HOTEL FUTURES 2020

COVID-19 UPDATE SERIES

PART 2 – CANBERRA & GOLD COAST

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See separate Introduction to Dransfield Australian Hotel Market COVID-19 above before reading individual Market Outlook

Canberra Market Outlook: COVID-19 Market Outlook Series

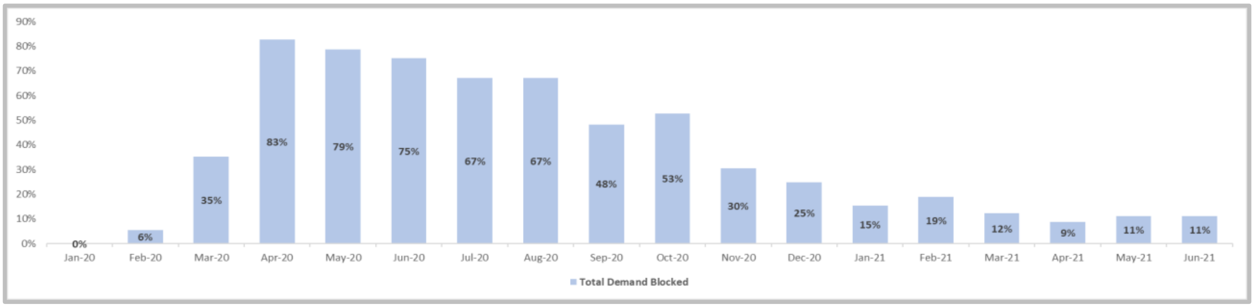
Canberra hotel occupancy has been consistent and moderately strong, sitting in the mid to low 70's for several years. Rate growth has been restrained by some new supply in the last few years. The market has a relatively large amount of committed hotel projects under construction and due to arrive over the next year or so. Whilst rate growth has been reserved as new rooms were absorbed, occupancy has improved as new demand has been created from much improved room stock. Our prior edition of Hotel Futures 2019 forecast1.8% average growth in the three years to FY2022 as new supply was absorbed, improving to 3.4% p.a over the longer period to FY2027.

The Canberra market is expected to perform better than most markets through the COVID-19 medium term due to limited international content, limited supply and large nearby domestic drive replacement markets.

Demand Outcome

Our short term forecast for demand reduction (for the next 15 months) compared to our pre COVID-19 demand scenario is presented below in this unusually high 89% domestic market.

Canberra – Forecast Demand Reductions from Travel Restrictions and Social Distancing



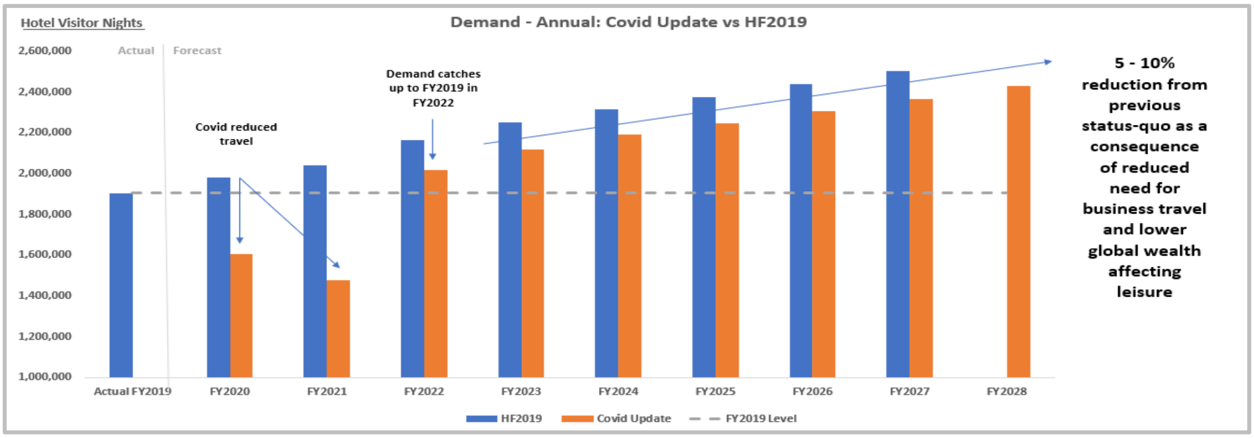
Short-term Outlook (next 12-18 months)

