

AUSTRALIAN H1 2019 HOTEL MARKET UPDATE

INTRODUCTION

The team at Cushman & Wakefield Valuation and Advisory are delighted to enclose our 2019 Update focusing on the major Australian hotel markets which provides an insight to our valued clients into what has been occurring in the first half of 2019 within the major hotel and accommodation markets nationally.

Should you require any advice or valuation services across the major markets across Australia and/or internationally, please do not hesitate to contact our team members below, we would be delighted to assist you where required. In addition to traditional valuations, our team is well positioned to provide clients with bespoke services in the Advisory area, including project development and services, consultancy and asset management services.

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National Market Overview

In H1 2019 Hobart was Australia's top performing major city market, recording the highest RevPAR growth of 8.4% year on year. Brisbane also reported an 0.6% increase in RevPAR, suggesting that new supply is being absorbed, as Average Daily Rates increased by 1.7% in the first six months of 2019. However, RevPAR declines were recorded in Australia's other major capitals including Melbourne (-1.3%), Adelaide (-3.0%), Perth (-4.8%), Canberra (-5.3%) and Sydney (-5.6%).

Australian economic conditions have softened over the past year. In 2018 the main risks to Australian Commercial Real Estate were around rising debt costs (higher global interest rates and bond yields and reduced funding availability). However, in 2019, the risks have shifted toward a global economic growth slowdown and the associated impact on demand. Interest rates have declined in both the US and Australia (reducing funding costs), however, a slowdown in demand and the tighter 'macroprudential measures' introduced in recent years (e.g. limiting interest-only loans and reducing Loan to Value Ratios) could result in fewer approved and proposed hotel development projects proceeding in the years ahead.

In H1 2019, the Australian dollar averaged around \$0.69 against the US dollar, however, it has been trending downward since early 2018 when it peaked at around \$0.81. The Australian dollar is now trading at its lowest rates since the Global Financial Crisis.

Downward pressure on global rates and stagnant domestic inflation have contributed to the weaker AUD. As at Q2 2019, Deloitte Access Economics was forecasting the AUD to range between \$0.69 to \$0.71 over the next few years, suggesting a relatively positive environment for the Australian tourism market. We note however, that international visitor arrivals may potentially be impacted by the prospect of global economic growth slowdown, as well as the US-China trade tensions and uncertainties surrounding Brexit.

Interest rates are at record lows and are expected to go lower. Behind increased economic risks, the 10-year bond yield has slipped below 1.0%, which has resulted in fixed term lending rates falling. Commercial real estate yields are at record lows but remain relatively attractive compared to interest rates and many offshore markets.

Ongoing economic growth in Asia, coupled with a weaker Australian dollar has improved the attractiveness of Australia's tourism offerings and led to strong arrivals figures. Forecasts from Deloitte Access Economics (DAE) suggest that international tourist arrival numbers will continue to grow over the coming years, with national growth forecast to average 6.1% per annum growth over the 2020-2024 period.

ECONOMIC INDICATORS

INDICATOR	2019	2020	2021	2022	2023
GDP, Real, annual average change %	1.8	2.5	2.6	2.8	2.8
CPI, Year on Year change %	1.3	1.7	2.0	2.3	2.3
90 Day Bank Bill %	1.4	0.8	1.1	1.6	2.1
10 Year Gov't Bond %	1.7	1.5	1.8	2.1	2.2
USD / AUD	0.70	0.69	0.71	0.71	0.70

