

FY2015 YEAR IN REVIEW

In FY2015, ABS recorded Australian capital city RevPAR growth of 1.6%, whilst the STR sample recorded a much higher 4.2%

FY2015 Overview

Australian Capital City Hotel Markets recorded 1.6% revenue growth (RevPAR), slightly below 4.0% expectations

- 6 of the 10 major cities covered in Hotel Futures experienced growth, led by the Gold Coast (11.3%) and Melbourne (4.6%)
- The small markets of Canberra (-8.1%) and Darwin (-6.7%) recorded the most significant decline
- The STR sample, which typically represents higher quality and larger scale operations and which generally outperform the ABS survey, recorded considerably better RevPAR growth of 4.2%, with increases in both occupancy and rate

Supply

In FY2015 a break in the ABS data series occurred, with the inclusion of an additional 17,828 rooms across 279 STA properties which were previously overlooked. Whilst these additional rooms are not solely reflective of Hotel Futures city borders, the effect has made supply and demand growth figures unreliable for FY2015 as data from the September quarter 2014 onwards is not directly comparable to the past

- In FY2015 Australian City supply growth, data break affected, increased by 10.1%
- Long term supply expectations are likely to be slightly upgraded in Hotel Futures 2016 as development activity strengthens following 5 straight years of market growth
- Much of the touted construction and proposal activity has been anticipated in many cities, and is otherwise absorbed within our Market Response allowance, which accounts for rooms we expect to open based on market fundamentals, but at which time, have not yet been considered

Demand

Demand figures have also been affected by the ABS data series break and are not reliable when viewed independently

- In FY2015 demand growth of 10.4% was higher than the registered supply growth (10.1%), although flawed. This maintained occupancy levels above 76% which was consistent with expectations
- International visitor nights increased 8.3% to 235M, slightly higher than prior expectations, the largest year on year figure since the 2001 Sydney Olympics
- Domestic visitor nights also grew by a robust 6.2% to 313M. The weak Australian Dollar appears to have encouraged Australians to holiday locally
- Long term Demand expectations for 3.5% growth p.a to FY2023 are likely to be slightly increased in Hotel Futures 2016

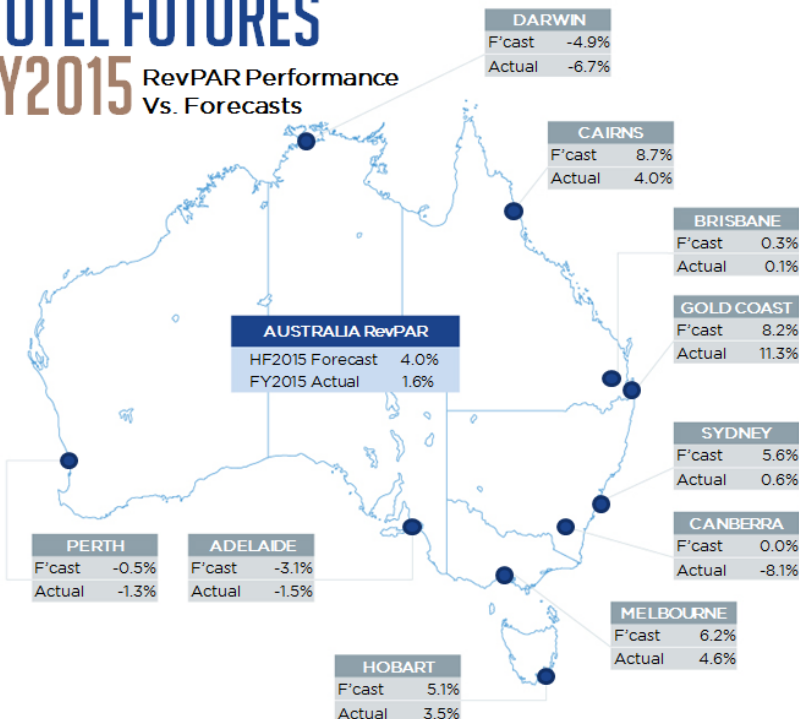
Average Room Rate (ARR)

- Rate growth of 1.4% was slightly below our 3.6% expectations and is likely to have been affected by the change in the survey base
- STR displayed a stronger rate environment with 2.2% growth recorded
- Long term rate expectations for 3.9% growth p.a to FY2023 are likely to be maintained in Hotel Futures 2016

For more information on the effect of the data series break, please visit the Australian Bureau of Statistics' website www.abs.gov.au

