Savills Hotels

market report

February 2018

savills.com.au

savills

Contents

Introduction

A dearth of Australian hotel sales in 2017 mask opportunities in 2018

While hotels in Sydney and Melbourne are experiencing unprecedented trading performance, there was a relative dearth of sales activity in 2017 with national transaction values down 35% compared to the 2016 calendar year.

There were no significant hotel sales recorded in Sydney's core CBD and only a small number of investment grade hotel transactions in Melbourne's CBD.

2017 Sales Transactions

State	Number of Sales*	Total Value ($m)
VIC	12	$668
NSW	16	$592
QLD	8	$180
WA	2	$62
ACT	3	$61
SA	2	$50
TAS	2	$22
Total	**45**	**$1,635**

*Completed Sales and Exchanged Unconditional Sales. Sales include property with not less than 50 rooms and sold over $5m, and not "pub" properties with ancillary rooms.

Since the peak of transaction sales set in CY 2015, there has been a precipitous decline in the total dollar-value of hotels transacted across Australia. Many owners seem to be opting to hold their hotels for fear of being cashed up without the ability to re-enter the market; which is becoming a self-fulfilling prophecy.

Sales Transactions – Years 2014-2017

Year	Number of Sales*	Total Value ($m)
2017	45	$1,635
2016	71	$2,511
2015	73	$3,476
2014	59	$2,621

*Completed Sales and Exchanged Unconditional Sales. Sales include property with not less than 50 rooms and sold over $5m, and not "pub" properties with ancillary rooms.

In 2018, we anticipate that Sydney and Melbourne markets will continue their strong trading performance given record international and domestic tourist numbers and visitor spend, and relatively muted supply growth.

There continues to be a fairly substantial (and apparently growing) price gap between Buyers and Sellers. This "gap" is accentuated in Perth and Brisbane where Sellers consider Sydney and Melbourne cap rates as being applicable to their markets.

We see counter cyclical opportunities in 2018 in Brisbane, which we consider has bottomed and will benefit from the Commonwealth Games and activities associated with the Queens Wharf development, as well as a number of other significant public infrastructure projects and large scale private developments. Conversely, Perth has additional new supply still to enter an already soft market, which in the short term will lead to further downward pressure on both occupancy and room rate. Likewise, this should give rise to buying opportunities for well capitalised counter-cyclical investors.

We are expecting developers in Sydney and Melbourne to exit their hotels to take advantage of robust capital values, lack of availability of existing investment grade hotels, and to capture the ubiquitous and deep pools of capital still searching for hotels in these key markets. The Developers exit point will be either a site sale with associated DA, turnkey sale with fund through obligations or project take out at completion.

Yield compression continues as the dearth of opportunities drives up pricing and leads to tighter yields (refer Graph 1):

Year	Median Yield
2009	8.50%
2010	7.50%
2011	9.60%
2012	8.30%
2013	8.00%
2014	7.83%
2015	7.05%
2016	6.85%
2017	6.81%

This lends weight to Savills Hotels often quoted notion of a global synchronisation of real estate investment yields, particularly in gateway markets like Sydney and Melbourne.

With the evolving situation regarding Australian Prudential Regulation Authority regulations, the spotlight on international bank capital adequacy ratios and the implementation of the so called “Basel IV” accord (arguably just a completion of the Basel III reforms), bank lenders in the Australian market will continue to scrutinise more carefully hotel assets, forecast cash flows and borrowers for the strength of their covenant. The likely effects include:

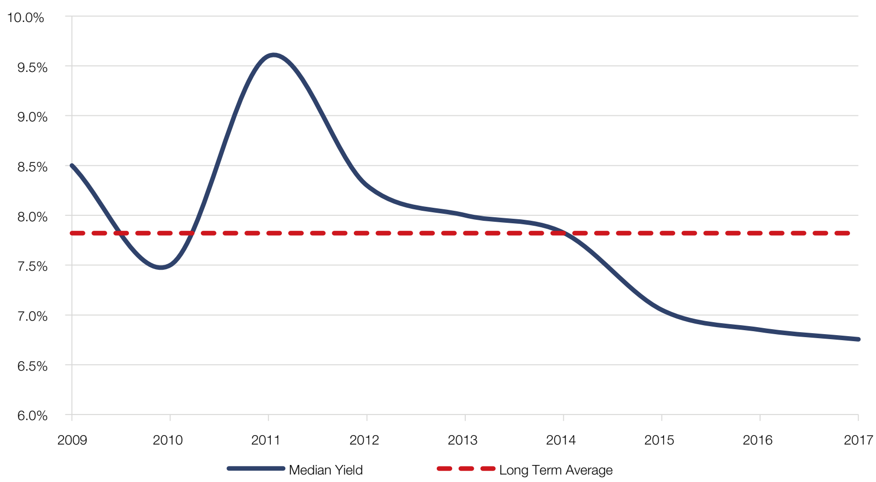
1. Assets or development projects which are not showing generous returns (and in the case of developments, a strong positive delta between total development cost and on completion value), adequate security (in essence, more modest loan to value ratios), serviceability and interest coverage will be rejected by Australian trading banks
2. Borrowers themselves will be heavily scrutinised – those with experience in hotel investment and ownership in the market, as well as healthy balance sheet positions, will obviously be preferred by traditional lenders and are therefore more likely to re-emerge as the most active buyers
3. Non-bank lenders will have an opportunity to supplant themselves over Australian banks and provide a range of debt products from ordinary senior debt to a range of structured debt solutions. This in itself should assist with a further maturation of the Australian hotel investment market

Direct overseas buyers and overseas equity (managed by local Australian funds) from mainland China, Hong Kong, Japan and Singapore continue to be the main sources of capital scouring the Australian market for hotel opportunities; however, local investors should not be disregarded and have been active players in the market, particularly in the second half of CY 2017.

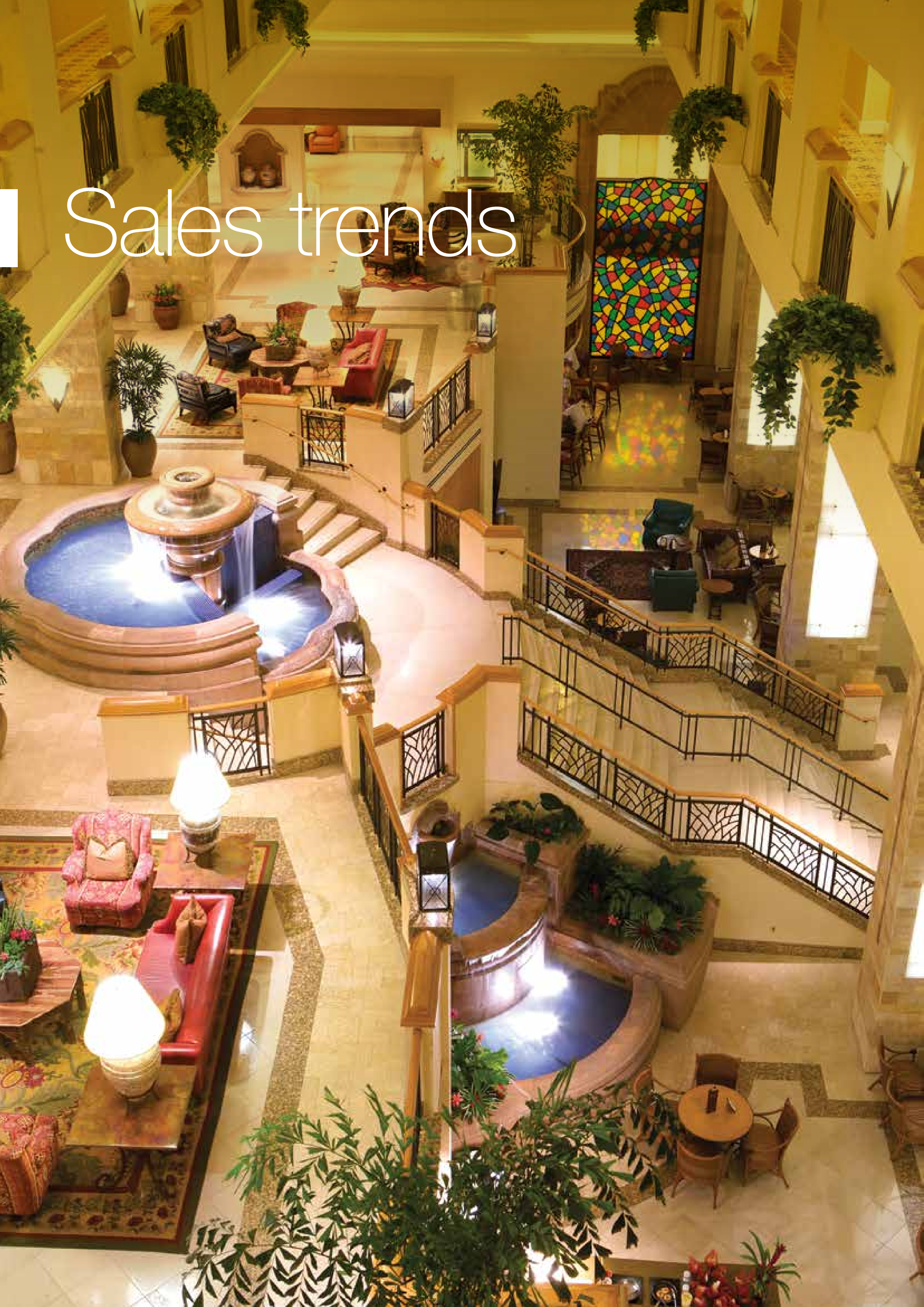
We also foresee a return of traditional US, UK and European private equity and fund managers as active players in the local hotel investment landscape in 2018 and beyond.

Michael Simpson
Managing Director
Savills Hotels

Graph 1 – Australian Hotel Sales – Median Passing Yields



Sales trends



Sales

It has been well documented that hotel sales volumes are down. Comparisons are being made to the last two years where volumes were at record levels, so it was inevitable this trend could not continue.

In CY 2015 there were $3.5bn of hotel sales, compared to $2.5bn in CY 2016 and $1.6bn for CY 2017 which represents a 53% fall of sales volumes since a flurry of activity in 2015.

This trend is not isolated to Australia nor the hotel sector. Property transactions in Australia for "all income asset sales" were down 10% on 2016 which is being attributed to high price expectations of vendors and investors holding onto stock. Hotels sales volumes are down by 8% across Asia Pacific.