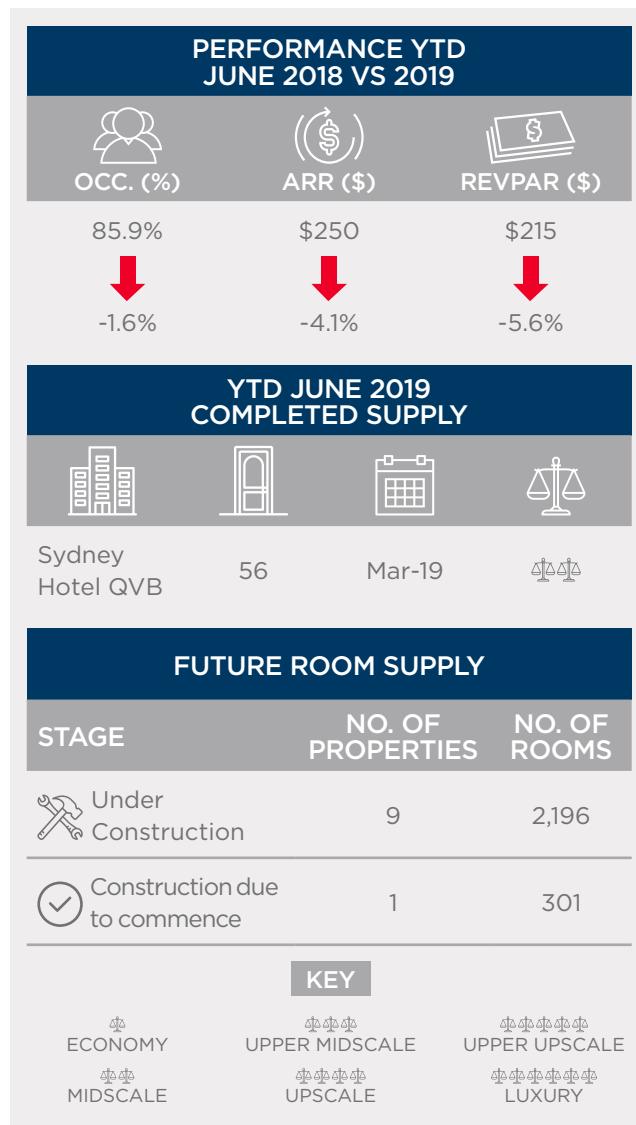
Source: Deloitte Access Economics - As at Q2 2019

AUSTRALIA



SYDNEY

- Room Occupancy is still trading at record levels in comparison to other key markets across Australia. However, according to STR, Room Occupancy declined marginally in the first half of 2019, although remains within the mid 80% range. Average Room Rate also declined by 4.1% resulting in a RevPAR decline of around 5.6% year on year in response to new supply entering both the City and Sydney Airport precincts, coupled with a softer conference and events calendar.
- As summarised in the table below, one main supply project was completed in H1 2019, being an extension and upgrade of an existing hotel undertaken in stages which saw a total of 90 rooms added to the market. Stage 2 of the Sydney Hotel QVB opened in September 2019 comprising 34 rooms. We are also aware that a Meriton Serviced Apartment development located on Sussex Street opened in July 2019 comprising 301 apartments.
- There are 9 projects comprising some 2,100 rooms currently under construction (including the above-mentioned Meriton development) due to be completed throughout the next three years whilst the Voco Sydney Central is due to commence construction in July 2019. The Voco Sydney Central is anticipated to comprise 301 rooms upon completion in September 2021.
- Upcoming hotels due to be completed in the short term include the Vibe Hotel Sydney - Darling Harbour (145 rooms, October 2019). We are aware of a further 25 projects (circa 3,300 rooms) that are currently approved for hotel accommodation.
- Room Yield/RevPAR growth is anticipated to soften in 2019, despite the market trading at high occupancies, the recent performance of the Sydney market suggests that both Room Occupancy and Average Room Rates are also softening.



We anticipate a modest reduction in Room Occupancy in the medium term, whilst Average Room Rate growth is anticipated but likely to be at subdued levels as the new supply additions are absorbed.

Notable hotel transactions - H1 2019

							%
Pullman Sydney Olympic Park	Mar-19	\$104M	218	\$477,500*			5.7%
Novotel & ibis Sydney Olympic Park	Mar-19	\$143M	327	\$438,000*	Various		5.8%
Felix Hotel	Mar-19	\$60.6M	150	\$404,000*			6.0%

*per room

MELBOURNE

- According to STR, Melbourne Room Occupancies are the third highest nationwide, however, RevPAR declined marginally by 1.3% as new supply was absorbed and demand conditions remained stable with a marginal increase in Average Room Rate by around 0.1% to \$206.
- There were a total of two projects completed in H1 2019, adding around 291 rooms into the market. We are also aware that the Jones Lane Hotel opened in August 2019, adding 111 rooms.
- There are 21 projects currently under construction and due to be completed throughout the next four years. These projects will comprise some 4,900 rooms, with hotels due to be completed in the short term including the LinQ Hotel Southbank (162 rooms, September 2019), Shama Luxe Apartments (252 apartments, October 2019) and Holiday Inn Express (345 rooms, December 2019).
- New supply currently under construction is relatively evenly dispersed between the upper midscale, upscale and upper upscale segments representing 33%, and 22% respectively for the latter two segments of rooms under construction.
- We are aware of a further 20 projects (circa 5,100 rooms) that have been approved. We note that the likelihood of this supply entering the market is still unknown. As the new supply is absorbed some of the additional developments may not progress.

