

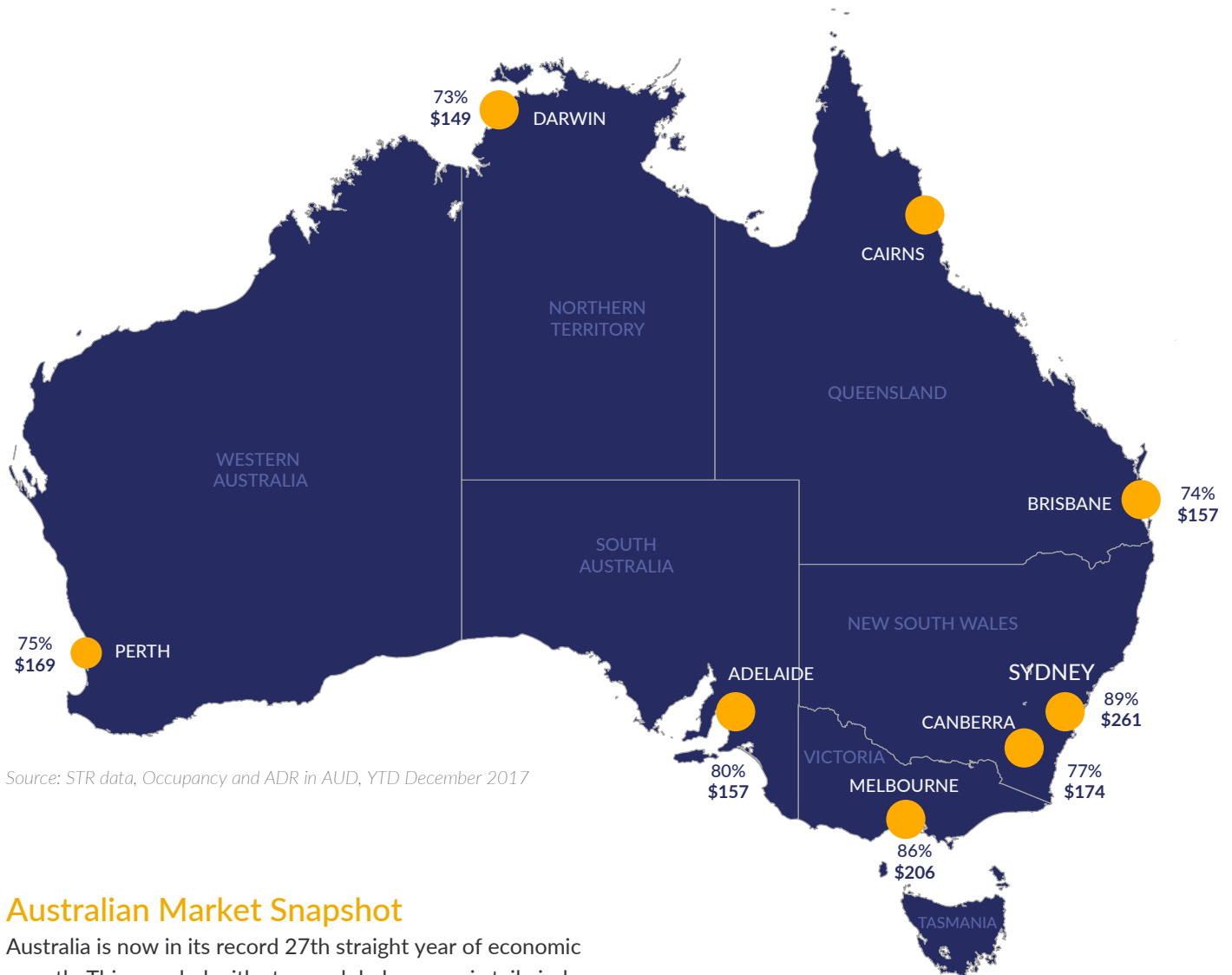


Horwath HTLTM
Hotel, Tourism and Leisure

MARKET REPORT

Sydney, Australia

AUGUST 2018



Source: STR data, Occupancy and ADR in AUD, YTD December 2017

Australian Market Snapshot

Australia is now in its record 27th straight year of economic growth. This coupled with strong global economic tailwinds means the Australian hotel market performed generally well in 2017, posting RevPAR gains of 2.8%. This momentum looks set to continue, with STR reporting that RevPAR grew by 3.8% YOY in the first five months of 2018.

