

HOTEL FUTURES UPDATE FY2016 YEAR IN REVIEW

In FY2016 Australian capital city hotels recorded 3.6% RevPAR growth, according to the ABS. This outperformed the 1.3% expectations of *Hotel Futures 2016* (May 2016) as occupancy tightened to unprecedented levels approaching 78%, enabling rate outperformance. National City forecasts for Revenue, Supply and Demand are all likely to be upgraded

FY2016 Overview

Australian Capital City Hotel Markets (weighted) recorded 3.6% revenue growth (RevPAR), with increases to both Occupancy and Rate

- 7 of the 10 major cities covered in *Hotel Futures* experienced growth, led by Cairns (11.2%) and Sydney (9.7%)
- Resource centric markets continued to correct with Darwin (-16.8%), Perth (-4.8%) and Brisbane (-4.3%) recording declines
- The STR sample, which typically represents higher quality and larger scale operations, and which generally outperforms the ABS survey, recorded slightly higher RevPAR growth of 4.0% over the same period. There were some materially divergent results recorded between ABS and STR results which is partly dataset but mostly changes in ABS methodology

Supply

- In FY2016 Australian City supply increased by 0.9%, slightly below our 2.0% expectations
- We suspect that the majority of the difference is a gap in ABS collection of data for newly opened properties. This will likely unwind over the next year
- Our *Hotel Futures 2016* supply expectations includes a reasonable proportion of Market Response rather than live proposals, some of this Market Response has infilled however significant scope remains for new development across most of the major markets
- Long term supply expectations are likely to be slightly upgraded in *Hotel Futures 2017* as positive market sentiment continues to filter through to developers and investors

Demand

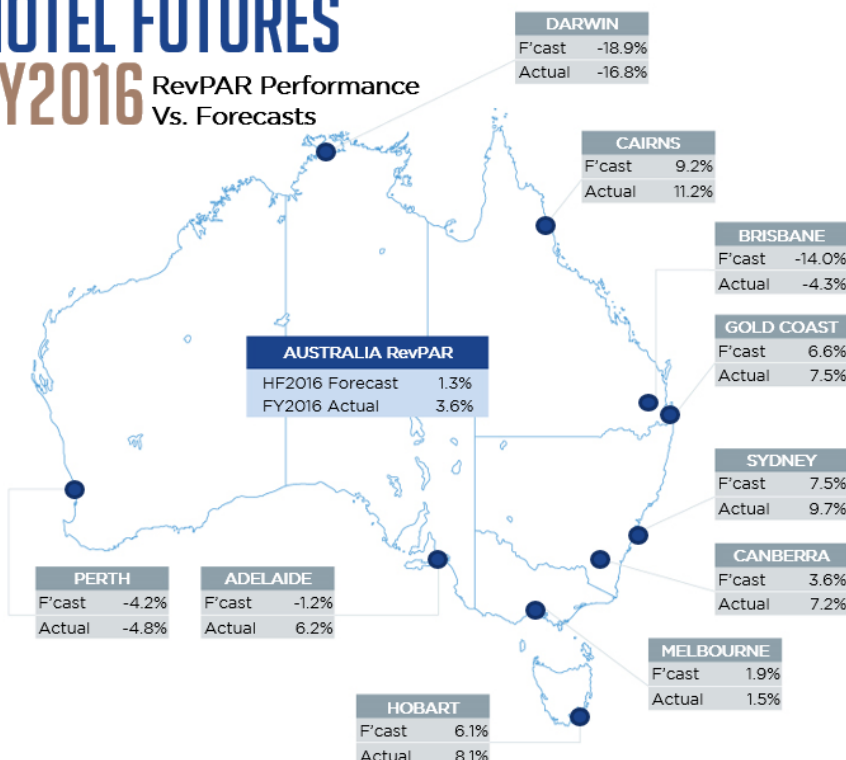
- In FY2016 Australian Capital Cities recorded 2.3% demand growth, in part assisted by a sharp increase in leisure nights. Occupancy levels strengthened to historic highs of 77.9%
- International visitor nights increased 5.2% to 248M, following significant 8.2% growth in the prior year. International holiday maker nights increased 14.1% whilst the smaller International business market declined
- Domestic visitor nights also increased, growing 4.8% to 328M. Holiday makers displayed the highest growth (8.9%) with Business (2.4%) and VFR (1.0%) trailing
- Long term Demand expectations for 3.7% growth p.a to FY2024 are also likely to be slightly increased in *Hotel Futures 2017*

Average Room Rate (ARR) & RevPAR

- Rate growth of 2.1% was well above our 1.0% expectations, bolstered by the buoyant Sydney market
- Long term rate expectations for 3.8% growth p.a to FY2024 are likely to be slightly increased in *Hotel Futures 2017*
- The overall forecast, measured by RevPAR is likely to be slightly increased

For more information on the ABS Tourist Accommodation data, please visit the Australian Bureau of Statistics' website www.abs.gov.au