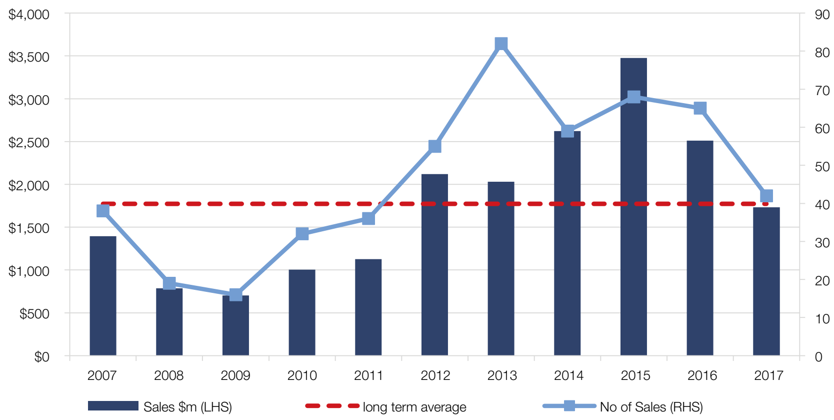
Should we be concerned?

Not really. The long term average over the last 10 years is $1.8bn, so 2017 is only slightly down on the long term average. Of the key 9 cities in Australia there are circa 125,000 hotel rooms. There are nearly 40,000 new rooms planned in these locations, of which we believe over 20,000 are likely to open. With this in mind there will be more hotels to transact in the future.

When can we expect the next influx of hotel transactions?

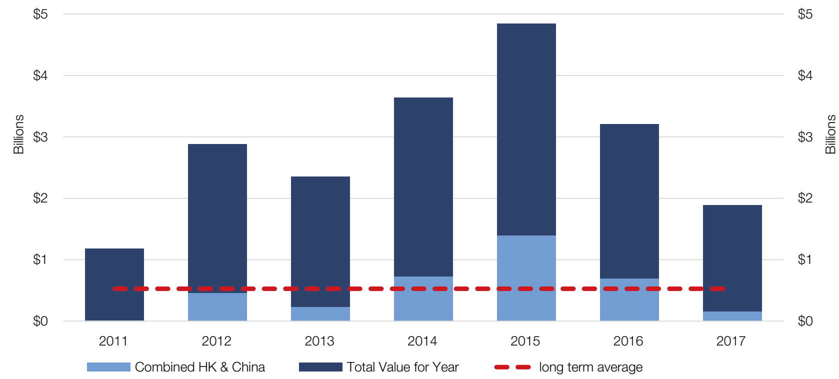
Since high transactional activity in 2014/2015, there are proportionately more 'inter-generational' owners of major hotels in Australia. Unlike traditional investment cycles, the hold period for investments from these groups is substantially longer. This has created a new investment landscape of major CBD hotels across Australia as owners are unwilling to trade even if buyers are willing to pay significantly over valuation. Although the average holding period over the last few years of sales is nearly 7 years, we foresee this extending going forward and transactional activity not aggressively picking up in the short term.

Graph 2 – Sales Volumes ($m) and Total Sales (no.)
2007 to 2017



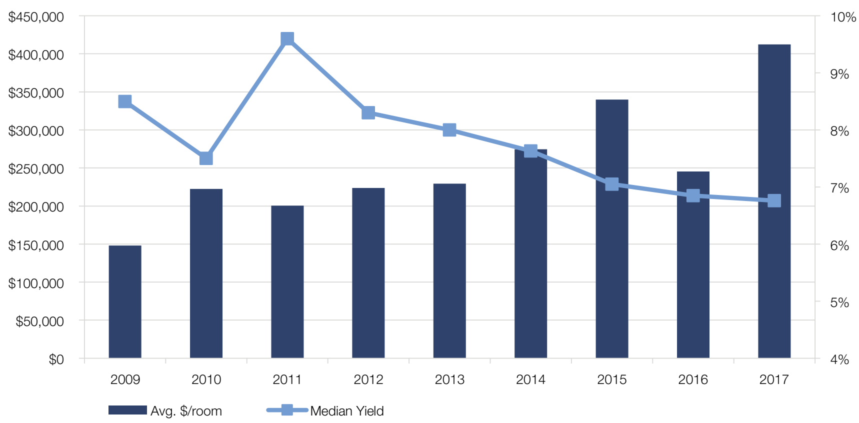
Source: Real Capital Analytics / Savills Research

Graph 3 – Total Reported China & HK Hotel Investment in Australia

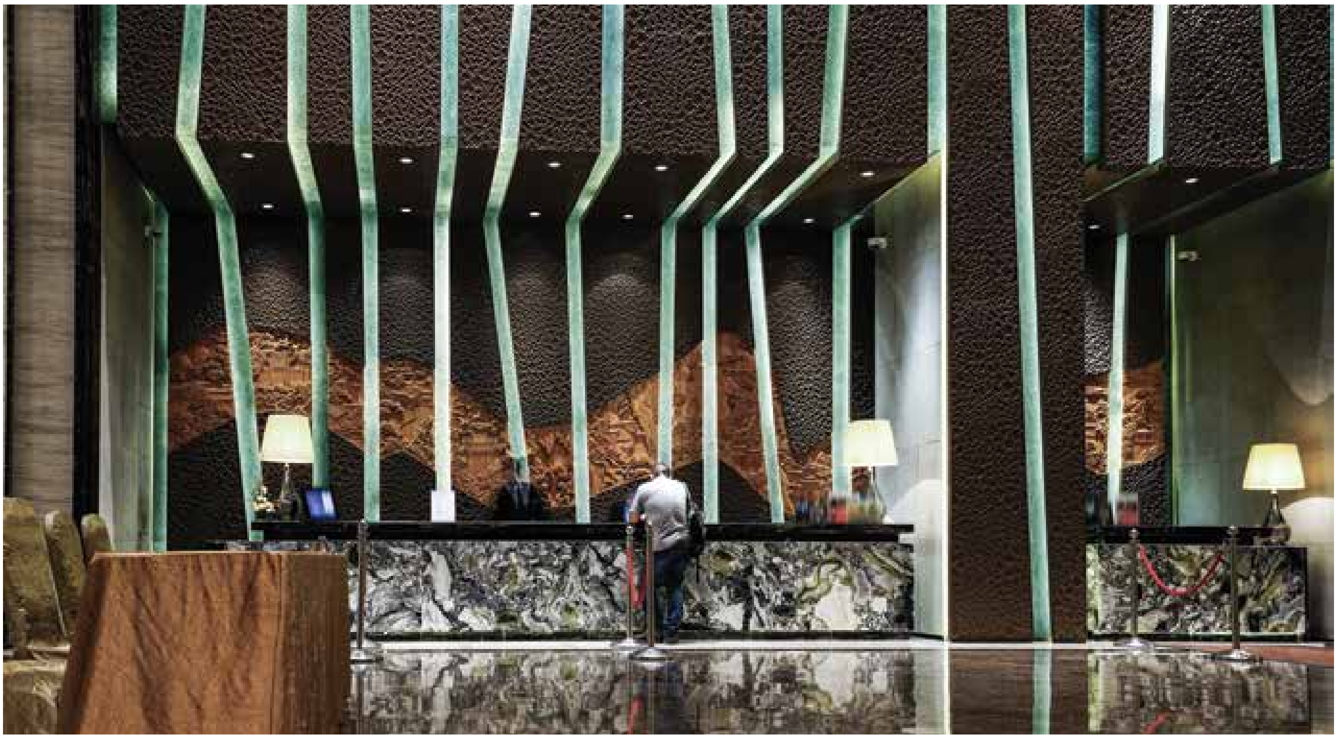


Source: Real Capital Analytics / Savills Research

Graph 4 – Average $ per Room and Median Yields
Jan 2009 to Dec 2017



Source: Real Capital Analytics / Savills Research



2018: Year of the Dog. Are we barking up the wrong tree?

Since mid-2017 the restriction of Chinese capital coming into Australia has dominated headlines with some speculation it could lead to a fall or a correction in pricing. We have analysed the last 10 years of hotel sales, of which Chinese investment has represented circa 18% by value and only 8% by number of sales. This peaked at 40% by value and 20% by number in 2015.

The sales have primarily been focused on trophy hotels, of which there are few left to sell. While Chinese investment may not have been as dominant as suggested, in many instances the Chinese have been under bidders, which ultimately led to higher pricing. Hence, even without successfully acquiring hotels, the presence of Chinese investors has led to an increase in pricing.

We are currently seeing Chinese interest being supplemented by investors from the US, Europe, Japan, Hong Kong and the ever present Singaporeans.

Rather than focus our attention on Chinese buyers in isolation, we should consider the combined Chinese and Singaporean hotel investors. The withdrawal from both would be cause for concern. In 2014 both Chinese and Singaporean investors acquired nearly 60% of Australian hotels sold and nearly 50% in 2015. Over the last 7 years over one third of all hotels sold have been snapped up by investors from China and Singapore.

Whilst one would expect the restriction of overseas investment placed on Chinese buyers may result in a correction in pricing, this proposition has not been tested due to the lack of hotel opportunities which has continued to fuel competitive pricing. While there have been recent sales of Hotel and Commercial properties by highly leveraged Chinese investors, we expect that Chinese capital is still available for hotel investment from investors with stronger balance sheets and who are not under the microscope of the Chinese banking regulators. As can be seen from Graph 4, passing yields continue to tighten, albeit showing signs of slowing.

Selection of CY 2017 Sales Transactions

Month	Hotel	Suburb	Rooms/Keys	Sale Price	Rate Per Room
Dec-17	Mercure & Ibis Brisbane	Brisbane	412	$77,000,000	$186,893
Nov-17	Ibis Styles Adelaide Grosvenor	Adelaide	245	$43,000,000	$175,510
Nov-17	Adina Melbourne	Melbourne	65	$53,500,000	$823,077
Nov-17	Sheraton Hotel Melbourne	Melbourne	174	$135,000,000	$775,862
Nov-17	Mercure Sydney International Airport	Sydney	271	$74,600,000	$275,277
Sep-17	Mercure Treasury Gardens Melbourne	Melbourne	164	$70,000,000	$426,829
Sep-17	Nobby's Outlook	Gold Coast	37	$23,750,000	$641,892
Aug-17	Ibis Styles Narrabundah	Canberra	207	$27,500,000	$132,850
Aug-17	All Seasons International Bendigo	Bendigo	77	$24,000,000	$311,688
Aug-17	Sebel Mandurah	Perth	84	$15,000,000	$178,571
Aug-17	Quest Nowra	Nowra	81	$17,500,000	$216,049
Jul-17	Quest Cannon Hill	Brisbane	100	$23,850,000	$238,500
Jun-17	All Nations Backpackers Hotel	Melbourne	50	$30,000,000	$600,000
Jun-17	Hilton Melbourne South Wharf	Melbourne	396	$245,668,000	$620,374
Jun-17	New Inchcolm Hotel & Suites	Brisbane	50	$16,500,000	$330,000
May-17	Quest Newcastle West	Newcastle	78	$16,000,000	$205,128
May-17	Peppers Airlie Beach Resort	Airlie Beach	102	$20,000,000	$196,078
May-17	Airport Sydney International Inn	Sydney	120	$32,000,000	$266,667
May-17	InterContinental Double Bay	Sydney	140	$140,000,000	$1,000,000
Apr-17	Four Points by Sheraton Central	Sydney	297	$156,000,000	$525,253
Mar-17	Crowne Plaza Perth	Perth	191	$50,000,000	$261,780
Mar-17	Quest Penrith	Penrith	120	$30,320,000	$252,667
Mar-17	CSA Serviced Apartment Hotel	Melbourne	28	$15,000,000	$535,714
Jan-17	Mercure Geelong	Geelong	138	$24,200,000	$175,362

Source: Savills Hotels

Our outlook for 2018 is generally positive with hotel enquiries remaining strong and owners considering options. We anticipate 2018 volumes to be on par or slightly ahead of 2017.

