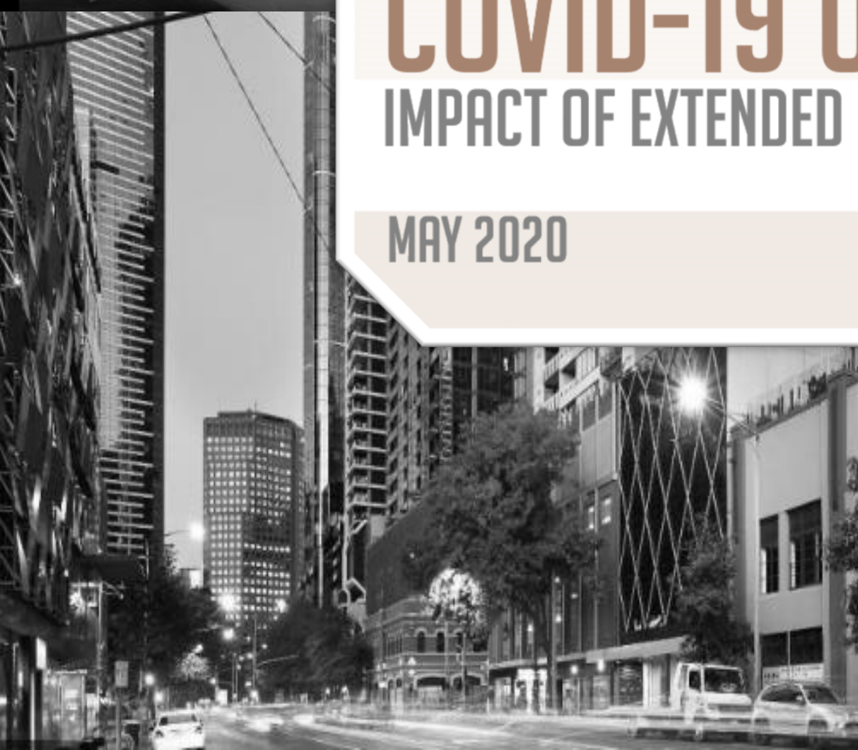
HOTEL FUTURES 2020

COVID-19 UPDATE SERIES

IMPACT OF EXTENDED CLOSURE OF INTERNATIONAL BORDERS

MAY 2020

DRANSFIELD
HOTELS & RESORTS



AUSTRALIANS HOLIDAYING DOMESTICALLY MAY FULLY REPLACE LOST INTERNATIONAL VISITORS

Australians taking advantage of our regional holiday spots and city hubs can actually provide higher Australian hotel demand than if international borders were open.

We have had a number of enquiries about the effect of international travel being closed for longer than first anticipated. We have run an alternative scenario to our COVID-19 adjusted base case forecasts in Hotel Futures 2020. The general premise of this scenario is that:

- International travel remains blocked, both inbound and outbound until 30 June 2021 (compared to partial re-opening in late 2020/early 2021)
- On 1 July 2021, international travel re-opens, however, international travel will still be seen as generally undesirable/inaccessible at this point and will be limited
- By 31 December 2021, international travel is open for all travelers without onerous testing regimes or controls and both leisure and business travel are ramping up over time
- Interstate borders are assumed to open from July 2020

In this extended blocked international travel scenario, a much larger portion of the typical number of Outbound Holiday and VFR visitors from Australia, will now re-direct some of their travel plans to Domestic locations. Horizons will expand over time, from short stay drives intrastate, to one and two week holidays by air. This tendency will increase as summer 2020/2021 and school holidays arrive, and in the peak period up to Easter 2021.

We tested how much these additional re-located domestic Outbound nights might offset lost international and domestic nights assumed on the base cases.

In 2019 there was a substantial nationwide Outbound visitor market of 181m nights from 10m Australian-outbound travelers. International inbound nights were higher at 274m, however, whilst the international market represents 40% of total visitor nights in Australia**, international visitors only represent 23% of total hotel nights**, as only 11% of international nights are spent in hotels, as compared with 24% for domestic visitors. The cities with the highest international content in their hotels are Sydney, Cairns, Melbourne (35%-43% international mix).

Domestic visitation profiles were considered to gauge where displaced Outbound Visitors might re-locate some of their allocated time, noting that residents tend to travel within their own state and nearby states when at home. The substantial drive market, particularly for Holidays and VFR, suggests displaced Outbound visitors will take the opportunity to explore their own backyard first.

