



Horwath HTL™

Hotel, Tourism and Leisure Celebrated 100 years in 2015

Special Market Reports

Issue 68 - SYDNEY

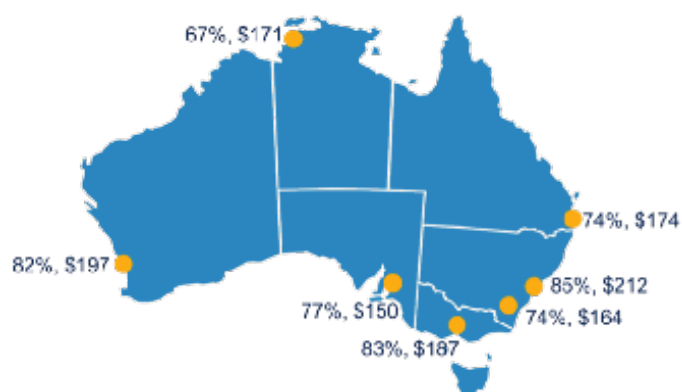
July 2016

Sydney Market Overview

Australia's hotel markets saw mixed results in 2015. Sydney and Melbourne continue to perform well while the resource heavy cities of Darwin, Brisbane and Perth all posted drops in RevPAR. In 2015 Sydney was the best performing hotel market in Australia, recording an occupancy of 85% and an ADR of A\$212. After a number of years of almost no supply growth, new properties are finally entering the market. Robust economic growth coupled with rising domestic and international tourism numbers should see demand for rooms continue to grow, offsetting the supply increases. 2016 is set to be another strong year for Sydney's hotel market, with RevPAR likely to grow 1.7% to A\$184. Overall we forecast RevPAR to grow at a robust CAAG rate of 2.9% in the years to 2020.

Australian Market Snapshot

Australia's post-resources-boom, two-speed economy continues to race ahead with NSW and Victoria seeing strong economic growth while the resource heavy states of WA and Queensland are struggling to keep pace. This is reflected in the performance of the hotel markets around the country. For the year ended December 2015 Sydney and Melbourne both saw RevPAR gains of 8.4% and 3.6% respectively while Darwin, Brisbane and Perth posted drops in RevPAR of 15.2%, 10.9% and 2.7% respectively. (Note: dollars shown are AUD)

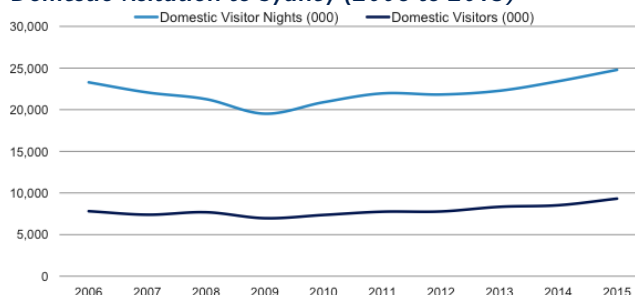


A large supply pipeline in Brisbane and Perth combined with sluggish economic growth will likely mean that these cities may continue to struggle.

Sydney Domestic Visitation

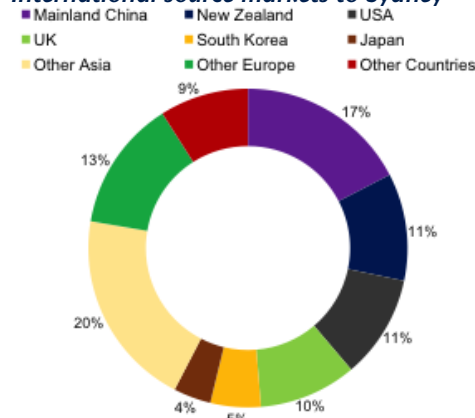
According to Tourism Research Australia Sydney received a record 9.32 million domestic overnight visitors in 2015, an increase of 9.3% over the year before. Since the financial crisis dip in 2009, overnight visitation has grown at a compound average annual growth (CAAG) rate of 5%. Growth is set to remain robust with domestic visitor nights in Sydney forecast to increase from 24.9 million in FY14/15 to nearly 34 million in FY24/25, a CAAG rate of 3.0%.

