Hotel, Tourism and Leisure Celebrated 100 years in 2015

# Asia Pacific Hotel Market Review

## SPOTLIGHT: AUSTRALIA

**Q3 2016**

## Australia Hotel Market Update

| Quarter 1 | 2015 | 2016 | % Change |
|---|---|---|---|
| Number of Hotels | 71 | 114 | 61% |
| Number of Rooms | 11,931 | 15,649 | 31% |

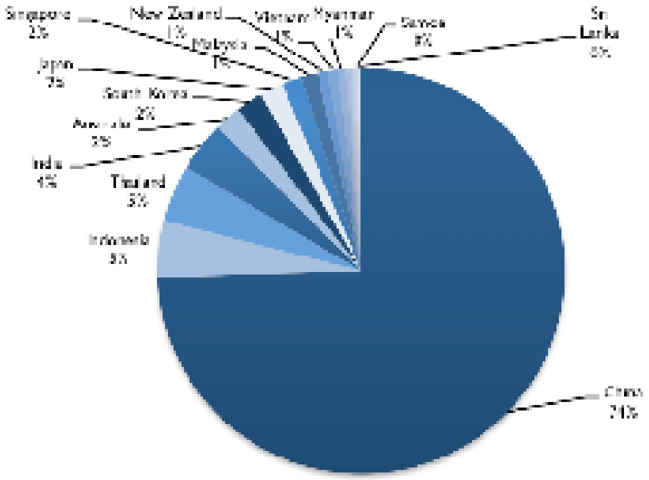
| Quarter 2 | 2015 | 2016 | % Change |
|---|---|---|---|
| Number of Hotels | 97 | 118 | 22% |
| Number of Rooms | 13,560 | 22,377 | 65% |

| Quarter 3 | 2015 | 2016 | % Change |
|---|---|---|---|
| Number of Hotels | 134 | 144 | 7% |
| Number of Rooms | 19,474 | 22,320 | 15% |

| YTD Q1-Q3 | 2015 | 2016 | % Change |
|---|---|---|---|
| Number of Hotels | 302 | 376 | 25% |
| Number of Rooms | 44,965 | 60,346 | 34% |

*Source: Horwath HTL*

***Hotel Opening by Country***




*Source: Horwath HTL*

## Asia Pacific Hotel Market Review

### *Hotel Openings*

Asia Pacific hotel openings as of YTD September 2016 continued in robust fashion with 376 new hotel openings, representing 60,346 rooms.

As there are more hotel groups participating in Horwath HTL's deal signings and hotel openings report, the growth is not necessarily reflective of the market's growth year-on-year.

The newly opened hotels between Q1 and Q3 2016 have an average 160 key count, slightly larger compared to the average key count seen in the previous year.

Economy hotel chains continue to dominate the hotel opening market, representing 52 percent of the total market. This is mainly driven by the fast expansion of franchised economy hotels in China.

With regards to location, China recorded the highest number of new properties opened in 2016, an increase of 61 percent year-on-year (y-o-y), contributing 74 percent of total market, followed by Indonesia and Thailand, each accounting for 5 percent.

| Quarter 1 | 2015 | 2016 | % Change |
|---|---|---|---|
| Number of Hotels | 250 | 187 | 25% |
| Number of Rooms | 31,427 | 28,807 | -8% |

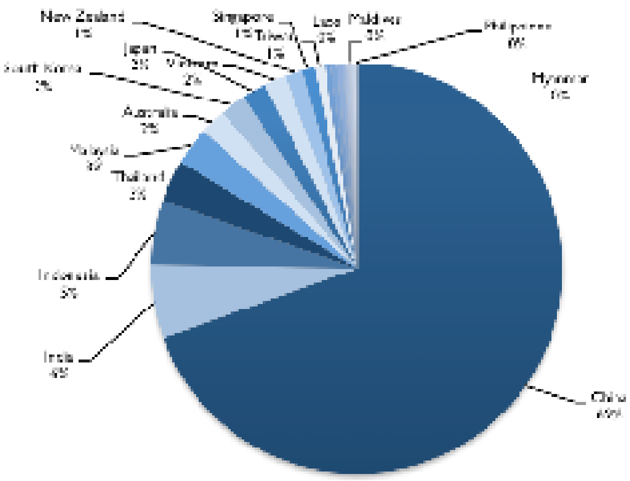
| Quarter 2 | 2015 | 2016 | % Change |
|---|---|---|---|
| Number of Hotels | 176 | 221 | 26% |
| Number of Rooms | 34,899 | 45,306 | 30% |

| Quarter 3 | 2015 | 2016 | % Change |
|---|---|---|---|
| Number of Hotels | 190 | 228 | 20% |
| Number of Rooms | 32,001 | 37,507 | 17% |

| YTD Q1-Q3 | 2015 | 2016 | % Change |
|---|---|---|---|
| Number of Hotels | 516 | 636 | 20% |
| Number of Rooms | 98,327 | 111,620 | 17% |

