.5%</b>	<b>3.9%</b>		<b>2.2%</b>		<b>2.6%</b>	<b>\$118.18</b>	<b>80.0%</b>

# BRISBANE



In FY2018 Brisbane RevPAR exceeded strong expectations, growing above 4% as demand surged, improving occupancy levels two percentage points after absorbing a high level of supply. The effect is going to be short lived with double digit supply coming online in FY2019 which won't be fully absorbed. Brisbane's capacity to grow demand is, however, now more multidimensional, with corporate sentiment improving and \$12B in tourism infrastructure planned to induce leisure visitors. Very strong back end growth averaging 4.9% p.a. is expected over the long term

## FY2018 SNAPSHOT

	STR
Establishments	126
STR Sample Rooms	10,935
STR Sample Coverage	83%
Occupancy	75.5%
Rate	\$159.59
<b>RevPAR</b>	<b>\$120.42</b>

Source: STR

## FY2018 YEAR IN REVIEW

	FORECAST FY2018	ACTUAL FY2018	Variance	
<b>Supply</b>	6.8%	5.4%	-1.4%	▼
<b>Occupancy*</b>	1.5	2.3	0.8	▲
<b>ARR</b>	1.0%	0.9%	-0.1%	▼
<b>RevPAR</b>	3.0%	4.1%	1.0%	▲

\* Percentage Point Change

Source: STR

### FY2018 Year in Review

- In FY2018, Brisbane Hotels stemmed the persistent market decline of the last five years, recording demand led RevPAR growth of 4.1%. This surpassed our 3.0% expectations
  - Occupancy levels improved 2.3 points to 75.5%, made even more impressive when considering the absorption of a 5.4% supply increase as the city continues to welcome a raft of quality new hotels
  - Rates strengthened 0.9%, a strong result considering typical market dynamics in a city with consistent supply additions. Some event related (Ashes Tour) outperformance in November (10% ADR growth) has contributed quite a bit of weight
- Preliminary STR data for the YTD FY2019 (Apr 2019) indicates moderate market contraction as demand has not immediately absorbed the next influx of supply. This is manifesting in a drop in both occupancy levels and rate. The situation is exacerbated amongst other things by the November Ashes related unwind from the p.c.p.

### Demand Driver Analysis

**Brisbane underperformed to TFC tourism forecasts in FY2018, however, is outperforming through the first half of FY2019**

- Demand drivers are primed for growth with the once in a lifetime \$12B investment in tourism infrastructure, and a government committed to investing more in tourism than any QLD government previously. This positions Brisbane well to quickly absorb recent and upcoming supply
- City data for FY2018 for Brisbane reveals:-
  - International visitor nights increased by 3.8% to 28M nights
  - Domestic visitor nights increased by 6.4% to 21M nights
- Total visitor nights increased by 4.9% to 49M nights, albeit below the 6.5% TFC forecasts, of which a low 16% is captured in Hotels
- In FY2018 Brisbane hotel's domestic visitor night content increased slightly to 73% from 70% previously
- The updated 2019 TFC visitor night forecasts have not been released at the time of this forecast. The long term outlook for FY2020 to FY2027 for QLD Capital cities (Brisbane & Gold Coast) remains growth of 4.0% p.a.-
  - Annual domestic visitor night growth expectations remain at 1.8% p.a
  - Annual international visitor night growth expectations remain at 5.6% p.a

### Dransfield Demand Forecast

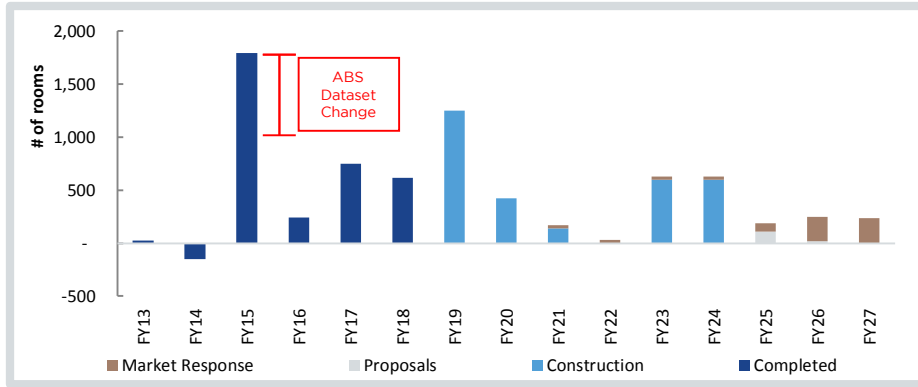
**Annual demand growth of 4.3% is expected for Brisbane hotels over the long term. This is a marginal increase to the prior forecast, induced by a slight uplift to supply expectations at the back end of the forecast**

- We expect demand to increase by a high 6% in FY2019, albeit below expected supply growth. The demand growth result is strong despite unwind from the Ashes which saw occupancy levels up 5% for the respective month in the prior year
- Medium term demand growth to FY2021 is above the long term average and is expected to average 5.0% p.a. This is in line with supply expectations over the same period, with the quality of new supply attracting visitors who may not have previously had Brisbane on their hit list
- Long term growth expectations take advantage of enabling travel infrastructure and tourism investment led by the Queens Wharf casino and Brisbane Live precincts which appeal to both international and domestic leisure visitors.

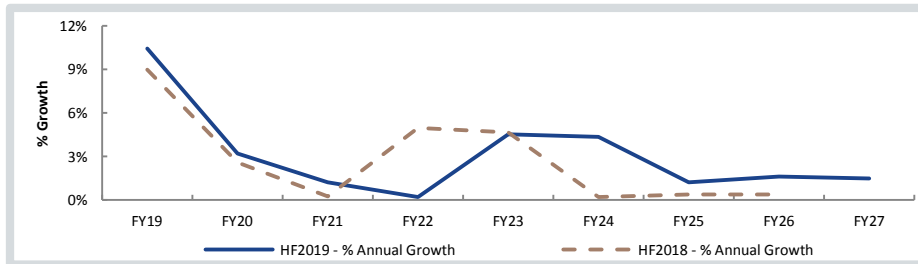


Double digit supply growth to come online in FY2019 before a couple of years reprieve until Queens Wharf completes. Demand driver enhancement over the forecast period appears to exceed supply and this will push occupancy levels above 80% and encourage the next wave of supply at the backend of the forecast period. Almost the entirety of our supply forecast is under construction. Additional proposals and market response is low pending hotel performance responses

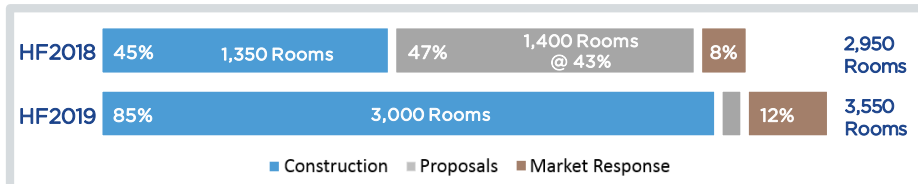
### SUPPLY ACTUAL & FORECAST BY TYPE FY13-FY27



### FORECAST COMPARISON HF18 VS HF19 - % ANNUAL SUPPLY GROWTH



### FORECAST COMPARISON HF18 VS HF19 - PIPELINE BY TYPE TO FY2026



### Supply Actual

- In FY2018, Brisbane supply increased 5.4% or 600 rooms. The majority of these were annualized increases from hotels that opened in late FY2017
- Through the first three quarters of FY2019, a large amount of rooms have completed construction and are open, including the Calile (175 rooms), the Westin (286 rooms), Emporium Southpoint (143 rooms) and the Art Series Fantuzzo (166 rooms)
- Construction activity excluding the recently opened hotels is quite low outside of the 1,200 rooms as part of the Queens Wharf development. These rooms are at least 3-4 years away

### Supply Forecasts

- Dransfield's supply forecast is for 3,800 new rooms to enter the market over the next 9 years to FY2027 (32% of current stock) at an average annual growth rate of 3.1% p.a.
  - Our forecast supply pipeline is about 500 rooms (4%) above our prior forecast from *Hotel Futures 2018*, with the uplift presenting over the final 3 years of the forecast through an increase to Market Response allowances, driven by short term outperformance
  - 1,400 rooms remain under construction excluding those recently opened. 85% of these rooms are part of the Queens Wharf development
- Proposal activity across the forecast period is very low with just 550 gross rooms mooted. Our assessment of probability to complete is very low at this stage (<25%) and it is signalled to arrive no sooner than 5 years
  - The market cycle has bottomed outside of the Queens Wharf development, and development activity is likely to remain low through this delivery period. As properties are absorbed and revenue metrics improve, we expect an increase in hotel project consideration over time, however, with a typical project taking 4-5 years from idea to opening, these rooms are well down the track
  - In light of this, our Market Response allowance remains very low and does not deliver material additional rooms until the last two years of our forecast. Our total Market Response allowance is for 650 rooms
- Supply growth in the medium term to FY2021 is above long term expectations and is concentrated in FY2019
  - Excluding FY2019, supply growth of just 2.2% p.a. is expected long term
  - We expect supply to be fully absorbed over the long term with demand expectations catching up after multiple years of solid supply growth. Our average demand growth expectations sit on average more than 1% p.a. above the supply forecast
- The fundamental improvement in the quality of supply in Brisbane will hold the market in good stead for the next decade for both international and domestic visitors.



# BRISBANE

Long term RevPAR expectations are positive with 4.9% annual growth expected, with backend outperformance. The once in a generation improvement to tourism infrastructure and improved demand drivers will lead growth in this cycle, attracting a new range of visitors

## Conclusion

**Long term growth sentiment continues to improve as the structural demand environment improves. We expect demand growth to far outweigh supply growth over this period following the recent supply boom and market reset. Occupancy pressures should steadily increase as we move through the forecast with rate opportunities following suit**

The Brisbane forecast is largely in line with the prior forecast, with progressive growth expected over the medium term which plateaus as the Queens Wharf supply arrives before turbocharging in an environment of very low, late term additional supply

- Over the period of the forecast, average occupancy of 78.2% is expected with backend outperformance which pushes into the 80%'s. Occupancy levels at this point should incite increased development. These new rooms are unlikely to reach market in our forecast period
  - In FY2019, occupancy levels will decline 2-3 percentage points as the last major wave of supply is absorbed. The Ashes related unwind also saw a moderate drop in occupancy for the month, however this may be overcome by new events including the NRL magic round which attracted more than 125,000 spectators, more than a quarter of which were interstate travellers
  - Over the medium term to FY2021, occupancy expectations improve and are expected to largely return to pre supply boom levels of 76% having fully absorbed 3,400 new rooms since FY2014
- Rate growth expectations have been maintained at 3.7% p.a. for the forecast period
  - Through the first three quarters of FY2019, rates have only declined 1% despite occupancy falling three percentage points
  - Over the medium term we think the quality of new hotels will partially offset the threat of occupancy softness. Rate growth should return as soon as FY2020, albeit at a lower absolute level following large declines through FY2016 & FY2017. We expect low ARR growth averaging 1.5% p.a. over the medium term
  - Looking longer term, double barreled rate pressure emerges from both rising occupancy levels and a higher tier property base

- There is some risk through the Queens Wharf arrival period as competing hotels may discount to maintain market share. We think the arrival of the precinct will generate a high level of aspirational guests including new leisure guests. This should enable competing hotels to have the confidence to maintain their prices, with additional demand created for hotels proximate to the casino
- Our forecast is for a slight increase in average long term Real RevPAR (1.5%) compared to our previous forecast. The position improved through the medium term as the size of the Queens Wharf hotel stock became clearer, with a small reduction in proposed rooms allowing better rate yielding opportunities. This is partially given back over the longer term as late term supply expectations increase
- RevPAR growth for the comparable period to FY2026 is relatively consistent with prior expectations, with average growth of 4.5% p.a. expected vs 5.0% previously. The minor reduction in our expected growth levels is actually a good news story for the market with medium term outperformance leading to an increase in our late term Market Response supply expectations given the positive market sentiment
  - In FY2019 RevPAR is expected to decline 4.9%, with double digit supply unable to be immediately absorbed and placing slight downward pressure on rates
  - In the medium term to FY2021, RevPAR performance is expected to progressively improve. We expect supply additions to taper off which should see rates react conversely. Expectations are for a low average growth of 1.7% p.a. over this period, significantly dragged by FY2019
  - Long-term expectations are very strong, with demand indicators all pointing up. Supply should be quickly and easily absorbed following a few tough years allowing hoteliers to claw back the rate recently given up.
  - Full forecast expectations to FY2027 are growth averaging 4.9% p.a.



# BRISBANE

Long term RevPAR expectations are positive with 4.9% annual growth expected, with backend outperformance. The once in a generation improvement to tourism infrastructure and improved demand drivers will lead growth in this cycle, attracting a new range of visitors

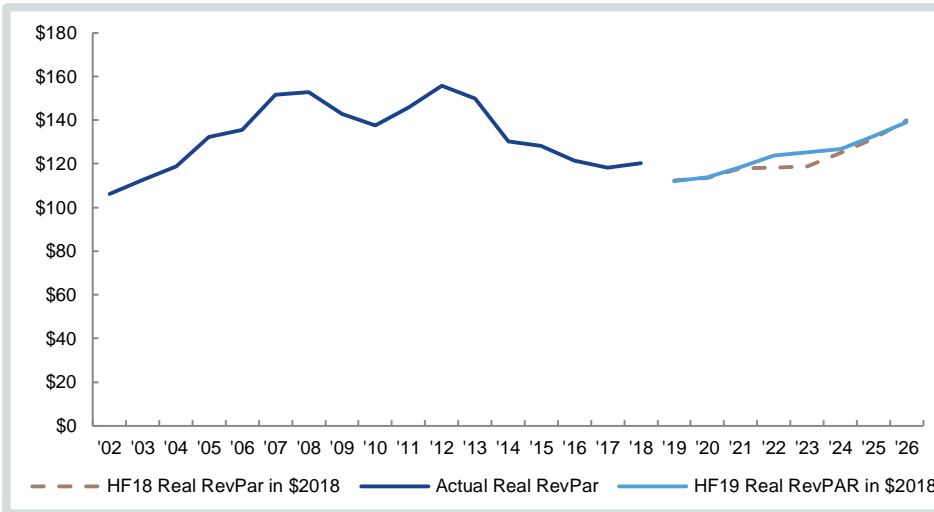
## BRISBANE CITY CORE - HOTELS, MOTELS AND SERVICED APARTMENTS

### ACTUAL - STR

Year	Sample Size	Sample Coverage	ARR	% Chng	RevPAR	% Chng	\$2018 Real RevPAR	Occ
<b>HISTORICAL</b>								
FY2017			\$158.17		\$115.71			73.2%
FY2018	10,935	83%	\$159.59	0.9%	\$120.42	4.1%	\$120.42	75.5%

Source: STR

### BRISBANE CITY REAL REVPAR IN \$2018



\* There is a step in the data from FY2017 onwards being a change from ABS census to STR sample. The STR census data has a higher performance base as properties included are typically skewed towards larger and branded product

### DRANSFIELD FORECAST

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	\$2018 Real RevPAR	Occ
<b>FORECAST</b>									
FY2019	13,291	10.4%	6.0%	\$158.00	-1.0%	\$114.46	-4.9%	\$112.21	72.4%
FY2020	13,715	3.2%	5.0%	\$161.16	2.0%	\$118.80	3.8%	\$113.90	73.7%
FY2021	13,884	1.2%	4.0%	\$166.80	3.5%	\$126.32	6.3%	\$118.45	75.7%
<b>Avg FY19-21</b>		<b>4.9%</b>	<b>5.0%</b>		<b>1.5%</b>		<b>1.7%</b>	<b>\$114.86</b>	<b>74.0%</b>
FY2022	13,911	0.2%	4.0%	\$172.64	3.5%	\$135.70	7.4%	\$123.78	78.6%
FY2023	14,540	4.5%	4.5%	\$179.54	4.0%	\$141.10	4.0%	\$125.20	78.6%
FY2024	15,171	4.3%	4.5%	\$186.72	4.0%	\$146.97	4.2%	\$126.86	78.7%
FY2025	15,358	1.2%	3.5%	\$196.06	5.0%	\$157.77	7.3%	\$132.47	80.5%
FY2026	15,606	1.6%	3.5%	\$207.82	6.0%	\$170.34	8.0%	\$139.13	82.0%
FY2027	15,840	1.5%	3.5%	\$220.29	6.0%	\$184.12	8.1%	\$146.29	83.6%
<b>Avg FY22-27</b>		<b>2.2%</b>	<b>3.9%</b>		<b>4.8%</b>		<b>6.5%</b>	<b>\$132.29</b>	<b>80.3%</b>
<b>Total Forecast Avg FY 2019-2027</b>		<b>3.1%</b>	<b>4.3%</b>		<b>3.7%</b>		<b>4.9%</b>	<b>\$126.48</b>	<b>78.2%</b>

# CAIRNS & PORT DOUGLAS

In FY2018, Cairns & Port Douglas RevPAR continued to grow, marking the 8th consecutive year of improvement. Heavy rain and cyclone activity has affected demand in FY2019, with occupancy decline compounded by new supply. We expect demand will return with improved weather and this should enable further rate improvement over the long term

## FY2018 SNAPSHOT

	STR
Establishments	158
STR Sample Rooms	4,672
STR Sample Coverage	47%
Occupancy	78.6%
Rate	\$165.28
<b>RevPAR</b>	<b>\$129.98</b>

Source: STR

## FY2018 YEAR IN REVIEW

	FORECAST FY2018	ACTUAL FY2018	Variance	
Supply	-2.9%	-2.9%	0.0%	—
Occupancy*	3.1	0.4	-2.7	▼
ARR	6.0%	5.5%	-0.5%	▼
RevPAR	10.2%	6.0%	-4.2%	▼

\* Percentage Point Change

Source: STR

### FY2018 Year in Review

- There is a disconnect between the Occupancy and rate position of the STR sample as presented by Dransfield and the whole market. The STR Sample properties have RevPAR 16% above the point of the last ABS census in FY2016 which is mostly based on significantly higher occupancy (circa 10%)
- In FY2018, the Cairns and Port Douglas STR sample hotels' growth continued to compound recording 6.0% RevPAR growth after averaging over 10% for the prior three years. This strong performance was slightly behind our high 10% expectation
  - Growth was driven by rates, which increased 5.5%
  - Occupancy levels displayed only slight improvement and were helped by a short term reduction in room availability
- Preliminary STR data for YTD FY2019 (April 2019) indicates demand softness is now affecting occupancy levels, although this is not transferring through to rate. New supply has and will continue to arrive over the next three years, which will take some time to be absorbed, particularly in the off season for this leisure centric, seasonal market

### Demand Driver Analysis

**Tropical North Queensland visitor nights underperformed to TFC forecasts in FY2018. They are trending better in the first half of FY2019 despite this not being reflected in core hotel data, indicating non hotel stays**

Confidence in air capacity utilisation to incite an increase in flights is the key to ongoing visitation growth and offset the effect of increased code sharing. Recent forums to address visitation opportunities have led to strategies focusing on marketing and branding, domestic airfare prices and a proposed tourism levy to fund infrastructure and destination marketing. Similar to Brisbane, the Cairns market could also benefit from an integrated resort development if current plans go ahead

- City data for FY2018 for Cairns reveals :-
  - International visitor nights decreased by 12.1% to 4.4M nights
  - Domestic visitor nights increased by 20.5% to 5.7M nights
  - Total visitor nights increased by 3.8% to 10.2M nights, of which a high 48% is captured in Hotels and Motels
- In FY2017 Cairns and Port Douglas hotel's domestic visitor nights content increased to 63% from 55% previously
- The updated 2019 TFC visitor night forecasts have not been released at the time of this forecast. The long term outlook for FY2020 to FY2027 visitor night growth in Queensland (excluding Brisbane and the Gold Coast) remain at 3.1% p.a.
  - Annual domestic visitor night growth expectations remain at 2.4% p.a.
  - Annual international visitor night growth expectations remain at 5.0% p.a.