China and Australia – a match forged in “steel”

Introduction

Australia's economic future is integrally based upon the continued growth of China, more so than any other OECD country. A great deal is discussed about China in our industry, almost on a daily basis both in terms of inbound demand and capital investment, but do we really understand the current key issues impacting China? This overview considers recent developments in China's economy and its implications for Australia.

We begin this overview with our findings and subsequently provide a critique of the current state of affairs which supports our conclusions.

A positive future

An economic miracle

- While the western world supports the concept that liberalisation is better for markets (the so called "free market") and conversely excessive controls and state direction are often seen as negative, China's state direction autocracy has produced the most impressive economic miracle the world has ever experienced
- The outlook for China's economy remains robust and positive. CY 2017 recorded GDP growth of 6.9%, which exceeded forecast

Tourism demand

- China's continued economic development will underpin the transition of the poor and middle class to upper middle class and affluent status (refer figure 1) who are keen consumers, continually increasing in their level of sophistication and who have a desire to travel abroad
- As a result, Australia will experience continued growth from China inbound, who are our highest yielding spenders and are already our most important international market. The year ended September 2017 statistics speak for themselves:
  - Visitors: 1.2 million (2nd behind New Zealand)
  - Visitor nights: 53.5 million (1st)
  - TRA has forecast China visitor room night growth of 8.6% over the next 10 years which extrapolates to 122 million room nights

Australian tourism investment

- Following unprecedented capital outflows during China's "Go West" and acquire phase, the Party's concern over financial risk in late 2016 resulted in a change of attitude with a resultant tightening on global investment
- The recent sale of Australian assets by high profile Chinese Investors Dalian Wanda Group of The Jewel (Gold Coast) and Goldfields House (Sydney), and HNA's, 1 York Street Sydney represents a curtailment of overseas investment and debt reduction by those investors, following the intervention of China's banking regulators. The property and investment group Yuhu acquired the Wanda assets and hence China ownership status quo remains
- While the sale of the Wanda and HNA assets is related to their respective debt exposures, we are expecting China investors to remain active particularly in respect to Chinese property firms which are not as highly leveraged

The critique

Xi increases control

The transition of China's bureaucratically controlled economy to a "free market" has not occurred, as was announced by Mr Xi Jinping ("Xi") in 2013. Instead the 19th Communist Party Congress (CPC) held in October 2017, has reaffirmed the Party's continuing control of economic affairs and also elevated Xi to even greater control over the country's affairs. This is evidenced by Xi's "Thoughts and Theory" being adopted as an official guideline, which places him alongside Mao and Deng Xiaoping in the Party's historical hierarchy.

Why the free market failed

Paramount to the decision to reassert the Party's economic control were the stock market crashes of 2015 and 2016 which destabilised China's "reform resolve" towards consumers and the private market, resulting in a return to the familiar economic model of debt driven stimulus as endorsed at the CPC.

The Party rules

China now promotes a hybrid capitalism where the private sector and deregulation play a peripheral role to the key economic decisions and policies made by the Party. Rather than liberalising China's capital account and encouraging its financial sector to allow capital to find its most productive use, the Party dictates economic strategy. This is exemplified by Xi's Belt and Road regional infrastructure plan[1] which harnesses state owned economic power to achieve Beijing's geostrategic interests.

Xi has also set ambitious targets for industrial policy in the areas of electric vehicles, semi-conductors, robotics, pharmaceuticals and artificial intelligence. These industry priorities are attracting significant investment as China gears up for a rise in productivity as it navigates the move to a more advanced economy. These industry initiatives underpin the Party's grand strategy known as "Made in China 2025" which aims to transform the country into a dominant player in cutting edge technologies, which it must succeed in, as it can't continue to rely on debt driven infrastructure projects to prop up GDP growth which has stabilised at around 6.5% annually.

Implications for Australia

So should Australia, which has benefited from soaring prices for key exports such as iron ore and coal, be concerned about waning demand as the Chinese economy transitions towards a more high-tech economy?

China construction has peaked in terms of its share of GDP and is likely to grow slower than GDP (expect annual increases of 2%-4% in real terms rather than the 8%-10% growth rates seen in the past).

While this first provides a dour outlook, on a more positive note, China's focus on curbing pollution 'plays into Australia's hands'. Chinese steel mills are likely to use higher grade iron ore which Australia produces, and as Chinese mines are closed (dirty iron ore/coal) imports of higher quality raw materials are likely to rise. Australia being a low cost producer is likely to gain market share in this sector even if China construction slows. This augers well for Australia's biggest export to China and underpins Australia's GDP.

China is not without its share of problems

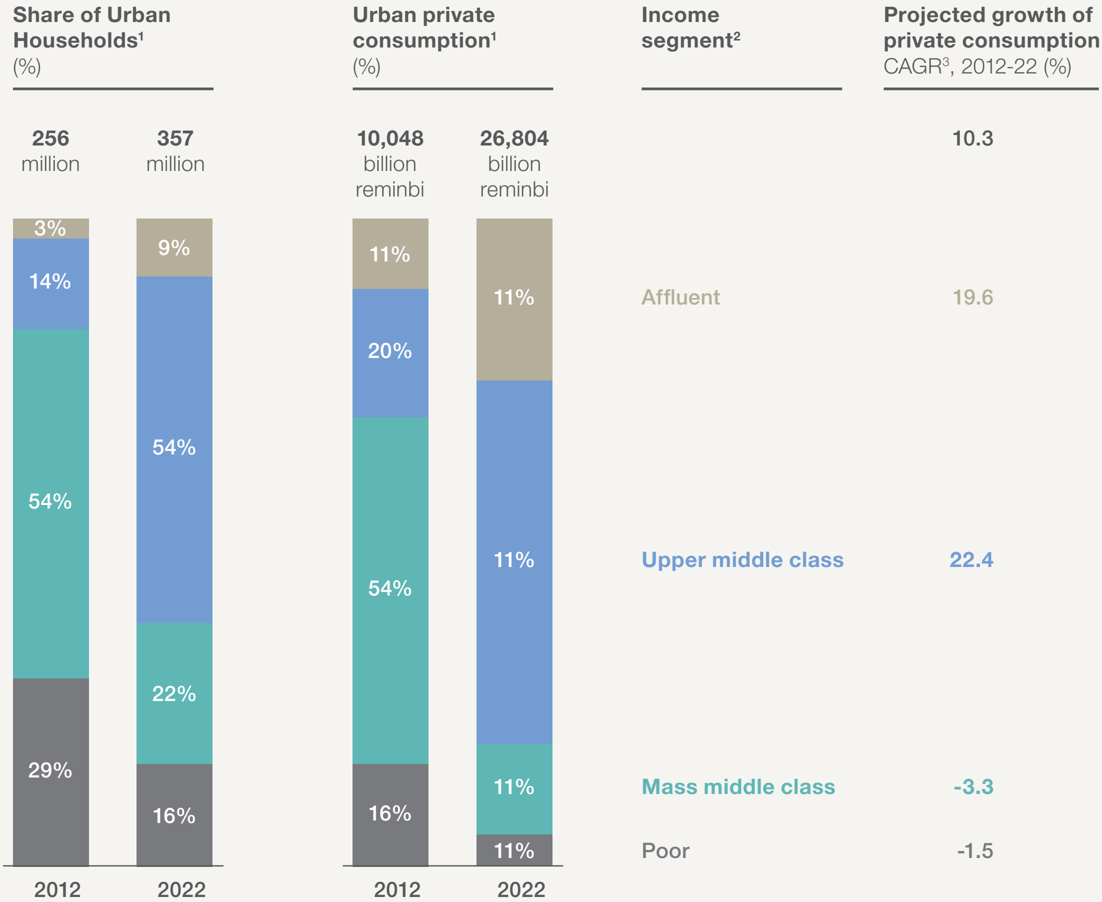
China's meteoric rise to the second largest economy in the world is not without its broader geo-political challenges which the Party must also consider within the context of its economic advancement:

- Some critics argue that the wide ranging anti corruption campaign is also seen as a drive to purge Mr Xi's rivals and political opponents
- Burgeoning levels of debt represent the biggest threat to the economy
- Managing trade tensions between USA & Europe over China's excess production of industrial steel and other goods, which manifests into dumping consumer goods in the Western economies and cripples industry in those countries
- The potential for war in neighbouring North Korea and the vital role China plays in influencing North Korea's Kim Jong-un through diplomatic means as well as the imposition of economic sanctions on North Korea
- Managing the crucial relationship with the USA and navigating the delicate ties with SE Asian nations wary of Beijing's expansion in the South China Sea

Xi must balance all these issues, while driving the economy to greater prosperity; Australia must remain "locked and loaded" to benefit from the success of Xi's vision.

1 The Silk Road economic "Belt" and the 21st century maritime Silk "Road" are a land-based belt from China via Central Asia and Russia to Europe, and a maritime route through the Straights of Malacca to India, the Middle East and East Africa. China has allocated US$40 billion to the Silk Road fund which underwrites a series of major projects to improve connectivity along the route and enhance China's logistics delivery.

Figure 1 – The Magnitude of China's Middle-class Growth is Transforming the Nation



Source: McKinsey & Company

1 Figures may not sum to 100%, because of rounding; data for 2022 are projected.

2 Defined by annual disposable income per urban household, in 2010 real terms; affluent,>229,000 renminbi (equivalent to >$34,000); upper middle class, 106,000 to 229,000 renminbi (equivalent to $16,000 to $34,000); mass middle class, 60,000 to 106,000 renminbi (equivalent to $9,000 to $16,000); poor, <60,000 renminbi (equivalent to <$9,000).