HOTEL FUTURES

FY2015 RevPAR Performance Vs. Forecasts



RevPAR Growth Results -FY15

	ABS	STR
Adelaide	-1.5%	-0.9%
Brisbane	0.1%	1.8%
Cairns	4.0%	11.7%
Canberra	-8.1%	1.3%
Darwin	-6.7%	-4.8%
Gold Coast	11.3%	9.1%
Hobart	3.5%	5.5%
Melbourne	4.6%	4.1%
Perth	-1.3%	-2.6%
Sydney	0.6%	4.5%
Australia	1.6%	4.2%

FY2015 CITY PERFORMANCE

ADELAIDE

In FY2015 Adelaide Hotels outperformed poor expectations with reduced market contraction

- 1.5% RevPAR decline was relative to expectations for further decline of 3.1% as visitor nights fell 10%
- The STR sample of higher quality hotels performed marginally better than ABS data, recording lesser RevPAR decline of 0.9% on the back of greater occupancy preservation
- Occupancy levels contracted 4.1 points to 73.8%, largely in line with expectations
- Rates grew 4.0%, well above our 1.5% expectation as actual supply and demand dynamics, excluding the series break, appear to be better placed than reported, supporting rate growth
- The proposed supply pipeline has filled in relative to Hotel Futures 2015. Additional projects are sitting in line with our Market Response allowance with some uncertainty. We are presently unlikely to significantly alter our supply forecast
- Long term RevPAR expectations for 3.3% growth p.a are likely to be maintained in Hotel Futures 2016. Should more certainty arise in relation to mooted medium term supply, there is some slight downside risk as this could place further pressure on occupancy

BRISBANE

The expected Brisbane STA market recovery appears to have begun with slight RevPAR growth recorded, following 2 straight years of demand led decline

- RevPAR growth of 0.1% was largely in line with 0.3% expectations as demand steadies
- Occupancy fell 1.1 points to 74.1% as several medium scale hotels opened throughout the year
- New openings coupled with refurbishments have increased the general quality of hotels in Brisbane creating upward pressure on rate. Hoteliers took advantage with a 1.6% increase in ARR
- The STR sample of higher quality hotels displayed stronger rate driven RevPAR growth of 1.8%, similarly constrained by a slight fall in occupancy
- Trading since year end has recorded a decline by comparison to the prior year as G20 inflated prior year results
- The proposed and under construction supply pipeline has increased relative to Hotel Futures 2015 expectations and sits slightly above our Market Response allowance. We anticipate a slight increase in our supply forecast
- Long term RevPAR expectations for 4.8% growth p.a are likely to be slightly reduced in Hotel Futures 2016 as the supply outlook increased and due to uncertainty in the local economy

CAIRNS & PORT DOUGLAS

The Cairns & Port Douglas STA market has continued its recovery following consecutive years of decline through FY2007-FY2010

- RevPAR growth of 4.0% marked the 5th consecutive year of growth and was driven by increases in both demand and rate. The positive results were however slightly below robust 8.7% expectations
- The STR sample of generally higher quality hotels recorded significantly stronger growth of 11.7% and suggests that branded and larger properties are performing well above the market as a whole
- Occupancy levels were largely maintained, recording a negligible 0.3 point decline to 64.9%
- Rates grew by a healthy 4.5%, in line with expectations, and are forecast to continue to strengthen with the general quality of products increasing through refurbishment to many existing hotels
- Pending certainty surrounding the Aquis development, it is unlikely that the supply environment will substantially change from Hotel Futures 2015 expectations
- Long term RevPAR expectations for 4.6% growth p.a are expected to be met or exceeded in Hotel Futures 2016

CANBERRA

ABS data reflected a significant rate led decline in FY2015 which appears to be well below the consensus of informed market participants

- The ABS series break appears to have had a dramatic impact on reported FY2015 trading performance. The reported 8.1% RevPAR decline is in contrast to our expectations for flat growth, and is not consistent with STR's sample growth figure of 1.3%
- The STR sample of higher quality hotels recorded 1.3% RevPAR growth as occupancy levels increased against a backdrop of minor rate decline
- In Canberra, a 2 speed market is emerging between new/refurbished properties. This is likely to manifest in STR vs ABS reported results
- Occupancy levels increased 1.4 points to 68.1% as visitor nights in the ACT increased 15.0%
- Rates contracted by 9.9% a figure which appears to have been magnified as a result of the series break rather than actual decline on a like with like basis
- The supply pipeline increased slightly relative to HF2015 and sits marginally above our limited Market Response allowance. We are likely to slightly increase our supply forecast in HF2016
- Long term RevPAR expectations for 3.6% growth p.a are expected to be maintained in Hotel Futures 2016, albeit off a much lower base

FY2015 CITY PERFORMANCE

DARWIN

Darwin's market correction continues following a short period of extreme, resource construction related, demand outperformance