It is anticipated that the Melbourne market's ability to absorb new supply will be tested as the current pipeline progresses. The opportunity to increase Average Room Rate, in light of sustained demand growth, is being foregone in anticipation of increased competition from rooms supply under construction/planned.

PERFORMANCE YTD JUNE 2018 VS 2019			
OCC. (%)	ARR (\$)	REVPAR (\$)	
83.4% -1.4%	\$206 0.1%	\$172 -1.3%	
YTD JUNE 2019 COMPLETED SUPPLY			
Quest New Quay Docklands	221	Feb-19	
Shadow Play by Peppers Southbank	70	Apr-19	
FUTURE ROOM SUPPLY			
STAGE	NO. OF PROPERTIES	NO. OF ROOMS	
Under Construction	21	4,946	
Construction due to commence	2	343	

KEY

ECONOMY	UPPER MIDSACLE	UPPER UPSCALE
MIDSACLE	UPSCALE	LUXURY

Notable hotel transactions - H1 2019

167 City Road	May 19	\$45M	162	\$277,800*	N/A

*per room

BRISBANE

- Brisbane has recorded two years of significant supply additions, which led to the Room Occupancy rate recording a decline of 1.1% in H1 2019. Despite sustained levels of demand, Brisbane's ability to sustain RevPAR growth was challenged, however the market was able to record a marginal (0.6%) increase in H1 2019.
- There were a total of 485 rooms constructed in H1 2019 across two projects.
- There are eight projects comprising some 1,700 rooms currently under construction due to be completed over the next four years. Notably, we are aware that the Queens Wharf development has commenced construction, which comprises the great bulk of this supply and is anticipated to be completed in 2022.
- We are aware that a further six projects (circa 660 rooms) have been approved and are likely to enter the market over the next three years. We note that the likelihood of this supply entering the market is still unknown as new supply is absorbed and as a result may not eventuate.

Given current trading conditions, we anticipate this trend to continue, in terms of a decline through a combination of Room Occupancy and Average Room Rate as prevailing demand and supply conditions are expected to continue, particularly as new supply is being absorbed through to 2020.



Notable hotel transactions - H1 2019

						%
NEXT Hotel, Brisbane	May-19	\$150M	304	\$493,400		7.0%

*per room

PERTH

- The Perth hotel market has continued to see both Room Occupancy and Average Room Rate decline since 2013 which was initially a result of the downturn in the resources mining sector, however, more recently has been driven by new supply additions entering the market, coupled with limited corporate activity which has led to a RevPAR decline of 4.8% in H1 2019 (to \$115).
- Two projects were completed in H1 2019 adding around 296 rooms into the market.
- There are six projects that are currently under construction and anticipated to open in 2019. These comprise the ibis Styles East Perth (252 rooms, September 2019), The Adnate Art Series Hotel (250 rooms, October 2019), and Ritz-Carlton (205 rooms, November 2019). Three other developments due to open in late 2019 include the Park Regis Subiaco (168 rooms), DoubleTree by Hilton Waterfront (217 rooms) and NV Apartments (488 rooms). We note that over 68% of the current under construction stock is to be within the Upscale segment.
- There are five projects anticipated to commence construction in due course comprising 890 rooms. We are also aware of a further 16 projects being approved comprising over 2,700 rooms, however the likelihood of these projects proceeding is uncertain due to the current trading conditions evident in the Perth market.

Given the above, we anticipate Room yield/RevPAR in 2019 will continue to soften through a combination of both Room Occupancy declines and a weakening of the Average Room Rate as new supply is absorbed.