### Dransfield Demand Forecast

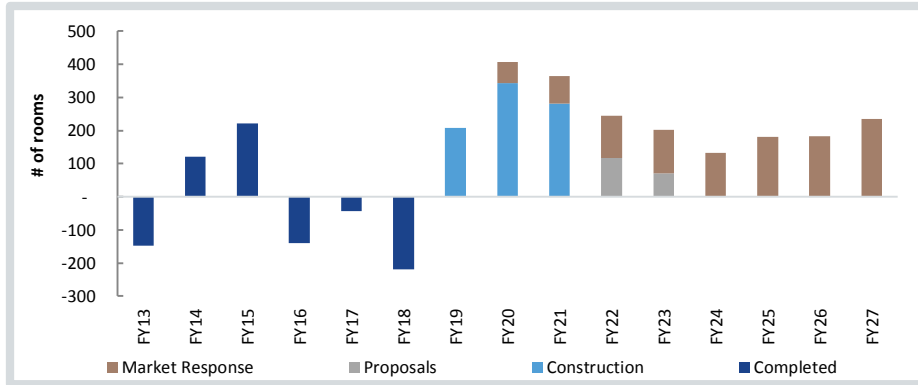
**Annual demand growth of 2.6% is expected for Cairns and Port Douglas hotels over the long term which is a slight downgrade to prior forecasts, impacted by recent underperformance**

- In FY2019, demand has contracted quite considerably, especially through the low season as poor weather and cyclone activity affects the leisure market. Full year expectations are for 3.8% decline
- Medium term demand growth to FY2021 is expected to average 2.1% p.a, dragged by the soft FY2019. Whilst we can't predict the weather, we expect a return to growth as weather normalises and international demand in particular regains confidence. The arrival of new high end hotel stock in Cairns in this period, and the marketing material that goes along with it, may also generate interest from visitors who wouldn't ordinarily have Cairns in their visitation plans
- Long term demand growth expectations are moderate, and slightly behind supply growth and TFC visitor forecasts. The relative value of the \$AUD will underpin leisure visitation as will the new hotel stock. There is upside opportunity in the demand forecast.

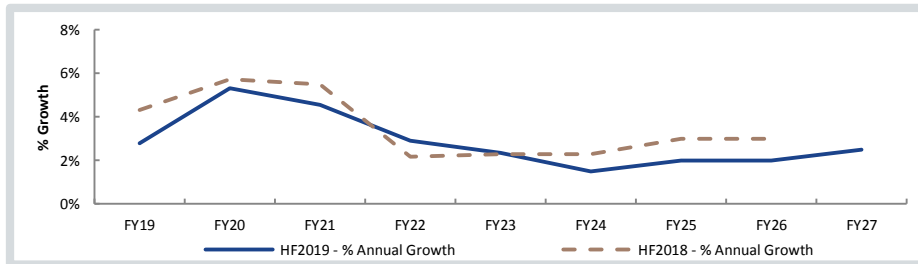
# CAIRNS & PORT DOUGLAS

Supply has started to arrive in FY2019 and will continue for the next couple of years with projects already in construction. The majority of development is centred in Cairns, and is of high positioning. Absorption risk is moderate, with low season weather the pendulum. A large proportion of our pipeline is made up of back ended Market Response which will only eventuate if demand targets in the short and medium term are achieved

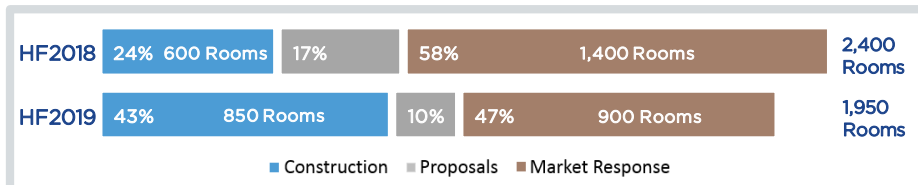
## SUPPLY ACTUAL & FORECAST BY TYPE FY13-FY27



## FORECAST COMPARISON HF18 VS HF19 - % ANNUAL SUPPLY GROWTH



## FORECAST COMPARISON HF18 VS HF19 - PIPELINE BY TYPE TO FY2026



### Supply Actual

- In FY2018 the closure for redevelopment of a hotel saw a 2.9% reduction in supply
- In FY2019 these rooms re-entered the market, with Crystalbrook's The Riley (311 rooms), marking the first large and upscale hotel to arrive into the Cairns and Port Douglas market in the last decade
- Construction activity is quite high relative to historic levels, with Crystalbrook's other two upscale Cairns developments underway and due to add 500+ rooms to the market by year end 2020

### Supply Forecasts

- Dransfield's supply forecast is for 2,200 new rooms to enter the market over the next 9 years to FY2027 (29% of current stock), at an average annual growth rate of 2.9%
  - Our forecast supply pipeline represents a decrease of 450 rooms or 4.1% to our prior forecast from *Hotel Futures 2018*, driven by a reduction in probability of live proposals and a tightening of our Market Response allowance in the environment of short term revenue underperformance
  - The live pipeline (recently completed, under construction and proposals) is largely in line with prior expectations from a volume perspective, however increased transfer to construction activity has increased the certainty of delivery. Construction activity accounts for 43% of the forecast rooms compared to 24% previously
- Proposal activity across the forecast period is very low, with less than 200 net mooted rooms currently anticipated to arrive at a low probability of just 25%
  - We are watching several additional mooted sites which are either very early in the planning process or have been significantly delayed, but have not included them in our forecast at this time. Instead we are allowing for them in our Market Response
  - Our Market Response allowance has reduced as development triggers become tougher to reach in the lower occupancy environment following recent decline. The remaining Market Response will only arrive if trading conditions trend as anticipated
- Supply growth in the medium term to FY2021 is 4.2% p.a. (1,000 rooms). This is the first material and sustained period of new supply in more than a decade
- Development activity continues to be highly concentrated toward the GA Group's Crystalbrook Collection which are all upscale. Along with the three hotels under construction or recently opened, there are also additional holdings in both Cairns CBD and Port Douglas
- Development is skewed to Cairns with limited properties expected in Port Douglas.



# CAIRNS & PORT DOUGLAS

Long term RevPAR expectations are for 2.6% growth p.a., with short and medium term underperformance as supply arrives. Rate volatility could present in this market and it will depend on how hoteliers respond to the second and third wave of additional supply. An improving product base will generate some organic rate uplift if demand can grow, and discounting tactics are limited

## Conclusion

**A moderate long term RevPAR outlook, slightly below inflation targets. The market will continue to be pinned to weather outcomes, with demand sentiment, particularly internationals hypersensitive to this. High quality new supply will generate interest and an exciting backdrop for visitors, including those who may not have chosen to holiday in Cairns previously**

The Cairns and Port Douglas forecast represents a small downgrade to prior expectations, dragged by short term underperformance. Some of the gap is closed as development activity softens over the forecast period, albeit does not fully catch up

- There is a large gap in performance metrics between large branded hotels and smaller independent stock in this market, with key indicators trading at considerably higher levels for branded stock who are typically members of the STR sample. This is likely to manifest in stronger rate growth as occupancy levels are constrained in high season, however will be offset by higher occupancy growth in the smaller independents as price elasticity comes into effect
- Port Douglas hotels which typically outperform Cairns in terms of Rate whilst underperforming in occupancy, may feel some pressure from the new resort type stock coming into the Cairns market, competing for traditional luxury leisure guests
- Over the period of the forecast, average occupancy levels of 75% are expected for this dataset which is 5 percentage points behind prior expectations. The reduction is a result of short term underperformance which carries through the life of the forecast. The occupancy position of the entire market, which includes a high number of smaller, unbranded and less regulated rooms sits approximately 10 points below this level
  - Occupancy levels are forecast to fall 5 points in FY2019 as a combination of reduced wet season demand and new hotel rooms arriving in the low season
  - Over the following two years to FY2021, we anticipate occupancy levels will largely stagnate in an environment of moderate supply arrivals
  - Demand growth is expected to outstrip supply arrivals over the back half of the forecast with occupancy levels pushing above 76% in the latter years
- Annual average rate growth of 2.6% is expected over the life of the forecast dragged by medium term underperformance
  - Alternative destination opportunities tend to cap leisure market travellers capacity to increase price despite improved occupancy. This is more of an effect in Cairns as opposed to Port Douglas, although does limit the combined market from recording high rate growth in many instances
- The arrival of new quality product may alleviate some of this historical effect in Cairns, however, perhaps existing market participants will discount to maintain occupancy
- Our forecast is for a 3.5% decrease in average long-term real RevPAR compared to our previous forecast. The short term decrease, slowly catches up through the course of the forecast
- RevPAR growth for the comparable period to FY2026 is inline with prior expectations, albeit from a lower base, and with a softer front end
  - In FY2019 we expect 2.2% RevPAR decline as weather impacts demand
  - In the medium term to FY2021, average RevPAR growth of 0.7% p.a. is expected as moderate new supply enters
  - Long-term expectations are for growth to accelerate over the back half of the forecast as new supply is absorbed and new development activity plateaus
  - Full forecast expectations to FY2027 are for 2.6% growth p.a.

# CAIRNS & PORT DOUGLAS

Long term RevPAR expectations are for 2.6% growth p.a., with short and medium term underperformance as supply arrives. Rate volatility could present in this market and it will depend on how hoteliers respond to the second and third wave of additional supply. An improving product base will generate some organic rate uplift if demand can grow, and discounting tactics are limited

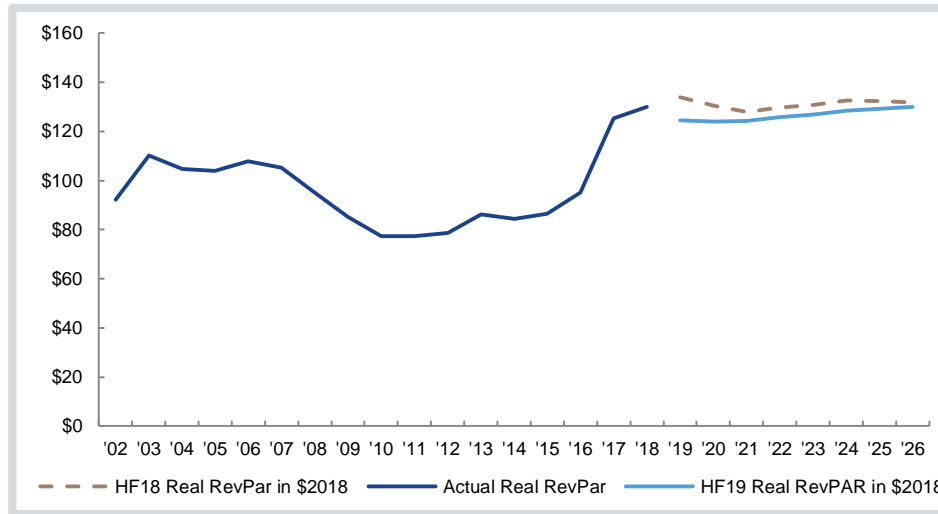
## CAIRNS & PORT DOUGLAS - HOTELS, MOTELS AND SERVICED APARTMENTS

### ACTUAL - STR

Year	Sample Size	Sample Coverage	ARR	% Chng	RevPAR	% Chng	\$2018 Real RevPAR	Occ
<b>HISTORICAL</b>								
FY2017			\$156.65		\$122.60			78.3%
FY2018	4,672	47%	\$165.28	5.5%	\$129.98	6.0%	\$129.98	78.6%

Source: STR

### CAIRNS & PORT DOUGLAS REAL REVPAR IN \$2018



\* There is a step in the data from FY2017 onwards being a change from ABS census to STR sample. The STR census data has a higher performance base as properties included are typically skewed towards larger and branded product

### DRANSFIELD FORECAST

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	\$2018 Real RevPAR	Occ
<b>FORECAST</b>									
FY2019	7,646	2.8%	-3.8%	\$172.72	4.5%	\$127.13	-2.2%	\$124.64	73.6%
FY2020	8,053	5.3%	5.0%	\$176.17	2.0%	\$129.29	1.7%	\$123.96	73.4%
FY2021	8,417	4.5%	5.0%	\$179.70	2.0%	\$132.47	2.5%	\$124.22	73.7%
<b>Avg FY19-21</b>		<b>4.2%</b>	<b>2.1%</b>		<b>2.8%</b>		<b>0.7%</b>	<b>\$124.27</b>	<b>73.6%</b>
FY2022	8,662	2.9%	4.0%	\$185.09	3.0%	\$137.89	4.1%	\$125.78	74.5%
FY2023	8,865	2.3%	3.0%	\$190.64	3.0%	\$142.94	3.7%	\$126.84	75.0%
FY2024	8,998	1.5%	2.5%	\$196.36	3.0%	\$148.68	4.0%	\$128.34	75.7%
FY2025	9,178	2.0%	2.5%	\$202.25	3.0%	\$153.89	3.5%	\$129.22	76.1%
FY2026	9,361	2.0%	2.5%	\$208.32	3.0%	\$159.29	3.5%	\$130.10	76.5%
FY2027	9,595	2.5%	2.5%	\$214.57	3.0%	\$164.06	3.0%	\$130.36	76.5%
<b>Avg FY22-27</b>		<b>2.2%</b>	<b>2.8%</b>		<b>3.0%</b>		<b>3.6%</b>	<b>\$128.44</b>	<b>75.7%</b>
<b>Total Forecast Avg FY 2019-2027</b>		<b>2.9%</b>	<b>2.6%</b>		<b>2.9%</b>		<b>2.6%</b>	<b>\$127.05</b>	<b>75.0%</b>

Note: Letting pool inflows and outflow are substantial in this market. This means base supply numbers between various sets can be materially different



In FY2018, Canberra RevPAR continued to perform well, increasing 5% following a very strong prior year. Demand expectations are good, positively impacted in the medium term by a business oriented Liberal Government. Supply arrivals through the middle of the forecast may limit rate growth opportunities, although are expected to be fully absorbed. Long term average growth of 3.2% p.a. is expected

## FY2018 SNAPSHOT

	STR
Establishments	62
STR Sample Rooms	4,995
STR Sample Coverage	76%
Occupancy	78.2%
Rate	\$173.72
<b>RevPAR</b>	<b>\$135.77</b>

Source: STR

## FY2018 YEAR IN REVIEW

	FORECAST FY2018	ACTUAL FY2018	Variance	
<b>Supply</b>	2.4%	3.1%	0.8%	▲
<b>Occupancy*</b>	0.5	2.0	1.5	▲
<b>ARR</b>	3.0%	2.3%	-0.7%	▼
<b>RevPAR</b>	3.6%	5.0%	1.3%	▲

\* Percentage Point Change

Source: STR

### FY2018 Year in Review

- In FY2018 Canberra Hotels outperformed moderate growth expectations recording a 5.0% RevPAR increase with improvements in both Occupancy and Rate
  - Occupancy levels grew two percentage points, moving above 78% for the first time
  - Rates followed suit, increasing by 2.3% after getting off to a strong start in the first quarter
- Preliminary STR data for the YTD FY2019 (Apr 2019) indicates growth will compound this year with occupancy and rate both up on the prior corresponding period. The Federal election in the final quarter will likely see a short term drop as candidates tour their electorates, reducing Canberra stays, although we expect FY2019 to record solid full year performance.

### Demand Driver Analysis

#### Canberra has easily outperformed TFC tourism forecasts over the last 18 months

- A Liberal Government victory is likely to drive parliamentary engagement with business, which should translate to stronger hotel demand in the medium term. The ability for Canberra to leverage events, both corporate and leisure will need to continue to grow, although the redevelopment of the EPIC showgrounds could throw a spanner in the works if large scale events like Summernats are forced to move in the medium term
- City data for FY2018 for Canberra reveals :-
  - International visitor nights increased by 24.1% to 5.7M nights
  - Domestic visitor nights increased by 6.6% to 7.1M nights
  - Total visitor nights increased by 13.7% to 12.8M nights, well above 7.0% TFC forecasts, of which 23% is captured in hotels
- In FY2018 Canberra's hotel's domestic visitor nights content decreased slightly to a still high 89% from 91% previously
- The updated 2019 TFC visitor night forecasts have not been released at the time of this forecast. The long term outlook for FY2020 to FY2027 remains growth of 3.8% p.a.-
  - Annual domestic visitor night growth expectations remain at 2.5% p.a.
  - Annual international visitor night growth expectations remain at 5.2% p.a.

### Dransfield Demand Forecast

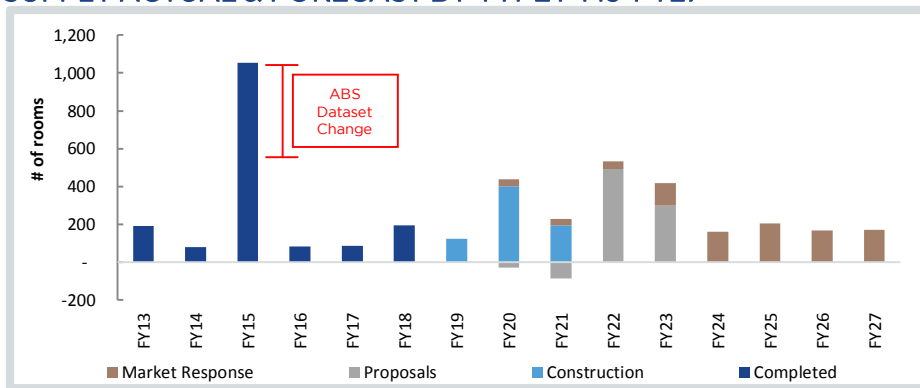
#### Demand growth expectations for Canberra hotels represent a slight upgrade to the prior forecast, however remain slightly below TRA visitor night forecasts

- We expect demand to increase by 3.6% in FY2019. This is well above supply growth expectations
- Medium term demand growth to FY2021 is expected to average 3.5% with higher upside opportunity than downside risk if recent demand growth trends continue
- Long term demand expectations to FY2027 are for 3.5% growth p.a. with base corporate and parliamentary demand increasingly being supported by strengthening domestic and international leisure. A growing part of international visitor demand appears VFR related, with Canberra's position as a VET and higher education option improving demand opportunities as students enrol.

