

# 2005



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# Perth, Australia Market Overview

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## Destination Overview

Perth is the Capital of Western Australia (WA), arguably the largest state in the world, covering one-third of the Australian continent and spanning 2.5 million square kilometres. Perth is also one of the world's most remote tourist markets, situated approximately five hours flying time from its major source markets of Sydney, Melbourne, Brisbane and Singapore.

## Economic Overview

The WA economy is highly correlated with the resources sector and economic growth is strongly influenced by the start or peak of resource related investment. Job growth is surging, leaving unemployment comfortably below national rates. Access Economics forecast Gross State Product will grow by 4.9% in 2006 and 4.0% in 2007.

## Hotel Market Supply

In the wider Perth market (described by Australian Bureau of Statistics as the Experience Perth Tourism Region) there are 121 hotels and serviced apartments providing a total of 10,364 hotel rooms as at June 2005.

Hotel room supply in the city CBD (Perth inner) has remained fairly static over the past five years (19 establishments with a total of 2,588 rooms as at June 2005), with the exceptions of the Medina at Perth Convention and Exhibition Centre opening in 2004, and the opening of the Holiday Inn Burswood in August 2005.

## Hotel Market Demand

Demand for Hotel accommodation in the Experience Perth Tourism Region is driven largely by interstate and intrastate travel, which comprised over 65% of total visitor nights in hotels in 2004.

**Table 1 Visitor Nights in Experience Perth Tourism Region (000's)**

|                             | 1999   | 2000   | 2001  | 2002   | 2003   | 2004   | CAAG 1999-2004* |
|-----------------------------|--------|--------|-------|--------|--------|--------|-----------------|
| Domestic Nights Total       | 10,646 | 10,177 | 9,101 | 9,523  | 9,524  | 10,425 | -0.42%          |
| Domestic Nights Hotels      | 2,571  | 2,432  | 2,710 | 2,179  | 2,604  | 2,752  | 1.37%           |
| International Nights Total  | 9,774  | 11,212 | 9,339 | 11,508 | 10,532 | 11,897 | 4.01%           |
| International Nights Hotels | 1,173  | 1,226  | 1,124 | 1,248  | 1,437  | 1,417  | 3.85%           |

\*CAAG= Compound Average Annual Growth

Source: National Visitors Survey/ International Visitors Survey 2004

## Factors influencing Hotel Demand

Demand for hotel accommodation in Perth has been through turbulent times. Following the Asian economic crisis, which had a marked impact on travel to Perth, the hotel market has been in recovery phase. This recovery was significantly hampered in 2001 by the unfortunate events of September 11 and to a greater extent the collapse of Ansett Airlines, which historically provided more than half of all air services to Perth. During this period demand for hotel accommodation declined, particularly from international markets.

The commencement of domestic air services to Perth by Virgin Blue in 2002, re-instated air capacity, which has helped stimulate demand through the availability of low cost airfares. Two new carriers have also commenced servicing the international market, Valuair and Australian Airlines, while Singapore Airlines, Cathay Pacific, Air New Zealand, Qantas and Garuda Indonesia have all increased services to the region. Emirates are also planning to launch a second daily service between Perth and Dubai from October 2005.

These additional services into Perth have resulted in Perth airport passenger numbers exceeding 6.5 million in 2004/05, supported by a 9.4% increase in domestic passengers and a 12.0% increase in international passengers over that period.

The opening of the Perth Convention centre in August 2004 prompted increased tourism funding by the WA Government over the next four years, and the variety of marketing campaigns including the “real thing” campaign, are all factors that can positively impact the Perth hotel market.

**Perth Inner Occupancy  
and Average Room  
Rate**

With the recovery in demand and a stable supply environment, occupancy levels improved from 69.3% in 2001 to 74.9% in 2004. The Perth hotel market, although being a city market, still experiences some seasonality, with the highest occupancies recorded in the fourth quarter of the year, and the lowest occupancies in the second quarter and the shoulder periods being the first and third quarters.

Average room rates in Perth are still among the lowest of Australia’s capital cities with average rates constrained by the large component of crew business staying in CBD properties. Historically, hoteliers have not been able to capitalise on the high occupancy levels achieved in the last quarter and lift rates in this period. As a result, room rates have not increased significantly since 2001.