Domestic visitation to Sydney (2006 to 2015)



Source: International and National Visitor Surveys, TRA, YE Dec. 2015

International source markets to Sydney



Source: International and National Visitor Surveys, TRA, YE Dec. 2015

Sydney International Visitation

International visitation remains the main engine of growth, with both visitors and visitor nights increasing by roughly 12.4% in the year to December 2015. This is markedly higher than the five year CAAG rate which was 4.1% and 6.3% for visitors and visitor-nights respectively. In 2015 Sydney welcomed nearly 3.2 million international visitors who generated a total of 71.8 million visitor nights. International visitor nights in Sydney are expected to increase from 67.3 million in FY14/15 to approximately

106 million in FY24/25, an average annual growth rate of 4.7%.

International visitation to Sydney (2006 to 2015)



Source: December 2015 International and National Visitor Surveys, TRA

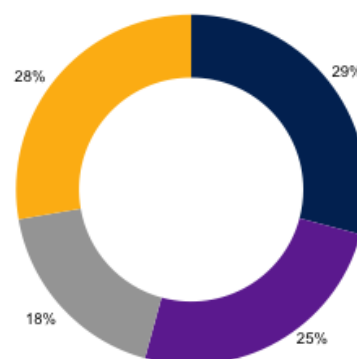
The strong growth in international visitor nights has been predominantly driven by visitors from Asia. Mainland China is now officially the largest inbound market in both actual visitors and total visitor nights, accounting for 17.4% of visitors. The remaining Asian markets together make up a further 29% of all visitors. As a region, Asia therefore represents almost half (46.4%) of visitor arrivals, up slightly from 2014. Europe, which makes up an additional 23% of visitor nights, saw its share drop slightly from last year. The remaining countries, representing 20% of arrivals, are fairly unchanged from last year.

International Visitors by Purpose of Visit

International holiday travellers made up more than half (57%) of the visitors to Sydney. However, their shorter length of stay means that they account for just under a third of visitor nights. Conversely, those visiting for the purpose of education represent a mere 4.8% of visitors yet they stay for much longer and generate 28% of total visitor nights.

International visitor nights by purpose of visit

■ Holiday ■ VFR ■ Business/Employment/Other ■ Education



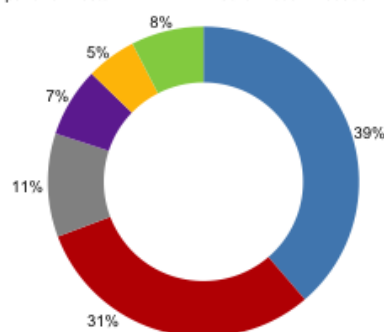
Source: International and National Visitor Surveys, TRA, YE Dec. 2015

International Visitors by Accommodation Type

Given that Education and Visiting Friends & Relatives account for 54% of visitor nights, it is unsurprising that 69% of international visitors stay in either a rented house/flat or at a friends or relatives place. Only 10.8% of visitor nights are spent in a hotel, unchanged as a proportion over the previous year. These figures tend to suggest that alternate accommodation products such as Airbnb and HomeAway have so far had a limited impact on international accommodation preferences.

International visitors staying at:

■ Rented house/Apartment ■ Friends or relatives property
■ Hotel/Resort/Motel ■ Other Private Accommodation
■ Backpacker or Hostel ■ Other Accommodation

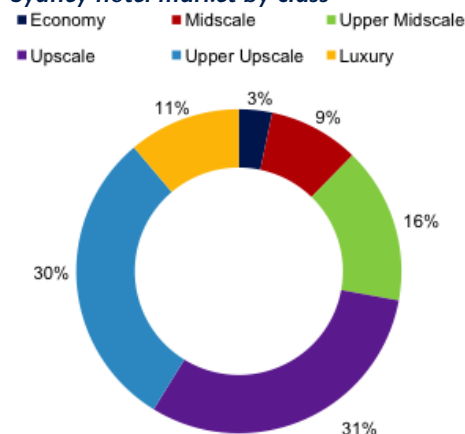


Source: Tourism Research Australia, March 2016

Sydney Hotel Market Overview

According to STR Global, 61% of hotel rooms in Sydney are classed as either Upscale or Upper Upscale (4-4.5 star rating). The Economy and Midscale segments (3-3.5 star) account for only 28% of rooms while Luxury rooms make up the remaining 11%. It is interesting to note that all the luxury properties are located within the core central business district.