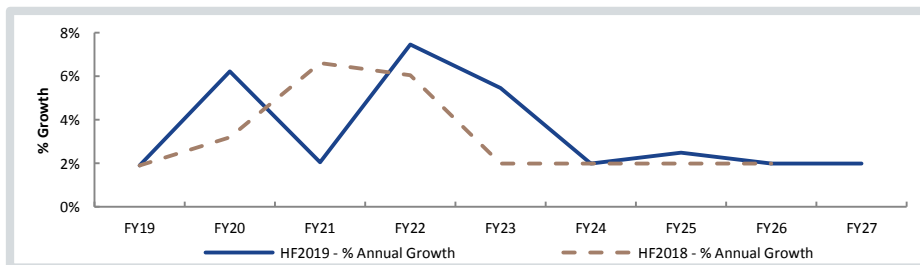


Supply proposal activity continues to increase in light of robust recent performance and positive corporate, tourism and education sector sentiment. A large proportion of our Pipeline remains as Market Response allowances which are likely to be taken up if occupancy levels maintain at current levels

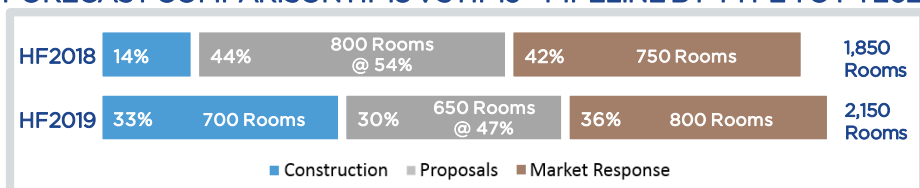
### SUPPLY ACTUAL & FORECAST BY TYPE FY13-FY27



### FORECAST COMPARISON HF18 VS HF19 - % ANNUAL SUPPLY GROWTH



### FORECAST COMPARISON HF18 VS HF19 - PIPELINE BY TYPE TO FY2026



### Supply Actual

- In FY2018, Canberra supply increased by 3.1% or roughly 150 rooms
- Through the first three quarter of FY2019, there has been no significant change to supply with just over 100 net rooms expected for the full year
- Construction activity has increased, however, remains moderate with an 11% or 700 rooms increase on existing stock currently underway.

### Supply Forecasts

- Dransfield's supply forecast is for 2,300 new rooms to enter the market over the next 9 years to FY2027 (36% of current stock) at an average annual growth rate of 3.5%
  - Our forecast supply pipeline represents a small increase of 300 rooms or 4.1% to our prior forecast from *Hotel Futures 2018*, driven by short term revenue outperformance generating higher development activity. Slight delays have emerged through the front half of the forecast
  - The live pipeline (recently completed, under construction and proposals) has increased slightly with projects moving to construction being replaced with new proposals. Construction activity accounts for 33% of the forecast rooms
- Proposal activity across the forecast period is moderate relative to market size, with 650 net mooted rooms. Our assessment of probability to complete expects 47% of these to arrive as anticipated. This has reduced from 54% previously given the new proposals being earlier in the planning process
  - Proposed rooms are not likely to reach market until FY2022 or FY2023 and there is moderate risk of delay
  - Our Market Response allowance is largely in line with previous expectations with 4-5 additional hotels expected to announce through the medium term and emerge during the late term
- Supply growth in the medium term to FY2021 is in line with long term expectations, and is forecast to average a moderate 3.4% p.a. (675 rooms)
  - Looking slightly longer, the next five years sees supply arrivals above the long term average with new supply peaking during FY2022. The majority of this is made up of proposals which could be delayed
  - We expect supply to be fully absorbed over the long term with occupancy levels holding strong throughout
- Mid tier hotels and serviced apartments dominate this supply pipeline with 150-200 room properties appearing to be the sweet spot for developers in this market
- Development activity continues to be highly concentrated to local developers and owners/operators looking to expand their holdings/flags.





Long term RevPAR expectations are slightly above inflation targets upheld by moderate rate growth opportunities in a stable occupancy market

## Conclusion

**Our forecast update is quite neutral, with slightly above inflation growth expected long term, underpinned by stable high occupancy levels and moderate rate growth. We don't expect any of the three main levers being supply, demand or rate to significantly under/outperform expectations, therefore risk is considered quite low**

Our long term average forecast represents a slight upgrade to our previous forecast from a higher base

- Over the period of the forecast, average occupancy of 77.7% is expected with no major volatility periods expected
  - In FY2019, Occupancy levels are likely to peak for the forecast period, before material supply begins to arrive
  - Over the medium term to FY2021, occupancy is expected to contract slightly as supply under construction comes online
  - Two more years of reasonable supply could arrive through to FY2023 as proposals progress. This should see occupancy dip to a still high 76%
- Rate growth expectations of 3.2% p.a. for the forecast period are moderate, and in front of inflation targets. Government endorsed purchasing somewhat limits upside, however corporate activity and event related yielding opportunities should emerge as base occupancy levels remain reasonable
  - In FY2019, rate growth of 1% is expected, impacted by reduced Canberra travel through the election period
  - The behaviour of first responders as new supply comes to market during the medium term is likely to be quite neutral. This is partly because the total supply additions are not high, nor is the delivery period sustained. We expect rate growth in this period to be at or around inflation
  - Over the long term, rate opportunities will likely follow occupancy trends, with small movement both upwards and downwards. As supply additions slow at the back of the forecast, occupancy pressures should give hoteliers confidence to lift rates higher and more consistently

- Our forecast is for a 0.3% increase in absolute average long term real RevPAR compared to our previous forecast, from a higher base following outperformance. Some of the uplift is given back through increased supply expectations at the back end as a result of stronger earlier revenue metrics
- RevPAR growth for the comparable period to FY2026 represents a slight downgrade to prior forecasts, but remains strong. Average growth of 2.9% is now expected vs. 3.4% previously, as a result of slightly increased development activity through the middle of the forecast
  - In FY2019, RevPAR is expected to increase 2.7%, which is 1% below previous expectations
  - In the medium term to FY2021, RevPAR is expected to grow by an average of 2.7% p.a. with a neutral year expected in FY2020 as new supply is absorbed, before stronger growth of 4-5% in FY2020
  - Long term expectations are for moderate growth, with occupancy and rate dynamics influenced by supply arrivals. We expect a strong back end to the forecast with supply development to slow following several years of moderate additions
  - Full forecast expectations to FY2027 are for 3.2% growth p.a.



Long term RevPAR expectations are slightly above inflation targets upheld by moderate rate growth opportunities in a stable occupancy market

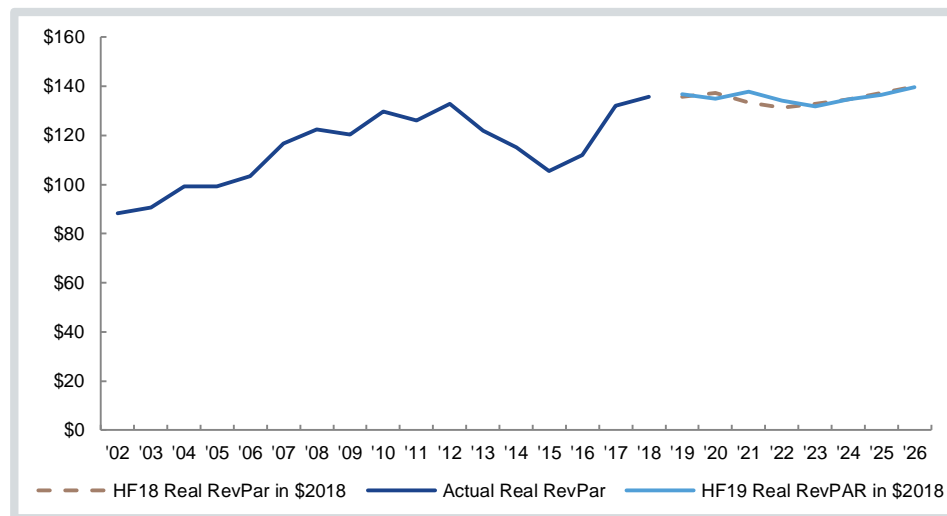
## CANBERRA - CITY HOTELS, MOTELS AND SERVICED APARTMENTS

### ACTUAL - STR

Year	Sample Size	Sample Coverage	ARR	% Chng	RevPAR	% Chng	\$2018 Real RevPAR	Occ
<b>HISTORICAL</b>								
FY2017			\$169.81		\$129.35			76.2%
FY2018	4,995	76%	\$173.72	2.3%	\$135.77	5.0%	\$135.77	78.2%

Source: STR

### CANBERRA CITY REAL REVPAR IN \$2018



\* There is a step in the data from FY2017 onwards being a change from ABS census to STR sample. The STR census data has a higher performance base as properties included are typically skewed towards larger and branded product

### DRANSFIELD FORECAST

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	\$2018 Real RevPAR	Occ
<b>FORECAST</b>									
FY2019	6,571	1.9%	3.6%	\$175.45	1.0%	\$139.40	2.7%	\$136.67	79.5%
FY2020	6,979	6.2%	4.0%	\$180.72	3.0%	\$140.60	0.9%	\$134.81	77.8%
FY2021	7,123	2.1%	3.0%	\$187.04	3.5%	\$146.86	4.5%	\$137.71	78.5%
<b>Avg FY19-21</b>		<b>3.4%</b>	<b>3.5%</b>		<b>2.5%</b>		<b>2.7%</b>	<b>\$136.40</b>	<b>78.6%</b>
FY2022	7,654	7.5%	6.0%	\$189.85	1.5%	\$147.03	0.1%	\$134.12	77.4%
FY2023	8,072	5.5%	4.0%	\$194.59	2.5%	\$148.62	1.1%	\$131.88	76.4%
FY2024	8,234	2.0%	3.0%	\$202.38	4.0%	\$156.08	5.0%	\$134.73	77.1%
FY2025	8,440	2.5%	2.6%	\$210.47	4.0%	\$162.49	4.1%	\$136.43	77.2%
FY2026	8,608	2.0%	2.6%	\$219.94	4.5%	\$170.80	5.1%	\$139.50	77.7%
FY2027	8,781	2.0%	2.6%	\$229.84	4.5%	\$179.53	5.1%	\$142.64	78.1%
<b>Avg FY22-27</b>		<b>3.6%</b>	<b>3.5%</b>		<b>3.5%</b>		<b>3.4%</b>	<b>\$136.55</b>	<b>77.3%</b>
<b>Total Forecast Avg FY 2019-2027</b>		<b>3.5%</b>	<b>3.5%</b>		<b>3.2%</b>		<b>3.2%</b>	<b>\$136.50</b>	<b>77.7%</b>



In FY2018, Darwin posted minor RevPAR growth following a large and sustained decline over the last four years. The turn was short lived with FY2019 expected to record a very high 20% decline as the structural composition of demand resets, seeing occupancy levels fall 15 percentage points

## FY2018 SNAPSHOT

	STR
Establishments	46
STR Sample Rooms	3,889
STR Sample Coverage	71%
Occupancy	75.2%
Rate	\$150.35
<b>RevPAR</b>	<b>\$113.04</b>

Source: STR

## FY2018 YEAR IN REVIEW

	FORECAST FY2018	ACTUAL FY2018	Variance	
<b>Supply</b>	1.3%	0.8%	-0.5%	▼
<b>Occupancy*</b>	4.6	5.3	0.7	▲
<b>ARR</b>	0.0%	0.8%	0.8%	▲
<b>RevPAR</b>	6.6%	8.4%	1.8%	▲

\* Percentage Point Change

Source: STR

### FY2018 Year in Review

- In FY2018, Darwin hotels stemmed the haemorrhage of four consecutive years of decline, posting robust RevPAR growth of 8.4%. The growth was demand led, although occupancy pressure did not translate to rate growth
  - Occupancy levels improved by 5 percentage points, and achieved 75% for the first time since FY2014. With the benefit of hindsight, this appears to be the final wave of LNG related corporate travel as the Inpex plant signs off on the construction phase
  - Rates did not move significantly, despite the influx of guests, growing less than 1%
- Preliminary STR data for FY2019 (YTD April 2019) is not good reading. The market is showing significant demand led decline as leisure guests are not replenishing lost contracted corporates. We expect high double digit decline to eventuate

### Demand Driver Analysis

#### Darwin has significantly underperformed to TFC tourism forecasts over the last 18 months

Significant domestic flight cancellations have emerged in all but the high season and across a number of air carriers, as corporate demand volumes decline. The long term effect on this will impact Darwin hotels until a spike in travel demand eventuates

- City data for FY2018 for Darwin reveals:-
  - International visitor nights decreased by 21% to 1.9M nights
  - Domestic visitor nights decreased by 6% to 4M nights
  - Total visitor nights decreased by 11% to 5.9M nights, well below the 3.8% TFC growth forecasts. 31% of nights are captured in Hotels
- In FY2018 Darwin hotel's domestic visitor nights content decreased to 80% from 83%
- The updated 2019 TFC visitor night forecasts have not been released at the time of this forecast. The long term outlook for FY2020 to FY2027 remains high growth of 3.8% p.a.:-
  - Annual domestic visitor night growth expectations remain at 3.0% p.a.
  - Annual international visitor night growth expectations remain at 5.0% p.a.

### Dransfield Demand Forecast for Darwin City Hotels

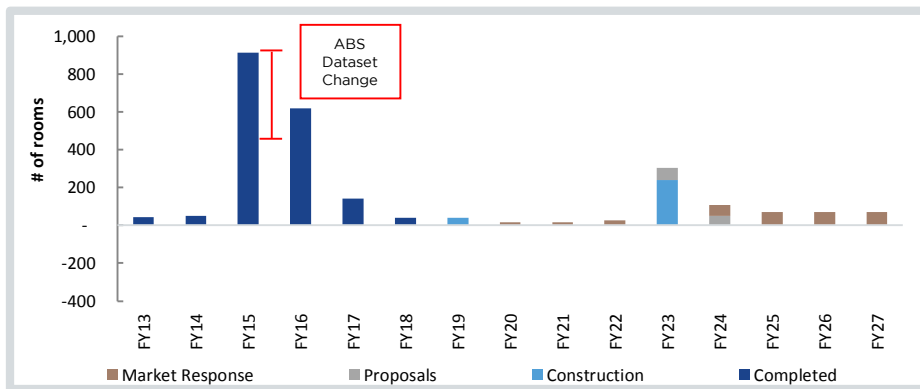
**Annual demand growth of 3.9% is expected for Darwin hotels over the long term. This is a minor rate growth upgrade to the prior forecast from a lower base, however, represents an absolute visitor number downgrades**

- In FY2019, corporate demand reductions, well above expectations, have severely impacted hotel demand. The ramifications of the completion of the Inpex construction phase are reverberating through the visitor economy at a much higher level than anticipated
- The market is expected to rebound in FY2020 and FY2021, albeit, only recovering half of the ground lost in FY2019. Replacing corporates with displaced leisure is pivotal in this next cycle. The challenge is large with some newly introduced flight schedules, including the China - Darwin link, operating well below capacity through the first year of operation
- Long term expectations to FY2027 are for 1.2% growth p.a., or 3.9% p.a. if excluding FY2019, with most of the decline having already occurred.

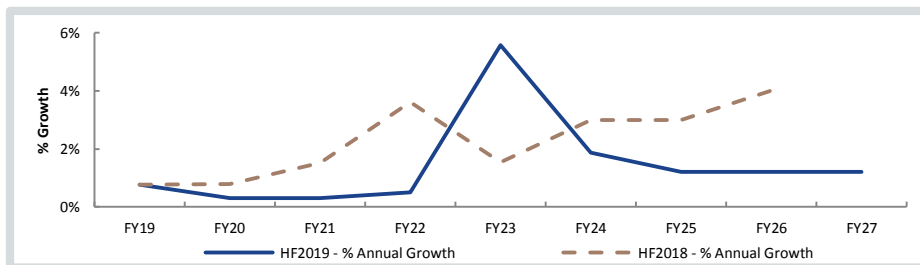


An already low new supply register will reduce further in light of the demand decline through FY2019 and subsequent reduction in flight access. We expect long term supply growth of just 1.4% p.a., most of which is made up from a single hotel and small Market Response allowances for some new projects in the late term

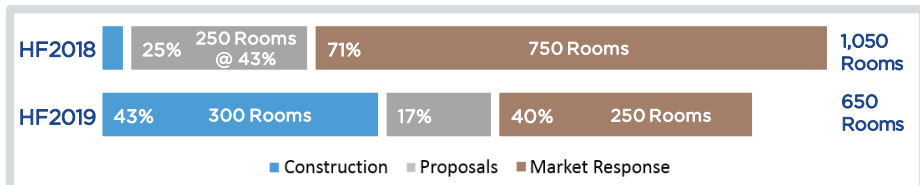
### SUPPLY ACTUAL & FORECAST BY TYPE FY13-FY27



### FORECAST COMPARISON HF18 VS HF19 - % ANNUAL SUPPLY GROWTH



### FORECAST COMPARISON HF18 VS HF19 - PIPELINE BY TYPE TO FY2026



### Supply Actual

- In FY2018, Darwin hotel supply was relatively stagnant, with movement of less than 50 rooms
- There is not expected to be any material new openings in FY2019
- The Westin Darwin (240 rooms) is the only known development currently under construction, aided by Government sponsorship. Despite early works beginning, there remains risk for completion

### Supply Forecasts

- The structural change in demand orientation will limit developer interest, and even those with interest will be challenged by financing and feasibility
- Dransfield's supply forecast is for a low 800 new rooms to enter the market over the next 9 years to FY2027 (15% of current stock), at an average annual growth rate of 1.6%.
  - Our forecast supply pipeline represents a market significant decrease of 400 rooms or 6.4% to our prior forecast, as a result of the significant market downturn
  - Proposal activity across the forecast period is quite low, with 500 gross mooted rooms, with all of these at significant risk to complete. Our assessment of probability to complete expects only 22% of these to arrive as anticipated
  - Our long term forecast therefore anticipates extremely low levels of additional supply as development trigger points fail to be reached
  - Our Market Response allowance is also low and only 250 rooms or 2-3 new properties



Darwin hotels received another shudder with demand taking a significant and somewhat unexpected hit as trailing mining contracts and demand expired. Domestic flights have been cancelled as a result of low utilisation in the low season which will create problems for future growth. This has only been partially offset by increases to flights from International carriers. Long term RevPAR expectations are for growth of 2.2% p.a, severely dragged by a 20% decline in the short term, much of which has already occurred

## Conclusion

**The mining market related hotel usage softness which appeared to have bottomed has struck again. The strong prior year performance failed to continue as occupancy levels plunge below 60% in FY2019. Corporate demand softness has led to cuts in access with numerous flight cancelled. This will no doubt affect medium and perhaps long term occupancy while yielding opportunities also take a hit**

The Darwin forecast represents a significant downgrade, as occupancy levels plummet following one year of recovery

- Over the forecast period, average occupancy expectations have been slashed by more than 10 percentage points
  - In FY2019 occupancy levels through the first 3 quarters of the year have fallen approximately 15 percentage points. We expect the full year will tip just below 60%
  - We anticipate a slow rebound helped by the fact that supply growth is only 1%. Demand will need to rally, although flight cancellations will impact it's ability. Capacity constraints through the high season are likely to persist
  - Occupancy levels will likely remain in the low to mid 60%'s through the medium term, strengthening as we move out and only hitting 70% towards the back end of the forecast period
- Rate growth expectations have similarly been reduced as hoteliers compete for occupancy. They have moved below inflation targets with long term growth of 2.3% p.a. expected
  - Despite the significant drop in occupancy in FY2019, rates have maintained
  - Medium term rate growth expectations have been tempered given the trading environment. We anticipate rate growth averaging just 0.7% p.a. over the medium term
  - We expect the rate growth opportunity to improve over the back half of the forecast as confidence and occupancy levels grow
- Our forecast is for a large 19% decrease in average long-term real RevPAR compared to our prior forecast. The severe downgrade is entirely front ended and carries through for much of the forecast
- RevPAR growth for the comparable period to FY2026 has been downgraded to 1.8% p.a. from 4.0%. Excluding the very poor FY2019, growth of 5.0% p.a. is expected from a much lower base
  - In FY2019, RevPAR will record a significant 20%, occupancy led decline, well above expectations
  - In the medium term to FY2021, we expect RevPAR performance will partially rebound, albeit unlikely to regain the entirety of the FY2019 decline
  - Long term, we expect 5% p.a. growth from FY2020. The lower base carries weight although this is underpinned by a market with basically no new supply
  - Full forecast expectations from FY2019 to FY2027 are for 2.2% growth p.a.