HOTEL FUTURES FY2016 RevPAR Performance Vs. Forecasts



RevPAR Growth Results – FY16

	ABS	STR
Adelaide	6.2%	2.0%
Brisbane	-4.3%	-11.5%
Cairns	11.2%	11.6%
Canberra	7.2%	1.6%
Darwin	-16.8%	-14.6%
Gold Coast	7.5%	8.0%
Hobart	8.1%	12.2%
Melbourne	1.5%	2.6%
Perth	-4.8%	-3.9%
Sydney	9.7%	8.1%
Australia	3.6%	4.0%

FY2016 CITY PERFORMANCE

ADELAIDE

In FY2016 Adelaide Hotels easily outperformed poor expectations with improvement in both occupancy and rate, however ambiguous results have been reported

- Healthy RevPAR growth of 6.2% was well above our expected decline (-1.2%) as hoteliers respond to increased occupancy by taking up rate opportunities
- Occupancy levels recorded in the ABS improved 1.5 points to 75.3%, well above STR results and our *Hotel Futures 2016* expectations
- Rates grew 4.1%, well above our 0.5% expectation as demand growth outpaced supply additions and created opportunity for hoteliers to move on rate
- Performance recorded by the ABS was inconsistent with the STR sample. The STR sample of higher quality hotels performed poorer than ABS data, recording 2.0% growth. STR displayed occupancy growth of just 0.1 points
- There has not been any substantial change to the new supply environment over the period. We are presently unlikely to significantly alter our Hotel Futures 2016 supply forecast
- Long term RevPAR growth expectations of 3.6% p.a are likely to be maintained, or slightly reduced, in Hotel Futures 2017 given a much higher base following the outperformance in FY2016

BRISBANE

No break for Brisbane Hoteliers as the market continues to contract, albeit, less than expected

- Recorded RevPAR decline of 4.3% significantly outperformed very poor expectations for more substantial decline of 14.0%
- STR sample data, which typically includes larger and branded hotels and outperforms ABS, indicates much more pronounced decline of -11.5%, in line with our expectations, and casting doubt on the accuracy of the ABS data
- Occupancy levels fell 0.8 points to 73% as new supply was unable to be absorbed in an environment of softening demand. This inhibited rate performance with ADR falling 3.3%
- Meaningful supply additions are expected over the next 3 years at a time of market softness. There is no case for major increases to the supply pipeline in *Hotel Futures 2017*, however there are still a number of signs of pre-development activity
- Long term RevPAR expectations for 3.2% growth p.a are likely to be maintained in *Hotel Futures 2017*. Some downside risk is present given the higher base following outperformance in FY2016

CAIRNS & PORT DOUGLAS

In FY2016, the Cairns & Port Douglas STA market was the highest growth Capital city market in the country, buoyed by resurgent international and domestic leisure visitors

- Significant RevPAR growth of 11.2% exceeded our already robust 9.2% expectations as Australian leisure markets continue to prosper
- Occupancy levels improved 3.3 points to 68.2%, facilitating rate movement. This is the highest level achieved in more than a decade
- Rates grew by a strong 5.8%, slightly above our expectations
- The STR sample of generally higher quality hotels recorded similar RevPAR growth of 11.6%, with slightly higher occupancy growth than the ABS set
- Certainty surrounding the proposed Aquis development has not progressed, stalling prospective developers plans for additional development. It is unlikely that we will materially alter our low supply expectations
- Long term RevPAR expectations for 5.3% growth p.a are expected to be maintained in *Hotel Futures 2017* off a slightly higher base

CANBERRA

Canberra recovery begins following 3 consecutive years of contraction

- Canberra recorded healthy RevPAR growth of 7.2%, exceeding our recovery expectations which were for lesser growth of 3.6%
- Occupancy levels improved by 2.4 points and tipped back above 70% for the first time since FY2012. This allowed rates to consolidate
- Rates strengthened by 3.6%, above our 2.0% expectations, also impacted by improving quality of stock as a number of refurbishments take effect
- The STR sample of higher quality hotels recorded significantly lesser RevPAR growth of 1.6% with occupancy levels displaying marginal decline
- The pipeline for new supply in Canberra is limited. Despite strong performance in FY2016, we are unlikely to materially alter our supply forecast in Hotel Futures 2017
- Long term RevPAR expectations for 4.4% growth p.a are likely to be largely maintained in *Hotel Futures 2017*, off a higher base

FY2016 CITY PERFORMANCE

DARWIN

Darwin's hotels had the most significant decline of all major markets as the correction continued following a short period of extreme, resource construction related, demand outperformance

- Significant 16.8% RevPAR decline experienced as new supply was not absorbed placing downward pressure on occupancy and rate
- Occupancy levels fell 7.1 points to 61.6%, despite a slight increase in demand, as new supply came online and was not absorbed
- Reduced occupancy forced hoteliers to compete on rate as long term contracts completed. ADR fell 7.3%
- The STR sample of higher quality hotels recorded slightly lesser decline of 14.6%, with greater occupancy maintenance
- There are limited prospects for additional new hotel development. We do not expect to materially shift our low supply forecast in *Hotel Futures 2017*
- Long term RevPAR expectations for 2.1% growth p.a are likely to be slightly downgraded as demand expectations are softened