3 Compound annual growth rate.

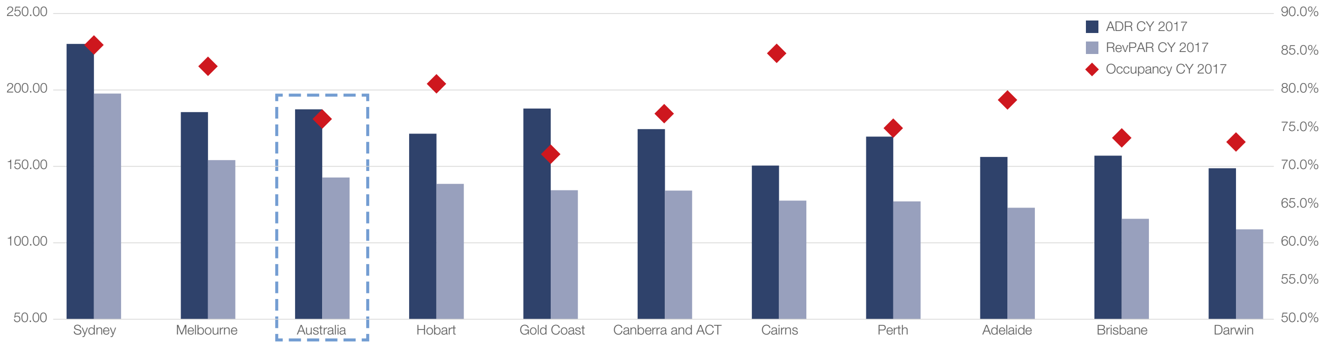

HOTEL

Performance snapshot

Australia & key city operating performance

The Australia wide market achieved a RevPAR for CY 2017 of $143, which represented year on year growth of 2.8%. All Australian cities posted RevPAR growth or no growth, except Perth and Hobart with RevPAR declining 11.3% and 0.5% respectively.[1] The continual decline in performance for the Perth market is not only a result of a downturn in business activity and an increase in room supply but also due to an increase in non-traditional accommodation bookings such as Airbnb, with Perth listings growing to more than 8,000.[2] For the remaining performing markets, growth in market KPI's can be attributed to strong corporate demand and an increase in leisure demand from domestic and international markets due to a lower Australian dollar and historically cheap airfares.

Graph 5 – Australia and City Market KPI's
Year Ending December 2017



Note: Cities are shown as RevPAR descends

	Occ		ADR		RevPAR	
Sydney	85.9%	1.1%	230.13	4.7%	197.66	5.9%
Melbourne	83.1%	-0.6%	185.52	0.6%	154.13	0.0%
Australia	76.2%	0.9%	187.32	1.8%	142.70	2.8%
Hobart	80.8%	-1.6%	171.40	1.1%	138.56	-0.5%
Gold Coast	71.6%	-1.3%	187.86	1.3%	134.44	0.0%
Canberra/ ACT	76.9%	3.1%	174.37	5.0%	134.13	8.2%
Cairns	84.8%	1.8%	150.53	7.6%	127.62	9.5%
Perth	75.0%	-2.8%	169.45	-6.7%	127.05	-9.3%
Adelaide	78.7%	2.0%	156.17	4.4%	122.96	6.5%
Brisbane	73.7%	2.6%	156.98	-1.4%	115.69	1.1%
Darwin	73.2%	8.7%	148.75	-3.9%	108.82	4.5%

1 Source: STR
2 Source: Bankwest Curtin Economics Centre Report October 2017

International visitors

Australia received 8 million international visitors (up 7.3%) and 268 million international visitor nights (up 6.6%) for the year ending 30 September 2017 (refer Graph 6 – Top 10 international visitor markets). International visitors to Australia spent a record $41 billion (up 6.2%). The New Zealand market continues to contribute the highest number of visitors to Australia (1.23 million), however the China visitor market follows closely behind at 1.22 million visitors, (up 11.9%), who more importantly, spend an average of 44 nights in Australia when touring Down Under. As a result, China produced 54 million room nights representing almost four times the volume produced by New Zealand (14 million).[1]

With the Australian dollar forecast to appreciate only slightly over the next five years, it is still expected to remain relatively low ensuring that Australia maintains its status as a cheap destination for international tourists. As a result, China is expected to overtake New Zealand to become Australia's number one inbound tourist market in 2017-18. The first nine months of 2016-17 saw inbound aviation capacity from China increase 23% year on year mainly due to increased activity from non-traditional operators in China's second tier cities. TRA forecasts continual growth in inbound aviation capacity from China in the coming years with forecast growth expected of 11.8% and 10.0% in 2017-18 and 2018-19 respectively. Increases to inbound aviation capacity from China is expected to be sourced largely from 'new' airlines and new routes in second-tier cities such as Wuhan, Chengdu and Xian which will supplement the traditional operators which operate from first-tier cities such as Shanghai and Beijing.[1]

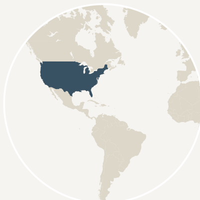
Graph 6 – Top 10 International Visitor Markets
Year Ending September 2017

New Zealand

TV '000	1 225
STV	15.3%
VAG	0.8%
TVN '000	13 778
STVN	5.1%
VNAG	-10.0%

China

TV '000	1 222
STV	15.3%
VAG	11.9%
TVN '000	53 534
STVN	20.0%
VNAG	23.8%



USA

TV '000	712
STV	8.9%
VAG	9.9%
TVN '000	14 909
STVN	5.6%
VNAG	2.3%

UK

TV '000	677
STV	8.5%
VAG	1.4%
TVN '000	24 166
STVN	9.0%
VNAG	0.6%

Japan

TV '000	396
STV	5.0%
VAG	8.4%
TVN '000	10 699
STVN	4.0%
VNAG	16.8%

Singapore

TV '000	384
STV	4.8%
VAG	0.3%
TVN '000	6 331
STVN	2.4%
VNAG	2.0%

Malaysia

TV '000	356
STV	4.5%
VAG	5.4%
TVN '000	8 635
STVN	3.2%
VNAG	11.1%

India

TV '000	271
STV	3.4%
VAG	15.5%
TVN '000	15 517
STVN	5.8%
VNAG	8.3%

Korea

TV '000	271
STV	3.4%
VAG	6.0%
TVN '000	10 695
STVN	4.0%
VNAG	-22.4%

Hong Kong

TV '000	249
STV	3.1%
VAG	13.5%
TVN '000	7 501
STVN	2.8%
VNAG	0.2%

- Total Visitors ('TV '000')
- Share of Total Visitors ('STV')
- Visitors Annual Growth YOY ('VAG')
- Total Visitor Nights ('TVN '000)
- Share of Total Visitor Nights ('STVN')
- Visitor Nights Annual Growth YOY ('VNAG')

1 Source: Tourism Research Australia (TRA)

Save for UK, European countries were absent from the top 10 international visitor markets, with most notably limited growth in arrivals from Switzerland (1.2%) and Italy (1.6%).

International Visitors – Who Goes Where?

Of the 8 million international visitors to Australia for the year ending 30 September 2017, 51.3% of those visited New South Wales, with Victoria and Queensland following at 35.2% and 32.9% respectively. Apart from Western Australia (11.9%) all other Australian states have a single digit share of visitors.

International visitors to Tasmania increased by 16.6%, albeit Tasmania represents the second least visited state (3.3%), marginally ahead of the Australian Capital Territory (2.9%).

International visitors stay the longest in Western Australia with an average of 29 visitor nights, which compares to the Australian average of circa 22 visitor nights.[1]

Domestic visitors

Of the 96 million domestic visitors across Australian states for the year ending 30 September 2017, 32.3% of those visited New South Wales, with Victoria and Queensland following at 24.7% and 23.0% respectively.

Year on year growth was largest in the Australian Capital Territory at 12.6%, with the Northern Territory boasting the highest average length of stay of circa 6 visitor nights which compares to the Australian average of circa 4 visitor nights.[2]

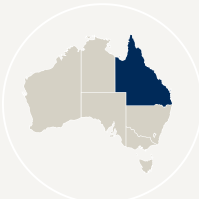
Graph 7 – International & Domestic Visitors – Who Goes Where?
Year Ending September 2017

NSW

	Int'l	Domestic
TV '000	4 095	31 030
STV	51.3%	32.3%
VAG	8.9%	7.6%
TVN '000	94 938	99 591
STVN	35.5%	28.7%
VNAG	9.0%	7.1%

VIC

	Int'l	Domestic
TV '000	2 815	23 750
STV	35.2%	24.7%
VAG	7.0%	10.6%
TVN '000	66 860	68 407
STVN	25.0%	19.7%
VNAG	11.6%	8.7%



QLD

	Int'l	Domestic
TV '000	2 628	22 110
STV	32.9%	23.0%
VAG	3.0%	9.7%
TVN '000	53 596	85 982
STVN	20.0%	24.8%
VNAG	1.0%	8.3%

WA

	Int'l	Domestic
TV '000	947	9 629
STV	11.9%	10.0%
VAG	2.8%	-2.0%
TVN '000	27 330	42 841
STVN	10.2%	12.3%
VNAG	-5.1%	-3.7%

SA

	Int'l	Domestic
TV '000	442	6 105
STV	5.5%	6.4%
VAG	2.8%	-2.8%
TVN '000	10 875	22 084
STVN	4.1%	6.4%
VNAG	10.2%	-2.4%

NT

	Int'l	Domestic
TV '000	289	1 552
STV	3.6%	1.6%
VAG	-1.5%	-1.8%
TVN '000	3 796	9 677
STVN	1.4%	2.8%
VNAG	-1.3%	5.4%

TAS

	Int'l	Domestic
TV '000	267	2 729
STV	3.3%	2.8%
VAG	16.6%	12.3%
TVN '000	4 486	11 608
STVN	1.7%	3.3%
VNAG	32.6%	13.7%

ACT

	Int'l	Domestic
TV '000	228	2 707
STV	2.9%	2.8%
VAG	10.2%	12.6%
TVN '000	5 133	7 084
STVN	1.9%	2.0%
VNAG	16.2%	16.8%

- Total Visitors ('TV '000')
- Total Visitor Nights ('TVN '000)
- Share of Total Visitors ('STV')
- Share of Total Visitor Nights ('STVN')
- Visitors Annual Growth YOY ('VAG')
- Visitor Nights Annual Growth YOY ('VNAG')

Share of total visitors for both International and Domestic Visitors exceeds 100% due to multiple state visits.

2 Source: Tourism Research Australia (TRA)

Australian cities overview

The following analysis in descending order of CY 2017 RevPAR achieved in a particular market, considers the economic and market fundamentals influencing current and future hotel performance.

Sydney: From strength to strength

Sydney continued to lead the Australian market in CY 2017, achieving a RevPAR of $198, $55 ahead of the overall Australian market and $44 ahead of Melbourne, the second highest performing market based on RevPAR. The strength of the Sydney hotel market is set to continue with international passenger numbers through Sydney Airport continuing to increase (up 7.1% year to date November 2017) as a record breaking 43.3m passengers passed through Sydney Airport in 2017. Hoteliers have the ability to drive rate due to sustained strong demand, with Sydney's occupancy rates currently among the highest in the world.

Sydney's Luxury segment achieved an occupancy of 89.4% (up 4.0%), and ADR of $359 (up 6.0%), delivering a RevPAR of $321 (up 10.2%), which exceeded Melbourne's Luxury segment RevPAR of $278 by 15%[1]. A combination of factors such as the strength in both public and Private construction/infrastructure projects and buoyant economic metrics are key to ensuring the continued success in Sydney's current and expected future performance.