Darwin hotels received another shudder with demand taking a significant and somewhat unexpected hit as trailing mining contracts and demand expired. Domestic flights have been cancelled as a result of low utilisation in the low season which will create problems for future growth. This has only been partially offset by increases to flights from International carriers. Long term RevPAR expectations are for growth of 2.2% p.a, severely dragged by a 20% decline in the short term, much of which has already occurred

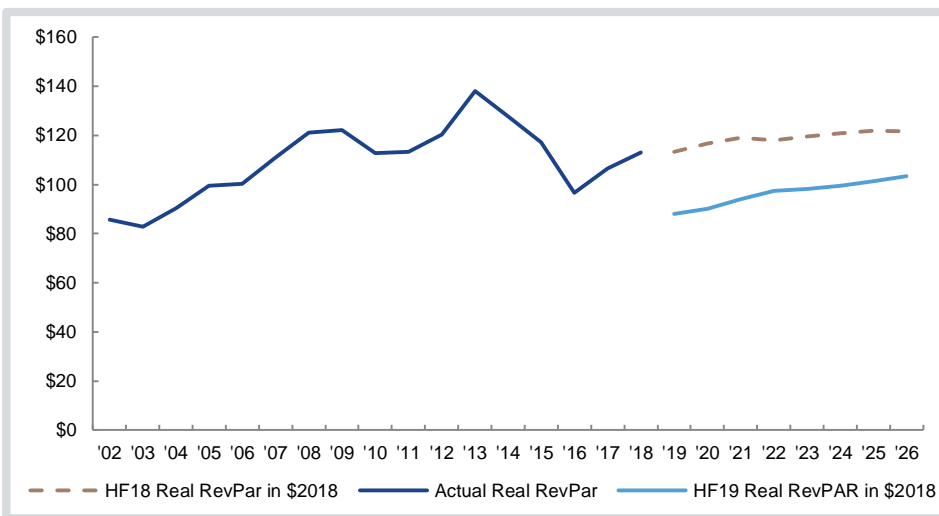
## DARWIN - CITY HOTELS, MOTELS AND SERVICED APARTMENTS

### ACTUAL - STR

Year	Sample Size	Sample Coverage	ARR	% Chng	RevPAR	% Chng	\$2018 Real RevPAR	Occ
<b>HISTORICAL</b>								
FY2017			\$149.21		\$104.25			69.9%
FY2018	3,889	71%	\$150.35	0.8%	\$113.04	8.4%	\$113.04	75.2%

Source: STR

### DARWIN CITY REAL REVPAR IN \$2018



\* There is a step in the data from FY2017 onwards being a change from ABS census to STR sample. The STR census data has a higher performance base as properties included are typically skewed towards larger and branded product

### DRANSFIELD FORECAST

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	\$2018 Real RevPAR	Occ
<b>FORECAST</b>									
FY2019	5,372	0.8%	-20.0%	\$150.35	0.0%	\$89.74	-20.6%	\$87.98	59.7%
FY2020	5,388	0.3%	5.0%	\$150.35	0.0%	\$93.94	4.7%	\$90.07	62.5%
FY2021	5,404	0.3%	5.0%	\$153.36	2.0%	\$100.31	6.8%	\$94.06	65.4%
<b>Avg FY19-21</b>		<b>0.5%</b>	<b>-3.3%</b>		<b>0.7%</b>		<b>-3.1%</b>	<b>\$90.70</b>	<b>62.5%</b>
FY2022	5,431	0.5%	4.0%	\$157.96	3.0%	\$106.92	6.6%	\$97.53	67.7%
FY2023	5,734	5.6%	5.0%	\$164.28	4.0%	\$110.60	3.4%	\$98.14	67.3%
FY2024	5,841	1.9%	3.0%	\$169.21	3.0%	\$115.18	4.1%	\$99.42	68.1%
FY2025	5,911	1.2%	3.0%	\$174.28	3.0%	\$120.74	4.8%	\$101.38	69.3%
FY2026	5,982	1.2%	3.0%	\$179.51	3.0%	\$126.58	4.8%	\$103.39	70.5%
FY2027	6,054	1.2%	3.0%	\$184.90	3.0%	\$132.69	4.8%	\$105.43	71.8%
<b>Avg FY22-27</b>		<b>1.9%</b>	<b>3.5%</b>		<b>3.2%</b>		<b>4.8%</b>	<b>\$100.88</b>	<b>69.1%</b>
<b>Total Forecast Avg FY 2019-2027</b>		<b>1.4%</b>	<b>1.2%</b>		<b>2.3%</b>		<b>2.2%</b>	<b>\$97.49</b>	<b>66.9%</b>



In FY2018, Gold Coast hotels reaped the rewards from Commonwealth Games induced visitation, and also performed well across the balance of the year. The annualised RevPAR growth was slightly below the levels expected. Looking forward, leisure centric demand will be bolstered by a friendly exchange rate which should ensure a positive supply and demand equation. Long term growth of 3.3% p.a. is expected

## FY2018 SNAPSHOT

	STR
Establishments	322
STR Sample Rooms	10,857
STR Sample Coverage	52%
Occupancy	72.8%
Rate	\$197.42
<b>RevPAR</b>	<b>\$143.80</b>

Source: STR

## FY2018 YEAR IN REVIEW

	FORECAST FY2018	ACTUAL FY2018	Variance	
Supply	1.2%	2.5%	1.3%	▲
Occupancy*	3.4	1.3	-2.1	▼
ARR	5.0%	5.6%	0.6%	▲
RevPAR	10.0%	7.5%	-2.5%	▼

\* Percentage Point Change

Source: STR

### FY2018 Year in Review

- In FY2018, Gold Coast hotels displayed robust RevPAR growth of 7.5%, albeit slightly behind expectations. The growth was boosted by a strong Commonwealth Games period in April and May, with April delivering a 50% RevPAR increase on the p.c.p. Growth was not limited to this period, with moderate increases achieved over the balance of the year
  - Occupancy levels improved 1.3 percentage points, sitting just shy of the market high achieved in FY2016, and only one month delivering a minor reduction on the p.c.p. The growth was slightly below forecasts with the Commonwealth Games period slightly under delivering to expectations
  - Rates continued to compound, growing 5.6% and recording the cities eighth straight year of improvement
- Preliminary STR data for FY2019 (YTD Apr 2019) is showing moderate growth over the first 3 quarters. This is likely to fully retract over the final quarter with significant event induced unwind expected

### Demand Driver Analysis

**Gold Coast demand underperformed to TFC forecasts in FY2018, although is trending above in the first half of FY2019**

A targeted domestic marketing campaign focussing on theme parks and attractions looks to build on the Gold Coast's strengths and has received positive feedback through the early phase. The position of the \$AUD should also have a positive bearing on retaining domestic originated holiday plans, whilst providing a strong value proposition for international visitors

- City data for FY2018 for the Gold Coast reveals :-
  - International visitor nights increased by 0.8% to 9.5M nights
  - Domestic visitor nights decreased by 2.6% to 13.3M nights
  - Total visitor nights decreased by 1.2% to 22.8M nights, of which 34% is captured in Hotels and Motels
- In FY2018 Gold Coast hotel's domestic visitor nights share remained at 71.4%
- The updated 2019 TFC visitor night forecasts have not been released at the time of the forecast. The long term outlook for FY2020 to FY2027 remains growth of 4.4% p.a.:-
  - Annual domestic visitor night growth expectations remain at 2.1%
  - Annual international visitor night growth expectations remain at 6.3%

### Dransfield Demand Forecast

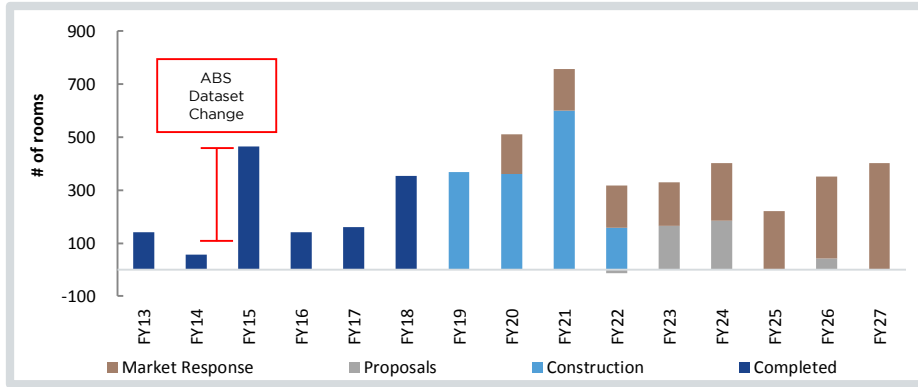
**Moderate annual demand growth is expected for the Gold Coast over the long term to FY2027, which is a minor upgrade on the prior forecast. Demand growth expectations slightly exceed supply expectations**

- We expect demand growth of between 1% and 2% in FY2019, slightly behind supply arrivals. There was only a minor unwind from the Commonwealth Games
- Medium term demand growth to FY2021 is expected to average 2.9% p.a. which is below supply expectations of 3.7% p.a. over this period
- Long term demand growth expectations are similar, averaging 2.9% p.a. to FY2027.

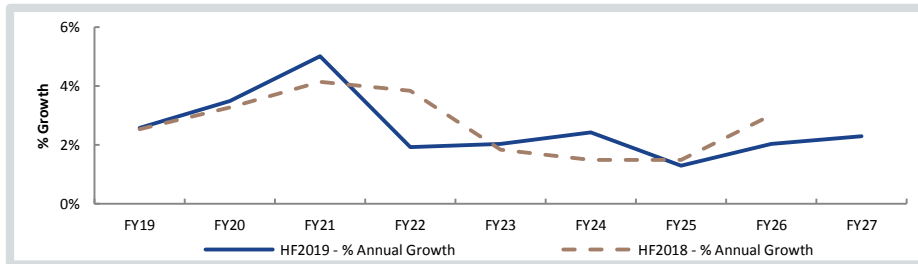


A large proportion of the pipeline is under construction and due for completion over the next 3 years. The arrivals are above recent delivery levels, although should be relatively quickly absorbed. Pipeline activity remains quite high, driven by positive demand expectations, although many projects appear to be of high positioning which makes traditional feasibility hard in this typically price conscious market

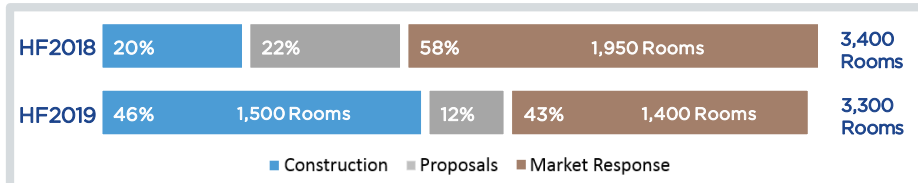
### SUPPLY ACTUAL & FORECAST BY TYPE FY13-FY27



### FORECAST COMPARISON HF18 VS HF19 - % ANNUAL SUPPLY GROWTH



### FORECAST COMPARISON HF18 VS HF19 - PIPELINE BY TYPE TO FY2026



### Supply Actual

- In FY2018 Gold Coast supply increased by 350 rooms or 2.5%. Some of these hotels opened late in the year, so total annualised additions will appear in FY2019
- Through the first three quarters of FY2019 only one major property, The Ruby Collection (243 rooms) has come online
- Construction activity increased relative to the prior year with circa 1,200 rooms now underway

### Supply Forecasts

- Dransfield's supply forecast is for 3,700 new rooms over the next 9 years to FY2027 (26% of current stock), at an average annual growth rate of 2.6%
  - Our forecast pipeline is consistent with our prior forecast from Hotel Futures 2018 by way of volume, although timing has been slightly brought forward as projects which appeared at risk of delay break ground
  - The live pipeline (recently completed, under construction and proposals) has increased with projects moving to construction also being replaced with new proposals. Construction activity accounts for 46% of the forecast rooms
- Proposal activity across the forecast period is moderate relative to market size, however many of these appear unlikely to proceed. A net 400 rooms are expected from 1,300 mooted rooms.
  - There are a number of additional sites that have been slated for hotel rooms which we are watching closely but have not included in our forecast as they appear highly unlikely. Many of these are over specified high rise and/or emotion led internationally sponsored and have been consistently delayed without being backed by locally experienced proponents
  - Risks of non delivery center around a poor ratio of value on completion versus cost to construct. On the Gold Coast there is often a disconnect between these development criteria and the project kicks off anyway
  - Our Market Response allowance is moderate relative to market size with 1,400 additional rooms. These will only come to market if demand behaves at least in line with current expectations
  - Typical of our approach for the Gold Coast, we have allowed for an unusually high level of medium term Market Response as the relationship between residential and hotel is often quite fluid and existing apartment rooms can opt in or out of letting pools
- Supply growth in the medium term to FY2021 is above the long term average, with average growth of 3.7% p.a. expected, delivering roughly 1,700 rooms
- Development activity focuses on upper scale properties or serviced apartment product, many as part of a large mixed use tower.





A moderate long term outlook with subdued growth over the medium term as the market unwinds from the Commonwealth Games and new supply enters. Long term RevPAR expectations are for 3.3% growth p.a, underpinned by a positive supply and demand ratio

## Conclusion

**A stable market outlook with above inflation growth driven by a positive tourism profile at both the macro and micro level, and a supply environment which often sees proposals delay or dissolve**

The Gold Coast forecast update is quite neutral with stable occupancy levels providing a basis for rate growth. Front ended growth expectations are below the long term average as supply arrives, although we expect all rooms to be fully absorbed over the long term. Market sentiment is positive with strong domestic and international visitor indicators, while increased infrastructure projects will create and enable capacity

- Over the period of the forecast, average occupancy of 73.1% is expected with no significant volatility periods expected. Occupancy levels could push higher towards the back end if supply Market Response Allowances do not materialise in the next 3-4 years
  - In FY2019, Occupancy levels will depress slightly (<1%). The Commonwealth Games unwind effect on occupancy was quite reserved, with softness across the whole back half of the year
  - Over the medium term to FY2021, occupancy levels will trend slightly downwards as more than 1,500 new rooms come into the market and take time to absorb. Occupancy levels may drop 1-2 percentage points over this period
  - Back ended supply expectations are low which should see demand easily surpass room additions. Additional back ended completion risk is moderate given the ROI challenges in this market which could see further occupancy outperformance
- Rate growth expectations over the long term are in line with inflation targets, averaging 2.9% p.a. to FY2027. The short term is slightly dragging the average as new rooms impact yielding opportunity
  - In FY2019, rates have trended largely in-line with inflation through to the Commonwealth Games April month before an unwind. We expect the market will finish the year slightly below the prior year

- Over the medium term to FY2021, rate growth will be marginally impacted by room additions. High rates for new luxury product may nullify any discounting behaviour from other new entrants as they compete for occupancy. Robust demand growth throughout, particularly from holidaying families and returning theme park visitation should provide a basis for moderate rate performance
- Continued evolution of Asian based travellers, and a want and need for higher quality product will also assist in long term rate growth
- Our current forecast average long-term real RevPAR is in line with our prior forecast
- RevPAR growth for the comparable period to FY2026 is similarly in line with prior expectations. A positive supply and demand equation will foster hotelier confidence to move on rates
  - In FY2019, slight RevPAR decline is expected, returning the prior event outperformance
  - In the medium term to FY2021, low average RevPAR growth of 1% p.a. is expected as moderate supply arrivals come to market, impacting growth
  - Long term expectations are positive, assisted by the low relative position of the \$AUD. Moderate but absorbable supply expectations are of a generally higher positioning which should assist organic rate growth
  - Full forecast expectations to FY2027 are for 3.3% growth p.a.