PERFORMANCE YTD JUNE 2018 VS 2019		
OCC. (%)	ARR (\$)	REVPAR (\$)
70.3%	\$163	\$115
-3.2%	-1.6%	-4.8%
YTD JUNE 2019 COMPLETED SUPPLY		
Double Tree by Hilton Northbridge	206	Jan-19
Quest on Mends Street, South Perth	90	Feb-19
FUTURE ROOM SUPPLY		
STAGE	NO. OF PROPERTIES	NO. OF ROOMS
Under Construction	6	1,580
Construction due to commence	5	890
KEY		
ECONOMY	UPPER MIDSCALE	UPPER UPSCALE
MIDSCALE	UPSCALE	LUXURY

Notable hotel transactions - H1 2019

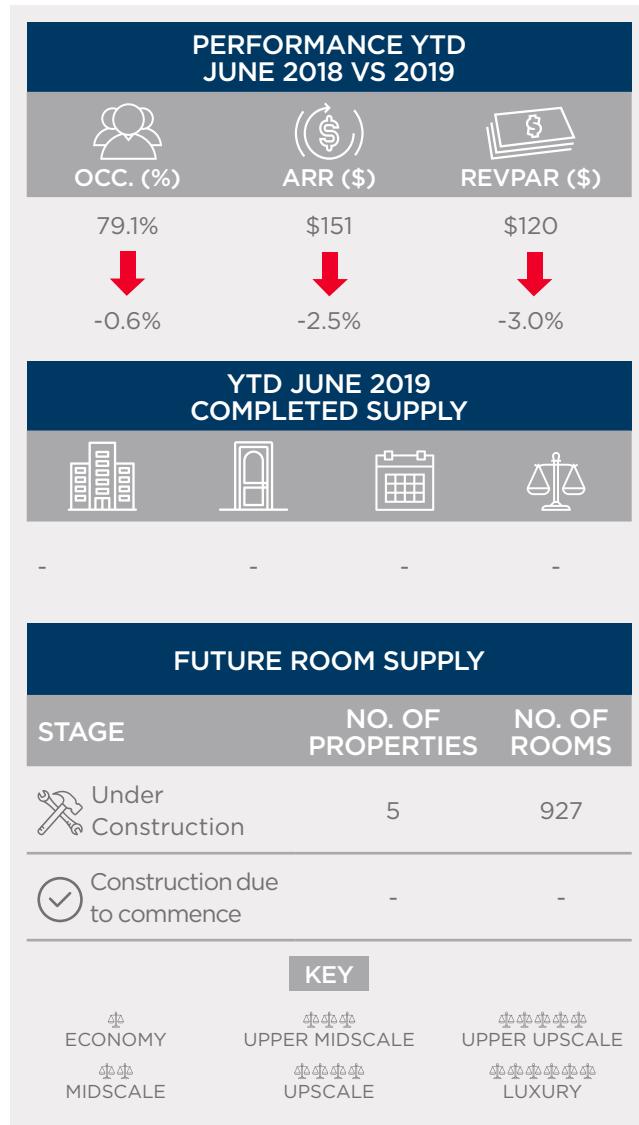
						%
The Westin, Perth	Jan-19	\$170M	368	\$461,957*		3.0%

*per room

ADELAIDE

- The Adelaide hotel market recorded a marginal decline in trading performance in the first six months of 2019 with both Room Occupancy and Average Room Rate marginally softening. As a result, RevPAR decreased by 3.0% to \$120.
- There were no notable hotel openings in H1 2019 within the Adelaide market.
- There are five projects comprising some 920 rooms currently under construction and due to be completed over the next three years including the \$330 million Adelaide SkyCity Casino hotel and expansion. New supply additions are anticipated to be highest in 2020 and 2021, at which point the total number of hotel rooms in the market will increase by over 15% as these projects reach completion.
- We note a further eleven projects are approved comprising over 1,900 rooms, however, it is likely that these projects may be delayed as new supply is absorbed.

From 2019, Adelaide's Yield/RevPAR will likely be limited by planned/proposed new rooms supply being absorbed into the market.



Notable hotel transactions - H1 2019

						%
Mayfair & Adabco Boutique Hotels	Apr-18	\$99M	239	\$414,200*	Various	N/A

*per room

CANBERRA

- In H1 2019 Canberra recorded a decline in RevPAR of around 5.3%, caused by declines in both Room Occupancy and Average Room Rate.
- There have been a total of three projects completed in H1 2019, adding 371 rooms into the market.
- There are five projects comprising some 740 rooms currently under construction. The Midnight, an Autograph Collection Hotel (199 rooms) is due to commence trading in September 2019, while the remainder of the developments are due to be completed over the next two years.
- We are aware that a further five projects have been approved. If these developments proceed they will add some 730 additional rooms into the market.