*Source: Horwath HTL*

### *Deals Signing by Country*




*Source: Horwath HTL*

## *Deal Signing*

During the first three quarters of 2016, the Asia Pacific Market recorded a total of 636 deal signed, with a total of 111,620 rooms.

The overall average key count was 175 rooms, slightly smaller compared to average key count in 2015.
Deals were signed across 22 countries with top 5 being China, India, Indonesia, Thailand, and Malaysia. China continued to be the most active market with a total 442 new deals signed, representing 69 percent of total market, India came second with 37 deals signed.

Signings under a typical management contract represents 44 percent of all deals signed in 2016, compared to 53 percent during the same time last year. This was driven by the strong expansion of franchised economy hotels in China.

Approximately 46 of the deals are scheduled for opening within the same year of signing.

Converted properties contributed up to 28 percent of all reported deal signings, of which 86 percent are scheduled for opening in 2016.

## Australia Hotel Market Review

## *Hotel Openings*

Australia has seen a spate of hotel openings in 2016. In the first three quarters of this year, 4,349 new rooms (36 properties) entered the market, more than double the number compared to the same period last year.

A resilient economy, low interest rates and strong international tourism growth are cited as some of the main reasons behind the renewed interest in hotel development.

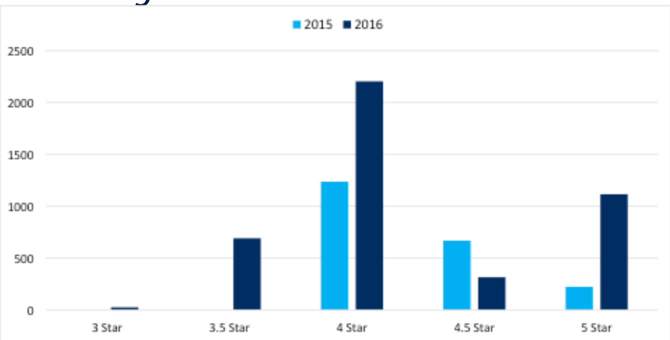
| Quarter 1 | 2015 | 2016 | % Change |
|---|---|---|---|
| Number of Hotels | 9 | 11 | 22% |
| Number of Rooms | 669 | 1,136 | 70% |
| **Quarter 2** | **2015** | **2016** | **% Change** |
| Number of Hotels | 7 | 11 | 57% |
| Number of Rooms | 351 | 1,504 | 328% |
| **Quarter 3** | **2015** | **2016** | **% Change** |
| Number of Hotels | 11 | 11 | - |
| Number of Rooms | 1,105 | 1,709 | 55% |
| **YTD Q1-Q3** | **2015** | **2016** | **% Change** |
| Number of Hotels | 27 | 36 | 33% |
| Number of Rooms | 2,215 | 4,349 | 105% |

*Source: Horwath HTL*

As of YTD September 2016, 51 percent of new openings were 4-star rated (Upscale ranked) hotels. The 5-star (Luxury ranked) market has also seen significant growth, accounting for just over a quarter of new rooms. It seems, however, that 3 and 3.5-star (Midscale & Upper-Midscale ranked) properties were less popular with developers, accounting for just 17% of the new rooms in 2016.

The average 5-star hotel to open in 2016 had 186 rooms, 29 rooms more on average than a new 4.5-star hotel, and 76 rooms more on average than a new 4-star property. 5-star properties are typically more expensive to construct and operate, and thus require a greater number of rooms to make them economically viable in Australia.