A moderate long term outlook with subdued growth over the medium term as the market unwinds from the Commonwealth Games and new supply enters. Long term RevPAR expectations are for 3.3% growth p.a, underpinned by a positive supply and demand ratio

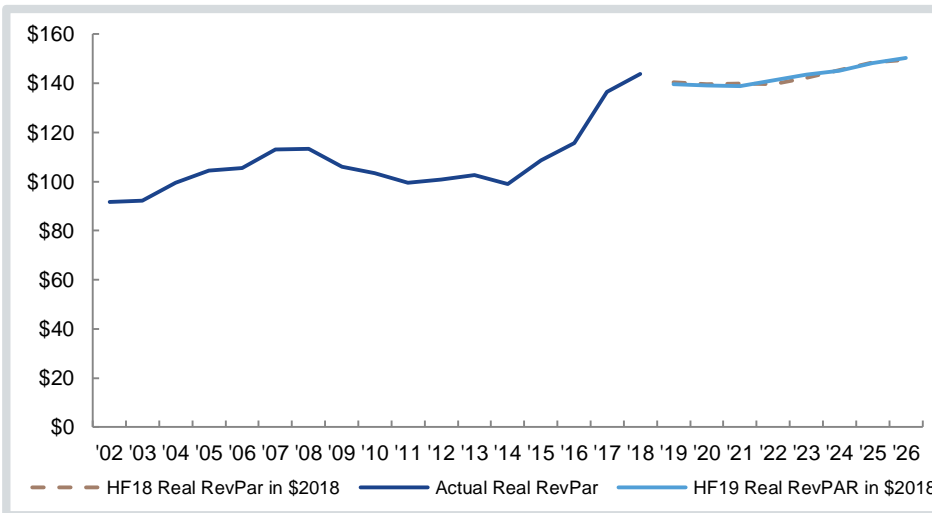
## GOLD COAST - HOTELS, MOTELS AND SERVICED APARTMENTS

### ACTUAL - STR

Year	Sample Size	Sample Coverage	ARR	% Chng	RevPAR	% Chng	\$2018 Real RevPAR	Occ
<b>HISTORICAL</b>								
FY2017			\$186.99		\$133.77			71.5%
FY2018	10,857	52%	\$197.42	5.6%	\$143.80	7.5%	\$143.80	72.8%

Source: STR

### GOLD COAST REAL REVPAR IN \$2018



\* There is a step in the data from FY2017 onwards being a change from ABS census to STR sample. The STR census data has a higher performance base as properties included are typically skewed towards larger and branded product

### DRANSFIELD FORECAST

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	\$2018 Real RevPAR	Occ
<b>FORECAST</b>									
FY2019	14,909	2.6%	1.7%	\$197.02	-0.2%	\$142.29	-1.1%	\$139.50	72.2%
FY2020	15,429	3.5%	3.0%	\$201.95	2.5%	\$145.16	2.0%	\$139.18	71.9%
FY2021	16,199	5.0%	4.0%	\$208.01	3.0%	\$148.10	2.0%	\$138.88	71.2%
<b>Avg FY19-21</b>		<b>3.7%</b>	<b>2.9%</b>		<b>1.8%</b>		<b>1.0%</b>	<b>\$139.19</b>	<b>71.8%</b>
FY2022	16,510	1.9%	3.5%	\$214.25	3.0%	\$154.91	4.6%	\$141.31	72.3%
FY2023	16,845	2.0%	3.0%	\$221.75	3.5%	\$161.86	4.5%	\$143.63	73.0%
FY2024	17,254	2.4%	2.8%	\$229.51	3.5%	\$168.13	3.9%	\$145.12	73.3%
FY2025	17,479	1.3%	2.8%	\$237.54	3.5%	\$176.59	5.0%	\$148.27	74.3%
FY2026	17,836	2.0%	2.8%	\$245.85	3.5%	\$184.12	4.3%	\$150.39	74.9%
FY2027	18,246	2.3%	2.8%	\$254.46	3.5%	\$191.50	4.0%	\$152.15	75.3%
<b>Avg FY22-27</b>		<b>2.0%</b>	<b>3.0%</b>		<b>3.4%</b>		<b>4.4%</b>	<b>\$146.81</b>	<b>73.8%</b>
<b>Total Forecast Avg FY 2019-2027</b>		<b>2.6%</b>	<b>2.9%</b>		<b>2.9%</b>		<b>3.3%</b>	<b>\$144.27</b>	<b>73.1%</b>

Note: Letting pool inflows and outflow are substantial in this market. This means base supply numbers between various sets can be materially different



In FY2018, double digit supply growth led to an occupancy driven RevPAR decline. Strong demand growth performed well to absorb the new supply through the high season, although the additional rooms were unable to adequately fill in the shoulder. Demand growth expectations over the long term have improved, providing opportunity for rate growth. RevPAR growth of 2.6% p.a. is expected over the long term

## FY2018 SNAPSHOT

	STR
Establishments	64
STR Sample Rooms	2,211
STR Sample Coverage	66%
Occupancy	78.8%
Rate	\$177.14
<b>RevPAR</b>	<b>\$139.54</b>

Source: STR

## FY2018 YEAR IN REVIEW

	FORECAST FY2018	ACTUAL FY2018	Variance	
<b>Supply</b>	14.4%	14.4%	0.0%	—
<b>Occupancy*</b>	-3.5	-4.0	-0.5	▼
<b>ARR</b>	-1.5%	2.8%	4.3%	▲
<b>RevPAR</b>	-5.7%	-2.1%	3.5%	▲

\* Percentage Point Change

Source: STR

### FY2018 Year in Review

- In FY2018, Hobart recorded a small RevPAR decline of 2.1%, stemming from a reduction in occupancy as the market welcomed a large amount of supply compared to market size. The decline was less than expected, with rates actually improving
  - Occupancy fell 4 percentage points to a still high 79%. The introduction of circa 400 rooms, equating to more than 14% of existing supply was unable to be fully and immediately absorbed
  - Rates strengthened well above expectations considering the occupancy decline, recording 2.8% improvement
- Preliminary STR data for FY2019 (Apr 2019) has been very strong, with robust demand for hotels, particularly through peak period. A net 100 room reduction in supply has helped build rate pressure, with rates continuing to grow pending new supply arrivals which will come to market over next two years and which are likely to cause a reset

### Demand Driver Analysis

**Hobart has easily outperformed TFC tourism forecasts over the last 18 months, however there is a low transition from visitation to capital city hotel stays**

The aspirational aspect behind Hobart's demand is improving as nature and food based experiential tourism grows in prominence. High quality hotels in the next few years will aid this growth and attract new visitors who may not have had Hobart high on the agenda. Growth in winter events is still paramount, although events such as Dark Mofo are growing in stature

- City data for FY2018 for Hobart reveals :-
  - International visitor nights increased by a massive 58% to 3M nights
  - Domestic visitor nights decreased by 9.4% to 4.8M nights
  - Total visitor nights increased by 10% to 7.8M nights, above 3.2% TFC forecasts, of which 26% are captured in hotels. These growth levels were not reflected in the demand growth in city hotels
- In FY2018 Hobart hotel's high domestic visitor nights share in hotels decreased to 77%, from 83% previously
- The updated 2019 TFC visitor night forecasts have not yet been released at the time of this forecast. The long term outlook for FY2020 to FY2027 remains growth of 3.3% p.a.-
  - Annual domestic visitor night growth expectations remain at 2.0% p.a.
  - Annual international visitor night expectations remain at 5.7% p.a, although are likely to be downwardly adjusted given the significantly higher base following the recent outperformance.

### Dransfield Demand Forecast

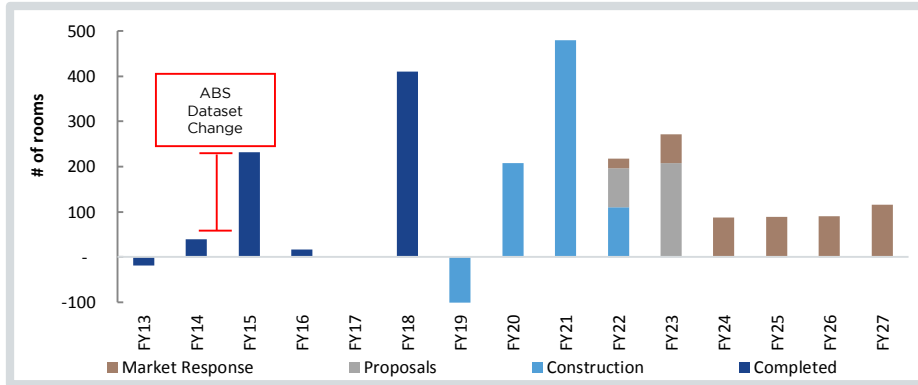
**Annual demand growth of 3.8% is expected for Hobart hotels over the long term. This is a slight upgrade to the prior forecast driven by positive sentiment which has flowed through from significant recent tourism outperformance and an uptick in enabling supply. Demand has also been influenced by an uptick in regional development, with Hobart being the gateway**

- We expect demand to increase 1.5% in FY2019, constrained by net supply reductions, particularly through the peak months. In FY2019, four months will record occupancy levels above 90%
- Medium term demand growth to FY2021 is expected to average a high 5.2% p.a. Supply arrivals over the medium term will enable demand growth in the peak summer period. The April through September low season remains the risk period with occupancy levels dropping into the 60%'s
- Long term growth expectations for the comparable period represent an upgrade to prior forecasts (3.9% p.a. vs 3.4% p.a). International growth is trending well above expectations particularly from China, whilst domestic visitors are similarly increasing. \$200M expansion plans for Hobart's Airport are underway with the project's proponents hoping to double passenger movements over the next decade.

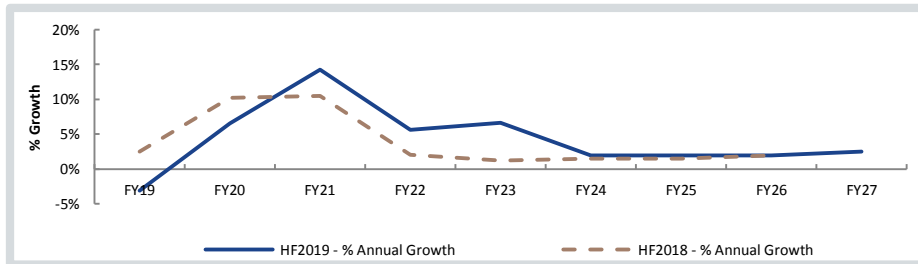


A fully loaded supply pipeline, given the seasonal nature of demand, with 50% under construction and due to arrive over the next two years. Proposal activity is very high relative to market size and above market needs if all eventuate. Significant risk of proposal completion is built into our forecast, although should the majority arrive, there is considerable downside risk for the market in the short term

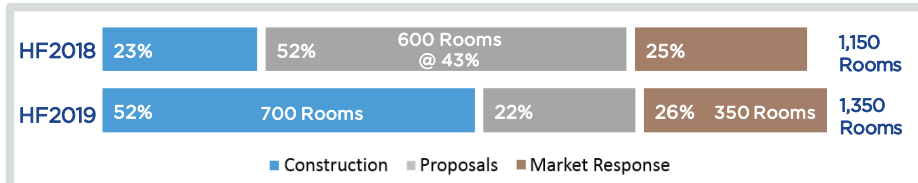
### SUPPLY ACTUAL & FORECAST BY TYPE FY13-FY27



### FORECAST COMPARISON HF18 VS HF19 - % ANNUAL SUPPLY GROWTH



### FORECAST COMPARISON HF18 VS HF19 - PIPELINE BY TYPE TO FY2026



### Supply Actual

- In FY2018 supply increased 14.4%, circa 400 rooms, with two substantial hotels opening being MAC 01 (114 rooms) and the Ibis Styles Hobart (296 rooms)
- Through the first three quarters of FY2019, the Quality Hobart MidCity Hotel (101 rooms) was closed for conversion to student accommodation
- Construction activity is moderate with five known projects currently in the construction phase, making up 50% of the pipeline

### Supply Forecasts

- Dransfield's supply forecast is for a market significant 1,500 new rooms to enter Hobart over the next 9 years to FY2027 (45% of current stock), at an average annual growth rate of 4.3%
  - Our forecast supply pipeline represents a small increase of 200 rooms or 4.6% to our prior forecast from Hotel Futures 2018, driven by movement of proposed projects into the construction phase
  - Supply growth is front ended, peaking in FY2021
  - The live pipeline (recently completed, under construction and proposals) has increased slightly in the same vein. Construction activity accounts for 52% of the forecast rooms, with significant risk attached to projects still in planning
- Proposal activity across the forecast period is high relative to market size, with 1,350 gross additional mooted rooms. Our assessment of probability to complete expects just 22% of these to arrive as presently anticipated
  - Revenue outperformance during the peak months is promoting development activity, however the low season, May through August months, are soft and impacting feasibilities
  - The proposed rooms which haven't started work have been signalled to start to arrive by FY2022, however many of these are at risk of delay. Local groups are opposing some of the high rise developments causing reassessment at the council level, even before funding and feasibility retesting has occurred
  - Some inherent concentration risk is also present with a mooted 1,000+ rooms proposed by a single developer who has recently opened 300 rooms but has seen the other sites delay
  - Our Market Response allowance remains low and is largely in line with previous expectations. These room allowances are, if anything, likely to be taken up by those projects already in the proposal stage with low probabilities assigned rather than substantial new projects
- Supply growth is concentrated in the next 3-4 years from FY2020, with 8.3% p.a. expected through to FY2023. Should supply arrive as outlined, it is unlikely to be fully absorbed through the forecast unless significant demand attraction through the low season eventuates
- The pipeline is skewed towards upscale properties in this cycle, meeting a market shortage for the sophisticated traveller who is looking for experiential nature and food based holidays.



Long term RevPAR expectations are for 2.6% p.a. growth with material supply additions meeting a robust demand profile, albeit a seasonal one. Volatility risk is high and dependent on the outcome of proposed supply. Several large proposals have delayed recently and appear unlikely to materialise at the volume and timing announced

## Conclusion

**The Hobart forecast presents moderate growth over the long term with high volatility risk. Material proposed supply additions can swing the forecast outcome significantly with a disconnect between supply needs in the high versus low season, creating development uncertainty. Visitor growth outlooks are strong and outperforming expectations, although halving from peak to trough months. This forecast is largely dependent on how development behaviour eventuates with upswing and downside risk both present**

The Hobart forecast represents an upgrade to prior expectations with outperforming demand meeting reduced supply. Significant volatility remains in this market, linked to the arrival of proposed supply developments. Slowdowns to several projects appear to signal that feasibility concerns are arising

- Over the period of the forecast, average occupancy expectations are for 77.2%, with short term outperformance before material supply starts to arrives. The occupancy forecast is in line with our previous forecast with only minor movements in absorption timing as supply timelines become clearer
  - In FY2019 occupancy levels benefit from a hotel closure and will likely, increase above 3.5 percentage points
  - Over the medium term to FY2021 occupancy levels will decline as room additions are not fully absorbed in the shoulder months. This effect is likely to continue through to FY2023 as material supply continues despite robust demand expectations
  - Long term occupancy should stabilise in the mid 70%'s
- Rate expectations over the long term are quite benign given the volatility in the wider revenue forecast, with growth expectations in line with inflation. Material risk and opportunity will both present as supply outcomes become clearer
  - Expectations are for low ARR growth over the medium term as new supply, which is already under construction, arrives. The quality of the new product will drive some organic growth although this is at risk of disappearing immediately as existing hotels discount to maintain occupancy, especially during the low season

- The outcome of the proposed developments will impact rates negatively if they do in fact arrive as announced
- Rate growth is expected to increase as we move through the back end of the forecast as supply additions are sparse and occupancy levels slowly improve
- Our forecast is for a high 9.3% increase in average long-term real RevPAR compared to previous expectations. The upgrade lies in recent and short term outperformance
- RevPAR growth rates for the comparable period to FY2026 are in line with prior expectations, from a higher base. Upgraded supply and demand expectations offset each other, maintaining the rate outcome
  - In FY2019, robust RevPAR growth of 8.9% is expected, with high occupancy levels facilitating rate growth in an environment which saw rooms reduce
  - In the medium term to FY2021, average RevPAR growth of 1.3% p.a. is expected as a good two years unwind as double digit supply enters the market affecting both occupancy and rate
  - Long term expectations are inline with low inflation targets and include a late term market recovery following four years of material supply additions which suppress revenue growth opportunities through the medium term
  - Full forecast expectations to FY2027 are for 2.6% growth p.a.



Long term RevPAR expectations are for 2.6% p.a. growth with material supply additions meeting a robust demand profile, albeit a seasonal one. Volatility risk is high and dependent on the outcome of proposed supply. Several large proposals have delayed recently and appear unlikely to materialise at the volume and timing announced

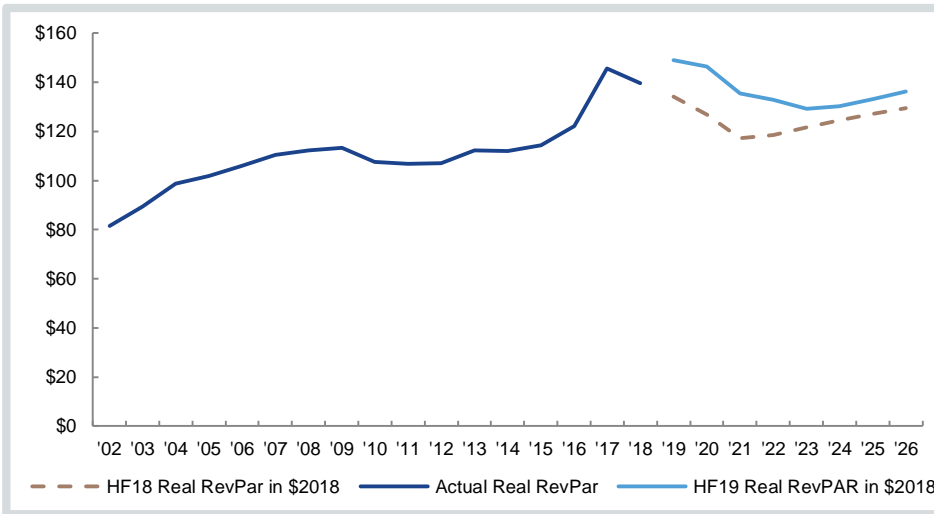
## HOBART - CITY HOTELS, MOTELS AND SERVICED APARTMENTS

### ACTUAL - STR

Year	Sample Size	Sample Coverage	ARR	% Chng	RevPAR	% Chng	\$2018 Real RevPAR	Occ
<b>HISTORICAL</b>								
FY2017			\$172.28		\$142.59			82.8%
FY2018	2,211	66%	\$177.14	2.8%	\$139.54	-2.1%	\$139.54	78.8%

Source: STR

### HOBART CITY REAL REVPAR IN \$2018



\* There is a step in the data from FY2017 onwards being a change from ABS census to STR sample. The STR census data has a higher performance base as properties included are typically skewed towards larger and branded product

### DRANSFIELD FORECAST

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	\$2018 Real RevPAR	Occ
<b>FORECAST</b>									
FY2019	3,166	-3.1%	1.5%	\$184.23	4.0%	\$152.00	8.9%	\$149.02	82.5%
FY2020	3,373	6.6%	6.0%	\$186.07	1.0%	\$152.71	0.5%	\$146.42	82.1%
FY2021	3,853	14.2%	8.0%	\$186.07	0.0%	\$144.39	-5.4%	\$135.40	77.6%
<b>Avg FY 19-21</b>		<b>5.9%</b>	<b>5.2%</b>		<b>1.7%</b>		<b>1.3%</b>	<b>\$143.61</b>	<b>80.7%</b>
FY2022	4,070	5.6%	4.0%	\$190.72	2.5%	\$145.71	0.9%	\$132.92	76.4%
FY2023	4,342	6.7%	4.0%	\$195.49	2.5%	\$145.61	-0.1%	\$129.21	74.5%
FY2024	4,429	2.0%	2.6%	\$201.36	3.0%	\$150.87	3.6%	\$130.22	74.9%
FY2025	4,517	2.0%	2.6%	\$210.42	4.5%	\$158.58	5.1%	\$133.15	75.4%
FY2026	4,608	2.0%	2.6%	\$219.89	4.5%	\$166.69	5.1%	\$136.15	75.8%
FY2027	4,723	2.5%	2.6%	\$229.78	4.5%	\$174.36	4.6%	\$138.54	75.9%
<b>Avg FY22-27</b>		<b>3.5%</b>	<b>3.1%</b>		<b>3.6%</b>		<b>3.2%</b>	<b>\$133.37</b>	<b>75.5%</b>
<b>Total Forecast Avg FY 2019-2027</b>		<b>4.3%</b>	<b>3.8%</b>		<b>2.9%</b>		<b>2.6%</b>	<b>\$136.78</b>	<b>77.2%</b>



In FY2018, Melbourne hotels continued to trade at high levels despite a slight RevPAR decline which was induced by a fall in occupancy as new rooms arrived, with rates holding steady. On the plus side, Melbourne's demand resilience is showcased, absorbing an equivalent of 18% of hotel stock since AirBNB rose to prominence, with occupancy holding steady over the last 5 years at 84-85%. The demand outlook remains strong with increases to typical generators coupled with supply development delays decreasing absorption risk

## FY2018 SNAPSHOT

	STR
Establishments	191
STR Sample Rooms	21,063
STR Sample Coverage	86%
Occupancy	84.4%
Rate	\$196.69
<b>RevPAR</b>	<b>\$166.04</b>

Source: STR

## FY2018 YEAR IN REVIEW

	FORECAST FY2018	ACTUAL FY2018	Variance	
<b>Supply</b>	4.1%	3.8%	-0.2%	▼
<b>Occupancy*</b>	-0.5	-0.9	-0.4	▼
<b>ARR</b>	0.0%	-0.1%	-0.1%	▼
<b>RevPAR</b>	-0.6%	-1.2%	-0.6%	▼

\* Percentage Point Change

Source: STR

### FY2018 Year in Review

- In FY2018 Melbourne Hotels recorded a slight RevPAR decline of 1.2%, inline with our -0.6% expectations
  - Occupancy levels remain very high at 84.4% despite a 1 point decrease, as the city welcomed almost 900 new rooms
  - Rates were maintained indicating the recent compression night ARR erosion caused by shadow stock has fully unwound
- Preliminary STR data for the YTD FY2019 (Apr 2019) indicates a stagnant market. We are continuing to see a slight decrease to occupancy levels as the market absorbs new supply.