Canberra's hotels are anticipated to operate in an environment where scope for Room Yield/RevPAR growth is likely to continue, however, growth may be limited should the approved projects proceed in the medium term.

PERFORMANCE YTD JUNE 2018 VS 2019			
OCC. (%)	ARR (\$)	REVPAR (\$)	
75.4%	\$167	\$126	
-2.4%	-2.9%	-5.3%	
YTD JUNE 2019 COMPLETED SUPPLY			
Ovolo Nishi	17	May-19	
The Sebel Canberra	144	May-19	
Deco Hotel	210	Jun-19	
FUTURE ROOM SUPPLY			
STAGE	NO. OF PROPERTIES	NO. OF ROOMS	
Under Construction	5	743	
Construction due to commence	-	-	
KEY			
ECONOMY	UPPER MIDSACLE	UPPER UPSCALE	
MIDSACLE	UPSCALE	LUXURY	

Notable hotel transactions - H1 2019

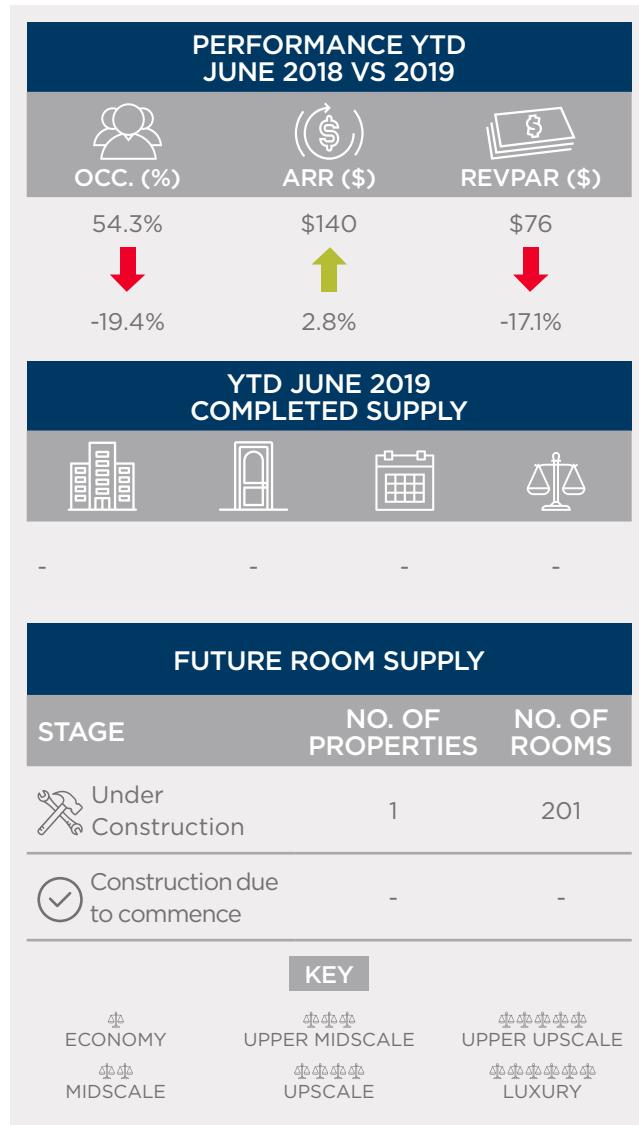
						%
Novotel Canberra	Mar-19	\$83M	286	\$290,500		6.7%

*per room

DARWIN

- The Darwin market has continued to soften as the market is highly seasonal and experiences declines in Room Occupancy during the 'Wet Season' to ensure volume is retained.
- There were no notable hotel openings in Darwin during the first half of 2019.
- We note that the \$200 million Westin Darwin has commenced construction and is anticipated to be completed in 2021. Upon completion it will comprise a total of 201 rooms.
- Whilst there are over 1,000 rooms mooted, there has been no material development for any of these projects over some time, and therefore are considered unlikely to proceed should current trading fundamentals continue.
- There were no notable sales in Darwin in H1 2019.