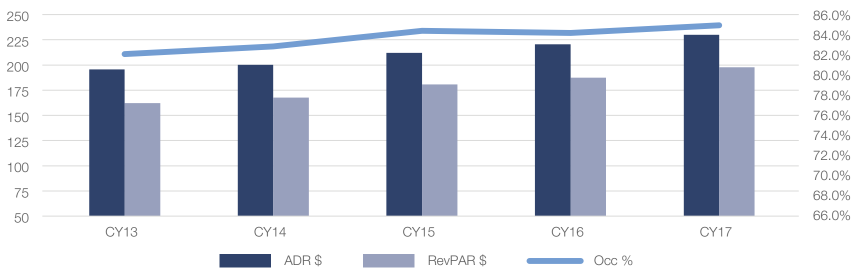
Sydney's strong performance has resulted in a surge of international capital and an increase in investment in new hotel development. However, due to Sydney CBD being a constrained market, investors are left frustrated due to the limited opportunities for development sites and trading hotels for sale.

Based on Savills research into the hotel pipeline for Sydney CBD and its immediate surrounds, an additional 3,000 rooms are anticipated to enter into the market over the next three years. Of course not all projects will proceed and accordingly we expect a number of planned or proposed projects will not materialise.

Limited increases to Sydney's hotel room supply has had little impact on occupancy as Sydney room night demand has continued to grow in the last four years, with growth of 4.3% year on year for CY 2017. We forecast Sydney occupancies will continue to remain strong in the medium term enabling hoteliers to continue to grow rate.

Graph 8 – Sydney Market KPI's
CY 2013 to CY 2017

City	Occupancy %	ADR $	RevPAR $
Sydney CY17	85.9%	230.13	197.66
YOY Change	1.1%	4.7%	5.9%



Source: STR

State of the Nation

- GDP Growth ASep-17: 3.1%
- GSP:
  - F2018: 2.8%
  - F2019: 2.5%
- Population Growth AMar-17: 1.6%
- Inflation ASep-17: 1.9%
- CPI:
  - F2018: 2.3%
  - F2019: 2.5%
- Employment Growth AOct-17: 2.4%
  - F2018: 1.5%
  - F2019: 1.3%
- Unemployment Rate AOct-17: 4.9%
- House Price Growth ASep-17: 1.7%
- Apartment Price Growth ASep-17: 1.0%
- Retail Trade Growth AOct-17: 2.5%
- Sydney CBD Office Vacancy Rates (absolute numbers as at January 2018): ⬇ 4.6% (lowest compared to all capital cities)
  - Premium: ⬇ 6.9%
  - A: ⬆ 3.7%
  - B: ⬇ 4.8%
  - C: ⬇ 3.7%
  - D: ⬇ 2.1%
- Office Construction Pipeline
  - 2018: 85,712sq m
  - 2020+: 147,248sq m
- Infrastructure projects (circa $80 billion NSW infrastructure projects over the next 4 years):
  - Sydney Metro
  - WestConnex
  - CBD and South East Light Rail
  - Parramatta Light Rail
  - NorthConnex
  - Barangaroo
  - Circular Quay Renewal
  - Hospital Redevelopments
- The housing market has peaked at record levels with market activity cooling as a result of tighter lending standards
- The boom in construction activity, led by housing investment and the public infrastructure boom, has been the driving factor for growth in employment
- Wage growth continues to remain constrained while household debt to income ratio continues to climb
- Sydney received circa 4 million international visitors for the year ending September 2017 (47.9% of total international visitors to Australia)
- An increase of 7.4% in international visitor nights for Sydney (Y/E September 2017)
- An increase of 15.1% in domestic visitor nights for Sydney (Y/E September 2017)[2]

1 Source: STR
2 Source: ABS/DOE/RBA/NSW Treasury/Property Council Australia/Tourism Research Australia/Savills Research

Melbourne: Holding steadfast

Melbourne is the second highest performing market in CY 2017 recording a marginal increase in ADR to $186 (up 0.6%). Conversely, occupancy declined marginally resulting in no growth in RevPAR for CY 2017 when compared with CY 2016. Whilst the overall Melbourne hotel market remained stable, Melbourne's Luxury market showed growth in all market KPI's, achieving an occupancy of 91.2% (up 1.8%), ADR of $305 (up 0.9%) and RevPAR of $278 (up 2.7%). A record breaking number of international passengers (more than 1 million) travelled through Melbourne airport in December 2017 alone, with international airport passenger traffic growing 7.2% for CY 2017 when compared to CY 2016.

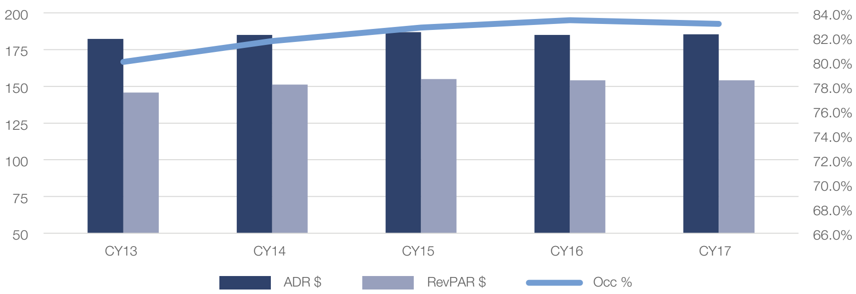
For CY 2017, 'Room nights sold' increased by 2.6%, however this was offset by an increase in 'Rooms available' of 3.2% over the same period.[1]

Based on Savills research into the hotel pipeline for Melbourne CBD and its immediate surrounds, an additional 5,500 rooms are anticipated to enter into the market over the next three years. Of course not all projects will proceed and accordingly we expect a significant number of planned or proposed projects will not materialise.

In 2018, we anticipate that the Melbourne market will continue its strong trading performance given record international and domestic tourist numbers and infrastructure projects.

Graph 9 – Melbourne Market KPI's
CY 2013 to CY 2017

City	Occupancy %	ADR $	RevPAR $
Melbourne CY17	83.1%	185.52	154.13
YOY Change	-0.6%	0.6%	0.0%



Source: STR

State of the Nation

- GDP Growth ASep-17: 4.2%
- GSP:
  - F2018: 2.8%
  - F2019: 2.8%
- Population Growth AMar-17: 2.4%
- Inflation ASep-17: 2.2%
- CPI:
  - F2018: 2.0%
  - F2019: 2.3%
- Employment Growth AOct-17: 2.8%
  - F2018: 2.0%
  - F2019: 1.5%
- Unemployment Rate AOct-17: 6.0%
- House Price Growth ASep-17: 11.5%
- Apartment Price Growth ASep-17: 6.2%
- Retail Trade Growth AOct-17: 3.0%
- Melbourne CBD Office Vacancy Rates (absolute numbers as at January 2018): ⬇ 4.6% (second lowest compared to all capital cities)
  - Docklands: ⬇ 1.2%
  - Eastern Core: ⬇ 2.1%
  - Western Core: ⬆ 8.2%
  - Civic: ⬇ 3.4%
  - Flagstaff: ⬇ 5.2%
  - North Eastern: ⬇ 1.5%
  - Spencer: ⬇ 6.6%
- Office Construction Pipeline
  - 2020+: 450,000+ sq m
- Infrastructure projects (circa 40 billion):
  - West Gate Tunnel Project
  - Monash Freeway Upgrade
  - CityLink Tulla Widening
  - Metro Tunnel Project
  - Level Crossing Removal Project
- Highest population growth which is anticipated to continue in the medium term
- House prices continue to grow strongly, however the housing construction cycle looks to have reached its peak. If population growth continues, the current pipeline still to come will be absorbed ensuring house price growth continues
- Melbourne received circa 3 million international visitors for the year ending September 2017 (33.4% of total international visitors to Australia)
- An increase of 10.9% in international visitor nights for Melbourne (Y/E September 2017)
- An increase of 2.0% in domestic visitor nights for Melbourne (Y/E September 2017)[2]

1 Source: STR
2 Source: ABS/DOE/RBA/Property Council Australia/Tourism Research Australia/Savills Research

Hobart: Signs of slow down as new supply looms

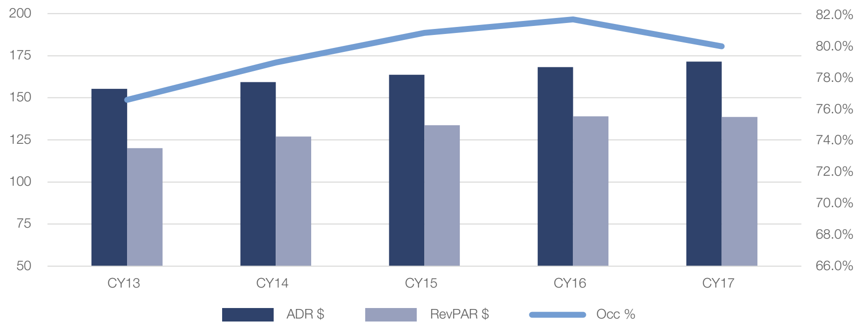
As a more leisure-based destination, Hobart continues to attract international and domestic tourists with an increase in international visitors (up 16.6%) and domestic visitors (up 12.3%) for the year ending September 2017. Based on RevPAR for CY 2017, Hobart ranked third in the Australian market, improving from fourth position in CY 2016. Although Hobarts' KPI performance remains strong, new supply has resulted in a decline in occupancy to 80.8% (down 1.6%) and as a result a marginal decrease in RevPAR to $139 (down 0.5%).

In CY 2017, 'Room nights sold' increased by 5.4%, however this was offset by an increase in 'Rooms available' of 7.2%.[1]

Based on Savills research into the hotel pipeline for Hobart, an additional 1,700 rooms are anticipated to enter into the market over the next three years. Due to the size of the Hobart market, KPI growth will be constrained if all of the expected new supply is constructed and the market will be unlikely to correct until the new supply is fully absorbed. Of course not all projects will proceed and accordingly we expect a number of planned or proposed projects will not materialise.