### Demand Driver Analysis

#### Melbourne has outperformed TFC tourism forecasts over the last 18 months

- The backbone of core hotel demand creation in this cycle stems from the 500,000sqm of office space slated to open in the Melbourne CBD over the next three years. This is well above the recent realised space of circa 120,000sqm per annum
- The successful re-introduction of event guests through the MCEC will further spur growth outside of organic leisure tourism growth. All segments will be aided by increased room stock availability, with shortages many nights of the week blocking demand growth over the last five years
- City data for FY2018 for Melbourne reveals :-
  - International visitor nights increased by 2.9% to 61M nights
  - Domestic visitor nights increased by 14% to 27M nights
  - Total visitor nights increased by 6.1% to 88M nights, above 5.1% TFC forecasts, of which 19% is captured in hotels
- In FY2018 Melbourne hotel's domestic visitor nights content increased to 66% from 60% previously
- The updated 2019 TFC visitor night forecasts have not been released at the time of this forecast. The long term outlook for FY2020 to FY2027 remains growth of 5.2% p.a:
  - Annual domestic visitor night growth expectations remain at 2.6% p.a
  - Annual international visitor night growth expectations remain at 6.0% p.a

### Dransfield Demand Forecast

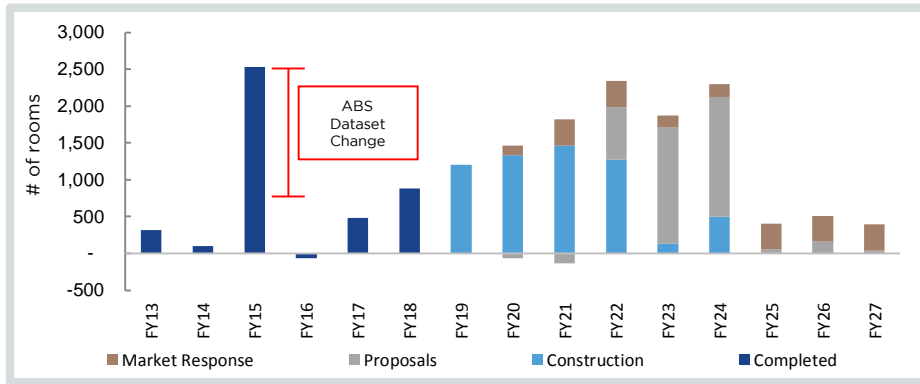
**Annual demand growth of 4.7% is expected for Melbourne City hotels over the long term. This is a slight upgrade to the prior forecast. The scale of office floor space coming online and the continual strength and diversity of events and conference together with enabling supply has influenced our upgrade. Recent city visitor growth outperformance over the last 18 months also influences the hypothesis. Our demand forecast remains 0.5% below TFC expected visitor night growth levels**

- We expect demand to increase 3.8% in FY2019, inline with prior expectations, however, slightly exceeded by supply additions
- Medium term demand growth to FY2021 is expected to average 4.6% p.a, representing a small downgrade to prior expectations as supply development timetables are delayed, constraining rooms available and blocking growth
- Long term growth expectations represent a minor upgrade to the prior forecast driven by improvement to supply availability in the second half and growth in typical STA demand generators.

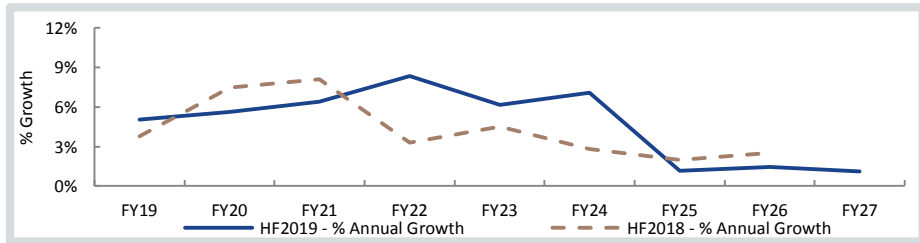


Supply expectations have increased 1% p.a. relative to the prior forecast. These have largely been matched by demand expectations. Development timelines continue to delay, improving absorption and better matching supply and demand growth over the short and medium term. Considerable risk remains in both timing and delivery of much of the pipeline, especially projects early in the planning process and not having commenced construction. Development hurdles continue to tighten with financing becoming a major roadblock as equity needs increase as financier LVR's lower

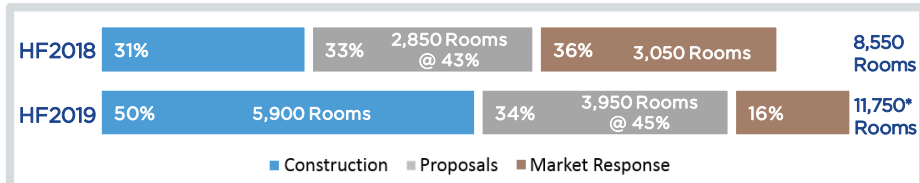
### SUPPLY ACTUAL & FORECAST BY TYPE FY13-FY27



### FORECAST COMPARISON HF18 VS HF19 - % ANNUAL SUPPLY GROWTH



### FORECAST COMPARISON HF18 VS HF19 - PIPELINE BY TYPE TO FY2026



### Supply Actual

- In FY2018, just under 900 new rooms come online, increasing supply by 3.8%
- The majority of these were annualized increases from hotels that opened in late FY2017. Only two new hotels opening their doors during FY2018
- Through the first three quarters of FY2019 the rate of new additions has increased with the market welcoming the dual branded Novotel (213 rooms) and Ibis Melbourne Central (270 rooms), Oaks Southbank (137 rooms) and the Avani (463 rooms). Several more hotels are expected to open before the financial year ticks over
- Construction activity has similarly continued to increase as we move towards the FY2022 development peak. 5,900\* rooms are now in the construction pipeline (\*includes recently opened), representing a 25% increase to current supply levels to be delivered over several years

### Supply Forecasts

- Dransfield's supply forecast is for 12,100 new rooms to enter the market over the next 9 years to FY2027 (51% of current stock) at an average annual growth rate of 4.7%
  - Our forecast supply pipeline represents a moderate increase of 3,150 rooms over the prior forecast, of which around 1,000 are attributed to increased Hotel Futures geographies of South Yarra and South Melbourne (St Kilda Road) which have been added given their growing prominence as CBD alternatives
  - This increase is equivalent to a 1% p.a. increase on the prior forecast, or roughly 400 rooms per year. Relative increases to demand growth are expected, absorbing much of the supply uplift
  - The live pipeline (recently completed, under construction and proposals) has increased from 45 to 70 projects, with 25 projects under construction (49% of forecast)
- Proposal activity across the forecast period is quite high with 9,000 mooted rooms. Our assessment of probability to complete expects 45% of these to arrive as anticipated
  - As a general proposition, we are seeing supply come on at lower numbers and later than proponents initially signal to market. Collectively this can be seen in the forecast comparison graph. Delays make it much easier for the market to absorb new supply
  - We think the delivery of many of the mooted projects will be further delayed as development hurdles are becoming increasingly difficult, however we have largely maintained the developers indicative timing where reasonable
  - Our Market Response allowances have reduced as live projects move into the pipeline and we move further into the cycle. Our forecast Market Response to FY2027 represents 16% of the pipeline compared to 36% in the prior forecast
- Supply growth in the medium term to FY2021 is above long term expectations, and is forecast to average a high 5.7% p.a. (4,300 rooms)
  - This higher level of supply is expected to potentially extend through to FY2024, before a slowdown at the back end of the forecast. Some of this later supply has derived from delays to projects, essentially moving the supply peak back two years, and assists in the natural absorption process
  - We expect supply to be fully absorbed over the long term with occupancy levels returning to current levels at the back end of the forecast
- Luxury projects continue to dominate the news headlines, although all classes are well represented in this cycle. In many cases older stock will need to refurbish to remain competitive.

\* Approx. 1,000 rooms attributed to new geography (South Yarra, South Melbourne) not included in prior forecast





Subdued growth expected with back end outperformance as the market receives consistent additional supply over the next 5-6 years. Our tempered expectations largely derive from a tougher view on rate growth as the larger and more prolonged supply pipeline affects both existing operator sentiment and new hotel discounting. We expect occupancy levels will slightly depress through the height of supply arrivals, largely upheld through considerable growth in demand generators over the parallel period. We expect occupancy to return to current levels at the back end of the forecast

## Conclusion

**Sustained supply additions will test equivalent demand growth and operators may respond with rate competition. Historically, Melbourne's absorption capacity has far surpassed all other markets sentiment, given the strength of demand growth over the long term. The response from operators on rate as supply is introduced poses the volatility risk in the forecast. We expect subdued RevPAR growth through the medium term, and back end outperformance as supply slows**

- In the context of a positive market outlook, the Melbourne RevPAR forecast represents a slight downgrade to prior expectations. The downgrade is through the middle to back half of the forecast, with the three year outlook to FY2021 largely in line with prior forecasts. Supply expectations have increased, however are delayed, which eases the absorption burden. We have taken a tougher view on rates because of the consistency of new supply over many years and the threat of discounting
- Occupancy expectations averaging almost 82% over the forecast period remain very high
  - In FY2019 occupancy levels will contract slightly as new supply arrives and is not immediately absorbed
  - Occupancy levels are expected to trend downward over the next five years despite strong demand growth as sustained supply enters. The take up of considerable new commercial office space through this period is important to hotel supply absorption. This is considered low to moderate risk with substantial tenant pre-commitment a requirement of many financiers to initiate construction
  - Over the back end of the forecast, we expect strong occupancy recovery as the supply pipeline reaches the trough. Typically large projects take 4-6+ years from conception to welcoming the first guests. This means for a new hotel to be delivered through FY2025-FY2027 it will need to initiate planning in the next 3-4 years during the height of the current supply arrival period and this is considered unlikely
- Rate growth expectations averaging 2.7% p.a. have softened to take regard of the additional supply pressures and anticipated operator reaction
  - In FY2019, rates are expected to grow slightly despite recent supply additions, The compression night rate erosion caused by shadow stock appears to have largely unwound
  - Average rate growth at or slightly below inflation is expected to persist through the medium term and likely out to FY2024 as discounting behavior of new entrants and jostling with existing hotels takes effect
  - Over the longer term, we anticipate outperformance as occupancy pressures re-emerge, development activity slows, and the larger luxury segment matures
- Our forecast is for a 5.6% reduction in average long term real RevPAR compared to our previous forecast
- RevPAR growth for the comparable period to FY2026 represents a downgrade to prior expectations. We anticipate average RevPAR growth of 2.2% vs 3.6% p.a. previously
  - In FY2019, we expect to maintain prior year RevPAR, with rate growth offsetting a slight occupancy reduction
  - In the medium term to FY2021, we expect RevPAR growth to be restrained, averaging 0.8% p.a, as supply impacts occupancy and discounting behavior emerges. This subdued performance is likely to persist through to FY2024 as the supply pipeline rounds off with projects conceived at the top of the market
  - Longer term, we expect a distinct recovery to emerge as a window of supply stagnation presents through the middle of the forecast period, essentially placing a cap on what can be delivered at the back end of the forecast period. Growing occupancy levels should facilitate robust rate growth through this period as organic demand growth continues.
  - Full forecast expectations to FY2027 are for 2.8% growth p.a.



Subdued growth expected with back end outperformance as the market receives consistent additional supply over the next 5-6 years. Our tempered expectations largely derive from a tougher view on rate growth as the larger and more prolonged supply pipeline affects both existing operator sentiment and new hotel discounting. We expect occupancy levels will slightly depress through the height of supply arrivals, largely upheld through considerable growth in demand generators over the parallel period. We expect occupancy to return to current levels at the back end of the forecast

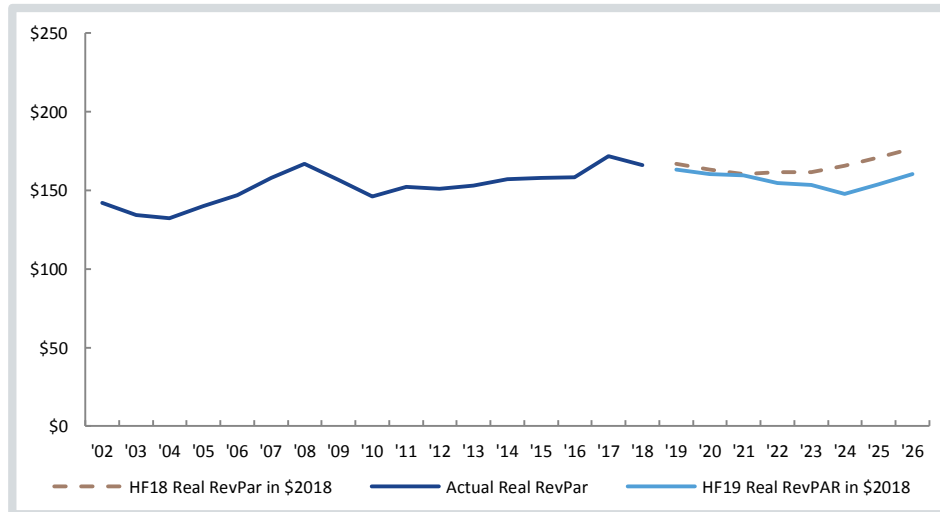
## MELBOURNE - CITY HOTELS, MOTELS AND SERVICED APARTMENTS

### ACTUAL - STR

Year	Sample Size	Sample Coverage	ARR	% Chng	RevPAR	% Chng	\$2018 Real RevPAR	Occ
<b>HISTORICAL</b>								
FY2017			\$196.98		\$168.06			85.3%
FY2018	21,063	86%	\$196.69	-0.1%	\$166.04	-1.2%	\$166.04	84.4%

Source: STR

### MELBOURNE CITY REAL REVPAR IN \$2018



\* There is a step in the data from FY2017 onwards being a change from ABS census to STR sample. The STR census data has a higher performance base as properties included are typically skewed towards larger and branded product

### DRANSFIELD FORECAST

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	\$2018 Real RevPAR	Occ
<b>FORECAST</b>									
FY2019	25,049	5.0%	3.8%	\$199.64	1.5%	\$166.52	0.3%	\$163.26	83.4%
FY2020	26,497	5.8%	4.0%	\$203.63	2.0%	\$167.00	0.3%	\$160.12	82.0%
FY2021	28,145	6.2%	6.0%	\$207.70	2.0%	\$169.98	1.8%	\$159.39	81.8%
<b>Avg FY19-21</b>		<b>5.7%</b>	<b>4.6%</b>		<b>1.8%</b>		<b>0.8%</b>	<b>\$160.92</b>	<b>82.4%</b>
FY2022	30,490	8.3%	6.0%	\$211.86	2.0%	\$169.65	-0.2%	\$154.75	80.1%
FY2023	32,364	6.1%	6.0%	\$216.10	2.0%	\$172.80	1.9%	\$153.33	80.0%
FY2024	34,663	7.1%	6.0%	\$216.10	0.0%	\$171.02	-1.0%	\$147.62	79.1%
FY2025	35,066	1.2%	3.6%	\$225.82	4.5%	\$183.03	7.0%	\$153.68	81.1%
FY2026	35,575	1.5%	3.6%	\$237.11	5.0%	\$196.25	7.2%	\$160.29	82.8%
FY2027	35,969	1.1%	3.6%	\$248.97	5.0%	\$211.14	7.6%	\$167.76	84.8%
<b>Avg FY22-27</b>		<b>4.2%</b>	<b>4.8%</b>		<b>3.1%</b>		<b>3.7%</b>	<b>\$156.24</b>	<b>81.3%</b>
<b>Total Forecast Avg FY 2019-2027</b>		<b>4.7%</b>	<b>4.7%</b>		<b>2.7%</b>		<b>2.8%</b>	<b>\$157.80</b>	<b>81.7%</b>



Market decline of 6% in FY2018, consistent with expectations, as supply is introduced. Two more years of pressure remaining. The long term outlook, however, remains positive as we move into the next cycle, with improved room stock and infrastructure driving demand in a small market being repositioned

## FY2018 SNAPSHOT

	STR
Establishments	66
STR Sample Rooms	7,567
STR Sample Coverage	87%
Occupancy	76.2%
Rate	\$173.73
<b>RevPAR</b>	<b>\$132.43</b>

Source: STR

## FY2018 YEAR IN REVIEW

	FORECAST FY2018	ACTUAL FY2018	Variance	
<b>Supply</b>	8.4%	7.7%	-0.7%	▼
<b>Occupancy*</b>	-1.0	-1.9	-0.9	▼
<b>ARR</b>	-5.0%	-3.6%	1.4%	▲
<b>RevPAR</b>	-6.3%	-6.0%	0.3%	▲