- Reduction to normal demand is minor in February as only Chinese sourced nights were blocked through this month. In Canberra, Chinese nights make up circa 1% of total nights.
- Reductions build through March and April as more pronounced social distancing measures were put in place, stopping all International travel and most interstate Domestic travel. Through April we did not notice any significant increase in demand, which may have been expected, from COVID-19 Government response teams or media as most likely they are working from home where not local/local second residence
- Reductions soften slightly through July/August, as limited domestic travel ramps
- We anticipate more widespread domestic travel will take effect from the September school holidays, and on subsequent holidays, with Canberra well situated to take advantage of interstate drive markets, especially the Sydney basin. The size of the Canberra market in terms of rooms available also bodes well for replacement demand, drawing from much larger population sizes

Longer-term Outlook

Our long term Canberra demand forecast is presented below. We compare it to our Hotel Futures 2019 demand assumptions formed in April 2019.

Annualised Demand Compare – Pre and Post COVID-19 Outlook



- FY2020 demand falls approximately 15-20%, with only 4-5 months COVID-19 affected
- FY2021 demand remains blocked/reduced, albeit improving as we move to later months
- As the vast majority of travel restrictions are lifted in FY2022, demand returns to above FY2019 levels, albeit, does not reach previous growth expectations due to the economic and health damage caused
- Demand absolute numbers will continue to grow, although are likely to remain two-three years behind prior expectations.

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Canberra Market Outlook: COVID-19 Market Outlook Series

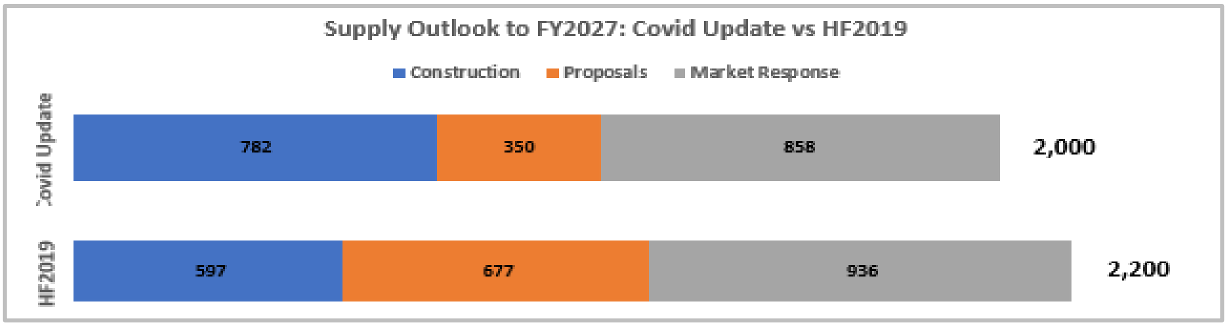
Downward Pressure on Rates

- FY2020 second half rates are expected to be around 15% below 2019 rates post March 2020, using current STR data as the barometer
- FY2021 is likely to continue in this vein, recovering slowly as travel restrictions ease, but not completely due to weak demand, low occupancy, hotel re-openings and a fragile economy. We expect Canberra rates will start to record growth from about March 2021 compared to the weakened March 2020
- FY2022 should start to see more significant recovery, as prior period reductions unwind and current rate discounting eases. This could mean double digit growth in FY2022, albeit from the much lower base.
- This would see rates recover to FY2019 levels in FY2023

Supply Response and Effect on Occupancy

Supply will recalibrate to the new demand environment as revenues and feasibilities are impacted.