Graph 10 – Hobart Market KPI's
CY 2013 to CY 2017

City	Occupancy%	ADR $	RevPAR$
Hobart CY17	80.8%	171.4	138.56
YOY Change	-1.6%	1.1%	-0.5%



Source: STR

State of the Nation

- GDP Growth ASep-17: 1.9%
- GSP:
  - F2018: 2.5%
  - F2019: 2.0%
- Population Growth AMar-17: 0.6%
- Inflation ASep-17: 2.0%
- CPI:
  - F2018: 2.3%
  - F2019: 2.3%
- Employment Growth AOct-17: 3.0%
  - F2018: 1.3%
  - F2019: 1.0%
- Unemployment Rate AOct-17: 6.0%
- House Price Growth ASep-17: 5.4%
- Apartment Price Growth ASep-17: 7.8%
- Retail Trade Growth AOct-17: 2.3%
- Hobart CBD Office Vacancy Rates (absolute as at January 2018): ⬇ 8.1%
- Infrastructure projects:
  - Royal Hobart Hospital Redevelopment
  - Hospitals, health and ICT-related infrastructure
  - School and education upgrades
  - Roads and rail upgrades
- Population growth has continued, influenced by housing affordability and labour market conditions which are more attractive compared to mainland Australia
- Housing construction cycle has cooled despite house prices continuing to grow
- Hobart received circa 229,000 international visitors for the year ending September 2017 (2.9% of total international visitors to Australia)
- An increase of 36.3% in international visitor nights for Hobart (Y/E September 2017)
- An increase of 18.0% in domestic visitor nights for Hobart (Y/E September 2017)[2]

1 Source: STR/Tourism Research Australia
2 Source: ABS/DOE/RBA/Tasmania Treasury/Property Council Australia/Tourism Research Australia/Savills Research

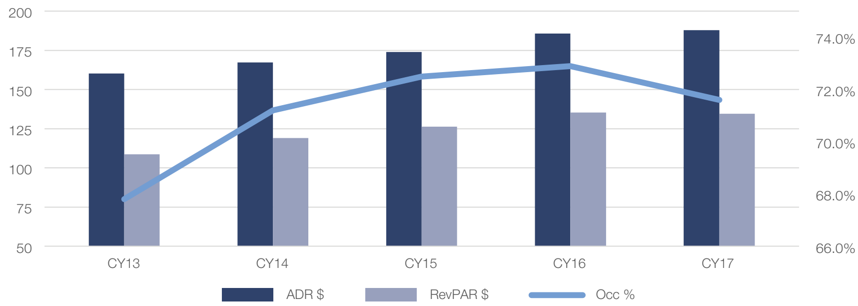
Gold Coast: Stable market awaits "Gold Coast 2018"

The Gold Coast's strong RevPAR performance (ranked 4th highest performing RevPAR market in Australia) continues to be driven by international visitors which grew 4.2% for the year ending September 2017. There has been a moderate change in KPI's, with growth in ADR to $188 (up 1.3%) and a decline in occupancy (down 1.3%) resulting in no RevPAR growth. Due to the cyclical nature of the Gold Coast market as a destination for visitors and the increase in 'Rooms available' (up 0.2%) whilst 'Room nights sold' declined (down 1.1%), the Gold Coast recorded the lowest occupancy at 71.6% in the overall Australian market. The Commonwealth Games is expected to drive market KPI's in 2018 along with the existing pipeline of infrastructure projects which will continue to boost investment into the Gold Coast economy.[1]

Based on Savills research into the hotel pipeline for the Gold Coast, an additional 1,500 rooms are anticipated to enter into the market over the next three years. Of course not all projects will proceed and accordingly we expect a number of planned or proposed projects will not materialise. Due to the size of the Gold Coast market, we expect that the new supply will be absorbed by the market in accordance with room night demand growth.

Graph 11 – Gold Coast Market KPI's
CY 2013 to CY 2017

City	Occupancy%	ADR $	RevPAR$
Gold Coast CY17	71.6%	187.86	134.44
YOY Change	-1.3%	1.3%	0.0%



Source: STR

State of the Nation

- GDP Growth AJune-16: 4.3%
- Unemployment Rate AJune-17: 5.2%
- Gold Coast Office Vacancy Rates (absolute numbers as at January 2018): ⬇ 10.6%
  - Broadbeach: ⬇ 6.6%
  - Bundall: ⬆ 11.8%
  - Robina: ⬆ 7.2%
  - Southport: ⬇ 13.2%
  - Surfers Paradise: ⬇ 12.0%
- Office Construction Pipeline
  - 2018: 5,576sq m
- Infrastructure projects:
  - M1 Upgrade
  - Light Rail Stage 3
  - Movieworld & Dreamworld new attractions
  - Gold Coast Airport upgrade
  - Commonwealth Games Village
- The Gold Coast received circa 1 million international visitors for the year ending September 2017 (13.2% of total international visitors to Australia)
- A decrease of 9.0% in international visitor nights for the Gold Coast (Y/E September 2017)
- An increase of 9.8% in domestic visitor nights for the Gold Coast (Y/E September 2017)[2]

1 Source: STR/Tourism Research Australia
2 Source: ABS/DOE/RBA/Property Council Australia/Tourism Research Australia/Savills Research

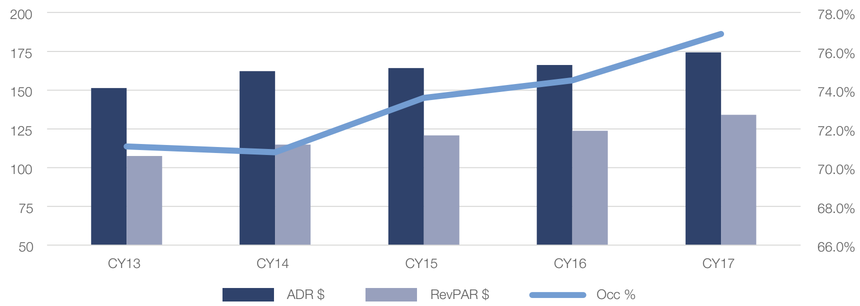
Canberra: Government in disarray but Canberra outperforming strongly

Sitting marginally behind the Gold Coast, Canberra's market KPI's continue to grow with RevPAR up 8.2% for CY 2017 when compared with CY 2016. Canberra's strong performance is driven by international and domestic visitors which both grew 10.2% and 12.6% respectively for the year ending September 2017. There is a significant pipeline of proposed hotel developments in Canberra which could place pressure on Occupancy and ADR.

Savills estimates approximately 1,500 new rooms (an increase of some 22%) to enter the market over the next four years, a majority in 2020 and 2021.

Graph 12 – Canberra Market KPI's
CY 2013 to CY 2017

City	Occupancy %	ADR $	RevPAR $
Canberra & ACT CY17	76.9%	174.37	134.13
YOY Change	3.1%	5.0%	8.2%



Source: STR

State of the Nation

- GDP Growth ASep-17: 3.0%
- GSP:
  - F2018: 2.5%
  - F2019: 2.5%
- Population Growth AMar-17: 1.8%
- Inflation ASep-17: 2.1%
- CPI:
  - F2018: 3.5%
  - F2019: 3.5%
- Employment Growth AOct-17: 3.1%
  - F2018: 1.5%
  - F2019: 1.5%
- Unemployment Rate AOct-17: 3.9%
- House Price Growth ASep-17: 8.1%
- Apartment Price Growth ASep-17: -3.1%
- Retail Trade Growth AOct-17: 1.9%
- Canberra CBD Office Vacancy Rates (absolute numbers as at January 2018): ⬆ 13.1%
  - A: ⬇ 8.5%
  - B: ⬆ 11.0%
  - C: ⬆ 21.7%
  - D: ⬇ 19.0%
- Office Construction Pipeline
  - 2018: 16,460sq m
  - 2019: 15,500sq m
  - 2020+: 69,000sq m
- Infrastructure projects:
  - Light Rail – Stage 1
  - University of Canberra Public Hospital
  - Revitalisation of the Civic to Gungahlin Corridor
  - New Court Facilities Project
  - Urban Renewal Program
- Population and house prices continued to (up 1.8% and 8.1% respectively)
- Canberra received circa 228,000 international visitors for the year ending September 2017 (2.9% of total international visitors to Australia)
- An increase of 16.2% in international visitor nights for Canberra (Y/E September 2017)
- An increase of 16.8% in domestic visitor nights for Canberra (Y/E September 2017)[2]

1 Source: STR/Tourism Research Australia
2 Source: ABS/DOE/RBA/Property Council Australia/Tourism Research Australia/Savills Research

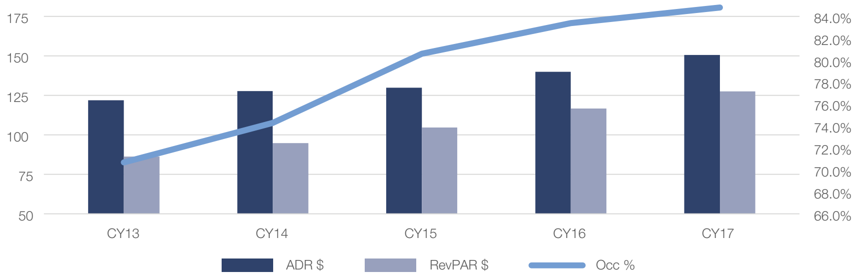
Cairns: RevPAR growth outshines its southern compatriots

Cairns has continued to grow for the fifth consecutive year, ranking first out of all Australian markets in RevPAR growth (up 9.5%). Cairns showed growth in all market KPI's with occupancy up 1.8% to 84.8% (ranking second place behind Sydney) and ADR up 7.6% to $151. Of the 890,000 international visitors for year ending September 2017 (up 1.5%), 92% can be attributed to those on a holiday, with China remaining as the largest market (24.5% of all international travellers to the region). Domestic overnight visitors to the region declined 2.8% to 1.8 million visitors due to such factors as discounted overseas deals to Bali and the increase in popularity of cruise ship holidays due to affordability.[1]

Based on Savills research into the hotel pipeline for Cairns, an additional 560 rooms are anticipated to enter into the market over the next three years. The projects are the first major hotel additions to Cairns for 20 years. With international visitation forecast to continue to increase, Cairns market KPI's will continue to remain strong in the short term.

Graph 13 – Cairns Market KPI's
CY 2013 to CY 2017

City	Occupancy %	ADR $	RevPAR $
Cairns CY17	84.8%	150.53	127.62
YOY Change	1.8%	7.6%	9.5%



Source: STR

State of the Nation

- GDP Growth AJune-16: 0.2%
- Unemployment Rate AJune-17: 5.7%
- Infrastructure projects:
  - Airport Expansion
  - Bauxite Hill
  - Performing Arts Centre
  - Bruce Highway Upgrade
  - Chillagoe Mining
  - Rydges Tradewinds Hotel redevelopment
  - Nova City development
- Tropical North Queensland received circa 890,000 international visitors for the year ending September 2017 (11.1% of total international visitors to Australia)
- A decrease of 2.7% in international visitor nights for Tropical North Queensland (Y/E September 2017)
- A decrease of 2.4% in domestic visitor nights for Tropical North Queensland (Y/E September 2017)[2]

1 Source: STR/Tourism Research Australia
2 Source: ABS/DOE/RBA/Property Council Australia/Tourism Research Australia/Savills Research

Perth: KPI's continue to decline

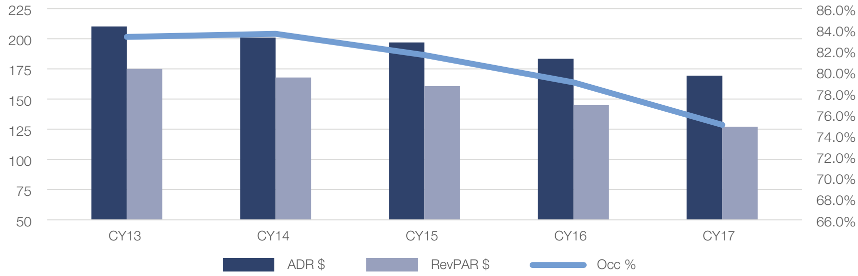
Once again the Perth market was the worst performing Australian market based on RevPAR growth, declining for the fifth consecutive year to $127 (down 11.3%). As a result of new supply exceeding room night demand and an increase in non-traditional accommodation bookings such as Airbnb, Perth recorded negative growth across all market KPI's, with occupancy down 4.5% to 75.0% and ADR down 7.1% to $169. As a result, RevPAR declined to $127 (down 11.3%).[1]

For CY 2017, 'Room nights sold' increased by 4.7% however this was more than offset by an increase in 'Rooms available' of 9.7% over the same period.