### *New Rooms Openings YTD 2015 vs YTD 2016 by Star Rating*



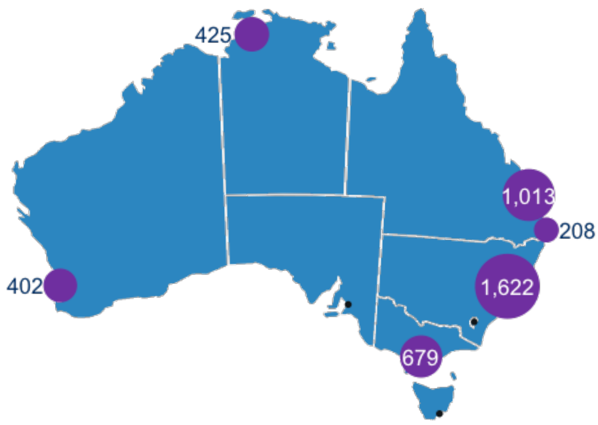

*Source: Horwath HTL*

### *Number of New Hotel Rooms in Australia's Capital Cities, YTD September 2016*

Sydney is Australia's hottest hotel market, not just in terms of performance, but also in the amount of new properties coming online. During the first three quarters of 2016, 37 percent of Australia's new branded rooms opened up in Sydney.

Sydney may have had the largest number of additions but more telling are the 1,013 rooms, which opened in Brisbane, a city less than half the size of Sydney. These openings are to a large extent the results of planning decisions made during the resource sector boom years, when occupancy and rate outlooks were much more optimistic. Perth and Darwin, two further resource-dependent cities, have also seen a number of new openings, even as occupancy and rate in both cities continues to slide.

Melbourne, by contrast, saw only five new additions, relatively little for Australia's second largest city.




*Source: Horwath HTL*

### *Deal Signing*

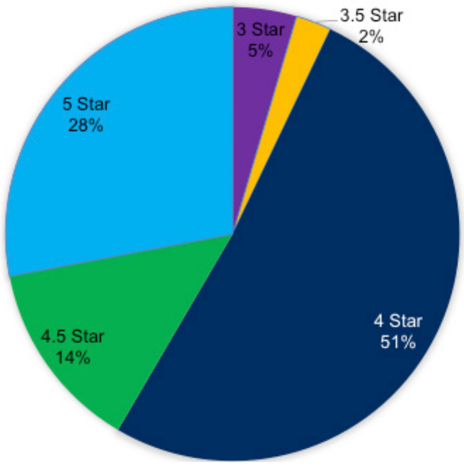
The Australian economy is forecast to experience continued stable growth, and likewise the hotel market is expected to remain resilient, especially when compared to other major markets around the world. Deal signings are therefore expected to remain strong as international investors increasingly seek to invest in safer Australian hotel assets.

| Quarter 1 | 2015 | 2016 | % Change |
|---|---|---|---|
| Number of Hotels | 11 | 11 | - |
| Number of Rooms | 1,582 | 2,287 | 45% |
| **Quarter 2** | **2015** | **2016** | **% Change** |
| Number of Hotels | 10 | 24 | 140% |
| Number of Rooms | 1,481 | 5,161 | 248% |
| **Quarter 3** | **2015** | **2016** | **% Change** |
| Number of Hotels | 3 | 12 | 300% |
| Number of Rooms | 175 | 2,083 | 1090% |
| **YTD Q1-Q3** | **2015** | **2016** | **% Change** |
| Number of Hotels | 25 | 47 | 96% |
| Number of Rooms | 3,238 | 9,531 | 194% |

*Source: Horwath HTL*

### *2016 YTD Deal Signings by Star Rating*

4-star hotels are set to remain the dominant hotel class in Australia, with 51 percent of new hotel deals relating to a 4-star hotel. Deal signings in the 5-star market are also strong, accounting for 28 percent of new rooms signed, perhaps indicating current under-supply or perceived opportunity in this segment. Inline with current openings, the Midscale market is experiencing limited activity.