\* Percentage Point Change

Source: STR

## FY2018 Year in Review

- In FY2018 the Perth hotel market continued to decline, recording a 6% reduction in RevPAR, in line with expectations
  - Occupancy levels remain impacted by new supply, falling 1.9 points. Two more years of double digit supply growth still await
  - Rates decreased by 3.6% as hoteliers compete for customers and new hotel opening discounts take effect with offer and counter offer
- Preliminary STR data for FY2019 (YTD Apr 2019) indicates the market decline will continue. Occupancy levels are not fairing well, showing 3 point plus reduction on the p.c.p. Rates, however, appear to be maintaining, bolstered by several new luxury additions to the market, organically increasing the average rate position and stemming the rate of recorded ADR decline

## Demand Driver Analysis

### Perth has underperformed to TFC tourism forecasts over the last 18 months

- Post boom business sentiment in Perth is improving, and not just across commodities. Plant and machinery expenditure, which is often seen as a weather vane for the State's economy grew 30% in the last two years whilst, office vacancies have been falling since 2017 and are tipped to continue. The exchange rate is opening the market to internationals, whilst those domestics which have been shut out due to prices and capacity constraints can be enticed with the string of new supply offerings
- City data for FY2018 for Perth reveals:-
  - International visitor nights decreased by 2.8% to 22M nights
  - Domestic visitor nights increased by 14.4% to 14M nights
  - Total visitor nights increased by 3.4% to 36M nights, below 6.4% TFC forecasts, of which only 15% is captured in hotels which grew at a higher 5.1%
- In FY2018 Perth hotel's domestic visitor nights share increased to 71% from 65% previously
- The updated 2019 TFC visitor night forecasts have not been released at the time of this forecast. The long term outlook for FY2020 to FY2027 remains growth of 4.2% p.a:-
  - Annual domestic visitor night growth expectations remain at 2.8%
  - Annual international visitor night growth expectations remain at 4.9%

## Dransfield Demand Forecast for Perth City Hotels

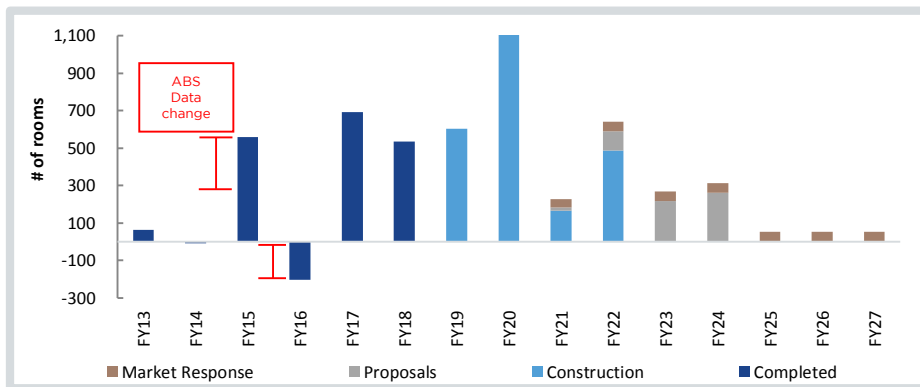
**Annual demand growth of 4.9% is expected for Perth City hotels over the long term to FY2027. This is a minor downgrade to the prior forecast, albeit less than reduced supply expectations**

- Short term demand for FY2019 is benefiting from robust domestic travel. We expect growth of 4.5%
- Medium term demand to FY2021 is expected to outperform the long term, averaging 5.8% p.a, although well below the enabling high supply growth
- Long term demand growth expectations are strong, underpinned by a more rounded market mix base than through the boom period. Improvements to supply quality have been matched by leisure drivers, both infrastructure and events, whilst business sentiment is trending upwards.

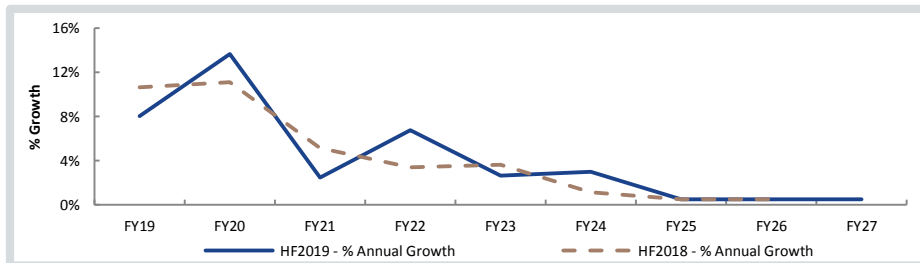


Almost three quarters of the pipeline is under construction and is due to arrive over the next 4 years. Projects which haven't broken ground are at high risk, whilst any additional Market Response is anticipated to be close to zero

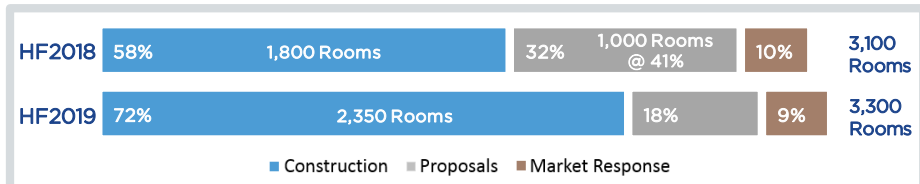
### SUPPLY ACTUAL & FORECAST BY TYPE FY13-FY27



### FORECAST COMPARISON HF18 VS HF19 - % ANNUAL SUPPLY GROWTH



### FORECAST COMPARISON HF18 VS HF19 - PIPELINE BY TYPE TO FY2026



### Supply Actual

- In FY2018, just over 500 rooms came online, increasing supply by 7.7%. The relatively small size of the market means growth rates appear quite large
- The headline properties were the Westin (362 rooms), Intercontinental reopening (240 rooms) and the Tribe (126 rooms). There was a small number of permanent room closures and redevelopments which took some rooms offline during this period
- Through the first three quarters of FY2019 several properties have opened, including the Doubletree by Hilton (205 rooms) and the QT (184 rooms), whilst annualized increases from hotels that opened in late FY2018 also add to net room additions
- Construction activity remains quite high with around 10 projects in progress, which will deliver almost 2,500 rooms

### Supply Forecasts

- Dransfield's supply forecast is for 3,300 new rooms to enter the market over the next 9 years to FY2027 (44% of current stock), at an average annual growth rate of 4.2%
  - Our forecast supply pipeline is in line with our previous forecast from Hotel Futures 2018
  - The live pipeline (recently completed, under construction and proposals) has decreased from 29 to 18 projects following recent openings
- Proposal activity across the forecast period remains quite high with more than 2,000 mooted rooms
  - Many of these appear stalled or delayed. Our assessment of probability to complete expects just 27% of these rooms to arrive as anticipated
  - Our Market Response allowance remains low with soft rates challenging feasibility. Our forecast Market Response to FY2027 represents just 9% of the pipeline
- Supply growth in the medium term to FY2021 is well above long term expectations, and is forecast to average a high 8.0% p.a. (2,000 rooms), with almost all rooms presently under construction
- Supply over the remaining forecast period averages 2.3% p.a, with little to no rooms arriving over the back end as soft development sentiment eventuates following the medium term supply boom
- We expect supply to be fully absorbed over the long term, with occupancy levels once again pushing towards 80% by the end of the forecast
- A fundamental shift in product quality and mix will place the market in good stead for the next decade with a blend of new luxury and upscale properties, and proposed lower positioned assets and serviced apartments. Owners and asset managers of older stock will be assessing their options in the upcoming years, if not already.



Medium term contraction to continue as the peak of the supply cycle takes effect. The market's response to this in terms of further discounting will be interesting with some further downside rate risk present if current trends from Sydney flow through

## Conclusion

### **A positive long term outlook with demand growth to exceed supply, although still 2-3 more years of volatility as new supply delivery peaks**

The Perth forecast represents a small downgrade to prior expectations driven by short term rate underperformance

- Over the period of the forecast, average occupancy of 74.4% is expected with front ended deterioration followed by late term outperformance as demand growth continues and supply additions slow
  - In FY2019 occupancy levels are expected to fall by approximately 2.5 points as we enter the third year of material supply arrivals
  - The medium term occupancy outlook is expected to see two more years of decline before supply slows in FY2021
  - Another small surge of supply through FY2022 or FY2023 will again impact occupancy levels, however, this should be more easily and quickly absorbed with destination marketing and infrastructure already in full swing. The latter years of the forecast are expected to bring strong occupancy increases as minimal additional hotel rooms are expected to be conceived in time for arrival before FY2027
- Rates are expected to average growth of slightly less than 3% over the long term, with distinct medium term underperformance
  - In FY2019 rates should hold up quite well despite a drop in occupancy as luxury tier properties are well represented in new stock, bolstering market averages
  - Over the medium term, rates will be impacted by sustained supply arrivals. Our rate forecast remains volatile despite a fairly neutral response from first responders as new supply came online. Whether this holds up as additions compound the situation remains to be seen. Predicting this behaviour is difficult and often impacted by the location and proximity to competitors and the timing of new openings (high vs low season)
  - A growing events calendar, particularly top tier sporting matches including premier league soccer trials, NRL State of Origin and WA's first ever Bledisloe match, will provide opportunity for an increase in compression night rate yielding
- Longer term there should be ample scope for rate growth as occupancy levels move above 75%
- Our forecast is a minor 2.3% reduction in average long-term real RevPAR compared to our previous forecast. The downgrade is driven by a timing compression in supply expectations which impacts the ability for the market to immediately absorb supply and placing increased and localised pressure on the market to maintain rates
- RevPAR growth for the comparable period to FY2026 has been reduced to 3.2% p.a. from 3.8% p.a. previously
  - In FY2019, we expect a RevPAR decline of circa 4% as supply arrives and is not immediately absorbed
  - In the medium term to FY2021, we expect an average decline of 2.3% p.a. with the majority of the decline concentrated in FY2020 as the bulk of supply under construction arrives. A mini demand led recovery should ensue as supply tapers off, however, downside risk presents and will depend on hoteliers rate response
  - Long term expectations are for a buoyant back end with improved corporate and leisure drivers, in association with a renewed and upscaled product range. Demand is expected to fully absorb material supply additions over time providing strong rate opportunities as occupancy levels improve. Our view remains that it is more a question of when Perth will recover, rather than if it will recover
  - Full forecast expectations to FY2027 are for 3.8% growth p.a.



Medium term contraction to continue as the peak of the supply cycle takes effect. The market's response to this in terms of further discounting will be interesting with some further downside rate risk present if current trends from Sydney flow through

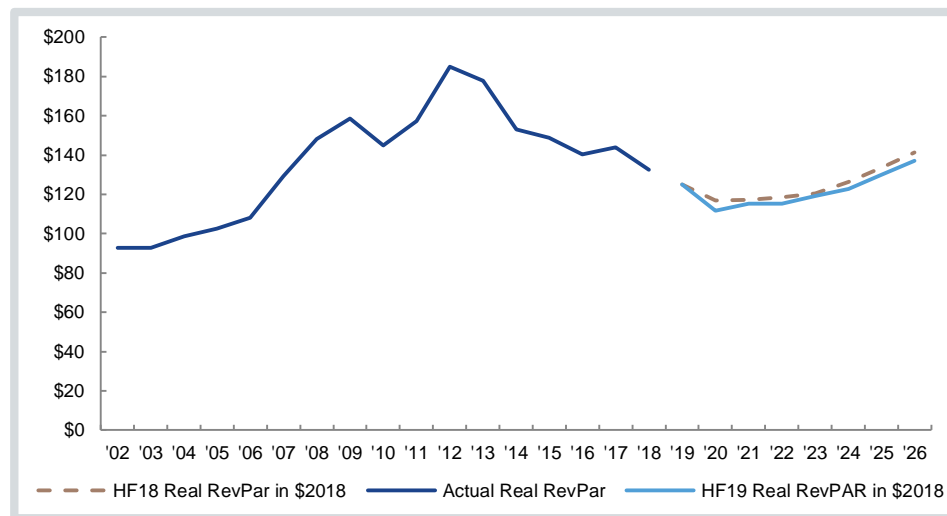
## PERTH - CITY HOTELS, MOTELS AND SERVICED APARTMENTS

### ACTUAL - STR

Year	Sample Size	Sample Coverage	ARR	% Chng	RevPAR	% Chng	\$2018 Real RevPAR	Occ
<b>HISTORICAL</b>								
FY2017			\$180.27		\$140.86			78.1%
FY2018	7,567	87%	\$173.73	-3.6%	\$132.43	-6.0%	\$132.43	76.2%

Source: STR

### PERTH CITY REAL REVPAR IN \$2018



\* There is a step in the data from FY2017 onwards being a change from ABS census to STR sample. The STR census data has a higher performance base as properties included are typically skewed towards larger and branded product

### DRANSFIELD FORECAST

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	\$2018 Real RevPAR	Occ
<b>FORECAST</b>									
FY2019	8,107	8.0%	4.5%	\$172.86	-0.5%	\$127.45	-3.8%	\$124.95	73.7%
FY2020	9,211	13.6%	7.0%	\$167.68	-3.0%	\$116.42	-8.7%	\$111.62	69.4%
FY2021	9,440	2.5%	6.0%	\$171.03	2.0%	\$122.82	5.5%	\$115.17	71.8%
<b>Avg FY19-21</b>		<b>8.0%</b>	<b>5.8%</b>		<b>-0.5%</b>		<b>-2.3%</b>	<b>\$117.25</b>	<b>71.7%</b>
FY2022	10,080	6.8%	6.0%	\$177.02	3.5%	\$126.19	2.7%	\$115.11	71.3%
FY2023	10,350	2.7%	5.0%	\$184.10	4.0%	\$134.20	6.3%	\$119.08	72.9%
FY2024	10,664	3.0%	4.0%	\$193.30	5.0%	\$142.24	6.0%	\$122.78	73.6%
FY2025	10,717	0.5%	4.0%	\$202.97	5.0%	\$154.55	8.7%	\$129.77	76.1%
FY2026	10,771	0.5%	4.0%	\$213.11	5.0%	\$167.93	8.7%	\$137.17	78.8%
FY2027	10,825	0.5%	4.0%	\$223.77	5.0%	\$182.47	8.7%	\$144.98	81.5%
<b>Avg FY22-27</b>		<b>2.3%</b>	<b>4.5%</b>		<b>4.6%</b>		<b>6.8%</b>	<b>\$128.15</b>	<b>75.7%</b>
<b>Total Forecast Avg FY 2019-2027</b>		<b>4.2%</b>	<b>4.9%</b>		<b>2.9%</b>		<b>3.8%</b>	<b>\$124.51</b>	<b>74.4%</b>



In FY2018 Sydney hotels reacted well to new supply, however, have since been dropping rates despite market wide occupancy above 87%. Demand growth continues to be limited by room availability with no real prospect for the market to deliver demand growth in the short term despite ample latent opportunity. This opportunity will increase as we move through the forecast and new supply is delivered

## FY2018 SNAPSHOT

	STR
Establishments	150
STR Sample Rooms	21,195
STR Sample Coverage	92%
Occupancy	87.8%
Rate	\$263.58
<b>RevPAR</b>	<b>\$231.42</b>

Source: STR

## FY2018 YEAR IN REVIEW

	FORECAST FY2018	ACTUAL FY2018	Variance	
<b>Supply</b>	4.1%	3.8%	-0.3%	▼
<b>Occupancy*</b>	-0.1	-1.0	-0.9	▼
<b>ARR</b>	5.8%	4.5%	-1.3%	▼
<b>RevPAR</b>	5.7%	3.2%	-2.4%	▼

\* Percentage Point Change

Source: STR

## FY2018 Year in Review and FY2019 YTD

- In FY2018 Sydney Hotel RevPAR increased, albeit slightly below expectations, recording 3.2% RevPAR growth
  - Occupancy levels reduced slightly (1 percentage point), of which, the majority occurred in July rather than a sustained downward trend. Overall we think the slight drop is more concerned with room block availability from high occupancy which means multiple sequential days are not available in individual hotels, rather than an effect of new supply. Occupancy levels remain extremely high at 87.8% for the overall market, and even higher for many investment grade properties
  - Rate growth continued to improve despite the slight reduction in occupancy levels. In a market with 87%+ occupancy we would still expect rate yield opportunity as peak nights remain largely sold out
- Preliminary STR data for the YTD FY2019 (Apr 2019) is showing moderate rate driven market contraction, with hoteliers appearing to overreact to a slight softening in occupancy, despite levels remaining ultra high
- Jerry Schwartz, Australia's largest private hotel owner, famously broadcast that Sydney Hoteliers need to "MAINTAIN RATES" at a conference in front of 700 industry heavyweights. This reflects Owner concerns with counterintuitive rate behaviour for this corporate powerhouse and gateway market

## Demand Driver Analysis

### Sydney demand growth has slightly underperformed to TFC forecasts over the last 18 months, blocked by limited room availability

A combination of micro demand side factors including stadium issues impacting sporting and music events in the CBD catchment, and office supply availability, will affect medium term growth. Longer term, new office supply and refurbishments coming back online are substantial from FY2022, and largely in line with the peak of new hotel supply. This should positively impact corporate demand and help absorb the new rooms

- City data for FY2018 for Sydney reveals :-
  - International visitor nights increased by 3.2% to 80M nights
  - Domestic visitor nights increased by 5.5% to 28M nights
  - Total visitor nights increased by 3.8% to 108M nights, slightly below the 6.6% TFC forecasts, of which only 18% is captured in hotels
- In FY2018 Sydney hotel's domestic content in hotels increased to 54% from 51% previously
- Updated 2019 TFC visitor night forecasts have not been released and the long term outlook for FY2020 to FY2027 remains growth of 4.9% p.a:-
  - Annual domestic visitor night growth expectations remain at 2.3% p.a
  - Annual international visitor night growth expectations remain at 5.7% p.a

## Dransfield Demand Forecast

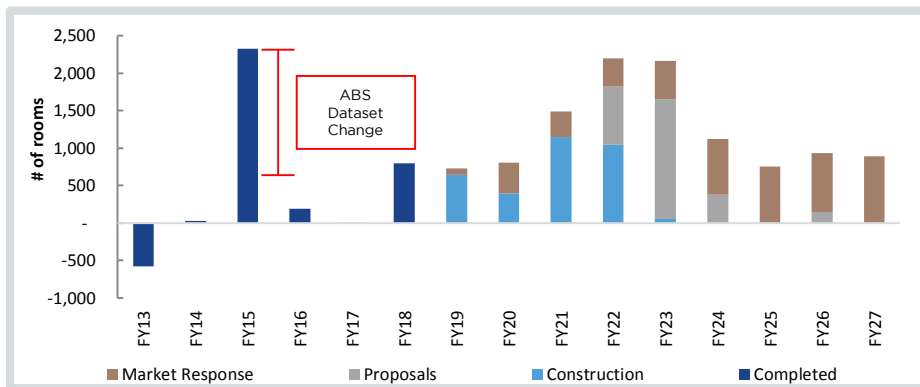
**Annual demand growth of 4.7% is expected for Sydney hotels over the long term, which is inline with prior expectations. Demand growth opportunities present through the medium and longer term as enabling supply arrives. Our demand forecast is marginally lower than TFC expected visitor night growth levels**

- We expect demand to increase 2.5% in FY2019, which is slightly exceeded by supply additions
- Medium term demand growth to FY2021 is expected to average 4.2% p.a, representing a minor downgrade to prior expectations. The forecast is affected by the soft FY2019 and delays to supply timetables blocking room availability
- Long term demand growth expectations are supply constrained and will continue to be as the city fails to deliver enough rooms to bring the occupancy environment into better equilibrium. Constraints will only be eased if the substantial Market Response allowances are able to be delivered which may require a change in regulatory and market behaviour.