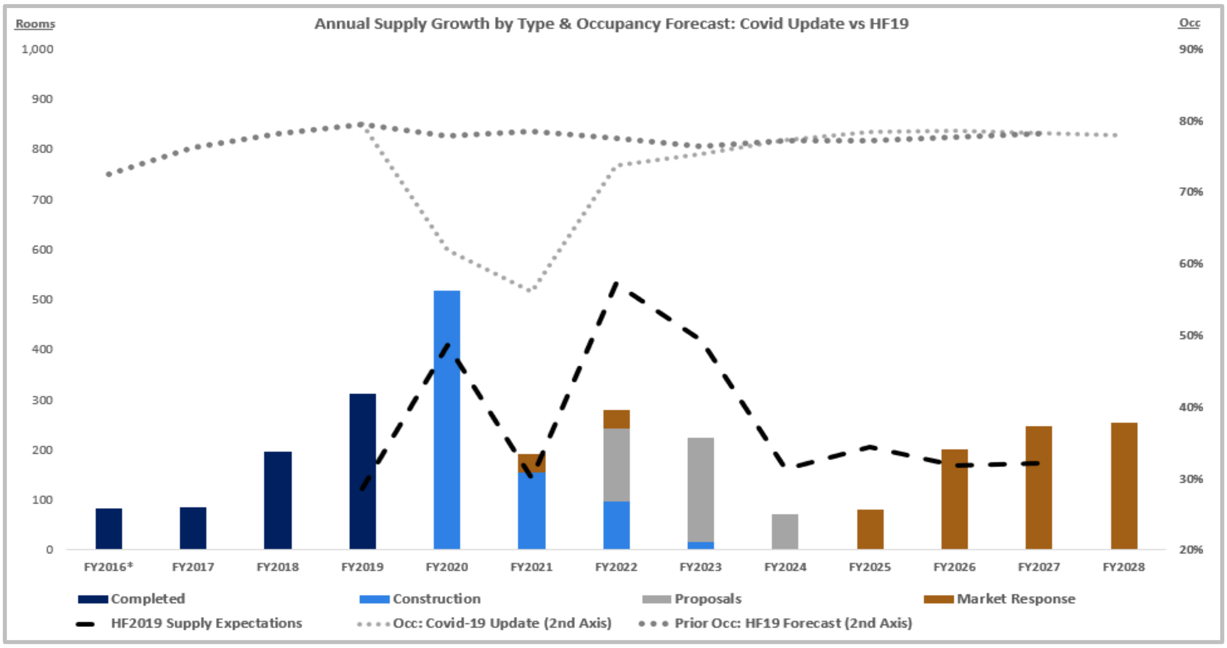
Canberra Supply Pipeline by Type – Long term 9 years



We expect 2,000 new rooms to arrive over the long term to FY2028. This is circa 200 less rooms than the prior forecast on a current base of 6,600 rooms. The vast majority of Canberra supply is in construction and is fairly well progressed. There is only a small reduction as reduced proposals and near term market response is replace by late term market response as the occupancy position through the middle of the forecast is likely to incite new development

A comparison of the revised supply expectations and the resulting occupancy is presented below

Supply Pipeline by Type and Occupancy Overlay – Long term 9 years



- Canberra occupancy for FY2020 is likely to end 15-20 percentage points lower than the prior year. We expect annualised levels to finish at 60-65%
- Under our demand scenario, occupancy will contract further in FY2021 as travel restrictions and social distancing persists at some level for much more of that year. We expect a further 5-10% reduction, ending the financial year at an annualised 55-60%
- FY2022 will likely see a big recovery as demand blockages unwind. We anticipate, market occupancy will increase to 70-75% potentially increasing above prior expectations shortly thereafter.

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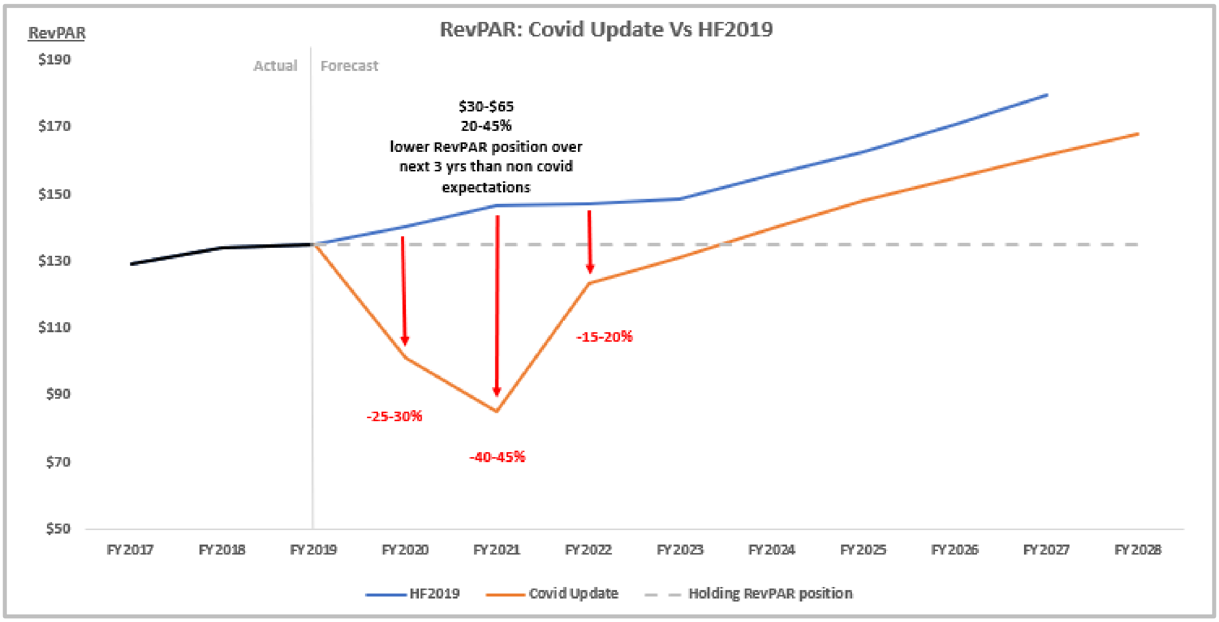
Canberra Market Outlook: COVID-19 Market Outlook Series