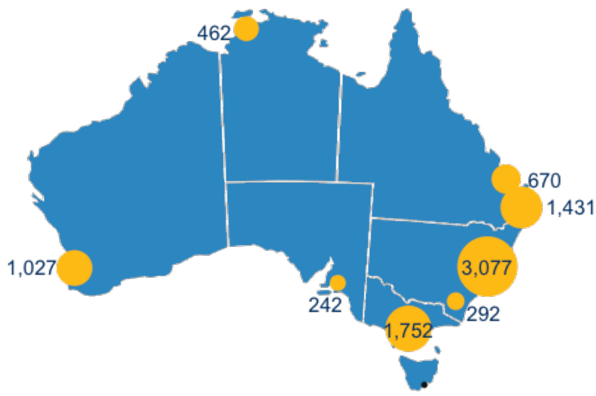

*Source: Horwath HTL*

## *Deal Signings by Location, YTD September 2016*

Sydney looks set to see even more new hotels opening up, with a full third of deals signed being for hotels in the Harbour City. Australia is also starting to see resurgence in its leisure destinations, after many years of anaemic growth. The Gold Coast, in particular, is likely to see a large increase in hotel rooms in the coming 3-5 years.

Brisbane, struggling under the weight of new supply, now has far fewer new signings than a couple of years ago. It will likely be some time before the market absorbs the new supply and is able to recover. Until then it may prove difficult for new hotel developments to stack-up.

Interestingly, new hotel deals continue to be inked for Perth, inevitably contributing to increased uncertainty about future performance in a market already significantly down from its 2012 high.




*Source: Horwath HTL*

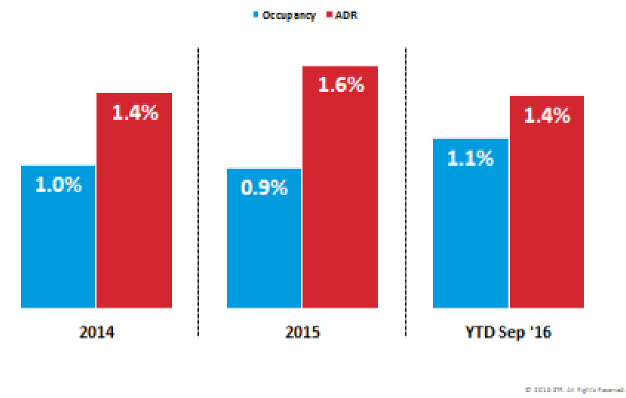
## *Australia Performance, YTD September 2016*

Last year, while hotels in most key countries in the Asia Pacific region struggled, Australian hotels showed resilience, posting growth across all key performance indicators. In 2015, the market registered growth in both occupancy and ADR at 1.6 percent and 2.6 percent respectively.

This positive trend has continued this year, with the country's occupancy and ADR growing by 1.1 percent, and 1.4 percent respectively as of YTD September 2016. As a result, RevPAR increased 2.5 percent compared to the same time last year. Limited supply growth (+1.7 percent) and steady market demand (+2.8 percent) have helped the country maintain healthy occupancy levels.

Australia welcomed 5.23 million international visitors between January and August 2016, up 11.7 percent compared to the same period last year, according to the Australian Bureau of Statistics (ABS). China, New Zealand, and the United States were the top 3 tourism source markets, accounting for approximately 40 percent of total international arrivals. According to the ABS, over half of the total international arrivals entered as leisure visitors, while the Visiting Friends & Relatives (VFR) category and business travelers accounted for roughly 31 percent of the total arrivals.

*Australia Performance, Occupancy & ADR Growth, FY 2014 - YTD Sept. 16, Australian Dollar*




*Source: STR*

A weaker Australian Dollar has resulted in a shift to more domestic travel, as traveling abroad has become more expensive for Australians. As of June 2016, domestic travel was up 4.2 percent, according to Tourism Research

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Australia (TRA), with leisure travel accounting for most of the growth.

New South Wales (NSW), Victoria and Queensland held their titles as the most frequented states, accounting for nearly 80 percent of total domestic travel, according to TRA.

Among the three regions, NSW was the most visited state for leisure travel, up 10.1 percent in Q1 2016. Victoria ranked second, with a 2.6 percent y-o-y increase, and Queensland ranked third with a 12.6 percent increase for leisure visitors.

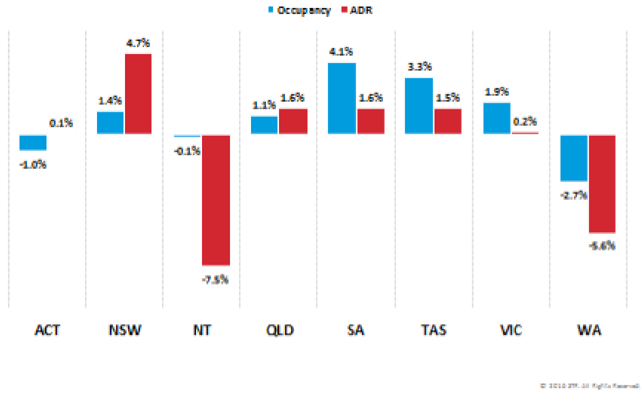
As of YTD June 2016, business travel decreased 14.2 percent and 2.8 percent in Queensland and Victoria, respectively, while NSW reported an increase of 4.9 percent.