- RevPAR decline of 6.7% was slightly worse than -4.9% expectations as demand for traditional hotel accommodation deteriorates
- The STR sample of higher quality hotels recorded lesser decline of 4.8%, in line with expectations
- Occupancy levels fell 7.6 points to 68.7% as the shift away from labour intensive mining construction continues
- Contrary to the occupancy movement, rates actually grew by 3.6%
- The supply pipeline has increased slightly, although remains within our Market Response allowance. We are likely to maintain our supply forecast in Hotel Futures 2016
- Long term RevPAR expectations for 2.3% growth p.a is likely to be downgraded, off a much lower base following expected underperformance in the medium term

GOLD COAST

The Gold Coast STA market displayed country leading growth in FY2015

- RevPAR growth of 11.3% outperformed already strong 8.2% forecasts driven by returning visitors
- The STR sample displayed lesser growth of a still strong 9.1%
- Occupancy increased 4.8 points to 69.3%, above our year ending expectations of 67.0% as the weakening \$AUD makes Australian holidays more appealing to domestics and internationals
- Rates strengthened 3.5% largely in line with expectations
- Supply in the construction and proposals stage remain well within the existing Market Response allowances and we do not anticipate material change to the supply forecast in HF2016
- Long term RevPAR expectations for 4.4% growth p.a is likely to be slightly upgraded in Hotel futures 2016

HOBART

Steady growth in Hobart's STA market continues to be driven by extremely strong growth in both international and domestic visitation

- RevPAR growth of 3.5% was slightly below 5.1% expectations as hoteliers failed to move on rate, actually seeing them decline despite strong occupancy growth
- The STR sample of higher quality hotels displayed stronger RevPAR growth of 5.5% and outperformed our 5.1% expectations
- Occupancy increased 3.0 points to 73.6% on the back of double digit visitor night growth for both domestics (16.1%) and internationals (12.7%)
- Hobart has experienced a significant increase in hotel proposal activity which is likely to increase our supply pipeline through the medium term. The majority of the proposals however are at least 3 years away and are not all expected to proceed
- Long term RevPAR expectations for 2.4% growth p.a are likely to be maintained in Hotel Futures 2016 as visitor forecasts improve and absorb additional potential supply

MELBOURNE

Melbourne hotels have continued to consolidate recording strong rate driven RevPAR growth in an environment of consistently high occupancies

- RevPAR growth of 4.6% was slightly behind our 6.2% forecast as rates underperformed expectations
- The STR sample recorded similar growth of 4.1% with occupancy and rate increases
- Occupancy levels increased 0.4 points to 83.2%, slightly above our year end expectations as supply continues to be absorbed
- Rate growth of 4.1% was the strongest in the last 7 years, however was slightly below 6.0% expectations
- Supply proposals have started to fill our Market Response allowance although still sits well within our expectations. We are unlikely to materially alter our supply forecast in HF2016
- Long term RevPAR expectations for 4.5% growth p.a are likely to be maintained in Hotel Futures 2016

FY2015 CITY PERFORMANCE

PERTH

The Perth hotel market correction continues as rates are unable to be maintained despite consistent occupancy

- 1.3% RevPAR decline slightly underperformed expectations for lesser decline of 0.5% as rates softened
- The STR sample of higher quality hotels recorded more pronounced decline of 2.6%
- Occupancy levels maintained at 81.0% as the recently retreating demand starts to stabilise
- Rates decreased by 1.3%, in line with expectations
- In FY2015 multiple hotel developments moved from the proposal stage to the construction phase, solidifying the supply pipeline. We are likely to slightly increase our supply forecast in Hotel Futures 2016
- Long term expectations for 3.6% growth p.a are likely to be slightly downgraded in Hotel Futures 2016 as growing supply places pressure on occupancy and consequently rate

SYDNEY

Underwhelming rate growth for a third straight year limits Sydney growth despite occupancy maintaining above 86%

- 0.6% RevPAR growth was below our 5.6% expectations due to a lack of a substantial rate growth
- The STR sample of higher quality larger hotels recorded considerably better results with rate led growth of 4.5%
- Occupancy movement was negligible (-0.2 points to 86.4%) as the city remains effectively full Monday through Thursday and Saturday nights. There is considerable scope for additional accommodation, which would enable demand growth
- Rates increased by 0.9%, well below our 4.0% expectations as hoteliers continue to be over cautious in a consistently high occupancy market
- The supply pipeline under construction and proposed has increased relative to Hotel Futures 2015 expectations, however sits well within our Market Response allowance. We are highly unlikely to increase our supply forecast which is also affected by several high room count hotel closures
- Long term expectations for 4.6% growth p.a are likely to be maintained in Hotel Futures 2016

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T +61 2 8234 6600

E Mail@dransfield.com.au

Sources:

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

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