RevPAR Impact

- RevPAR destruction over the next 12-24 months will be significant.
- We anticipate 30-45% reductions to prior expectations over this period ($40-60), with the RevPAR forecast over 15% lower for the full period to FY2027, however, mostly recovered to below 10% from FY2024



- We have also tested the impact of an improved recovery period. This includes:-
  - Accelerating the elimination of travel restrictions and demand damage
  - Accelerating the rate recovery
- This reduces the short term RevRAR damage to 30-35% ($40-50), with almost full recovery by FY2024, however the long term forecast remains 10% below our prior Hotel Futures 2019 expectations. At present this feels optimistic.

This Individual market snapshot should be read in conjunction with our Introduction to the Australian Hotel Market COVID-19 update

More detail on individual markets and how this forecast will affect individual hotels can be obtained by contacting us. Please also join our free database to receive all future market intelligence publications.

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Gold Coast Market Outlook: COVID-19 Market Outlook Series

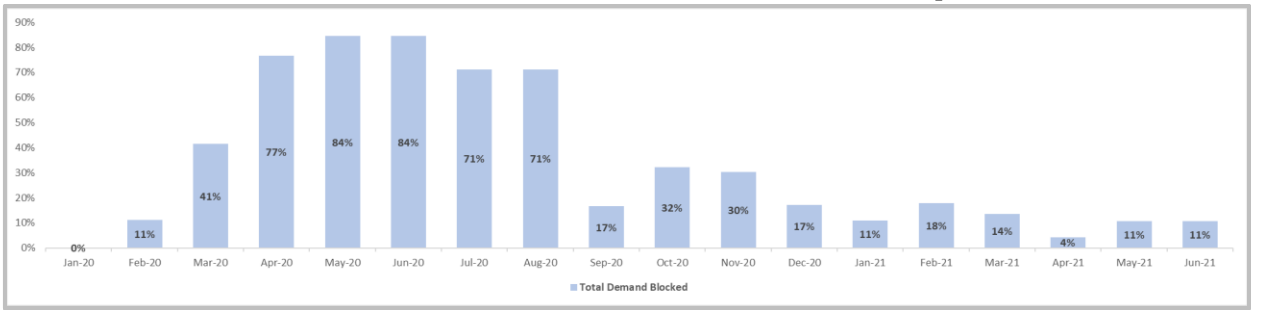
Gold Coast hotels have performed well over recent years, albeit recording a small market correction in FY2019 following the Commonwealth Games. Hotel occupancy has been consistent, sitting in the low 70's for several years. Rate growth has been quite good, averaging above 3.5% p.a over the last five years, including the correction. The market has a relatively small pipeline compared to current stock numbers, with most of these planned to arrive in the next 2-3 years. Our prior edition of Hotel Futures 2019 forecast 2.9% average growth in the three years to FY2022 as new supply was absorbed, improving to 3.3% p.a over the longer period to FY2027.

The Gold Coast market is expected to perform better than most markets post COVID-19 because of it strong domestic leisure attractiveness and outbound replacement opportunity.

Demand Outcome

Our short term forecast for demand reduction (for the next 15 months) compared to our pre COVID-19 demand scenario is presented below. Gold Coast has a moderate international contingent at 22%. We expect a considerable proportion will be replaced by domestic holiday makers who will transfer some of their international holiday plans to shorter domestic getaways in the next 18 months. The GC is well placed in school holiday periods.