Brisbane and Darwin are continuing their rebound, with positive RevPAR growth and Queensland’s main leisure markets, the Gold Coast and Cairns, are still seeing strong rate growth even as occupancy starts to flatten.

Perth, is unfortunately still seeing both occupancy and ADR decreases on the back of continued supply additions and weak demand growth.

New supply in Melbourne and the opening of the ICC in Sydney has put a damper on occupancy growth and further supply-side uncertainty seems to be severely limiting ADR growth.

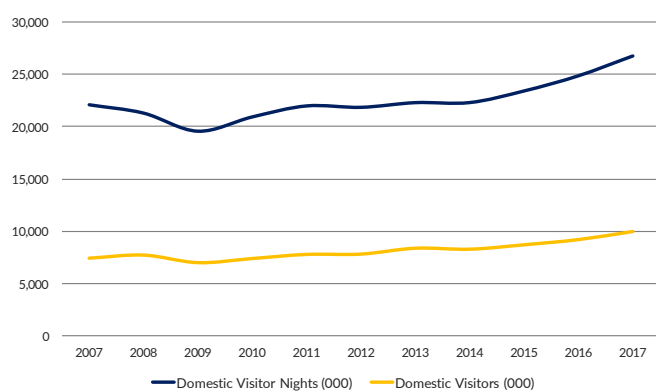




Sydney Domestic Visitation

According to Tourism Research Australia, Sydney recorded 26.8 million domestic visitor nights in the year ended December 2017, an increase of 7.7% over the previous year. Visiting Friends & Relatives (VFR) remains the largest segment, accounting for 37.7% of domestic visitor nights. This is followed by travellers visiting for Business (28.6%), Holiday/Leisure (24.8%) and Other (9%).

Domestic Visitation to Sydney (2007 to 2017)



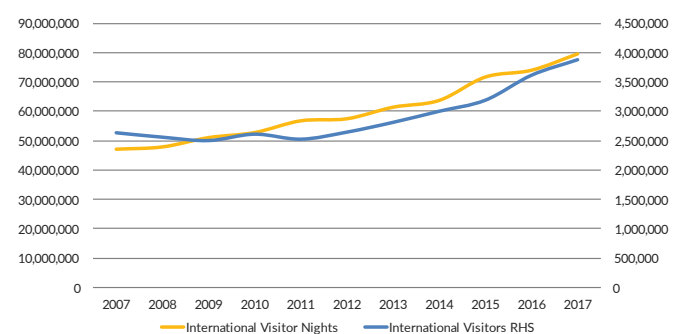
Source: International and National Visitor Surveys, TRA, YE Dec 2017

According to Tourism Research Australia Tourism Forecasts 2017, growth is set to remain robust and Domestic visitor nights in Sydney are forecast to increase to over 33 million by FY26/27, a Compound Average Annual Growth (CAAG) rate of 2.2%.