Sydney hotel market by class



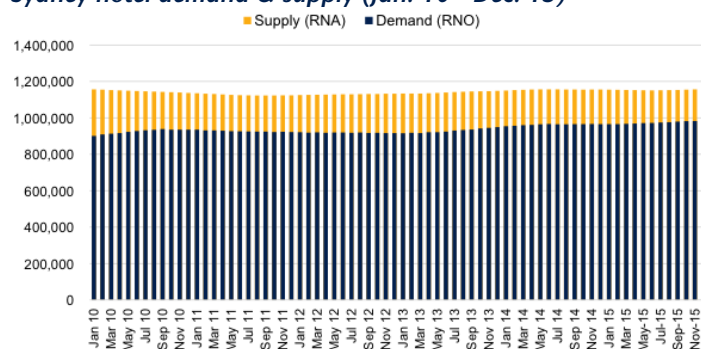
Source: STR Global

Historical Demand & Supply

The Australian Bureau of Statistics latest Sydney Tourism Region (TR) hotel data reports Sydney as having 315 star-rated hotels, totalling 36,655 rooms.

Supply in the Sydney TR market grew at a CAAG rate of just 0.2% in the five years to March 2016, markedly below the historic long-term average of approximately 1.7%. Demand meanwhile continues to outstrip supply, having increased at a CAAG rate of 1.4% over the same five year period.

Sydney hotel demand & supply (Jan. 10 - Dec. 15)

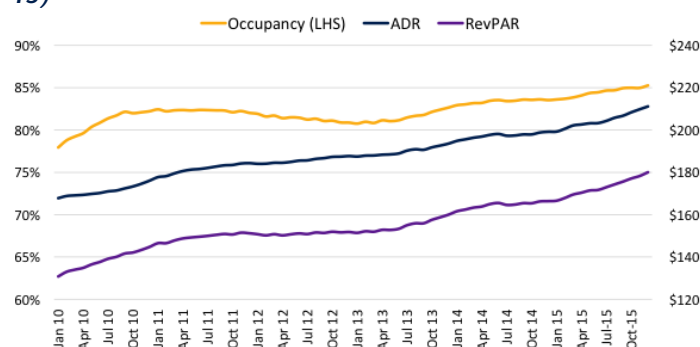


Historical Market Performance

In 2015 Sydney was the highest performing hotel market in Australia, recording occupancy of 85% and ADR of A\$212 in the TR market area. In February 2016, average occupancy peaked at 90.5%, with ADR reaching A\$254.

The data also shows that over the past year the busiest days continued to be Tuesday through Thursday, and Saturday. Sunday, the quietest day of the week, saw the largest occupancy increases of 2.7% over the past three years. Conversely, and unsurprisingly, Saturday saw almost zero growth indicating that supply is significantly constrained on specific days.

Rolling Sydney occupancy, ADR & RevPAR (Jan. 10 - Dec. 15)



As a consequence of the continuing high demand recorded over the past three years, average room rates achieved on the busiest days (Wednesday, Thursday and Saturday) grew by an average of 11% in three years, compared to growth of 7.5% on the relatively quieter days of the week.

Recent Hotel Transactions

In recent years, Sydney's hotel assets have been very attractive to foreign investors and a large percentage of the five-star properties changed hands over the past three years. With the market still strong and purchase opportunities limited in the CBD, we are now seeing increased transaction volumes in areas further afield.