Gold Coast – Forecast Demand Reductions from Travel Restrictions and Social Distancing



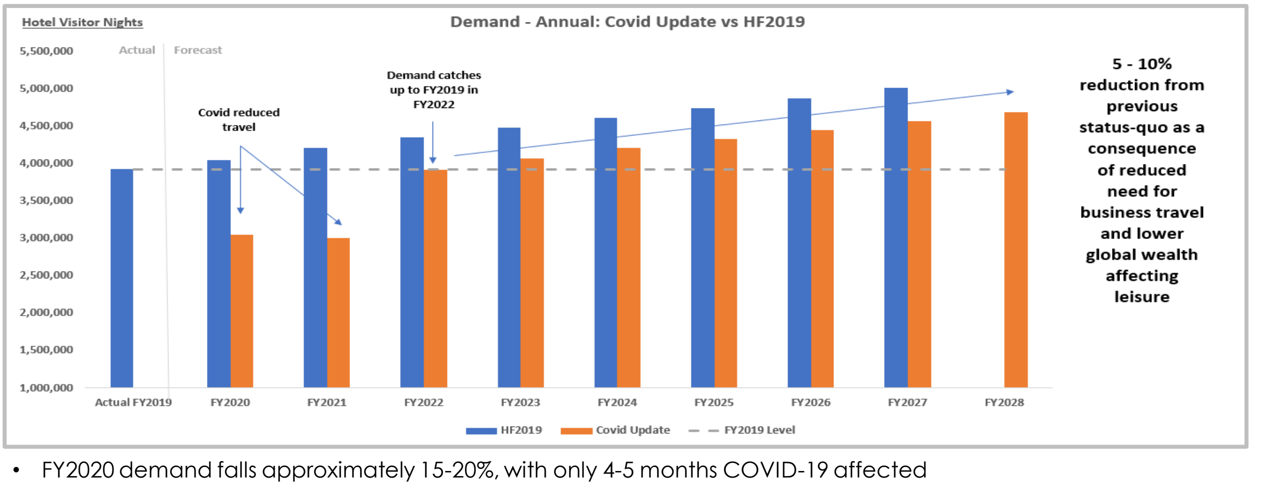
Short-term Outlook (next 12-18 months)

- Reduction to normal demand is minor in February as only Chinese sourced nights were blocked through this month. In the Gold Coast, Chinese nights make up a reasonably large 5% of total nights.
- Reductions build through March and April as more pronounced social distancing measures were put in place, stopping all International travel and most interstate Domestic travel
- Reductions soften slightly through July/August, as limited domestic travel ramps up, most likely from drive markets
- We anticipate more widespread domestic travel will take effect from the September school holidays, and on subsequent holidays, with Gold Coast one of the best placed major cities to take advantage of re-organized international holiday plans, and long weekend or weeklong getaways.

Longer-term Outlook

Our long term Gold Coast demand forecast is presented below. We compare it to our Hotel Futures 2019 demand assumptions formed in April 2019.

Annualised Demand Compare – Pre and Post COVID-19 Outlook



- FY2020 demand falls approximately 15-20%, with only 4-5 months COVID-19 affected
- FY2021 demand remains blocked/reduced, albeit some typically international nights are replaced by typically outbound guests who are also blocked from leaving Australia
- As the vast majority of travel restrictions are lifted in FY2022, demand returns to above FY2019 levels, albeit, does not reach previous growth expectations due to the economic and health damage caused
- Demand absolute numbers will continue to grow, although are likely to remain two-three years behind prior expectations as outbound opportunities re-open.

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Gold Coast Market Outlook: COVID-19 Market Outlook Series