Sydney International Visitation

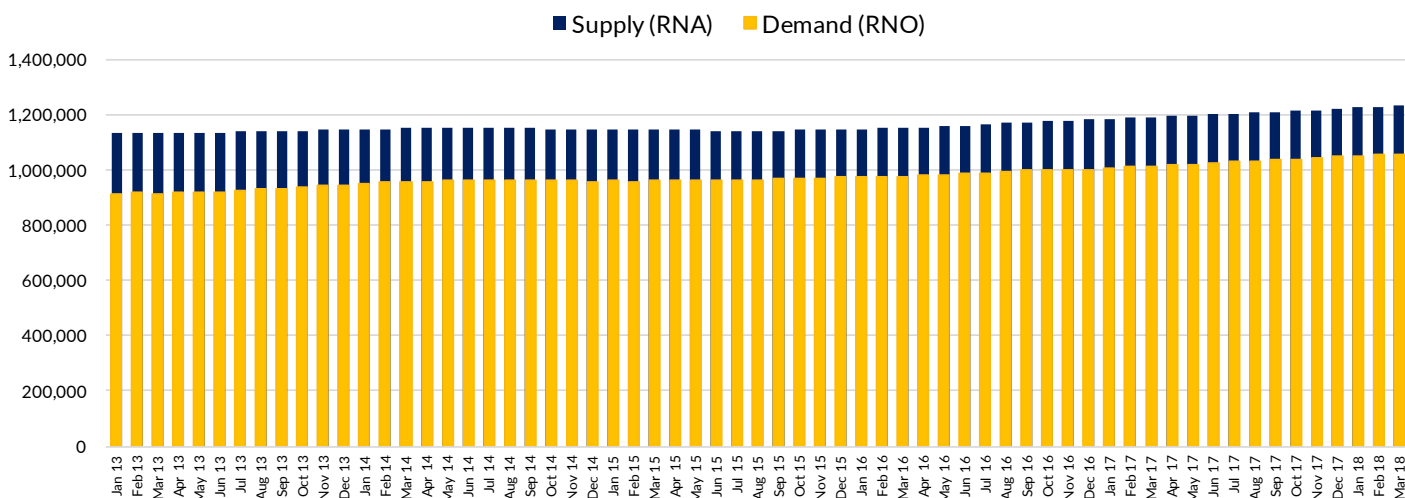
Sydney continues to be the most popular destination for international tourists and international visitation is the main driver of growth, with visitors and visitor nights increasing by 7.3% and 7.5% respectively in 2017. This is fairly similar to the five year CAAG rate which was 7.9% and 6.7% for visitors and visitor nights, respectively. In 2017, Sydney welcomed nearly 3.9 million international visitors who generated a total of 79.7 million visitor nights. According to Tourism Research Australia Tourism Forecasts 2017, international visitor nights in Sydney are expected to increase to over 137 million by FY26/27, a CAAG rate of 6.1%.

International Visitation to Sydney (2007 to 2017)



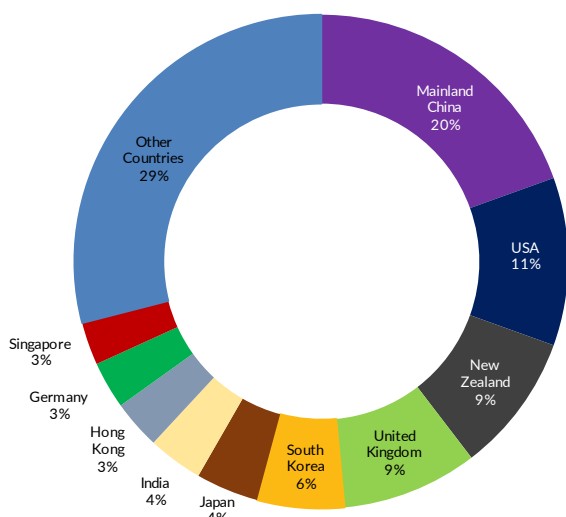
Source: December 2017 International and National Visitors Surveys, TRA

Sydney Hotel Demand & Supply (Jan 2012 - Mar 2018)



Source: STR

Key International Source Markets To Sydney



Source: International and National Visitor Surveys, TRA, YE Dec 2017

The strong growth in international visitor nights continues to be predominantly driven by visitors from Asia. China remains the largest inbound market in both actual visitors and total visitor nights, accounting for around 758,000 visitors in 2017, an impressive increase of 13.8% over the previous year. The second largest market was the US, with 428,000 visitors (up 7.5%), followed by New Zealand, whose visitor arrivals totalled 355,000 (down 3.5%).