Property	Star Rating	Sales Price (\$M)	Rooms	A\$/Room
Bounce Backpackers	3	18.3	35	522,857
Pullman Sydney Airport	5	84.0	229	366,812
Rendezvous Sydney Central	4	38.0	116	327,586
The Vibe Hotel Sydney	4	90.0	191	471,204
Quest Macquarie Park	4	33.7	111	303,604
Mercure Hotel, Potts Point	4	131.0	227	577,093

Recent Additions

After a number of years with very little supply growth, Sydney is finally seeing a spate of new properties entering the market. In the past year, 18 new properties have opened (or extended); including:

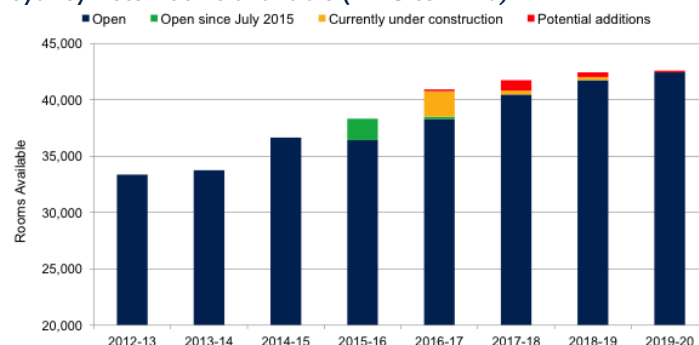
Project Name	Star Grade	No of Rooms	Opening Date
The Tank Stream	4	280	Jul. 2015
The Old Clare Hotel	5	62	Sept. 2015
Meriton Chatswood (Stage 1)	4	105	Oct. 2015
Quest Chatswood	4	100	Nov. 2015
Megaboom City Hotel	3.5	65	Nov. 2015
Sydney Hotel CBD (Stage 1)	3.5	33	Dec. 2015
Hotel Palisade	4	9	Dec. 2015
QT Bondi	5	69	Dec. 2015
Rpimus Hotel Sydney	5	172	Dec. 2015
Quest St Leonards	4	79	Feb. 2016
Sydney Hotel CBD (Stage 2)	3.5	44	Mar. 2016
Bankstown Travelodge (Extension)	3.5	54	Apr. 2016
Verio Suites at Camperdown	4	28	Apr. 2016
Holiday Inn Express Macquarie Park	4	192	Apr. 2016
Meriton Chatswood (Stage 2)	4	232	Apr. 2016
Pullman Sydney Airport	5	229	Jun. 2016
Quest Bella Vista	4	147	Jun. 2016
Silkari Suites	4	212	Jul. 2016

Future Additions to Supply

New hotels and serviced apartments to open in Sydney this year include the Meriton Mascot Central, Meriton Parramatta Altitude and the Meriton North Sydney. In addition the Four Points By Sheraton Darling Harbour and the Alpha Hotel Eastern Creek are due to complete their extensions.

Horwath HTL Australia estimates that there are approximately 5,000 rooms in the Sydney pipeline which are likely to come online between now and end-2019. Of this the majority can be expected to open in the next two years. The compound average growth in supply over this period is expected to be 3.7%, and is expected to be absorbed into the market relatively easily.

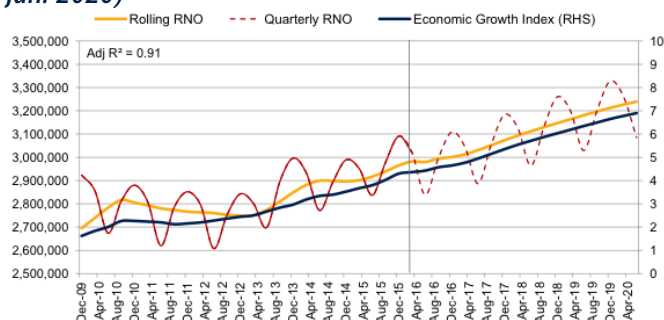
Sydney hotel rooms available (FY13 to FY20)



Sydney Demand Outlook

Given Sydney's importance as both a business hub and leisure destination, the demand for accommodation is unsurprisingly closely tied to the health of the economy of New South Wales, and to the number of international arrivals. There exists a strong (Adj R² 0.91) historical correlation between Room Nights Occupied (RNO) and an index of economic growth indicators. Based on the strength of the historical correlation, economic forecast data from Deloitte Access Economics has been used to project the future growth in demand for hotel rooms.