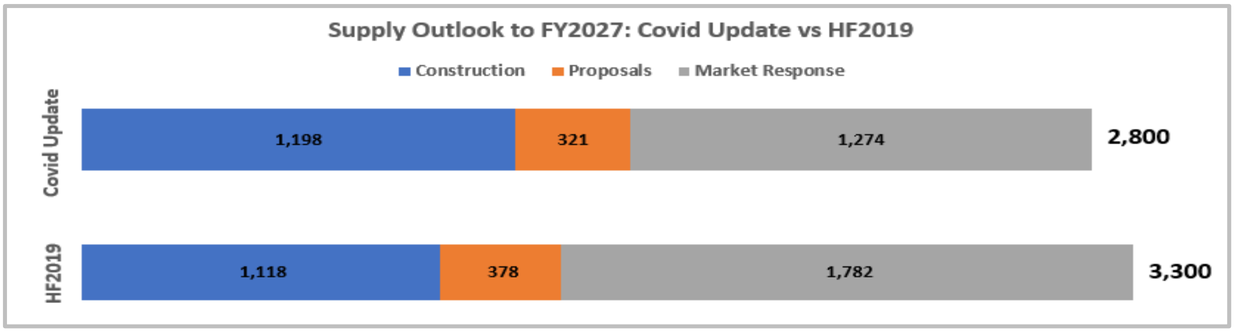
Downward Pressure on Rates

- FY2020 second half rates are expected to be around 15% below 2019 rates post March 2020, using current STR data as the barometer
- FY2021 is likely to continue in this vein, recovering slowly as travel restrictions ease, but not completely due to weak demand, low occupancy, hotel re-openings and a fragile economy. We expect Gold Coast rates will start to record growth from about March 2021 compared to the weakened March 2020. Scattered months of rate growth, linked to holiday periods, may eventuate if domestic replacement demand is strong
- FY2022 should start to see more significant recovery, as prior period reductions unwind and current rate discounting eases. This could mean double digit growth in FY2022, albeit from the much lower base.
- This would see rates recover to FY2019 levels in FY2022 or FY2023

Supply Response and Effect on Occupancy

Supply will recalibrate to the new demand environment as revenues and feasibilities are impacted.

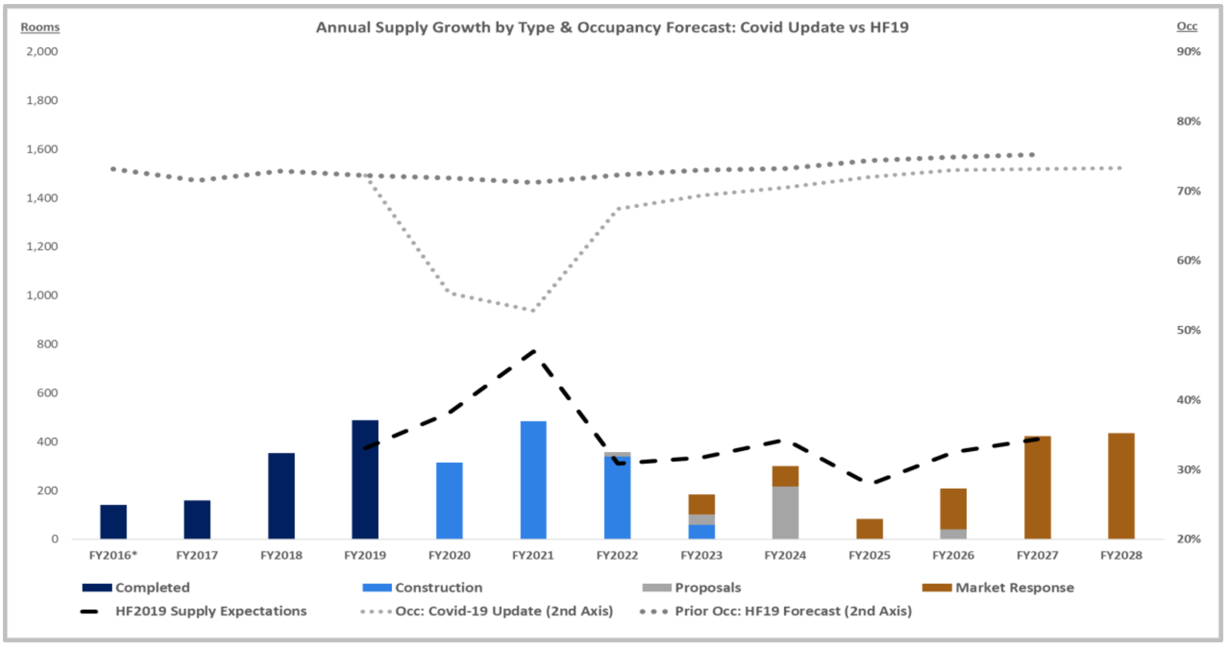
Gold Coast Supply Pipeline by Type – Long term 9 years



We expect 2,800 new rooms to arrive over the long term to FY2028. Many existing proposals were considered unlikely before COVID-19 because of a gap between construction cost and value on completion. Our revised expectations are for circa 500 less rooms than the prior forecast on a current base of 15,000 rooms. The vast majority of Gold Coast supply is in construction and is fairly well progressed. There is only a small reduction as reduced proposals and near term market response is replace by late term market response.