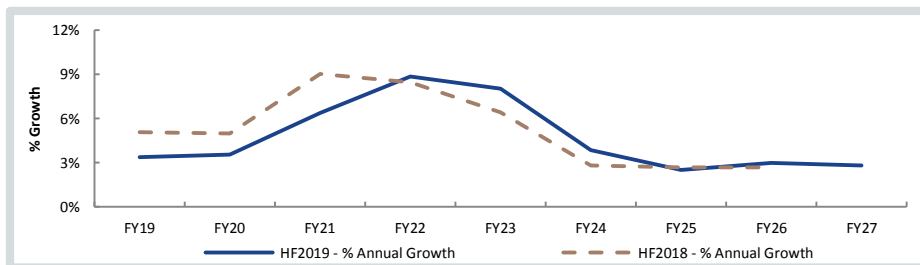


Hotels began to arrive in FY2018 with low levels of growth to continue in the medium term with most known projects now under construction. Development activity has been slightly delayed, as has volume. Pipeline risk is quite high with a significant proportion of our forecast not yet sited. Alternative use remains the major impediment despite latent demand, combined with a typically slow total delivery process

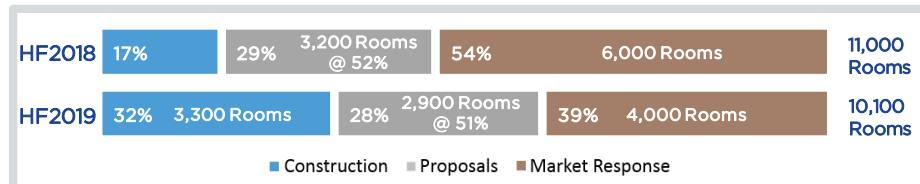
### SUPPLY ACTUAL & FORECAST BY TYPE FY13-FY27



### FORECAST COMPARISON HF18 VS HF19 - % ANNUAL SUPPLY GROWTH



### FORECAST COMPARISON HF18 VS HF19 - PIPELINE BY TYPE TO FY2026



### Supply Actual

- In FY2018, Sydney welcomed 800 new rooms, increasing supply by 3.8%. This is largely consistent with organic growth
- Through the first three quarters of FY2019, opening activity remains low with only the Four Points Central Park (297 rooms), Crowne Suites by Sky (73 rooms) and the Little Albion Guesthouse (35 rooms) opening their doors
- Construction activity has increased on a rooms basis with several projects breaking ground. The bulk of these are due to arrive in 2-3 years

### Supply Forecasts

- Dransfield's supply forecast is for 11,100 new rooms to enter the market over the next 9 years to FY2027 (51% of current stock) at an average annual growth rate of 4.7%
  - Our forecast supply pipeline is slightly below with our prior forecast from *Hotel Futures 2018*
  - The live pipeline (recently completed, under construction and proposals) has decreased slightly from 60 to 50 projects, with a number of very small boutique properties opening. Construction activity accounts for 32% of the forecast rooms
- Proposal activity across the forecast period is quite high with 5,600 mooted rooms. Our assessment of probability to complete expects 51% of these to arrive as anticipated
  - As a general proposition, we are seeing supply come on at lower numbers and later than proponents initially signal to market. Collectively this can be seen in the forecast comparison graph. Delays make it much easier for the market to absorb new supply
  - Our Market Response allowance remains very high, although has reduced as live projects move into the pipeline and we move further into the cycle. Our forecast Market Response represents 44% of the pipeline compared to 54% in the prior forecast. Considerable scope for additional development remains, however current market dynamics, including availability of sites, and highest and best use alternatives, continues to limit new active proposals
- Supply growth in the medium term to FY2021 is slightly below long term expectations, and is forecast to average a moderate 4.4% p.a. (3,000 rooms)
  - The current supply peak sits a year later in FY2022, and extends into the next year. There is a strong possibility of delays, as the majority of these projects are still in the planning stage
  - We expect supply to be fully absorbed over the long term with occupancy levels strengthening as we move towards the end of the forecast
  - Should short term revenue growth underperform, we expect the delivery of Market Response will delay as development feasibility, particularly compared to other asset classes, does not stack
- All class tiers are well represented across the pipeline with particular geographical concentration through the Western section of mid town and down through to Haymarket. This is largely a result of site availability and best use competition. Average project size is circa 160 rooms and many are part of a mixed use development. Only 7 projects are slated for more than 300 rooms.





Long term RevPAR forecasts are only slightly above inflation expectations despite ultra high occupancy. Growth appears restrained by nervous hoteliers who are not just missing rate growth opportunities, but actually reducing them!! Market volatility will persist through the forecast as material and consistent supply arrives and performance will be largely dependent on hotelier behaviour on rate rather than well founded absorption concerns. The forecast is somewhat counterintuitive, although in line with hoteliers current attitude on rate

## Conclusion

**Rate trepidation re-emerges despite ultra high occupancy levels, albeit marginally softer. The behavioural response from hoteliers diverges from macroeconomic supply and demand theory, with short term reporting appearing to take precedence over long term asset value. This is causing a drag on rate growth and our forecast is resetting on a similar path from a lowered 2019 commencement point**

The Sydney forecast is for moderate, above inflation growth, although represents a moderate downgrade to the prior forecast, driven by unexpected short term rate decline in FY2019

- Over the period of the forecast, the market is expected to maintain average occupancy levels above 86%. Occupancy will be impacted by consistent supply additions through the middle of the forecast, although this is expected to be absorbed over the longer term, being just above organic growth. Long term occupancy risk is considered low
  - In FY2019, occupancy levels are expected to decline slightly (<1%), with a reduction in big ticket sporting events, room availability blocking conferencing, and a slight timing related reduction in office space availability as they close for refurbishment, reducing corporate travel
  - Over the medium term to FY2021, occupancy levels will hover at or around current levels, with larger supply expectations expected to begin to arrive at the end of this period
  - We expect occupancy levels to dip towards 85% briefly through FY2023 or FY2024 as supply comes online. The compounding effect of consistent material supply additions may take some time to fully absorb
- Rate expectations of 3.2% growth p.a. are slightly above inflation targets, although have been scaled back given hoteliers limited propensity to drive this lever more recently
  - There remains both downside risk and upside opportunity in the rate forecast based on how hoteliers react to supply. The threat of discounting will increase as supply arrives and operators look to maintain or build market share despite the market's capacity to absorb all new rooms
  - Medium term rate growth of 1.3% p.a. is forecast, significantly affected by an expected 3% decline in FY2019. The medium term is well below the long term average as front loaded new supply is absorbed
- Rate growth is expected to improve as we move towards the back of the forecast with any demand or rate underperformance in the short and medium term likely to manifest in lower and later arrival of proposed supply and market response, placing more upward pressure on back end rate. Historically in Sydney, when rates move, they move a lot
- Our forecast is for a 10% decrease in average long-term real RevPAR compared to our prior forecast, from a slightly lower base. Inflation has been downgraded, partially affecting the decrease, although the rate growth downgrade is the primary driver
- RevPAR growth for the comparable period to FY2026 remains positive, although has been reduced to 2.9% p.a. from 4.3% p.a. previously
  - In FY2019, RevPAR decline of 3.8% is expected with a minor reduction in occupancy levels leading to a large and overinflated decline in rates. This behaviour appears to be hotelier nervousness in forward holdings based on the threat of new supply and a need to satisfy short term market penetration targets
  - In the medium term to FY2021, RevPAR growth is dragged by the weak FY2019, and is expected to average a low 1.1% p.a. Hoteliers are unlikely to take advantage of rate opportunities available in the extreme occupancy environment. Our previous forecast predicted an element of risk present in the forecast should hoteliers react conservatively to new supply. This has come to fruition earlier than expected and well above what rational economics dictates in a high occupancy market
  - Long term expectations remain positive, underpinned by average occupancy above 85%. Consistent supply arrivals through the middle of the forecast are expected to be fully absorbed creating rate growth opportunities. We expect the back end of the forecast will outperform the first half
  - Full forecast expectations to FY2027 are for 3.2% growth p.a.



Long term RevPAR forecasts are only slightly above inflation expectations despite ultra high occupancy. Growth appears restrained by nervous hoteliers who are not just missing rate growth opportunities, but actually reducing them!! Market volatility will persist through the forecast as material and consistent supply arrives and performance will be largely dependent on hotelier behaviour on rate rather than well founded absorption concerns. The forecast is somewhat counterintuitive, although in line with hoteliers current attitude on rate

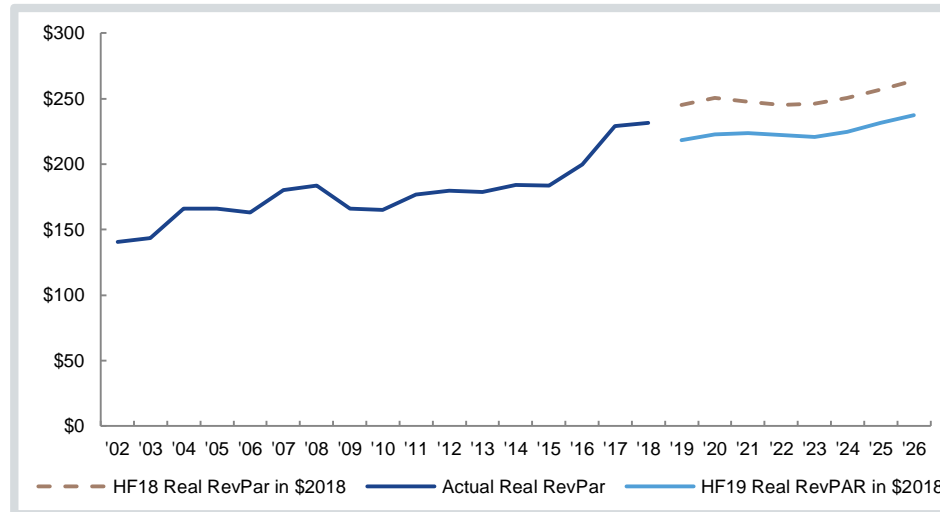
## SYDNEY - CITY HOTELS, MOTELS AND SERVICED APARTMENTS

### ACTUAL - STR

Year	Sample Size	Sample Coverage	ARR	% Chng	RevPAR	% Chng	\$2018 Real RevPAR	Occ
<b>HISTORICAL</b>								
FY2017			\$252.33		\$224.17			88.8%
FY2018	21,195	92%	\$263.58	4.5%	\$231.42	3.2%	\$231.42	87.8%

Source: STR

### SYDNEY CITY REAL REVPAR IN \$2018



\* There is a step in the data from FY2017 onwards being a change from ABS census to STR sample. The STR census data has a higher performance base as properties included are typically skewed towards larger and branded product

### DRANSFIELD FORECAST

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	\$2018 Real RevPAR	Occ
<b>FORECAST</b>									
FY2019	22,568	3.4%	2.5%	\$255.67	-3.0%	\$222.60	-3.8%	\$218.23	87.1%
FY2020	23,374	3.6%	4.0%	\$265.90	4.0%	\$232.46	4.4%	\$222.89	87.4%
FY2021	24,859	6.4%	6.0%	\$273.88	3.0%	\$238.64	2.7%	\$223.77	87.1%
<b>Avg FY19-21</b>		<b>4.4%</b>	<b>4.2%</b>		<b>1.3%</b>		<b>1.1%</b>	<b>\$221.63</b>	<b>87.2%</b>
FY2022	27,059	8.8%	8.0%	\$282.09	3.0%	\$243.88	2.2%	\$222.46	86.5%
FY2023	29,226	8.0%	7.0%	\$290.56	3.0%	\$248.85	2.0%	\$220.81	85.6%
FY2024	30,348	3.8%	4.5%	\$302.18	4.0%	\$260.45	4.7%	\$224.81	86.2%
FY2025	31,107	2.5%	3.4%	\$317.29	5.0%	\$275.87	5.9%	\$231.64	86.9%
FY2026	32,039	3.0%	3.4%	\$333.15	5.0%	\$290.80	5.4%	\$237.52	87.3%
FY2027	32,936	2.8%	3.4%	\$349.81	5.0%	\$307.12	5.6%	\$244.02	87.8%
<b>Avg FY22-27</b>		<b>4.8%</b>	<b>5.0%</b>		<b>4.2%</b>		<b>4.3%</b>	<b>\$230.21</b>	<b>86.7%</b>
<b>Total Forecast Avg FY 2019-2027</b>		<b>4.7%</b>	<b>4.7%</b>		<b>3.2%</b>		<b>3.2%</b>	<b>\$227.35</b>	<b>86.9%</b>

# 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.

## Sources of Historic Forecast Data

Where it is noted that ABS or STR 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.

## STR Global

STR is the source for premium global data benchmarking, analytics and marketplace insights. They provide data that is confidential, reliable, accurate and actionable, and their comprehensive reports empower our clients to strategize and compete within their respective markets.

Founded in 1985, STR's presence has expanded to 17 countries around the world with a corporate North American headquarters in Hendersonville, Tennessee, and an international headquarters in London, England.

The cornerstone of their business from the start has been the hotel industry. Today, they receive data from more than 59,000 hotels in over 185 countries around the world. Their vision for the future is to be a trusted advisor, partner and innovator for any global industry that relies on data. Today, their range of products includes data-driven solutions, daily and historic analytics, and unrivalled market insights, all to help their clients make better business decisions.

## Historical Changes to Australian Bureau of Statistics and TRA Methodology

Historical changes to our ABS and TRA Methodology can be found in past editions of Hotels Futures, which are available on request.

## Supply Base

Our Supply base is derived from historic ABS census data and an internal census database which relies on a series of various sources to infill. We cross reference with the STR census database.

There is sometimes disparity between various census databases which comes down to how the timing of new properties are calculated, the inclusion or exclusion of properties based on quality or size, and the in and outflows of rooms in letting pools, particularly in Queensland.

## 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 and identified trigger points in key revenue metrics.

# METHODOLOGY & BACKGROUND

## Demand

Our demand forecasts are partly based on international and domestic visitor forecasts published by Tourism Research Australia (TRA). They also require a level of subjective judgment. In August 2017, TRA released which were relied upon in the 2018 edition of Hotel Futures. The scheduled update to these forecast has not been released at the time of publish for this 2019 edition, therefore our base demand indicator has not changed.

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

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

International visitor forecasts are now undertaken on a state by state and Capital City 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 demand figures estimated in Hotel Futures therefore require a significant subjective assessment.

In our analysis, the TRA 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 TRA 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.

# DATA GEOGRAPHY

Our historical and forecast data, both ABS and STR, is based on the geographic regions listed below. Our typical approach is based on core CBD and high concentration fringe areas which are considered to be strongly competitive to the core location. Geographic areas are reviewed periodically, generally as development activity expands outwards. Small variations may exist between ABS and STR geographic regions, which have partly affected the different census sizes

Adelaide

Adelaide, North Adelaide

Brisbane

Brisbane City, Fortitude Valley, Kangaroo Point, South Brisbane, Spring Hill

Cairns

Cairns City, Port Douglas

Canberra

Belconnen, Hawker, ACT – East, Majura, Gaungahlin, Nicholls, Acton, Ainslie, Braddon, Civic, Dickson, Lyneham, O’Connor (ACT), Watson, Forrest, Griffith (ACT), Kingston, Barton, Narrabundah, Yarralumla, Greenway, Curtin, Phillip

Darwin

Darwin City, Fannie Bay, The Gardens, Larrakeyah, Parap, Woolner, Winnellie, Bayview, Berrimah, Jingili, Lyons (NT), Malak – Marrara, Humpty Doo, Palmerston – North

Gold Coast

Burleigh Heads, Mermaid Beach – Broadbeach, Mermaid Waters, Miami, Coolangatta, Currumbin – Tugun, Palm Beach, Biggera Waters, Labrador, Paradise Point – Hollywell, Runaway Bay, Tamborine – Canungra, Currumbin Valley, Tallebudgera, Carrara, Nerang – Mount Nathan, Coomera, Hope Island, Ormeau – Yatala, Varsity Lakes, Southport, Benowa, Main Beach, Surfers Paradise, Beaudesert

Hobart

Brighton – Pontville, Cambridge, Lindisfarne – Rose Bay, Claremont (Tas.), Derwent Park – Lutana, Montrose – Rosetta, New Norfolk, Hobart, New Town, Sandy Bay, West Hobart, Forestier – Tasman, Central Highlands

Melbourne

Albert Park, Carlton, Docklands, East Melbourne, Flemington, Melbourne, Moonee Ponds, North Melbourne, Parkville, South Melbourne, South Yarra – East, South Yarra – West, Southbank

Perth

Burswood, Lathlain, Perth City, Victoria Park

Sydney

Darlinghurst, Potts Point – Woolloomooloo, Pyrmont – Ultimo, Redfern – Chippendale, Surry Hills, Sydney – Haymarket – The Rocks

# 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 specific supply projects which have been conceptualised and are either in construction or mooted

Major Cities

Refers to the cumulative 10 major cities forecast in this document, being Adelaide, Brisbane, Cairns & Port Douglas, Canberra, Darwin, Gold Coast, Hobart, Melbourne, Perth and Sydney

Market Response

Supply allowance over and above the Live Pipeline which have not yet been conceptualised, but are expected given market conditions

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 2018 dollars to remove the effect of inflation. Previously defined in Hotel Futures as Real Yield.

Tourism Research Australia (TRA)

TRA is a branch within the Tourism Division of Austrade. It is charged with providing official long-term forecasts for Australia's international, domestic, and outbound tourism sectors, usually in April and October

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.

Yoy

Year on year change

## TABLE REFERENCES

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 calculated by multiplying supply by the reported occupancy.

# SOURCES OF DATA

ABS – Australian Bureau of Statistics  
[www.abs.gov.au](http://www.abs.gov.au)

STR  
[www.str.com](http://www.str.com)

Tourism Research Australia (TRA)  
[tra.gov.au](http://tra.gov.au)

- 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)

Data from STR as published in custom destination report for Dransfield Hotels and Resorts.

For year on year growth rates as published in:

- 2018, June, STR Global, Ltd. Australia and New Zealand Hotel Review

For month on month and year to date growth rates for FY2019 as published in:

- 2019, April STR Global, Ltd. Dransfield Hotels & Resorts

Data relating to historical and forecast demand as published by TRA:

- State and Territory Tourism Forecasts 2017 (tables)

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 Hotels and Motels
- TRA State of Industry 2017-18, April 2019