Sydney RNO and Economic Growth Index (Dec. 2009 to Jun. 2020)

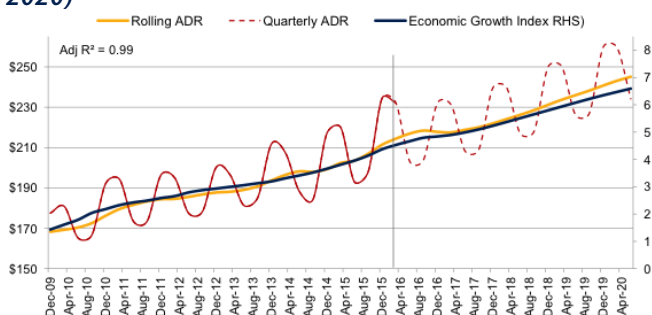


Applying this methodology, Horwath HTL Australia forecasts that RNO will grow 0.9% in 2016, down slightly from 2.4% in the year ended December 2015. Growth is then expected to increase again to 1.7% in 2017 and again to 2.6% in 2018. Horwath HTL Australia forecasts a long-term outlook for RNO of 1.8%, slightly above the 5-year historical average.

Sydney Rate Outlook

There also appears to be a very strong correlation (Adj R2 0.99) between the performance of the economy of New South Wales, and ADR growth. Historical ADR has been growing at an average of 3.9% per year, slightly above inflation. Utilising a similar causal econometric model, we forecast that ADR will see strong growth of 3.0% in the current year. ADR is then projected to increase 1.9% to A\$222 in 2017 and by 4.2% the following year to A\$232.

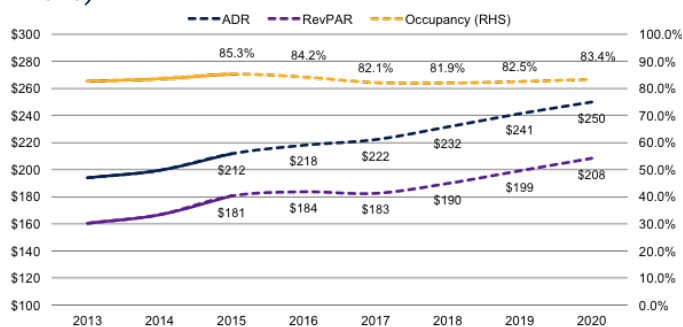
Sydney ADR and Economic Growth Index (Dec. 2009 to Jun. 2020)



Hotel Market Projections

New South Wales, with its heavily service-based economy, has been the top performing state of Australia since the end of the mining boom. Lower interest and exchange rates have been a boon to the economy, raising consumer spending as well as enticing foreign tourists to the state. This strong economic position is good news for Sydney's Hoteliers and hotel owners. The year to December 2015 saw occupancy for the Sydney TR rise 1.7% to 85.3%, a new record. However, some new supply in 2016 looks set to depress occupancy slightly to 84%. Further additions to supply in 2017 could even push occupancy down to 82% but it should then start to rebound on the back of strong demand growth.

Sydney Occupancy, ADR and RevPAR (Calendar years 2013 - 2020)



Overall, 2016 is set to be another strong year for Sydney's hotel market, with RevPAR likely to grow 1.7% over the previous year to A\$184. Even the additions to supply in the next few years should not impact RevPAR growth too much and overall we forecast RevPAR to grow at a robust CAAG rate of 2.9% in the years to 2020.

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Stefan Muff is a Consultant at Horwath HTL Australia in Sydney where he focuses on conducting hotel feasibility studies, operator selections, operational reviews and asset management. He is highly knowledgeable on the performance of Australia's diverse hotel markets and specialises in producing hotel market outlooks. Stefan is also a regular contributor to both internal and external publications and has written for the Global Hotel Network among others.

Stefan's 10 years' of experience in the hotel industry started with operational roles in Australia, Switzerland, France, the US and later China, where he was involved in the pre-opening of the largest conference hotel, the Kempinski Qingdao. Prior to joining Horwath HTL Australia in Sydney, Stefan worked as a consultant for AHS Advisory in Sydney and before that PKF Hotels in Shanghai, conducting feasibility studies and market reviews throughout greater China.

Stefan grew up in Singapore and Sydney and then completed his Bachelor of Science in International Hospitality Management at the École hôtelière de Lausanne, Switzerland.

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