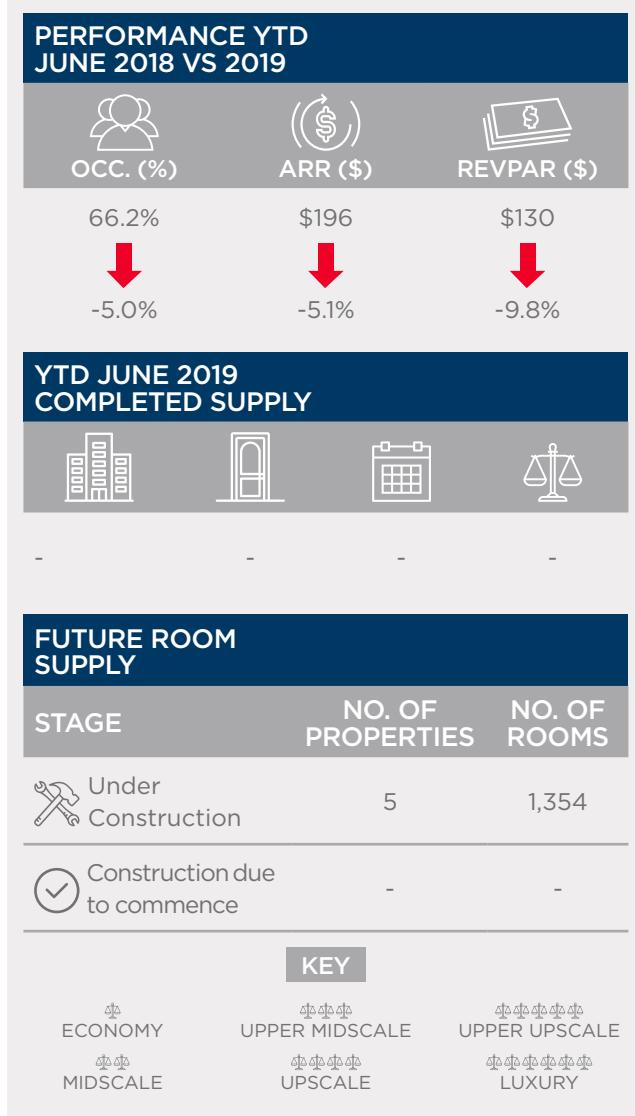
We note that the current Northern Territory Tourism Vision 2030 strategy is due to be released in September 2019, which is anticipated to help facilitate growth in the Territory.



GOLD COAST

- Whilst Gold Coast was the strongest performing market across Australia in 2018, in H1 2019 it recorded a softer Room Occupancy and Average Room Rate profile, with both declining to result in a RevPAR decrease of around 9.8%.
- There were no notable hotel openings in the Gold Coast market in H1 2019.
- There are five projects comprising 1,354 rooms currently under construction and due to be completed over the next three years. We note that there are a further eight projects, comprising over 3,100 rooms, that have been approved. The likelihood of these supply projects eventuating is uncertain as new supply is absorbed and therefore may not eventuate.
- There were no notable sales in the Gold Coast in H1 2019.

Room Yield/RevPAR growth in 2019 is anticipated to be mainly driven through Average Room Rates that should show inflationary growth as a result of new room supply being absorbed.



HOBART

- Hobart has continued to benefit from increased air capacity coupled with the weaker Australian Dollar which has incentivised the inbound market, stimulating room night demand and resulting in an 8.4% increase in RevPAR over the first half of 2019.
- Recent openings comprise the Moss Hotel, a boutique hotel in Salamanca Place. The opening is the first stage of the development as a second stage comprising 21 rooms located at 25 Salamanca Place is due to open in December 2019.
- There are five projects comprising 771 rooms currently under construction, including the aforementioned Moss Hotel (Stage 2). The remainder of the projects are anticipated to be completed throughout the next two years whilst one further project (72 rooms) is approved and is likely to be developed.

Room Yield/RevPAR growth in 2019 is anticipated to continue to be driven by growth in Average Room Rate which is expected to be above inflationary growth. However, given current projects under construction, it is likely that RevPAR growth may be limited once these projects are constructed and come online in 2020 and 2021.



Notable hotel transaction H1 2019

						%
MacQ01 Hotel	Jun-19	\$48M	114	\$421,000		7.6%

*per room

ASIA PACIFIC OFFICES



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