We hypothesize that closing most international travel from/to Australia may provide higher net Australian demand than if borders were open.

In testing this theory, we need to make a number of assumptions to estimating how displaced outbound visitation may disperse.

- Of the 181m Outbound nights, the data indicates that 56% or 153m are for Outbound Holiday and VFR purposes. These are the most likely visitor types which may divert travel domestically, as opposed to say business travelers who are unlikely to replace an international business trip with a domestic one
- Of the 153m nights, we estimate that around 99m nights or 64% will be re-allocated towards Domestic Holidays/VFRs. We reached this figure by assuming:
    - A discount for a reduced average length of stay, from 20 days to 14 days of substituted Domestic travel (over a 12 month period), and
    - A further 25% discount, on the basis that not all Outbound visitors will choose to replace their overseas trip with a domestic trip
- Of the 99m nights that remain in the pool, based on past behavior, we conservatively estimate that:
    - 26% or 25m of these nights will be spent in cities, with 13m nights in city hotels and;
    - 74% of nights may be spent in regional areas and leisure hotspots
    - These are disbursed generally in accordance with domestic visitor pattens and we think that around 50% of city nights will be in hotels consistent with our estimate of the outbound profile

The result was that estimated domestic replacement in hotels could be considerably higher than the loss of international nights in both the cities and regions, and by some margin

Whilst the analysis shows over 100% recovery, the step-up will occur over time and will be affected by seasonality, so full immediate recovery is not expected as a universal proposition. The outlook is however much more positive than might be initially thought.

HOLIDAYING DOMESTICALLY MAY FULLY REPLACE LOST INTERNATIONAL VISITORS

** Data in this sheet is for 2019, sourced from the TRA's NVS & IVS surveys or is based on Information obtained from TRA*

FACTS

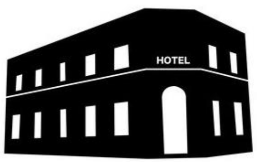
International Inbound

9M Visitors → **274M Visitor Nights**

Only a small proportion of these Visitor Nights are captured in Hotels

Despite Australia receiving more international visitor nights than outbound nights, many of these inbound nights are not spent in hotels such as international students, backpackers or those staying with friends or relatives

28M Visitor Nights in Hotels



Regions	Cities
71%	29%
20m	8m

- International visitors only represent 23% of total domestic and international hotel nights
- Only 11% of international nights are spent in hotels v. 24% for domestic visitors
- Of these, only 29% is in the capital cities

Australia is a Net Exporter of Hotel Nights

This means there are more nights where Australians stay in overseas hotels than Internationals stay in Australian Hotels.

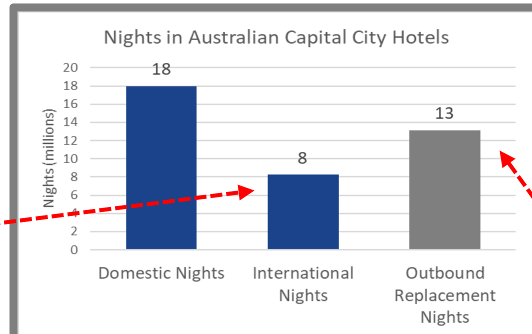
Domestic Outbound

181M Visitor Nights ← **10M Outbound Travellers**

HYPOTHESIS

There is a strong prospect that a proportion of these outbound nights can be captured in the domestic market, but probably not all of them

- Displaced Holiday and VFR outbound nights are the most likely to transfer to domestic nights. This brings the pool from 181M nights to 153M Nights
- Outbound ALOS for Holiday & VFR of 20 days internationally has been discounted to 14 days for replacement domestic trip(s). This shrinks the pool from 153m to 99m nights
- Assumed capture rate of 75%
- Many of these nights will transfer to regional areas and leisure hotspots rather than capital city markets



Outbound Replacement Nights may exceed International Nights in City Hotels. A similar result is expected in regional leisure hotspots

99M Transferable Visitor Nights

Cities	Regions
26%	74%
25m	73m

- Around 50% of nights in cities are assumed to be spent in hotels
- Around 30% of nights in regions are assumed to be spent in hotels

Replacement Hotel Nights

City Hotel Nights	Regional Hotel Nights
13% or 13m	23% or 23m