Based on Savills research into the hotel pipeline for Perth CBD and its immediate surrounds, an additional 2,600 rooms are anticipated to enter into the market over the next three years. Market KPI's will continue to deteriorate with this additional supply until demand is able to absorb the new supply. Of course not all projects will proceed and accordingly we expect a number of planned or proposed projects will not materialise.

Graph 14 – Perth Market KPI's
CY 2013 to CY 2017

City	Occupancy %	ADR $	RevPAR $
Perth CY17	75.0%	169.45	127.05
YOY Change	-4.5%	-7.1%	-11.3%



Source: STR

State of the Nation

- GDP Growth ASep-17: -4.2%
- GSP:
  - F2018: 2.5%
  - F2019: 2.5%
- Population Growth AMar-17: 0.7%
- Inflation ASep-17: 0.8%
- CPI:
  - F2018: 2.3%
  - F2019: 2.5%
- Employment Growth AOct-17: 2.8%
  - F2018: 0.8%
  - F2019: 1.5%
- Unemployment Rate AOct-17: 5.9%
- House Price Growth ASep-17: -3.1%
- Apartment Price Growth ASep-17: -6.9%
- Retail Trade Growth AOct-17: -0.5%
- Perth CBD Office Vacancy Rates (absolute number as at January 2018): ⬇ 19.8%
  - Premium: ⬇ 6.3%
  - A: ⬇ 18.0%
  - B: ⬆ 31.1%
- Office Construction Pipeline
  - 2018: 48,484sq m
- Infrastructure projects:
  - Elizabeth Quay renewal
  - Perth City Link
  - Riverside
  - New WA Museum
- Employment has increased in 2017, however still remains below the levels seen at the start of the mining boom
- Population growth in the second half of 2017
- Perth received circa 904,000 international visitors for the year ending September 2017 (11.3% of total international visitors to Australia)
- A decrease of 2.5% in international visitor nights for Perth (Y/E September 2017)
- A decrease by 10.9% in domestic visitor nights for Perth (Y/E September 2017)[2]

1 Source: STR
2 Source: ABS/DOE/RBA/Property Council Australia/Tourism Research Australia/Savills Research

Adelaide: Strong performance but new supply on the horizon

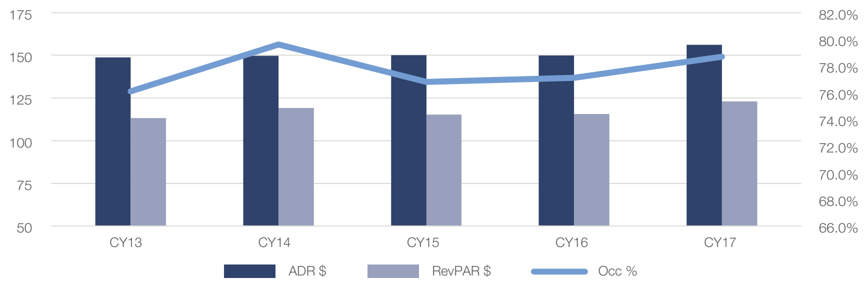
Adelaide recorded growth in all market KPI's during CY 2017, with occupancy up 2.0% to 78.7% and ADR up 4.4% to $156 enabling RevPAR to grow 6.5% to $123. Of the 442,000 international visitors to South Australia for the year ending September 2017, 395,000 visited Adelaide. With the introduction of direct flights between Adelaide and Guangzhou in December 2016, Adelaide has seen visitation from China surpass its 2020 target of 57,000, increasing to a record high of 61,000 for the year ending September 2017 (up 58%).[1]

Room night demand increased by 4% for CY 2017 which exceeded a 2% increase to Rooms available.

Based on Savills research into the hotel pipeline for Adelaide CBD and its immediate surrounds, an additional 2,300 rooms are anticipated to enter into the market over the next three years. Market KPI growth will be constrained if all of the expected new supply is constructed and the market will be unlikely to correct until the new supply is fully absorbed. Of course not all projects will proceed and accordingly we expect a number of planned or proposed projects will not materialise.

Graph 15 – Adelaide Market KPI's
CY 2013 to CY 2017

City	Occupancy %	ADR $	RevPAR $
Adelaide CY17	78.7%	156.17	122.96
YOY Change	2.0%	4.4%	6.5%



Source: STR

State of the Nation

- GDP Growth ASep-17: 3.6%
- GSP:
  - F2018: 2.3%
  - F2019: 2.3%
- Population Growth AMar-17: 0.6%
- Inflation ASep-17: 1.8%
- CPI:
  - F2018: 2.0%
  - F2019: 2.3%
- Employment Growth AOct-17: 1.5%
  - F2018: 1.0%
  - F2019: 1.0%
- Unemployment Rate AOct-17: 6.4%
- House Price Growth ASep-17: 0.7%
- Apartment Price Growth ASep-17: 4.2%
- Retail Trade Growth AOct-17: 2.6%
- Adelaide CBD Office Vacancy Rates (absolute numbers as at January 2018): ⬇ 15.4%
  - Premium: ⬇ 9.3%
  - A: ⬆ 14.7%
  - B: ⬇ 14.6%
  - C: ⬇ 17.3%
  - D: ⬇ 18.4%
- Infrastructure projects:
  - Courts Precinct
  - Flinders Link Project
  - Greenways and bike boulevards
  - O-Bahn City Access
  - Royal Adelaide Hospital
  - Rail Revitalisation
  - Regional Roads Projects
  - Riverbank Entertainment Precinct
  - Osborne Naval Shipyard upgrade
- Housing construction and infrastructure investment peaked, whilst export growth was at its highest over the last four years
- The Federal Government's national shipbuilding plan is expected to boost the Adelaide economy, with the variety of employment opportunities it will create
- Adelaide received circa 395,000 international visitors for the year ending September 2017 (4.9% of total international visitors to Australia)
- An increase of 7.1% in international visitor nights for Adelaide (Y/E September 2017)
- An increase of 3.1% in domestic visitor nights for Adelaide (Y/E September 2017)[2]

1 Source: STR/Tourism Research Australia
2 Source: ABS/DOE/RBA/Property Council Australia/Tourism Research Australia/Savills Research

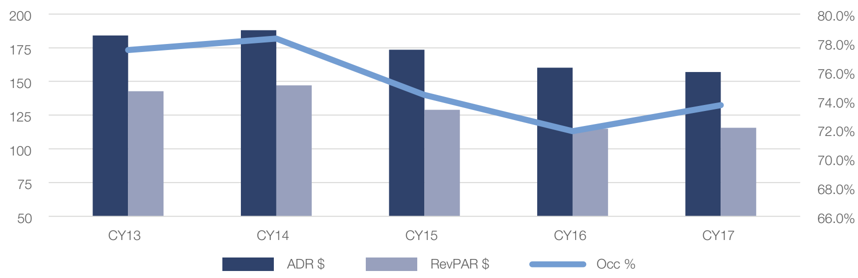
Brisbane: As demand increases, occupancy improves

Brisbane recorded growth in occupancy for CY 2017 to 73.7% (up 2.6%). Conversely, ADR declined by 1.4% to $157 resulting in RevPAR recording marginal growth to $116 (up 1.1%). RevPAR growth reflects an increase in 'Room nights sold' for CY 2017 (up 7.4%) arising from an increase in international visitors to over 1.2 million for the year ending September 2017 (up 4.6%).[1]

Based on Savills research into the hotel pipeline for Brisbane CBD and its immediate surrounds, an additional 1,700 rooms are anticipated to enter into the market over the next three years. While we consider the Brisbane market has bottomed, we expect that the new supply will continue to constrain growth in market KPI's. Of course not all projects will proceed and accordingly we expect a number of planned or proposed projects will not materialise.

Graph 16 – Brisbane Market KPI's
CY 2013 to CY 2017

City	Occupancy %	ADR $	RevPAR $
Brisbane CY17	73.7%	156.98	115.69
YOY Change	2.6%	-1.4%	1.1%



Source: STR

State of the Nation

- GDP Growth ASep-17: 3.0%
- GSP:
  - F2018: 4.0%
  - F2019: 3.8%
- Population Growth AMar-17: 1.6%
- Inflation ASep-17: 1.5%
- CPI:
  - F2018: 2.0%
  - F2019: 2.3%
- Employment Growth AOct-17: 4.6%
  - F2018: 1.0%
  - F2019: 1.5%
- Unemployment Rate AOct-17: 6.1%
- House Price Growth ASep-17: 4.0%
- Apartment Price Growth ASep-17: 1.1%
- Retail Trade Growth AOct-17: 0.1%
- Brisbane CBD Office Vacancy Rates (absolute numbers as at January 2018): ⬆ 16.2%
  - Premium: ⬇ 12.0%
  - A: ⬆ 13.2%
  - B: ⬆ 22.0%
  - C: ⬇ 16.6%
  - D: ⬆ 17.4%
- Office Construction Pipeline
  - 2019: 47,700sq m
- Infrastructure projects:
  - Queens Wharf
  - Brisbane Airport Redevelopment
  - Brisbane Quarter
  - Cross River Rail
  - Brisbane Live Entertainment Arena Precinct
  - Brisbane Metro
- Economic growth due to population migration, employment opportunities, cheaper lifestyle and an attractive lifestyle
- Slowing construction activity with building approvals around 25% lower than 2015/early 2016 due to tighter financing and an increase in taxes on foreign investors
- Brisbane received circa 1.2 million international visitors for the year ending September 2017 (15.5% of total international visitors to Australia)
- An increase of 4.0% in international visitor nights for Brisbane (Y/E September 2017)
- An increase of 14.6% in domestic visitor nights for Brisbane (Y/E September 2017)[2]

1 Source: STR/Tourism Research Australia
2 Source: ABS/DOE/RBA/Property Council Australia/Tourism Research Australia/Savills Research

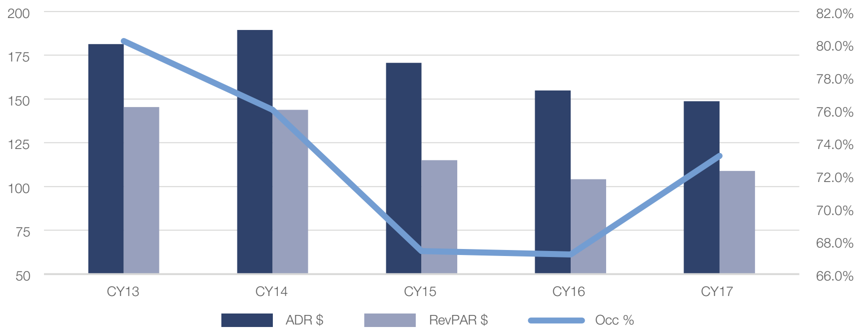
Darwin: ADR ready to rebound

In CY 2017, 'Room nights sold' increased by 9.8% while 'Rooms available' only increased by 1.0% for the same period heralding a warm welcome to an occupancy upswing. This can be attributed to the marginal increase in domestic visitors to 724,000 for the year ending September 2017 (up 0.6%). Unable to drive rate during non-peak periods, ADR declined by 3.9% to $149. Darwin recorded modest improvement in performance with RevPAR growth to $109 (up 4.5%), which was largely driven by an increase in occupancy to 73.2% (up 8.7%).[1]

Based on Savills research into the hotel pipeline for Darwin, an additional 312 rooms are approved to enter into the market over the next three years, with another 1,180 rooms proposed. Of course not all projects will proceed and accordingly we expect a number of planned or proposed projects will not materialise. Accordingly for the immediate future, market KPI's should continue to rebound.