**Table 2 Perth Inner Hotel Market Performance**

|                              | Occupancy % | ADR \$  | RevPAR \$ |
|------------------------------|-------------|---------|-----------|
| <b>2001</b>                  |             |         |           |
| Quarter 1                    | 71.3        | \$99.7  | \$71.1    |
| Quarter 2                    | 65.9        | \$98.9  | \$65.2    |
| Quarter 3                    | 67.9        | \$97.6  | \$66.2    |
| Quarter 4                    | 72.1        | \$95.1  | \$68.5    |
| Full Year                    | 69.3        | \$97.8  | \$67.7    |
| <b>2002</b>                  |             |         |           |
| Quarter 1                    | 69.3        | \$95.0  | \$65.8    |
| Quarter 2                    | 64.4        | \$94.4  | \$60.8    |
| Quarter 3                    | 70.3        | \$93.4  | \$65.6    |
| Quarter 4                    | 80.3        | \$96.4  | \$77.4    |
| Full Year                    | 71.1        | \$94.9  | \$67.4    |
| <b>2003</b>                  |             |         |           |
| Quarter 1                    | 74.2        | \$93.4  | \$69.3    |
| Quarter 2                    | 66.8        | \$99.1  | \$66.2    |
| Quarter 3                    | 73.6        | \$95.7  | \$70.4    |
| Quarter 4                    | 76.3        | \$106.7 | \$81.4    |
| Full Year                    | 72.5        | \$98.7  | \$71.6    |
| <b>2004</b>                  |             |         |           |
| Quarter 1                    | 76.0        | \$96.0  | \$73.0    |
| Quarter 2                    | 69.2        | \$95.8  | \$66.3    |
| Quarter 3                    | 73.4        | \$100.5 | \$73.8    |
| Quarter 4                    | 80.9        | \$104.3 | \$84.4    |
| Full Year                    | 74.9        | \$99.2  | \$74.2    |
| <b>2005</b>                  |             |         |           |
| Quarter 1                    | 77.8        | \$100.4 | \$78.1    |
| Quarter 2                    | 73.9        | \$108.0 | \$79.8    |
| <b>CAAG 01-04</b>            | 2.61%       | 0.48%   | 3.10%     |
| <b>CAAG Qtr 2: 2001-2005</b> | 2.91%       | 2.23%   | 5.20%     |

Source: ABS WA Tourism Accommodation Statistics, 2001-2005

## New Hotel Supply

Table 3 provides an overview of recent hotel openings and proposed new hotel developments within the Perth Inner market.

**Table 3 New Hotel Supply- Perth**

| Property Name                  | Star Grading | No. of Rooms | Estimated Opening  |
|--------------------------------|--------------|--------------|--------------------|
| The Outram                     | 5            | 18           | Opened Mid- 2004   |
| Holiday Inn Burswood           | 4            | 291          | Opened August 2005 |
| Medina Executive Barrack Plaza | 4            | 100          | Late 2005          |
| Riverside Pier Hotel           | 4            | 86           | Early 2007         |
| Mc Cathy Serviced Apartments   | 3            | 28           | DA submitted       |

Source: HVS International Research

There are also a range of developments mooted in areas surrounding Perth's CBD, including in the suburbs of Mandurah, Port Bouvard and Port Kennedy.

### **Investment Market**

The most noteworthy hotel transaction in Perth occurred earlier this year, with the sale of the Holiday Inn City Centre Perth being sold as a part of the InterContinental Hotels Group Portfolio. Apart from this sale, there has been little investment activity in hotels in Perth relative to other Australian cities. A noteworthy transaction was in 2003 with the exchange of the Burswood International Resort Casino. It was reported that in October 1997, Burswood Limited made an irrevocable offer to purchase the Burswood Hotel. The terms of offer were reportedly accepted in 2002 with settlement in February 2003 for a sale price of A\$104 million, which equates to A\$252,000 per room. The Casino Resort has undergone a A\$96 million upgrade and management of the hotel has been taken over by InterContinental Hotels Group under their InterContinental brand.

### **Hotel Market Outlook**

The outlook for the Perth hotel market is mildly optimistic. Occupancy levels may come under pressure in late 2005, with the opening of both the Holiday Inn Burswood and the Medina Barrack Plaza, despite a relatively strong start to the year. However, in the absence of any large additions to rooms supply in the following years, occupancy growth should continue in the medium term.