A comparison of the revised supply expectations and the resulting occupancy is presented below

Supply Pipeline by Type and Occupancy Overlay – Long term 9 years

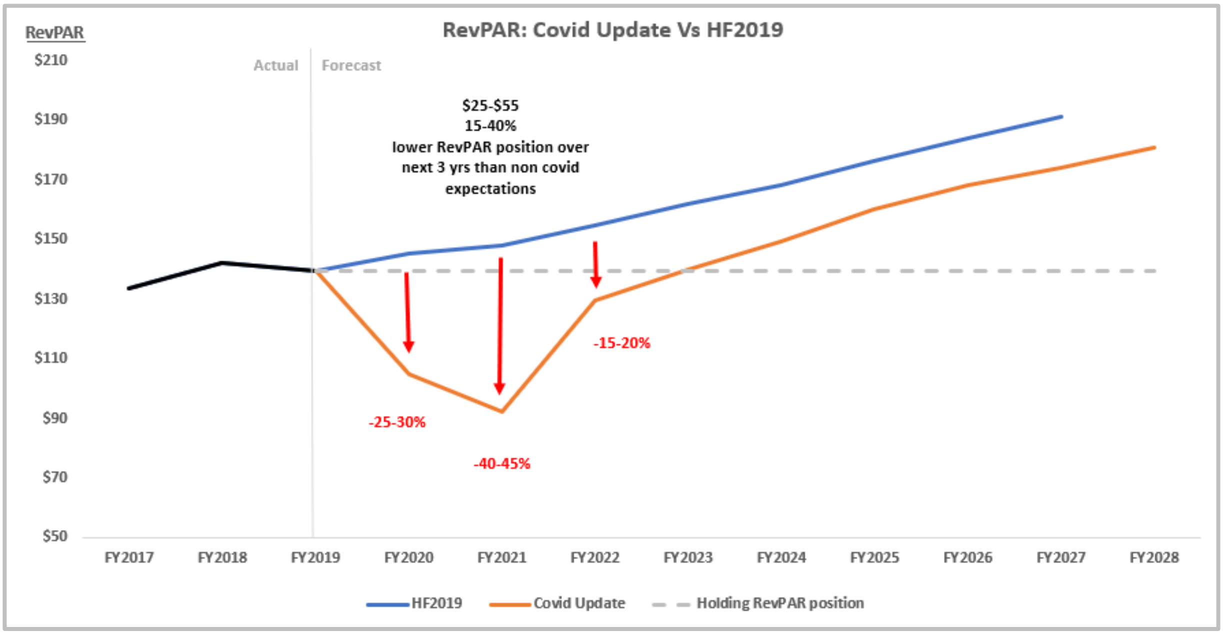


- Gold Coast occupancy for FY2020 is likely to end 15-20 percentage points lower than the prior year. We expect annualised levels to finish at 55-60%
- Under our demand scenario, occupancy will only contract slightly in FY2021 as international travel restrictions remain in place, but some if not all nights are replaced by diverted outbound travelers. We expect a small 0-5% reduction, ending the financial year at an annualised 50-55%
- FY2022 will likely see a big recovery as demand blockages unwind and Australian's continue to choose to travel domestically in the short term. We anticipate, market occupancy will increase to 65-70% potentially increasing above prior expectations shortly thereafter.

Gold Coast Market Outlook: COVID-19 Market Outlook Series

RevPAR Impact

- RevPAR destruction over the next 12-24 months will be significant
- We anticipate 30-40% reductions to prior expectations over this period ($40-55), with the RevPAR forecast over 15% lower for the full period to FY2027, however, mostly recovered to below 10% from FY2024



- We have also tested the impact of an improved recovery period. This includes:-
  - Accelerating the elimination of travel restrictions and demand damage
  - Accelerating the rate recovery
- This reduces the short term RevRAR damage to 25-30% ($35-45), with almost full recovery by FY2024, however the long term forecast remains circa 10% below our prior Hotel Futures 2019 expectations.

This Individual market snapshot should be read in conjunction with our Introduction to the Australian Hotel Market COVID-19 update

More detail on individual markets and how this forecast will affect individual hotels can be obtained by contacting us. Please also join our free database to receive all future market intelligence publications.

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