Historical Hotel Supply & Demand

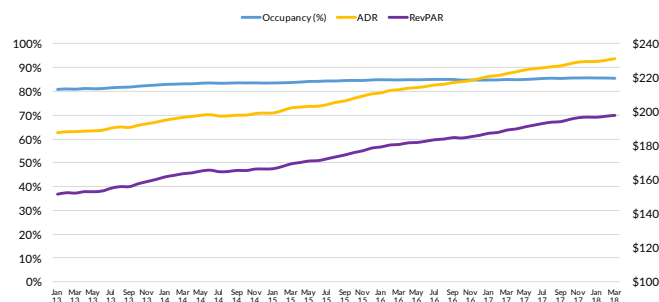
According to STR, as at March 2018, the Sydney Tourism Region (TR) has 369 hotels and serviced apartments, totalling some 41,500 rooms.

Supply in the Sydney TR market grew at a CAAG rate of 1.3% in the seven years to March 2018, still somewhat below the historic long-term average of approximately 1.7%. Demand meanwhile continues to outstrip supply, having increased at a CAAG rate of 1.9% over the same seven year period.

Historical Market Performance

Sydney TR is currently the top performing hotel market in Australia recording an occupancy of 86% at an ADR of AU\$230 for the year ended March 2018.

Sydney Occupancy, ADR & RevPAR (Jan 2012 - Mar 2018)



Source: STR

The data also shows that over the past year the busiest days continued to be Tuesday through Thursday, and Saturday. Sunday and Monday, the two quietest day of the week, saw the largest occupancy increases of 1.6% and 2.4% over the past three years, respectively. Occupancy remained flat on Saturday confirming that supply remains significantly constrained on specific days.

As a consequence of the continuing high business demand recorded over the past three years, average room rates achieved during the week days (Sunday through Thursday) grew by an average of 9.3% in three years, compared to 7.1% growth on the predominantly more leisure orientated days of Friday and Saturday.

Additionally, the International Convention Centre Sydney (ICC), welcomed 1.3 million visitors across 755 different events since re-opening in December 2016. This resulted in over 1.5 million additional overnight stays in Sydney accommodation, helping to boost occupancy to record levels.

Recent Hotel Transactions

Following on from last year’s trend, hotel transactions were again lower in 2017. There appears to be no shortage of interest from buyers, however sellers seem to be holding off and instead enjoying the increased operating income returns. Recent transactions in Sydney include:

Date	Property	Rating	Sales Price (AU\$M)	Rooms	AU\$/Room
Oct '17	Mercure Sydney International Airport Hotel	4	\$76,400,000	271	\$281,919
Nov '17	Veriu Green Square	4	\$23,200,000	144	\$161,111
Jan '18	Goldfields House Dev. (1 Alfred St)	5	Unreported	179	
Feb '18	North Shore Hotel	3	\$10,000,000	27	\$370,370
Apr '18	BreakFree on Clarence	3	\$30,000,000	50	\$600,000

Looking forward, it is unclear whether transaction volume will pick up again this year or even in 2019.

Recent Additions

After years of very limited supply growth, new properties are finally entering the market. In the past year, Sydney saw 17 new properties opened or extended, adding 2,437 rooms to the market. Recent additions include:

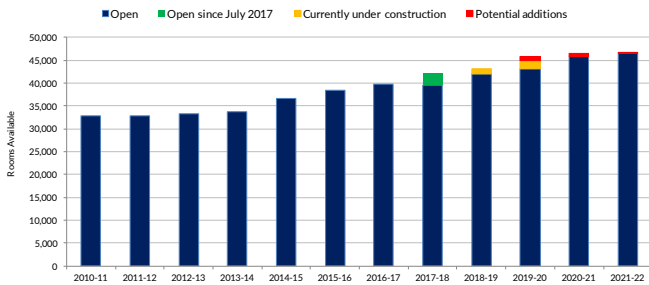
Project Name	Star Grade	No of Rooms	Opening Date
Spicers Potts Point	5	20	Jul-17
Mantra Hotel at Sydney Airport (Domestic)	4	136	Jul-17
Skye Hotel Suites (part of V by Crown)	5	72	Aug-17
Travelodge Mascot	4	209	Sep-17
The Branksome Serviced Apartments	4	146	Oct-17
Sofitel Darling Harbour	5	590	Oct-17
VERIU Central Park	4	112	Dec-17
Curio Collection by Hilton - West Hotel Sydney	4	182	Dec-17
Holiday Inn Sydney St Marys	3.5	119	Jan-18
William Inglis Hotel MGallery by Sofitel	4.5	144	Jan-18
Felix Hotel - 8Hotels	4	150	Jan-18
Mercure Liverpool (Extension)	4	88	Jan-18
The Paramount Building Hotel	4	29	Apr-18
Meriton Suites Sydney Airport	5	179	Apr-18
Vibe Hotel North Sydney	4	187	Apr-18
The Collectionist Hotel	5	39	May-18
Little Albion Hotel	5	35	Jun-18



Future Additions to Supply

Some new hotels and serviced apartments to open in Sydney in the coming year include the Four Points By Sheraton Sydney Central Park, Quest Penrith and the SKYE Suites Sydney CBD. In addition, the Meriton Suites Bondi Junction is due to complete its 42-room extension.

Sydney Hotel Rooms Available (FY 2011 - FY 2022)



Source: Horwath HTL

Horwath HTL estimates that there are approximately 4,600 rooms in the Sydney pipeline that are likely to come online between now and the end of 2022. Of these the majority can be expected to open in 2019 and 2020. The five year CAAG rate in supply of 2.6% to 2022 is still nothing to be overly concerned about; however, it is expected to put some downward pressure on occupancy in the medium-term through to 2021.



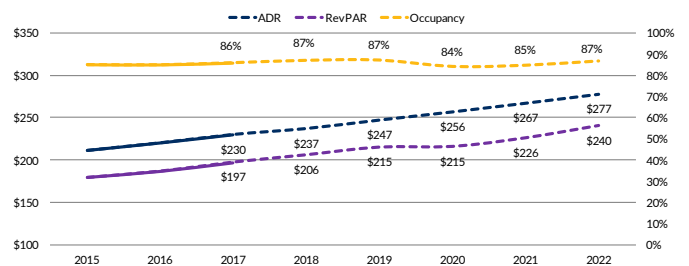
Hotel Market Projections

According to Deloitte Access Economics, the NSW economy will expand by 3.2% in 2018, well above the Australian average of 2.7%. This should see demand for hotel rooms remain strong over the next twelve months.

Additionally, the ICC is expected to continue its strong performance, having already secured over 1,300 large national and international events out to 2026. This includes Sibos 2018 in October, COSPAR 2020 and the 18th World Congress on Medical and Health in 2021.

The State’s robust economic position coupled with favourable international conditions is good news for Sydney’s hoteliers. Consequently Horwath HTL forecasts that in the year to December 2018 occupancy for the Sydney TR should climb a percentage point higher to 87%. Further additions to supply in 2019 and 2020 could push occupancy down somewhat to 84% but it should then start to rebound on the back of continued strong demand growth.

Sydney TR Occupancy, ADR & RevPAR (2015 - 2022)



Source: Horwath HTL

ADR should also do well in 2018, growing by 3.1% to \$237. RevPAR is thus likely to grow 4.4% in 2018 to AU\$206. The additions to supply over the next few years are only likely to impact RevPAR growth somewhat in 2020 and thus, overall we forecast RevPAR to grow at a robust CAAG rate of 4% in the years to 2022.

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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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