Graph 17 – Darwin Market KPI's
CY 2013 to CY 2017

City	Occupancy%	ADR $	RevPAR $
Darwin CY17	73.2%	148.75	108.82
YOY Change	8.7%	-3.9%	4.5%



Source: STR

State of the Nation

- GDP Growth FY 2016/17: 4%
- GSP:
  - F2018: 1.0%
  - F2019: 5.1%
- Population Growth AMar-17: 0.1%
- Inflation ASep-17: 0.6%
- CPI:
  - F2018: 0.4%
  - F2019: 1.3%
- Employment Growth AOct-17: -2.2%
  - F2018: 0.5%
  - F2019: 0.6%
- Unemployment Rate AOct-17: 3.7%
- House Price Growth ASep-17: -4.8%
- Apartment Price Growth ASep-17: -1.3%
- Retail Trade Growth AOct-17: 0.1%
- Darwin CBD Office Vacancy Rates (absolute numbers as at January 2018): ⬇ 21.6%
  - A: ⬇ 14.6%
  - B: ⬇ 29.4%
  - C: ⬆ 50.4%
- Infrastructure projects:
  - Palmerston Regional Hospital
  - Schools and education upgrades
- Majority of the growth in Darwin's economy over the last year was due to construction activity, with most attributed to the $45 billion Ichthys LNG plant activity
- Employment and house prices have continued to fall
- Darwin received circa 126,000 international visitors for the year ending September 2017 (1.6% of total international visitors to Australia)
- A decrease of 3.0% in international visitor nights for Darwin (Y/E September 2017)
- An increase of 16.6% in domestic visitor nights for Darwin (Y/E September 2017)[2]

1 Source: STR/Tourism Research Australia
2 Source: ABS/DOE/RBA/Property Council Australia/Tourism Research Australia/Savills Research

New Zealand

Market Performance (CY 2017)

- New Zealand wide RevPAR increased 11.9%. The brand cache of "100% pure New Zealand" has been a marketing success for many years and shows no signs of abating. In a world which is becoming increasingly conscious of its degradation, the pristine environment messaging that New Zealand espouses, coupled with its adventure activities agenda is a drawcard for tourists
- Queenstown and Auckland continue to perform strongly recording RevPAR growth of 15.3% and 13.4%, respectively on the back of impressive ADR growth (13.3% and 14.3%, respectively)
- Queenstown continues to outperform New Zealand markets with a RevPAR gap of circa $18 over the next best market performer (Auckland)
- Wellington and Christchurch builds occupancy and ADR to achieve RevPAR growth of 6.0% and 2.9% respectively[1]

International Visitor Highlights

- Visitors up 7.9% to 3.7 million for the year ending October 2017
- Visitor Nights up 6.3% to 16.9 million for the year ending September 2017
- Of the top 10 international visitor markets Australia made up 39.7% of the total share of Visitors, with China following at 11.2%
- USA, UK, Germany, Korea, Canada and India displayed strong double digit growth in Visitors[2]

Domestic Visitor Highlights (Y/E September 2017)

- Visitor Nights slightly decreased to 22 million (down 0.1%)
- Modest increase in Visitor Nights to the North Island (up 0.6%) while Visitor Nights moderately declined in respect to the South Island (down 1.5%)[2]

Economic Update

- New Zealand recorded GDP of 2.7% in 2017
- New Zealand forecast GDP of 2.9% in 2018 decreasing to 2.6% in 2019 and 2.4% in 2020
- Current RBNZ cash rate of 1.75% which is forecast to increase slightly in 2018
- As at November 2017, business confidence declined to the lowest level since 2009 as a result of a softer housing market, policy uncertainty and credit difficulties. The new government presented its first fiscal update in December 2017, where it revised down GDP forecasts for government consumption growth whilst the government will boost spending on health, education and a housebuilding program[3]

New Zealand and City Hotel Market Operating Performance CY 2017

City	Occupancy	OCC YTD Growth %	ADR	ADR YTD Growth %	RevPAR	RevPAR YTD Growth %
New Zealand	80.2%	1.1%	$189.58	10.7%	$152.06	11.9%
Queenstown	85.3%	1.8%	$223.69	13.3%	$190.92	15.3%
Auckland	83.5%	-0.8%	$207.50	14.3%	$173.18	13.4%
Wellington	78.5%	1.3%	$184.36	4.7%	$144.69	6.0%
Christchurch	75.2%	2.2%	$151.15	0.7%	$113.63	2.9%

Source: STR

Recent Sales Transactions CY 2017

Month	Hotel	Number of Rooms	Price Per Room
November	Knights Inn, Auckland – NZ	26	NZ$363,394
March	Quest Napier – NZ	44	NZ$151,064
February	Bali Bungalows, Auckland – NZ	22	NZ$182,273

Source: RCA

1 Source: STR
2 Source: Stats NZ – International Visitor Arrivals to New Zealand/Accommodation Survey
3 Source: Focus Economics Consensus Forecast Australia & New Zealand January 2018

Graph 18 – Top 10 International Visitor Markets Year Ending September 2017

Australia

TV '000	1 464
STV	39.7%
VAG	5.3%

China

TV '000	411
STV	11.2%
VAG	0.9%

USA

TV '000	320
STV	8.7%
VAG	16.5%

UK

TV '000	246
STV	6.7%
VAG	13.5%

Germany

TV '000	105
STV	2.8%
VAG	12.3%

Japan

TV '000	102
STV	2.8%
VAG	4.4%

Korea

TV '000	89
STV	2.4%
VAG	10.2%

Canada

TV '000	65
STV	1.8%
VAG	14.2%

India

TV '000	59
STV	1.6%
VAG	17.5%

Singapore

TV '000	57
STV	1.5%
VAG	1.3%

Total Visitors ('TV '000')
Share of Total Visitors ('STV')
Visitors Annual Growth YOY ('VAG')

International & Domestic Visitors – Who Goes Where?[2] Year Ending September 2017

North Island

	Int'l	Domestic
TVN '000	8,492	14,692
STVN	50.0%	66.6%
VNAG	7.3%	0.6%

South Island

	Int'l	Domestic
TVN '000	8,484	7,355
STVN	50.0%	33.4%
VNAG	5.3%	-1.5%

Total Visitor Nights ('TVN '000)
Share of Total Visitor Nights ('STVN')
Visitor Nights Annual Growth YOY ('VNAG')

Contact Us

Michael Simpson
Managing Director
+61 (0) 431 649 724
msimpson@savills.com.au

Vasso Zographou
Director
+61 (0) 449 979 039
vzographou@savills.com.au

Adrian Archer
Director
+61 (0) 481 037 429
aarcher@savills.com.au

Max Cooper
Director
+61 (0) 431 776 167
mcooper@savills.com.au

Rob Williamson
Director
+61 (0) 412 803 482
rwilliamson@savills.com.au

James Cassidy
Associate Director
+61 (0) 478 333 858
jcassidy@savills.com.au

Tom Shadbolt
Senior Sales Executive
+61 (0) 423 381 563
tshadbolt@savills.com.au

Sheriden Bacon
Analyst
+61 (0) 414 572 141
sbacon@savills.com.au

Lucy O'Keefe Rydge
Executive Assistant
+61 (0) 431 819 717
lokeeferydge@savills.com.au

1 Source: Stats NZ (2017). International Visitor Arrivals to New Zealand: August 2017.
2 Source: Stats NZ (2017). Accommodation Survey: August 2017.

Savills advises corporate, institutional and private clients, seeking to acquire, lease, develop or realise the value of prime residential and commercial property across the world's key markets.

With a rich heritage and a reputation for excellence that dates back to 1855, Savills is a leading global real estate provider listed on the London Stock Exchange.

Savills is a company that leads rather than follows with more than 700 owned and associate offices throughout the UK, Europe, Americas, Asia Pacific, Africa and the Middle East. With more than 30,000 staff, we seek out people who possess that rare mix of entrepreneurial flair and rock solid integrity, and are focused on delivering clients with advice and expertise of the highest calibre.

A powerful combination of global connections and deep local knowledge provides Savills with an almost unparalleled ability to connect people and property.

Savills extensive Asia Pacific network spans 50 offices throughout Australia, New Zealand, China, Hong Kong, India, Indonesia, Japan, Korea, Macao, Malaysia, Myanmar, Philippines, Singapore, Taiwan, Thailand and Vietnam.

In Australia, we offer the full spectrum of services from providing strategic advice to managing assets and projects and transacting deals. With a firmly embedded corporate culture that values initiative, innovation and integrity, clients receive outstanding service and can be assured of the utmost professionalism.

Savills is expert in delivering results across all key commercial, retail, industrial and residential sectors in the following areas:

- Sales
- Leasing
- Valuations
- Asset Management
- Project Management
- Worldwide Occupier Services
- Property Accounting
- Facilities Management
- Residential Sales
- Residential Projects
- Research

For advice that gives advantage, contact Savills.

Adelaide	+61 (0) 8 8237 5000
Brisbane	+61 (0) 7 3221 8355
Canberra	+61 (0) 2 6221 8200
Gold Coast	+61 (0) 7 5509 1700
Melbourne	+61 (0) 3 8686 8000
Notting Hill	+61 (0) 3 9947 5100
Parramatta	+61 (0) 2 9761 1333
Perth	+61 (0) 8 9488 4111
Sunshine Coast	+61 (0) 7 5313 7500
Sydney	+61 (0) 2 8215 8888

savills.com.au

savills