## Territory Performance, YTD September 2016

New South Wales led the states in hotel performance for the first nine months of the year. Mainly driven by ADR (+4.9 percent), NSW's RevPAR grew 6.1 percent. The story was, however, less rosy in some of the other states. ADR dropped by 7.5 percent in the Northern Territory and by 5.6 percent in Western Australia. These regions also posted the largest RevPAR declines in Australia at 7.7 percent and 8.2 percent respectively. Hotels in both territories are struggling due to a downturn in the resources industry, brought on by a drop in commodities prices since 2012.

Softened demand growth was seen in the Australia Capital Territory (ACT), as occupancy decreased 1.0 percent, in part because many members of parliament were absent during the federal election period, slowing business activity. Tasmania experienced a substantial growth in demand (3.3 percent), boosting occupancy by 3.3 percent and contributing to a 4.9 percent increase in RevPAR. Queensland, South Australia and Victoria all benefitted from increases in both domestic and international arrivals.

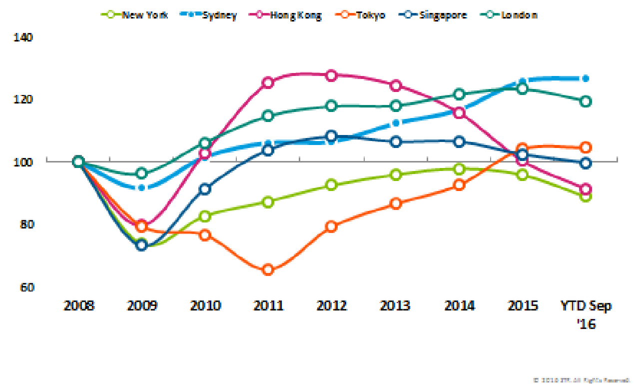
*Australia Performance by States, Occupancy & ADR Growth, YTD Sept. 16, Australian Dollar*




Source: STR

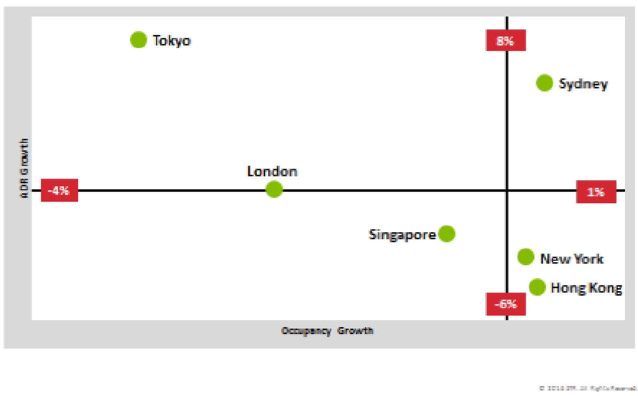
## Sydney and the Other Key Financial Centres

*RevPAR Comparison (Indexed to 2008), Key Financial Center Worldwide, 2008 - YTD Sept. 16, in local currency*




Source: STR

*Occupancy and ADR Growth, Key Financial Centers Worldwide, YTD Sept. 16, in local currency*



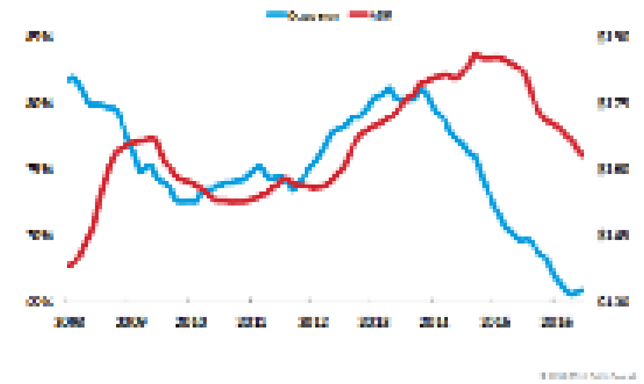

Source: STR

The RevPAR comparison graphs above show how Sydney is performing against other major world markets: New York City, Hong Kong, Tokyo, Singapore and London.