GOLD COAST

Robust performance follows Country leading growth in the prior year as the Australian leisure market revival continues

- RevPAR growth of 7.5% outperformed already strong 6.6% forecasts, driven by strong increase to leisure demand
- Occupancy increased 3.0 points to 72.3%, the first time the market has recorded above 70% since FY2007
- Rates responded, strengthening 3.2%, slightly behind our 4.0% expectations
- The STR sample displayed similar RevPAR growth of 8.0% with stronger rate growth recorded
- The majority of supply in our Gold Coast pipeline is made up of Market Response which we expect to infill over the next 12 months as performance improves. Given our current allowance for Market Response, it is unlikely for us to increase our supply forecast in *Hotel Futures 2017*
- Long term RevPAR expectations for 4.4% growth p.a are likely to be maintained in *Hotel Futures 2017*

HOBART

Robust leisure demand drives hotel performance upwards

- Significant RevPAR growth of 8.1% was above 6.1% expectations as demand for Hobart hotels soars in an environment of limited new supply
- Demand increased 6.8% which pushed Occupancy levels up 4.5 points to a historic high of 78.1%. This had a positive effect on rate, improving 1.8%. Supply additions on the horizon are expected to normalise occupancy levels over the medium term
- The STR sample of higher quality hotels displayed significantly higher RevPAR growth of 12.2%, suggesting the gap between top tier operated hotels and the rest of the pack is widening
- Significant additional supply is expected over the medium term and should deter further substantial development. We are likely to maintain our supply forecast in *Hotel Futures 2017*
- Long term RevPAR expectations for 2.6% growth p.a may be slightly increased in *Hotel Futures 2017* as visitor forecasts improve

MELBOURNE

Melbourne hotels continue to consolidate as occupancy levels exceed 85% in the second strongest hotel market in Australia

- RevPAR growth of 1.5% was largely inline with our 1.9% forecast as rates contracted slightly despite the positive movement in the supply and demand equation
- Occupancy levels increased 2.0 points to a very high 85.2% as Melbourne demand continues to thrive. High Occupancy levels will promote further development activity
- Unexpected and slight rate decline of 0.9% was recorded following a strong prior year. The rate movement was the first such decline in 5 years
- The STR sample recorded slightly higher RevPAR growth of 2.6%, similarly shackled by rate, albeit recording slight rate growth
- Proposal activity remains high however many of these are in early planning stages. Relatively low levels of supply growth are expected over the short/medium term which should bolster already high occupancy, before these proposals progress to opening over the medium to longer term
- We are unlikely to materially alter our supply forecast in *Hotel Futures 2017*, which had a significant Market Response allowance
- Long term RevPAR expectations for 4.4% growth p.a are likely to be maintained in *Hotel Futures 2017*

FY2016 CITY PERFORMANCE

PERTH

The Perth hotel market continues to contract as the market correction continues following extreme resource industry induced outperformance

- 4.8% RevPAR decline, largely inline with expectations, impacted by both occupancy and rate reductions
- Occupancy levels dropped slightly (1.1 points) to a still high 79.9% as demand was unable to be maintained, despite a marginal reduction in room stock
- Rates decreased by 3.5%, as the market resets to maintainable levels
- The STR sample of higher quality hotels recorded similar decline of 3.9% with rate and occupancy trending similar to ABS
- The bulk of properties in the supply pipeline will come online over the next 2-3 years and will seek to build market share. Market performance therefore is unlikely to encourage further development activity in the medium term. We are unlikely to increase our supply forecast in *Hotel Futures 2017*
- Long term expectations for 2.2% growth p.a are likely to be largely maintained in *Hotel Futures 2017*, with growth eventuating towards the back half of the forecast from a lower base

SYDNEY

Extreme occupancy environment sets platform for meaningful rate growth

- Significant 9.7% RevPAR growth recorded, above already strong 7.5% expectations as hoteliers respond to rate opportunities
- Occupancy levels continued to creep towards the “No Vacancy” level. A 0.9 point increase pushed levels to an unprecedented 87.3%
- Rates responded, increasing by 8.5%, and hopefully releasing the rate handcuffs which have been evident over the last 5 years
- The STR sample of higher quality larger hotels recorded similar results with rate led growth of 8.1%
- The supply pipeline has partly filled over the last 12 months however still sits well within our Market Response allowance and forecasts. We are unlikely to increase our supply forecast in *Hotel Futures 2017*
- Long term expectations for 4.9% growth p.a are likely to be maintained or slightly upgraded in *Hotel Futures 2017*

DRANSFIELD

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

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

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

T +61 2 8234 6600

E Mail@dransfield.com.au

A Level 27, 1 O'Connell St, Sydney

Sources:

Australian Bureau of Statistics – www.abs.gov.au
STR – www.str.com
Tourism Research Australia – www.tra.gov.au

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 FY2016 Year in Review was compiled by Dean Dransfield and Raq Pustetto © December 2016