The RevPAR performance of each market is indexed with their 2008 levels, to show how significantly the global financial crisis (GFC) impacted each market's performance in 2009 and how quickly each market recovered.

In 2009, Sydney's demand declined 1.0 percent, while RevPAR declined 8.4 percent. However, the market bounced back quickly in 2010, as the Australian economy proved resilient. Since 2010, Sydney's occupancy has remained fairly stable, averaging 82.7 percent over the past five years. This will likely continue in 2016, as supply growth has been slow since 2010, and ADR and RevPAR have continued to grow each year.

***Darwin Occupancy and ADR, R12 Monthly Data (Jan. 08 - Sept. 16, in Australian Dollar***

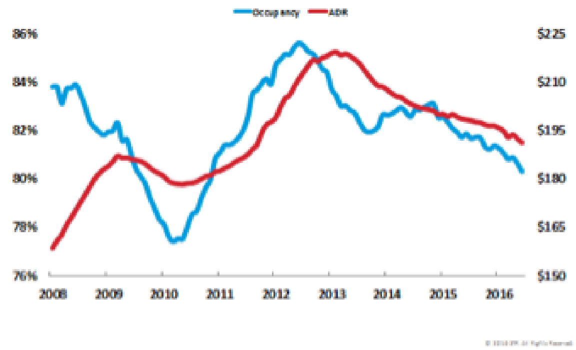


*Source: STR*

After the GFC, Brisbane's hotel performance reached its peak coinciding with the boom in the resource industry. Strong growth in both international and domestic travel, limited supply additions and robust demand growth, all helped the market's performance. It was however not to last. A large increase in supply (+6.8 percent) in 2015, combined with the downturn of the resource industry saw Brisbane's RevPAR decrease to its lowest level since the financial crisis (-11.5 percent y-o-y to AUD 126.5). The trend has continued this year, as Brisbane reported negative performance across all key indicators (occupancy -2.4 percent, ADR -6.6 percent, and RevPAR -8.9 percent).

After a significant RevPAR jump from AUD 114.4 in 2009 to AUD 144.8 in 2013, in 2014 Darwin started to face challenges as demand dried up. This was in part due to the transition of the INPEX project moving from the construction phase into production phase, requiring fewer workers and, in turn, reducing demand for accommodation nights. As of YTD September 2016, Darwin's RevPAR decreased by 11.9 percent, as a result of a 3.5 percent decline in occupancy tied with an 8.8 percent decline in ADR.

***Perth Occupancy and ADR, R12 Monthly Data (Jan. 08 - Sept. 16, in local currency***




*Source: STR*

Perth's performance has been driven down by decline in ADR every year since 2013, due to decreasing demand, and competitive-rate, volume-driven strategy adopted by hoteliers to try and fill their hotels.

Although Perth's occupancy remained steady in 2015, around the 80 percent level, ADR sank to its lowest level since 2011 (-1.8 percent y-o-y to AUD 196.5). As of YTD 2016, the market has continued to struggle in 2016, as ADR declined 6.7 percent, while occupancy dropped 2.5 percent compared to the same time last year. As a result, RevPAR dropped 9.1 percent y-o-y to AUD 144.5.

## OUTLOOK

Continue low interest rates and weaker dollar are anticipate to help the NSW economy to grow robustly in the coming years. RND will likely to grow by a healthy CAAG rate of 3.7 percent between now and 2021. The supply additions is expected to be absorbed smoothly together with the solid economic growth, the market's RevPAR is expected to growth at a CAAG rate of 4.7 percent between now and 2021.

Melbourne's RND growth is also expected to be positive in the next 5 years. The demand is forecasted to grow at a CAAG rate of 3.2 percent from 2016 to 2021. However, the market is anticipated strong growth is supply, which will put downward pressure on both occupancy and ADR. Thus, RevPAR is expected to grow at a slower pace of CAAG rate of 2.4 percent for the same period.

Brisbane's RND growth is expected to be the most robust amongst the three markets, at a healthy CAAG rate of 5.7 percent between now and 2021. However, the market also expects an influx of supply for the same period. Thus, RevPAR is expected to grow at a CAAG rate of 1.5 percent for the same period.

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